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**1974**  
**Annual Report**

**Francana  
Development  
Corporation  
Limited**



Francana Development Corporation Ltd.  
612 St. James Street West,  
Montreal, Quebec  
H3C 1E1  
(514) 845-7111

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## Directors

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

H. R. Fraser  
Chairman and Chief Executive Officer,  
Anglo American Corporation of Canada Limited  
Chairman and Chief Executive Officer,  
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.

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## 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

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## Subsidiaries

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

## Report to the Shareholders

The consolidated net operating profit of Francana Development Corporation Ltd. for the year ended December 31, 1974 was \$445,000 compared with \$861,000 for the preceding year. There were no extraordinary gains in 1974, against gains on disposal of assets of \$1,989,000 net of taxes in 1973. This drop in net operating profit reflects mainly the impact of adverse market conditions on the portfolio of trading securities and to a lesser extent a reduction in dividends received from Hudson Bay Mining & Smelting Co., Limited, which had declared a special dividend at the end of 1973.

During 1974, the Company raised \$8,143,000 from its shareholders by issuing 407,130 shares of its capital stock. The ownership of the Company did not change. Credit Foncier Franco-Canadien owns 60% of the outstanding shares of Francana Development Corporation Ltd., and Anmercosa Investments Ltd., a wholly-owned subsidiary of Anglo American Corporation of Canada Limited, owns 40%.

The funds raised from the Company's shareholders were invested in the capital stock of Francana Oil & Gas Ltd. as part of a financing program to complete the acquisition of a controlling interest in Trend Exploration Limited. During 1974, your Company and its subsidiaries increased their investments in five companies by a total of \$9,215,000. Of this amount \$929,000 was in the form of loans and advances, \$8,262,000 in quoted common shares and the remaining \$24,000 in unquoted capital stock.

At year end, the shareholders' equity had a consolidated book value of

\$26,018,000 compared with \$17,670,000 at the end of 1973. The net value of shareholders' equity adjusted to reflect the market value at year end of quoted securities, stood at \$31,647,000 against \$41,787,000 at the end of the preceding year. This substantial reduction in the quoted value of the assets reflects the unfavorable market environment prevailing at year end; since then, more favorable market conditions have raised this adjusted shareholders' equity to approximately \$43,000,000 as of March 30, 1975.

### **Francana Oil & Gas Ltd.**

Effective July 1, 1974, Francana Oil & Gas Ltd. increased its equity interest in Trend Exploration Limited to 57% from 30%. Trend is an exploration company which has had considerable success in Indonesia and which also holds oil and gas properties in Canada and the United States. This acquisition was largely financed by a rights offering to shareholders, at \$12.00 per share, which raised \$23,338,056 and was underwritten by your Company and Hudson Bay Mining and Smelting Co., Limited. Francana Development Corporation subscribed for 678,554 shares at a cost of \$8,143,000 to hold at year end 2,512,531 shares or 32.3% of the capital stock then outstanding. Hudson Bay Mining has a 55.0% interest in Francana Oil & Gas.

The consolidation of Trend's results effective July 1, 1974 helped raise Francana Oil & Gas' revenues to \$18,496,000 in 1974 from \$4,033,000 in 1973. Funds generated from operations were \$8,651,000 or \$1.29 per share in 1974, up from \$2,308,000 or

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\$0.44 per share for the preceding year, while exploration and development expenditures reached \$13,015,000 in 1974 compared to \$1,761,000 in 1973. Net earnings totaled \$5,218,000 or \$0.78 per share for the year ended December 31, 1974 against \$1,118,000 or \$0.21 per share for the preceding year.

Trend acts as operator and holds a 27% working interest in a Production-Sharing Contract with Pertamina, the Indonesian state-owned oil company. 1974 gross production in Indonesia totalled 11,170,000 barrels or an average of 30,600 barrels per day. A peak of 50,000 barrels per day was reached in June 1974 but production was curtailed substantially in the second half of the year. Production has since improved to the 50,000 barrels per day level in January 1975 and it is expected that sales in 1975 will average close to 100,000 barrels per day.

Francana Oil & Gas' North American production of crude oil totalled 923,000 barrels for 1974, compared with 1,143,000 barrels in 1973. Production was severely curtailed in Saskatchewan throughout the year, to as low as 20% of capacity in some months. Production of natural gas increased from 2,734 million cubic feet in 1973 to 3,190 million cubic feet in 1974. In addition, Trend produced 429,000 barrels of crude oil and 489 million cubic feet of natural gas in 1974 in North America.

At year end, Francana Oil & Gas' crude oil reserves, not including Trend's, stood at 18.3 million barrels proven and probable, compared with 18.4 million barrels at the end of 1973. Total proven and probable gas re-

serves were estimated at 111.8 billion cubic feet at the end of 1974, against 101.6 billion at the end of 1973. Trend's North American reserves at the end of 1974 totalled 5,064,000 barrels of crude oil and 14.2 billion cubic feet of natural gas. Reserve figures for Indonesia are subject to Pertamina's approval and cannot be disclosed.

### **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.

Despite the downturn in metal prices, higher taxes, and a shortage of trained miners which affected production, Hudson Bay Mining achieved the second best earnings of its history at \$38.6 million, 13.5% below the record earnings of \$44.6 million before extraordinary gains of \$2.7 million in 1973. Earnings per share were \$3.88 in 1974 against \$5.06 in 1973. Dividends per share were reduced to \$1.60 from \$2.00 for the preceding year, as extra dividends were not declared at the end of 1974 compared to \$0.50 per share at the end of 1973.

1974 earnings reflected a substantial departure from the pattern of previous years. Base metals operations accounted for only 44% of earnings before taxes and minority interests in 1974, versus 80% in 1973. Oil and gas activities, including Francana Oil & Gas Ltd. and its subsidiary, Trend Exploration Ltd, represented 19% of earnings in 1974, a substantial increase from the 3.2% of 1973. Fer-

tilizer, chemical and industrial minerals operations which include the Sylvite of Canada Division, contributed 37% of earnings in 1974, against 17% in 1973.

During the year, Hudson Bay Mining acquired a joint interest, shared equally with Anglo American Corporation of Canada Limited, of 67.2% in Lytton Minerals Limited, which holds a 48% interest in Minâs del Otôno, S.A. of Mexico, owner of La Verde copper deposit 200 miles west of Mexico City. Hudson Bay Mining will provide technical assistance for the development of the La Verde deposit whose proven reserves are estimated at 81.3 million short tons grading 0.699% copper plus gold and silver values. The total cost of the project is estimated at \$101 million. Also during the year, Hudson Bay Mining increased its interest in Whitehorse Copper Mines Ltd. to 20.6% and in Canadian Merrill Ltd. to 23.1%.

Proven ore reserves at the various mines of Hudson Bay Mining in Manitoba stood at 17,973,800 tons at the end of 1974, a slight drop from the 18,000,600 tons at the end of 1973. The grade of these reserves is estimated at 0.03 oz. and 0.5 oz. per ton of gold and silver respectively, at 2.9% of copper and 2.7% of zinc. Reserves of muriate of potash at the Sylvite of Canada Division stood at 350 million tons at year end compared with 364 million tons at year end 1973.

### **Frاندevcor Investments Ltd.**

Frاندevcor Investments Ltd., a wholly-owned subsidiary of Francana Development Corporation Ltd., holds a portfolio of listed securities. The cost of these securities stood at \$1,996,000

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at December 31, 1974, compared with \$1,899,000 at the end of 1973.

This portfolio of trading securities is valued as a whole at the lower of cost or market. The adverse stock market conditions prevailing at the end of 1974 resulted in a \$493,000 increase in the provision for unrealized losses. This increase combined with \$152,000 of realized losses resulted in a \$645,000 loss on trading securities, a \$380,000 increase over the losses for 1973. This loss is the major reason for the \$416,000 decline in the net operating profit of your Company from \$861,000 in 1973 to \$445,000 in 1974.

A good part of this provision for unrealized losses is being recovered in the currently favorable stock market conditions. This should have a positive impact on the 1975 results.

#### **Frandevcor Ventures Ltd.**

Frandevcor Ventures Ltd., a wholly-owned subsidiary of Francana Development Corporation Ltd., holds a number of minority equity participations in private or public junior industrial and service companies.

The Company's largest investment is in **Provost Corporation Inc.**, the second largest trucker of liquid and dry bulk commodities in Canada. The Company used to be known as Transport Centre Inc.; the new name favors closer identification with its various subsidiaries, notably Provost Cartage Inc., and Provost Industrial Tankers Ltd. The Provost group of companies serves Eastern Canada and North Eastern U.S.A. 1974 was a year of continued success and growth in revenues and net profits.

**Sterisystems Ltd.** is active in the health care field through its three divisions: the Hospital Services Division has 60% of the prime Canadian hospital television rental market and also provides hospital internal communications and patient monitoring services; the Hospital Products Division offers a wide range of audio and visual communications systems to hospitals, as well as an exclusive line of electro-medical instruments; the Pharmaceutical and Veterinary Division consists of Webber Pharmaceuticals, a leading manufacturer of Vitamin E products, and of a new anti-inflammatory drug generally known as Orgotein for which the Company has signed a manufacturing and sales agreement. Frandevcor Ventures Ltd holds a minority equity participation in Sterisystems whose shares are quoted on the Toronto-over-the-counter market. 1974 was another successful year with revenues reaching \$7,676,000 up 36% over 1973, and net profits increasing 25% from \$804,000 in 1973 to \$1,002,000, equivalent to \$0.70 per share against \$0.58 in 1973.

Frandevcor Ventures Ltd. is a substantial minority shareholder of **Dad's Industries Limited**, which produces and distributes Dad's and Harnois Cookies out of plants in Toronto, Regina, Calgary and Joliette. 1974 was a difficult year due to the unsettled market for commodities used in the production of cookies. However, the company continued its progress in expanding its market penetration and consumer franchise, and the 1974 financial results were satisfying.

**C & C Yachts Limited** is a Canadian company that designs and manufactures at its plants in Oakville and

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Niagara-on-the-Lake, a line of sailing yachts ranging from 24 to 66 feet in length. Frandevcor Ventures Ltd. holds a minority equity position in this company, one of the largest in the world within its industry. Construction of an additional manufacturing facility to be located in Rhode Island is scheduled to commence in the Fall of 1975. 1974 sales were up 29.6% to \$11,753,000 from \$9,071,000 in 1973; net earnings of \$657,000 or \$0.69 per share were up 27.8% over 1973 results of \$516,000 or \$0.54 per share. The shares are listed on the Toronto Stock Exchange.

**Scan-Optics, Inc.** is a Connecticut based company engaged in the development, manufacturing and marketing of optical character reading peripherals, in which Frandevcor Ventures Ltd. holds a small equity participation. Revenues from the sale and lease of systems in the U.S.A., U.K., Brazil and Japan increased by 70% to \$4,124,000 in 1974, and by 131% in the first quarter of 1975 over the same period in 1974. Management is confident of reaching a profitable level of operations later in 1975.

In September 1974, Frandevcor Ventures Ltd. completed the sale of its equity participation in **Quebec Ontario Freightways Inc.**, a holding company engaged in general freight trucking in Eastern Canada, but maintained its debenture with a subsidiary which has been acquired by a substantial carrier of excellent reputation.

**PolyCom Systems Ltd.** is a Toronto based computer service company whose shares trade over-the-counter in Toronto and in which Frandevcor Ventures Ltd. has a minority equity

participation. PolyCom offers mainly computer time-sharing for commercial, engineering and scientific applications. In 1974, the Company divested itself of several non essential subsidiaries in a move to concentrate its managerial efforts on the time-sharing activities and to improve its working capital position. The growth in Data Processing revenue has been encouraging but there is still some way to go before the increased financial and depreciation charges for the Honeywell 6066 computer are covered and before profitability is restored.

Frandevcor Ventures Ltd. holds a small equity participation in **Corporation de Gestion La Verendrye**, a holding company engaged in the field of transportation. Its major subsidiary, Brazeau Transport Inc. is an over-the-road carrier serving Northwestern Quebec, Toronto, Ottawa and Montreal. In 1974, revenues increased 28% to \$19,489,000 while net profits dropped 13% to \$627,000 due to regulatory delays in adjusting rates to reflect higher costs. Net profit per share was \$0.82 in 1974 compared to \$1.01 in 1973.

#### **Frandevcor Explorations Ltd.**

Frandevcor Explorations Ltd., a wholly-owned subsidiary of Francana Development Corporation Ltd., holds a minority equity participation in **Consumers Oil Ltd.**, a junior oil and gas exploration and production company headquartered in Calgary. In 1974, Frandevcor Explorations Ltd. increased its equity participation in this company, which has interesting uncommitted natural gas reserves in Alberta, Saskatchewan and British Columbia, as well as crude oil reserves in

Alberta and Saskatchewan. Unproven properties are located in the three provinces mentioned earlier as well as both on land and offshore in Nova Scotia and the Arctic Islands.

#### **Investment Objectives**

Frandevcor Development Corporation Ltd., directly or through its subsidiaries, invests through debt and minority equity participations in well-managed, established junior companies with good growth potential. The form and size of each investment recognizes the needs and objectives of the affiliate and its shareholders.

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 2, 1975.

# Consolidated Balance Sheet

as at December 31, (Note 1)

	1974	1973
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 45 000	\$ 89 000
Accounts receivable	223 000	476 000
Demand deposits	2 577 000	1 543 000
Trading securities (Note 2)	1 061 000	1 456 000
Income taxes recoverable	28 000	—
	<b>3 934 000</b>	3 564 000
<b>Note Receivable</b>	<b>371 000</b>	—
<b>Loans</b>	<b>1 572 000</b>	1 668 000
<b>Investments, at Cost</b>		
Quoted investments (Note 3)	19 700 000	11 439 000
Unquoted investments	868 000	1 494 000
	<b>20 568 000</b>	12 933 000
<b>Other Assets</b>	<b>2 000</b>	3 000
	<b>\$26 447 000</b>	\$18 168 000



	1974	1973
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ 5 000	\$ 23 000
Provision for income taxes	—	412 000
	<b>5 000</b>	435 000
Notes Payable	<b>372 000</b>	—
Deferred Income	<b>52 000</b>	63 000
<b>Shareholders' Equity</b>		
Capital stock		
Authorized 2 000 000 common shares without nominal value		
Issued and fully paid 1 407 130 shares (1 000 000 in 1973)	<b>20 943 000</b>	12 800 000
Retained earnings	<b>5 075 000</b>	4 870 000
	<b>26 018 000</b>	17 670 000
	<b>\$26 447 000</b>	\$18 168 000

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

## Consolidated Statement of Revenue and Expenses

year ended December 31,

	1974	1973
Revenue		
Dividends	\$ 883 000	\$1 049 000
Interest	394 000	256 000
Losses and provision for losses on trading securities (Note 4)	(645 000)	(265 000)
Management fees	12 000	30 000
Other	1 000	6 000
	<b>645 000</b>	1 076 000
Expenses		
General Expenses	161 000	136 000
Financial expenses	—	10 000
	<b>161 000</b>	146 000
Profit Before Income Taxes	484 000	930 000
Provision for income taxes	39 000	69 000
Net Operating Profit	445 000	861 000
Extraordinary items		
Net gain on disposal of assets after income taxes	—	2 054 000
Loans written off	—	(65 000)
Net Profit for the Year	<b>\$ 445 000</b>	<b>\$2 850 000</b>

## Consolidated Statement of Retained Earnings

year ended December 31,

	1974	1973
Balance, January 1,	\$4 870 000	\$ 2 420 000
Add:		
Net profit for the year	445 000	2 850 000
	<u>5 315 000</u>	<u>5 270 000</u>
Deduct:		
Dividends	240 000	400 000
Balance, December 31,	<u>\$5 075 000</u>	<u>\$4 870 000</u>

# Consolidated Statement of Source and Application of Funds

year ended December 31,

Source of Funds	1974	1973
Net profit from operations	\$ 445 000	\$ 861 000
Item not affecting funds		
Depreciation	—	1 000
Funds from operations	445 000	862 000
Loans reimbursed	645 000	193 000
Unquoted investments realized	650 000	3 069 000
Notes payable	372 000	—
Capital stock issued	8 143 000	—
	10 255 000	4 124 000
Application of Funds		
Loans and advances	929 000	200 000
Investments made		
Quoted	8 262 000	1 823 000
Unquoted	24 000	835 000
Dividends paid	240 000	400 000
	9 455 000	3 258 000
Increase in working capital for the year	800 000	866 000
Working capital at beginning of the year	3 129 000	2 263 000
Working capital at end of the year	\$ 3 929 000	\$3 129 000

## Notes to the Consolidated Financial Statements

year 1974

### 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:

Frandedvcor Investments Ltd.  
Frandedvcor Explorations Ltd.  
Frandedvcor 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:

	1974	1973
Cost	<b>\$1 996 000</b>	\$1 899 000
Less		
Provision for unrealized losses	<b>935 000</b>	443 000
Book and market value	<b>\$1 061 000</b>	\$1 456 000

### Note 3 Quoted Investments

These investments had a market value of \$25,329,000 as at December 31, 1974 and \$35,556,000 as at December 31, 1973.

### Note 4

#### Losses and Provision for Losses on Trading Securities

	1974	1973
Losses ( ) profits on sales of trading securities	<b>\$ (152 000)</b>	\$ 110 000
Increase in the provision for un- realized losses	<b>(493 000)</b>	(375 000)
	<b>\$ (645 000)</b>	\$ (265 000)

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## 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, 1974 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 procedures and such tests of 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, 1974, 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, 1975.



