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Hollinger Argus Limited
Hollinger Argus Limitée

Annual Report
1984

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HOLLINGER ARGUS LIMITED
OF HOLLAND

**Annual Report
1984**

Contents

Directors' Report	2
Financial Pages	4
Financial Review	10

Highlights	1984	1983 (restated)
Net income	\$21,927,544	\$16,245,648
Earnings per share		
Basic	\$3.59	\$2.76
Fully diluted	\$3.52	\$2.76
Regular dividends paid per common share	\$1.00	\$1.60
Cash and Short-term Deposits	\$ 6,298,098	\$10,419,923
Shares held in Canada	5,655,899	5,810,696

Annual Meeting

Thursday, May 9, 1985,
10:30 a.m. (Eastern
Daylight Time), New Brunswick
Room, Royal York Hotel,
100 Front Street West,
Toronto

Hollinger Argus Limited/Hollinger Argus Limitée

Directors, Officers and other information as at December 31, 1984

Directors

Maurice Archer
Brome, Quebec

***Conrad M. Black**
Toronto

***G. Montegu Black**
Toronto

***Edmund C. Bovey**
Toronto

Dixon S. Chant
Toronto

***Charles G. Cowan**
Toronto

****Fredrik S. Eaton**
Toronto

****John R. Finlay**
Toronto

***P. C. Finlay**
Toronto

****F. David Radler**
Vancouver

Officers

P. C. Finlay
Chairman

Conrad M. Black
Vice-Chairman of the Board
and Chief Executive Officer

G. Montegu Black
President

Dixon S. Chant
Executive Vice-President

Charles G. Cowan
Secretary

W. F. White
Treasurer

Allen A. McMartin
Honorary Director

Head office

Suite 6100, P.O. Box 80
1 First Canadian Place
Toronto, Ontario M5X 1B1

Transfer Agents and Registrars

Central Trust Company
Toronto and Montreal

Bankers

Bank of Montreal
Toronto

Canadian Imperial Bank of Commerce
Toronto

General Counsel and Solicitors

Holden, Murdoch & Finlay
Toronto

Auditors

Thorne Riddell
Toronto

* Member of the Executive Committee

** Member of the Audit Committee

Directors' Report to the Shareholders:

We are submitting herewith the Annual Report of the Directors of Hollinger Argus Limited for the year ended December 31, 1984, being the company's 74th year of operation. Hollinger Argus' financial statements are consolidated with those of its subsidiary, Labmin Resources Limited. The consolidated net earnings of Hollinger Argus in 1984 were \$21,927,544, equal to \$3.59 per share, compared

with net earnings for 1983 of \$16,245,648 (restated), or \$2.76 (restated) per share.

Included in the net earnings of \$21,927,544 for the year 1984, and \$16,245,648 for the year 1983, are the equity earnings in Norcen Energy Resources Limited of \$23,289,123 for the year 1984 and \$19,113,414 (restated) for the year 1983, computed as follows:

	1984	1983
Company's interest in Norcen's earnings	\$32,346,000	\$26,769,000
Amortization of excess of cost over underlying book value	(14,694,000)	(12,096,000)
Adjustment of carrying value of investment as a result of Norcen issuing additional ordinary shares	(419,000)	(4,420,000)
Realization of portion of deferred gain	<u>6,056,123</u>	<u>8,860,414</u>
	<u>\$23,289,123</u>	<u>\$19,113,414</u>

Also included in the net earnings of \$21,927,544 are its equity earnings in Standard Broadcasting Corporation Limited of \$1,193,430 for the period September 1, 1983, to August 31, 1984, the fiscal year end of Standard Broadcasting, compared with \$1,194,106 for the period March 8, 1983, to August 31, 1983.

earnings in 1984 amounted to \$1,960,332 as compared to minority interests in earnings in 1983 of \$4,545,345.

Income taxes in 1984 amounted to a recovery of \$304,000 as compared to income taxes paid in 1983 of \$172,000.

The significant investments of Hollinger Argus (at December 31, 1984) were as follows:

Company	Shares	%
Norcen Energy Resources Limited (Voting Ordinary)	10,012,250	35.7
(Non-voting Ordinary)	9,643,250	34.1
Standard Broadcasting Corporation Limited	2,885,975	49.4

On May 7, 1984, Hollinger Argus made an offer to the shareholders of Labmin to purchase all the issued and

outstanding shares of Labmin not owned by Hollinger Argus for \$59.74 (Cdn. funds) for each share tendered in

acceptance of the offer. The offer expired on May 31st and on June 6th, Hollinger Argus took up and paid for 563,617 shares of Labmin and then owned approximately 99% of the issued shares of Labmin.

On July 25, 1984, Hollinger Argus was continued under Section 181 of the Canada Business Corporations Act and the Articles of Continuance provided, among other things, that the corporation be authorized to issue an unlimited number of common shares without nominal or par value, and an unlimited number of preferred shares without nominal or par value, which have attached thereto, as a class, rights privileges, restrictions, conditions and limitations as set out in the said Articles. The Articles also provided that the minimum number of Directors of the Corporation be three and the maximum number of Directors of the Corporation be fifteen and the number within such range be determined from time to time by the Board of Directors. The Board of Directors has determined that the number of Directors shall be ten.

On August 2, 1984, the Canadian Imperial Bank of Commerce purchased 1,350,000 Floating Rate Cumulative Convertible Preferred Shares, Series A, issued by Hollinger Argus at \$20 per Series A share. The agreement with the Canadian Imperial Bank of Commerce provided that a further 500,000 Series A shares could be purchased at the same price by the same Bank on or before December 31, 1984.

Shareholders of Record
as at December 31, 1975 and 1984

Residence	Shareholders		Percentage		Shares Held		Percentage	
	1975	1984	1975	1984	1975	1984	1975	1984
Canada	3,546	557	79.20	63.37	4,363,415	5,655,899	88.69	99.29
United States	820	271	18.32	30.83	183,635	31,240	3.73	.55
United Kingdom	46	16	1.03	1.82	32,095	979	0.65	0.02
Other Countries	65	35	1.45	3.98	340,855	7,912	6.93	0.14
Total:	4,477	879	100.00	100.00	4,920,000	5,696,030	100.00	100.00

The proceeds of the issue were added to the general funds of the Corporation and utilized to reduce Bank

indebtedness incurred to purchase Labmin shares, as detailed in a previous paragraph of this report.

funds). 188,423 shares were tendered under the Offer and taken up and paid for on November 7, 1984.

Share Information

The common stock of Hollinger Argus Limited was traded on The Toronto Stock Exchange and The Montreal Exchange during the year 1984.

Quarter	Sale price per share				Dividends per share	
	1984		1983		1984	1983
	High	Low	High	Low		
1	\$25.79	\$24.41	\$28.83	\$27.00	\$.25	\$.55
2	27.95	26.33	30.92	29.46	.25	.55
3	31.50	29.37	28.54	25.58	.25	.25
4	36.04	35.62	25.88	25.00	.25	.25

On October 3, 1984, the Canadian Imperial Bank of Commerce purchased a further 500,000 Floating Rate Cumulative Preferred Shares, Series A, issued by Hollinger Argus at \$20 per Series A share, to complete the purchases by the Bank which were announced on August 2, 1984, at which time the Bank purchased 1,350,000 Series A shares at \$20 per Series A share. The proceeds of the issue were added to the

general funds of the Corporation and utilized, in part, to reduce bank indebtedness.

On October 3, 1984, Hollinger Argus made an offer to purchase 417,778 common shares from its shareholders, being all the then issued and outstanding common shares without nominal or par value of Hollinger Argus (other than the shares held by its majority shareholder, Argcen Holdings Inc.) at \$36 per share (Cdn.

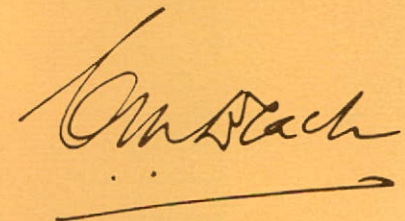
Dividends

Cash dividends were paid quarterly on the common shares during the year 1984 at the rate of 25¢ per share, totalling in all \$5,884,453. Cash dividends of \$885,015 were paid on the preferred shares in 1984.

On behalf of the Board



Chairman of the Board



Vice-Chairman of the Board and Chief Executive Officer

April 1, 1985

Consolidated Balance Sheet

December 31, 1984

Assets		1984	1983
			(Note 6)
Current Assets	Cash and short-term deposits	\$ 6,298,098	\$ 10,419,923
	Accounts receivable	56,156	1,020,549
	Income taxes recoverable	651,917	
		<hr/> 7,006,171	<hr/> 11,440,472
Investments (Notes 1, 2, 4, and 6)		379,165,535	367,199,202
Deferred capital gains tax (Note 4)		67,405,111	67,405,111
		<hr/>	<hr/>
		\$453,576,817	\$446,044,785

Auditors' Report

To the Shareholders of
Hollinger Argus Limited

We have examined the consolidated balance sheet of Hollinger Argus Limited as at December 31, 1984 and the consolidated statements of earnings, retained earnings and changes in financial 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 financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 8, 1985

Thorne Riddell
Chartered Accountants.

Liabilities		1984	1983
			(Note 6)
Current Liabilities	Bank loan		\$ 4,000,000
	Accounts payable and accrued charges	\$ 61,105	167,228
	Income taxes payable	298,085	122,764
		<u>359,190</u>	<u>4,289,992</u>
Deferred gain (Note 3)		206,087,981	212,144,104
Minority interest		2,213,090	30,068,981
		<u>208,660,261</u>	<u>246,503,077</u>

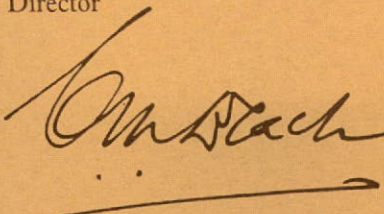
Shareholders' Equity

Share capital (Note 5)			
Issued and fully paid			
	1,850,000 Preferred shares	37,000,000	
	5,696,030 Common shares		
	(1983 — 5,884,453 shares)	111,906,208	115,608,041
		<u>148,906,208</u>	<u>115,608,041</u>
Retained earnings		96,010,348	83,933,667
		<u>244,916,556</u>	<u>199,541,708</u>
		<u>\$453,576,817</u>	<u>\$446,044,785</u>

Approved by the Board:



P. C. FINLAY
Director



C. M. BLACK
Director

Consolidated Statement of Earnings

Year ended December 31, 1984

		1984	1983
Revenue	Interest	\$ 1,152,031	(note 6) \$ 1,195,122
	Other	9,927	52,318
		1,161,958	1,247,440
Expenses	Administrative	973,114	683,920
	Interest	1,087,521	118,476
		2,060,635	802,396
Earnings (loss) before income taxes, equity earnings and minority interests		(898,677)	445,044
Income taxes (recovery)		(304,000)	172,000
Earnings (loss) before equity earnings and minority interests		(594,677)	273,044
Equity earnings	Company's interest in Norcen's earnings	32,346,000	26,769,000
	Amortization of excess of cost over underlying book value	(14,694,000)	(12,096,000)
	Adjustment of carrying value of investment as a result of Norcen issuing additional ordinary shares	(419,000)	(4,420,000)
	Realization of portion of deferred gain (Note 3)	6,056,123	8,860,414
		23,289,123	19,113,414
	Company's interest in Standard Broadcasting's earnings	1,193,430	1,194,106
		24,482,553	20,307,520
Earnings before minority interest		23,887,876	20,580,564
Minority interest		1,960,332	4,545,345
Earnings from continuing operations		21,927,544	16,035,219
Earnings from discontinued operations			210,429
Net earnings		\$21,927,544	\$16,245,648
Earnings per share			
Basic		\$3.59	\$2.76
Fully diluted		\$3.52	\$2.76

Consolidated Statement of Retained Earnings

Year ended December 31, 1984

	1984	1983
		(note 6)
Retained earnings at beginning of year		
As previously reported	\$ 88,536,667	\$80,766,996
Prior period adjustment (Note 6)	(4,603,000)	(3,665,000)
As restated	83,933,667	77,101,996
Net earnings	21,927,544	16,245,648
	105,861,211	93,347,644
Dividends		
Cash — common	5,884,453	9,402,514
— preferred	885,015	
Stock		11,463
	6,769,468	9,413,977
Premium paid on repurchase of common shares	3,081,395	
	9,850,863	9,413,977
Retained earnings at end of year	\$ 96,010,348	\$83,933,667

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1984

	1984	1983
Working capital derived from		
Operations — including dividends in 1984 of \$11,270,737 (1983 — \$10,725,490)	\$ 10,676,060	\$ 8,511,840
Proceeds on sale of investments		160,422,350
Proceeds from sale of assets		4,065,852
Proceeds on issue of preferred shares	37,000,000	
Deferred gain		221,004,518
Proceeds from long term debt		13,500,000
Other	2,748	12,254
	47,678,808	407,516,814
Working capital applied to		
Purchase of investments	33,867,776	416,007,032
Less minority interest therein		(67,891,740)
	33,867,776	348,115,292
Reduction in working capital on disposition of investments in Labrador Mining and Exploration Company Limited and Hollinger North Shore Exploration Inc.		9,339,441
Deferred capital gains tax		67,405,111
Cash dividends paid by Parent company	6,769,468	9,402,514
Subsidiaries to minority shareholders	761,835	554,779
Repurchase of common shares	6,783,228	
	48,182,307	434,817,137
Decrease in working capital	503,499	27,300,323
Working capital at beginning of year	7,150,480	34,450,803
Working capital at end of year	\$ 6,646,981	\$ 7,150,480

Notes to Consolidated Financial Statements

December 31, 1984

1. Significant Accounting Policies**Principles of consolidation**

The financial statements consolidate the accounts of Hollinger Argus Limited and its 99.1% owned subsidiary Labmin Resources Limited (85.4% owned at December 31, 1983).

Investments

The investment in Norcen Energy Resources Limited ("Norcen") has been accounted for by the equity method. The excess of the cost of the company's investment in Norcen over its underlying book value has been ascribed to Norcen's oil and gas reserves and exploratory acreage. The amount ascribed to exploratory acreage is being brought into the amortization calculation over six years, which is the estimated period of development of such acreage. The excess of cost of the investment over its underlying book value is amortized on the net production revenue method based on total estimated future production revenues from proven recoverable reserves.

The investment in 49.4% owned Standard Broadcasting Corporation Limited ("Standard Broadcasting") has been accounted for by the equity method reflecting the company's equity in earnings for Standard's fiscal year ended August 31.

Other investments reflected in the consolidated financial statements are accounted for by the cost method.

Earnings per share

Basic earnings per common share have been calculated using the weighted average number of common shares outstanding during the year of 5,856,060 (1983 — 5,884,453).

Fully diluted earnings per share assumes the conversion of all outstanding preferred shares from the date of issue.

2. Investments

	1984	1983
Norcen		(note 6)
10,012,250 Voting ordinary shares (35.7% interest)		
9,643,250 Non-voting ordinary shares (34.1% interest)	\$348,785,035	\$336,566,396
Standard Broadcasting 2,885,975 Shares (49.4% interest)	30,165,045	30,414,603
Others	215,455	218,203
	\$379,165,535	\$367,199,202

3. Deferred Gain

On July 28, 1983 the company transferred its mineral resource assets and the shares of Labrador Mining and Exploration Company to Norcen in exchange for Norcen shares and cash. The transfers were done on a tax-free rollover basis resulting in no immediate gain or loss for income tax purposes. However, there was a gain of

\$221,004,518 for accounting purposes which is being deferred as it arose in a related party transaction. This gain is represented in Norcen by the excess of the cost of their investment over the net book value of the assets acquired and is being amortized by Norcen over forty years. The company is transferring this deferred gain to income over forty years which is the same basis on which Norcen is amortizing its excess cost. In addition the company transfers to income that portion of the gain that is realized through any dilution of the company's investment in Norcen.

4. Deferred Capital Gains Tax

As a result of the values elected for income tax purposes on July 28, 1983 on the acquisition of its Norcen shares, any future disposition of these shares by the company will result in a larger gain for income tax purposes than for accounting purposes. The potential capital gains tax liability of \$67,405,111 the company would have incurred as of the date of acquisition of the shares has been recorded in the accounts as a reduction of the carrying value of the Norcen shares and as a deferred capital gains tax charge which will be charged to earnings on disposition of the Norcen shares. This potential capital gains tax liability was calculated based on the value ascribed to the Norcen shares on July 28, 1983.

5. Share Capital

- On July 25, 1984 the company was continued under the Canada Business Corporations Act and amended its authorized share capital from 7,000,000 Common shares to an unlimited number of common shares and an unlimited number of preferred shares with rights, privileges, restrictions, conditions and limitations to be determined by the Board of Directors.
- On July 25, 1984 the company filed Articles of Amendment authorizing 1,850,000 floating rate, cumulative, convertible preferred shares, series A. The dividend rate is one-half average prime rate plus 2%. These shares are convertible in a series at any time and in multiples of 250,000 shares after July 31, 1989 at the ratio of one Series A share for the number of common shares equal to \$20.00 divided by the current market price per common share.
- The company issued 1,850,000 Series A preferred shares during the year for \$37,000,000 cash.
- On November 7, 1984 the company purchased for cancellation 188,423 of its common shares at \$36.00 per share.

6. Prior Period Adjustment

Norcen received on January 21, 1985 an adverse decision with respect to litigation concerning royalty income received or accrued dating back to 1979. Norcen has announced its intention to appeal this decision.

The consolidated financial statements of the company have been restated to reflect the reduction of the equity earnings of Norcen for 1983 and prior years.

Earnings for 1983 have been decreased by \$938,000 and the investment in Norcen and minority interests have been decreased by \$6,696,000 and \$2,093,000 respectively.

Consolidated Financial Review 1975-84

(in thousands of dollars)	1984	1983***	1982	1981	1980	1979	1978**	1977	1976*	1975
Income from royalties	\$ —	\$14,700	\$30,433	\$45,665	\$ 42,493	\$44,123	\$25,459	\$34,028	\$29,171	\$25,748
Interest	1,152	4,157	21,328	35,071	25,399	11,626	4,833	4,043	3,674	3,381
Dividends	—	150	6,754	15,287	16,594	7,925	4,207	4,930	4,500	6,521
Other income	10	663	579	687	2,439	1,290	1,669	1,797	1,373	890
Gold and silver production	—	—	—	—	—	—	—	—	616	2,651
Total revenue	1,162	19,670	59,094	96,710	86,925	64,964	36,168	44,798	39,334	39,191
Expense — Interest	1,088	14,146	42,971	59,688	37,120	687	—	—	—	—
— Administration & Exploration	973	3,630	15,560	6,011	6,143	9,365	6,619	2,587	4,803	5,625
Earnings (loss) before taxes, equity earnings, minority interest and extraordinary item	(899)	1,894	563	31,011	43,662	54,912	29,549	42,211	34,531	33,566
Income taxes	(304)	(1,224)	(8,251)	1,713	8,292	15,013	6,520	12,840	11,670	9,750
Newfoundland royalty taxes	—	2,634	5,700	8,873	7,500	7,900	4,529	5,959	4,930	4,550
Earnings (loss) before equity earnings, minority interest and extraordinary item	(595)	484	3,114	20,425	27,870	31,999	18,500	23,412	17,931	19,266
Share of equity earnings										
Norcen Energy Resources Limited	23,289	19,113	14,133	7,104	14,110	—	—	—	—	—
Standard Broadcasting Corporation Limited	1,194	1,194	—	—	—	—	—	—	—	—
Iron Ore Company of Canada	—	—	—	—	—	—	—	4,070	2,270	30
Minority interests	(1,960)	(4,545)	(4,133)	(6,125)	(11,569)	(10,176)	(5,490)	(7,816)	(6,482)	(5,841)
Earnings before extraordinary item	21,928	16,246	13,114	21,404	30,411	21,823	13,010	19,666	13,719	13,455
Extraordinary item	—	—	—	(12,709)	—	85,629	829	—	—	—
Net earnings for the period	\$21,928	\$16,246	\$13,114	\$ 8,695	\$ 30,411	\$107,452	\$13,839	\$19,666	\$13,719	\$13,455
Earnings per share before extraordinary item —										
Basic	\$3.59	\$2.76	\$2.23	\$3.64	\$5.19	\$4.07	\$2.64	\$4.00	\$2.79	\$2.73
Fully diluted	\$3.52	\$2.76	\$2.23	\$3.64	\$5.19	\$4.07	\$2.64	\$4.00	\$2.79	\$2.73
Regular dividends paid per common share	\$1.00	\$1.60	\$2.20	\$2.20	\$2.20	\$2.20	\$2.06	\$1.944	\$1.80	\$1.65

* Restated in 1977 to reflect Hollinger's equity share of a prior period adjustment by Iron Ore Company of Canada for the capitalization of leases.

** In 1971 the company adopted the policy of including in income its proportionate share of the changes in its equity in Iron Ore Company of Canada instead of dividends received. In 1978 the company reverted to the practice of taking into income dividends as received.

*** The 1983 consolidated earnings figures include the accounts of Labrador Mining and Exploration Company Limited and Hollinger North Shore Exploration Inc. for the seven months ended July 28, 1983, and the accounts of Labmin Resources Limited from July 28, 1983 to December 31, 1983. Earnings for 1983 have been restated to reflect a prior period adjustment.

