

Argus Corporation

Limited

10 Toronto Street
Toronto, Canada
M5C 2B7

ANNUAL REPORT 1985

April 3, 1986

To: holders of Class A Preference Shares \$2.50 Series,
Class A Preference Shares \$2.60 Series and
Class B Preference Shares 1962 Series

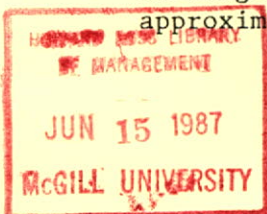
Enclosed are the Consolidated Financial Statements of Argus Corporation Limited for 1985 with comparative figures for 1984 and the Auditors' Report.

The balance sheet shows the Corporation's major investment carried at market value. Provision has been made for deferred income taxes, if any, payable under the hypothetical assumption that such investment was sold at the market price prevailing on December 31, 1985, and on December 31, 1984, for the comparative statement. In our opinion such a provision is not a definitive figure. Unrealized gain on such investments is estimated at \$38,075,492 at December 31, 1985, and \$26,859,881 at December 31, 1984.

Income from investments during the 12 months ended December 31, 1985, amounted to \$53,861,026 compared to \$5,696,754 for the year ended December 31, 1984. The substantial increase in such income was attributable to a special dividend of \$7.50 per share paid by Argcen Holdings Inc. on June 13, 1985. Expenses were \$2,252,034 compared to \$2,184,054 in the previous year. Net income in 1985 amounted to \$51,705,074 compared to \$4,286,808 for the year ended December 31, 1984 (\$5.96 compared with 35¢ per Class C and common share).

During 1985, 1,040 Class A Preference Shares \$2.50 Series and 620 Class A Preference Shares \$2.60 Series were purchased and cancelled.

In June and July, 1985, Argcen Holdings Inc. purchased for cancellation 2,637,983 or 16.8% of its then outstanding common shares at a price of \$17.50 per share, pursuant to an issuer bid, which increased the Corporation's ownership in Argcen to approximately 50%. On September 17, 1985, Argcen amalgamated with Hollinger Argus Limited and Labmin Resources Limited to form Hollinger Inc. On the amalgamation each common share of Argcen became one common share of Hollinger Inc. The Corporation's ownership in Hollinger Inc. is approximately 48%.



As a result of the amalgamation of the Corporation with 641179 Ontario Limited on December 11, 1985, there are no longer any publicly held Common or Class C Participating Non-Voting Preference Shares of the Corporation. The Corporation's other Preference Shares were not affected by the amalgamation.

In March, 1986, Mr. Peter G. White, was appointed a Director of the Corporation.

Submitted on behalf of the Board.

CONRAD M. BLACK
Chairman of the Board and
Chief Executive Officer

DIXON S. CHANT
President

ARGUS CORPORATION LIMITED

Board of Directors

Ralph M. Barford (2).....Toronto Charles G. Cowan.....Toronto
Edward G. Battle (1).....Calgary Fredrik S. Eaton.....Toronto
Conrad M. Black (1).....Toronto H.T.McCurdy (1).....Toronto
G. Montegu Black (1).....Toronto F. David Radler (1)(2)...Toronto
Dixon S. Chant (1).....Toronto Trumbull Warren (1)(2)...Hamilton
Peter G. White....London, Ontario

- (1) Members of the Executive Committee
- (2) Members of the Audit Committee

Officers

Chairman of the Board
and Chief Executive OfficerConrad M. Black
President.....Dixon S. Chant
Executive Vice-PresidentF. David Radler
Vice-President and SecretaryCharles G. Cowan
TreasurerWendell F. White

Auditors

Price Waterhouse.....Toronto

Transfer Agent and Registrar

National Trust Company.....Toronto
Montreal

Stock Exchange Listing

The Class A Preference Shares \$2.50 Series, Class A Preference Shares \$2.60 Series and Class B Preference Shares 1962 Series are listed on The Toronto Stock Exchange.

Chartered Accountants

Box 51
Toronto-Dominion Centre
Toronto, Ont. M5K 1G1

(416) 863 1133
Telex 06 524111
Telecopier (416) 365 8215 G3

Price Waterhouse



March 5, 1986

AUDITORS' REPORT

To the Shareholders of
Argus Corporation Limited:

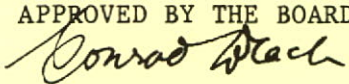
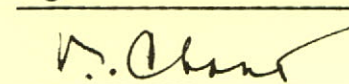
We have examined the consolidated balance sheet of Argus Corporation Limited as at December 31, 1985 and the consolidated statements of earned surplus (deficit), unrealized gain on investments, income and expenses and changes in financial position for the year then ended. Our examination was made in 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 Corporation as at December 31, 1985 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.

Price Waterhouse

Chartered Accountants

ARGUS CORPORATION LIMITED
CONSOLIDATED BALANCE SHEET

	December 31	
	1985	1984
	(Note 2)	
ASSETS		
Investments:		
Securities having a quoted market value, at market (Note 3)	\$130,140,650	\$112,402,500
Cost-		
December 31, 1985 - \$87,044,104		
December 31, 1984 - \$83,972,069		
Cash	25,338	35,443
Short-term investments, at cost plus accrued interest	1,125,146	2,164,046
Income taxes recoverable	1,884,564	1,553,174
Due from affiliated company	585,437	-
Cash surrender value of life insurance policies	610,300	607,000
Other assets	751,487	1,856,059
Head office premises (10 Toronto Street):		
Land, building and furnishings, at nominal value	1	1
	\$135,122,923	\$118,618,223
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	\$ 327,105	\$ 328,158
Accounts payable and accrued liabilities	229,913	39,145
Deferred income taxes	5,021,054	1,570,550
Shareholders' equity:		
Capital stock (Notes 2 and 4)		
Number of shares		
<u>Authorized</u>	<u>Issued</u>	
194,396		Class A preference-
		\$2.50 series
	70,143	cumulative
		3,507,150
		\$2.60 series
	124,253	cumulative
		6,212,650
1,000,000		Class B preference-
		cumulative 1962
		series \$2.70
	300,000	dividend
		15,000,000
Unlimited		Class C participating
		non-voting
	6,677,263	preference
		60,486,099
Unlimited	1,671,661	Common
		15,782,019
		100,987,918
		81,481,711
Contributed surplus (Notes 2 and 4)	-	2,957,637
Earned surplus (deficit)	(9,518,559)	5,381,141
Unrealized gain on investments	38,075,492	26,859,881
	129,544,851	116,680,370
	\$135,122,923	\$118,618,223
APPROVED BY THE BOARD:		
	Director	
	Director	

ARGUS CORPORATION LIMITED

CONSOLIDATED STATEMENT OF EARNED SURPLUS (DEFICIT)

	<u>Year ended December 31</u>	
	<u>1985</u>	<u>1984</u>
	(Note 2)	
Earned surplus at beginning of year:		
As previously reported	\$ 4,535,987	\$1,570,957
Adjustment of prior years' income taxes (Note 5(a))	<u>845,154</u>	<u>845,154</u>
	5,381,141	2,416,111
Net income for the year	<u>51,705,074</u>	<u>4,286,808</u>
	57,086,215	6,702,919
Deduct:		
Dividends-		
Class A preference shares \$2.50 series	175,235	184,017
Class A preference shares \$2.60 series	323,057	327,757
Class B preference shares 1962 series	810,004	810,004
Class C preference shares	38,728,125	-
Common shares	<u>9,695,634</u>	<u>-</u>
	49,732,055	1,321,778
Amalgamation adjustment (Note 2)	16,759,257	-
Excess of cost over book value of 24,124 Class C preference shares purchased for cancellation (Note 4(c))	<u>113,462</u>	<u>-</u>
	<u>66,604,774</u>	<u>1,321,778</u>
Earned surplus (deficit) at end of year	<u><u>\$ (9,518,559)</u></u>	<u><u>\$5,381,141</u></u>

ARGUS CORPORATION LIMITED

CONSOLIDATED STATEMENT OF INCOME AND EXPENSES

	<u>Year ended December 31</u>	
	<u>1985</u>	<u>1984</u>
	(Note 2)	
Income:		
Dividends received	\$52,042,970	\$5,395,100
Interest earned	1,758,563	301,654
Other	<u>59,493</u>	<u>-</u>
	53,861,026	5,696,754
Expenses:		
Remuneration of officers and directors	577,417	580,600
General office and administrative expenses	1,612,128	1,569,545
Interest expense	<u>62,489</u>	<u>33,914</u>
	2,252,034	2,184,059
Income before income taxes	51,608,992	3,512,695
Income tax recovery	<u>96,082</u>	<u>774,113</u>
Net income for the year	<u>\$51,705,074</u>	<u>\$4,286,808</u>
Earnings per Class C preference and common share	<u>\$5.96</u>	<u>\$.35</u>

ARGUS CORPORATION LIMITED

CONSOLIDATED STATEMENT OF UNREALIZED GAIN ON INVESTMENTS

	Year ended December 31	
	1985	1984
	(Note 2)	
Balance at beginning of year	\$26,859,881	\$36,863,156
Increase (decrease) in unrealized gain on investments	14,666,115	(12,920,045)
Decrease (increase) in deferred income taxes	<u>(3,450,504)</u>	<u>2,916,770</u>
Balance at end of year	<u>\$38,075,492</u>	<u>\$26,859,881</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1985	1984
	(Note 2)	
Cash and short-term investments at beginning of year	\$ 2,199,489	\$2,832,147
Source of funds:		
Net income for the year	51,705,074	4,286,808
Increase in accounts payable and accrued liabilities	190,768	-
Decrease in other assets	<u>1,104,572</u>	<u>274,629</u>
	<u>\$55,199,903</u>	<u>\$7,393,584</u>
Application of funds:		
Purchase of investments	\$ 3,072,035	\$2,587,595
Increase in income taxes recoverable	331,390	996,958
Increase in due from affiliated company	585,437	-
Dividends	49,732,055	1,321,778
Purchase for cancellation of:		
Class A preference shares	49,135	242,448
Class C preference shares	275,014	-
Decrease in dividends payable	1,053	5,503
Decrease in accounts payable and accrued liabilities	-	26,813
Other	<u>3,300</u>	<u>13,000</u>
	54,049,419	5,194,095
Cash and short-term investments at end of year	<u>1,150,484</u>	<u>2,199,489</u>
	<u>\$55,199,903</u>	<u>\$7,393,584</u>

ARGUS CORPORATION LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1985

1. Summary of accounting policies:

Principles of consolidation-

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, 536463 Ontario Limited.

Investments-

The investments having a quoted market value are carried in the balance sheet at market values which are determined by pricing the holdings in each security at the closing quoted market prices at the year end. Such amounts do not necessarily represent the value of entire blocks which may be more or less than that indicated by market quotations.

Deferred income taxes-

Provision is made for deferred income taxes that would be payable if the investments had been realized at the year end at the indicated quoted market value on that date.

Dividend income-

Dividend income is recognized in the statement of income and expenses on a cash received basis.

Head office premises-

Head office premises are carried at nominal value and all capital additions to the building and furnishings are charged to expense as incurred.

2. Amalgamation:

Effective December 11, 1985, Argus Corporation Limited ("Old Argus") amalgamated with a wholly-owned subsidiary (641179 Ontario Limited - "Ravelsub") of The Ravelston Corporation Limited to form a continuing corporation under the name of Argus Corporation Limited. The amalgamation has been accounted for as though it were a pooling of interests.

As a result of the amalgamation:

- (a) holders of issued Class A preference and Class B preference shares of Old Argus received similar numbers of Class A preference and Class B preference shares of the continuing corporation, such shares having substantially identical share provisions to those previously held;
- (b) holders of common shares and Class C participating non-voting preference shares of Ravelsub received similar numbers of common shares and Class C participating non-voting preference shares of the continuing corporation, such shares having substantially identical share provisions to those of Old Argus;
- (c) holders (other than Ravelsub) of common shares and Class C participating non-voting preference shares of Old Argus received redeemable retractable preference shares Series A and Series B, respectively, of The Ravelston Corporation Limited;
- (d) the common shares and Class C participating non-voting preference shares of Old Argus, held by Ravelsub, were cancelled;
- (e) the fractional interests in common shares and Class C participating non-voting preference shares of Old Argus were cancelled and holders thereof other than Ravelsub became entitled to receive cash in the amount equal to the fractional interest stated on the scrip certificate multiplied by \$98.75; and
- (f) the contributed surplus of \$2,991,502 relating to Old Argus was eliminated, earned surplus was reduced in an amount of \$16,759,257 and Class C participating non-voting preference and common capital stock was increased by \$15,304,522 and \$4,446,237 respectively.

3. Investments:

Investments consist of 6,589,400 common shares (47.95%) of Hollinger Inc. (1984 - 6,423,000 shares (41.0%) of Argcen Holdings Inc.).

4. Capital stock:

- (a) The Class A and Class B preference shares are issuable in series. The issued Class A and Class B preference shares carry cumulative dividends and are redeemable at the option of the Corporation at \$52.50 per share and accrued dividends.

The Class C preference shares, subject to the prior rights of the Class A and Class B preference shares, participate equally with the common shares in (i) any dividends paid in any fiscal year after \$.30 per share has been paid on each Class C preference share and common share and (ii) any distribution of assets.

- (b) During 1985, 1,040 Class A preference shares \$2.50 series and 620 Class A preference shares \$2.60 series were purchased and cancelled. The gain realized of \$33,865 was credited to contributed surplus.
- (c) During 1985 and prior to the amalgamation, 24,124 Class C participating non-voting preference shares were purchased and cancelled. The loss incurred of \$113,462 was charged to earned surplus (deficit).

5. Income taxes:

- (a) During 1984, the Corporation received assessments from the taxation authorities reducing certain capital losses claimed by the Corporation in 1979. The additional taxes claimed were paid and reflected together with related interest in the consolidated financial statements of the Corporation as at December 31, 1984.

The Corporation disputed the income taxes referred to above and Revenue Canada subsequently agreed to withdraw its 1984 assessment. As a result, an amount of \$845,154 representing recoveries of income taxes of \$670,154 and interest thereon of \$175,000 has been credited to earned surplus as at January 1, 1984.

- (b) The effective tax rate for the Corporation differs from the statutory tax rate primarily because of non-taxable dividends.

6. Related party transactions:

- (a) On June 13, 1985, the Corporation made a loan to an associated company in the amount of \$49,420,500, bearing interest at prime less one quarter of one per cent. The loan was repaid in full, including related interest thereon, on July 31, 1985.
- (b) On July 31, 1985, the Corporation made a loan to its parent company in the amount of \$47,800,000, bearing interest at prime less one quarter of one per cent. Interest was charged on the loan until October 17, 1985, the day prior to the date of an amalgamation agreement among Argus Corporation Limited, 641179 Ontario Limited and The Ravelston Corporation Limited (see Note 2).

The loan was repaid in full on December 18, 1985, including related interest thereon, except for an amount of approximately \$220,000.

- (c) The Corporation obtains aircraft services at cost from a related company and, during the year, sold certain of its shares in that company to related parties, at estimated fair market value.
- (d) The Corporation incurs costs in connection with the administration and operations of 10 Toronto Street. A portion of such costs is recovered from certain related companies.

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