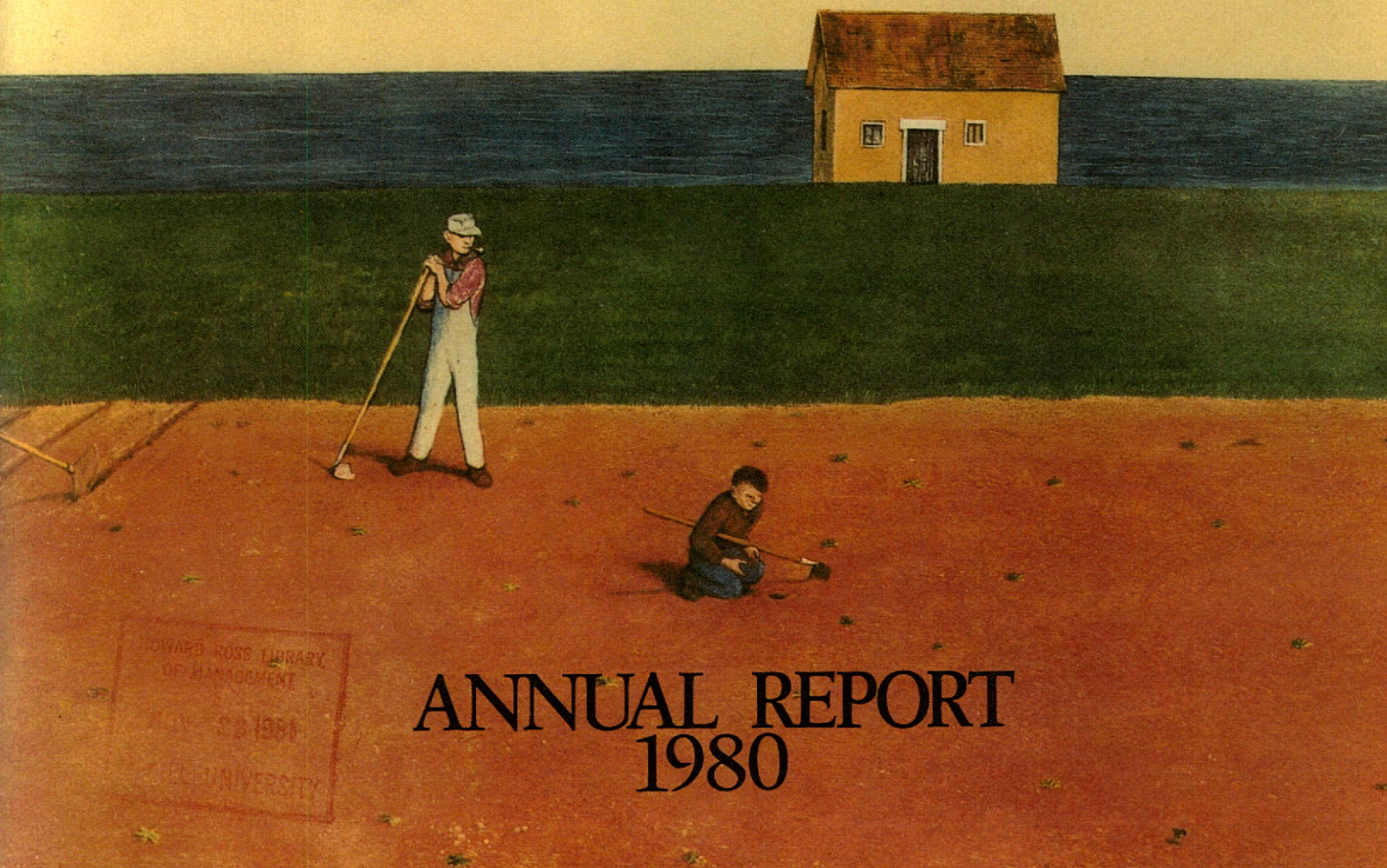


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The Pagurian Corporation



ANNUAL REPORT
1980

Board of Directors

Christopher Ondaatje,
President, The Pagurian Corporation Limited, Toronto

Donald C. Webster,
President, Helix Investments Limited, Toronto

Richard A. N. Bonnycastle,
Chairman, Harlequin Enterprises Limited, Don Mills

Thatcher Townsend, Jr.,
President, Townsend Investment Company,
Winston Salem, North Carolina, U.S.A.

Michael F. B. Nesbitt,
President, Crabb & Company Limited, Winnipeg

Peter John Dale,
Executive, Commonwealth Development Finance Company
Limited, London, England

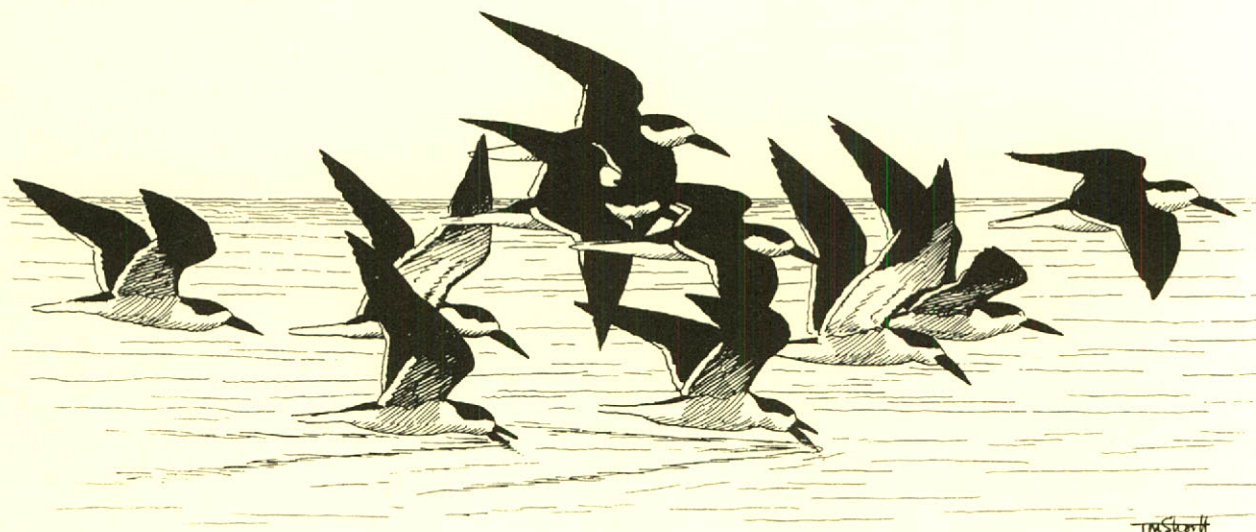
Henri Deegenaar,
Directeur Adjoint, Groupe Drouot,
Marly Le Roi, France

Corporate Information

Corporate Offices/
13 Hazelton Avenue
Toronto, Ontario
Telephone number: (416) 968-0255

Auditors/
Smith, Nixon & Co., Toronto
Exchange Listings/
The Toronto Stock Exchange
The Vancouver Stock Exchange
Registrar and Transfer Agent/
Canada Permanent Trust Company,
20 Eglinton Avenue West,
Toronto, Ontario M4R 2E2

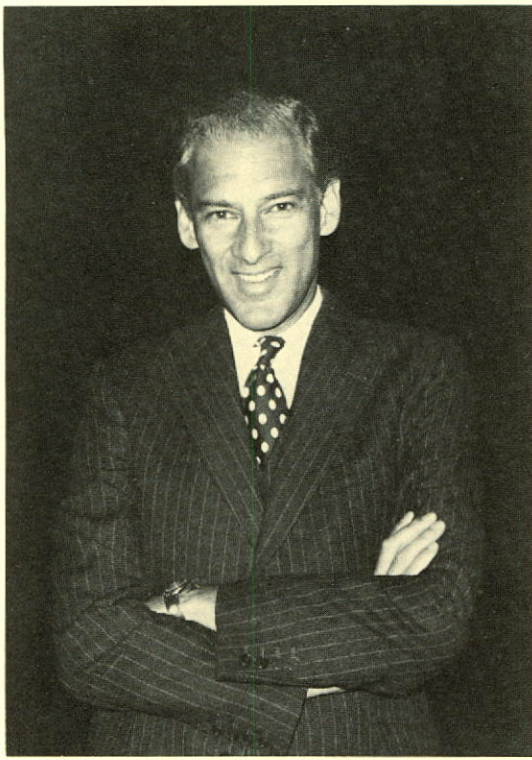
Annual Meeting/
11 a.m., May 28th, 1981
13 Hazelton Avenue
Toronto, Ontario



About the cover:

Screen lithograph by the late William Kurelek, "Potato Planters", \$1,000.

A limited number of these prints, signed and numbered by the artist, are available at a 35% discount to Pagurian Corporation shareholders.



President's Report to Shareholders

The year 1980 was most eventful for The Pagurian Corporation Limited, and it is with a profound sense of satisfaction that I write the President's Report. Last year your Company once again achieved record revenues and net earnings. Gross revenues in the latest fiscal year rose 117% to \$6,266,951 from \$2,890,126, while net earnings for the year ended December 31, 1980, rose 132% to \$4,511,221, from \$1,943,699 in the prior year. Per share earnings increased to 52¢ on 8,691,210 shares outstanding compared to 28¢ on 7,126,210 shares outstanding in 1979. Substantially higher realized gains on investments, as well as increased earnings by Black Photo Corporation Limited, in which your Company held a 31.5% ownership interest at year end, were the main sources of last year's strong growth.

In addition to achieving a highly satisfactory rate of growth in both revenues and profits, your Company's financial resources were also enhanced significantly in 1980. Last June, through a private placement of 1.2 million Class A special shares, your Company raised \$9.3 million of equity capital, part of which was used to finance Pagurian's first major investment in the oil and gas industry, a 60.9% interest in Westdale Oil & Gas Limited. Westdale is a junior Canadian exploration and development company which is now conducting an active exploration program in the United States. Our major partner in Westdale is Mr. John T. Fleming, the Chairman of Bonanza Oil & Gas Ltd., who, through a personal investment company, owns 22% of Westdale.

Subsequent to year end your Company also undertook a rights issue whereby Class A and Class B special shareholders were given rights entitling them to subscribe for units of the Company consisting of Class A special shares and share purchase warrants. I am very pleased to report that all of the rights were exercised and in February, 1981, your Company received an additional \$20.6 million of equity capital.

The Pagurian Corporation Limited is a management and investment holding company incorporated under the laws of the Province of Ontario. Initially through a subsidiary, Pagurian Press Limited, the Company was engaged in the general book publishing field. This was followed by diversification into the expanding fine arts field, and the Company now has an inventory of several thousand original paintings and limited edition prints. These are being held for both resale and use in publishing.

The highly profitable book publishing and fine arts business provided the Company with subsequent funds which allowed it to capitalize on other attractive investment opportunities. The largest investment undertaken to date has been in Black Photo Corporation Limited, Canada's leading photography service and supply company. During the six fiscal years ended March 31, 1980, Black's sales and net earnings grew at average annual rates of 12% and 32% respectively. This trend continued in fiscal 1981, and the company contributed \$1,341,417 to Pagurian's consolidated earnings in the past year.

Pagurian now intends to increase its investments in energy and related fields. This will be primarily in the United States, where returns on investments are significantly more attractive than in Canada, mainly because oil prices in Canada are still being kept at artificially low levels. We are extremely optimistic that this new direction, as well as other activities, will allow your Company to maintain its outstanding growth record both in 1981 and in subsequent years.

I would like to again thank the staff and the shareholders for their continuing loyal support.

On behalf of the Board

Christopher Ondaatje
President

Consolidated Balance Sheet

AS AT DECEMBER 31, 1980

Assets

	1980	1979
Current		
Cash	\$ 680,075	\$ 24,420
Marketable investments — at quoted market value (cost: 1980 — \$12,709,857; 1979 — \$5,862,738)	14,293,356	7,269,558
Receivables	77,003	220,652
Inventories	<u>632,870</u>	<u>101,247</u>
	15,683,304	7,615,877
 Long Term Investments — at equity (Note 2)	 9,619,051	 4,928,479
 Fixed Assets (Note 3)	 694,942	 20,010
 Goodwill — at cost less accumulated amortization of \$158,271; 1979 — \$108,431	 <u>1,871,929</u>	 <u>1,921,769</u>
	<u>\$27,869,226</u>	<u>\$14,486,135</u>

Liabilities and Shareholders' Equity

	1980	1979
Current		
Bank loan	\$ —	\$ 850,000
Accounts payable and other liabilities	352,435	655,397
Income taxes payable	763,630	158,807
Deferred income taxes	<u>304,086</u>	<u>314,081</u>
	<u>1,420,151</u>	<u>1,978,285</u>
Shareholders' Equity		
Capital Stock (Note 4)	17,620,258	8,320,258
Retained Earnings	7,641,193	3,129,972
Net Unrealized Gain on Marketable Investments	<u>1,187,624</u>	<u>1,057,620</u>
	<u>26,449,075</u>	<u>12,507,850</u>
	<u>\$27,869,226</u>	<u>\$14,486,135</u>

On behalf of the Board

Christopher Ondaatje
Director

Donald C. Webster
Director



Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
Income		
Publishing and fine art	\$ 225,156	\$ 399,286
Net gain on investments	3,969,615	1,592,809
Dividends and interest	730,763	174,399
Equity in net earnings of Black Photo Corporation Limited	<u>1,341,417</u>	<u>723,632</u>
	<u>6,266,951</u>	<u>2,890,126</u>
Expenses		
Costs and expenses exclusive of undernoted item	802,402	733,544
Depreciation and amortization	<u>54,890</u>	<u>69,543</u>
	<u>857,292</u>	<u>803,087</u>
Earnings before income tax	<u>5,409,659</u>	<u>2,087,039</u>
Income taxes		
Current	942,731	105,740
Deferred	<u>(44,293)</u>	<u>37,600</u>
	<u>898,438</u>	<u>143,340</u>
Net earnings for the year	<u>\$4,511,221</u>	<u>\$1,943,699</u>
Earnings per class A special and class B special share (Note 5)	<u>\$ 0.52</u>	<u>\$ 0.28</u>

Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1980

Balance — beginning of year	\$3,129,972	\$1,186,273
Net earnings for the year	<u>4,511,221</u>	<u>1,943,699</u>
Balance — end of year	<u>\$7,641,193</u>	<u>\$3,129,972</u>

THE PAGURIAN CORPORATION LIMITED

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1980

	1980	1979
Funds were provided from		
Operations:		
Net earnings for the year	\$ 4,511,221	\$ 1,943,699
Items not representing a current flow of funds:		
Equity earnings, net of dividends received	(1,116,524)	(616,132)
Depreciation and amortization	54,890	69,543
	3,449,587	1,397,110
Net proceeds from issue of capital stock	9,300,000	2,901,660
Net unrealized gain on marketable investments	130,004	851,285
	<u>12,879,591</u>	<u>5,150,055</u>
Funds were applied to		
Investment in Black Photo Corporation Limited	574,048	1,060,643
Investment in Westdale Oil & Gas Ltd.	3,000,000	—
Purchase of fixed assets	679,982	9,088
	<u>4,254,030</u>	<u>1,069,731</u>
Increase in working capital for the year	8,625,561	4,080,324
Working capital — beginning of year	5,637,592	1,557,268
Working capital — end of year	<u>\$14,263,153</u>	<u>\$ 5,637,592</u>

Consolidated Statement of Net Unrealized Gain on Marketable Investments

FOR THE YEAR ENDED DECEMBER 31, 1980

Balance — beginning of year	\$ 1,057,620	\$ 206,335
Unrealized gain during the year	176,679	1,076,485
Less: Deferred income taxes applicable thereto	46,675	225,200
	130,004	851,285
Balance — end of year	<u>\$ 1,187,624</u>	<u>\$ 1,057,620</u>

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1980

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary.

(b) Translation of Foreign Currencies

Foreign currencies are translated to Canadian dollars as follows:

- (i) market value of investments, receivables and payables at year-end exchange rates;
- (ii) purchases and sales of investments, income and expenses at the rates of exchange prevailing on the respective dates of such transactions; and
- (iii) the resulting gains or losses are included in net income.

(c) Marketable Investments

The Company carries its marketable investments at their quoted market values. Net unrealized gains are recognized in the accompanying statement of net unrealized gain on marketable investments.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value.

(e) Fixed Assets

Fixed Assets are depreciated on the diminishing balance method at the following annual rates:

Automobiles	— 30%
Building	— 5%
Office furnishings	— 20%

(f) Goodwill

The excess of the purchase price of businesses over the Company's interest in the fair value of the net assets acquired is being amortized on a straight-line basis over 40 years.

(g) Income Taxes

Provision has been made for deferred income taxes that would be payable if the unrealized gains (Note 1(c)) had been realized on December 31st. In addition, deferred income taxes are provided for revenue and expense items reported for tax purposes in different periods than for financial purposes.

2. Long Term Investments

(a) Long term investments which are accounted for on the equity method are comprised as follows:

	1980	1979
Black Photo Corporation Limited —		
475,000 common shares	\$6,619,051	\$4,928,479
Westdale Oil & Gas Ltd. —		
3,500,000 common shares	3,000,000	—
	<u>\$9,619,051</u>	<u>\$4,928,479</u>

(b) Investment in Black Photo Corporation Limited

During 1980 the Company acquired an additional 32,120 shares of Black Photo Corporation Limited ("Black's") for cash of \$574,048 thereby increasing its ownership interest to 31.47% (1979 — 28.76%). This investment has been carried at equity since January 1, 1979. The excess of the purchase price over the Company's interest in the fair value of the net assets acquired is \$981,825. This amount is being amortized on a straight-line basis over 40 years. Since Black's year end is March 31, nine months of the equity earnings included in the results of operations are based on unaudited interim financial statements.

(c) Investment in Westdale Oil & Gas Ltd.

In December 1980 the Company acquired 3,500,000 shares of Westdale Oil & Gas Ltd. ("Westdale") for cash of \$3,000,000 which represented a 60.87% ownership interest. Westdale, an oil and gas exploration company, has not been consolidated since a planned share and unit issue by Westdale in early 1981 will reduce the Company's ownership interest to 45.16%. The excess of the purchase price of this investment over the Company's interest in the fair value of the net assets acquired is \$236,281. This amount will be amortized on a straight-line basis over 40 years.

Westdale's financial position as at December 31, 1980 was as follows:

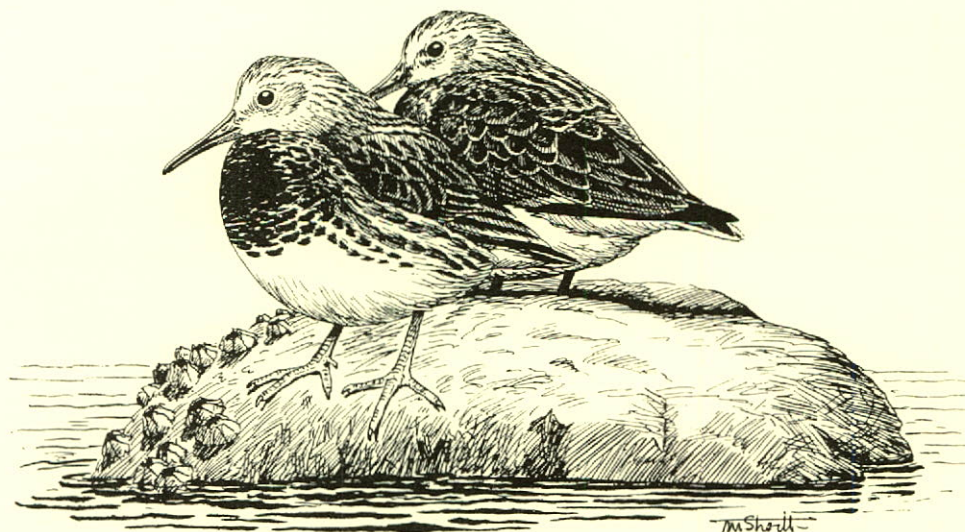
Assets	
Cash and term deposit	\$4,346,260
Marketable investment, at cost	100,000
Prepaid expenses	51,205
Deferred exploration expenditures, administrative expenditures and interest income	41,178
	<u>\$4,538,643</u>
Liabilities	
Accounts payable	\$ 517
Shareholders' Equity	
Capital stock	4,538,126
	<u>\$4,538,643</u>

As Westdale is in the development stage all expenditures and income to date have been deferred.

3. Fixed Assets	1980		1979	
	Cost	Accumulated Depreciation	Net	Net
Automobiles	\$ 9,588	\$ 5,433	\$ 4,155	\$ 5,935
Building	367,482	—	367,482	—
Land	312,500	—	312,500	—
Office furnishings	26,242	15,437	10,805	14,075
	<u>\$715,812</u>	<u>\$ 20,870</u>	<u>\$694,942</u>	<u>\$ 20,010</u>

4. Capital Stock

- (a) By Articles of Amendment dated December 2, 1980 the authorized capital of the Company was changed as follows:
- (i) all remaining unissued Class A preference shares were cancelled;
 - (ii) 4,898,500 Class A special shares were subdivided into 9,797,000 Class A special shares without par value;
 - (iii) 101,500 Class B special shares were subdivided into 203,000 Class B special shares without par value; and
 - (iv) 15,000,000 Class A special shares without par value were created ranking on a parity with the existing Class A special shares without par value.



(b) Authorized — Shares		
1980	1979	
—	4,732	5% Class A non-cumulative, non-voting, redeemable preference shares, par value \$10 each
200,000	200,000	5% Class B non-cumulative, voting, redeemable preference shares, par value 1/10¢ each
24,797,000	4,895,500	Class A special, non-voting shares, without par value
203,000	104,500	Class B special, voting shares, convertible on a one for one basis into Class A special shares, without par value
100	100	Common shares, without par value
(c) The issued capital of the Company changed during the year as follows:		
(i)	3,000	Class B special shares were converted into 3,000 Class A shares;
(ii)	1,200,000	Class A special shares were issued under a private placement for cash of \$9,600,000 less commission of \$300,000;
(iii)	4,894,105	Class A special shares were subdivided into 9,788,210 Class A special shares; and
(iv)	101,500	Class B special shares were subdivided into 203,000 Class B special shares.
(d) Issued — Shares		Amount
1980	1979	1980 1979
200,000	200,000	5% Class B preference shares, par value 1/10¢ each \$ 200 \$ 200
9,788,210	3,691,105	Class A special shares, without par value 17,600,628 8,300,058
203,000	104,500	Class B special shares, without par value 19,430 20,000
		<u>\$17,620,258</u> <u>\$8,320,258</u>

(e) On January 9, 1981 the Company issued one right to each Class A and Class B special shareholder. The holders of three rights were entitled to subscribe for one unit at \$6.25 per unit. Each unit consists of one Class A special share and one warrant to purchase an additional Class A special share at prices escalating from \$8.50 in 1981 to \$10.50 on or before December 31, 1983. The Company has reserved 6,660,806 Class A special shares to satisfy the exercise of this rights offering. Subsequent to the year end the Company has received \$20,614,500, net of dealers commissions, as subscription proceeds for all the 3,330,403 units.

5. Earnings per class A and class B special shares
The earnings per Class A and Class B special share for 1979 have been adjusted to reflect the subdivision of Class A and Class B special shares which occurred in 1980.

6. Business Segments

The operations of the Company consist of two business segments: publishing and fine art and investment activity.

	Publishing And Fine Art	Investment Activity	Total
Income	\$225,156	\$4,700,378	\$4,925,534
Operating expenses	211,001	290,374	501,375
Segment operating profit	<u>\$ 14,155</u>	<u>\$4,410,004</u>	4,424,159
General corporate expenses			355,917
			4,068,242
Income taxes			898,438
			3,169,804
Equity in net earnings of long term investment			1,341,417
Net earnings for the year			<u>\$4,511,221</u>
Identifiable assets			
Publishing and fine art			\$ 709,873
Investment activity			14,973,431
Corporate			2,566,871
Equity investments			9,619,051
			<u>\$27,869,226</u>

7. Remuneration of Directors and Officers

The aggregate remuneration of directors and senior officers of the Company and its subsidiary, and paid to corporations controlled by directors of the Company, for the year ended December 31, 1980 was \$365,050 (1979 — \$218,670).

Auditors' Report

To the Shareholders of
The Pagurian Corporation Limited

We have examined the consolidated balance sheet of The Pagurian Corporation Limited as at December 31, 1980 and the consolidated statements of earnings, retained earnings, changes in financial position and net unrealized gain on marketable investments 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, except as explained in the following paragraph.

Equity in net earnings of an associated company and the related investment carried on an equity basis include \$1,171,821 which represents the company's portion of the net earnings of the investee company for the nine month period from April 1, 1980 to December 31, 1980 which has not been audited.

In our opinion, except for the effect of adjustments, if any, which might have been required had audited financial information of the investee company been available, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 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.

March 24, 1981
Toronto, Canada

Smith, Nixon & Co.
Chartered Accountants



