



ASSOCIATION  
OF MANAGEMENT

APR 29 1982

MCGILL UNIVERSITY

# ANNUAL REPORT 1981



## 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

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

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

Henri Deegenaar,  
Directeur des Placements, Groupe Drouot,  
Marly Le Roi, France

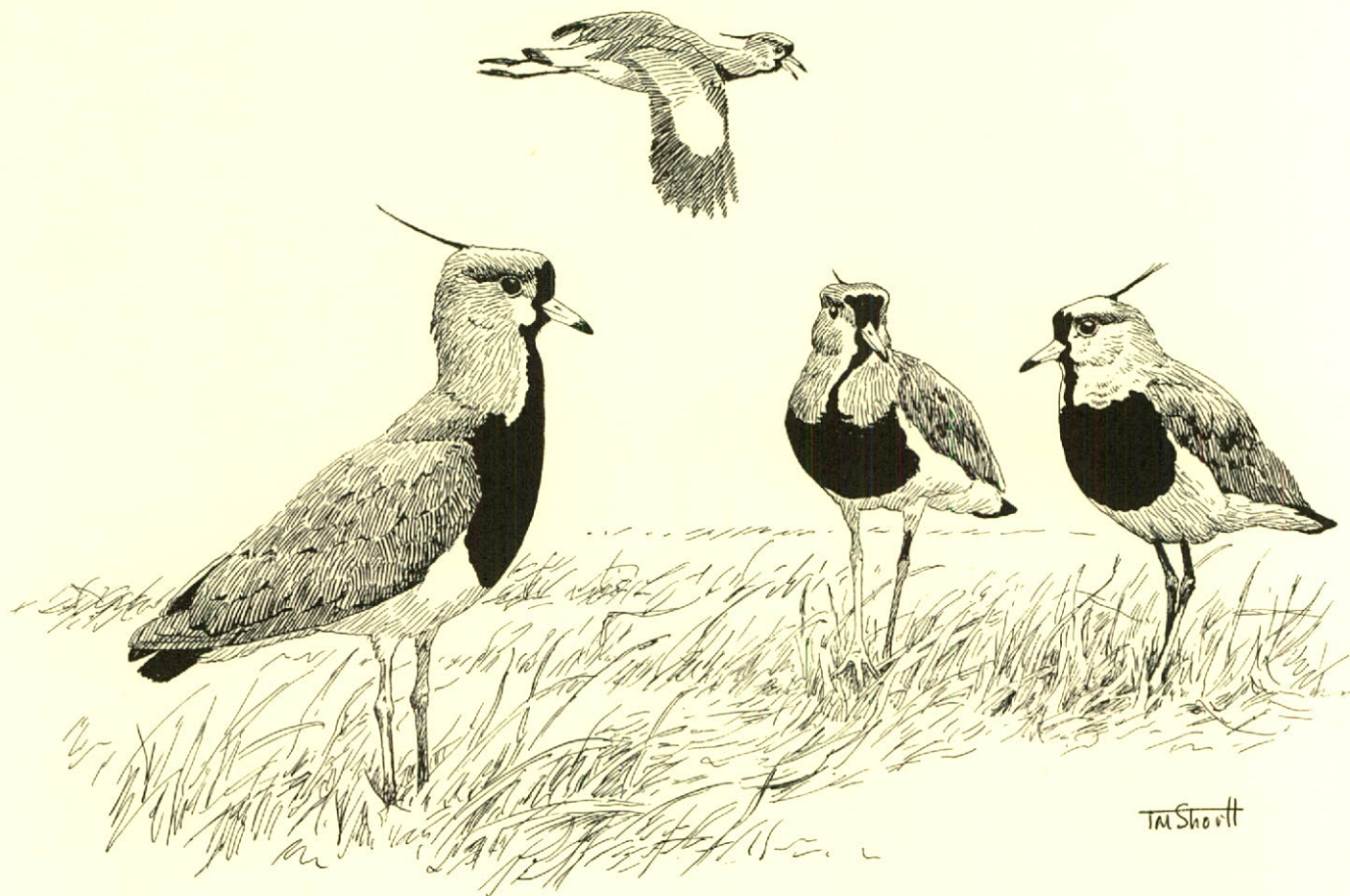
John M. Judson  
Lawyer, Shibley, Righton, McCutcheon, Toronto

## 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 26th, 1982  
13 Hazelton Avenue  
Toronto, Ontario



About the cover:

Illustration by Ed Franklin of the new Pagurian Corporation head office at 13 Hazelton Avenue, Toronto.





## President's Report to Shareholders

I am pleased to report that, despite the severe deterioration which occurred in both the North American economy and capital markets, The Pagurian Corporation Limited was able to maintain its outstanding growth record in the fiscal year ended December 31, 1981. Once again, gross revenues, net earnings and earnings per share all reached new highs. Gross revenues rose 121.2% to \$13,861,207 from \$6,266,951 while net earnings advanced by 98.1% to \$8,935,378 from \$4,511,221. Earnings per share increased from 52¢ on 8,691,210 shares in 1980 to 70¢ on 12,766,032 shares in 1981. The increased number of shares outstanding resulted from the successful completion of a rights issue in February 1981 which provided your company with an additional \$20.6 million of equity capital.

In addition to achieving highly satisfactory results in 1981, The Pagurian Corporation also completed a number of corporate undertakings which will contribute to its longer term growth while insuring both liquidity and safety of principal during the current period of economic uncertainty. Following the successful rights issue early in the year, Pagurian reduced its interest in Black Photo Corporation to 14.4% from 31.5%. This decision was in keeping with your Company's investment objectives rather than being indicative of a change in the investment merits of Black Photo. In fact, your Company still has a sizeable investment in this immensely successful and growing specialty retailer.

Pagurian's interest in Westdale Oil & Gas Ltd., a junior Canadian exploration and development company, declined from 60.9% to 42.0% in 1981 following the issue of 2,586,110 treasury shares by Westdale. While reducing your Company's ownership percentage, this transaction considerably enhanced

Westdale's financial resources. As a first step in broadening its asset base, Westdale purchased a valuable 26% interest in Cherokee Resources Limited, a Calgary based resource company involved in oil and gas exploration and development in Canada and the United States.

In October, Pagurian Corporation purchased, for \$15 million U.S., a 50% interest in American Resource Corporation Limited, a Bermuda based resource and financial management company. This investment, which contributed to Pagurian's 1981 earnings, is expected to become a major contributor to the Company's future growth.

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 currently has an inventory of several thousand original paintings and limited edition prints. These are being held for both resale and use in publishing at your Company's new head office at 13 Hazelton Avenue, Toronto.

Initially the book publishing and fine arts business provided the Company with the financial resources to capitalize on other attractive investment opportunities, including Black Photo Corporation, Westdale Oil & Gas and, recently, American Resource Corporation. As a result, Pagurian's assets rose nearly tenfold over the last three years from \$6.4 million in 1978 to \$58.6 million on December 31, 1981. In achieving this superior growth, your Company has remained debt free, and in fact at this time the vast majority of its total assets are highly liquid. This conservative investment strategy, which has proved to be highly rewarding in the past, is allowing your Company to prosper during the current period of exceptionally high interest rates and declining asset and capital values. While 1982 promises to be an extremely challenging one for all corporations, we are confident that your Company, with its sound financial structure, will be able to achieve satisfactory results while being in a position to take advantage of attractive investment opportunities which may arise.

Once again, I would like to thank the staff and the shareholders for their continued loyal support.

On behalf of the Board,

Christopher Ondaatje  
President

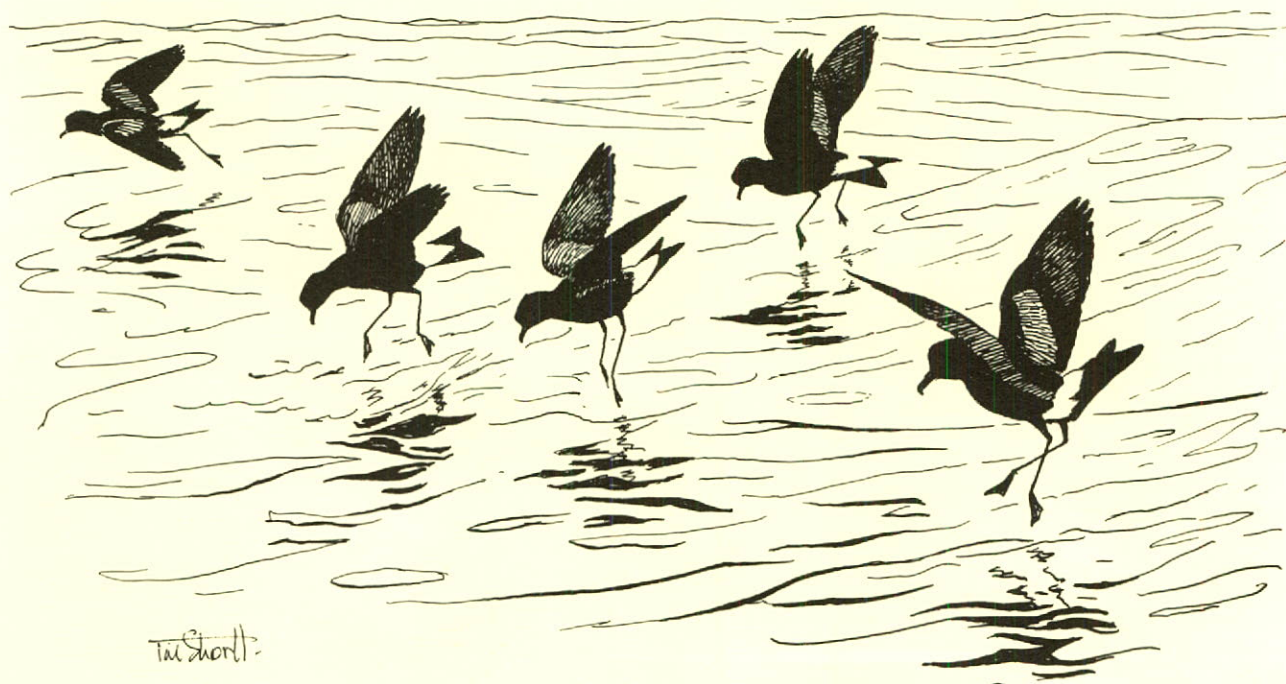


## Consolidated Balance Sheet

AS AT DECEMBER 31, 1981

## Assets

	1981	1980
Current		
Cash	\$ 43,626	\$ 680,075
Short-term investments—at quoted market value (cost: 1981—\$3,189,014; 1980—\$12,709,857)	3,188,847	14,293,356
Receivables	459,944	77,003
Inventories	<u>1,612,886</u>	<u>632,870</u>
	5,305,303	15,683,304
Long-term Investments		
—at equity (Note 2)	21,644,029	9,619,051
—at cost (market value: \$30,080,125)	<u>29,030,906</u>	—
Fixed Assets (Note 3)	780,968	694,942
Goodwill—at cost less accumulated amortization of \$208,111; 1980—\$158,271	<u>1,822,089</u>	<u>1,871,929</u>
	<u>\$58,583,295</u>	<u>\$27,869,226</u>



# Liabilities and Shareholders' Equity

## Current

Accounts payable and other liabilities  
Income taxes payable  
Deferred income taxes

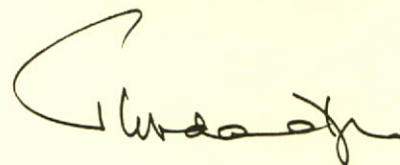
1981	1980
\$ 1,298,160	\$ 352,435
2,460,553	763,630
<u>17,700</u>	<u>304,086</u>
<u>3,776,413</u>	<u>1,420,151</u>

## Shareholders' Equity

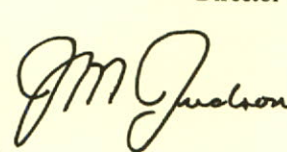
Capital stock (Note 4)  
Retained earnings  
Net unrealized gain on short-term investments

38,230,311	17,620,258
16,576,571	7,641,193
<u>—</u>	<u>1,187,624</u>
<u>54,806,882</u>	<u>26,449,075</u>
<u>\$58,583,295</u>	<u>\$27,869,226</u>

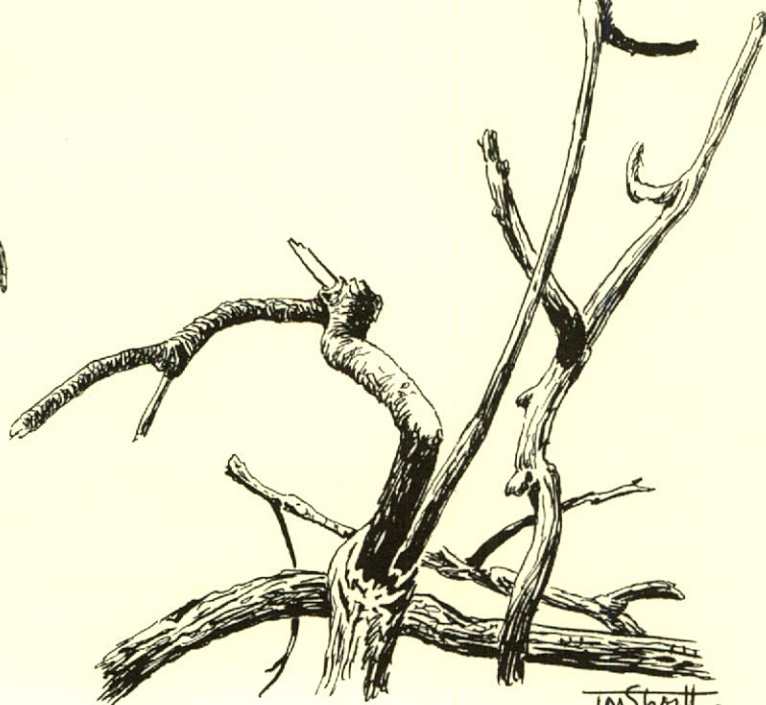
On Behalf of the Board



Christopher Ondaatje  
Director



John M. Judson  
Director



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THE PAGURIAN CORPORATION LIMITED

# Consolidated Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1981

	1981	1980
Income		
Publishing and fine art	\$ 568,423	\$ 225,156
Net gain on investments	8,482,096	3,969,615
Dividends and interest	4,149,513	730,763
Equity in net earnings—		
American Resource Corporation Limited	372,972	—
Black Photo Corporation Limited	152,209	1,341,417
Westdale Oil & Gas Ltd.	135,994	—
	<u>13,861,207</u>	<u>6,266,951</u>
Expenses		
Costs and expenses exclusive of undernoted item	1,383,839	802,402
Depreciation and amortization	88,343	54,890
	<u>1,472,182</u>	<u>857,292</u>
Earnings before income taxes	<u>12,389,025</u>	<u>5,409,659</u>
Income taxes		
Current	3,344,158	942,731
Deferred	109,489	(44,293)
	<u>3,453,647</u>	<u>898,438</u>
Net earnings for the year	<u>\$ 8,935,378</u>	<u>\$4,511,221</u>
Earnings per class A special and class B special share	<u>\$ 0.70</u>	<u>\$ 0.52</u>

# Consolidated Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1981

Balance—beginning of year	\$ 7,641,193	\$3,129,972
Net earnings for the year	<u>8,935,378</u>	<u>4,511,221</u>
Balance—end of year	<u>\$16,576,571</u>	<u>\$7,641,193</u>



THE PAGURIAN CORPORATION LIMITED

# Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1981

	1981	1980
Funds were provided from		
Operations:		
Net earnings for the year	\$ 8,935,378	\$ 4,511,221
Items not representing a current flow of funds:		
Equity earnings, net of dividends received	(661,175)	(1,116,524)
Depreciation and amortization	88,343	54,890
	8,362,546	3,449,587
Net proceeds from issue of capital stock	20,610,053	9,300,000
Increase in net unrealized gain on short-term investments	—	130,004
	<u>28,972,599</u>	<u>12,879,591</u>
Funds were applied to		
Acquisition of long-term marketable investments	22,259,646	—
Investment in American Resource Corporation Limited	18,135,063	—
Investment in Black Photo Corporation Limited	—	574,048
Investment in Westdale Oil & Gas Ltd.	—	3,000,000
Purchase of fixed assets	124,529	679,982
Decrease in net unrealized gain on short-term investments	1,187,624	—
	<u>41,706,862</u>	<u>4,254,030</u>
Increase (decrease) in working capital for the year	(12,734,263)	8,625,561
Working capital—beginning of year	14,263,153	5,637,592
Working capital—end of year	<u>\$ 1,528,890</u>	<u>\$14,263,153</u>

## Consolidated Statement of Net Unrealized Gain on Short-term Investments

FOR THE YEAR ENDED DECEMBER 31, 1981

Balance—beginning of year	\$ 1,187,624	\$ 1,057,620
Increase (decrease) in unrealized gain during the year	(791,749)	176,679
Less: Deferred income taxes applicable thereto	(395,875)	46,675
	<u>(1,187,624)</u>	<u>130,004</u>
Balance—end of year	<u>\$ —</u>	<u>\$ 1,187,624</u>

# Notes to Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1981

## 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 earnings.

### (c) Short-term Investments

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

### (d) Inventories

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

### (e) Long-term investments

Investments in companies in which the Company has significant influence are accounted for by the equity method.

The Company carries its marketable securities that it intends to hold for the long-term at cost.

### (f) Fixed Assets

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

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

### (g) 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.

### (h) Income Taxes

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:

	1981	1980
American Resource Corporation Limited—		
7,500 common shares	\$ 9,249	\$ —
15,000,000 Class A preference shares	18,498,786	—
Black Photo Corporation Limited—		
475,000 common shares	—	6,619,051
Westdale Oil & Gas Ltd.—		
3,500,000 common shares	3,135,994	3,000,000
	<u>\$21,644,029</u>	<u>\$9,619,051</u>

### (b) Investment in American Resource Corporation Limited

On October 27, 1981 the Company acquired a 50% interest in American Resource Corporation Limited, a financial and resource management company, for cash of \$18,135,063. This investment has been carried at equity since acquisition.

### (c) Investment in Black Photo Corporation Limited ("Black's")

During the year the Company reduced its ownership interest in Black's from 31.47% to 14.36%. In April 1981 the Company ceased to have significant influence over this company and therefore changed its method of accounting for this investment from the equity method to the cost method and deemed the equity carrying value at that time to be cost.

### (d) Investment in Westdale Oil & Gas Ltd. ("Westdale")

During 1981 the Company's interest in Westdale was reduced from 60.87% to 42.00% as a result of additional shares issued by Westdale. The excess of the purchase price of this investment over the Company's interest in the fair value of the net assets acquired is \$162,952. This amount will be amortized on a straight-line basis over 40 years.



3. Fixed Assets	1981		1980	
	Cost	Accumulated Depreciation	Net	Net
Automobile	\$ 5,890	\$ 4,102	\$ 1,788	\$ 4,155
Building	429,271	21,464	407,807	367,482
Land	312,500	—	312,500	312,500
Office furnishings	85,779	26,906	58,873	10,805
	<u>\$833,440</u>	<u>\$52,472</u>	<u>\$780,968</u>	<u>\$694,942</u>

#### 4. Capital Stock

##### (a) Authorized— Shares

1981	1980	
200,000	200,000	5% Class B non-cumulative, voting, redeemable preference shares, par value 1/10¢ each
24,799,000	24,797,000	Class A special, non-voting shares, without par value
201,000	203,000	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
(b) <i>The issued capital of the Company changed during the year as follows:</i>		
(i)	3,329,786	Class A special shares were issued under a rights issue for cash of \$20,610,053 (net of commissions of \$201,109).
(ii)	2,000	Class B special shares were converted into 2,000 Class A shares.

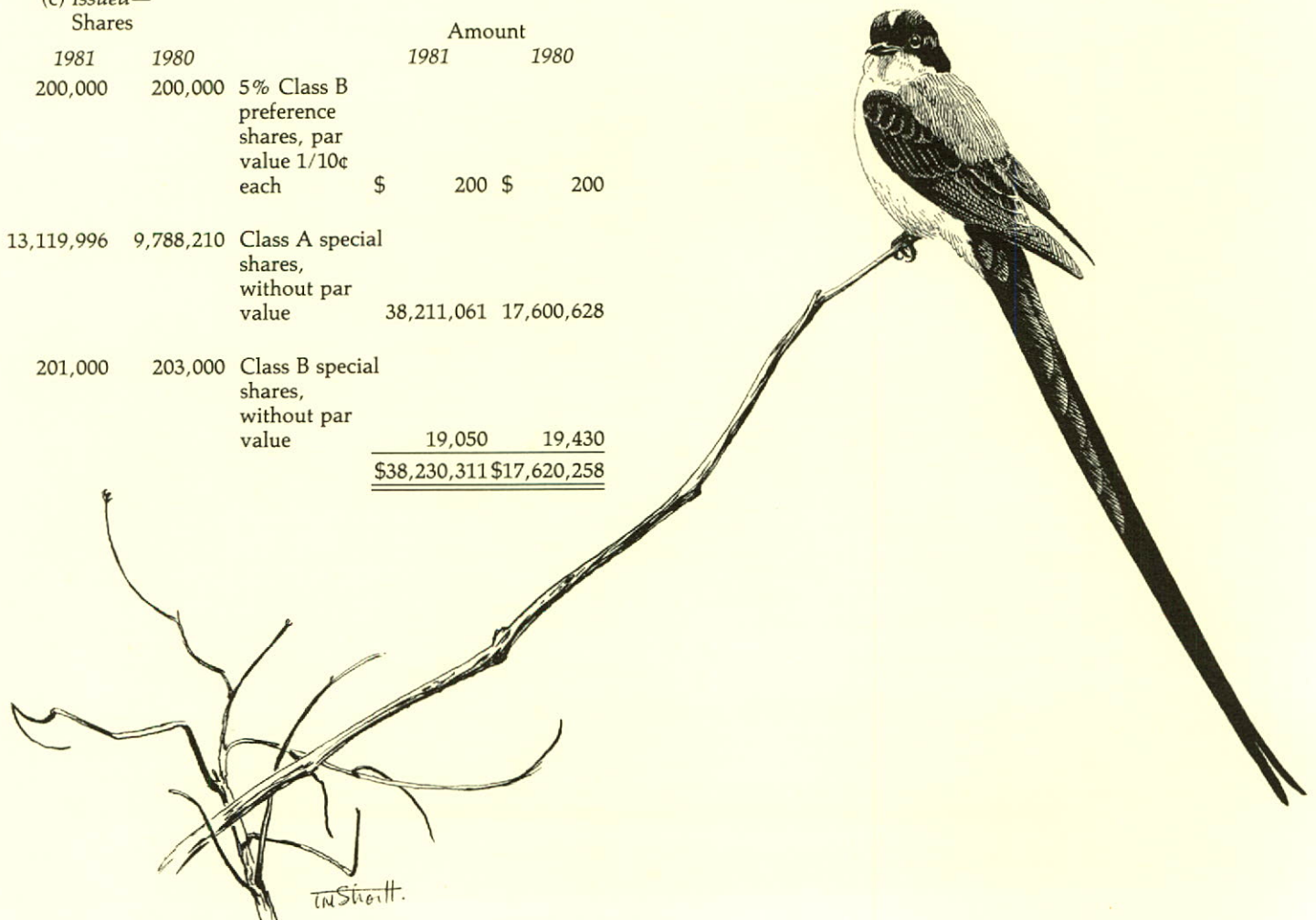
##### (c) Issued— Shares

		Amount	
1981	1980	1981	1980
200,000	200,000	5% Class B preference shares, par value 1/10¢ each	\$ 200 \$ 200
13,119,996	9,788,210	Class A special shares, without par value	38,211,061 17,600,628
201,000	203,000	Class B special shares, without par value	19,050 19,430
		<u>\$38,230,311</u>	<u>\$17,620,258</u>

(d) As at December 31, 1981 3,329,786 share purchase warrants were outstanding. Each warrant entitled the holder thereof to purchase one share of the Company at prices escalating from \$9.50 in 1982 to \$10.50 on or before December 31, 1983.

#### 5. 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, 1981 was \$736,405 (1980—\$365,050).

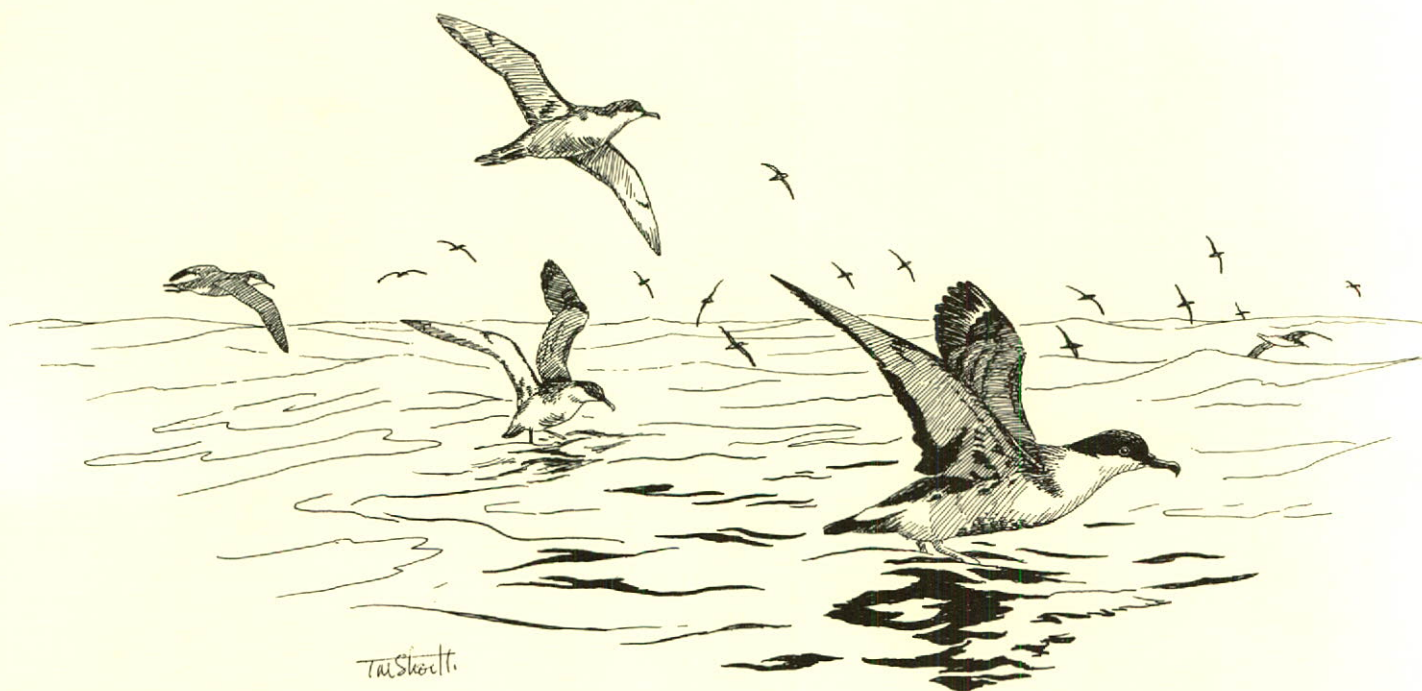




## 6. Business Segments

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

	1981			1980		
	Publishing & Fine Art	Investment Activity	Total	Publishing & Fine Art	Investment Activity	Total
Income	\$568,423	\$12,631,609	\$13,200,032	\$225,156	\$4,700,378	\$ 4,925,534
Operating Expenses	420,147	655,880	1,076,027	211,001	290,374	501,375
Segment Operating Profit	<u>\$148,276</u>	<u>\$11,975,729</u>	12,124,005	<u>\$ 14,155</u>	<u>\$4,410,004</u>	4,424,159
General Corporate Expenses			396,155			355,917
			11,727,850			4,068,242
Income Taxes			3,453,647			898,438
			8,274,203			3,169,804
Equity Earnings			661,175			1,341,417
Net Earnings For the Year			<u>\$ 8,935,378</u>			<u>\$ 4,511,221</u>
Identifiable Assets						
Publishing and fine art			\$ 1,670,438			\$ 709,873
Investment activity			32,665,771			14,973,431
Corporate			2,603,057			2,566,871
Equity investments			21,644,029			9,619,051
			<u>\$58,583,295</u>			<u>\$27,869,226</u>





# 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, 1981 and the consolidated statements of earnings, retained earnings, changes in financial position and net unrealized gain on short-term 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.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 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 9, 1982  
Toronto, Canada

Smith, Nixon & Co.  
Chartered Accountants





