

The Pagurian Corporation



ROBERT ROSS LIBRARY
OF MANAGEMENT
APR 29 1983
MCGILL UNIVERSITY

ANNUAL REPORT 1982

Board of Directors

Christopher Ondaatje,
Président, The Pagurian Corporation Limited, Toronto

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

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

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

Charles N.G. Hobbs,
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 Listing/
The Toronto 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, 1983
13 Hazelton Avenue
Toronto, Ontario



About the cover:

"Growth" by Ed Franklin, symbolizing a growing fascination for art and business by Canada's younger generation.



Financial Times of Canada

President's Report to Shareholders

The year 1982 was, for the most part, a sobering experience for Canada and the Canadian economy, as individuals and businesses alike faced unusually difficult circumstances. It is, therefore, with a true feeling of gratitude and a sense of accomplishment that I write the 1982 President's Report of The Pagurian Corporation Limited. While the Company's record of uninterrupted growth in revenues and net earnings was not maintained in the latest year, highly satisfactory results were achieved. In the fiscal year ended December 31, 1982, gross revenues amounted to \$9,115,093 and net earnings equalled \$6,916,904, which compared to \$13,861,207 and \$8,935,378 respectively in the previous year. Earnings per share amounted to 52¢ in 1982 compared to 70¢ in 1981.

It is worth noting that, while below the 1981 levels, both revenues and net earnings in 1982 were the second highest in the history of the Company. Also, your Company remained debt free and total assets and shareholders' equity as of December 31, 1982 were at new highs of \$60.1 million and \$59.1 million respectively. Another financial milestone achieved by your Company last year was the payment of an initial cash dividend of 20¢ per share.

In addition to achieving satisfactory operating results while maintaining an exceptionally sound financial structure, your management's efforts in 1982 were directed toward the longer term deployment of Pagurian's substantial liquid assets. I am pleased to report that, in this regard, significant progress was achieved. Pagurian's major investment was a 39.8% ownership in American Resource Corporation Limited, an internationally based financial management and resource company. Pagurian's interest in this company declined from 50% during the year following a public financing by the latter in which 5,140,000 new shares were issued. This transaction enhanced American Resource Corporation's financial strength, and subsequent to year-end, by means of a further treasury issue and open market purchases, it acquired a total of 4.6 million Class A shares of

Pagurian, thereby increasing its ownership to 34.7%. At that time the management of American Resource stated that the Pagurian holding would be its principal investment in Canada. As a result of the dilution associated with this transaction Pagurian now owns 33.5% of American Resource Corporation.

In the natural resource area notable progress was also achieved in the repositioning of Pagurian's major investments. Subsequent to year-end, Westdale Oil & Gas Ltd., which was 42% owned by Pagurian, increased its ownership in Cherokee Resources Limited from 26% to 44%. Pagurian then agreed to a share exchange offer of one common share of Canusa Energy Ltd. for every two common shares of Westdale Oil & Gas Ltd. As a result, Pagurian was able to deliver effective control of both Westdale and Cherokee to Canusa Energy, and acquire a minority interest of about 6% in the latter. Canusa is a growing Calgary based company which directly and through its subsidiaries, including 87.5% owned Bonanza Oil & Gas Ltd., is engaged in the acquisition of interests in petroleum and natural gas rights, and in the exploration for oil and natural gas, both in Canada and the United States.

The investments in both American Resource Corporation and in Canusa Energy are indicative of Pagurian's basic investment philosophy which is to acquire sizeable and marketable holdings, at an early stage, in strongly managed and growing companies without over-extending its own financial resources. In this way, your Company is able to achieve continuing growth from its own activities as well as participate in the growth of the companies which it helps establish.

Initially the book publishing and fine arts business provided the Company with the financial resources to capitalize on other attractive investment opportunities. In addition to American Resource Corporation and Canusa Energy, which are its two major investments at this time, the Company also has a sizeable portfolio of other high quality marketable investments. As a result, Pagurian's assets have risen nearly tenfold over the last four years, from \$6.4 million in 1978 to \$60.1 million on December 31, 1982. In achieving this superior growth your Company remained debt free, an investment strategy which allowed it to remain highly profitable through the extremely difficult financial and economic environment which existed from mid-1981 until the latter part of 1982. Consequently, your Company is now strongly positioned to benefit from the improving economic and financial conditions which are currently developing in most industrialized countries. Hence I am confident that 1983 will see a resumption of Pagurian's excellent growth record.

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

THE PAGURIAN CORPORATION LIMITED

Balance Sheet

AS AT DECEMBER 31, 1982

Assets

	1982	1981
Current		
Cash	\$ 14,730	\$ 43,626
Short-term investments—at quoted market value (cost: 1981—\$3,189,014)	—	3,188,847
Receivables	426,907	459,944
Inventories	1,794,916	1,612,886
Income taxes recoverable	251,560	—
	<u>2,488,113</u>	<u>5,305,303</u>
Long-term Investments		
—at equity (Note 3)	22,406,934	21,644,029
—at cost (market value: \$36,587,687; 1981—\$30,080,125)	32,636,988	29,030,906
Fixed Assets (Note 4)	778,860	780,968
Goodwill—at cost less accumulated amortization of \$257,951; 1981—\$208,111	<u>1,772,249</u>	<u>1,822,089</u>
	<u>\$60,083,144</u>	<u>\$58,583,295</u>

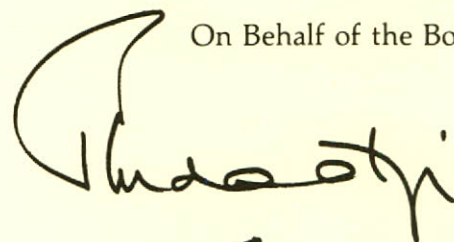


The accompanying notes form an integral part of these financial statements.

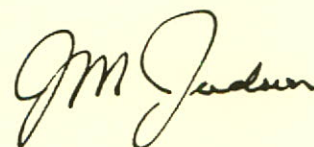
Liabilities and Shareholders' Equity

	1982	1981
Current		
Accounts payable and other liabilities	\$ 1,007,078	\$ 1,298,160
Income taxes payable	—	2,460,553
Deferred income taxes	<u>16,500</u>	<u>17,700</u>
	<u>1,023,578</u>	<u>3,776,413</u>
Shareholders' Equity		
Capital stock (Note 5)	38,230,311	38,230,311
Retained earnings	<u>20,829,255</u>	<u>16,576,571</u>
	<u>59,059,566</u>	<u>54,806,882</u>
	<u>\$60,083,144</u>	<u>\$58,583,295</u>

On Behalf of the Board



Christopher Ondaatje
Director



John M. Judson
Director



Statement of Earnings

FOR THE YEAR ENDED DECEMBER 31, 1982

	1982	1981
Income		
Publishing and fine art	\$ 306,519	\$ 568,423
Net gain on investments	3,714,178	8,482,096
Dividends, interest and other	2,958,066	4,149,513
Equity in net earnings —		
American Resource Corporation Limited	2,121,335	372,972
Black Photo Corporation Limited	—	152,209
Westdale Oil & Gas Ltd.	14,995	135,994
	<u>9,115,093</u>	<u>13,861,207</u>
Expenses		
Costs and expenses exclusive of undernoted item	1,026,793	1,383,839
Depreciation and amortization	84,430	88,343
	<u>1,111,223</u>	<u>1,472,182</u>
Earnings before income taxes	<u>8,003,870</u>	<u>12,389,025</u>
Income taxes		
Current	1,088,166	3,344,158
Deferred	(1,200)	109,489
	<u>1,086,966</u>	<u>3,453,647</u>
Net earnings for the year	<u>\$6,916,904</u>	<u>\$ 8,935,378</u>
Earnings per class A and class B special share	<u>\$ 0.52</u>	<u>\$ 0.70</u>

Statement of Retained Earnings

FOR THE YEAR ENDED DECEMBER 31, 1982

Balance—beginning of year	\$16,576,571	\$ 7,641,193
Add:		
Net earnings for the year	6,916,904	8,935,378
	<u>23,493,475</u>	<u>16,576,571</u>
Deduct:		
Dividends paid	2,664,220	—
Balance—end of year	<u>\$20,829,255</u>	<u>\$16,576,571</u>

Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1982

	1982	1981
Funds were provided from		
Operations:		
Net earnings for the year	\$ 6,916,904	\$ 8,935,378
Items not representing a current flow of funds:		
Equity earnings, net of dividends received	(2,136,330)	(661,175)
Depreciation and amortization	84,430	88,343
Gain on disposal of long-term investments	(3,866,158)	—
	<u>998,846</u>	<u>8,362,546</u>
Net proceeds from issue of capital stock	—	20,610,053
Proceeds on disposal of long-term investments	<u>24,182,454</u>	<u>—</u>
	<u>25,181,300</u>	<u>28,972,599</u>
Funds were applied to		
Acquisition of long-term marketable investments	22,548,953	22,259,646
Investment in American Resource Corporation Limited	—	18,135,063
Dividends paid	2,664,220	—
Purchase of fixed assets	32,482	124,529
Decrease in net unrealized gain on short-term investments	<u>—</u>	<u>1,187,624</u>
	<u>25,245,655</u>	<u>41,706,862</u>
Decrease in working capital for the year	64,355	12,734,263
Working capital—beginning of year	<u>1,528,890</u>	<u>14,263,153</u>
Working capital—end of year	<u>\$ 1,464,535</u>	<u>\$ 1,528,890</u>

Notes to Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1982

1. Summary of Significant Accounting Policies

(a) 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.

(b) Short-term Investments

The Company carries its short-term holdings of marketable securities at their quoted market values.

(c) Inventories

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

(d) 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.

(e) Fixed Assets

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

Automobile	—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

Deferred income taxes are provided for income and expense items reported for tax purposes in different periods than for financial purposes.

2. Amalgamation

By Articles of Amalgamation dated September 30, 1982, The Pagurian Corporation Limited and its wholly-owned subsidiary Pagurian Press Limited were amalgamated under the Business Corporations Act of Ontario to continue on as 'The Pagurian Corporation Limited'. The authorized and issued capital stock of The Pagurian Corporation Limited is the same as the capital stock of the former company. The earnings, retained earnings and financial position of the amalgamated corporation is prepared on the same basis as the prior consolidated financial statements.

3. Long-term Investments — at equity

Long-term investments which are accounted for by the equity method are comprised as follows:

	1982	1981
American Resource Corporation Limited— Common shares—32% (1981—50%)	\$ 6,830	\$ 9,249
Class A preference shares—39.8% (1981—50%)	19,249,115	18,498,786
Westdale Oil & Gas Ltd.— Common shares—42% (1981—42%)	3,150,989	3,135,994
	<u>\$22,406,934</u>	<u>\$21,644,029</u>

4. Fixed Assets

	1982		1981	
	Cost	Accumulated Depreciation	Net	Net
Automobile	\$ 5,890	\$ 4,602	\$ 1,288	\$ 1,788
Building	455,086	42,923	412,163	407,807
Land	312,500	—	312,500	312,500
Office furnishings	92,446	39,537	52,909	58,873
	<u>\$865,922</u>	<u>\$ 87,062</u>	<u>\$778,860</u>	<u>\$780,968</u>

5. Capital Stock

(a) Authorized— Shares			(c) Issued— Shares			Amount	
1982	1981		1982	1981		1982	1981
200,000	200,000	5% Class B non-cumulative, voting, redeemable preference shares, par value 1/10¢ each	200,000	200,000	5% Class B preference shares, par value 1/10¢ each	\$ 200	\$ 200
24,812,000	24,799,000	Class A non-voting shares, without par value	13,132,996	13,119,996	Class A non-voting shares, without par value	38,212,293	38,211,061
188,000	201,000	Class B special, voting shares, convertible on a one for one basis into Class A non-voting shares, without par value			Class B special shares, without par value	17,818	19,050
100	100	Common shares, without par value	188,000	201,000		<u>\$38,230,311</u>	<u>\$38,230,311</u>

(b) The authorized and issued capital of the Company changed during the year as follows:

13,000 Class B special shares were converted into 13,000 Class A shares.

(d) As at December 31, 1982, 3,329,786 share purchase warrants were outstanding. Each warrant entitles the holder thereof to purchase one Class A non-voting share of the Company at \$10.50 on or before December 31, 1983.

6. Remuneration of Directors and Officers

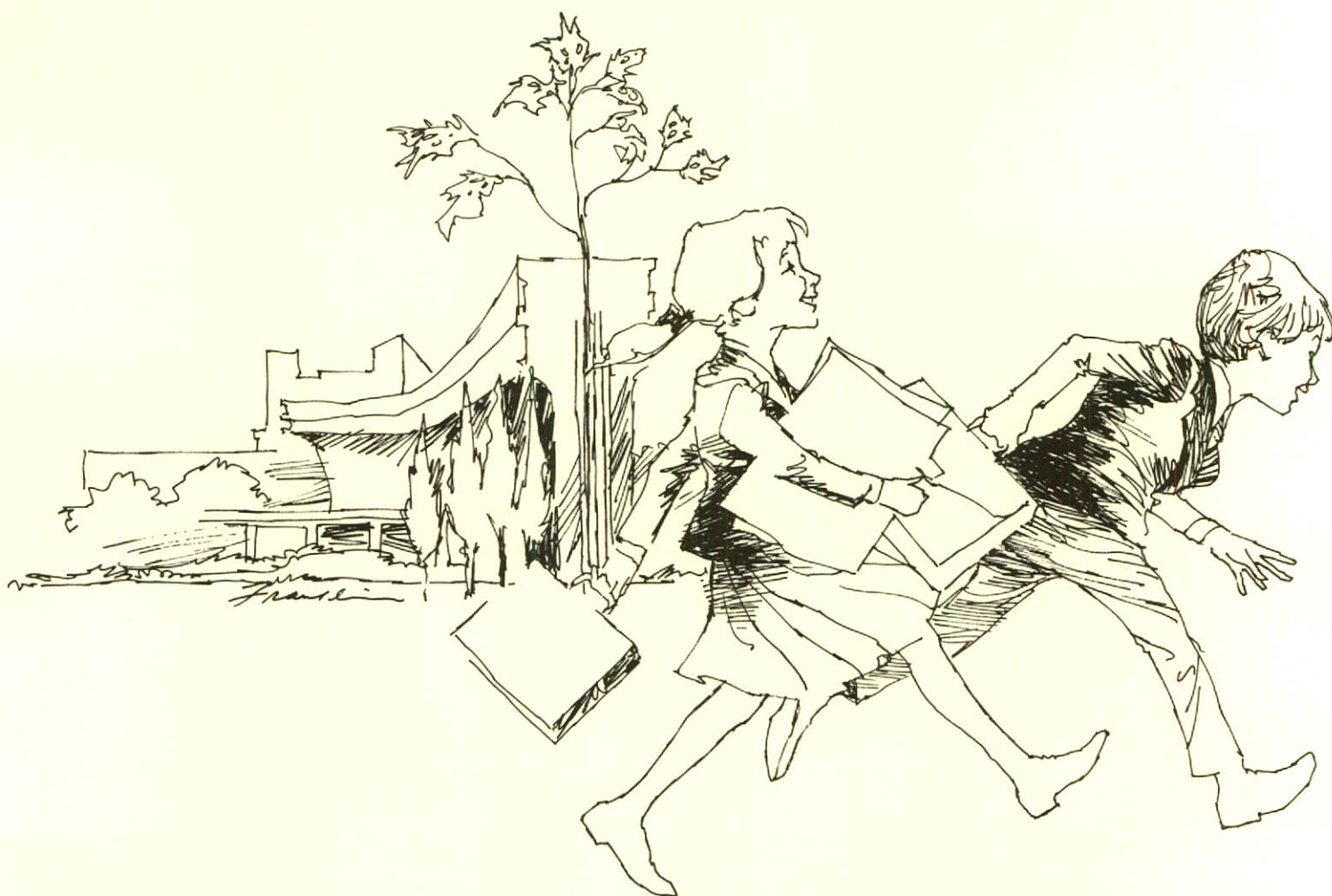
The aggregate remuneration of directors and senior officers of the Company and paid to corporations controlled by directors of the Company, for the year ended December 31, 1982 was \$512,000 (1981—\$736,405).



7. Business Segments

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

	1982			1981		
	Publishing & Fine Art	Investment Activity	Total	Publishing & Fine Art	Investment Activity	Total
Income	\$306,519	\$6,672,244	\$6,978,763	\$568,423	\$12,631,609	\$13,200,032
Operating Expenses	292,796	390,450	683,246	420,147	622,880	1,043,027
Segment Operating Profit	<u>\$ 13,723</u>	<u>\$6,281,794</u>	6,295,517	<u>\$148,276</u>	<u>\$12,008,729</u>	12,157,005
General Corporate Expenses			427,977			429,155
			5,867,540			11,727,850
Income Taxes			1,086,966			3,453,647
			4,780,574			8,274,203
Equity Earnings			2,136,330			661,175
Net Earnings for the Year			<u>\$6,916,904</u>			<u>\$ 8,935,378</u>
Identifiable Assets						
Publishing and fine art			\$ 1,817,911			\$ 1,670,438
Investment activity			33,055,630			32,665,771
Corporate			2,802,669			2,603,057
Equity investments			22,406,934			21,644,029
			<u>\$60,083,144</u>			<u>\$58,583,295</u>



Auditors' Report

To the Shareholders of
The Pagurian Corporation Limited

We have examined the balance sheet of The Pagurian Corporation Limited as at December 31, 1982 and the 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 financial statements present fairly the financial position of the company as at December 31, 1982 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 21, 1983
Toronto, Canada

Smith, Nixon & Co.
Chartered Accountants

