

# P R E N O R

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**ANNUAL  
REPORT 1985  
PRENOR  
GROUP LTD.**

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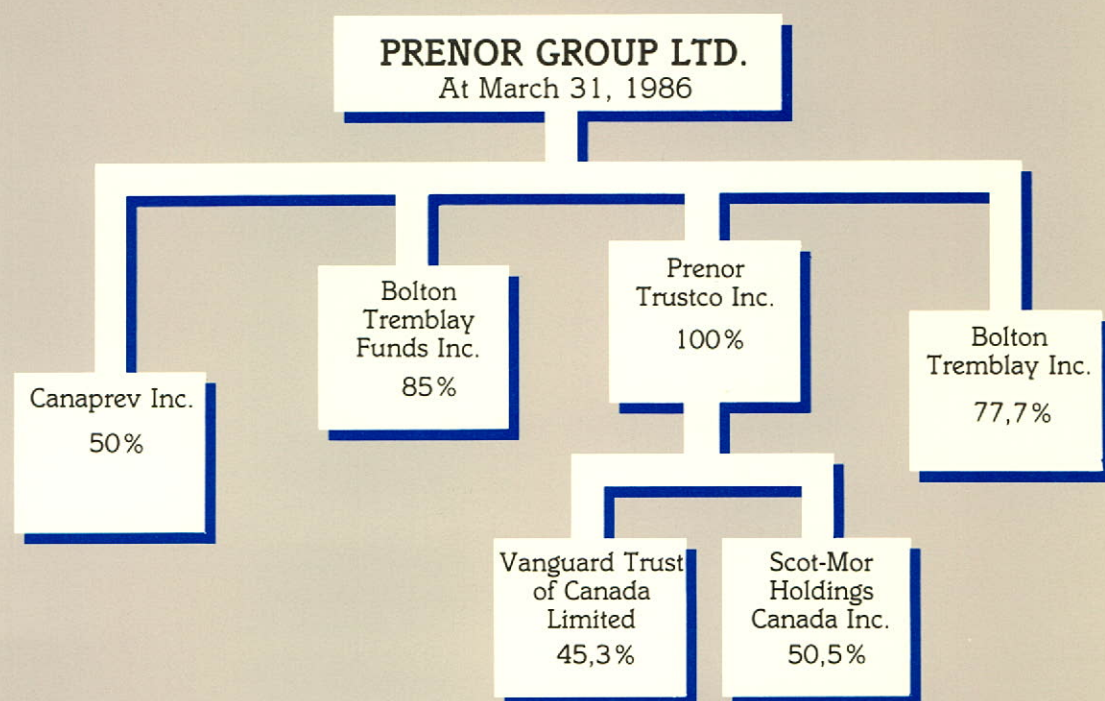
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# FINANCIAL HIGHLIGHTS

For the year	1985	1984
Revenue	16,273,000	12,160,000
Net income for the year	4,530,000	3,920,000
Income per common share	1.71	1.34

## At December 31

Consolidated assets	56,000,000	48,000,000
Assets under administration	2,760,000,000	2,365,000,000
Total assets under administration	2,816,000,000	2,413,000,000
Common shareholders' equity	35,499,000	34,214,000
Per common share	14.48	12.93



### Management

**Lorne C. Webster**  
Chairman and Chief  
Executive Officer

**Serge Rocheleau**  
President and Chief  
Operating Officer

**Guy Richard**  
Vice-President, Finance  
& Secretary

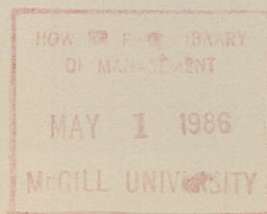
### Head Office

1100 University Street  
Montreal, Quebec  
H3B 3A4  
(514) 871-7120

### Registrar & Transfer Agent

General Trust of Canada,  
Montréal  
Sterling Trust  
Corporation,  
Toronto

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Le Secrétaire,  
Groupe Prenor Ltée  
1100 rue University,  
Montréal (Québec)  
H3B 3A4



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Merchandising  
Henry Birks & Sons Ltd.  
Montréal, Québec

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West Palm Beach, Florida

**George H. Garneau**  
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Investment  
Paine Webber Incorporated  
Tequesta, Florida

**Claude Genest**  
President,  
Blondeau & Company  
Montréal, Québec

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Place des Arts de Montréal  
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Worms & Co.  
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Sobeys Stores Limited  
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Chairman  
Dale-Parizeau Inc.  
London, Ontario

† ‡ **Jacques Tétrault**  
Partner  
Clarkson, Tétrault  
Montréal, Québec

† **Lorne C. Webster**  
Chairman and  
Chief Executive Officer  
Prenor Group Ltd.  
Montréal, Québec

**Nicholas Clive Worms**  
President and General  
Manager,  
Pechelbronn  
Paris, France

**Affiliated Companies****Bolton Tremblay Inc.**

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Chairman of the Board

**Ian T. Scott**  
President

**Jean-Luc Landry**  
Senior Vice-President

**Peter Spark**  
Senior Vice-President

**Pierre Boucher**  
Vice-President

**Kenneth Done**  
Vice-President

**Pierre Forget**  
Vice-President

**Brian Gallen**  
Vice-President

**Pierre Garceau**  
Vice-President

**Michael A. Riddell**  
Vice-President

**John Sartz**  
Vice-President

**Raoul Tsakok**  
Vice-President

**Hugo Valente**  
Vice-President, Finance  
and Administration,  
& Secretary

**Head Office**  
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**Bolton Tremblay Funds Inc.**

**Lorne C. Webster**  
Chairman of the Board

**Terence Stone**  
President

**Tom Calder**  
Vice-President, Marketing

**Don Lofranco**  
Vice-President, Finance  
and Treasurer

**Hugo Valente**  
Secretary

**Lucienne LeBlanc**  
Assistant Treasurer

**Sharon Gignac**  
Assistant Secretary

**Head Office**  
70 University Ave.,  
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(416) 595-5200

**Canaprev Inc.**

**Lorne C. Webster**  
Chairman of the Board

**Erhard Buccholz**  
President and General  
Manager

**Serge Rocheleau**  
Vice-President

**Marie-Andrée Prénoveau**  
Secretary

**Gerry C. Church**  
Treasurer

**Gordon H. Vineberg**  
Controller

**Head Office**  
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**Scot-Mor Holdings  
Canada Inc.**

**Robert M. MacLeod**  
President  
and Chief Executive Officer

**Guy Gauthier**  
Vice-President, Marketing

**Jane Francis**  
Controller

**Guy Richard**  
Secretary-Treasurer

**Head Office**  
245 Metcalfe Street  
Ottawa, Ontario  
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(613) 238-8191

† Executive Committee

‡ Audit Committee

The favourable economic climate in 1985 resulted in considerably increased activity in the financial and commercial sectors of most Western nations. The political environment in Canada also appeared to create conditions beneficial to investors. This resulted in a reasonable rate of inflation, a decrease in interest rates, a downward trend in the rate of unemployment, and a stock market that reached new records. If the government continues to act prudently we feel that the current optimism will prevail to the benefit of all Canadians.

In keeping with this feeling of confidence, Prenor increased its participation in Vanguard Trust of Canada Limited from 27.8% to 45.3% and subsequently in February, 1986, announced its intention of proceeding with a share exchange with the shareholders of Vanguard.

In April of last year Prenor acquired 50.5% of the common shares of Scot-Mor Canada Holdings Inc., an Ottawa based company providing residential and commercial mortgage brokerage services as well as construction equity participation loans.

In February of 1986 Prenor announced that an agreement had been reached providing for its acquisition of 70% of the outstanding common shares of Atlantic Trust Company of Canada. This company is based in Halifax, Nova Scotia and had assets of \$86 million as at December 31, 1985.

**Our Results**

For the year ended December 31, 1985, the company realized gross revenues of \$16,273,000 compared to \$12,160,000 in 1984, an increase of \$4,113,000 or 34%. Net income increased from \$3,920,000 to \$4,530,000 or \$1.71 per share versus \$1.34 the previous year, an improvement of 28%.

During the month of November 195,723 common shares of the company were converted into First Preferred shares, Series A, resulting in the number of common shares outstanding being reduced from 2,647,064 to 2,451,341.

**Operations**

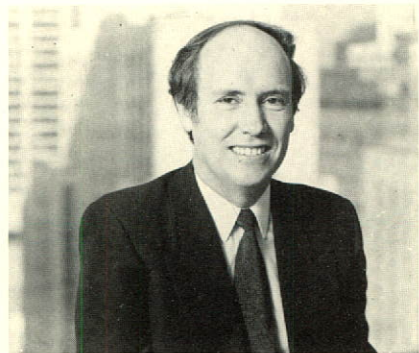
**INVESTMENT COUNSELLING**

The accounts administered by Bolton Tremblay Inc. continue to grow in number and size : on December 31, 1985, total assets under administration totalled \$2.76 billion. Revenues reached \$5,725,000, an increase of \$1,118,000 or 24% over the \$4,607,000 realized in 1984.

During the year our staff was strengthened in quality and quantity resulting in a very strong investment team.

**MUTUAL FUNDS**

The mutual funds administered by Bolton Tremblay Funds Inc. recorded particularly strong growth during the year. The assets at December 31, 1985, were \$400,000,000 compared to \$235,000,000 at the same date last year, an increase of 70%. As a result, fee revenues showed a strong



**Serge Rocheleau**  
President and Chief Operating Officer



**Lorne C. Webster**  
Chairman and Chief Executive Officer



**Guy Richard**  
Vice-President, Finance & Secretary

improvement reaching \$5,621,000 for the year ended December 31, 1985, versus \$3,854,000 in 1984, an increase of \$1,767,000 or 46%.

We are confident that given favourable market conditions, together with the team that we have now assembled, this growth will continue during the coming year.

#### TRUST OPERATIONS

Vanguard Trust of Canada Limited, also enjoyed a good year. Although the net income of \$1,773,000 represents only a small increase over the \$1,694,000 realized in 1984, this year has been one of transition and reorganization. The head office was relocated, a new "in-house" computer system was introduced, and the staff has been increased in order to handle the growth in assets which, at October 31, 1985, were \$407,000,000 compared to \$237,000,000 at the same date in 1984.

#### MORTGAGE BROKERAGE

Our new subsidiary, Scot-Mor Holdings Canada Inc. performed admirably. Through one of its subsidiaries, Scot-Mor Canada Inc., it handled approximately \$144,000,000 of real estate mortgage transactions during the nine-month period ended December 31, 1985, and at the year-end another subsidiary, Ottawa Financial Corporation, had a mortgage portfolio of \$3,000,000. Revenues for those first nine months were \$2,140,000.

#### REAL ESTATE INVESTMENTS

The Atlas Turner building, in which the company had a one-third interest, was sold in December. However, due to competitive conditions prevailing in the food distribution industry and the specific problems facing the public markets, Prenor has written-down its

investment in Le Marché Village to its estimated realizable value. The combination of these two transactions resulted in an extraordinary gain of \$946,000 after income taxes.

Our 50% interest in Canaprev Inc., which owns the General Trust Building, produces an excellent yield.

#### Conclusion

Having established a strong cash position we are therefore continuing to actively seek additional acquisitions which, with the support of a loyal and competent staff, will ensure further profitable expansion.



**Lorne C. Webster**  
Chairman  
and Chief Executive Officer



**Serge Rocheleau**  
President  
and Chief Operating Officer

For the year ended December 31, 1985	1985	1984
	(in thousands of dollars)	
<b>Revenues:</b>		
Investment counselling fees	10,290	7,727
Mortgage brokerage and sundry fees	1,862	
Net rental income (note 4)	850	872
Investment income	2,864	3,068
Equity in earnings of:		
Vanguard Trust of Canada Limited	407	123
Affiliated companies sold		370
	<u>16,273</u>	<u>12,160</u>
<b>Expenses:</b>		
Salaries and benefits	4,115	3,243
Occupancy, depreciation and amortization	1,035	738
Marketing and administrative	5,359	3,485
	<u>10,509</u>	<u>7,466</u>
Income before income taxes, minority interests and extraordinary item	<u>5,764</u>	<u>4,694</u>
Income taxes:		
— current	1,675	892
— deferred	378	458
	<u>2,053</u>	<u>1,350</u>
Income before minority interests and extraordinary item	<u>3,711</u>	<u>3,344</u>
Minority interests	<u>127</u>	<u>59</u>
Income before extraordinary item	<u>3,584</u>	<u>3,285</u>
Extraordinary item (note 6)	<u>946</u>	<u>635</u>
Net income for the year	<u>4,530</u>	<u>3,920</u>
Earnings per common share:		
— income before extraordinary item	<u>1.35</u>	<u>1.10</u>
— net income for the year	<u>1.71</u>	<u>1.34</u>

See accompanying notes

**CONSOLIDATED BALANCE SHEET**

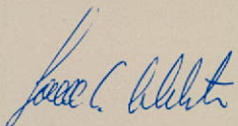
December 31, 1985	1985	1984
	(in thousands of dollars)	
<b>Assets</b>		
Investments:		
Cash and deposit certificates	8,573	4,879
Portfolio investments (note 3)	13,750	15,688
Mortgage loans	2,949	
Investment in affiliated company, Vanguard Trust of Canada Limited	10,717	6,136
	<u>35,989</u>	<u>26,703</u>
Real estate:		
Rental properties (note 4)	10,179	13,610
Land for resale, at cost	1,353	1,346
	<u>11,532</u>	<u>14,956</u>
Other assets:		
Fees and sundry amounts receivable	1,882	1,394
Interest and dividends receivable	693	219
Balance of sale price of real estate	1,379	
Amount receivable on sale of investment in insurance companies		3,500
Furniture and leasehold improvements	1,106	667
Goodwill (note 2)	3,351	569
	<u>8,411</u>	<u>6,349</u>
	<u>55,932</u>	<u>48,008</u>



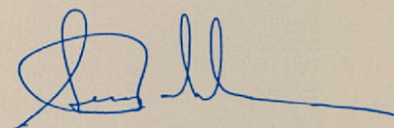
	1985	1984
	(in thousands of dollars)	
<b>Liabilities and shareholders' equity</b>		
Liabilities:		
Bank indebtedness	60	418
Accounts payable and accrued charges	1,740	1,335
Income and other taxes payable	1,104	732
Deferred revenues	1,927	421
Deferred income taxes	1,264	566
Mortgage loans (note 4)	8,270	10,228
	<u>14,365</u>	<u>13,700</u>
Minority interests	3,230	94
Shareholders' equity:		
Capital stock (note 5) —		
Issued and outstanding:		
195,723 first preferred shares, Series A, at their redemption value	2,838	
2,451,341 common shares (2,647,064 in 1984)	15,775	17,034
Retained earnings	<u>19,724</u>	<u>17,180</u>
Total shareholders' equity	<u>38,337</u>	<u>34,214</u>
	<u>55,932</u>	<u>48,008</u>

See accompanying notes

On behalf of the Board:



Lorne C. Webster, Director



Serge Rocheleau, Director

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1985	1985	1984
	(in thousands of dollars)	
<b>Operating activities</b>		
Income before extraordinary item	3,584	3,285
Operating items not involving cash (note 7)	1,012	587
	<b>4,596</b>	<b>3,872</b>
Net change in other items	(22)	527
Cash provided by operating activities	<b>4,574</b>	<b>4,399</b>
<b>Investing activities</b>		
Purchase of shares of Vanguard Trust of Canada Limited	4,354	6,013
Purchase (sale) of rental properties	(4,167)	2,312
Less corresponding mortgage loans	2,788	(1,528)
Sale of shares of General Trust of Canada		(33,707)
Amount received following the sale of an investment in insurance companies	(3,500)	
Mortgage loans	2,949	
Purchase (sale) of portfolio investments	(1,938)	13,789
Additions to fixed assets	459	106
Cash applied to (provided by) investing activities	<b>945</b>	<b>(13,015)</b>
<b>Financing activities</b>		
Redemption of preferred shares		5,000
Redemption of common shares		20
Dividends paid	407	806
Repayment of (increase in) mortgage loans on rental properties	(830)	235
Cash applied to (provided by) financing activities	<b>(423)</b>	<b>6,061</b>
<b>Net increase in cash</b>	<b>4,052</b>	<b>11,353</b>
<b>Cash, beginning of year</b>	<b>4,461</b>	<b>(6,892)</b>
<b>Cash, end of year</b>	<b>8,513</b>	<b>4,461</b>
Cash consists of cash and deposit certificates less bank indebtedness.		

See accompanying notes

For the year ended December 31, 1985	1985	1984
	(in thousands of dollars)	
<b>Retained earnings, beginning of year</b>	17,180	14,071
<b>Net income for the year</b>	4,530	3,920
	<b>21,710</b>	<b>17,991</b>
<b>Deduct:</b>		
Dividends on common shares	407	424
Dividends on preferred shares		382
Premium on redemption of common shares		5
Amount reserved for redemption of the preferred shares Series A (note 5)	1,579	
	<b>1,986</b>	<b>811</b>
Retained earnings, end of year	<b>19,724</b>	<b>17,180</b>

See accompanying notes

**AUDITORS' REPORT**

**To the Shareholders of Prenor Group Ltd.:**

We have examined the consolidated balance sheet of Prenor Group Ltd. as at December 31, 1985 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. 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, to the best of our information and the explanations given to us, and as shown by the books of the Company, these consolidated financial statements are drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at December 31, 1985 and the results of its operations and 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.

*Blackson Gordon*

Chartered Accountants  
Montréal, Canada,  
February 21, 1986.

December 31, 1985

**1. Summary of accounting policies**

The consolidated financial statements of the Company have been prepared by management within the limits of materiality and within the framework of the accounting policies summarized below:

**A - BASIS OF CONSOLIDATION**

The consolidated financial statements include the accounts of the Company and its subsidiaries, and the Company's share in the assets, liabilities, revenues and expenses arising from rental property joint ventures.

The investment in an affiliated company, Vanguard Trust of Canada Limited, is accounted for by the equity method.

The Company's interests in its subsidiaries are as follows:

- Prenor Trustco Inc. (100%):
  - its subsidiary, Scot-Mor Holdings Canada Inc. (50.5%)
  - its affiliated company, Vanguard Trust of Canada Limited (45.26%)
- Bolton Tremblay Inc. (77.7%)
- Bolton Tremblay Funds Inc. (85%)

**B - INVESTMENTS**

Portfolio investments:

Portfolio investments are accounted for at cost. The book value of these investments is reduced if a permanent loss in value is expected.

Mortgage loans:

Mortgages are stated at cost less repayments received and a reserve for potential losses.

**C - FURNITURE AND LEASEHOLD IMPROVEMENTS**

Furniture and leasehold improvements are stated at cost less accumulated depreciation and are depreciated over their estimated useful life.

**D - GOODWILL**

Goodwill is amortized over a period of forty years.

**E - REVENUE RECOGNITION**

The Company recognizes fees for investment counselling at the time services are rendered; fees billed, but not earned, are recorded as deferred revenues.

Income on mortgage brokerage is recorded at the time the loan commitment is signed. Revenue from participation on development loans is deferred until received.

Interest income is accounted for on an accrual basis and dividend income is recognized at the declaration date.

Excess of inducement payments received on signing leases over relocation expenses is deferred and amortized over the term of the leases.

**F - INCOME TAXES**

The Company provides for income taxes on the tax allocation basis. The income tax expense is lower than that obtained by using the basic rates of income tax since certain dividend income is not taxable and equity in earnings of affiliated companies is presented net of income taxes.

**G - EARNINGS PER SHARE**

Earnings per common share are calculated after deducting dividends on preferred shares from net income for the year and dividing by the average number of common shares outstanding during the year: 2,630,753 shares (2,647,064 in 1984).

**2. Purchase of shares of Scot-Mor Holdings Canada Inc.**

In April 1985, a subsidiary of the Company subscribed for 101 common shares (50.5%) and 29,899 Class B preferred shares (49.99%) of Scot-Mor Holdings Canada Inc. for \$3,000,000. The transaction has been accounted for by the purchase method and the net assets acquired at fair value are as follows:

	(in thousands of dollars)
Cash	3,000
Fixed assets	158
Goodwill	2,842
	<u>6,000</u>
Less: minority interest, represented by 99 common shares and 29,901 Class B preferred shares	<u>3,000</u>
Purchase price	<u>3,000</u>

Operating results of Scot-Mor Holdings Canada Inc., have been consolidated from the date of acquisition.

**3. Portfolio investments**

The portfolio consists mainly of investments in common and preferred shares of Canadian and U.S. companies. On December 31, 1985 the market value of these investments amounted to \$15,659,000 (\$16,064,000 on December 31, 1984).

**4. Rental properties**

The Company's share in the assets and liabilities of rental property joint ventures is as follows:

	1985	1984
	(in thousands of dollars)	
Rental properties, at cost less accumulated depreciation and amount written off (note 6):		
— General Trust Building (50%)	8,668	8,896
— Atlas Turner Building (33-1/3%)		2,482
— Le Marché Village (50%)	1,511	2,232
	<u>10,179</u>	<u>13,610</u>
Mortgage loans	8,270	10,228
Other net liabilities	256	277
	<u>8,526</u>	<u>10,505</u>
Net investment in joint ventures	<u>1,653</u>	<u>3,105</u>
The Company's share in revenues and expenses of these ventures is as follows:		
Rental income	4,428	3,811
Operating expenses	1,779	1,446
Interest	1,289	1,085
Depreciation	510	408
	<u>3,578</u>	<u>2,939</u>
Net rental income	<u>850</u>	<u>872</u>

The General Trust Building is depreciated on a straight-line basis over the term of the lease on the land, i.e., 50 years. Le Marché Village is depreciated on a straight-line basis over a period of 20 years.

**5. Capital stock**

The authorized capital stock has been modified during the year and is now as follows:  
 — an unlimited number of first and second preferred shares, no par value, issuable in series, including:

an unlimited number of first preferred shares, Series A, bearing a quarterly cumulative dividend at the rate of 62.5% of the prime interest rate charged by a Canadian chartered bank selected by the Company, calculated on an amount of \$14.50 per share, redeemable at the Company's option at any time or at the holders' option after December 31, 1995 at \$14.50 per share plus accrued and unpaid dividends;

— an unlimited number of common shares, no par value, convertible up to November 29, 1985 into Series A first preferred shares on a one for one basis.

Pursuant to the conversion privilege, 195,723 common shares have been converted into an equivalent number of Series A first preferred shares. These preferred shares are shown on the balance sheet at their redemption price of \$14.50 each, rather than their stated capital of \$6.43 each, being the average amount of the stated capital of each common share converted. The balance of the redemption price of \$8.07 (i.e., a total of \$1,579,000 for all shares converted) has been reserved from retained earnings.

**6. Extraordinary item**

The extraordinary item in the consolidated statement of income consists of the following items:

	(in thousands of dollars)
Gain on sale of Atlas Turner building	1,814
Write-down of Le Marché Village to its estimated realizable value	(548)
Deferred income taxes	(320)
	<u>946</u>

In 1984, the extraordinary item consisted mainly of the gain realized on sale of the shares of General Trust of Canada and the tax benefit arising from loss carry forwards not recorded in previous years.

**7. Operating items not involving cash**

	1985	1984
	(in thousands of dollars)	
Amortization and depreciation	734	563
Equity in earnings of affiliated companies net of dividends received of \$179,500 in 1985	(227)	(493)
Deferred income taxes	378	458
Minority interests	127	59
	<u>1,012</u>	<u>587</u>

**8. Commitments**

Minimum lease payments over the next five years for land and premises under long-term leases are as follows: 1986 — \$813,000; 1987 — \$682,000; 1988 — \$662,000; 1989 — \$658,000; and 1990 — \$662,000.

**9. Subsequent event**

During February 1986, the Company, through its subsidiary, Prenor Trustco Inc. agreed to purchase 1,141,360 common shares (70%) of Atlantic Trust Company of Canada for a cash consideration of \$3,995,000.

**10. Comparative figures**

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 1985 financial statements.



