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ANNUAL REPORT 1983

RealCap Holdings Limited



FINANCIAL HIGHLIGHTS

	1983	1982
Income before share in loss of affiliated company	\$ 502,000	\$ 112,000
Net income	\$ 309,000	\$ 10,000
Income before share in loss of affiliated company per share	\$0.67	\$0.15
Net income per share	\$0.41	\$0.01
Dividends per share		
— Class A	\$0.20	\$0.20
— Common	\$0.20	\$0.20
Shareholders' equity	\$6,377,000	\$6,282,000
Shares outstanding		
— Class A	571,514	568,514
— Common	174,400	174,400
Book value per share	\$8.55	\$8.45
Market price of Class A shares		
— High	\$4.75	\$4.30
— Low	\$3.80	\$2.50
— December 31	\$4.50	\$3.90
Number of Class A shareholders.	451	495

PRESIDENT'S REPORT

RealCap Holdings Limited recorded improved results for 1983. Income before share in loss of affiliated company increased to \$502,000 or 67 cents per share from \$112,000 or 15 cents per share in 1982. The increase in earnings was primarily due to continued improvement in security gains and reduction in bank interest cost. At year end the quoted value of our marketable securities portfolio was approximately equal to our cost.

In 1983 a change in accounting policy was made with regards to our investment in Reed Monahan Nicholishen, Investment Counsel Inc. to record our share of losses of this affiliated company. As a result income for the year, of RealCap Holdings, was reduced to \$309,000 or 41 cents per share compared to a restated amount of \$10,000 or 1 cent per share in 1982. In 1983, the first full year of its operation, Reed Monahan Nicholishen, Investment Counsel Inc. continued to increase the number of accounts it manages. This progress has continued into 1984 and we therefore anticipate increased revenues for this company in the current year.

During the year, we disposed of a number of marketable securities that had been held primarily for dividend purposes. These securities were no longer as attractive since the dividends are subject to a 25% refundable tax. Emphasis in our marketable securities portfolio is now directed towards investments that are liquid and provide either or both capital appreciation and interest income and, as a result, purchases were made during the year of common equities and interest bearing securities including convertible debentures.

Our mutual fund management subsidiary, RealCap Funds Management Limited, also progressed during 1983. We now have two funds in operation, namely the RealGrowth Canadian Equity Fund, which commenced operations in March 1983 and our first Specialty Fund, the RealGrowth Resources and Financial Services Specialty Fund, which was established in September 1983. RealCap Holdings provided the initial capital to launch these funds. We will be concentrating in 1984 on the marketing of both funds.

We are particularly pleased with the performance of the Specialty Fund whose principal objective is to provide above-average growth of capital, primarily through investments in North American resources and financial service companies, and to a limited extent through direct investments in oil and gas properties. The net asset value per unit increased to \$10.86 at December 31, 1983 and with the distribution of net income and realized capital gains made at year end provided a total return to the initial investors of 10.9% or 35% if annualized. These results were obtained during a period when the stock markets were basically flat, with the TSE "300" Index declining 1.0% and the DJ Industrial Average increasing 1.7%.

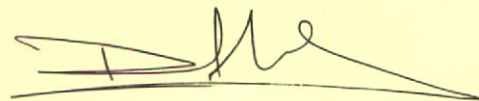
RealCap is now established in the financial services field and intends to continue its emphasis in this area.

During 1983 RealCap made an investment in a number of oil and gas leases in Texas in partnership with a Texas resident. We anticipate participating in some drilling on these leases during 1984. The Company will continue to seek out direct and indirect investments in the resources industry.

As I anticipated, the economy picked up during the latter half of 1983 and investment opportunities did arise both for our marketable securities portfolio and in the resources sector. I believe that the growth of the economy will continue and that more investment opportunities will arise, in the two areas of interest to us, namely the resources industry and the financial services industry.

I am pleased to report the appointment of Ralph M. Ades, B.A. (Econ.), to the new position of Vice-President, Investments. He is responsible for the Company's marketable securities portfolio.

I look forward to a successful 1984.



David S. Ades
President
February 8, 1984

RealCap Holdings Limited

CONSOLIDATED BALANCE SHEET

	December 31	
	<u>1983</u>	<u>1982</u>
ASSETS		
Investment income due and accrued	\$ 165,000	\$ 140,000
Securities (Note 2)-		
Marketable	2,227,000	3,235,000
Other	5,079,000	4,093,000
Mortgages receivable (Note 3)	1,142,000	1,089,000
Income taxes recoverable	—	56,000
Other assets	57,000	129,000
Unamortized financing costs	87,000	96,000
	<u>\$8,757,000</u>	<u>\$8,838,000</u>
LIABILITIES		
Bank indebtedness (Note 3)	\$ 112,000	\$ 57,000
Accounts payable and accrued liabilities	232,000	212,000
Income taxes payable	24,000	—
Long-term debt (Note 4)	2,012,000	2,287,000
	<u>2,380,000</u>	<u>2,556,000</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	2,552,000	2,543,000
Retained earnings	3,825,000	3,739,000
	<u>6,377,000</u>	<u>6,282,000</u>
	<u>\$8,757,000</u>	<u>\$8,838,000</u>

APPROVED BY THE BOARD:

David S. Ades, Director

Roger I. Coe, Director

CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31	
	<u>1983</u>	<u>1982</u>
Income:		
Interest and dividends	\$ 712,000	\$ 786,000
Other	81,000	35,000
	793,000	821,000
Expenses:		
Interest-		
Bank indebtedness	14,000	111,000
Long-term debt	201,000	213,000
Other operating costs	535,000	443,000
	750,000	767,000
Operating income	43,000	54,000
Gain (loss) on sale of securities	452,000	(258,000)
	495,000	(204,000)
Income taxes recoverable (Note 6):		
Current	7,000	39,000
Deferred	—	277,000
	7,000	316,000
Income before share in loss of affiliated company	502,000	112,000
Share in loss of affiliated company	193,000	102,000
NET INCOME FOR THE YEAR	\$ 309,000	\$ 10,000
Earnings per Class A and common share:		
Income before share in loss of affiliated company	\$ 0.67	\$ 0.15
Net income for the year	\$ 0.41	\$ 0.01

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	<u>1983</u>	<u>1982</u>
Retained earnings at beginning of year as restated (Note 9)	\$3,739,000	\$4,000,000
Net income for the year	309,000	10,000
	4,048,000	4,010,000
Dividends (Note 5):		
Class A Shares (20 cents per share)	114,000	113,000
Common shares (20 cents per share)	35,000	35,000
	149,000	148,000
Provision for refundable taxes, net of recovery of \$37,000 (1982 - \$37,000) (Note 6)	74,000	123,000
	223,000	271,000
Retained earnings at end of year	<u>\$3,825,000</u>	<u>\$ 3,739,000</u>

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

	Year ended December 31	
	<u>1983</u>	<u>1982</u>
Source of Cash:		
Operations*	\$ 488,000	\$ (178,000)
Proceeds from issue of Class A shares	9,000	9,000
Mortgage receivable payments	20,000	20,000
Decrease (increase) in securities	(171,000)	2,334,000
Other, net	73,000	(271,000)
	419,000	1,914,000
Use of cash:		
Mortgage advance	50,000	—
Reduction of long-term debt	275,000	70,000
Dividends	149,000	148,000
	474,000	218,000
Increase (decrease) in bank indebtedness for the year	55,000	(1,696,000)
Bank indebtedness at beginning of year	57,000	1,753,000
Bank indebtedness at end of year	<u>\$ 112,000</u>	<u>\$ 57,000</u>

*Represents net income for the year after adjustments for the share in loss of affiliated company, amortization of financing expenses and discount on mortgage and deferred income taxes.

AUDITORS' REPORT

To the Shareholders of RealCap Holdings Limited:

We have examined the consolidated balance sheet of RealCap Holdings Limited as at December 31, 1983 and the consolidated statements of income, retained earnings and changes in cash 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 Company as at December 31, 1983 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto
January 18, 1984

Price Waterhouse
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of consolidation-

The consolidated financial statements include the accounts of its subsidiary. The investment in an affiliated company is accounted for by the equity method of accounting.

(b) Securities-

Marketable-

Stocks are carried at original cost after deducting any premiums received on the writing of call options against the underlying stock. Calls purchased are shown at cost and premiums received on puts sold are deducted. Bonds are carried at original cost, adjusted for amortization of discounts to maturity. Dividends are recognized in the statement of income when they have been earned.

Other-

Other securities are carried at original cost except for the investment in an affiliated company.

(c) Financing costs-

These costs are written off on a straight-line basis over the term of the related debt.

(d) Income taxes-

Full provision for income taxes is made in the financial statements using the tax allocation method, whereby income taxes related to timing differences are included in deferred income taxes.

2. SECURITIES:

(a) Marketable-

	December 31, 1983	
	Cost	Market
Stocks-		
Preferred	\$ 180,000	\$ 177,000
Common	913,000	933,000
Options (Note 8)	(3,000)	(5,000)
	<u>1,090,000</u>	<u>1,105,000</u>
Bonds	1,137,000	1,115,000
	<u>\$2,227,000</u>	<u>\$2,220,000</u>

	December 31, 1982	
	Cost	Market
Stocks-		
Preferred	\$ 2,238,000	\$ 2,153,000
Common	447,000	495,000
Options	46,000	228,000
	<u>2,731,000</u>	<u>2,876,000</u>
Bonds	504,000	540,000
	<u>\$ 3,235,000</u>	<u>\$ 3,416,000</u>

(b) Other-

	1983	1982
Central Trust Company 7½% cumulative redeemable preference shares	\$3,825,000	\$ 4,050,000
Investment in mutual funds	600,000	—
Central Trust Company \$483,000, 12% subordinated note, January 1, 1990	473,000	—
Other	181,000	43,000
	<u>\$5,079,000</u>	<u>\$ 4,093,000</u>

The 382,500 preference shares of Central Trust Company require a 5% annual sinking fund retirement of 22,500 shares and an obligation to

purchase the remainder of the shares in 1990. Out of these total shares, 5,000 are held in escrow.

3. MORTGAGES RECEIVABLE:

Included in mortgages receivable is a mortgage loan of \$997,000, which matures on March 15, 1984. This mortgage is pledged as security for the bank indebtedness.

4. LONG-TERM DEBT:

Long-term debt of \$2,012,000 (1982 - \$2,287,000) consists of 9-1/4% sinking fund debentures, Series A, due July 3, 1993.

The Trust Indenture securing the sinking fund debentures, Series A, contains restrictions as to the issuance of additional debentures and other secured debt and the payment of dividends. The Company has covenanted to pay by way of a mandatory sinking fund, sums sufficient to retire \$165,000 of principal on or before July 3 in each of the years 1984 to 1993 inclusive.

5. CAPITAL STOCK:

Details of authorized and issued capital:

Authorized-

4,000,000 cumulative (20 cents) non-voting participating Class A shares without par value

360,000 common shares without par value

	December 31	
	1983	1982
Issued-		
571,514		
(1982 -568,514)		
Class A shares	\$ 2,218,000	\$ 2,209,000
174,400		
common shares	334,000	334,000
	<u>\$ 2,552,000</u>	<u>\$ 2,543,000</u>

The Class A shareholders are entitled to a cumulative preferential dividend of 20 cents per share per annum. No dividend shall be paid on the common shares in any year unless the dividend requirements for Class A shares including arrears have been met. The Class A and common shares participate equally in dividends declared in excess of 20 cents per share per annum.

During the year 3,000 Class A shares were issued for a consideration of \$9,000 to senior officers of the Company as a result of an outstanding option. At December 31, 1983, options to senior officers to purchase 2,000 Class A shares and at the option of the holder 4,000

Class A and/or common shares for a total of 6,000 shares at a price of \$3 remain outstanding. The options to purchase these shares expire at the rate of 3,000 shares per year on each November 18 anniversary date up to 1985.

6. INCOME TAXES:

The income tax provision included in the statement of income is different than the prevailing corporate tax rate primarily because income includes dividends from Canadian corporations which are not subject to income tax and gains or losses on the sale of securities of which one-half is taxable or recoverable.

Commencing in 1982 the Company is subject to a 25% special tax on taxable dividends received from corporations resident in Canada. This tax is refundable on payment of taxable dividends to shareholders at the rate of \$1 for each \$4 of such dividends paid. The amount eligible for refund at December 31, 1983, all of which is included in the statement of retained earnings, amounted to \$197,000 (1982 - \$123,000).

At December 31, 1983 the Company has a loss carry-forward for income tax purposes of approximately \$789,000 that primarily expires in 1987. The benefit of approximately \$499,000 of these losses has been recognized by reduction of deferred income tax credits.

7. RELATED PARTY TRANSACTION:

The Company purchased a \$483,000 12% subordinated note, maturing January 1, 1990, of Central Trust Company from a company controlled by a senior officer and major shareholder of the Company. The note was purchased at an amount based upon an independent valuation.

8. CONTINGENCY:

As a result of the sale of put options the Company may be required to purchase certain securities for a maximum aggregate consideration of \$469,000.

9. COMPARATIVE FIGURES:

The comparative financial statements have been restated to account for an investment in an affiliated company on an equity basis. The effect of this change is to reduce the net income for that year and retained earnings by \$102,000. In addition, certain comparative figures in the statements of income and changes in cash position have been reclassified to conform with the presentation adopted in 1983.

RealCap Holdings Limited

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Board of Directors

*David S. Ades, B.Sc., A.M.C.T.

Toronto
President
RealCap Holdings Limited

Jeanne Ades

Toronto
Retired

*Leonard E. Barlow

Toronto
Retired Investment Dealer

Roger I. Coe, C.A.

Toronto
Executive Vice-President and Secretary
RealCap Holdings Limited

*Ignatius A. McEwan, Q.C.

Toronto
Partner
Borden & Elliot

*Peter Mackenzie

Ottawa
Financial Consultant

**Audit Committee*

Officers

David S. Ades, B.Sc., A.M.C.T.
President

Roger I. Coe, C.A.
Executive Vice-President and Secretary

Ralph M. Ades, B.A. (Econ.)
Vice-President, Investments

Auditors

Price Waterhouse, Toronto

Banker

Royal Bank of Canada

Solicitors

Cassels, Brock, Toronto

Trustees and Transfer Agents

Guaranty Trust Company of Canada
Series A Debentures

Montreal Trust Company
Class A Shares

Stock Exchange Listing

Toronto Stock Exchange
Class A Shares REA.A

This subsidiary was formed in 1983 to manage mutual funds and during the year two no-load funds were formed:

**RealGrowth
Canadian Equity Fund**

Objective of this Fund is to provide capital growth through investment in diversified portfolio of primarily high grade Canadian common shares. The minimum initial investment in the fund is \$500.

**RealGrowth Resources
and Financial Services
Specialty Fund**

Objective of this Fund is to provide above-average growth of capital, primarily through investments in North American resources and financial services companies. The minimum initial investment in the Fund is \$100,000.

**Investment Advisor
to the Funds**

Reed Monahan Nicholishen,
Investment Counsel Inc., Toronto,
Ontario.

Board of Directors

D. William Morison
Toronto
*Chairman of the Board of RealCap Funds
Management Limited and Reed Monahan
Nicholishen, Investment Counsel Inc.*

David S. Ades
Toronto
*President of RealCap Funds Management Limited
and RealCap Holdings Limited*

Roger I. Coe, C.A.
Toronto
*Vice-President of RealCap Funds Management
Limited and Executive Vice-President of
RealCap Holdings Limited*

Stuart T. Peeler
Tucson, Arizona
*Chairman and Chief Executive Officer of
Statex Petroleum Inc.*

Donald F. Reed
Toronto
*President of Reed Monahan Nicholishen,
Investment Counsel Inc.*

