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# RealCap Holdings Limited

## **Board of Directors**

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

*President*

*RealCap Holdings Limited*

Jeanne Ades

*Retired*

\*Leonard E. Barlow

*Retired Investment Dealer*

Roger I. Coe, C.A.

*Executive Vice-President and Secretary*

*RealCap Holdings Limited*

\*Ignatius A. McEwan, Q.C.

*Partner*

*Borden & Elliot*

\*Peter Mackenzie

*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*

## **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, Series F Warrants*

## **Stock Exchange Listing**

Toronto Stock Exchange

*Class A Shares REA.A*

*Series F Warrants REA.WT*

## **RealCap Holdings Limited**

2161 Yonge Street, Suite 604

Toronto, Ontario

M4S 3A6

Tel: (416) 486-7729

## FINANCIAL HIGHLIGHTS

	1982	1981
Net operating income . . . . .	<b>\$ 331,000</b>	\$ 367,000
Net income . . . . .	<b>\$ 112,000</b>	\$ 400,000
Net operating income per share . .	<b>\$0.45</b>	\$0.50
Net income per share . . . . .	<b>\$0.15</b>	\$0.54
Dividends per share		
— Class A . . . . .	<b>\$0.20</b>	\$0.20
— Common . . . . .	<b>\$0.20</b>	\$0.20
Shareholders' equity . . . . .	<b>\$6,384,000</b>	\$6,534,000
Shares outstanding		
— Class A . . . . .	<b>568,514</b>	565,514
— Common . . . . .	<b>174,400</b>	174,400
Book value per share . . . . .	<b>\$8.59</b>	\$8.83
Market price of Class A shares		
— High . . . . .	<b>\$4.30</b>	\$7.38
— Low . . . . .	<b>\$2.50</b>	\$3.20
— December 31 . . . . .	<b>\$3.90</b>	\$3.30
Number of Class A shareholders . .	<b>495</b>	567

## PRESIDENT'S REPORT

During 1982, RealCap Holdings Limited continued to seek out opportunities for longer term investments that would provide it with good potential for above average returns.

In May 1982, the Company helped form a new investment counselling company, Reed Monahan Nicholishen Investment Counsel Inc. This investment was a first step in our planned re-entry into the financial services field and should prove profitable both directly by the generation of income through its success and indirectly through ancillary services the investment counselling company will render for the Company.

In this latter regard, the Company has taken steps to establish two sets of mutual funds. The first fund is to be managed and sold directly by Reed Monahan Nicholishen Investment Counsel Inc., and is being established to service smaller pools of funds ranging from \$100,000 to \$1,000,000. Contributions to the fund will be invested either in a "Canadian Fund" comprised primarily of common shares of Canadian corporations or in a "Foreign Fund" comprised primarily of common shares of foreign corporations, both of which will comply with the investment restrictions placed upon pension plans. A prospectus will be filed for a further fund called "RealGrowth Canadian Equity Fund", which will be managed by a wholly owned subsidiary of the Company, with Reed Monahan Nicholishen Investment Counsel Inc. acting as investment manager.

The hoped for success of these funds will benefit the Company directly and indirectly through its partnership of Reed Monahan Nicholishen Investment Counsel Inc. Additional mutual funds will be formed as thought appropriate.

RealCap is currently reviewing other investments outside the financial services field which may or may not materialize.

Net operating income for the year ended December 31, 1982 was \$331,000 or 45 cents per share, as compared to \$367,000 or 50 cents in 1981. The prime reason for the slight reduction in earnings was higher bank interest costs.

Net income for the year ended December 31, 1982

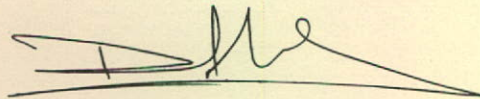
was \$112,000 or 15 cents per share, compared to \$400,000 or 54 cents per share in 1981. The reduction in net income was as a result of security losses incurred in the first three-quarters of the year when marketable securities were sold to reduce bank indebtedness. However, as a result of purchasing long call options on securities sold, we participated in the significant market appreciation since the end of September and in addition realized gains on sales of securities in the fourth quarter, including bonds which were managed by Reed Monahan Nicholishen Investment Counsel Inc. The market value of the portfolio at the end of the year exceeded book value by \$181,000.

As a result of legislation introduced during 1982, dividends received by the Company on its portfolio investments are now subject to a 25% tax which is refundable when those dividends are paid out to shareholders. A provision of \$123,000 has been made against retained earnings in 1982 for this refundable tax. As a result of this legislation, dividend income is currently not as attractive and therefore more emphasis will be placed on investments that provide capital appreciation and interest income.

As I anticipated in last year's report, the economy continued to recede during 1982. I believe that the first half of 1983 will remain relatively flat with a slow upward trend appearing during the second half of the year. In consequence, investment opportunities will continue to be available and our present liquid position will enable us to react to the right opportunities.

As mentioned previously, the Company has so far directed itself towards financial services. Part of its efforts will continue in this direction, however we will diversify into other areas as and when opportunities are found.

I look forward to a successful 1983.



David S. Ades  
President and Chief Executive Officer  
February 2, 1983

# RealCap Holdings Limited

## BALANCE SHEET

	December 31	
	<u>1982</u>	<u>1981</u>
<b>ASSETS</b>		
Investment income due and accrued .....	\$ 140,000	\$ 134,000
Securities (Note 2)-		
Marketable .....	3,235,000	5,489,000
Other .....	4,195,000	4,275,000
Mortgages receivable (Note 3) .....	1,089,000	1,086,000
Income taxes recoverable .....	56,000	187,000
Other assets .....	129,000	87,000
Unamortized financing costs .....	96,000	106,000
	<u>\$ 8,940,000</u>	<u>\$11,364,000</u>
<b>LIABILITIES</b>		
Bank indebtedness (Note 3) .....	\$ 57,000	\$ 1,753,000
Accounts payable and accrued liabilities .....	212,000	443,000
Long-term debt (Note 4) .....	2,287,000	2,357,000
Deferred income taxes .....	—	277,000
	<u>2,556,000</u>	<u>4,830,000</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 5) .....	2,543,000	2,534,000
Retained earnings .....	3,841,000	4,000,000
	<u>6,384,000</u>	<u>6,534,000</u>
	<u>\$ 8,940,000</u>	<u>\$11,364,000</u>

### APPROVED BY THE BOARD:

David S. Ades, Director

Roger I. Coe, Director

## STATEMENT OF INCOME

	Year ended December 31	
	<u>1982</u>	<u>1981</u>
<b>Income:</b>		
Interest and dividends .....	<b>\$ 786,000</b>	\$ 871,000
Other .....	<u>9,000</u>	<u>2,000</u>
	<b>795,000</b>	873,000
 <b>Expenses:</b>		
Interest—		
Bank indebtedness .....	<b>111,000</b>	38,000
Long-term debt .....	<b>213,000</b>	227,000
Other operating costs .....	<u>443,000</u>	<u>417,000</u>
	<b>767,000</b>	682,000
 Operating income before income taxes .....	<b>28,000</b>	191,000
Income taxes recoverable:		
Current .....	<b>39,000</b>	176,000
Deferred .....	<u>264,000</u>	<u>—</u>
	<b>303,000</b>	176,000
<b>Net operating income</b> .....	<b>331,000</b>	367,000
 Net gain (loss) on sale of securities after provision for (recovery of) deferred income taxes of (\$13,000); 1981 - \$10,000 .....	<u>(219,000)</u>	<u>33,000</u>
<b>Net income for the year</b> .....	<b>\$ 112,000</b>	<b>\$ 400,000</b>
 Earnings per Class A and common share:		
Net operating income .....	<u>\$ 0.45</u>	<u>\$ 0.50</u>
Net income for the year .....	<u>\$ 0.15</u>	<u>\$ 0.54</u>

## STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1982	1981
Balance at beginning of year .....	\$4,000,000	\$3,748,000
Net income for the year .....	112,000	400,000
	<b>4,112,000</b>	4,148,000
Dividends (Note 5):		
Class A shares (20 cents per share) .....	113,000	113,000
Common shares (20 cents per share) .....	35,000	35,000
	<b>148,000</b>	148,000
Provision for refundable taxes net of recovery of \$37,000 (Note 6) .....	123,000	—
	<b>271,000</b>	148,000
Balance at end of year .....	<b>\$3,841,000</b>	\$4,000,000

## STATEMENT OF CHANGES IN CASH POSITION

	Year ended December 31	
	1982	1981
<b>SOURCE OF CASH:</b>		
Operations* .....	\$ 54,000	\$ 352,000
Proceeds from issue of Class A shares .....	9,000	10,000
Mortgage receivable payments .....	20,000	20,000
Sale (purchase) of securities - net .....	2,102,000	(3,216,000)
	<b>2,185,000</b>	(2,834,000)
<b>USE OF CASH:</b>		
Reduction (increase) of bank indebtedness .....	1,696,000	(1,683,000)
Mortgage advance .....	—	96,000
Reduction of long-term debt .....	70,000	185,000
Dividends .....	148,000	148,000
Other - net .....	271,000	506,000
	<b>2,185,000</b>	(748,000)
Increase (decrease) in cash and short-term investments for the year .....	—	(2,086,000)
Cash and short-term investments at beginning of year .....	—	2,086,000
Cash and short-term investments at end of year .....	\$ —	\$ —

\*Represents net operating income after adjustments for 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 balance sheet of RealCap Holdings Limited as at December 31, 1982 and the 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 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 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.

**PRICE WATERHOUSE**  
Chartered Accountants

Toronto  
January 19, 1983

## NOTES TO FINANCIAL STATEMENTS December 31, 1982

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### (a) Securities

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.

#### (b) Financing costs

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

#### (c) 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, 1982	
	Cost	Market
Stocks —		
Preferred . . . .	\$2,238,000	\$2,153,000
Common . . . .	447,000	495,000
Options (Note 8) . . . .	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>

	December 31, 1981	
	Cost	Market
Stocks —		
Preferred . . . .	\$2,238,000	\$1,878,000
Common . . . .	3,264,000	3,274,000
Options . . . . .	(13,000)	(8,000)
	<u>\$5,489,000</u>	<u>\$5,144,000</u>

### (b) Other

Consists of

- (i) 405,000 7-1/2% cumulative redeemable non-voting preference shares having a par value of \$10 each (\$4,050,000) of Central Trust Company. The shares have a 5% annual sinking fund requirement 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 as outlined in Note 8.
- (ii) 45,000 common shares and a \$140,000 17% First Floating Charge Debenture maturing April 29, 1985, of Reed Monahan Nicholishen Investment Counsel Inc.

## 3. MORTGAGES RECEIVABLE

Included in mortgages receivable is mortgage loan of \$993,000, which matures on March 15, 1984 and is stated at its outstanding principal amount less unamortized discount. This mortgage is pledged as security for the bank indebtedness.

## 4. LONG-TERM DEBT

Long-term debt of \$2,287,000 (1981 — \$2,357,000) 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, among other things, restrictions as to the issuing of additional debentures and of other secured debt and on paying dividends. The Company has covenanted to pay by way of a mandatory sinking fund, sums sufficient to retire \$165,000 principal amount of debt on or before July 3 in each of the years 1983 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	
	1982	1981
<b>Issued—</b>		
568,514		
(1981 —		
565,514)		
Class A shares	\$2,209,000	\$2,200,000
174,400		
common		
shares . . . . .	<u>334,000</u>	<u>334,000</u>
	<u>\$2,543,000</u>	<u>\$2,534,000</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.

At December 31, 1982 there are 175,000 Series F share warrants outstanding which entitle the holders to acquire one Class A share for each warrant held to July 3, 1983 at an exercise price of \$7.75.

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, 1982, options to senior officers to purchase 3,000 Class A shares and at the option of the holder 6,000 Class A and/or common shares for a total of 9,000 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 net operating income is different than the prevailing corporate tax rate primarily because income includes dividends from Canadian corporations which are not subject to income tax.

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, 1982, all of which is included in the statement of retained earnings, amounted to \$123,000.

## 7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid to directors and senior officers of the Company amounted to \$245,000 in 1982 and \$218,000 in 1981.

## 8. CONTINGENCIES

- (a) As a result of the sale of put options the Company may be required to purchase certain common shares for a maximum aggregate consideration of \$553,000. At December 31, 1982, however, the market value of each of these common shares was in excess of the amount that the Company would be required to pay if the shares were put to them.
- (b) Under the agreement of purchase and sale of May 16, 1980, between the Company and Central Trust Company, the Company assumed responsibility for some outstanding court actions to which the former subsidiary, Federal Trust Company, is a party and as security therefore agreed to place in escrow 200,000 of the preference shares received. As at December 31, 1982 only 5,000 of these shares remain in escrow. In the opinion of management, adequate provision has been made in the financial statements for any potential losses that still may be incurred.

## 9. COMPARATIVE FIGURES

Certain comparative figures in the statements of income and changes in cash position have been reclassified to conform with the presentation adopted in 1982.



