

C

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

ANNUAL REPORT, DECEMBER 31

1986

BOARD OF DIRECTORS

ALEX E. BARRON
D. L. CAMPBELL
M. C. G. MEIGHEN, O.B.E.
MICHAEL A. MEIGHEN, Q.C.
E. LOUISE MORGAN
WARD C. PITFIELD
J. ALLYN TAYLOR

INVESTMENT COMMITTEE

ALEX E. BARRON
M. C. G. MEIGHEN, O.B.E.
MICHAEL A. MEIGHEN, Q.C.
WARD C. PITFIELD, Chairman

AUDIT COMMITTEE

D. L. CAMPBELL
MICHAEL A. MEIGHEN, Q.C.
J. ALLYN TAYLOR

OFFICERS

M. C. G. MEIGHEN, O.B.E.
Chairman
ALEX E. BARRON
Vice Chairman
WARD C. PITFIELD
President
MICHAEL A. MEIGHEN, Q.C.
Vice President
E. LOUISE MORGAN
Secretary
FREDERICK L. MILNE, C.A.
Treasurer

AUDITORS

HILBORN ELLIS GRANT
Toronto

**REGISTRAR AND
TRANSFER AGENT**

THE CANADA TRUST COMPANY
Toronto and Winnipeg

OFFICE OF COMPANY

110 YONGE STREET, SUITE 1702,
Toronto M5C 1T4
(Telephone 416-366-2931)



TO THE SHAREHOLDERS

Your Directors are pleased to present the Annual Report of your Company for the year ended December 31, 1986, consisting of the audited statements, the Portfolio of Investments, and a five year statistical record of assets, earnings and dividends.

The Balance Sheet discloses that the total assets of the Company as at December 31, 1986 amounted to \$101,427,386 at market value. From this amount is deducted the total liabilities of the Company, namely \$19,799,285 which leaves a net value of \$81,628,101. After deducting the First Preferred Shares at the call price of \$52.50, namely \$803,303, each of the common shares outstanding as at December 31, 1986 had an apparent liquidating value of \$57.38. It should be noted that while \$19.3 million in deferred taxes was deducted from the total assets in calculating the equity value per share, the \$19.3 million continues to work for the benefit of the shareholders. Such will be the case until future realization of capital gains necessitates payment to the Government of part or all of these deferred taxes.

The Statement of Income discloses that your Company, after paying all expenses, had a net income for the year of \$2,907,589. After providing \$38,328 for dividends on the First Preferred Shares, the balance of net income, namely \$2,869,261 is equivalent to \$2.03 for each of the outstanding common shares.

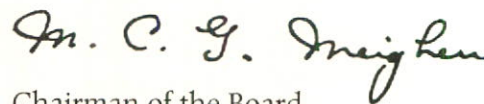
The Statement of Changes in Net Assets reflects the significant improvement in the financial markets during 1986 which resulted in an apparent liquidating value of \$57.38 per common share at December 31, 1986 compared to \$50.19 at the end of the previous year.

In February 1986 the Board of Directors accepted with regret the resignation of A. Bruce Matthews. Mr. Matthews has been a member of the Board since 1954 and also a member of the Audit Committee since its inception in 1981. He contributed a great deal to the deliberation and decisions of the Board of Directors over the years and his knowledge and genuinely warm personality will be greatly missed by his fellow directors.

On the same date the Board of Directors regretfully accepted the resignation of Patrick O.G. Wright as a member of the Board. Mr. Wright joined the Board in 1973 and also served as Vice-President of the Company, and latterly as a member of the Audit Committee. He was actively involved in the affairs of the Company and rendered it great service during his tenure as a Director and Officer.

In conclusion, we express our appreciation to the staff for their invaluable contribution to the operation of the Corporation during the year.

Submitted on behalf of the Board



Chairman of the Board



President

TORONTO, February 24, 1987.

FIVE YEAR PERFORMANCE SUMMARY

	1986	1985	1984	1983	1982
Net Assets	\$81,628,000	\$72,094,000	\$64,961,000	\$61,421,000	\$47,501,000
Per common share	57.38	50.19	38.82	36.62	24.97
Net earnings	2,908,000	3,009,000	2,769,000	2,584,000	2,810,000
Per common share	2.03	1.80	1.64	1.40	1.48
Dividends paid per common share	1.55	1.40	1.40	1.35	1.30
Market value of common shares					
High	55.00	45.00	38.75	28.88	22.50
Low	41.00	37.75	27.50	21.00	17.75

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
THIRD CANADIAN GENERAL INVESTMENT
TRUST LIMITED

We have examined the balance sheet of Third Canadian General Investment Trust Limited as at December 31, 1986 and the statements of income, retained earnings, unrealized gain on investments and changes in net assets 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, 1986 and the results of its operations and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



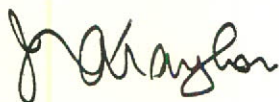
HILBORN ELLIS GRANT
Chartered Accountants

Toronto, Ontario
January 19, 1987

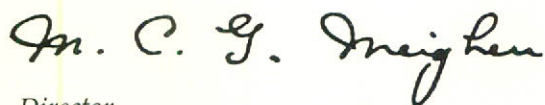
BALANCE SHEET

	Year ended December 31	
	1986	1985
ASSETS		
Investments		
Securities having a quoted market value	\$95,533,863	\$86,574,563
Securities not having a quoted market value	1,133,859	1,150,100
	<u>96,667,722</u>	<u>87,724,663</u>
(Cost as at December 31, 1986 – \$19,905,111 December 31, 1985 – \$20,216,044)		
Short-term investments, at cost plus accrued interest	4,732,727	3,397,569
Dividends receivable	9,444	7,801
Cash	17,493	76,129
	<u>\$101,427,386</u>	<u>\$91,206,162</u>
 LIABILITIES		
Accounts payable and accrued liabilities	\$ 15,883	\$ 42,211
Amounts payable on securities purchased	460,960	–
Income taxes payable	13,555	2,214,341
Dividends payable	9,563	14,796
	<u>499,961</u>	<u>2,271,348</u>
Deferred income taxes (note 3(b))	19,299,324	16,840,630
 SHAREHOLDERS' EQUITY		
Capital Stock (note 2)		
Authorized –		
75,301 first preferred shares Series A		
2,000,000 common shares		
Issued and outstanding –		
15,301 (1985 – 19,221) \$2.50 cumulative first preferred shares Series A redeemable at \$52.50 per share	765,050	961,050
1,408,479 (1985 – 1,416,404) common shares	11,437,519	11,501,874
	<u>12,202,569</u>	<u>12,462,924</u>
Contributed surplus (note 2 (a))	2,694,172	2,626,530
Unrealized gain on investments	57,463,287	50,667,989
Retained earnings	9,268,073	6,336,741
	<u>81,628,101</u>	<u>72,094,184</u>
	<u>\$101,427,386</u>	<u>\$91,206,162</u>

APPROVED ON BEHALF OF THE BOARD



Director



Director

STATEMENT OF INCOME

	Year ended December 31	
	1986	1985
Income		
Dividends	\$2,973,384	\$3,012,667
Interest	295,370	377,416
Miscellaneous	21,699	—
	3,290,453	3,390,083
Expenses		
Management fees (note 4)	152,845	162,990
Directors' fees	2,450	4,200
Miscellaneous	69,311	73,261
	224,606	240,451
Income before income taxes	3,065,847	3,149,632
Income taxes (note 3(a))	158,258	140,560
Net income for year	\$2,907,589	\$3,009,072
Net income for year per common share (after deducting preferred dividends)	\$2.03	\$1.80

STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1986	1985
Balance, beginning of year	\$6,336,741	\$5,791,628
Add (deduct)		
Net income for year	2,907,589	3,009,072
Dividends paid or declared		
On first preferred shares Series A	(38,328)	(48,403)
On common shares	(2,185,508)	(2,301,454)
	7,020,494	6,450,843
Excess of cash consideration paid over book value of common shares purchased under		
– issuer bid (note 2(b))	(337,574)	(379,133)
– share purchase offer	—	(7,286,671)
Gain (loss) on disposition of investments	2,585,153	7,551,702
Balance, end of year	\$9,268,073	\$6,336,741
Dividends paid or declared per share		
Preferred	\$2.50	\$2.50
Common	\$1.55	\$1.40

STATEMENT OF UNREALIZED GAIN ON INVESTMENTS

	Year ended December 31	
	1986	1985
Balance, beginning of year	\$50,667,989	\$42,478,376
Increase during year	9,253,992	11,512,465
Deferred income taxes	(2,458,694)	(3,322,852)
	6,795,298	8,189,613
Balance, end of year	\$57,463,287	\$50,667,989

STATEMENT OF CHANGES IN NET ASSETS

	Year ended December 31	
	1986	1985
Net assets, beginning of year	\$72,094,184	\$64,961,275
Add		
Net income for year	2,907,589	3,009,072
Gain on purchase for cancellation of first preferred shares Series A	67,642	6,040
Increase in unrealized gain on investments	6,795,298	8,189,613
Gain on disposition of investments	2,585,153	7,551,702
	84,449,866	83,717,702
Deduct		
Cash dividends paid or declared		
On first preferred shares Series A	38,328	48,403
On common shares	2,185,508	2,000,503
First preferred shares Series A purchased for cancellation	196,000	15,500
Common shares purchased under		
– issuer bid (note 2(b))	401,929	470,782
– share purchase offer	–	9,088,330
	2,821,765	11,623,518
Net assets, end of year	\$81,628,101	\$72,094,184
Apparent liquidating value per common share (after deducting outstanding preferred shares at call price)		
Beginning of year	\$50.19	\$38.82
End of year	\$57.38	\$50.19

SCHEDULE OF GAIN (LOSS) ON DISPOSITION OF INVESTMENTS

	Year ended December 31	
	1986	1985
Cost of investments, beginning of year	\$20,216,044	\$20,350,130
Add: Purchase of investments	4,484,944	4,230,894
	24,700,988	24,581,024
Deduct: Cost of investments, end of year	19,905,111	20,216,044
Cost of investments disposed of during year	4,795,877	4,364,980
Proceeds from disposition of investments	8,296,774	14,100,757
Gain on disposition of investments before income taxes	3,500,897	9,735,777
Income taxes	915,744	2,184,075
Gain on disposition of investments	\$ 2,585,153	\$ 7,551,702

NOTES TO FINANCIAL STATEMENTS

December 31, 1986

1. SIGNIFICANT ACCOUNTING POLICIES

a) Valuation of Investments

Market values of quoted securities are based on the latest bid price reported by the principal securities exchange on which the issue was traded on December 31. Securities not having a quoted market value have been included at values determined by the directors based principally on the underlying value of the assets represented by these securities.

b) Investment Transactions

Investment transactions are recorded on the trade date, i.e., the date the order to buy or sell is executed.

c) Dividend Income

Dividend income is recorded on the date the dividend is payable by the issuing company.

d) Foreign Exchange

Amounts stated in foreign currencies are translated into Canadian dollars as follows:

- (i) Assets and liabilities at the prevailing year-end rates
- (ii) Income, expenses and gain or loss on disposition of investments at the rate in effect on the date of the transaction.

2. CAPITAL STOCK

a) During the year, the company purchased and cancelled 3,920 of the first preferred shares Series A for an aggregate cash consideration of \$128,358. The resulting gain of \$67,642 was allocated to contributed surplus.

b) In 1981, the company first gave notice of its intention to make an issuer bid to purchase through the Toronto Stock Exchange up to that number of its issued and outstanding common shares equal to the number of its common shares as may be issued from time to time as stock dividends, to a maximum of 82,337 (1985 - 82,337) common shares. Common shares so purchased were not cancelled but were restored to the status of authorized but unissued shares. The provisions of the issuer bid terminated on May 29, 1986.

During the year, the company purchased 7,925 (1985 - 11,529) common shares under this issuer bid for cash consideration of \$401,929 (1985 - \$470,782). The excess of the cash consideration over the book value of these shares of \$337,574 (1985 - \$379,133) was charged to retained earnings.

3. TAXATION

a) The company is subject to income tax as a public corporation. As a public corporation, taxable dividends received from "taxable Canadian corporations", as defined by the Act, are excluded from taxable income.

b) Unrealized taxable capital gain on investments is approximately \$64,286,000 which has accrued since December 31, 1971. In addition, the company has received dividends of approximately \$11,114,000 since December 31, 1971 which were paid out of "tax-paid undistributed surplus on hand" and "1971 capital surplus on hand" of the payor corporations and, therefore, must be applied to reduce the adjusted cost base of the investments in the payor corporations resulting in a corresponding increase in the gain which may ultimately be realized on these investments. Provision for deferred income taxes on these unrealized gains has been made in the accounts.

4. RELATED PARTY TRANSACTIONS

Management fees are paid to a related corporation for services received in connection with the administration of the company's financial accounts and investment portfolio.

PORTFOLIO OF INVESTMENTS

as at December 31, 1986

No. of Shares	Total Market Value \$	% of Portfolio	No. of Shares	Total Market Value \$	% of Portfolio
	8,337,500	8.6		973,206	1.0
100,000	The Seagram Company Ltd.	8,337,500	650	C.G.I. and Third Venture Capital Limited preference	65,000
	BUSINESS FORMS	433,125	.4	10,000	C.G.I. and Third Venture Capital Limited
15,000	Moore Corporation Limited	433,125	\$615,900	Investech, L.P.	700,000
	COMMUNICATIONS	925,000	1.0		MISCELLANEOUS
25,000	Bell Canada Enterprises Inc.	925,000	20,000	Crownx Inc.	445,000
	ENERGY	1,793,908	1.9	40,000	Crownx Inc. 'A'
	(A) OILS	557,846	30,000	Scott's Hospitality Inc.	360,000
* 4,436	Mark Resources Inc. warrants	1,597	30,000	Scott's Hospitality Inc. 'C'	360,000
* 36,633	Mark Resources Inc.	311,381		U.S. SECURITIES	8,365,830
4,436	Precambrian Shield Resources Limited	10,868	100,000	Shared Medical Systems Corporation	5,591,025
9,000	Shell Canada Ltd. 'A'	234,000		OTHER U.S. SECURITIES	
25,000	(B) OTHER Nova, An Alberta Corp. 12% preferred	662,500	20,000	IMS International, Inc.	666,092
19,950	Transalta Utilities Corporation 'A'	573,562	* 10,000	Piedmont Aviation	628,128
	FINANCE	2,982,512	3.1	* 10,000	Reuters Holdings PLC 'B' adrs
	(A) BANKS	1,369,912	7,500	Roadway Services, Inc.	357,204
3,500	Bank of Montreal	116,812	* 10,000	Lubrizol Corp.	434,857
24,000	The Bank of Nova Scotia	414,000			
12,000	The Royal Bank of Canada	385,500			
19,200	The Toronto-Dominion Bank	453,600			
	(B) OTHER	1,612,600			
1,600	E-L Financial Corporation Limited 'A' preference	96,000			
18,400	E-L Financial Corporation Limited	1,131,600			
*100,000	Guardian Pacific Rim Corporation warrants	385,000			
	FOREST PRODUCTS	37,200	-		
2,400	Domtar Inc. \$1.00 preference	37,200			
	INVESTMENT TRUST	67,584,687	69.9		
1,269,196	Canadian General Investments Limited	67,584,687			
	MANUFACTURING	160,654	.2		
8,684	Canvil Ltd.	160,654			
	REAL ESTATE	3,539,100	3.7		
54,000	Trizec Corporation Ltd. 'A' ordinary	1,525,500			
54,000	Trizec Corporation Ltd. 'B' ordinary	1,566,000			
3,600	Trizec Corporation Ltd. 'B' preferred	35,100			
* 50,000	Viceroy Homes Limited 'A' ..	412,500			

*Additions to Portfolio in 1986.

SUMMARY OF PORTFOLIO BY INDUSTRY

	Value as of Dec. 31, 1986	Percent of Portfolio
INVESTMENT TRUST	\$67,584,687	69.9
U.S. SECURITIES	8,365,830	8.6
BEVERAGES	8,337,500	8.6
REAL ESTATE	3,539,100	3.7
FINANCE	2,982,512	3.1
ENERGY	1,793,908	1.9
MISCELLANEOUS	1,535,000	1.6
VENTURE CAPITAL	973,206	1.0
COMMUNICATIONS	925,000	1.0
BUSINESS FORMS	433,125	.4
MANUFACTURING	160,654	.2
FOREST PRODUCTS	37,200	-
	\$96,667,722	100.0

