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**THIRD CANADIAN GENERAL INVESTMENT
TRUST LIMITED**

1978

Annual Report

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HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 9 1979
MCGILL UNIVERSITY

**THIRD CANADIAN GENERAL INVESTMENT TRUST
LIMITED**

*Board of Directors*_____

ALEX E. BARRON	T. R. MEIGHEN, Q.C.
D. L. CAMPBELL	E. LOUISE MORGAN
A. BRUCE MATTHEWS, C.B.E., D.S.O.	JOHN C. RYKERT
M. C. G. MEIGHEN, O.B.E.	PATRICK O. G. WRIGHT

*Officers*_____

M. C. G. MEIGHEN, O.B.E.	- - - - -	<i>Chairman of the Board</i>
ALEX E. BARRON	- - - - -	<i>President</i>
JOHN C. RYKERT	- - - - -	<i>Treasurer</i>
E. LOUISE MORGAN	- - - - -	<i>Secretary</i>
PATRICK O. G. WRIGHT	- - - - -	<i>Assistant Treasurer</i>

*Auditors*_____

PRICE WATERHOUSE & CO. - - - - - Toronto

*Registrar and Transfer Agent*_____

THE CANADA TRUST COMPANY - - - - - Toronto and Montreal

*Office of Company*_____

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

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

To The Shareholders:

Your Directors have pleasure in submitting the Annual Report of your Company for the year ended December 31, 1978 consisting of the Balance Sheet and Statements of Income, Retained Earnings, Unrealized Gain on Investments and Changes in Net Assets.

The Balance Sheet discloses that the total assets of the Company as at December 31, 1978 amounted to \$41,505,870. From this amount is deducted the total liabilities of the Company, namely, \$5,004,265, which leaves a net value of \$36,501,605. After deducting the First Preferred Shares at the call price of \$52.50, namely, \$2,752,627, each of the 1,837,190 Common Shares outstanding as at December 31, 1978 had an apparent liquidating value of approximately \$18.37. It should be noted that while \$4.9 million in deferred income taxes was deducted from total assets in calculating the equity value per share, the \$4.9 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 \$4,434,193. After providing \$131,578 for dividends on the First Preferred Shares, the balance of net income, namely, \$4,302,615 is equivalent to \$2.34 for each of the outstanding Common Shares. Income from normal investment sources generated net income, after preferred dividends, of \$1,699,597 or \$0.93 per share. A special "Tax-deferred" dividend of a non-recurring nature in the amount of \$2,603,018 or \$1.41 per Common share was also received.

During 1978 the Common Shareholders received "Tax-deferred" dividends of \$0.95 per share, an increase of \$0.03. These dividends were paid out of the Company's 1971 Surplus Accounts and are not subject to income tax in the hands of the shareholders. Such dividends, however, do reduce the adjusted cost base of your shares and this in turn could affect the taxable capital gain or loss resulting from any future sale of such shares.

We advised shareholders in the 1977 Annual Report that the concept of "Tax-deferred" dividends would cease to exist as of December 31, 1978. The Directors declared a "taxable" cash dividend of \$0.25 per Common share on January 31, 1979 payable March 15, 1979. The recent increase in the dividend tax credit makes this option attractive for most shareholders.

Since the Corporation had a substantial balance of 1971 capital surplus on hand, the Board of Directors decided to make a partial distribution of such surplus by declaring a special dividend. This dividend was paid by transferring to shareholders of record at the close of business on October 30, 1978, common shares without par value of Moore Corporation Limited ("Moore Common Shares") owned by the Corporation, at the rate of 6 Moore Common Shares for every 100 common shares of the Corporation registered in the name of a shareholder of record on the said record date. No fractions of Moore Common Shares were transferred to shareholders but in lieu thereof shareholders

received a cash payment equal to the value of their fractional interests based on \$34.75 being the closing bid price of a Moore Common Share on The Toronto Stock Exchange on October 27, 1978.

The distribution of the "Moore Common Shares" created substantial additional 1971 Capital Surplus On Hand. At a Special General Meeting of the Shareholders held on December 20, 1978 a By-law authorizing the capitalization of \$3,674,380 of the retained earnings of the Company by transferring such amount from the Company's retained earnings to the issued capital attributable to the outstanding common shares of the Company was sanctioned. The amount capitalized equals \$2.00 per outstanding common share.

In June 1978 we wrote to advise the shareholders that your Company and Canadian General Investments Limited ("CGI") had received Compulsory Transfer Notices requiring that both companies sell the 4.1% of the outstanding common shares of The Ravelston Corporation Limited ("Ravelston") owned by your Company, and the 22.4% of Ravelston shares owned by CGI, at a price to be determined by Ravelston's auditors.

During the intervening six months, negotiations took place concerning the price and method of acquisition of the above-mentioned shares. Shareholders were advised on December 21, 1978 that the negotiations reached a satisfactory conclusion. As previously reported, your Company received a cash payment of \$1,822,650 for its holdings of the preferred and common shares of Ravelston, and CGI received \$9,936,519. These amounts were arrived at by assigning a value of \$42.50 for each common share of Argus Corporation Limited held by Ravelston. The transaction was completed by Ravelston making a partial purchase of its outstanding shares. The proceeds received in excess of paid-up capital will be deemed for tax purposes to be an ordinary dividend to the companies, and accordingly, are not taxable. Your Management is pleased with this result.

The portfolio of investments as at December 31, 1978 is to be found on pages 10 and 11 of this report.

Submitted on behalf of the Board.



Chairman of the Board



President

TORONTO, January 31, 1979.

T H I R D C A N A D I A N G E N E R A L

Balance Sheet

<i>Assets</i>	December 31	
	1978	1977
Investments at indicated market value (Note 1):		
Securities having a quoted market value - - - - -	\$38,897,413	\$32,821,438
Securities not having a quoted market value - - - - -	188,850	1,463,139
(Cost as at—	39,086,263	34,284,577
December 31, 1978—\$15,076,937		
December 31, 1977—\$15,883,663)		
Short-term investments, at cost plus accrued interest - - - - -	2,403,264	100,298
Dividends receivable - - - - -	1,355	1,257
Cash - - - - -	14,988	16,980
	<u>\$41,505,870</u>	<u>\$34,403,112</u>
<i>Liabilities and Shareholders' Equity</i>		
Accrued liabilities - - - - -	\$ 19,588	\$ 1,600
Dividends payable - - - - -	35,677	36,065
Deferred income taxes (Note 4(ii)) - - - - -	4,949,000	2,328,000
Shareholders' equity:		
Capital stock (Note 2)—		
Authorized—		
112,431 (1977—118,477) first preferred shares of the par value of \$50 each, issuable in series		
52,628,930 3% non-cumulative second preferred shares of the par value of 5¢ each redeemable at the amount paid up thereon		
2,000,000 common shares of no par value		
Issued and outstanding—		
52,431 (1977—53,251) \$2.50 cumulative first preferred shares Series 'A' redeemable at \$52.50 per share - - - - -	2,621,550	2,662,550
1,837,190 common shares - - - - -	12,860,330	9,185,950
	15,481,880	11,848,500
Contributed surplus, realized on purchase for cancellation of first preferred shares (including \$16,016 arising during the year ended December 31, 1978) - - - -	130,259	114,243
Unrealized gain on investments - - - - -	19,060,326	16,072,914
Retained earnings (Note 2) - - - - -	1,829,140	4,001,790
	<u>36,501,605</u>	<u>32,037,447</u>
	<u>\$41,505,870</u>	<u>\$34,403,112</u>
APPROVED BY THE BOARD:		
A. BRUCE MATTHEWS, <i>Director</i>		
M. C. G. MEIGHEN, <i>Director</i>		

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, 1978 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, 1978 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.

As part of our tests referred to in the first paragraph above, we examined share certificates and other evidence supporting the investments held by the Company as at December 31, 1978.

TORONTO, January 19, 1979

PRICE WATERHOUSE & CO.
Chartered Accountants

I N V E S T M E N T T R U S T L I M I T E D

Statement of Income

	Year ended December 31	
	1978	1977
Income:		
Dividends - - - - -	\$ 1,921,493	\$ 1,907,965
Interest - - - - -	34,977	18,982
Gain on foreign exchange - - - - -	—	14,012
	1,956,470	1,940,959
Expenses:		
Management fees - - - - -	80,088	82,470
Directors' fees (Note 3) - - - - -	1,550	1,200
Miscellaneous - - - - -	43,657	21,020
	125,295	104,690
Income before special dividends - - - - -	1,831,175	1,836,269
Special tax-deferred dividend received in shares of Moore Corporation Limited - - - - -	2,603,018	—
Net income for the year - - - - -	\$ 4,434,193	\$ 1,836,269
Net income for the year per common share (after deducting preferred dividends)—		
Before special dividend received - - - - -	\$ 0.93	\$ 0.93
After special dividend received - - - - -	\$ 2.34	\$ 0.93

T H I R D C A N A D I A N G E N E R A L

Statement of Retained Earnings

	Year ended December 31	
	1978	1977
Balance at beginning of year	\$ 4,001,790	\$ 3,800,200
Add:		
Net income for the year	4,434,193	1,836,269
Gain on investments disposed of during year	2,774,986	189,672
	11,210,969	5,826,141
Less:		
Dividends paid or declared—		
On first preferred shares Series A	131,578	134,136
On common shares—		
Cash	1,745,330	1,690,215
Shares of Moore Corporation Limited	3,830,541	—
	5,575,871	1,690,215
	5,707,449	1,824,351
Transfer of retained earnings to paid-up capital of common shares (Note 2)	3,674,380	—
	9,381,829	1,824,351
Balance at end of year	\$ 1,829,140	\$ 4,001,790
Dividends paid or declared per share:		
Preferred	\$ 2.500	\$ 2.500
Common—		
Cash	\$ 0.950	\$ 0.920
Shares of Moore Corporation Limited	\$ 2.085	\$ —
	\$ 3.035	\$ 0.920

Statement of Unrealized Gain on Investments

	Year ended December 31	
	1978	1977
Increase (decrease) during the year	\$ 5,608,412	\$ (814,534)
Deferred income taxes	(2,621,000)	(310,000)
	2,987,412	(1,124,534)
Balance at beginning of year	16,072,914	17,197,448
Balance at end of year	\$19,060,326	\$16,072,914

I N V E S T M E N T T R U S T L I M I T E D

Statement of Changes in Net Assets

	Year ended December 31	
	1978	1977
Net assets at beginning of year - - - - -	\$32,037,447	\$32,988,800
Add:		
Net income for the year - - - - -	4,434,193	1,836,269
Gain on investments disposed of during year - - - - -	2,774,986	189,672
Gain on purchase for cancellation of first preferred shares - - - - -	16,016	20,791
Increase in paid-up capital of common shares transferred from retained earnings -	3,674,380	-
Increase in unrealized gain on investments - - - - -	2,987,412	-
	45,924,434	35,035,532
Less:		
Decrease in unrealized gain on investments - - - - -	-	1,124,534
Dividends paid or declared—		
On first preferred shares Series A - - - - -	131,578	134,136
On common shares - - - - -	5,575,871	1,690,215
Transfer of retained earnings to paid-up capital of common shares - - - - -	3,674,380	-
First preferred shares Series A purchased for cancellation - - - - -	41,000	49,200
	9,422,829	2,998,085
Net assets at end of year - - - - -	\$36,501,605	\$32,037,447
Gain on investments disposed of during year:		
Cost of investments at beginning of year - - - - -	\$15,883,663	\$15,357,273
Add:		
Purchase of investments during year - - - - -	556,429	748,032
Dividend received in shares of Moore Corporation Limited - - - - -	2,603,018	-
	19,043,110	16,105,305
Less: Cost of investments at end of year - - - - -	15,076,937	15,883,663
Cost of investments disposed of during year, including cost of \$2,490,306 of shares of Moore Corporation Limited distributed as a dividend - - - -	3,966,173	221,642
Proceeds from disposition of investments during year, including value assigned to shares of Moore Corporation Limited distributed as a dividend - - - -	6,741,159	411,314
Gain on investments disposed of during year - - - - -	\$ 2,774,986	\$ 189,672
Apparent liquidating value per common share (after deducting outstanding preferred shares at call price):		
At beginning of year - - - - -	\$ 15.92	\$ 16.41
At end of year - - - - -	\$ 18.37	\$ 15.92

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

Portfolio of Investments

AS AT DECEMBER 31, 1978

No. of Shares		Total Market Value \$	% of Portfolio	No. of Shares		Total Market Value \$	% of Portfolio
	Beverages	1,325,000	3.4		Finance	2,169,525	5.6
40,000	The Seagram Company Ltd. -	1,325,000			(A) BANKS - - - - -	554,525	
				3,000	Bank of Montreal - - - -	76,500	
	Business Forms	155,202	.4	7,000	Bank of Nova Scotia - - -	165,375	
4,739	Moore Corporation Limited -	155,202		5,000	Royal Bank of Canada - - -	188,750	
				5,600	The Toronto-Dominion Bank	123,900	
	Communications	102,000	.3		(B) TRUST COMPANY - -	1,615,000	
4,000	Southam Incorporated - - -	102,000		68,000	Canada Trustco Mortgage Company 'A' - - - - -	1,615,000	
	Energy	1,279,925	3.3		Forest Products	251,250	.6
	(A) OILS - - - - -	339,625		10,000	MacMillan Bloedel Ltd. - -	251,250	
2,000	Hudson's Bay Oil & Gas Co. Ltd.	104,500			Industrial Management	1,800,000	4.6
9,000	Shell Canada Ltd. 'A' - - - -	145,125		120,000	Argus Corporation Ltd.		
10,000	Ram Petroleums Limited - -	90,000			Class 'C' Prefd. - - - -	1,800,000	
	(B) OTHER - - - - -	940,300			Investment Trust	27,778,323	71.1
5,800	Calgary Power Ltd. 'A' - - -	230,550		1,248,464	Canadian General Investments Limited - -	27,778,323	
1,000	Canadian Utilities Ltd. - - -	16,000					
10,000	The Consumers' Gas Co.- - -	183,750					
15,000	Rio Algom Ltd. - - - - -	510,000					

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

No. of Shares		Total Market Value \$	% of Portfolio	No. of Shares		Total Market Value \$	% of Portfolio
	Merchandising	126,250	.3		Steel	1,633,125	4.2
500	Canadian Tire Corporation Ltd. 'A' - - -	12,500		20,000	The Algoma Steel Corp. Ltd. -	530,000	
				25,000	Dominion Foundries and Steel Ltd. 'A' - - - - -	765,625	
5,000	Canadian Tire Corporation Ltd. - - - -	113,750		12,000	The Steel Co. of Canada Ltd. 'A' - - - - -	337,500	
					Venture Capital	128,150	.3
				650	CGI and Third Venture Capital Limited Prefd. - -	65,000	
	Manufacturing	169,700	.4	10,000	CGI and Third Venture Capital Limited - - - - -	63,150	
4,000	Canadian General Electric Co. Ltd. - - - - -	109,000			Miscellaneous	354,065	.9
6,070	Canvil Ltd. - - - - -	60,700		20,000	Extendicare Ltd. - - - - -	255,000	
				10,000	Scott's Restaurants Co. Ltd. - -	92,500	
				10,100	Firan Glendale Corporation -	6,565	
	Metals	200,000	.5		U.S. Securities	1,373,748	3.5
5,000	Alcan Aluminium Ltd. - - -	200,000		3,000	Halliburton Company - - -	236,122	
				2,500	Intel Corporation Ltd. - - -	146,743	
				5,000	National Mine Service Company - - - - -	88,193	
	Real Estate	240,000	.6	30,000	Shared Medical Systems - - -	902,690	
15,000	Trizec Corporation Ltd. - - -	240,000					

**THIRD CANADIAN GENERAL INVESTMENT
TRUST LIMITED**

110 YONGE STREET - SUITE 1702
TORONTO, ONTARIO

SEMI-ANNUAL REPORT

JUNE 30, 1978

BOARD OF DIRECTORS

ALEX E. BARRON
President

D. L. CAMPBELL

A. BRUCE MATTHEWS, C.B.E., D.S.O.

M. C. G. MEIGHEN, O.B.E.
Chairman

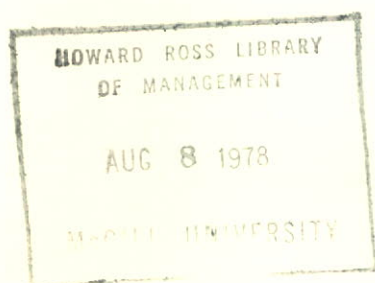
T. R. MEIGHEN, Q.C.

E. LOUISE MORGAN
Secretary

JOHN C. RYKERT
Treasurer

PATRICK O. G. WRIGHT
Assistant Treasurer

REGISTRAR AND TRANSFER AGENT
THE CANADA TRUST COMPANY
110 YONGE STREET
TORONTO



THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

BALANCE SHEET

ASSETS	June 30	
	1978	1977
Investments at indicated market value (Note 1)		
Securities having a quoted market value	\$38,751,571	\$33,076,517
Securities not having a quoted market value.	1,650,693	1,357,346
	40,402,264	34,433,863
(Cost as at—		
June 30, 1978—\$15,925,425		
June 30, 1977—\$15,840,008)		
Short-term investments at cost plus accrued interest	305,609	476,376
Dividends receivable	—	649
Cash	38,610	21,408
	\$40,746,483	\$34,932,296
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued liability	\$ 2,600	\$ 1,790
Securities purchased.	—	308,160
Dividends payable	35,677	36,798
Deferred income taxes (Note 4(ii)).	3,886,000	2,057,855
	3,924,277	2,404,603
Shareholders' equity		
Capital stock (Note 2)—		
Authorized—		
118,477 first preferred shares of the par value of \$50 each, issuable in series		
52,628,930 3% non-cumulative second preferred shares of the par value of 5¢ each redeemable at the amount paid up thereon		
2,000,000 common shares of no par value		
Issued and outstanding—		
52,631 (1977—53,601) \$2.50 cumulative first preferred shares Series "A" redeemable at \$52.50 per share	2,631,550	2,680,050
1,837,190 common shares	9,185,950	9,185,950
	11,817,500	11,866,000
Contributed surplus, realized on purchase for cancellation of first preferred shares (including \$12,115 arising during the six months ended June 30, 1978)	126,358	107,341
Unrealized gain on investments	20,590,839	16,536,000
Retained earnings including \$292,300 (1977—\$243,800) appropriated under Section 62 of the Canada Corporations Act	4,287,509	4,018,352
	36,822,206	32,527,693
	\$40,746,483	\$34,932,296

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

STATEMENT OF UNREALIZED GAIN ON INVESTMENTS

	Six months ended June 30	
	1978	1977
Increase (decrease) during the period	\$ 6,075,925	\$ (621,593)
Deferred income taxes	(1,558,000)	(39,855)
	<u>4,517,925</u>	<u>(661,448)</u>
Balance at beginning of period	16,072,914	17,197,448
Balance at end of period	<u>\$20,590,839</u>	<u>\$16,536,000</u>

AUDITORS' REPORT

To the Directors of

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED:

We have examined the balance sheet of Third Canadian General Investment Trust Limited as at June 30, 1978 and the statements of income, retained earnings, unrealized gain on investments and changes in net assets for the six months 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 June 30, 1978 and the results of its operations and the changes in its net assets for the six months then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

As part of our tests referred to in the first paragraph above, we examined share certificates and other evidence supporting the investments held by the Company as at June 30, 1978.

PRICE WATERHOUSE & CO.
Chartered Accountants

Toronto, July 14, 1978.

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

STATEMENT OF CHANGES IN NET ASSETS

	Six months ended June 30	
	1978	1977
Net assets at beginning of period	\$32,037,447	\$32,988,800
Add		
Net income for the period	874,498	847,464
Gain on investments sold or redeemed	303,746	172,949
Gain on purchase for cancellation of first preferred shares	12,115	13,889
Increase in unrealized gain on investments	4,517,925	—
	37,745,731	34,023,102
Less		
Decrease in unrealized gain on investments	—	661,448
Dividends paid or declared—		
On first preferred shares Series “A”	65,789	67,385
On common shares	826,736	734,876
First preferred shares Series “A” purchased for cancellation	31,000	31,700
	923,525	1,495,409
Net assets at end of period	\$36,822,206	\$32,527,693
Gain on investments sold or redeemed		
Cost of investments at beginning of period	\$15,883,663	\$15,357,273
Add purchase of investments during period	556,429	645,386
	16,440,092	16,002,659
Less cost of investments at end of period	15,925,425	15,840,008
Cost of investments sold or redeemed during period	514,667	162,651
Proceeds from sale or redemption of investments during period	818,413	335,600
Gain on investments sold or redeemed	\$ 303,746	\$ 172,949
Apparent liquidating value per common share (after deducting outstanding preferred shares at call price)		
At beginning of period	\$15.92	\$16.41
At end of period	\$18.54	\$16.17

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

STATEMENT OF INCOME

	Six months ended June 30	
	1978	1977
Income		
Dividends	\$ 919,740	\$ 874,915
Interest	8,988	13,316
Gain on foreign exchange	—	14,012
	928,728	902,243
Expenses		
Management fee	40,044	41,232
Directors' fees (Note 3)	800	400
Miscellaneous	13,386	13,147
	54,230	54,779
Net income for the period	\$ 874,498	\$ 847,464
Net income for the period per common share (after deducting preferred dividends)	\$.44	\$.42

STATEMENT OF RETAINED EARNINGS

	Six months ended June 30	
	1978	1977
Balance at beginning of period	\$4,001,790	\$3,800,200
Add		
Net income for the period	874,498	847,464
Gain on investments sold or redeemed (Note 4(iv))	303,746	172,949
	5,180,034	4,820,613
Less		
Dividends paid or declared—		
On first preferred shares Series "A"	65,789	67,385
On common shares	826,736	734,876
	892,525	802,261
Balance at end of period	\$4,287,509	\$4,018,352
Dividends paid or declared per share		
Preferred	\$1.25	\$1.25
Common	\$.45	\$.40

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1978

1. The indicated market values of quoted securities are the result of pricing the Company's holdings at the closing quoted market prices as at June 30. Such amounts do not necessarily represent the value of the total holdings in any company which may be more or less than that indicated by market quotations. 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.
2. During the six months ended June 30, 1978, 620 \$2.50 cumulative first preferred shares Series "A" were purchased for cancellation for an aggregate cash consideration of \$18,885.
3. The aggregate remuneration of three of the eight directors was \$800 (1977-\$400). The remaining five directors, who are also the five officers of the Company, are employees of the management company and did not receive any remuneration as directors or officers of Third Canadian General Investment Trust Limited.

4. Taxation:

- (i) The Company does not qualify as an "investment corporation" as defined in Section 130 of the Canadian Income Tax Act; accordingly, it is subject to income tax as a "public corporation". "Taxable dividends" received from "taxable Canadian corporations", as defined by the Act, are excluded from taxable income; one-half of gains on disposal of investments, to the extent that these have accrued since December 31, 1971, are subject to income tax at full corporate rates.
- (ii) Unrealized gain on investments includes approximately \$7,992,000 which has accrued since December 31, 1971. In addition, the Company has received dividends of approximately \$7,759,000 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.
- (iii) As at June 30, 1978 the Company estimates its tax surplus categories, as defined by the Income Tax Act and subject to confirmation by the Canadian tax authorities, to be as follows:

	(a) Tax-paid Undistributed Surplus on Hand (Section 89(1)(k))	(b) 1971 Capital Surplus on Hand
Balance at beginning of period	\$ —	\$2,537,000
Dividends received	31,000	656,000
1971 capital surplus realized on investments sold or redeemed	—	14,000
Tax-deferred dividends paid on common shares	(31,000)	(796,000)
Balance at end of period	<u>\$ —</u>	<u>\$2,411,000</u>

The Company may elect to pay dividends out of categories (a) and (b). Such dividends are not required to be included in the shareholder's income but reduce the adjusted cost base of his investment for Canadian tax purposes.

With the enactment of amendments to the Income Tax Act (Canada), tax-paid undistributed surplus on hand and 1971 capital surplus on hand will disappear on December 31, 1978. Accordingly, the Company will not be able to pay tax-deferred dividends out of those categories after that date.

- (iv) Gains realized on investments sold or redeemed during the period include taxable capital gains accrued since December 31, 1971 which have been partly offset for income tax purposes by expenses of \$35,000 charged in the statement of income. In accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants, income taxes of \$17,000 otherwise payable on the gains should have been charged to retained earnings with a corresponding increase in net income for the period. This practice has not been followed since it would give an unfair presentation of the net income for the period.
5. Anti-Inflation Programme:
- The Company is subject to dividend restrictions imposed by the Federal Government in the Anti-Inflation Act effective October 14, 1975. Dividends paid since this date have been in compliance with the controls. These restrictions are due to expire on October 13, 1978.

