THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

1972

Annual Report

DECEMBER 31, 1972

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.	DONALD J. A. WRIGHT

Officers

M. C. G. MEIGHEN, O.B.E. - - - - - - - - - - - - - - *Chairman of the Board*

ALEX. E. BARRON - *President*

JOHN C. RYKERT - *Treasurer*

E. LOUISE MORGAN - - - - - - - - - - - - - - - - - - - *Secretary*

PATRICK O. G. WRIGHT - - - - - - - - - - - - - - *Assistant Treasurer*

Auditors

PRICE WATERHOUSE & CO. - - - - - - - - - - - - - - - - Toronto

Registrar and Transfer Agent

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

Office of Company

110 YONGE STREET, SUITE 1702 (Telephone 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, 1972 consisting of the Balance Sheet, and Statements of Income, Retained Earnings, Unrealized Gain on Investments and Changes in Net Assets.

Before presenting the highlights of these statements, your Directors draw attention to the fact that some new accounts appear in the statements this year. This is a direct result of the new Canadian Income Tax Act (Federal) and in particular to that part of the Act requiring tax to be paid on realized capital gains. We have been advised by our auditors that your Company should provide for the full potential capital gains tax liability which exists in the portfolio; in other words, the Company should provide for the capital gains tax liability which would be incurred if the entire portfolio was disposed of at prices which prevailed on December 31, 1972. This, to a large extent, explains the emergence of the Deferred Income Tax account. You will find additional information on this matter in the notes to the financial statements.

The balance sheet discloses that the total assets of the Company as at December 31, 1972 amounted to $40,705,327. From this amount is deducted the total liabilities of the Company, namely, $2,131,516, which leaves a net value of $38,573,811. After deducting the First Preferred Shares Series "A" at the call price of $52.50, namely, $3,016,912, each of the 1,837,190 Common Shares outstanding as at December 31, 1972 had an apparent equity value of approximately $19.35. It should be noted that while $2.1 million in deferred income taxes was deducted from assets in calculating the equity value per share, the $2.1 million continues to work for the benefit of the shareholders. Such will be the case until future realization of capital gains necessitates part or all of these deferred taxes to be paid to the government.

The Statement of Income discloses that your Company, after paying all expenses and providing for the recovery of income taxes, had a net income for the year of $1,001,284. After providing $143,709 for dividends on the First Preferred Shares the balance of net income, namely, $857,575 was equivalent to 47 cents for each of the outstanding Common Shares.

During 1972, cash dividends totalling $143,709 were paid or declared on the First Preferred Shares Series "A". The common shareholders received dividends of 45 cents per share. These dividends were paid for tax purposes out of the Company's December 31, 1971 surplus accounts (see Note 4 to Financial Statements) and are not subject to Canadian Income Tax in the hands of the shareholders. These 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 shares.

For those shareholders who are using the V-day value as the tax cost of their shares, may we advise that the Department of National Revenue has set the V-day value of your shares at $11.75.

Your Directors have decided, for the time being, to continue paying dividends for tax purposes out of the Company's December 31, 1971 surplus accounts subject to considerations to be outlined in the following paragraph. Such a dividend in the amount of twenty cents per common share has been declared payable March 14, 1973 to shareholders of record February 27, 1973.

Your Directors wish to outline two of the problems that have arisen as a result of the new Canadian Income Tax Act (Federal). We regret the complexity of this matter and have endeavoured to simplify it for the purpose of this presentation.

(a) Dividends paid for tax purposes from the Company's December 31, 1971 surplus accounts are received by the shareholder free from Canadian Income Tax. This type of dividend does, however, reduce the shareholder's adjusted cost base.

Each shareholder's tax status and investment objectives will determine the advantages or disadvantages of this manner of dividend payment. Consequently, consideration is being given to dividing the capital stock of the Company into two inter-convertible classes of shares. One class of shares would be entitled to cash dividends paid out of current earnings and would be subject to Canadian Income Tax. The other class of shares would be entitled to dividends paid for tax purposes out of the Company's 1971 surplus accounts and would not be subject to Canadian Income Tax but would reduce the adjusted cost base of the shares. It would be the intent of your Directors that these two classes of shares would be similar in all respects except for the nature of the dividend. We are hesitant to implement such a capital change until it is certain that the Tax Authorities will not view such an exchange of shares as a transaction subject to Capital Gains Tax. We are advised that it is Ottawa's intent to eliminate the possibility of capital gains tax in a transaction of this nature. The matter is now before Parliament but has not yet been passed into law by our legislators.

(b) As outlined in the notes to the financial statements your Company does not qualify under the Government's definition of an Investment Corporation and is therefore, not eligible for a rebate of capital gains tax paid by the Company once these capital gains are passed on to the shareholders in the form of dividends. In our opinion this is most unfair in that it results in an undue taxation of Capital Gains. We are hopeful that in the near future we will have the opportunity to discuss this matter with the proper Government officials with a view to having the current definition of an Investment Corporation altered. Your Directors however, would like to emphasize that fortunately we have some time to have this inequity removed. Given current stock market prices, your Company has a considerable amount of unrealized gain which was accrued prior to December 31, 1971 and which is not subject to tax. These gains do not encounter the onerous taxation effect if realized and paid out in dividends.

We would like to record the resignation from the Board of Directors of Mr. Donald J. A. Wright who has served on the Board since 1961. Mr. Wright has been of invaluable assistance to the Board over the years and his presence will certainly be missed.

We wish to advise you that at the Directors' Meeting held on January 26, 1973 the Board appointed a new Director namely, Mr. Patrick O. G. Wright.

The portfolio of investments as at December 31, 1972 is to be found on page 9 of this report.

Submitted on behalf of the Board.

M. C. G. Meighen

Chairman of the Board

Alex E Barron

President

TORONTO, January 26, 1973.

Balance Sheet

Assets

	December 31 1972	December 31 1971
Investments at indicated market value (Note 1):		
Securities having a quoted market value	$39,850,121	$31,727,805
Securities not having a quoted market value	652,817	463,361
	40,502,938	32,191,166
(Cost as at— December 31, 1972—$14,047,994 December 31, 1971—$13,257,623)		
Short-term security at cost plus accrued interest	175,072	—
Income taxes recoverable	5,248	—
Cash in bank	22,069	682,597
	$40,705,327	$32,873,763

Liabilities and Shareholders' Equity

	1972	1971
Dividend payable	$ 35,916	$ 36,014
Income and other taxes payable	—	1,051
Deferred income taxes (Note 4)	2,095,600	—
	2,131,516	37,065
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—		
57,465 $2.50 cumulative first preferred shares Series A redeemable at $52.50 per share	2,873,250	2,881,100
1,837,190 common shares	9,185,950	9,185,950
	12,059,200	12,067,050
Contributed surplus, realized on purchase for cancellation of first preferred shares (including $2,772 arising during the year ended December 31, 1972)	24,265	21,493
Unrealized gain on investments	24,359,344	18,933,543
Retained earnings, including $50,600 (1971—$42,750) appropriated under Section 62 of the Canada Corporations Act	2,131,002	1,814,612
	38,573,811	32,836,698
	$40,705,327	$32,873,763

APPROVED ON BEHALF OF THE BOARD:
M. C. G. MEIGHEN, *Director*
D. L. CAMPBELL, *Director*

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, 1972 and the statements of income, retained earnings, unrealized gain on investments and changes in net assets for the year then ended. Our examination included an inspection of share certificates and other evidence of the investments held by the Company as at December 31, 1972 and a general review of the accounting procedures and such tests of accounting records and other supporting evidence 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, 1972 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.

PRICE WATERHOUSE & CO.
Chartered Accountants

Toronto, January 12, 1973

Statement of Income

	Year ended December 31 1972	1971
Income:		
Dividends received	$ 1,074,333	$ 1,089,060
Interest earned	15,989	12,009
	1,090,322	1,101,069
Expense:		
Management fee	82,090	70,475
Directors' fees	1,250	1,350
Miscellaneous	9,614	9,696
	92,954	81,521
Income before income taxes	997,368	1,019,548
Recovery of (provision for) income taxes	3,916	(850)
Net income for the year	$ 1,001,284	$ 1,018,698
Net income for the year per common share (after deducting preferred dividends)	$ .47	$ .48

Statement of Retained Earnings

	Year ended December 31	
	1972	1971
Balance at beginning of year	$ 1,814,612	$ 1,485,422
Net income for the year	1,001,284	1,018,698
Gain on investments sold or redeemed less income taxes of $3,100 (1971—NIL)	300,551	295,300
	3,116,447	2,799,420
Dividends paid or declared:		
On first preferred shares Series A	143,709	144,368
On common shares	826,736	826,736
Tax paid under Section 196(1) (1971—105(2)) of the Income Tax Act	15,000	13,704
	985,445	984,808
Balance at end of year	$ 2,131,002	$ 1,814,612
Dividends paid per share:		
Preferred	$ 2.50	$ 2.50
Common	$ .45	$ .45

Statement of Unrealized Gain on Investments

	Year ended December 31	
	1972	1971
Increase during the year	$ 7,521,401	$ 4,323,281
Less: Deferred income taxes	2,095,600	—
	5,425,801	4,323,281
Balance at beginning of year	18,933,543	14,610,262
Balance at end of year	$24,359,344	$18,933,543

Statement of Changes in Net Assets

	Year ended December 31 1972	Year ended December 31 1971
Net assets at beginning of year	$32,836,698	$28,190,956
Add:		
Net income for the year	1,001,284	1,018,698
Gain on investments sold or redeemed less income taxes	300,551	295,300
Profit on purchase for cancellation of first preferred shares	2,772	3,271
Increase in unrealized gain on investments less deferred income taxes	5,425,801	4,323,281
	39,567,106	33,831,506
Less:		
Dividends paid or declared—		
On first preferred shares Series A	143,709	144,368
On common shares	826,736	826,736
Tax paid under Section 196(1) (1971—105(2)) of the Income Tax Act	15,000	13,704
First preferred shares Series A purchased for cancellation	7,850	10,000
	993,295	994,808
Net assets at end of year	$38,573,811	$32,836,698
Gain on investments sold or redeemed:		
Cost of investments at beginning of year	$13,257,623	$13,372,835
Add: Purchase of investments during year	831,450	125,996
	14,089,073	13,498,831
Less: Cost of investments at end of year	14,047,994	13,257,623
Cost of investments sold or redeemed during year	41,079	241,208
Proceeds from sale or redemption of investments during year	344,730	536,508
Gain on investments sold or redeemed before income taxes	303,651	295,300
Provision for income taxes	3,100	—
Net gain on investments sold or redeemed	$ 300,551	$ 295,300
Apparent liquidating value per common share (after deducting outstanding preferred shares at call price):		
At beginning of year	$16.23	$13.69
At end of year	$19.35	$16.23

THIRD CANADIAN GENERAL INVESTMENT TRUST LIMITED

Notes to the Financial Statements

DECEMBER 31, 1972

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 December 31. Such amounts do not necessarily represent the value of the total holding 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 year ended December 31, 1972 157 $2.50 cumulative first preferred shares Series A were purchased for cancellation.

3. The aggregate remuneration of 4 of the 8 directors was $1,250 (1971—$1,350). The remaining 4 directors, who are also the 4 officers of the Company, are employees of the management company and did not receive any remuneration as directors or officers of the Company.

4. Taxation:

   (i) The Company does not qualify as an "investment corporation" as defined in Section 130 of the new Canadian Income Tax Act (federal) which came into force on January 1, 1972; accordingly, it is subject to income tax as a "public corporation". "Taxable dividends" received from "taxable Canadian corporations", as defined by the new 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 appreciation on investments includes $8,026,300 which has accrued since December 31, 1971. In addition, the Company has received dividends of $749,078 during the year which were paid out of "tax paid undistributed surplus on hand" of the payor corporation and, therefore, must be applied to reduce the adjusted cost base of the investment in the payor corporation resulting in a corresponding increase in the gain which may ultimately be realized on this investment. If the Company's portfolio had been sold at its indicated market value as at December 31, 1972, additional income taxes of $2,095,600 would have been payable after applying $66,988 of the "1972 non-capital loss carry forward" against the taxable gains. Provision for these deferred income taxes has been made in the accounts.

   (iii) 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) 1971 Undistributed Income (Section 196)	(b) Tax paid Undistributed Surplus (Section 89(1)(k))	(c) 1971 Capital Surplus
Balance at January 1, 1972	$710,742	$187,270	$1,405,510
Dividends received	—	749,078	—
Accrued gains on subsequent disposal of investments	—	—	281,840
Section 196(1) Election	(100,000)	85,000	—
Tax free dividends paid on common shares	—	(826,736)	—
Balance at December 31, 1972	$610,742	$194,612	$1,687,350

The Company may elect to pay dividends out of category (b) and, if category (a) has been exhausted, out of category (c). 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.

THIRD CANADIAN GENERAL INVESTMENT TRUST
LIMITED

Portfolio of Investments

DECEMBER 31, 1972

	Class	No. of Shares
Alcan Aluminium Ltd. - - - -	Common	5,000
Algoma Steel Corp. Ltd. - - -	Common	20,000
Argus Corporation Ltd. - - - -	"C" Prefd.	120,000
Bank of Montreal - - - - -	Common	3,000
Bank of Nova Scotia - - - -	Common	3,000
C.G.I. and Third Venture Capital Limited - - - - -	Common	10,000
C.G.I. and Third Venture Capital Limited - - - - -	Prefd.	500
Canada Packers Ltd. - - - - -	Common	35,000
Canadian General Investments Ltd. - - - -	Common	312,116
Canadian Tire Corp. Ltd. - - -	"A" Prefd.	5,000
Cominco Limited - - - - -	Common	10,000
Distillers Corporation Seagrams Ltd. - - - - -	Common	40,000
Dominion Foundries & Steel Ltd.	Common	25,000
Huron & Erie Mortgage Corporation - - - - - -	Common	68,000
Imperial Oil Ltd. - - - - - -	Common	16,000
Industrial Acceptance Corporation Ltd. - - - -	Common	8,000

	Class	No. of Shares
International Nickel Co. of Canada Ltd. - - - - - - -	Common	7,500
Interprovincial Pipe Line Co. - -	Common	20,000
Kenting Limited - - - - - - -	Common	10,000
London Life Insurance Co. - -	Common	1,100
MacMillan Bloedel Limited - -	Common	10,000
Moore Corporation Ltd. - - -	Common	40,000
The Ravelston Corp. Limited - -	Common	5,270
The Ravelston Corp. Limited - -	Prefd.	48,549
Rio Algom Mines Ltd. - - - -	Common	10,000
Royal Bank of Canada - - - -	Common	5,000
Scott's Restaurants Ltd. - - -	Common	5,000
Shell Canada "A"- - - - - -	Common	3,000
Simpsons Ltd. - - - - - - -	Common	16,000
Southam Press Ltd. - - - - -	Common	4,000
Steel Co. of Canada Ltd. - - -	Common	12,000
D. A. Stuart, Oil Co. Ltd. - - -	Common	4,000
Toronto-Dominion Bank - - -	Common	2,500
TransCanada PipeLines Ltd. - -	Common	1,000
Trizec Corporation Ltd. - - -	Common	7,500

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