GENSTAR

Annual Report 1980

CORPORATE PROFILE

Genstar is a leader in land and real estate development and the manufacturing of building materials. The company is also engaged in a variety of marine and financial services. Primary markets are the western provinces of Canada and the western and southern "Sunbelt" areas of the United States. Concentrating its assets in regions of above-average potential has helped Genstar establish a solid record of growth. In the 10-year period from 1971 through 1980, revenues have risen at a compound annual rate of 30 percent, net income at a rate of 39 percent, and net income per common share at 30 percent. Cash dividends paid to shareholders have increased every year since 1970.

Annual Meeting

The Annual and Special Meeting of Genstar shareholders will be held on Thursday, May 14th, 1981, at 11:00 a.m. in The Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia, Canada.

GENSTAR LIMITED

Executive Office:
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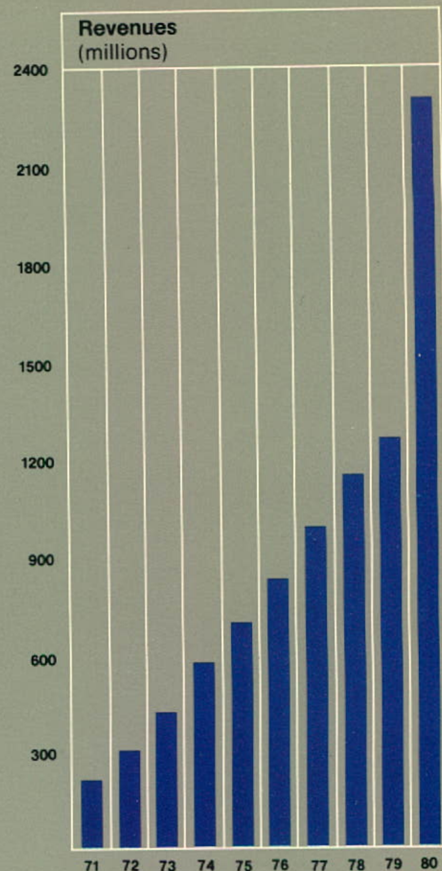
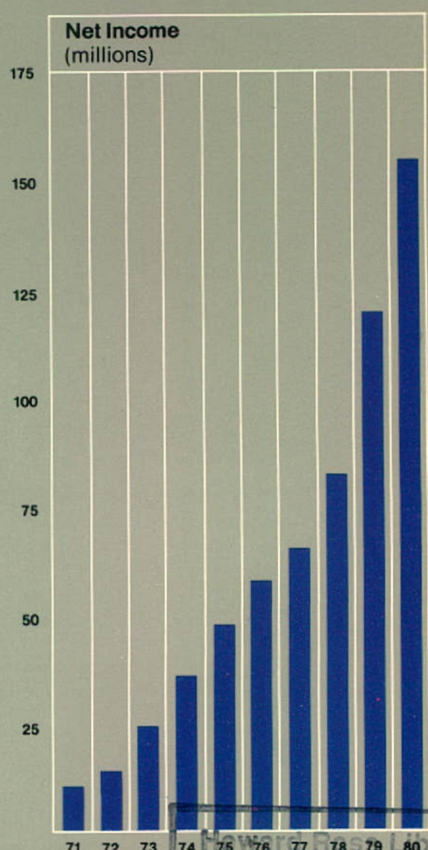
FINANCIAL HIGHLIGHTS

(For the years ended December 31)	1980	1979	Increase
	(millions of Canadian dollars)		
Revenues	**$2,310.4**	$1,264.6	83%
Funds from Operations	**215.4**	156.6	38%
Depreciation, Depletion and Amortization	**77.1**	39.1	97%
Net Income	**153.7**	123.6	24%
Dividends on Common Shares	**47.1**	34.0	39%
Net Income per Common Share:			
Canadian Method			
—Basic	**$ 4.77**	$ 4.21	13%
—Fully Diluted	**4.35**	3.96	10%
United States Method			
—Primary	**4.41**	4.16	6%
—Fully Diluted	**4.35**	3.98	9%
Dividends per Common Share	**1.65**	1.25	32%
(Current annual rate—$1.80)			





OFFICERS

August A. Franck
Chairman of the Board
(retired as Chairman November 1980)

Charles de Bar
Deputy Chairman of the Board

Angus A. MacNaughton
Vice Chairman of the Board
and Chief Executive Officer

Ross J. Turner
President and
Chief Executive Officer

Walter S. Bannister
Executive Vice President

J. Leonard Holman
Executive Vice President

Bernard T. Johnson
Executive Vice President

Nicholas A. Liberatore
Executive Vice President

George F. Michals
Executive Vice President

Gregor G. Peterson
Executive Vice President

Beverley A. Monkman
Senior Vice President

J. Leslie Bodie
Vice President

John H. Chase
Vice President

W. T. George
Vice President

J. Ernest Hartz, Jr.
Vice President
and General Counsel

Hugh W. McAdams
Vice President and Treasurer

Richard D. Paterson
Vice President and Comptroller

Lorimer E. Whitworth
Vice President

Paul T. Coté
Secretary

About August A. Franck and Genstar

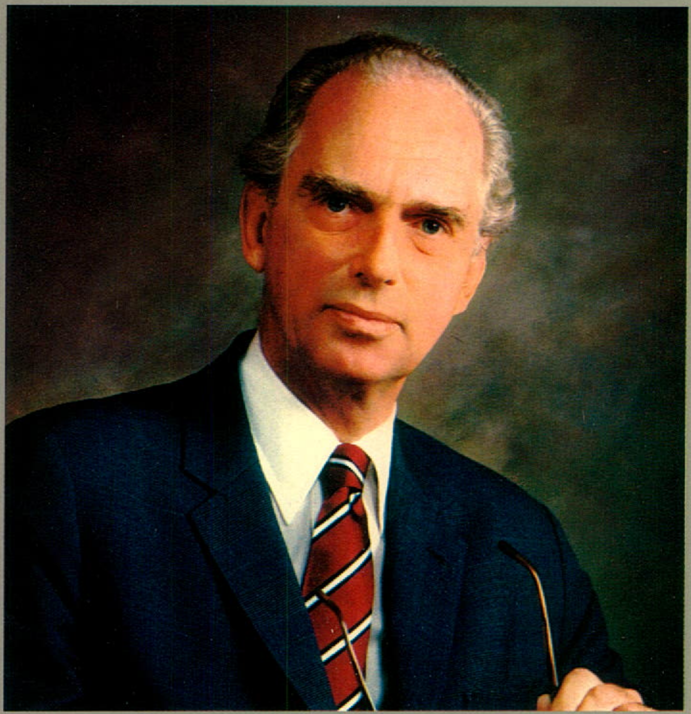
The company that ultimately became Genstar began as a private investment firm in 1951 when it was formed with the sponsorship of Société Générale de Belgique to finance mining and minerals exploration in Canada. After the first public offering of shares in 1955, emphasis shifted to development of industrial enterprises, and Genstar was instrumental in financing the emergence of a number of new Canadian companies.

Less than a decade later, Mr. August A. Franck joined the Board of Directors and was appointed President and Chief Executive Officer. In 1965, at the end of his first year in office, majority interests in three affiliate companies were amalgamated, and Genstar became a diversified operating company manufacturing cement, chemicals and glass.

From that time to the present, the nature of the company changed a number of times as it divested marginal assets and diversified into such promising new fields as land and real estate development and the manufacture of building materials. During Mr. Franck's association with Genstar, revenues grew from \$37 million in 1965 to \$2.3 billion at the end of 1980, the time at which he relinquished his position as Chairman of the Board. In the same period, net income rose from \$4 million or 46 cents per common share to \$154 million and \$4.77.

DIRECTORS

August A. Franck



Charles de Bar

*Charles de Bar
Deputy Chairman of the Board
Genstar Limited

Yves Boël
Managing Director
Sofina, S.A.
(Investment Company)

James W. Burns
President
Power Corporation of Canada
(Investment Management and Transportation Company)

**Frank S. Capon
Consultant

*August A. Franck
Chairman of the Board
Genstar Limited
(Retired as Chairman November 1980)

**John B. Hamilton, Q.C.
Senior Partner
Hamilton, Torrance
(Barristers and Solicitors)

Raymond Lavoie
Honorary President
Crédit Foncier Franco-Canadien
(Financial Institution)
(deceased February 1981)

Walter F. Light
President and
Chief Executive Officer
Northern Telecom Limited
(Telecommunications Equipment Manufacturer)

*Angus A. MacNaughton
Vice Chairman of the Board
and Chief Executive Officer
Genstar Limited

*W. Earle McLaughlin
Corporate Director

James D. Moran
Chairman of the Board
and Chief Executive Officer
The Flintkote Company
(Genstar Subsidiary)

Max Nokin
Honorary Governor
Société Générale de Belgique
(Investment Company)

*Robert G. Rogers
Chairman of the Board
Crown Zellerbach Canada Limited
(Integrated Forest Products)

Saul Simkin
Chairman of the Board
Kins Management Limited
(Consultants)

*Ross J. Turner
President and
Chief Executive Officer
Genstar Limited

William S. Ziegler
President
W.S.Z. Holdings Limited
(Investment Company)

*Member of the Executive Committee
**Member of the Audit Committee

REPORT OF THE DIRECTORS


Angus A. MacNaughton


Ross J. Turner

Genstar's performance in 1980 was most satisfactory considering the weakness and uncertainties encountered in many of its markets. Despite these conditions, new highs were established in revenues, net income, and earnings per share.

Financial Highlights
Net income rose to $153.7 million, compared to S123.6 million in 1979. Income per common share was $4.77, an increase of 13 percent from $4.21 a year ago. Per share amounts were calculated on an average of 28,526,000 shares outstanding in 1980, compared with 27,274,000 in 1979.

Total revenues exceeded $2.3 billion, up from $1.3 billion the prior year. The substantial increase largely reflects consolidation of The Flintkote Company, which became a wholly owned subsidiary in early 1980.

The year was characterized by mixed economic conditions that required reassessment of traditional operating strategies and customer needs. In many markets where problems were encountered, the nature or level of activities was altered to cope with prevailing conditions.

Such adjustments in operations helped mitigate negative economic influences, while strength in selected markets and a lower tax rate contributed to the improvement in earnings.

Significant Events
Having completed the largest acquisition in the company's history, 1980 was devoted to the integration of Flintkote into the Genstar organization. Other important events included:

• additional acquisitions, representing entries into new businesses or markets. In late 1980, Genstar acquired TXL Corporation, which is in the business of arranging lease financing for plants and capital equipment. Another acquisition strengthened the ability of financial services operations to rent electronic test and measurement equipment in Canadian markets. As announced in last year's report, waste disposal and energy/resource recovery activities grew through the purchase in January 1980 of U.S. Rubber Reclaiming Company.

• sale to the Canadian public in February of 3,000,000 convertible preferred shares for $94.5 million, and completion in October of a public offering in the U.S. and Canada of 2,000,000 common shares for $84 million. These issues broadened the equity base and lowered the debt-equity ratio to a level consistent with Genstar's mix of businesses.

• divestitures, including sale of Flintkote cement plants in Kosmosdale, Kentucky, and Glens Falls, New York, for approximately U.S. $54 million. The company also divested Flintkote asphalt emulsion operations in Eastern Canada. All of these facilities were outside the high-growth areas where Genstar concentrates its assets. In addition, unprofitable Flintkote flooring operations were discontinued and, as announced a year ago, the 70-year-old cement plant at Bamberton, British Columbia, was closed when it could no longer be cost-competitive.

• an increase in cash dividends paid on Genstar common stock. Raising the quarterly rate from 40 to 45 cents a share made 1980 the 10th consecutive year that dividends have increased.

Capital Expenditures

Total capital expenditures last year were $172 million, compared to $106 million in 1979. Capital outlays of about $190 million are anticipated in 1981.

Genstar continued to make significant investments in new cement manufacturing capacity, and major additions at Edmonton, Alberta, and Redding, California, are now being phased into operation. More than $240 million has been committed to capital improvements at cement plants in the past four years.

In 1981, the company plans to enlarge grinding and storage facilities at the Edmonton cement plant, to expand limestone deposits, to acquire new construction equipment, and to increase capacities of production facilities for precast concrete, roofing and other building materials. Expenditures will also be made to modernize and enhance productivity of existing plants.

Outlook

Genstar activities are concentrated in Western Canada and the western and southern "Sunbelt" areas of the United States, regions that benefit from a steady influx of new residents and above-average growth. High interest rates continue to make it difficult to finance new homes, however, and housing and building materials markets in many of these areas may not improve until after mid-year. For that reason, mixed results are anticipated in the first half of 1981.

For the year as a whole, the company is well positioned to benefit from any degree of recovery and believes performance will equal or exceed that achieved in 1980. As the turnaround accelerates, the longer-term outlook is excellent.

Board of Directors

In November, August A. Franck announced his retirement as Chairman of the Board of Directors, a position he has held since 1973. His distinguished career with Genstar also includes tenure as its Chief Executive Officer from 1965 to 1976. Mr. Franck was the architect of Genstar growth in the company's most formative years, and his accomplishments during that period are evident in the historical information presented on page 2. The corporation is pleased that he will remain a member of the Board and will continue to provide counsel for many years to come.

The company is also appreciative of contributions made by John D. Milne and Dr. Gordon Marshall, Managing Director and Director of Blue Circle Industries Limited, who became Genstar Directors in 1972 and 1977 respectively. Mr. Milne and Dr. Marshall resigned from the Board in 1980 after Blue Circle divested its holdings of Genstar shares.

Members of the Board of Directors were saddened by the passing on February 22, 1981, of Raymond Lavoie, Honorary President of Crédit Foncier Franco-Canadien. A Director of Genstar since 1974, Mr. Lavoie gave unselfishly of his time and counsel, and he will be sincerely missed.

At the time of Mr. Franck's retirement, the Board announced its intention that Angus A. MacNaughton and Ross J. Turner, Genstar's Chief Executive Officers since 1976, will annually rotate the titles of Chairman and President. Beginning at the shareholders' meeting in May, Mr. MacNaughton will serve initially as Chairman of the Board and Mr. Turner as President and Chairman of the Executive Committee.

Employees

The Board of Directors would like to thank the more than 17,000 Genstar employees who, through their resourcefulness and dedication in difficult times, contributed so successfully to another year of growth.

On behalf of the Board

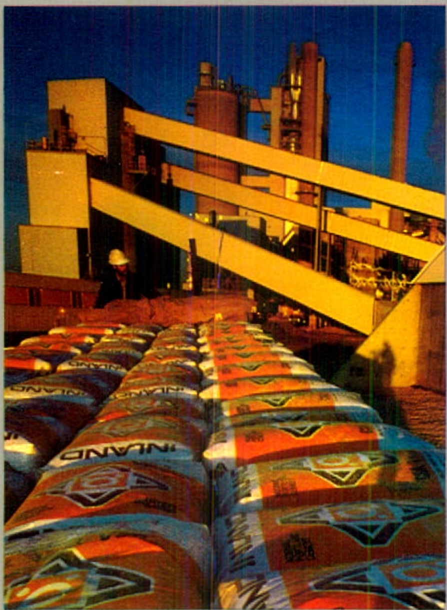
Angus A. MacNaughton

Angus A. MacNaughton
Vice Chairman

Ross J. Turner
President

Montreal, Canada
February 25, 1981

BUILDING MATERIALS



Cement and Lime

	1980	1979
	(millions)	
Revenues	**$360.6**	$182.1
Net Income	**$ 22.5**	$ 13.5

Products
Normal portland cement; oil well, high early-strength, masonry, sulphate-resistant, potash and other specialty cements. High-calcium and dolomitic quicklime and hydrated lime; Type S hydrated lime for soil stabilization; various crushed limestone products.

Genstar is one of the largest manufacturers of cement in Canada and a major supplier in California, Oregon, and Nevada. The company is also a leading manufacturer of lime products in the Western United States. In most cases, raw materials used by these operations are supplied by company-owned quarries and deposits.

Cement Plants

Location:	Annual Capacity:*
British Columbia	1,000,000
Alberta	1,417,500
Saskatchewan	227,500
Manitoba	350,000
California	1,200,000
Maryland**	36,000
Total	4,231,000*

Lime Plants

Location:	Annual Capacity:*
Arizona	640,000
California	124,000
Nevada	311,000
Utah	74,000
Virginia	40,000
Total	1,189,000*

*short tons; **masonry cement only

Concrete, Aggregates and Construction Services

	1980	1979
	(millions)	
Revenues	**$609.3**	$460.2
Net Income	**$ 25.4**	$ 20.1

Products/Services
Classified sand, gravel, standard and lightweight aggregates; crushed stone and gypsum rock; ready-mix concrete; precast and prestressed structural and architectural concrete components; concrete blocks, pipe and railway ties; bituminous concrete/asphalt; calcium carbonate products; home repair products, including dry bagged concrete, mortar and blacktop mixes. Municipal and real estate subdivision servicing (road construction, paving and installation of utilities); heavy construction.

In these businesses, Genstar is most active in the four western provinces of Canada, in Ontario, and in the New England and Mid-Atlantic regions of the U.S. Aggregates and other raw materials are obtained from dozens of Genstar pits and quarries and, along with finished concrete products, are often used in projects undertaken by the company's own construction operations.

Plants	Canada:	U.S.:	Total:
Ready-Mix Concrete	26	17	43
Precast Concrete	8	—	8
Concrete Block	8	1	9
Concrete Pipe	9	—	9
Concrete Rail Ties	1	—	1
Asphalt & Bituminous Concrete	14	8	22
Dry Bagged Mixes	2	7	9
Aggregates*	21	18	39
Calcium Carbonate Products	—	1	1
Total	89	52	141

*includes sand, gravel and crushed stone plants.

Building Supplies

	1980	1979
	(millions)	
Revenues	**$608.4**	$ 39.9
Net Income (Loss)	**$ (3.5)**	$ 7.1

Products/Services
Gypsum wallboard; roofing products (asphalt shingles and rolls, liquid tar-based coatings, felt and paperboard); asphaltic adhesives; recycled rubber for asphalt paving and rubber products; concrete admixtures. Wholesaling and distribution of construction materials to builders (through Flintkote Supply Centers); sanitary landfilling and methane gas recovery.

The corporation is a major manufacturer of gypsum wallboard in Western Canada and ranks among the top producers in the United States. It is one of the largest U.S. manufacturers of asphalt roofing products.

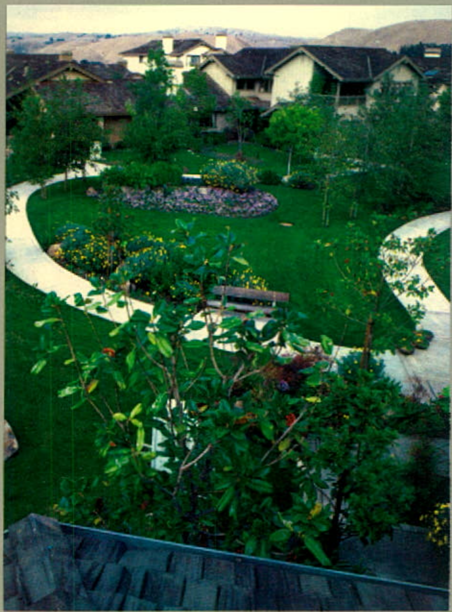
Gypsum Wallboard & Roofing Plants

Location:	Annual Capacity Wallboard:*	Roofing:**
Br. Columbia	147,000	—
Alberta	147,000	—
Saskatchewan	147,000	—
Arkansas	—	120,000
California	200,000	200,000
Colorado	200,000	—
Georgia	310,000	175,000
Illinois	—	330,000
Minnesota	—	102,000
Nevada	315,000	—
New Jersey	270,000	110,000
Oregon	—	100,000
Texas	332,000	200,000
Total	2,068,000*	1,337,000**

*thousands of square feet (for 3-shift, 6 2/3-day-per-week operations); **tons
(Roofing figures do not include production of 74,000 tons of liquid compounds and 180,000 tons of paperboard and felt.)

LAND/REAL ESTATE

FINANCIAL/MARINE SERVICES*



Land/Real Estate Development

	1980	1979
	(millions)	
Revenues	**$589.1**	$461.5
Net Income	**$ 71.6**	$ 47.8

Products/Services

Single-family homes, duplexes and townhouses; condominium conversions; shopping centers; warehouses; preassembled sections and component packages for construction of residential units. Development of residential, commercial and industrial land.

Genstar is one of the largest land and real estate developers in North America, with operations concentrated in regions of above-average growth. Areas of activity include the provinces of British Columbia, Alberta, Manitoba and Ontario in Canada, and the states of Washington, Oregon, California, Texas and Florida in the U.S.

Genstar Unit Sales/Housing*

	1976	1977	1978	1979	1980
Canada	2,446	2,707	2,534	2,199	1,757
U.S.	797	997	945	1,178	954
Total	3,243	3,704	3,479	3,377	2,711

*Figures do not include additional residential units delivered by Genstar Financial Services joint ventures. In 1980, these totaled 1,873.

Genstar Acreage/Land Development**

	Owned	Optioned	Held in Partnership	Total
Canada	15,263	969	11,067	27,299
U.S.	8,165	7,281	592	16,038
Total	23,428	8,250	11,659	43,337

**at December 31, 1980; figures exclude holdings of Genstar Financial Services joint ventures

Financial Services

	1980	1979
	(millions)	
Revenues	**$ 76.3**	$ 30.3
Net Income	**$ 25.1**	$ 16.0

Services

Mortgage banking; real estate joint venture financing; title insurance and escrow services; capital equipment leveraged-lease brokerage; marine financing; rental of electronic test and measurement equipment; venture capital investment; property-casualty insurance; thrift and loan operations.

The company's mortgage banking operations in the United States service a portfolio of loans for investors in excess of U.S. $3 billion. Genstar finances real estate joint ventures in the Western and Southwestern U.S. Title insurance and escrow services are centered in Northern California. Leveraged-lease brokerage activities and electronic equipment rentals are conducted throughout the U.S. and Canada. Venture capital activities include equity investments in emerging high-technology companies in the U.S. Thrift and loan operations are concentrated in California and Nevada. Property and casualty insurance and marine financing are conducted on an international scale.

Marine Services

	1980	1979
	(millions)	
Revenues	**$122.7**	$113.6
Net Income	**$ 10.8**	$ 10.7

Services

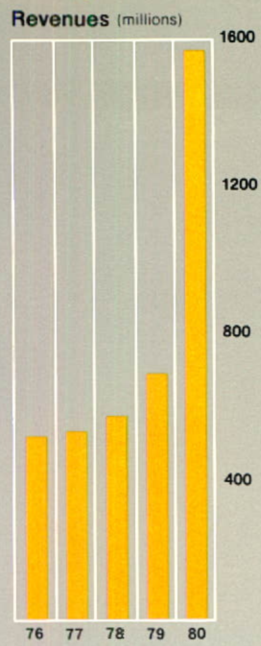
Tug and barge transportation (of logs, wood chips, pulp and paper, lumber, limerock, aggregates, petroleum products, chemicals, trucks, containers, railway cars, and large heavy-lift modular cargo); shipbuilding; ship repairs; salvage; ferrying; berthing; lighterage; pollution control.

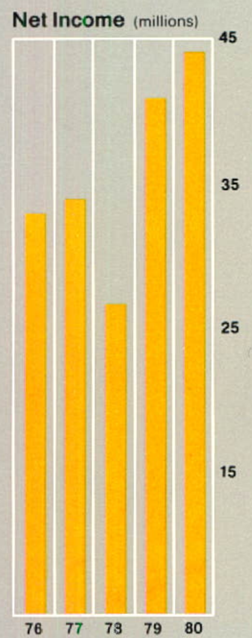
Genstar operates a large fleet of tugs and barges along the Pacific Coast of North America. Marine transport and supply services are provided for offshore oil producing activities in the Western Hemisphere. Shipdocking and salvage operations are based in Montreal. The company's shipyard in Vancouver, British Columbia, is equipped with ship repair facilities and is capable of constructing vessels up to 600 feet in length and 150 feet in beam.

Equipment

58 tugs (from 335 to 7,040 brake horsepower)
268 barges (including 7 submersible barges measuring 400 x 100 feet, and 3 self-loading, self-dumping log barges ranging from 12,500 to 20,000 tons)

**Investments*, a third component of Financial/Marine Services that is not pictured, consists of nitrogen-based chemical processing operations and a joint venture that manufactures mixed fertilizers. In 1980, revenues were $46.1 million and net income totaled $1.8 million.





Cement and Lime

Revenues from cement and lime doubled in 1980 following acquisition of Flintkote operations in the United States. Net income was also significantly higher, primarily because of a lower corporate tax rate and investment tax credits associated with major capital expenditures.

In Western Canada, demand for cement remained strong, with consumption in British Columbia and Alberta exceeding 1979 levels. Requirements softened in Manitoba and Saskatchewan, however, and Canadian exports to the Northwestern United States were substantially lower because of depressed construction markets. A $144-million expansion of manufacturing, storage and grinding capacity at the Edmonton cement plant progressed well. The new kiln began operating in mid-November, and plant output will gradually increase from less than 600,000 tons to over 1,400,000 tons annually. At the new 1,000,000-ton Vancouver plant, operational difficulties have been solved and production levels were satisfactory during 1980. The plant was closed by a strike in early November, however, and labor negotiations continued into 1981 to resolve that dispute. New contracts were signed in 1980 with union members at the Edmonton, Regina and Winnipeg plants.

In the United States, cement and lime operations were both negatively affected by lower levels of construction activity. A decline in steel production and work stoppages in the copper industry further reduced consumption of lime. The $60-million enlargement of Flintkote cement capacity at Redding, California, is now complete. Start-up began in January 1981 and, when fully operational, capacity at that site will have doubled to 600,000 tons per year.

As announced in last year's annual report, Genstar closed its 70-year-old Bamberton, British Columbia, cement plant in December. The decline in export sales to the U.S. in 1980, along with higher fuel costs at the oil-fired plant, made it difficult for the facility to remain competitive. The company also sold the Flintkote cement plants at Kosmosdale, Kentucky, in December and at Glens Falls, New York, in early 1981. Both plants were outside the high-growth regions in which Genstar is most active.

Capital expenditures in 1980 totaled $90.2 million. They are projected to be $55 million in 1981, including $27 million for Edmonton grinding and storage facilities and $6 million to begin expansion of the limestone quarry that supplies raw materials for that plant.

The outlook in 1981 is for continued growth, with energy-efficient technology at Edmonton and Redding contributing to the profitability of cement operations. Lime sales should benefit from improved conditions in the steel industry, an end to labor unrest in the copper industry, and greater penetration of air pollution control, sewage treatment, and soil stabilization markets.

Major expansions of manufacturing capacity have been completed at Genstar cement plants in Edmonton, Alberta (photo at right), and Redding, California (top left and center). Lime products are used in an increasing number of applications, including soil stabilization prior to construction (top right).

BUILDING MATERIALS



Concrete, Aggregates and Construction Services

Revenues and earnings rose substantially as Flintkote stone products and construction services were merged into this line of business.

Operations were affected in varying degrees by economic conditions and cutbacks in construction. In Western Canada, Genstar concrete and aggregate subsidiaries performed well, as did municipal construction and subdivision servicing units. Canadian heavy construction joint ventures, however, experienced a net loss. Returns from Flintkote activities in the Eastern U.S. fell below levels achieved in 1979, prior to acquisition by Genstar.

In Western Canada, concrete products and aggregates were produced in near-record volumes as a result of substantial gains in British Columbia. Markets in Alberta remained strong, while those in Saskatchewan and Manitoba softened somewhat. To keep pace with demand, construction proceeded on a precast/prestressed concrete plant in Calgary, Alberta, that will double present capacity. Work also began in Calgary on a new packaged dry-mix concrete plant. Modernization programs, including the installation of high-speed equipment, are under way at concrete block and pipe factories, and a new gravel plant replaced two older facilities in Winnipeg. Construction of a concrete rail tie plant in the United States was postponed, but capacity will be expanded in Canada where extension of a contract with a Canadian railroad requires a 25 percent increase in production through 1985.

Returns were mixed from Genstar construction operations. Municipal construction and subdivision servicing units in Western Canada reported higher earnings in spite of poor economic conditions in Manitoba. Activity in Alberta was bolstered by a $10.5-million contract to extend a major Calgary freeway.

Results from Canadian heavy construction operations were disappointing, however, as the joint venture in which Genstar has a 35 percent interest incurred a loss on the building of earth dams for the James Bay hydroelectric project. The managing partner in that venture has submitted claims to the utility. Progress was generally satisfactory on other heavy construction projects.

In the Western United States, earthmoving and subdivision servicing by Genstar construction crews is proceeding at the company's large San Diego landholdings. That U.S. construction unit also received a $25-million contract to expand the San Diego Water Authority's aqueduct system.

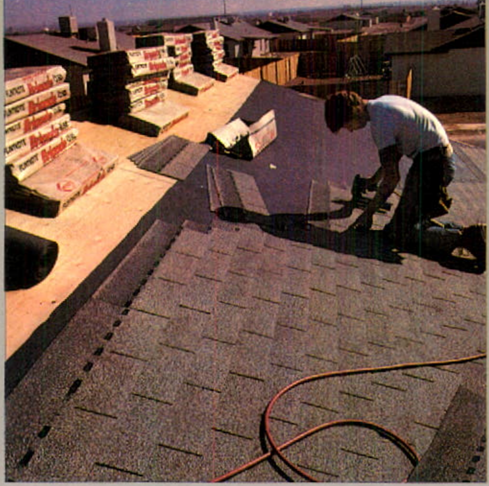
Flintkote concrete, aggregate, and construction operations in the Eastern United States were adversely affected by soft construction markets, and lower volumes in most product lines reduced profitability. Flintkote performance in Eastern Canada was satisfactory, however, despite a 12-week strike by quarry workers.

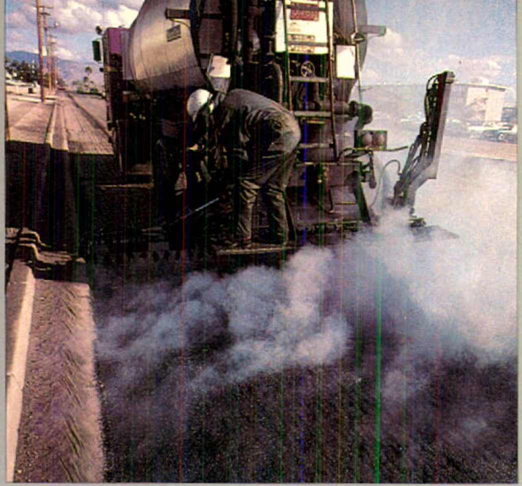
Capital expenditures in 1980 amounted to $32 million, and outlays of $56 million are anticipated in 1981. Approximately $35 million will be invested in new capacity and replacement equipment at concrete and aggregate plants, and $17 million will be spent for mobile equipment.

The outlook for 1981 is for improved performance by all sectors, with the largest gains occurring in Western Canadian and Eastern U.S. concrete and aggregate operations.

Genstar manufactures a variety of concrete products, including pipe (photo at right), precast structural components (top left), and ready-mix (top right); the company also performs associated installation, erection and other construction services. Raw materials for these products, as well as several types of aggregates (top center), are supplied by Genstar pits and quarries.

BUILDING MATERIALS





Building Supplies

Revenues from building supplies increased substantially in 1980, as over 90 percent of this category now consists of Flintkote wallboard and roofing operations and wholesale supply centers acquired early in the year.

Earnings, however, were severely affected by reduced levels of residential construction in the United States. Declining volumes created competitive pressures that prevented recovery of increased manufacturing and raw materials costs, resulting in a loss for the year.

Flintkote flooring operations in the U.S. and Canada were discontinued or sold during 1980, and asphalt emulsion plants in Eastern Canada were also divested.

In Western Canada, Genstar's gypsum wallboard operations fared reasonably well. Revenues rose slightly, as increased demand in British Columbia and Alberta offset some softness in Saskatchewan and Manitoba markets. Earnings were marginally lower.

Capital expenditures in 1980 totaled $34.5 million. Completed in April was an 80 percent expansion of the Saskatoon, Saskatchewan, gypsum wallboard plant to serve the Southern Alberta market. Construction was also completed at the Florence, Colorado, gypsum plant, increasing capacity by more than 50 percent. In Little Rock, Arkansas, a roofing plant was acquired that will enable Genstar to compete more effectively in neighboring areas of the South and Midwest. Four new Flintkote Supply Centers, in California, Texas, Arkansas, and Mississippi, were also opened in 1980. In addition to its own products, Genstar sells a variety of non-proprietary building supplies through more than 50 of these outlets.

Expenditures for similar purposes in 1981 are expected to total $44 million.

Of that, $5 million has been allocated to Genstar Conservation Systems. In 1980, that unit acquired one rubber recycling company and built a second plant to produce ground-rubber additives that improve traction characteristics and durability of asphalt paving. Reprocessed rubber is also sold to manufacturers of new automobile tires and rubber products. In addition, a partnership was formed to market fly ash from coal-burning power plants as an additive for concrete and oil well cementing. The company was also awarded a five-year contract to operate a large, regional sanitary landfill site in the U.S., and Genstar completed its first plant to extract methane gas from landfills to sell as fuel. Good growth is forecast as these enterprises begin their first full year of operation.

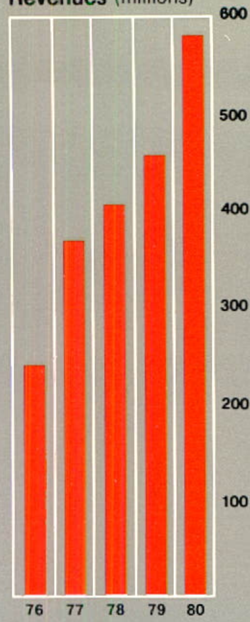
Improvement is also anticipated for wallboard, roofing and wholesale supply outlets, as most of these operations are in areas that should be among the first to benefit from economic recovery. Although unpredictable interest rates and other variables make forecasting difficult, moderate improvement in new residential construction is expected during 1981. Growth in remodeling and renovation markets should also help return volumes to 1979 levels. Prices, in turn, should rise sufficiently to cover increased costs, while more modern plants and better utilization of capacity will benefit margins.

Flintkote Supply Centers (photo at right) sell and distribute the company's gypsum wallboard (top left) and asphalt roofing (top center), as well as a wide range of non-proprietary products. Genstar's granulated rubber additives substantially improve durability and traction characteristics of asphalt paving (top right).

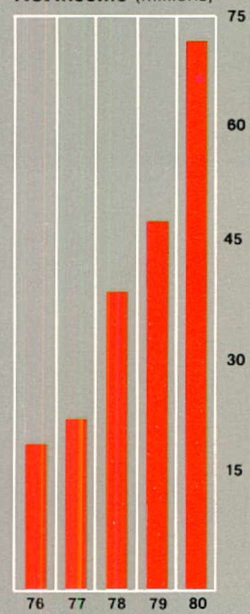
BUILDING MATERIALS

Land/Real Estate Development

Revenues (millions)



Net Income (millions)



Housing

Despite soft markets for residential construction in both the U.S. and Canada, Genstar housing, land, and commercial development activities as a whole generated record sales and profits in 1980.

Homebuilding operations faced a severe challenge, however, as inflated interest rates and high sales prices continued to make it difficult for homebuyers to afford and qualify for mortgage financing. A drop in interest rates briefly increased activity in the third quarter, but rates were excessively high again by year-end. In 1980, the company's housing subsidiaries sold a total of 2,711 residential units, compared with 3,377 in 1979. (Through its Financial Services operations, Genstar joint ventures sold an additional 1,873 housing units during 1980.)

The company fared relatively well because its housing operations are located in areas of above-average growth. Also, Genstar was quick to modify the mix and design of units, which helped alleviate some of the problems associated with high buyer costs. In addition to its single-family detached homes, the company now produces larger numbers of townhouses, multi-family dwellings, and smaller zero-lot-line units. Genstar also kept inventories at reduced levels and, in areas where demand was low, built homes only against buyer commitments.

Such adjustments, by both U.S. and Canadian housing subsidiaries, resulted in better performance than might have been anticipated under the difficult circumstances.

In Canada, the British Columbia housing market was actually much improved, while markets in Alberta remained relatively strong. Homebuilding activities have been deferred in Manitoba, however, until the economy recovers. Also, with the exception of sales of pre-assembled structural components and cabinetry, operations in Saskatchewan were terminated in the fourth quarter because of poor market conditions.

In the United States, returns from homebuilding in Southern California far exceeded last year's levels, largely because of enthusiastic buyer response to smaller, more affordable units in the Orange County and San Diego markets. Housing activity in Houston, Texas, remains slow, however, and Northern California sales were limited to just one development for most of the year because of delays in obtaining local approvals. Permits have now been secured, and five subdivisions will contribute to improved performance in 1981.

Uncertainties in mortgage markets continue to cloud the outlook for homebuilding activities as a whole. Interest rates must decline before there is significant recovery in residential construction, and that probably will not occur until the second half of 1981.

In the meantime, the public's need for affordable homes continues to mount, while tight inventory controls by builders in the U.S. and Canada have severely depleted available housing stocks. These factors in combination should contribute to strong growth once recovery begins.

In addition to single-family, luxury homes (photo at right), Genstar now offers a broader selection of affordable zero-lot-line units (top left), condominiums (top center), and townhouses (top right).

LAND/REAL ESTATE

Land Development

Genstar land development operations showed exceptional strength in 1980, despite current conditions in the housing industry. Builders frequently acquire developed land well in advance of construction, and sales last year reflected their expectations of future growth as well as a reluctance to pass up prime Genstar acreage.

Earnings from U.S. landholdings increased substantially, while Canadian operations maintained the same high level of profitability as in recent years.

In Canada, there was marked improvement in returns from established projects in British Columbia, and good results continued to be reported in Alberta. In addition, major new developments in both these provinces, plus a large one in Oakville, Ontario, were well advanced at year-end and will begin making sizable contributions to earnings in 1981. Genstar also obtained many of the approvals required to develop its Country Hills landholdings in North Calgary, where 1,750 acres will be transformed into a community of 65,000 people over the next 10 to 15 years.

A weak market has reduced levels of activity in Manitoba, however, and Genstar is liquidating landholdings in Saskatchewan where new legislation restricts corporate participation in large-scale developments.

In the United States, activity continues to exceed expectations in San Diego, California, and larger amounts of land are being brought to market earlier than had been anticipated. Approximately 5,500 acres still remain in inventory. Activity also increased at Vancouver, Washington, where a large parcel was sold in December for development as a retirement community. Future growth at that site will be enhanced by two industrial plants now under construction and by completion in 1982 of an interstate highway access route.

Landholdings in Houston, Texas, produced only modest returns last year, although sales commenced in the fourth quarter at two subdivisions which should generate earnings in 1981. The Miami, Florida, development gained momentum following completion of arterial roads and bridges over five man-made lakes on the property, and the first homes were occupied near year-end.

The project in Miami is typical of Genstar developments in both the U.S. and Canada, where the company builds lakes, parks, golf courses and other amenities at the center of a subdivision to increase land values and ensure positive buyer response.

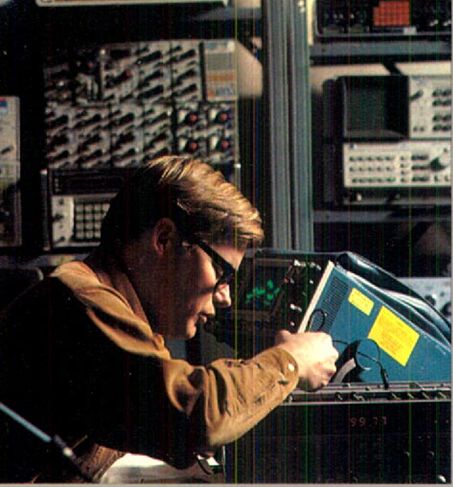
In addition to developing land for sale to builders, Genstar also engages in commercial and industrial development, specifically the construction and sale of shopping centers and warehouses. The largest current undertaking is Limeridge Mall, a million-square-foot enclosed shopping center in Hamilton, Ontario. Construction has progressed smoothly, lease commitments have been received for most of the space, and completion is projected for late summer.

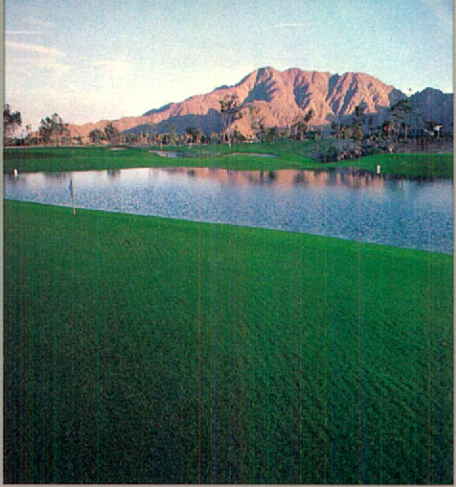
In 1981, both land and commercial development activities should continue to produce solid earnings.

Throughout North America, Genstar owns, options, or holds in partnership more than 43,000 acres of land, plus several thousand quality lots. During 1981, the company will continue to invest in new properties for future development, primarily to replenish or expand inventories in areas where the greatest growth is anticipated.

Development of the company's remaining 5,500 acres in San Diego (photo at right) is ahead of schedule and producing excellent returns. Activity increased in Miami (top left), where Genstar created five lakes to enhance property values. The company's million-square-foot Limeridge Shopping Mall (top center) is nearing completion. Genstar will transform these open fields in Calgary (top right) into a planned community of 65,000 people.

LAND/REAL ESTATE





Financial Services

In a year of rapid growth, revenues from financial services more than doubled and earnings were significantly higher. Excellent returns from venture capital, mortgage banking, and electronic equipment rentals compensated for softness in some real estate related businesses.

Gains were exceptionally high from the sale of several venture capital investments, including nearly a million shares of International Telephone and Telegraph Company which were acquired in 1978 in exchange for another investment. At year-end, Genstar held equity positions in 50 firms, most of them high-technology companies in early stages of development.

Earnings of Genstar's mortgage banking subsidiary rose substantially in 1980, as the loan portfolio it services for investors grew from U.S. $2.4 to U.S. $3.0 billion. The company generally purchases loans originated by other lenders for that portfolio, although Genstar does originate commercial-income loans itself. Through an investment last year in American Funding Ltd., it also originates and sells second mortgages to banks and other financial institutions.

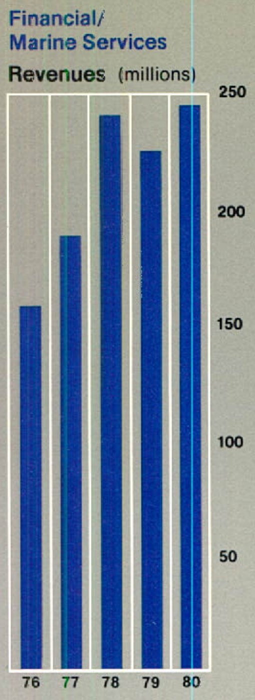
Rentals of electronic test and measurement equipment were again at record levels. With the acquisition last year of a small rental company in Western Canada, Genstar now serves U.S. and Canadian customers through 29 sales offices and inventory centers. In 1980, more than U.S. $16 million was invested in new rental equipment and, to keep pace with demand, approximately U.S. $22 million will be spent in 1981.

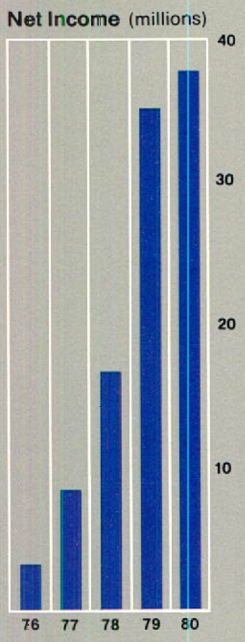
It was not a good year for all operations, however. The thrift and loan subsidiary experienced a small loss, and high long-term interest rates and soft housing markets reduced returns from title insurance and escrow services and from real estate joint ventures.

The latter is a business in which Genstar provides equity financing in return for partnership interests in real estate projects. In 1980, active development began on three very large joint ventures that will produce profits over a period of years. Alameda Marina Village, near San Francisco, will be a 180-acre community consisting of a large marina, 1,000 residential units, and 500,000 square feet of commercial and office space. CentrePort, in Texas, is a 1,100-acre business/industrial park adjacent to Dallas-Fort Worth Regional Airport. The Vintage Club, near Palm Springs, California, will be a deluxe 750-acre residential development built around a country club and two championship golf courses.

Genstar entered the leveraged-lease brokerage business by acquiring TXL Corporation in December. In 1980, TXL was selected to arrange lease financing for more than U.S. $290 million in plants and capital equipment. From five offices in the U.S., the company also manages equipment for lessors and markets a lease analysis program to financial institutions and corporate investors.

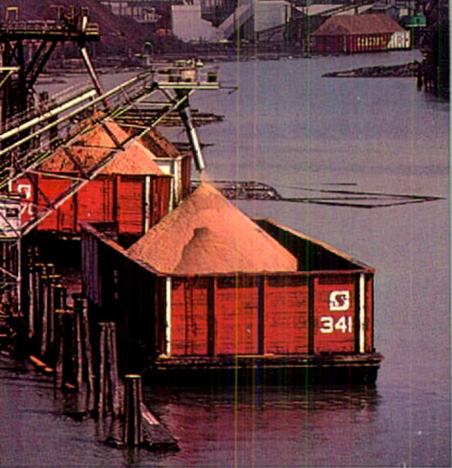
In 1981, income from financial services should approach 1980's record results, even though venture capital earnings will decline to more normal levels. Continuing growth is expected in mortgage banking and electronic equipment rentals, and Genstar will benefit from the addition of TXL. Marked improvement is not yet anticipated in title insurance and escrow services or in real estate joint ventures, although thrift and loan operations may benefit as branch offices become better established. The longer-term outlook for specialized financial services is particularly promising, and the company expects to expand its activities in this field.





Items in photo at right represent the diversity of Genstar financial services. Results from electronic equipment rentals (top left) and venture capital investments in high-technology companies (top center) were particularly good in 1980. In a joint venture near Palm Springs, Genstar is financing conversion of desert acreage into a lush residential development (top right).

FINANCIAL/MARINE SERVICES




Marine Services

Marine operations performed well in 1980. Revenues rose moderately, and earnings matched the record set in 1979 when Genstar received an unusually large salvage award.

West Coast tug and barge operations continued to register good gains, as growth in the pulp and paper industry more than offset a reduction in lumber shipments to soft U.S. markets.

Major investments were made in 1980 to expand log barge capacity. A self-loading/self-dumping barge, built at the company's Vancouver shipyard, was launched during the year and put into service in early 1981. The new barge can handle logs in bundles weighing up to 50 tons each. Modifications are also in progress on an existing barge that will increase log-lifting capacity to 50 tons by mid-year.

Capital costs of these and other projects totaled $10.7 million last year. Expenditures are projected at $13 million in 1981, including the addition of two tugs and two chip barges to the fleet.

Increased repair activity at the Vancouver shipyard offset a decline in new construction, and overall workload was essentially unchanged from 1979. Deep-sea vessels and oil drilling rigs were the biggest contributors to repair volume. Work included the complete overhaul and refitting of one of the world's largest offshore drilling rigs, the Ocean Bounty. Most of the retrofit was accomplished during just 22 days in harbor, with additional repairs made by a 26-man Genstar crew that accompanied the self-propelled, semi-submersible rig on part of its voyage to the North Sea.

Eastern Canadian marine operations, which received a high proportion of fees from salvage work in 1979, returned to more normal levels of activity. Ship-docking at the Port of Montreal, however, was at the highest level since 1972.

Utilization of marine equipment in international markets was considerably better than last year. A contract was received to supply fresh water to oil rigs operating in the Gulf of Campeche, Mexico, and international charter rates improved.

During the year, a new office was established at St. John's, Newfoundland, to be closer to marine activities associated with oil exploration and production off the eastern coast of Canada.

The outlook is for modest growth in both domestic and offshore operations during 1981. Most markets for British Columbia forest products should remain strong. Good gains are expected in ship-docking activity as exports of coal and minerals increase and port facilities for bulk-handling these commodities expand at Vancouver and Prince Rupert, British Columbia. The large number of offshore oil rigs now under construction would also indicate a rising demand for offshore marine services when drilling accelerates in Arctic and Eastern Canadian coastal waters.

Two long-term *investments,* because of their size, are treated for financial reporting purposes as a third subcategory of Financial/Marine Services. Included are Genstar chemical processing operations and a fertilizer manufacturing joint venture.

Genstar's West Coast tug and barge operations (photos at right and top left) benefited last year from strength in the pulp and paper industry. Ship repair activities included a major overhaul of one of the world's largest self-propelled offshore oil rigs (top center). The company's shipyard in Vancouver completed construction of a new self-loading/self-dumping log barge (top right), a major addition to the Genstar fleet.

FINANCIAL/MARINE SERVICES

GENSTAR

FINANCIAL REVIEW

Financial Summary For the five years ended December 31, 1980 (millions of Canadian dollars)	1980	1979	1978	1977	1976	Five Year Compound Growth Rates	Ten Year Compound Growth Rates
Revenues	**$2,310.4**	$1,264.6	$1,143.0	$ 981.1	$ 821.5	28%	30%
Operating income	**331.3**	252.4	198.5	170.4	143.0	25%	33%
Income before income taxes	**193.0**	187.2	148.6	121.0	102.8	18%	33%
Net income	**153.7**	123.6	81.6	64.4	55.7	27%	39%
Per common share							
Net income							
Canadian method							
Basic	**$4.77**	$4.21	$3.02	$2.53	$2.32	19%	30%
Fully diluted	**4.35**	3.96	2.87	2.33	2.09	19%	29%
United States method							
Primary	**4.41**	4.16	3.00	2.51	2.29	17%	29%
Fully diluted	**4.35**	3.98	2.90	2.36	2.12	19%	29%
Dividends	**1.65**	1.25	0.81	0.71	0.63	22%	23%
Performance measurement							
Return on net assets	**13.1%**	12.2%*	9.0%	8.5%	7.5%		
Return on common equity	**19.6%**	22.4%	19.2%	18.1%	18.9%		
Capitalization ratios							
Total debt to equity	**49:51**	63:37	49:51	62:38	67:33		
Long-term debt to equity	**41:59**	53:47	32:68	50:50	52:48		
Capitalization							
Total assets	**$2,434.5**	$2,401.4	$1,492.7	$1,249.2	$1,205.2		
Deferred income taxes	**178.7**	183.9	115.3	88.6	77.1		
Long-term debt	**639.6**	729.4	262.5	363.1	339.6		
Redeemable preferred shares	**120.0**	120.0	120.0	—	—		
Convertible redeemable preferred shares	**113.5**	8.6	10.3	13.1	26.8		
Common shares and contributed surplus	**285.1**	186.1	180.2	169.2	148.5		
Retained earnings	**410.7**	326.9	245.6	186.0	140.3		
Other statistics (millions except employees)							
Working capital	**$395.5**	$299.3	$268.6	$108.5	$114.7		
Funds from operations	**215.4**	156.6	141.0	108.6	93.8		
Capital expenditures	**172.2**	106.1	52.8	107.1	89.7		
Common shares outstanding							
Actual	**30.2**	27.4	26.8	25.8	23.8		
Average	**28.5**	27.3	26.4	25.1	23.5		
Number of employees	**17,525**	19,850	10,428	11,007	10,695		

*Excluding the net assets and operations of The Flintkote Company which were acquired effective December 31, 1979.

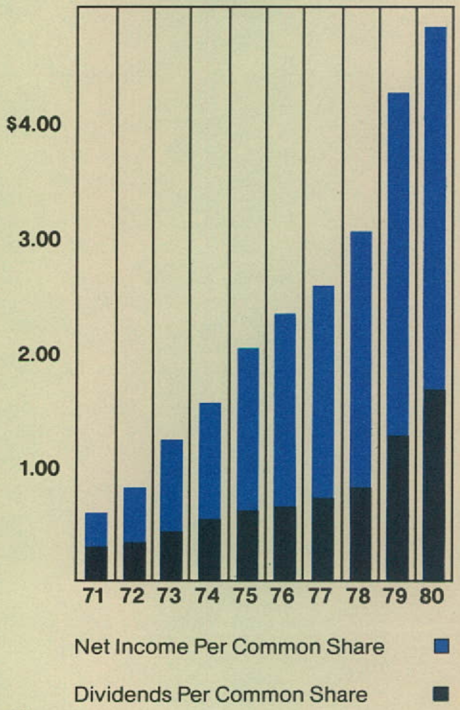
Consolidated Highlights

Net income in 1980 increased to $153.7 million from $123.6 million in 1979. Net income per common share increased 13 percent to $4.77 compared to $4.21 in 1979. Revenues increased to $2.3 billion from $1.3 billion in 1979 in the most part reflecting the consolidation of the accounts of The Flintkote Company from January 1, 1980. In 1978, net income was $81.6 million, or $3.02 per common share on revenues of $1.1 billion. Per share amounts are based on an average of 28.5 million common shares outstanding in 1980, 27.3 million in 1979 and 26.4 million in 1978.

The company raised $199 million of new equity capital in 1980 primarily through two public offerings, the first public cash equity issues since 1968. The proceeds were used to reduce debt and resulted in a total debt to equity ratio to 49:51 at the end of the year.

Funds generated from operations increased to a new high of $215 million in 1980 from $157 million in 1979 and $141 million in 1978 and, combined with the new equity, resulted in working capital at the end of the year of $396 million, also a record for the company. Cash dividends, including $17.7 million of preferred share dividends in 1980, have tripled to $64.8 million in the 1978-80 period.

Net Income and Dividends Per Common Share



Operations

The prevailing economic conditions in North America adversely affected operations in 1980, particularly in construction related businesses. High interest rates, double digit inflation and inconsistent government monetary policy caused a small decline in real GNP in both Canada and the United States. The concentration of Genstar's operations in the higher growth geographic regions of Western Canada and the South and West of the United States was an important favorable factor in the company's overall performance. Operating income increased to $331 million in 1980 compared to $252 million and $199 million in the previous two years. The land and real estate development category accounted for almost $60 million of the increase in 1980 and the consolidation of Flintkote accounted for $37 million of the increase. Reduced operating income was recorded by the investments category and construction operations in 1980. Following is a discussion of the factors affecting operating income in the period 1978-80 to be read in conjunction with the results by industrial category included on pages 32 and 33.

Cement and Lime

Genstar sold 4.0 million tons of cement in 1980 compared to 2.6 million tons in 1979 and 2.5 million tons in 1978. Cement operations in Eastern Canada which were sold in the first quarter of 1979, contributed 25,000 tons of volume in 1979 and 480,000 tons in 1978. Markets served include the four Western Canadian provinces and the U.S. Northwest. In 1980, with the acquisition of Flintkote, California and to a lesser extent the Northeast and Central United States markets were added. The cement plants in the latter two market areas were recently sold and represented approximately 20% of 1980 tonnage. Lime volume in 1980 was approximately 600,000 tons. Lime is sold in the Western United States and is one of several new products added by the acquisition of Flintkote.

The increase in cement volume in 1980 was the direct result of the addition of markets in the United States. Western Canadian cement volume in 1980 was 12 percent lower than the previous year after a 30 percent increase in 1979. The economic slowdown in 1980 adversely affected volume in Manitoba and Saskatchewan and export volume to the Northwest United States. The increase in 1979 resulted from additional capacity provided by the new Vancouver cement plant to export markets and from strong demand in Alberta.

Gross profit percentage has remained constant in the period 1978-80, the increased margin generated by the efficient Vancouver cement plant and price increases in 1980 being offset by lower margins in the acquired Flintkote cement and lime operations.

Operating income has increased in dollar terms in the 1978-80 period but declined as a percentage of revenues in 1980. Additional selling, general and administrative expenses and depreciation resulting from the acquisition of Flintkote as well as higher depreciation associated with the Vancouver cement plant caused the decline.

Concrete, Aggregates and Construction

Following is a table showing the volume of major products sold during the past three years which are indicative of revenue increases for this category as a whole.

	1980	1979	1978
		(millions)	
Concrete	**2.8 cu. yds.**	2.0 cu. yds.	1.8 cu. yds.
Aggregates	**25.2 tons**	9.1 tons	9.1 tons
Concrete block	**23.8 standard units**	26.1 standard units	23.3 standard units

Volumes have increased in the period reflecting strong market demand in Western Canada, particularly Alberta and British Columbia, and in 1980, the acquisition of

Flintkote with significant operations in the aggregates and concrete businesses in the Eastern United States. Operating margins have increased over the period reflecting improved profitability in all operations except heavy construction. In 1978 and 1980, the heavy construction operations incurred operating losses which depressed margins in those years. In 1978, several construction projects in the Montreal region resulted in losses and these operations have been discontinued. In 1980, the division incurred losses in a major joint venture in which it has a 35 percent interest. Claims for cost overruns caused by conditions not anticipated on this job have been submitted but settlement is not expected in the near future.

The operations of Flintkote in this category generally registered the same operating margins in percentage terms as other similar businesses in this category.

Construction operations involved in providing municipal services such as roads, sidewalks and sewers in Western Canada have been profitable during the period 1978-80 with operating income growth each year in excess of the rate of inflation. Precast concrete manufacturing operations, located in Western Canada, have also reflected steady operating income growth in the period.

Building Supplies

Genstar manufactured and sold 1.7 billion square feet of gypsum wallboard and 836,000 tons of roofing materials in 1980. In the United States Genstar sells approximately one-half of its wallboard and roofing production through 50 company-owned wholesale distribution centers located throughout the southern and western states. These U.S. operations were part of The Flintkote Company, acquired in 1980. The distribution centers provide a full range of materials to the construction industry in addition to wallboard and roofing, including lumber, insulation and building hardware. The balance of wallboard and roofing is marketed directly to large and small customers throughout the United States and Western Canada.

The large 1980 increase in revenues is directly attributable to the acquisition of Flintkote whereas revenues and operating income in 1979 and 1978 represent the Canadian wallboard operations and the equity income of Genstar's 20% ownership of Flintkote in those years.

Roofing and gypsum operations in the United States were severely affected by the downturn in construction activity in 1980. Volume was lower than anticipated based on Flintkote performance prior to Genstar's ownership. Cost increases, particularly petroleum products used in the manufacture of roofing, could not be recovered in selling prices due to oversupply in the marketplace.

The distribution centers also suffered from low volume and price competition. These operations are particularly sensitive to sales volume and the reduced economic activity in 1980 caused a loss in this division.

The Canadian gypsum wallboard division recorded increased operating income in dollar terms in 1980 and 1979 but in percentage terms margins have decreased over the period 1978-80. Reductions in residential construction and increases in freight and raw material costs were negative factors during the three years.

The company's conservation systems group which operates in Western Canada and the United States is a growing business with several new facilities nearing completion. A small loss was recorded by this group in 1980.

Land and Real Estate Development

The following table reflects the volume of principal products sold by this category in the 1978-80 period.

	1980	1979	1978
Single-family, duplex and townhouse units	**2,711**	3,377	3,479
Residential building lots	**3,036**	2,962	3,675
Land (acres)	**2,142**	1,559	1,297

This industrial category recorded significant gains in revenues and operating income in 1980 after a year of moderate growth in 1979. Operating income as a percentage of revenues improved to greater than 30 percent in 1980 following a slight decline in 1979.

The company's strategically located land holdings in Western Canada and the United States resulted in strong demand for Genstar's land development operations in spite of a significant reduction in North American housing starts in the 1978-80 period. Margins have been maintained or increased in this period.

High interest rates and escalating house prices caused difficulty in qualifying potential home buyers for mortgage financing and therefore, adversely affected housing operations in 1980. The need to offer mortgage buy-downs as incentives caused some erosion in margins during 1980 and 1979 but tight inventory control limited carrying cost growth in the same period. The company also changed its marketing strategy to build smaller single-family homes and more townhouse and duplex units to meet underlying demand for housing in the high growth regions in which it operates.

Financial Services

Revenues have fluctuated significantly in the period 1978-80 as a direct consequence of the level of activity in the venture capital division. In both 1978 and in 1980 the exchange of the shares of Qume Corporation for those of ITT Corporation and the sale of these ITT shares increased revenues. The balance of revenues, representing pre-tax income of joint ventures and net income of non-consolidated subsidiaries, has grown three-fold during the period primarily through acquisitions and the increased number of real estate joint

Summary of Operations	**1980**	1979	1978
	(millions of dollars)		
Revenues	**202.3**	180.7	108.4
Expenses	**179.6**	147.9	86.0
Income before income taxes	**$ 22.7**	$ 32.8	$ 22.4
Allocated to:			
Other partners	**12.2**	16.0	11.7
Company	**10.5**	16.8	10.7
	$ 22.7	$ 32.8	$ 22.4

ventures in which the company is a partner. The table above reflects operating results of the real estate joint ventures included in Note 3 to the financial statements. Note 5 provides the same information for the non-consolidated financial services subsidiaries.

Operating income has fluctuated in the same manner as revenues in the 1978-80 period with venture capital operations generating significant operating income in 1978 and 1980 while operating income from other operations doubled in the period. Real estate joint venture financing operations were adversely affected in 1980 by the general economic conditions in the construction industry. A one-third reduction in operating income in this division was offset by increases in mortgage banking, insurance and electronic test equipment rental operations.

Marine Services

Revenues from the Canadian operations of this category have increased at approximately the rate of inflation in the 1978-80 period. Operating income in Canada did not increase in 1980 after a one-third increase in 1979 when several salvage jobs contributed to income. A large portion of the company's marine business is carried out under medium-term contracts with forest products customers which include escalator clauses for variable expenses. Unusually large year-to-year increases in operating income are not anticipated in view of the high fleet utilization rates experienced in the past several years.

International marine operations, however, have fluctuated in the 1978-80 period. In 1978, significant losses were recorded when Genstar withdrew from several unprofitable marine joint ventures centered in the Middle East. The equipment which was committed to these ventures has since been redeployed to other areas of the world at improved charter rates and greater utilization resulting in profitable operations in 1980.

Investments

In 1980, these operations include only the nitrogen-based chemical operations of Genstar and a 50 percent interest in a fertilizer joint venture which was wholly-owned by the company prior to the third quarter of 1979. Revenues from these operations increased at the inflation rate in the period 1978-80. Operating income, which was substantially lower in 1978 due to a $9 million additional depreciation charge reflecting the reduced utility of the chemical facilities, increased by $11 million in 1979 and marginally in 1980.

In 1978 and 1979 this category included the operations and gains on sale of several commercial revenue properties which formed part of the activities of a subsidiary acquired in 1976. The sale of these assets was completed in 1979.

Interest Expense

Total interest expense increased from $50 million in 1978 to $138 million in 1980. Both higher rates and higher borrowings contributed to this increase.

Using 1978 as the base, interest expense increased $10 million in 1979 and $14 million in 1980 due to prime rate increases and the balance resulted from increased borrowings incurred with the Flintkote acquisition.

Income Taxes

The effective income tax rate has been reduced from 45 percent in 1978 to 20 percent in 1980. The reduction is primarily the result of a low tax rate on inter-unit interest income earned on loans to finance the expansion of United States subsidiaries. This income would be further taxed if remitted to Canada but to finance the company's growth opportunities in the United States, reinvestment of this income and substantial additional financing will be required making repatriation unlikely in the foreseeable future.

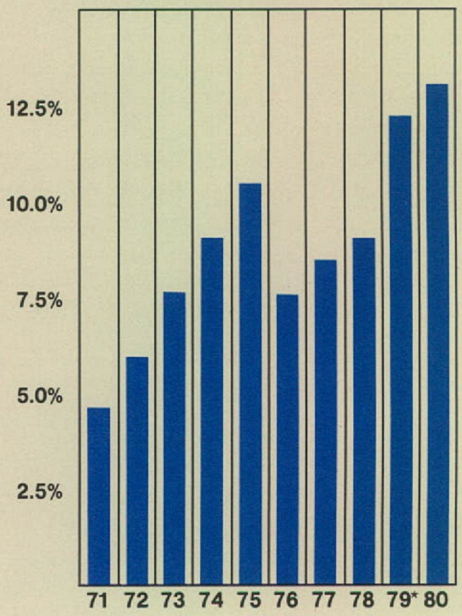
Other factors which have reduced the tax rate include investment tax credits associated with the company's capital expenditure program, the equity consolidation of certain financial services subsidiaries and manufacturing and processing incentives. Refer to Note 12 to the financial statements for further details concerning income taxes.

The sale of the company's holding of ITT Corporation shares and the sales of two cement plants recorded in 1980 resulted in $16 million of long-term deferred taxes becoming payable in 1981. These sales more than offset the additional long-term deferred tax generated by the capital spending program. It is unlikely that further drawdowns of deferred taxes will occur in the next several years unless there are major asset disposals.

Performance Measurement

The performance of Genstar's many operating divisions is measured as a return on capital employed, or return on net assets (RONA). This ratio, fundamental to the company's philosophy of performance, is a measurement of after-tax income before interest as a percentage of the total of interest-bearing debt, deferred

Return on Net Assets



*excluding the net assets and operations of The Flintkote Company which were acquired effective December 31, 1979.

income taxes and equity. It acts as an incentive to minimize the level of working capital and to invest in productive capacity with the greatest return on required resources.

In 1980, RONA increased to 13.1 percent for the company overall, the fifth consecutive year of improvement. RONA by industrial category, however, fluctuated widely as shown on page 33, primarily due to the adverse economic conditions experienced by construction-dependent businesses. The calculation of RONA by industrial category is based upon tax rates implicit to the operating income of each category. All calculations are based on year-end net assets.

Return on common shareholders' equity was 19.6 percent in 1980 compared to 22.4 percent in 1979 primarily as a result of the public issue of common shares for $84 million in the fourth quarter.

Working Capital Management

	1980	1979*	1978*
		(days)	
Accounts receivable turnover	**60**	66	74
Inventory turnover	**143**	140	142
Accounts payable turnover	**66**	66	72

*Assuming the proforma consolidation of Flintkote in 1979 and 1978.

The table above illustrates the progress achieved in controlling working capital. Genstar's investment in receivables and inventories is greater than its investment in fixed assets and as such, a great deal of emphasis is placed upon minimizing the carrying costs. In the period 1978-80, while economic conditions worsened, the collection period of accounts receivable improved 19 percent while inventories were maintained at the same level in relation to the volume of business. There was some slippage in the level of payables but the payment period was the same in 1979 and 1980.

Short-term borrowings were $193 million at the end of 1980, down from $230 million in 1979. In addition, advances relating to housing and land inventories were reduced from $127 million to $74 million by employing available bank lines of credit to replace more expensive construction loans. These reductions also reflect the proceeds of equity issues and sales of assets but debt levels would have been considerably higher without the emphasis placed on minimizing receivables and inventories. Total short-term debt was $274 million at the end of 1978.

Bank lines of credit at December 31, 1980 amounted to $629 million including $100 million maintained for the backing of short-term promissory notes. These facilities bear interest at approximately the prime rate and short-term promissory notes bear market interest rates depending on the term. Average borrowings in 1980 under the facilities were $339 million compared to $191 million in 1979 and the peak borrowing at any month-end was $445 million in 1980 and $247 million last year.

Working capital at the end of 1980 was a record $396 million, up by $97 million from 1979 and $127 million from 1978. The working capital ratio also exhibited the improved liquidity of the company, rising to 1.59:1 in 1980 from 1.37:1 in 1979.

Long-Term Asset Management

Genstar's net investment in long-term assets has doubled to $1.4 billion since the end of 1978. Most of the increase was the result of the acquisition of Flintkote effective at the end of 1979 and the balance was primarily new investments in fixed assets and financial services subsidiaries. This net growth, however, was after realizing $425 million from the sale or reduction of assets representing more than 30 percent of the book value of the assets at the end of 1980.

Most of the disposals represented the proceeds from completed joint ventures and from the sales of venture capital investments but $150 million resulted from the divestiture of fixed plant and equipment. The most significant disposals in the 1978-80 period were three cement plants which were located in geographic regions which Genstar believed had significantly less potential than Western Canada and California.

Exclusive of the acquisition of Flintkote, the company invested $815 million in long-term assets in the last three years, including $123 million in financial services subsidiaries and $331 million in fixed assets. Financial services is an industry which Genstar believes has long-term potential and further investments are anticipated to be made in the future. Fixed asset additions include $141 million of new productive cement capacity as well as a variety of smaller investments in other industrial categories. At the end of 1980, the company was committed to $102 million of fixed asset expenditures.

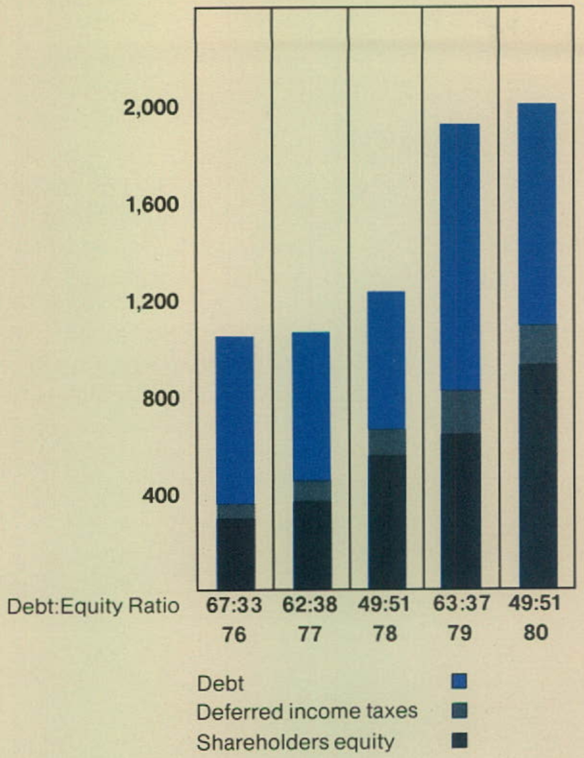
Other investments of $361 million in the period were for a relatively short period of time and included venture capital investments, development land, mortgages and joint venture investments. The majority of the joint ventures are medium-term real estate and construction projects and therefore, can be expected to return the committed resources on a regular basis.

Sources of Capital

The three main components of Genstar's capital base are borrowed funds, deferred income taxes, and shareholders' equity. As illustrated in the graph of Genstar capitalization, the total debt to equity ratio in 1980 returned to 49:51 from 63:37 in 1979. In both 1976 and 1979 Genstar made major acquisitions considered to be in the long-term interest of the company. In both years the percentage of debt to equity increased substantially but in subsequent years returned to approximately 50:50, a level considered to be appropriate for the company's mix of businesses.

The Securities and Exchange Commission requires that capital stock with mandatory redemption provisions be reported separately from other elements of shareholders' equity and be considered as debt in computing alternate balance sheet ratios. This approach ignores the respective rights of the holders of these shares and in particular holders of convertible shares. Using these guidelines, Genstar's total debt to equity ratios would be 61:39 in 1980, 70:30 in 1979 and 60:40 in 1978, demonstrating the same trend as in the more traditional ratios used in this report. However, if this same method was used and the capital structure was restated to 1980 constant dollars, the total debt to equity ratio would be 51:49, a financing structure consistent with the company's objective.

Capitalization (millions)



Genstar has used the debt and equity markets in Canada, the United States and Europe to raise new capital as required. In the period 1978-80, the company issued $331 million of equity, $111 million of net additional long-term debt and realized $98 million from the formation of a partnership.

Major financings in the period were:
- U.S. $50 million of 10 percent, 10-year debentures in the Eurodollar market
- $50 million of 10¾ percent, 20-year debentures with Canadian institutional investors
- U.S. $100 million variable rate, 7-year revolving term loan facility with a group of European banks
- U.S. $250 million variable rate revolving credit facility with a group of Canadian banks. This facility, which was drawn to the extent of $167 million at the end of 1980 is available for a period up to 5 years.
- 1,000,000 Series A variable rate second preferred shares for U.S. $100 million with a Canadian bank.
- 3,000,000 Series C $2.35 convertible second preferred shares for $94 million to the public in Canada.
- 2,000,000 common shares for $84 million to the public in Canada and the United States.

The company also owns several financial services subsidiaries and is a partner in many joint ventures which have their own sources of capital. Notes 3 and 5 to the financial statements set out summary financial information concerning these operations. Genstar has invested $141 million in the financial services subsidiaries and the companies have borrowed a further $103 million from their lines of credit of $178 million. The resultant debt to equity ratio of these financial services subsidiaries was 49:51 at the end of 1980.

Net assets of the joint ventures were $667 million, financed 73 percent by third party debt and 27 percent by partners' investment. Genstar's investment in the joint ventures was $109 million at the end of 1980.

Genstar is a limited partner in the majority of the joint ventures in which it invests. In some of these ventures, Genstar is a guarantor of third party debt which at December 31, 1980, amounted to $43 million. The company has also agreed to purchase land from a partnership in sufficient quantities to enable the joint venture to meet its annual principal and interest requirements. At year-end 1980, these loans amounted to $109 million and bear interest at 9¾ percent. The partnership, formed in 1978 is located in Alberta and has been very successful to date.

In some joint ventures, Genstar is a general partner and, as such, is contingently liable for the other partners' shares of venture liabilities to a maximum of $80 million at December 31, 1980 in addition to the company's share of $85 million. Before the company would be called upon to satisfy these amounts, the proceeds from the sale of the joint venture assets would be applied to the settlement of liabilities. Also, before the company would be called upon to settle the part-

Capitalization by Industrial Category

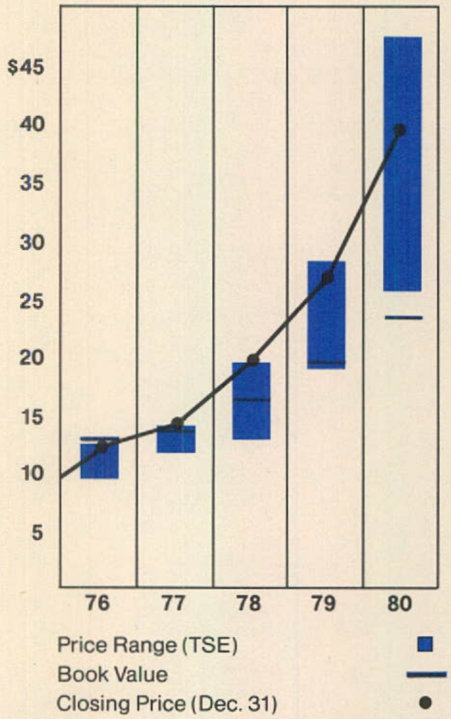
Industrial Category	Net Assets	Financed by: Short-Term Debt	Long-Term Debt	Deferred Income Taxes	Equity	Ratios: Total Debt to Equity 1980	1979*	Long-Term Debt to Equity 1980	1979*
		(millions of dollars)				(percent)		(percent)	
Cement and lime	466.9	15.0	152.7	93.5	205.7	**45:55**	40:60	**43:57**	33:67
Concrete, aggregates and construction	311.2	22.2	99.2	41.5	148.3	**45:55**	42:58	**40:60**	30:70
Building supplies	297.0	23.1	103.9	14.8	155.2	**45:55**	40:60	**40:60**	30:70
Land and real estate development	579.0	198.0	173.4	—	207.6	**64:36**	60:40	**45:55**	44:56
Financial services	223.4	—	55.1	3.1	165.2	**25:75**	25:75	**25:75**	23:77
Marine services	104.2	8.2	40.5	23.0	32.5	**60:40**	60:40	**55:45**	55:45
Investments	32.4	—	14.8	2.8	14.8	**50:50**	20:80	**50:50**	20:80
	$2,014.1	$266.5	$639.6	$178.7	$929.3	**49:51**	48:52	**41:59**	36:64

*Prior to acquisition of The Flintkote Company on December 31, 1979.

ners' share of venture liabilities, all assets of the partners would have to be realized making it unlikely that Genstar would be called upon to fund these amounts.

Common Shares
Common shares are listed on the New York, Pacific, Toronto, Montreal, Alberta, Vancouver, Brussels, Antwerp, Zurich, Geneva, Basel, and Luxembourg exchanges. There were 30,215,000 common shares outstanding at December 31, 1980 of which 25,324,000 were registered in the name of 9,884 shareholders and the balance were in bearer form. Of the registered shares 57 percent were held in Canada, 23 percent in the United States and 20 percent by others, primarily in Europe. The company believes that the bearer shares are generally held by European investors. Quarterly trading volume and market price range information for 1980 and 1979 is included in Note 16 to the financial statements. In 1980, the share trading volume on United States stock exchanges was 5.6 million shares, up from 1.1 million in 1979. The 1980 expansion of the company's asset base in the United States through the acquisition of The Flintkote Company led to a significant increase in investor interest in the company.

Common Stock



In 1980, two million common shares were sold to the public, one million in Canada at $42.25 per share and one million in the United States at U.S. $36.25 per share. The difference in selling price reflects the difference between the U.S. and Canadian dollar at the date of sale.

Preferred Shares
There are four series of convertible preferred shares which are publicly traded on North American stock exchanges. The majority of the trading volume is accounted for by the Series B second preferred shares which are traded on the New York Stock Exchange and the Series C second preferred shares which are traded on the Toronto Stock Exchange. Trading volume for both series, which were issued in 1980, was 75,600 shares and 1,219,900 shares respectively. There are 529 registered shareholders of the Series B shares and 3,870 of the Series C shares.

Income Tax Considerations for U.S. Individual Shareholders
Dividends are payable in Canadian and U.S. dollars and other currencies depending upon the residence of the shareholder. Dividends paid to United States resident shareholders in 1980 were subject to a 10 percent Canadian withholding tax. Generally, dividends received by United States citizens or residents are subject to U.S. income tax on the amount of the dividend but either a credit or a deduction for Canadian tax withheld may be claimed. Because Genstar is not a United States domestic corporation, the partial exclusion of dividends received by individuals from domestic corporations is not available.

Upon disposition of Genstar shares, United States citizens or residents will realize a gain or loss reportable for United States income tax purposes but generally not reportable for Canadian income tax purposes.

Inflation
The struggle to control inflation is not only waged by individuals — it is a challenge faced every day by corporations in order to provide the necessary funds to replenish productive capacity and to return to the shareholders sufficient income and appreciation in value to warrant their continued investment. If a corporation does not succeed in these areas, capital for growth will not be available and the ability to effectively compete in the marketplace may eventually be lost.

Genstar's Growth in Real Dollars
Genstar has performed well during the past five years when measured against the 52 percent increase in the Consumer Price Index. The table on the next page includes Genstar's revenues, dividends and share prices for the years 1976-79 restated in constant 1980 dollars together with reported amounts in each year. Prior years' reported amounts have been inflated to constant 1980 dollars for comparison purposes and indicate that revenues, dividends and share price have increased at a rate greater than the general inflation rate during this period. Revenues doubled in constant dollars, while dividends increased 85 percent and the market price of Genstar common stock more than doubled from $15.86 to $36.75 after adjusting for the effects of general inflation during this time.

The company's strategy of investing in geographic areas of above-average growth is without question an important factor in this performance as is the company's divestment program of those assets which do not provide adequate profits in an inflationary environment. The magnitude of the divestment program is described in the "Long-Term Asset Management" section of this review. Finally, the company's investment in new plant and equipment was very important in maintaining performance in the past five years. Genstar spent more than $525 million in the period expanding productive capacity and replacing less efficient fixed assets.

Inflation-Adjusted Supplementary Financial Information

	1980	1979	1978	1977	1976
Average Canadian Consumer Price Index (1971 = 100 per Statistics Canada)...	**210.6**	191.2	175.2	160.8	148.9
Revenues (millions of dollars)					
— as reported....................	**$2,310**	$1,265	$1,143	$ 981	$ 822
— in constant dollars...............	**2,310**	1,393	1,374	1,285	1,162
Dividends per common share					
— as reported....................	**$1.65**	$1.25	$0.81	$0.71	$0.63
— in constant dollars...............	**1.65**	1.38	0.97	0.93	0.89
Market price per common share at year end					
— historical amount...............	**$38.62**	$25.88	$18.88	$13.88	$11.50
— in constant dollars...............	**36.75**	27.39	21.93	17.48	15.86

1980 Net Income Adjusted for Inflation

Note 17 to the financial statements describes the methods used to calculate the "constant dollar" and "current cost" data for a multi-industry company such as Genstar and also includes the results of the exercise.

Under the constant dollar approach to recognizing the effects of inflation, Genstar's 1980 net income was reduced to $72.3 million before taking into account the $110 million gain resulting from the decline in purchasing power of net liabilities. The FASB reporting rules exclude this gain from adjusted net income although it is the result of financial strategies designed to enhance the economic benefits to the company.

The adjustment to cost of sales of $61.9 million represents 3.7 percent of cost of sales stated at historic cost. In view of Genstar's inventory turnover of 143 days and an inflation rate of 11 percent, the adjustment is an acceptably accurate measure of the effects of inflation. It is a point of conjecture, however, whether revenues would have been lower by the same amount in a non-inflationary environment since selling prices are a function of supply and demand. Gross profit as a percentage of revenues was reduced to 24.8 percent from 27.5 percent after reflecting this adjustment.

Additional depreciation based upon fixed asset additions indexed to the Consumer Price Index was $19.5 million or 25 percent higher than historical cost depreciation.

On a current cost basis, net income before purchasing power gains was reduced by a further $22.6 million, made up of additional cost of sales of $4.6 million and additional depreciation of $18.0 million. The additional cost of sales is directly attributable to real estate operations in which costs have risen at a rate greater than the Consumer Price Index. Additional depreciation is primarily associated with building materials and marine assets.

It is unreasonable to assume that Genstar would incur the extra depreciation expense calculated under either the constant dollar or current cost methods without at least some offsetting cost savings through increased operating efficiencies.

Also, as previously mentioned, the inflation adjusted results do not include the holding gain for the year of $110 million. This gain represents the portion of the inflation burden borne by lenders and not by the shareholders. We believe that the holding gain should be netted against interest expense in order to arrive at the true cost of debt after eliminating the effects of inflation. For this reason the net income reported under existing FASB rules must be viewed as being conservative. If the holding gain was included, adjusted net income under both the constant dollar and current cost methods would exceed income based on historic costs.

As can be seen in Note 17, there is no tax recovery associated with the extra costs. This is another deficiency in the method of calculation but points out the need for tax relief on profits resulting from inflation.

The change in capital stock and retained earnings from historic cost to inflation-adjusted amounts represents the cumulative increments of inventories and fixed assets under both methods, in addition to the current year holding gain. The resultant debt to equity ratios indicate significant underlying strength in the company which, we believe, is reflected in the constant dollar growth of the market value of common stock.

Equity Income
Included in third party revenues is the company's share of the income of joint ventures, subsidiaries and investments accounted for on the equity basis. In 1980, $16 million of such income is included in the revenues of the land and real estate development category, $20 million in the revenues of the financial services category and $6 million of losses in the concrete, aggregates and construction category. The land and real estate development category included $18 million of such income in 1979 and $11 million in 1978. The financial services category included $23 million of such income in 1979 and $11 million in 1978.

Reclassification
Prior years' building materials, cement, construction and Flintkote equity investment amounts have been reclassified to conform to the new industrial categories. The 1980 categories consolidate the operations of The Flintkote Company from December 31, 1979, the effective date of acquisition.

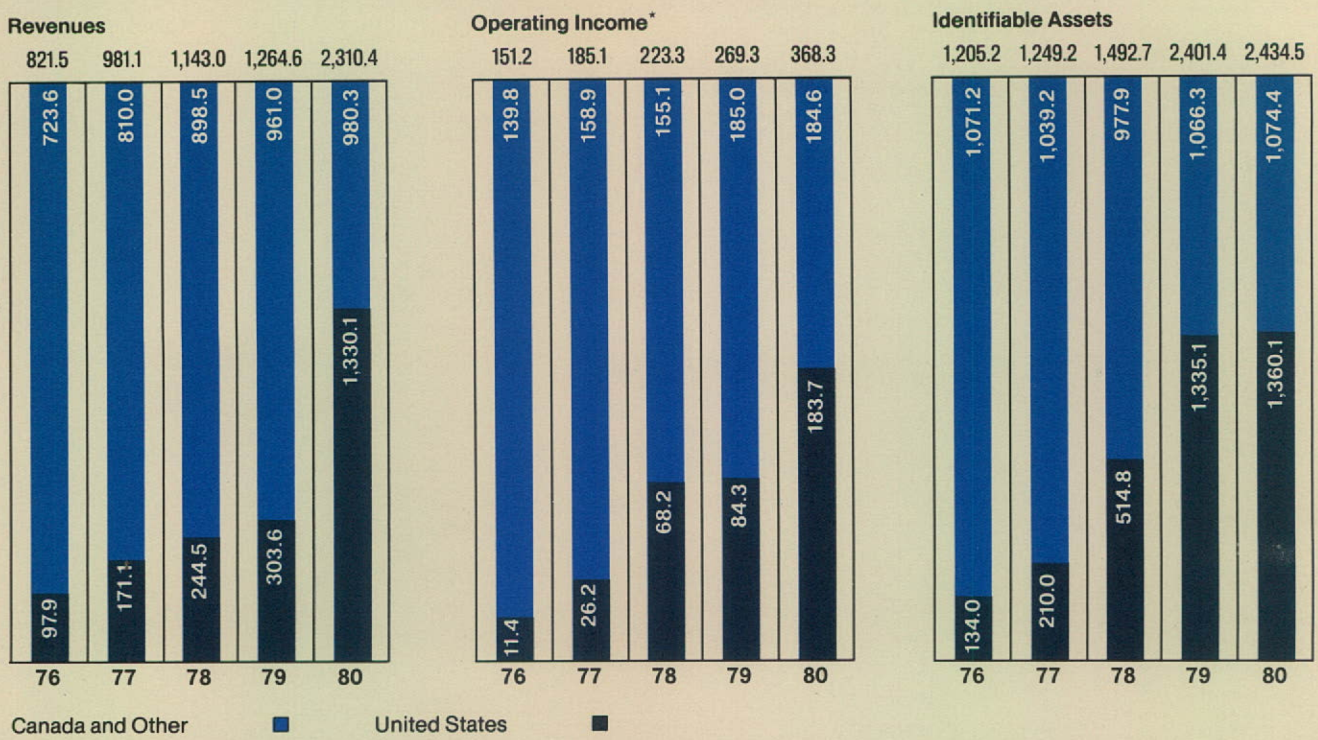
Inter-Category Revenues
Sales of goods and services between categories are at market price. Industrial category revenues include inter-category revenues of $102 million in 1980, $104 million in 1979 and $84 million in 1978 which are eliminated from consolidated revenues and cost of revenues in the company's consolidated statements of income.

Interest and General Corporate Expenses
Interest expense is allocated in proportion to the average annual debt outstanding determined by applying representative debt to equity ratios in each category. Unrealized foreign exchange translation gains and losses are included as general corporate costs and are allocated in proportion to net assets denominated in foreign currencies. Other general corporate expenses are allocated in proportion to the average net assets of each category.

Capital Expenditures by Industrial Category

(millions of dollars)	**1980**	1979	1978	1977	1976
Cement and lime	**90.2**	53.2	28.2	69.9	35.8
Concrete, aggregates and construction	**32.0**	31.4	14.9	21.1	22.5
Building supplies	**34.5**	4.2	.7	1.9	.2
Marine services	**10.7**	9.2	3.7	9.5	21.5
Other	**4.8**	8.1	5.3	4.7	9.7
Total	**$172.2**	$106.1	$ 52.8	$107.1	$ 89.7

Financial Data by Geographic Area
(millions of dollars)



*Operating income is calculated before the deduction of interest and general corporate expenses and, accordingly, is greater than consolidated income before income taxes by $175 million in 1980, $82 million in 1979 and $75 million in 1978.

Net Assets
Net assets are calculated by deducting non-interest bearing liabilities from the identifiable assets of each category. General corporate assets are allocated to each category. Net assets are financed by interest bearing debt, deferred income taxes and capital stock and retained earnings.

Return on Net Assets
Return on net assets is the performance measurement obtained by dividing income before interest expense less applicable income taxes by net assets.

Identifiable Assets by Industrial Category (millions of dollars)	1980	1979	1978	1977	1976
Cement and lime	**510.3**	514.3	230.8	197.8	131.2
Concrete, aggregates and construction	**400.3**	476.5	246.7	218.9	221.7
Building supplies	**359.3**	339.5	48.2	15.7	13.2
Land and real estate development	**711.8**	680.0	640.6	496.0	449.3
Financial services	**244.1**	204.7	106.1	34.4	32.4
Marine services	**121.4**	113.0	100.9	117.1	100.6
Investments	**35.4**	37.6	97.9	153.6	240.6
General corporate	**51.9**	35.8	21.5	15.7	16.2
Total	**$2,434.5**	$2,401.4	$1,492.7	$1,249.2	$1,205.2

RESULTS BY INDUSTRIAL CATEGORY

For the five years ended December 31, 1980
(millions of Canadian dollars)

		Revenues		
		Third Party	Inter-Category	Total
Cement and Lime Manufacture of normal portland cement and oil well, high early-strength, masonry, sulphate-resistant, potash and other specialty cements. Manufacture of high-calcium and dolomitic quicklime and hydrated lime, Type S hydrated lime for soil stabilization, and various crushed limestone products.	1980	$315.2	$ 45.4	**$360.6**
	1979	141.3	40.8	**182.1**
	1978	120.2	39.0	**159.2**
	1977	97.0	36.6	**133.6**
	1976	90.3	37.6	**127.9**
Concrete, Aggregates and Construction Services Production of redi-mix concrete; precast and prestressed structural and architectural concrete components; concrete blocks, pipe and railway ties; bituminous concrete/asphalt; calcium carbonate products; and home repair products, including dry bagged concrete, mortar and blacktop mixes. Production of classified sand, gravel, standard and lightweight aggregates, crushed stone and gypsum rock. Municipal and real estate subdivision servicing (road construction, paving and installation of utilities) and heavy construction.	1980	$557.2	$ 52.1	**$609.3**
	1979	398.4	61.8	**460.2**
	1978	347.6	43.6	**391.2**
	1977	303.5	79.6	**383.1**
	1976	310.0	48.3	**358.3**
Building Supplies Manufacture of gypsum wallboard; roofing products, including asphalt shingles and rolls, liquid tar-based coating, felt and paperboard; asphaltic adhesives; recycled rubber for asphalt paving and rubber products; concrete admixtures. Wholesaling and distribution of construction materials to builders; sanitary landfilling and methane gas recovery.	1980	$606.6	$ 1.8	**$608.4**
	1979	39.9	—	**39.9**
	1978	32.1	—	**32.1**
	1977	21.1	—	**21.1**
	1976	16.6	—	**16.6**
Land and Real Estate Development Development of residential, commercial and industrial land. Development and construction of single-family homes, duplexes, townhouses, shopping centers and warehouses; condominium conversions; manufacture of preassembled sections and component packages for construction of residential units.	1980	$589.1	$ —	**$589.1**
	1979	461.5	—	**461.5**
	1978	404.1	—	**404.1**
	1977	372.7	.2	**372.9**
	1976	245.9	.4	**246.3**
Financial Services Mortgage banking; real estate joint venture financing; title insurance and escrow services; capital equipment leveraged-lease brokerage; marine financing; rental of electronic test and measurement equipment; venture capital investment; property-casualty insurance; thrift and loan operations.	1980	$ 75.2	$ 1.1	**$ 76.3**
	1979	30.3	—	**30.3**
	1978	60.7	—	**60.7**
	1977	20.9	—	**20.9**
	1976	16.3	—	**16.3**
Marine Services Tug and barge transportation (of logs, wood chips, pulp and paper, lumber, limerock, aggregates, petroleum products, chemicals, trucks, containers, railway cars and large heavy-lift modular cargo). Shipbuilding and repairs; salvage; ferrying; berthing; lighterage; pollution control.	1980	$121.0	$ 1.7	**$122.7**
	1979	112.1	1.5	**113.6**
	1978	86.4	1.1	**87.5**
	1977	68.6	.6	**69.2**
	1976	62.0	.4	**62.4**
Investments Manufacture of nitrogen-based chemicals; a mixed-fertilizer joint venture; operation and sale of commercial revenue properties in 1976 through 1978; import and export of semi-finished metals and industrial minerals until early 1978.	1980	$ 46.1	$ —	**$ 46.1**
	1979	81.1	—	**81.1**
	1978	91.9	—	**91.9**
	1977	97.3	—	**97.3**
	1976	80.4	—	**80.4**

COSTS AND EXPENSES											
Cost of Sales	Selling, General and Administrative	Depreciation, Depletion and Amortization	Total	Operating Income	Interest and General Corporate Expenses	Income before Income Taxes	Provision for Income Taxes	Net Income	Net Assets	Return on Net Assets (Percent)	
$258.5	$ 28.5	$ 22.8	$309.8	$ 50.8	$ 34.8	$ 16.0	$ (6.5)	$ 22.5	$466.9	6.4	
130.4	11.1	7.1	148.6	33.5	12.7	20.8	7.3	13.5	249.2	6.9	
113.3	11.9	6.6	131.8	27.4	10.0	17.4	6.6	10.8	224.9	6.5	
92.4	11.2	5.8	109.4	24.2	6.2	18.0	7.2	10.8	183.3	7.2	
86.0	10.8	6.0	102.8	25.1	3.9	21.2	9.1	12.1	111.4	12.3	
$482.5	$ 44.8	$ 27.1	$554.4	$ 54.9	$ 26.8	$ 28.1	$ 2.7	$ 25.4	$311.2	10.0	
374.9	27.0	18.5	420.4	39.8	10.9	28.9	8.8	20.1	181.7	13.4	
328.7	23.5	14.6	366.8	24.4	9.3	15.1	4.0	11.1	189.1	7.7	
302.4	23.4	14.2	340.0	43.1	7.5	35.6	15.0	20.6	175.9	13.3	
278.8	24.0	13.7	316.5	41.8	6.9	34.9	15.7	19.2	171.8	13.0	
$530.3	$ 51.0	$ 14.0	$595.3	$ 13.1	$ 28.0	$ (14.9)	$ (11.4)	$ (3.5)	$297.0	.9	
24.3	3.1	1.0	28.4	11.5	2.9	8.6	1.5	7.1	53.6	15.1	
20.8	2.2	1.0	24.0	8.1	1.4	6.7	2.2	4.5	42.9	11.4	
15.0	1.2	.8	17.0	4.1	.5	3.6	1.4	2.2	11.7	19.6	
12.3	.8	.7	13.8	2.8	.4	2.4	1.0	1.4	10.1	14.9	
$356.0	$ 51.9	$ 2.4	$410.3	$178.8	$ 63.7	$115.1	$ 43.5	$ 71.6	$579.0	14.9	
293.7	46.6	1.7	342.0	119.5	42.1	77.4	29.6	47.8	556.0	11.5	
253.7	36.5	1.5	291.7	112.4	38.2	74.2	35.1	39.1	497.1	11.2	
264.1	31.2	.9	296.2	76.7	31.6	45.1	22.6	22.5	434.1	8.2	
162.9	21.0	1.0	184.9	61.4	21.7	39.7	20.3	19.4	390.6	7.7	
$ 30.2	$ 5.5	$ .4	$ 36.1	$ 40.2	$ 11.2	$ 29.0	$ 3.9	$ 25.1	$223.4	11.5	
1.3	3.4	.2	4.9	25.4	4.9	20.5	4.5	16.0	189.5	9.4	
15.6	7.9	.2	23.7	37.0	3.2	33.8	13.1	20.7	92.2	23.5	
9.0	1.1	.2	10.3	10.6	1.6	9.0	3.2	5.8	32.5	19.4	
7.4	1.8	.1	9.3	7.0	.9	6.1	2.1	4.0	30.1	14.6	
$ 81.5	$ 7.2	$ 7.4	$ 96.1	$ 26.6	$ 8.4	$ 18.2	$ 7.4	$ 10.8	$104.2	12.1	
75.7	6.7	7.1	89.5	24.1	6.5	17.6	6.9	10.7	94.0	13.8	
65.1	5.8	11.7	82.6	4.9	6.8	(1.9)	5.1	(7.0)	87.2	(4.8)	
46.7	5.3	6.8	58.8	10.4	6.7	3.7	3.8	(.1)	103.1	2.4	
42.4	4.1	5.1	51.6	10.8	5.5	5.3	1.9	3.4	94.8	6.3	
$ 36.7	$ 2.5	$ 3.0	$ 42.2	$ 3.9	$ 2.4	$ 1.5	$ (.3)	$ 1.8	$ 32.4	11.7	
59.9	2.2	3.5	65.6	15.5	2.1	13.4	5.0	8.4	37.5	24.0	
64.5	4.3	14.0	82.8	9.1	5.8	3.3	.9	2.4	74.1	6.2	
65.3	10.4	5.6	81.3	16.0	10.0	6.0	3.4	2.6	123.6	5.7	
62.0	10.7	5.4	78.1	2.3	9.1	(6.8)	(3.0)	(3.8)	225.5	.1	

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the years ended December 31, 1980, 1979 and 1978

The following accounting policies conform with those generally accepted in both Canada and the United States.

Consolidation

Subsidiaries are consolidated either from the date of acquisition on the basis of purchase accounting or retroactively on the basis of pooling of interests accounting. Financial services subsidiaries are accounted for on the equity method because the financial structure and operations differ significantly from the company's other businesses.

Investments in joint ventures are accounted for on the equity method with the company's share of income included in revenues.

Foreign Exchange

Accounts in foreign currencies are translated into Canadian dollars. Revenues and expenses are translated at the average rate for the period, except for depreciation and the non-monetary portion of cost of sales which are translated at historic rates. Monetary assets and liabilities, including long-term debt, are translated at the year-end rate and non-monetary assets and liabilities, including inventories, are translated at historic rates. Resulting exchange gains or losses are included in income.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost of manufactured goods is determined principally at average on the first-in first-out basis and includes all overhead elements except depreciation. Cost of land and housing inventories is determined on a specific item basis and includes services such as roads, sewage and water systems on land under development.

Land inventories are those parcels which are expected to be sold within the five-year operating cycle of the land development business. Other parcels are classified as development land.

Investments

Portfolio securities are stated at the lower of aggregate cost or net realizable value.

Fixed Assets

Properties, plants and equipment are stated at cost. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to income. When assets are sold or retired, their cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss resulting from their disposal is included in income.

Depreciation of plants and equipment is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for plants and from 5 to 25 years for equipment. Mobile equipment depreciation is based on time utilization after allowing for estimated salvage value. Depletion of quarries and gravel deposits is calculated on the unit of extraction method.

Revenue Recognition

Revenues from the sale of manufactured products and housing units are recognized upon passage of title to the customer which generally coincides with their delivery and acceptance. Revenues from the sale of land are recognized in the period in which the transactions occur provided the earnings process is complete and collectibility of the proceeds is reasonably assured. Non-cash consideration from land and housing sales is adjusted to reflect the market value of the consideration.

Revenues from construction and shipbuilding contracts are recognized on the percentage of completion method and any losses are provided for as they become known. Claims for additional contract compensation are not recognized until resolved.

Deferred revenue results from the contribution of land to a partnership at a value in excess of historic cost and the sale of the future production of limestone deposits. Income is recognized as sales are made to third parties.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1980, 1979 and 1978
(thousands of Canadian dollars)

	Note Reference	1980	1979	1978
Revenues		**2,310,445**	1,264,551	1,143,042
Costs and Expenses				
Cost of sales and services		**1,674,813**	856,109	778,054
Selling, general and administrative		**227,260**	116,955	116,267
Depreciation, depletion and amortization		**77,109**	39,079	50,181
		1,979,182	1,012,143	944,502
Operating Income		**331,263**	252,408	198,540
Financing costs				
Interest on long-term debt		**76,115**	34,217	26,036
Other interest		**62,127**	30,965	23,896
		138,242	65,182	49,932
Income Before Income Taxes		**193,021**	187,226	148,608
Provision for income taxes	*12*			
Current		**44,500**	43,000	40,300
Deferred		**(5,200)**	20,600	26,700
		39,300	63,600	67,000
Net Income for the Year		**$ 153,721**	$ 123,626	$ 81,608

Net Income per Common Share		*13*			
Canadian Method	Basic		**$ 4.77**	$ 4.21	$ 3.02
	Fully diluted		**4.35**	3.96	2.87
United States Method	Primary		**4.41**	4.16	3.00
	Fully diluted		**4.35**	3.98	2.90

CONSOLIDATED BALANCE SHEETS

As at December 31, 1980 and 1979
(thousands of Canadian dollars)

	Note Reference	1980	1979
Assets			
Current Assets			
Cash and term deposits		**23,857**	65,926
Accounts receivable		**382,530**	408,659
Inventories	1	**654,931**	625,633
		1,061,318	1,100,218
Joint Ventures, Development Land and Investments	2	**277,405**	247,699
Fixed Assets	4		
Properties, plants and equipment		**1,475,454**	1,447,510
Accumulated depreciation and depletion		**559,071**	544,755
		916,383	902,755
Non-Consolidated Financial Services Subsidiaries	5	**141,386**	112,420
Intangible Assets	6	**37,970**	38,282
		$2,434,462	$2,401,374

On behalf of the Board

Director Angus A. MacNaughton

Director

	Note Reference	1980	1979
Liabilities			
Current Liabilities			
Short-term borrowings	7	**192,614**	229,942
Accounts payable		**303,358**	324,369
Income taxes		**34,352**	73,701
Advances relating to housing and land inventories	8	**73,876**	127,465
Current portion of long-term debt	9	**61,578**	45,392
		665,778	800,869
Long-Term Debt	9	**577,991**	684,035
Deferred Revenue		**82,691**	90,938
Deferred Income Taxes	12	**178,700**	183,900
		1,505,160	1,759,742
Capital Stock and Retained Earnings			
Redeemable Preferred Shares	10	**120,000**	120,000
Convertible Redeemable Preferred Shares	10	**113,485**	8,631
Common Shares and Contributed Surplus	11	**285,115**	186,069
Retained Earnings		**410,702**	326,932
		$2,434,462	$2,401,374

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1980, 1979 and 1978
(thousands of Canadian dollars)

	Note Reference	1980	1979	1978
Source of Funds				
Net income for the year		**153,721**	123,626	81,608
Items not affecting funds				
Depreciation, depletion and amortization		**77,109**	39,079	50,181
Loss (gain) on sales of investments and fixed assets		**2,253**	(5,335)	(10,279)
Deferred income taxes	12	**(5,200)**	20,600	26,700
Deferred revenue		**(8,247)**	(10,901)	(12,223)
Other		**(4,275)**	(10,449)	5,056
Funds from operations		**215,361**	156,620	141,043
Sale or reduction of				
Joint ventures, development land and investments		**101,327**	66,474	106,739
Fixed assets		**85,749**	20,219	44,798
Issue of				
Long-term debt		**68,723**	395,498	77,291
Capital stock		**198,756**	4,213	128,214
Formation of partnership		**—**	—	97,713
		669,916	643,024	595,798
Application of Funds				
Acquisition of subsidiary	14	**—**	183,801	—
Purchase of				
Joint ventures, development land and investments		**139,862**	96,652	187,917
Fixed assets		**172,227**	106,136	52,832
Non-consolidated financial services subsidiaries		**18,765**	86,776	16,992
Payment or reduction of				
Long-term debt		**178,064**	96,591	156,026
Dividends		**64,807**	42,305	21,953
		573,725	612,261	435,720
Working Capital				
Increase for the year		**96,191**	30,763	160,078
Beginning of year		**299,349**	268,586	108,508
End of year		**$ 395,540**	$ 299,349	$ 268,586

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Continued)

	Note Reference	1980	1979	1978
Changes in Elements of Working Capital	14			
Current assets *Increase (Decrease)*				
Cash and term deposits		**(42,069)**	53,063	(1,352)
Accounts receivable		**(26,129)**	130,584	39,759
Net assets held for sale		**—**	(22,277)	22,277
Inventories		**29,298**	163,261	132,228
		(38,900)	324,631	192,912
Current liabilities *Increase (Decrease)*				
Short-term borrowings		**(37,328)**	60,204	16,651
Accounts payable		**(21,011)**	153,332	17,230
Income taxes		**(39,349)**	37,269	5,241
Advances relating to housing and land inventories		**(53,589)**	23,647	12,634
Current portion of long-term debt		**16,186**	19,416	(18,922)
		(135,091)	293,868	32,834
Increase in working capital for the year		**$ 96,191**	$ 30,763	$ 160,078

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the years ended December 31, 1980, 1979 and 1978
(thousands of Canadian dollars)

	1980	1979	1978
Balance—beginning of year	**326,932**	245,611	185,956
Net income for the year	**153,721**	123,626	81,608
	480,653	369,237	267,564
Dividends—preferred shares	**17,684**	8,338	717
—common shares	**47,123**	33,967	21,236
	64,807	42,305	21,953
Share issue expenses (net of related income taxes)	**5,144**	—	—
	69,951	42,305	21,953
Balance—end of year	**$ 410,702**	$ 326,932	$ 245,611

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1980, 1979 and 1978

1. Inventories

	1980	1979
	(thousands of dollars)	
Finished goods	**145,385**	123,221
Work in process	**135,468**	130,380
Raw materials, supplies and repair parts	**80,757**	84,160
Land	**293,321**	287,872
	$654,931	$625,633

2. Joint Ventures, Development Land and Investments

	1980	1979
	(thousands of dollars)	
Joint ventures — at equity (Note 3)	**84,752**	49,655
Development land	**65,172**	73,669
Mortgages and loans receivable	**79,535**	54,669
Portfolio securities — at cost	**47,946**	69,706
	$277,405	$247,699

Mortgages and loans receivable include $47,500,000 in 1980 and $34,300,000 in 1979 related to land and housing sales. The remaining amounts relate primarily to balances on asset sales and long-term stock purchase plans.

Portfolio securities include marketable investments of $22,819,000 at December 31, 1980 and $39,581,000 at December 31, 1979 with market values of $54,000,000 and $63,000,000, respectively.

3. Joint Ventures

The company is a partner in a number of incorporated and unincorporated joint ventures engaged in the development and financing of real estate, construction, mixed fertilizer and marine financing activities. The following is a summary of the combined financial position and operations of these investments.

	1980	1979
	(thousands of dollars)	
Net assets employed		
Accounts and loans receivable and other assets	**231,722**	192,569
Fixed assets	**46,805**	39,223
Land and real estate development inventories	**530,898**	355,931
	809,425	587,723
Accounts payable and other liabilities	**142,135**	59,783
	$667,290	$527,940
Financed by		
Mortgages and loans payable	**486,006**	395,547
Equity and advances by other partners	**72,693**	60,933
Equity and advances by the company	**108,591**	71,460
	$667,290	$527,940

	1980	1979	1978
	(thousands of dollars)		
Operations			
Revenues	**442,298**	338,864	209,792
Expenses	**412,952**	271,765	168,312
Income before income taxes	**$ 29,346**	$ 67,099	$ 41,480
Allocation of income			
Other partners	**7,243**	28,941	18,149
Company	**22,103**	38,158	23,331
	$ 29,346	$ 67,099	$ 41,480

In general, liabilities of joint ventures are secured by pledges of the related assets. At times the joint venture partners may further support these obligations should the realization from joint venture assets not be sufficient. As a general partner in certain unincorporated ventures, the company is contingently liable at December 31, 1980 for the other partners' share of liabilities of $80,300,000 should the other partners not be able to satisfy them, as well as for its own share of $84,800,000. As a limited partner in other ventures, the company is a guarantor of partnership liabilities of $43,200,000. Under certain partnership agreements, the company is also committed to make additional investments of $27,800,000. As at December 31, 1980, the assets of joint ventures exceeded the liabilities.

In addition, the company has agreed to purchase land from a partnership in sufficient quantities to enable the partnership to meet its principal and interest requirements on certain loans if the partnership is unable to do so from its own resources. At December 31, 1980, these loans, bearing interest at 9.75% amounted to $109,000,000, mature to 1993 and require the following payments of principal over the next five years:

1981 - $590,000; 1982 - $607,000;
1983 - $5,658,000; 1984 - $12,001,000;
1985 - $12,003,000.

4. Fixed Assets

	1980		1979	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(thousands of dollars)			
Plant sites	**41,095**	**—**	39,170	—
Quarries and gravel deposits	**61,749**	**11,640**	60,990	10,170
Buildings	**238,984**	**79,648**	242,795	93,032
Machinery and equipment	**1,133,626**	**467,783**	1,104,555	441,553
	$1,475,454	**$559,071**	$1,447,510	$544,755

Included in fixed assets at December 31, 1980 is construction in progress of $81,600,000 with an estimated cost to complete of $91,300,000. Other fixed asset purchase commitments amounted to $11,200,000.

The net book value of fixed assets held under capital leases was $46,000,000 at December 31, 1980 and $58,100,000 at December 31, 1979.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. Non-Consolidated Financial Services Subsidiaries

Non-consolidated financial services subsidiaries are engaged primarily in mortgage banking, rental, leasing and title insurance activities.

The following summary of financial position and operations combines these subsidiaries and includes capital stock and intangible assets at acquisition cost to the company.

	1980	1979
	(thousands of dollars)	
Assets		
Cash held in trust	**10,823**	5,217
Mortgages, loans and accounts receivable	**178,576**	107,525
Fixed assets	**35,907**	30,187
Loan acquisition costs and other assets	**25,143**	11,862
Intangible assets	**38,711**	33,733
	$289,160	$188,524
Liabilities		
Short-term borrowings	**103,217**	39,013
Accounts payable and other liabilities	**44,557**	37,091
Advances by the company	**15,868**	8,705
	163,642	84,809
Shareholder's Equity		
Capital stock	**110,086**	97,671
Retained earnings subsequent to acquisition	**15,432**	6,044
	$289,160	$188,524

	1980	1979	1978
	(thousands of dollars)		
Operations			
Revenues	**71,161**	50,784	1,716
Costs and expenses	**49,270**	41,008	1,606
Income before income taxes	**21,891**	9,776	110
Provision for income taxes	**12,503**	4,206	—
Net income for the year	**$ 9,388**	$ 5,570	$ 110

Intangible assets represent the excess of purchase price over the book value of net tangible assets of subsidiaries acquired and are being charged to income over periods up to forty years.

The summary of operations includes related amortization of $4,270,000 in 1980 and $2,364,000 in 1979.

6. Intangible Assets

	1980	1979
	(thousands of dollars)	
Intangible assets arising from acquisitions	**35,056**	34,596
Debt discount	**2,914**	3,686
	$37,970	$38,282

Intangible assets include an unamortized balance of $3,127,000 at December 31, 1980 from acquisitions subsequent to November 1, 1970, which is being amortized to income over periods up to forty years. Unamortized intangible assets are charged to income in the event of diminution in value.

7. Short-Term Borrowings

	1980	1979
	(thousands of dollars)	
Bank advances	118,157	224,026
Short-term promissory notes	74,457	5,916
	$192,614	$229,942

8. Advances Relating to Housing and Land Inventories

Included in advances relating to housing and land inventories is $40,578,000 at December 31, 1980 and $59,742,000 at December 31, 1979 representing the outstanding balances of the purchase price of development lands which are payable over periods up to five years. The remaining advances of $33,298,000 at December 31, 1980 and $67,723,000 at December 31, 1979 represent construction financing and mortgage loans on residential houses included in inventories, which will be repaid or assumed by the purchaser upon sale of the related asset.

9. Long-Term Debt

	1980		1979	
	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
Debentures				
10¼% due in 1980	—	—	20,000	20,000
11% sinking fund due in 1981*	9,503	9,503	—	8,898
10% due to 1981*	27,506	27,506	1,180	28,043
6½% convertible due in 1988*	—	11,114	—	16,992
10% due to 1989*	2,380	55,157	2,360	57,643
11¾% due to 1995	1,500	21,000	1,500	22,452
11% sinking fund due to 1996*	1,508	34,073	1,906	36,539
11¼% due to 1996	2,500	50,000	2,500	50,000
10¾% due to 1999	—	50,000	—	50,000
Mortgages				
6% to 7¾% first mortgage sinking fund bonds due to 1986	1,130	3,184	1,380	4,564
6% to 15% mortgages on development land due to 2009*	2,145	24,530	1,943	20,096
Term bank loans				
Prime due in 1982	—	167,500	—	—
11% due to 1989*	—	22,194	—	21,830
LIBOR plus ¼% to ¾% due to 1987*	—	77,350	—	70,800
Prime plus 1¼% due to 1989	—	6,516	—	6,516
Prime plus ½% due in 1981*	—	—	—	208,000
Non-interest bearing to 16% notes, mortgages and debentures due to 1997*	4,940	25,589	5,004	28,594
Capital lease obligations				
5¾% to 6½% revenue bonds due to 1999*	—	16,023	—	33,335
4% to 13⅞% building and equipment leases due to 1996*	8,466	38,330	7,619	45,125
	61,578	639,569	45,392	729,427
Current portion	—	61,578	—	45,392
Long-term debt	$61,578	$577,991	$45,392	$684,035

*All or partly payable in U.S. dollars.

All debentures except the 6½% convertible debentures due in 1988 and the 11% debentures due in 1981 and 1996 are secured by a floating charge on most of the Canadian assets of the company.

Trust indentures pertaining to the debentures contain restrictive covenants covering the issuance of additional long-term debt and the payment of dividends. Under the most restrictive of these covenants, retained earnings of $150,000,000 were available for common share dividends at December 31, 1980.

Included in term bank loans is U.S. $65,000,000 borrowed under a U.S. $100,000,000 facility with interest based on the London Inter-Bank Offered Rate (LIBOR) plus ¼% to ¾% dependent on the term selected. Under the terms of this loan, the company may repay all or any part without penalty and redraw up to the maximum.

Capitalized leases include municipal revenue bonds on lease-option facilities of a subsidiary which require lease payments equal to bond servicing and redemption requirements.

At December 31, 1980, sinking fund debentures in the principal amount of $43,600,000, term bank loans in the principal amount of $22,200,000 and promissory notes in the principal amount of $11,600,000 assumed on the acquisition of Flintkote, have been consolidated after deducting $7,300,000 of interest imputed at a rate of 11% as of the date of acquisition less accumulated amortization of $740,000 to December 31, 1980.

The following payments are required in the next five years for long-term debt installment, sinking fund and purchase fund provisions and capital lease obligations:

	Long-term Debt	Capital Leases
	(thousands of dollars)	
1981	$ 53,112	$ 12,599
1982	266,785	10,412
1983	19,102	9,131
1984	16,652	9,509
1985	13,482	4,468
Subsequent years' lease payments		33,150
Total lease payments		79,269
Imputed interest		24,916
Present value of minimum lease payments		$54,353

10. Redeemable Preferred Shares

Authorized

Preferred — 5,000,000 shares without nominal or par value issuable in series.
- 3,390,424 Series A, B and D voting convertible shares bearing dividends from $1.10 to $1.50 each.

Second Preferred — 20,000,000 shares without nominal or par value issuable in series.
- 1,000,000 Series A non-voting non-convertible shares of the stated value of U.S. $100 each bearing cumulative variable rate dividends.
- 439,181 Series B voting convertible shares of the stated value of $24.40 each bearing cumulative dividends of U.S. $1.68 each.
- 3,000,000 Series C voting convertible shares of the stated value of $31.50 each bearing cumulative dividends of $2.35 each.
- 866,150 Series SP-79, 80 and 80A voting convertible shares of stated values from U.S. $5.25 to U.S. $13.75 each bearing non-cumulative variable rate dividends.

Issued and Fully Paid	**1980**		1979		1978	
	Shares	Amount	Shares	Amount	Shares	Amount
			(thousands)			
Redeemable						
Second preferred shares						
— Series A	**1,000**	**$120,000**	1,000	$120,000	1,000	$120,000
Convertible Redeemable						
Preferred shares						
— Series A, B & D	**237**	**4,729**	270	5,409	514	10,291
Second preferred shares						
— Series SP	**625**	**7,025**	525	3,222	—	—
— Series B	**316**	**7,715**	—	—	—	—
— Series C	**2,985**	**94,016**	—	—	—	—
	4,163	**$113,485**	795	$ 8,631	514	$ 10,291

The details of shares issued during the years are as follows:

	1980	1979	1978
		(thousands of shares)	
Redeemable			
Beginning of year	**1,000**	1,000	—
Issued at U.S. $100 to a Canadian bank	**—**	—	1,000
End of year	**1,000**	1,000	1,000
Convertible Redeemable			
Beginning of year	**795**	514	656
Issued in the year —			
Series C at $31.50 pursuant to a public offering	**3,000**	—	—
Series B second preferred at $24.40	**439**	—	—
Series SP at U.S. $5.25 to U.S. $13.75	**340**	525	—
Series D at $22.50 in exchange for options and warrants of an amalgamated subsidiary	**100**	13	98
	4,674	1,052	754
Converted to common shares	**(511)**	(257)	(240)
End of year	**4,163**	795	514

The Series A second preferred shares bear cumulative variable-rate dividends based on the London Inter-Bank Offered Rate. As at December 31, 1980, 1979 and 1978, the dividend rates were 8.56%, 9.15% and 6.53% respectively. These shares are redeemable at U.S. $102 until October 31, 1981 and at the stated value thereafter. At the option of the holder, the company will repurchase, at the stated value, a maximum of 330,000 shares on each of November 1, 1986 and 1987 and any balance outstanding on November 1, 1988.

The Series C second preferred shares bear a cumulative annual dividend of $2.35 each. Each share is convertible into one common share until June 30, 1990, after which the company will purchase 1% of the shares then outstanding per quarter. During 1980, 15,350 shares were converted to common shares.

46,200 Series D preferred shares are reserved for the conversion of warrants granted by an amalgamated subsidiary.

11. Common Stock and Contributed Surplus

Authorized — an unlimited number, without nominal or par value

Issued and fully paid	**1980**		1979		1978	
	Shares	Amount	Shares	Amount	Shares	Amount
			(thousands)			
Common shares	**30,215**	**276,665**	27,380	177,869	26,832	172,027
Contributed surplus	**—**	**8,450**	—	8,200	—	8,169
	30,215	**$285,115**	27,380	$186,069	26,832	$180,196

The details of common shares issued during the years are as follows:

	1980	1979	1978
		(thousands of shares)	
Beginning of year	**27,380**	26,832	25,754
Issued in the year —			
At $42.25 and U.S. $36.25 pursuant to a public offering	**2,000**	—	—
At U.S. $16.00 in exchange for convertible debentures	**316**	—	—
At $10.00 to $27.11 on the conversion of preferred shares	**500**	513	480
At $4.89 to $23.60 under the stock purchase plan and on the exercise of options and warrants	**19**	35	598
End of year	**30,215**	27,380	26,832

The following common shares are reserved for issuance:

At $31.50 for the conversion of Series C second preferred shares	**2,985**	—	—
At $24.40 for the conversion of Series B second preferred shares	**285**	395	—
At U.S. $9.77 to U.S. $49.30 for the conversion of Series SP second preferred shares	**391**	156	—
At $10.00 for the conversion of preferred shares	**565**	833	1,342
At $4.80 to $21.37 for the exercise of options	**101**	104	96
At U.S. $16.00 for the conversion of debentures	**584**	900	900
	4,911	2,388	2,338

Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price equal to 90% of market on the grant date. At December 31, 1980, 1979 and 1978, options, at prices from $4.89 to $21.37 for approximately 100,000 common shares, were held by employees, the majority of whom were also officers or directors.

1969 Stock Purchase Plan

Under the terms of the 1969 Stock Purchase Plan, trustees have purchased, at approximately 99% of market, and hold 7,000 common shares for the benefit of employees who are officers and 186,650 common shares for the benefit of other employees.

The participants pay for the common shares over a period of seven years together with interest calculated at 5% per annum. The shares are held as security by the trustees until full payment has been received.

1979 Stock Purchase Plan

Under the terms of the 1979 Stock Purchase Plan, 624,950 Series SP second preferred shares have been issued of which 575,700 are held by employees who are directors or officers and 49,250 are held by other employees.

The participants pay for the shares over a period of ten years together with interest currently set at 6% to 9% per annum.

12. Income Taxes

Income before income taxes and provision for income taxes by geographic area are as follows:

	1980	1979	1978
		(thousands of dollars)	
Income before income taxes			
Canada	**86,920**	104,527	119,767
United States and other	**106,101**	82,699	28,841
	$193,021	$187,226	$148,608
Current provision for income taxes			
Canada — Federal	**18,200**	26,500	18,800
— Provincial	**5,900**	8,500	8,800
United States and other	**20,400**	8,000	12,700
	$ 44,500	$ 43,000	$ 40,300
Deferred provision for income taxes			
Canada — Federal	**12,300**	13,700	14,300
— Provincial	**4,000**	5,500	4,900
United States and other	**(21,500)**	1,400	7,500
	$ (5,200)	$ 20,600	$ 26,700

The sources of long-term differences between income for financial statement and for income tax purposes are as follows:

	1980	1979	1978
		(thousands of dollars)	
Additional depreciation for tax purposes	**5,500**	13,700	19,300
Investment gains unrealized (realized) for tax purposes	**(6,700)**	300	5,900
Portion of real estate and joint venture income deferred (recognized) for tax purposes	**(5,200)**	4,700	—
Other	**1,200**	1,900	1,500
	$ (5,200)	$ 20,600	$ 26,700

A reconciliation of the company's effective income tax rates is as follows:

	1980	1979	1978
Canadian and United States federal income tax rates	**46.0%**	46.0%	46.0%
Tax incentives for investment, manufacturing and processing	**(5.1)**	(3.2)	(3.0)
Provincial and state income taxes, net of federal deductions	**0.8**	2.9	4.1
Reduced rate on capital gains and other income	**(0.4)**	(1.4)	(5.5)
Inter-unit interest income taxed at reduced rates	**(25.3)**	(8.1)	(2.5)
Non-taxable foreign losses (income) and equity net income	**(1.5)**	(2.5)	3.4
Unrealized foreign exchange and depreciation of subsidiary purchase price allocation	**3.7**	(1.4)	1.1
Other	**2.2**	1.7	1.5
	20.4%	34.0%	45.1%

Investment tax credits are accounted for on the flow-through method.

Income taxes have not been provided on undistributed income of foreign subsidiaries as such income is being reinvested in foreign operations. As at December 31, 1980, this undistributed income amounted to $150,000,000 which, if paid as dividends, would result in a 5% withholding tax on approximately $35,000,000 of the income and 46% income tax on the balance.

13. Net Income Per Common Share

The weighted average number of shares used in calculating net income per common share under the Canadian and United States methods is as follows:

	Canadian			United States		
	1980	1979	1978	**1980**	1979	1978
	(thousands of shares)					
Basic and Primary						
Weighted average common shares	**28,526**	27,274	26,376	**28,526**	27,274	26,376
Share equivalents pertaining to						
—conversion of preferred shares	—	—	—	**3,316**	130	—
—conversion of debt	—	—	—	**622**	75	—
—options and warrants	—	—	—	**170**	151	120
	28,526	27,274	26,376	**32,634**	27,630	26,496
Fully diluted						
Weighted average common shares	**28,526**	27,274	26,376	**28,526**	27,274	26,376
Shares pertaining to						
—conversion of preferred shares	**3,841**	685	1,114	**3,841**	679	1,114
—conversion of debt	**622**	900	76	**622**	900	76
—options and warrants	**254**	412	524	**172**	203	168
	33,243	29,271	28,090	**33,161**	29,056	27,734

Basic and primary income per common share have been calculated after reducing net income by $17,543,000 in 1980, $8,862,000 in 1979 and $2,030,000 in 1978, being the dividends on preferred shares. Net income was increased for purposes of calculating United States income per common share by $7,924,000 in 1980, being the effect on income available for common shares of dividends and interest paid on common share equivalents.

In determining fully diluted income per common share, net income has been reduced by $9,710,000 in 1980, $8,469,000 in 1979, and $1,313,000 in 1978, being the dividends on non-convertible preferred shares, and increased by $394,000 in 1980, $468,000 in 1979 and $39,000 in 1978, being the after-tax effect of interest on convertible debt. Net income was further increased for purposes of calculating Canadian fully diluted income per common share by $185,000 in 1980, $332,000 in 1979 and $244,000 in 1978 to reflect an imputed after-tax return of five to seven percent on funds which would have been available on the exercise of options and warrants.

14. Business Combination

The assets and liabilities of The Flintkote Company (Flintkote), a company engaged in the manufacture and sale of building materials in the United States, have been consolidated on the basis of purchase accounting assuming 100 percent ownership on December 31, 1979. As at that date, the company owned approximately 94 percent of Flintkote issued shares which were acquired by open market purchases in 1978 and by a cash tender offer in the fourth quarter of 1979. Included in 1979 accounts payable is the cost of all of the remaining Flintkote shares which were acquired by February 8, 1980.

Details of the acquisition are as follows:
(thousands of dollars)

Net assets acquired	
Net tangible assets at the book value of Flintkote	349,045
Intangible assets at the book value of Flintkote	5,962
Allocation of purchase price, primarily to fixed assets and long-term debt	97,710
Allocation of purchase price to intangible assets	(5,962)
	$446,755
Consideration	
Equity value of original investment purchased in 1978	70,045
Cash tender offer in 1979	348,610
Minority interest acquired in 1980	28,100
	$446,755

Assuming the purchase had taken place on January 1, 1978, at the same excess of cost over net tangible assets and financed by bank borrowings at an average cost of 10% in 1978 and 13% in 1979, the theoretical pro-forma consolidated results of Genstar would have been as follows:

	1979	1978
	(thousands of dollars)	
Revenues	2,265,300	1,977,600
Income before unrealized foreign exchange	126,100	92,400
Unrealized foreign exchange translation gain (loss)	12,300	(7,600)
Net income	$138,400	$ 84,800
Net income per common share		
Canadian method — basic	$4.75	$3.14
— fully diluted	4.47	2.98
United States method — primary	4.69	3.12
— fully diluted	4.49	3.01

The consolidation of Flintkote resulted in the following changes in financial position:
(thousands of dollars)

Changes in net long-term assets	
Purchase of—	
Investments and loans	14,812
Fixed assets	460,027
	474,839
Assumption of—	
Long-term debt	146,821
Deferred income taxes	47,327
Deferred income	26,845
	220,993
Net long-term assets purchased	253,846
Equity value of original investment	70,045
Decrease in working capital	$183,801

Increases in elements of working capital	
Current assets	
Cash and term deposits	53,613
Accounts receivable	152,307
Inventories	116,439
	322,359
Current liabilities	
Accounts payable	110,887
Income taxes	7,420
Current portion of long-term debt	11,143
	129,450
Working capital purchased	192,909
Net long-term assets purchased	253,846
Cost of acquisition	$446,755

15. Additional Information

Pension Plans

The company and its subsidiaries have a number of defined benefit pension plans under which salaried, commissioned and hourly employees are eligible to participate upon retirement after varying years of employment. The company's annual contributions to the plans are charged to income based on actuarial funding requirements. Total contributions to plans charged to income were $10,700,000 in 1980, $4,000,000 in 1979 and $3,000,000 in 1978 including prior service costs amortized over periods up to 15 years in Canada and up to 30 years in the United States. The increase in expense in 1980 relates primarily to The Flintkote Company, acquired in early 1980, which incurred pension expenses of $8,200,000 in 1979 and $6,400,000 in 1978. The latest actuarial valuations of the pension plans were made as at January 1, 1980 using an assumed return on pension plan assets of 5 percent to 6½ percent.

The principal basis for calculating future benefits and the results of the valuations of the Canadian and the United States plans indicated that:

—assets with a market value of $70,400,000 were available in the Canadian plans compared to a present value of accumulated plan benefits of $64,800,000. The accumulated benefits calculation was based on the value of future accrued benefits at retirement and accordingly assumed 100 percent vesting of benefits.

—assets with a market value of $87,600,000 were available in United States plans compared to a present value of accumulated plan benefits of $103,000,000. The accumulated plan benefits calculation was based on the value of currently accrued benefits payable at retirement and includes $98,200,000 of currently vested benefits.

Reclassification of Comparative Figures
Certain 1978 and 1979 amounts have been reclassified to conform with 1980 presentation.

Capitalized Interest Costs
Interest costs, related primarily to real estate joint ventures, are capitalized during the development period and charged against income as part of construction cost. Had these interest costs been expensed as incurred, net income would have been reduced by approximately $6,800,000 in 1980, $1,300,000 in 1979 and $900,000 in 1978.

Foreign Exchange
The translation to Canadian dollars of amounts denominated in United States dollars increased (decreased) net income as follows:

	Translation of Revenues and Expenses	Translation of Assets and Liabilities	Total
	(thousands of dollars)		
1980	**$19,900**	**$(5,900)**	**$14,000**
1979	10,400	(2,900)	7,500
1978	2,900	(6,300)	(3,400)

The increased translation gain related to revenues and expenses is the result of higher operating income denominated in U.S. dollars and the fluctuation in the exchange rate. At December 31, the United States dollar equivalent of one Canadian dollar was $0.84 in 1980, $0.86 in 1979 and $0.84 in 1978.

Litigation
The company and its subsidiaries are parties to routine claims and suits brought against them in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance, or if not so covered, the results are not expected to materially affect the company's financial position.

A subsidiary has been named as defendant, along with numerous other defendants, in a number of actions commenced in Federal courts in various states by plaintiffs purporting to represent various groups alleging that the Portland Cement Association and its members, including the subsidiary, have violated the antitrust laws by engaging in a conspiracy to fix, stabilize and maintain the price of cement. These actions, most of which have been remanded to the District of Arizona, are only in a preliminary state. Management denies the allegations. Based upon investigation of the allegations to date, counsel engaged to represent the subsidiary in these actions believes that the position of management is sound, and remains of the opinion that the subsidiary has meritorious defenses to the claims. The subsidiary intends to defend the actions vigorously.

16. Summarized Quarterly Financial Data (Unaudited)

Summarized quarterly financial data is as follows:

	Three Months Ended March 31	June 30	September 30	December 31	Year Ended December 31
	(thousands of dollars)				
1980—					
Revenues	$ 413,432	$ 530,252	$ 649,818	$ 716,943	$2,310,445
Gross profit	120,519	144,558	170,953	199,602	635,632
Net income	20,078	33,206	43,964	56,473	153,721
Net income per common share					
—Basic	$ 0.58	$ 1.02	$ 1.41	$ 1.76	$ 4.77
—Primary	0.57	0.96	1.28	1.60	4.41
Market price (The Toronto Stock Exchange)					
—High	$ 35.00	$ 31.00	$ 47.00	$ 44.00	$ 47.00
—Low	25.00	25.00	29.38	35.50	25.00
Trading volume on exchanges in					
—Canada	2,866,426	891,914	2,083,043	949,463	6,790,846
—United States	758,604	539,677	2,840,005	1,477,714	5,616,000
—Other	216,538	138,490	327,761	193,662	876,451
Total	3,841,568	1,570,081	5,250,809	2,620,839	13,283,297

	Three Months Ended March 31	June 30	September 30	December 31	Year Ended December 31
	(thousands of dollars)				
1979—					
Revenues	$ 231,923	$ 287,385	$ 381,370	$ 363,873	$1,264,551
Gross profit	76,145	91,927	113,698	126,672	408,442
Net income	16,186	28,163	35,324	43,953	123,626
Net income per common share					
—Basic	$ 0.52	$ 0.96	$ 1.22	$ 1.51	$ 4.21
—Primary	0.52	0.95	1.21	1.48	4.16
Market price (The Toronto Stock Exchange)					
—High	$ 20.87	$ 24.63	$ 27.75	$ 26.87	$ 27.75
—Low	18.38	19.82	21.50	20.37	18.38
Trading volume on exchanges in					
—Canada	1,311,504	1,334,688	900,584	1,236,391	4,783,167
—United States	162,600	257,000	429,900	251,100	1,100,600
—Other	281,566	351,627	153,023	148,611	934,827
Total	1,755,670	1,943,315	1,483,507	1,636,102	6,818,594

17. Supplementary Information on Inflation and Changing Prices (Unaudited)

Overview

The North American economy continued to experience a high rate of inflation in 1980. In an attempt to provide financial statement users with information as to the effects of inflation on the business enterprise, the Financial Accounting Standards Board (FASB), United States, has issued Statement No. 33—"Financial Reporting and Changing Prices," which contains guidelines for the computation and disclosure of inflation adjusted financial information. FAS 33 requires both a "Constant Dollar" computation which measures the effects of general inflation in terms of purchasing power of the dollar and a "Current Cost" computation which measures the effects of specific inflation on the company's particular businesses. Both of these measures are then combined with historical cost data to provide two distinct perspectives on the company's results and financial position adjusted for inflation. As explained hereunder, these computations, of necessity, involve estimates and subjective judgments which greatly reduce comparability to actual operating conditions and the reader is cautioned accordingly.

Constant Dollar Information

The Consumer Price Index, Canada (CPI), has been used as the measure of general inflation and has been applied to restate items from historical cost to equivalent average 1980 dollars. Original purchase dates for inventories and fixed assets were identified. The historical cost amounts for these items and the related cost of sales and depreciation have been increased by the percentage change in the CPI which occured during the period of ownership.

The resulting adjustments have been included with historical cost data and show both that portion of the reported income which might be attributed to general inflation and the increase in balance sheet amounts for fixed assets and inventories that would theoretically occur had these items been purchased with average 1980 dollars.

Similar indexing has been applied to the five year summary of revenues, dividends and common share market price so as to express this data in dollars of equivalent purchasing power. This data is included in the Financial Review on page 29 of this report. The constant dollar trends represent growth in excess of general inflation.

Current Cost Information

The prescribed FAS 33 method to approximate specific inflation is to determine the cost to replace assets with the same type as those sold or utilized by the company. The methods used to determine this theoretical cost vary depending on the industry and type of asset. The current cost of inventories of manufactured products and housing units and the related cost of sales have been determined by applying recent purchase prices or standard costs to units on hand or the use of indexes for changes in costs obtained from internal and external sources. Land development operations inventories and cost of sales have been adjusted by the CPI for land content and internal cost increment indices for the development content. The CPI has been used for land content because the unique nature of land purchased for future development precludes the determination of a sufficiently accurate current cost of an asset with the same service potential.

The current cost of fixed assets of manufacturing and marine operations has been determined using recent construction and purchase costs; internal, external and trade association indices and recoverable amounts for plants which will be divested. Mobile equipment current cost was based on quoted used equipment prices, internal indices and new equipment prices factored for differences in utility. The fixed assets of The Flintkote Company have been included at the consolidated carrying value at December 31, 1979, the date of acquisition, adjusted for changes in external indices in 1980. Where new asset prices have been used, accumulated depreciation has been deducted for the expired useful life. Depreciation was based on average 1980 current cost and historic estimated useful lives.

The adjustments from historic to current cost are summarized hereunder and show that inflation as experienced by the company's particular mix of businesses was greater than general inflation during the period.

Purchasing Power Gain

As the purchasing power of the dollar declines, so does the true economic cost to repay liabilities. The company's net monetary liabilities have been adjusted to average 1980 dollars using the CPI. The resultant reduction in liabilities, assuming repayment in December 31, 1980 dollars, is the purchasing power gain.

This considerable gain can be viewed as the purchasing power decrease accruing to the lender of capital and the result of using borrowed funds as a hedge against the effects of inflation on related assets.

Capital Stock and Retained Earnings
The company's total assets less liabilities have been adjusted to average 1980 dollars to produce a constant dollar equivalent of capital stock and retained earnings and further adjusted for the current cost/constant dollar differential of inventories and fixed assets to produce a current cost equivalent.

Under both methods, the capital stock and retained earnings are considerably greater than the corresponding historical cost amounts. These adjusted amounts should be viewed as estimates of capital employed on which a fair return must be earned and not as amounts distributable to shareholders as dividends.

Selected 1980 Financial Data Adjusted for the Effects of Changing Prices (thousands of dollars except per share amounts)	Historical Cost	Constant Dollar	Current Cost
Net Income			
As reported	153,721	153,721	153,721
Adjustments for general inflation			
Cost of sales	—	61,941	61,941
Depreciation	—	19,469	19,469
	153,721	72,311	72,311
Adjustments for specific inflation			
Cost of sales	—	—	4,635
Depreciation	—	—	17,987
	$ 153,721	$ 72,311	$ 49,689
Gain from decline in purchasing power of net liabilities	$ —	$ 110,000	$ 110,000
Net income per common share	$ 4.77	$ 1.92	$ 1.13
Inventories and Fixed Assets			
As reported	1,636,486	1,636,486	1,636,486
Adjustments for general inflation	—	265,427	265,427
	1,636,486	1,901,913	1,901,913
Adjustments for specific inflation in excess of general inflation			
Prior years	—	—	186,704
Current year	—	—	14,774
	$1,636,486	$1,901,913	$2,103,391
Capital Stock and Retained Earnings	$ 929,302	$1,240,011	$1,441,489

The information provided above is expressed in average 1980 dollars. Adjusted inventories, including development land, and fixed assets calculated under the current cost method in year-end 1980 dollars were $837,812,000 and $1,372,512,000, respectively, compared to historic cost of $720,103,000 and $916,383,000.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

We have examined the consolidated balance sheets of GENSTAR LIMITED and subsidiaries as at December 31, 1980 and 1979 and the related statements of consolidated income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1980, as set forth on pages 30 through 54 of this report. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of GENSTAR LIMITED and subsidiaries as at December 31, 1980 and 1979 and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants

Montreal, Canada
February 24, 1981

BUILDING MATERIALS

Divisions and Subsidiaries

CEMENT AND LIME

Inland Cement Industries Limited

Edmonton, Alberta

President:
R. D. MacLean

Regional Vice Presidents:
B. T. Price, British Columbia
R. J. Zimmel, Alberta
P. Wacko, Manitoba and Saskatchewan

Flintkote Cement and Lime Company

San Francisco, California

President:
M. J. London

Subsidiary Vice Presidents:
A. D. Stauber, Calaveras Cement
J. C. MacDonald, Flintkote Lime Products

CONCRETE, AGGREGATES AND CONSTRUCTION SERVICES

Flintkote Stone Products Company

Hunt Valley, Maryland

President:
J. A. West

Subsidiary Executive Vice President:
M. D. Boyd, King Paving and Materials

Genstar Materials Limited

Vancouver, British Columbia

President:
N. D. MacRitchie

Regional Vice Presidents:
J. T. Arnold, Vancouver
J. A. Cherry, Edmonton
R. C. Kruger, Calgary
H. F. Ward, Regina
R. D. Rosenblat, Winnipeg

Con-Force Products Limited and Con-Force Costain Concrete Tie Company Limited

Calgary, Alberta

President:
A. W. Falk

Executive Vice President:
D. Pickersgill

Genstar Construction Services Limited

Edmonton, Alberta

President:
B. Amos

Regional Vice Presidents:
Z. J. Iwaskow, Vancouver
W. E. Gardiner, Edmonton
A. J. Flood, Calgary
W. D. Kufflick, Winnipeg

Genstar Construction Limited

Calgary, Alberta

President:
W. M. Bateman

Division Senior Vice President:
J. E. Searle, International Division

Division Vice Presidents:
H. B. McLenaghan, Engineering & Industrial Division
J. W. Taylor, Genstar Construction, Inc.

Subsidiary President:
B. N. Baranyai, Construction Romir Inc.

BUILDING SUPPLIES

Flintkote Building Products Company

Irving, Texas

President:
J. M. Shedden

Executive Vice President:
H. E. Beard, Manufacturing, Engineering and Research

Subsidiary President:
J. C. Murphy, Flintkote Supply Company

Division Vice Presidents:
S. E. Martin, Western Roofing Division
W. E. McClung, Eastern Roofing Division
R. L. Murray, Marketing Division
C. T. Upshaw, Gypsum Division

Truroc Gypsum Products Limited

Edmonton, Alberta

President:
G. R. Thompson

Genstar Conservation Systems, Inc.

San Francisco, California

Vice President:
J. A. Crawley

Subsidiary Presidents:
F. G. Smith, Rubber Recycling
R. T. Mandeville, Gas Recovery Systems
B. R. Wendrow, U.S. Rubber Reclaiming

LAND/REAL ESTATE

Divisions and Subsidiaries

HOUSING

Genstar Properties Limited

Calgary, Alberta

President:
C. D. Wilson

Subsidiary Presidents:
G. H. Magnussen, Engineered Homes
L. H. Frodsham, Keith Construction
L. Luini, Housing Components
C. D. Smith, Commercial Development

Genstar Pacific Corporation

San Francisco, California

Subsidiary Presidents:
B. Smith, Jr., Broadmoor Homes
R. B. Menard, Broadmoor Homes Northern
J. Thompson, Genstar Homes of Texas
M. D. Couch, Sutter Hill Limited

FINANCIAL / MARINE SERVICES

Divisions and Subsidiaries

LAND DEVELOPMENT

Genstar Development Company
Vancouver, British Columbia
President:
V. S. G. Lewis
Regional Presidents:
M. H. Rogers, Eastern Canada
L. Cosman, Western Canada

Genstar Properties
San Diego, California
President:
F. D. Dembinsky
Subsidiary Presidents:
N. D. Gascon, Penasquitos Properties
L. R. Lizotte, Broadmoor Development
M. B. McAfee, Southern Development
Subsidiary Vice President:
J. E. Carr III, Texas Development
Subsidiary General Manager:
G. D. Carlson, Cascade Development

FINANCIAL SERVICES

Atlas Thrift Company
San Jose, California
President:
J. D. Williamson

Atlas Thrift of Nevada
Reno, Nevada
President:
C. R. Maraden

First American Title Guaranty Company
Oakland, California
President:
W. B. Morrish

Genstar Pacific Investments
San Francisco, California
President:
D. R. Blanchard

Rental Electronics, Inc.
Palo Alto, California
President:
W. D. Rollnick

Sutter Hill Ventures
Palo Alto, California
General Partners:
W. H. Draper III
P. M. Wythes
D. L. Anderson
G. L. Baker, Jr.

TXL Corporation
San Francisco, California
President:
R. L. Bishop

Western Mortgage Corporation
Los Angeles, California
President:
E. H. Plaga

MARINE SERVICES

Genstar Marine Limited
North Vancouver, British Columbia
President:
J. S. Byrn

Seaspan International Ltd.
North Vancouver, British Columbia
President:
A. M. Fowlis

Vancouver Shipyards Co. Ltd.
North Vancouver, British Columbia
President:
W. D. Traill

McAllister Towing & Salvage Ltd.
Montreal, Quebec
President:
D. G. McAllister

Genstar Marine Services Limited
St. John's, Newfoundland
Vice President:
F. S. Collins

INVESTMENTS

Genstar Chemical Limited
Montreal, Quebec
President:
R. A. Parkes

CORPORATE INFORMATION

Counsel: Ogilvy, Renault, Montreal, Quebec

Shearman & Sterling, New York, New York

Auditors: Coopers & Lybrand, Montreal, Quebec

Transfer Agents: Montreal Trust Company, Halifax, Saint John, Montreal, Toronto, Winnipeg, Calgary, Edmonton and Vancouver

Morgan Guaranty Trust Company of New York, New York

Registrars: The Royal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Calgary, Edmonton and Vancouver

Citibank, N.A., New York, New York

Stock Exchanges: (Symbol GST)
Montreal, Toronto, Alberta and Vancouver Stock Exchanges in Canada

New York and Pacific Stock Exchanges in the United States

Brussels and Antwerp Bourses in Belgium

Zurich, Geneva and Basel Exchanges in Switzerland

Luxembourg Stock Exchange

Form 10-K

Genstar Limited is incorporated under the laws of Canada. The company files an annual report on Form 10-K with the Securities and Exchange Commission, Washington, D.C. This report is available free of charge to shareholders on request to the Public Relations Department of the company.

Version Francaise

Les actionnaires qui désirent recevoir ce rapport en français sont priés de s'adresser au service des Relations Publiques de la Société.

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GENSTAR