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# **GENSTAR**

Annual Report 1981

HOWARD ROSS LIBRARY  
OF MANAGEMENT  
APR 5 1982  
MCGILL UNIVERSITY

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OF MANAGEMENT  
JUL 22 1985  
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# Genstar Corporation

## Corporate Information

**Auditors:** Coopers & Lybrand,  
Vancouver, British Columbia

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

Morgan Guaranty Trust Com-  
pany of New York, New York

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

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

**Stock Exchanges:** (Symbol GST)  
Toronto, Montreal, 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

## Annual Meeting

The Annual Meeting of Genstar  
shareholders will be held on  
Thursday, May 13th, 1982,  
at 11:00 a.m. in MacLeod Hall,  
Calgary Convention Centre,  
120 Ninth Avenue S.E.,  
Calgary, Alberta, Canada.

## Genstar Corporation

Executive Office:  
Four Embarcadero Center  
San Francisco, California 94111  
U.S.A.  
Tel: (415) 986-7200

### Form 10-K

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

### Dividend Reinvestment Plan

Genstar established an optional  
dividend reinvestment plan in  
1981 to provide registered share-  
holders with a convenient means  
of reinvesting their dividends and  
making cash payments for addi-  
tional Genstar shares. For more  
information, contact: Genstar  
Dividend Reinvestment Services,  
Montreal Trust Company, 466  
Howe Street, Vancouver, British  
Columbia, Canada V6C 2A8.

### Version Française

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

## Corporate Profile

Genstar Corporation is a leader  
in the manufacturing of building  
materials, and in land and real  
estate development. Primary  
markets include the western  
provinces of Canada and the  
western and southern "Sunbelt"  
regions of the United States. The  
company is also heavily engaged  
in a broad range of financial serv-  
ices throughout Canada and the  
United States and performs a vari-  
ety of marine services, principally  
on the Canadian West Coast.

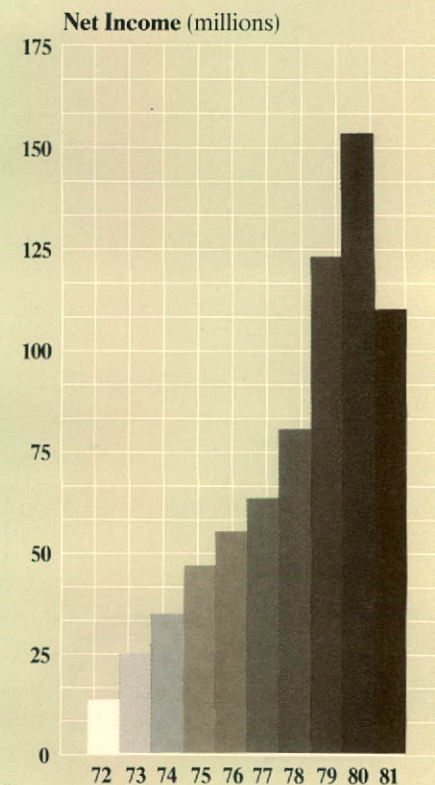
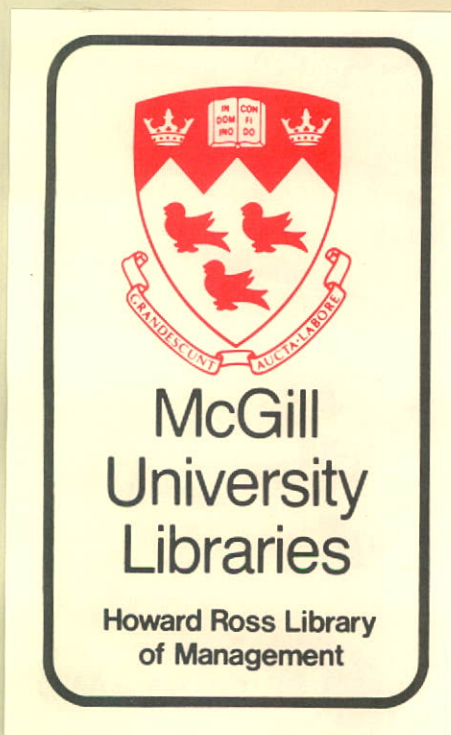
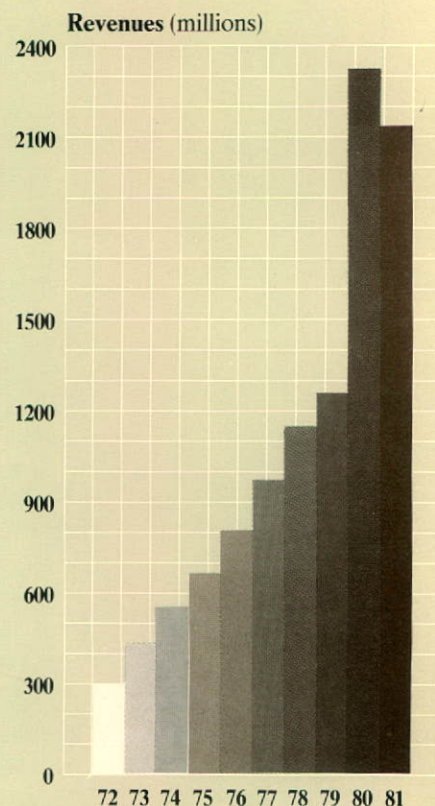
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# Financial Highlights

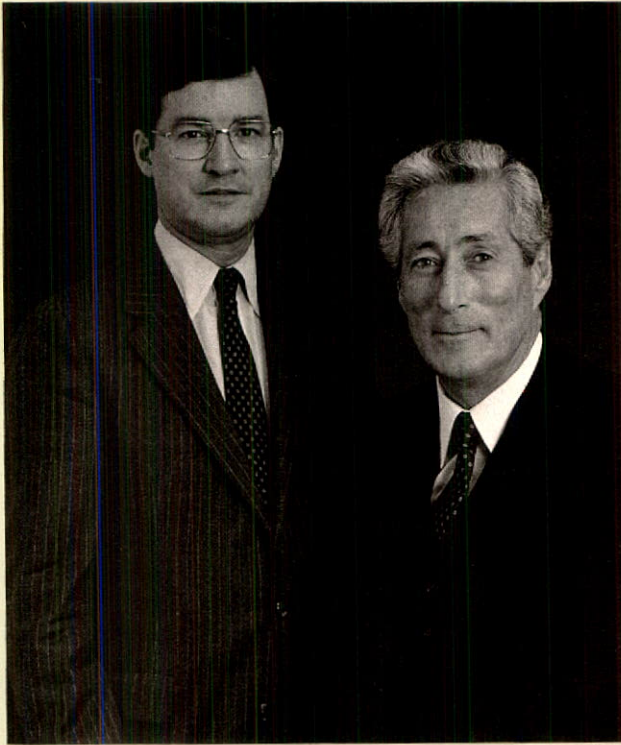
(For the years ended December 31)

	1981	1980	Increase (Decrease)
	(millions of Canadian dollars)		
Revenues	\$2,145.9	\$2,310.4	(7%)
Funds from Operations	156.3	215.4	(27%)
Depreciation, Depletion and Amortization	78.3	77.1	2%
Net Income	109.5	153.7	(29%)
Dividends on Common Shares	54.8	47.1	16%
Net Income per Common Share:			
Canadian Method			
— Basic	\$2.92	\$4.77	(39%)
— Fully Diluted	2.79	4.35	(36%)
United States Method			
— Primary	2.81	4.41	(36%)
— Fully Diluted	2.78	4.35	(36%)
Dividends per Common Share (Current annual rate — \$1.80)	1.80	1.65	9%



# Report of the Directors

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*Angus A. MacNaughton and Ross J. Turner*

Although performance in Canada was satisfactory in 1981, high interest rates and declining levels of residential construction in the United States kept Genstar revenues, net income, and earnings per share well below the record levels of a year ago.

## **Financial Highlights**

Net income in 1981 amounted to \$109.5 million or \$2.92 per common share, compared with \$153.7 million or \$4.77 per share in 1980. Revenues totaled \$2.1 billion, down from \$2.3 billion the previous year. Per share amounts were calculated on an average of 30,495,000 shares outstanding in 1981 and 28,526,000 in 1980.

Though earnings rose slightly through the first half of 1981, key markets deteriorated after mid-year. In particular, the high cost of mortgage financing reduced new housing starts in the United States to their lowest level since 1946. Despite strict measures to control costs, losses in the U.S. were incurred in building materials manufacturing, homebuilding, and the financing of real estate joint ventures. There was also a substantial decline in income from land development.

While 1981 was a disappointing year, the company did benefit from its industrial and geographic diversity. In the U.S., for instance, such disparate

businesses as mortgage banking, venture capital investment, and the rental of electronic equipment produced excellent returns.

Most operations in Canada also made good contributions to earnings, as markets in Alberta and British Columbia remained quite strong. Profits from marine services and building materials rose to record levels, with the cost-effectiveness of added capacity in Alberta increasing income from cement despite a strike that closed the Vancouver plant for half the year. Canadian homebuilding and land development operations maintained reasonable levels of profitability by building presold homes under contract for large resource development projects and by changing product mix.

## **Significant Events**

The most important development of the year was the acquisition of Canada Permanent Mortgage Corporation for \$288 million. This transaction, which is subject to review by Canadian government agencies, substantially increases the scope of Genstar financial service activities. With assets of \$5.6 billion, plus another \$4.3 billion under its administration, The Permanent is Canada's third largest trust institution. Established in 1855, it has more than 200 deposit, loan, trust and real estate sales offices throughout the country. A more complete discussion of Canada Permanent begins on page 20 of this report.

There were several other significant developments:

□ The company further expanded its financial service activities when it entered the intermodal container leasing business late in the year. Genstar Container Corporation now has leasing offices in the U.S., Europe and the Far East. Through two acquisitions, Genstar also broadened its ability to serve municipal waste management markets in the United States. The two companies, Easley & Brassy Corporation and Briscoe-Maphis Inc., are respectively engaged in the operation of sanitary landfills and urban waste transfer stations and in the disposal of liquid sludge.

□ Two major cement plant expansions progressed smoothly through start-up, and performance exceeded expectations during the first full year of operation. The expansions, at Edmonton, Alberta, and Redding, California, add more than one million tons to annual capacity.

□ Three long-term debt issues were sold in Europe. Proceeds of these debentures totaled U.S. \$125 million plus 100 million Swiss francs (about Cdn. \$60 million). Genstar also entered into a sale and leaseback transaction for 2,300 pieces of its mobile construction equipment. This transaction, completed in early 1982, generated approximately

\$65 million in cash and is believed to be one of the largest operating lease transactions in Canada.

□ To reduce expense at U.S. building materials operations, Genstar sold or closed several nonessential facilities in 1981. Included were a large roofing plant, a felt mill, and 12 wholesale supply outlets. The company also sold half of its interests in chemical and fertilizer manufacturing, generating approximately \$30 million in proceeds that were applied to short-term debt.

□ Dividends paid on common stock rose from \$1.65 per share in 1980 to \$1.80 in 1981, making this the eleventh straight year payments to shareholders have increased.

□ Following approval at the annual shareholders meeting in May, the Registered Office in Canada was relocated from Montreal to Vancouver, and the company's name was changed from Genstar Limited to Genstar Corporation.

**Capital Expenditures**

Capital investments in 1981 amounted to \$148 million, down from \$172 million the year before. Most of the expenditures were made to ensure continued growth in strong Canadian markets. One of the largest investments was in new storage and grinding facilities and in expansion of limestone reserves for the cement plant in Edmonton. Work on these projects is continuing.

In 1982, expenditures of about \$95 million are anticipated. The majority of new projects will be devoted to enhancing production efficiency and improving profitability of U.S. building materials operations. Included will be energy-saving modifications to production facilities and a new glass mat manufacturing plant to serve roofing operations in the Central United States. Glass-mat asphalt shingles are capturing an increasingly large share of the market from conventional felt-mat roofing and are substantially less expensive to manufacture.

**Outlook**

Genstar believes 1982 may well be as difficult a year as the one just past. Although the company continues to carefully control and reduce costs, operations will be negatively affected by high interest rates and correspondingly low levels of residential construction at least through mid-year.

Longer-term, the outlook remains promising, enhanced by the accomplishment of two long-range, strategic objectives in the past two years. With acquisition of The Flintkote Company, Genstar established a solid base from which to manufacture and market building products in the United States. Now, with Canada Permanent, it has significantly expanded the scope of its financial service activities.

The company has also carefully maintained the base on which earlier successes were built, nurturing a broad array of operations in the highest growth areas of Western Canada and the western and southern "Sunbelt" regions of the United States.

Even when markets for housing and related goods are temporarily suppressed, the population continues to grow in areas such as these, and the need for shelter will mount proportionately until it can be met. At that time, demand should be immediate and large.

Genstar is now well positioned in businesses that should enjoy strong growth in the 1980s, and the company's markets should be among the first to benefit once economic recovery begins.

**Board of Directors**

Mr. Max Nokin, Honorary Governor of Société Générale de Belgique, retired from the Board of Directors in 1981. Mr. Nokin had served as a Genstar Director for more than 25 years and was most instrumental in the initial decisions and arrangements that led to construction of cement facilities in Edmonton, an early cornerstone of Genstar growth and today one of its leading profit centers. His foresight in recognizing the growth potential of Alberta and in encouraging this and other initial investments has been of immense benefit to Genstar.

Mr. William S. Ziegler, former Chairman and President of Inland Cement Industries (now Genstar Cement Limited) and a Director since 1965, also retired from the Board in 1981. Mr. Ziegler was heavily involved in the formative years of the company's cement operations and had much to do with Genstar's growth and vitality in Northern Alberta.

At the annual meeting, shareholders elected two new Directors to the Board, Mr. Donald Getty, President of D. Getty Investments Ltd., and Mr. Yves du Parc, Deputy General Manager of Société Générale des Minerais. Mr. Getty is a former Minister of Energy and Natural Resources for the Province of Alberta, having served in that capacity from 1975 to 1979.

**Employees**

For their contributions and dedication in this difficult year, the Directors would like to thank the company's 20,000 employees, including the 5,000 from Canada Permanent whom the Board welcomes to the Genstar organization.

On behalf of the Board

*Angus MacNaughton*      *Ross J. Turner*

Angus A. MacNaughton      Ross J. Turner  
Chairman      President

March 10, 1982

# Genstar Operations

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## Building Materials

### Cement and Lime

	1981 (millions)	1980
Revenues	\$313.2	\$360.6
Net Income	\$ 18.5	\$ 22.5

#### 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; 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
<b>Total</b>	<b>4,231,000</b>

#### Lime Plants

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

\*Short tons

\*\*Masonry cement only

### Concrete, Aggregates and Construction Services

	1981 (millions)	1980
Revenues	\$668.1	\$609.3
Net Income	\$ 33.1	\$ 25.4

#### Products/Services

Classified sand, gravel, standard and light-weight 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 construction services and real estate subdivision servicing (road construction, paving and installation of utilities).

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	24	11	35
Precast Concrete	8	—	8
Concrete Block	8	1	9
Concrete Pipe	8	—	8
Concrete Rail Ties	1	—	1
Asphalt/Bituminous Concrete	12	8	20
Dry Bagged Mixes	5	9	14
Aggregates*	21	13	34
Calcium Carbonate Products	—	1	1
<b>Total</b>	<b>87</b>	<b>43</b>	<b>130</b>

\*Includes sand, gravel and crushed stone plants

### Building Supplies

	1981 (millions)	1980
Revenues	\$575.3	\$608.4
Net Income	\$(23.1)	\$ (3.5)

#### Products/Services

Gypsum wallboard; roofing products (asphalt shingles and rolls, liquid asphalt coatings, felt and paperboard); asphaltic adhesives; recycled rubber for asphalt paving and rubber products; concrete admixtures. Wholesale and distribution of construction materials to builders (through Genstar Supply Centers); sanitary landfilling and methane gas recovery; sludge disposal.

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.

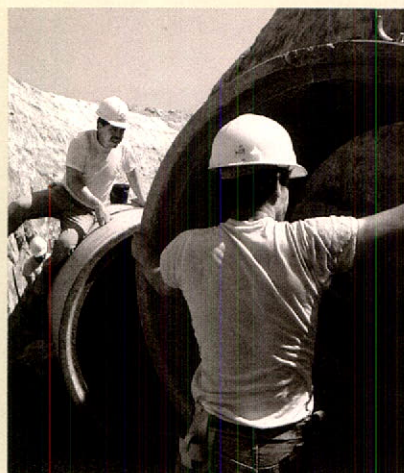
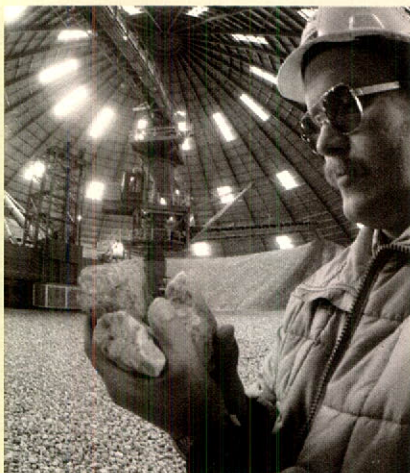
#### Gypsum Wallboard & Roofing Plants

Location:	Annual Capacity	
	Wallboard:*	Roofing:**
British Columbia	147,000	—
Alberta	147,000	—
Saskatchewan	147,000	—
Arkansas	—	140,000
California	200,000	200,000
Colorado	200,000	—
Georgia	310,000	175,000
Illinois	—	330,000
Minnesota	—	120,000
Nevada	315,000	—
New Jersey	270,000	—
Oregon	—	140,000
Texas	332,000	200,000
<b>Total</b>	<b>2,068,000*</b>	<b>1,305,000**</b>

\*Thousands of square feet (for 3-shift, 6 2/3-day-per-week operations)

\*\*Tons

(Roofing figures do not include production capacity for 20,000 tons of liquid compounds and 150,000 tons of paperboard and felt.)



## Land/Real Estate

### Housing and Land Development

	1981	(millions)	1980
Revenues	\$486.1		\$589.1
Net Income	\$ 43.6		\$ 71.6

#### Products/Services

Single-family homes, duplexes and townhouses; shopping centers; warehouses; pre-assembled 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 historically high growth. Primary areas of activity include the provinces of British Columbia, Alberta, Manitoba and Ontario in Canada, and the states of Washington, California, Arizona, Texas and Florida in the U.S.

#### Genstar Unit Sales/Housing\*

	1977	1978	1979	1980	1981
Canada	2,707	2,534	2,199	1,757	1,581
U.S.	997	945	1,178	954	699
Total	3,704	3,479	3,377	2,711	2,280

\*Figures do not include additional residential units delivered by Genstar Financial Services joint ventures. In 1981, these totaled 985.

#### Genstar Acreage/Land Development\*

	Owned	Optioned	Held in Partnership	Total
Canada	13,505	880	11,236	25,621
U.S.	8,753	6,985	2,825**	18,563
Total	22,258	7,865	14,061	44,184

\*At December 31, 1981; figures exclude holdings of Genstar Financial Services joint ventures

\*\*Includes an option on 2,150 acres



## Marine/Financial Services

### Marine Services

	1981	(millions)	1980
Revenues	\$139.6		\$122.7
Net Income	\$ 13.1		\$ 10.8

#### 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. Shipdocking is performed in both Western and Eastern Canada. Transport of heavy-lift modular cargo and specialized support services are provided on an international scale. Salvage operations are based in Montreal. The company's shipyard in Vancouver, British Columbia, is equipped with ship repair facilities and builds vessels for both coastal and offshore markets.

#### Equipment

52 tugs (from 335 to 7,080 brake horsepower)  
272 barges (including 6 submersible barges measuring 400 x 100 feet, and 3 self-loading, self-dumping log barges ranging from 12,500 to 20,000 tons)



### Financial Services

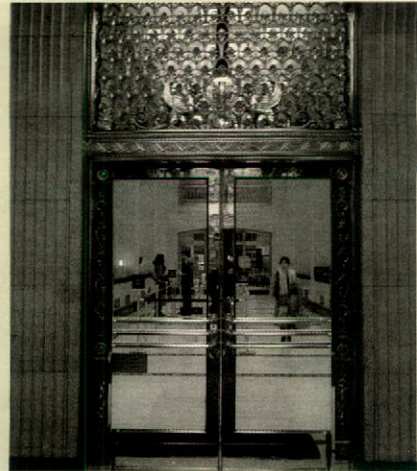
	1981	(millions)	1980
Revenues	\$ 51.6		\$ 76.3
Net Income	\$ 22.7		\$ 25.1

#### Services

Financial intermediary operations; trust services; real estate brokerage; mortgage banking; real estate joint venture financing; title insurance and escrow services; capital equipment leveraged-lease brokerage; rental of electronic test and measurement equipment; container leasing; venture capital investment; thrift and loan operations.

Newly acquired Canada Permanent Mortgage Corporation has more than 200 deposit, loan, trust, and real estate sales offices throughout Canada. Genstar's mortgage banking operations in the United States service a U.S. \$3.5-billion portfolio of loans for investors. The company 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. Container leasing is an international enterprise. Venture capital activities include equity investments in emerging high-technology companies in the U.S. Thrift and loan offices are in California and Nevada.

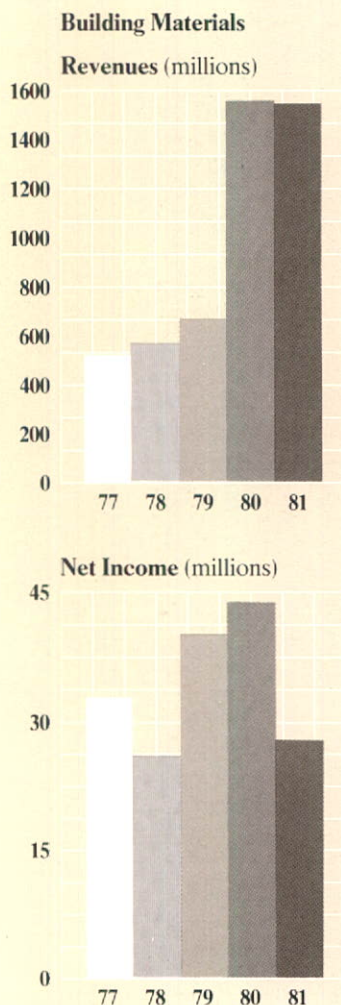
**Other operations** not pictured consist of an interest in the manufacturing of nitrogen-based chemicals, industrial gases, and mixed fertilizers. Part of these operations were wholly owned by Genstar through the first quarter of the year. In 1981, the company realized \$15.8 million in revenues and \$1.6 in net income from these enterprises.



# Building Materials

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In its largest business, Genstar makes cement and lime, supplies concrete products, aggregates and construction services, and markets a variety of building supplies, including its own roofing and wallboard.



## Cement and Lime

Revenues and income from cement and lime in 1981 fell below the record level of a year ago. Although earnings of Canadian operations rose substantially, the increase was more than offset by declining profits in U.S. markets.

Throughout the western provinces of Canada, demand for portland cement remained strong. Higher prices, coupled with improved efficiency at the plant in Edmonton, Alberta, contributed to an increase in earnings on lower volume. The decrease in volume resulted from a labor dispute that closed Genstar's Vancouver cement plant during the first half of the year. Although this reduced returns from markets in British Columbia and from exports to the Northwestern U.S., the Alberta economy continued to be exceptionally strong. Demand in that province not only consumed increased tonnage from the Edmonton plant but also justified interprovincial shipments that kept productivity high at facilities in Manitoba and Saskatchewan.

Performance at Edmonton in the first year following that plant's expansion was better than had been anticipated. Since its start-up in November 1980, output of the new, energy-efficient dry kiln has gradually risen to maximum capacity, and lower fuel costs have contributed to increased profitability.

Earnings from cement and lime divisions in the United States were well below 1980 levels. The decline in residential construction reduced cement sales and volume at the Northern California plants, where capacity had been added in January with enlargement of the Redding facility. While manufacturing costs rose because of low utilization of capacity, competitive pressures kept prices low and eroded profits. Start-up of the

Redding facility progressed smoothly throughout the year, however, and earnings will benefit substantially from its fuel-efficient design once market conditions improve.

Margins deteriorated even more at lime operations in the U.S., where there was intense competition for reduced levels of business in the depressed steel, copper and construction industries. This made it impossible to pass on escalating production costs, particularly for fuel and electricity in this energy-intensive business. There was some success during the year, however, in developing new markets for lime, most notably among electric utilities which use the product to control air pollution at coal-burning power plants.

Capital expenditures at cement and lime divisions in 1981 totaled \$58.6 million, compared with \$90.2 million the year before. The largest investments, about \$30.3 million, were made in the Edmonton cement operation where new grinding and storage facilities will be completed in April. A major expansion is also continuing at the Cadomin quarry, which supplies the Edmonton plant with limestone. Expenditures in the U.S. and Canada are projected at approximately \$28.9 million in 1982.

Income from cement and lime should grow during the coming year. In Western Canada, positive influences that contributed to demand for cement in 1981 remain relatively unchanged, and income should benefit from higher full-year volumes at the modern and efficient plants in British Columbia and Alberta. Efforts to achieve production efficiencies and develop new markets may also result in some improvement at U.S. cement and lime divisions, although significant near-term recovery is not anticipated in residential construction or other key markets important to these operations.





*Automated stacker-reclaimer systems (top) uniformly blend and store raw materials for cement manufacturing at recently expanded plants in Redding, California, and Edmonton, Alberta. Advanced controls (lower left) also contribute to the cost-effectiveness and productivity of these plants. As part of a new corporate identity program, Inland Cement in Canada was among subsidiaries that adopted the Genstar name in 1981 (lower right).*



# Building Materials

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## Concrete, Aggregates and Construction Services

Revenues and income rose substantially for the third year in a row as concrete, aggregate and construction service operations performed well in both Canada and the United States.

In Western Canada, returns in 1981 from concrete block, pipe, ready-mix and aggregate activities reached record levels on lower volumes. Major gains in profitability in British Columbia and continued strength in Alberta accounted for the large increases, while markets remained soft in Saskatchewan and weak in Manitoba. Profits benefited as prices held up well and organizational efficiencies were achieved. The latter included disposal of depleted aggregate properties and surplus land and the sale or lease of four small plants in unpromising market areas.

There was record demand for precast concrete structures, with Alberta and British Columbia again the most active markets. One of the largest awards of the year was a \$10-million contract to provide precast materials for the Calgary Olympic Coliseum. To be completed in 1983, this hockey arena and convention center will house the Winter Olympics in 1988.

Genstar significantly increased its manufacturing capacity for precast/prestressed concrete structures with completion in August of a new factory in Calgary. The company also opened a new facility in Calgary to manufacture packaged concrete dry mix. In Edmonton, Genstar expanded its concrete rail tie plant.

Returns from construction activities approximated those of a year ago. There was a slight decline in municipal and subdivi-

sion construction because of soft real estate markets. Performance of heavy construction operations improved, however, although that division still experienced a small net loss.

Heavy construction projects, such as the building of hydroelectric dams and generating stations, have proven to be high-risk ventures in a field with low growth potential, and a decision was made in the third quarter to withdraw from this type of activity. Most heavy construction projects in which the company was engaged in 1981 have now been completed. Only one large project, a joint venture in which Genstar has a 15 percent interest, is expected to continue beyond 1982. In the future, construction units will concentrate on municipal and real estate related work.

Operations in the United States and Eastern Canada performed well. Gains were made in margins and income from asphalt production, which had been negatively affected the year before by rising petroleum costs that could not be passed on to contract customers. Returns from calcium carbonate, a filler or extender for other materials, also improved when larger volumes were sold to the paper industry.

Although income in the U.S. from ready-mix concrete was relatively unchanged from a year ago, earnings from packaged concrete and other dry mixes rose because of better production efficiency and cost controls. Low levels of new construction typically stimulate demand for these home repair and maintenance products, and Genstar purchased the Dry Mix Concrete Company and its two plants in Illinois late in 1981. Moving into the Midwest significantly expands Genstar's market for these mixes, which include the popular Sakrete\* brands.

In the U.S., only the profitability of sand, stone and gravel

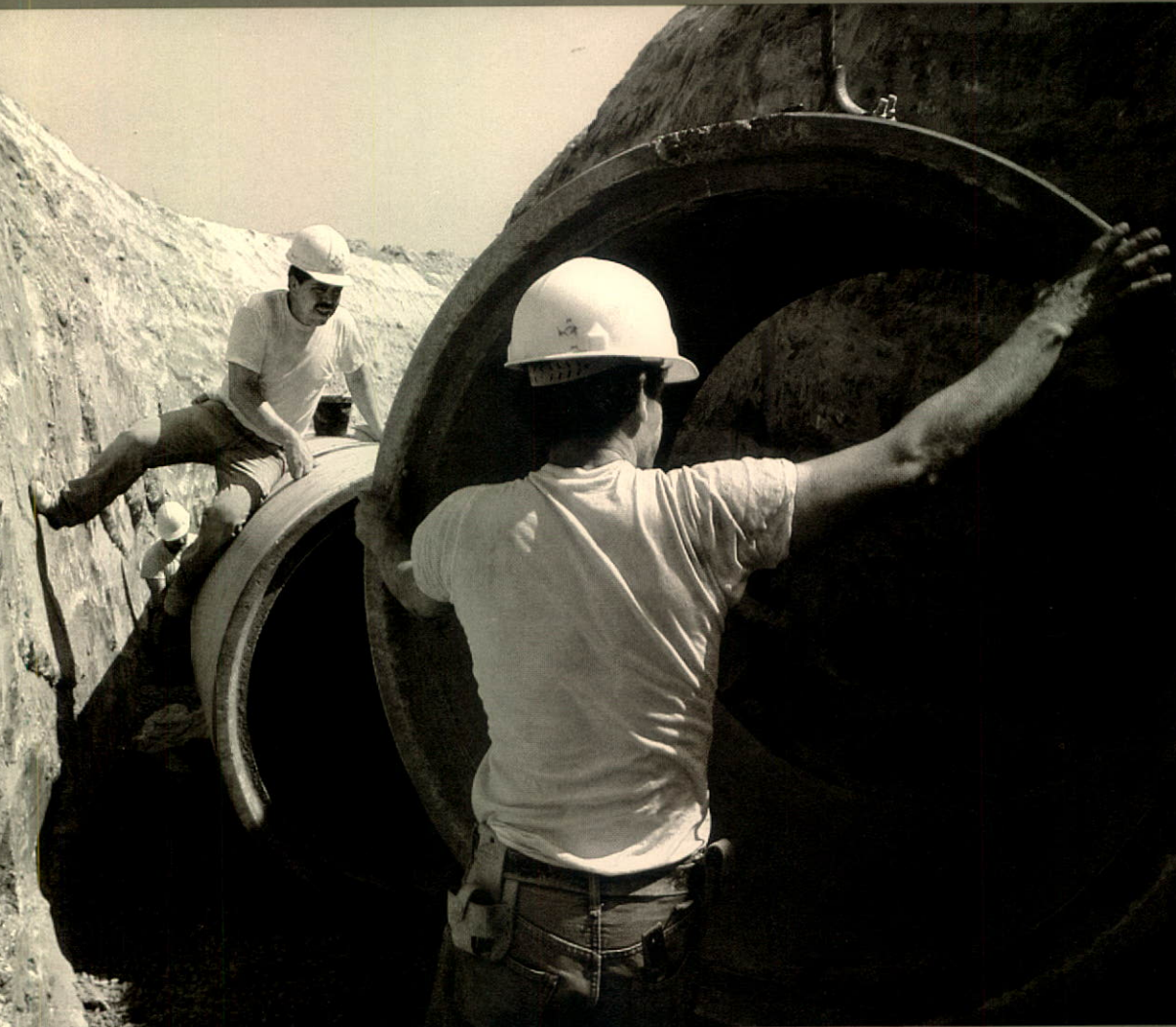
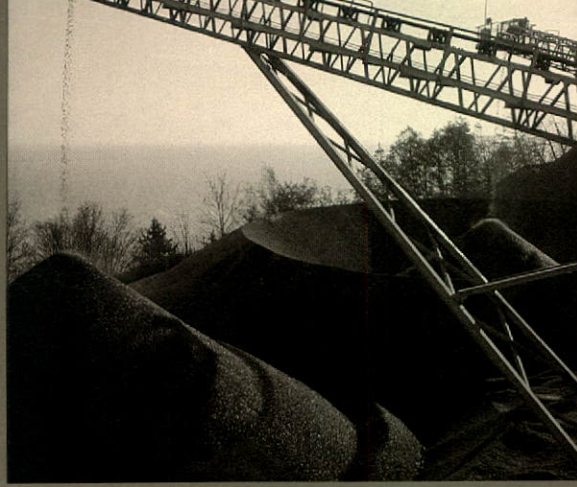
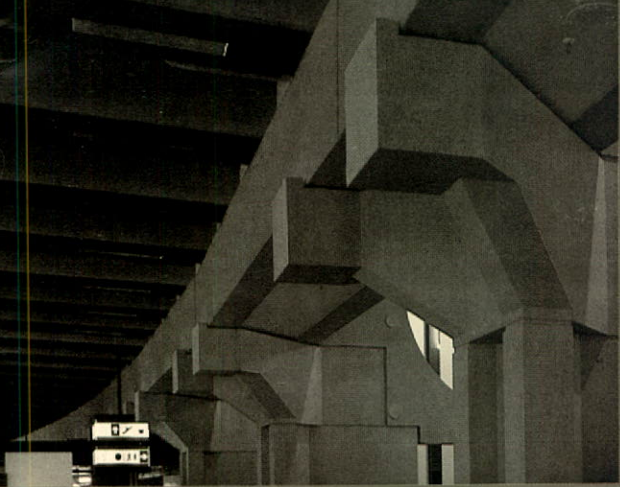
declined during the year. Sale of these products is a highly regional business, and margins vary with the type of aggregate ordered and efficiency of the quarry nearest the customer. One of the most promising Eastern U.S. markets is the corridor of government construction between Washington, D.C., and Baltimore, Maryland. Near that area, a \$13-million automation and expansion program is under way at Genstar's quarry in Frederick, Maryland. When completed in 1983, it will make larger reserves of high-quality rock available at much lower costs, significantly improving margins.

Total capital expenditures in 1981 at divisions in both the U.S. and Canada amounted to \$45.1 million. During 1982, investments of \$12.8 million are planned, primarily to add capacity or modernize concrete product and aggregate plants.

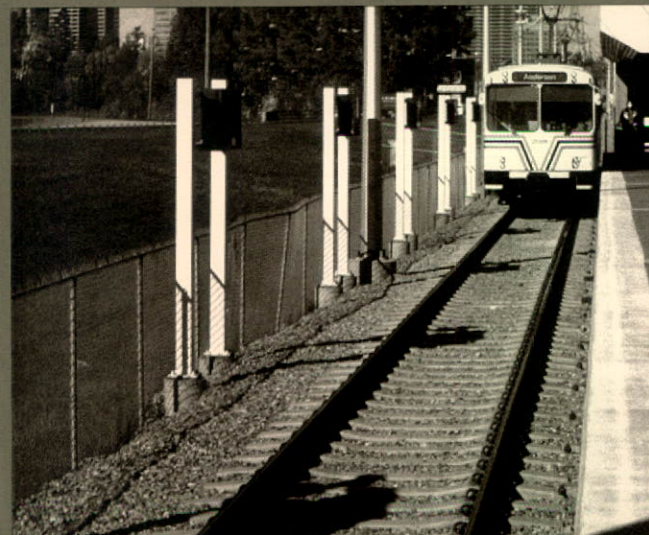
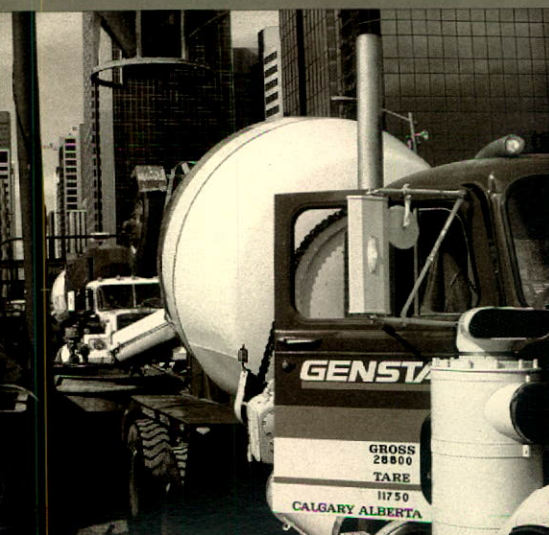
Income from these operations in the coming year could be somewhat below the record level of 1981.

In Western Canada, softness in residential homebuilding and uncertainty about effects of Canada's National Energy Policy may result in lower levels of municipal and subdivision construction. The same factors, along with fewer gains from sale of nonproductive assets, are expected to reduce returns from operations that produce aggregates and certain concrete products, although there is a record backlog of orders for precast structures. Revenues will also decline with withdrawal from heavy construction projects, but earnings should benefit. At U.S. and Eastern Canadian divisions, revenues will rise because of the recent dry mix acquisition, but proportionate growth in earnings is not yet anticipated.

\* Sakrete is a registered trademark licensed from Sakrete Inc.



*Demand grew to record levels in 1981 for Genstar concrete and stone products, including (left-to-right, top-to-bottom) precast concrete structures, aggregates, concrete pipe, ready-mix and concrete railway ties. In addition to manufacturing these products, Genstar offers the necessary construction services (center) to put them to use.*



## Building Supplies

This business area, which consists of asphalt roofing and gypsum wallboard operations, wholesale building supply outlets, and various waste management activities, reported a substantial loss in 1981. Revenues also declined.

Although Canadian divisions were profitable, the bulk of these operations are in the United States where reductions in residential construction have plunged the building supply industry into its worst and most prolonged recession since World War II. In 1981, this led to intense competition and unrealistic price cutting throughout the industry. As a result, margins evaporated because of low utilization of capacity and the inability to recover higher costs of raw materials.

At Genstar, hardest hit were the wholesale supply centers and asphalt roofing operations. The supply centers not only stock the company's Flintkote brands of roofing and wallboard, but also carry a wide range of other manufacturers' products. Roofing divisions, though particularly dependent on new residential construction, also saw repair and maintenance markets deteriorate in 1981 because of high financing costs.

Gypsum wallboard was not subjected to the degree of price instability that impacted the other operations. In the U.S., strength in commercial construction markets kept sales at reasonable levels until late in the year. In Canada, earnings were only slightly below those of 1980 on a modest increase in revenues. The three Canadian plants maintained their profitability primarily because of recent capital investments in highly cost-effective production equipment. To complement its line of wallboard, the Canadian operation late in the year acquired a polystyrene insulation plant in Calgary.

Acquisitions also increased the scope of Genstar's waste technology activities in 1981. The first was Easley & Brassy Corporation, which manages sanitary landfills and operates urban transfer stations that collect and transport waste to landfill sites. The other was Briscoe-Maphis Inc., a leader in the disposal of liquid sludge by injecting it into the soil. Both enhance Genstar's ability to serve municipal waste management markets. The company's other waste technology activities include rubber tire recycling, the marketing of fly ash, and the collection of methane gas from landfills for use as fuel. Performance was generally satisfactory in 1981, although start-up and developmental costs continued to suppress profits.

Capital expenditures for roofing, wallboard and waste technology activities totaled \$29.3 million in 1981 and are expected to be \$34 million in 1982. The majority will improve cost effectiveness and market position of operations in the U.S.

At the wallboard plant in Savannah, Georgia, for example, a new system is being installed that will recover a large portion of the energy required to dry wallboard. Construction of a similar system is also planned for a paper and felt manufacturing operation near Los Angeles.

One of the largest capital expenditures in 1982 will be approximately \$18 million to build a new glass mat manufacturing plant. To be completed in 1983, it will serve Genstar roofing operations in the Central United States. Similar facilities have already been built on the east and west coasts. Glass-mat asphalt shingles accounted for an estimated one-third of industry sales in 1981 and, because they carry the highest Class A Underwriters fire resistance rating, will rapidly increase their share of the U.S. market over the next few years. They also require

much less asphalt than felt-mat shingles, significantly reducing the cost of raw materials.

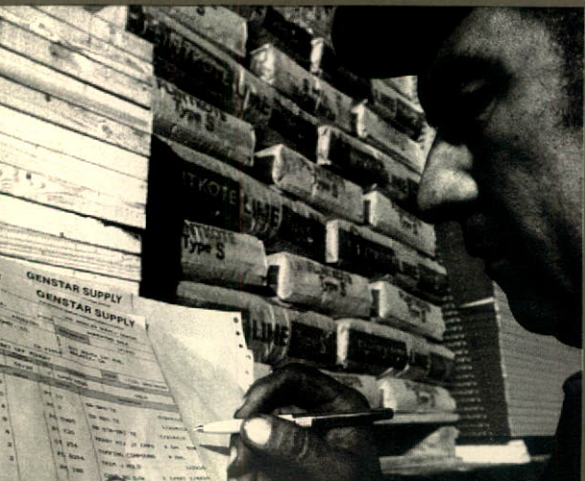
To return U.S. operations to profitability, the company is also applying strict cost and asset controls. Typical is a new computerized system that now controls supply center inventories and accounts receivable. In addition, Genstar has disposed of several nonproductive assets. Divestitures in 1981 included sale of the New Jersey roofing plant, an older facility located in an area of low market potential. A felt mill in Illinois was closed when the company determined its plant in Wisconsin could more economically supply Chicago roofing operations. The number of supply centers declined from 51 to 39 outlets in 1981.

In 1982, the Canadian wallboard plants should continue to operate profitably, and the waste technology operation will benefit from recent acquisitions. Conditions in the U.S. building supply industry will remain depressed, with little near-term improvement expected in interest rates or residential construction markets. There has also been some softening in commercial markets for wallboard. Roofing prices did increase near year-end, however, and this may be indicative of a more realistic pricing policy within the industry as a whole.

Although an upturn late in the year could return volumes and margins to profitable levels, Genstar will continue to monitor costs and assets carefully. Reduction of inventories and improvement of cash flow are receiving particular attention, and the closing of several plants and distribution centers will prevent losses of the magnitude experienced in 1981.



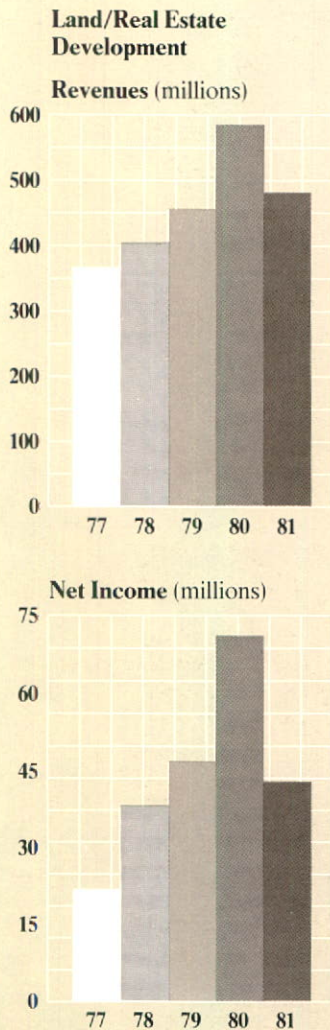
*Genstar building supply operations manufacture asphalt roofing (top) and gypsum wallboard (center left). They also distribute these and other products through a chain of wholesale supply outlets (lower left). With acquisition in 1981 of Easley & Brassy's expertise in sanitary landfilling (lower right), Genstar expanded the scope of its municipal waste management activities.*



# Land and Real Estate Development

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In some of the most desirable growth areas of North America, Genstar is a leader in homebuilding and in the development of land for residential and commercial construction.



## Housing

Although Canadian housing and land operations remained relatively strong in 1981, a serious decline in U.S. residential sales kept overall income well below the all-time high of 1980. This was the first year since the early 1970s that Genstar's combined earnings from housing and land development failed to reach record levels.

Traditional markets for new housing worsened as high mortgage interest rates persisted throughout the year. As a result, Genstar homebuilding divisions sold only 2,280 residential units in 1981, compared to 2,711 in 1980. (Genstar financial service operations, through joint ventures and partnerships, sold an additional 985 units, down significantly from 1,873 the year before.)

Canadian housing divisions nearly equaled their earnings of a year ago by building more government-subsidized units and obtaining new business from resource development projects. Typical of the latter is the contract Genstar received to construct 162 units to house workers at Syncrude Limited's Fort McMurray tar sands development.

In the United States, however, new housing starts fell to their lowest level in 35 years, and Genstar homebuilding divisions operated at a substantial loss. Results were particularly unsatisfactory in California, where the traditionally high cost of shelter caused the market to deteriorate rapidly as interest rates rose. New projects also typically require lengthy reviews by local or regional authorities, and resulting delays make it necessary to invest in larger than normal land inventories. When sales of finished units declined, costs of carrying those inventories rose significantly. Performance in terms of unit sales was better than a year ago at the company's operation in Texas, but competition for qualified buyers kept

prices down and eroded profits. Profit margins in both California and Texas were further reduced by the need to "buy down" or prepay a portion of the interest to provide buyers with affordable mortgages.

In spite of generally poor economic conditions in Canada and the United States, Genstar homebuilding operations are located in areas of historically high growth and should be among the first to benefit when recovery begins. If mortgage interest rates remain at levels above 14 percent through 1982, however, even those markets will remain depressed. A sharp turnaround is not expected until rates fall to reasonable levels or there is better acceptance of new financing instruments that can be tailored to the buyer's resources while still providing an adequate return to the lender.

Until that time, Genstar will continue to pursue new markets such as those developed in Canada last year, preselling more homes under contract and stringently controlling inventories and costs.



*In addition to luxurious single-family detached homes (center left), Genstar also builds a broad range of medium and lower priced condominiums (center right, top). The Sundance subdivision (bottom) in Calgary is typical of many Genstar developments where the company enhances property values and buyer appeal by constructing lakes, parks and other recreational amenities.*

# Land and Real Estate Development

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## Land Development

Genstar at the end of 1981 owned, had options on, or held in partnership more than 44,000 acres of land and several thousand serviced lots in established, high-growth areas of Canada and the United States. The company sells lots and larger parcels to builders for residential, commercial and industrial construction.

Though income was considerably lower than the record level of 1980, Genstar land development divisions performed well under very difficult circumstances. Canadian land operations nearly matched 1980's earnings on slightly higher revenues, while income in the U.S. fell substantially in response to a large reduction in sales.

Many commercial parcels were brought to market earlier than originally planned in order to offset the low level of residential construction. This compensated in part for the shortfall, although there was some sacrifice in margins.

In Canada, land transactions in Alberta and British Columbia continued to generate excellent profits. Two new developments, the Lake District in Edmonton and Sundance in Calgary, show particular promise. Operations in Ontario also began contributing to earnings as the first lots were sold at a 1,300-acre development in Oakville. Markets on the average were relatively weak, however, particularly in Manitoba.

In the U.S., only sales from the large landholdings in San Diego, California, generated profits, and these were at a lower level than a year ago. Construction of a recreation complex was completed at San Diego's Bernardo Heights development, and work began on an 18-hole golf course. The addition of amenities such as these serves to increase buyer interest and enhance land values at many Genstar projects. Considering the difficulties faced by residential builders, levels of activity were reasonably good at operations in Miami, Florida, and Houston, Texas, but sales were very slow at the company's development near Portland, Oregon.

As managing partner and half-owner in a venture with American Continental Corporation, Genstar in 1981 purchased 500 acres of land and acquired options on 2,150 additional acres in Phoenix, Arizona. The transaction was structured in a way that permits entry into this promising new market without excessively large investment in inventory. Development will begin in 1983, with options exercised and payments made over an eight-year period. The completed project is zoned to include 8,800 residential units plus nearly 300 acres devoted to commercial and office complexes, an industrial park, and a large resort.

In addition to developing land, Genstar engages in the development of commercial and industrial properties. Such projects in the U.S. generated record profits in 1981, largely because of increased involvement in the development of industrial parks. In Canada, Genstar's Limeridge Mall, a one-million-square-foot enclosed shopping center at Hamilton, Ontario, opened on schedule in August and was 95 percent leased at year-end. The company is now completing a 60,000-square-foot office building on the same site.

In early 1982, Genstar's commercial and industrial real estate development operations were combined with those of the recently acquired Canada Permanent Mortgage Corporation, creating a new division that will be responsible for these activities in both the U.S. and Canada.

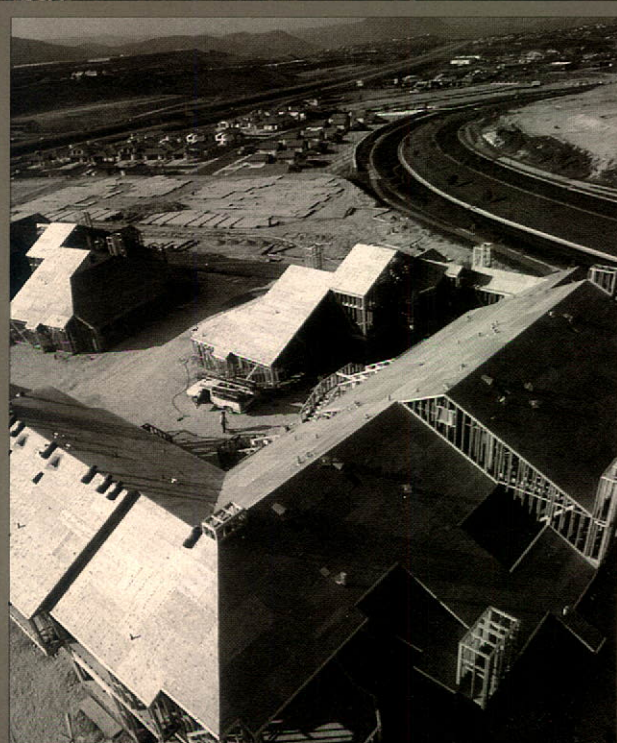
As is the case for homebuilding subsidiaries, the most important influences on land and commercial development in 1982 will be the general health of the economy and the cost of mortgage financing.

There is today a real need for shelter that cannot be satisfied until financing costs fall to affordable levels. When this occurs, demand for choice land should be immediate and large. For that reason, Genstar is committed to preserving inventories of land sufficient for a rapid return to high levels of activity, even though carrying costs may reduce profits in the near-term. To compensate, every effort is being made to cut existing inventory costs, and new ventures are being explored that will allow Genstar to acquire additional acreage at little or no expense until parcels are actually sold.

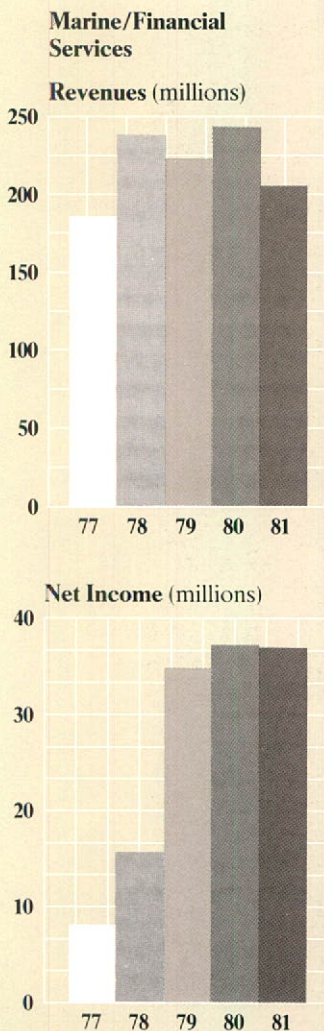




*Limeridge Mall (top), Genstar's million-square-foot shopping center in Ontario, opened on schedule in August. After grading the land, building roads, and installing utilities (lower left), the company sells lots as well as larger parcels to builders at subdivisions such as this one (lower right) in San Diego, California, where Genstar is developing several thousand acres.*



Specialized services, primarily marine or financial in nature, were significantly broadened in 1981 when Genstar acquired Canada Permanent Mortgage Corporation.



## Marine Services

In 1981, for the third consecutive year, marine services generated record income. Although the Pacific Coast tug and barge operation, Genstar's largest marine enterprise, did not match 1980 returns, income increased substantially from shipbuilding and repair, salvage, and international transport.

On the Pacific Coast, where the company principally provides transportation for British Columbia forest products, earnings of the Vancouver-based fleet were reduced by a six-week strike in the forest products industry. Performance was otherwise good considering the deteriorating demand in certain sectors of the business. A decline in shipments of lumber was offset by increased shipments of wood chips for pulp and paper production. Similarly, growth in coal exports and related port expansions increased revenues from ship docking and towing services, compensating for fewer shipments of other bulk materials such as limerock. The company withdrew from the log-sorting business in 1981 and sold its site on the Fraser River where this work had been conducted.

At mid-year, Genstar received a major contract to provide a "pusher" type of ferry service for truck trailers between Vancouver and Vancouver Island. Using a tug to push a barge in sheltered waters is more fuel efficient than towing or using self-propelled equipment. Though common on inland waterways, this is the first such service on the Canadian West Coast. The tug and barge used for this were specially modified by the company's shipyard in Vancouver, which in 1981 also delivered three new chip barges to the fleet.

Total volume of ship construction and repairs during the year rose sufficiently to nearly double the shipyard workforce. At year-end, new ships under construc-

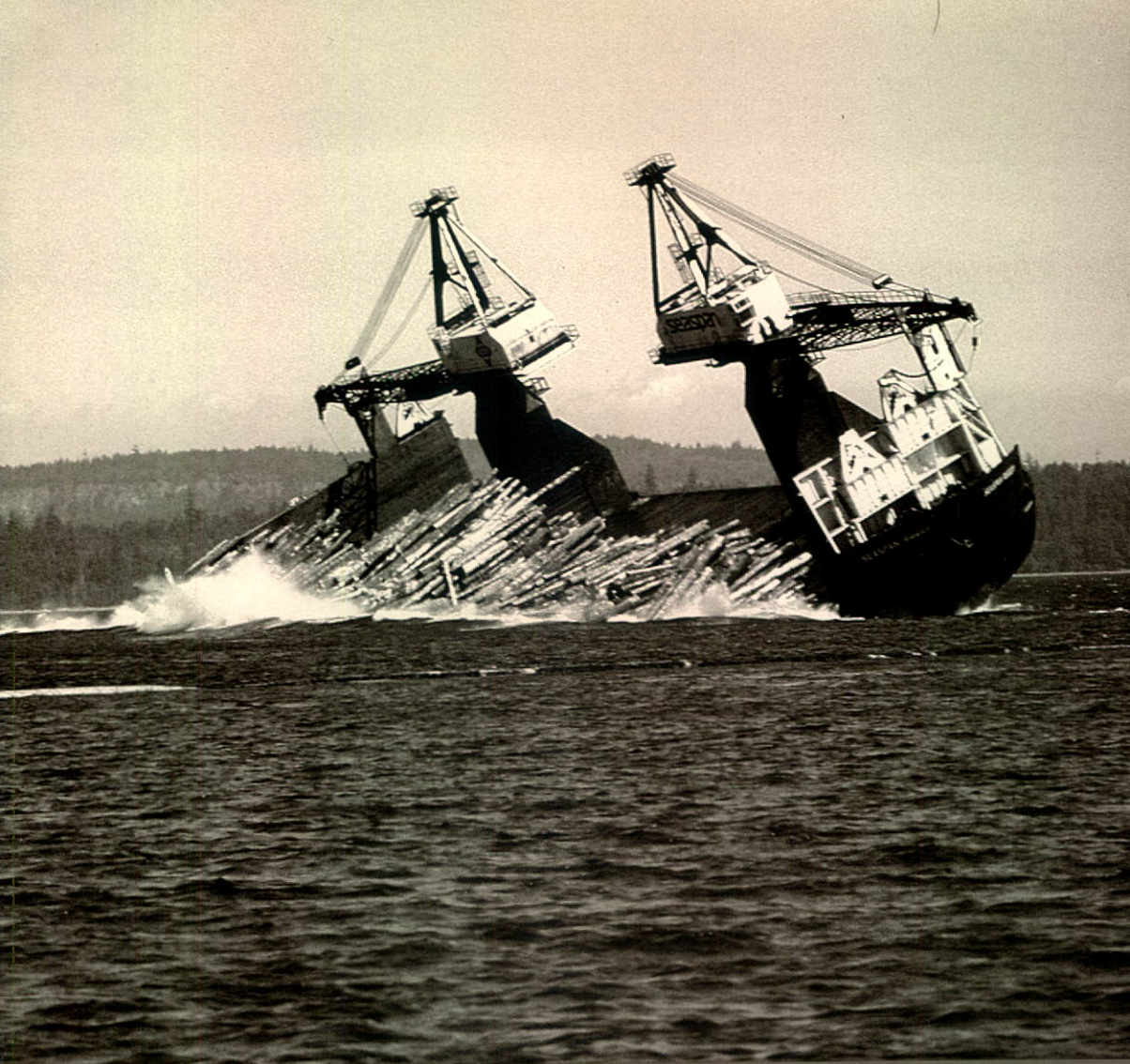
tion were valued at about \$65 million, with most of that for vessels to be used in oil exploration.

The company's marine operations in Eastern Canada benefited from two significant salvage operations in December. The larger of the two required refloating an empty, 940-foot-long liquefied natural gas tanker, which had broken loose from its tow in a severe storm and been blown aground at the southern tip of Nova Scotia. This is believed to be the largest vessel ever salvaged in Canadian waters. Several salvage claims from prior years were also settled in 1981.

During the year, utilization of Genstar marine equipment in international markets improved and charter rates rose, contributing to increased income. The international fleet is primarily engaged in servicing offshore oil rigs in the Gulf of Mexico and in heavy-lift transport of large equipment worldwide. An additional ocean-going barge joined the fleet in 1981 when Genstar purchased a co-owner's half interest in the vessel.

Total capital expenditures for marine operations in 1981 were \$5.7 million, and are expected to be \$9.1 million in 1982.

The outlook for marine services is somewhat uncertain in 1982 because of continuing difficulties in the lumber and building products industries, both important sources of cargo for the western fleet. Improvement in these markets is not anticipated until after mid-year and, even then, is not expected to reach previous levels. With a good backlog and increasing oil exploration in the Beaufort Sea and Eastern Canadian coastal waters, returns from shipbuilding and repair should remain at a high level. Offshore petroleum production and major industrial development projects should also ensure continuing demand in international markets for heavy-lift barge and other support services.



*Another self-loading/self-dumping log barge (top) and new chip barges (center right) joined Genstar's Pacific Coast fleet in 1981. All were built by the company's own shipyard, where repair work (lower left) and new ship construction (lower right) reached record levels during the year.*



# Marine and Financial Services

## Financial Services

The corporation substantially expanded the scope of its Canadian financial service activities in 1981 with the acquisition of Canada Permanent Mortgage Corporation. A detailed discussion of this newest member of the Genstar family begins on page 20.

Results were mixed from the company's other financial service operations, most of which are in the United States. In spite of good gains from venture capital investments, mortgage banking and the rental of electronic equipment, serious losses from financing real estate joint ventures kept overall earnings well below those of 1980.

Genstar financial services in the U.S. are, for the most part, either industrially oriented or real estate related.

Of those in the industrial sector, venture capital investments generated the highest income in 1981. The largest and most profitable transaction involved sale for U.S. \$12.3 million of 455,791 common shares of Xidex Corporation, a company whose stock Genstar began acquiring in 1970. Equity positions, to be held for long-term appreciation, are typically taken in promising young high-technology firms that need the additional capital to achieve their full potential. At year-end, Genstar's portfolio included holdings in 53 companies.

Rentals of electronic test and measurement equipment also increased in 1981. Through 29 sales and service offices in the U.S. and Canada, Genstar rents this equipment to customers in a wide variety of industries. The rental operation now has an asset base in excess of U.S. \$40 million, including U.S. \$15 million spent for new equipment in 1981. As demand warrants, additional expenditures of more than U.S. \$20 million are anticipated during the coming year.

In 1981, Genstar completed its first full year in the leveraged-lease brokerage business. This operation has established its ability to handle innovative and complex financings and should begin producing profits in 1982. During the year, it arranged lease financing for more than U.S. \$250 million in plants and capital equipment and also sponsored its first public offering, a leveraged-leasing fund. Proceeds of that offering were used to acquire capital goods for lease on behalf of the fund's partners.

In another new venture, the company established Genstar Container Corporation late in the year. Built around a management team with extensive experience in container leasing and shipping, this subsidiary has opened offices in San Francisco, New York, Paris, Tokyo and Hong Kong. It leased its first containers in October.

Of the U.S. financial services that are real estate related, only the company's mortgage banking operation did well in 1981. Earnings reached record levels as value of the loan portfolio it manages for investors rose by more than half a billion dollars, to U.S. \$3.5 billion. This operation purchases first mortgages originated by others and resells them to institutional lenders. Not originating the loans reduces the risk from volatile mortgage interest rates, while loan service fees paid by the institutional clients provide consistent earnings. To finance the purchase of mortgages for resale, this division in December commenced issuing commercial paper backed by bank letters of credit for up to U.S. \$100 million. With the highest possible credit rating for this type of financing, interest expense for operating funds should be lower in 1982.

Genstar's title insurance and escrow operations in Northern California reported a small loss in 1981 after high mortgage rates further reduced purchases of

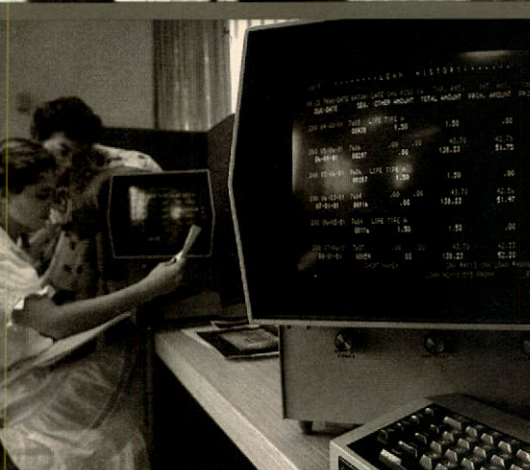
both new and resale housing. Thrift and loan subsidiaries in California and Nevada also operated at a slight loss as intense competition for funds reduced the spread between interest earned from borrowers and rates paid to depositors.

High interest rates and depressed housing markets had their most negative effect on Genstar's real estate joint ventures. The company provides equity financing in return for partnership interests in other developers' projects, and these ventures suffered significant losses in 1981. In areas where difficulties are expected to continue, construction is now being postponed until conditions improve. The nature of some developments has also been modified to accelerate sales.

Good growth is expected during the coming year in earnings from U.S. financial services. Returns from venture capital investments should remain strong, although they may decline to more traditional levels. Increased defense spending should benefit rentals of electronic equipment, as should new tax and research/development incentives included in the U.S. Economic Recovery Tax Act of 1981. Also contributing to improved earnings will be the year-old leveraged-lease brokerage business and new container leasing operation. Although little growth is anticipated in most of the real estate related financial services, profits from mortgage banking should continue to increase as the commercial paper program reduces the cost of working capital. Also, losses from real estate joint ventures should be substantially lower because of project modification or curtailment.



The company entered the container leasing business (top) in 1981. Value of the loan portfolio managed by Genstar Mortgage Corporation (center left) has risen to U.S. \$3.5 billion. Record profits were realized from venture capital investment after the sale of holdings in Xidex, a maker of duplicate microfilm (lower right). Golden Gateway Commons (lower left) in San Francisco, a real estate joint venture financed by Genstar, is a successful blend of retail space and offices on lower levels and luxury condominiums above.



# Marine and Financial Services

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## Canada Permanent

With the acquisition of Canada Permanent Mortgage Corporation and its subsidiary, Canada Permanent Trust Company, Genstar further diversified its operations through a significant increase in financial service activities.

The Permanent is one of Canada's larger financial intermediaries, a deposit and lending institution with assets in excess of \$5.6 billion. In addition, its trust division offers a full range of fiduciary services and administers another \$4.3 billion in assets for its clients. The company also provides real estate brokerage services on a nationwide basis.

Founded in 1855, The Permanent employs 5,000 people in more than 200 offices throughout Canada and conducts lending activities in the United Kingdom through a subsidiary in London.

Between July and October of 1981, Genstar acquired more than 99 percent of Canada Permanent's outstanding voting stock. That \$288-million investment and The Permanent's earnings after July 31, the effective date of acquisition, are included in Genstar's consolidated financial statements. (See Note 1 on page 42 for additional details.)

For the year as a whole, Canada Permanent's total net income was \$19.8 million, down from \$28.5 million in 1980. Earnings included \$6 million from operations, compared with \$16.9 million a year ago, and \$13.8 million from gains on the sale of securities, up from \$11.6 million in 1980.

Operating income rose from trust services and real estate brokerage, but there was a substantial decline in the profitability of intermediary operations.

The trust division derives its income from fees and commissions earned from a wide variety of fiduciary services. For corporate clients, these include stock registration and transfer, dividend disbursement, and serving as bond trustee and investment manager for pension and other employee benefit funds. For individuals, the division also engages in investment management, estate planning, and the administration of estates and trusts.

Operating income from these services in 1981 was nearly double that of a year ago. Fee income rose and improved cost controls enhanced profits, as this division benefited from installation the year before of an automated securities transfer system. That system mechanizes many of the tasks associated with stock transfer and registration, dividend disbursement and reinvestment, and similar corporate services, permitting The Permanent to accept large amounts of new business at low incremental cost.

Implementation of another computer system, called Infovest, is now under way to improve and automate pension-fund investment, custodial, and trustee services. Initial installations were completed last year, new features are being added, and the system should be fully operational at all trust offices by the end of 1982.

Operating income of the real estate brokerage division also improved in 1981.

The Permanent engages in residential and commercial real estate sales, with nearly 2,000 brokers and sales personnel in approximately 100 offices throughout Canada. Several additional brokerage firms use The Permanent's name on a franchise basis.

The company also develops

and invests in commercial and industrial properties. These ventures were combined in early 1982 with similar activities of Genstar, and a new subsidiary, Sutter Hill Developments Limited, will now be responsible for commercial real estate development and investment in both Canada and the United States.

Results from real estate brokerage were mixed on a quarter-to-quarter basis. Sales volume was extremely good during the first half of the year, slowed somewhat in the summer and early fall, and declined significantly in the fourth quarter. For the year as a whole, gross commissions exceeded those of 1980 by almost 20 percent, and nearly \$2 billion worth of real estate was sold. Results were particularly good in the Province of Ontario.

Late in the year, The Permanent acquired four new real estate brokerage firms in Calgary, Edmonton, Toronto and Quebec City.

For the Permanent's largest business, its intermediary operations, 1981 was a very difficult year.

As a financial intermediary, the company accepts funds from the public for deposit in demand accounts or for investment in term certificates. It presently manages approximately 400,000 savings and checking accounts, plus about 700,000 term deposits and registered savings plans.

The Permanent primarily uses these funds to finance home mortgages and make personal and commercial loans. At year-end, these consisted of \$4.5 billion in mortgages and other assets with fixed interest rates and terms of one year or more, \$600 million in variable-rate



*The Permanent, with headquarters (top left) in Toronto, is Canada's third largest trust institution. With more than 200 offices throughout the country, it is a leader in deposit and loan activities (top right), fiduciary services (bottom), and real estate brokerage (center right). It relies on sophisticated computer systems in conducting its businesses, including the automated securities transfer system (bottom) which mechanizes stock transfer, registration and similar corporate trust services.*

# Marine and Financial Services

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personal and commercial loans, and \$500 million in short-term notes and other investments.

The intermediary division derives operating income from the interest it earns from these assets, less the interest it pays on deposits. The spread between rates earned and paid traditionally narrows in times of rising interest rates, but this trend has become pronounced at The Permanent because of a mismatch between types and maturities of deposits and loans in its portfolio.

In 1981, the average spread fell to 1.42 percent, down from an average of 1.83 percent the year before. This, combined with inflationary pressures on non-interest expenses, resulted in a net loss from intermediary activities.

To maintain a viable spread, it will be necessary to achieve a better balance between assets and liabilities that have similar maturities and interest rate sensitivities. A number of steps are being taken to achieve this and improve margins in 1982.

During the coming year, approximately 40 percent of The Permanent's loan portfolio will mature, including about \$1.7 billion in fixed-rate first mortgages. To better insulate itself from rising and volatile interest rates and from declining demand for mortgages because of fewer housing starts and resales, the company is now working to reduce its dependence on this type of loan.

Mortgages in Canada, unlike in the United States, are typically offered for terms of only one to five years, though monthly payments are based on a 25-year amortization. As these mature,

the company is replacing many of them with shorter-term first and second mortgages and, within limits allowed by law, variable-rate personal and commercial loans. In the commercial area, for instance, The Permanent began financing capital equipment leases late last year, and equipment leasing loans are expected to have an increasingly positive effect on its portfolio in the future.

In addition, the company is actively seeking to attract more fixed-rate, long-term deposits, such as those for retirement savings and registered home ownership plans, which are a good match for the longer-term mortgages.

The intermediary division's earnings should also benefit from improved productivity and cost-effectiveness as installation of a system that computerizes the management of savings, checking and loan accounts is completed at all branches in 1982. When fully operational, the system will be one of the most advanced of its type.

Although narrow spreads may continue to depress earnings through mid-1982, substantial improvement in margins is expected in the second half of the year as the mismatch in the portfolio diminishes. This, coupled with reductions in non-interest costs, should return intermediary operations to profitable levels before year-end.

There may be a slight decline in income from trust services during the year, however, because of expenses associated with introduction of the Infovest system. Although this will make it difficult for the trust division to equal the high returns of 1981, Infovest will contribute to significant amounts of new business in years to come.

Prospects for the real estate brokerage division in 1982 are promising, assuming some improvement in markets as the year progresses. Although a slow first half is anticipated, substantial gains are expected after mid-year. At that time the new realty firms acquired in 1981, particularly those in the high-growth areas of Alberta, should contribute to good increases in commissions and income.

Longer-term, the company believes Canada Permanent and other financial service activities will add stability to Genstar earnings, compensating for the cyclical nature of some of its other businesses. This should be increasingly apparent if pending legislation broadens the lending and investment powers of trust companies as anticipated, permitting them to pursue larger volumes of profitable commercial and personal loans. This would bring The Permanent's activities more in line with those of Canadian chartered banks, which have been relatively unaffected in recent years by high interest rates and difficult economic conditions.

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**Other operations**, which consisted in 1981 of investments in chemical manufacturing, are treated in this report as an additional subcategory of business. On March 31, 1981, Genstar sold the assets of its chemical division to Nitrochem Inc., a new company equally owned by Genstar and by the former management of Genstar Chemical Limited. The sale, which also included Genstar's interest in a mixed fertilizer manufacturing company, generated cash proceeds of approximately \$30 million that were applied to short-term debt.

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# Financial Review

GENSTAR

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## Financial Summary

For the five years ended December 31, 1981  
(millions of Canadian dollars)

	1981	1980	1979	1978	1977	Five Year Compound Growth Rate	Ten Year Compound Growth Rate
Revenues . . . . .	\$2,145.9	\$2,310.4	\$1,264.6	\$1,143.0	\$ 981.1	21 %	26%
Operating income . . . . .	259.4	331.3	252.4	198.5	170.4	13 %	25%
Income before income taxes . . . . .	89.4	193.0	187.2	148.6	121.0	(3)%	16%
Net income . . . . .	109.5	153.7	123.6	81.6	64.4	14 %	26%

## Per common share

### Net income

Canadian method							
Basic . . . . .	\$2.92	\$4.77	\$4.21	\$3.02	\$2.53	5 %	17%
Fully diluted . . . . .	2.79	4.35	3.96	2.87	2.33	6 %	17%
United States method							
Primary . . . . .	2.81	4.41	4.16	3.00	2.51	4 %	17%
Fully diluted . . . . .	2.78	4.35	3.98	2.90	2.36	6 %	17%
Dividends . . . . .	1.80	1.65	1.25	0.81	0.71	23 %	20%
Book value . . . . .	24.02	22.97	18.67	15.87	13.79	15 %	26%

## Performance measurement

Return on net assets . . . . .	9.9%	13.1%	12.2%*	9.0%	8.5%
Return on common equity . . . . .	12.1%	19.6%	22.4%	19.2%	18.1%

## Capitalization ratios

Total debt to equity . . . . .	57:43	49:51	63:37	49:51	62:38
Long-term debt to equity . . . . .	40:60	41:59	53:47	32:68	50:50

## Capitalization

Total assets . . . . .	\$2,858.8	\$2,434.5	\$2,401.4	\$1,492.7	\$1,249.2
Deferred income taxes . . . . .	167.2	178.7	183.9	115.3	88.6
Long-term debt . . . . .	657.6	639.6	729.4	262.5	363.1
Redeemable preferred shares . . . . .	120.0	120.0	120.0	120.0	—
Convertible redeemable preferred shares . . . . .	111.1	113.5	8.6	10.3	13.1
Common shares and contributed surplus . . . . .	291.7	285.1	186.1	180.2	169.2
Retained earnings . . . . .	445.0	410.7	326.9	245.6	186.0

## Other statistics

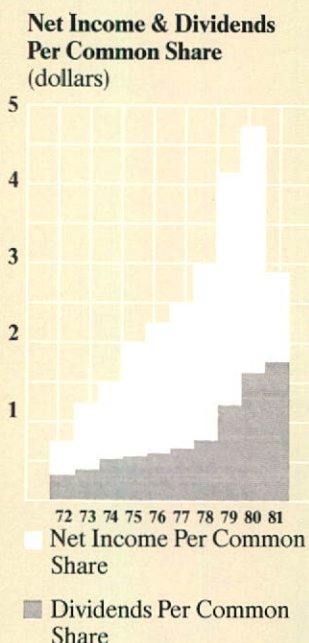
(millions except employees)

Working capital . . . . .	\$136.1	\$395.5	\$299.3	\$268.6	\$108.5
Funds from operations . . . . .	156.3	215.4	156.6	141.0	108.6
Capital expenditures . . . . .	147.5	172.2	106.1	52.8	107.1
Common shares outstanding					
Actual . . . . .	30.6	30.2	27.4	26.8	25.8
Average . . . . .	30.5	28.5	27.3	26.4	25.1
Average number of employees	20,225	17,525	19,850	10,428	11,007

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

### Consolidated Highlights

Net income was \$109.5 million (\$2.92 per common share) in 1981, compared to \$153.7 million (\$4.77 per common share) in 1980. Revenues of \$2.1 billion were 7% lower than the previous year. In 1979 net income was \$123.6 million (\$4.21 per common share), and revenues were \$1.3 billion. The increase in revenues from 1979 to 1980 was primarily because of the acquisition of The Flintkote Company. Per share amounts are based on average outstanding common shares of 30.5 million in 1981, 28.5 million in 1980 and 27.3 million in 1979.



Funds generated from operations varied with earnings and were \$156 million in 1981, compared to \$215 million in 1980 and \$157 million in 1979. Year-end working capital was \$136 million, compared to \$396 million in 1980 and \$299 million in 1979. The 1981 decrease reflects the use of short-term debt for the initial financing of \$288 million invested to acquire Canada Permanent Mortgage Corporation, a large trust and mortgage company.

The total debt to equity ratio changed from 49:51 in 1980 to 57:43 in 1981 primarily as a result of the Canada Permanent acquisition debt. The company issued an additional \$214 million of fixed interest rate debentures during 1981. As a result, variable-rate long-term debt was reduced to \$107 million at year-end.

Cash dividends of \$75 million, including \$20 million for preferred shares, were 16% higher than 1980 and 78% higher than 1979. Capital expenditures were \$148 million in 1981, compared to \$172 million in the previous year and \$106 million in 1979.

### Operations

North American economic conditions continued to decline in 1981, highlighted by high and volatile interest rates, increased unemployment and double-digit inflation. These factors caused a severe decline in consumer confidence, resulting in the lowest level of housing starts in decades and a negative effect on Genstar's real estate and building materials activities. In spite of these difficulties, operating income of \$259 million was exceeded only by the record level of 1980. Increases in 1981 operating income of Canadian building materials and marine businesses were more than offset by reductions in United States building materials, real estate and financial services businesses.

The following discussion of major factors affecting operating income during the three years ended December 31, 1981 should be read in conjunction with "Results by Industrial Category" included on pages 32 through 35 of this report.

### Cement and Lime

Sales Volumes	1981	1980	1979
	(thousands of tons)		
<b>Cement</b>			
Canada — Domestic .....	1,770	1,893	1,900
— Export .....	128	351	691
	<b>1,898</b>	<b>2,244</b>	<b>2,591</b>
United States*			
— Western .....	804	921	—
— Eastern (sold in late 1980)	—	838	—
	<b>804</b>	<b>1,759</b>	<b>—</b>
Total .....	<b>2,702</b>	<b>4,003</b>	<b>2,591</b>
<b>Lime Products</b>			
United States* .....	666	657	—

\*Represents volumes of The Flintkote Company subsequent to acquisition.

The North American economic slowdown in 1980 and 1981 is reflected in the reductions in Canadian export sales to the northwestern United States and lower California volumes. 1981 Canadian volumes were also affected by a six-month strike at the Vancouver cement plant and lower demand in Manitoba and Saskatchewan.

Gross profit percentage increased from 28.3% to 34.0% in 1981 as the benefits from the disposal of low-margin plants in the eastern United States and Canadian sales price increases more than offset cost increases in California.

The gross profit percentage in 1979 and 1980 was unchanged as the improved Canadian selling prices and costs offset the low margin from eastern United States operations. Overhead and depreciation expenses remained relatively constant in 1981, while

the 1980 increase resulted from the Flintkote consolidation. The preceding factors resulted in increased operating income in the 1979-81 period.

**Concrete, Aggregates and Construction**

Sales Volume of Major Products	1981	1980	1979
	(millions)		
Concrete . . . . .	2.2 cu. yds.	2.8 cu. yds.	2.0 cu. yds.
Aggregates . . . . .	24.4 tons	25.2 tons	9.1 tons
Concrete blocks	21.4 standard units	23.8 standard units	26.1 standard units

Revenues increased by 10% in 1981 as higher selling prices and continuing higher precast concrete activity more than offset the effects of lower unit volumes of major products. These volumes are indicative of reduced 1981 construction activity in both U.S. and Canadian markets served by the company. The large 1980 revenue increase relates to the consolidation of The Flintkote Company and to strong market demand in Alberta and British Columbia. Higher selling prices, asset sales, and cost control and reduction programs contributed most of the gross profit percentage increases from 1979-81. Selling, general and administrative expenses increased in 1980 with the addition of Flintkote and higher administrative and selling salaries in 1981, but operating income continued to increase in percentage of revenue and dollar terms.

Heavy construction operations generated modest operating income in 1981 after incurring losses in 1980. These low margin operations will be discontinued on the completion of current contracts. Construction services operations, which provide municipal roads, sidewalks and sewers, generated constant operating income in 1980 and 1981 as the effect of reduced volume from lower real estate activity was offset by improved gross profit and cost controls.

**Building Supplies**

Sales Volumes of Major Products	1981	1980
Gypsum products (billions square feet) . . . . .	1.4	1.6
Roofing (thousands of tons) . . . . .	698	838
Number of wholesale supply centers at year-end . . . . .	39	51

The majority of these products are sold by The Flintkote Company acquired in late 1979.

The real estate downturn which commenced in 1979 and continued through 1981 reduced revenues and generated operating losses in this category. In 1981, utilization of productive capacity was 70% for gypsum products and 60% for roofing. These low utilization rates increased fixed costs per unit and, together with inadequate selling price increases caused by low demand, resulted in a reduction in gross profit percentage from 12.8% in 1980 to 8.0% in 1981.

The U.S. manufacturing operations sell approximately one-half of their roofing products and three-quarters of their gypsum products through company-owned wholesale distribution centers in the south and west. In light of lower demand and margins, some reductions in manufacturing and distribution capacity were made in the second half of 1981, and these facilities will remain closed until demand and pricing conditions indicate a return to more normal operations. The Canadian gypsum wallboard division experienced moderate revenue increases in 1981 and 1980 on constant volumes, but increases in freight and raw materials costs resulted in decreased operating income as a percentage of revenues.

Waste disposal and energy recovery operations continued to expand with small operating losses in each year of the 1979-81 period.

**Land and Real Estate Development**

Sales Volumes	1981	1980	1979
<b>Single family, duplex and townhouse units</b>			
Canada . . . . .	1,581	1,757	2,199
United States . . . . .	699	954	1,178
	<b>2,280</b>	<b>2,711</b>	<b>3,377</b>
<b>Residential building lots</b>			
Canada . . . . .	2,213	2,441	2,716
United States . . . . .	257	595	246
	<b>2,470</b>	<b>3,036</b>	<b>2,962</b>
<b>Land (acres)</b>			
Canada . . . . .	2,638	971	296
United States . . . . .	824	1,171	1,263
	<b>3,462</b>	<b>2,142</b>	<b>1,559</b>

Under current market conditions, increased emphasis was placed on raw land sales in 1981 and 1980 in Canada with a corresponding reduction in lot sales. U.S. land operations also experienced reductions in volume of lots and raw land as homebuilders attempted to match inventories with demand.

Operating income for the industrial category in dollars and as a percentage of revenues did not reach the record 1980 levels, but did approximate 1979. Gross profit percentage was 39.0%, compared to 39.6% in 1980 and 36.4% in 1979.

Economic conditions significantly reduced the percentage of the population who were both willing and qualified to assume the ongoing cost of purchasing a new home in 1981 and 1980. This reduced demand caused significant reductions in Genstar's housing volume and operating income over the last three years.

California housing operations in particular experienced significant reductions in volume, requiring increased marketing efforts and buyer financing assistance to reduce inventories. These costs, combined with declining selling prices, resulted in lower operating income in 1980 and operating losses in 1981.

Construction of new homes and servicing of land has been severely curtailed in order to reduce inventories, but the cost of financing existing inventories will be substantial until economic conditions improve.

**Financial Services**

Operating income of the financial services category was \$34.1 million in 1981, compared to \$40.2 million in 1980 and \$25.4 million in 1979. The sale of certain matured investments generated increases in venture capital income in both 1980 and 1981. The major sales were shares of Xidex Corporation in 1981 and ITT Corporation in 1980.

Non-consolidated subsidiaries contributed increased operating income in the 1979-81 period. Mortgage banking and instrument rental operations produced increased operating income in both 1981 and 1980. Canada Permanent also contributed to operating income, but leveraged leasing activities reported start-up losses in 1981. The financial position and results from operations of these non-consolidated subsidiaries are summarized in Notes 1 and 6 to the financial statements.

The effects of poor market conditions and high carrying costs of inventories produced lower 1980 operating income and 1981 operating losses from real estate joint venture financing activities. This trend is highlighted by reductions in sales of housing units by the joint ventures from 2,409 in 1979 to 1,873 in 1980 and to 985 in 1981.

Although the joint ventures include a number of projects with good potential, the costs of financing existing inventories may continue to exceed profit contributions until such time as interest rates and market conditions improve. The company is closely monitoring the joint ventures to ensure strict cost and inventory control and maximum marketing effort. At the end of 1981, inventories in projects in which Genstar is a partner were approximately the same as 1981 sales volume and include 467 condominium conversion units where low sales volume is anticipated.

**Marine Services**

Revenues and operating income of marine activities increased at approximately 11% per annum in the 1979-81 period on stable margins. A large portion of the marine business is carried out with customers in the forest products industry under medium term contracts which include inflation escalator clauses

for variable expenses. The Canadian transportation fleet enjoyed high utilization rates during the three-year period until a six-week strike in the forest products industry in 1981. The effects of this strike were for the most part offset by higher 1981 repair and construction activity in the shipyard division.

After a record 1979, marine salvage activity reduced to normal levels in 1980 but returned to above average in 1981. International marine operations experienced continued growth in rates and activity during the three years and are near optimum utilization.

**Financing Costs**

<i>Interest expense</i>	1981	1980	1979
	(millions of dollars)		
Long-term debt . . . . .	86	76	34
Short-term debt . . . . .	84	62	31
	<b>\$170</b>	<b>\$138</b>	<b>\$ 65</b>

Interest expense increased to \$170 million from \$138 million in 1980. The interest increase consisted of \$10 million for additional long-term debt and \$22 million for increased short-term debt financed at bank prime and commercial paper rates. Between 1979 and 1981, financing costs have increased by \$105 million reflecting higher interest rates, additional investment in working capital and financing of two major acquisitions.

At year-end 1981, total Genstar borrowings were \$1,307 million. Of this amount, \$756 million represented variable-rate debt and assuming that borrowing levels remain constant, a one percent change in bank prime rates will result in a \$7.6 million increase or decrease in pre-tax financing costs for the company. Based on average debt levels, 77% or \$25 million of the 1981 increase in interest costs was attributable to higher interest rates. At the end of 1980, the company had variable-rate borrowings of \$518 million.

**Income Taxes**

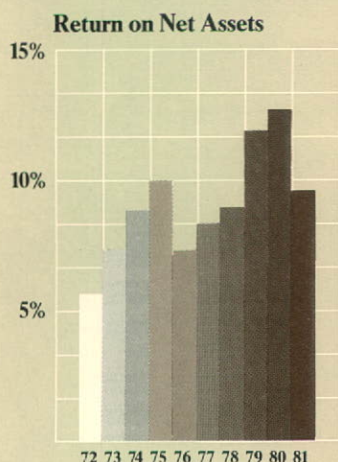
Genstar's effective income tax rate fluctuates with the proportion of income and losses generated by operations in Canada, the United States and internationally. In 1981, significant losses in the United States and the resultant recovery of income taxes more than offset tax expense in other jurisdictions, causing an overall tax recovery of \$20.1 million. In addition, no income tax recovery has been recorded on \$76 million of 1981 U.S. losses because taxes in the carry-back period have been insufficient to offset the losses. The tax recovery on these losses will be recorded in future years when U.S. operations are profitable.

The company also enjoys a significant reduction in taxes due to a low tax rate on interest earned by international finance subsidiaries on loans to U.S. subsidiaries to finance expansion. Some of this income would be taxed if remitted to the parent company in Canada, but cash requirements for expansion of U.S. operations makes repatriation unlikely in the foreseeable future.

Other factors which have reduced the effective tax rate include investment tax credits and incentives as well as the equity consolidation of certain financial services subsidiaries. Note 14 to the financial statements on page 52 provides further information on income taxes.

**Performance Measurement**

The performance of Genstar's operating divisions is measured as a return on capital employed or return on net assets (RONA). This ratio, fundamental to the



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

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

The overall RONA for Genstar declined in 1981 to 9.9% from 13.1% in 1980. The results by industrial category section on pages 34 and 35 illustrates areas which caused this reduction. Notably building supplies, land and real estate development and financial services businesses had significantly lower RONA, while marine services and concrete, aggregates and construction recorded increases. The calculation of RONA by industrial category is based upon actual tax rates implicit to the operations of each category. All calculations are based on year-end net assets.

Return on common shareholders' equity was 12.1%, down from 19.6% in 1980. The decline in return on equity reflects lower income on an expanded equity base.

**Asset Management**

<i>Current Assets</i>	1981	1980	1979*
	(days)		
Accounts receivable turnover	64	60	66
Inventory turnover . . . . .	162	143	140

\*assuming the proforma consolidation of Flintkote

Genstar's investment in inventory and accounts receivable totaled \$1,071 million in 1981, exceeding the investment in fixed assets by more than \$100 million. As a result, the company places considerable emphasis on managing these assets to minimize carrying costs. As the table above illustrates, accounts receivable turnover deteriorated by 7% compared to 1980, but still compared favorably to the 1979 level. Slower than normal sales of housing inventories and a \$55 million investment in a shopping center held for sale contributed to a 13% decrease in inventory turnover in 1981. Excluding the shopping center, inventory turnover was 149 days, a small decrease from 1980.

**Long-Term Assets**

Genstar's investment in long-term assets has increased to \$1.73 billion from \$1.26 billion at the end of 1979. The major portion of this 37% increase is a result of investments in financial services subsidiaries, joint ventures and fixed assets during the past two years. This net growth was after realizing \$435 million from the sale or reduction of assets representing more than a quarter of the book value at the end of 1981. It is evident that there is a continual turnover of assets to rationalize the businesses in which Genstar operates and to provide funds necessary to meet the longer range strategic goals of the company.

Most of the disposals represented the proceeds from completed joint ventures and from the sales of venture capital investments, but \$116 million resulted from the divestiture of fixed plant and equipment including the sale of two cement plants in the eastern U.S.

The company has invested more than \$1 billion in long-term assets in the past two years, including \$372 million in financial services subsidiaries and \$320 million in fixed plant and equipment. At the end of 1981, the company was committed to \$86 million of fixed asset expenditures.

The following two sections of this discussion deal with investments in joint ventures and financial services subsidiaries, which are not consolidated with other assets and liabilities of the company.

**Joint Ventures**

At December 31, Genstar had more than \$100 million invested in joint ventures which had total assets of slightly less than \$1.0 billion. The joint ventures, described in Note 4 to the financial statements on page 45, are both incorporated and unincorporated and are engaged in land and real estate development, financial services and manufacturing and construction businesses. Following is a summary by industrial category of financial position and operations of the joint ventures as at December 31, 1981.

The table below indicates that the land and real estate and manufacturing and construction joint ventures were profitable in 1981 and that the operations were conservatively financed. The financial services joint ventures, however, incurred losses in 1981 and the financing structure was heavily weighted to debt, primarily construction loans on real estate under development. At December 31, 1981, the majority of the financial services joint ventures under active development were considered to be good projects with excellent actual or potential returns. These projects were using 65% or \$220 million of the total debt in the financial services joint ventures.

The projects which incurred losses in 1981 had debt outstanding of approximately \$120 million at the year-end and further available credit of \$37 million under existing credit lines. It is possible that some of the projects may require further investments by the partners in 1982.

**Financial Services Subsidiaries**

The company also owns several financial services subsidiaries which have their own sources of capital. Notes 1 and 6 to the financial statements set out summary financial information concerning these operations. Genstar has invested \$427 million in financial services subsidiaries, including \$288 million in 1981 for the acquisition of Canada Permanent Mortgage Corporation. This company had deposit liabilities of \$5.4 billion which are limited under Canadian federal legislation to 25 times the capital of the corporation.

The balance of amounts invested in financial services subsidiaries represents the cost and post-acquisition earnings of several California-based companies, the largest of which are engaged in the mortgage banking and instrument rental businesses. Assets increased to \$420 million at the end of 1981 from \$363 million the year before. The combined financial structure of the companies is a 57:43 debt-to-equity ratio which is considered conservative for these operations. At December 31, 1981 the companies had bank lines of credit of \$255 million.

**Joint Ventures**

**Financial Position**

**Assets**

Accounts receivables and other . . . . .  
Inventories . . . . .  
Fixed assets . . . . .

Land and Real Estate	Financial Services	Manufacturing and Construction	Total
(millions of dollars)			
53.8	51.9	175.1	280.8
236.3	381.6	32.3	650.2
—	2.1	48.4	50.5
<b>\$290.1</b>	<b>\$435.6</b>	<b>\$255.8</b>	<b>\$981.5</b>

**Liabilities and Equity**

Short-term borrowings and construction loans . . . . .  
Accounts payable . . . . .  
Long-term debt . . . . .  
Equity and advances by other partners . . . . .  
Equity and advances by the company . . . . .

58.4	300.7	113.3	472.4
7.1	30.6	45.2	82.9
107.8	40.0	26.5	174.3
49.9	13.8	48.7	112.4
66.9	50.5	22.1	139.5
<b>\$290.1</b>	<b>\$435.6</b>	<b>\$255.8</b>	<b>\$981.5</b>

**Operations**

Revenues . . . . .  
Expenses . . . . .  
Income before income taxes . . . . .

75.1	139.2	296.9	511.2
46.4	149.8	293.9	490.1
<b>\$ 28.7</b>	<b>\$ (10.6)</b>	<b>\$ 3.0</b>	<b>\$ 21.1</b>

**Liability Management**

**Cash Sources**

Genstar Corporation, the parent company of the consolidated group, is an operating company in Canada with divisions engaged in building materials and land and real estate development businesses. In combination with several of its Canadian subsidiaries and its international finance subsidiaries, Genstar Corporation is the principal borrower of long-term debt for the group and is the guarantor of most short-term debt used in United States operations.

To provide necessary cash flow for the payment of interest and dividends, Genstar Corporation uses the strong operating cash flow of its divisions together with dividends from its Canadian subsidiaries and short-term borrowings. In early 1981, dividends were also drawn from U.S. operations for the first time. In addition, the international finance subsidiaries were restructured in 1981 such that approximately 40% of their income can be remitted to Canada without further income tax liability.

The acquisition of Canada Permanent Mortgage Corporation for \$288 million was initially financed with short-term bank borrowings, and the financing cost of this debt, combined with an uncertain economic outlook, has caused some erosion of liquidity in 1981. To improve this situation, the company is intensifying its asset management program, continuing its cost-cutting programs and reducing its capital expenditures significantly. The completion of a \$65 million operating lease transaction in February 1982 comprising 2,300 pieces of mobile equipment in Canada was the first of several planned strategies to generate cash.

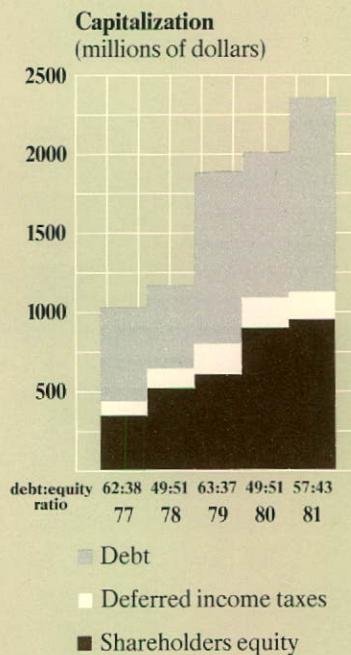
At December 31, 1981, bank lines of credit available to the company were \$1.3 billion which bear interest at approximately the prime rate; \$330 million of the bank lines are allocated as backing for the company's short-term commercial paper. Generally, interest rates on short-term commercial paper are 100 to 300 basis points less than the prime rate and therefore the company uses these facilities extensively.

Average short-term borrowings from banks and through commercial paper in 1981 were \$415 million, peaking at \$736 million, compared to \$399 million and \$455 million, respectively, in 1980.

Note 16 to the financial statements on page 54 includes restrictions on the ability of Genstar Corporation to move funds and net assets within the consolidated group. The company does not consider these restrictions in any way limiting in carrying out its financial objectives.

**Capital Sources**

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 1981 increased to 57:43 from 49:51 in 1980. In 1979 and 1981 Genstar, using borrowed funds, made significant acquisitions considered to be in the long-term interests of the company. The most recent acquisition has increased the debt component of Genstar's capitalization to a level considered to be above the desired 50:50 total debt-to-equity objective. The company will endeavor to reduce its debt to equity mix in 1982, but only modest progress is likely to be achieved due to the expected slow economic recovery in the near term.

The Securities and Exchange Commission requires that capital stock with mandatory redemption provisions be reported separately from other elements of shareholders' equity and to be considered as debt in computing 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 68:32 in 1981, 61:39 in 1980 and 70:30 in 1979, demonstrating the same trends as more traditional ratios in this report.

Genstar has used debt and equity markets in Canada, the United States and Europe to raise capital as required. In the period 1979-81, the company issued \$212 million of equity and \$233 million of net additional long-term debt.

Industrial Category	Net Assets	Financed by				Ratios			
		Short-Term Debt	Long-Term Debt	Deferred Income Taxes	Equity	Total Debt to Equity		Long-Term Debt to Equity	
		(millions of dollars)				(percent)		(percent)	
Cement and lime . . . . .	504.1	47.4	205.7	85.4	165.6	<b>60:40</b>	45:55	<b>55:45</b>	43:57
Concrete, aggregates and construction . . . . .	278.9	60.8	83.6	40.2	94.3	<b>60:40</b>	45:55	<b>47:53</b>	40:60
Building supplies . . . . .	303.5	75.1	99.5	14.9	114.0	<b>60:40</b>	45:55	<b>47:53</b>	40:60
Land and real estate development . . . . .	699.6	379.8	111.8	2.0	206.0	<b>70:30</b>	64:36	<b>35:65</b>	45:55
Financial services . . . . .	552.3	76.6	118.8	.4	356.5	<b>35:65</b>	25:75	<b>25:75</b>	25:75
Marine services . . . . .	101.6	9.3	37.4	24.3	30.6	<b>60:40</b>	60:40	<b>55:45</b>	55:45
Other operations . . . . .	1.6	—	.8	—	.8	<b>50:50</b>	50:50	<b>50:50</b>	50:50
	<b>\$2,441.6</b>	<b>\$649.0</b>	<b>\$657.6</b>	<b>\$167.2</b>	<b>\$967.8</b>	<b>57:43</b>	49:51	<b>40:60</b>	41:59

**Share Capital**

Genstar's voting share capital consists of 30.6 million common shares and several series of preference shares. At December 31, 1981, 86% of the common shares were registered and the balance were in bearer form.

Following is a summary of shareholdings of the company, which shows that the number of shareholders increased by more than 800 in 1981 and that Canadian resident shareholders owned more than 55% of voting shares and represent 79% of Genstar's registered shareholders.

	1981				1980			
	Shareholders Numbers	%	Shareholdings Shares (millions)	%	Shareholders Numbers	%	Shareholdings Shares (millions)	%
<b>Common &amp; Voting Preferred</b>								
Canada . . . . .	12,339	79	19.2	55	11,881	81	17.5	51
United States . . . . .	3,021	20	6.3	18	2,660	18	6.9	20
Other . . . . .	176	1	4.5	13	179	1	4.9	14
	<b>15,536</b>	<b>100</b>	<b>30.0</b>	<b>86</b>	<b>14,720</b>	<b>100</b>	<b>29.3</b>	<b>85</b>
Bearer . . . . .	*		4.8	14	*		5.1	15
	<b>15,536</b>	<b>100</b>	<b>34.8</b>	<b>100</b>	<b>14,720</b>	<b>100</b>	<b>34.4</b>	<b>100</b>

\*the ownership of bearer shares is unknown

Common share trading volume in total declined slightly in 1981 but trading in the United States increased. Following is a five-year summary of common stock trading volume and price information:

Common Stock	1981	1980	1979	1978	1977
Trading volume (millions of shares)					
Canada . . . . .	5.0	6.8	4.8	4.4	2.5
United States . . . . .	7.3	5.6	1.1	0.6	0.5
Other . . . . .	0.2	0.9	0.9	0.8	0.7
	<b>12.5</b>	<b>13.3</b>	<b>6.8</b>	<b>5.8</b>	<b>3.7</b>
Price range* . . . . .	<b>\$42<sup>3</sup>/<sub>8</sub>—18<sup>3</sup>/<sub>8</sub></b>	<b>\$47—25</b>	<b>\$27<sup>3</sup>/<sub>4</sub>—18<sup>3</sup>/<sub>8</sub></b>	<b>\$19—12<sup>7</sup>/<sub>8</sub></b>	<b>\$13<sup>7</sup>/<sub>8</sub>—11<sup>1</sup>/<sub>8</sub></b>
Closing price*, December 31 . . . . .	<b>\$23<sup>3</sup>/<sub>8</sub></b>	<b>\$38<sup>5</sup>/<sub>8</sub></b>	<b>\$25<sup>7</sup>/<sub>8</sub></b>	<b>\$18</b>	<b>\$13<sup>7</sup>/<sub>8</sub></b>
Book value, December 31 . . . . .	<b>\$24.02</b>	<b>\$22.97</b>	<b>\$18.67</b>	<b>\$15.87</b>	<b>\$13.79</b>

\*Toronto Stock Exchange

Quarterly trading volume and price range information for 1981 and 1980 is included in Note 17 to the financial statements on page 55.



Common shares are listed on the New York, Pacific, Toronto, Montreal, Alberta and Vancouver stock exchanges and the Brussels, Antwerp, Zurich, Geneva, Basel and Luxembourg bourses. Four series of preferred shares were traded publicly in 1981, the most active of which are the Series B second preferred shares which had volume of 95,400 shares on the New York Stock Exchange and the Series C second preferred shares which had volume of 1,034,400 shares on the Toronto Stock Exchange.

### **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 1981 were subject to a 10% withholding tax on the first, second and third quarter dividends. In November 1981, upon a change in Canadian tax law, the withholding tax rate was increased to 15% and accordingly was deducted from the fourth quarter dividend. 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.

#### **Inflation**

In spite of reduced economic activity, high unemployment and falling consumer confidence, inflation as measured by the Consumer Price Index continued to rise in double digits in Canada and the United States in 1981. The CPI is the commonly used measure of inflation, but there is a growing concern that the particular mix of goods and services and their weighting in the index does not accurately reflect the underlying trends. In particular, interest costs are believed to be too heavily weighted in the calculation, especially interest on home mortgages. In Canada, the combination of mortgage renewals and originations affect less than 20% of the population and in the United States the percentage is smaller because of the predominance of fixed rate 30-year mortgages on homes. In addition, in both Canada and the United States, the amount of interest earned by individuals on their savings exceeds the amount paid on mortgages and other consumer debt. It is therefore unfortunate that the CPI has become such a psychological benchmark against which salary and wage increases are measured, given the imperfections of the CPI calculation.

In recent months, as the recession has deepened, job security has replaced inflation as the prime concern

of wage earners. This is indeed a positive signal that the most important aspect of economic growth, increased productivity, will become the common goal of government, business and labor.

#### ***Inflation-Adjusted Results***

The information included in Note 18 to the consolidated financial statements on page 56 restates certain balance sheet and statement of income items from current dollars to constant dollars using methods prescribed by the Financial Accounting Standards Board.

Of particular significance is the 17% reduction in 1981 constant dollar revenues resulting primarily from lower United States volume. This real reduction in revenues is reflected in reduced 1981 earnings as calculated under historic, constant dollar and current cost methods.

In both 1981 and 1980, the reductions in earnings after adjusting for general and specific inflation were approximately the same, indicating that inflation was as important a factor in 1981 as in the past several years in spite of poor economic conditions and high unemployment. It has only been in recent months that the inflation rate has been somewhat tempered.

After providing for preferred dividends, constant dollar loss per share was 11 cents compared to income of \$2.16 in 1980 and, on the basis of current cost assumptions, the loss per share was 58 cents compared to income of \$1.27 in the prior period. The per share amounts do not include the gain resulting from the decline in purchasing power of net liabilities which amounted to \$120 million in 1981 or \$3.94 per common share. This holding gain represents the portion of inflation borne by lenders and not by Genstar shareholders. In our view, this amount represents a reduction in financing costs and should be netted against interest expense in order to calculate inflation-adjusted debt cost. Earnings adjusted for the effects of inflation would be higher than historic cost earnings in both 1981 and 1980 if the holding gain was included.

The net worth of the company increases significantly after accounting for inflation adjustments. On a constant dollar basis, capital stock and retained earnings increased more than 50% to \$1.5 billion and on a current cost basis, the increase is even larger, to \$1.7 billion. Although the resultant amounts are not purported to reflect true economic value, this large unrealized appreciation indicates the underlying strength of the company's assets and confirms the industrial and geographic diversity strategy pursued by Genstar.

# Industrial Categories

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## 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 1981, \$23 million of such income is included in the revenues of the land and real estate development category, \$8 million in the revenues of the financial services category and \$2 million of losses is included in the concrete, aggregates and construction category. The land and real estate development category included \$16 million of such income in 1980 and \$18 million in 1979. The financial services category included \$20 million of such income in 1980 and \$23 million in 1979. The concrete aggregates and construction category includes \$6 million of losses in 1980.

## Inter-Category Revenues

Sales of goods and services between categories are at market prices. Industrial category revenues include inter-category revenues of \$104 million in 1981, \$102 million in 1980 and \$104 million in 1979 which are eliminated from consolidated revenues and cost of revenues in the company's consolidated statements of income.

## Other Operations

Since net asset investment has decreased from \$123.6 million in 1977 to \$1.6 million in 1981, results by industrial category do not include the company's chemical and fertilizer operations or, in 1979, commercial revenue property sales. Included in the consolidated statements of income are the following amounts related to these activities:

	1981	1980	1979
	(millions of dollars)		
Revenues . . . . .	\$15.8	\$46.1	\$81.1
Operating Income . . . . .	3.4	3.9	15.5
Net Income . . . . .	1.6	1.8	8.4

## Interest and General Corporate Expense

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

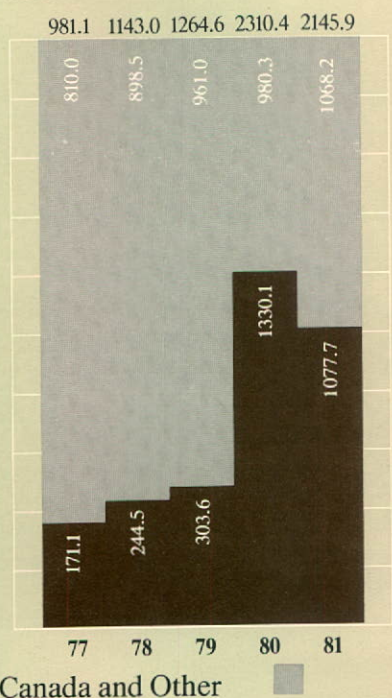
(millions of dollars)

	1981	1980	1979	1978	1977
Cement and lime . . . . .	58.6	90.2	53.2	28.2	69.9
Concrete, aggregates and construction . . . . .	45.1	32.0	31.4	14.9	21.1
Building supplies . . . . .	29.3	34.5	4.2	.7	1.9
Marine services . . . . .	5.7	10.7	9.2	3.7	9.5
Other . . . . .	8.8	4.8	8.1	5.3	4.7
Total . . . . .	\$147.5	\$172.2	\$106.1	\$ 52.8	\$107.1

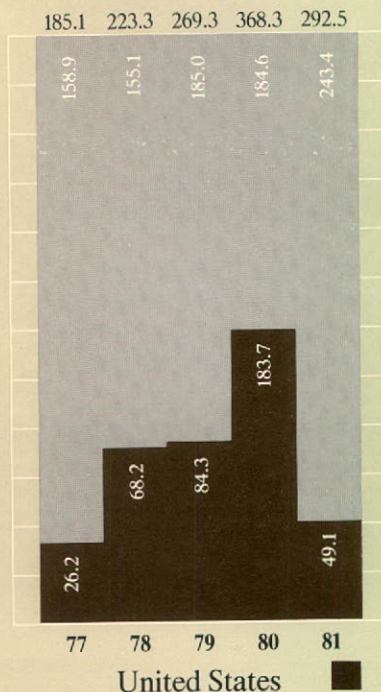
**Financial Data by Geographic Area**

(millions of dollars)

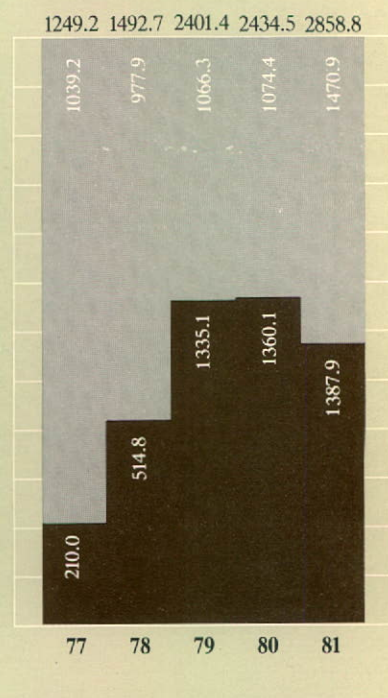
**Revenues**



**Operating Income\***



**Identifiable Assets**



\*Operating income is calculated before the deduction of interest and general corporate expenses and accordingly, is greater than consolidated income before income taxes by \$203 million in 1981, \$175 million in 1980, and \$82 million in 1979.

**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)

	1981	1980	1979	1978	1977
Cement and lime . . . . .	546.2	510.3	514.3	230.8	197.8
Concrete, aggregates and construction . . . . .	427.8	400.3	476.5	246.7	218.9
Building supplies . . . . .	332.4	359.3	339.5	48.2	15.7
Land and real estate development . . . . .	803.6	711.8	680.0	640.6	496.0
Financial services . . . . .	559.0	244.1	204.7	106.1	34.4
Marine services . . . . .	129.4	121.4	113.0	100.9	117.1
Other operations . . . . .	2.6	35.4	37.6	97.9	153.6
General corporate . . . . .	57.8	51.9	35.8	21.5	15.7
<b>Total . . . . .</b>	<b>\$2,858.8</b>	<b>\$2,434.5</b>	<b>\$2,401.4</b>	<b>\$1,492.7</b>	<b>\$1,249.2</b>

# Results by Industrial Category

For the five years ended December 31, 1981  
(millions of Canadian dollars)

		REVENUES			
		Third Party	Inter-Category	Total	
<b>Cement and Lime</b>					
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, and various crushed limestone products.		1981 . . . . .	\$270.5	\$42.7	\$313.2
		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
<b>Concrete, Aggregates and Construction Services</b>					
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 light-weight aggregates, crushed stone and gypsum rock. Municipal and real estate subdivision servicing (road construction, paving and installation of utilities) and heavy construction.		1981 . . . . .	\$612.9	\$55.2	\$668.1
		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
<b>Building Supplies</b>					
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.		1981 . . . . .	\$574.1	\$ 1.2	\$575.3
		1980 . . . . .	606.6	1.8	608.4
		1979 . . . . .	39.9	—	39.9
		1978 . . . . .	32.1	—	32.1
		1977 . . . . .	21.1	—	21.1
<b>Land and Real Estate Development</b>					
Development of residential, commercial and industrial land. Development and construction of single-family homes, duplexes, townhouses, shopping centers and warehouses; manufacture of preassembled sections and component packages for construction of residential units.		1981 . . . . .	\$483.2	\$ 2.9	\$486.1
		1980 . . . . .	589.1	—	589.1
		1979 . . . . .	461.5	—	461.5
		1978 . . . . .	404.1	—	404.1
		1977 . . . . .	372.7	.2	372.9
<b>Financial Services</b>					
Retail, commercial and mortgage banking; mortgage lending; real estate joint venture and marine financing; personal, pension and corporate trust, title insurance and escrow custodial and management services; venture capital investment; capital equipment lease and residential real estate sales brokerage; rental of transportation containers and electronic test and measurement equipment; property-casualty insurance.		1981 . . . . .	\$ 51.6	\$ —	\$51.6
		1980 . . . . .	75.2	1.1	76.3
		1979 . . . . .	30.3	—	30.3
		1978 . . . . .	60.7	—	60.7
		1977 . . . . .	20.9	—	20.9
<b>Marine Services</b>					
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.		1981 . . . . .	\$137.8	\$ 1.8	\$139.6
		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

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)
\$206.7	\$ 25.2	\$ 22.4	\$254.3	\$ 58.9	\$ 39.7	\$ 19.2	\$ .7	\$ 18.5	\$504.1	5.7
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
\$517.5	\$ 53.5	\$ 27.6	\$598.6	\$ 69.5	\$ 25.2	\$ 44.3	\$ 11.2	\$ 33.1	\$278.9	14.2
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
\$529.2	\$ 58.7	\$ 16.7	\$604.6	\$(29.3)	\$ 27.5	\$(56.8)	\$(33.7)	\$(23.1)	\$303.5	(5.1)
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
\$296.4	\$ 61.2	\$ 2.7	\$360.3	\$125.8	\$ 76.3	\$ 49.5	\$ 5.9	\$ 43.6	\$699.6	9.3
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
\$ 10.5	\$ 6.5	\$ .5	\$ 17.5	\$ 34.1	\$ 23.4	\$ 10.7	\$(12.0)	\$ 22.7	\$552.3	5.1
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
\$ 94.3	\$ 7.6	\$ 7.6	\$109.5	\$ 30.1	\$ 9.3	\$ 20.8	\$ 7.7	\$ 13.1	\$101.6	15.3
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

# Summary of Significant Accounting Policies

For the years ended December 31, 1981, 1980 and 1979

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 their financial structure and operations differ significantly from the company's other businesses.

Investments in joint ventures are accounted for on the equity method.

## 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 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 for the land partnership and limestone deposits.

# Consolidated Statements of Income

**GENSTAR**

For the years ended December 31, 1981, 1980 and 1979  
(thousands of Canadian dollars)

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	<i>Note Reference</i>	1981	1980	1979
<b>Revenues</b> . . . . .		<b>2,145,922</b>	2,310,445	1,264,551
<b>Costs and Expenses</b>				
Cost of sales and service . . . . .		<b>1,564,751</b>	1,674,813	856,109
Selling, general and administrative . .		<b>243,511</b>	227,260	116,955
Depreciation, depletion and amortization . . . . .		<b>78,260</b>	77,109	39,079
		<b>1,886,522</b>	1,979,182	1,012,143
<b>Operating Income</b> . . . . .		<b>259,400</b>	331,263	252,408
<b>Financing costs</b>				
Interest on long-term debt . . . . .		<b>85,568</b>	76,115	34,217
Other interest . . . . .		<b>84,400</b>	62,127	30,965
		<b>169,968</b>	138,242	65,182
<b>Income Before Income Taxes</b> . . . . .		<b>89,432</b>	193,021	187,226
Provision for income taxes	<i>14</i>			
Current . . . . .		<b>(8,600)</b>	44,500	43,000
Deferred . . . . .		<b>(11,500)</b>	(5,200)	20,600
		<b>(20,100)</b>	39,300	63,600
<b>Net Income for the Year</b> . . . . .		<b>\$ 109,532</b>	\$ 153,721	\$ 123,626
<b>Net Income per Common Share</b>				
<b>Canadian Method</b>				
Basic . . . . .	<i>15</i>	<b>\$2.92</b>	\$4.77	\$4.21
Fully diluted . . . . .		<b>2.79</b>	4.35	3.96
<b>United States Method</b>				
Primary . . . . .		<b>2.81</b>	4.41	4.16
Fully diluted . . . . .		<b>2.78</b>	4.35	3.98

# Consolidated Balance Sheets

As at December 31, 1981 and 1980  
(thousands of Canadian dollars)

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	<i>Note Reference</i>	<b>1981</b>	1980
<b>Assets</b>			
<b>Current Assets</b>			
Cash and term deposits . . . . .		<b>12,316</b>	23,857
Accounts receivable . . . . .		<b>376,939</b>	382,530
Inventories . . . . .	2	<b>694,544</b>	654,931
		<b>1,083,799</b>	1,061,318
<b>Joint Ventures, Development Land and Investments . . . . .</b>			
	3	<b>333,245</b>	277,405
<b>Fixed Assets . . . . .</b>			
	5		
Properties, plants and equipment . . . . .		<b>1,525,781</b>	1,475,454
Accumulated depreciation and depletion . . . . .		<b>560,423</b>	559,071
		<b>965,358</b>	916,383
<b>Non-Consolidated Financial Services Subsidiaries . . . . .</b>			
	6	<b>427,062</b>	141,386
<b>Intangible Assets . . . . .</b>	7	<b>49,330</b>	37,970
		<b>\$2,858,794</b>	<b>\$2,434,462</b>

On behalf of the Board

Director *Angus Mac Naughton*

Director *[Signature]*



	<i>Note Reference</i>	<b>1981</b>	<b>1980</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Short-term borrowings . . . . .	8	<b>566,513</b>	192,614
Accounts payable . . . . .		<b>286,823</b>	303,358
Income taxes . . . . .		<b>(12,543)</b>	34,352
Advances relating to housing and land inventories . . . . .	9	<b>82,494</b>	73,876
Current portion of long-term debt . . . . .	10	<b>24,431</b>	61,578
		<b>947,718</b>	665,778
<b>Lease Deposit</b> . . . . .	11	<b>65,000</b>	—
<b>Long-Term Debt</b> . . . . .	10	<b>633,135</b>	577,991
<b>Deferred Revenue</b> . . . . .		<b>77,955</b>	82,691
<b>Deferred Income Taxes</b> . . . . .	14	<b>167,200</b>	178,700
		<b>1,891,008</b>	1,505,160
<b>Capital Stock and Retained Earnings</b>			
<b>Redeemable Preferred Shares</b> . . . . .	12	<b>120,000</b>	120,000
<b>Convertible Redeemable Preferred Shares</b> . . . . .	12	<b>111,068</b>	113,485
<b>Common Shares and Contributed Surplus</b> . . . . .	13	<b>291,718</b>	285,115
<b>Retained Earnings</b> . . . . .		<b>445,000</b>	410,702
		<b>\$2,858,794</b>	<b>\$2,434,462</b>

# Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1981, 1980, and 1979  
(thousands of Canadian dollars)

	<i>Note Reference</i>	<b>1981</b>	1980	1979
<b>Source of Funds</b>				
<b>Net Income for the Year</b> . . . . .		<b>109,532</b>	153,721	123,626
<b>Items Not Affecting Funds</b>				
Depreciation, depletion and amortization . . . . .		<b>78,260</b>	77,109	39,079
Loss (gain) on sales of investments and fixed assets . . . . .		<b>(9,473)</b>	2,253	(5,335)
Deferred income taxes . . . . .	<i>14</i>	<b>(11,500)</b>	(5,200)	20,600
Deferred revenue . . . . .		<b>(4,736)</b>	(8,247)	(10,901)
Other . . . . .		<b>(5,792)</b>	(4,275)	(10,449)
<b>Funds from Operations</b> . . . . .		<b>156,291</b>	215,361	156,620
<b>Sale or Reduction</b>				
Joint ventures, development land and investments . . . . .		<b>129,206</b>	101,327	66,474
Fixed assets . . . . .		<b>29,785</b>	85,749	20,219
Non-consolidated financial services subsidiaries . . . . .		<b>64,883</b>	23,567	—
<b>Lease Deposit</b> . . . . .	<i>11</i>	<b>65,000</b>	—	—
<b>Issue</b>				
Long-term debt . . . . .		<b>230,807</b>	68,723	395,498
Capital stock . . . . .		<b>4,186</b>	198,756	4,213
		<b>680,158</b>	693,483	643,024
<b>Application of Funds</b>				
<b>Acquisition of Subsidiaries</b> . . . . .	<i>1</i>	<b>288,000</b>	—	183,801
<b>Purchase or Increase</b>				
Joint ventures, development land, investments and other . . . . .		<b>199,171</b>	139,862	96,652
Fixed assets . . . . .		<b>147,547</b>	172,227	106,136
Non-consolidated financial services subsidiaries . . . . .		<b>42,228</b>	42,332	86,776
<b>Payment or reduction</b>				
Long-term debt . . . . .		<b>187,437</b>	178,064	96,591
Dividends . . . . .		<b>75,234</b>	64,807	42,305
		<b>939,617</b>	597,292	612,261
<b>Working Capital</b>				
Increase (decrease) for the year . . .		<b>(259,459)</b>	96,191	30,763
Beginning of year . . . . .		<b>395,540</b>	299,349	268,586
End of year . . . . .		<b>\$136,081</b>	\$395,540	\$299,349

	1981	1980	1979
<b>Changes in Elements of Working Capital</b>			
<b>Current Assets Increase (Decrease)</b>			
Cash and term deposits . . . . .	(11,541)	(42,069)	53,063
Accounts receivable . . . . .	(5,591)	(26,129)	130,584
Net assets held for sale . . . . .	—	—	(22,277)
Inventories . . . . .	39,613	29,298	163,261
	<b>22,481</b>	<b>(38,900)</b>	<b>324,631</b>
<b>Current Liabilities Increase (Decrease)</b>			
Short-term borrowings . . . . .	373,899	(37,328)	60,204
Accounts payable . . . . .	(16,535)	(21,011)	153,332
Income taxes . . . . .	(46,895)	(39,349)	37,269
Advances relating to housing and land inventories . . . . .	8,618	(53,589)	23,647
Current portion of long-term debt . . . . .	(37,147)	16,186	19,416
	<b>281,940</b>	<b>(135,091)</b>	<b>293,868</b>
<b>Increase (Decrease) in Working Capital for the Year . . . . .</b>	<b>\$(259,459)</b>	<b>\$ 96,191</b>	<b>\$ 30,763</b>

## Consolidated Statements of Retained Earnings

For the years ended December 31, 1981, 1980 and 1979  
(thousands of Canadian dollars)

	1981	1980	1979
<b>Balance — Beginning of Year . . . . .</b>	<b>410,702</b>	<b>326,932</b>	<b>245,611</b>
Net income for the year . . . . .	109,532	153,721	123,626
	<b>520,234</b>	<b>480,653</b>	<b>369,237</b>
Dividends — preferred shares . . . . .	20,390	17,684	8,338
— common shares . . . . .	54,844	47,123	33,967
	<b>75,234</b>	<b>64,807</b>	<b>42,305</b>
Share issue expenses (net of related income taxes) . . . . .	—	5,144	—
	<b>75,234</b>	<b>69,951</b>	<b>42,305</b>
<b>Balance — End of Year . . . . .</b>	<b>\$445,000</b>	<b>\$410,702</b>	<b>\$326,932</b>

# Notes to Consolidated Financial Statements

For the years ended December 31, 1981, 1980 and 1979

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## 1. Business Combinations

### Canada Permanent Mortgage Corporation

Through cash tender offers and private purchases, 99.6 percent of the outstanding voting shares of Canada Permanent Mortgage Corporation (CPMC) were acquired effective July 31, 1981. The \$1,212,000 cost to purchase the balance of the voting shares has been included in accounts payable. CPMC has been accounted for on the equity method of accounting as the nature of its businesses and financial structure differs significantly from those of the company. Reference is made to the litigation section of Note 16 concerning other aspects of the acquisition.

CPMC provides financial services nationally in Canada. The financial intermediary business line operates 100 branches which accept deposits and make residential mortgage, personal and commercial loans primarily for terms of one to five years. Short-term and demand checking and savings deposits are also accepted and investments are also made in marketable securities and short-term deposits. A fiduciary business line provides personal, pension and corporate trust custodial and management services through sixteen of the branch locations and a real estate brokerage business line operates through 90 sales offices and 20 franchises.

*Details of the acquisition, which was accounted for on the purchase basis of accounting, are as follows:*

	(thousands of dollars)	
Net tangible assets at the net book value of CPMC . . . . .		201,700
Minority non-voting redeemable preference shares . . . . .		19,000
		<u>182,700</u>
Allocation of purchase price		
Tangible net assets — Loan assets . . . . .	(151,300)	
— Deposit liabilities . . . . .	99,300	
— Marketable securities . . . . .	(28,200)	
— Properties and equipment . . . . .	29,700	(50,500)
		<u>          </u>
Identifiable intangible assets		
— Financial intermediary . . . . .	41,500	
— Fiduciary . . . . .	34,500	
— Real estate brokerage . . . . .	15,300	91,300
		<u>          </u>
Residual intangible assets . . . . .		64,500
		<u>          </u>
Cost of investment . . . . .		<u>\$288,000</u>

Reported net income of CPMC is adjusted to the equity method to amortize the purchase price allocation over the term to maturity of financial assets and liabilities, which in most cases occurs by December 31, 1986, and over the estimated remaining useful lives of 4 to 40 years for the depreciable portion of properties and equipment. For intangible assets, the periods and methods of amortization

range from 10 year declining balance to 40 year straight-line with an average charge approximating a 25 year straight-line amortization of total intangible assets. In 1981, equity net income including the amortization of the purchase price allocation, was approximately the same as the post-acquisition reported income of CPMC.

Assuming that the acquisition, at the same excess cost, had taken place on January 1, 1980, that the required amortization of excess cost remained unchanged and that the purchase was financed by

bank borrowings at an average cost of 15% for 1980 and 18% for 1981, the theoretical pro-forma consolidated results of Genstar would have been as follows:

	1981	1980
	(thousands of dollars)	
Revenues .....	2,156,500	2,355,700
Income before income taxes .....	71,300	195,900
Net income .....	<b>\$ 104,300</b>	<b>\$ 175,700</b>
Net income per common share		
Canadian method — basic .....	\$2.78	\$5.45
— fully diluted .....	2.66	4.97
United States method — primary .....	2.68	5.04
— fully diluted .....	2.65	4.97

*A summary of CPMC financial position and operations is as follows:*

	1981	1980
	(thousands of dollars)	
<b>Assets</b>		
Cash and short-term deposits .....	331,350	165,557
Marketable securities .....	587,248	731,237
Mortgage, personal and commercial loans .....	4,668,006	4,588,644
Other .....	97,057	76,326
	<b>\$5,683,661</b>	<b>\$5,561,764</b>
<b>Deposit Liabilities</b>		
Demand checking and savings and other short-term .....	1,337,497	1,189,948
Registered savings plans .....	1,079,796	916,233
Debentures and guaranteed investment certificates .....	2,937,940	3,133,689
Other liabilities .....	111,847	115,085
	<b>\$5,467,080</b>	<b>\$5,354,955</b>
<b>Capital Stock and Retained Earnings</b>		
Non-voting redeemable preference shares .....	18,896	19,959
Voting shares and contributed surplus .....	80,858	80,629
Retained earnings .....	116,827	106,221
	<b>\$5,683,661</b>	<b>\$5,561,764</b>

	1981	1980	1979
	(thousands of dollars)		
<b>Revenues</b>			
Financial intermediary interest and dividends . . . . .	721,917	580,543	496,251
Fiduciary fees and commissions . . . . .	33,587	28,284	25,284
Net real estate brokerage commissions . . . . .	24,676	18,702	15,188
	<b>780,180</b>	627,529	536,723
<b>Expenses</b>			
Interest . . . . .	655,934	501,114	414,490
Other . . . . .	130,130	111,394	98,183
	<b>786,064</b>	612,508	512,673
	(5,884)	15,021	24,050
Income Tax Provision (Recovery) . . . . .	<b>(11,906)</b>	(1,850)	4,175
	<b>6,022</b>	16,871	19,875
<b>Net Gain on Disposal of Securities and Premises</b> . . . . .	<b>13,745</b>	11,599	1,785
<b>Net Income</b> . . . . .	<b>19,767</b>	28,470	21,660
Dividends on Non-Voting Redeemable Preference Shares . . . . .	1,524	1,643	1,682
<b>Net Income Available to Voting Shares</b> . . . . .	<b>\$18,243</b>	\$26,827	\$19,978

**The Flintkote Company**

Effective December 31, 1979, the assets and liabilities of The Flintkote Company, a company engaged in the manufacture and sale of building materials in the United States, were consolidated on the purchase method of accounting. The acquisition was effected by open market share purchases and a cash tender

offer for a total consideration of \$446,755,000. The excess of purchase price over book value of tangible assets, in the amount of \$97,710,000 was allocated primarily to fixed assets and long-term debt. The consolidation resulted in the following changes in financial position at the acquisition date:

	(thousands of dollars)
Purchase of fixed and other long-term assets . . . . .	474,839
Assumption of long-term debt and deferred income and taxes . . . . .	220,993
Net long-term assets purchased . . . . .	253,846
Equity value of original investment . . . . .	70,045
Decrease in working capital . . . . .	<b>\$183,801</b>

**2. Inventories**

	1981	1980
	(thousands of dollars)	
Finished goods . . . . .	141,546	145,385
Work in process . . . . .	84,820	135,468
Raw materials, supplies and repair parts . . . . .	78,783	80,757
Land . . . . .	334,097	293,321
Revenue property held for sale . . . . .	55,298	—
	<b>\$694,544</b>	\$654,931

**3. Joint Ventures, Development Land and Investments**

	1981	1980
	(thousands of dollars)	
Joint ventures — at equity (note 4) . . . . .	100,420	84,752
Development land . . . . .	60,025	65,172
Mortgages and loans receivable . . . . .	94,937	79,535
Portfolio securities — at cost . . . . .	46,781	47,946
Development property subsidiary . . . . .	31,082	—
	<b>\$333,245</b>	<b>\$277,405</b>

Mortgages and loans receivable include \$57,700,000 in 1981 and \$47,500,000 in 1980 related to land and housing sales. The remaining amounts relate primarily to balances on asset sales and stock purchase plans.

Portfolio securities include marketable investments of \$16,137,000 at December 31, 1981, and \$22,819,000

at December 31, 1980 with market values of \$30,800,000 and \$54,000,000 respectively.

The development property subsidiary is held for sale and consists of operating revenue properties and land and properties under development of \$106,482,000, net of secured and unsecured debt of \$75,400,000.

**4. 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, chemical and mixed fertilizer production

and marine financing activities. The following is a summary of the combined operations and financial position of these investments.

	1981	1980
	(thousands of dollars)	
<b>Net Assets Employed</b>		
Accounts and loans receivable and other assets . . . . .	280,766	231,722
Fixed assets . . . . .	50,485	46,805
Land, real estate development and other inventories . . . . .	650,276	530,898
	<b>981,527</b>	809,425
Accounts payable and other liabilities . . . . .	82,944	88,229
	<b>\$ 898,583</b>	<b>\$721,196</b>
<b>Financed by</b>		
Mortgages and loans payable . . . . .	646,733	539,912
Equity and advances by other partners . . . . .	112,379	72,693
Equity and advances by the company . . . . .	139,471	108,591
	<b>\$ 898,583</b>	<b>\$721,196</b>

	1981	1980	1979
	(thousands of dollars)		
<b>Operations</b>			
Revenues . . . . .	511,199	442,298	338,864
Expenses . . . . .	490,112	412,952	271,765
	<b>\$ 21,087</b>	<b>\$ 29,346</b>	<b>\$ 67,099</b>
<b>Allocation of Income</b>			
Other partners . . . . .	6,828	7,243	28,941
Company . . . . .	14,259	22,103	38,158
	<b>\$ 21,087</b>	<b>\$ 29,346</b>	<b>\$ 67,099</b>

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, 1981 for the other partners' share of liabilities of \$112,100,000 should the other partners not be able to satisfy them, as well as for its own share of \$116,700,000, compared to \$80,300,000 and \$84,800,000, respectively, at December 31, 1980. As a limited partner in other ventures, the company is a guarantor of partnership liabilities of \$18,200,000 compared to \$43,200,000 at December 31, 1980. Under certain partnership agreements, the company is also committed to make addi-

tional investments of \$39,200,000.

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, 1981, these loans, bearing interest at 9.75% amounted to \$107,000,000, mature to 1993 and require the following payments of principal over the next five years:

1982—\$577,000; 1983—\$5,655,000;  
1984—\$10,787,000; 1985—\$10,711,000;  
1986—\$10,693,000.

### 5. Fixed Assets

	1981		1980	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(thousands of dollars)			
Plant sites . . . . .	41,198	—	41,095	—
Quarries and gravel deposits . . . . .	58,732	11,974	61,749	11,640
Buildings . . . . .	259,922	83,447	238,984	79,648
Machinery and equipment . . . . .	1,165,929	465,002	1,133,626	467,783
	<b>\$1,525,781</b>	<b>\$560,423</b>	<b>\$1,475,454</b>	<b>\$559,071</b>

Included in fixed assets at December 31, 1981 is construction in progress of \$45,000,000 with an estimated cost to complete of \$86,000,000.

The net book value of fixed assets held under capital leases was \$39,000,000 at December 31, 1981 and \$46,000,000 at December 31, 1980.

### 6. Non-Consolidated Financial Services Subsidiaries

	1981	1980
	(thousands of dollars)	
Canada Permanent Mortgage Corporation (Note 1) . . . . .	297,059	—
Other non-consolidated financial services subsidiaries . . . . .	130,003	141,386
	<b>\$427,062</b>	<b>\$141,386</b>

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

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

The following summary of operations and financial

#### Operations

	1981	1980	1979
	(thousands of dollars)		
Revenues . . . . .	120,084	71,161	50,784
Costs and expenses . . . . .	98,956	49,270	41,008
Income before income taxes . . . . .	21,128	21,891	9,776
Provision for income taxes . . . . .	10,843	12,503	4,206
Net income for the year . . . . .	<b>\$ 10,285</b>	<b>\$ 9,388</b>	<b>\$ 5,570</b>

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 \$7,197,000 in 1981, \$4,270,000 in 1980 and \$2,364,000 in 1979.



	1981	1980
	(thousands of dollars)	
<b>Assets</b>		
Cash held in trust . . . . .	4,322	10,823
Mortgages, loans and accounts receivable . . . . .	223,270	178,576
Advances to the company . . . . .	77,837	73,452
Fixed assets . . . . .	47,495	35,907
Loan acquisition costs and other assets . . . . .	34,193	25,143
Intangible assets . . . . .	32,716	38,711
	<b>\$419,833</b>	<b>\$362,612</b>
<b>Liabilities</b>		
Short-term borrowings . . . . .	129,727	103,217
Accounts payable and other liabilities . . . . .	82,266	44,557
Advances by the company . . . . .	63,866	89,320
	<b>275,859</b>	<b>237,094</b>
<b>Shareholder's Equity</b>		
Capital stock . . . . .	118,257	110,086
Retained earnings subsequent to acquisition . . . . .	25,717	15,432
	<b>\$419,833</b>	<b>\$362,612</b>

	1981	1980
	(thousands of dollars)	
<b>7. Intangible Assets</b>		
Intangible assets arising from acquisitions . . . . .	40,453	35,056
Debt discount . . . . .	8,877	2,914
	<b>\$49,330</b>	<b>\$37,970</b>

Intangible assets include an unamortized balance of \$8,524,000 at December 31, 1981 from acquisitions subsequent to November 1, 1971, 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.

	1981	1980
	(thousands of dollars)	
<b>8. Short-Term Borrowings</b>		
Bank advances . . . . .	420,043	118,157
Short-term promissory notes . . . . .	146,470	74,457
	<b>\$566,513</b>	<b>\$192,614</b>

**9. Advances Relating to Housing and Land Inventories**

Included in advances relating to housing and land inventories is \$46,644,000 at December 31, 1981 and \$40,578,000 at December 31, 1980 representing the outstanding balances of the purchase price of development lands which are payable over periods up to five years. The remaining advances of

\$35,850,000 at December 31, 1981 and \$33,298,000 at December 31, 1980 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.

**10. Long-Term Debt**

	1981		1980	
	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
<b>Debentures</b>				
11% sinking fund due in 1981*	—	—	9,503	9,503
10% due in 1981*	—	—	27,506	27,506
9% convertible due in 1985*	—	4,489	—	—
6½% convertible due in 1988*	—	9,572	—	11,114
17½% due to 1989*	—	89,250	—	—
10% due to 1989*	—	55,157	2,380	55,157
14¾% due to 1991*	1,309	58,310	—	—
7% due to 1991**	—	66,500	—	—
11¾% due to 1995	1,500	20,952	1,500	21,000
11% sinking fund due to 1996*	1,968	32,871	1,508	34,073
11¼% due to 1996	2,500	48,260	2,500	50,000
10¾% due to 1999	—	50,000	—	50,000
	7,277	435,361	44,897	258,353
<b>Capital Lease Obligations</b>				
5¾% to 12% revenue bonds due to 1999*	143	27,989	—	16,023
4% to 13⅞% building and equipment leases due to 1996*	10,892	29,751	8,466	38,330
	11,035	57,740	8,466	54,353
<b>11% Term Bank Loan due to 1989*</b>	—	22,278	—	22,194
<b>Non-Interest Bearing to 16¾% Notes, Mortgages and Debentures Due to 2009*</b>	6,119	35,671	8,215	53,303
<b>Fixed Interest Rate Debt</b>	24,431	551,050	61,578	388,203
<b>Variable Rate Term Bank Loans</b>				
Prime due in 1983	—	100,000	—	—
Prime due in 1982	—	—	—	167,500
LIBOR plus ¼% to ¾% due to 1987*	—	—	—	77,350
Prime plus 1¼% due to 1989	—	6,516	—	6,516
<b>Variable Interest Rate Debt</b>	—	106,516	—	251,366
	24,431	657,566	61,578	639,569
<b>Current Portion</b>	—	24,431	—	61,578
<b>Long-Term Debt</b>	\$24,431	\$633,135	\$61,578	\$577,991

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

\*\*Payable in Swiss francs.

All debentures except the 9% debentures due in 1985, the 6½% convertible debentures due in 1988 and the 11% debentures due in 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 \$220,000,000 were available for common share dividends at December 31, 1981.

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

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)		
1982 . . . . .	\$ 13,396	\$15,390
1983 . . . . .	119,034	8,808
1984 . . . . .	16,302	17,771
1985 . . . . .	20,424	4,727
1986 . . . . .	17,774	3,581
Subsequent years' lease payments . . . . .		31,658
Total lease payments . . . . .		81,935
Imputed interest . . . . .		24,195
Present value of minimum lease payments . . . . .		<u>\$57,740</u>

**11. Lease Deposit**

This deposit represents cash received relating to a mobile equipment sale and leaseback transaction completed subsequent to the year-end. Canada

Permanent Mortgage Corporation provided the necessary financing to the leasing company on a variable market rate term loan basis.

**12. 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.
- 981,750 Series SP 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	1981		1980		1979	
	Shares	Amount	Shares	Amount	Shares	Amount
	(thousands)					
<b>Redeemable</b>						
Second preferred shares						
— Series A . . . . .	<b>1,000</b>	<b>\$120,000</b>	1,000	\$120,000	1,000	\$120,000
<b>Convertible Redeemable</b>						
Preferred Shares						
— Series A, B and D . . . . .	<b>216</b>	<b>4,315</b>	237	4,729	270	5,409
Second preferred shares						
— Series SP . . . . .	<b>739</b>	<b>7,775</b>	625	7,025	525	3,222
— Series B . . . . .	<b>214</b>	<b>5,211</b>	316	7,715	—	—
— Series C . . . . .	<b>2,977</b>	<b>93,767</b>	2,985	94,016	—	—
	<b>4,146</b>	<b>\$111,068</b>	4,163	\$113,485	795	\$ 8,631

Convertible Redeemable Shares Issued	1981	1980	1979
	(thousands of shares)		
Beginning of year . . . . .	<b>4,163</b>	795	514
Issued in the year —			
Series SP at U. S. \$5.25 to U. S. \$13.75 . . . . .	<b>114</b>	340	525
Series D at \$22.50 in exchange for options and warrants of an amalgamated subsidiary . . . . .	<b>41</b>	100	13
Series C at \$31.50 pursuant to a public offering . . . . .	—	3,000	—
Series B second preferred at \$24.40 . . . . .	—	439	—
	<b>4,318</b>	4,674	1,052
Converted to common shares . . . . .	<b>(172)</b>	(511)	(257)
End of year . . . . .	<b>4,146</b>	4,163	795

The Series A second preferred shares bear cumulative variable-rate dividends based on the London Inter-Bank Offered Rate. As at December 31, 1981, 1980 and 1979, the dividend rates were 9.50%, 8.56% and 9.15% respectively. 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.

Each Series C second preferred 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. Since issued in 1980 a total of 23,280 shares have been converted to common shares.

**13. Common Shares and Contributed Surplus**

*Authorized — an unlimited number, without nominal or par value*

Issued and Fully Paid	1981		1980		1979	
	Shares	Amount	Shares	Amount	Shares	Amount
			(thousands)			
Common shares . . . . .	30,589	283,164	30,215	276,665	27,380	177,869
Contributed surplus . . . . .	—	8,554	—	8,450	—	8,200
	<b>30,589</b>	<b>\$291,718</b>	30,215	\$285,115	27,380	\$186,069

Common Shares Issued	1981	1980	1979
	(thousands of shares)		
Beginning of year . . . . .	30,215	27,380	26,832
Issued in the year —			
At U.S. \$16.00 in exchange for convertible debentures . . . . .	81	316	—
At \$10.00 to \$31.50 on the conversion of preferred shares . . . . .	224	500	513
At \$42.25 and U.S. \$36.25 pursuant to a public offering . . . . .	—	2,000	—
At \$4.89 to \$23.60 under the stock purchase plan and on the exercise of options and warrants . . . . .	69	19	35
End of year . . . . .	<b>30,589</b>	30,215	27,380

**Common Shares Reserved for Issuance**

At \$31.50 for the conversion of Series C second preferred shares . . . . .	2,977	2,985	—
At \$24.40 for the conversion of Series B second preferred shares . . . . .	192	285	395
At U.S. \$22.01 to U.S. \$34.61 for the conversion of Series SP second preferred shares . . . . .	86	391	156
At \$10.00 for the conversion of preferred shares . . . . .	432	565	833
At \$4.89 to \$23.85 for the exercise of options . . . . .	60	101	104
At U.S. \$16.00 for the conversion of debentures . . . . .	503	584	900
	<b>4,250</b>	4,911	2,388

**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. Employees, the majority of whom were also officers and directors, held options for approximately 60,000 common shares at December 31, 1981 and 100,000 shares at both December 31, 1980 and 1979 at prices ranging from \$4.89 to \$23.85.

**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 170,350 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, 738,650 Series SP second preferred shares remain issued of which 676,000 are held by employees who are directors or officers and 62,650 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.

#### 14. Income Taxes

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

	1981	1980	1979
	(thousands of dollars)		
<b>Income Before Taxes</b>			
Canada . . . . .	96,169	86,920	104,527
United States and other . . . . .	(6,737)	106,101	82,699
	<b>\$89,432</b>	<b>\$193,021</b>	<b>\$187,226</b>
<b>Current Provision for Income Taxes</b>			
Canada — Federal . . . . .	21,600	18,200	26,500
— Provincial . . . . .	6,900	5,900	8,500
United States and other . . . . .	(37,100)	20,400	8,000
	<b>\$ (8,600)</b>	<b>\$44,500</b>	<b>\$43,000</b>
<b>Deferred Provision for Income Taxes</b>			
Canada — Federal . . . . .	6,200	12,300	13,700
— Provincial . . . . .	2,100	4,000	5,500
United States and other . . . . .	(19,800)	(21,500)	1,400
	<b>\$ (11,500)</b>	<b>\$ (5,200)</b>	<b>\$20,600</b>

The components of the deferred tax provision are as follows:

	1981	1980	1979
	(thousands of dollars)		
Additional depreciation for tax purposes . . . . .	5,900	5,500	13,700
Losses available to reduce future taxable income . . . . .	(19,800)	—	—
Investment gains unrealized (realized) for tax purposes . . . . .	—	(6,700)	300
Portion of real estate and joint venture income deferred (recognized) for tax purposes . . . . .	1,700	(5,200)	4,700
Other . . . . .	700	1,200	1,900
	<b>\$ (11,500)</b>	<b>\$ (5,200)</b>	<b>\$20,600</b>

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

	1981	1980	1979
Canadian and United States federal income tax rates . . . . .	46.0 %	46.0 %	46.0 %
Tax incentives for investment, manufacturing and processing . . . . .	(10.1)	(5.1)	(3.2)
Provincial and state income taxes, net of federal deductions . . . . .	(1.2)	0.8	2.9
Reduced rate on capital gains and other income . . . . .	(7.8)	(0.4)	(1.4)
Inter-unit interest income taxed at reduced rates . . . . .	(65.3)	(25.3)	(8.1)
Losses available to reduce future tax provisions . . . . .	28.7	—	—
Non-taxable foreign income and equity net income . . . . .	(13.5)	(1.5)	(2.5)
Unrealized foreign exchange and amortization of subsidiary purchase price allocation . . . . .	2.8	3.7	(1.4)
Other . . . . .	(2.1)	2.2	1.7
	<b>(22.5%)</b>	<b>20.4 %</b>	<b>34.0 %</b>

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

Losses of \$150,000,000 are available to reduce future United States taxable income in years up to and including 1996. Tax recoveries have not been recorded on \$76,000,000 of these losses.

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, 1981, this undistributed income amounted to \$170,000,000 and, if paid as dividends, \$40,000,000 would not be subject to further tax, \$10,000,000 would be subject to withholding tax at 5% and the balance would be subject to income tax at 46%.

### 15. 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		
	1981	1980	1979	1981	1980	1979
	(thousands of shares)					
<b>Basic and Primary</b>						
Weighted average common shares . . . . .	30,495	28,526	27,274	30,495	28,526	27,274
Share equivalents pertaining to						
— conversion of preferred shares . . . . .	—	—	—	3,247	3,316	130
— conversion of debt . . . . .	—	—	—	525	622	75
— options and warrants . . . . .	—	—	—	54	170	151
	<b>30,495</b>	<b>28,526</b>	<b>27,274</b>	<b>34,321</b>	<b>32,634</b>	<b>27,630</b>
<b>Fully Diluted</b>						
Weighted average common shares . . . . .	30,495	28,526	27,274	30,495	28,526	27,274
Shares pertaining to						
— conversion of preferred shares . . . . .	3,724	3,841	685	3,724	3,841	679
— conversion of debt . . . . .	525	622	900	525	622	900
— options and warrants . . . . .	146	254	412	55	172	203
	<b>34,890</b>	<b>33,243</b>	<b>29,271</b>	<b>34,799</b>	<b>33,161</b>	<b>29,056</b>

Basic and primary income per common share have been calculated after reducing net income by \$20,589,000 in 1981, \$17,543,000 in 1980 and \$8,862,000 in 1979, being the preferred share dividend entitlement. Net income was increased for purposes of calculating United States income per common share by \$7,627,000 in 1981 and \$7,924,000 in 1980, being the effect on income available to 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 \$12,680,000 in

1981, \$9,710,000 in 1980 and \$8,469,000 in 1979, being the dividends on non-convertible preferred shares, and increased by \$331,000 in 1981, \$394,000 in 1980 and \$468,000 in 1979, 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 \$94,000 in 1981, \$185,000 in 1980 and \$332,000 in 1979 to reflect an imputed after-tax return of five to ten percent on funds which would have been available on the exercise of options and warrants.

## 16. Additional Information

### Change of Name

During 1981, upon approval of the shareholders, the company's name was changed from Genstar Limited to Genstar Corporation.

### 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 \$9,400,000 in 1981, \$10,700,000 in 1980 and \$4,000,000 in 1979 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 at the end of 1979, which incurred pension expenses of \$8,200,000 in 1979. The latest actuarial valuations of the pension plans were made as at January 1, 1981 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 \$86,200,000 were available in the Canadian plans compared to a present value of accumulated plan benefits of \$70,900,000. The accumulated plan 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 \$84,400,000 were available in the United States plans compared to a present value of accumulated plan benefits of \$93,200,000. The accumulated plan benefits calculation was based on the value of currently accrued benefits payable at retirement and includes \$87,600,000 of currently vested benefits.

### Reclassification of Comparative Figures

Certain 1979 and 1980 amounts have been reclassified to conform with 1981 presentation.

### Capitalized Interest Costs

Interest costs, related primarily to real estate joint ventures and revenue property development, are capitalized during the development period and charged against income as part of construction cost or depreciation. Had these interest costs been expensed as incurred, income before income taxes would have been reduced by \$19,700,000 in 1981, \$13,100,000 in 1980 and \$2,600,000 in 1979.

### Foreign Exchange

The translation to Canadian dollars of amounts denominated in foreign currencies increased (decreased) net income by the following unrealized foreign exchange amounts:

	Translation of Revenues and Expenses	Translation of Assets and Liabilities	Total
(thousands of dollars)			
1981 . . . . .	\$ 9,900	\$ 7,700	\$ 17,600
1980 . . . . .	19,900	(5,900)	14,000
1979 . . . . .	10,400	(2,900)	7,500

In addition to the above unrealized amounts, net income was decreased by realized foreign exchange losses of \$3,500,000 in 1981 and increased by realized foreign exchange gains of \$3,300,000 in 1980.

The translation gain related to revenues and expenses varies in proportion to operating income denominated in foreign currency and the fluctuation in the exchange rate. The 1981 translation of assets and liabilities also includes the rate fluctuation on long-term debt denominated in Swiss francs. At December 31, the United States equivalent of one Canadian dollar was \$0.84 in 1981, \$0.84 in 1980 and \$0.86 in 1979. At December 31, 1981 the Canadian equivalent of one Swiss franc was \$0.665.

### Restrictions on Inter-Company Distributions

Loans, dividend payments and income distributions from certain subsidiaries and joint ventures are restricted by legislation, trust indentures and other agreements. As at December 31, 1981, \$31,700,000 of consolidated retained earnings represents unremitted income of CPMC and joint ventures which would require regulatory or partner approval prior to distribution to the company. In addition, regulatory approval would be required for any loan from CPMC to the company.

CPMC, as a public deposit and lending institution, is regulated by various Canadian federal and provincial legislation, the federal portion of which is administered with broad powers granted under the legislation, by the Superintendent of Insurance, Canada. In the case of CPMC as with other large Canadian trust companies, the Superintendent has set guidelines requiring that total borrowings cannot exceed twenty-five times net assets as defined. The post-acquisition income of CPMC of \$11,600,000 could not be distributed to the company without exceeding this debt to equity guideline.



Trust indentures relating to \$60,250,000 of the long-term debt of The Flintkote Company require approval of the trustees for dividend distributions to the company in excess of defined amounts and loans to the company other than in the normal course of business. No consolidated retained earnings are restricted under such provisions and all but \$104,000,000 of Flintkote's net assets could be distributed without the trustee's approval.

Joint venture agreements generally require the approval of all partners prior to the distribution of income or granting loans to the partners. At December 31, 1981, \$20,000,000 of consolidated retained earnings represent unremitted income of joint ventures.

### 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 United States Federal courts by plaintiffs purporting to represent 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 in a discovery stage. 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 company has filed an application to re-establish a previous Foreign Investment Review Agency, Canada (FIRA) opinion that the Company is not a "non-eligible person" as defined, thereby exempting the CPMC acquisition from FIRA review. The company has alternatively applied for FIRA concurrence that the acquisition is of "significant benefit to Canada." Should neither application be accepted, FIRA may seek, among other actions, to require the company to dispose of the investment. Management is of the opinion that the company meets both FIRA requirements.

## 17. Summarized Quarterly Financial Data (Unaudited)

	Three Months Ended				Year Ended December 31
	March 31	June 30	September 30	December 31	
	(thousands of dollars)				
<b>1981</b>					
Revenues .....	\$430,948	\$591,086	\$584,030	\$539,858	\$2,145,922
Gross Profit .....	122,968	165,911	139,376	152,916	581,171
Net income .....	21,223	36,602	15,390	36,317	109,532
Net income per common share					
— Basic .....	\$ 0.53	\$ 1.04	\$0.33	\$ 1.02	\$ 2.92
— Primary .....	0.52	0.98	0.36	0.95	2.81
Market price (The Toronto Stock Exchange)					
— High .....	\$42.63	\$41.88	\$36.50	\$25.50	\$42.63
— Low .....	35.00	36.12	23.25	18.38	18.38
Trading volume on exchanges in					
— Canada .....	1,037,993	1,115,962	1,317,336	1,499,533	4,970,824
— United States .....	1,279,500	1,141,800	1,865,600	3,034,600	7,321,500
— Other .....	126,610	58,016	32,082	34,118	250,826
Total .....	2,444,103	2,315,778	3,215,018	4,568,251	12,543,150

	Three Months Ended				Year Ended December 31
	March 31	June 30	September 30	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
<hr/>					
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
<hr/>					
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
<hr/>					
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

**18. Supplementary Information on Inflation and Changing Prices (Unaudited)**

	1981	1980	1979	1978	1977
Average Canadian Consumer Price Index (1971 = 100 per Statistics Canada) . . . . .	<b>236.9</b>	210.6	191.2	175.2	160.8
Revenues (millions of dollars)					
— as reported . . . . .	<b>\$2,146</b>	\$2,310	\$1,265	\$1,143	\$ 981
— in constant dollars . . . . .	<b>2,146</b>	2,598	1,567	1,545	1,445
Dividends per common share					
— as reported . . . . .	<b>\$ 1.80</b>	\$ 1.65	\$ 1.25	\$ 0.81	\$ 0.71
— in constant dollars . . . . .	<b>1.80</b>	1.86	1.55	1.10	1.05
Market price per common share at year end					
— historical amount . . . . .	<b>\$23.38</b>	\$38.62	\$25.88	\$18.88	\$13.88
— in constant dollars . . . . .	<b>22.33</b>	41.34	30.81	24.67	19.66

**Overview**

The North American economy continued to experience a high rate of inflation in 1981. In an attempt to provide financial statement users with information as to the effects of inflation on business enterprises, the Financial Accounting Standards Board (FASB), United States, has issued Statement No. 33 — "Financial Reporting and Changing Price," 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 1981 dollars. Based on 1971 the average CPI was 236.9 for 1981 compared to 210.6 for 1980. 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 occurred 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 1981 dollars.

Similar indexing has been applied to the five year summary of revenues, dividends and common share market price so as to express these amounts in dollars of equivalent purchasing power. The constant dollar trends represent change after 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 indices for changes in costs obtained from internal and external sources. Land development 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 or internal, external and trade association indices. 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 since that date. Where new asset prices have been used, accumulated depreciation has been deducted for the expired useful life. Depreciation was based on average 1981 current cost and historic estimated useful lives.

The adjustments from historic to current cost as summarized show that inflation as experienced by the company's particular mix of businesses was greater than general inflation during 1981 and 1980.

**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 1981 dollars using the CPI. The resultant reduction in liabilities, assuming repayment in December 31, 1981 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 1981 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 1981 and 1980 Financial Data**

**Adjusted for the Effects of Changing Prices**

(millions of dollars except per share amounts)

	Constant Dollar 1981	1980*	Current Cost 1981	1980*
<b>Net Income</b>				
In average 1981 dollars . . . . .	109.5	172.9	109.5	172.9
Adjustments for general inflation				
Cost of sales . . . . .	60.5	69.7	60.5	69.7
Depreciation . . . . .	31.8	21.9	31.8	21.9
	17.2	81.3	17.2	81.3
Adjustments for specific inflation				
Cost of sales . . . . .	—	—	(.8)	5.2
Depreciation . . . . .	—	—	15.2	20.2
	\$ 17.2	\$ 81.3	\$ 2.8	\$ 55.9
<b>Gain from Decline in Purchasing Power of Net Liabilities</b>	<b>\$120.0</b>	<b>\$123.8</b>	<b>\$120.0</b>	<b>\$123.8</b>
<b>Net Income Per Common Share</b>				
In average 1981 dollars . . . . .	\$(0.11)	\$ 2.16	\$(0.58)	\$ 1.27
<b>Inventories and Fixed Assets</b>				
As reported . . . . .	1,751.0	1,636.5	1,751.0	1,636.5
Adjustments for general inflation . . . . .	437.8	503.1	437.8	503.1
In average 1981 dollars . . . . .	2,188.8	2,139.6	2,188.8	2,139.6
Adjustments for specific inflation in excess of general inflation				
Current year . . . . .	—	—	55.9	16.6
Prior years . . . . .	—	—	173.9	210.0
	\$2,188.8	\$2,139.6	\$2,418.6	\$2,366.2
<b>Capital Stock and Retained Earnings</b>				
In average 1981 dollars . . . . .	\$1,462.1	\$1,395.0	\$1,692.0	\$1,621.7

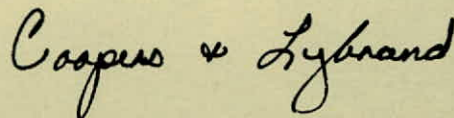
\*For purposes of comparison 1980 amounts have been increased for the change in the average CPI from 1980 to 1981. This restates 1980 amounts to the purchasing power equivalent of average 1981 dollars.

Expressed in year-end 1981 dollars, inventories, including development land, and fixed assets calculated under the current cost method were \$940,000,000 and \$1,592,000,000, respectively, compared to historic cost of \$785,651,000 and \$965,358,000.

COOPERS & LYBRAND  
CHARTERED ACCOUNTANTS

We have examined the consolidated balance sheets of GENSTAR CORPORATION and subsidiaries as at December 31, 1981 and 1980 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, 1981, as set forth on pages 32 through 58 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 CORPORATION and subsidiaries as at December 31, 1981 and 1980 and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

A handwritten signature in cursive script that reads "Coopers & Lybrand".

Chartered Accountants

Vancouver, Canada  
February 24, 1982

# Divisions and Subsidiaries

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## Building Materials

**The Flintkote Company**  
*Stamford, Connecticut*

J.D. Moran, *Chairman and  
Chief Executive Officer*

Subsidiary Presidents:

M.J. London, *Genstar Cement  
and Lime*

J.A. West, *Genstar Stone Products*

J.M. Shedden, *Genstar Building  
Materials*

**Genstar Cement Limited**

*Edmonton, Alberta*

R.D. MacLean, *President*

**Genstar Gypsum Limited**  
*Edmonton, Alberta*

G.R. Thompson, *President*

**Genstar Materials Limited**  
*Calgary, Alberta*

R.C. Kruger, *President*

**Genstar Structures Limited**  
*Calgary, Alberta*

A.W. Falk, *President*

**Genstar Construction  
Services Limited**

*Edmonton, Alberta*

B. Amos, *President*

**Genstar Construction  
Limited**

*Calgary, Alberta*

B.N. Baranyai, *Senior  
Vice President*

**Genstar Conservation  
Systems, Inc.**

*San Mateo, California*

## Land/Real Estate Development

**Genstar Properties Limited**  
*Calgary, Alberta*

C.D. Wilson, *President*

Subsidiary Presidents:

J. Thompson, *Genstar Homes  
of Texas*

L. Luini, *Genstar Housing  
Components*

R.B. Menard, *Broadmoor Homes  
Northern*

W.A. Pope, *Broadmoor Homes  
of San Diego*

W. Schulz, *Broadmoor Homes  
Southern*

G.H. Magnussen, *Engineered  
Homes*

L.H. Frodsham, *Keith Construction*

**Genstar Properties**  
*San Diego, California*

F.D. Dembinsky, *President*

Subsidiary Presidents:

N.D. Gascon, *Genstar  
Penasquitos Properties*

M.B. McAfee, *Genstar  
Southern Development*

L.R. Lizotte, *Broadmoor  
Development*

**Genstar Development  
Company**

*Vancouver, British Columbia*

V.S.G. Lewis, *President*

Subsidiary Presidents:

M.H. Rogers, *Genstar  
Eastern Development*

L. Cosman, *Genstar  
Western Development*

**Sutter Hill Developments  
Limited**

*Toronto, Ontario*

R.M. Kirshner, *President*

Subsidiary President:

A.S. Armstrong, *Sutter Hill  
Limited (U.S.)*

## Marine/Financial Services

**Genstar Marine Limited**  
*North Vancouver, British Columbia*

Subsidiary Presidents:

A.M. Fowles, *Seaspan International*

W.D. Traill, *Genstar Shipyard*

D.G. McAllister, *McAllister Towing  
& Salvage*

**Genstar Financial  
Service Companies**

*San Francisco, California*

Subsidiary Presidents:

T.S. Tan, *Genstar Container*

E.H. Plaga, *Genstar Mortgage*

D.R. Blanchard, *Genstar  
Pacific Investments*

W.D. Rollnick, *Genstar*

*Rental Electronics*

W.B. Morrish, *First*

*American Title Guaranty*

R.L. Bishop, *TXL*

General Partners:

P.M. Wythes, D.L. Anderson,

G.L. Baker, Jr., *Sutter Hill Ventures*

**Canada Permanent  
Mortgage Corporation**

*Toronto, Ontario*

E.J. Brown, *Chairman and  
Chief Executive Officer*

J.H. Deason, *President and  
Chief Operating Officer*



# Directors and Officers

## Directors

\*Charles de Bar  
Deputy Chairman  
of the Board  
Genstar Corporation

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

\*\*James W. Burns  
President  
Power Corporation  
of Canada  
(Holding Company)

\*\*Frank S. Capon  
Consultant

August A. Franck  
Corporate Director

Donald Getty  
President  
D. Getty Investments Ltd.  
(Investment Company)

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

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

\*Angus A. MacNaughton  
Chairman of the Board and  
Chief Executive Officer  
Genstar Corporation

\*W. Earle McLaughlin  
Corporate Director

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

Yves du Parc  
Deputy General Manager  
Société Générale des  
Minerais  
(Trading 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 Corporation

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

## Officers

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

Ross J. Turner  
President and  
Chief Executive Officer

Charles de Bar  
Deputy Chairman of the Board

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

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

Paul J. Kehoe  
Senior Vice President

Beverley A. Monkman  
Senior Vice President

J. Leslie Bodie  
Vice President

John H. Chase  
Vice President

Paul T. Côté  
Vice President and Secretary

Arthur W. Falk  
Vice President

W. Thompson George  
Vice President

Robert D. MacLean  
Vice President

Hugh W. McAdams  
Vice President and Treasurer

Richard D. Paterson  
Vice President and Comptroller

James E. Searle  
Vice President

Lorimer E. Whitworth  
Vice President

