GENSTAR ANNUAL REPORT 1984

GENSTAR

GENSTAR CORPORATION

CORPORATE INFORMATION

Auditors: Coopers & Lybrand, Vancouver, British Columbia

Transfer Agents and Registrars:
Canada Permanent Trust Company, Montreal, Toronto, Winnipeg, Calgary and Vancouver.

Morgan Guaranty Trust Company of 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

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

GENSTAR CORPORATION

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

Head Office:
1177 West Hastings Street
Vancouver, British Columbia
Canada V6E 3Y3
Tel: (604) 689-1611

Stock Dividend and Dividend Reinvestment Plans
Genstar has established separate optional plans as a convenient means for holders of its registered common shares to elect either to receive stock dividends in lieu of cash or to acquire additional Genstar shares through reinvestment of cash dividends and optional cash payments. For more information, contact: Canada Permanent Trust Company, Box 10152, Pacific Centre North, 701 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1E5.

Version française
Les actionnaires qui désirent recevoir ce rapport en français sont priés de s'adresser au service des relations avec les investisseurs de la société.

ANNUAL MEETING

The Annual and Special Meeting of Genstar shareholders will be held on Wednesday, May 8, 1985, at 10:30 a.m. at the Four Seasons Hotel, 10235 - 101st Street, Edmonton, Alberta, Canada.

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CORPORATE PROFILE

Genstar Corporation provides a broad range of financial services nationwide in both Canada and the U.S. and in selected markets overseas. It also offers specialized industrial services, including a variety of waste disposal and collection services conducted primarily in the U.S. and marine services along the Pacific Coast of North America. In addition, the company is a leading manufacturer of building materials, with plants located throughout the United States and Western Canada. It is also active in land and real estate development in Western Canada, Ontario and the Western and Southern U.S.

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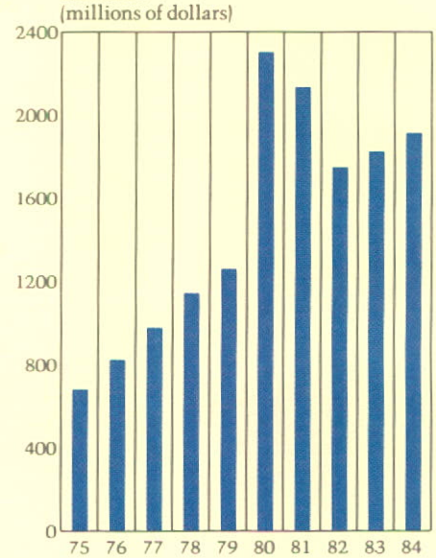
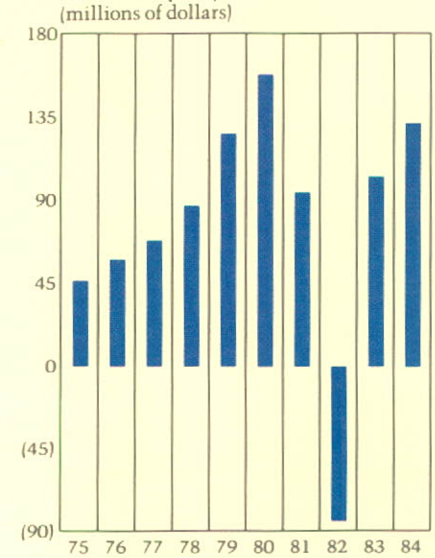
FINANCIAL HIGHLIGHTS

For the years ended December 31

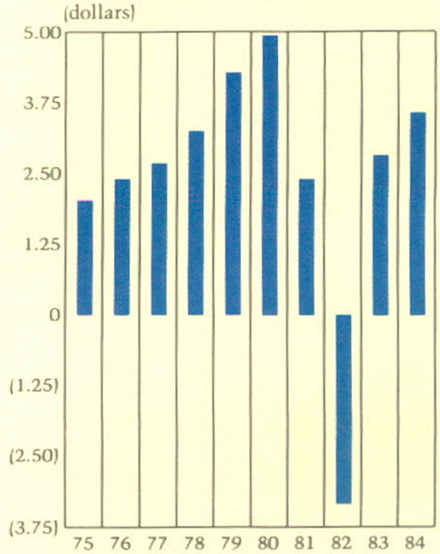
Revenues
(millions of dollars)



Net Income (Loss)
(millions of dollars)



Net Income (Loss) Per Common Share
(dollars)



	1984	1983	1982
	(millions of Canadian dollars)		
Revenues	$1,922.8	$1,826.7	$1,760.2
Operating Income	253.1	252.0	24.5
Net Income (Loss)	131.8	103.0	(84.3)
Dividends on Common Shares	26.8	21.9	27.7
Funds Generated by Operating Activities	172.2	264.7	9.2
Per Common Share:			
Net Income (Loss)			
Canadian Method			
—Basic	$ 3.56	$ 2.83	$ (3.36)
—Fully diluted	3.38	2.72	(3.36)
United States Method			
—Primary	3.38	2.72	(3.36)
—Fully diluted	3.38	2.72	(3.36)
Dividends (current annual rate: $1.00)	0.85	0.65	0.90
Book value	27.00	22.97	20.89
Stock Price—Toronto Stock Exchange			
High	31.50	38.75	24.75
Low	19.38	20.25	8.88
Total Debt-to-Equity Ratio	45:55	53:47	61:39

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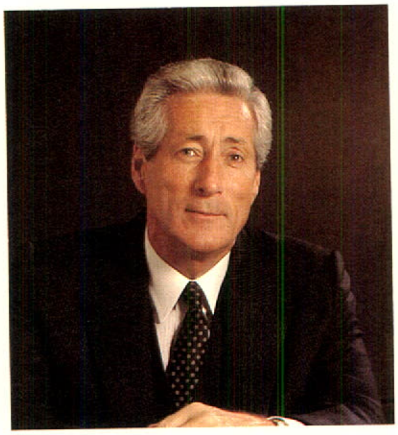
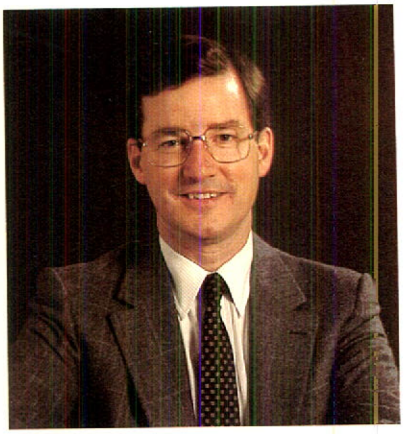
REPORT OF THE DIRECTORS

Growth in U.S. markets during 1984 exceeded declines in some areas of Canada, and higher returns from building materials businesses more than compensated for reduced sales of venture capital investments. Genstar also benefited from lower average debt levels, reduced interest expense and more favorable tax treatment as earnings per share rose 26 percent on a 5 percent increase in revenues. In addition, the company completed a large acquisition in 1984 that broadened its waste services activities, which are expected to make major contributions to future growth.



Ross J. Turner



Angus A. MacNaughton

Financial Results

For the year ended December 31, 1984, net income was $131.8 million or $3.56 per common share, compared to $103.0 million or $2.83 per share in 1983. Revenues totaled $1.92 billion, up from $1.83 billion the year before.

Genstar continued to exercise rigid cost controls and focus on improved productivity during 1984. Excluding venture capital sales, where margins are well above average, the gross profit margins of other operations improved to 26.1 percent, up from 24.1 percent a year ago. Also, excluding the effect of a major new acquisition, the company's selling, general and administrative expenses rose at less than the rate of inflation.

Positive cash flow reduced the need for borrowing during periods of peak activity, new equity offerings partially financed the cost of a large acquisition, and Genstar's total debt at the end of 1984 was essentially unchanged from the year before. Average debt levels through the course of the year, however, were $194 million lower than in 1983 and were down $396 million from 1982. As a result, interest expense declined by eight percent even though average interest rates rose.

Operating income increased modestly during the year, and there was a significant change in the source of earnings.

Income from the company's building materials businesses nearly doubled as interest rates remained relatively stable, U.S. housing starts rose, and the U.S. government committed large sums to repairing or replacing the country's highway systems. Gains were entirely in the U.S., however, as Western Canadian markets remained weak.

Conversely, even though financial services continued to be one of Genstar's most profitable businesses, it fell short of the record returns achieved a year ago. In 1983, a strong market for initial public stock offerings had produced unusually high earnings from venture capital investments that were not matched in 1984. Operating income from land and real estate development also declined slightly because of nonrecurring costs associated with the withdrawal from homebuilding activities in some areas.

Significant Developments

From the standpoint of long-term growth objectives, the most important development of the year was the acquisition of approximately 40 percent of the assets of SCA Services, Inc., one of the United States' larger waste services companies. Included were solid and chemical waste collection and disposal operations in 17 states.

The purchase was made in partnership with another company that bought the balance of SCA's assets. That company is also obligated to return Genstar's investment in any SCA operation it elects to divest within the first nine months of ownership.

This is a promising business that the corporation has pursued on a smaller scale for several years, and the acquisition makes Genstar the third largest waste services firm in the United States. More important, it represents another step in the company's plan to stabilize earnings through diversification into less interest-sensitive and less cyclical businesses.

Other major developments in 1984 included:

□the sale of eight million new preferred shares in Canada, which generated approximately $200 million in capital. The issue of equity to finance growth, coupled with large debt reductions in the two previous years, has significantly improved Genstar's capital structure. At year-end, the company's debt-to-equity ratio was 45:55, substantially better than 61:39 at the end of 1982 and 53:47 a year ago. In early 1985, a Genstar financial services subsidiary also marketed nearly $50 million in equity to finance the growth of its activities. The ability of Genstar and its subsidiaries to raise approximately $250 million in capital markets during such a short period reflects the improved financial strength of the company.

☐the modernization and expansion of existing operations, to enhance productivity and cost effectiveness. The corporation spent $48 million on capital improvements at its various businesses during the year, up from $40 million in 1983. Of particular importance, Genstar late in the year entered into negotiations with Bird Incorporated to acquire seven additional roofing manufacturing plants. That acquisition was completed in February and includes rights to certain Bird trade names. This will roughly double Genstar's share of U.S. roofing markets and permit economies of scale that should significantly reduce production and distribution costs.

☐the divestiture of businesses that were providing marginal returns on assets employed. Genstar closed its homebuilding operations in Western Canada and Texas late in the year and is now redirecting its real estate resources toward more promising land and commercial development opportunities. The company's marine salvage and shipdocking operation in Eastern Canada was also sold during the year.

☐a 25 percent increase in the dividend rate. In the fourth quarter, Genstar raised the annual rate for common dividends to $1.00 per share.

Outlook

Genstar today is a significantly different company than it was at the beginning of the 1981-82 recession. (For a brief history of its evolution and related business philosophies, please see the Genstar Operations section on pages 4 and 5.)

The corporation's balance sheet and financial position are much stronger as a result of lower debt, improved cash flow, and reduced operating and overhead expenses.

Diversification into waste and financial services businesses has also given Genstar a more consistently stable source of earnings. Equally important, operational and organizational improvements at building materials and real estate operations have enhanced their potential for growth under healthy economic conditions, while offering greater protection from severe reversals in difficult times.

As a result of these changes, the company feels its long-term prospects have improved significantly. It feels confident that existing operations are strategically attuned to current and projected regional economic conditions and that it can comfortably pursue new opportunities for expansion.

Genstar is also encouraged by developments occurring outside the company. The U.S. economy continues to be stronger than economists have predicted, although efforts to reduce the federal deficit may have some dampening effect on the rate of growth in the future. While little immediate improvement is expected in Alberta and British Columbia, the recent increase in oil and gas exploration in Western Canada is a promising sign that economic recovery may be under way in those important markets, reversing a pattern of decline that began in 1981. Genstar also believes the strong mandate given the newly elected federal government in Canada signals public support for deficit reductions, the encouragement of investment, less restrictive energy policies, and other developments that will have positive long-term economic effects throughout the country.

In 1985, interest rates have thus far remained well below last year's peak level in both the U.S. and Canada. This should strengthen Genstar's real estate and building materials businesses, and construction-related operations will continue to benefit from the large federal road rebuilding and repair program in the United States. In addition, the expansion of roofing operations will permit production and distribution efficiencies that should improve margins. Financial services will also continue to be a strong and dependable source of income, and expanded waste services businesses will make their first full year's contribution to earnings.

These factors, both internal and external, lead Genstar to believe that its operating results in 1985 will improve as the year progresses.

Board of Directors

John B. Hamilton, who had been Chairman of Abbey Glen Property Corporation at the time it was acquired by Genstar, retired from the company's Board of Directors in 1984 after eight years of service. Genstar is extremely grateful for the role Mr. Hamilton played during the assimilation of Abbey Glen's holdings following that important acquisition and for his wise counsel throughout his tenure as a director. Elected to the Board in May was Alan F. Campney, founding partner of the legal firm of Campney & Murphy and President of Vanley Agencies Ltd. in Vancouver.

Employees

The Directors wish to welcome the 3,000 SCA and Bird employees to the Genstar family and to thank all 18,000 of the company's employees for their contributions toward improved productivity and cost effectiveness in 1984.

Ross J. Turner
Chairman

March 6, 1985

Angus MacNaughton

Angus A. MacNaughton
President

GENSTAR OPERATIONS

The strategic direction Genstar has taken in pursuing business opportunities has changed many times since its founding in 1951, but rarely have changes been as significant as in recent years.

Operating at first as a Canadian holding company, the corporation originally made investments in minerals exploration ventures and, later, in establishing new industrial companies in Canada. In 1965, Genstar amalgamated three of its major holdings and became an operating company, manufacturing cement and other products. Shortly afterward, it broadened its interests in building materials manufacturing and diversified into land development and other construction-related businesses.

Since that time, Genstar's strategic plan has never been static, and success over the years has come from identifying economic trends and new business opportunities early and adapting its plan accordingly.

In the late 1960s and throughout the 1970s, changes were largely geographic in nature, first redirecting assets from Eastern Canada to the resource-rich provinces in the West and then branching out into much larger markets in the Western and Southern United States. In the 1980s, however, the focus shifted more to industrial diversification, seeking out opportunities in entirely new businesses.

Always opportunistic, the company has made a number of key acquisitions that were critical to its evolution and growth:

☐In 1976, shortly after many of the present senior management team assumed their positions, Genstar acquired Abbey Glen Property Corporation, at the time Canada's sixth largest real estate development company. Its holdings made Genstar a major factor in Western Canadian land development markets, and the company was also able to recoup the \$79-million purchase price through sales of other Abbey Glen assets.

☐In 1978, the purchase of 8,500 acres of land in San Diego, California, for \$111 million signaled Genstar's intention to expand in a substantial way outside of Canada and into the larger and fast growing markets of the U.S. sunbelt.

☐The company next established a major presence in building materials markets throughout the United States by acquiring The Flintkote Company for \$447 million in late 1979.

☐Genstar's gradual diversification into financial services, which had begun a decade before, accelerated in 1981 with the \$288-million purchase of Canada Permanent Mortgage Corporation.

☐In 1984, the acquisition of about 40 percent of SCA Services, Inc., for approximately \$260 million further diversified the company and made Genstar a major supplier of waste services in the United States.

Historically, Genstar's basic business philosophy has been to concentrate assets in regions expected to grow at above-average rates, to operate on a large enough scale to be a major factor in those markets, and to aggressively manage its businesses, divesting or expanding operations on the basis of their return on investment. When returns and market prospects warrant, the company has made substantial capital investments in modern, cost-effective plants and equipment to further improve productivity and competitive advantage. Examples include the \$300 million spent between 1977 and the end of 1981 to modernize or build new cement facilities and approximately \$75 million invested this past year and in early 1985 to upgrade its roofing manufacturing operations and acquire additional plants from Bird Incorporated.

To that basic operating philosophy, beginning in a major way in 1978, Genstar added a commitment to further diversify, both geographically and industrially, in order to broaden and stabilize its earnings base. Specifically, the company elected to expand its activities into U.S. markets and into the financial and waste services industries.

As a consequence, 60 percent of the assets of consolidated operations were in the United States by the end of 1984, compared to only 17 percent at the beginning of 1978. Changes in the mix of Genstar's major businesses are equally striking. They are, however, not as readily apparent since most financial service operations are accounted for in Genstar financial statements on an equity basis, not fully reflecting their relative size.

For instance, if the corporation reported assets of its financial service operations on the same basis as those of other elements of the company, total assets for Genstar as a whole at

THE CHANGING NATURE OF GENSTAR

(millions/% of total)

	Financial Services	*Industrial Services	Building Materials	Land and Real Estate Development	**Total
Revenues					
1984	$1,260/39%	$407/12%	$1,202/37%	$404/12%	$ 3,273/100%
1980	$ 122/5 %	$186/8 %	$1,459/60%	$653/27%	$ 2,420/100%
Income* **					
1984	$ 121/35%	$ 46/13%	$ 103/30%	$ 74/22%	$ 344/100%
1980	$ 35/9 %	$ 31/8 %	$ 117/30%	$203/53%	$ 386/100%
Assets****					
1984	$8,264/79%	$401/4 %	$1,023/10%	$778/7 %	$10,466/100%
1980	$ 152/6 %	$183/7 %	$1,255/50%	$930/37%	$ 2,520/100%

*The revenues and income of industrial services reflect an estimated full year's contributions by operations acquired from SCA Services, Inc., in September 1984. **Totals exclude corporate expenses and assets. ***"Income" reflects earnings before interest expenses and income taxes except for financial services; interest expense is deducted from financial services figures because it is a major cost of doing business for that type of activity. ****Financial services assets, such as loans, mortgages and securities, are of a significantly different character than the assets of manufacturing and other operations.

the end of 1984 would increase from the $2.7 billion reported in its financial statements to something in excess of $10 billion. There would be similar, though less dramatic, changes in revenues and operating income totals.

Using figures calculated on that basis, the table above chronicles the growth of financial services over the past five years. In examining this table, it becomes evident that financial services has become Genstar's largest line of business.

More important, had earnings from financial services remained static at 1980's level, operating income in 1984 and 1983 would have been reduced by about one-quarter and one-half respectively.

The importance of Genstar's efforts to diversify geographically also becomes clear from the table on page 33 when one examines geographic sources of company income in 1984 and 1981, two years of widely differing economic conditions.

Although the economies of the United States and Canada are linked by many factors, there have been years when they are clearly out of step with one another. In 1984, for instance, U.S. operations accounted for nearly two-thirds of the company's revenues and operating income. Conversely, Canadian and other operations outside the United States contributed approximately 90 percent of total operating income in 1981, even though revenues geographically were about equally divided. It is this type of diversity that softens the effect of negative economic conditions when they are not uniformly felt throughout North America.

Genstar has successfully effected such sweeping changes in its businesses through a decentralized style of management that encourages on-site entrepreneurial innovation from those who direct individual operations. Those operations, however, remain subject to a uniform set of financial controls established at the corporate level.

In the future, Genstar plans to maintain its interests in land and real estate development and in building materials manufacturing. As demonstrated by building materials operations in 1984, these are businesses that have the potential to reward Genstar with large gains in income during periods of economic recovery or prosperity, although they must be prudently managed to prevent serious declines under recessionary conditions.

The greatest growth in future years, however, is expected to be in businesses that are less cyclical or less sensitive to interest rate fluctuations. The recent expansion of waste services activities, for instance, represents an investment in an industry that is largely immune to external economic influences and that is expected to grow at an average compound rate of 20 percent annually over the next five years.

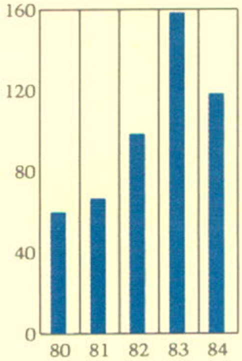
This means Genstar will continue to evolve and change in the years ahead.

The objective, as before, will be to achieve an even more ideal business mix, benefiting shareholders and employees alike by stabilizing earnings in difficult economic times and providing greater opportunities for growth in periods of prosperity.

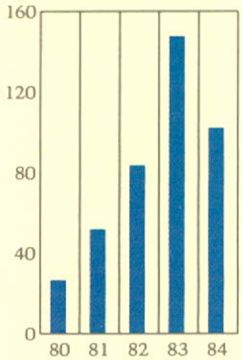
FINANCIAL SERVICES

Financial services was again one of Genstar's most profitable businesses in 1984. Operating income was lower than a year ago, however, because of reduced sales from the venture capital portfolio.

Financial Services Revenues
(millions of dollars)



Financial Services Operating Income
(millions of dollars)



After experiencing particularly rapid growth in the years from 1978 to 1982, financial services has become one of Genstar's largest businesses. Its size, however, is not fully reflected in the company's financial statements, since most financial services results are accounted for on the equity basis. (For additional details, please see pages 4 and 5 of this report.)

Genstar is engaged in a diverse range of financial services, including:

Retail and commercial banking. The company acts as a financial intermediary throughout Canada, accepting deposits, servicing checking accounts and originating mortgages and other loans. Its loan portfolio and other intermediary assets amounted to about $7.4 billion at the end of 1984.

Trust services. A Genstar subsidiary is Canada's fourth largest trust company, administering $7.8 billion in assets for pension funds, corporations and individuals. Its full range of fiduciary services also includes stock registration and transfer, dividend disbursements and administration of personal estates.

Real estate brokerage services. Genstar has a nationwide network of more than 100 real estate sales offices located in eight Canadian provinces.

Electronic equipment rental. The short-term rental of electronic test and measurement equipment is a growing business in both the U.S. and Canada and has yielded record earnings every year since Genstar acquired it in 1978.

Mortgage banking. In the U.S., the company originates or purchases mortgages and resells them to institutional investors. It also services a large portfolio of these loans for clients.

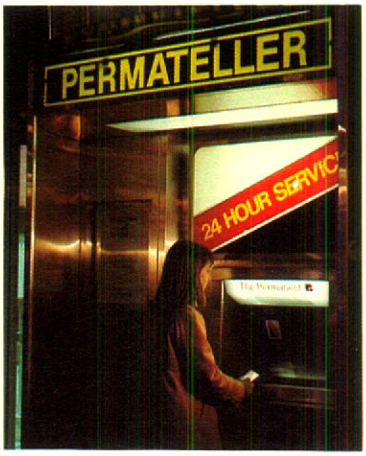
Shipping container leasing. Genstar entered this business in 1981 and had expanded its fleet of containers to more than 89,000 twenty-foot-equivalent units by the end of 1984.

Leveraged-lease brokerage. In the past five years, Genstar has arranged more than $1 billion in capital equipment financing, finding investors to purchase plants and equipment for lease to the company's corporate clients.

Venture capital investment. This was Genstar's first financial service business, established in 1970. In recent years, it has also been the most profitable. Investments typically consist of equity holdings in recently formed or emerging high-technology companies in the U.S.

Offices	Location			
Type	Canada	U.S.	Other	Total
Savings/ Lending	100	4	1	105
Trust	*20	-	-	20
Realty	**107	-	-	107
Mortgage Banking	-	4	-	4
Electronic Equipment Rental	3	11	-	14
Container Leasing	-	3	11	14
Leveraged Lease Brokerage	1	5	-	6
Venture Capital	-	1	1	2
Total	231	28	13	272

*Located at 20 of the Savings/Lending sites included above; **excludes 38 franchised offices.



Trust and banking services were enhanced at The Permanent in 1984 by upgrading its stock transfer and registration systems (far left) and expanding its network of automated teller machines.

FINANCIAL SERVICES

	1984	1983
	(millions)	
Revenues	**$118.6**	$159.0
Operating Income	**$102.5**	$148.2

The performance of most of Genstar's financial services operations improved in 1984, even though total operating income was below last year's record level. The decline occurred primarily because of reduced earnings from venture capital investments, although acquisition accounting adjustments involving one subsidiary's assets and liabilities was also a factor.

Operating income from venture capital investments was $35 million lower than in 1983, a year when the company had benefited from unusually strong markets for initial public offerings. This nevertheless remained Genstar's most profitable financial service business. Over the past five years, average earnings from venture capital investments have amounted to approximately $42 million annually, and income in 1984 exceeded that amount. The largest transactions during the year involved sales of 1.7 million shares of Apollo Computer Inc. One million additional shares of Apollo remained in the company's portfolio at year-end along with equity interests in 63 other companies, most of which are new or developing high-technology firms not yet publicly traded.

Operating performance at Canada Permanent Mortgage Corporation, the company's largest financial service subsidiary, improved significantly in 1984, although its contribution to Genstar's consolidated earnings was lower than a year ago. The reduction was caused solely by consolidation accounting adjustments made in the value of intermediary assets and liabilities to reflect their market value at the time The Permanent was acquired. The amortization of these adjustments had a positive effect on income in 1983 and a negative one in 1984.

There was a large increase in earnings from The Permanent's intermediary or "banking" division, which accepts deposits from the public and invests them in mortgages and other loans and in securities. Much of the gain reflected the improved quality of its loan portfolio, as loan loss provisions declined to $13.5 million from $32.9 million a year ago. The portfolio of loans and other intermediary assets increased to $7.4 billion, up 14 percent from 1983, and customer deposits rose by 8 percent to $6.9 billion at year-end. More important, the average margin or "spread" between interest paid on deposits and interest earned on assets improved from 1.94 percent a year ago to 2.01 percent, the highest since 1978. Net income also benefited from investing a larger percentage of assets in shares of Canadian corporations, which produce dividend income that is tax exempt.

Recent developments will substantially increase The Permanent's capacity to expand intermediary activities in the future. These include the sale and leaseback of its head office building in Toronto and, in early 1985, the sale to the Canadian public of $48.5 million in preferred shares. These sales have generated significant capital for new investments. In addition, Canadian trust companies are prevented by regulation from borrowing funds for investment purposes in amounts that exceed 25 times their capital base. As a result of these actions, The Permanent's borrowing ratio has been reduced to 21.6, permitting it to pursue larger volumes of new business.

The Permanent's trust division also had a good year. Commission and fee income from its various fiduciary services rose as the division increased the total assets under its administration to $7.8 billion, up 32 percent from $5.9 billion a year ago. Most of the gain came from acquiring major new pension fund accounts during the year and from personal trust services, where new individual investment programs are being aggressively marketed. A new system was also developed and introduced that permits corporate customers to electronically

Genstar's fleet of shipping containers consists of nearly 90,000 twenty-foot-equivalent units, including the specialized refrigerated and "high-cube" (taller than usual) units shown at left. The company invested about $70 million in new shipping containers during 1984.

monitor their portfolios of securities using The Permanent's computer and, through it, to arrange trades on the Toronto and Montreal stock exchanges. This service is unique in Canada and particularly popular with clients outside the country. In 1984, the trust division was also selected to serve as exclusive trustee for one of the major issuers of coupon-stripped bonds, a type of government-backed security for which interest coupons can be traded separately on Canadian exchanges.

The Permanent is also Canada's second largest real estate brokerage company. In 1984, total gross commissions from real estate sales slightly exceeded the previous year's record level, although operating income was reduced by higher overhead expenses in weak Western Canadian markets.

In the United States, earnings from mortgage banking activities also declined. This operation originates or purchases mortgages, resells them to investors, and earns servicing fees for collecting and distributing mortgage payments. Unusually large profits were realized in 1983 when more than 40 percent of its loan servicing portfolio was sold. A similar sale was made in 1984, but gains were offset by loan loss provisions to cover higher than normal foreclosure costs. At year-end, the loan servicing portfolio contained $2.1 billion in mortgages, and this operation embarked on a new enterprise that should significantly increase loan servicing income in the future. With other investors, it formed Strategic Mortgage Investments, Inc. (SMI) and, through a public sale of shares, raised over $130 million in capital to invest in mortgage loans. SMI is a real estate investment trust listed on the New York Stock Exchange, and Genstar receives fees for managing the company and for servicing the loans. It may also retain servicing rights to many of the mortgages after they have been sold by SMI in the form of pass-through securities.

Results improved in 1984 at all of Genstar's other U.S. financial services subsidiaries.

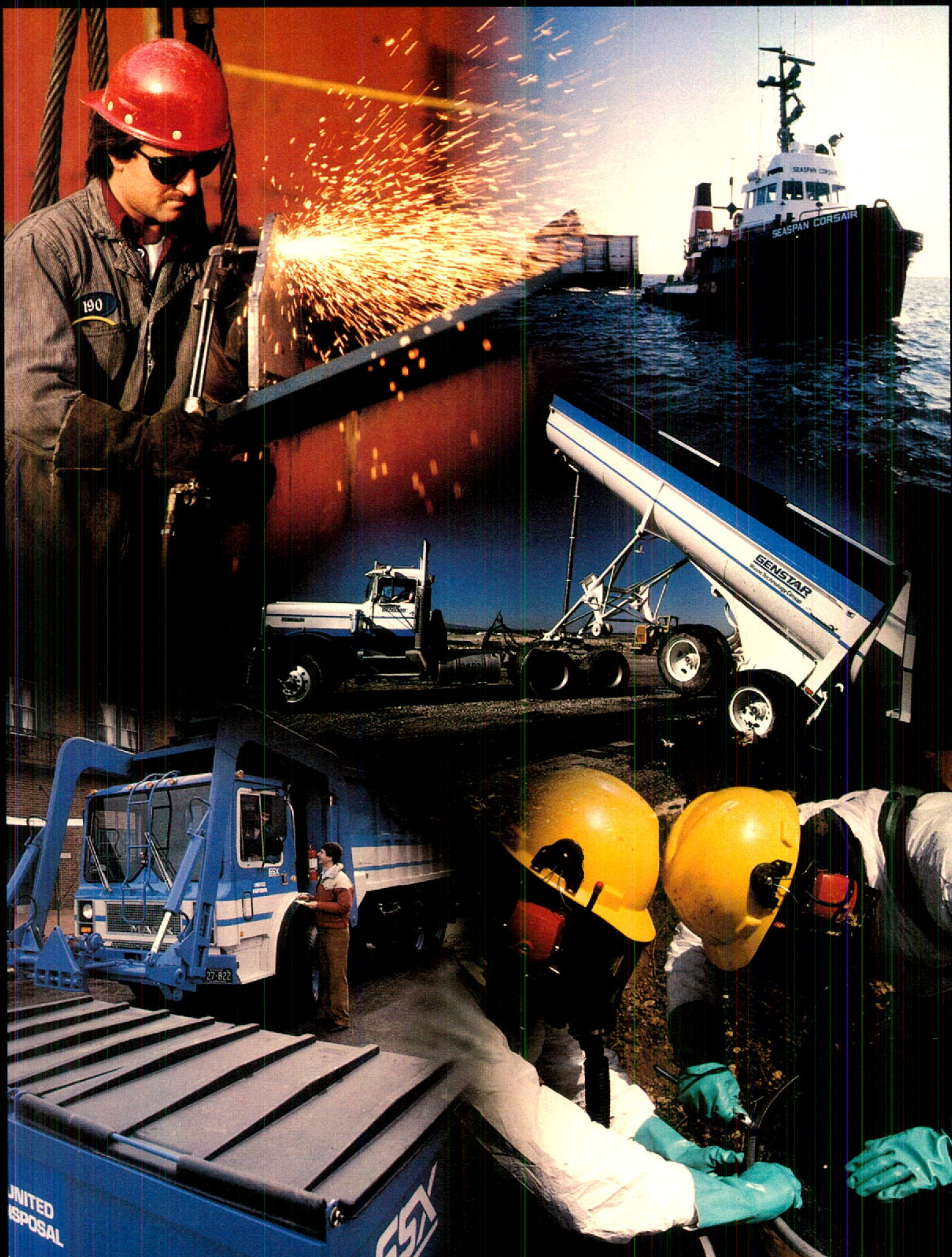
The operation that rents electronic test and measurement equipment benefited from rising expenditures within the defense industry, and revenues increased by one-third. Although there is increased competition in this business and some pressure on margins, Genstar maintained its market share in 1984, and profits remained at record levels. During the year, $47 million was spent on new inventory and, after sales of used equipment, Genstar's investment in rental assets now totals $138 million.

The leveraged-lease brokerage operation returned to profitability in 1984, when it arranged financing for approximately $220 million in capital equipment for its corporate clients. Although the volume of transactions was down slightly from a year ago, fee income improved following introduction of several innovative financing plans. On a time-share basis, this operation also sells computer software for lease analysis to a wide variety of clients in the financial services industry. This activity continued to grow rapidly in 1984 and accounted for more than 50 percent of revenues.

Utilization of Genstar's shipping containers also exceeded expectations in 1984, and per diem rental rates reflected the strong demand. The company's container leasing operation has chosen to concentrate its activities in the Orient and continues to benefit from a trade imbalance that has favored trans-Pacific over trans-Atlantic trade for the past several years. Shipments between the Orient and Europe have also increased. In 1984, about $70 million was invested in new containers, and the size of the fleet rose by 43 percent to 89,000 twenty-foot equivalent units.

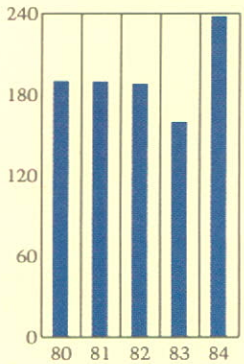
In 1985, assuming venture capital income remains about the same, earnings from financial services businesses are expected to increase, although it is unlikely they will return to 1983's record level. All other operations are expected to report improved earnings, with The Permanent posting particularly good gains because of better intermediary spreads, a wide array of new banking and trust services and a significantly improved financial structure.

INDUSTRIAL SERVICES

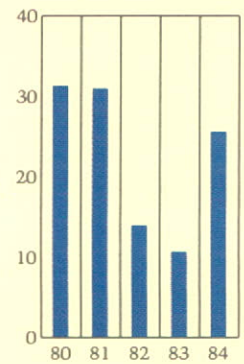


The assets of these businesses, which consist of waste and marine services, more than tripled in 1984, and operating income rose substantially when a major acquisition made Genstar the third largest waste services company in the United States.

Industrial Services Revenues
(millions of dollars)



Industrial Services Operating Income
(millions of dollars)



Note: Reflected in the charts on this page for periods prior to its write-off at the end of 1983 was Genstar's 50 percent interest in a Canadian firm that manufactures nitrogen-based chemicals. The decline in 1983 operating income largely reflects losses associated with that write-off.

The acquisition of a portion of SCA Services, Inc., significantly expanded Genstar's waste collection and disposal activities and, in terms of assets, made industrial services the fastest growing of Genstar's businesses in 1984.

Waste Services

Genstar first became involved in the waste industry in 1973, when it began developing sanitary landfills at quarries that supplied raw materials to its building materials divisions. The company has since begun marketing a process for recovering methane gas from landfills, burning it to drive a generator and produce electricity for sale to local utilities. Genstar also operates urban transfer stations, where solid waste can be conveniently collected either for transport to distant landfills or for recycling and resource recovery.

In addition, its rubber recycling plants convert scrap tires into crumb rubber that is used for the construction and maintenance of flexible pavement and running tracks. Reclaimed rubber is also sold in other forms to manufacturers of tires and other rubber products.

From SCA, Genstar acquired nearly 50 additional waste services operations in 17 states. The acquisition has involved Genstar for the first time in the collection of municipal and chemical wastes, a segment of the business that affords significant growth opportunities and is subject to only minor cyclical fluctuations. It also broadened landfill and waste transfer activities to include the handling of chemical as well as solid wastes.

Marine Services

Genstar operates a large fleet of tugs and barges along the Pacific Coast of North America, transporting forest products and a variety of other cargoes. The fleet also performs shipdocking, ferrying, lighterage and salvage services. In addition, a smaller ocean-going fleet transports heavy-lift, modular cargoes and provides specialized support services on an international basis.

In Vancouver, the company also operates a shipyard that has extensive ship repair facilities and can construct vessels up to 600 feet in length and 150 feet in beam.

Waste Services Operations

Type	Total
Solid Waste:	
Refuse Collection	27
Transfer Stations	8
Landfills	8
Methane Gas Recovery/Energy Generation Plants	4
Rubber Recycling Plants	3
Paper Recycling	3
Street Sweeping	1
Chemical Waste:	
Transfer and Emergency Service Stations	3
Secure Landfills	1
Liquid Sludge Disposal	1
Total	59

Marine Equipment

Type	Total
Tugs*	51
Self-Propelled Train Ships	2
Standard Barges	241
Submersible Barges**	6
Self-Loading, Self-Dumping Log Barges***	3
Total	303

*From 335 to 7,080 brake horsepower; **400 x 100 feet; ***from 12,500 to 20,000 tons.

Seaspan Discovery (left foreground), a unique tractor tug, joined the Genstar fleet in 1984 and will help meet the increased need for shipdocking services at the expanded Roberts Bank coal terminal in British Columbia.

INDUSTRIAL SERVICES

	1984	1983
	(millions)	
Revenues	$237.0	$160.4
Operating Income	$ 25.8	$ 10.7

Returns from Genstar's waste services businesses rose significantly in 1984 as a result of large contributions made late in the year by newly acquired operations. Marine services businesses also reported a modest increase in income. In addition, losses and the write-off of an investment in chemical manufacturing had depressed earnings from industrial services in 1983, and the elimination of those losses in 1984 is responsible in part for the magnitude of improvement in total operating income.

In September, Genstar established GSX Corporation, a new waste services subsidiary made up of businesses acquired from SCA Services, Inc. The corporation had acquired those businesses through a tender offer made in partnership with another company. Under terms of the agreement with its partner, Genstar received approximately 40 percent of SCA's assets at a cost of about $260 million. The exact cost will be determined in mid-1985 after valuation of the assets is completed.

Founded in 1969, SCA had grown rapidly as demand by industry and municipalities for professional waste services increased. At the time of acquisition, SCA's revenues were approximately $560 million annually.

Genstar's new subsidiary now offers a wide range of solid and chemical waste services, and although it is a new company, GSX is staffed by more than 2,000 former SCA executives and employees with many years of experience in this industry.

Its solid waste division currently provides refuse collection and disposal services to commercial, industrial and residential customers in more than 60 communities in 17 states. In performing these services, it employs approximately 75,000 steel containers, a fleet of 1,000 collection vehicles, and 1,000 stationary compactors.

The commercial solid waste market, which includes office buildings, hotels, retail shops and restaurants, is expected to remain the fastest growing segment of the refuse collection business. To serve this market, GSX leaves containers with up to 10 cubic yards of capacity on the customers' premises, and specialized collection trucks are used to mechanically lift and empty the containers.

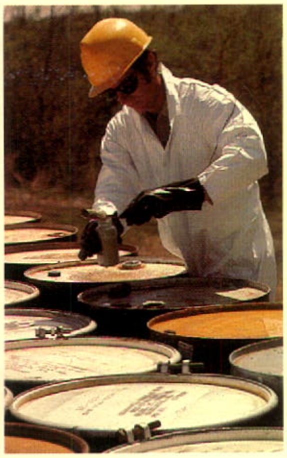
The residential solid waste market is also expected to grow rapidly as local governments continue to control municipal budgets by contracting with independent collection firms and letting consumers pay directly for such services. This segment of the business is also the least vulnerable to cyclical fluctuations in the economy.

Industrial solid waste collection, though more influenced by economic conditions, is less labor intensive and typically yields higher margins. In this segment of the business, containers ranging in size from 20 to 50 cubic yards are placed at a customer's plant and picked up on request.

The solid waste division is also responsible for several urban transfer stations and sanitary landfills, ensuring that the latter meet the highest environmental and regulatory standards in terms of protective liners, leachate collection and groundwater monitoring systems.

GSX's chemical waste division operates a secure chemical landfill and three regional waste transfer and service centers. Its staff of scientists, engineers and technicians provides a full range of professional services to large industrial clients, small businesses and institutions. These include identifying, inventorying and packaging wastes to ensure regulatory compliance, transporting the wastes, and disposing of them at GSX or other approved facilities. GSX also performs emergency services at sites of chemical spills and remedial clean-up services at abandoned or closed hazardous waste facilities.

The company has also recognized that incineration and treatment are replacing burial as the preferred method of disposing of hazardous wastes. As



GSX Corporation became a new Genstar subsidiary in 1984 and is now the third largest supplier of solid and chemical waste services in the United States.

a consequence, the chemical waste division has retained SCA's rights to a proposed chemical treatment facility and to ocean incineration technology. It is also investigating other advanced treatment and disposal alternatives.

The handling of hazardous waste is the fastest growing segment of the waste services industry, and profit margins of chemical waste operations have historically been higher than for solid waste. Recently enacted state laws and modifications in late 1984 to the U.S. Resource Conservation and Recovery Act should ensure even greater growth in demand for these services in the future. Especially significant provisions bring more small businesses under regulatory control and, ultimately, will result in more substances being classified as hazardous. They also limit the disposal options open to waste generators and require stricter operating and design standards for treatment and disposal facilities.

The increased public and governmental concern over proper handling of hazardous wastes has led industry observers to forecast this market will grow by 25 percent per year and exceed $3 billion annually by 1990. In addition, the solid waste market in the United States, which is served by thousands of small operators plus a handfull of very large companies, is already estimated at more than $13 billion per year. Genstar believes GSX is well positioned to take advantage of new hazardous waste growth opportunities and to increase its share of existing solid waste markets.

Prior to the SCA acquisition, Genstar had been offering specialized waste services on a smaller scale for a number of years. In 1984, returns from rubber reclaiming increased following an expansion of the plant in Mississippi and the opening of a new crumb rubber facility in Chicago. In addition, two new methane gas recovery projects were completed at landfills in Northern California, more than doubling Genstar's capacity to use this gas to produce electricity for sale to local utilities. In 1985, expansion efforts will continue to focus on resource and energy recovery projects, with more methane recovery plants planned and new paper and refuse recycling centers expected to be opened.

Genstar's income from marine services operations also rose slightly in 1984.

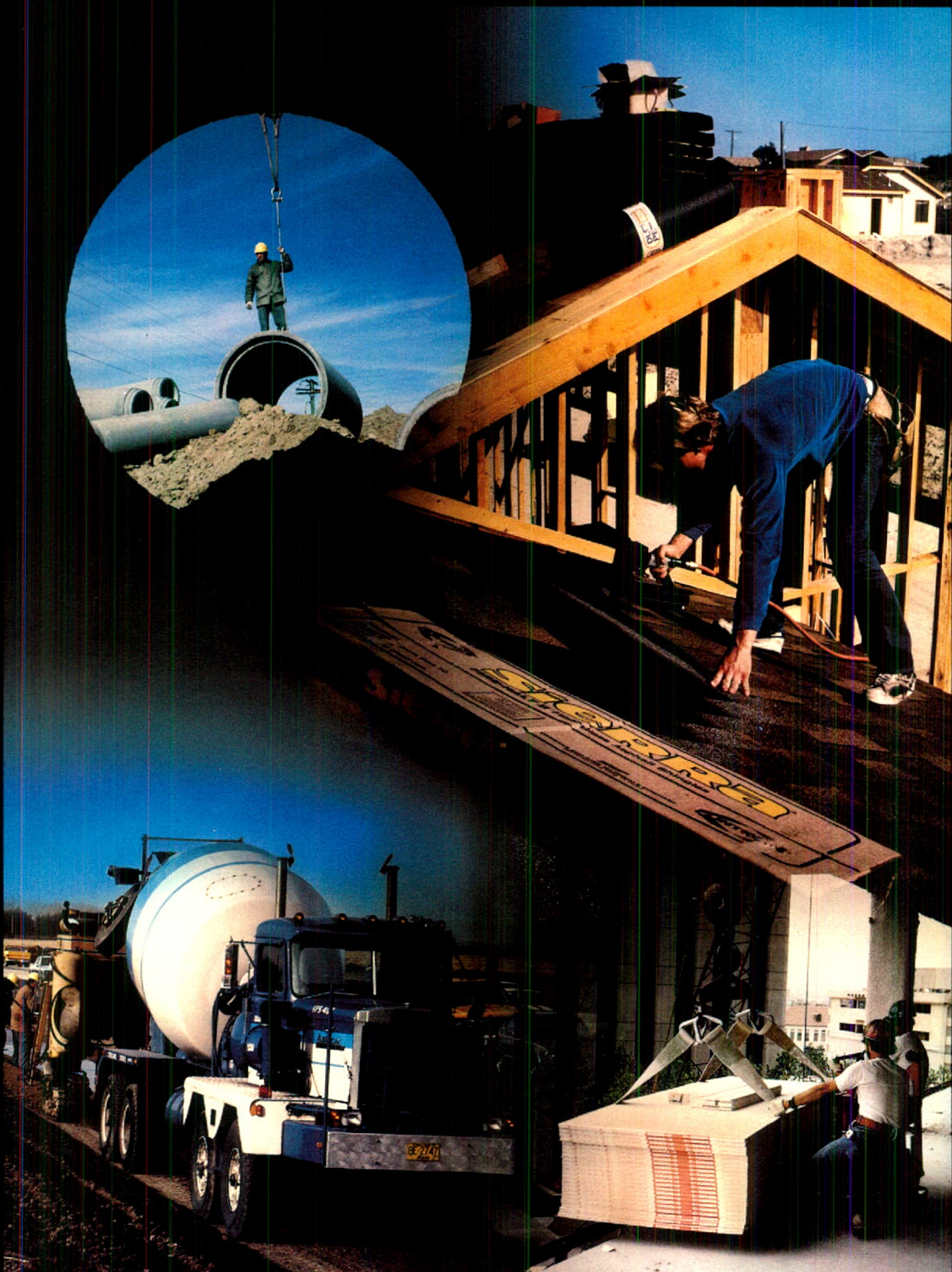
Despite lower levels of new ship construction, volumes of ship repair work were sufficient to return the company's shipyard to profitability. The large Pacific Coast fleet of tugs and barges also performed well, although earnings were reduced by a two-month strike in the British Columbia pulp and paper industry, a major source of revenues for this operation. Returns from the international fleet also declined from a year ago as cutbacks in offshore oil exploration reduced marine support work and increased competitive pressure on margins. In mid-1984, Genstar sold its small salvage and shipdocking company in Montreal.

The Pacific Coast fleet took delivery in 1984 of a unique tractor tug with pivoting drive units that permit it to push or pull in any direction without turning. The tug will allow Genstar to better service the increasing volume of shipdocking business at the recently expanded Roberts Bank coal terminal in British Columbia. Repairs and modifications to one of the fleet's large self-loading, self-dumping log barges were also completed, and it returned to service in 1984. The repairs, as well as construction of the new tractor tug, were performed by Genstar's shipyard.

Excluding SCA acquisition costs, capital expenditures for new marine equipment and for waste services facilities amounted to $5.8 million in 1984, compared to $6.3 million a year ago.

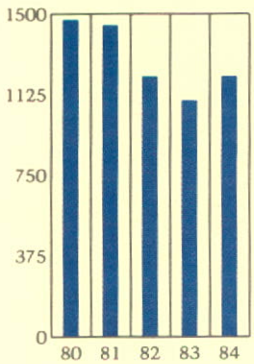
In 1985, Genstar anticipates some improvement in marine services operations, and a substantial increase in income from waste services is expected as GSX makes its first full year's contribution to earnings. Longer term, the company believes its industrial services operations will increasingly help to stabilize Genstar's earnings while providing additional opportunities for growth.

BUILDING MATERIALS

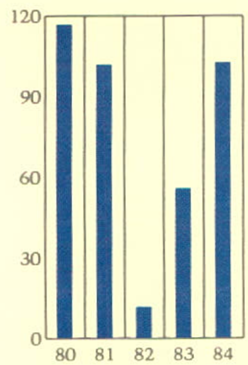


The manufacturing of building materials was the company's most improved and most profitable business in 1984, largely because of increased demand in U.S. markets. Further gains are expected in 1985.

Building Materials Revenues
(millions of dollars)



Building Materials Operating Income
(millions of dollars)



Genstar manufactures a large number of building products in both the U.S. and Canada. For financial reporting purposes, these activities are divided into the two broad areas discussed below.

Cement, Aggregates and Concrete Products

The company is a leading manufacturer of normal portland cement and various specialty cements in Western Canada and is a major supplier in California, Oregon, Washington and Nevada. In the Western United States, it is also a large producer of lime products.

In addition, primarily in the four western provinces of Canada and the mid-Atlantic region of the U.S., it produces a variety of stone and concrete products and also provides construction services.

The raw materials for these businesses are generally supplied by the company's own pits and quarries.

Wallboard and Roofing

Genstar produces gypsum wallboard in Western Canada and throughout the United States and is one of the larger U.S. manufacturers of asphalt shingles, rolls and liquid coatings. The scope of its roofing operations was nearly doubled with the recent acquisition of eight additional manufacturing plants. The company now produces roofing products under both the Flintkote and Bird & Son trade names.

Cement/Lime Operations

	Annual Capacity*	
Location	Lime	Cement
Alberta	—	1,417,000
British Columbia	—	1,000,000
Manitoba	—	350,000
Saskatchewan	—	227,500
Arizona	640,000	—
California	124,000	1,200,000
Nevada	311,000	—
Utah	74,000	—
Total	1,149,000	4,195,000

*Short tons.

Aggregate/Concrete Product Operations

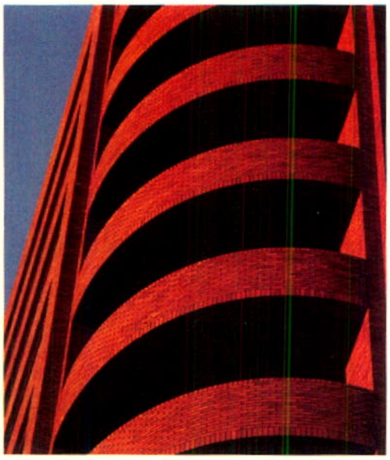
Types of Plants	Canada	U.S.	Total
Aggregates*	20	10	30
Ready-Mix Concrete	22	14	36
Precast Concrete	8	-	8
Concrete Block	5	-	5
Concrete Pipe	7	-	7
Concrete Rail Ties	1	-	1
Blacktop/Asphaltic or Bituminous Concrete	6	7	13
Calcium Carbonate Products	-	1	1
Dry Bagged Mixes	5	8	13
Total	74	40	114

*Includes sand, gravel and crushed stone.

Gypsum Wallboard/Roofing Operations

	Annual Capacity*	
Location	Wallboard	Roofing
Arkansas	-	185,000
California	-	570,000
Colorado	225,000	-
Georgia	310,000	175,000
Illinois	-	330,000
Louisiana	-	240,000
Minnesota	-	100,000
Nevada	315,000	-
New Jersey	270,000	-
Oregon	-	150,000
South Carolina	-	220,000
Texas	300,000	200,000
Alberta	175,000	-
British Columbia	160,000	-
Saskatchewan	160,000	-
Total	1,915,000	2,170,000

*Roofing figures exclude capacity for about 35,000 tons of liquid compounds, 278,000 tons of paperboard and felt, 47,500 tons of fiberglass mat, and 400,000 tons of granules. Wallboard capacity is stated in thousands of square feet (for 3-shift, 6 2/3-day-per-week operations); roofing is in tons and includes capacities acquired from Bird Inc. in early 1985.



Genstar received a new $36-million contract for concrete railway ties (far left) in 1984, and added components with attractive brick facades to its line of precast concrete structures.

CEMENT, AGGREGATES AND CONCRETE PRODUCTS

	1984	1983
	(millions)	
Revenues	$713.3	$682.3
Operating Income	$ 71.4	$ 44.7

Genstar's cement, aggregate and concrete product operations produced a large increase in operating income during 1984 on a comparatively small rise in revenues. Increased demand for these products in the United States resulted in a marked improvement in both volumes and profit margins, more than offsetting declines in key Canadian markets. The improvement in income also reflects the absence of losses associated with heavy construction work and the prior year's sale of Eastern Canadian manufacturing operations, both of which had negatively affected earnings in 1983.

In Canada, construction activity improved in Manitoba, and British Columbia markets remained reasonably healthy because of work associated with Expo '86, a large international exposition to be held in Vancouver next year. There was a small decline in activity in Saskatchewan because of completion of a large hydroelectric project and the expiration of government housing subsidies that had stimulated sales in 1983. In the important Alberta market, however, reduced activity in the oil and gas industry has created large inventories of vacant housing, apartments, office buildings and commercial complexes, and new construction remains at a very low level. The situation was further exacerbated in 1984 when high unemployment resulted in a record number of mortgage foreclosures which further depressed housing markets.

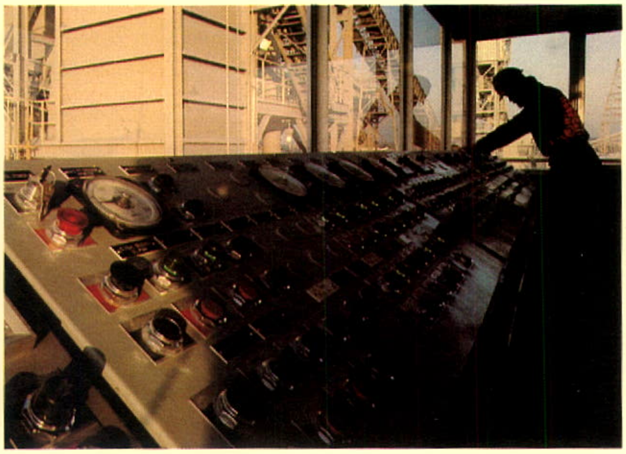
Canadian cement operations reported somewhat lower volumes and earnings than a year ago, but they still made a substantial contribution to income. Increased exports from the British Columbia plant more than offset reduced demand in the domestic market, and both export and domestic shipments rose in Manitoba. These gains, however, failed to match declines elsewhere, especially in Alberta. There was also competitive pressure on prices in some regions, both from other Canadian producers and from imports.

Results at Canadian aggregate and concrete product manufacturing plants paralleled those of cement operations, and demand decreased for most products. Sales of packaged materials rose, however, because of the expanded use of dry bagged mixes for industrial applications. Genstar also received a new $36-million contract to continue supplying concrete railway ties to the Canadian National Railway over the next three years. The company has now produced more than 2.5 million of these ties, double the number of any other North American manufacturer.

The further decline in housing starts in Alberta, coupled with that province's diversion of roadbuilding funds to finance light rail transit, also had a detrimental effect on the Canadian construction operations that specialize in subdivision servicing and municipal construction. Overall results from Genstar's construction activities in Canada were better than a year ago, however, as the company completed its withdrawal from major heavy construction projects and collected a portion of its claims for extra services.

Most Canadian operations were successful in keeping working capital under tight control through a continuing program of inventory reductions and improved collection of accounts receivable. Also, in order to reduce overhead expense, all aggregate, concrete product and construction services operations in Western Canada were consolidated within a single division in early 1985.

In the United States, Genstar's operations enjoyed vastly different market conditions. Major



Computerized dispatch systems for deliveries of ready-mix concrete (far left) and sophisticated stone crushing control systems improved productivity, reduced costs and enhanced profits at U.S. operations in 1984.

federal and state road resurfacing programs contributed to strong demand in all major markets, while unusually good weather, particularly in the fourth quarter, lengthened the construction season. Lower interest rates also led to a large increase in residential construction early in 1984, and housing starts for the year as a whole exceeded those of 1983. Prices of many products rose in response to demand, and recently modernized plants and equipment improved production efficiency, reduced manufacturing costs and further enhanced profit margins.

Volumes and revenues increased by more than 30 percent at Genstar's cement operation in the U.S., returning it to profitability. Profit margins and earnings also benefited from lower production costs. Most of the savings came from operating the modern, fuel-efficient plant in Redding, California, at maximum capacity throughout the year. The plant at San Andreas, California, remained closed in 1984, as it was more cost effective to import cement for resale at times when demand exceeded the Redding plant's capacity. The burning of alternative fuels is now being explored as a means of reducing energy costs at the San Andreas facility.

Revenues and volumes also rose at U.S. lime manufacturing operations during 1984 when demand for these products increased in the mining, copper, construction and electric utility industries. Weather-related kiln shutdowns in Arizona and Nevada increased fuel and maintenance costs, however, keeping operating income at approximately the same level as a year ago. Research is now under way on alternative fuel mixes that should lower production costs. New lime products are also being developed, including one for use in asphalt paving that appears particularly promising.

At Genstar's aggregate and concrete product operations in both the Eastern U.S. and California, revenues and operating income exceeded expectations. The greatest improvements in earnings were from aggregates, where recently automated production facilities dramatically reduced costs, and from blacktop manufacturing and road resurfacing. The company has also entered 1985 with a very large backlog of road repair and construction contracts. New, computerized dispatch control systems contributed to higher earnings from ready-mix concrete operations, and sales of calcium carbonate benefited from continuing strength in the automotive industry, a major customer for these products. There was also improvement in earnings from packaged home repair materials, and sales will benefit further in 1985 from the opening of two new plants. In its search for new applications for its products, U.S. operations also began supplying ship ballast for the first time in 1984.

Capital expenditures at cement, aggregates and concrete product operations amounted to \$25.5 million in 1984, up from \$17.2 million a year ago. Canadian operations last year acquired additional ready-mix, block and precast structure manufacturing facilities. These plants, in most cases, have been used to replace older and less efficient Genstar facilities. The packaged materials product line was also expanded with the acquisition of exclusive franchises to market Sakrete brand concrete mixes in the four western provinces, the Northwest Territories and the Yukon. In the U.S., Genstar will open new packaged materials plants in the Philadelphia and Detroit areas during the first half of 1985. In addition, an \$11.7-million expansion and modernization of the company's largest East Coast quarry is under way, and new portable blacktop plants will help meet increased road resurfacing needs.

Two developments also occurred in 1984 that should be of significant long-term benefit to U.S. cement operations. The U.S. Federal Trade Commission removed restrictions on the acquisition of additional cement

With the acquisition of seven additional roofing materials manufacturing plants from Bird Incorporated in early 1985, Genstar nearly doubled its capacity to produce roofing products.

terminals in Genstar's primary U.S. market areas and on supplying its U.S. terminals with cement manufactured by the British Columbia plant. This will reduce transportation costs in Northwestern U.S. markets, which had previously been supplied by the California plants. In early 1985, the commission also lifted restrictions on Genstar's acquiring new cement and ready-mix plants in those same areas. In anticipation of this, Genstar in late 1984 entered into a partnership agreement with S.A. Cimenteries CBR, a technologically advanced European cement manufacturer, that should be beneficial to future growth. CBR initially purchased a 13 percent interest in Genstar's California cement plants and has the option to increase its share to 50 percent. In the future, CBR will share its technological developments with Genstar and will contribute to the costs of expanding this business as opportunities arise.

The outlook in 1985 is for improved earnings from cement, aggregates and concrete products, with U.S. cement operations accounting for most of the increase.

Demand in Canada is expected to remain relatively weak. Although the expansion of heavy oil and tar sands projects should provide a needed stimulus to the Alberta economy, a major upturn is not expected until existing inventories of buildings and homes have been absorbed, and that is not likely to occur before 1986. Also, much of the construction work on Expo '86 has now been completed, and there is little new activity in British Columbia to fill the void.

The U.S. cement operation, however, should continue to experience strong demand, higher volumes and improved pricing, and the lime plants will benefit from better production efficiency and the introduction of new products. As a result, income from both of these businesses should rise in 1985. U.S. aggregate and concrete product operations should also have another good year, although their ability to match 1984's record performance will depend in part on favorable weather conditions.

WALLBOARD AND ROOFING PRODUCTS

	1984	1983
	(millions)	
Revenues	$493.9	$415.0
Operating Income	$ 31.9	$ 10.9

In 1984, Genstar shipped record volumes of gypsum wallboard from its plants in the U.S., selling it at much more favorable prices than in recent years. As a result, combined operating income from wallboard and roofing sales almost tripled despite soft Canadian markets and continuing difficulties in the roofing business.

This segment of Genstar's building materials business has been the most responsive to improved conditions in U.S. homebuilding markets, and housing starts, though up only slightly in 1984, have risen more than 60 percent over the past two years. Genstar operations also increased their share of remodeling and commercial markets in 1984, in part because of the introduction of new shaftwall and stairwell wallboard systems and a modified asphalt roll roofing system for use in commercial construction.

The company's wallboard volumes in the U.S. were 10 percent higher than the year before, surpassing the record established in 1979. U.S. plants operated at about 90 percent of capacity throughout the year, and Genstar's three Canadian plants compensated in part for soft domestic markets by exporting larger volumes of wallboard to the U.S.

Wallboard profit margins benefited from reduced overhead and operating costs as well as from improved sales volumes and pricing. Distribution expenses at wallboard operations were reduced by relying less on company-owned supply centers and selling more wallboard either directly to major contractors or through external distribution channels. Three additional

Genstar's sales and income from gypsum wallboard (near left) reached record levels in 1984, and it opened a new glass-mat plant in Texas to help meet growing demand for fiberglass-backed asphalt shingles.

supply centers were closed in 1984, and the 13 that remain are primarily in the higher growth areas of the United States. Cogeneration systems, which drive generators and produce electricity with the heat used to dry wallboard, also reduced energy costs during the year, and prices of raw materials and freight remained relatively stable.

Performance also improved at Genstar's asphalt roofing plants in 1984. The increased demand for roofing products, however, was still well short of industry capacity, which has grown because of technological improvements in both materials and equipment. As a result, competitive pressures further depressed prices, and these plants continued to operate at a loss.

The roofing industry as a whole has not been profitable in recent years, and a consolidation of some type among major manufacturers is needed to achieve a reasonable balance between capacity and demand. Recognizing this, Genstar has made several significant changes in its roofing operations.

Late in the year, the company acquired a roofing plant in Illinois that is presently being renovated and will permit the closing of an older, less efficient Genstar facility nearby. In early 1985, it then purchased for approximately $65 million seven additional roofing product plants from Bird Incorporated, along with rights to certain Bird trade names. The agreement also calls for Bird to market roofing products manufactured by Genstar through Bird's network of distribution centers.

With these plant additions, Genstar nearly doubled its manufacturing capacity and share of roofing markets, making possible economies of scale and technological advancements that should improve profit margins.

Included in the Bird acquisition were roofing granule plants in Arkansas and California and asphalt shingle manufacturing plants in Northern and Southern California, Louisiana, Oregon, and South Carolina.

The South Carolina plant also has granule and fiberglass mat manufacturing capabilities. Shingles made from asphalt-coated fiberglass mats have captured an increasing share of roofing markets in recent years. They offer greater fire resistance than conventional felt-mat shingles and also require less asphalt to manufacture, significantly reducing production costs. The acquisition will accelerate Genstar's conversion to fiberglass shingles, which accounted for 90 percent of Bird's output last year.

Genstar also completed construction of a new fiberglass mat manufacturing plant in Texas during the second quarter of 1984. With that plant and Bird's glass-mat capacity, the company has been able to close a less efficient fiberglass production facility and still meet its growing need for this material internally. Genstar also is now one of the few roofing companies in the U.S. with granule manufacturing capability. This type of vertical integration ensures a dependable supply of raw materials and further reduces manufacturing costs.

The acquisition will also allow more complete coverage of larger markets at lower freight and distribution costs. In addition, it will permit the consolidation of some operations, reducing overhead expenses and improving productivity by shifting certain types of production from older plants to more cost-effective facilities.

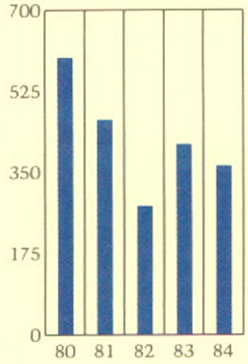
Capital expenditures to modernize Genstar's roofing and wallboard plants in 1984 amounted to $13.7 million, compared to $15.7 million a year ago.

In 1985, Genstar believes operating income from this segment of its building materials business will continue to improve. Although profits from wallboard manufacturing are expected to be somewhat lower than last year's record level, marked improvement is anticipated at roofing operations, where losses should diminish steadily as the reorganization of this business progresses and effects of the Bird acquisition are fully felt.

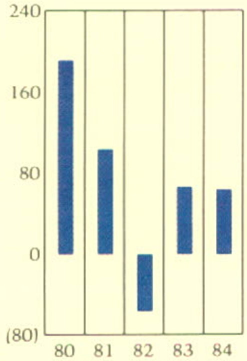
LAND AND REAL ESTATE DEVELOPMENT

Lower revenues and income from real estate development operations in 1984 reflected a realignment of activities within this business. Genstar is now applying its resources primarily to the development of land and income properties after withdrawing from homebuilding activities in most markets.

Land/Real Estate Development Revenues
(millions of dollars)



Land/Real Estate Development Operating Income (Loss)
(millions of dollars)



Genstar acquires and develops land for sale as lots or in larger parcels to builders of residential, commercial and industrial properties. Development generally includes the installation of roads, sewers and utilities and, frequently, the construction of parks, golf courses, lakes or other amenities to enhance the value and utility of the property. Primary areas of activity include the provinces of Alberta, British Columbia, Manitoba and Ontario in Canada and the states of Arizona, California, Florida, Texas and Washington in the U.S.

In addition, the company has become increasingly involved in the acquisition, development and sale of commercial and industrial revenue-producing properties. In Canada, shopping centers and office buildings are, for the most part, managed in a portfolio of income properties as a source of cash flow and long-term appreciation. In the United States, most such properties are generally built, leased and then sold. The majority of these commercial and industrial ventures are concentrated in Ontario, Alberta, British Columbia and Northern California.

The company also continues to build homes in selected markets, although its homebuilding operations in Western Canada and in Texas were closed during 1984 as a result of unfavorable economic conditions in those areas.

Acreage for Land Development*

	Owned	Optioned	Held in Partnership	Total
Canada	11,963	806	10,780	23,549
U.S.	7,627	4,852	1,490	13,969
Total	19,590	5,658	12,270	37,518

*At December 31, 1984; the total owned, optioned or held in partnership at the end of 1983 was 39,465 acres. Acreage figures exclude serviced residential lots (4,433 in 1984 and 6,317 in 1983).

Income Properties in Canadian Portfolio*

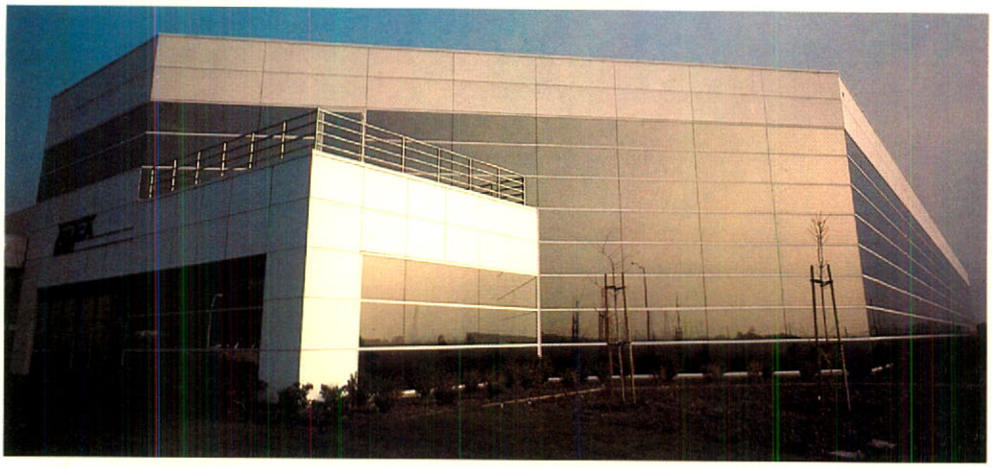
	1984		1983	
	Units	Sq. Ft.	Units	Sq. Ft.
Office Buildings	7	526,000	6	583,000
Shopping Centers	8	929,000	5	627,000
Total	15	1,455,000	11	1,210,000

*At December 31; figures for 1984 include one 316,000-square-foot shopping center held through a minority joint-venture interest.

Unit Housing Sales*

	1980	1981	1982	1983	1984
Canada	1,757	1,684	1,259	944	385
U.S.	2,827	1,729	1,190	1,061	704
Total	4,584	3,413	2,449	2,005	1,089

*At December 31; figures include sales by both wholly owned operations and joint-venture partnerships.



Specialized facilities for lease to manufacturers of high-technology products contributed to record earnings from income property development in the U.S. in 1984.

LAND AND REAL ESTATE DEVELOPMENT

	1984	1983
	(millions)	
Revenues	$369.3	$419.5
Operating Income	$ 63.6	$ 66.4

Although revenues from Genstar's real estate businesses declined by $50 million in 1984 following a significant reduction in homebuilding activities, total operating income was down only slightly because of good returns from land and income property development.

The largest contribution to earnings came from land development projects in the United States, where housing starts continued to rise after posting a very large increase the year before. Sales of land for commercial and industrial construction also held up well. While the market for land softened in Texas, demand was strong in California, Arizona and Florida, and there was increased activity at the company's development in Washington State. Earnings, however, were somewhat lower than in 1983 when a particularly valuable commercial tract had been sold in San Diego.

Income from land development in Canada was also down slightly from a year ago. The Alberta market, in particular, continued to be severely depressed, and sales declined in British Columbia. There was a substantial gain in Ontario, however, and marked improvement in Manitoba where Genstar significantly increased its share of available business.

Land development operations in both Canada and the U.S. continued to carefully control overhead costs during 1984. There was also a 30 percent reduction in the inventory of serviced residential lots and a small decline in total investments in land. At year-end, Genstar owned, had options on or held in partnership 37,518 acres of land plus 4,433 serviced lots.

The first phase of development at Genstar's 2,600-acre Mountain Park Ranch project in Phoenix, Arizona, was completed in 1984, and sales commenced late in the year. Genstar also exercised a portion of its option on 4,000 acres in Orlando, Florida, a community that has been growing at rates well above average. Work on that tract is expected to begin in 1985. When fully developed, it will include approximately 150 acres of land for commercial properties, 90 acres for offices and industrial parks, and enough serviced lots for 9,600 residential units.

In 1984, the company continued to devote more of its resources to the development of income properties, and there was a large increase in earnings from these activities. Income from Canadian projects was well short of its level in 1983 when a million-square-foot shopping center had been sold, but this was more than offset by higher returns from developments in the United States.

In Canada, Genstar is increasingly concentrating on expanding its portfolio of income properties and, at year-end, it owned or held in partnership 1.5 million square feet of leasable space, up 20 percent from a year ago.

In the U.S., earnings from the sale of developed shopping centers and industrial parks reached record levels. In the San Francisco area, the company also entered into partnerships with two major financial institutions to develop specialized facilities for lease to manufacturers in high-technology industries, a particularly promising market. At the end of 1984,

Sales of land commenced late in 1984 at the company's 2,600-acre Mountain Park Ranch development in Phoenix, Arizona.

U.S. operations were in the first phases of developing over two million square feet of property, including eight industrial buildings and a shopping center, a significant increase over the 600,000 square feet under development at the same time a year ago.

In contrast to land and income property development, Genstar's homebuilding operations reported a loss in 1984. Because of the difficult economic climate in Alberta and heavily overbuilt conditions in Houston, the company's housing divisions in Texas and Western Canada were closed during the fourth quarter with attendant costs. In addition, Genstar expects to cut back on homebuilding activities in California, even though housing operations in that state remained profitable and reported higher earnings in 1984. Performance of homebuilding and land development joint ventures also improved, although they again produced losses. Genstar's involvement in such projects continues to decline, and the company is now participating in 12 active ventures, down from 25 a year ago.

Housing inventories at the end of 1984 consisted of 487 homes either completed or under construction and available for sale, compared to 667 at the beginning of the year. Most of the remaining inventory is located in California.

In 1985, Genstar believes there will be relatively little change in either its U.S. or Canadian real estate markets. Earnings from land development are expected to approximate those of 1984, and the performance of homebuilding operations should improve now that activities are limited to areas experiencing reasonably healthy growth. That improvement should compensate for anticipated reductions in earnings from sales of income property, as fewer projects will be at marketable stages in 1985, and the company will be concentrating on developing or acquiring new properties through most of the year.

Overall, combined income from all of Genstar's land and real estate development activities should remain at about the same level as in 1984. This will, however, represent a better return on assets because of reduced investments in this business.

Longer term, the outlook for the company's real estate operations is promising. Genstar's landholdings in Alberta are well located, were acquired at comparatively low cost, and will yield good profits once ecomonic conditions improve. In the meantime, the company will benefit from strength in the Manitoba and Ontario markets, where its holdings are substantial. It will also benefit from demographic trends that continue to favor the western and southern "sunbelt" states in which Genstar's U.S. real estate assets are concentrated. Most of these markets are expected to remain strong, as improvements in income in these areas have outpaced rises in the costs of housing, enhancing its affordability for a greater percentage of the population. Growing interest in real estate by institutional and other investors should also add to demand. In addition, the company's increased involvement in income property development and its curtailment of homebuilding activities will allow real estate operations to achieve a more balanced and less cyclical flow of cash and operating income in the future.

FINANCIAL REVIEW

For the ten years ended December 31, 1984
(millions of Canadian dollars)

Financial Summary	1984	1983	1982	1981	1980
Revenues	$1,922.8	$1,826.7	$1,760.2	$2,145.9	$2,310.4
Operating income	253.1	252.0	24.5	242.4	335.4
Income (Loss) before income taxes	113.3	100.0	(184.7)	72.4	197.2
Net income (loss)	131.8	103.0	(84.3)	93.8	157.9
Per Common Share					
Net income (loss)					
Canadian method					
Basic	$ 3.56	$ 2.83	$ (3.36)	$ 2.40	$ 4.92
Fully diluted	3.38	2.72	(3.36)	2.34	4.48
United States method					
Primary	3.38	2.72	(3.36)	2.37	4.54
Fully diluted	3.38	2.72	(3.36)	2.34	4.48
Dividends	0.85	0.65	0.90	1.80	1.65
Book value	27.00	22.97	20.89	24.31	23.97
Performance Measurement					
Return on net assets (pre-tax)	10.8%**	12.4%	1.1%	9.9%	16.1%
Return on common equity	13.1%	12.3%	(16.0%)	9.8%	19.4%
Capitalization Ratios					
Total debt to equity	45:55	53:47	61:39	57:43	49:51
Long-term debt to equity	36:64	44:56	47:53	40:60	40:60
Capitalization					
Total assets	$2,714.2	$2,348.8	$2,660.3	$2,868.2	$2,467.5
Deferred income taxes	(9.2)	24.5	82.1	167.8	181.3
Long-term debt	736.3	736.8	773.6	657.6	639.6
Redeemable preferred shares	220.8	120.0	120.0	120.0	120.0
Convertible redeemable preferred shares	205.1	104.9	106.9	111.1	113.5
Common shares and contributed surplus	312.9	304.3	296.8	291.7	285.1
Retained earnings	465.8	383.1	316.8	448.0	429.4
Other Statistics					
(millions except employees)					
Working capital	$ 181.6	$ 176.4	$ 91.7	$ 136.7	$ 404.9
Net funds generated by operating activities	172.2	264.7	9.2	75.1	202.1
Capital expenditures	48.4	40.3	66.2	147.5	172.2
Common shares outstanding					
Year-end	31.7	31.4	30.9	30.6	30.2
Average	31.5	31.2	30.7	30.5	28.5
Average number of employees	16,170	15,175	17,788	20,225	17,525

*Excluding the net assets and operations of The Flintkote Company, which were acquired effective December 31, 1979. **Excluding GSX, 1984 return on net assets was 11.7%

1979	1978	1977	1976	1975
$1,264.6	$1,143.0	$ 981.1	$ 821.5	$ 684.3
255.3	204.8	170.3	143.0	106.4
190.1	154.9	120.8	103.4	84.6
126.5	87.9	67.7	57.7	47.2

$ 4.31	$ 3.26	$ 2.66	$ 2.40	$ 2.02
4.06	3.09	2.44	2.16	1.81
4.26	3.24	2.64	2.37	2.01
4.08	3.12	2.48	2.19	1.84
1.25	.81	.71	.63	.60
19.29	15.86	13.79	12.15	10.50

17.9%*	16.5%	15.6%	13.1%	17.9%
22.2%	19.9%	19.1%	20.0%	19.5%

62:38	49:51	62:38	64:36	49:51
53:47	32:68	50:50	52:48	39:61

$2,401.4	$1,492.7	$1,249.2	$1,232.8	$ 704.6
183.9	115.3	94.5	75.8	52.4
729.4	262.5	363.7	339.4	109.3
120.0	120.0	–	–	–
8.6	10.3	13.1	26.8	21.7
186.1	180.2	169.2	148.5	141.4
341.4	257.2	191.3	142.3	100.5

$ 305.0	$ 268.6	$ 126.4	$ 119.2	$ 103.1
309.3	(47.9)	56.9	(41.1)	43.9
106.1	52.8	107.1	89.7	67.6
27.4	26.8	25.8	23.8	23.0
27.3	26.4	25.1	23.5	22.7
19,850	10,428	11,007	10,695	10,125

Consolidated Highlights

Net income was $131.8 million ($3.56 per common share) in 1984, compared to $103.0 million ($2.83 per common share) in 1983 and a loss of $84.3 million ($3.36 per common share) in 1982. Per share amounts are based on average outstanding common shares of 31.5 million in 1984, 31.2 million in 1983 and 30.7 million in 1982.

Following are highlights of consolidated results:

1984 compared to 1983

1984 revenues of $1.9 billion were 5% higher than 1983 as significant increases in the Building Materials and Industrial Services categories were partially offset by lower revenues in Financial Services and Land and Real Estate Development. While gross profit margins remained unchanged in total from the prior year, margins excluding venture capital improved by two percentage points because venture capital sales, which have a low cost basis, were considerably higher in 1983. Higher selling, general and administrative expenses and depreciation resulted in operating income only slightly above the prior year. However, a $12 million or 8% reduction in financing costs combined with a $15 million increase in income tax recoveries resulted in a 27% increase in net income.

The improved results were derived almost entirely from the company's U.S. operations with a 15% increase in revenues and 17% increase in operating income, compared to the 9% and 18% reductions, respectively, experienced in weak Canadian markets. The effect of improved U.S. results was further augmented by conversion to Canadian dollars at average foreign exchange rates 5% higher than in 1983.

1983 compared to 1982

Revenues increased overall by 4% as increases in the Land and Real Estate Development and Financial Services categories were partially offset by decreases in the Industrial Services and Building Materials and Services categories. All operations in Western Canada, particularly in Alberta, continued to be faced with depressed economic conditions.

Gross profit margins improved 11 percentage points, and selling, general and administrative expenses decreased by 8%. These improvements reflected increased productivity, a 15% decrease in the average number of employees, and larger land and venture capital sales.

Financing costs were reduced by 27%, of which 10% was the result of lower debt and 17% was the result of lower interest rates.

Operations

The following discussion of major factors affecting the operating income of each industrial category during the three years ended December 31, 1984, should be read in conjunction with "Results by Industrial Category," included on pages 34 and 35 of this report, and the "Financial Data by Geographic Area" on page 33.

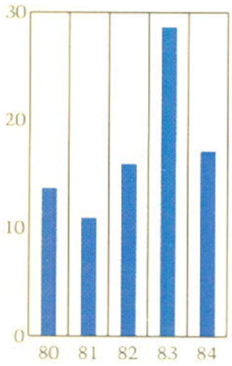
Financial Services

Except for certain venture capital investments and property-casualty insurance, Genstar conducts its financial service activities through Genstar Financial Corporation (GFC), the results of which are accounted for on the equity method in the company's revenues. The financial position and results of operations of the financial services subsidiaries included in GFC are summarized in Note 6 to the consolidated financial statements.

Revenues in 1984 were $119 million, compared to $159 million in 1983 and $99 million in 1982.

Operating income was $103 million in 1984, compared to $148 million in 1983 and $85 million in 1982.

Financial Services Return on Net Assets (Pre-tax)
(percent)



Operating income from financial intermediary services increased significantly over 1983 due to improvement in average net interest margins, a significant reduction in loan loss provisions and a gain of $14 million from the sale and leaseback of Canada Permanent Mortgage Corporation's (CPMC) head office building in Toronto. However, this improved performance was offset by the negative effects of amortizing acquisition adjustments to CPMC's assets and liabilities. Operating results of trust and real estate brokerage activities were unchanged from 1983, both years reflecting positive contributions compared with a $2 million loss in 1982 as a result of less active real estate markets. Mortgage banking operations produced substantially lower earnings than in 1983 when a $5 million gain was generated by the sale of over 40% of the mortgage servicing portfolio. In 1984, an additional portfolio sale generated a gain of $4 million but was substantially offset by provisions for losses due to increased foreclosure rates. Sales of venture capital investments generated operating income of $53 million, $88 million and $24 million in 1984, 1983 and 1982, respectively. The reduced returns in 1984 reflect lower activity in initial public offerings of such investments. Stock market acceptance of the initial offerings of the high technology concerns typical of the company's venture capital portfolio was unusually high in 1983 and was not repeated in 1984. Changing investor perceptions of the risks inherent in the technology and management of such companies make returns from this activity somewhat difficult to predict.

In the company's electronic equipment rental and container leasing operations, continued fleet growth and higher average utilization produced increased operating income despite generally flat per diem rental and lease rates.

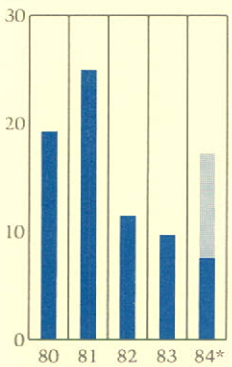
Industrial Services

Revenues in the industrial services category increased 48% in 1984 to $237 million, compared with $160 million in 1983 and $189 million in 1982. Operating income was $26 million in 1984, $11 million in 1983, and $14 million in 1982.

The revenues and operating income growth in this category largely reflects the acquisition of approximately 40% of the operations of SCA Services, Inc. (SCA). The company's existing waste services business reported a slight reduction in earnings. The company acquired its share of SCA through a newly formed subsidiary, GSX Corporation, late in the third quarter. The formation of GSX greatly increases the company's presence in the waste services industry, providing solid and chemical waste collection and disposal services to commercial, residential and industrial customers in 17 states. Genstar is the third largest such concern in the United States. The acquisition transaction and its effects on financial position are set out in Note 1 to the consolidated financial statements. GSX contributed to income in the final four months of the year, although its impact on current year operating income was partially offset by amortization of acquisition adjustments.

Operating returns from marine activities have varied little in the past three years despite a 23% decline in revenues since 1982. Marine services in total reported essentially unchanged earnings from 1983

Industrial Services Return on Net Assets (Pre-tax)
(percent)



* Dark blue area includes all of GSX's year-end net operating assets but only a part-year contribution to income. Excluding GSX, RONA would have increased (light blue) to 17.2%.

although the mix of income changed. In the shipyard operation, high volumes of repair work in 1984 compensated for lower levels of new ship construction, resulting in operating profits that, while lower than in 1982, compared favorably to a loss in 1983. Returns from the tug and barge operations declined from prior year levels as a result of an early 1984 strike in the British Columbia forest products industry and lower levels of offshore oil exploration; however, income was still above that in 1982.

Also included in this category prior to 1984 is the company's interest in a joint venture in chemical and fertilizer manufacturing operations in Eastern Canada. In 1983, the company recorded a $9 million loss resulting from operating losses and the write-off of its remaining investment in the venture. The non-recurrence of these losses contributed significantly to the category's improved 1984 results.

Buildings Materials:
Cement, Aggregates and Concrete Products

Revenues were $713 million in 1984, compared with $682 million in 1983 and $770 million in 1982. The increase in 1984 was due primarily to increased demand in U.S. markets. Canadian market volumes continued below historic levels. The following tables demonstrate the volume improvements in the United States in 1984 which were partially offset by declining volume in Canada:

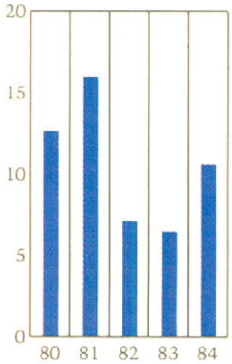
Sales Volumes of Major Products	1984	1983	1982
	(millions)		
Cement (tons)			
Canada	1.4	1.4	1.4
United States	0.7	0.5	0.6
Total	2.1	1.9	2.0
Lime Products (tons)			
United States	0.5	0.5	0.5
Aggregates (tons)			
Canada	8.3	7.9	7.1
United States	13.8	12.5	11.6
Total	22.1	20.4	18.7
Concrete (cubic yards)			
Canada	0.8	0.9	1.1
United States	0.9	0.8	0.7
Total	1.7	1.7	1.8
Concrete Blocks (standard units)			
Canada	10.6	12.4	14.3

Operating income was $71 million in 1984, up 60% from $45 million in 1983 and 39% from $51 million in 1982. The improvement in operating income is due to the effects of increased U.S. demand on both capacity utilization and prices:

Production Capacity Utilization	1984	1983	1982
Cement			
Canada	48%	46%	38%
United States*	50	44	46
Lime Products			
United States	55	45	41
Aggregates			
Canada	96	90	83
United States	83	82	76
Concrete Products			
Canada	47	43	57
United States	103	96	83

*Represents full utilization of one plant in 1984; a second plant has been shut down during the 1983-1984 period.

Building Materials: Cement, Aggregates and Concrete Products Return on Net Assets (Pre-tax)
(percent)



In the United States, significantly higher volumes and profit margins returned cement operations to profitability for the first time in three years as the company's Redding, California, plant operated at full capacity and, thus, had lower costs per unit produced. As in 1983, the company's less efficient second U.S. plant remained shut down and additional product required was imported from the company's British Columbia plant and other sources. Importation from the company's British Columbia facility was made possible by the removal in 1984 by the U.S. Federal Trade Commission (FTC) of import prohibitions agreed to at the time of the acquisition of the U.S. cement operations. The FTC's action will enable the company to now coordinate cement production and marketing on the West Coast of Canada and the U.S.

The company's U.S. concrete and aggregates divisions, which are based primarily in and around the state of Maryland, posted increases of over 40% in operating income on a revenue gain of 14%. Earnings improved across all product lines assisted by cost efficiencies resulting from modernization of several production facilities over the past two years, new products, and excellent weather conditions in the last quarter that extended the construction season.

By contrast, Canadian operations reported lower revenues and earnings than in 1983 because of reduced volumes, low plant capacity utilization and intensified competitive pressures, particularly in Alberta where there was depressed economic activity in all construction markets. British Columbia activity remained reasonably strong, boosted by construction related to a major exposition to be held in 1986. Despite difficult economic conditions, the company acquired ready-mix, concrete block and precast structure manufacturing facilities enabling the company to replace some of its older, less efficient plants.

Building Materials: Wallboard and Roofing Products

Revenues increased 19% to $494 million in 1984, compared to $415 million in 1983 and $441 million in 1982.

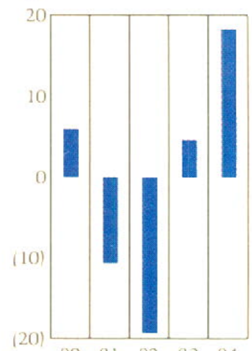
Sales Volumes of Major Products	1984	1983	1982
Roofing (thousands of tons)	730	649	657
Wallboard (billions of square feet)	1.6	1.4	1.2

Operating income tripled in 1984 to $32 million compared with $11 in 1983 and a loss of $40 million in 1982, based on cost efficiencies and higher plant utilization.

Production Capacity Utilization	1984	1983	1982
Roofing	62%	52%	50%
Wallboard	86	73	64

Record U.S. volumes and substantially higher prices for the company's wallboard products were the primary factors in raising 1984 operating income. Although roofing volumes also increased, pricing remained under heavy competitive pressure and the company recorded a loss on these operations.

Building Materials: Wallboard and Roofing Products Return on Net Assets (Pre-tax)
(percent)



The recovery in U.S. housing and remodeling markets over the past two years coupled with the introduction of new commercial uses for wallboard improved volumes by more than 10% over 1983 and 30% over 1982. The company's smaller Canadian operation also benefited from stronger U.S. conditions by exporting larger volumes to the U.S. to compensate for weaker Canadian markets. Margins were also improved by higher prices and improved production efficiencies resulting from higher plant utilization which, on the average, was 13 and 22 percentage points higher than 1983 and 1982, respectively.

Although volumes were 12% higher than in both 1983 and 1982, the company's roofing operations continue to suffer from the intense price competition that has marked the industry over the past three years. The company took several strategic steps during the year and in early 1985 to improve profitability in this division. In early 1985, the corporation acquired seven roofing plants from another company, Bird Incorporated, which will double Genstar's capacity. During 1984, the company brought on line a newly constructed fiberglass mat plant in Texas. This plant, coupled with glass mat capacity acquired from Bird Incorporated, will enable the company to meet its entire glass mat requirements internally. The company also acquired another firm's modernized roofing facility in Illinois which will permit the closure of an older, less efficient Genstar facility nearby.

The company believes these steps will enable it to achieve greater market share and better geographical coverage for its products together with lower unit costs from the consolidation of operations in more efficient facilities. The process of consolidation has already commenced and operating income reflects a $9 million fourth quarter write-down of the carrying value of the company's less efficient facilities.

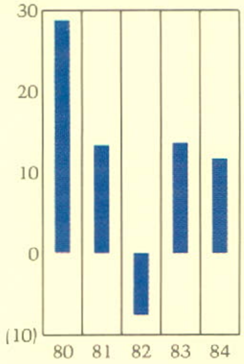
Land and Real Estate Development
Revenues were $369 million in 1984, compared to $420 million in 1983 and $280 million in 1982.

Sales Volumes	1984	1983	1982
Residential Building Lots			
Canada	1,982	1,851	998
United States	681	1,809	386
Total	2,663	3,660	1,384
Land Acres			
Canada	166	1,321	746
United States	1,818	1,310	348
Total	1,984	2,631	1,094

Income Properties	1984	1983	1982
	(thousands of sq. ft.)		
Offices	526	583	303
Shopping Centers	929	627	739
Total	1,455	1,210	1,042

Operating income was $64 million in 1984, compared to $66 million in 1983 and a loss of $56 million in 1982.

Land/Real Estate Development Return on Net Assets (Pre-tax)
(percent)



Operating income in 1984 declined 5% from 1983 on a 12% reduction in revenues. Operating losses in this category in 1982 included $63 million in write-downs of real estate assets. The fluctuations in revenues and operating income reflect the sensitivity of these operations to interest rates and the large transaction nature of the business.

1984 witnessed further implementation of the company's strategy of concentrating its real estate activities in land and income property development and reducing the scope of its operations in less profitable areas. In the last quarter, the company announced the cessation of homebuilding operations in Texas and Western Canada where large losses were incurred due to depressed demand, and operating results reflect $6 million in shut-down provisions.

In ongoing operations, the major contributors to 1984 operating income were land and income property development in California. Property development operations in Northern California generated record income from the sale in mid-year of developed properties and the formation of joint ventures with major financial institutions for the development of industrial and office properties. In Southern California land development operations, there was a greater number of land sales in 1984 than in the previous year, although operating income was lower because 1983 included a major commercial parcel sale. In addition, sales commenced at a major project in Arizona. Losses from joint venture projects continued, but at significantly reduced levels from 1983 and 1982.

In Canada, returns from land development were lower than 1983, although revenues doubled in Winnipeg and Toronto markets helping to offset depressed Alberta market conditions. Results from Canadian income property operations were also lower, as 1983 included a major commercial property sale in Ontario.

Financing

Total interest expense decreased 8% in 1984 to $140 million, following a 27% decrease in 1983 to $152 million. There has been a one-third reduction of interest expense over the past two years, all associated with floating rate short-term borrowings:

	1984	1983	1982
Interest Expense	(millions of dollars)		
Short-term debt	49	64	117
Long-term debt	91	88	92
	$140	$152	$209

Borrowing rates, which had declined in 1983, rose slightly in 1984, but the company's effective borrowing rates were still more than 2½% lower in 1984 than in 1982. As in prior years, the interest rates paid by the company were at or below the prime rate through the use of bankers' acceptances, LIBOR (London Inter-Bank Offering Rate) and cost-of-funds borrowing instruments. In addition, interest costs declined because of the company's success in continuing to reduce average debt levels, which have declined by almost $400 million over the past two years.

	1984	1983	1982
Average Borrowings	(millions of dollars)		
Short-term borrowings	371	546	772
Long-term debt	736	755	730
	$1,107	$1,301	$1,503

Total debt outstanding of $1.057 billion at the end of 1984 was virtually unchanged from 1983's total of $1.056 billion and over $300 million lower than year-end 1982. Most of the reductions in total debt over the past two years have been in short-term borrowings, which have declined by $272 million or 46% from the 1982 level.

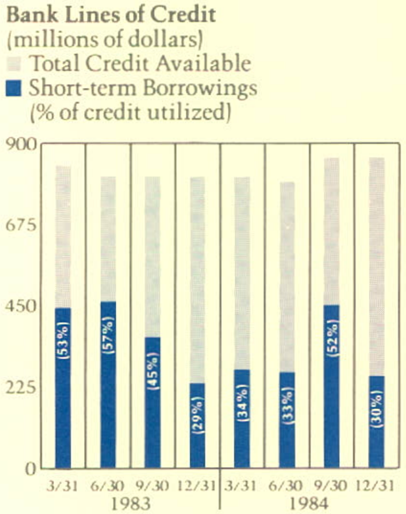
Although the company issued no new long-term debt in Canadian or U.S. markets during 1984, it utilized interest rate swaps to effectively establish fixed interest rates on approximately $66 million of long-term variable rate debt. This effort brought the level of variable rate funding to less than one-half of the total debt, compared to 54% and 62% at December 31, 1983 and 1982. These reductions represent a significant improvement in the company's financial strength and permit greater flexibility in financing the company's operating and capital expenditure requirements. This improvement was recognized during 1984 by an across-the-board upgrade of the company's commercial paper, senior debt and preferred share credit ratings by the two major Canadian credit rating agencies.

In the past two years, the company has made greater use of lease financing for major fixed asset acquisitions. During 1984, the company continued a $63 million Canadian mobile equipment leasing program commenced in 1982 and established a $25 million U.S. leasing program involving fixed and mobile equipment. Through the sale of tax benefits to the lessor, the effective rate on the U.S. leasing program will be below 10% for a period of up to 12 years.

Liquidity

Excluding real estate advances, average short-term borrowings were $301 million in 1984, down 28% from $420 million in 1983. Peak short-term borrowings of $452 million in September 1984 were below the 1983 peak of $480 million. Furthermore, the 1984 peak was unusually high because it included almost $200 million in connection with the company's acquisition of approximately 40% of SCA. The cost of acquiring SCA was substantially offset in the fourth quarter by two preferred share issues in Canada which generated proceeds of $195 million.

The company has lines of credit comprised of committed and demand facilities with all major Canadian banks. At December 31, 1984, $538 million of Canadian bank lines were committed and $260 million were demand. The company also had a U.S. $60 million committed line of credit with a consortium of European banks.



Although debt remained virtually unchanged from the prior year, total assets increased by over 15% in 1984. The increase was financed almost entirely by equity issues and improved earnings.

Funds generated by operations provided $155 million in 1984, compared to $80 million in 1983 and a $106 million outflow in 1982. Funds contributed by reductions in operating working capital were lower than in 1982 and 1983. In those years, the company's retrenchment of unprofitable operations and emphasis on cash flow rather than income generated reductions of over $300 million in inventories and receivables. In 1984, improved profitability and the expansion in activity across most lines of business required investment in operating working capital at or above year-end 1983 levels. Nonetheless, the company continued to carefully monitor working capital levels. The following are key turnover statistics:

	1984	1983	1982
Current Assets		(days)	
Account receivable turnover . . .	66	54	60
Inventories turnover	129	137	164

The increase in accounts receivable turnover is due predominantly to the company's acquisition of part of SCA in the fourth quarter of 1984. Without consolidation of SCA's operations, turnover would have been 57 days.

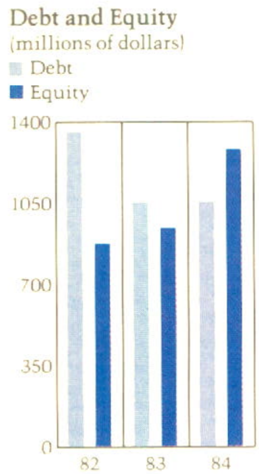
The major financing activity in 1984 consisted of two separate issues of preferred shares in Canada in the third and fourth quarters, which generated net proceeds of $195 million. In 1982, major financing activity had been the issue of $154 million in long-term debt. Activity in 1983 consisted primarily of the $36-million paydown of such borrowings.

The partial acquisition of SCA accounts for the bulk of the funds required for investment in 1984. The company acquired fixed assets of $122 million and intangible assets of $120 million in this transaction. The other major investment activity consisted of further equity investment of $46 million in the company's unconsolidated financial services subsidiary, Genstar Financial Corporation (GFC). Reflecting the less favorable climate for the company's operations in 1983 and 1982, investment activity in those years had resulted in net generation of funds, principally through repayment of advances made by the company to GFC upon its organization in 1982. GFC has matured over the past two years into an independent self-financing enterprise. It has successfully established a separate identity in Canadian credit markets, including investment grade ratings by Canadian rating agencies.

Capitalization

The principal components of the company's capital base are borrowed funds and shareholders' equity. The ratio of total debt to equity at the end of 1984 was 45:55, maintaining the steady rate of improvement from 53:47 and 61:39 at December 31, 1983 and 1982, respectively. The continuing improvement in the ratio over the past three years, coupled with the reduction in the amount of variable rate debt, reduces the company's vulnerability to floating interest rates.

With almost identical year-end debt levels in 1983 and 1984, the improvement in the ratio resulted from improved earnings and the issue of $200 million of preferred stock in the second half of the year. The first offering in September was for $100 million of Series D second preferred shares. These shares are non-voting but convertible, at the holder's option, into common shares and carry cumulative dividends with a minimum rate of 8% and a maximum rate of 14%. The second offering in October, also for $100 million, was for Series E non-voting preferred shares bearing fixed rate cumulative dividends of 9½%. In addition to improving the debt-to-equity ratio, the current tax position of the Canadian parent corporation makes this form of financing more tax-efficient than further debt issues at this time. In conjunction with the two preferred issues, the company withdrew a "shelf" registration, filed in November 1983 with the U.S. Securities and Exchange Commission, for the potential issue of up to 3,000,000 common shares.



The improvement in the debt-to-equity ratio, the containment of total borrowings in spite of a $264 million investment in the expansion of the company's waste services business, and the continued availability of credit lines well in excess of the company's utilization, provides the company with adequate resources to meet anticipated capital and operating commitments.

The Securities and Exchange Commission requires that capital stock with mandatory redemption provisions be reported separately from other elements of shareholders' equity and be considered as debt in computing 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 54:46 in 1984, 65:35 in 1983, and 72:28 in 1982.

Income Tax Considerations for U.S. Individual Shareholders

Dividends are paid in Canadian and U.S. dollars and other currencies depending upon the residence of the shareholder. Dividends paid to United States resident shareholders in 1984 were subject to a 15% withholding tax. Generally, dividends received by United States citizens or residents are subject to U.S. income tax on the amount of the dividend, but either a credit or a deduction for Canadian tax withheld may be claimed. Because Genstar is not a United States domestic corporation, the partial exclusion of dividends received by individuals from domestic corporations is not available.

Share Capital

Genstar's voting share capital consists of 35.6 million common and preference shares. At December 31, 1984, 88% of the voting shares were registered, and the balance were in bearer form.

Below is a summary of the shareholdings of the company, which shows that the number of shareholders declined slightly during 1984 while the number of shares held increased. Canadian shareholders owned approximately 53% of the voting shares and represented 77% of the company's registered shareholders. Information regarding trading volume and price information is included in Note 19 to the consolidated financial statements.

Shareholdings

	1984				1983			
	Shareholders		Shareholdings		Shareholders		Shareholdings	
	Number	%	Shares (millions)	%	Number	%	Shares (millions)	%
Common & Voting Preferred								
Canada	9,127	77	18.7	53	9,171	76	15.5	44
United States	2,591	22	7.8	22	2,819	23	10.8	31
Bearer	*		4.3	12	*		4.4	12
Other Countries	142	1	4.8	13	158	1	4.5	13
	11,860	100	35.6	100	12,148	100	35.2	100

*The ownership of bearer shares is unknown.

Joint Ventures

As described in Note 4 to the consolidated financial statements, the company carries out substantial business through corporate and unincorporated joint ventures, in which its ownership interests range from 12½% to 50%. These ventures had total assets of $564 million at the end of 1984, and Genstar had invested $44 million for its ownership interests.

Performance Measurement

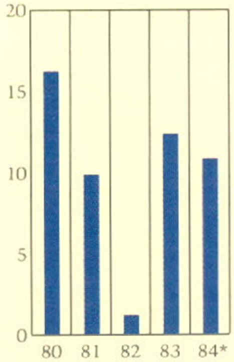
The company places great emphasis on the importance of measuring operating performance to help determine the business investments that will ensure a strong and viable future. Both internally and externally, various measures of performance have been used to compare efficiency and profitability between the divisions of Genstar and between Genstar and its competition.

The measure of performance that the company has used both externally and internally is return on net assets (RONA), a measure of operating income in relation to capital employed.

As indicated by the chart below, 1984 RONA was 10.8%. 1984 performance is distorted because all of GSX Corporation's net operating assets but only four months of income (results since formation) are included. Excluding GSX, 1984 RONA was 11.7% compared to 12.4% in 1983 and 1.1% in 1982. Although increasing from the low of 1982, the low level of economic activity in Western Canada has prevented profitability, as measured by RONA, from returning to the levels achieved during the 1970s.

Another significant performance measurement is the return on common shareholders' equity, a measurement of performance in relation to the funds invested by the company's shareholders and their accumulated undistributed earnings. Return on common equity was 13.1% in 1984, compared to 12.3% in 1983 and (16.0)% in 1982.

Genstar Corporation
Return on Net Assets
(Pre-tax)
(percent)



*Includes all of GSX's year-end net operating assets but only a part-year contribution to income. Excluding GSX, RONA would have been 11.7%

Equity Income

Included in third party revenues is the company's share of the income or loss of joint ventures, subsidiaries and investments accounted for on the equity basis. In 1984, $5 million of such losses are included in the revenues of the land and real estate development category, compared to $14 million in 1983 and $44 million in 1982. Revenues of the financial services category include $89 million of equity income in 1984, compared to $91 million a year earlier and $58 million in 1982. $0.1 million of income is included in the 1984 revenues of the concrete, aggregates and construction services category, compared to $4 million in losses in 1983 and $5 million in losses in 1982.

Inflation-Adjusted Results

The information included in Note 20 to the consolidated financial statements restates certain balance sheet and statement of income items for the effects of inflation using methods prescribed by financial accounting authorities in Canada and the U.S.

Financial Data by Geographic Area

	1984	1983	1982	1981	1980
	(millions of Canadian dollars)				
Revenues					
Canada and other	655.5	720.2	845.0	1,068.2	980.3
United States	1,267.3	1,106.5	915.2	1,077.7	1,330.1
Total	$1,922.8	$1,826.7	$1,760.2	$2,145.9	$2,310.4
Operating Income					
Canada and other	95.1	116.5	123.3	222.1	170.6
United States	158.0	135.5	(98.8)	20.3	164.8
Total	$ 253.1	$ 252.0	$ 24.5	$ 242.4	$ 335.4
Identifiable Assets					
Canada and other	1,095.1	1,130.4	1,246.5	1,470.9	1,074.4
United States	1,619.1	1,218.4	1,413.8	1,397.3	1,393.1
Total	$2,714.2	$2,348.8	$2,660.3	$2,868.2	$2,467.5

RESULTS BY INDUSTRIAL CATEGORY

For the five years ended December 31, 1984
(millions of Canadian dollars)

		Revenues		
		Third Party	Inter-Category	Total
Financial Services				
Mortgage lending; retail and commercial banking; mortgage banking; fiduciary services; venture capital investment; leveraged leasing; real estate sales brokerage; leasing of transportation containers; rental of electronic test and measurement equipment.	1984	118.6	—	118.6
	1983	159.0	—	159.0
	1982	98.4	.5	98.9
	1981	67.3	—	67.3
	1980	59.5	1.1	60.6
Industrial Services				
Tug and barge transportation; shipbuilding, repairs and salvage; refuse collection; solid and chemical waste transfer and landfilling; methane gas recovery; emergency chemical waste clean-up services; rubber reclamation and recycling.	1984	233.0	4.0	237.0
	1983	156.4	4.0	160.4
	1982	186.4	2.7	189.1
	1981	186.5	2.9	189.4
	1980	186.4	3.0	189.4
Building Materials: Cement, Aggregates and Concrete Products	1984	708.6	4.7	713.3
Manufacture of normal portland and specialty cements, lime, precast/prestressed concrete components, concrete blocks, pipe and railway ties; production of ready-mix and asphaltic concrete, classified sand, gravel, aggregates, crushed stone, calcium carbonate, and packaged home repair materials; municipal and real estate subdivision servicing.	1983	677.1	5.2	682.3
	1982	764.2	5.5	769.7
	1981	883.4	38.7	922.1
	1980	872.4	35.6	908.0
Building Materials: Wallboard and Roofing Products	1984	493.5	.4	493.9
Manufacture of gypsum wallboard, asphalt shingles and other roofing products and asphaltic adhesives; wholesaling and distribution of construction materials.	1983	414.8	.2	415.0
	1982	440.3	.6	440.9
	1981	541.3	—	541.3
	1980	587.3	.5	587.8
Land and Real Estate Development				
Development of residential, commercial and industrial land; construction of residential units, shopping centers, office and industrial parks, and warehouses; real estate joint venture financing.	1984	369.1	.2	369.3
	1983	419.4	.1	419.5
	1982	270.9	9.4	280.3
	1981	467.4	2.9	470.3
	1980	604.8	—	604.8
Corporate and Unallocated Items				
General and administrative expenses and assets of the company's corporate offices. Certain corporate revenues, costs, depreciation expenses and net assets are allocated to the industrial categories.	1984	—	—	—
	1983	—	—	—
	1982	—	—	—
	1981	—	—	—
	1980	—	—	—
Consolidated				
Inter-category revenues are at market prices and must be deducted from cost of sales and total costs and expenses (on adjoining page) to calculate costs and expenses as shown in the consolidated statements of income.	1984	$1,922.8	$ 9.3	$1,932.1
	1983	1,826.7	9.5	1,836.2
	1982	1,760.2	18.7	1,778.9
	1981	2,145.9	44.5	2,190.4
	1980	2,310.4	40.2	2,350.6

*Net operating assets are calculated by deducting non-interest bearing liabilities, except income taxes, from the identifiable assets of each category. General corporate assets are allocated among the categories. **Pre-tax return on net assets is the performance measurement obtained by dividing income before interest and taxes by year-end net operating assets.

Costs and Expenses								
Cost of Sales	Selling General and Administrative	Depreciation Depletion and Amortization	Total	Operating Income	*Net Operating Assets	**Pre-tax Return on Net Assets (percent)	Identifiable Assets	Capital Expenditures
11.3	4.0	.8	16.1	102.5	596.1	17.2	610.8	—
7.6	2.3	.9	10.8	148.2	514.4	28.8	537.3	—
12.0	1.7	.7	14.4	84.5	523.3	16.1	555.5	—
10.8	3.6	.5	14.9	52.4	468.1	11.2	479.9	—
30.7	3.0	.4	34.1	26.5	192.1	13.8	198.6	.1
168.9	24.8	17.5	211.2	25.8	347.1	7.4***	400.7	5.8
125.9	13.9	9.9	149.7	10.7	109.2	9.8	135.1	6.3
152.2	13.3	9.7	175.2	13.9	121.2	11.5	139.6	5.3
131.8	16.1	10.6	158.5	30.9	123.5	25.0	155.1	14.5
135.4	11.3	11.5	158.2	31.2	161.4	19.3	183.2	17.9
536.9	60.1	44.9	641.9	71.4	670.2	10.7	772.8	25.5
527.2	66.0	44.4	637.6	44.7	688.6	6.5	766.9	17.2
607.5	67.6	43.2	718.3	51.4	727.0	7.1	857.0	34.9
664.6	78.8	50.3	793.7	128.4	804.5	16.0	977.2	103.7
683.9	73.3	50.0	807.2	100.8	791.9	12.7	918.3	122.2
407.5	36.1	18.4	462.0	31.9	173.7	18.4	250.2	13.7
360.8	30.1	13.2	404.1	10.9	228.4	4.8	256.8	15.7
425.5	40.0	15.2	480.7	(39.8)	205.0	(19.4)	258.6	18.6
502.1	50.9	14.7	567.7	(26.4)	252.2	(10.5)	310.8	20.5
509.8	49.4	12.9	572.1	15.7	267.1	5.9	337.3	27.3
266.5	37.6	1.6	305.7	63.6	547.2	11.6	627.6	.9
304.7	46.5	1.9	353.1	66.4	493.5	13.5	608.6	.5
281.5	52.6	2.1	336.2	(55.9)	724.6	(7.7)	788.2	1.6
299.1	64.0	2.7	365.8	104.5	790.0	13.2	887.3	1.9
355.7	54.4	2.4	412.5	192.3	668.6	28.8	777.8	2.6
—	42.1	—	42.1	(42.1)	—	—	52.1	2.5
.5	28.4	—	28.9	(28.9)	—	—	44.1	.6
.7	28.9	—	29.6	(29.6)	—	—	61.4	5.8
3.0	44.4	—	47.4	(47.4)	—	—	57.9	6.9
1.1	30.0	—	31.1	(31.1)	—	—	52.3	2.1
$1,391.1	$204.7	$83.2	$1,679.0	$253.1	$2,334.3	10.8***	$2,714.2	$48.4
1,326.7	187.2	70.3	1,584.2	252.0	2,034.1	12.4	2,348.8	40.3
1,479.4	204.1	70.9	1,754.4	24.5	2,301.1	1.1	2,660.3	66.2
1,611.4	257.8	78.8	1,948.0	242.4	2,438.3	9.9	2,868.2	147.5
1,716.6	221.4	77.2	2,015.2	335.4	2,081.1	16.1	2,467.5	172.2

***Operating income from the GSX acquisition is included only for the last quarter of 1984. The pre-tax returns based on average net operating assets (instead of only year-end) would have been 11.3% for the Industrial Services category and 11.6% for the consolidated results.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the years ended December 31, 1984, 1983 and 1982

The following accounting policies conform in all material respects 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

Assets of subsidiaries for which the functional currency is the United States dollar and related liabilities are translated into Canadian dollars at the year-end rate of exchange, while revenues and expenses are translated at the average exchange rate for the year. Unrealized balance sheet translation amounts are maintained as a separate balance sheet account until such time as the related foreign currency amounts are realized in Canadian dollars.

Amounts denominated in foreign currencies other than the United States dollar are translated at historical exchange rates for non-monetary items, and at the year-end exchange rate for monetary items. Translation fluctuations, other than those associated with long-term debt, are included in income for the period. Translation fluctuations associated with long-term debt are amortized straight-line over the remaining term to maturity of the debt. This method conforms to the recommendations recently adopted by the Canadian Institute of Chartered Accountants.

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 direct overhead except depreciation. Cost of land and housing inventories is determined on a specific item basis and includes the cost of 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 their aggregate cost or net realizable value.

Fixed Assets

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

Depreciation of plants and equipment is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for plants and from 5 to 25 years for equipment. Mobile equipment depreciation is based on time utilization after allowing for estimated salvage value. Landfill sites are depreciated, on the basis of capacity used, to their estimated residual 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 revenues result from the contributions of assets to partnerships or joint ventures at a value in excess of cost, the sale of the future production from limestone deposits and the sale and leaseback of fixed assets at a value in excess of cost. Income is recognized as sales are made to third parties or over the term of the lease in the case of the sale and leaseback transactions.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1984, 1983 and 1982
(thousands of Canadian dollars)

	1984	1983	1982
Revenues			
Net sales and other revenue	1,830,089	1,743,047	1,707,768
Equity net income of Genstar Financial Corporation	92,712	83,691	52,459
	1,922,801	1,826,738	1,760,227
Costs and Expenses			
Cost of sales and services	1,382,371	1,317,167	1,460,662
Selling, general and administrative	204,179	187,219	204,148
Depreciation, depletion and amortization	83,175	70,314	70,896
	1,669,725	1,574,700	1,735,706
Operating Income	253,076	252,038	24,521
Financing Costs			
Interest on long-term debt	91,199	87,543	92,208
Other interest	48,624	64,455	117,009
	139,823	151,998	209,217
Income (Loss) Before Income Taxes	113,253	100,040	(184,696)
Provision for Income Taxes			
Current	11,500	54,100	(7,700)
Deferred	(30,000)	(57,100)	(92,700)
	(18,500)	(3,000)	(100,400)
Net Income (Loss) for the Year	$131,753	$103,040	$(84,296)
Net Income (Loss) Per Common Share			
Canadian Method			
Basic	$3.56	$2.83	$(3.36)
Fully diluted	3.38	2.72	(3.36)
United States Method			
Primary	3.38	2.72	(3.36)
Fully diluted	3.38	2.72	(3.36)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEETS

As at December 31, 1984 and 1983
(thousands of Canadian dollars)

	1984	1983
Assets		
Current Assets		
Cash and term deposits	11,269	9,928
Accounts receivable	331,746	260,084
Inventories	490,140	493,523
	833,155	763,535
Joint Ventures, Development Land and Investments	263,716	257,955
Fixed Assets		
Properties, plants and equipment	1,660,976	1,400,343
Accumulated depreciation, depletion and amortization	744,610	574,739
	916,366	825,604
Investment in Genstar Financial Corporation	532,394	454,375
Intangible Assets	168,616	47,367
	$2,714,247	$2,348,836

On behalf of the Board

Director

Angus MacNaughton

Director

	1984	1983
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings	258,681	231,096
Accounts payable	312,129	237,702
Income taxes	2,440	6,906
Real estate advances	62,038	88,195
Current portion of long-term debt	16,280	23,195
	651,568	587,094
Long-term Debt	720,010	713,593
Deferred Revenue	67,779	77,043
Deferred Income Taxes	(9,200)	24,500
	1,430,157	1,402,230
Preferred Shares		
Redeemable preferred shares	220,775	120,000
Convertible redeemable preferred shares	205,065	104,869
Common Shareholders' Equity		
Common shares and contributed surplus	312,886	304,338
Retained earnings	465,764	383,099
Unrealized foreign exchange translation	79,600	34,300
	$2,714,247	$2,348,836

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1984, 1983 and 1982
(thousands of Canadian dollars)

	1984	1983	1982
Operating Activities			
Net income (loss) for the year	131,753	103,040	(84,296)
Items not affecting funds			
Depreciation, depletion and amortization	83,175	70,314	70,896
Deferred income taxes	(30,000)	(57,100)	(92,700)
Equity income less dividends	(36,929)	(33,093)	(18,290)
Other	7,098	(3,567)	18,334
Funds Generated (Required) by Operations	155,097	79,594	(106,056)
Change in Operating Working Capital			
Cash and term deposits	(1,341)	9,905	(7,517)
Accounts receivable	(71,662)	20,448	96,407
Inventories	3,383	162,642	39,039
Accounts payable and income taxes	69,961	(7,075)	(22,602)
Foreign exchange translation effects	16,716	(772)	9,953
	17,057	185,148	115,280
Net Funds Generated by Operating Activities	$ 172,154	$264,742	$ 9,224
Financing Activities			
Issue of long-term debt	—	—	153,725
Repayment of long-term debt	(20,279)	(35,896)	(45,183)
Deferred revenue and lease deposit	(10,675)	(10,346)	(12,493)
Issue of preferred and common shares	206,798	5,564	857
Net Funds Generated (Required) by Financing Activities	$ 175,844	$ (40,678)	$ 96,906
Investment Activities			
Joint Ventures, Development Land, Investments and Intangible Assets			
Distributions and decreases	111,365	91,432	151,105
Investments and increases	(105,968)	(82,088)	(122,956)
Intangibles arising on acquisition of subsidiaries	(121,044)	—	—
	(115,647)	9,344	28,149
Genstar Financial Corporation			
Distributions	21,740	114,284	88,402
Investments	(56,823)	(43,904)	(90,555)
	(35,083)	70,380	(2,153)
Fixed Assets			
Disposals	28,265	46,381	37,638
Additions	(180,594)	(40,348)	(66,224)
	(152,329)	6,033	(28,586)
Net Funds Generated (Required) by Investment Activities	$ (303,059)	$ 85,757	$ (2,590)

	1984	1983	1982
Net Funds Generated (Required) by:			
Operating activities	172,154	264,742	9,224
Financing activities	175,844	(40,678)	96,906
Investment activities	(303,059)	85,757	(2,590)
Dividends	(46,367)	(36,737)	(46,908)
Net Decrease (Increase) in Short-term Borrowings and Real Estate Advances	$ (1,428)	$273,084	$ 56,632
Net Decrease (Increase) Consists of:			
Short-term borrowings	(27,585)	184,014	151,403
Real estate advances	26,157	89,070	(94,771)
	$ (1,428)	$273,084	$ 56,632

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 1984, 1983 and 1982
(thousands of Canadian dollars)

	1984	1983	1982
Balance—Beginning of Year	383,099	316,796	448,000
Net income (loss) for the year	131,753	103,040	(84,296)
	514,852	419,836	363,704
Dividends—preferred shares	19,605	14,848	19,234
—common shares	26,762	21,889	27,674
	46,367	36,737	46,908
Share issue expenses (net of related income taxes)	2,721	—	—
	49,088	36,737	46,908
Balance—End of Year	$465,764	$383,099	$316,796

The accompanying notes are an integral part of these financial statements.

1. Business Combination

During the third quarter, GSX Corporation (GSX), a subsidiary of the company, and a partner successfully completed a cash tender offer for the outstanding shares of SCA Services, Inc. (SCA), a company engaged in providing waste disposal services to commercial, industrial and residential customers.

In accordance with an agreement between GSX and its partner, GSX contributed initially 40% of the cost of acquiring SCA subject to a maximum of $264,000,000 (U.S. $200,000,000) plus (i) the fair market value of certain non-operating assets of SCA that GSX elects to acquire and (ii) the value of certain assets of the partner that GSX has also agreed to acquire. At December 31, 1984 GSX has provided for preliminary contributions of $264,000,000 toward such costs. Based upon the final distribution of assets to GSX and the results of a valuation of the individual SCA operations that is being performed pursuant to the agreement, the share of the total acquisition costs to be borne by GSX will be adjusted. In addition, if GSX elects to dispose of any SCA business within nine months of the acquisition date, the partner is obligated to make up any shortfall between the sales price and the portion of GSX's total contribution allocated to that business.

The financial statements include the results of operations of the SCA businesses initially distributed to GSX from September 21, 1984. Details of the acquisition, which has been accounted for on the purchase basis of accounting, are as follows:

	(thousands of dollars)
Net tangible assets acquired at the book value of SCA	117,310
Allocation of purchase price premium:	
Tangible assets, primarily land and landfill sites	26,830
Identifiable intangible assets	44,620
Residual intangible assets arising from the acquisition	75,240
Total consideration	$264,000

The purchase price allocation to tangible assets is being amortized straight-line over the remaining useful lives of 10 to 15 years for the depreciable portion of those assets. Intangible assets arising from the acquisition are being amortized straight-line over 15 years for identifiable and 40 years for residual intangibles.

Assuming that the acquisition had taken place on January 1, 1983, that the required amortization of excess purchase price remained unchanged, and that the purchase was financed by bank borrowings at an average cost of 11.8% for 1983 and 13.1% for 1984, the theoretical pro-forma consolidated results of Genstar's operations would have been as follows:

	1984	1983
	(thousands of dollars)	
Revenues	$2,096,600	$2,016,000
Net Income	128,800	91,200
Net income per share		
Canadian method		
—basic	$3.47	$2.45
—fully diluted	3.30	2.39
United States method		
—primary	3.30	2.39
—fully diluted	3.30	2.39

The theoretical pro-forma consolidated results of operations, as presented above, is not necessarily indicative of either the results of operations that would have occurred had the acquisition taken place on January 1, 1983 or of the company's future consolidated results of operations.

The acquisition of the company's share of SCA's operations resulted in the following changes in financial position:

	(thousands of dollars)
Increase in fixed assets	122,169
Increase in intangible assets	119,860
Increase in operating working capital	21,971
	$264,000

2. Inventories

	1984	1983
	(thousands of dollars)	
Finished goods	78,298	72,300
Work in process	53,373	35,800
Raw materials, supplies and repair parts	67,338	61,188
Land	291,131	324,235
	$490,140	$493,523

3. Joint Ventures, Development Land and Investments

	1984	1983
	(thousands of dollars)	
Joint ventures (Note 4)	66,654	57,633
Development land	70,838	41,950
Mortgages and loans receivable	43,793	44,845
Portfolio securities—marketable	33,347	21,333
Portfolio securities—non-marketable	49,084	47,887
Development property subsidiary	—	44,307
	$263,716	$257,955

Mortgages and loans receivable include $19,300,000 at December 31, 1984, and $21,800,000 at December 31, 1983, related to land and housing sales with interest rates of 8.7% to 18%. The remaining amounts relate primarily to balances on asset sales and stock purchase plans.

The market value of portfolio securities-marketable, which consist principally of marketable venture capital investments, was $74,400,000 and $122,000,000 at December 31, 1984 and 1983, respectively. Gain on sales of these securities, determined on the basis of average cost, was $18,037,000, $56,639,000 and $24,928,000 in 1984, 1983 and 1982, respectively.

Additional venture capital investments are included in Genstar Financial Corporation, a wholly-owned subsidiary accounted for on the equity method. These investments had a market value of $28,600,000 at December 31, 1984.

At December 31, 1983, the development property subsidiary consisted of land and properties under development at a cost of $80,507,000 net of secured and unsecured debt of $36,200,000, which were held for sale. As a substantial portion of the properties intended for sale were sold in 1984, the remaining assets and liabilities have been consolidated at December 31, 1984.

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.

	1984	1983	1982
	(thousands of dollars)		
Operations			
Revenues	198,230	316,591	336,569
Expenses	209,253	380,317	442,493
Loss before income taxes	$ (11,023)	$ (63,726)	$(105,924)
Allocation of Income (Loss)			
Other partners	3,366	(40,941)	(59,644)
Company	(14,389)	(22,785)	(46,280)
	$ (11,023)	$ (63,726)	$(105,924)

	1984	1983
	(thousands of dollars)	
Net Assets Employed		
Accounts and loans receivable and other assets	79,186	121,963
Fixed assets	16,227	41,552
Land, real estate under development and other inventories	469,042	460,942
	564,455	624,457
Accounts payable and other liabilities	45,935	78,337
	$ 518,520	$ 546,120
Financed by		
Mortgages and loans payable	414,960	483,982
Equity and advances by other partners	59,402	13,171
Equity and advances by the company	44,158	48,967
	$ 518,520	$ 546,120

	1984	1983
	(thousands of dollars)	
Reconciliation of Investment in Joint Ventures		
Equity and advances by the company (as above)	44,158	48,967
Deferred profit between joint ventures and the company	(3,152)	(3,982)
Provision for future losses on joint ventures	(2,391)	(2,173)
Other asset basis differences	4,789	1,069
Total investment in joint ventures	$ 43,404	$ 43,881
Comprised of:		
Long-term investment in joint ventures	66,654	57,633
Current portion of investment in joint ventures included in accounts receivable	(23,250)	(13,752)
	$ 43,404	$ 43,881

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, 1984 for the other partners' share of liabilities of $50,500,000 should the other partners not be able to satisfy them, as well as for its own share of $50,000,000 compared to $41,200,000 and $43,800,000, respectively, at December 31,1983.

As a limited partner in other ventures, the company is a guarantor of partnership liabilities of $16,500,000 at December 31, 1984 compared to $32,800,000 at December 31, 1983. Under certain partnership agreements, the company is also committed to make additional investments of $6,400,000.

In addition, the company has agreed to purchase land from a partnership in sufficient quantities to enable the partnership to meet principal and interest requirements for $101,600,000 of loans if the partnership is unable to do so from its own resources. During 1984, the company purchased 575 acres of land for approximately $6,800,000 under this agreement. These loans bear interest at 9.75%, mature to 1993 and require the following payments of principal over the next five years:

1985-$12,100,000 1986-$12,000,000
1987-$12,000,000 1988-$12,000,000
1989-$11,900,000

5. Fixed Assets

	1984		1983	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(thousands of dollars)			
Properties	43,167	—	35,669	—
Buildings	270,737	113,883	245,745	98,302
Quarries, gravel deposits and landfill sites	96,541	22,515	54,004	14,610
Machinery and equipment	1,250,531	608,212	1,064,925	461,827
	$1,660,976	$ 744,610	$1,400,343	$ 574,739

Included in fixed assets at December 31, 1984 is construction in progress of $19,000,000 with an estimated cost to complete of $10,000,000. Information concerning fixed assets held under capitalized leases is provided in Note 15.

6. Investment in Genstar Financial Corporation

Genstar Financial Corporation (GFC) and its subsidiaries are engaged primarily in mortgage lending, retail and commercial banking, mortgage banking, fiduciary services, venture capital investments, leveraged leasing, real estate sales brokerage, leasing of transportation containers and rental of electronic test and measurement equipment.

The following summary presents the combined operations and financial position of GFC:

Consolidated Balance Sheets	1984	1983
	(thousands of dollars)	
Assets		
Cash and term deposits	977,315	950,294
Securities	877,580	596,818
Loans	5,463,911	5,106,698
Properties and equipment	486,820	415,595
Advances to affiliates	26,662	15,689
Accrued interest and other assets	247,956	177,639
Intangible assets arising from acquisitions	151,627	162,736
	$8,231,871	$7,425,469
Liabilities		
Deposits, debentures and guaranteed investment certificates	6,648,318	6,096,669
Advances from affiliates	14,204	24,971
Other liabilities	1,017,464	840,570
	7,679,986	6,962,210
Shareholder's Equity		
Common shares and contributed surplus	397,379	351,689
Retained earnings	147,982	111,570
Unrealized foreign exchange translation	6,524	—
	551,885	463,259
	$8,231,871	$7,425,469

Notes to Consolidated Financial Statements
(continued)

Consolidated Statements of Income

	1984	1983	1982
	(thousands of dollars)		
Revenues			
Investment income	862,175	808,313	878,997
Fees and other revenues	371,819	325,913	226,714
	1,233,994	1,134,226	1,105,711
Expenses			
Interest expense	763,297	699,657	772,370
Other expenses	359,185	341,278	270,382
	1,122,482	1,040,935	1,042,752
Income before income taxes	111,512	93,291	62,959
Provision for income taxes	18,800	9,600	10,500
Net Income for the Year	$ 92,712	$ 83,691	$ 52,459

Reported net income of GFC's subsidiaries, principally Canada Permanent Mortgage Corporation, is adjusted to reflect amortization of purchase price allocations to financial assets and liabilities, properties and equipment and intangible assets. The effect of this amortization decreased subsidiaries' reported net income by $10,600,000 in 1984 and increased net income by $6,500,000 and $16,900,000 in 1983 and 1982, respectively.

A reconciliation of the equity of GFC to the consolidated investment in GFC is as follows:

	1984	1983
	(thousands of dollars)	
Shareholder's equity as above	551,885	463,259
Advances (to) from affiliates (net)	(12,458)	9,282
	539,427	472,541
Elimination of unrealized inter-company gains	(7,033)	(18,166)
Investment in Genstar Financial Corporation	$532,394	$454,375

7. Intangible Assets

	1984	1983
	(thousands of dollars)	
Non-amortizable intangible assets	31,929	31,929
Amortizable intangible assets and debt discount (net)	136,687	15,438
	$168,616	$ 47,367

Intangible assets represent the excess of cost over the fair value of net tangible assets acquired. Debt discount represents the difference between the present value of debt assumed, based upon then current market interest rates, and the present value of debt assumed based upon stated interest rates.

Amortizable intangibles are those arising subsequent to November 1, 1970 and are being amortized to income over periods up to forty years. Unamortized intangible assets are charged to income in the event of a permanent diminution in value.

As more fully described in Note 1, the acquisition of 40% of SCA Services, Inc. during 1984 resulted in an increase of $119,860,000 in amortizable intangible assets.

8. Real Estate Advances

Included in real estate advances is $50,004,000 at December 31, 1984 and $53,474,000 at December 31, 1983 representing the outstanding balances of the purchase price of development lands which are payable over periods up to five years. The remaining advances of $12,034,000 at December 31, 1984 and $34,721,000 at December 31, 1983 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. Interest rates on these advances range from 7% to 15.5%.

9. Long-term Debt

	1984		1983	
Fixed Interest Rate Debt	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
Debentures				
9% convertible due in 1985*	4,955	4,955	—	4,674
6½% convertible due in 1988*	—	5,314	—	9,036
17½% due in 1989*	—	98,967	—	93,344
10% due to 1989*	—	51,468	363	52,466
14¾% due to 1991*	2,772	57,684	2,614	57,021
7% due in 1991**	—	50,800	—	57,110
11¾% due to 1995	—	14,871	83	16,583
11% sinking fund due to 1996*	—	23,601	681	28,639
11¼% due to 1996	—	34,490	325	37,825
10¾% due to 1999	2,000	46,000	2,000	48,000
	9,727	388,150	6,066	404,698
Capital Lease Obligations (Note 15)				
5¾% to 12% revenue bonds due to 1999*	211	21,832	11,024	27,882
7½% to 18½% building and equipment leases due to 1992*	2,042	4,852	3,882	7,622
	2,253	26,684	14,906	35,504
11% Term Bank Loan Due to 1989*	—	25,410	—	23,780
Non-Interest Bearing to 17% Notes, Mortgages and Debentures Due to 2007*	4,300	41,868	2,223	21,786
Total Fixed Interest Rate Debt	16,280	482,112	23,195	485,768
Variable Interest Rate Debt				
Term Bank Loan				
9⅝% to 16⅛% due in 1987*	—	54,178	—	51,020
Debenture				
Due to 1994 at a rate approximating prime*	—	200,000	—	200,000
Total Variable Interest Rate Debt	—	254,178	—	251,020
	16,280	736,290	23,195	736,788
Current Portion	—	16,280	—	23,195
Long-term Debt	$ 16,280	$720,010	$ 23,195	$713,593

*All or partly payable in U.S. dollars. **Payable in Swiss Francs.

All debentures except the 9% convertible debentures due in 1985, the 6½% convertible debentures due in 1988 and the 11% debentures due to 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, all of the company's retained earnings were available for common share dividends at December 31, 1984.

Installments due on long-term debt (excluding capital leases) required in the next five years are summarized as follows:

	Long-term debt
	(thousands of dollars)
1985	$ 14,027
1986	12,559
1987	101,294
1988	56,826
1989	59,755

10. Redeemable Preferred Shares

Shares Authorized

Preferred—*5,000,000 shares authorized without nominal or par value issuable in series and designated as follows:*

—457,978 Series A voting shares of the stated value of $20.00 each bearing dividends at $1.10 each.
—1,205,970 Series B voting shares of the stated value of $20.00 each bearing dividends at $1.20 each.
—1,726,476 Series D voting convertible shares of the stated value of $20.00 each bearing dividends of $1.50 each.

Second Preferred—*20,000,000 shares authorized without nominal or par value issuable in series and designated as follows:*

—1,000,000 Series A non-voting 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.
—4,000,000 Series D non-voting convertible shares of the stated value of $25.00 each bearing cumulative floating rate dividends of the greater of 8% or 66.67% of the Canadian prime rate of interest and subject to a maximum rate of 14%.
—4,000,000 Series E non-voting shares of the stated value of $25.00 each bearing cumulative dividends of $2.375 each.
—2,000,000 Series SP voting convertible shares of stated values determined at date of issue bearing non-cumulative dividends at various rates.

Issued and Fully Paid	1984		1983		1982	
	Shares	Amount	Shares	Amount	Shares	Amount
			(thousands)			
Redeemable						
Preferred shares						
—Series A & B	38	775	—	—	—	—
Second preferred shares						
—Series A	1,000	120,000	1,000	120,000	1,000	120,000
—Series E	4,000	100,000	—	—	—	—
	5,038	$220,775	1,000	$120,000	1,000	$120,000
Convertible Redeemable						
Preferred shares						
—Series A & B	—	—	39	781	190	3,793
—Series D	15	291	15	304	18	363
Second preferred shares						
—Series B	210	5,130	210	5,130	211	5,157
—Series C	2,976	93,754	2,976	93,754	2,977	93,770
—Series D	4,000	100,000	—	—	—	—
—Series SP	627	5,890	552	4,900	485	3,785
	7,828	$205,065	3,792	$104,869	3,881	$106,868
Convertible Redeemable Issued						
Beginning of year	3,792	104,869	3,881	106,868	4,146	111,068
Issued in the year						
—Series D at $25.00	4,000	100,000	—	—	—	—
—Series SP at U.S. $9.06 to U.S. $12.62	82	1,052	76	1,184	497	3,842
	7,874	205,921	3,957	108,052	4,643	114,910
Series A and B (expiration of conversion option)	(38)	(775)	—	—	—	—
Converted to common shares	(8)	(81)	(163)	(3,165)	(11)	(210)
Series SP redeemed	—	—	(2)	(18)	(751)	(7,832)
End of year	7,828	$205,065	3,792	$104,869	3,881	$106,868

Under the terms of the second preferred share issue agreements, no preferred shares ranking higher than the second preferred shares can be issued without the consent of the second preferred shareholders.

The Series A second preferred shares bear cumulative variable-rate dividends based on the London Inter-Bank Offered Rate. As of December 31, 1984, 1983 and 1982, the dividend rates were 6.38%, 6.10% and 6.29%, respectively. At the option of the holder, the company will purchase, 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 B second preferred share is convertible into nine-tenths of a common share of the company and is redeemable at U.S. $25.00 per share.

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 issue in 1980 a total of 23,680 shares has been converted to common shares. These shares are non-redeemable prior to June 30, 1985; thereafter redeemable on or before June 30, 1986 at $33.10 per share, the price thereafter declining by $0.32 per share each 12-month period until June 30, 1990; and thereafter redeemable at $31.50 per share.

Each Series D second preferred share is convertible at any time into one common share at a price of $32.50. These shares are retractable at the holder's option on March 31,1990 at $25.00 and annually thereafter on September 30 until 1994 and will be redeemable on or after September 30, 1994 at the same price. The company may at any time purchase for cancellation all or any number of these shares at a price not to exceed the highest price offered on any stock exchange on the date of purchase.

Each Series E second preferred share is retractable at the holder's option on November 15, 1990 and annually thereafter until 1994 at $25.00 and will be redeemable on or after November 15, 1990 at the same price.

11. Common Shares and Contributed Surplus

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

Issued and Fully Paid	1984		1983		1982	
	Shares	Amount	Shares	Amount	Shares	Amount
			(thousands)			
Common shares, beginning of year	**31,359**	**295,786**	30,878	288,223	30,589	283,166
Issued in the year						
—At $10.00 to $31.50 on the conversion of preferred shares	**8**	**81**	309	3,165	16	210
—At $5.17 to $35.32 under stock purchase plans and on the exercise of options	**169**	**4,202**	139	3,739	256	4,516
—At U.S. $16.00 to U.S. $41.00 in exchange for convertible debentures	**202**	**4,265**	33	659	17	331
Common shares, end of year	**31,738**	**304,334**	31,359	295,786	30,878	288,223
Contributed surplus	**—**	**8,552**	—	8,552	—	8,552
	31,738	**$312,886**	31,359	$304,338	30,878	$296,775

Common Shares Reserved for Issuance	1984	1983	1982
		(thousands of shares)	
Series A and B convertible preferred shares	**—**	—	380
Series D convertible preferred shares	**29**	30	36
Series B convertible second preferred shares	**189**	189	190
Series C convertible second preferred shares	**2,976**	2,976	2,977
Series D convertible second preferred shares	**4,000**	—	—
Series SP convertible second preferred shares	**515**	619	454
Convertible debentures	**343**	546	578
Exercise of options	**199**	156	138
	8,251	4,516	4,753

1965 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 50,000, 50,000, and 56,000 common shares at December 31, 1984, 1983 and 1982, respectively. There were 20,000 options granted during the year ended December 31, 1982. No options were granted in 1984 or 1983. Option prices from inception of the plan have ranged from $11.99 to $15.75. Of the 50,000 options outstanding at December 31, 1984, 38,000 are currently exercisable.

1982 Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price equal to 100% of market as of the date of grant. Employees, some of whom were also officers, held options for 149,070, 105,690 and 81,795 common shares at December 31, 1984, 1983 and 1982, respectively. The number of options granted during the years ended December 31, 1984, 1983 and 1982 were 55,825, 44,050 and 81,795, respectively. Option prices from inception of the plan have ranged from U.S. $10.88 to U.S. $25.57. Of the 149,070 options outstanding at December 31, 1984, 93,245 are currently exercisable.

1969 Stock Purchase Plan

Under the terms of the 1969 Stock Purchase Plan, trustees have purchased, at approximately 99% of market, 20,925 common shares for the benefit of employees who are officers and 196,655 common shares for the benefit of other employees. The participants pay $10.83 to $42.14 for the 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. During 1984, 65,275 shares were issued.

1979 Stock Purchase Plan

Under the terms of the 1979 Stock Purchase Plan, Series SP second preferred shares were issued to employees at a price equal to the conversion value as of the date of grant. The SP shares are convertible into common shares pursuant to a conversion formula based on market value. Employees, some of whom were also officers and directors, held 626,500 Series SP second preferred shares at December 31, 1984. The participants pay U.S. $5.48 to U.S. $12.62 for the shares over a period of ten years together with interest currently set at 9% per annum. Non-cumulative dividends are paid at the annual rate of U.S. $0.66 to U.S. $1.51 per share. During 1984, 81,650 shares were issued.

12. 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		
	1984	1983	1982	1984	1983	1982
	(thousands)					
Basic and Primary						
Weighted average common shares	31,473	31,221	30,653	31,473	31,221	30,653
Share equivalents pertaining to						
—conversion of preferred shares	—	—	—	3,633	3,730	—
—conversion of debt	—	—	—	494	553	—
—options and warrants	—	—	—	18	39	—
	31,473	31,221	30,653	35,618	35,543	30,653
Fully Diluted						
Weighted average common shares	31,473	31,221	30,653	31,473	31,221	30,653
Shares pertaining to						
—conversion of preferred shares	3,701	3,793	—	3,701	3,793	—
—conversion of debt	494	553	—	494	553	—
—options and warrants	20	44	—	20	44	—
	35,688	35,611	30,653	35,688	35,611	30,653

Basic and primary income per common share have been calculated after reducing net income by the preferred share dividend entitlement of $19,729,000 in 1984, $14,774,000 in 1983 and $18,689,000 in 1982. Net income was increased for purposes of calculating primary income per common share by $8,435,000 in 1984 and $8,417,000 in 1983, being the effect on income available for common shares of preferred dividends and the after-tax interest assumed on convertible debt.

In determining fully diluted income per common share, net income has been reduced by $11,761,000 in 1984, $6,840,000 in 1983 and $18,689,000 in 1982, being the dividends on outstanding non-convertible preferred shares, and increased by $489,000 in 1984 and $505,000 in 1983, being the after-tax effect of interest assumed on convertible debt.

In 1982, the weighted average number of common shares used to calculate primary and fully diluted income per common share has not been increased for the potential effects of conversion of options, preferred shares or debt, as this would reduce the calculated loss per common share.

13. Income Taxes

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

	1984	1983	1982
	(thousands of dollars)		
Income (Loss) Before Income Taxes			
Canada	(38,656)	(24,961)	(25,669)
United States	11,040	(6,885)	(289,790)
Other	140,869	131,886	130,763
	$ 113,253	$ 100,040	$(184,696)
Provision for Current Income Taxes			
Canada	2,500	11,200	(5,400)
United States	1,600	34,900	(5,500)
Other	7,400	8,000	3,200
	$ 11,500	$ 54,100	$ (7,700)
Provision for Deferred Income Taxes			
Canada	(38,400)	(44,300)	(22,400)
United States	8,400	(12,800)	(70,300)
	$ (30,000)	$ (57,100)	$ (92,700)

The components of the deferred tax provision are as follows:

	1984	1983	1982
	(thousands of dollars)		
Additional depreciation for tax purposes	17,600	2,600	6,400
Losses available to reduce future taxable income	(56,700)	(61,900)	(30,000)
Portion of real estate and joint venture income deferred (recognized) for tax purposes	—	(2,000)	(1,400)
Amortization of (benefit from) excess tax value of assets available to reduce future taxable income	8,400	5,200	(69,700)
Other	700	(1,000)	2,000
	$ (30,000)	$ (57,100)	$ (92,700)

The company's effective income tax rates are as follows:

	1984	1983	1982
Canadian and United States federal income tax rates	46.0%	46.0%	(46.0)%
Provincial and state income taxes, net of federal deductions	(1.5)	3.8	(1.6)
Effects of investment incentives net of recapture	2.9	3.8	6.7
Reduced rate on capital gains and other income	(0.2)	(1.9)	6.4
Inter-unit interest income taxed at reduced rates	(36.0)	(35.7)	(30.3)
Losses available to reduce future tax provisions	4.2	11.2	15.0
Equity net income and non-taxable foreign income	(42.4)	(36.7)	(12.6)
Amortization of acquisition purchase price allocations	11.4	7.7	6.7
Other	(0.7)	(1.2)	1.3
	(16.3)%	(3.0)%	(54.4)%

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

Losses of $323,000,000 are available to reduce future United States taxable income in years up to and including 1999. Tax recoveries have not been recorded on $139,000,000 of these losses. In addition, as a result of a merger of certain subsidiaries in 1982, the tax value of United States assets exceeds book amounts by $109,000,000 which is available to reduce future taxable income.

Income taxes have not been provided on undistributed income of certain foreign subsidiaries as such income is being reinvested in foreign operations. At December 31, 1984, $365,000,000 of such undistributed income, if distributed as dividends, would be subject to income tax at 46%.

14. Unrealized Foreign Exchange Translation

An analysis of the changes in the unrealized foreign exchange translation account follows:

	1984	1983
	(thousands of dollars)	
Balance—beginning of year	34,300	32,700
Translation adjustments	45,300	1,600
Balance—end of year	$79,600	$34,300
Realized foreign exchange gain (loss) included in income	$ (200)	$ 400
Unrealized foreign exchange gain included in income	$ 1,200	$ 4,100
Canadian equivalent of one United States Dollar (year-end rate)	$ 1.320	$ 1.245

15. Leased Assets and Lease Commitments

The company leases equipment, manufacturing facilities and premises under both operating and capital leases. Properties, plants and equipment include the following amounts for leases that have been capitalized:

	1984	1983
	(thousands of dollars)	
Buildings	9,600	13,000
Machinery and equipment	35,300	47,100
	44,900	60,100
Less: accumulated depreciation	22,500	30,700
	$22,400	$29,400

Amortization of capital leases is included in interest and depreciation expense. Capitalized leases include facilities under lease-purchase option. The leases require annual payments equal to the servicing and redemption requirements on municipal bonds that financed the construction of the facilities. The company has the option to purchase the facilities for an amount sufficient to redeem all outstanding bonds, plus a premium, or for $1 once all bonds have been redeemed.

Future minimum payments under capital leases and non-cancellable operating leases for equipment and premises are as follows:

	Operating Leases	Capital Leases
	(thousands of dollars)	
1985	27,500	4,400
1986	21,800	3,400
1987	18,700	2,900
1988	15,200	2,900
1989	13,300	3,000
Subsequent years' lease payments	44,000	22,800
Total lease payments	$140,500	39,400
Imputed interest		12,716
Present value of minimum lease payments included in long-term debt		$ 26,684

Rent expense from operating leases for the years ended December 31, 1984, 1983 and 1982, was $28,800,000, $28,500,000 and $35,900,000, respectively.

16. Pension Plans

The company and its subsidiaries have a number of defined benefit pension plans in 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.

The most recent actuarial valuations of the pension plans were made as at January 1, 1984 using assumed returns on pension plan assets ranging from 6% to 8.5%.

Pension expense was $1,000,000 and $4,900,000 in 1984 and 1983, respectively. In 1982, pension expense was a net credit to income of $3,000,000 resulting from excess prior contributions withdrawn from the plans offset by the year's normal pension expense. Pension plan expense in the United States includes actuarially determined prior service costs being amortized over periods up to 30 years.

The results of the valuation of the Canadian and United States plans as at January 1, 1984 follow:

Canadian Plans

Assets with a market value of $107,400,000 were available in the Canadian plans, compared to the present value of accumulated plan benefits of $61,300,000. The accumulated plan benefits calculation was based on the value of future accrued benefits at retirement and accordingly assumed 100% vesting of participants.

In addition, Canada Permanent Mortgage Corporation, a subsidiary accounted for on the equity method, has a separate employee pension plan. Assets with a market value of $74,448,000 were available in this plan, compared to the present value of plan benefits of $58,723,000. There was no pension expense recorded in 1984 and 1983 for this plan due to overfunding in prior years. Pension expense recorded in 1982 was $2,300,000.

United States Plans

Effective December 31, 1984, the company restructured the pension plan covering substantially all of its United States salaried employees. In connection therewith, the existing plan was discontinued and replaced by a new defined benefit plan providing increased benefits. Regulatory approvals from the Pension Benefit Guarantee Corporation and the Internal Revenue Service are being requested. Upon discontinuance of the existing plan, the accumulated plan benefits of all participants have become fully vested. Once regulatory clearance is received, the trustee of the plan will segregate funds sufficient to guarantee payment to participants of their accumulated benefits and refund the residual assets to the company. As at the January 1, 1984 valuation, the discontinued plan had assets with a market value of $102,100,000 compared with the present value of accumulated plan benefits of $47,900,000.

Other U.S. plans, mainly those covering hourly employees, had a market value of $43,400,000 compared with the present value of accumulated plan benefits of $44,000,000. The accumulated plan benefit calculation was based upon the value of currently accrued benefits payable at retirement and included $41,700,000 of currently vested benefits.

17. Litigation

Asbestos

Commencing in November 1971, a subsidiary has been named as one of a large number of defendants in numerous actions filed by individuals who seek damages based on the alleged inhalation of asbestos fibers from products allegedly made and sold by such defendants ("Personal Injury Claims").

Prior to 1984, the subsidiary treated as separate claims certain multiple claims made by one "family unit". If one member of a family claimed personal injury as a result of alleged inhalation of asbestos fibers (the "injured family member") and other family members made claims derived from the alleged inhalation by the injured family member (in contrast to multiple claims within one family for separate alleged inhalation of asbestos fibers), the subsidiary, before 1984, treated each claim by a family member as a separate claim. On this basis, the cumulative number of Personal Injury Claims filed, disposed of and pending was as follows:

	Cumulative Claims		
At December 31	Filed	Disposed	Pending
1981	10,193	2,495	7,698
1982	13,440	3,049	10,391
1983	16,422	3,668	12,754

In conformity with practices understood to have been adopted by many producers of asbestos-related products and their insurers, the subsidiary, commencing in 1984, treats as a single claim ("single claim basis") all claims made by members of a single family that derive from alleged inhalation of asbestos fibers by the injured family member. At December 31, 1984, on a single claim basis, the cumulative number of Personal Injury Claims filed, disposed of and pending was 12,300, 3,256, and 9,044, respectively. The subsidiary no longer maintains records that would allow it to present 1984 information in accordance with the prior practice.

At December 31, the approximate cumulative cost of defending the Personal Injury Claims was U.S. \$8,800,000 in 1984, U.S. \$8,600,000 in 1983 and U.S. \$6,800,000 in 1982. Such cumulative costs are comprised of amounts paid or committed to be paid by the subsidiary in respect of payments to plaintiffs in settlements, legal fees for defending claims and reimbursement of amounts to insurance companies for legal fees and other costs of defending such claims. These costs do not include payments made by the subsidiary's insurance carriers as hereinafter described. The subsidiary and its insurance carriers are litigating the ultimate responsibility for all costs.

The subsidiary, along with a number of other producers of asbestos-related products, also has been named as a defendant in a number of cases in which the plaintiffs allege that the presence in buildings of certain building materials, containing asbestos allegedly manufactured or sold by such producers, constitutes a health hazard ("Building Claims"). These plaintiffs seek either monetary damages or court orders compelling the defendants, at their costs, to remove asbestos products from the buildings or to otherwise make them safe and, in some cases, to finance programs to monitor the health of persons exposed to asbestos. Several plaintiffs seek to represent different classes, and one court has certified a class consisting of all public and private schools in the United States.

Although the subsidiary is unable to estimate reliably the number of Personal Injury and Building Claims that will be made in the future, based on its historical experience, the subsidiary anticipates that a significant number of additional such claims may be made against it. The subsidiary no longer manufactures or sells any products containing asbestos.

The litigation described above has been and is being defended by insurance carriers, subject to the deductibles or retentions and dollar or policy limits applicable to each insurance policy and to disputes concerning coverage. One of the subsidiary's insurers has agreed, under a reservation of rights, to defend and to pay for costs of settlements or satisfaction of judgements for Personal Injury Claims pending as of October 1, 1982 or brought after such date and arising out of any alleged asbestos exposure that occurred prior to July 1976. Such insurer and another insurer have agreed, under a reservation of rights, to pay the costs of defending Building Claims.

There is a difference in views between the subsidiary and its insurance carriers as to whether policy coverage is determined during the period from the time the plaintiff was exposed to asbestos until the plaintiff's injury was manifested, at the time of manifestation or some other time. The subsidiary and its insurers are litigating this issue in several proceedings which are in their preliminary stages. The subsidiary believes that whether an exposure or a manifestation theory is determinative, it has sufficient insurance coverage against pending claims. However, the amounts that the subsidiary would be required to contribute under various applicable policies may vary depending upon the theory adopted in any particular court.

Although the amount of liability with respect to Personal Injury and Building Claims cannot be ascertained, any resulting liability from pending Personal Injury and Building Claims, in the opinion of management, will not materially affect the company's consolidated financial position.

Other

In 1981, legal proceedings against Guaranty Trust Company of Canada ("Guaranty") and others were commenced in British Columbia and in Alberta, alleging, among other things, that Guaranty, as trustee under a trust indenture, acted improperly in appointing a receiver and manager of the assets of Abacus Cities Ltd., now in bankruptcy. A Genstar subsidiary, one of the holders of debentures issued under the trust indenture, pursuant to the terms thereof, has agreed, along with other holders, to indemnify Guaranty on a proportionate basis (50%). Damages claimed against all defendants in the Alberta action total approximately \$300,000,000, while the action in British Columbia is for an unspecified amount. Guaranty is defending these actions, and Guaranty's counsel has advised the subsidiary that Guaranty has a good defense to all such actions.

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

18. Additional Information

Reclassification of Comparative Figures

Certain 1982 and 1983 amounts have been reclassified to conform with the 1984 presentation.

Capitalized Interest Costs

Interest costs, related primarily to revenue property development and real estate joint ventures 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 increased by $20,800,000 in 1984, remained unchanged in 1983, and been reduced by $3,800,000 in 1982.

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.

Canada Permanent Mortgage Corporation (CPMC), as a trust and loan institution, is regulated by various Canadian federal and provincial legislation, the federal portion of which is administered by the Superintendent of Insurance, Canada, under broad powers granted by the legislation. Regulatory approval would be required for any loan from CPMC to the company or affiliates of the company. The leverage of trust and loan companies is also regulated under the legislation, limiting the size of CPMC's deposits to 25 times its capital as defined by statute. Under these regulations, at December 31, 1984, $11,500,000 of CPMC's retained earnings was available for dividends. On January 25, 1985 CPMC entered into an agreement for the sale of 1,940,000 Series C preference shares for total proceeds of $48,500,000 before deducting expenses of the issue estimated in the aggregate at $1,700,000. If this issue had taken place in 1984, $58,300,000 of CPMC's retained earnings would have been available for dividends.

Trust indentures relating to $51,200,000 of the long-term debt of a subsidiary 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 $246,000,000 of the subsidiary'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 of loans to the partners. At December 31, 1984, $27,700,000 of consolidated retained earnings represent unremitted income of joint ventures.

19. Summarized Quarterly Financial Data (Unaudited)

	Three Months Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
1984	(thousands of dollars)				
Revenues	$331,705	$519,434	$508,203	$563,459	$1,922,801
Gross profit	75,315	148,855	143,165	173,095	540,430
Net income (loss)	(3,809)	44,464	44,770	46,328	131,753
Net income (loss) per common share					
—basic	$ (0.25)	$ 1.29	$ 1.29	$ 1.23	$ 3.56
—primary	(0.25)	1.27	1.21	1.15	3.38
Market price (The Toronto Stock Exchange)					
—high	$ 31.50	$ 24.38	$ 26.88	$ 28.50	$ 31.50
—low	23.25	19.38	19.75	23.50	19.38
—closing price, December 31					26.75
Trading volume on exchanges in	(thousands of shares)				
—Canada	1,911	1,537	2,357	2,048	7,853
—United States	2,334	2,094	2,285	2,475	9,188

	Three Months Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
1983	(thousands of dollars)				
Revenues	$330,239	$484,665	$531,616	$480,218	$1,826,738
Gross profit	83,039	124,356	172,782	129,394	509,571
Net income (loss)	(4,950)	25,286	62,144	20,560	103,040
Net income (loss) per common share					
—basic	$ (0.29)	$ 0.70	$ 1.89	$ 0.53	$ 2.83
—primary	(0.29)	0.69	1.79	0.53	2.72
Market price (The Toronto Stock Exchange)					
—high	$ 25.63	$ 38.75	$ 36.25	$ 31.25	$ 38.75
—low	20.25	24.13	27.75	23.63	20.25
—closing price, December 31					31.00
Trading volume on exchanges in	(thousands of shares)				
—Canada	1,766	2,248	1,389	1,360	6,763
—United States	3,313	5,344	3,575	3,056	15,288

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

	1984	1983	1982	1981	1980
Average Canadian Consumer Price Index (1981=100 per Statistics Canada)	122.2	117.2	110.8	100.0	88.9
Revenues (millions of dollars)					
—as reported	$1,923	$1,827	$1,760	$2,146	$2,310
—in constant dollars	1,923	1,905	1,941	2,622	3,176
Dividends per common share					
—as reported	$ 0.85	$ 0.65	$ 0.90	$ 1.80	$ 1.65
—in constant dollars	0.85	0.68	0.99	2.20	2.27
Market price per common share at year end					
—historical amount	$26.75	$31.00	$20.25	$23.38	$38.62
—in constant dollars	26.36	31.68	21.63	27.29	50.54

Overview

The average Consumer Price Index (CPI) in Canada increased by 4.3% in 1984, compared to increases of 5.8% in 1983 and 10.8% in 1982. The decline in the rate of price increases reflects generally lower inflation experienced in North America. In order to provide financial statement users with information as to the effects of inflation on an enterprise, guidelines for the calculation and disclosure of inflation-adjusted information have been issued by both the Canadian Institute of Chartered Accountants (CICA) and the Financial Accounting Standards Board, United States (FASB). Both the CICA and FASB prescribe a "Current Cost" computation to measure the effects of specific inflation on a company's particular businesses and the use of the CPI to calculate amounts of equivalent purchasing power by adjusting for the effects of general inflation.

The measurements concentrate on the amount of inventories and fixed assets necessary to maintain the "Operating Capability" of an entity and the effects which these amounts, restated for the effects of inflation, would have on its operations and financing.

These computations as explained hereunder, involve estimates and subjective judgments which greatly reduce comparability to actual operating conditions and the reader is cautioned accordingly.

Current Cost Inflation

The prescribed method to approximate specific inflation is to determine today's cost to replace assets with the same type as those produced or utilized by the company. The methods used to determine this theoretical cost vary depending on the industry and type of asset.

In the case of Genstar, 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 and standard costs to units on hand or the use of internal and external indices for changes in costs. Land development inventories and cost of sales have been adjusted by the Canadian or U.S. consumer price indices 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 alternative current cost.

The current cost of fixed assets of Genstar's manufacturing and industrial service operations has been determined using recent construction and purchase costs or internal, external and trade association indices. Current cost of mobile equipment was based on quoted used equipment prices, internal indices and new equipment prices factored for differences in utility. If new asset prices have been used, accumulated depreciation has been deducted for the expired useful life. Depreciation was based on average 1984 current cost and historic estimated useful lives.

Monetary assets and liabilities are restated only for the current year's general inflation. The company's investments in non-consolidated financial services subsidiaries and joint ventures have not been restated for the effects of inflation because the underlying assets and liabilities are primarily monetary in nature and therefore not subject to specific inflation.

General Inflation

The amount disclosed as "Current year adjustment for specific inflation in excess of general inflation" is the difference between the effects of general inflation and the effects of change in specific prices during the year. The Canadian CPI has been used as the measure of general inflation and has been applied to restate items from historical cost to equivalent average 1984 dollars. Foreign currency current cost amounts were translated to Canadian dollars and then restated into average 1984 dollars. A resulting translation adjustment represents the portion of the current year's increase in current cost that is due to the change in exchange rates between the foreign and Canadian currencies.

Purchasing Power Gain/Financing Adjustment

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 1984 dollars using the Canadian CPI. The resultant reduction in liabilities, assuming repayment in December 31, 1984 dollars, is the purchasing power gain. This gain can be viewed as the purchasing power decrease accruing to the lender of capital and results from using borrowed funds as a hedge against the effects of inflation on related assets.

The Canadian inflation accounting guidelines identify another allocation of the effects of inflation between the lender of capital and the common shareholder in addition to the purchasing power gain. In periods of increasing prices the company will require additional capital to offset the effect of increases in the specific prices of inventories and fixed assets and this additional capital is referred to as that necessary to maintain the operating capability of the enterprise. This capital is provided by a combination of shareholders' investments and borrowed funds. The financing adjustment represents the increase in the current cost amounts of inventories and fixed assets which theoretically would be financed by debt given the company's average debt to equity structure for the year. Using debt to finance these assets reduces the amount of the net increase in current cost that theoretically would be deducted from income attributable to shareholders.

Net Assets

The company's total assets less liabilities have been adjusted to average 1984 dollars and for the current cost/constant dollar differential of inventories and fixed assets to produce a current cost equivalent.

The resulting current cost net assets 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 contributed by shareholders or accumulated and retained from previous earnings.

Notes to Consolidated Financial Statements
(continued)

Inflation Adjusted Results

The data presented below restates certain balance sheet and income statement amounts for the impact of inflation using the methods prescribed by the CICA and FASB. Inflation adjusted 1984 net income and earnings per share after providing for preferred dividends does not include the holding gain resulting from the decline in purchasing power of net liabilities of $36,100,000 or $1.15 per common share or the Canadian "financing adjustment" of $98,200,000 or $3.12 per common share. These two amounts represented that portion of the cost of inflation borne by lenders of capital rather than by the company's shareholders. In our view, these amounts represent a reduction in financing costs, and should be netted against interest expense to determine inflation adjusted financing costs. In addition, inflation adjusted results as shown do not consider the reduction in income tax expense that would result from current cost adjustments to cost of sales and depreciation expense. Net income would be higher than historic net income for the period 1982-84 if the effects of the holding gain and the financing adjustment on total financing costs and the income tax effect of current cost adjustments were included in the inflation adjusted results.

Inventories and fixed assets on a current cost basis was $2,293,000,000 in 1984, $2,184,700,000 in 1983 and $2,508,100,000 in 1982. These current cost amounts are 55%, 55% and 53% higher than their respective historical cost amounts. In 1982 and 1983, the current cost of these assets did not increase in proportion to the general inflation rate. In 1984, their current cost increased $121,100,000 in excess of the general inflation rate. The increases are primarily related to the company's development land holdings whose current cost basis reflects stronger industry demand.

Net assets on a current cost basis were the equivalent of 164% of their historical value as at December 31, 1984, as opposed to 181% and 192% as at December 31, 1983 and 1982, respectively. This decrease reflects the company's increasing proportionate investment in assets other than inventories and fixed assets, which are not restated to reflect current cost under prescribed inflation accounting methods.

Selected 1984, 1983 and 1982 Financial Data Adjusted for the Effects of Changing Prices

(millions of dollars except per share amounts)	1984	1983	1982*
Net Income			
In average 1984 dollars	131.8	107.4	(93.0)
Current cost adjustments			
Cost of sales	48.3	25.8	43.5
Depreciation	69.0	64.1	55.1
	$ 14.5	$ 17.5	$ (191.6)
Gain from Decline in Purchasing Power of Net Liabilities			
In average 1984 dollars	$ 36.1	$ 55.2	$ 127.6
Financing Adjustment			
Current cost income adjustment attributable to debt	$ 39.8	$ 36.1	$ 39.6
Net Income (Loss) Per Common Share			
In average 1984 dollars	$ (0.16)	$ 0.06	$ (6.94)
Inventories and Fixed Assets			
As reported	1,477.3	1,405.4	1,641.0
Adjustment for general inflation	604.8	770.1	1,051.0
Current year adjustment for specific inflation in excess of (less than) general inflation:			
Current cost	121.1	(26.0)	(259.8)
Foreign exchange translation	89.8	35.2	75.9
	$2,293.0	$2,184.7	$2,508.1
Financing Adjustment			
Theoretical debt financing of annual change in current cost of assets	$ 98.2	$ 43.8	$ 22.8
Net Assets			
In average 1984 dollars	$2,102.5	$1,715.9	$1,687.9

*For the purposes of comparison 1983 and 1982 amounts have been increased for the change in the average CPI from those years to 1984. This restates 1983 and 1982 amounts to the purchasing power equivalent of average 1984 dollars.

Expressed in year-end 1984 dollars, inventories, including development land, and fixed assets calculated under the current cost method were $797,701,000 and $1,529,039,000 respectively, compared to historic cost of $560,978,000 and $916,366,000.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of GENSTAR CORPORATION and subsidiaries as at December 31, 1984 and 1983, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1984 as set forth on pages 33 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, 1984 and 1983, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants

Vancouver, Canada
March 4, 1985

DIRECTORS AND OFFICERS

DIRECTORS

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Corporate Director

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Power Corporation of Canada
(Holding Company)

**Alan F. Campney
President
Vanley Agencies Ltd.
(Investment and Services Company)

**Frank S. Capon
Consultant

August A. Franck
Corporate Director

**Donald Getty
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D. Getty Investments Ltd.
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Governor
Société Générale de Belgique, S.A.
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(Telecommunications Equipment Manufacturer)

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*W. Earle McLaughlin
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(Public Utility)

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Chairman of the Board and Chief Executive Officer
Genstar Corporation

Stephen R. Volk
Partner
Shearman & Sterling
(Attorneys at Law)

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

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Lorimer E. Whitworth
Vice President

Paul T. Coté
Secretary

DIVISIONS AND SUBSIDIARIES

FINANCIAL SERVICES

Canada Permanent Mortgage Corporation
Toronto, Ontario
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Genstar Container Corporation
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T.S. Tan, President

Genstar Mortgage Corporation
Glendale, California
E.H. Plaga, President

Genstar Rental Electronics Inc.
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TXL Corporation
San Francisco, California
R.L. Bishop, President

Sutter Hill Ventures
Palo Alto, California
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Seaspan International Ltd.
North Vancouver, British Columbia
A.M. Fowlis, President

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Genstar Lime Company
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J.L. Crawley, President

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Genstar Gypsum Products Company
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C.R. Kelley, President

Genstar Gypsum Limited
Edmonton, Alberta
G.R. Thompson, President

Genstar Roofing Products Company
Irving, Texas
R.L. Lambden, President

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Genstar Southern Development
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