Genstar Corporation

Annual Report 1985

GENSTAR

financial services, is a major manufacturer of building materials, provides specialized industrial services and is active in land and real estate development.

Annual Meeting Expo 86

The Annual and Special Meeting of Genstar shareholders will be held on Tuesday, May 6, 1986, at 10:30 a.m. at the Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia, Canada. The 1986 World Exposition on Transportation and Communications opens in Vancouver four days prior to Genstar's annual meeting, and shareholders may wish to attend. Expo 86 has attracted exhibits from 47 nations and will occupy 170 acres on the scenic Vancouver waterfront.

Corporate Information

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

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

Auditors
Coopers & Lybrand
Vancouver, British Columbia

Transfer Agents and Registrars
The Canada Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, 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 U.S.

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 U.S. 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.

Dividend Reinvestment Plan
Genstar has established an optional plan as a convenient means for holders of its registered common shares to acquire additional Genstar shares through reinvestment of cash dividends and optional cash payments. For more information, contact: The Canada Trust Company, Box 49390, Bentall Postal Station, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada V7X 1P3.

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.

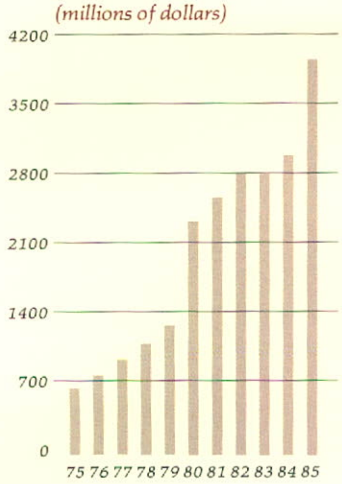
Contents

Financial Highlights

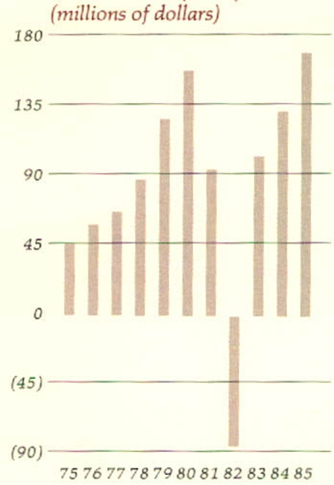
For the years ended December 31		1985	1984	1983
			(millions of Canadian dollars)	
Revenues		**$4,032**	$3,059	$2,872
Operating Income		**388**	329	300
Net Income		**171**	132	103
Dividends on Common Shares		**37**	27	22
Funds Generated by Operations		**278**	225	186
Per Common Share:				
Net Income	*Canadian Method*			
	Basic	**$4.16**	$3.56	$2.83
	Fully diluted	**3.82**	3.38	2.72
	United States Method			
	Primary	**3.82**	3.38	2.72
	Fully diluted	**3.82**	3.38	2.72
Dividends *(current annual rate : $1.36)*		**1.10**	0.85	0.65
Book Value		**30.64**	27.00	22.97
Stock Price	*Toronto Stock Exchange*			
	High	**35.38**	31.50	38.75
	Low	**26.00**	19.38	20.25
	*N.Y. Stock Exchange**			
	High	**26.13**	25.25	31.50
	Low	**19.00**	15.00	16.50
Debt-to-Equity Ratio		**60:40**	53:47	59:41

*New York Stock Exchange figures are in U.S. dollars.

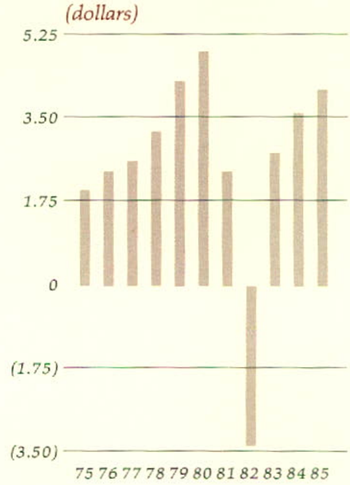
Revenues
(millions of dollars)



Net Income (Loss)
(millions of dollars)



Net Income (Loss)
Per Common Share
(dollars)



Report of the Directors

Ross J. Turner and Angus A. MacNaughton

Genstar's earnings in 1985 continued to improve as key markets remained healthy in the United States and gained strength in Canada. The company also benefited from higher levels of productivity, effective cost controls and new acquisitions.

The year was one of relatively balanced growth, with building materials manufacturing and real estate development businesses both producing substantially higher earnings and again proving their potential for strong growth under healthy economic conditions.

The company's less cyclical businesses, which have been broadened to lend greater stability to earnings and make Genstar less sensitive to interest rate fluctuations, also made major contributions to income. The financial services business, as has been the case the past four years, was the company's largest source of income. Although total contributions from financial services were somewhat lower than a year ago, when earnings had included gains on the sale of a subsidiary's head office and more venture capital transactions, the performance of trust and lending operations in Canada improved markedly in 1985. There was also a large increase in earnings from industrial services, reflecting the expansion of waste collection and disposal activities in 1984.

FINANCIAL RESULTS

Genstar's net income for the year amounted to $171 million, the highest in company history and a 30 percent increase over the $132 million earned in 1984. Net income per common share was $4.16, up 17 percent from $3.56 a year ago and the best since 1980. Revenues rose by 32 percent to $4.03 billion, compared to $3.06 billion the year before.

The overall improvement in Genstar's operating performance during 1985 was most evident at the pre-tax level, where income before income taxes amounted to $177 million, up 34 percent from $132 million a year ago. Operating income, before taxes and interest expense, was $388 million, an increase of 18 percent from $329 million in 1984.

Financing costs increased by eight percent during the year and will rise again in 1986 as the result of debt incurred with the acquisition of Canada Trustco Mortgage Company, which will be discussed in more detail later in this report. Earnings from that acquisition, however, are expected to more than cover the additional financing costs.

ACCOUNTING POLICY CHANGE

The acquisition of Canada Trustco in 1985 confirmed Genstar's commitment to financial services, which now represent over half of the company's total business, and the results of financial services operations have now been fully consolidated with those of other businesses. Results for prior years have also been restated to reflect this change. Although net income is not affected, the change in accounting policies to full consolidation has produced substantial increases in amounts previously reported for revenues as well as for several other items in the financial statements.

SIGNIFICANT DEVELOPMENTS

As part of Genstar's strategy to diversify into less cyclical businesses, the most significant event of 1985 occurred in August when Canada Trustco was acquired at a cost of $1.2 billion.

On December 31, Genstar merged Canada Trustco with another subsidiary, Canada Permanent Mortgage Corporation, and created Canada's seventh largest financial institution. The new company, which operates under the Canada Trust name, has approximately $22 billion in corporate assets, administers another $27 billion in assets that are held in trust for its clients, and is the second largest real estate brokerage firm in Canada.

The Canadian trust industry, in Genstar's opinion, is a very attractive business. (For further details on this business, please see page 8.) This acquisition and the synergies arising from the merger will also create a much larger and more dependable source of income than Genstar has enjoyed in the past.

A major priority since the acquisition has been to reduce or restructure debt associated with Canada Trustco's purchase. Of the original $1.2 billion in bank borrowings, $238 million was repaid from the proceeds of a new issue of five million Genstar common shares in September and from other sources of cash flow. Genstar Financial Corporation, a wholly-owned subsidiary, also reduced borrowings by approximately $300 million through the issue of 9% first preferred shares that are redeemable or retractable beginning in October 1990. Genstar plans to further reduce its debt by as much as $200 million in 1986 through selected asset sales which are now being actively pursued.

Other significant developments during the year included:

- the assimilation of new waste services businesses acquired in 1984, including the exercise of Genstar's option to return a small number of less desirable operations to Genstar's partner in that acquisition, and the purchase of additional waste disposal businesses in 1985.
- further expansion of financial services activities through an investment in Gordon Capital Corporation, a major Canadian investment banker and securities dealer, and the formation with Gordon Capital of a new firm to participate in specialized equity investments in both the U.S. and Canada.
- the sale of the company's Western Canadian gypsum wallboard plants, which had been under extreme competitive pressure because of a lack of company-supplied raw materials.
- the purchase of seven additional roofing product plants, an acquisition that roughly doubled roofing capacity and which should permit substantial savings in production and distribution costs in the future.
- the sale of Genstar's California housing operations, completing its withdrawal from the home-building business; real estate activities will now be largely confined to more profitable and less volatile land and income property developments.
- the modernization or expansion of several other manufacturing facilities, at a capital cost of approximately $73 million. Genstar's total capital expenditures in 1985 amounted to $247 million, an increase of 22 percent from $203 million the year before.
- a 20 percent increase in Genstar's dividend, bringing the annual rate to $1.20 per common share. In early 1986, the annual rate was further increased to $1.36.

OUTLOOK

Genstar enters 1986 a larger and less cyclical company than it was a year ago, and the performance of most operations has been improving.


GSX
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LEACH
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Solid waste reclamation activities were also expanded in 1985. The company was awarded a six-year contract with optional extensions for the construction and operation of a major new resource recovery and waste transfer facility in British Columbia. That plant, when fully operational in late 1987, will have the capacity to process approximately 250,000 tons of waste per year. GSX also opened a new 100-ton-per-day paper recycling plant in Oregon. In addition, the company broadened its market for reclaimed rubber by introducing a more finely ground grade of product and by using new production techniques that make its price more competitive with natural and synthetic materials. The operation that recovers methane gas from landfills and uses it to generate electricity also opened three more facilities in 1985, with a combined generating capacity of seven megawatts per year. Construction is now under way on a 20-megawatt unit in Southern California, the largest built thusfar.

GSX's chemical waste operations, which are concentrated in the Southeastern U.S., accounted for about 15 percent of the company's total waste services revenues and one-third of its operating income in 1985. Though not as large as the solid waste operations, the disposal of hazardous wastes has typically yielded the highest margins and is expected to be the fastest growing segment of the waste services industry.

In 1985, GSX completed major capital improvements at its secure chemical landfill and at two of its chemical transfer and service centers, positioning the company to better serve the growing needs of chemical, petroleum and other waste generating industries. In January of 1986, GSX also purchased one of the largest commercial incinerators in the U.S. for the disposal of hazardous liquid wastes. The capacity of that thermal oxidation unit was doubled immediately after its acquisition, and it is now capable of incinerating 75 million pounds of waste a year.

The waste services industry in general has historically been a fragmented business, consisting of thousands of relatively small firms. In addition, there are five major public companies, including Genstar, that share 15 to 20 percent of a U.S. market estimated at well over $20 billion annually. Since it is a capital intensive business where insurance coverage and regulatory approvals are becoming increasingly difficult to obtain, a number of smaller operators are leaving the business and creating growth opportunities for the larger corporations.

Because the business is relatively insensitive to interest rate fluctuations and other cyclical influences and has a history of above-average growth, Genstar intends to pursue further expansion within this industry.

As a consequence, continued growth as well as increased profitability is anticipated from waste services businesses in 1986.

MARINE SERVICES

There was a modest decline in revenues and operating income from marine services in 1985.

The forest products industry in British Columbia is the primary source of revenues for Genstar's large Pacific Coast fleet of tugs and barges, and activity in that industry remained at recessionary levels. The smaller fleet that provides services in international waters also suffered from reduced offshore oil exploration and from competitive pressure on charter rates.

Volumes of ship repair and construction business were approximately the same as a year ago. The company's shipyard built three new chip barges for use by the Genstar fleet and began retrofitting a large fisheries research vessel that will be delivered to the Canadian government in April of 1986.

In addition to the chip barges, another self-loading/self-dumping log barge was added to the fleet in 1985.

Relatively little change is expected in market conditions during the coming year, and volumes of business as well as operating income from marine services should be about the same as in 1985.

Land and Real Estate Development

Income from land development was approximately double that of a year ago, with marked improvement in both U.S. and Canadian markets. At Genstar's new 4,000-acre development in Orlando, Florida, construction of a golf course (near right) was completed in December and sales of serviced land will begin in 1986.

Land and real estate development was one of Genstar's most improved businesses in 1985. Operating income rose to $100 million, an increase of almost 50 percent from $68 million in 1984. Revenues amounted to $471 million, up 21 percent from the year before.

The gain in earnings reflected both a significant increase in income from land development in the U.S. and Canada and the elimination of losses from homebuilding.

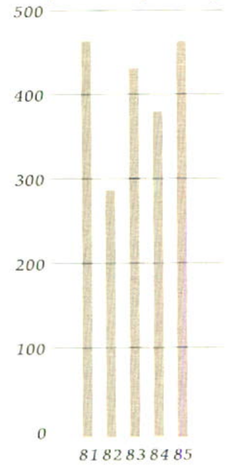
The improvement is particularly noteworthy because net operating assets devoted to this business had declined to $653 million at year-end, down seven percent from a year ago and 25 percent from a peak of $876 million at the end of 1981. In order to create a less volatile and more profitable base of earnings, Genstar withdrew from homebuilding activities in Canada and Texas in late 1984 and sold its California housing operations in early 1985. The company is now concentrating on land and income property development, often through joint ventures.

Construction activity is expected to remain at reasonably healthy levels in 1986, and capital for real estate investments should remain plentiful. A note of caution should be introduced when discussing the outlook for next year, however, as builders are entering 1986 with larger inventories of lots than a year ago, and the company's income properties are still largely in developmental stages. As a consequence, revenues and operating income are expected to be lower than in 1985, and much of the year will be devoted to improving the quality of the company's real estate holdings. Further attention will also be given to forming new partnerships or joint ventures to develop those holdings and to taking other steps that will facilitate more direct financing of these operations from external sources.

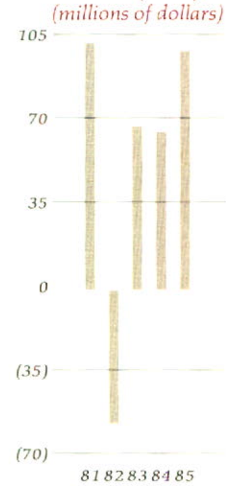
LAND DEVELOPMENT

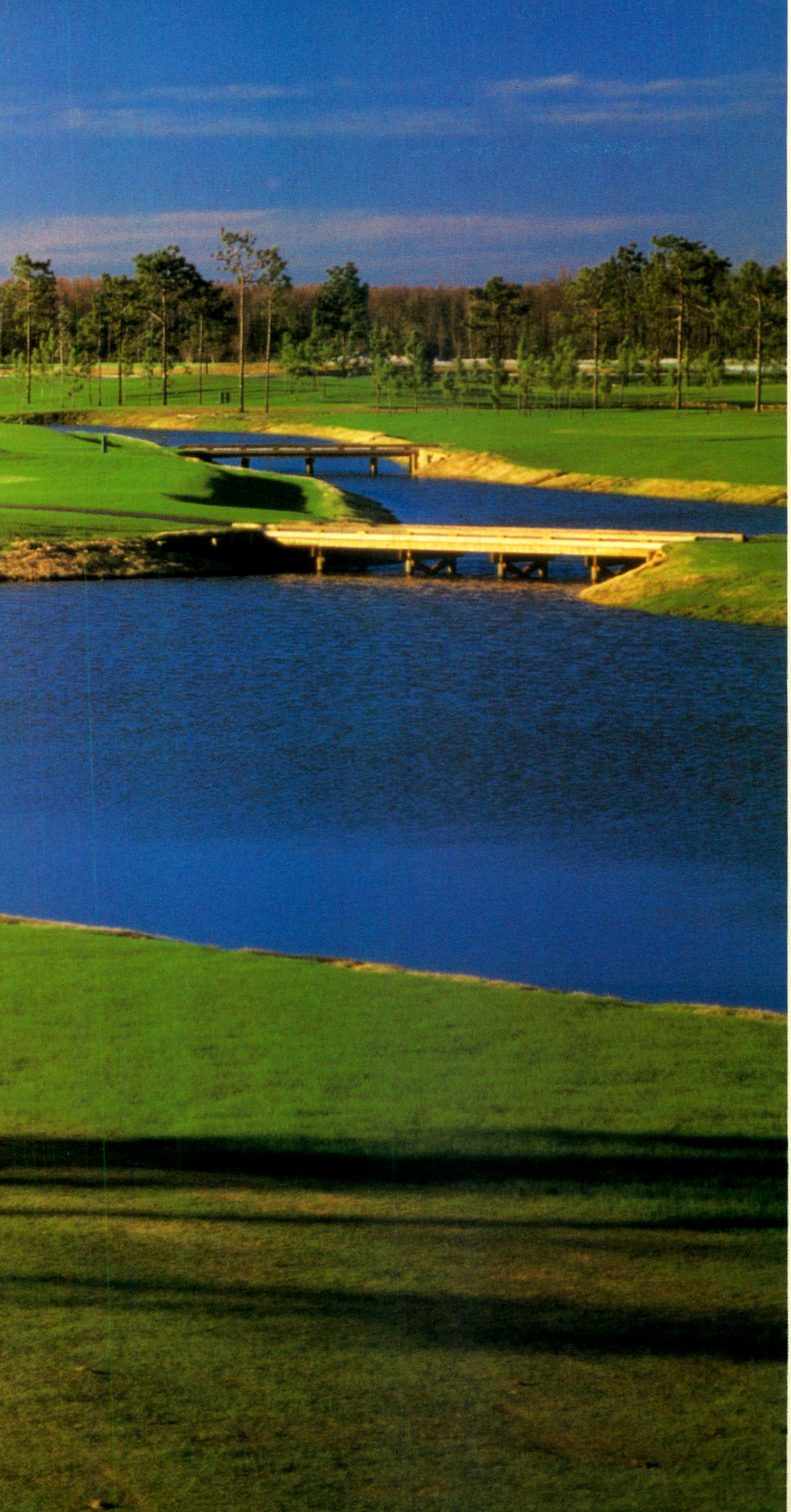
Operating income from land development in 1985 was approximately double that of a year ago. Housing starts and the demand for land in Canada increased as a result of lower and more stable interest rates, reduced unemployment, higher personal incomes and a revival of consumer confidence in the economy. Similar factors were at work in the U.S.,

Revenues
(millions of dollars)



Operating Income (Loss)
(millions of dollars)



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Commercial Office Tower
175,000
Occupancy 1986
St.Clair West
863-1215
Bank of America Canada


VISAGE
Sears
Bata

Genstar added 650,000 square feet of offices, shopping centers and other income properties to its portfolio in 1985, including a 16-story office tower (far left) nearing completion in Toronto.

where the strong recovery in residential construction that began three years ago maintained its momentum.

In Canadian markets, profits from land development increased five-fold and revenues more than doubled from the previous year's depressed level. The market for land was especially buoyant in Ontario, where the economy continues to outperform the rest of the nation, and in Manitoba, where inventories of new housing are being replenished. Lower interest rates also stimulated activity in British Columbia and in the important Alberta markets where unsold inventories of residential, commercial and office properties are gradually being absorbed.

In the U.S., revenues and income from Genstar's land development projects reached record levels in 1985. A substantial profit was realized on the sale of the company's interest in a large, mixed-use project in Dallas, Texas. Demand for serviced land in San Diego, California, and at a relatively new development in Phoenix, Arizona, was particularly strong, and there was some improvement at projects in Miami, Florida, and Vancouver, Washington.

At the company's new 4,000-acre development in Orlando, Florida, construction of a golf course was completed in December, and sales of land will commence in 1986.

An additional 2,400 acres in San Diego County were purchased during the year. Located in the city of Santee, this new development will eventually accommodate up to 6,000 residential units as well as a variety of business and commercial complexes.

Three more joint ventures were also formed in 1985 for the development of acreage in Texas, Ontario and British Columbia. The company's experience and reputation as a developer, along with a growing awareness that raw land is an asset that yields above-average returns, is attracting an increasing number of financial institutions and other large investors as partners in land development ventures. Genstar has been actively pursuing these relationships in recent years, as they allow the company to apply its expertise to a broader range of projects while sharing the substantial financial commitments with its partners.

At year-end, Genstar owned, had options on or held in partnership 35,477 acres of land, about 2,000 acres fewer than at the beginning of the year. The inventory also included 2,384 serviced residential lots, down nearly 50 percent from the number available at the end of 1984.

Land development will continue to make a substantial contribution to income during the coming year, although at a lower level than in 1985.

INCOME PROPERTY DEVELOPMENT

Genstar concentrated on rebuilding its income property portfolio in 1985 after most of its holdings in the U.S. were sold the year before. As a consequence, comparatively few properties were available for sale, and operating income from commercial and industrial developments was considerably lower than a year ago.

In Canada, Genstar continued to add to and improve its portfolio in 1985, with most new construction taking place in robust Ontario markets. At year-end, the Canadian portfolio consisted of 2.2 million square feet of leasable space either completed or under construction, compared to 1.5 million a year ago.

In the United States, construction and leasing are under way on approximately 500,000 square feet of business parks and retail space in the San Francisco Bay Area. At its land development projects in Florida, Genstar is also building the first half of what will ultimately be a 240,000-square-foot retail and office complex, and another large retail center is in the planning stage.

More of the company's new commercial and business complexes will be built on sites within Genstar's land development projects in the future, particularly at the larger mixed-use developments where the company can benefit from identifying at an early date the availability of attractive sites.

Although many of its properties will remain in early stages of development during the year, some improvement in earnings from income properties is anticipated in 1986. New developments are also planned, and Genstar will be seeking further opportunities to acquire completed properties in areas where skillful management and the absorption of excess retail or office space over time will offer acceptable medium-term profits.

Divisions and Subsidiaries

Financial Services

Genstar Financial Corporation
Vancouver, British Columbia
J.A.C. Hilliker, President and Chief Executive Officer

Canada Trustco Mortgage Company
London, Ontario
M.L. Lahn, President and Chief Executive Officer
J.A.C. Hilliker, Chairman

Genstar Container Corporation
San Francisco, California
T.S. Tan, President

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

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

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

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

Gordon Investment Corporation
Toronto, Ontario
J. R. Connacher, Chairman and Chief Executive Officer
N. W. Baker, President

Building Materials

Genstar Cement Limited
Edmonton, Alberta
P. Wacko, President

Genstar Cement Company
Oakland, California
A.K. Mueller, President

Genstar Lime Company
San Mateo, California
J.L. Crawley, President

Genstar Construction Materials Company Limited
Calgary, Alberta
D. Pickersgill, President

Genstar Stone Products Company
Hunt Valley, Maryland
T.O. Nuttle, President

Genstar Gypsum Products Company
Irving, Texas
C.R. Kelley, President

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

Industrial Services

GSX Corporation
Boston, Massachusetts
D.F. Smith, President

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

Land and Real Estate Development

Genstar Land-U.S.A.
San Diego, California
F.D. Dembinsky, President

Genstar Development Company
Vancouver, British Columbia
L. Cosman, President

Sutter Hill Developments Limited
Toronto, Ontario
R.M. Kirshner, President

Sutter Hill Limited
Palo Alto, California
R.E. Brewer, President


GSX
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LEACH
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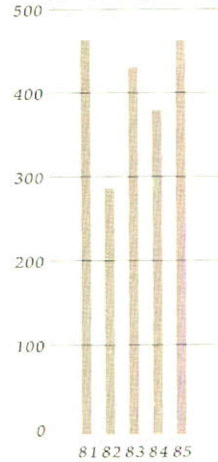
(millions of dollars)



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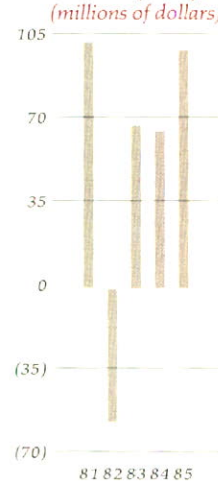
(millions of dollars)



LAND DEVELOPMENT

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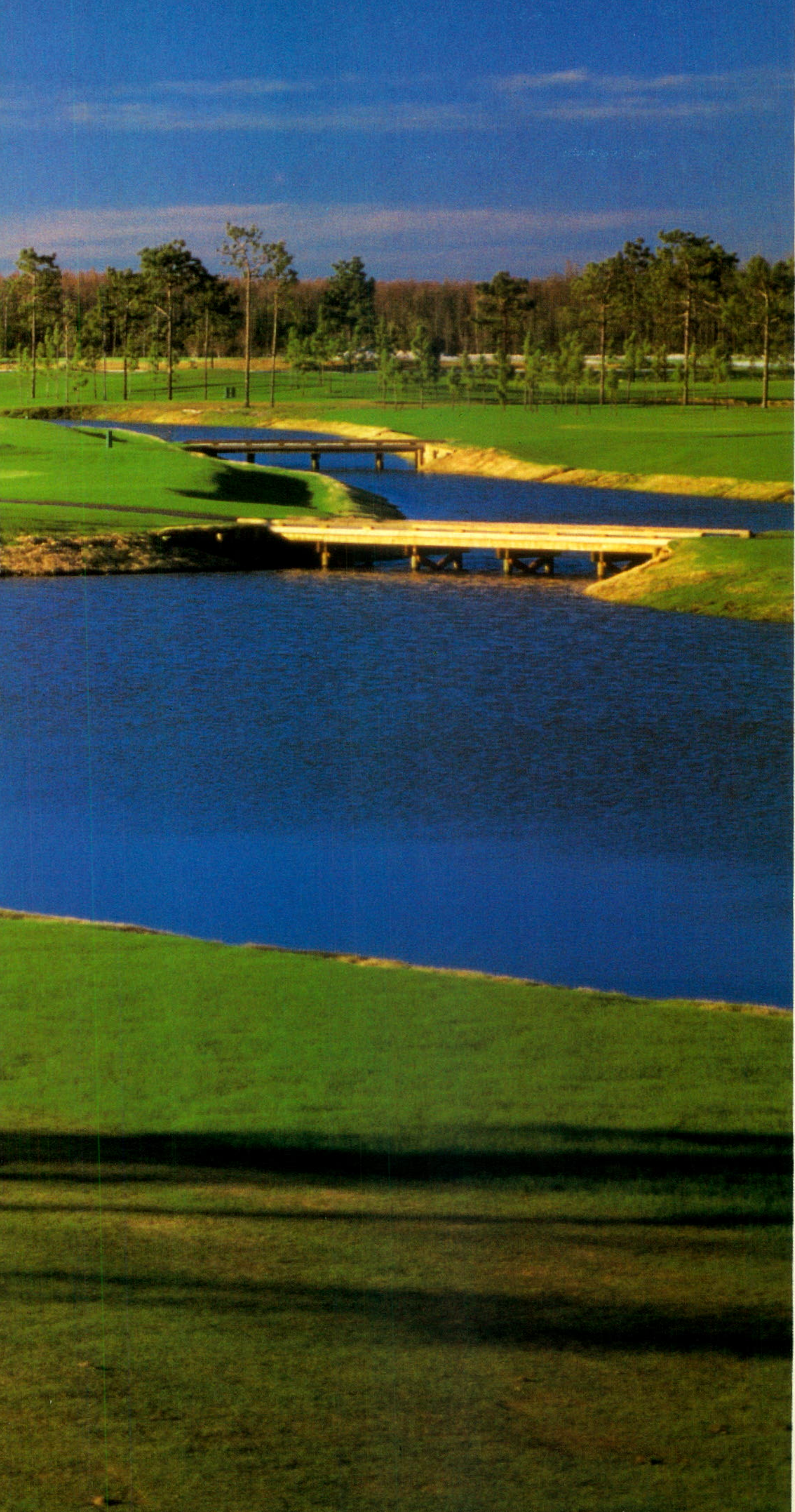


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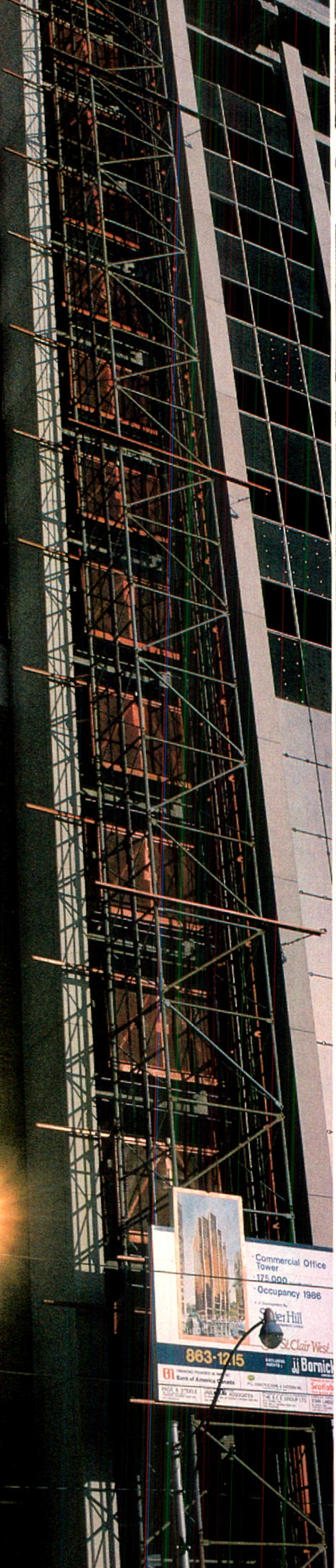
Commercial Office Tower
175,000
Occupancy 1986
St.Clair West
863-1215
jj Bornick
Bank of America Canada
THE E.C.E. GROUP LTD.


VISAGE
Sears
Bata

Genstar added 650,000 square feet of offices, shopping centers and other income properties to its portfolio in 1985, including a 16-story office tower (far left) nearing completion in Toronto.

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In Canadian markets, profits from land development increased five-fold and revenues more than doubled from the previous year's depressed level. The market for land was especially buoyant in Ontario, where the economy continues to outperform the rest of the nation, and in Manitoba, where inventories of new housing are being replenished. Lower interest rates also stimulated activity in British Columbia and in the important Alberta markets where unsold inventories of residential, commercial and office properties are gradually being absorbed.

In the U.S., revenues and income from Genstar's land development projects reached record levels in 1985. A substantial profit was realized on the sale of the company's interest in a large, mixed-use project in Dallas, Texas. Demand for serviced land in San Diego, California, and at a relatively new development in Phoenix, Arizona, was particularly strong, and there was some improvement at projects in Miami, Florida, and Vancouver, Washington.

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Land development will continue to make a substantial contribution to income during the coming year, although at a lower level than in 1985.

INCOME PROPERTY DEVELOPMENT

Genstar concentrated on rebuilding its income property portfolio in 1985 after most of its holdings in the U.S. were sold the year before. As a consequence, comparatively few properties were available for sale, and operating income from commercial and industrial developments was considerably lower than a year ago.

In Canada, Genstar continued to add to and improve its portfolio in 1985, with most new construction taking place in robust Ontario markets. At year-end, the Canadian portfolio consisted of 2.2 million square feet of leasable space either completed or under construction, compared to 1.5 million a year ago.

In the United States, construction and leasing are under way on approximately 500,000 square feet of business parks and retail space in the San Francisco Bay Area. At its land development projects in Florida, Genstar is also building the first half of what will ultimately be a 240,000-square-foot retail and office complex, and another large retail center is in the planning stage.

More of the company's new commercial and business complexes will be built on sites within Genstar's land development projects in the future, particularly at the larger mixed-use developments where the company can benefit from identifying at an early date the availability of attractive sites.

Although many of its properties will remain in early stages of development during the year, some improvement in earnings from income properties is anticipated in 1986. New developments are also planned, and Genstar will be seeking further opportunities to acquire completed properties in areas where skillful management and the absorption of excess retail or office space over time will offer acceptable medium-term profits.

Divisions and Subsidiaries

Financial Services

Genstar Financial Corporation
Vancouver, British Columbia
J.A.C. Hilliker, President and Chief Executive Officer

Canada Trustco Mortgage Company
London, Ontario
M.L. Lahn, President and Chief Executive Officer
J.A.C. Hilliker, Chairman

Genstar Container Corporation
San Francisco, California
T.S. Tan, President

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

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

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

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

Gordon Investment Corporation
Toronto, Ontario
J. R. Connacher, Chairman and Chief Executive Officer
N. W. Baker, President

Building Materials

Genstar Cement Limited
Edmonton, Alberta
P. Wacko, President

Genstar Cement Company
Oakland, California
A.K. Mueller, President

Genstar Lime Company
San Mateo, California
J.L. Crawley, President

Genstar Construction Materials Company Limited
Calgary, Alberta
D. Pickersgill, President

Genstar Stone Products Company
Hunt Valley, Maryland
T.O. Nuttle, President

Genstar Gypsum Products Company
Irving, Texas
C.R. Kelley, President

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

Industrial Services

GSX Corporation
Boston, Massachusetts
D.F. Smith, President

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

Land and Real Estate Development

Genstar Land-U.S.A.
San Diego, California
F.D. Dembinsky, President

Genstar Development Company
Vancouver, British Columbia
L. Cosman, President

Sutter Hill Developments Limited
Toronto, Ontario
R.M. Kirshner, President

Sutter Hill Limited
Palo Alto, California
R.E. Brewer, President

Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Genstar Corporation and subsidiaries as at December 31, 1985 and 1984, 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, 1985, as set forth on pages 41 through 68 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, 1985 and 1984, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement, with which we concur, for the consolidation of Genstar Financial Corporation, a financial services subsidiary that was previously accounted for using the equity method as explained in Note 21 to the consolidated financial statements.

Coopers & Lybrand

Chartered Accountants

Vancouver, Canada
March 5, 1986

Financial Review

For the eleven years ended December 31, 1985
(millions of Canadian dollars except per share amounts)

		1985	1984	1983
Financial Summary	Revenues	$ 4,032	$ 3,059	$ 2,872
	Operating income	388	329	300
	Income (Loss) before income taxes	177	132	110
	Net income (loss)	171	132	103
Per Common Share	Net income (loss)			
	Canadian method			
	Basic	$ 4.16	$ 3.56	$ 2.83
	Fully diluted	3.82	3.38	2.72
	United States method			
	Primary	3.82	3.38	2.72
	Fully diluted	3.82	3.38	2.72
	Dividends	1.10	0.85	0.65
	Book value	30.64	27.00	22.97
Performance Measurement	Return on net assets (pre-tax)	8.6%*	11.6%	12.1%
	Return on common equity	12.1%	13.1%	12.3%
	Return on total assets	0.67%*	1.27%	1.11%
Debt-to-Equity Ratio		60:40	53:47	59:41
Capitalization	Debt	$ 2,310	$ 1,470	$ 1,387
	Deferred income taxes	36	50	77
	Minority interests in subsidiaries	436	36	21
	Redeemable preferred shares	221	221	120
	Convertible redeemable preferred shares	205	205	105
	Common shares and contributed surplus	476	313	304
	Retained earnings	559	466	383
Other Statistics (millions except employees)	Total assets	$25,370	$10,380	$ 9,286
	Assets under administration	$27,366	$ 9,849	$ 8,605
	Funds generated (required) by operations	$ 278	$ 225	$ 186
	Capital expenditures	$ 247	$ 203	$ 259
	Common shares outstanding			
	Year-end	37.0	31.7	31.4
	Average	33.1	31.5	31.2
	Average number of employees	26,269	16,170	15,175

*Excluding Canada Trustco Mortgage Company, 1985 return on net assets was 11.0% and return on total assets was 1.43%. **Excluding the net assets and operations of the Flintkote Company which were acquired effective December 31, 1979.

1982	1981	1980	1979	1978	1977	1976	1975
$ 2,802	$ 2,629	$ 2,372	$ 1,311	$ 1,145	$ 981	$ 822	$ 684
69	261	352	265	205	170	143	106
(174)	76	210	196	155	121	103	85
(84)	94	158	127	88	68	58	47
$ (3.36)	$ 2.40	$ 4.92	$ 4.31	$ 3.26	$ 2.66	$ 2.40	$ 2.02
(3.36)	2.34	4.48	4.06	3.09	2.44	2.16	1.81
(3.36)	2.37	4.54	4.26	3.24	2.64	2.37	2.01
(3.36)	2.34	4.48	4.08	3.12	2.48	2.19	1.84
0.90	1.80	1.65	1.25	.81	.71	.63	.60
20.89	24.31	23.97	19.29	15.86	13.79	12.15	10.50
2.6%	10.4%	15.1%	12.4% **	16.7%	15.6%	13.1%	17.9%
(16.0%)	9.8%	19.4%	22.2%	19.9%	19.1%	20.0%	19.5%
(0.96%)	1.11%	5.83%	4.94%	5.69%	5.44%	4.70%	6.67%
65:35	60:40	50:50	63:37	49:51	62:38	64:36	49:51
$ 1,648	$ 1,476	$ 928	$ 1,116	$ 540	$ 563	$ 564	$ 256
96	212	186	187	116	95	76	52
23	22	2	1	1	—	—	—
120	120	120	120	120	—	—	—
107	111	114	9	10	13	27	22
297	292	285	186	180	169	149	141
317	448	429	341	257	191	142	101
$ 8,761	$ 8,469	$ 2,709	$ 2,572	$ 1,546	$ 1,249	$ 1,233	$ 705
$ 9,015	$ 8,176	$ 3,600	$ 2,832	$ —	$ —	$ —	$ —
$ (47)	$ 178	$ 250	$ 160	$ 147	$ 112	$ 96	$ 77
$ 261	$ 183	$ 172	$ 106	$ 53	$ 107	$ 90	$ 68
30.9	30.6	30.2	27.4	26.8	25.8	23.8	23.0
30.7	30.5	28.5	27.3	26.4	25.1	23.5	22.7
17,788	20,225	17,525	19,850	10,428	11,007	10,695	10,125

Consolidated Highlights

All prior years' data in this review have been restated to consolidate the results of Genstar Financial Corporation, the company's financial services subsidiary, previously accounted for on the equity method.

Genstar's net income was $171 million ($4.16 per common share) in 1985, compared to $132 million ($3.56 per common share) in 1984 and $103 million ($2.83 per common share) in 1983. Per share amounts are based on average outstanding common shares of 33.1 million in 1985, 31.5 million in 1984 and 31.2 million in 1983.

Percent of Total Revenues	1985	1984	1983
Total Revenues	100.0%	100.0%	100.0%
Cost and Expenses			
Cost of revenues	46.9	49.9	50.9
Customer deposit interest	26.4	23.0	22.8
	73.3	72.9	73.7
Selling General and Administrative	12.9	12.1	11.8
Depreciation	4.2	4.3	4.0
	90.4	89.3	89.5
Operating Income	9.6	10.7	10.5
Financing Costs	5.2	6.4	6.7
Income Before Income Taxes	4.4	4.3	3.8
Provision for Income Taxes	.2	—	.2
Net Income for the Year	4.2%	4.3%	3.6%

Following are highlights of consolidated results:

1985 Compared to 1984

Revenues of $4.0 billion in 1985 were 32% higher than 1984 as significant increases were realized in all industrial categories. The largest dollar increase was in Genstar's financial services operations, which benefited from the results of Canada Trustco Mortgage Company (Canada Trustco) in the final four months of 1985 following its acquisition in August. The industrial services category had the largest percentage increase, 88%, as a result of a full year's contribution to earnings in 1985 by GSX, its waste services subsidiary, compared to only four months in 1984, when it was acquired in September. Cost of revenues and customer deposit interest as a percentage of revenues was about the same in 1985 as in 1984. Selling, general and administrative expenses increased by $151 million, or 41%, but as a percentage of revenues increased only from 12.1% in 1984 to 12.9% in 1985. This increase resulted largely from the major acquisitions in 1984 and 1985. Additional expenses arose from the merger of Genstar's two trust companies and the increase in minority interest due to dividends paid on preferred shares of subsidiaries issued during 1985. Depreciation, depletion and amortization costs were up $38 million, primarily because of additional amortization of intangible assets. Despite the increases in selling, general and administrative expenses and depreciation, operating income of $388 million was up 18% from $329 million in 1984. Operating income as a percentage of revenues declined from 10.7% in 1984 to 9.6% in 1985. This was offset by a reduction in financing costs as a percentage of revenues, which declined from 6.4% to 5.2%. Net income increased by $39 million, or 30%, over 1984 and remained almost constant as a percentage of revenues.

Revenues from both the Canadian and U.S. operations improved significantly, increasing by 37% and 25% respectively. Operating income also increased in both countries; rising 26% in the United States and 9% in Canada. The improvement in U.S. operations was enhanced somewhat by the conversion to Canadian dollars at an average foreign exchange rate of 1.365 compared to 1.29 in 1984.

1984 Compared to 1983

Revenues of $3.1 billion in 1984 were 7% higher than 1983 due to increases in all categories except land and real estate development. These increases included a 49% increase in revenues from industrial services, primarily because of the GSX acquisition, and a 10% increase from building materials as a result of improving economies in the United States and Canada. Cost of revenues and customer deposit interest as a percentage of total revenues improved from 73.7% in 1983 to 72.9% in 1984 and, combined with the revenue increase, were the major factors in the increase in earnings over 1983. Although both selling, general and administrative expenses and depreciation were $47 million higher in 1984, this was more than offset by the improvement in revenues and cost of revenues, resulting in a 9% increase in operating income. Slightly higher financing costs caused by higher average interest rates were also more than offset by a $6 million reduction in tax expense. Net income of $132 million in 1984 was 28% greater than the $103 million in 1983. Net income as a percentage of revenues was 4.3% in 1984, compared to 3.6% in 1983.

The improved results were derived to a large extent from the company's U.S. operations, which contributed 15% increases in both revenues and operating income. The Canadian operations generated no change in revenues and a 4% increase in operating income. The slow recovery of the Canadian economy adversely affected Canadian revenues, while stronger economic growth and the acquisition of GSX contributed to improved results in the United States. Operating income of U.S. operations was further augmented by conversion to Canadian dollars at an average foreign exchange rate of 1.29 compared to 1.23 in 1983.

Operations

The following discussion of major factors affecting the operating income of each industrial category during the three years ended December 31, 1985, should be read in conjunction with "Results by Industrial Category" on pages 42 and 43 of this report, and "Financial Data by Geographic Area" on page 41.

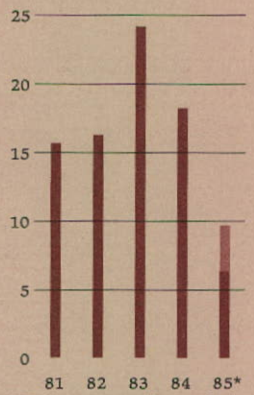
Financial Services

Revenues in 1985 were $1.78 billion, compared to $1.24 billion in 1984 and $1.18 billion in 1983.

Operating income was $164 million in 1985, compared to $173 million in 1984 and $194 million in 1983.

Revenues and operating income for 1984 and 1983 have been restated to fully consolidate the results of operations of Genstar Financial Corporation, a subsidiary through which Genstar conducts its financial services activities and which was previously accounted for on the equity method.

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



*Dark portion of bar includes all of Canada Trustco's Year-end net operating assets, but only a part-year contribution to income. Excluding Canada Trustco, RONA would have been 9.9% in 1985.

Financial services continued to be the company's largest source of income as trust and lending operations expanded significantly in Canada, primarily from the acquisition of Canada Trustco. Overall, however, operating results from financial services were $9 million lower than a year ago, due in large part to fewer sales of venture capital investments in 1985 and a $20-million gain on the sale of a subsidiary's head office building that was included in 1984 earnings.

The acquisition in August of Canada Trustco Mortgage Company for $1.2 billion greatly increased the company's presence in the financial services industry. On December 31, 1985, Genstar merged Canada Trustco with Canada Permanent Mortgage Corporation (The Permanent), another Genstar subsidiary, to create the seventh largest financial institution in

Canada. The newly amalgamated company, which has assumed the Canada Trust name, has $22 billion in corporate assets and administers another $27 billion in clients' assets held in trust. The acquisition transaction and its effects are described in Note 1 to the consolidated financial statements.

Operating results from the combined trust and lending operations increased $15 million from the prior year. Canada Trustco made a positive contribution to income in the final four months of 1985 after accounting for amortization of acquisition expenses and interest costs. Similarly, The Permanent's contribution to income during 1985, before accounting for the 1984 gain on the sale of its head office building and the negative effects of amortizing acquisition adjustments to assets and liabilities, increased due to improved interest margins.

Trust and lending operations consist of four businesses: financial intermediary activities, personal and corporate trust services, residential and commercial real estate brokerage and mortgage banking. Operating results from financial intermediary services in 1985 increased primarily as a result of the new operations acquired and better interest rate spreads. Trust activities benefitted from higher pension and personal trust fees and increased corporate trust business. Real estate brokerage activities also increased over 1984, producing record commission income from expanded operations and a strong homebuying market that was fueled by lower interest rates. This contrasts with 1984, when economic conditions in Canada slowed commission growth. Mortgage banking in the United States experienced losses in both 1985 and 1984 when the division was in the process of changing its portfolio of mortgages serviced from government guaranteed to conventional mortgages.

Genstar's financial services activities were further expanded in July through an investment in Gordon Capital Corporation, a major Canadian investment banker and securities dealer, and a subsequent joint venture with Gordon Capital to create a new firm that will direct specialized equity investments in both the United States and Canada.

Sales of venture capital investments generated operating income of $36 million, $53 million and $88 million in 1985, 1984 and 1983, respectively. The reduced returns in 1985 and 1984 reflect lower sales of venture capital holdings compared to 1983, when many start-up companies made initial offerings of equity to the public.

Operating income from the company's rental and leasing operations decreased in 1985, in contrast to the steady growth experienced in previous years. Increased competition in these businesses caused rate reductions and lower utilization of equipment.

Building Materials:
Cement, Aggregates and Concrete Products
Revenues were $794 million in 1985, compared with $709 million in 1984 and $677 million in 1983. The $86-million increase in 1985 resulted from improved demand in both Canadian and U.S. markets. In 1984, increased demand in the United States had been partially offset by weak Canadian markets. The following tables show volume increases in both the United States and in Canada:

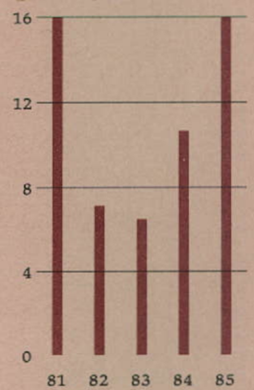
Sales Volumes of Major Products	1985	1984	1983
		(millions)	
Cement (tons)			
Canada	1.6	1.4	1.4
United States	0.8	0.7	0.5
Total	2.4	2.1	1.9
Lime Products (tons)			
United States	0.6	0.5	0.5
Aggregates (tons)			
Canada	8.9	8.3	7.9
United States	15.2	13.8	12.5
Total	24.1	22.1	20.4
Concrete (cubic yards)			
Canada	0.9	0.8	0.9
United States	0.9	0.9	0.8
Total	1.8	1.7	1.7
Concrete Blocks (standard units)			
Canada	11.3	10.6	12.4

Production Capacity Utilization	1985	1984	1983
*Cement**			
Canada	64%	61%	60%
United States	100	100	80
Lime Products			
United States	60	55	45
Aggregates			
Canada	96	96	90
United States	93	83	82
Concrete Products			
Canada	45	47	43
United States	106	103	96

*Cement capacity does not include 1,230,000 tons of capacity not being utilized for economic reasons.

Operating income was $103 million in 1985, up 45% from $71 million in 1984 after an increase of 60% from $45 million in 1983. The improvement in operating income is due primarily to the effects of better economic conditions in Genstar's markets over the past two years.

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



In the United States, 1985 was the third consecutive year of strong demand for cement, a reflection of the low interest and inflation rates, which prompted residential real estate construction, and increased federal funding for highway and other municipal improvements. The increase was attributed to continued strength in U.S. markets, operating efficiencies at modernized production facilities and reduced transportation costs.

In Canada, demand for cement improved in the prairie provinces following the first upturn in the economy in several years. Markets in British Columbia continued to experience price competition from cement imports. Export sales increased as a result of the lifting of a trade restriction by the U.S. Federal Trade Commission.

Aggregates and concrete products operations performed well in both the United States and Canada, benefitting from greater construction activity in the mid-Atlantic states and Western Canada. Sales of aggregates, concrete pipe, ready-mix and precast concrete products increased, and streamlining of some operations reduced overhead expenses and contributed to profitability.

Building Materials:
Wallboard and Roofing Products

Revenues increased 10% to $545 million in 1985, compared to $494 million in 1984 and $415 million in 1983.

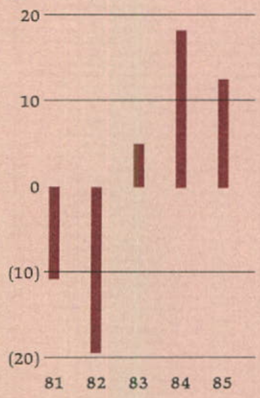
Sales Volumes of Major Products	1985	1984	1983
Wallboard (billions of square feet)	1.3	1.6	1.4
Roofing (thousands of tons)	1,052	730	649

Production Capacity Utilization	1985	1984	1983
Wallboard	81%	86%	73%
Roofing	53	62	52

While revenues increased, operating income declined in 1985 to $26 million, compared with $32 million in 1984. Operating income was $11 million in 1983. The decline from 1984 to 1985 was the result of a lower volume of wallboard sales and greater roofing losses due to continuing competitive price pressure and industrywide excess capacity.

In February 1985, Genstar completed the acquisition in the United States of seven roofing plants from Bird Incorporated for $65 million, of which $36 million represented inventories and accounts receivable. The integration of the more efficient acquired capacity with Genstar's roofing facilities continued throughout 1985 and, as a result, production and distribution costs are expected to decline in 1986. Selling prices, however, have not increased in several years because of overcapacity in the industry that continues in spite of the closing of approximately one-third of the roofing plants in the United States in the past four years.

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

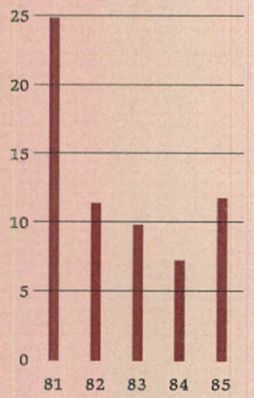


Wallboard revenues and operating income declined slightly, reflecting lower residential and commercial construction and increased competition in some market areas. Product demand, however, was particularly strong in east coast markets requiring shipments from the midwest to fill orders. Overall capacity utilization was greater than 81% in the United States. Canadian wallboard operations, which consisted of three manufacturing facilities in western Canada, were sold in the first half of 1985.

Industrial Services

Revenues in the Industrial Services category increased 88% in 1985 to $438 million, compared with $233 million in 1984 and $156 million in 1983. Operating income was $46 million in 1985, $26 million in 1984 and $11 million in 1983. The increase in revenues and operating income over the last two years reflects the acquisition of GSX Corporation in 1984. Smaller acquisitions in both the solid waste and chemical waste segments of the industry continued in 1985.

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



Of the total revenues generated by the waste services operations in 1985, approximately 85% was generated by the collection and disposal of solid waste. The remaining 15% of revenues was generated by chemical waste operations. In addition, the solid waste operations produced approximately two-thirds of this division's 1985 operating income. In January of 1986, GSX also purchased one of the largest commercial incinerators in the United States for the disposal of hazardous liquid waste. In addition, during 1985, the company received contracts for a number of new solid waste and resource recovery projects which will benefit future operating results.

Operating returns from marine activities decreased slightly from 1984 and 1983, reflecting reduced activity in the forest products industry in British Columbia, a major customer for Genstar's marine services. Both the tug and barge and the ship repair and construction operations were adversely affected.

Also included in this category in 1983 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.

Land and Real Estate Development

Revenues were $471 million in 1985, compared to $389 million in 1984 and $440 million in 1983.

Sales Volumes	1985	1984	1983
Residential Building Lots			
Canada	2,203	1,982	1,851
United States	1,245	681	1,809
Total	3,448	2,663	3,660
Land (acres)*			
Canada	1,146	166	1,321
United States	2,527	1,818	1,310
Total	3,673	1,984	2,631

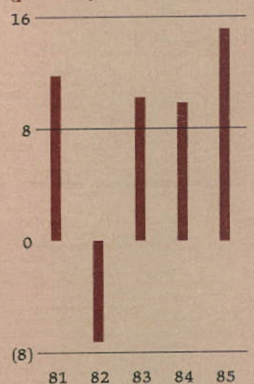
*Income Properties**	1985	1984	1983
	(thousands of sq. ft.)		
Office Buildings	850	500	600
Shopping Centers	1,500	950	800
Business Parks	500	750	400
Total	2,850	2,200	1,800

*These statistics include both wholly-owned and joint-venture land sales and income properties.

Operating income was $100 million in 1985, compared to $68 million in 1984 and $69 million in 1983.

The fluctuations in revenues and operating income between years reflect the transaction-oriented nature of the business.

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



Land and real estate development made a significant contribution to operating income in 1985, realizing an increase of 46% over 1984 on a 21% increase in revenues. The company also sold its remaining housing businesses in California early in 1985, completing its withdrawal from the house building industry in Canada and the United States.

In Canada, returns from land development increased significantly reflecting strong demand, particularly in Ontario and Manitoba. The important Alberta market continued to be soft but there was some improvement.

U.S. land development operations experienced another strong year, with demand increasing in all market areas except Houston. The company made extensive use of joint ventures and partnerships to provide more direct project financing from external sources.

Genstar continued to expand its income property portfolio in 1985 through acquisitions and development of owned sites and expects to continue this effort in 1986. As a result, fewer properties were available for sale in 1985, and revenues and income from commercial and industrial developments were lower than in 1984, particularly in the United States where several developed properties were sold the previous year.

Financing Costs

Total financing costs increased 8% in 1985 to $212 million, following a 3% increase to $197 million from 1983 to 1984. The increase in financing costs is primarily related to borrowings necessary to acquire Canada Trustco. Borrowing rates, which had risen slightly in 1984, declined throughout 1985. As in prior years, interest rates paid by the company on its short-term and demand debt were below the bank prime rate because of the use of bankers' acceptances, LIBOR (London Inter-Bank Offered Rate) and money-market borrowing instruments.

Financing	1985	1984	1983
	(millions of dollars)		
Financing Costs	$ 212	$ 197	$ 191
Average Borrowings	$1,901	$1,489	$1,589
Effective Rate	11.1%	13.2%	12.0%

The decrease in effective borrowing rates in 1985 was caused by lower bank prime rates, retirement of high interest rate debt and interest swaps.

In May, 1985, the remaining portion of the 14 3/4% debentures due in 1991 were called for redemption. This high-cost debt was initially refinanced with short-term debt and has recently been replaced with an interest rate swap fixing the cost at 10.3% for the next five years. The company also reduced the cost of its 17 1/2% debentures due in 1989 by entering into a floating-rate interest swap.

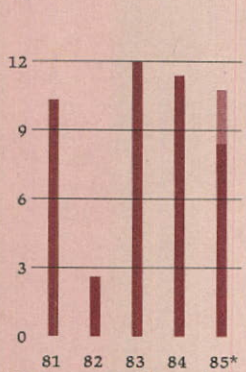
Performance Measurement

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 relationship between returns and the capital invested is one of the most valid and widely recognized measures of performance. The measure that the company has used extensively is return on net assets (RONA), a measure of operating income in relation to capital employed.

As indicated in the chart, RONA in 1985 was 8.6% compared to 11.6% in 1984 and 12.1% in 1983. Performance in 1985 is distorted because all of Canada Trustco's net operating assets, but only four months of income since its acquisition, are included. Excluding Canada Trustco, 1985 RONA was 11.0%. This decrease from 1984 is largely attributable to the decline in operating income as a percentage of revenues. The lower level of economic activity in Western Canada throughout most of the 1980s has prevented profitability, as measured by RONA, from returning to the levels achieved during the 1970s.

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



*Dark portion of bar includes all year-end operating assets of Canada Trustco, but only a part-year contribution to income. Excluding the effects of Canada Trustco, RONA would have been 11% in 1985.

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 common shareholders. Return on common shareholders' equity was 12.1% in 1985, compared to 13.1% in 1984 and 12.3% in 1983. This decline from 1984 is due to issuance of five million additional common shares in September. In comparison, a return on average common equity reflects a much smaller decline from 14.4% in 1984 to 14.2% in 1985.

A third measure of performance, which takes on added significance with the consolidation of financial services operations, is return on total assets (ROA). ROA is one of the standard measures of operating efficiency in the financial services industry. ROA was .67% in 1985, compared to 1.27% in 1984 and 1.11% in 1983. Again, the acquisition of Canada Trustco distorts the comparison between 1985 and 1984. A more meaningful comparison, excluding Canada Trustco, shows an increase in ROA to 1.43% in 1985.

Liquidity and Capital Resources

The company's primary sources of liquidity are cash provided from operations and external credit facilities. During 1985, $278 million of funds was generated by operations. These funds were used to expand operating assets and to fund new investment opportunities.

The Statement of Changes in Financial Position on page 48 of this report shows in detail the sources of cash flow from earnings and net operating assets and the use of cash flow for longer-term investment activities. In each of the last two years funds generated from operations were more than sufficient to finance growth in operating net assets, such as loans, accounts receivable and inventories. In fact, cash generated from building materials and real estate development activities not only paid for net fixed assets and income property additions, but also provided some of the funds necessary to finance the two major acquisitions which occurred in 1985 and 1984.

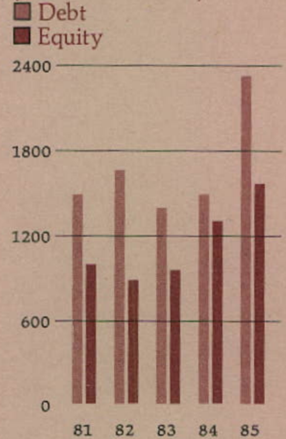
The major investment during 1985 was the acquisition of Canada Trustco for $1.2 billion. In 1984, the acquisition of the GSX operations was the largest component of investment activities. Both of these acquisitions were funded primarily by increases in debt and both preferred and common share equity offerings.

Total capital expenditures were $247 million in 1985, compared to $203 million and $259 million in 1984 and 1983, respectively. In 1985, expenditures included the acquisition of roofing plants, shopping centers and commercial properties and of electronic test equipment and shipping containers. Disposals during the year included the sale of the Canadian gypsum wallboard operations and other assets.

The total amount of financing required in 1985 was $1.328 billion, compared to the 1984 requirement of $269 million. In 1983, Genstar had a net paydown in financing of $264 million, reflecting management's objective of reducing debt during a period of high interest rates. At the end of 1985, over $1.4 billion of committed credit lines were available to the company. Of this amount, $937 million was being utilized. This was an increase from $388 million utilized at the end of 1984, but a decrease from $1.3 billion utilized at September 30, 1985, after the completion of the Canada Trustco acquisition.

The principal components of the company's capital base are borrowed funds and shareholders' equity. The ratio of debt to equity at the end of 1985 was 60:40, compared with 53:47 and 59:41 at December 31, 1984 and 1983, respectively. The 1985 ratio reversed the longer-term trend in debt reduction as a result of debt incurred to finance the Canada Trustco acquisition. Genstar has reduced the acquisition debt from $1.2 billion at the time of acquisition to approximately $660 million at December 31, 1985, by a combination of Genstar's common share issue, Genstar Financial Corporation's preferred share issue and the reversion of surplus attributable to company contributions to salaried pension plans. The company anticipates further debt reductions in 1986 from planned asset sales.

Debt and Equity
(millions of dollars)



Debt outstanding at the end of 1985 was $2.3 billion, as more fully described in Note 11 to the consolidated financial statements. In percentage terms, debt consisted of:

Percent of Total Debt	1985	1984
Floating Interest Rate Debt		
Short-term	19%	29%
Long-term	55	33
	74	62
Fixed Interest Rate Debt		
Long-term	26	38
	100%	100%

At December 31, 1985, the company had floating interest rate debt outstanding of approximately $660 million resulting from the Canada Trustco acquisition. In addition, the company has maintained a high percentage of other debt at floating interest rates to take advantage of declining rates.

Genstar has more than $1.4 billion of committed bank lines of credit which provide, solely at its option, the ability to fix interest rates from one to five years. Therefore, the proportion of fixed interest rate debt can be increased from 26% to approximately 80% if market conditions change.

In the United States, the company established banking relationships for the first time since 1982, including a $125 million commercial paper program supported by bank letters of credit and the establishment of more than $200 million of money-market lines of credit with a number of U.S. and international banks. These facilities allowed the company to borrow money at a significant saving from bank prime interest rates.

In September, Genstar sold five million common shares at a price of $31.625 per share to partially finance the purchase of Canada Trustco. Genstar Financial Corporation, the financial services subsidiary of the company, also sold $300 million of 9% preferred stock in Canada, its initial offering of shares. The shares are retractable by the shareholder and redeemable by the company in 1990.

Genstar Financial Corporation, also sold $75 million of 11 3/4% debentures, due in 1995, in the Euro-Canadian market in its initial offering of a debt instrument to the public.

Despite a decrease in the ratio of equity to total capitalization, common shareholders' equity increased significantly in 1985 from the issue of 5,000,000 common shares during September and from earnings retained in the company. In addition, almost all of the outstanding Series C convertible second preferred shares were converted to common shares in March 1986.

The Securities and Exchange Commission (SEC) 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, the holders of convertible shares. In addition, minority interest is also considered by the SEC to be a form of debt. Using these guidelines, Genstar's total debt-to-equity ratios would be 69:31 in 1985, 62:38 in 1984 and 65:35 in 1983.

Equity Income

Included in third-party revenues is the company's share of the income or loss from joint ventures and investments accounted for on the equity basis. Total equity income amounted to $5 million in 1985, compared to losses of $12 million in 1984 and $27 million in 1983. In 1985, $8 million of this equity income is included in the revenues of the land and real estate development category, compared to losses of $12 million in 1984 and $14 million in 1983.

Inflation-Adjusted Results

The information included in Note 23 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 United States.

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 1985 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 income tax withheld may be claimed. Because Genstar is not a United States domestic corporation, the partial exclusion of dividends received by individuals from U.S. corporations is not available.

Share Capital

Genstar's voting share capital consists of 40.9 million common and preference shares. At December 31, 1985, 90% of the voting shares were registered, and the balance were in bearer form. Below is a summary of the voting shareholdings of the company, which shows that during 1985 the number of voting shareholders declined slightly while the number of shares outstanding increased. Canadian shareholders increased their holdings to 60% of the voting shares and U.S. shareholdings remained constant compared to 1984. Information regarding trading volume and price information is included in Note 22 to the consolidated financial statements.

Shareholdings		1985 Shareholders Number	%	1985 Shareholdings Shares (millions)	%	1984 Shareholders Number	%	1984 Shareholdings Shares (millions)	%
Common and Voting Preferred	Canada	8,583	78	24.4	60	9,127	77	18.7	53
	United States	2,370	21	9.2	22	2,591	22	7.8	22
	Bearer	*	—	3.9	10	*	—	4.3	12
	Other Countries	132	1	3.4	8	142	1	4.8	13
		11,085	100	40.9	100	11,860	100	35.6	100

*The ownership of bearer shares is unknown.

Financial Data by Geographic Area

(millions of Canadian dollars)

		1985	1984	1983	1982	1981
Revenues	Canada and other*					
	Financial services	1542.6	1,016.6	964.9	965.5	414.3
	Other operations	659.9	616.9	671.2	801.3	1,049.9
	United States					
	Financial services	240.5	219.1	218.0	160.7	134.3
	Other operations	1,588.9	1,206.7	1,017.4	874.5	1,030.5
	Total	$ 4,031.9	$ 3,059.3	$2,871.5	$2,802.0	$2,629.0
Operating Income	Canada and other*					
	Financial services	81.6	110.9	90.6	62.6	29.7
	Other operations	87.2	43.9	58.3	82.2	200.3
	United States					
	Financial services	82.5	62.3	103.7	66.2	43.4
	Other operations	136.9	111.5	47.8	(142.5)	(12.0)
	Total	$ 388.2	$ 328.6	$ 300.4	$ 68.5	$ 261.4
Identifiable Assets	Canada and other*					
	Financial services	22,356.3	7,485.7	6,816.5	6,025.9	5,754.4
	Other operations	919.2	824.9	866.5	1,031.4	1,127.2
	United States					
	Financial services	625.8	655.4	497.9	499.8	283.8
	Other operations	1,468.8	1,414.0	1,105.2	1,204.2	1,304.0
	Total	$25,370.1	$10,380.0	$9,286.1	$8,761.3	$8,469.4

*Includes jurisdictions outside North America.

Results by Industrial Category

For the five years ended December 31, 1985
(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; arbitrage investments; real estate sales brokerage; leveraged leasing; leasing of transportation containers; rental of electronic test and measurement equipment.	1985	1,783.1	.4	1,783.5
	1984	1,235.7	—	1,235.7
	1983	1,182.9	—	1,182.9
	1982	1,126.2	.5	1,126.7
	1981	548.6	—	548.6
Building Materials: Cement, Aggregates and Concrete Products				
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 construction and real estate subdivision servicing.	1985	794.1	11.5	805.6
	1984	708.6	4.7	713.3
	1983	677.1	5.2	682.3
	1982	764.2	5.5	769.7
	1981	883.4	38.7	922.1
Building Materials: Wallboard and Roofing Products				
Manufacture of gypsum wallboard, asphalt shingles and other roofing products and asphaltic adhesives.	1985	545.2	.2	545.4
	1984	493.5	.4	493.9
	1983	414.8	.2	415.0
	1982	440.3	.6	440.9
	1981	541.3	—	541.3
Industrial Services				
Refuse collection; solid and chemical waste transfer and landfilling; methane gas recovery; emergency chemical waste clean-up services; rubber reclamation and recycling; tug and barge transportation; shipbuilding and repairs.	1985	438.2	4.3	442.5
	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
Land and Real Estate Development				
Development of residential, commercial and industrial land; construction of shopping centers, office buildings, industrial parks and warehouses.	1985	471.3	.1	471.4
	1984	388.5	.2	388.7
	1983	440.3	.1	440.4
	1982	284.9	9.4	294.3
	1981	469.2	2.9	472.1
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.	1985	—	—	—
	1984	—	—	—
	1983	—	—	—
	1982	—	—	—
	1981	—	—	—
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.	1985	$4,031.9	$16.5	$4,048.4
	1984	3,059.3	9.3	3,068.6
	1983	2,871.5	9.5	2,881.0
	1982	2,802.0	18.7	2,820.7
	1981	2,629.0	44.5	2,673.5

*Net operating assets are calculated by deducting non-interest bearing liabilities, except income taxes, and customer demand and term deposits, 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. ***Includes financial services customer deposit interest.

Costs and Expenses								
***Cost of Revenues	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
1,283.8	275.2	60.4	1,619.4	164.1	2,611.6	****6.3	22,982.1	56.5
858.1	156.4	48.0	1,062.5	173.2	940.8	18.4	8,141.1	128.8
806.4	138.0	44.2	988.6	194.3	805.1	24.1	7,314.4	114.3
860.6	107.1	30.2	997.9	128.8	791.7	16.3	6,525.7	102.7
410.6	47.6	17.3	475.5	73.1	468.0	15.6	6,038.2	30.3
591.0	65.3	45.9	702.2	103.4	649.6	15.9	773.0	24.4
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
454.4	46.1	18.6	519.1	26.3	210.4	12.5	308.4	48.3
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
302.5	50.8	42.9	396.2	46.3	391.4	11.8	472.1	44.9
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
338.2	30.5	2.7	371.4	100.0	653.7	15.3	759.4	70.9
266.5	49.7	4.1	320.3	68.4	701.3	9.8	763.1	26.5
304.7	62.9	4.1	371.7	68.7	661.8	10.4	768.8	105.3
281.5	64.8	4.2	350.5	(56.2)	778.9	(7.2)	919.0	94.0
299.1	67.0	3.2	369.3	102.8	876.2	11.7	930.2	7.4
—	51.9	—	51.9	(51.9)	—	—	75.1	1.6
—	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
$2,969.9	$519.8	$170.5	$3,660.2	$388.2	$4,516.7	****8.6	$25,370.1	$246.6
2,237.9	369.2	132.9	2,740.0	328.6	2,833.1	11.6	10,380.0	202.8
2,125.5	339.3	115.8	2,580.6	300.4	2,493.1	12.1	9,286.1	259.4
2,328.0	321.7	102.5	2,752.2	68.5	2,623.8	2.6	8,761.3	261.3
2,011.2	304.8	96.1	2,412.1	261.4	2,524.4	10.4	8,469.4	183.3

****Operating income from Canada Trustco Mortgage Company is included only for the last four months of 1985. Pre-tax returns excluding Canada Trustco Mortgage Company would have been 9.9% for the financial services category and 11.0% for the consolidated results. *****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.

Summary of Significant Accounting Policies

For the years ended December 31, 1985, 1984 and 1983

The company's accounting policies conform in all material respects with generally accepted accounting principles (GAAP) in Canada and the U.S., except as set out below for foreign exchange.

Consolidation

These consolidated financial statements include the accounts of Genstar Corporation and its subsidiaries, including Genstar Financial Corporation, a financial services subsidiary (see Note 21). Subsidiaries are consolidated from the date of acquisition on the basis of purchase accounting.

Investments in 50% or less owned joint ventures are accounted for on the equity method.

Foreign Exchange

Assets of subsidiaries for which the functional currency is the U.S. 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 amounts are maintained as a separate balance sheet account until such time as the related foreign currency investment is realized in Canadian dollars.

Amounts denominated in foreign currencies other than the U.S. dollar are translated at historical exchange rates for non-monetary items, and at the year-end exchange rate for monetary items. Translation fluctuations are included in income for the period, other than those associated with long-term debt which are amortized straight-line over the remaining term to maturity of the debt, which is at variance with United States GAAP as outlined in Note 21.

Securities

Bonds and debentures are stated at amortized cost plus accrued interest. Stocks are stated at cost plus dividends declared unless market declines are considered to be other than temporary. In determining gain or loss on securities sales, the cost of securities is based principally on the specific identification method.

Loans

Mortgage, commercial and personal loans are carried at cost plus accrued interest less repayments and allowance for possible losses. Provisions for possible losses on loans are based upon payment delinquency information, historical trends and other factors which in management's judgement deserve recognition. Losses are charged against the allowance as realized.

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 real estate 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.

Income Properties

Properties held for and under development are stated at the lower of cost or estimated net realizable value. Income producing properties are stated at cost less accumulated depreciation and are not written down unless their value is permanently impaired. Cost includes all direct costs of development and construction including carrying costs such as interest, property taxes and net operating costs incurred during the development phase. Administrative overhead expenses are not capitalized. Depreciation on buildings is provided straight-line over 40 years.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. 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 fixed assets, except land, is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for buildings, from 5 to 25 years for machinery and equipment, and 7 to 15 years for rental and lease equipment. 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

Fees and commissions are recorded as income when received. All other financial services income is recorded on the accrual basis.

Revenues from the sale of manufactured products are recognized upon passage of title to the customer, which generally coincides with their delivery and acceptance. Revenues from the sale of land and real estate are recognized in the period in which the transactions occur, provided collectibility of the proceeds is reasonably assured. Notes receivable taken back on land and real estate sales are adjusted to reflect market interest rates.

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 in income 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, the sale and leaseback of fixed assets at a value in excess of cost and the reversion of excess assets from pension plans (see Note 19). 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.

Genstar Corporation

Consolidated Statements of Income

For the years ended December 31, 1985, 1984 and 1983
(thousands of Canadian dollars)

		1985	1984	1983
Revenues	Financial services	1,783,065	1,235,684	1,182,898
	Building materials and services	1,339,346	1,202,077	1,091,900
	Industrial services	438,163	233,059	156,390
	Land and real estate development	471,281	388,511	440,320
		4,031,855	3,059,331	2,871,508
Cost and Expenses	Cost of revenues	1,889,154	1,526,859	1,460,816
	Financial services customer deposit interest	1,064,243	701,823	655,118
	Selling, general and administrative	519,786	369,153	339,308
	Depreciation, depletion and amortization	170,462	132,898	115,854
		3,643,645	2,730,733	2,571,096
Operating Income		388,210	328,598	300,412
Financing Costs		211,683	196,545	190,772
Income before Income Taxes		176,527	132,053	109,640
Provision for Income Taxes		5,300	300	6,600
Net Income for the Year		$ 171,227	$ 131,753	$ 103,040
Net Income Per Common Share	*Canadian Method*			
	Basic	$4.16	$3.56	$2.83
	Fully diluted	3.82	3.38	2.72
	United States Method			
	Primary	3.82	3.38	2.72
	Fully diluted	3.82	3.38	2.72

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

Consolidated Balance Sheets

As at December 31, 1985 and 1984
(thousands of Canadian dollars)

		1985	1984
Assets			
Financial Services	Cash and short-term notes	2,843,399	999,947
	Receivables and other assets	266,052	160,966
	Securities	2,965,095	964,405
	Mortgage, personal and commercial loans	15,499,157	5,510,604
	Income properties	263,757	—
	Fixed assets	468,496	343,991
	Intangible assets	709,619	152,966
		23,015,575	8,132,879
Building Materials	Accounts receivable and other assets	213,071	197,845
	Inventories	142,933	122,433
	Fixed assets	708,372	703,958
	Intangible assets	34,733	36,789
		1,099,109	1,061,025
Industrial Services	Accounts receivable and other assets	118,537	85,416
	Fixed assets	198,857	200,887
	Intangible assets	162,666	125,381
		480,060	411,684
Land and Real Estate Development	Accounts, mortgages and notes receivable	156,033	110,476
	Inventories	277,884	411,771
	Income properties	250,283	167,547
	Joint ventures and other assets	91,141	84,647
		775,341	774,441
		$25,370,085	$10,380,029

On behalf of the Board

Angus MacNaughton

Director

Director

		1985	1984
Liabilities and Shareholders' Equity			
Financial Services	Customer demand and term deposits	20,202,253	6,910,619
	Accounts payable and other liabilities	284,988	282,395
	Income taxes	85,765	28,389
		20,573,006	7,221,403
Other Operations	Accounts payable and other liabilities	375,653	273,794
	Deferred revenue	119,495	66,967
	Income taxes	(4,652)	27,872
		490,496	368,633
Debt		2,309,917	1,469,994
Minority Interests in Subsidiaries		436,433	35,909
Preferred Shares	Redeemable preferred shares	220,775	220,775
	Convertible redeemable preferred shares	205,140	205,065
		425,915	425,840
Common Shareholders' Equity	Common shares and contributed surplus	476,443	312,886
	Retained earnings	558,975	465,764
	Unrealized foreign exchange	98,900	79,600
		1,134,318	858,250
		$25,370,085	$10,380,029

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

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1985, 1984 and 1983
(thousands of Canadian dollars)

		1985	1984	1983
Operations	Net income for the year	171,227	131,753	103,040
	Items not affecting funds:			
	Depreciation, depletion and amortization	170,462	132,898	115,854
	Deferred income taxes	(34,100)	(15,800)	(53,300)
	Equity income and other	(29,542)	(23,818)	20,452
	Funds Generated by Operations	$ 278,047	$ 225,033	$ 186,046
Operating Net Assets	Financial Services			
	Cash, short-term notes and securities	473,377	(339,529)	(168,568)
	Loans	(1,458,642)	(347,229)	(594,666)
	Deposits	759,478	555,793	697,449
	Receivables, payables and income taxes	(10,121)	53,433	141,642
		(235,908)	(77,532)	75,857
	Other Operations			
	Accounts receivable	(107,327)	(60,299)	51,488
	Inventories	113,387	(32,036)	167,199
	Accounts payable and income taxes	97,049	35,995	(13,566)
	Foreign exchange translation effects	7,255	16,659	(4,198)
		110,364	(39,681)	200,923
	Net Funds Generated by (Required for) Operating Net Assets	$ (125,544)	$(117,213)	$ 276,780
Investment Activities	Acquisitions			
	Canada Trustco Mortgage Company	(1,186,315)	—	—
	GSX Corporation	(10,845)	(264,000)	—
		(1,197,160)	(264,000)	—
	Fixed Assets, Income Properties and Joint Ventures			
	Financial Services			
	Disposals	21,830	43,221	8,701
	Additions	(105,968)	(124,334)	(114,614)
		(84,138)	(81,113)	(105,913)
	Other Operations			
	Disposals	115,153	138,173	146,813
	Additions	(244,616)	(123,108)	(203,303)
		(129,463)	15,065	(56,490)
	Net Funds Required for Investment Activities	$(1,410,761)	$(330,048)	$(162,403)
Dividends		$ (70,154)	$ (46,367)	$ (36,737)
	Net Funds Available (Required) for Financing Activities	$(1,328,412)	$(268,595)	$ 263,686

Consolidated Statements of Changes in Financial Position (continued)		1985	1984	1983
Financing Activities	Issue of long-term debt	997,273	65,501	98,105
	Repayment of long-term debt	(254,311)	(30,615)	(35,896)
	Issue of common and preferred shares	155,770	206,798	5,564
	Increase in minority interests	357,790	15,165	(577)
	Deferred revenue	52,528	(13,295)	(8,610)
	Increase (decrease) in short-term borrowings	19,362	25,041	(322,272)
	Financing Generated (Required)	$ 1,328,412	$ 268,595	$(263,686)

Consolidated Statements of Retained Earnings

For the years ended December 31, 1985, 1984 and 1983
(thousands of Canadian dollars)

		1985	1984	1983
Retained Earnings Beginning of Year		465,764	383,099	316,796
	Net income for the year	171,227	131,753	103,040
		636,991	514,852	419,836
	Dividends—preferred shares	33,585	19,605	14,848
	—common shares	36,569	26,762	21,889
		70,154	46,367	36,737
	Share issue expenses (net of income taxes)	7,862	2,721	—
		78,016	49,088	36,737
Retained Earnings End of Year		$558,975	$465,764	$383,099

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

1. Business Combinations

Canada Trustco Mortgage Company

Through a cash tender offer, Genstar Acquisition Corporation, a subsidiary of the company, acquired, effective August 27, 1985, 98.5% of the common shares of Canada Trustco Mortgage Company (Trustco) which, together with 10,000 common share purchase warrants, represents 93.5% of their common shares on a fully diluted basis.

The total cost of the acquisition, including related expenses, was $1.186 billion and was financed by $744 million in bank borrowings, $152 million in proceeds from the issue of five million common shares and $290 million in proceeds from the issue of 12 million preferred shares by Genstar Financial Corporation, a subsidiary of the company.

The consolidated financial statements include the results of operations of Trustco from the effective date of the acquisition. Details of the acquisition, which has been accounted for on the purchase basis of accounting, are as follows:

		(thousands of dollars)
Net tangible assets at the book value of Trustco		551,066
Less: Minority interest — preferred shares of Trustco		(35,000)
— common shares of Trustco		(7,734)
Net tangible assets acquired at book value		508,332
Allocation of excess of cost over book value:		
Tangible net assets — Mortgage, personal and commercial loans	55,400	
— Customer demand and term deposits	(67,200)	
— Securities	36,600	
— Income properties	42,000	
— Premises and equipment	28,600	95,400
Identifiable intangible assets		
— Financial intermediary	111,000	
— Fiduciary	60,000	171,000
Residual intangible assets		411,583
Total purchase price of Trustco		$1,186,315

The company's net income will be adjusted to amortize the excess purchase price allocations over the term to maturity of financial assets and liabilities, which in most cases occurs by 1990, over the remaining estimated useful lives of 10 to 36 years for properties and equipment, over 5 to 25 years for identifiable intangible assets and over 30 years for residual intangible assets.

Assuming that the acquisition had taken place on January 1, 1984, and that the financing of the purchase and the required amortization of the excess purchase price remained unchanged, with an average cost of bank borrowings of 11% in 1985 and 12% in 1984, the theoretical pro forma results of operations of the company would have been as follows:

	1985	1984
	(thousands of dollars)	
Revenues	$4,985,400	$4,256,200
Net income	155,000	95,100
Net income per common share		
Canadian method — basic	$ 3.30	$ 2.07
— fully diluted	3.13	2.06
U.S. method — primary	3.13	2.06
— fully diluted	3.13	2.06

The theoretical pro forma results of operations, as presented above, are not necessarily indicative of either the results of operations that would have occurred had the acquisition taken place on January 1, 1984 or of the company's future results of operations.

The acquisition of Trustco and the related financing resulted in the following changes in the company's financial position:

	(thousands of dollars)
Increase in long-term debt	$ 743,700
Increase in common shares and contributed surplus	158,500
Increase in tangible assets	13,284,200
Increase in tangible liabilities	12,637,400
Decrease in retained earnings	7,900
Increase in intangible assets	582,600
Increase in minority interests of financial service operations	342,700
Decrease in deferred taxes	7,600

Effective with the close of business on December 31, 1985, the company amalgamated Canada Trustco with its other Canadian trust company subsidiary, Canada Permanent Mortgage Corporation. The combined company operates under the name Canada Trustco Mortgage Company. Excluding this footnote, references in these financial statements to Canada Trustco Mortgage Company represent the amalgamated company.

GSX Corporation

In the third quarter of 1984, GSX Corporation (GSX), was formed as a subsidiary to acquire, in partnership with a third party, the outstanding shares of another company engaged in providing waste disposal services. GSX's initial share of the cost of this acquisition was $264 million and it received approximately 42% of the acquired company's assets and operations. Pursuant to an agreement with its partner, if GSX elected to dispose of any of the acquired businesses within nine months of the acquisition date, the partner was obligated to make up any shortfall between the sales price and the portion of GSX's total contribution allocated to that business. Subsequently, GSX made additional investments of $36.8 million and elected to dispose of certain of the acquired businesses with an original allocated purchase price of $26 million. Accordingly, GSX's final contribution to the purchase of its share of the businesses amounted to $274.8 million.

The excess of this purchase price over the book value of the assets acquired amounted to $107.8 million and was allocated primarily to fixed assets and intangible assets. The purchase price allocation to fixed 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 assets and 40 years for residual intangibles. The investments in 1984 and 1985, and subsequent partial divestiture in 1985, of these operations resulted in the following changes in the company's financial position:

	1985	1984	Net Investment
	(thousands of dollars)		
Increase (decrease) in fixed assets, primarily land and landfill sites	(8,977)	122,169	113,192
Increase (decrease) in intangible assets	22,343	119,860	142,203
Increase (decrease) in operating working capital	(2,521)	21,971	19,450
	$ 10,845	$264,000	$274,845

2. *Accounting for Investment Tax Credits*

Effective January 1, 1985, in conformity with recommendations of the Canadian Institute of Chartered Accountants, the company prospectively changed its method of accounting for investment tax credits (ITC) to the cost reduction method. Under this method, the benefit of ITC is amortized to income over the same life, and on the same basis, as the related assets. Previously, the company had used the flow-through method whereby the full amount of ITC was credited to income in the year that the related assets were placed in service. The effect of this change was to increase income tax expense and reduce net income by $2,522,000 for the year ended December 31, 1985. The cumulative effect of this change on retained earnings as at December 31, 1984 is not determinable and, therefore, has not been recognized.

3. Securities

Financial Services	1985 Book Value	1985 Market Value	1984 Book Value	1984 Market Value
	(thousands of dollars)			
Marketable Securities				
Bonds and Debentures				
Canada	708,014	714,605	78,207	79,059
Provinces of Canada	286,735	286,020	34,929	33,990
Corporate and other	300,319	306,351	423,678	424,134
	1,295,068	1,306,976	536,814	537,183
Stocks				
Preference	1,448,060	1,453,709	311,542	348,384
Common	154,347	262,356	74,713	141,351
	1,602,407	1,716,065	386,255	489,735
	2,897,475	$3,023,041	923,069	$1,026,918
Non-Marketable Securities, primarily common stocks	67,620		41,336	
	$2,965,095		$ 964,405	

Gains on sale of securities recognized in income were $52,238,000, $62,174,000, and $99,661,000 in 1985, 1984 and 1983 respectively.

4. Mortgage, Personal and Commercial Loans

Financial Services	1985	1984
	(thousands of dollars)	
Mortgage	11,380,109	4,315,134
Commercial	3,210,731	924,305
Personal	1,007,375	301,234
	15,598,215	5,540,673
Allowance for loan losses	99,058	30,069
	$15,499,157	$ 5,510,604

Provisions for loan losses charged against income and included in other cost of revenues were $15,347,000, $13,539,000 and $32,891,000 for the years ended December 31, 1985, 1984 and 1983, respectively.

Write-offs charged against the allowance for loan losses were $11,518,000, $15,939,000 and $11,151,000 in 1985, 1984 and 1983, respectively. The purchase of Canada Trustco resulted in an increase in the allowance of $65,160,000 in 1985.

5. Inventories

Building Materials	1985	1984
	(thousands of dollars)	
Finished goods	68,551	58,030
Raw materials, repair parts and work in process	74,382	64,403
	$142,933	$122,433
Land and Real Estate Development		
Development land	$277,884	$411,771

6. *Income Properties*

	1985	1984
	(thousands of dollars)	
Financial Services		
Properties under development	38,134	—
Income producing properties	239,809	—
	277,943	—
Accumulated depreciation	14,186	—
	$263,757	—
Depreciation expense	$ 670	—
Land and Real Estate Development		
Properties under development	127,130	42,655
Income producing properties	128,568	129,086
	255,698	171,741
Accumulated depreciation	5,415	4,194
	$250,283	$167,547
Depreciation expense (1983-$2,150)	$ 2,437	$ 2,546

7. *Fixed Assets*

	Financial Services	Building Materials	Industrial Services	Land and Real Estate Development*
	(thousands of dollars)			
As at December 31, 1985:				
Land	9,910	32,734	13,697	—
Buildings	161,644	238,866	30,811	360
Quarries, gravel deposits and landfill sites	—	64,839	41,912	—
Machinery and equipment	110,362	948,140	332,835	4,379
Rental and lease equipment	395,047	—	—	—
	676,963	1,284,579	419,255	4,739
Accumulated depreciation, depletion and amortization	208,467	576,207	220,398	2,406
	$ 468,496	$ 708,372	$ 198,857	$ 2,333
As at December 31, 1984:				
Land	3,340	33,552	8,603	1,012
Buildings	73,497	231,592	32,400	5,262
Quarries, gravel deposits and landfill sites	—	60,236	34,809	—
Machinery and equipment	46,142	908,557	328,706	10,026
Rental and lease equipment	352,301	—	—	—
	475,280	1,233,937	404,518	16,300
Accumulated depreciation, depletion and amortization	131,289	529,979	203,631	7,635
	$ 343,991	$ 703,958	$ 200,887	$ 8,665

*Included in Joint Ventures and Other Assets of the Land and Real Estate Development Category.

Included in fixed assets at December 31, 1985 is construction in progress of $50,000,000 with an estimated cost to complete of $41,000,000. Information concerning fixed assets held under capitalized leases is included in Note 18.

8. *Intangible Assets*

Intangible assets comprise intangible assets arising from acquisitions and debt discount, net of accumulated amortization.

Intangible assets arising from acquisitions represent the excess of cost over the fair value of net tangible assets acquired. Intangible assets arising from acquisitions subsequent to November 1, 1970 are amortized to income over periods up to forty years. Non-amortizable intangible assets arising from acquisitions prior to November 1, 1970 amounted to $31,929,000 at December 31, 1985 and 1984. Unamortized intangible assets are charged to income in the event of a permanent diminution in value.

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, and is amortized over the remaining term of the related debt. Debt discount was $9,250,000 and $9,389,000 at December 31, 1985 and 1984, respectively.

As more fully described in Note 1, the acquisition of 98.5% of Canada Trustco Mortgage Company during 1985 and GSX during 1984 resulted in increases in amortizable intangible assets of $582,583,000 and $142,203,000, respectively.

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

	1985	1984	1983
	(thousands of dollars)		
Operations			
Revenues	146,449	198,230	316,591
Expenses	183,318	209,253	380,317
	(36,869)	(11,023)	(63,726)
Income (loss) allocated to other partners	(3,784)	3,366	(40,941)
Loss allocated to company	$ (33,085)	$ (14,389)	$ (22,785)
Net Assets Employed			
Accounts and loans receivable and other assets	169,577	79,186	121,963
Fixed assets	24,026	16,227	41,552
Land, real estate under development and other inventories	345,002	469,042	460,942
	538,605	564,455	624,457
Accounts payable and other liabilities	73,222	45,935	78,337
	$465,383	$518,520	$546,120
Financed by			
Mortgages and loans payable	352,836	414,960	483,982
Equity and advances by other partners	64,978	59,402	13,171
Equity and advances by the company	47,569	44,158	48,967
	$465,383	$518,520	$546,120

The loss of $33,085,000 allocated to the company for 1985 does not reflect $18,502,000 in gains on sales of the company's interests in certain joint ventures.

In general, liabilities of joint ventures are secured by pledges of the related assets. At times, the joint ventures 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, 1985 for the other partners' share of liabilities of $13,300,000 should the other partners not be able to satisfy them, as well as for its own share of $10,000,000 compared to $50,500,000 and $50,000,000, respectively at December 31, 1984.

As a limited partner in other ventures, the company is a guarantor of partnership liabilities of $7,000,000 at December 31, 1985 compared to $16,500,000 at December 31, 1984. Under certain partnership agreements, the company is also committed to make additional investments of $526,000.

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 $94,600,000 of loans if the partnership is unable to do so from its own resources. During 1985, the company purchased land for approximately $21,700,000 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:

1986: $12,700,000 1987: $12,700,000
1988: $12,600,000 1989: $12,600,000
1990: $12,600,000

10. Customer Demand and Term Deposits

	1985	1984
	(thousands of dollars)	
Financial Services		
Demand	7,361,657	1,069,337
Cashable term	1,487,341	724,547
Term	11,353,255	5,116,735
	$20,202,253	$ 6,910,619

11. Debt

	1985	1984
	(thousands of dollars)	
Genstar Corporation		
Fixed Interest Rate Debt		
Debentures		
6 1/2% convertible due in 1988(a)	3,966	5,314
7% due in 1991(b)(c)	67,860	50,800
10 3/4% due in 1999(c)	44,000	46,000
11 1/4% due in 1996(c)	33,106	34,490
10% due to 1989(a)(c)	51,549	51,468
11% sinking fund debenture due to 1996(a)	19,579	23,601
11 3/4% due to 1995(c)	14,450	14,871
17 1/2% due in 1989(a)(c)	104,965	98,967
9% convertible due in 1985(a)	—	4,955
14 3/4% due to 1991(a)(c)	—	57,684
Capital Lease Obligations		
5 3/4% to 6 1/2% revenue bonds due to 1998(a)	20,811	21,832
5.9% to 16 7/8% building and equipment leases due to 1999(a)	8,317	9,969
11% Term Bank Loan due to 1989(a)	26,443	25,410
Non-Interest Bearing to 12 3/4% notes, mortgages and debentures due to 2007(a)	36,388	36,751
Short-term Debt		
Real estate advances collateralized by related properties, generally at fixed rates ranging from 7 1/2% to 18%	55,769	62,038
Variable Interest Rate Debt		
Debenture, due to 1995 at LIBOR(a)(c)	200,000	200,000
Bankers acceptances or prime due in 1987	258,000	—
Term bank loans due to 1987(a)	57,299	54,178
Short-term Debt		
Commercial paper, bankers acceptances and demand bank lines	302,081	258,681
	1,304,583	1,057,009

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Genstar Financial Corporation		
Fixed Interest Rate Debt		
11 3/4% debentures due in 1995	75,000	—
5 3/4% to 13 3/4% notes and mortgages due to 1998(a)	53,935	47,831
Capitalized lease obligation, 11.9% equipment lease due to 1989	248	342
Variable Interest Rate Debt		
Bankers acceptances and notes at prime or LIBOR due to 1987(a)	48,000	60,120
LIBOR due to 1991(a)	130,200	80,520
Bankers acceptances or prime notes due in 1988 and collateralized by common shares of a subsidiary	344,138	—
Short-term Debt		
Commercial paper, bankers acceptances and demand bank lines, unsecured(a)	31,873	26,685
Prime to prime +3/4%, collateralized by notes receivable and mortgages	51,113	19,415
	734,507	234,913
Canada Trustco Mortgage Company		
Fixed Interest Rate Debt		
13 1/4% fully-hedged note due in 1990(b)	18,023	18,023
11% notes due to 1990, collateralized by assets of a subsidiary	10,580	12,097
Variable Interest Rate Debt		
Prime due to 1988(a)	51,839	43,263
Prime +1/4%, collateralized by common shares of a subsidiary(a)	48,940	46,259
LIBOR due in 1991(a)	111,864	—
Mortgages due to 1995, at various rates	25,806	—
Short-term debt		
Prime(a)	—	7,739
Prime to prime +1/2%, collateralized by notes receivable and mortgages of a subsidiary(a)	3,775	50,691
	270,827	178,072
Debt	$2,309,917	$1,469,994
Long-term Debt		
Fixed Interest Rate Debt	589,220	560,405
Variable Interest Rate Debt	1,276,086	484,340
	1,865,306	1,044,745
Short-term Debt	444,611	425,249
Debt	$2,309,917	$1,469,994

(a) All or partly payable in U.S. dollars. (b) Payable in Swiss Francs. (c)Debenture 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, none of the company's retained earnings were restricted as to payment of common share dividends at December 31, 1985.

Installments due on long-term debt (excluding capital leases, see Note 18) required in the next five years are summarized as follows:

	1986	1987	1988	1989	1990
	(thousands of dollars)				
Genstar Corporation	7,632	363,890	53,604	194,187	39,551
Genstar Financial Corporation	7,802	77,347	384,605	26,574	39,490
Canada Trustco Mortgage Company	12,854	33,583	17,817	39,317	24,733
Total	$ 28,288	$474,820	$456,026	$260,078	$103,774

12. Minority Interest

Minority interest consists of the following:

	1985	1984
	(thousands of dollars)	
Preferred shares of subsidiaries*	397,799	15,708
Common shares and retained earnings of subsidiaries and equity in joint ventures	38,634	20,201
	$436,433	$35,909

*Preferred shares of subsidiaries include $300,000,000 of 9% first preferred shares of Genstar Financial Corporation, which are retractable at par at the holders' option on October 30, 1990, or annually thereafter.

Minority interest in income of subsidiaries, included in selling, general and administrative expenses, amounted to $13,398,000, $4,382,000 and $3,216,000 in 1985, 1984 and 1983 respectively.

13. Preferred Shares

Shares Authorized

Preferred—5,000,000 shares authorized without nominal or par value. 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.

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 U.S. $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.

	1985		1984		1983	
Issued and Fully Paid	Shares	Amount	Shares	Amount	Shares	Amount
Redeemable			(thousands)			
Preferred shares						
—Series A & B	38	775	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	4,000	100,000	—	—
	5,038	$220,775	5,038	$220,775	1,000	$120,000
Convertible Redeemable						
Preferred shares						
—Series A & B	—	—	—	—	39	781
—Series D	14	279	15	291	15	304
Second preferred shares						
—Series B	210	5,125	210	5,130	210	5,130
—Series C	2,955	93,073	2,976	93,754	2,976	93,754
—Series D	3,999	99,968	4,000	100,000	—	—
—Series SP	661	6,695	627	5,890	552	4,900
	7,839	$205,140	7,828	$205,065	3,792	$104,869

Notes to Consolidated Financial Statements
(Continued)

Convertible Redeemable Issued	1985 Shares	1985 Amount	1984 Shares	1984 Amount	1983 Shares	1983 Amount
			(thousands)			
Beginning of year	7,828	205,065	3,792	104,869	3,881	106,868
Issued in the year						
—Series D at $25.00	—	—	4,000	100,000	—	—
—Series SP at U.S. $9.80 to U.S. $12.62	80	1,214	82	1,052	76	1,184
	7,908	206,279	7,874	205,921	3,957	108,052
Series A and B (expiration of conversion option)	—	—	(38)	(775)	—	—
Converted to common shares	(69)	(1,139)	(8)	(81)	(163)	(3,165)
Series SP redeemed	—	—	—	—	(2)	(18)
End of year	7,839	$205,140	7,828	$205,065	3,792	$104,869

Preferred shares outstanding at December 31, 1985 consist of 457,978 Series A voting shares of the stated value of $20.00 each bearing cumulative dividends at $1.10 each; 1,205,970 Series B voting shares of the stated value of $20.00 each bearing non-cumulative dividends at $1.20 each; and 1,726,476 Series D voting convertible shares of the stated value of $20.00 each bearing cumulative dividends of $1.50 each.

The preferred shares are senior in rank to common and second preferred shares in respect to payment of dividends and distribution of assets. The Series A preferred shares are redeemable at $20.00 per share, plus accrued dividends; Series B preferred shares are redeemable at $20.00 per share. The Series D preferred shares are redeemable at $24.00 per share plus accrued dividends and are convertible into common stock on the basis of two shares for each preferred share held up to June 30, 1987.

The Series A second preferred shares bear cumulative variable-rate dividends based on the London Inter-Bank Offered Rate. As of December 31, 1985, 1984 and 1983, the dividend rates were 5.37%, 6.38% and 6.10%, 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 March 12, 1986. In February 1986, the company announced its intention to redeem all of these shares on March 17, 1986 at $33.10 a share. Since issue in 1980 a total of 45,305 shares has been converted to common shares.

Each Series D second preferred share is convertible at any time into .77 common share. 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.

14. Common Shares and Contributed Surplus

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

Issued and Fully Paid	1985 Shares	1985 Amount	1984 Shares	1984 Amount	1983 Shares	1983 Amount
			(thousands of dollars)			
Common shares, beginning of year	31,738	304,334	31,359	295,786	30,878	288,223
Issued in the year						
—At $31.63 pursuant to a public offering	5,000	158,125	—	—	—	—
—At $10.00 to $32.50 on the conversion of preferred shares	70	1,139	8	81	309	3,165
—At $5.17 to $35.32 under stock purchase plans and on the exercise of options	96	2,788	169	4,202	139	3,739
—At U.S. $16.00 to U.S. $41.00 in exchange for convertible debentures	75	1,620	202	4,265	33	659
Common shares, end of year	36,979	468,006	31,738	304,334	31,359	295,786
Contributed surplus	—	8,437	—	8,552	—	8,552
	36,979	$476,443	31,738	$312,886	31,359	$304,338

Common Shares Reserved for Issuance	1985	1984	1983
		(thousands of shares)	
Series D convertible preferred shares	28	29	30
Series B convertible second preferred shares	189	189	189
Series C convertible second preferred shares	2,955	2,976	2,976
Series D convertible second preferred shares	3,076	3,077	—
Series SP convertible second preferred shares	613	515	619
Convertible debentures	177	343	546
Exercise of options	157	199	156
	7,195	7,328	4,516

1965 Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price not less than 90% of market on the grant date. Employees, the majority of whom were also officers and directors, held options for 45,000, 50,000, and 50,000 common shares at December 31, 1985, 1984 and 1983, respectively. No options were issued in 1985, 1984 or 1983. Option prices from inception of the plan have ranged from $11.99 to $15.75. Of the 45,000 options outstanding at December 31, 1985, 41,000 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 178,790, 149,070 and 105,690 common shares at December 31, 1985, 1984 and 1983, respectively. The number of options granted during the years ended December 31, 1985, 1984 and 1983 were 59,000, 55,825 and 44,050, respectively. Option prices from inception of the plan have ranged from U.S. $10.88 to U.S. $25.57. Of the 178,790 options outstanding at December 31, 1985, 119,790 are currently exercisable.

Revised 1969 Stock Purchase Plan
Under the terms of the Revised 1969 Stock Purchase Plan, the Board of Directors or a committee thereof is authorized to issue up to 1,500,000 Common Shares to officers and employees of the Corporation and its subsidiaries at a price not less than 90% of the mean of the high and low selling prices of the Common Shares on the Toronto Stock Exchange. The Corporation may lend participants up to 99% of the purchase price at an interest rate of 5% per annum or such other rate as fixed by the Board of Directors. The shares are held as security by the trustee until full payment has been received. During 1985, 30,100 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 661,475 Series SP second preferred shares at December 31, 1985. 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 10% per annum. Non-cumulative dividends are paid at the annual rate of U.S. $.66 to U.S. $1.51 per share. During 1985, 80,150 shares were issued.

15. Net Income per Common Share

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

	Canadian			United States		
	1985	1984	1983	**1985**	1984	1983
	(thousands of shares)					
Basic and Primary						
Weighted average common shares	**33,118**	31,473	31,221	**33,118**	31,473	31,221
Share equivalents pertaining to						
—conversion of preferred shares	**—**	—	—	**6,865**	3,633	3,730
—conversion of debt	**—**	—	—	**315**	494	553
—options and warrants	**—**	—	—	**38**	18	39
	33,118	31,473	31,221	**40,336**	35,618	35,543
Fully Diluted						
Weighted average common shares	**33,118**	31,473	31,221	**33,118**	31,473	31,221
Shares pertaining to						
—conversion of preferred shares	**6,931**	3,701	3,793	**6,931**	3,701	3,793
—conversion of debt	**315**	494	553	**315**	494	553
—options and warrants	**50**	20	44	**50**	20	44
	40,414	35,688	35,611	**40,414**	35,688	35,611

Basic and primary income per common share have been calculated after reducing net income by the preferred share dividend entitlement of $33,400,000 in 1985, $19,729,000 in 1984 and $14,774,000 in 1983. Net income was increased for purposes of calculating primary income per common share by $16,403,000 in 1985, $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 $17,344,000 in 1985, $11,761,000 in 1984 and $6,840,000 in 1983, being the dividends on outstanding non-convertible preferred shares, and increased by $368,000 in 1985, $489,000 in 1984 and $505,000 in 1983, being the after-tax effect of interest assumed on convertible debt.

16. Income Taxes

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

	1985	1984	1983
		(thousands of dollars)	
Income (Loss) Before Income Taxes			
Canada	9,670	(33,156)	(25,361)
United States	27,938	24,440	615
Other	138,919	140,769	134,386
	$176,527	$132,053	$109,640
Provision for Current Income Taxes			
Canada	15,900	4,100	12,000
United States	17,400	4,700	37,400
Other	6,100	7,300	10,500
	39,400	16,100	59,900
Provision for Deferred Income Taxes			
Canada	(33,700)	(34,500)	(45,500)
United States	(400)	18,700	(7,800)
	(34,100)	(15,800)	(53,300)
Total Provision for Income Taxes	$ 5,300	$ 300	$ 6,600

The components of the deferred tax provision are as follows:

	1985	1984	1983
Mortgage loan reserves	5,300	(800)	(1,500)
Additional depreciation (recapture) for tax purposes	(39,200)	28,900	1,800
Effect of losses on future taxable income	6,200	(55,100)	(59,100)
Portion of real estate and joint venture deferred income recognized for tax purposes	(4,000)	—	(2,000)
Amortization of excess tax value of assets available to reduce future taxable income	1,900	8,400	5,200
Deferred tax credits and other	(4,300)	2,800	2,300
	$ (34,100)	$ (15,800)	$ (53,300)

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

	1985	1984	1983
Canadian and United States federal income tax rates	46.0%	46.0%	46.0%
Provincial and state income taxes, net of federal deductions	2.5	1.8	5.6
Lower taxes on foreign source income	(4.8)	(19.6)	(11.7)
Tax exempt securities income	(18.9)	(8.6)	(7.4)
Effects of investment incentives net of recapture	0.5	0.4	(3.5)
Reduced rate on capital gains and other income	(3.2)	(6.8)	(0.7)
Inter-unit interest income taxed at reduced rates	(28.7)	(30.8)	(32.6)
Effect of tax losses carried forward	(6.3)	3.6	10.2
Amortization of acquisition purchase price allocations	9.0	12.7	1.7
Minority interest in income of subsidiaries	2.9	1.5	1.3
Other	4.0	—	(2.9)
	3.0%	0.2%	6.0%

Deferred income taxes included in income taxes on the consolidated balance sheet were $36,400,000 and $50,000,000 at December 31, 1985 and 1984, respectively.

Losses of $278,500,000 are available to reduce future United States taxable income in years up to and including 2000.

Tax recoveries have not been recorded on $128,000,000 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 $110,000,000 which is available to reduce future taxable income.

In 1985, United States operations generated taxable operating income which, combined with pension plan asset reversions and estimated tax audit settlements, reduced losses available to reduce future taxable income by $88,700,000.

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, 1985, $258,000,000 of such undistributed income, if distributed as dividends, would be subject to income tax at 46%.

17. Unrealized Foreign Exchange

An analysis of the changes in the unrealized foreign exchange account follows:	1985	1984
	(thousands of dollars)	
Balance—beginning of year	79,600	34,300
Translation adjustments	19,300	45,300
Balance—end of year	$98,900	$79,600
Realized foreign exchange gain (loss) included in income	$ 700	$ (200)
Unrealized foreign exchange gain (loss) included in income	$ (1,900)	$ 1,200
Canadian equivalent of one United States Dollar (year-end rate)	$ 1.40	$ 1.32

18. Leased Assets and Lease Commitments

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

	1985	1984
	(thousands of dollars)	
Buildings	8,700	9,600
Machinery and equipment	31,600	35,700
	40,300	45,300
Less: accumulated depreciation	21,000	22,600
	$19,300	$22,700

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 fixed assets are as follows:

	Non-cancellable Operating Leases	Capital Leases
	(thousands of dollars)	
1986	61,600	2,500
1987	58,400	2,000
1988	53,900	2,100
1989	52,000	2,500
1990	49,000	13,900
Subsequent years' lease payments	103,700	13,500
Total lease payments	$378,600	36,500
Imputed interest		7,124
Present value of minimum lease payments included in long-term debt		$ 29,376

Rent expense for the years ended December 31, 1985, 1984 and 1983, was $71,745,000, $47,518,000 and $44,284,000, respectively.

19. 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.

Pension expense was $2,500,000, $1,000,000 and $4,900,000 in 1985, 1984 and 1983, respectively. Pension plan expense in the United States includes actuarially determined prior service costs being amortized over periods up to 30 years.

Actuarial valuations of the pension plans were made at December 31, 1984 or during 1985 using assumed returns on pension plan assets ranging from 5.5% to 8.5%. The results of these valuations for Canadian and United States plans are as follows:

Canadian Plans

Assets with a market value of $244,343,000 were available in the Canadian plans, compared to the present value of accumulated plan benefits of $225,846,000. The accumulated plan benefits calculation was based on the value of future accrued benefits at retirement and accordingly assumed 100% vesting of participants.

During 1985, the company withdrew, after obtaining regulatory approval, $42,000,000 of the surplus attributable to company contributions existing in certain salaried Canadian pension plans as of April 30, 1985. This amount is being amortized straight-line over a period of 10 years as a reduction of pension expense, commencing in 1985.

United States Plans

U.S. salaried and hourly plans and a new salaried employee plan established as of January 1, 1985, had assets with a market value of $50,186,000 compared with the present value of accumulated plan benefits of $50,473,000. The accumulated plan benefit calculation was based upon the value of accrued benefits payable at retirement and included $47,641,000 of currently vested benefits.

Effective December 31, 1984, the company restructured the pension plan covering most of its United States salaried employees. The existing plan was discontinued and the accumulated plan benefits of all participants became fully vested. Upon receipt of regulatory approval, the trustee of the plan discharged the plan's liability to participants for their accumulated benefits by the purchase of an annuity contract or by direct payments to participants. The residual assets of $43,300,000 were then refunded to the company.This amount is being amortized straight-line to income over a period of 10 years as a reduction of pension expense, commencing in 1985.

20. Litigation

Asbestos

A subsidiary of the company has been named as one of a large number of defendants in numerous actions filed in various jurisdictions by individuals who seek damages based on alleged exposure to asbestos products allegedly manufactured and sold by such defendants (Personal Injury Claims).

The subsidiary and over thirty other companies (the Insured) have entered into an agreement (the Wellington Agreement), pursuant to which some but not all of the subsidiary's insurance carriers have settled with the subsidiary litigation with respect to insurance coverage concerning Personal Injury Claims. Pursuant to the Wellington Agreement, the subsidiary's signatory insurance carriers have agreed that their policies of insurance applicable to the subsidiary cover Personal Injury Claims against the subsidiary resulting from exposure to asbestos products on or before March 15, 1985. The Wellington Agreement establishes a facility which has the exclusive right to handle all claims made against the Insured in actions which allege damages for Personal Injury Claims. Costs in defending claims and indemnity payments will be allotted to the Insured pursuant to agreed upon percentages. An additional primary insurance carrier has agreed to afford the subsidiary coverage similar to that provided under the Wellington Agreement.

The subsidiary, along with a number of other producers of asbestos-related products, has also been named as a defendant at December 31, 1985 in approximately 77 cases pending in various jurisdictions in which the plaintiffs, public and private entities (including school districts) and individuals, have alleged that the presence in buildings of certain materials containing asbestos allegedly manufactured or sold by such producers constitutes a health hazard (Building Claims). Various plaintiffs seek to represent different classes, and a federal court has certified a class consisting of all private and public schools in the U.S. Plaintiffs seek against all defendants very substantial amounts in compensatory damages and, in some instances, additional substantial amounts in exemplary damages. Some plaintiffs do not specify an amount of monetary damages but seek court orders compelling the defendants, at their cost, 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 products. It is not possible to ascertain what damage or relief plaintiffs seek specifically from the subsidiary. The subsidiary believes it has substantial and meritorious defenses to these actions.

Neither of the settlement agreements mentioned above settle the litigation or disputes between the subsidiary and its insurance carriers with respect to coverage for Building Claims. The subsidiary's primary insurance carriers are currently defending such actions pursuant to an interim agreement wherein the carriers have reserved the right to seek reimbursement from the subsidiary. In addition, the subsidiary's settlements with its carriers provide that the subsidiary will not be covered for exemplary damages where applicable law precludes such coverage and two excess insurance carriers have notified the subsidiary that they would deny coverage for such damages. While the issue of insurability of exemplary damages under general liability policies remains in flux and varies from jurisdiction to jurisdiction, the subsidiary intends to contest coverage denials should it become necessary.

Based on historical experience, the subsidiary anticipates that a significant number of additional Personal Injury Claims and Building Claims may be made against it in the future. The subsidiary no longer manufactures or sells any products containing asbestos. Although the amount of liability with respect to Personal Injury Claims and Building Claims cannot be ascertained, any resulting liability from pending Personal Injury Claims and Building Claims, in the opinion of management, will not materially affect the company's financial position.

Abacus Cities

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 subsidiary of the company, 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 million while the action in British Columbia is for an unspecified amount. Guaranty is defending these actions and has advised the subsidiary that Guaranty has a good defense to all such actions.

Other

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 financial position.

21. Additional Information

Restatement

Consolidated financial data for all prior years have been restated to consolidate the accounts of Genstar Financial Corporation (GFC), a financial services subsidiary which was previously accounted for on the equity method. Consolidation of this subsidiary is preferable as a result of the increasing significance of GFC's operations to the company. This change has no effect on previously reported earnings or shareholders' equity.

Capitalized Interest Costs

Interest costs, related primarily to income 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 declined by $4,300,000 in 1985, increased by $20,800,000 in 1984 and remained unchanged in 1983.

Amortization of Purchase Price Premiums

Reported net income of subsidiaries is adjusted on consolidation to include amortization of the excess purchase price allocated to their financial assets and liabilities, properties and equipment, and intangible assets. Amortization of the excess purchase price will substantially occur by December 31, 1990 for financial assets and liabilities, over estimated remaining lives of 4 to 36 years for properties and equipment and over an average of 25 years straight-line for intangible assets. The effect of amortization of these allocations was to decrease reported net income of the subsidiaries by $17,300,000 and $10,600,000 and increase net income by $6,500,000 for the years ended December 31, 1985, 1984 and 1983, respectively.

Mortgage Commitments

At December 31, 1985, outstanding commitments for mortgage advances amounted to $853,312,000.

Foreign Exchange

Under Canadian Generally Accepted Accounting Principles (GAAP), translation fluctuations associated with long-term debt are amortized straight-line over the remaining term to maturity of the debt. Under U.S. GAAP, such fluctuations would be included in income for the period. In 1985, application of U.S. GAAP would have resulted in a reduction in net income of $2,700,000. In prior periods, the differences between U.S. and Canadian GAAP have not been material.

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 Trustco Mortgage Company (Trustco) as a trust and loan institution, is regulated by various Canadian federal and provincial legislation. Regulatory approval would be required for any loan from Trustco 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 Trustco's deposits to 25 times its capital as defined by statute. Under these regulations, at December 31, 1985, all of Trustco's post-acquisition retained earnings of $97,000,000 were available for dividends.

Provisions of a subsidiary's loan agreement prohibit the payment of dividends by the subsidiary until December 31, 1986. The company's share of undistributed earnings of the subsidiary was $25,100,000 at December 31, 1985.

Trust indentures relating to $47,600,000 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 $261,000,000 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, 1985, $27,700,000 of consolidated retained earnings represent unremitted income of joint ventures.

22. Summarized Quarterly Financial Data (Unaudited)

	Three Months Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
1985	(thousands of dollars)				
Revenues	$723,522	$925,270	$1,065,902	$1,317,161	$4,031,855
Operating income	38,175	101,082	113,646	135,307	388,210
Net income	5,269	50,714	53,669	61,575	171,227
Net income per common share	(dollars)				
—basic	$ (0.09)	$ 1.32	$ 1.41	$ 1.52	$ 4.16
—primary	(0.09)	1.30	1.26	1.35	3.82
Market price: The Toronto Stock Exchange	(dollars)				
—high	$ 32.00	$ 32.50	$ 35.38	$ 33.75	$ 35.38
—low	26.13	27.38	27.63	26.00	26.00
—closing price, December 31					33.25
Market price: The New York Stock Exchange	(United States dollars)				
—high	$ 23.88	$ 23.88	$ 26.13	$ 24.25	$ 26.13
—low	19.75	19.88	20.38	19.00	19.00
—closing price, December 31					23.88
Trading volume on exchanges in	(thousands of shares)				
—Canada	3,763	2,460	4,529	6,371	17,123
—United States	1,996	1,514	1,554	2,324	7,388
—other exchanges	360	151	160	317	988

	Three Months Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
1984	(thousands of dollars)				
Revenues	$588,233	$794,663	$788,623	$887,812	$3,059,331
Operating income	24,737	95,336	93,466	115,059	328,598
Net income	(3,809)	44,464	44,770	46,328	131,753
	(dollars)				
Net income 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
	(dollars)				
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
	(United States dollars)				
Market price: The New York Stock Exchange					
—high	$ 25.25	$ 19.13	$ 20.38	$ 21.50	$ 25.25
—low	18.63	15.00	15.00	17.88	15.00
—closing price, December 31					20.25
	(thousands of shares)				
Trading volume on exchanges in					
—Canada	1,911	1,537	2,357	2,048	7,853
—United States	2,334	2,094	2,285	2,475	9,188

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

	1985	1984	1983	1982	1981
Average Canadian Consumer Price Index (1981=100 per Statistics Canada)	127.1	122.2	117.2	110.8	100.0
Revenues (millions of dollars)					
—as reported	$ 4,032	$ 3,059	$ 2,872	$ 2,802	$ 2,629
—in constant dollars	4,032	3,179	3,115	3,214	3,341
Dividends per common share					
—as reported	$ 1.10	$ 0.85	$ 0.65	$ 0.90	$ 1.80
—in constant dollars	1.10	0.88	0.70	1.03	2.29
Market price per common share at year-end*					
—historical amount	$ 33.25	$ 26.75	$ 31.00	$ 20.25	$ 23.38
—in constant dollars	32.63	27.37	32.94	22.50	28.38

*Toronto Stock Exchange

Overview

The average Consumer Price Index (CPI) in Canada increased by 4.0% in 1985, compared to increases of 4.3% in 1984 and 5.8% in 1983. 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. Caution should be exercised in its interpretation.

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 land and manufacturing inventories and the related cost of sales have been determined by applying recent purchase prices and standard costs to units on hand or by the use of internal and external indices for changes in costs.

The current cost of fixed assets of the company's operations has been determined using recent construction and purchase costs or internal, external and trade association indices. If new asset prices have been used, accumulated depreciation has been deducted for the expired useful life. Depreciation was based on average 1985 current cost and historic estimated useful lives.

Monetary assets and liabilities are restated only for the current year's general inflation. The assets and liabilities of the company's financial services operations are primarily of a monetary nature.

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 1985 dollars. Foreign currency current cost amounts were translated to Canadian dollars and then restated into average 1985 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 1985 dollars using the Canadian CPI. The resultant reduction in liabilities, assuming repayment in December 31, 1985 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 1985 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.

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 1985 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 \$124,500,000 or \$3.76 per common share or the Canadian "financing adjustment" of \$92,000,000 or \$2.78 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 1983-85 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 $2,573,400,000 in 1985, $2,717,900,000 in 1984, and $2,476,100,000 in 1983. These current cost amounts are 43%, 52% and 56% higher than their respective historical cost amounts. The current cost of these assets did not increase in proportion to the general inflation rate in 1983. The current cost in proportion to the general inflation rate increased $97,100,000 in 1984 and decreased $25,800,000 in 1985. The decrease is primarily related to sales of development land, which carried a high current cost basis.

Net assets on a current cost basis were the equivalent of 149% of their historical value as at December 31, 1985, as opposed to 171% and 205% as at December 31, 1984 and 1983, 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 1985, 1984 and 1983 Financial Data Adjusted for the Effects of Changing Prices	1985	1984*	1983*
	(millions of dollars except per share amounts)		
Net Income			
In average 1985 dollars	171.2	137.1	117.7
Current cost adjustments:			
Cost of revenues	89.1	50.2	26.8
Depreciation	73.0	73.5	67.9
	$ 9.1	$ 13.4	$ 23.0
Gain from Decline in Purchasing Power of Net Liabilities			
In average 1985 dollars	$ 124.5	$ 68.9	$ 83.1
Financing Adjustment			
Current cost income adjustment attributable to debt	$ 92.0	$ 58.6	$ 46.7
Net Income (Loss) Per Common Share			
In average 1985 dollars	$ (0.74)	$ (0.22)	$ 0.22
Inventories and Fixed Assets			
As reported	1,798.9	1,791.7	1,587.1
Adjustment for general inflation	732.0	746.7	927.9
Current year adjustment for specific inflation in excess of (less than) general inflation:			
Current cost	(25.8)	97.1	(80.1)
Foreign exchange translation	68.3	82.4	41.2
	$2,573.4	$2,717.9	$2,476.1
Financing Adjustment			
Theoretical debt financing of annual change in current cost of inventories and fixed assets	$ (82.0)	$ 114.6	$ (146.4)
Net Assets			
In average 1985 dollars	$2,326.8	$2,193.7	$1,786.3

*For the purposes of comparison 1984 and 1983 amounts have been increased for the change in the average CPI from those years to 1985. This restates 1984 and 1983 amounts to the purchasing power equivalent of average 1985 dollars.

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