
GBC
CAPITAL
LTD.

1986

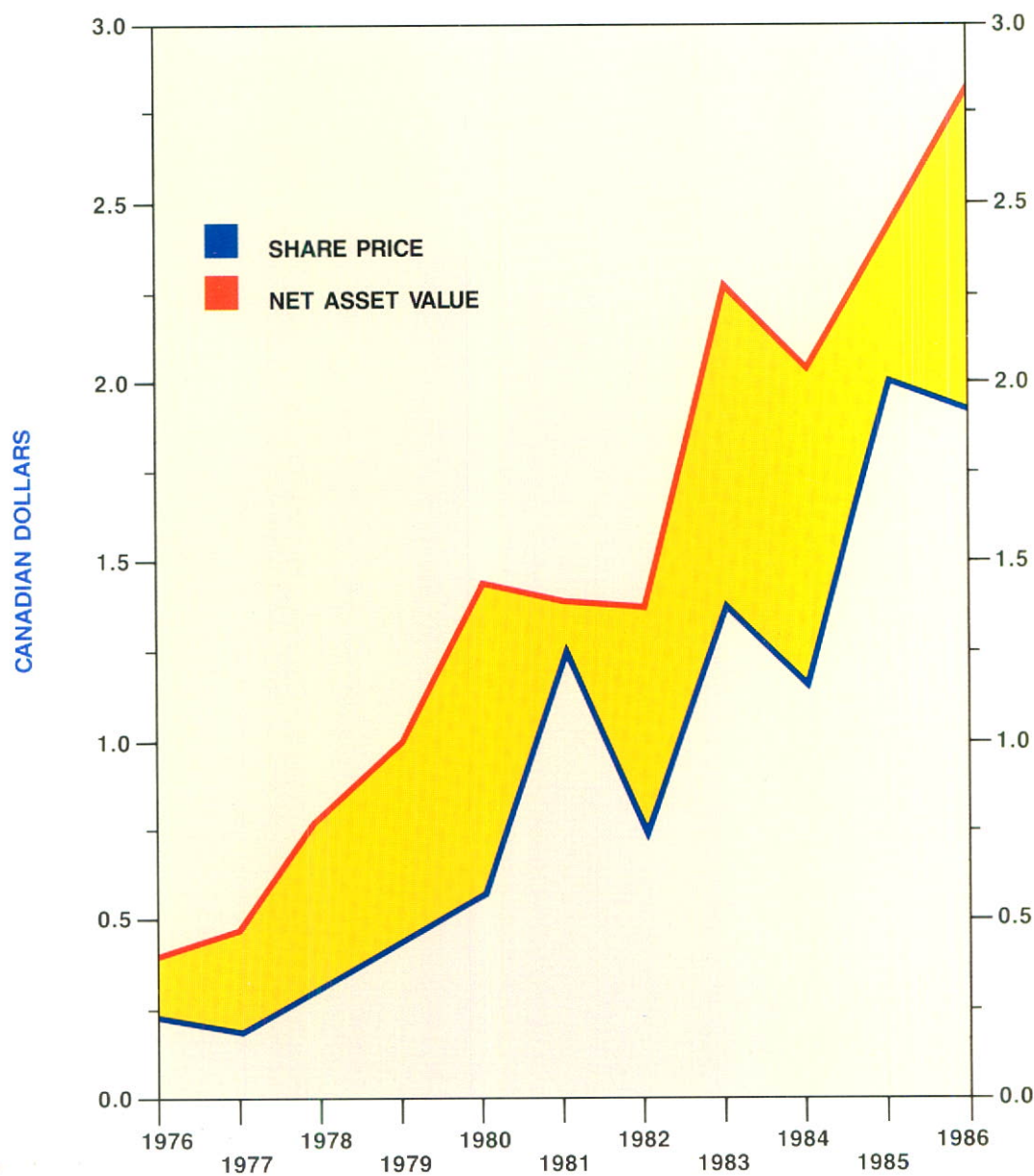
**Annual Report
and Accounts**

GBC CAPITAL LTD.

INVESTMENT OBJECTIVE

To achieve long term growth of capital through investing in small to medium sized companies in Canada and the United States which have exceptional growth potential.

SHARE PRICE PERFORMANCE 1976 - 1986



REVIEW OF FISCAL 1986 (1ST OCTOBER, 1985 — 30TH SEPTEMBER, 1986)

GBC's net assets rose 15.7% in fiscal 1986 to a record \$211.7 million. The net asset value per common share rose 16.3% to \$2.82, equivalent to \$2.65 taking account of the potential dilution from the Corporation's outstanding warrants. Both of these net asset values are before deducting contingent capital gains taxes equal to \$0.36 per share.

For comparative purposes the Toronto Stock Exchange 300 Composite Stock Index rose 13.2% in the same period while the Standard & Poor 500 Stock Index, expressed in Canadian dollars, rose 27.4% and the Consumer Price Index in Canada rose 4.1%.

Fiscal 1986 was a good but not spectacular year for GBC Capital Ltd. The period was characterized by slow economic growth, disappointing corporate profits, lower inflation and interest rates and booming stock markets around the world. The best performing shares were generally those of large capitalization issues not overly reliant upon strong economic growth such as utilities, financial services and stable consumer products companies. These are not areas that GBC emphasizes and as a result superior performance was not achieved in 1986.

Because of the fall in the Canadian dollar relative to sterling, fully diluted net asset value per share after deducting contingent capital gains taxes rose only 9.3% to 114.3p. This is the second consecutive year in which the Canadian dollar has fallen relative to sterling with the total decline for the two years being 18.8%.

During the year your directors took the decision to wind up Sutton Ventures Ltd., GBC's wholly owned subsidiary concentrating on U.S. technology investments. This was done to reduce administrative costs and in no way reflects a change in policy away from investing in high technology. Sutton's portfolio was transferred to GBC and the latter will retain its significant commitment to this area in the future.

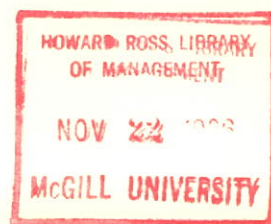
Of longer term significance to GBC shareholders was the decision of British Assets Trust, the owner of 54.3% of the Corporation's common shares, to issue £42.2 million of loan stock that is convertible between 1990 and 1995 into almost its entire holding of GBC shares. Should conversion take place GBC would become an independent investment company with substantially improved marketability for its shares.

Net income in fiscal 1986 totalled \$2.4 million equivalent to \$0.028 per common share after payment of preferred dividends. This compares with net earnings and earnings per common share of \$2.6 million and \$0.032 respectively in fiscal 1985. Your directors have declared a dividend of \$0.03 per common share (equal to 1.5p) with respect to fiscal 1986 that will be paid to shareholders in December. This payment compares to total dividends of \$0.028 paid with respect to the 1985 fiscal year.

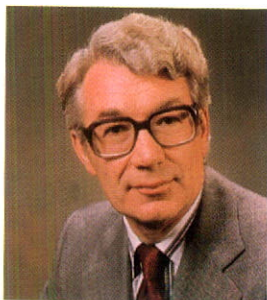
There was a sharp decline in North American stock markets during September, the last month of GBC's fiscal year, but there are indications that growth stocks are beginning to outperform the broad stock market averages. Growth stocks appear attractively valued relative to their prospects and historic norms. This should be a favourable environment for GBC Capital.

On behalf of the Board
Neil B. Ivory, President

Montreal, Canada
6th November, 1986

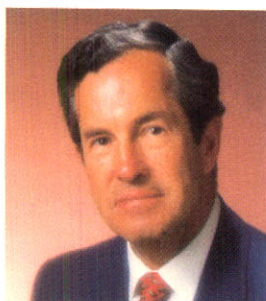


THE BOARD



Neil B. Ivory has been President & Chief Executive Officer of GBC Capital since 1982. He is President & Chief Executive Officer of Pembroke Management Ltd., an investment management company. His other directorships include Harris Steel Group and Toromont Industries Ltd.

Douglas T. Bourke was formerly President & Chief Executive Officer of Drummond McCall Inc., a Canadian metals company. He is a director of SKF Canada Ltd.



Donald E. Dunn, C.A., is Senior Vice President and a Director of Henry Birks & Sons, a North American jewellery retailing company. He is also a director of several other companies.

George A. Fierheller is President & Chief Executive Officer of Cantel Inc., a Canadian telecommunications company. He is also a director of Rogers Communications Inc., Oakwood Petroleums and Crownx Inc.

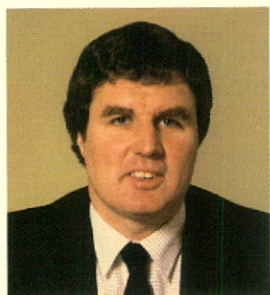


R. Alexander Hammond-Chambers is Chairman of Ivory & Sime plc, a Scottish investment management company. He is a Director of Endata and a Governor of the National Association of Securities Dealers in the U.S.

John S. Lane, CFA, is Senior Vice-President and General Manager for Canada of Sun Life Assurance Company of Canada.



THE BOARD



David T.M. Ross, FCCA is a Director of Ivory & Sime plc, a Scottish investment management company.

Hugh R. Synder is a business executive who has served as a senior executive of several Canadian resource companies.



The Board of GBC Capital Ltd., whose members have extensive experience in finance, industry, retailing, resources and technology, set the broad investment policy guidelines for the Corporation. It meets four or five times a year but the board members are consulted frequently between meetings whenever their expertise could be helpful in reaching investment decisions.

Four members of the Board, Messrs Dunn, Fierheller, Lane and Ross constitute the Audit Committee which meets at least twice a year with the auditors and the managers to consider accounting policies and financial controls as well as to review the annual accounts in detail.

MANAGERS

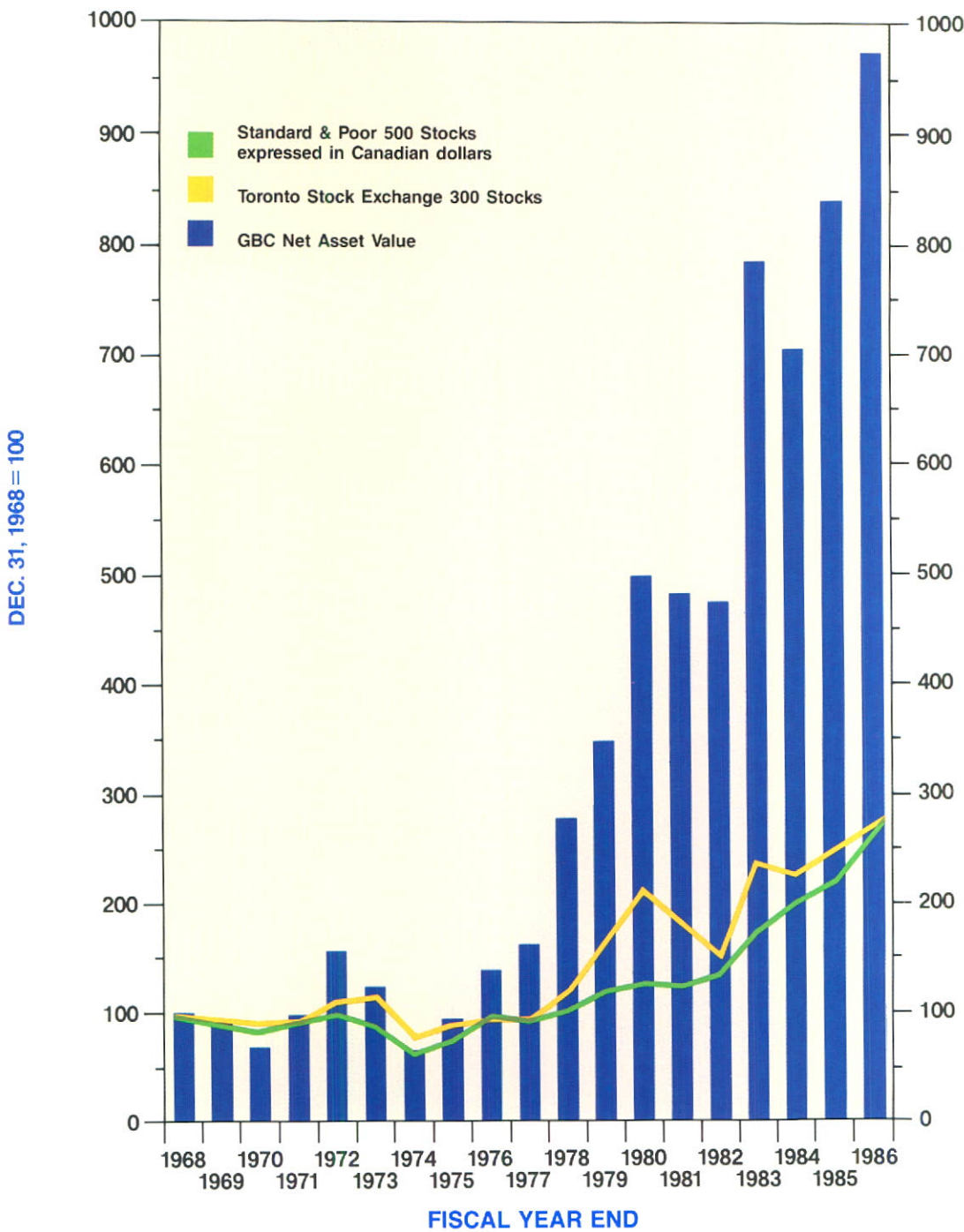
Pembroke Management Ltd, has managed GBC Capital since Pembroke was formed in 1968. Three of Pembroke's founders have been engaged in the day to day investment management of GBC since 1968 and remain so today aided by two younger members of the management team. While Pembroke manages a number of other accounts, GBC remains Pembroke's largest client.

Pembroke specializes in growth stock investments in the U.S. and Canada with an objective of producing long term returns superior to that of other investment alternatives. By keeping a sharp focus on its speciality, avoiding short term fads and limiting its client base, these objectives have been met. Pembroke does not expect to achieve superior returns every year but over the long term its results compare favourably with those achieved by other fund managers.

LONG TERM RESULTS

During the eighteen years that GBC has been managed by Pembroke Management Ltd., its net asset value per common share has risen from \$0.29 to \$2.82, an average compound rate of growth of 13.5%. In the chart below GBC's results are compared with the broad Canadian & U.S. stock market indices, expressed in Canadian dollars.

Net earnings during the same interval have advanced from \$0.3 million to \$2.4 million. GBC initiated its first dividend in 1972 of 0.074 cents and the rate has been gradually increased to its present level of 3 cents.



FINANCIAL SUMMARY

| | Net income ¹ (\$'000) | Per common share | | Net assets (\$'000) | Available for common shares (\$'000) | Per common share | | | |
|-------------------|-------------------------------------|-----------------------|---|------------------------|---|--------------------|------------------------------------|---|------------------------------------|
| | | Net income (cents) | Dividends paid ² (cents) | | | Net asset value | Contingent capital gains tax | Net asset value | Contingent capital gains tax |
| | | | | | | | | Converted into £ sterling ⁴ | |
| 1986 | 2,379 | 2.84 | 1.50 ³ | 211,678 | 205,218 | \$2.82 | \$0.36 | 140p | 17.9p |
| 1985 | 2,610 | 3.15 | 2.52 | 182,898 | 176,439 | 2.43 | 0.30 | 126p | 15.6p |
| 1984 | 2,623 | 3.17 | 2.44 | 155,120 | 148,662 | 2.04 | 0.24 | 125p | 14.8p |
| 1983 | 1,965 | 2.26 | 2.11 | 171,899 | 165,440 | 2.27 | 0.33 | 123p | 17.9p |
| 1982 | 1,832 | 2.07 | 2.00 | 106,345 | 99,887 | 1.37 | 0.15 | 65p | 7.2p |
| 1981 | 2,081 | 2.44 | 2.52 | 107,410 | 100,951 | 1.39 | 0.17 | 64p | 7.8p |
| 1980 | 1,559 | 1.70 | 1.33 | 110,934 | 104,475 | 1.44 | 0.22 | 52p | 7.9p |
| 1979 | 1,303 | 1.37 | 1.11 | 79,452 | 72,994 | 1.00 | 0.13 | 39p | 5.1p |
| 1978 | 882 | 0.78 | 0.25 | 64,593 | 58,134 | 0.80 | 0.10 | 34p | 4.3p |
| 1977 ⁵ | 427 | 0.26 | — | 40,895 | 34,437 | 0.47 | 0.04 | 25p | 2.1p |
| 1976 | 589 | 0.37 | 0.24 | 35,429 | 28,970 | 0.40 | 0.02 | 25p | 1.2p |

NOTES

1 Certain figures have been restated in order to remove the effects of equity accounting which had been used for fiscal years 1972 to 1978 inclusive.

2 Dividends paid during fiscal year.

3 This figure represents the second semi-annual dividend paid in respect of fiscal 1985. Dividends are now being paid annually and, in respect of fiscal 1986, a dividend of 3 cents per share will be paid on 19th December, 1986.

4 Conversions were effected at the rate applicable at the end of each fiscal period.

5 Nine month period ended 30th September, 1977. Prior years ended on 31st December.

TOP HOLDINGS

Valuation of Holding \$29 million
13.5% of Assets

FINANCIAL INFORMATION

| | | |
|-------------------------------|------------------|------------------|
| Nine Months to 30th September | 1986 | 1985 |
| | (\$ Mill) | (\$ Mill) |
| Revenues | 276.2 | 229.9 |
| Net Earnings | * 17.7 | 30.3 |
| Earnings Per Share | * \$0.70 | \$1.21 |

* After a non recurring write-off of \$20 million or \$0.79 per share.



SHARED MEDICAL SYSTEMS CORPORATION

SMS's twelve year record of uninterrupted quarterly earnings growth was broken in the second quarter of 1986 because of large write downs associated with its international operations. The decision to discontinue its operations in Japan, the consolidation of its operating losses abroad and the write down of its investment in SMS International, resulted in a loss after tax of approximately \$20 million (\$0.79 per common share) in the second quarter.

While the withdrawal from Japan and the large international losses are a considerable disappointment for SMS, the company is well positioned for growth during the next several years. The rest of SMS's extensive international operations are showing good progress and are expected to become profitable soon. Its comprehensive product offerings in the U.S. are generating good growth notwithstanding the more difficult hospital operating environment, and SMS's financial and management resources remain very strong. The return to record profitability in the third quarter and the prospects for continuing growth through 1987 suggest the shares are attractively priced at the current price level.

Valuation of Holding \$10.5 million
4.9% of Assets

FINANCIAL INFORMATION

| | | |
|-------------------------|------------------|------------------|
| Six Months to 31st July | 1986 | 1985 |
| | (\$ Mill) | (\$ Mill) |
| Revenues | 235.8 | 186.8 |
| Net Earnings | 13.1 | 10.1 |
| Earnings Per Share | \$0.74 | \$0.62 |



THE PEP BOYS MANNY, MOE AND JACK

Pep Boys operates 165 discount auto parts supermarkets, most of which have service bays, in eleven East Coast states and the Southwestern part of the U.S. The company has had consistent 20% earnings growth over the past ten years and this rate is accelerating. The dynamics behind the company rest principally with its new president who has improved the performance of the Western stores and stepped up new store openings. The closure of many gasoline service stations that previously provided automobile repairs generates additional business for Pep Boys. Pep Boys has the opportunity to expand throughout the entire U.S. and has many years of above average growth ahead of it.

TOP HOLDINGS

COUSINS PROPERTIES INCORPORATED

Valuation of Holding \$10.2 million
4.8% of Assets

Cousins is a unique real estate developer which owns several large tracts of valuable land in the Atlanta area. The company has formed a joint partnership with IBM to develop its Wildwood office park in Atlanta and another property in Greensboro, North Carolina. IBM will lease at least 50% of the office space in both parks. Another joint development was established with Coca-Cola recently to develop a 51 acre property in Atlanta. It has been estimated that Cousins has a net appraised worth of at least \$30 per share.

Notwithstanding current tax proposals that will make real estate much less attractive as a tax shelter in the U.S., Cousins' relationships with IBM and Coca-Cola should assure continued growth in the value of its shares over the next several years.

FINANCIAL INFORMATION

| Six Months to 30th June | 1986 (\$ Mill) | 1985 (\$ Mill) |
|-------------------------|-------------------|-------------------|
| Revenues | 26.6 | 27.7 |
| Net Earnings | 12.2 | 3.6 |
| Earnings Per Share | \$1.07 | \$0.32 |



LIDLAW TRANSPORTATION LIMITED

Valuation of Holding \$9.6 million
4.5% of Assets

Laidlaw was originally a trucking company. Today it derives 95% of its revenues from the non cyclical businesses of solid waste management and passenger services. In 1985 Laidlaw became the largest school bus operator in North America while its recent agreement to purchase the waste service division of Genstar Corporation at a cost of \$513 million should make it the third largest company in that field. The company's financial position is strong with holdings of marketable securities totalling in excess of \$125 million and a recent financing added a further \$135 million so funding the acquisition will not be a problem.

FINANCIAL INFORMATION

| Year to 31st August | 1986 (\$ Mill) | 1985 (\$ Mill) |
|---------------------|-------------------|-------------------|
| Revenues | 717.9 | 556.1 |
| Net Earnings | 66.2 | 44.7 |
| Earnings Per Share | \$0.63 | \$0.47 |



GBC CAPITAL LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 30th September, 1986

| | 1986 | 1985 |
|---|----------------------|---------------|
| Investments | | |
| Securities at market value (Note 2) | \$214,221,459 | \$180,812,073 |
| Current assets | | |
| Cash | 345,135 | 777,200 |
| Term deposits | 2,411,825 | 4,530,212 |
| Due from brokers | 2,079 | 1,583,481 |
| Accrued income on investments | 482,336 | 455,229 |
| | 3,241,375 | 7,346,122 |
| Current liabilities | | |
| Preferred dividend payable | 78,750 | 78,750 |
| Due to brokers | — | 581,414 |
| Accounts payable and accrued expenses | 271,843 | 235,587 |
| Income taxes payable | 1,635,512 | 712,400 |
| | 1,986,105 | 1,608,151 |
| Net current assets | 1,255,270 | 5,737,971 |
| | 215,476,729 | 186,550,044 |
| Minority interest | 3,798,273 | 3,652,455 |
| Net assets (Note 5) | \$211,678,456 | \$182,897,589 |
| Represented by | | |
| Capital stock (Note 3) | \$ 22,191,191 | \$ 22,177,875 |
| Contributed surplus | 1,325,310 | 1,325,310 |
| Retained earnings | 9,404,586 | 8,432,287 |
| Surplus on changes in investments (Note 4) | 79,627,322 | 66,071,584 |
| Unrealized appreciation of investments (Note 2) | 99,130,047 | 84,890,533 |
| | \$211,678,456 | \$182,897,589 |

On behalf of the Board

Neil B. Way, Director

J. S. Lane, Director

GBC CAPITAL LTD.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE YEAR ENDED 30th September 1986

| | 1986 | 1985 |
|--|---------------------|--------------|
| Income from investments | \$ 4,361,418 | \$ 4,782,209 |
| Management expenses | 1,171,845 | 958,874 |
| Other expenses | 340,408 | 420,528 |
| | 1,512,253 | 1,379,402 |
| | 2,849,165 | 3,402,807 |
| Income and withholding taxes | 313,582 | 634,284 |
| | 2,535,583 | 2,768,523 |
| Minority interest | 156,920 | 158,387 |
| Net income for the year | 2,378,663 | 2,610,136 |
| Retained earnings at beginning of year | 8,432,287 | 7,972,118 |
| | 10,810,950 | 10,582,254 |
| Dividends | | |
| 5¼% preferred shares | 315,000 | 315,000 |
| Common shares | 1,091,364 | 1,834,967 |
| | 1,406,364 | 2,149,967 |
| Retained earnings at end of year | \$ 9,404,586 | \$ 8,432,287 |
| Net income per common share | \$0.0284 | \$0.0315 |

GBC CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 30th September, 1986

1. Accounting policies and presentation

a. General

The Corporation follows generally accepted accounting principles applicable in Canada in the preparation of its financial statements and their application is consistent with that of the preceding year. These principles conform in all material respects with international accounting standards.

b. Principles of consolidation

The consolidated financial statements include the accounts of Dominion-Scottish Investments Limited (99.26% of the common shares owned).

c. Foreign currencies

Transactions in foreign currencies during the year were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities have been shown in Canadian funds, converted at rates of exchange applicable at the end of the year, any adjustment thereon being credited or charged, as the case may be, to "Surplus on changes in investments".

d. Statement of changes in financial position

A statement of changes in net assets (Note 5) has been substituted for a statement of changes in financial position.

2. Securities at market value

Held by:

| | 1986 | 1985 |
|--|----------------------|---------------|
| GBC Capital Ltd. | \$ 95,336,513 | \$ 51,212,174 |
| Dominion-Scottish Investments Limited | 118,884,946 | 99,619,023 |
| Sutton Ventures Ltd. | — | 29,980,876 |
| Securities at valuation | 214,221,459 | 180,812,073 |
| Securities at average cost | 113,853,451 | 94,797,736 |
| | 100,368,008 | 86,014,337 |
| Amount required to adjust average cost from a corporate basis to a consolidated basis | (1,237,961) | (1,123,804) |
| Balance included in shareholders' equity as unrealized appreciation of investments | \$ 99,130,047 | \$ 84,890,533 |

GBC CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 30th September, 1986

2. Securities at market value (continued)

Securities at market value include those at the directors' valuation of \$35,587,214 (1985 — \$35,157,461) of which \$29,085,604 (1985 — \$32,904,000) represent the holdings in Shared Medical Systems Corp. at a 10% discount from quoted market value and \$1,819,261 (1985 — \$2,253,461) represent securities with no quoted value. No provision has been made for any liability for income taxes on capital gains which may arise on the future sale of investments. This is currently estimated to amount to \$26,353,000 or \$0.36 per common share (1985 — \$21,849,000 or \$0.30 per common share) based on the unrealized appreciation recorded by each of the consolidated corporations.

3. Capital stock

| | 1986 | 1985 |
|--|---------------------|---------------------|
| 5¼% cumulative redeemable preferred shares without nominal or par value | | |
| Authorized and issued 120,000 shares | \$ 6,000,000 | \$ 6,000,000 |
| Common shares without nominal or par value | | |
| Authorized | | |
| Not limited | | |
| Issued | | |
| 72,763,413 shares, (1985 — 72,755,932 shares) | 16,191,191 | 16,177,875 |
| | \$22,191,191 | \$22,177,875 |

The preferred shares are redeemable at the option of the Corporation at any time in whole or from time to time in part, on not less than 30 days' notice, at \$52.50 per share (in one restricted event at \$50 per share) plus accrued and unpaid dividends, if any, to the date of redemption. The Corporation may, at any time and from time to time, also purchase the whole or any part of such preferred shares in the open market at a price not exceeding the redemption price thereof plus costs of purchase.

In December 1984, the Corporation issued to the holders of its common shares one warrant for every five common shares held. Each warrant carries the right to subscribe for one common share at a price of \$1.78. The subscriptions can be exercised at any time up to 1st September 1990. During the year, 7,481 (1985 — 6,349) warrants were exercised and there are 14,536,098 (1985 — 14,543,579) warrants outstanding at 30th September, 1986.

GBC CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 30th September, 1986

| 4. Surplus on changes in investments | 1986 | 1985 |
|--|----------------------|---------------|
| Balance at beginning of year | \$ 66,071,584 | \$ 56,139,111 |
| Gain on changes in investments including gain on exchange of \$48,026 (1985 — \$371,647) | 17,891,591 | 13,477,318 |
| Income taxes on changes in investments | 4,335,853 | 3,544,845 |
| | 13,555,738 | 9,932,473 |
| Balance at end of year | \$ 79,627,322 | \$66,071,584 |
| 5. Changes in net assets | 1986 | 1985 |
| Net assets at beginning of year | \$182,897,589 | \$155,120,428 |
| Add | | |
| Gain on changes in investments | | |
| Securities at average cost at beginning of year | 94,797,736 | 83,686,235 |
| Purchases | 66,508,519 | 39,236,883 |
| | 161,306,255 | 122,923,118 |
| Securities at average cost at end of year | 113,853,451 | 94,797,736 |
| Cost of securities sold | 47,452,804 | 28,125,382 |
| Proceeds from securities sold | 65,296,369 | 41,231,053 |
| | 17,843,565 | 13,105,671 |
| Gain on exchange | 48,026 | 371,647 |
| Net income for the year | 2,378,663 | 2,610,136 |
| Issue of common shares | 13,315 | 11,301 |
| Increase in unrealized appreciation of investments | 14,239,515 | 17,373,218 |
| | 34,523,084 | 33,471,973 |
| Deduct | | |
| Income taxes on changes in investments | 4,335,853 | 3,544,845 |
| Dividends | | |
| 5¼% preferred shares | 315,000 | 315,000 |
| Common shares | 1,091,364 | 1,834,967 |
| | 5,742,217 | 5,694,812 |
| Net increase for the year | 28,780,867 | 27,777,161 |
| Net assets at end of year | \$211,678,456 | \$182,897,589 |
| Net asset value per common share | \$2.82 | \$2.43 |

GBC CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 30th September, 1986

6. Directors' and officers' remuneration

Aggregate remuneration paid during the year to the Corporation's directors was as follows:

| | 1986 | 1985 |
|---------------------------------------|-----------------|-----------------|
| Paying corporation | | |
| GBC Capital Ltd. | \$35,600 | \$40,400 |
| Dominion-Scottish Investments Limited | 35,600 | 36,800 |
| Sutton Ventures Ltd. | 1,500 | 2,000 |
| | \$72,700 | \$79,200 |

The Corporation has five officers, one of whom is also a director. The officers of the Corporation as such received no remuneration.

7. Net asset value/net income per common share

Net asset value per common share at 30th September, 1986 of \$2.82 (1985 — \$2.43) is based on the 72,763,413 shares (1985 — 72,755,932 shares) outstanding at that date. The net asset value per common share would have been reduced to \$2.65 had the outstanding warrants been exercised at that date. There is no dilution in net income per share if an allowance is included for imputed interest, net of income taxes, derived from the investment of the funds which would have been received through the exercise of the warrants at the date of issue.

8. Wind-up of a subsidiary

Effective 11th September, 1986, the Corporation's wholly-owned subsidiary, Sutton Ventures Ltd., was dissolved and the subsidiary's assets were distributed to, and its liabilities assumed by, the Corporation.

AUDITORS' REPORT

The Shareholders,
GBC Capital Ltd.

We have examined the consolidated statement of financial position of GBC Capital Ltd. as at 30th September, 1986 and the consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at 30th September, 1986 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
6th November, 1986.


Chartered Accountants

INVESTMENTS RANKED BY VALUE As at 30th September, 1986

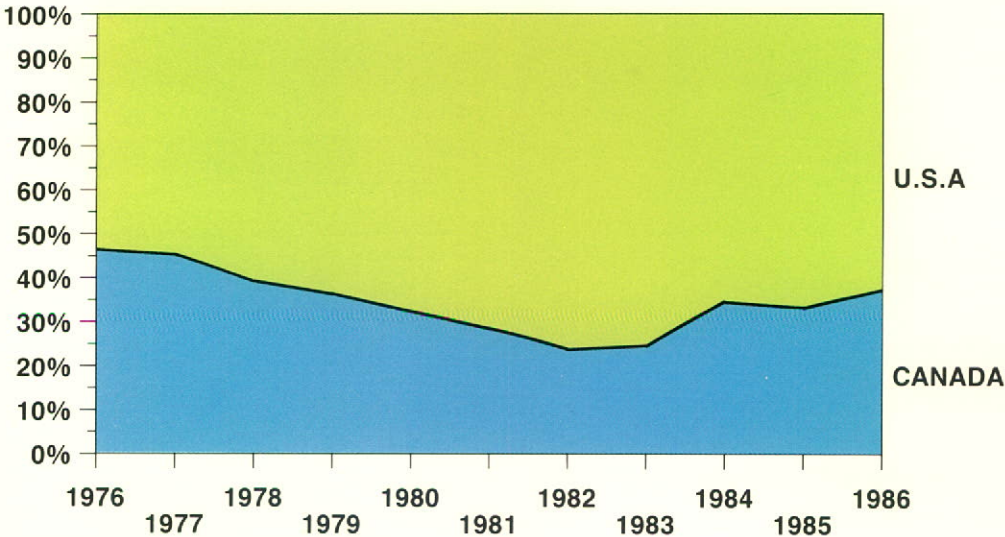
| No. | Amount | Company | Market Value | | Main Activity |
|-------------------------------|---------|---|--------------------|-------------------|-------------------------------------|
| | | | U.S.A. | Canada | |
| 1 | 700,000 | Shared Medical Systems | \$29,085,604† | | Hospital data processing |
| 2 | 175,000 | Pep Boys-Manny , Moe & Jack | 10,478,836 | | Automotive parts retailer |
| 3 | 460,233 | Cousins Properties | 10,224,536 | | Real estate development |
| 4 | 675,000 | Laidlaw Transportation, B | | 9,618,750 | Waste management and transportation |
| 5 | 360,000 | Harris Steel, A | | | |
| | 440,000 | Harris Steel, B | | 8,500,000 | Steel fabrication and distribution |
| 6 | 300,000 | Scotts Hospitality | | | |
| | 300,000 | Scotts Hospitality, C | | 7,087,500 | Hotels and fast foods |
| 7 | 200,000 | Comcast Corp., A | 7,011,925 | | Cable television |
| 8 | 185,000 | Teck Corp. cv., Pfd. F | | 6,845,000 | Mining |
| 9 | 160,000 | Rouse Co. | 6,414,870 | | Real estate development |
| 10 | 130,000 | Union Planters Corp. | 6,295,112 | | Regional banking |
| Top Ten Investments | | | 69,510,883 | 32,051,250 | 47.1% of Total Assets |
| 11 | 60,000 | Cincinnati Financial | 5,571,356 | | Property & casualty insurance |
| 12 | 187,500 | Rent-A-Center | 5,402,133 | | Consumer electronics rentals |
| 13 | 112,500 | Harper Group | 4,549,507 | | Freight forwarding |
| 14 | 10,000 | Teledyne Inc. | 4,417,166 | | Electronic and engineered products |
| 15 | 150,000 | First Financial Management | 4,269,638 | | Banking computer services |
| 16 | 150,000 | Inco Ltd., Pfd. C | | 4,012,500 | Nickel producer |
| 17 | 125,000 | FlightSafety International | 3,731,594 | | Training simulators |
| 18 | 100,000 | Handleman Company | 3,610,100 | | Pre-recorded music distributor |
| 19 | 200,000 | Poco Petroleums, cv. Pfd. A | | | |
| | 150,000 | Poco Petroleums | | 3,606,250 | Oil and gas |
| 20 | 80,000 | Renaissance Energy, cv., Pfd. B | | | |
| | 142,840 | Renaissance Energy | | 3,526,980 | Oil and gas |
| Top Twenty Investments | | | 101,062,377 | 43,196,980 | 66.9% of Total Assets |
| 21 | 200,000 | Dickenson Mines, A | | | |
| | 150,000 | Dickenson Mines, B | | 3,512,500 | Gold mining |
| 22 | 100,000 | Rogers Communications, cv., Pfd Ser. VIII | | 3,350,000 | Cable television |
| 23 | 36,000 | Grafton Group | | | |
| | 144,000 | Grafton Group, A | | 3,096,000 | Apparel retailer |
| 24 | 47,500 | Public Storage Canadian Properties, Units | | | |
| | 50,000 | Public Storage Canadian Properties 2, Units | | 2,998,750 | Real estate holding |
| 25 | 400,000 | Toromont Industries | | 2,900,000 | Engineered products |
| 26 | 100,000 | Pic 'N' Save | 2,759,644 | | Retailer |
| 27 | 60,000 | Nucor Corp | 2,686,748 | | Steel manufacturer |
| 28 | 175,000 | Wajax Ltd. A | | 2,668,750 | Heavy equipment distribution |
| 29 | 75,000 | Acco World Corp. | 2,668,523 | | Office supplies manufacturer |
| 30 | 88,000 | SunTrust Banks | 2,611,769 | | Regional banking |
| Top Thirty Investments | | | 111,789,061 | 61,722,980 | 80.5% of Total Assets |
| 31 | 75,000 | Bank of Montreal | | 2,446,875 | Banking |
| 32 | 65,000 | Lornex Mining | | 2,421,250 | Copper producer |
| 33 | 25,000 | New York Times, A | 2,421,197 | | Newspaper publisher |
| 34 | 75,000 | Royal Bank of Canada | | 2,409,375 | Banking |
| 35 | 113,275 | Sun Microsystems | 2,182,291 | | Engineering work stations |
| 36 | 50,000 | Interprovincial Pipe Line | | 2,037,500 | Crude oil pipeline |
| 37 | 80,000 | Cronus Industries | 1,888,360 | | Computer information services |
| 38 | 110,000 | Four Seasons Hotels | | 1,801,250 | Hotels |
| 39 | 100,005 | Trenwick Group | 1,725,297† | | Reinsurance |
| 40 | 50,000 | Circuit City Stores | 1,700,914 | | Electronics retailer |
| Top Forty Investments | | | 121,707,120 | 72,839,230 | 90.3% of Total Assets |

INVESTMENTS RANKED BY VALUE As at 30th September, 1986

| No. | Amount | Company | Market Value | | Main Activity |
|-----------------------------------|-----------|---------------------------------------|--------------------|-------------------|--|
| | | | U.S.A. | Canada | |
| 41 | 60,000 | Bow Valley Industries, cv. Pfd | | 1,575,000 | Oil and gas |
| 42 | 50,000 | "B" Corp., Pfd. | | 1,537,500 | Holding company |
| 43 | 50,000 | Worlds of Wonder | 1,483,959 | | Toy manufacturer |
| 44 | 100,000 | Goliath Gold Mines | | 1,450,000 | Gold mining |
| 45 | 37,500 | Actmedia Inc. | 1,353,788 | | Advertising |
| 46 | 20,000 | Cambridge Shopping Centers, cv., Pfd. | | | |
| | 75,000 | Cambridge Shopping Centers, Warrants | | 1,174,375 | Real estate development |
| 47 | 50,000 | TCA Cable TV | 1,136,834 | | Cable television |
| 48 | 30,000 | Westwood One | 1,129,892 | | Radio programming |
| 49 | 100,000 | Microbilt Corp. | 1,121,214† | | Computer maintenance |
| 50 | 36,000 | Kam-Kotia Mines, cv., Pfd. | | 1,054,800† | Gold mining |
| Top Fifty Investments | | | 127,932,807 | 79,630,905 | 96.3% of Total Assets |
| 51 | 39,200 | C1 Cablesystems, Pfd., A | | | |
| | 250,000 | C1 Cablesystems, Special | | 1,000,000† | Cable television |
| 52 | 16,666 | Interleaf | 208,266 | | |
| | 83,334 | Interleaf | 781,038† | | Electronic publishing |
| 53 | 50,000 | TSO Financial | 893,847 | | Financial services |
| 54 | 100,000 | Numac Oil & Gas | | 850,000 | Oil and gas |
| 55 | 200,000 | Chauvco Resources, A | | 700,000 | Oil and gas |
| 56 | 29,240 | Thinking Machines, cv., Pfd. A | 694,256† | | Computer hardware |
| 57 | 50,000 | Genzyme | 694,250 | | Bio-technology |
| 58 | 25,000 | Policy Management Systems | 533,705 | | Insurance data processing |
| 59 | 35,000 | Science Dynamics Corp. | 177,380 | | Telecommunications equipment |
| 60 | \$250,000 | Killucan 80 Exploration | | 125,000† | Oil and gas |
| | | Other Investments | 5† | | |
| Total Value of Investments | | | 131,915,554 | 82,305,905 | 99.4% of Total Assets |
| Liquidity | | | 2,679,461 | (1,426,270) | |
| Total Assets | | | 134,595,015 | 80,879,635 | 100% of Total Assets of \$215,474,650 |

† at Directors' Valuation

**GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS
1976-1986**



OFFICERS

Neil B. Ivory
President and Chief Executive Officer

Ian A. Soutar, CFA
Vice-President

A. Scott Taylor, CFA
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS AND LOCATION OF EXECUTIVE OFFICES

Pembroke Management Ltd.
1018 Sun Life Building,
1155 Metcalfe Street,
Montreal, Quebec
H3B 2W8
Tel. 514 866-2724

LISTED

The Montreal Exchange
The Stock Exchange, London
(common and warrants)

AUDITORS

Touche Ross & Co.,
Chartered Accountants,
1 Place Ville Marie,
Montreal, Quebec
H3B 2A2

TRANSFER AGENTS AND REGISTRARS

Montreal Trust Company,
Montreal, Toronto and Calgary
(also Winnipeg and Vancouver for
Preferred Shares only)
Bank of Scotland, Edinburgh
(common and warrants)

REGISTERED OFFICE

First Canadian Place, 12th Floor,
100 King Street West,
Toronto, Ontario
M5X 1B3

ANNUAL MEETING

10:15 a.m., 10th December, 1986,
at 1018 Sun Life Building,
Montreal, Quebec

