Power Corporation of Canada Annual Report 1984

Contents

Financial Highlights

	Thousands		
For the Year Ended December 31	**1984**	1983	1982
Consolidated earnings before extraordinary and other items	**$ 86,681**	$ 58,905	$ 43,889
– per share	**3.37**	2.28	1.69
Consolidated net earnings	**128,073**	59,168	47,869
– per share	**4.99**	2.29	1.84

As at December 31			
Investments – subsidiaries and affiliate	**$ 723,603**	$ 703,389	$ 651,516
– other	**249,827**	273,725	272,812
Long-term debt	**201,625**	292,650	288,885
Shareholders' equity	**778,018**	682,891	638,471

Si vous préférez recevoir ce rapport annuel en français, veuillez vous adresser au Secrétaire,
Power Corporation du Canada,
759, Square Victoria,
Montréal (Québec) Canada H2Y 2K4

"Without exception, each of the companies in the group has shown growth in both assets and earnings in 1984 and we look forward with confidence to a continuation of such progress in 1985."

For the year 1984 the consolidated net earnings of the Corporation were $128.1 million, as against $59.2 million in 1983. These earnings are equivalent to $4.99 per share as against $2.29 in 1983, after allowing for the payment of dividends on the non-participating preferred shares. They include extraordinary gains and other items of $41.4 million in 1984 compared with $263,000 in 1983. Dividends of 82.5¢ were paid on the participating preferred and subordinate voting shares during the year 1984. At the meeting of Directors held on March 8, 1985, a dividend of 30¢ per share for the quarter ended March 31, 1985 was declared indicating an annual rate of $1.20 per share compared with $1.00 previously.

The results for the year reflect the continuing growth in earnings of each of the components of the Power Financial group of companies, the substantial increase in earnings of Consolidated-Bathurst Inc. over last year, improved earnings of Gesca Ltée, and the gain resulting from the issue of common shares of Power Financial Corporation.

The consolidated income of The Investors Group which includes its share of the net income of The Great-West Life Assurance Company and Montreal Trustco Inc. was $101 million as against $83.3 million in 1983. Investors's share of the net income of Great-West was $75.3 million as against $60.2 million last year while that of Montreal Trustco increased from $5.9 million in 1983 to $6.1 million. The net earnings of Consolidated-Bathurst Inc. increased by 137% to $58.9 million of which your Corporation's share is $19.2 million. The net earnings of Gesca Ltée were $7.1 million compared with $5.4 million in 1983.

Since the last annual report to shareholders, your Corporation has participated in a series of major transactions which have materially strengthened the value of your Corporation.

Power Financial Corporation, in April 1984, acquired our interests in The Investors Group, The Great-West Life Assurance Company and Montreal Trustco Inc., as well as that of Pargesa Holding S.A. It was a major step forward in positioning ourselves to participate in the future developments of the financial services industry. The investment by the Caisse de dépôt et placement du Québec and The Royal Bank of Canada and The Bank of Nova Scotia of $138,000,000 in Power Financial Corporation, for a 20% interest, established a market value at that time for your Power Financial Corporation interests. In addition, the proceeds of the transaction applicable to your Corporation, amounting to $114,250,000, were applied to the extent of $105,000,000 to the reduction of long-term debt and the balance added to working capital. The proceeds applicable to Power Financial Corporation of $23,750,000 were essentially used by that corporation to maintain and increase its holding in Montreal Trustco Inc. to 55.4%. At the same time an offer to the minority holders of common and Class A non-voting shares of The Investors Group, resident in Canada, was made to exchange their common and Class A non-voting shares of The Investors Group for common shares of Power Financial Corporation.

Consolidated-Bathurst Inc. also strengthened its financial position by arranging a secondary and a primary issue of common shares and common share purchase warrants of its subsidiary, CB Pak Inc., in April and December of 1984. The two issues raised a total of $50.0 million of which $24.3 million was received by Consolidated-Bathurst Inc. in respect of the secondary portion of the issues and the balance of $25.7 million was received directly by CB Pak Inc. These funds were used to reduce short-term debt.

On January 30, 1985, your Corporation signed an underwriting agreement providing for the issue and sale of 4,000,000 subordinate voting shares of the Corporation at a price of $28 per share, which was settled on February 14, 1985. The net proceeds, after deduction of underwriter fees, of $107,400,000 have been used to further reduce long-term debt. This issue was well received by the institutional and retail investors and has broadened our shareholder base. Pursuant to your Corporation's articles, an offer was made to the holders of the 15¢ participating preferred shares at the same price of $28 per share. Such offer terminated on March 8, 1985 and as a result 50,277 15¢ participating preferred shares were issued for a total consideration of $1,407,756.

The overall effect of these transactions together with the sale on January 21, 1985, of substantially all our interest in the National Bank of Canada for a price of $22.8 million and an increase in retained earnings, all contributed to a strengthening of the Corporation's financial position.

The total long-term debt as at December 31, 1983 was $311,550,000, but after applying the proceeds from the various major transactions referred to previously, the long-term debt is now approximately $100,000,000. This reduction in debt from December 31, 1983 has the effect of lowering our estimated interest costs for 1985 on the debt now outstanding to approximately $10.0 million, compared with $27.1 million in 1983.

Without exception each of the companies in the group has shown growth in both assets and earnings in 1984 and we look forward with confidence to a continuation of such progress in 1985.

At the Special and Annual Meeting of Shareholders, the shareholders will be asked to consider and, if deemed advisable, approve a resolution providing for a two-for-one division of the Corporation's subordinate voting shares and 15¢ participating preferrred shares. If approved, this action will encourage a greater number of investors to acquire shares in the Corporation and to participate in its future growth. Further, a stock option plan for officers of the Corporation has been approved by the Board of directors for submission to the shareholders for approval. It is considered that the plan will provide an additional incentive for officers of the Corporation to continue their efforts to increase the value of your Corporation. In addition, it will be proposed to increase the number of directors from 22 to 27 and, as shown in the management proxy circular accompanying this annual report, it is proposed to nominate for election as directors each of the current directors and also the Hon. William Davis, P.C., former Premier of the Province of Ontario; Albert Frère, Deputy Chairman of the Board, Groupe Bruxelles Lambert S.A., a holding and investment corporation; Pierre Scohier, Managing Director of COBEPA, a Belgium investment company; Robert Parizeau, President, Sodarcan, inc.; and the Hon. Michael Pitfield, P.C., each of whom will bring valuable counsel to the Board.

The year 1984 was a very active and successful year for your Corporation and its associated companies, and your Board wishes to express its appreciation to the officers and staff of the Corporation and the associated companies for their untiring efforts.

On behalf of the Board,

J W Burns

President

Paul Desmarais

Chairman and
Chief Executive Officer

Montréal, Québec
March 8, 1985

Financial Services

Clare Bell, Manager of the Career Development Centre, leads a discussion at an Initial Training School for Investors Financial Planners. Investors' representatives receive the most complete ongoing training program available in Canada's financial services industry.

Power Financial Corporation

Power Financial Corporation was established in March 1984, to meet the challenges arising from the accelerating demand for financial services and, more particularly, the changes in the ways these services are delivered.

By co-ordinating the activities of its operating subsidiaries – The Great-West Life Assurance Company, The Investors Group, and Montreal Trustco Inc. – it is able to focus more selectively their resources on those segments of the financial services market which are most promising for growth and profit. Power Financial is also involved in refining existing services and developing new product lines and systems.

The financial strength of its shareholders and the profitable operations of its subsidiaries put Power Financial in an enviable position from which to continue to extend its market reach. Its interest in Pargesa Holding S.A., an investment group based in Switzerland, gives it further access to international opportunities.

Power Financial, at December 31, 1984, had a market capitalization of $875 million. It had net income of $75.4 million for the first nine months of operations ended December 31, 1984. On a pro forma basis, it had net income for the 12 months ended December 31, 1984, of $95.2 million, or $2.37 a share against $75.9 million or $1.90 a share. An initial dividend of 15 cents per common share was paid on August 1, 1984 and has been paid each quarter since. The dividend payable May 1, 1985 was increased to 17 cents per share indicating an annual dividend rate of 68 cents per share compared with 60 cents previously.

The increase in Power Financial net earnings during 1984 reflects the record earnings established by the operating subsidiaries from the sale of their products and services including life and health insurance, both group and individual; mutual funds and other personal investment vehicles; and intermediary and fiduciary services.

Great-West Life, responding to lower interest rates and heightened economic activity, particularly in the U.S. where it has been operating for 78 years, increased life insurance in force by 13%, annuity business in force by 22%, and health insurance in force by 14%. A significant proportion of Great-West's assets are invested in mortgages, and in commercial and industrial properties in Canada and the U.S.

The Investors Group had total sales of mutual funds, in which it is the acknowledged leader in Canada, and of other personal investment vehicles of $696.3 million, an increase of 11.6% over 1983. The total net assets of the 11 Investors mutual funds now exceed $2.3 billion. The number of client accounts at year end was in excess of 283,000, an increase of 22%.

Investors, through its full time sales organization, emphasizes the personal approach in the sale of mutual funds and other individual investment vehicles. The client's investment objectives are clearly identified and a Personal Financial Plan designed to meet them. The comprehensive range of investment services offered by Investors was further broadened by the addition of a Great-West "Flexiterm" policy which was well received. The majority of Investors' sales representatives are also

Pro forma Financial Highlights (1) (in millions)

	1984	1983	1982	1981
Assets under administration	**$35,407.**	$31,483.	$28,248.	$24,649.
Net operating income (2)	**101.8**	76.4	50.7	69.4
Net income	**95.2**	75.9	48.3	53.8
Net income per common share (dollars) (3)	**2.37**	1.90	1.21	1.34

(1) Pro forma information for 1984 assumes ownership of The Investors Group and Pargesa Holding S.A. for the full year, while the information for 1981 to 1983 assumes ownership of The Investors Group only.
(2) Before other items and minority interests.
(3) Based on 40.2 MM shares in 1984 and 40.0 MM shares for 1981 to 1983.

qualified to sell insurance, making them the largest dual-licenced sales force in Canada.

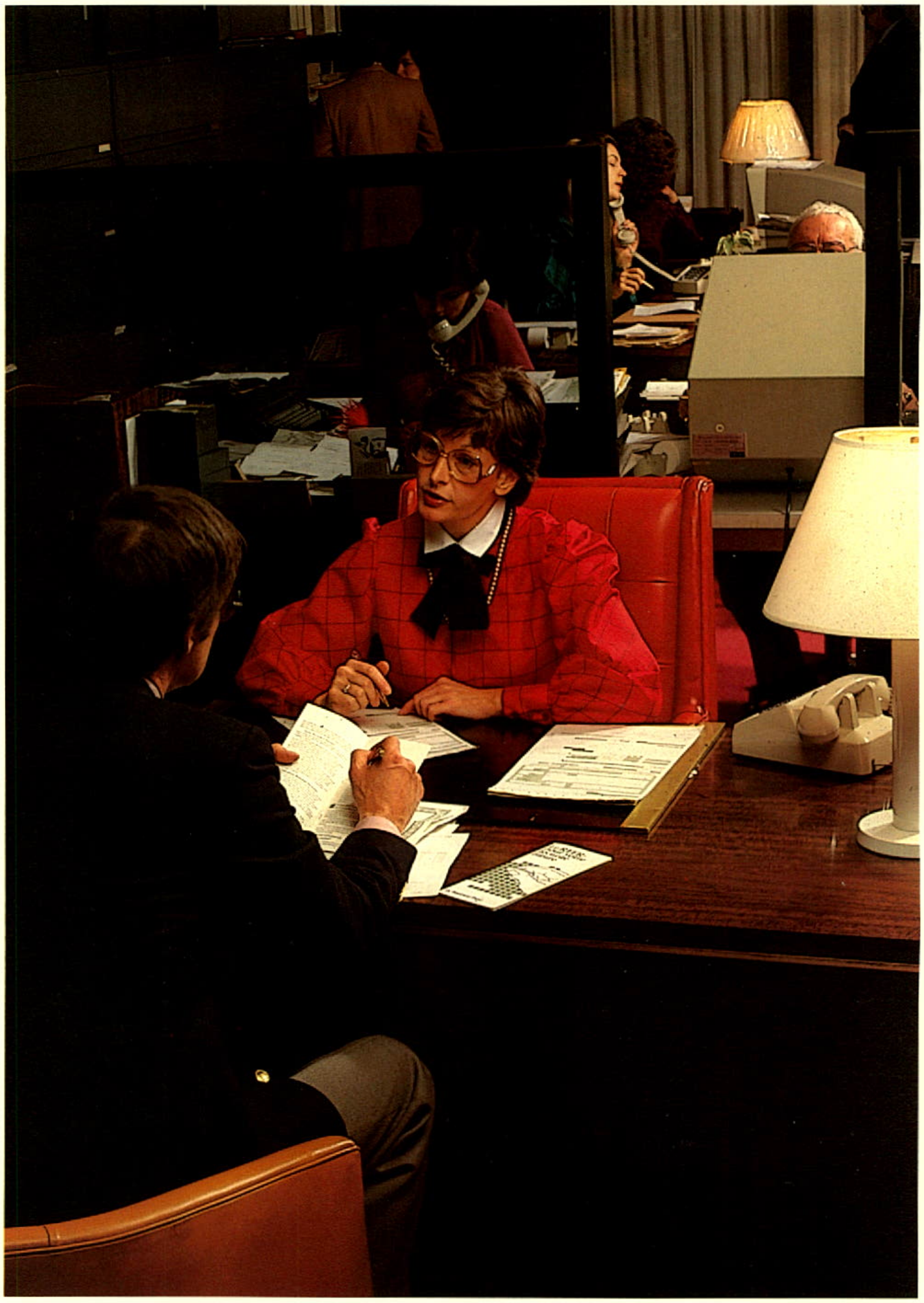
Montreal Trustco, in the first year of a five-year development program, increased net income last year by 34% to $15.6 million. Assets were increased by 24% to more than $2.5 billion. It was the third consecutive year during which assets were increased by more than 20%. During 1984 and early in 1985 the company raised $137.5 million of additional capital thus substantially strengthening its capital base. Assets under administration at year end increased by 10% to $21.5 billion.

During the year, Montreal Trustco also successfully implemented other phases of its expansion program. It widened the range of its services. It improved and extended its delivery networks. It strengthened the company's management structure, and it expanded the capabilities of its computer-based systems.

Pargesa Holding S.A., in which Power Financial has 9.7% of the votes and 5.4% of the equity, has in turn extensive interlocking interests in European banking and industrial operations. It also has an interest in the New York investment house, Drexel Burnham Lambert.

Power Financial's financial services subsidiaries have operated profitably since their incorporation within a specific public franchise as defined then, and since, by law and regulation. Each is capable of continuing to operate profitably within its franchise.

Power Financial, however, has been structured so that, in event of regulatory change in the financial services industry, it can move quickly into the most promising markets which might then be accessible to it.



Financial services to individuals represent an important aspect of Montreal Trust's activities. The company provides services to some 250,000 accounts in this category. Here, a transaction on an RSP account is depicted.

With a competitive array of products at their disposal, Great-West Life agents are active in the business and family insurance markets across North America.

Pulp, Paper, Packaging and Energy Resources

Consolidated-Bathurst Inc.

The improvement in operating conditions for Canadian forest products and packaging industries, which became apparent in the last quarter of 1983, persisted through 1984 and gives indications of continuing into the current year.

Consolidated-Bathurst, as a result, was able to report a substantial increase in earnings before extraordinary items to $73.8 million or $1.40 a share compared to $34.5 million or 53 cents a share in 1983. The increase in operating earnings was achieved despite a lengthy strike at a newsprint mill and a glass plant. The earnings for 1984 and 1983 have been restated to reflect a retroactive accounting change with respect to pre-operating expenses of major capital projects.

Net earnings after extraordinary items are $58.9 million or $1.07 a share compared with $24.9 million or 31 cents a share. The extraordinary charges in 1984 and 1983 include the writing down of the value of the company's investment in Sulpetro Limited following completion of the financial restructuring plan, and in 1984 the write down was partially offset by the gains from the sale of CB Pak shares to the public and a fire insurance settlement.

Net sales achieved record levels of $1.6 billion. Pulp and paper net sales increased 31%. Sales of glass, plastic and paper-based packaging products by CB Pak Inc., increased by 11%. Sales by Europa Carton A.G., the company's packaging subsidiary in West Germany, increased by 8%.

Newsprint and groundwood speciality shipments exceeded one million tonnes for the first time in the company's history.

Much of the improvement in the company's results was attributable to the increase in the advantageous exchange differential between U.S. and Canadian dollars. The reverse held true, however, for European sales. A weakening pound sterling relative to the Canadian dollar reduced operating margins for the company's Bridgewater Division in the United Kingdom to the point where it has consistently been in an operating loss position since start-up. A healthy profit in Deutsche marks recorded by Europa Carton was reduced to less than in 1983 on translation into Canadian dollars.

Capital expenditures in 1984 were reduced by 32% overall to $119 million with the completion of the Bridgewater development. Expenditures on packaging projects increased by 34% to $42 million while those on pulp and paper projects were reduced by 47% to $73 million.

Some $50 million of new capital was realized by the company and its packaging subsidiary, CB Pak Inc., from public offerings of shares in the latter. The company retains an 80% interest in CB Pak. On February 11, 1985, Diamond-Bathurst Inc., 38% owned by CB Pak, agreed to a merger with Container General Corporation of Chattanooga, Tenn. The new organization will be one of the major glass container suppliers in the United States.

In late December, Europa Carton A.G. reached agreement with Menno Goemans, B.V., a Dutch manufacturer of folding cartons, to acquire all its shares, effective March 1, 1985, for some $5.2 million.

The company reduced its long-term debt by $33 million during the year as it continued to take advantage of competitive short-term rates. Short-term debt, net of cash and short-term deposits, increased by $39 million for a net increase in total debt of only $6 million.

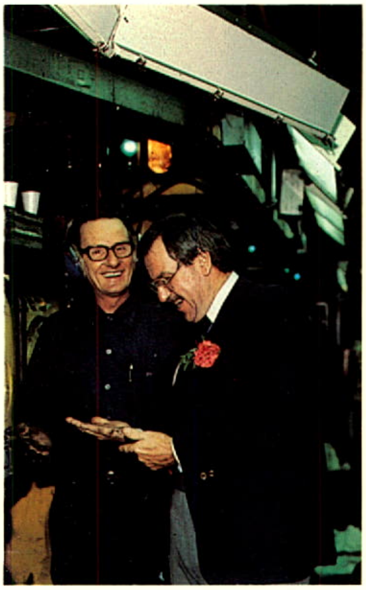
The board of directors of the company on July 26 increased the quarterly dividend on common shares by 50% to 15 cents a share in recognition of the company's stronger performance. On August 21, a special meeting of shareholders approved a two-for-one division in common shares effective August 31.

One and two-litre PET plastic bottles produced by Twinpak Inc., for soft drinks helped CB Pak Inc., to post a strong first-year performance in 1984.

At its five newsprint divisions, Consolidated-Bathurst paper machines produced 995,000 tonnes of newsprint and specialties in 1984.

Financial Highlights (in millions)

	1984	1983	1982	1981
Total assets	$1,676.	$1,653.	$1,586.	$1,433.
Net sales	1,623.	1,393.	1,424.	1,479.
Earnings before extraordinary items	73.8	34.5	51.5	101.4
Net earnings	58.9	24.9	51.5	111.7
Net earnings per share (dollars)	1.07	0.31	1.06	2.43
Cash flow from operations per share (dollars)	3.15	1.84	2.87	4.35



Roger Landry, president and publisher of La Presse, is shown with a press room employee of the Montreal daily newspaper, which last year celebrated the 100th anniversary of its founding.

Gesca Ltée

Gesca Ltée, a wholly-owned subsidiary, publishes daily and weekly newspapers, and is active in book publishing through Les Éditions La Presse. Gesca had a net profit of $7,055,000 in 1984 compared to $5,442,000 in 1983. The 1984 results included an extraordinary gain of $738,000, the proceeds from the sale of Gesca's shares in the Centre Éducatif et Culturel, a school textbook publishing house.

Gesca publishes La Presse, one of the largest dailies in Canada. The newspaper was the recipient of many honours in 1984 when it celebrated its centennial. Among them was the Edouard Montpetit Medal, awarded to the newspaper, and its president and publisher, Roger Landry, for its social and economic contribution to the Province of Quebec.

Canada Post Corporation also issued a commemorative stamp to mark the occasion and to recognize the national importance of La Presse. La Presse and its employees participated in a number of public events throughout the centenary year.

La Presse began the publication of a Sunday edition in March which has been very successful.

Les Publications J.T.C. Inc. publishes three regional dailies, Le Nouvelliste, Trois-Rivières; La Tribune, Sherbrooke; and La Voix de l'Est, Granby. Each of the three dailies attained record levels of circulation during the year, raising their total circulation to 125,000.

In Granby, where Publications J.T.C. also owns the radio station CHEF, La Voix de l'Est celebrated its 50th anniversary.

Le Nouvelliste's printing facilities were reorganized under the name of T.R. Offset so that maximum use could be made of their production capacity. New customers for the printing facilities generated in excess of $3 million in sales during the last seven months of 1984.

Publications J.T.C. added four new weekly publications bringing to eight the number it publishes.

In Sherbrooke, La Tribune was chosen Company of the Year by the Sherbrooke Board of Trade, and signed new collective agreements during the year. The publication is preparing to celebrate its 75th anniversary in 1985.

Financial Highlights (in millions)

	1984	1983	1982	1981
Total assets	**$ 53.0**	$ 52.4	$ 52.9	$ 57.4
Total revenues	**142.8**	124.7	109.3	112.9
Net earnings	**7.1**	5.4	0.7	1.4

Board of Directors

Michel Bélanger (2)
Chairman and Chief Executive Officer, National Bank of Canada

Charles R. Bronfman, O.C. (3)
Deputy Chairman and Chairman of the Executive Committee, The Seagram Company Ltd.

James W. Burns (1)
President of the Corporation

Peter D. Curry (1)
Deputy Chairman of the Corporation

Paul Desmarais, O.C. (1)
Chairman and Chief Executive Officer of the Corporation

Gérard Eskenazi
Chairman, Executive Committee, Pargesa Holding S.A.

Rowland C. Frazee
Chairman and Chief Executive Officer, The Royal Bank of Canada

William M. Fuller (2)
Chairman, Fuller Petroleum, Inc.

Pierre Genest, Q.C. (2)
Partner, Cassels, Brock & Blackwell

Jean-Paul Gignac, O.C.
Chairman, SOCODI

Roland Giroux, C.C. (1)
Director

Pierre Haas
Chairman, Paribas International

Jean-Yves Haberer
Chairman and Chief Executive Officer, Compagnie Financière de Paribas

Arden R. Haynes
President and Chief Operating Officer, Imperial Oil Limited

F. Ross Johnson (3)
Vice Chairman and Chief Executive Officer, Nabisco Brands, Inc.

Robert H. Jones
Chairman and Chief Executive Officer, The Investors Group

A.F. Knowles, C.A. (1)
Executive Vice-President of the Corporation

Paul Britton Paine, Q.C. (2) (3)
Chairman, Canadian Commercial Bank

Yves Pratte, Q.C. (1) (3)
Partner, Clarkson, Tétrault

William E. Simon
Chairman, Wesray Corp.

Peter N. Thomson
Chairman and President, West Indies Power Corporation Limited

William I.M. Turner, Jr. (1)
Chairman and Chief Executive Officer, Consolidated-Bathurst Inc.

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Compensation Committee

Officers

Paul Desmarais, O.C.
Chairman and Chief Executive Officer

Peter D. Curry
Deputy Chairman

James W. Burns
President

A.F. Knowles, C.A.
Executive Vice-President

John A. Rae
Vice-President

Paul Desmarais, Jr.
Vice-President

André Desmarais
Vice-President

J. Edward Johnson
Vice-President and Secretary

Paul Morimanno, C.A.
Vice-President and Treasurer

André Gervais, C.G.A.
Vice-President and Controller

Francine Poissant
Assistant Secretary

Financial Statements

Power Corporation of Canada

Consolidated Balance Sheet
As at December 31

	Thousands	
Assets	**1984**	1983
Current assets		
Cash and short-term investments	**$ 1,953**	$ 4,887
Accounts receivable	**7,224**	8,704
Income taxes recoverable	**6,615**	8,874
	15,792	22,465
Investments		
Subsidiaries and affiliate at equity (Note 2)	**723,603**	703,389
Other investments (Note 3)	**249,827**	273,725
	973,430	977,114
Fixed assets at cost	**10,842**	9,686
Less accumulated depreciation	**5,561**	4,973
	5,281	4,713
	$ 994,503	$ 1,004,292

Approved by the Board of Directors

Paul Desmarais
Director

J W Burns
Director

	Thousands	
Liabilities	**1984**	1983
Current liabilities		
Accounts payable and accrued charges	**$ 784**	$ 881
Interest payable	**2,255**	3,291
Current portion of long-term debt (Note 4)	**6,000**	18,900
	9,039	23,072
Long-term debt (Note 4)	**201,625**	292,650
Deferred income taxes	**5,821**	5,679
Shareholders' Equity		
Stated capital (Note 5)		
Non-participating preferred shares	**12,790**	14,337
Participating preferred shares	**18,074**	18,074
Subordinate voting shares	**159,865**	159,865
Retained earnings	**587,289**	490,615
	778,018	682,891
	$ 994,503	$ 1,004,292

Power Corporation of Canada

Consolidated Statement of Earnings
For the year ended December 31

	Thousands	
	1984	1983
Share of earnings of subsidiaries and affiliate (Note 2)	$ 110,971	$ 86,125
Income from investments	6,704	7,047
	117,675	93,172
Operating expenses	6,423	6,424
Interest on long-term debt	23,924	27,136
Provision for depreciation	647	707
	30,994	34,267
Earnings before extraordinary and other items	86,681	58,905
Extraordinary and other items (Note 6)	41,392	263
Net earnings	$ 128,073	$ 59,168
Earnings per participating preferred and subordinate voting share (Note 10c)		
Before extraordinary and other items	$ 3.37	$ 2.28
After extraordinary and other items	$ 4.99	$ 2.29

Consolidated Statement of Retained Earnings
For the year ended December 31

	1984	1983
Balance, beginning of year		
As previously reported	$ 494,911	$ 445,029
Reduction due to change in accounting for pre-operating expenses of an affiliate (Note 1c)	(4,296)	(895)
As restated	490,615	444,134
Add		
Net earnings	128,073	59,168
Gain on first preferred shares purchased for cancellation	531	781
	619,219	504,083
Deduct		
Dividends		
Non-participating preferred shares	625	709
Participating preferred shares	2,294	1,390
Subordinate voting shares	18,758	11,369
Share of charges to retained earnings of subsidiaries and affiliate including foreign currency translation adjustments (Note 2)	10,253	
	31,930	13,468
Balance, end of year	$ 587,289	$ 490,615

Consolidated Statement of Changes in Financial Position

For the year ended December 31

	Thousands	
	1984	1983
Source of funds		
Earnings before extraordinary and other items	**$ 86,681**	$ 58,905
Non cash charges (credits)		
Earnings not received in cash	**(77,391)**	(48,316)
Provision for depreciation and other	**789**	545
	10,079	11,134
Disposal of investments (Note 8)	**446,028**	
Issue of long-term debt	**7,000**	22,665
	463,107	33,799
Use of funds		
Net additions to fixed assets	**1,182**	538
Purchase of investments (Note 8)	**333,595**	4,853
Reduction of long-term debt	**98,025**	18,900
Acquisition of first preferred shares for cancellation	**1,016**	1,280
Dividends		
Non-participating preferred shares	**625**	709
Participating preferred shares	**2,294**	1,390
Subordinate voting shares	**18,758**	11,369
Miscellaneous	**252**	
	455,747	39,039
Increase (decrease) in working capital	**7,360**	(5,240)
Working capital (deficiency), beginning of year	**(607)**	4,633
Working capital (deficiency), end of year	**$ 6,753**	$ (607)

Power Corporation of Canada

Notes to Consolidated Financial Statements
December 31, 1984

Summary of significant accounting policies

The accounting principles followed by Power Corporation of Canada and its subsidiaries and affiliate are in accordance with generally accepted accounting principles, except that the accounting practices followed by The Great-West Life Assurance Company are as prescribed or permitted by the Department of Insurance of Canada, as described in the notes to the financial statements of that company as presented on page 31 of this Report.

Principles of consolidation and presentation
The consolidated financial statements include the accounts of the Corporation and its wholly-owned investment subsidiaries.

Investments in other subsidiaries and affiliate are accounted for on the equity basis or on the modified equity basis in the case of The Great-West Life Assurance Company. A full consolidation of the financial statements of Power Corporation and its subsidiaries has not been prepared as such consolidation would not be appropriate in the circumstances. Financial statements of the major non-consolidated subsidiaries and affiliate are presented on pages 18 to 36 of this Report.

The difference between the cost of the investment in corporations accounted for on the equity basis and the book value of the underlying net assets at the dates of acquisition is included in the carrying value of these investments.

Investments
Other investments are stated at cost less write downs.

Depreciation
The fixed assets are depreciated at the maximum rates permitted for income tax purposes.

Income taxes
The Corporation follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements represent taxes deferred mainly in respect of certain investments recorded at a cost which is in excess of their cost for income tax purposes.

Pensions
The Corporation has pension plans for employees, which are being funded, and the current service cost portion is charged to earnings as incurred.

Note 1. Changes in accounting practices of subsidiaries and affiliate

a) The Investors Group and Montreal Trustco Inc., subsidiaries of Power Financial Corporation, have changed their presentation of net gains and losses on investment transactions, so that such amounts are now included in the determination of net operating income. Previously, such items were reported as extraordinary items. The 1983 figures have been restated to conform with the 1984 presentation.

b) The Great-West Life Assurance Company, a subsidiary of The Investors Group, has made the following changes in its accounting practices:

(i) A change to the rate at which realized and unrealized gains and losses on equity securities are recognized in income from 7% to 15%. This change in applicable regulation was promulgated by the Department of Insurance of Canada in December 1984 and has resulted in an increase in net income from operations of $18,892,000, of which the Corporation's share is $11,627,000.

(ii) The net income includes an amount of $7,109,000, included in other items, to conform the accounting methods of its subsidiaries to the accounting practices prescribed for The Great-West Life Assurance Company. The Corporation's share of this change amounts to $4,379,000.

c) Consolidated-Bathurst Inc., an affiliate, changed in 1984 its accounting policy from capitalizing pre-operating expenses related to major capital additions and amortizing them over a period of five years to recording them as a charge against income as they are incurred. As a result of this change, which has been adopted on a retroactive basis, net earnings of the Corporation for 1984 and 1983 have been reduced by $3,222,000 and $3,401,000, respectively, and retained earnings at January 1, 1983 have been decreased by $895,000 to give effect to the adjustments which pertain to prior years.

Note 2. **Subsidiaries and affiliate at equity**

	Subsidiaries			Affiliate	
	The Investors Group	Power Financial Corporation	Gesca Ltée	Consolidated-Bathurst Inc.	Total
Voting and equity interest	n/a	79.5%	100%	39.7%	n/a
			Thousands		
Carrying value, December 31, 1983	$ 433,417	$	$ 23,661	$ 250,607	$ 707,685
Share of reduction to earnings (Note 1c)				(4,296)	(4,296)
As restated	433,417		23,661	246,311	703,389
Purchase of investments	69	331,859			331,928
Gain resulting from issue of common shares		45,060			45,060
Share of earnings	14,633(a)	64,962(a)	6,317	25,059	110,971
Share of extraordinary and other items	6,597	(4,870)	738	(5,907)	(3,442)
Share of charges to retained earnings including foreign currency translation adjustments	(160)	(151)		(9,942)	(10,253)
Dividends	(7,255)	(14,400)	(2,975)	(8,950)	(33,580)
Disposal of investment (Note 8)	(420,470)				(420,470)
Carrying value, December 31, 1984	**$ 26,831**(b)	**$ 422,460**	**$ 27,741**(c)	**$ 246,571**(d)	**$ 723,603**
Share of equity, December 31, 1984	$ 31,847	$ 422,099	$ 27,738(c)	$ 204,871(d)	$ 686,555

a) Includes $59,911,000 share of earnings, before deduction of carrying charges, derived from The Great-West Life Assurance Company, a subsidiary of Power Financial Corporation.

b) Represents cost of 1,273,869 5% cumulative redeemable preferred shares, 1969 Series.

c) Includes advances of $1,062,000.

d) Includes debentures of $990,000.

Note 3. **Other investments**

	Thousands			
	1984		1983	
	Book Value	Market Value	Book Value	Market Value
Quoted securities at cost				
Banque Nationale du Canada*	**$ 24,973**	**$ 22,496**	$ 24,973	$ 20,958
Canadian Pacific Limited	**181,547**	**168,410**	181,547	169,673
Pargesa Holding S.A. (Note 8)			25,549	34,746
Other	**1,983**	**1,082**	1,983	1,042
	208,503	**$ 191,988**	234,052	$ 226,419
Unquoted investments at cost less write downs	**41,324**		39,673	
	$ 249,827		$ 273,725	

*On January 21, 1985, the Corporation sold shares having a book value of $24,353,000 for a net consideration of $22,800,000.

Power Corporation of Canada

Notes to Consolidated Financial Statements
December 31, 1984

Note 4. Long-term debt

	Thousands	
	1984	1983
Eighteen-month revolving bank loan bearing interest at the prime rate, extendible semi-annually and secured by certain investments	$ **33,000**	$ 26,000
Two-year revolving bank loan bearing interest at the prime rate, extendible yearly, and convertible into a six-year term loan bearing interest at the prime rate plus 3/8% and secured by certain investments	**15,000**	15,000
Term bank loan maturing September 30, 1989 to September 30, 1992 bearing interest at the prime rate to September 30, 1985, at the prime rate plus 1/4% from October 1, 1985 to September 30, 1988 and at the prime rate plus 3/8% from October 1, 1988 until maturity and secured by certain investments	**50,000**	50,000
Term bank loans maturing May 31, 1987 to November 30, 1988 bearing interest at the prime rate plus 1/4% and secured by certain investments	**37,125**	74,250
Income debentures maturing June 30, 1985 to December 31, 1987 bearing interest at half prime rate plus 1½% and secured by certain investments	**20,000**	93,800
Income debentures maturing June 30, 1985 bearing interest at half prime rate plus 2% and secured by certain investments (a)	**52,500**	52,500
	207,625(b)	311,550
Deduct instalments due within one year	**6,000**	18,900
	$ **201,625**(c)	$ 292,650

a) Arrangements will be made to refinance these income debentures on a long-term basis.

b) Net proceeds of $107,400,000 from the sale of 4,000,000 subordinate voting shares received on February 14, 1985 have been used to reduce bank loans.

c) Instalments due on the long-term debt other than the income debentures of $52,500,000 maturing on June 30, 1985 and after allowing for the transaction referred to in b) are as follows: 1985 – $6,000,000; 1986 – $6,000,000; 1987 – $8,000,000; 1988 – nil; 1989 – $6,000,000.

Note 5. Stated capital

	Thousands	
	1984	1983
Non-participating preferred shares		
First preferred shares without nominal or par value issuable in series (i)		
Authorized – Unlimited number of shares		
Issued – 255,809 shares $2.375 cumulative redeemable 1965 Series	$ **12,790**	$ 14,337
15¢ participating preferred shares without nominal or par value (ii)		
Authorized – Unlimited number of shares		
Issued – 2,780,674 shares	$ **18,074**	$ 18,074
Subordinate voting shares without nominal or par value (iii) and (iv)		
Authorized – Unlimited number of shares		
Issued – 22,737,256 shares	$ **159,865**	$ 159,865

(i) redeemable at $50.50 plus accrued and unpaid dividends and non-voting except under certain conditions. During the calendar year, 30,923 shares were redeemed and cancelled. The Corporation, through a sinking fund, is committed to retire 26,500 such shares in each twelve-month period from May 1 to April 30.

(ii) entitled to ten votes per share; entitled to a non-cumulative dividend of 15¢ per share per annum before dividends on the subordinate voting shares and having the right to participate, share and share alike, with the holders of the subordinate voting shares in any dividends in any year after payment of a dividend of 15¢ per share on the subordinate voting shares.

(iii) entitled to one vote per share.

(iv) 1,333,332 shares have been reserved for issuance pursuant to subscription rights granted on April 25, 1984 in connection with a private placement of 8,000,000 common shares of Power Financial Corporation, a subsidiary company. Such subscription rights are exercisable at any time up to April 25, 1987 at a price of $21 per share.

Note 6. Extraordinary and other items

	Thousands	
	1984	1983
Gain resulting from issue of common shares by a subsidiary	$ **45,060**	$
Share of extraordinary and other items of subsidiaries and affiliate	**(3,442)**	2,836
Write down of investments, net of income taxes		(2,573)
Other	**(226)**	
	$ **41,392**	$ 263

Note 7. **Income taxes**

The Corporation has accumulated non-capital losses for tax purposes as a substantial portion of its net earnings is derived from its subsidiaries and affiliate. The benefits resulting from the use of these losses have not been accounted for in these financial statements.

The taxation year 1981 is under review by the income tax authorities, but no re-assessment has been received. Adjustments to the taxable income for that year, if any, would be offset by the non-capital losses available as at December 31, 1984.

Note 8. **Sale of shares of The Investors Group and Pargesa Holding S.A.**

On April 23, 1984, the Corporation sold to Power Financial Corporation its common and class A Non-Voting shares of The Investors Group and its shares in Pargesa Holding S.A. in exchange for the issue of 31,999,000 common shares and non-interest bearing demand notes of Power Financial Corporation having an aggregate face value of $114,250,000. The value of such common shares and the aggregate amount of such notes were equal to the value of such shares of The Investors Group ($420,470,000) and such shares of Pargesa Holding S.A. ($25,549,000) on the books of the Corporation at March 31, 1984.

Note 9. **Other**

a) Related party transactions
The Corporation and its subsidiaries and affiliates have transactions with each other in the normal course of business at competitive prices but such transactions are not significant to the Corporation or its subsidiaries and affiliates.

b) Segmented information
The nature of the business is that of a holding and management corporation. Financial information on subsidiaries and affiliate is presented on pages 18 to 36 of this Report.

c) Comparative figures
Certain of the comparative figures have been restated to conform with the presentation adopted in 1984.

Note 10. **Subsequent events**

a) On February 14, 1985, 4,000,000 subordinate voting shares were issued at $28 per share for a total consideration of $112,000,000 under the terms of an underwriting agreement dated January 30, 1985. Expenses of the issue, including underwriters' fees, absorbed by the Corporation are estimated to be $4,900,000.

b) In accordance with the Articles of Continuance, a contemporaneous offering of 15¢ participating preferred shares at the same price per share was made to holders of such shares, which offer terminated on March 8, 1985. 50,277 shares were issued for a total consideration of $1,408,000.

c) Fully diluted pro forma earnings per participating preferred and subordinate voting share reflecting the above mentioned transactions and the potential exercise of rights to subscribe to subordinate voting shares amount to $3.31 and $4.64 before and after extraordinary and other items respectively.

Auditors' Report

To the Shareholders of
Power Corporation of Canada

We have examined the consolidated balance sheets of Power Corporation of Canada as at December 31, 1984 and 1983 and the consolidated statements of earnings, retained earnings, and changes in financial position for the years then ended. Our examinations were 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 December 31, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied, except for the changes, with which we concur, in the accounting practices of subsidiaries and affiliate explained in Note 1, on a consistent basis.

Montréal, Québec, March 8,1985

Touche Ross & Co.
Chartered Accountants

Power Financial Corporation

Consolidated Balance Sheet
As at December 31

	Thousands	
Assets	**1984**	1983
		(Note 1)
Cash and investments		
Cash and temporary investments	$ **74,472**	$ 58,838
Marketable securities and accrued income (Note 3)	**328,780**	261,889
Mortgages on real estate and accrued income	**823,705**	805,896
Real estate	**20,734**	7,652
Loans to certificate holders	**11,924**	13,711
	1,259,615	1,147,986
Investment in unconsolidated subsidiaries (Note 4)	**527,687**	443,365
Office premises	**5,949**	5,516
Accounts and notes receivable	**7,462**	7,546
Income taxes recoverable	**394**	
Deferred expenses	**7,322**	9,062
Other assets	**2,885**	1,781
	$ 1,811,314	$ 1,615,256

Approved by the Board of Directors

J W Burns
Director

Paul Desmarais
Director

Liabilities	Thousands 1984	1983 (Note 1)
Certificate and current liabilities		
Certificate liabilities (Note 6)	$ 750,434	$ 753,601
Provision for additional certificate credits	4,939	5,574
Guaranteed trust accounts (Note 2)	326,291	256,322
Bank loans	1,288	1,107
Tax deposits on mortgages	21,282	20,379
Dividends payable	6,565	6,228
Mortgage on real estate	6,136	
Other liabilities	19,625	16,662
Income taxes payable		243
	1,136,560	1,060,116
Income deferred to future years	5,029	2,823
Deferred income taxes	8,737	11,397
9⅞% Debentures, 1978 Series (Note 7)	32,796	35,300
	1,183,122	1,109,636
Minority interest (Note 8)	97,420	
Shareholders' Equity		
Stated capital (Note 10)	473,964	100,616
Contributed surplus arising from premium on capital stock		46,777
Retained earnings	56,808	358,227
	530,772	505,620
	$ 1,811,314	$ 1,615,256

Power Financial Corporation

Consolidated Statement of Income
For the year ended December 31

		Thousands	
		1984	1983
Income			(Note 1)
Investment income		$ 139,152	$ 127,656
Service fees		1,709	2,340
Management and distribution fees		67,290	55,896
Trust fees		2,996	2,815
		211,147	188,707
Expenses			
Interest on certificate and trust liabilities		72,982	65,253
Additional credits to certificates		39,312	40,028
Certificate and service fee costs		17,077	15,623
Management and distribution costs		53,236	44,814
Trust operating costs		2,535	2,433
Interest on bank loan		395	
		185,537	168,151
Gross income from operations		25,610	20,556
Provision for income taxes (Note 11)		5,030	3,662
Income from operations		20,580	16,894
Net gain on investments net of tax		437	2,043
Net income from operations		21,017	18,937
Share of earnings of unconsolidated subsidiaries (Note 4)		82,496	59,200
		103,513	78,137
Debenture interest costs net of tax (Note 7)		1,716	1,710
Net operating income before undernoted adjustments		101,797	$ 76,427
Pre-acquisition net operating income (Note 9)	$ (14,717)		
Minority interest related to net operating income	(5,492)	(20,209)	
Net operating income		81,588	
Share of other items of unconsolidated subsidiary	486		
Pre-acquisition share of other items (Note 9)	(6,781)		
Minority interest related to other items	95	(6,200)	
Net income		$ 75,388	
Earnings per share			
Net operating income		$ 2.03	
Net income		$ 1.88	
Pro forma earnings per share (Note 1)			
Net operating income		$ 2.35	$ 1.73
Net income		$ 2.37	$ 1.90

Consolidated Statement of Retained Earnings
For the year ended December 31, 1984

Balance, beginning of year	$
Net income	75,388
Share of charges to retained earnings of unconsolidated subsidiary	(176)
Share issue expenses	(295)
Dividends	(18,109)
Balance, end of year	$ 56,808

Consolidated Statement of Changes in Financial Position

For the year ended December 31

	Thousands	
	1984	1983 (Note 1)
Source of funds		
From operations		
Net operating income before adjustments	$ 101,797	$ 76,427
Less share of earnings retained by unconsolidated subsidiaries	56,760	37,190
	45,037	39,237
Deduct non-cash credits to operations net of a deferred income tax charge (credit) of $(2,660) (1983-$2,134)	926	1,257
	44,111	37,980
Interest and additional credits on certificate and trust liabilities	112,294	105,281
Certificate and guaranteed trust sales and receipts	126,717	104,765
Proceeds from security transactions	58,000	31,434
Mortgage principal collections and sales	75,401	67,404
Proceeds from sale of real estate	5,880	1,731
Decrease in loans to certificate holders	1,688	7,653
Mortgage on real estate	6,136	
Proceeds from issue of shares	138,000	
Miscellaneous	3,630	6,981
	571,857	363,229
Use of funds		
Certificate maturities and surrenders	172,782	144,185
Investment in marketable securities	99,653	45,163
Investment in mortgages	101,278	202,828
Net additions to real estate and office premises	9,240	1,833
Decrease (increase) in bank loans	(181)	11,314
Reduction in 9⅞% debentures	2,504	2,100
Redemption of preferred shares, 1978 Series	4,200	
Dividends paid	29,123	26,571
Purchase of investments	23,374	507
Repayment of demand notes	114,250	
	556,223	434,501
Increase (decrease) in cash and temporary investments	$ 15,634	$ (71,272)

Power Financial Corporation

Notes to Consolidated Financial Statements
December 31, 1984

Note 1. Financial statements presentation and summary of significant accounting policies

The accounting principles followed by Power Financial Corporation and its subsidiaries are in accordance with generally accepted accounting principles, except that the accounting practices followed by The Great-West Life Assurance Company are as prescribed or permitted by the Department of Insurance of Canada, as described in the notes to the financial statements of that company on page 31 of this Report.

The comparative figures for 1983 are those of The Investors Group reclassified to conform with the consolidated financial statements of Power Financial Corporation.

The pro forma earnings per share as set out in the consolidated statement of income are presented to show what the Corporation's earnings per share in 1984 and 1983 would have been if Power Financial Corporation had acquired The Investors Group at the beginning of 1983.

a) Principles of consolidation

The consolidated financial statements include the accounts of The Investors Group and its wholly-owned subsidiary companies.

The investments in The Great-West Life Assurance Company and Montreal Trustco Inc. are accounted for respectively on the modified equity basis and on the equity basis. A full consolidation of the financial statements of Power Financial Corporation and its subsidiaries has not been prepared as such statements would not be appropriate in the circumstances. Financial information for these subsidiaries is presented on pages 27 to 34 of this Report.

b) Marketable securities

It is a statutory requirement of the investment contract industry to amortize any differences between the original cost of bonds and debentures and their par value over the period to maturity in such a manner as to equalize the yield to maturity. The bonds and debentures included in this category are carried at amortized cost and all other securities are carried at original cost.

c) Mortgages and real estate

Mortgages are valued at amortized cost less provision for losses. Real estate is valued at cost less accumulated depreciation and provision for losses.

d) Office premises

Office premises are recorded at cost less accumulated depreciation of $5,786,000 (1983 – $5,376,000).

The depreciable properties and related equipment and furnishings are depreciated on a straight-line basis over their estimated life.

e) Certificate liabilities

Investment certificates entitle certificate holders to receive at maturity a definite sum of money. A portion of payments made by instalment certificate holders is added to certificate liabilities and the balance to service fee income. The portion of certificate payments added to certificate liabilities, when combined with the interest compounded at government approved rates, will accumulate to equal the specified maturity value at the maturity date. The aggregate accumulated certificate liabilities always exceed the aggregate cash surrender values of the outstanding investment certificates.

f) Service fee income and selling expenses

On instalment investment certificates, service fees received during the first year may exceed or be less than the aggregate of commissions paid to sales representatives and selling costs incurred. To achieve a better matching of income and expense, the differential is amortized over the first 60 months that instalment certificates are in force.

On single payment certificates, first year commissions paid to sales representatives are amortized over the first 36 months that they are in force with all other selling expenses being charged against income in the year of sale. A special commission which is payable on the tenth anniversary of certain certificates is being provided for by an annual charge against income.

On guaranteed investment certificates, all commissions paid to sales representatives and all other selling expenses are amortized over the terms of the certificates.

g) Additional credits

In addition to the guaranteed maturity and cash surrender values, certificate holders are entitled to additional amounts. Full provision has been made for all additional credits, both earned and accrued.

h) Income taxes

The Corporation follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements represent taxes deferred as a result of claims made in excess of charges in the accounts for capital cost allowances, mortgage reserves and certificate selling costs.

Note 2. Assets held for guaranteed trust accounts

Included in the consolidated balance sheet are the following assets of the guaranteed trust accounts of Investors Group Trust Co. Ltd.:

	Thousands 1984	1983
Cash and other investments	$ **42,472**	$ 22,189
Marketable securities	**28,223**	13,452
First mortgages	**255,596**	220,681
	$ **326,291**	$ 256,322

Note 3. Marketable securities and accrued income

	Thousands 1984 Cost	1984 Market	1983 Cost	1983 Market
Canadian government and corporate bonds and obligations	$ **81,529**	$ **75,823**	$ 104,832	$ 98,283
Canadian preferred stocks	**193,089**	**179,275**	129,727	115,206
Canadian common stocks	**24,136**	**42,439**	23,659	39,809
Aircraft certificates*	**3,254**	**3,254**	3,671	3,671
Pargesa Holding S.A.	**26,772**	**27,236**		
	$ **328,780**	$ **328,027**	$ 261,889	$ 256,969

*Aircraft certificates represent part ownership of two aircraft leased to a major Canadian airline after deducting a liability of 11% serial debentures. The debentures amount to $1,625,500 (1983-$1,789,500), mature in 1991 and are secured by a mortgage on one aircraft and the related lease payments.

Note 4. Investment in unconsolidated subsidiaries

	The Great-West Life Assurance Company	Montreal Trustco Inc.	Total
Equity interest, December 31, 1984	96.2%	55.4%	n/a

	Thousands		
Carrying value of investments, beginning of year	$ 395,989	$ 47,376	$ 443,365
Add (deduct)			
Allocation, upon the acquisition of The Investors Group, of the excess of the acquisition cost over the net book value (Note 9)	6,337		6,337
Cost of shares acquired during the year	35	21,051	21,086
Share of net operating income	74,841	7,655	82,496
Share of other items	486		486
Share of charges to retained earnings		(347)	(347)
Dividends received	(23,083)	(2,653)	(25,736)
Carrying value of investments, end of year	$ **454,605**	$ **73,082**	$ **527,687**
Share of equity, December 31, 1984	$ 497,247*	$ 63,370	$ 560,617

*Statutes governing the life insurance industry require that a portion of surplus be segregated as appropriated surplus for investment and other asset valuations. Such appropriated surplus is not presently available for distribution to shareholders.

Power Financial Corporation

Notes to Consolidated Financial Statements
December 31, 1984

Note 5. Accounting practices for The Great-West Life Assurance Company

As noted in Note 1, the accounting practices employed by The Great-West Life Assurance Company are those prescribed or permitted by the Department of Insurance of Canada.

During 1984, the Corporation's income has been affected by the following changes in accounting practices and other unusual items, net of income taxes, which have been reflected in the financial statements of The Great-West Life Assurance Company:

a) A change to the rate at which realized and unrealized gains and losses on equity securities are recognized in income from 7% to 15%. This change in applicable regulation was promulgated by the Department of Insurance of Canada in December 1984 and resulted in an increase in the Corporation's net operating income of $14,908,000.

b) Income from subsidiaries includes an amount to conform the accounting methods of the subsidiaries to the accounting practices prescribed for The Great-West Life Assurance Company, resulting in an increase in the Corporation's share of other items of unconsolidated subsidiary of $5,615,000.

c) The deferred asset in respect of computer systems development has been written off, resulting in a decrease in the Corporation's net operating income of $4,010,000.

d) Asset values in respect of real estate properties which are in the process of development have been written down resulting in a decrease in the Corporation's share of other items of unconsolidated subsidiary of $7,088,000.

e) Provision has been made for possible assessments by insurance guarantee associations resulting in a decrease in the Corporation's share of other items of unconsolidated subsidiary of $3,532,000.

The net effect after income taxes of the changes in accounting practices and other unusual items reflected in the financial statements of The Great-West Life Assurance Company is an increase in the Corporation's net income before minority interest of $5,893,000.

Further information on the other items of The Great-West Life Assurance Company may be found in Note 3 of the notes to the financial statements of that company as presented on page 32 of this Report.

Note 6. Certificate liabilities

As security for investment certificates issued by a subsidiary, assets which qualify as investments under the Canadian and British Insurance Companies Act having a value in excess of net certificate liabilities must be lodged by the subsidiary with an approved depository. As at December 31, 1984 the excess was $104,124,000 (1983-$57,606,000).

Note 7. 9⅞% Debentures, 1978 Series

The debentures are due by a subsidiary on October 4, 1998 with a sinking fund requirement of $1,500,000 per annum, which may be increased to $2,500,000 at the subsidiary's option.

Note 8. Minority interest

Minority interest represents the portion of the shareholders' equity of The Investors Group attributable to shares not owned by the Corporation:

	Thousands
Preferred shares, 1969 Series*	$ 32,179
Preferred shares, 1978 Series	55,800
Common shares and class A Non-Voting shares	9,441
	$ 97,420

*Power Corporation of Canada, the parent corporation, owns 99% of the outstanding shares.

Note 9. **Acquisition of The Investors Group**

On April 23, 1984 and pursuant to the terms of an exchange offer dated April 27, 1984, the Corporation acquired 6,809,571 common shares and 5,868,181 class A Non-Voting shares of The Investors Group from its parent company and minority shareholders in exchange for the issue of 31,013,899 common shares of the Corporation, notes of $109,869,000 and cash of $263,000. The accounts of The Investors Group have been consolidated with those of the Corporation on the purchase basis of accounting effective March 31, 1984.

Details of the purchase are as follows:

	Thousands
Acquisition cost	$ 424,958
Net assets acquired at book value	418,621
Amount allocated to carrying value of the investment in The Great-West Life Assurance Company	$ 6,337

Note 10. **Stated capital**

Authorized
First preferred shares, issuable in series – unlimited
Second preferred shares, issuable in series – unlimited
Common shares – unlimited

Issued and outstanding

	Common shares	
	Number	Stated value
		Thousands
Balance, beginning of year	1,000*	$ 20
Issued for assets acquired		
The Investors Group (Note 9)	31,013,899	323,221
Pargesa Holding S.A.	1,227,127	12,723
Issued for cash	8,000,000	138,000
Balance, end of year	40,242,026	$ 473,964

*On February 21, 1984, the directors passed a resolution to subdivide the outstanding 200 common shares into 1,000 common shares.

Note 11. **Income taxes**

	Thousands	
	1984	1983
Gross income from operations	$ 25,610	$ 20,556
Deduct dividend and other non-taxable income	15,932	13,237
Adjusted net operating income	$ 9,678	$ 7,319
Effective rate of income taxes	51.97%	52.75%
Provision for income taxes based on effective rate	$ 5,030	$ 3,861
Deduct adjustment for accumulated provincial royalty tax rebates		199
Provision for income taxes on operating income	5,030	3,662
Provision for (recovery of) taxes on gains and losses on investments	(245)	748
Income taxes recovered on debenture interest costs	(1,859)	(1,920)
Total provision for income taxes	$ 2,926	$ 2,490

Power Financial Corporation

Notes to Consolidated Financial Statements
December 31, 1984

Note 12. **Contingencies and commitments**

a) In connection with real estate investments, The Investors Group is contingently liable for guarantees of mortgage financing totalling $5,793,000 and letters of credit totalling $8,630,000 less a guarantee of $2,974,000 from a participant in certain real estate projects.

b) Investors Mortgage Fund, a mutual fund managed by a subsidiary, invests in first mortgages on improved real estate in Canada. It is anticipated that there will always be ample cash and marketable securities in the Fund available to meet future withdrawals. However, should the withdrawals exceed available cash and marketable securities, The Investors Group has guaranteed to find a purchaser for (or failing to do so, purchase itself) sufficient mortgages at prices not less than 95% of the then prevailing market value thereof, to realize sufficient monies to enable the Trustee to meet all such withdrawals.

As at December 31, 1984 total assets of Investors Mortgage Fund were $561,873,000 comprising $73,904,000 in cash and other liquid assets and $487,969,000 in mortgages.

Note 13. **Related party transactions**

The Corporation and its subsidiaries and affiliates have transactions with each other in the normal course of business at competitive prices but such transactions are not significant to the Corporation or its subsidiaries and affiliates.

Note 14. **Segmented information**

The Corporation operates in three distinct industry segments: the life insurance industry as represented by its controlling interest in The Great-West Life Assurance Company, the trust company industry as represented by its controlling interest in Montreal Trustco Inc. and the financial services industry as represented by the operations of The Investors Group and its wholly-owned subsidiaries. Financial information on each segment is provided in the consolidated financial statements and on pages 27 to 34.

Auditors' Report

To the Shareholders of
Power Financial Corporation

We have examined the consolidated balance sheet of Power Financial Corporation as at December 31, 1984 and the consolidated statements of income, retained earnings, and changes in financial position 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 December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which are consistent with those applied by The Investors Group in the preceding year, except for the change, with which we concur, in the methods of accounting for investment income and income from subsidiaries adopted by The Great-West Life Assurance Company as explained in Notes 5a and 5b to the financial statements.

Montréal, Québec, March 7, 1985

Touche Ross & Co.
Chartered Accountants

The Great-West Life Assurance Company

Summary of Operations
For the year ended December 31

	Thousands	
	1984	1983
Income		
Life insurance and annuity premiums	$ 1,482,939	$ 1,089,331
Accident and health premiums	520,265	511,985
Net investment income (Note 2a)	844,072	687,792
Net realized and unrealized capital gains on assets of segregated investment funds (Note 1d)	9,493	42,685
	2,856,769	2,331,793
Benefits and expenses		
Life and annuity benefits	916,093	807,072
Accident and health benefits	410,430	407,273
Interest on funds on deposit	35,831	31,715
Increase in policy reserves (Note 1g)	989,415	682,928
Dividends to policyholders	64,500	59,723
Total paid or credited to policyholders	2,416,269	1,988,711
Commissions and operating expenses	318,483	249,036
Premium taxes	21,633	20,429
Net operating income before income taxes	100,384	73,617
Income taxes – current	4,944	5,036
– deferred	(5,705)	(1,931)
Net income from operations	101,145	70,512
Other items (Note 3)	18,137	9,449
Net income	$ 119,282	$ 79,961
Summary of net income (Note 1h)		
Attributable to participating policyholders		
Net income before policyholder dividends	$ 87,829	$ 74,743
Policyholder dividends	64,500	59,723
Net income from operations	23,329	15,020
Other items	17,632	2,297
Net income – participating policyholders	$ 40,961	$ 17,317
Attributable to shareholders		
Net income from operations	$ 77,816	$ 55,492
Other items	505	7,152
Net income – shareholders	$ 78,321	$ 62,644
Earnings per share		
From operations	$ 38.90	$ 27.74
Including other items	$ 39.16	$ 31.32

The Great-West Life Assurance Company

Balance Sheet
As at December 31

Assets	1984	1983
	Thousands	
Bonds (Note 1a)	$ 2,571,281	$ 1,941,362
Mortgages and sale agreements (Note 1a)	3,596,052	3,100,360
Stocks (Note 1b)	471,009	365,101
Real estate (Note 1c)	560,578	683,884
Loans to policyholders	322,842	325,998
Cash and certificates of deposit	74,252	94,366
Premiums in course of collection	95,304	75,267
Interest due and accrued	129,990	97,905
Segregated investment funds (Note 1d)	1,135,801	1,038,000
Other assets	109,757	101,392
	$ 9,066,866	$ 7,823,635

Approved by the Board of Directors

J W Burns
Director

K P Kavanagh
Director

	Thousands	
Liabilities	**1984**	1983
Policy benefit liabilities		
Policy reserves (Note 1g)	**$ 5,839,481**	$ 4,823,189
Segregated investment funds	**1,135,801**	1,038,000
Provision for claims	**393,736**	343,575
Provision for 1985 policyholders' dividends	**64,839**	60,648
Provision for experience rating refunds	**78,939**	64,876
	7,512,796	6,330,288
Policyholders' funds	**365,490**	323,242
Mortgages on real estate	**259,393**	333,184
Income taxes payable	**4,940**	13,288
Deferred income taxes (Note 1e)	**4,066**	21,690
Other liabilities	**103,942**	80,986
	8,250,627	7,102,678
Capital stock and surplus		
Capital stock		
Authorized, issued and fully paid – 2,000,000 common shares of $1 par value	**2,000**	2,000
Appropriated surplus (Note 4)		
Participating policyholders	**70,861**	61,174
Shareholders	**201,327**	178,541
Unappropriated surplus		
Participating policyholders	**228,377**	197,103
Shareholders	**313,674**	282,139
	816,239	720,957
	$ 9,066,866	$ 7,823,635

The Great-West Life Assurance Company

Statement of Surplus
For the year ended December 31, 1984

	Thousands		
	Participating Policyholders	Shareholders	Total
Appropriated			
Balance , January 1	$ 61,174	$ 178,541	$ 239,715
Add:			
Increase in special reserves			
Investment valuation and currency reserve – net	1,389	7,359	8,748
Reserve for cash value deficiencies and amounts of negative reserves	7,863	4,509	12,372
Reserve for miscellaneous assets	435	10,918	11,353
	9,687	22,786	32,473
Balance, December 31	**$ 70,861**	**$ 201,327**	**$ 272,188**
Unappropriated			
Balance, January 1	$ 197,103	$ 282,139	$ 479,242
Add:			
Total net income for year from summary of operations	40,961	78,321	119,282
Deduct:			
Dividends to shareholders		24,000	24,000
Changes in special reserves appropriated from surplus	9,687	22,786	32,473
Balance, December 31	**$ 228,377**	**$ 313,674**	**$ 542,051**

Note 1. **Significant accounting practices**

The accounting practices followed by the Company are as prescribed or permitted by the Department of Insurance of Canada for the purpose of reporting to policyholders and shareholders.

a) Investments in bonds, mortgages and sale agreements (debt securities) are basically carried at amortized cost with the securities of the life account adjusted by the unamortized balance of losses or gains on sales of securities. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield, and is deferred and amortized over the period to maturity of the security sold. The unamortized balances at December 31, 1984 are $41,014,000 of net losses for bonds ($46,138,000 in 1983) and $200,000 of net gains for mortgages ($780,000 in 1983).
   Bonds, mortgages and sale agreements have a market value authorized by the Department of Insurance of $5,839,278,000 ($4,641,560,000 in 1983). In most instances, the carrying value of debt securities will be realized since they will be held to maturity to discharge policy contract liabilities maturing at the same time.

b) Investments in stocks (equity securities) in the life account are carried at cost less an adjustment which consists of realized gains and losses as well as a market value adjustment which is a portion of the difference between adjusted book value and year-end market value of all equity securities. The adjustment at December 31, 1984 amounted to $63,653,000 ($92,443,000 in 1983). Equity investments in respect of the accident and health business are carried at cost.
   Equity securities have a market value authorized by the Department of Insurance of $684,492,000 ($593,091,000 in 1983).

c) Real estate at December 31, 1984 is carried at a written down cost of $592,836,000 ($711,204,000 in 1983) less accumulated depreciation of $32,258,000 ($27,320,000 in 1983).
   The market value of the real estate portfolio has been calculated at $660,448,000 ($810,102,000 in 1983).

d) Investments held for segregated investment funds are carried at market value. Net realized and unrealized capital gains on segregated investment funds were $9,493,000 in 1984 ($42,685,000 in 1983). Such capital gains to the funds are reflected in the increase in policy reserves and do not affect net income of the Company.

e) Income taxes are calculated using the deferred-tax method on a present value basis.

f) Income from subsidiaries is included using the equity method of accounting. The Company's principal subsidiaries are listed below:
   Great-West Life & Annuity Insurance Company
   Torwest Properties U.S.A. Limited
   Gold Circle Insurance Company
   G.W.L. Properties Ltd.
   G.W. L. Realty Investments Inc.

g) Policy reserves represent the amount which, in the judgement of the Valuation Actuary, is required, together with future premiums and investment income, to provide for future policy benefits, administrative expenses and taxes on insurance and annuity policies. Asset values and projected maturities of assets and liabilities are continuously monitored and appropriately considered in the determination of policy reserves.
   Policy reserves are calculated using assumptions considered to be appropriate to the policies in force and recognize the deferral of certain costs of acquiring policies. The amount of unamortized deferred acquisition costs deducted in arriving at the policy reserves was $169,538,000 at December 31, 1984 ($131,942,000 at December 31, 1983).

h) Net income includes earnings of the participating, non-participating and the health insurance accounts. Earnings applicable to shareholders include net earnings of the non-participating and the health accounts and 2½%, as restricted by law, of the distributions from the participating account.

Note 2.

The following changes in accounting practices and other unusual items, net of income taxes, have been reflected in the financial statements:

a) A change to the rate at which realized and unrealized gains and losses on equity securities (Note 1b) are recognized in income from 7% to 15%. This change in applicable regulation was promulgated by the Department of Insurance of Canada in December 1984 and has resulted in an increase in net income from operations of $18,892,000.

b) Income from subsidiaries includes an amount of $7,109,000 to conform the accounting methods of the subsidiaries to the accounting practices prescribed for the parent company, resulting in an increase in other items.

c) The deferred asset in respect of computer systems development amounting to $5,162,000 has been written-off, resulting in a decrease in net income from operations.

d) Asset values in respect of real estate properties which are in the process of development have been written down by $8,160,000, resulting in a decrease in other items.

e) Provision has been made for possible assessments by insurance guarantee associations amounting to $4,080,000, resulting in a decrease in other items.

The Great-West Life Assurance Company

Notes to Financial Statements

December 31, 1984

Note 3.

Other items, net of income taxes, include the results of:

	Thousands			
	1984		1983	
Attributable to:	Participating Policyholders	Shareholders	Participating Policyholders	Shareholders
Net write-down of assets	$ (2,436)	$ (15,542)	$ (347)	$ (1,185)
Realized gains/losses on sale of assets (Note 3a)	1,371	8,548	1,957	8,818
Prior years' income tax adjustment (Note 3b)	13,614	2,810	(10,500)	(1,200)
Gain due to change in book rates of exchange (Note 3c)	5,441	11,043		
Changes in actuarial reserves		(2,780)	11,956	3,814
Provision for strengthening of employee benefit plans	(426)	(2,150)	(277)	(1,443)
Provision for insurance guarantee association assessments (Note 2e)	(408)	(3,672)		
Share of earnings of subsidiaries (Note 1f)	(796)	(3,589)	(492)	(1,652)
Accounting basis change for subsidiaries (Note 2b)	1,272	5,837		
	$ 17,632	$ 505	$ 2,297	$ 7,152
	$ 18,137		$ 9,449	

a) Realized gains, net of income taxes of $833,000 on sales of assets, include the results of:

i. all disposals of assets of the accident and health account;
ii. disposals of real estate in the life account.

b) The prior years' tax adjustment includes the results of:

i. a partial reversal of amounts set aside in 1983 to provide for Canadian tax issues;

ii. a reduction of U.S. deferred tax liabilities resulting from the Deficit Reduction Act of 1984 which introduced changes in the taxation of life insurance companies in the United States.

c) Effective January 1, 1984 United States currency items are translated at a book rate of $1.20 in Canadian dollars compared to $1.15 in 1983. It is the intention of the Company to alter this rate whenever it is evident that currency rates have changed significantly and in the opinion of the Company the rate will not be reversed in the near term.

Note 4.

Appropriated surplus represents reserves required by the Department of Insurance of Canada and comprises the following:

	Thousands	
	1984	1983
Participating account		
Investment valuation and currency reserve – net	$ 17,004	$ 15,615
Reserve for cash value deficiencies and amounts of negative reserves	31,835	23,972
Reserve for miscellaneous assets	22,022	21,587
	$ 70,861	$ 61,174
Non-participating and health accounts		
Investment valuation and currency reserve – net	$ 58,113	$ 50,754
Reserve for cash value deficiencies and amounts of negative reserves	76,680	72,171
Reserve for miscellaneous assets	66,534	55,616
	$ 201,327	$ 178,541

Note 5.

Conversion to Canadian dollars of the excess of United States dollar assets over United States dollar liabilities at the December 31, 1984 exchange rate rather than the book rate of $1.20 would have produced an increase in net assets of approximately $42,204,000. In accordance with reporting requirements $30,651,000 is reflected in the balance sheet by a reduction in the investment valuation reserve shown in Note 4.

Note 6.

Transactions with related companies consist mainly of the provision of insurance benefits to other companies within the Power Corporation of Canada group of companies. In all cases, such transactions are made in the normal course of business and at competitive prices.

Valuation Actuary's Certificate

To the Policyholders, Shareholders
and Directors of
The Great-West Life Assurance Company

I have made the valuation of the policy benefit liabilities of The Great-West Life Assurance Company for its balance sheet at 31 December, 1984 and its summary of operations for the year then ended. In my opinion: i) the valuation conforms to the Recommendations for Insurance Company Financial Reporting of the Canadian Institute of Actuaries; ii) the amount of the policy benefit liabilities makes proper provision for future payments under the Company's policies; iii) a proper charge on account of those liabilities has been made in the summary of operations; and iv) the amount of surplus appropriation for policies whose cash value exceeds the policy benefit liability is proper.

January 30, 1985

W.E. Bergquist, F.S.A., F.C.I.A., M.A.A.A.
Senior Vice-President and Actuary

Auditors' Report

To the Policyholders, Shareholders
and Directors of
The Great-West Life Assurance Company

We have examined the balance sheet of The Great-West Life Assurance Company as at December 31, 1984 and the summary of operations and the statement of surplus 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 financial statements present fairly the financial position of the Company as at December 31, 1984 and the results of its operations for the year then ended in accordance with the accounting practices described in Note 1 to the financial statements applied, except for the change in the methods of accounting for investment income and income from subsidiaries as described in Notes 2a and 2b to the financial statements, on a basis consistent with that of the preceding year.

Winnipeg, Manitoba, January 30, 1985

Touche Ross & Co.
Chartered Accountants

Montreal Trustco Inc.

Condensed Financial Statements
December 31

	Thousands	
Condensed Income Statement	**1984**	1983
Gross revenue	$ 338,880	$ 292,141
Operating revenue		
Fiduciary	$ 62,090	$ 59,748
Financial intermediary	38,528	31,078
Real estate	11,206	12,373
	111,824	103,199
Operating expense	(97,340)	(85,784)
Income taxes	1,149	(5,746)
Net income	$ 15,633	$ 11,669
Net income per common share	$ 1.35	$ 1.29
Dividends per common share	$ 0.48	$ 0.40
Power Financial's share of earnings	$ 7,655	$ 5,851
Book value of Power Financial's investment in Montreal Trustco – year-end	$ 73,082	$ 47,376

Condensed Balance Sheet		
Cash, deposit receipts and treasury bills	$ 271,368	$ 324,685
Short-term notes and demand loans	389,535	413,353
Securities	321,127	175,659
Corporate and government loans	130,469	
Mortgages	1,374,780	1,086,586
Premises and equipment	17,240	16,899
Other assets	24,698	19,570
Total assets	$ 2,529,217	$ 2,036,752
Deposits	$ 471,683	$ 512,483
Investment certificates	1,858,204	1,409,333
	2,329,887	1,921,816
Other liabilities	34,943	37,038
Subordinated debt	30,000	
Preferred shares	20,000	
Common shareholders' equity	114,387	77,898
Total liabilities and shareholders' equity	$ 2,529,217	$ 2,036,752

Gesca Ltée

Condensed Financial Statements
December 31

	Thousands	
Condensed Income Statement	**1984**	1983
Operating revenues	$ **142,765**	$ 124,709
Other income	**445**	447
	143,210	125,156
Operating expenses	**131,159**	113,219
Depreciation and amortization	**2,155**	2,129
Interest	**565**	1,585
Income taxes	**3,014**	2,781
	136,893	119,714
Earnings before extraordinary items*	$ **6,317**	$ 5,442

*excludes an extraordinary gain of $738 in 1984

Book value of Power's investment in Gesca Ltée – year-end	$ **26,679**	$ 22,599

Condensed Balance Sheet		
Current assets	$ **16,236**	$ 14,448
Fixed assets – net	**21,411**	22,147
Investments and other assets		772
Goodwill	**15,340**	15,078
Total assets	$ **52,987**	$ 52,445
Current liabilities	$ **21,339**	$ 19,081
Long-term debt	**1,414**	7,395
Deferred income taxes	**3,547**	3,363
Shareholders' equity	**26,687**	22,606
Total liabilities and shareholders' equity	$ **52,987**	$ 52,445

Consolidated-Bathurst Inc.

Condensed Financial Statements
December 31

	Thousands	
Condensed Income Statement	**1984**	1983 (restated)
Net sales	**$ 1,622,984**	$ 1,393,065
Other income	**10,436**	17,777
	1,633,420	1,410,842
Cost of goods sold, including depreciation	**1,385,854**	1,220,997
Administrative and selling expenses	**84,576**	86,744
Interest	**67,227**	52,725
Income taxes	**18,972**	15,357
Minority interest	**2,983**	485
	1,559,612	1,376,308
Earnings before extraordinary items	**$ 73,808**	$ 34,534
Earnings per common share	**$ 1.40**	$ 0.53
Dividends per common share	**$ 0.50**	$ 0.40
Power Corporation's share of earnings*	**$ 25,059**	$ 9,487
Book value of Power's investment in Consolidated-Bathurst – year-end	**$ 245,581**	$ 245,321

*excludes share of extraordinary losses of $5,907 in 1984 and $3,848 in 1983

Condensed Balance Sheet		
Current assets	**$ 565,630**	$ 533,959
Property and plant – net	**921,397**	910,868
Investments and other assets	**188,886**	208,016
Total assets	**$ 1,675,913**	$ 1,652,843
Current liabilities	**$ 308,355**	$ 221,763
Long-term debt and provisions	**503,110**	596,175
Deferred income taxes	**215,211**	216,230
Minority interest and preferred equity	**136,333**	107,567
Common shareholders' equity	**512,904**	511,108
Total liabilities and shareholders' equity	**$ 1,675,913**	$ 1,652,843

Registered Office

759 Victoria Square
Montréal, Québec H2Y 2K4

Transfer Agent and Registrar

Montreal Trust Company
Halifax, Saint John, Montreal,
Toronto, Winnipeg, Regina,
Calgary, Vancouver

Stock Listings

Subordinate Voting Shares
- The Montreal Exchange
- The Toronto Stock Exchange
- Vancouver Stock Exchange

Participating Preferred Shares
- The Montreal Exchange

First Preferred Shares
- The Montreal Exchange
- The Toronto Stock Exchange

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