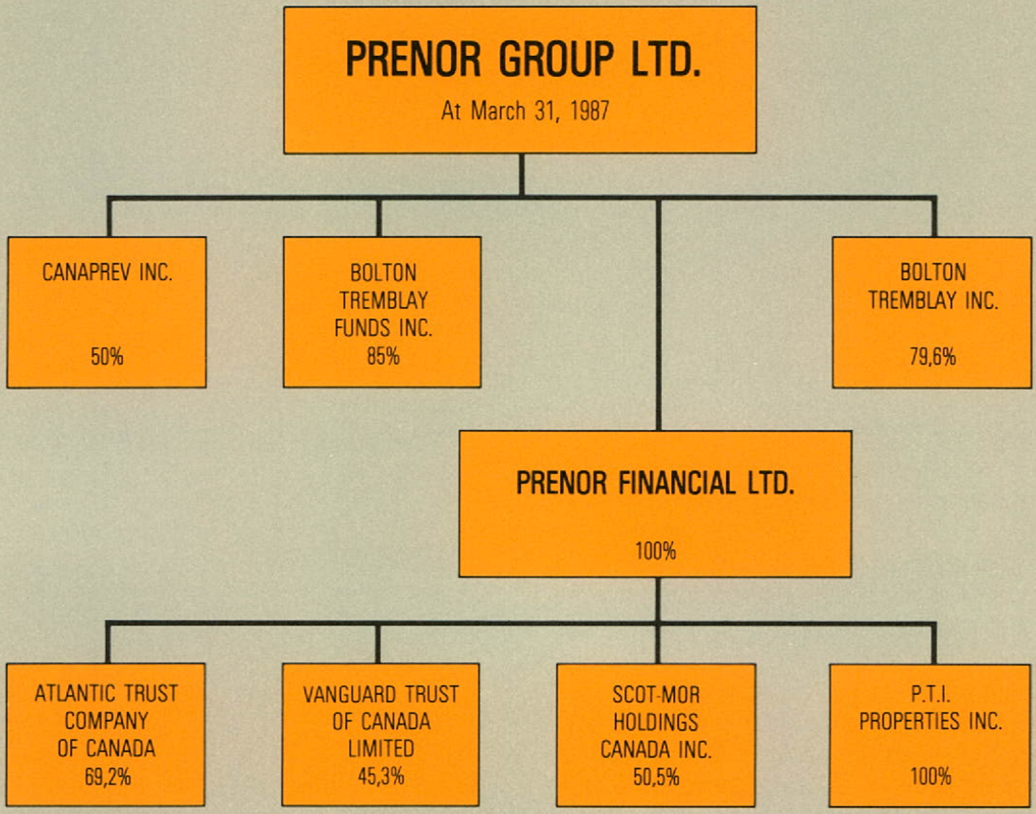
Prenor

ANNUAL REPORT 1986

PRENOR GROUP LTD.

FINANCIAL HIGHLIGHTS

FOR THE YEAR	1986	1985
Revenue	**30,772,000**	16,273,000
Net income for the year	**4,710,000**	4,530,000
Income per common share	**1.85**	1.71
AT DECEMBER 31		
Consolidated assets	**169,000,000**	56,000,000
Assets under administration	**3,436,000,000**	2,760,000,000
Total assets under administration	**3,605,000,000**	2,816,000,000
Common shareholders' equity	**39,631,000**	35,499,000
Per common share	**16.17**	14.48



MANAGEMENT

Lorne C. Webster
Chairman and Chief Executive Officer

Serge Rocheleau
President and Chief Operating Officer

Guy Richard
Vice-President, Finance & Secretary

HEAD OFFICE

1100 University Street
Montreal, Quebec
H3B 3A4
(514) 871-7120

REGISTRAR & TRANSFER AGENT

General Trust of Canada,
Montreal, Toronto

Un exemplaire français de ce rapport peut être obtenu sur demande en écrivant à:
Le Secrétaire,
Groupe Prenor Ltée
1100 rue University,
Montréal (Québec)
H3B 3A4

Changes will soon be made in Canada in the regulations covering banking and allied financial industries. The dismantling of a number of existing barriers means that formal and informal relationships can be entered into between companies once kept apart by statute. Along with most of the other financial services organizations in this country, Prenor will undoubtedly want to take advantage of some of the opportunities these new guidelines will offer.

Looking back at 1986, we are generally pleased with the results as described in the following paragraphs.

RESULTS

For the year ended December 31, 1986, the company achieved gross revenues of $30,772,000 which is a substantial increase over the $16,273,000 realized in 1985. This is mainly due to the consolidation, since July 1, 1986, of the operations of Atlantic Trust Company of Canada and an increase of nearly 60% in investment counselling fees.

Net income from operations increased 37% from $3,584,000 or $1.35 per share the previous year to $4,710,000 or $1.85 per share for calendar 1986. In 1985, total net income per share was $1.71 due to an extraordinary item of $946,000. Total assets of the company now stand at $169,488,000 compared to $55,932,00 at December 31, 1985.

The presentation of our financial statements this year has been slightly changed to better reflect activity in the trust company field.

OPERATIONS

INVESTMENT COUNSELLING Bolton Tremblay Inc., our investment counselling subsidiary, had a very good year in 1986. Total assets under administration which were $2.76 billion at December 31, 1985, reached $3.41 billion at year-end 1986; an increase of 23%.

As a result, gross revenues showed an improvement of 25% rising to $7,142,000 from $5,725,000 in 1985. Net income reached $1,170,000, an increase of 15% over the $1,017,000 realized during the preceding year.

MUTUAL FUNDS Bolton Tremblay Funds Inc., due to a combination of a dynamic marketing approach and favorable market conditions, increased the assets of its mutual funds to $807,000,000 at December 31, 1986, from approximately $400,000,000 at December 31, 1985, an appreciation of 102%.

Increase in gross revenues was almost as high, 96%, reaching $11,042,000 compared to $5,621,000 the preceding year. Net income rose dramatically to $1,138,000 from $190,000 in 1985.

TRUST SERVICES The fiscal year ended October 31, 1986 represented a year of transition for Vanguard Trust of Canada Limited, in which we have a 45.26% interest. Intense competition for high quality mortgages has reduced "spreads" sharply and problems, primarily over heated building activity, that occurred in the residential construction industry in the Toronto area had a negative impact on the profits of our real estate operations.

These events, and certain non-recurring items, have affected the results which went from a net income of $1,773,000 in 1985 to a net loss of $84,000 in 1986.

Revenues increased from $36,580,000 in 1985 to $47,330,000 in 1986. At October 31, 1986, total assets were $432,307,000 compared to $407,392,000 at the end of the previous fiscal year.

The situation is now regularized, a new strategy is in place and the company is currently recording profits in its new fiscal year.

Atlantic Trust Company of Canada's gross revenues were $11,228,000 compared to $12,274,000 in 1985. This decrease is due to the sale in June 1985 of its real estate brokerage division. Net profit was $73,000 compared to $17,000 in 1985; not as good a return as one might have wished for but nevertheless a very healthy percentage increase.

During the last quarter of 1986, the company undertook a rights issue which increased base capital by approximately $1,000,000. Capital in the company is now $5,429,000, and total assets are $93,241,000.

MORTGAGE BROKERAGE 1986 was a very active year for Scot-Mor Holdings Canada Inc. Its subsidiary, Scot-Mor Canada Inc., handled approximately $210,000,000 of real estate mortgage transactions and at December 31, 1986, another subsidiary, Ottawa Financial Corporation, had a mortage portfolio of $11,600,000. Gross revenues for the year were $3,693,000 compared to $2,139,000 for the 9-month period ended December 31, 1985.

The company, which operates three offices in the Ottawa region, will expand its activities by opening its fourth office in Montreal.

Serge Rocheleau,
President and Chief
Operating Officer

Lorne C. Webster,
Chairman and Chief
Executive Officer

Guy Richard,
Vice-President,
Finance and Secretary

REAL ESTATE INVESTMENTS Since the Company sold its interest in the Marché Village in April 1986, our real estate investments are now concentrated under Canaprev Inc.

During the year, Canaprev Inc. acquired the building located at 1060 University, opposite the Trust Général building. This building has a rentable area of 225,000 gross sq. ft. of which 202,000 gross sq. ft. of office space is completely rented for a period of 15 years.

The property is being renovated and should be ready to receive its first tenants in July 1987.

CONCLUSION

Bearing in mind our objective of prudent growth and increasing profitability we are now in the process of adapting ourselves to meeting the challenge of changing conditions in the market-place. We have recently developed a plan which, upon implementation, will result in a complete revision of our corporate and administrative infrastructure. This reorganization will include the grouping of certain services; substantially improving efficiency and productivity as our company grows in size.

The results achieved would not have been possible without the support and loyalty of our staff and we would like to take this opportunity to thank one and all for their dedication.

We also wish to thank Mr. Nicholas Clive Worms and Mr. Jean Perrette for their outstanding contribution during their terms as directors of the company.

LORNE C. WEBSTER
Chairman and Chief Executive Officer

SERGE ROCHELEAU
President and Chief Operating Officer

DIRECTORS AND AFFILIATES

BOARD OF DIRECTORS

Thomas M. Birks
President
Birks Canada
Montréal, Québec

Edward L. Bronstien, Jr.
President
Spencer Boat Co. Inc.
West Palm Beach, Florida

George H. Garneau
Senior Vice-President,
Investments
Paine Webber Incorporated
Tequesta, Florida

Claude Genest
President
The National Reinsurance
Company of Canada
Montréal, Québec

Hugh G. Hallward
President
Argo Construction Inc.
Montréal, Québec

Guy Joron
President
Société de la Place
des Arts de Montréal
Montréal, Québec

Serge Rocheleau
President and
Chief Operating Officer

William M. Sobey
Honorary Chairman
Sobeys Stores Limited
Stellarton, Nova Scotia

H. Arnold Steinberg
Executive Vice-President
Steinberg Inc.
Montréal, Québec

Lloyd F. Stevens
Financial Consultant
London, Ontario

Jacques Tétrault
Partner
Clarkson Tétrault
Montréal, Québec

Lorne C. Webster
Chairman and
Chief Executive Officer

MANAGEMENT OF AFFILIATED COMPANIES

BOLTON TREMBLAY INC.

G. Mitchell Bourke
Chairman of the Board

Ian T. Scott
President

Jean-Luc Landry
Senior Vice-President,

Peter Spark
Senior Vice-President

Kenneth Done
Vice-President

Brian Gallen
Vice-President

Pierre Garceau
Vice-President

Michael A. Riddell
Vice-President

John Sartz
Vice-President

Hugo Valente
Vice-President,
Finance and Administration,
& Secretary

Head Office
1100 University Street
Suite 800
Montréal, Québec
H3B 4K5
(514) 875-7150

BOLTON TREMBLAY FUNDS INC.

Lorne C. Webster
Chairman of the Board

Terence Stone
President

Don Lofranco
Senior Vice-President,

Ken Wharram
Vice-President, Sales

Kathleen McAskie
Controller

Hugo Valente
Secretary

Lucienne LeBlanc
Assistant Treasurer

Sharon Gignac
Assistant Secretary

Head Office
70 University Ave.
Suite 1050
Toronto, Ontario
M5J 2M4
(416) 595-5200

CANAPREV INC.

Lorne C. Webster
Chairman of the Board

Erhard Buccholz
President and General Manager

Serge Rocheleau
Vice-President

Guy Richard
Vice-President

Marie-Andrée Prénoveau
Secretary

Gerry C. Church
Treasurer

Gordon H. Vineberg
Controller

Head Office
700 Dorchester Blvd. West
Montréal, Québec
H3B 1X8
(514) 399-4743

SCOT-MOR CANADA INC.

Robert M. MacLeod
President and
Chief Executive Officer

Guy Gauthier
Vice-President, Marketing

Jane Francis
Controller

Guy Richard
Secretary-Treasurer

Head Office
245 Metcalfe Street
Ottawa, Ontario
K2P 1R2
(613) 238-8191

OTTAWA FINANCIAL CORPORATION

Robert M. MacLeod
Chairman of the Board

David G. Seabrooke
President and Chief
Executive Officer

Jane Francis
Controller

Guy Richard
Secretary-Treasurer

Head Office
245 Metcalfe Street
Ottawa, Ontario
K2P 1R2
(613) 238-8191

ATLANTIC TRUST COMPANY OF CANADA

John H. Dickey
Chairman of the Board

Donald C. Wollstein
President

Daniel J. Fougere
Vice-President, Finance

Roy F. Redgrave
Corporate Secretary

Head Office
1791 Barrington Street
Halifax, Nova Scotia
B3J 3C4
(902) 422-1701

VANGUARD TRUST OF CANADA LIMITED

James Gutmann
Chairman of the Board

Serge Rocheleau
President &
Chief Executive Officer

Donald C. Wollstein
Executive Vice-President &
Chief Operating Officer

Murray Ross
Vice-President
Mortgage Operations

Derek Hought
Vice-President
Finance & Treasurer

Dorothy Krouskie
Vice-President
Corporate Services

Jonathan Lampe
Corporate Secretary

Head Office
70 University Avenue
Suite 1200
Toronto, Ontario
M5J 2M4
(416) 591-1133

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1986 (in thousands of dollars)	1986	1985
REVENUES:		
Interest on mortgages and other loans	$ 6,085	$ 149
Interest on bonds and debentures	1,059	822
Dividends	702	1,075
Counselling and fund management fees	16,446	10,290
Mortgage brokerage and sundry fees	3,598	1,862
Net gains on investments	1,702	818
Net rental income (note 4)	1,269	850
Equity in earnings (loss) of Vanguard Trust of Canada Limited	(89)	407
	30,772	16,273
EXPENSES:		
Interest on guaranteed deposits	4,313	
Salaries and benefits	8,082	4,115
Occupancy, depreciation and amortization	2,146	1,035
Marketing and administrative	7,066	5,359
	21,607	10,509
Income before income taxes, minority interest and extraordinary item	9,165	5,764
Income taxes (note 8):		
– current	4,807	1,675
– deferred	(833)	378
	3,974	2,053
Income before minority interests and extraordinary item	5,191	3,711
Minority interests	481	127
Income before extraordinary item	4,710	3,584
Extraordinary item (note 9)		946
Net income for the year	$ 4,710	$ 4,530
Earnings per common share:		
– income before extraordinary item	$ 1.85	$ 1.35
– net income for the year	$ 1.85	$ 1.71

(See accompanying notes)

CONSOLIDATED BALANCE SHEET

December 31, 1986 (in thousands of dollars)	1986	1985
ASSETS		
Investments:		
Cash and short term investments	$ 5,054	$ 8,573
Portfolio investments (note 3)	10,698	13,750
Mortgage loans	98,080	2,949
Demand loans	7,244	
Real estate investments	5,188	1,353
	126,264	26,625
Investment in affiliated company, Vanguard Trust of Canada Limited	13,327	10,717
Rental properties (note 4)	17,652	10,179
Other assets:		
Fees, receivables and other assets	6,329	3,954
Furniture and leasehold improvements	1,409	1,106
Goodwill	4,507	3,351
	12,245	8,411
	$ 169,488	$ 55,932

(in thousands of dollars)	1986	1985
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Guaranteed deposits (note 5)	$ 85,936	$
Bank indebtedness (note 6)	7,211	60
Accounts payable and accrued charges	4,771	1,740
Income and other taxes payable	3,286	1,104
Deferred revenues	3,362	1,927
Deferred income taxes	328	1,264
Mortgage loans (note 4)	16,896	8,270
	121,790	14,365
Minority interests	5,229	3,230
Shareholders' equity:		
Capital stock (note 7) –		
Issued and outstanding:		
195,773 first preferred shares, Series A, at their redemption value (195,723 in 1985)	2,838	2,838
2,451,291 common shares (2,451,341 in 1985)	15,775	15,775
Retained earnings	23,856	19,724
Total shareholders' equity	42,469	38,337
	$ 169,488	$ 55,932

(See accompanying notes)

On behalf of the Board:

Lorne C. Webster, Director

Serge Rocheleau, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1986 (in thousands of dollars)	1986	1985
OPERATING ACTIVITIES		
Income before extraordinary item	$ 4,710	$ 3,584
Operating items not involving cash (note 10)	798	1,012
	5,508	4,596
Increase in guaranteed deposits	3,470	
Net change in other items	4,224	(15)
	13,202	4,581
FINANCING ACTIVITIES		
Bank indebtedness	6,151	(358)
Dividends paid	(578)	(407)
Additional minority interests	141	
Dividends paid to minority interests	(134)	
Mortgage loans on rental properties	1,176	830
	6,756	65
INVESTING ACTIVITIES		
Cost of investment in subsidiary (note 2)	(3,993)	
Sale (purchase) of rental properties	(7,861)	4,167
Less corresponding mortgage loans	7,450	(2,788)
Investment in Vanguard Trust of Canada Limited		
– shares		(4,354)
– subordinated note	(3,000)	
Proceeds from the sale of an investment		3,500
Additions to fixed assets	(466)	(459)
	(7,870)	66
Investments of subsidiary acquired (note 2)	87,551	
Increase in investments	99,639	4,712
Represented by changes in:		
Cash and short term investments	(3,519)	3,694
Portfolio investments	(3,052)	(1,938)
Mortgage loans	95,131	2,949
Demand loans	7,244	
Real estate investments	3,835	7
	99,639	4,712
INVESTMENTS, BEGINNING OF YEAR	26,625	21,913
INVESTMENTS, END OF YEAR	$ 126,264	$ 26,625

(See accompanying notes)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1986 (in thousands of dollars)	1986	1985
Retained earnings, beginning of year	$ 19,724	$ 17,180
Net income for the year	4,710	4,530
	24,434	21,710
Deduct:		
Dividends on common shares	392	407
Dividends on preferred shares	186	
Amount reserved for redemption of preferred shares, Series A (note 7)		1,579
	578	1,986
Retained earnings, end of year	$ 23,856	$ 19,724

(See accompanying notes)

AUDITORS' REPORT

TO THE SHAREHOLDERS OF PRENOR GROUP LTD.:

We have examined the consolidated balance sheet of Prenor Group Ltd. as at December 31, 1986 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. 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, to the best of our information and the explanations given to us, and as shown by the books of the Company, these consolidated financial statements are drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at December 31, 1986 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants
Montréal, Canada,
March 6, 1987.

December 31, 1986

1. SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management within the limits of materiality and within the framework of the accounting policies summarized below:

A - BASIS OF CONSOLIDATION The consolidated financial statements include the accounts of the Company and its subsidiaries, and the Company's share in the assets, liabilities, revenues and expenses arising from rental property joint ventures.

The investment in an affiliated company, Vanguard Trust of Canada Limited, is accounted for by the equity method.

The Company's interests in its subsidiaries are as follows:

- Prenor Trustco Inc., (100%) and its subsidiaries
  and affiliated company:
  Scot-Mor Holdings Canada Inc. (50.5%)
  Atlantic Trust Company of Canada (69.84%)
  PTI Properties Inc. (100%)
  Vanguard Trust of Canada Limited (45.26%)
- Bolton Tremblay Inc. (79.6%)
- Bolton Tremblay Funds Inc. (85%)

B - INVESTMENTS Bonds and debentures are accounted for at amortized cost plus accrued interest. The other portfolio investments are accounted for at cost.

Mortgage loans are stated at cost less repayments received and a reserve for potential losses.

Interests in real estate development projects are recorded at cost plus the Company's share of the accumulated income. Land held for resale is stated at cost.

The book value of any investment is reduced when there is a permanent loss in value.

C - FURNITURE AND LEASEHOLD IMPROVEMENTS Furniture and leasehold improvements are stated at cost less accumulated depreciation and are depreciated over their estimated useful life.

D - GOODWILL Goodwill is amortized over a period of forty years.

E - REVENUE RECOGNITION The Company recognizes fees for investment counselling at the time services are rendered; fees billed, but not earned, are recorded as deferred revenues.

Income on mortgage brokerage is recorded at the time the loan commitment is signed. Generally, participation fees from development and construction loans are deferred until received.

Interest income is accounted for on an accrual basis and dividend income is recognized on the declaration date.

Excess of inducement payments received on signing leases over relocation expenses is deferred and amortized over the term of the leases.

F - INCOME TAXES The Company provides for income taxes on the tax allocation basis.

G - EARNINGS PER SHARE Earnings per common share is calculated by dividing the net income for the year, after deducting dividends on preferred shares, by the average number of common shares outstanding during the year: 2,451,291 shares (2,630,753 in 1985).

2. ACQUISITION OF SHARES OF ATLANTIC TRUST COMPANY OF CANADA

In June 1986, the Company acquired 1,140,860 common shares (70%) of Atlantic Trust Company of Canada for a cash consideration of $3,992,818.

The acquisition has been accounted for by the purchase method and the net assets acquired at fair value are as follows:

		(in thousands of dollars)
Cash and investments		$ 87,551
Guaranteed deposits		82,466
Net financial resources		5,085
Other assets		948
Bank indebtedness	$ 1,000	
Accounts payable and accrued charges	511	
Subordinated note	275	(1,786)
Net assets of subsidiary		4,247
Less minority interest (30%)		1,274
Net assets of subsidiary acquired		2,973
Excess of purchase price attributed to goodwill		1,020
Purchase price		$ 3,993

In September, pursuant to a rights offering, the Company subscribed for an additional 302,917 common shares of the subsidiary for a cash consideration of $802,730.

The operating results of Atlantic Trust Company of Canada have been consolidated from the date of acquisition.

3. PORTFOLIO INVESTMENTS

The portfolio investments are as follows:

	1986		1985	
	Book value	Market value	Book value	Market value
	(in thousands of dollars)			
Common and preferred shares and units of mutual funds	$ 9,505	$ 9,601	$ 12,749	$ 14,655
Bonds and debentures	1,193	1,188	1,001	1,004
	$ 10,698	$ 10,789	$ 13,750	$ 15,659

4. RENTAL PROPERTIES

The Company's share in the assets and liabilities of rental property joint ventures is as follows:

	1986	1985
	(in thousands of dollars)	
Rental properties, at cost less accumulated depreciation and amount written off (note 9):		
– General Trust Building (50%)	$ 8,395	$ 8,668
– Building under construction (50%)	9,257	
– Le Marché Village (50%)		1,511
	17,652	10,179
Mortgage loans	16,896	8,270
Other net liabilities (net assets)	(990)	256
	15,906	8,526
Net investment in joint ventures	$ 1,746	$ 1,653

The Company's share in revenues and expenses of these ventures in as follows:

	1986	1985
	(in thousands of dollars)	
Rental income	$ 4,244	$ 4,428
Operating expenses	1,880	1,779
Interest	707	1,289
Depreciation	388	510
	2,975	3,578
Net rental income	$ 1,269	$ 850

The General Trust Building is depreciated on a straight line basis over 50 years, being the term of the lease for the land on which it is built. The adjacent building under construction will be depreciated on the same basis, when completed and in operation.

5. GUARANTEED DEPOSITS

Total assets, at December 31, 1986, include assets held for guaranteed investment account of $85,936,000 securing guaranteed investment liabilities as follows:

	(in thousands of dollars)
Savings and other deposits	$ 10,291
Guaranteed investment certificates	75,645
	$ 85,936

6. BANK INDEBTEDNESS

The bank indebtedness is secured by certain assets of the Company's subsidiaries, including real estate investments.

7. CAPITAL STOCK

The authorized capital stock is as follows:

- an unlimited number of first and second preferred shares, no par value, to be issued in series, including: an unlimited number of first preferred shares, Series A, bearing a quarterly cumulative dividend at the rate of 62.5% of the prime interest rate charged by a Canadian chartered bank selected by the Company, calculated on an amount of $14.50 per share, redeemable at the Company's option at any time or at the holder's option after December 31, 1995 at $14.50 per share plus accrued and unpaid dividends;
- an unlimited number of common shares, no par value.

The preferred shares are shown on the balance sheet at their redemption price of $14.50 each. Their stated value is $6.43 per share and the excess of the redemption value over the stated value, totalling $1,579,000 for all issued preferred shares, has been reserved from retained earnings.

During the year, stock options covering 75,000 common shares were granted to an officer of the Company. These options may be exercised annually at the rate of 15,000 common shares at $18 each and expire November 30, 1996.

8. INCOME TAXES

As the Company and its subsidiaries operate in several provincial jurisdictions, its income is subject to varying rates of taxation. The reconciliation of the combined federal and provincial statutory income tax rate to the effective income tax rate of the Company is as follows:

	1986	1985
Combined federal and provincial statutory income tax rate	**52 %**	50 %
Rate variations resulting from the following items:		
Non-taxable portion of capital gains	**(4.8)**	(3.5)
Dividends	**(4.0)**	(9.5)
Share in earnings (loss) of affiliated company	**0.5**	(3.5)
Other items	**(0.3)**	2.1
	8.6	(14.4)
Effective income tax rate	**43.4 %**	35.6 %

9. EXTRAORDINARY ITEM

In 1985, the extraordinary item consisted of the gain on the sale of the Atlas Turner building and the write down of Marché Village to its estimated realizable value.

10. OPERATING ITEMS NOT INVOLVING CASH

	1986	1985
	(in thousands of dollars)	
Amortization and depreciation	**$ 760**	$ 734
Equity in loss (earnings) of affiliated company	**89**	(407)
Dividends received from affiliated company	**301**	180
Deferred income taxes	**(833)**	378
Minority interests	**481**	127
	$ 798	$ 1,012

11. COMMITMENTS

PURCHASE OF COMMON SHARES

Under the terms of a put and call agreement between the Company and Caisse de dépôt et placement du Québec ("Caisse"), the Company has the option to purchase from Caisse 609,120 common shares of the Company at a price of $15 per share, or a total consideration of $9,136,800, and Caisse has the right to require the Company to so purchase such shares. Such option may be exercised by the Company and such right may be exercised by Caisse between June 1 and June 30, 1987.

LEASES

Minimum lease payments over the next five years for land and premises under long-term leases are as follows: 1987 – $1,183,000; 1988 – $1,149,000; 1989 – $1,102,000; 1990 – $989,000 and 1991 – $988,000.

12. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 1986 financial statements.