Annual Report 1981

United Financial Management Ltd.

United Group of Funds
Continental Trust Company

Contents

To our Shareholders

1981 was another excellent year for your Company. Consolidated assets increased from $75.9 million to $123.6 million and total assets administered including mutual funds increased from $264.9 million to $278.5 million. Net income for the year increased to $1.0 million from $0.6 million.

1981 was a year of substantial growth and many internal changes were made to upgrade our facilities and to provide for the future. We moved both the Vancouver and Montreal offices to new and larger premises; we purchased a computer to facilitate our mortgage and certificate administration; we purchased a mini computer to handle the increased work load in the accounting department. In addition, we added a number of highly qualified people to our staff, particularly in the mortgage and financial areas.

A number of new products were introduced during the year. The most important was the introduction of short term notes which as at December 31, 1981 represented eighteen percent of total deposits. We also introduced a deposit plan for registered retirement money and an annuity for funds being transferred from deferred profit sharing plans. To better service our clients we have introduced a new form of certificate termed the "One and Only". This certificate provides the same features as our usual certificate but renewal features are handled automatically and a new certificate is not required. Changes in mortgage products are too numerous to mention. Suffice it to say that we will provide virtually all forms of funding from thirty days to five years.

The changes made during the past few months and the staff that we now have put us in an excellent position to continue our growth and to capitalize on the opportunities that the current economic environment create. Our growth for the first two months of 1982 substantially exceeded that of the same period in 1981 and indicates that we are well on our way to another excellent year.

On your behalf I would like to thank all of the staff who have made our success possible.

Yours very truly,

W J Clarke

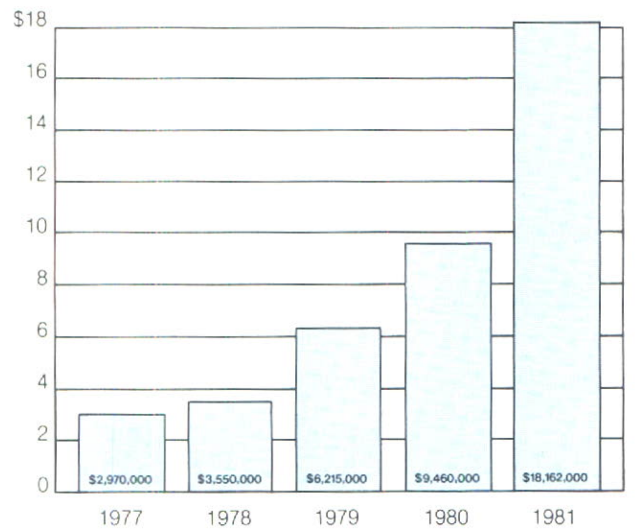
W. J. Clarke
President

April 10, 1982

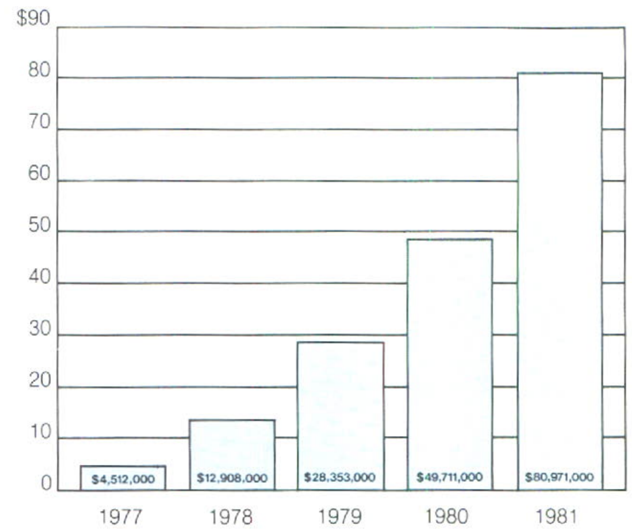
Financial highlights

	1981	1980	Increase
Total assets	$123,593,000	$75,864,000	63%
Guaranteed Trust Deposits	104,667,000	60,439,000	73%
Gross Income	18,162,000	9,460,000	92%
Net Income	1,015,000	609,000	67%
Net Income/Common Share	81.3¢	48.8¢	67%

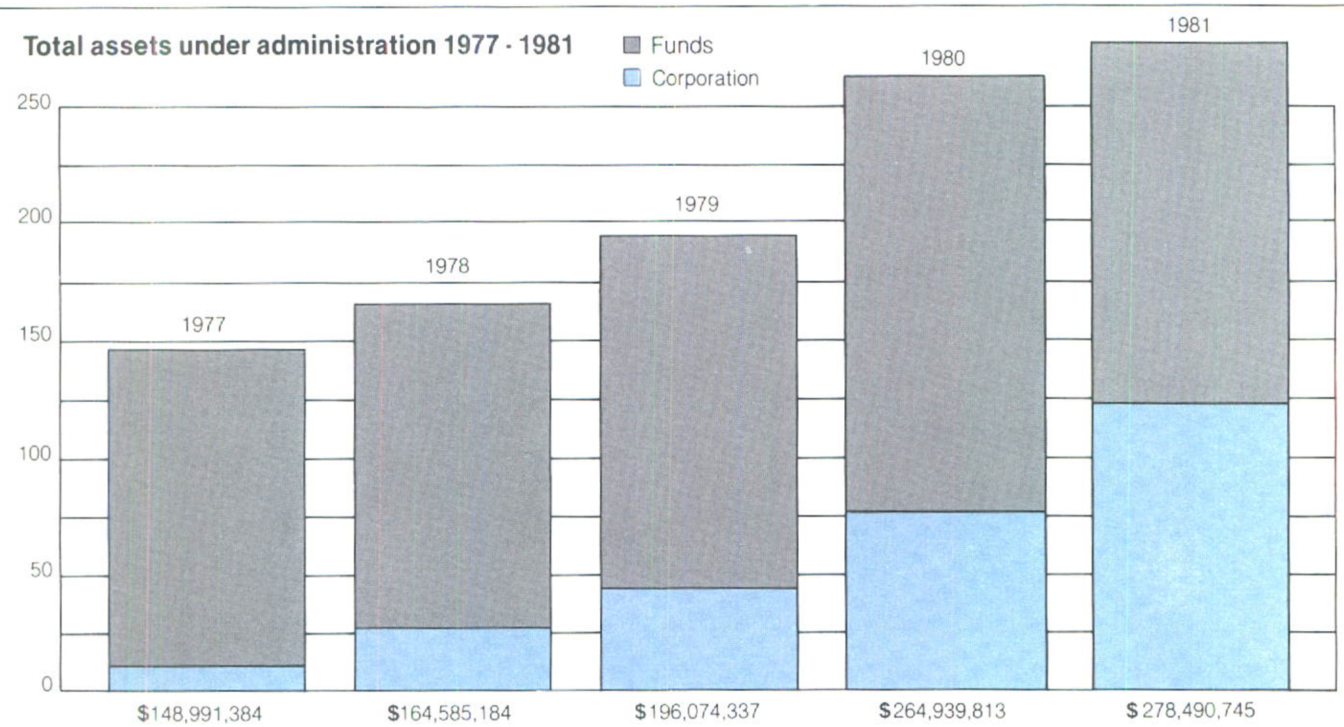
Revenue *(in millions of dollars)*



Mortgages *(in millions of dollars)*



Total assets under administration 1977 - 1981



Corporate information

Directors

*W. James Clarke	Toronto
H. Reuben Cohen, C.M., Q.C.	Moncton
*Charles O. Dalton	Toronto
Leonard Ellen	Montreal
Henry B. Rhude, Q.C.	Halifax
*George B. Robertson, Q.C.	Halifax

*Member — Audit Committee

Officers

W. James Clarke	President	Toronto
Gerald F. Coleman	Executive Vice-President	Toronto
Stanley R. Anderson	Vice-President and Secretary	Toronto
Engelbert J. Dessailly	Vice-President	Toronto
Raymond W. Gregory	Vice-President	Toronto
David H. Shuttleworth	Vice-President	Toronto
John C. Trull	Vice-President	Toronto
Edward A. Sweet, C.A.	Treasurer	Toronto
John W. Jones	Controller	Toronto

Management

Cheryl L. Daly	Personnel Manager	Toronto
Nargis Maherali	Mutual Fund Accounting Manager	Toronto
James A. Matthew	Mortgage Manager	Toronto
Camille Papanek	Assistant Investment Officer	Toronto
Peter C. Spalding	Marketing Manager	Toronto

Branches

Linda M. Allen	Branch Manager	Toronto
Helen M. Corrigan	Branch Manager	Montreal
Albert G. Sexsmith	Branch Manager	Vancouver

Legal Counsel

Perry, Farley & Onyschuk

Auditors

Clarkson Gordon

Transfer Agent & Registrar

Continental Trust Company

Consolidated Balance Sheet

ASSETS

	December 31	
	1981	1980
Cash	**$ 896,000**	$ 673,000
Short-term notes	**16,945,000**	8,378,000
Interest receivable	**1,903,000**	862,000
Management fees and other accounts receivable	**659,000**	664,000
Income taxes recoverable	**80,000**	
	20,483,000	10,577,000
Investments:		
Marketable securities (note 2)	**12,313,000**	8,834,000
Mortgage loans	**80,971,000**	49,711,000
Personal and secured loans	**4,502,000**	2,456,000
Interests in gas venture (note 3)	**733,000**	698,000
LifeSurance Corporation (note 4)	**2,560,000**	2,456,000
Enheat Inc. (note 5)	**1,431,000**	1,010,000
Real estate	**326,000**	
	102,836,000	65,165,000
Fixed assets (net)	**274,000**	122,000
	$123,593,000	$ 75,864,000

On behalf of the Board:

W J Clarke

Director

Director

(See accompanying notes)

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	
	1981	1980
Guaranteed trust deposits and borrowings (note 6):		
Demand and term deposits	**$ 27,596,000**	$ 9,179,000
Investment and annuity certificates	**68,261,000**	46,934,000
Interest accrued on deposits and borrowings	**8,810,000**	4,326,000
	104,667,000	60,439,000
Other liabilities:		
Bank indebtedness (note 7)	**10,636,000**	8,200,000
Accounts payable and accrued liabilities	**798,000**	699,000
Income taxes payable		122,000
	11,434,000	9,021,000
Deferred income taxes	**580,000**	257,000
Total liabilities	**116,681,000**	69,717,000
Shareholders' equity:		
Capital —		
Authorized:		
An unlimited number of shares		
Issued:		
1,248,460 shares	**230,000**	230,000
Retained earnings	**6,682,000**	5,917,000
	6,912,000	6,147,000
Contingency (note 8 (c))		
	$123,593,000	$ 75,864,000

(See accompanying notes)

Consolidated Statements of Income and Retained Earnings

STATEMENT OF INCOME

	Year ended December 31	
	1981	1980
Income:		
Interest on investments	**$14,025,000**	$ 5,807,000
Management and advisory fees	**2,812,000**	2,711,000
Sales charges and service fees	**515,000**	401,000
Income from gas venture (net)	**67,000**	78,000
Equity in net earnings of:		
LifeSurance Corporation	**104,000**	120,000
Enheat Inc.	**206,000**	98,000
Dividends and other net	**433,000**	245,000
	18,162,000	9,460,000
Expense:		
Interest	**13,552,000**	5,192,000
Marketing and administration	**3,319,000**	2,754,000
	16,871,000	7,946,000
Operating income before income taxes	**1,291,000**	1,514,000
Income taxes	**276,000**	525,000
Net operating income	**1,015,000**	989,000
Loss on interest in gas venture ($735,000) net of related deferred income taxes recoverable ($355,000)		380,000
Net income for the year	**$ 1,015,000**	$ 609,000
Net income per share	**81.3¢**	48.8¢

STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1981	1980
Retained earnings, beginning of year	**$ 5,917,000**	$ 6,681,000
Net income for the year	**1,015,000**	609,000
	6,932,000	7,290,000
Dividends paid (20¢ per share; $1.10 per share in 1980)	**250,000**	1,373,000
Retained earnings, end of year	**$ 6,682,000**	$ 5,917,000

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1981	1980
Cash resources were provided by:		
Operations —		
Net income for the year	**$ 1,015,000**	$ 609,000
Add (deduct):		
Depreciation	**58,000**	24,000
Depletion of gas properties	**36,000**	39,000
Equity in earnings of LifeSurance Corporation and Enheat Inc.	**(310,000)**	(218,000)
Loss on interest in gas venture (net)		380,000
Loss (gain) on other investments	**226,000**	163,000
Deferred income taxes	**323,000**	141,000
	1,348,000	1,138,000
Proceeds on disposal of gas venture		144,000
Increase in guaranteed trust deposits and borrowings (net)	**44,228,000**	26,425,000
Increase in bank indebtedness	**2,436,000**	7,531,000
	48,012,000	35,238,000
Cash resources were applied to:		
Increase (decrease) in investments (net) —		
Marketable securities	**3,564,000**	6,345,000
Mortgage loans	**31,401,000**	21,427,000
Personal and secured loans	**2,046,000**	2,190,000
Interest in gas venture	**71,000**	5,000
Enheat Inc.	**215,000**	912,000
Real estate	**326,000**	
	37,623,000	30,879,000
Increase in interest receivable	**1,041,000**	408,000
Purchase of fixed assets	**210,000**	52,000
Dividends paid	**250,000**	1,373,000
Other (net)	**98,000**	43,000
	39,222,000	32,755,000
Increase (decrease) in cash resources during the year	**8,790,000**	2,483,000
Cash resources, beginning of year	**9,051,000**	6,568,000
Cash resources, end of year	**$17,841,000**	$ 9,051,000
Represented by:		
Cash	**$ 896,000**	$ 673,000
Short-term notes	**16,945,000**	8,378,000
	$17,841,000	$ 9,051,000

(See acompanying notes)

Notes to Consolidated Financial Statements — December 31, 1981

1. Significant accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles. The following is a summary of the significant accounting policies and practices consistently followed by the corporation:

(a) Principles of consolidation —
The consolidated financial statements include the accounts of the corporation (which was continued under the Canada Business Corporations Act in 1978) and all of its subsidiary corporations. The 64% owned subsidiary, Enheat Inc., is carried on the equity basis as described in (g) below.

(b) Short-term notes —
Short-term notes, which consist of short-term corporate notes and bank term deposits, are carried at cost (which approximates market value).

(c) Marketable securities —
Bonds are carried at amortized cost, and shares at cost. Appropriate loss provisions are recorded in the accounts where there is other than a temporary decline in value. Gains and losses on disposition are included in income.

(d) Mortgage loans —
Mortgages are carried at amortized cost, less repayments and provisions for losses.

(e) Interests in gas venture —
The corporation's investment in its gas venture (see note 3) is carried at cost, including lease and other acquisition costs and related exploration and development expenses. Depletion is provided on producing properties on the unit-of-production method. Costs of a particular project are written down if there is an impairment in value of the project.

(f) Investment in LifeSurance Corporation —
The corporation's investment in LifeSurance Corporation ("LifeSurance") (see note 4) is accounted for by the equity method. Under this method, the investment is carried at cost plus the corporation's share of the undistributed earnings (losses) of LifeSurance since date of acquisition. The excess ($400,000) of the cost of the investment over the share of the underlying fair values of the net assets of LifeSurance at date of acquisition has been attributed to goodwill, and is being amortized on a straight-line basis over a 40-year period in computing the equity in the earnings of LifeSurance.

The earnings of LifeSurance are determined under generally accepted accounting principles for such corporations. In translating the accounts of LifeSurance to Canadian dollars, the corporation uses current rates for monetary assets and liabilities and historic rates for non-monetary assets. Gains and losses on such translation are included in computing the equity of the corporation in the earnings of LifeSurance in each year.

(g) Investment in Enheat Inc. —
The corporation's investment in its 64% owned subsidiary, Enheat Inc. ("Enheat") (see note 5), is accounted for by the equity method, since the financial statement components of Enheat are significantly different from that of the corporation and consolidation would not provide informative presentation. Condensed financial statements of Enheat are presented in note 5.

(h) Fixed assets and related depreciation and amortization —
Fixed assets are recorded at cost, less accumulated depreciation. Depreciation is provided on the following basis:

	Rate	Method
Furniture and fixtures	20%	Declining balance
Computer hardware	20%	Straight line
Computer software	25%	Straight line
Leasehold improvements	Life of lease	Straight line

(i) Deferred income taxes —
The corporation follows the tax allocation method of accounting for income taxes. Deferred income taxes are provided on timing differences between accounting income and

income for tax purposes. These differences arise because certain amounts claimed for tax purposes (mainly depreciation, mortgage reserves and deduction of costs relating to the gas venture) are in excess of those recorded in the accounts.

(j) Issuance costs —
Issuance costs for arrangement of mortgage loans and selling costs of investment certificates are expensed as incurred.

(k) Comparative figures —
Certain of the 1980 figures in these financial statements have been reclassified for comparative purposes to correspond with the presentation adopted for 1981.

2. Marketable securities

Marketable securities consists of:

	1981		1980	
	Book value	**Market**	Book value	Market
Government and government guaranteed bonds	**$ 838,000**	**$ 721,000**	$ 828,000	$ 748,000
Corporate debentures	**788,000**	**697,000**	590,000	586,000
Preferred and convertible preferred shares	**3,597,000**	**2,854,000**	2,912,000	2,671,000
Common shares	**7,090,000**	**6,035,000**	4,504,000	4,558,000
	$12,313,000	**$10,307,000**	$ 8,834,000	$ 8,563,000

3. Interests in gas venture

The corporation's investment in Hexagon Gas Company ("Hexagon") consists of a 4.8% undivided interest in the interests of Hexagon, mainly in shallow gas lands in southeastern Alberta. Hexagon operates a number of wells within these properties. Gross revenues from the corporation's share of gas production during 1981 were $149,000 ($193,000 in 1980).

4. Investment in LifeSurance Corporation

The corporation has an 18.1% interest, which is part of the control block, in LifeSurance Corporation, a United States life insurance corporation. The investment is carried on the equity basis of accounting (see note 1 (f)).

5. Investment in Enheat Inc.

On June 12, 1980, the corporation acquired, from its parent corporation, a 51% interest in Enheat Inc. for cash consideration of $912,000. During the 1981 fiscal year, the corporation acquired an additional 13% interest for cash consideration of $215,000. The acquisition equations are as follows:

	1981	1980
Net assets of Enheat Inc., at book value	**$5,644,000**	$5,451,000
Less excess of book value over values allocated on acquisition to net tangible assets —		
Fixed assets	**3,203,000**	2,891,000
Pension plan obligation	**902,000**	894,000
Long-term debt	**(122,000)**	(122,000)
	3,983,000	3,663,000
	$1,661,000	$1,788,000
Corporation's share	**13%**	51%
Cash consideration paid on acquisition	**$ 215,000**	$ 912,000

A description of operations and condensed financial statements of Enheat Inc. for its fiscal year ended December 31, 1981 are presented below. The corporation's share of Enheat's net income included in earnings for the year has been adjusted for the amortization of the fair value adjustments at acquisition.

Aircraft Division produces and repairs aircraft components for commercial and military customers. Airco Products Division manufactures and sells gas and oil warm air furnaces and also purchases and sells allied equipment. Fawcett Division produces and sells wood, oil and combination stoves, heaters and furnaces, and also sells purchased appliances. Steel Division did not operate during the year, and was permanently closed on November 30, 1981.

Income Statement *(in thousands of dollars)*	Divisions: Aircraft	Airco Products	Fawcett	Steel	Consolidated
Trade sales	$11,053	$ 7,688	$ 3,217	$ 368	$22,326
Inter-segment sales		(18)	(95)		(113)
	11,053	7,670	3,122	368	22,213
Cost of sales and operating expenses	9,784	6,971	3,985	861	21,601
Segment operating profit (loss) — 1981	$ 1,269	$ 699	$ (863)	$ (493)	612
— 1980	$ 670	$ 349	$ (154)	$ (789)	
Gain on sale of assets					61
Steel Division inventory write down					(458)
Income taxes recoverable					25
Net income — 1981					$ 240
— 1980					$ 131
Depreciation included above	$ 157	$ 38	$ 24	$ 184	$ 403
Capital expenditures	$ 99	$ 104	$ 5	$ —	$ 208
Identifiable assets	$ 5,830	$ 3,192	$ 3,890	$ 1,254	$14,166

Balance sheet
(in thousands of dollars)

	1981	1980		1981	1980
Assets:			Liabilities:		
Current	**$11,222**	$12,081	Current	**$ 8,228**	$ 9,673
Fixed	**2,944**	4,376	Long-term	**1,068**	1,140
			Shareholders' equity	**4,870**	5,644
	$14,166	$16,457		**$14,166**	$16,457

6. Assets held against guaranteed trust deposits and borrowings

Included in total assets of $123,593,000 as at December 31, 1981 are cash, short-term notes, bonds and mortgage and other loans aggregating $104,667,000 held against guaranteed trust deposits and borrowings of equal amount.

7. Bank indebtedness

The bank indebtedness is payable on demand. Certain of the marketable securities have been pledged as security against such indebtedness.

8. Commitments and contingencies

(a) Lease commitments —
The corporation has lease commitments for office premises with expiry dates extending to 1987. Rentals under such leases currently aggregate approximately $350,000 per annum (with a total commitment of $1,252,000 over the period to maturity).

(b) Mortgage commitments —
Outstanding commitments for mortgage loans at December 31, 1981 amounted to approximately $10,000,000.

(c) Legal actions —
Subsequent to the year-end, certain threats of litigation were made against a subsidiary of LifeSurance resulting from group insurance administered by a third party administrator. During 1981, this administrator and other alleged related parties purportedly made misrepresentations to group insurance participants. The administrator has been forced into receivership by State regulatory authorities, leaving in doubt the payment of certain insurance claims. Management of such subsidiary is uncertain at this time as to whether the threatened litigation will result in actual litigation and, if so, what the ultimate outcome of such litigation will be. However, it is such subsidiary management's opinion that it is liable only for claims specifically insured by it, it will not accept any claims resulting from the alleged misrepresentations and will vigorously defend against any assertion of such claims against it.

A subsidiary of LifeSurance is subject to certain other legal actions relating to its business activities. Attorneys for such subsidiary feel strongly that the subsidiary is not liable under law with respect thereto, but are unable to express an opinion on the result of these actions. No provision has been made in these financial statements with respect thereto.

9. Segmented information

The directors have determined that the corporation carried on only one class of business (financial intermediary) in 1981, except for those carried on by its subsidiary, Enheat Inc., details of which are in note 5. The financial intermediary operations consist of investment of shareholders' and depositors' funds in mortgage loans, marketable securities and other investments, together with revenue from mutual fund management and a variety of other financial services.

Auditors' Report

To the Shareholders of
United Financial
Management Ltd.

We have examined the consolidated balance sheet of United Financial Management Ltd. as at December 31, 1981 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, 1981 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 applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 23, 1982
(March 30, 1982 with respect to note 8 (c)).

Clarkson Gordon
Chartered Accountants

Corporate information

The United Group of Companies

United Financial Management Ltd. is the parent company and fund manager of the United Group.

Continental Trust Company provides a range of trust products and services, manages Continental Mortgage Fund, acts as registrar and transfer agent for the United investment funds, acts as trustees for RRSP and RHOSP unitholders of these funds and provides all administrative services for the United Group.

United Investment Services Ltd. is responsible for distribution of all United funds. Shares in these funds are marketed through Mutual Fund Dealers and Brokers in principal cities coast to coast.

The United/Continental combination allows for maximum flexibility in your investment portfolio.

United offers the following Investment Funds:
United Venture Fund
United Accumulative Fund
United Security Fund
United American Fund
United Venture Retirement Fund
United Accumulative Retirement Fund
Continental Mortgage Fund

Continental offers the following products and services:
Guaranteed Certificates
Redeemable Guaranteed Certificates
Blue Ribbon Savings Plans
Deposit Plans
Short Term Notes
Blended Payment Investment Certificates
Loans
Mortgages

Tax Sheltered Plans

Continental Trust acts as trustee and registrar for the following plans:
Registered Retirement Savings Plans
Registered Home Ownership Plans
Registered Retirement Income Funds
Deferred Profit Sharing Plans

These investments are available within the above plans:
United Venture Retirement Fund
United Accumulative Retirement Fund
United Security Fund
Continental Mortgage Fund
Deposit Plans
Blue Ribbon Savings Accounts
Guaranteed Certificates
Redeemable Guaranteed Certificates

Corporate information

Mutual Funds

A Mutual Fund or Open End Investment Fund is an entity which, by selling shares and investing the proceeds in a large number of stocks and bonds, enables investors to obtain certain investment objectives which they might not otherwise be able to obtain.

When several thousand investors pool their money for investment purposes by purchasing shares in an investment fund, the fund can purchase a well diversified group of stocks and bonds and spread the cost of professional selection and management among many.

It is on this general principle that mutual or investment funds are founded.

Reasons Mutual Funds are an Attractive Investment Medium

- As a hedge against inflation.
- A convenient way to acquire a diversified portfolio.
- An economical method of obtaining full time professional management.
- Bookkeeping chores are kept to a minimum since one security often takes the place of many.
- Dividends can be automatically reinvested in new shares.

United Accumulative Fund

The investment objective is long-term capital growth. In seeking to achieve this objective, the Fund invests principally in Canadian and Foreign common stocks and securities convertible or exchangeable into common shares.

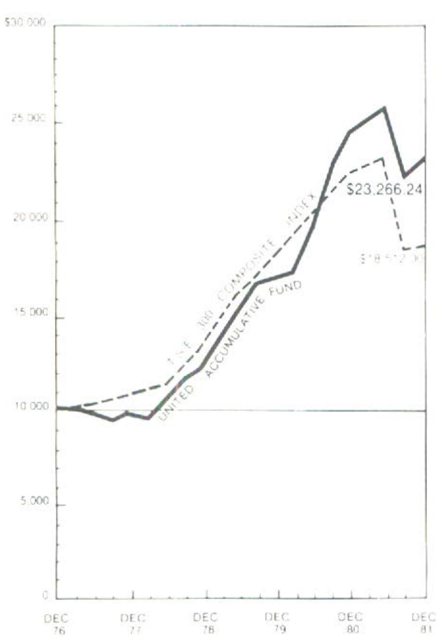
United Accumulative Retirement Fund

The investment objective is long-term capital growth. In seeking to achieve its objective, the Fund invests mainly in Canadian common stocks and securities convertible or exchangeable into common shares.

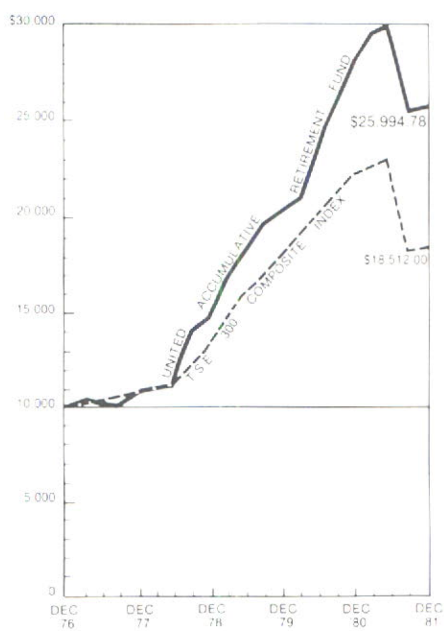
United Venture Fund

The investment objective is above average long-term capital growth. In seeking to achieve this objective, the Fund is aggressively managed and is invested primarily in Canadian and Foreign common stocks and securities convertible or exchangeable for common shares.

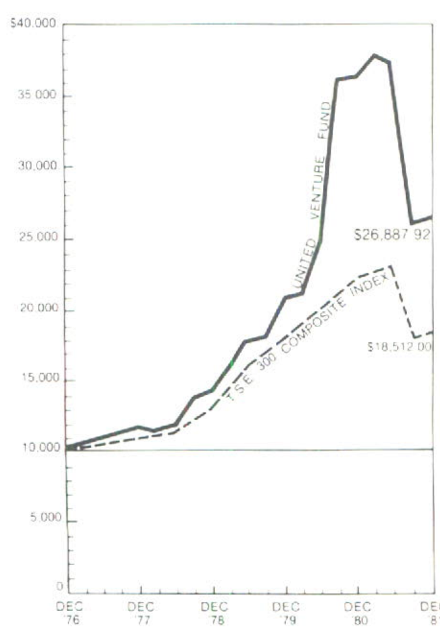
UNITED ACCUMULATIVE FUND LTD.
Value of $10,000.00 of assets with dividends reinvested over a 5 year period.



UNITED ACCUMULATIVE RETIREMENT FUND
Value of $10,000.00 of assets with dividends reinvested over a 5 year period.



UNITED VENTURE FUND LTD.
Value of $10,000.00 of assets with dividends reinvested over a 5 year period.



- You can readily follow management's ability to achieve its stated objective, since well over 100 mutual funds publish a complete record of their past performances.
- You can arrange to be paid a convenient monthly retirement cheque — from dividends and principal — through a withdrawal plan.
- Shares can be redeemed at any time. The price you receive, of course, may be more or less than your original purchase price, depending on the underlying value of the portfolio securities at the time of liquidation.
- Mutual Fund ownership simplifies estate settlement.
- Mutual Funds can help you save on taxes if an eligible retirement type of fund is chosen.

United Security Fund

The investment objective is to provide an above average income yield on its investments as well as long-term protection of capital. In seeking to achieve this objective, the Fund invests in a variety of fixed-income securities, mainly of Canadian issuers, such as bonds, debentures and preferred shares, some of which may be convertible for common shares.

Mortgage Fund

The investment objective of this fund is to strive for a high rate of income with stability of capital. By purchasing high interest bearing mortgages the dividends should continue its latest upward trend. All investments within the Fund have a term of less than one year. As a result the Fund will continue to benefit from the current high interest rates.

United Venture Retirement Fund

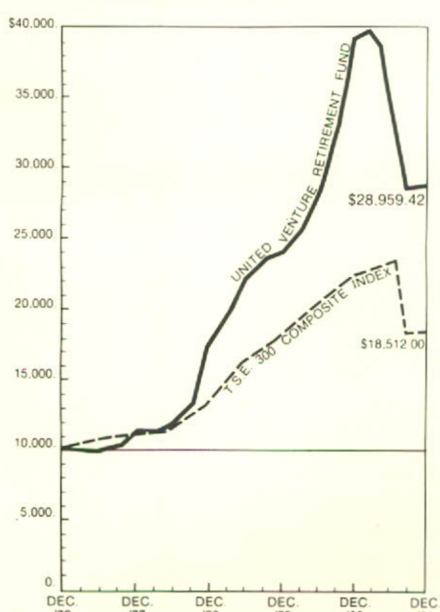
The investment objective is above average long-term capital growth. In seeking to achieve this objective, the Fund is aggressively managed and is invested mainly in Canadian common stocks or securities convertible or exchangeable for common shares.

United American Fund

The investment objective is long-term capital growth. In seeking to achieve its objective, the Fund invests principally in common stocks of United States issuers and securities convertible or exchangeable into common stocks.

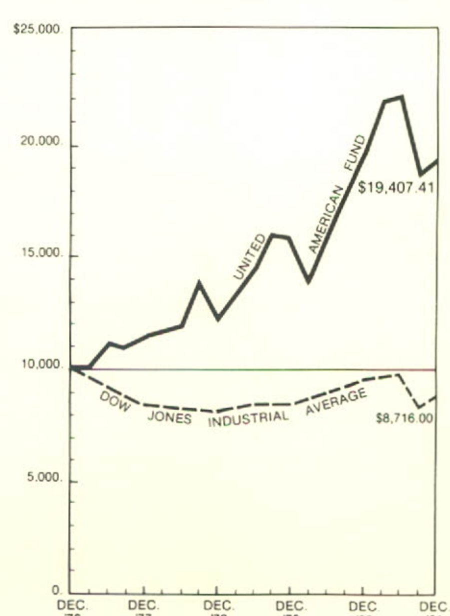
UNITED VENTURE RETIREMENT FUND

Value of $10,000.00 of assets with dividends reinvested over a 5 year period.



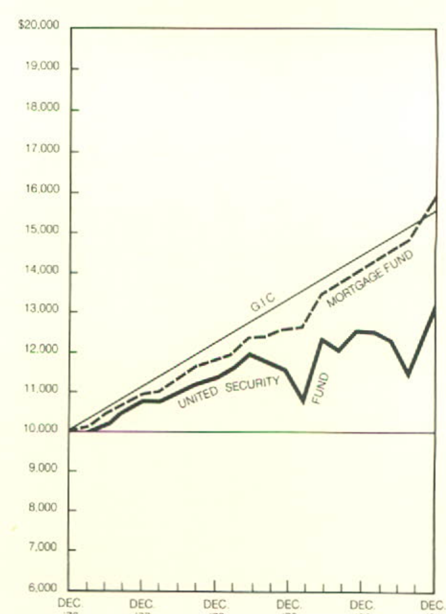
UNITED AMERICAN FUND LTD.

Value of $10,000.00 of asets with dividends reinvested over a 5 year period.



FIXED INCOME FUNDS

Value of $10,000.00 of asets with dividends reinvested over a 5 year period.



Offices:

Head Office of the United Group is located in the York Centre, Toronto, Ontario.

Toronto	200 York Centre 145 King Street West Toronto, Ontario M5H 2E2 Telephone (416) 860-3911 Telex 065-24165
Vancouver	1210 Pacific Centre 609 Granville Street Vancouver, B.C. V7Y 1E8 Telephone (604) 684-7548 Telex 04-53282
Montreal	Suite 865 2000 Peel Street Montreal, Quebec H3A 2W5 Telephone (514) 842-9538 Telex 055-60062