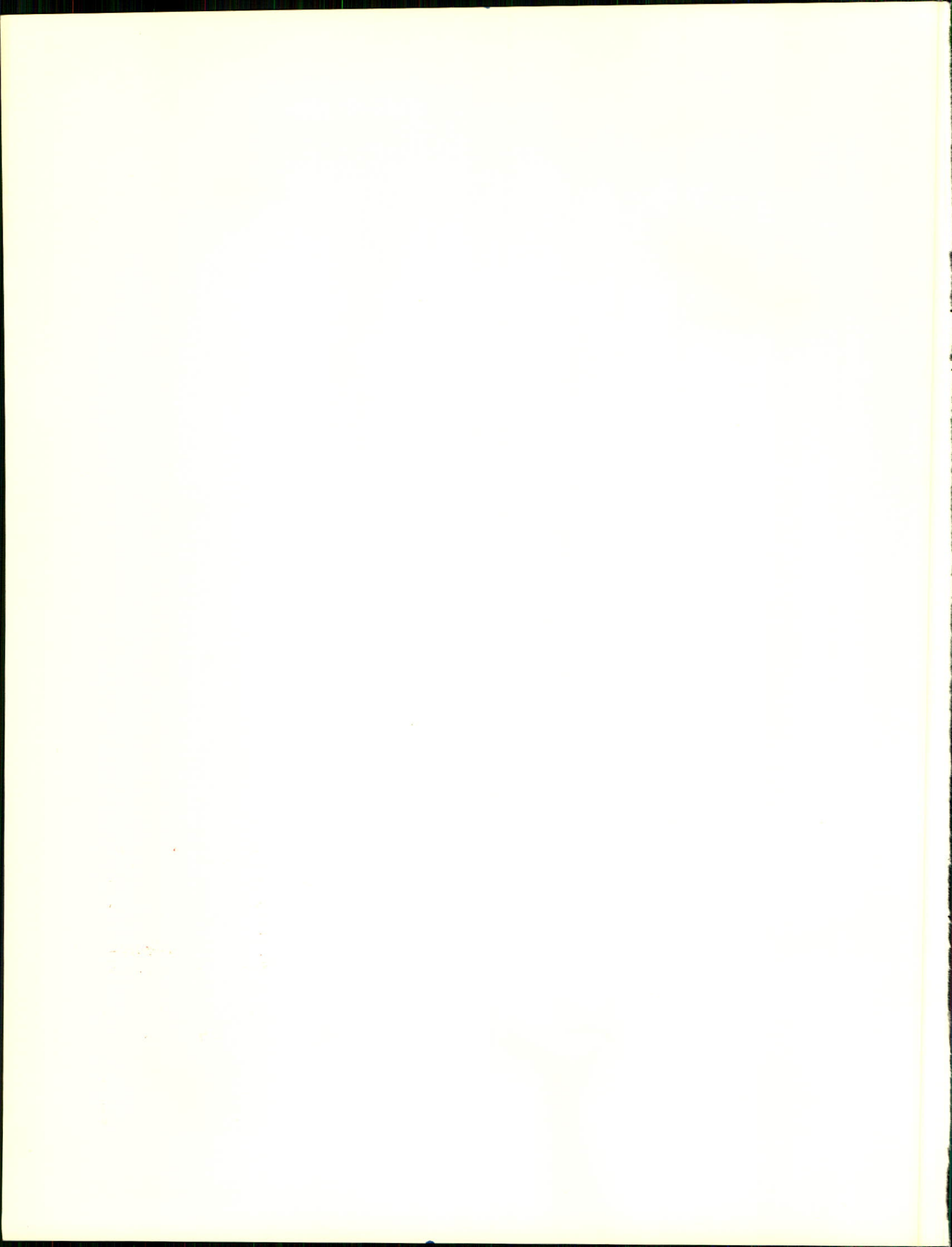


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CANADIAN GENERAL INVESTMENTS LIMITED

ANNUAL REPORT, DECEMBER 31

1988



BOARD OF DIRECTORS

J. CHRISTOPHER BARRON
DAVID L. CAMPBELL
GEORGE R. MacLAREN
W. DARCEY McKEOUGH
M. C. G. MEIGHEN, O.B.E.
MICHAEL A. MEIGHEN, Q.C.
E. LOUISE MORGAN
J. DEAN MUNCASTER
MILAN NASTICH
WARD C. PITFIELD
J. ALLYN TAYLOR
DONALD C. WEBSTER
PATRICK O. G. WRIGHT

INVESTMENT COMMITTEE

J. CHRISTOPHER BARRON
M. C. G. MEIGHEN, O.B.E.
MICHAEL A. MEIGHEN, Q.C.
J. DEAN MUNCASTER
WARD C. PITFIELD, Chairman
J. ALLYN TAYLOR

AUDIT COMMITTEE

MICHAEL A. MEIGHEN, Q.C.
J. DEAN MUNCASTER
J. ALLYN TAYLOR
PATRICK O. G. WRIGHT

OFFICERS

M. C. G. MEIGHEN, O.B.E.
Chairman
E. LOUISE MORGAN
Vice Chairman and Secretary
WARD C. PITFIELD
President
MICHAEL A. MEIGHEN, Q.C.
Vice President
MILAN NASTICH
Vice President
MICHAEL A. SMEDLEY
Vice President
FREDERICK L. MILNE, C.A.
Treasurer

AUDITORS

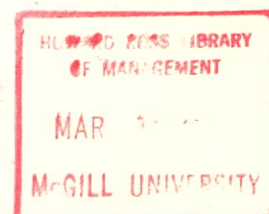
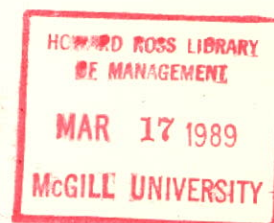
HILBORN ELLIS GRANT
Toronto

REGISTRAR AND TRANSFER AGENT

MONTREAL TRUST COMPANY
Toronto and Winnipeg

OFFICE OF COMPANY

110 YONGE STREET, SUITE 1702,
Toronto M5C 1T4
(Telephone 416-366-2931)



TO THE SHAREHOLDERS

The Directors of your Company are pleased to present the Annual Report for the year ended December 31, 1988 consisting of the audited statements, the portfolio of investments, and a five year statistical record of assets, earnings and dividends.

The Balance Sheet shows that the total assets of the Company at December 31, 1988 amounted to \$257,102,978 at market value. From this amount is deducted total accrued liabilities and deferred income taxes and costs under the issuer bid referred to in notes 2 and 3, which leaves a net value of \$240,889,555. Based on 3,833,564 common shares outstanding at December 31, 1988 each common share had an apparent liquidating value of approximately \$62.84, compared to \$60.64 for 1987. The \$16,140,045 in deferred income taxes that was deducted from assets in calculating equity value per share continues to work for the benefit of the shareholders.

The Statement of Income shows that your Company, after paying all expenses had a net income for the year of \$8,380,270 or \$2.18 per share from dividends and interest earned on short-term investments, compared to \$1.92 per share in 1987.

The liquid reserves set up during the severe decline in markets in the 1987 final quarter were put to work in short term instruments often giving above average net yield and contributing to the highest net earnings on record.

Successful emphasis on income also assisted your Directors toward distribution of higher dividends on the common shares, amounting to \$2.00 compared to \$1.80 in 1987.

During the year, the Managers moved toward accumulation of larger portfolio holdings in a programme of investment that should be evident in the period ahead. Your Company's experience in past years has shown that this strategy could be of major benefit to the Company and its shareholders.

Several appointments were made during the past year.

E. Louise Morgan, Director and Secretary of the Corporation was elected Vice Chairman, filling the vacancy caused by the death of Alex. E. Barron in 1987.

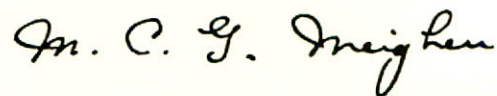
W. Darcy McKeough well known in business and public life was elected to the Board of Directors of your Company on February 16, 1988.

Michael A. Smedley was elected a Vice President on February 16, 1988. He was appointed General Manager of the Management Company on January 14, 1988 and in that capacity brings wide experience in Canadian and international markets.

A long and satisfactory relationship with The Canada Trust Company as transfer agent, registrar and dividend disbursing agent for your Company was terminated on November 10, 1988, when Canada Trust decided to discontinue that phase of corporate trust business. Your Directors were pleased to appoint Montreal Trust who had acquired the operations from The Canada Trust Company.

We express our appreciation to the staff of the Management Company for their loyal efforts during a year in which new skills and services were required.

Submitted on behalf of the Board



Chairman of the Board



President

TORONTO, February 13, 1989

FIVE YEAR PERFORMANCE SUMMARY

	1988	1987	1986	1985	1984
Net assets	\$240,890,000	\$233,104,000	\$255,695,000	\$243,821,000	\$204,431,000
Per common share	62.84	60.64	66.52	63.24	53.10
Net earnings.....	8,380,000	7,367,000	8,173,000	8,251,000	6,816,000
Per common share	2.18	1.92	2.13	2.14	1.77
Dividends paid					
Per common share	2.00	1.80	1.80	1.70	1.60
Market value of common share					
High.....	42.00	56.50	59.50	48.13	38.50
Low	38.00	35.00	46.00	36.00	33.00

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
CANADIAN GENERAL INVESTMENTS LIMITED

We have examined the balance sheet of Canadian General Investments Limited as at December 31, 1988 and the statements of income, retained earnings, unrealized gain on investments and changes in net assets 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, 1988 and the results of its operations and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



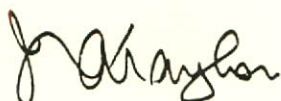
HILBORN ELLIS GRANT
Chartered Accountants

Toronto, Ontario
January 31, 1989

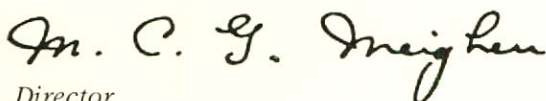
BALANCE SHEET

	December 31	
	1988	1987
ASSETS		
Investments		
Securities having a quoted market value	\$229,741,703	\$202,597,210
Securities not having a quoted market value	8,417,474	7,483,138
	<u>238,159,177</u>	<u>210,080,348</u>
(Cost as at December 31, 1988—\$174,426,307 December 31, 1987—\$153,266,855)		
Short-term investments, at cost plus accrued interest	13,597,920	32,888,168
Dividends receivable	48,834	87,394
Amount receivable on securities sold	2,995,250	1,303,560
Income taxes recoverable	1,924,987	2,039,430
Cash	18,563	3,771
Note receivable	358,247	—
	<u>\$257,102,978</u>	<u>\$246,402,671</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 73,378	\$ 142,525
Amount payable on securities purchased	—	933,530
	<u>73,378</u>	<u>1,076,055</u>
Deferred income taxes (note 2)	<u>16,140,045</u>	<u>12,222,697</u>
SHAREHOLDERS' EQUITY		
Capital Stock (note 3)		
Authorized		
4,000,000 common shares		
Issued and outstanding		
3,833,564 (1987—3,843,764) common shares	36,249,545	36,345,995
Unrealized gain on investments	47,592,826	44,590,798
Retained earnings	<u>157,047,184</u>	<u>152,167,126</u>
	<u>240,889,555</u>	<u>233,103,919</u>
	<u>\$257,102,978</u>	<u>\$246,402,671</u>

Approved on behalf of the Board:



Director



Director

STATEMENT OF INCOME

	Year ended December 31	
	1988	1987
Income		
Dividends	\$ 8,620,447	\$ 8,587,724
Interest	1,759,362	1,102,307
Loss on foreign exchange	(10,856)	(470,211)
	<u>10,368,953</u>	<u>9,219,820</u>
Expenses		
Management fees (note 4)	1,226,630	1,402,115
Directors' and officers' fees	29,950	21,200
Miscellaneous	113,368	216,321
	<u>1,369,948</u>	<u>1,639,636</u>
Income before income taxes and minority interest .	8,999,005	7,580,184
Income taxes (note 2)	618,735	212,959
Income before minority interest	8,380,270	7,367,225
Minority interest	—	291
Net income for year	<u>\$ 8,380,270</u>	<u>\$ 7,366,934</u>
Net income for year per common share	<u>\$2.18</u>	<u>\$1.92</u>

STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1988	1987
Balance, beginning of year	\$152,167,126	\$135,975,015
Add (deduct)		
Net income for year	8,380,270	7,366,934
Dividends paid on common shares	(7,681,128)	(6,918,739)
	<u>152,866,268</u>	<u>136,423,210</u>
Excess of cash consideration paid over stated value of common shares purchased under issuer bid	(307,960)	-
Gain on disposition of investments	4,488,876	15,743,916
Balance, end of year	<u>\$157,047,184</u>	<u>\$152,167,126</u>
Dividends paid per common share:		
In cash or common shares	<u>\$2.00</u>	<u>\$1.80</u>

STATEMENT OF UNREALIZED GAIN ON INVESTMENTS

	Year ended December 31	
	1988	1987
Balance, beginning of year	\$ 44,590,798	\$ 83,373,762
Increase (decrease) during year	6,919,376	(51,320,405)
(Increase) reduction in provision for deferred income taxes (note 2)	(3,917,348)	12,506,246
Minority interest	-	31,195
	<u>3,002,028</u>	<u>(38,782,964)</u>
Balance, end of year	<u>\$ 47,592,826</u>	<u>\$ 44,590,798</u>

STATEMENT OF CHANGES IN NET ASSETS

	Year ended December 31	
	1988	1987
Net assets, beginning of year	\$233,103,919	\$255,694,772
Add:		
Net income for year	8,380,270	7,366,934
Gain on disposition of investments	4,488,876	15,743,916
Increase in unrealized gain on investments	3,002,028	-
	<u>248,975,093</u>	<u>278,805,622</u>
Deduct:		
Decrease in unrealized gain on investments	-	38,782,964
Common shares purchased under issuer bid	404,410	-
Dividends paid	7,681,128	6,918,739
	<u>8,085,538</u>	<u>45,701,703</u>
Net assets, end of year	<u>\$240,889,555</u>	<u>\$233,103,919</u>
Apparent liquidating value per common share:		
Beginning of year	\$60.64	\$66.52
End of year	<u>\$62.84</u>	<u>\$60.64</u>

SCHEDULE OF GAIN ON DISPOSITION OF INVESTMENTS

	Year ended December 31	
	1988	1987
Cost of investments, beginning of year	\$153,266,855	\$154,325,626
Add: Purchase of investments	79,532,803	98,175,698
	<u>232,799,658</u>	<u>252,501,324</u>
Deduct: Cost of investments, end of year	174,426,307	153,266,855
Cost of investments disposed during year	58,373,351	99,234,469
Proceeds from disposition of investments	<u>62,173,641</u>	<u>120,432,757</u>
Gain on disposition of investments before income taxes and minority interest	3,800,290	21,198,288
Income taxes (recovery) (note 2)	(688,586)	5,433,377
Gain on disposition of investments before minority interest	4,488,876	15,764,911
Minority interest	-	20,995
Gain on disposition of investments	<u>\$ 4,488,876</u>	<u>\$ 15,743,916</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 1988

1. SIGNIFICANT ACCOUNTING POLICIES**a) Valuation of Investments**

Market values of quoted securities are based on the latest bid price reported by the principal securities exchange on which the issue was traded on December 31. Securities not having a quoted market value have been included at values determined by the directors based principally on the underlying value of the assets represented by these securities.

b) Investment Transactions

Investment transactions are recorded on the trade date, i.e., the date the order to buy or sell is executed.

c) Dividend Income

Dividend income is recorded on the date the dividend is payable by the issuing company.

In certain circumstances, the company considers special dividends to be a return of capital and accordingly records the dividends as a reduction of

the cost of the related securities. This treatment is applied where a special dividend is larger than the annual dividend of the issuing company and effects a substantial reduction in the share price.

d) Foreign Exchange

Assets and liabilities denoted in foreign currencies are translated into Canadian dollars at year-end rates. Income, expenses and gain or loss on disposition of investments are calculated at the exchange rate in effect on the date of the transaction.

e) Deferred Income Taxes

Provision has been made in the accounts for deferred income taxes on taxable unrealized gains. Such gains are determined as the difference between market value of the investments and the adjusted cost base for income tax purposes.

2. TAXATION

The company is subject to income tax as a public corporation and accordingly taxable dividends received from "taxable Canadian corporations", as defined by the Income Tax Act, are excluded from taxable income.

The company's provision for income taxes is made up as follows:

Statement of Income	1988	1987
Provision for income taxes based on combined Canadian federal and provincial income tax rate.....	\$4,312,300	\$3,949,300
Increase (decrease) in taxes resulting from:		
Dividends treated as return of capital for accounting purposes.....	2,033,700	132,900
Tax free dividends.....	(5,729,400)	(3,861,300)
Other.....	2,135	(7,941)
Actual provision for income taxes.....	\$ 618,735	\$ 212,959

Schedule of Gain on Disposition of Investments

Provision for income taxes based on combined Canadian federal and provincial income tax rate.....	\$1,821,100	\$11,044,300
Increase (decrease) in taxes resulting from:		
Non-taxable portion of capital gains or losses.....	(757,000)	(5,522,100)
V-Day protected portion of capital gains.....	(255,100)	(33,600)
Dividends treated as return of capital for accounting purposes.....	(1,550,400)	(57,800)
Other.....	52,814	2,577
Actual provision for income taxes.....	\$ (688,586)	\$ 5,433,377

Statement of Unrealized Gain on Investments

As a result of changes to the Income Tax Act, the taxable portion of capital gains has increased from one half to two thirds effective July 1, 1988. The provision for deferred income taxes takes into account the increase in the taxable portion of capital gains on the entire portfolio of investments.

3. CAPITAL STOCK

In 1988 the company gave notice of its intention to make an issuer bid, effective June 16, 1988 to June 15, 1989, to purchase through the Toronto Stock Exchange its issued and outstanding common shares to a maximum of 192,189 common shares. The purchases are not to exceed:

a) in any thirty day period 2% of the common shares outstanding on the first day of the issuer bid; and

b) over a twelve month period 5% of the common shares of the corporation that were issued and outstanding on the first day of the issuer bid.

Common shares so purchased will not be cancelled but will be restored to the status of authorized but unissued shares.

During the year the company purchased 10,200 common shares under the issuer bid for cash consideration of \$404,410. The excess of cash consideration over the book value of these shares totalling \$307,960 was charged to retained earnings.

The issued and outstanding common shares at December 31, 1988 are summarized as follows:

	Number of Shares	Amount
Balance, beginning of year	3,843,764	\$36,345,995
Deduct: common shares purchased under issuer bid	10,200	96,450
Balance, end of year....	<u>3,833,564</u>	<u>\$36,249,545</u>

4. RELATED PARTY TRANSACTIONS

Management fees are paid to a related corporation for services received in connection with the administration of the company's financial accounts and investment portfolio.

5. SUBSEQUENT EVENT

From January 1, 1989 to January 31, 1989 an additional 32,060 shares were purchased under the issuer bid (note 3) for cash consideration of \$1,281,737.

No. of Shares	Total Market Value \$	% of Portfolio
STEEL		
	12,664,525	5.0
90,000*	CAE Industries Ltd.	888,750
210,000*	Dofasco Inc.	5,486,250
100,000	Dofasco Inc. 'C' prefd.	3,400,000
130,600	Stelco Inc. 'C' prefd.	2,889,525
TRANSPORTATION		
	6,425,000	2.5
100,000	Laidlaw Transportation Limited 'B'	1,725,000
200,000	Laidlaw Transportation Limited 'G' pref.	4,700,000
VENTURE CAPITAL		
	2,901,479	1.2
209,643	Barrtor International Fund	834,170
207,187	Canadian General Capital Limited 7% prefd.	1,450,309
9,244	Overseas Venture Capital, Ltd.	617,000
MISCELLANEOUS		
	54,016	-
60,839	D.W. Electrochemicals Ltd.	3,000
11,820	Interactive Entertainment Inc.	15,957
28,540	Interactive Entertainment Inc. pref.	28,540
246	Interactive Entertainment Inc. prefd.	6,519
U.S. SECURITIES		
	19,595,011	7.8
40,000	Clarcor	1,514,475
70,000	Collective Bancorp, Inc.	615,628
50,000	Consolidated Papers, Inc. .	2,057,062
135,000	Employers Casualty Company.	4,266,169
25,000*	Ford Motor Company	1,501,805
30,000	General Electric Company	1,596,459
25,000*	J.P. Morgan & Co. Incorporated	1,032,258
50,000*	Nash-Finch Company	1,475,719
30,000	National City Corporation.	1,176,103
20,000	Ohio Casualty Corporation	852,638
10,000	RJR Nabisco Inc.	1,083,684
25,000*	Reynolds Metals Company	1,598,695
10,000*	Sotheby's Holdings, Inc. . .	239,991
20,000	University Savings Bank ..	584,325
OTHER FOREIGN SECURITIES		
	497,138	0.2
171,427	Elders IXL Limited	497,138
NOTES & DEBENTURES		
	1,000,000	0.4
\$1,000,000*	Key Publishers Company Ltd. 8.5% Conv. Deb.	1,000,000

SUMMARY OF PORTFOLIO BY INDUSTRY

	Value as of Dec. 31, 1988	Percent of Portfolio
BEVERAGES.	\$ 40,287,500	16.0
FINANCE	34,813,787	13.8
ENERGY	31,204,429	12.4
COMMUNICATIONS ..	24,866,409	9.9
U.S. SECURITIES.	19,595,011	7.8
MANUFACTURING ...	15,819,908	6.3
FOREST PRODUCTS ..	14,310,600	5.7
STEEL.	12,664,525	5.0
METALS & MINERALS	11,253,125	4.5
REAL ESTATE	9,381,250	3.7
TRANSPORTATION ...	6,425,000	2.5
BUSINESS FORMS ...	6,100,000	2.4
MERCHANDISING ...	5,500,000	2.2
VENTURE CAPITAL ...	2,901,479	1.2
INSURANCE	1,485,000	0.6
NOTES & DEBENTURES	1,000,000	0.4
OTHER FOREIGN SECURITIES	497,138	0.2
MISCELLANEOUS.	54,016	-
	<hr/>	
	\$238,159,177	94.6
CASH AND SHORT-TERM INVESTMENTS	13,616,483	5.4
	<hr/>	
	\$251,775,660	100.0

*New holdings in 1988

