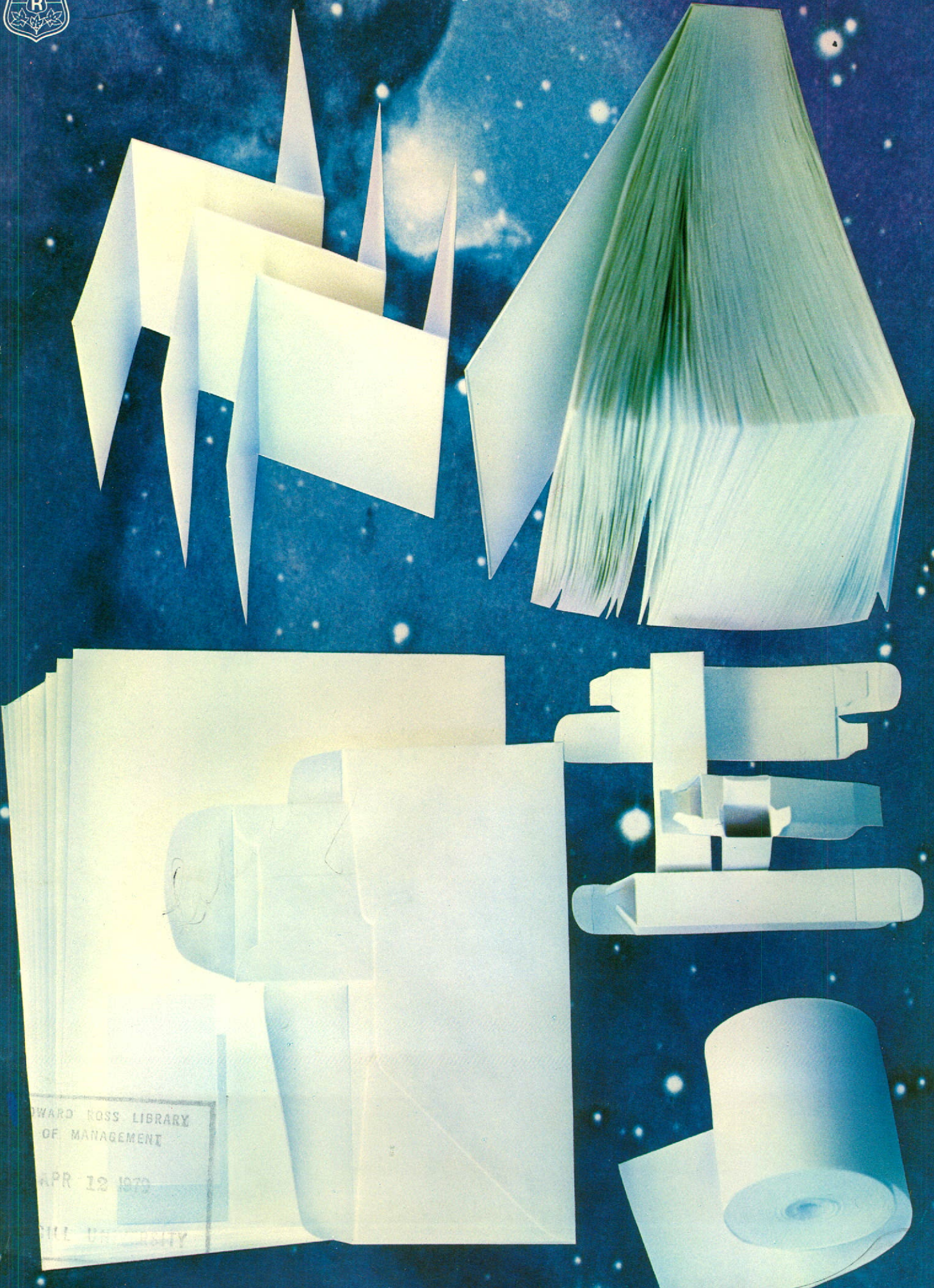




Rolland

Annual Report 1978



51st Annual Report

Table of Contents

	Page
Directors and Officers	2
Highlights	3
Directors' Report	4
Financial Review	15
Financial Statements	17
Notes to Financial Statements	24
Ten-Year Comparative Statistics	30

The Annual and Special General Meeting of Shareholders will be held at the Head Office of the Company, 800 Victoria Square, Suite 3620, Montréal, Québec, at 14:00 hours, April 25, 1979.

Si vous préférez recevoir votre rapport annuel en français, veuillez écrire au Secrétaire, Compagnie de Papier Rolland, Limitée, 800, Place Victoria, suite 3620, Montréal, Québec H4Z 1H3.



Rolland

Compagnie de Papier Rolland, Limitée
Papermaking Specialists

Head Office:
800 Victoria Square, Suite 3620
Montréal, Québec H4Z 1H3

Sales Offices:
Montréal, Toronto and Ottawa

Paper Mills:
St-Jérôme and Mont-Rolland, Québec
Scarborough, Ontario

Directors

Hon. John B. Aird, O.C., Q.C.

A senior Partner in the law firm
Aird & Berlis, Barristers and
Solicitors — Toronto

***G. Drummond Birks**

President, Henry Birks
& Sons Limited
Montréal

****Paul Chapdelaine**

A Company Director
Montréal

****Roger H. Charbonneau**

President
Laboratoires Anglo-French Limitée
Montréal

E. Jacques Courtois, Q.C.

A Partner in the law firm
Courtois, Clarkson, Parsons & Tétrault
Barristers and Solicitors
Montréal

Richard A. Irwin

A Company Director
London, Ontario

***Gérard Plourde**

Chairman of the Board, UAP Inc.
Montréal

***Albert Rolland**

Vice-President and Marketing
Consultant
Compagnie de Papier Rolland, Limitée
Laval

***Lucien G. Rolland**

President and Chief Executive Officer
Compagnie de Papier Rolland, Limitée
Montréal

Marc Rolland

Retired Executive
St-Jérôme

Pierre A. Salbaing

President and Managing Director
Canadian Liquid Air Limited
Montréal

***Joseph A. Weldon, M.B.E., M.C.**

Vice-President and Financial Consultant
Compagnie de Papier Rolland, Limitée
Montréal

**Member of the Executive Committee*

***Member of the Audit Committee*

Officers

Lucien G. Rolland

President and Chief Executive Officer

Joseph A. Weldon

Vice-President and Financial
Consultant

Albert Rolland

Vice-President and Marketing
Consultant

Roger A. Ashby

Executive Vice-President and Chief
Operating Officer

Jean-Louis Chollet

Executive Vice-President
Fine Papers Division

Jean R. Dubé

Vice-President Human Resources and
Industrial Relations

Jean A. Elie

Vice-President Planning, Secretary
and Legal Counsel

Alphonse St-Jacques

Vice-President and Treasurer

Wholly-Owned Subsidiary

Fine Papers, Limited

Terry L. Pitchford, President

Transfer Agents

Montreal Trust Company

The Royal Trust Company

Registrars

Canadian Trust Company

Bankers Trust Company

Shares Listing

Montreal Stock Exchange

Toronto Stock Exchange

Auditors

Touche Ross & Co.

Highlights

	1978	1977
Net Sales	\$129,351,000	\$108,785,000
Earnings (loss)		
Earnings before extraordinary item	4,759,000	547,000
Extraordinary item	—	(2,467,000)
Net earnings (loss)	4,759,000	(1,920,000)
Earnings (loss) per share		
Class "A"		
Earnings before extraordinary item	2.57	0.27
Extraordinary item	—	(1.34)
Net earnings (loss)	2.57	(1.07)
Class "B"		
Earnings before extraordinary item	2.52	0.24½
Extraordinary item	—	(1.34)
Net earnings (loss)	2.52	(1.09½)
Dividends on Class "A" and "B" shares	804,000	34,000
Per Class "A" share	0.45	0.02½
Per Class "B" share	0.40	—
Cash flow from operations	9,710,000	3,183,000
Per Class "A" share	5.26	1.70
Per Class "B" share	5.21	1.67½
Book value per Class "A" and "B" shares	12.02	9.90
Working capital	20,151,000	12,836,000
Long-term debt	16,141,000	16,597,000
Capital expenditures	1,233,000	783,000



Fine papers are part of our everyday life.

Directors' Report to Shareholders

Sales and Earnings

1978 must be regarded as a good year for your Company. Consolidated net sales increased by 19% over the previous year, reaching \$129 million. Consolidated net earnings amounted to \$4.8 million, or \$2.57 per class "A" share and \$2.52 per class "B" share, the second highest level attained in the history of the Company. The return on shareholders' equity was 20% while the return on capital employed was 13%.

These results are a satisfactory improvement over 1977 earnings before extraordinary item of \$547,000, or \$0.27 per class "A" share and \$0.24½ per class "B" share.

They are attributable to higher earnings in the Fine Papers Division, an improvement in our Wholesale Distribution Division and the closing of the Orchard Decor Canada Limited operations in Granby. The benefit of an investment tax credit contributed further to our results.

Economic and Market Conditions

Our country's economic performance was far from outstanding in 1978. The Real Gross National Product increased by approximately 3.5% when compared to the previous year, while the inflation rate was slightly above 9%. The value of the Canadian dollar continued to deteriorate on international currency markets, falling to less than U.S. \$0.84 in October.

Such an environment would normally have encouraged only a moderate growth in the consumption of fine papers which is historically related to GNP. However, Canadian consumption climbed to 860,000 tons, or 17% more than in 1977.

Contrary to what occurred in 1974, inventories of distributors, converters, printers and large consumers are not unduly high. The substantial increase in demand is attributable to a higher level of business activity and to the execution in Canada of some contracts that previously were printed in the United States or on imported American paper.

The low value of the Canadian dollar, and a strike, which affected several American paper mills on the West Coast, in the second half of the year, allowed Canadian fine paper manufacturers to continue securing a greater share of Canadian consumption. As a result, imports accounted for approximately 19.8% of consumption as compared to

22% in the previous year. This figure was even lower at year end. Shipments to the Canadian market increased by 21.3%.

Exports, however, were at the same level as in 1977 as Canadian manufacturers concentrated their efforts on satisfying the needs of Canadian consumers. There were no serious shortages of uncoated fine papers. The situation was somewhat different in coated papers for which demand often exceeded North American supply.

Overall, Canadian fine paper mills operated at approximately 94% of capacity as against 86% in the previous year.

From 1975 to mid-1977, the profitability of Canadian fine paper manufacturers had deteriorated because of their inability to increase the prices of their products when the price of raw materials, notably pulp, was increasing very rapidly. Towards the latter part of 1977, however, conditions had changed and upward price adjustments had become possible. Further increases were announced from time to time in 1978 to allow for a more acceptable profit margin. Unfortunately, no sooner had such a margin been attained that world pulp prices started to go up at a rapid pace. It is estimated that pulp prices have increased by an amount in excess of \$100 per ton since October 1st, 1978.

For your Company alone, increases in the price of pulp represent additional annual costs in excess of \$10 million which it must recover if it is to secure the rate of return necessary to finance its modernization and growth.

Canadian wholesale distributors of fine papers also benefited from the strong growth in consumption. However, competition was strong and prevented a proportionate increase in their gross margin.

Fine Papers Division

This Division produces and markets coated and uncoated fine papers covering the range from rag to sulphite papers. In addition, the Mont-Rolland mill manufactures base papers for decorative laminates used in products such as wall coverings, furniture and kitchen counters.

The strong demand, coupled with the favourable environment for Canadian manufacturers, was beneficial to this Division. Shipments increased by 17% over those of the previous year, with the copy and duplicating market registering the largest gain.

Production downtime during the summer months prevented the St-Jérôme and Mont-Rolland mills from operating at full capacity.

Despite the pressures of the market place, every effort was made to maintain the high standards of service and product quality in which your Company has always prided itself.

All mills operated with a higher degree of efficiency. Productivity and output improvements were obtained especially in our Scarborough mill, as the level of demand for coated wood-free products remained high and stable throughout the period.

Investments in excess of \$650,000 were made to increase the finishing department's capacity in our St-Jérôme mill. The installation of a second cut stock line should alleviate some of the pressures generated by the strong demand for business papers. A new high-precision sheeter for printing papers is to be installed in 1979.

The slump in pulp prices on world markets, which prevailed in the latter part of 1977, continued through the first three quarters of 1978. This factor, together with much-needed increases in the price of fine papers, improved trading conditions and contributed largely to the higher earnings of your Company in 1978.

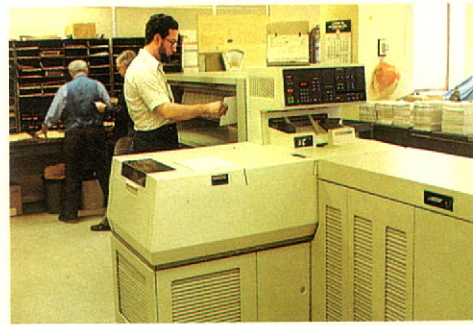
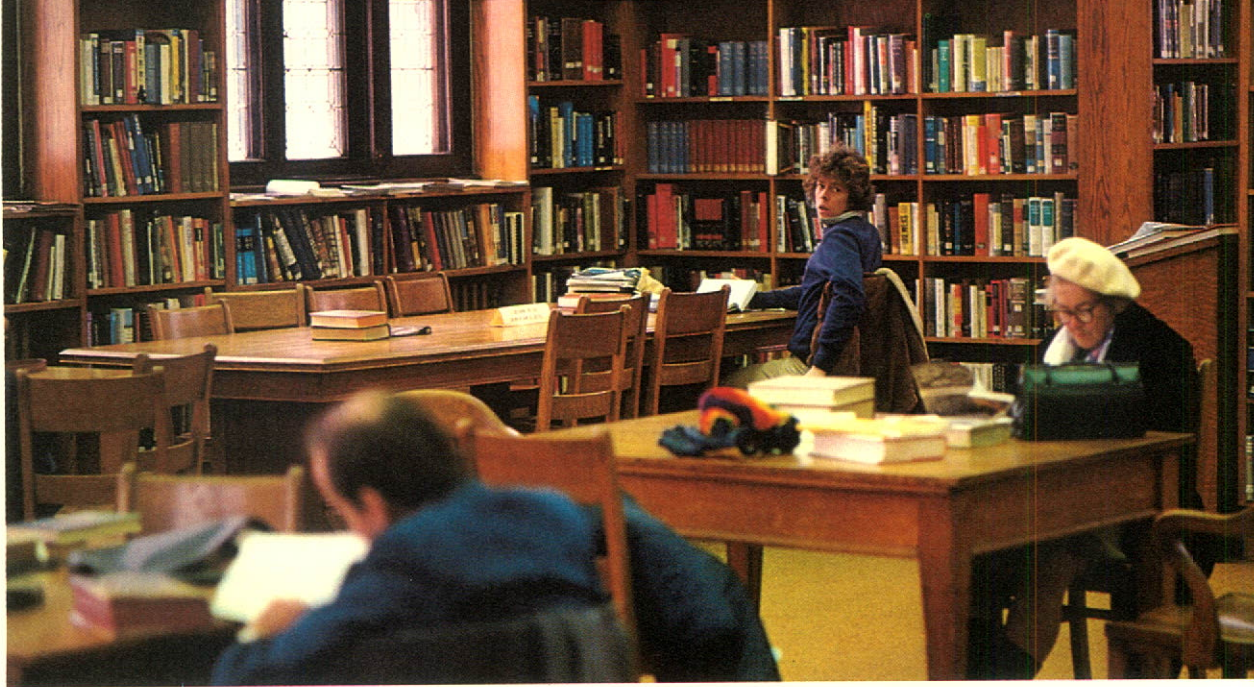
Efforts to establish your Company as a well-recognized North American supplier of base papers for use in decorative laminates were pursued. This is a relatively small and difficult market. Customers are located mainly in the United States and for many years have been supplied by well-known and reliable American companies. Specifications vary from one purchaser to another and the production of these grades requires the support of considerable technical expertise. The Mont-Rolland mill, where substantial investments have been made in previous years for the production of such papers, manufactures a high quality product and has introduced new sheets with unique properties. Thus the efforts of this Division to increase its presence in the United States are proving successful.

Sales were higher than in the previous year but the high cost of product development and the low volume of shipments do not yet provide a profitable operation.

Fine Papers, Limited

This wholly-owned subsidiary is responsible for the wholesale distribution activities of the Company. Through warehouses and sales offices in Toronto, Montréal, Québec City, Ottawa and Sudbury, Fine Papers, Limited distributes fine papers and related products to the graphic arts industry and to other consumers.

Their products are purchased from your Company and from other fine paper manufacturers. Operations are carried out under the trade names of Graphic Papers, The Wilson-Munroe Company and Kruger Fine Paper Wholesale.



Whether they be books, publications, Loto tickets, reports duplicated in several copies or direct mail pieces, many of the objects that are so important in our daily life could not have existed without fine papers, many of which are manufactured by Rolland and distributed by its subsidiaries.



Although the demand for fine papers was strong, the market environment for wholesale distributors remained very competitive throughout the year. It was difficult for them to improve their gross margin in spite of an overall increase in sales; but they nevertheless improved their performance. Share of market increased and net earnings improved.

In Ontario, Graphic Papers which resulted from the merger of Fine Papers, Limited and of Kruger Fine Paper Wholesale, has performed satisfactorily. In Québec, both The Wilson-Munroe Company and Kruger Fine Paper Wholesale continued to improve their market share.

The program aimed at rationalizing inventories, improving productivity in the warehouses, refining financial controls and selecting accounts in accordance with the divisions' objectives is being pursued. Emphasis was put on human resources and marketing. In the Province of Québec a new marketing philosophy was implemented leading to a re-organization of the distribution units.

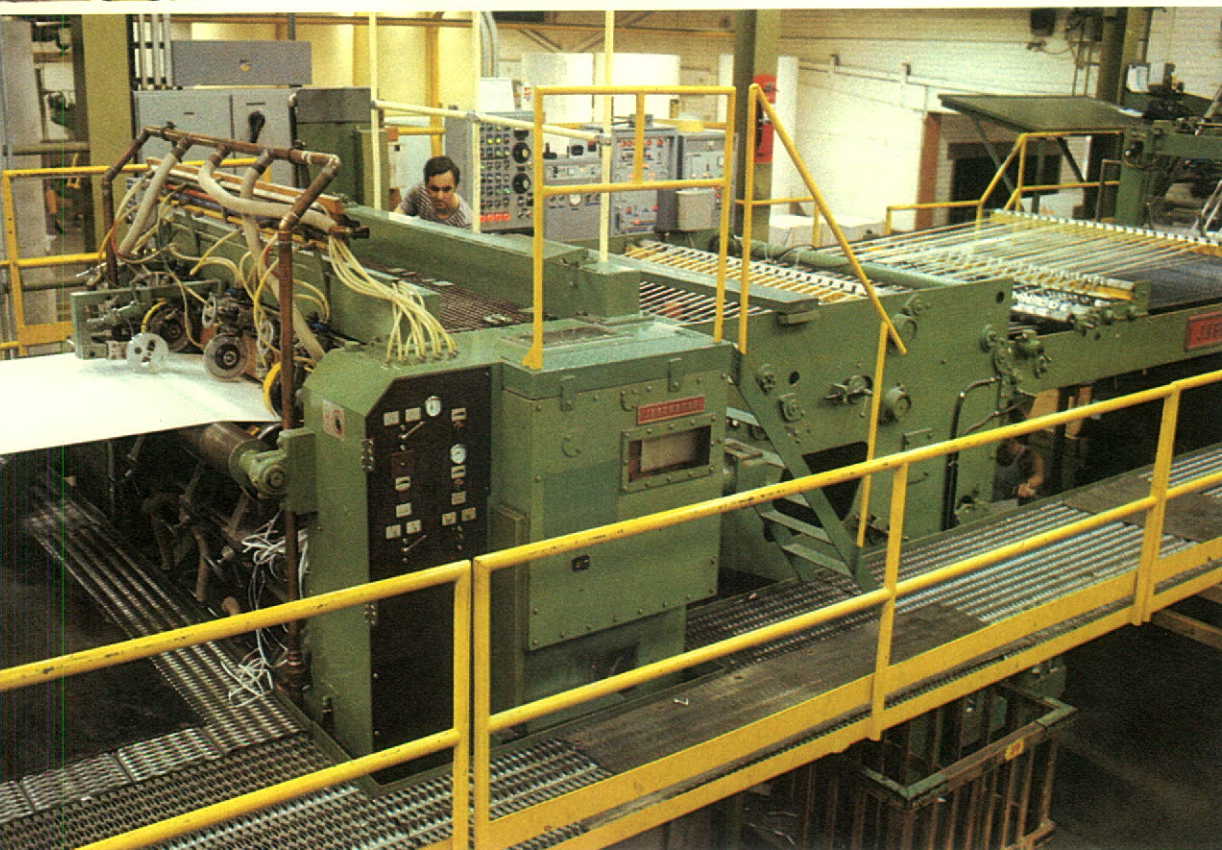
Orchard Decor Canada Limited

In 1975, your Company established jointly with The Orchard Corporation of America, a Canadian firm by the name of Orchard Decor Canada Limited, for the printing of heat transfer papers, impregnated papers, vinyls and insulation papers. Specially designed printing equipment was purchased and installed in a plant located in Granby, Québec.

Your Company subscribed for 60% of the share capital while its associate subscribed for 40%.

The initial plan called for the printing of heat transfer papers for the international textile market, polyester sector. Unfortunately, the opportunities on which this Company counted disappeared quite suddenly with the virtual collapse of textile markets throughout the world. As a result, this subsidiary had to fall back on the much smaller Canadian market and to diversify its activities by undertaking the printing of woodgrains for wall panelling.

A substantial loss was incurred in 1976 and in 1977, as foreign competitors, faced with unused capacity, sold their heat transfer products at very low prices. The market for Canadian woodgrains was also weak by reason of the poor state of the construction and furniture industries.



From top to bottom: among the many components used in the manufacture of kitchen counters, one often finds the base papers produced in the Mont-Rolland mill; some of the activities of our fine paper distributors, Graphic Papers, The Wilson-Munroe Company and Kruger Fine Paper Wholesale; a view of one of the high-precision sheeters in the St-Jérôme mill.

By 1978, Orchard Decor had become a recognized Canadian supplier due to the quality of its products. The level of orders allowed the plant to operate at 80% of its capacity. However, as the year progressed, the financial results did not improve. The demand for heat transfer products was firmer, but prices were still too low to generate an operating margin. In May of 1978, the Board of Directors decided to discontinue operations. Appropriate steps were taken to relocate certain employees and to help customers find other sources of supply.

In October, your Company purchased for a nominal amount the shares belonging to its associate. At year-end, it was decided to dissolve the Company, thus allowing Rolland to benefit from the potential income tax recovery resulting from the losses accumulated in this subsidiary.

Assets of the Company are being offered for sale to prospective purchasers.

Human Resources and Industrial Relations

The continuous growth of the Company depends a great deal on the quality and the initiative of its employees. To ensure the best use of our human resources and to provide depth in the staffing of management positions, a new human resources planning program was initiated during the year. Starting with the Fine Papers Division, it will soon also involve the Wholesale Distribution operations.

Negotiations with Unions representing office personnel at the Scarborough mill have begun. The collective agreement with hourly-paid employees came up for renewal on November 30th last. The parties are now before a conciliator.

Negotiations are also currently underway with warehouse employees at Kruger Fine Paper Wholesale in Montréal.

Labour contracts with the Unions covering hourly, office and salaried employees at the St-Jérôme and Mont-Rolland mills come up for renewal on May 1st, 1979. We expect negotiations to start in March.

In September, Mr. Roger Ashby was appointed Executive Vice-President and Chief Operating Officer of the Company. He is responsible for the financial results of the Fine Papers Division and of Fine Papers, Limited.

Major changes were made at Fine Papers, Limited with the appointments of Mr. Terry Pitchford as President, and of Mr. Benoît Courchesne as General Manager of Kruger Fine Paper Wholesale in Montréal and Ottawa.

Mr. William Knox was appointed Manager of our coating paper operations in Scarborough, Ontario, while Mr. Jean R. Pelletier assumed the full responsibility for sales and marketing within the Fine Papers Division.

Dividends

In view of the operating results, your Directors declared dividends amounting to \$0.45 per class "A" share and \$0.40 per class "B" share during the year. Starting with the payment of \$0.02½ and \$0.01¼ per class "A" and class "B" shares respectively on March 15th, the dividends were increased to \$0.10 and \$0.08¾ for the second and third quarters and to \$0.12½ and \$0.11¼ per class "A" and class "B" shares respectively on December 15th. An extra dividend of \$0.10 to both classes was also paid on that date.

The regular quarterly dividend of \$1.06¼ on the preferred shares was paid throughout the year. Total dividend disbursements for 1978 amounted to \$863,000.

Outlook on 1979

The results in 1979 will depend on the level of Canadian demand, the value of the Canadian dollar, and the state of the pulp market.

In view of the surprising growth in the consumption of fine papers during 1978, it is difficult to foresee a strong increase in demand in 1979. As inventories are not unduly high at the distributor and consumer levels, one could anticipate consumption to either remain the same as in 1978 or, at best, to expand at the same rate as the Real Gross National Product.

The ability of Canadian fine paper manufacturers to satisfy this demand and retain their share of the domestic market assumes the continued low value of our currency and the continued healthy state of the U.S printing and writing paper industry.

We expect both these assumptions to materialize. We therefore hope that Canadian fine paper manufacturers will use this opportunity to consolidate their position in the domestic market.

With the very strong demand for coated products in both the United States and Canada, our Scarborough mill should continue to make a satisfactory contribution to the results of the Fine Papers Division. Uncoated paper sales should continue at the same level as in 1978. Both the St-Jérôme and Mont-Rolland mills are expected to operate on a seven-day schedule.

The outlook for technical papers appears to be good and sales are expected to increase. It is doubtful, however, that this operation will generate a profit in view of the level of expenses required for technical and new product development.

The gyrations of the pulp market and the movement of paper prices are of great concern to your Company. Should pulp prices continue to increase at the very rapid pace we have witnessed in the past few months, Canadian fine paper manufacturers may be unable to increase the price of their products in such a way as to protect their current profit margins.

Despite such uncertainties, 1979 should, on the other hand, witness a further improvement in the overall earnings of the Wholesale Distribution operations.

A comprehensive company-wide program will be launched to further improve the efficiency, productivity and profitability of our operations. Such efforts, however, will only partly offset the higher production and raw material costs that we can envisage.

Finally, the closing of Orchard Decor Canada Limited will eliminate a continuous source of loss and of cash drain.

1979 will be a significant year for the Canadian industry as GATT members prepare to finalize negotiations in Geneva. As stated last year in this report, "Should Canada accept a reduction in tariffs on imported fine papers, Canadian mills will once again find themselves in a precarious position because of the cost advantages of their American competitors."

If in 1978, your Company succeeded in generating a satisfactory return on its shareholders' equity, it was mainly because of the 12½% tariff and of a 15% devaluation of the Canadian dollar, which in effect constituted additional protection. We trust that government authorities will be sensitive to the industry's problems.



Consolidated Statement of Income

Year ended December 31

	1978	1977
	(in thousands of dollars)	
Net sales	\$129,351	\$108,785
Cost of sales	105,306	92,959
Gross profit	24,045	15,826
Selling and administrative expenses	12,891	11,503
Depreciation and amortization	2,151	1,760
Interest expense — Note 9	1,869	2,184
	16,911	15,447
Operating profit	7,134	379
Other income	330	360
Profit before income taxes	7,464	739
Income taxes — Note 10	2,835	300
Earnings from operations	4,629	439
Amortization of excess of consideration over book value of assets acquired — Net of income taxes	(151)	(142)
Dividend income	281	250
Earnings before extraordinary item	4,759	547
Extraordinary item — Note 4	—	(2,467)
Net earnings (loss)	4,759	(1,920)
Dividends on preferred shares	59	59
Net earnings (loss) applicable to Class "A" and "B" shares	\$ 4,700	\$ (1,979)
Earnings (loss) per share		
Class "A" shares		
Earnings before extraordinary item	\$ 2.57	\$ 0.27
Extraordinary item	—	(1.34)
Net earnings (loss)	\$ 2.57	\$ (1.07)
Class "B" shares		
Earnings before extraordinary item	\$ 2.52	\$ 0.24½
Extraordinary item	—	(1.34)
Net earnings (loss)	\$ 2.52	\$ (1.09½)

Consolidated Statement of Retained Earnings

Year ended December 31

	1978	1977
	(in thousands of dollars)	
Retained earnings at beginning of year	\$11,113	\$13,126
Net earnings (loss) for the year	4,759	(1,920)
	15,872	11,206
Dividends		
Preferred shares	59	59
Class "A" shares	612	34
Class "B" shares	192	—
	863	93
Retained earnings at end of year	\$15,009	\$11,113

Consolidated Balance Sheet

At December 31

Assets	1978	1977
	(in thousands of dollars)	
Current		
Cash and short-term investments	\$ 6,291	\$ 2,900
Accounts receivable	13,737	12,318
Inventories — Note 2	16,599	14,570
Prepaid expenses	372	477
	36,999	30,265
Grants Receivable — Note 3	1,314	1,417
Investment — Note 4	3,396	3,396
Fixed		
Property, plant and equipment — Note 5	19,240	20,697
Intangible		
Excess of consideration over book value of assets acquired — Note 7	1,525	1,725
Unamortized debenture issue expense	265	306
	\$62,739	\$57,806

On behalf of the Board:
Lucien G. Rolland, Director
J. A. Weldon, Director

Liabilities

	1978	1977
	(in thousands of dollars)	
Current		
Bank indebtedness	\$ 4,287	\$ 7,996
Accounts payable and accrued liabilities	11,813	9,165
Income taxes payable	611	—
Long-term debt instalments due within one year	137	268
	16,848	17,429
Long-Term Debt — Note 6	16,141	16,597
Deferred Income Taxes	6,179	4,105
Shareholders' Equity		
Capital — Note 8		
Authorized		
21,995 Preferred shares of \$100 each issuable in one or more series		
2,400,000 Class "A" and 800,000 Class "B" shares without nominal or par value		
Issued		
13,995 4¼% Cumulative redeemable preferred shares	1,399	1,399
1,360,016 Class "A" and 480,008 Class "B" shares	7,163	7,163
	8,562	8,562
Retained earnings		
For use in the business	15,009	11,113
	23,571	19,675
	\$62,739	\$57,806

started 1975

Consolidated Statement of Changes in Financial Position

Year ended December 31

		1978	1977
		(in thousands of dollars)	
Source of funds	Cash flow from operations		
	Earnings before extraordinary item	\$4,759	\$ 547
	Depreciation and amortization	2,351	1,926
	Write-down of construction in progress	526	400
	Deferred income taxes	2,074	310
		9,710	3,183
	Long-term grants receivable	103	167
	Proceeds from disposal of fixed assets, less gain included in earnings	54	23
		\$9,867	\$3,373
Application of funds	Additions to fixed assets	1,233	783
	Long-term debt reduction	456	711
	Dividends	863	93
		2,552	1,587
Increase in Working Capital		7,315	1,786
		\$9,867	\$3,373

Changes in Components of Working Capital

Year ended December 31

		1978	1977
		(in thousands of dollars)	
Increase (decrease) in Current Assets	Cash and short-term investments	\$ 3,391	\$ 2,324
	Accounts receivable	1,419	996
	Inventories	2,029	(464)
	Prepaid expenses	(105)	143
		6,734	2,999
Increase (decrease) in Current Liabilities	Bank indebtedness	(3,709)	3,874
	Notes payable	—	(4,000)
	Accounts payable and accrued liabilities	2,648	1,356
	Income taxes payable	611	—
	Long-term debt instalments due within one year	(131)	(17)
	(581)	1,213	
Increase in Working Capital		\$ 7,315	\$ 1,786
Working Capital at End of Year		\$20,151	\$12,836

Notes to Consolidated Financial Statements December 31, 1978

Note 1 Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, The Wilson-Munroe Company Limited, Fine Papers, Limited and Orchard Decor Canada Limited. The acquisition of all subsidiary companies is accounted for on a purchase basis and earnings are included in the consolidated financial statements from the date of acquisition of control. All significant inter-company transactions have been eliminated.

Inventories

Inventories of raw materials, wires, felts, supplies, repair parts and maintenance materials are carried at the lower of cost, generally first-in, first-out method, and replacement value. The cost of finished paper and paper in process includes raw materials, direct labour and manufacturing overhead expenses; these inventories are carried at the lower of cost, generally first-in, first-out method, and net realizable value. Adequate provision is made for slow-moving and obsolete inventories.

Investment

The investment consisting of 375,000 common shares of Consolidated-Bathurst Inc. is carried at cost less write-down for decline in value.

Property, Plant and Equipment

These assets are recorded at cost which, in cases of major expansion projects, includes interest during construction. Government grants related to capital

expenditures are deducted from the respective fixed assets. At the time of sale or retirement, the cost of the assets and the related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Depreciation is calculated on the estimated economic lives of the assets, generally on the straight-line method at the following rates:

Buildings	2½%
Machinery and equipment	5%-10%
Leasehold improvements	term of lease

Intangibles

Excess of consideration represents the excess of the purchase price over the book value of the net tangible assets of the Wholesale Distribution Division of Kruger Pulp and Paper Limited at date of acquisition. The excess is being amortized over a ten-year period.

The debenture issue expense is amortized over the life of the 11¾% Sinking Fund Debentures, Series "B" proportionately to the amount of debentures outstanding each year.

Income Taxes

Income taxes are based on accounting income which differs in some respects from taxable income. Differences generally arise because items of income and expense, such as depreciation, are reflected in different time periods for accounting purposes and for tax purposes. Deferred income taxes represent the amount by which taxes on accounting income exceed taxes paid or payable on taxable income. The investment tax credits relating to capital expenditures

are accounted for as a reduction of income tax expense in the year realized.

Pension Plans

The Company and its subsidiaries have contributory, trustee pension plans. The cost of the current service portion is charged to income as incurred. Any unfunded liability for prior years' services is charged to income as it is funded over a maximum period of 15 years.

Net Earnings Per Share

The net earnings per share are calculated after taking into account the differential in the dividends paid during the year on Class "A" and Class "B" shares.

		1978	1977
		(in thousands of dollars)	
Note 2			
Inventories			
	Raw materials, wires, felts and supplies	\$ 3,355	\$ 2,878
	Repair parts and maintenance materials	1,080	918
	Finished paper and paper in process	12,164	10,774
		\$16,599	\$14,570

Note 3
Grants Receivable

The grants receivable are subject to recoupment or reduction if the Company fails to comply with the stipulations in each of the agreements.

		1978	1977
		(in thousands of dollars)	
Note 4			
Investment	The investment consisting of 375,000 common shares of Consolidated-Bathurst Inc. was written down by \$2,467,000 in 1977 to recognize a reduction in its economic value to the Company:		
	Cost	\$5,863	\$5,863
	Write-down	(2,467)	(2,467)
	Book value	\$3,396	\$3,396
	Market value	\$5,344	\$2,719

Note 5	Property, Plant and Equipment	Cost	Accumulated Depreciation	Net	Net
				1978	1977
(in thousands of dollars)					
	Land	\$ 439	\$ —	\$ 439	\$ 439
	Buildings	8,254	4,385	3,869	4,058
	Leasehold improvements	443	389	54	75
	Machinery and equipment	34,377	23,521	10,856	11,675
	Construction in progress	4,022	—	4,022	4,450
		\$47,535	\$28,295	\$19,240	\$20,697

Construction in progress which relates to the speed-up of No. 8 paper machine was suspended on July 1, 1976 and no interest has been capitalized thereon since that date. The cost has been written down by \$526,000 and \$400,000 in 1978 and 1977 respectively, to reflect physical deterioration since suspension of work. It is estimated that an amount of approximately \$6,400,000 will be required to complete the installation of the equipment.

Note 7 Excess of Consideration		1978	1977
		(in thousands of dollars)	
	Excess arising on the purchase of the assets of the Wholesale Distribution Division of Kruger Pulp and Paper Limited	\$2,000	\$2,000
	Accumulated amortization	475	275
		\$1,525	\$1,725

The excess of \$331,000 arising on the purchase of shares of The Wilson-Munroe Company Limited and the corresponding accumulated amortization as at December 31, 1977 have been written off in 1978.

Note 8 Capital	
	The preferred shares issued are redeemable at \$104 per share and are non-voting unless four quarterly dividends are in arrears. Class "A" shares are non-voting unless the Company shall fail, for a period of two consecutive years, to pay any dividend on such shares.
	Class "A" shares are entitled to a non-cumulative dividend at the rate of 10 cents per share per annum before payment of any dividend on Class "B" shares. If in any fiscal year dividends at the rate of 5 cents per share per annum are paid on Class "B" shares, any further distribution in respect of that fiscal year shall be made equally, share for share, upon all outstanding Class "A" and Class "B" shares.

Note 9 Interest Expense		1978	1977
		(in thousands of dollars)	
	Interest on long-term debt	\$1,638	\$1,700
	Interest on short-term debt	231	484
		\$1,869	\$2,184

Handwritten calculations:

$$\begin{array}{r} 475 \\ 95 \\ \hline 570 \end{array}$$

$$\begin{array}{r} 360 \\ 265 \\ \hline 95 \end{array}$$

Note 10		1978	1977
Income Taxes		(in thousands of dollars)	
	Income taxes otherwise payable	\$1,357	\$181
	Less: investment tax credits	420	—
	3% inventory allowance tax reductions	176	181
	Current income taxes	761	—
	Deferred income taxes	2,074	300
		\$2,835	\$300

Income tax losses of \$1,588,000 of Orchard Decor Canada Limited were transferred to the Company as a result of the distribution of the assets of this subsidiary on December 28, 1978, prior to its dissolution. The potential reduction in income taxes to be realized by applying these losses against future earnings is not recorded in the accounts.

Note 11
Long-Term Leases

The Company and its subsidiaries' commitments under lease agreements of various terms for premises and equipment aggregate \$3,129,800 at December 31, 1978. The annual rentals in 1979 under these leases will be \$799,700.

Note 12
Pension Plans

The latest actuarial valuations of the plans of the Company and its subsidiaries established an unfunded liability of \$208,000 for prior years' services. Such liability has been fully funded by payments of \$166,000 and \$42,000 in 1978 and 1977 respectively.

Note 13 Directors' and Officers' Remuneration	1978		1977	
	12 Directors	10 Officers	12 Directors	11 Officers
Remuneration paid	\$42,400	\$400,200	\$37,200	\$432,500

Three Officers were also Directors of the Company in 1978 and 1977.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Rolland Paper Company, Limited as at December 31, 1978 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 Company as at December 31, 1978 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.

Touche Ross & Co.
Chartered Accountants

Montréal, Québec
February 14, 1979

	1977	1976	1975	1974	1973	1972	1971	1970	1969
	\$108,785	\$106,591	\$99,763	\$83,228	\$61,130	\$46,437	\$41,555	\$34,085	\$35,647
	1,760	1,839	1,702	1,522	1,534	1,313	1,292	1,257	1,207
	2,184	1,751	932	354	402	436	459	484	520
	739	(4,160)	(310)	8,855	4,899	2,483	270	(808)	2,855
	300	(1,458)	(353)	3,782	2,270	1,094	120	(324)	1,444
	—	(157)	(11)	—	—	—	—	—	—
	439	(2,545)	54	5,073	2,629	1,389	150	(484)	1,411
	250	250	250	281	—	—	—	62	125
	(142)	(142)	(122)	(66)	—	—	—	—	—
	547	(2,437)	182	5,288	2,629	1,389	150	(422)	1,536
	(2,467)	—	—	—	64	—	—	—	—
	(1,920)	(2,437)	182	5,288	2,693	1,389	150	(422)	1,536
	3,183	(1,979)	3,044	7,259	4,239	2,555	1,089	586	2,666
	0.4%	(2.4%)	0.1%	6.1%	4.3%	3.0%	0.4%	(1.4%)	4.0%
	4.4%	(3.4%)	1.5%	15.3%	9.1%	5.4%	1.3%	(0.6%)	5.6%
	\$ 59	\$ 59	\$ 59	\$ 59	\$ 59	\$ 60	\$ 60	\$ 60	\$ 60
	34	—	1,080	1,099	620	160	—	534	712
	(2,013)	(2,496)	(957)	4,130	2,014	1,169	90	(1,016)	764
	\$ 0.27	\$ (1.36)	\$ 0.08	\$ 2.85	\$ 1.41	\$ 0.73	\$ 0.05	\$ (0.25)	\$ 0.82
	(1.34)	—	—	—	0.03	—	—	—	—
	(1.07)	(1.36)	0.08	2.85	1.44	0.73	0.05	(0.25)	0.82
	0.02½	—	0.60	0.61	0.35	0.10	—	0.30	0.40
	1.70	(1.11)	1.64	3.93	2.28	1.37	0.56	0.30	1.43
	9.90	11.00	12.35	12.87	10.63	9.53	8.90	8.85	9.40
	5.38	7.88	8.25	10.00	10.75	7.88	4.50	7.00	10.13
	3.55	3.60	5.25	7.00	6.75	3.10	2.30	3.65	5.13
	\$ 12,836	\$ 11,050	\$17,297	\$14,445	\$11,443	\$ 9,649	\$ 8,385	\$ 7,751	\$ 9,901
	3,396	5,863	5,863	5,863	5,863	5,863	5,863	5,863	5,863
	20,697	22,070	19,993	15,434	13,874	14,008	14,758	15,780	15,934
	3,448	3,808	3,863	199	265	589	589	589	257
	40,377	42,791	47,016	35,941	31,445	30,109	29,595	29,983	31,955
	\$ 16,597	\$ 17,308	\$17,490	\$ 6,645	\$ 6,662	\$ 7,393	\$ 7,901	\$ 8,025	\$ 8,751
	4,105	3,795	5,185	4,155	3,772	3,696	3,842	4,196	4,426
	—	—	157	—	—	—	—	—	—
	1,399	1,399	1,399	1,399	1,399	1,422	1,422	1,422	1,422
	18,276	20,289	22,785	23,742	19,612	17,598	16,430	16,340	17,356
	40,377	42,791	47,016	35,941	31,445	30,109	29,595	29,983	31,955
	1.7:1	1.7:1	2.1:1	2.8:1	2.7:1	2.9:1	3.1:1	2.3:1	3.5:1
	\$ 783	\$ 4,099	\$ 7,720	\$ 3,300	\$ 1,550	\$ 636	\$ 297	\$ 694	\$ 841
	1,760	1,862	1,933	1,991	2,066	2,256	2,320	2,377	2,330
	1,383	1,497	1,454	1,404	1,410	1,294	1,285	1,289	1,288

Note:

Results of Fine Papers, Limited are included from January 1, 1970, results of The Wilson-Munroe Company Limited from January 1, 1971, and results of Kruger Fine Paper Wholesale from April 1, 1975.

The cover is printed on Renaissance, White,
280M/208 g/m².

The interior pages are printed on Renaissance, White,
200M/148 g/m² and on Rolland Tints, Sapphire
Blue, 140M/104 g/m².

Printed in Canada.

