

HOWARD ROSS LIBRARY  
OF MANAGEMENT  
AUG 21 1979  
MCGILL UNIVERSITY



---

# 50th Annual Report

---

## Table of Contents

---

	Page
Directors and Officers	2
Highlights	3
Directors' Report	5
Financial Review	15
Financial Statements	17
Notes to Financial Statements	24
Ten-Year Comparative Statistics	30

---

The Annual General Meeting of Shareholders will be held at the Head Office of the Company, 800 Victoria Square, Suite 3620, Montréal, Québec, at 14:30 hours, April 26, 1978.

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

Rolland Paper Company, Limited  
Papermaking Specialists

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

Sales Offices:  
Montréal and Toronto

Paper Mills:  
St-Jérôme and Mont-Rolland, Québec  
Scarborough, Ontario  
Granby, Québec — Orchard Decor Canada  
Limited

---

## 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  
Rolland Paper Company, Limited  
Laval

**\*Lucien G. Rolland**

President and General Manager  
Rolland Paper Company, Limited  
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  
Rolland Paper Company, Limited  
Montréal

## Officers

**Lucien G. Rolland**

President and General Manager

**Joseph A. Weldon**

Vice-President and Financial  
Consultant

**Albert Rolland**

Vice-President and Marketing  
Consultant

**Jean-Louis Chollet**

Executive Vice-President  
Fine Papers Division

**Jean R. Dubé**

Vice-President, Human Resources and  
Industrial Relations

**Michel Gagnon**

Executive Vice-President  
Wholesale Distribution Division

**André Renaud**

Vice-President  
Finance and Administration

**Alphonse St-Jacques**

Vice-President and Treasurer

**Jean A. Elie**

Secretary and Director of  
Marketing Services

**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.

\*Member of the Executive Committee

\*\*Member of the Audit Committee

## Highlights

	1977	1976
<b>Net Sales</b>	<b>\$108,785,000</b>	<b>\$106,591,000</b>
<b>Earnings (loss)</b>		
Earnings (loss) before extraordinary item	547,000	(2,437,000)
Extraordinary item	(2,467,000)	—
Net loss	(1,920,000)	(2,437,000)
<b>Earnings (loss) per share</b>		
<b>Class "A"</b>		
Earnings (loss) before extraordinary item	0.27	(1.36)
Extraordinary item	(1.34)	—
Net loss	(1.07)	(1.36)
<b>Class "B"</b>		
Earnings (loss) before extraordinary item	0.24½	(1.36)
Extraordinary item	(1.34)	—
Net loss	(1.09½)	(1.36)
<b>Dividends on Class "A" and "B" shares</b>	<b>34,000</b>	<b>—</b>
Per Class "A" share	0.02½	—
Per Class "B" share	—	—
<b>Cash flow from (applied to) operations</b>	<b>3,183,000</b>	<b>(1,979,000)</b>
Per Class "A" share	1.70	(1.11)
Per Class "B" share	1.67½	(1.11)
<b>Book value per Class "A" and "B" shares</b>	<b>9.90</b>	<b>11.00</b>
Working capital	12,836,000	11,050,000
Long-term debt	16,597,000	17,308,000
Capital expenditures	783,000	4,099,000



Members of the Executive Committee.  
From left to right: Messrs. Lucien G. Rolland,  
G. Drummond Birks, Joseph A. Weldon and  
Albert Rolland. Absent, Mr. Gérard Plourde.

---

## Directors' Report to Shareholders

### Sales and Earnings

Consolidated net operating earnings for the year ended December 31, 1977 were \$547,000, or \$0.27 per Class "A" share and \$0.24½ per Class "B" share. However, in compliance with recommendations of the Canadian Institute of Chartered Accountants, your Company has written down the value of its investment in shares of Consolidated-Bathurst Limited. After deducting this extraordinary item of \$2,467,000, the net loss for the year amounted to \$1.9 million, or \$1.07 per Class "A" share and \$1.09½ per Class "B" share.

The improvement in operating earnings is attributable to the fine paper manufacturing operations which benefitted from higher selling prices, an important reduction in the cost of pulp and a reduction in manufacturing, selling and administrative expenses.

Although the operating earnings showed an encouraging increase over the loss of \$2.4 million in 1976, they are, nevertheless, insufficient to ensure the growth of your Company. The return on capital employed is only 4.4%.

Consolidated net sales were \$108.8 million, compared with \$106.6 million in 1976, thus establishing a new record in the history of the Company. This was due to price increases in all divisions.

### Economic and Market Conditions

Canada's economy performed poorly during 1977.

The Real Gross National Product increased by only 2.6%, when compared to the previous year. The annual rate of inflation reached 9.5% and the Canadian dollar was seriously devalued against the American dollar falling from U.S. \$1.03 in November 1976 to less than U.S. \$0.90 twelve months later.

Although such conditions yielded a small increase in the Canadian consumption of fine papers, the lower value of the Canadian dollar together with the increase in fine paper consumption in the United States allowed Canadian manufacturers to regain an important part of the domestic market, which they had lost during the strikes of 1975 and 1976, and to increase their shipments by 20%.

---

Canadian consumption of fine papers totalled 730,000 tons, an increase of 2.2% over the preceding year. The level of imports was gradually reduced. Over the last quarters, they seemed to have stabilized at 22% of Canadian consumption as against 14.8% in 1974 and 60% during the strike in 1975 and 1976.

Canadian mills operated at almost 86% of their capacity, compared to 69% the preceding year. This latter figure, however, reflects the effects of the strike that paralyzed most fine paper mills during the first quarter of 1976.

Canadian manufacturers were able to increase selling prices by 5% during the second half of the year because of higher prices in the United States and of the additional cost of imported fine papers. These were the first increases that Canadian manufacturers have secured for most of their products since the fall of 1974.

In view of the inflationary pressures during this period on the prices of raw materials, labour, equipment, energy and transportation, these price increases were minimal and well below the level needed to ensure a satisfactory performance.

Wholesale fine paper distributors were also affected by the state of the Canadian economy and by the severe competition that prevailed in their markets.

The textile industry, in which your Company is interested through its subsidiary, Orchard Decor Canada Limited, continued to experience the same serious difficulties as last year.



---

## Fine Papers Division

This Division is involved in the production and marketing of more than a hundred grades of specialized, coated and uncoated fine papers covering the range from rag papers to sulphite papers. Furthermore, the Mont-Rolland mill manufactures base papers for decorative laminates used in such products as wall coverings, furniture and kitchen counters.

Total shipments of uncoated papers were virtually the same as in 1976. Despite strong competition, the Division maintained its share of the market.

The mills at St-Jérôme and Mont-Rolland operated at 83% of capacity.

The program aimed at improving productivity in our mills, to which we referred in our last annual report, resulted in better paper machine efficiency, reduced raw material losses and increased output in finishing operations.

The slump in pulp prices on world markets has enabled your Company to buy its principal raw material at an appreciably lower cost than that of the preceding year. The high level of world inventories together with the idle manufacturing capacity would indicate that current price levels will be maintained for most of 1978.

Pulp prices increased at such a rate between 1972 and 1976 that the fine paper industry was unable to make appropriate adjustments in its selling prices, and to maintain its profitability. While the Statistics Canada price index for wood pulp moved from 94.2 in 1972 to 234.1 in 1976, the fine paper price index moved from 102.5 to 162.5 during the same period. It is hoped that in the medium term the forces of supply and demand will ensure a more normal relationship between the price of market pulp and that of fine papers.

The demand for coated papers tightened, allowing our Scarborough mill to operate at full capacity during the major part of the year. An increase in the price of coated papers went into effect in August 1977, and a second increase was announced effective February 1, 1978.



Jean-L. Chollet, Executive Vice-President, Fine Papers Division: "Canadian manufacturers were able to increase selling prices by 5% during the second half of the year. These were the first increases that Canadian manufacturers have secured for most of their products since the fall of 1974."

Members of the Fine Papers Division's marketing group planning one of the sales program.





Rolland Lambert (right), Director of Operations, and Yvan Duchesne (left), Manager of Production, Planning and Procurement, discussing the results of the productivity improvement program which was carried out in our mills during 1977.

Following the decision of a competitor to withdraw from the production of certain grades, your Company remains the only Canadian manufacturer of premium-quality coated products. The Division launched a new grade, Rolland Gloss, thus providing its customers with a more complete range of products.

The program aimed at specializing part of the Mont-Rolland mill in the production of industrial papers was pursued during the year but certain manufacturing difficulties delayed the marketing of base papers on a regular basis. These problems entailed additional expenditures for further development and tests which, in turn, resulted in a significant loss. Despite these difficulties, the products have been well received and the Division is already recognized as a supplier to a number of users. The measures adopted to solve the manufacturing problems should help the marketing of these products and improve results. It is expected that 90% of this production will be exported.

### Wholesale Distribution Division

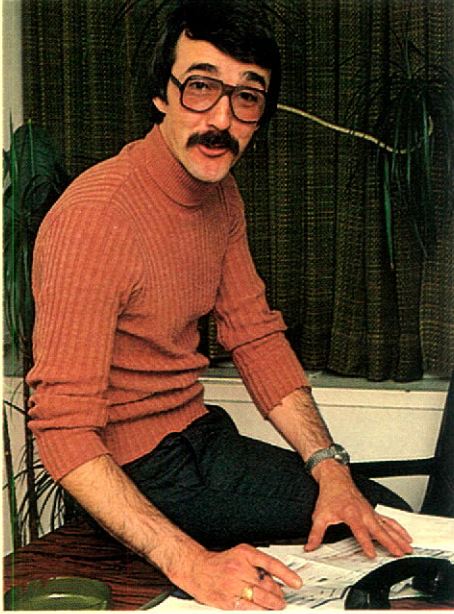
The year was difficult for this Division. The slow rate of growth in fine paper demand together with poor economic conditions brought about strong competition among Québec and Ontario merchants, and affected their selling and pricing policies. Eager to increase volume, distributors reduced their profit margins while operating costs increased. As a consequence, the Division ended the year 1977 with the same financial results as those of 1976.

In the course of the year, product lines were rationalized, franchises were consolidated and inventory turnover was emphasized. In Ontario, the launching of Graphic Papers allowed for a better use of the resources of Fine Papers, Limited and of Kruger Fine Paper Wholesale, and for a reduction in operating expenses. This new distributor has been well received by customers and we are hopeful that it will meet its objectives in 1978.

The management team was strengthened with the establishment of several new positions and the appointment of general managers for Graphic Papers and The Wilson-Munroe Company in Toronto.

Michel Gagnon (right), Executive Vice-President and Terry Pitchford (left), Vice-President, Ontario, discussing the outcome of the Wholesale Distribution Division's effort to improve inventory turnover, consolidate franchises and rationalize product lines in the course of the year.





Despite strong foreign competition, Orchard Decor Canada Limited is now a recognized Canadian supplier of printed heat transfer papers and woodgrain products. The plant, located in Granby, is managed by Alain Lacasse.

### **Orchard Decor Canada Limited**

In 1975, your Company subscribed to 60% of the share capital of Orchard Decor Canada Limited, a firm established jointly with The Orchard Corporation of America, for the printing of heat transfer papers, impregnated papers, vinyls, inhibitor papers, and insulation papers. These products are used by textile, wall covering and furniture manufacturers, as well as by the packaging and electrotechnical industries.

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.

Such were the circumstances that caused the loss incurred in 1976.

The situation did not improve in 1977. Despite a gradual firming of demand for heat transfer papers, Orchard Decor faced intense competition. A number of foreign manufacturers, coming to grips with unused manufacturing capacity, sold their products on the Canadian market at very low prices. Canadian prices are much lower than those prevailing on the New York market.

The market for Canadian woodgrains was also weak by reason of the poor state of the construction and the furniture industries.

Despite such difficulties, the Company, now a recognized Canadian supplier due to the quality of its products, increased its sales by 20% over 1976. The level of orders booked during the last quarter allowed the plant to operate at 80% of its capacity. The fiscal year ending December 31, 1977 showed a loss.

---

## **Human Resources & Industrial Relations**

Negotiations with unions representing office personnel at the Scarborough mill were concluded, and the final terms of the contract await ratification by the Anti-Inflation Board. The collective agreement negotiated with hourly employees comes up for renewal on November 30, 1978.

Negotiations are currently under way with warehouse employees at Kruger Fine Paper Wholesale, in Montréal.

The Confederation of National Trade Unions was accredited to represent the hourly-paid employees of the Orchard Decor Canada Limited plant in Granby. The parties have already started negotiating their first collective agreement.

Labour contracts governing hourly, office and salaried employees at the St-Jérôme and Mont-Rolland mills only come up for renewal in 1979. However, they stipulate that the agreement may be reopened if certain terms of the contract negotiated between our competitors and their unions differ from ours. Our competitors will negotiate new collective agreements in 1978.

In November 1977, Mr. Jean R. Dubé was appointed Vice-President, Human Resources and Industrial Relations of the Company.

It is with deep regret that we record the death of our colleague, Dr. Hugh M. Craig. He had held a number of senior positions in our Company. Most recently, he had devoted himself to establishing and managing Orchard Decor Canada Limited. His contribution will be missed by all those who had the privilege of knowing him.

## **Dividends**

In view of the operating results, your Directors declared, on November 18th last, a dividend of \$0.02½ on the Class "A" shares, payable December 15, 1977. However, they did not declare a dividend on the Class "B" shares.

The regular quarterly dividend of \$1.06¼ on preferred shares was maintained throughout the year. Total dividend disbursements for 1977 amounted to \$93,000.

---

## Financial Review

The improvement in our operating earnings has been gradual during the year as shown in the comparison below:

Earnings (loss)	1977	1976
1st quarter	<b>\$(231,000)</b>	\$ 181,000
2nd quarter	<b>15,000</b>	(306,000)
3rd quarter	<b>145,000</b>	(818,000)
4th quarter	<b>618,000</b>	(1,494,000)
	<b>\$ 547,000</b>	<b>\$(2,437,000)</b>

and is attributable solely to the manufacturing division.

Total selling and administrative expenses of \$11.5 million were \$706,000 lower than last year. However, interest expense of \$2.2 million was \$433,000 higher as all interest was charged to expense in 1977. In the first nine months of 1976, interest amounting to \$489,000 had been capitalized during completion of the rebuilding of our No. 4 paper machine in Mont-Rolland and the speed-up of our No. 8 machine in St-Jérôme.

The two diversification projects launched in 1976 entail high fixed permanent costs of depreciation and of interest.

The provision for income tax for the current year has been calculated after deducting the tax reduction of \$181,200 related to the 3% inventory allowance now approved by both federal and provincial governments. It is gratifying that our governments have recognized the high cost of financing inventories in a period of rapid inflation, and provided a tax relief by the introduction of a permanent annual inventory allowance, deductible from taxable income, equal to 3% of the opening value of qualifying inventories.

The write-down of \$2,467,000 in the value of our investment in shares of Consolidated-Bathurst Limited represented an extraordinary item of \$1.34 per class "A" and class "B" shares. This write-down was made in 1977 to comply with a recommendation of the Canadian Institute of Chartered Accountants and reflects a reduction in the value of this investment, since its acquisition, as determined by the weighted average market price of the shares on the Toronto and Montreal Stock Exchanges during the last five years.

The cash flow from operations of \$3,183,000, or \$1.70 per class "A" share, showed a marked improvement in 1977 over the negative cash flow of \$1,979,000, or \$1.11 per share, the previous year. This improvement of \$5.2 million in the cash flow is mainly attributable to the pre-tax operating profit of \$857,000 in 1977, calculated after deduction of the write-down of construction in progress of \$400,000 not requiring any cash disbursement, and which compared to a pre-tax loss of \$3,827,000 in 1976.

---

Outlays for capital expenditures were \$783,000 in 1977, compared to \$4.1 million in 1976 and \$7.7 million in 1975. These expenditures were drastically reduced to preserve cash after large outlays in the two previous years on two major projects. The installation of the equipment for the speed-up of No. 8 paper machine at an additional cost of \$4.0 million is deferred because the extra production capacity is not needed under present market conditions.

An amount of \$725,000 was disbursed to purchase for cancellation \$383,000 of the 5<sup>3</sup>/<sub>4</sub>% sinking fund debentures at a discount of \$75,700, and \$342,000 of the 11<sup>3</sup>/<sub>4</sub>% sinking fund debentures, including \$228,000 called for sinking fund purposes on July 2, 1977. At December 31, 1977, our long-term debt amounted to \$16,597,500.

The working capital of \$12.8 million at December 31, 1977 was \$1.8 million higher than a year earlier, and the ratio of current assets to current liabilities was unchanged at 1.7:1 at year end. The increase of \$1.2 million in accounts receivable was offset by a corresponding increase of \$1.4 million in accounts payable, reflecting a higher level of activity in December 1977 compared to the end of 1976.

Total inventories of \$14.6 million at December 31, 1977 decreased from \$15.0 million in 1976 and \$15.6 million in 1975, mainly due to improved control in the Wholesale Distribution Division.

---

---

## Financial Statements 1977

---

---

# Consolidated Statement of Income

Year ended December 31

	1977	1976
	(in thousands of dollars)	
Net sales	\$108,785	\$106,591
Cost of sales	92,959	95,498
Gross profit	15,826	11,093
Selling and administrative expenses	11,503	12,209
Depreciation and amortization	1,760	1,839
Interest expense — Note 9	2,184	1,751
	15,447	15,799
Operating profit (loss)	379	(4,706)
Other income	360	546
Profit (loss) before income taxes and minority interest	739	(4,160)
Income taxes — Notes 10 and 11	(300)	1,458
Minority interest in loss	—	157
Earnings (loss) from operations	439	(2,545)
Amortization of excess of consideration over book value of assets acquired — Net of income taxes	(142)	(142)
Dividend income	250	250
Earnings (loss) before extraordinary item	547	(2,437)
Extraordinary item — Note 4	(2,467)	—
Net loss	(1,920)	(2,437)
Dividends on preferred shares	59	59
Net loss applicable to class "A" and "B" shares	\$ (1,979)	\$ (2,496)
<b>Earnings (loss) per share:</b>		
Class "A" shares		
Earnings (loss) before extraordinary item	\$ 0.27	\$ (1.36)
Extraordinary item	(1.34)	—
Net loss	\$ (1.07)	\$ (1.36)
Class "B" shares		
Earnings (loss) before extraordinary item	\$ 0.24½	\$ (1.36)
Extraordinary item	(1.34)	—
Net loss	\$ (1.09½)	\$ (1.36)



## Consolidated Statement of Retained Earnings

Year ended December 31

	1977	1976
	(in thousands of dollars)	
Retained earnings at beginning of year	\$13,126	\$15,622
Net loss for the year	(1,920)	(2,437)
	11,206	13,185
Dividends		
Preferred shares	59	59
Class "A" shares	34	—
	93	59
Retained earnings at end of year	\$11,113	\$13,126

# Consolidated Balance Sheet

At December 31

## Assets

	1977	1976
	(in thousands of dollars)	
<b>Current</b>		
Cash	\$ 2,900	\$ 576
Accounts receivable	12,318	11,086
Income taxes recoverable	—	236
Inventories — Note 2	14,570	15,034
Prepaid expenses	477	334
	<b>30,265</b>	<b>27,266</b>
<b>Grants Receivable — Note 3</b>	<b>1,417</b>	<b>1,584</b>
<b>Investment — Note 4</b>	<i>written down</i> → <b>3,396</b>	<b>5,863</b>
<b>Fixed</b>		
Property, plant and equipment — Note 5	<b>20,697</b>	<b>22,070</b>
<b>Intangibles</b>		
Excess of consideration over book value of assets acquired — Note 7	<b>1,725</b>	<b>1,891</b>
Unamortized debenture issue expense	<b>306</b>	<b>333</b>
		<i>26</i> <i>27</i>
	<b>\$57,806</b>	<b>\$59,007</b>

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

*360*  
*330*  
*34*

**Liabilities**

	1977	1976
	(in thousands of dollars)	
<b>Current</b>		
Bank indebtedness	\$ 7,996	\$ 4,122
Notes payable	—	4,000
Accounts payable and accrued liabilities	9,165	7,809
Long-term debt instalment due within one year	268	285
	<b>17,429</b>	<b>16,216</b>
<b>Long-Term Debt — Note 6</b>	<b>16,597</b>	<b>17,308</b>
<b>Deferred Income taxes</b>	<b>4,105</b>	<b>3,795</b>
<b>Shareholders' Equity</b>		
<b>Capital — Note 8</b>		
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
	<b>8,562</b>	<b>8,562</b>
<b>Retained Earnings</b>		
For use in the business	11,113	13,126
	<b>19,675</b>	<b>21,688</b>
	<b>\$57,806</b>	<b>\$59,007</b>

*Preferred issued in 1946  
redemption value \$104*

*5863 — issued in 1965 ?  
1300 — " " —*

## Consolidated Statement of Changes in Financial Position

Year ended December 31

		1977	1976
		(in thousands of dollars)	
<b>Source of funds</b>	Cash flow from operations — Note 12	\$3,183	\$ —
	Long-term debt	—	187
	Long-term grants receivable	167	—
		<b>\$3,350</b>	<b>\$ 187</b>
<b>Application of funds</b>	Cash flow applied to operations — Note 12	—	1,979
	Long-term grants receivable	—	138
	Additions to fixed assets — net	760	3,889
	Long-term debt reduction	711	369
	Dividends	93	59
	<b>1,564</b>	<b>6,434</b>	
<b>Increase (decrease) in Working Capital</b>		<b>1,786</b>	<b>(6,247)</b>
		<b>\$3,350</b>	<b>\$ 187</b>

## Changes in Components of Working Capital

Year ended December 31

		1977	1976
		(in thousands of dollars)	
Increase (decrease) in Current Assets	Cash	\$ 2,324	\$ 386
	Accounts receivable	1,232	(3,546)
	Income taxes recoverable	(236)	(1,842)
	Inventories	(464)	(565)
	Prepaid expenses	143	55
		2,999	(5,512)
Increase (decrease) in Current Liabilities	Bank indebtedness	3,874	852
	Notes payable	(4,000)	3,000
	Accounts payable and accrued liabilities	1,356	(3,298)
	Long-term debt instalment due within one year	(17)	181
		1,213	735
Increase (decrease) in Working Capital		\$ 1,786	\$ (6,247)
Working Capital at End of Year		\$12,836	\$11,050

# Notes to Consolidated Financial Statements

## December 31, 1977

### Note 1 Significant Accounting Policies

#### Principles of Consolidation

The consolidated financial statements include the accounts of Rolland Paper Company, Limited, its wholly-owned subsidiaries, The Wilson-Munroe Company Limited, and Fine Papers, Limited, and a 60% owned subsidiary 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 certain 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 125,000 common shares of Consolidated-Bathurst Limited is not considered by the Company to be of a current nature. Effective in 1977, it is carried at cost less write-down for decline in value.

#### Property, Plant and Equipment

Depreciation of buildings and machinery and equipment is provided using the straight-line method in the parent company and the diminishing balance method in the subsidiary companies. Leasehold improvements are amortized on a straight-line basis over the terms of the leases. Additions are recorded at cost. Government grants related to capital expenditures are deducted from the respective fixed assets. At the time of disposition of property, plant and equipment, the Company removes from the accounts the cost of the assets and the related accumulated depreciation. Gains or losses on the disposition of these assets are included in income. Interest incurred to finance construction in progress is included as a cost of the respective fixed assets.

#### Intangibles

Excess of consideration represents the excess of the purchase price over the book value of the net tangible assets of The Wilson-Munroe Company Limited and the Wholesale Distribution Division of Kruger Pulp and Paper Limited at date of acquisition.

The excess relating to the acquisition of shares of The Wilson-Munroe Company Limited is amortized on a straight-line basis over five years commencing in 1973 while the excess relating to the acquisition of the assets of the Wholesale Distribution Division of Kruger Pulp and Paper Limited is amortized on a straight-line basis over twenty years commencing in 1975.

The unamortized debenture issue expense is amortized over the life of the 11 $\frac{3}{4}$ % Sinking Fund Debentures, Series B issue 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 than for tax purposes. Deferred income taxes represent the amount by which taxes on accounting income exceed taxes paid or payable on taxable income. The income tax effect to be realized from applying losses for tax purposes against future earnings is reflected in the deferred tax balance. The investment tax credits relating to capital expenditures are accounted for as a reduction in income taxes 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. The 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 to the class "A" and class "B" shares.

		1977	1976
		(in thousands of dollars)	
<b>Note 2</b>			
<b>Inventories</b>			
	Raw materials, wires, felts and supplies	\$ 2,878	\$ 2,973
	Repair parts and maintenance materials	918	862
	Finished paper and paper in process	10,774	11,199
		<b>\$14,570</b>	<b>\$15,034</b>

**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.

**Note 4**  
**Investment**

In accordance with the recommendations of the Canadian Institute of Chartered Accountants, the investment, consisting of 125,000 common shares of Consolidated-Bathurst Limited, has been written down as at December 31, 1977 to recognize a reduction in its economic value to the Company as follows:

*Invest.  
taken in 1965.*

		1977	1976
		(in thousands of dollars)	
	Cost	\$5,863	\$5,863
	Write-down shown as extraordinary item	(2,467)	—
	Value as at December 31	<b>\$3,396</b>	<b>\$5,863</b>

The investment had a quoted market value of \$2,719,000 at December 31, 1977; \$3,594,000 at the end of 1976.

<b>Note 5</b> <b>Property, Plant and Equipment</b>	Cost	Accumulated Depreciation	Net	Net
			1977	1976
(in thousands of dollars)				
Land	\$ 439	\$ —	\$ 439	\$ 439
Buildings	8,253	4,195	4,058	4,141
Leasehold improvements	437	362	75	82
Machinery and equipment	33,462	21,787	11,675	12,613
Construction in progress	4,450	—	4,450	4,795
	<b>\$47,041</b>	<b>\$26,344</b>	<b>\$20,697</b>	<b>\$22,070</b>

Construction in progress has been suspended July 1, 1976. Construction in progress has been written down by \$400,000 in 1977 to reflect physical deterioration since suspension of work. It is estimated that an amount of approximately \$4,000,000 will be required to complete the construction.

Note 6 Long-Term Debt			1977	1976	
			(in thousands of dollars)		
Sinking Fund Debentures — Series A 5¾% due July 2, 1984	\$ 7,500				
Deduct:					
Debentures redeemed and cancelled including \$483,000 in anticipation of future Sinking Fund Requirements	2,283		\$ 5,217	\$ 5,600	
Sinking Fund Debentures — Series B 11¾% due July 2, 1995	12,000				
Deduct:					
Debentures redeemed and cancelled including \$60,000 in anticipation of future Sinking Fund Requirements	535		11,465	11,807	
			16,682	17,407	
Mortgage — 12% due June 15, 1996			183	186	
			16,865	17,593	
Deduct:					
Instalment due within one year included in current liabilities			268	285	
			\$16,597	\$17,308	
Principal repayments for the next five years					
	1978	1979	1980	1981	1982
11¾% Sinking Fund Debentures	\$265	\$325	\$325	\$325	\$325
5¾% Sinking Fund Debentures	—	117	500	500	500
Mortgage	3	3	4	4	5
	\$268	\$445	\$829	\$829	\$830

The declaration of dividends and the redemption of preferred shares of the Company are restricted if such declaration or redemption results in a reduction of working capital of the Company to an amount less than \$2,000,000 for so long as the Series A Debentures are outstanding. Such declaration and redemption will be further restricted for so long as the Series B Debentures are outstanding if such declaration or redemption would result in a reduction of the consolidated working capital of the Company and its designated subsidiaries to an amount less than \$3,000,000. The consolidated working capital of the Company as at December 31, 1977 was \$12,836,000.



		1977	1976
		(in thousands of dollars)	
<b>Note 7</b>			
<b>Excess of Consideration</b>			
	Excess arising on the purchase of shares of The Wilson-Munroe Company Limited	\$ 331	\$ 331
	Excess arising on the purchase of the assets of the Wholesale Distribution Division of Kruger Pulp and Paper Limited	2,000	2,000
		<b>2,331</b>	<b>2,331</b>
	Accumulated amortization	606	440
		<b>\$1,725</b>	<b>\$1,891</b>

**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.

		1977	1976
		(in thousands of dollars)	
<b>Note 9</b>			
<b>Interest Expense</b>			
	Interest on long-term debt	\$1,700	\$1,726
	Interest on short-term debt	484	514
		<b>2,184</b>	<b>2,240</b>
	Less: amount charged to construction in progress	—	489
	Interest expense	<b>\$2,184</b>	<b>\$1,751</b>

The amount of interest charged to construction in progress relates to major construction projects which were financed by specific borrowings.

On July 1, 1976 capitalization of interest on construction in progress was discontinued as the installation of the equipment has been deferred.

**Note 10**  
**Income Taxes**

The provision for income taxes for the current year has been calculated after deducting \$181,200 related to the 3% inventory allowance.

There are cumulative losses for tax purposes of the parent company and the subsidiaries totalling \$3,030,600 at December 31, 1977 which may be applied against future earnings, until 1982.

The reduction in income taxes to be realized by applying these losses against future earnings is reflected in deferred income taxes except for the cumulative loss of \$1,191,000 incurred by a subsidiary. The potential tax reduction in this case is not recorded because the timing of its ultimate realization is still uncertain.

Accelerated capital cost allowances of \$5,758,000 were not claimed in arriving at the total loss of \$3,030,600 mentioned above and these allowances are available for use in full in any future year.

**Note 11**  
**Investment**  
**Tax Credit**

Expenditures amounting to \$623,700, \$3,994,100 and \$3,614,500 during the years 1977, 1976 and 1975 respectively were eligible for the federal investment tax credit. The investment tax credits amounting to \$28,700 for 1977, \$199,700 for 1976 and \$180,600 for 1975 are available until 1982, 1981 and 1980 respectively to reduce the taxes otherwise payable.

**Note 12**  
**Cash Flow from**  
**(Applied to) Operations**

	1977	1976
	(in thousands of dollars)	
Earnings (loss) before extraordinary item	\$ 547	\$(2,437)
Add (deduct) non-cash items:		
Depreciation and amortization	1,926	2,005
Write-down of construction in progress	400	—
Deferred income taxes	310	(1,390)
Minority interest in loss	—	(157)
	<b>\$3,183</b>	<b>\$(1,979)</b>

**Note 13**  
**Long-Term Leases**

The Company's commitments under lease agreements of various terms for property and equipment aggregate \$3,607,000 at December 31, 1977. The annual rentals in 1978 under these leases will be \$706,800.

**Note 14  
Pension Plans**

The actuarial valuation of the plan of the parent Company as at December 31, 1976 established an unfunded liability of \$208,000 for prior years' services. This amount should be funded by minimum annual payments of \$21,000 from 1977 to 1991. An amount of \$42,000 was paid in 1977. The other pension plan is fully funded as at December 31, 1977.

**Note 15  
Directors'  
and Officers'  
Remuneration**

	1977		1976	
	12 Directors	11 Officers	12 Directors	11 Officers
Remuneration paid	\$37,200	\$432,500	\$41,800	\$445,900

Three Officers were also Directors of the Company in 1977 and 1976.

**Note 16  
Anti-Inflation Act**

The Company is subject to the Anti-Inflation Act (which became effective October 14, 1975) under which the Federal Government has instituted a program of controls which limit or require justification for most increases in prices, compensation and dividends. In the opinion of management, the Company has adhered to the provisions of the legislation and therefore the Company has no material liability under the provisions of the Act.

**Auditors' Report  
to the Shareholders**

We have examined the consolidated balance sheet of Rolland Paper Company, Limited as at December 31, 1977 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, 1977 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 15, 1978

## Ten-Year Comparative Statistics

		1977
<b>Sales and Earnings</b> (in thousands of dollars)	Net sales	\$108,785
	Depreciation and amortization	1,760
	Interest expense	2,184
	Earnings (loss) before income taxes and minority interest	739
	Income taxes	300
	Minority shareholders' interest	—
	Earnings (loss) from operations	439
	Dividend income	250
	Amortization of goodwill	(142)
	Earnings (loss) before extraordinary items	547
	Extraordinary items	(2,467)
	Net earnings (loss)	(1,920)
	Cash flow	3,183
	Percentage of earnings (loss) from operations to net sales	0.4%
*Percentage of net earnings (loss) to capital employed	4.4%	
<b>Distribution of Earnings</b> (in thousands of dollars)	Dividend on preferred shares	\$ 59
	Dividend on class "A" and "B" shares	34
	Retained in the business (deficiency)	(2,013)
<b>Per Share**</b>	Per class "A" share	
	Earnings (loss) before extraordinary items	\$ 0.27
	Extraordinary items	(1.34)
	Net earnings (loss)	(1.07)
	Dividend	0.02½
	Cash flow	1.70
	Book value per class "A" and "B" shares	9.90
	Price range for class "A" shares — high	5.38
— low	3.55	
<b>Financial</b> (in thousands of dollars)	Net assets:	
	Working capital	\$ 12,836
	Investment in securities	3,396
	Fixed assets, net	20,697
	Other assets	3,448
	Capital employed	40,377
	Financed by:	
	Long-term debt	\$ 16,597
	Deferred income taxes	4,105
	Minority shareholders' interest	—
Preferred shareholders' equity	1,399	
Class "A" and "B" shareholders' equity	18,276	
Total capitalization	40,377	
Ratio of current assets to current liabilities	1.7:1	
Capital expenditures	\$ 783	
<b>Other Statistics</b>	Number of shareholders at end of year	1,760
	Average number of employees	1,383

\*Percentage of net earnings (loss) to capital employed =  $\frac{\text{Earnings (loss) before extraordinary items} + \text{interest, after tax}}{\text{Capital employed}}$

\*\*Earnings (loss) before extraordinary items, net earnings, dividend and cash flow per class "B" share are 5 cents less than per class "A" share except in 1970 and in 1977 when the differential is 4 cents and 2½ cents respectively, and in 1971 and 1976 when there is no differential.

1976	1975	1974	1973	1972	1971	1970	1969	1968
\$106,591	\$99,763	\$83,228	\$61,130	\$46,437	\$41,555	\$34,085	\$35,647	\$34,903
1,839	1,702	1,522	1,534	1,313	1,292	1,257	1,207	1,217
1,751	932	354	402	436	459	484	520	544
(4,160)	(310)	8,855	4,899	2,483	270	(808)	2,855	2,520
(1,458)	(353)	3,782	2,270	1,094	120	(324)	1,444	1,239
(157)	(11)	—	—	—	—	—	—	—
(2,545)	54	5,073	2,629	1,389	150	(484)	1,411	1,281
250	250	281	—	—	—	62	125	125
(142)	(122)	(66)	—	—	—	—	—	—
(2,437)	182	5,288	2,629	1,389	150	(422)	1,536	1,406
—	—	—	64	—	—	—	—	—
(2,437)	182	5,288	2,693	1,389	150	(422)	1,536	1,406
(1,979)	3,044	7,259	4,239	2,555	1,089	586	2,666	2,487
(2.4%)	0.1%	6.1%	4.3%	3.0%	0.4%	(1.4%)	4.0%	3.7%
(3.4%)	1.5%	15.3%	9.1%	5.4%	1.3%	(0.6%)	5.6%	5.3%
\$ 59	\$ 59	\$ 59	\$ 59	\$ 60	\$ 60	\$ 60	\$ 60	\$ 60
—	1,080	1,099	620	160	—	534	712	712
(2,496)	(957)	4,130	2,014	1,169	90	(1,016)	764	634
\$ (1.36)	\$ 0.08	\$ 2.85	\$ 1.41	\$ 0.73	\$ 0.05	\$ (0.25)	\$ 0.82	\$ 0.74
—	—	—	0.03	—	—	—	—	—
(1.36)	0.08	2.85	1.44	0.73	0.05	(0.25)	0.82	0.74
—	0.60	0.61	0.35	0.10	—	0.30	0.40	0.40
(1.11)	1.64	3.93	2.28	1.37	0.56	0.30	1.43	1.33
11.00	12.35	12.87	10.63	9.53	8.90	8.85	9.40	8.99
7.88	8.25	10.00	10.75	7.88	4.50	7.00	10.13	8.88
3.60	5.25	7.00	6.75	3.10	2.30	3.65	5.13	6.25
\$ 11,050	\$17,297	\$14,445	\$11,443	\$ 9,649	\$ 8,385	\$ 7,751	\$ 9,901	\$ 9,735
5,863	5,863	5,863	5,863	5,863	5,863	5,863	5,863	5,863
22,070	19,993	15,434	13,874	14,008	14,758	15,780	15,934	16,176
3,808	3,863	199	265	589	589	589	257	—
42,791	47,016	35,941	31,445	30,109	29,595	29,983	31,955	31,774
\$ 17,308	\$17,490	\$ 6,645	\$ 6,662	\$ 7,393	\$ 7,901	\$ 8,025	\$ 8,751	\$ 9,256
3,795	5,185	4,155	3,772	3,696	3,842	4,196	4,426	4,503
—	157	—	—	—	—	—	—	—
1,399	1,399	1,399	1,399	1,422	1,422	1,422	1,422	1,422
20,289	22,785	23,742	19,612	17,598	16,430	16,340	17,356	16,593
42,791	47,016	35,941	31,445	30,109	29,595	29,983	31,955	31,774
1.7:1	2.1:1	2.8:1	2.7:1	2.9:1	3.1:1	2.3:1	3.5:1	4.2:1
\$ 4,099	\$ 7,720	\$ 3,300	\$ 1,550	\$ 636	\$ 297	\$ 694	\$ 841	\$ 1,261
1,862	1,933	1,991	2,066	2,256	2,320	2,377	2,330	2,330
1,497	1,454	1,404	1,410	1,294	1,285	1,289	1,288	1,325

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/m<sup>2</sup>  
The interior pages are printed on Renaissance,  
White, 200M/148 g/m<sup>2</sup> and on Rolland Tints,  
African Tan, 140M/104 g/m<sup>2</sup>  
Printed in Canada.



