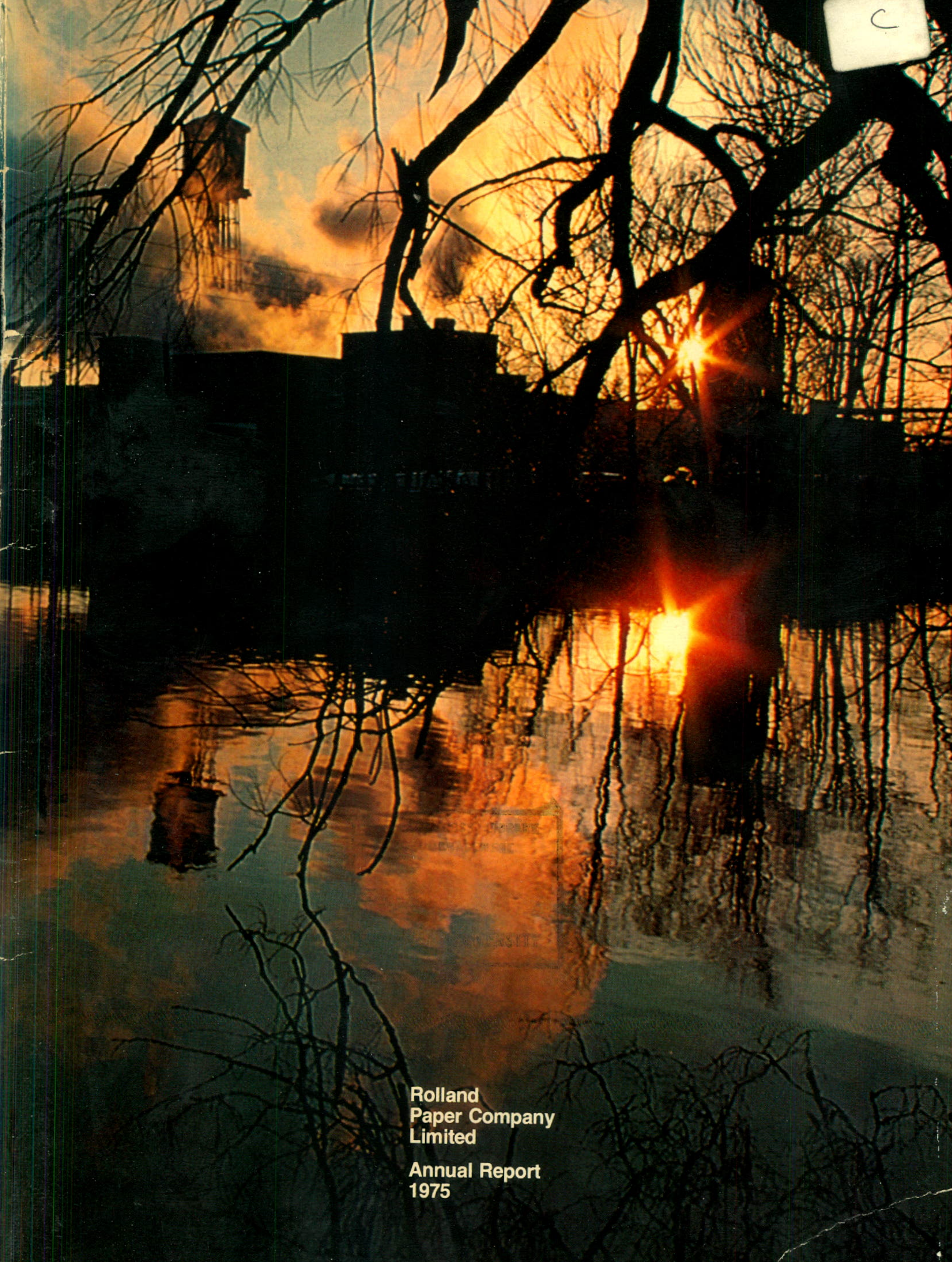

Rolland
Paper Company
Limited

Annual Report
1975

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48th Annual Report

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The Annual General Meeting of Shareholders will be held at the Head Office of the Company, 800 Victoria Square, Suite 3620, Montreal, P.Q. at 11:00 a.m., April 29, 1976.

Si vous préférez recevoir votre rapport annuel en français, prière d'écrire au Secrétaire, Compagnie de Papier Rolland, Limitée, 800, Place Victoria, Suite 3620, Montréal, P.Q. H4Z 1H3.

Rolland Paper Company, Limited
Papermaking Specialists

Head Office:
800 Victoria Square, Suite 3620
Montreal, P.Q. H4Z 1H3.

Sales Offices:
Montreal and Toronto

Paper Mills:
St. Jerome and Mont Rolland, P.Q. and Scarborough, Ontario

Rolland

Cover:
The St. Jerome mill, late fall 1975.

Directors

Hon. John B. Aird, Q.C.
Senior Partner, Aird, Zimmerman & Berlis, Barristers and Solicitors
Toronto

*G. Drummond Birks
President, Henry Birks & Sons Limited
Montreal

**Paul Chapdelaine
Company Director
Montreal

**Roger Charbonneau
President
Anglo-French Laboratories Limited
Montreal

E. Jacques Courtois, Q.C.
Partner, Weldon, Courtois, Clarkson, Parsons & Tétrault
Barristers and Solicitors
Montreal

Richard A. Irwin
Chairman of the Board
Consolidated-Bathurst Limited
London, Ontario

*Gérard Plourde
Chairman of the Board, UAP Inc.
Montreal

*Albert Rolland
Vice-President and Marketing Consultant
Rolland Paper Company, Limited
Laval

*Lucien G. Rolland
President and General Manager
Rolland Paper Company, Limited
Montreal

Marc Rolland
Retired Executive
St. Jerome

Pierre A. Salbaing
President and Managing Director
Canadian Liquid Air Limited
Montreal

***Joseph A. Weldon, M.B.E., M.C.
Vice-President and Financial Consultant
Rolland Paper Company, Limited
Montreal

**Member of the Executive Committee*
***Member of the Audit Committee*

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

Hugh M. Craig
Vice-President

Michel Gagnon
Executive Vice-President
Wholesale Distribution Division

Bruno Julien
Vice-President
Human Resources and Industrial Relations

Alphonse St-Jacques
Vice-President and Treasurer

Jean A. Elie
Secretary and Director of Marketing Services

Yvan Duchesne
Controller

Transfer Agents
Montreal Trust Company
The Royal Trust Company

Registrars
Canadian Trust Company
Bankers Trust Company

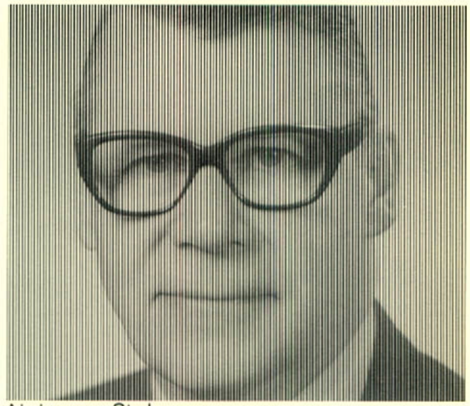
Shares Listing
Montreal Stock Exchange
Toronto Stock Exchange

Auditors
Touche Ross & Co.


Lucien G. Rolland

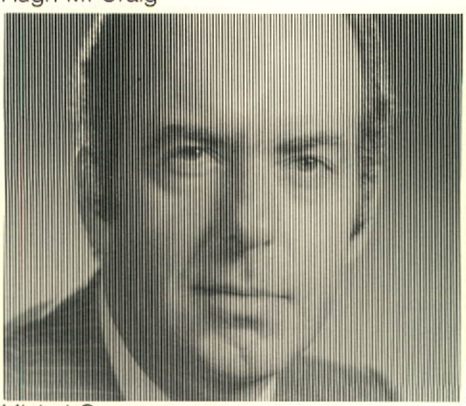

Bruno Julien


Jean-Louis Chollet


Alphonse St-Jacques


Hugh M. Craig


Jean A. Elie


Michel Gagnon


Yvan Duchesne

Highlights

	1975	1974
Net sales	**$99,763,000**	$83,228,000
Net earnings	**182,000**	5,288,000
Per class "A" share	**0.08**	2.85
Per class "B" share	**0.03**	2.80
Dividends on class "A" and "B" shares	**1,080,000**	1,099,000
Per class "A" share	**0.60**	0.61
Per class "B" share	**0.55**	0.56
Cash Flow from operations	**3,044,000**	7,259,000
Per class "A" share	**1.64**	3.93
Per class "B" share	**1.59**	3.88
Book Value per class "A" and "B" shares	**12.35**	12.87
Working Capital	**17,297,000**	14,445,000
Long-term Debt	**17,490,000**	6,645,000
Capital Expenditures	**7,720,000**	3,300,000

Fine Papers Division:

The Fine Papers Division consists of the paper manufacturing operations in St. Jerome and Mont Rolland, the coating operations in Scarborough, Ontario, and the marketing of the product lines manufactured in these locations.

Wholesale Distribution Division:

Kruger Fine Paper Wholesale
Montreal
Toronto
Quebec
Ottawa

Fine Papers, Limited
Toronto
Sudbury

The Wilson-Munroe Company
Toronto
Montreal

Directors' Report to Shareholders

Sales and Earnings

Consolidated net sales were $99.8 million compared to $83.2 million in the previous year. Net earnings were $182,000 or $0.08 per class "A" share and $0.03 per class "B" share as against $5.3 million or $2.85 and $2.80 per class "A" and class "B" share respectively in 1974.

These results are very disappointing. Sales were higher as a result of including those of the Kruger Fine Paper Wholesale Distribution Division for the first time. Both tonnage and profit margins decreased. Weaker market conditions and strikes in the industry during the last quarter resulted in a substantial inflow of cheaper imported products. This prevented the fine paper division from recovering, through price increases, higher production costs. As far as the wholesale distribution division was concerned, the absorption of the Kruger fine papers division necessitated an extensive reorganization.

Economic Environment

Canada experienced its worst recession since the thirties. Inflation reached 11.9%. Unemployment hit 9%, and interest rates on long-term corporate borrowings varied between 10½ and 12%. When compared to 1974, total Canadian apparent consumption of fine papers decreased by 18%, mainly as a result of this depressed economic environment and liquidation of large inventories built up last year throughout the trade. As the illusory shortage disappeared, the low turnover rate and the high carrying cost of inventories became apparent. In the last quarter of 1974, the high level of purchasing by distributors, printers and converters gave way to an abrupt and substantial decrease in orders. By December 1974, manufacturers were forced to curtail operations. For the first nine months of 1975, Canadian mills operated at a much lower capacity.

During the latter part of the third quarter however, events changed dramatically. The manufacturing operations of all mills aside from those of your Company were shut down following a strike by mill employees, members of the Canadian Paperworkers Union, negotiating new collective agreements. These strikes have been the most extensive and prolonged in the industry's history, some lasting more than six months. At its height, more than 40,000 tons of monthly fine paper capacity stood idle. Even though your Company's mills were operating at full capacity and we endeavoured to satisfy the needs of Canadian fine paper consumers, Canadian manufactured paper became scarce. Distributors and converters were forced to import foreign products, mainly manufactured in the U.S.A. For the year 1975, imports accounted for nearly 30% of Canadian consumption as compared with 14.8% in 1974. The level at year-end was much higher and this will have a disrupting short-term effect on the Canadian market when operations resume.

The closing down of approximately 80% of the Canadian fine paper industry could not have come at a more

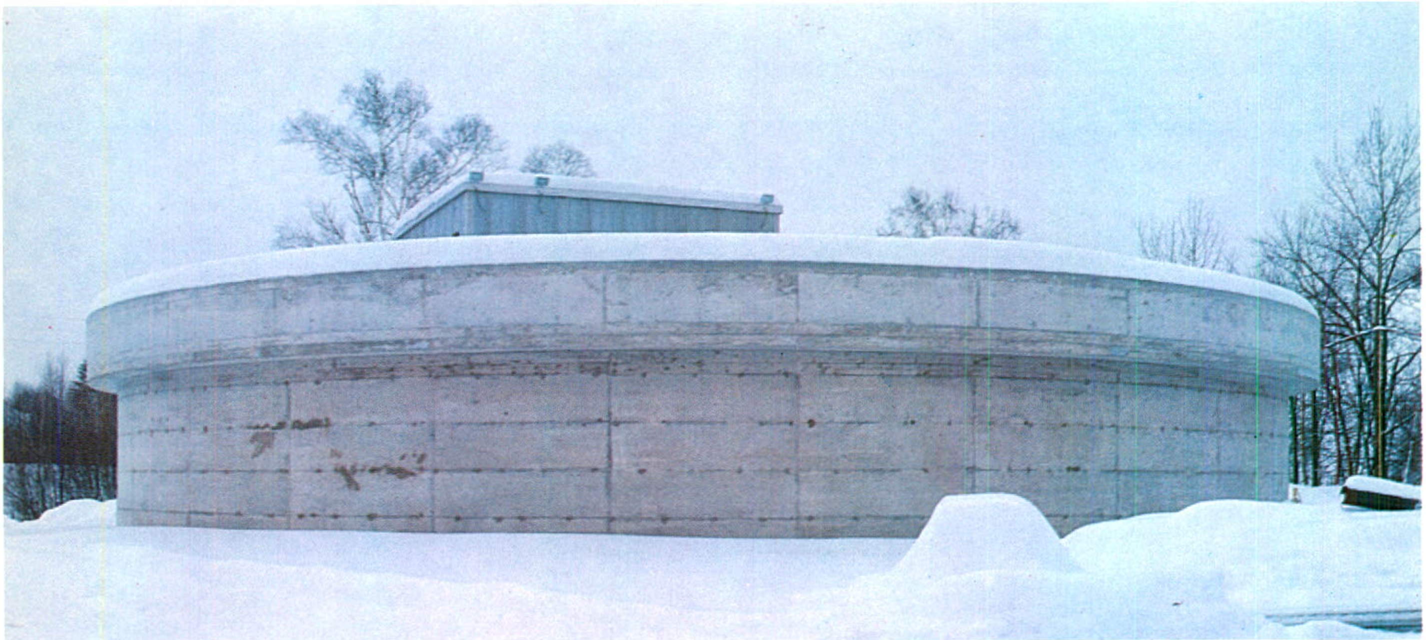
The Wholesale Distribution Division was substantially strengthened by the addition of Kruger Fine Paper Wholesale.

Through its warehouses and sales offices in Montreal, Toronto, Quebec City and Ottawa, Kruger Fine Paper Wholesale enjoys a sizeable share of the Ontario and Quebec markets.

favourable time for the American mills as the fine paper demand in the U.S.A. was approximately 18% lower than in 1974. Accordingly, their mills were operating below capacity and there had not been major price increases since the beginning of their control period. With the economies of scale inherent in the American fine paper industry and the help of a strong Canadian dollar, American producers were able to fill all the Canadian needs and, in some cases, offer in spite of tariffs cheaper prices to Canadian customers, some of which we naturally had to meet.

Such an environment was a very difficult one for your Company. Inflationary pressures pushed up its costs of labour, raw materials and fuel by more than $8 million. Labour rates in our industry are now 20% higher than in the fine paper industry in the U.S.A., the prices of Canadian bleached kraft pulps are from $30 to $35 per ton higher than similar grades in the U.S.A. and no paper price increase has been possible since November 1974. These factors have all but eliminated our profit margins for the time being.

As part of the capital expenditure program to modernize the Mont Rolland mill, new effluent treatment facilities have been constructed.



Fine Papers Division

This division consists of the paper manufacturing operations in St. Jerome and Mont Rolland, the coating operations in Scarborough, Ontario, and the marketing of the product lines manufactured in these locations.

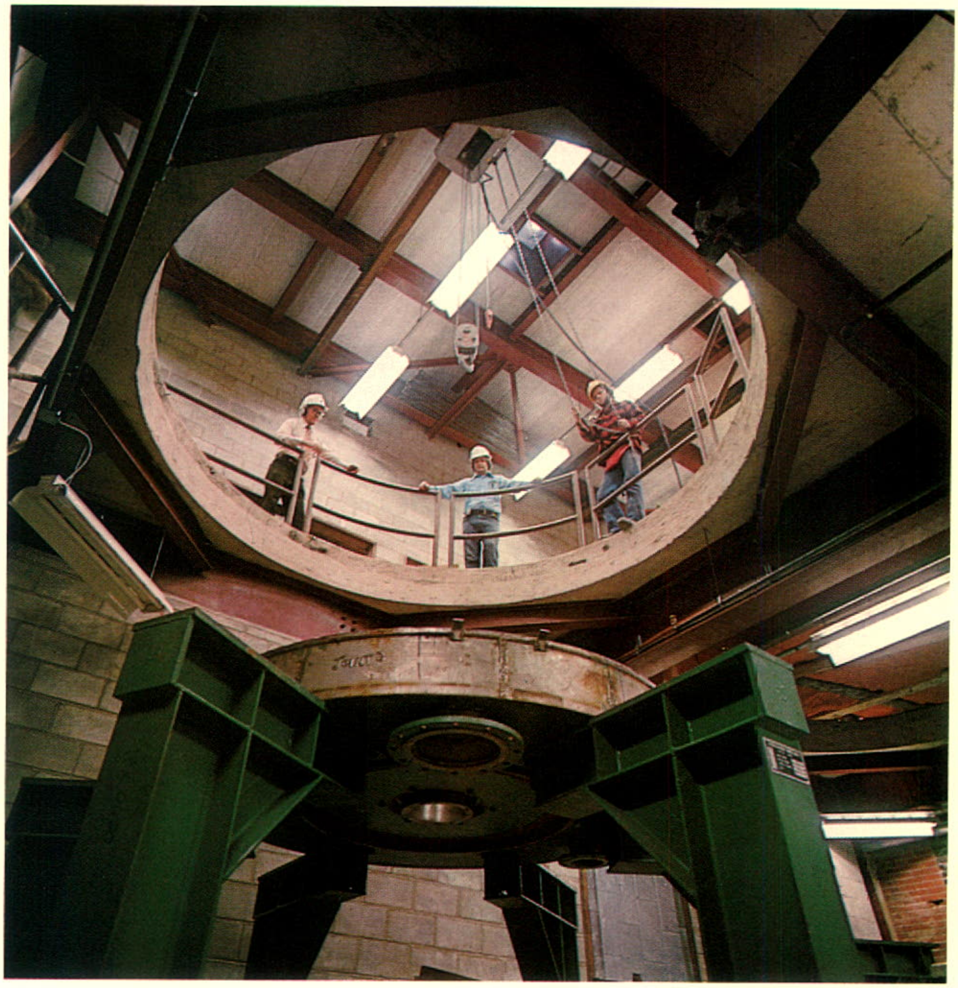
For the first nine months, our mills operated at less than 75% capacity, with coating operations being more seriously affected by the economic down-turn. As of September, however, the strikes in the rest of the industry resulted in seven day operations in our mills.

We were faced with an unprecedented level of orders from our own customers as well as those of our competitors. Delivery dates lengthened. Some grades were purchased and converted elsewhere. All in all, production was 16% lower than in 1974 but, when taking into account purchased paper, shipments were 8% lower than in 1974. Some price increases not in effect during the entire year 1974 were reflected throughout 1975. Overall, sales revenues were 3% lower than in 1974 and the division operated at a slight loss.

The lower level of demand, the lower cash flow and strikes prompted us to postpone the final phase of the speed-up of paper machine no. 8 in St. Jerome. The $4 million modernization program at the Mont Rolland plant however has been pursued. It includes the construction of two new buildings housing an enlarged stock preparation area for paper production as well as a new clarifier to clean the effluent from the mill. Both facilities will be in operation during the first half of 1976. These investments reflect a policy decision to gradually specialize the Mont Rolland plant in the manufacture of industrial papers. The first phase consists of the production of base paper for use in decorative laminates which are found in wall panelling, kitchen counters, furniture, etc. Technical know-how was purchased under an agreement with Wiggins Teape of England. It is expected that trial runs will take place before the summer of 1976 and that regular marketing of the products will start in the fall of the same year.

1975 also witnessed a major restructuring of the division's marketing organization. Three new marketing managers were appointed, each responsible nationally for all aspects of marketing in the following areas: Printing Papers, Converting Papers and Business Papers. The first group includes the marketing of all coated and uncoated printing papers to the commercial printing, publishing and

A new building housing an enlarged stock preparation area is now being completed.

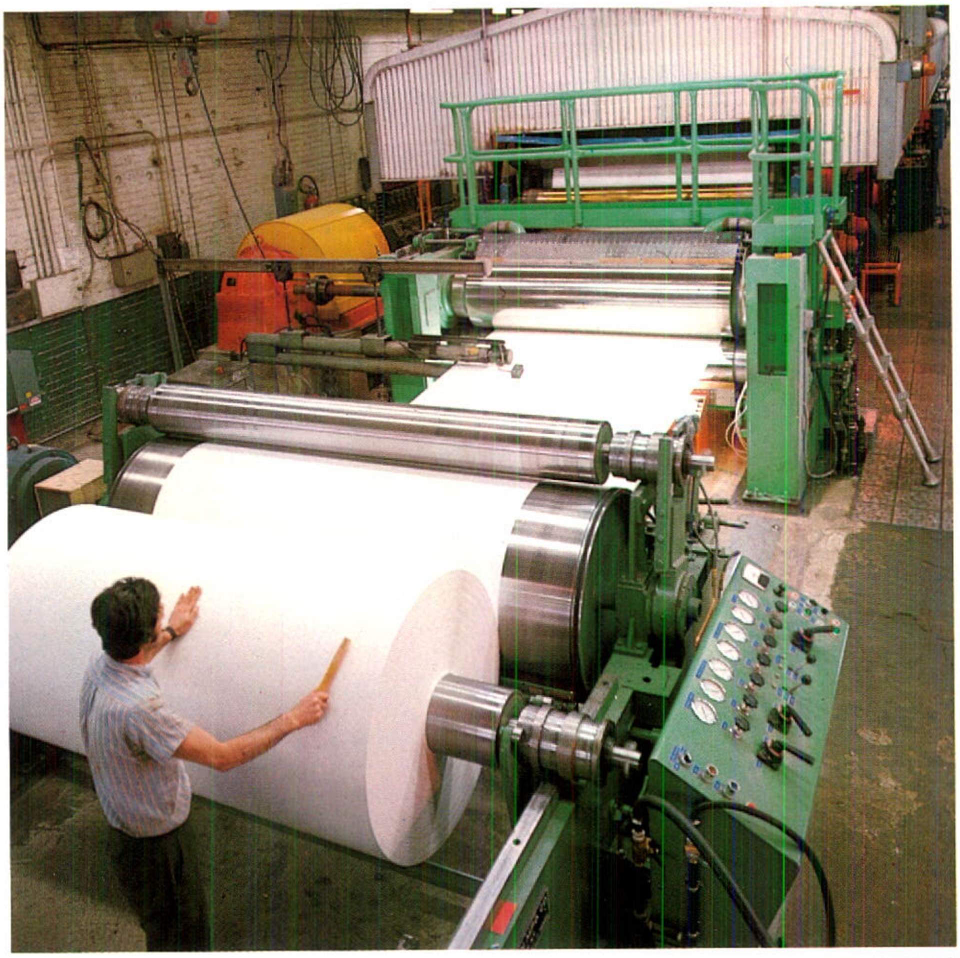


security paper markets. The second pertains to converting papers used by the envelope, continuous form, cheque and greeting card markets. Finally, the copy, duplicating, letterhead and business stationery markets fall under the Manager, Business Papers.

Traditionally your Company thought in terms of the types of products its mills could produce. After a careful and in-depth analysis, we came to the conclusion that the end usage of our products varied so much from one market to the other, that the new structure was a logical answer to fully satisfy the customers' needs. Rolland is believed to be the first Canadian fine paper company to restructure its marketing organization in line with this concept.

The integration of the operations of the Coated Papers Division into the Fine Papers Division helped the implementation of this decision.

The Mont Rolland plant is being gradually converted to the manufacturing of industrial papers.



The first phase in this specialization at Mont Rolland concerns the production of base paper for use in decorative laminates, which can be found in wall panelling, kitchen counters and furniture.

Wholesale Distribution Division

On May 29, 1975, with retroactive effect to March 31, 1975, the Company through its wholly owned subsidiary, Fine Papers, Limited, purchased from Kruger Pulp and Paper Limited, the assets of their wholesale fine paper distribution division. The price was $10.3 million consisting of $9.3 million in cash and a promissory note of $1 million due in twelve months.

The aggregate amount included $8.3 million for the book value of accounts receivable, inventories, fixed assets and prepaid expenses and an amount of $2 million for goodwill.

Through its warehouses and sales offices in Montreal, Toronto, Quebec City and Ottawa, the Kruger division enjoyed a sizeable share of the Ontario and Quebec markets.

Your Company already owned two other wholesale distributors: Fine Papers, Limited, with sales outlets in Toronto and Sudbury, Ontario, and The Wilson-Munroe Company with outlets in Toronto and Montreal. This acquisition thus substantially strengthened the wholesale distribution division's position in Eastern Canadian markets.

Since the acquisition, the Kruger division operates under the name Kruger Fine Paper Wholesale and, as with other distributors, sells and stocks a wide range of fine paper products, including those manufactured by your Company. The acquisition required an extensive and costly reorganization.

This, added to the weak economic environment and increased operating and financial expenses, caused profit margins to decrease substantially for the division as a whole.

Orchard Decor Canada Limited

On September 11, 1975, your Company jointly with The Orchard Corporation of America, formed a new federal corporation: Orchard Decor Canada Limited. Your Company purchased for $252,000, 60% of the shares of this venture.

The new company supplies heat transfer papers, printed saturating papers, printed vinyls, inhibitor papers and resin impregnated transformer insulating papers. These are used in such industries as textile, wall coverings, home furnishings, packaging and others.

Since its inception, Orchard Decor Canada Limited has sold lines produced in the United States by The Orchard Corporation of America. However, it is expected that by June 1976, some of these products will be produced in a plant which the Company has recently purchased in the city of Granby, Quebec.

Financial

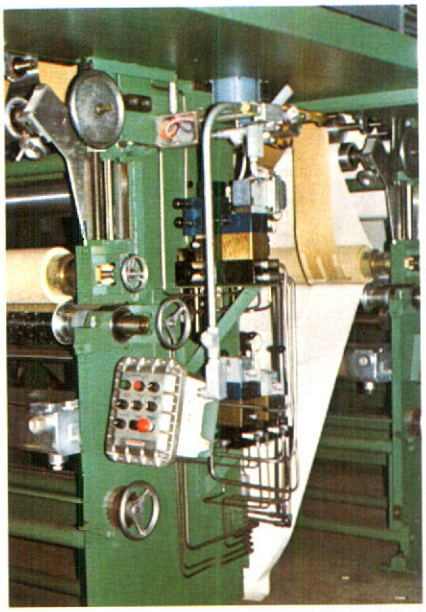
The Company issued on July 15, 1975, $12 million Series B Sinking Fund Debentures, 11¾%, maturing July 2, 1995. Net proceeds from the issue of $11,627,000 were used to repay bank loans incurred for financing the Kruger acquisition, and for part of our capital expenditures program.

The balance of the 4½% sinking fund bond issue of $189,500 matured and was retired on January 2, 1975. The sinking fund requirements of the 5¾% debentures series A have been satisfied for the next two years.

The cash flow from operations of $3 million or $1.64 per class "A" share in 1975 is down from $7.3 million or $3.93 per class "A" share last year, due to the lower net earnings.

The working capital of $17.3 million at December 31, 1975 was $2.9 million higher than last year. The ratio of current assets to current liabilities stood at 2.1:1 at year-end. Current assets increased by $10.1 million and current liabilities by $7.3 million mainly due to the acquisition of the

Rolland holds 60% of the shares of Orchard Decor Canada Limited. It is expected that by June 1976 many products, including heat transfer papers, will be produced in its new plant in Granby.



With the heat transfer process, patterns on specially treated paper are printed onto cloth.

Because of this process, textile manufacturers can offer their clients numerous products of varied colours and motifs.

Kruger division. Inventories in all other divisions were reduced by $2.5 million.

The larger part of the income taxes recoverable which amount to $2.1 million arose from claiming capital cost allowances in excess of depreciation recorded in the accounts.

Capital expenditures were $7.7 million in 1975, compared with $3.3 million the previous year. The largest disbursements were made for the speed-up of no. 8 paper machine in St. Jerome, the modification to the no. 4 paper machine used in the production of industrial papers and the construction of the effluent treatment plant in Mont Rolland. An additional amount of $4.5 million will be spent in 1976 to complete these projects.

Government grants of $1.6 million relating to the above projects were credited to fixed assets. Interest of $433,000 in connection with construction in progress was capitalized.

The rate of return on capital employed of 0.4% in 1975 is the lowest in the last twenty-six years, excluding the loss suffered in 1970. The capital employed of the Company increased by 50% from $31.4 million in 1973 to $47 million at the end of 1975, thus establishing a larger profit base which should be of benefit when more normal economic conditions return.

The Company is subject to the Anti-Inflation Act which became effective on October 14, 1975. The Company is supporting the Anti-Inflation program and will co-operate to make it effective in order to reduce the rate of inflation in Canada. The Canadian Pulp and Paper Association has submitted a brief to the Government requesting changes in the present regulations which can be damaging and even punitive to some Canadian paper companies during the three year control period.

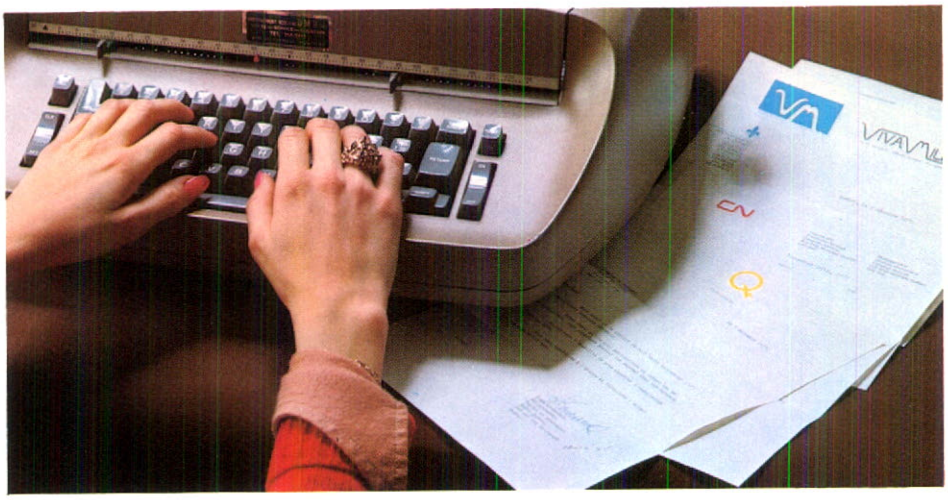
Dividends

The regular quarterly dividend rate of $0.15 per class "A" share and $0.13¾ per class "B" share set in the fourth quarter of 1974, was maintained throughout 1975. The total rate paid in 1975 was $0.60 and $0.55 per class "A" and per class "B" share respectively. Total dividend disbursements, including preferred dividends, were $1,139,000.

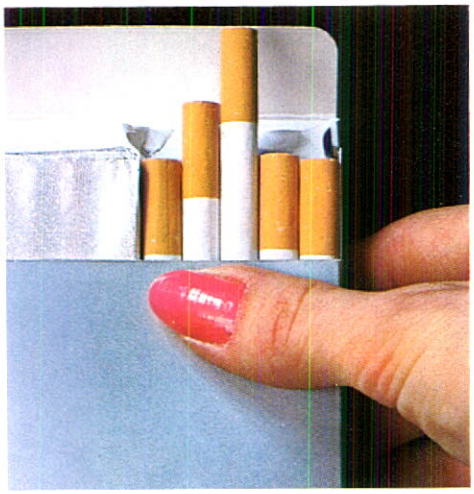
Your Directors decided on February 6, 1976 to omit payment of the regular quarterly dividend normally payable on March 15 to the class "A" and class "B" shareholders. This decision was taken in the light of the overall financial results for the year, the still uncertain outlook following the settlement of the strikes in the industry and the outlays required by the capital expenditure program. The regular quarterly dividend of $1.06¼ on preferred shares was declared, payable March 15, 1976 to shareholders of record, February 20, 1976.

The fine papers division's marketing organization was restructured in three marketing units.

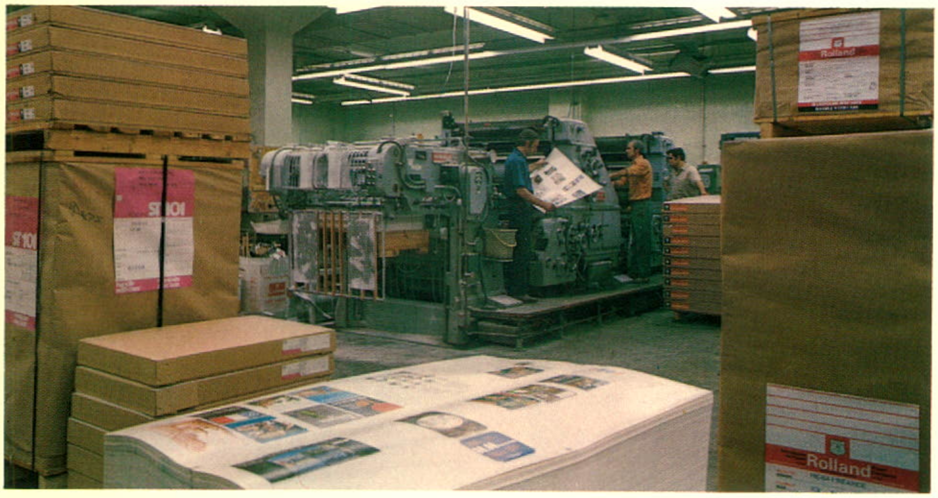
The Business Papers unit markets products offered to the copy, duplicating, letterhead and business stationery markets.



The Converting Papers unit is concerned with products used by the envelopes, continuous forms, cheques, greeting cards…



and other industrial markets such as cigarette tip manufacturers.



The Printing Papers unit handles the marketing of all coated and uncoated printing papers to the commercial printing, publishing and security paper markets.

Human Resources and Industrial Relations

Negotiations at Kruger Fine Paper Wholesale's Montreal branch have reached the conciliation stage. The fine papers division's contracts come up for renewal and negotiation on April 30, 1976 and the Scarborough plant in November 1976. Other collective agreements with office employees will come up for renewal in the course of 1976.

Several changes occurred among the officers of the Company. Dr. Hugh M. Craig, previously Director of Product Development, was appointed Managing Director of Orchard Decor Canada Limited. He brings to his new position many years of experience in marketing and new products development both in the chemical and the paper industries.

Mr. Michel Gagnon, formerly Vice-President, Director of Planning and Systems, assumed the responsibilities of Executive Vice-President, Wholesale Distribution Division. In his new capacity, Mr. Gagnon is responsible for the operations of The Wilson-Munroe Company, Fine Papers, Limited and Kruger Fine Paper Wholesale.

Environment

As part of the important capital program undertaken to modernize the Mont Rolland mill, we will be installing effluent treatment facilities at a cost of $900,000. This expenditure will allow us to further improve the quality of the mill effluent to meet the new standards proposed recently by the Quebec Water Board and for which compliance is required before December 31, 1978.

These standards are more rigid than originally anticipated and will require a re-evaluation of our pollution abatement program for the St. Jerome mill. At the present time, we anticipate that capital expenditures exceeding $1.5 million will be required to conform with the proposed standards. We intend to collaborate fully with the Government in their program.

We feel however that the Government should allow some flexibility in the compliance schedule in order to ensure that the most economical solutions are developed for each individual mill since conditions tend to vary greatly from one mill site to another.

Outlook

At this time it appears that we should witness a slow and gradual recovery with an accompanying improvement in profitability.

Assuming in 1976, a real G.N.P. increase of 5.0% in Canada and 5.8% in the United States, the consumption of fine paper in both countries could reach a level slightly below that of 1974. Demand would thus be firmer than in 1975.

Such an environment would be beneficial to Canadian fine paper distributors and to your Company's Wholesale Distribution Division in the second half of the year.

In the Fine Papers Division, the key to better performance is the ability of Canadian manufacturers to recuperate the volume lost during the strike by dislodging the unusually large amount of imports and to recover profit margins by price increases. But there still exists a gap between the prices of certain Canadian and American grades. Unless American fine paper demand increases to a point where U.S. manufacturers can increase their prices, Canadian producers will find themselves at a disadvantage in marketing these grades and will find it difficult to recoup their usual share of market. This will affect the level of operations in the Canadian mills, and until higher prices are obtained for our products, operations will remain marginal even if the operating rate improves.

Board of Directors

On May 20, 1975, Mr. Pierre A. Salbaing was appointed to the Board of Directors of the Company. As President and Managing Director of Canadian Liquid Air Limited and a director of several Canadian companies, Mr. Salbaing brings to our Board a wide business experience.

Appreciation

The events of the last twelve months were very demanding on all our employees. Your Directors wish to thank them sincerely for their efforts and for their contribution. They also wish to express their appreciation to customers for their confidence and understanding. Despite the strike which paralysed the operations of all other Canadian manufacturers, our Company tried hard to satisfy their needs and without our customers' co-operation, the task would have been even more difficult. Finally, we wish to convey our thanks to all our suppliers for their excellent support.

On behalf of the Board

Lucien G. Rolland
President and General Manager

Montreal, February 6, 1976

Financial statements
1975

Rolland

Consolidated Statement of Income

Year ended December 31

	1975	1974
	(in thousands)	
Net sales	**$99,763**	$83,228
Cost of sales	**87,515**	65,352
Gross profit	**12,248**	17,876
Selling and administrative expenses	**10,261**	7,797
Depreciation and amortization	**1,702**	1,522
Interest expense — Note 9	**932**	354
	12,895	9,673
Operating income (loss)	**(647)**	8,203
Investment and other income	**337**	652
Earnings (loss) before income taxes and minority interest	**(310)**	8,855
Income taxes	**353**	(3,782)
Minority interest in loss	**11**	—
Earnings from operations	**54**	5,073
Amortization of excess of consideration over book value of assets acquired — Net of income taxes	**(122)**	(66)
Dividend income	**250**	281
Net earnings	**182**	5,288
Dividends on preferred shares	**59**	59
Net earnings applicable to Class "A" and Class "B" shares	**$ 123**	$ 5,229
Net earnings per share:		
Class "A"	**$ 0.08**	$ 2.85
Class "B"	**0.03**	2.80

Consolidated Statement of Retained Earnings

Year ended December 31

	1975	1974
	(in thousands)	
Retained earnings at beginning of year	**$16,579**	$12,449
Net earnings for the year	**182**	5,288
	16,761	17,737
Dividends		
Preferred shares	**59**	59
Class "A" shares	**816**	830
Class "B" shares	**264**	269
	1,139	1,158
Retained earnings at end of year	**$15,622**	$16,579

Consolidated Balance Sheet

At December 31

Assets

	1975	1974
	(in thousands)	
Current		
Cash and short-term investments at cost	**$ 190**	$ 45
Accounts receivable	**14,632**	7,834
Income taxes recoverable	**2,078**	—
Inventories — Note 2	**15,599**	14,524
Prepaid expenses	**279**	241
	32,778	22,644
Grants Receivable — Note 3	**1,446**	—
Investment		
(Market value $3,328; 1974 — $2,906)	**5,863**	5,863
Fixed		
Property, plant and equipment — Note 4	**19,993**	15,434
Intangibles		
Excess of consideration over book value of assets acquired — Note 5	**2,057**	199
Unamortized debenture issue expense	**360**	—
	$62,497	$44,140

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

Liabilities

	1975	1974
	(in thousands)	
Current		
Bank indebtedness	**$ 3,270**	$ 964
Accounts payable and accrued liabilities	**11,107**	5,532
Note payable	**1,000**	—
Income taxes payable	**—**	1,513
Long-term debt instalment due within one year	**104**	190
	15,481	8,199
Long-Term Debt — Note 6	**17,490**	6,645
Deferred Income Taxes	**5,185**	4,155
Minority Interest	**157**	—
Shareholders' Equity		
Capital — Note 7		
Authorized		
24,800 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 — Note 8	**15,622**	16,579
	24,184	25,141
	$62,497	$44,140

Consolidated Statement of Changes in Financial Position

Year ended December 31

		1975	1974
		(in thousands)	
Source of Funds	Cash flow from operations		
	Net earnings	$ 182	$ 5,288
	Depreciation and amortization	1,843	1,588
	Deferred income taxes	1,030	383
	Minority interest in loss	(11)	—
		3,044	7,259
	Bank loan	—	1,000
	Debentures less issue expense	11,627	—
	Minority interest in capital stock of subsidiary	168	—
		$14,839	$ 8,259
Application of Funds	Additions to fixed assets — net	$ 6,076	$ 3,082
	Long-term debt reduction	1,155	1,017
	Dividends	1,139	1,158
	Long-term grants receivable	1,446	—
	Fixed assets and goodwill acquired from Kruger Pulp and Paper Limited	2,171	—
		11,987	5,257
Increase in Working Capital		2,852	3,002
		$14,839	$ 8,259

Changes in Components of Working Capital

Year ended December 31

		1975	1974
		(in thousands)	
Increase (decrease) in current assets	Cash	$ 170	$ (252)
	Short-term investments	(25)	(2,079)
	Accounts receivable	2,306	288
	Income taxes recoverable	2,078	—
	Inventories	(2,477)	6,396
	Prepaid expenses	(47)	(15)
		2,005	4,338
Increase (decrease) in current liabilities	Bank indebtedness	2,306	264
	Accounts payable and accrued liabilities	5,575	287
	Income taxes payable	(1,513)	852
	Long-term debt instalment due within one year	(86)	(67)
		6,282	1,336
Increase (decrease) in working capital from operations		(4,277)	3,002
	Working capital acquired from Kruger Pulp and Paper Limited	8,129	—
	Note payable to Kruger Pulp and Paper Limited	(1,000)	—
Total Increase in Working Capital		$ 2,852	$ 3,002
Working Capital at End of Year		$17,297	$14,445

Note 1 Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of Rolland Paper Company, Limited, its wholly-owned subsidiaries, Canada Glazed Papers Limited, The Wilson-Munroe Company Limited, and Fine Papers, Limited, and Orchard Decor Canada Limited (a 60% owned subsidiary which commenced operations on September 11, 1975). 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 cost, generally determined on a first-in, first-out method. The cost of finished paper and paper in process includes raw material, 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, therefore it is carried at cost instead of market value.

Property, Plant and Equipment
Depreciation of property, plant and equipment is provided using the straight-line method in the manufacturing companies and the diminishing balance method in the wholesale distribution companies. 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 11¾% 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 financial 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.

Pension Plans
The Company and its subsidiaries have pension plans for employees, most of which are contributory and trusteed. These plans are being funded and the cost of the current service portion is charged to income as incurred. The cost of the unfunded past service pension liabilities is charged to income as funded.

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.

Note 2
Inventories

	1975	1974
	(in thousands)	
Finished paper and paper in process	**$11,370**	$ 9,602
Raw materials, wires, felts and supplies	**3,482**	4,223
Repair parts and maintenance materials	**747**	699
	$15,599	$14,524

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
Property, Plant and Equipment

	Cost	Accumulated Depreciation	**Net 1975**	Net 1974
			(in thousands)	
Machinery and equipment	$28,894	$18,927	**$ 9,967**	$11,274
Buildings	7,234	3,831	**3,403**	3,635
Leasehold improvements	375	290	**85**	109
Land	411	—	**411**	416
Construction in progress	6,127	—	**6,127**	—
	$43,041	$23,048	**$19,993**	$15,434

Note 5
Excess of Consideration

	1975	1974
	(in thousands)	
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**	—
	2,331	331
Accumulated amortization	**274**	132
	$ 2,057	$ 199

Note 6
Long-Term Debt

		1975	1974
		(in thousands)	
First Mortgage Bonds 4½% Sinking Fund Bonds due January 2, 1975		**$ —**	$ 190
Sinking Fund Debentures — Series A 5¾% due July 2, 1984	$ 7,500		
Deduct:			
Debentures redeemed and cancelled including $660,000 in anticipation of future Sinking Fund Requirements	1,860	**5,640**	5,645
Sinking Fund Debentures — Series B 11¾% due July 2, 1995	12,000		
Deduct:			
Debentures redeemed and cancelled in anticipation of future Sinking Fund Requirements	46	**11,954**	—
		17,594	5,835
Deduct:			
Instalment due within one year included in current liabilities		**104**	190
		17,490	5,645
Bank loan		**—**	1,000
		$17,490	$ 6,645

Principal Repayments

	1976	1977	1978	After 1978	Total
11¾% Sinking Fund Debentures	$104	$325	$325	$11,200	$11,954
5¾% Sinking Fund Debentures	—	—	240	5,400	5,640
	$104	$325	$565	$16,600	$17,594

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.

Note 7
Capital

The preferred shares of the 4¼% series 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 8
Retained Earnings

An amount of $280,500 of retained earnings is restricted under Section 62 of the Canada Corporations Act as a result of the redemption of 2,805 preferred shares in past years.

Note 9
Interest Expense

	1975	1974
	(in thousands)	
Interest on long-term debt	**$ 977**	$354
Interest on bank loans	**388**	—
	1,365	354
Less: amount charged to construction in progress	**433**	—
Interest expense	**$ 932**	$354

The amount of interest charged to construction in progress relates to major construction projects which were financed by specific borrowings. There were no significant construction projects requiring the capitalization of interest in 1974 or in any of the previous eight years.

Note 10
Investment Tax Credit

During 1975, purchases of machinery and equipment amounting to $3,577,000 were eligible for the federal investment tax credit. The total investment tax credit, amounting to $178,800, is available until 1980 to reduce the taxes otherwise payable.

Note 11
Directors' and Officers' Remuneration

	1975		1974	
	12 Directors	**12 Officers**	12 Directors	11 Officers
Remuneration paid by:				
Rolland Paper Company, Limited	**$54,300**	**$473,300**	$50,100	$459,100
Subsidiary Company, Canada Glazed Papers Limited	**200**	**—**	800	—
	$54,500	**$473,300**	$50,900	$459,100

Three Officers were also Directors of the Company in 1975 and 1974.

Note 12
Long-Term Leases

The Company's commitments under lease agreements of various terms for property and equipment aggregate $3,391,500 at December 31, 1975. The annual rentals in 1976 under these leases will be $711,800.

Note 13
Capital Expenditures

The Company expects to spend an additional $4,500,000 in 1976 on construction in progress.

Note 14
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.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Rolland Paper Company, Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial positions 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
Montreal, Que.
January 30, 1976.

Ten-Year Comparative Statistics

		1975
Sales and Earnings *(in thousands)*	Net sales	$99,763
	Depreciation and amortization	1,702
	Interest expense	932
	Earnings (loss) before income taxes and minority interest	(310)
	Income taxes	(353)
	Minority shareholders' interest	11
	Earnings (loss) from operations	54
	Dividend income	250
	Non-operating items	(122)
	Net earnings (loss)	182
	Cash flow	3,044
	Percentage of earnings (loss) from operations to net sales	0.1%
	Percentage of net earnings (loss) to capital employed	0.4%
Distribution of Earnings *(in thousands)*	Dividend on preferred shares	$ 59
	Dividend on class "A" and "B" shares	1,080
	Retained in the business	(957)
Per Share*	Net earnings (loss) per class "A" share	$ 0.08
	Dividend per class "A" share	0.60
	Cash flow per class "A" share	1.64
	Book value per class "A" and "B" shares	12.35
	Price range for class "A" shares — high	8.25
	— low	5.25
Financial *(in thousands)*	Net assets:	
	Working capital	$17,297
	Investment in securities	5,863
	Fixed assets, net	19,993
	Other assets	3,863
	Capital employed	47,016
	Financed by:	
	Long-term debt	$17,490
	Deferred income taxes	5,185
	Minority shareholders' interest	157
	Preferred shareholders' equity	1,399
	Class "A" and "B" shareholders' equity	22,785
	Total capitalization	47,016
	Ratio of current assets to current liabilities	2.1:1
	Capital expenditures	$ 7,720
Other Statistics	Number of shareholders	1,933
	Number of employees	1,454

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 the Kruger Fine Paper Wholesale Distribution Division from April 1, 1975.

1974	1973	1972	1971	1970	1969	1968	1967	1966
$83,228	$61,130	$46,437	$41,555	$34,085	$35,647	$34,903	$32,881	$29,935
1,522	1,534	1,313	1,292	1,257	1,207	1,217	1,149	1,072
354	402	436	459	484	520	544	570	597
8,855	4,899	2,483	270	(808)	2,855	2,520	3,362	2,731
3,782	2,270	1,094	120	(324)	1,444	1,239	1,723	1,266
—	—	—	—	—	—	—	—	—
5,073	2,629	1,389	150	(484)	1,411	1,281	1,639	1,465
281	—	—	—	62	125	125	250	263
(66)	64	—	—	—	—	—	—	—
5,288	2,693	1,389	150	(422)	1,536	1,406	1,889	1,728
7,259	4,239	2,555	1,089	586	2,666	2,487	3,061	3,994
6.1%	4.3%	3.0%	0.4%	(1.4%)	4.0%	3.7%	5.0%	4.9%
14.7%	8.6%	4.6%	0.5%	(1.4%)	4.8%	4.4%	5.9%	5.5%
$ 59	$ 59	$ 60	$ 60	$ 60	$ 60	$ 60	$ 62	$ 65
1,099	620	160	—	534	712	712	712	712
4,130	2,014	1,169	90	(1,016)	764	634	1,115	951
$ 2.85	$ 1.44	$ 0.73	$ 0.05	$ (0.25)	$ 0.82	$ 0.74	$ 1.01	$ 0.92
0.61	0.35	0.10	—	0.30	0.40	0.40	0.40	0.40
3.93	2.28	1.37	0.56	0.30	1.43	1.33	1.64	2.15
12.87	10.63	9.53	8.90	8.85	9.40	8.99	8.64	8.03
10.00	10.75	7.88	4.50	7.00	10.13	8.88	12.50	13.00
7.00	6.75	3.10	2.30	3.65	5.13	6.25	6.13	10.00
$14.445	$11,443	$ 9,649	$ 8,385	$ 7,751	$ 9,901	$ 9,735	$ 9,680	$ 9,522
5,863	5,863	5,863	5,863	5,863	5,863	5,863	5,863	5,863
15,434	13,874	14,008	14,758	15,780	15,934	16,176	16,136	15,651
199	265	589	589	589	257	—	89	119
35,941	31,445	30,109	29,595	29,983	31,955	31,774	31,768	31,155
$ 6,645	$ 6,662	$ 7,393	$ 7,901	$ 8,025	$ 8,751	$ 9,256	$ 9,748	$10,217
4,155	3,772	3,696	3,842	4,196	4,426	4,503	4,639	4,616
—	—	—	—	—	—	—	—	—
1,399	1,399	1,422	1,422	1,422	1,422	1,422	1,422	1,479
23,742	19,612	17,598	16,430	16,340	17,356	16,593	15,959	14,843
35,941	31,445	30,109	29,595	29,983	31,955	31,774	31,768	31,155
2.8:1	2.7:1	2.9:1	3.1:1	2.3:1	3.5:1	4.2:1	2.9:1	3.7:1
$ 3,300	$ 1,550	$ 636	$ 297	$ 694	$ 841	$ 1,261	$ 1,639	$ 1,215
1,991	2,066	2,256	2,320	2,377	2,330	2,330	2,343	2,491
1,404	1,410	1,294	1,285	1,289	1,288	1,325	1,308	1,260

*Net earnings, dividend and cash flow per class "B" share are 5 cents less than per class "A" share except in 1970 when the differential is 4 cents and in 1971 when there is no differential.
1965 per share calculated on average number of shares for the year.

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