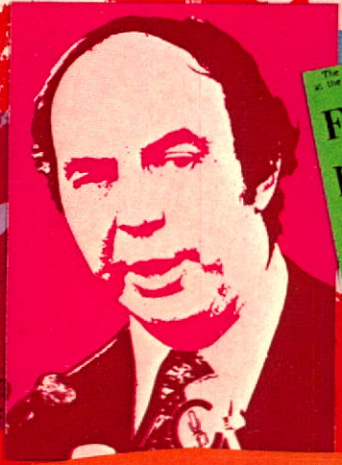


FRASER ANNUAL REPORT 1975



Outlook: tough slog for economy

Forest industry's labor problems far from over

Canada's recession is worst since 30s

Firms told new curbs will restrict profits



OTTAWA—From our Ottawa bureau
OTTAWA—Canadians were given more gloomy economic news
Statistics Canada reported that the country's gross national product
fell in the first quarter of this year.

OTTAWA (D.J.C.P.)—The charges and interest rates he said
Canadian corporate directors would be frozen in the first year of the government's
Macdonald insisted the government will not as hard

YANOVER—The third-quarter results for the British Columbia forest industry were sharply below the \$425 million target set earlier.
For the nine months, Canadian Columbia had sales of \$125.5 million, vs. \$148.4 million, and a net profit, including tax, of \$27.9 million (\$1.96) vs. \$28.1 million (\$1.97) for the same period last year.
The price received for the timber was \$11.75 per cubic meter, vs. \$12.44 last year. Sales of \$12.4 million were sharply below the \$425 million target set earlier.
For the nine months, Canadian Columbia had sales of \$125.5 million, vs. \$148.4 million, and a net profit, including tax, of \$27.9 million (\$1.96) vs. \$28.1 million (\$1.97) for the same period last year.
The price received for the timber was \$11.75 per cubic meter, vs. \$12.44 last year.

duced tomorrow will
profits

THE ANNUAL GENERAL MEETING

of the shareholders of Fraser Companies, Limited will be held at the Lord Beaverbrook Hotel, Fredericton, N.B., on Friday, the 23rd day of April, 1976, at the hour of 11:30 o'clock in the forenoon, Atlantic Standard Time.

STOCK TRANSFER AGENT AND REGISTRAR

Montreal Trust Company
Montreal, P.Q.,
Toronto, Ontario,
Vancouver, B.C.,
Saint John, N.B.

STOCK LISTED

Montreal Stock Exchange
Toronto Stock Exchange

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Directors' Report to the Shareholders

Not a vintage year! Business in 1975 was a far cry from the record 1974 when, in retrospect, almost everything was easy. In spite of unfavourable economic conditions, our 1975 results represent the third highest earnings and the second highest sales ever recorded by Fraser. Based on traditional accounting methods, 1975 earnings were \$3.08 per share or \$7,212,000 on sales of \$142,775,000. In 1974 earnings amounted to \$14,892,000 or \$6.35 per share on sales of \$158,228,000.

Nevertheless, 1975 will be remembered as a period in which Fraser people met and bested some very tough challenges—maintenance of business in falling markets, planning for major capital expenditures, imposition of Canadian wage and price controls, shrunken and expensive capital markets and the appearance of some tough new competition. The one thing the Company did escape was the labour distress which hit virtually every other significant Canadian forest products company. However, poor markets caused lengthy production cutbacks which were a costly thing for many employees, particularly those in our Restigouche mill.

The cover of this Report symbolizes Fraser's world today. Our business is no longer just producing and marketing lumber, pulp, boxboard and paper. Our management is no longer just those on our staff, nor are Fraser's shareholders the only group with a vested interest in our business.

There are public interests that any company must serve. However, by allowing the public interest to be defined by a mass of narrow pressure groups, this and other businesses must now obey a web of rules that are often counter-productive. This trend appears to have reached the point of overkill, when the cure could be far worse than the disease.

Notwithstanding these difficulties, the will to operate and survive as free enterprise is strong. The problem is to match properly the rewards with the risks.

To put this in perspective with some clarity, two new financial presentations have been developed this year. They are an attempt to show basic financial information in terms that everyone can understand, realizing that fair presentation of the financial position of any company is difficult to do and harder to understand. The first of these is simply a bank statement appearing on page 4, which summarizes the Company's cash transactions by category. Most individuals would probably analyze their personal affairs in much the same manner.

On page 21 a chart is shown which represents a simplified method of displaying the "real" earnings rates on the equity of the Company. Essentially it indicates that the shareholder's dollar, having created benefits for others, has not been very well treated itself, particularly considering the risks involved. On a year-to-year basis you might compare the "real" rates of return with rates offered on savings accounts or other short-term investments.

The Directors remain as deeply concerned as they were last year about the impact of inflation, which is hidden by

following conventional accounting methods. It remains true that most companies, including Fraser, are earning less on the real value of their assets than they would if the same money were invested with less risk in bonds. Again this year a statement has been inserted on page 20 to demonstrate the effect of inflation on reported profits. Although it is relatively rough and ready, since accounting authorities are still undecided on the best way of presenting accounts in "real" terms, it helps to illustrate how far inflation distorts reality. So long as this situation continues it will become increasingly difficult to finance new businesses, or to modernize and expand existing businesses, without help from the Government either through subsidies in one form or another or substantial tax relief.

Fraser, like any vigorous company, is heavily engaged in plans to modernize and streamline its operations to secure its future. Since 1973 the Company has been intensively concerned with the second phase of its major capital program, namely the modernization and conversion of the Edmundston pulp mill. Criteria established meant that whatever is done must be financially (i.e. profitable), environmentally acceptable, energy efficient and technologically modern. The plan now finalized and getting under way at Edmundston involves changing the pulp cooking base from acid to magnesium, installing a recovery boiler and chemical recovery systems, modernizing and increasing the digesting capacity and various other efficiency improvements. The estimated \$90,000,000 cost of this program will be paid for out of existing cash reserves, cash earnings during the period of

construction, available Government grants and new borrowings. These latter are now being arranged through a private U.S. offering.

Another major decision in 1975 was to begin the establishment of a tree nursery. This project is being carried out with consultants in both Canada and Sweden and will eventually result in the annual production of 7,000,000 seedlings of genetically superior trees.

The third major new initiative of 1975 was a joint study of the Restigouche pulp mill being conducted with the Federal and New Brunswick Governments. The situation of this mill is such that it is extraordinarily vulnerable to cycles in the paper markets, and thus cannot be assured of sustained operations. The goal of the study is to establish a competitive economic unit which will optimize available fibre resources and fully

utilize the excellent work force in the Atholville area. Preliminary findings from the study are expected to be available by the third quarter of 1976.

In October 1975, Canada imposed a system of wage and price restraints designed to bring inflation under control. The objectives of the program are both whole-heartedly welcomed and supported. Unfortunately there was obviously inadequate study given to the regulations which are voluminous and excessively complicated and still require extensive clarification in a number of areas. Therefore it is still too early to accurately assess the impact this program might have on the Company. However, based on the available information, the Company was in compliance with the anti-inflation program in 1975 and will continue to take all the necessary steps to ensure future compliance with that program.

This second year of association with Noranda has been mutually satisfactory as both companies have been able to add to the strength of the other. The wealth of talent and loyalty in Fraser is certainly the basis for viewing the future in this industry with great confidence. Exemplary proof of this is that 1975 was the 50th Anniversary of Fraser Paper, Limited whose strength was demonstrated by its fine performance in a difficult year.

In conclusion, it is to be noted that this is the last Report in which Messrs. F. H. Sobey and R. B. Brennan will be listed as Directors, both having reached the mandatory retirement age. These gentlemen gave the Company exactly the kind and quality of advice and assistance that is sought from the best Directors. They will be hard to replace.

On behalf of the Board.

Adam H. Zimmerman
Chairman

March 15, 1976.



Fraser Bank Statement

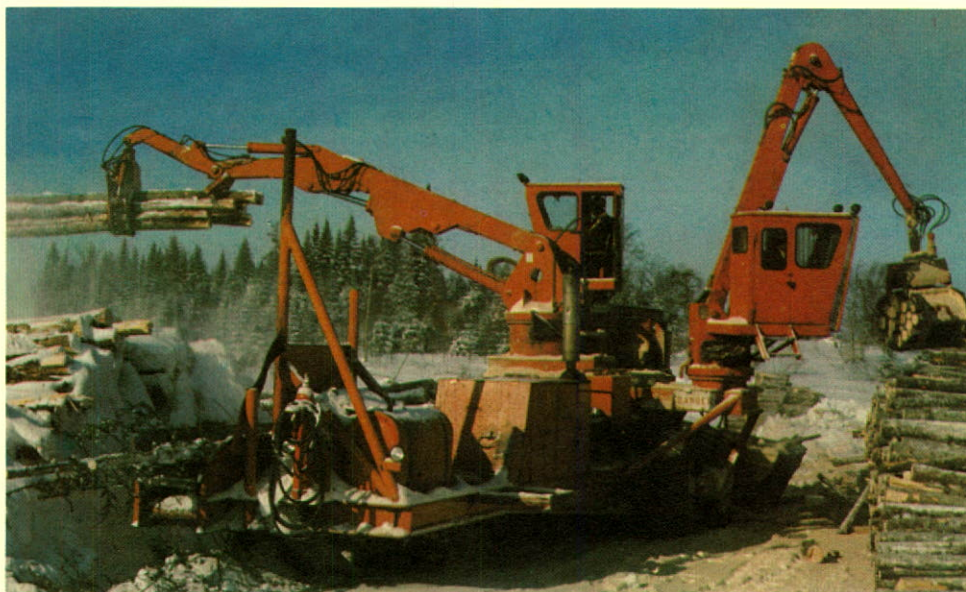
PLEASE HAVE THIS BOOK WRITTEN UP PERIODICALLY

Date	Item	Withdrawal	Deposit	Balance
Jan 1, 1975	cash in bank			\$23,423,000.00
	Proceeds from sale of lumber, pulp, boxboard and paper		140,926,000.00	164,349,000.00
	Interest earned on term deposits		1,554,000.00	165,903,000.00
	Paid out for wood	29,820,000.00		
	wages	35,108,000.00		
	fringe benefits	8,304,000.00		
	fuel	15,780,000.00		
	services, chemicals, materials & supplies	35,160,000.00		41,731,000.00
	Paid to reduce debt	765,000.00		
	Paid interest on debt	479,000.00		
	Paid for new machinery & buildings	9,186,000.00		
	Paid to federal, provincial, state & local governments for taxes	15,379,000.00		
	Dividends paid to shareholders	3,751,000.00		12,171,000.00
	Received from sale of shares to employees		45,000.00	
Dec 31, 1975	cash in bank			\$12,216,000.00

SEE YOUR MANAGER FOR PERSONAL AND BUSINESS LOANS

Fraser Forests

MANAGEMENT: In this current age of material shortages, the pulp and paper industry is perhaps unique in that it is based on a renewable forest resource. While the Company's revenues are generated through the manufacture and sale of finished products, the foundation of the whole operation lies in the forests of New Brunswick where the Company manages nearly 2 million acres of woodlands, of which 760,000 acres are owned by the Company. The remaining woodlands are held under a Forest Management License issued by the Province. These forest areas supply 70% of the Company's wood requirements, with the remainder being purchased locally either in log form from owners of wood lots or as chips from sawmills.



MECHANICAL HARVESTING: During 1975 extensive evaluations on the utilization of mechanical harvesting equipment were carried out, and the results indicated a more than satisfactory cost reduction on wood delivered to our mills. This program is continuing and mechanization of our cutting operations will be expanded in the immediate and foreseeable future.

SPRUCE BUDWORM: The preservation and good management of these forest resources are basic to all the Company's operations. Last year's Annual Report made reference to a serious outbreak of spruce budworm which affected an estimated 14 million acres of New Brunswick woodlands. In 1975 about 6.7 million acres of the areas threatened with the most extensive mortality were sprayed, including almost half of the Fraser limits. While our

limits have suffered from infestation, the overall effect on tree mortality rates or on reduced rates of growth has not been as serious as the damage sustained in other infected areas.

The details of the 1976 spraying program are being finalized, and will call for the spraying of approximately 10 million acres, at over twice the cost of the 1975 program, of which this Company's share was approximately \$700,000. It is projected that the cost of the spraying program in 1976 will be borne two-thirds by the Provincial and Federal Governments and one-third by the user industry.

REFORESTATION: In long range planning a more direct approach is indicated to ensure for our operations essential wood supplies in the coming century. Surveys of areas which were harvested five years ago show that approximately 40% of them are not producing, by natural regeneration, enough trees of the more desirable species. At present more than half our forests consist of balsam fir, which is most susceptible to the attacks of the budworm. A decision has been made to gradually increase the percentage of black and white spruce species which are of a more resistant strain.

To this end, a project for a Swedish tree nursery system, seemingly the one best suited for our environment, is being planned and will be developed under an arrangement with a Swedish Company which will provide technical assistance. Such a nursery and planting system will eventually produce 7 million seedlings of genetically superior trees every year. The first crop of seedlings would be ready for planting within three years after completion of the nursery, and the first harvest of grown trees would begin about 40 years later. This project is expected to provide full time employment for 12 persons and part time employment for about 60 people.





Fraser Operations and Products

GENERAL: The manufacturing plants of the Company experienced serious curtailments in operations due to depressed markets. Activity and costs when mills were not operating were held to a minimum, with maintenance being carried out only in instances that required total plant shutdown. Raw material inventories were successfully controlled and continue to be held at minimum levels.

Capital expenditures in 1975 of \$9.2 million, in addition to routine jobs, included the following major items:

Primary woods roads, bridges and heavy woods equipment.

At Madawaska as part of our continuing pollution abatement program, many inplant modifications were made and work continued on the installation of two clarifiers to treat the paper mill effluent, scheduled to be



operational late in 1976. Other projects included computerized controls on No. 2 bond paper machine and modernization of the dryer sections on lightweight groundwood and coating base stock machines.

At Edmundston work began on the project for the bark and refuse burning boiler for waste reclamation and power generation. Field construction started in the third quarter and steel was being erected by year-end,

with start-up scheduled for the third quarter of 1976. When this new facility is fully operational, it will contribute to our energy conservation program by reducing Bunker "C" oil consumption by approximately 13%, or 75,000 barrels per year. Other projects included a new Equipment Service Garage and major repairs to No. 3 Boiler.

At Atholville a new package Boiler was installed. Other projects undertaken included work on the chip handling system, blow pits and felt cleaning systems.

A Drott 80 Knuckle Boom Loader was purchased for each of the sawmills at Plaster Rock and Kedgwick, and authorization was given for extensive planer mill modifications at Kedgwick.

A Wood Products Group was established early in 1976 to continue the investigation into the possibility of improving our lumber business and to seek out and examine new opportunities for improved operations, for greater diversification and for the utilization of both softwood and hardwood tree species.



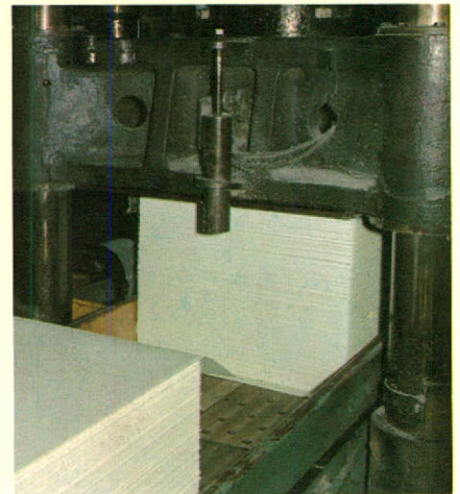
LUMBER: Timber holdings in close proximity provide logs for the sawmills at Plaster Rock and Kedgwick in sufficient volume to meet their combined capacity of 65 million board feet annually of high quality spruce lumber.

About half of the sawn lumber is diverted to the production of

specialty lines for a variety of uses, including household repairs, interior finishing and industrial applications, all of which provide relatively stable markets. Shipments of standard dimensional lumber primarily for the construction of housing units account for the balance. About 85% of the total output is sold in the northeastern United States.

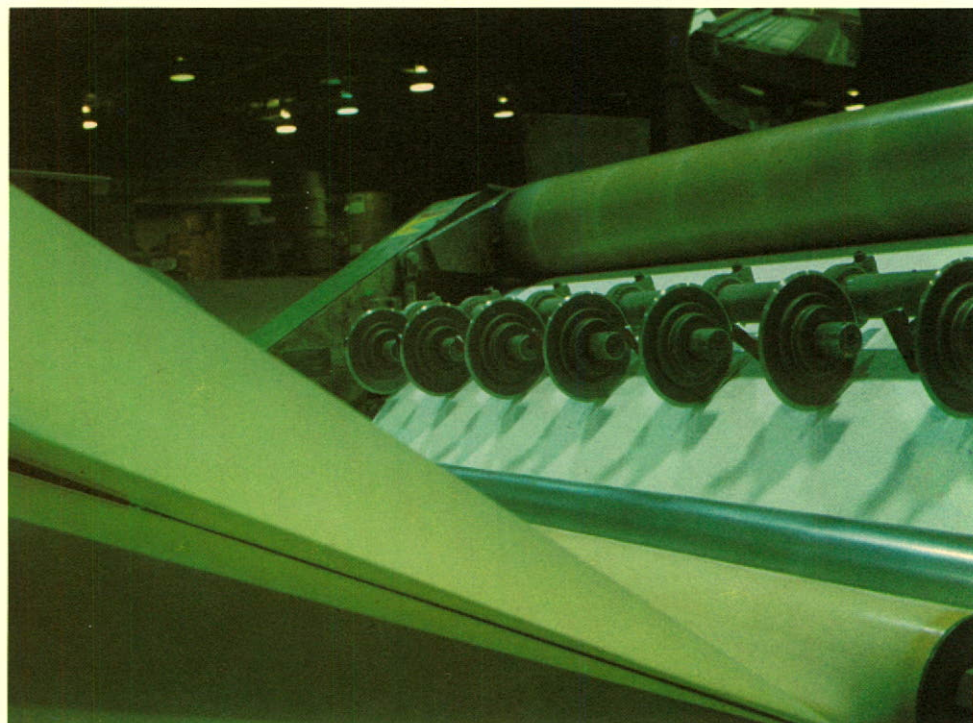
Through most of 1975 the lumber market remained as depressed as it was at the end of 1974; accordingly, the Kedgwick mill and the Plaster Rock mill operated 160 days and 246 days respectively, and the work week at both sawmills was reduced from seven to five days. The market firmed late in the fourth quarter of 1975 primarily due to improved housing starts, and selling prices reached their highest level of the year.

PULP: Most of the bleached sulphite pulp manufactured at Atholville is used internally by the Company to produce paper and boxboard, with a limited quantity being sold on the open market. In 1975 market pulp was in over-supply throughout the world. Under these conditions increased market sales of Atholville pulp were not sufficient to offset reduced internal demand, and the mill operated at only 54% of capacity for the year. While the mill shut down for lengthy periods, especially during the first half of the year, operating rates improved to about 77% of capacity over the last six months.



At Edmundston, production of unbleached and bleached sulphite and of groundwood pulps are totally integrated to the requirements of the boxboard mill in Edmundston and the paper mills in Madawaska. Internal pulp requirements for the manufacture of paper and boxboard were lower due to poor market conditions; consequently the pulp production at Edmundston during 1975 was considerably below capacity in the second and third quarters, although back to normal in the fourth quarter. The maintenance of fourth quarter level of sales of paper and boxboard will assure full utilization of Edmundston pulp capacity in 1976.

BOXBOARD: Shipments of boxboard were 90% of capacity in the first quarter of 1975 primarily due to inventory adjustment by consumers. For the rest of the year, an order file adequate for full operation was maintained. Prices held steady throughout the year and shipments at 30,326 tons were the third highest on record.



PAPER: The paper mills at Madawaska account for 85% of the Company's revenue through the production and sale of over 1,000 tons per day of bleached and groundwood papers. These papers are used for converting specialties, commercial printing, coated and uncoated publi-

cations, directories and catalogues, and are sold principally in the east and mid-west United States.

At a time when the industry was in the worst recession since World War II, our paper production averaged about 78% of capacity in 1975. The market for bleached paper grades picked up after mid-year, and in the last quarter our paper production was at or near full capacity. Demand for groundwood paper grades also strengthened towards the end of the third quarter, and remained firm for the rest of the year.

Total shipments of paper for the year were 302,968 tons compared with 383,063 tons in 1974.



Fraser Edmundston Rebuild

The plan for the comprehensive conversion and modernization of the Edmundston pulp mill, which was referred to previously is now at the stage of implementation. The first phase of the overall plan, the cost of which is estimated at over \$90 million, will be spread over a period of three years, with peak expenditures expected to be in the year 1978. An artist's conception of the modernized mill is shown on the opposite page.

The project will contribute to a significant reduction in the environmental impact of the mill on the air and water of the region, while providing an increase in pulp production, improvements in pulp yield and quality and the modernization of existing facilities. Upon completion of the project, the mill will comply with Environment New Brunswick's effluent discharge requirements both for the St. John River and for atmospheric emissions.

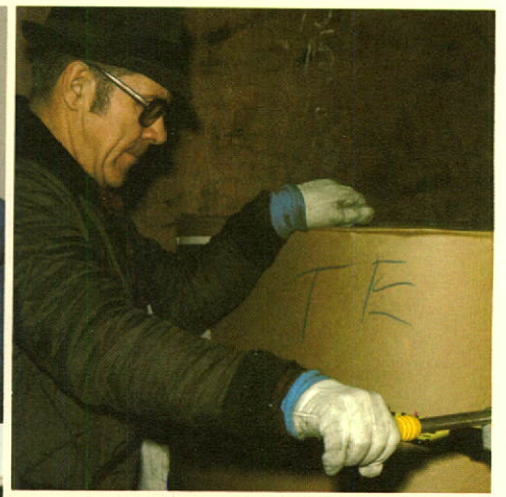
A crucial decision in the program, which was reached only after an exhaustive study in Canada, the United States and abroad, involves changing the cooking process from one based

on ammonia to one using magnesium bisulphite. The major factors in the choice of this pulping process included the lower capital investment, lower operating costs, improved pulp quality and ease of chemical recovery with reduced pollution loads.

One of the most vital components of the project is the chemical recovery and liquor incineration complex. This will involve the installation of a new recovery boiler which will burn spent cooking liquor and thus both reduce pollution and conserve energy by lowering the consumption of Bunker "C" oil.

The pulp mill will continue to be operational throughout the rebuild period, although there will be some loss of pulp production during the digester rebuild portion of the program. The production at the paper mills is projected to continue without interruption. Upon completion of the digester rebuild late in 1977, there will be a gradual increase in capacity up to 590 tons per day by the end of the initial stage.





Fraser People

The seasonal nature of woods operations and the ups-and-downs of the markets bring inevitable fluctuations into the employment provided by the Company at any one time. For these reasons, the employment level ranges from a low of about 2,300 to around 3,500 under normal operating conditions. The men and women of Fraser cover a wide range of occupations, from office workers to woods workers. About one in ten are employed in managerial, professional or sales jobs.

The combined efforts of all these Fraser men and women, who are to be congratulated and thanked, were largely responsible for the good results achieved in a very difficult year.

While most of the Canadian pulp and paper industry was disrupted by strikes in 1975, relations at Fraser continued on a cooperative and constructive basis. During 1975 new thirteen month contracts, expiring February 29, 1976, were concluded with office workers at Edmundston and Atholville. A two year agreement was also reached covering the employees at the Kedgwick sawmill. In 1976 a total of twelve contracts will have to be negotiated. Of these, six contracts have expired covering mill and office employees at Edmundston and Atholville, and sawmill and woodlands employees at Plaster Rock. Negotiations for these six agreements have been complicated by the new wage guidelines of the Anti-Inflation Board.

The remaining six agreements, which will expire later in 1976, cover employees at the Madawaska paper mills, woodlands employees in the Edmundston and Restigouche districts, and scalers and clerks in the Restigouche district.

The Company's efforts to ensure safe operations for its employees met with some notable successes in 1975. Throughout woodlands, accidents in 1975 were reduced by 40% from the previous year, and at the sawmills in Plaster Rock and Kedgwick accidents were reduced by an outstanding 77%.

Fraser's operations are a major factor in many communities of New Brunswick and in Madawaska, Maine, and its fortunes are closely and mutually tied to those of its employees and the communities in which they live. The Company is proud of the many employees who give freely of their time to become involved in local Governments, as well as in charitable, religious and service organizations. These men and women, besides being the backbone of Fraser, are also a vital force in the communities associated with Fraser.

As one measure of recognition, Fraser awards two \$5,000 scholarships each year; one to a son or daughter of a Fraser employee, the other to a boy or girl from the communities in which Fraser operates. At present there are eight active scholarship holders studying in Universities from Nova Scotia to California. Three of them are from Edmundston, three from Madawaska and one each from Atholville and Plaster Rock.

Fraser Finances

REVIEW: Computed in accordance with generally accepted accounting principles, net income for 1975 was \$7,212,000 or \$3.08 per share on sales of \$142,775,000. This compares with the 1974 record when net income was \$6.35 per share or \$14,892,000 on sales of \$158,228,000.

It should be noted that the 1975 sales were exceeded only in 1974, while earnings were the third highest in history. This takes on greater significance perhaps when viewed in light of the unusual recession—inflation scenario which prevailed in 1975. For most of the year depressed economic conditions, together with massive customer inventory liquidation, caused pulp and paper operating rates to drop to the lowest levels in the post-war years. Yet the price structure for these products remained virtually intact. At the same time costs continued to increase sharply throughout the year. Although prices were stable, the low operating rates combined with higher costs resulted in severely squeezed profit margins.

HIGHLIGHTS FOR THE YEAR:

	1975	1974	1973
Net sales	\$142,775,000	\$158,228,000	\$111,913,000
Net earnings from operations	7,212,000	14,892,000	7,753,000
Net earnings per share	3.08	6.35	3.31
Dividends paid per share	1.60	1.40	.60
Cash flow from operations	15,049,000	22,581,000	19,293,000
Cash flow per share	6.42	9.63	8.24
Additions to plants and properties—net	9,186,000	5,886,000	7,310,000

AT YEAR END:

Working capital	36,807,000	35,467,000	21,763,000
Shareholders' equity	96,207,000	92,746,000	81,054,000
Shareholders' equity per share	41.04	39.56	34.63

Short-term investments of surplus funds generated interest income of \$1,554,000 for the year. Interest expense on long-term debt was \$479,000.

The U.S.-Canadian dollar relationship was volatile throughout the year with the U.S. dollar averaging out to a premium, which produced a gain on foreign exchange of \$2,144,000.

Funds provided from normal operations during the year amounted to \$15,049,000 equal to \$6.42 per share.

Net additions and improvements to plants and properties were \$9,186,000 this year compared with \$5,886,000 in 1974.

Redemption of long-term debt was \$810,000 this year leaving long-term debt outstanding at year-end of \$8,909,000, which is equivalent to 9.3% of shareholders' equity. During the year negotiations were commenced for the private placement of U.S. \$35,000,000 in Debentures. The terms and conditions of the issue

are being finalized and will include revisions affecting the existing First Mortgage and Collateral Trust Bonds on a basis satisfactory to the Company. It is expected that the transaction will be completed in the first half of 1976. Proceeds of the new issue will be used to finance in part the modernization and expansion program at the Edmundston mill.

Dividends paid in 1975 increased to \$3,751,000 or \$1.60 per share from \$3,282,000 or \$1.40 per share last year.

Working capital increased during the year to \$36,807,000, of which cash items amounted to \$12,216,000.

At year-end shareholders' equity was \$96,207,000 or \$41.04 per share compared with \$92,746,000 or \$39.56 per share a year ago.

Fraser Companies, Limited and Subsidiaries Consolidated Statement of Financial Position

As at December 31 (in thousands of dollars)	1975	1974
Current assets:		
Cash, short-term deposits and commercial notes	\$ 12,216	\$ 23,423
Accounts receivable	17,289	16,122
Inventories (note 2)	22,931	20,684
Income taxes recoverable	488	—
Prepaid expenses	640	224
Total current assets	53,564	60,453
Current liabilities:		
Accounts payable and accruals	15,995	16,293
Income taxes payable	—	7,949
Bonds due within one year	762	744
Total current liabilities	16,757	24,986
Working capital	36,807	35,467
Due under Stock Purchase Plan (note 4)	259	297
Fixed assets (note 3)	76,257	74,444
Working capital and other assets employed	113,323	110,208
First Mortgage and Collateral Trust Bonds:		
5 $\frac{1}{8}$ % series due 1977/87 at \$750,000 U.S. per annum (\$8,250,000 U.S.)	8,909	9,719
Deferred taxes on income	8,207	7,743
	17,116	17,462
Shareholders' equity (note 4)	\$ 96,207	\$ 92,746
Represented by:		
Capital stock	\$ 5,985	\$ 5,985
Retained earnings	90,222	86,761
	\$ 96,207	\$ 92,746

See accompanying notes to consolidated financial statements.

On behalf of the Board:

A.H. Zimmerman, Director

C.R. Recor, Director

Consolidated Statements of Earnings and Retained Earnings

Year ended December 31 (in thousands of dollars)	1975	1974
Earnings:		
Net sales	\$142,775	\$158,228
Cost of sales	119,336	121,104
Depreciation and depletion	7,373	6,796
Selling, general and administrative expenses	7,015	5,665
	133,724	133,565
	9,051	24,663
Other income (expenses):		
Interest income	1,554	2,105
Interest on long-term debt	(479)	(497)
Gain (loss) on foreign exchange	1,091	(757)
Miscellaneous (net)	222	171
	2,388	1,022
Earnings before income taxes	11,439	25,685
Taxes on income	4,227	10,793
Net earnings	\$ 7,212	\$ 14,892
Earnings per Class "A" and Class "B" share	\$ 3.08	\$ 6.35
Retained earnings:		
Balance at beginning of year	\$ 86,761	\$ 75,151
Net earnings	7,212	14,892
	93,973	90,043
Dividends paid—\$1.60 per share (1974—\$1.40)	3,751	3,282
Balance at end of year	\$ 90,222	\$ 86,761

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31 (in thousands of dollars)	1975	1974
Source of funds:		
Net earnings	\$ 7,212	\$14,892
Add items not requiring expenditure of funds:		
Depreciation and depletion	7,373	6,796
Deferred taxes on income	464	893
Funds provided from operations	15,049	22,581
Long-term receivable becoming current	—	996
Stock Purchase Plan	38	105
Total funds provided	15,087	23,682
Application of funds:		
Additions and improvements to plants and properties—net	9,186	5,886
Redemption of long-term debt	810	810
Dividends	3,751	3,282
Total funds used	13,747	9,978
Increase in working capital	1,340	13,704
Working capital at beginning of year	35,467	21,763
Working capital at end of year	\$36,807	\$35,467

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated statement of financial position of Fraser Companies, Limited and subsidiaries as at December 31, 1975 and the consolidated statements of earnings, 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 position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Montreal, Quebec
February 12, 1976

Notes to Consolidated Financial Statements

Dec. 31, 1975.

1. ACCOUNTING POLICIES:

A summary of significant accounting policies followed by the Company and its subsidiaries is set out below.

Basis of presentation of financial statements:

The accompanying financial statements include on a consolidated basis the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Foreign exchange:

Assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at balance sheet dates for current items and at exchange rates in effect at the transaction dates for non-current assets and liabilities. No recognition is given in the accounts to unrealized gains or losses on long-term debt. Income and expenses are translated at average rates prevailing during the year except for depreciation which is translated at the rates prevailing when fixed assets were acquired.

Inventories:

In general, pulpwood and logs, raw materials and supplies are carried at cost or replacement cost whichever is lower. Goods in process and finished products are valued at the lower of cost and net realizable value.

Fixed assets:

The costs of additions, betterments and renewals are capitalized and expenditures for maintenance and repairs are charged to expense.

Government grants received in connection with the construction or expansion of production facilities are credited to the cost of such assets. At the time of disposal or retirement of plant and property, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in income.

Buildings, machinery and equipment are depreciated, generally on a straight-line basis, at rates estimated to amortize the cost of each asset over its economic life. Rates in use for the principal classes of such

assets are as follows:

Buildings 2½%
Production machinery 6¼%
Automotive and mechanized woods equipment 10% to 25%

Logging roads are written off on a straight-line basis over 10 years and amortization of timber limits is determined on a basis related to production.

Research and development:

Research and development expenses are charged against earnings as incurred.

Investment tax credits:

Canadian and U.S. federal income tax credits are recognized as a reduction in the provision for income taxes in the years in which such credits are claimed for tax purposes.

Earnings per share:

Earnings per share are calculated using the weighted average number of shares outstanding during the year.

2. INVENTORIES:

	1975	1974
	(\$000's)	
Pulpwood and logs, including advances	\$ 9,869	\$ 7,340
Raw materials and supplies	8,556	8,856
Goods in process and finished products	4,506	4,488
	\$ 22,931	\$ 20,684

3. FIXED ASSETS:

	1975	1974
	(\$000's)	
Plants and properties	\$180,520	\$176,161
Less accumulated depreciation	104,545	102,014
	75,975	74,147
Freehold and leasehold properties	7,957	7,939
Less accumulated depletion	7,675	7,642
	282	297
	\$ 76,257	\$ 74,444

4. SHAREHOLDERS' EQUITY:

Capital stock—convertible common shares without nominal or par value:

	<u>Authorized</u>
Class "A"	5,000,000 shares
Class "B"	5,000,000
	<u>Issued</u>
Class "A"	2,218,133 shares
Class "B"	126,269

The only distinction between the two classes, which are convertible into one another on a share for share basis, is that the directors may specify that cash dividends on Class "B" shares be paid out of 1971 capital surplus on hand (as defined in the Income Tax Act).

No shares were issued in 1975 (1974—3,750 Class "A" shares for a consideration of \$82,687) pursuant to the provisions of the Stock Purchase Plan whereby shares may be issued for the account of certain employees at the discretion of the directors. Payment for shares issued under the Plan is made by employees in instalments so that the aggregate purchase price will be paid within ten years. At December 31, 1975 the Trustee held 15,485 Class "A" shares as collateral for the unpaid balances aggregating \$322,000 at that date.

Retained earnings:

At December 31, 1975, retained earnings include approximately \$43 million of 1971 capital surplus on hand. It is the intention of the directors, if, as and when dividends may be declared on the Class "B" shares, to deem that such dividends be paid out of this 1971 capital surplus.

5. PENSION PLANS:

According to the latest actuarial reports on the Company's pension plans, there was an unfunded liability as of December 31, 1974 of \$5,975,000, due primarily to benefit improvements introduced in 1974, which will be amortized by annual payments of \$589,000 for fourteen years as recommended by the actuaries.

In 1974, the Company provided \$1,100,000 for a possible additional contribution to its pension plans in view of the decline in market value of the assets of the plans. No payment was made against this provision in 1975.

6. CONTINGENT LIABILITY:

Fraser Companies, Limited has received a re-assessment for the 1970 taxation year and has been advised by Revenue Canada of its intention to re-assess the 1971 taxation year with respect to the treatment of certain income for tax purposes in those years. The Company disputes the position taken by Revenue Canada and intends to contest such re-assessments. The amount of additional income taxes, including interest to December 31, 1975, which could be involved is estimated at \$700,000 and no provision has

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Aggregate remuneration to persons who served as directors and officers of Fraser Companies, Limited at any time during the year was as follows:

	1975		1974	
	10 Directors	14 Officers	12 Directors	13 Officers
Remuneration paid by:				
Fraser Companies, Limited	\$44,000	\$295,000	\$39,000	\$230,000
Fraser Paper, Limited	—	153,000	—	145,000
	\$44,000	\$448,000	\$39,000	\$375,000

Four officers of the Company were also directors.

been made therefor in the accompanying financial statements.

7. COMMITMENTS:

The Company proposes to proceed with a capital expenditure program at its Edmundston mill to increase production capacity and efficiency and to meet prescribed environmental standards. Capital outlays aggregating \$90 million are anticipated over the years 1976 to 1979. In connection with this program, the Company is negotiating with lenders for the sale of \$35 million (U.S.) principal amount of long-term debt. The terms and conditions of the issue have not yet been finalized but they will include revisions to the terms and conditions attaching to the outstanding First Mortgage and Collateral Trust Bonds on a basis that is satisfactory to the Company.

At December 31, 1975 contractual commitments for capital expenditure amounted to \$5 million.

8. ANTI-INFLATION LEGISLATION:

Fraser Companies, Limited is subject to anti-inflation legislation with respect to prices, compensation and dividends.

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1975
(in thousands of dollars)

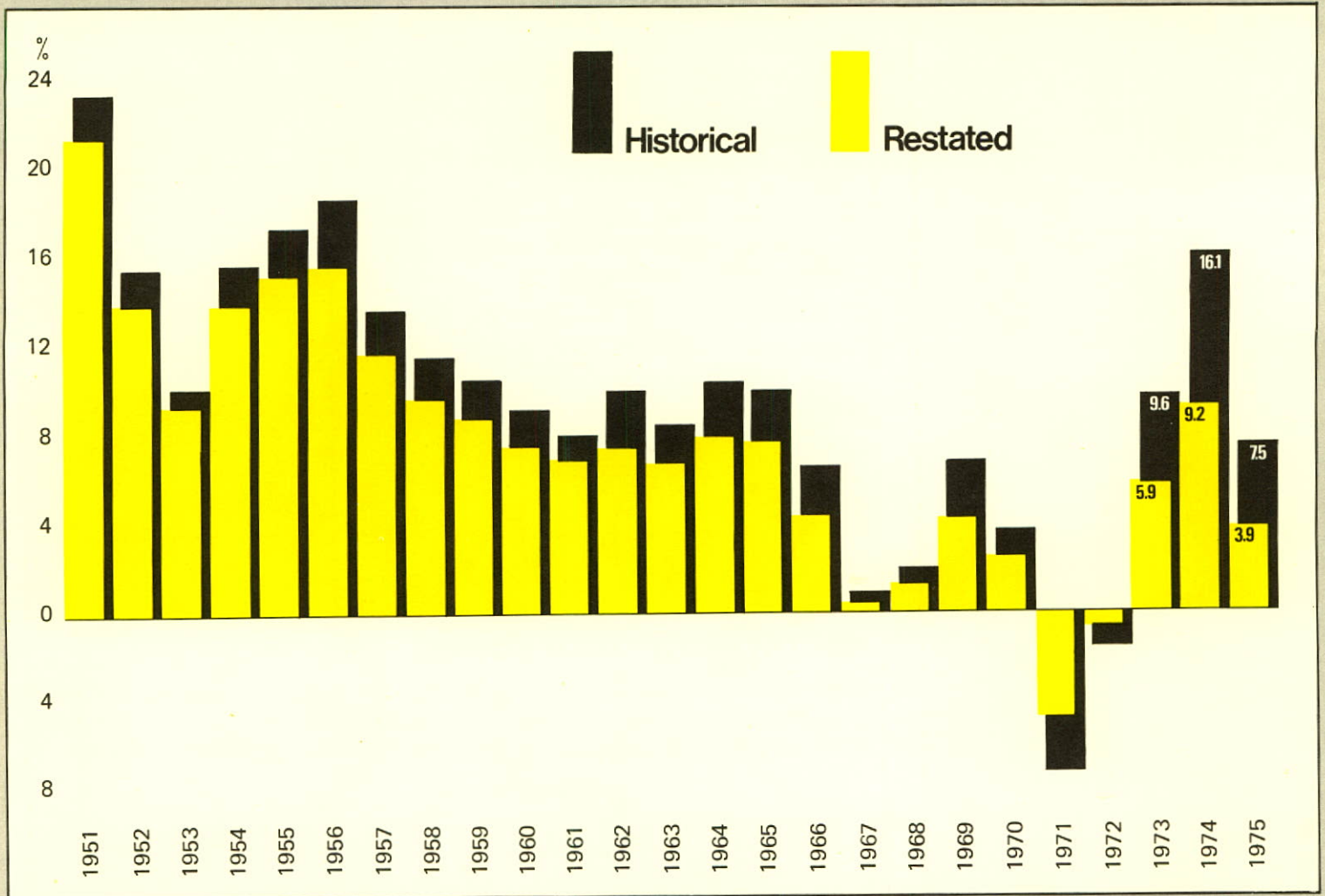
	Historical Cost	Historical Cost Restated to Reflect Purchasing Power of 1975 Dollar
Net Sales	\$142,775	\$149,200
Cost of sales, selling, general and administrative expenses	126,351	134,973
Depreciation and depletion	7,373	11,099
	133,724	146,072
Other income and expense (net)	9,051	3,128
	2,388	2,397
Earnings before income taxes	11,439	5,525
Taxes on income	4,227	4,417
Net earnings	\$ 7,212	\$ 1,108
Per common share	\$ 3.08	\$.47

RESTATEMENT PROCEDURE:

Adjusted to reflect the purchasing power of the 1975 dollar by using the Consumer Price Index and the proposed accounting recommendations issued by the Canadian Institute of Chartered Accountants.

INFLATION
The Impact on

RETURN ON SHAREHOLDERS' EQUITY



RESTATEMENT PROCEDURE:

Profit: Historical after tax profit (before extraordinary items).

Equity: The 1950 year-end historical dollar equity was restated to 1951 year-end dollars by applying the inflation factor for the year 1951 (GNE Implicit Price Index) to which was added the historical dollar equity increase in 1951. Each year thereafter the beginning restated equity was "updated" to current year-end dollars and increased or decreased by the historical dollar equity change during the year.

ON!
Fraser

Ten Year Comparison

FOR THE YEAR	1975	1974
SALES AND EARNINGS DATA (\$000's)		
Net sales	\$ 142,775	\$ 158,228
U.S. exchange gain (loss)	2,144	(3,168)
Interest on long-term debt	479	497
Depreciation and depletion	7,373	6,796
Selling, general and administrative expenses	7,015	5,665
Taxes on income	4,227	10,793
Net earnings (loss) from operations	7,212	14,892
Extraordinary items (net)	—	—
Net earnings for the year	7,212	14,892
FINANCIAL POSITION DATA (\$000's)		
Working capital	36,807	35,467
Cash flow from operations	15,049	22,581
Net additions to plants and properties	9,186	5,886
Bond debt at end of year	9,671	10,463
Deferred taxes on income	8,207	7,743
OTHER FINANCIAL DATA		
Net earnings (loss) from operations per share	3.08	6.35
Extraordinary items (net) per share	—	—
Net earnings for the year per share	3.08	6.35
Dividends per share	1.60	1.40
Cash flow from operations per share	6.42	9.63
Common shareholders' equity per share	41.04	39.56
Common shares outstanding at end of year	2,344,402	2,344,402
Return on total capital invested—%	6.6	13.8
Return on shareholders' equity—%	7.5	16.1
QUANTITIES SOLD		
Paper— tons	302,968	383,063
Boxboard— tons	30,326	32,389
Pulp— tons	12,191	10,533
Lumber— M f.b.m.	46,081	46,190

1973	1972	1971	1970	1969	1968	1967	1966
\$ 111,913	\$ 90,926	\$ 62,639	\$ 73,730	\$ 91,327	\$ 76,568	\$ 70,681	\$ 72,412
18	(382)	372	1,456	3,771	3,169	2,929	3,095
547	583	622	661	714	735	769	395
6,400	6,294	5,272	3,801	5,836	5,890	5,502	6,567
4,787	4,450	5,244	5,673	4,936	3,716	3,640	4,079
6,424	(685)	(5,648)	811	1,993	322	—	1,642
7,753	(751)	(4,856)	2,614	4,403	1,161	127	3,680
5,916	—	—	6,807	1,933	—	579	—
13,669	(751)	(4,856)	9,421	6,336	1,161	706	3,680
21,763	11,741	6,965	25,339	23,186	19,876	15,711	15,941
19,293	4,765	(4,349)	6,638	12,070	7,315	6,167	11,279
7,310	1,909	14,785	40,243	10,608	2,609	4,168	19,917
11,279	12,089	12,899	13,716	14,579	15,389	16,199	16,199
6,850	1,710	2,427	7,131	8,859	6,991	6,691	6,691
3.31	(0.32)	(2.08)	1.12	1.90	0.50	0.06	1.65
2.53	—	—	2.92	0.83	—	0.26	—
5.84	(0.32)	(2.08)	4.04	2.73	0.50	0.32	1.65
0.60	0.10	0.15	0.90	0.65	0.10	0.60	1.40
8.24	2.04	(1.86)	2.85	5.20	3.18	2.77	5.07
34.63	28.89	29.31	31.56	28.45	26.41	26.44	26.73
2,340,652	2,334,802	2,334,302	2,331,802	2,320,952	2,300,202	2,226,102	2,226,102
8.2	(0.5)	(5.5)	3.3	5.5	2.1	1.1	4.8
9.6	(1.1)	(7.1)	3.6	6.7	1.9	0.2	6.2
363,144	322,771	195,049	221,278	241,734	212,306	203,243	215,313
31,625	29,118	28,154	27,505	27,998	24,053	24,407	24,369
20,229	49,151	50,255	88,387	211,058	180,463	128,731	120,831
49,774	57,153	52,507	39,016	33,033	20,616	27,435	26,781



Directors & Officers

BOARD OF DIRECTORS

CARL E. BEIGIE
RALPH B. BREMAN
W. R. CLERIHUE *†
KENNETH V. COX †
H. ROY CRABTREE *
C. M. FRANTZ
DAVID J. HENNIGAR *†
C. R. RECOR *
FRANK H. SOBEY
A. H. ZIMMERMAN *

HONORARY DIRECTORS

AUBREY CRABTREE
L. M. SHERWOOD

*Member of Executive Committee
†Member of Audit Committee

OFFICERS

A. H. ZIMMERMAN
Chairman and Chief Executive Officer
H. ROY CRABTREE
Vice-Chairman of the Board
C. R. RECOR
President
RALPH B. BREMAN
Senior Vice-President
JOHN P. FISHER
Executive Vice-President
K. GROTTROD
Senior Vice-President—Operations
J. K. BARRY
Vice-President—Marketing
P. M. BELYEA
Vice-President—Woodlands
B. W. HICKS
Vice-President and Secretary
M. B. ROBINSON
Vice-President and Treasurer
R. V. OSBORN
*Vice-President—Corporate
Fraser Paper, Limited*
H. H. VALLETTE, Jr.
*Vice-President—Marketing and Planning
Fraser Paper, Limited*
K. L. SEELY
Controller
H. P. HIERLIHY
Assistant Treasurer
D. G. McALARY
Assistant Controller

Offices, Plants & Products

FRASER LUMBER

Mills:
Plaster Rock, New Brunswick
W. H. Miller Company, Limited
Kedgwick, New Brunswick
(a wholly-owned subsidiary)
Product:
Eastern Canadian Spruce
End Use:
Residential and commercial buildings
Market:
Eastern Canada and Eastern United States
Sales Office:
Edmundston, New Brunswick E3V 1S9

FRASER PULP

Mills:
Atholville and Edmundston,
New Brunswick
Products:
Bleached and unbleached softwood
sulphite, and groundwood
Market:
North America and overseas
Sales Offices:
Edmundston, New Brunswick E3V 1S9
1155 Dorchester Blvd. West,
Montreal, Quebec H3B 3T6

FRASER BOXBOARD

Mill:
Edmundston, New Brunswick
Products:
Coated and uncoated folding boxboard
End Uses:
Packaging for food, detergents,
cigarettes, frozen foods, pharmaceuticals,
pet foods, etc.
Market:
Canada
Sales Offices:
1155 Dorchester Blvd. West,
Montreal, Quebec H3B 3T6
600 The East Mall,
Islington, Ontario M9B 4B1

FRASER PAPER

Mills:
Fraser Paper, Limited
Madawaska, Maine
(a wholly-owned subsidiary)
Bond and Writing Papers:
Five paper machines
Groundwood Printing Papers:
Three paper machines and one
off-machine blade coater
End Uses:
Papers for converting specialties,
commercial printing,
coated and uncoated publications,
directories and catalogues
Market:
United States
Sales Offices:
2 Greenwich Plaza,
Greenwich, Conn. 06830
2300 East Devon Avenue,
Des Plaines, Illinois 60018

