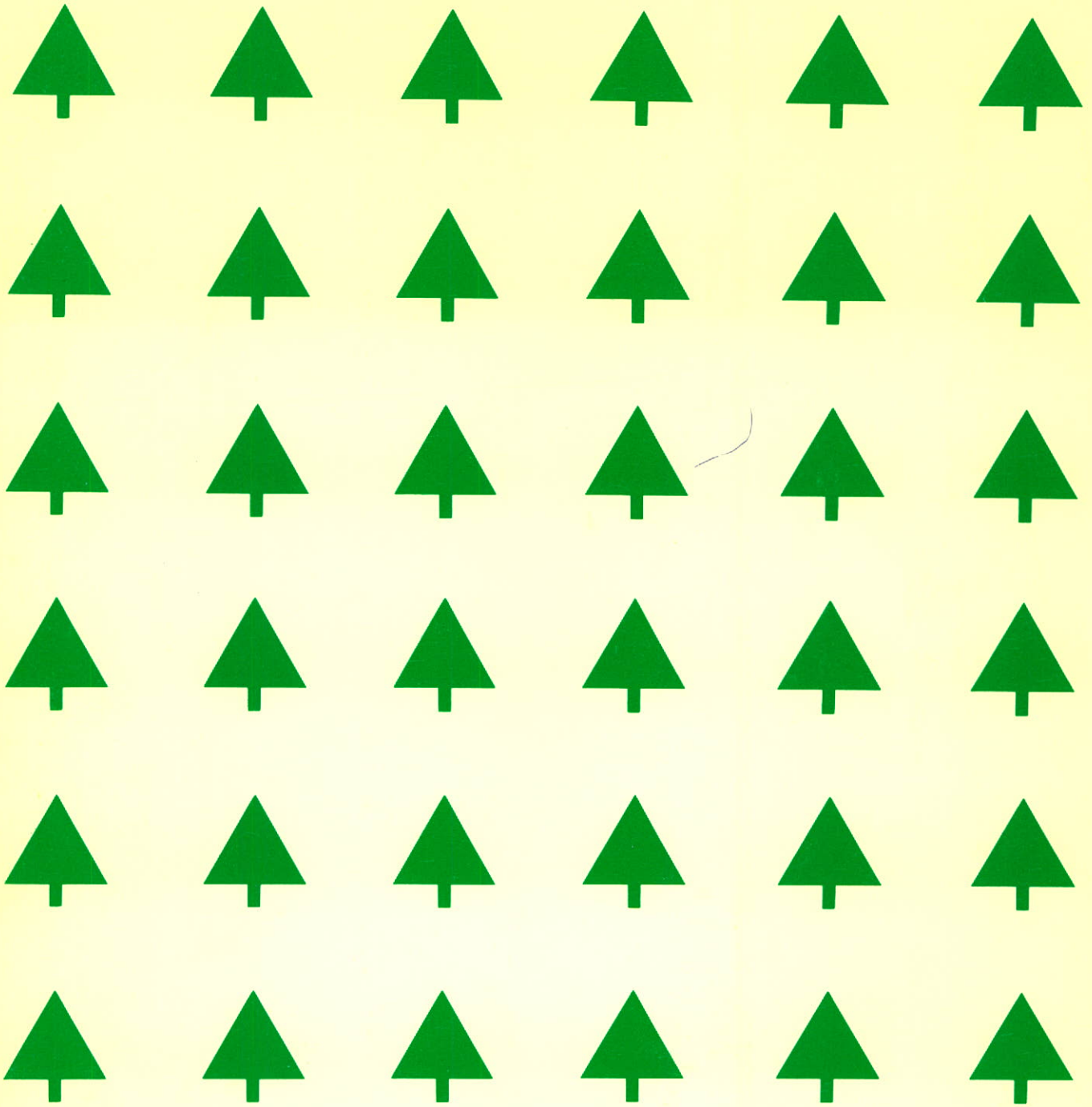
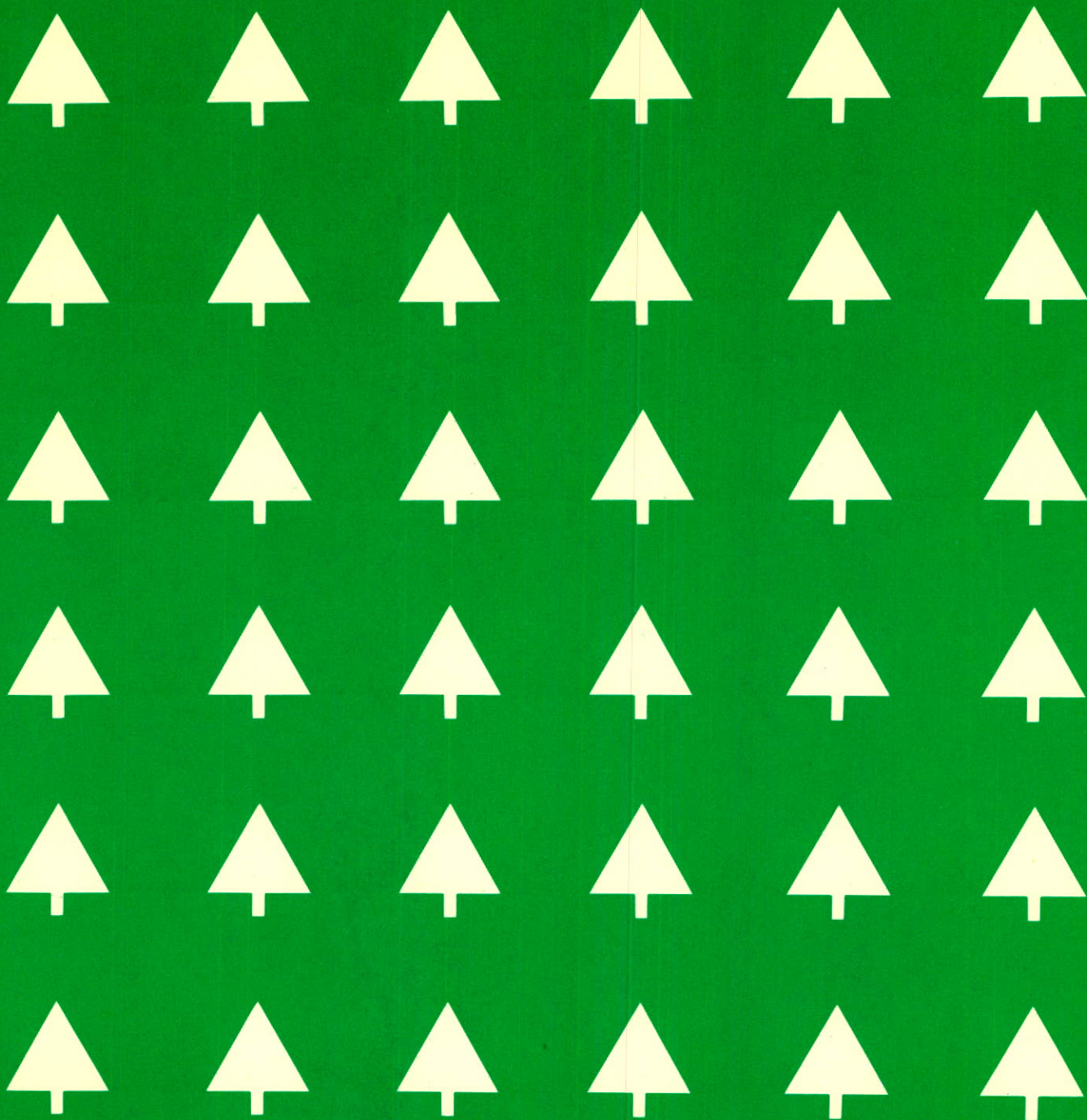


Fraser

1978 Annual Report



HOWARD ROSS LIBRARY
OF MANAGEMENT
JUL 30 1979
MCGILL UNIVERSITY



Financial Highlights

	1978	1977	1976
Net sales	\$265,129,000	\$212,490,000	\$180,654,000
Net earnings from operations	22,559,000	13,853,000	11,051,000
Net earnings per share	3.20	1.97	1.57
Dividends paid per share	.66	.58	.54
Cash flow from operations	38,316,000	27,446,000	21,147,000
Cash flow per share	5.44	3.90	3.01
Additions to plants and properties — net	53,646,000	44,459,000	23,144,000

At Year End

Working capital	22,175,000	43,008,000	64,809,000
Long-term debt	42,092,000	42,901,000	43,712,000
Shareholders' equity	131,207,000	113,300,000	103,437,000
Shareholders' equity per share	18.62	16.08	14.71

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The Annual General Meeting
of the shareholders of Fraser Companies, Limited will be held at the Wandlyn Motor Inn, Edmundston, N.B., on Wednesday, April 11, 1979, at the hour of 11:00 o'clock in the forenoon, Atlantic Standard Time.

Stock Transfer Agent and Registrar
Montreal Trust Company
Montreal, Quebec
Toronto, Ontario
Vancouver, B.C.
Saint John, N.B.

Stock Listed
Montreal Stock Exchange
Toronto Stock Exchange



FRASER commitment to the future.
This twelve day old seedling grown in the new
Fraser Tree Nursery is one of the 250 million
seedlings that will be planted on Fraser
managed forest lands by the year 2000.

Directors' Report to the Shareholders

Good things happened throughout the Forest Industry in 1978 and your Company received its share. The overriding bonus to the Canadian Industry was the lower Canadian dollar relative to the U.S. dollar. The effect of the gradual decline through the year of the value of the Canadian dollar from 91c at January 1 to 84c at December 31 was seen in the substantial foreign exchange contribution of \$11.5 million or \$1.64 per share to the Company's record year. Without this contribution, profitability would have been inadequate and debilitating.

As you will observe, inflation is still a matter of serious concern. While 1978 net earnings of \$3.20 exceeded by 51% our previous record earnings in 1974, in "real" terms it amounts to only a 9% increase over 1974 and provides a return of 11.5% on assets employed in the business. Taking these factors into account, the increase in profits was very modest. This is particularly important considering the heavy investments in new plant and equipment now underway in the continuing program of modernization and expansion.

Pulp has recovered from the depressed state caused by excessive world inventories at the beginning of 1978. Most of the earlier price erosion had been recovered by year-end and the industry is now operating at capacity. The demand for ground-wood papers has remained very firm while Fraser's fine papers, directed as they are to specialty areas, were also fully sold. While boxboard was in ample supply, lumber continued to enjoy excellent demand and stable, profitable prices.

In the realm of Forestry, Fraser inaugurated its exciting Tree Nursery. As the second largest private Nursery in Canada, this operation will produce 7,000,000 seedlings in 1979 and thus begin to provide the real foundation of the Company's future. At the same time, Fraser will continue to participate in the New Brunswick aerial spray program for the control of spruce budworm. This program's intensity is beginning to moderate even as the evidence mounts that it is both successful and environmentally inoffensive.

Notwithstanding the continuation of anticipated satisfactory business conditions in 1979, the maintenance of our earnings growth will be largely dependent upon our ability to be efficient producers. To help achieve this objective, your Company had another year of heavy capital spending. In all, \$53.6 million went towards completion of the Plaster Rock Planer Mill and the Forest Tree Nursery, the continuation of the Edmundston Rebuild, and the commencement of the Madawaska Modernization Program. Capital expenditures of \$46 million are planned for 1979 to continue these programs. The favourable effect of these projects is now taking hold and more will be felt in 1979, as will the corresponding higher depreciation and interest charges and normal start-up difficulties.

This heavy capital program amounts to no less than rebuilding the Company. Fortunately prevailing conditions over the past several years have allowed us to proceed with these high levels of spending to carry out these programs, while at the same time allowing raises each year in both basic wages and dividends. During the 4-year period 1975-78, the average base wage in our mills is higher by 53%, while dividends have increased by 41%.

Your Directors are very encouraged with these accomplishments and certainly every effort is being bent to retain them; however, there are a number of important problem areas still to be solved. Decisions will have to be taken on the boxboard operation which cannot presently meet corporate standards of profitability. Continuing attention is also being given to the Atholville mill in an effort to plan a viable facility which will also meet demands of environment, product quality and current wages. While it is too early to predict the outcome, it will be a happy occasion when these problem areas have been finally resolved.

With the high earnings level, the Company's financial position has been considerably eased and even with the substantial capital expenditures, working capital was only down some \$20.8 million from the previous year. The remainder of the capital program has been met from internal resources with available financing from our bank credit lines being untouched as yet. The prospects are that the Company's continuing appetite for large capital projects to broaden its base and renew itself will absorb all

the capital funds that can be made available. At the same time, the Directors are mindful of entrepreneurial possibilities that might enhance the Company's earnings potential and always reserve some resources for the furtherance of such purposes.

Throughout Fraser's affairs, the continuing trend is being observed of increasing respect for what private enterprise can accomplish. Employees at all levels have been unstinting in their efforts to use well the assets they have to work with and we seem to be gaining in public appreciation. Government policies are demonstrating an improving understanding of our situation and good cooperation is being experienced at all levels.

It is clear that Canada as a nation has to identify some common cause. Notwithstanding that our present standards of living were achieved by private enterprise, the willingness to intervene in private situations is evident throughout the public sector. Federal and Provincial Governments continue to have no more than a nodding acquaintance with the concept of balanced budgets. Keynes may have been right in advocating deficit spending, but he did not contemplate there would never be balanced budgets. Without them, Canada's currency will continue to weaken and inflation will remain high. While resource companies, being exporters, are the apparent beneficiaries, it seems a poor thing to count on.

For Fraser's part, we seek to provide safe and meaningful employment by investing the shareholders' dollars in facilities which can compete with the best. We judge that satisfactory progress was made towards these goals in 1978.

On behalf of the Board.

Adam H. Zimmerman
Chairman

John P. Fisher
President

Bank Statement

Date	Item	Withdrawal	Deposit	Balance
				\$18,251,000 00
January 1, 1978	Proceeds from sale of lumber, pulp, boxboard and paper		263,217,000 00	
	Interest earned on term deposits		587,000 00	
	Paid out for wood	31,822,000 00		
	wages	57,704,000 00		
	funds benefits	13,563,000 00		
	fuel	25,701,000 00		
	Services, chemicals and supplies	79,653,000 00		
	Paid to reduce debt	850,000 00		
	Paid interest on debt	484,000 00		
	Paid for new machinery	53,646,000 00		
	Paid to federal, provincial, state and local government for taxes	9,921,000 00		
	Received from sale of shares to employees		59,000 00	
	Dividends paid to shareholders	4,652,000 00		
				4,113,000 00
December 31, 1978				

The only real difference in this bank book and your own private bank account may be in the numbers. This statement shows the changes in the cash position of the Company for the year.

Our Woodlands division entered a new era in forest management in 1978 with the official opening of the second largest privately owned tree nursery in Canada. Fraser's \$1.2 million nursery at Second Falls, near Edmundston, will produce 7 million seedlings a year for replanting in our forest lands.

The opening ceremony in October was attended by representatives of the New Brunswick government and by members of the forest products industry. In his remarks at the ceremony, Company President John Fisher said that Fraser's new nursery will provide continued momentum for our second century of growth. It will "complement our \$91 million modernization program at Edmundston and our similar \$42 million expansion project at Madawaska, Maine".

Company Chairman, Adam H. Zimmerman remarked that the nursery's opening is probably the most spectacular event of 1978 in the industry. "In 40 years, the economic well-being of north-western New Brunswick will be based on these tiny seedlings".

Improved Land Management

The need for Fraser's nursery becomes obvious when the problem of forest regeneration is examined closely. Natural regeneration simply cannot supply enough wood to meet the potential needs of our Company. If Fraser is going to have wood products to sell, we have to give nature a hand in providing the resources we'll need.

This helping hand is a vast forest management program in which the Second Falls nursery plays a major, but by no means the only role. By the year 2,000, Fraser expects to have created more than 125,000 acres of man-made forest containing 250 million trees.

Public Benefits As Well

The new nursery and the forest management program are a cornerstone in the future growth of our Company, but Fraser intends that the people of New Brunswick will reap many of the benefits. Of primary consideration is the number of jobs that will be created. President Fisher also thinks that Fraser's extensive woodlands and related operations will be a model training centre for all of

New Brunswick — "to educate the public about modern forest management, the techniques we use, what alternatives exist and the impact of the forest products industry on the lives of New Brunswickers".

Containerized Seedlings

Fraser's modern nursery is the second largest industry-owned nursery in Canada, but it is the country's largest private *container* nursery. This means that we grow seedlings in protective plastic pots which enable us to produce a seedling in a little over a year instead of in three years which is the average growing time in nurseries using the bare root system.

The seedlings are grown in three unheated greenhouses at the Second Falls site. Each greenhouse is longer than a football field. (For the information of our American shareholders, a Canadian football field is 10 yards longer than the U.S. field).

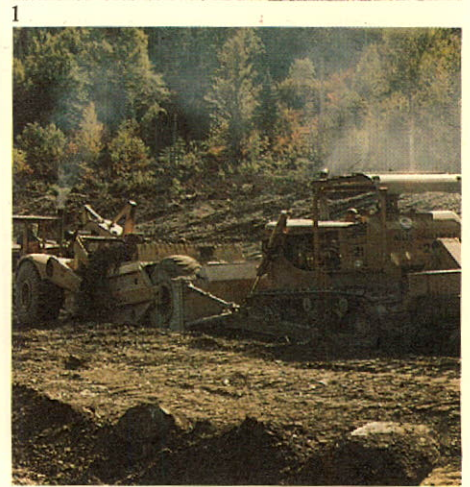
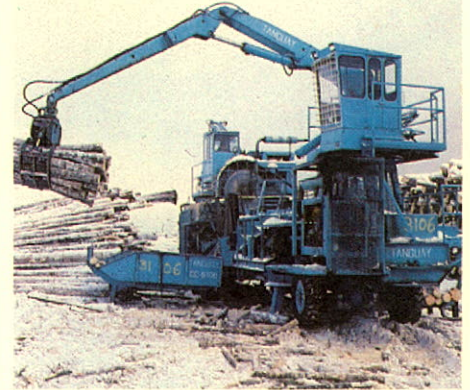
The automated planting operation begins with shredded denatured peat moss fed into containers which we call "multipots". A conveyor then carries the pots through the seeding system which drops a seed into each cavity and covers it with crushed silica. The silica holds the seed onto the peat moss and effectively negates the effects of too much sunlight or water during germination.

Germination usually takes place in late May when we move the multipots into the greenhouses and begin watering. Ten days later, most seeds have started to grow. At three weeks a specially designed automated fertilizer system begins providing the seedlings with the amount and type of nutrients they require according to their size and rate of growth.

Replanting

We prepare the forest sites for the seedlings the year before they are ready for replanting so their new surroundings will be ready to provide an ideal growing environment.

Each worker can plant about 2,000 seedlings a day on one hectare of land. (A hectare is slightly less than 2.5 acres). Forty years later, and after much management and care,



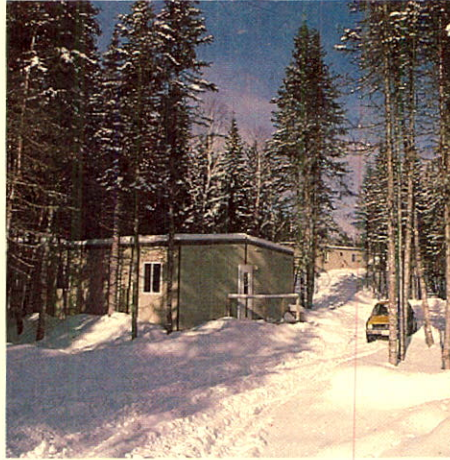
1 Our mechanization program continues in Woodlands specially in the preparation of logs with the purchase of multifunction slashers such as these.

2 Up to date road building equipment is used in the construction of our major log-hauling roadways.

3 Operations room of the tree nursery building where the complete seeding operation is carried out automatically.



1



2



3

1 Now retired, long term Fraser Chief Forester "Gene" Howie (CR), honoured during nursery opening ceremonies for accomplishments in Forestry, accompanies Chairman A. H. Zimmerman (L) and President J. P. Fisher (R) as tour guide A. Girouard (CL) indicates that seedlings are ready for planting.

2 New woods operations trailer type camps nestled in the woods rather than on large, bare clearings previously used.

3 Aerial view of the Fraser Tree Nursery and greenhouse complex at Second Falls, New Brunswick.

Fraser will harvest the fully grown trees that started as seedlings in our own nursery at Second Falls. It's long range and it costs money, but it will be well worth it when future generations can rely on a steady supply of New Brunswick spruce.

Budworm Spraying

The greatest natural enemy of our forests is a tiny creature called the Spruce Budworm. Left alone, the budworm would destroy the commercial value of our woodlands in a very short time.

To combat the budworm, Fraser contributes to New Brunswick's forest protection program, which, in 1978, sprayed 800,000 acres of our Company's forests at a cost to us of \$540,000.

Preliminary surveys show that we'll need to spray 600,000 acres of Fraser holdings in 1979. Some of this land will be sprayed earlier than usual to check infestation in critical areas.

Woodlands Operations

Completely apart from the innovation of the nursery, our woodlands people stepped up their normal silviculture operations. In 1978, land preparation by scarification for future growth increased 400% over 1977 on our freehold lands and by a similar margin on our Crown Lease lands.

The Woodlands department contributed further to the new silviculture program by establishing a seedling orchard at Second Falls. The best specimens among the trees in this orchard and others to be established, will eventually be the parents of almost all the seedlings started at the nursery.

The department continued to extend and repair Fraser's major private road system thus improving transportation facilities. Our construction crews in Plaster Rock and Edmundston also built two new camp sites in the forests.

Overview

1978 was an exciting year for our woodlands division. It was a year that marked our determination to increase and guarantee our supply of wood for the future by applying modern techniques of forest management in three main phases; creating man-made forests; controlling pests that would otherwise destroy our forests; and improving the delivery system for moving our harvest from the forests to the mills.

Wood Products

Marketing

The market for our wood products generally was strong throughout 1978 and we were able to sell all the lumber we could produce at satisfactory price levels. Though there were a few slow-downs in the early months, both sawmills ran at full capacity once renovations were completed in February. Between them, Plaster Rock and Kedgwick produced: 90,219,000 fbm, 33.4% better than 1977's production.

Home building creates the largest demand for our lumber, and since housing starts are expected to decline in the Eastern United States during 1979, we anticipate reduced demand in that sector, however some of the slack should be taken up by general construction and home renovation projects which are on the upswing and by the market for industrial lumber in the U.S.

To further increase sales, we've taken steps to broaden our selling area in the United States and to look farther afield for new foreign markets. Late in 1978, we returned to the British market where we expect to increase sales steadily through the 1980's. Already, a considerable part of our 1979 production is allocated for export to Britain. Closer to home, our share of the market in Canada's Maritime provinces grew in 1978 and we expect further market growth along our east coast in 1979 and through the 1980's.

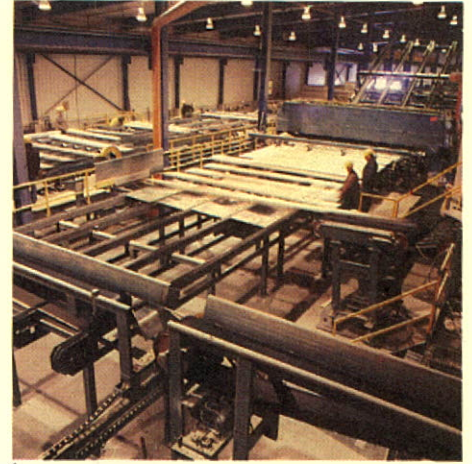
Operation and Projects

Fraser's sawmills are important employers in north-western New Brunswick. Jobs provided in the mills and created by the \$5.2 million renovation program that was completed in 1978 have had a considerable impact on the stability of the economy in the communities of Plaster Rock and Kedgwick. Fraser remains deeply committed to the future of both communities.

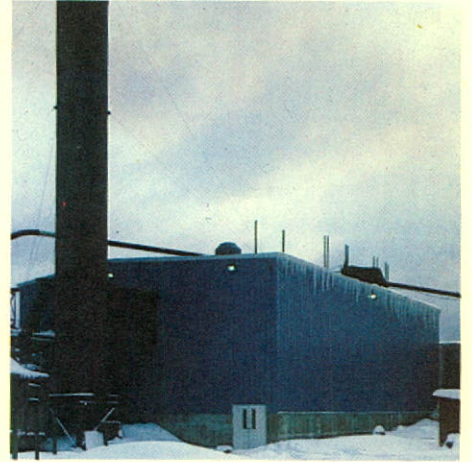
A brand new planer mill in Plaster Rock, with two production lines, one for dimension lumber and one for boards and specialties began production in February and is performing well. Thanks to the installation of refuse burning boilers, the new mill is operating without using anywhere near the oil it used last year at this time.

The computer scanner installed at Kedgwick in 1978 "reads" the logs before they reach the saw blade and sets the equipment to cut the maximum amount of lumber from each log. The scanner saves us money and unnecessary work by producing the same amount of lumber from fewer logs. In 1979, we'll introduce similar scanning equipment at our Plaster Rock mill. Also in 1979 our capital programs include the installation of a new bandsaw at Kedgwick which will allow us to cut more smoothly and accurately. New debarking equipment at both mills will reduce operating costs by removing bark more effectively and improving the quality of the by-product chips used in our pulp mills.

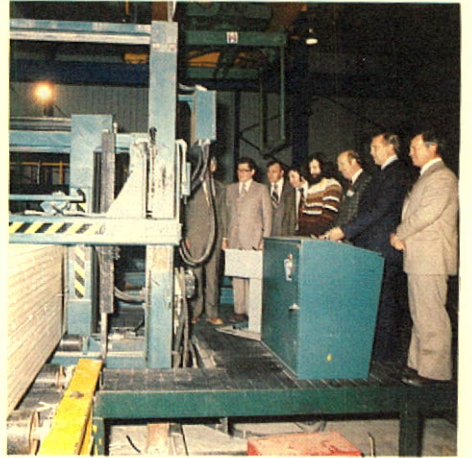
With the new equipment and cost reduction measures installed and fully operational, both mills should be cost competitive in serving the markets that we expect during 1979.



1



2



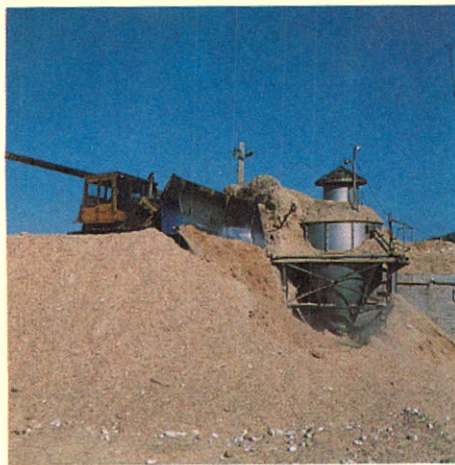
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1 New planer mill at Plaster Rock contains automatic trimming and sorting line for dimension lumber and a specialty lumber line.

2 New wood waste burning boiler building at Plaster Rock will further reduce oil consumption.

3 New Brunswick Premier Richard Hatfield officially opens Plaster Rock Planer Mill by automatically strapping a bundle of lumber while President John Fisher at Premier's left looks on.

Market Pulp



Marketing

All of Fraser's *market pulp* is produced in our Restigouche mill at Atholville, New Brunswick. The mill operated at 92% of capacity during 1978 for a production of 93,429 tons, up 6,669 tons from 1977. Internal consumption by our paper mill in Madawaska accounted for 46% of production. The remaining 54% was sold to a broadly expanding group of customers.

Increased pulp production at Edmundston in 1979 will reduce the amount of Restigouche pulp needed at the Madawaska plant by two thirds. This increase in total integration will free up more of Restigouche's output for sale on the open market. The amount of market pulp available in 1979 is expected to be 75,000 tons, up from 9,900 tons in 1976.

The pulp market varied considerably throughout the year. After a slow first quarter it strengthened enough to permit two price increases by the end of the year. This return of prices to 1975 levels was the minimum necessary for the Atholville mill to achieve break-even.

Operation and Projects

Notwithstanding its problems, Fraser remains committed to the Atholville plant and to the people of the area. We're looking ahead to making the operation cost competitive. Marketing and mill studies have led us to look for different grades of pulp and to saleable by-products which, when combined with cost reduction measures, should start to turn the division around.

A capital improvement program presently underway will, when completed, reduce costs and cash drain at Atholville, particularly in the areas of cost of raw materials, material usage and labour productivity.

The recently announced support by the Federal Government for modernization programs in the Canadian Pulp and Paper Industry will have a beneficial effect on the final program.

We have also announced plans to continue our studies into more effective control, and even profitable use, of Restigouche's effluent solids. Studies in this area will continue in 1979.

1
New hymac pressure screen being installed at Atholville Pulp Mill as part of efforts to improve the product and prevent fibre losses.

2
Market pulp being loaded in box cars for export to Europe. 75,000 tons of 1979 production is earmarked for open market.

3
With full production expected in '79 the Atholville chip pile level is constantly changing.

Boxboard

Marketing

The Boxboard division of Fraser's production units had a disappointing year in 1978. Manufacturing problems restricted production to a shippable 30,630 tons, down 909 tons from 1977. Shipments reached their lowest total in three years, and the product operated at a loss.

Almost all of our boxboard production is used in packaging, particularly for consumer goods. In 1978, this market was especially competitive as there was a general excess capacity situation throughout the converter industry which impacted on the producer segment.

Total industry overcapacity and competitive forces prevented the recovery of increased costs through price increases despite a full order book and the gradual buildup of an order backlog.

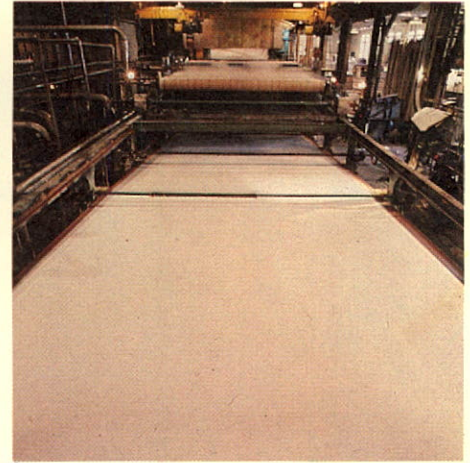
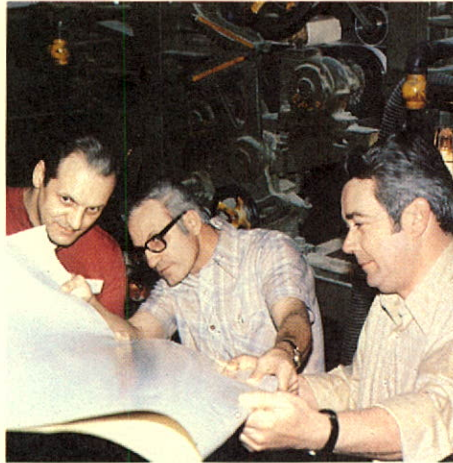
Operation and Projects

A vigorous program is underway to reduce the manufacturing costs of our boxboard. The program includes steps to reduce the costs of fibre by replacing virgin pulp with less costly reclaimed fibre; reduce energy by improved water removal equipment on the boxboard machine and by using heat recovery techniques. The program also calls for reducing labour costs by increasing the use of sophisticated controls. In late December, the machine was shut down for a week for partial rebuild.

If these cost reduction efforts can be matched with prices that adequately reflect upward pressure on costs, we believe that the future of this product can be assured.

As part of an overall industry move, the Boxboard division prepared to adopt the metric system in 1979. The preparation included an indoctrination course to lessen the chances of any change-over problems.

For the second year in a row, Fraser's boxboard division continued its excellent safety record, operating without a single lost time accident.

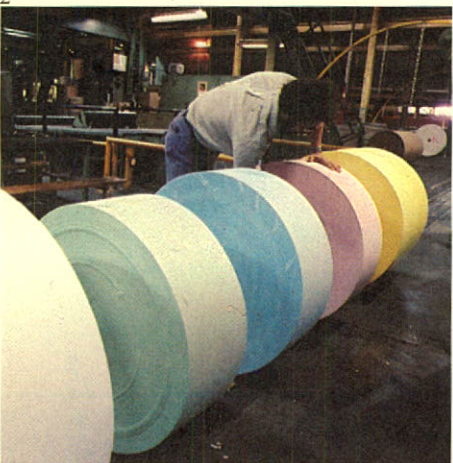
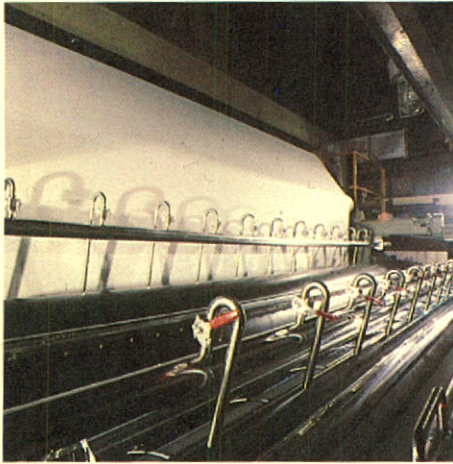


1 Boxboard operation supervisors discuss coating characteristics of Fraser Boxboard.

2 New split felt configuration installed during Christmas shutdown is expected to improve production and save energy.

3 Boxboard packaging for consumer products.

Fine Papers



Marketing

1978 was a significant year in Fraser's participation in Fine Papers. The ongoing program of product diversification and upgrading continues to improve our market position and the profitability of this segment of our business.

However, the year was not without its problems, as our employees had to overcome severe weather conditions early in the year to meet customer delivery requirements. As the year progressed, demand for our products increased until it became imperative to put our customers on an allocation program to ensure uniformly fair treatment and to better match shipments with production.

The market's unexpected high demand for our product led to improved pricing and profitability.

Our fine papers business mix will concentrate on growth markets such as the Forms Industry which is projected to grow at a rate of 8 - 10%, and new converting potentials which will use the coating technology available when our Billblade Coater is operative.

Overall, 1978 was a year of progress and diversification for fine papers with key emphasis placed on preparation for improved market position in 1979 on business forms papers, converting papers and publishing grades.

Operation and Projects

1978 was a challenging year for the fine papers Operating Division with many high points more than making up for the difficulties we experienced as we progressed through the first phases of bringing the new pulping process on stream at Edmundston.

Enthusiasm surrounds our new Billblade Coater which will be in full operation on No. 3 paper machine at Madawaska by mid-1979. The coater and a new colour kitchen for preparing specialty coatings will enable us to operate in completely new markets with a diversified line of products we were unable to offer in the past. The Billblade Coater was installed on No. 3 machine in November and operated as a size press until the end of the year. It will undergo testing until the colour kitchen is completed at the end of March 1979.

It was a year of continued diversification into lighter papers and technical preparation for producing specialty coated papers. 1978 was also a year of planning and reshaping our production procedures to take into account the changing and future requirements of our customers.

A fine paper task force was created to devise an overall strategy of product development, manufacturing processes, marketing and customer relations for the Billblade Coater. The small group consisted of Research, Production and Marketing personnel.

1
Differential Billblade Coater which will produce value added specialty coated fine papers.

2
New building which will house the coating kitchen that will supply specialty coatings to new Billblade Coater.

3
Ready to become the multicoloured business forms of today, these rolls are moving towards automatic roll wrapper.

Groundwood Papers

Marketing

All four markets for our groundwood papers: magazines, catalogues, directory paper and coated publication papers, were strong in 1978. We shipped a total of 222,000 tons of groundwood papers last year, up 7.7% from 1977. The outlook for 1979 is for even more growth in all four markets.

Growing demand for groundwood papers for an ever increasing number of magazines, catalogues and directories coupled with extensive paper strikes in the United States in 1978 tended to aggravate an already tight paper supply situation. As more advertising dollars in the United States and Canada are directed to these media we expect further increases in demand in this market sector, a factor which will play an important part in our future marketing plans.

The most exciting and challenging of our groundwood paper markets is the coated groundwood paper sector.

It is in such demand throughout the industry that we expect shortages to continue well into the 1980's. At present, shortages are so serious that many producers are installing new equipment to fill the market demand and many publishers are experimenting with different grades of paper which they are finding unsuitable for their purposes.

Fraser is moving forcefully to meet this demand with the expansion program at Madawaska which will double our capacity for producing coated groundwood stock.

In 1978, we negotiated several long term contracts for the increased output of the Madawaska mill with customers in both Canada and the United States.

Operation and Projects

1978 was a record year for our groundwood division both in shipments and in profits.

Customer demand for all four of our groundwood products was exceptional. This demand, coupled with strikes that crippled many American producers and the general shortages of groundwood papers throughout the United States stretched our Madawaska mill's production capacity to the limit.

As a result, plant management introduced a successful speedup program in order to meet our heavy market commitments.

The speedup program, combined with the \$42 million expansion program at Madawaska means that new equipment will be installed alongside operating equipment and personnel. The logistics and safety programs are staggering in their complexities, but they will be successfully carried out as witnessed by our record shipments and Madawaska's superior record in 1978, when the project was under way during the last six months of the year.

The major thrust of the expansion project at Madawaska is aimed at doubling our production of groundwood coated papers. The largest part of the project involves the installation of a new off-machine blade coater in the catalogue mill.

To supply sufficient base stock for the new coater, our No. 5 and No. 6 groundwood paper machines are being modernized. In addition, the No. 7 paper machine will undergo extensive renovations, enabling it to operate as a "swing" machine that can produce different grades of groundwood paper in addition to chemical pulp grade sheets.

This will give us the flexibility to serve either groundwood or free sheet markets on demand.

All of these additions and modifications to our paper manufacturing capacity have necessitated the extensive relocation of some existing facilities and the addition of several new ones. For example, we'll be buying certain pulps which will require a repulping facility in Madawaska. Our enlarged production capacity also means we have to build more storage space.

The Madawaska expansion was approved in April, 1978. Work has proceeded on the project throughout the year and is presently on schedule. The entire project is scheduled for completion by the end of the first quarter in 1980, at which point our integrated pulp and paper plants in Edmundston and Madawaska will both be in full operation.



1 Construction that will house new off-machine blade coater which will double present coated groundwood paper production.

2 Operator monitors cabinet of new computer control system that will improve quality, uniformity and production on No. 5 and No. 6 machines.

3 Some of the end products of our coated and uncoated groundwood paper products.



With its recovery building rising above nearby local residences, the modernized Edmundston Mill is an example of the compatibility of industry within a city environment with air and water pollution controls that will meet both Federal and Provincial standards.

Edmundston Project

1978 was the biggest expansion and modernization year ever for the Fraser Companies. By far, the largest expenditure was for the \$91,000,000 modernization project at the Edmundston pulp mill. By the end of 1978, \$82,500,000 of the total budget had been spent or committed to the project.

The mill was built sixty years ago at a cost of \$4 million. Back then, it produced 120 tons of bleached sulphite pulp daily. Though the mill underwent a number of modifications over the years, it remained essentially the same mill though with increased capacity until 1976 when we decided to expand and convert our production processes.

The decision was made to change from the ammonium sulphite process without recovery to the magnesium bisulphite process with recovery which produces a cleaner, whiter pulp and results in fewer ecological problems. Almost two thirds of the total cost of the Edmundston modernization has gone for environmental protection, chemical recovery and energy reduction features.

The Edmundston project stayed on schedule until August of 1978 when a five week long pipefitters' strike delayed progress on the recovery section of the project. However, most of the work was completed in 1978, and though partly operational, its full effect won't be felt until the spring of 1979.

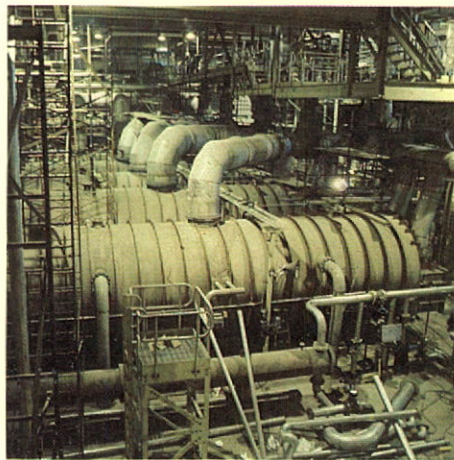
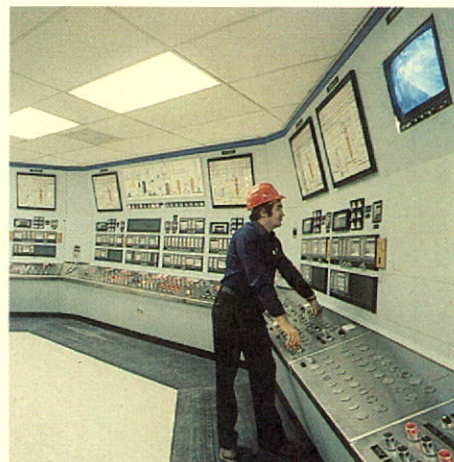
Using the magnesium acid sulphite process, the digesters and screening facilities are already in operation, but the main objectives of the whole project — increased production, cleaner pulp, energy reduction and improved environmental standards — cannot be attained until the whole system is functioning as a complete unit, expected by this spring.

The new washing and screening facilities were integrated into the pulping system early in the year. In order to maintain production during construction, a complex series of engineering operations was devised. By late May, the new equipment in the digester section was completely integrated after a one day shutdown, while the new washing and screening facilities were brought on line with a simple switch-over from the old system to the new.

Several cost reductions and quality improvements have already been realized. Because of the improved pulp washing, chlorine demand and bleaching costs have gone down. The conversion from ammonium to magnesium base has resulted in a brighter pulp. This has led to reduced use of brightening chemicals at the Madawaska end and has lessened the "pitch" problem on the paper machines.

Some of the difficulties encountered in the digester section were minimized by our well trained staff and by September, the whole system was operating smoothly.

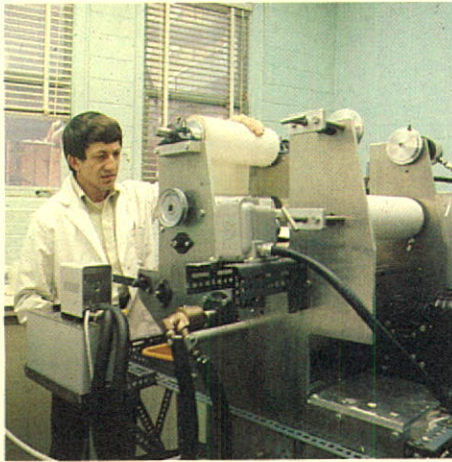
The safety record, a special concern of our Company, has been excellent during construction. The accident rate has been held down to about a third of the New Brunswick average.



1 Digester Process Control panel operator monitors eight digesters at various stages of "cook".

2 New washers and screens have already improved the quality of chemical pulp.

3 The waste liquor produced by the cooking process will be thickened in these evaporators and then be used as fuel.



The Environment

Forest Products Industries have always been a favourite target of environmentalists, and perhaps our industry has not always been blameless. As producers and manufacturers, we are highly conscious of the need to keep our environment clean. An outstanding example of how keenly Fraser feels this responsibility is the fact that \$60,000,000 of the total \$91,000,000 we're spending on our Edmundston modernization program is earmarked for environment protection features.

The new facilities will enable us to reduce fibre loss, to recover process chemicals and bring us into complete compliance with New Brunswick's environmental standards.

Recognition of our efforts in this area came in May of 1978, when Fraser was granted a Certificate of Approval for the Edmundston mill by the New Brunswick Ministry of Environment.

Energy Conservation

A few years ago, the cost of energy for industry was a secondary consideration; not today. Since 1972, the cost of oil has risen 500% while the cost of electricity has risen almost 260%.

We reacted to the energy crunch with energy conservation programs in every division of the Company. Since then oil and electricity usage per unit of production has gone down 15% and in spite of increased production, total oil consumption was less in '78 than in '72.

Two simple but effective measures are responsible for this significant saving; good energy management at each mill and conversion from oil to wood waste for our fuel at three of our plants.

The bark and wood refuse burning boilers installed at Edmundston and Kedgwick resulted in oil consumption reduction of over 2,400,000 gallons and 300,000 gallons, respectively in 1978. We expect equally dramatic decreases in the oil con-

sumption at Plaster Rock in 1979 with similar installations that were operational late in 1978.

Research and Development

The basic long term research needs of the Company are provided by our continuing support of such research organizations as Pulp and Paper Research Institute of Canada, the Institute of Paper Chemistry and Forest Engineering Research Institute of Canada (FERIC).

Research and Development by our staff is devoted to the application of the results of basic industry research to the particular requirements of our business. In addition to their assistance in the Edmundston project, the technical staff continued regular contributions to the Marketing, Production and Operations departments.

They developed a computer model for all Fraser operations from wood supply to finished products. The computer model can provide a complete list of the wood and pulp necessary to fulfill a given sales plan for any of Fraser's products.

The decision to install a Billblade Coater on Madawaska's No. 3 machine to produce value added specialty coated fine papers triggered a development program on specialty coatings which is actively in progress.

Research on the optimization of nutrient levels for the Edmundston plant's secondary treatment aerated lagoon was completed before conversion to the magnesium base process and resulted in considerable chemical savings.

Inventory Management

Inventory management underwent a complete restructuring in 1978.

Most of the programming for an automated inventory control system was completed in 1978. While several inventory groups will convert to the new system in 1979 on a trial basis, others will stay on our conventional inventory system.

All of Fraser's divisions, except for Plaster Rock, are now included in our Mills Stores parts and material catalogue which has been reduced to microfilm.

The Edmundston modernization necessitated revisions to maintenance procedures, the establishment of preventative maintenance programs and the updating of equipment record systems, which will continue well into 1979.

1 Wood waste burning in the new refuse burning boilers at Plaster Rock.

2 Various coating formulae are being tested on this new laboratory size blade coater in anticipation of the new coater installation in Madawaska.

3 New storage facilities for spare parts and equipment in the Madawaska mill.

In the fiercely competitive forest products industry, no one company can ever be stronger than the people who run it and work for it. Ours is not an industry where one company can do well by banking on the reflected excellence of another.

We do well by finding, and keeping, good people. This quest for qualified personnel plays an indispensable role in the future success of each member of this industry and is certainly a prime concern in our Company.

Generally, 1978 saw excellent relations between Fraser and its 3,800 employees; excellent but not perfectly harmonious because of three not unconnected influences: the complex shifting of priorities connected with our major expansion projects at Edmundston and Madawaska, the strains of inflation on present wages and wage expectations, and the difficulties, and even the dubious desirability, of negotiating long-term labour contracts. Fraser's history of stable labour relations led to effective resolutions of the problems that did spring up.

We are confident that the same spirit will prevail in 1979 when all of our Company's Canadian labour agreements will be renegotiated following the termination of the Canadian Anti-Inflation Board's mandate to oversee major industrial wage and price increases. We anticipate some disagreement in several areas, particularly in clauses related to money and in the duration of contracts. However, we also anticipate that excellent labour-management communications and goodwill on both sides will help us to arrive at fair solutions acceptable to all concerned.

Safety Record Greatly Improved

Our Company's safety record in 1978 improved moderately over 1977 standards, with the improvement entirely due to the Madawaska Mill. Madawaska's accident record for 1977 was double the industry average. In 1978, they reversed that to produce the best record of any of Fraser's mills. Madawaska reduced lost time accidents by almost 85% and ended 1978 with an accident rate less than half that of the industry as a whole.

Though all of our other operations bettered the industry's standards for safety in 1978, there is still room for improvement at all levels. While we are pleased with our performance, Fraser people are too important to risk losing for even a short period of time because of avoidable accidents.

Training Program Continues

Fraser's in-company training programs were restructured in 1978 to accommodate the need for more highly qualified personnel at the Edmundston mill and in the Plaster Rock Woodlands division.

The modernization project in Edmundston and the new logging equipment in Plaster Rock changed the way we do things at those two locations. As a result, familiarization and training programs were necessary to prepare personnel to handle the new equipment and processes to the best advantage. In total, 25,000 man-hours of operator training were accumulated in Edmundston and Plaster Rock in 1978.

Maintenance training programs were continued in all other Company operations. Eighty Fraser people undertook advanced training in 1978 under I.C.S. programs or the New Brunswick Block Release Training Program.

The Company's regular training centre offered courses in several different areas including French conversation for English speaking management personnel. In all, 1978 saw major advances in employee training, advances that enhance the employees' value to the Company in two ways — by increasing the employees' potential for higher earnings and benefits and, in the long run, by making our Company more efficient and profitable.



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1 One of the sixteen women working effectively alongside men on the paper machines.

2 Quebec badminton team wearing Fraser souvenir caps receives Eastern Canadian Team Championship trophy from Fraser Vice-President, J. C. Preble.

3 Madawaska Project Team inspecting the major expansion plans now in progress.



Further training projects were outlined in 1978 to meet the projected need for qualified personnel to handle the \$42 million expansion in Madawaska and the two new slasher operations planned for Edmundston in 1978.

Management Development

Another personnel program introduced in 1978, Management Development, goes hand in hand with employee training. Since our Company's philosophy is future oriented, and since we are responsible for millions of dollars already invested in our operations, we must take steps to ensure that management at all levels continues to be of exceptionally high calibre.

The Management Development Program has a dual purpose — to strengthen management resources and to improve present management practices. Our Management Development Program will incorporate a career planning concept, performance evaluation, and training opportunities to encourage maximum individual development.

Employee Benefits

Since the already high costs of providing employee benefits seem to be rising steadily, the Company has embarked on a program to ensure that both the employees and the Company are getting the most out of every dollar spent in this area.

In 1978, the benefits program was streamlined internally. New booklets were printed to explain to U.S. employees the exact disposition of the money spent on their behalf by Fraser for insurance, pension plans and other benefits. In 1979, we'll expand this information project to our Canadian operations. We'll also be introducing annual benefits statements to employees in both countries.

Community and Public Relations

Fraser continued its active participation in the communities where we maintain operations. We actively supported and encouraged projects designed to improve the quality of life in these communities, particularly in the areas of recreation and youth oriented projects.

As part of our growing efforts to keep the public informed about our industry in general and Fraser in particular, we took steps to solidify our media relations. In February of 1978, our Company organized a successful "media day" with invited guests from Radio and Television stations and Newspapers in New Brunswick and Maine. The media guests were encouraged to question executives in each section of the Company.

Our Company's appearances in trade journals and other media became particularly noticeable on the occasions of the openings of our planer mill at Plaster Rock and the new nursery at Second Falls. The media also carried extensive coverage of our expansion projects at Edmundston and Madawaska.



1 World Canada Youth group from Senegal learning how Fraser carries out its Woodlands operations.

2 Fraser electrician is all smiles as he goes about his daily tasks.

3 Log cabin constructed by Fraser employees for annual fund raising activity that helps provide recreation facilities for the community of Plaster Rock.

Financial Review

In 1978, shipments, net sales revenue and net income all achieved new highs, computed in accordance with generally accepted accounting principles.

Shipments increased 11% over last year, producing sales revenue of \$265,129,000 which was up 25% from last year's \$212,490,000. Net earnings rose 63% to \$22,559,000 or \$3.20 per share compared with \$13,853,000 or \$1.97 per share in 1977.

Throughout 1978 the Canadian dollar declined steadily against the U. S. dollar. Foreign exchange accounted for \$1.64 per share (46¢ unrealized gain) of this year's earnings compared with 78¢ per share (26¢ unrealized gain) last year.

The effective income tax rate in 1978 was 45% against 39.4% in 1977. Taxes on income were reduced this year by \$163,000 for Canadian and U. S. federal investment tax credits, and by \$218,000 for the 3% inventory allowance. Last year inventory allowance of \$192,000 and investment tax credits of \$622,000 were utilized.

In 1978, return on shareholders' average equity improved to a satisfactory rate of 18.5%. Due to inflation this kind of return must be achieved consistently to finance the future modernization, expansion and development of the Company. This year and 1974 are the only times in approximately twenty years that an acceptable rate of return has been earned.

Redemption of long-term debt was \$809,000 this year leaving outstanding at year-end \$42,092,000. This is equivalent to 32.1% of shareholders' equity and 24.3% of total capitalization.

In connection with financing the Company's on-going major capital programs, during the year arrangements were completed whereby up to \$35,000,000 can be borrowed as a long-term revolving line of credit until 1982 at which time any outstanding balance will be converted into a term loan repayable through 1993. It was not necessary to draw down any funds under this arrangement in 1978.

Funds provided from operations this year increased 39% over last year to a record \$38,316,000 or \$5.44 per share.

Year-end working capital was down from the prior year by \$20,833,000 to \$22,175,000. Cash dropped by \$14,138,000 related to the high level of capital expenditures.

Net additions and improvements to plants and properties increased to a record \$53.6 million in 1978. This amount includes \$34.5 million spent on the Edmundston pulpmill modernization program and related jobs, and \$12.1 million on the Madawaska expansion project. Over the last three years \$121 million have been invested in physical assets. During the same period long-term debt has increased by \$33 million and the balance of \$88 million has been financed from internal resources.

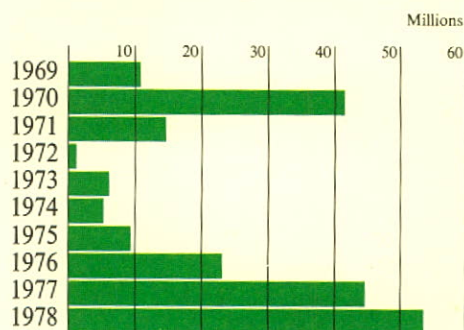
On December 1, 1978 the Company's Common Shares were split 3-for-1 in an effort to improve the availability and marketability of the stock. Throughout the Annual Report all prior years' shares outstanding and per share amounts have been adjusted to reflect the 3-for-1 stock split.

Dividends were increased in the fourth quarter of 1978 resulting in total dividend payments this year of \$4,652,000 or 66¢ per share compared with \$4,109,000 or 58¢ per share last year. While dividend payments have constantly increased over the past five years, it is important to note that over this period shareholders have left 72% of their earnings re-invested in the Company.

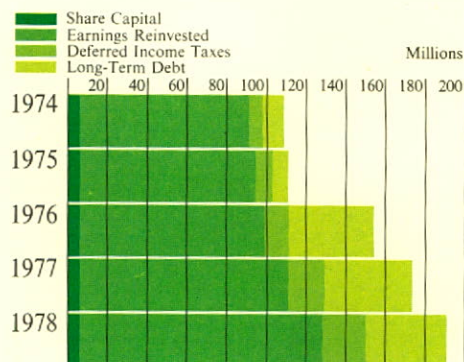
Shareholders' equity increased from \$113,300,000 or \$16.08 per share at the end of 1977 to \$131,207,000 or \$18.62 per share at the end of 1978. It is significant to recognize that these figures are grossly understated due to approximately 750,000 acres of freehold timberlands being carried on the books at a value of \$184,000 or less than 25¢ per acre.

Two supplemental presentations are included in the Annual Report to display Fraser's financial affairs in a manner different than that shown by the required financial statements. Fraser's cash transactions have been summarized by major items on a bank statement format on page 4. Traditional accounting methods do not reveal the effects of continuing inflation. A statement appears on page 23 illustrating the impact of inflation on our operating results.

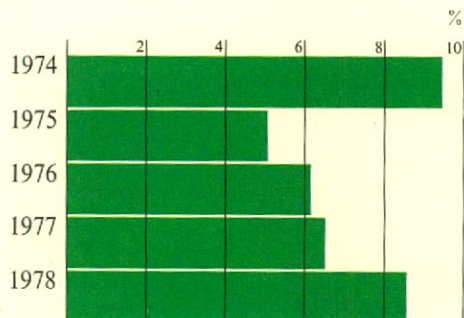
Net Additions to Plants and Properties



Capitalization



Return on Sales



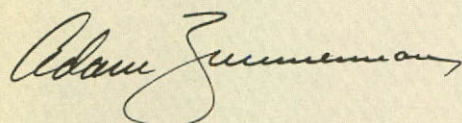
Consolidated Statement of Financial Position

As at December 31 (in thousands of dollars)

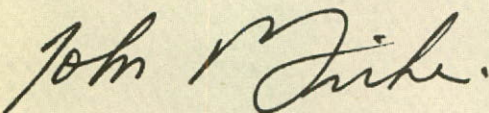
	1978	1977
Current assets:		
Cash and short-term deposits	\$ 4,113	\$ 18,251
Accounts receivable	21,427	19,515
Inventories (note 2)	37,236	32,096
Prepaid expenses	756	809
Total current assets	63,532	70,671
Current liabilities:		
Accounts payable and accruals	31,373	26,218
Income taxes payable	9,095	625
Long-term debt due within one year	889	820
Total current liabilities	41,357	27,663
Working capital	22,175	43,008
Fixed assets (note 3)	172,539	128,409
Other assets (note 4)	1,224	1,209
Working capital and other assets employed	\$195,938	\$172,626
Financed by:		
Long-term debt (note 5)	\$ 42,092	\$ 42,901
Deferred taxes on income	22,639	16,425
Shareholders' equity (notes 4 and 6)	131,207	113,300
	\$195,938	\$172,626

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Adam H. Zimmerman



John P. Fisher

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31 (in thousands of dollars)

	1978	1977
Earnings:		
Net sales	\$265,129	\$212,490
Cost of sales	203,816	172,862
Depreciation and depletion	9,516	7,909
Selling, general and administrative expenses	11,119	9,827
	224,451	190,598
	40,678	21,892
Other income (expenses):		
Interest income (note 7)	587	469
Interest on long-term debt (note 7)	(484)	(501)
Miscellaneous — net	199	1,005
	302	973
Earnings before income taxes	40,980	22,865
Taxes on income (note 8)	18,421	9,012
Net earnings	\$ 22,559	\$ 13,853
Earnings per share (note 6)	\$ 3.20	\$ 1.97
Retained earnings:		
Balance at beginning of year	\$107,196	\$ 97,452
Net earnings	22,559	13,853
	129,755	111,305
Dividends paid — \$.66 (1977 — \$.58) per share (note 6)	4,652	4,109
Balance at end of year	\$125,103	\$107,196

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, 1978 and the consolidated statements of earnings and 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 and Subsidiaries as at December 31, 1978 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.

Real Macvic, Mitchell & Co.

Chartered Accountants

Montreal, Canada
February 14, 1979

Consolidated Statement of Changes in Financial Position

Year ended December 31 (in thousands of dollars)

	1978	1977
Source of funds:		
Net earnings	\$ 22,559	\$ 13,853
Add items not requiring expenditure of funds:		
Depreciation and depletion	9,516	7,909
Deferred taxes on income	6,214	5,680
Amortization of financing expenses	27	24
Funds provided from operations	38,316	27,466
Stock Purchase Plan	55	123
Total funds provided	38,371	27,589
Application of funds:		
Income taxes	—	11
Financing expenses	97	—
Additions and improvements to plants and properties — net	53,646	44,459
Redemption of long-term debt	809	811
Dividends	4,652	4,109
Total funds used	59,204	49,390
Decrease in working capital	20,833	21,801
Working capital at beginning of year	43,008	64,809
Working capital at end of year	\$ 22,175	\$ 43,008

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1978

Fraser Companies, Limited is incorporated under the Canada Corporations Act. The Company and its principal operating subsidiary, Fraser Paper, Limited, which owns and operates a paper mill in Madawaska, Maine, is an integrated producer of forest products. Approximately 55% of the Company's outstanding capital stock is owned by Northwood Mills Limited, a wholly-owned subsidiary of Noranda Mines Limited.

(1) Accounting policies:

A summary of significant accounting policies of the Company 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:

Current assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at balance sheet dates except for those amounts covered by forward sales of other currencies, for which contracted rates are used. Long-term debt is carried at the Canadian dollar proceeds received and fixed assets at exchange rates in effect at the transaction dates. 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. Gains or losses on foreign exchange are reflected in the statement of earnings.

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 the statement of earnings.

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, bridges and camp facilities are written off on a straight-line basis over 10 years and amortization of timber limits is determined on a basis related to production.

Financing expenses:

Expenses relating to the issue of long-term debt are amortized on a straight-line basis over the term of the debt.

Interest:

Interest expense is charged against income as incurred, except where it can be identified with a major capital expenditure program. Such interest is capitalized during the construction period, net of any related revenue from temporary investment of borrowed funds held for capital expenditures.

Research and development:

Research and development expenses are charged against earnings as incurred.

Investment tax credits:

Canadian and U.S. federal investment 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.

(2) Inventories:

	1978	1977
	(\$000's)	
Pulpwood and logs, including advances	\$ 15,921	\$ 12,931
Raw materials and supplies	16,777	13,845
Goods in process and finished products	4,538	5,320
	\$ 37,236	\$ 32,096

(3) Fixed assets:

	1978	1977
	(\$000's)	
Plants and properties	\$287,172	\$245,060
Less accumulated depreciation	114,817	116,847
	172,355	128,213
Freehold and leasehold properties	7,946	7,928
Less accumulated depletion	7,762	7,732
	184	196
	\$172,539	\$128,409

(4) Other assets:

	1978	1977
	(\$000's)	
Due under Stock Purchase Plan	\$ 144	\$ 199
Income taxes	664	664
Deferred financing expenses	416	346
	\$ 1,224	\$ 1,209

Pursuant to the provisions of the Stock Purchase Plan, shares may be issued for the account of certain employees, including officers, at the discretion of the directors. No shares were issued in 1978. 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, 1978 the Trustee held 23,880 Class "A" shares as collateral for the unpaid balances aggregating \$173,000 at that date.

The Company has received re-assessments for the 1970 through 1973 taxation years with respect to the treatment of certain income for tax purposes in 1970 and 1971. The Company disputes the position taken by Revenue Canada and income taxes assessed and paid have been treated as recoverable pending the outcome of appeals against the assessments.

(5) Long-term debt:

	1978	1977
	(\$000's)	
Sinking Fund Debentures:		
6½% Series A due 1987 —		
\$6,000,000 U.S.	\$ 6,480	\$ 7,289
10¾% Series B due 1992 —		
\$35,000,000 U.S.	35,612	35,612
	\$ 42,092	\$ 42,901

Repayments, in U.S. dollars, required on the Sinking Fund Debentures over the next five years are \$750,000 per annum in 1979 and 1980 and \$3,080,000 in each of the years 1981 to 1983 inclusive. The Sinking Fund Debentures are secured by a floating charge on the assets of the Company.

(6) Shareholders' equity:

	1978	1977
	(\$000's)	
Capital stock —		
Convertible common shares without nominal or par value:		
Authorized	Issued	
Class "A"		
15,000,000 shares	6,164,906 shares	
Class "B"		
15,000,000 shares	883,300 shares	
	7,048,206 shares	\$ 6,104 \$ 6,104
Retained earnings		125,103 107,196
		\$131,207 \$113,300

As confirmed by supplementary letters patent, on December 1, 1978, each Class "A" and Class "B" common share, both issued and unissued, was subdivided into three common shares of the same class. Earnings and dividends paid per share for 1978 are expressed in terms of the number of shares outstanding at December 31, 1978. Earnings and dividends paid per share as previously reported for 1977 have been restated to reflect the subdivision of the shares.

The only distinction between the two classes, which are convertible into one another on a share for share basis, is that the directors could specify up to December 31, 1978 that cash dividends on Class "B" shares be paid out of 1971 capital surplus on hand (as defined in the Income Tax Act).

The Trust Indenture pursuant to which the Sinking Fund Debentures were issued contains, among other usual covenants, a restriction on the payment of cash dividends. At December 31, 1978 approximately \$28 million of retained earnings was not subject to such restriction on distribution.

(7) Interest on long-term debt:

	1978	1977
	(\$000's)	
Total interest	\$ 4,850	\$ 4,590
Less charged to capital cost of expansion programs	4,366	4,089
	\$ 484	\$ 501

The charge to the capital cost of expansion programs was reduced by \$436,000 (1977 — \$1,920,000) of interest income earned on temporary investment of borrowed funds not immediately required for project expenditures.

(8) Taxes on income:

The net effect of Canadian investment tax credits which may be claimed against income taxes payable through 1983 and which has not been recognized in the accounts at December 31, 1978, is estimated to be \$5,200,000.

(9) Commitments:

The capital cost of the Company's programs to increase production capacity and efficiency and to meet prescribed environmental standards at the Edmundston and Madawaska mills over the years 1976 to 1980, is estimated at \$140 million. Of this amount approximately \$90 million has been paid or provided for in the accounts at December 31, 1978 and there were contractual commitments for a further \$17 million at that date. In connection with the financing of these programs, the Company has entered into arrangements whereby up to \$35 million will be made available, as a long-term revolving line of credit until 1982 at which time the balance outstanding, if any, will be converted into a term loan repayable through 1993, at interest rates tied to the lender's prime rates.

At December 31, 1978, contractual commitments for capital expenditures not forming part of the above programs amounted to approximately \$1.6 million.

The Company and its subsidiaries lease premises, equipment of various types and other facilities under agreements which, with minor exceptions, expire prior to 1986. Annual rentals of approximately \$1.5 million are due in 1979 on leases in effect at December 31, 1978.

(10) Pension plans:

According to the latest actuarial reports on the Company's pension plans, there was an unfunded liability as of December 31, 1977 of \$4,756,000, due primarily to plan amendments in previous years, which will be amortized by annual payments of \$589,000 for eleven years as recommended by the actuaries.

Additionally, according to an actuarial valuation as of January 1, 1978 of the plans of Fraser Paper, Limited, there was an estimated unfunded liability at that date, calculated using the entry age normal cost method, of \$7,200,000 U.S. which is being amortized within the time limits imposed by government regulations pertaining to pension plans. The amortization of unfunded liability charged against earnings was \$980,000 U.S. in 1978 and \$411,000 U.S. in 1977. The actuarially computed value of vested pension benefits at January 1, 1978 exceeded the market value of assets by \$1,700,000 U.S.

Total charges against earnings for pension costs aggregated \$3,228,000 in 1978 and \$2,298,000 in 1977.

(11) Remuneration of directors and senior officers:

Aggregate remuneration paid or payable to directors and officers of the Company for the year was as follows:

	1978		1977	
	10	13	10	12
	Directors	Officers	Directors	Officers
Remuneration paid by:				
Fraser Companies, Limited	\$ 40,000	\$468,000	\$ 44,000	\$384,000
Fraser Paper, Limited	—	175,000	—	117,000
	\$ 40,000	\$643,000	\$ 44,000	\$501,000

Four officers of the Company were also directors.

Effects of Inflation

The Canadian economy continues to experience a high level of inflation. The effect of this factor on the financial strength of the Company is of major concern to management and must be considered in evaluating the financial results for the year.

The statement below which incorporates three adjustments (inventories, property and plant and financing) has been prepared for the year in accordance with the proposals outlined by the Ontario Committee on Inflation Accounting for estimating the effect of inflation on the Company's funds available for distribution or expansion.

	\$'000
During the year funds generated from operations totalled (from statement of changes in financial position)	\$38,316
From this should be deducted the funds required to finance original cost of productive assets (historical cost depreciation)	9,516
	28,800
To take account of the increased cost of maintaining operating capacity in our inflationary environment requires the following allocation of funds:	
To replace inventories	\$ 2,500
For plant, machinery and equipment	7,300
	9,800
Less additional funds which may be available from borrowing if present debt-equity ratio is maintained	2,665
	7,135
Funds hypothetically available from the year's operations for distribution or expansion	\$21,665

This statement indicates that Fraser has continued to maintain the viability of the business but not to the degree that historical accounting would indicate. Funds available in "real" terms were 43% lower in 1978 than the funds provided from operations as determined by using generally accepted accounting principles. The availability of funds in "real" terms becomes very important in making expansion decisions, but it should be noted that the above statement does not account for offsetting improvements in cash flows which could result from more efficient cost effective replacement of present productive capacity.

Ten Year Comparison

For the Year	1978	1977	1976	1975	1974
Sales and Earnings Data (\$000's)					
Net Sales	\$265,129	\$212,490	\$180,654	\$142,775	\$158,228
Interest on long-term debt	484	501	468	479	497
Depreciation and depletion	9,516	7,909	7,542	7,373	6,796
Selling, general and administrative expenses	11,119	9,827	8,080	7,015	5,665
Taxes on income	18,421	9,012	5,372	4,227	10,793
Net earnings (loss) from operations	22,559	13,853	11,051	7,212	14,892
Extraordinary items (net)	—	—	—	—	—
Net earnings (loss) for the year	22,559	13,853	11,051	7,212	14,892
Financial Position Data (\$000's)					
Working capital	22,175	43,008	64,809	36,807	35,467
Cash flow from operations	38,316	27,466	21,147	15,049	22,581
Net additions to plants and properties	53,646	44,459	23,144	9,186	5,886
Long-term debt at end of year	42,092	42,901	43,712	8,909	9,719
Deferred taxes on income	22,639	16,425	10,745	8,207	7,743
Shareholders' equity at end of year	131,207	113,300	103,437	96,207	92,746
Per Share Data					
Net earnings (loss) from operations per share	3.20	1.97	1.57	1.03	2.12
Extraordinary items (net) per share	—	—	—	—	—
Net earnings (loss) for the year per share	3.20	1.97	1.57	1.03	2.12
Dividends per share	0.66	0.58	0.54	0.53	0.47
Cash flow from operations per share	5.44	3.91	3.01	2.14	3.21
Common shareholders' equity per share	18.62	16.08	14.71	13.68	13.19
Other Data					
Common shares outstanding at end of year	7,048,206	7,048,206	7,033,206	7,033,206	7,033,206
Return on shareholders' average equity - %	18.5	12.8	11.1	7.6	17.1
Average number of employees	3,548	3,353	3,183	2,906	3,340
Salaries, wages and benefits (\$000's)	71,267	64,641	53,915	43,412	36,149
Net fixed assets per employee (\$000's)	49	38	29	26	22
Net sales per employee (\$000's)	75	63	57	49	47
Units of sales per employee	156	149	149	135	141
Units of Sales					
Fine Papers — tons	177,085	178,684	164,013	128,012	188,755
Groundwood Papers — tons	221,948	206,173	211,620	174,956	194,308
Boxboard — tons	30,630	31,539	32,628	30,326	32,389
Market Pulp — tons	43,595	20,219	9,994	12,191	10,533
Lumber — M.f.b.m.	81,167	63,849	56,764	46,081	46,190
Total	554,425	500,464	475,019	391,566	472,175

	1973	1972	1971	1970	1969
	\$111,913	\$ 90,926	\$ 62,639	\$ 73,730	\$ 91,327
	547	583	622	661	714
	6,400	6,294	5,272	3,801	5,836
	4,787	4,450	5,244	5,673	4,936
	6,424	(685)	(5,648)	811	1,993
	7,753	(751)	(4,856)	2,614	4,403
	5,916	—	—	6,807	1,933
	13,669	(751)	(4,856)	9,421	6,336

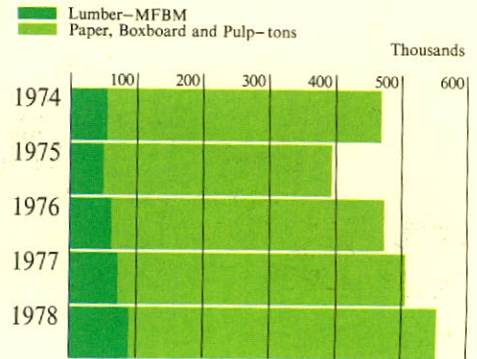
	21,763	11,741	6,965	25,339	23,186
	19,293	4,765	(4,349)	6,638	12,070
	7,310	1,909	14,785	40,243	10,608
	10,529	11,339	12,149	12,959	13,769
	6,850	1,710	2,427	7,131	8,859
	81,054	67,445	68,422	73,600	66,032

	1.11	(0.11)	(0.69)	0.38	0.63
	0.84	—	—	0.97	0.28
	1.95	(0.11)	(0.69)	1.35	0.91
	0.20	0.03	0.05	0.30	0.22
	2.75	0.68	(0.62)	0.95	1.73
	11.54	9.63	9.77	10.52	9.48

	7,021,956	7,004,406	7,002,906	6,995,406	6,962,856
	10.3	(1.1)	(6.8)	3.7	6.9
	3,228	3,426	3,283	3,910	4,509
	28,931	30,658	27,261	29,540	33,114
	23	21	24	26	22
	35	27	19	19	20
	144	134	99	96	114

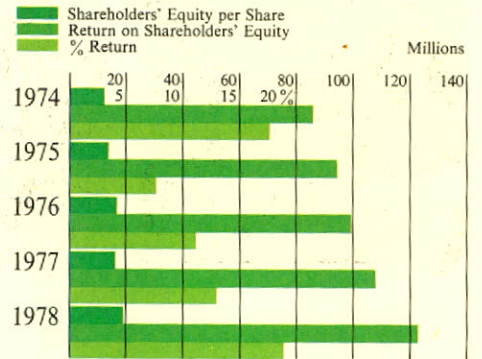
	173,264	147,189	104,199	134,294	154,770
	189,880	175,582	90,850	86,984	86,964
	31,625	29,118	28,154	27,505	27,998
	20,229	49,151	50,255	88,387	211,058
	49,774	57,153	52,507	39,016	33,033
	464,772	458,193	325,965	376,186	513,823

Product Sold

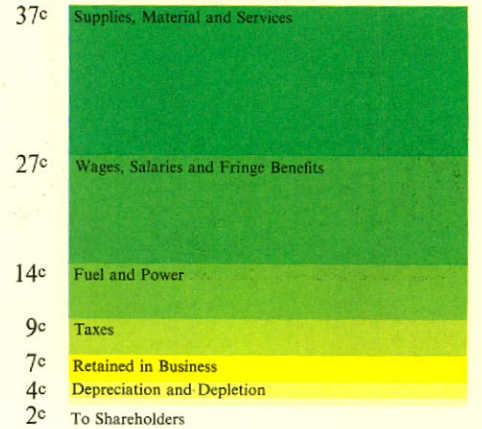


Shareholders' Equity per Share (at year end)

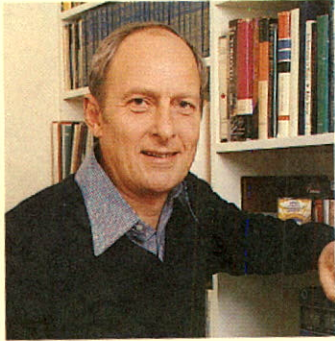
Return on Shareholders' Equity (before extraordinary items)



Distribution of the 1978 Sales Dollar



Directors and Officers



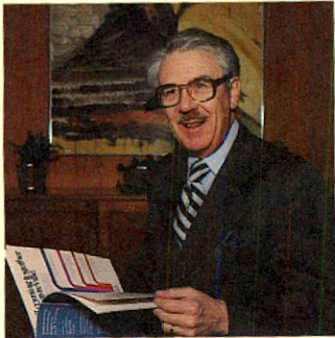
*Adam H. Zimmerman
Chairman of the Board



*H. Roy Crabtree
Vice-Chairman of the Board



*John P. Fisher
President



Knut Grotterod
Senior Vice-President,
Operations



John M. Anderson



Carl E. Beigie



*†W. Randolph Clerihue



†Kenneth V. Cox



Carl M. Frantz



*†David J. Hennigar

Honorary Directors

Aubrey Crabtree
L. M. Sherwood
Frank H. Sobey

*Member of Executive Committee
†Member of Audit Committee

Other Officers



J. K. Barry
Vice-President, Marketing



P. M. Belyea
Vice-President, Woodlands



B. W. Hicks
Vice-President and Secretary



R. A. Knapp
Vice-President,
Marketing and Sales
Fraser Paper, Limited



N. O'Briain
Vice-President,
Manufacturing



J. C. Preble
Vice-President,
Corporate Relations



M. B. Robinson
Vice-President, Finance



K. L. Seely
Treasurer

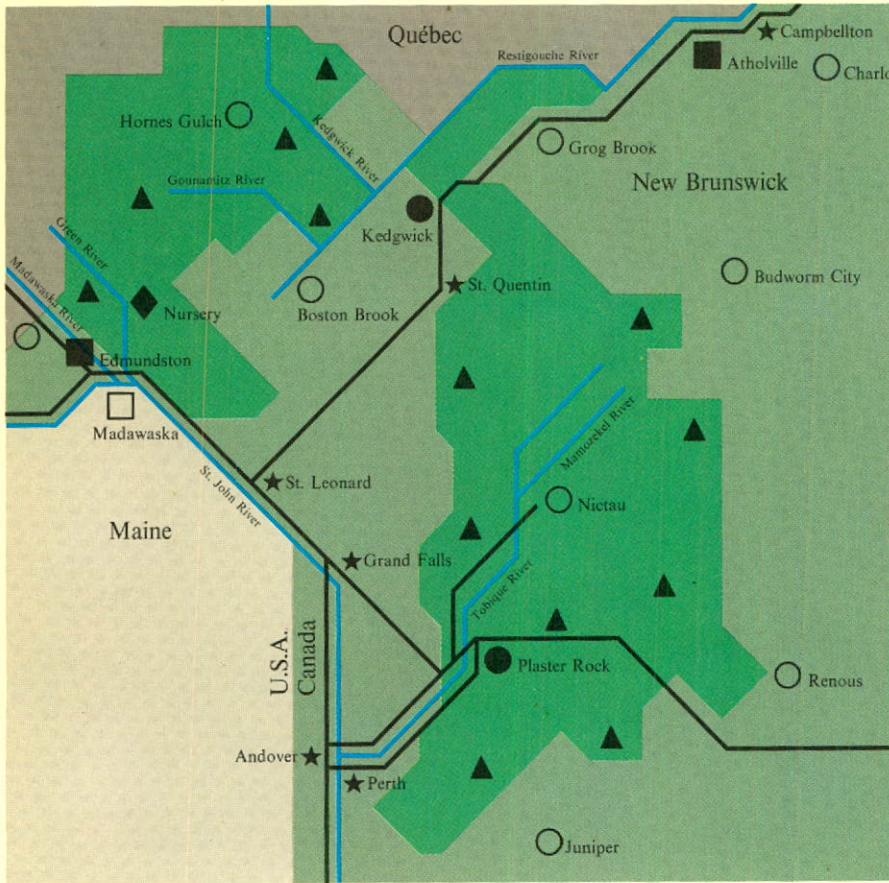


D. G. McAlary
Controller



Jean Hammond
Assistant Treasurer

Offices, Plants and Products



- ◆ Nursery
- Woodlands
- ▲ Woods Operation
- Air Strip
- Saw Mill
- Pulp Mill
- Paper Mill
- Highway
- River

Fraser Lumber

Mills: Plaster Rock and Kedgwick, New Brunswick
Product: Eastern Canadian Spruce
End Use: Residential and commercial buildings
Market: Eastern Canada, Eastern United States and Britain
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

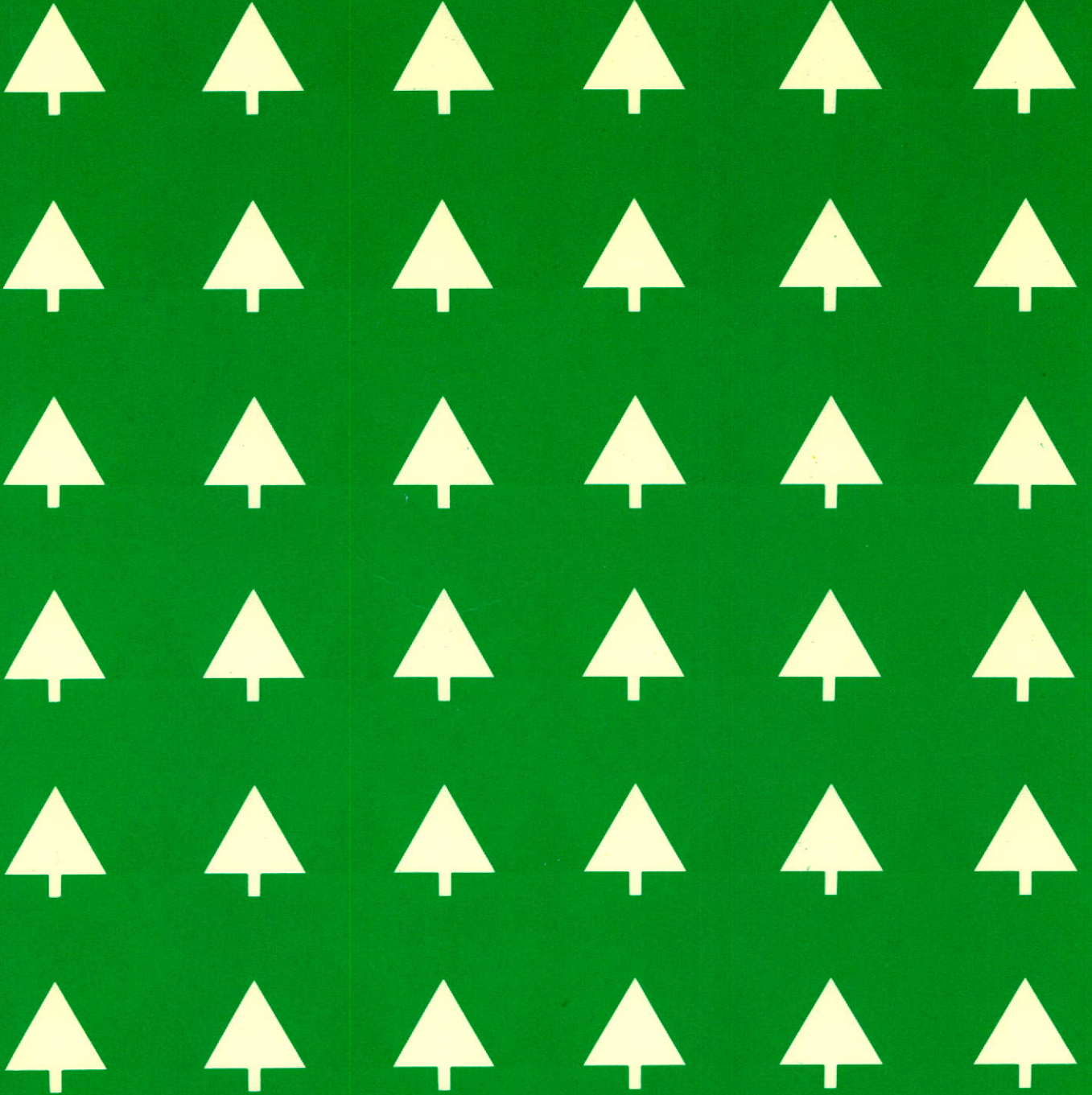
Fraser Boxboard

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

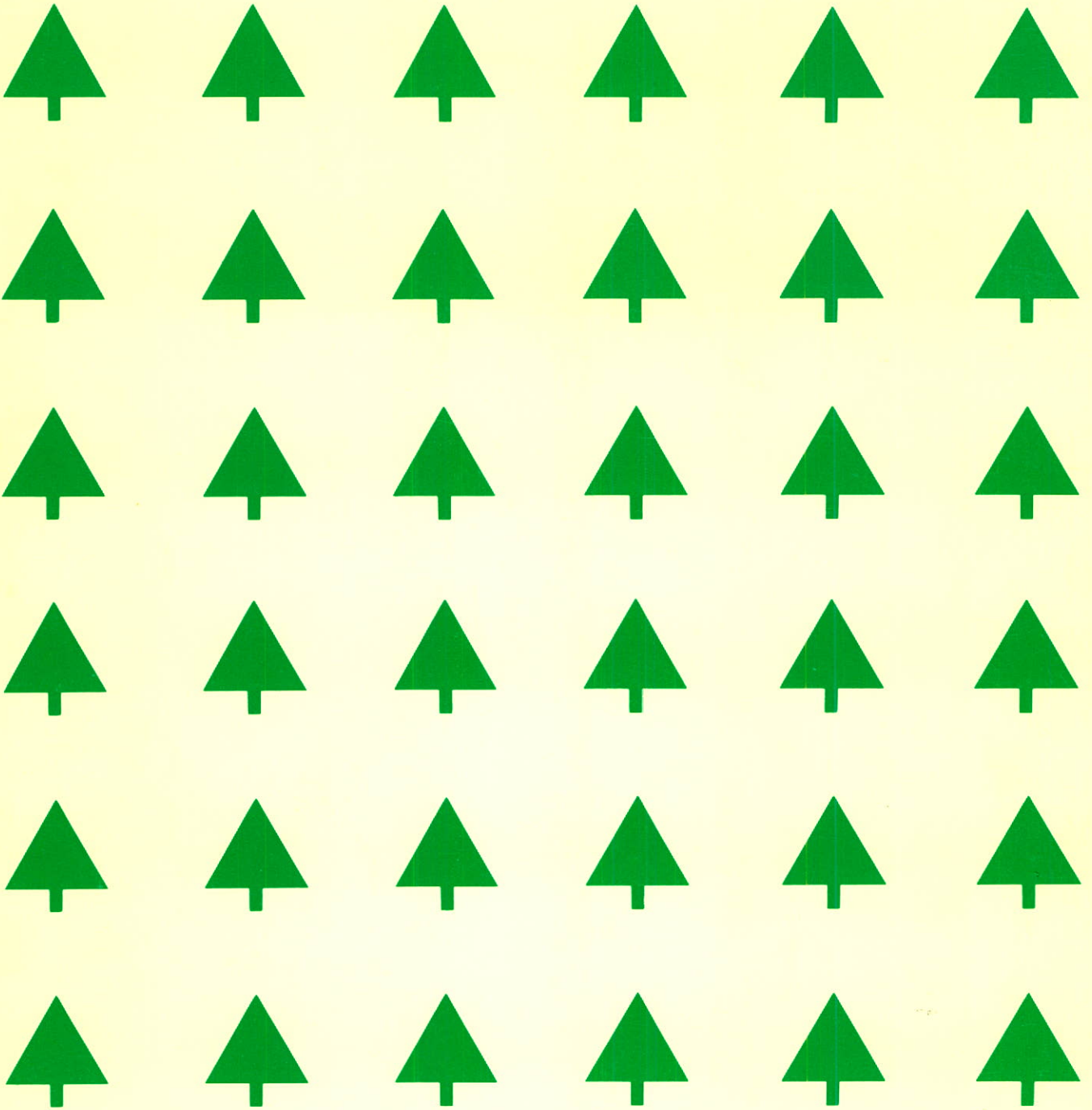
Fraser Papers

Mills: Fraser Paper, Limited Madawaska, Maine (a wholly-owned subsidiary)
Fine Papers: Five paper machines
Groundwood 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

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Pulp
Boxboard
Paper
Lumber



Fraser Companies, Limited,
Edmundston, Canada

Noranda Group