

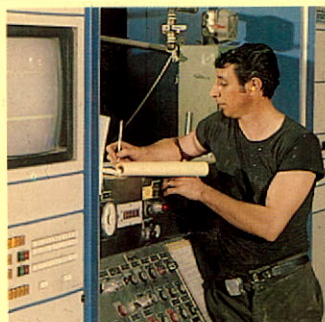
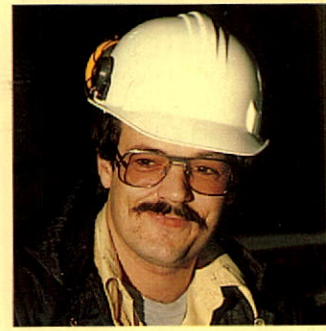
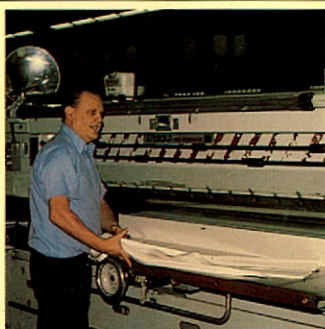


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1981

Annual Report



	1981	1980	1979
Sales	\$ 422,172,000	\$ 362,184,000	\$ 321,038,000
Earnings	\$ 16,183,000	\$ 29,346,000	\$ 27,535,000
Return on Equity	9.2%	18.2%	19.6%
Addition to Fixed Assets	\$ 71,989,000	\$ 28,921,000	\$ 53,306,000
Fixed Assets per Employee	\$ 70,000	\$ 63,000	\$ 60,000

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The cover photos represent a cross section of Fraser employees who individually work at quite different occupations, but who, collectively, with all Fraser employees, are responsible for Fraser's success.

Le texte français de ce rapport annuel est disponible en s'adressant au secrétariat de la corporation, 27 rue Rice, Edmundston, Nouveau-Brunswick.
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Financial Highlights

	1981	1980	1979
Operations			
Net sales	\$422,172,000	\$362,184,000	\$321,038,000
Net earnings from operations	16,183,000	29,346,000	27,535,000
Net earnings per share	2.30	4.19	3.91
Dividends paid per share	1.30	1.20	1.00
Cash flow from operations	36,987,000	53,023,000	54,110,000
Cash flow per share	5.25	7.58	7.68
Financial Position			
Working capital	52,592,000	45,015,000	28,342,000
Total assets	443,933,000	376,158,000	330,788,000
Long-term debt	148,897,000	98,249,000	89,405,000
Shareholders' equity	179,886,000	171,821,000	150,407,000
Other			
Return on average shareholders' equity -%	9.2	18.2	19.6
Additions to plants and properties - net	71,989,000	28,921,000	53,306,000
Average number of employees	4,010	3,625	3,634
Shareholders' equity per share - year end	25.47	24.50	21.52
Market price per share - year end	17.50	23.00	15.50

The Annual General Meeting

of the shareholders of Fraser Inc. will be held at the Wandlyn Motor Inn, Edmundston, N.B., on Friday, April 16, 1982, 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

Directors' Report to Shareholders

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The laws of economics eventually provide for corrections and 1981 was the year in which virtually every indicator turned unfavourable. The effect on Fraser was to reverse the five-year record of consecutive profit increases. This was foreseen a year ago, although the depth and breadth of the present recession has exceeded our expectations. Fraser's profit of \$16,183,000 represented a return on net assets employed of 8.1%, and arose from a profit margin decline of 4.3 percentage points to 3.8%. This decline had its genesis first in the fact that built-in cost increases exceeded the price response, which in fact was negative in the case of lumber, and limited in other products by insufficient demand. The Company's total units of physical output in 1981 were up approximately 2% over 1980, but without the volume from the Thorold Mill during the second half of the year, would have been down by 6%.

Previous reports have discussed the Company's commitment to physical renewal through a comprehensive capital investment program. This program began in 1970 with the disposition of peripheral assets, proceeds from which were invested in the Number 8 Lightweight Publication Paper Machine in Madawaska and a new Groundwood Pulpmill in Edmundston. Following this successively were sawmill expansion and renovations (\$11 million), the Edmundston Pulpmill conversion (\$95

million), the Boxboard Modernization (\$6.5 million), the Tree Nursery (\$1.1 million), and the increased Groundwood Coating capacity and the rebuild of Number 7 Paper Machine in the Madawaska mill (\$39 million).

In 1981, the Company began the long awaited conversion and modernization at Atholville (\$180 million). The other and last major project in this series, the High Pressure Steam Generation from Wood Waste and Interconnecting Pipeline between Edmundston and Madawaska (\$53 million) was also undertaken and commenced in 1981. When these last two are completed, Fraser may be said to have renewed itself. The net fixed asset base will have grown from \$22,000 to \$108,000 invested per employee, 4,300 of whom will have more security than possible any other way. During the past 12 years, the shareholders have seen the book value per share of their equity rise from \$9.48 to \$25.47.

That these investments are valid is best displayed by the fact that Fraser's cost per unit of output has increased by less than the rate of inflation over a five-year period. In other words, productivity has improved, and the Company produced a profit in 1981 that certainly would have been absent without the new facilities. This factor, more than any others, has given the Directors the confidence necessary to approve an expansion of the Company's operational base. This was achieved by the acquisition of the 100,000 tons per year Fine Paper Mill of Abitibi-Price in Thorold, Ontario, in July, 1981. This mill has many of the characteristics of the Madawaska Mill,

and its products integrate well, providing considerable potential synergy. The response of the employees of the Thorold Mill to the acquisition has more than justified the move.

As stated before, the Company, like everyone else, continues to struggle with the ravages of inflation, capricious government policies, non-market interventions and high expectations from employees, customers and public opinion. Notwithstanding these difficult times, the company is maintaining its capital program and exerting every effort towards cost effectiveness. Fraser believes it has gained some measure of reputation as a dedicated, responsible employer, providing fair wages and thoroughly acceptable working conditions. We have some way to go in convincing employees and their unions of the limitations on the rewards they can expect. We do appreciate that in the final analysis our operations are controlled by our customers. What they will pay for what we produce must govern our destiny, and we work hard to convince all concerned of this truth.

Certainly the recession we are in can be described in part as a buyer's market. It is also a market in which the buyer's own operation is severely restricted – creating a sort of double jeopardy for Fraser. The outlook at date of writing is indeed cloudy, with the most optimistic forecasters calling for some kind of economic upturn in mid-1982. A great deal depends on what may happen in the United States automobile industry and whether the

Federal Reserve may unscrew the clamps on the money supply. Some will argue that interest rates will rise, while others take the view that rates between 12% and 15% will prevail.

Clearly, as papermakers, Fraser must concentrate on producing paper of the highest quality at the least cost. Our striving to be cost competitive in all our products is paramount. We do not foresee much other than a very competitive 1982. Fraser's record in a difficult 1981 suggests it is relatively well placed to meet forthcoming challenges, and at the very least, maintain its financial integrity.

During the year, two company officers, Miss Jean Hammond, Assistant Treasurer, and Mr. Jack Barry, Vice-President, Sales, retired with 43 years each of distinguished service with Fraser. The exemplary record of these two and others is a clear testimony of the qualities of so much that is Fraser.

Adam H. Zimmerman
Chairman

John P. Fisher
President

February 12, 1982



This peaceful forest scene gives no evidence of the problems the forest products industry faced in 1981.

Bank Statement

Date	Item	Withdrawal	Deposit	Balance
1/1/81				\$5,048,000 00
	Proceeds from sale of lumber, pulp, boxboard and paper		416,138,000 00	
	Interest earned on term deposits		760,000 00	
	Dividends received from associated corporation		2,474,000 00	
	Paid out for:			
	wood	43,997,000 00		
	wages	88,857,000 00		
	fringe benefits	20,777,000 00		
	fuel	44,268,000 00		
	electric power	21,366,000 00		
	purchase of pulps	59,031,000 00		
	chemicals	51,609,000 00		
	services and supplies	33,456,000 00		
	Paid to reduce debt	5,304,000 00		
	Paid interest on debt	18,531,000 00		
	Paid for new machinery	71,989,000 00		
	Paid to federal, state and local governments for taxes	11,107,000 00		
	Received from sale of shares:			
	- to employees		196,000 00	
	- to others		225,000 00	
	Received from new borrowings		56,771,000 00	
	Dividends paid to shareholders	9,032,000 00		
31/12/81				\$2,288,000 00

► The devastation of this spruce-fir forest was caused by millions of this small but voracious insect, the spruce budworm (inset).



Armand assistant clerk Supervisor and **Normand** assistant Divisional accountant, the **Levesque** twins have been with the Edmundston Woodlands department for 8 years.



Woodlands

6 1981 was a challenging year for the Fraser Woodlands Department, with reduced harvesting activities, increased wood purchases, and a new provincial Crown Lands and Forest Act initiating many reviews and adjustments within the divisions.

During the year, some 890 Fraser personnel at five commuter operations and six camps harvested a total of 893,000 cubic meters of wood for company plants, with an additional 964,000 cubic meters being purchased from external sources in the form of sawlogs, pulpwood and wood chips. Due to reduced production activity and depressed markets for forest products the world over, winter inventory levels were reached early and all company cutting operations were terminated at the end of October.

Cost reduction measures continued to be in force within the department during 1981. Construction of a major mechanical service garage for the Edmundston District was completed late in the year, which consolidated many of the smaller existing facilities. Efficient and cost-effective harvesting equipment was also purchased, and included two additional Koehring Harvesters and two Harricana Delimiters.

The availability of future fibre supply continues to be a real priority for the company, and the Fraser divisions continued to expand their forest management activities in 1981. Some 5.2 million seedlings from the Fraser

Forest Tree Nursery were planted on 3,000 hectares of forest land, 6.4 million seedlings were produced at the nursery for future plantations, and 4,000 hectares of forest land were site prepared for future planting. Other nursery related projects undertaken during the year included the construction of a large outdoor growing bed, and the expansion of the seed orchard at Three Brooks in the Plaster Rock District.

In another move to further guarantee fibre requirements, the company continued to actively contribute to and benefit from the provincial spruce budworm protection program in 1981, with 353,000 hectares of Fraser forest lands being treated in early summer at a cost of \$975,000. Fraser firmly believes such protection efforts and expenditures are unavoidable if a quality base of fibre supply is to remain available. In light of renewed controversy relative to possible health risks involved with the use of pesticides, Fraser continues to monitor all evidence in a scientifically objective way. The company will support its share of valid research as well as make its own observations. The evidence to date supports spraying as an acceptable risk, with no epidemiological proof of serious environmental damage or lasting damage to public health.



Pre-commercial thinning — a necessary step in the development of healthy and fast growing plantations.



Ernest Burgoyne, one of the winners of the private Woodlot Manager of the Year Award. The forested lot in the background attests to the care given his woodlot near Plaster Rock.

The new Crown Lands and Forest Act, passed in the New Brunswick Legislature in 1980 and fully endorsed by the company, will come into effect in April, 1982. As one of 10 provincial licensees of Crown Lands specified in the act, Fraser shares and looks forward to meeting government goals of "significantly improving the productivity of Crown (and Freehold) forest resources including timber, recreation, fish and wildlife." To these ends, the Woodlands Department will be restructured in 1982, resulting in the integration of the silvicultural and harvesting functions. This synergistic union of the two operating levels paves the way for the orderly harvesting and follow-up silvicultural treatments of Fraser forest resources in the years to come.

Another highlight of the Act was the major re-allocation of Crown Lands within the province. This has resulted in a net gain to Fraser of 3,774 hectares of Crown Lands, a more productive forest land base, and an improved consolidation of Fraser Crown Land holdings which has reduced the distance between fibre supply and company mills.

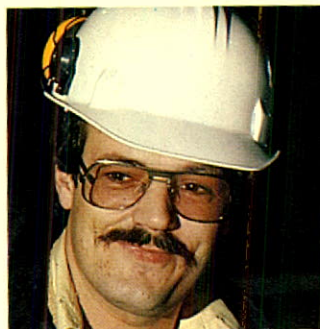
Refinements were also made to the department's forest inventory program during 1981, with the company's computer forest inventory model being updated regularly. As well, photographing and re-mapping of company forest land holdings commenced with the new information base, to be amended yearly, a necessary component in fully integrating the silviculture and harvesting functions of the company. In addition, the company is currently undertaking a survey of small pri-

vate woodlots, which will enable Fraser to monitor these future fibre sources in terms of harvesting and development.

In keeping with its commitment to actively encourage the sound management of private woodlots, Fraser in 1981 established "Woodlot Manager of the Year" awards in the respective regions where the company maintains manufacturing facilities. These awards were presented in 1981 to three deserving resource-conscious woodlot owners, who each received a handsomely engraved plaque, plus a gift of 5,000 Fraser nursery seedlings for planting on their forest lands.



One of the new Koehring harvester-forwarders in full production.



Wood Products

8 High interest rates, an unsettled economy and the lowest number of housing starts in recent times produced rippling effects within the Fraser Wood Products Group of operations in 1981, as production dipped 20% from 1980 and shipments of 76,205,000 f.b.m. were off 13%.

The year began with a spurt of inventory buying, but this activity was short-lived as demand gradually diminished in late winter and early spring. Mill strikes in Western Canada caused business to pick up during the summer months, but not enough to offset soaring interest rates as supply continued to exceed demand. Falling prices throughout North America became the pattern for the remainder of the year, causing many a Canadian sawmill to shut its doors by year end.

Offshore markets fared little better than those at home. Shipments to the United Kingdom, although regular, continued to decrease as the year progressed, and deliveries to the Italian market were all but non-existent. The prognosis for improved conditions, both on the domestic front and overseas, is not healthy as weak demand for wood products is expected to continue, at least until the summer building season.

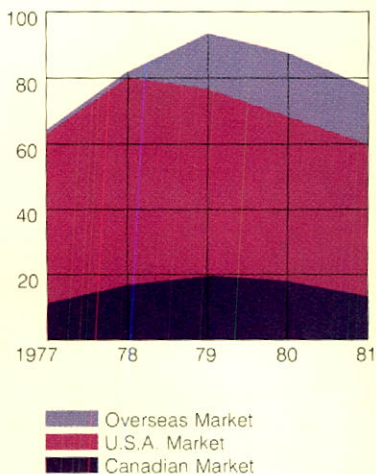
Aside from the poor marketing year, company sawmills at Plaster Rock and Kedgwick did operate at or near capacity until late in the year. With revenues and demand steadily decreasing, Fraser was forced to reduce each operation by one production shift in early October. This policy remained in effect until late December,

when further market deterioration forced the company to shut down all production operations, excepting the chipping plants at both sawmills.

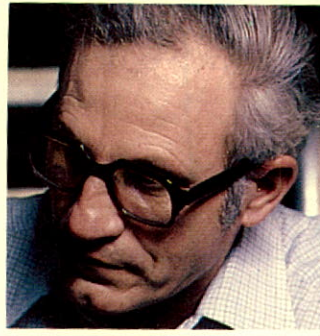
In the way of improvements to production facilities, Fraser took advantage of the slow operating year to undertake several cost-effective modifications to its Kedgwick plant in mid-summer. Capital programs initiated included the replacement of existing production equipment with new 27" and 24" debarkers, a new refuse conveying system, and a new canter twin saw.

These expenditures illustrate clearly the commitment Fraser has made—and will continue to make—to this division and the company's optimism in face of the existing recession that better days lie ahead.

Distribution of Wood Products - Units of Sales
(M.f.b.m.)



One of four drying kilns in operation at Fraser sawmills.



Boxboard

Adverse market conditions reflecting a faltering economy resulted in a difficult year for the Fraser Boxboard Division in 1981, with shipments of 28,421 down 7% from 1980.

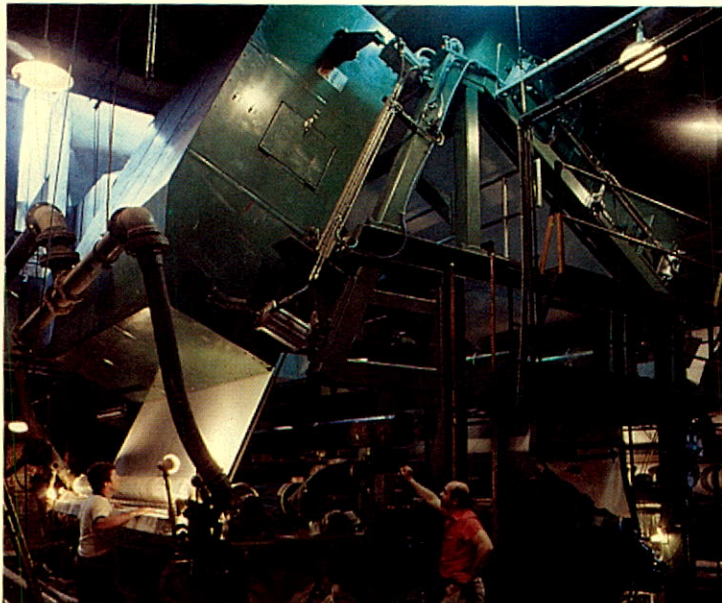
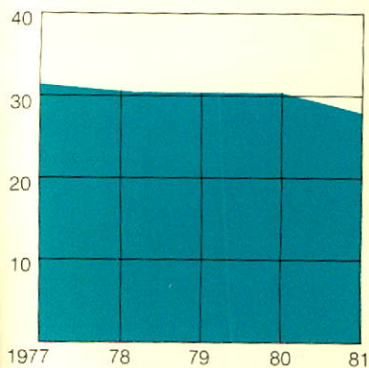
The year began with demand holding firm, but in mid-summer labor problems at several end users and market realignment due to additional industry capacity caused shipments to dip sharply. These low levels prevailed for the remainder of the year, and are expected to continue in early 1982, with improved operating conditions anticipated by mid-year. A new marketing feature in 1982 will be the company's re-entry into the roll stock market after a 25-year absence.

The year was marked by significant machine improvements as the \$7 million Boxboard Modernization Project proceeded on schedule. A computerized stock preparation system was commissioned early in 1981, followed by the installation of two wet end vats, a new coater hood, a new third press, a revised secondary fibre system, a new off-machine sheeter, and a new basis weight and moisture computer control system. Remaining capital improvements slated for 1982 include the installation of a new reel, winder and roll-wrapping equipment, thereby providing the machine with the capability to manufacture both rolls and sheet stock.

Benefits from the modernization program have only been partially achieved to date. The full impact of the investment is expected to be realized during the second half of 1982 with improvements forthcoming in productivity, costs and quality.

9

Boxboard Units of Sales
(thousands of tons)



New coater drying hood on the Edmundston boxboard machine provides for faster and more uniform drying.



Market Pulp

10

Low demand, abundant supply and depressed prices for Fraser grades of market pulp caused the Atholville Pulpmill to operate at 80% of capacity in 1981, with shipments of 73,414 tons off 22% from 1980.

With the poor business climate anticipated to continue in 1982, market pulp inventories are expected to remain high through the first quarter.

Shutdowns of Atholville late in the year reduced outputs and allowed the company to complete the first phase of a renewed fresh water pipeline to supply mill processes. A new mill stores complex was also erected and closed in by year end, to be completed in 1982.

Atholville — Modernization Project

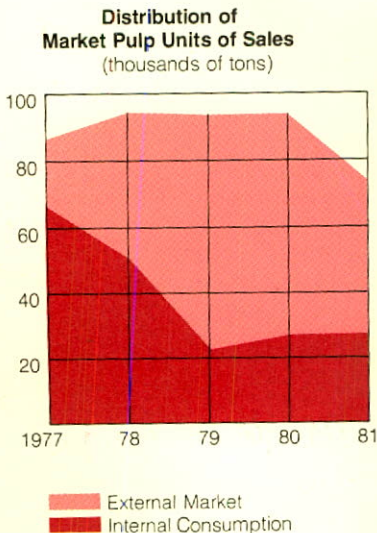
The \$180 million Atholville Pulpmill Modernization Project proceeded on schedule in 1981, with approximately \$80 million in equipment and services committed by year end. Engineering for the large-scale program, 60% complete through the end of December, is expected to be essentially concluded by September, 1982.

To date, excavation for sewers and foundation work for most of the new mill facilities have been completed. In November, steel erection for the Washing, Screening and Bleachery Complex was started and at year end was 25% complete.

A two phase project, Fraser expects the Washing, Screening and Bleachery Complex to be completed by the end of March, 1983, with the new Recovery Complex scheduled to come on line in November, 1983. With both facilities in operation, Fraser can look forward to increased production of a higher quality product and a substantial decrease in purchased energy usage.

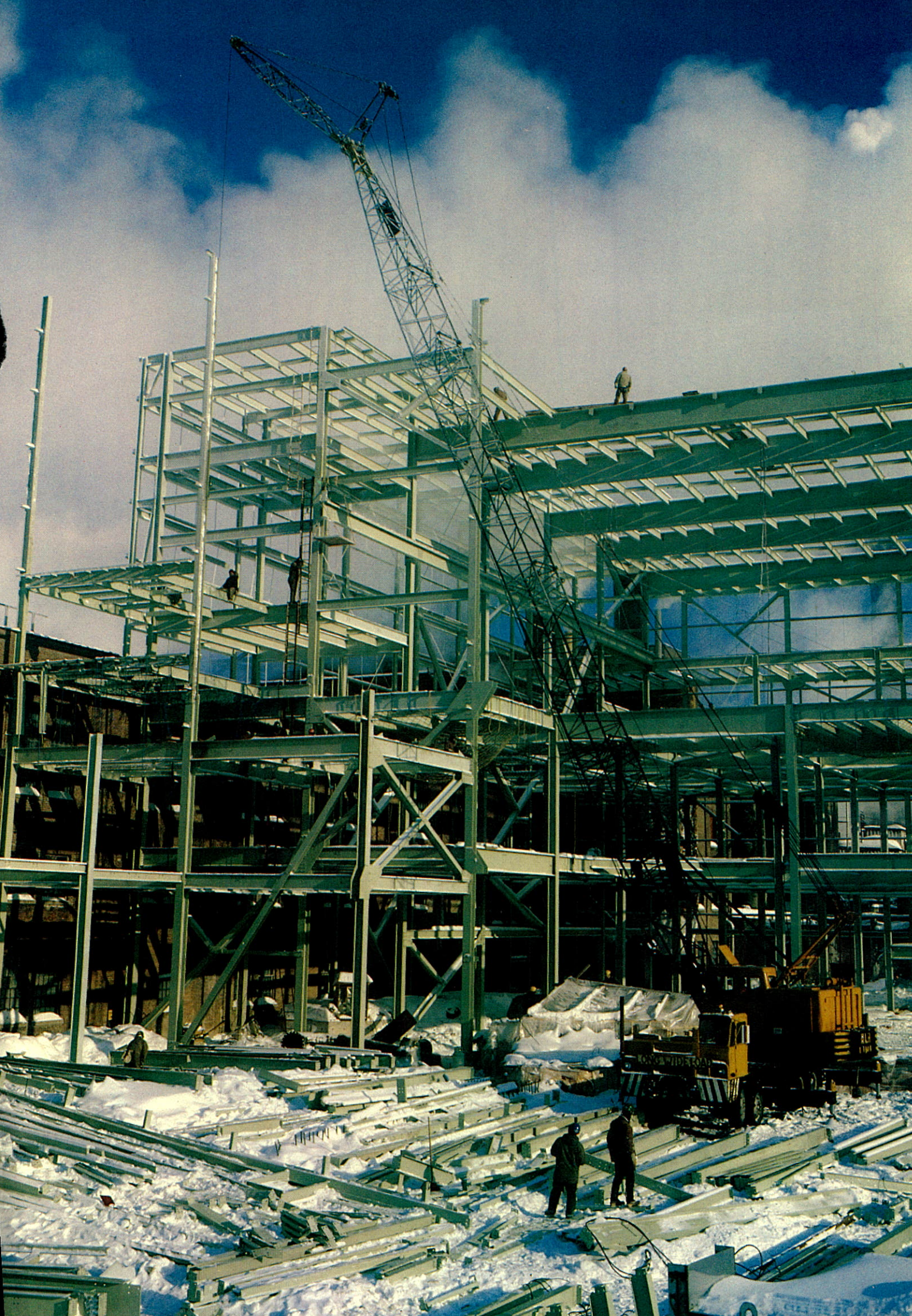
Preparatory work was also well underway at the close of 1981 for the employee and supervisor training program for the modernized mill. Fraser has opted for a modular type training program, with professional trainers joining mill and project staff in executing the program, to be carried out from a new training centre scheduled for construction in 1982.

During 1981, agreements on project grants from both Provincial and Federal governments totalling \$22.7 million were finalized, with the company seeking additional funding from the Atlantic Energy Conservation Investment Program for the installation of a turbine generator.



Company and Government dignitaries sign the Atholville Modernization Government Grant Agreement.

► Steel goes up rapidly for the new washing, screening and bleachery complex — a major part of the Atholville Modernization Project.





Fine Papers—Madawaska

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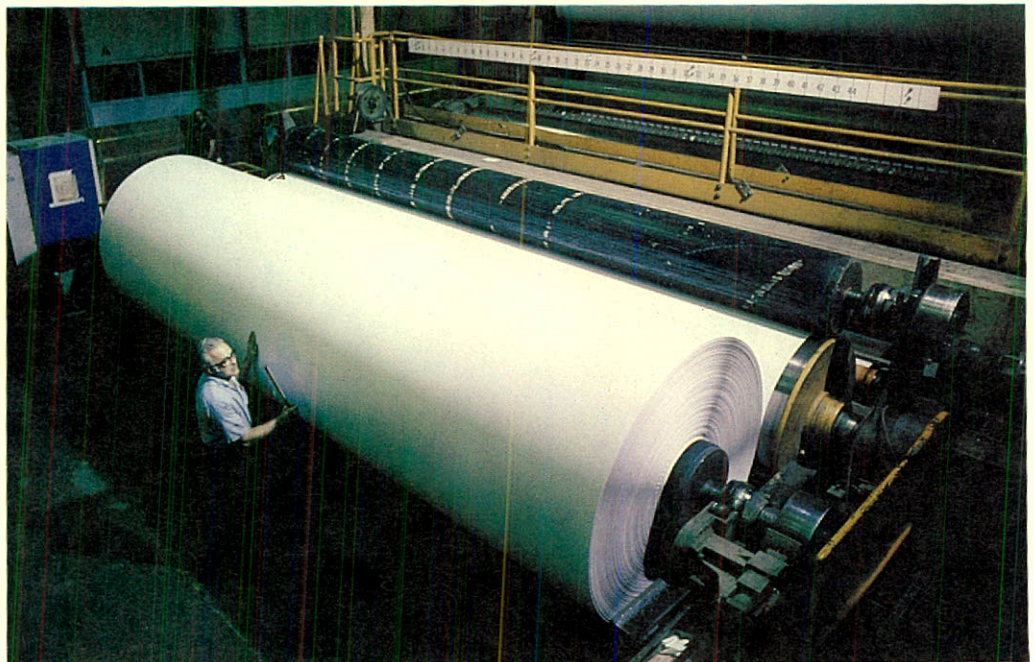
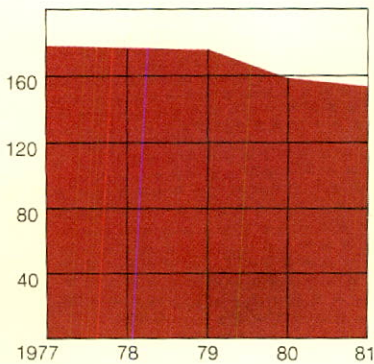
The strong fine paper markets of 1980 tapered off gradually in 1981, reflecting the generally soft market conditions. Demand was appreciably down for grades supplying business forms and bond publications, with converting specialties maintaining market strength until late in the year. Shipments in this product line totalled 153,256 tons in 1981, down 4% from 1980.

Improving production rates within the Bond Mill remained a focal point of the company during 1981. To this end, Fraser established record daily production rates on two bond machines; achieved a fine paper production record of 708 tons on September 17, 1981; and continued development work on No. 3 machine's billblade coater, which resulted in increased machine capacity in the specialty grades. Significant improvements at Edmundston in chemical recovery and bleachery production levels also had a favorable impact on this product line's manufacturing costs during the year.

Production in these grades was at or near capacity until late in the fourth quarter, when soft markets forced machine downtime. This downtime was alternated between three fine paper machines, which allowed the company to undertake necessary maintenance work and install a number of energy-efficient machine components.

In 1982, the company anticipates markets to remain soft at least until the second quarter, with a steady strengthening in demand projected for the balance of the year. At the same time, operations will continue to concentrate on cost reduction, productivity improvement, and optimization of capital improvements made in recent years.

Fine Paper Units of Sales (Madawaska)
(thousands of tons)



Dry end of No. 7 paper machine — The flexibility of being able to produce both fine papers and uncoated groundwood papers paid healthy dividends in 1981.



Fine Papers—Thorold Division

A major company milestone in 1981 was undoubtedly the purchase of the 100,000 tons per year fine paper mill at Thorold, Ontario, from Abitibi-Price Inc. of Toronto.

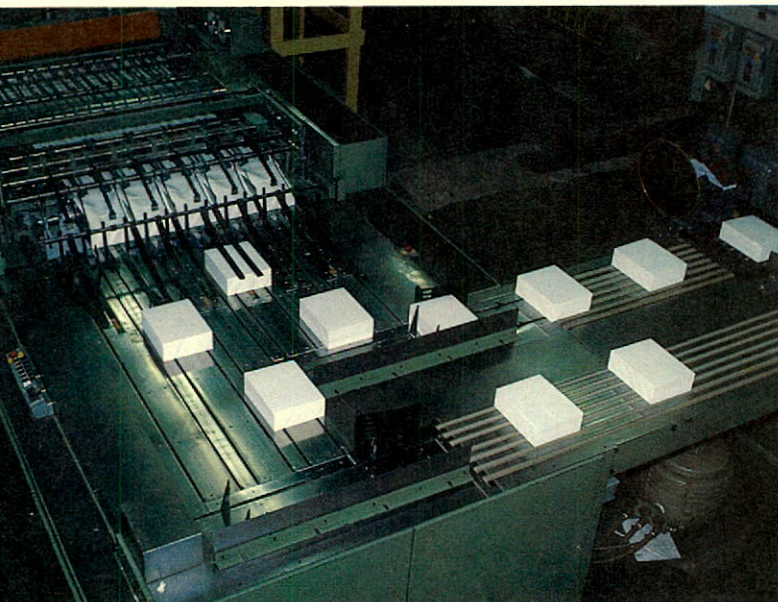
Located in the heart of the Niagara Region, the 80-year-old mill has long been known as a prime and dependable manufacturer of fine paper products, both in roll and sheet form. Six hundred dedicated employees, three paper machines, and a waste paper plant serve as the base of operations, with the latter being one of the largest reclamation facilities of its kind in the Canadian fine paper industry.

Thorold papers find their way into a number of end products, the most notable of which are strippable wallpapers, specialty coated and uncoated bags, white and colored cheques, business forms, computer printouts, envelopes, maps, books, labels, duplicating sheets, writing papers and school supplies. In all, the mill manufactures some 40 different types of fine papers, for sale primarily to markets in southern Ontario and Quebec.

The acquisition of this new division allows the company to achieve a number of things, the most notable of which is a strengthened position in the Canadian fine paper market place. The mill will also provide a steady market for part of the company's Atholville pulp. Thorold and Madawaska marketing efforts will capitalize on grade structures to better serve customer needs and minimize costs.

During the second half of 1981, demand was mixed for Thorold products, and late in the third quarter rising inventories and a slow economy forced downtime on some equipment, with this pattern continuing for the balance of the year. Business activity is expected to remain slow in early 1982, with demand picking up as the year progresses.

13



Fracopi, a fine paper for photocopy produced at Thorold, coming off the sheeter on its way to automatic wrapping.



Front view of Thorold Division mill, Fraser's latest acquisition.



Uncoated Groundwood Papers

14

Demand for uncoated groundwood papers was mixed in 1981, with Fraser continuing to benefit from its reputation as a reliable and quality supplier of these products. On the year, shipments totalled 127,230 tons, down 10% from 1980.

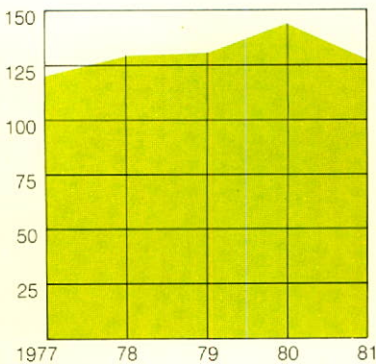
Products supplying the catalogue and directory printing industries were in strong demand during the first half of 1981, especially in the lighter weights, as customers took full advantage of reduced bindery, mailing and yield costs associated with these grades. However, demand did soften as the year progressed, accounting for reduced shipments at year end. Given the flexibility of No. 7 dual-purpose paper machine, Fraser was well-positioned in 1981 to respond to the fine paper or groundwood paper market which was strongest at any given time.

Capital programs associated with this product line during the year concentrated on conserving valuable energy. No. 5 and No. 6 machines were fitted with stainless steel G-rolls in the 2nd press position, thereby reducing sheet moisture entering the dryers and subsequent energy required in the drying process. Warm water heating systems, utilizing waste heat from machine

hoods, were also installed on No. 7 and No. 8 machines and effectively eliminated costly heating of water with steam. Improvements in furnish, including a more uniform unbleached sulphite pulp supply from Edmundston and higher groundwood brightness, also produced considerable cost benefits during the year.

With prevailing high interest rates, and mailing costs on the increase, Fraser can look forward to another year of stable markets and firm demand for this product line in 1982.

Uncoated Groundwood Paper - Units of Sales (thousands of tons)



Modern paper machines require fast and accurate servicing — only a modern stores department with up-to-date retrieval systems and parts inventory can supply these needs.



Coated Groundwood Papers

Despite production gains realized by additional capacity from the company's new C-3 Coater, 1981 results for coated groundwood papers were below plan as soft markets dominated the better part of the year. Shipments in these grades totalled 134,330 tons in 1981, up 17% from 1980.

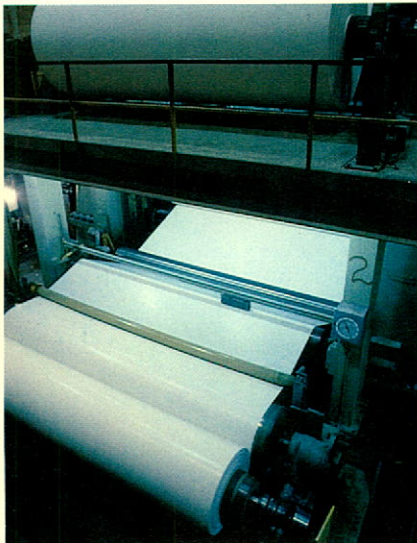
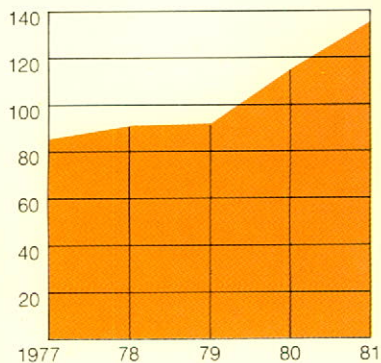
With additional increases in industry capacity expected during 1982, it has become increasingly evident that Fraser must reinforce and expand its efforts in supplying a growing demand for the lightweight varieties of this product line. These efforts were enhanced in 1981 as successful C-3 Coater trials on lower basis weight grades led to subsequent commercial tonnage sales later in the year.

The new coater, which came on line in late 1980, was the focus of attention during 1981, as operating people worked diligently towards achieving machine design production levels. Progress was steady throughout 1981, with a peak rate in excess of 425 tons per day being realized by year end. Further improvements are expected in 1982, particularly in the areas of reducing furnish costs and improving coating yields.

Notwithstanding forecasts for a slow year in this product line in 1982, the Fraser image of quality and reliability in coated groundwood production, especially in the lightweight segment of the market, will assure continued benefits for this division in the coming years.

15

Coated Groundwood
Paper—Units of Sales
(thousands of tons)



Once coated, these huge paper rolls are supercalendered to provide the glossy finish found in modern magazines and catalogues.

Fraser People

16

The acquisition of the Thorold Division and 600 new employees in mid-summer was the major news event of 1981 for Fraser people, and immediately created the need to familiarize these newest members of the Fraser family with company operations and procedures. Plans and programs to this end were adopted during the second half of the year, and will continue in force in the coming year.

As a company, Fraser believes that the modernization of management and employee related practices is as important as the modernization of processes and facilities. In keeping with this belief, Fraser laid foundations in 1981 – to be built on in succeeding years – for promoting more active involvement by employees in discussions and decisions affecting various aspects of their lives. Further to this end, the company established during the year a framework for developing Employee Assistance Programs at its New Brunswick operations. These programs, similar to existing ones at Madawaska and Thorold, will be actively developed in 1982.

In another area, emphasis was placed on in-house training programs in 1981, thereby enabling a greater number of employees to participate in job development activities. Company people also continued to benefit from specialized seminars and training courses offered by outside institutions.

The company's Industrial Relations Department was extremely active on the bargaining front in 1981, successfully negotiating five labor agreements with unions representing more than 900 company employees. All settlements, particularly those in Woods Operations, were reached only after prolonged negotiations, and all gen-

erally followed the Eastern Canadian pattern set by the Pulp and Paper Industry in 1980.

Also evident in 1981 was further refinement and expansion of the corporate Management Development Program, which provides professional employees an opportunity for individual input into their career aspirations and development. The company was extremely successful in applying this program to meet the challenging staff vacancies created by the Atholville Modernization Project. Most of these positions were filled by Fraser employees who realized the unique work and learning experience provided by this major undertaking.

Once again keeping with its philosophy of encouraging employees in outside activities, Fraser continued its support of social, community and recreational activities. The company also became more involved in Noranda-sponsored programs, including sports functions and personnel development efforts. As in past years, the company in 1981 continued to pay tribute to its long-service employees by playing host to banquets at all locales where Fraser maintains manufacturing operations.

Modified safety programs also came into effect in 1981, with the frequency rate of lost-time accidents per man-hours of work down 15% from 1980. Principal contributors to improved safety results during the year were the Edmundston Mill and Plaster Rock Woods Operation. The implementation of even greater efforts in safety and accident prevention will be undertaken in the near future, especially as stricter safety code regulations and increased compensation benefits become a reality.



A Fraser clan piper led the head table guests at the Thorold Division Quarter-Century Club recognition dinner.



Fraser President, John Fisher, not only supports provincial sports and cultural activities, he participates actively.

► Fraser Paper employees hard at play during the Labor Day Annual Picnic sponsored by the company and the Mutual Interest Board.



Fraser and the Public

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Interaction with the public was stepped up in 1981, as Fraser continued efforts to reinforce its position as a concerned corporate citizen.

Support for community projects reached a new high during the year, with Donation Review Committees, comprised of company employees at each plant location, playing major roles in corporate giving. The committees, ever sensitive to the needs of their respective communities, met a minimum of 10 times over the year, recommending corporate assistance where necessary, particularly in the areas of cultural and community activities, minor sports programs, and aid to the ill, aged and unfortunate.

Additional funds were set aside during the year for the sponsorship of several major sport and cultural projects. These included the Fraser Cup Provincial Cross-Country Skiing Championships; the PBS Network television documentary on the Acadians of the Upper St. John River Valley; the premiere performance by the Quebec Symphony Orchestra as part of the Noranda Heritage Concert Series; and the presentation of "You're a Good Man, Charlie Brown" by Theatre New Brunswick.

Other projects completed by the company's Department of Public Relations included the establishment of a series of Nature Trails adjacent to the Fraser Forest Tree Nursery, the printing of an informative Nature Trail guide, and the publication of a colorful brochure on the Fraser Sawmills.

During the second half of 1981, the company gave particular attention to familiarizing employees and the public in Thorold with Fraser. To this end, an open house was held at the Thorold Mill, and Fraser officials met with Thorold civic leaders and special interest groups, presenting the latest audio-visual program on the company at each meeting.

Once again in 1981 the Company had tour guides in place at the Forest Tree Nursery, Madawaska and Edmundston Mills; and Fraser woodlands and picnic sites were made available to the forest traveller. Numerous feature articles on Fraser operations of public interest were also prepared for the written media, and the company continued to provide grants to Maritime and Maine universities, as well as furnish \$4,000 scholarships to three deserving students in Fraser locales.

In another continuing effort, the company met regularly with elected representatives and government officials at the federal, state, provincial and municipal level, reviewing company operating results, discussing issues of concern to both, and identifying areas of mutual co-operation.



Nurses and staff with N. B. Mental Health walk through Fraser's Nature Trail which will open officially in 1982 adjacent to the Fraser Forest Tree Nursery.



Atholville Mill Manager, Everett McKinnon, in full clan regalia participated actively in the local Salmon Festival in which Fraser sponsored two activities.

▶ James DePreist, conductor of the Quebec Symphony Orchestra, receives a gift of appreciation from John Fisher, Fraser President, for concert given at Edmundston under the sponsorship of Noranda Heritage Concert series.





Energy

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Oil costs escalated 25% from 1980 levels, and with purchased power up another 16.9%, the Fraser Energy Conservation Program continued to provide real savings in energy and dollars to the company in 1981.

For the year, the company generated approximately 25% of its total energy consumed via renewable resources, up 4% from 1980 and representing a saving of \$13.8 million in direct energy costs.

At year end, Fraser reported using 32% less energy per unit of production than in 1972, the base year being used by the Canadian Pulp and Paper Industry for measuring improvements in energy usage. These results are among the best in the business and were achieved three years ahead of the industry's schedule, which calls for a 30% reduction in purchased energy consumed per unit of production by the end of 1984.

Principal contributors to the energy conservation program in 1981 were again the bark boilers at Edmundston, Plaster Rock and Kedgwick, and particularly the red liquor recovery boiler at Edmundston. In 1981 the recovery boiler, by burning spent pulping liquor, was able to displace some 348,000 barrels of oil. Substantial savings were also realized during the year at Edmundston and Madawaska with the completion of specific projects aimed at recovering heat through steam replacement and reducing energy in the process stages.

\$53 million program in fossil fuel reduction

Further to its commitment to make all operations as energy-sufficient as possible, Fraser in late summer officially announced a \$53 million capital program designed to ultimately reduce oil consumption at the

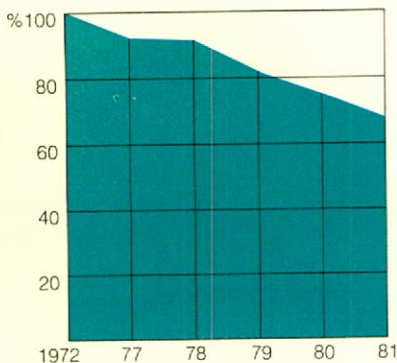
Edmundston-Madawaska complex by an additional 377,000 barrels annually. Scheduled for completion in early 1983, the program calls for construction of a 7,000 ft. steam pipeline and international bridge connecting the two plants, conversion of No. 3 boiler at Edmundston to burn hog fuel, and installation of bark preparation facilities, also at Edmundston. By generating steam at Edmundston and transferring it through the pipeline to feed the Madawaska papermaking operations, Fraser expects to raise the thermal energy self-sufficiency of the Edmundston-Madawaska complex to 80%, up from the current 27%.

To date, foundation piers have been completed for the steel truss bridge which will span the St. John River and carry the steam pipeline, and the bridge superstructure is in the process of being erected. Piling for the steam pipeline supports has also been completed, with actual pipeline installation anticipated to commence in April, 1982. The pipeline itself is expected to be commissioned by the end of October, 1982.

Fraser's other large commitment towards energy conservation, the Atholville Modernization Project, is another the company eagerly awaits completion. With start-up of that rejuvenated mill scheduled for late 1983, Fraser expects a further oil reduction of 286,000 barrels annually, which will make that operation over 85% energy self-sufficient.

These major capital programs, supported by further in-plant work measures to reduce process usage and further recover waste heat, will indeed place Fraser in an enviable position in the pulp and paper industry of North America for many years to come.

Reduction of Purchased Energy Consumed per Unit of Production



► The first span of the international bridge that will carry the steam pipeline between Edmundston and Madawaska is raised in place on a frosty mid-winter morning.

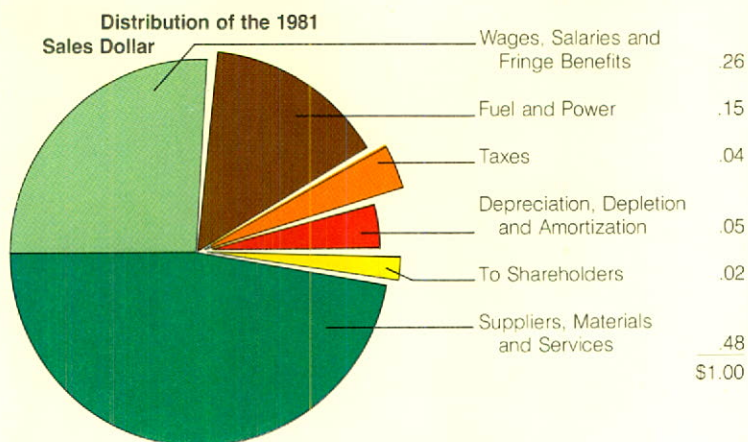


Financial Review

After five consecutive years of earnings growth, the trend was reversed in 1981 notwithstanding record high shipments and sales revenues. The accelerating decline of economic conditions late in the year seriously aggravated the effect which the already slowed economy was having on Fraser's markets and operations.

Net income dropped by 45% to \$16,183,000 or \$2.30 per share from \$29,346,000 or \$4.19 per share in 1980 as a result mainly of a decline in profitability. The return on average shareholders' equity fell to 9.2% from 18.2% last year. The return on average net assets employed (after excluding major fixed assets under construction at year-end) was 8.1% compared with 12.9% in 1980.

Margins were under pressure from weakening markets, increases in the costs of raw materials, chemicals, oil, labour and transportation and also because of reduced operating levels late in the year. Wood products' profitability was severely eroded as a result of the poor housing market while Atholville pulps suffered extensively from weak selling prices and rising costs, especially energy.

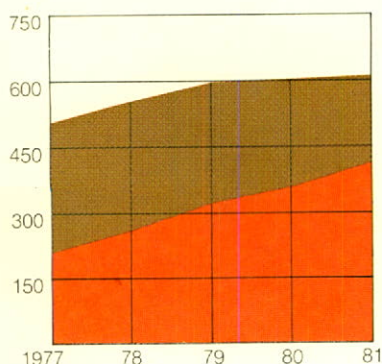


Shipments were up 1.4% and sales revenues increased by 16.6%, both aided by the shipments of fine papers from the Thorold Mill acquired in July, 1981.

Administrative, selling and general expenses increased to \$22.2 million from \$15.1 million in 1980. In addition to the impact of rising price levels, the major factor was a foreign exchange translation loss of \$3,781,000 in 1981 compared with a gain of \$1,125,000 for the same item in 1980.

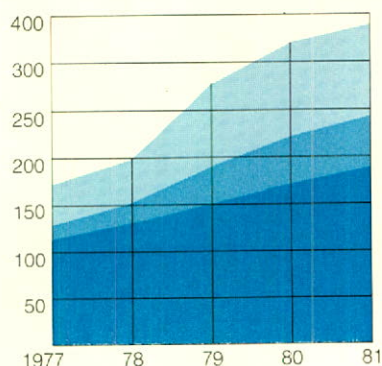
Interest charged to operations rose to \$18.5 million from \$12.2 million last year. The increase was due to higher floating rate debt and higher interest rates. The Canadian prime rate averaged 19.4% versus 14.4% in 1980. This increase in financing cost was the main reason that the return on shareholders' equity dropped at a faster rate than the return on assets.

Sales Units and Dollars



■ Sales Units (thousands)
■ Sales Dollars (\$ millions)

Capitalization
(\$ millions)



■ Long-Term Debt
■ Deferred taxes
■ Equity

Conversely, the weakness of the Canadian dollar against the U.S. currency again provided substantial earnings in 1981 since the majority of the Company's sales were in the U.S. market and the export market denominated in U.S. dollars.

Compared with last year, earnings were adversely affected by a marked increase in the effective income tax rate from 30.6% to 43.7%, which resulted mainly from utilizing only \$471,000 of investment tax credits in 1981 versus \$3,696,000 last year.

The indirect investment in Noranda Mines Limited through Fraser's 23.6% ownership of Frenswick Holdings Limited produced a contribution to earnings of \$3,793,000 or 54¢ per share net of after-tax interest expense on borrowings to finance the investment.

Working capital increased by \$7.6 million over the prior year and the current ratio improved to 1.9 from 1.8. Total assets grew to \$444 million by year-end or 18% above the 1980 level of \$376 million. It is noteworthy that the balance sheet reflects no value for 766,000 acres of freehold timberlands, while market value is estimated to be approximately \$200 U.S. per acre. Long-term indebtedness increased by \$50.6 million (net) to \$148.9 million representing 39% of capitalization, up from 31% last year. The ratio of long term debt to equity at year-end rose to .83 from .57. The major factors underlying the increase in debt were the acquisition of the Thorold Mill and the decisions

to proceed with both the Atholville Modernization and the Edmundston/Madawaska Steam Line projects which accounted for approximately \$51 million of the \$72 million net additions and improvements to fixed assets. The \$16.0 million decline in cash flow from operations for the year, primarily due to lower earnings and deferred taxes, also influenced the borrowing level.

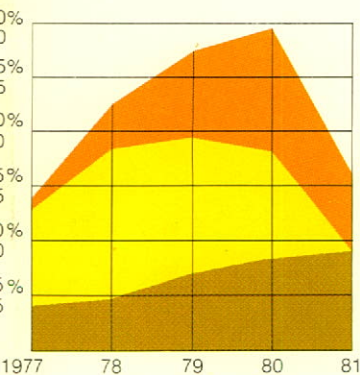
The estimated capital costs before interest of the Atholville and Steam Line projects total \$220 million. This is in addition to the regular capital expenditures that will be needed to maintain productive capacity. Also, opportunities to both improve productivity and respond to market needs have been identified and programs evaluated for implementation as conditions warrant.

These capital projects will be financed from internal sources, government grants and borrowings. After considering various funding alternatives, it appeared most advantageous at this time to utilize the bank revolving term loan. Accordingly, this facility was expanded from \$45 million to \$340 million and amended to incorporate several desirable options which provide considerable flexibility and latitude, including the ability to make other investments. At year-end, \$82.3 million had been drawn down under this facility.

Dividends totalled \$1.30 per share compared to \$1.20 last year; however, the fourth quarter dividend was reduced to 25¢ or \$1.00 per share on an annualized basis.

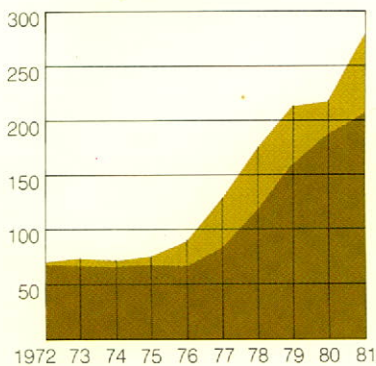
A supplementary statement is included on page 29 which shows the eroding effect of inflation on funds available for distribution and reinvestment.

Income - Dividends - Profitability



■ Net Income (\$ millions)
■ Returns on Equity (%)
■ Dividends (\$ millions)

Net Fixed Assets and Net Additions To Fixed Assets
(\$ millions)



■ Net additions to Plants and Properties
■ Net Fixed Assets

Consolidated Statement of Financial Position

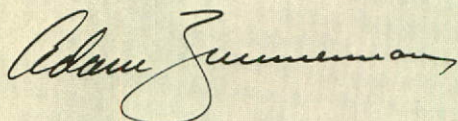
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As at December 31, 1981 with comparative figures for 1980
(in thousands of dollars)

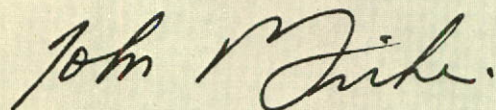
	1981	1980
Current assets:		
Cash	\$ 2,288	\$ 5,048
Accounts receivable	39,988	33,721
Inventories (note 2)	64,083	54,920
Income taxes recoverable	4,300	6,730
Prepaid expenses	2,049	1,378
Total current assets	112,708	101,797
Current liabilities:		
Accounts payable and accruals	43,929	37,388
Bank loan	10,000	9,694
Income taxes payable	249	4,737
Long-term indebtedness due within one year (note 5)	5,938	4,963
Total current liabilities	60,116	56,782
Working capital	52,592	45,015
Fixed assets (note 3)	279,851	228,427
Investment in associated corporation (note 5)	50,352	44,462
Other assets (note 4)	1,022	1,472
Working capital and other assets employed	\$ 383,817	\$ 319,376
Financed by:		
Long-term indebtedness (note 5)	\$ 148,897	\$ 98,249
Deferred income taxes	55,034	49,306
Shareholders' equity (note 6)	179,886	171,821
	\$ 383,817	\$ 319,376

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31, 1981 with comparative figures for 1980
(in thousands of dollars)

	1981	1980
Earnings:		
Net sales	\$ 422,172	\$ 362,184
Cost and expenses:		
Cost of sales	346,168	286,222
Depreciation, depletion and amortization	20,565	18,227
Administrative, selling and general expenses	22,176	15,092
Interest on long-term indebtedness (note 7)	18,531	12,166
	<u>407,440</u>	<u>331,707</u>
Earnings before income taxes and equity in net earnings of associated corporation	14,732	30,477
Income taxes (note 8)	6,440	9,327
	<u>8,292</u>	<u>21,150</u>
Equity in net earnings of associated corporation	7,891	8,196
Net earnings	<u>\$ 16,183</u>	<u>\$ 29,346</u>
Earnings per share	<u>\$2.30</u>	<u>\$4.19</u>
Retained earnings:		
Balance at beginning of year	\$ 166,556	\$ 145,608
Net earnings	16,183	29,346
	<u>182,739</u>	<u>174,954</u>
Dividends paid – \$1.30 (1980 – \$1.20) per share	9,154	8,398
Balance at end of year	<u>\$ 173,585</u>	<u>\$ 166,556</u>

See accompanying notes to consolidated financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated statement of financial position of Fraser Inc. as at December 31, 1981 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 Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rest, Macrick, Mitchell & Co.

Chartered Accountants
Montreal, Canada
February 12, 1982

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981 with comparative figures for 1980
(in thousands of dollars)

	1981	1980
Source of funds:		
Net earnings	\$ 16,183	\$ 29,346
Add (deduct) items not involving funds:		
Depreciation, depletion and amortization	20,565	18,227
Deferred income taxes	5,728	11,252
Equity in net earnings of associated corporation net of dividends received	(5,519)	(5,832)
Amortization of financing expenses	30	30
Funds provided from operations	36,987	53,023
Decrease in other assets – income taxes	664	—
Issue of common shares in lieu of cash dividend	225	124
Stock Purchase Plan	196	167
Long-term indebtedness	56,465	13,400
Total funds provided	94,537	66,714
Application of funds:		
Investment in associated corporation	—	8,166
Additions and improvements to fixed assets – net	71,989	28,921
Reduction of long-term indebtedness	5,817	4,556
Dividends	9,154	8,398
Total funds used	86,960	50,041
Increase in working capital	7,577	16,673
Working capital at beginning of year	45,015	28,342
Working capital at end of year	\$ 52,592	\$ 45,015

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1981

Fraser Inc., is incorporated under the Canada Business Corporations Act. The Corporation and its wholly-owned subsidiary, Fraser Paper, Limited, which owns and operates a paper mill in Madawaska, Maine, is an integrated producer of forest products. Approximately 64% of the Corporation's outstanding capital stock is owned by Northwood Mills Limited, a wholly-owned subsidiary of Noranda Mines Limited.

(1) Accounting policies:

The accompanying financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects to International Accounting Standards.

A summary of significant accounting policies of the Corporation is set out below.

Foreign exchange:

Current assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at balance sheet dates. 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.

In general, the equipment under capital leases is amortized on a straight-line basis over its economic life. Periods of amortization in use vary from 3 to 9 years.

Investment in associated corporation:

The Corporation's investment in Frenswick Holdings Limited, in which it has significant influence and a 23.6% interest in the outstanding share capital, is accounted for by the equity method. The Corporation's pro rata interest, through this investment, in shares of the Corporation held by Northwood Mills Limited has been deducted in arriving at shareholders' equity. Similarly, the Corporation's earnings per share have been calculated on the weighted average number of shares outstanding after reduction for such intercompany holding.

Financing expenses:

Expenses relating to the issue of long-term indebtedness 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.

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:	
	1981	1980
	(000's)	
Pulpwood and logs, including advances	\$ 24,442	\$ 21,935
Raw materials and supplies	30,435	27,036
Goods in process and finished products	9,206	5,949
	\$ 64,083	\$ 54,920

	(3) Fixed assets:	
	1981	1980
	(000's)	
Plants and properties	\$ 416,807	\$ 355,490
Less accumulated depreciation	146,259	132,149
	270,548	223,341
Freehold and leasehold properties	7,867	7,870
Less accumulated depletion	7,867	7,839
	—	31
Equipment under capital leases	13,929	7,930
Less accumulated amortization	4,626	2,875
	9,303	5,055
	\$ 279,851	\$ 228,427

	(4) Other assets:	
	1981	1980
	(000's)	
Due under Stock Purchase Plan	\$ 697	\$ 453
Income taxes	—	664
Deferred financing expenses	325	355
	\$ 1,022	\$ 1,472

Pursuant to the provisions of the Stock Purchase Plan whereby shares may be issued for the account of certain employees, including officers, at the discretion of the directors, 21,500 shares were issued to the Trustee in 1981 for a consideration of \$440,000. 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, 1981 the Trustee held 50,197 shares as collateral for unpaid balances aggregating \$804,000 of which \$107,000 is due in 1982.

	(5) Long-term indebtedness:	
	1981	1980
	(000's)	
Sinking Fund Debentures:		
6⅞% Series A due 1987		
— \$4,500,000 U.S.		
(1980 — \$5,250,000 U.S.)	\$ 4,860	\$ 5,670
10¾% Series B due 1992		
— \$32,670,000 U.S.		
(1980 — \$35,000,000 U.S.)	33,241	35,612
	38,101	41,282
Purchase money mortgage	24,000	24,000
Bank revolving term loan	82,335	32,000
Obligations related to leased assets	9,923	5,426
	154,359	102,708
Less amounts due within one year (converted to \$5,938,000 and \$4,963,000 at year-end exchange rates)	5,462	4,459
	\$ 148,897	\$ 98,249

Repayments over the next five years on the sinking fund debentures amount to \$3,080,000 U.S. per annum. The sinking fund debentures are secured by a floating charge on the assets of the Corporation.

The purchase money mortgage and the bank revolving term loan bear interest at a rate which fluctuates with the lender's prime commercial rate. The purchase money mortgage is repayable in semi-annual instalments of \$1 million from January 1983 through 1994. The bank loan has been made pursuant to arrangements whereby up to \$340 million will be made available as a long-term revolving line of credit until November 1984 at which time the balance outstanding, if any, will be converted into a term loan repayable in equal semi-annual instalments through 1996. When advances equal or exceed \$120 million, the total loan will be secured by a second floating charge on the assets of the Corporation. At the Corporation's option, the purchase money mortgage and the bank loan may be financed by way of bankers' acceptances and may be denominated in Canadian or U.S. funds.

Approximately 80% of the shares of Frenswick Holdings Limited owned by the Corporation are pledged as collateral security for the purchase money mortgage.

Minimum lease payments required under capital leases are as follows:

	(000's)
1982	\$ 3,352
1983	3,062
1984	2,819
1985	1,961
1986	1,113
After 1986	436
	12,743
Less interest included therein	2,820
Obligations related to leased assets	\$ 9,923

(6) Shareholders' equity:		1981	1980
Capital stock —			
common shares:			(000's)
	Shares	\$000's	
Issued at			
January 1,			
1981	7,095,837	\$ 6,916	
Issued in 1981			
under the			
Stock Purchase			
Plan	21,500	440	
Issued in 1981			
to shareholders			
electing dividend			
in stock			
in lieu of cash	9,954	225	\$ 7,581
	<u>7,127,291</u>		\$ 6,916
Retained			
earnings		<u>173,585</u>	166,556
		<u>181,166</u>	173,472
Less			
Corporation's			
pro rata interest			
in its shares			
held by			
the parent			
company	64,395	<u>1,280</u>	1,651
	<u>7,062,896</u>	<u>\$179,886</u>	\$171,821

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, 1981 approximately \$11 million of retained earnings was not subject to such restriction on distribution.

Earnings per share are calculated using the weighted average number of shares outstanding during the year of 7,041,773.

(7) Statement of Earnings —		1981	1980
Supplementary Information:			
			(000's)
(i) Interest on			
long-term			
indebtedness:			
Total interest		\$ 19,966	\$ 13,109
Less charged to capital			
cost of expansion programs		<u>1,435</u>	943
		<u>\$ 18,531</u>	\$ 12,166
(ii) Research and development			
expenses		\$ 2,036	\$ 1,548

(8) Income taxes:

The provision for income taxes has been reduced by \$471,000 (1980 — \$3,696,000) resulting from the application of Canadian and U.S. federal investment tax credits.

(9) Pension plans:

According to the most recent actuarial reports covering pension plans, the unfunded liabilities were \$23,660,000 which are being amortized and funded within the time limits imposed by government regulations. The assets of the plans exceeded the actuarially computed vested pension benefits by a net amount of \$647,000.

Total pension expense charged against earnings aggregated \$3,169,000 (1980 — \$3,080,000).

(10) Commitments:

(i) The capital costs of the Corporation's programs to increase production capacity and efficiency and to meet prescribed environmental standards at its Atholville Mill and to construct a high pressure steam pipeline between its Edmundston and Madawaska Mills over the years 1981 to 1984, are estimated at \$220 million, excluding interest. Of this amount approximately \$39 million has been paid or provided for in the accounts at December 31, 1981 and there were contractual commitments for a further \$49 million at that date.

These programs are being financed by additional bank borrowings, government grants and internally generated funds.

(ii) At December 31, 1981, contractual commitments for capital expenditures not forming part of the above programs amounted to approximately \$5 million.

(iii) The Corporation has contracted to sell under forward exchange contracts U.S. \$318,000,000 at rates averaging approximately Canadian \$1.213 for each United States \$1.00.

(11) Related party transactions:

During the year, the Corporation had business transactions with Noranda Mines Limited and certain affiliates in the Noranda Group. The purchase and sale of materials and

finished products were at market prices on normal trade terms. In addition, the Corporation made use of data processing facilities and certain management and other services of the Noranda Group for which the terms and conditions were generally set out in contractual agreements. It is expected that these business relationships will continue.

Details of balances and transactions are as follows:

	1981	1980
	(000's)	
Balances at end of year:		
Accounts receivable from affiliates	\$ 2,194	\$ 2,032
Accounts payable to affiliates	517	756
Transactions during the year:		
Sales of finished products	16,455	5,537
Purchases of pulp	15,137	20,713
Charges for facilities and services	652	597
Interest expense	—	118

(12) Segmented information:

In view of the dominance of paper products in the Corporation's operations and the integration and interdependence of Canadian and U.S. manufacturing operations, presentation of segmented information by product line and geographic area is not considered meaningful. Sales to customers in the United States represented approximately 76 percent of consolidated net sales.

Effects on Inflation

The issue of how best to measure the effect of inflation is still under study. The Canadian Institute of Chartered Accountants published a re-exposure draft on the subject in December, 1981. Pending resolution of the matter, Fraser continues to use the method proposed by the Ontario Committee on Inflation Accounting. This method determines the portion of funds generated from operations that should be allocated to ensure the maintenance of productive capacity under inflationary conditions.

	(000's)
Funds generated from operations — per statement of changes in financial position	\$ 37,000
Deduct funds required to finance replacement of productive assets assuming no inflation — historical cost depreciation and amortization	20,000
Funds hypothetically available for expansion or distribution <i>before</i> considering inflation	\$ 17,000

Deduct inflation adjustment —		
Additional funds required to finance inflationary increase in the cost of maintaining present productive capacity:		
inventories	\$ 6,000	
plant, machinery and equipment	14,000	
	\$ 20,000	
less portion of additional funds which may be available through borrowings at the present debt-equity ratio	\$ 6,000	\$ 14,000
Funds hypothetically available for expansion or distribution <i>after</i> considering inflation		\$ 3,000

The funds provided from operations totalled \$37 million. After providing for production maintenance costs of \$40 million (including \$20 million due to inflation) and considering financing \$6 million of this by means of additional borrowings, the notional amount of \$3 million is available for expansion and/or distribution.

In fact, in 1981 \$39 million (net) was spent on plant and working capital to maintain the business while \$41 million was spent on expansion of facilities, and \$9 million was distributed to shareholders. Additional debt of \$51 million (net) was incurred and \$1 million was received from other sources.

Ten-Year Comparison

For The Year	1981	1980	1979	1978
Sales and Earnings Data (\$000's)				
Net sales	\$ 422,172	\$ 362,184	\$ 321,038	\$ 265,129
Interest on long-term debt	18,531	12,166	3,590	734
Depreciation and depletion	20,565	18,227	12,220	10,025
Selling and administrative expenses	22,176	15,092	14,043	11,015
Taxes on income	6,440	9,327	17,740	18,421
Net earnings (loss) from operations	16,183	29,346	27,535	22,559
Extraordinary items (net)	—	—	—	—
Net earnings (loss) for the year	16,183	29,346	27,535	22,559
Financial Position Data (\$000's)				
Working capital	52,592	45,015	28,342	21,470
Cash flow from operations	36,987	53,023	54,110	38,825
Net additions to plants and properties	71,989	28,921	53,306	55,697
Long-term indebtedness at end of year	148,897	98,249	89,405	45,495
Deferred taxes on income	55,034	49,306	38,054	22,639
Shareholders' equity at end of year	179,886	171,821	150,407	131,207
Per Share Data				
Net earnings (loss) from operations per share	2.30	4.19	3.91	3.20
Extraordinary items (net) per share	—	—	—	—
Net earnings (loss) for the year per share	2.30	4.19	3.91	3.20
Dividends per share	1.30	1.20	1.00	0.66
Cash flow from operations per share	5.25	7.58	7.68	5.51
Common shareholders' equity per share	25.47	24.50	21.52	18.62
Other Data				
Common shares outstanding at end of year	7,127,291	7,095,837	7,067,130	7,048,206
Return on shareholders' average equity—%	9.2	18.2	19.6	18.5
Average number of employees	4,010	3,625	3,634	3,548
Salaries, wages and benefits (\$000's)	109,634	89,568	80,571	71,267
Net fixed assets per employee (\$000's)	70	63	60	49
Net sales per employee (\$000's)	105	100	88	75
Units of sales per employee	152	166	164	156
Units of Sales				
Fine Papers	— tons	196,182	159,170	176,060
Uncoated Groundwood Papers	— tons	127,230	141,325	130,543
Coated Groundwood Papers	— tons	134,330	114,330	93,759
Boxboard	— tons	28,421	30,502	30,643
Market Pulp	— tons	46,278	67,635	71,936
Lumber	— M.f.b.m.	76,205	87,309	92,634
Total	608,646	600,271	595,575	554,425

	1977	1976	1975	1974	1973	1972
\$	212,490	\$ 180,654	\$ 142,775	\$ 158,228	\$ 111,913	\$ 90,926
	501	468	479	497	547	583
	7,909	7,542	7,373	6,796	6,400	6,294
	9,827	8,080	7,015	5,665	4,787	4,450
	9,012	5,372	4,227	10,793	6,424	(685)
	13,853	11,051	7,212	14,892	7,753	(751)
	—	—	—	—	5,916	—
	13,853	11,051	7,212	14,892	13,669	(751)

43,008	64,809	36,807	35,467	21,763	11,741
27,466	21,147	15,049	22,581	19,293	4,765
44,459	23,144	9,186	5,886	7,310	1,909
42,901	43,712	8,909	9,719	10,529	11,339
16,425	10,745	8,207	7,743	6,850	1,710
113,300	103,437	96,207	92,746	81,054	67,445

1.97	1.57	1.03	2.12	1.11	(0.11)
—	—	—	—	0.84	—
1.97	1.57	1.03	2.12	1.95	(0.11)
0.58	0.54	0.53	0.47	0.20	0.03
3.91	3.01	2.14	3.21	2.75	0.68
16.08	14.71	13.68	13.19	11.54	9.63

7,048,206	7,033,206	7,033,206	7,033,206	7,021,956	7,004,406
12.8	11.1	7.6	17.1	10.3	(1.1)
3,353	3,183	2,906	3,340	3,228	3,426
64,641	53,915	43,412	36,149	28,931	30,658
38	29	26	22	23	21
63	57	49	47	35	27
149	149	135	141	144	134

178,684	164,013	128,012	188,755	173,264	147,189
121,585	128,498	116,896	127,173	128,189	122,586
84,588	83,122	58,060	67,135	61,691	52,996
31,539	32,628	30,326	32,389	31,625	29,118
20,219	9,994	12,191	10,533	20,229	49,151
63,849	56,764	46,081	46,190	49,774	57,153
500,464	475,019	391,566	472,175	464,772	458,193

Adam H. Zimmerman *Chairman of the Board, Elected director 1974*



Born Toronto, 1927. BA (Toronto). Joined Noranda Mines Limited as assistant comptroller 1958; comptroller 1960; vice-president 1966; executive vice-president and director 1974. Chairman of Northwood Mills Limited, Maclaren Power and Paper Co., Noranda Aluminum Inc., and Noranda Metal Industries Limited, and vice-chairman of MacMillan Bloedel Limited. President of Northwood Pulp and Timber Limited. Director of all Noranda's manufacturing and forest product companies, plus a number of Canadian public companies. Past chairman of the Canadian Pulp and Paper Association. Canadian co-chairman of the Canadian-American Committee, and a trustee of the Hospital for Sick Children, Toronto.

David J. Hennigar *Elected director 1969*



Born Windsor, N.S., 1939. B. of Comm. (Mount Allison) and MBA (Queen's). Assistant manager of Burns Brothers and Denton Limited of Halifax 1966; manager 1967. Atlantic regional director of Burns Fry Limited 1971. Vice-chairman of Extencare Ltd., and vice-president and treasurer of Caruscan Inc. Director of Data-crown Inc., Halifax Developments Limited, Crown Life Insurance Company, the Institute for Research on Public Policy, and a number of Canadian public companies. Chairman of finance committee and director of Sir Isaac Walton Killam Children's Hospital, Halifax.

Knut Grotterod *Executive Vice-President, Elected director 1976*



Born Sarpsborg, Norway, 1922. Served with Norwegian Underground Army 1941-45. B. Eng. (McGill). Various management positions with Consolidated Bathurst Inc. Vice-president, production, and general manager, Nova Scotia Forest Industries 1970. Vice-president, manufacturing, Fraser Companies, Limited 1973; senior vice-president, operations, 1975; director 1976; executive vice-president, 1980. Member of the Canadian Pulp and Paper Association, Technical Section, and a member and past president of the Canadian-Scandinavian Foundation.

Lars E. Londen *Elected director 1980*



Born Helsinki, Finland, 1937. MBA (Helsinki Business School), LLB (Helsinki University) and PMD (Harvard Business School). Joined Finncell, Helsinki, 1960; senior vice-president 1971; executive vice-president 1973; president and chief executive officer 1974. President of Northwood Mills Limited 1980. Director of Northwood Mills Limited and Maclaren Power and Paper Company.

Carl M. Frantz *Elected director 1974*



Born Connellsville, Pennsylvania, 1919. Education (Pennsylvania State College). General manager of Merrill Wagner Limited 1961. General manager, timber division, Northwood Pulp and Timber Limited 1967; General manager, timber, Noranda 1971. President of Northwood Mills Limited 1974-79. Managing director of Northwood Pulp and Timber Limited 1976-79. Director of Northwood Pulp and Timber Limited.

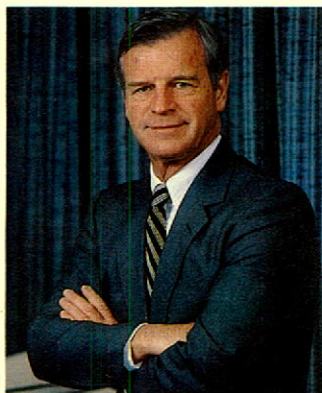
Carl E. Beigie *Elected director 1975*



Born Cleveland, Ohio, 1940. BA (Muskingham College). Assistant vice-president of Irving Trust Company 1968-71. President and chief executive officer of C. D. Howe Research Institute 1978. Associate professor, Faculty of Management, McGill University 1977, and Claude T. Bissell professor at the University of Toronto 1981. Director of Zinor Holdings Limited and Canadian Foundation for Economic Education and a member of a number of Canadian Economics Associations and the American Economics Association.

John P. Fisher *President,**Elected director 1976*

Born Knowlton, Quebec, 1927. B. Eng. (McGill). Marketing manager, pulp and paper, Dominion Engineering Works 1971. Senior vice-president, development, Fraser Companies Limited 1975; executive vice-president 1975; president 1976. Chairman of Forintek Canada Corporation, and director of MacMillan Bloedel Ltd. and MacLaren Power and Paper Company. Vice-chairman, Canadian Pulp and Paper Association (CPPA), 1982.

**H. Roy Crabtree** *Vice-Chairman of the Board, Elected director 1956*

Born Montreal, 1918. BSc (McGill). Vice-president, operations, Woods Manufacturing Company Limited 1950; vice-president and general manager 1953; chairman and president Wabasso Limited 1956. Director and member of executive committee of Domtar Inc. and Bank of Montreal, plus director of a number of Canadian public companies. Also president of Treeford Limited and governor of Royal Edward Chest Hospital and Royal Victoria Hospital and Foundation.

W. Randolph Clerihue *Elected director 1974*

Born Vancouver, 1923. B.Comm. (UBC) and C.A. Vice-president, finance, and treasurer, Celanese Canada Limited 1966. Vice-president, treasurer, Celanese Corporation 1969. Vice-president, finance, The Bendix Corporation 1970; director 1971. President, chief executive officer and director, Celanese Canada Limited 1972; chairman 1974. Executive vice-president, staff and administration, Celanese Corporation 1975; executive vice-president, corporate staff 1976; director 1979. Currently, a consultant with the Celanese Corporation.

Rowland C. Frazee *Elected director 1979*

Born Halifax, 1921. B. Comm. (Dalhousie). General manager, Canadian Districts, The Royal Bank of Canada 1968; vice-president, Toronto, 1970; vice-president, Montreal, and chief general manager 1972; executive vice-president and chief general manager 1973; president 1977; chief executive officer 1979; chairman 1980. Director of The Conference Board and the Council for Canadian Unity. Member of the Roosevelt International Park Commission. Governor of McGill University, and a trustee of the Sports Fund for the Physically Disabled.

**William D. Eberle** *Elected director 1980*

Born Boise, Idaho, 1923. BA (Stanford) and LLB (Harvard). Vice-president of Boise Cascade Corporation 1960-66. President and chief executive officer (CEO) of American Standard Inc. 1966-71. President's Special Representative for Trade Negotiations 1971-75. President and CEO of Motor Vehicle Manufacturers' Association 1975-77. Currently, chairman of EBCO Inc., Holders Capital Corporation, and Manchester Associates. Director of a number of public companies.

Kenneth V. Cox *Elected director 1969*

Born Allison, N.B., 1922. BSc (UNB). General Manager of The New Brunswick Telephone Company Limited 1958; executive vice-president, general manager and director 1959; president 1965; chairman and chief executive officer 1977. Also president and chief executive officer of Bruntel Holdings Limited and president and director of Allison Enterprises Limited. Director of Bank of Nova Scotia, Eastern Telephone and Telegraph Co. and a number of Canadian public companies. Chairman of the N.B. Research and Productivity Council.



Other Officers

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Kenneth L. Seely *Treasurer*



Born Woodstock, N.B., 1929. Graduate of International Accountants Society of Chicago. Joined company in 1947; controller 1973; treasurer 1976. Member of the Society of Management Accountants of New Brunswick and the Guild of Industrial, Commercial and Institutional Accountants of Canada. Member of Canadian Pulp and Paper Association, Woodlands Section.

David G. McAlary *Controller*



Born Edmundston, N.B., 1933. B.Comm. (Dalhousie) and C.A. Joined company in 1955. Appointed assistant controller 1973. Elected controller 1976. Member of the New Brunswick Institute of Chartered Accountants.

William H. Matthews *Vice-President Manufacturing, Thorold Division*



Born Kamloops, British Columbia, 1925. BSc (University of Manitoba). Joined company in 1981. Elected vice-president, manufacturing, Thorold Division, 1981. Member of P.I.M.A. and member of the Canadian Pulp and Paper Association, Technical Section.

Edward R. Frisby *Vice-President, Industrial Relations*



Born Cincinnati, Ohio, 1918. BSc (Yale). Joined company in 1964. Elected vice-president, industrial relations, 1980. Past chairman of Industrial Relations Committee of American Pulp and Paper Association and former member of Executive Committee of Industrial Relations Section of Canadian Pulp and Paper Association.

M. Jean Hammond *Assistant Treasurer*



Born Edmundston, N.B., 1919. Graduate of Edmundston public schools. Joined company in 1937. Appointed assistant to vice-president and treasurer 1975. Elected assistant treasurer 1976. Retired 1981.

John K. Barry *Vice-President, Marketing*



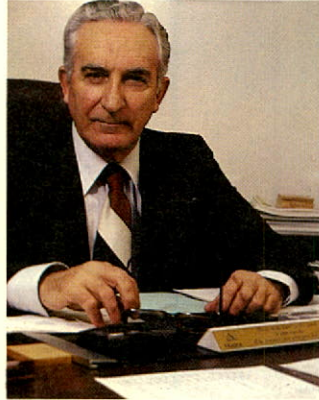
Born Hamilton, Ontario, 1916. BA (McMaster). Joined company in 1937. Elected vice-president, sales, 1968, and vice-president, marketing, 1972. Past president of the Salesmen's Association of the Paper Industry. Retired 1981.

Bruce W. Hicks *Vice-President and Secretary*



Born Fredericton, N.B., 1919. BA, BCL (UNB). Joined company in 1949. Elected secretary 1965; vice-president and secretary 1970. Member of New Brunswick Barristers' Society, Canadian Bar Association, and Fellow of the Institute of Chartered Secretaries.

Peter M. Belyea *Vice-President, Woodlands*



Born Rothesay, N.B., 1921. BSc in Forestry (UNB). Joined company in 1949. Elected vice-president, woodlands, 1971. Vice-chairman of Canadian Pulp and Paper Association, Woodlands Section, and member of New Brunswick Professional Foresters' Association. Past-president of New Brunswick Forest Products Association.

Melvin B. Robinson *Vice-President, Finance*



Born Greenville, Maine, 1931. Graduated Bentley College. Joined company in 1968. Elected vice-president, finance, 1976. Member of Financial Executives Institute and American Management Association.

Robert A. Knapp *Vice-President, Marketing and Sales*

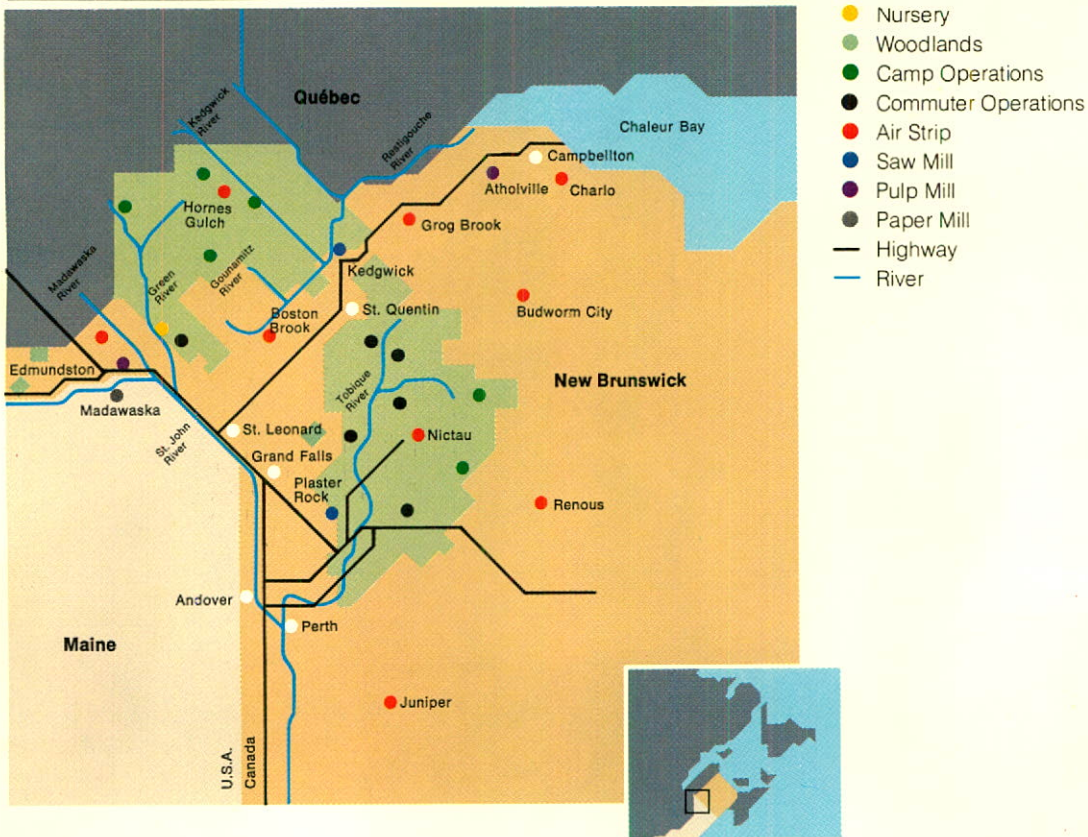


Born Milwaukee, Wisconsin, 1926. BSc and MA (University of Wisconsin). Joined company in 1977. Elected vice-president, marketing and sales, 1977. Member of Executive Committee of Printing and Writing Papers Division of the American Paper Institute.

Niall P. O'Briain *Vice-President, Manufacturing*



Born Dublin, Ireland, 1935. BE (University of Dublin). Joined company in 1960. Elected vice-president, manufacturing, 1978. First vice-president of National P.I.M.A. and member of Industry Development Committee of Canadian Pulp and Paper Association.



Offices, Plants and Products

Fraser Inc.

Corporate Offices:
27 Rice Street
Edmundston, N.B. E3V 1S9
Telephone: (506) 735-5551

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 overseas.
Sales Office:
Northwood Mills Limited,
55 Yonge Street,
Toronto, Ontario M5E 1J4
Telephone: (416) 365-0700

Fraser Boxboard

Mill:
Edmundston,
New Brunswick
Products:
Coated and uncoated folding boxboard
End Uses:
Packaging for food, detergents, frozen foods, pharmaceuticals, pet foods, etc.
Market:
Canada
Sales Offices:
1155 Dorchester Blvd. West,
Montreal, Québec H3B 3T6
Telephone: (514) 871-9283
703 Evans Avenue, Suite 404,
Etobicoke, Ontario M9C 5E9
Telephone: (416) 622-7790

Fraser Papers

Mills:
Fraser Paper, Limited
Madawaska, Maine
(a wholly-owned subsidiary); and
Thorold, Ontario
Fine Papers:
Seven Paper machines, one dual-purpose paper machine, and one on-machine billblade coater
Groundwood Papers:
Three paper machines, two off-machine blade coaters and two super calenders
End Uses:
Papers for converting specialties, commercial printing, coated and uncoated publications, catalogues, directories, business forms, wall-coverings, coated labels, coated specialty packaging, business papers and envelopes
Market:
United States and Canada

Sales Offices:
2 Greenwich Plaza,
Greenwich, Conn. 06830
Telephone: (203) 661-3040
2300 East Devon Avenue,
Des Plaines, Illinois 60018
Telephone: (312) 298-4416
703 Evans Avenue, Suite 404
Etobicoke, Ontario M9C 5E9
Telephone: (416) 622-7790

Fraser Pulp

Mills:
Atholville and Edmundston,
New Brunswick
Products:
Bleached and unbleached softwood sulphite, bisulphite and groundwood pulp
Market:
North America and overseas
Sales Office:
Norfibre (a division of Northwood Mills Limited)
55 Yonge Street,
Toronto, Ontario M5E 1J4
Telephone: (416) 365-0710

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