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1979
ANNUAL REPORT

BARBECON *Inc.*

HOWARD ROSS LIBRARY
OF MANAGEMENT
AUG 27 1981
MCGILL UNIVERSITY

Directors and Officers

Board of Directors

T. S. Dobson
D. L. Helliwell
W. R. Livingston
G. H. Love
D. K. Murphy
A. G. Rankin
R. L. Vachon
J. G. Westaway
J. W. Westaway

Corporate Officers

J. W. Westaway
Chairman
G. H. Love
Vice-Chairman
D. K. Murphy
President
J. G. Westaway
Executive Vice-President
H. W. Van Riet Paap
Vice-President and Secretary
A. C. G. Cunningham
Vice-President, Marketing
D. G. Mathieson
Vice-President and Corporate
Planning Officer
R. S. Clark
Treasurer
J. D. Anderson
Controller
G. A. Chute
Technical Services Director
E. W. Thompson
New Products Director

Divisional Officers

D. R. Ball
Vice-President and General Manager,
Barber-Ellis Western Division
W. S. Brown
Vice-President and General Manager,
W.V. Dawson Limited
A. D. Curran
Vice-President and General Manager,
Fine Papers London Division
D. C. McGillivray
Vice-President and General Manager,
Gage Envelopes Division
R. G. Hughes
General Manager,
Becon Envelopes Division
R. L. Randall
General Manager,
Barber-Ellis Stationery Division

Divisions and Branches

Barbecon Inc.
2300 Yonge Street
Suite 1900, Box 2406
Toronto, Ontario M4P 1E4

Barber-Ellis Eastern Division
Barber-Ellis
Halifax
Toronto

Barber-Ellis Western Division
Barber-Ellis
Winnipeg
Regina
Calgary
Edmonton
Vancouver
Printing Papers
Saskatoon

Barber-Ellis Stationery Division
Toronto
The Paper Shoppe
Toronto

Becon Envelopes Division
Toronto
Brantford

W.V. Dawson Division
W.V. Dawson Limited
Montreal
Enveloppe Dawson
Papeterie Barber-Ellis
Le Marché de L'Imprimeur

Fine Papers London Division
London
Hamilton
Windsor

Gage Envelopes Division
Toronto
Montreal
Winnipeg

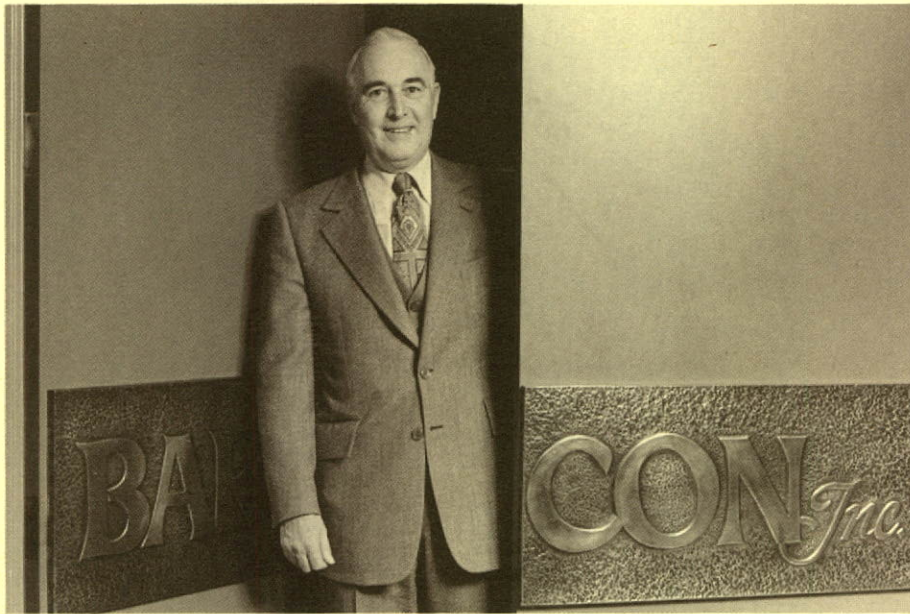
Transfer Agent & Registrar
National Trust Company, Limited
Toronto, Ontario

Auditors
Touche Ross & Co.
Toronto, Ontario

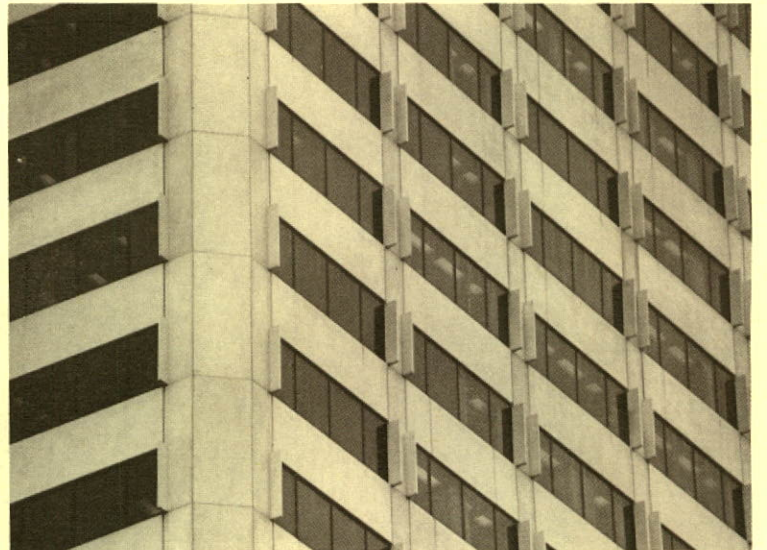
Solicitors
Strathy, Archibald & Seagram
Toronto, Ontario



... a visit to our corporate offices



- 1 Our Corporate Offices in the Yonge-Eglinton Centre.
- 2 Entrance to Corporate Offices.
- 3 Company President, David K. Murphy.
- 4 Reception Area.
- 5 Close-up Corporate Offices, 19th floor.

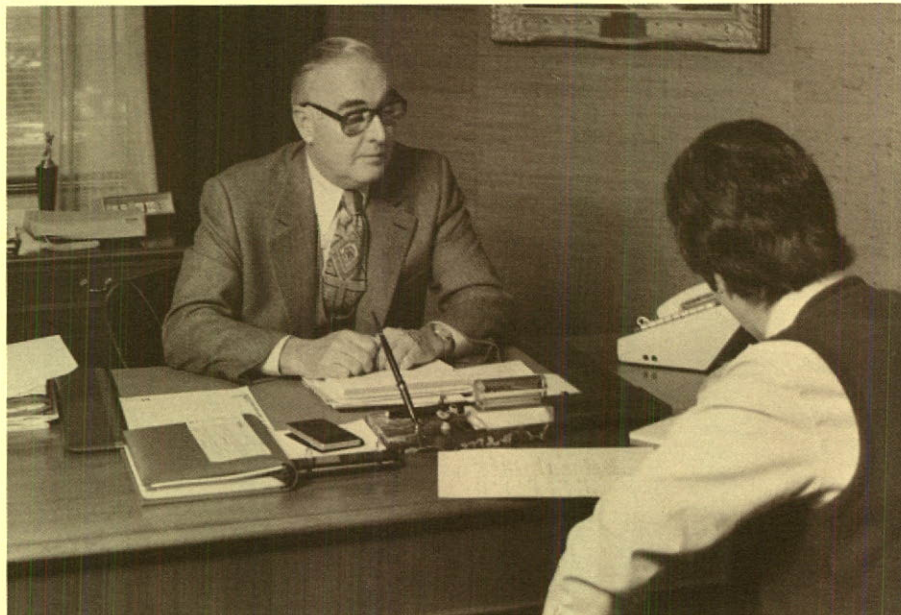




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- 1 'Van' Riet Paap, Vice-President and Secretary, with Louise Graham, our Receptionist.
- 2 Dick Clark, Treasurer, with Pat Dalton, Accounting Manager.
- 3 David Murphy, President and Dick Clark, Treasurer.
- 4 Jim G. Westaway, Executive Vice-President and Josh Gordon, Manager of Information Systems.

BARBECON *Inc.*

1 Velva Simonen, Systems Analyst, in our Computer Room.

2 Gulshan Daya, Machine Operator (left) and Sylvia Whyte, Secretary, in our Accounting Office.

3 Doug Mathieson, Vice-President and Corporate Planning Officer (centre) with Hanna Leikkonen and Brian Labatte, Product Managers of our Marketing Department.

4 Gage Love, Vice-Chairman (right) with Jim G. Westaway, Executive Vice-President.



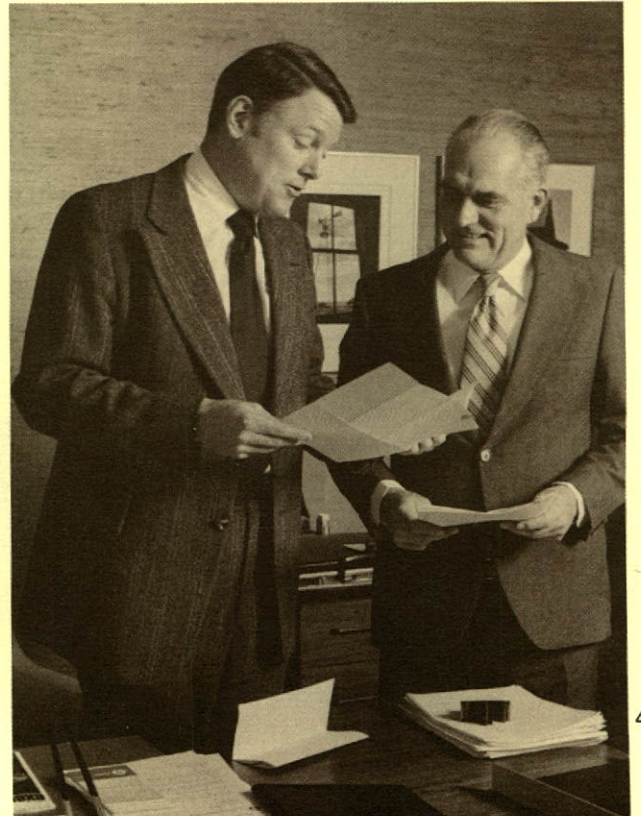
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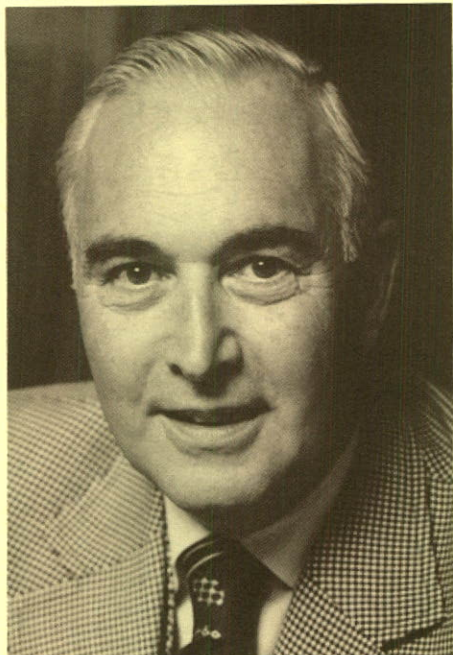


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To Our Shareholders



1979 was a year of record sales and earnings for your company. Sales were \$130,213,000 an increase of 25% over 1978. Growth in sales was paralleled by a growth in earnings. This year's net earnings were \$4,933,000, or \$3.24 per share compared to \$1.84 per share in 1978 which included an extraordinary gain of 20¢ per share.

There were two significant changes in the operating structure of your company last year. On November 1, 1979, Barber-Ellis Stationery became a separate division. The Stationery Division sells social, school, and office stationery across Canada. It also includes The Paper Shoppe, a Toronto cash-and-carry paper store. Mr. Robert Randall is the General Manager of this new division. The second major event was the formation of Becon Envelopes under the direction of General Manager Ray Hughes. This new division began operations January 1, 1980. It combines the envelope manufacturing operations of Barber-Ellis Brantford and Munn Envelopes and the consumer sales of Barber-Ellis Toronto into one sales force and two manufacturing plants.

Capital expenditures this year totalled \$3,753,000, of which \$1,412,000 was invested in new operating facilities. Barber-Ellis Winnipeg moved into a new factory and warehouse in March 1979. A new building for Barber-Ellis Halifax is now complete and this branch moved into their new premises in January 1980. The warehouse for Barber-Ellis Calgary is still under construction and its completion is anticipated in the second quarter of this year.

Expenditures for envelope machinery included two fast web envelope machines and two web attachments for existing machines. These machines further modernize and strengthen envelope manufacturing capabilities. To maintain a high level of customer service, additional warehouse racking as well as reach trucks and order pickers have been acquired.

A considerable amount of money has been spent over the past five years expanding the computer system. In 1980, all branches and divisions should come "on line". Additional equipment will be purchased to provide the capacity required to handle this heavy processing load. We believe these funds are well spent as the information provided by our com-

puter system is an invaluable management tool.

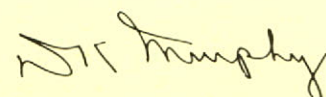
Each year, I have predicted cost increases on converting and wholesale paper grades. 1980 appears to be no exception. Pulp is expected to increase in April. Fine paper mills face wage increases, so further rounds of price increases in the second quarter of this year are expected.

Envelope backlogs in our factories are high. The pattern of strong sales growth and satisfactory earnings is expected to continue well into the second quarter.

1979 was the worst year of inflation for your company since 1974. The result was a significant overstatement of historical cost earnings as reported in our audited financial statements. For a better indication of your company's true profitability I direct your attention to the Current Replacement Cost Financial Statements. These supplementary financial statements remove the distorting effects of inflation from earnings.

Excellent sales and profits are the result of co-operation and hard work by all Barbecon employees. On behalf of the Directors and Management, I would like to

thank our divisions, branches, and factories for their fine efforts in 1979. Last, but not least, a special word of thanks to our customers for their continued support of our organization. They, alone, provide the tangible evidence that Barbecon is a strong force in the market place.



D. K. Murphy
President

March 6, 1980

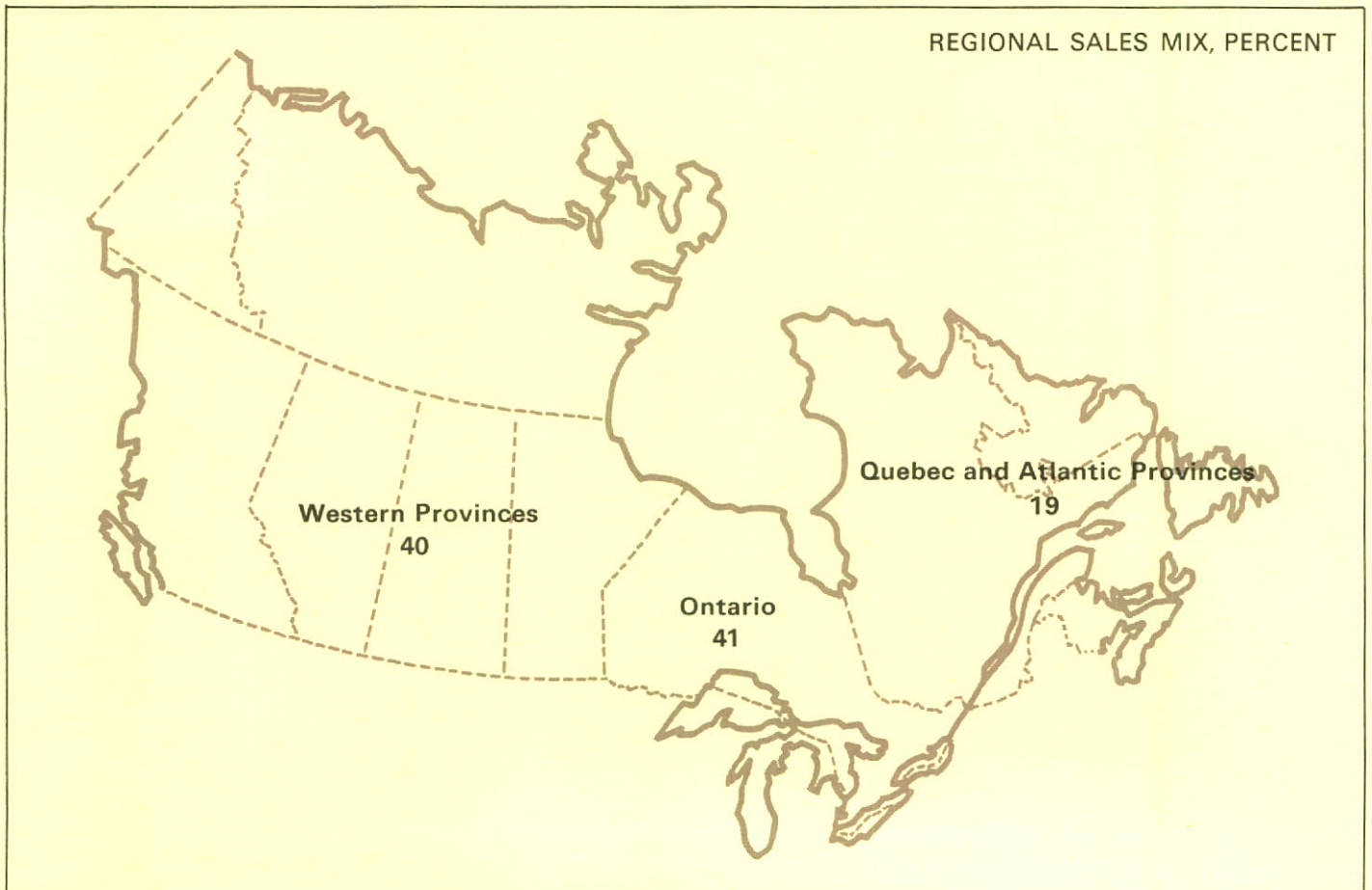
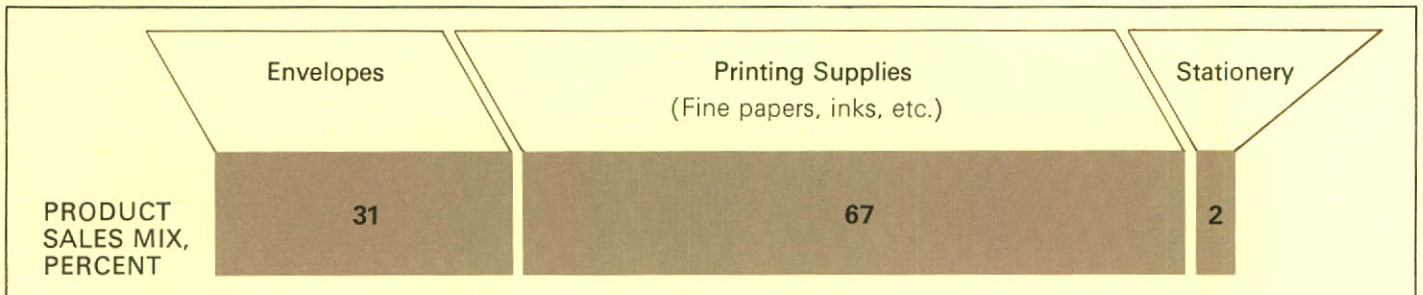
Highlights

In Thousands of Dollars	1979	1978
Sales	\$130,213	\$104,274
Net Earnings	4,933	2,786
Earnings per Common Share (dollars)	3.24	1.84
Dividends per Common Share (dollars)	.90	.63
Current Replacement Cost Earnings per Share (dollars - unaudited)	1.91	1.18

An Overview of Barbecon's Operations and Prospects

The Barbecon Corporation comprises a group of manufacturing and trading divisions offering envelopes, printing supplies, and stationery products to customers across Canada.

These products find their way into the hands of virtually every kind of Canadian, either in homes, offices, or printing plants where the stock products of Barbecon are customized for specialized applications.



Barbecon's decentralized, divisional structure (see page 1) has undergone some major changes over the last three years. We have been responding to the increasingly complex needs of our customers and the special problems of managing our development

across regions experiencing quite different economic circumstances. These shifts have tended to make simple yet accurate descriptions of the missions of each of our units difficult. Analysis of our comparative success and longer-range prospects has also been difficult for

the same reasons. In basic terms, however, all Barbecon units can be said to operate in one or more of three businesses: envelope manufacturing, the distribution of printing supplies, and the manufacture and distribution of retail stationery products.

ORGANIZATION OF BARBECON'S TRADING UNITS BY BUSINESS AND REGION

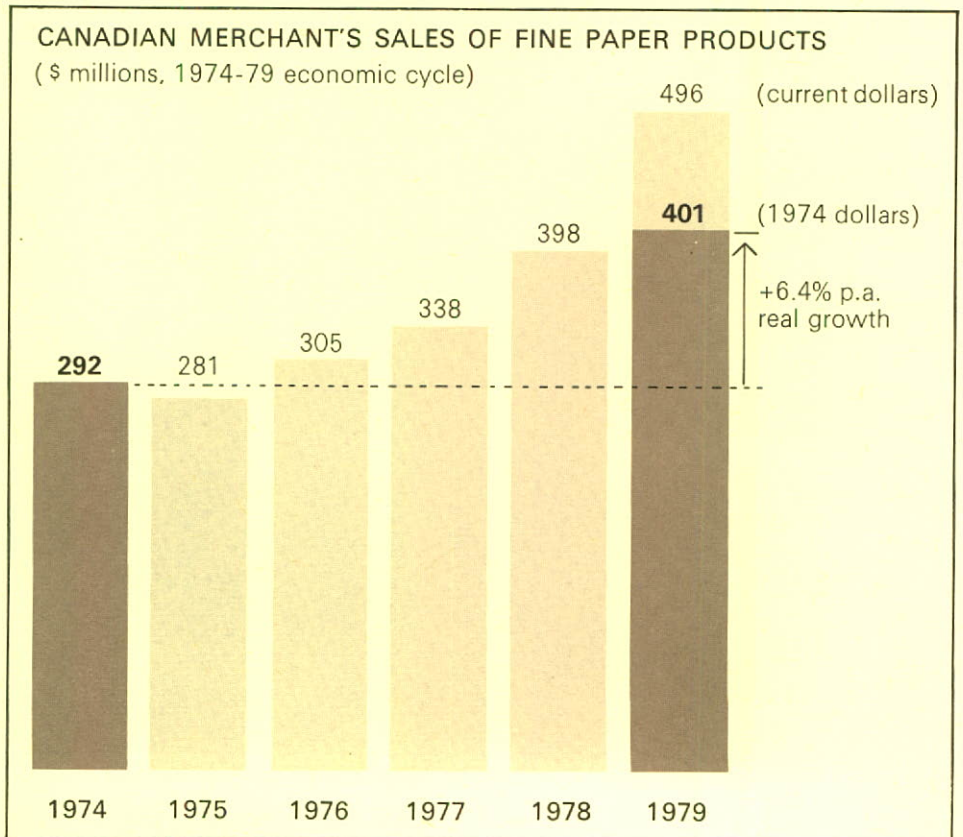
Regions	Businesses		
	Envelope Manufacturing	Distribution of Printing Supplies	Retail Stationery Manufacturing/ Distribution
Atlantic Provinces	Barber-Ellis Branches in Halifax and St. John's		
Québec	<ul style="list-style-type: none"> • Enveloppes Gage • Enveloppe Dawson 	<ul style="list-style-type: none"> • Papeterie Barber-Ellis • Le Marché de L'Imprimeur 	
Ontario	<ul style="list-style-type: none"> • Gage Envelopes • Becon Envelopes 	<ul style="list-style-type: none"> • Barber-Ellis – Toronto • Fine Papers – London, Windsor, Hamilton • The Paper Shoppe 	Barber-Ellis Stationery Division
Western Provinces	Barber-Ellis Branches in Winnipeg, Regina, Calgary, Edmonton, and Vancouver	Gage Envelopes, Winnipeg	

Distribution of Printing Supplies

The largest share of Barbecon's revenues is concentrated in the 'merchant' business – the distribution of paper, envelopes, and pre-press supplies to the graphic arts industry and office users. In this business, economic conditions have been good throughout the last half of the seventies. Real growth in the major product line, fine papers, has averaged over six percent per year in the 1974-79 period. Barbecon expects industry

growth rates to modify only slowly in the eighties. We believe the low cost and great flexibility of printed communications will continue to be an attractive alternative to television and radio media for all but the biggest budgets. As in envelopes, Barbecon merchant units can look to important competitive strengths. By the middle of this year, order entry at all merchant locations will be completed by 'on-line' computer; this permits instant stock checks from inventory tallies that are adjusted minute-by-minute, as well as computer-assisted

reordering and faster instructions for warehouse picking. Also, as members of the only national merchant chain independent of the paper mills, our merchant units enjoy a unique access to the widest possible range of paper sources. Indeed, Barbecon merchants today are helping graphic arts customers over Canadian supply shortages by buying from Europe, the U.S. and Japan. Thus, with the leading share of faster-growing Western markets, we confidently expect to exceed merchant industry growth rates in the new decade.



Envelope Manufacturing

The demand for envelopes has matured in the seventies. The growing variety and availability of electronic means of communication combined with postal rate increases and service interruptions have slowed demand growth and intensified competition among suppliers. However, the rate of growth in demand differs sharply according to end-use, and Barbecon looks to the future of the envelope industry with many competitive advantages. First, our computer-based manufacturing systems have given us an ability to control efficiency that is unmatched in the industry. Second, Barbecon plants have taken advantage of the availability of new high-speed folding equipment, which make envelopes directly from rolls of paper, and installed more of these paper and labour-saving

machines than any other Canadian manufacturer. Third, Barbecon's coverage of the faster growing markets of the West is more extensive than any other competitor's. Fourth, in the tougher conditions prevailing in Quebec and Ontario, Barbecon has structured its organization so that it has 2 competitors in each region, each pursuing a unique approach to seeking out faster-growing applications. Lastly, Barbecon's participation in the business of distributing printing supplies to the graphic arts industry ensures its envelope units captive access to the stabler demand pattern emanating from small business users. Such users can rarely justify the expense of automated communication systems, which displace some envelope applications, and typically buy their envelopes from Barbecon's printer customers.

Retail Stationery

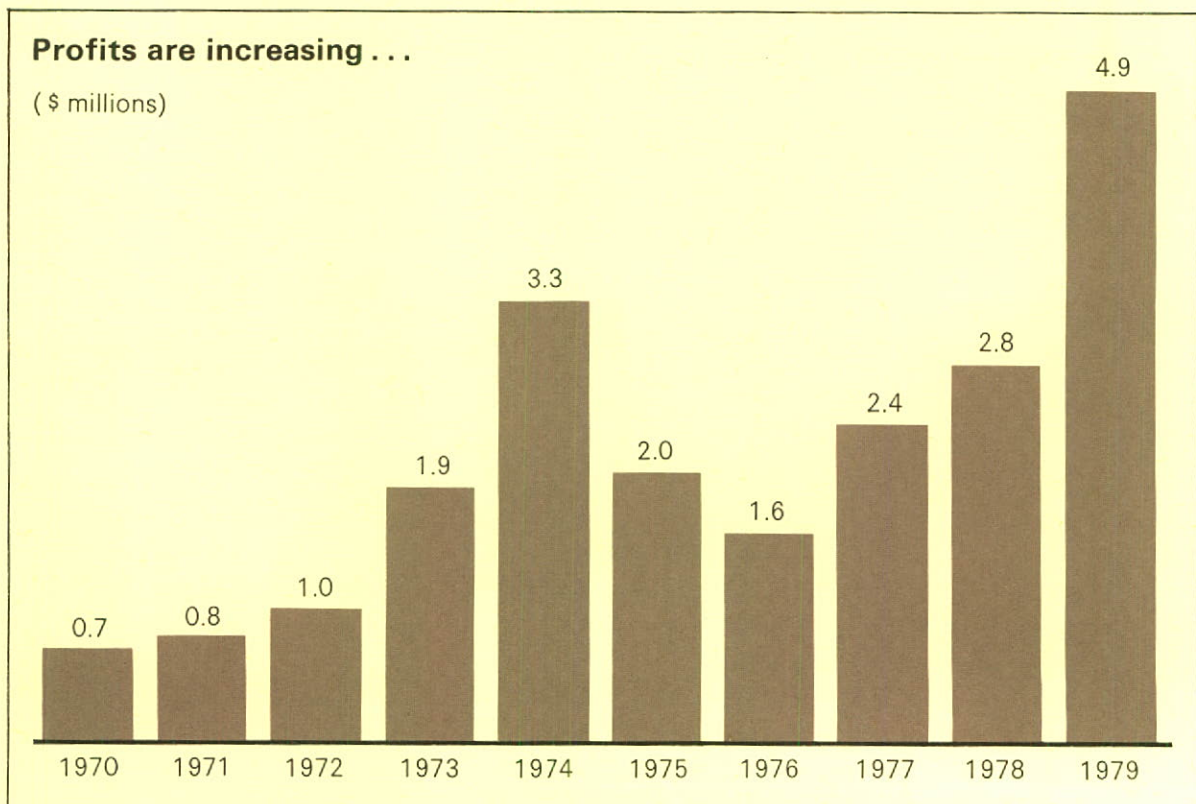
Retail stationery products are a stable, growing market and Barbecon, through the Barber-Ellis Stationery Division, is pursuing an aggressive approach to gaining a major share. Originally marketed through Barbecon's merchant units, sales of retail stationery products have grown to

justify the formation of a new division, operating out of a 16,000 sq. ft. location in Scarborough, Ontario. The Social Stationery line, the backbone of the Division's sales, comprises the brand names of Scottie, Montag, Barber-Ellis, and Cameo. It is recognized by most major retailers across Canada as the most extensive available. Recently, the Division became exclusive Canadian distributor for Mead school supply products. These products have a leading share of the U.S. market and their addition to our comprehensive social stationery line makes the Division's line-up very attractive to any retailer aiming for the best use of his stationery floorspace.

BARBECON *Inc*

Ten-Year Financial Review

In Thousands of Dollars	1979	1978	1977	1976
Sales	\$ 130,213	\$ 104,274	\$ 92,173	\$ 79,839
Profit before Income Taxes	8,582	4,223	4,180	3,021
Net Earnings	4,933	2,786	2,404	1,634
Common Shares Outstanding* (December 31)	1,521,688	1,521,688	1,512,288	1,876,888
Earnings per Common Share* (dollars)	3.24	1.84(b)	1.29	.87
Dividends per Common Share* (dollars)	.90	.63	.53	.46
Total Assets	49,754	38,552	32,964	31,285
Shareholders' Equity	\$ 17,136	\$ 13,583	\$ 11,678	\$ 12,738
Current Replacement Cost Data (unaudited)				
Net Earnings	\$ 2,913	\$ 1,786	\$ 1,535	\$ 1,283
Earnings per Share* (dollars)	1.91	1.18(c)	.82	.68
Total Assets	53,294	41,393	35,541	33,444
Shareholders' Equity	\$ 20,676	\$ 16,424	\$ 14,255	\$ 14,897



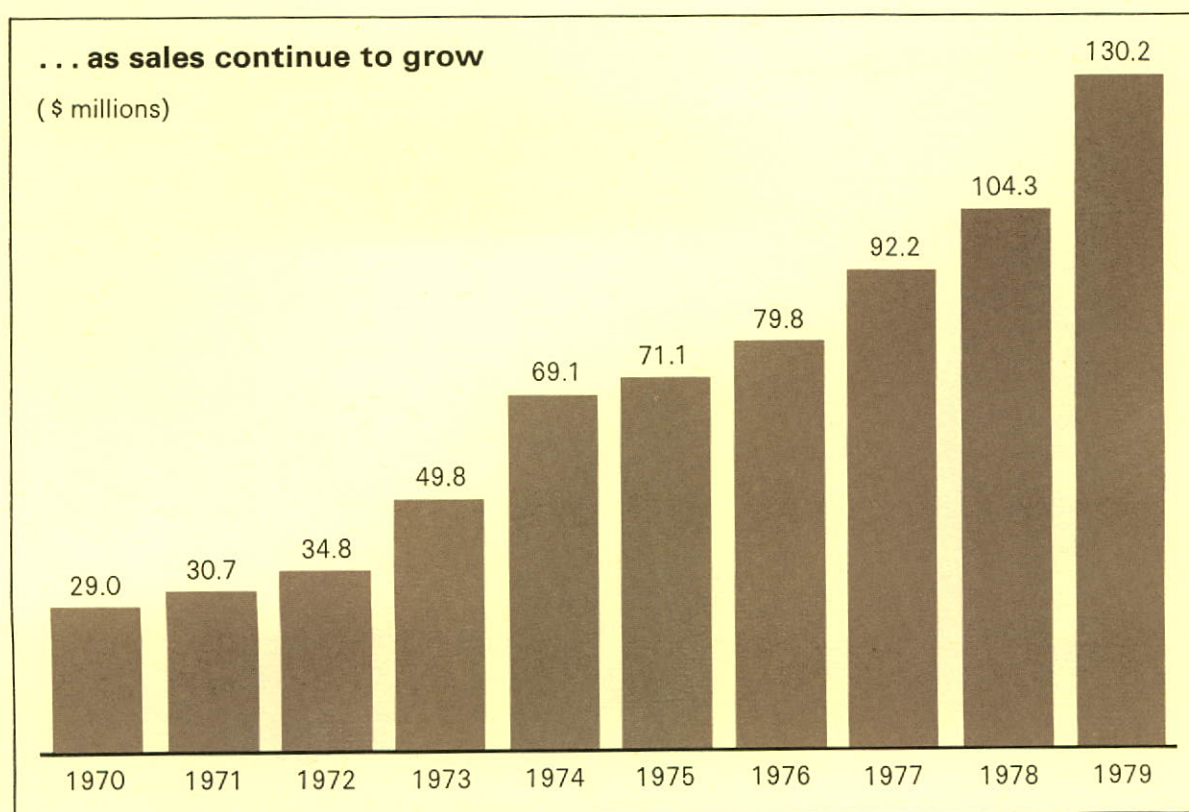
1975	1974	1973	1972	1971	1970
\$ 71,122	\$ 69,058	\$ 49,787	\$ 34,804	\$ 30,680	\$ 29,043
3,677	6,204	3,523	1,968	1,652	1,524
2,028	3,277	1,874	1,015	834	691
1,875,888	1,852,168	1,838,648	1,831,480	1,820,400	1,820,000
1.09(a)	1.77	1.02	.56	.46	.38
.53	.53	.40	.24	.18	.18
28,455	28,732	19,932	12,507	10,480	9,759
\$ 11,948	\$ 10,853	\$ 8,512	\$ 7,353	\$ 6,741	\$ 6,227
\$ 1,460	\$ 1,984				
.78(a)	1.08				
30,349	30,832				
\$ 13,842	\$ 12,953				

* Adjusted to reflect 4 for 1 stock split in 1978

(a) Including extraordinary item of \$.11 per share

(b) Including extraordinary item of \$.20 per share

(c) Including extraordinary item of \$.07 per share



BARBECON *Inc*

(Incorporated under The Business Corporations Act – Ontario)

Consolidated Balance Sheet

as at December 31, 1979

Assets	1979	1978
	(000's)	(000's)
Current		
Accounts receivable	\$20,193	\$15,966
Inventories	18,897	14,639
Prepaid expenses (Note 5)	450	172
	39,540	30,777
Property, plant and equipment (Note 2)	9,578	7,091
Unamortized excess of purchase price over fair value of net assets acquired	636	684
	\$49,754	\$38,552

On behalf of the Board of Directors

James W. Mastaway, Chairman

D. J. Murphy, President

See accompanying notes to consolidated financial statements.

Liabilities	1979	1978
	(000's)	(000's)
Current		
Bank indebtedness	\$15,694	\$11,867
Accounts payable and accrued liabilities	7,520	5,734
Income taxes	3,119	738
Current portion of long-term debt	480	507
	26,813	18,846
Deferred income taxes	1,300	955
Long-term debt (Note 3)	4,505	5,168
	32,618	24,969
Shareholders' Equity		
Capital stock (Note 4)	608	618
Retained earnings	16,528	12,965
	17,136	13,583
	\$49,754	\$38,552



Consolidated Statement of Earnings

for the year ended December 31, 1979

	1979	1978
	(000's)	(000's)
Net sales	\$130,213	\$104,274
Costs and expenses		
Cost of products sold	96,834	79,503
Selling, general and administrative	21,367	18,047
Depreciation and amortization	1,261	983
Interest		
Long-term debt	528	553
Current debt	1,641	965
	121,631	100,051
Earnings before income taxes and extraordinary item	8,582	4,223
Provision for income taxes	3,649	1,735
Earnings before extraordinary item	4,933	2,488
Extraordinary item		
Gain on disposal of property, less related income taxes of \$247,000	—	298
Net earnings	\$ 4,933	\$ 2,786
Earnings per share (dollars)		
(weighted average number of shares 1,521,688; 1978 – 1,514,792)		
Before extraordinary item	\$ 3.24	\$ 1.64
After extraordinary item	\$ 3.24	\$ 1.84

See accompanying notes to consolidated financial statements.



Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1979

	1979	1978
	(000's)	(000's)
Working capital provided by		
Earnings before extraordinary item	\$ 4,933	\$ 2,488
Items not requiring an outlay of working capital		
Depreciation and amortization	1,261	983
Deferred income taxes	345	122
Working capital provided by operations	6,539	3,593
Extraordinary item		
Net proceeds on disposal of property	—	1,054
Proceeds on disposal of property, plant and equipment	53	54
Issue of common shares	—	68
	6,592	4,769
Working capital used for		
Expenditures for plant and equipment	3,753	2,718
Payment of dividends	1,370	949
Redemption of long-term debt	183	—
Decrease in long-term debt	480	507
Redemption of first preference shares	10	—
	5,796	4,174
Increase in working capital	796	595
Working capital at beginning of year	11,931	11,336
Working capital at end of year	\$12,727	\$11,931

See accompanying notes to consolidated financial statements.



Consolidated Statement of Retained Earnings

for the year ended December 31, 1979

	1979	1978
	(000's)	(000's)
Balance at beginning of year	\$12,965	\$11,128
Net earnings	4,933	2,786
	17,898	13,914
Dividends	1,370	949
Balance at end of year	\$16,528	\$12,965

See accompanying notes to consolidated financial statements.

Auditors' Report

The Shareholders,
Barbecon Inc.

We have examined the consolidated balance sheet of Barbecon Inc. as at December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 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.

Toronto, Ontario,
March 6, 1980.

TOUCHE ROSS & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1979

1. Summary of significant accounting policies
a. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary company, W. V. Dawson Limitée. The 1978 comparative figures also included the accounts of Fine Papers London Limited which was amalgamated with Barbecon Inc. on December 31, 1978.

b. Inventories

Inventories are valued at the lower of average cost (determined on a weighted average basis) and net realizable value.

c. Property, plant and equipment

Expenditures for additions and major improvements are capitalized and depreciated over their estimated useful lives, generally on the diminishing-balance method at the following rates :

Buildings	5%
Machinery and equipment	20%

d. Other assets

The excess of purchase price over the fair value of net assets acquired is amortized on a straight-line basis over twenty years.

2. Property, plant and equipment

	1979		1978	
	Cost	Accumulated depreciation	Net	Net
	(000's)	(000's)	(000's)	(000's)
Land.....	\$ 888	\$ —	\$ 888	\$ 908
Buildings.....	6,133	1,664	4,469	3,273
Machinery and equipment.....	11,800	7,579	4,221	2,910
	\$18,821	\$ 9,243	\$ 9,578	\$ 7,091

3. Long-term debt

	1979	1978
	(000's)	(000's)
Term bank loan due April 1, 1983	\$ 920	\$1,150
5¾% sinking fund debentures due December 15, 1984	182	392
8½% sinking fund debentures due June 1, 1993	1,250	1,300
10% promissory notes	2,633	2,833
	4,985	5,675
Less current portion	480	507
	\$4,505	\$5,168

The 10% promissory notes are payable to Westell Financial Corporation Limited, a company beneficially owned by insiders of the Company.

Sinking fund instalments and other payments required on long-term debt to 1984 are as follows: 1980 — \$480,000; 1981 — \$480,000; 1982 — \$2,513,000; 1983 — \$280,000 and 1984 — \$232,000.

The Company in 1979 redeemed \$210,000 of its 5¾% sinking fund debentures and realized a gain on the transaction of \$35,000.

Notes to Consolidated Financial Statements (continued)

December 31, 1979

4. Capital stock

	1979	1978
	(000's)	(000's)
Authorized		
339,960 non-voting second preference shares, par value \$25 each		
5,000,000 common shares without par value		
Issued		
Nil first preference shares (1978-200 which were redeemed and cancelled in 1979)	\$ —	\$ 10
1,521,688 common shares	608	608
	\$608	\$618

5. Pension plan

The latest actuarial review of the pension plan as at December 31, 1978 determined the unfunded past service liability to be \$2,256,000.

Annual amounts charged to earnings with respect to this liability will be: \$273,000 to 1987; \$131,000 in 1988 and 1989; and \$100,000 from 1990 to 1992.

In 1979, the Company paid its 1980 past service funding requirement of \$273,000 which is included in prepaid expenses.

6. Remuneration of directors and senior officers

The remuneration of directors and senior officers was \$497,000 (1978 — \$424,000).

7. Commitments

The Company has operating lease commitments on buildings extending over a period of fifteen years in respect of which annual payments of approximately \$850,000 will be made during each of the next five years.

BARBECON *Inc.*

Supplementary
Consolidated
Financial
Statements

To Our Shareholders

Financial statements derive their usefulness by providing meaningful and understandable information about a company's financial circumstances. Five years ago, we faced a series of rapid cost increases that seriously compromised the ability of our traditional financial statements to perform this task. We concluded that additional financial information was necessary to operate your company. We decided that disclosure of this additional data would assist shareholders and the public at large to understand the impact that inflation was having on your organization.

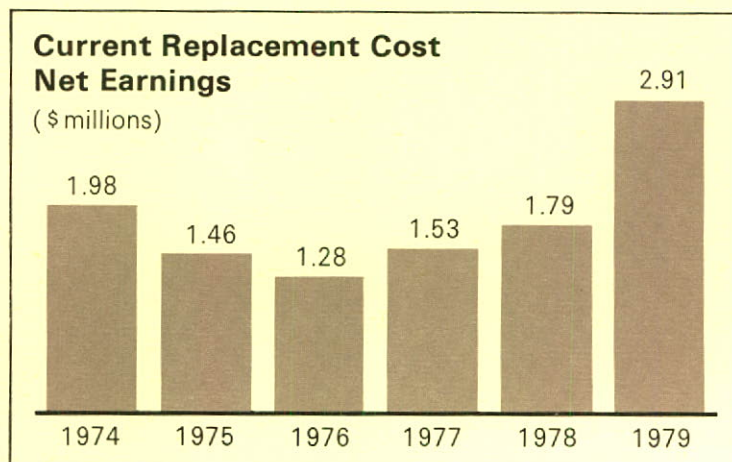
In 1974, we published our first set of Current Replacement Cost Financial Statements. Since that time, the business community has come to realize that inflation imposes significant limitations on traditional financial statements that can only be

remedied by some form of inflation accounting. In December 1979, the Canadian Institute of Chartered Accountants issued proposed recommendations eventually requiring large public companies to disclose the current value of their assets and to report the effect of inflation on their earnings. Barbecon's present method of reporting captures the most significant inflation adjustments recommended by these new disclosure requirements.

Our Current Replacement Cost Financial Statements differ from the traditional historical cost financial statements in two respects. As the name implies, the Current Replacement Cost Financial Statements show the current values of our company's assets and liabilities. These values are based on replacement costs. Our traditional financial statements are not based upon

current values. Assets and liabilities are carried on the balance sheet at their original costs. For plant and equipment especially, this results in significant differences between the recorded values and present day values of our assets.

The second area of difference lies in the definition of profit. Our traditional financial statements use historical costs as a basis for measuring profits. When, for example, inventory is sold, the difference between selling price and the original cost of the product is reported as profit. This approach is adequate when costs are steady. However, when costs spiral, its limitations become clear. Historical cost profits fail to recognize that a portion of earnings is not available for distribution. This portion of profits represents funds that must be reinvested to replace inventory, plant, and equipment at higher current costs.



Our Replacement Cost Financial Statements recognize the necessity of financing the replacement of inventories and facilities before reporting profits. Cost of sales represents the current cost of replenishing inventory on the date of sale while depreciation represents money that must be set aside each year to fund the ultimate replacement of plant and machinery.

Our Replacement Cost Income Statement only reports profits from manufacturing and trading activities. Inflation, or price-change profits, are an illusory phenomena resulting from holding assets during times of rising prices. They are isolated, excluded from earnings, and are correctly reported as asset revaluations.

To observe the changed financial conditions that inflation creates in our com-

pany, compare our Traditional and Replacement Cost Financial Statements. 24% of our pre-tax earnings on a historical cost basis are inflationary profits. These profits have no foundation in our manufacturing and distribution operations. Although they are illusory, we are taxed on them. Our effective rate of taxation is 56%.

We are pleased to report that the company's performance is steadily improving. After removing the effects of inflation in 1979, our replacement cost earnings increased to \$2,913,000. Our dividend rate is 47% of these earnings.

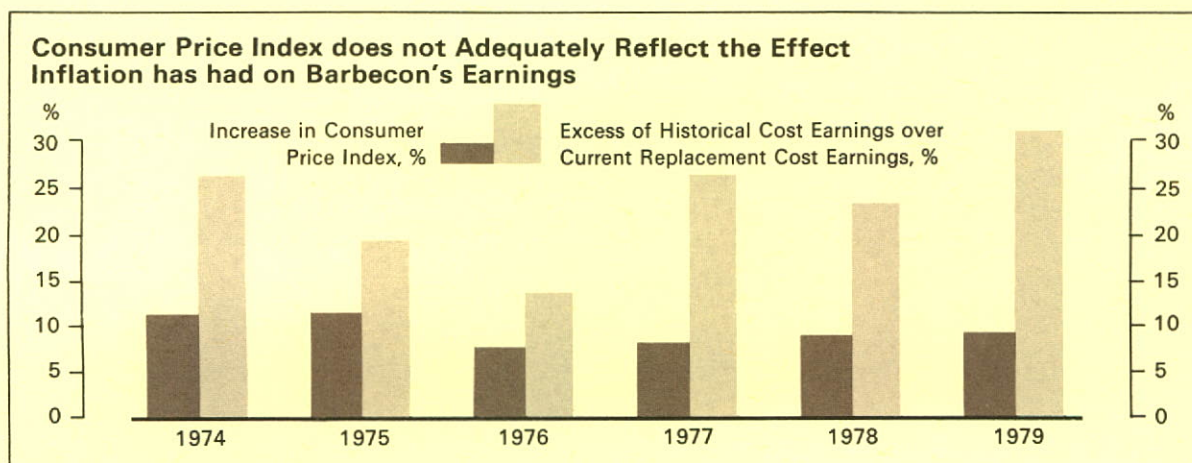
Your company's management believes that inflation adjusted information is the only practical basis for making sound operating and investment decisions, particularly in a year such as 1979. We urge you to review the Current Replacement Cost Financial Statements

carefully. They provide the best and most accurate financial picture of how well your company is progressing.

At Barbecon, we have observed over the past few years that inflation affects the various parts of our economy very differently. We frequently hear that "inflation in our economy is running at approximately 10%", yet we know, for example, that the price of oil is escalating at a much higher rate. The earnings of your company have been far more severely affected by inflation than the consumer price index (CPI) would have indicated. The adjacent chart shows this dramatic comparison.

David K. Murphy
President

March 6, 1980



Consolidated Current Replacement Cost Balance Sheet

as at December 31, 1979 (unaudited)

Assets	1979	1978
	(000's)	(000's)
Current		
Accounts receivable	\$20,193	\$15,966
Inventories	18,922	14,663
Prepaid expenses	450	172
	39,565	30,801
Property, plant and equipment (Note 2)	13,729	10,592
	\$53,294	\$41,393
Liabilities		
Current		
Bank indebtedness	\$15,694	\$11,867
Accounts payable and accrued liabilities	7,520	5,734
Income taxes	3,119	738
Current portion of long-term debt	480	507
	26,813	18,846
Deferred income taxes	1,300	955
Long-term debt	4,505	5,168
	32,618	24,969
Shareholders' Equity		
Capital stock	608	618
Retained earnings	1,174	1,933
Revaluation account	18,894	13,873
	20,676	16,424
	\$53,294	\$41,393

See accompanying notes to supplementary consolidated financial statements.

Consolidated Current Replacement Cost Statement of Earnings

for the year ended December 31, 1979 (unaudited)

	1979	1978
	(000's)	(000's)
Net sales	\$130,213	\$104,274
Costs and expenses		
Cost of products sold	98,285	79,919
Selling, general and administrative	21,367	18,051
Depreciation and amortization	1,830	1,373
Interest		
Long-term debt	1,641	553
Current debt	528	965
	123,651	100,861
Earnings before income taxes and extraordinary item	6,562	3,413
Provision for income taxes	3,649	1,735
Net earnings before extraordinary item	2,913	1,678
Extraordinary item		
Gain on disposal of property, less related income taxes of \$247,000	—	108
Net earnings	\$ 2,913	\$ 1,786
Earnings per share (dollars)		
(weighted average number of shares 1,521,688 ; 1978 – 1,514,792)		
Before extraordinary item	\$ 1.91	\$ 1.11
After extraordinary item	\$ 1.91	\$ 1.18

See accompanying notes to supplementary consolidated financial statements.

Consolidated Current Replacement Cost Statement of Retained Earnings

for the year ended December 31, 1979 (unaudited)

	1979	1978
	(000's)	(000's)
Balance at beginning of year	\$1,933	\$2,799
Net earnings	2,913	1,786
	4,846	4,585
Adjustment of accumulated depreciation to reflect current year's increase in replacement cost of plant and equipment	2,302	1,703
Dividends	1,370	949
	3,672	2,652
Balance at end of year	\$1,174	\$1,933

Consolidated Statement of Revaluation Account

for the year ended December 31, 1979 (unaudited)

	1979	1978
	(000's)	(000's)
Balance at beginning of year	\$13,873	\$10,906
Add revaluation of assets		
Inventory, December 31	25	24
Property, plant and equipment	3,570	2,527
Cost of products sold during the year	1,426	416
Balance at end of year	\$18,894	\$13,873

See accompanying notes to supplementary consolidated financial statements.

Notes to Consolidated Current Replacement Cost Financial Statements

December 31, 1979 (unaudited)

1. Purpose of current replacement cost accounting

The purpose of current replacement cost accounting is to give recognition to maintaining the invested capital of the business and to the current costs of earning a satisfactory return. Since the Company is viewed as a "going concern", income is not considered to have been earned without first providing for the replenishment of capital consumed in the operations. The Company maintains its productive capability by being able to replace its plant and equipment as it is used and its inventories as they are sold. The current replacement costs of inventories and of property, plant and equipment are shown on the balance sheet and earnings are determined by matching current costs with current revenues. Adjustments of the historical cost of physical assets to their current replacement costs are considered as restatements of shareholders' equity and are shown on the balance sheet under revaluation account.

The current replacement cost financial statements do not reflect the current value of the Company as a whole because the human resources and the intangible assets such as goodwill have not been included. The current replacement cost of assets is not necessarily their net realizable value should they be sold.

2. Principles of valuation

At the present time, no uniform criteria exist for the application of replacement cost accounting; accordingly, accounting policies could vary from one enterprise to another. The Company has adopted those current replacement cost accounting policies which it believes are appropriate in the circumstances.

Current replacement cost is the lowest amount that would have to be incurred in the normal course of business to obtain an asset of equivalent operating capacity.

Cash, accounts receivable and prepaid expenses

These assets are stated at their face value.

Inventories

Inventories are valued at the lower of current replacement cost and net realizable value. Current replacement cost of inventories is based on current prices for materials and conversion costs.

Property, plant and equipment

	1979		1978	
	Current replacement cost	Accumulated depreciation	Net	Net
	(000's)	(000's)	(000's)	(000's)
Land	\$ 1,149	\$ —	\$ 1,149	\$ 1,169
Plant and equipment	33,201	20,621	12,580	9,423
	\$34,350	\$20,621	\$13,729	\$10,592

The current replacement costs of property and plant are based upon independent appraisals by quantity surveyors of the Canadian Institute of Quantity Surveyors or by accredited appraisers of the Appraisal Institute of Canada. Where appraisals for buildings were completed at dates other than at December 31, 1979, the appraised values were adjusted by the Non-Residential Construction Price Index developed by Statistics Canada. Land is stated at its most recent appraised value determined during the previous five years.

The current replacement cost of equipment is determined from recent suppliers' prices and estimates made by those suppliers.

Notes to Consolidated Current Replacement Cost Financial Statements (continued)

December 31, 1979 (unaudited)

Provision for depreciation is computed generally on the diminishing-balance method at the following rates :

Buildings	5%
Machinery and equipment	20%

As a result of the revaluation of fixed assets in the current year, accumulated depreciation representing the expired portion of the useful lives of those assets has been increased by \$2,302,000 and this amount has been charged to retained earnings.

Current and long-term liabilities

These liabilities are stated at their face value.

Cost of products sold

Cost of products sold is calculated on the basis of the current replacement cost of the items sold on the date of sale.

3. Additional notes

The notes to the historical cost financial statements which are numbered 1, 3, 4, 5, 6, and 7 form an integral part of these supplementary consolidated financial statements.

