C

BARBECON Inc.

1980
Annual
Report

Opened in July 1980, Calgary's new building provides 52,000 square feet of warehouse and office space, more than double the size of the previous location.

Highlights

In Thousands of Dollars	**1980**	1979
Sales	**$151,389**	$130,213
Net Earnings	**4,901**	4,933
Earnings per Common Share (dollars)	**1.61**	1.62
Dividends per Common Share (dollars)	**.50**	.45
Current Replacement Cost Earnings per Share (dollars – unaudited)	**.77**	.96

Barber-Ellis Winnipeg moved into its new building on April 1, 1979. The new location provides 46,000 square feet for envelope manufacturing and warehousing of fine papers.

A 14,000 square foot warehouse was built for Barber-Ellis Regina and occupied in May 1978.

Barbecon Inc.

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

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
D. K. Murphy, Vice-Chairman
G. H. Love, Vice-Chairman
J. G. Westaway, President
H. W. Van Riet Paap, Vice-President and Secretary
R. S. Clark, Vice-President, Planning and Finance
J. D. Anderson, Controller
G. A. Chute, Technical Services Director
A. R. Howe, Personnel and Industrial Relations Director

Divisional Officers

D. R. Ball, Senior Vice-President,
Western Division
W. S. Brown, Senior Vice-President,
Eastern Merchant Division
A. D. Curran, Vice-President and General Manager,
Fine Papers London
R. H. Doin, Vice-President and General Manager,
W. V. Dawson Limited
F. T. Higgins, Vice-President and General Manager,
Barber-Ellis, Vancouver
R. G. Hughes, Vice-President and General Manager,
Becon Envelopes
J. K. Lang, Vice-President and General Manager,
Barber-Ellis, Toronto
D. C. McGillivray, Vice-President and General Manager,
Gage Envelopes
R. L. Randall, General Manager,
Barber-Ellis Stationery Division
P. D. Vanexan, Director of Planning and Administration,
Central Converting Division
H. S. Jaffe, President,
Jaffe Stationers, Inc.
D. G. Mathieson, Vice-President,
Jaffe Stationers, Inc.

Eastern Merchant Division

Barber-Ellis
Halifax
Toronto
The Paper Shoppe
Toronto
W. V. Dawson Limited
Montreal
Enveloppe Dawson
Papeterie Barber-Ellis
Le Marché de L'Imprimeur
Fine Papers London
London
Hamilton
Windsor

Western Division

Barber-Ellis
Winnipeg
Regina
Calgary
Edmonton
Vancouver
Printing Papers
Saskatoon

Central Converting Division

Becon Envelopes
Toronto
Brantford
Gage Envelopes
Toronto
Montreal
Quebec City
Winnipeg

Stationery Division

Barber-Ellis
Toronto

Jaffe Stationers, Inc.

Miami, Florida
Fort Lauderdale, Florida

Transfer Agent & Registrar

National Trust Company, Limited
Toronto, Ontario

Auditors

Touche Ross & Co.
Toronto, Ontario

Solicitors

Strathy, Archibald & Seagram
Toronto, Ontario

To Our Shareholders

Barbecon sales increased 16% in 1980. Earnings, while at a near record level, did not increase over 1979. The results were clearly the second best year in the Company's history. This achievement is the result of a great deal of effort and commitment on the part of our employees across the country.

If you compare our traditional financial results with those prepared on a replacement cost basis, you can see that the impact of inflation on earnings in 1980 is more than it was in 1979.

Earnings per share

(before extraordinary item)

	Historical cost	Replacement cost
1979	$1.62	$ .96
1980	1.37	.67

I am pleased to report that the decision to create Becon Envelopes at the beginning of 1980 worked out well. Segregating our Ontario envelope and merchant operations added approximately a 20% improvement in overall operating performance. This was not quite up to our optimistic budgets, but is well ahead of 1979.

Our Barber-Ellis Edmonton and Calgary branches increased earnings 27% when compared to 1979. Calgary's performance is exceptional because it includes the cost of moving into a new 52,000 square foot warehouse. Calgary Manager Ken Kille and Edmonton Manager Jim Gee were responsible for these results.

Our Winnipeg operation, managed by Steve Edgar, and Regina Branch, managed by Ron Weed, were substantially more profitable than in 1979.

The new Barber-Ellis Stationery Division, under General Manager Bob Randall, turned the corner in 1980 and ceased to be the drain on our resources that it had been in past years.

These were our top performing operations in 1980.

1980 was also the year of some bold new departures for our organization. During the summer, we installed Canada's first web photo envelope machine in the Gage Envelopes' Markham plant. We now supply envelopes to photo finishers throughout Canada. Both the market and the machine were unfamiliar to us. This venture represents the first in a series of new product developments planned for Barbecon. A second innovation was attaching an on-line printer and roll-feed to an open-end envelope machine in

Becon Envelopes' Brantford plant. Bert Chute assisted in the design and development of this machine attachment, a "first" in North America.

Our boldest step, however, was deciding to enter the office products distribution business in the United States. We acquired Jaffe Stationers, Inc., an office products retailer and distributor, in September. Almost immediately, we discovered a substantial misrepresentation. We had expected to spend the initial months planning the expansion and development of this new business, but we have spent these months establishing an accurate financial position of Jaffe.

At this time, I can report two conclusions. First, that we should sustain no material loss as a result of the misrepresentation because of the protection afforded us by the vendors' warranties. Second, the industry shows all the promise now for growth and profitability that it did last summer – our experiences notwithstanding.

Capital expenditures in 1980 were $4,143,000. The largest expenditure was our new office and warehouse in Calgary. During the year, we moved into our new 30,000 square foot building in Dartmouth. A new 16,000 square foot facility in Saskatoon was completed at the year end. Virtually all our operations are now functioning from modern, cost-effective, energy-efficient facilities. One million dollars was expended on the photo envelope machine, a new web envelope machine, and a substantial upgrading of our computer equipment.

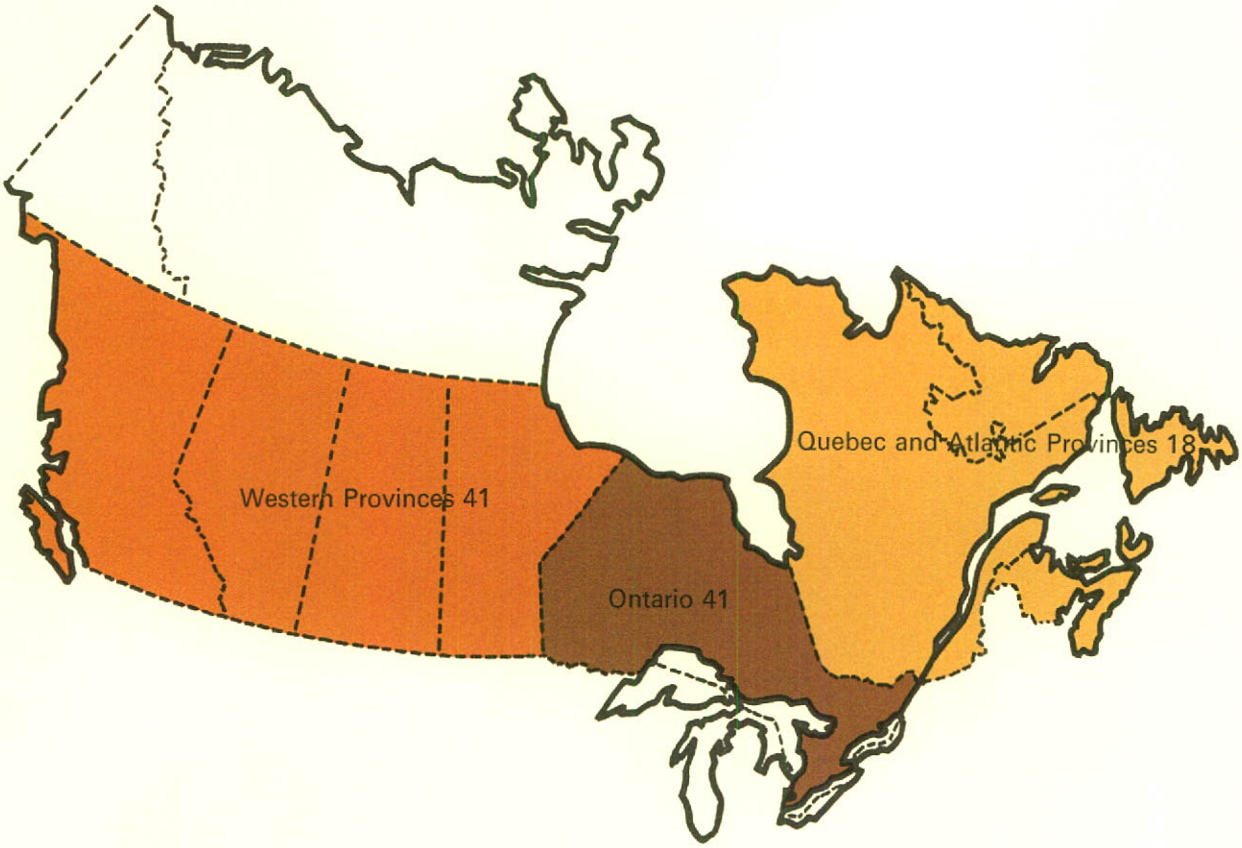
It appears that 1981 will be a difficult year. The economic forecasts are not promising. One of our major suppliers has been on strike for five months.

Barbecon's growth depends on the ability of our employees to plan and adapt. It is in this area that we may have recorded our biggest gains in 1980. I believe that the management of Barbecon is proving its strengths and determination in the face of increasingly complicated challenges.

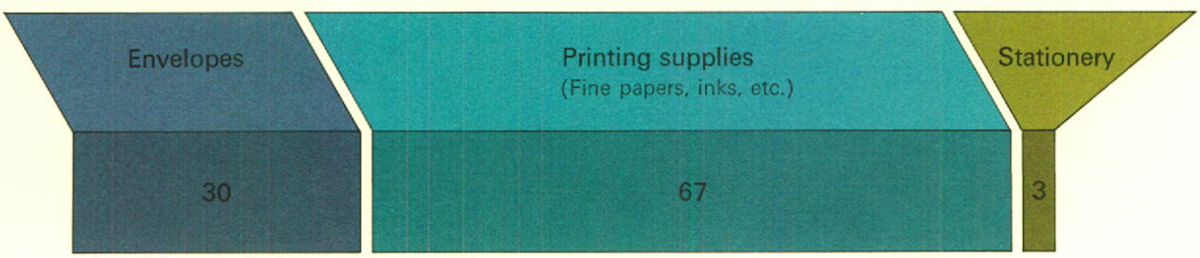
James G. Westaway
President

March 19, 1981

Regional sales mix, percent



Canadian product sales mix, percent



An Overview of Barbecon's Operations

The Barbecon organization comprises a group of manufacturing and trading divisions offering envelopes, printing supplies and stationery products to its customers across Canada and office products to customers in the United States. These products are used in commercial offices, printing plants and almost every household.

Some changes in Barbecon's Canadian organization were made last year with the grouping of our existing divisions into 4 major divisions. The Western Division comprises the Barber-Ellis branches in Winnipeg, Regina, Calgary, Edmonton and Vancouver as well as Printing Papers, Saskatoon. The Eastern Merchant Division comprises the Barber-Ellis branches in Halifax and Toronto, the Paper Shoppe, Fine Papers London and W.V. Dawson Limited. Barbecon Central Converting Division is made up of Becon Envelopes and Gage Envelopes. Our fourth division is Barber-Ellis Stationery.

In addition, the company acquired Jaffe Stationers, Inc., a distributor of office products located in South Florida. Jaffe's, as it is commonly known, operates 4 retail stores and 3 print shops in various locations in South Florida, employing 220 people. Current annual sales volume is about $8 million dollars.

Jaffe Stationers is a progressive company which was founded in 1962. It has grown from a small retail store operated by Mr. Jaffe and his wife, to an organization of significant standing as one of the larger office products distributors in the United States. The company offers a complete line of office products, including office equipment, furniture, printing, and art materials. It services customers from Palm Beach in the North, to Homestead in the South, a market of approximately 3 million people.

Barbecon, in acquiring Jaffe Stationers, plans to ensure that the company is strong and organizationally sound before implementing any expansion plans. Over the next 5 years, it hopes to expand the business considerably throughout the State of Florida. The office products industry in the United States is expected to grow substantially in the next decade, and Barbecon considers Jaffe's as a means to capitalize on that growth.

Opened in June 1979, Fine Papers London's new building provides 45,000 square feet of warehouse and office space in London, Ont.

Barber-Ellis Dartmouth N.S. opened its new 30,000 square foot building on June 5, 1980. The new location provides facilities for envelope manufacturing and the distribution of fine papers.

Distribution of printing supplies

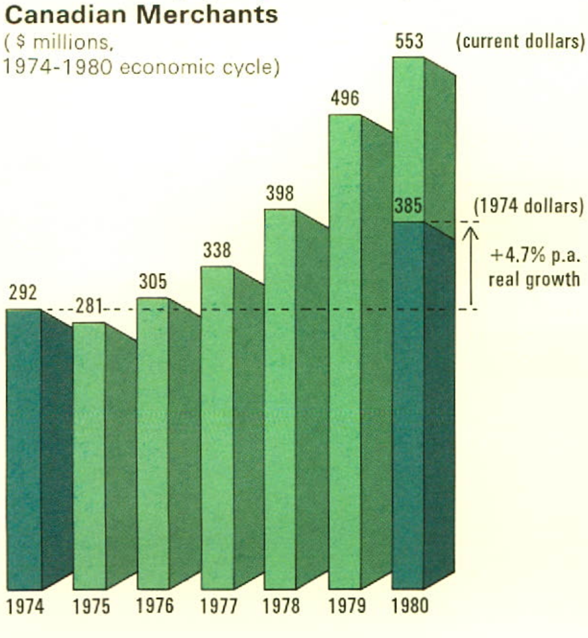
The largest share of Barbecon's revenues is concentrated in the 'merchant' business – the distribution of fine papers for printing, envelopes and pre-press supplies to the graphic arts industry and commercial office users.

In this business, economic conditions in 1980 have been mixed. We experienced a downturn in the Eastern and Central regions of the country during the second and third quarters of that year. However, business in the fourth quarter picked up and appears to be holding into 1981. The Western regions on the other hand had solid growth throughout the year.

In 1980 we built new buildings for the Calgary and Dartmouth branches and our newest facility in Saskatoon was completed February 1, 1981.

Our 'Cash and Carry' stores in Montreal and Toronto are now firmly established. A fourth store was opened in 1980 and we are confident these operations will continue to grow and become more successful.

Sales of fine paper products by Canadian Merchants
($ millions,
1974-1980 economic cycle)



Real growth in the major product line, fine papers, has averaged 4.7% per year in the 1974-80 period. We expect industry growth rates to modify slowly, if at all, in the eighties providing us with good long-term growth potential in this major market area.

Envelope manufacturing

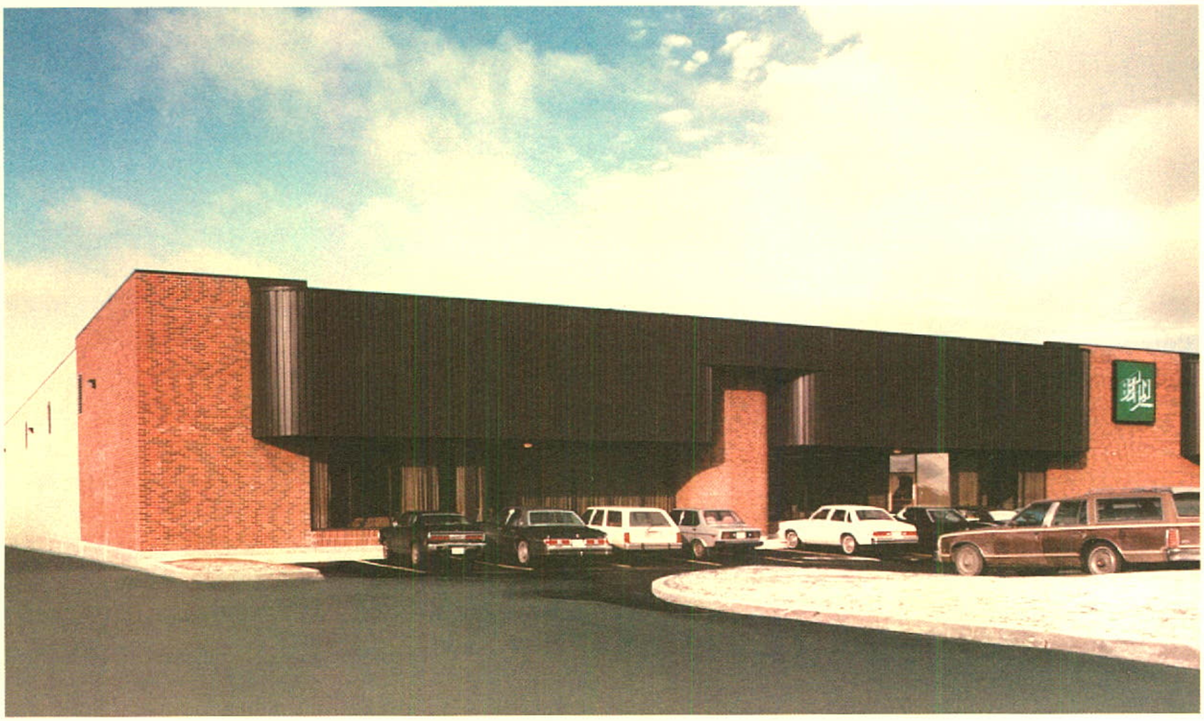
1980 has been a busy year for envelope manufacturing. We have achieved success in productivity gains, new product introductions and new factories.

Our program of converting to the side-seam envelope, which is made in one operation from a roll of paper to a finished envelope, continued with very successful new product introductions in Ontario, Quebec and British Columbia. This new envelope has helped to improve our productivity and allowed us to offer many advantages to our customers. We expect to launch this product in the Atlantic region in 1981 completing the program for all of Canada.

A specialized machine to manufacture envelopes for photo finishers was added to the production facilities at Gage Envelopes, Toronto and started production this year. We have been building the photo envelope business during the second half of 1980 and expect this entry into a specialized market to be very successful for many years to come. Development has also continued through 1980 on other new products with introductions scheduled for 1981.

Gage Envelopes opened a new factory in Quebec City in June 1980. As expected,

Gage Envelopes' 100,000 square foot office, warehouse and manufacturing facilities located in Markham, Ont.



Becon Envelopes' 28,000 square foot office, warehouse and manufacturing operation. The new building, completed March 1980, is located in Downsview, Ont.

1980 has been a year of building for this new factory and we expect that 1981 will show continued growth in sales and profits in this operation.

Becon Envelopes started operations January 1980 in a new factory and warehouse building. A task force, established in 1979, recommended the formation of Becon by consolidating Barber-Ellis, Brantford, Munn Envelopes and the consumer envelope business from Barber-Ellis, Toronto. Becon has surpassed our expectations for its first year and, despite a five-week strike in Brantford, had an extremely good year. In addition to meeting a very aggressive 1980 budget, it is now well established in the envelope industry. The Brantford strike is now settled with a three-year contract. New contracts at both Becon Envelopes, Downsview and Gage Envelopes, Toronto will be negotiated in early 1981.

While demand for envelopes has matured in the seventies, Barbecon has identified several market segments that offer good growth potential. It is in these markets that we will continue to concentrate our efforts in both marketing and manufacturing.

Barber-Ellis stationery

This division continued to build a strong consumer following for its brand names in the social stationery market.

- Scottie – a popular priced everyday line of writing pads and packaged envelopes.
- Cameo – a high-quality prestige line of writing pads and envelopes.
- Montag – a high-fashion line of imported boxed stationery.

The successful concept of 'program selling' a complete line of products to maximize retailers' use of floor space was expanded in 1980 to include school supplies and art supplies.

During 1981 a new line of home/office products will be introduced to Canadian retailers in order to capture a share of the fast growing office products market.

Barber-Ellis Stationery Division will continue in 1981 to purchase its domestic manufactured goods from both Becon Envelopes and Gage Envelopes Divisions and distribute all products from their central warehouse in Scarborough, Ontario. Sales are generated by the division's own sales force from coast to coast.

In order to meet the growing demands of tomorrow's consumers, two product managers have been appointed forming an aggressive marketing department. This will enhance the continuation of the 'One-Stop Shop' concept for customers of the Barber-Ellis Stationery Division.

BARBECON Inc

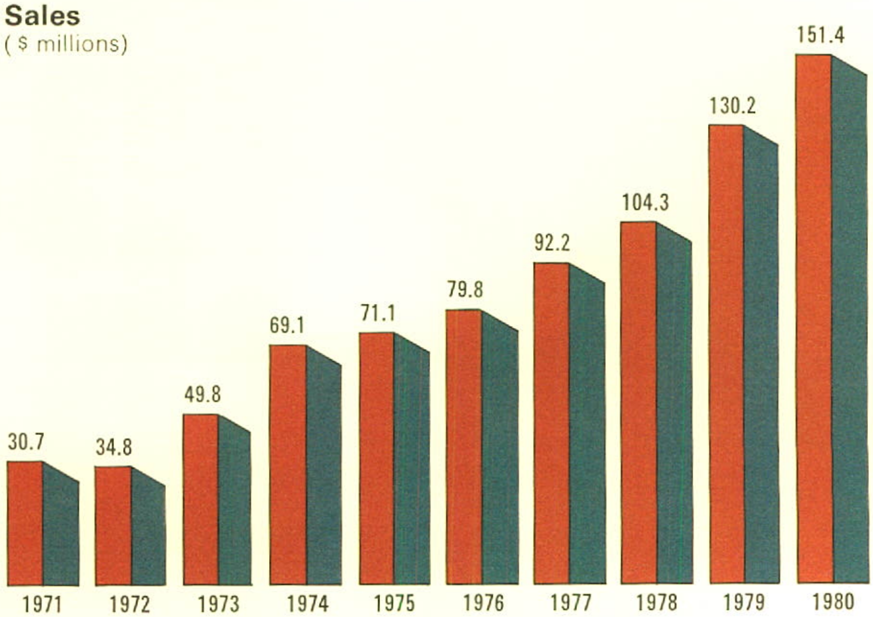
Ten-year financial review

In Thousands of Dollars	1980	1979	1978
Sales	$ 151,389	$ 130,213	$ 104,274
Profit before Income Taxes	8,453	8,582	4,223
Net Earnings	4,901	4,933	2,786
Common Shares Outstanding* (December 31)	3,043,376	3,043,376	3,043,376
Earnings per Common Share* (dollars)	1.61(d)	1.62	.92(b)
Dividends per Common Share* (dollars)	.50	.45	.31
Total Assets	63,407	49,754	38,552
Shareholders' Equity	$ 20,516	$ 17,136	$ 13,583
Current replacement cost data (unaudited)			
Net Earnings	$ 2,339	$ 2,913	$ 1,786
Earnings per Share* (dollars)	.77(e)	.96	.59(c)
Total Assets	68,094	53,294	41,393
Shareholders' Equity	$ 25,203	$ 20,676	$ 16,424

*Adjusted to reflect 2 for 1 stock split in 1980

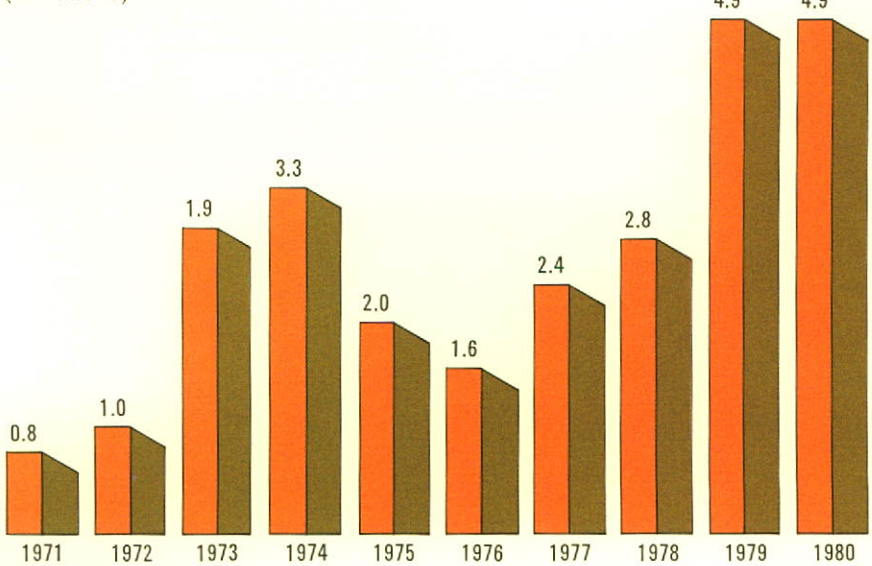
(a) Including extraordinary item of $.06 per share
(b) Including extraordinary item of $.10 per share
(c) Including extraordinary item of $.04 per share
(d) Including extraordinary item of $.24 per share
(e) Including extraordinary item of $.10 per share

Sales
($ millions)



1977	1976	1975	1974	1973	1972	1971
$ 92,173	$ 79,839	$ 71,122	$ 69,058	$ 49,787	$ 34,804	$ 30,680
4,180	3,021	3,677	6,204	3,523	1,968	1,652
2,404	1,634	2,028	3,277	1,874	1,015	834
3,024,576	3,753,776	3,751,776	3,704,336	3,677,296	3,662,960	3,640,800
.65	.44	.54(a)	.88	.51	.28	.23
.26	.23	.26	.26	.20	.12	.09
32,964	31,285	28,455	28,732	19,932	12,507	10,480
$ 11,678	$ 12,738	$ 11,948	$ 10,853	$ 8,512	$ 7,353	$ 6,741
$ 1,535	$ 1,283	$ 1,460	$ 1,984			
.41	.34	.39(a)	.54			
35,541	33,444	30,349	30,832			
$ 14,255	$ 14,897	$ 13,842	$ 12,953			

Net earnings
($ millions)



Consolidated balance sheet
as at December 31, 1980

Assets	1980	1979
	(000's)	(000's)
Current		
Accounts receivable	**$21,688**	$20,193
Inventories	**23,626**	18,897
Prepaid expenses (Note 6)	**758**	450
	46,072	39,540
Property, plant and equipment (Note 2)	**14,357**	9,578
Unamortized excess of purchase price over fair value of net assets acquired (Note 5)	**2,978**	636
	$63,407	$49,754

On behalf of the Board of Directors

James W. Mastaway Chairman

D. K. Murphy Vice-Chairman

See accompanying notes to consolidated financial statements.

Liabilities	1980	1979
	(000's)	(000's)
Current		
Bank indebtedness	**$22,198**	$15,694
Accounts payable and accrued liabilities	**10,923**	7,520
Income taxes	**122**	3,119
Current portion of long-term debt	**1,027**	480
	34,270	26,813
Deferred income taxes	**1,578**	1,300
Long-term debt (Note 3)	**6,029**	4,505
Obligations under capital leases (Note 7)	**1,014**	—
	42,891	32,618
Shareholders' Equity		
Capital stock (Note 4)	**608**	608
Retained earnings	**19,908**	16,528
	20,516	17,136
	$63,407	$49,754

Consolidated statement of earnings
for the year ended December 31, 1980

	1980	1979
	(000's)	(000's)
Net sales	**$151,389**	$130,213
Costs and expenses		
Cost of products sold	**112,349**	96,834
Selling, general and administrative	**26,422**	21,367
Depreciation and amortization	**1,735**	1,261
Interest		
Long-term debt	**590**	528
Current debt	**2,571**	1,641
	143,667	121,631
Earnings before income taxes and extraordinary item	**7,722**	8,582
Provision for income taxes	**3,552**	3,649
Earnings before extraordinary item	**4,170**	4,933
Extraordinary item		
Gain on disposal of property, less related income taxes of $239,000	**731**	—
Net earnings	**$ 4,901**	$ 4,933
Earnings per share		
Before extraordinary item	**$ 1.37**	$ 1.62*
After extraordinary item	**$ 1.61**	$ 1.62*

*1979 has been adjusted to reflect a two-for-one stock split in June 1980

See accompanying notes to consolidated financial statements.

Consolidated statement of changes in financial position
for the year ended December 31, 1980

	1980	1979
	(000's)	(000's)
Working capital provided by		
Earnings before extraordinary item	**$ 4,170**	$ 4,933
Items not requiring an outlay of working capital		
Depreciation and amortization	**1,735**	1,261
Deferred income taxes	**161**	345
Gain on disposal of equipment	**(43)**	(16)
Working capital provided by operations	**6,023**	6,523
Extraordinary item		
Proceeds on disposal of property	**1,048**	—
Proceeds on disposal of equipment	**138**	69
Issue of 10% promissory notes (Note 5)	**2,494**	—
	9,703	6,592
Working capital used for		
Expenditures for plant and equipment	**4,143**	3,753
Payment of dividends	**1,521**	1,370
Redemption of long-term debt	—	183
Decrease in long-term debt	**497**	480
Redemption of first preference shares	—	10
Acquisition of subsidiary including acquired working capital deficiency (Note 5)	**4,467**	—
	10,628	5,796
Increase (Decrease) in working capital	**(925)**	796
Working capital at beginning of year	**12,727**	11,931
Working capital at end of year	**$11,802**	$12,727

See accompanying notes to consolidated financial statements.

Consolidated statement of retained earnings
for the year ended December 31, 1980

	1980	1979
	(000's)	(000's)
Balance at beginning of year	**$16,528**	$12,965
Net earnings	**4,901**	4,933
	21,429	17,898
Dividends	**1,521**	1,370
Balance at end of year	**$19,908**	$16,528

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, 1980 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, 1980 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 19, 1981.

TOUCHE ROSS & CO.
Chartered Accountants

Notes to consolidated financial statements

December 31, 1980

1. Summary of significant accounting policies

Barbecon Inc. is incorporated under the laws of Ontario. These consolidated financial statements are based on historic cost. They are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards.

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries. Barbecon of America, Inc. a wholly-owned subsidiary, commenced operations September 29, 1980. The results of its operations have been included in the consolidated financial statements since that date.

(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) Leases

Leases are classified as either capital or operating leases. Property recorded as a capital lease is amortized over the term of the lease. Obligations recorded under capital leases are reduced by the principal portion of rental payments. Payments made under operating leases are charged against earnings.

(e) Foreign Currency Translation

Net current assets in foreign currencies are translated into Canadian dollars at year-end exchange rates. Other assets and liabilities and income and expense items are translated at historic rates. Gains and losses on translation are included in earnings.

(f) Other assets

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

2. Property, plant and equipment

	1980			1979
	Cost	Accumulated depreciation	Net	Net
	(000's)	(000's)	(000's)	(000's)
Land	$ 911	$ —	$ 911	$ 888
Capital leases	1,394	64	1,330	—
Buildings	7,686	1,769	5,917	4,469
Machinery and equipment	14,869	8,670	6,199	4,221
	$24,860	$10,503	$14,357	$9,578

3. Long-term debt

	1980	1979
	(000's)	(000's)
Term bank loan due April 1, 1983	$ 690	$ 920
5¾% sinking fund debentures due December 15, 1984	182	182
8½% sinking fund debentures due June 1, 1993	1,200	1,250
10% promissory notes due in 1982	2,433	2,633
10% promissory notes (US $2,130,000) due at various dates until 1985	2,494	—
Other notes (US $48,000)	57	—
	7,056	4,985
Less current portion	1,027	480
	$6,029	$4,505

The 10% promissory notes of $2,433,000 are payable to Westell Financial Corporation Limited, a company beneficially owned by insiders of the Company.

Payments required on long-term debt to 1985 are:
1981 – $1,027,000; 1982 – $2,525,000; 1983 – $760,000; 1984 – $817,000; 1985 – $685,000.

4. Capital stock

	1980 (000's)	1979 (000's)
Authorized		
339,960 non-voting second preference shares, par value $25 each		
10,000,000 common shares without par value (after reflecting a 2 for 1 stock split in June 1980)		
Issued		
3,043,376 common shares without par value (after reflecting a 2 for 1 stock split in June 1980)	$608	$608
	$608	$608

5. Acquisition of business

Effective September 29, 1980 Barbecon Inc. acquired 100% of the shares of Jaffe Stationers, Inc. at a cost of $3,512,000. The acquisition was accounted for as a purchase. Jaffe is a retailer of stationery and office supplies located in the state of Florida.

The net assets obtained were as follows:

Total assets acquired at fair value	$5,359,000
Total liabilities	4,236,000
	1,123,000
Excess of purchase price over fair value of net assets acquired	2,389,000
	$3,512,000

The following consideration was given:

Cash	$1,018,000
10% promissory notes	2,494,000
	$3,512,000

The excess purchase price over fair value of net assets acquired has been recorded as an asset on the consolidated balance sheet.

As a result of the discovery of deficiencies in Jaffe's inventory and misrepresentations by the previous owners, the company is negotiating an adjustment to the purchase price. In the opinion of legal counsel, the damages sustained by Barbecon Inc. as the result of these deficiencies and misrepresentations are recoverable as an off-set against the promissory notes issued as part of the acquisition price.

Any adjustment to the purchase price which results from these negotiations will reduce the excess of purchase price over fair value of net assets acquired. When this reduction has been recorded, the remaining excess of purchase price will be subject to the Company's normal amortization policy.

6. 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 1980, the Company paid its 1981 past service funding requirement of $273,000 which is included in prepaid expenses.

7. Commitments

Future minimum lease payments required under leases that have terms in excess of one year are:

	Capital Leases (000's)	Operating Leases (000's)
1981	$ 101	$ 1,132
1982	101	1,131
1983	101	1,131
1984	101	1,086
1985	101	1,060
Later years	3,007	8,338
Total minimum lease payments	3,512	$13,888
Interest imputed at 10%	2,498	
Present value of minimum lease payments	$ 1,014	

8. Remuneration of directors and senior officers

The remuneration of directors and senior officers was $553,000 (1979 – $497,000).

9. Required segmented information

The Directors have determined the following industry segments:

Printing Supplies – includes the distribution of paper, envelopes, and pre-press supplies for the graphic arts industry.

Envelopes – includes the manufacturing and distribution of envelope products to consumers.

The industry segments are based on the Company's operating structure and market orientation.

	Printing Supplies	Envelopes	Corporate	Eliminations	Consolidated
	(000's)	(000's)	(000's)	(000's)	(000's)
Net sales to customers	$121,636	$ 29,753	$ —	$ —	$151,389
Inter-segment sales	2,706	10,377		(13,083)	—
	$124,342	$ 40,130		($ 13,083)	$151,389
Operating earnings	$ 9,438	$ 3,705			$ 13,143
General corporate					(2,260)
Interest expense					(3,161)
Provision for income taxes					(3,552)
Earnings before extraordinary item					$ 4,170
Identifiable assets	$ 43,973	$ 17,543	$ 1,891		$ 63,407
Capital expenditure	$ 1,862	$ 1,497	$ 784		$ 4,143
Depreciation and amortization	$ 501	$ 1,050	$ 184		$ 1,735

BARBECON Inc.

Supplementary Financial Information

Current replacement cost financial statements

Inflation compromises the ability of our traditional financial statements to provide you, our shareholders, with useful, understandable information about Barbecon's economic circumstances and prospects. Our supplementary Current Replacement Cost Financial Statements provide this information. The replacement cost balance sheet shows the current value of Barbecon's assets and liabilities. The statement of earnings eliminates the inflationary profits included in our traditional financial statements by identifying and reporting these profits as asset revaluations. No income is recognized in our replacement cost statements until provision is made to replace inventory, facilities, and equipment at current costs.

The business community and accounting profession now recognize the need for some form of inflation reporting. Unfortunately, there is no agreement on the best or most appropriate inflation accounting method. Until we have consensus, uniform accounting principles will not exist for inflation accounting.

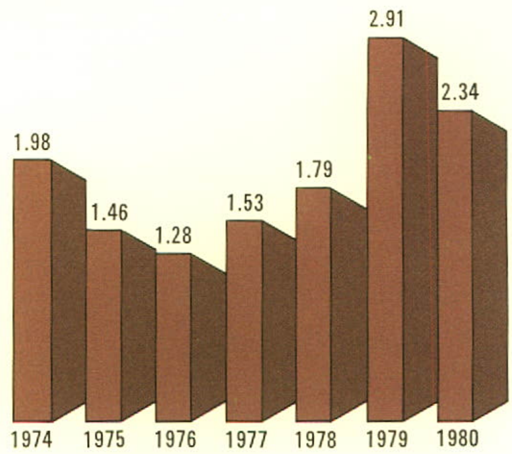
However, this does not eliminate our obligation to provide you with this important information.

We believe that our supplementary financial statements are prepared on a basis that best demonstrates the effects of inflation on your company. We use the same accounting principles when preparing internal financial information to manage Barbecon's operations on a daily basis.

The impact of inflation on Barbecon was significant in 1980. We urge you to review these supplementary financial statements carefully. They provide the best and most complete financial picture of how well your company is progressing.

We trust you find the additional financial information useful.

Current replacement cost net earnings
($ millions)



BARBECON Inc

Consolidated current replacement cost balance sheet

as at December 31, 1980 (unaudited)

Assets	**1980**	1979
	(000's)	(000's)
Current		
Accounts receivable	**$21,688**	$20,193
Inventories	**23,808**	18,922
Prepaid expenses	**758**	450
	46,254	39,565
Property, plant and equipment (Note 2)	**21,840**	13,729
	$68,094	$53,294

Liabilities		
Current		
Bank indebtedness	**$22,198**	$15,694
Accounts payable and accrued liabilities	**10,923**	7,520
Income taxes	**122**	3,119
Current portion of long-term debt	**1,027**	480
	34,270	26,813
Deferred income taxes	**1,578**	1,300
Long-term debt	**6,029**	4,505
Obligations under capital leases	**1,014**	—
	42,891	32,618
Shareholders' Equity		
Capital stock	**608**	608
Retained earnings	**11,247**	10,429
Revaluation account	**13,348**	9,639
	25,203	20,676
	$68,094	$53,294

See accompanying notes to supplementary consolidated financial statements.

Consolidated current replacement cost statement of earnings

for the year ended December 31, 1980 (unaudited)

	1980	1979
	(000's)	(000's)
Net sales	**$151,389**	$130,213
Costs and expenses		
Cost of products sold	**113,879**	98,285
Selling, general and administrative	**26,422**	21,367
Depreciation and amortization	**2,348**	1,830
Interest		
Long-term debt	**590**	528
Current debt	**2,571**	1,641
	145,810	123,651
Earnings before income taxes and extraordinary item	**5,579**	6,562
Provision for income taxes	**3,552**	3,649
Earnings before extraordinary item	**2,027**	2,913
Extraordinary item		
Gain on disposal of property, less related income taxes of $239,000	**312**	—
Net earnings	**$ 2,339**	$ 2,913
Earnings per share		
Before extraordinary item	**$ .67**	$ .96
After extraordinary item	**$ .77**	$ .96

See accompanying notes to supplementary consolidated financial statements.

Consolidated current replacement cost statement of retained earnings

for the year ended December 31, 1980 (unaudited)

	1980	1979
	(000's)	(000's)
Balance at beginning of year	**$10,429**	$ 8,886
Net earnings	**2,339**	2,913
	12,768	11,799
Dividends	**1,521**	1,370
Balance at end of year	**$11,247**	$10,429

Consolidated statement of revaluation account

for the year ended December 31, 1980 (unaudited)

	1980	1979
	(000's)	(000's)
Balance at beginning of year	**$ 9,639**	$ 6,920
Revaluation adjustments		
Inventory, December 31	**182**	25
Property, plant and equipment	**6,216**	3,570
Adjustment of accumulated depreciation to reflect current year's increase in replacement cost of plant and equipment	**(1,805)**	(2,302)
Cost of products sold during the year	**1,505**	1,426
Unamortized excess of purchase price over fair value of net assets acquired	**(2,389)**	—
Balance at end of year	**$13,348**	$ 9,639

See accompanying notes to supplementary consolidated financial statements.

Notes to consolidated current replacement cost financial statements

December 31, 1980 (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

	1980			1979
	Current replacement cost	Accumulated depreciation	Net	Net
	(000's)	(000's)	(000's)	(000's)
Land	$ 2,880	$ —	$ 2,880	$ 1,149
Plant and equipment	42,758	23,798	18,960	12,580
	$ 45,638	$ 23,798	$ 21,840	$ 13,729

The current replacement costs of property and plant are based upon independent appraisals by accredited appraisers of the Appraisal Institute of Canada. Where appraisals for buildings were completed at dates other than at December 31, 1980, 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.

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

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 $1,805,000. This amount has been charged to the revaluation account.

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. Change in Accounting Policy

Each year, accumulated depreciation is adjusted to reflect current year's increases in the replacement costs of plant and equipment. In previous years the company has charged this adjustment to retained earnings. This resulted in an overstatement of the revaluation account and an understatement of retained earnings.

In 1980, the adjustment has been charged directly to the revaluation account. This change has been applied retroactively. As a result, retained earnings at December 31, 1979 increased by $9,255,000 and the revaluation account at December 31, 1979 decreased by an equal amount. Shareholders' Equity in total is unchanged.

Additional notes

The notes to the historical cost financial statements should be read when reviewing these supplementary consolidated financial statements.