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BARBECON Inc.

1981 Annual Report

Our Toronto Branch and its distribution centre, located at 20 Overlea Boulevard, successfully services the Graphic Arts trade throughout the Metropolitan area and numerous points in Ontario.

Summary of Operations

In Thousands of Dollars	**1981**	1980
Sales	**$189,344**	$151,389
Net Earnings	**838**	4,901
Earnings per Common Share (dollars)*	**.18**	1.07
Dividends per Common Share (dollars)*	**.27**	.33
Current Replacement Cost Earnings per Share (dollars – unaudited)	**(.18)**	.51

*Adjusted to reflect a three-for-two stock split in 1981.

Barbecon Inc.

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

Shown on this page are the insignia of the operating divisions of Barbecon Inc.

The insignia, or "logo" as it is more commonly called, provides a strong, individual identification.

Each operation displays its logo on trucks, building exteriors, stationery, advertising and promotional items, to emphasize recognition of its name and products.

Full colour graphics, representing the variety of available coloured papers, are another device used by the Company's paper merchants on their delivery trucks to project a progressive image.

Barber-Ellis

(Western Division)

GAGE

Barber-Ellis Stationery

DIVISION OF BARBECON INC

W.V.Dawson Ltée Ltd

Dyna West

DYNA WEST ENVELOPE

PAPETERIE BARBER-ELLIS

FINE PAPERS LONDON

(Eastern Merchant Division)

Eastern Merchant Division

Barber-Ellis
- Dartmouth
- St. John's
- Toronto

The Paper Shoppe
- Toronto

W. V. Dawson Limitée
- Montréal

Enveloppe Héritage
- Montréal

Papeterie Barber-Ellis
- Montréal
- Ottawa

Le Marché de L'Imprimeur
- Montréal
- Québec

Fine Papers London
- London
- Hamilton
- Windsor

Western Division

Barber-Ellis
- Winnipeg
- Regina
- Calgary
- Edmonton
- Vancouver

Printing Papers
- Saskatoon

Dyna West Envelope
- Edmonton

Central Converting Division

Becon Envelopes
- Toronto
- Brantford

Gage Envelopes
- Toronto
- Winnipeg

Barcenco
- Toronto

OPF Conversions Inc.
- Toronto

Stationery Division

Barber-Ellis
- Toronto

Jaffe Stationers, Inc.

- Miami, Florida
- Fort Lauderdale, Florida

Left to right: G. H. Love, D. K. Murphy, D. L. Helliwell, W. R. Livingston, T. S. Dobson, R. L. Vachon, J. G. Westaway, H. W. Van Riet Paap, A. G. Rankin, J. W. Westaway.

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. R. Mailloux, Senior Vice-President, Central Converting 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, Gage Envelopes

J. K. Lang, Vice-President and General Manager, Barber-Ellis, Toronto

P. D. Vanexan, Vice-President and General Manager, Becon Envelopes

R. L. Randall, General Manager, Barber-Ellis Stationery Division

H. S. Jaffe, President, Jaffe Stationers, Inc.

D. G. Mathieson, Vice-President, Jaffe Stationers, Inc.

Transfer Agent & Registrar

National Trust Company, Limited
Toronto, Ontario

Auditors

Touche Ross & Co.
Toronto, Ontario

Solicitors

Strathy, Archibald & Seagram
Toronto, Ontario

To Our Shareholders

Some of our operations reached their targets for 1981. These accomplishments deserve special recognition in a year when we have ample proof that reaching aggressive objectives was unusually difficult.

Calgary Branch, managed by Ken Kille, and Edmonton Branch, managed by Jim Gee, exceeded their targets for both sales and profits. Ron Weed, manager of Regina Branch, also beat an aggressive sales and profit objective. Becon Envelopes, in only its second year of operations, was ahead of its profit target. Ray Hughes, now running Gage Envelopes, was in charge of Becon for half the year; Pete Vanexan took over for the final six months.

My letters of November 4 and December 8, 1981, outlined the circumstances with which the Barbecon management was confronted – record high interest rates, paper mill and postal strikes, and a sluggish economy. I also reported that our management team had not sufficiently anticipated these circumstances, and, consequently, had been slow to respond.

Interest rates and extra inventories, which inflated our borrowings, resulted in interest costs that were $2.9 million higher (91%) in 1981 than in 1980. In the final three months of 1981, we reduced inventories by 19%, nearly $6 million. We also reduced our accounts receivable slightly. We are still looking for improvements in these areas.

Since writing you last, the economic situation has darkened both in Canada and in the United States. The economy will recover, but this recovery could well be delayed until 1983, and then, perhaps it will be slow. We are approaching 1982 as a year in which we will have to operate the business very efficiently to achieve satisfactory profitability. This means we will be paying much closer attention to working capital management and expense control than ever before.

Jaffe Stationers has continued to improve internally. However, without the assistance of a normally flourishing Florida winter economy, our efforts haven't paid off. We have stabilized losses and are close to a breakeven operation. Profitable results will be difficult to achieve until the southern Florida economy turns around.

We have decided to write off $585,000 of "goodwill" related to money we paid for Jaffe's in excess of the assets we acquired. We are taking this step because Jaffe's has failed to achieve profitable operations during our period of ownership.

The damages we have suffered because of the vendors' misrepresentations concerning the condition of the company at the time of purchase are now the subject of litigation. We anticipate that legal proceedings could take two years or more. We believe they will be settled in our favour.

1981 capital expenditures were $3,100,000. The largest commitment was for machines capable of making envelopes directly from rolls of paper. New machines were installed in Enveloppe Héritage, Montreal (our new name for the combination of Enveloppes Gage and Enveloppe Dawson) and Dyna West Envelope (Edmonton). 1981 was also the year in which a substantial upgrading of our computer system was required. Our business volume has more than doubled since the original computers were installed in 1975. We have also installed a computer in Florida, which is important to tighten control in that operation, both now and in the future.

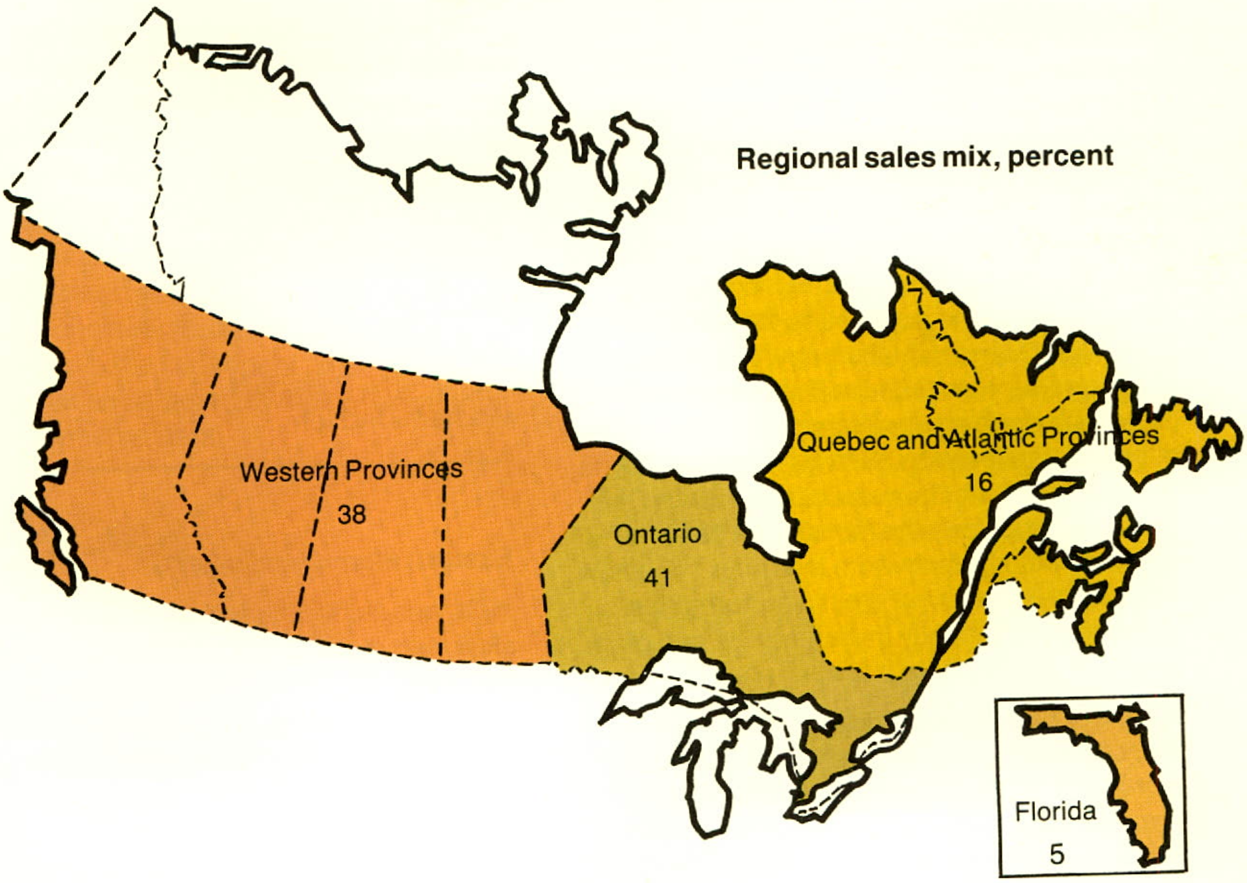
Management is approaching 1982 with determination and enthusiasm. We are all confronted with the reality of our weak economy, high postal rates, potential strikes and crippling interest rates. We believe it is possible for Barbecon to record satisfactory performance despite these conditions. It will require the best performance from all our employees. They have often proven that they are of a calibre from whom this is a reasonable expectation.

James G. Westaway
President

March 2, 1982

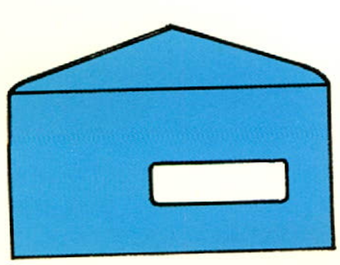
An Overview of Barbecon's Operations

Regional sales mix, percent

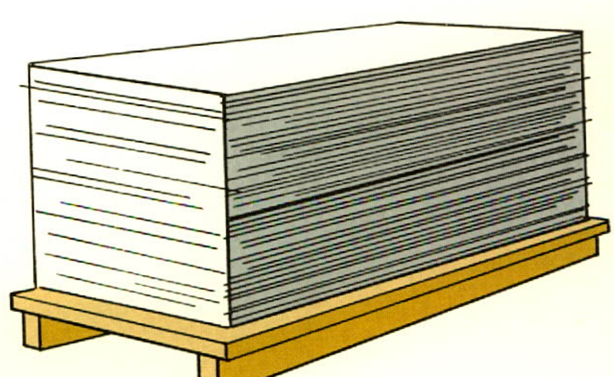


Product sales mix, percent

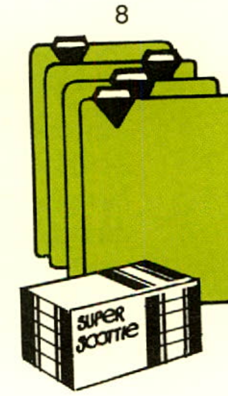
Envelopes
26



Printing supplies
(Fine papers, inks, etc.)
66



Stationery
and
Office products
8



An Overview of Barbecon's Operations (continued)

Barber-Ellis Stationery Division

The Barber-Ellis Stationery Division increased sales 23% in its second year of operation and continued to build a strong consumer demand for its brand names – Scottie and Cameo writing paper products. The addition of home/office products and art supply products broadened the division's scope to capture a larger share of retailer's sales dollars.

To further strengthen our sales effort for 1982, F. A. (Rick) Beckett has been appointed National Sales Manager, with two Regional Sales Managers reporting to him, T. W. (Tom) Davis in Montreal, and P. (Paul) Van Raes in Edmonton.

1982 will be a year of refining our product lines, phasing out of slower moving products, and offering to the retailers, products designed for maximum inventory turnover – thus avoiding the high cost of slow moving products.

Barber-Ellis Stationery will continue in 1982 to purchase its domestic manufactured goods from both Becon Envelopes and Gage Envelopes, Divisions of Barbecon Inc., and distribute all its products from their 16,000 sq. foot warehouse in Scarborough, Ontario.

Robert L Randall

R. L. Randall
General Manager
Barber-Ellis Stationery Division

Jaffe Stationers, Inc. Division

The year 1981 was both a challenging and difficult one for Jaffe Stationers. Being the first year of Barbecon management, it was characterized by learning and change. The changes made were designed to achieve two objectives; to improve customer service, and to reduce expenses, for example:

- Two raw material warehouses were consolidated into one.
- Four printing locations were reduced to two.
- Jaffe's previously had two sales forces, now we have one.
- At the beginning of 1981 Jaffe's had 214 employees now we have 170.

The result of these changes is that the Jaffe organization is now better able to serve its customers at a reduced level of expense.

As we enter 1982 Jaffe management plans to capitalize on the changes achieved during 1981. We have developed plans which incorporate aggressive marketing approaches together with major productivity improvements, two initiatives which we believe will produce positive results shortly. The management of Jaffe's realizes the importance of its efforts in making Barbecon's U.S. operations a success; we are confident that the support and patience received will prove to be fruitful within the year.

D G Mathieson

D.G. Mathieson
Vice-President
Jaffe Stationers, Inc. Division

Barbecon as a corporate citizen

Barbecon acknowledges its responsibility to be a good corporate citizen to its shareholders, the government and the communities in which it operates.

In response to its social obligation the company supports organizations discharging worthwhile public duties and services. Among appeals of equal merit judged to be eligible for grants, Barbecon will incline to support causes in which its employees are involved, as well as those of customers, suppliers and friends.

Each request received is weighed against established criteria and donations are made either nationally through the corporate head office or locally by the appropriate branch.

Funds are allocated to each company location and contributions are made to local endeavours. In addition to money donated, at least one branch has provided support of a different kind. The time and efforts of an employee were provided to act as business consultant to "Project Business", a program of the Junior Achievement in Southern Alberta.

The identities of some of the organizations supported are displayed.

Canada's Royal Winnipeg Ballet

YMCA

VON

Société pour les enfants infirmes du Québec
Quebec Society for Crippled Children

The Salvation Army

United Way
Centraide

ROY THOMSON HALL

The Toronto Symphony

Canadian Graphic Arts Scholarship Trust Fund
Fondation pour L'Attribution de Bourses aux Arts Graphiques du Canada

THE ARTHRITIS SOCIETY

CARE®

WORLD WILDLIFE FUND (CANADA)
FONDS MONDIAL POUR LA NATURE (CANADA)

Boys and Girls Clubs Canada

CANADIAN MENTAL HEALTH ASSOCIATION
L'ASSOCIATION CANADIENNE POUR LA SANTE MENTALE

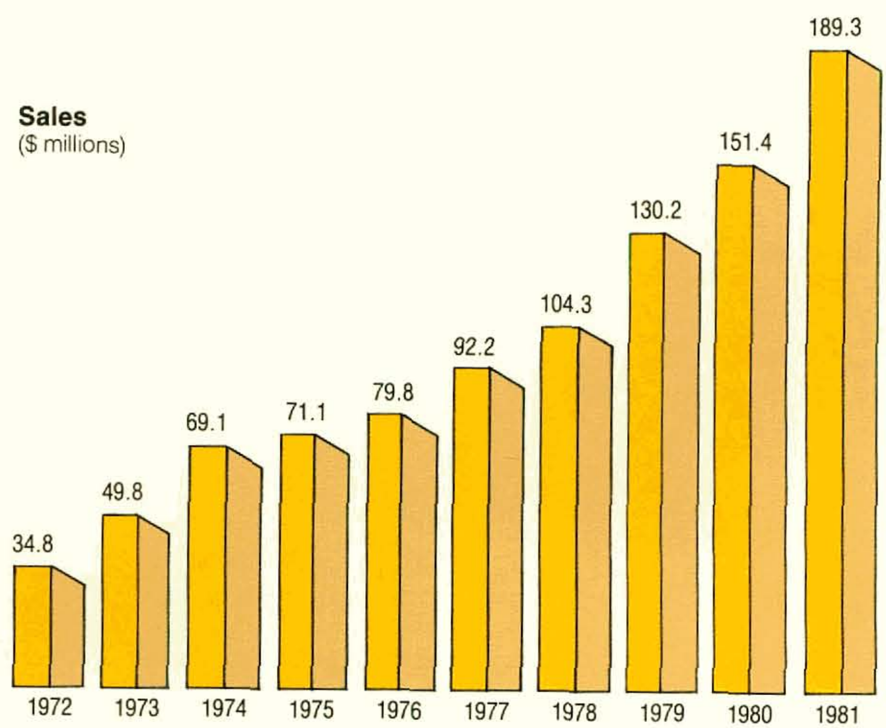
Help your Heart Fund
Help your Heart

Orchestre symphonique de Montréal

Ten-year financial review

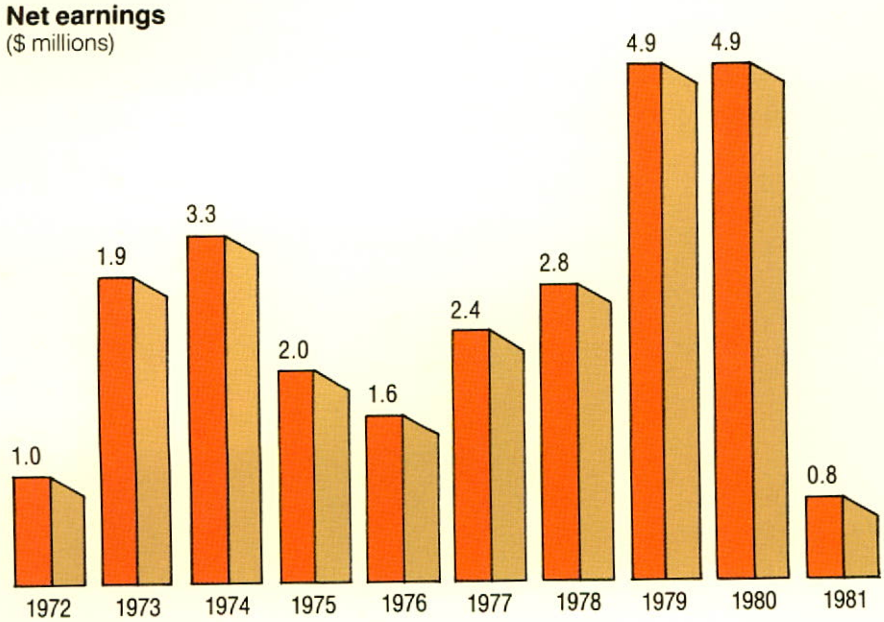
In Thousands of Dollars	1981	1980	1979	1978
Sales	$ 189,344	$ 151,389	$ 130,213	$ 104,274
Profit before Income Taxes	3,537	8,692	8,582	4,768
Net Earnings	838	4,901	4,933	2,786
Shares Outstanding* (December 31)	4,565,075	4,565,064	4,565,064	4,565,064
Earnings per Share* (dollars)	.18(f)	1.07(d)	1.08	.61(b)
Dividends per Share* (dollars)	.27	.33	.30	.21
Total Assets	70,626	63,407	49,754	38,552
Shareholders' Equity	$ 20,137	$ 20,516	$ 17,136	$ 13,583
Current Replacement Cost Data *(unaudited)*				
Net Earnings	$ (844)	$ 2,339	$ 2,913	$ 1,786
Earnings per Share* (dollars)	(.18)	.51(e)	.64	.39(c)
Total Assets	78,287	68,094	53,294	41,393
Shareholders' Equity	$ 27,798	$ 25,203	$ 20,676	$ 16,424

*Adjusted to reflect a three-for-two stock split in 1981
(a) Including extraordinary item of $.04 per share
(b) Including extraordinary item of $.07 per share
(c) Including extraordinary item of $.03 per share
(d) Including extraordinary item of $.16 per share
(e) Including extraordinary item of $.07 per share
(f) Including extraordinary item of $(.13) per share



1977	1976	1975	1974	1973	1972
$ 92,173	$ 79,839	$ 71,122	$ 69,058	$ 49,787	$ 34,804
4,180	3,021	3,677	6,204	3,523	1,968
2,404	1,634	2,028	3,277	1,874	1,015
4,536,864	5,630,664	5,627,664	5,556,504	5,515,944	5,494,440
.43	.29	.36(a)	.59	.34	.18
.17	.15	.17	.17	.13	.08
32,964	31,285	28,455	28,732	19,932	12,507
$ 11,678	$ 12,738	$ 11,948	$ 10,853	$ 8,512	$ 7,353
$ 1,535	$ 1,283	$ 1,460	$ 1,984		
.27	.23	.26(a)	.36		
35,541	33,444	30,349	30,832		
$ 14,255	$ 14,897	$ 13,842	$ 12,953		

Net earnings
($ millions)



BARBECON Inc.

Consolidated balance sheet

as at December 31, 1981

Assets	**1981**	1980
	(000's)	(000's)
Current		
Accounts receivable – trade	**$26,721**	$21,688
Inventories	**24,953**	23,626
Prepaid expenses (Note 6)	**764**	758
Income taxes recoverable	**1,071**	—
	53,509	46,072
Property, plant and equipment (Note 2)	**15,303**	14,357
Investment in joint venture	**414**	—
Goodwill (Note 5)	**1,400**	2,978
	$70,626	$63,407

On behalf of the Board of Directors

Chairman

Vice-Chairman

See accompanying notes to consolidated financial statements.

Liabilities	**1981**	1980
	(000's)	(000's)
Current		
Bank indebtedness	**$30,843**	$22,198
Accounts payable and accrued liabilities	**11,264**	10,923
Income taxes	—	122
Current portion of long-term debt	**3,084**	1,027
	45,191	34,270
Deferred income taxes	**1,734**	1,578
Long-term debt (Note 3)	**2,551**	6,029
Obligations under capital leases (Note 7)	**1,013**	1,014
	50,489	42,891
Shareholders' Equity		
Capital stock (Note 4)	**608**	608
Retained earnings	**19,529**	19,908
	20,137	20,516
	$70,626	$63,407

Auditors' Report

The Shareholders,
Barbecon Inc.

We have examined the consolidated balance sheet of Barbecon Inc. as at December 31, 1981 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, 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.

Toronto, Ontario,
February 26, 1982.

TOUCHE ROSS & CO.
Chartered Accountants

BARBECON Inc

Consolidated statement of earnings

for the year ended December 31, 1981

	1981	1980
	(000's)	(000's)
Net sales	**$189,344**	$151,389
Costs and expenses		
Cost of products sold	**140,994**	112,349
Selling, general and administrative	**36,120**	26,422
Depreciation and amortization	**2,083**	1,735
Interest		
Long-term debt	**696**	590
Current debt	**5,329**	2,571
	185,222	143,667
Earnings before income taxes and extraordinary item	**4,122**	7,722
Provision for income taxes	**2,699**	3,552
Earnings before extraordinary item	**1,423**	4,170
Extraordinary item		
Write-down of goodwill (Note 5)	**(585)**	—
Gain on disposal of property	—	731
Net earnings	**$ 838**	$ 4,901
Earnings per share		
Before extraordinary item	**$ .31**	$ .91*
After extraordinary item	**$ .18**	$ 1.07*

*1980 has been adjusted to reflect a three-for-two stock split in December 1981.

See accompanying notes to consolidated financial statements.

Consolidated statement of changes in financial position

for the year ended December 31, 1981

	1981	1980
	(000's)	(000's)
Working capital provided by		
Earnings before extraordinary item	**$ 1,423**	$ 4,170
Items not requiring an outlay of working capital		
Depreciation and amortization	**2,083**	1,735
Deferred income taxes	**156**	161
Working capital provided by operations	**3,662**	6,066
Extraordinary item		
Proceeds on disposal of property	**—**	1,048
Reduction of current notes payable on renegotiation of acquisition price of subsidiary	**147**	—
Proceeds on other disposals of property, plant and equipment	**202**	95
Issue of 10% promissory notes	**—**	2,494
	4,011	9,703
Working capital used for		
Expenditures for plant and equipment	**3,110**	4,143
Payment of dividends	**1,217**	1,521
Decrease in long-term debt	**2,754**	497
Net investment in joint venture	**414**	—
Acquisition of subsidiary including working capital deficiency	**—**	4,467
	7,495	10,628
Decrease in working capital	**(3,484)**	(925)
Working capital at beginning of year	**11,802**	12,727
Working capital at end of year	**$ 8,318**	$11,802

See accompanying notes to consolidated financial statements.

Consolidated statement of retained earnings

for the year ended December 31, 1981

	1981	1980
	(000's)	(000's)
Balance at beginning of year	**$19,908**	$16,528
Net earnings	**838**	4,901
	20,746	21,429
Dividends	**1,217**	1,521
Balance at end of year	**$19,529**	$19,908

See accompanying notes to consolidated financial statements.

Management Report

The management of Barbecon Inc. is responsible for preparing the financial statements, the notes to the financial statements, and other financial information contained in this annual report.

Management prepares the regular financial statements in accordance with generally accepted accounting principles. Our current replacement cost financial statements are prepared in accordance with special inflation accounting principles outlined in the notes to those statements. Both sets of financial statements are considered by management to present fairly the company's financial position and results of operations, though on different bases.

Management is responsible for the reliability of financial information published in this annual report. Internal accounting controls are maintained that are designed to ensure that company assets are safeguarded from loss and that accounting systems provide timely accurate financial reports. The internal control systems are reviewed and evaluated by an internal auditor and external auditors each year.

The Board of Directors reviews and approves the consolidated financial statements contained in this annual report. The Board discharges this responsibility primarily through its Audit Committee.

Barbecon's Audit Committee is made up of four outside directors. This Committee meets with management and with the external auditors to discuss accounting, auditing, internal control, and financial reporting matters at least twice a year. The Committee reviews Barbecon's financial statements prior to their submission to the Board of Directors for final approval. Both Barbecon's internal auditor and the external auditors have free access to the Committee to discuss the results of their work and their opinions.

The consolidated financial statements have been reported on by Touche Ross & Co., the shareholders' auditors. Their report outlines the scope of their examination and their opinion on the financial statements.

D. L. Helliwell
Chairman, Audit Committee

J. G. Westaway
President

Notes to consolidated financial statements

December 31, 1981

1. Summary of significant accounting policies

Barbecon Inc. is incorporated under the laws of Ontario. These consolidated financial statements 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. The investment in the joint venture is accounted for by the equity method. Barbecon's share of the joint venture earnings or losses is included in cost of products sold.

b. Inventories

Inventories are valued at the lower of average cost 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. Goodwill

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

2. Property, plant and equipment

	1981			1980
	Cost	Accumulated depreciation	Net	Net
	(000's)	(000's)	(000's)	(000's)
Land	$ 911	$ —	$ 911	$ 911
Capital leases	1,394	125	1,269	1,330
Buildings	8,192	2,160	6,032	5,917
Machinery and equipment	17,036	9,945	7,091	6,199
	$27,533	$12,230	$15,303	$14,357

3. Long-term debt

	1981	1980
	(000's)	(000's)
Term bank loan due April 1, 1983	$ 460	$ 690
5¾% sinking fund debentures due December 15, 1984	182	182
8½% sinking fund debentures due June 1, 1993	1,150	1,200
10% promissory notes due in 1982	2,233	2,433
10% promissory notes (U.S. $1,375,000) due at various dates until 1985	1,610	2,494
Other notes (U.S. $48,000)	—	57
	5,635	7,056
Less current portion	3,084	1,027
	$2,551	$6,029

The 10% promissory notes of $2,233,000 are payable to Westell Financial Corporation Limited, a company beneficially-owned by insiders of the Company.

Payments required on long-term debt to 1986 are:
1982 – $3,084,000; 1983 – $734,000; 1984 – $525,000; 1985 – $393,000; 1986 – $100,000.

4. Capital stock

	1981	1980
	(000's)	(000's)
Authorized		
10,000,000 non-voting, non-cumulative, convertible, participating, Class A Special Shares		
10,000,000 voting, non-cumulative, convertible, participating, Class B Special Shares		
100 common shares without par value		
Issued		
4,565,075 Class A and Class B shares (1980 – 3,043,376 common shares without par value)	$608	$608
	$608	$608

During the year the authorized capital of the Company was changed by:

a. cancelling the 339,960 non-voting second preference shares with a par value of $25 each;

b. reclassifying the 10,000,000 issued and unissued common shares without par value as 10,000,000 Special Shares without par value designated as non-voting, non-cumulative, convertible, participating Class A Special Shares and 10,000,000 Special Shares without par value designated as voting, non-cumulative, convertible, participating Class B Special Shares on the basis of two (2) Class A Special Shares and one (1) Class B Special Share for each two (2) issued and unissued Old Common Shares.

c. increasing the authorized capital of the Corporation by creating a new class of one hundred (100) common shares without par value.

When dividends are declared, Class A shares are entitled to a fixed preferential non-cumulative quarterly dividend at the rate of 5¢ per share.

At December 31, 1981, there were 2,164,547 Class A and 2,400,528 Class B shares issued and outstanding.

5. Write-down of investment in subsidiary

On September 29, 1980, Barbecon Inc. acquired 100% of the shares of Jaffe Stationers, Inc. Goodwill on acquisition was $2,389,000.

As a result of the discovery of deficiencies in Jaffe's inventory and misrepresentations by the previous owners, the Company negotiated a $875,000 reduction in the purchase price with one of the previous owners. Goodwill and long term debt have been reduced by this amount. The Company has commenced litigation against the other previous owner to recover damages, which will be applied first as an offset against the promissory notes issued as part of the acquisition price.

Due to current unprofitable operations in Jaffe Stationers, Inc., $585,000 of the goodwill has been written off. Any future reduction in the purchase price resulting from the litigation will be recorded first as a reduction of the goodwill.

6. Pension plan

The latest actuarial review of the pension plan as at December 31, 1981 determined the unfunded past service liability to be $1,635,000.

The amount charged to earnings with respect to this liability in 1981 was $273,000.

In 1981, the Company paid a portion of its 1982 past service funding requirement of $252,000 (1980 – $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	Operating leases
	(000's)	(000's)
1982	$ 102	$ 1,273
1983	102	1,268
1984	102	1,332
1985	102	1,360
1986	102	1,350
Later years	2,904	8,114
Total minimum lease payments	3,414	$14,697
Interest imputed at 10%	2,401	
Present value of minimum lease payments	$1,013	

Notes to consolidated financial statements (continued)

8. Remuneration of directors and senior officers

The remuneration of directors and senior officers was $725,000 (1980– $553,000).

9. Income taxes

At December 31, 1981 the Company's U.S. subsidiary has loss carry forwards for income tax purposes of approximately $2,135,000 for deduction against future years' profits. These loss carry forwards expire as follows:

1995	$ 346,000
1996	1,789,000
	$2,135,000

The potential tax savings resulting from the application of these losses against future earnings have not been reflected in these consolidated financial statements.

10. Required segmented information

The directors have determined the following industry and geographic segments:

a. Printing supplies include the distribution of paper, envelopes, and pre-press supplies for the graphic arts industry.

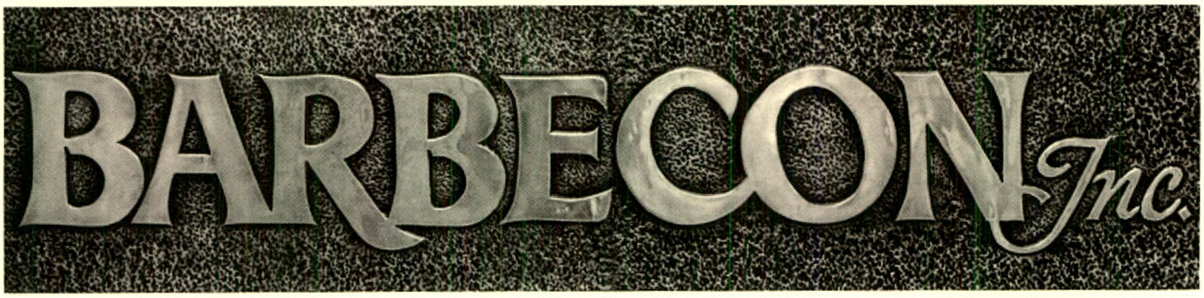
b. Envelopes includes the manufacturing and distribution of envelope products to consumers.

c. U.S. retail stationery.

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

1981	Printing supplies	Envelopes	Corporate	Eliminations	Total Canada	U.S. Retail Stationery	Barbecon Consolidated
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
Net sales to customers	$145,304	$32,899		$ —	$178,203	$11,141	$189,344
Inter-segment sales	1,359	16,681		(18,040)	—	—	—
	$146,663	$49,580		($18,040)	$178,203	$11,141	$189,344
Operating earnings	$ 9,533	$ 3,560			$ 13,093	($ 1,053)	$ 12,040
General corporate					(1,893)	—	(1,893)
Interest expense					(5,278)	(747)	(6,025)
Provision for income taxes					(2,596)	(103)	(2,699)
Earnings before extraordinary item					$ 3,326	($ 1,903)	$ 1,423
Identifiable assets	$ 41,751	$19,972	$1,340		$ 63,063	$ 6,492	$ 69,555
Capital expenditure	$ 717	$ 1,263	$ 691		$ 2,671	$ 439	$ 3,110
Depreciation and amortization	$ 589	$ 962	$ 268		$ 1,819	$ 264	$ 2,083

1980	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



Supplementary Financial Information

Current replacement cost financial statements

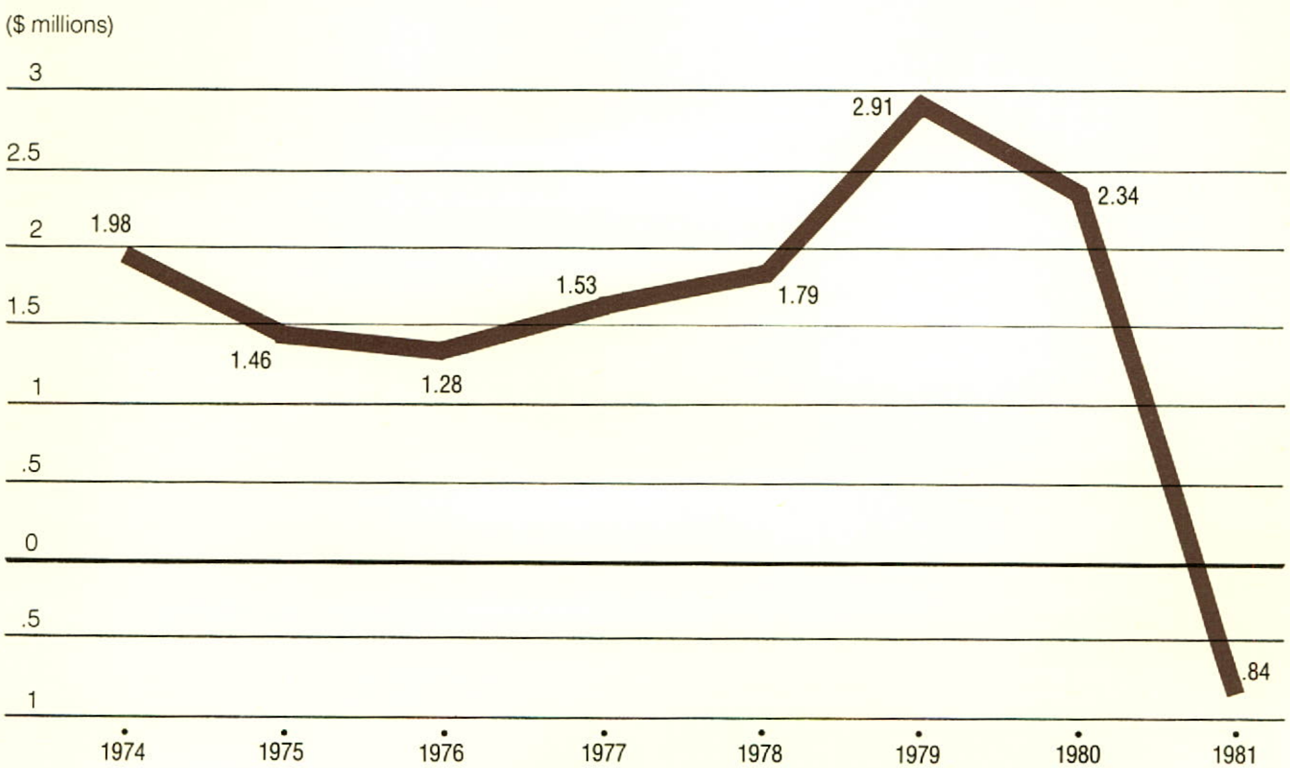
Barbecon Inc. has published financial statements that demonstrate the effects of inflation on our company since 1974.

In December 1981, the Canadian Institute of Chartered Accountants issued draft accounting principles that describe how businesses should account for inflation. These accounting principles are still in the discussion stage. However, we believe they will be adopted without significant change and will be in effect for our December 31, 1982 year end.

Under CICA proposals, Barbecon's 1981 profit would have been $1,430,000 more than we have reported in our "Current Replacement Cost Financial Statements".

Although we will present whatever information is required by the CICA in the future, we feel our present current replacement cost financial statements present a more appropriate picture of our company's results for the year.

Current replacement cost net earnings



BARBECON Inc

Consolidated current replacement cost balance sheet

as at December 31, 1981 (unaudited)

Assets	**1981**	1980
	(000's)	(000's)
Current		
Accounts receivable	**$26,721**	$21,688
Inventories	**25,209**	23,808
Prepaid expenses	**764**	758
Income taxes recoverable	**1,071**	
	53,765	46,254
Property, plant and equipment (Note 2)	**24,108**	21,840
Investment in joint venture	**414**	
	$78,287	$68,094

Liabilities		
Current		
Bank indebtedness	**$30,843**	$22,198
Accounts payable and accrued liabilities	**11,264**	10,923
Income taxes		122
Current portion of long-term debt	**3,084**	1,027
	45,191	34,270
Deferred income taxes	**1,734**	1,578
Long-term debt	**2,551**	6,029
Obligations under capital leases	**1,013**	1,014
	50,489	42,891
Shareholders' Equity		
Capital stock	**608**	608
Retained earnings	**9,186**	11,247
Revaluation account	**18,004**	13,348
	27,798	25,203
	$78,287	$68,094

See accompanying notes to supplementary consolidated financial statements.

Consolidated current replacement cost statement of earnings

for the year ended December 31, 1981 (unaudited)

	1981	1980
	(000's)	(000's)
Net sales	**$189,344**	$151,389
Costs and expenses		
Cost of products sold	**142,702**	113,879
Selling, general and administrative	**36,051**	26,422
Depreciation and amortization	**2,711**	2,348
Interest		
Long-term debt	**696**	590
Current debt	**5,329**	2,571
	187,489	145,810
Earnings before income taxes and extraordinary item	**1,855**	5,579
Provision for income taxes	**2,699**	3,552
Net (loss) earnings before extraordinary item	**(844)**	2,027
Extraordinary item		
Gain on disposal of property	—	312
Net (loss) earnings	**$ (844)**	$ 2,339
Earnings (loss) per share		
Before extraordinary item	**$ (.18)**	$ .44
After extraordinary item	**$ (.18)**	$ .51

See accompanying notes to supplementary consolidated financial statements.

Consolidated current replacement cost statement of retained earnings

for the year ended December 31, 1981 (unaudited)

	1981	1980
	(000's)	(000's)
Balance at beginning of year	**$11,247**	$10,429
Net (loss) earnings	**(844)**	2,339
	10,403	12,768
Dividends	**1,217**	1,521
Balance at end of year	**$ 9,186**	$11,247

Consolidated statement of revaluation account

for the year ended December 31, 1981 (unaudited)

	1981	1980
	(000's)	(000's)
Balance at beginning of year	**$13,348**	$ 9,639
Revaluation adjustments		
Inventory, December 31	**256**	182
Property, plant and equipment	**3,317**	6,216
Adjustment of accumulated depreciation to reflect current year's increase in replacement cost of plant and equipment	**(1,388)**	(1,805)
Cost of products sold during the year	**1,526**	1,505
Goodwill	**945**	(2,389)
Balance at end of year	**$18,004**	$13,348

See accompanying notes to supplementary consolidated financial statements.

Notes to consolidated current replacement cost financial statements

December 31, 1981 (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

	1981			1980
	Current replacement cost	Accumulated depreciation	Net	Net
	(000's)	(000's)	(000's)	(000's)
Land	$ 3,287	$ —	$ 3,287	$ 2,880
Plant and equipment	47,997	27,176	20,821	18,960
	$51,284	$27,176	$24,108	$21,840

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, 1981 the appraised values were updated by our appraisers or 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 $1,388,000. This amount has been charged to the revaluation account.

Notes to consolidated current replacement cost financial statements (continued)

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.

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