Rothmans of Pall Mall Canada Limited

ANNUAL REPORT 1980

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The Annual Meeting of shareholders will be held at the Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario, at 3:00 o'clock, on Friday, July 18, 1980.

Ce rapport peut être obtenu en français sur demande.

Rothmans of Pall Mall Canada Limited

CONSOLIDATED HIGHLIGHTS

	1980	1979
Year Ended March 31 ($000's)		
SALES	**$897,798**	$801,315
EARNINGS:		
BEFORE EXTRAORDINARY ITEM	**27,056**	23,380
AFTER EXTRAORDINARY ITEM	**27,056**	23,541
DIVIDENDS PAID:		
PREFERRED SHARES	**2,683**	3,505
COMMON SHARES	**6,067**	4,583
WORKING CAPITAL FROM OPERATIONS	**54,253**	48,905
CAPITAL EXPENDITURES	**31,681**	31,324
At March 31 ($000's)		
WORKING CAPITAL	**123,571**	117,292
TOTAL ASSETS	**462,669**	418,512
TOTAL DEBT	**88,265**	85,515
SHAREHOLDERS' EQUITY	**149,765**	132,023
Per Common Share (Note)		
EARNINGS:		
BEFORE EXTRAORDINARY ITEM	**4.77**	4.33
AFTER EXTRAORDINARY ITEM	**4.77**	4.37
DIVIDENDS PAID	**1.20**	1.00
SHAREHOLDERS' EQUITY	**22.04**	17.40

Note: Based on weighted average number of shares outstanding (1980—5,116,810; 1979—4,583,440) after giving effect to the conversion of Second Preferred shares into Common shares. The conversion privilege expired on October 31, 1979.

Corporate Profile

Rothmans of Pall Mall Canada Limited was incorporated on May 8, 1956 and was continued under the Canada Business Corporations Act on July 24, 1979. Manufacturing operations commenced in October 1957. In 1968 and 1969, the Company acquired 50.1% of Carling O'Keefe Limited. Through Rothmans of Canada Limited, the Company is a majority-owned subsidiary of Rothmans International Limited of London, England, a holding company which also has interests in tobacco companies in England, Northern Ireland, Republic of Ireland, Germany, Belgium, the Netherlands, Switzerland, Australia, Jamaica, New Zealand, Cyprus and Fiji.

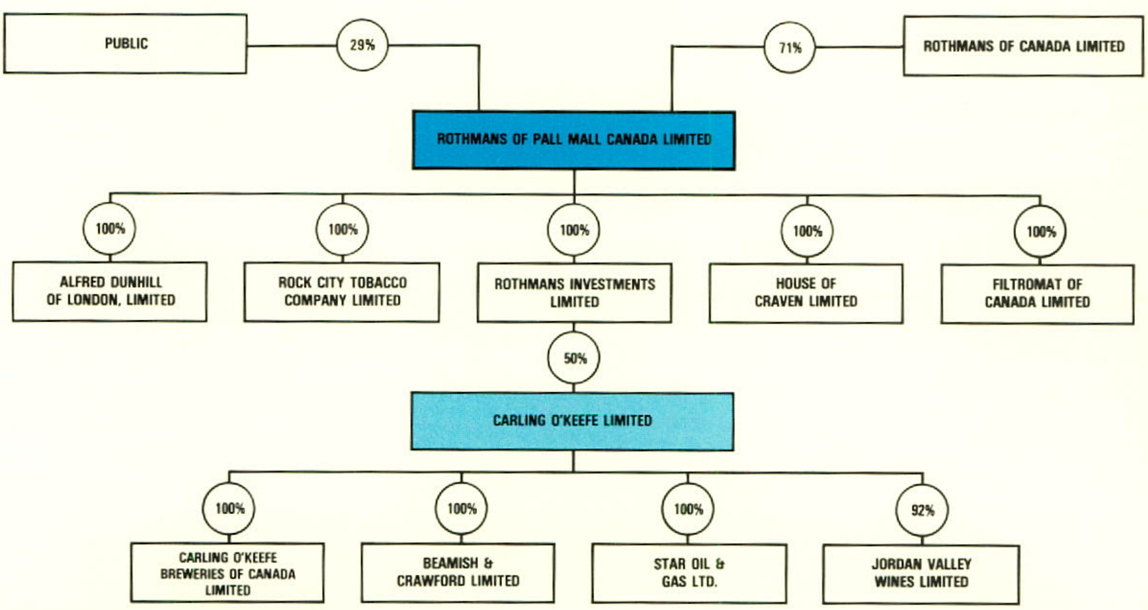
The Company is Canada's second largest manufacturer and distributor of cigarettes and tobacco products. Carling O'Keefe Limited, through subsidiary companies, is engaged in the production and sale of beer and wine and is also involved in oil and gas operations.

The major cigarette trade marks sold by the Company are Rothmans, Craven "A", Number 7, Sportsman, Dunhill and Peter Stuyvesant. Regular length, king size, international length and 100 mm cigarettes are produced. In addition, the Company sells fine cut and imported pipe tobaccos, cigars and a number of other related products. Manufacturing operations are carried out at two plants (Toronto and Quebec City) and the Company has seventeen sales offices across Canada.

Carling O'Keefe operations are carried out through four principal subsidiary companies. In Canada, Carling O'Keefe Breweries of Canada Limited operates eight breweries, producing such well-known brands as O'Keefe Ale, Old Vienna, Carling Black Label, Carlsberg, Colt 45 and Trilight. In the Republic of Ireland, Beamish & Crawford Limited owns and operates a brewery in Cork, with the principal brands being Carling Black Label, Carlsberg and Bass Ale. Jordan Valley Wines Limited produces wine at six Canadian wineries and sells under the trading styles of Jordan and Ste-Michelle. Star Oil & Gas Ltd. is engaged in the exploration, development and production of oil and gas in both Canada and the United States.

The Company, including its subsidiaries, is among the 100 largest corporations in Canada, employing more than 5,300 people.

The following chart outlines the corporate relationship between your Company, its shareholders and its principal subsidiaries.



(Percentages have been rounded.)

Directors' Report

PERFORMANCE

Consolidated earnings from operations increased by 15.7 percent for the year ended March 31, 1980, amounting to $27,056,000 or $4.77 per Common share, compared to $23,380,000 or $4.33 per share in 1979. Earnings from tobacco operations of $19,407,000 were 10.2 percent higher than last year. Rothmans share of earnings from Carling O'Keefe Limited increased to $7,649,000 from $5,775,000 in 1979.

There were no extraordinary items in 1980. Last year, final consolidated results amounted to $23,541,000 or $4.37 per Common share after a gain on the sale of winery assets.

The quarterly Common share dividend of 30¢, instituted in June 1979, was continued throughout the year. Carling O'Keefe Limited maintained a quarterly common share dividend at the rate of 2.5¢ per share during the year. On May 27, 1980, Carling O'Keefe announced an increase in the rate to 5¢ per quarter, effective with the July 1, 1980 payment.

ROTHMANS TOBACCO OPERATIONS

Sales of "milder" cigarettes continued to increase, and these "light/mild" brands now account for one-half of total industry sales. With almost 54 percent of its sales in this growing segment, your Company continues to be well positioned in this important market category.

Sales of Rothmans Special Mild continued to increase at a rate in excess of 28 percent over the preceding year. During the year, the Rothmans brand family was further enhanced by the introduction of Rothmans International, a premium-priced luxury length cigarette. This product, presently in limited distribution, will be extended to other major markets during the course of the next fiscal year.

The Craven trade mark, "The First Family of Mildness," enjoyed sales gains during the year. The Craven family was further extended by the successful introduction of Craven "A" Ultra Light King Size, Craven "A" Special Mild 100s and Craven Menthol Special Mild 100s. Craven Menthol, in its two king size versions, continued to increase its share in the menthol segment.

The recent re-introduction of Nº7 Lights in a regular length version has placed the Company in a better position to increase its penetration into the regular length market. The brand showed encouraging consumer acceptance in its introductory markets of Quebec City and Edmonton. As a result, distribution was extended at the end of March to all markets across the country. Number 7 Lights King Size continued to progress, supported by extensive advertising utilizing the "Sevens are Mild" theme. The touring "Number 7 Lights Up The Fifties" mall presentation featuring memorabilia and cars of the 1950's is providing additional exposure for the brand.

During the year, local manufacture of Dunhill International cigarettes commenced. This has made possible the supply of this premium-priced product to selected retail outlets, as well as the replacement in duty-free outlets of the previously imported product. In April of this year, a new Dunhill shop was opened at Simpsons in Toronto to handle an increased selection of Dunhill personal luxury items and tobacco products.

The Company's sales in the export and duty-free markets continued to increase and the Company maintained its position as Canada's largest exporter of cigarettes with 49 percent of total sales.

It is expected that the trend to milder brands will continue. The recent successful introductions of additional "light/mild" versions of our brands have stabilized the Company's sales volume in the past year.

During the 1980 fiscal year, capital expenditures totalled approximately $6.3 million. These outlays were $3.2 million below our budgeted expenditures primarily because of delays in delivery of certain equipment. Amounts additional to those carried forward from last year will be committed in the current fiscal year to continue the program of modernization of our two plant facilities.

The building addition to the Quebec City factory was recently completed and installation of the new equipment ordered for that facility is in progress. When completed, the leaf processing facilities for our Quebec City factory will incorporate the most recent technology available within the industry, including certain improved techniques developed in Canada by our own Research and Development staff.

Labour contracts are presently in effect covering both plants, with the Toronto contract expiring on December 20 of this year and the Quebec City contract expiring on March 19, 1981.

Leaf tobacco continues to represent our major cost in raw materials. During the 1979 crop year, the Ontario markets were severely affected by blue mould, which substantially reduced the planned crop size. The effect was to reduce purchases by both export and domestic buyers, but sufficient tobacco was available to meet our ongoing requirements.

At the auctions, which closed February 22, 1980, a total of 149.2 million pounds were sold, a reduction from the 230 million pounds of the previous year. The overall average price paid for the 1979 crop was $1.33 compared to $1.18 the previous year. The export subsidy continued to be made available to export buyers and, as a result, 42.6 million pounds from Ontario were purchased for export. For 1980, negotiations have been completed with the Ontario Flue-Cured Marketing Board. A crop of 226 million pounds is planned, with an average guaranteed minimum price of $1.28, compared to $1.16 in 1979. Again this year, the domestic companies have agreed to an export subsidy.

CARLING O'KEEFE OPERATIONS

The 1980 fiscal year was one of continued progress for Carling O'Keefe as sales, production efficiency and earnings all increased over the previous year.

Carling O'Keefe Breweries of Canada Limited continued to be the major segment of the company's operations, providing 82 percent of sales revenue and 73 percent of operating earnings before interest and taxes. The Canadian brewing company reported increased volume, sales revenue, market share and earnings, despite intense competition and very significant cost pressures. A new brand, Rallye, was introduced in the province of Quebec in November 1979 and initial results are encouraging. In the coming year, particular emphasis will be given to brand support in Ontario, which remains the problem market for the company.

Jordan Valley Wines Limited had another difficult year, with sales volume and earnings both suffering declines. For the domestic wine industry, the trend from low priced high alcohol, sparkling and crackling wines to lower-profit table wines continued. Overall market growth was 5 percent and, for the first time in several years, Canadian products increased their market share. Jordan Valley launched three premium table wines in Ontario, all of which were well received.

Star Oil & Gas Ltd. achieved substantial progress in 1980, despite difficulties in bringing newly discovered gas reserves into production because of the current excess supply of natural gas productive capacity in Canada. Increases for natural gas and oil volumes, sales revenue and earnings were reported. As a result of the company's continued program of exploration and development, proved and probable reserves of both natural gas and oil increased despite higher production during the year.

Considerable interest in the oil and gas operations was expressed during the year by shareholders of Rothmans and Carling O'Keefe and by other parties. To respond to this interest, the enclosed 1980 Carling O'Keefe annual report provides considerably expanded information on Star Oil & Gas Ltd. The reader is cautioned that the Canadian industry is highly sensitive to government regulations and that the immediate future of oil and gas in Canada is particularly dependent upon outstanding governmental decisions related to natural gas exports and prices for both oil and gas.

In Ireland, Beamish & Crawford Limited made steady progress during the past year. Higher selling prices and sales volume growth resulted in operating earnings in local currency increasing by almost 17 percent. However, there was a foreign exchange loss in translating the Irish punt to the Canadian dollar, compared to an exchange gain in 1979. As a result operating earnings included in the consolidated financial statements were lower in 1980.

On April 29, 1980, Carling O'Keefe announced that it had finalized an agreement to sell, effective March 31, 1980, its Carling Black Label and Red Cap trade marks for southern Africa subject to certain governmental approvals. The maximum consideration of Rand 14.5 million will be received over a four-year period and is subject to reduction should certain objectives not be achieved. Upon completion of the transaction, the gain on sale of $10.5 million will be reported as an extraordinary item.

CONVERSION OF SECOND PREFERRED SHARES

As will be seen from the Financial Statements, a total of 1,155,845 Second Preferred shares were converted during the period to October 31, 1979. As a result, the number of Common shares of the Company issued and outstanding increased by 924,676 to 5,510,684.

The conversion privilege attached to the Second Preferred shares has expired and these shares may now only be redeemed at the option of the Company in accordance with the terms of the original offering.

DIRECTORS AND MANAGEMENT

During the year, Joel W. Aldred and George E. Creber, Q.C., retired from the Board of Directors. Mr. Aldred had been a director of your Company since 1958 and a member of the Audit Committee since it was established. Mr. Creber had been a member of the Board since 1975 and was a member of the Compensation and Audit Committees of the Company.

At their meeting in May, the Directors elected René Amyot to fill a vacancy on the Board of Directors. Mr. Amyot is senior partner of the law firm of Amyot, Lesage, Bernard, Drolet & Sirois in Quebec City and is a director of a number of other Canadian companies.

Our fellow directors join us in thanking all employees of the Company and its subsidiaries for their contribution to the success of the business during the year. To our shareholders, we express thanks for your continuing interest and support.

John H. Devlin　R. H. Hawkes

J.H. Devlin
Chairman of the Board

R.H. Hawkes
President and Chief Executive Officer

May 30, 1980

Policies and Plans

INTRODUCTION

For the past two years we have informed shareholders of our financial policy and planning objectives related to capital expenditures, target capital structure, dividend policy and diversification and acquisition policies. It is our intention to continue in this manner and we therefore present in this section the current status of these plans.

Our plans are periodically reviewed in the context of changing capital market and business conditions and we will keep shareholders aware of any major policy revisions as they occur.

CAPITAL EXPENDITURES

Capital expenditures for the 1980 fiscal year totalled approximately $6.3 million. These outlays were $3.2 million below our budgeted expenditures of $9.5 million for 1980 primarily due to delays in delivery of certain equipment required in our plant modernization programs. Most of these commitments have been carried forward into our projections for 1981.

We anticipate capital expenditures for our tobacco operations of approximately $10 million for additions and improvements to facilities in the 1981 fiscal year. Of this amount, approximately $2.4 million is budgeted for the continuing upgrade of our leaf processing facilities in the Quebec City plant. Including amounts spent in 1980, a total of approximately $9 million will be committed to this project over a four-year period. In addition, approximately $1.4 million is budgeted for replacement of cigarette making machines in the Toronto plant in order to increase efficiencies and lower our operating costs. Another $1 million is budgeted for the relocation of our Head Office facility. These new offices, located in leased premises at 1500 Don Mills Road in Toronto, will allow us to consolidate a number of operating and administrative functions and thereby achieve considerable economies over the long run. We expect our new headquarters to be ready for occupancy in the summer of 1980. The remainder of capital expenditures anticipated for 1981 pertains to vehicle replacements, and replacement of and improvements to existing facilities.

CAPITAL STRUCTURE

Our objective in establishing financing guidelines for Rothmans is to balance the relatively low after-tax cost of debt with the need to maintain financing flexibility and a sound financial base to support existing operations and anticipated expansion. After a thorough review of capital market conditions and consideration of important aspects of our operations, we have established as our target for tobacco operations a ratio of debt-to-total capital of 45-50 percent at fiscal year-end. This target excludes the investment in Carling O'Keefe and considers only the tobacco operations capital structure because of Carling O'Keefe's independent financing. Because of relatively large short term borrowings at fiscal year-end to support seasonal inventory buildups, our actual average use of debt throughout the year is lower than at year-end.

During fiscal 1980 the debt-to-total capital ratio was reduced from 42 percent at the end of fiscal 1979 to 40 percent at March 31, 1980. This level, although lower than our target, is consistent with our stated plan to reduce our use of debt from past levels, which are shown below. We believe that this capital structure provides a more flexible and prudent financial position to support our operations.

DIVIDEND POLICY

The quarterly Common share dividend of 30¢ instituted by your Board of Directors in June 1979 was maintained for the year.

This payout has been established in the context of the anticipated profitability and internal financing requirements of our tobacco operations. We plan to continually review our dividend policy and you will be informed should that policy be revised.

DIVERSIFICATION AND ACQUISITION POLICY

Although Rothmans has taken no further steps with respect to acquisitions or further diversification within the past year, we have evaluated and will continue to examine potential opportunities. It is still our feeling, however, that the internal opportunities which are available to us, with their relatively high rates of return, should be fully developed in conjunction with these activities.

DEBT-TO-TOTAL CAPITAL
(Dollars in Millions)

	As At Fiscal Year-End				
	1980	1979	1978	1977	1976
Total Interest-Bearing Debt	**60.9**	60.0	78.4	76.0	76.6
Total Capital*	**153.6**	142.2	151.4	135.7	123.2
Debt-to-Total Capital Ratio	**40%**	42%	52%	56%	62%

*Capital includes all interest-bearing debt, deferred taxes, preferred shares and common shareholders' equity (excluding the investment in Carling O'Keefe Limited on the equity basis).

Review of Tobacco Operations

The following table provides a five-year comparative summary of performance, as measured by return on capital employed. To fully incorporate the effect of seasonal financing requirements, average capital has been computed on the basis of monthly averages for debt, deferred taxes and shareholders' equity.

ANALYSIS OF PERFORMANCE

($000's)	Year ended March 31 1980	1979	1978	1977	1976
*Net Operating Profits After Tax**					
Earnings From Operations	$ 19,407	$ 17,605	$ 19,612	$ 18,022	$ 21,729
Deferred Taxes	(775)	(228)	66	1,427	1,566
After Tax Interest Expense	2,683	2,772	3,027	3,581	3,370
(A)	$ 21,315	$ 20,149	$ 22,705	$ 23,030	$ 26,665
Average Total Capital Employed					
Interest-Bearing Debt	$ 47,686	$ 54,993	$ 65,905	$ 69,680	$ 67,441
Deferred Taxes	6,216	6,486	6,563	5,910	4,275
Shareholders' Equity**	82,690	72,433	60,897	47,999	35,248
(B)	$136,592	$133,912	$133,365	$123,589	$106,964
Return On Average Total Capital Employed (A÷B)	15.6%	15.0%	17.0%	18.6%	24.9%

* Net operating profits after tax represent the Company's profits before interest expense but after taxes other than deferred taxes.

** Average shareholders' equity for tobacco is computed from total shareholders' equity minus the investment in Carling O'Keefe Limited on the equity basis.

Statements of earnings, financial position and changes in financial position for the Company's tobacco operations can be found on pages 10 and 11. The following review provides commentary on some of the more significant factors which influenced results during the 1980 fiscal year.

SALES:

Total sales revenue was $419.7 million, an increase of $19.7 million or 4.9 percent over the previous year. Cigarette sales accounted for the majority of the gain, but higher revenue was also realized from sales of fine cut tobacco, cigars and pipes.

Revenue from cigarette sales of $405.8 million represented an increase of $19.4 million compared to last year, reflecting both selling price adjustments and slightly higher volume. The selling price increase in the fourth quarter of the 1979 fiscal year had a full year's impact on the current year; furthermore, there was a manufacturers' price increase in late December 1979 which had a favourable impact on results for the final quarter of 1980. The Company's unit sales of 16,541 million represented a gain of 0.7 percent over last year's 16,424 million.

Total industry unit cigarette sales, as reported by Statistics Canada, were up by 1 percent to 64,249 million (1979—63,592 million).

Sales revenue from fine cut tobacco ($7.5 million) was up by almost $700,000 or 10.1 percent, also reflecting both selling price increases and higher volume. Unit sales of 1,505,000 pounds compared to 1,496,000 pounds last year.

Although unit sales of imported pipe tobacco were lower than 1979, sales revenue ($2.4 million) was almost the same as last year as a result of selling price increases. Volume was 291,000 pounds compared to 322,000 pounds in the previous year.

Sales revenue from cigars ($2.5 million) was more than $250,000 higher than last year, reflecting both selling price increases and sales mix. Volume was down slightly from 1979.

Sales revenue from all other products totalled $1.5 million compared to $2.1 million in 1979. The major product lines in this category are cigarette tubes, cigarette rolling devices, pipes and lighters.

EARNINGS:

The following table outlines the appropriation of a tobacco sales dollar:

	Year ended March 31	
	1980	1979
Excise and sales taxes	50.8¢	52.6¢
Costs:		
Raw materials and manufacturing	28.6	27.5
Marketing and distribution	9.3	8.9
Administrative and general	2.6	2.7
Interest	1.1	1.2
	41.6	40.3
Income taxes	3.0	2.7
Earnings	4.6	4.4
Sales revenue	100.0¢	100.0¢

After-tax earnings for 1980 amounted to $19.4 million, up by $1.8 million or 10.2 percent compared to last year. The most significant favourable factors were higher volumes and selling price increases for both cigarettes and fine cut tobacco. Unfavourable factors were increased costs in virtually all areas of the Company's operations and a higher effective income tax rate. Earnings before income taxes were up by $3.4 million or 11.8 percent.

Production and imported product costs charged against earnings totalled $119.8 million in 1980, an increase of $9.8 million or 8.9 percent over last year. By major cost category and in descending order of magnitude, the components are leaf tobacco, packaging materials, manufacturing overheads, direct labour and imported products.

Leaf tobacco represents approximately 43 percent of total raw materials and manufacturing expenses. The charge against earnings for 1980 was $51.1 million or $1.38 per pound (1979—$47.4 million; $1.30 per pound). The higher unit cost primarily reflected the increased cost of Ontario flue-cured tobacco purchased during the 1979 fiscal year. Leaf purchased during 1980 is included in inventory at year-end and its significantly higher cost will negatively impact earnings during the 1981 fiscal year. Further information on leaf tobacco can be found on page 4 of the Directors' Report.

Packaging materials were again the second largest component of raw materials and manufacturing expenses, accounting for approximately 28 percent of the total. The charge against earnings for 1980 was $33.2 million, an increase of $4.1 million or 14.2 percent. Substantial increases in suppliers' prices and the proliferation of new brands were the major causes of the large increase in this cost category.

Manufacturing overhead costs expensed during the year totalled $19 million compared to $18 million in 1979, an increase of 6 percent. However, because of higher production volume, unit costs showed a smaller percentage increase.

Direct labour costs amounted to $13.1 million, up by 9 percent over last year. Imported product costs of $3.5 million in 1980 were relatively unchanged from the previous year.

Marketing and distribution costs amounted to $39.3 million, an increase of $3.7 million or 10.3 percent. By major cost category, the components are advertising and promotion costs, the sales organization, marketing administration, freight expense and warehousing costs.

Advertising and promotion expenditures increased as a result of both higher costs and the allocation of funds to the introduction and/or extension of new brands. Costs of the sales organization were up because of higher salary and vehicle operating costs and also because of additions to the sales complement. Higher marketing administration costs primarily reflected increased salary and fringe benefit costs.

Freight expenses were up by 7.5 percent in 1980 compared to the previous year. Higher sales volumes for cigarettes and fine cut tobacco and increased freight rates were the major contributing factors. Warehousing costs were 7.4 percent higher than in 1979.

Administrative and general expenses totalled $11 million in 1980, up by less than $150,000 or only 1.2 percent.

Interest and expense on both long and short term debt totalled $4.7 million, down slightly from last year's $4.9 million. This reduction was accomplished despite record high levels of short term interest rates during the year. Favourable factors were lower average levels of short term indebtedness and purchases of debentures for sinking fund requirements.

Income tax expense was $12.5 million in 1980, compared to $10.9 million in the previous year. The higher provision reflects both an increase in pre-tax earnings and a higher effective tax rate. As a percentage of earnings before income taxes, the 1980 provision amounted to 39.2 percent versus 38.3 percent in 1979.

Income taxes are accounted for on the tax allocation basis for all timing differences between accounting and taxable income. The major timing differences arise between capital cost allowance claimable for income tax purposes and depreciation recorded in the accounts.

FEDERAL AND PROVINCIAL TAXES:

The retail selling price of tobacco products includes a variety of taxes imposed by both the federal and provincial governments. At the Government of Canada level, the Company pays excise tax, excise duty and sales tax at rates which are consistent across the country. On the other hand, the provinces and territories levy their own tobacco tax at varying rates. In addition, Newfoundland and Prince Edward Island also charge provincial sales tax. Together, federal and provincial taxes range from almost one-half to as high as two-thirds of the retail selling price of cigarettes.

The Company's selling price includes the three federal taxes. In 1980, these taxes totalled $213 million, an increase of $2.9 million or 1.4 percent over last year. The higher amount reflects both increased unit sales for cigarettes and fine cut tobacco and a slightly higher unit sales tax. There were no changes in rates for any of the taxes during the 1980 fiscal year, but unit sales tax increased slightly as a result of the December 1979 manufacturers' price increase. Subsequent to year-end, excise duty was increased, which also caused an increase in sales tax. At the present time, the three taxes amount to $2.87 per carton of 200 king size cigarettes.

During the 1980 year, there were seven provincial tobacco tax increases, including two in Newfoundland totalling $1.30 per carton. The other five adjustments were 80 cents per carton in Nova Scotia, 40 cents in Prince Edward Island, 24 cents in each of Quebec and Saskatchewan, and 20 cents in Ontario. Subsequent to year-end, there have been increases of 40 cents per carton in both the Northwest Territories and Manitoba. At the present time, provincial tobacco taxes are as follows per carton:

British Columbia	$1.92	New Brunswick	$2.00
Alberta	0.64	Nova Scotia	2.00
Saskatchewan	2.40	Prince Edward Island*	2.00
Manitoba	2.40	Newfoundland**	4.00
Ontario	2.40	Yukon Territory	1.20
Quebec	2.40	Northwest Territories	2.40

*excluding provincial sales tax of 9%
**excluding provincial sales tax of 11%

FINANCIAL POSITION:

During the year ended March 31, 1980, the Company's working capital increased by $7.3 million, bringing the year-end total to $84.1 million. Earnings from tobacco operations of $19.4 million, depreciation expense of $4.7 million, and dividends from Carling O'Keefe Limited of $1.1 million were the major items increasing working capital. Capital expenditures of $6.3 million, dividends of $8.8 million and a reduction in long term debt of $1.5 million were the most significant items reducing working capital.

The majority of capital expenditures during 1980 were related to production facilities. Another area of significant cost was the purchase of land and the erection of a new office and warehouse building in Winnipeg, replacing premises which had previously been leased.

Total dividends paid during the year were almost $700,000 higher than in 1979, with Preferred share payouts down by $800,000 but Common share dividends up by $1.5 million. The reduction in Preferred dividends reflects the significant conversions of Second Preferred shares into Common shares midway through the year and also lower payouts on First Preferred shares because of shares acquired for the purchase fund. The significant increase in Common dividends resulted from a combination of a higher rate per share ($1.20 versus $1.00 in 1979) and a larger number of outstanding shares in the latter half of the year due to the conversions.

ROTHMANS OF PALL MALL CANADA LIMITED

EARNINGS FROM TOBACCO OPERATIONS

(in thousands of dollars)

	Year ended March 31	
	1980	1979
Sales	$419,739	$400,042
Excise and sales taxes	213,016	210,162
Net sales	206,723	189,880
Costs:		
Raw materials and manufacturing	119,840	110,011
Marketing and distribution	39,264	35,602
Administrative and general	10,994	10,859
Interest and expense on long term debt	2,423	2,631
Other interest	2,285	2,233
	174,806	161,336
	31,917	28,544
Income taxes:		
Current	13,285	11,167
Deferred	(775)	(228)
	12,510	10,939
Earnings for the year	$ 19,407	$ 17,605

CHANGES IN FINANCIAL POSITION OF TOBACCO OPERATIONS

(in thousands of dollars)

	Year ended March 31	
	1980	1979
Working capital was increased by:		
Earnings from tobacco operations	$ 19,407	$ 17,605
Depreciation	4,653	4,494
Other items not requiring working capital	(868)	(313)
Working capital from operations	23,192	21,786
Proceeds on disposal of property, plant and equipment	177	433
Dividends from Carling O'Keefe Limited	1,091	545
	24,460	22,764
Working capital was decreased by:		
Additions to property, plant and equipment	6,290	4,791
Reduction of long term debt	1,475	1,559
Purchase of First Preferred shares	607	526
Dividends:		
Preferred shares	2,683	3,505
Common shares	6,067	4,583
Other	27	3
	17,149	14,967
Increase in working capital	7,311	7,797
Working capital at beginning of year	76,825	69,028
Working capital at end of year	$ 84,136	$ 76,825

ROTHMANS OF PALL MALL CANADA LIMITED

FINANCIAL POSITION OF TOBACCO OPERATIONS

(in thousands of dollars)

	March 31 1980	March 31 1979
ASSETS		
Current assets:		
Accounts receivable	$ 18,958	$ 18,658
Inventories	131,942	117,747
Prepaid expenses	1,250	1,154
Total current assets	152,150	137,559
Investment in Carling O'Keefe Limited, at equity	62,518	55,917
Property, plant and equipment	69,330	63,705
Less: Accumulated depreciation	39,988	35,858
	29,342	27,847
Other assets	614	654
	$244,624	$221,977
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness	$ 38,469	$ 35,413
Accounts payable and accrued liabilities	15,848	14,706
Income taxes	2,230	560
Excise, sales and other taxes	11,467	10,055
Total current liabilities	68,014	60,734
Long term debt	21,450	23,050
Total liabilities	89,464	83,784
DEFERRED INCOME TAXES	5,395	6,170
SHAREHOLDERS' EQUITY		
Capital stock:		
Preferred shares	28,241	52,082
Common shares	27,349	4,232
	55,590	56,314
Retained earnings	94,175	75,709
Total shareholders' equity	149,765	132,023
	$244,624	$221,977

Review of Brewing, Wine and Oil and Gas Operations

The following table provides a five-year comparative summary of consolidated performance for Carling O'Keefe Limited and its subsidiary companies, as measured by return on capital employed.

ANALYSIS OF PERFORMANCE

($000's)	Year ended March 31 1980	1979	1978	1977	1976
*Net Operating Profits After Tax**					
Earnings From Operations	**$ 17,338**	$ 13,612	$ 11,809	$ 4,833	$ 10,334
Deferred Taxes	**2,824**	3,225	2,578	2,169	858
After Tax Interest Expense	**1,406**	1,042	1,433	1,509	1,497
(A)	**$ 21,568**	$ 17,879	$ 15,820	$ 8,511	$ 12,689
Average Total Capital Employed					
Interest-Bearing Debt	**$ 26,434**	$ 26,952	$ 43,000	$ 55,747	$ 49,569
Unfunded pensions	**348**	—	—	—	—
Minority interest	**1,845**	1,777	1,690	1,681	2,554
Deferred Taxes	**26,732**	23,708	19,781	16,383	14,869
Shareholders' Equity**	**161,051**	149,299	123,963	102,906	107,583
(B)	**$216,410**	$201,736	$188,434	$176,717	$174,575
Return On Average Total Capital Employed (A÷B)	**10.0%**	8.9%	8.4%	4.8%	7.3%

* Net operating profits after tax represent the company's profits before interest expense but after taxes other than deferred taxes.

** Average shareholders' equity is computed from total shareholders' equity minus the investment in United States operations on the equity basis.

Statements of earnings, financial position and changes in financial position for the company's consolidated operations can be found on pages 14 and 15. A copy of the 1980 annual report for Carling O'Keefe Limited is enclosed to provide more detailed information. The following review by segment provides commentary on some of the more significant factors which influenced results during the past year.

CONSOLIDATED RESULTS:

Earnings from operations amounted to $17.3 million for the year ended March 31, 1980, up by $3.7 million or 27.4 percent from last year. The major contributing factor was a significant improvement in earnings from Canadian brewing operations.

There were no extraordinary items in 1980. Last year, final consolidated earnings were $13.9 million after a gain on the sale of a winery in Victoria, British Columbia.

Consolidated sales amounted to $478.1 million, an increase of $76.8 million or 19.1 percent. All four operating divisions of the company contributed to this gain.

Consolidated working capital declined by $1 million during the year, reaching a level of $39 million at year-end.

CANADIAN BREWING:

Earnings before interest and income taxes were $20.8 million, up by $7.9 million or 60.9 percent over 1979. Carling O'Keefe Breweries of Canada Limited increased its overall market share with gains achieved in five provinces. Furthermore, there was an absence of the work stoppages which had occurred in three western provinces during the 1979 fiscal year.

The company's sales volume totalled 4,940,000 hectolitres compared to 4,534,000 hectolitres in 1979. This gain of 406,000 hectolitres or 9 percent compared to a total industry gain of 7.3 percent. Improved market share was achieved in British Columbia, Alberta, Manitoba, Quebec and Newfoundland. Sales volume was higher in Saskatchewan but market share declined marginally, while in Ontario both volume and share of market was down. In Quebec, O'Keefe Ale has become the largest selling brand and the company introduced a new ale, Rallye.

Because of both the higher volume and selling price increases in all provinces, sales revenue was up by $64.2 million (19.5 percent) to $393.3 million.

In June 1979, the company's subsidiary, Le Club de Hockey Les Nordiques was granted a National Hockey

League franchise for Quebec City at a cost of $6.9 million. The Club completed its first NHL season with capacity crowds at each home game. On the other hand, results of The Toronto Argonaut Football Club were disappointing for the first year of operation under full ownership. Strategies designed to improve the performance of the football team are being implemented.

Capital expenditures during 1980 amounted to $9.9 million, slightly higher than in the previous year. The majority of the costs were related to production facilities. Depreciation expense for the year was $6.2 million (1979—$5.8 million).

Total assets employed in the Canadian brewing operations amounted to $141.8 million at March 31, 1980, up by $16.1 million over the previous year-end.

IRISH BREWING:

Earnings of Beamish & Crawford Limited before interest and income taxes amounted to $1.7 million in 1980, a decrease of $0.9 million or 34.5 percent over last year. However, before the foreign exchange adjustment on translation of the financial statements to Canadian dollars, operating earnings were $2.1 million compared to $1.8 million, a gain of 16.7 percent. There was a substantial decline in the value of the Irish punt in the final months of the 1980 fiscal year.

Sales volume of 238,000 hectolitres was slightly higher (1.3 percent) than last year, despite poor summer weather and a downturn in tourism. Two selling price increases during the year and the effect of passing on to the consumer the substantial excise tax increase in February resulted in sales revenue increasing by 24.6 percent to $39.3 million.

Capital expenditures for 1980 totalled $1.6 million and were significantly higher than last year (approximately $500,000), primarily as a result of the installation of a new kegging line. Depreciation expense of $471,000 was almost the same as 1979.

Total assets employed in the Irish brewing operations increased by $3.1 million to $20.1 million.

WINE:

Earnings of Jordan Valley Wines Limited before interest and income taxes amounted to $1.5 million, down by approximately $750,000 or 33.8 percent from last year. Carling O'Keefe owns 91.9 percent of Jordan Valley Wines Limited.

Sales volume for 1980 was 20,942,000 litres compared to 21,581,000 litres last year. This decrease of 3 percent compares to total industry growth of 5 percent. For the first time in several years, the share of market held by Canadian products increased and now amounts to 45 percent of the total market. However, the trend in sales from low priced high alcohol, sparkling and crackling wines to table wines continues, with a consequent significant lowering of industry profitability.

Despite the overall lower volume in the company's sales, Ontario sales were strongly ahead of last year. Declines in Quebec and British Columbia more than offset these gains. A combination of selling price increases and product mix resulted in sales revenue increasing by $2.3 million or 7 percent to $35.9 million.

Capital expenditures for the year were slightly lower than last year at $2 million. Depreciation expense was marginally higher at $1 million.

Identifiable assets attributable to wine operations at March 31, 1980 amounted to $52.7 million, virtually unchanged from the prior year-end.

OIL AND GAS

Earnings before interest and taxes increased to $4.7 million from $3.8 million in 1979, a gain of 23.7 percent. The increase reflects higher sales volumes for both gas and oil as well as price increases.

Sales volume for gas was up by 19.5 percent while oil and other sales growth was 5.1 percent. Sales revenue was $9.6 million, an increase of $2.5 million or approximately 35 percent over last year.

Star Oil & Gas Ltd. maintained an active drilling program with emphasis on development of additional production of both oil and natural gas. The acquisition of potential oil and gas lands was reduced from last year. Capital expenditures amounted to $12 million and depreciation and depletion totalled $2 million. Total assets employed in the business increased by almost $10 million to $52 million, primarily reflecting the net increase in fixed assets.

INTERNATIONAL DIVISION:

Royalty income from the sale of Carling Black Label in overseas markets, where it is produced under licence, increased by approximately 17 percent to $3.7 million, of which $2.4 million resulted from sales in southern Africa. The gain primarily reflected higher royalty rates and improved exchange factors when local currencies were converted into Canadian funds. Volume increased by approximately 6 percent over 1979.

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

EARNINGS FROM OPERATIONS

(in thousands of dollars)

	Year ended March 31 1980	1979
Income:		
Sales	$478,059	$401,273
Excise and sales taxes	152,827	129,884
Net sales	325,232	271,389
Investment and other income	6,579	6,241
	331,811	277,630
Costs:		
Raw materials and manufacturing	160,551	135,461
Marketing and distribution	116,314	99,533
Administrative and general	22,635	18,641
Interest on long term debt	1,827	1,787
Other interest	812	217
Foreign exchange	412	(758)
	302,551	254,881
	29,260	22,749
Income taxes:		
Current	9,057	5,848
Deferred	2,824	3,225
	11,881	9,073
	17,379	13,676
Minority interest	41	64
Earnings for the year before extraordinary item	$ 17,338	$ 13,612

STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

	Year ended March 31 1980	1979
Working capital was increased by:		
Earnings before extraordinary item	$ 17,338	$ 13,612
Depreciation and depletion	9,741	8,909
Other items not requiring working capital	3,982	4,598
Working capital from operations	31,061	27,119
Proceeds on sale of winery assets	—	1,183
Proceeds on disposal of property, plant and equipment and other assets	1,029	1,234
Mortgage receivable	6,885	—
	38,975	29,536
Working capital was decreased by:		
Additions to property, plant and equipment	25,391	26,533
Cost of National Hockey League franchise	6,937	—
Purchase of assets of The Toronto Argonaut Football Club for $3,500 cash plus working capital deficiency of $768	—	4,268
Additions to other assets	937	704
Reduction of long term debt	2,325	3,651
Dividends:		
Preference shares	2,077	2,091
Common shares	2,176	1,088
Purchase of preference shares	164	173
	40,007	38,508
Decrease in working capital	(1,032)	(8,972)
Working capital at beginning of year	40,467	49,439
Working capital at end of year	$ 39,435	$ 40,467

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

FINANCIAL POSITION
(in thousands of dollars)

	March 31	
	1980	1979
ASSETS		
Current assets:		
Cash and short term deposits	$ 8,855	$ 8,927
Accounts receivable	29,740	28,502
Mortgage receivable	6,885	—
Inventories	54,857	50,059
Prepaid expenses	3,521	3,454
Total current assets	103,858	90,942
Property, plant and equipment	250,614	229,587
Less: Accumulated depreciation and depletion	102,767	96,851
	147,847	132,736
Other assets	29,128	29,153
	$280,833	$252,831
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness	$ 7,128	$ 3,008
Accounts payable and accrued liabilities	43,891	34,896
Income taxes	3,186	3,912
Other taxes	9,156	7,594
Dividends payable	1,062	1,065
Total current liabilities	64,423	50,475
Long term debt	18,195	20,622
Unfunded pensions	695	—
Total liabilities	83,313	71,097
DEFERRED INCOME TAXES	28,144	25,320
MINORITY INTEREST IN SUBSIDIARY COMPANY	1,865	1,824
SHAREHOLDERS' EQUITY		
Capital stock:		
Preference shares	42,776	43,026
Common shares	78,357	78,357
	121,133	121,383
Retained earnings	46,378	33,207
Total shareholders' equity	167,511	154,590
	$280,833	$252,831

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

(in thousands of dollars)

	Year ended March 31 1980	1979
Income:		
Sales	$897,798	$801,315
Excise and sales taxes	365,843	340,046
	531,955	461,269
Investment and other income	6,579	6,241
	538,534	467,510
Costs:		
Raw materials and manufacturing	280,391	245,472
Marketing and distribution	155,578	135,135
Administrative and general	33,629	29,500
Interest and expense on long term debt	4,250	4,418
Other interest	3,097	2,450
Foreign exchange	412	(758)
	477,357	416,217
	61,177	51,293
Income taxes:		
Current	22,342	17,015
Deferred	2,049	2,997
	24,391	20,012
	36,786	31,281
Minority interest (Note 4)	9,730	7,901
EARNINGS BEFORE EXTRAORDINARY ITEM	27,056	23,380
Gain of $351 on sale of winery assets, less minority interest of $190	—	161
EARNINGS FOR THE YEAR	$ 27,056	$ 23,541
Earnings per Common share (Note 5):		
Before extraordinary item	$4.77	$4.33
After extraordinary item	$4.77	$4.37

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year ended March 31	
	1980	1979
Balance at beginning of year	$ 75,709	$60,148
Earnings for the year	27,056	23,541
Excess of carrying value over cost of First Preferred shares purchased for cancellation (Note 11)	117	66
Excess of par value over cost of preference shares purchased for cancellation by Carling O'Keefe Limited, less minority interest	43	42
	102,925	83,797
Dividends paid:		
Preferred shares—		
First Preferred shares, Series A ($6.85 per share)	1,025	1,065
Second Preferred shares ($1.325 per share)	1,658	2,440
	2,683	3,505
Common shares (1980—$1.20 per share; 1979—$1.00)	6,067	4,583
	8,750	8,088
Balance at end of year	$ 94,175	$75,709

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year ended March 31	
	1980	1979
Working capital was increased by:		
Earnings before extraordinary item	$ 27,056	$ 23,380
Depreciation and depletion	14,394	13,403
Minority interest in earnings before extraordinary item	9,730	7,901
Other items not requiring working capital	3,073	4,221
Working capital from operations	54,253	48,905
Proceeds on sale of winery assets	—	1,183
Proceeds on disposal of property, plant and equipment and other assets	1,206	1,667
Mortgage receivable	6,885	—
	62,344	51,755
Working capital was decreased by:		
Additions to property, plant and equipment	31,681	31,324
Cost of National Hockey League franchise (Note 3)	6,937	—
Purchase of assets of The Toronto Argonaut Football Club for $3,500 cash plus working capital deficiency of $768	—	4,268
Additions to other assets	964	704
Reduction of long term debt	3,800	5,210
Purchase of First Preferred shares	607	526
Dividends—		
Preferred shares	2,683	3,505
Common shares	6,067	4,583
By subsidiary company to minority shareholders	3,162	2,634
Other	164	176
	56,065	52,930
Increase (decrease) in working capital	6,279	(1,175)
Working capital at beginning of year	117,292	118,467
Working capital at end of year	$123,571	$117,292

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

(in thousands of dollars)

	March 31 1980	March 31 1979
ASSETS		
Current assets:		
Cash and short term deposits	$ 8,855	$ 8,927
Accounts receivable	48,428	46,781
Mortgage receivable	6,885	—
Inventories (Note 6)	186,799	167,806
Prepaid expenses	4,771	4,608
Total current assets	255,738	228,122
Property, plant and equipment (Note 7)	319,944	293,292
Less: Accumulated depreciation and depletion	142,755	132,709
	177,189	160,583
Other assets (Note 8)	29,742	29,807
	$462,669	$418,512
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness (Note 9)	$ 45,597	$ 38,421
Accounts payable and accrued liabilities	59,742	49,496
Income taxes	5,416	4,472
Excise, sales and other taxes	20,623	17,649
Dividends payable to minority interest	789	792
Total current liabilities	132,167	110,830
Long term debt (Note 10)	39,645	43,672
Unfunded pensions (Note 12)	695	—
Total liabilities	172,507	154,502
DEFERRED INCOME TAXES	33,539	31,490
MINORITY INTEREST IN SUBSIDIARY COMPANIES (Note 4)	106,858	100,497
SHAREHOLDERS' EQUITY		
Capital stock (Note 11):		
Preferred shares	28,241	52,082
Common shares	27,349	4,232
	55,590	56,314
Retained earnings	94,175	75,709
Total shareholders' equity	149,765	132,023
	$462,669	$418,512

APPROVED BY THE BOARD:
J.H. DEVLIN, *Director*
R.H. HAWKES, *Director*

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Segmented Information on Operations

(in thousands of dollars)

	Year ended March 31	
	1980	1979
SALES		
Tobacco	$419,739	$400,042
Beer—Canada	393,281	329,074
—Ireland	39,265	31,519
Wine	35,873	33,525
Oil and gas	9,640	7,155
	$897,798	$801,315
OPERATING PROFITS		
Tobacco	$ 36,625	$ 33,408
Beer—Canada	20,834	12,952
—Ireland	1,660	2,534
Wine	1,475	2,230
Oil and gas	4,720	3,816
	65,314	54,940
Corporate income, net	3,210	3,221
Interest expense	(7,347)	(6,868)
Earnings before income taxes and minority interest	$ 61,177	$ 51,293
CAPITAL EXPENDITURES		
Tobacco	$ 6,290	$ 4,791
Beer—Canada	9,857	9,262
—Ireland	1,611	493
Wine	1,970	2,305
Oil and gas	11,953	14,473
	$ 31,681	$ 31,324
DEPRECIATION AND DEPLETION		
Tobacco	$ 4,653	$ 4,494
Beer—Canada	6,190	5,831
—Ireland	471	510
Wine	1,040	954
Oil and gas	2,040	1,614
	$ 14,394	$ 13,403

	March 31	
	1980	1979
IDENTIFIABLE ASSETS		
Tobacco	$182,106	$166,060
Beer—Canada	141,801	125,701
—Ireland	20,052	16,906
Wine	52,681	52,963
Oil and gas	51,993	42,227
	448,633	403,857
Corporate	14,036	14,655
	$462,669	$418,512

Corporate income, net represents corporate revenue less corporate costs of Carling O'Keefe Limited. Corporate assets consist primarily of cash, short term deposits and mortgages receivable of Carling O'Keefe.

Notes to Consolidated Financial Statements

MARCH 31, 1980 AND 1979

1. Summary of significant accounting policies:

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Purchase accounting has been followed for all acquisitions and the results of operations of subsidiaries are included from effective dates of acquisition.

For certain subsidiaries of Carling O'Keefe Limited acquired prior to April 1, 1974, the excess of the cost of shares over the recorded value of underlying net tangible assets at dates of acquisition is carried at cost and is not amortized. In accordance with current accounting practice, intangible assets acquired subsequently and sports franchises are amortized over periods not exceeding forty years.

FOREIGN EXCHANGE:

Foreign currency accounts are translated to Canadian dollars as follows: current accounts at exchange rates in effect at March 31; other balance sheet accounts and depreciation expense at historical rates of exchange; income and other costs at average rates of exchange during the year. The resulting exchange gains or losses are included in the consolidated statement of earnings.

INVENTORIES:

Except for containers, inventories are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are recorded at cost. Depreciation is provided on the straight-line basis over the estimated service lives of the assets, which are as follows for the principal asset categories:

Buildings—15 to 40 years

Machinery, furniture and fixtures—5 to 15 years

Motor vehicles—3 to 10 years

Leasehold improvements—term of lease, not to exceed 10 years

Oil and gas assets excluding equipment are accounted for on the full cost method, whereby all costs of exploration and development are capitalized and amortized against income using the unit of production method based on proved oil and gas reserves. The 1979 oil and gas assets have been restated to include related equipment.

OTHER ASSETS:

Other assets are recorded at cost or amortized cost.

PENSIONS:

Current service costs are charged to operations as they accrue. Prior service costs arising from amendments to the plans and actuarial gains or losses are charged to operations over periods up to fifteen years.

MARKETING:

Marketing costs, including those related to the introduction of new brands, are charged against earnings during the year in which they are incurred.

2. Segmented information:

In these statements, all references to "Rothmans" relate to the tobacco operations of the Company and its tobacco subsidiaries. All references to "Carling O'Keefe" relate to all activities of the Company's majority-owned (50.1%) subsidiary, Carling O'Keefe Limited, which include the production and sale of beer and wine and also the oil and gas operations.

3. Sports franchises:

On June 22, 1979 Le Club de Hockey Les Nordiques, Inc. (Club), a wholly-owned subsidiary of Carling O'Keefe, was granted a National Hockey League (NHL) franchise for Quebec City at a cost of $6,937,000. The Club and the other teams which were granted franchises at that time were each required to waive future revenues up to a maximum of $1,375,000 which might arise from expansion, franchise transfer and international hockey games. They were also required to indemnify the NHL and its member teams from all claims arising from the 1979 expansion, and grant security interests in their respective assets and procure an indemnity bond in favour of the NHL and its member teams to secure this commitment.

Effective December 15, 1978 Carling O'Keefe acquired for $3,500,000 cash the 60% interest in The Toronto Argonaut Football Club which it did not previously own. As a result of this transaction the cost of this sports franchise increased to $6,067,000.

4. Minority interest in subsidiary companies:

The interest of minority shareholders in consolidated earnings, before the extraordinary item in 1979, was as follows:

	1980	1979
CARLING O'KEEFE LIMITED:		
Preference shares	$ 2,077,000	$ 2,091,000
Common shares	7,612,000	5,746,000
	9,689,000	7,837,000
JORDAN VALLEY WINES LIMITED:		
Common shares	41,000	64,000
	$ 9,730,000	$ 7,901,000

The minority shareholders' interest in the capital stock and retained earnings of subsidiary companies is as follows:

	1980	1979
CARLING O'KEEFE LIMITED:		
Preference shares	$ 42,776,000	$ 43,026,000
Common shares	62,217,000	55,647,000
	104,993,000	98,673,000
JORDAN VALLEY WINES LIMITED:		
Common shares	1,865,000	1,824,000
	$106,858,000	$100,497,000

5. Earnings per Common share:

The 1980 earnings per Common share figures are based on the weighted average number of shares outstanding during the year (5,116,810) after giving effect to the conversion of 1,155,845 Second Preferred shares into 924,676 Common shares. The 1979 earnings per share figures are based on the weighted average number of shares outstanding during the year (4,583,440). Dividends earned on Preferred shares were deducted from consolidated earnings for purposes of this calculation.

If all of the above Second Preferred shares had been converted as at April 1, 1979, earnings per Common share for the year ended March 31, 1980 would have been $4.56.

6. Inventories:

	1980	1979
ROTHMANS:		
Leaf tobacco (including purchase advances of $40,523,000 in 1979)	$ 81,817,000	$ 76,129,000
Finished stock	38,527,000	34,297,000
Packaging material and other	11,598,000	7,321,000
	131,942,000	117,747,000
CARLING O'KEEFE:		
Beverage products, finished and in process	34,959,000	32,293,000
Materials and supplies	11,463,000	10,130,000
Containers	8,435,000	7,636,000
	54,857,000	50,059,000
	$186,799,000	$167,806,000

7. Property, plant and equipment:

	1980		1979	
	Cost	Accumulated depreciation and depletion	Cost	Accumulated depreciation and depletion
ROTHMANS:				
Land	$ 2,639,000	$ —	$ 2,559,000	$ —
Buildings	9,768,000	3,070,000	7,110,000	2,878,000
Machinery, furniture and fixtures	42,556,000	27,238,000	40,114,000	24,847,000
Motor vehicles	6,193,000	3,832,000	5,896,000	2,932,000
Leasehold improvements	8,174,000	5,848,000	8,026,000	5,201,000
	69,330,000	39,988,000	63,705,000	35,858,000
CARLING O'KEEFE:				
Land	6,338,000	—	6,135,000	—
Buildings	69,128,000	24,534,000	66,724,000	23,020,000
Machinery and equipment	102,621,000	61,382,000	97,454,000	59,617,000
Motor vehicles	13,197,000	6,806,000	12,153,000	6,257,000
Oil and gas assets (Note 1)	57,674,000	9,248,000	45,771,000	7,256,000
Leasehold improvements	1,656,000	797,000	1,350,000	701,000
	250,614,000	102,767,000	229,587,000	96,851,000
	$319,944,000	$142,755,000	$293,292,000	$132,709,000

8. Other assets:

	1980	1979
Unamortized cost of shares of Carling O'Keefe subsidiaries in excess of underlying net tangible asset values at acquisition	$ 11,805,000	$ 12,058,000
Sports franchises, less amortization (Note 3)	12,680,000	6,067,000
Mortgages and long term receivables	203,000	7,079,000
Unamortized deferred charges, trade marks, patents and other investments	5,054,000	4,603,000
	$ 29,742,000	$ 29,807,000

Amortization of other assets amounted to $426,000 for the year ended March 31, 1980 (1979—$99,000).

9. Bank and other short term indebtedness:

	1980	1979
Bank indebtedness:		
Rothmans	$ 15,469,000	$ 16,413,000
Carling O'Keefe	2,128,000	3,008,000
	17,597,000	19,421,000
Bankers' acceptances:		
Rothmans	18,000,000	14,000,000
Carling O'Keefe	5,000,000	—
	23,000,000	14,000,000
Notes payable—Rothmans	5,000,000	5,000,000
	$ 45,597,000	$ 38,421,000

10. Long term debt:

	1980	1979
Sinking Fund Debentures:		
Rothmans—		
Series A 8% due January 3, 1988	$ 6,984,000	$ 7,757,000
Series B 11% due February 15, 1995	15,489,000	16,800,000
	22,473,000	24,557,000
Carling O'Keefe—		
Series B 4 ¼ % due January 15, 1981	800,000	1,600,000
Series C 5% due January 15, 1983	1,800,000	2,315,000
Series D 5 ½ % due April 1, 1986	3,819,000	4,164,000
Series E 5 ½ % due April 1, 1989	7,376,000	7,458,000
	13,795,000	15,537,000
Term bank loan:		
Carling O'Keefe due March 31, 1985	6,400,000	7,000,000
	42,668,000	47,094,000
Less—Amount included in current liabilities	3,023,000	3,422,000
	$ 39,645,000	$ 43,672,000

The remaining principal requirements for the years ending March 31, 1981 through 1985 are as follows:

	1981	1982	1983	1984	1985
Rothmans	$1,023,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000
Carling O'Keefe	2,000,000	2,995,000	3,800,000	3,800,000	2,800,000
	$3,023,000	$4,595,000	$5,400,000	$5,400,000	$4,400,000

The Rothmans debentures and the Carling O'Keefe Series C, D and E debentures are payable in Canadian funds. The Carling O'Keefe Series B debentures are payable in either Canadian or U.S. funds at par, at the option of the holder. The Rothmans debentures are secured by a floating charge on the Company's assets in the Provinces of Ontario and Quebec.

An affiliated company owns $3,319,000 principal amount of the Company's outstanding Series A debentures.

The term bank loan bears interest at 1/2% over the bank's prime rate and is repayable in varying instalments up to March 31, 1985.

11. Capital stock:

AUTHORIZED:

469,889 First Preferred shares issuable in series
2,817,062 Second Preferred shares
An unlimited number of Common shares

	1980	1979
ISSUED:		
145,939 6.85% Cumulative Redeemable First Preferred shares, Series A (1979—153,181)	$ 14,594,000	$ 15,318,000
682,367 6 5/8% Cumulative Redeemable Second Preferred shares (1979—1,838,212)	13,647,000	36,764,000
	28,241,000	52,082,000
5,510,684 Common shares (1979—4,586,008)	27,349,000	4,232,000
	$ 55,590,000	$ 56,314,000

CERTIFICATE OF CONTINUANCE:

Effective July 24, 1979, the Company was continued under the Canada Business Corporations Act.

PURCHASES AND CONVERSIONS:

During the year ended March 31, 1980, 7,242 First Preferred shares with a total carrying value of $724,000 were purchased for cancellation at a cost of $607,000 and 1,155,845 Second Preferred shares were converted into 924,676 Common shares.

During the year ended March 31, 1979, 5,917 First Preferred shares were purchased for cancellation and 3,650 Second Preferred shares were converted into 2,920 Common shares.

REDEMPTION AND CONVERSION PRIVILEGES:

The Series A First Preferred shares were not redeemable before January 27, 1979 but are redeemable on or after that date at the option of the Company at $103 per share if redeemed before January 27, 1984, at $102 per share if redeemed before January 27, 1989, and at $101 per share if redeemed on or after January 27, 1989. The Company is required to purchase 5,000 of these shares in each calendar year. At March 31, 1980, 4,061 shares of the 1980 requirement had been acquired.

The Second Preferred shares were not redeemable before November 1, 1979, but are redeemable on or after that date at the option of the Company at $20 per share. These shares were convertible on the basis of 1 Common share for 1 1/4 Preferred shares converted on or before October 31, 1979.

OWNERSHIP:

Rothmans of Canada Limited, a wholly-owned subsidiary of Rothmans International Limited, is the owner of record of 71.2% (1979—85.6%) of the Company's issued Common shares and 17.1% (1979—16.3%) of the issued Series A First Preferred shares. It is the intention of Rothmans International Limited to reduce its equity interest to 50% at some future date, as conditions warrant.

12. Pensions:

The Company and its subsidiaries maintain a number of pension plans covering substantially all employees and generally it is the Company's policy to fund pensions with independent trustees in accordance with legal requirements. Certain supplementary pensions are unfunded and charged to operations when paid. The charge against earnings was $7,724,000 for the year ended March 31, 1980 (1979—$6,210,000), including $6,488,000 (1979—$4,755,000) for employees of Carling O'Keefe.

Based on actuarial valuations, unfunded prior service costs for Carling O'Keefe are estimated at $10,000,000 of which $695,000 is vested and has been charged to operations in the current year. The unrecorded unfunded amounts are being charged to operations over periods up to fifteen years, as described in Note 1.

13. Commitments and contingent liabilities:

Under a long term agreement with The United Breweries Limited of Copenhagen, Denmark, Carling O'Keefe and its affiliates have access to the brewing research and technical knowledge of United Breweries, together with the exclusive right to manufacture and sell brewery products under the Carlsberg and Tuborg trade marks in Canada and the Republic of Ireland. Royalties are payable based on total sales of all brewery products at rates varying with the volumes and selling prices of the products. The agreement is cancellable on twenty years' notice or earlier if certain specified conditions are not fulfilled.

On April 28, 1978, in consideration of a payment of $600,000 to the minority shareholders of Jordan Valley Wines Limited, the commitment of Carling O'Keefe to acquire the minority interest (8.1%) was extended to the 1982 fiscal year. The purchase price will be at least equal to $2,993,000. Mr. N. Torno, a director of Carling O'Keefe, and a member of his family hold the minority shares.

Capital expenditures for the year ending March 31, 1981 are estimated at $40,000,000, of which $30,000,000 relates to Carling O'Keefe.

To ensure an adequate supply of Ontario flue-cured tobacco, the Company, together with the other major Canadian cigarette manufacturers, has agreed to purchase a specified quantity of the 1980 Ontario crop at a guaranteed minimum average price.

There are a number of outstanding claims and legal actions involving the Company and its subsidiaries. In the opinion of management, the outcome of these matters should have no material adverse effect on the Company's financial position.

14. Sale of trade marks:

On April 29, 1980, Carling O'Keefe announced that it had finalized an agreement to sell, effective March 31, 1980, the Carling Black Label and Red Cap trade marks for southern Africa subject to certain governmental approvals. Maximum consideration of Rand 14,500,000 will be received over a four-year period and is subject to reduction should certain objectives not be achieved. Upon completion of the transaction, the gain on sale of $10,500,000, after applicable income taxes of $2,800,000, will be reported as an extraordinary item in the Carling O'Keefe results; Rothmans share of the gain would amount to $5,263,000. In determining the gain, the estimated receivable has been reduced by $5,711,000 using an imputed interest rate of 20% to bring it to its present value. The maximum consideration has been treated as an eligible capital receipt for taxation purposes.

Price Waterhouse & Co.
CHARTERED ACCOUNTANTS

Box 51 Toronto-Dominion Centre
Toronto, Ont. M5K 1G1
(416) 863-1133 Telex 065-24111

May 30, 1980

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
ROTHMANS OF PALL MALL CANADA LIMITED:

We have examined the consolidated statements of earnings, retained earnings and changes in financial position of Rothmans of Pall Mall Canada Limited for the year ended March 31, 1980 and the consolidated balance sheet as at that date. 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.

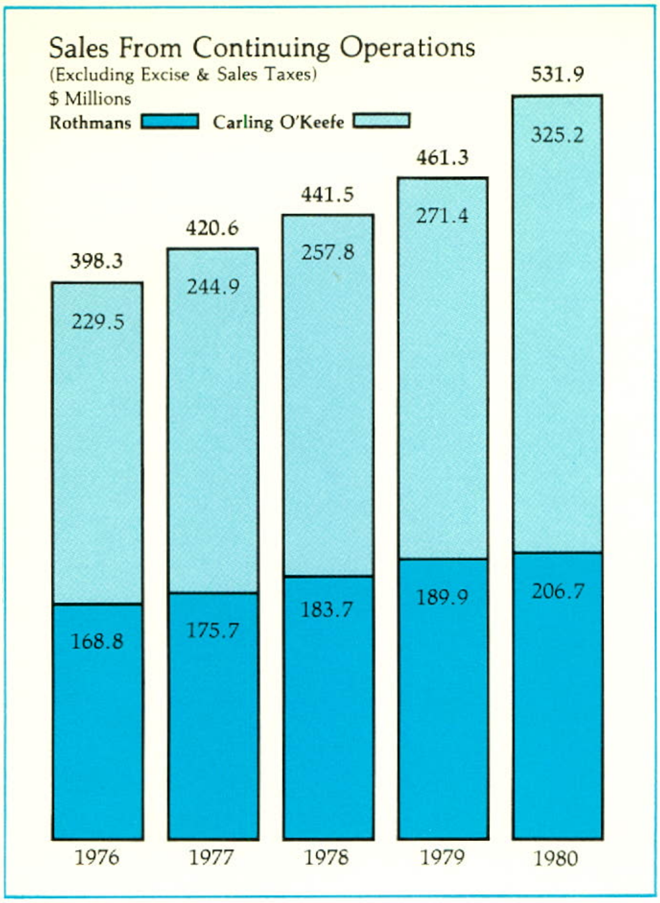
In our opinion, these consolidated financial statements present fairly the results of operations and the changes in financial position of the Company for the year ended March 31, 1980 and its financial position as at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

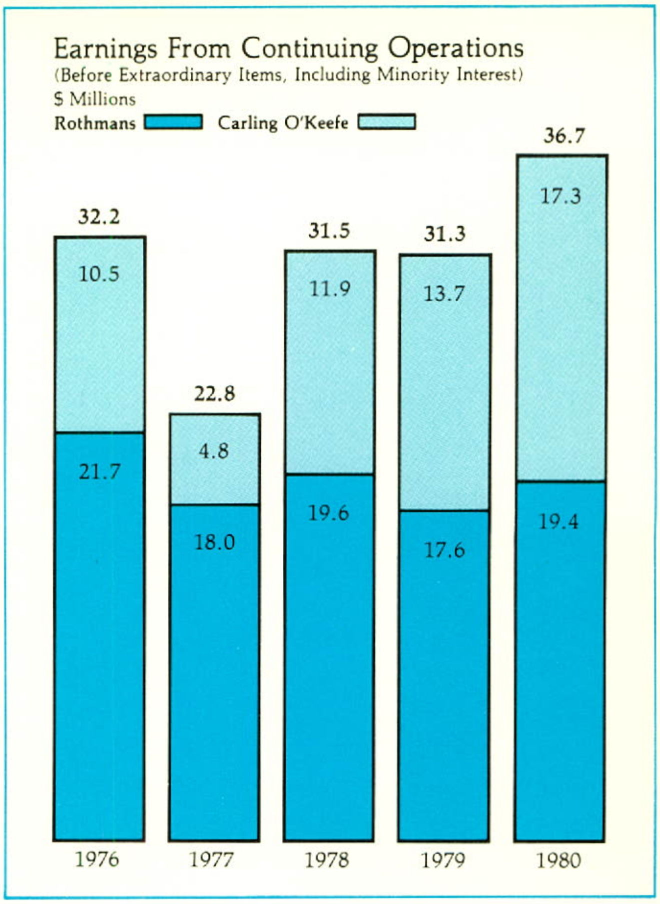
Price Waterhouse & Co.

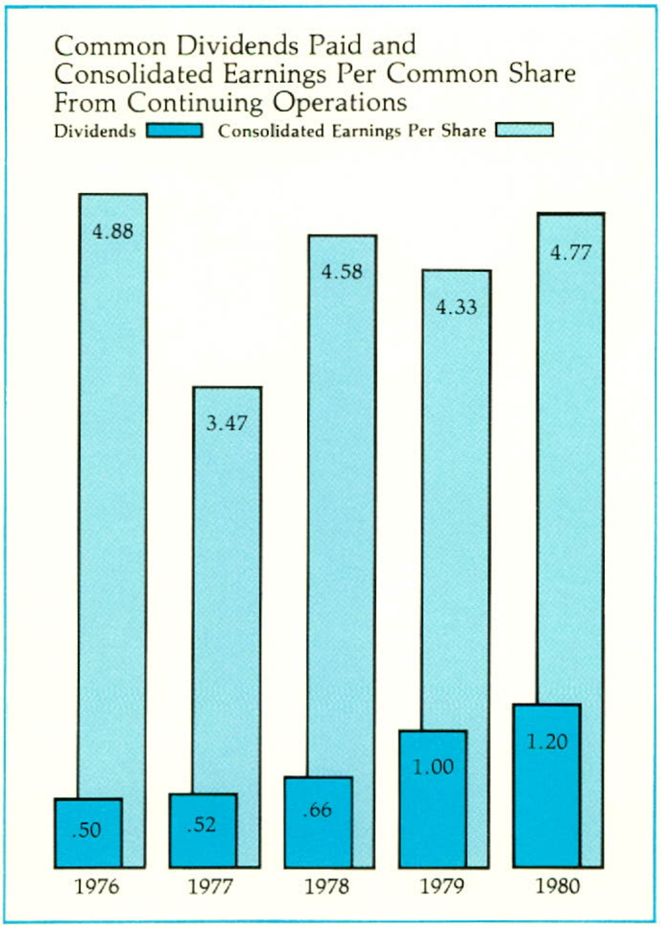
Chartered Accountants

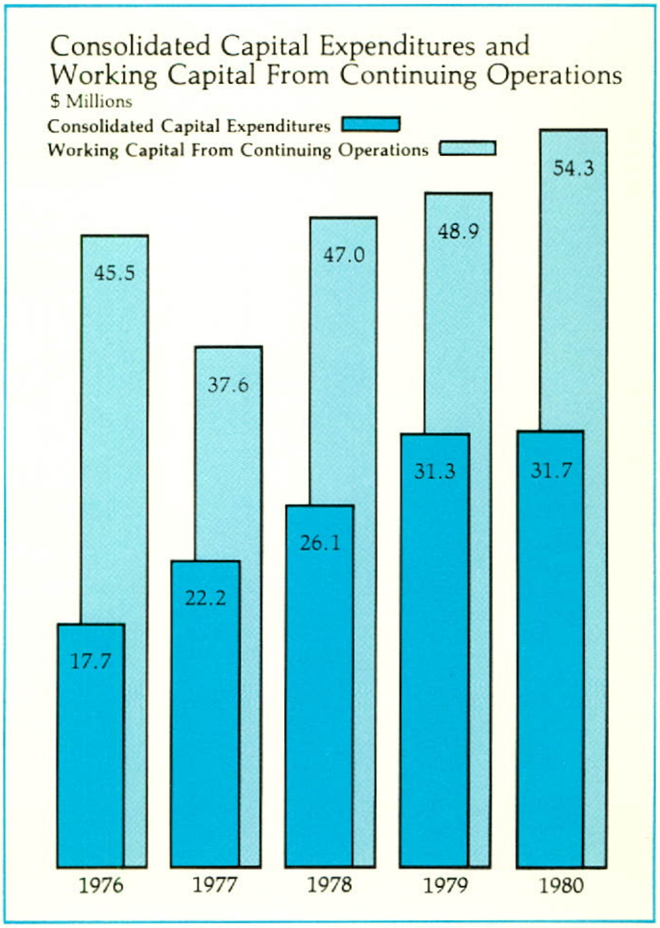
Five-Year Financial Review

	Year Ended March 31				
	1980	1979	1978	1977	1976
Results for the Year (in thousands of dollars):					
Sales from continuing operations—					
Rothmans	**$419,739**	$400,042	$398,751	$394,484	$385,406
Carling O'Keefe	**478,059**	401,273	381,147	359,189	343,511
	897,798	801,315	779,898	753,673	728,917
Excise and sales taxes	**365,843**	340,046	338,348	333,063	330,639
	531,955	461,269	441,550	420,610	398,278
Earnings—					
Earnings before income taxes—					
Rothmans	**31,917**	28,544	32,131	31,644	37,578
Carling O'Keefe	**29,260**	22,749	19,862	7,998	14,967
	61,177	51,293	51,993	39,642	52,545
Income taxes	**(24,391)**	(20,012)	(20,489)	(16,816)	(20,315)
Minority interest	**(9,730)**	(7,901)	(7,029)	(3,443)	(6,390)
Earnings from continuing operations	**27,056**	23,380	24,475	19,383	25,840
Loss from operations of former United States brewing subsidiary, less minority interest	**—**	—	(5,091)	(51)	(4,756)
Earnings before extraordinary items	**27,056**	23,380	19,384	19,332	21,084
Extraordinary items, less minority interest	**—**	161	(5,118)	336	(73,255)
Earnings (loss)	**27,056**	23,541	14,266	19,668	(52,171)
Depreciation and depletion—continuing operations	**14,394**	13,403	12,367	11,397	11,283
Interest expense—continuing operations	**7,295**	6,816	8,066	9,170	8,835
Dividends paid—					
Preferred	**2,683**	3,505	3,547	3,581	3,604
Common	**6,067**	4,583	3,028	2,370	2,279
Financial Position (in thousands of dollars):					
Working capital	**$123,571**	$117,292	$118,467	$ 64,980	$ 64,291
Property, plant and equipment—net	**177,189**	160,583	145,510	136,909	127,078
Investment in United States brewing subsidiary, at equity	**—**	—	—	50,910	49,782
Other assets	**29,742**	29,807	26,066	30,512	29,214
Total assets	**462,669**	418,512	415,854	432,494	398,982
Bank and other short term indebtedness	**45,597**	38,421	54,508	80,946	71,748
Long term debt	**39,645**	43,672	49,242	49,650	55,050
Deferred income taxes	**33,539**	31,490	28,493	23,799	20,203
Minority interest in subsidiaries	**106,858**	100,497	95,254	100,695	99,317
Shareholders' equity	**149,765**	132,023	117,054	109,167	95,795
Per Common Share:					
Earnings (loss)—from continuing operations	**$ 4.77**	$ 4.33	$ 4.58	$ 3.47	$ 4.88
—before extraordinary items	**4.77**	4.33	3.47	3.46	3.84
—after extraordinary items	**4.77**	4.37	2.35	3.53	(12.24)
Dividends paid	**1.20**	1.00	0.663	0.52	0.50
Shareholders' equity	**22.04**	17.40	14.00	12.24	9.18
Ratio and Statistics:					
Return on average total capital employed (%)—					
Rothmans	**15.6**	15.0	17.0	18.6	24.9
Carling O'Keefe	**10.0**	8.9	8.4	4.8	7.3
Capital expenditures ($000)	**31,681**	31,324	26,056	22,199	17,709
Working capital from continuing operations ($000)	**54,253**	48,905	47,042	37,610	45,532
Debt to total capital ratio (%)—					
Rothmans	**40**	42	52	56	62
Carling O'Keefe	**12**	12	14	25	24
Working capital ratio	**1.93**	2.06	1.94	1.44	1.50
Number of common shares outstanding (thousands)	**5,511**	4,586	4,583	4,558	4,558


Sales From Continuing Operations
(Excluding Excise & Sales Taxes)
$ Millions
Rothmans
Carling O'Keefe
398.3
229.5
168.8
420.6
244.9
175.7
441.5
257.8
183.7
461.3
271.4
189.9
531.9
325.2
206.7
1976
1977
1978
1979
1980


Earnings From Continuing Operations
(Before Extraordinary Items, Including Minority Interest)
$ Millions
Rothmans
Carling O'Keefe
32.2
10.5
21.7
22.8
4.8
18.0
31.5
11.9
19.6
31.3
13.7
17.6
36.7
17.3
19.4
1976
1977
1978
1979
1980


Common Dividends Paid and
Consolidated Earnings Per Common Share
From Continuing Operations
Dividends
Consolidated Earnings Per Share
4.88
.50
3.47
.52
4.58
.66
4.33
1.00
4.77
1.20
1976
1977
1978
1979
1980


Consolidated Capital Expenditures and
Working Capital From Continuing Operations
$ Millions
Consolidated Capital Expenditures
Working Capital From Continuing Operations
45.5
17.7
37.6
22.2
47.0
26.1
48.9
31.3
54.3
31.7
1976
1977
1978
1979
1980

Quarterly Financial Data

(in thousands of dollars)

CONSOLIDATED SALES

	Year ended March 31	
	1980	1979
Quarter ended—		
June 30	$226,604	$209,672
September 30	238,323	208,320
December 31	248,385	217,733
March 31	184,486	165,590
	$897,798	$801,315

CONSOLIDATED EARNINGS BEFORE EXTRAORDINARY ITEM

AMOUNT:		
Quarter ended—		
June 30	$ 6,885	$ 6,527
September 30	7,723	6,843
December 31	8,765	7,397
March 31	3,683	2,613
	$ 27,056	$ 23,380

PER COMMON SHARE:		
Quarter ended—		
June 30	$ 1.31	$ 1.23
September 30	1.45	1.30
December 31	1.50	1.42
March 31	0.51	0.38
	$ 4.77	$ 4.33

Officers

JOHN H. DEVLIN
Chairman of the Board

ROBERT H. HAWKES, Q.C.
President and Chief Executive Officer

C. PAUL YOUNG
Senior Vice President Corporate Services

ROBERT W. ALLAN, C.A.
Vice President Materials Management

JOHN E. BROEN
Vice President Marketing Operations

CAMILLE A. DENIS
Vice President Corporate Affairs

GERALD G. NORMAN
Vice President Production

HUGH R. SAMPSON, C.A.
Vice President and Treasurer

GORDON R. WHITE
Vice President Sales

MICHAEL W. WALLS, C.A.
Comptroller

DOROTHY I.L. WILLIAMS
Assistant Secretary

Directors

RENÉ AMYOT, Q.C.

FRIEDRICH CORDEWENER

JOHN H. DEVLIN

ROBERT H. HAWKES, Q.C.

JOHN C. LOCKWOOD

GEORGE B. McKEEN

SIR DAVID NICOLSON

ALEXANDER ORLOW

NEIL M. SHAW

RONALD D. SOUTHERN

AUDIT COMMITTEE

ROBERT H. HAWKES, Q.C.

GEORGE B. McKEEN

RONALD D. SOUTHERN

COMPENSATION COMMITTEE

JOHN H. DEVLIN

NEIL M. SHAW

RONALD D. SOUTHERN

PENSION INVESTMENT COMMITTEE

EDWARD A. CRIGHTON, C.A.

GEORGE B. McKEEN

HUGH R. SAMPSON, C.A.

NEIL M. SHAW

C. PAUL YOUNG

Head Office*	• 75 DUFFLAW ROAD, TORONTO, ONTARIO, M6A 2W4
Auditors	• PRICE WATERHOUSE & CO.
Bankers	• BANK OF MONTREAL
Registrar and Transfer Agent	• THE ROYAL TRUST COMPANY
Solicitors	• SMITH, LYONS, TORRANCE, STEVENSON & MAYER

MARKET PRICES

Rothmans Preferred and Common shares are listed on the Toronto, Montreal and Vancouver Stock Exchanges. The following table sets forth, for the fiscal periods indicated, the high and low sales prices of the Preferred and Common shares.

		1980				1979			
		4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
First Preferred	—High	$80	$86½	$89	$89½	$87	$89	$90	$86⅛
	—Low	71	81	86¼	86	84½	84	87½	84
Second Preferred	—High	14¾	15¾	17	18½	18½	19⅝	20	19⅜
	—Low	11¾	13⅝	14¾	16	17	17½	17⅞	16¾
Common	—High	24½	21	21½	22⅞	23⅛	23¼	23½	22⅞
	Low	21¾	18	19	19¼	21	19	22¼	19½

VALUATION DAY PRICES

For Canadian capital gains tax purposes, the valuation day values of Rothmans of Pall Mall Canada Limited securities were as follows:

8% Debentures due January 3, 1988	$93
First Preferred Shares, Series A	$82½
Second Preferred Shares	$19⅞
Common Shares	$16⅝

*The Head Office of Rothmans of Pall Mall Canada Limited will be located at 1500 Don Mills Road, Don Mills, Ontario M3B 3L1, after the summer of 1980.

Rothmans of Pall Mall Canada Limited