Rothmans

25th Anniversary

Rothmans of Pall Mall Canada Limited
Annual Report 1982

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The Annual Meeting of shareholders will be held at the Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario, at 2:30 o'clock in the afternoon, on Wednesday, July 14, 1982.

Ce rapport peut être obtenu en français sur demande.

ROTHMANS OF PALL MALL CANADA LIMITED

Consolidated Highlights

	1982	1981
Year Ended March 31 ($000)		
SALES	**$1,129,539**	$998,839
EARNINGS:		
BEFORE EXTRAORDINARY ITEM	**32,610**	30,273
FOR THE YEAR	**32,610**	35,536
DIVIDENDS PAID:		
PREFERRED SHARES	**1,861**	1,894
COMMON SHARES	**8,541**	7,439
WORKING CAPITAL FROM OPERATIONS	**70,549**	60,304
CAPITAL EXPENDITURES	**30,610**	35,109
At March 31 ($000)		
WORKING CAPITAL	**157,624**	133,519
TOTAL ASSETS	**565,535**	503,854
TOTAL INTEREST-BEARING DEBT	**99,569**	79,069
SHAREHOLDERS' EQUITY	**197,744**	175,846
Per Common Share		
EARNINGS:		
BEFORE EXTRAORDINARY ITEM	**5.58**	5.15
FOR THE YEAR	**5.58**	6.11
DIVIDENDS PAID	**1.55**	1.35
SHAREHOLDERS' EQUITY	**30.91**	26.82

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 p.l.c. of London, England, a holding company which also has interests in other tobacco companies around the world.

The Company is Canada's second largest manufacturer and distributor of cigarettes and tobacco products. Carling O'Keefe Limited,

TORONTO PLANT

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 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 sixteen sales offices across Canada.

QUEBEC PLANT


ROTHMANS
INTERNATIONAL
DUNHILL
DUNHILL
dunhill


MONTECRISTO
HABANA


RED MAN
AMERICA'S BEST CHEW
FOIL POUCH
RED MAN PLUG
AT LAST! PLUG IN A POUCH
ONE DOZEN
RED MAN
CHEWING TOBACCO

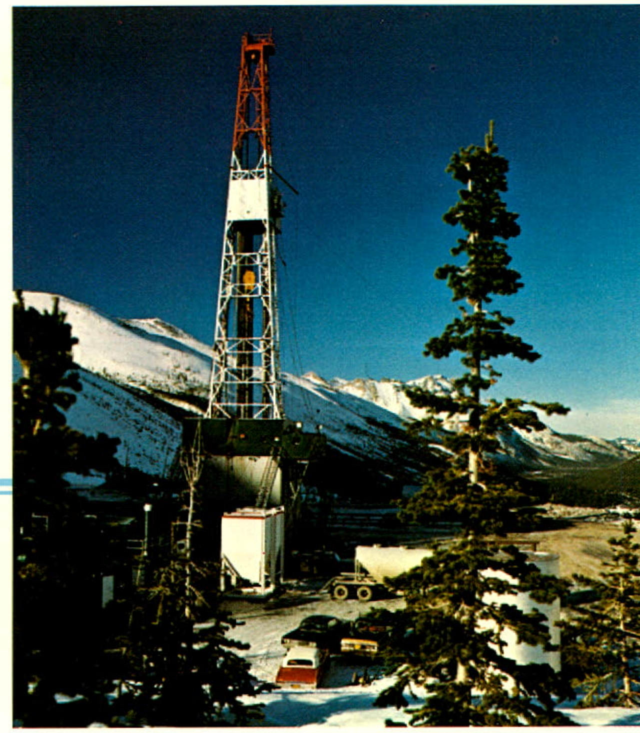

MY MIXTURE 965
DUNHILL MY MIXTURE 965


Bière
O'Keefe
Ale


Just say OV
Old Vienna
LAGER BEER
BIÈRE


LOUISVILLE

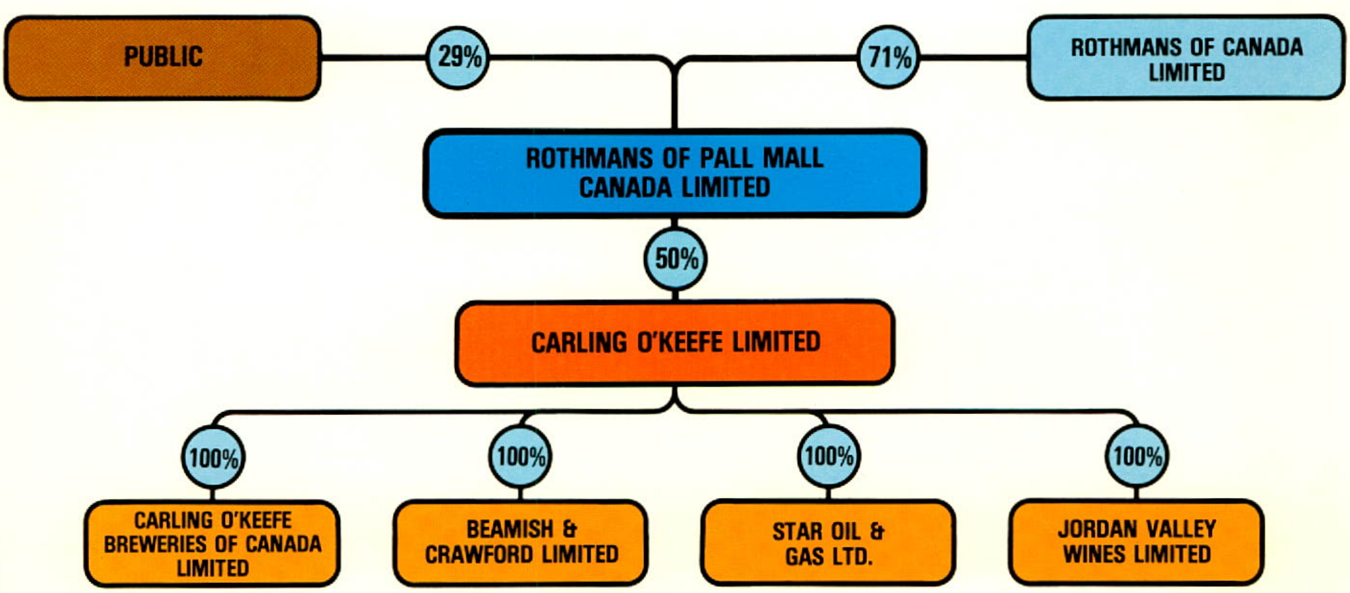

Carlsberg
Light
LIGHT BEER BIÈRE LÉGÈRE
CARLSBERG · COPENHAGEN
Carlsberg
Gold
MALT LIQUOR LIQUEUR DE MALT
CARLSBERG · COPENHAGEN
Carlsberg
Carlsberg
Beer Bière



Carling O'Keefe operations are carried out through four principal subsidiary companies. In Canada, Carling O'Keefe Breweries of Canada Limited operates seven breweries, producing such well-known brands as O'Keefe Ale, O'Keefe Extra Old Stock, Old Vienna, The Carlsberg Family, Carling Black Label, Colt 45 and Trilight. In addition, the Canadian brewing company owns Le Club de Hockey Les Nordiques and the Argonaut Football Club. Jordan Valley Wines Limited produces wine at three Canadian wineries and sells under the trading styles of Jordan and Ste-Michelle. Star Oil & Gas Ltd. is engaged in the exploration for and the development and production of oil and gas in both Canada and the United States. 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.

The Company, including its subsidiaries, is among the 200 largest corporations in Canada, employing more than 5,600 people.

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



(PERCENTAGES HAVE BEEN ROUNDED)

J.H. Devlin

R.H. Hawkes

Directors' Report

PERFORMANCE

Record earnings were achieved in both tobacco and brewing operations, resulting in consolidated earnings of $32,610,000 or $5.58 per Common share. This represents a 7.7 percent increase over the previous year's consolidated earnings of $30,273,000 or $5.15 per share, before an extraordinary item. Earnings from tobacco operations of $22,221,000 were almost 4 percent ahead of last year and were the highest in Rothmans history. Carling O'Keefe's contribution increased to $10,389,000 from $8,882,000 in 1981.

There were no extraordinary items in 1982. Final consolidated earnings in 1981 after an extraordinary item were $35,536,000 or $6.11 per Common share.

The quarterly Common share dividend was increased, effective with the September 1981 payment, from 35 cents to 40 cents per share.

ROTHMANS TOBACCO OPERATIONS

Despite the increased earnings reported, sales performance for the year was not satisfactory. Cigarette sales volume declined some 5 percent as a result of a combination of factors. These included heavy sales in March 1981 just prior to a Federal tax increase on April 1, 1981, inventory shortages resulting from strikes in both plants, and some weaknesses in individual brand performance.

"Light/mild" brands continue to increase their domination of the Canadian cigarette market, although at a somewhat slower pace. The share of market held by these brands increased from 57 to 58.2 percent in the past year. Sales of king size products showed a decline during the year, while regular length and luxury length cigarettes both increased.

Eleven new brands or brand line extensions were introduced in the 1982 fiscal year and an equal number of brands were discontinued. The number of brands and packages in Canada now totals 204.

Rothmans continued to be well represented in the low and medium "tar" segments of the market. Full flavour brands again declined in volume as the market continued its swing to lower "tar" products.

The trend to milder products, which has been evident for a number of years, resulted in sales gains for Rothmans Extra Light, Craven Special Mild Regular Length and Number 7 Lights King Size. New campaigns to strengthen the consumer's awareness of both the Craven family and the Number 7 family have been introduced recently.

The work stoppages which continued into the first month of the fiscal year had an adverse effect on earnings. Collective bargaining will take place during the 1983 fiscal year at each of the Company's unionized facilities.

ROTHMANS INTERNATIONAL

Rothmans International p.l.c., London, England, is 44% controlled by Rothmans Tobacco (Holdings) Ltd. During the year, Philip Morris Inc., of the U.S.A., purchased 50% of this equity interest. As a result of this acquisition, the Federal Cartel Office of the Republic of West Germany has taken certain steps which have been reported in the press. These steps relate solely to the domestic operations of Martin Brinkmann AG in Germany, the Rothmans International subsidiary which is the owner of Rothmans of Canada Limited. Counsel has advised that these steps will have no impact on Rothmans in Canada.

The 1981 tobacco crop in Ontario exceeded 220 million pounds but in accordance with the industry agreement with the Marketing Board only 220 million pounds were sold, at an average price per pound of $1.52 compared to last year's $1.36. Export interest in Canadian tobacco continues to be encouraged by the domestic manufacturers and the export subsidy for 1981 amounted to $7.7 million on 83 million pounds purchased for export. For 1982 indicated demand has increased to 238 million pounds and an average minimum guaranteed price of $1.56 has been agreed with the Board, compared to the 1981 guarantee of $1.42.

Over the years Rothmans in Canada has continued to develop improved production methods and machinery for its own use. Recent capital expenditures in the production facilities have been concentrated in the leaf processing departments. Both plants have now been equipped with tobacco processing units designed to treat the leaf more gently and effectively. These units improve the quality of the cigarettes produced. Considerable interest has been shown by other manufacturers in this and similar processes developed by the Company's Research and Development facility. Licensing agreements for the exploitation of some of these patents have been signed.

In addition, with the completion of the installation of high speed cigarette making equipment at the Toronto plant, a similar program has been undertaken in Quebec City. The first of the new generation Protos cigarette machines, which operate at a rated output of 6,000 cigarettes per minute, has been delivered. In addition to their increased output, these machines produce a more consistent, higher quality product.

CARLING O'KEEFE OPERATIONS

The 1982 fiscal year was one of continued growth for Carling O'Keefe. Sales revenue and earnings increased over the previous year, despite the adverse economic conditions prevailing in Canada and Ireland.

Carling O'Keefe Breweries of Canada Limited had a satisfactory year, reporting increased sales volume, sales revenue and earnings. The growth in sales volume was primarily the result of the recovery from the effects of industry work stoppages due to labour disputes in two western provinces during the 1981 fiscal year. The company's share of market declined slightly, reflecting the success of new brand launches by competitors, particularly in Ontario and Quebec. However, share of market in the last quarter was higher than the average for the year. The increase in sales revenue reflected both the higher volume and selling price increases. As a result of increasing share of market in British Columbia and Alberta, the company has undertaken a major program to expand the production capacity of the breweries located in Vancouver and Calgary.

Jordan Valley Wines Limited continued to make progress during the year as sales revenue and earnings increased. Total sales volume declined slightly, with lower cider sales more than offsetting a modest increase in wine volume. Although earnings increased, they were unsatisfactory relative to Carling O'Keefe's investment in the wine industry.

Star Oil & Gas Ltd. made little progress during the year, as much of the time was spent in re-examining and re-assessing its situation in view of changes in government programs. Although sales of natural gas were virtually unchanged from last year, oil sales were substantially lower, reflecting both the effect of the National Energy Program and the general decline in demand due to economic conditions and conservation. Star's expenditure on exploration and development for the year amounted to only $6.9 million, the lowest level of spending in four years, with over 50 percent of this amount spent in the United States where investment is more attractive. Unless additional concessions from governments are forthcoming, work in Canada will be kept to a minimum.

Beamish & Crawford Limited, the Irish brewing subsidiary, reported increased share of market, sales volume, sales revenue and earnings despite the poor economic conditions in Ireland. Unfortunately, the earnings improvement in Irish currency was lost on translation of the accounts to Canadian funds, due to the relative strength of the Canadian dollar.

INFLATION AND FINANCIAL REPORTING

As was noted in last year's report, continuing high levels of inflation throughout the world have raised questions about the relevance of historical cost accounting. For many years, studies have been undertaken in a number of countries and, in some cases, have resulted in supplementary financial statements being prepared to reflect the estimated effects of inflation. The Canadian Institute of Chartered Accountants recently issued a re-exposure draft on inflation accounting entitled "Reporting the effects of changing prices" and comments from the business community are presently being reviewed. Accordingly, management feels it would be inappropriate for the Company to publish any inflation-adjusted financial statements at this time.

DIRECTORS AND MANAGEMENT

During the year, Mr. Alexander Orlow, Chief Executive of Rothmans International and Mr. Friedrich Cordewener, Finance Director of Martin Brinkmann, retired from their respective positions and as a result also retired from your Board of Directors. Mr. George B. McKeen, because of increasing business interests in Western Canada, also retired from the Board. The Board expresses their appreciation to each of these gentlemen for the contributions they have made to the Company during their association.

During the year, Mrs. Mona L. Campbell, President of Dover Industries Limited, Professor John J. Wettlaufer, former Dean of the School of Business Administration at the University of Western Ontario, and Mr. Henry M. Giudice, Chairman and Chief Executive Officer of Martin Brinkmann AG, joined the Board.

Mr. David S. Broome rejoined the Company during the year, after having spent the previous 18 months in the Marketing Division of Rothmans International. Mr. Broome was one of the earliest employees of the Company and also spent a number of years in the brewing industry. He was appointed Vice President Marketing in September 1981. In addition, Mr. John Morrissey joined the Company as Vice President, Personnel and Industrial Relations.

TWENTY-FIFTH ANNIVERSARY

1982 marks the 25th anniversary of Rothmans in Canada. From its entry into the market in

1957, Rothmans has grown to become Canada's second largest manufacturer of cigarettes as well as a partner in the brewing, wine and oil and gas industries through Carling O'Keefe.

During that period many dedicated people from both Canada and overseas have participated in our progress. We would like to offer a special thanks to our employees, both present and past, who have contributed to Rothmans success.

In addition, over the years our suppliers and professional advisors as well as our bankers and underwriters have each played an important role in assisting Rothmans. To you, our shareholders, who have provided the capital to make the enterprise grow, we owe a particular debt of gratitude.

To all of you, we offer our sincere thanks for your patient assistance and encouragement.

J.H. Devlin
Chairman of the Board

R.H. Hawkes
President and Chief Executive Officer
May 21, 1982

ROTHMANS OF PALL MALL
CANADA LIMITED

Policies and Plans

INTRODUCTION

During this past year Management of the Company has continued to formulate policies and objectives for a number of key strategic and financial issues. These policies and objectives relate to capital expenditures, target capital structure, dividend policy and diversification and acquisition policy.

The approach to business and financial planning is ongoing, and present policies, while conceived with an eye toward the future, are not inflexible. Plans are periodically reviewed in the context of changing capital market and business conditions and shareholders will be kept aware of any major policy revisions which become necessary as conditions change.

CAPITAL EXPENDITURES

Capital expenditures in the company's tobacco operations for the 1982 fiscal year totalled \$5.5 million and covered a broad range of additions and improvements to facilities. These outlays were \$6.5 million below the approved expenditures of \$12 million for 1982, primarily due to work stoppages at both manufacturing facilities. The majority of these commitments have been carried forward into the projections for 1983.

During fiscal 1983 approved captial expenditures total approximately \$14 million for new capital projects and additions to present facilities. Of this amount, \$3.6 million is budgeted to upgrade the leaf processing facilities. The remainder of the capital expenditures anticipated for fiscal 1983 pertains to further replacement of and improvements to existing facilities.

CAPITAL STRUCTURE

In establishing financing guidelines, management believes that shareholders benefit from prudent use of debt because of the tax benefits that leverage provides and the lower after-tax cost of debt relative to common equity. At the same time, the importance of maintaining an adequate degree of financing flexibility and a sound financial base to support the Company's current operations and anticipated expansion must be recognized.

A ratio of debt-to-total capital of 45-50 percent at fiscal year-end has been targeted for tobacco operations. The analysis excludes the investment in Carling O'Keefe since that company finances independently. Because of relatively large short term borrowings at fiscal year-end to support seasonal inventory buildups, the actual average use of debt throughout the year is lower than at year-end.

During fiscal 1982 the debt-to-total capital ratio increased from 32 percent at the end of fiscal 1981 to 36 percent at March 31, 1982. This level, although lower than the target, is consistent with the stated plan to reduce the use of debt from past levels, which are shown below. Management believes that this capital structure has worked to the Company's advantage with the current high interest rates and provides a flexible and prudent financial position to support operations.

DIVIDEND POLICY

Effective September 1981, the quarterly Common share dividend was increased from 35 to 40 cents. This payout has been established in the context of the anticipated profitability and internal financing requirements of tobacco operations. The dividend policy is reviewed on a regular basis and shareholders will be informed should that policy be revised.

DIVERSIFICATION AND ACQUISITION POLICY

Rothmans has taken no further steps with respect to acquisitions or additional diversification within the past year. It is felt that the internal opportunities which are available, with their relatively high rates of return, should be fully developed prior to considering any potential external opportunities.

DEBT-TO-TOTAL CAPITAL
(Dollars in Millions)

	As At Fiscal Year-End				
	1982	**1981**	**1980**	**1979**	**1978**
Total Interest-Bearing Debt	**69.3**	51.2	60.9	60.0	78.4
Total Capital*	**191.9**	158.4	153.6	142.2	151.4
Debt-to-Total Capital Ratio	**36%**	32%	40%	42%	52%

*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).

ROTHMANS OF PALL MALL CANADA LIMITED

Review of Tobacco Operations

ANALYSIS OF PERFORMANCE

($000)	1982	1981	1980	1979	1978
	Year ended March 31				
*Net Operating Profits After Tax**					
Earnings From Operations	**$ 22,221**	$ 21,391	$ 19,407	$ 17,605	$ 19,612
Deferred Income Taxes	**835**	618	(775)	(228)	66
After Tax Interest Expense	**2,818**	2,805	2,683	2,772	3,027
(A)	**$ 25,874**	$ 24,814	$ 21,315	$ 20,149	$ 22,705
Average Total Capital Employed					
Interest-Bearing Debt	**$ 48,473**	$ 48,078	$ 47,686	$ 54,993	$ 65,905
Deferred Income Taxes	**7,320**	5,812	6,216	6,486	6,563
Shareholders' Equity**	**108,185**	95,925	82,690	72,433	60,897
(B)	**$163,978**	$149,815	$136,592	$133,912	$133,365
Return On Average Total Capital Employed .... (A ÷ B)	**15.8%**	16.6%	15.6%	15.0%	17.0%

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

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

The above table gives a comparative summary of the Company's performance in tobacco operations for the past five fiscal years, as measured by return on average total capital employed. Although operating profits in 1982 were higher on an absolute basis when compared to last year, the rate of return was slightly lower.

Statements of earnings, financial position and changes in financial position can be found on pages 17 and 18. The table to the right provides a breakdown of a tobacco sales dollar.

	Year ended March 31 1982	1981
Sales revenue	100.0¢	100.0¢
Excise and sales taxes	49.7¢	50.1¢
Costs—		
Raw materials and manufacturing	28.8	28.4
Marketing and distribution	9.9	9.5
Administrative and general.	3.0	3.1
Interest	1.1	1.1
	42.8	42.1
Income taxes	2.9	3.2
Earnings	4.6	4.6
	100.0¢	100.0¢

Earnings for the year were $22.2 million, up approximately $0.8 million or 4 percent over 1981. This performance was achieved despite a decline in sales of the Company's cigarettes and certain other

The fourth largest major product category, from a sales revenue standpoint, was domestic and imported cigars, with revenue of $2.4 million (the same as 1981). Volumes were also virtually the same in both years. Sales of all other products, principally cigarette tubes, pipes and lighters, were $0.6 million compared to $1.3 million last year.

The Company's sales revenue includes three levies imposed by the federal government—excise duty, excise tax and sales tax. For the year ended March 31, 1982, these taxes totalled $241.2 million, and represented almost 50 percent of the

products. Work stoppages at both manufacturing plants at the beginning of the fiscal year also had an adverse effect on results for 1982.

Sales revenue totalled $485.4 million, an increase of $23.9 million of 5.2 percent over the previous year. The majority of the gain was related to cigarettes, but slightly higher revenue was also recorded in sales of imported and domestic tobacco and cigars.

Sales of the Company's cigarettes generated revenue of $469.9 million, a gain of $22.9 million or 5.1 percent over the 1981 year. The improvement was attributable to selling price increases—in April and September 1981 as a result of higher federal taxes and in October to cover increased operating costs. The Company's unit cigarette sales were 15,694 million compared to 16,533 million last year, a decrease of about 5 percent.

Total Canadian industry cigarette sales were 67,211 million, virtually the same as last year's 67,183 million.

Revenue from sales of the Company's fine cut and domestic pipe tobacco totalled $8.7 million, slightly higher than the $8.2 million in 1981. The increase was entirely due to selling price increases, as volume was down to 654,000 kilograms from 677,000 kilograms last year. Total industry volume was also down and, as a result, the Company's market share increased slightly.

Sales revenue on imported tobacco was up by 40.7 percent to $3.8 million (1981—$2.7 million), reflecting both volume and selling price increases. Sales of 175,000 kilograms, compared to 135,000 kilograms last year, included Red Man chewing tobacco in 1982.

Company's selling prices. The 1982 amount was $9.8 million or 4.2 percent higher than last year, despite generally lower volumes. Rates for excise duty and excise tax were increased by the Government of Canada on April 1 and September 1, 1981. Although the sales tax rate remained unchanged, this tax automatically went up because of selling price increases to cover both the aforementioned tax adjustments and higher manufacturers' operating costs. Under present legislation, there will be further automatic tax increases on September 1 each year. Currently, the three federal government taxes amount to 40.5 cents per pack of 25 king size cigarettes (compared to 37.3 cents at this time last year).

In addition to the federal taxes, all of the provinces and territories levy their own tobacco tax and two provinces (Newfoundland and Prince Edward Island) also impose sales tax on tobacco products. Since last year's annual report, there have been eighteen provincial tobacco tax increases, with five in Ontario, three in New Brunswick and two each in British Columbia, Quebec and Newfoundland. The table on the next page outlines changes in provincial taxes and the current status of both provincial and combined federal/provincial taxes.

Excluding taxes on sales and income, the Company's costs totalled $208 million in 1982, an increase of $13.8 million or 7.1 percent. All of the major expense groupings, except interest on long term debt, showed increases; this latter category was somewhat lower in the most recent year as a result of purchases of debentures for mandatory sinking funds.

Raw material and manufacturing costs charged against earnings in 1982 amounted to $140.1 million, up by $8.9 million or 6.8 percent. The major cost elements in this category are leaf tobacco, packaging materials, manufacturing overheads and direct labour. The cost of leaf tobacco expensed was $55.5 million or $1.63 per pound (1981—$54.8 million; $1.49 per pound). As noted in last year's report, purchases made during the 1981 fiscal year were at prices which in general were not much higher than the previous year and this had a moderating effect on unit leaf tobacco costs in the most recent period. On the other hand, packaging material costs included in cost of sales in 1982 increased by 9 percent, to $41.2 million from $37.8 million in 1981, despite the generally lower volumes. On a per unit basis, the increase was 14.5 percent and was caused primarily by suppliers' price increases. A comparison of increases in manufacturing overheads, direct labour and per unit costs for these two categories is not meaningful, because of distortions in both fiscal years as a result of the plant strikes.

Per pack of 25 King Size Cigarettes	Provincial Tobacco Tax: 1981 Annual Report	Increases	Current	Current Federal and Provincial Tax
British Columbia	34.0¢	3.0¢	37.0¢	77.5¢
Alberta	8.0	—	8.0	48.5¢
Saskatchewan	33.0	5.0	38.0	78.5¢
Manitoba	35.0	10.0	45.0	85.5¢
Ontario	36.5	9.5	46.0	86.5¢
Quebec	39.4	6.7	46.1	86.6¢
New Brunswick	34.0	9.0	43.0	83.5¢
Nova Scotia	25.0	10.0	35.0	75.5¢
Prince Edward Island*	25.0	—	25.0	65.5¢
Newfoundland**	62.5	17.5	80.0	$1.205
Yukon Territory	40.0	—	40.0	80.5¢
Northwest Territories	30.0	12.5	42.5	83.0¢

* excluding provincial sales tax of 10% ** excluding provincial sales tax of 11%

Marketing and distribution costs amounted to $47.9 million, an increase of $4 million or 9.2 percent over 1981. The main elements of this cost category are advertising and promotion expenses, costs of the sales organization and marketing administration, and freight and warehousing expenses. Factors contributing to the higher cost in the most recent period were salaries, wages and fringe benefits, special events, promotions, vehicle operating costs, market research studies, costs of operating various buildings and carriers' freight rates.

Administrative and general costs were $14.8 million in 1982, up by only $0.6 million or 4.1 percent over the prior year. Contributing to the increase were higher salary and fringe benefit costs, the first full year of operations at the Company's new head office and some significant write-offs of accounts receivable due to bankruptcies. Included in this cost category in both years are expenses related to the two manufacturing plant work stoppages in the period February—April, 1981.

Interest on both long and short term indebtedness totalled \$5.2 million, an increase of only \$0.3 million or 6 percent over 1981 (\$4.9 million). This modest increase was achieved despite significantly higher short term rates, as a result of unusually low borrowing levels in the early part of the year. A further moderating factor was the slightly lower interest cost on the Company's debentures, as mentioned earlier. The prime bank rate ranged from a low of 17% to a high of 22-3/4% in 1982, versus 12-1/4% to 18-1/4% in the previous fiscal year.

The provision for income taxes amounted to \$14 million or 38.6 percent of pre-tax earnings, compared to \$14.5 million (40.4 percent) in 1981. As in prior years, income taxes have been accounted for on the tax allocation basis for all timing differences between accounting and taxable income; these timing differences arise principally between accounting and tax depreciation. The lower effective tax rate in 1982 was mainly due to a reduction in the Quebec tax rate and the successful appeal of certain items assessed in prior years.

Working capital for the Company increased by \$13.3 million during the year ended March 31, 1982. At year-end, working capital amounted to \$107 million and the ratio of current assets to current liabilities was 2.28.

The major items which increased working capital during the year were funds from operations totalling \$27.2 million (earnings of \$22.2 million plus non-cash items, principally depreciation and deferred income taxes, of \$5 million) and common share dividends from Carling O'Keefe Limited of \$3 million. The most significant factors reducing working capital were dividends of \$10.4 million, capital expenditures totalling \$5.5 million and a reduction of \$1.1 million in long term debt.

Total dividends paid during 1982 were \$1.1 million higher than last year, reflecting an increase in the dividend on the Company's Common shares. Total dividends paid on the two classes of Preferred shares were marginally lower, as a result of purchases of First Preferred shares.

The majority of capital expenditures were related to production facilities at the two plants in Quebec City and Toronto. Amounts expended were below both actual costs incurred last year and the budget for 1982 because of the work stoppages in the early part of the year.

The reduction in the Company's two series of debentures was related to purchases for sinking fund requirements. As at March 31, 1982, \$963,000 of the sinking fund payments totalling \$1.6 million due in the 1983 fiscal year had been discharged.

Excluding its investment in Carling O'Keefe, the Company's assets totalled \$224.3 million at year-end, an increase of \$37.6 million over March 31, 1981. The most significant factor was an increase of \$23.8 million in finished goods inventories, primarily as a result of the abnormally low levels of cigarette inventories last year. Leaf tobacco inventories also contributed to the higher total, increasing by \$9.1 million mainly because of higher prices paid at the auctions during the 1982 fiscal year. In total, inventories amounted to \$159.9 million at March 31, 1982 and represented 71 percent of total assets employed in tobacco operations.

ROTHMANS OF PALL MALL CANADA LIMITED

Earnings from Tobacco Operations

(in thousands of dollars)

	Year ended March 31	
	1982	**1981**
Sales	**$485,406**	$461,491
Excise and sales taxes	**241,210**	231,436
Net sales	**244,196**	230,055
Costs:		
Raw materials and manufacturing	**140,106**	131,190
Marketing and distribution	**47,853**	43,811
Administrative and general	**14,833**	14,242
Interest on long term debt	**2,067**	2,235
Other interest	**3,151**	2,686
	208,010	194,164
	36,186	35,891
Income taxes:		
Current	**13,130**	13,882
Deferred	**835**	618
	13,965	14,500
Earnings for the year	**$ 22,221**	$ 21,391

Changes in Financial Position of Tobacco Operations

(in thousands of dollars)

	Year ended March 31	
	1982	**1981**
Working capital was increased by:		
Earnings from tobacco operations	**$ 22,221**	$ 21,391
Depreciation	**4,658**	4,698
Deferred income taxes	**899**	555
Other items not requiring working capital	**(600)**	(290)
Working capital from operations	**27,178**	26,354
Disposal of property, plant and equipment	**532**	670
Dividends from Carling O'Keefe Limited	**3,000**	2,181
	30,710	29,205
Working capital was decreased by:		
Additions to property, plant and equipment	**5,492**	8,622
Reduction of long term debt	**1,141**	1,424
Purchase of First Preferred shares	**375**	172
Dividends	**10,402**	9,333
Other	**48**	54
	17,458	19,605
Increase in working capital	**13,252**	9,600
Working capital at beginning of year	**93,736**	84,136
Working capital at end of year	**$106,988**	$ 93,736

ROTHMANS OF PALL MALL CANADA LIMITED

Financial Position of Tobacco Operations

(in thousands of dollars)

	March 31	
	1982	**1981**
ASSETS		
Current assets:		
Accounts receivable	**$ 29,164**	$ 24,852
Inventories	**159,875**	127,071
Prepaid expenses	**1,406**	1,380
Total current assets	**190,445**	153,303
Investment in Carling O'Keefe Limited, on the equity basis	**81,986**	74,532
Property, plant and equipment	**78,215**	74,491
Less: Accumulated depreciation	**44,900**	41,710
	33,315	32,781
Other assets	**554**	597
	$306,300	$261,213
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness	**$ 50,420**	$ 30,025
Accounts payable and accrued liabilities	**16,637**	13,809
Income taxes	**404**	1,299
Excise, sales and other taxes	**15,996**	14,434
Total current liabilities	**83,457**	59,567
Long term debt	**18,250**	19,850
Total liabilities	**101,707**	79,417
DEFERRED INCOME TAXES	**6,849**	5,950
SHAREHOLDERS' EQUITY		
Capital stock:		
Preferred shares	**27,352**	27,992
Common shares	**27,349**	27,349
	54,701	55,341
Retained earnings	**143,043**	120,505
Total shareholders' equity	**197,744**	175,846
	$306,300	$261,213

Review of Brewing, Wine and Oil and Gas Operations

ANALYSIS OF PERFORMANCE

($000)	Year ended March 31 1982	1981	1980	1979	1978
*Net Operating Profits After Tax**					
Earnings From Operations	**$ 22,774**	$ 19,785	$ 17,338	$ 13,612	$ 11,809
Deferred Income Taxes	**6,575**	4,965	2,824	3,225	2,578
After Tax Interest Expense	**2,376**	1,487	1,406	1,042	1,433
(A)	**$ 31,725**	$ 26,237	$ 21,568	$ 17,879	$ 15,820
Average Total Capital Employed					
Interest-Bearing Debt	**$ 29,618**	$ 27,611	$ 26,434	$ 26,952	$ 43,000
Other Long Term Liabilities	**1,664**	1,441	348	—	—
Minority Interest	**—**	933	1,845	1,777	1,690
Deferred Income Taxes	**35,496**	30,177	26,732	23,708	19,781
Shareholders' Equity	**198,540**	179,372	161,051	149,299	123,963
(B)	**$265,318**	$239,534	$216,410	$201,736	$188,434
Return On Average Total Capital Employed (A ÷ B)	**12.0%**	11.0%	10.0%	8.9%	8.4%

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

The above table gives a comparative summary of the consolidated performance of Carling O'Keefe Limited and its subsidiary companies for the past five fiscal years, as measured by return on average total capital employed. Again in 1982, operating profits were higher on both an absolute and relative bases.

Statements of earnings, financial position and changes in financial position can be found on pages 22 and 23. The following commentary provides a brief review of the latest year's results. A copy of the 1982 annual report for Carling O'Keefe is enclosed to provide more detailed information.

Earnings for the year were $22.8 million, an increase of $3 million or 15 percent over 1981 earnings from operations. The major contributing factors were improved earnings from Canadian brewing and wine operations.

There were no extraordinary items in 1982. Last year, a gain of $10.5 million on the sale of trade marks for southern Africa increased final earnings in 1981 to $30.3 million.

Sales revenue amounted to $644.1 million, an increase of $106.8 million or almost 20 percent. All four operating divisions of the company recorded higher revenue in 1982, but the majority of the gain was attributable to Canadian brewing operations.

Working capital for the company and its subsidiaries increased by $10.9 million during the year, reaching a level of $50.6 million at year-end. Major items increasing working capital were funds from operations amounting to $43.4 million (principally earnings plus depreciation and deferred income taxes) and the current portion of long term receivables totalling $4.4 million. Capital expenditures of $25.1 million, dividends of $8 million and the reduction of $3.6 million in long term liabilities were the most significant items decreasing working capital. The working capital ratio at March 31, 1982 was 1.60, compared to 1.51 at the previous year-end.

Total assets of the company were $341.7 million, an increase of $24.2 million over March 31, 1981.

CANADIAN BREWING

Earnings of Carling O'Keefe Breweries of Canada Limited before interest and income taxes were $33.5 million in 1982, a gain of $10.4 million or 45 percent over last year.

The company's sales volume totalled 5,012,000 hectolitres, an increase of 256,000 hectolitres or more than 5 percent. In Canada, the company recorded a volume increase of 4.6 percent, reflecting a marginal share of market decline from 1981 as total Canadian industry sales increased by 5.4 percent. Both the company and total industry growth were almost entirely the result of 1981 sales being adversely affected by labour disputes in British Columbia and Alberta. In other provinces, industry sales were either unchanged or declined. The company suffered a temporary setback in Quebec because of extreme competitive pressure, but this has been reversed and O'Keefe Ale maintained its position as the largest selling brand in that province. In March 1982, O'Keefe Light was launched in Quebec. Both Carlsberg and Carlsberg Light were introduced to the Newfoundland market during the year.

Because of both the higher volume and selling price increases, sales revenue was up by almost $100 million (23 percent), amounting to $535.3 million in 1982.

Capital expenditures for the year were $14.5 million, virtually the same as in 1981. A significant increase in the bottling capacity of the Winnipeg plant was started and the St. John's plant was also expanded. Major expansions of the Calgary and Vancouver breweries were commenced during the latter part of the year. Depreciation expense was $7.1 million compared to $6.6 million last year.

Identifiable assets attributable to Canadian brewing operations totalled $186.4 million at March 31, 1982, up by $20.6 million from a year ago.

IRISH BREWING

Earnings of Beamish & Crawford Limited before interest and income taxes declined by 47 percent, falling to $0.7 million from $1.3 million in 1981. The lower results were, however, directly attributable to the strengthening of the Canadian dollar during the year relative to the Irish punt; earnings in Irish currency were higher than last year.

The company also recorded increased sales volume and sales revenue in 1982. Sales were 253,000 hectolitres compared to 235,000 hectolitres in the previous year, while sales revenue increased by $2.5 million or 5.5 percent to $48 million. With industry sales volume relatively unchanged because of poor economic conditions, the company increased its share of market.

Capital expenditures were virtually the same as in the prior period, amounting to $1 million. Depreciation expense was just over $0.5 million.

Total assets employed in Irish brewing operations were 9.7 percent higher than last year at $24 million.

WINE

Earnings of Jordan Valley Wines Limited before interest and income taxes increased significantly in 1982, amounting to $3.9 million and recording a gain over last year of $2.3 million.

The earnings improvement was achieved despite a modest decline in sales volume—to 217,000 hectolitres from 223,000 hectolitres in the 1981 fiscal year. The decrease was in cider sales which were unusually high last year as a result of the brewing industry work stoppages in British Columbia and Alberta. Wine sales volume was up slightly from last year, with higher volumes in Ontario substantially offset by lower sales in the four western Canadian provinces.

Sales revenue increased by approximately 10 percent as a result of price increases which were necessary to recover higher operating costs and new indexed excise taxes.

Capital expenditures for the year were $2.6 million and depreciation expense amounted to $1.2 million. During the year, the company sold two former wineries located at Jordan, Ontario and Selkirk, Manitoba.

Identifiable assets employed in wine operations were $55.9 million at the end of 1982, compared to $52.8 million a year ago.

OIL AND GAS

Earnings of Star Oil & Gas Ltd. before interest and income taxes were $3.9 million, a decline of almost 32 percent from last year. A major factor in the lower earnings performance was the petroleum and gas revenue tax, which amounted to almost $1.2 million compared to only $345,000 last year when it was in effect for only three months.

Natural gas sales volume was the same in both years, but oil and other sales were down by 22 percent. Sales revenue was up slightly as a result of increased selling prices for all products.

The past year was one of considerable uncertainty for the Canadian petroleum industry, with new taxes significantly reducing cash flows and causing most companies to substantially reduce their exploration programmes. A further negative factor has been the lack of markets for natural gas. In response to the uncertainty, Star reduced its capital spending in Canada by 60 percent compared to last year. In the United States, however, Star increased its capital expenditures significantly. Total capital expenditures were almost $7 million compared to $8.8 million in 1981, while depreciation and depletion expense increased to $3.5 million from $2.4 million a year ago.

Total assets employed in oil and gas operations amounted to $63.5 million at March 31, 1982, compared to $59 million at the previous year-end.

INTERNATIONAL DIVISION

Royalty income from the sale of Carling Black Label in overseas markets, where it is produced under license, was just under $1.5 million, compared to more than $1.7 million in the previous year. The decline was due to unfavourable exchange factors on conversion of the pound sterling to Canadian dollars and to a final adjustment of the previous year's royalties related to sales in southern Africa. Higher royalty rates, reflecting increased selling prices, were partially offset by lower sales due to the general poor economic conditions.

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

Earnings from Operations

(in thousands of dollars)

	Year ended March 31	
	1982	**1981**
Income:		
Sales	**$644,133**	$537,348
Excise and sales taxes	**221,154**	178,159
Net sales	**422,979**	359,189
Investment and other income	**6,251**	7,566
	429,230	366,755
Costs:		
Raw materials and manufacturing	**206,399**	176,049
Marketing and distribution	**149,753**	130,058
Administrative and general	**27,332**	23,948
Interest on long term debt	**1,684**	1,694
Other interest	**2,558**	1,404
Foreign exchange	**3,770**	1,068
	391,496	334,221
	37,734	32,534
Income taxes:		
Current	**8,385**	7,671
Deferred	**6,575**	4,965
	14,960	12,636
	22,774	19,898
Minority interest	**—**	113
Earnings for the year before extraordinary item	**$ 22,774**	$ 19,785

Changes in Financial Position

(in thousands of dollars)

	Year ended March 31	
	1982	**1981**
Working capital was increased by:		
Earnings before extraordinary item	**$ 22,774**	$ 19,785
Depreciation and depletion	**12,374**	10,605
Deferred income taxes	**6,575**	4,965
Other items not requiring working capital	**1,648**	(1,405)
Working capital from operations	**43,371**	33,950
Sale of trade marks, less long term receivable of $6,987 and deferred income taxes	**—**	2,613
Disposal of property, plant and equipment and other assets	**1,908**	2,219
Current portion of long term receivables	**4,376**	3,085
Other	**35**	1,213
	49,690	43,080
Working capital was decreased by:		
Additions to property, plant and equipment	**25,118**	26,487
Purchase of shares in subsidiary company	**—**	2,993
Additions to other assets	**1,977**	3,178
Reduction of long term liabilities	**3,585**	3,510
Dividends	**8,031**	6,414
Purchase of preferred shares	**126**	150
	38,837	42,732
Increase in working capital	**10,853**	348
Working capital at beginning of year	**39,783**	39,435
Working capital at end of year	**$ 50,636**	$ 39,783

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

Financial Position

(in thousands of dollars)

	March 31	
	1982	**1981**
ASSETS		
Current assets:		
Cash and short term deposits	**$ 5,952**	$ 7,637
Accounts receivable	**45,643**	36,863
Receivable from sale of trade marks	**2,940**	4,291
Inventories	**76,307**	63,672
Prepaid expenses	**4,401**	5,036
Total current assets	**135,243**	117,499
Property, plant and equipment	**292,016**	270,743
Less: Accumulated depreciation and depletion	**118,167**	108,869
	173,849	161,874
Other assets	**32,585**	38,125
	$341,677	$317,498
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness	**$ 17,144**	$ 11,387
Accounts payable and accrued liabilities	**46,908**	51,349
Income taxes	**3,740**	3,155
Other taxes	**15,216**	10,222
Dividends payable	**1,599**	1,603
Total current liabilities	**84,607**	77,716
Long term liabilities	**12,437**	16,341
Total liabilities	**97,044**	94,057
DEFERRED INCOME TAXES	**38,784**	32,209
SHAREHOLDERS' EQUITY		
Capital stock:		
Preference shares	**42,270**	42,526
Common shares	**78,357**	78,357
	120,627	120,883
Retained earnings	**85,222**	70,349
Total shareholders' equity	**205,849**	191,232
	$341,677	$317,498

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES
(Incorporated under the laws of Canada)

Consolidated Statement of Earnings

(in thousands of dollars)

	Year ended March 31	
	1982	**1981**
Income:		
Sales	**$1,129,539**	$998,839
Excise and sales taxes	**462,364**	409,595
	667,175	589,244
Investment and other income	**6,251**	7,566
	673,426	596,810
Costs:		
Raw materials and manufacturing	**346,505**	307,239
Marketing and distribution	**197,606**	173,869
Administrative and general	**42,165**	38,190
Interest on long term debt	**3,751**	3,929
Other interest	**5,709**	4,090
Foreign exchange	**3,770**	1,068
	599,506	528,385
	73,920	68,425
Income taxes:		
Current	**21,515**	21,553
Deferred	**7,410**	5,583
	28,925	27,136
	44,995	41,289
Minority interest (Note 3)	**12,385**	11,016
EARNINGS BEFORE EXTRAORDINARY ITEM	**32,610**	30,273
Gain of $10,500 on sale of trade marks, less minority interest of $5,237 (Note 4)	**—**	5,263
EARNINGS FOR THE YEAR	**$ 32,610**	$ 35,536
Earnings per Common share:		
Before extraordinary item	**$5.58**	$5.15
For the year	**$5.58**	$6.11

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year ended March 31	
	1982	**1981**
Balance at beginning of year	**$120,505**	$ 94,175
Earnings for the year	**32,610**	35,536
Excess of carrying value over cost of First Preferred shares purchased for cancellation (Note 10)	**265**	77
Excess of par value over cost of preference shares purchased for cancellation by a subsidiary company, less minority interest	**65**	50
	153,445	129,838
Dividends paid:		
Preferred shares—		
First Preferred shares, Series A ($6.85 per share)	**957**	990
Second Preferred shares ($1.325 per share)	**904**	904
	1,861	1,894
Common shares (1982—$1.55 per share; 1981—$1.35)	**8,541**	7,439
	10,402	9,333
Balance at end of year	**$143,043**	$120,505

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year ended March 31	
	1982	**1981**
Working capital was increased by:		
Earnings before extraordinary item	**$ 32,610**	$ 30,273
Depreciation and depletion	**17,032**	15,303
Minority interest in earnings before extraordinary item	**12,385**	11,016
Deferred income taxes	**7,474**	5,520
Other items not requiring working capital	**1,048**	(1,808)
Working capital from operations	**70,549**	60,304
Sale of trade marks, less long term receivable of $6,987 and deferred income taxes (Note 4)	**—**	2,613
Disposal of property, plant and equipment and other assets	**2,440**	2,889
Current portion of long term receivables	**4,376**	3,085
Other	**35**	1,213
	77,400	70,104
Working capital was decreased by:		
Additions to property, plant and equipment	**30,610**	35,109
Purchase of shares in subsidiary company (Note 7)	**—**	2,993
Additions to other assets	**2,025**	3,232
Reduction of long term liabilities	**4,726**	4,934
Dividends—		
By the Company	**10,402**	9,333
By a subsidiary company to minority shareholders	**5,031**	4,233
Other	**501**	322
	53,295	60,156
Increase in working capital	**24,105**	9,948
Working capital at beginning of year	**133,519**	123,571
Working capital at end of year	**$157,624**	$133,519

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

(in thousands of dollars)

	March 31 1982	March 31 1981
ASSETS		
Current assets:		
Cash and short term deposits	**$ 5,952**	$ 7,637
Accounts receivable	**74,351**	61,390
Receivable from sale of trade marks (Note 4)	**2,940**	4,291
Inventories (Note 5)	**236,182**	190,743
Prepaid expenses	**5,807**	6,416
Total current assets	**325,232**	270,477
Property, plant and equipment (Note 6)	**370,231**	345,234
Less: Accumulated depreciation and depletion	**163,067**	150,579
	207,164	194,655
Other assets (Note 7)	**33,139**	38,722
	$565,535	$503,854
LIABILITIES		
Current liabilities:		
Bank and other short term indebtedness (Note 8)	**$ 67,564**	$ 41,412
Accounts payable and accrued liabilities	**63,634**	65,378
Income taxes	**4,144**	4,454
Excise, sales and other taxes	**31,212**	24,656
Dividends payable to minority interest	**1,054**	1,058
Total current liabilities	**167,608**	136,958
Long term liabilities (Note 9)	**30,687**	36,191
Total liabilities	**198,295**	173,149
DEFERRED INCOME TAXES	**45,633**	38,159
MINORITY INTEREST IN SUBSIDIARY COMPANIES (Note 3)	**123,863**	116,700
SHAREHOLDERS' EQUITY		
Capital stock (Note 10)	**54,701**	55,341
Retained earnings	**143,043**	120,505
Total shareholders' equity	**197,744**	175,846
	$565,535	$503,854

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	
	1982	**1981**
SALES		
Tobacco	**$ 485,406**	$461,491
Beer—Canada	**535,329**	435,721
—Ireland	**47,952**	45,468
Wine	**48,563**	44,021
Oil and gas	**12,289**	12,138
	$1,129,539	$998,839
OPERATING PROFITS		
Tobacco	**$ 41,404**	$ 40,812
Beer—Canada	**33,458**	23,078
—Ireland	**662**	1,253
Wine	**3,949**	1,625
Oil and gas	**3,907**	5,729
	83,380	72,497
Corporate income, net	**—**	3,947
Interest expense	**(9,460)**	(8,019)
Earnings before income taxes, minority interest and extraordinary item	**$ 73,920**	$ 68,425
CAPITAL EXPENDITURES		
Tobacco	**$ 5,492**	$ 8,622
Beer—Canada	**14,547**	14,714
—Ireland	**980**	923
Wine	**2,619**	2,050
Oil and gas	**6,972**	8,800
	$ 30,610	$ 35,109
DEPRECIATION AND DEPLETION		
Tobacco	**$ 4,658**	$ 4,698
Beer—Canada	**7,106**	6,621
—Ireland	**539**	473
Wine	**1,194**	1,144
Oil and gas	**3,535**	2,367
	$ 17,032	$ 15,303

	March 31	
	1982	**1981**
IDENTIFIABLE ASSETS		
Tobacco	**$ 223,858**	$186,454
Beer—Canada	**186,379**	165,752
—Ireland	**23,988**	21,875
Wine	**55,867**	52,801
Oil and gas	**63,513**	58,967
	553,605	485,849
Corporate	**11,930**	18,005
	$ 565,535	$503,854

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

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

MARCH 31, 1982 AND 1981

1. Summary of significant accounting policies:

The financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with international accounting standards adopted by the International Accounting Standards Committee.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The principal subsidiary companies are listed on page 7 of the annual report. 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. Intangible assets acquired subsequently and sports franchises are amortized over periods not exceeding forty years.

FOREIGN EXCHANGE:

Foreign currency accounts are translated into 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 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 and equipment—5 to 15 years

Motor vehicles—3 to 10 years

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

Oil and gas assets 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.

OTHER ASSETS:

Other assets are recorded at cost or amortized cost. Deferred charges are primarily payments under employment and promotional rights contracts which are amortized over the life of the respective contracts.

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

INVESTMENT TAX CREDITS:
Net investment tax credits relating to capital expenditures are accounted for as a reduction of income tax expense in the year earned.

EARNINGS PER COMMON SHARE:
Earnings per Common share are calculated after deducting dividends on Preferred shares and are based on the weighted average number of shares outstanding during the year.

2. Segmented information:

In these financial 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. Minority interest in subsidiary companies:

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

	1982	1981
CARLING O'KEEFE LIMITED—		
Preference shares	$ 2,046,000	$ 2,062,000
Common shares	10,339,000	8,841,000
	12,385,000	10,903,000
JORDAN VALLEY WINES LIMITED (Note 7)—		
Common shares	—	113,000
	$ 12,385,000	$ 11,016,000

The minority shareholders' interest in the capital stock and retained earnings of subsidiary companies at March 31 is as follows:

	1982	1981
CARLING O'KEEFE LIMITED—		
Preference shares	$ 42,270,000	$ 42,526,000
Common shares	81,593,000	74,174,000
	$123,863,000	$116,700,000

4. Gain on sale of trade marks:

During the 1981 fiscal year, Carling O'Keefe finalized the sale of the Carling Black Label and Red Cap trade marks for southern Africa. The total consideration of Rand 14,500,000 is receivable during the four fiscal years ending March 31, 1984 and is subject to reduction should certain objectives not be achieved. At March 31, 1982, the estimated net receivable outstanding totalled $4,725,000, of which $2,940,000 is included in current assets and $1,785,000 in other assets.

5. Inventories:

	1982	1981
ROTHMANS—		
Leaf tobacco (including purchase advances of $49,879,000 in 1981)	$ 95,574,000	$ 86,491,000
Finished goods	50,911,000	27,109,000
Packaging material and other	13,390,000	13,471,000
	159,875,000	127,071,000
CARLING O'KEEFE—		
Beverage products, finished and in process	45,031,000	37,668,000
Materials and supplies	15,497,000	13,033,000
Containers	15,779,000	12,971,000
	76,307,000	63,672,000
	$236,182,000	$190,743,000

6. Property, plant and equipment:

	1982		1981	
	Cost	Accumulated depreciation and depletion	Cost	Accumulated depreciation and depletion
ROTHMANS—				
Land	$ 2,731,000	$ —	$ 2,727,000	$ —
Buildings	9,853,000	3,451,000	9,781,000	3,154,000
Machinery and equipment	52,229,000	31,627,000	48,162,000	29,089,000
Motor vehicles	5,043,000	3,802,000	5,760,000	3,935,000
Leasehold improvements	8,359,000	6,020,000	8,061,000	5,532,000
	78,215,000	44,900,000	74,491,000	41,710,000
CARLING O'KEEFE—				
Land	6,895,000	—	6,785,000	—
Buildings	75,742,000	26,693,000	70,754,000	25,510,000
Machinery and equipment	117,263,000	67,001,000	110,016,000	63,311,000
Motor vehicles	15,640,000	8,037,000	14,356,000	7,399,000
Oil and gas assets	73,331,000	15,131,000	66,414,000	11,576,000
Leasehold improvements	3,145,000	1,305,000	2,418,000	1,073,000
	292,016,000	118,167,000	270,743,000	108,869,000
	$370,231,000	$163,067,000	$345,234,000	$150,579,000

7. Other assets:

	1982	1981
Unamortized cost of shares of subsidiaries in excess of underlying net tangible asset values at acquisition	$12,721,000	$12,785,000
Sports franchises, less amortization	12,265,000	12,356,000
Long term receivables	1,870,000	6,517,000
Unamortized deferred charges, trade marks, patents and other investments	6,283,000	7,064,000
	$33,139,000	$38,722,000

Under the terms of the 1972 acquisition agreement, effective March 31, 1981 Carling O'Keefe acquired for $2,993,000 cash the shares owned by the minority shareholders of Jordan Valley Wines Limited. The transaction increased the cost of shares of subsidiaries in excess of underlying net tangible asset values at acquisition by $1,015,000 in 1981.

Amortization of other assets amounted to $466,000 for the year ended March 31, 1982 (1981—$427,000).

8. Bank and other short term indebtedness:

Bank and other short term indebtedness consists of bank indebtedness (1982-$23,564,000; 1981-$33,112,000), bankers' acceptances (1982-$39,000,000; 1981-$8,000,000) and notes payable (1982-$5,000,000; 1981-$300,000).

	1982	1981
Rothmans	$50,420,000	$30,025,000
Carling O'Keefe	17,144,000	11,387,000
	$67,564,000	$41,412,000

9. Long term liabilities:

	1982	1981
ROTHMANS—		
Sinking fund debentures—		
Series A 8% due January 3, 1988	$ 5,186,000	$ 6,056,000
Series B 11% due February 15, 1995	13,701,000	15,088,000
	18,887,000	21,144,000
CARLING O'KEEFE—		
Sinking fund debentures—		
Series C 5% due January 15, 1983	600,000	1,200,000
Series D 5 1/2% due April 1, 1986	3,200,000	3,467,000
Series E 5 1/2% due April 1, 1989	4,918,000	6,046,000
	8,718,000	10,713,000
Term bank loan due March 31, 1985	4,400,000	5,800,000
Obligations under capital leases	483,000	592,000
Unfunded pensions (Note 11)	981,000	882,000
Deferred revenue under gas contracts	750,000	715,000
	15,332,000	18,702,000
	34,219,000	39,846,000
Less—Amount included in current liabilities	3,532,000	3,655,000
	$30,687,000	$36,191,000

The remaining principal requirements for long term liabilities are as follows for the years ending March 31:

	1983	1984	1985	1986	1987
Rothmans	$ 637,000	$1,600,000	$1,600,000	$1,600,000	$1,600,000
Carling O'Keefe	2,895,000	2,927,000	2,862,000	1,917,000	1,000,000
	$3,532,000	$4,527,000	$4,462,000	$3,517,000	$2,600,000

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 to March 31, 1985.

Containers and equipment leased under capital leases by Carling O'Keefe are included in their respective asset categories and are depreciated accordingly.

10. Capital stock:

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

	1982	1981
ISSUED:		
137,044 6.85% Cumulative Redeemable First Preferred shares, Series A (1981—143,446)	$13,705,000	$14,345,000
682,367 6 5/8% Cumulative Redeemable Second Preferred shares	13,647,000	13,647,000
	27,352,000	27,992,000
5,510,684 Common shares	27,349,000	27,349,000
	$54,701,000	$55,341,000

PURCHASES:

During the year ended March 31, 1982, 6,402 First Preferred shares with a total carrying value of $640,000 were purchased for cancellation at a cost of $375,000 (1981—2,493 shares).

REDEMPTION 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, 1982, 2,956 shares of the 1982 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.

OWNERSHIP:

Rothmans of Canada Limited, a wholly-owned subsidiary of Rothmans International p.l.c., is the owner of record of 71.2% of the Company's issued Common shares and 18.2% (1981—17.4%) of the issued Series A First Preferred shares. It is the intention of Rothmans International to reduce its equity interest to 50% at some future date, as conditions warrant.

11. 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 $8,513,000 for the year ended March 31, 1982 (1981—$7,811,000), including $6,937,000 (1981—$6,343,000) for employees of Carling O'Keefe.

Based on recent independent actuarial valuations, unfunded prior service costs are estimated at $15,700,000 (including Carling O'Keefe—$11,700,000) of which $981,000 for Carling O'Keefe is vested and has been accrued. The unrecorded unfunded amounts are being charged to operations over periods up to fifteen years, as described in Note 1.

12. Commitments and contingent liabilities:

Commitments under operating lease obligations relate to sports facilities, warehouses, retail stores and offices. The following table summarizes the minimum rental payments due after March 31, 1982:

	Rothmans	Carling O'Keefe	Total
Year ending March 31—			
1983	$ 1,541,000	$ 3,392,000	$ 4,933,000
1984	1,510,000	2,906,000	4,416,000
1985	1,503,000	2,446,000	3,949,000
1986	1,420,000	2,317,000	3,737,000
1987	1,087,000	1,874,000	2,961,000
Total for all years subsequent to March 31, 1987	4,231,000	6,258,000	10,489,000
	$11,292,000	$19,193,000	$30,485,000

Approved capital expenditures for the year ending March 31, 1983 total $69,000,000, of which $55,000,000 relates to Carling O'Keefe.

Under an agreement with The United Breweries Ltd. of Copenhagen, Denmark, Carling O'Keefe and its affiliates have 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.

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 1982 Ontario crop at a guaranteed minimum average price.

Le Club de Hockey Les Nordiques 1979, Societe en Commandite (Club) is wholly owned by Carling O'Keefe. The Club and the other teams which were granted National Hockey League (NHL) franchises in 1979 were required to indemnify the NHL and its member teams from all claims arising from the 1979 expansion and granted a security interest in their respective assets in favour of the NHL and its member teams to secure this commitment.

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 effect on the Company's financial position.

Management Report

The consolidated financial statements of Rothmans of Pall Mall Canada Limited and its subsidiary companies have been prepared by management and are in accordance with accounting principles generally accepted in Canada, which conform in all material respects with international accounting standards adopted by the International Accounting Standards Committee. All other financial and operating information in the annual report is consistent with that contained in the financial statements.

Management is responsible for maintaining a system of internal accounting controls which provides reasonable assurance that assets are safeguarded and that reliable financial information is produced.

Price Waterhouse have been appointed by the shareholders as independent auditors to examine and report on the Company's consolidated financial statements and their report appears below. As part of their examination, Price Waterhouse review internal control systems to the extent deemed necessary to support their opinion on such financial statements.

The Company's board of directors has overall responsibility for the financial statements and has given them their approval. The Board has appointed a three-man Audit Committee, the majority of whom are outside directors, to review the audited statements prior to their submission to the full Board. The Committee also meets periodically throughout the year with Company officials, internal auditors and Price Waterhouse.

Price Waterhouse
CHARTERED ACCOUNTANTS

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

May 21, 1982

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, 1982 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, 1982 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

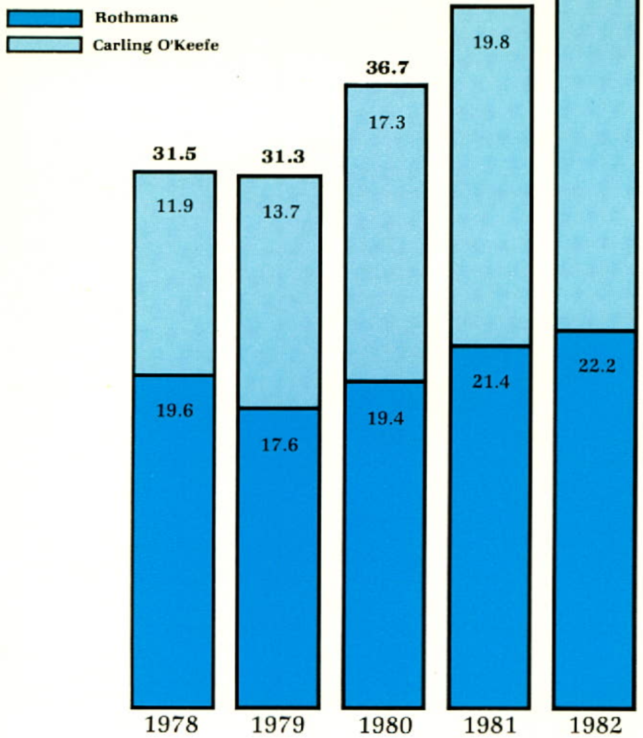
Chartered Accountants

Five-Year Financial Review

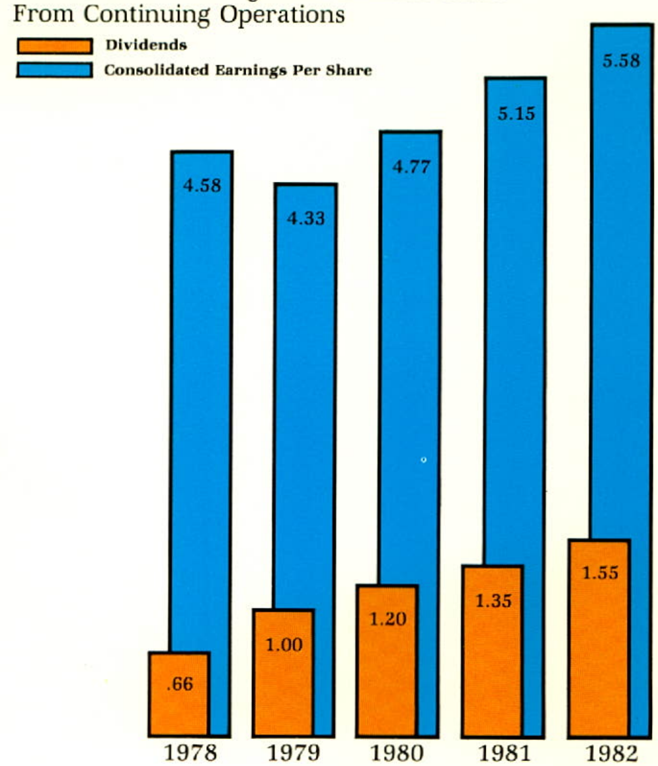
	Year Ended March 31				
	1982	1981	1980	1979	1978
Results For The Year ($000)					
Sales from continuing operations—					
Rothmans	**$ 485,406**	$461,491	$419,739	$400,042	$398,751
Carling O'Keefe	**644,133**	537,348	478,059	401,273	381,147
	1,129,539	998,839	897,798	801,315	779,898
Excise and sales taxes	**462,364**	409,595	365,843	340,046	338,348
	667,175	589,244	531,955	461,269	441,550
Earnings—					
Earnings from continuing operations—					
Rothmans	**22,221**	21,391	19,407	17,605	19,612
Carling O'Keefe, less minority interest	**10,389**	8,882	7,649	5,775	4,863
	32,610	30,273	27,056	23,380	24,475
Loss from operations of former United States subsidiary of Carling O'Keefe, less minority interest	**—**	—	—	—	(5,091)
Earnings before extraordinary items	**32,610**	30,273	27,056	23,380	19,384
Extraordinary items from Carling O'Keefe, less minority interest	**—**	5,263	—	161	(5,118)
Earnings for the year	**32,610**	35,536	27,056	23,541	14,266
Depreciation and depletion—continuing operations	**17,032**	15,303	14,394	13,403	12,367
Interest expense—continuing operations	**9,460**	8,019	7,347	6,868	8,131
Dividends paid—					
Preferred	**1,861**	1,894	2,683	3,505	3,547
Common	**8,541**	7,439	6,067	4,583	3,028
Financial Position ($000)					
Working capital	**$ 157,624**	$133,519	$123,571	$117,292	$118,467
Property, plant and equipment—net	**207,164**	194,655	177,189	160,583	145,510
Total assets	**565,535**	503,854	462,669	418,512	415,854
Total interest-bearing debt	**99,569**	79,069	88,265	85,515	106,762
Shareholders' equity	**197,744**	175,846	149,765	132,023	117,054
Per Common Share					
Earnings—					
From continuing operations	**$ 5.58**	$ 5.15	$ 4.77	$ 4.33	$ 4.58
Before extraordinary items	**5.58**	5.15	4.77	4.33	3.47
For the year	**5.58**	6.11	4.77	4.37	2.35
Dividends paid	**1.55**	1.35	1.20	1.00	0.663
Shareholders' equity	**30.91**	26.82	22.04	17.40	14.00
Other Information					
Return on average total capital employed (%)—					
Rothmans	**15.8**	16.6	15.6	15.0	17.0
Carling O'Keefe	**12.0**	11.0	10.0	8.9	8.4
Working capital from continuing operations ($000)	**70,549**	60,304	54,253	48,905	47,042
Capital expenditures ($000)	**30,610**	35,109	31,681	31,324	26,056
Working capital ratio	**1.94**	1.97	1.93	2.06	1.94

Earnings From Continuing Operations

(Before Extraordinary Items Including Minority Interest)
$ Millions

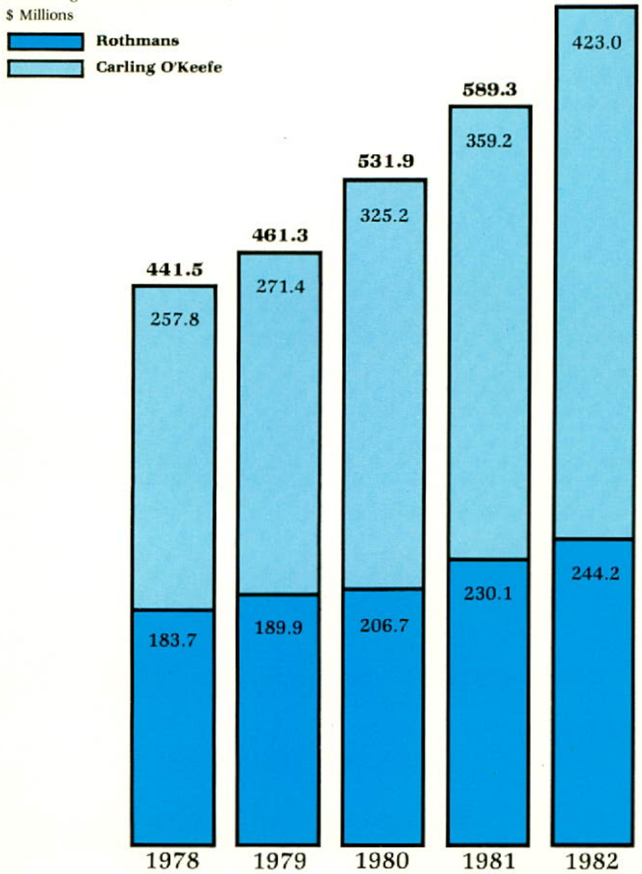


Common Dividends Paid and Consolidated Earnings Per Common Share From Continuing Operations



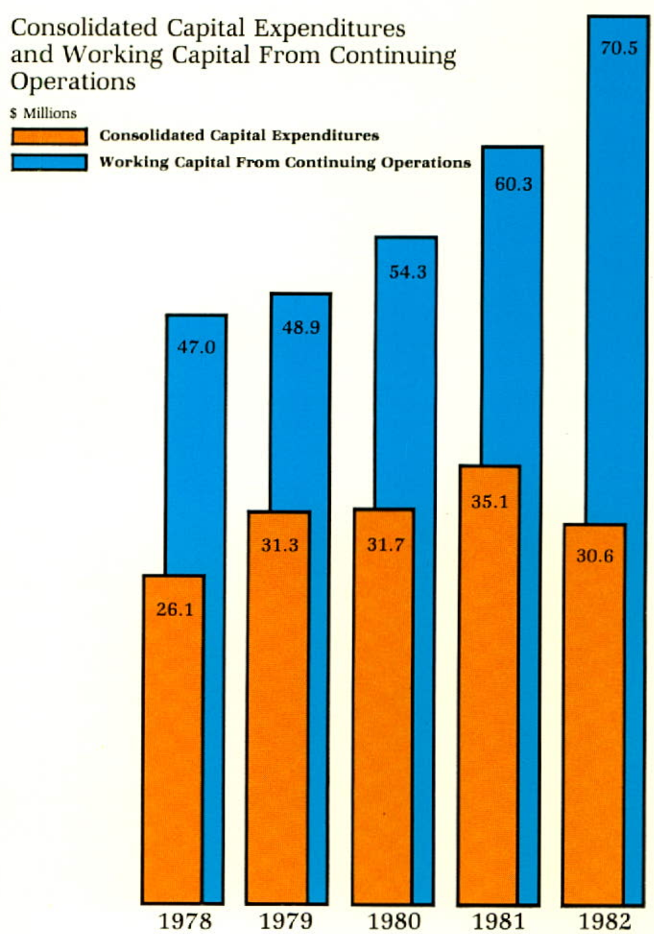
Sales From Continuing Operations

(Excluding Excise & Sales Taxes)
$ Millions



Consolidated Capital Expenditures and Working Capital From Continuing Operations

$ Millions



Quarterly Financial Data

	Year Ended March 31					
	Rothmans		Carling O'Keefe		Total	
	1982	1981	**1982**	1981	**1982**	1981
Consolidated Sales ($000):						
Quarter ended—						
June 30	**$110,453**	$110,409	**$159,109**	$145,669	**$ 269,562**	$256,078
September 30	**128,069**	116,487	**181,260**	140,308	**309,329**	256,795
December 31	**129,537**	125,236	**168,276**	140,343	**297,813**	265,579
March 31	**117,347**	109,359	**135,488**	111,028	**252,835**	220,387
	$485,406	$461,491	**$644,133**	$537,348	**$1,129,539**	$998,839
Consolidated Earnings Before Extraordinary Item ($000):						
Amount						
Quarter ended—						
June 30	**$ 3,447**	$ 5,540	**$ 1,802***	$ 2,821*	**$ 5,249**	$ 8,361
September 30	**5,402**	5,119	**4,215***	2,338*	**9,617**	7,457
December 31	**7,402**	6,575	**3,650***	2,863*	**11,052**	9,438
March 31	**5,970**	4,157	**722***	860*	**6,692**	5,017
	$22,221	$ 21,391	**$10,389***	$ 8,882*	**$ 32,610**	$ 30,273

Per Common Share

	1982	1981
Quarter ended—		
June 30	**$0.87**	$1.43
September 30	**1.66**	1.26
December 31	**1.92**	1.63
March 31	**1.13**	0.83
	$5.58	$5.15

*After deducting minority interest

Directors

RENÉ AMYOT, Q.C.† ✦ *
Chairman
Air Canada
Montreal, Quebec
Partner
Amyot, Lesage, Bernard, Drolet & Associés
Quebec, Quebec

MONA L. CAMPBELL
President
Dover Industries Limited
Toronto, Ontario

JOHN H. DEVLIN*
Chairman of the Board
Rothmans of Pall Mall Canada Limited
Don Mills, Ontario

THE HON. ALASTAIR W. GILLESPIE, P.C.†
Chairman of the Board
Carling O'Keefe Limited
Toronto, Ontario

HENRY M. GIUDICE
Chairman and Chief Executive Officer
Martin Brinkmann AG
Bremen, Federal Republic of Germany

ROBERT H. HAWKES, Q.C. ✦
President and Chief Executive Officer
Rothmans of Pall Mall Canada Limited
Don Mills, Ontario

SIR DAVID NICOLSON
Chairman
Rothmans International p.l.c.
London, England

JOHN J. WETTLAUFER†
Professor, School of Business Administration
The University of Western Ontario
London, Ontario

Officers

JOHN H. DEVLIN*
Chairman of the Board

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

ROBERT W. ALLAN, C.A.
Vice President Leaf Purchasing and Blending

WARREN A. BRACKMANN
Vice President Engineering and Technology

JOHN E. BROEN
Vice President Marketing Planning

DAVID S. BROOME
Vice President Marketing

CAMILLE A. DENIS
Vice President Corporate Affairs

RONALD F. FINDLAY, C.A. ✦
Vice President Finance and Corporate Services

JOSEPH J. HEFFERNAN
Vice President Manufacturing Operations

JOHN J. MORRISSEY ✦
Vice President Personnel and Industrial Relations

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

JAMES K. STRICKLAND
General Counsel and Secretary

GORDON R. WHITE
Vice President Sales

EDWARD A. CRIGHTON, C.A. ✦
Comptroller

DOROTHY I.L. WILLIAMS
Assistant Secretary

† Member of the Audit Committee
* Member of the Compensation Committee
✦ Member of the Pension Investment Committee

Head Office	•	1500 DON MILLS ROAD, DON MILLS,ONTARIO, M3B 3L1
Auditors	•	PRICE WATERHOUSE
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.

	1982				1981			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
First Preferred—								
High	\$50	\$58	\$62	\$66	\$68	\$69 7/8	\$75	\$75
Low	47	49 1/4	58	63	63	61	68 1/2	65
Second Preferred—								
High	9 1/2	10 3/4	11 1/2	12	13	12 1/2	14 1/4	14 3/4
Low	8 1/2	8 1/2	9 3/4	11 3/8	11 1/2	11 3/8	12 1/4	11 5/8
Common—								
High	24 3/4	22 3/4	26	26 1/2	26 7/8	28	28 3/4	24
Low	22	19 1/4	20	23 3/4	23 1/2	26	23 3/4	19

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	\$82 1/2
Second Preferred Shares	\$19 7/8
Common Shares	\$16 5/8

Rothmans of Pall Mall Canada Limited