Consolidated-Bathurst Inc.
Annual Report

1980

Contents

Cover:
To help mark its 25th Anniversary, 17 employees of Europa Carton AG, the Consolidated-Bathurst packaging organization in West Germany, were chosen to make a week-long trip to North America in October. Representing operating locations across the Federal Republic, they included in their visit a St. Maurice Woodlands district, the Laurentide Division newsprint mill at Grand'Mère, Quebec, and the Domglas glass container plant in Montreal. At Grand'Mère, they saw steelwork for Laurentide's 'very high yield' sulphite pulp mill, one of several major projects now underway in the Company's continuing investment in new technology and mill and plant modernization.

Consolidated-Bathurst Inc.

Registered Office
800 Dorchester Boulevard West
Montreal, Quebec H3B 1Y9
Telephone: (514) 875-2160
Telex: 05-25165

Incorporated August 28, 1931, under the laws of Canada

Auditors
Touche Ross & Co.

Transfer Agent and Registrar
Montreal Trust Company at Saint John, Montreal, Toronto, Winnipeg, Calgary and Vancouver

Share listings: Con Bath
Montreal Stock Exchange
The Toronto Stock Exchange

Annual Meeting
Queen Elizabeth Hotel, Montreal
April 24, 1981 — 10:30 a.m.

Consolidated-Bathurst Inc. is an eastern Canadian forest products and packaging organization that ranks among the 30 largest publicly-owned manufacturing companies in Canada. Its production and sales operations function under two business groups: Pulp and Paper, and Packaging. In addition, in recent years, the Company has announced investments of almost $100 million in Canadian-managed oil and gas production and exploration.

Net sales of the Corporation have been above $1 billion since 1978, and in 1979 and 1980, net earnings have exceeded $100 million.

The Pulp and Paper Group has as its most important product line newsprint, a versatile paper used mainly in printing daily and weekly newspapers. During 1980, the Group's seven primary mills produced 893 thousand tonnes of newsprint, mostly for export, and 619 thousand tonnes of kraft pulp, paperboard and kraft paper. Five sawmills manufactured 121 million board feet of pine and spruce lumber.

The Packaging Group comprises three main companies and several key subsidiaries that provide other manufacturing and processing industries with a wide variety of industrial and consumer packaging and related packaging systems. Products include multiwall paper and heavy-duty plastic bags, corrugated and paperboard boxes, glass bottles and plastic containers. Two of the three companies have plants across Canada, and the third is a packaging leader in the Federal Republic of Germany.

Consolidated-Bathurst's major shareholder, with 39.8% of the outstanding common shares, is another Canadian organization, Power Corporation of Canada, of Montreal.

Directors

Pierre Arbour
President, Laduboro Oil Ltd.
Montreal, Que.

Douglas A. Berlis, Q.C.
A Senior Partner, Aird & Berlis
Toronto, Ont.

James W. Burns
President, Power Corporation of Canada
Montreal, Que.

Edward G. Byrne, Q.C.
A company director
Tucker's Town, Bermuda

Peter D. Curry
Deputy-Chairman,
Power Corporation of Canada
Montreal, Que.

Paul Desmarais, O.C.
Chairman and Chief Executive Officer,
Power Corporation of Canada
Montreal, Que.

Edward A. Galvin
President, Poco Petroleums Ltd.
Calgary, Alta.

Roland Giroux
Chairman of the Board of the Corporation
Montreal, Que.

G. Arnold Hart
Director and former Chairman of the Board
and Chief Executive Officer, Bank of Montreal
Mountain, Ont.

Robert E. Morrow, Q.C.
Counsel to Ogilvy, Renault
Montreal, Que.

Kenneth A. Randall
President, The Conference Board, Inc.
New York, N.Y.

The Rt. Hon. The Viscount Rothermere
Chairman, Associated Newspapers Group Limited
London, England

John M. Seabrook
Chairman of the Board, IU International
Philadelphia, Pa.

R. M. P. Shields
Managing Director,
Associated Newspapers Group Limited
London, England

Jean Simard
Vice-President, Simcor Inc.
Montreal, Que.

Peter N. Thomson
Chairman, TIW Industries Ltd.
Nassau, Bahamas

William I. M. Turner, Jr.
President and Chief Executive Officer
of the Corporation
Montreal, Que.

Honorary Directors

Roland Chagnon, C.A.
Richard A. Irwin
A. Searle Leach

Executive Committee

Paul Desmarais, O.C., Chairman
William I. M. Turner, Jr., Vice-Chairman
James W. Burns
Peter D. Curry
G. Arnold Hart
The Rt. Hon. The Viscount Rothermere

Audit Committee

R. M. P. Shields, Chairman
Pierre Arbour
Roland Giroux
Robert E. Morrow, Q.C.
Kenneth A. Randall

Remuneration Committee

G. Arnold Hart, Chairman
Paul Desmarais, O.C.
Roland Giroux

Officers

Roland Giroux
Chairman of the Board

William I. M. Turner, Jr.
President and Chief Executive Officer

John D. Andrew
Executive Vice-President, Corporate Affairs

The Hon. Maurice Sauvé, P.C.
Executive Vice-President, Administrative
and Public Affairs

Jules Soucy
Vice-President, Transportation
and Corporate Services

Norman A. Grundy
Vice-President, Planning and Systems

Edwin S. Kirkland
Secretary

E. Camille Robichaud
Assistant Secretary

Timothy J. Wagg
Vice-President, Finance and Treasurer

Colin G. Fraser
Assistant Treasurer

Edward Lyssan
Vice-President and Controller

T. Oscar Stangeland
Executive Vice-President, Pulp and Paper

Guy Dufresne
Vice-President, Marketing, Pulp and Paper

James G. MacLeod
Vice-President, Woodlands

Ashok K. Narang
Vice-President, Groundwood Specialties

Mackenzie deB. Strathy
Vice-President, Newsprint Sales

John B. Sweeney
Vice-President, Technical Development
and Environmental Affairs

John P. Woods
Vice-President, Manufacturing

E. A. Thompson
Executive Vice-President, Packaging

Benedict G. R. Cotterill
Vice-President, Bag Division

Theodor W. Haiplik
Vice-President, Container Division

Subsidiary Operations

W. W. Gillespie
President, *Gillies Inc.*

Colin M. Marquis
President, *Consolidated Pontiac Inc.*
Consolidated-Bathurst Paper Sales Limited

Michael A. Pelham
Managing Director
Consolidated-Bathurst (Overseas) Limited

Joseph E. Souccar
President, *Domglas Inc.*

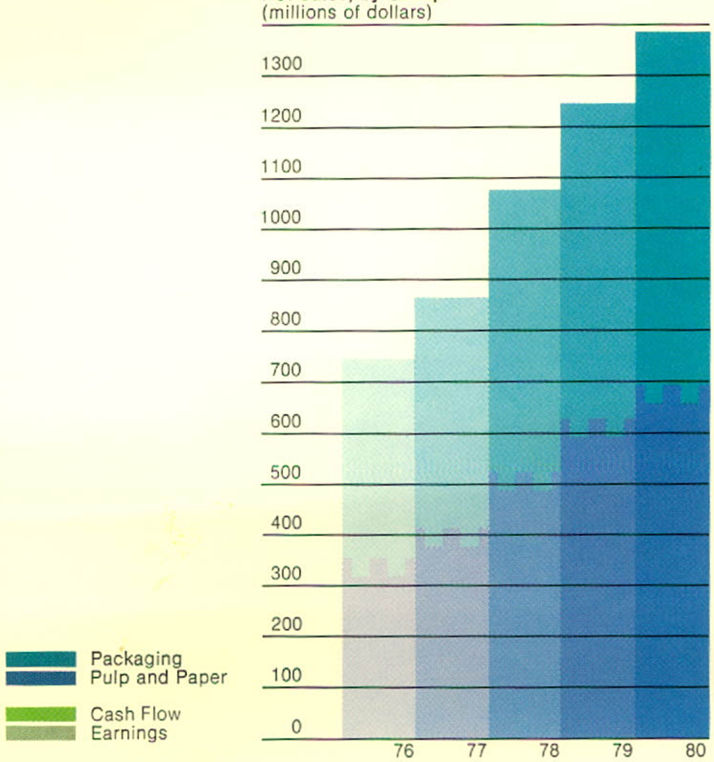
Werner Woitas
Chairman, Managing Board, *Europa Carton AG*

Highlights

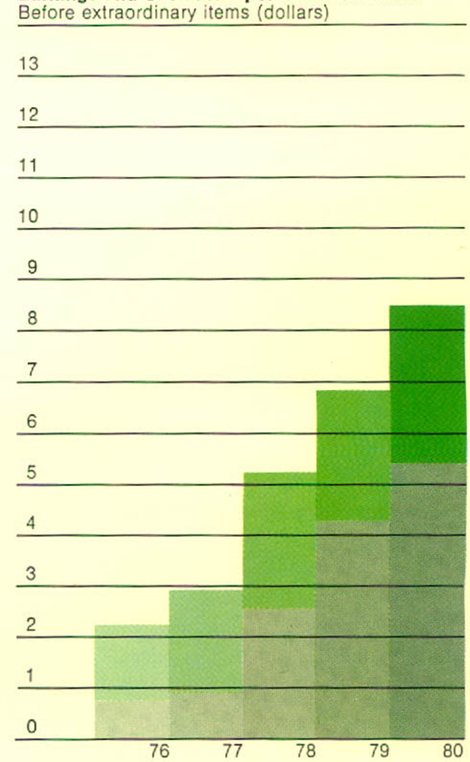
		1980	1979	1978
Operations (thousands of dollars)	Net sales and other income	**$1 403 757**	$1 254 686	$1 087 460
	Earnings before extraordinary credit	**122 379**	98 259	59 147
	Extraordinary credit	**—**	4 589	1 568
	Net earnings	**$ 122 379**	$ 102 848	$ 60 715
	Exchange gain on sales in U.S. funds* – net of taxes	**$ 38 792**	$ 33 132	$ 25 835
	Additions to property and plant	**143 152**	92 332	47 475
	Working capital	**$ 260 746**	$ 289 633	$ 263 141
Per common share (dollars)	Earnings before extraordinary credit	**$ 5.42**	$ 4.27	$ 2.60
	Extraordinary credit	**—**	0.20	0.07
	Net earnings	**$ 5.42**	$ 4.47	$ 2.67
	Cash flow from operations	**$ 8.51**	$ 6.86	$ 5.25
	Dividends	**2.00**	1.00	0.75
	Book value	**$19.72**	$16.26	$12.79
Other data	Number of issued common shares	**22 481 643**	22 051 362	22 381 992
	Canadian registered	**84.2%**	85.1%	85.5%
	Number of common shareholders	**14 160**	14 534	13 008
	Number of employees at year-end	**17 022**	17 869	18 340

*Based on parity of the Canadian dollar with the U.S. dollar

Net Sales, by Group
(millions of dollars)



Earnings and Cash Flow per Common Share
Before extraordinary items (dollars)



W. I. M. Turner, Jr.

Roland Giroux

Report of the Directors

To shareholders and employees:

Consolidated-Bathurst entered the 80's from the strong performance base established in 1979. In 1980, new records were set in both sales and earnings. Net sales were $1.389 billion, a 12% improvement over 1979. Net earnings were $122 million, or $5.42 per common share, an increase of 25% over those of the previous year. Pacing the Corporation's record results were strong performance in pulp and in newsprint, higher shipments and improved productivity for most packaging products, and the benefit to export revenue from the continued weakness of the Canadian dollar.

Operating Results Improved

All primary mills in the Pulp and Paper Group operated at full capacity throughout the year except for the Port Alfred newsprint mill at Ville de La Baie, which was idled for ten weeks by a strike. The impact of high newsprint and pulp performance on the Group's results was only slightly reduced by lower lumber shipments and linerboard and kraft paper production difficulties. In Packaging, as predicted, sales increased and earnings improved substantially. Good results were achieved by Europa Carton AG in West Germany, particularly during the first half of the year. In Canada, increased shipments of corrugated containers offset the decline in industrial bag sales. Domglas Inc. had record earnings in 1980, in contrast to the results of the previous year, during which operations were curtailed by strikes at two glass plants. At the corporate level, higher income from investments also contributed to better 1980 earnings.

Foreign Exchange Benefit High

The weakness of the Canadian dollar continued to provide a substantial benefit to Canada's export industries. The U.S. dollar was valued at an average of $1.17 Canadian in 1980 as in 1979. Compared to a basis of parity of the Canadian and U.S. dollars, this suggests that the Corporation's 1980 earnings benefited from exchange by approximately $39 million after tax. This amount is equivalent to 32% of earnings, compared with $33 million, or 34% of earnings before extraordinary credit in 1979.

Expansion and Modernization

Consolidated-Bathurst's strategy is to maintain its cost competitiveness and to take advantage of growth opportunities. The Packaging Group actively studies new products and seeks new markets to serve. Pulp and Paper evaluates market trends and product mix, and progresses through equipment and process modernization and by adding incremental capacity at its established mills. In 1980, capital expenditures increased by 55% to $143 million and are projected to reach approximately $170 million in 1981, a level considered to be well within the financial capabilities of the Corporation.

Packaging expenditures were related mainly to raising in-plant productivity in corrugated containers and in glass containers, and to initiating the production, in Canada, of two-litre plastic bottles. In Pulp and Paper, work progressed on four major projects. These projects are the 'very high yield' sulphite pulp mill at Laurentide Division, the newsprint machine speed-up at Belgo Division, the paper machine for lightweight specialties at Wayagamack Division, and a boiler to burn wood waste at Port Alfred Division.

In the final quarter, the Board approved three new mill projects. The most important involved the expenditure of $85 million to add pulp output and speed up the paper machines at Port Alfred, so as to increase newsprint capacity there by approximately 200 tonnes per day, or 22%. An expenditure of $10 million was also approved for a second supercalender to produce rotogravure paper at Laurentide, and $7 million for modernization of the spruce sawmill at St. Fulgence, Quebec.

Investments in Energy

During 1980, Consolidated-Bathurst increased its investment in Sceptre Resources Limited to $20 million by purchasing 1 000 000 treasury common shares for $10 million and 276 000 7% convertible second preferred shares, Series A for $7 million. The Corporation also purchased 855 000 common shares and 14 000 preferred shares of Sulpetro Limited for $19 million. In addition, $3 million was spent on the joint venture exploration program with Remington Resources Limited.

In February 1981, Consolidated-Bathurst undertook to purchase 2 000 000 treasury common shares of Sulpetro at $23.50 per share. The transaction is subject to the conditions that Sulpetro's shareholders approve certain changes in its capital structure and that a ruling favourable to Sulpetro and Consolidated-Bathurst will be obtained from the Federal Department of Energy under the proposed Canadian Ownership Regulations and the Petroleum Incentives Program.

Such investments, as well as being potentially rewarding, are intended as a shield against the exposure of the Corporation to energy's escalating cost and uncertainty of supply.

Financial Resources and Dividends

The Corporation entered 1980 in sound financial health. During the year, capital expenditures and investments were financed by cash flow from operations and short-term debt. In December 1980, the Corporation increased its revolving credit facilities with Canadian chartered banks by $100 million, to a total of $220 million, in order to broaden its financial resources. To date, the Corporation has used only $70 million of that amount.

In February 1981, Consolidated-Bathurst sold its investment in the common shares of Abitibi-Price Inc. for an amount not less than $51 million, resulting in a pre-tax gain of approximately $18 million.

Dividends declared per common share doubled to $2.00 in 1980. This amount comprised dividends of 25¢ plus an extra dividend of 7½¢ per quarter in each of the first three quarters, a dividend increased to 30¢ with an extra of 2½¢ in the fourth quarter, and finally a year-end extra dividend of 70¢.

The higher dividend in 1980 met the Board's objectives of providing a satisfactory return to shareholders, based on performance, and of maintaining cash flow fully adequate to operating flexibility. The common dividend payout ratio, expressed as a percentage of net earnings for the year, was 37% in 1980, the same level as the average for the preceding five years.

Officers

At the Board meeting following the Annual Meeting on April 25, 1980: Edward Lyssan, Controller, was appointed Vice-President and Controller; Ashok Narang, Product Manager, Specialty Newsprint, Kraft Paper and Boxboard, was appointed Vice-President, Groundwood Specialties; and Colin G. Fraser, Assistant to the Treasurer, became Assistant Treasurer.

Subsequent to the resignation of Pierre Goyette, Vice-President, Finance, the Board at its meeting on January 29, 1981, appointed Timothy J. Wagg, Vice-President and Treasurer, as Vice-President, Finance and Treasurer, effective February 13, 1981.

Directors

At the meeting of the Board on April 25, 1980, Roland Chagnon, C.A., and A. Searle Leach, ineligible for reelection as directors under the mandatory age requirement of the Corporation's by-law, were unanimously appointed honorary directors in recognition of their long and distinguished service on the Board. Mr. Chagnon originally joined the Board in 1967, having served as a director of Domglas Inc. from 1963. Mr. Leach, who was elected to the Board in 1967, was also a director of Bathurst Paper Limited from 1965.

On August 29, 1980, the Board accepted the resignation, as a director, of The Hon. John B. Aird, O.C., Q.C., of Toronto, prior to his installation as Lieutenant-Governor of the Province of Ontario. The Board wishes to express its esteem of Mr. Aird and its appreciation for his valued counsel and constant dedication as a director of Consolidated-Bathurst from 1967 and of Domglas from 1973. At the same meeting, Douglas A. Berlis, Q.C., of Toronto, was appointed to the Board to replace Mr. Aird.

Two of the regular meetings of the Board were held outside of Montreal during 1980. The September meeting was at the Laurentide Division in Grand'Mère, Quebec. The directors were briefed on site about new capital projects at that location. In October, the Board met in New York City at the Rockefeller Center offices of Consolidated Newsprint, Inc., to learn of developments in the Corporation's major newsprint market, at its headquarters for U.S. newsprint sales.

Outlook

Consolidated-Bathurst faces the current year with careful optimism. The Corporation's pulp and paper mills are expected to operate at high production-to-capacity ratios during most of 1981. Sales of corrugated containers and industrial bags should gain strength with any improvement in the Canadian economy, and the outlook for glass and plastic containers is favourable. It is expected that the West German recession will adversely affect results of Europa Carton in the early part of 1981, with some recovery anticipated later in the year. Among continuing imponderables are the relationship of the Canadian dollar to the U.S. dollar, the duration of the slowdown in the North American and West German economies and the ability of international markets to absorb the new newsprint capacity of 1980 and additional capacity coming on stream this year.

In 1981, Consolidated-Bathurst enters its 50th year of operations with every promise of high sales and earnings. A tradition of husbanding resources and of professional craftsmanship, combined with the modernization program of more recent years, have placed Consolidated-Bathurst among the lowest-cost Canadian producers of pulp and paper and packaging. This enviable position augurs well for the future.

The Directors extend their gratitude to Consolidated-Bathurst's employees for their efforts during the year, for their contribution to the record performance achieved, and for their day-to-day perseverance against the continuing challenges of new markets and new projects.

On behalf of the Board of Directors,

Roland Giroux
Chairman of the Board

W.I.M. Turner, Jr.
President
and Chief Executive Officer

Montreal, February 27, 1981.

Pulp and Paper Group

In 1980, the Pulp and Paper Group set new records in profits and sales. Principal factors in higher earnings were increased margins, generally high rates of production in relation to capacity, and the exchange benefit on export sales, mainly to the United States and the United Kingdom. The weakness of the Canadian dollar relative to such currencies contributed approximately 35% of the Group's operating profit.

Net sales during 1980 totalled $698.8 million, including $43.8 million in sales to the Company's Packaging Group. Operating profit was $186.8 million, approximately 70% derived from newsprint and groundwood specialties.

Market demand for newsprint, groundwood specialties, and bleached pulp continued strong through the year. Demand for other Group products varied from acceptable to good, except in the case of lumber, where it dropped sharply through most of the year. Adding to the year's operating loss on lumber production was a special write-off of $1.9 million related to the permanent shutdown in December of the spruce sawmill at Marsoui, Que.

Labour negotiations

Collective agreements were renewed in the fall of 1980 at the Company's seven pulp and paper mills in line with established industry patterns, although a strike of 10 weeks was experienced at the Company's Port Alfred mill. This was, at least in part, a result of the strategy of the union federation involved at that mill to impose sectorial bargaining on the industry in Quebec.

Capital expenditures

As mentioned *in the Report of the* Directors, there are currently six major projects in progress aimed at modernization and change of product or market emphasis at the Company's four newsprint and groundwood-specialty mills. Several of these projects are eligible for grants under the Canada/Quebec Government Assistance Program for modernization of the Pulp and Paper Industry, and the Forest Industry Renewable Energy Program.

With improved profits and cash flow and government aid for modernization, the Group has increased capital expenditures to take full advantage of new technology and trends, so as to prepare its employees and facilities to meet the market opportunities ahead.

Product emphasis

As the thrust of expenditures on speed-ups, twin-wires and supercalenders demonstrates, emphasis in the next few years will be directed toward newsprint and groundwood specialty papers, the Group's most important product lines, and to providing the product quality best suited to the rapidly changing requirements of Consolidated-Bathurst's publisher, commercial printing and converting customers.

To that end, increased production capacity for offset newsprint, rotogravure, and groundwood specialty papers is being installed. The Group will also continue to be an important and competitive supplier of bleached and unbleached kraft market pulps, containerboard, specialty kraft papers, boxboard, and pine and spruce lumber.

As indicated in the product and group reports that follow, particular management attention will also be devoted to products and facilities where the return is clearly inadequate, where competitive ability in future markets may be uncertain and where such circumstances can be improved within the control of the Company.

Group strategy is to lead from long-established strengths, with a clear appreciation of the cyclical nature of the industry and its markets. Efforts to moderate the swings of such cycles will continue.

The Group seeks to provide what its customers want and to deliver it based on optimum use of wood fibre, energy, process and human resources. With efficient application of such resources, in spite of the difficulty in predicting economic developments on an international scale, the outlook is positive.

Shipments – Pulp and Paper Group Products	**1980**	1979	1978	1977	*1976*
(thousands of tonnes)					
Newsprint	**913**	952	933	785	831
Pulp	**231**	230	220	186	148
Containerboard	**302**	301	279	248	206
Kraft paper and boxboard	**81**	88	82	72	62
Lumber (thousands of board feet)	**92 081**	131 192	128 159	91 464	95 692

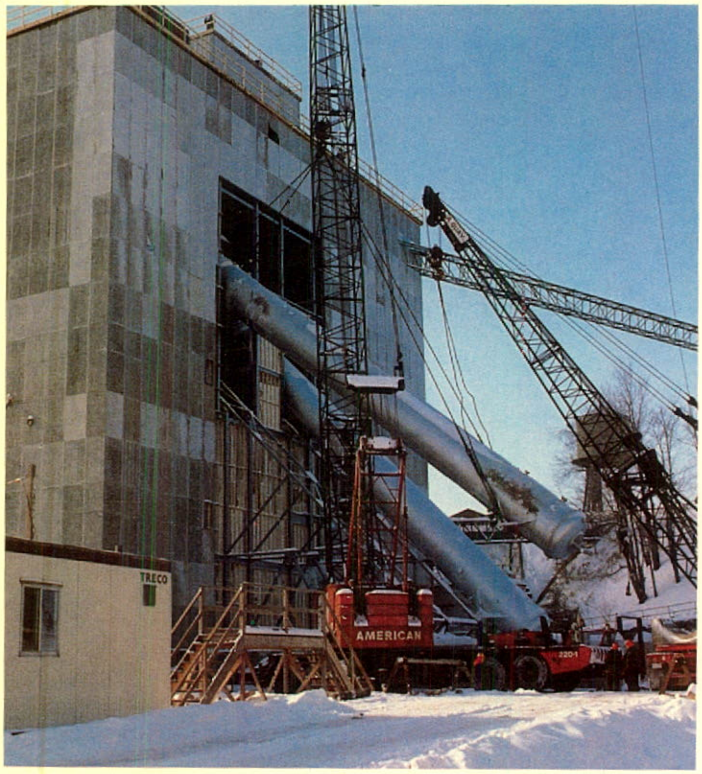
1 Photo shows the plant's continuous digesters being installed at the Company's new 'very high yield' sulphite pulp mill, Grand'Mère, Quebec, To cost $24.7 million, project is part of modernization of Laurentide Division facilities.

2 This supercalender machine, which started up at Grand'Mère in mid-September, turns out newsprint especially adapted to rotogravure printing. Its capacity is 55 000 tonnes per annum. A second supercalender, to cost $10 million, will be installed in the same mill during 1981.

3 Steelwork nears completion in $61.3 million project to broaden capabilities of Wayagamack Division, Trois-Rivières, Quebec. Building will house new W-3 paper machine. The twin-wire equipped unit will produce 70 000 tonnes annually of groundwood-based specialty papers for telephone directory and commercial printing uses.

4 Bleached kraft pulp produced by the Company's Pontiac Division, at Portage-du-Fort on the Ottawa River, was a star sales and earnings performer in 1980. During the year, the Division shipped the two-millionth tonne produced there since start-up in late 1967.

1



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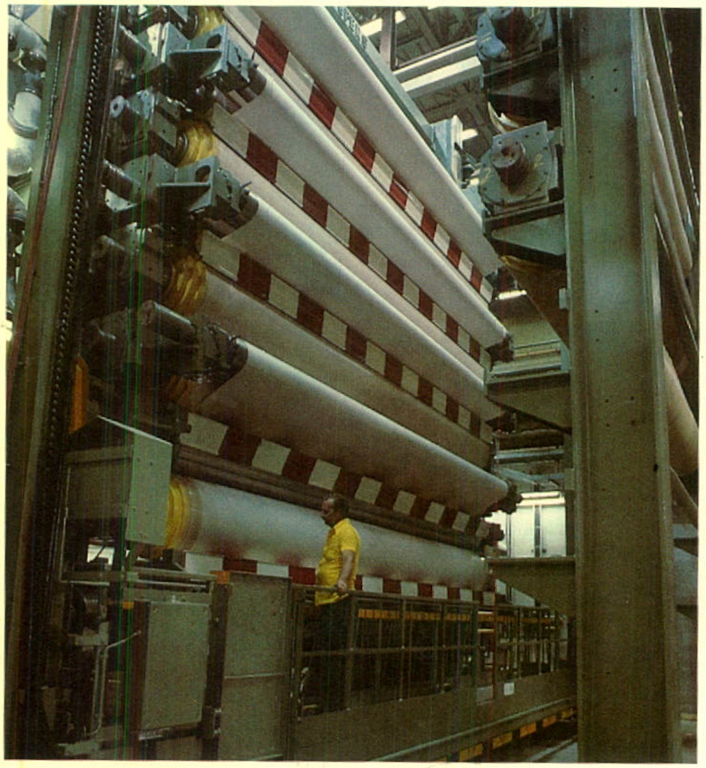

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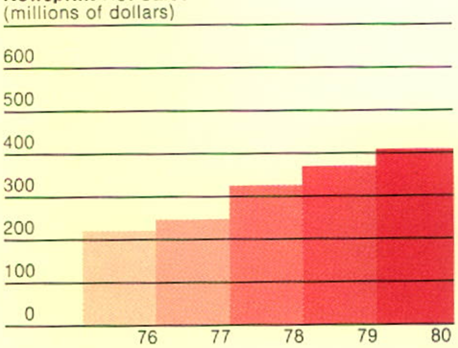
Newsprint and Groundwood Specialties

Net sales of newsprint and groundwood specialties were $405.9 million, up some 10% over $368.1 million in 1979. This was in spite of the volume lost to the strike at Port Alfred Division and total shipments down by about 4%. Shipments were approximately 62% to the United States, 23% to Canada, and 15% to overseas markets. Groundwood specialties comprised approximately 22% of total volume.

While 1980 newsprint consumption in the U.S. declined by 1% from 1979, to 10.1 million tonnes, overall supply was tight because of strikes at several mills. Publisher inventory levels rose by approximately 200 000 tonnes and orders remained strong through the year. Price increases, based on cost increases, were effected in both publisher and specialty groundwood papers.

Sales of groundwood specialties enjoyed another growth year, with increases in all products and markets. Total specialty sales were 14% higher than in 1979, despite restrictions imposed by capacity allocation and the work stoppage. Sale of the product of the new specialty lightweight machine under construction at Wayagamack Division was assured with the completion of sales contracts for much of that output, available after mid-1982. The continued vigorous growth of the rotogravure market is being anticipated in the decision to proceed with the installation of the second supercalender at Laurentide Division.

Newsprint Net Sales
(millions of dollars)



Based on Group projects approved and underway, a capacity of 350 000 tonnes is projected by mid-1982 for rotogravure and other groundwood specialty papers.

In the daily newspaper field, the conversion of letterpress printing plants to the offset process continues unabated. The Company is well equipped to meet this market development. In addition to twin-wire paper machines already in place, the Belgo twin-wire will add a second at that location, while the new program announced for Port Alfred will involve the installation of a fourth twin-wire there. The speed-up of all machines at Port Alfred will also add 72 000 tonnes of new capacity. Of the Group's eight twin-wires, including the three new ones, six will produce publisher grades and two, groundwood specialties.

Newsprint demand in 1981 is not expected to be as strong as over the past three years. In addition, capacity is increasing significantly in the U.S. and Canada. With well established positions in long-term markets for both publisher and specialty grades, however, the Company's newsprint and groundwood specialty business is expected to remain firm throughout 1981.

Kraft Market Pulp

Net sales of bleached and unbleached kraft market pulps were a record $120.4 million, based on shipments of 230 600 tonnes. This represents an increase of 26% in sales revenue, on approximately the same tonnage as last year.

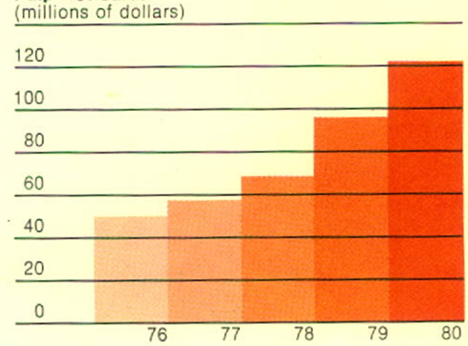
Despite weakening economies in the U.S., and particularly in Western Europe, the strong market of 1979 continued through early 1980. Pulp demand remained firm in all major markets, although shipments to Western Europe and Japan declined near year-end. During the year, prices attained a level that produced a reasonable return on investment, but prices lagged behind cost increases after mid-year.

In 1980, the Pontiac Division bleached kraft pulp mill at Portage-du-Fort, Quebec, set a record for annual production and also passed the two-million-tonne mark for total production since start-up at the end of 1967. Market demand for the high quality product of this mill continued to grow, often in contrast to declining markets for commodity grades.

Production and shipments of unbleached kraft pulp from the Bathurst Division mill in Bathurst, N.B., were somewhat lower than in 1979 due primarily to operating problems in the second half of the year. Some weakness in the U.S. market through a good part of the year was offset by an increase in tonnage shipped offshore.

In 1981, with the slowdown forecast for most of the developed countries, in-

Pulp Net Sales
(millions of dollars)



dustry demand for paper-grade market pulp will continue to weaken, especially in the first half. Nevertheless, with inventories still at low levels, the absence of new capacity and an expectation of some recovery in the second half of 1981, improvement can be expected in the latter part of the year.

Containerboard

Net sales of containerboard (linerboard and corrugating medium) were $99.4 million, an increase of 15% over the 1979 level on an overall sales tonnage that showed a modest increase. The Company's Container Division continued as the major customer for containerboard produced at Bathurst and Chaleurs divisions, with direct shipments to its plants accounting for approximately 39% of total production.

Firm demand for containerboard throughout most of 1980 in both domestic and offshore markets allowed for price improvements. Prices are still, however, below levels that provide an adequate financial return from these products.

Sales tonnage and production from the Chaleurs Division linerboard mill at New Richmond increased over 1979 levels by approximately 2% and 4%, respectively, although production difficulties related to maintaining environmental standards at the mill did not allow full advantage to be taken of market demand. While sales to the domestic market were somewhat lower in 1980, this was offset by additional tonnage sold in the offshore market, which did achieve a satisfactory return.

There was, however, a sharp decline in demand in the latter part of the year in Western Europe and other export markets.

Sales volume of corrugating medium, produced at the Bathurst Division, was down slightly from 1979, with maximum levels restricted by operating problems. Domestic sales remained steady in spite of a marked over-capacity position in the industry. Traditional export sales showed little market change from 1979.

For 1981, industry demand for both linerboard and medium is expected to be sluggish, with lower shipments expected at least in the first half of the year, and a continued slowdown in offshore markets, particularly for linerboard to Western Europe. Some improvement is envisaged for the latter part of 1981.

Kraft Paper and Boxboard

Net sales of kraft paper and boxboard were $48.1 million in 1980, reflecting an increase of 9% over $44.4 million in 1979.

Demand for kraft papers in Canada deteriorated during 1980, with reduced consumption in nearly all sectors. Canadian consumption for the year was 12.5% below the 1979 level. The industry operating rate, however, dropped only from 95.1% to 93.5%, due to discontinuation of kraft paper production by one domestic producer. Company shipments at 50 300 tonnes were 10% below the 1979 level because of production difficulties and a substantial decline in shipments to the Company's Bag Division later in the year.

Net sales of kraft paper increased by 8% over 1979 as the program to rationalize and upgrade this product intensified. This increase also reflected the effect of price increases realized during the year. Financial results remained unsatisfactory.

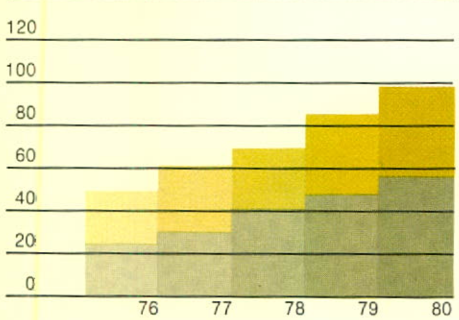
Industry shipments of boxboard to domestic customers declined by 7% compared to 1979 and imports of boxboard from the U.S. into Canada dropped by 36 000 tonnes, or 33%. Net sales from the boxboard operations at Laurentide Division in Grand'Mère improved by 8% in 1980, although shipments were lower by 3%. Efforts continued through the year to rationalize boxboard product mix and to develop a strategy for an adequate return on this product.

Manufacturing

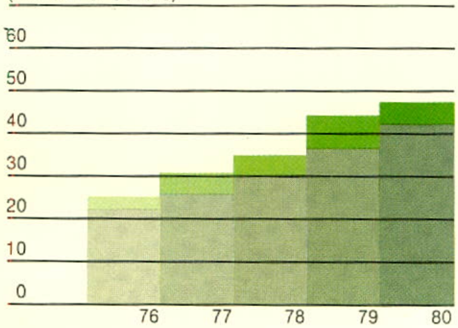
The Manufacturing Group's seven mills operated at capacity and produced 1 512 200 metric tonnes of pulp and paper products in 1980. An estimated 60 000 tonnes of production lost to the 70-day strike at Port Alfred Division prevented the attainment of new production records, both for that mill and for the entire Manufacturing Group. Record production volumes were established at the Pontiac pulp mill and in newsprint and groundwood specialty papers at the Laurentide and Wayagamack divisions.

Inflation affected all cost components, ranging from 28% for energy to 9%

Containerboard Net Sales
(millions of dollars)



Kraft Paper and Boxboard Net Sales
(millions of dollars)



Intra-company Sales

for wood, resulting in an overall 13% cost increase. High production volumes enabled the Group, however, to keep the increase in unit costs significantly lower than might otherwise have been the case.

Average energy consumption/tonne decreased by 1%, reflecting the benefit of earlier energy conservation programs. Further improvement is anticipated. During the year, $25 million was authorized for projects to increase refuse burning at three mills so as to displace some 300 000 barrels per year of imported oil. These projects are expected to qualify for assistance grants of $3.8 million from the Federal Government under the terms of the Forest Industry Renewable Energy Program.

Manufacturing capital expenditures established a new record at $88 million, compared to $40 million in 1979. This figure exceeded the previous high of $53 million, which was established in 1966 during the construction of the Pontiac pulp mill. About 80% of the total amount was spent at the three mills in the St. Maurice Valley — Belgo, Laurentide and Wayagamack divisions.

Belgo Division completed its centralized groundwood pulp cleaning and boiler oil-conversion projects and began work on paper machine speed-ups during the year. Laurentide Division's new supercalender started up successfully on September 15 and by year-end had produced 14 000 tonnes of specialty rotogravure paper. Laurentide's 1980 capital expenditures also included over $10 million on the 'very high yield' sulphite (VHYS) project scheduled to come on stream in mid-1981. Wayagamack Division made significant progress on its new W-3 groundwood specialty machine project, approved in January 1980 and scheduled for mid-1982 start-up.

During the year, agreement was reached with Quebec authorities on the target completion dates for the mill pollution control programs. Special emphasis has also been directed toward improving the quality of working conditions and the safety of mill personnel.

Woodlands

During 1980, Woodlands divisions delivered 2.416 million tonnes of wood fibre to Company pulp and paper mills and sawmills, a decrease of 5% from deliveries in 1979.

Sawmill residue as a source of fibre for the pulp and paper mills amounted to 981 000 tonnes in 1980, or 41% of the total. This represents a higher proportion of total deliveries, which suggests the continuing trend toward the integration of the lumber and pulp and paper sectors.

During the period 1975-1979, wood costs increased at well below the average annual rate of inflation. During 1980, both purchased wood prices and limit wood costs increased more sharply and the net result was an overall increase of 9%.

Inventories of wood in mill yards, in rivers and in the forest totalled $92.9 million at year-end. This was 5% higher than in the previous year, in part because of the 70-day strike at the Port Alfred mill. Capital expenditures in 1980 for mechanical equipment, roads, camps and other facilities amounted to $4.2 million.

Under the Canada-Quebec joint supplementary agreement on forestry development, concluded in 1979 for a five-year period, grants for road construction in 1980, either received or approved, amounted to $1.3 million.

Considerable uncertainty still exists regarding the role of industry in forest management in eastern Canada. The rate of revocation of timber limits in Quebec has slowed, largely because of the reduced availability of Government funds. In New Brunswick, a new Lands and Forests Act was enacted which provides for sweeping changes, including the cancellation of all timber licenses and wood agreements, effective March 31, 1982. Although consultation and study have been pursued on the implementation of this Act, the impact on future wood supply to the Bathurst mill is still uncertain.

In March of 1980, concessions covering 860 square miles of the Company's Saguenay and St. Maurice divisions' limits were revoked by the Government of Quebec. Preliminary compensation of $684 000 for improvements on these concessions has been received.
Final compensation for improvements in relation to the retrocession of the Company's Chaleurs and Ottawa limits was agreed upon with the Quebec Government in 1980, but formal wood-volume agreements are still being negotiated.

5 An early morning truckload of logs en route to a sawmill in the St. Maurice Valley. Integration of lumber and pulp and paper logging operations ensures the best end use of the forest resource.

6 Skidder operator is key participant in day-to-day woodlands harvesting. Victorin Cantin, near Batiscan camp of St. Maurice Woodlands Division, cheerfully takes a photo break while delivering tree-length pulpwood to a forest clearing for slashing.

7 In typical forest operation, wood is loaded on a truck at roadside. Pulpwood and sawlogs delivered and purchased by the Pulp and Paper Group's Woodlands divisions in 1980 totalled 2.4 million tonnes.

8 "Pickwick" knotty pine panelling is a consistent favorite among the specialized products of the Company's sawmill in Braeside, Ont. High grades of pine offer an easily-worked softwood of attractive appearance. Structural spruce lumber is produced at other sawmills of the Company.

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As a result of cessation of Company logging operations at Marsoui and availability of purchased fibre to meet the requirements of the Chaleurs linerboard mill, Chaleurs Woodlands Division and Bathurst Woodlands Division were merged as the Maritimes Woodlands Division, with its headquarters at Bathurst, N.B.

Conversion to the metric system in 1980 resulted in wood delivered to the paper mills being changed to a weight basis from the traditional volume basis. This change was particularly complex in respect to the variety of hardwood species and their different densities.

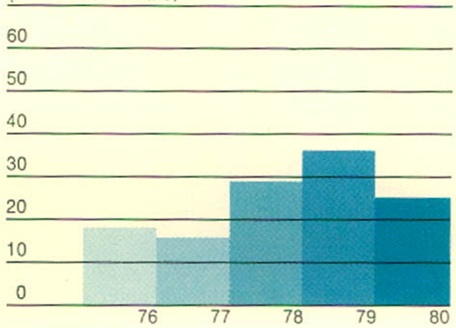
Emphasis was placed on energy conservation at all divisions. Attention was focused, for example, on the use of smaller vehicles, improved efficiency of equipment, and at camps and garages, on alternative heating systems and better insulation.

Wood Products

The Wood Products Group manages the pine sawmill at Braeside, Ont., two spruce sawmills in Quebec, and the chipping plant/stud sawmill at Bathurst, N.B. The Group's wood products marketing company, Gillies Inc., is responsible for sale of all of the Company's lumber production.

Net sales of lumber were $25.0 million, down almost one-third from the $36.8 million of 1979. Performance of the Wood Products Group was directly related to the unusual and unexpected surges in interest rates and the collapse of housing starts. These had a devastating effect on the North American lumber market throughout the year, and on European and Middle East markets during the last half.

Lumber Net Sales
(millions of dollars)



The Bathurst sawmill, following its redesign, is now exceeding production expectations both in lumber production and residue supply to the Bathurst Division pulp mill. The spruce sawmill at Marsoui, Quebec, was closed permanently on December 5, 1980, with remaining lumber inventory to be shipped out in the spring of 1981.

In late November, upon approval of a DREE grant and authorization by the Board of Directors, a program to modernize the St. Fulgence sawmill at a cost of $7 million was announced. Work began immediately and will continue until completion in the fall of 1981. The lumber product of this sawmill will go to European markets, well established during recent years.

Lumber inventories are abnormally high at all sawmills, which should benefit the group performance in 1981, providing world monetary constraints are not overly severe.

1 The first Mitsubishi 'dry-end' in operation on a corrugator in North America was installed during the year at the Container Division's plant in Whitby, Ont. It makes it possible to change box blank dimensions without stopping the board-making machine. Waste is reduced, productivity improved.

2 Filled Intermediate Bulk Containers being loaded onto trailer. Bag Division processes the basic woven packaging material, is exclusive selling agent for container, and provides related filling systems. IBC is ideally positioned to serve markets between conventional industrial bags and bulk handling.

3 Sieglinde Hunschock of Europa Carton, Heppenheim Plant, talks with Bruno Bianchi at Domglas' Montreal plant, in Pointe St. Charles. Tour of the plant was part of the 25th Anniversary visit of representative ECA employees. Visitors were thoroughly briefed, in German, on Domglas' process, from basic raw materials to finished bottles and jars.

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Packaging Group

The diversified operations of Consolidated-Bathurst's Packaging Group place it among the largest producers of packaging products both in Canada and in the Federal Republic of Germany.

In Canada, Consolidated-Bathurst Packaging Limited through its Container Division operates eight plants producing corrugated shipping containers, corrugated consumer packaging and corrugated packaging systems. The company's Bag Division operates plants in Cap-de-la-Madeleine, Brantford, Calgary, and Vancouver. It sells, throughout Canada, a complete line of industrial bags, and leases high-speed bag filling and weighing equipment. The Division also produces laminated and coated flexible packaging products for a wide-range of uses.

Domglas Inc. and its subsidiaries produce and distribute glass and plastic packaging products. Its glass container division with five plants is the major producer of such containers in Canada. A Domglas division, National Pressed Glass, produces industrial glass products, while a subsidiary, Twinpak Inc., produces plastic bottles and containers, injection and extrusion-moulded plastic products, and supplies packaging machinery systems. Domglas also participates in table glassware markets through a joint venture company, Libbey-St. Clair Inc. That company's plant at Wallaceburg, Ontario, makes glass tumblers, tableware, stemware and pressed glass products for sale across Canada and in export markets.

In West Germany, Europa Carton AG and its subsidiaries, operating at twenty locations, produce paperboard, boxboard, corrugated containers and folding cartons. Europa Carton also has several waste paper collection and processing centres, and provides specialized consulting services through a Packaging Design Institute and a Market Research Institute.

Sales and Profits

In both Canada and Germany, the performance of packaging operations generally reflects closely the domestic economies of these countries. Despite the rather uncertain economic environment of 1980, however, the Packaging Group achieved record levels of sales and earnings.

Net sales of the Group were $742.7 million, an increase of 12% above sales of 1979. Of 1980 sales, $412.9 million were from Canadian operations and $329.8 million from those in Europe. Operating profit of the Group was $47.7 million in 1980, compared with $29.2 million in 1979, and $39.3 million in 1978. Three out of four of the Group's basic divisions had higher earnings than in 1979. Sales and earnings of the German operations exceeded those of the preceding year but, on translation into Canadian dollars, were somewhat reduced by the lower average value of the Deutsche mark during the year.

Shipments – Packaging Group Products	1980	1979	1978	1977	1976
Bags (tonnes)	**21 380**	25 964	24 623	21 364	22 074
Containers (millions of square meters)	**606**	604	555	523	491
Folding cartons (tonnes)	**44 670**	42 774	40 079	34 482	19 096
Paperboard (tonnes)	**77 000**	76 906	76 430	85 611	80 830
Glass (tonnes)	**512 522**	468 603	511 129	458 104	453 847

Bag Division–Consolidated-Bathurst Packaging Limited

Bag Division emphasis during the year was on increased diversification of manufacturing facilities and product lines, particularly in flexible packaging products, so as to broaden growth potential and reduce market vulnerability. Net sales of the Division were $48.5 million in 1980, an increase of 4% over the previous year. Operating profits were lower than in 1979 as a result of reduced volumes in some product lines and because cost increases could not be fully recovered under weak market conditions.

In the western region, the continuing conversion to metric-sized packages dictated minimal customer inventories of unfilled bags, which especially affected fertilizer industry requirements. Moreover, markets of that industry were depressed by the untimely wet spring throughout the prairies. Sales of industrial wrapping materials, including lumber wrap, were below last year's levels, as export shipments of wrapped kiln-dried lumber reflected the dramatic decline in housing construction.

In the central region, there was a decline in multiwall paper bag shipments to a number of end users, including those chemical producers who converted from paper to mono-film and woven plastic bags. Better sales and profitability of various coated and laminated products, however, more than offset the deterioration in traditional markets. During the early months of the year, kraft paper shortages, as a result of a strike at the mill of a major supplier, also impaired central region's operating efficiency.

In the eastern region, multiwall bag sales were down because of decreased sales of customers' products, particularly in the cement industry. Plastic bag sales were about the same as in the previous year. Coated paper product sales were up, with increased sales of newsprint wrap and some decrease in specialty products such as popsicle wrap.

In its product diversification program and to meet a trend toward semi-bulk packaging, the Division obtained exclusive sales rights for the 'Bulk-Lift' Intermediate Bulk Container, and developed a comprehensive IBC packaging system for specific product packaging requirements. Initial shipments across Canada during the fourth quarter were well received. The Division extrusion coats the woven polyolefin fabric, from which the IBC is manufactured in Hawkesbury, Ont., and can also furnish the inner liner when one is required.

Capital expenditures during the year totalled $734 000. Expenditures were designed primarily to improve productivity in all four plants and for high-speed filling and weighing equipment, available on a lease basis and installed in customers' plants.

Container Division–Consolidated-Bathurst Packaging Limited

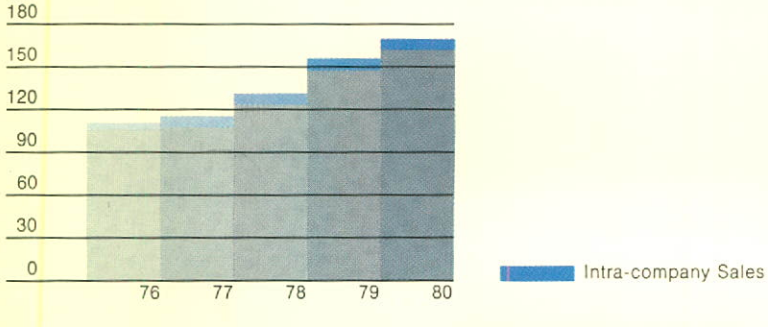
Net sales of corrugated shipping containers and related products by the Container Division increased to $120.6 million in 1980, up 12% from $107.8 million in 1979. In spite of a 2% decrease in the overall market because of economic conditions, Division shipments increased over the previous year and, accordingly, market share increased. For the third consecutive year, Container Division earnings improved substantially over those of the preceding year.

The only decline in shipments was in the Atlantic Provinces where the Division's Saint John, N.B., plant was closed for 19 weeks in mid-year because of a labour dispute.

Specialty and premium products of the Division continued to increase their contribution to earnings. Product-mix change and emphasis on productivity improvement could not offset rapid cost increases. As a consequence, two box price increases had to be implemented during the year.

In the Division's continuing program, major capital installations that came into operation during the year were: rotary die-cutters at Saint John and Etobicoke; a flexo folder-gluer and a four-corner gluer at St. Laurent; and a continuous corrugator conversion at Whitby. A building expansion and corrugator up-grade were also begun at Winnipeg plant late in the year. Capital expenditures in 1980 were $5.7 million.

Bag and Container Net Sales
(millions of dollars)



In the post-strike settlement at Saint John, N.B., the labour contract was renewed at industry levels. Collective agreements of the other seven plants of the Division will be renegotiated in 1981.

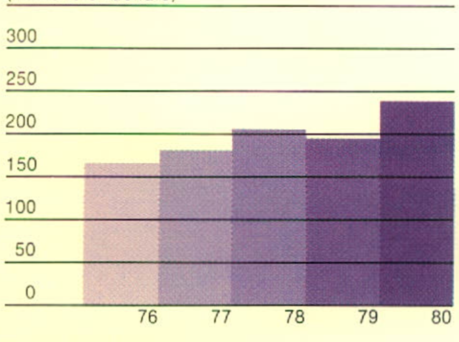
Domglas Inc.

Consolidated net sales of Domglas Inc. reached $243.8 million in 1980, an increase of 23% over 1979. Glass container sales led the increase, making a good recovery from strike-depressed 1979, largely as a result of increased sales of bottles produced for the export of Canadian beer and of direct exports to the U.S. of other glass containers. Domglas subsidiaries recorded an improved year, with Twinpak starting production of large plastic beverage containers.

Glass container volume increased 10%, mainly on the basis of bottles for exported beer and exports of other containers from both eastern and western plants. Satisfactory growth in various domestic segments was also recorded. Fruit juices, mineral waters, spaghetti and other sauces were prime examples of markets expressing preference for products packed in glass containers. The main factors encouraging the use of glass containers are concern for maintaining product integrity, and ensuring flavour protection, and their cost competitiveness. Moreover, glass containers continue to have an edge over other packaging inasmuch as glass can be resealed, reused and easily recycled.

Operating profit reached $19.5 million, an increase of $14.6 million over 1979.

Domglas Net Sales
(millions of dollars)



These record results were based upon increased volume and productivity gains in the glass container segment, the divestment of Dorchester Electronics early in the year, and sharply higher contribution from all subsidiaries and divisions.

Capital expenditures, excluding major furnace rebuilds, declined to $20.0 million. During the year, an additional glass container manufacturing line was installed at the Bramalea plant, to bring the total number of lines there to eleven. A new automatic batch preparation plant of increased capacity was completed at Pointe St-Charles in Montreal, and a repair facility for glass container machines was started up at National Pressed Glass in Brantford.

Considerable engineering work was done to prepare for the rebuilding of the Hamilton plant's No. 2 furnace, to complete the modernization program started two years ago at that plant. A new mould shop facility project was approved late in 1980. This will involve expanding and relocating elsewhere in the City of Hamilton the operation now at the Hamilton plant. It manufactures moulds for Domglas glass container plants across the country. Modernization and expansion of the facility will meet the demand for moulds, which continues to increase because of customer metrication and expansion of exports.

Subsidiaries and Divisions

National Pressed Glass continued to operate very satisfactorily in its traditional manufacture of glass fuse-plug bodies and industrial glass products. In April 1980, it expanded its operations to include the repairing and rebuilding of machines for the glass container division. The repair of six machines was successfully completed in 1980. This operation is expected to be able to handle all machine repairs for the company by the end of 1981.

Twinpak Inc. experienced substantial growth in 1980 as a result of the successful start-up of its new Calgary plant, the first Canadian operation for the manufacture of plastic two-litre beverage containers for the soft drink industry. While this plant was built to serve the Prairie and B.C. markets, it temporarily supplies certain areas in eastern Canada as well. Twinpak's regular product lines fared less well than in 1979, as competition and weak markets eroded sales and margins, particularly in the dairy industry.

Ampak Limited, a national distributor of packaging products, expanded its volumes rapidly in all market areas during 1980 and began substantial exports to the U.S. The injection-moulded line of special child-resistant vials, jars and closures produced by Twinpak and marketed by Ampak was particularly well received in central and western market areas.

Libbey-St. Clair, an affiliated company owned in partnership with Owens-Illinois, completed its second year of operations. Its glass tableware continued to make good headway in Canadian and export markets. A new machine line was installed at the Wallaceburg plant to produce

4 Corrugated containers come off new programmable flexo-folder-gluer at the Europa Carton container plant in Plattling in West Germany. It is one of eight corrugated plants and five folding carton plants that make ECA a leading packaging company in the Federal Republic.

5 Blow-moulded two-litre plastic bottles for soft drinks are in production at Twinpak's Calgary plant. Started up in the spring of 1980, the plant made a good contribution to positive 1980 Twinpak results. It serves bottlers in B.C. and Prairie markets and, temporarily, those in eastern Canada.

6 The Ward flexo-folder-gluer at the St. Laurent container plant accepts corrugated board blanks, prints them in two colors and turns out finished bundles of knocked-down containers. At his CRT display console, operator can see diagram and specifications of order running, and program those to follow.

7 Now produced in Canada at Wallaceburg, Ont., stemware of Libbey-St. Clair Inc., Domglas' table glassware affiliate, serves the Canadian market for institutional and consumer glassware.

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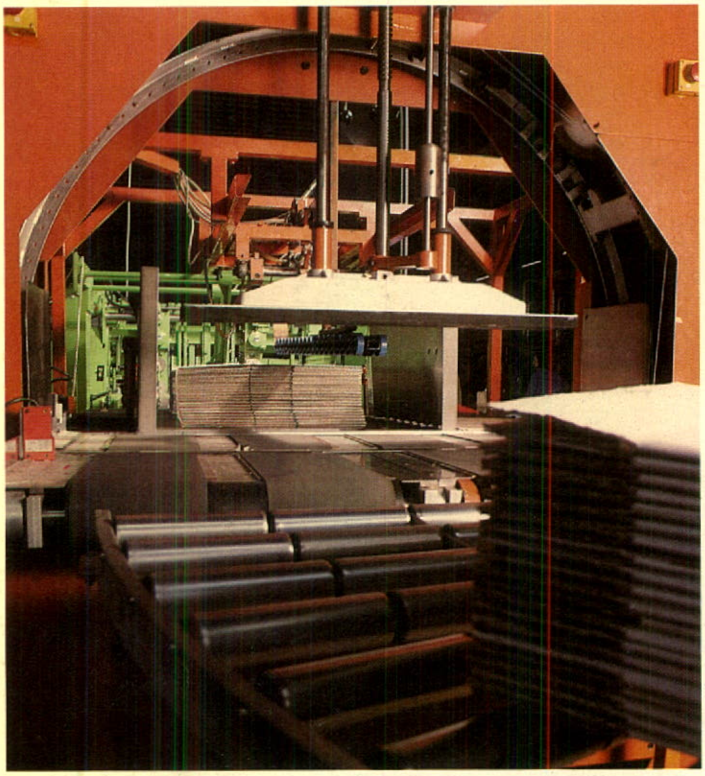

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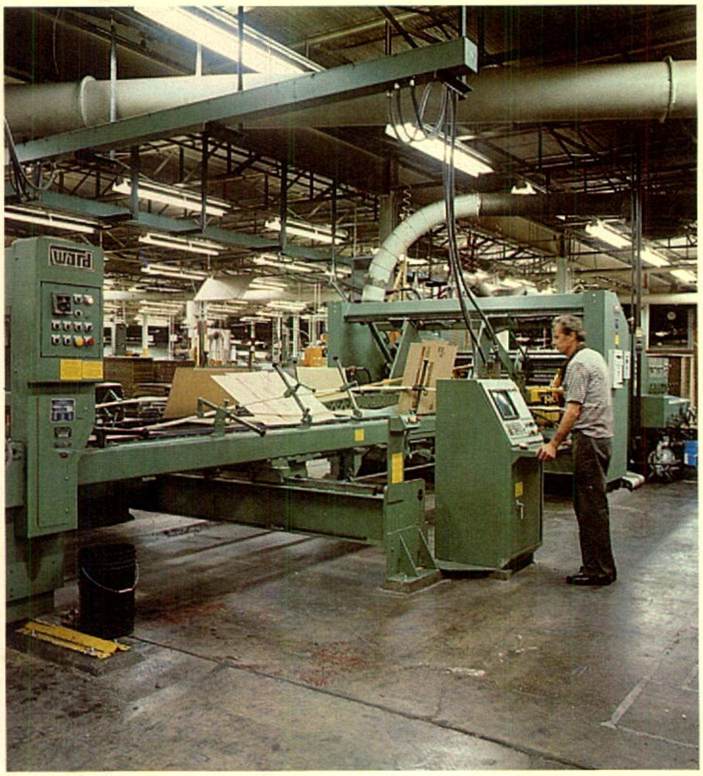

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stemware, and the plant manufactured a number of items previously imported from Libbey in the U.S. The company expanded market penetration and, in 1981, will manufacture retail stemware and gold-coloured tableware. Increased capacity for glass pressed ware scheduled to come on stream in 1981 should allow the company to continue its aggressive market penetration and displacement of imported glassware.

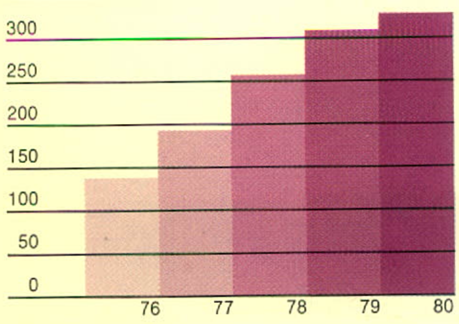
Europa Carton AG

The Group's subsidiary in the Federal Republic of Germany, Europa Carton AG, celebrated its 25th year of operation in 1980 with one of its most profitable years. A major producer of industrial and consumer packaging, ECA operates a containerboard mill, a boxboard mill, several waste paper collection and processing centres, eight corrugated container plants, five folding carton plants, a packaging design institute and a market research institute.

During the first half of 1980, the German economy grew by 3.6% in real terms, but a decline in economic activity in the second half of the year reduced overall growth for the year to 1.8%. As a result of the substantial current account deficit, the Deutsche mark fell against the U.S. dollar. Although this may eventually stimulate economic activity, its immediate effect was to have an adverse impact on earnings by increasing the cost of raw materials and, particularly, of energy.

The weakening in economic activity had a negative effect on the paper-producing and converting industry.

ECA Net Sales
(millions of dollars)



Overall production of paperboard and boxboard for packaging purposes remained at the level of the previous year. While corrugated container industry production increased 5% during the first half of the year, the whole year was up only slightly. The pattern for the folding carton industry was similar at a somewhat higher level, with energy and raw material cost escalation a particular problem.

Despite this economic environment, Europa Carton improved performance in most product areas through market mix, higher prices, and improvements in productivity.

Europa Carton net sales in 1980 were DM 513.1 million, up 13% from 1979. Pre-tax earnings were substantially higher than the 1979 level and were the second best in the company's history. Translated into Canadian reporting, however, the contribution of Europa Carton to Consolidated-Bathurst results was below that of 1979, reflecting the lower average value of the Deutsche mark during the year and heavy taxation levels. Even after such adjustments, however, the net earnings after tax were the second best in the company's history.

The paperboard mill at Viersen produced at capacity during the year. Better average pricing allowed this operation to show a marked improvement in profitability. The boxboard mill at Hoya had a difficult year because soft markets curtailed shipments and kept prices at unfavourable levels, while raw material and energy costs escalated rapidly.

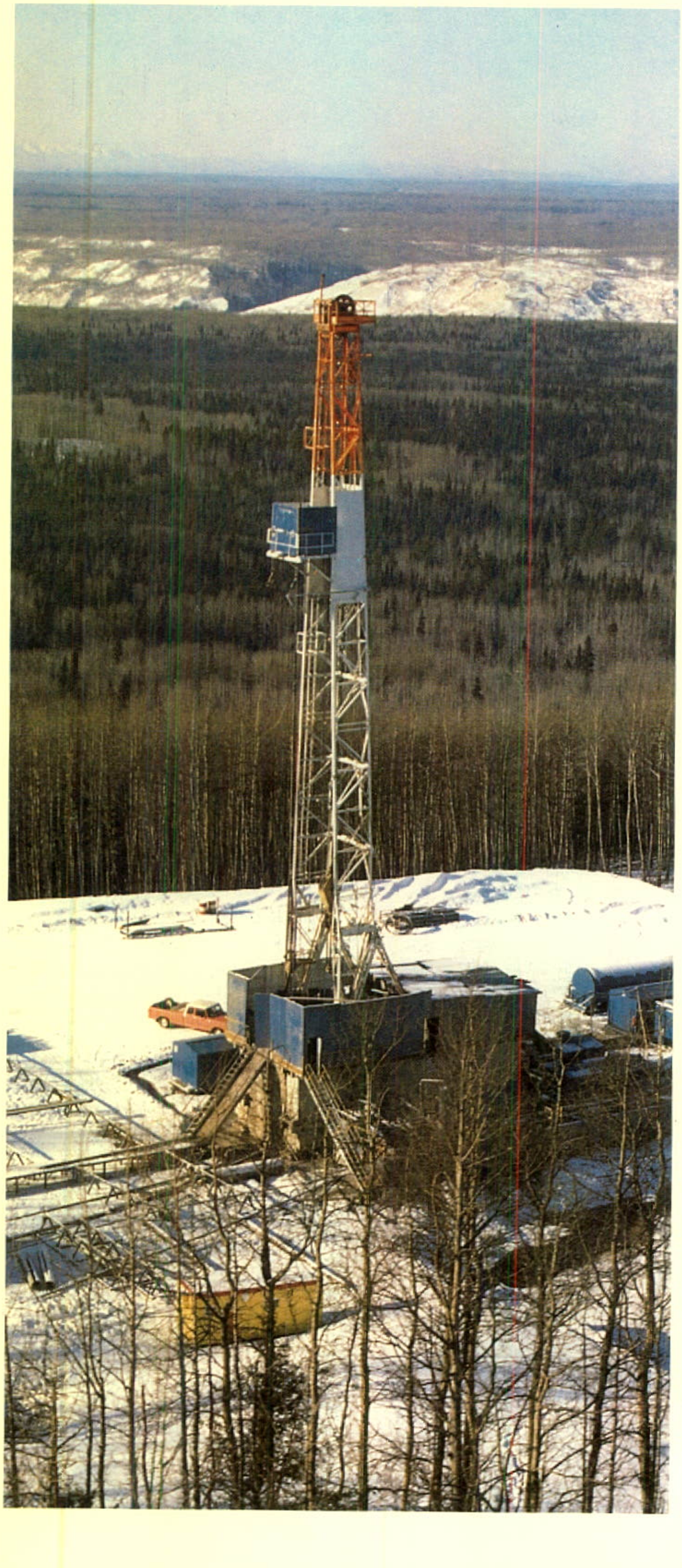
The company's waste paper operations had sales and earnings well above the relatively good levels of the previous year. This improved performance was possible because strong markets provided improved volume and allowed stronger pricing. There was some weakening in demand in the second half of the year.

The *Corrugated Container Division* shipped about the same volume as in 1979. Increased prices and product mix changes resulted in container sales being 13.6% above the previous year. In deteriorating economic conditions during the second half of 1980, the competitive situation did not permit full recovery of cost increases but the combination of some higher prices and productivity improvements resulted in earnings for the division above those of the previous year.

The *Folding Carton Division*, although also affected by the slow-down in economic activity in the latter part of the year, had, overall, an outstanding year of sales and earnings. Sales of the Division were up 7.9% and earnings showed a substantial increase, with improved performance at four of the Division's five plants.

Both the *Packaging Design Institute* and the *Consumer Market Research Institute* had improved profits on the consulting assignments they carried out during the year.

Oil and Gas Investments



From late 1979 to December 31, 1980, Consolidated-Bathurst invested $46.9 million in Canadian-managed energy resources. A basic objective of these investments is that their future earnings and capital appreciation help to offset increases in energy costs at the Company's own operations, i.e., plants of the Packaging Group and mills and sawmills of the Pulp and Paper Group. The Company's energy bill was $105 million in 1980 and, in spite of a continuing program of energy conservation, can be expected to increase rapidly in future.

Principal focus of the Company's operating and investment interest in the energy sector involves the companies described below.

Sceptre Resources Limited

Sceptre Resources Limited is a public oil and gas exploration and development company, largely Canadian-owned. Its principal producing properties are located in western Canada. Sceptre has, however, significantly expanded its exploration activities in recent months to include involvement in the United States, Portugal, the North Sea, and offshore Vietnam, Ireland and the Philippines. Sceptre's 45% interest in Candecca Resources Limited also provides participation in onshore exploration in the United Kingdom.

In October 1980, Sceptre announced that it and its partners had acquired an exploration concession covering 7 870 square kilometres onshore Abu Dhabi, United Arab Emirates. Sceptre will have 25% equity participation and will be the operator.

Since its formation in May 1976 until December 31, 1979, Sceptre participated in the drilling of 198 wells resulting in 35 oil wells and 95 natural gas wells for an overall success ratio of 66%. During calendar 1980, Sceptre participated in 100 wells, with 35 completed as oil wells and 31 completed as gas wells. The company expects to participate in approximately 175 wells during 1981. Sceptre's acreage position at December 31, 1980, was 1 946 000 net acres of which 23% was in Canada, 3.5% in the United States and the remaining 73.5%, in nine other countries. As of April 1, 1980, Sceptre's total net proven and probable oil reserves were 514 330 barrels of oil and 41.8 billion cubic feet of natural gas.

As of December 31, 1980, Consolidated-Bathurst had invested $19.8 million in Sceptre, consisting of 1 325 700 common shares and 276 000 7% convertible second preferred shares, Series A. The Company also has an option expiring August 10, 1981, to purchase a further 500 000 Sceptre common shares at a cost of $12 per share. On a fully-diluted basis, Consolidated-Bathurst's investment represents 18.5% of Sceptre's outstanding common shares.

Remington Resources' drill rig in northern B.C.

Sulpetro Limited

Sulpetro Limited is a public company, over 50% Canadian-owned, which has chiefly been involved in exploration and development of natural gas in Alberta. By October 31, 1980, Sulpetro had participated in a total of 479 successful wells in Canada, of which 154 were producing gas wells, nine were producing oil wells, and 316 were shut-in gas or oil wells. Acreage holdings as of October 31, 1980, were 939 200 net acres in Alberta and 220 900 net acres elsewhere in Canada. Sulpetro's net proven and probable reserves as of the same date were 5.53 million barrels of oil and natural gas liquids, and 510.1 billion cubic feet of natural gas. The acquisition in 1980 of Petrosil Resources Inc. expanded Sulpetro's U.S. exploration activities. During the year ended October 31, 1980, Petrosil participated in 35 wells, resulting in 14 oil wells and four gas wells.

In August 1980, Sulpetro began export shipments of gas to two major transmission companies in the United States, Transcontinental Gas Pipeline Corporation and Tennessee Gas Pipeline Company, after a lengthy period of negotiating necessary approvals from various Canadian and U.S. authorities. Sulpetro expects to deliver an average of 53 million cubic feet per day of natural gas until October 31, 1982, under the initial supply contract. On December 31, Sulpetro announced that it had agreed with Transcontinental to extend the term of the contract to October 31, 1983, and was seeking the required government approvals for this extension.

Approximately one-third of the export volume will be supplied from Sulpetro's own reserves, with the remainder purchased by Sulpetro from its working interest partners. Sulpetro and partners built five new gas plants in Alberta, in the Amisk, Chincaga, Irish, Karr and Valhalla fields, during 1979 and 1980 as supply sources for the gas export project. Several other gas plants in which Sulpetro participates are expected to commence production during 1981 when the western leg of the 'pre-build' portion of the Alaska Highway Gas Pipeline is completed.

In July 1980, Consolidated-Bathurst purchased 60 000 Class A voting common shares and 755 000 Class B non-voting common shares of Sulpetro Limited from a foreign shareholder. After further purchases, the Company's holdings in Sulpetro at year-end 1980 consisted of 60 000 Class A common shares, 795 000 Class B common shares and 14 000 7% convertible first preferred shares, Series A, for a total investment of $18.6 million. Early in February, Consolidated-Bathurst announced its intention to invest a further $47 million for the purchase of two million additional treasury shares of Sulpetro. If this transaction is completed, the Company's share ownership would increase to almost 20% of Sulpetro's common shares on a fully-diluted basis.

Remington Resources Limited

Remington Resources Limited is a small private oil and gas company, based in Calgary, which is operator in a joint venture with Consolidated-Bathurst to explore for oil and gas in western Canada. Under the terms of the joint venture agreement, Consolidated-Bathurst's share of the partnership's interest in any prospect will be at least 70%. As of December 31, 1980, the company had spent almost $3.5 million to acquire approximately 5 800 acres of land in Alberta and British Columbia and to carry out geological evaluation of these properties. In January 1981, the joint venture was drilling exploratory wells in three locations.

Redgas and C.W.P. & F.

Redgas Limited and Canadian Western Power & Fuel Company, Limited, wholly-owned subsidiaries of Domglas Inc., have 13 500 acres of gas properties in the Medicine Hat, Alberta, area. Most of the property is held by freehold title. While the gas reserves cannot be measured exactly, the company's independent geological consultants have recently set the saleable gas reserves at 80 billion cubic feet.

For some time past, Canadian Western Power & Fuel has been delivering gas to various residential and industrial customers in the region. The Domglas glass container plant at Redcliff, Alberta, is a major customer of Redgas. These ongoing sales of gas resulted in net earnings of $1.2 million in 1980.

In 1980, 27 additional Redgas wells were drilled and connected to the existing gathering system at a cost of $3.5 million. The expenditures included the installation of a compressor capable of providing pressure to access a nearby sales line being installed by Nova, an Alberta Corporation, specialists in transmission of gas for export.

Zenith Exploration Company, Inc.

On January 31, 1980, Consolidated-Bathurst signed an agreement to participate in a three-year exploratory drilling program in the U.S. with Zenith Exploration Company, Inc. of Houston, Texas, as operator. Zenith is a small private company with special expertise in seismic exploration and seismic data processing techniques. A U.S. $14 million program is planned, with Consolidated-Bathurst's share being 25%, or U.S. $3.5 million.

Alkebec-Joffre Oil and Gas Partnership

In 1979, Consolidated-Bathurst invested $1.5 million in a Canadian drilling fund managed by Alkebec Inc. and operated by Joffre Oils Ltd. In 1980, the Corporation committed to convert its interest into 247 000 common shares of Joffre Oils Ltd.

Financial Section

Financial Review

Net sales totalled $1.389 billion in 1980, a 12% improvement from the previous year. As illustrated in the Product Segment Information shown below, sales of all products increased except lumber. The most notable growth rates were recorded in pulp, at 26%, and in glass and plastic containers, at 22%.

Operating profit reached $235 million in 1980 from $188 million in 1979, an increase of 25%. Pacing this increase was pulp with higher operating profit equivalent to a return on net sales of 36%. Newsprint, with operating results exceeding $125 million in 1980, maintained its position as the Corporation's major product segment. The Pulp and Paper Group's record performance was achieved despite lower containerboard profit and a loss resulting from weak lumber demand.

Domglas glass and plastic containers and Europa Carton containers markedly increased their profit contribution in 1980.

Net earnings in 1980 amounted to a record $122 million. This was 25% higher than earnings before extraordinary credit of $98 million in 1979. Earnings, combined with higher depreciation and sharply higher deferred income taxes which did not require an outlay of funds, provided most of the working capital generated from operations of $195 million, or $40 million more than in the previous year.

Return on net sales improved to 8.8% in 1980 from 7.9% in 1979. The comparable average during the 70's was 3.6%. *Return on assets* increased to 12.2% in 1980 compared with 11.4% in the previous year. During the 1970-1979 period, this return averaged 5.6%.

Product Segment Information

Sales to Customers		Inter-segment Sales		Net Sales		
1980	1979	**1980**	1979	**1980**	1979	
				(millions of dollars)		
$ 405.9	$ 368.1	**$ —**	$ —	**$ 405.9**	$ 368.1	Newsprint
120.4	95.6	**—**	—	**120.4**	95.6	Pulp
57.6	49.5	**41.8**	36.7	**99.4**	86.2	Containerboard
43.0	37.9	**5.1**	6.5	**48.1**	44.4	Kraft paper & boxboard
25.0	36.8	**—**	—	**25.0**	36.8	Lumber
651.9	587.9	**46.9**	43.2	**698.8**	631.1	Pulp & paper group
163.7	149.9	**5.4**	4.6	**169.1**	154.5	Bags and containers
243.8	199.0	**—**	—	**243.8**	199.0	Glass and plastic containers – Domglas
329.8	307.3	**—**	—	**329.8**	307.3	Containers – Europa Carton
737.3	656.2	**5.4**	4.6	**742.7**	660.8	Packaging group
0.2	0.2	**1.2**	1.2	**1.4**	1.4	Oil and gas
		(53.5)	(49.0)	**(53.5)**	(49.0)	Eliminations
$1 389.4	$1 244.3	**$ —**	$ —	**$1 389.4**	$1 244.3	Total operations
						Corporate
						Interest expense
						Potential exchange charges on German term bank loan
						Investment and other income
						Income taxes
						Minority interest
						Consolidated total

Inter-segment sales are accounted for at prices comparable to open market prices for similar products.

Geographical Segment Information

$1 059.6	$ 937.0	**$ —**	$ —	**$1 059.6**	$ 937.0	Canada
329.8	307.3	**—**	—	**329.8**	307.3	West Germany
$1 389.4	$1 244.3	**$ —**	$ —	**$1 389.4**	$1 244.3	Total operations
						Corporate
						Consolidated total

Canadian operations include export sales amounting to $466.6 million in 1980 and $418.4 million in 1979.

Quarterly financial data per common share

	Earnings before extraordinary credit	Dividends declared	Stock price range Low	Stock price range High
1979 First quarter	$0.80	$0.20	$12¼	$14⅜
Second quarter	1.05	0.20	12⅝	14¼
Third quarter	1.16	0.30	12¾	15⅛
Fourth quarter	1.26	0.30	$11½	$15
	$4.27	$1.00		
1980 First quarter	$1.39	$0.325	$12⅝	$18¾
Second quarter	1.44	0.325	13½	15⅝
Third quarter	1.22	0.325	14½	19½
Fourth quarter	1.37	1.025	$17⅜	$25½
	$5.42	$2.00		

Based on market quotations at respective year-ends, stock prices were 3.3 times per-share earnings in 1979 and 4.7 times per-share earnings in 1980.

Income taxes of $78 million also set a record in 1980 as a result of increased pre-tax earnings and higher tax rates. Total taxes comprising income and property taxes and stumpage dues charged to earnings in 1980 were $97 million, equivalent to approximately $4.00 per share.

Working capital decreased during 1980 by $29 million to $260 million. The working capital ratio was 2.1 at December 31, 1980, compared with 2.6 at the end of the preceding year. This decline was the result of sharply higher capital expenditures and of additional investments in the oil and gas industry.

Total debt rose by $51 million in 1980. An increase of $68 million in due to banks was partially offset by a decline in long-term debt of $17 million. Strong earnings in 1980 maintained the ratio of short and long-term debt to equity at 37/63.

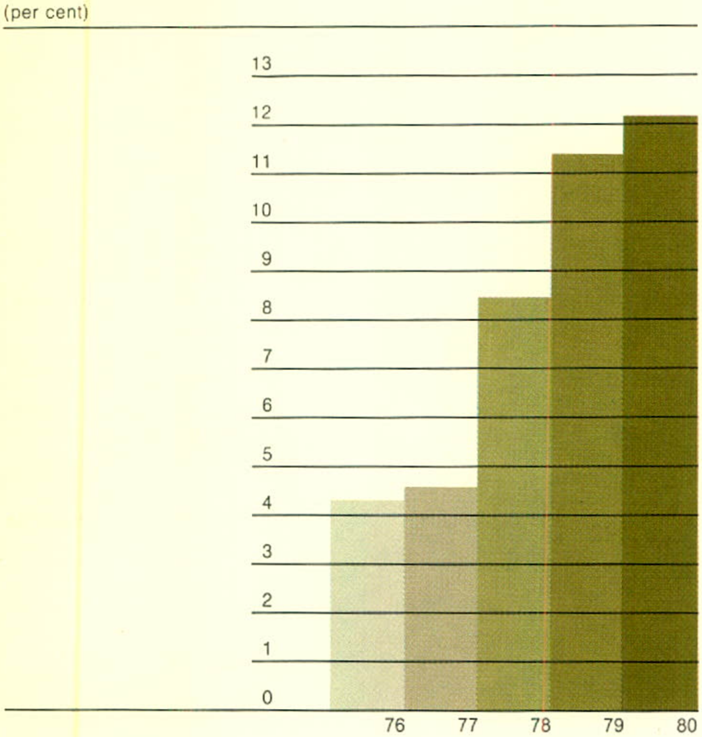
Forward sales contracts in foreign currencies are being used to minimize the Corporation's exposure to any rapid strengthening of the Canadian dollar which would have a detrimental effect on earnings. At December 31, 1980, the Corporation had contract commitments to sell U.S. $130 million at an average exchange rate of $1.18 and £5.4 million at an average exchange rate of $2.705 at various dates to December 1981. The Corporation estimates that for each 1¢ strengthening of the Canadian dollar versus the U.S. dollar, earnings would be reduced, on an annual basis, by 10¢ per common share. The forward sales contracts existing at December 31, 1980, reduce the Corporation's exposure to a maximum of 7¢ per share in 1981.

Operating Profit		Depreciation		Capital Expenditures		Identifiable Assets	
1980	1979	**1980**	1979	**1980**	1979	**1980**	1979
							(millions of dollars)
$128.3	$106.1	**$ 9.5**	$ 8.7	**$ 81.1**	$33.6	**$ 344.3**	$ 260.6
43.1	28.1	**4.2**	3.9	**2.9**	3.3	**94.0**	91.8
12.5	16.5	**3.1**	2.9	**4.9**	3.7	**73.2**	74.2
5.5	4.3	**1.1**	1.1	**3.0**	2.3	**36.5**	30.6
(2.6)	2.9	**1.9**	1.8	**2.1**	2.3	**46.3**	41.3
186.8	157.9	**19.8**	18.4	**94.0**	45.2	**594.3**	498.5
12.2	12.4	**2.8**	2.6	**6.4**	4.1	**81.8**	71.9
19.5	4.9	**12.3**	9.8	**20.0**	31.4	**178.1**	168.1
16.0	11.9	**7.7**	7.9	**16.7**	11.1	**131.9**	129.6
47.7	29.2	**22.8**	20.3	**43.1**	46.6	**391.8**	369.6
1.2	1.9	**0.1**	0.1	**6.0**	0.5	**47.2**	6.3
(0.5)	(1.2)						
235.2	187.8	**$42.7**	$38.8	**$143.1**	$ 92.3	**1 033.3**	874.4
(18.7)	(14.8)					**103.3**	117.5
(29.9)	(26.4)						
—	(1.7)						
14.3	10.4						
(78.4)	(57.0)						
(0.1)	(0.1)						
$122.4	$ 98.2					**$1 136.6**	$991.9

$219.2	$175.9	**$35.0**	$30.9	**$126.4**	$ 81.2	**$ 901.4**	$ 744.8
16.0	11.9	**7.7**	7.9	**16.7**	11.1	**131.9**	129.6
235.2	187.8	**$42.7**	$38.8	**$143.1**	$ 92.3	**1 033.3**	874.4
(112.8)	(89.6)					**103.3**	117.5
$122.4	$ 98.2					**$1 136.6**	$991.9

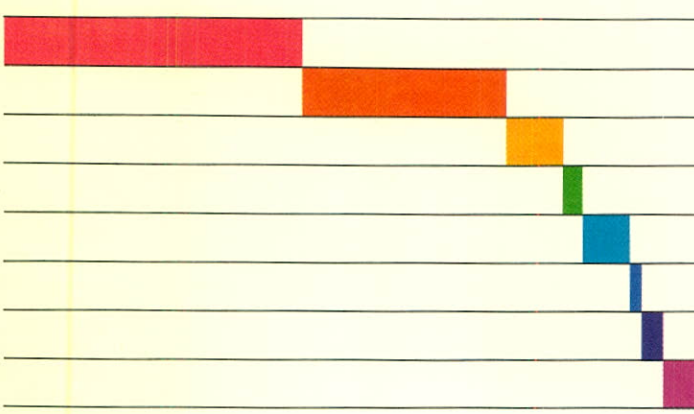
Return on Assets*

(per cent)



Sales, Property and Plant, Employees, Shareholders and Shares by Province and Country at December 31, 1980

	Net Sa'es	Property and Plant Net	Number of Em-ployees	Number of Common Share-holders	Number of Common Shares
	(millions of dollars)				
Alberta	$ 25.7	$ 16.3	508	424	264 909
British Columbia	30.7	6.6	395	726	237 765
Manitoba	15.2	1.2	113	332	191 398
New Brunswick	16.2	15.1	844	299	41 011
Newfoundland	4.2	—	—	20	8 537
Nova Scotia	6.7	0.1	2	182	192 957
Ontario	274.4	77.2	3 813	5 144	4 453 692
Prince Edward Island	0.7	—	—	18	2 899
Quebec	214.1	344.5	8 245	5 387	13 513 148
Saskatchewan	5.2	—	1	136	32 748
Yukon and territories	—	—	—	3	475
Canada	593.1	461.0	13 921	12 671	18 939 539
United Kingdom	52.1	0.2	10	134	2 962 214
United States	344.4	0.1	35	433	271 055
West Germany	331.2	62.1	3 056	817	2 854
Other countries	68.6	—	—	105	305 981
	$1 389.4	$523.4	17 022	14 160	22 481 643



Distribution of Revenue

(millions of dollars)	**1980**	**%**	1979	%
Materials, supplies, etc.	**$ 587**	**42**	$ 532	42
Wages, salaries and fringe benefits	**423**	**30**	395	32
Fuel and power	**105**	**8**	92	7
Depreciation	**43**	**3**	39	3
Federal, provincial and municipal direct taxes	**97**	**7**	73	6
Interest	**30**	**2**	26	2
Dividends	**47**	**3**	25	2
Retained earnings (excluding extraordinary items)	**72**	**5**	73	6
	$1 404	**100**	$1 255	100

*Return on Assets: earnings before extraordinary credit, minority interest and after-tax interest, divided by total assets.

Current Cost Accounting

In December 1979, the CICA Accounting Research Committee released proposed recommendations on Current Cost Accounting inviting public comment. These recommendations focused on the need "to provide a practical and workable framework for Canadian enterprises to report, on a uniform and supplementary basis, current cost information so as to promote a better understanding of some identifiable effects of changing prices, effects that have become pronounced as a result of prolonged periods of inflation".

Many briefs, including that of the Corporation, were submitted but a final recommendation has not yet been issued.

Impact of Inflation on Funds Flow

In the interim, and for the fourth consecutive year, presented below is a supplementary statement, prepared in accordance with the method proposed by the Ontario Committee on Inflation Accounting, indicating how funds provided from operations should be allocated to ensure the maintenance of the firm's capital – its productive capacity – during inflation.

The funds provided from operations totalled $194 530 000 in 1980, an increase of 26% from 1979. However, after providing for capital maintenance costs of $78 430 000, these funds are reduced to $116 100 000 which represents the funds available for expansion or distribution to shareholders.

		1980		1979
				(thousands of dollars)
Funds provided from operations		**$194 530**		$154 510
Less funds required to finance				
Original cost of property & plant		**42 651**		38 774
Increased cost of maintaining operating capacity				
Inventories	**$18 029**		$15 005	
Property and plant	**31 197**		26 086	
	49 226		41 091	
Deduct: Financing adjustment	**$13 447**	**35 779**	$12 055	29 036
Funds available for expansion or distribution to shareholders		**$116 100**		$ 86 700

The inventories adjustment of $18 029 000 (1979 $15 005 000) represents the difference between the historical cost of goods sold and their current cost at date of sale.

The property and plant adjustment of $31 197 000 (1979 $26 086 000) is the difference between depreciation as charged in the accounts of $42 651 000 (1979 $38 774 000) and depreciation indexed for the effect of inflation of $73 848 000 (1979 $64 860 000) using the business investment component of the Gross National Expenditures implicit price index.

The financing adjustment of $13 447 000 (1979 $12 055 000) indicates the extent which the additional funds required to finance the increased cost of maintaining operating capacity may be available from borrowings, on the assumption that the Corporation's debt to equity structure is maintained. This offsetting amount is included in the adjustments in order to arrive at an approximation of the funds that would be available for expansion or distribution to shareholders after taking into account the Corporation's potential use of debt financing.

Statement of Consolidated Earnings for the year ended December 31, 1980

		1980	1979
		(thousands of dollars)	
Net sales and other income	Net sales	**$1 389 433**	$1 244 312
	Other income (note 2)	**14 324**	10 374
		1 403 757	1 254 686
Costs and expenses	Cost of goods sold	**1 043 923**	956 219
	Administrative and selling expenses	**86 370**	76 211
	Depreciation	**42 651**	38 774
	Interest on debt – long-term	**24 408**	23 811
	– short-term	**5 478**	2 542
	Potential exchange charges on German term bank loan	**—**	1 670
		1 202 830	1 099 227
		200 927	155 459
	Income taxes (note 3)	**78 412**	57 058
	Minority interest	**136**	142
Earnings before extraordinary credit		**122 379**	98 259
	Extraordinary credit	**—**	4 589
Net earnings		**$ 122 379**	$ 102 848
Earnings per common share	Before extraordinary credit	**$5.42**	$4.27
	Extraordinary credit	**—**	0.20
	Net	**$5.42**	$4.47

Statement of Consolidated Retained Earnings for the year ended December 31, 1980

		1980	1979
		(thousands of dollars)	
Retained earnings at beginning of year		**$192 966**	$120 317
Excess cost of purchasing common shares over stated value (note 9)		**3 466**	4 798
		189 500	115 519
Net earnings		**122 379**	102 848
		311 879	218 367
Dividends	Preferred	**3 204**	3 147
	Common	**43 964**	22 254
Retained earnings at end of year		**$264 711**	$192 966
Dividends per share	Preferred		
	1966 Series	**$1.50**	$1.50
	1978 Series	**2.16**	2.03
	Common	**$2.00**	$1.00

Statement of Consolidated Changes in Financial Position for the year ended December 31, 1980

		1980	1979
			(thousands of dollars)
Working capital at beginning of year		**$289 633**	$263 141
Source of working capital	Earnings before extraordinary credit	**122 379**	98 259
	Add (deduct)		
	Depreciation	**42 651**	38 774
	Deferred income taxes	**26 921**	11 533
	German pensions	**4 558**	2 490
	Potential exchange charges on German term bank loan	**—**	1 670
	Other items – net	**(1 979)**	1 784
	Total from operations	**194 530**	154 510
	Increase in long-term debt	**—**	78 770
	Government grants on additions to property and plant	**9 034**	1 163
	Proceeds from disposal of property and plant	**2 184**	6 223
	Proceeds from disposal of investments	**1 417**	641
	Issue of common shares (note 9)	**1 116**	2 010
	Extraordinary credit	**—**	4 589
		208 281	247 906
Application of working capital	Additions to property and plant	**143 152**	92 332
	Increase in investments	**40 483**	20 414
	Reduction in long-term debt	**13 748**	74 737
	Cash dividends declared on common shares	**28 619**	18 977
	Dividends declared on preferred shares	**3 204**	3 147
	Purchase of common and preferred shares for cancellation (note 9)	**7 470**	11 026
	Other items – net	**492**	781
		237 168	221 414
Increase (decrease) in working capital during year		**(28 887)**	26 492
Working capital at end of year		**$260 746**	$289 633

On behalf of the Board:

Roland Giroux, Director

W. I. M. Turner, Jr., Director

Consolidated Balance Sheet as at December 31, 1980

		1980	1979
		(thousands of dollars)	
Assets			
Current assets	Cash and short-term deposits	**$ 10 671**	$ 26 239
	Marketable securities (market value $18 290 000; 1979 $20 821 000)	**13 947**	17 596
	Accounts receivable	**178 344**	173 849
	Grants receivable	**9 065**	1 163
	Deferred income taxes	**—**	2 040
	Inventories (note 4)	**274 837**	249 034
	Prepaid expenses	**5 427**	6 469
		492 291	476 390
Property and plant	Mills, plants and other properties	**968 517**	851 947
	Less: Accumulated depreciation (note 5)	**445 129**	416 862
		523 388	435 085
Other assets	Investments (note 6)	**114 107**	73 805
	Advances to trustees under share option and purchase plans (note 7)	**3 066**	2 872
	Deferred charges	**2 456**	2 173
	Unamortized long-term debt expense	**1 250**	1 529
		120 879	80 379
		$1 136 558	$991 854

Management's Report

The consolidated financial statements have been prepared by management on a historical cost basis in accordance with Canadian generally accepted accounting principles consistently applied and conform in all material respects with International Accounting Standards. These statements, which necessarily include estimates and approximations, reflect information available to February 27, 1981, and have been audited by Touche Ross & Co., Chartered Accountants, whose report is included on the next page.

Management maintains an accounting system which incorporates extensive internal controls. The internal audit department performs independent appraisals of the effectiveness of internal controls and reports its findings and recommendations to management.

The Board appoints the members of the Audit Committee which is composed solely of outside directors. The Committee reviews the recommendations of the external and internal auditors for improvements in internal controls as well as management's action to implement such recommendations. The Audit Committee also reviews the financial statements with management and the external auditors prior to submission to the Board for approval.

T. J. Wagg

T. J. Wagg,
Vice-President, Finance and Treasurer

Montreal, Quebec
February 27, 1981

		1980	1979
			(thousands of dollars)
Liabilities and Shareholders' Equity			
Current liabilities	Due to banks	**$ 68 545**	$ 685
	Accounts payable and accrued expenses	**126 844**	118 965
	Taxes and stumpage dues	**21 723**	56 707
	Dividends payable	**7 043**	1 004
	Current portion of long-term debt	**7 390**	9 396
		231 545	186 757
Provisions	German pensions	**19 877**	15 319
	Potential exchange charges on German term bank loan	**32 378**	32 378
		52 255	47 697
Long-term debt	(note 8)	**216 776**	231 950
Deferred income taxes		**145 640**	118 765
Minority interest		**2 524**	2 784
Shareholders' equity	Stated capital (note 9)		
	Preferred shares	**44 393**	45 360
	Common shares	**178 714**	165 575
	Retained earnings (note 9)	**264 711**	192 966
		487 818	403 901
		$1 136 558	$991 854

Auditors' Report

The Shareholders,
Consolidated-Bathurst Inc.

We have examined the consolidated balance sheet of Consolidated-Bathurst Inc. as at December 31, 1980 and the statements of consolidated earnings, retained earnings, and changes in financial position for the year then ended. For Consolidated-Bathurst Inc. and those subsidiaries of which we are the auditors, 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. With respect to those subsidiaries of which we are not the auditors, we have carried out such inquiries and examinations as we considered necessary in order to accept, for purposes of consolidation, the reports of the other auditors.

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

Touche Ross & Co.

Chartered Accountants

Montreal, Quebec
February 27, 1981

Notes to Consolidated Financial Statements December 31, 1980

1. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of all subsidiaries with provision being made for the interests of minority shareholders. All significant inter-company items are eliminated. Acquisitions of all subsidiaries are accounted for on a purchase basis and earnings are included in the consolidated financial statements from the date of acquisition.

The cost of property and plant of Bathurst Paper Limited at acquisition in 1966 has been reduced by the gain (represented by the excess of book value over purchase price) on (a) the preferred shares, 1963 Series of Bathurst Paper Limited, purchased for cancellation and (b) the preferred shares, 1966 Series of the Corporation, purchased for cancellation and which were originally issued in consideration of Bathurst Paper Limited common shares.

Foreign exchange

Assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for working capital items and at exchange rates prevailing at the transaction dates for non-current assets and liabilities. Income and expenses, other than depreciation, are translated at average exchange rates prevailing during the year. Depreciation is translated at historical exchange rates.

Inventory valuation

Expenditures on wood operations are stated at average cost. Pulpwood, chips, sawlogs and wood residue at mills, and other raw materials and supplies are also stated at average cost. Work in process and finished goods inventories, which include raw materials, direct labour and certain manufacturing overhead expenses, are stated at the lower of average cost and net realizable value. Provision is made for slow-moving and obsolete inventories.

Investments

Portfolio investments are stated at cost less write-downs for declines in value, as appropriate. The investments over which the Corporation has significant influence and in the joint venture are accounted for by the equity method.

Property and plant, depreciation and capitalization

Mills, plants and other properties are stated at cost. On retirement or disposal of property and plant, the Corporation removes the cost of the assets and the related accumulated depreciation. Gains and losses on disposal of assets are included in earnings. Gains on purchase of preferred shares are deducted from the cost of property and plant as described under Principles of consolidation.

Depreciation, calculated principally on the straight-line method, is charged to operations at rates based upon the estimated useful life of each depreciable property.

Expenditures which result in a material enhancement of the value of the facilities involved are capitalized. Maintenance and repair costs are expensed as incurred.

Government grants related to additions to property and plant are deducted from the cost of the assets and depreciation is calculated on the net amount. Accruals are made for the appropriate portion of the estimated total of approved grants. Grants in respect of current expenses are included in earnings.

Interest is capitalized on major additions to property and plant involving the construction of new or materially improved manufacturing facilities. The interest cost is determined using a composite interest rate on the new debt incurred by the Corporation to finance these capital expenditures.

Investments in shares of oil and gas companies are accounted for as described under Investments. Oil and gas expenditures by the Corporation are accounted for under the successful efforts method whereby geological, geophysical and carrying costs are expensed and exploratory drilling and stratigraphic test costs are capitalized as property and plant. When no reserves are discovered, exploratory costs are expensed. All development costs including dry holes are capitalized. The amortization of capitalized exploratory drilling and development costs is based on proven developed reserves.

Pensions

The Corporation and its Canadian subsidiaries have contributory, trusteed and funded pension plans. The current service cost portion is charged to earnings as funded. Unfunded liabilities are being funded and charged to earnings over a 15-year period except those incurred prior to 1976 for which the period is 17 years. The German subsidiaries have non-funded pension plans, and the provision is actuarially calculated in accordance with German legislation.

Income taxes

The Corporation follows the tax allocation basis in accounting for income taxes. Deferred income taxes shown on the financial statements represent taxes deferred mainly in respect of capital cost allowance claimed for tax purposes in excess of depreciation. Income tax credits on capital expenditures, net of deferred taxes, and on inventories are accounted for as a reduction in income taxes in the year realized.

Earnings per common share

Earnings per common share are calculated on the weighted average number of common shares outstanding during the year, including common shares issuable as dividends on the Series B common shares from the dates of declaration.

2. Other income

	1980	1979
	(thousands of dollars)	
Income from investments and short-term deposits	**$ 10 640**	$ 9 931
Gain on sale of marketable securities	**1 890**	—
Share of net earnings of joint venture and associated companies	**1 037**	1 697
Gain (loss) from debt retirement and disposal of property and plant	**757**	(1 254)
	$ 14 324	$ 10 374

3. Income taxes

	1980	1979
	(thousands of dollars)	
Current	**$ 63 952**	$ 53 905
Less credits relating to:		
Capital expenditures	**10 101**	6 532
Inventories	**2 360**	1 848
	51 491	45 525
Deferred	**26 921**	11 533
	$ 78 412	$ 57 058

The Corporation, on the advice of tax counsel, has filed notices of objection to income tax reassessments issued by the taxation authorities of Canada, Ontario and Quebec for the years 1971 to 1975. These reassessments disallowed the deduction of certain interest payments to a non-resident subsidiary and certain insurance costs incurred by the Corporation. The income tax reassessed and related interest amounting to $2 024 000 has been paid. No provision has been made for this amount pending final disposition of the objection.

4. Inventories

	1980	1979
	(thousands of dollars)	
Expenditures on wood operations	**$ 51 499**	$ 46 420
Pulpwood, chips, sawlogs and wood residue at mills	**43 562**	42 496
Other raw materials and supplies	**78 635**	76 462
Work in process and finished goods	**101 141**	83 656
	$274 837	$249 034

5. Property and plant

			1980	1979
	Gross	Accumulated depreciation	Net	Net
			(thousands of dollars)	
Pulp, paper, paperboard and lumber mills	**$616 631**	**$281 093**	**$335 538**	$274 423
Glass and plastic container plants	**166 309**	**78 768**	**87 541**	79 264
Converting plants	**157 309**	**73 253**	**84 056**	72 388
Woodlands	**17 604**	**10 284**	**7 320**	6 054
Oil and gas properties	**7 569**	**708**	**6 861**	1 055
Other	**3 095**	**1 023**	**2 072**	1 901
	$968 517	**$445 129**	**$523 388**	$435 085

Gross property and plant were increased by $1 398 000 of capitalized interest in 1980.

The following rates apply to those assets being depreciated on the straight-line method:

	Buildings	Equipment
Pulp, paper, paperboard and lumber mills	2½ %	6%
Glass and plastic container plants	5%	9%
Converting plants	2-5%	8-10%

6. Investments

	1980	1979
	(thousands of dollars)	
Portfolio:		
Oil and gas		
Sceptre Resources Limited (market value $29 927 000; 1979 $3 501 000)	**$ 19 830**	$ 2 922
Sulpetro Limited (market value $19 966 000)	**18 613**	—
Joffre Oils Limited	**1 500**	1 500
	39 943	4 422
Abitibi-Price Inc. (market value $44 637 000; 1979 $33 509 000)	**33 758**	31 400
German certificates of indebtedness, 8¼%, 1985 (DM 19 952 500)	**13 224**	13 224
Rolland inc. (market value $3 102 000; 1979 $4 277 000)	**2 712**	3 625
Other securities for which no market quotations are available and loans of a non-current nature	**9 737**	9 040
	99 374	61 711
Joint venture	**7 931**	6 483
Associated companies	**6 802**	5 611
	$114 107	$ 73 805

In February 1981, the Corporation undertook to purchase 2 000 000 treasury common shares of Sulpetro at $23.50 per share. The transaction is subject to the conditions that Sulpetro's shareholders approve certain changes in its capital structure and that a ruling favourable to Sulpetro and the Corporation will be obtained from the federal Department of Energy under the proposed Canadian Ownership Regulations and the Petroleum Incentives Program.

The investment in Abitibi-Price Inc. was sold in February 1981 for an amount not less than $51 478 000.

7. Advances to trustees under share option and purchase plans

	1980	1979
	(thousands of dollars)	
1979 Share Option Plan	**$ 2 010**	$ 1 506
Exercised Option Purchase Plan	**932**	1 186
Executive Employee Stock Purchase Plan	**124**	180
	$ 3 066	$ 2 872

Of these amounts, $2 638 000 (1979 $2 665 000) is owing to the trustees from officers, one of whom is a director.

8. Long-term debt

	1980	1979
	(thousands of dollars)	
Consolidated-Bathurst Inc.		
5.85% sinking fund debentures, Series A, 1990 (1980 U.S. $10 217 000; 1979 U.S. $11 301 000)	**$ 10 985**	$ 12 150
6⅜% sinking fund debentures, Series B, 1991 (1980 U.S. $9 420 000; 1979 U.S. $10 511 000)	**10 141**	11 315
8¾% sinking fund debentures, Series C, 1993	**10 368**	11 790
9% sinking fund debentures, Series F, 1992 (1980 U.S. $18 955 000; 1979 U.S. $21 900 000)	**20 458**	23 636
Revolving credit (a)	**50 000**	50 000
Bathurst Paper Limited		
6% first mortgage sinking fund bonds, Series A, 1984	**3 528**	4 454
6% sinking fund debentures, Series A, 1984	**3 210**	3 351
7½% German term bank loan, 1985 (b)	**21 452**	21 452
Carried forward	**$130 142**	$138 148

	1980	1979
Brought forward	**$130 142**	$138 148
Consolidated-Bathurst Pontiac Limited		
11% first mortgage sinking fund bonds, Series A, 1995, retractable in 1985	**25 799**	27 449
Revolving credit (a)	**—**	—
Domglas Inc. and subsidiaries		
9½% sinking fund debentures, Series A, 1990	**18 568**	19 592
Revolving credit (a)	**20 000**	20 000
Other	**2 569**	2 416
Europa Carton AG and subsidiaries		
Term bank loans, various interest rates, 1981 to 1992 (1980 DM 46 594 000; 1979 DM 57 567 000)	**26 138**	31 637
Other subsidiaries	**76**	80
	223 292	239 322
Less: Current portion, at historical exchange rates	**6 516**	7 372
	$216 776	$231 950

(a) Under the revolving credit facilities provided by several Canadian chartered banks, each of the corporations can borrow and repay funds during a two-year revolving period, renewable annually. At the end of a revolving period, each corporation can either repay its borrowings or:
(i) in the case of Consolidated-Bathurst Inc. and Domglas Inc., convert them to a term loan repayable over ten years;
(ii) in the case of Consolidated-Bathurst Pontiac Limited, continue to borrow under a term revolving facility which decreases in equal annual instalments over ten years.

Details of each corporation's revolving credit facility are as follows:

	Consolidated-Bathurst Inc.	Consolidated-Bathurst Pontiac Limited	Domglas Inc.
At December 31, 1980			
Revolving credit facility	$150 000 000	$50 000 000	$20 000 000
Outstanding borrowings at Canadian bank prime	$ 50 000 000	$ —	$20 000 000
Secured by	Demand debenture, Series G	—	Demand debenture, Series B
Current revolving period ends	November 28, 1982	February 2, 1983	December 29, 1982
Interest rates on term loan	Canadian bank prime plus		
Years 1 to 5	¼ %	¼ %	⅜ %
Years 6 to 10	⅜ %	½ %	½ %

(b) The DM 80 000 000 term loan is secured by the pledge of all the shares of Europa Carton AG and St. Maurice Holdings Limited and 49% of the shares of Domglas Inc., all wholly-owned subsidiaries.

(c) Excluding the debt of Europa Carton AG repayable from its operations and after the provision of $32 378 000 for potential exchange charges on the German term bank loan, the cost of repayment of the U.S. dollar debt and the German term bank loan, based on exchange rates at December 31, 1980, exceeds by $246 000 the Canadian dollar amounts recorded in the accounts.

(d) Sinking fund requirements and principal payments during the next six years, based on exchange rates at December 31, 1980, are: 1981 $7 398 000; 1982 $9 577 000; 1983 $17 211 000; 1984 $23 364 000; 1985 $64 479 000; 1986 $16 015 000.

9. Stated capital

	1980	1979
	(thousands of dollars)	
Preferred shares		
Authorized		
6 000 000 shares of which 1 041 406 shares are designated as 1966 Series and 800 000 as 1978 Series		
Issued		
1966 Series	**$ 24 393**	$ 25 360
1978 Series	**20 000**	20 000
	$ 44 393	$ 45 360
Common shares		
Authorized		
Unlimited number of shares		
Issued		
Series A	**$ 62 897**	$131 266
Series B	**115 817**	34 309
	$178 714	$165 575

(a) Preferred shares:

	1966 Series	
	Shares	Stated Value
Balance January 1, 1980	1 014 408	$25 361 000
Purchased and cancelled (cost of $683 000)	(38 700)	(968 000)
Balance December 31, 1980	975 708	$24 393 000

The preferred shares are redeemable at par and are non-voting unless the Corporation fails to pay, in the aggregate, eight quarterly dividends. The 1966 Series is entitled to cumulative dividends at an annual rate of $1.50 per share; the 1978 Series is entitled to cumulative dividends at an annual rate, applied to $25 per share, equal to the lesser of (i) 9% and (ii) one-half of the average Canadian prime rate plus 1¾%, calculated quarterly.

Subject to provisions in certain covenants in the Trust Deeds securing the debentures and in the provisions attaching to the preferred shares, the Corporation, at its option, may redeem on 30 days' notice the 1966 Series at $26 per share and the 1978 Series at $25 per share plus all unpaid dividends accrued thereon. Unless the market price is in excess of the redemption price, the Corporation is obliged to make all reasonable efforts to purchase annually for cancellation 38 686 preferred shares, 1966 Series. Also the Corporation shall invite tenders for the purchase of 80 000 preferred shares, 1978 Series, in 1981 and 1982 and the remainder of such shares thereafter.

Dividends, other than stock dividends, are subject to restrictions in the above-mentioned provisions.

(b) Common shares:

	Series A		Series B	
	Shares	Stated Value	Shares	Stated Value
Balance January 1, 1980	17 660 746	$131 266 000	4 390 616	$ 34 309 000
Net conversions from Series A to Series B (i)	(8 631 383)	(66 193 000)	8 631 383	66 193 000
Issued under the 1980 Share Purchase Plan (ii)	15 747	293 000	8 024	149 000
Issued under the 1979 Share Option Plan (iii)	37 900	488 000	14 400	185 000
Issued as stock dividends (iv)	—	—	774 667	15 345 000
Purchased or contracted to purchase for cancellation (v)	(397 700)	(2 957 000)	(22 757)	(364 000)
Balance December 31, 1980	8 685 310	$ 62 897 000	13 796 333	$115 817 000

(i) The Series A and Series B common shares are voting, interconvertible on a share for share basis, and identical in all respects with the exception that dividends on the Series B common shares are paid in the form of shares instead of cash.

(ii) In September 1980, the Corporation established the 1980 Share Purchase Plan to provide all of its eligible employees with the opportunity to purchase common shares directly from the Corporation. This Plan also enabled such employees who reside in Quebec to benefit from certain tax legislation of that Province. A total of 23 771 common shares were issued at a price of $18.625 per share.

(iii) In 1979, the Corporation established the 1979 Share Option Plan. Options were granted to a number of officers and employees to purchase, until December 31, 1984, up to an aggregate of 250 000 common shares of the Corporation, at the price of $12.875 per share.

(iv) On December 19, 1980, the Corporation declared a year-end extra dividend of 70¢ per common share payable on February 16, 1981, to shareholders of record on January 16, 1981. The stock dividends, payable in the form of 401 599 Series B common shares having a value of $23.336 per share, have been accounted for as issued in 1980.

(v) During 1980, the Corporation purchased or contracted to purchase for cancellation 420 457 common shares at an average cost of $16.14 per share. The excess of cost over the stated value was charged to retained earnings.

10. Segmented information

The Directors have determined the classes of business of the Corporation to be (i) pulp and paper, (ii) packaging and (iii) oil and gas. Information segmented by classes and major product lines, and by geographical locations, is reported on pages 22 and 23 of this report.

11. Related party transactions

Power Corporation of Canada is the major shareholder of the Corporation owning 39.8% of the outstanding common shares. In 1980, the Corporation entered into transactions with certain companies in the Power group, mainly in respect of sales of newsprint and purchases of transportation and insurance services. All such transactions were not significant in relation to total sales and purchases and were made at open market prices for similar products and services.

12. Commitments

(a) The Corporation has not entered into capital lease agreements since 1978. Had the Corporation capitalized long-term leases of a capital nature entered into prior to January 1, 1979, assets and liabilities would have increased, respectively, by $5 130 000 and $7 070 000 at December 31, 1980, and by $9 200 000 and $11 900 000 at December 31, 1979. The effect on net earnings for the years ended *December* 31, 1980 and 1979 would not have been significant.

Future minimum lease payments are as follows:

	Capital Leases	Operating Leases
	(thousands of dollars)	
1981	$2 830	$11 580
1982	2 540	5 390
1983	1 460	4 420
1984	920	3 990
1985	410	3 480
Thereafter	70	10 870
	8 230	$39 730
Less: Imputed interest	1 160	
Present value of net minimum lease payments	$7 070	

(b) At December 31, 1980, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately $64 500 000.

(c) Certain of the pension plans of the Corporation and its Canadian subsidiaries have unfunded past service liabilities which were actuarially estimated to be $32 400 000 at December 31, 1980 ($34 100 000 at December 31, 1979). The charge to earnings in respect of all of the Corporation's pension plans was $17 450 000 in 1980 ($13 860 000 in 1979).

13. Remuneration to directors and officers

The aggregate direct remuneration paid or payable in 1980 by the Corporation and its subsidiaries to the directors and senior officers was $4 330 000 (1979 $4 026 000).

Historical Summary

		1980	1979	1978*
Operations (thousands of dollars)	Net sales	**$1 389 433**	$1 244 312	$1 078 843
	Depreciation	**42 651**	38 774	36 022
	Interest – both short and long-term	**29 886**	26 353	26 930
	Income taxes	**78 412**	57 058	36 350
	Earnings before extraordinary items	**122 379**	98 259	59 147
	Extraordinary items – net of taxes	**—**	4 589	1 568
	Net earnings (loss)	**$ 122 379**	$ 102 848	$ 60 715
	Additions to property and plant	**$ 143 152**	$ 92 332	$ 47 475
	Maintenance and repair expense	**$ 98 334**	$ 83 294	$ 73 038
Per common share (dollars)	Earnings (loss) before extraordinary items	**$ 5.42**	$ 4.27	$ 2.60
	Net earnings (loss)	**5.42**	4.47	2.67
	Dividends	**2.00**	1.00	0.75
	Cash flow from operations	**8.51**	6.86	5.25
	Book value	**$ 19.72**	$ 16.26	$ 12.79
Per preferred share (dollars)	Dividends – 1966 Series	**$ 1.50**	$ 1.50	$ 1.50
	– 1978 Series	**$ 2.16**	$ 2.03	$ 0.64
Balance sheet (thousands of dollars)	Working capital at end of year	**$ 260 746**	$ 289 633	$ 263 141
	Property and plant – gross	**968 517**	851 947	784 661
	Accumulated depreciation	**445 129**	416 862	392 549
	Investments	**114 107**	73 805	52 702
	Provision for German pensions	**19 877**	15 319	12 829
	Provision for exchange and contingent charges	**32 378**	32 378	30 708
	Long-term debt	**216 776**	231 950	228 231
	Minority interest	**2 524**	2 784	2 832
	Stated capital – preferred	**44 393**	45 360	46 279
	– common	**178 714**	165 575	165 848
	Retained earnings	**264 711**	192 966	120 317
	Total shareholders' equity	**$ 487 818**	$ 403 901	$ 332 444
Other data	Ratio of current assets to current liabilities	**2.1 to 1**	2.6 to 1	2.7 to 1
	Ratio of short and long-term debt to shareholders' equity	**37/63**	37/63	42/58
	Return on assets – %	**12.2**	11.4	8.5
	Return on common shareholders' equity – %	**29.8**	29.6	21.8
	Shares outstanding – preferred	**1 775 708**	1 814 408	1 851 156
	– common	**22 481 643**	22 051 362	22 381 992

* 1978 – Reflects sale of Wallaceburg glass plant to the joint venture in October.

1977*	1976*	1975	1974*	1973*	1972*	1971	1970
$868 865	$745 193	$643 719	$689 009	$497 683	$348 055	$343 362	$353 944
32 484	28 659	26 150	25 658	21 500	16 534	17 942	19 241
26 823	22 941	18 812	18 445	14 518	10 573	12 773	13 523
10 038	9 227	20 338	34 463	14 220	4 674	1 392	3 545
21 355	18 240	32 599	47 712	19 870	6 181	127	274
1 361	—	—	14 608	(900)	63	(49 885)	(12 339)
$ 22 716	$ 18 240	$ 32 599	$ 62 320	$ 18 970	$ 6 244	$ (49 758)	$ (12 065)
$ 53 783	$ 56 678	$ 49 740	$ 36 992	$ 30 242	$ 14 968	$ 10 516	$ 22 948
$ 69 889	$ 58 267	$ 44 467	$ 45 861	$ 29 724	$ 19 809	$ 17 946	$ 19 751
$ 0.90	$ 0.76	$ 1.42	$ 2.37	$ 0.92	$ 0.18	$ (0.15)	$ (0.14)
0.97	0.76	1.42	3.13	0.87	0.19	(2.90)	(0.77)
0.67	0.67	0.67	0.75	—	—	—	0.17
2.96	2.24	2.98	4.76	2.54	1.19	0.80	1.10
$ 11.00	$ 10.70	$ 10.64	$ 9.89	$ 6.51	$ 5.74	$ 5.56	$ 8.45
$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 3.38	$ 1.12	$ —	$ 1.50
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
$209 233	$157 860	$159 084	$133 045	$ 81 066	$ 77 303	$ 82 519	$ 88 399
769 237	730 763	678 302	634 033	611 733	500 175	515 915	509 947
375 895	363 477	339 692	317 097	298 617	245 173	241 660	227 569
30 851	26 162	26 438	26 452	11 026	18 321	17 784	32 897
11 199	7 404	6 418	4 937	2 644	2 103	1 823	1 654
20 268	16 919	17 607	15 985	15 543	18 820	33 100	—
245 647	178 837	157 176	129 896	141 968	130 751	149 179	159 812
5 896	5 877	6 291	6 502	19 676	6 394	6 315	6 000
26 145	27 094	28 067	31 078	47 229	47 229	47 229	47 229
89 804	89 803	88 695	88 626	42 091	39 518	39 337	39 337
150 940	144 384	142 320	125 943	80 929	68 344	64 216	113 924
$266 889	$261 281	$259 082	$245 647	$170 249	$155 091	$150 782	$200 490
2.2 to 1	1.9 to 1	2.2 to 1	1.9 to 1	1.7 to 1	2.0 to 1	2.1 to 1	2.1 to 1
53/47	50/50	43/57	42/58	54/46	51/49	55/45	50/50
4.6	4.3	6.6	9.2	5.4	2.8	1.5	1.4
8.5	7.3	14.0	27.4	12.2	4.1	0.3	(1.4)
1 045 808	1 083 755	1 122 684	1 243 119	1 889 144	1 889 144	1 889 144	1 889 144
21 886 602	21 886 377	21 720 102	21 700 812	18 905 412	18 178 812	18 127 812	18 127 812

* 1977 – Reflects consolidation of one corrugated container plant from April, two folding carton plants from May and one sawmill from September.
* 1976 – Reflects consolidation of Ampak Limited, Cyrmac Plastics Limited, Plant-Kimble Ltd. and Grundstucksverwaltungsgesellschaft Altona mbH.
* 1974 – Reflects consolidation of Bobois and Lauenburger Wellpappenwerk GmbH from July and Dorchester Electronics from December.
* 1973 – Reflects consolidation of Domglas Inc. from April.
* 1972 – Reflects divestment of the U.S. tissue division.

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