Consolidated-Bathurst Inc.
Annual Report 1981

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inter city gas

Federal Industries Ltd Transport Services

BCFP

ipsco interprov steel & pipe co.

Acklands Oil

Consolidated-Bathurst Inc.

An eastern Canadian forest products and packaging organization that ranks among the 30 largest publicly-owned manufacturing companies in Canada. Net sales of the Corporation have been above $1 billion since 1978, and since 1979, net earnings have exceeded $100 million. Production and sales operations function under two business groups: Pulp and Paper, and Packaging.

Pulp and Paper Group. Most important product line is newsprint, a versatile paper used mainly in printing daily and weekly newspapers. During 1981, the Group's seven primary mills produced 900 thousand tonnes of newsprint, mostly for export, and 590 thousand tonnes of kraft pulp, paperboard and kraft paper. Four sawmills manufactured 93 million board feet of pine and spruce lumber.

Packaging Group. Three main companies and several key subsidiaries 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.

Oil and Gas Investments. In recent years, the Company has announced investments or commitments of $132 million in Canadian-managed oil and gas production and exploration.

Consolidated-Bathurst's major shareholder, with 40% of outstanding common shares, is another Canadian organization, Power Corporation of Canada, of Montreal.

Incorporated August 28, 1931,
under the laws of Canada

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

Auditors
Touche Ross & Co.

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

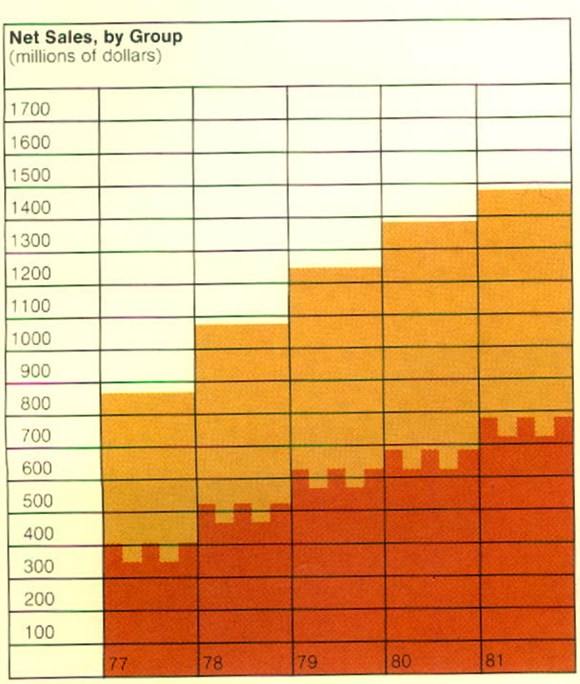
Transfer Agent and Registrar
Montreal Trust Company at
Saint John, Montreal, Toronto
Winnipeg, Calgary and Vancouver

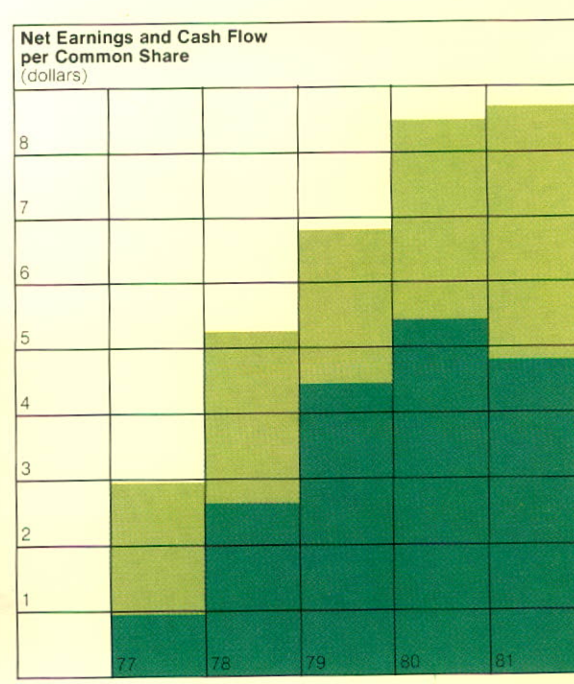
Annual Meeting
Queen Elizabeth Hotel, Montreal
April 23, 1982 – 10:30 a.m.

Highlights

		1981	1980	1979
Operations (thousands of dollars)	Net sales and other income	**$1 491 393**	$1 403 757	$1 254 686
	Earnings before extraordinary items	**101 780**	122 379	98 259
	Extraordinary items	**10 283**	—	4 589
	Net earnings	**$ 112 063**	$ 122 379	$ 102 848
	Exchange gain on sales in U.S. funds* — net of taxes	**$ 50 843**	$ 38 792	$ 33 132
	Additions to property and plant	**239 614**	143 152	92 332
	Working capital	**$ 284 122**	$ 260 746	$ 289 633
Per common share	Earnings before extraordinary items	**$ 4.41**	$ 5.42	$ 4.27
	Extraordinary items	**0.46**	—	0.20
	Net earnings	**$ 4.87**	$ 5.42	$ 4.47
	Cash flow from operations	**$ 8.74**	$ 8.51	$ 6.86
	Dividends	**2.00**	2.00	1.00
	Book value	**$22.48**	$19.72	$16.26
Other data	Number of issued common shares	**22 425 057**	22 481 643	22 051 362
	Canadian registered	**84.7%**	84.2%	85.1%
	Number of common shareholders	**14 118**	14 160	14 534
	Number of employees	**16 704**	17 022	17 869

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





Packaging
Pulp and Paper

Cash Flow
Net Earnings

Contents

Report of the Directors

To shareholders and employees:

This is Consolidated-Bathurst's 50th Annual Report. As described in "A look back", the historical summary that begins on page 7, the Corporation was born fifty years ago out of the Canadian pulp and paper industry's problems in the Great Depression. In the years since, it has become a strong, diversified company, with 1981 sales of $1.5 billion, and one of Canada's most successful pulp, paper and packaging organizations. This report reflects the dynamic nature of today's Consolidated-Bathurst — earnings in excess of $100 million, cash flow from operations of $200 million and capital investments of $240 million.

The Corporation completed its first half century with a good performance in 1981. It has positioned itself in a balanced stance for the difficult year now beginning and to take best advantage of the improvements in the fortunes of its businesses that should follow the current economic downturn.

Operating results

Net earnings for 1981 were $112.1 million, or $4.87 per common share, only 8% below record 1980 earnings of $122.4 million, or $5.42 per share. Earnings for the year did include, however, an extraordinary credit of $10.3 million, or $0.46 per share. This credit arose from the gain on sale of the investment in Abitibi-Price Inc., and was reduced by a write-off of the Corporation's investment in Forges HPC Ltée and by provisions made in anticipation of the shutdown of facilities being replaced in mill modernization projects. These provisions reduced the extraordinary credit by $0.11 per common share.

Earnings from newsprint and groundwood specialties continued strong during the year as a result of high operating rates at all mills. Cost escalations, however, outpaced selling price increases for these products and dampened operating margins somewhat. A cost-price squeeze also affected the results from bleached hardwood pulp because it has not been possible to effect price increases for this product since the early part of 1980. Continued soft demand for lumber products prevented any improve-

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W.I.M. Turner, Jr.
President and
Chief Executive Officer
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Roland Giroux
Chairman of the Board

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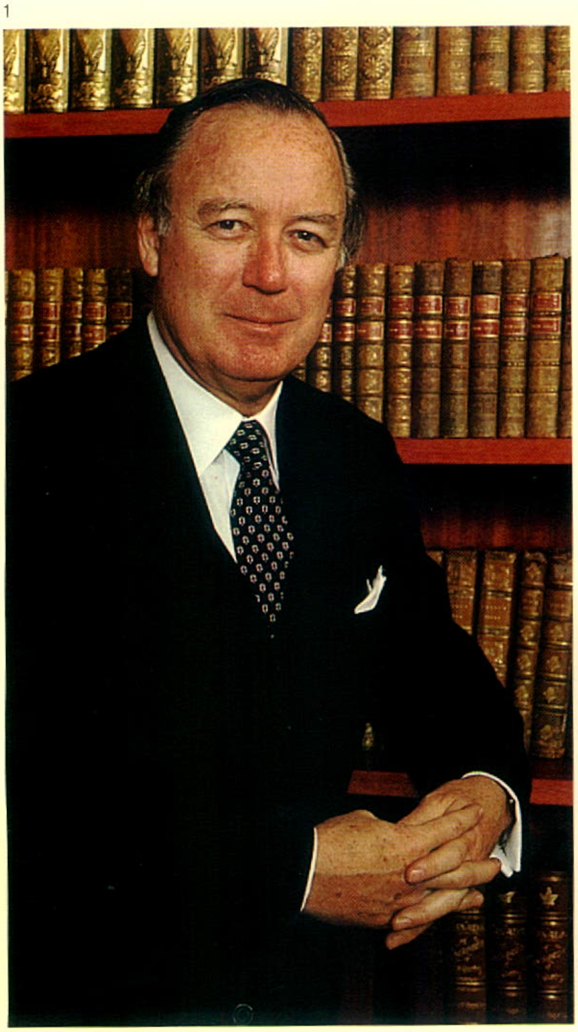

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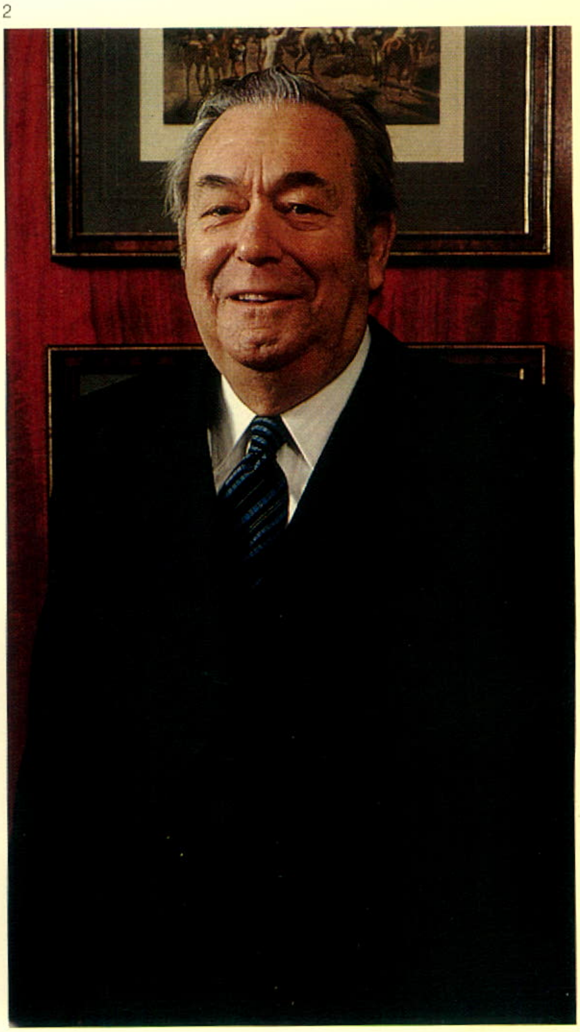

ment in that sector. On the other hand, in spite of soft markets, containerboard products benefited from improved selling prices, particularly in the final quarter.

In the Packaging Group, Domglas and its subsidiaries succeeded in raising volume and prices in 1981, which translated into improved operating profit. Reflecting highly competitive market conditions, which permitted only partial recovery of cost increases, the operating results from industrial bags and corrugated containers in Canada declined slightly. In West Germany, a persistently weak economy coupled with a decline in the Deutsche mark exchange rate had a negative impact on the results of Europa Carton.

At the corporate level, interest charges rose as a result of high interest rates and of increased borrowing requirements to finance expansion.

Expansion and Modernization

Consolidated-Bathurst actively pursued its expansion and modernization program in 1981. Capital expenditures reached $240 million and will remain at approximately that level over the next two years to complete the projects in progress. Most of the current program is related to newsprint and groundwood specialties and to pulp production inasmuch as approximately 70% of the Corporation's operating profit is derived from these areas. This major capital program is aimed at strengthening Consolidated-Bathurst's position as a low-cost producer and increasing its potential to enter promising new markets. Newsprint and groundwood specialty capacity will be increased to about 1.4 million tonnes by the end of 1983, including 250 000 tonnes of new newsprint capacity for the Corporation in the United Kingdom and approximately 350 000 tonnes of groundwood specialty capacity.

In the Pulp and Paper Group, the 'very high yield' sulphite plant at Laurentide Division was phased in successfully late in 1981 and will result in substantial wood savings. A second supercalender at the Division was started up in December 1981 following a similar installation in 1980. As a result, Laurentide now has the capacity to produce some 200 000 tonnes of rotogravure paper annually. At the Wayagamack Division, the directory paper machine will begin production in mid-1982 and further diversify the Corporation's activities in the groundwood specialty business.

In August 1981, Consolidated-Bathurst acquired from the Bowater Corporation a three-machine newsprint mill located at Ellesmere Port, England. This mill, shut down since November 1980, is being modernized and its equipment adapted to use chemi-thermo-mechanical pulp (CTMP) as its main furnish or basic material. This pulp will be produced at a new CTMP plant currently under construction at Bathurst, N.B., flash dried there and shipped to Ellesmere Port. The U.K. newsprint mill, which becomes the Corporation's Bridgewater Division, is scheduled to start production of quality newsprint in mid-1983. This internationalization of the Corporation's newsprint production capability is taking place in a market that Consolidated-Bathurst has served with exports for many years. Bridgewater production will be equivalent to about 20% of total U.K. newsprint requirements and will provide a potential for increased sales within the European Economic Community.

In the Packaging Group's Bag Division, an important diversification project for flexible packaging products is the installation at the Brantford plant of a vacuum metallizing unit. This unit will supply metallized paper and film products to the printing industry and to flexible packaging converters. Domglas completed expansion projects in 1981 both in the United States and in Canada. Domglas' ownership in Diamond Glass, an equity investment, was increased by transferring to that company for additional shares a newly-acquired glass plant in Parkersburg, West Virginia. Also during 1981, Domglas acquired the glass container plant of Ahlstrom Limited near Moncton, N.B. This will increase glass container capacity and result in transportation cost savings in service to Atlantic Canada.

Energy investments

Consolidated-Bathurst moved forward during the year with its planned investment program in the oil and gas sector. With respect to investments in public companies, the Corporation increased its ownership participation in Sulpetro Limited and Sceptre Resources Limited. In addition, Consolidated-Bathurst and Sulpetro together formed Sulbath Exploration Ltd. to explore for oil and gas in western Canada. In direct investments, Consolidated-Bathurst extended its exploration programs in the United States, through Zenith Exploration Company, Inc., and in western Canada, through Remington Resources Limited. As indicated under the "Oil and Gas Investments" section in this report, Consolidated-Bathurst has an important direct and equity share in proven reserves. Although the impact of government energy policies and of short-term surpluses has depressed the market value of energy stocks, the estimated value of the Corporation's share of the reserves involved is considerably higher than the market value of these investments.

Financing and Dividends

Long-term financing was used in 1981 to support the current capital program and to minimize short-term bank loans. Early in the year, Consolidated-Bathurst Pontiac Limited, a subsidiary, borrowed $50 million from several Canadian chartered banks under its revolving credit facility. In October, Consolidated-Bathurst issued U.S. $60 million 17½% Series I Debentures due 1988 at a price of 98½. In December, the Corporation obtained $16 million under long-term leasing arrangements with Lloyds Leasing Limited of London, England, for the financing of up to $75 million of manufacturing equipment at the Bridgewater mill. In February 1982, the Corporation issued on the Eurobond market $40 million 17¼% Series J Debentures due 1987 at par. With these arrangements, the long-term financing for the Corporation's major capital program is substantially in place.

In line with the Corporation's dividend policy of returning to shareholders approximately 30% to 40% of earnings over a business cycle, the Board of Directors, for the second consecutive year, declared a year-end extra dividend that amounted in 1981 to $0.50 per common share. This extra raised the total dividend payout for the year to $2.00 per share, the same level as in 1980 and representing about 40% of 1981 net earnings.

Officers

At the Board meeting following the Annual Meeting on April 24, 1981, Ritchie MacPherson, Manager of Manufacturing, News, was appointed Vice-President, Newsprint Production, and Larry F. Horne, Manager, Manufacturing, Kraft, was appointed Vice-President, Kraft Production. The Hon. Maurice Sauvé, P.C., an officer of the Corporation since September 1968, took early retirement at the end of 1981. Over the years, as a vice-president and executive vice-president, Mr. Sauvé gave Consolidated-Bathurst valued counsel in the areas of administrative and public affairs. The Board wishes Mr. Sauvé well in his future endeavours.

Outlook

The outlook for pulp and paper is clouded by the prospect of difficult labour contract negotiations. Moreover, an anticipated reduction in newsprint and groundwood specialty demand and the projected increase in U.S. capacity will exert pressure on the operating rates of Canadian mills, including those of the Corporation. The containerboard sector is likely to be unfavourably affected by a decline in shipments of corrugated containers as such packaging products are highly sensitive to economic conditions. In Packaging, Domglas' operating profit is expected to improve in 1982 as a result of volume increases and productivity improvements. In West Germany, Europa Carton's performance should benefit from improved margins on corrugated containers and folding cartons. The level of interest rates will remain a major imponderable during 1982.

While the results of 1981 have been satisfactory, economic recession is deepening in both the Canadian and U.S. business environments. This is resulting in weak markets for products sensitive to economic cycles, in idle production capacity for certain manufactured goods, and in uncertainties in respect to future capital investments. A fundamental difference between the Corporation in its early years and the Consolidated-Bathurst of today is in the strength and stability of its business diversification in pulp and paper and in various types of packaging on two continents. This balance and the variations in the timing of the cycles of its businesses will continue to shelter the overall results from the extreme cycles of any given sector. Management believes that the Corporation currently has a good strategic posture for the difficulties ahead, based on its investments in areas of promise and on an allocation of resources within its human and financial capabilities.

The Directors wish to express their appreciation to the employees of Consolidated-Bathurst for the determination and enthusiasm displayed by them during the year and for their contribution to the high level of performance achieved. These qualities hold the promise of continued success as the Corporation moves on to new achievements in the years ahead.

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 26, 1982

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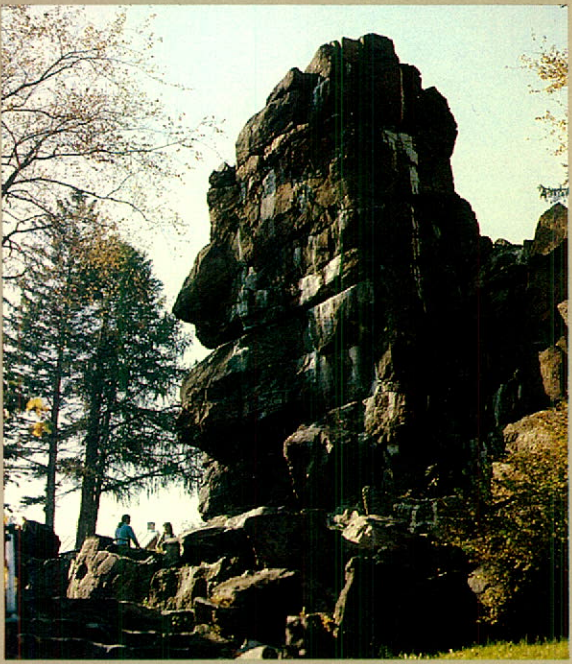

A look back

1
The portage, falls and rock at Grand'Mère as seen by Cornelius Krieghoff circa 1858. (From the Power Corporation collection)
2
To prevent its submersion with completion of the Laurentide power dam, the rock landmark was removed from the river. In this 1916 photo, it is being reconstructed, in a downtown park.
3
More recent photo shows the distinctive profile that gave Grand'Mère its name.
4
Lieut. Stuart Graham and Mrs. Graham following arrival with their flying boat in Grand'Mère area, in June 1919, for early venture in forestry surveys and commercial aviation by Laurentide Company.
5
Laurentide power house, following its completion in 1920.
6
Ferry was the way to cross the St. Maurice River until the bridge was built in the late 20's, on a pier put in place 15 years earlier.

Facing the demands of a difficult economic environment, business people, these days, seldom look back. But looking back on a special occasion like a 50th Anniversary does help to remind us that the strength and dynamism of any large institution, while greater than the sum of its parts, is founded on the collective efforts of the working lives of the many individuals who have contributed to its foundation and growth.

Indeed, many of the parts of Consolidated-Bathurst go back beyond 50 years, into the beginnings of several industries with deep roots in Quebec, Ontario and New Brunswick, in lumbering, pulp and paper manufacture and glass making.

The pioneers in these businesses were invariably innovators, men of enterprise and of vision who put much at risk where others could not see the opportunity. Like John Gillies, who went into lumbering in the Ottawa Valley in the 1840's and established his sons in pine sawmilling at Braeside in the 1870's; or John Forman, who, a hundred years ago, recognized industrial potential in the waterfalls at Grand'Mère and at Shawinigan in Quebec's St. Maurice River Valley. It was his initiative that established Consolidated-Bathurst's earliest predecessor company in the pulp and paper industry, the Canada Pulp Company, at Grand'Mère in 1882.

That company underestimated the challenge and went into receivership but Forman soon found backing for a replacement — the Laurentide Pulp Company, established in 1887. With more capital and higher financial acumen, Laurentide went on to become Canada's first industrial-scale producer of newsprint, a leader in forest management, community planning and technical innovation.

In the two decades that began the 20th century, other entrepreneurs in other places were putting Canada's resources of forest, water and hydro power together to serve the swelling needs of U.S. publishers and papermakers. Among them were the Belgian interests who built the Belgo Canadian Pulp Company at Shawinigan, Angus McLean of Bathurst, a lumberman who turned to pulp making, and C.R. Whitehead, who established the Wayagamack kraft mill at Trois-Rivières. In the 'kingdom' of the Saguenay, J.E.A. Dubuc helped found an industry in competition with the Price family and was responsible for setting up the Ha! Ha! Bay Sulphite Company at Port Alfred in 1916.

In the twenties, the new industry expanded swiftly. Its impressive, often disorderly growth and its promise attracted the lively interest of the financial empire builders. Thus did R.O. Sweezey and J.H. Gundy take on the Belgo mill from its Belgian owners and set up, in 1924, the Port Alfred Pulp & Paper Company, based on the assets of the Port Alfred mill. In 1925, Sir Herbert Holt and Gundy put the Belgo and Cap-de-la-Madeleine mills together as the St. Maurice Valley Corporation. By 1928, they had amalgamated the Laurentide and St. Maurice Valley companies to form Canada Power & Paper Corporation. In the autumn of the following year, Canada Power was to achieve control of the Port Alfred and Wayagamack mills. The timing was less than propitious. Even before its five-mill organization was complete, the new Canada Power company was complaining in its first annual report of "overproduction and otherwise unsatisfactory conditions in the newsprint industry."

Early in 1931, Canada Power & Paper told the Montreal Stock Exchange that it would be unable to meet

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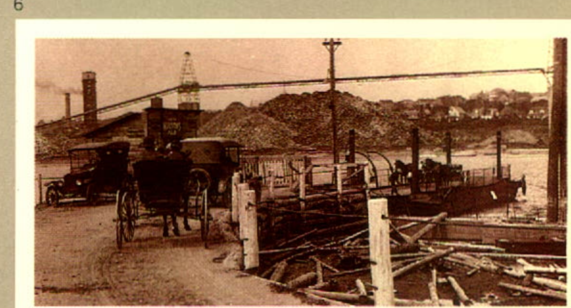

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John Gillies
Lanark, Ont.
1842
Gillies Brothers
Braeside
1873
Canada Pulp Co.
Grand'Mère
1882
Laurentide Pulp Co.
1887
Belgo Canadian Pulp Co.
Shawinigan
1900
Wayagamack Pulp Co.
Trois-Rivières
1910
Bathurst Lumber Co.
Bathurst, N.B.
1907
Dominion Glass Co.
Montreal
1913
St. Maurice Paper Co.
Cap-de-la-Madeleine
1915
Ha! Ha! Bay Sulphite Co.
Port Alfred
1916
St. Regis Paper Co. Canada Limited
1920
St. Maurice Valley Corp.
1925
Port Alfred Pulp & Paper Co.
1924
Bathurst Power & Paper Co.
1928
Canada Power & Paper Corp.
1928
1929
1929
Consolidated Paper Corporation Limited
Montreal
1931
Bathurst Paper Limited
1965
1963
1966
Consolidated-Bathurst
1967
1967
St. Regis-Consolidated Packaging Limited
1960
Europa Carton AG
Hamburg
1955
1973
Domglas
1976

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7
Belgo mill's pocket grinder room, on completion in August 1902.
8
Hewing square timber on a Gillies Brothers limit circa 1912.
9
Experimental two-man mechanical chain saw, as seen in 1929.

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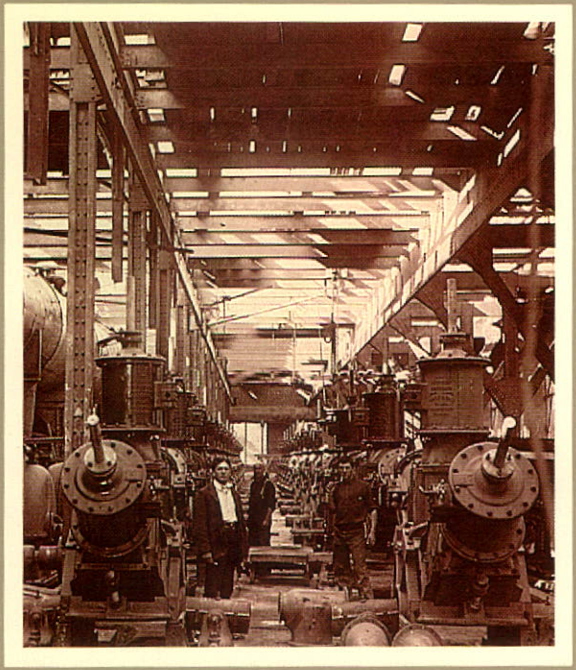

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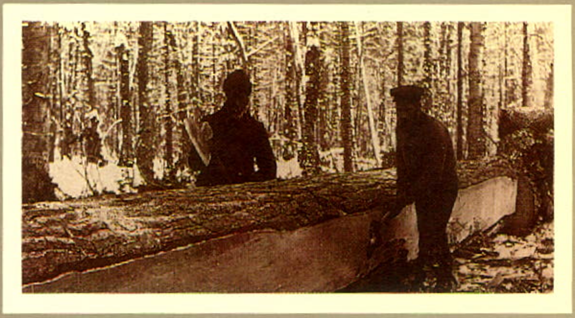

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Chief executive officers:
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L.J. Belnap, 1931–1962
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G.M. Hobart, 1962–1966
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R.A. Irwin, 1967–1971

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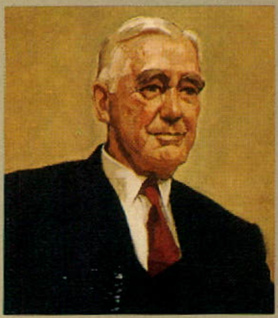

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its debenture and preferred dividend payments. The Hon. Charles A. Dunning was chosen by the debenture holders as head of a "Securities Protective Committee" that was to recommend a reorganization of Canada Power & Paper Corporation. The Committee's report was dated June 2, 1931 and by mid-August, in spite of important dissent, that report had been approved by all classes of shareholders. The new company, called Consolidated Paper Corporation Limited, was incorporated August 28, 1931, and took on the "assets and undertakings of Canada Power & Paper Corporation and its subsidiaries" on January 1, 1932.

Survival and consolidation

The appointment of Consolidated's new president, chosen by the Dunning Committee, was announced August 1, 1931. He was LaMonte Judson Belnap. "Monty" Belnap, at 51, was a strong, technically oriented professional manager. In spite of the discouraging prospects of the new company, he was not only to report an operating profit within three years, but was, for three decades, to give Consolidated a close, personal guidance, distinguished by cost-conscious management, frugal housekeeping and technical innovativeness.

The Company continued to report positive earnings through the years of depression and wartime curtailment of supplies, energy, and manpower. It also reported 321 employees in military service, four of whom were killed in action. At the end of 1945, Mr. Belnap set up an employee retirement plan — before the Company paid its first annual dividend of 50¢ per common share. That dividend was declared on January 31, 1946, at the beginning of the Company's fifteenth year. At the beginning of the following year, the remaining $40 million of Consolidated's 5½% original debt was reduced and reorganized as $35 million of 3½% First Mortgage Bonds 1947 Series. Post-war profits climbed smartly, new capital projects improved facilities and dividends went up regularly in succeeding years.

In 1951, the annual report could truly boast of "20 Years of Progress", of steady improvement and of mills in "splendid physical condition" from post-war modernization and improvements, paid for out of earnings. "Every machine", management said, "is capable of producing more now than when it was new."

In 1953, dividend payments went quarterly and the work week changed from 48 to 40 hours. Sales passed the $100 million mark the following year, and in 1955 the stock was split two-for-one. In the same period, the Company's Woodlands operations led the industry in conversion from bucksaw to chain saw. By 1955, mechanical cutting of pulpwood had grown within five years to 92% of all wood cut. A new research and development centre was built at Grand'Mère. Newsprint was in tight supply, encouraging a trend to long-term contracts. By the Company's 25th Annual Report, for 1956, funded debt had been eliminated completely, $17 million was held in short-term investments, and new projects were being vigorously pursued. The Company's investments in bonds had risen to $21 million by 1959, and Consolidated was taking a serious look at the packaging field.

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Artifacts of earlier production: maple leaf butter dish made in Montreal circa 1890–1910; jar and soda water bottle made by Hamiltion Glass Works (1864–90); first valve bag made in Canada, in 1924.

Expansion and acquisition follow austerity

The Company moved into packaging with the purchase of the four multiwall bag plants of St. Regis Canada, to which the Company's Wayagamack Division was a supplier of kraft paper. The acquisition was completed in 1960 with issuance of 785 000 common shares of the Company to St. Regis. This key block of shares was to be purchased five years later by Power Corporation of Canada.

In October 1962, with the retirement of LaMonte Belnap as Chief Executive Officer, an era came to an end. George M. Hobart, who had joined the Company as Executive Vice-President in 1945 and become President in 1947, was appointed President and Chief Executive Officer. Mr. Belnap remained Chairman for two more years and was Honorary Chairman for two years thereafter.

As Chief Executive, Mr. Hobart recommended acquisition of Gillies Bros. & Co. Ltd. in November 1963. He made the decision to proceed with the new No. 10 newsprint machine at the Laurentide mill and, in 1964, the decision to build a new pulp mill at Portage-du-Fort, Que., to be called the Pontiac Division.

The No. 10 machine started up in June of 1966, the same year a new bag plant was opened in Calgary and a new stud lumber mill, at Notre-Dame-du-Rosaire in Quebec's Saguenay region. At the mills, production capacity not previously available came on stream by virtue of government approval of Sunday operation.

Late in 1966, an offer by Consolidated to the shareholders of Bathurst Paper Limited was well received and, in December, plans for a merger of the two companies moved forward with the encouragement of Consolidated's major shareholder, Power Corporation, which was also controlling shareholder of Bathurst. R.A. Irwin, Bathurst's President, became President and Chief Executive Officer of Consolidated as of January 1, 1967, and Mr. Hobart became Chairman. Consolidated President Fred Bradshaw, then past 65, had retired at his own request the previous June.

The Pontiac mill was completed in November and, by year-end 1967, the Company had also acquired, from Container Corporation of America, control of two important packaging companies in the Federal Republic of Germany.

In 1969, capacity of the New Richmond linerboard mill, built by the Bathurst Company in 1964-65, was increased from 550 to 650 tons/day. In 1969, as well, a new plant was built by the Container Division at Etobicoke, Ontario, to replace its old facility on Toronto's Gerrard St. East, and the Company continued to work on improvement of its newsprint production capabilities. But storm clouds were gathering.

Retrenchment and diversification

In 1970, under difficult business conditions and with a loss in the Company's tissue division, earnings dropped to $1.6 million. After special write-downs and write-offs of certain facilities, however, the Company posted a loss of $10.7 million. Late in the year, W.I.M. Turner, Jr. joined the Company as President and Mr. Irwin became Chairman. Although a vigorous cost-cutting campaign was launched, severe problems continued through 1971, with higher costs, weak markets and a surplus of productive capacity. The Bulkley Valley project, aimed at building a sawmill-pulp mill complex in northern British Columbia, was written off. The Company's net loss for 1971 was $49.4 million, with book value per share declining to $16.67 from $25.36 in 1970.

While the seventies started with a crash landing, it was, in retrospect, the sixties that had soared. Following its first three decades of careful consolidation, the Company had enjoyed an unprecedented period of expansion: entering industrial bag and tissue markets, installing its first completely new paper machine, acquiring Gillies Bros., building the new pulp mill, adding capacity and merging with Bathurst Paper.

The early seventies were characterized by depressed markets, a sudden strengthening of the Canadian dollar and, within the Company, the drastic retrenchment measures taken by management. Dividends were omitted on common and preferred shares, U.S. tissue market plans were curtailed and the Bulkley Valley sawmill was divested February 1, 1972. The U.S. tissue division continued to lose money and it too was divested. But the rebound was quick! By summer 1972, the Company's first twin-wire paper machine, a Verti-forma purchased three years earlier, started up at the Wayagamack Division in a much modified form. For the year as a whole, net earnings were a positive $6.6 million, and preferred dividends were restored. Plans for modernization resumed with a project to add a rebuilt paper machine, with a new Papriformer twin-wire wet end, as the Belgo Division No. 9 paper machine.

There was a paper shortage and an upsurge in demand in 1973 and business was much healthier. A philosophy of diversification was to succeed that of retrenchment. Control of Dominion Glass, Canada's largest glass container producer, was acquired in April. Construction of a fines digester was begun at the Pontiac mill and a new bag plant completed at Brantford. A program of installation of process control computers was begun with Port Alfred's No. 4 machine.

Record results in 1974 marked full recovery. Earnings that year also benefited from special credits from the sale of Anticosti Island and the acquisition and sale of the shares of the Price Company to Abitibi Paper, following that Company's bid to control Price. With this exchange, Associated Newspapers Group

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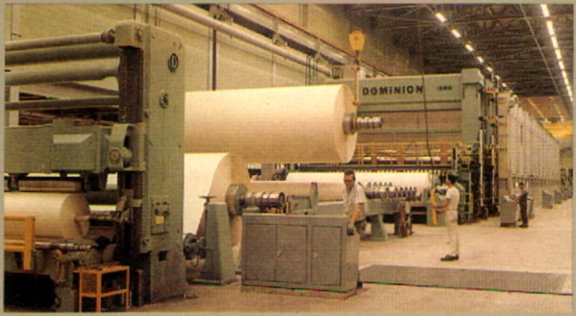

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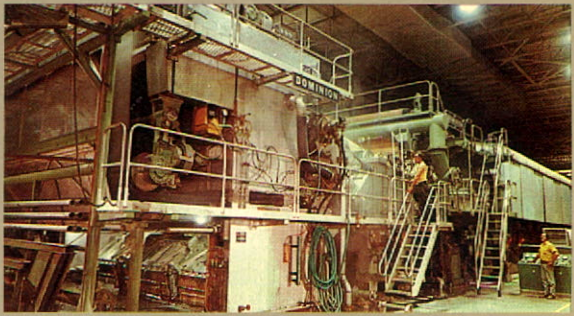

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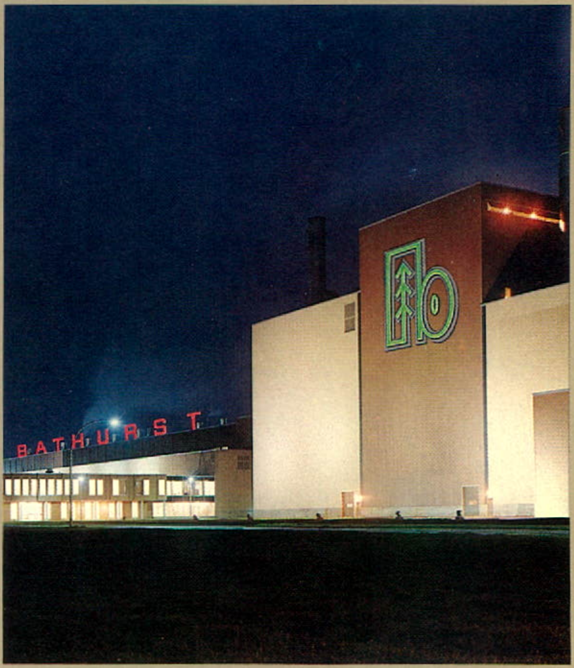

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Consolidated's first all new paper machine, Laurentide No. 10, was started up in June 1966.
14
Belgo No. 9 paper machine started up in late 1973 — the Company's second twin-wire paper machine.
15
Pontiac Division's unique bleached kraft pulp mill, following start-up in November 1967.
16
Bathurst Paper's New Richmond linerboard mill was built in 1964–65.

of London, England, became an important new shareholder of the Company. The basis weight of standard newsprint was reduced from 32 lb to 30 lb. Speed-up of the Port Alfred No. 2 paper machine was completed in June and a sawmill at St. Fulgence and related limits were acquired. The mill strikes of late 1975 to early 1976 virtually coincided with the imposition of price and wage controls. The Company lost to the strikes some 297 000 tons of production against a total industry loss of 5.4 million tons.

In 1976, the Cap-de-la-Madeleine bag plant completed 50 years of continuous operation, and late that year, the Gillies pine lumber mill at Braeside was heavily damaged by fire. In that year, three additional packaging plants were acquired in Germany. Machine rationalization continued in 1977 with the permanent shutdown of the Company's Cap-de-la-Madeleine mill. R.A. Irwin retired as Chairman on August 26, 1977, but continued as a director of the Company. He was succeeded as Chairman of the Board by Mr. Roland Giroux.

By 1978, sales exceeded $1 billion, and the common shares were split three-for-one. The dividend was increased, and the redesigned and rebuilt Gillies sawmill officially inaugurated. In 1979, earnings passed $100 million and investments in Canadian energy exploration and production began.

Capital expenditures toward modernization reached $91.2 million, almost twice the level of 1978. A new 'very high yield' sulphite plant for the Laurentide mill became the first project to qualify under the Canada-Quebec program to assist industry modernization.

A perusal of the description of activities set out in this report will demonstrate that the Corporation has come a vast distance in scope as well as time in half a century, under but four chief executive officers. Building from the base of its predecessor companies, Consolidated has more than justified its name and fulfilled its original aspirations! Its founders, shareholders and generations of employees can take much pride in its strong leadership and their collective achievement.

Pulp and Paper Group

In 1981, although net sales of the Pulp and Paper Group attained a new high, an improvement over record earnings of the preceding year was not achieved as costs escalated dramatically, demand for various products dropped significantly toward year-end, and mill production volumes were somewhat curtailed by an extensive modernization and diversification program looking to the years ahead.

Net sales during 1981 totalled $791.6 million, including $53.3 million in sales to the Company's Packaging Group. This compared with $698.8 million in 1980. Operating profit was $173.0 million, approximately 72% derived from the Group's most important product lines, newsprint and groundwood specialties. Operating profit in 1980 was $186.1 million. The weakness of the Canadian dollar relative to U.S. and U.K. currencies was more important than ever, with exchange contributing approximately 45% of the Group's operating profit. This compares with approximately 35% in 1980.

Although the year's results were generally good, costs increased faster than prices in the face of economic recession as world demand for pulp and paper products slackened, particularly in the fourth quarter. In newsprint supplied to daily newspapers, publisher inventories are higher than normal and are likely to continue so in anticipation of difficult labour negotiations in the eastern Canadian paper industry. Specialty newsprint diversification showed good results and increases in capacity are going forward as planned.

As detailed in the product-market discussions that follow, pulp results were lower than in 1980 but good for most of the year. Selective price increases for softwood pulp were effected in the industry at year-end but no price increases have been made in hardwood pulp since April 1980. World demand is soft and inventory stocks at approximately 1.5 million tonnes are higher than in recent years. Lumber results reflected the disarray in that segment of the industry because of the lack of housing starts and an operating loss of some $1.1 million was incurred for the year. Current emphasis is on reducing inventory which occasioned shutdowns of varying lengths at all four of the Company's sawmills.

Capital expenditures

Substantial capital expenditure projects, as detailed under Manufacturing, are going forward at all but the newest of the Group's seven manufacturing divisions. Indeed, the Group now includes eight basic mill divisions since acquisition of a three-machine newsprint mill in England at Ellesmere Port. Closed in November of 1980, this mill was purchased in August 1981 and is being modernized as the Company's Bridgewater Division. The facility will triple the Company's capability to supply newsprint within the European Economic Community increasing it to some 250 000 tonnes annually. Operations at Ellesmere Port will be based on a furnish 60% of which will be supplied by a new chemi-thermo-mechanical pulping (CTMP) plant currently under construction at the Company's Bathurst Division in New Brunswick. Both Ellesmere Port and Bathurst projects are receiving significant government grants.

One effect of this project in terms of product emphasis is that production of unbleached kraft pulp at the Bathurst mill will be discontinued. In the same way, the planned production of lightweight specialty papers at the Wayagamack Division will entail a phase-out of the production of commodity kraft papers at that location.

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

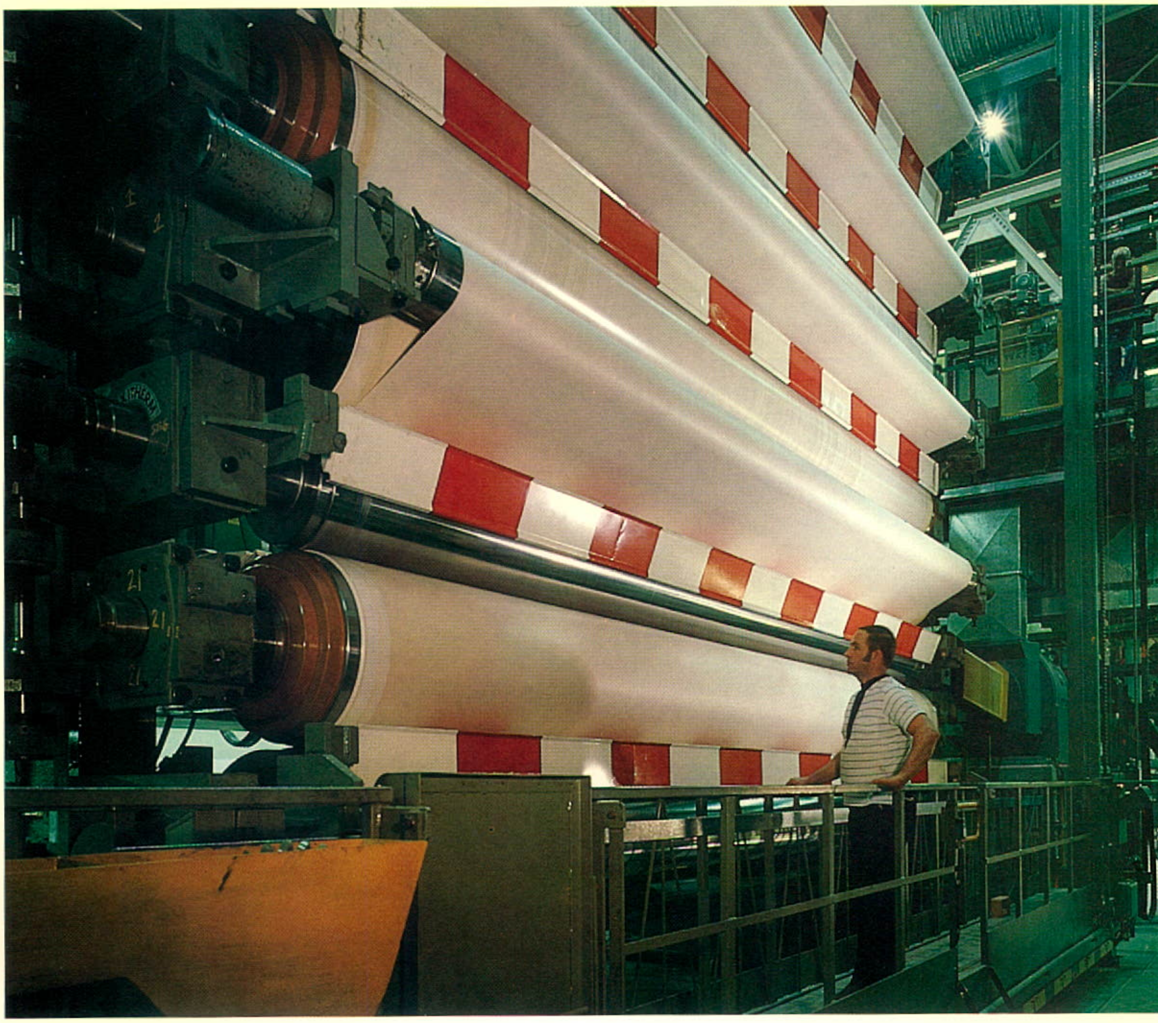
Outlook

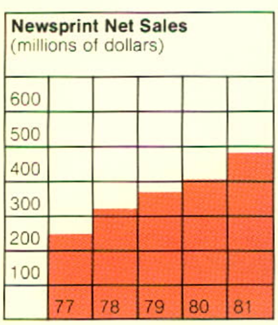
While Federal and Quebec budgets brought down in 1981 and continued high interest rates reduce the potential return of capital projects, increase the cost of doing business and slow economic activity, it is clear that the Company's longer term interests are better served by proceeding as fully as possible with its modernization program.

Shipments - Pulp and Paper Group Products (thousands of tonnes)	**1981**	1980	1979	1978	1977
Newsprint	**959**	913	952	933	785
Pulp	**222**	231	230	220	186
Containerboard	**289**	302	301	279	248
Kraft paper and boxboard	**78**	81	88	82	72
Lumber (thousands of board feet)	**93 502**	92 081	131 192	128 159	91 464

1
Laurentide's second supercalender started production in December 1981. It produces rotogravure newsprint.

1





In 1982, collective agreements for virtually all of the Group's Canadian pulp and paper mills expire April 30. Union negotiators have announced a basic objective of parity with the higher scales prevalent in the forest industry of British Columbia. Given the current industry situation and the basically different character of the eastern Canadian industry, their objective seems highly unrealistic and negotiations may well be lengthy and difficult.

In the interim, Group strategy continues to be 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.

Newsprint

The Company's newsprint and groundwood specialty business ran full throughout 1981, although some softening of demand was evident in several important markets. Net sales of all grades were $484.2 million, up 19.3% over $405.9 million in 1980. Shipments by destination were as follows: 58% to the United States, 23% to Canada, and 19% to overseas markets.

Consumption of newsprint in the United States, the dominant user market, was 10.1 million tonnes, only marginally ahead of 1980. Wide regional differences reflected the varying impact of the recession. Inventories were high at year-end and will likely remain so until the industry's current labour negotiations are settled. The general consensus is that a strengthening of business activity will occur in the second half of 1982 after the current recession bottoms out.

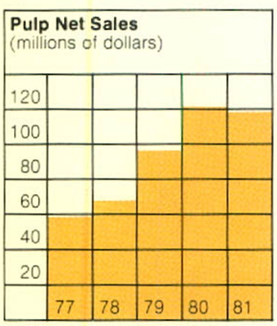
In Canada, the Company's traditionally strong sales position was maintained and a continuation of this situation through 1982 is expected.

The single most important development of 1981 was the Company's purchase of the former Bowater mill at Ellesmere Port in the United Kingdom. As described in the Manufacturing comment, this mill is presently the subject of a complete refurbishing, to reopen by the middle of next year. When fully operational, it will produce some 250 000 tonnes of newsprint annually for the U.K. and continental Europe. This capacity represents a substantial increase in the Company's sales capability within the European Economic Community.

This new Bridgewater Division will operate three modern, twin-wire equipped paper machines. With the three new twin-wires currently being installed in its Canadian mills, the Company will have a complement of 11 high speed twin-wire machines and 10 fourdrinier machines producing newsprint. Newsprint produced on twin-wires provides a product ideally suited to meet the continuing changeover of daily newspaper printing plants from letterpress to offset.

Price increases in both publisher and specialty groundwood grades were achieved in all markets during 1981 in an effort to protect profit margins and compensate for continuing escalation in costs.

Because of the uncertain economic climate in all markets, newsprint demand in 1982 is difficult to predict. Much will depend on the direction and timing of movements of the U.S. and European economies. Predicting the level of newsprint demand is complicated by the key problem facing producers as a result of substantial infusions of new capacity entering various markets. The Company expects, however, to have adequate order books through the first quarter and to retain its traditional share of markets over the balance of the year.



Groundwood Specialties

Groundwood specialties, which are mainly produced at Laurentide and Wayagamack mills, comprise approximately 24% of the total newsprint and specialties volume.

The year 1981 started off with a strong market for all major grades – uncoated rotogravure, lightweight directory and computer papers. Weakness in the major U.S. market became evident, however, during the third quarter mainly because of reduced economic activity and some replacement of uncoated groundwood papers by higher grades of coated groundwood and wood-free fine papers. Industry shipments, mainly to the U.S., of selected groundwood printing and writing papers increased by only 3% in 1981. Approximately 80% of these grades are exported to the U.S.

In spite of weak markets, sales of all grades of the Company's groundwood specialties had another good year, with increased volumes in all products and markets. Approximately 92% of shipments were to the United States. Sales volume was 16% higher than in 1980.

The supercalender installed in 1980 at the Laurentide mill to produce rotogravure paper operated at 95% capacity based on broadened market acceptance of the improved rotogravure product. The second supercalender at the same location was started up in December 1981.

Various programs and trials are being pressed forward to diversify the groundwood specialties grade mix. With the planned start-up of the new lightweight groundwood specialty machine at the Wayagamack Division, a total Company capacity of 350 000 tonnes by mid-1982 is anticipated.

It should be noted, however, that demand in 1982 is not expected to be as strong as it has been during the last four years and the short-term supply/demand balance may well weaken because of new capacity coming on stream.

Kraft Market Pulp

Net sales of bleached and unbleached kraft market pulps were $119.2 million, within 1% of reaching 1980's record, based on shipments of 222 000 tonnes, down 3.7% from a year earlier.

The weakness in the economies of the United States, Japan and Western Europe affected the client paper industry through the year, with the result that the movement of market pulp was sluggish, with an abrupt fall-off taking place during the autumn months.

Pulp prices remained fairly steady in North American markets for most of the year, while severe downward pressure was felt in offshore areas, particularly in the latter months of 1981. Efforts to increase prices in the fourth quarter were only partially successful.

Demand for *bleached kraft pulp* produced at the Company's Pontiac Division mill was good for most of the year, until a fourth quarter decline in shipments related to the fall-off in the world's economies. As a result, shipments for the year were lower than in 1980 by more than 7%.

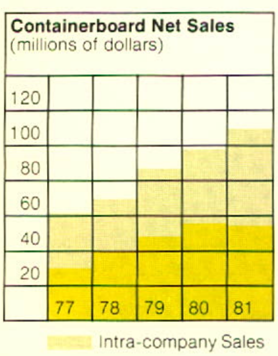
Net sales of *unbleached kraft pulp*, produced at Bathurst Division, reached a new high, and production and sales volumes in the U.S. approached the record levels of 1979.

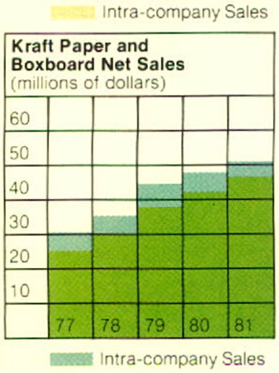
At mid-year, co-incident with the purchase of the Ellesmere Port mill in the U.K., the Company announced a phase out of production of unbleached kraft pulp at Bathurst. By the end of 1983, production will be discontinued, so as to change over to the thermo-mechanical pulp required as a basic material for the newsprint operation at the Company's new Bridgewater Division.

The outlook for 1982 sales of the Company's market pulp is mixed. While demand should remain fairly good, particularly for high quality pulps, uncertainty over when recovery will take place in the major world economies makes it academic to predict the timing of improvements in demand for pulp.

2
Unloading sawlogs at the St. Fulgence dimension spruce sawmill. Chips and residues help meet fibre and energy needs of Port Alfred newsprint mill.

2





Containerboard

Net sales of containerboard (linerboard and corrugating medium) amounted to $110.1 million, an increase of 11% over 1980, based on a tonnage sold slightly lower than that of 1980. Consolidated-Bathurst Packaging continued tc be the major account for containerboard, taking 43% of production for conversion to corrugated board in plants of the Container Division.

Overall industry demand for containerboard was sluggish for most of 1981, resulting in an overall operating rate of 90%. The predicted fall-off in export demand became evident early in 1981. Domestic demand, on the other hand, remained steady until the late months of the year, when corrugated box orders fell off sharply.

Production of linerboard at Chaleurs Division in New Richmond was at the same level as in 1980. This overall production was based on 14 days less of operation, reflecting improved daily productivity at the mill. The time required to effect major repairs and a softening market at year-end precluded full utilization of mill capacity. Net sales, reflecting improved pricing, were higher by 14%.

Corrugating medium production, from the Bathurst Division, was lower by approximately 10% as deteriorating market conditions forced short-time operations in the year's final quarter. Domestic shipments were slightly higher than 1980, but there was a marked decline in export markets, with the result that shipments were almost 8% below those of 1980. Higher prices improved net sales revenue of corrugating medium, however, by 4%.

Kraft Paper and Boxboard

Net sales of kraft paper and boxboard were $51.6 million in 1981, reflecting a 7.3% increase over $48.1 million in 1980. Operating profits, however, declined sharply.

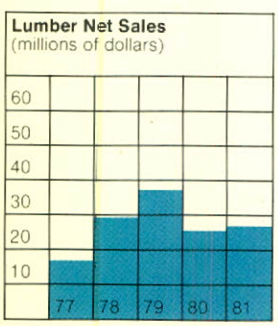
Demand for kraft papers in Canada remained static in 1981 compared with 1980, but because of increased competitive imports, domestic industry shipments declined by 2%. Company shipments declined to 48 000 tonnes from 50 300 tonnes in 1980 because of both reduced demand and recurring production difficulties. Net sales, however, increased, reflecting a higher grade-mix and some price increases. The deterioration in profit resulted because price increases were unable to keep pace with cost increases.

Plans are underway to continue rationalization of the product mix in the second quarter of 1982, when the commodity kraft paper machine is shut down and the new groundwood machine starts up at Wayagamack Division.

Domestic demand for boxboard increased by 7% in 1981, after a similar decline in 1980. At 30 200 tonnes, shipments from the Laurentide mill were, however, slightly below those of 1980 because of a production schedule reduced to a six-day operation. This arrangement improved productivity and reduced costs. In addition, prices of waste paper — the largest component of costs — declined in 1981. Accordingly, boxboard's financial results improved considerably.

3
In Ottawa Woodlands Division operation, hardwood is gathered for transport to the Pontiac mill. Note, in background, effect of strip cutting in a managed hardwood forest.
4
Forest worker notching a pine tree.
5
Building a dam at the discharge of Lac Charland, Upper Mattawin District, to control water levels there and achieve transportation and energy economies that river driving of pulpwood provides.
6
Worker in closed cabin controls operation of chipper-canter at the modernized St. Fulgence sawmill.

3



Wood Products

During 1981, the Company's Wood Products Group and its marketing arm, Gillies Inc., enjoyed a high level of market activity until July when demand for lumber fell off in North America because of rapidly escalating mortgage rates and generally deteriorating economic conditions. Shortly thereafter, U.K., European and Middle East markets also declined sharply.

Net sales of lumber were $26.5 million in 1981, compared with $25.0 million in 1980 and $36.8 million in 1979. Sales volume in 1981 was 93.5 million fbm of pine and spruce lumber, of which 14% went overseas and 30% to the United States.

By year-end, production at the pine sawmill at Braeside, Ont., and at the stud mills at Bathurst, N.B., and Notre-Dame-du-Rosaire, Que., had been shut down so as to reduce lumber inventories at those locations.

The dimension spruce sawmill at St. Fulgence, Que., was rebuilt during the year, with government aid in the form of a grant from DREE. This project was completed within estimated cost and, by year-end, most start-up problems had been solved.

The Marsoui sawmill, which was permanently closed in December 1980, was given to the Government of Quebec in September. It was subsequently turned over to local interests who have undertaken to put it back into operation.

Year-end lumber inventories, at 51.9 million feet, were about double normal.

With the completion of the St. Fulgence modernization, all four of the Company's sawmills have a relatively high degree of automation. The objective is to enable them to operate profitably in spite of market downturns. Such flexibility is important because the sawmills' operations are integrated with the wood requirements of the Port Alfred, Bathurst and Pontiac mills and chip supplies from outside sources are insecure in times of difficult lumber markets.

Woodlands

During 1981, the Company's four Woodlands divisions delivered 2.36 million tonnes of wood fibre to Company pulp and paper mills and sawmills, about the same as in 1980.

Sawmill residue as a source of fibre for the pulp and paper mills amounted to 789 600 tonnes, or 37% of the total requirement. This included 142 700 tonnes from Company-owned sawmills. The Bathurst, Chaleurs and Pontiac mills purchased 113 900 tonnes of low cost sawdust and shavings in 1981, compared with 138 400 tonnes in 1979 and 89 200 tonnes in 1980.

Purchased pulpwood accounted for 28% of the total wood fibre delivered to the mills and 35% was produced by company operations within Crown forests.

The availability of sawmill residue dropped steadily as the year went on, primarily as a result of poor lumber markets. By the end of the year, many traditional sources of supply discontinued delivery of fibre as sawmill shut-downs became common.

During the years 1975 - 1980, wood costs increased at well below the average annual rate of inflation.

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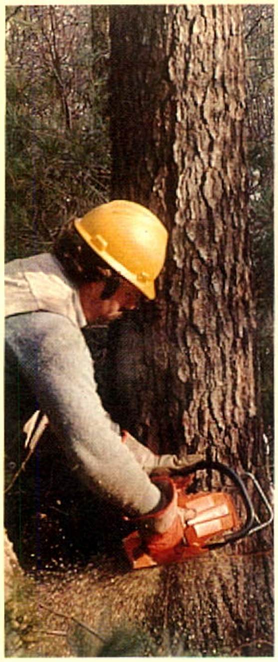

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During 1981, however, increasing competition for the available fibre supply and the declining availability of sawmill residues resulted in wood costs for 1981 being 11% higher than for the previous year.

At year-end, inventories of wood in mill yards, rivers and in the forest were valued at $110.5 million. This was 19% higher than at the end of 1980 and clearly the result of the increased cost of production and the location and state of completion of the inventory, as the physical volume of wood in inventory was only 2½% higher than in the previous year.

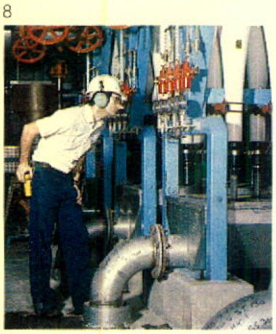
Capital expenditures in 1981 for mechanical equipment, roads, camps and other facilities amounted to $4.8 million, 38% less than budgeted estimates. Under the terms of the existing Canada-Quebec joint supplementary agreement on forestry development, which extends until 1984, the Company either received or had accrued grants for road construction in 1981 for an amount of $1.6 million.

No additional Company limit licenses were revoked during 1981 by the Government of Quebec. Since 1977, seven limit areas encompassing 6 939 square miles have been revoked, or 35% of total Company holdings in Quebec prior to that date. Cash compensation for improvements has been received in all but the most recent cases, but satisfactory compensation in the form of equivalent cutting rights has been achieved in only one case. Negotiations aimed at a settlement have been hampered because the Government has yet to establish a new system of forest tenure and management in which the role of the pulp and paper companies is clearly defined.

In New Brunswick, under the terms of the new Lands and Forests Act, the Company and the Provincial Department of Natural Resources have reached agreement on a timber limit area which provides the fibre requirements for an expanded paper mill operation and for the sawmill located at Bathurst. This timber license is to be awarded to the Company under the terms of a forest management agreement which promotes a close working relationship between the Company and other smaller wood using industries located in the region.

7
New directory paper machine being installed at Wayagamack Division, Trois-Rivières, will add capacity in groundwood specialties.
8, 9
Centrifugal pulp cleaners and modern control room at new 'very high yield' sulphite plant at Laurentide Division, Grand'Mère.
10
Continuous digesters at Laurentide's VHYS pulp plant. It started up in 1981.

8



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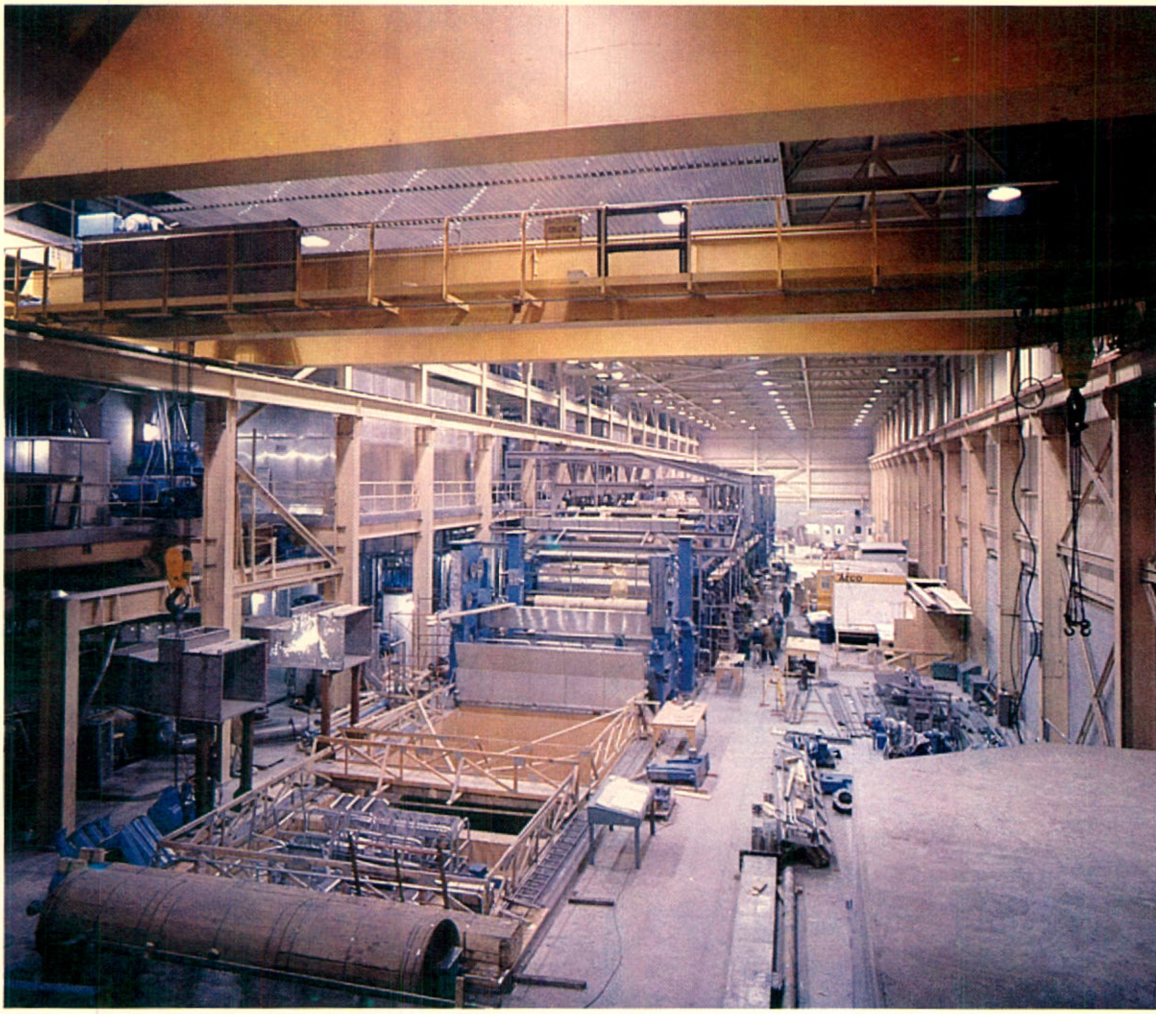

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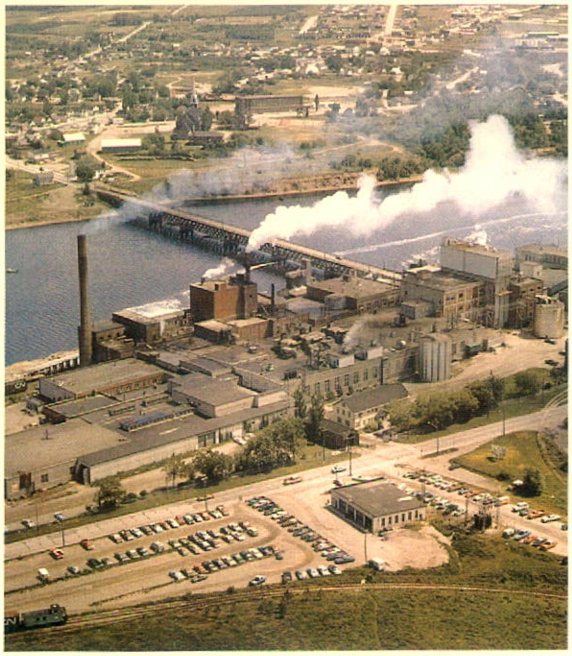
11
Bathurst Division, site of new chemi-thermo-mechanical pulp plant that is to provide basic material for newsprint production at Bridgewater Division.
12
Former Bowater mill at Ellesmere Port, England, acquired last August and renamed Bridgewater Division. Mill's three machines are being modernized to produce 250 000 tonnes of newsprint annually after start-up in 1983.

11



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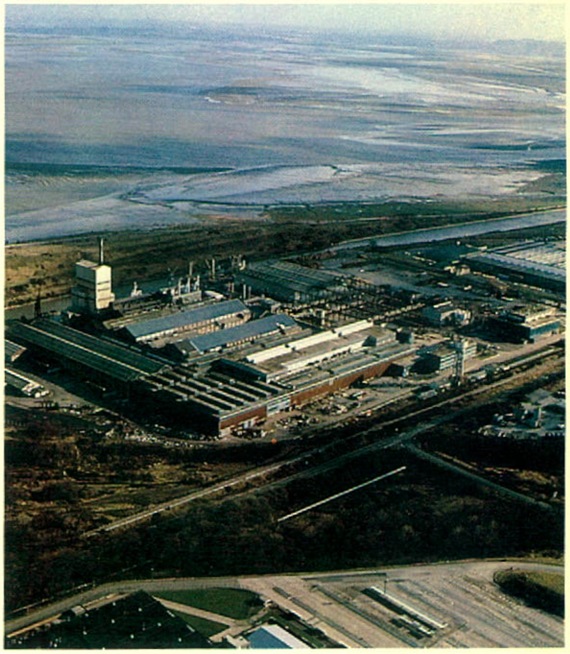


Manufacturing

Total 1981 production from the Manufacturing Group's seven operating pulp and paper mills was 1 503 100 tonnes, only slightly less than in 1980.

Newsprint production at 910 390 tonnes was 17 345 tonnes more than in 1980, but 1.7% less than the record of 926 103 tonnes established in 1979. Productive capacity was adversely affected by machine downtime occasioned by equipment installation and modification in the capital asset improvement program, and by related mill operating problems. Newsprint production of 87 800 tonnes at the Wayagamack mill was 1.6% higher than in 1980 for a new production record at that mill.

Mainly because of reduced market demand, Company production of other grades was slightly below that of 1980, except for Bathurst unbleached kraft pulp. Its production, at 44 241 tonnes, was almost 4% higher than in 1980.

Fuel oil consumption in 1981 increased to 2.4 million barrels from 1.8 million barrels in 1980, following the conversion of Belgo to oil in view of uncertain coal supplies. Fuel oil consumption is expected to decrease in future years due to electric boiler operation, increased wood residue fuel utilization and mill energy conservation programs.

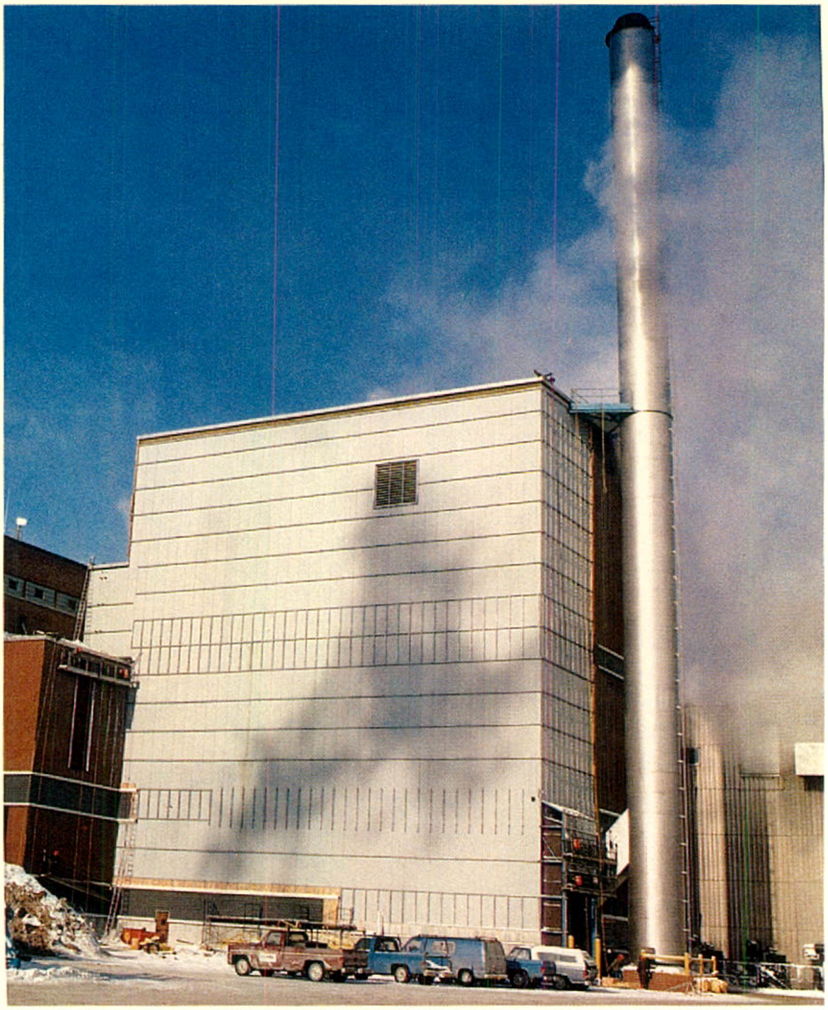
During 1981, secondary power was used whenever available for steam generation at 75% of electric boiler capacity and displaced 640 000 bbls. of fuel oil, 100 000 bbls. more than in 1980. Compared to oil-fired boilers, electric boilers provide a small favourable cost variance and reduce oil imports. At Laurentide, Port Alfred and Wayagamack divisions, new wood-residue burning facilities are scheduled to come on stream in 1982 to displace some 200 000 bbls. of oil for an estimated operating saving of $2.5 million per year.

Capital Projects in Progress

Manufacturing capital expenditures at $173 million, compared with $88 million in 1980, established a new record. Improvements to newsprint manufacturing facilities accounted for about 94% of the 1981 capital expenditure program.

13
Boiler to burn wood residues at Port Alfred mill — one of several facilities installed in Pulp and Paper Group's continuing program to displace oil and reduce energy costs.

13



All of the newsprint mills had major capital projects underway during 1981. The 'very high yield' sulphite plant at the Laurentide Division was the only major project that came on stream during the year — completion of all others being scheduled within the next two years.

The major development in the newsprint area was acquisition during 1981 of the Ellesmere Port mill. The project to refurbish and restart this mill offshore is one of the most challenging projects undertaken to date. As well as additional newsprint capacity at an attractive cost, it provides the Company an economic solution to the long-term future of the Bathurst mill. At Bathurst, a chemi-thermo-mechanical pulp plant will be built, to produce pulp that will be flash-dried and shipped to England as the major component of the furnish for the newsprint to be manufactured there. The project is scheduled for start-up in 1983.

At the Wayagamack Division in Trois-Rivières, the new groundwood specialty machine to manufacture directory paper will be completed and started up during the second quarter of 1982. It will add 70 000 tonnes to the groundwood specialty capacity of the Company's mills.

In Shawinigan, the Belgo Division is undergoing a major modernization program that will be completed late in 1982. Speed-up of two machines, including the rebuild and addition of a Papriformer twin-wire to one, will provide 40 000 tonnes of additional capacity.

At the Port Alfred Division, in Ville de La Baie, a program is proceeding to add a twin-wire former to the only one of the mill's four newsprint machines without one. The Bel-Baie former to be installed will become the Company's eighth operating twin-wire machine in Canada.

Packaging Group

Consolidated-Bathurst's Packaging Group consists of three main companies, and their subsidiaries, with diversified operations in Canada and in the Federal Republic of Germany that place it among the largest producers of packaging products in both countries.

■ In Canada

Consolidated-Bathurst Packaging Limited

The Container Division operates eight plants producing corrugated shipping containers, corrugated consumer packaging and selling corrugated packaging systems.

The Bag Division operates plants in Cap-de-la-Madeleine, Brantford, Calgary, and Vancouver. It sells, across Canada, a complete line of multiwall paper and industrial plastic 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 six plants, is the major producer in Canada of such containers, which are sold within Canada and in export markets.

A Domglas division, National Pressed Glass, produces industrial glass products. A subsidiary, Twinpak Inc., produces plastic bottles and containers, injection and extrusion-moulded plastic products, and supplies packaging machinery systems.

Domglas 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. Domglas also participates directly in the production of glass containers in the United States through its participation in Diamond Glass with plants in Royersford, Pa., and Parkersburg, W. Va.

■ In West Germany

Europa Carton AG

and related subsidiaries, operating at twenty locations in the Federal Republic, have two mills, eight corrugated container plants and five folding carton plants. 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.

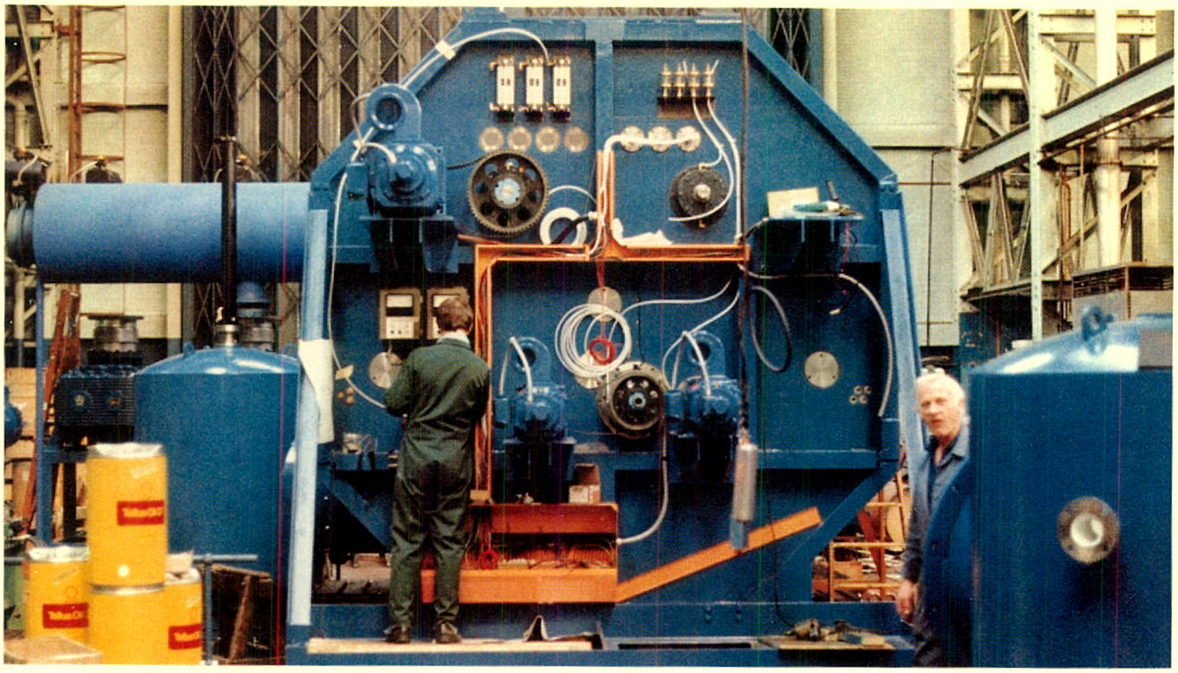
Sales and Profits

Activity in the packaging industry closely follows the economy, as reflected in the requirements of most manufactured and consumer products for packaging. The performance of the Packaging Group during 1981, accordingly, started out strongly in the first half of the year but dropped sharply during the second half, to leave the overall level of activity below 1980.

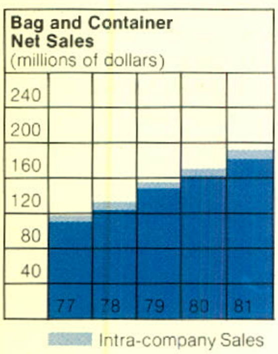
However, the impact of generally weak Canadian markets was offset considerably by efforts of the operating divisions of the Packaging Group in increasing exports, introducing new products and improving market share. This resulted in some overall volume increases in glass containers, corrugated containers and plastic packaging, plus strong growth in the sale of flexible packaging products by the Bag Division. The effect of the economy was particularly apparent in the drop in shipments of multiwall paper and industrial plastic bags. In Germany, despite a weak economy, shipments of boxboard, paperboard, waste paper and corrugated containers from ECA plants were maintained at or above 1980 levels; however, folding carton shipments were down from 1980. Sales and earnings of the German operations when translated into Canadian dollars were reduced by the lower average value of the Deutsche mark.

The net sales of the Packaging Group in 1981 were \$754.1 million, compared with \$742.7 million in 1980. Despite the weak economic conditions both in North America and Europe, operating profit of the Group was \$45.1 million, only 6.8% below the \$48.4 million of 1980. The major reason for the profit reduction was an inability to recover increased costs, because of market weakness.

Shipments - Packaging Group Products	**1981**	1980	1979	1978	1977
Bags (tonnes)	**19 800**	21 380	25 964	24 623	21 364
Containers (millions of square meters)	**621**	606	604	555	523
Folding cartons (tonnes)	**40 920**	44 670	42 774	40 079	34 482
Paperboard (tonnes)	**78 964**	77 000	76 906	76 430	85 611
Glass (tonnes)	**513 402**	512 522	468 603	511 129	458 104



1
Part of vacuum metallizing unit being built in England for installation at Bag Division's Brantford plant in 1982. Unit will broaden Division's flexible packaging product lines.



Consolidated-Bathurst Packaging Limited

Bag Division

Net sales of the Bag Division increased to $51.9 million in 1981, up 7% from $48.5 million in 1980. Operating profits were lower than in 1980. Results reflected reduced shipments of multiwall paper bags and heavy duty plastic bags, and the fact that, under unfavourable market conditions, increased operating costs could not be fully offset by price increases.

Demand for multiwall paper bags through the year was weakened by the impact of high interest rates, fewer housing starts, generally soft construction markets, and labour disputes in certain market sectors. Demand for industrial plastic and woven bags in agricultural markets was reduced by poor weather conditions and high interest rates; and in offshore markets, by a substantial softening in demand for Canadian polyolefin resins.

The general demand weakness for industrial bags was, however, partly offset by continued growth in flexible packaging product lines. Flexible packaging products include various polyethylene-coated and laminated materials, employing either a paper or woven polyolefin fabric substrate. Market applications range from protective wraps for kiln-dried lumber to lightweight coated sugar-pouch paper, and from coated woven fabrics for use in tents, awnings and swimming pool covers to ventilation tubing for the mining industry. Export sales of flexible packaging products, primarily to the United States, were higher than in the previous year.

Canada-wide sales of Intermediate Bulk Containers and related systems continued to grow as interest in the advantages and economy of semibulk shipment of products increased.

In the western region, bag sales were depressed by lengthy strikes in the cement industry and by the abnormally high inventories of unfilled bags in the fertilizer industry. Western demand for flexible packaging products was strong through the first half of 1981, but conditions gradually deteriorated with the west coast forest industry strike and a general worsening of economic conditions.

In the central region, multiwall bag demand was also affected by labour disputes in the cement industry, while sales of woven plastic bags were severely curtailed by a sharp fall-off in export resin shipments. Construction-related markets remained weak throughout the year. Flexible packaging products, produced at the Brantford plant, however, performed well, assisted by a growing acceptance of these coated and laminated products in the U.S. market.

In the eastern region, demand for both multiwall paper bags and plastic bags remained soft, as a result of weak construction-related markets and a generally poor economic climate in Quebec and the Atlantic provinces. Demand for flexible packaging products, particularly in the food industry, was stronger than anticipated, and shipments to the United States from the Cap-de-la-Madeleine plant were up substantially.

In its product diversification program, and following a thorough market analysis, the Division elected to enter the vacuum metallizing business. A $3.4 million investment was approved to install a large-scale metallizing unit and related equipment in a

2
New large-box flexo-folder-gluer in operation at Container Division's St. Laurent corrugated container plant.

2

25 000 sq.ft. extension of the Brantford plant. By mid-1982, the Division will be able to supply vacuum metallized paper and film products to the printing industry and to flexible packaging converters, as basic material for labels, cigarette packaging, food packaging, and a variety of other applications.

Capital expenditures during 1981 totalled $2.9 million, including $1.8 million on the metallizing installation. Other expenditures related to improving productivity and manufacturing efficiencies in the Division's four plants, and to the purchase or fabrication of bag weighing and filling equipment leased by the Division to its customers.

Container Division

Net sales of corrugated shipping containers increased to $139.0 million in 1981, up 15% from $120.6 million. Much of this sales increase, however, resulted from higher prices. Shipments were only moderately above 1980 and operating profits were lower than the previous year for the first time in four years.

Markets for the Division's products were strong through the summer months, but deteriorated sharply, with the economy, in the final quarter. Sales are highly sensitive to economic conditions, as corrugated containers are used for shipping both manufactured and consumer products.

Competitive market conditions during the year prevented the full recovery of cost increases, which reduced profit margins. Management effort concentrated on improving efficiency and operating effectiveness in all areas and waste reduction, productivity improvement and energy savings were achieved in manufacturing. Marketing emphasis was placed on selective selling of products in those market areas best suited to the Division's manufacturing facilities. Expanded reliance on computer technology resulted in better administrative controls, and a program to computerize production scheduling made noteworthy progress.

Capital expenditures totalled $5.6 million during 1981. Major projects included energy conservation programs at Montreal East, Etobicoke and St. Thomas plants, improvements to the corrugator at Winnipeg and expansion of the warehouse at that plant.

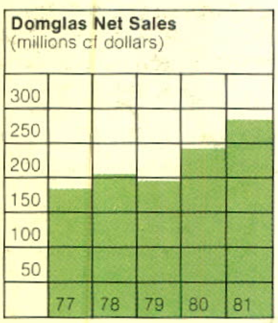
Three new capital projects involve St. Laurent and Whitby plants. At St. Laurent, an equipment modernization program related to the large boxes made by flexo-folder-gluer was nearing completion at year-end and a conversion to continuous corrugator operation will be completed early in 1982. At Whitby, installation of a large-box flexo-folder-gluer should dramatically improve operating efficiencies for these sizes and broaden production scope. Whitby, during 1981, made important strides in a computer application to backlog scheduling and planning, both at the corrugator and on subsequent production equipment.

Domglas Inc.

Consolidated net sales of Domglas Inc. in 1981 were $282.5 million, 16% higher than the $243.8 million of 1980. In 1981, higher sales were recorded by both the glass container division and by Domglas subsidiaries.

Operating profit reached $22.9 million, an increase of 17.4% over $19.5 million in 1980. All segments of the business showed increases in operating profit with the subsidiaries increasing their contribution to earnings more than glass containers. The improvement in operating profit was achieved as a result of new products, higher volume, price increases and productivity improvements. These more than offset higher costs of production and increased interest charges.

Glass container volume increased by about 2%, with a slight decline in domestic shipments being more than offset by higher exports. The domestic market was adversely affected by a weak economy and cool summer weather, which reduced demand for beer and soft drink containers.



The increase in export sales reflects in part an intensive export marketing effort of recent years, as well as the strengthening of the Company's marketing and distribution capability in certain U.S. markets during 1981. During the year, Domglas acquired the assets of National Bottle Company in the northeastern U.S. One of that company's two plants was closed as uneconomic and the other, in West Virginia, sold to Diamond Glass Company, of Royersford, Pennsylvania. This transaction resulted in the Domglas minority interest in Diamond being increased through acquisition of convertible preferred shares to a potential interest of 50.5%. Domglas retains its own distribution centres and a marketing organization for those areas within an economic shipping radius of its Canadian glass plants.

Diamond Glass currently operates the plant in Royersford, and the newly-acquired one in Parkersburg, W. Va., and specializes in manufacturing high quality glass containers, particularly for the liquor and pharmaceutical industries.

In late 1981, Domglas also acquired the glass container plant and related facilities of Ahlstrom Limited near Moncton, N.B. This acquisition will allow the company to improve service to the Atlantic provinces' market and reduce transportation and delivery costs. The acquisition also provides facilities for the manufacture of pre-labeled soft drink containers in eastern Canada.

Capital expenditures excluding major furnace rebuilds totalled $22.7 million. Major projects included the completion of the last phase of the three-year program to modernize the Hamilton plant. An enlarged mould shop was also completed elsewhere in Hamilton late in the year. It provides for a 25% increase in the output of mould equipment for the glass container plants and improves operating efficiency.

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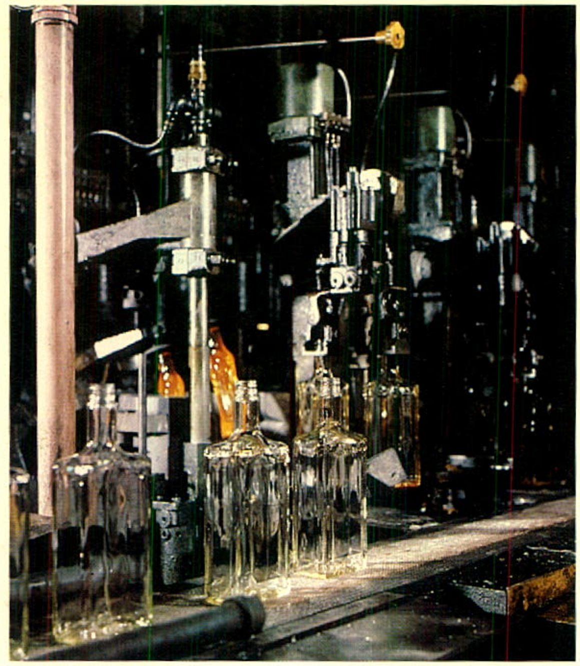

Equipment for the manufacture of pre-labeled soft drink containers was installed at the company's plant in Redcliff, Alta. With the facilities to manufacture pre-labeled containers obtained in the Ahlstrom acquisition and the two-litre plastic bottle capacity of Twinpak, Domglas now has a full range of products to serve the soft drink bottling market.

During 1981, several three-year labour agreements were successfully negotiated on the termination of existing agreements.

Subsidiaries and Divisions

National Pressed Glass, at Brantford, continued to operate satisfactorily in the manufacture of glass fuse-plug bodies and industrial glass products. In addition, the machine repair operation started there in 1980 satisfied in full the year's machine rebuild requirements of the glass container plants. This provided important savings over the earlier practice of sending such machines to the U.S. for refurbishing.

Twinpak Inc., the plastic packaging subsidiary, had a substantial increase in sales, with most of its traditional product lines showing a good recovery from the depressed markets of 1980. Operating profit improved and a turn-around of Twinpak's Ampak distribution division was completed.

In response to acceptance of that package, capacity at the new Calgary plant for two-litre plastic soft drink bottles was increased by 50%. Twinpak Atlantic Inc.,

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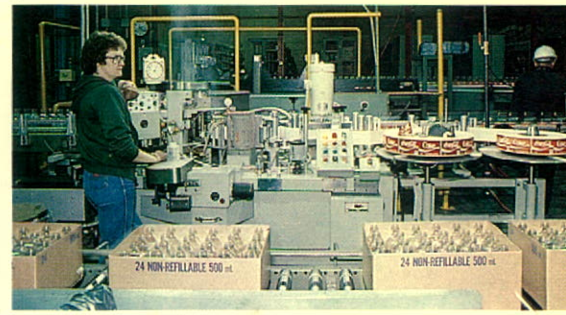

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3
Bottles in production at Domglas' Hamilton glass container plant.
4
Moulds for glass container plants are produced at central mould shop and design facility, located in Hamilton. Mould capacity was increased 25% during 1981.
5
Bottles being 'pre-labeled' at Domglas plant in Redcliff, Alta. Economical process also gives extra protection to container.
6
Computerized glass container design is centered at same location as expanded mould facility.
7
Hamilton Plant No. 2 glass furnace control room is representative of three-year modernization program just completed there.
8
This new facility of Twinpak Atlantic Inc., in Moncton, manufactures two-litre plastic bottles for soft drink bottlers of the Atlantic provinces.

7

8

a company in which Twinpak owns a 58% interest, established a plant in Moncton, N.B., to make two-litre plastic bottles for soft drink bottlers in the Atlantic provinces. That plant started production in December 1981.

An exception to generally favourable markets was blow-moulded containers. Industry overcapacity and low prices made production uneconomic, with the result that Twinpak closed its Mississauga blow-moulding plant in July 1981.

Libbey-St. Clair, a company owned in partnership with Owens-Illinois, Inc., continued to make progress in the glass tableware business. A 4% increase in sales was recorded as higher sales to restaurants and institutions offset the weakness of sales by the retail trade. Improved manufacturing efficiency and close control of costs provided a substantial improvement in earnings over those of the previous year.

A new high-speed press was installed at the Libbey-St. Clair plant in Wallaceburg, Ont. This increased tableware manufacturing capacity by 35%. Late in the year, a new system of feeding glass from a single furnace to all machines was installed, significantly reducing energy consumption.

9
Typical design elegance of consumer packages produced by Europa Carton.
10
A range of packages produced by ECA Folding Carton Division for tobacco products.
11
New automatic strapping unit for corrugated container plant at Plattling increases productivity there.

9

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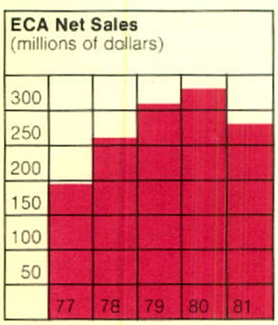

Europa Carton AG

Europa Carton AG, the Group's subsidiary in the Federal Republic of Germany, is 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 and package design and market research institutes.

The weakening of the German economy which became apparent in 1980 worsened in 1981 and affected virtually all industries. Gross national product declined by 0.3% in real terms, with consumption of consumer goods — so important to a packaging market — down 1.1% from 1980. The Deutsche mark declined from an average of 64¢ Canadian to 53¢ Canadian during the year and, by the end of the year, the level of unemployment had reached a twenty-six year high of 7.3%.

Based on this economic context, ECA's 1981 net sales of DM 526.5 million, although they compared favorably with those of its industry, were only marginally higher than sales of DM 513.1 million in 1980. While aggressive marketing maintained overall activity at close to 1980 levels, prices were inadequate and earnings were sharply lower than the near record levels achieved in 1980. ECA, in a top position among corrugated and folding carton manufacturers in the Federal Republic, was unable to repeat the high level of performance it enjoyed in 1980, its 25th year of operations.

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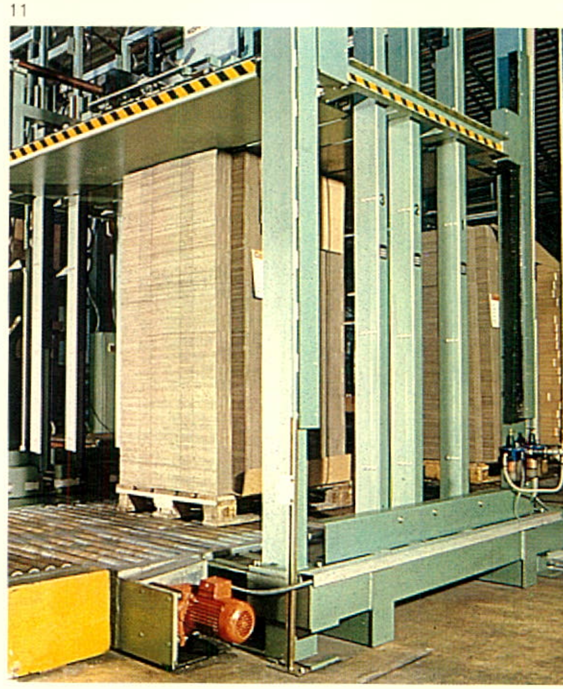


12
Waste paper subsidiary, important to ECA paperboard production, now also recovers waste glass at 175 collection points, some 20 000 tonnes in 1981, for resale to German glassmakers.

12

In spite of extended downtime for lack of orders, production of boxboard at the Hoya mill was approximately the same as in 1980. Overcapacity in Europe weakened demand, and prices were inadequate, particularly in relation to the costs of energy and raw materials. The company's paperboard mill at Viersen, on the other hand, enjoyed an excellent year. Internal demand from the company's Corrugated Container Division sustained operations at capacity and reductions in paperboard selling prices were offset by lower waste paper costs.

The *Corrugated Container Division* was able to sustain corrugated container shipments at 1980 levels, largely as a result of a relatively strong export performance by German industry. Operating profit was down, however. Costs increased while competitive markets restrained price increases. Paperboard prices, for example, which follow international competitive standards and are priced in U.S. dollars, increased sharply, because of the decline in the exchange rate of the DM.

The *Folding Carton Division*, with its dependance on consumer goods markets, was hard hit by the economic environment, with net sales falling 4% below those of 1980. Because it was not possible to recover cost increases in prices, the Division's profit contribution dropped significantly below its outstanding 1980 performance.

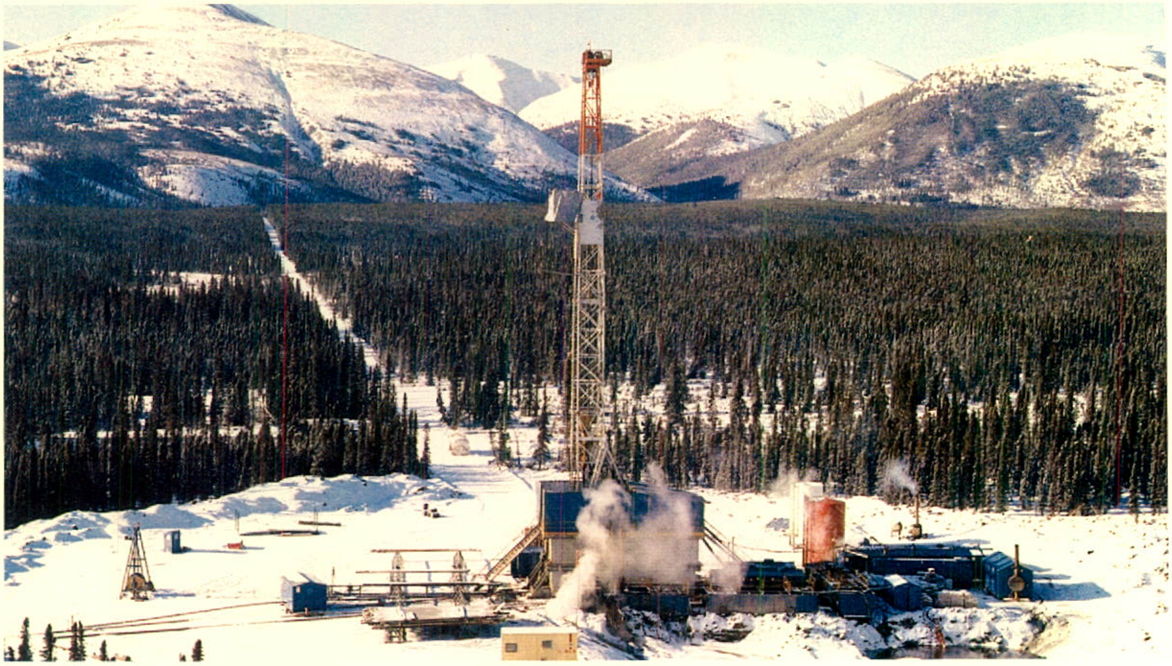
Waste paper volume continued at satisfactory levels, showing some gains over 1980, as much of this business is on the basis of long-term contracts. However, a sharp decline in prices resulted in waste paper's earnings contribution being substantially below that of 1980.

Both the Packaging Design Institute and Consumer Market Research Institute had improved earnings, as the number of consulting assignments continued at a satisfactory level.

Capital expenditures during the year were approximately 25 million marks. The major expenditures were for modernization and improvement of converting equipment in the corrugated container and folding carton divisions.

Oil and Gas Investments

Remington W. Grassy b-7-H/94-G-6 near Fort St. John, B.C., is successful gas well brought in during 1981 for Consolidated-Bathurst by Remington Resources.



During 1981, Consolidated-Bathurst continued to invest in energy resources in Canada and the U.S., reaching a total commitment of $132 million at December 31, 1981. Through its shareholdings in Sulpetro Limited and Sceptre Resources Limited, the Company has an indirect interest in their proven reserves amounting to 178 billion cubic feet of natural gas and six million barrels of oil and natural gas liquids. The Company's direct interest in proven reserves, through its investments in various exploration programs and its two gas-producing subsidiary companies, totals 108 billion cubic feet of natural gas.

Sceptre Resources Limited

Sceptre Resources Limited is a Canadian public company involved in oil and gas exploration in Canada, the United States, Abu Dhabi, Libya and the North Sea. Sceptre's net working interest in exploration rights in Canada amounted to 390 500 acres on December 31st, 1981, with principal areas of 1981 activity being Drumheller-Rowley, Red Earth-Loon Lake, and Gartley, all in Alberta. Approximately $10 million was spent on participation in 77 wells, resulting in 35 successful gas wells and 21 successful oil wells.

In the Gulf coast region of the United States, Sceptre has a one-sixth direct interest and a 5% indirect equity interest through S & K Petroleum Ltd. in a U.S.$60 million joint venture, which has resulted in four oil wells and five natural gas wells. A U.S.$10 million drilling program in Colorado, Wyoming and Utah, of which Sceptre holds 20%, has resulted in eight natural gas wells and one oil well. In addition to these ventures, Sceptre's total U.S. land holdings of 338 300 net acres include sizable positions in prime exploration areas such as the Williston Basin, the Michigan Basin and the Appalachian Overthrust regions.

Among other international interests, Sceptre owns 7.5% of a natural gas well in the Netherlands sector of the North Sea, which has tested 18 million cubic feet per day. Onshore Abu Dhabi, the company operates and holds a 25% interest in the 1.9 million acre "Area A" concession, in which the Sweihan No. 1 well began drilling in October 1981. An exploratory well has also been drilled in an offshore Libyan concession, one of five concessions covering approximately 3.9 million acres in which Sceptre holds a 10% interest.

Sceptre's worldwide capital expenditure program totalled $58 million in 1981, more than triple the level of the previous year's spending.

At January 1, 1982, Sceptre's working interest in proven reserves was estimated at 47 billion cubic feet of natural gas and 467 000 barrels of oil and condensate.

Consolidated-Bathurst's investment in Sceptre was $30 million as of December 31, 1981, consisting of 2 125 600 common shares and 279 020 7% convertible second preferred shares, Series A. On a fully-diluted basis, this represents 19.5% of Sceptre's outstanding common shares.

Sulpetro Limited

Sulpetro Limited, a Canadian public company involved in exploration and development of natural gas in Alberta, effectively doubled in size and significantly increased its international activities in April

Sulpetro's Gas Plant in the Elmworth-Wapiti area of Northern Alberta.

1981 through the acquisition of CanDel Oil Ltd. Of particular importance among the Canadian and international assets acquired through CanDel was a 12.6% participation in the Buchan Field in the United Kingdom sector of the North Sea, which commenced crude oil production in May 1981 and averaged 43 000 barrels per day to the end of October 1981. While the field has shown a capacity in excess of 72 000 barrels per day, average annual production is expected to be in the range of 48 000 barrels per day in 1982.

Sulpetro has further international involvement through its 21.25% share of International Energy Development Corporation (IEDC), which has sizeable interests in oil and gas exploration permits covering about 12 million acres in the Canning Basin area of Australia, in close proximity to the Home et al Blina No. 1 oil discovery. Other exploration agreements made by IEDC cover extensive acreage in the central offshore area of Angola, The Congo, Ghana, the eastern part of Oman, and in Sudan, Tanzania and Turkey.

During the twelve months ended October 31, 1981, Sulpetro's total capital expenditure program amounted to $116 million, with approximately $66 million dedicated to Canadian exploration and development. Of 381 wells in Canada in which Sulpetro had working or royalty interests, 152 were successful gas wells and 159 were successful oil wells. Included are 144 wells drilled at no cost to Sulpetro by Dome Petroleum Ltd. under its farm-in agreement on the Irish-Lindbergh heavy oil properties. In December 1981, 110 of these wells were producing approximately 3 300 barrels per day on primary recovery technology only — a pilot tertiary recovery project has been planned to start early in 1982.

Sulpetro's gas export project showed good results in the twelve months ended October 31, 1981, exporting 21 billion cubic feet with approximately 30% supplied from Sulpetro production. The existing export permit expires October 31, 1983, but Sulpetro has submitted applications for another permit to export an additional 164 billion cubic feet for an eight-year period commencing November 1983.

As of October 31, 1981, Sulpetro's working interest before royalties in proven reserves consisted of 937 billion cubic feet of natural gas and 34 million barrels of crude oil and natural gas liquids.

Consolidated-Bathurst's equity interest in Sulpetro consisted of 60 417 Class A voting common shares and 2 820 022 Class B non-voting common shares on December 31, 1981, at a cost of $66 million. These holdings represent approximately 18% of Sulpetro's outstanding common shares on a fully-diluted basis. The Company also has an option to exchange its share holding in Sulbath Exploration Ltd. for 1 650 000 Class B common shares of Sulpetro between December 31, 1983 and February 1, 1985, which has been excluded from the above calculations.

Sulbath Exploration Ltd.

On May 29, 1981, Consolidated-Bathurst and Sulpetro Limited signed an agreement forming a joint exploration company, subsequently named Sulbath Exploration Ltd. Sulpetro agreed to provide land and prospects and to manage Sulbath's exploration program. Consolidated-Bathurst subscribed for slightly less than 50% of the shares in Sulbath, for which it agreed to pay up to $50 million by instalments beginning in 1981 and ending in 1983. Sulbath will use these funds for exploration and development expenses, which will be deductible by the Company for tax purposes. As noted, the Company has an option to exchange its Sulbath shares for Sulpetro shares. If this option is not exercised, Sulpetro has the right, subject to certain conditions, to acquire the Company's Sulbath shares at a later date in exchange for shares of Sulpetro or cash.

By December 31, 1981, the Company had advanced $15 million for Sulbath exploration expenses. Seventeen wells were drilled, resulting in 15 successful gas wells and two successful oil wells.

Remington Resources Limited

Remington Resources Ltd. is a small Calgary-based company which operates a joint venture exploration program for Consolidated-Bathurst in Alberta and British Columbia. Since the program was established in July, 1979, Remington has built up lease holdings of 24 000 net hectares in six prospect areas. Four "wildcat" wells were drilled in the 1980/81 season, two of which resulted in gas discoveries in the vicinity of Fort St. John, B.C. The Remington W. Grassy b-7-H/94-G-6 well, owned 100% by the Company, calculated 26 million cubic feet per day of sweet dry gas on an absolute open flow test. Exploratory drilling continues in these prospect areas, as well as on a "new oil" prospect in Alberta.

To December 31, 1981, Consolidated-Bathurst had advanced $16 million to the Remington joint venture program and had committed to further expenditures of approximately $7 million in 1982.

Zenith Exploration Company, Inc.

In January 1981, Consolidated-Bathurst agreed to take a 25% interest in a three-year exploration program in the U.S. to be operated by Zenith Exploration Company, Inc. of Houston, Texas. The Company's total commitment to the program is U.S.$3.5 million, of which U.S.$1.6 million had been advanced by December 31, 1981. At year-end, the Zenith program had participated in 14 exploration wells of which five were abandoned, seven are now producing oil wells, and two may yet reach commercial production levels. All the successful wells are located in two Austin Chalk prospects in Frio County, Texas.

Joffre Resources Ltd.

As of December 31, 1981, Consolidated-Bathurst held 247 058 common shares of Joffre Resources Ltd., which were received in exchange for the Company's interest in the drilling fund, Alkebec-Joffre Oil & Gas Partnership No. 3. The Company also owns two units of Alkebec-Joffre Oil & Gas Partnership No. 9, at a cost of $1 million. During the year, the latter partnership participated in the discovery of a four-million-barrel pool of "new oil" in the Hayter-Chauvin area of northeastern Alberta.

Redgas and C.W.P. & F.

Redgas Limited and Canadian Western Power & Fuel Company, Limited are subsidiaries of Consolidated-Bathurst located in Redcliff, Alberta. C.W.P. & F., a small utility wholly-owned by Domglas Inc., supplies residential and industrial customers in the area with natural gas. Redgas, wholly-owned by Domglas until October 30, 1981, was purchased from Domglas at that time by another wholly-owned subsidiary of the Company, Energexplore C-B Inc. In addition to supplying the Domglas glass container plant in Redcliff, Redgas began deliveries against a TransCanada PipeLines Limited contract on June 16, 1981, and delivered 661 million cubic feet of natural gas by year-end. Redgas pre-tax earnings in 1981 amounted to $3 million.

Financial Section

Financial Review

Net sales were $1.479 billion in 1981, a $90 million increase from the previous year. As shown in the table on the following page, sales of all products increased except containers in Europa Carton and pulp. The greatest improvements over 1980 were in newsprint and groundwood specialties, at 19%, and in glass and plastic containers, at 16%.

Operating profit of $220 million was about $15 million less than in 1980. The principal declines were experienced in pulp and Europa Carton. Of the improvements recorded, glass and plastic containers were the most notable with a growth in operating profit of 17%.

Net earnings of $112 million in 1981 exceeded $100 million for the third consecutive year and were second only to the record of $122 million set in the previous year.

Earnings before extraordinary items of $102 million, combined with higher depreciation and sharply higher deferred income taxes provided record cash flow from operations of approximately $200 million.

Sources of funds reached an unprecedented $436 million in 1981, generated by cash flow from operations and supplemented by long-term financing of $141 million, by proceeds from disposal of investments, mainly Abitibi-Price Inc., of $62 million, and by grants of $29 million. These funds financed modernization and expansion of productive facilities aggregating $240 million, oil and gas investments of $74 million, distribution of $55 million of dividends to shareholders, and repayment of long-term debt of $21 million.

Working capital increased by $23 million during 1981 to $284 million. The working capital ratio was 2.0 at year-end compared with 2.1 at the end of the preceding year.

Total debt rose by $187 million in 1981 and included $130 million of new long-term debt and an increase of $57 million in bank loans and notes payable. The ratio of total debt to shareholders' equity increased to 47/53 from 37/63 in the two preceding years. This was attributable to the double impact of outside financing of the active expansion and modernization program under peak operating cash-generation conditions. This debt to equity ratio is expected to decline after the Corporation completes its current capital program in 1983. The Corporation intends to maintain a balanced mix of floating and fixed rate debt to preserve its financing flexibility and to take advantage of attractive fixed interest rates should they occur.

Return on assets dropped to 8.8% in 1981 from 12.2% in the previous year, reflecting slightly lower earnings and an expanded asset base augmented by capital projects which are still in the construction phase and not yet operational.

Sales, Property and Plant, Employees, Shareholders and Shares by Province and Country as at December 31, 1981

	Net Sales	Property and Plant — Net	Number of employees	Number of Common Shareholders	Number of Common Shares
	(millions of dollars)				
Alberta	$ 28.0	$ 29.2	507	425	518 183
British Columbia	36.9	6.4	456	711	212 025
Manitoba	18.1	2.2	116	312	194 443
New Brunswick	22.3	34.0	1 057	309	35 891
Newfoundland	4.3	—	—	15	14 607
Nova Scotia	8.2	0.1	2	178	192 691
Ontario	299.5	85.7	3 661	5 180	4 160 358
Prince Edward Island	1.2	—	—	20	5 044
Quebec	231.8	451.6	7 812	5 490	13 633 974
Saskatchewan	4.1	—	1	138	31 078
Yukon and Territories	—	—	—	2	500
Canada	654.4	609.2	13 612	12 780	18 998 794
United Kingdom	59.4	16.4	30	135	2 878 585
United States	402.0	0.5	35	458	408 062
West Germany	282.0	69.9	3 027	657	2 063
Other countries	81.5	—	—	88	137 553
	$1 479.3	$696.0	16 704	14 118	22 425 057

Distribution of Revenue

(millions of dollars)	**1981**	**%**	1980	%
Materials, supplies, etc.	**$ 614**	**41**	$ 587	42
Wages, salaries and fringe benefits	**458**	**31**	423	30
Fuel and power	**142**	**9**	105	8
Depreciation	**44**	**3**	43	3
Federal, provincial and municipal direct taxes	**87**	**6**	97	7
Interest	**44**	**3**	30	2
Dividends	**48**	**3**	47	3
Retained earnings (excluding extraordinary items)	**54**	**4**	72	5
	$1 491	**100**	$1 404	100

Quarterly financial data per common share

	Earnings before extraordinary items	Dividends declared	Stock price range Low	High
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		
1981				
First quarter	$1.13	$0.30	$22¼	$29½
Second quarter	1.18	0.40	26	29⅞
Third quarter	1.23	0.40	18	28¼
Fourth quarter	0.87	0.90	$16½	$21¼
	$4.41	$2.00		

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, 1981, the Corporation had contract commitments to sell US $72 million at an average exchange rate of $1.20 at various dates to February 1983.

Product Segment Information

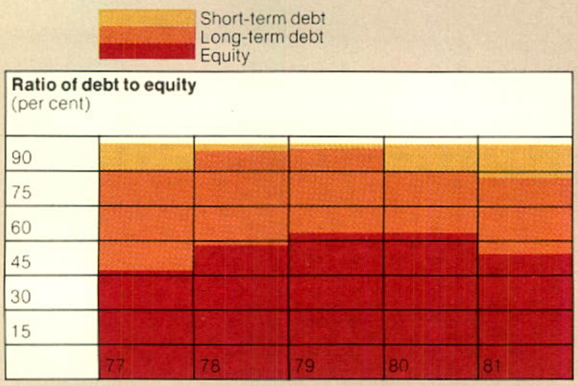
Sales to Customers 1981	Sales to Customers 1980	Inter-segment Sales 1981	Inter-segment Sales 1980	Net Sales 1981	Net Sales 1980	
					(millions of dollars)	
$ 484.2	$ 405.9	**$ —**	$ —	**$ 484.2**	$ 405.9	Newsprint and groundwood specialties
117.7	120.4	**1.5**	—	**119.2**	120.4	Pulp
57.4	57.6	**52.7**	41.8	**110.1**	99.4	Containerboard
46.8	43.0	**4.8**	5.1	**51.6**	48.1	Kraft paper & boxboard
26.5	25.0	**—**	—	**26.5**	25.0	Lumber
732.6	651.9	**59.0**	46.9	**791.6**	698.8	Pulp & paper group
182.3	163.7	**8.6**	5.4	**190.9**	169.1	Bags and containers
282.5	243.8	**—**	—	**282.5**	243.8	Glass and plastic containers — Domglas
280.7	329.8	**—**	—	**280.7**	329.8	Containers — Europa Carton
745.5	737.3	**8.6**	5.4	**754.1**	742.7	Packaging group
1.2	0.2	**1.2**	1.2	**2.4**	1.4	Oil and gas
		(68.8)	(53.5)	**(68.8)**	(53.5)	Eliminations
$1 479.3	$1 389.4	**$ —**	$ —	**$1 479.3**	$1 389.4	Total operations
						Investment and other income
						Income taxes
						Interest expense
						Corporate
						Consolidated total

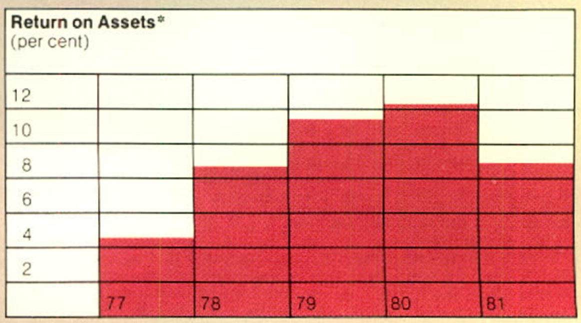
Inter-segment sales are accounted for at prices comparable to open market prices for similar products.

Geographical Segment Information

$1 198.6	$1 059.6	**$ —**	$ —	**$1 198.6**	$1 059.6	Canada
280.7	329.8	**—**	—	**280.7**	329.8	West Germany
$1 479.3	$1 389.4	**$ —**	$ —	**$1 479.3**	$1 389.4	Total operations
						Corporate
						Consolidated total

Canadian operations include export sales to the United States of $402.0 million (1980 $344.4 million) and to other countries of $142.2 million (1980 $122.2 million).

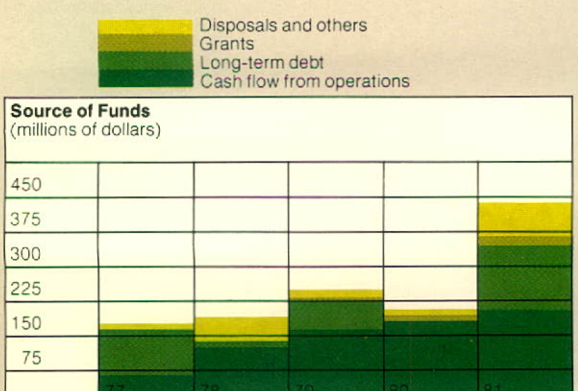


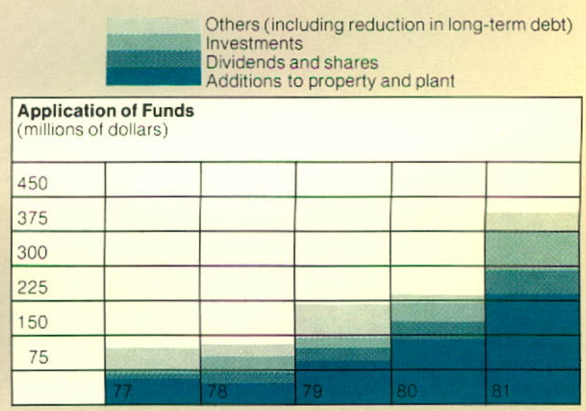


*Return on Assets: Earnings before extraordinary credit and after-tax interest, divided by total assets after accumulated depreciation.

	Operating Profit		Depreciation		Capital Expenditures		Identifiable Assets	
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980
								(millions of dollars)
	$124.0	$127.9	**$11.4**	$ 9.5	**$164.3**	$ 81.1	**$ 516.2**	$ 344.3
	34.4	43.0	**4.3**	4.2	**6.4**	2.9	**100.1**	94.0
	12.6	12.5	**3.6**	3.1	**3.9**	4.9	**79.5**	73.2
	3.1	5.4	**1.2**	1.1	**3.8**	3.0	**39.3**	36.5
	(1.1)	(2.7)	**1.9**	1.9	**1.1**	2.1	**44.8**	46.3
	173.0	186.1	**22.4**	19.8	**179.5**	94.0	**779.9**	594.3
	11.1	12.1	**3.1**	2.8	**8.5**	6.4	**91.1**	81.8
	22.9	19.5	**13.7**	12.3	**25.7**	20.0	**229.0**	178.1
	11.1	16.8	**5.0**	7.7	**13.9**	16.7	**131.0**	131.9
	45.1	48.4	**21.8**	22.8	**48.1**	43.1	**451.1**	391.8
	0.9	1.2	**0.3**	0.1	**12.0**	6.0	**134.5**	47.2
	0.6	(0.5)						
	219.6	235.2	**$44.5**	$42.7	**$239.6**	$143.1	**1 365.5**	1 033.3
	12.1	14.3						
	(65.0)	(78.4)						
	(43.5)	(29.9)						
	(21.4)	(18.8)					**67.2**	103.3
	$101.8	$122.4					**$1 432.7**	$1 136.6

	$208.5	$218.4	**$39.5**	$35.0	**$225.7**	$126.4	**$1 234.5**	$ 901.4
	11.1	16.8	**5.0**	7.7	**13.9**	16.7	**131.0**	131.9
	219.6	235.2	**$44.5**	$42.7	**$239.6**	$143.1	**1 365.5**	1 033.3
	(117.8)	(112.8)					**67.2**	103.3
	$101.8	$122.4					**$1 432.7**	$1 136.6





Reporting the Effects of Changing Prices

In December 1981, the CICA Accounting Research Committee released a re-exposure draft of its proposed recommendations on Current Cost Accounting entitled "Reporting the Effects of Changing Prices". This draft introduced new requirements such as the disclosure of certain effects of changes in the general price level and management discussion of the significance of the current cost information. The recommendations are planned to be effective for 1983.

Impact of Inflation on Funds Flow

In the interim, presented below is a supplementary statement, prepared in accordance with the method proposed in 1978 by the Ontario Committee on Inflation Accounting, indicating how funds provided from operations should be allocated to ensure the maintenance of the firm's productive capacity during inflation.

The funds provided from operations totalled $198 592 000 in 1981, a slight increase over 1980. After providing $90 292 000 for maintenance of production capacity, there is a balance of $108 300 000 representing the funds available for expansion or distribution to shareholders.

		1981		1980
				(thousands of dollars)
Funds provided from operations		**$198 592**		$194 530
Less: Depreciation on property and plant based on historical cost		**44 486**		42 651
Additional funds required to cover				
Depreciation on indexed basis	**$35 244**		$31 197	
Cost of sales on replacement cost basis	**27 181**		18 029	
	62 425		49 226	
Deduct: Financing adjustment	**$16 619**	**45 806**	$13 447	35 779
Funds available for expansion or distribution to shareholders		**$108 300**		$116 100

The depreciation adjustment of $35 244 000 (1980 $31 197 000) represents the difference between depreciation as charged in the accounts of $44 486 000 (1980 $42 651 000) and depreciation indexed for the effect of inflation of $79 730 000 (1980 $73 848 000) using the business investment component of the Gross National Expenditures implicit price index.

The cost of sales adjustment of $27 181 000 (1980 $18 029 000) represents the difference between the cost of goods sold on a historical basis and their current replacement cost at date of sale.

The financing adjustment of $16 619 000 (1980 $13 447 000) indicates the extent to 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 present debt to equity ratio 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 theoretical use of debt financing.

Statement of Consolidated Earnings for the year ended December 31, 1981

		1981	1980
			(thousands of dollars)
Net sales and other income	Net sales	**$1 479 252**	$1 389 433
	Other income (note 2)	**12 141**	14 324
		1 491 393	1 403 757
Costs and expenses	Cost of goods sold	**1 145 845**	1 044 059
	Administrative and selling expenses	**90 753**	86 370
	Depreciation	**44 486**	42 651
	Interest on debt — long-term	**25 497**	24 408
	— short-term	**18 010**	5 478
		1 324 591	1 202 966
Earnings before income taxes and extraordinary items		**166 802**	200 791
	Income taxes (note 3)	**65 022**	78 412
Earnings before extraordinary items		**101 780**	122 379
	Extraordinary items (note 4)	**10 283**	—
Net earnings		**$ 112 063**	$ 122 379
Earnings per common share	Before extraordinary items	**$4.41**	$5.42
	Extraordinary items	**0.46**	—
	Net	**$4.87**	$5.42

Statement of Consolidated Retained Earnings for the year ended December 31, 1981

		1981	1980
			(thousands of dollars)
Retained earnings at beginning of year		**$264 711**	$192 966
Excess cost of purchasing common shares over stated value		**10 322**	3 466
		254 389	189 500
Net earnings		**112 063**	122 379
		366 452	311 879
Dividends	Preferred	**3 071**	3 204
	Common	**44 501**	43 964
Retained earnings at end of year		**$318 880**	$264 711
Dividends per share	Preferred		
	1966 Series	**$1.50**	$1.50
	1978 Series	**2.25**	2.16
	Common	**$2.00**	$2.00

Consolidated Balance Sheet as at December 31, 1981

		1981	1980
			(thousands of dollars)
Assets			
Current assets	Cash and short-term deposits	$ **4 073**	$ 10 671
	Marketable securities (market value $18 966 000; 1980 $18 290 000)	**15 515**	13 947
	Accounts receivable	**199 842**	178 344
	Grants receivable	**23 698**	9 065
	Inventories (note 5)	**325 075**	274 837
	Prepaid expenses	**6 669**	5 427
		574 872	492 291
Property and plant	Mills, plants and other properties	**1 170 213**	968 517
	Less: Accumulated depreciation (note 6)	**474 176**	445 129
		696 037	523 388
Other assets	Investments (note 7)	**152 265**	114 107
	Advances to trustee under share option and purchase plans (note 8)	**2 629**	3 066
	Deferred charges	**3 099**	2 456
	Unamortized long-term debt expense	**3 782**	1 250
		161 775	120 879
		$1 432 684	$1 136 558

Management's Report

The consolidated financial statements have been prepared by management on the historical cost basis in accordance with Canadian generally accepted accounting principles consistently applied and conform substantially with International Accounting Standards. These statements, which necessarily include estimates and approximations, reflect information available to February 26, 1982, 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,
Vice-President, Finance and Treasurer

Montreal, Quebec
February 26, 1982

		1981	1980
			(thousands of dollars)
Liabilities and Shareholders' Equity			
Current liabilities	Bank loans and notes payable	**$ 125 738**	$ 68 545
	Accounts payable and accrued expenses	**146 861**	126 844
	Taxes and stumpage dues	**9 633**	21 723
	Dividends payable	**921**	7 043
	Current portion of long-term debt	**7 597**	7 390
		290 750	231 545
Provisions	German pensions	**23 305**	19 877
	Potential exchange charges on German term bank loan	**30 037**	32 378
		53 342	52 255
Long-term debt	(note 9)	**346 465**	216 776
Deferred income taxes		**193 629**	145 640
Minority interest		**2 877**	2 524
Shareholders' equity	Stated capital (note 10)		
	Preferred shares	**41 415**	44 393
	Common shares	**185 326**	178 714
	Retained earnings	**318 880**	264 711
		545 621	487 818
		$1 432 684	$1 136 558

Auditors' Report

The Shareholders,
Consolidated-Bathurst Inc.

We have examined the consolidated balance sheet of Consolidated-Bathurst Inc. as at December 31, 1981 and the statements of consolidated earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Montreal, Quebec
February 26, 1982

Statement of Consolidated Changes in Financial Position for the year ended December 31, 1981

		1981	1980
			(thousands of dollars)
Working capital at beginning of year		**$260 746**	$289 633
Source of working capital	Earnings before extraordinary items	**101 780**	122 379
	Add (deduct)		
	Deferred income taxes	**52 085**	26 921
	Depreciation	**44 486**	42 651
	German pensions	**3 428**	4 558
	Other non-cash items	**(3 187)**	(1 979)
	Total from operations	**198 592**	194 530
	Increase in long-term debt	**141 478**	—
	Proceeds from disposal of investments	**62 093**	1 417
	Grants on additions to property and plant	**29 297**	9 034
	Proceeds from disposal of property and plant	**1 250**	2 184
	Issue of common shares (note 10)	**1 124**	1 116
	Other items - net	**1 898**	(492)
		435 732	207 789
Application of working capital	Additions to property and plant	**239 614**	143 152
	Increase in investments	**78 664**	40 483
	Cash dividends on common shares	**34 779**	28 619
	Cash dividends on preferred shares	**3 071**	3 204
	Purchase of common and preferred shares for cancellation	**17 211**	7 470
	Reduction in long-term debt	**21 099**	13 748
	Decrease in working capital related to extraordinary items and acquisition of subsidiary	**15 051**	—
	Increase in unamortized long-term debt expense	**2 867**	—
		412 356	236 676
Increase (decrease) in working capital during year		**23 376**	(28 887)
Working capital at end of year		**$284 122**	$260 746

On behalf of the Board:

Roland Giroux, Director

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

1. Summary of Significant Accounting Policies

Principles of consolidation
The consolidated financial statements include the accounts of all subsidiaries. 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.

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, except for the German term bank loan which is subject to a provision for potential exchange charges. Income and expenses other than depreciation are translated at average exchange rates prevailing during the year; depreciation is translated at historical exchange rates. Exchange gains or losses on translation of foreign subsidiaries' financial statements are deferred.

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, when appropriate. The investments over which the Corporation has significant influence and 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.
Depreciation, calculated principally on the straight-line method, is charged to operations at rates based upon the estimated useful life of each depreciable property from the date that the property becomes operational.
Expenditures which result in material enhancement of the value of the facilities involved are capitalized. Maintenance and repair costs are expensed as incurred.
Grants relating to property and plant additions 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 the interest rate on 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.

Leases
Long-term leases in which the Corporation, as a lessee, retains substantially all the benefits and risks incident to ownership are accounted for as additions to property and plant. The asset value and the related obligation for such capital leases are recorded at the present value of the future minimum lease payments, using an appropriate discount rate.

Pensions
The Corporation and its Canadian subsidiaries have contributory, trusteed and funded pension plans. The current service cost portion is charged annually to earnings as funded. Unfunded past service 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; the provision and related charge to earnings 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 reductions 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. Common shares issuable as dividends on the Series B common shares are included as being outstanding from the dividend declaration dates.

2. Other income

	1981	1980
		(thousands of dollars)
Income from investments and short-term deposits	$ 7 208	$10 640
Gain on sale of marketable securities	891	1 890
Share of net earnings of joint venture and associated companies	2 507	1 037
Gain from debt retirement and disposal of property and plant	1 535	757
	$12 141	$14 324

3. Income taxes

	1981	1980
		(thousands of dollars)
Current before tax credits	$22 705	$63 952
Less credits relating to:		
Capital expenditures	7 130	10 101
Inventories	2 638	2 360
Current	12 937	51 491
Deferred	52 085	26 921
	$65 022	$78 412

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.

The Corporation's effective income tax rates are determined as follows:	1981	1980
Canadian statutory income tax rate	49.0%	49.0%
Manufacturing and processing allowance	(4.1)	(4.2)
Investment tax credits	(2.3)	(2.8)
3% inventory allowance	(1.6)	(1.2)
Non-taxable dividends and equity earnings	(1.3)	(1.6)
Capital gains	(0.5)	(0.9)
Federal 5% surtax	1.3	1.3
Other	(1.5)	(0.6)
Effective income tax rate	39.0%	39.0%

4. Extraordinary items

	1981
	(thousands of dollars)
Gain on sale of investment in Abitibi-Price Inc., less income taxes of $4 455 000	$18 729
Write-off of investment in Forges HPC Ltée, less income tax credit of $2 263 000	(5 977)
Provisions for shutdown and removal of certain pulp and paper facilities as a result of implementation of major modernization programs, less income tax credit of $2 096 000	(2 469)
	$10 283

5. Inventories

	1981	1980
		(thousands of dollars)
Expenditures on wood operations	$ 60 559	$ 51 499
Pulpwood, chips, sawlogs and wood residue at mills	52 645	43 562
Other raw materials and supplies	92 539	78 635
Work in process and finished goods	119 332	101 141
	$325 075	$274 837

6. Property and plant

			1981	1980
				(thousands of dollars)
	Gross	Accumulated depreciation	Net	Net
Pulp, paper, paperboard and lumber mills	$ 760 164	$297 819	$462 345	$335 538
Glass and plastic container plants	195 774	85 810	109 964	87 541
Converting plants	173 355	76 730	96 625	84 056
Woodlands	20 737	11 860	8 877	7 320
Oil and gas properties	17 069	968	16 101	6 861
Other	3 114	989	2 125	2 072
	$1 170 213	$474 176	$696 037	$523 388

Interest capitalized on major additions during 1981 was $10 525 000 (1980 $1 398 000).

Pulp, paper, paperboard and lumber mills include $15 849 000 of equipment acquired in 1981 under capital lease.

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%

7. Investments

	1981	1980
		(thousands of dollars)
Portfolio:		
Oil and gas		
Sulpetro Limited (market value $48 967 000; 1980 $19 966 000)	$ 65 925	$ 18 613
Sceptre Resources Limited (market value $33 422 000; 1980 $29 927 000)	30 428	19 830
Sulbath Exploration Ltd.	15 002	—
Other securities	2 500	1 500
	113 855	39 943
German certificates of indebtedness, 8¼%, 1985 (1981 DM 19 964 000; 1980 DM 19 952 000)	12 523	13 224
Abitibi-Price Inc.	—	33 758
Other securities and loans of a non-current nature	12 015	12 449
	138 393	99 374
Equity:		
Joint venture		
Libbey-St. Clair Inc.	7 948	7 931
Associated companies	5 924	6 802
	$152 265	$114 107

8. Advances to trustee under share option and purchase plans

	1981	1980
		(thousands of dollars)
1979 Share Option Plan	$ 1 928	$ 2 010
Exercised Option Purchase Plan	618	932
Executive Employee Stock Purchase Plan	83	124
	$ 2 629	$ 3 066

Of these amounts, $2 200 000 (1980 $2 638 000) is owing to the trustee from officers, one of whom is a director.

9. Long-term debt

	1981	1980
		(thousands of dollars)
Consolidated-Bathurst Inc.		
5.85% sinking fund debentures, Series A, 1990 (1981 U.S. $9 133 000; 1980 U.S. $10 217 000)	$ 9 819	$ 10 985
6⅜% sinking fund debentures, Series B, 1991 (1981 U.S. $8 329 000; 1980 U.S. $9 420 000)	8 966	10 141
8¾% sinking fund debentures, Series C, 1993	9 149	10 368
9% sinking fund debentures, Series F, 1992 (1981 U.S. $18 537 000; 1980 U.S. $18 955 000)	20 006	20 458
17½% sinking fund debentures, Series I, 1988 (U.S. $60 000 000)	71 129	—
Revolving credit (a)	50 000	50 000
Obligation under capital lease (b)	15 849	—
Bathurst Paper Limited		
6% first mortgage sinking fund bonds, Series A, 1984	2 412	3 528
6% sinking fund debentures, Series A, 1984	2 590	3 210
7½% German term bank loan, 1985 (c)	20 380	21 452
Consolidated-Bathurst Pontiac Limited		
11% first mortgage sinking fund bonds, Series A, 1995, retractable in 1985	25 463	25 799
Revolving credit (a)	50 000	—
Domglas Inc. and subsidiaries		
9½% sinking fund debentures, Series A, 1990	17 174	18 568
Revolving credit (a)	20 000	20 000
Other	4 750	2 569
Europa Carton AG and subsidiaries		
Term bank loans, various interest rates, 1982 to 1995 (1981 DM 47 131 000; 1980 DM 46 594 000)	26 547	26 138
Other	57	76
	354 291	223 292
Less: Current portion, at historical exchange rates	7 826	6 516
	$346 465	$216 776

Note 9 (continued)

(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. If not renewed, each corporation can, at the end of a revolving period, 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, 1981			
Revolving credit facility	$150 000 000	$50 000 000	$20 000 000
Outstanding borrowings at Canadian bank prime	$50 000 000	$50 000 000	$20 000 000
Secured by	Demand debenture, Series G	Unsecured	Demand debenture, Series B
Current revolving period ends	November 28, 1983	May 31, 1983	December 29, 1983
Interest rates on term loan	Canadian bank prime plus		
Years 1 to 5	¼%	¼%	⅜%
Years 6 to 10	⅜%	½%	½%

(b) Under the terms of a leasing facility, completed in February 1982 with a major United Kingdom leasing company, approximately $75 million of manufacturing equipment for the Bridgewater Division newsprint mill will be leased to the Corporation over the economic life of the equipment. Lease payments will commence in 1984 and will vary during the first ten years with the six-month London Interbank Offered Rate (LIBOR) plus 1% and the lessor's effective tax rate in respect of the lease. Thereafter, annual lease payments will be fixed at a nominal rate based on the total cost of the leased equipment.

(c) The DM 76 000 000 term loan is secured by the pledge of all the shares of Europa Carton AG and by a DM 5 000 000 certificate of deposit.

(d) Excluding the debt of Europa Carton AG repayable from its operations and including the provision of $30 037 000 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, 1981, is below the Canadian dollar amounts recorded in the accounts by $4 546 000.

(e) Sinking fund requirements and principal payments during the next five years, based on exchange rates at December 31, 1981, are: 1982 $7 597 000; 1983 $16 662 000; 1984 $27 148 000; 1985 $61 474 000; 1986 $37 947 000.

(f) On February 18, 1982, the Corporation issued on the Eurobond market $40 000 000 17¼% Series J Debentures due 1987 at par. The proceeds of $39 140 000 were used to reduce short-term borrowings.

(g) On February 26, 1982, the Board of Directors authorized the Corporation to borrow up to $50 000 000 under its revolving credit facility. The funds will be used to reduce short-term borrowings.

10. Stated capital

(a) Preferred shares

(i) Authorized

6 000 000 shares, par value $25 each, of which 1 002 306 are designated as 1966 Series and 720 000 as 1978 Series.

(ii) Issued and outstanding

	1966 Series		1978 Series	
	Shares	Stated Value	Shares	Stated Value
Balance January 1, 1981	975 708	$24 393 000	800 000	$20 000 000
Purchased and cancelled (cost of $2 655 000)	(39 100)	(978 000)	(80 000)	(2 000 000)
Balance December 31, 1981	936 608	$23 415 000	720 000	$18 000 000

(iii) Principal features

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.

(iv) Redemption

Subject to provisions in certain covenants in the Trust Deeds securing the debentures and to 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 1982 and of the remainder of such shares annually thereafter.

(b) Common shares

(i) Authorized

Unlimited number of shares.

(ii) Issued and outstanding

	Series A		Series B	
	Shares	Stated Value	Shares	Stated Value
Balance January 1, 1981	8 685 310	$ 62 897 000	13 796 333	$115 817 000
Net conversions from Series B to Series A (iii)	9 151 097	73 217 000	(9 151 097)	(73 217 000)
Issued as stock dividends	—	—	436 546	9 722 000
Issued under the 1981 Share Purchase Plan (iv)	13 908	388 000	6 560	183 000
Issued under the 1979 Share Option Plan (v)	34 700	447 000	8 200	106 000
Purchased and cancelled	(556 500)	(4 234 000)	—	—
Balance December 31, 1981	17 328 515	$132 715 000	5 096 542	$ 52 611 000

(iii) Principal features

The Series A and Series B common shares are voting, inter-convertible 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. Dividends, other than stock dividends, are subject to restrictions under the Trust Deeds.

(iv) 1981 Share Purchase Plan

In May 1981, the Corporation established the 1981 Share Purchase Plan to provide all of its eligible employees with the opportunity to purchase common shares during that month directly from the Corporation at a price of $27.875 per share. This Plan also enabled such employees who reside in Quebec to benefit from certain tax legislation of that Province.

(v) 1979 Share Option Plan

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. As at December 31, 1981, 212 200 shares were issued under this Plan.

11. Acquisition of subsidiary

In December 1981, Domglas Inc., a subsidiary, acquired all the shares of Ahlstrom Limited, a glass manufacturer located near Moncton, New Brunswick. This acquisition, accounted for under the purchase method, is summarized as follows:

	(thousands of dollars)
Property and plant	$10 637
Deferred charges	95
	$10 732
Long-term debt	$ 9 459
Net decrease in working capital	1 273
	$10 732

12. 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 32 and 33 of this report.

13. Related party transactions

Power Corporation of Canada is the major shareholder of the Corporation owning approximately 40% of the outstanding common shares. In 1981, the Corporation entered into transactions with certain companies in the Power group, mainly in respect of sales of newsprint and purchases of insurance services. Such transactions were made at open market prices for similar products and services and the total value was not significant in relation to sales and purchases.

14. Commitments

(a) The future minimum lease payments under capital and operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 1981, are as follows:

	Capital Lease	Operating Leases
		(thousands of dollars)
1982	$ —	$ 9 400
1983	—	6 100
1984	3 200	5 000
1985	3 200	4 000
1986	3 200	3 200
Thereafter	22 400	10 300
	32 000	$38 000
Less: Imputed interest	16 151	
Present value of net minimum lease payments	$15 849	

(b) At December 31, 1981, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately $102 900 000.

(c) Certain of the pension plans of the Corporation and its Canadian subsidiaries have unfunded past service liabilities which were actuarially estimated to be $18 700 000 at December 31, 1981 ($32 400 000 at December 31, 1980). The charge to earnings in respect of all the Corporation's pension plans was $14 400 000 in 1981 ($17 450 000 in 1980).

15. Remuneration to directors and officers

The aggregate direct remuneration paid or payable in 1981 by the Corporation and its subsidiaries to the directors and senior officers was $4 471 000 ($4 330 000 in 1980).

Comparative Data

		1981	1980
Operations (thousands of dollars)	Net Sales	$1 479 252	$1 389 433
	Depreciation	44 486	42 651
	Interest - both short and long-term	43 507	29 886
	Income taxes	65 022	78 412
	Earnings before extraordinary items	101 780	122 379
	Extraordinary items - net of taxes	10 283	—
	Net earnings	$ 112 063	$ 122 379
	Additions to property and plant	$ 239 614	$ 143 152
	Maintenance and repair expense	$ 115 013	$ 98 334
Per common share (dollars)	Earnings before extraordinary items	$ 4.41	$ 5.42
	Net earnings	4.87	5.42
	Dividends	2.00	2.00
	Cash flow from operations	8.74	8.51
	Book value	$ 22.48	$ 19.72
Per preferred share (dollars)	Dividends - 1966 Series	$ 1.50	$ 1.50
	- 1978 Series	$ 2.25	$ 2.16
Balance sheet (thousands of dollars)	Working capital at end of year	$ 284 122	$ 260 746
	Property and plant - gross	1 170 213	968 517
	Accumulated depreciation	474 176	445 129
	Investments	152 265	114 107
	Provision for German pensions	23 305	19 877
	Provision for exchange and contingent charges	30 037	32 378
	Long-term debt	346 465	216 776
	Minority interest	2 877	2 524
	Stated capital - preferred	41 415	44 393
	- common	185 326	178 714
	Retained earnings	318 880	264 711
	Total shareholders' equity	$ 545 621	$ 487 818
Other data	Ratio of current assets to current liabilities	2.0 to 1	2.1 to 1
	Ratio of short and long-term debt to shareholders' equity	47/53	37/63
	Return on assets - %	8.8	12.2
	Return on common shareholders' equity - %	20.9	29.8
	Shares outstanding - preferred	1 656 608	1 775 708
	- common	22 425 057	22 481 643

1979	1978*	1977	1976	1975	1974	1973*	1972
$1 244 312	$1 078 843	$868 865	$745 193	$643 719	$689 009	$497 683	$348 055
38 774	36 022	32 484	28 659	26 150	25 658	21 500	16 534
26 353	26 930	26 823	22 941	18 812	18 445	14 518	10 573
57 058	36 350	10 038	9 227	20 338	34 463	14 220	4 674
98 259	59 147	21 355	18 240	32 599	47 712	19 870	6 181
4 589	1 568	1 361	—	—	14 608	(900)	63
$ 102 848	$ 60 715	$ 22 716	$ 18 240	$ 32 599	$ 62 320	$ 18 970	$ 6 244
$ 92 332	$ 47 475	$ 53 783	$ 56 678	$ 49 740	$ 36 992	$ 30 242	$ 14 968
$ 83 294	$ 73 038	$ 69 889	$ 58 267	$ 44 467	$ 45 861	$ 29 724	$ 19 809
$ 4.27	$ 2.60	$ 0.90	$ 0.76	$ 1.42	$ 2.37	$ 0.92	$ 0.18
4.47	2.67	0.97	0.76	1.42	3.13	0.87	0.19
1.00	0.75	0.67	0.67	0.67	0.75	—	—
6.86	5.25	2.96	2.24	2.98	4.76	2.54	1.19
$ 16.26	$ 12.79	$ 11.00	$ 10.70	$ 10.64	$ 9.89	$ 6.51	$ 5.74
$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 3.38	$ 1.12
$ 2.03	$ 0.64	$ —	$ —	$ —	$ —	$ —	$ —
$ 289 633	$ 263 141	$209 233	$157 860	$159 084	$133 045	$ 81 066	$ 77 303
851 947	784 661	769 237	730 763	678 302	634 033	611 733	500 175
416 862	392 549	375 895	363 477	339 692	317 097	298 617	245 173
73 805	52 702	30 851	26 162	26 438	26 452	11 026	18 321
15 319	12 829	11 199	7 404	6 418	4 937	2 644	2 103
32 378	30 708	20 268	16 919	17 607	15 985	15 543	18 820
231 950	228 231	245 647	178 837	157 176	129 896	141 968	130 751
2 784	2 832	5 896	5 877	6 291	6 502	19 676	6 394
45 360	46 279	26 145	27 094	28 067	31 078	47 229	47 229
165 575	165 848	89 804	89 803	88 695	88 626	42 091	39 518
192 966	120 317	150 940	144 384	142 320	125 943	80 929	68 344
$ 403 901	$ 332 444	$266 889	$261 281	$259 082	$245 647	$170 249	$155 091
2.6 to 1	2.7 to 1	2.2 to 1	1.9 to 1	2.2 to 1	1.9 to 1	1.7 to 1	2.0 to 1
37/63	42/58	53/47	50/50	43/57	42/58	54/46	51/49
11.4	8.5	4.6	4.3	6.6	9.2	5.4	2.8
29.6	21.8	8.5	7.3	14.0	27.4	12.2	4.1
1 814 408	1 851 156	1 045 808	1 083 755	1 122 684	1 243 119	1 889 144	1 889 144
22 051 362	22 381 992	21 886 602	21 886 377	21 720 102	21 700 812	18 905 412	18 178 812

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

* 1973 – Reflects consolidation of Domglas Inc. from April.

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, C.C.
Chairman of the Board
of the Corporation
Montreal, Que.

G. Arnold Hart, M.B.E., C.M.
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
Senior Fellow,
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

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President
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of the Corporation
Montreal, Que.

Gus A. Van Wielingen
Chairman of the Board
and Chief Executive Officer,
Sulpetro Limited
Calgary, Alta.

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Richard A. Irwin
A. Searle Leach

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James W. Burns
Peter D. Curry
Roland Giroux, C.C.
G. Arnold Hart, M.B.E., C.M.
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Pierre Arbour
Douglas A. Berlis, Q.C.
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Chairman of the Board

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President
and Chief Executive Officer

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Corporate Affairs

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Pulp and Paper

Guy Dufresne
Vice-President, Marketing,
Pulp and Paper

Lawrence F. Horne
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Vice-President, Container Division

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President, *Gillies Inc.*

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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

Consolidated-Bathurst Inc.

The Indians called it "Auchauenekame" because the glittering cataract reminded them of their bead needlework. To the latercomers, the name was written "Shawinigan" and its water and power gave birth to the Belgo pulp and paper operation and several important industries.

(From the 1947 painting by Robert M. Pilot, Power Corporation collection.)

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