Consolidated-Bathurst Inc.

Annual Report 1984

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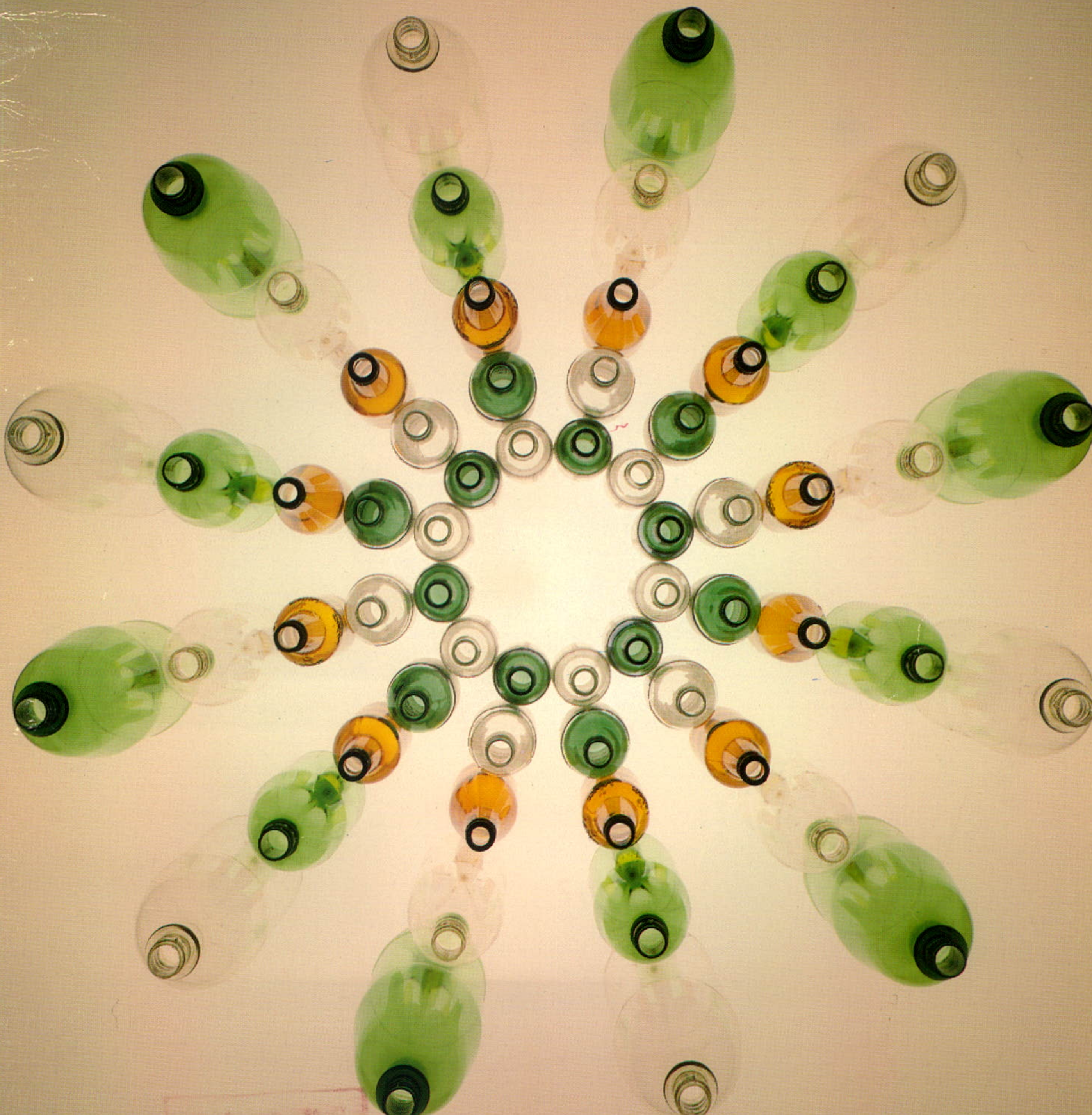

Contents

Consolidated-Bathurst Inc.

is an eastern Canadian forest products and packaging organization that ranks among the 30 largest publicly-owned manufacturing companies in Canada. Production and sales operate within three business sectors: Pulp and Paper, North American Packaging, and Europa Carton AG.

Pulp and Paper. Its most important product line is newsprint, a versatile paper used mainly in printing daily and weekly newspapers. During 1984, the Group's eight primary mills in Quebec, New Brunswick and in the U.K. produced 995 thousand tonnes of newsprint and 655 thousand tonnes of market pulp, paperboard and kraft paper. Four sawmills manufactured 91 million board feet of pine and spruce lumber.

North American Packaging. From plants across Canada, CB Pak Inc., through its subsidiaries, Domglas Inc. and Twinpak Inc., provides other manufacturing and process industries with a wide variety of industrial and consumer packaging and related packaging systems. Products include glass and plastic bottles and containers, flexible packaging products, multiwall paper and heavy-duty plastic bags and packaging systems. An associated company manufactures and sells glass tableware in Canada while another produces glass bottles in Pennsylvania and West Virginia. MacMillan Bathurst Inc., a joint venture with MacMillan Bloedel Limited, is a nationwide supplier of corrugated containers.

Packaging, Europa Carton. Europa Carton AG, with headquarters in Hamburg, is the leading supplier of corrugated containers and folding cartons in West Germany. It has two paperboard mills, and plants across the Federal Republic.

Oil and Gas Investments. The Company also holds investments in Canadian-managed oil and gas production and exploration with a book value of $128 million.

Consolidated-Bathurst's major shareholder, Power Corporation of Canada, of Montreal, holds 40% of outstanding common shares.

Cover:
Select beverage containers reflect the expanding packaging universe of CB Pak Inc. and its companies, Domglas and Twinpak. The inner circles are 170 ml and 300 ml 'Plasti-Shield' protected glass containers for juices and soft drinks; the third is new distinctive shape beer bottles; while the outer circles are recyclable one and two-litre PET plastic bottles for soft drinks. CB Pak's potential attracted a positive response when shares were offered for sale in 1984.

Incorporated August 28, 1931, under the laws of Canada

Registered Office
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Montreal, Quebec H3B 1Y9
Telephone: (514) 875-2160
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Auditors
Touche Ross & Co.

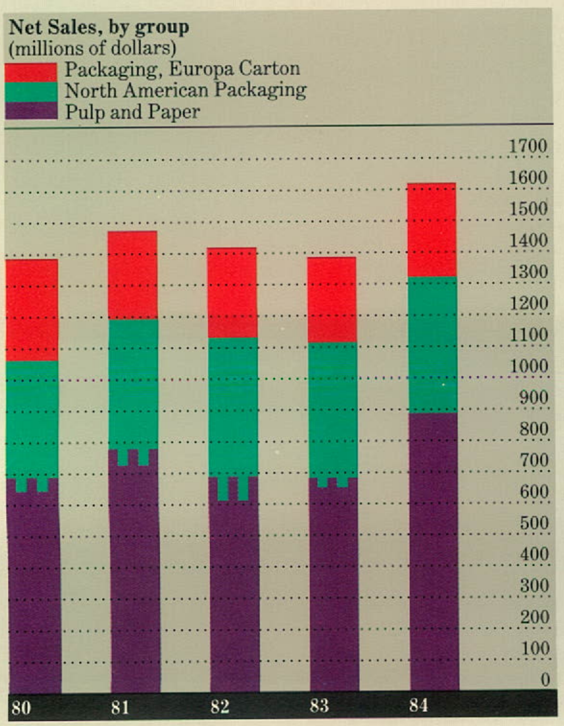
Share listings: Con Bath
The Montreal Exchange
The Toronto Stock Exchange

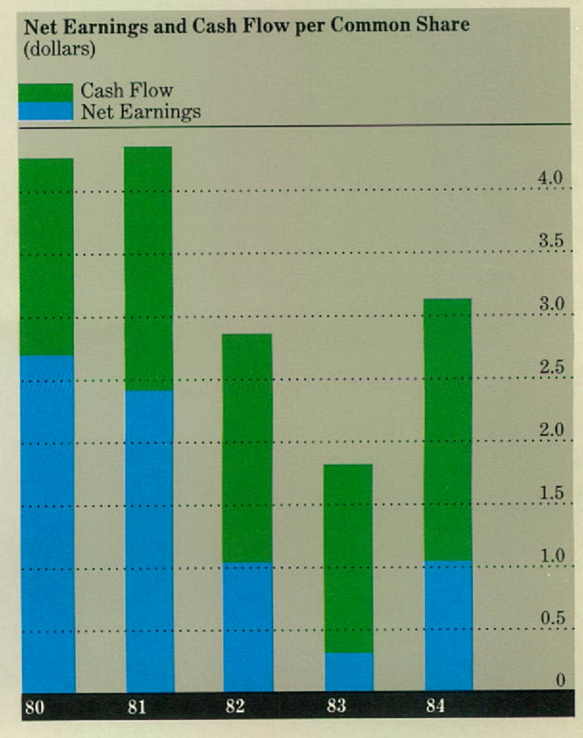
Transfer Agent and Registrar
Montreal Trust Company
at Saint John, Montreal, Toronto, Winnipeg, Calgary and Vancouver

53rd Annual Meeting
Château Champlain Hotel, Montreal
April 25, 1985 – 10:30 a.m.

Highlights

		1984	1983	1982
Operations (thousands of dollars)	Net sales	**$1 622 984**	$1 393 065	$1 424 284
	Earnings before extraordinary items	**73 808**	34 534	51 482
	Extraordinary items	**(14 907)**	(9 680)	—
	Net earnings	**$ 58 901**	$ 24 854	$ 51 482
	Cash flow from operations	**$ 152 713**	$ 93 399	$ 132 918
	Additions to property and plant	**118 884**	175 309	242 429
	Total assets	**$1 675 913**	$1 652 843	$1 584 570
Per common share	Earnings before extraordinary items	**$ 1.40**	$ 0.53	$ 1.06
	Extraordinary items	**(0.33)**	(0.22)	—
	Net earnings	**$ 1.07**	$ 0.31	$ 1.06
	Cash flow from operations	**$ 3.15**	$ 1.84	$ 2.87
	Dividends	**0.50**	0.40	0.80
	Book value	**$11.38**	$11.37	$11.46
Other data	Number of issued common shares	**45 054 779**	44 958 398	44 878 446
	Canadian registered	**81.1%**	80.9%	81.2%
	Number of common shareholders	**13 908**	13 530	14 106
	Number of employees	**14 395**	14 156	15 168





Report of the Directors

To shareholders and employees:

The trend of improvement that was evident in the final quarter of 1983 for Canada's forest products and packaging industries continued in 1984. Consolidated-Bathurst's results for its 53rd year were, accordingly, much improved over those of the recession years of 1982 and 1983. This was true in spite of lengthy strikes at a newsprint mill and a glass plant and a special write-down in the Company's oil and gas investments.

Operating results

Strong U.S. dollar hurt Company's European investments

In 1984, earnings before extraordinary items were $73.8 million, or $1.40 per common share, compared with $34.5 million, or $0.53 per share in 1983. The earnings for 1984 and 1983 have been restated to reflect a retroactive accounting change with respect to pre-operating expenses of major capital projects. Net earnings were $58.9 million, or $1.07 per share, compared with $24.8 million, or $0.31 per share, in 1983. There were extraordinary charges in 1983 and 1984 related to writing down the value of the Company's investment in Sulpetro Limited; in the second case, to market value at year-end 1984. Partially offsetting the 1984 write-down were gains on the sale of CB Pak Inc. shares to the public and on a fire insurance settlement. The net extraordinary charge after-tax was $14.9 million in 1984 compared with the extraordinary charge of $9.7 million in 1983.

As shown in the segmented information on page 26, total operating earnings rebounded by 59%, with respectable improvements in all packaging sectors excepting Europa Carton, and the more striking increases in the pulp and paper product sectors. Net sales attained a record high of $1.6 billion. Pulp and paper net sales went up 31%; those of CB Pak by 11%; and of Europa Carton by 8%. Shipments of newsprint and groundwood specialties exceeded one million tonnes for the first time in the Company's history.

Just as Consolidated-Bathurst can attribute much of its good results in 1984 to the greater exchange differential between U.S. and Canadian dollars, the reverse is true for its European investments. At the Bridgewater Division in the United Kingdom, low newsprint prices and the sharp decline of the pound sterling relative to the dollar served to reduce the mill's margins sharply, to the point where it has consistently been in an operating loss position since start-up. Bridgewater Company management is bearing down on elements of cost, and pursuing other avenues to reverse the situation. At Europa Carton in West Germany, the translation of a weak Deutsche mark turned a healthy DM profit increase into earnings in Canadian dollars lower than in 1983.

Packaging developments

The cover of this report is intended to note the historic and auspicious beginning of CB Pak Inc. as a versatile and promising corporate entity in North American Packaging. In its own annual report to shareholders on its first year of operations, CB Pak Inc., which includes Domglas and Twinpak, has reported net earnings of $25.3 million, or $1.35 per share, compared with a pro-forma $21.6 million, or $1.20 per share in 1983. CB Pak management attributes the improvement to increased demand for glass and plastic products, gains in productivity and higher utilization of productive capacity.

Public offerings of CB Pak shares in April and December were well received, as investors took up the opportunity to participate in the fortunes of Canada's largest producer of glass, plastic and paper-based packaging. Consolidated-Bathurst now holds an 80% participation in that company.

On February 11, 1985, Diamond-Bathurst Inc. of Royersford, Pa., which is 38% owned by CB Pak Inc., announced that it has agreed to acquire Container General Corporation of Chattanooga, Tenn. Container General operates 12 glass plants in various states and had sales in 1984 of $448 million U.S. The new organization will be one of the major glass container suppliers in the United States and the acquisition is expected to benefit both Diamond-Bathurst and Domglas.

In late December, Europa Carton AG, the Corporation's packaging subsidiary in West Germany, entered into an agreement with the owners of Menno Goemans, B.V., a Dutch manufacturer of folding cartons, to acquire all the shares of that company on March 1, 1985, at a price of approximately $5.2 million. The acquisition of Menno Goemans and its plant will strengthen Europa Carton's market potential in folding cartons, particularly for exported beers.

Capital expenditures

With the completion of the Bathurst/Bridgewater development, capital expenditures overall dropped 32% to $119 million in 1984. Packaging projects increased 34% to $42 million, while those in Pulp and Paper dropped by 47% to $73 million.

Key projects in CB Pak companies included, in Twinpak, expansion of facilities for PET plastic bottle production, additional vacuum metallizing, and various projects in injection moulding and plastic capsule manufacture. Domglas expenditures included a major expansion and modernization of the Scoudouc plant, to improve production there of 'Plasti-Shield' bottles and beer bottles. At the Company's pulp and paper mills, the electric boiler replacement program continued and, at year-end, construction was well advanced on the conversion of the Bathurst recovery boiler to wood-residue fuel. About 20% of mill capital expenditures were directed to environmental improvement projects.

Financing and Dividends

From their public share offerings in CB Pak Inc., CB Pak and the Corporation obtained some $50 million of new capital. In 1984, there was a net reduction of $33 million in the Corporation's long-term debt, principally in respect of the revolving credit of a subsidiary, as Consolidated-Bathurst continued to take advantage of competitive interest rates in the

W.I.M. Turner, Jr. and T.O. Stangeland

Share dividend increase and share split reflected renewed success

short-term loan market. Short-term debt, net of cash and short-term deposits, increased by $39 million for a net increase in total debt position of only $6 million. Some translation adjustments for long-term debt were recorded in 1984, following the implementation of the new foreign currency translation rules issued by the Canadian Institute of Chartered Accountants.

At its meeting on July 26, 1984, the Board increased the quarterly dividend on common shares by 50% to $0.15 per share, to reflect the Company's performance and expectations. On August 21, 1984, at a special meeting, shareholders of the Corporation approved the subdivision of Consolidated-Bathurst's common shares on a two-for-one basis effective August 31, 1984. Throughout this report, total share numbers and related historical information on shares or on a per-share basis have been restated to reflect the split.

Management

On March 1, 1984, J.B. Sweeney, Vice-President, Technical Development and Environmental Affairs, took early retirement after 43 years of distinguished service with the Company to accept a new challenge as President and Chief Executive Officer of Manitoba Forest Resources Limited. Retiring April 1, 1984, were J.G. MacLeod and J.P. Woods. Mr. MacLeod retired after 37 years of service, 24 of them as Vice-President, Woodlands, of the Company. Mr. Woods had 39 years of service, the latter 11 as Vice-President, Manufacturing. Messrs. MacLeod and Woods contributed enormously to past successes of the Company and were recognized as industry leaders in their respective fields. Mr. MacLeod was succeeded by Armand Legault; Mr. Woods, by Raymond Felx. On April 26, 1984, B.G. Duns, President of the pulp and paperboard sales subsidiaries, was appointed Vice-President, Pulp, Kraft and Paperboard Sales. On October 1, 1984, Larry F. Horne retired as Vice-President, Kraft Production, after 38 years of service and successful completion, under his guidance and strong leadership, of the CTM pulp mill at Bathurst.

Outlook

The Company's outlook for 1985 continues to be optimistic. Although the post-recession growth of the U.S. economy which fueled the recovery has slowed somewhat and signs of weakness are apparent in pulp markets, shipments and operating rates in pulp and paper products overall are expected to continue at high levels. The Company is also confident that MacMillan Bathurst's performance and that of CB Pak companies will continue to make important contributions to the results of Consolidated-Bathurst.

A new federal government in Canada and a new willingness in Canada and the United States to address deficits of frightening proportions provide some justification for the hope of a more settled economic environment, lower real interest rates and better balance in exchange rates. It is also clear from the continuing controversy over Canada's share of the U.S. lumber market how much the health of Canada's industry depends on harmonious trade relations with the United States.

Special issues in Canada today are the adequate protection and regeneration of our provincial forest resources and the encouragement of initiative, ingenuity and perseverance in research and equipment development. Industry and government personnel must accept, as well, the need for productivity, quality and costs to the most exacting international standards.

We thank the employees of Consolidated-Bathurst, its affiliated and associated companies for their support of our collective effort and their contribution to our renewed success in 1984. We well appreciate that there is no shortage of serious questions and problems. We are confident, however, that, with the resources available to us, we can find most of the answers.

On behalf of the Board of Directors,

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

T.O. Stangeland,
President and
Chief Operating Officer

Montreal, February 28, 1985

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Raymond Felx
Vice-President, Manufacturing

Armand Legault
Vice-President, Woodlands

Ritchie MacPherson*
Vice-President, Newsprint Production

*retiring April 1, 1985

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Senior Vice-President, North American Packaging

Paul S. Echenberg
Vice-President, Plastics and Bag Division

Mackenzie deB. Strathy
Senior Vice-President, Pulp and Paper Marketing

Bart G. Duns
Vice-President, Pulp, Kraft and Paperboard Sales

K. Ross Hughes
Vice-President, Newsprint Sales

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Michael A. Pelham
Managing Director, Bridgewater Paper Sales Limited

Ron J. Simpson
President, Domglas Inc.

Werner Woitas
Chairman, Managing Board, Europa Carton AG

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President, Diamond-Bathurst Inc.

Robert A. Graham
President, Libbey-St. Clair Inc.

Theodor W. Haiplik
President, MacMillan Bathurst Inc.

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Paul Desmarais, O.C.

Pulp and Paper

Record U.S. demand fueled industry improvement

As expected, pulp and paper demand improved in all markets in 1984 so that results of the Pulp and Paper Group were twice as good as in 1983. Operating rates at Company mills were higher than in the previous year and shipments of newsprint and groundwood specialties exceeded one million tonnes for the first time. They were 22% higher than in 1983.

The substantial improvement in performance might have been even better but for a lengthy strike at the Company's Port Alfred Division newsprint mill in La Baie, Quebec, and operating losses at the Bridgewater Division newsprint mill at Ellesmere Port, in the U.K. Bridgewater operating management has been successful in moving the mill quickly toward capacity production and turning out a newsprint of high quality. Total mill production since start-up has been sold. The low prices prevailing for newsprint in Europe, exacerbated by the fall in the value of the pound sterling relative to North American currencies, had, however, a severe negative effect on the mill's operating margins.

Net sales of the Group for the year were $896.6 million, up 31% over sales in 1983. As detailed in the segmented information on page 26, operating earnings of all product sectors improved with the most dramatic improvements being in bleached kraft pulp and containerboard.

A principal reason for the better performance overall was the record demand for paper products in the U.S. market, where publisher newsprint set new consumption records and groundwood specialties demand remained very firm. The robust U.S. market, combined with an increasingly strong U.S. dollar, attracted non-traditional overseas suppliers. Unusually large tonnages of publisher newsprint and, particularly, higher grade papers were imported into the U.S. compared to recent years. At the same time, weaker overseas markets and weaker currencies resulted in the redirection of some Canadian production to the attractive U.S. market.

The four-month strike at the Port Alfred Division resulted in the loss of some 125 000 tonnes of publisher newsprint production. Careful planning and the understanding and cooperation of customers enabled the Company to weather this difficult experience with a minimum of market disruption.

Capital expenditures of the Group, at $72.9 million, dropped 47% from 1983 as the Bathurst/Bridgewater projects were completed. Emphasis continues on reducing costs, modernizing facilities and processes for long-term growth, and the upgrading of both product quality and value to provide paper products that serve ever more sophisticated printing requirements.

New emphasis is being placed by the industry and provincial governments, generally, across Canada on forest renewal. Company management and woodlands personnel are actively involved in encouraging the transition from extensive to more intensive forest management to assure the timber and fibre supplies that will be required in the decades ahead. A prerequisite is straightforward explanation to and acceptance by the public of the economic and social importance of healthy forest resources.

In spite of early weaknesses in pulp prices, expectations on pulp and paper performance for the year ahead are generally positive. Operating rates in newsprint and groundwood specialties should continue at a high rate. Newsprint price increases announced for April 1, 1985, in the U.S. and Canada, and for March 1 in the U.K. should also reflect well on the industry's outlook for the balance of the year.

Newsprint

The volume of newsprint and groundwood specialties shipped in 1984 was higher than in 1983 by 181 000 tonnes. Production tonnage lost to the strike at the Port Alfred newsprint mill was more than made up by additional production at the Bridgewater Division in the U.K. In 1984, Company newsprint shipments including those from the United Kingdom, were 55% to the United States, 22% to Canada and 23% overseas. The percentage of shipments to the United States was lower than normal as a result of the strike at Port Alfred.

In 1984, newsprint consumption in the United States, the Company's principal market, increased dramatically. This growth reflected large advertising increases from strong retail sales, the growing competitiveness of the print media and was reinforced by the publicity attendant on the Olympic Games and the Presidential election. U.S. newsprint consumption for the year increased by 8.1% to 11.4 million tonnes, up from 10.6 million tonnes in 1983. Reflecting this strong U.S. demand, the operating rate for the Canadian industry rebounded from 85% in 1983 to 92% in 1984.

Shipments — Pulp and Paper Group Products (thousands of tonnes)

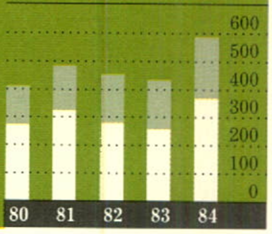
	1984	1983	1982	1981	1980
Newsprint and groundwood specialties	**1 021**	840	825	959	913
Kraft market pulp	**179**	177	150	177	190
Paperboard	**340**	308	324	367	383
Lumber (thousands of board feet)	**101 371**	93 144	67 915	93 502	92 081

Launched at Travemünde in 1984, MS Bridgewater carries CTM pulp from Bathurst to Bridgewater every three-to-four weeks.

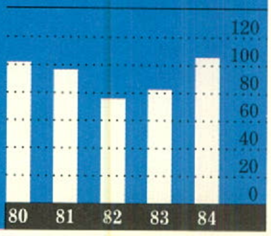
Left to right:
■ Flash-drying towers of new Bathurst mill suggest state-of-the-art pulp production.
■ Refiner control room at Bathurst typifies industry modernization.
■ Instrumentation and Development personnel at Grand-Mère discuss 'Calcoil' components, a Company developed control system for calender stacks that has won worldwide industry acceptance.
■ On the Manchester Ship Canal, MS Bridgewater is unloaded at Manisty Wharf, adjoining the Bridgewater newsprint mill.


BRIDGEWATER
JOACHIM

Newsprint and Groundwood Specialties Net Sales
(millions of dollars)
Groundwood Specialties
Newsprint



Kraft Market Pulp Net Sales
(millions of dollars)



Net sales of publisher newsprint mills in 1984 were $361.9 million, compared with $249.2 million in 1983. Tonnage of publisher newsprint from the Company's mills in Canada to the U.S. was approximately the same as in 1983. Newsprint sales in the U.K. were much higher as Bridgewater tonnage came on stream.

In other than North American markets, publisher newsprint sales from Canadian mills were generally lower as a result of slower economic recovery, increases in indigenous newsprint capacity and the impact of the strength of the U.S. dollar. These factors combined to restrict the Company's and the industry's ability to sell overseas.

Groundwood Specialties

Net sales of the Company's two groundwood specialty mills, at Grand-Mère and Trois-Rivières, increased to $220.5 million, $40.7 million or 23% above those of 1983, based on shipments of 310 000 tonnes that were 5% higher than in 1983. Because of the strike shutdown at Port Alfred, some publisher newsprint was made on two specialty machines to meet customer requirements. Demand for the Company's specialty grades remained strong throughout 1984.

The heat-set offset printing process is growing rapidly, often as a substitute for rotogravure printing. The Company has developed a grade of paper especially adapted to this process. Called 'Conset', this grade is well positioned for growth in this promising market.

The outlook for newsprint and groundwood specialties in 1985 is complex, with North American newsprint consumption growing over that of last year, but with increased competition from offshore suppliers. In the case of groundwood specialty grades, the demand for heat-set offset paper will continue to show strength. Some weakness at the premium end of the rotogravure grade structure could develop. This would result from softer demand for lightweight coated and the expected introduction of additional industry capacity for supercalendered paper during the second half of 1985.

Kraft Market Pulp

The improvement in the market for bleached kraft pulp seen in the latter part of 1983 carried over into 1984. Strong demand from all markets, combined with the pulp industry lockout in British Columbia, allowed the rest of the industry to operate at capacity for the first half of 1984. Pulp prices increased in each of the first two quarters but began to weaken late in the third quarter. This weakening was due to high North American/Scandinavian production rates, the introduction of new capacity, lower demand for commodity papers and the continued strengthening of the U.S. dollar against all major currencies.

Results of the Pontiac mill were sharply higher than a year earlier, with net sales of $105.6 million, an improvement of 31%. This was based on shipments of 179 000 tonnes, slightly ahead of those of the previous year. Increased demand for Pontiac's specialty grades allowed for higher operating rates, so that shutdowns were limited to scheduled maintenance and to one week at year-end for inventory correction.

Additional industry capacity will be introduced in 1985, and place pressure on already deteriorating price levels. The general outlook for market pulp in 1985 remains highly competitive.

Paperboard

Containerboard (linerboard and corrugating medium)

The impact of the first full operating year of the MacMillan Bathurst Inc. joint venture was a substantial improvement in earnings for containerboard. Net sales increased by 28% to $134.5 million, with volume up 13% over 1983 levels. MacMillan Bathurst converting operations provided the market for approximately 60% of the Company's containerboard shipments.

At the outset of 1984, market conditions continued to strengthen in all sectors, which in turn supported a mid-year price increase. Operating rates for North American mills were at effective capacity, with fibre box shipments up approximately 8% over the previous year. By the fourth quarter, however, the market could no longer sustain this high operating level, with the result that box plants and, subsequently, some mills were forced to take downtime.

Shipments of kraft linerboard from the Chaleurs Division were 186 000 tonnes in 1984, 18% ahead of 1983. With MacMillan Bathurst Inc. firmly established and healthy domestic demand until late in the year, all shipments were directed to Canadian accounts. The mill operated at capacity, with downtime limited to scheduled maintenance.

Semi-chemical corrugating medium production at the Bathurst Division was 99 000 tonnes, 4% ahead of 1983. Export volumes and prices improved in the early part of the year but were weakened as the U.S. dollar strengthened. Demand and prices faltered in the latter part of the year. This was the result of a decline in U.S. domestic demand and increased volumes of U.S. board being shipped to export markets at depressed prices. The Bathurst corrugating medium operation did, however, operate at capacity until December when downtime was necessary to reduce inventory.

Bridgewater mill, with canal in background. New storage and shipping sheds, at left, were built following fire in March 1984.

Left to right:
- Bathurst CTM pulp provides about 65% of Bridgewater mill's fibre requirements.
- Increasing volumes of recycled paper are being repulped and deinked for use in mill's newsprint production.
- Bridgewater Paper Company Chairman John Andrew addresses guests on the occasion of mill's official inauguration by the Duke of Westminster.
- Operator moves wrapped newsprint roll to storage from end of automatic downstacker.


HYSTER

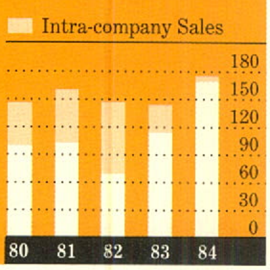
Forecasts for 1985 suggest that operating rates for containerboard mills will be at about 95% of capacity, based on a modest increase in demand for corrugated boxes. Capacity increases will be marginal and, with U.S. demand expected to recover from the downturn in the fourth quarter of 1984, the overall outlook for 1985 is positive.

Kraft Paper & Boxboard

Net sales of kraft paper and boxboard, at $38.9 million, were marginally higher than in 1983. Shipments of kraft paper, however, were down by 7% from the previous year, reflecting a loss of market share to plastics and metallized film. Although some price increases were introduced, the continued threat of imported paper and converted products made these lower than anticipated. Emphasis was on increased market share for those products that fit the long-term objectives of the Wayagamack kraft mill. These are primarily lightweight unbleached and semi-bleached products. One-time carbonizing tissue demand and prices remained stable, in spite of increased competition from foreign suppliers.

Demand for boxboard was strong for most of 1984, but declined slightly in the latter part of the year. Earnings were less than satisfactory, as modest price increases implemented during the year could not match increases in costs.

Paperboard Net Sales
(millions of dollars)



Wood Products

The performance of the Company's Wood Products Group continued to improve during 1984. Net sales for 1984 were $35.1 million, up 12.5% over those of 1983. Of these sales, 55% went to Canadian customers, 44% to the United States and 1% Overseas. Sales overseas continued to decline because of the low relative value of European currencies. Sales volume was 101.4 million fbm, 9% better than in 1983.

The level of housing starts in Canada and the United States during 1984 was only slightly below 1983, and demand for solid wood products was good. Competition was, however, exceptionally keen in construction lumber, as lumber producers attempted to maintain high production levels. Supply exceeded demand during most of the year. In relation to capacity, Company sawmills operated at the following rates: Braeside — 93%; Bathurst — 60%; Notre-Dame-du-Rosaire — 62%; and Saint-Fulgence — 20%.

Sawmill chips and sawdust now represent 38% of wood fibre delivered

Lacking an alternative outlet for their by-product chips, Notre-Dame-du-Rosaire and Saint-Fulgence sawmills did not operate during the strike at Port Alfred. Saint-Fulgence was also affected by log supply constraints and depressed lumber markets. Bathurst operations improved as a result of fuller operation of the Bathurst pulp mill. Production at Braeside was reduced by one day per week in the year's final quarter because of high inventory levels.

Sales production for all mills was 90.8 million fbm. During the year, productivity at the spruce sawmills improved somewhat and was well maintained at Braeside.

Woodlands

During 1984, the Company's four Woodlands divisions delivered 2.2 million tonnes of wood fibre to Company pulp and paper mills and sawmills. This was 227 000 tonnes more than in 1983, in spite of the lengthy strike shutdown at the Port Alfred Division newsprint mill.

Of total deliveries, sawmill chips and sawdust amounted to 835 000 tonnes or 38%, and included 91 000 tonnes from Company-owned sawmills. The Woodlands divisions also delivered 133 000 wet tonnes of bark and other sawmill residues to the Port Alfred, Laurentide, and Wayagamack mills for use as fuel. The cost of wood fibre in 1984 was lower that in 1983 and in 1982. This can be attributed to improved productivity, a higher supply of purchased wood fibre, and changes in organizational structure and operating procedures.

As a result of continuing efforts to improve cash flow, inventories at year-end in the mill yards, rivers, and in the forest were valued at $92.6 million, approximately the same as at the end of 1983.

Capital expenditures for mechanical equipment, roads, camps and other facilities amounted to $1.8 million, also about the same as in 1983. Under the terms of the Canada-Quebec joint supplementary agreement of forestry development, the Company has accrued grants totalling $97 000 against its expenditures for road construction and grants of $358 000 for other non-capital woodlands projects.

In conjunction with the proposed speed-up of No. 4 paper machine at Port Alfred, the Quebec Ministry of Energy and Resources has advised the Company that it is reserving for a forty-year period the extra wood required for such an expansion. Negotiations with the Ministry for a wood supply agreement in the Ottawa Valley are proceeding slowly.

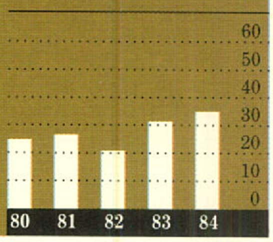
The Company strongly supports the principle of aerial spraying of insecticides to control insects that destroy the forest. At the public hearings on the environment, the Woodlands Group submitted a brief supporting the 1985-1990 spray program proposed for the Province of Quebec.

In line with Company and government policy to encourage more intensive forest management and,

In 1984, the St. Maurice River Drive Company celebrated its 75th anniversary. River provides an essential pulpwood delivery system.

Left to right:
- Forest worker felling a tree, part of two million tonnes of wood fibre delivered to Company mills in 1984.
- Log at Bathurst sawmill debarker. Bark and other wood residue are increasingly important as fuel in new bark-burning boiler installations.
- Bathurst sawmill produces spruce 2 × 4's, and chips for new pulp mill. Planing mill is currently undergoing modernization.
- 'Forestry capital of Canada' 1984 celebrations saluting the Ottawa Valley included this traditional timber crib, built by Ottawa Division Woodlands personnel.

Lumber Net Sales
(millions of dollars)



with assistance from federal/provincial cost-sharing programs, 1 462 hectares were scarified and three million seedlings planted on both public and private lands. Various silvicultural programs are also being conducted toward improving the forest's growth rate. These included the selection of superior trees for seed collection, thinning, and silvicultural cuts.

Manufacturing

Production in 1984 from the Company's eight pulp and paper mills totalled 1 650 000 tonnes — 22% higher than in 1983. Excluding the Bridgewater Division, the increase was 9% over 1983. This increase was achieved in spite of 134 days of production lost to the Port Alfred strike, the equivalent of some 125 000 tonnes.

Total newsprint and specialties production was 995 000 tonnes, 154 000 tonnes more than in 1983. The Wayagamack mill produced 137 000 tonnes, a new record representing improved efficiency on the Division's No. 3 paper machine. The Bridgewater mill in the U.K. produced 166 000 tonnes of publisher newsprint, representing 12 months of operation of the Division's No. 4 machine and part-year operation of paper machines No. 1 and No. 2. Production of other paper and container grades was 344 000 tonnes, compared to 308 000 tonnes in 1983. Pulp production increased to 311 000 tonnes, including the additional chemi-thermo-mechanical pulp produced at the new Bathurst CTMP mill, which operated for the full 12-month period in 1984.

Notwithstanding the strike shutdown at Port Alfred, total energy costs for the Company's Canadian mills during the year were $127 million, exceeding 1983 costs by 21%. Increases in energy rates were partially offset by the reduced Port Alfred consumption. Bunker C fuel oil consumption, at 1.3 million barrels, was unchanged from the 1983 level. Because of higher production levels, however, this figure represents a reduction in oil requirement per tonne. Bunker C fuel oil usage has continued to decrease from a high point of 1.8 million barrels in 1981. Total process power costs were 25% higher than in 1983; consumption increased by 11% and rates by 14%. The power rate increases reflect the impact of the new contract for the Bathurst CTMP operation. During 1984, secondary power displaced 750 000 barrels and wood residue some 500 000 barrels of Bunker C fuel oil used for steam generation.

New automatic controls are a major contribution to improved product quality

Mill manufacturing capital expenditures in 1984 were $62 million, down 49% from the 1983 figure of $121 million. The major item was $18 million spent on the completion of Bathurst/Bridgewater projects. Two additional newsprint machines were equipped in 1984 with new automatic cross machine basis weight controls and process computers, so that 11 of the Company's larger capacity machines are now so equipped. These new paper machine controls were a major factor in the achievement of the improved product quality levels required for today's competitive markets. The 'Calcoil' calender caliper control developed by the Research and Technical Services Group continued to win wider industry acceptance, with 57 systems sold to date.

In early 1984, negotiations were completed with Hydro-Quebec to include Port Alfred in the electric boiler replacement program for a total installed capacity of 275 megawatts. The Wayagamack units started up in October, Laurentide in December, and Belgo came on stream in January 1985. At year-end, construction was well advanced on the conversion of the Bathurst recovery boiler to wood-residue fuel. This project is scheduled to start up in July 1985, and is expected to save an additional 190 000 barrels of fuel oil annually. About 20% of total capital expenditures were directed towards environmental improvement projects. Considerable progress has been made to date on stream pollution improvements, with further expenditures planned for improved air and water emission control.

During 1984, labour contracts were renewed at Canadian mills, excepting Bathurst, for the three-year period ending April 30, 1987. The settlements provided annual wage increases of 2.5%, 4% and 5%. The Port Alfred settlement was delayed by a four-month strike concerning job security terms. The Bridgewater Division renewed its labour contract effective November 1, 1984, for a one-year term. Negotiations are continuing at Bathurst.

Packaging, North America

The reorganization and rationalization of North American Packaging, started in 1982, continued through 1984. As listed at right, its basic activities are now grouped under CB Pak Inc. and the associated company MacMillan Bathurst Inc. MacMillan Bathurst, or MBI, is a joint venture with MacMillan Bloedel Limited.

CB Pak Inc. was formed as a subsidiary of Consolidated-Bathurst, effective January 1, 1984. It holds Domglas Inc., Twinpak Inc. and equity participations in Libbey-St. Clair Inc. and Diamond-Bathurst Inc. CB Pak Inc. went public in April of 1984 and was listed on the Toronto and Montreal stock exchanges. A second public offering was made by CB Pak and Consolidated-Bathurst in December. Currently, approximately 20% of CB Pak's outstanding common shares are held by about 2 000 shareholders. CB Pak issues its own annual report, the operating reviews of which are summarized in the following pages.

Net sales of CB Pak Inc. in 1984 were $434.7 million. On a comparable basis, this represents an increase of 11% over sales of $392.7 million in 1983. Both Domglas and Twinpak contributed to the increased sales.

CB Pak Inc.

Glass Containers and industrial glass products
Domglas Inc.
— Glass Container Division
— National Pressed Glass Division

Plastics and Flexible Packaging
Twinpak Inc.
— Rigid Plastics & Liquid Packaging Systems Division
— Flexible Packaging Division
— Packaging Distribution Division (Ampak)

CB Pak associated companies

Glass Tableware
Libbey-St. Clair Inc.
(joint venture with Owens-Illinois, Inc.)

Glass Containers, U.S.
Diamond-Bathurst Inc. (equity investment)

MacMillan Bathurst Inc.
(joint venture with MacMillan Bloedel Limited)

Corrugated Containers

First year of CB Pak was one of impressive performance

CB Pak's net earnings for 1984 were $25.3 million, or $1.35 per share, compared with a pro-forma $21.6 million, or $1.20 per share for the previous year on 4% fewer shares. The 17% increase in net earnings was basically the result of increased demand for glass and plastic products, gains in productivity and higher utilization of production capacity. These factors more than offset the impact of a 20-week strike at Domglas' Montreal plant during the second and third quarters. The results of the equity-interest companies, Libbey-St. Clair Inc. and Diamond-Bathurst Inc., also proved satisfactory, maintaining the prior year's high levels.

As a result of public offerings by CB Pak and Consolidated-Bathurst during the year, CB Pak has a good shareholder base and a substantial institutional following. Net proceeds from these issues totalled $50 million, which were used to reduce bank debt. Net proceeds of $25 million to CB Pak also give that company a strong balance sheet that will allow it to accelerate internal expansion and external acquisitions.

During the year, Twinpak Inc. ordered new equipment to strengthen its stake in vacuum metallizing through increased and more versatile capacity at its Brantford facility. Twinpak also added substantially to its capacity for the manufacture of plastic PET soft drink containers, which have increased their market penetration in one-litre and larger sizes. Twinpak also negotiated a broadly-based licensing agreement with Owen-Illinois, Inc., a leading U.S. producer of plastic packaging. This will provide Twinpak new opportunities for expansion in high-technology packaging products over the next several years.

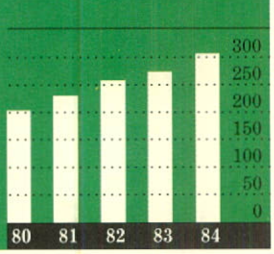
The successful penetration of 'Plasti-Shield' glass and PET plastics in the soft drink area continued in both eastern and western Canada. Ontario, which constitutes 40% of the total market, remains closed to these products. CB Pak is optimistic that regulations will be changed to allow introduction of both 'Plasti-Shield' glass and plastic PET bottles to compete in Ontario with cans and refillable bottles. This major new market would provide excellent growth opportunities for both glass and plastics.

Capital expenditures totalled $29.6 million, a strong increase over 1983. Twinpak led the increase in expenditures with expansion in PET, vacuum metallizing and a number of other projects in injection moulding, and plastic capsule manufacture. Domglas projects included major expansion and modernization of its Scoudouc plant so as to improve its production of 'Plasti-Shield' bottles and of beer bottles for export to the U.S. by an important Maritime brewer.

On February 11, 1985, CB Pak announced its intention to buy 1.2 million shares of its associate, Diamond-Bathurst Inc., for $11.5 million U.S. to enable that company to acquire 100% of Container General Corporation, a major U.S. producer of glass containers with 1984 sales of $448 million U.S. This move will increase CB Pak's ownership from 38% to 48% and position Diamond-Bathurst to become a major, national force in the U.S. packaging industry. The company expects considerable synergy to result from this acquisition for both Diamond-Bathurst and Domglas.

Higher productivity helped Domglas post record earnings

Domglas Net Sales
(millions of dollars)



Domglas Inc.

Highlighting Domglas' 1984 performance improvement was the conversion during the year of major beer brands of Molson's and Labatt's from traditional stubby to tall-neck refillable bottles. This changeover provided a major impetus toward full capacity operation and record-production volumes. In spite of a four-month strike shutdown of its Montreal plant, Domglas posted record operating earnings of $28.5 million. These were 17.3% higher than 1983 earnings. Sales in 1984 were $309.8 million, 9.6% above 1983, the previous record.

Aside from the impact of new style beer bottles and the Montreal plant strike, glass container markets continued to perform well. Led by continuing gains for 'Plasti-Shield' soft drink bottles, particularly in the West, and for single service juices, domestic glass container volume increased by approximately 2%. Only domestic liquor container sales and exports from western plants showed significant weakness from year-earlier levels.

With high utilization of capacity, labour productivity improved by some 7%, which more than offset margin pressure stemming from price constraints. In labour-management relations other than the Montreal plant, seven contracts were negotiated successfully. All settlements, including that of the Montreal plant, covered a three-year period and provided for staged increases totalling about 10%.

Capital spending was higher in 1984, amounting to $23 million, but was consistent with traditional levels. Major projects included the rebuild, modernization and expansion of the coloured-glass furnace at Scoudouc; expanded and upgraded 'Plasti-Shield' facilities at Scoudouc and Redcliff; and moulds and inspection equipment for the beer bottle program.

Domglas' management views 1985 with guarded optimism. Volumes are expected to remain stable for food, liquor/wine and drug, cosmetic and chemical containers. Soft drinks promise to show growth, with 'Plasti-Shield' development in established markets continuing and considerable potential in Ontario if current legislation is changed. The market for beer containers will continue to be more active than usual, with further introductions of new bottles.

Capital spending in 1985 will be below the 1984 level, in part as a result of a decision to postpone indefinitely furnace rebuilds at Montreal and Burnaby plants. Increased capacity utilization on other furnaces will reduce overall operating costs.

Twinpak Inc.

Net sales of Twinpak in 1984 were $131.1 million, with all divisions contributing to an increase of 13.3% over 1983 sales. Operating earnings at $13.8 million showed a substantial increase over the comparable figure for 1983. The improvement was the result of higher volumes, gains in productivity at the plant level, and new product introductions.

Twinpak Inc. is one of Canada's leading producers and marketers of a widely diversified range of plastic and flexible packaging products and packaging machinery systems. It is also a major distributor of general-line packaging products. The company's three divisions operate fourteen manufacturing and distribution facilities across Canada.

In 1984, Twinpak continued its major commitment to bringing new products and new technologies to the Canadian market. The broad-based licensing and technical assistance agreement signed with Owens-Illinois covers a wide variety of plastic packaging products, including plastic closures for beverage containers, in-mould labelling, and oriented and extrusion blow moulded containers.

Capital expenditures for the year were $6.6 million, and provided for a substantial increase in capacity for the manufacture of plastic PET containers at both of the company's facilities. The productive capacity of the vacuum metallizing operation was also increased, mainly to provide for the introduction of new products through 1985 and beyond.

The increase in the *Flexible Packaging Division's* sales volume in 1984 is attributable to higher shipments of multi-wall paper bags and industrial plastic bags, particularly the newly introduced 'Duopac' plastic valve bag, and to higher shipments of 'Bulk Lift' intermediate bulk containers, and 'Alu-Flex' metallized paper and film products. Sales of the Division's 'Tri-Flex' coated and laminated products also increased over the previous year in spite of the adverse impact of a lengthy labour dispute in the west coast forest industry.

Sales of the *Rigid Plastics & Liquid Packaging Systems Division* increased over those of 1983. All three product groups of the Division contributed to sales growth. Sales in the Tubes & Rigid Plastics Group improved through additions to the plastic tube line, and the successful conclusion of an exclusive three-year contract to supply the Société des alcools du Québec, Canada's largest bottler of wines, the 'Surcap' wine capsule.

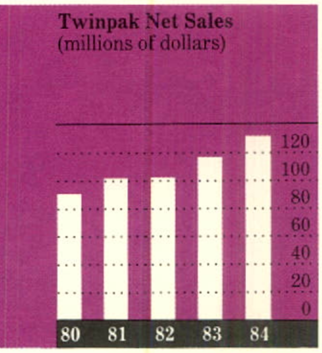
The PET Containers Group experienced continued growth in the PET plastic bottle for soft drinks, especially in the Maritime provinces. Sales growth is expected to continue in this Division in 1985, in all three product groups. Strong demand is anticipated for plastic tubes, particularly for the hair care market as well as other applications, where Twinpak has developed a new orifice design.

Promotion of distinctive shapes and styles of beer bottles by breweries meant new 'floats' of glass containers and added Domglas production.

Left to right:
- Special markings on bottom of bottles are read by scanner at Domglas Montreal plant.
- Program informs inspection equipment of specifications and it rejects any containers that are defective.
- All information gathered by the inspection equipment is available to forming floor personnel.
- Line of tumblers produced by Libbey-St. Clair at its Wallaceburg, Ont., plant.
- At MBI Etobicoke plant, new flexo labeller attaches labels to a corrugated board and can print it in two colours.


LÖWENBRÄU
Special
MOLSON
GOLDEN
MOLSON
Lager
MOLSON
Légère
Light
Labatt
Légère
Light
Labatt
BIERE
50
ALE
JAMES READY'S
BIERE



Sales of the *Packaging Distribution Division (Ampak)* increased by 14%. Substantial gains were made, particularly in the cosmetic, pharmaceutical and wholesale drug markets. The Dispensing Systems Group and improvement in the injection-moulded products were also important contributors to the Division's improved sales performance.

Twinpak views 1985 with optimism. A major capital expenditure program will increase plant capacity and productivity and support volume improvements in many of the traditional product lines.

Libbey-St. Clair Inc.

Glass tableware performance during 1984 was mixed, with gains in institutional and premium markets and strong competition for retail markets. The weaknessess of foreign currencies allowed imports to increase their share of the Canadian glass tableware market. Overall volume declined 2%, but gains in production and cost reductions resulted in net earnings increasing by 7.1%.

Because of the continuing pressure from imports, the company has announced a major change in its retail sales policies. Henceforth, the company will be in a position to sell its products directly to retailers, as well as through its traditional network of independent distributors. This change is expected to improve Libbey-St. Clair's market presence and competitive position. In concert with this policy change, the company's retail line for 1985 has been broadened and initial reaction to products of the new line has been positive.

Diamond-Bathurst Inc.

Diamond-Bathurst Inc. manufactures specialty glass containers primarily for producers of distilled spirits and cosmetics. Its net sales were $62 million U.S., about the same as in 1983. Net earnings, however, at $2.2 million U.S. were down from $3.1 million U.S. in 1983, when earnings benefited from a non-recurring gain from a corrugated container settlement and higher capacity utilization without any furnace rebuilds. During the year, the company made important gains in improving its productivity through the addition of larger machines and reduced fuel consumption. These were not sufficient, however, to fully offset the erosion in margins caused by severe price competition.

Diamond-Bathurst, which has grown rapidly since being listed on the American Stock Exchange in August 1983, is developing a joint venture with Plastipak Packaging Corporation to supply plastic bottles for the liquor industry. It also has been seeking acquisition opportunities to strengthen its position and broaden its scope in the container industry. In a dramatic development in February 1985, the company announced that an agreement had been reached for acquisition of Container General Corporation of Chattanooga, Tenn., which operates 12 glass container plants across the U.S. This acquisition will increase the company's product lines and strengthen its position with national accounts.

MacMillan Bathurst Inc.

MacMillan Bathurst Inc. (MBI), formed on July 1, 1983, had a period of positive growth in 1983 which continued in 1984, as industrial production again moved forward in Canada. The improving economy provided a solid base for MBI's first full year of operation. The growth was not, however, consistent across Canada, as the West continued to lag. In the company as a whole, this regional situation was more than offset by MBI's strong performance in eastern Canada.

The new national container company continued to rationalize facilities. During 1984, the St. Boniface plant in Manitoba and the east Montreal plant were permanently shut down. As a result of expansions at plants in Winnipeg and Town of Mount-Royal, Que., there was no reduction in overall capacity. Equipment additions and upgrades at the St. Thomas plant compensated for the capacity lost when the nearby London facility was closed in 1983. A new integrated computer system to process customer ordering, costing and invoicing was installed to promote MBI's coordinated 'People — Equipment — Facilities' approach.

The major capital program also emphasized 'value added' products. To that end, three important projects were finalized in 1984. At the Etobicoke plant, a fully automatic Cortec two-colour flexo labeller was installed. This machine, the most advanced of its kind in Canada, can process one full label or two spot labels onto a corrugated sheet while printing two colours in a single operation. At the Guelph plant, another two-colour flexo rotary die cutter was installed in late 1984 as was new wax impregnation equipment.

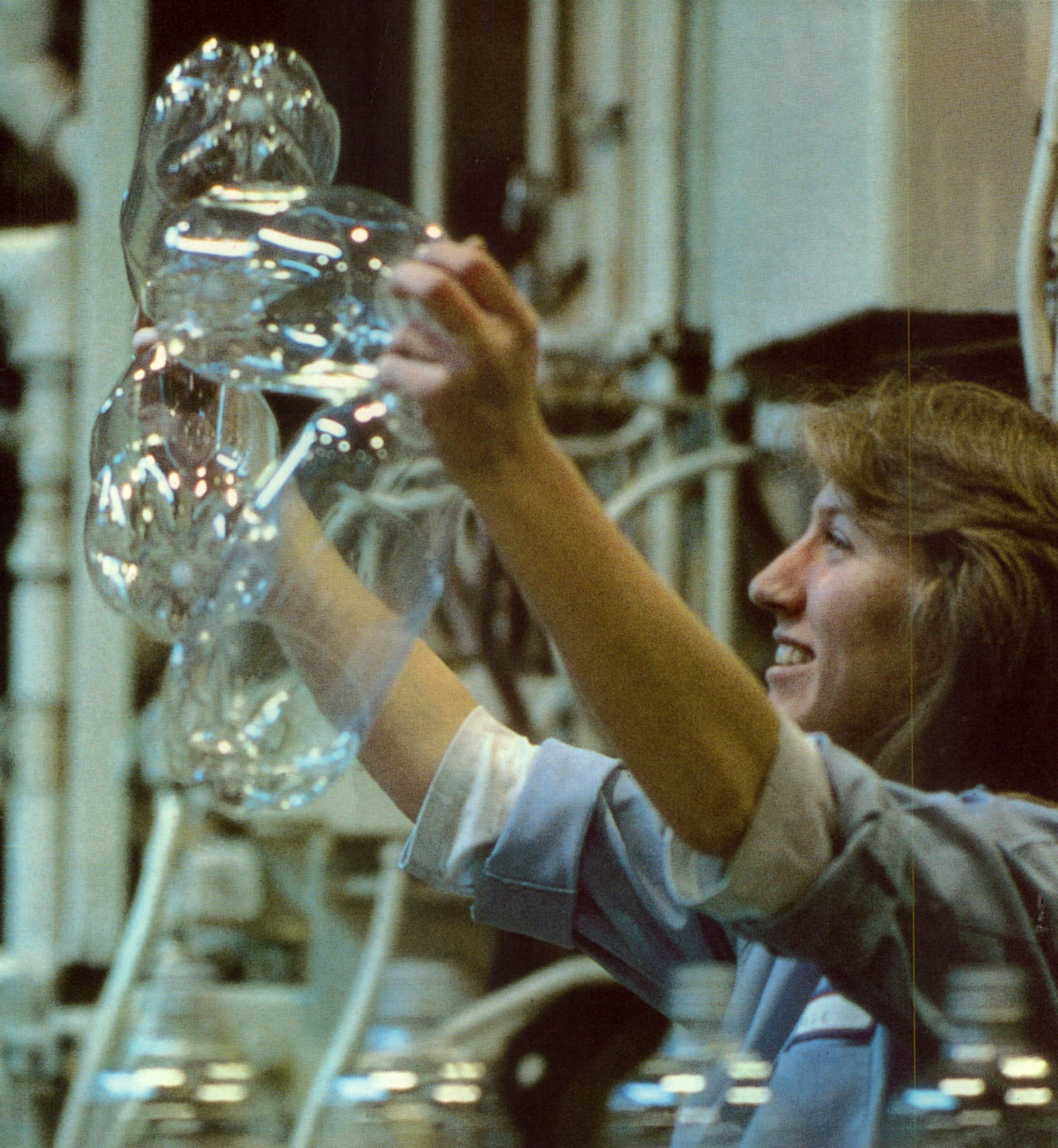
During the year, MBI announced the formation of a joint venture with Schiffenhaus Industries Inc., of the U.S., and Domtar Inc. to operate a pre-print machine located in Ontario to service the pre-printed linerboard requirements of all Canadian corrugated manufacturers. This $3 million project includes a 98″ unit that will be the second such pre-print machine in Canada.

The outlook for 1985 is positive, and capital expenditures will concentrate on providing equipment to support MBI's long-term business objective of being the lowest cost and most market-oriented corrugated producer in Canada.

Twinpak employee at Calgary plant checks two-litre PET plastic soft drink bottles.

Left to right:

- Heavy duty plastic valve bag of 'Duopac' design was a product introduction of Twinpak's Flexible Packaging Division in 1984.
- Bags that guard freshness of potato chips are produced by other converters using film vacuum metallized at Brantford plant.
- Twinpak now manufactures wine overcaps at its plant in Granby, Que.
- Four-litre bag-in-box packages are marketed by Rigid Plastics and Liquid Packaging Systems Division.
- Royersford plant of Diamond-Bathurst Inc., at the centre of formation of an important new U.S. glass container organization.




windsor
50/50 MIX FISHERY SALT
20 kg
50/50 MIX FISHERY SALT
20kg
Hostess
100%
HUMPTY DUMPTY
CHIPS
regular
HOUSE WINE
DRY RED TABLE WINE
HERITAGE ESTATES
Canadian Rhine Wine
Schloss Laderheim

Packaging, Europa Carton

Higher DM sales and earnings, thanks to ECA's diversity

In spite of very different business conditions for its various groups during 1984, Europa Carton AG reported positive performance for the company and the year overall. As a result of higher volumes and prices, net trade sales in DM increased by 14.5% over those of 1983. DM operating earnings were considerably above the preceding year, in spite of the adverse effects of several weeks of strikes in the folding carton plants and strong increases in the costs of containerboard.

The strikes, which had as their goal the general reduction of the work week from 40 to 35 hours, became one of the bitterest industrial disputes in the history of the German Federal Republic. Directly affected were the metal working industry, especially the automotive sector, and the printing industry to which ECA's Folding Carton Division belongs. After several months of negotiations, an agreement was reached for a change to a 38.5 hour work week with no reduction in pay.

The dispute had only a temporary braking effect on the economic recovery in the Federal Republic. Growth in real GNP of the Federal Republic was 2.6% and the inflation rate declined to 1.9%. The accelerating rate of economic growth held off any further increase in unemployment, with the rate at 9.1% and the number of unemployed unchanged at 2.2 million. The thrust of economic growth came, however, predominantly from exports. The high U.S. dollar rate of exchange and domestic price stability considerably enhanced the competitiveness of the German economy, so that exports in 1984 increased by 9% while domestic demand was only 1.9% above the preceding year.

The packaging industry in the Federal Republic was busy consistently through the year. Apart from the strike months, the order position was good and capacity utilization for corrugated box and folding carton production was, on average, 90%. In 1984, the paper industry was able to increase production vigorously by 10%.

The Corrugated Container Division's eight plants produced 351.5 million sq. m. of containers which contributed almost 50% of total ECA sales results. The Division's earnings declined, in spite of a 4.5% increase in production and a DM sales increase of 11.3%, which exceeded the average for the industry. The earnings decline was attributable to increases in prices of raw materials that ranged from 23% for testliner to almost 50% for kraftliner. This was reflected in an increase in the cost of producing finished goods of, on average, 20%, which it was not possible to fully offset through cost reduction measures or higher selling prices.

The Folding Carton Division suffered significant losses as a result of the strikes in the printing industry. Four of the Division's five plants were particularly affected by the tactics of the union, which singled out individual companies for rotating strike action. Overall, ECA lost production equivalent to 67 shifts. Numerous orders were lost to competitors with plants unaffected by the strike. Total net sales at DM 160.1 million were slightly above those of the preceding year. Earnings were down from the previous year by about 45%.

In the *Raw Materials* sector, the business climate for company operations was clearly positive. The strong demand for paper, paperboard and, especially, waste paper led to considerably higher prices. Basically, the favorable results in the raw materials sector were able to offset the earnings declines in corrugated and folding carton. The recycled paper business was characterized by periods of rapid changes in demand and prices. Demand from other countries also created shortages in supply. ECA sales volume of waste paper for recycling increased sharply from 278 700 to 337 400 tonnes. Good selling prices improved earnings.

For the boxboard plant at Hoya, investments of earlier years helped to continue improvements in performance. Production increased by 18% to 54 000 tonnes. The ECA containerboard at Viersen mill, at 38 000 tonnes of production, exceeded 1983 output by a small margin and achieved satisfactory earnings.

Capital investments of DM 28 million were dedicated to rationalization of production, installing new converting machinery and to promoting the development of new products and new markets for the company.

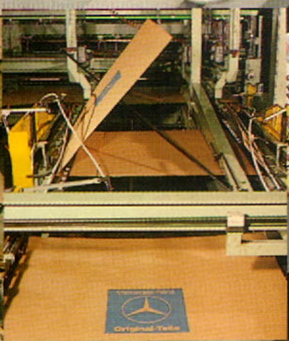
ECA views the prospects for 1985 with confidence. The economic prognoses for the Federal Republic generally call for 2 to 2.5% growth with continuing price stability. For the packaging industry, this offers growth potential with related expectations of successful business development for Europa Carton.

Shipments — Europa Carton	1984	1983	1982	1981	1980
Containers (millions of square meters)	**361**	346	335	330	325
Folding cartons (tonnes)	**50 620**	47 030	46 430	40 920	44 670
Paperboard (tonnes)	**90 000**	82 060	79 770	78 964	77 000

Packaging equipment and systems complete ECA service. At the customer's plant, this unit wraps container form around bottles of juice.

Left to right:
- Waste paper collection, an important ECA resource, and key earnings contributor in 1984.
- Large-box folder gluer in operation at Germersheim.
- Elegant folding carton designs, an ECA specialty.
- Products of a 'Cekaline' packaging system, including wraparound outer container.
- Preprinted flat blanks become 'Cekacan' hermetically-sealed containers — in effect, boxboard 'cans'.


Adelholzener
Orangen-Limonade
Primella



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GEKACAN

Oil and Gas Investments

Seven gas wells now completed in Sikanni region

Consolidated-Bathurst invested $28.6 million in the oil and gas sector during 1984. However, the book value of the Company's portfolio declined to $128 million at year-end, as a result of writing down the investment in Sulpetro Limited to market value in December 1984.

More market-oriented government policy with respect to pricing of natural gas exports from Canada is expected to result in accelerated growth in demand for Canadian natural gas during the remainder of the 1980's. This should enable the Company to find attractive and profitable markets for its sizeable shut-in gas reserves in northeastern British Columbia, and result in improved market values for the Company's equity investments in Sulpetro and Sceptre Resources Limited.

Redgas Limited

Redgas Limited, a wholly-owned subsidiary of Consolidated-Bathurst located in Redcliff, Alberta, sells about 55% of its natural gas production to TransCanada PipeLines Limited and the remainder to Domglas Inc. to fuel the furnaces in its glass container plant nearby. The depressed state of TransCanada's markets was the chief factor in limiting Redgas' production to only 60% of capacity in 1984. However, Redgas did contribute over $3 million to corporate pre-tax earnings in the year.

Remington Resources Ltd.

The major portion of Consolidated-Bathurst's direct investment in energy exploration has been directed to drilling for natural gas in northeastern British Columbia. Remington Resources Ltd. of Calgary, operator of the exploration program, has drilled seven successful wells in the Sikanni region — four exploratory and three development wells. The most recent exploratory well proved dry and results of another development well, currently being drilled, are anticipated in late spring. Described as the "Grassy" discovery in previous Company reports, the successful wells are currently shut-in. However, testing has demonstrated that several have exceptionally high potential flow rates, among the highest calculated absolute open flow rates for onshore wells in Canada.

Consolidated-Bathurst holds 100% of the mineral rights over 36 000 hectares in the Sikanni region and will retain 75% to 85% interest in any production taken from successful wells. Within the area held, there is opportunity for further discoveries which would add to the sizeable reserves already established.

Expenditures on the Remington program were limited during the first nine months of 1984 but $5 million had been spent by year-end. Of this, Redgas contributed $1.5 million. Since the beginning of the program, expenditures totalling $38.9 million have been made, generating $7.7 million in grant payments under the Petroleum Incentives Program.

As natural gas markets improve, investment in the Remington joint venture will be intensified. In addition to further wells, gathering and processing facilities will be required to ready the existing Sikanni wells for production.

Sceptre Resources Limited

Consolidated-Bathurst's investment in Sceptre Resources Limited is $30 million. At December 31, 1984, the Company's holdings represented approximately 8% of Sceptre's outstanding common shares.

Sceptre is a Canadian public company involved in oil and gas exploration in western Canada, the United

Sikanni development well currently being drilled by Remington Resources.

States, Indonesia and the Middle East. Sceptre's financial results showed marked improvement in 1984, reflecting increases in production levels and net selling prices, combined with reductions in interest expense and administrative and operating costs. Cash flow, at over $40 million, was more than double the level achieved in 1983.

The 1984 capital expenditure program amounted to $27 million, resulting in important exploration successes at Sawn Lake and Taber North in Alberta as well as Tangleflags and Colgate in Saskatchewan. With over 90% of its natural gas reserves already under contract, but now producing well below capacity, Sceptre will be able to realize immediate benefits from any improvement in demand for Canadian natural gas.

Sulpetro Limited

Sulpetro Limited is a large Canadian energy company, publicly-traded, engaged in exploration and production activities in Canada, the North Sea and onshore in the United Kingdom. Consolidated-Bathurst held 2 907 926 voting common shares of Sulpetro on December 31, 1984, constituting 19% of the common shares outstanding or 13% on a fully-diluted basis. In December 1984, the Company wrote down its investment in Sulpetro common shares by $45.3 million to correspond with the stock market value.

Sulpetro is restructured for renewed growth

In October 1984, Sulpetro, its principal banker and Consolidated-Bathurst signed a number of agreements putting into effect a plan of financial restructuring for Sulpetro. As part of the restructuring, Sulpetro issued $200 million of new preferred equity and $75 million of new long-term debt and transferred $150 million of oil and gas properties and an equivalent amount of debt to Sulbath Exploration Ltd.

Consolidated-Bathurst's participation in the financial restructuring included the purchase of $25 million of Class B Preferred Shares of Sulpetro. Payment for these shares consisted of $15 million in cash and $10 million in common shares of Sulbath Exploration Ltd. Further, Sulpetro has undertaken to raise $150 million of new equity by October 1987, of which Consolidated-Bathurst has committed to subscribe for $35 million. Since proceeds of the issue must be used to redeem the Class B Preferred Shares, the Company's net outstanding commitment amounts to $10 million.

The refinancing has substantially reduced Sulpetro's floating rate debt, as well as the associated interest expense, and has deferred principal repayments by three years. This should enhance Sulpetro's stock market value and its ability to raise equity in the future.

Sulbath Exploration Ltd.

Sulbath Exploration Ltd. was formed under a joint exploration agreement between Sulpetro Limited and Consolidated-Bathurst in May 1981. By October 1984, the Company had fulfilled its commitment to provide $44.5 million for Sulbath drilling expenditures. In conjunction with the Sulpetro refinancing, the Sulbath agreement was terminated, including the Company's and Sulpetro's share exchange options. Sulbath's ownership and scope of operations were broadened so that, at December 31, 1984, 49.9% of Sulbath's common shares were held by Sulpetro, 9.9% by Sulpetro's principal banker and 40.2% by the Company.

Sulbath, through a 98%-owned partnership, purchased $150 million of fully-developed Canadian oil and gas properties from Sulpetro, funded by borrowing an equivalent amount in long-term debt. Sulbath purchased directly from Sulpetro $10 million in proven non-producing natural gas properties, funded by issuing $10 million of Sulbath Convertible Preferred Shares to Sulpetro's principal banker.

A Development Fund has been established through which Sulbath may farm-in on development drilling on Sulpetro oil and gas properties, financed by the purchase of up to $70 million of Sulbath Preferred Shares by Sulpetro's banker. Purchase of the full amount of Convertible Preferred Shares by the bank would dilute Consolidated-Bathurst's share of Sulbath's equity to 21%.

A shareholders' agreement provides that Sulpetro may force the conversion of all preferred and common shares of Sulbath into Sulpetro equity shares prior to October 31, 1988, provided Sulpetro common shares have reached a minimum trading price level of $13. For purposes of the exchange, Consolidated-Bathurst's shares of Sulbath would be valued at cost while the Sulpetro equity received would be valued at a price equivalent to $13 per Sulpetro common share.

Facilities

Pulp and Paper Operations

- Woodlands Divisions

Wood harvesting, purchase of wood and chips, silviculture: *Maritimes Division* (Bathurst Area, Bathurst; Chaleurs Area, New Richmond); *Ottawa Division,* Portage-du-Fort; *Saguenay Division,* Chicoutimi; *Saint-Maurice Division,* Grand-Mère

- Sawmills

Dimension pine lumber, pine panelling: *Braeside*
Spruce studs: *Bathurst, Notre-Dame-du-Rosaire*
Fir and spruce dimension lumber, studs: *Saint-Fulgence*

- Pulp, Paper and Paperboard Mills

Chemi-thermo-mechanical pulp, containerboard (corrugating medium): *Bathurst* (Bathurst Division)
Publisher newsprint: *Ellesmere Port* (Bridgewater Division), *La Baie* (Port Alfred Division), *Shawinigan* (Belgo Division)
Groundwood specialty papers, boxboard: *Grand-Mère* (Laurentide Division)
Groundwood specialty papers, kraft paper: *Trois-Rivières* (Wayagamack Division)
Containerboard (linerboard): *New Richmond* (Chaleurs Division)
Bleached kraft market pulp: *Portage-du-Fort* (Pontiac Division)
Research Centre: *Grand-Mère*

Pulp and Paper Marketing

Sales Offices: *New York, Chicago, Montreal, Toronto, London, Geneva.*

Sales Agents: *Argentina, Australia, Belgium, Brazil, Costa Rica, Federal Republic of Germany, France, Hong Kong, India, Italy, Mexico, Panama, Peru, Spain, Uruguay*

North American Packaging

- CB Pak Inc., *Montreal*

– Domglas Inc., *Mississauga, Ont.*
Telephone (416) 823-3860

Glass containers: *Brampton, Burnaby, B.C., Hamilton*
Glass containers, 'Plasti-Shield' bottles: *Montreal* (Pointe Saint-Charles), *Redcliff, Alta., Scoudouc, N.B.*
Industrial glass products, glass furnace rebuilds: *Brantford*
Mould design and production: *Hamilton*
Research Centre: *Mississauga*

– Twinpak Inc., *Dorval, Que.*
Telephone (514) 684-7070

Rigid Plastics & Liquid Packaging Systems Division
Bags, liquid packaging systems: *Dorval*
Plastic containers, closures: *Montreal*
Plastic squeeze tubes: *Granby*
PET bottles: *Calgary, Moncton*

Flexible Packaging Division
Multiwall paper bags, industrial plastic bags, coated and laminated products, metallized films and paper: *Brantford*
Multiwall paper bags, industrial plastic bags, plastic films: *Calgary*
Multiwall paper bags, industrial plastic bags, coated and laminated products: *Cap-de-la-Madeleine, Vancouver*

Packaging Distribution Division (Ampak)
Dorval, Edmonton, Vancouver
Distribution and dispensing cap assembly: *Toronto*

- CB Pak associated companies

– Libbey-St. Clair Inc., *Mississauga, Ont.*
(joint venture with Owens-Illinois, Inc.)
Telephone (416) 823-7270

Glass tableware: *Wallaceburg*

– Diamond-Bathurst Inc., *Royersford, Pa.*
(equity investment)
Telephone (215) 948-3400

Glass Bottle Plants:
Royersford, Pa., Vienna, W.Va.

- MacMillan Bathurst Inc., *Mississauga, Ont.*
(joint venture with MacMillan Bloedel Limited)
Telephone (416) 823-6410

Corrugated Container Plants:
Calgary, Edmonton, Etobicoke, Guelph, New Westminster, Pembroke, Regina, Rexdale, Saint John West, Saint-Laurent, St. Thomas, Town of Mount-Royal, Whitby, Winnipeg

Packaging, Europa Carton

Europa Carton AG, *Hamburg*
Telephone: 040/30 90 10

- Plants

Folding cartons: *Augsburg, Bremen, Frankfurt, Heppenheim, Munich*
Corrugated containers: *Düsseldorf, Germersheim, Hamburg, Jülich, Lauenburg, Lübbecke, Neuburg, Plattling*

- Mills

Boxboard: *Hoya*
Containerboard (corrugating medium): *Viersen*

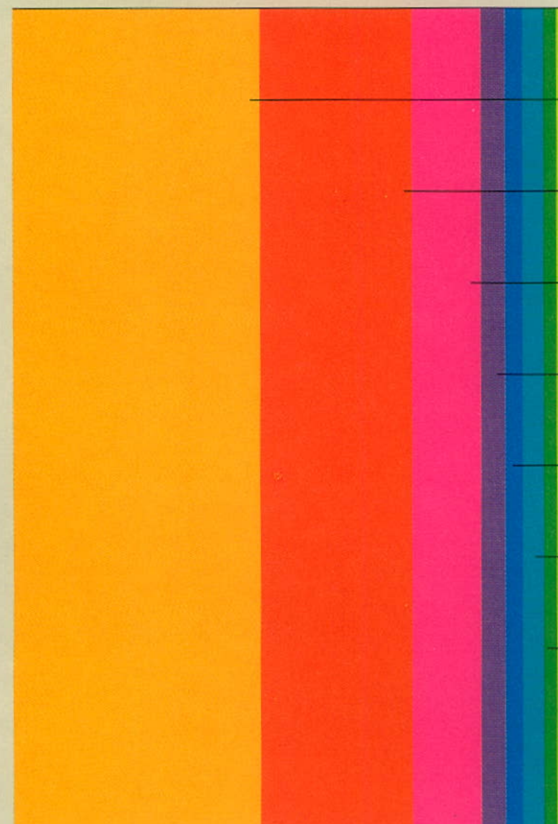
Waste paper collection: *Eddelak, Essen, Hamburg, Metten, Nürnberg*

- Institutes

Market research: *Hamburg*
Industrial design: *Hamburg*

Financial Section

Distribution of Revenue* (millions of dollars)



	1984	%	1983	%
Materials, supplies, etc.	**$ 725**	**44**	$ 619	44
Wages, salaries and fringe benefits	**459**	**28**	450	32
Fuel and power	**195**	**12**	159	11
Depreciation	**73**	**5**	60	4
Federal, provincial and municipal direct taxes	**45**	**3**	38	3
Interest	**67**	**4**	53	4
Dividends	**33**	**2**	29	2
Retained earnings (excluding extra-ordinary items)	**36**	**2**	3	—
	$1 633	**100**	$1 411	100

*Comprises net sales, other income and equity earnings.

Quarterly financial data

	Net sales	Net earnings	Net earnings	Dividends declared	Stock price range Low	Stock price range High
	(millions of dollars)		(per common share)		(per common share)	
1983						
First quarter	$ 342	$ 9	$0.13	$0.10	$ 8⅛	$10
Second quarter	366	7	0.10	0.10	9½	11⅞
Third quarter	336	5	0.06	0.10	10⅝	12⅛
Fourth quarter	349	4	0.02	0.10	$11	$13⅜
	$1 393	$25	$0.31	$0.40		
1984						
First quarter	$ 394	$12	$0.21	$0.10	$12¾	$14½
Second quarter	439	26	0.51	0.10	13⅛	15⅛
Third quarter	390	21	0.40	0.15	12⅝	15⅞
Fourth quarter	400	—	(0.05)	0.15	$14	$16¾
	$1 623	$59	$1.07	$0.50		

Financial Review

Operating activities

As a result of improved operating earnings, cash flow from operations in 1984 amounted to $153 million, up 64% from $93 million in 1983. Operating working capital increased by $37 million in 1984, in contrast to a reduction of $31 million in 1983. Accounts receivable increased by $21 million, mainly because of higher sales of newsprint and groundwood specialties and higher selling prices for most product lines. The average number of days outstanding in accounts receivable at year-end was virtually unchanged from the level of the previous year. Inventories rose by $25 million, as higher volumes of raw materials and finished goods were required to sustain operations, particularly for the Bathurst/Bridgewater mills. They gradually increased production to reach near-capacity levels by the end of 1984. Accounts payable went up by $10 million, reflecting the higher level of business activity of the Corporation.

Dividends

The improved net earnings enabled Consolidated-Bathurst to raise its dividend on common shares from 10¢ per share to 15¢ per share in July 1984. In 1984, the Corporation paid dividends totalling $21 million on the Series A common shares and $11 million on the preferred shares. The total common dividend declared in 1984 represented a payout ratio of 36% of earnings before extraordinary items.

Investing activities

Capital expenditures were $119 million in 1984, down 32% from $175 million in 1983. Approximately $18 million was used to complete the expansion at the Bridgewater Division, the bulk of the other capital spending went to modernizing existing facilities and to reducing pollution. The Corporation also invested approximately $25 million in Sulpetro Limited and Sulbath Exploration Ltd., under the financial restructuring plan approved by Sulpetro's shareholders in the final quarter of 1984.

Sales, Property & Plant, Employees, Shareholders and Shares by Province and Country as at December 31, 1984

	Net Sales	Property & Plant – Net	Number of Employees	Number of Common Shareholders	Number of Common Shares
	(millions of dollars)				
Alberta	$ 44.4	$ 43.8	542	389	686 548
British Columbia	46.4	4.6	425	590	387 247
Manitoba	7.0	—	2	256	400 206
New Brunswick	38.8	136.5	862	399	43 674
Newfoundland	7.7	—	—	11	5 868
Nova Scotia	13.0	—	—	127	156 982
Ontario	300.4	64.8	2 267	4 418	10 671 963
Prince Edward Island	0.3	—	—	17	5 980
Quebec	239.0	525.1	6 920	5 861	24 129 298
Saskatchewan	4.6	—	—	104	43 782
Yukon & Territories	—	—	—	4	2 312
Canada	701.6	774.8	11 018	12 176	36 533 860
United Kingdom	83.9	79.2	509	618	7 646 960
United States	471.6	0.1	32	385	639 620
West Germany	302.4	67.3	2 836	648	5 160
Other Countries	63.5	—	—	81	229 179
	$1 623.0	$921.4	14 395	13 908	45 054 779

Financing activities

Early in 1984, Consolidated-Bathurst restructured its packaging operations in Canada under a new company called CB Pak Inc., which went public shortly thereafter. During the year, two public offerings of common shares of CB Pak, the first of which included share purchase warrants, provided the Corporation and CB Pak some $50 million of capital. New long-term debt amounted to $24 million and consisted mainly of borrowings under capital leases and of term bank loans in Europa Carton. Long-term debt repayments were $57 million and related principally to the revolving credit of Consolidated-Bathurst Pontiac and to bonds and debentures.

For 1984, the above activities resulted, after a net reduction of $33 million in long-term debt, in a net decrease in funds of $39 million which was financed by means of increased short-term borrowings and reduced cash and short-term deposits. At December 31, 1984, the capitalization of Consolidated-Bathurst consisted of $513 million in common shareholders' equity, of $103 million in preferred shares and of $587 million in debt.

The Company's debt/equity ratio at December 31, 1984, was 49/51, unchanged from the preceding year. Working capital ratio declined from 2.4 to 1.8 in 1984, chiefly as a result of the reclassification to short-term of an amount of $28 million related to the German term bank loan maturing in July 1985 and of $17 million of Consolidated-Bathurst Pontiac 11% bonds called for retraction in March 1985. The return on common shareholders' equity was 12.3% in 1984 compared with 4.7% in 1983.

Foreign currency translation

The initial foreign currency translation adjustments of $21 million recorded against shareholders' equity upon adoption of the new CICA rules on January 1, 1984, have increased to $25 million at December 31, 1984. This was a result of the continued rise of the Canadian dollar against the Deutsche mark. With respect to the deferred exchange loss on foreign debt, the strength of the U.S. dollar vis-à-vis the Canadian dollar had the effect of increasing that loss from $1.0 million at the beginning of the year to $5.6 million at December 31, 1984.

Investment tax credits

Effective January 1, 1985, the Corporation adopted the new CICA rules on investment tax credits. These credits will be accrued as a deferred credit in the balance sheet and amortized to income over a period of approximately 17 years instead of being recorded in income when realized. This new accounting policy will result in a higher tax rate on the earnings of the Corporation in 1985 compared with 1984, when $15 million of net tax credits, equivalent to $0.33 per share, were realized. The cash flow from operations will not be affected by this change. On January 1, 1985, the Corporation accrued as deferred credit approximately $32 million, representing the unrealized investment tax credits at December 31, 1984.

(millions of dollars)

Reporting the effects of changing prices

	Historical as reported		Adjustment		Current cost	
	1984	1983	1984	1983*	1984	1983*
Consolidated earnings for the year ended December 31, 1984						
Depreciation	$ 73	$ 60	$ 42	$ 41	$ 115	$ 101
Cost of sales	1 313	1 161	18	12	1 331	1 173
Income taxes	19	15	—	—	19	15
Earnings (loss) before extraordinary items	$ 74	$ 34	$ (60)	$ (53)	$ 14	$ (19)
Selected consolidated assets as at December 31, 1984						
Property and plant — net	$ 921	$ 911	$397	$427	$1 318	$1 338
Inventory	331	306	8	3	339	309
Common shareholders' equity	$ 513	$ 511	$405	$430	$ 918	$ 941

*Revised to reflect improved calculation techniques.

The Corporation has prepared the inflation accounting data shown above substantially in accordance with the recommendations of the Canadian Institute of Chartered Accountants (CICA) for reporting the effects of changing prices. The current replacement cost amounts for the Corporation's property and plant were determined, in most cases, by using appropriate specific indexes. This method assumes that these assets would have the same useful lives as presently used in the historical cost statements and would be replaced with similar technology although this, in fact, might not be the case. The current replacement cost of inventory and the adjustment to cost of sales were determined by using estimated specific price changes which occurred during 1984. The purpose of such accounting is to give information about the effects of both past and present inflation on the Corporation.

The effect of past inflation is measured through calculations of the current replacement cost of property and plant. The significant difference between the current replacement cost and the historical cost of these assets reflects, on the one hand, the large understatement of the net property and plant ($1 318 against $921) and, on the other hand, the increased annual cost of maintaining these assets which would result in a higher depreciation charge to earnings ($115 against $73).

The effect of present inflation on the Corporation is reflected through adjustments to the cost of goods consumed in 1984 as it was charged to cost of sales and to inventory values as they were stated on the balance sheet at year-end. These adjustments reflect several factors: the length of time the inventory has been held; the use of average cost for inventory valuation; and the rate of inflation during the year. In the pulp and paper industry, inventory — especially wood — can be in stock for a considerable period of time. The cost of that inventory when sold and as charged to cost of sales will usually be lower than the cost of replacing the inventory at that moment. In 1984, however, the current replacement cost of inventory was only marginally higher than the historical cost. The current replacement cost of the inventory as at December 31, 1984, was calculated to be $339 as against $331 in the historical accounts. The adjustment to cost of sales for 1984 was estimated to be $18.

Current cost earnings amounted to $14 in 1984 as against a loss of $19 in 1983. The total earnings adjustment in 1984 from the effects of inflation was a charge of $60 to the historical earnings. With respect to shareholders' equity, the total inflation adjustment in 1984 was an increase of $405.

Supplementary information

In addition to giving information about the direct effect of inflation on costs and on selected asset values, the CICA requires the disclosure of sufficient additional information to enable readers to make an assessment of income on a current cost basis under both an operating capability and a financial concept of capital maintenance.

The operating capability concept is concerned that sufficient capital (inventory and property and plant) is maintained in the Corporation to continue previous levels of output of goods and services. The financial concept is concerned that the current cost dollar value of inventory and property and plant does not decrease. To allow calculation of these concepts, the following information is given:

	1984	1983
i) Increase in current cost amounts of property and plant and inventory based on:		
General inflation	$58	$59
Specific prices	$69	$36
ii) Adjustment to recognize the level of debt financing in the Corporation		
On specific price increases of property and plant and inventory	$30	$15
On current cost adjustments made to earnings during the year	$26	$23
iii) General purchasing power gain on net monetary liabilities	$28	$30

Segmented information

(millions of dollars)

Classes and major product lines

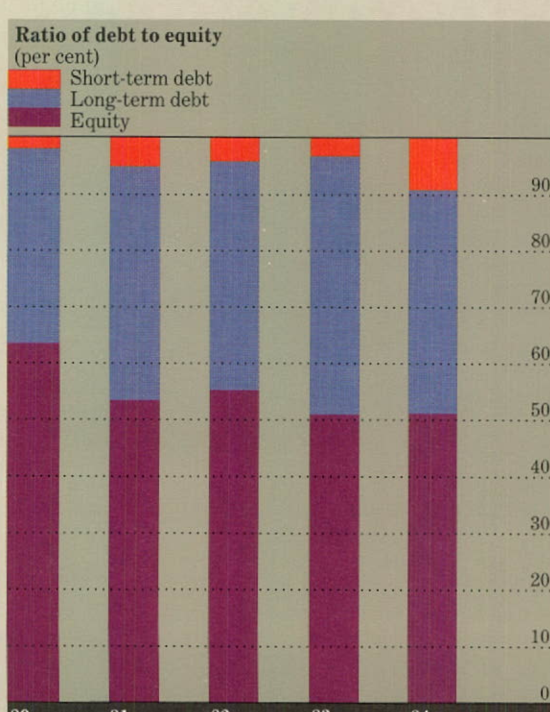
Sales to Customers 1984	Sales to Customers 1983	Inter-segment Sales 1984	Inter-segment Sales 1983	Net Sales 1984	Net Sales 1983	
$ 582.6	$ 429.0	**$ —**	$ —	**$ 582.6**	$ 429.0	Newsprint and groundwood specialties
105.4	80.4	**0.2**	—	**105.6**	80.4	Bleached kraft pulp
169.0	114.2	**4.3**	29.4	**173.3**	143.6	Paperboard
35.1	31.2	**—**	—	**35.1**	31.2	Lumber
892.1	654.8	**4.5**	29.4	**896.6**	684.2	Pulp and Paper
433.6	391.9	**1.1**	0.8	**434.7**	392.7	Glass, plastic and flexible packaging containers — CB Pak
294.1	274.3	**2.1**	—	**296.2**	274.3	Containers — Europa Carton
727.7	666.2	**3.2**	0.8	**730.9**	667.0	Packaging
3.2	1.6	**1.2**	1.2	**4.4**	2.8	Oil and gas
—	70.5	**(8.9)**	(31.4)	**(8.9)**	39.1	Eliminations
$1 623.0	$1 393.1	**$ —**	$ —	**$1 623.0**	$1 393.1	Total operations

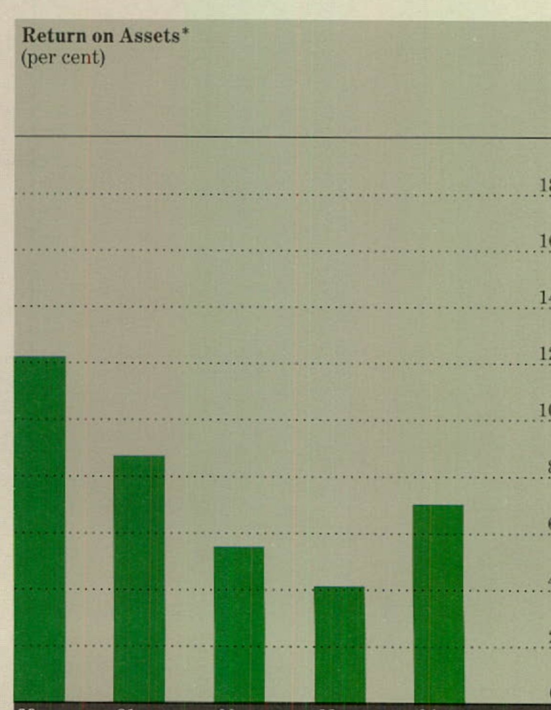
Inter-segment sales are accounted for at prices comparable to market prices for similar products.

Geographical regions

Sales to Customers 1984	Sales to Customers 1983	Inter-segment Sales 1984	Inter-segment Sales 1983	Net Sales 1984	Net Sales 1983	
$1 252.5	$1 113.2	**$ —**	$ —	**$1 252.5**	$1 113.2	Canada
370.5	279.9	**—**	—	**370.5**	279.9	Western Europe
$1 623.0	$1 393.1	**$ —**	$ —	**$1 623.0**	$1 393.1	Total operations

Canadian operations include export sales to the United States of $471.6 (1983 $385.5) and to other countries of $79.3 (1983 $80.3).





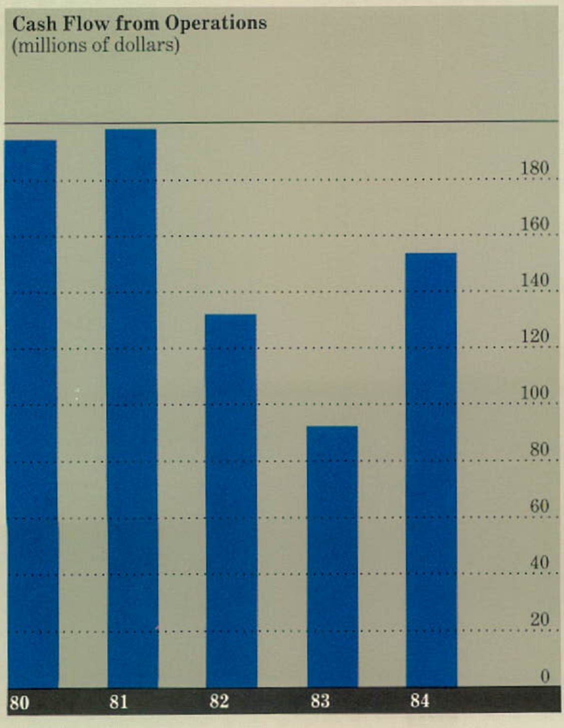
*Return on Assets: Earnings before extraordinary items and after-tax interest, divided by total assets after accumulated depreciation.

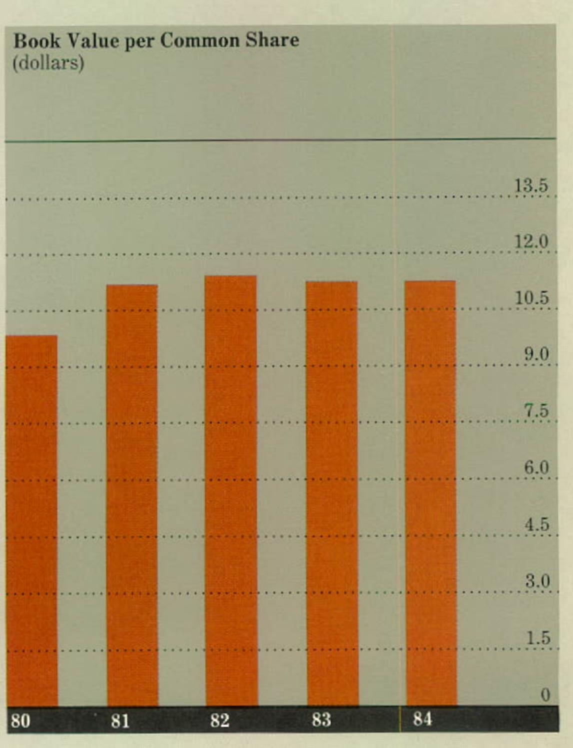
(millions of dollars)

Operating Earnings		Depreciation		Capital Expenditures		Identifiable Assets as at December 31	
1984	1983	1984	1983	1984	1983	1984	1983
$ 56.1	$ 30.0	**$32.1**	$22.6	**$ 60.8**	$130.5	**$ 804.5**	$ 756.5
35.0	12.6	**4.6**	4.5	**1.8**	1.3	**79.7**	80.4
20.7	7.7	**6.2**	5.3	**9.9**	4.5	**126.6**	114.3
3.0	2.5	**2.3**	2.6	**0.4**	0.3	**36.1**	36.0
114.8	52.8	**45.2**	35.0	**72.9**	136.6	**1 046.9**	987.2
42.3	36.9	**19.1**	17.4	**29.6**	18.5	**275.4**	258.3
14.8	15.9	**8.0**	6.2	**12.0**	12.5	**128.9**	144.5
57.1	52.8	**27.1**	23.6	**41.6**	31.0	**404.3**	402.8
2.4	1.4	**0.3**	0.2	**4.4**	7.5	**128.0**	148.3
0.4	2.6	**—**	1.3	**—**	0.2	**—**	—
$174.7	$109.6	**$72.6**	$60.1	**$118.9**	$175.3	**$1 579.2**	$1 538.3

$199.9	$107.5	**$57.8**	$53.9	**$ 79.2**	$ 72.4	**$1 208.0**	$1 194.3
(25.2)	2.1	**14.8**	6.2	**39.7**	102.9	**371.2**	344.0
$174.7	$109.6	**$72.6**	$60.1	**$118.9**	$175.3	**$1 579.2**	$1 538.3

Unidentifiable assets amounted to $96.7 in 1984 and $114.5 in 1983.





Statement of Consolidated Earnings
for the year ended December 31, 1984

		1984	1983
			(note 2) (thousands of dollars)
Net sales		$1 622 984	$1 393 065
Costs and expenses	Cost of goods sold	1 313 221	1 160 937
	Depreciation	72 633	60 060
	Administrative and selling	62 409	62 429
Operating earnings		174 721	109 639
	Interest expense — long-term	53 124	41 937
	— short-term	14 103	10 788
	Corporate administrative expense	22 167	24 315
	Other income (note 3)	3 625	10 647
Earnings before income taxes		88 952	43 246
	Income taxes (note 4)	18 972	15 357
Earnings before undernoted items		69 980	27 889
	Equity earnings	6 811	7 130
	Minority interest	2 983	485
Earnings before extraordinary items		73 808	34 534
	Extraordinary items (note 5)	(14 907)	(9 680)
Net earnings		$ 58 901	$ 24 854
Earnings per common share	Before extraordinary items	$1.40	$0.53
	Extraordinary items	(0.33)	(0.22)
	Net	$1.07	$0.31

Statement of Consolidated Retained Earnings
for the year ended December 31, 1984

		1984	1983
			(note 2) (thousands of dollars)
Retained earnings at beginning of year	As previously reported	$328 632	$326 469
	Reduction due to change in accounting for pre-operating expenses	10 795	2 318
	As restated	317 837	324 151
Net earnings		58 901	24 854
Excess cost of purchasing common shares over stated value		(4 236)	(2 482)
Dividends	Preferred	(10 656)	(10 724)
	Common	(22 556)	(17 962)
Retained earnings at end of year		$339 290	$317 837
Dividends per share	Preferred		
	1966 Series	$1.50	$1.50
	1978 Series	—	0.47
	Series A	5.75	5.75
	Series B	6.88	6.48
	Common	$0.50	$0.40

Statement of Consolidated Changes in Financial Position

for the year ended December 31, 1984

		1984	1983
	Funds provided (used)		(note 2) (thousands of dollars)
Operating activities	Operating earnings	**$174 721**	$109 639
	Depreciation	**72 633**	60 060
	Interest	**(67 227)**	(52 725)
	Current income taxes	**(13 931)**	(9 111)
	Other items — net	**(13 483)**	(14 464)
	Cash flow from operations	**152 713**	93 399
	(Increase) decrease in accounts receivable	**(21 178)**	4 205
	(Increase) decrease in inventories	**(25 485)**	3 846
	Increase in accounts payable	**10 269**	10 814
	Other items — net	**(690)**	12 243
	Net (increase) decrease in operating working capital	**(37 084)**	31 108
		115 629	124 507
Dividends	On common shares in cash	**(21 270)**	(13 767)
	On preferred shares	**(10 656)**	(10 724)
		(31 926)	(24 491)
Investing activities	Additions to property and plant	**(118 884)**	(175 309)
	Grants on additions to property and plant	**7 570**	20 887
	Increase in investments	**(27 149)**	(3 929)
	Other items — net	**3 131**	(6 657)
		(135 332)	(165 008)
Financing activities	Proceeds from public issues and secondary offerings of shares and warrants of a subsidiary	**50 237**	—
	Issue of long-term debt	**23 982**	109 938
	Repayments of long-term debt	**(57 421)**	(14 973)
	Disposal of investments	**2 287**	3 077
	Purchase of common and preferred shares	**(6 488)**	(20 569)
		12 597	77 473
Net (decrease) increase in funds		**$(39 032)**	$ 12 481
Analysis of net change in funds	(Decrease) increase in cash and short-term deposits	**$ (9 910)**	$ 4 148
	(Increase) decrease in short-term borrowings	**(29 122)**	8 333
		$(39 032)	$ 12 481

On behalf of the Board:

William M Turner Jr. T Stangeland

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

T.O. Stangeland,
Director

Consolidated Balance Sheet
as at December 31, 1984

		1984	1983
			(note 2) (thousands of dollars)
	Assets		
Current assets	Cash and short-term deposits	**$ 379**	$ 10 289
	Accounts receivable	**219 621**	198 443
	Grants receivable	**9 726**	13 796
	Inventories (note 6)	**331 309**	305 752
	Prepaid expenses	**4 595**	5 679
		565 630	533 959
Property and plant	(note 7)	**921 397**	910 868
Investments	(note 8)	**173 665**	201 997
Other assets	(note 9)	**15 221**	6 019
		$1 675 913	$1 652 843

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. These statements, which necessarily include estimates and approximations, reflect information available to February 28, 1985, and have been audited by Touche Ross & Co., Chartered Accountants, whose report is included on the next page.

Management has the responsibility for the preparation and presentation of the Annual Report information; the financial information contained throughout the Annual Report conforms with that shown in the financial statements.

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

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

The Board of Directors has approved this Management's Report.

T.J. Wagg,
Vice-President, Finance

Montreal, Quebec
February 28, 1985

		1984	1983
			(note 2) (thousands of dollars)
	Liabilities and Shareholders' Equity		
Current liabilities	Bank loans and notes payable	**$ 48 739**	$ 19 617
	Accounts payable and accrued expenses	**170 577**	149 087
	Taxes payable	**24 478**	30 383
	Dividends payable	**2 509**	2 451
	Current portion of long-term debt	**62 052**	20 225
		308 355	221 763
Long-term debt	(note 10)	**476 680**	545 976
Deferred income taxes		**215 211**	216 230
Provisions	(note 11)	**26 430**	50 199
Minority interest		**32 903**	3 168
Shareholders' equity	Stated capital (note 12)		
	Preferred shares	**103 430**	104 399
	Common shares	**198 658**	193 271
	Retained earnings	**339 290**	317 837
	Foreign currency translation adjustments	**(25 044)**	—
		616 334	615 507
		$1 675 913	$1 652 843

Auditors' Report

The Shareholders,
Consolidated-Bathurst Inc.

We have examined the consolidated balance sheet of Consolidated-Bathurst Inc. as at December 31, 1984 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, 1984 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, except for the change in accounting for foreign currency translation and after giving effect to the retroactive change in accounting for pre-operating expenses as explained in notes 1 and 2, respectively, to the consolidated financial statements, on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Montreal, Quebec
February 28, 1985

1. Summary of Significant Accounting Policies

The common shares were split two for one in 1984. For comparison purposes, the number of common shares, earnings and dividends per common share relating to 1983 have been restated to reflect the stock split.

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 currency translation

Effective January 1, 1984, the Corporation adopted prospectively the recommendations of the CICA for foreign currency translation. The new rules had no material impact on the earnings of the year.

For domestic companies and integrated foreign operations, assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Income and expenses are translated at average exchange rates prevailing during the year with the exception of depreciation which is translated at historical exchange rates. Exchange gains or losses are included in earnings except for unrealized gains or losses on translation of foreign long-term debt which are deferred and amortized over the remaining life of the related obligation. Foreign debt hedged through a forward contract is translated at the contract rate.

For self-sustaining foreign subsidiaries, all assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date and all income and expenses are translated at average exchange rates prevailing during the year. Foreign currency translation adjustments are deferred in the shareholders' equity section of the balance sheet.

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, the cost of which includes 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 any permanent decline in value, when appropriate. Investments over which the Corporation has significant influence 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.

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 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 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 related obligation for such capital leases is 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. 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 in the financial statements result principally from capital cost allowance claimed for tax purposes in excess of depreciation. Investment tax credits on capital expenditures, net of deferred taxes, are accounted for as a reduction in income taxes in the year realized.

Earnings per common share

Earnings per common share are calculated after deducting dividends on preferred shares and using 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.

(thousands of dollars)

2. Change in accounting for pre-operating expenses

In 1984, the Corporation changed its accounting policy from capitalizing pre-operating expenses related to major capital additions and amortizing them over a period of five years to recording them as a charge against income as they are incurred. As a result of this change, which has been adopted on a retroactive basis, net earnings for 1984 and 1983 have been reduced by $7 953 ($0.18 per common share) and $8 477 ($0.19 per common share), respectively, and retained earnings at January 1, 1983, have been decreased by $2 318 to give effect to the adjustments which pertain to prior years.

3. Other income

	1984	1983
Income from investments and short-term deposits	$4 120	$ 2 844
Net translation gain on long-term debt	392	—
(Loss) gain from debt retirement and disposal of property and plant	(887)	2 172
Gain on hedge of the German term bank loan	—	5 631
	$3 625	$10 647

4. Income taxes

	1984	1983
Current before tax credits	$41 211	$13 581
Less credits relating to:		
Capital expenditures	24 701	1 818
Inventories	2 579	2 652
Current	13 931	9 111
Deferred	5 041	6 246
	$18 972	$15 357

(a) As at December 31, 1984, investment tax credits on capital expenditures available to reduce future income taxes amounted to $33 986.

(b) The Corporation's effective income tax rate is determined as follows:

	1984	1983
Combined Canadian federal and provincial income tax rate	45.5%	45.7%
Increase (decrease) in the income tax rate resulting from:		
Higher effective income tax rate on earnings of foreign subsidiary	5.6	7.0
Investment tax credits	(16.8)	(2.3)
Manufacturing and processing profits deduction	(6.2)	(3.2)
Inventory allowance	(2.9)	(6.1)
Effect of tax-free dividends	(0.5)	(1.7)
Miscellaneous	(3.4)	(3.9)
Effective income tax rate	21.3%	35.5%

(c) In February 1985, the Federal Court of Canada, Trial Division, rendered judgment allowing only in part the deduction of certain interest and insurance payments of $2 024 made by the Corporation to a non-resident subsidiary for the taxation years 1971 to 1975. The resulting charge to earnings would not be significant. The Corporation is considering a further appeal on this matter.

5. Extraordinary items

	1984	1983
Write-down of investment in Sulpetro Limited, less income tax credit of $9 607 (1983 $2 685)	$(35 665)	$ (9 680)
Gain resulting from public issues and secondary offerings of common shares and share purchase warrants of a subsidiary, less income taxes of $4 292	18 424	—
Gain resulting from the settlement of a fire insurance claim related to the Bridgewater mill, less income taxes of $615	2 334	—
	$(14 907)	$ (9 680)

December 31, 1984 (thousands of dollars)

6. Inventories

	1984	1983
Expenditures on wood operations	$ 46 867	$ 48 458
Pulpwood, chips, sawlogs and wood residue at mills	45 724	44 296
Other raw materials and supplies	114 687	93 675
Work in process and finished goods	124 031	119 323
	$331 309	$305 752

7. Property and plant

			1984	1983
	Gross	Accumulated depreciation	Net	Net
Pulp, paper, paperboard and lumber mills	$1 079 978	$383 859	$696 119	$689 319
Glass, plastic and flexible packaging container plants	263 870	130 944	132 926	122 674
Converting plants	112 060	56 909	55 151	64 863
Woodlands	22 673	15 271	7 402	7 562
Oil and gas properties	29 085	1 005	28 080	24 870
Other	2 600	881	1 719	1 580
	$1 510 266	$588 869	$921 397	$910 868

(a) Interest capitalized on major additions during 1984 was $6 559 (1983 $12 926).

(b) Pulp, paper, paperboard and lumber mills include a gross amount of $89 041 (1983 $80 515) for equipment acquired under capital lease.

(c) 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, plastic and flexible packaging container plants	5%	9–10%
Converting plants	2–3%	8–10%

8. Investments

	1984	1983
Portfolio:		
Sulpetro Limited		
Common shares (a) (market value $8 288; 1983 $17 375)	$ 8 288	$ 53 560
Preferred shares	25 000	500
Sceptre Resources Limited (market value $16 029; 1983 $15 994)	30 428	30 428
Canadian Pacific Limited (market value $21 023; 1983 $21 128)	13 947	13 947
German certificates of indebtedness, 8¼%, 1985 (DM 19 964) (b)	—	12 523
Other securities and loans of a non-current nature	11 141	11 294
	88 804	122 252
Equity:		
Sulbath Exploration Ltd. (c)	34 304	35 393
Diamond-Bathurst Inc. (38% owned by CB Pak Inc.)	9 309	8 231
Joint ventures		
MacMillan Bathurst Inc. (50% owned)	28 682	25 135
Libbey-St. Clair Inc. (50% owned by CB Pak Inc.)	12 566	10 986
	84 861	79 745
	$173 665	$201 997

(a) The Corporation wrote down its investment in the common shares of Sulpetro to the average stock market value in December 1984. The market value of the investment had been below book value since October 1981.

(b) The German certificates of indebtedness maturing on July 1, 1985, have been reclassified to short-term and deducted from the German term bank loan since the Corporation considers this investment a partial hedge of that loan due on the same date.

(c) Effective October 31, 1984, Sulbath Exploration Ltd., an oil and gas joint exploration company formed by Sulpetro and Consolidated-Bathurst, was restructured to acquire from Sulpetro oil and gas producing properties valued at $150 000 and to assume from Sulpetro an equivalent amount of debt. Following the restructuring, the Corporation now holds a 40% interest in Sulbath which has become an operating company.

9. Other assets

	1984	1983
Advances to trustees under share option and purchase plans	**$ 6 829**	$1 639
Deferred translation loss (net) on long-term debt	**5 630**	—
Unamortized long-term debt expense	**1 955**	2 908
Deferred charges	**807**	1 472
	$15 221	$6 019

Of advances to trustees, $5 992 (1983 $1 470) is owing to the trustees from officers, two of whom are directors.

10. Long-term debt

		1984	1983	1984	1983
		Foreign currencies (thousands)		Canadian dollars	
Consolidated-Bathurst Inc.					
Sinking fund debentures					
5.85% Series A 1990	U.S. $	**5 881**	6 965	**$ 7 771**	$ 7 489
6⅝% Series B 1991	U.S. $	**5 056**	6 147	**6 681**	6 617
8¾% Series C 1993				**7 886**	9 046
9% Series F 1992	U.S. $	**16 881**	16 981	**22 307**	18 327
17½% Series I 1988	U.S. $	**60 000**	60 000	**79 284**	71 129
17¼% debentures, Series J, 1987				**40 000**	40 000
Revolving credit (a)	U.S. $	**100 000**	100 000	**132 140**	123 646
Obligations under capital leases					
Bridgewater (c)	£	**35 586**	34 787	**54 443**	69 487
Other				**12 246**	8 606
9¼% Swedish export credit, 1987	SEK	**34 905**	46 540	**5 134**	9 313
8½% Irish export credit, 1987	£	**287**	402	**439**	870
Term bank loan, Canadian bank prime				**—**	5 000
Bathurst Paper Limited					
7½% German term bank loan, 1985 (d)	DM	**50 036**	72 000	**28 174**	19 307
8½% British export credit, 1986	£	**171**	300	**262**	672
6% first mortgage sinking fund bonds, Series A, 1984				**—**	2 401
6% sinking fund debentures, Series A, 1984				**—**	1 879
Consolidated-Bathurst Pontiac Limited					
11% first mortgage sinking fund bonds, Series A, 1995, retractable in 1985 (e)				**23 850**	25 463
Revolving credit (a)	U.S. $	**—**	20 000	**—**	24 980
CB Pak Inc. and subsidiaries					
9½% sinking fund debentures, Series A, 1990				**12 099**	14 314
Revolving credit (a)				**20 000**	20 000
Other				**2 441**	2 891
Europa Carton AG and subsidiaries					
Term bank loans, various interest rates 1985 to 1995	DM	**41 714**	35 794	**17 470**	19 800
Reclassification of short-term borrowings (b)				**66 070**	67 182
Other				**35**	36
				538 732	568 455
Less: Current portion, at current exchange rates (historical in 1983)				**62 052**	22 479
				$476 680	$545 976

(thousands of dollars)

10. Long-term debt (continued)

(a) The revolving credit facilities at December 31, 1984, are summarized as follows:

	Consolidated-Bathurst Inc.	Consolidated-Bathurst Pontiac Limited	Domglas Inc.
Amount of facility	Cdn. $100 000 /U.S.	Cdn. $50 000 /U.S.	Cdn. $20 000
Outstanding borrowings at London Interbank Offered Rate (LIBOR)	U.S. $100 000	—	—
Banker's acceptance rates	—	—	$20 000
Secured by	Demand debentures, Series K	Unsecured	Demand debenture, Series B
Current revolving period ends	November 28, 1986	May 31, 1986	December 29, 1986

Under the revolving credit facilities, funds can be borrowed by way of direct advances or bankers' acceptances, repaid and re-borrowed during a two-year period, renewable annually. If not renewed, borrowings can, at the Corporation's option, either be repaid or converted to ten-year term loans at various floating interest rates.

Advances of U.S. $50 000 under the U.S. $100 000 facility of Consolidated-Bathurst Inc. have a fixed interest rate of 13.1% per annum to November 1, 1992, as a result of an interest rate swap agreement.

(b) Bank loans and notes payable of $66 070 at December 31, 1984, (1983 $67 182) were included in long-term debt as the Corporation intends to refinance these borrowings under its revolving credit facilities.

(c) Under the capital lease obligation for equipment at the Bridgewater Division, the lease payments vary until June 30, 1993, with the six-month 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.

(d) The German term bank loan is secured by the pledge of all the shares of Europa Carton AG and by a DM 5 000 certificate of deposit. The loan, maturing on July 1, 1985, is hedged by foreign exchange contracts amounting to DM 50 000 at a rate of 1 DM = $0.5635 and by certificates of indebtedness totalling approximately DM 20 000, all of which are due on that date.

(e) Under the retraction privilege for the 11% Series A bonds, notice was given by bondholders to Consolidated-Bathurst Pontiac Limited that bonds totalling $16 507 would be retracted on March 31, 1985.

(f) Sinking fund requirements and principal payments during the next five years, based on exchange rates at December 31, 1984, are: 1985 $62 052; 1986 $30 151; 1987 $89 024; 1988 $90 717; 1989 $29 451.

11. Provisions

	1984	1983
German pensions	$26 430	$27 424
Potential exchange charges on German term bank loan	—	22 775
	$26 430	$50 199

As a result of the change in accounting for foreign currency translation in 1984, the potential exchange charges on the German term bank loan have been incorporated in the loan.

(thousands of dollars)

12. Stated capital

Preferred shares

(a) Authorized
- 6 000 000 preferred shares of which 1 027 169 are designated as 1966 Series
- unlimited number of second preferred shares, issuable in series

(b) Issued and outstanding

	1984		1983	
	Shares	Stated Value	Shares	Stated Value
Preferred shares — 1966 Series	**819 941**	**$ 20 499**	858 741	$ 21 468
Second preferred shares				
Series A	**800 000**	**40 000**	800 000	40 000
Series B	**700 000**	**42 931**	700 000	42 931
	2 319 941	**$103 430**	2 358 741	$104 399

(c) Principal features

(i) General

The shares are redeemable and are non-voting unless the Corporation fails to pay, in the aggregate, eight quarterly dividends. Subject to provisions in the Trust Deeds securing the debentures and to the provisions attaching to all preferred shares, the Corporation, at its option, may effect share redemptions on 30 days' notice at specific prices plus accrued dividends thereon. Unless the market price is in excess of the redemption price, the Corporation is obliged to make all reasonable efforts to purchase annually a certain number of shares of each series.

(ii) Cumulative dividends

1966 Series — $1.50 per share per annum, payable quarterly

Series A — $5.75 per share per annum, payable quarterly

Series B — U.S. $5.25 per share per annum, payable quarterly

(iii) Redemption

1966 Series — at $26 per share

Series A — at $52 per share, on or after April 15, 1988, and reducing by $0.40 per year to $50 per share on or after April 15, 1993

Series B — same as Series A except in U.S. dollars

(iv) Purchases for cancellation

1966 Series — 38 686 shares annually. 38 800 shares were purchased in 1984 (39 000 in 1983) at a cost of $630 ($595 in 1983)

Series A — 2% per year of the shares issued at a cost not exceeding $50 per share up to and including December 31, 1987, and thereafter, commencing January 1, 1989, 4% per year of the shares outstanding on December 31, 1988

Series B — same as Series A except in U.S. dollars

No Series A and B shares were acquired in 1984 as the shares of each series traded above $50 per share and U.S. $50 per share, respectively, throughout the year.

(v) Retraction and conversion

The Series A and Series B shares are retractable at the holder's option on April 15, 1988, at $50 per share and U.S. $50 per share, respectively, plus accrued and unpaid dividends. The Corporation may elect, by giving at least 35 days' notice prior to the retraction date, to create further series of preferred shares into which the Series A and Series B shares would be convertible at the holder's option during a conversion period commencing no later than the retraction date and ending no earlier than six months after the retraction date.

(vi) Currency election

The holders of the Series B shares may elect to receive the U.S. dollar dividend, retraction and redemption payments in the Canadian dollar equivalent thereof.

December 31, 1984 (thousands of dollars)

12. Stated capital (continued)

Common shares

(a) Authorized — unlimited number of shares

(b) Issued and outstanding

	Series A		Series B	
	Shares	Stated Value	Shares	Stated Value
Balance January 1, 1984	34 510 048	$133 048	10 448 350	$60 223
Net conversions from Series B to Series A (c)	8 370 675	36 089	(8 370 675)	(36 089)
Issued as stock dividends	—	—	92 369	1 287
Issued under the 1984 Employee Share Option Plan (d)	127 200	1 844	234 900	3 406
Issued under other plans	39 280	334	12 332	138
Purchased and cancelled	(409 700)	(1 622)	—	—
Balance December 31, 1984	42 637 503	$169 693	2 417 276	$28 965

(c) Principal features
The Series A and Series B 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 shares are paid in the form of shares instead of cash. Dividends, other than stock dividends, are subject to restrictions under the Trust Deeds.

(d) 1984 Employee Share Option Plan
In 1984, options were granted to a number of officers and employees to purchase, until December 31, 1989, up to an aggregate of 587 000 common shares of the Corporation, at the price of $14.50 per share. As at December 31, 1984, 362 100 shares had been issued under this Plan.

(e) On August 21, 1984, the common shareholders approved the subdivision of the Corporation's common shares on a two-for-one basis, effective August 31, 1984.

13. Segmented information

The Directors have determined the classes of business of the Corporation to be pulp and paper, packaging and oil and gas. Information segmented by classes and major product lines and by geographical regions is reported on pages 26 and 27 of this report.

14. Related party transactions

Power Corporation of Canada is the major shareholder of the Corporation owning approximately 40% of the outstanding common shares. In 1984, the Corporation had transactions with certain companies in the Power Corporation group, mainly in respect of sales of newsprint and purchases of insurance services. Such transactions were made at market prices for similar products and services and the total value was not significant in relation to the total sales and purchases of the Corporation.

The Corporation had transactions with MacMillan Bathurst Inc., a joint venture company, in respect of sales of containerboard and purchases of corrugated containers. Such transactions were made at market prices and were not significant in relation to the total sales and purchases of the Corporation.

(thousands of dollars)

15. 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, 1984, are as follows:

	Capital Leases	Operating Leases
1985	$13 300	$ 9 900
1986	13 200	9 500
1987	13 100	9 000
1988	12 800	6 300
1989	10 200	3 800
Thereafter	33 300	4 600
	95 900	$43 100
Less: Imputed interest	29 211	
Present value of minimum lease payments	$66 689	

(b) At December 31, 1984, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately $34 500.

(c) Based on actuarial estimates at December 31, 1984 and 1983, the pension plans of the Corporation and its Canadian subsidiaries were fully funded.

16. Comparative figures

Certain of the comparative figures for the consolidated financial statements have been restated to conform with the presentation adopted in 1984.

Comparative Data

		1984	1983	1982
Operations (thousands of dollars)	Net sales	**$1 622 984**	$1 393 065	$1 424 284
	Depreciation	**72 633**	60 060	54 509
	Interest — both short and long-term	**67 227**	52 725	61 382
	Income taxes	**18 972**	15 357	26 971
	Earnings before extraordinary items	**73 808**	34 534	51 482
	Extraordinary items — net of taxes	**(14 907)**	(9 680)	—
	Net earnings	**$ 58 901**	$ 24 854	$ 51 482
	Additions to property and plant	**$ 118 884**	$ 175 309	$ 242 429
	Increase in investments	**27 149**	3 929	35 784
	Maintenance and repair expenses	**127 445**	115 478	109 312
	Wages, salaries and fringe benefits	**458 979**	449 922	462 813
	Energy costs	**195 366**	158 580	142 792
	Dividends — common	**22 556**	17 962	35 799
	— preferred	**$ 10 656**	$ 10 724	$ 3 979
Per common share (dollars)	Earnings before extraordinary items	**$ 1.40**	$ 0.53	$ 1.06
	Net earnings	**1.07**	0.31	1.06
	Dividends declared	**0.50**	0.40	0.80
	Cash flow from operations	**3.15**	1.84	2.87
	Book value	**$ 11.38**	$ 11.37	$ 11.46
Per preferred share (dollars)	Dividends declared — 1966 Series	**$ 1.50**	$ 1.50	$ 1.50
	— Series A	**5.75**	5.75	0.72
	— Series B	**$ 6.88**	$ 6.48	$ 0.81
Balance sheet (thousands of dollars)	Total assets	**$1 675 913**	$1 652 843	$1 584 570
	Working capital	**257 275**	312 196	340 448
	Property and plant — gross	**1 510 266**	1 433 804	1 360 763
	Accumulated depreciation	**588 869**	522 936	515 112
	Investments	**173 665**	201 997	185 218
	Long-term debt	**476 680**	545 976	472 036
	Provision for German pensions	**26 430**	27 424	23 398
	Minority interest	**32 903**	3 168	2 824
	Stated capital — preferred	**103 430**	104 399	121 375
	— common	**198 658**	193 271	190 021
	Retained earnings	**339 290**	317 837	324 151
	Foreign currency translation adjustments	**(25 044)**	—	—
	Total shareholders' equity	**$ 616 334**	$ 615 507	$ 635 547
Other data	Ratio of current assets to current liabilities	**1.8 to 1**	2.4 to 1	2.7 to 1
	Ratio of short and long-term debt to shareholders' equity	**49/51**	49/51	45/55
	Return on assets — %	**7.1**	4.1	5.5
	Return on common shareholders' equity — %	**12.3**	4.7	9.2
	Shares outstanding — preferred	**2 319 941**	2 358 741	3 037 741
	— common	**45 054 779**	44 958 398	44 878 446
	Number of employees	**14 395**	14 156	15 168
	Number of common shareholders	**13 908**	13 530	14 106

1981	1980	1979	1978	1977	1976	1975	1974
$1 479 252	$1 389 433	$1 244 312	$1 078 843	$ 868 865	$ 745 193	$ 643 719	$ 689 009
44 486	42 651	38 774	36 022	32 484	28 659	26 150	25 658
43 507	29 886	26 353	26 930	26 823	22 941	18 812	18 445
65 022	78 412	57 058	36 350	10 038	9 227	20 338	34 463
101 386	122 379	98 259	59 147	21 355	18 240	32 599	47 712
10 283	—	4 589	1 568	1 361	—	—	14 608
$ 111 669	$ 122 379	$ 102 848	$ 60 715	$ 22 716	$ 18 240	$ 32 599	$ 62 320
$ 239 614	$ 143 152	$ 92 332	$ 47 475	$ 53 783	$ 56 678	$ 49 740	$ 36 992
78 664	40 483	20 414	34 039	4 695	—	—	47 637
115 013	98 334	83 294	73 038	69 889	58 267	44 467	45 861
458 224	423 067	395 386	365 745	324 995	279 653	232 204	218 340
142 082	104 899	92 393	78 059	66 357	51 705	42 459	43 220
44 501	43 964	22 254	16 540	14 591	14 543	14 471	15 108
$ 3 071	$ 3 204	$ 3 147	$ 2 057	$ 1 569	$ 1 633	$ 1 751	$ 2 198
$ 2.20	$ 2.71	$ 2.14	$ 1.30	$ 0.45	$ 0.38	$ 0.71	$ 1.19
2.43	2.71	2.24	1.34	0.49	0.38	0.71	1.57
1.00	1.00	0.50	0.38	0.33	0.33	0.33	0.38
4.35	4.26	3.43	2.63	1.48	1.12	1.49	2.38
$ 11.23	$ 9.86	$ 8.13	$ 6.40	$ 5.50	$ 5.35	$ 5.32	$ 4.95
$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50
—	—	—	—	—	—	—	—
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
$1 432 290	$1 136 558	$ 991 854	$ 872 944	$ 808 791	$ 742 667	$ 662 369	$ 636 632
367 860	322 891	289 633	263 141	209 233	157 860	159 084	133 045
1 170 392	968 517	851 947	784 661	769 237	730 763	678 302	634 033
474 176	445 129	416 862	392 549	375 895	363 477	339 692	317 097
152 265	114 107	73 805	52 702	30 851	26 162	26 438	26 452
430 203	278 921	231 950	228 231	245 647	178 837	157 176	129 896
23 305	19 877	15 319	12 829	11 199	7 404	6 418	4 937
2 877	2 524	2 784	2 832	5 896	5 877	6 291	6 502
41 415	44 393	45 360	46 279	26 145	27 094	28 067	31 078
185 326	178 714	165 575	165 848	89 804	89 803	88 695	88 626
318 486	264 711	192 966	120 317	150 940	144 384	142 320	125 943
—	—	—	—	—	—	—	—
$ 545 227	$ 487 818	$ 403 901	$ 332 444	$ 266 889	$ 261 281	$ 259 082	$ 245 647
2.8 to 1	2.9 to 1	2.6 to 1	2.7 to 1	2.2 to 1	1.9 to 1	2.2 to 1	1.9 to 1
47/53	37/63	37/63	42/58	53/47	50/50	43/57	42/58
8.7	12.2	11.4	8.5	4.6	4.3	6.6	9.2
19.5	26.9	26.5	20.0	8.2	7.1	13.4	21.2
1 656 608	1 775 708	1 814 408	1 851 156	1 045 808	1 083 755	1 122 684	1 243 119
44 850 114	44 963 286	44 102 724	44 763 984	43 773 204	43 772 754	43 440 204	43 401 624
15 999	16 290	17 070	17 532	17 725	17 557	17 545	19 900
14 118	14 160	14 534	13 008	11 983	12 036	11 291	11 806

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