



Contents

1	Highlights
2	Report of the Directors
6	Directors and Officers
	54th Year in Review
14	Pulp and Paper
18	Packaging, North America
22	Packaging, Europa Carton
23	Oil and Gas Investments
	Financial Section
26	Financial Review
28	Segmented Information
30	Statement of Consolidated Earnings
30	Statement of Consolidated Retained Earnings
31	Statement of Consolidated Changes in Financial Position
32	Consolidated Balance Sheet
32	Management's Report
33	Auditors' Report
34	Notes to Consolidated Financial Statements
43	Facilities
44	Comparative Data

Cover:
Montage of photos of employees at work in various sectors of Consolidated-Bathurst suggests the diversity of objective, effort and specialization that has helped the Corporation to maintain growth and earnings in increasingly competitive market environments.

Incorporated August 28, 1931,
under the laws of Canada

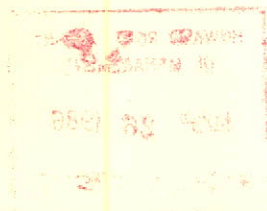
Registered Office
800 Dorchester Blvd. West
Montreal, Quebec H3B 1Y9
Telephone: (514) 875-2160
Telex: 05-25165

Auditors
Touche Ross & Co.

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

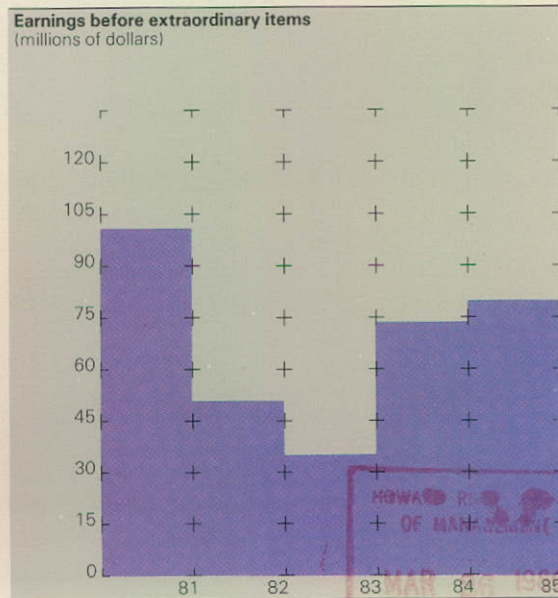
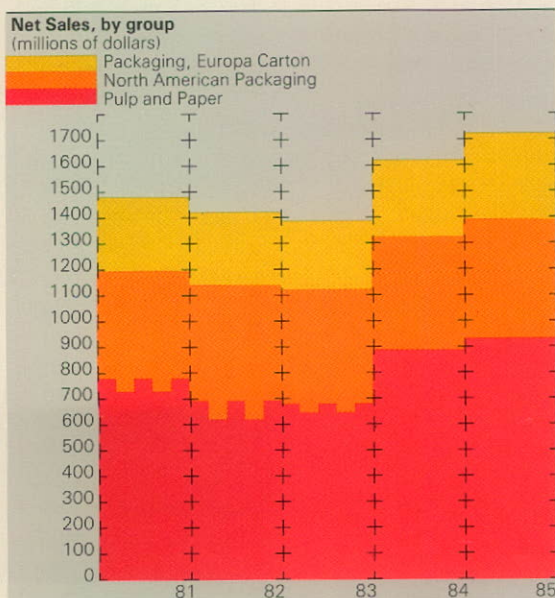
Transfer Agent and Registrar
Montreal Trust Company
at Halifax, Saint John, Montreal,
Toronto, Winnipeg, Regina,
Calgary and Vancouver

54th Annual Meeting
Château Champlain Hotel,
Montreal
April 24, 1986 — 10:30 a.m.



Highlights

		1985	1984	1983
Operations (millions of dollars)	Net sales	\$1 727	\$ 1 623	\$ 1 393
	Earnings before extraordinary items	80	74	35
	Net earnings	78	59	25
	Cash flow from operations	196	153	93
	Additions to property and plant	\$ 176	\$ 119	\$ 175
Balance sheet (millions of dollars)	Total assets	\$1 863	\$ 1 676	\$ 1 653
	Working capital	320	257	312
	Property and plant — net	\$1 037	\$ 921	\$ 911
Per common share (dollars)	Earnings before extraordinary items	\$ 1.40	\$ 1.40	\$ 0.53
	Net earnings	1.36	1.07	0.31
	Cash flow from operations	3.76	3.15	1.84
	Dividends	0.60	0.50	0.40
	Book value	\$13.08	\$11.38	\$11.37
Ratios and other data	Ratio of current assets to current liabilities	2.1 to 1	1.8 to 1	2.4 to 1
	Ratio of short and long-term debt to shareholders' equity	38/62	49/51	49/51
	Return on common shareholders' equity — %	10.3	12.3	4.7
	Number of issued common shares	50 999 807	45 054 779	44 958 398
	Number of employees	14 390	14 395	14 156



Bridgewater increase helps pulp and paper production top 1.5 million tonnes

To shareholders and employees:

While the optimism with which we entered 1985 proved well founded in our Packaging activities on both sides of the Atlantic, it was, as the year progressed, diluted in the Pulp and Paper sectors by negative pricing developments and a six-month strike at the Bathurst Division mill. In spite of these disappointments, the overall results of the Company's 54th year of operations were a modest improvement over those of 1984.

Operating results

Earnings before extraordinary items in 1985 were \$79.8 million, compared with \$73.8 million in 1984. Per-share earnings were \$1.40 in both years because the average number of common shares outstanding in 1985 was 9% higher. Net earnings for 1985, at \$77.6 million, were 32% better than 1984 net earnings of \$58.9 million. Per-share net earnings were \$1.36 in 1985, compared with \$1.07 in 1984.

The net extraordinary charge against the year's earnings was \$2.2 million, compared with \$14.9 million in 1984. The 1985 extraordinary items comprised the write-down to year-end market value of the Company's investments in Sceptre Resources Limited and Sulpetro Limited, the write-off of the investment in a small foreign subsidiary, and a provision to cover the cost of the permanent shutdown of the Domglas plant in Burnaby, B.C. Largely offsetting these were gains on the issue of shares by CB Pak's associate company in the U.S., Diamond-Bathurst Inc., and on the sale of Consolidated-Bathurst's shareholdings in Canadian Pacific Limited.

As detailed in the Financial Section's segmented information on page 28, total operating earnings were 16% better than in 1984, based on total net sales of \$1.7 billion. The Company's eight mills produced in excess of 1.5 million metric tons of pulp and paper products, in spite of the six-month strike at Bathurst Division. With additional tonnage and reduced losses at Bridgewater and recovering from the 1984 strike at Port Alfred, newsprint and groundwood specialties sales went up 13% and their operating earnings increased 82%. Operating earnings of bleached kraft market pulp, under difficult and highly competitive market conditions, dropped by almost half from their 1984 high.

CB Pak net sales increased by 5%, while those of Europa Carton AG, in West Germany, were up 13%. Packaging sector operating earnings, which do not include the contributions from the equity investments, increased by 5%.

Packaging developments

Probably the most dramatic developments of the year occurred in the Company's North American Packaging Group. These were highlighted by the sharp rise in the stock market prices of the Group's main company, CB Pak Inc., and of CB Pak's associate, Diamond-Bathurst Inc., which expanded through acquisitions in 1985 from two to 16 plants and from sales of U.S. \$62 million to U.S. \$408 million. Indeed, CB Pak's equity earnings contributed substantially to its 1985 earnings before extraordinary items of \$32.2 million, up 27% from 1984.

With the support of CB Pak and Consolidated-Bathurst, Diamond-Bathurst completed its acquisition of the shares of Container General Corporation in April 1985 and of the assets of Thatcher Glass Corporation in July. CB Pak's ownership of Diamond-Bathurst was increased from 38% to 48% with the purchase in April 1985 of an additional 1.8 million shares for U.S. \$11.5 million. In December, Diamond-Bathurst issued 975 000 shares and U.S. \$80 million of subordinated notes to the public. As a result of this refinancing, CB Pak's ownership of Diamond-Bathurst at December 31, 1985 stood at 42%.

Changes in soft-drink bottling regulations in Ontario have provided both Domglas and Twinpak with new opportunities in that market area: Domglas to promote 'Plasti-Shield' glass bottles; and Twinpak, the larger-size PET plastic containers.

Capital expenditures

Capital expenditures overall went up almost 48% to \$176 million in 1985. Those in Packaging were only slightly higher than in 1984, while Pulp and Paper expenditures jumped almost 70% to \$123 million, from \$73 million in 1984.

The main items were \$32 million spent on a second de-inking line at the Bridgewater Division in the U.K. and \$21 million for the modernization and speed-up of the Port Alfred Division's No. 4 paper machine, the fourth and final newsprint machine there to be so improved. Other important modernization projects now going forward are the new \$65 million chemi-thermo-mechanical pulp mill at Belgo Division, a new bleaching line at the Bathurst pulp mill, and twin-wire additions to paper machines at Belgo and Wayagamack.

In CB Pak, Domglas capital expenditures of \$19 million were down 18% because there were no major furnace rebuilds during the year. A new glass container forming process was introduced into the Scoudouc, N.B., plant and western

U.S. glass container associate expands from two plants to 16



production was concentrated at Redcliff, Alta., with the permanent shutdown of the plant at Burnaby. Twinpak Inc. acquired an interest in a plant in Regina, now called Twinpak Pressform Inc., that expands the company's involvement in open-mouth plastic containers for a variety of food products. Vacuum-metallizing capacity at Brantford was doubled.

Financing

On April 23, 1985, the Company issued six million common shares at a price of \$16.75 per share. Of the net proceeds of \$98 million, \$80 million was used to reduce borrowings incurred principally for working capital and capital expenditures, and the balance was applied against 1985 capital expenditures. On December 31, Consolidated-Bathurst issued two million cumulative redeemable second preferred shares, Series C, for net proceeds of \$48 million. These equity issues strengthened the Company's financial position and led to an improvement of its debt/equity ratio from 49/51 at the end of 1984 to 38/62 at December 31, 1985. On July 1, the German term bank loan of a subsidiary, amounting to DM 50 million, was also repaid.

The quarterly dividend of \$0.15 per share was maintained through the year.

Directors and Management

At the November meeting of the Board, Gus A. Van Wielingen, Chairman and Chief Executive Officer of Sulpetro Limited, tendered his resignation as a director of the Company in the interest of concentrating solely on those activities directly related to Sulpetro. On December 19, André Desmarais was appointed to the Board. Mr. Desmarais is a Vice-President of Power Corporation, a director of Bombardier Inc. and of several other companies.

At the meeting of the Board following the 1985 Annual Meeting, a number of appointments were made related to retirements and to organizational changes. Guy Dufresne was named Senior Group Vice-President, North American Pulp and Paper. A.K. Narang was appointed Senior Group Vice-President for Planning, Systems and U.K. Newsprint Operations. J.E. Souccar, President and Chief Executive Officer of CB Pak Inc., became Senior Group Vice-President, North American Packaging, of the parent Company. J.-J. Carrier was promoted to Vice-President and Corporate Controller.

On May 1, Ritchie MacPherson retired as Vice-President, Newsprint Production, after 41 years of strong contribution to Consolidated-Bathurst in

Share issues
strengthen
Company's
financial
position

Capital expenditures jump 48% to \$176 million

various production capacities and, finally, as senior executive responsible for the Bridgewater mill redesign and refurbishment.

As of July 1, 1985, W.B. Scott was appointed Vice-President, U.K. Newsprint Operations. Mr. Scott also succeeded John D. Andrew as Chairman of Bridgewater Paper Company Limited. Mr. Andrew, Executive Vice-President of Consolidated-Bathurst, had been Chairman of Bridgewater Paper from August 1982. He retires from Consolidated-Bathurst on May 1 of this year, after serving the Company with distinction in a variety of key sales and executive roles from 1958, and the industry from 1949.

Outlook

The results of 1985's final quarter were a sharp decline from both the previous quarter and a year earlier. This was attributable to temporary mill shutdowns that reduced inventories of newsprint and groundwood specialties, to depressed prices for bleached kraft pulp, and to the cost of the six-month strike at the Bathurst CTM pulp and corrugating medium mill. On the positive side, operating losses at the Bridgewater Division were considerably reduced both by cost improvement programs and a strengthening of the pound Sterling. In the near term, operating rates at Company mills are expected to be better than in 1985.

Recent volatility in oil and gas prices and in interest rates has created considerable uncertainty as to the long-term values of energy properties. Management intends, in the circumstances, to monitor Company investments in this area with special attention in the months ahead. The earnings of CB Pak and of Europa Carton should continue to improve. The exchange gains from the increased value of the U.S. dollar against the Canadian dollar will benefit Company earnings and, with sustained economic improvement and some strengthening in demand, pulp and paper prices should finally have the long delayed opportunity to improve.

Although the problems of addressing the deficits of the U.S. and Canada that we referred to last year are not much nearer solution, our Federal Government, obviously aware of the problem, seems determined to take action. The new Government of Quebec also accepts the need for a framework of austerity. The issue of free or enhanced trade so vigorously detailed by the Macdonald Commission Report has brought to the fore another special aspect of Canada's economic life style. Although our industry has grown up on free access to the U.S. market, some product sectors could clearly not sustain free trade without severe adjustments.

The questions raised also highlight the difficulties of arriving at a consensus in this country, especially when various industry sectors and provinces demand a right of veto on negotiating positions. The preference for the comfortable ways of the past is understandable even if that choice is not available. Canada's options down the road are more likely to be a new relationship with the United States, at the end of successful trade negotiations, or the isolation of some new wilderness created for us by a protectionist epidemic in the U.S. In spite of such uncertainties and of occasional economic interventions by governments based on legitimate but unpredictable social and political goals, we remain optimistic about the future of Consolidated-Bathurst.

As the pages of this report suggest, our Company has, over recent years, become a particularly diversified and multi-talented organization: growing steadily to produce more than 1.5 million tonnes of pulp and paper products, including supplies for a substantial share of the U.K. newsprint market; forming, in CB Pak, the largest integrated packaging producer in Canada; expanding the largest in West Germany; and, now, helping to build the third largest glass container organization in the United States. Clearly, to continue, we must appreciate, develop and apply the potential, skill and dedication of our employees and of those of our associate companies. We thank them for their contribution to the results of 1985, and look forward to broadened opportunity and new levels of success in the years ahead.

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 27, 1986

Consolidated-Bathurst Inc. is an eastern Canadian forest products and packaging organization whose production and sales operate within three business sectors: Pulp and Paper in North America and the United

Kingdom; North American Packaging companies; and Packaging, Europa Carton. The Company also holds substantial investments in Canadian-managed oil and gas production and exploration.

North American Packaging includes CB Pak Inc., the largest diversified packaging organization in Canada and principal shareholder of the third largest glass container company in the U.S. Europa Carton AG,

an affiliate headquartered in Hamburg, is the leading supplier of corrugated containers and folding cartons in West Germany. Power Corporation of Canada, of Montreal, holds 40% of CBI's outstanding common shares.

Pulp and Paper

North American Pulp and Paper



Woodlands

4 divisions delivered
2 million tonnes of wood fibre

Manufacturing

7 mills produced
1.35 million tonnes of pulp
and paper products

Marketing

New York, Chicago, Montreal,
Toronto
Agents in 15 countries

Wood Products

4 sawmills produced
1.18 million board feet
of lumber

U.K. Newsprint Operations



Manufacturing

1 mill produced
208 000 tonnes of newsprint

Marketing

London and Geneva

North American Packaging



CB Pak Inc.

(80% Consolidated-Bathurst Inc. — 20% public)

Domglas Inc.

5 glass container plants
1 industrial glass plant

Twinpak Inc.

12 plastic container,
flexible packaging plants and
4 distribution centres

MacMillan Bathurst Inc.

(50% Consolidated-Bathurst Inc.)

14 corrugated container
plants

Libbey-St. Clair Inc.

(50% CB Pak)

1 glass tableware plant

Diamond-Bathurst Inc.

(42% CB Pak)

16 U.S. glass container plants

Packaging, Europa Carton AG



West Germany:

2 paperboard mills
4 folding carton plants
1 partition plant
8 corrugated container plants
5 waste paper centres

Netherlands:

1 folding carton plant

Oil and Gas Investments



Sceptre Resources Limited (8%)

Sulpetro Limited (19%)

Sulbath Exploration Ltd. (34%)

Redgas Limited (100%)

Remington joint venture

Directors

Pierre Arbour

President and
Chief Executive Officer,
Laduboro Enterprises Ltd.
Montreal, Que.

Robert A. Bandeen, O.C.

Corporate Director,
Toronto, Ont.

Douglas A. Berlis, O.C.

Counsel to
Aird & Berlis
Toronto, Ont.

James W. Burns

President,
Power Corporation of Canada
Montreal, Que.

H. Roy Crabtree

President of the
Harold Crabtree Foundation
Montreal, Que.

André Desmarais

Vice-President,
Power Corporation of Canada
Montreal, Que.

Paul Desmarais, O.C.

Chairman and
Chief Executive Officer,
Power Corporation of Canada
Montreal, Que.

A. Frank Knowles, C.A.

Executive Vice-President,
Power Corporation of Canada
Montreal, Que.

Robert E. Morrow, O.C.

Counsel to
Ogilvy, Renault
Montreal, Que.

Kenneth A. Randall

Chairman,
ICL Inc.
New Canaan, Conn.

The Rt. Hon.

The Viscount Rothermere

Chairman,
Associated Newspapers
Holdings p.l.c.
London, England

John M. Seabrook

Chairman of the
Executive Committee,
IU International
Philadelphia, Pa.

R.M.P. Shields

Managing Director,
Associated Newspapers
Holdings p.l.c.
London, England

Jean Simard

Vice-President,
Simcor Inc.
Montreal, Que.

T. Oscar Stangeland

President and Chief Operating
Officer of the Corporation
Montreal, Que.

Peter N. Thomson

Chairman,
West Indies Power
Corporation Limited
Nassau, Bahamas

William I.M. Turner, Jr.

Chairman and
Chief Executive Officer
of the Corporation
Montreal, Que.

Honorary Directors

Roland Giroux, C.C.

Honorary Chairman

Edward G. Byrne, O.C.

Peter D. Curry

Edward A. Galvin

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

Officers

William I.M. Turner, Jr.

Chairman and
Chief Executive Officer

T. Oscar Stangeland

President and
Chief Operating Officer

John D. Andrew

Executive Vice-President

Norman A. Grundy

Vice-President, International

Timothy J. Wagg

Vice-President, Finance

Jean-Jacques Carrier

Vice-President and
Corporate Controller

Colin G. Fraser

Treasurer

J. Michael Dawson

Secretary

E. Camille Robichaud

Assistant Secretary

Guy Dufresne

Senior Group Vice-President,
North American Pulp and Paper
Operations

M. deB. Strathy

Senior Vice-President,
Pulp and Paper Marketing

Bart G. Duns

Vice-President,
Pulp, Kraft and Paperboard
Sales

Raymond Felx

Vice-President,
Manufacturing

K. Ross Hughes

Vice-President,
Newsprint Sales

Armand Legault

Vice-President, Woodlands

Ashok K. Narang

Senior Group Vice-President,
Planning, Systems and
U.K. Newsprint Operations

Dr. J.A. David Brunet

Vice-President,
Medical Services

W.B. Scott

Vice-President,
U.K. Newsprint Operations

Joseph E. Souccar

Senior Group Vice-President,
North American Packaging

Paul S. Echenberg

Vice-President,
Plastics and Bag Division

Subsidiary Operations

Robert A. Nugent

President,
Gillies Inc.

Michael A. Pelham

Managing Director,
Bridgewater Paper Sales Limited

Ron J. Simpson

President,
Domglas Inc.

Werner Woitas

Chairman, Managing Board,
Europa Carton AG

Associate Companies

Frank B. Foster, III

President and
Chief Executive Officer,
Diamond-Bathurst Inc.

Robert A. Graham

President,
Libbey-St. Clair Inc.

Theodor W. Haiplik

President,
MacMillan Bathurst Inc.

Executive Committee

Paul Desmarais, O.C., Chairman
William I.M. Turner, Jr.,
Vice-Chairman
James W. Burns
A. Frank Knowles, C.A.
Robert E. Morrow, O.C.
The Rt. Hon.
The Viscount Rothermere
T. Oscar Stangeland

Audit Committee

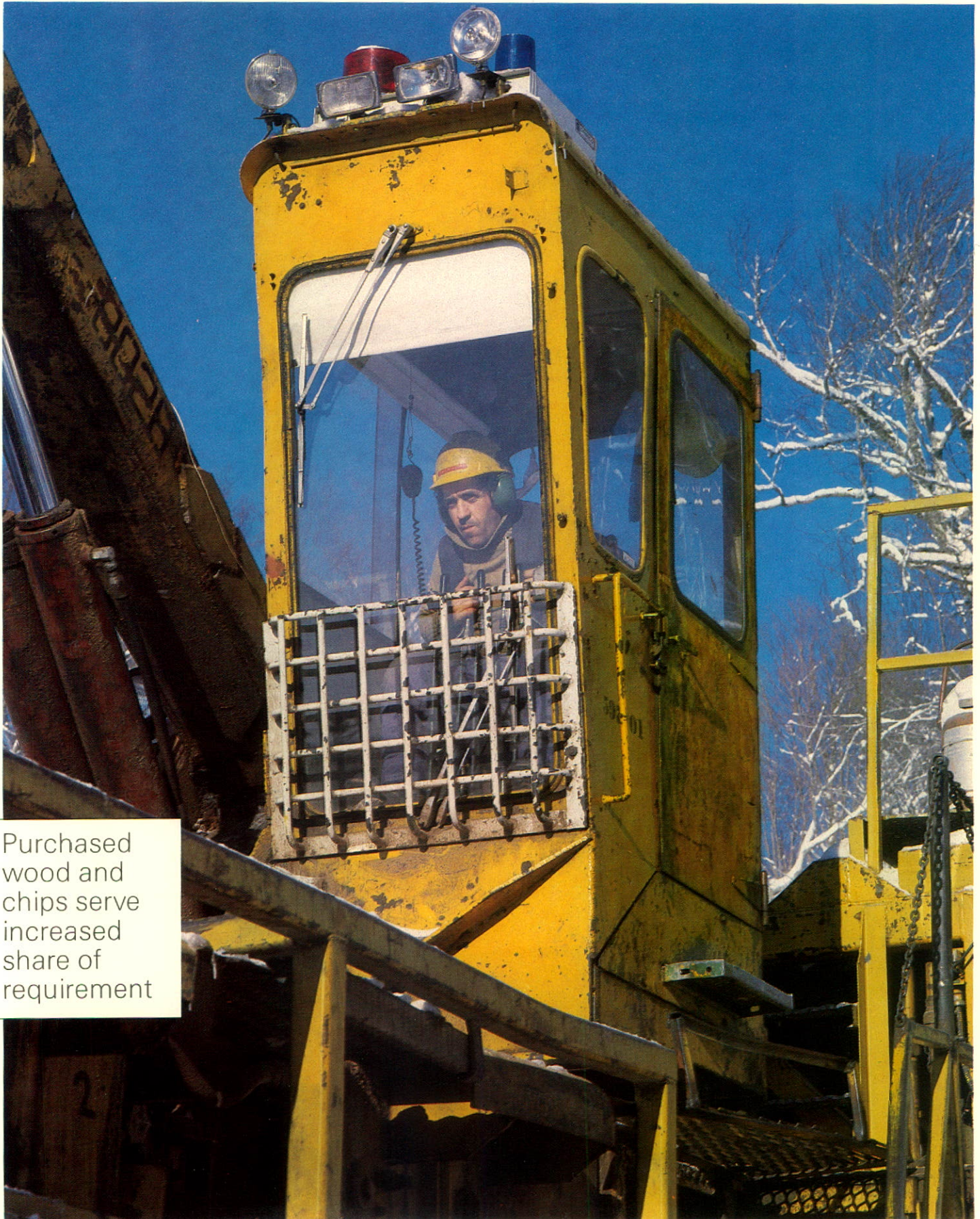
R.M.P. Shields, Chairman
Pierre Arbour
Robert A. Bandeen, O.C.
A. Frank Knowles, C.A.
Robert E. Morrow, O.C.
Kenneth A. Randall

Remuneration Committee

H. Roy Crabtree, Chairman
Douglas A. Berlis, O.C.
Paul Desmarais, O.C.

Operator of large mobile slasher cuts tree-length wood of the forest harvest to desired lengths for transport to Company pulp and paper mills. Some 27% of the two million tonnes of wood fibre delivered by Woodlands

divisions in 1985 came from Company-operated limits.



Purchased wood and chips serve increased share of requirement

Operator at Port Alfred Division checks dedicated control panel for refiners. These refiners progressively break chips down into basic fibres in modern, efficient production of pulp for the mill's newsprint machines.

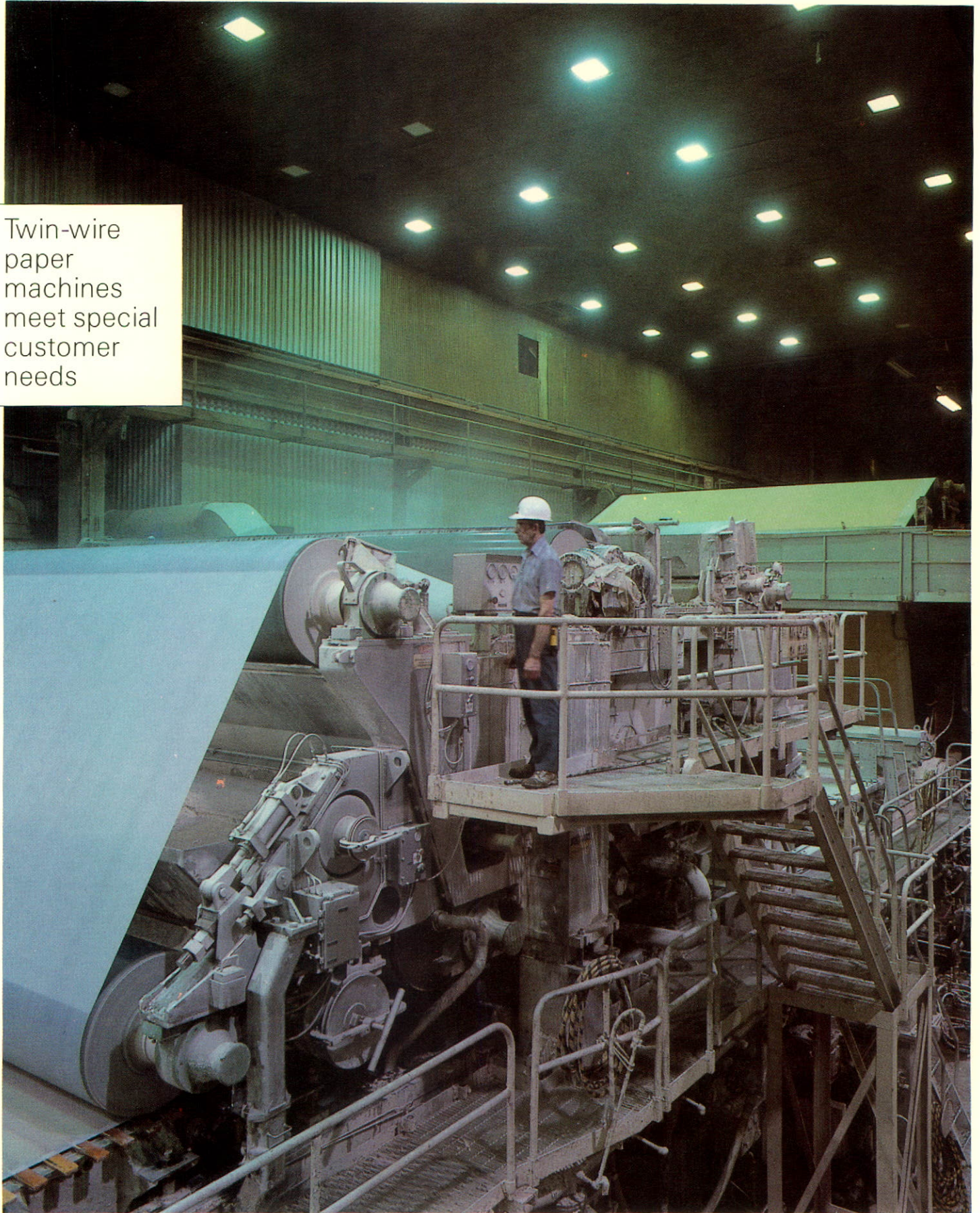


Mill modernization
essential
against world
competition

Close-up of top-former on
Laurentide Division's No. 10
paper machine. So modified,
the Company's widest machine
has the advantages of twin-wire
performance, i.e., it produces a
specialty sheet having the same

print-performance characteris-
tics on both sides.

Twin-wire
paper
machines
meet special
customer
needs



New de-inking pulp line currently under construction at the Company's Bridgewater Division in the U.K. This second line, being built at a cost of £23 million, will reduce the Division's dependence on Canadian pulp and

make it a major U.K. purchaser and user of recycled paper.

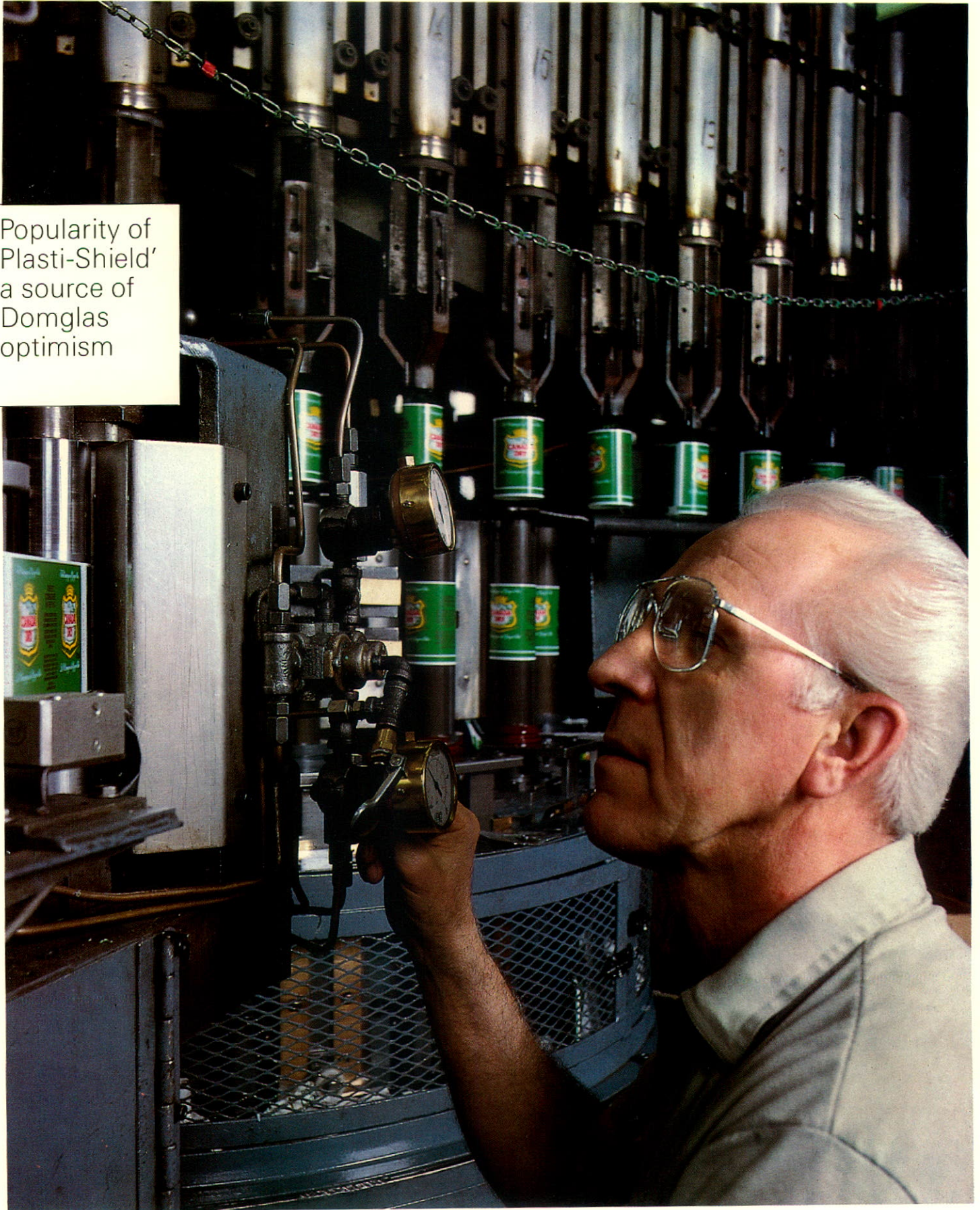


Second line
will make
U.K. newsprint
mill more
self-sufficient

Domglas' lead in production of 'Plasti-Shield' glass bottles, increasingly popular for juices, wines, wine-coolers and soft drinks, will give the company an important advantage in serving bottlers in the Ontario market,

now open to convenience soft-drink containers.

Popularity of
'Plasti-Shield'
a source of
Domglas
optimism



Twinpak plans to expand capacity at its 'Plastube' plant in Granby, Quebec, a key source of the flexible plastic tubes popular for cosmetics, hand creams, and hair-care products.



Twinpak
product
innovation
strengthens
CB Pak's
diversity

The folding carton plant of Menno Goemans, B.V., at Sneek in the Netherlands was acquired by Europa Carton AG early in 1985. As shown, production consists mainly of packs for export beer. This is ECA's first container

plant outside the Federal Republic of Germany.

Modern Dutch plant now makes beer packs for ECA



During 1985, demand for pulp and paper products improved in all markets, and although competition was generally severe in almost all product lines, operating results were better than those of the previous year. Company shipments of newsprint and groundwood specialties were marginally higher than in 1984 and, for the second consecutive year, exceeded one million tonnes.

Net sales of the group for the year were \$941 million, up 5% over sales in 1984. As detailed in the segmented information on page 28, operating earnings increased 25%, with substantial improvements in newsprint and groundwood specialties and lumber, while bleached kraft pulp and containerboard were sharply lower. The drop in pulp earnings from the high level of 1984 is attributable to the effect of a sharp worldwide drop in pulp prices, while results in corrugating medium reflected the long strike at the Bathurst mill. The Chaleurs linerboard mill ran at capacity, and operating costs generally were well controlled.

The major factors in the earnings increase of newsprint and groundwood specialties were the higher gain on U.S. exchange, an increase in the price of publisher newsprint in Canada, and the improved performance at the Bridgewater Division in the U.K. There were also higher volumes in groundwood specialties, and full operation at Port Alfred in contrast to the six-month strike shutdown of that Division in 1984.

In the strongly competitive context, customers will often favour a product or company because of customer service. To help provide such service, the Company will implement a new computerized system called 'ISMART'. This advanced, on-line system will position Consolidated-Bathurst at the leading edge of industry customer service, by providing integrated order entry, billing and roll identification.

Customers will also be able to anticipate quality improvements related to three new twin-wire formers currently being installed on paper machines at the Wayagamack, Belgo and Port Alfred divisions.

Newsprint

The volume of newsprint and groundwood specialties shipped in 1985 was approximately 5 000 tonnes higher than in 1984, including a sales increase of 41 000 tonnes at Bridgewater during 1985. Company shipments of newsprint and specialties, including those from the United Kingdom, were 53% to the United States, 20% to Canada, and 27% overseas.

In 1985, newsprint consumption in the United States, the Company's principal market, was able to sustain a growth rate of 1.8%, following the record growth of 8.1% in 1984. Total 1985 consumption reached 11.6 million tonnes. Consumption of newsprint by daily newspapers increased by 2.7% over the previous year, but consumption for other uses, such as inserts or by commercial printers, decreased when compared with the previous year. This change in the growth pattern of newsprint may well reflect the substitution of readily available higher grades of paper for the production of much of this material.

The operating rate for the Canadian industry in 1985 was 92% of capacity, the same rate as in 1984. Tonnage of publisher newsprint from the Company's mills in Canada to the North American market was lower than in 1984, with shipments to overseas markets at about the same level.

Net sales of the Company's publisher mills in 1985 were \$422 million, compared with \$362 million in 1984.

Groundwood Specialties

Net sales from the Company's two groundwood specialty mills at Grand-Mère and Trois-Rivières increased to \$236 million, some \$15 million, or 7%, above those of 1984. Demand for the Company's specialty grades remained strong throughout 1985, but was subject to pricing pressures due to weakness in the coated groundwood grades and to the introduction of new clay-filled super-calendered capacity.

To maintain its strong position in the specialty market, Consolidated-Bathurst regularly invests in



Shipments —

Pulp and Paper Group Products (thousands of tonnes)

	1985	1984	1983	1982	1981
Newsprint and groundwood specialties	1 026	1 021	840	825	959
Kraft market pulp	168	179	177	150	177
Paperboard	287	340	308	324	367
Lumber (thousands of board feet)	112 216	101 371	93 144	67 915	93 502

Kent Smith of Eastman Kodak presents Pontiac Division Manager Bill MacLachlan (left) with Kodak's coveted "Quality First — Gold Award".



equipment that improves paper characteristics. Popularity of heat-set offset and rotogravure printing processes continues to strengthen in the Company's traditional markets, with a substantial number of new heat-set presses coming on-stream and two new rotogravure plants starting up in the U.S. in 1986. To take advantage of the rapidly growing heat-set market, the Company recently invested in a top-former at the Wayagamack Division mill to keep up with the demand for CBI's successful 'Conset' grade, a sheet specifically designed for heat-set offset printing.

New domestic capacity and continuing imports from overseas have given advertisers and printers much flexibility in their choice of paper. The Company's established reputation for quality and its marketing know-how will be well tested in this environment. Although in 1986 competition is expected to intensify, the outlook for groundwood specialties remains encouraging.

U.K. Newsprint

Newsprint sales in the United Kingdom were higher than in 1984 as production at the Bridgewater mill increased to 208 300 tonnes in 1985 from 166 100 in the previous year. Reduced production costs and a price increase in the U.K. in the first quarter of 1985 contributed to a substantial reduction in operating losses at Bridgewater. This was in spite of the strike at the Bathurst mill, which supplies CTM pulp to Bridgewater, and the need to arrange substitute pulps from a variety of sources. Some 85% of Bridgewater production went to the U.K. and Ireland, with most of the balance going to Europe.

In the second half of 1985, the market situation deteriorated in the U.K., as new competitive capacity came on stream. The outlook for 1986 remains difficult because of additional capacity increases in the U.K. and an over-supply situation in Western Europe. Further cost reductions can be expected at Bridgewater, however, as the £23 million expansion of de-inked pulp capacity becomes operational later in 1986.

Pulp

Kraft Market Pulp

The weakness in the pulp market so evident in the last quarter of 1984 continued throughout 1985. Although overall demand was only marginally lower than in 1984, industry pulp prices declined by an average of U.S. \$100 per tonne. The general market weakness was attributable to increased shipments from non-traditional suppliers, attracted to the U.S. market by the strong dollar, and high operating rates of Norscan producers.

Of particular concern is the increase in production of hardwood pulps by producers in South America, South Africa and the Iberian peninsula. Strong competition from these regions can be predicted for the years ahead, based on their shorter tree-growing cycle and low operating costs.

Results for the Pontiac mill's bleached kraft pulp were sharply lower than in 1984. Net sales of Pontiac pulp were \$87 million, or a decrease of 17%. Shipments of 167 600 tonnes were down 6% from 1984. Pontiac's specialty business continued firm, with some increases in volume, but this was offset by a decrease in shipments to the more price-sensitive commodity market.

Pulp demand is expected to remain stable in 1986, but total industry capacity will continue to be more than sufficient to meet that demand.

Bleached CTM Pulp

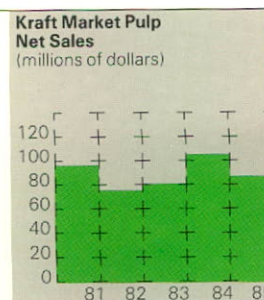
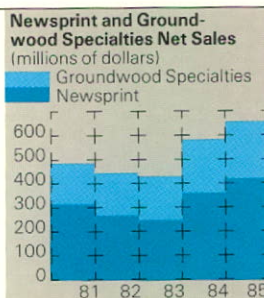
With Bridgewater increasing its use of recycled paper, Bathurst will have some 80 000 tonnes of product available annually as market pulp. Bleaching facilities now under construction will be starting up at Bathurst in the fall of 1986, with quality of the new product expected to set the standard for the industry. This new grade of bleached pulp, which is being called 'AURORA' with 'CTMP' redefined as Custom Tailored Market Pulp, has already evoked considerable interest among potential customers.

Paperboard

Containerboard (linerboard and corrugating medium)

In its second full year of operation, the MacMillan Bathurst Inc. joint venture corrugated container company, as key linerboard customer of the Chaleurs mill, continued to assure positive results for that mill. Overall containerboard sales, however, were hurt by the Bathurst strike which shut down corrugating medium production from June 1 to early December.

Industry shipments of containerboard were down slightly, reflecting the highly competitive international market. Offsetting this was stable domestic demand, with shipments at approximately the same levels as in 1984. The offshore market was chaotic, with pricing levels weakening further during the course of 1985. This was the result of increased U.S. shipments and the impact of a stronger dollar. With the recent weakening of the dollar, combined with recent downtime taken by U.S. mills, the outlook for 1986 appears to be more positive.



Richard Th  berge explains new Gillies' pine panelling specialties to customer Raymond Picard.



Chaleurs Division shipments of kraft linerboard increased by 2% to 190 200 tonnes. All shipments were directed to domestic accounts, with down-time restricted to scheduled maintenance. Indications are that demand in 1986 will be as good as or better than that of last year.

Corrugating medium sales of 44 100 tonnes reflected Bathurst's six-month operating year. The strike ended December 1, and production resumed at the Division on December 5. During the operating period, earnings were poor because of severely reduced export prices. This market has shown some recent signs of stability, with potential for improvement in 1986, especially as the U.S. dollar weakens on international markets.

Kraft Paper and Boxboard

Net sales for kraft paper and boxboard in 1985 amounted to \$38 million, 3% lower than in 1984.

Kraft paper shipments from the Wayagamack mill were 25 300 tonnes, slightly below last year's level because of continued inroads from competitive packaging materials. Limited success was experienced in obtaining additional volumes compatible with the grade mix of Wayagamack production. Due to competition from U.S. suppliers and other packaging materials, no price increases were implemented in 1985. Sales volumes of one-time carbonizing tissue were maintained at the same level as in 1984, in spite of increased competition.

The outlook for 1986 for kraft paper and one-time carbonizing is unchanged, but competitive pressures are likely to continue to constrain the results of the Wayagamack kraft operation.

Although demand for boxboard remained firm through 1985 and resulted in a modest increase in sales over the previous year, earnings performance was, under prevailing market conditions, less than satisfactory.

Wood Products

The Company's Wood Products Group's performance was again better than that of the preceding year. Net sales for 1985 were \$39 million, 10% higher than in 1984. Of these sales, 55% were made to Canadian customers and 45% to markets in the United States. Overseas sales were negligible, as the relatively low value of European currencies continued to determine product policy. Total sales volume was 112.2 million feet board measure (FBM), up 11% from shipments in 1984.

North American housing starts remained approximately at 1984 levels — 160 000 in Canada and

1.7 million in the United States. Demand for construction lumber was good but competition continued to be extremely keen, as North American productive capacity operated well in excess of that demand. Company sawmills operated at the following percentages of capacity: Braeside 93%; Bathurst 30%; Notre-Dame-du-Rosaire 99%; and Saint-Fulgence 67%.

Production at the Bathurst sawmill was severely curtailed because of the strike at the Bathurst Division pulp and medium mill. This closed off both log supply and chip outlet. Saint-Fulgence was adversely affected by shortages of logs, and Braeside production was reduced to a four-day week in the final quarter of 1985 because of high inventory levels of lower grades.

In total, the sawmills produced 118.1 million FBM of sawn lumber and 115 000 oven-dry tonnes of chips.

Productivity was maintained at Braeside, and improved substantially at Notre-Dame-du-Rosaire. Productivity at Saint-Fulgence attained a record level, with an improvement of 28% over that of 1984.

Woodlands

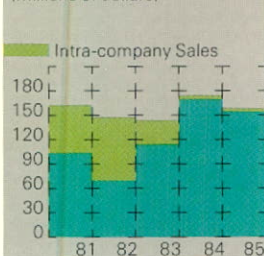
During 1985, the Company's four Woodlands divisions delivered in various forms some two million tonnes of wood fibre to Company pulp and paper mills and sawmills. This was 10% below deliveries in 1984 because of the strike shutdown at Bathurst and downtime at other mills to adjust to market conditions.

Of total deliveries, sawmill chips and sawdust amounted to 870 000 tonnes or 44%, and included 119 000 tonnes from Company-owned sawmills. The Woodlands divisions also delivered 202 000 tonnes of wet bark and other sawmill residue to the Port Alfred, Laurentide, Wayagamack and Pontiac mills for use as fuel. The unit cost of wood fibre delivered in 1985 was approximately 5% higher than in 1984, in spite of changes in species mix, careful selection of operating areas, and increased productivity.

Continuing advances were made throughout the year in mechanizing woodlands operations. In the Saguenay Division, 100% of wood off Company limits is now delimbed mechanically, while the percentage has risen to 40% in the Saint-Maurice Division. In the Ottawa Division, the large multi-purpose slashers have been replaced by slashing methods more efficient and economical in terms of that Division's harvest.

As a result of continuing efforts to conserve cash and improve cash flow, inventories at year-end in

Paperboard Net Sales
(millions of dollars)



the mill yards, rivers, and in the forest were valued at \$84.8 million or some \$7.8 million less than at the end of 1984. Capital expenditures for mechanical equipment, roads, camps and other facilities amounted to \$1.0 million, \$800 000 less than in 1984.

During 1985, the Company negotiated two noteworthy territorial exchanges. In Ontario, the Company agreed to surrender its Temagami Timber Licence for a more favourable long-term Timber Supply Agreement for sawlogs. In Quebec, the Company negotiated an exchange of assorted freehold areas for one solid block of 35.6 square miles in the Saint-Maurice Division.

In 1985, the Quebec Government proposed a new Forest Policy aimed at assuring forest regeneration and increasing the volume of allowable cut per acre. It also provides for participation of the Industry in matters relating to forest management. In line with this approach, negotiations are taking place between the Ministère de l'Énergie et des Ressources (MER), other potential partners and the Company to establish nurseries to produce seedlings in the Saint-Maurice and the Saguenay divisions.

In 1985, under Company and government policy to encourage more intensive forest management, and with assistance from federal/provincial cost-sharing programs, a total of 1 300 hectares of cut-over forest were scarified and 3.5 million seedlings planted on both public and private lands. Various silvicultural programs are also being conducted towards improving the forest growth rate. These include the selection of superior trees for seed collection, thinning silvicultural cuts, as well as the establishment of a seed orchard.

Manufacturing

Production from the Company's eight pulp and paper mills in 1985 totalled 1 561 700 tonnes. This total was only 5% less than in 1984, in spite of an estimated 135 750 tonnes lost to the strike at Bathurst Division. This shutdown of 187 days prevented the mills from achieving a record level in annual production. In newsprint and groundwood specialties, production attained 1 048 200 tonnes, 52 700 tonnes more than in 1984.

Total energy costs for 1985 in Canadian operations were \$121 million, \$6 million less than in 1984. The reduction reflects the lower production requirements offset by increased energy rates. Bunker C fuel oil consumption was 847 000 barrels. This represented a 35% reduction in oil use from the 1984 level, attributable primarily to the increased use of secondary hydro-electric power for steam generation.

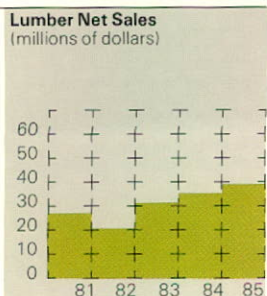
Total process power costs compared closely with those of the preceding year, the decreased consumption tending to balance the higher rates. During 1985, secondary power use was equivalent to 1 010 000 barrels of Bunker C oil; and wood residue, to some 610 000 barrels.

Mill manufacturing capital expenditures in 1985 were \$118 million, up 90% from 1984. The major items were \$32 million on the waste paper de-inking pulp expansion at Bridgewater and \$21 million for the speed-up of Port Alfred No. 4 paper machine. The Bathurst strike delayed progress of several projects at that Division, including the recovery boiler conversion to wood residue scheduled to be in operation during 1985. The CTMP bleach plant project was also delayed, with completion now expected by November 1986.

At Belgo Division, work began on the installation of a new CTM pulp plant, start-up of which is scheduled for mid-1987. Process changes are expected to provide an important improvement in the original design's rated capacity of 400 oven-dry tonnes per day at no additional cost. The CTMP project will improve product quality and reduce environmental water pollution.

During 1985, capital expenditures on environmental projects totalled \$4.1 million. Arrangements were completed at Bathurst to proceed with competitive evaluations of three process designs for waste treatment on a pilot plant basis. The results will permit the selection of the most effective process to be used for the Bathurst mill environmental treatment.

During 1985, the labour contract was renewed at Bathurst Division, following the strike related to crew seniority for the CTMP mill, which extended from June 1 to December 1. The seniority clauses were satisfactorily resolved and the settlement provided for annual wage increases similar to other industry mill contracts. At Bridgewater, a one-year labour agreement retroactive to November 1, 1985, was signed in early February.



North American Packaging consists of CB Pak Inc., 80% owned by Consolidated-Bathurst, and MacMillan Bathurst Inc., the national corrugated container company, which is 50% owned by Consolidated-Bathurst and 50% by MacMillan Bloedel Limited. CB Pak's own companies are subsidiaries Domglas Inc. and Twinpak Inc. and associates Libbey-St. Clair Inc. and, in the U.S., Diamond-Bathurst Inc.

With Diamond-Bathurst's acquisition of two major glass bottle companies in the United States, CB Pak, in its second year of operations, was able to improve its earnings dramatically. Diamond-Bathurst's acquisitions virtually doubled the scope of CB Pak and positioned it to become a key participant in the U.S. packaging market.

CB Pak's earnings before extraordinary items for 1985, were \$32.2 million, or \$1.61 a share, an increase of 27% over the \$25.3 million, or \$1.35 per share, on 7% fewer shares in 1984. A net extraordinary gain of \$6.3 million brought net earnings to \$38.5 million, or \$1.92 per share. This gain reflected the successful equity issue of Diamond-Bathurst Inc., offset partly by the costs of closing Domglas' Burnaby, B.C., plant in the fourth quarter of the year.

Net sales revenue for the year reached \$458 million, 5% over the \$435 million of 1984. This does not take into account the sales of Diamond-Bathurst Inc. and Libbey-St. Clair Inc., which are treated as equity investments. Diamond-Bathurst recorded sales of U.S. \$408 million in 1985, which included nine months of Container General's sales and six months of those of Thatcher Glass. Libbey-St. Clair's sales were also substantially higher than in 1984.

CB Pak increased its ownership of Diamond-Bathurst from 38% to 48% by purchasing 1.8 million shares for U.S. \$11.5 million in March 1985. This enabled Diamond-Bathurst to acquire 100% of Container General. The purchase of the assets of Thatcher Glass was financed by bank borrowings. In December 1985, Diamond-Bathurst issued 975 000 shares to the public for U.S. \$25 million and repaid the bulk of its bank debt by raising U.S. \$80 million in ten-year subordinated notes. CB Pak's ownership of Diamond-Bathurst at December 31, 1985 stood at 42%.

Ontario government regulations on soft drink containers now allow the use of plastic and 'Plasti-Shield' non-refillable bottles. This has enabled Domglas to install a 'Plasti-Shield' operation in the province and Twinpak to equip a new PET plant in Mississauga to serve these new market requirements. Both facilities will be fully operational by the end of the first quarter of 1986.

Capital expenditures for the year totalled \$28 million, slightly down from \$30 million in 1984. However, investments of \$17 million and dividends of \$11 million resulted in borrowings rising to \$81 million from \$60 million at the previous year-end. Equity, however, increased from \$144 million to \$173 million. The company's debt/equity ratio increased to 32/68 from 29/71 at the end of 1984.

North American Packaging recognizes the importance of a management structure that can respond to and broaden challenges with entrepreneurial effectiveness. It strives to emphasize areas of high growth in profitability in its companies' product and diversification plans. With a special focus on new opportunities in the United States, the potential is exciting.

Domglas will capitalize on the new 'Plasti-Shield' market in Ontario, on continuing buoyancy in several of its other lines and on improved capacity utilization in the West. Twinpak is expected to grow dramatically with PET bottles in Ontario, and as new capacity in vacuum metallizing and investments in other areas come on stream. Libbey-St. Clair expects its volume to increase as pressure from imports abates following the upward revaluation of European currencies.

Domglas Inc.

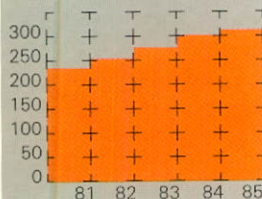
Domglas operating earnings for 1985 were \$28.8 million, up modestly from 1984's record levels. Net sales at \$320 million were 3% higher than in 1984. Record sales were achieved, in spite of a 38% reduction in shipments of refillable beer bottles, because of growth in other markets and recovery in market share lost during the lengthy 1984 strike at the Montreal plant.

In physical-shipment terms, the Canadian market for glass containers declined in 1985 some 3% due to the drop in beer bottle volumes. After eliminating the impact of 'beer' fluctuations, the Canadian market has grown 1 to 2% annually since 1983, with growth in 'Plasti-Shield' soft drinks, juices and wine coolers more than offsetting some losses to plastics in drugs and a few food categories.

Manufacturing performance was acceptable, although some furnace problems impeded productivity improvement. Capital spending totalled \$19 million, down 18% from 1984 levels due principally to the lack of any major furnace repairs in the year. Also noteworthy in 1985 was the introduction of a new bottle-forming process into the Scoudouc plant.



Domglas Net Sales
(millions of dollars)



Second vacuum-metallizing line at Twinpak's Brantford plant.



The decision was reached late in the year to abandon production at the plant in Burnaby. This decision followed from the idling of B.C. filling facilities by a number of our customers since the plant started in 1965, and from government regulations restricting participation in beer, wine and soft drink packaging. It was made all the more difficult because of the elimination of 300 jobs. While an extraordinary after-tax write-off of \$5.4 million was taken to cover severance and other shutdown costs, improved operating results are expected in 1986 and future years because of higher utilization of other locations, particularly Redcliff, Alberta.

With 'Plasti-Shield' soft drink container sales, particularly in Ontario with the recent regulatory change, and continued growth in juices and wine coolers, growth prospects should more than offset uncertainties in refillable beer bottles. Cost-price relationships should be protected with a 5% domestic price increase implemented in January and a 6% increase in the U.S. effective March 1986.

Twinpak Inc.

Net sales of Twinpak Inc. in 1985 were \$143 million. This was 9% higher than in 1984, with two divisions — Rigid Plastics & Liquid Packaging Systems and Flexible Packaging — contributing to the improvement. Operating earnings of \$12.8 million were down slightly from the comparable 1984 figures mainly because of strong competition in the Flexible Division's Bag & Film product area and start-up costs associated with the Division's new metallizing line at Brantford.

During 1985, Twinpak continued its strong commitment to bringing new products and new technologies to market and to broadening its product base across Canada. The investment in Plimco Polymers of Regina, now operated as Twinpak Pressform Inc., expanded the company's involvement into solid-phase, pressure-formed, open-mouth plastic containers for cultured dairy products, margarine and a variety of food products. This new product line, which complements the 'Freshfill' aseptic cup filling line, will also be marketed in the U.S.

Twinpak's market share in PET containers was extended by acquiring the Vancouver plastic bottle plant of a large soft drink bottler. Twinpak exercised a further Owens-Illinois licence option for developments related to tamper-evident, child-resistant and dispensing closures. It also acquired an exclusive licence from Leticia Corporation for a patented plastic paint pail.

There were also a number of important product introductions in 1985. The Rigid Plastics & Liquid Packaging Systems Division introduced a 3-litre

PET beverage bottle across Canada. The Flexible Packaging Division's Vacuum Metallized and Graphic Products Group introduced a new bundle wrap for cigarette packaging. Its Coated and Laminated Products Group had two product introductions: a new vapor barrier wrap for the steel industry; and a 'Tri-flex' woven fabric lumberwrap that complements the existing reinforced paper wrap that has successfully served the market for many years.

Capital expenditures for the year were \$8.7 million. These provided for the doubling of capacity of the vacuum metallized operations, expenditures for two new sizes of PET soft drink containers, equipment for the PET container market for Ontario, and the acquisition of the PET plastic container plant in Vancouver. Additional equipment was also installed at Ville Saint-Pierre to increase injection-moulding capacity and improve efficiency.

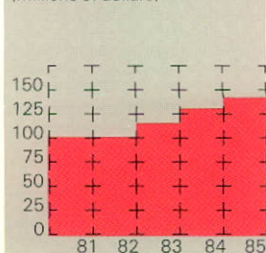
The increase in the *Flexible Packaging Division's* sales volume in 1985 was largely attributable to higher shipments of coated and laminated products and 'Alu-flex' vacuum-metallized products. Increased shipments of coated and laminated materials reflected the continuing development and commercialization of new light-weight extrusion-coated substrates and an expanded line of reinforced protective industrial wraps.

The Division continued to enjoy growing acceptance of its vacuum-metallized products, with several important new applications being developed. Metallizing capacity was increased during the year with the installation at the Brantford plant of a new metallizer, gravure-coating line and ancillary equipment. A further expansion is planned for 1986 in conjunction with the Division's strategy to continue diversifying its product line and to expand sales in the United States.

Sales of the *Rigid Plastics & Liquid Packaging Systems Division* increased substantially compared with sales in 1984. All three product groups showed important gains with plastic squeeze tubes, bag-in-box and PET containers contributing most of the growth. Sales in the Tubes and Rigid Plastics Group improved through increases in plastic squeeze tubes, in particular hair-care products, and were enhanced by sales of wine bottle capsules and tamper-evident shrinkband seals. The Liquid Packaging Systems Group also experienced a successful year, particularly in the bag-in-box area. Depressed prices and raw material supply problems, however, resulted in profits lower than expected for this product line.

With the investment in a Regina-based facility, this group entered the market for rigid open-mouth food containers, aiming particularly at the aseptic

Twinpak Net Sales (millions of dollars)



packaging field. The PET Containers Group continued to expand in the soft drink market with the introduction of 3-litre bottles across Canada, 1-litre bottles in western Canada and the acquisition of the Vancouver PET bottle-making facility.

During 1986, sales growth is expected to continue to improve in this Division in all three product groups. While the introduction of post-mix soft drink fountain syrup in bag-in-box will generate more sales for the Liquid Packaging Systems Group, the opening of the Ontario market to non-refillable containers will enhance the PET Containers Group's sales and the Tubes and Rigid Plastics Group should benefit from continued strong demand for plastic tubes.

Sales of the *Packaging Distribution Division (Ampak)* of Twinpak were slightly below those of the previous year. This was largely due to a drop in export glass sales in western Canada and in imported pharmaceutical glassware. Major advances were made in the various consumer packaging markets and in eastern Canada in particular. New developments in the fields of dispensers for toothpaste and other viscosity materials, unique tamper-evident containers for food and pharmaceuticals, new child-resistant closures and tamper-evident systems were initiated.

Diamond-Bathurst Inc.

Following the acquisition of Container General Corporation in April 1985 and Thatcher Glass in July 1985, Diamond-Bathurst became the third largest glass container manufacturer in the United States, with national coverage and a broader product mix. The new organization was in place during the second quarter and moved into a new Head Office location in Malvern, Pa., in July.

Sales increased from U.S. \$61.9 million to U.S. \$407.5 million while net income grew from U.S. \$2.2 million to U.S. \$11.0 million.

Considerable progress was made in rationalizing production, improving the product mix and instituting cost-cutting and productivity programs. The impact of these programs will be increasingly important in 1986 and beyond. The availability of considerable surplus equipment from Thatcher Glass plants not re-opened and from shutdowns of some Container General plants made this re-allocation of resources economically attractive.

The company concluded the year with an annualized sales rate approximating U.S. \$600 million. This level of revenue, and substantial improvements in efficiency and productivity, should generate strong positive results in 1986 and in the longer term.

In December 1985, Diamond-Bathurst successfully completed a public offering involving 975 000 treasury shares and also raised U.S. \$80 million of unsecured notes. The proceeds, totalling approximately U.S. \$105 million, were used to reduce bank debt and considerably strengthen the company's balance sheet. A U.S. \$50 million revolving credit was also negotiated with the company's main banks to allow for future growth and diversification possibilities.

Growth in other forms of packaging, particularly plastics, are being pursued in conjunction with Twinpak, whose knowledge and expertise should accelerate and enhance the success of this program. Opportunities to rationalize production are also being pursued and the shutdown of Domglas' Burnaby plant will be helpful in increasing Diamond-Bathurst's capacity utilization in the California market, where it currently operates three plants.

Diamond-Bathurst and Domglas both have strong technical teams and expertise. While the two organizations will remain independent of each other, considerable potential for synergy exists in engineering, technology, management information systems and other areas.

Libbey-St. Clair Inc.

Glass tableware sales volume and earnings improved in 1985 despite continued pressure from low-priced imports. During the year, there was a general strengthening of the currencies of several tableware-producing countries which, in conjunction with the company's direct selling policies, should improve its future market share, primarily in retail sales.

The company's product line is also being expanded with the introduction of two new lines in retail stemware and three new lines for food service during the first quarter of 1986. Important improvements were made in the company's cost position through improvements in manufacturing efficiencies and cost management projects. Several capital projects, either initiated or completed during 1985, will produce further benefits in this area. These projects included a higher productivity press, increased automation in packaging, a reconfiguration of the decorating operation and the self-manufacture of some packaging components.



Corrugators at six MBI plants can now use pre-printed liners to produce containers of exceptional print quality.

MacMillan Bathurst Inc.

MacMillan Bathurst Inc. (MBI) again benefited from the positive growth in the Canadian economy. Because of a weak North American paper-board market, however, selling prices for corrugated products remained flat.

During 1985, MBI completed the final phases of expansion of the plant in Town of Mount Royal, Quebec. This was the final step of a rationalization program which involved the closing of three corrugated container facilities across Canada. The remaining 14 MBI plants experienced increased productivity as a result of this multi-year rationalization and modernization program.

Major capital projects in 1985 included corrugator downstackers at the Town of Mount Royal, Rexdale (Toronto) and Guelph, as well as direct-drive knife installations at Rexdale, Edmonton and Guelph. The goal of these and other capital programs implemented over the last three years is to enhance productivity, quality and service. This, in turn, gives MBI the capability to meet growing customer needs cost effectively.

The year 1985 was one of labour peace. This has been the situation of the company since its formation in 1983. While several contracts are to be renegotiated during 1986, satisfactory conclusions to these negotiations are anticipated.

The outlook for 1986 is positive. The economic environment for corrugated products is good and MBI expects to share fully in industry growth. The start-up of Schiffenhaus Canada Inc. (a joint-venture participation by MBI) for the flexographic pre-printing of linerboard, in early 1986, will provide an exciting challenge and opportunity for the industry. This will accelerate development of the use of pre-printed linerboard. MBI plans to be a leader in providing improved graphic quality because of this new pre-print technology.

With its organizational and physical changes in place through year-end 1985, MBI is exceptionally well positioned nationally to meet its objectives of being the lowest-cost, most market-oriented company on the Canadian corrugated scene.



Europa Carton's results for 1985 were considerably higher than those of 1984, with some divisions performing better than expectations. Net trade sales increased by 10% to DM 717 million, based on volumes up only slightly. After translation into Canadian dollars, ECA's earnings before extraordinary items improved 15% on sales 13% higher.

Some DM 54.5 million was invested in modernization and rationalization, including the purchase of an additional folding carton plant. The company now comprises eight corrugated box plants, five folding carton plants, a partition-manufacturing plant, one boxboard and one paper mill and five waste paper operations.

ECA's continuing expansion is the more noteworthy in that it occurred in market environments showing little growth. In square metres, production of the German corrugated container industry increased only 1.8%, a decline from the growth rate of 4% in 1984. In the folding carton industry, the growth rate went down even more sharply, from 5.1% in 1984 to about 1% for 1985. In spite of a strengthening of the economy of the Federal Republic, growth in the packaging industry was clearly lower than in the preceding year.

The nation's real GNP went up 2.5%. The upswing was sustained through a continuing high level of exports, investment activity and growing consumer demand. Benefit to the packaging industry from this situation was limited, however, while important customer sectors, such as food and luxury goods, showed scarcely any growth. This was reflected in the static situation of the paperboard industry, although the relatively high production level of the preceding year was maintained.

Europa Carton, the largest producer of corrugated boxes and folding cartons in the Federal Republic, achieved above-average growth in both of its key product markets and strengthened its leadership position. The eight plants of the *Corrugated Container Division* increased production by 3% to 362 million square metres. Declines in paperboard prices, a good level of capacity utilization, and higher selling prices enabled the Division to recover from the profit slippage of the preceding year. Capital spending was concentrated on the expansion of the corrugated container plant at Plattling and on increased capacity for large, heavy-duty containers at the Hamburg plant. The Corrugated

Container Division now has an optimum competitive position in its markets.

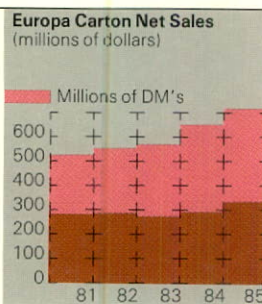
The Folding Carton Division also showed a clear improvement in results over those of 1984. Because of regional differences in market conditions, not all of the Division's plants were able to run at adequate capacity levels through the second half of the year. A highlight of 1985 for ECA and the Division was the acquisition of a modern plant in Holland, effective March 1. This additional capacity helped the Division overcome a constraint in the production of beverage packs and also to gain access to promising new markets. This modern folding carton plant is located at Sneek, approximately 120 kilometres northeast of Amsterdam. It has the largest rotogravure press in the European packaging industry and has 61 employees, now working two shifts.

The company's boxboard mill at Hoya repeated its good performance of 1984. With reorientation of its production program to serve internal needs, it operated at a high level of utilization, in contrast to the general situation in the industry. Total production of 53 700 tons was maintained close to the record level attained in the prior year. Improved selling prices and weakening prices for waste paper, which makes up 80% of the mill furnish, contributed to improved profits.

Costs at the Viersen containerboard mill, which processes 100% waste paper, were also favourably affected by declining prices for its raw material. As a result of lower prices for corrugating medium, however, the mill's profits went down. Earnings were slightly below those of 1984, in spite of an increase in production of 2.5% to 39 000 tonnes.

The waste-paper market showed persistent deterioration. In spite of satisfactory operating levels in the paper industry, there was considerable excess supply after mid-year. While the company was again able to increase volume, and sales of waste paper went up 1.7%, earnings attributable to waste paper were almost 50% lower than in 1984.

Economic forecasts for 1986 for the Federal Republic call for further moderate growth, with continuing price stability and support from strengthening consumer spending. The outlook for the company continues to be favourable despite increasing risks in rising raw material and labour costs.



Shipments — Europa Carton

	1985	1984	1983	1982	1981
Containers (millions of square metres)	375	361	346	335	330
Folding cartons (tonnes)	57 700	50 620	47 030	46 430	40 920
Paperboard (tonnes)	93 990	90 290	82 060	79 770	78 964

During 1985, changes in fiscal and regulatory policies affecting the Canadian petroleum industry provided encouragement to exploration, development and production activities. Deregulation of oil prices, relaxation of restrictions on natural gas exports, promised deregulation of domestic natural gas markets, elimination of the Petroleum and Gas Revenue Tax and elimination of the frontier-oriented Petroleum Incentives Program in favour of tax-based incentives for all exploration will all contribute in the long term to a healthier environment for this industry.

This improved outlook for the profitability and growth of Canadian oil and gas producers was overshadowed in late 1985 and early 1986, however, by chaotic conditions in North American and world energy markets. Rapidly dropping oil prices reflected purchasers' increasing independence from OPEC suppliers, uncertainty about economic growth and the expectation that oil will remain in over-supply for the remainder of the 80's. Increased volatility in North American gas markets resulted from changes in the U.S. regulatory environment and from the increasing importance of spot market purchases of natural gas relative to long-term contract purchases.

Consolidated-Bathurst did not make additional investments in its oil and gas share portfolio in 1985. The book value of these shares decreased by \$17.5 million as a result of write-downs to reflect year-end stock market values for the common share investments. Spending on the Company's other oil and gas investments totalled \$9 million.

Remington Energy Ltd.

During 1985, Consolidated-Bathurst continued to invest in the joint-venture exploration program operated by Remington Energy Ltd. Total expenditures since 1979, including those by Redgas, reached almost \$40 million by December 31, 1985, of which about 80% had been spent on the Sikanni natural gas project in northeastern British Columbia. Drilling at Sikanni in 1985 resulted in two successful development wells and one exploratory dry hole, bringing the total number of successful wells in the project area to nine.

Six of the Sikanni wells are expected to be in production by the end of 1986. The Company will spend \$6.7 million on gas gathering facilities and a processing plant which will remove the traces of sulphur present in the raw gas. A pipeline to transport the processed gas from the plant to their main transmission pipeline nearby will be built by Westcoast Transmission Co. Ltd. Westcoast has an option to buy the processing plant from the Company after start-up of production.

A long-term sales contract is expected to be signed with British Columbia Petroleum Corporation for up to 25 million cubic feet of natural gas per day. The excess of productive capacity of the six wells over the volumes taken under this contract may be sold in the rapidly growing spot market.

Three wells north of the Sikanni Chief River will remain shut-in until natural gas markets develop sufficiently to warrant the expenditures involved in expanding the gas gathering system and the processing plant capacity to include them.

Redgas Limited

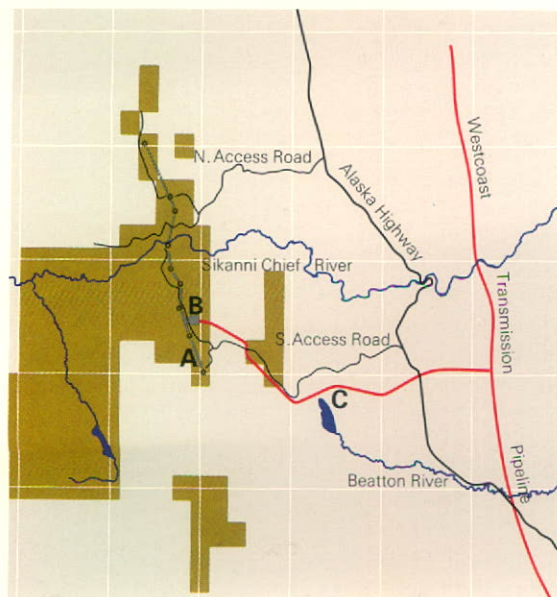
Redgas Limited's natural gas sales to TransCanada PipeLines in 1985 were 9% less than in 1984, while sales to the Domglas glass plant in Redcliff decreased only slightly. Operating cash flow exceeded \$3 million for the year, before capital spending of \$4 million. This was devoted mainly to the Remington Sikanni project.

During the month of December, Redgas drilled six development wells, all successful, which are expected to increase gas production capacity by about one million cubic feet per day. Connection of the wells into the existing gas gathering system was completed early in 1986. The increased productive capacity was required to meet deliverability tests in Redgas' sales contract.



**Remington Energy Ltd.
1986 Program**

- A Gathering system
- B Gas plant
- C Westcoast's new pipeline
- Petroleum and natural gas holdings



Sulbath Exploration Ltd.

Sulbath Exploration Ltd. is a joint exploration company founded by Sulpetro Limited and Consolidated-Bathurst in May 1981. During October 1984, in conjunction with the refinancing of Sulpetro, Sulbath expanded considerably in scope of operations and Sulpetro's principal banker became a shareholder of the company. At December 31, 1985, Consolidated-Bathurst owned 40% of Sulbath's outstanding common shares, or 34% after taking into account the dilutive effect of the convertible preferred shares owned by the bank. Consolidated-Bathurst's 1985 accounts included \$1.9 million as its share of Sulbath's net loss, although Sulbath operated at a break-even level with respect to cash flow.

Sulbath participated in 25 successful oil wells and 12 successful gas wells in 1985. Important exploratory discoveries were made at Evi, Leismer and Valhalla in Alberta and at Alma on the Scotian Shelf. Sulbath's total capital spending, net of PIP recoveries, amounted to \$11 million. Of this, about \$3 million was devoted to Development Fund projects financed by the purchase of Sulbath preferred shares by the bank.

Sulbath's natural gas sales averaged 21 million cubic feet per day during 1985, while sales of crude oil and natural gas liquids totalled about 1 100 barrels per day. Proven and probable reserves at October 31, 1985, approximated nine million barrels of crude oil and natural gas liquids and 250 billion cubic feet of natural gas.

Sulpetro Limited

At December 31, 1985, Consolidated-Bathurst continued to hold 19% of the outstanding common shares of Sulpetro Limited. The investment in these common shares was written down by \$3.3 million in December, to correspond to the year-end stock market value of \$4.9 million. The Company's investment of \$25 million in Class B Preferred Shares of Sulpetro, made in October 1984 as part of a complex refinancing, remains valued at cost.

Sulpetro continued its strategy of optimizing near-term revenues in 1985, emphasizing development drilling and enhanced recovery of heavy oil and natural gas liquids. At Irish-Lindbergh, a 53% increase in heavy oil production was achieved. The Wapiti deep-cut facility, designed to recover up to 19 000 barrels per day of natural gas liquids, started up in October. Sulpetro has an 18.5% interest in this plant and sizeable interests in the Minnehik-Buck Lake recovery facility, which went into operation recently, and the Wembley liquids recovery/gas cycling project scheduled to start up in mid-1986.

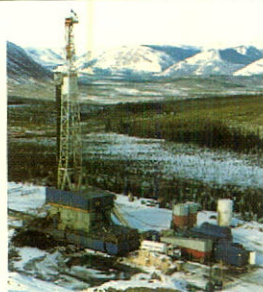
For the year ended October 31, 1985, Sulpetro incurred a net loss of \$45.6 million. Operating cash flow declined to \$5.2 million from \$16.1 million in 1984 and the net cash deficit for 1985 totalled \$34.6 million. Decreases in operating revenues resulted not only from the sale of properties associated with the financial restructuring in 1984, but also from reduced prices received for most of Sulpetro's products.

Sceptre Resources Limited

Consolidated-Bathurst holds approximately 8% of the outstanding common shares of Sceptre Resources Limited. Sceptre's cash flow from operations increased 5% in 1985, to \$45 million, as higher production rates for all products offset declining natural gas prices. Net earnings declined to \$4.3 million, adversely affected by a \$5.5 million write-down of foreign exploration and a loss of \$6.8 million resulting from the sale of High Plains Oil Corporation for \$20 million in December 1985. Proceeds from that sale and from the issue of \$40 million in convertible debentures were used to reduce bank debt by almost \$60 million.

Sceptre's improved financial strength permitted an internally-financed capital expenditure program of \$31 million in western Canada which resulted in important production increases. Crude oil and condensate production grew to 4 983 barrels per day and natural gas production to 50 million cubic feet per day.

In December 1985, Consolidated-Bathurst wrote down its investment in Sceptre common shares by \$14 million to correspond to the year-end stock market value of \$9.5 million.



Distribution of Revenue* (millions of dollars)

	1985	%	1984	%
Materials, supplies, etc.	\$ 783	45	\$ 725	44
Wages, salaries and fringe benefits	479	27	459	28
Fuel and power	189	11	195	12
Depreciation	84	5	73	5
Federal, provincial and municipal direct taxes	66	4	45	3
Interest	64	4	67	4
Dividends	41	2	33	2
Retained earnings (excluding extraordinary items)	35	2	36	2
	\$1 741	100	\$1 633	100

* Comprises net sales, other income and equity earnings

Quarterly financial data

	Net sales	Earnings before extraordinary items	Earnings before extraordinary items	Dividends declared	Stock price range	
	(millions of dollars)	(millions of dollars)	(per common share)		Low	High
1984						
First quarter	\$ 394	\$12	\$0.21	\$0.10	\$12¾	\$14½
Second quarter	439	15	0.27	0.10	13⅞	15⅞
Third quarter	390	21	0.40	0.15	12⅝	15⅞
Fourth quarter	400	26	0.52	0.15	\$14	\$16¾
	\$1 623	\$74	\$1.40	\$0.50		
1985						
First quarter	\$ 412	\$19	\$0.37	\$0.15	\$15⅞	\$18½
Second quarter	445	24	0.40	0.15	15⅞	17
Third quarter	438	23	0.40	0.15	15¼	19⅞
Fourth quarter	432	14	0.23	0.15	\$15	\$18½
	\$1 727	\$80	\$1.40	\$0.60		

Financial Review

Operating activities

Cash flow from operations in 1985 reached \$196 million, up 28% from \$153 million in 1984. Operating working capital increased moderately in 1985 following a sharp increase in the previous year. Accounts receivable rose by \$26 million in 1985 mainly as a result of a full year's operations at the Bridgewater Division, of sharply increased sales in Europa Carton together with higher foreign exchange rates, and of a slight increase in the number of days outstanding. Inventories increased by only \$8 million in 1985. The increase in raw materials and finished goods relating principally to the higher level of operations at Bridgewater was largely offset by a decrease of \$8 million in wood inventories as a result of an effective inventory control program. Accounts payable went up by \$37 million in 1985 and reflected, for the most part, the sharply higher capital expenditures.

Dividends

Consolidated-Bathurst paid dividends on common shares of \$28 million in 1985, equivalent to 60¢ per share, compared with \$21 million, or 50¢ per share, in 1984. The common dividend payout ratio was 43% of earnings before extraordinary items in 1985 as against 36% in 1984. The Company also paid dividends of \$11 million on its preferred shares.

Investing activities

Capital expenditures were \$176 million in 1985, up 48% from 1984. Interest capitalized on additions to property and plant declined from \$7 million in 1984 to \$2 million in 1985. The Corporation invested \$16 million in additional common shares of its U.S. associate company, Diamond-Bathurst Inc.

Financing activities

In April 1985, Consolidated-Bathurst successfully completed an issue of six million common shares. The net proceeds of \$98 million were used to reduce short-term debt and finance capital expenditures.

In December, the Corporation issued two million preferred shares, Series C, for net proceeds of \$49 million. Part of the proceeds were used to redeem the Series J debentures on February 20, 1986. In July, the Company sold its investment in the common shares of Canadian Pacific Limited for \$23 million.

During 1985, long-term debt repayments amounted to \$121 million and pertained, for the most part, to the German term bank loan in Bathurst Paper Limited, to the 11% first mortgage bonds in Consolidated-Bathurst Pontiac Limited and to the 9% Series F debentures in Consolidated-Bathurst Inc.

Financial position and ratios

The above activities resulted in a reduction of \$32 million in short-term borrowings. At December 31, 1985, the capitalization of Consolidated-Bathurst consisted of \$667 million in common shareholders' equity, of \$152 million in preferred shares and of \$500 million in debt.

The Company's debt/equity ratio at December 31, 1985, was 38/62, a dramatic improvement from 49/51 at the end of the preceding year. The working capital ratio increased to 2.1 at year-end 1985 from 1.8 at the end of 1984. The return on common shareholders' equity declined to 10.3% in 1985 from 12.3% in the previous year despite the higher earnings because of the common share issue in 1985.

Foreign currency translation adjustments

The negative foreign currency translation adjustments in shareholders' equity decreased by \$20 million in 1985 as a result of the strength of the Deutsche mark as against the Canadian dollar, which benefited Europa Carton. The deferred translation loss on foreign long-term debt, however, increased by \$23 million in 1985 as the result of the rising U.S. dollar and pound Sterling vis-à-vis the Canadian dollar. This increase is after deduction of a \$9 million amortization expense which had the effect of reducing the Company's net earnings per share in 1985 by \$0.12.

Sales, Property & Plant, Employees, Shareholders and Shares by Country as at December 31, 1985

	Net Sales	Property & Plant - Net	Number of Employees	Number of Common Shareholders	Number of Common Shares
	(millions of dollars)				
Canada	\$ 726.6	\$ 813.6	10 867	12 391	42 496 482
United Kingdom	114.0	113.6	534	733	7 635 719
United States	484.0	0.1	34	368	632 017
West Germany	339.9	97.8	2 894	600	4 829
Other Countries	63.0	11.7	61	84	230 760
	\$1 727.5	\$1 036.8	14 390	14 176	50 999 807

**Reporting the effects
of changing prices**

	Historical as reported		Current cost	
	1985	1984	1985	1984
Consolidated earnings				
for the year ended December 31				
				In average 1985 dollars
Depreciation	\$ 84	\$ 73	\$ 129	\$ 118
Cost of sales	1 374	1 313	1 378	1 383
Income taxes	41	19	41	20
Earnings before extraordinary items	\$ 80	\$ 74	\$ 31	\$ 17
Selected consolidated assets				
as at December 31				In year-end 1985 dollars
Property and plant — net	\$1 037	\$ 921	\$1 451	\$1 375
Inventory	339	331	340	353
Common shareholders' equity	\$ 667	\$ 513	\$1 069	\$ 941

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 1985. 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 (\$1 451 against \$1 037) and, on the other hand, the increased annual cost of maintaining these assets which would result in a higher depreciation charge to earnings (\$129 against \$84).

The effect of present inflation on the Corporation is reflected through adjustments to the cost of goods consumed in 1985 as it was charged to cost of sales and to inventory values as they were stated on the balance sheet at year-end. These adjust-

ments 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 1985 the current replacement cost of inventory was only slightly higher than the historical cost. The current replacement cost of the inventory as at December 31, 1985, was calculated to be \$340 as against \$339 in the historical accounts. The current cost of sales for 1985 was estimated to be \$1 378, compared with \$1 374 at historical.

Current cost earnings amounted to \$31 in 1985 as against \$80 under historical cost. Common shareholders' equity at current cost was \$1 069 versus \$667 in the historical accounts.

Classes and major product lines

Sales to Customers		Inter-segment Sales		Net Sales		
1985	1984	1985	1984	1985	1984	
\$ 657.7	\$ 582.6	\$ —	\$ —	\$ 657.7	\$ 582.6	Newsprint and groundwood specialties
86.6	105.4	0.7	0.2	87.3	105.6	Bleached kraft pulp
152.9	169.0	4.1	4.3	157.0	173.3	Paperboard
38.7	35.1	—	—	38.7	35.1	Lumber
935.9	892.1	4.8	4.5	940.7	896.6	Pulp and Paper
						Glass, plastic and flexible packaging containers — CB Pak
456.7	433.6	1.3	1.1	458.0	434.7	Containers — Europa Carton
332.1	294.1	2.7	2.1	334.8	296.2	Packaging
788.8	727.7	4.0	3.2	792.8	730.9	Oil and gas
2.8	3.2	1.2	1.2	4.0	4.4	Eliminations
—	—	(10.0)	(8.9)	(10.0)	(8.9)	
\$1 727.5	\$1 623.0	\$ —	\$ —	\$1 727.5	\$1 623.0	Total operations

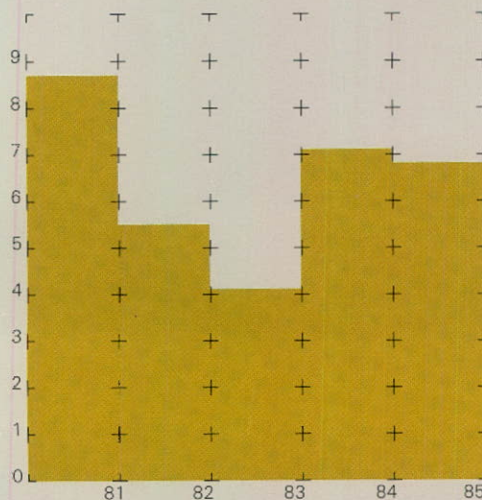
Inter-segment sales are accounted for at prices comparable to market prices for similar products.

Producing geographical regions

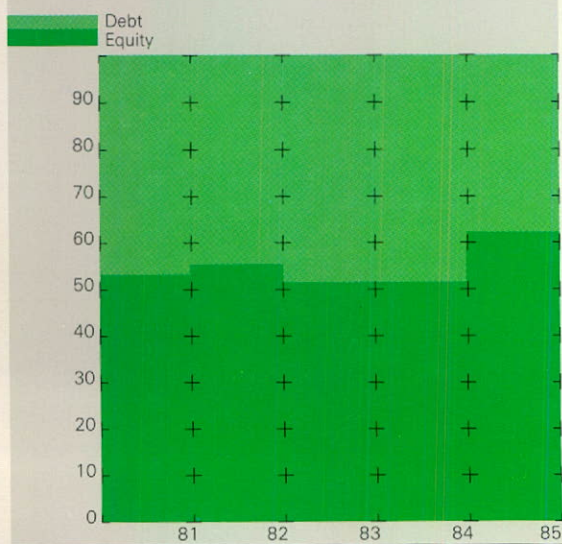
\$1 278.4	\$1 252.5	\$ —	\$ —	\$1 278.4	\$1 252.5	Canada
449.1	370.5	—	—	449.1	370.5	Western Europe
\$1 727.5	\$1 623.0	\$ —	\$ —	\$1 727.5	\$1 623.0	Total operations

Canadian operations had export sales to the United States of \$482.7 (1984 \$471.6) and to other countries of \$69.1 (1984 \$79.3).

Return on Assets*
(per cent)



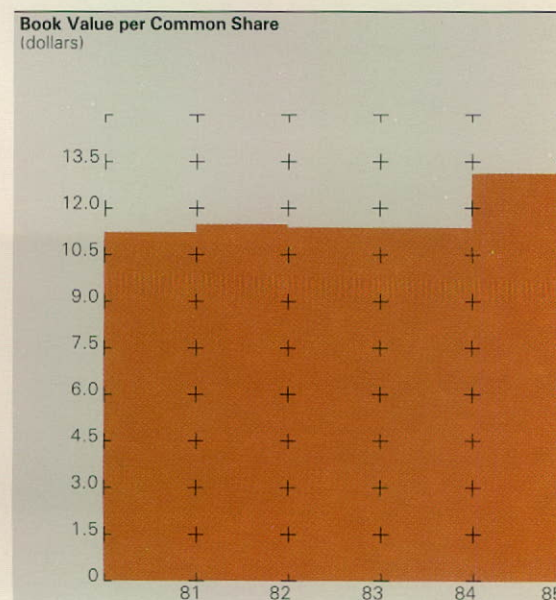
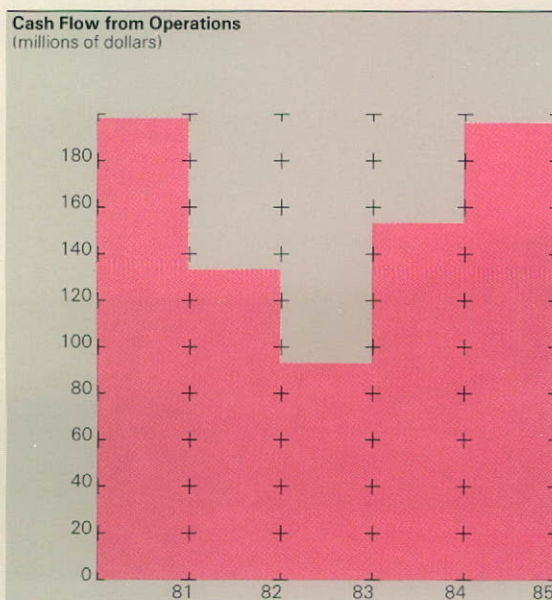
Ratio of debt to equity
(per cent)



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

Operating Earnings		Depreciation		Capital Expenditures		Identifiable Assets as at December 31	
1985	1984	1985	1984	1985	1984	1985	1984
\$102.0	\$ 56.1	\$39.1	\$32.1	\$104.2	\$ 60.8	\$ 885.7	\$ 804.6
18.6	35.0	4.7	4.6	5.4	1.8	74.7	79.9
17.8	20.7	6.2	6.2	12.7	9.9	129.3	130.3
4.8	3.0	2.3	2.3	0.8	0.4	34.8	36.1
143.2	114.8	52.3	45.2	123.1	72.9	1 124.5	1 050.9
41.4	42.3	21.7	19.1	27.6	29.6	350.0	299.0
18.7	14.8	10.2	8.0	15.9	12.0	195.9	129.1
60.1	57.1	31.9	27.1	43.5	41.6	545.9	428.1
(1.4)	2.4	0.2	0.3	9.1	4.4	112.8	128.0
—	0.4	—	—	—	—	—	—
\$201.9	\$174.7	\$84.4	\$72.6	\$175.7	\$118.9	\$1 783.2	\$1 607.0
\$204.6	\$199.9	\$62.9	\$57.8	\$114.2	\$ 78.9	\$1 292.8	\$1 232.6
(2.7)	(25.2)	21.5	14.8	61.5	40.0	490.4	374.4
\$201.9	\$174.7	\$84.4	\$72.6	\$175.7	\$118.9	\$1 783.2	\$1 607.0

Corporate assets amounted to \$79.5 in 1985 and \$68.9 in 1984.



Statement of Consolidated Earnings
for the year ended December 31, 1985

		1985	1984
		(thousands of dollars)	
Net sales		\$1 727 468	\$1 622 984
Costs and expenses	Cost of goods sold	1 373 906	1 313 221
	Depreciation	84 393	72 633
	Administrative and selling	67 285	62 409
Operating earnings		201 884	174 721
	Interest expense — long-term	55 592	53 124
	— short-term	8 103	14 103
	Corporate administrative expense	23 550	22 167
	Other income (note 3)	28	3 625
Earnings before income taxes		114 667	88 952
	Income taxes (note 4)	40 906	18 972
Earnings before undernoted items		73 761	69 980
	Equity earnings (note 8)	13 368	6 811
	Minority interest	7 372	2 983
Earnings before extraordinary items		79 757	73 808
	Extraordinary items (note 5)	(2 193)	(14 907)
Net earnings		\$ 77 564	\$ 58 901
Earnings per common share	Before extraordinary items	\$1.40	\$1.40
	Extraordinary items	(0.04)	(0.33)
	Net	\$1.36	\$1.07

Statement of Consolidated Retained Earnings
for the year ended December 31, 1985

		1985	1984
		(thousands of dollars)	
Retained earnings at beginning of year		\$339 290	\$317 837
Net earnings		77 564	58 901
Share issue expenses, net of tax		(2 541)	—
Excess cost of purchasing common shares over stated value		(1 889)	(4 236)
Dividends	Preferred	(10 847)	(10 656)
	Common	(29 695)	(22 556)
Retained earnings at end of year		\$371 882	\$339 290
Dividends per share	Preferred		
	1966 Series	\$1.50	\$1.50
	Series A	5.75	5.75
	Series B	7.20	6.88
	Common	\$0.60	\$0.50

Statement of Consolidated Changes in Financial Position

for the year ended December 31, 1985

1985

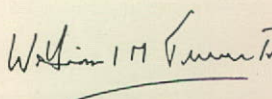
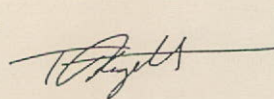
1984

Funds provided (used)

(thousands of dollars)

Operating activities	Operating earnings	\$201 884	\$174 721
	Depreciation	84 393	72 633
	Interest	(63 695)	(67 227)
	Current income taxes	(18 496)	(13 931)
	Other items — net	(8 263)	(13 483)
	Cash flow from operations	195 823	152 713
	Decrease (increase) in accounts receivable	(26 346)	(21 178)
	Decrease (increase) in inventories	(7 597)	(25 485)
	Increase (decrease) in accounts payable	36 669	10 269
	Other items — net	(11 488)	(690)
Net decrease (increase) in operating working capital		(8 762)	(37 084)
		187 061	115 629
Dividends	On common shares in cash	(28 421)	(21 270)
	On preferred shares	(10 847)	(10 656)
		(39 268)	(31 926)
Investing activities	Additions to property and plant	(175 737)	(118 884)
	Grants on additions to property and plant	5 891	7 570
	Increase in investments	(17 691)	(27 149)
	Other items — net	7 129	3 131
		(180 408)	(135 332)
Financing activities	Issue of common shares	97 800	—
	Issue of preferred shares	48 535	—
	Proceeds from sale of investment in Canadian Pacific Limited	23 462	—
	Issue of long-term debt	17 188	23 982
	Repayments of long-term debt	(120 723)	(57 421)
	Disposal of investments	1 985	2 287
	Purchase of common and preferred shares	(3 540)	(6 488)
	Proceeds from public issues and secondary offerings of shares and warrants of a subsidiary	—	50 237
		64 707	12 597
Net increase (decrease) in funds		\$ 32 092	\$ (39 032)
Analysis of net change in funds	Increase (decrease) in cash and short-term deposits	\$ 9 903	\$ (9 910)
	Decrease (increase) in short-term borrowings	22 189	(29 122)
		\$ 32 092	\$ (39 032)

On behalf of the Board:

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

T.O. Stangeland,
Director

Consolidated Balance Sheet
as at December 31, 1985

1985

1984

(thousands of dollars)

Assets

Current assets	Cash and short-term deposits	\$ 10 282	\$ 379
	Accounts receivable	245 967	219 621
	Grants receivable	8 966	9 726
	Inventories (note 6)	338 906	331 309
	Prepaid expenses	4 929	4 595
		609 050	565 630
Property and plant	(note 7)	1 036 831	921 397
Investments	(note 8)	179 385	173 665
Other assets	(note 9)	37 470	15 221

\$1 862 736

\$1 675 913

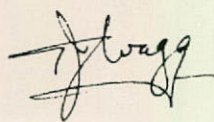
Management's Report

The consolidated financial statements have been prepared by management on the historical cost basis in accordance with Canadian generally accepted accounting principles and conform substantially with International Accounting Standards. These statements, which necessarily include estimates and approximations, reflect information available to February 27, 1986, and have been audited by Touche Ross & Co., Chartered Accountants, whose report is included on the next page. 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 any significant 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 27, 1986

		1985	1984
		(thousands of dollars)	
Liabilities and Shareholders' Equity			
Current liabilities	Bank loans and notes payable	\$ 26 550	\$ 48 739
	Accounts payable and accrued expenses	207 246	170 577
	Taxes payable	22 063	24 478
	Dividends payable	2 567	2 509
	Current portion of long-term debt	30 994	62 052
		289 420	308 355
Long-term debt	(note 10)	442 030	476 680
Provision for German pensions		39 545	26 430
Deferred investment tax credits	(note 2)	39 895	—
Deferred income taxes		192 593	215 211
Minority interest		39 776	32 903
Shareholders' equity	Stated capital (note 11)		
	Preferred shares	152 447	103 430
	Common shares	300 139	198 658
	Retained earnings	371 882	339 290
	Foreign currency translation adjustments	(4 991)	(25 044)
		819 477	616 334
		\$1 862 736	\$1 675 913

Auditors' Report

The Shareholders,
Consolidated-Bathurst Inc.

We have examined the consolidated balance sheet of Consolidated-Bathurst Inc. as at December 31, 1985 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, 1985 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 investment tax credits as explained in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

ples applied, except for the change in accounting for investment tax credits as explained in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Montreal, Quebec
February 27, 1986

1. Summary of Significant Accounting Policies

Principles of consolidation

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

Foreign currency translation

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.

For self-sustaining foreign operations, 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 operations have contributory, trustee and funded pension plans. The current service cost portion is charged annually to earnings as funded. The pension plans of the non-Canadian operations are funded except for those of the German subsidiaries. The charge to earnings for these operations is actuarially calculated in accordance with local 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.

1. Summary of Significant Accounting Policies (continued)

Investment tax credits relating to additions to property and plant are recorded in the balance sheet in the year in which the qualifying expenditures are made. These tax credits are amortized to income on the same basis as the related property and plant are depreciated.

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.

2. Change in accounting for investment tax credits

Effective January 1, 1985, the Corporation adopted prospectively the CICA recommendations with respect to investment tax credits. These credits are now accounted for as described under

"Income taxes" in note 1 instead of being recorded in income when realized. The new rules had the effect of reducing net earnings in 1985 by \$9 000, or \$0.18 per share.

3. Other income

	1985	1984
Income from investments and short-term deposits	\$ 9 149	\$ 4 400
Net translation gain (loss) on long-term debt	(9 075)	392
Net loss from debt retirement and disposal of property and plant	(46)	(1 167)
	\$ 28	\$ 3 625

4. Income taxes

	1985	1984
Current	\$18 496	\$13 931
Deferred	22 410	5 041
	\$40 906	\$18 972

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

	1985	1984
Combined Canadian federal and provincial income tax rate	44.8%	45.5%
Increase (decrease) in the income tax rate resulting from:		
Higher effective income tax rate on earnings of a foreign subsidiary	3.6	5.6
Federal income tax surcharge	1.0	—
Manufacturing and processing profits deduction	(4.8)	(6.2)
Inventory allowance	(2.4)	(2.9)
Amortization of deferred investment tax credits	(1.5)	—
Effect of tax-free dividends	(0.6)	(0.5)
Investment tax credits realized	—	(16.8)
Miscellaneous	(4.4)	(3.4)
Effective income tax rate	35.7%	21.3%

5. Extraordinary items	1985	1984
Write-down of investment in Sceptre Resources Limited, less income tax credit of \$3 496	\$(10 489)	\$ —
Write-down of investment in Sulpetro Limited, less income tax credit of \$836 (1984 \$9 607)	(2 508)	(35 665)
Share of CB Pak's provision for shutdown of a glass container plant, less income tax credit of \$2 854	(4 279)	—
Write-off of investment in a foreign subsidiary, less income tax credit of \$1 345	(1 345)	—
Share of CB Pak's gain resulting from the public issue of common shares by Diamond-Bathurst Inc.	9 292	—
Gain resulting from sale of investment in Canadian Pacific Limited, less income taxes of \$2 379	7 136	—
Gain resulting from public issues and secondary offerings of common shares and share purchase warrants of CB Pak, 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
	\$ (2 193)	\$(14 907)

6. Inventories	1985	1984
Expenditures on wood operations	\$ 43 717	\$ 46 867
Pulpwood, chips, sawlogs and wood residue at mills	41 120	45 724
Other raw materials and supplies	117 682	114 687
Work in process and finished goods	136 387	124 031
	\$338 906	\$331 309

7. Property and plant	1985			1984
	Gross	Accumulated depreciation	Net	Net
Pulp, paper, paperboard and lumber mills	\$1 109 066	\$431 142	\$ 677 924	\$607 121
Paper mill equipment acquired under capital leases	95 644	8 821	86 823	88 998
Glass, plastic and flexible packaging container plants	281 736	144 387	137 349	132 926
Converting plants	180 136	86 443	93 693	55 151
Woodlands	22 473	15 649	6 824	7 402
Oil and gas properties	32 973	1 235	31 738	28 080
Other	3 628	1 148	2 480	1 719
	\$1 725 656	\$688 825	\$1 036 831	\$921 397

(a) Interest capitalized on major additions during 1985 was \$1 824 (1984 \$6 559).

(b) 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

	1985	1984
Portfolio:		
Sulpetro Limited (a)		
Common shares (market value \$4 944; 1984 \$8 288)	\$ 4 944	\$ 8 288
Preferred shares	25 000	25 000
Sceptre Resources Limited (b)		
Common shares (market value \$9 459; 1984 \$11 425)	9 459	23 444
Preferred shares (market value \$4 813; 1984 \$4 604)	6 984	6 984
Canadian Pacific Limited	—	13 947
Other securities and loans of a non-current nature	10 275	11 141
	56 662	88 804
Equity (c):		
Sulbath Exploration Ltd. (34% owned)	32 449	34 304
Diamond-Bathurst Inc. (42% owned by CB Pak Inc.)	44 694	9 309
Twinpak Pressform Inc. (48% owned by CB Pak Inc.)	663	—
Joint ventures		
MacMillan Bathurst Inc. (50% owned)	30 150	28 682
Libbey-St. Clair Inc. (50% owned by CB Pak Inc.)	14 767	12 566
	122 723	84 861
	\$ 179 385	\$ 173 665

(a) The Corporation wrote down its investment in the common shares of Sulpetro to the stock market value at December 31, 1985 and 1984.

(b) The Corporation wrote down its investment in the common shares of Sceptre to the stock market value at December 31, 1985. The market value of the investment had been below cost since January 1982.

(c) The changes in the equity investments are summarized below:

	1985	1984
Balance at beginning of year	\$ 84 861	\$ 79 745
Increase (decrease) in investments	17 543	(2 012)
Equity earnings	13 368	6 811
Public issue of common shares by Diamond-Bathurst Inc.		
Extraordinary credit (note 5)	9 292	—
Minority interest's portion	2 366	—
Dividends received	(4 868)	(1 245)
Translation and other adjustments	161	1 562
Balance at end of year	\$ 122 723	\$ 84 861

The combined financial statements of the equity-accounted-for companies are summarized below:

	1985	1984
Results of operations for the year		
Net sales	\$ 928 896	\$ 424 736
Costs and expenses	884 193	398 239
Earnings before income taxes	44 703	26 497
Income taxes	23 000	10 795
Net earnings	\$ 21 703	\$ 15 702

Notes to Consolidated Financial Statements
December 31, 1985

(thousands of dollars)

8. Investments (continued)	1985	1984
The combined financial statements of the equity-accounted-for companies (continued)		
Financial position at December 31		
Current assets	\$319 356	\$134 160
Current liabilities	183 629	46 697
Working capital	135 727	87 463
Property and plant — net	493 702	329 118
Other assets	11 422	449
	640 851	417 030
Long-term debt and other liabilities	391 067	234 732
Equity	\$249 784	\$182 298

9. Other assets	1985	1984
Advances to trustees under share option and purchase plans	\$ 6 238	\$ 6 829
Deferred translation loss (net) on long-term debt	28 979	5 630
Unamortized long-term debt expense	1 217	1 955
Deferred charges	1 036	807
	\$37 470	\$15 221

Of advances to trustees, \$5 228 (1984 \$5 992) is owing to the trustees from officers, two of whom are directors.

10. Long-term debt	1985	1984	1985	1984	
	Foreign currencies		Canadian dollars		
	(thousands)				
Consolidated-Bathurst Inc.					
Sinking fund debentures					
5.85% Series A 1990	U.S. \$	4 797	5 881	\$ 6 704	\$ 7 771
6¾% Series B 1991	U.S. \$	3 965	5 056	5 541	6 681
8¾% Series C 1993			5 813	7 886	
9% Series F 1992	U.S. \$	6 657	16 881	9 303	22 307
17½% Series I 1988	U.S. \$	60 000	60 000	83 850	79 284
17¼% debentures, Series J, 1987 (a)			40 000	40 000	
Revolving credit (b)	U.S. \$	100 000	100 000	139 750	132 140
Obligations under capital leases					
Bridgewater (c)	£	35 482	35 586	71 667	54 443
Other			9 649	12 246	
9¼% Swedish export credit, 1987	SEK	23 270	34 905	4 293	5 134
8½% Irish export credit, 1987	£	172	287	348	439
Bathurst Paper Limited					
7½% German term bank loan, 1985	DM	—	50 036	—	28 174
8½% British export credit, 1986	£	86	171	173	262
Consolidated-Bathurst Pontiac Limited					
11% first mortgage sinking fund bonds, Series A, 1995			6 968	23 850	
Revolving credit (b)	U.S. \$	—	—	—	—
Carried forward			\$384 059	\$420 617	

10. Long-term debt (continued)

				1985	1984
Brought forward				\$384 059	\$420 617
CB Pak Inc. and subsidiaries					
9½% sinking fund debentures, Series A, 1990				10 852	12 099
Revolving credit (b)				20 000	20 000
Other				1 949	2 441
Europa Carton AG and subsidiaries					
Term bank loans, various interest rates, 1986 to 1995	DM	55 877	41 714	31 956	17 470
Reclassification of short-term borrowings (d)				24 176	66 070
Other				32	35
				473 024	538 732
Less: Current portion				30 994	62 052
				\$442 030	\$476 680

(a) On February 20, 1986, the Corporation redeemed at par its \$40 000 17¼% debentures, Series J, due 1987 by means of bank loans and notes payable which were reclassified to long-term under the Corporation's unused revolving credit facilities.

(b) The revolving credit facilities at December 31, 1985, 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, 1987	May 31, 1987	December 29, 1987

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.

(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.

10. Long-term debt (continued)

(d) Bank loans and notes payable of \$24 176 at December 31, 1985, (1984 \$66 070) were included in long-term debt as the Corporation intends to refinance these borrowings under its revolving credit facilities.	(e) Sinking fund requirements and principal payments during the next five years, based on exchange rates at December 31, 1985, are: 1986 \$30 994; 1987 \$34 803; 1988 \$97 381; 1989 \$36 955; 1990 \$42 261.
--	--

11. 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

	1985		1984	
	Shares	Stated Value	Shares	Stated Value
Preferred shares — 1966 Series	780 626	\$ 19 516	819 941	\$ 20 499
Second preferred shares				
Series A	800 000	40 000	800 000	40 000
Series B	700 000	42 931	700 000	42 931
Series C	2 000 000	50 000	—	—
	4 280 626	\$152 447	2 319 941	\$103 430

(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
- Series C — \$2.04 per share per annum, payable quarterly on or prior to December 31, 1990, and thereafter, at a rate per share per annum of 70% of the Canadian bank prime rate applied to \$25, and 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
- Series C — at \$25 per share on or after December 31, 1990

(iv) Purchases for cancellation

- 1966 Series — 38 686 shares annually. 39 315 shares were purchased in 1985 (38 800 in 1984) at a cost of \$714 (\$630 in 1984)
- Series A — 2% per year of the shares issued at a cost not exceeding \$50 per share up to and including December 31, 1987. Commencing January 1, 1989, 4% per year of the shares outstanding on December 31, 1988

11. Stated capital (continued)

Series B	— same as Series A except in U.S. dollars No Series A and B shares were acquired in 1985 and 1984 as the shares of each series traded above \$50 per share and U.S. \$50 per share, respectively, throughout this period.	(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.
Series C	— 40 000 shares annually at a cost not exceeding \$25 per share during the period January 1, 1986, to December 31, 1990 and thereafter, 80 000 shares annually.	(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.

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, 1985	42 637 503	\$169 693	2 417 276	\$28 965
Net conversions from Series B to Series A (c)	819 923	4 655	(819 923)	(4 655)
Issued under public offering on April 23, 1985	5 950 475	99 670	49 525	830
Issued as stock dividends	—	—	76 858	1 274
Issued under the 1984 Employee Share Option Plan (d)	12 400	180	5 400	78
Issued under other plans	14 289	258	6 981	127
Purchased and cancelled	(170 900)	(936)	—	—
Balance December 31, 1985	49 263 690	\$273 520	1 736 117	\$26 619

(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, 1985, 379 900 shares had been issued under this Plan.

12. 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 producing geographical regions is reported on pages 28 and 29 of this report.

13. Related party transactions

Power Corporation of Canada is the major shareholder of the Corporation owning approximately 40% of the outstanding common shares. In 1985, 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.

14. Commitments

- (a) The future minimum lease payments under capital and operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 1985, are as follows:

	Capital Leases	Operating Leases
1986	\$ 17 100	\$12 300
1987	17 000	11 100
1988	16 700	7 600
1989	14 100	4 800
1990	13 400	3 100
Thereafter	33 500	4 000
	111 800	\$42 900
Less: Imputed interest	30 484	
Present value of minimum lease payments	\$ 81 316	

- (b) At December 31, 1985, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately \$44 100.

- (c) Based on actuarial estimates at December 31, 1985 and 1984, the pension plans of the Corporation and its Canadian subsidiaries were fully funded.

Pulp and Paper

- 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 lumber: *Saint-Fulgence*
- Pulp, Paper and Paperboard Mills
Chemi-thermo-mechanical pulp, containerboard (corrugating medium): *Bathurst* (Bathurst Division)
Publisher newsprint: *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*
- U.K. Newsprint Mill
Publisher newsprint: *Ellesmere Port* (Bridgewater Division)

North American Packaging

- CB Pak Inc., *Montreal*
- Domglas Inc., *Mississauga, Ont.*

Glass containers: *Brampton*, *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.*

Rigid Plastics & Liquid Packaging Systems Division
Bags, liquid packaging systems: *Dorval*
Plastic containers, closures: *Montreal*, *Regina*
Plastic squeeze tubes: *Granby*
PET bottles: *Moncton*, *Mississauga*, *Calgary*, *Coquitlam, B.C.*
- 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 associate companies

- Libbey-St. Clair Inc., *Mississauga, Ont.*
(joint venture with Owens-Illinois, Inc.)

Glass tableware: *Wallaceburg*

- Diamond-Bathurst Inc., *Malvern, Pa.*
(equity investment)

Glass Bottle Plants:

Antioch, Cal., *Atlanta, Ga.*, *Chattanooga, Tenn.*, *Corsicana, Texas*, *Dayville, Conn.*, *Elmira, N.Y.*, *Gulfport, Miss.*, *Hayward, Cal.*, *Keyser, W. Va.*, *Knox, Pa.*, *Lawrenceburg, Ind.*, *Mt. Vernon, Ohio*, *Royersford, Pa.*, *Streator, Ill.*, *Vernon, Cal.*, *Vienna, W. Va.*

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

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*

- Plants
Folding cartons: *Augsburg*, *Bremen*, *Frankfurt*, *Munich*, *Sneek (Netherlands)*
Partitions: *Heppenheim*
Corrugated containers: *Düsseldorf*, *Germersheim*, *Hamburg*, *Jülich*, *Lauenburg*, *Lübbbecke*, *Neuburg*, *Plattling*
- Mills
Boxboard: *Hoya*
Containerboard (corrugating medium): *Viersen*
- Waste paper collection: *Eddelak*, *Essen*, *Hamburg*, *Metten*, *Nürnberg*
- Institutes
Market research: *Hamburg*
Industrial design: *Hamburg*

Comparative Data

		1985	1984	1983
Operations (thousands of dollars)	Net sales	\$ 1 727 468	\$ 1 622 984	\$ 1 393 065
	Earnings before extraordinary items	79 757	73 808	34 534
	Net earnings	77 564	58 901	24 854
	Cash flow from operations	195 823	152 713	93 399
	Additions to property and plant	175 737	118 884	175 309
	Dividends declared — common	29 695	22 556	17 962
	— preferred	\$ 10 847	\$ 10 656	\$ 10 724
	Depreciation	\$ 84 393	\$ 72 633	\$ 60 060
	Interest — both short and long-term	63 695	67 227	52 725
	Income taxes	40 906	18 972	15 357
Per common share (dollars)	Maintenance and repair expenses	136 676	127 445	115 478
	Wages, salaries and fringe benefits	478 504	458 979	449 922
	Energy costs	\$ 189 009	\$ 195 366	\$ 158 580
	Earnings before extraordinary items	\$ 1.40	\$ 1.40	\$ 0.53
	Net earnings	1.36	1.07	0.31
	Cash flow from operations	3.76	3.15	1.84
	Dividends declared	0.60	0.50	0.40
	Book value	\$ 13.08	\$ 11.38	\$ 11.37
	Dividends declared — 1966 Series	\$ 1.50	\$ 1.50	\$ 1.50
	— Series A	5.75	5.75	5.75
Per preferred share (dollars)	— Series B	\$ 7.20	\$ 6.88	\$ 6.48
Balance sheet (thousands of dollars)	Total assets	\$ 1 862 736	\$ 1 675 913	\$ 1 652 843
	Working capital	319 630	257 275	312 196
	Property and plant — gross	1 725 656	1 510 266	1 433 804
	Accumulated depreciation	688 825	588 869	522 936
	Investments	179 385	173 665	201 997
	Long-term debt	442 030	476 680	545 976
	Provision for German pensions	39 545	26 430	27 424
	Minority interest	39 776	32 903	3 168
	Stated capital — preferred	152 447	103 430	104 399
	— common	300 139	198 658	193 271
	Retained earnings	371 882	339 290	317 837
	Foreign currency translation adjustments	(4 991)	(25 044)	—
	Total shareholders' equity	\$ 819 477	\$ 616 334	\$ 615 507
	Ratio of current assets to current liabilities	2.1 to 1	1.8 to 1	2.4 to 1
	Ratio of short and long-term debt to shareholders' equity	38/62	49/51	49/51
	* Return on assets — %	6.8	7.1	4.1
	** Return on common shareholders' equity — %	10.3	12.3	4.7
Other data	Shares outstanding — preferred	4 280 626	2 319 941	2 358 741
	— common	50 999 807	45 054 779	44 958 398
	Number of employees	14 390	14 395	14 156
	Number of common shareholders	14 176	13 908	13 530

* Earnings before extraordinary items, minority interest and after-tax interest, divided by total assets after accumulated depreciation at the end of the period

** Earnings before extraordinary items less preferred dividends, divided by total shareholders' equity less preferred share stated capital at the end of the period

1982	1981	1980	1979	1978	1977	1976	1975
\$1 424 284	\$1 479 252	\$1 389 433	\$1 244 312	\$1 078 843	\$ 868 865	\$ 745 193	\$ 643 719
51 482	101 386	122 379	98 259	59 147	21 355	18 240	32 599
51 482	111 669	122 379	102 848	60 715	22 716	18 240	32 599
132 918	198 198	194 530	154 510	119 630	66 338	50 682	66 292
242 429	239 614	143 152	92 332	47 475	53 783	56 678	49 740
35 799	44 501	43 964	22 254	16 540	14 591	14 543	14 471
\$ 3 979	\$ 3 071	\$ 3 204	\$ 3 147	\$ 2 057	\$ 1 569	\$ 1 633	\$ 1 751
\$ 54 509	\$ 44 486	\$ 42 651	\$ 38 774	\$ 36 022	\$ 32 484	\$ 28 659	\$ 26 150
61 382	43 507	29 886	26 353	26 930	26 823	22 941	18 812
26 971	65 022	78 412	57 058	36 350	10 038	9 227	20 338
109 312	115 013	98 334	83 294	73 038	69 889	58 267	44 467
462 813	458 224	423 067	395 386	365 745	324 995	279 653	232 204
\$ 142 792	\$ 142 082	\$ 104 899	\$ 92 393	\$ 78 059	\$ 66 357	\$ 51 705	\$ 42 459
\$ 1.06	\$ 2.20	\$ 2.71	\$ 2.14	\$ 1.30	\$ 0.45	\$ 0.38	\$ 0.71
1.06	2.43	2.71	2.24	1.34	0.49	0.38	0.71
2.87	4.35	4.26	3.43	2.63	1.48	1.12	1.49
0.80	1.00	1.00	0.50	0.38	0.33	0.33	0.33
\$ 11.46	\$ 11.23	\$ 9.86	\$ 8.13	\$ 6.40	\$ 5.50	\$ 5.35	\$ 5.32
\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
0.72	—	—	—	—	—	—	—
\$ 0.81	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
\$1 584 570	\$1 432 290	\$1 136 558	\$ 991 854	\$ 872 944	\$ 808 791	\$ 742 667	\$ 662 369
340 448	367 860	322 891	289 633	263 141	209 233	157 860	159 084
1 360 763	1 170 392	968 517	851 947	784 661	769 237	730 763	678 302
515 112	474 176	445 129	416 862	392 549	375 895	363 477	339 692
185 218	152 265	114 107	73 805	52 702	30 851	26 162	26 438
472 036	430 203	278 921	231 950	228 231	245 647	178 837	157 176
23 398	23 305	19 877	15 319	12 829	11 199	7 404	6 418
2 824	2 877	2 524	2 784	2 832	5 896	5 877	6 291
121 375	41 415	44 393	45 360	46 279	26 145	27 094	28 067
190 021	185 326	178 714	165 575	165 848	89 804	89 803	88 695
324 151	318 486	264 711	192 966	120 317	150 940	144 384	142 320
—	—	—	—	—	—	—	—
\$ 635 547	\$ 545 227	\$ 487 818	\$ 403 901	\$ 332 444	\$ 266 889	\$ 261 281	\$ 259 082
2.7 to 1	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
45/55	47/53	37/63	37/63	42/58	53/47	50/50	43/57
5.5	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
3 037 741	1 656 608	1 775 708	1 814 408	1 851 156	1 045 808	1 083 755	1 122 684
44 878 446	44 850 114	44 963 286	44 102 724	44 763 984	43 773 204	43 772 754	43 440 204
15 168	15 999	16 290	17 070	17 532	17 725	17 557	17 545
14 106	14 118	14 160	14 534	13 008	11 983	12 036	11 291

