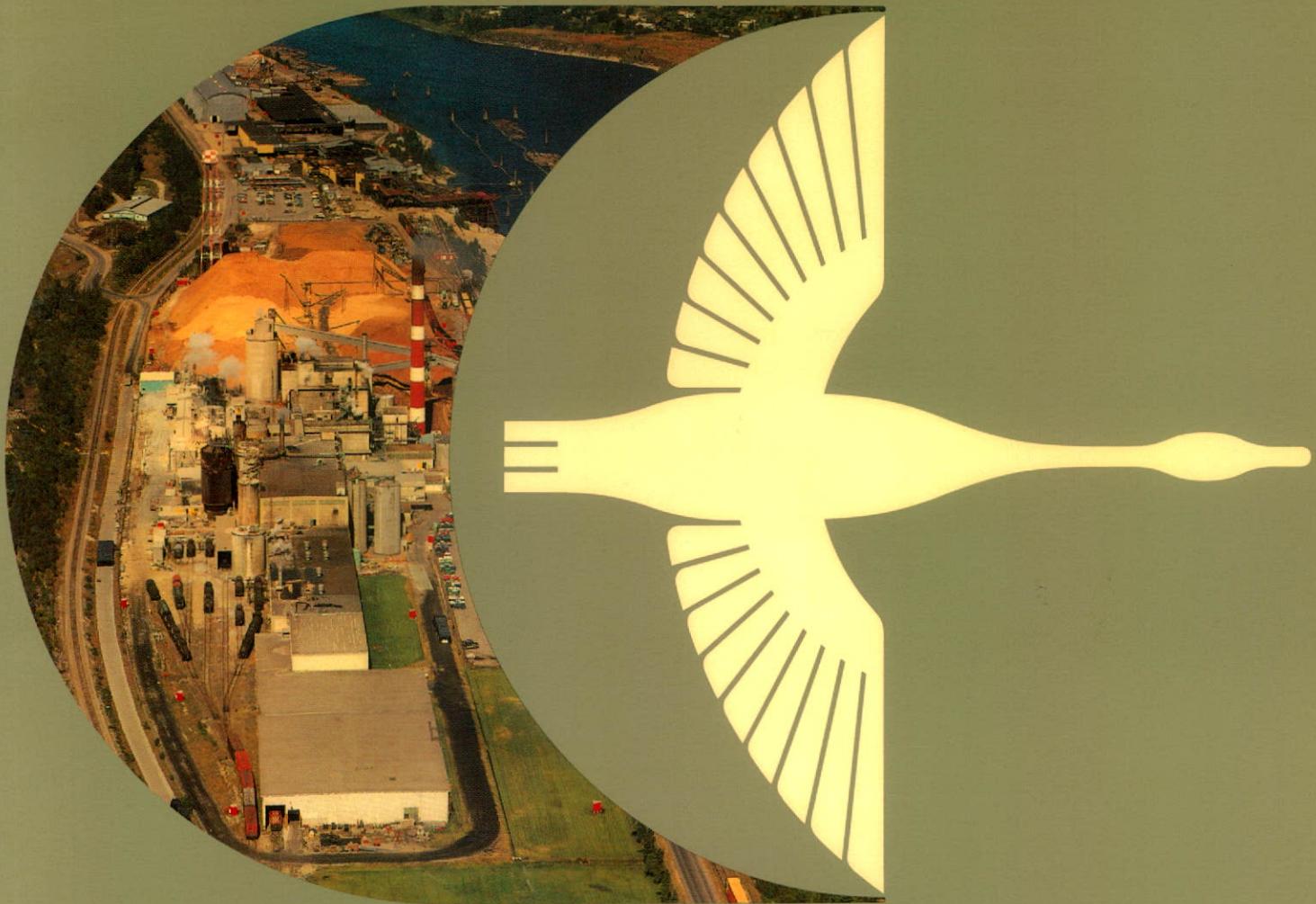


Consolidated-
Bathurst Inc.

Annual Report
1986





1961



1987

Celgar Pulp Company operation at Castlegar, B.C.

The cover of this report presents the new version of the "C/Goose" symbol of the Celgar Pulp Company, and within the "C" element a photo of Celgar's mill at Castlegar, B.C. That mill's purchase last fall was a major joint-venture investment by Consolidated-Bathurst and Power Corporation of Canada with an agency of the Government of the People's Republic of China.

For a number of years, Consolidated-Bathurst has been a supplier of newsprint and kraft linerboard to China. With Power Corporation, its principal shareholder, the Company has been actively seeking ways to develop these contacts into a long-term relationship. On May 8 last year, Consolidated-Bathurst and Power signed an agreement in Beijing with the China International Trust and Investment Corporation, aimed at establishing joint ventures to develop pulp, paper and packaging initiatives in both North America and China.

The pulp mill of Westar Timber Limited at Castlegar in southeastern British Columbia was identified as one such promising avenue. Since its start-up in 1961, the mill has had a history of consistent profitability and of quality production of specialty softwood kraft market pulps.

On September 26, Consolidated-Bathurst, Power Corporation and CITIC purchased the mill from Westar Timber Limited. This first joint-venture is owned equally by CITIC B.C. Inc., on the one hand, and a company co-owned by Consolidated-Bathurst and Power Corporation. Consolidated-Bathurst is the technical partner, and a CB subsidiary, Consolidated Celgar Inc., is responsible for the sale of the mill's products that go to North America, Western Europe and Japan.

Consolidated-Bathurst Inc.

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

55th Annual Meeting
Château Champlain Hotel, Montreal
April 30, 1987 - 10:30 a.m.



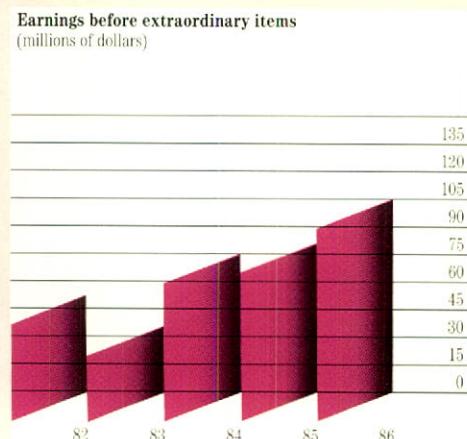
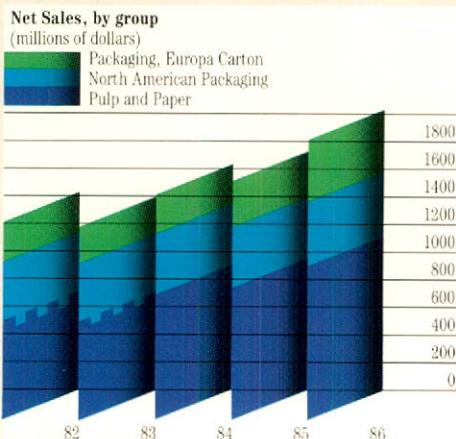
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Highlights

		1986	1985	1984
Operations (millions of dollars)	Net sales	\$2 018	\$1 727	\$1 623
	Earnings before extraordinary items	104	80	74
	Net earnings	49	78	59
	Cash flow from operations	257	196	153
	Additions to property and plant	\$ 231	\$ 176	\$ 119
Balance sheet (millions of dollars)	Total assets	\$2 031	\$1 863	\$1 676
	Working capital	339	320	257
	Property and plant - net	\$1 191	\$1 037	\$ 921
Per common share (dollars)	Earnings before extraordinary items	\$ 0.87	\$ 0.70	\$ 0.70
(After giving retroactive effect to the 2-for-1 common share subdivision, effective February 27, 1987)	Net earnings	0.34	0.68	0.54
	Cash flow from operations	2.37	1.88	1.58
	Dividends	0.30	0.30	0.25
	Book value	\$ 6.76	\$ 6.54	\$ 5.69
Ratios and other data	Ratio of current assets to current liabilities	2.1 to 1	2.1 to 1	1.8 to 1
	Ratio of short and long term-debt to shareholders' equity	40/60	38/62	49/51
	Return on common shareholders' equity - %	12.8	10.3	12.3
	Number of issued common shares	102 266 100	101 999 614	90 109 558
	Number of employees	14 619	14 413	14 395



Report of the Directors

The Celgar mill is in southeastern B.C., on the Columbia River. Built in 1959-61 by Columbia Cellulose, Limited, the mill has a complement of 370 employees and produces 560 tonnes per day of high quality bleached and semi-bleached softwood market pulps.

To shareholders and employees:

Consolidated-Bathurst entered 1986, its 55th year of operations, with modest expectations. As it turned out, the 1986 quarters were comparable to those of the preceding year until the acceleration of the third quarter.

With strong positive developments in pulp and paper markets in the final quarter and without the lengthy strike of late 1985 at the Bathurst Division mill, the year's results ended considerably higher than those of the preceding year. Indeed, the \$34 million earned in the final quarter was a record high.

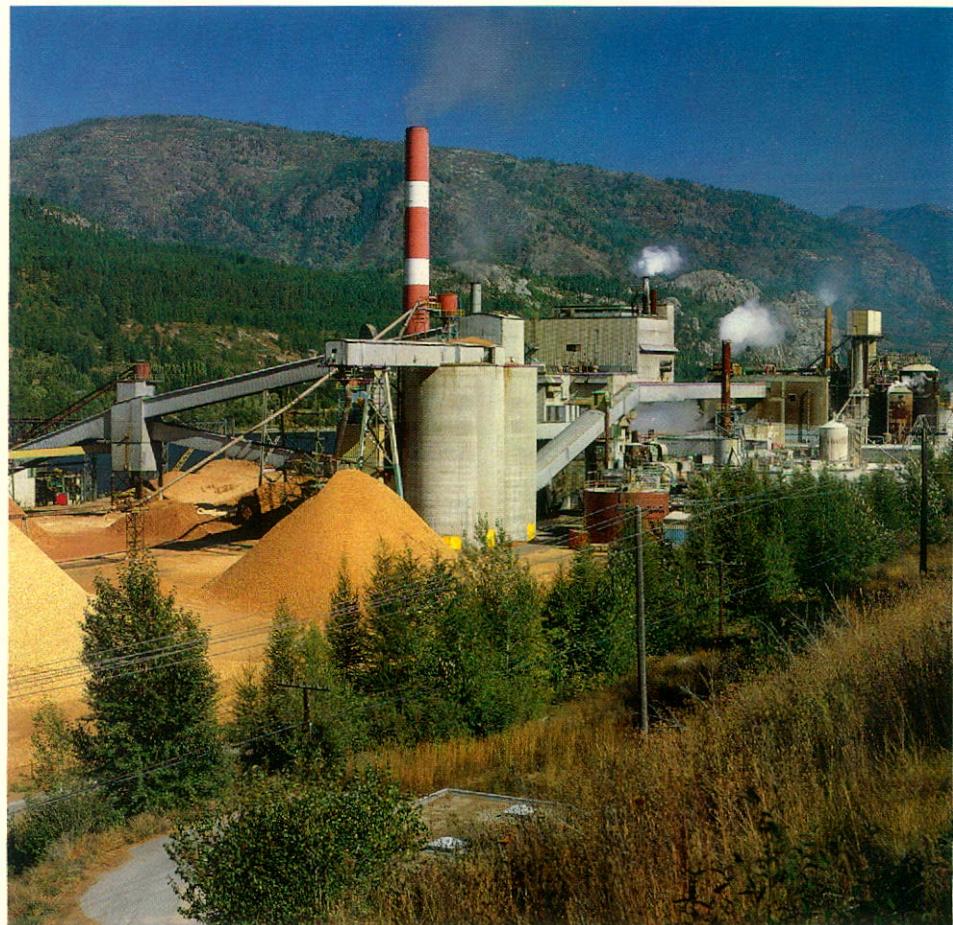
Annual sales of all products during 1986 exceeded \$2 billion for the first time in Consolidated-Bathurst's history. At \$2.018 billion, they were 17% higher than the \$1.727 billion of 1985, with the sales of the fourth quarter of the year, at \$526 million, being 21% better than those of the same quarter in 1985.

The pulp and paper side of operations, free of the labour disruptions of the two preceding years and under improved market conditions, strengthened as the year progressed. In 1986, it was the Company's North American Packaging business that, in spite of its own diversification, could not match its planned contribution.

One of the year's major events is featured on the cover of this report. It was the organization of a joint venture with Power Corporation and with CITIC, the investment agency of the People's Republic of China, and last fall's acquisition with them of the market pulp mill of Westar Timber Limited at Castlegar, B.C. The promise and example of this acquisition open up a considerable vista of opportunity for the future development of Consolidated-Bathurst.

Operating results

As summarized in the highlights table on the opposite page, earnings before extraordinary items for 1986 were about 30% higher than in 1985. They were \$103.7 million, or \$0.87 per common share, compared with \$79.8 million, or \$0.70 per common share in 1985. The extraordinary items charged against 1986 totalled \$54.2 million, or \$0.53 per common share. Early in the year, our



investments in oil and gas were written down by \$47.4 million. This reduced those investments to a book value of \$32 million at year-end. In 1985, there was a net extraordinary charge of \$2.2 million. The extraordinary items made net earnings for 1986 \$49.4 million, or \$0.34 per common share, compared with \$77.6 million or \$0.68 per share in 1985.

The segmented information on pages 28 and 29 details operating earnings and other information by product sector. Total operating earnings went up 26% from \$201.9 million in 1985 to \$255.1 million in 1986. Those of Pulp and Paper went up 25% to \$179.5 million. The total Packaging sector also rose 25% to \$75.2 million. This was based, however, on an 8.2% increase from

CB Pak companies - Domglas and Twinpak - and a 63% improvement, in Canadian dollar terms, from Europa Carton in the Federal Republic of Germany.

In Pulp and Paper, factors contributing to improvement were better prices in newsprint, market pulp and linerboard. In a strike-free year and with improved market demand, the Company's pulp and paper mills had higher operating rates and, by year-end, the Bridgewater mill in the U.K. was profitable. It achieved a break-even position for the year as a whole, in contrast to the negative results of its first two years. Total volume of pulp and paper products manufactured at the Company's eight mills was 1.9 million tonnes, 19% higher than in 1985.

In North American Packaging, Twinpak sales volume was up and cushioned the loss of U.S. sales by Domglas with the closing of its plant in Burnaby, B.C., and of domestic sales during a strike at the Domglas plant in Scoudouc, N.B. Both Domglas and Twinpak had better operating earnings than in 1985 in spite of heavy expenses associated with Twinpak's launch of several new businesses and the Domglas strike, but the improvements were offset by higher interest expense and an increased income tax rate.

Diamond-Bathurst Inc., CB Pak's U.S. associate, which expanded vigorously through its 1985 acquisitions to become one of the larger U.S. glass container companies, had to address unexpected problems of production and plant rationalization. Although the company's net sales increased from U.S. \$407.5 million in 1985 to U.S. \$491.8 million in 1986, net earnings declined from U.S. \$11.0 million to a loss in 1986 of U.S. \$6.2 million. Sales were lower than anticipated, and Diamond-Bathurst had to accelerate its plant rationalization, and curtail production. The company reduced the number of its plants from 16 to 13, and took substantial inventory write-offs.

Europa Carton's improvement resulted from better performance by its Corrugated Container Division, but mainly reflects the sharp rise in the value of the Deutsche mark when ECA's earnings are restated in Canadian dollars. Domestic demand for folding cartons, a sector in which ECA is a leader, was weak and rationalization of excess capacity led at year-end to the announcement of the closing of ECA's Munich folding carton plant.

Capital expenditures

Indicative of Consolidated-Bathurst's dedication to broadening its scope and renewing its operating facilities, capital investments increased by 32% from \$175.7 million in 1985 to \$231.2 million in 1986. The larger part went into upgrading pulp and paper facilities, where expenditures increased from \$123.1 million in 1985 to \$154.8 million in 1986.

During 1986, a machine improvement and speed-up program focussed on two newsprint machines, at the Port Alfred and Wayagamack divisions; and one machine was improved at Belgo, where



a new chemi-thermo-mechanical pulp mill is also under construction. The Bridgewater Division's second de-inked pulp plant came on stream in July of last year and the bleaching line at the Bathurst Division pulp mill neared completion. In December, the final phase of the Bathurst mill's renewal was announced with approval of a project to install a new corrugating medium machine that will replace the mill's two existing CM machines, at a cost of \$94.3 million over the next two years.

In CB Pak, capital expenditures jumped from \$27.6 million in 1985 to \$39.6 million in 1986. This covered expansions of the extrusion-coating and laminating facility at Brantford, Ont., of the plastic squeeze tube operation at Granby, Que., and for the manufacture of child-resistant closures at Ville Saint-Pierre, Que. To satisfy demand for large-size plastic soft-drink bottles, Twinpak started up a major facility at its Mississauga plant last spring and is currently doubling that plant's capacity.

Domglas capital spending was mainly related to installation of new high-productivity machines, computerized control equipment and a fourth line to produce 'Plasti-Shield' protected, pre-labelled containers for soft drinks.

At Europa Carton, capital expenditures increased from \$16 million to \$28 million, with emphasis on reorganization and new printing equipment installations to strengthen the competitive position of ECA's Folding Carton Division.

Financing

The Company's cash flow from operations in 1986 was a record \$257 million. However, this was not by itself adequate to fund capital expenditures, additional working capital requirements and dividends.

On May 29, 1986, the Corporation defeased its trust deeds for its outstanding sinking fund debentures. Consolidated-Bathurst has arranged, for the benefit of the holders of the debentures, the issue of letters of credit by two major Canadian chartered banks to ensure payment of all future amounts as they become due on the debentures. This defeasance provides the Corporation with additional financing flexibility.

On August 14, 1986, CB Pak issued in the Swiss capital market 5% bonds totalling 85 million Swiss francs (\$65.7 million Canadian) due in 1991. The proceeds were used to reduce short-term indebtedness of CB Pak, thereby strengthening its working capital position.

At its January 1987 meeting, the Board approved an increase in the dividend on common shares to 25¢ (12.5¢ on the split basis) to restore the Company's dividend to its level of earlier years. At a special meeting on February 16, 1987, shareholders approved a split on a two-for-one basis of the Corporation's common shares, effective February 27. The most recent previous split was effected on the same basis on August 21, 1984. All current and historical share and per-share data in this report have been restated on the new basis.

Directors and retirements

Robert E. Morrow, having attained the normal retirement age for directors, did not stand for re-election at last year's Annual Meeting. He served the Company well as a director and counsellor from his original election to the Board on April 4, 1975. He continues as an Honorary Director. Pierre Côté, Chairman of Celanese Canada Inc., and William D. Mulholland, Chairman of the Board and Chief Executive Officer of the Bank of Montreal, were elected to the Board on April 24 at the 1986 Annual Meeting.

The directors were shocked and saddened by the sudden death on June 2, 1986 of H. Roy Crabtree - a member of the Board and good friend. Mr. Crabtree had been a director of Domglas from September 27, 1966, a director of Consolidated-Bathurst from July 30, 1982, and was Chairman of the Board's Remuneration Committee.

Dr. J.A. David Brunet, the Company's Vice-President, Medical Services, retires March 1st of this year, after 33 years of diligent service and friendly, precise concern for the health and safety of Company people throughout the organization. His work and professionalism have won him appreciation and wide recognition as an authority in the field of industrial medicine.

Outlook

In Pulp and Paper, the improvement evident in the second half of 1986 is expected to continue in 1987, based on good market demand, better product prices and high ratios of production to capacity. The joint-venture acquisition of the Castlegar mill broadens the Company's market pulp product range and will also make a positive equity earnings contribution. With capacity and production strengthened and more favourable market conditions, Consolidated-Bathurst's Bridgewater newsprint mill in the U.K. should also establish a much-improved return.

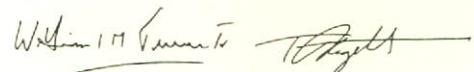
North American Packaging anticipates a return to profitability for Diamond-Bathurst after the difficult period of 1986, and positive results from its reorganization and the strong corrective action taken. Higher sales and earnings are also predicted for Twinpak, Domglas and Libbey-

St. Clair, based on rationalization, reorganization and new product and new business initiatives.

Europa Carton's outlook can best be described as "mixed", reflecting concern over the effects on the West German economy of the serious trade differences between the U.S. and EEC and of the appreciation of the Deutsche mark. In such an environment of international competitiveness, although sales continue at a good pace, it may not be possible to offset new cost burdens through higher selling prices.

In the context of the Corporation overall, we view the near term with improved optimism, intent on justifying continued reinvestment in the best interests of shareholders and employees, and confident that the resources at hand can be applied to the resolution of problems as they arise. In that respect, we appreciate the talents and support of Consolidated-Bathurst people in this diversified and growing enterprise, and thank them for their work and effectiveness in the year just past.

On behalf of the Board of Directors,



W.I.M. Turner, Jr., T.O. Stangeland,
Chairman and President and
Chief Executive Officer Chief Operating Officer

Montreal, February 26, 1987

Directors

Pierre Arbour

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

Robert A. Bandeen, O.C.

President and Chief Executive Officer,
Cluny Corporation, Toronto, Ont.

Douglas A. Berlis, Q.C.

Counsel to
Aird & Berlis, Toronto, Ont.

James W. Burns

Deputy Chairman,
Power Corporation of Canada, Montreal, Que.

Pierre Côté, C.M.

Chairman,
Celanese Canada Inc., Montreal, Que.

André Desmarais

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

Paul Desmarais, C.C.

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

A. Frank Knowles, C.A.

President and Chief Operating Officer,
Power Corporation of Canada, Montreal, Que.

William D. Mulholland

Chairman of the Board and Chief Executive Officer,
Bank of Montreal, Toronto, Ont.

Kenneth A. Randall

Vice-Chairman,
Northeast Bancorp, Inc., Stamford, 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

Vice-Chairman and President,
West Indies Power Corporation Limited, Nassau, Bahamas

William I.M. Turner, Jr., C.M.

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

Honorary Director

Robert E. Morrow, Q.C.

Officers

William I.M. Turner, Jr., C.M.

Chairman and Chief Executive Officer

T. Oscar Stangeland

President and Chief Operating Officer

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

Elizabeth C. Robichaud

Assistant Secretary

Executive Committee

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

Audit Committee

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

Remuneration Committee

Douglas A. Berlis, O.C., Chairman
Paul Desmarais, C.C.

Guy Dufresne

Senior Group Vice-President, North American Pulp and Paper

M. deB. Strathy

Senior Vice-President, Pulp and Paper Marketing

Bartley G. Duns

Vice-President, Pulp, Kraft and Paperboard Sales

Raymond Felix

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 Packaging

Subsidiary Operations

Robert A. Nugent

President, Gillies Inc.

Michael A. Pelham

Managing Director, Bridgewater Paper Sales Limited

Ronald 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 and Chief Executive Officer, MacMillan Bathurst Inc.

*retiring March 1, 1987

Pulp & Paper

Demand for pulp and paper products continued to strengthen throughout 1986 and this trend was reflected in improved operating results compared with those of the previous year. Company shipments of newsprint and groundwood specialties were sharply higher than in 1985 and, for the third consecutive year, exceeded one million tonnes.

Sales revenue from all products for the year passed the \$1 billion mark for the first time, amounting to \$1 097.9 million, or 16.7% higher than sales in 1985. Operating earnings increased by 25%, for the second year in a row. Pulp, newsprint, linerboard, and corrugating medium had noteworthy improvements in operating earnings while those of groundwood specialty papers and lumber declined.

The industry continued in 1986 to benefit from gains on U.S. exchange on sales made in that currency, while the strengthening of European currencies also had a positive impact. Substantially improved selling prices and increased production of high quality specialties helped earnings in kraft pulp to recover to 1984 levels. Better results from the Company's containerboard products - linerboard and corrugating medium - also reflected the overall strengthening of markets and the consequent price improvements.

The year and particularly the second half of 1986 demonstrated a performance much better than that of 1985, an improvement that is expected to continue in 1987. The Company will continue to meet the market's increasingly emphatic demand for quality and service at competitive prices.

Newsprint

The volume of newsprint and groundwood specialties shipped in 1986 was 194 000 tonnes higher than in 1985, including a sales increase of

44 000 tonnes at the Bridgewater mill. Company shipments of newsprint and specialties were 45% to the United States, 22% to Canada, 18% to the U.K. and 15% to other countries.

In 1986, newsprint consumption in the United States, the Company's principal market, continued to grow, showing an increase of 3.1% over the previous year. Total 1986 U.S. consumption was 11.9 million tonnes. Newspapers in the United States have grown more rapidly than the total economy during the last ten years and appear well positioned for continued growth. This suggests that demand for newsprint will also continue to increase.

The Canadian industry operated at 94% of capacity during 1986, with operating rates at 97% of capacity during the last quarter. This trend is expected to extend through 1987.

The first price increase in 27 months for standard newsprint in the U.S. market was implemented at \$35 per tonne on October 1, 1986. Price increases are also being implemented in Canada and in many overseas markets.

Net sales in 1986 of the Company's mills producing publisher grade newsprint were \$516 million, compared with \$422 million in 1985.

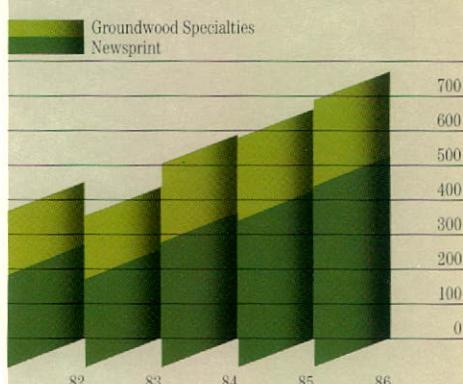
Groundwood Specialties

Net sales of the Company's two groundwood specialty mills at Grand-Mère and Trois-Rivières increased to \$245 million, some \$9 million or 4% over 1985.

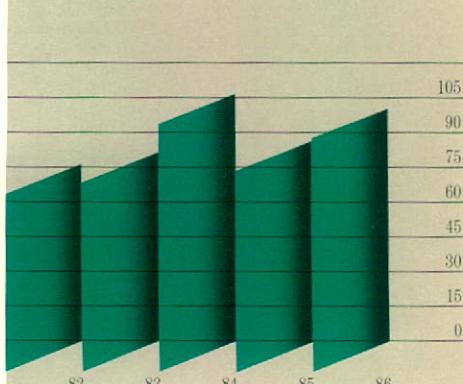
Demand remained generally positive throughout the year, especially in standard rotogravure and heat-set/offset grades. Because of the Company's substantial investment in recent years in machines making these grades, Consolidated-Bathurst is well positioned to serve these growth markets.

As a direct result of the more balanced supply-and-demand relationship for standard newsprint, a strengthening in demand for lightweight paper grades was experienced during the second half of the year. However, new competitive capacity continues to come on line, especially in the higher quality coated and supercalendered paper grades and pricing in these areas will, therefore, remain sensitive. Consolidated-Bathurst's well established customer base for supercalendered paper should help it withstand any serious attrition of its market share and the Company expects to maintain in 1987 the strong groundwood specialties sales position achieved over the last several years.

Newsprint and Groundwood Specialties Net Sales
(millions of dollars)



Kraft Market Pulp Net Sales
(millions of dollars)



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

	1986	1985	1984	1983	1982
Newsprint and groundwood specialties	1 220	1 026	1 021	840	825
Kraft market pulp	172	168	179	177	150
Paperboard	364	287	340	308	324
Lumber (thousands of board feet)	108 297	112 216	101 371	93 144	67 915

Pulp

Kraft Market Pulp

Demand for market pulp began to strengthen in late 1985 and continued to improve throughout 1986, occasioning three price increases. Factors that influenced the higher demand were: reduced availability of eucalyptus pulps, the weakening of the U.S. dollar, and increasingly strong paper markets. Compounding this situation was the reduced fibre availability because of labour difficulties in certain mills in British Columbia. Prices for bleached softwood pulp have improved to U.S. \$550 per metric tonne, effective January 1, 1987 - a return to price levels that prevailed in 1980.

Net sales from the Company's Pontiac pulp mill reached \$99 million, an increase of 14%, based on shipments of 172 000 tonnes, 3% higher than in 1985. This was achieved despite a major shutdown for the installation of new cleaning equipment that will help Pontiac to maintain its position as a leader in the production of high quality, specialty hardwood pulps.

The joint-venture acquisition of the mill at Celgar, B.C., broadens the Company's market pulp product range. The Celgar mill produces northern softwood kraft and can make specialty pulps blended from various wood species. Its products complement well those of the Pontiac pulp mill.

Demand for kraft market pulp in 1987 continues to be favourable.

Bleached CTM Pulp

In December 1986, the Bathurst mill completed the installation of equipment to produce bleached chemi-thermo-mechanical pulp. This installation uses a new system developed by the Pulp & Paper Research Institute of Canada. It will enable Consolidated-Bathurst to market a state-of-the-art bleached CTMP, named AURORA. Market interest in the quality produced at Bathurst is encouraging. Over the course of 1987, introduction of this product, redefined as 'Custom Tailored Market Pulp', is expected to gain good customer acceptance.

Paperboard

Containerboard (linerboard and corrugating medium)

In 1986, the market for containerboard was healthier in both Canada and the United States. Stronger markets in 1985 resulted in inventory reduction at both container plant and mill levels, and this situation continued throughout 1986. Product price increases were effected late in the year.

Production of linerboard at the Chaleurs Division and of corrugating medium at the Bathurst mill benefited from operational improvements at the container plants of MacMillan Bathurst Inc. The Chaleurs mill operated at capacity, with sales and earnings improved over those of 1985.

The Bathurst mill also improved in terms of volume and return, although some adverse effects from the strike late in 1985 were felt in the first half of the year. Stronger demand in world markets, aided by a weakened U.S. dollar, resulted in improved prices and better returns.

The general outlook for containerboard in 1987 should be one of improved demand in all sectors.

Kraft Paper and Boxboard

With the improvement in the industry generally, kraft paper posted higher volumes and earnings in 1986. The higher earnings reflected increased prices for grocery bag and converting kraft as a result of an improved U.S. market. This U.S. market strength should continue in 1987, and result in improved demand and pricing for kraft paper.

Boxboard earnings improved in 1986 because of better operating rates and prices. Operating rates should continue near capacity for 1987 and lend momentum to a continued improvement in earnings.

Wood Products

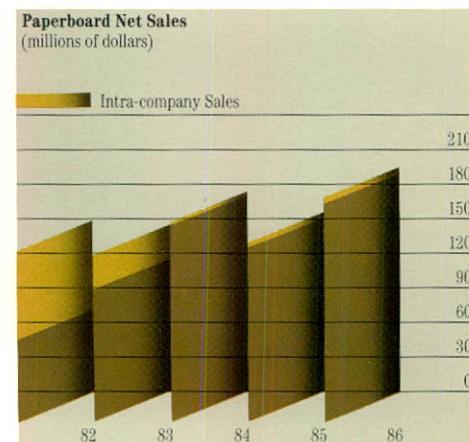
Net sales for the Wood Products Group were \$40 million, almost identical to those of 1985. Of these sales, 53% were made to customers in Canada and 47% to those in the United States.

Total sales volume was 108.3 million feet board measure (FBM), down 3.5% from 1985.

The Company's four sawmills produced a total of 119.8 million FBM of sawn lumber and 115 000 oven dried tonnes of chips. Operating rates at Braeside and Notre-Dame-du-Rosaire were near or at capacity, while Saint-Fulgence and Bathurst operated well below their capacities. Operating rates at the Saint-Fulgence sawmill were seriously constrained by sawlog availability. At Bathurst, there was a similar problem related to the strike at the pulp mill in late 1985 and the subsequent delay in getting area woodlands operations back into production.

The threat during the year of the U.S. countervailing duty on lumber exports to that country had an adverse impact on results - particularly during the final quarter. Sales volumes and profits during the year's final quarter were reduced, particularly at the Braeside mill.

During the year, the Company's sawmill at Saint-Fulgence, Que., began to reflect the results of its earlier investments in modernization. Employees there demonstrated its potential, with record production per shift and noteworthy improvements in productivity.



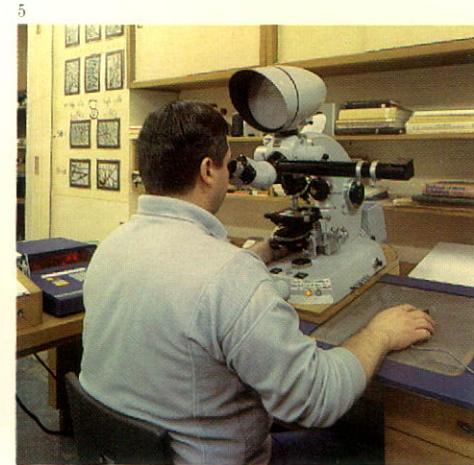
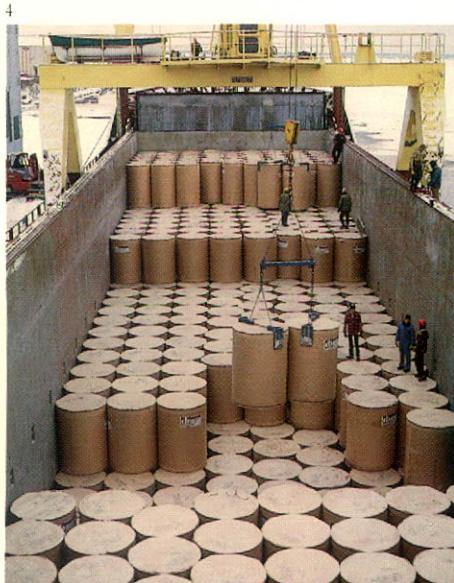
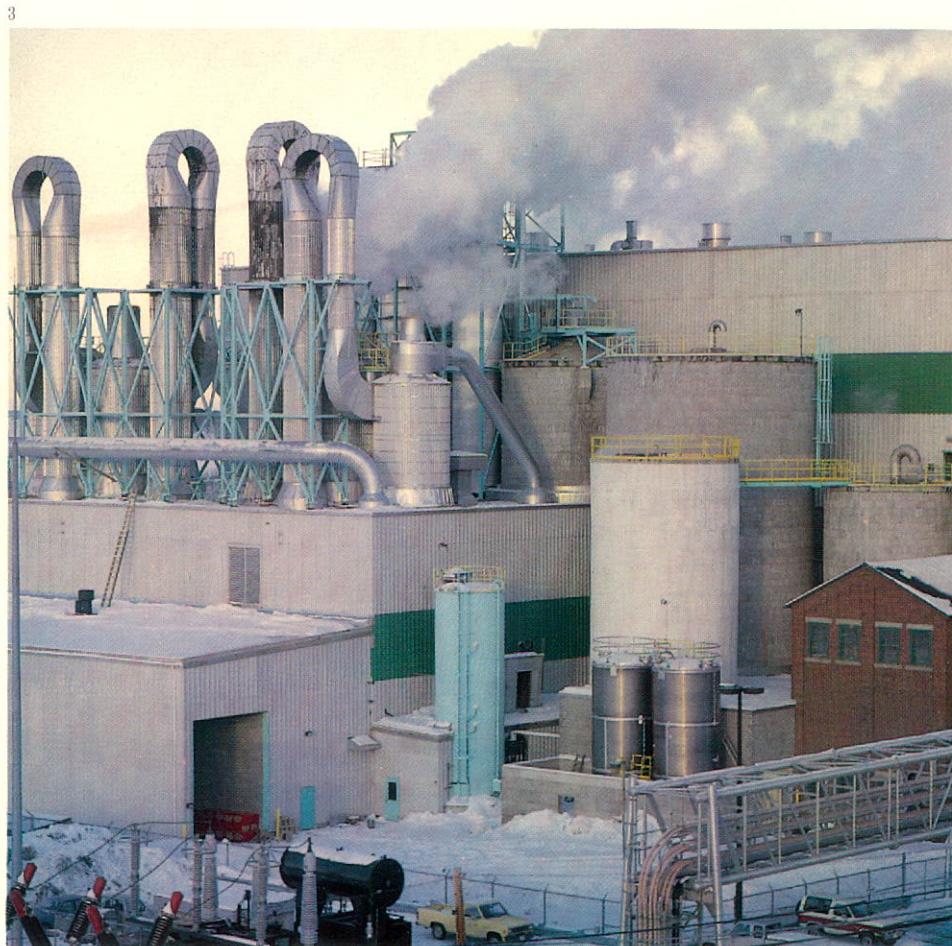
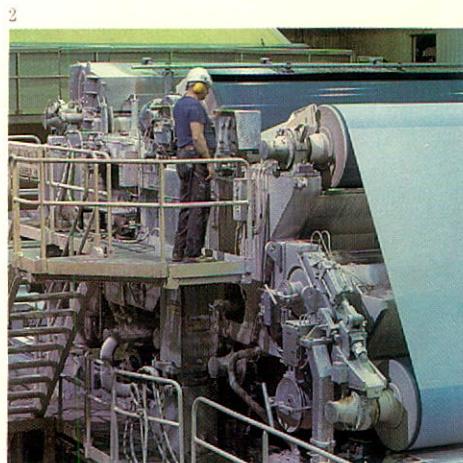
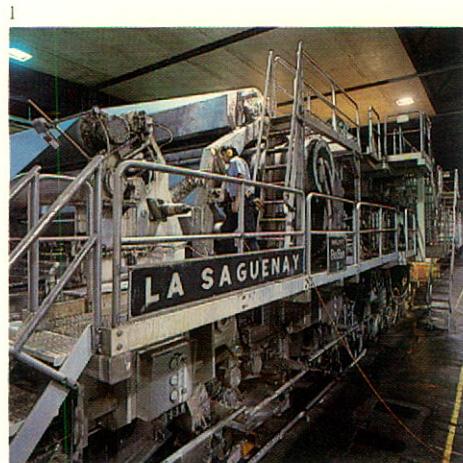
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No. 4 paper machine at the Port Alfred newsprint mill. With addition of twin-wire former and speed-up of that machine, major modernization program there is complete.

2
Laurentide No. 10 paper machine from wet end, representative of twin-wire formers now operating on 14 machines, or almost 90% of Company newsprint and specialties capacity.

3
Flash-drying towers (upper left) at the Bathurst CTM pulp mill, and new tanks (lower right) for pulp bleaching line added in 1986.

4
Bathurst Corrugating Medium being loaded for export. New \$94 million CM machine to be installed in 1987-88 will replace the two existing machines and increase the mill's annual capacity to produce corrugating medium from 105 000 to 150 000 tonnes.

5
Research and Technical Development personnel, centred at Grand-Mère, work to improve processes used at Company mills and to introduce new developments.



Woodlands

During 1986, the Company's four Woodlands divisions delivered some 2.3 million tonnes of wood fibre to Company pulp and paper mills and sawmills. This was 19% above 1985 levels, reflecting generally improved market conditions and an operating year at the Bathurst mill free of the previous year's strike shutdown.

Sawmill chips and sawdust amounted to 926 000 tonnes or 40% of total deliveries, and included 117 000 tonnes from Company-owned sawmills. The Woodlands divisions also delivered 245 000 wet tonnes of bark and other sawmill residues to the Port Alfred, Laurentide, Wayagamack, Pontiac and Bathurst mills for use as boiler hog fuel. The unit cost of wood fibre delivered in 1986 was approximately 1% higher than in 1985.

At year-end 1986, inventories in the mill yards, rivers and forests were valued at \$76.4 million, some \$8.4 million less than at the end of 1985, and at their lowest year-end level since 1974. This is the result of the Group's continuing efforts to improve quality of the product by reducing the time lag between harvesting wood and its reaching destination. Capital expenditures for mechanical equipment, roads, camps and other facilities amounted to \$1.6 million, compared with \$1.0 million in 1985.

A new Forest Act was passed in the Province of Quebec on December 19, 1986. The pulp and

paper industry generally agrees with the overall orientation of the Act, but details of application and the industry's share of the future cost of forest management are still under discussion.

The proposed new regime abolishes existing forms of forest tenure and wood allocation on Crown lands, and replaces them with evergreen wood supply and forest management contracts. These agreements will have an initial term of 25 years. Wood allocations are to be limited to the potential of the forest on a sustained yield basis, and forest management responsibilities will be with the licensees, who will be obliged to regenerate cut-over areas at their expense to obtain a higher yield from the same area.

In line with the thrust of this new forest policy, and to ensure continuity of fibre supply, the Saint-Maurice Division and Chaleurs Area of the Maritimes Division have now secured delivery commitments for an annual total of 400 000 tonnes of chips and roundwood through long-term supply contracts.

In addition, Consolidated-Bathurst has signed a contract with the Ministry of Energy and Resources of Quebec to produce five million seedlings per year in the Saint-Maurice Valley. The Company has also become one of the partners financing Centre sylvicole Forestville Inc. That company will produce ten million seedlings per year on the north shore of the St. Lawrence River.

The eastern border of the damaging Gypsy Moth outbreak in Ontario has now reached the Ottawa River in Renfrew County, in regions providing wood fibre to both the Pontiac pulp mill and Braeside sawmill. Early 1987 research suggests, however, some weather-related decline in egg mass counts. The insect's favorite host is the oak tree. In the absence of oak, it will thrive on any hardwood or softwood. It can, however, be readily controlled by chemical spraying.

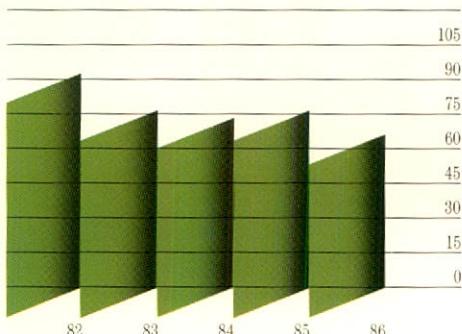
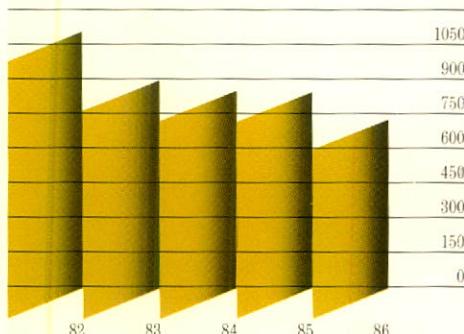
In 1986, the Company continued to apply its policy and that confirmed by the Minister of Energy and Resources of Quebec to encourage more intensive forest management. With assistance from federal/provincial cost sharing programs, a total of 1 096 hectares of cut-over forest were scarified and some 1.8 million seedlings planted on both public and private lands. Various silvicultural programs: thinning, using herbicides, pruning and silvicultural cutting methods were also conducted with the aim of improving the forest growth rate.

Manufacturing

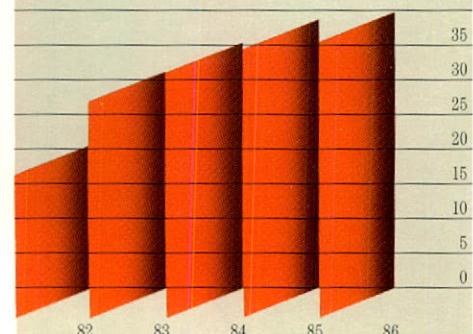
Production of the Company's eight pulp and paper mills in 1986 totalled 1 865 000 tonnes, 19% more than in 1985, and exceeded the previous record of 1984 by 215 000 tonnes or 13%. Three mills established substantial improvements in production: Port Alfred went up 21%, Bridgewater 15% and Wayagamack 13% over 1985.

Monthly average wood inventories
(thousands of tonnes)

(millions of dollars)



Lumber Net Sales
(millions of dollars)



1

Clean-up teams round up stray pulpwood as part of the drive on the Saint-Maurice River, an important highway for wood transport.

2

At the Gillies pine sawmill in Braeside, by-product chips (at right) will go to the nearby Pontiac mill for use in market pulp production.

3

Wayagamack mill at Trois-Rivières, 75 years old in 1987, produces kraft paper and groundwood specialties. Building at left houses No. 3 lightweight paper machine, started up in 1982.

4,6

This new nursery at Saint-Étienne-des-Grès raises millions of seedlings, for subsequent planting in expanding reforestation operations.

5

Skidder, an essential woodlands operations vehicle, is used to move harvested trees to roadside.

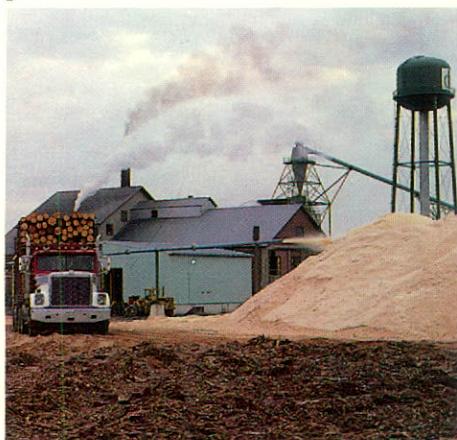
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5



6



At the Company's four Canadian newsprint mills, newsprint and specialty production was 972 000 tonnes, an increase of 132 000 tonnes over 1985. The increase was mainly attributable to full operation based on favourable market conditions, and to machine speed-up programs completed during the past two years. In 1986, twin-wire formers were installed and machine speed-up programs effected on one machine each at Port Alfred and Wayagamack and a twin-wire was installed on one machine at Belgo Division. To date, 14 of the Company's machines have been equipped with twin-wire formers. These machines currently represent about 90% of productive capacity. At Pontiac, improved pulp cleanliness was achieved following the installation of the new on-machine cleaning system.

The 1986 thermal energy requirements increased by 13% over those of 1985 due to the higher production requirements. Thermal energy costs were, however, \$44 million, or \$10 million less than in 1985. This reduction in cost in spite of higher production reflected lower oil prices and the consequent lower rates for electric boiler power. Bunker "C" fuel oil consumption in 1986 was 962 000 barrels, 13.5% more than in 1985. In 1986, wood residue fuel displaced an equivalent 827 000 barrels of oil; and secondary power, some 1 150 000 barrels of oil.

Capital expenditures at the Company's pulp and paper mills in 1986 were \$144 million, representing an increase of \$26 million, or 22% over 1985. The major items were \$14 million on the second de-inked pulp plant at Bridgewater, \$42 million on the Belgo CTMP installation, \$31 million for the two machine speed-ups and three twin-wire formers, and \$19 million on the CTM pulp bleaching installation at Bathurst.

In December, authorization of the Board of Directors was received to proceed with the installation, at a total cost of \$94.3 million, of a new machine to produce corrugating medium at Bathurst Division. This machine will replace the existing Nos. 3 and 4 machines, having an annual capacity of 105 000 tonnes, with one machine capable of producing 150 000 tonnes/year. The project represents the final major part of the \$257 million Bathurst development program, on which \$151 million has been spent to date.

Capital expenditures on environmental projects in 1986 were \$10.1 million. This included an expenditure in the Belgo pulp mill project related to the reduction of mill effluent biochemical oxygen demand (BOD).

During 1986, several key steps were taken to continue to improve product quality and to reduce operating costs. At Bathurst, Woodlands reduced the time interval in wood deliveries. This has the advantage of reducing the investment in inventory while providing fresher wood for a superior bleached pulp. At Belgo and Wayagamack, hardwood utilization was increased. Hardwoods can often serve as a partial substitute and lower-cost raw material that extends the use of softwood species.

During 1986, Manufacturing introduced a program to broaden participative management and performance appraisal of management personnel. The participation of each individual on the basis of assigned role makes it possible to optimize job performance, thereby aiming at both the achievement of organizational goals and the satisfaction of individual needs.

Labour contracts at the Company's Canadian mills, which continued in force during 1986, are subject to renewal in 1987. At Bridgewater, a one-year agreement was signed in October.

Bridgewater Paper Company

Results of the Company's newsprint mill at Ellesmere Port in the United Kingdom, also referred to as the Bridgewater Division or the mill of Bridgewater Paper Company Limited, improved steadily through 1986. On July 1, the mill's production since start-up in 1983 passed a total of 500 000 tonnes, and for 1986 was 240 000 tonnes.

Throughout the third and fourth quarters of 1986, Bridgewater Division showed an operating profit and, on a cumulative basis, ended the year virtually in a breakeven position. This major improvement over 1985 was effected in spite of a highly competitive environment and depressed prices because of a surplus of newsprint in the U.K. and continental Europe. In Europe, however, low prices in local currencies were more than offset by favourable exchange rates.

Higher volumes of production and sales substantially helped the Division's performance. Other positive factors were lower effective prices for CTM pulp and waste paper, an increase in de-inked pulp (DIP) in the mill's furnish, and lower energy costs, based on lower prices and higher efficiency.

Sales of Bridgewater newsprint, at 243 000 tonnes, went 89% to the U.K. and Ireland and 11% to continental Europe. Construction of the mill's second de-inked pulp plant was completed on schedule at an expenditure of £23.6 million. By September, the proportion of pulp from de-inked paper in Bridgewater newsprint had successfully reached the planned target.

With the second DIP plant coming on stream, the Division's waste paper requirements increased by 78% to 16 000 gross tonnes per month. In anticipation of this need, a waste paper company, Cheshire Recycling Limited, was formed. Cheshire Recycling began operation in July at Hooton, six kilometres from the mill. This is the central collection point for household waste from bins called 'igloos', sited in the surrounding area. Some 50 'igloos' in place last fall are expected to be increased to 1 000 within the next two years.

During the year, Bridgewater also successfully introduced a higher grade of specialty newsprint. Assuming no major change in the current exchange rate levels, the trend of positive operating profit achieved at the end of last year is expected to continue throughout 1987.

1
At Ellesmere Port in the U.K., Bridgewater newsprint moves into storage area. The mill's production climbed sharply in 1986 to 240 000 tonnes.

2
'Verticells' of Bridgewater's second de-inked pulp plant. Started up in 1986, plant allows the mill to increase use of recycled material in newsprint furnish.

3
View of the Bridgewater mill showing new storage sheds in foreground, Manchester Ship Canal and River Mersey in background.

4
Sorting of waste paper at Cheshire Recycling Limited, six kilometres from the Bridgewater mill. Formed in 1986, CRL promotes waste paper collection in the region, to help meet the mill's requirements.

5
'Igloos' serve as public collection points for waste paper recovery.

1



3



2



4



5



North American Packaging

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

CB Pak's earnings in 1986 were \$21.8 million, or \$1.08 a share, down from the \$32.2 million, or \$1.61 per share, recorded in 1985. An extraordinary charge of \$3.8 million, or 19¢ a share, related to a plant closing at Diamond-Bathurst made the company's net earnings for the year \$18.0 million, or 89¢ per share. In 1985, an extraordinary gain of \$6.3 million resulted in net earnings of \$38.5 million, or \$1.92 a share.

In short, 1986 proved to be a disappointing year for CB Pak. The U.S. glass container associate, Diamond-Bathurst, during its first full year of integration of the two major companies acquired by it in 1985, experienced unexpected operating problems. Domglas and Twinpak recorded improved operating earnings despite heavy start-up expenses associated with Twinpak's launch of several new businesses and a strike at Domglas' plant in Scoudouc, N.B. Those improved earnings were offset by higher interest expense and an increased income tax rate.

Net sales for 1986 were \$473.6 million, 3% higher than in 1985. Sales increases at Twinpak cushioned the loss in Domglas of U.S. sales with the permanent shutdown of its plant at Burnaby, B.C., and of domestic sales during the strike at its Scoudouc plant.

CB Pak capital expenditures amounted to \$39.6 million, up sharply from the \$27.6 million of the previous year. Noteworthy in the higher level was funding of major expansions at Twinpak. Dividends and share repurchases totalled \$13.2 million, compared with \$11 million in 1985. New investments totalled \$10.8 million.

During the year, Twinpak, which held 48% of the shares of Twinpak Pressform Inc. in 1985, acquired the remaining 52%. Twinpak also acquired 49% of the shares of Bulk-Lift Canada Ltd., a manufacturer of flexible bulk containers that complement the industrial bags and related filling equipment systems of Twinpak's Flexible Packaging Group. With the refinancing of Diamond-Bathurst Inc. in 1986, CB Pak Inc.'s holdings in that company increased from 42% to 45%.

In July 1986, the company issued \$65.7 million of bonds in the Swiss market at 5 3/4% which helped to improve working capital ratio to 2.51 from 1.48. Cash flow from operations increased to \$46.4 million, from \$45.5 million. Total debt, however, also increased by \$18.8 million to \$99.8 million, to fund new investments and capital expenditures.

Twinpak started up a major PET plastic container facility at its Mississauga plant in March 1986 and is doubling capacity of the plant to satisfy the rapidly growing demand for large-size plastic soft-drink containers.

Twinpak also completed major expansions in the extrusion-coating and laminating facility at Brantford, in the plastic squeeze tube operation at Granby and for the manufacture of child-resistant closures at Ville Saint-Pierre.

Libbey-St. Clair Inc. finished installation of new high productivity decorating facilities and of equipment to manufacture some of its own packaging components. Higher productivity glass machines were installed at two Domglas plants, expanding its facilities to recover most of the capacity lost in the Burnaby plant closing.

In 1987, Diamond-Bathurst expects to generate better results based on expansion in beverage and food sectors and its further rationalization of capacity, and higher sales and earnings are expected at Twinpak. Domglas will benefit from a price increase recently announced for most of its products, from continued gains in productivity, and from lower energy costs. Libbey-St. Clair is also optimistic, as its market share in the retail business should continue to improve and as the company expands its institutional and 'premium' sales activities.

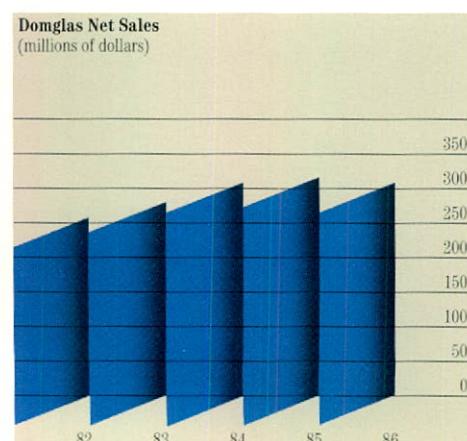
Domglas Inc.

In spite of a 3.5% decline in net sales to \$309 million, Domglas was able to increase operating earnings 10% to a record \$31.9 million.

The drop in sales from 1985's record levels resulted largely from the closing of the company's plant in Burnaby, B.C., late in 1985, and a seven-week strike at the Scoudouc, N.B., plant in late spring. The 1986 market for glass containers in Canada was flat compared to the levels of 1985.

Continued growth in single-service containers for juices, soft drinks and wine coolers offset the decline in other categories. Other negative factors were generally poor beverage sales in the summer because of adverse weather, and disappointing results in 'Plasti-Shield' containers after the soft drink regulation changes allowed the introduction of that container in Ontario. Refillable beer bottles again provided a positive element based on new brands and float conversions to twist-top openers.

Modest gains were realized during the year in manufacturing productivity and cost performance benefited from higher capacity utilization following the Burnaby shutdown. Factors which limited productivity growth included the consolidation of Burnaby's production, largely in the plant at Redcliff, Alta., start-up difficulties with higher-productivity machines in Ontario and Quebec plants, and the strike at the Scoudouc plant.



1

Domglas bottles are popular for a wide variety of uses, including beer, spirits, 'coolers', juices, soft drinks.

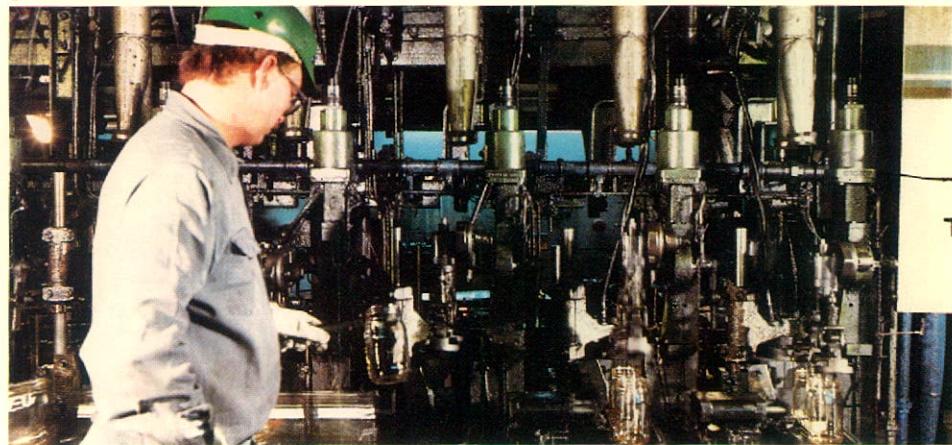
2,3,4

Representative of Domglas improvements during the year are these computerized operation controls at Montreal plant, and new eight-section bottle-making machines installed at several plants. Close-up shows containers being produced on such a machine at Domglas, Montreal.

2



3



4



1



Capital spending totalled \$23.3 million, up 23% from 1985, largely related to installation of the new high-productivity machines, computerized control equipment and Domglas' fourth 'Plasti-Shield' line.

For 1987, growth is anticipated in all beverage markets, with strength in single-service containers for juices, in 'Plasti-Shield' bottles for soft drinks, and in sales of beer and wine cooler bottles.

Manufacturing performance is also expected to improve.

Twinpak Inc.

Net sales of Twinpak Inc. in 1986 were \$170 million. This was 18% higher than in 1985, with all three divisions contributing to the improvement. Operating earnings of \$13.8 million were up only slightly from 1985 because of heavy start-up expenses associated with various expansion projects.

These projects included the PET container joint venture at Mississauga, and the vacuum-metallizing expansion and coating-and-laminating upgrade, both at Brantford. Capacity additions were made in the 'Plastube' facility at Granby, Que., and marketing activities for Twinpak Pressform product lines were extended in Canada and the U.S.

Late in 1986, a reorganization was announced that will help the company manage its rapid growth more efficiently, and maintain its momentum. The key divisions are re-named as groups: Rigid Packaging Group, Flexible Packaging Group and Packaging Distribution Group (Ampak), each headed by a vice-president and general manager. Operations are decentralized into nine strategic business units, each with its own plan for a defined market sector.

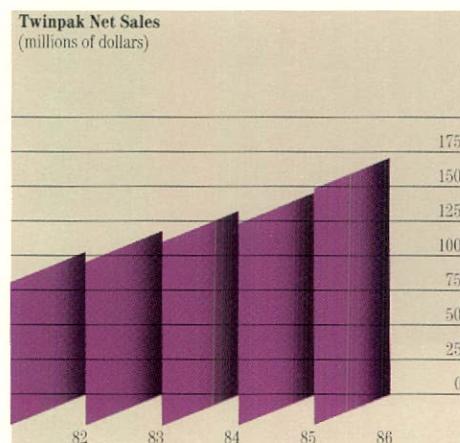
In 1986, Twinpak continued its strong commitment to new product introductions. As part of its licensing agreement with Owens-Illinois, Twinpak introduced a line of 'Clic-Loc' child-resistant closures for pharmaceutical use, and a

line of tamper-evident and specialty dispensing closures for food and other applications. It also developed new lines of smoothwall caps for plastic squeeze tubes and of coloured metallized film for the Christmas decoration market.

Of particular note during 1986 was the successful market introduction of PET plastic containers to the Ontario beverage market through a joint venture with several independent Ontario soft drink bottlers. The Mississauga plant started production of 2-litre PET bottles in March and market acceptance of the container has been so good that the plant's capacity is being doubled.

During the year, Twinpak acquired 100% of the shares of Twinpak Pressform Inc. The operation has now been integrated into the Food Packaging Systems Business Unit of the Rigid Packaging Group, and sales are expected to increase in 1987 in both Canada and the United States.

At the end of 1986, Twinpak also acquired a 49% equity position in Bulk-Lift Canada Ltd. This investment strengthens Twinpak's position in the growing market for intermediate bulk containers, and will provide development opportunities for both companies. Bulk-Lift recently installed three new lines for industrial bag circular weaving, and is the first company in Canada to use this technology. These developments will permit Twinpak to integrate backwards in the woven fabric area, and enhance its market position in both industrial bags and in extrusion-coated and laminated materials.



The increase in the *Flexible Packaging Group's* sales volume in 1986 was largely attributable to higher shipments of vacuum-metallized products and coated and laminated products. The Vacuum Metallized Products Business Unit showed good growth. This was primarily in the area of gravure and litho-grade metallized papers, where expanded capacity was able to meet increased customer demand.

In the Coated and Laminated Products Business Unit, increased demand for its major product lines allowed all plants to operate at or near capacity in 1986. Sales gains were made in lumber-wrap products and reinforced laminations for the metal industry, with increased market penetration in both Canada and the United States. Higher sales of intermediate bulk containers and plastic bags contributed positively to the results in 1986 of the Bag and Film Products Business Unit.

Sales of the *Rigid Packaging Group* increased substantially over those of 1985. All three business units showed important gains. The PET Containers Business Unit experienced substantial growth as a result of market acceptance of these containers in Ontario, and positive demand in all market areas.

Sales of plastic squeeze tubes continued strong. The additional capacity in extrusion, heading and automatic printing was completed in late 1986 at the Granby plant, and will enable the Tubes & Rigid Plastics Business Unit to benefit from continued strong demand for tubes in 1987.

Sales of the *Packaging Distribution Group (Ampak)* were slightly above those of the previous year, mainly due to sales of blow-moulded and injection-moulded plastic items. The Group launched the 'Clic-Loc' line of child-resistant closures in late 1986. The manufacture of these containers will start early in 1987 at the plant in Ville Saint-Pierre, Que.

Capital expenditures for the year totalled \$16.4 million. These provided for expansion of the Brantford extrusion-coating and laminating facility, of the Granby plastic squeeze tube operation, and for the start-up and subsequent expansion of Mississauga PET container production.

1

At Twinpak in Brantford, this printing press in the extrusion-coating and laminating operation has been upgraded to do higher quality printing more efficiently.

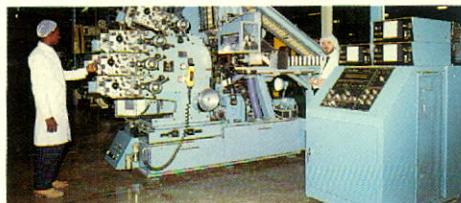
2

This new printing line for high-viscosity dispensers, e.g., toothpaste 'pumps', now produced at Twinpak, Mississauga, can use four colours and will shortly have two more colour stations.

1



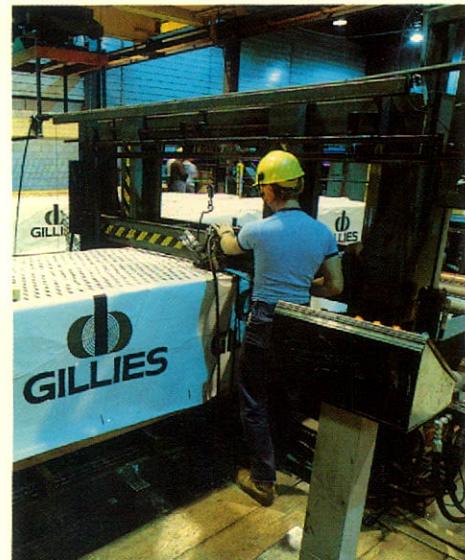
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3

Widely-used Twinpak lumberwrap shown here packaging high quality pine produced at Consolidated-Bathurst's Braeside sawmill.

3



4

Some Twinpak specialties: PET large-size plastic bottles for soft drinks, high-viscosity pumps, pressure-formed containers, child-resistant bottle caps, vacuum-metallized films in use.

4



Twinpak anticipates 1987 will be a year of strong market gains. With start-up costs absorbed in 1986, efficiency and margins should show good improvement, while sales increases are anticipated based on 1986 and 1987 capital programs.

Libbey-St. Clair Inc.

Although marginally lower than in the previous year, glass tableware sales and earnings of Libbey-St. Clair continued at a satisfactory level during 1986.

The company made important gains in volume and market share in food-service and retail markets, as pressure from imports abated. This relief was a result of the strengthening of European currencies and of cost improvements achieved over recent years. In the 'premium' segment, sales experienced a downturn after a record year in 1985, and export volume remained soft.

During the year, the company completed installation of a higher productivity six-colour decorating machine at its plant in Wallaceburg, Ont., and began manufacture of some of its packaging component requirements.

The outlook for 1987 is positive, with continuing gains expected in all market areas and with 'premium' sales expected to rebound to record volumes. The company should also be able to improve export sales and the volume of sales to industrial customers.

Diamond-Bathurst Inc.

Net sales of Diamond-Bathurst Inc., CB Pak's U.S. glass container associate, increased to U.S. \$491.8 million in 1986 from U.S. \$407.5 million in 1985, during which the company operated in its current form for less than a full year.

Net loss for the year was of U.S. \$6.2 million, in contrast to net earnings of U.S. \$11.0 million experienced in the previous year. The loss was the result of lower than anticipated sales, acceleration of the company's plant rationalization program, the need to curtail production so as to

reduce finished goods inventories. There were also inventory write-offs and a loss of investment tax credits.

A special program begun in the third quarter was well under way by year-end. Its objectives are the completion of the restructuring of manufacturing facilities and the reduction of finished goods inventories. In addition, a national campaign to improve the company's position with the soft drink and food industries was launched. These initiatives should enable the company to operate at satisfactory production levels, lower its costs and increase its overall sales volume in 1987.

Three small, less efficient plants in Mt. Vernon, Ohio, Vienna, W. Va., and Knox, Pa., were closed down in 1986; and a second furnace was scheduled for rebuild in the first quarter of 1987 at the plant in Elmira, N.Y. This rationalization will lower operating costs significantly. Capital spending levels were increased to U.S. \$39.3 million to refurbish some of the acquired plants that needed upgrading to meet the needs of their customers. This high level of spending will continue in 1987 so as to complete the fully-computerized facilities needed for efficient production of high volume soft drink and food containers and to fund modernization and updating of several other facilities.

Diamond-Bathurst also implemented a major management reorganization aimed at improving the co-ordination of sales and manufacturing, and at strengthening its quality control, design and engineering departments.

With finished goods inventories substantially reduced at year-end and with operations expected to perform at higher levels following positive response to the company's beverage and food marketing programs, Diamond-Bathurst should generate improved results during 1987.

MacMillan Bathurst Inc.

During 1986, performance of MacMillan Bathurst Inc. (MBI) again demonstrated steady growth, matching that of the Canadian economy. The impact of a tightening of the North American paperboard market was positive, with corrugated product prices firming throughout the year.

In the second half of the year, an additional step in facility rationalization resulted in the sale of the company's plant at Saint John, N.B., to Maritime Paper Products Limited. The thirteen other MBI plants stepped up their modernization program with various capital improvements. These are dedicated to assuring that the quality and service requirements of MBI customers are well served.

Major recent or current projects in eastern Canada include the installation of a mini two-colour flexo-folder-gluer in Rexdale (Toronto), a modern corrugator in Pembroke to better serve the eastern Ontario markets, and a new fingerless single-facer for the corrugator at Whitby (Toronto). The Whitby single-facer is a "Whirlwind Dualfacer" design, the first of its kind in Canada. In western Canada, the Winnipeg plant improved its corrugator with a direct-drive knife, and New Westminster installed a direct-drive knife and new die-cutting equipment. These expenditures will result in continued improvement in productivity.

Schiffenhaus Canada Inc., a joint-venture company in which MBI is participating, came on stream in 1986 to do precise flexographic printing on linerboard. This quality pre-printed product is now being supplied to seven MBI plants across Canada. As part of this program, the following plants have adapted their equipment to produce these 'pre-printed' corrugated containers of exceptional graphic quality: New Westminster, Edmonton, Winnipeg, Guelph, Rexdale, Whitby and Saint-Laurent.

As in previous years, 1986 negotiations with the unions representing hourly employees were concluded satisfactorily. The only contracts expiring in 1987 are those of the two Alberta plants.

In anticipation of continued growth in the Canadian economy and firming prices in the North American market for paperboard, MBI's outlook for 1987 is positive.

1

At Schiffenhaus in Mississauga. A joint venture participation of MacMillan Bathurst, Schiffenhaus delivers high quality effects by pre-printing linerboard before it is combined into corrugated board and made into boxes.

2

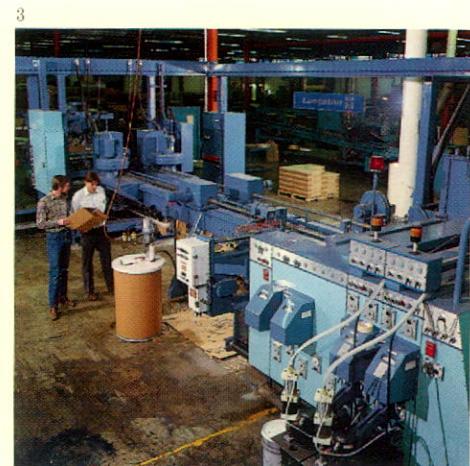
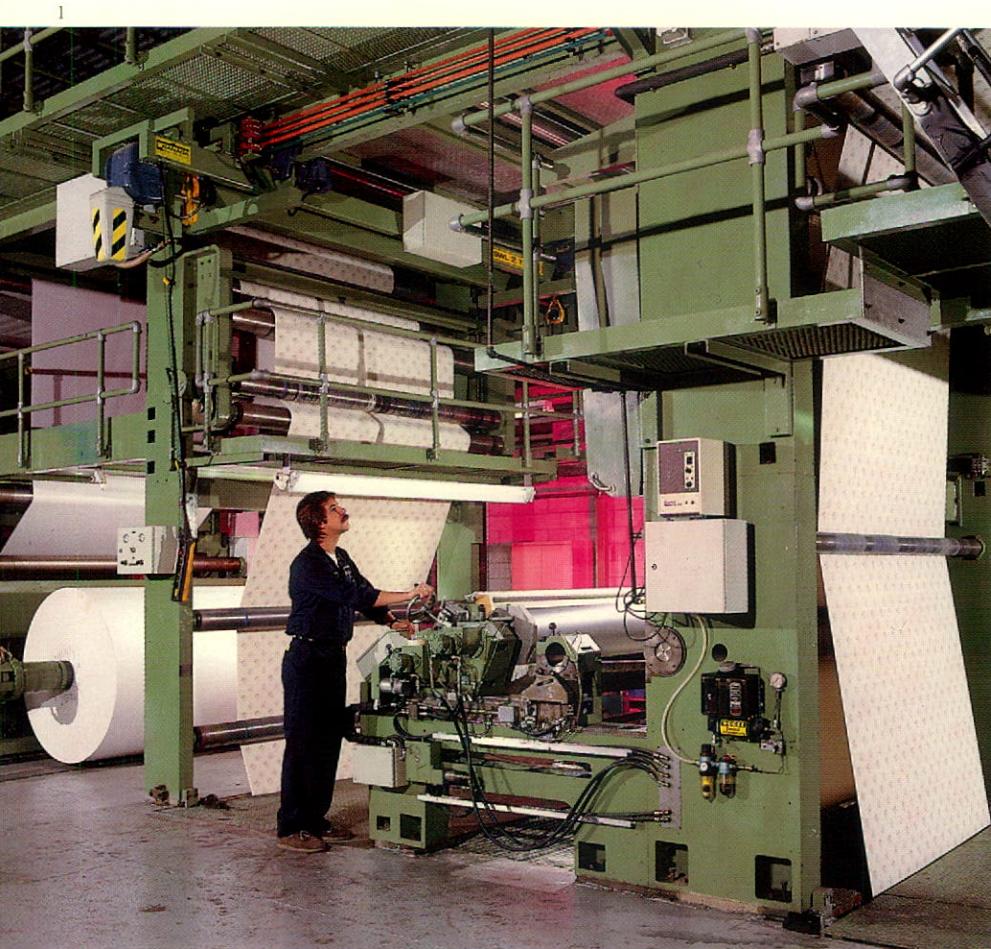
Bottles still hot on the line at the Diamond-Bathurst plant in Elmira, N.Y.

3

A new 'mini' flexo-folder-gluer for smaller size containers was installed during the year at MacMillan Bathurst's Rexdale plant.

4

These glasses by Libbey-St. Clair were produced at its Wallaceburg plant, where a high-speed six-colour decorating facility started up last year.



4



2



Packaging, Europa Carton

Europa Carton achieved good results again in 1986. Although the total volume of sales shipments showed a slight increase, net trade sales, fell from DM 717 million to DM 703.3 million, because of the decline in revenues from waste paper and lower prices. Results for 1986 were also burdened by extraordinary charges related to the planned closing of the company's folding carton plant in Munich. After translation into Canadian dollars and largely because of the sharp rise of the Deutsche mark, ECA's earnings before extraordinary items improved 82%.

The general business climate of 1986 in the Federal Republic was characterized by the continuing upswing in the economy, and by general price stability during the year. Growth in GNP was much the same as in the prior year, i.e., real growth was 2.5% with most of the growth taking place in the first half. In contrast to 1985, economic growth in 1986 resulted from stronger domestic demand and was less dependent on exports. In spite of the continuing high rate of unemployment, the purchasing power of the individual consumer increased. This increase and the trend towards a higher rate of industrial investment were in essence the driving force of the economy.

Although there was no general increase of orders, the packaging industry benefited in some areas. In the corrugated container industry, where Europa Carton is the market leader, there was an acceleration of growth. Production in square metres grew by 4.8%, compared with a 1.8% increase in the prior year. Production of paperboard for the corrugated industry stagnated at the prior year's level.

Europa Carton also has a leading position in the folding carton industry. While domestic demand for folding cartons was weak and production stagnated, overcapacity in this segment of the packaging industry continues.

The waste paper market is also in a difficult position. New laws, aimed at reducing the volumes of refuse in the Federal Republic, have imposed increased collection of household waste paper on communities and recovery agencies. As a result, supply is growing at a rate considerably in excess of demand. With total waste paper consumption of four million tonnes in 1986, there was an

oversupply of 300 000 to 500 000 tonnes. This led to a sharp decline in waste paper prices.

The most successful sector of ECA's business in 1986 was the Corrugated Container Division. It produced about 385 million square metres of product, achieving a growth rate (6.1%) considerably better than the industry average. Although sales in DM were at about the same level, earnings were higher, with all eight of the Division's plants running at full capacity throughout the year. At Plattling, the final stage of expansion aimed at improved production flow was successfully completed. A new converting area with a folder-gluer capable of turning out 15 000 corrugated boxes per hour went into operation. At the Lübbeke and Neuburg plants, capacity for medium-size boxes was expanded through installation of new computer-directed lines.

Although increased sales were realized, improved results planned for the Folding Carton Division for 1986 could not be achieved. With selling prices slightly higher, trade sales rose by 2.5%, but static demand for packaging in the food industry and the changeover to new style printing for cigarette packages - a stronger trend to rotogravure - required a concentration of production at certain facilities. This situation led to the decision to close the Munich plant and to a shift of orders to the Division's other three folding carton plants in the Federal Republic. At the same time, to accommodate the increased sophistication in cigarette packaging, a new rotogravure machine was installed in the Augsburg plant. ECA's new folding carton plant in Holland continued its successful development.

Performance of the company's boxboard mill in Hoya was noteworthy. Production at full capacity of 54 800 tonnes was on about the same level as in 1985. But stable selling prices and lower raw material costs, because of the reduced prices of waste paper, helped the mill achieve a sharp increase in profitability.

The company's corrugating medium mill at Viersen produced 39 900 tonnes during the year. Although raw material costs were lower, earnings were down. This was related to strong competition that forced reductions in selling prices.

Following the decline in profits in ECA's waste paper business referred to last year, that sector incurred a loss in 1986. Although there was almost no change in sales volume, sales revenues declined approximately DM 20.7 million. From the second quarter, collection costs could not be covered by revenues. Prices did stabilize at a low level by the end of the year, although the general condition of oversupply remained unchanged.

Expectations for 1987 are dampened by increased signs of uncertainty in the economy. Predictions are that real growth will be 2.0 to 2.5%, and favour a further increase in the real income of private households. On the other hand, the international competitiveness of the Federal Republic will be adversely affected by revaluation of the Deutsche mark.

There is concern over the effects of the trade differences between the United States and the EEC, which could lead to sales problems in key markets. Equally uncertain is the development of raw materials markets. New cost burdens could develop that could not be offset by higher selling prices. Renewed demand by the unions for a shortening of the work week is another element of uncertainty.

In ECA's own operations, increases in overall capital spending by DM 9.2 million to a total of DM 42.1 million for 1986 and the changes made to strengthen the structure of the Folding Carton Division should help to protect the earning power of the company.

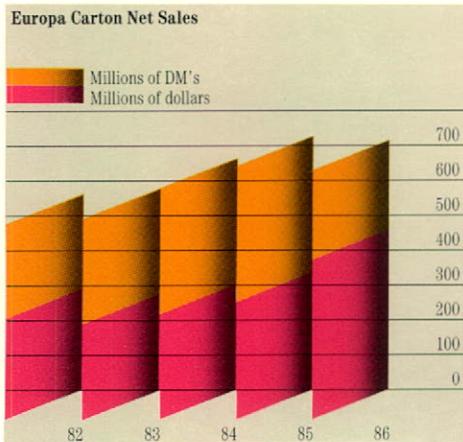
Shipments - Europa Carton	1986	1985	1984	1983	1982
Containers (millions of square meters)	399	375	361	346	335
Folding cartons (tonnes)	60 650	57 700	50 620	47 030	46 430
Paperboard (tonnes)	94 180	93 990	90 290	82 060	79 770

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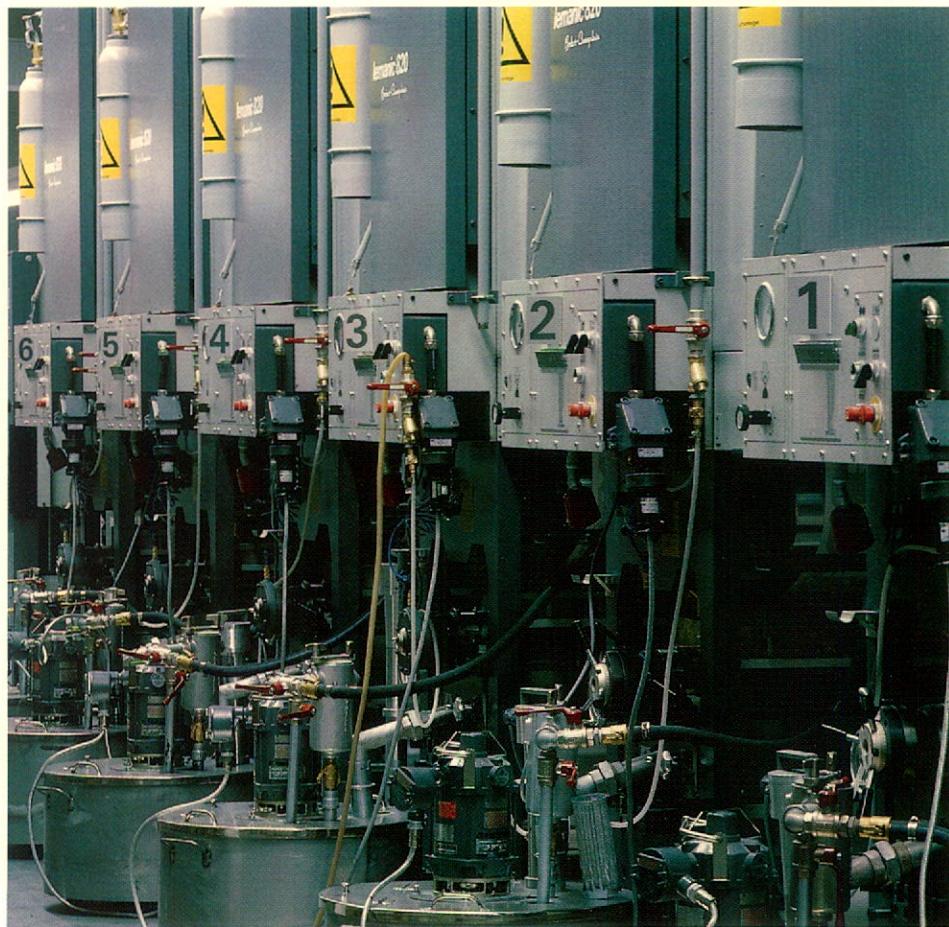
New rotogravure unit at ECA's Augsburg plant provides top quality printing and in-line die cutting of cigarette packages, an important part of the company's folding carton business.

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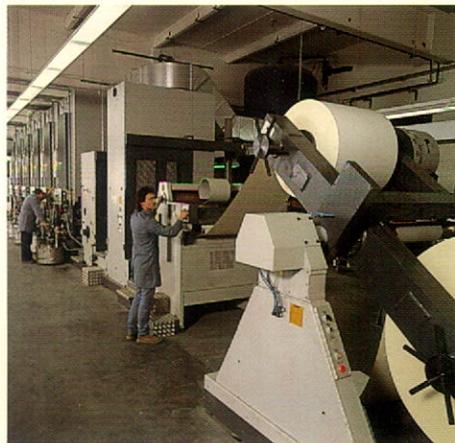
At the Neuburg plant, computer-control of a new unit that can produce up to 14 000 medium-size corrugated boxes per hour. Order changeovers take five minutes or less.



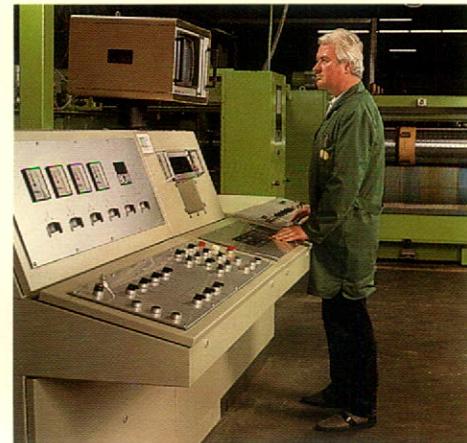
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Oil and Gas Investments

The most important influence on the performance of Consolidated-Bathurst's oil and gas investments in 1986 was the precipitous drop in world oil prices. Canadian oil prices declined to levels less than half those experienced in 1985, recovering by year-end to about two-thirds of the levels of 12 months earlier. Prices for natural gas, already low in relation to oil, did not drop as sharply but drifted continuously downward through the year. Intense competition, resulting from deregulation of Canadian gas markets in November and from a gas surplus in the U.S. market, is expected to keep natural gas prices depressed through 1987.

At December 31, 1986, the book value of the Company's oil and gas share portfolio stood at \$32 million, including values of \$16 million for investments in Sceptre Resources Limited and \$15 million in Sulbath Exploration Ltd. The investments in the common and preferred shares of Sulpetro Limited were written down to zero in the first quarter of 1986 in response to that company's announcements of cash flow difficulties and suspension of dividends. Total writedowns of \$47 million included a reduction of \$17 million in the value of the investment in Sulbath Exploration.

Performance of direct investments in oil and gas exploration was encouraging, however, with the start-up of production from the Sikanni natural gas field in northeastern British Columbia. Despite the difficult conditions in North American natural gas markets, this Remington Energy Ltd. project is expected to provide an important increase in cash flow for the Company in 1987 and the years to come.

Share Portfolio

Consolidated-Bathurst continues to hold 2 125 600 common shares of Sceptre Resources, as well as 279 020 convertible second preferred shares. Sceptre's financial position is solid, with no major debt repayments before 1989 and discretionary cash flow adequate to take advantage of selected development and exploration opportunities.

The Company's holdings in Sulpetro Limited consist of 2 907 926 common shares, or about 19% of the number outstanding at year-end, and 50% of the Class B Preferred Shares, the remainder of which are held by Sulpetro's principal banker. During 1986, negotiations between Sulpetro and the bank, directed toward reducing Sulpetro's debt service burden, resulted in a Debt Restructuring Agreement which was signed October 31, subject to receiving various regulatory rulings and governmental and shareholder approvals.

When and if this Agreement takes full effect, Consolidated-Bathurst's share of Sulpetro's common equity, on a fully-diluted basis, will be reduced by one-half as a result of the issuance of convertible non-voting common shares to the bank. The refinancing will permit Sulpetro to conduct normal operations, to make essential capital expenditures and to meet its liabilities as they come due.

Consolidated-Bathurst holds 40% of the common shares of Sulbath Exploration Ltd., or 33% on a fully-diluted basis. The rest of the common shares are held by Sulpetro and its principal banker. In 1986, a drop of 10% in Sulbath's natural gas sales volumes, combined with an increase of 25% in oil and gas liquids volumes, resulted in a breakeven in cash flow. Based on product prices in effect early in the new year, Sulbath should maintain this breakeven position through 1987.

Remington Energy Ltd.

The Sikanni natural gas field in northeastern British Columbia, discovered and developed by Remington Energy Ltd. over the past six years, started production in mid-November. Six wells are onstream and have produced at aggregate rates as high as one million cubic metres of natural gas per day. The combined interests of Consolidated-Bathurst and its Redgas subsidiary in the Sikanni production in 1986 amounted to 17.5 million cubic metres. Production has largely been delivered under sales contracts with British Columbia Petroleum Corporation, for 390 000 cubic metres per day, and with Inter-City Gas Corporation, for 340 000 cubic metres per day to customers in Fort St. John, B.C. and 90 000 cubic metres per day to Cominco Ltd. in Trail, B.C.

The major portion of capital expenditures in the Remington joint venture program in 1986 was devoted to construction of the facilities required to put the Sikanni field into production. Approximately \$2 million was spent to complete the 12 kilometre gathering system for the six wells and \$4 million to build a processing plant having sufficient capacity to remove the small amount of sulphur present in the raw gas stream from the wells. Westcoast Transmission Co. Ltd. built a new pipeline to transport the processed gas from the plant to their main transmission line, a distance of about 32 kilometres. Westcoast has an option, valid until June 30, 1987, to buy the processing plant from the Company and has filed an application to do so with the National Energy Board.

Although getting existing reserves to market was the top priority in 1986, some \$3 million was spent in exploring for new reserves. An exploratory well drilled north of the Sikanni field was unsuccessful. Another is in progress near Marion Lake, about nine kilometres to the southwest of Sikanni.

In 1987, the emphasis of the joint venture program will be on finding additional markets, constructing a gathering system to the three Sikanni wells not yet onstream and expanding the capacity of the processing plant to accommodate the gas from these wells. It is expected that cash flow from natural gas sales will be sufficient to fund the capital expenditures involved.

Redgas Limited

Total production from Redgas Limited's shallow gas wells near Redcliff, Alberta, was down 6% in 1986. Net revenues were 19% less than in 1985, resulting in a reduction of \$860 000 in operating cash flow to a level of \$2.4 million for the year.

Capital expenditures on the Redcliff gas field were minimal in 1986 and will remain low in 1987. Few locations are available for drilling and market conditions do not justify additional investment in the area in the near term. Redgas' cash flow continues to be invested in the Remington Energy exploration program in British Columbia.

1
Installation of Westcoast Transmission connecting pipeline, which will transport Sikanni gas to the main pipeline.
2,3,4
Sikanni gas processing plant, shown here during 1986 construction phase, is now in production.

5
Remington's Max Herron inspects gauges of amine reboiler in the Sikanni gas plant.

6
In Calgary, Remington President Roy Baay evaluates an exploration opportunity with his staff.

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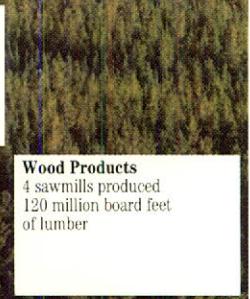
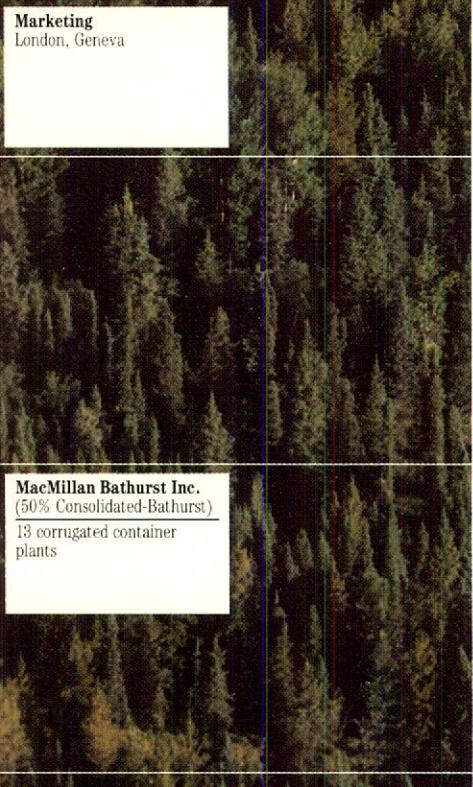
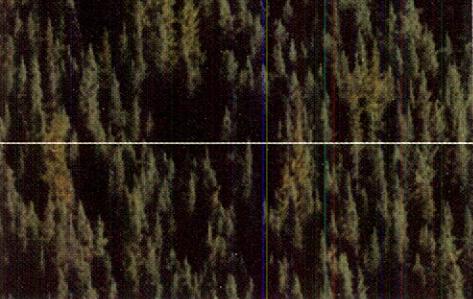


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Consolidated-Bathurst Inc. is an eastern Canadian forest products and packaging organization whose production and sales operate within three business sectors: Pulp and Paper in North America and the United Kingdom; North American Packaging companies;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

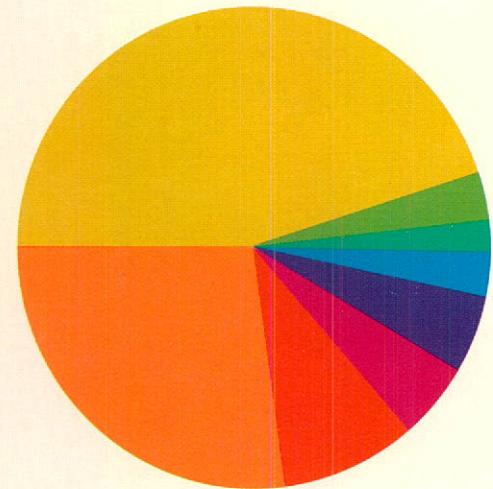
the largest diversified packaging organization in Canada and principal shareholder of one of the largest U.S. glass container companies. Europa Carton AG, an affiliate headquartered in Hamburg, is the leading supplier of corrugated containers and folding cartons in West Germany. Power Corporation of Canada, of Montreal, holds 40% of CBI's outstanding common shares.

  	Pulp and Paper North American Pulp and Paper	Woodlands 4 divisions delivered 2.3 million tonnes of wood fibre	Manufacturing 7 mills produced 1.62 million tonnes of pulp and paper products	Marketing New York, Chicago, Montreal, Toronto, Geneva Agents in 15 countries	 Wood Products 4 sawmills produced 120 million board feet of lumber
	U.K. Newsprint Operations		Manufacturing 1 mill produced 240 000 tonnes of newsprint	Marketing London, Geneva	
	B.C. Market Pulp	Power Consolidated (China) Pulp Inc. (50% Consolidated-Bathurst - 50% Power Corp.) Co-owner with CITIC B.C. Inc. of Celgar Pulp Company	Manufacturing 1 mill produced 190 000 tonnes of market pulp	Marketing Montreal, Vancouver	
 	North American Packaging	CB Pak Inc. (80% Consolidated-Bathurst - 20% public) Domglas Inc. 5 glass container plants 1 industrial glass plant	Twinpak Inc. 11 plastic container, flexible packaging plants and 4 distribution centres	MacMillan Bathurst Inc. (50% Consolidated-Bathurst) 13 corrugated container plants	
 	Packaging, Europa Carton	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 Ltd. (8%) Redgas Limited (100%) Sulpetro Limited (19%) Remington joint venture Subbath Exploration Ltd. (33%)			

Financial Section

Distribution of Revenue* (millions of dollars)

	1986	%	1985	%
Materials, supplies, etc.	\$ 905	45	\$ 783	45
Wages, salaries and fringe benefits	565	28	479	27
Fuel and power	194	9	189	11
Federal, provincial and municipal direct taxes	100	5	66	4
Depreciation	99	5	84	5
Interest	55	3	64	4
Dividends	45	2	41	2
Retained earnings (excluding extraordinary items)	57	3	35	2
	\$2 020	100	\$1741	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 Low	Stock price range High
		(millions of dollars)	(per common share)	(per common share)		
1985						
First quarter	\$ 412	\$ 19	\$0.19	\$0.075	\$ 7 1/2	\$ 9 1/4
Second quarter	445	24	0.20	0.075	7 3/4	8 1/2
Third quarter	438	23	0.20	0.075	7 5/8	9 1/2
Fourth quarter	432	14	0.11	0.075	\$ 7 1/2	\$ 9 1/4
	\$1 727	\$ 80	\$0.70	\$0.30		
1986						
First quarter	\$ 454	\$ 15	\$0.11	\$0.075	\$ 9	\$13 1/2
Second quarter	515	25	0.21	0.075	11 1/2	14 1/2
Third quarter	523	29	0.25	0.075	10 1/2	12 1/2
Fourth quarter	526	35	0.30	0.075	\$11 1/2	\$15 1/2
	\$2 018	\$104	\$0.87	\$0.30		

Financial Review

Operating activities

Cash flow from operations in 1986 reached a record \$257 million, up 31% from \$196 million in 1985. Operating working capital decreased slightly in 1986 compared with a \$9 million increase in the preceding year. Accounts receivable rose by \$15 million, mainly as a result of higher sales and improved prices in newsprint, pulp and containerboard. Inventories increased by only \$6 million as higher raw materials and finished goods were partially offset by a reduction in wood inventories which totalled \$76.4 million at year-end, the lowest level since 1974. Accounts payable and accrued liabilities went up by \$17 million as a result of higher capital expenditures and increased level of business activity.

Dividends

The Corporation paid dividends on common shares of \$29 million in 1986, equivalent to 30¢ per share, after giving effect to the stock split of February 27, 1987. The common dividend payout ratio was 34% of earnings before extraordinary items in 1986 as against 43% in 1985. The Board of Directors declared an increased quarterly dividend of 12½¢ on January 22, 1987, which represents on an annualized basis the dividend level in effect in 1980 and 1981.

Investing activities

Capital expenditures reached \$231 million in 1986, representing an increase of 32% over 1985. These expenditures included capitalized interest of \$6 million in 1986 compared with \$2 million in 1985. The Corporation invested \$24 million in Power Consolidated (China) Pulp Inc. in connection with the purchase of a pulp mill at Castlegar, B.C., and \$8 million in additional common shares of Diamond-Bathurst Inc., its U.S. associate glass container company.

Financing activities

The net cash outflow before financing activities amounted to \$41 million in 1986 compared with \$33 million in 1985. In August 1986, CB Pak Inc., the Company's packaging subsidiary, successfully completed the issue of 5½% Swiss

bonds due 1991 totalling SFr. 85 million. The proceeds of \$66 million were used to reduce the short-term debt of that company. Consolidated-Bathurst borrowed in 1986 \$39 million under its capital lease obligation to finance the second de-inked pulp line at the Bridgewater Division in the U.K. In May 1986, the Corporation defeased its trust deeds for its outstanding sinking fund debentures. This defeasance provides Consolidated-Bathurst with increased financing flexibility. Among the significant debt repayments were \$40 million for the 17½% debentures, Series J, and \$19 million for the 17½% sinking fund debentures, Series I.

Financial position and ratios

At December 31, 1986, the capitalization of Consolidated-Bathurst consisted of \$691 million in common shareholders' equity, or 49% of the total capitalization, of \$151 million in preferred shares, or 11%, and of \$554 million in debt, or 40%. The working capital ratio at December 31, 1986 was 2.1, the same as at the end of the preceding year. The return on common shareholders' equity, defined as earnings before extraordinary items but after preferred dividends divided by the common shareholders' equity at year-end, increased to 12.8% in 1986 from 10.3% in the previous year.

Change in accounting for pension costs in 1987

On January 1, 1987, the Corporation adopted the new rules on accounting for pension costs issued by the Canadian Institute of Chartered Accountants. Consolidated-Bathurst continues to determine the pension expense for most of its Canadian operations in accordance with the accrued benefit method using projected salaries pro-rated on the years of service. The accounting

assumptions underlying the determination of the pension expense, however, now represent management's best estimates and differ from the funding assumptions which are used to determine the Company's contribution to the pension fund. The adoption of the new rules is not expected to have a significant impact on the earnings of the Corporation in 1987.

Sales, Property & plant, Employees, Shareholders and Shares by Country as at December 31, 1986

	Net Sales	Property & plant - Net	Number of Employees	Number of Common Shareholders	Number of Common Shares
(millions of dollars)					
Canada	\$ 783.9	\$ 912.3	10965	11594	85 613 092
United Kingdom	140.2	129.2	577	834	15 252 708
United States	483.1	0.1	33	364	95 581 0
West Germany	465.0	135.5	2973	606	9 824
Other Countries	145.6	14.1	71	89	434 666
	\$2 017.8	\$1 191.2	14 619	13 487	102 266 100

Classes and major product lines

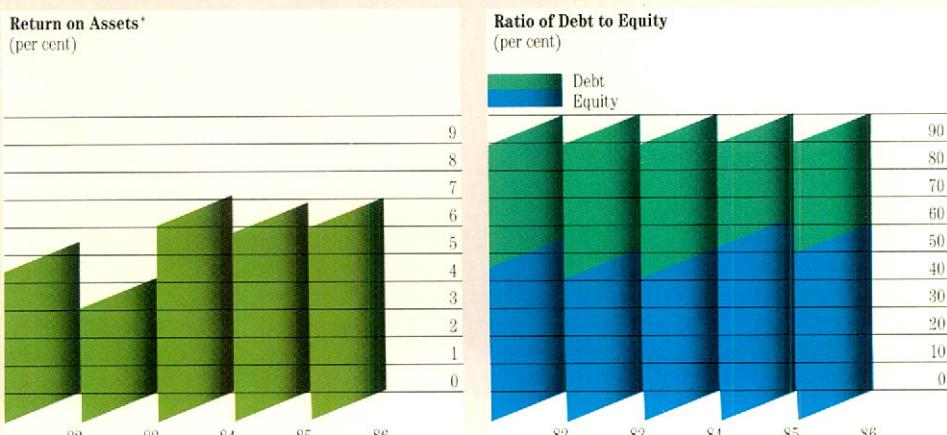
Sales to Customers		Inter-segment Sales		Net Sales		
1986	1985	1986	1985	1986	1985	
\$ 764.3	\$ 657.7	\$ 0.6	\$ —	\$ 764.9	\$ 657.7	Newsprint and groundwood
98.7	86.6	0.5	0.7	99.2	87.3	Specialties
188.8	152.9	5.4	4.1	194.2	157.0	Bleached kraft pulp
39.6	38.7	—	—	39.6	38.7	Paperboard
1 091.4	935.9	6.5	4.8	1 097.9	940.7	Lumber
472.4	456.7	1.2	1.3	473.6	458.0	Pulp and Paper
451.3	332.1	—	2.7	451.3	334.8	Glass, plastic and flexible
923.7	788.8	1.2	4.0	924.9	792.8	packaging - CB Pak
2.7	2.8	1.2	1.2	3.9	4.0	Packaging - Europa Carton
—	—	(8.9)	(10.0)	(8.9)	(10.0)	Packaging
\$2 017.8	\$1 727.5	\$ —	\$ —	\$2 017.8	\$1 727.5	Oil and gas
						Eliminations
						Total operations

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

Producing geographical regions

\$1 405.8	\$1 278.4	\$ —	\$ —	\$1 405.8	\$1 278.4	Canada
612.0	449.1	—	—	612.0	449.1	Western Europe
\$2 017.8	\$1 727.5	\$ —	\$ —	\$2 017.8	\$1 727.5	Total operations

Canadian operations had export sales to the United States of \$482.8 (1985 \$482.7), to Western Europe of \$65.5 (1985 \$33.0) and to other countries of \$76.8 (1985 \$36.1).

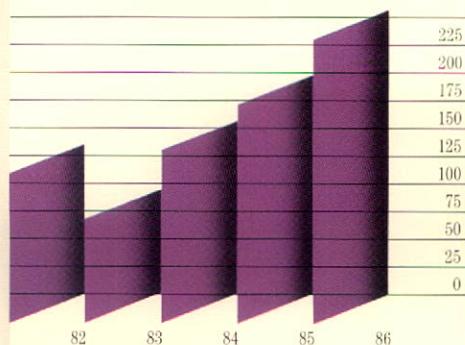


*Return on Assets: Earnings before extraordinary items, minority interest and after-tax interest, divided by total assets after accumulated depreciation.

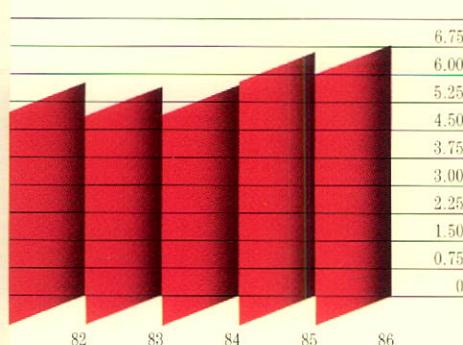
Operating Earnings		Depreciation		Capital Expenditures		Identifiable Assets as at December 31	
1986	1985	1986	1985	1986	1985	1986	1985
\$120.6	\$102.0	\$46.1	\$39.1	\$137.2	\$104.2	\$ 957.1	\$ 885.7
27.2	18.6	5.0	4.7	4.8	5.4	102.5	74.7
28.0	17.8	7.0	6.2	10.6	12.7	133.2	129.3
3.7	4.8	2.4	2.3	2.2	0.8	38.2	34.8
179.5	143.2	60.5	52.3	154.8	123.1	1 231.0	1 124.5
44.8	41.4	23.4	21.7	39.6	27.6	387.1	350.0
30.4	18.7	14.6	10.2	27.8	15.9	276.1	195.9
75.2	60.1	38.0	31.9	67.4	43.5	663.2	545.9
0.4	(1.4)	0.6	0.2	9.0	9.1	71.7	112.8
—	—	—	—	—	—	—	—
\$255.1	\$201.9	\$99.1	\$84.4	\$231.2	\$175.7	\$1 965.9	\$1 783.2
\$227.0	\$204.6	\$71.0	\$62.9	\$158.8	\$114.2	\$1 379.4	\$1 292.8
28.1	(2.7)	28.1	21.5	72.4	61.5	586.5	490.4
\$255.1	\$201.9	\$99.1	\$84.4	\$231.2	\$175.7	\$1 965.9	\$1 783.2

Corporate assets amounted to \$64.9 in 1986 and \$79.5 in 1985.

Cash Flow from Operations
(millions of dollars)



Book Value per Common Share
(dollars)



Consolidated Statement of Earnings for the year ended December 31, 1986

	1986	1985
	(thousands of dollars)	
Net sales	\$2 017 834	\$1 727 468
Costs and expenses		
Cost of goods sold	1 575 458	1 373 906
Depreciation	99 132	84 393
Administrative and selling	88 186	67 285
Operating earnings	255 058	201 884
Interest expense - long-term	46 660	55 592
- short-term	8 268	8 103
Corporate administrative expense	20 975	23 550
Other income (expense) (note 2)	(4 719)	28
Earnings before income taxes	174 436	114 667
Income taxes (note 3)	72 430	40 906
Earnings before undernoted items	102 006	73 761
Equity earnings (note 7)	6 720	13 368
Minority interest	5 076	7 372
Earnings before extraordinary items	103 650	79 757
Extraordinary items (note 4)	(54 233)	(2 193)
Net earnings	49 417	77 564
Dividends on preferred shares	14 881	10 847
Net earnings attributable to common shareholders	\$ 34 536	\$ 66 717
Earnings per common share (note 14)		
Before extraordinary items	\$0.87	\$0.70
Extraordinary items	(0.53)	(0.02)
Net	\$0.34	\$0.68
Weighted average number of common shares outstanding - in thousands (note 14)	102 244	98 375

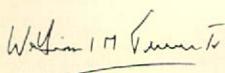
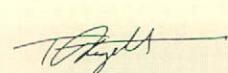
Consolidated Statement of Retained Earnings for the year ended December 31, 1986

	1986	1985
	(thousands of dollars)	
Retained earnings at beginning of year	\$371 882	\$339 290
Net earnings	49 417	77 564
Share issue expenses, net of tax	—	(2 541)
Excess cost of purchasing common shares over stated value	(1 601)	(1 889)
Dividends		
Preferred	(14 881)	(10 847)
Common	(30 394)	(29 695)
Retained earnings at end of year	\$374 423	\$371 882
Dividends per share		
Preferred		
1966 Series	\$1.50	\$1.50
Series A	5.75	5.75
Series B	7.26	7.20
Series C	2.04	—
Common (note 14)	\$0.30	\$0.30

Consolidated Statement of Changes in Financial Position for the year ended December 31, 1986

	1986	1985
Funds provided (used)		(thousands of dollars)
Operating activities		
Operating earnings	\$255 058	\$201 884
Depreciation	99 132	84 393
Interest	(54 928)	(63 695)
Current income taxes	(30 700)	(18 496)
Other items	(11 143)	(8 263)
Cash flow from operations	257 419	195 823
Decrease (increase) in accounts receivable	(15 069)	(25 586)
Decrease (increase) in inventories	(5 640)	(7 597)
Increase (decrease) in accounts payable and accrued liabilities	16 959	36 669
Other items	5 490	(12 248)
Net decrease (increase) in operating working capital	1 740	(8 762)
	259 159	187 061
Dividends		
On common shares in cash	(29 200)	(28 421)
On preferred shares	(14 881)	(10 847)
	(44 081)	(39 268)
Investing activities		
Additions to property and plant	(231 230)	(175 737)
Grants on additions to property and plant	2 780	5 891
Increase in investments	(41 267)	(17 691)
Other items - net	13 837	7 129
	(255 880)	(180 408)
Financing activities		
Issue of long-term debt	148 994	17 188
Repayments of long-term debt	(78 988)	(120 723)
Disposal of investments	1 560	25 447
Purchase of common and preferred shares	(2 863)	(3 540)
Issue of common and preferred shares	—	146 335
	68 703	64 707
Net increase in funds	\$ 27 901	\$ 32 092
Analysis of net change in funds		
Increase in cash and short-term deposits	\$ 9 281	\$ 9 903
Decrease in bank loans and notes payable	18 620	22 189
	\$ 27 901	\$ 32 092

On behalf of the Board:

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

T.O. Stangeland,
Director

Consolidated Balance Sheet as at December 31, 1986

1986

1985

(thousands of dollars)

Assets

Current assets	Cash and short-term deposits Accounts receivable Inventories (note 5) Prepaid expenses	\$ 19 563 270 002 344 546 5 884	\$ 10 282 254 933 338 906 4 929
		639 995	609 050
Property and plant (note 6)	Pulp and paper mills Packaging plants Woodlands Oil and gas properties	1 370 239 548 249 22 765 40 267	1 208 338 461 872 22 473 32 973
	Less accumulated depreciation	1 981 520 790 306	1 725 656 688 825
		1 191 214	1 036 831
Investments	(note 7)	172 994	179 385
Other assets	(note 8)	26 582	37 470
		\$2 030 785	\$1 862 736

Management's Report

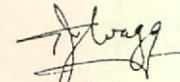
The consolidated financial statements have been prepared by management on the historical cost basis in accordance with Canadian generally accepted accounting principles consistently applied and conform substantially with International Accounting Standards. These statements, which necessarily include estimates and approximations, reflect information available to February 26, 1987, 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 26, 1987

		1986	1985
		(thousands of dollars)	
Liabilities and Shareholders' Equity			
Current liabilities	Bank loans and notes payable	\$ 7 930	\$ 26 550
	Accounts payable and accrued liabilities	224 205	207 246
	Taxes payable	29 059	22 063
	Dividends payable	2 542	2 567
	Current portion of long-term debt	37 350	30 994
		301 086	289 420
Long-term debt	(note 9)	508 634	442 030
Provision for German pensions		54 422	39 545
Deferred investment tax credits		54 700	39 895
Deferred income taxes		227 932	192 593
Minority interest		41 270	39 776
Shareholders' equity	Stated capital (note 10)	454 567	452 586
	Retained earnings	374 423	371 882
	Foreign currency translation adjustments	13 751	(4 991)
		842 741	819 477
		\$2 030 785	\$1 862 736

Auditors' Report

The Shareholders,
Consolidated-Bathurst Inc.

We have examined the consolidated balance sheet of Consolidated-Bathurst Inc. as at December 31, 1986 and the consolidated statements of 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, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Montreal, Quebec
February 26, 1987

1 Summary of Significant Accounting Policies

<i>Principles of consolidation</i>	<i>Investments</i>									
<p>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.</p>	<p>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.</p>									
<i>Foreign currency translation</i>	<i>Property and plant, depreciation and capitalization</i>									
<p>For domestic companies and integrated foreign operations, assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Income and expenses are translated at average exchange rates prevailing during the year with the exception of depreciation which is translated at historical exchange rates. Exchange gains or losses are included in earnings except for unrealized gains or losses on translation of foreign long-term debt which are deferred and amortized over the remaining life of the related obligation. Foreign debt covered by a currency exchange agreement is translated at the guaranteed exchange rate.</p>	<p>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.</p>									
<p>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.</p>	<p>Depreciation, calculated principally on the straight-line method, is charged to operations at rates based upon the estimated useful life of each depreciable property. The following rates apply to those assets being depreciated on the straight-line method:</p> <table><thead><tr><th></th><th><i>Buildings</i></th><th><i>Equipment</i></th></tr></thead><tbody><tr><td>Pulp and paper mills</td><td>2½%</td><td>6%</td></tr><tr><td>Packaging plants</td><td>2-5%</td><td>8-10%</td></tr></tbody></table>		<i>Buildings</i>	<i>Equipment</i>	Pulp and paper mills	2½%	6%	Packaging plants	2-5%	8-10%
	<i>Buildings</i>	<i>Equipment</i>								
Pulp and paper mills	2½%	6%								
Packaging plants	2-5%	8-10%								
<i>Inventory valuation</i>	<p>Expenditures which result in material enhancement of the value of the facilities involved are capitalized. Maintenance and repair costs are expensed as incurred.</p>									
<p>Pulpwood, chips, expenditures on wood operations, raw materials and supplies are 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.</p>	<p>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.</p>									
	<p>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 prime interest rates of the Corporation's principal bankers.</p>									
	<p>Investments in shares of oil and gas companies are accounted for as described under Investments. Oil and gas expenditures by the Corpora-</p>									

Summary of Significant Accounting Policies (continued)

tion 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 are capitalized. The amortization of capitalized costs is based on proven 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.

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 Other income (expense)

	1986	1985
Net translation loss on long-term debt	\$(9 696)	\$(9 075)
Income from investments and short-term deposits	3 172	9 149
Net gain (loss) from debt retirement and disposal of property and plant	1 805	(46)
	\$(4 719)	\$ 28

3 Income taxes

	1986	1985
Current	\$30 700	\$18 496
Deferred	41 730	22 410
	\$72 430	\$40 906

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

	1986	1985
Combined Canadian federal and provincial income tax rate	43.7%	44.8%
Increase (decrease) in the income tax rate resulting from:		
Higher effective income tax rate on earnings of a foreign subsidiary	2.3	3.6
Federal income tax surcharge	1.3	0.7
Manufacturing and processing profits deduction	(4.7)	(4.8)
Amortization of deferred investment tax credits	(1.3)	(1.5)
Effect of tax-free dividends	(0.4)	(0.6)
Inventory allowance	(0.2)	(2.4)
Miscellaneous	0.8	(4.1)
Effective income tax rate	41.5%	35.7%

	1986	1985
4 Extraordinary items		
Oil and gas		
Write-off of investment in Sulpetro Limited, less income tax credit of \$ Nil (1985 \$836)	\$(29 944)	\$ (2 508)
Write-down of investment in Sulbath Exploration Ltd.	(17 500)	—
Write-down of investment in Sceptre Resources Limited, less income tax credit of \$3 496	—	(10 489)
	<u>(47 444)</u>	<u>(12 997)</u>
Provisions for plant shutdowns, less income tax credits of \$6 247 (1985 \$2 854)	(6 789)	(4 279)
Gains (net) on investments, less income taxes of \$1 034	—	15 083
	<u><u>\$(54 233)</u></u>	<u><u>\$ (2 193)</u></u>
5 Inventories	1986	1985
Pulpwood, chips and expenditures on wood operations	\$ 76 392	\$ 84 837
Raw materials and supplies	126 365	117 682
Work in process and finished goods	141 789	136 387
	<u>\$344 546</u>	<u>\$338 906</u>
6 Property and plant		
(a) Paper mill equipment acquired under capital leases amounted to \$134 632 (1985 \$96 695) less accumulated depreciation of \$17 005 (1985 \$9 496).		
(b) Interest capitalized on major additions during 1986 was \$6 288 (1985 \$1 824).		
7 Investments	1986	1985
Portfolio:		
Sceptre Resources Limited		
Common shares (market value \$5 633; 1985 \$9 459)	\$ 9 459	\$ 9 459
Preferred shares (market value \$3 976; 1985 \$4 813)	6 984	6 984
Sulbath Exploration Ltd.	14 949	—
Sulpetro Limited		
Common shares (market value \$1 599; 1985 \$4 944)	—	4 944
Preferred shares	—	25 000
Other investments and advances	16 087	10 275
Carried forward	<u>\$ 47 479</u>	<u>\$ 56 662</u>

Investments (continued)

	1986	1985
Brought forward	\$ 47 479	\$ 56 662
Equity:		
Joint ventures		
MacMillan Bathurst Inc. (50% owned)	32 405	30 150
Power Consolidated (China) Pulp Inc. (50% owned)	25 257	—
Libbey-St. Clair Inc. (50% owned by CB Pak Inc.)	17 793	14 767
	75 455	44 917
Diamond-Bathurst Inc. (45% owned by CB Pak Inc.)	47 560	44 694
Sulbath Exploration Ltd.	—	32 449
Other	2 500	663
	125 515	122 723
	\$172 994	\$179 385
The changes in the equity investments are summarized below:		
Balance at beginning of year	\$122 723	\$ 84 861
Increase in investments	34 739	29 362
Reclassification of investment in Sulbath Exploration Ltd.	(32 449)	—
Equity earnings	6 720	13 368
Extraordinary item - Diamond-Bathurst Inc.	(3 799)	—
Dividends received	(2 419)	(4 868)
Balance at end of year	\$125 515	\$122 723
The combined financial statements of the equity-accounted-for companies are summarized below:		
Results of operations for the year		
Net sales	\$1 065 947	\$903 333
Costs and expenses	1 038 872	849 656
Earnings before income taxes	27 075	53 677
Income taxes	13 289	24 420
Earnings before extraordinary item	13 786	29 257
Extraordinary item - Diamond-Bathurst Inc.	(8 667)	—
Net earnings	\$ 5 119	\$ 29 257
Financial position at December 31		
Current assets	\$344 605	\$312 649
Current liabilities	152 015	176 461
Working capital	192 590	136 188
Property and plant - net	306 725	271 255
Other assets	13 047	11 422
Long-term debt, other liabilities and shareholders' equity	\$512 362	\$418 865

*Restated to reflect reclassification of investment in Sulbath Exploration Ltd.

8 Other assets

	1986	1985
Advances to trustees under share option plans	\$ 4 950	\$ 6 238
Deferred translation loss (net) on long-term debt	17 387	28 979
Unamortized long-term debt expense	2 212	1 217
Deferred charges	2 033	1 036
	\$26 582	\$37 470

Of advances to trustees, \$4 246 (1985 \$5 228) is owing to the trustees from officers, two of whom are directors.

9 Long-term debt

	1986	1985	1986	1985		
	Foreign currencies		Canadian dollars			
	(thousands)					
Consolidated-Bathurst Inc.						
Sinking fund debentures (a)						
5.85% Series A 1990	U.S. \$ 1 332	4 797	\$ 1 839	\$ 6 704		
6½% Series B 1991	U.S. \$ 1 146	3 965	1 582	5 541		
8½% Series C 1993			5 692	5 813		
9% Series F 1992	U.S. \$ 6 107	6 657	8 431	9 303		
17½% Series I 1988	U.S. \$ 47 000	60 000	64 884	83 850		
17½% debentures, Series J, 1987			—	40 000		
Revolving credit (b)	U.S. \$100 000	100 000	138 050	139 750		
Obligations under capital leases						
Bridgewater (c)	£ 51 733	35 482	105 877	71 667		
Other			6 764	9 649		
9½% Swedish export credit, 1987	SEK 11 635	23 270	2 369	4 293		
8½% Irish export credit, 1987	£ 57	172	117	348		
Consolidated-Bathurst Pontiac Limited						
11% first mortgage sinking fund bonds, Series A, 1995			6 881	6 968		
Revolving credit (b)	U.S. \$ —	—	—	—		
CB Pak Inc. and subsidiaries						
9½% sinking fund debentures, Series A, 1990			9 208	10 852		
Revolving credit (b)			20 000	20 000		
5½% Swiss bonds, 1991 (d)	SFr. 85 000	—	65 724	—		
Other			1 710	1 949		
Europa Carton AG and subsidiaries						
Term bank loans, various interest rates, 1987 to 1995	DM 52 694	55 877	37 802	31 956		
Reclassification of short-term borrowings (e)			69 025	24 176		
Other			29	205		
			545 984	473 024		
Less current portion			37 350	30 994		
			\$508 634	\$442 030		

Long-term debt (continued)

(a) On May 29, 1986, Consolidated-Bathurst Inc. defeased its trust deeds in respect of its outstanding sinking fund debentures. As part of the defeasance, Consolidated-Bathurst Inc. has arranged, for the benefit of the holders of the debentures, the issue of letters of credit under

a Credit Agreement with two major Canadian chartered banks to ensure payment of all future amounts as they become due on the debentures. This defeasance provides Consolidated-Bathurst Inc. with additional financing flexibility.

(b) The revolving credit facilities at December 31, 1986, 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 —	—	—
Bankers' acceptance rates	—	—	\$20 000
Secured by	Unsecured	Unsecured	Demand debenture, Series B
Current revolving period ends	November 28, 1988	May 31, 1988	December 29, 1988

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 four- 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 March 31, 1994, 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.

(e) Bank loans and notes payable of \$69 025 at December 31, 1986, (1985 \$24 176) were included in long-term debt as the Corporation intends to refinance these borrowings under its revolving credit facilities.

(d) As a result of a currency exchange agreement relating to the SFr. 85 000 principal, CB Pak Inc. is committed to pay fees aggregating \$13 850 which are being expensed over the term of the bonds. These fees guarantee a fixed exchange rate for the repayment of the bonds at maturity.

(f) Sinking fund requirements and principal payments during the next five years, based on exchange rates at December 31, 1986, are: 1987 \$37 350; 1988 \$79 845; 1989 \$67 937; 1990 \$48 290; 1991 \$104 857.

10 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

		1986		1985
	Shares	Stated Value	Shares	Stated Value
Preferred shares - 1966 Series	741 926	\$ 18 548	780 626	\$ 19 516
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	2 000 000	50 000
	4 241 926	\$151 479	4 280 626	\$152 447

(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 certain Credit Agreement covenants 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 average prime rates of two major Canadian chartered banks 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 at a cost not exceeding \$26 per share. 38 700 shares were purchased in 1986 (39 315 in 1985) at a cost of \$760 (\$714 in 1985)
 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
 Series B - same as Series A except in U.S. dollars
 No Series A and B shares were acquired in 1986 and 1985 as the shares of each series traded above \$50 per share and U.S. \$50 per share, respectively, throughout this period.

Stated capital (continued)

Series C	- 40 000 shares annually at a cost not exceeding \$25 per share up to and including December 31, 1990 and thereafter, 80 000 shares annually No Series C shares were acquired in 1986 as the shares traded at approximately \$25 per share throughout the year.	dends. 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.
(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 divi-	(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

(after giving retroactive effect to the 2-for-1 common share subdivision effective February 27, 1987)

(a) Authorized – unlimited number of shares

(b) Issued and outstanding

	Series A		Series B	
	Shares	Stated Value	Shares	Stated Value
Balance January 1, 1986	98 527 380	\$273 520	3 472 234	\$ 26 619
Net conversions from Series A to Series B (c)	(35 764)	(68)	35 764	68
Issued as stock dividends	—	—	135 086	1 193
Issued under the 1984 Employee Share Option Plan (d)	311 400	2 258	—	—
Purchased and cancelled	(180 000)	(502)	—	—
Balance December 31, 1986	98 623 016	\$275 208	3 643 084	\$ 27 880

(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 certain Credit Agreement covenants.

(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 1 174 000 common shares of the Corporation, at the price of \$7.25 per share. As at December 31, 1986, 1 071 200 shares had been issued under this Plan.

11 Segmented information

The Directors have determined the classes of business of the Corporation to be pulp and paper, packaging and oil and gas. Information segment-

ed by classes and major product lines and by producing geographical regions is reported on pages 28 and 29 of this report.

12 Related party transactions

Power Corporation of Canada is the major shareholder of the Corporation owning approximately 40% of the outstanding common shares. In 1986, the Corporation had transactions with certain companies in the Power Corporation group, mainly in respect of sales of newsprint and purchases of share transfer agency, trusteeship and 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.

13 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, 1986, are as follows:

	Capital Leases	Operating Leases
1987	\$ 21 100	\$ 13 200
1988	24 900	9 100
1989	22 300	5 900
1990	21 600	4 100
1991	21 600	2 300
Thereafter	40 400	3 900
	151 900	\$ 38 500
Less imputed interest	39 259	
Present value of minimum lease payments	\$ 112 641	

(b) At December 31, 1986, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately \$38 200.

(c) Based on actuarial estimates at December 31, 1986 and 1985, the pension plans of the Corporation and its Canadian subsidiaries were fully funded.

14 Subsequent event

On February 16, 1987, the common shareholders of Consolidated-Bathurst Inc. approved a subdivision of the Corporation's common shares on a 2-for-1 basis effective February 27, 1987.

Accordingly, all common shares and per common share numbers have been restated to reflect the subdivision.

Facilities

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)

□ Celgar Pulp Company

(joint venture of Power Consolidated (China) Pulp Inc. and CITIC B.C. Inc.)
Softwood kraft market pulp: *Castlegar, B.C.*

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.*

Flexible Packaging Group

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*

Rigid Packaging Group

Bags, food packaging systems: *Dorval*

Plastic containers, closures: *Montreal*, *Regina*

Plastic squeeze tubes: *Granby*

PET bottles: *Calgary*, *Mississauga*, *Moncton*

Packaging Distribution Group (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.*, *Lawrenceburg*, *Ind.*, *Royersford*, *Pa.*, *Streator*, *Ill.*, *Vernon*, *Cal.*

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

Corrugated Container Plants:

Calgary, *Edmonton*, *Etobicoke*, *Guelph*, *New Westminster*, *Pembroke*, *Regina*, *Rexdale*, *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*, *Lübbecke*, *Neuburg*, *Plattling*

□ Mills

Boxboard: *Hoya*

Containerboard (corrugating medium): *Viersen*

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

□ Institutes

Market research: *Hamburg*

Industrial design: *Hamburg*

Comparative Data

		1986	1985	1984
Operations (thousands of dollars)				
	Net sales	\$ 2 017 834	\$ 1 727 468	\$ 1 622 984
	Earnings before extraordinary items	103 650	79 757	73 808
	Net earnings	49 417	77 564	58 901
	Cash flow from operations	257 419	195 823	152 713
	Additions to property and plant	231 230	175 737	118 884
	Dividends declared – common	30 394	29 695	22 556
	– preferred	\$ 14 881	\$ 10 847	\$ 10 656
	Depreciation	\$ 99 132	\$ 84 893	\$ 72 633
	Interest – both short and long-term	54 928	63 695	67 227
	Income taxes	72 430	40 906	18 972
	Maintenance and repair expenses	166 573	136 676	127 445
	Wages, salaries and fringe benefits	565 406	478 504	458 979
	Energy costs	\$ 194 041	\$ 189 009	\$ 195 366
Per common share (dollars)				
	Earnings before extraordinary items	\$ 0.87	\$ 0.70	\$ 0.70
	Net earnings	0.34	0.68	0.54
	Cash flow from operations	2.37	1.88	1.58
	Dividends declared	0.30	0.30	0.25
	Book value	\$ 6.76	\$ 6.54	\$ 5.69
Per preferred share (dollars)				
	Dividends declared – 1966 Series	\$ 1.50	\$ 1.50	\$ 1.50
	– Series A	5.75	5.75	5.75
	– Series B	7.26	7.20	6.88
	– Series C	\$ 2.04	\$ —	\$ —
Balance sheet (thousands of dollars)				
	Total assets	\$ 2 030 785	\$ 1 862 736	\$ 1 675 913
	Working capital	338 909	319 630	257 275
	Property and plant – gross	1 981 520	1 725 656	1 510 266
	Accumulated depreciation	790 306	688 825	588 869
	Investments	172 994	179 385	173 665
	Long-term debt	508 634	442 030	476 680
	Provision for German pensions	54 422	39 545	26 430
	Minority interest	41 270	39 776	32 903
	Stated capital – preferred	151 479	152 447	103 430
	– common	303 088	300 139	198 658
	Retained earnings	374 423	371 882	339 290
	Foreign currency translation adjustments	13 751	(4 991)	(25 044)
	Total shareholders' equity	\$ 842 741	\$ 819 477	\$ 616 334
Other data				
	Ratio of current assets to current liabilities	2.1 to 1	2.1 to 1	1.8 to 1
	Ratio of short and long-term debt to shareholders' equity	40/60	38/62	49/51
	*Return on assets – %	7.0	6.8	7.1
	**Return on common shareholders' equity – %	12.8	10.3	12.3
	Shares outstanding – preferred	4 241 926	4 280 626	2 319 941
	– common	102 266 100	101 999 614	90 109 558
	Number of employees	14 619	14 413	14 395
	Number of common shareholders	13 487	14 176	13 908

*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

Annual Report of the Auditor General of Canada								
Statement of Financial Performance and Position								
For the Year Ended March 31								
1983	1982	1981	1980	1979	1978	1977	1976	
\$1 393 065	\$1 424 284	\$1 479 252	\$1 389 433	\$1 244 312	\$1 078 843	\$ 868 865	\$ 745 193	
34 534	51 482	101 386	122 379	98 259	59 147	21 355	18 240	
24 854	51 482	111 669	122 379	102 848	60 715	22 716	18 240	
93 399	132 918	198 198	194 530	154 510	119 630	66 338	50 682	
175 309	242 429	239 614	143 152	92 332	47 475	53 783	56 678	
17 962	35 799	44 501	43 964	22 254	16 540	14 591	14 543	
\$ 10 724	\$ 3 979	\$ 3 071	\$ 3 204	\$ 3 147	\$ 2 057	\$ 1 569	\$ 1 633	
\$ 60 060	\$ 54 509	\$ 44 486	\$ 42 651	\$ 38 774	\$ 36 022	\$ 32 484	\$ 28 659	
52 725	61 382	43 507	29 886	26 353	26 930	26 823	22 941	
15 357	26 971	65 022	78 412	57 058	36 350	10 038	9 227	
115 478	109 312	115 013	98 334	83 294	73 038	69 889	58 267	
449 922	462 813	458 224	423 067	395 386	365 745	324 995	279 653	
\$ 158 580	\$ 142 792	\$ 142 082	\$ 104 899	\$ 92 393	\$ 78 059	\$ 66 357	\$ 51 705	
\$ 0.27	\$ 0.53	\$ 1.10	\$ 1.36	\$ 1.07	\$ 0.65	\$ 0.23	\$ 0.19	
0.16	0.53	1.22	1.36	1.12	0.67	0.24	0.19	
0.92	1.44	2.18	2.13	1.71	1.31	0.74	0.56	
0.20	0.40	0.50	0.50	0.25	0.19	0.17	0.17	
\$ 5.68	\$ 5.73	\$ 5.61	\$ 4.93	\$ 4.06	\$ 3.20	\$ 2.75	\$ 2.68	
\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	
5.75	0.72	—	—	—	—	—	—	
6.48	0.81	—	—	—	—	—	—	
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
\$1 652 843	\$1 584 570	\$1 432 290	\$1 136 558	\$ 991 854	\$ 872 944	\$ 808 791	\$ 742 667	
312 196	340 448	367 860	322 891	289 633	263 141	209 233	157 860	
1 433 804	1 360 763	1 170 392	968 517	851 947	784 661	769 237	730 763	
522 936	515 112	474 176	445 129	416 862	392 549	375 895	363 477	
201 997	185 218	152 265	114 107	73 805	52 702	30 851	26 162	
545 976	472 036	430 203	278 921	231 950	228 231	245 647	178 837	
27 424	23 398	23 305	19 877	15 319	12 829	11 199	7 404	
3 168	2 824	2 877	2 524	2 784	2 832	5 896	5 877	
104 399	121 375	41 415	44 393	45 360	46 279	26 145	27 094	
193 271	190 021	185 326	178 714	165 575	165 848	89 804	89 803	
317 837	324 151	318 486	264 711	192 966	120 317	150 940	144 384	
—	—	—	—	—	—	—	—	
\$ 615 507	\$ 635 547	\$ 545 227	\$ 487 818	\$ 403 901	\$ 332 444	\$ 266 889	\$ 261 281	
2.4 to 1	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	
49/51	45/55	47/53	37/63	37/63	42/58	53/47	50/50	
4.1	5.5	8.7	12.2	11.4	8.5	4.6	4.3	
4.7	9.2	19.5	26.9	26.5	20.0	8.2	7.1	
2 358 741	3 037 741	1 656 608	1 775 708	1 814 408	1 851 156	1 045 808	1 083 755	
89 916 796	89 756 892	89 700 228	89 926 572	88 205 448	89 527 968	87 546 408	87 545 508	
14 156	15 168	15 999	16 290	17 070	17 532	17 725	17 557	
13 530	14 106	14 118	14 160	14 534	13 008	11 983	12 036	

