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CONSUMERS PACKAGING INC.
ANNUAL REPORT

1986

ABOUT CONSUMERS PACKAGING

Consumers Packaging Inc. is one of Canada's leading manufacturers of glass and plastics packaging. It is ranked as Canada's 216th largest public company by sales and 164th largest by earnings (Sources: The Financial Post 500 and Report on Business 1,000). The Company was founded in Montreal, Quebec, in 1917 as Consumers Glass Company Limited and in 1986, reflecting the Company's successful expansion over the years into other types of packaging and its strategic plans for future growth, changed its name to Consumers Packaging Inc. The Company's shares are listed on the Toronto and Montreal stock exchanges and traded under the symbol CGC.

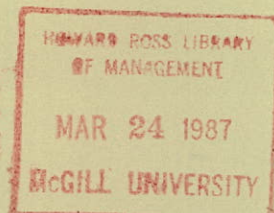
Consumers Packaging Inc. operates 14 manufacturing plants in North America – five glass-container plants in Canada and nine plastics packaging facilities, seven in Canada and two in the United States. The Company's products include virtually all types of glass containers and an extensive range of plastic packaging.

THE 1987 ANNUAL MEETING OF THE COMPANY WILL
BE HELD AT 11:00 A.M. ON THURSDAY, APRIL 16, 1987,
IN SALON C OF THE HARBOUR BALLROOM OF
THE TORONTO HILTON HARBOUR CASTLE HOTEL,
TORONTO, ONTARIO.

ON PEUT SE PROCURER UNE COPIE DE CE RAPPORT ANNUEL
EN FRANÇAIS EN S'ADRESSANT AU SECRÉTAIRE DE LA
COMPAGNIE EMBALLAGES CONSUMERS INC:
401 THE WEST MALL, SUITE 900,
ETOBICOKE, ONTARIO, M9C 5J7.

FINANCIAL HIGHLIGHTS

Operations (thousands of dollars)	1986	1985
Net Sales		
Glass containers	\$247,009	\$232,856
Plastics packaging	132,890	121,694
Consolidated Net Sales	\$379,899	\$354,550
Operating income		
Glass containers	\$ 31,763	\$ 31,051
Plastics packaging	14,413	12,355
Consolidated Operating Income	\$ 46,176	\$ 43,406
Net income	\$ 18,083	\$ 17,293
Capital expenditures	\$ 45,366	\$ 30,378
Depreciation and amortization	22,694	20,421
Cash generated from operations	43,263	38,871
Dividends paid	11,647	10,646
Per share		
Earnings	\$ 1.40	\$ 1.34
Cash generated from operations	\$ 3.34	\$ 3.01





DIRECTORS' REPORT

The past year was one of continuing progress for your Company. Consolidated net sales increased, net income was the second highest to date, and major progress was made in implementing world-class high-technology packaging.

For the year, consolidated net sales increased to \$380 million from \$355 million in 1985, and consolidated operating income rose to \$46.2 million from \$43.4 million the year before. Consolidated net income increased to \$18.1 million from \$17.3 million in 1985, and earnings per share were \$1.40 compared with \$1.34 in 1985. Cash generated from operations increased to \$43.3 million from \$38.9 million, or \$3.34 per share compared with \$3.01 per share in the preceding year.

The improved financial results reflect record glass and plastics packaging sales and operating income. Glass container sales rose to \$247 million from \$233 million and operating income improved over the preceding year, increasing to \$31.8 million from \$31.0 million. Plastics packaging sales increased to \$133 million from \$122 million and operating income to \$14.4 million from \$12.4 million.

The solid performance of the Glass and Plastics Packaging Divisions clearly demonstrates the strengths of these operations in the markets they serve. The higher Glass Division sales, together with improved productivity, offset much of the impact of a highly competitive market. Plastics Packaging increased its sales and made continuing gains in certain market segments along with improved operating efficiencies.

Our industry is dynamic and expanding, and new and sophisticated technologies and packages are continually being developed and introduced to meet the changing needs of the marketplace. Key ingredients for success include access to these new technologies as they are developed and substantial investments in new equipment and facilities. Consumers Packaging has the advantage of many state-of-the-art technologies available through agreements with five of the world's most technologically-advanced companies. In addition, Consumers Packaging is a founding member of the International Partners in Glass Research (IPGR). During 1986, IPGR continued its activities in basic research to make glass containers stronger and lighter. In total, over 40 research projects have been funded and planning is under way to develop methods of testing the results of this research on a prototype basis.

To effectively meet the present and future market needs of our customers, a New Business Development Group, established early in 1986 under the direction of the Corporate Office, has been actively presenting our expanded capabilities with a gratifying response.

As part of a \$20 million plastics facilities expansion program, two new advanced technologies were successfully introduced on schedule during the year.

- In mid-1986, production of co-extruded multi-layer barrier Lamicon plastic bottles for the food industry began at the Burlington, Ontario, PLAX INC. manufacturing plant. Market demand requires that a second line begins production later this year.

- In November, production of multi-layer barrier plastic sheet for the single-service and portion-control food and fast-food industries began at the Bristol, Pennsylvania, thermoforming plant of Portion Packaging Inc.

To strengthen your Company's plastics packaging operations, two strategic acquisitions were made. In December, 1986, North Ontario Mould Company Limited, Barrie, Ontario, a leading manufacturer of moulds for the plastics industry, was acquired, and in January, 1987, purchase was completed of Bromar Plastics Ltd., Ville d'Anjou, Quebec. Bromar Plastics produces plastic bottles and its acquisition will enable Consumers Packaging to expand this business in Quebec and Eastern Canada.

The strategy of your Company is to serve the packaging needs of its present and future customers. Reflecting this strategy, at last year's Annual Meeting shareholders approved that the name of the Company be changed to Consumers Packaging Inc. The new name took effect July 1, 1986.

Mr. F. S. Capon, the Company's former Chairman, reached mandatory retirement age and did not stand for re-election to the Board in 1986. Mr. C. D. Reekie, a Director since 1983, was elected Chairman.

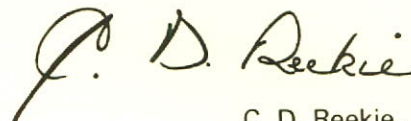
It is with sadness that we note the death on January 2, 1987, of the Company's Vice-Chairman, Mr. V. N. Stock. Mr. Stock became a Director in 1978, Vice-Chairman in 1982, and his many contributions to your Company were invaluable. His wise counsel will be greatly missed.

Your Company today holds important market positions in two major segments of the packaging industry. Its expertise in the marketing and manufacturing of high-quality glass containers is attested to year-after-year by its position as one of the most efficient producers of these products in North America. In plastics packaging, your Company is a leading manufacturer in expanding segments of the industry and there is every reason to expect continuing growth. These strengths, along with our commitment to meeting the market needs of customers and expansion into high-technology packaging, provide a solid base for future prosperity.

On behalf of the Board,



R. D. Morison,
President and Chief Executive Officer



C. D. Reekie,
Chairman of the Board

MANAGEMENT REVIEW

Consolidated Results

1986 was a year of continuing progress for Consumers Packaging Inc. with consolidated net sales and operating income at record levels and net income the second highest to date for the Company. The financial performance in 1986 reflected record sales and operating income from both Glass and Plastics Packaging Divisions.

Consolidated net sales increased by \$25 million, up 7%, to \$380 million from \$355 million in 1985 with Glass Packaging contributing \$247 million, a 6% increase, and Plastics Packaging \$133 million, 9% higher than the preceding year.

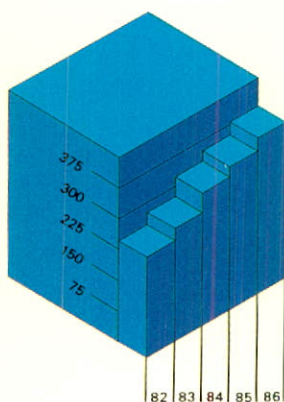
Consolidated operating income (income before corporate charges, financial costs and taxes) rose to \$46.2 million from \$43.4 million the year before. Glass Packaging's contribution was \$31.8 million compared with \$31.0 million in 1985, and Plastics Packaging's was \$14.4 million compared with \$12.4 million the year before.

Consolidated net income rose to \$18.1 million from \$17.3 million in 1985 as a result of higher sales and operating income. The improved net income was achieved despite higher interest costs due to increased capital expenditures and an increase in the corporate tax rate.

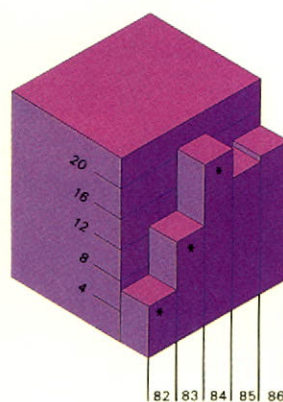
Earnings per share in 1986 were \$1.40 compared with \$1.34 in 1985.

Dividends of 90 cents per common share were paid in 1986 in quarterly amounts of 22.5 cents each.

Cash generated from operations increased to \$43.3 million, or \$3.34 per share in 1986 compared with \$38.9 million, or \$3.01 per share in 1985. The increase was due to higher net income and higher depreciation and amortization provisions included in computing net income. The deferred portion of the income tax provision was also substantially higher in 1986 as a result of the Company's sizeable capital expenditure program.



Net Sales
(Millions of Dollars)



Net Income
(Millions of Dollars)
*Before
Extraordinary Item

In support of its policy of maintaining facilities at high levels of efficiency and to expand its capabilities in high-technology packaging, capital spending amounted to \$45.4 million in 1986, an increase of \$15.0 million over 1985. Capital spending included furnace rebuilds, licenses and installation of high-technology production lines in two plastics packaging plants. Expenditures for business acquisitions declined to \$1.5 million from \$12.9 million in 1985.

Working capital increased by \$4.9 million to \$34.6 million as at December 31, 1986 as a result of the growth in the Company's business and the conversion of operating bank loans to term debt. During the year \$20 million of current bank indebtedness was converted to term loans at fixed rates of interest.

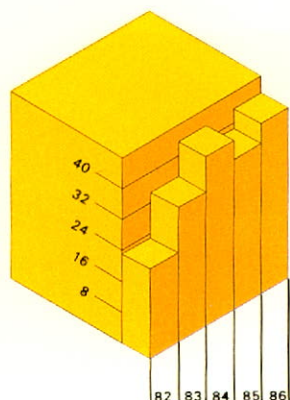
The balance sheet remains strong and well able to support the implementation of the Company's strategic plan with a working capital ratio of 1.5:1.0 and a debt-equity ratio of .3:1.0 as at December 31, 1986.

Glass Packaging

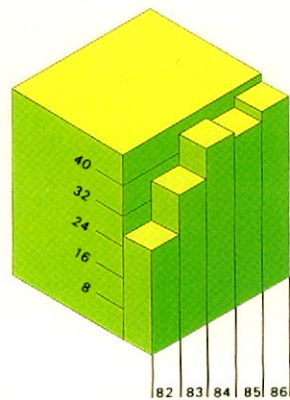
The Glass Container Division turned in a strong performance with improvements in both sales and operating income. Sales, after declining by 2.9% in 1985, increased to a record \$247 million in 1986 and operating income increased to \$31.8 million.

The improvement in the Division's performance was a result of higher sales and lower costs through productivity increases. Sales growth was shown in certain segments of the food and beverage markets but sales to the soft-drink industry did not meet expectations. Improved efficiencies and lower costs, including reductions in the price of energy, were achieved, partially offsetting very competitive market conditions which restricted profit margins.

The International Partners in Glass Research, of which Consumers Packaging Inc. is a founding member, has funded over 40 basic research projects aimed at finding ways of making glass containers stronger and lighter. Planning is underway to establish methods of testing the results of this research on a prototype basis.



Cash Generated From Operations
(Millions of Dollars)



Operating Income
(Millions of Dollars)

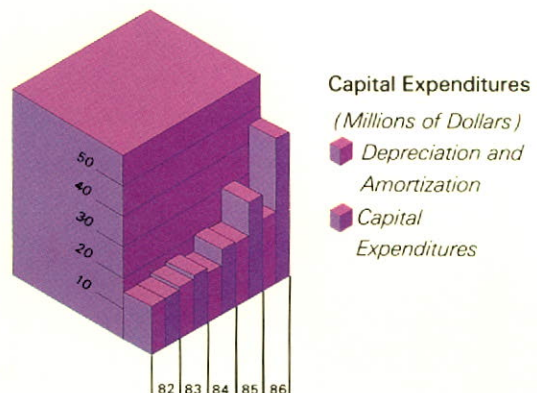
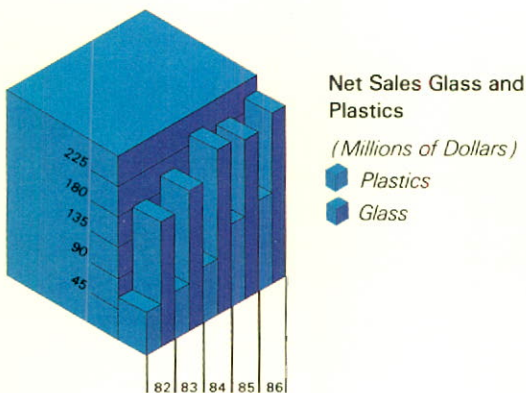
Plastics Packaging

Plastics Packaging achieved record results for the second successive year, reflecting continuing gains in market share in certain segments and improved operating efficiencies.

Substantial progress was made during the year in implementing the Company's program of achieving and maintaining a leadership position in high-performance plastics packaging. The initial step in realizing this objective was the negotiation of license agreements covering a number of advanced packaging technologies, new products, and access to future developments with several of the world's leading packaging companies. As part of this program, a New Business Development Group was set up within the Company, and has been actively presenting the Company's new capabilities to customers with a gratifying response.

Two of these new technologies were implemented in 1986:

- To meet the market need for barrier plastic bottles in the food industry, production of Lamicon multi-layer bottles began on schedule at mid-year in the Burlington, Ontario, manufacturing plant of PLAX INC. Market acceptance has been excellent and a second manufacturing line is to begin production in 1987.
- To meet similar requirements in the single-service and portion-control food and food-service industries, production of multi-layer barrier plastic sheet began late in the year at the Bristol, Pennsylvania, plant of Portion Packaging Inc.

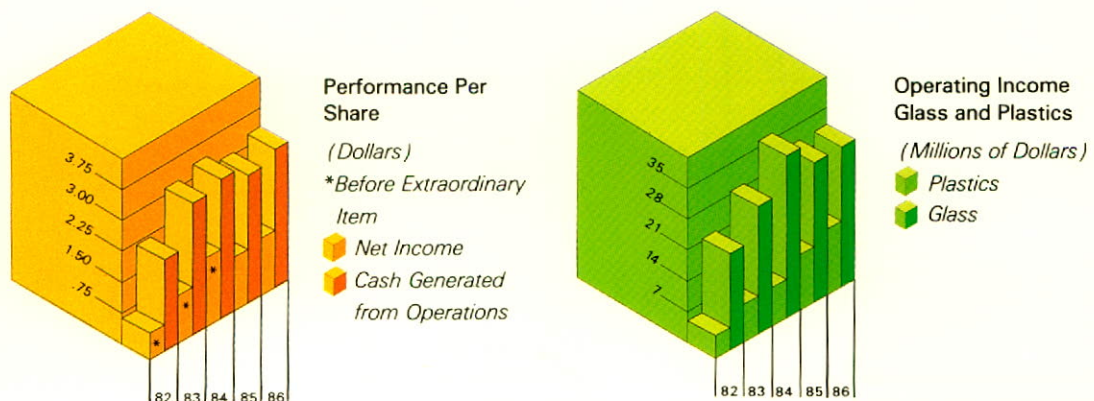


Employee Relations

The people of Consumers Packaging again made a major contribution to the achievements of the Company in 1986 through their dedication and hard work. The Company is committed to furthering the well-being of all its employees and to this end a formal Human Rights Policy which exceeds legislative requirements is in effect in Canada and the United States. Comprehensive safety programs are in operation in all the Company's plants and are regularly reviewed to ensure that they meet the requirements for a safe working environment.

Collective Agreements

Consumers Packaging Inc. enters 1987 in its 10th consecutive year without a strike, demonstrating the sound relationships existing between the Company and its employees. Three-year contracts covering two plastics packaging plants were successfully negotiated in 1986. Six contracts covering two glass-container plants and two plastics packaging plants are to be negotiated in 1987.





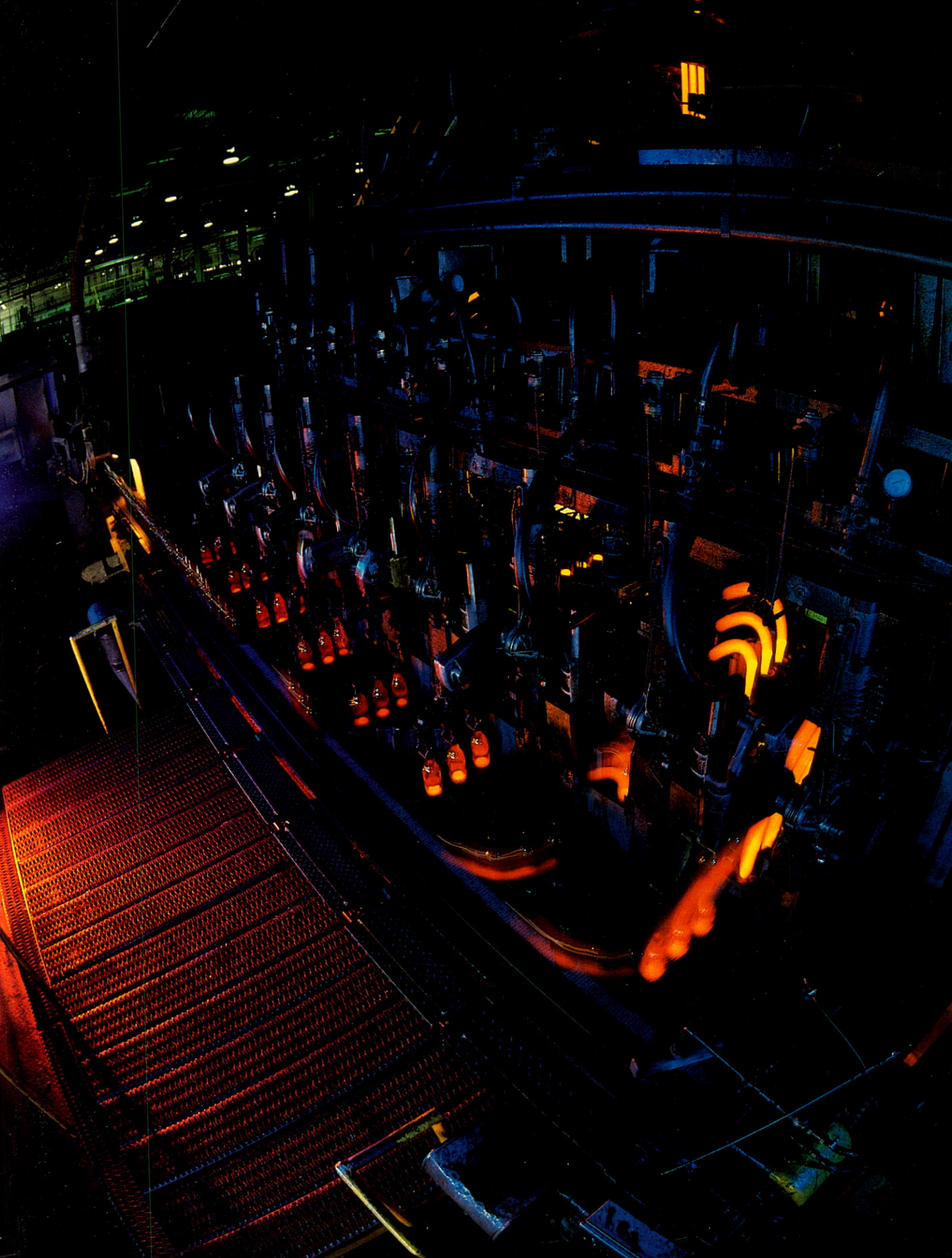
GLASS PACKAGING

Consumers Packaging Inc. has been producing glass containers since 1917 and is one of the most efficient producers of these products on the continent. Customers include nearly all major food, beverage, pharmaceutical and cosmetics and toiletries companies. To ensure that the needs of our customers for high-quality glass containers are met, the Glass Container Division operates five strategically located plants: two in Quebec, two in Ontario and one in British Columbia. All plants are maintained at peak levels of efficiency.

The Company is at the forefront in glass-container technology and is continually seeking ways to produce better glass containers more efficiently and economically. In 1986, Consumers Packaging marked the 25th anniversary of its technological-assistance agreement with Brockway, Inc. (NY), a world leader in advanced glass-making technology. Through this agreement and the expertise of its own people, Consumers Packaging utilizes the most advanced glass-container technology available.

Consumers Packaging is committed to using increased amounts of recycled glass. Recycling conserves raw materials and energy while at the same time reduces solid waste. The Company supports the recycling of used glass by on-going investments in glass-batch formulation technology and by its active participation in many government and private recycling organizations. In 1986, 111,000 tons, 25% of total production, was from recycled glass, a substantial increase from the 43,000 tons used in 1982. It is encouraging to note that significant further progress was made in 1986 in establishing municipal source separation and collection systems for recyclable materials.

PRODUCED AT A RATE OF NEARLY FIVE PER SECOND,
NEW BOTTLES DESTINED FOR THE EXPORT BEER
MARKET GLOW WITH 2200°F HEAT AS THEY LEAVE A
TRIPLE-GOB BOTTLE-FORMING MACHINE AT THE
MILTON, ONTARIO GLASS-CONTAINER
MANUFACTURING PLANT.







PLASTICS PACKAGING

Consumers Packaging Inc. is one of Canada's most technologically-advanced manufacturers of plastics packaging. Its PLAX Division is Canada's largest producer of extruded blow-molded plastic bottles and Portion Packaging is North America's largest manufacturer of thermoformed single-service coffee creamers.

In certain segments of the food, household products, pharmaceutical and chemical industries the state-of-the-art in plastics packaging is represented by flexible or rigid multi-layer barrier packaging. Consumers Packaging is an active participant in this rapidly growing segment of the packaging industry through two of its divisions. The Company produces co-extruded multi-layer Lamicon containers at its PLAX plant in Burlington, Ontario, and multi-layer barrier plastic sheet at its Bristol, Pennsylvania, Portion Packaging thermoforming plant.

The Company's seven plastics plants in Canada and two in the United States produce plastic packaging used by major North American consumer product companies in the food, food-service, dairy, beverage, pharmaceutical, household products, and toiletries and cosmetics industries. Plant locations are: Portion Packaging: Rexdale, Ontario; Chicago, Illinois; Bristol, Pennsylvania; PLAX: Burlington, Mississauga, Brampton, Ontario; North Ontario Mould Company: Barrie, Ontario; Bromar Plastics: Ville d'Anjou, Quebec; Closure Plant: Waterloo, Quebec.

PRODUCED IN AROUND-THE-CLOCK SHIFTS
AND CALLED "CONTACT CLEAR" BECAUSE THEY ALLOW THE
COLOUR OF THE CONTENTS TO SHOW WHEN FILLED,
MULTI-LAYER BARRIER LAMICON BOTTLES
AT THE BURLINGTON, ONTARIO PLANT OF PLAX APPEAR
BLUE THROUGH THE FILTERED LENS OF
A HIGH-SPEED CAMERA.



PLASTICS PACKAGING

Portion Packaging supplies complete packaging systems, including containers and filling machines developed, manufactured and serviced by the company, to customers in the dairy and food-service industries for the filling of coffee creamers, condiments, and specialty product packages. In addition, Portion Packaging produces dairy-product containers, beverage cups and lids and other types of thermoformed packaging. All three Portion Packaging plants are equipped with high-speed thermoforming equipment.

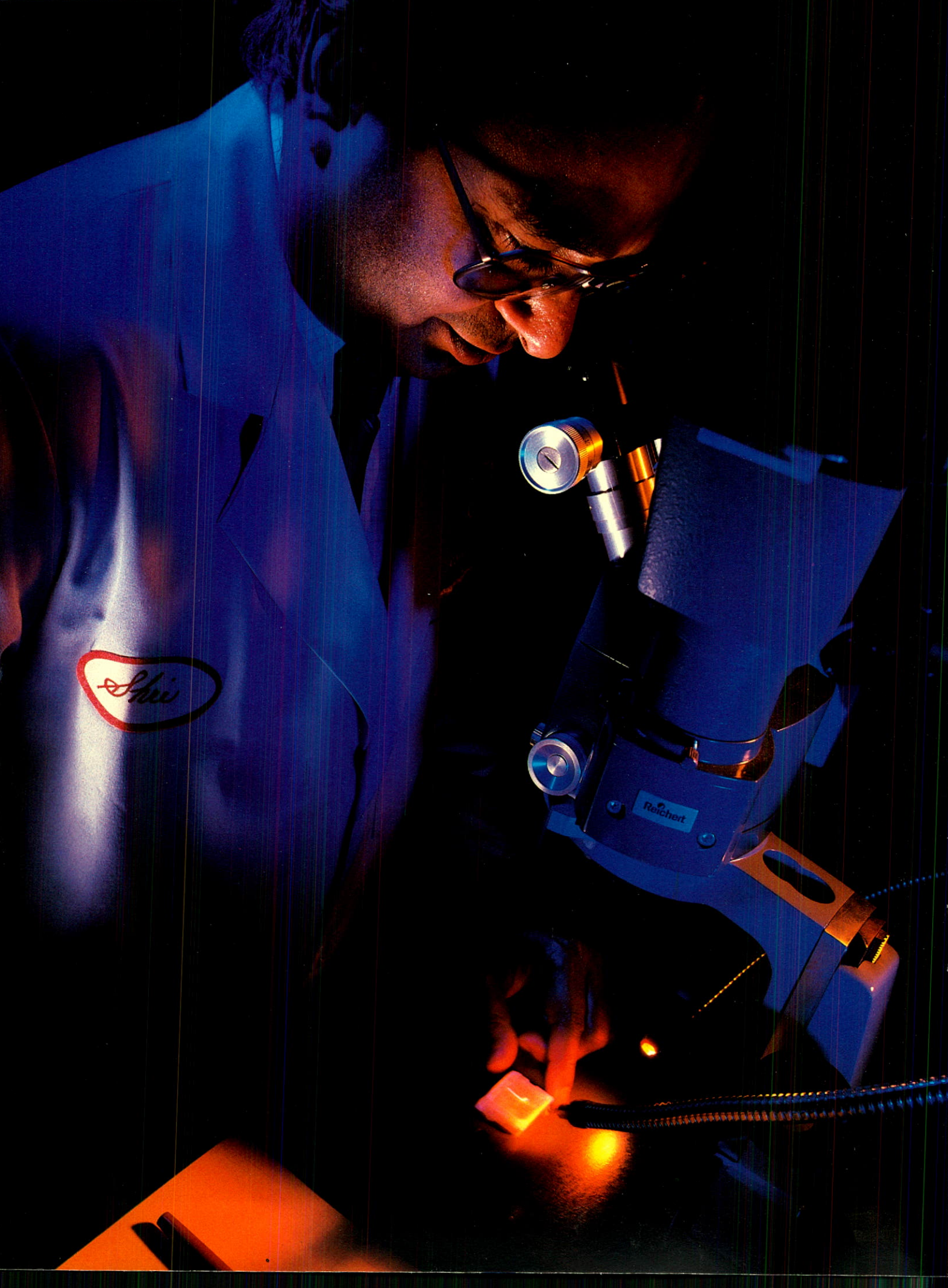
PLAX produces blow-molded plastic bottles for products such as ketchups, barbecue sauces, shampoos, suntan lotions, vitamins, edible oils, laundry detergents, fabric softeners, and many other consumer and industrial products.

The Closure Plant produces injection-molded closures which are used on distilled spirits, wines, toothpastes, instant coffees, prescription and non-prescription pharmaceuticals, and many other products.

As noted in the Directors' Report, in late 1986, to complement its growing plastics packaging operations, the Company acquired North Ontario Mould Company Limited, Barrie, Ontario, a leading manufacturer of moulds for the plastics industry. In January, 1987, Bromar Plastics Ltd., Ville d'Anjou, Quebec, was acquired to expand the Company's plastic bottle business in Quebec and Eastern Canada.

USING THE MOST ADVANCED TECHNOLOGY
AVAILABLE, MULTI-LAYER BARRIER PLASTIC FOR
THERMOFORMING IS EXTRUDED IN A
CONTINUOUS SHEET AT THE BRISTOL, PENNSYLVANIA
PLANT OF PORTION PACKAGING.







TECHNOLOGY

Packaging is a highly dynamic industry with new, better, and more sophisticated types of packaging and packaging equipment continually being developed. To compete successfully, packaging companies must have access to other technologies as they are developed and must invest substantial sums in new facilities and manufacturing equipment.

Consumers Packaging is at the forefront of advanced technology through the expertise of its own people and license agreements with five of the world's most technologically-advanced companies. They are:

- Toyo Seikan Kaisha, Japan: providing technology relative to multi-layer barrier Lamicon plastic containers in Canada;
- Metal Box PLC, England: providing technology relative to present and future packaging products as they are developed;
- ONO SA, France: providing exclusive rights to ONO technology in Canada and the United States;
- Monsanto Inc., United States: providing long-term technical assistance and access to manufacturing equipment;
- Brockway, Inc. (NY), United States: providing advanced glass and plastic container technologies.

To expand the Company's services to customers in the food processing industry, Portion Packaging opened a new Development and Testing Center near Philadelphia at Trevose, Pennsylvania. This facility assists in developing packaging and filling equipment and includes a laboratory with state-of-the-art instrumentation, a test kitchen, a sanitary food-processing/filling environment, and thermoforming equipment for producing and evaluating prototype package designs and production sample quantities of packaging materials.

IN THE BRILLIANCE OF FIBRE-OPTIC LIGHT,
A SAMPLE OF MULTI-LAYER HIGH-PERFORMANCE PLASTIC SHEET
IS MICROSCOPICALLY EXAMINED DURING TESTING AT
THE NEW PORTION PACKAGING DEVELOPMENT AND
TESTING CENTER IN PENNSYLVANIA.

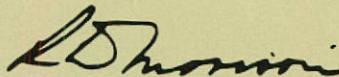
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Consumers Packaging Inc. is responsible for the integrity and objectivity of the accompanying financial statements, supplemental financial data and other information in this Annual Report. The accompanying financial statements were prepared in accordance with generally accepted accounting principles.

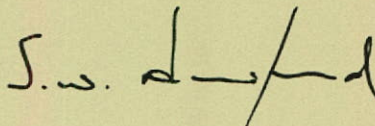
To assist management in the discharge of these responsibilities, the Company maintains a system of internal control designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed, and that accurate, timely and comprehensive financial information is prepared. The Company's internal audit department performs independent evaluations of these controls and reports its findings and recommendations to management and the Audit Committee of the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities primarily through an Audit Committee composed of outside Directors of the Company. The Audit Committee meets periodically with management, the internal auditors and the external auditors to satisfy itself that their responsibilities are properly discharged and to review and approve financial statements for presentation to the Board. Both internal and external auditors have full and free access to the Audit Committee.

Touche Ross & Co., appointed by the shareholders as the Company's auditors, has audited and express its opinion on the accompanying financial statements and notes thereto.



R. D. Morison,
President and Chief Executive Officer



S. W. Hannaford,
Vice-President, Finance and Administration

CONSOLIDATED STATEMENT OF INCOME

	1986	1985
Net sales for the year ended December 31	\$379,899,000	\$354,550,000
Costs and expenses		
Cost of goods sold, distribution, selling and administration expenses	318,588,000	300,224,000
Depreciation	20,078,000	17,650,000
Amortization	2,616,000	2,771,000
Interest (Note 5)	5,975,000	4,302,000
	347,257,000	324,947,000
Income before provision for income taxes	32,642,000	29,603,000
Provision for income taxes (Note 6)	14,559,000	12,310,000
Net income for the year	\$ 18,083,000	\$ 17,293,000
Weighted average number of shares outstanding (Note 4)	12,940,257	12,904,183
Earnings per share	\$1.40	\$1.34

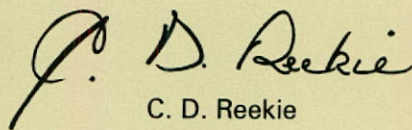
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31	1986	1985
Balance at beginning of year	\$67,167,000	\$60,520,000
Net income for the year	18,083,000	17,293,000
	85,250,000	77,813,000
Dividends	11,647,000	10,646,000
Balance at end of year	\$73,603,000	\$67,167,000

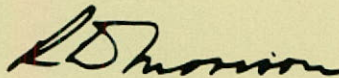
CONSOLIDATED BALANCE SHEET

Assets as at December 31	1986	1985
Current		
Accounts receivable	\$ 39,486,000	\$ 37,132,000
Inventories	58,361,000	58,016,000
Income taxes recoverable	526,000	—
Prepaid expenses and other	4,167,000	3,568,000
	102,540,000	98,716,000
Other receivables (Note 2)	1,808,000	1,286,000
Fixed		
Land, buildings and machinery	282,554,000	251,408,000
Less accumulated depreciation	137,186,000	123,809,000
	145,368,000	127,599,000
Unamortized furnace rebuild costs	12,890,000	9,868,000
	158,258,000	137,467,000
Licenses and other assets	5,300,000	1,405,000
Goodwill	15,482,000	14,714,000
	\$283,388,000	\$253,588,000

On behalf of the Board



C. D. Reekie
Director



R. D. Morison
Director

Liabilities as at December 31	1986	1985
Current		
Bank indebtedness	\$ 25,665,000	\$ 27,314,000
Accounts payable and accrued liabilities	42,315,000	41,135,000
Income taxes payable	—	571,000
	67,980,000	69,020,000
Long term debt (Note 3)	44,400,000	24,000,000
Deferred income taxes	42,463,000	38,741,000
Shareholders' Equity		
Capital stock (Note 4)		
Preferred shares	2,137,000	1,492,000
Common shares	50,883,000	50,883,000
Retained earnings	73,603,000	67,167,000
Cumulative translation gain	1,922,000	2,285,000
	128,545,000	121,827,000
	\$283,388,000	\$253,588,000

AUDITORS' REPORT

The Shareholders, Consumers Packaging Inc.

We have examined the consolidated balance sheet of Consumers Packaging Inc. as at December 31, 1986 and the consolidated statements of income, retained earnings and cash flow 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 Company as at December 31, 1986, the results of its operations and its cash flow for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 4, 1987,

Touche Ross & Co.
Chartered Accountants

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31	1986	1985
Operating activities		
Net income	\$18,083,000	\$17,293,000
Depreciation and amortization	22,694,000	20,421,000
Deferred income taxes	3,761,000	1,157,000
Pension funding and expense – net	(1,275,000)	—
Cash generated from operations	43,263,000	38,871,000
(Increase) in non-cash working capital	(3,439,000)	(12,655,000)
Financing activities		
Notes payable	400,000	4,000,000
Increase in long term debt	20,000,000	10,000,000
Debt retirement	—	(7,455,000)
Preferred share issue	645,000	114,000
Other	(750,000)	202,000
	20,295,000	6,861,000
Dividends	(11,647,000)	(10,646,000)
Investing activities		
Business acquisitions	(1,457,000)	(12,855,000)
Additions to plant and equipment	(37,634,000)	(25,148,000)
Furnace rebuilds	(4,988,000)	(4,122,000)
Licenses	(2,744,000)	(1,108,000)
	(46,823,000)	(43,233,000)
(Increase) decrease in current bank indebtedness	\$ 1,649,000	(\$20,802,000)
Analysis of change in non-cash working capital (increase):		
Accounts receivable	(\$ 2,217,000)	(\$ 3,266,000)
Inventories	(254,000)	(5,736,000)
Prepaid expenses and other	(668,000)	(184,000)
Accounts payable and accrued liabilities	822,000	2,124,000
Income taxes payable	(1,122,000)	(5,593,000)
	(\$ 3,439,000)	(\$12,655,000)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1986

1. Summary of accounting policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and generally conform with the recommendations of the International Accounting Standards Committee.

Principles of consolidation

The consolidated financial statements include the accounts of Consumers Packaging Inc. and its subsidiaries all of which are wholly-owned.

Inventory valuation

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis.

Fixed assets

Fixed assets are recorded at cost. Depreciation is provided on a straight-line basis designed to amortize the cost of these assets over their useful lives. The estimated useful lives of the principal classes of assets are as follows:

Buildings	40 years
Machinery and equipment	4-15 years

The Company amortizes major furnace rebuild costs on a straight-line basis over the expected useful lives of the rebuilt furnaces.

Licenses

Licenses are amortized on a straight-line basis over the term of the respective agreements.

Goodwill

Goodwill represents the excess of the cost of shares in acquired companies over the fair value of their net assets at the date of acquisition. Goodwill acquired subsequent to 1974 is being amortized on a straight-line basis over forty years.

Income taxes

The financial statements include an appropriate provision for income taxes for the year irrespective of when such taxes are payable. Investment tax credits are deferred and recognized in income as related assets are depreciated. Deferred income taxes arise primarily from claiming capital cost allowance for income tax purposes in excess of depreciation charged to income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1986

Pension plans

The Company and its subsidiaries have non-contributory pension plans providing retirement benefits for employees. Effective for the year ended December 31, 1986, the Company changed its method of accounting for pensions by adopting the new accounting standard issued by the Canadian Institute of Chartered Accountants.

2. Other receivables

This balance represents amounts outstanding on interest free loans made by the Company to permit several senior officers to purchase preferred shares of the Company pursuant to a share purchase plan approved by the shareholders. These loans have a ten year term and 75% of all dividends received on the shares must be applied to the outstanding loans.

3. Long term debt (unsecured)

	1986	1985
Bank loans	\$40,000,000	\$20,000,000
Promissory notes, due in 1988	4,400,000	4,000,000
	\$44,400,000	\$24,000,000

Bank loans in the amount of \$15,000,000 are due in 1988 but may be extended at the Company's option for varying periods of time. The remaining bank loans are due in 1993.

4. Capital stock

Authorized

Unlimited numbers of common and preferred shares

Issued

112,000 preferred shares

12,759,504 common shares

The preferred shares are redeemable in certain circumstances and, at the option of the holders, are convertible into an aggregate of 182,000 common shares. They have been treated as common share equivalents for purposes of computing earnings per share since they participate equally with the common shares as to dividends. During the year, 35,000 preferred shares were issued for a consideration of \$644,700.

Brockway, Inc. (NY) holds 15.2% of the Company's outstanding common shares. Under an agreement entered into in 1961 and amended on February 5, 1985, Brockway has a contractual right whenever common shares, or securities convertible into common shares, of the Company are issued to others to maintain its relative interest by purchasing securities of the class issued at the same price. Brockway's relative interest at any time is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1986

the lower of 20% and the percentage of the outstanding common shares held by it immediately prior to the issuance giving rise to its entitlement. Since the 1961 agreement, and after taking into account subsequent stock splits, Brockway has acquired 557,004 common shares pursuant to this right.

5. Interest expense

	1986	1985
On long term debt	\$2,620,000	\$1,469,000
On short term debt	3,355,000	2,833,000
	\$5,975,000	\$4,302,000

6. Provision for income taxes

The Company's effective income tax rate is as follows:

	1986	1985
Combined basic statutory income tax rate	49.8%	48.2%
Manufacturing and processing profits deduction	(4.9)	(4.9)
Inventory allowance	—	(1.1)
Miscellaneous	(0.3)	(0.6)
	44.6%	41.6%

7. Commitments

The Company is obligated to aggregate annual rentals of approximately \$3,500,000 under long term lease agreements ranging from one to ten years.

8. Financial data by business segment

The Board of Directors has determined by resolution that the Company operates in one industry segment being the manufacture and sale of packaging products. Financial data by geographic segment follows: (in thousands of dollars)

	Canada		United States		Consolidated	
	1986	1985	1986	1985	1986	1985
Net sales	\$315,287	\$291,430	\$64,612	\$63,120	\$379,899	\$354,550
Operating profit	\$ 36,319	\$ 35,422	\$ 9,857	\$ 7,984	\$ 46,176	\$ 43,406
Corporate administration expenses, interest and taxes					28,093	26,113
Net income from operations					\$ 18,083	\$ 17,293
Identifiable assets	\$249,484	\$223,641	\$33,904	\$29,947	\$283,388	\$253,588

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1986

9. Pension plans

The actuarial present value of accrued pension benefits and the market related value of pension fund assets at December 31, 1986 are \$42,816,000 and \$63,414,000 respectively.

10. Litigation

In February, 1983 an action was commenced by Glass Containers Limited in Australia against the Company and seven former directors of Glass Containers Limited. The action claims that a technical assistance agreement between the Company and Glass Containers Limited is of no effect and requests an order setting aside the agreement and repayment of Australian \$1,084,523. The Company has counterclaimed that the agreement is valid, and for payments of all amounts owing under the agreement.

In view of the fact that the Company and its legal counsel feel the claim by Glass Containers Limited is without merit, no provision has been made for the amount claimed.

11. Statutory information

These financial statements do not comply with every provision required by The Companies Act of the Province of British Columbia.

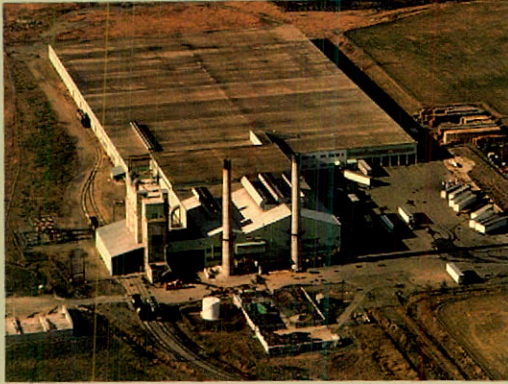
10 YEAR FINANCIAL REVIEW

Years ended December 31	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Operations (millions of dollars)										
Net sales	\$379.9	\$354.6	\$323.0	\$278.3	\$242.4	\$231.7	\$195.0	\$178.1	\$149.5	\$119.8
Glass containers	247.0	232.9	239.8	209.9	183.0	178.6	146.9	139.6	118.4	95.0
Plastics packaging	132.9	121.7	83.2	68.4	59.4	53.1	48.1	38.4	31.1	24.8
Operating income	46.2	43.4	44.7	37.1	26.4	25.8	19.8	21.4	19.2	9.6
Glass containers	31.8	31.0	36.4	28.7	21.5	24.4	18.5	21.3	16.6	8.0
Plastics packaging	14.4	12.4	8.3	8.4	4.9	1.4	1.3	0.1	2.6	1.6
Taxes on income	14.6	12.3	14.2	8.9	2.6	.7	1.1	3.0	4.3	1.6
Net income	18.1	17.3	21.1*	13.2*	6.8*	5.5*	7.0	10.4	8.9*	3.9
Cash generated from operations	43.3	38.9	43.6	34.7	22.7	18.3	19.4	21.4	17.3	11.3
Depreciation and amortization	22.7	20.4	16.6	16.4	15.7	14.1	12.1	9.9	9.0	7.9
Capital expenditures	45.4	30.3	20.6	17.0	15.3	21.1	32.0	33.4	14.2	10.0
Return on net sales	4.8%	4.9%	6.5%	4.7%	2.8%	2.4%	3.6%	5.8%	6.0%	3.2%
Return on equity	14.4%	14.7%	19.5%	16.0%	11.7%	10.2%	13.3%	21.2%	21.2%	10.5%
Return on invested capital**	17.6%	18.0%	24.0%	18.6%	13.3%	13.3%	11.6%	16.5%	18.7%	9.9%
Dividend payout ratio	64.4%	61.6%	46.0%	50.8%	75.8%	93.5%	73.0%	44.3%	28.8%	59.8%
Debt/equity ratio	0.3	0.2	0.1	0.1	0.7	1.3	1.1	0.9	0.6	0.6
Per share										
Earnings	\$1.40	\$1.34	\$1.64*	\$1.20*	\$0.66*	\$0.54*	\$0.68	\$1.01	\$0.87*	\$0.38
Dividends paid	0.90	0.825	0.75	0.60	0.50	0.50	0.50	0.45	0.25	0.23
Cash generated from operations	3.34	3.01	3.38	3.16	2.21	1.79	1.89	2.09	1.69	1.12
Balance sheet (millions of dollars)										
Working capital	\$ 34.6	\$ 29.7	\$ 34.2	\$ 27.8	\$ 20.6	\$ 20.5	\$ 18.8	\$ 19.4	\$ 18.0	\$ 11.9
Invested capital	215.4	184.6	161.2	144.6	135.0	146.3	138.0	117.8	91.0	80.1
Long-term debt	44.4	24.0	10.8	11.2	45.5	69.0	60.7	44.2	26.1	24.3
Deferred income taxes	42.5	38.7	36.3	30.0	26.2	22.6	22.3	20.3	17.1	17.9
Capital and retained earnings	128.5	121.8	114.0	102.7	62.4	53.6	53.8	51.9	46.1	37.9

*Before extraordinary item

**Return on invested capital is income before interest on long term debt and income taxes ÷ average invested capital

PLANTS



The Lavington, British Columbia, glass-container manufacturing plant was opened in 1970.



The PLAX INC. plant in Burlington, Ontario, produces plastic bottles.



The Bristol, Pennsylvania, plant of Portion Packaging, Inc. was opened in 1978.



The Candiatic, Quebec, glass-container manufacturing plant acquired in 1967.



The Milton, Ontario, glass-container manufacturing plant is the Company's newest and was opened in 1979.

PLANTS



The Toronto, Ontario, glass-container manufacturing plant is the Company's largest plant.



The PLAX plant in Brampton, Ontario, is one of three PLAX INC. plants.



The Mississauga, Ontario, plant of PLAX INC.



The Ville St. Pierre, Quebec, glass-container plant.

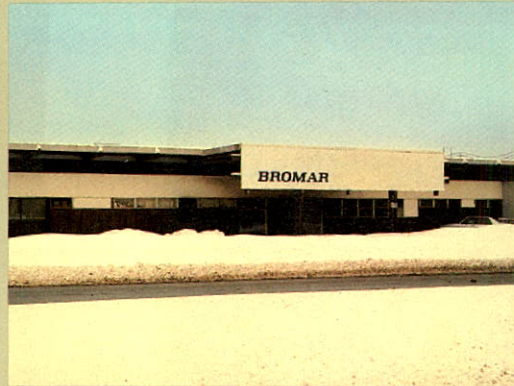


The Portion Packaging plant in Rexdale, Ontario, produces a wide range of thermoformed plastic packaging.

PLANTS



The Waterloo, Quebec, plant manufactures an extensive range of plastic closures.



Bromar Plastics Ltd., Ville d'Anjou, Quebec, produces plastic bottles.



The Chicago, Illinois, plant of Portion Packaging, Inc. was the Company's first plant in the United States.



North Ontario Mould Company Limited, Barrie, Ontario, is a major producer of moulds for the plastics packaging industry.

CONSUMERS PACKAGING INC.

Directors

<p>**M. F. Blair Toronto, Ontario President and Chief Executive Officer of The Enfield Corporation Limited</p> <p>*C. F. G. Heward *Montreal, Quebec President C.F.G. Heward Investment Management Ltd.</p> <p>B. J. Hutzal Toronto, Ontario Partner Campbell, Godfrey & Lewtas</p>	<p>J. J. McMackin Jacksonville, Florida President and Chief Operating Officer Brockway, Inc. (NY)</p> <p>*R. D. Morison Toronto, Ontario President and Chief Executive Officer</p> <p>*C. D. Reekie Toronto, Ontario Vice-Chairman CAE Industries Ltd.</p>	<p>*Valentine N. Stock **Toronto, Ontario Chairman Canada Packers Inc.</p> <p>J. Tétrault, O.C. Montreal, Quebec Partner Clarkson, Tétrault</p> <p>T. A. Tinmouth Toronto, Ontario Executive Vice- President and Chief Operating Officer</p>	<p>*J. A. Winfield Jacksonville, Florida Chairman and Chief Executive Officer Brockway, Inc. (NY)</p> <p><i>*Member of the Executive Committee</i></p> <p><i>**Member of the Audit Committee</i></p>
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Officers

<p>C. D. Reekie Chairman of the Board</p> <p>Valentine N. Stock Vice-Chairman of the Board</p> <p>R. D. Morison President and Chief Executive Officer</p> <p>T. A. Tinmouth Executive Vice- President and Chief Operating Officer</p>	<p>W. S. Campbell Executive Vice- President Corporate Marketing and Development</p> <p>S. W. Hannaford Vice-President Finance and Administration</p> <p>J. C. Bacon Vice-President Plastics Packaging</p>	<p>H. G. Fricke Vice-President and General Manager Portion Packaging Products</p> <p>K. A. Grant Corporate Controller</p> <p>David Jack Secretary-Treasurer</p> <p>G. J. Kavanagh Vice-President General Manager Container and Closure Products</p>	<p>D. S. Kennedy Vice-President New Business Development</p> <p>F. M. Pope Vice-President and Director of Sales and Marketing Container and Closure Products</p>
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Subsidiary Companies

<p>*Bromar Plastics Ltd. Ville d'Anjou, Quebec</p> <p>Consumers Glass Company International Limited Bridgetown, Barbados</p> <p>Portion Packaging Inc. Trevose, Pennsylvania</p>	<p>North Ontario Mould Company Limited Barrie, Ontario</p> <p>PLAX INC. Burlington, Ontario</p>
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Auditors

Touche Ross & Co.
Toronto

Transfer Agent

**The Royal Trust
Company**
Montreal / Toronto /
Calgary

**Acquired January 13, 1987*



CONSUMERS PACKAGING INC.
401 THE WEST MALL, SUITE 900
ETOBICOKE, ONTARIO M9C 5J7
