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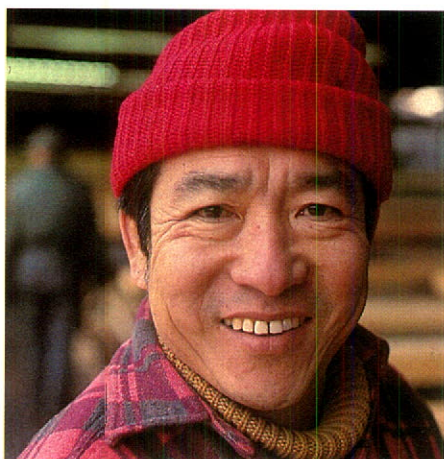
**Whonnock
Industries Limited
Annual Report 1984**

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Whonnock Industries Limited



Whonnock Industries Limited is a Canadian-owned forest products company with sawmills and logging operations on the Coast and in the Interior of British Columbia. Originally incorporated in 1963 to operate a lumber mill in Whonnock, B.C., the Company has expanded rapidly to become one of the larger sawmill operators and lumber exporters in British Columbia.

Whonnock Industries owns 27 logging operations cutting hemlock, balsam, fir, cedar, cypress and spruce. The Company has seven sawmills and one shake and shingle mill. The mills process a variety of species into a wide range of products, many of which are custom orders.

Through Whonnock's interest in Western Forest Products, the Company has access to one-third of W.F.P.'s extensive timber holdings in British Columbia and an interest in Western Pulp's two pulp mills.

Whonnock's decentralized operations focus responsibility at the ground level, encouraging the development of an entrepreneurial spirit. In the mills and in the woods, each team makes marketing and production decisions, and each is accountable for results. Whonnock Industries nurtures this partnership, recognizing that flexibility to the marketplace makes good business sense.



12 Months Ended	December 31, 1984	December 31, 1983
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Financial Summary

Income Statement

Sales	\$239,929,000	\$269,612,000
Operating margin (Loss) before interest	(6,740,000)	11,492,000
(Loss) before extraordinary item	(19,774,000)	(1,934,000)
Net Income (Loss) for the year	(19,774,000)	4,746,000
Earnings (Loss) per share	(2.91)	.70

1984 (After shareholder approval of refinancing)	December 31 1984	1983
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Balance Sheet

Working Capital	\$ 35,604,000	\$ 29,704,000	\$ 26,003,000
Total Assets	202,353,000	202,353,000	218,948,000
Total Common Shareholders' Equity	37,846,000	18,846,000	38,620,000
Equity per Common share	3.95	2.77	5.68

Report from the Chairman

A YEAR OF CHALLENGE. As the recession continued for the fourth year in the Lumber Industry, 1984 was the year of greatest challenge for Whonnock Industries.

IN MANUFACTURING, commodity lumber prices collapsed as weakening overseas currencies discouraged overseas markets and contributed to an oversupply of lumber in North America.

IN LOGGING, high coastal logging costs intersected the path of lower lumber prices, resulting in production curtailments.

IN FINANCE, operating losses in the second and third quarter of the year combined with substantial interest payments to push our operating loan to its limit.



Log loading at Cleagh Creek.

A YEAR OF OPPORTUNITY. Our policy of management decentralization has given each sector of our business the independence to respond quickly to the challenges of a changing world.

IN MANUFACTURING, sawmills reacted quickly to concentrate on the most profitable species and markets with emphasis on adding value to the products.

IN LOGGING, export opportunities for a portion of our hemlock log production enabled logging operations to resume full production while the demand for lumber was low.

IN FINANCE, the entire debt with the Toronto Dominion Bank was restructured, replacing debt with common and preferred share equity.

With the experience of this critical year behind us, we can look forward to 1985 with greater confidence. We do not expect a rapid recovery for the industry, nor the economy generally, but we do expect less volatility. With the expectation of modest recoveries in overseas markets, and with the certainty of much lower financing costs for our company, we are looking forward to improved earnings in 1985.

On behalf of the board of directors,

William L. Sauder
Chairman and Chief Executive Officer

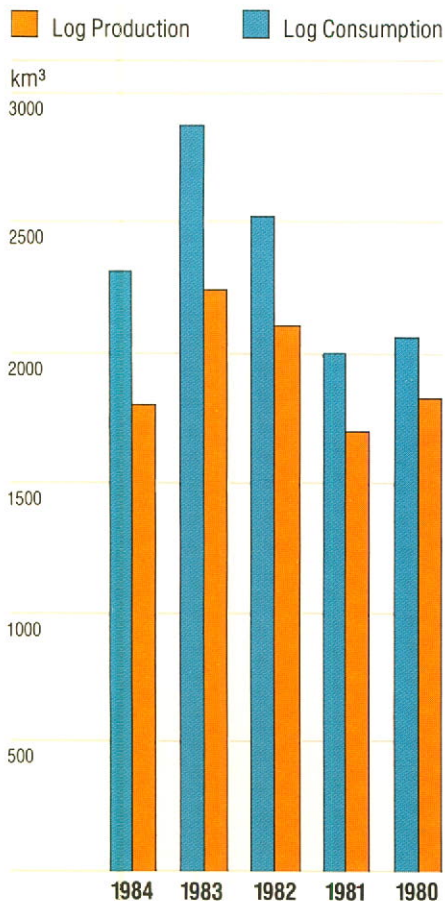
Woodlands

“An increased timber base was complemented by an expanded forest management program.”



Top:
Logs are graded for shipping during a dryland sort at Scott Cove.

Lower:
Safety pays off for Cleagh Creek Chokerman.

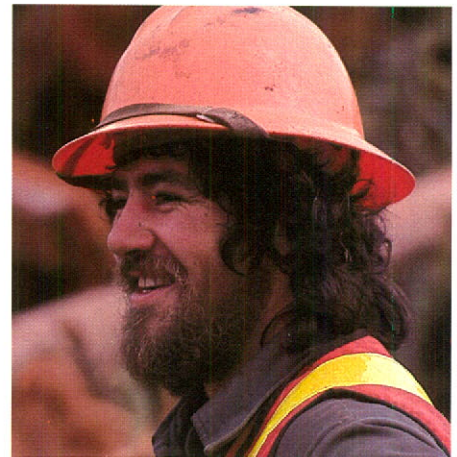


Through the same transaction that led to the acquisition of the Pitt Meadows sawmill, Whonnock also acquired two coastal logging operations from CIPA Industries Limited. This acquisition increased the Company’s timber base by approximately thirteen percent during 1984.

Logging production was cut back during the year to prevent the build-up of log inventories. Despite this curtailment, Whonnock’s forest management program, funded in part by the Provincial Government, was increased to sustain employment for all salaried employees. The Company planted 2.2 million seedlings and harvested about one million trees.

The increased involvement of Whonnock employees in safety-related initiatives significantly reduced the possibilities of injuries to employees. For the second consecutive year, the employees, supervisors and managers of Company logging operations have reduced the frequency of accidents by at least ten percent. Two operations achieved a zero accident frequency during 1984.

Viewing lumber, logs and chips as three internationally marketable commodities, Whonnock began exporting a portion of log production during 1984, packaged whenever possible with a sale of lumber. These exports were sold at high prices, which enabled Company logging camps to break even or show a profit. Through these actions, log exports effectively subsidized other logging. By ensuring a continued log supply for the sawmills, and enabling them to run at higher production levels, log exports provided all Whonnock employees with greater and more secure employment opportunities.



“MAXIMIZING PROFIT THROUGH PRODUCT LINKAGES.”

Manufacturing

“Value-added products are a strong source of growth and development.”

Careful judgement by the Silvertree Quad Saw operator assures that maximum recovery value is achieved.



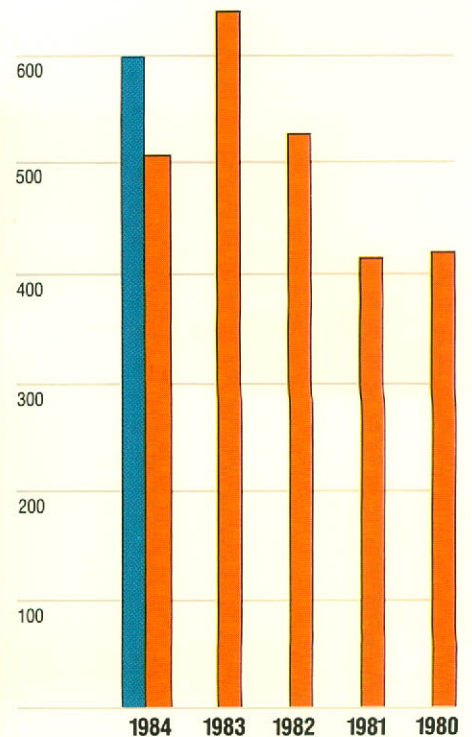
Due to poor markets and the world currency situation, several mills experienced temporary production curtailments during 1984. Despite these constraints, the majority of Whonnock’s sawmills, including Holding Lumber in the Interior, operated throughout the year. It is significant that Pacific Pine and McDonald Cedar Products operated at or in excess of normal capacity during 1984. Both mills produce high quality, value-added lumber products — further proof that value-added products are an important source of growth and development for the Company. In response to this trend, Silvertree is now producing one hundred percent western red cedar, a valuable species that comprises approximately twenty-five percent of Whonnock’s timber holdings.

“AN IMPORTANT NEW ACQUISITION.”

In December 1983, Whonnock closed the Bay Forest Products sawmill to allow for the development of Vancouver’s Expo 86 site. In March 1984, Whonnock, with Sauder Industries as a financial partner, acquired a new sawmill at Pitt Meadows, 30 kilometres from Vancouver on the Fraser River. Originally owned by CIPA Industries Limited, this relatively new mill will be gradually upgraded to improve its capacity, efficiency and product flexibility. The emphasis on flexibility is particularly important during current conditions, as Whonnock continues to maximize its operating margins by logging and sawmilling a species mix that will attract the highest selling price.

■ Lumber Production
 ■ Lumber Capacity

MMBM
700



McDonald Cedar produces a large percentage of high value products.

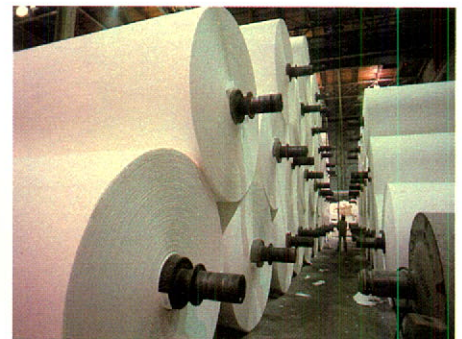


Western Forest Products Limited



Western Forest Products was formed in 1980 to purchase the assets of Rayonier Canada: two pulp mills, five sawmills, logging assets and extensive timber holdings on Vancouver Island and the mainland coast of British Columbia. British Columbia Forest Products Limited, Doman Industries Limited and Whonnock Industries Limited share equally in the right to purchase timber from Western Forest Products. This is advantageous in view of W.F.P.'s annual cutting rights of 2.5 million cubic meters from 686,000 hectares of forest land.

Western Pulp Limited Partnership



Western Forest Products was financially restructured in December, 1983. W.F.P. transferred two pulp mills to the Western Pulp Limited Partnership, which embarked on a \$200 million dollar renovation program for the mills. \$110 million dollars was raised by the sale of limited partnership units to the Canadian public — the largest such sale ever held in Canada. The proceeds from this financial restructuring are currently being used to renovate and upgrade Western Pulp's mills in Port Alice and Squamish.

The partnership units are exchangeable at the option of the holders between April 1, 1987 and June 30, 1990 into a package of shares of British Columbia Forest Products, Doman Industries and Whonnock Industries. On completion of this exchange, Whonnock will own a significant interest in two efficient and world competitive pulp mills.

*Top:
Some of the world's finest timber can be found in W.F.P.'s extensive holdings.*

*Lower:
Bales and rolls of sulfite pulp are readied for export at the Port Alice mill.*

Marketing

“Diversification is a key marketing strategy.”

Right: Exports of custom cut lumber to the Pacific Rim are part of Whonnock’s diversified sales profile.

Lower: Seaboard ships large quantities of lumber to Whonnock’s customers around the world. Whonnock is Seaboard’s largest shareholder.



In order to cushion the effects of wide swings in demand for lumber, Whonnock has maintained a deliberate policy of diversification inherited from the family-owned mills from which the Company evolved. Each of the mills has a particular foreign customer base, and these well-established relationships have given Whonnock a diversified sales profile. The Company is less dependent on the widely-fluctuating U.S. market than most other major Canadian producers.

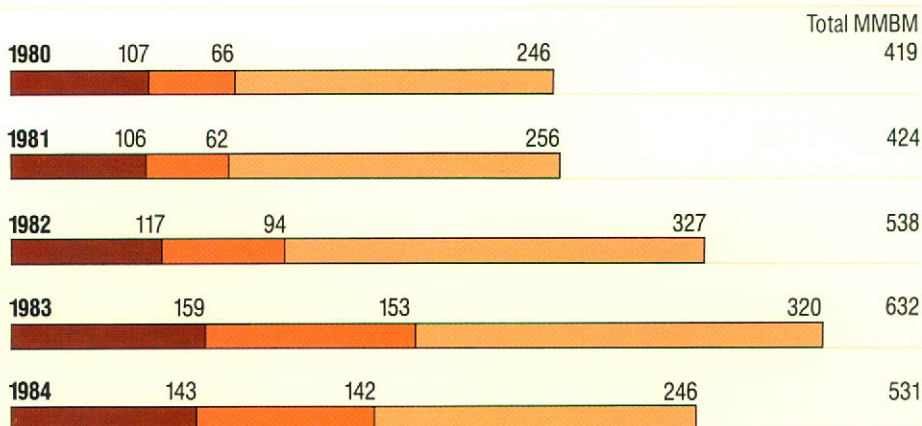
Approximately fifty percent of the Company’s products are now sold to Europe and the Pacific Rim, with approximately thirty percent of sales to the U.S. and the balance in Canada. China has emerged as a major customer and is expected to significantly increase its purchases over the next few years.

Whonnock’s success in overseas markets is a factor of its long-standing relationship with Seaboard Lumber Sales, owned by a consortium of local forest products manufacturers, of which Whonnock is the largest shareholder. Seaboard has been instrumental in opening new markets while providing efficient and reliable deliveries to Whonnock’s existing customers around the world.



Sales Volume By Segment

- Canada
- United States
- Other



Opportunities for Growth

“The challenge for the future is to maximize the advantage of premium coastal timber.”

British Columbia coastal softwood timber is characterized by large, old growth logs. Whonnock’s log supply (including its share in Western Forest Products) is one of the largest of all coastal producers, and exceptionally rich in such high value timber as red cedar, cypress and sitka spruce. The large logs available to the Company’s mills enable substantial quantities of higher-priced clear and shop grades of lumber to be produced.

Top quality Pacific Coast hemlock and balsam, which comprise about fifty percent of Whonnock’s log production, are products increasingly sought after by discriminating European and Pacific Rim markets. Hemlock and balsam are unique species that possess the quality and versatility to meet a wide variety of construction and decorative uses: interior panelling, doors, window frames and many other millwork applications. Whonnock is continually seeking out new customers and applications for hemlock and balsam.

The flexibility of Whonnock’s manufacturing operations enables the

Company to match production to changing customer needs. Through an increasing emphasis on custom-cutting and remanufacturing,



“SEARCHING FOR THE BEST FIT BETWEEN WOOD SUPPLY, MANUFACTURING AND EMERGING WORLD DEMANDS.”

Hemlock is an attractive and versatile wood widely appreciated by discriminating European and Pacific Rim markets.

Whonnock is now selling a larger percentage of value-added products to offshore markets. With the supply of South Seas hardwoods diminishing, the Company is well-positioned to capture a larger share of the Japanese market for premium quality products.

Whonnock recognizes and strongly supports the principle that we need to “produce what our customers want to buy rather than what is easiest to produce.” This changing outlook in our industry will require new marketing, sawmilling and logging techniques, as well as plant modernization, to effectively add value to an ever-widening range of products.



Debt Restructuring

“A strengthening of working capital and shareholders’ equity.”

In January 1985, Whonnock Industries Limited and the Toronto Dominion Bank announced an agreement in principle to restructure Whonnock’s entire indebtedness to the bank. The plan, effective December 31, 1984, will convert \$146 million dollars of bank debt into preferred stock, and the bank will purchase \$19 million dollars of common stock. The agreement will increase Whonnock’s annual pre-tax results by approximately \$18 million dollars, and preserve approximately \$8 million dollars in cash (based upon current interest rates). The improvement in pre-tax income will flow from the elimination of interest payments on existing debt.

A portion of the debt will be converted into cumulative, redeemable, retractable, non-voting, first-preference shares. These shares will carry a floating dividend rate of one-half of bank prime rate plus 1.75%. Additionally, Whonnock will issue to the bank \$19 million dollars in a combination of Class A subordinate voting shares and Class B common shares at \$6.81 per share representing about 2.79 million shares. The effect of the issue will be to allocate a one-third equity interest in Whonnock to each of the Toronto Dominion Bank, the Sauder Group, and public shareholders.

The restructuring of Whonnock’s debt to the Toronto Dominion will significantly strengthen the Company’s balance sheet, particularly in the areas of working capital and shareholders’ equity. Furthermore, the availability of normal credit lines as required by business conditions will give Whonnock Industries greater flexibility in business operations and in planning future capital expenditures.

(Millions of dollars)	1984 Proforma	1984 Actual
Results from operations		
before interest and taxes	(6.3)	(6.3)
Interest income (expense)	.4	(19.6)
Loss before income tax reduction	(5.7)	(25.9)
Deferred income tax reduction	3.2	6.1
Net Loss	(2.5)	(19.8)
Preferred dividend	(11.4)	—
Net (Loss) applicable to common shares	(13.9)	(19.8)
Net (Loss) per common share	(\$1.45)	(\$2.91)
Number of common shares	9,588,468	6,799,468

To illustrate the impact of the restructuring, 1984 results have been recalculated as if the transaction had occurred at the beginning of 1984.

Whonnock Industries Limited

Consolidated Balance Sheet

As At December 31, 1984

a B.C. Corporation

Assets	(Thousands of dollars)	1984	1983
Current Assets			
Trade and other accounts receivable		\$ 16,600	\$ 16,938
Inventories (note 2)		33,792	56,868
Prepaid expenses		1,469	1,668
		51,861	75,474
Investments and Other Assets			
Investments and advances		7,028	3,060
Timber sale deposits		299	741
Investment in Western Forest Products Limited (note 3)		57,380	58,400
		64,707	62,201
Fixed Assets			
Property, plant and equipment, at cost (note 4)		85,944	82,823
Less accumulated depreciation		43,205	37,089
		42,739	45,734
Timber, at cost less accumulated depletion		11,958	10,221
Logging roads, at cost less accumulated amortization		14,188	14,374
		68,885	70,329
Deferred Charges			
Deferred financing fee, net of accumulated amortization		1,300	1,444
Deferred income taxes (note 5)		15,600	9,500
		16,900	10,944
		\$202,353	\$218,948

Approved by the Board

L. H. Lander

Director

J. E. Southcott

Director

Liabilities

	1984 After shareholder approval (note 14)	1984	1983
Current Liabilities			
Bank indebtedness (note 6)	\$ (2,272)	\$ 3,628	\$ 21,586
Accounts payable and accrued liabilities	16,875	16,875	26,736
Principal due within one year on long-term debt (note 6)	1,654	1,654	1,149
	16,257	22,157	49,471
Long-term Debt (note 6)	2,250	161,350	130,857

Shareholders' Equity

Redeemable Preferred Shares of Subsidiary Company (note 14)	146,000	—	—
Capital Stock (notes 6, 7 and 14)			
Issued and fully paid			
6,131,357 class A subordinate voting shares		11,906	10,954
668,111 class B common shares		470	450
	6,799,468	12,376	11,404
Retained Earnings	6,470	6,470	27,216
	37,846	18,846	38,620
	\$202,353	\$202,353	\$218,948
Commitments and contingent liability (note 8)			

Auditors' Report

To the Shareholders of Whonnock Industries Limited

We have examined the consolidated balance sheet of Whonnock Industries Limited as at December 31, 1984 and the consolidated statements of income, 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 company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
February 25, 1985

Thorne Riddell
Chartered Accountants

Consolidated Statement of Income

Year Ended December 31, 1984

(Thousands of dollars)	1984	1983
Sales	\$239,929	\$269,612
Costs and expenses		
Production	222,331	231,175
Selling and administration	10,052	10,549
Depreciation	6,863	8,205
Depletion and amortization	7,423	8,191
Interest on long-term debt	15,405	12,184
Other interest	4,216	4,104
	266,290	274,408
Operating loss	26,361	4,796
Other income	487	262
Loss before income taxes and extraordinary item	25,874	4,534
Deferred income tax reduction	6,100	2,600
Loss before extraordinary item	19,774	1,934
Extraordinary item		
Net settlement on termination of Bay Forest Products land lease	—	6,680
Net Income (Loss)	\$(19,774)	\$ 4,746
Earnings (loss) per share (note 9)		
Loss before extraordinary item	\$(2.91)	\$(.28)
Net income (loss)	\$(2.91)	\$.70

Consolidated Statement of Retained Earnings

Year Ended December 31, 1984

(Thousands of dollars)	1984	1983
Balance at Beginning of Year	\$27,216	\$23,439
Net income (loss)	(19,774)	4,746
	7,442	28,185
Less stock dividends		
Class A subordinate voting shares	952	948
Class B common shares	20	21
	972	969
Balance at End of Year	\$ 6,470	\$27,216

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1984

(Thousands of dollars)	1984 After shareholder approval (note 14)	1984	1983
Working Capital Derived From			
Operations			
Loss before extraordinary item	—	—	\$ 1,934
Items not involving working capital	—	—	13,866
Cash flow from operations			
Disposal of property, plant and equipment	\$ 820	\$ 820	832
Increase in long-term debt	32,098	32,098	1,006
Net proceeds on termination of Bay Forest Products land lease	—	—	8,446
Issue of shares			
Common	19,000	—	—
Preferred shares of subsidiary company	146,000	—	—
	197,918	32,918	22,216
Working Capital Applied to			
Operations			
Loss before extraordinary item	19,774	19,774	—
Items not involving working capital	7,779	7,779	—
Cash loss from operations			
Property, plant and equipment	4,045	4,045	3,788
Logging roads	5,856	5,856	7,452
Timber	2,190	2,190	—
Investments and other assets	3,526	3,526	1,240
Current portion of long-term debt	1,605	1,605	1,149
Repayment of term bank loan	159,100	—	—
	188,317	29,217	13,629
Increase in Working Capital	9,601	3,701	8,587
Working Capital at Beginning of Year	26,003	26,003	17,416
Working Capital at End of Year	\$ 35,604	\$29,704	\$26,003

Notes to Consolidated Financial Statements

Year Ended December 31, 1984

1. Significant Accounting Policies

- (a) Principles of Consolidation
These financial statements include the accounts of the wholly-owned subsidiary, Holding Lumber Company Limited.
- (b) Inventories
Inventories have been valued at the lower of cost and net realizable value.
- (c) Investment in Western Forest Products Limited
The company holds a 19.4% equity interest in Western Forest Products Limited (WFP) which has been accounted for on the cost basis since January 31, 1982.

Deferred interest is being amortized at \$1,020,000 per year commencing November 1, 1981.
- (d) Depreciation, amortization and depletion
Depreciation of plant and equipment is provided on a straight-line basis during periods of production at rates (ranging from 5% to 20%) based on the estimated useful lives of the fixed assets. Depletion and road amortization are computed on the basis of timber cut. Amortization of the deferred financing fee is provided over the term of the related bank loans.

2. Inventories

(Thousands of dollars)	1984	1983
Logs	\$23,416	\$41,954
Lumber	9,770	14,359
Other	606	555
	\$33,792	\$56,868

3. Investment in Western Forest Products Limited

Condensed consolidated financial information for WFP at its October 31, 1984 year end was as follows:

Balance Sheet As At October 31, 1984

Assets

(Thousands of dollars)	1984	1983
Working Capital	\$ 24,938	\$ 43,722
Investment in Western Pulp Limited Partnership	181,216	175,242
Fixed Assets	232,274	238,564
Other Assets, net	53,023	45,675
	\$491,451	\$503,203
Long-Term Debt	\$195,000	\$195,000
Capital Stock	422,472	423,901
Deficit	126,021	115,698
	\$491,451	\$503,203

Liabilities and Shareholders' Equity

(The 1983 figures reflect the refinancing agreement completed in December 1983 as though it had occurred October 31, 1983.)

In the year ended October 31, 1984 WFP incurred losses of \$10,323,000 (1983 — \$40,939,000) on sales of \$148,754,000 (1983 — \$227,801,000).

The Western Pulp Limited Partnership was formed to acquire and operate two pulp mills formerly owned by WFP and in 1983 raised \$110,000,000 in new equity to rebuild and improve the two mills. WFP accounts for its investment on the cost method. WFP has the option to convert its investment into a 60.1% interest in the limited partnership.

Whonnock has not guaranteed any bank loans or other liabilities of WFP.

4. Property, Plant and Equipment

(Thousands of dollars)	1984			1983
	Cost	Accumulated depreciation	Net	Net
Land	\$10,339	—	\$10,339	\$10,179
Buildings	16,720	\$ 7,074	9,646	8,548
Machinery and equipment	47,140	28,440	18,700	21,830
Automotive equipment	6,246	4,944	1,302	1,801
Other	5,499	2,747	2,752	3,376
	\$85,944	\$43,205	\$42,739	\$45,734

5. Income Taxes

The company reflects as an asset only the future tax benefit related to recording depreciation, amortization and depletion in excess of the amount claimed for tax purposes. The company also has losses of \$18,600,000 which have not been tax benefited and are available to reduce future years' taxable income. In addition, the company has not recorded the benefit of investment tax credits totalling \$702,000 which are available for periods of two to five years.

Income taxes will not become payable in cash in future years until aggregate future taxable income exceeds \$72,000,000.

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

	1984	1983
Basic federal and provincial tax recovery rate	(52.0)	(52.0)
Deduct manufacturing and processing allowance	5.0	5.0
	(47.0)	(47.0)

The company's deferred income tax reduction is determined as follows:

(Thousands of dollars)	1984	1983
Loss before income taxes and extraordinary item	\$25,874	\$4,534
Inventory allowance	1,700	1,400
Portion of loss not tax-effected	(14,400)	—
Other	(174)	(412)
	\$13,000	\$5,522
Deferred income tax reduction at 47%	\$ 6,100	\$2,600

6. Long-Term Debt

(Thousands of dollars)	1984 After shareholder approval (note 14)	1984	1983
Bank term loan — Royal Bank of Canada due 1985 to 1986	\$3,000	\$ 3,000	\$ 4,000
Obligations under capital lease and purchase agreements	904	904	1,006
	3,904	3,904	5,006
Less principal included in current liabilities	1,654	1,654	1,149
	2,250	2,250	3,857
Bank term loan, Toronto Dominion Bank, to be converted to equity (note 14)	—	159,100	127,000
	\$2,250	\$161,350	\$130,857

Bank indebtedness and term bank loans are secured by accounts receivable, inventories, the shares in WFP and a debenture.

Principal amounts due on long-term debt within the next five years are as follows after excluding the Toronto Dominion Bank loan which is to be converted to equity with effect from December 31, 1984 (see note 14):

1985	\$1,654,000
1986	1,662,000
1987	170,000
1988	155,000
1989	105,000

Term bank loans with the Toronto Dominion Bank incurred interest at the bank prime plus 5/8% or, at the company's option, at a rate fixed for varying periods for Banker's Acceptances. The agreement covering this debt contains provisions which require the prior consent of the lenders for the payment of cash dividends.

As more fully described in note 14, the company and the Toronto Dominion Bank reached agreement whereby the bank agreed to subscribe for \$165,000,000 in equity to be used to reduce existing term bank loans of \$159,100,000 and to supplement working capital by \$5,900,000, subject to shareholder approval and completion of final documentation. Under the proposed terms of the agreement with the company's banker, the bank will retain the existing security presently held.

7. Capital Stock

Authorized capital consists of
 15,400,000 class A subordinate voting shares without par value
 4,600,000 class B common shares without par value
 5,000,000 preference shares without par value

Share transactions during the year were as follows:

	Number			Amount
	Class A	Class B	Total	
Balance at beginning of year	5,829,108	661,808	6,490,916	\$11,404,000
Stock dividend (\$3.15 per share)	302,249	6,303	308,552	972,000
Balance at end of year	6,131,357	668,111	6,799,468	12,376,000
After shareholder approval at end of year				
Common shares to be issued to bank (note 14)			2,789,000	19,000,000
			9,588,468	\$31,376,000

The first 13-1/3¢ per share per annum of any dividends declared are paid on the class A shares. Any additional dividends shall be declared in equal amounts on the class A and B shares.

The class B shares (carrying ten votes per share) are exchangeable into class A shares (carrying one vote per share) at any time at the option of the holder, on the basis of one class A share for one class B share. Class A shares are reserved for possible future issuance as follows:

- (a) 668,111 class A shares are reserved for the conversion of class B shares;
- (b) 2,080,379 class A shares are reserved for possible issuance to holders of Western Pulp Limited Partnership units at a price of \$17.63 per share in exchange for their partnership units.

8. Commitments and Contingent Liability

- (a) Commitments
 - i) The company is obligated under various operating leases requiring minimum annual rental payments in each of the next five years as follows:

1985	\$3,389,000
1986	3,205,000
1987	2,915,000
1988	2,556,000
1989	2,186,000

- ii) Under the terms of the 1983 refinancing agreement entered into by Whonnock and WFP, Whonnock will be required, commencing in 1986, to acquire \$10,000,000 of the voting preferred shares at an annual rate equal to the lesser of \$2,500,000 or 20% of Whonnock's net income for the previous year.

- (b) Contingent liability
Under the terms of the Western Pulp Limited Partnership agreement, Whonnock, Doman Industries Limited, B.C. Forest Products Limited and WFP have agreed, if required, to make revolving loans to the partnership to a maximum of \$50,000,000 to cover cash deficiencies that may occur before July 1, 1990. Whonnock's share of the contingent liability is limited to a maximum of \$10,000,000, reducing in stages to zero by 1990.

Whonnock, as a partner in the Bay Lumber Partnership, is contingently liable for all debts of the Partnership which includes long-term debt amounting to \$5,000,000 as at December 31, 1984.

9. Earnings (Loss) Per Share

The earnings (loss) per share is calculated using the weighted average number of shares outstanding during the respective fiscal years after giving retroactive effect to stock dividends.

Pro forma loss per share

If the conversion of the bank term loan into preferred and common shares, as set out in note 14, had occurred on January 1, 1984, the pro forma loss per share would have been \$1.45.

Fully diluted loss per share

No fully diluted loss per share has been calculated for 1984 because of the anti-dilutive effect of the net loss.

10. Pension Plans

The company contributes to several retirement plans for its employees on a current service basis. These plans are fully funded and there is no unfunded past service liability.

11. Related Party Transactions

The company had net purchases from WFP totalling \$27,861,000 (1983 — \$38,090,000). Lumber sales to the controlling shareholder in the regular course of business amounted to \$1,889,000 (1983 — \$3,778,000). The company has paid \$4,752,000 for custom cutting services which includes all operating costs provided by the Bay Lumber Partnership, owned equally by the company and the controlling shareholder. These transactions were conducted on a normal commercial basis, including terms and prices. Included as a commitment (note 8(a)) are lease payments to WFP for the Silvertree sawmill lease.

12. Other Information

Remuneration of directors and senior officers of the company amounted to \$988,341 (1983 — \$999,663).

13. Segmented Information

The company operates exclusively in the forest products industry and all of its operations are based in Canada.

The company sells to foreign markets, principally through a Canadian sales agency, Seaboard Lumber Sales Company Limited. Sales by major markets are as follows:

(Thousands of dollars)	1984				1983
	Lumber and shakes	Chips and other byproducts	Logs	Total	Total
Canada	\$ 39,573	\$12,338	\$22,306	\$ 74,217	\$ 89,335
United States	60,890	4,018	118	65,026	69,200
Other export	86,000	—	14,686	100,686	111,077
	\$186,463	\$16,356	\$37,110	\$239,929	\$269,612

14. Subsequent Event

Subsequent to December 31, 1984, the company and its banker reached agreement on the following recapitalization arrangement with effect from December 31, 1984 and subject to shareholder approval and completion of final documentation.

- (a) 2,789,000 common shares (the allocation between class A subordinate voting common shares and class B common shares is to be as agreed) are to be issued for \$19,000,000 with the proceeds used to reduce the term bank loan as of December 31, 1984.
- (b) A wholly-owned subsidiary company, created solely to meet legal requirements for the issuance of the preference shares, will issue \$146,000,000 in cumulative, redeemable, retractable non-voting first preference shares with a dividend rate of one-half of bank prime plus 1-3/4%. \$140,100,000 of the proceeds will be used to retire the balance of the term bank loan outstanding at December 31, 1984 and the balance of \$5,900,000 will be used to provide additional working capital as required. These preferred shares will be redeemable as follows:
 - (i) The subsidiary has the right to redeem the shares at par value at any time on 30 days notice.
 - (ii) The subsidiary is required to redeem the shares at par in accordance with an excess cash flow formula, set out in agreements between the company, the subsidiary, and the bank.
 - (iii) The shares will, in any event, be redeemed in full at par, five years from the date of issue.

The redeemable preferred shares of the subsidiary will be subject to an agreement wherein, at the option of the bank, the company will be required to purchase these shares on 30 days notice at par. This agreement will be secured as set out in the existing loan agreement between the bank and the company (see note 6).

The effects of these arrangements are reflected within these financial statements in the pro forma figures as at December 31, 1984.

Whonnock Industries Limited

Head Office

Registered Office

P.O. Box 49114, Bentall Centre
Suite 3500, Bentall Tower Four
1055 Dunsmuir Street
Vancouver, B.C. V7X 1H7
(604) 681-3221

Officers

W.L. Sauder
Chairman and Chief Executive Officer
J.C. Southcott
President and Chief Operating Officer
H.L. Henri
Vice-President
H. Kneteman
Vice-President and Secretary
R.M. Sitter
Vice-President, Forestry and Logging
R.W. Neil
Vice-President, Manufacturing
G.J. Friesen
Vice-President, Finance

Directors

H.L. Henri, Chase, B.C.
H. Kneteman, Vancouver, B.C.
T.E. Lougheed, Penticton, B.C.
R.A.C. McColl, Portland, Oregon
J.A. Milroy, Vancouver, B.C.
E. L. Sauder, Vancouver, B.C.
W.L. Sauder, Vancouver, B.C.
J.C. Southcott, Vancouver, B.C.

Auditors

Thorne Riddell, Vancouver, B.C.

Transfer Agent

Montreal Trust Company,
Vancouver, B.C. and Toronto, Ont.

Log Supply Department

P.O. Box 49114, Bentall Centre
Ste. 3400, Bentall Tower Four 681-3221
1055 Dunsmuir Street
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Forestry and Logging Group

P.O. Box 49114, Bentall Centre
Ste. 3400, Bentall Tower Four 681-3221
1055 Dunsmuir Street
Vancouver, B.C.
V7X 1H7

Sawmill Operations

BAY FOREST PRODUCTS Box 577 10985 South Bonson Rd. Pitt Meadows, B.C. V0M 1T0	465-9933
McDONALD CEDAR PRODUCTS P.O. Box 69 9269 Glover Road Fort Langley, B.C. VOX 1J0	888-1616
MacKENZIE MILLS 11732 - 130th Street Surrey, B.C. V3R 2Y3	580-1494
PACIFIC PINE Ft. of Johnston Street New Westminster, B.C. V3M 5H6	525-9411
SILVERTREE P.O. Box 67339, Stn. "O" Ft. of St. George St. Vancouver, B.C. V5W 3T1	327-9242
WHONNOCK LUMBER P.O. Box 10 26324 Lougheed Hwy. Whonnock, B.C. V0M 1S0	462-7111
WHONNOCK SHAKE & SHINGLE P.O. Box 10 25910 Lougheed Hwy. Whonnock, B.C. V0M 1S0	462-7111
HOLDING LUMBER CO. LTD. R.R. 2 Chase, B.C. V0E 1N0	679-3234

Logging Locations

Adams Lake
Bear Bay
Bear Lake
Bute
Chamiss
Cleagh Creek
Drury Inlet
Grilse Creek
Helilog Eclipse
Hope (3)
Kingcome Inlet
Kumealon
Kwatna
Malcolm Island
Narrows Inlet
Pemberton
Porcher
Port Neville
Scott Cove
Seymour Inlet
Taleomey
Tsuadhi Creek
Whonnock (3)

