

C

Whonnock Industries Limited 1982 Annual Report



WILSON BOSS & PARTNERS
ACCOUNTANTS
100, QUEEN STREET
MELBOURNE, VICTORIA 3000

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.

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 now has seven sawmills and a modern shake and shingle plant. The mills use a variety of species and cut a wide range of products, many of which are custom orders. The company has 24 logging operations cutting mainly hemlock, balsam, fir, cedar, cypress and spruce.

In 1982, approximately 2,240 people were employed by Whonnock Industries and its contractors.

Financial Summary

	12 months ended	
	December 31, 1982	December 31, 1981
Income Statement		
Sales	\$222,624,000	\$174,692,000
Net Income (Loss)	(21,189,000)	(9,408,000)
Earnings (Loss) per share	(3.49)	(1.55)
Balance Sheet	December 31, 1982	December 31, 1981
Working Capital	\$ 14,377,000	\$ 20,167,000
Total Assets	207,587,000	217,683,000
Total Equity	30,835,000	50,481,000
Equity per share	4.82	8.32

The cover, depicting a helilogging operation, is a working sketch for one of several paintings by Terence Cuneo, commissioned by Whonnock Industries.

President's Message

The year in review

Our report this year is presented against a backdrop of extremely difficult economic conditions in 1982 but with definite signs of recovery beginning in 1983.

For our industry, the severity of the recession was compounded by its duration. For the first time in several decades, lumber prices remained low while pulp markets plummeted. The effect of this on the lumber industry, of course, was depressed chip prices concurrent with depressed lumber prices.

Although cause and effect are sometimes difficult to discern, high interest rates were certainly a factor in prolonging the recession. The same high interest rates were also a factor in the strengthening of the Canadian dollar against European and Japanese currencies. This exchange shift has had an extremely detrimental effect on overseas prices. There are instances where certain European customers have paid a record high price in their currency for our product but which yielded us the lowest price in our currency in recent years.

The most significant accomplishment for Whonnock in 1982 was maintaining a high operating level in both the mills and the woods, despite the difficulties of low demand and low prices. Logging operated at 100% of normal capacity and sawmilling operated at almost 90% of normal capacity. In the first half of 1982, we were able to cover all fixed operating costs and contribute to interest costs. In the second half of the year, however, we experienced weaker lumber prices, much weaker by-product prices, and higher labor costs brought about by wage increases in the second year of our collective agreement. Accordingly in the second half, we were able to contribute only to fixed operating costs.

As markets worsened in the second half of the year, interest rates began falling. The six percent drop in rates in the latter part of the year provided some welcome relief to our cost of debt

servicing, but a further reduction may be necessary to properly stimulate the North American economies and to restore our currency to a more balanced relationship with world currencies.

The outlook

Although the first years of the eighties have been years of uncertainty, there is considerable optimism that a recovery has already begun. Prices of housing-related products exported to the U.S. have risen rapidly since the middle of the fourth quarter of 1982.

Other export prices have also begun to strengthen, indicating that the industry's idle capacity can be absorbed by the increased world demand for lumber.

Furthermore, recent projections of improving pulp markets suggest that the by-products of increased lumber production can be utilized by that industry.

1983 is also a year for labor contract negotiations in our industry. It was previously stated that currency relationships are placing severe pressure on our industry's competitiveness in world markets. Our industry cannot withstand a further blow to this competitiveness, and we believe that both parties to these labor negotiations are beginning to realize this fact.

As conditions improve and cash flow becomes positive, our priority will be to reduce our debt. We are exploring ways to fix a portion of our interest cost at the opportune time to reduce some of the uncertainties during the recovery.

We look forward to the continued support of our management and other employees. We deeply appreciate the sacrifices made by many and the diligence shown by all.

On behalf of the board of directors,



William L. Sauder
President and Chief Executive Officer

Entrepreneurial Spirit

Decision-making where it belongs

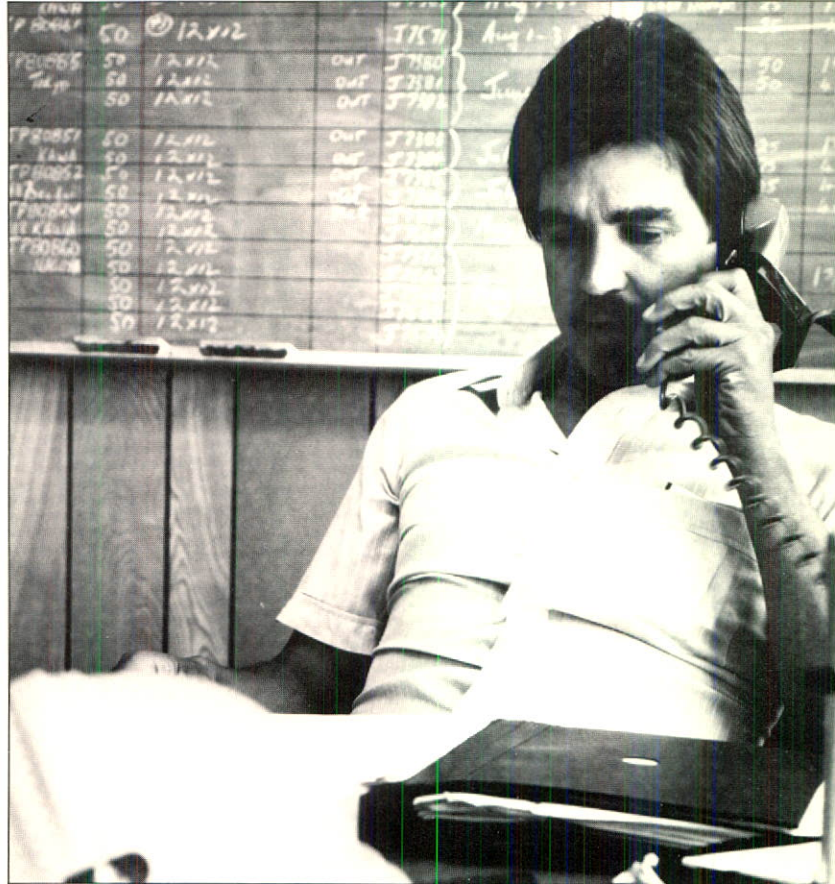
The forest industry is a very free market—free enterprise industry. Whonnock Industries has carried this characteristic into its corporate structure. Our mills operate as decentralized units, so that managers can respond more quickly to changing markets and customer needs.

For example, the mills are responsible for selling their own products. They make day-to-day decisions on pricing, cutting programs and mill operations. We believe that with well-chosen people — and ours are — this is an effective way to run a company. Our production levels during this recession prove it.

A natural consequence of this management style is innovation. Throughout the company there are examples of individual initiative and innovations which have led to improved productivity, new markets and cost savings. For example, helilogging was first successfully pioneered by Whonnock Industries in 1977. Over the years, the company has continued to refine the operation so that, in 1982, we exceeded all previous production records.

The company is a leader in the development of road construction technology. Roads can now be constructed to reach good timber which previously had been impractical to log.

Decentralized management is especially appropriate when the changing needs and lifestyles of employees are considered. We are in the second year of a program to give our logging employees greater involvement in the planning process and in problem solving. As an extension of this program, in 1983 we will be embarking on a new logging safety program which will stress the involvement of hourly-paid employees.



Diversified Markets

The Seaboard connection

Seaboard Lumber Sales Company and Seaboard Shipping Company play an important role in the success of Whonnock Industries. These companies sell and ship our wood products to markets overseas and to the U.S. east coast. Whonnock Industries is a major shareholder of the Seaboard companies, which are owned by a number of independent forest companies.

The Seaboard companies have the reputation of being good lumber traders, reliable shippers and suppliers of quality, diversified products. This reputation, combined with their high profile in world markets, was a factor of utmost importance in reaching the markets of 1982; it enabled us to keep our mills operating in a year when many were forced to close.

Seaboard's scope in marketing is complemented by our diversified production capability. Silvertree, a sawmill we acquired in late 1981, and MacKenzie Mills have given us greater access to the Japanese market. In 1982, we increased our sales of custom-cut cypress to Japan, and we sold both logs and lumber to China.

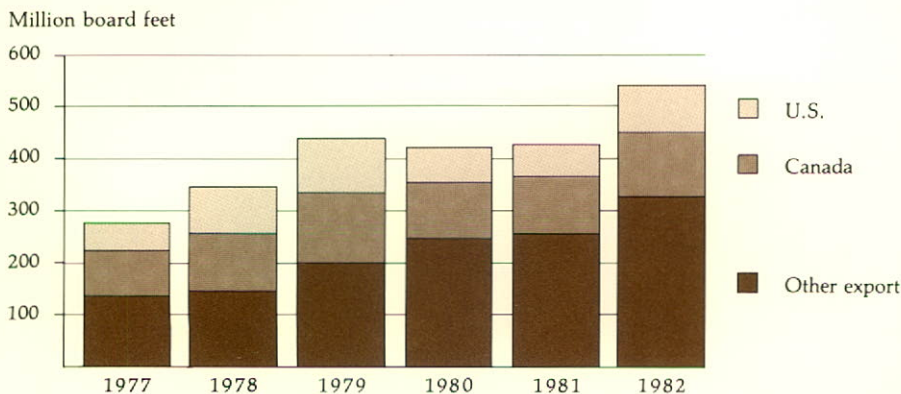
While each of our mills is recognized for a particular product line, the mills also have the ability to vary their products, with special sizes or grades, to meet individual customer needs.

Together, our mills produce the full range of wood products — shakes, shingles, rough planks, extra long timbers and, of course, all grades and species of lumber from B.C.'s forests.

No wood fibre is wasted. Wood chips and sawdust are sold to pulp mills for pulping, and other waste is sold as hog fuel to produce energy.

Market diversification is a deliberate company policy. In 1982, when the U.S. lumber market fell, our efforts in developing other markets paid off. Because price rises in the U.S. market are inevitably followed by corresponding rises in other markets, our sales prospects should be favorably influenced by any upturn in the U.S. housing market.

SALES VOLUMES BY MARKET



Sustained Performance

Keeping our employees working

By the standards of anyone in the industry, 1982 was a disaster. Our most significant achievement this year was keeping our sawmills and logging divisions operating at nearly full capacity. In a year of industry-wide layoffs, this was a remarkable feat.

For us, the key to maintaining operations was the ability to respond quickly to changing product demand. We accomplished this with flexible logging plans, appropriate log trading, and by modifying our mix of species and lumber sizes at the mills.

Near-capacity operations, combined with the 1981 acquisitions of the MacKenzie and Silvertree mills, made us the second largest lumber producer on the coast in 1982.

Our employees and contractors deserve credit for this fine performance in a tough year. The company's ratio of production per employee, always among the best in the B.C. industry, set a company record.



Growth Strategies

Planning in bad times

The Pacific Northwest is the world's last source of high quality timber, and Whonnock Industries has an excellent position in timber holdings in B.C.

Our investment in Western Forest Products, which was made primarily to increase our timber reserves, has not been without difficulty. However, the opportunity to acquire such vast, high quality timber reserves may never have presented itself again. We are confident that, in the long-term, this investment will prove a sound one.

The company has a 25-year timber supply plan which shows that there is no need, for quite some time, for a sudden or large-scale conversion to cutting second growth timber. Since old growth timber is larger than younger, second growth timber, it is used for many of the premium lumber products, in a great range of sizes. One consequence of this planning is that the company has the flexibility to serve many markets and is not overly dependent on the U.S. housing market.

To further improve our timber position, an earlier acquisition of timber licences located near Blue River were exchanged for Crown timber nearer our Holding Lumber mill at Chase, B.C. In addition, we have applied for a more advantageous Tree Farm Licence in this area.

Our investment in the training and upgrading of our people continued throughout 1982, resulting in a strengthened management and technical team.

Although our capital expenditures for equipment were severely curtailed, we have continued to maintain our sawmills and upgrade our logging and construction equipment so that when the economic turnaround comes, we'll be ready.

Our basic forestry programs were continued without curtailment. In 1982, we planted 2.2 million trees — a company record.



Financial Review

Lumber sales volumes for 1982 were up 31%, reflecting a major increase in capacity and an uninterrupted labor environment. The capacity increase was brought about by the acquisition of MacKenzie Mills in May 1981 and Silvertree in December 1981.

By-product volumes were also up correspondingly, but the selling price of chips dropped approximately 30% during the year.

Production levels for lumber in 1982 were up 27%, but approximately 12% below normal capacity. Logging production was up 14% to meet fully the normal production level established for the year.

Operating margins (before interest and taxes) became losses for the first time in our history, as lumber and chip prices fell in the second half of the year. Operating costs rose in the second half to reflect the wage increase previously negotiated with the International Woodworkers of America. It appears now that prices bottomed in the fourth quarter of 1982 and will show steady improvement throughout 1983. Because of the time delay from when an order is taken and when it is shipped, the benefit will be more noticeable after the first quarter of 1983.

A refinancing plan arranged with our Bankers provides an additional \$31 million of term loans and an increase of \$4 million on the operating lines. As part of the refinancing, the Bank purchased 325,000 Class A shares of the Company at the then-current market price. Bankers' Acceptances were used extensively throughout the year to reduce interest costs.

Capital expenditures were restricted to essential replacements and to projects committed before 1982. In the latter category, the most notable was a headrig and edger replacement at Holding Lumber, our interior operation. As expected, the installation improved lumber recovery by 10%.

A stock dividend was issued in December 1981 to preserve the eligibility of the Company's shares as pension plan and other regulated investments without reducing working capital. The Class A stock dividend was 4% and the Class B stock dividend was 1.19%. The cash equivalents of these stock dividends were 19¢ and 5⅓¢ per share respectively.

The investment in Western Forest Products (described more fully in Note 3 to the Financial Statements) represented \$11.0 million, or 52%, of Whonnock's net loss for 1982. On January 31, 1982 the change in circumstances surrounding the investment resulted in a change in accounting policies. After that date, the Company changed from the equity method to the cost method of accounting for this investment. Had the equity method been continued, an additional loss of \$18.1 million would have been recorded.

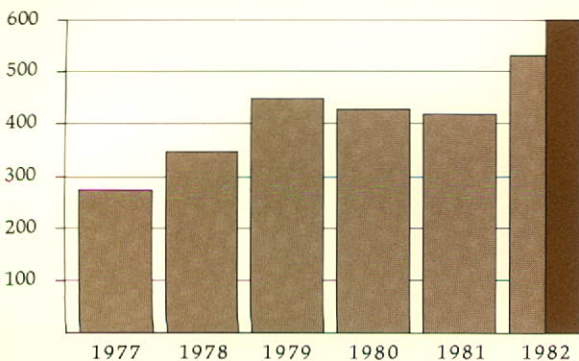
Western's own operating losses of \$8.6 million, when measured before interest and taxes, will probably be close to average for the industry. Western's extraordinarily high variable rate debt, however, resulted in extremely high interest costs for the first two years of operation. Although the future of Western is still dependent upon the decisions of its bankers, the lower interest rates in 1983 and indications of improved markets later in the year make the outlook brighter than it has been for some time.

Six Year Review

		1982	1981	1980	1979	1978	1977
Production Statistics							
Lumber (Million FBM)		529	415	424	445	343	274
Logs (Thousand cubic meters)		2,200	1,925	1,958	2,316	1,543	1,022
Employee Statistics							
Wages, salaries	(\$000)	58,929	42,829	39,218	34,855	28,953	18,441
Number of employees		1,895	1,835	1,590	1,610	1,617	1,040
Financial Statistics							
Sales	(\$000)	222,624	174,692	190,565	190,845	121,429	81,021
Stumpage	(\$000)	8,212	9,270	21,143	19,057	5,990	2,727
Income taxes (recovery)	(\$000)	(11,148)	(8,130)	8,030	18,008	6,511	3,781
Net income (loss)	(\$000)	(21,189)	(9,408)	11,244	22,877	7,612	4,306
Earnings (loss) per share	\$	(3.49)	(1.55)	1.85	3.77	1.25	.71
Total assets	(\$000)	207,587	217,683	181,872	114,314	87,589	58,741
Ratio and Investment Information							
Current Ratio		1.3:1	1.4:1	1.5:1	1.4:1	1.4:1	1.2:1
Return on closing equity		(68.7)%	(18.6)%	18.5%	44.5%	25.5%	18.6%
Return on capital employed		(6.9)%	(2.8)%	8.4%	33.6%	14.9%	12.9%
Equity per common share	\$	4.82	8.32	10.15	8.47	4.91	3.82
Share price range - high	\$	9.00	16.75	15.38	11.50	4.94	3.50
- low	\$	2.20	5.75	7.13	4.00	2.79	2.50
Price/Earnings ratio		—	—	8.0	2.9	3.8	4.7
Re-investment							
Working capital generated from (applied to) operations	(\$000)	(14,182)	(862)	24,800	33,913	14,362	7,496
Plant, equipment and roads	(\$000)	12,344	32,543	16,544	23,035	17,902	10,741
Working capital retained		(26,526)	(33,405)	8,246	10,878	(3,540)	(3,245)

LUMBER PRODUCTION

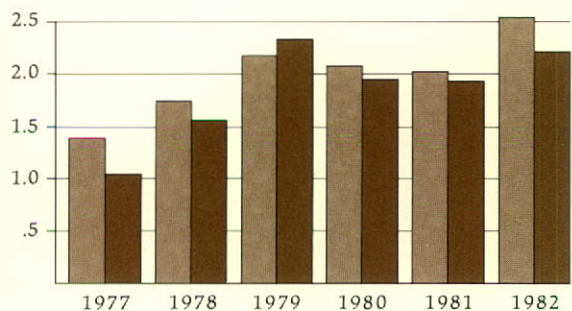
Million board feet



■ Normal 2-shift capacity

LOG PRODUCTION

Million cubic meters



■ Log Consumption
■ Log Production

Consolidated Balance Sheet as at December 31, 1982

(Thousands of Dollars)

ASSETS

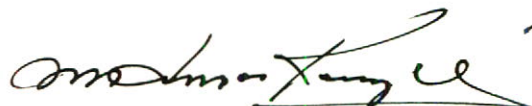
	<u>1982</u>	<u>1981</u>
Current Assets		
Trade and other accounts receivable	\$ 11,783	\$ 16,676
Inventories (note 2)	47,018	55,342
Prepaid expenses	<u>1,328</u>	<u>1,751</u>
	<u>60,129</u>	<u>73,769</u>
Investments and Other Assets		
Investments and advances	2,214	1,988
Timber sale deposits	621	510
Investment in Western Forest Products Limited (note 3)	<u>59,420</u>	<u>62,515</u>
	<u>62,255</u>	<u>65,013</u>
Fixed Assets		
Property, plant and equipment, at cost (note 4)	84,998	81,704
Less accumulated depreciation	<u>32,453</u>	<u>25,412</u>
	52,545	56,292
Timber, at cost less accumulated depletion	10,698	10,115
Logging roads, at cost less accumulated amortization	<u>13,472</u>	<u>12,494</u>
	<u>76,715</u>	<u>78,901</u>
Deferred Charges		
Deferred financing fee, net of accumulated amortization	1,588	—
Deferred income taxes (note 5)	<u>6,900</u>	<u>—</u>
	8,488	—
	<u>\$207,587</u>	<u>\$217,683</u>

Approved by the Board

Director



Director



LIABILITIES

	<u>1982</u>	<u>1981</u>
Current Liabilities		
Bank indebtedness (note 6)	\$ 27,522	\$ 32,132
Accounts payable and accrued liabilities	18,130	21,370
Principal due within one year on long-term debt (note 6)	100	100
	<u>45,752</u>	<u>53,602</u>
Long-term Debt (note 6)	131,000	110,100
Deferred Income Taxes	—	3,500
	<u>176,752</u>	<u>167,202</u>

SHAREHOLDERS' EQUITY

Capital Stock (note 7)		
Issued and fully paid	10,435	7,806
5,742,965 class A shares		
<u>659,908 class B shares</u>		
<u>6,402,873</u>		
Retained Earnings	20,400	42,675
	<u>30,835</u>	<u>50,481</u>
	<u>\$207,587</u>	<u>\$217,683</u>

Contingency (note 3(c))
Commitment (note 8)

Consolidated Statement of Income

(Thousands of Dollars)

YEAR ENDED DECEMBER 31, 1982

	<u>1982</u>	<u>1981</u>
Sales	\$222,624	\$174,692
Costs and expenses		
Production	205,533	152,254
Selling and administration	9,465	7,925
Depreciation	8,208	6,494
Depletion and road amortization	6,197	4,250
Interest on long-term debt	2,945	3,722
Other interest	6,545	4,946
	<u>238,893</u>	<u>179,591</u>
Operating loss	16,269	4,899
Other income	565	454
	<u>15,704</u>	<u>4,445</u>
Loss on investment in Western Forest Products Limited (note 3(d))	16,633	13,093
Loss before income taxes	32,337	17,538
Deferred income tax reduction	<u>11,148</u>	<u>8,130</u>
Loss for the year	<u>\$ 21,189</u>	<u>\$ 9,408</u>
Loss per share (note 9)	<u>\$3.49</u>	<u>\$1.55</u>

Note:

The 1981 comparative figures only include the operation of MacKenzie Mills for eight months and Silvertree for one month.

Consolidated Statement of Retained Earnings

(Thousands of Dollars)

YEAR ENDED DECEMBER 31, 1982

	<u>1982</u>	<u>1981</u>
Balance at beginning of year	\$ 42,675	\$ 53,750
Loss for the year	21,189	9,408
	<u>21,486</u>	<u>44,342</u>
Less dividends (1982 stock; 1981 cash)		
Class A common shares	1,049	1,559
Class B common shares	37	108
	<u>1,086</u>	<u>1,667</u>
Balance at end of year	<u>\$ 20,400</u>	<u>\$ 42,675</u>

Consolidated Statement of Changes in Financial Position

(Thousands of Dollars)

YEAR ENDED DECEMBER 31, 1982

	<u>1982</u>	<u>1981</u>
Working capital applied to		
Operations		
Loss for the year	\$ 21,189	\$ 9,408
Less items not involving working capital	7,007	8,546
Cash loss for the year	14,182	862
Investment in Western Forest Products Limited	220	5,776
Property, plant and equipment	4,500	21,731
Timber	996	4,762
Logging roads	6,848	6,050
Investments and other assets	303	163
Reduction in long-term debt	100	100
Deferred financing fee	1,600	—
Cash dividends on class A and B common shares	—	1,667
	<u>28,749</u>	<u>41,111</u>
Working capital derived from		
Disposal of property, plant and equipment	416	554
Disposal of investments and other assets	—	725
Increase in long-term debt	21,000	40,000
Issuance of capital stock	1,543	—
	<u>22,959</u>	<u>41,279</u>
Increase (decrease) in working capital	(5,790)	168
Working capital at beginning of year	20,167	19,999
Working capital at end of year	\$ 14,377	\$ 20,167

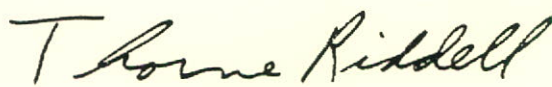
Auditors' Report

To the Shareholders of
Whonnock Industries Limited

We have examined the consolidated balance sheet of Whonnock Industries Limited as at December 31, 1982 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, 1982 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. Except for the change in the method of accounting for the investment in Western Forest Products Limited as described in note 3, these generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Vancouver, Canada
February 8, 1983


Chartered Accountants

Notes to Financial Statements

YEAR ENDED DECEMBER 31, 1982

1. Significant Accounting Policies

(a) Principles of consolidation

The 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

With effect from January 31, 1982, the end of Western Forest Products Limited's first quarter, the company changed its method of accounting for its 33 $\frac{1}{3}$ % interest in Western from the equity method to the cost method (see note 3).

During the initial six-month period to April 30, 1981 of planning and orientation, interest on the funds borrowed for the acquisition has been included in the carrying value of the investment and is being written off over five years commencing November 1, 1981. In addition, portions of the interest incurred to January 31, 1982 on these borrowings related to the rebuild of the Squamish pulp mill have also been included in the carrying value of the investment. Subsequent to January 31, 1982, all interest is being expensed as incurred.

(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.

2. Inventories

	1982	1981
	(Thousands of dollars)	
Logs	\$38,828	\$45,287
Lumber	7,662	9,589
Other	528	466
	<u>\$47,018</u>	<u>\$55,342</u>

3. Investment in Western Forest Products Limited

(a) The investment in Western Forest Products Limited consists of the following components:

	1982	1981
	(Thousands of dollars)	
Balance, beginning of year	\$62,515	\$61,453
Interest deferred during the initial six-month period of planning and orientation	—	3,633
Interest incurred during Squamish rebuild	220	2,143
	<u>62,735</u>	<u>67,229</u>
Equity in after-tax loss of Western	(2,295)	(4,544)
Amortization of initial six-month deferred interest	(1,020)	(170)
Balance, end of year	<u>\$59,420</u>	<u>\$62,515</u>

- (b) Condensed consolidated financial information for Western Forest Products Limited at its year end October 31, 1982 is as follows:

WESTERN FOREST PRODUCTS LIMITED

Balance Sheet — October 31, 1982

(Thousands of dollars)

Assets	1982	1981
Current assets	\$103,279	\$121,036
Fixed assets	411,144	403,803
Deferred expenses	49,966	32,332
Other assets, net of non-current liabilities of \$3,321 (1981 — \$5,367)	849	960
	<u>\$565,238</u>	<u>\$558,131</u>
Current Liabilities		
Accounts payable and operating loans	\$ 88,613	\$110,969
Term bank loans, reclassified as current	371,384	280,797
	<u>459,997</u>	<u>391,766</u>
Shareholders' Equity		
Share capital	180,000	180,000
Deficit	74,759	13,635
	<u>105,241</u>	<u>166,365</u>
	<u>\$565,238</u>	<u>\$558,131</u>

For the year ended October 31, 1982 Western incurred losses of \$61,124,000 (1981 — \$13,635,000) on sales of \$211,126,000 (1981 — \$260,628,000).

- (c) Change in accounting policy

Western Forest Products Limited is in material default under loan agreements with its bankers, the effect of which has been to eliminate the ability of Whonnock to exert significant influence over management of Western.

As a consequence, effective January 31, 1982 the company has changed from the equity method to the cost method of accounting with respect to its investment in Western:

- Under the equity method of accounting, the company's equity in the earnings (loss) of Western is reflected each year in the income statement and the investment account.
- Under the cost method of accounting, only dividends received from this investment are included in the income statement.

Had the equity method of accounting been continued, an additional \$18.1 million of the losses of Western for the current year would have been recorded so as to increase the company's net loss for the year and reduce the carrying value of the investment by a similar amount.

The summarized financial statements of Western are prepared on the basis that Western will continue to operate throughout its next fiscal period to October 31, 1983 as a going concern. A failure to continue as a going concern at any future time would then require the stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis. Because of uncertainty with respect to future economic developments and/or actions which could be taken by Western's bankers, it is not possible to determine whether there has been any permanent decline in value of the investment.

The future of Western will depend upon the actions of its bankers with respect to the loan defaults and the continuing financing of working capital requirements and capital expenditures during current adverse economic conditions. Should the banks elect to realize on their security or refuse to advance the required funds to Western, Whonnock could suffer a maximum loss of \$59.4 million, being the current carrying value of the investment as shown above and any loss would be a charge to income in the year in which the amount of the loss, if any, could be reasonably estimated.

Whonnock has no guarantees or other obligations, direct or contingent, with respect to Western's bank loans or any other of Western's liabilities.

(d) Impact of investment in Western Forest Products Limited	1982	1981
	(Thousands of dollars)	
Total interest incurred on the investment	\$12,790	\$12,925
Less interest deferred	220	5,776
	<u>12,570</u>	<u>7,149</u>
Amortization of initial six-month deferred expenses	1,020	170
One-third of equity in Western's loss for the three months to January 31, 1982, (1981 — 6 months) before income taxes ..	<u>3,043</u>	<u>5,774</u>
Loss before income taxes (statement of income)	16,633	13,093
Deferred tax recovery, including \$748 (1981 — \$1,230) representing equity portion of Western's deferred tax recovery ..	<u>5,648</u>	<u>5,328</u>
Loss on investment in Western Forest Products Limited	<u>\$10,985</u>	<u>\$ 7,765</u>
Loss per share	<u>\$1.81</u>	<u>\$1.28</u>

4. Property, plant and equipment

	1982		1981	
	(Thousands of dollars)			
	Cost	Accumulated depreciation	Net	Net
Land	\$ 9,718	—	\$ 9,718	\$ 9,706
Buildings	14,799	\$ 5,859	8,940	10,376
Machinery and equipment	48,275	21,293	26,982	31,009
Automotive equipment	5,489	3,406	2,083	2,526
Other	6,717	1,895	4,822	2,675
	<u>\$84,998</u>	<u>\$32,453</u>	<u>\$52,545</u>	<u>\$56,292</u>

5. Income taxes

The company has reflected the future tax benefit related to recording depreciation, amortization and depletion in excess of the amount claimed for tax purposes. However, the company has not recorded the future tax benefit related to net losses totalling \$8,100,000 that are available until 1987 to reduce future year's income taxes. In addition, the company has not recorded the benefit of investment tax credits totalling \$532,000 which are available until 1986 and 1987.

6. Long-term debt

	1982	1981
	(Thousands of dollars)	
Bank term loan, Toronto Dominion Bank, with the first repayment due in 1985	\$ 97,000	\$ 60,000
Bank term loan, Toronto Dominion Bank, with no repayment required until 1986	—	37,000
Bank term loan, with first repayment due in 1984	3,000	3,000
Short-term bank indebtedness, with term refinancing in place	31,000	10,000
Purchase agreement, repayable in annual instalments of \$100,000 with interest at 8%	<u>100</u>	<u>200</u>
	131,100	110,200
Less principal included in current liabilities	<u>100</u>	<u>100</u>
	<u>\$131,000</u>	<u>\$110,100</u>

Term bank loans with the Toronto Dominion Bank bear 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. During the year, the company reached agreement with the bank on a new banking arrangement increasing the term bank line by \$30,000,000. In consideration of the revised banking arrangements the company paid a refinancing fee of \$1,600,000 and the bank agreed to purchase 325,000 class A shares at the market price at the time of purchase (\$4.75 per share).

Bank indebtedness and term bank loans are secured by a general assignment of accounts receivable and the pledging of inventories and the shares in Western Forest Products Limited. The company has agreed to provide additional security to its banks in 1983 in the form of a debenture.

Principal amounts due on long-term debt within the next five years are as follows:

1983	\$ 100,000
1984	1,000,000
1985	7,500,000
1986	10,500,000
1987	12,000,000

7. Capital stock

Authorized capital consists of:

- 15,400,000 class A common shares without par value
- 4,600,000 class B exchangeable common shares without par value
- 5,000,000 preference shares without par value

Share transactions during the year:

	Number		Amount
	Class A	Class B	
Balance at beginning of year	5,197,082	652,148	\$ 7,806,000
Issued in the year for cash*	325,000	—	1,543,000
Stock dividend	220,883	7,760	1,086,000
Balance at end of year	<u>5,742,965</u>	<u>659,908</u>	<u>\$10,435,000</u>

*at \$4.75 per share, the market price at time of issue.

The first 13 $\frac{1}{3}$ % per annum of any dividends declared are paid on the class A common shares. Any additional dividends shall be declared in equal amounts on the class A and B common shares.

The class B common shares (carrying ten votes per share) are exchangeable into class A common shares (carrying one vote per share) at any time at the option of the holder, on the basis of one class A common share for one class B common share. 659,908 class A common shares are reserved for the conversion of class B common shares.

8. Commitment

The company is obligated under various operating leases requiring minimum annual rental payments in each of the next five years as follows:

1983	\$4,484,000
1984	4,371,000
1985	4,246,000
1986	3,478,000
1987	3,527,000

9. Loss per share

The loss per share is calculated using the weighted average number of shares outstanding during the respective fiscal years after giving retroactive effect to the stock dividend on December 29, 1982.

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 Western Forest Products Limited totalling \$25,161,000 (1981 — \$8,239,000). Lumber sales to the controlling shareholder in the regular course of business amounted to \$1,949,000 (1981 — \$2,078,000). These transactions were conducted on a normal commercial basis, including terms and prices.

12. Other information

- (a) Remuneration of directors and senior officers of the company amounted to \$985,000 (1981 — \$965,000).
- (b) Total interest on long-term debt expensed during the year amounted to \$15,515,000 (1981 — \$10,871,000).

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:

	1982				1981
	(Thousands of dollars)				
	Lumber and shakes	Chips and other byproducts	Logs	Total	Total
Canada	\$ 26,839	\$20,504	\$17,176	\$ 64,519	\$ 55,946
United States	36,347	9,607	1,322	47,276	37,814
Other export	107,553	—	3,276	110,829	80,932
	<u>\$170,739</u>	<u>\$30,111</u>	<u>\$21,774</u>	<u>\$222,624</u>	<u>\$174,692</u>

Company Directory

Log Supply Department

Ste. 3400, Bentall Tower Four 681-3221
1055 Dunsmuir Street
Vancouver, B.C.

Forestry and Logging Group

Ste. 3400, Bentall Tower Four 681-3221
1055 Dunsmuir Street
Vancouver, B.C.

Company Logging Operations

Scott Cove	Kingcome Inlet
Seymour Inlet	Helilog Eclipse
Malcolm Island	Cleagh Creek
Hope	Drury Inlet
Helilog Broughton	

Contract Logging Operations

Hope	Port Neville
Whonnock	Bute
Pemberton	Chamiss
Grilse Creek	Kwatna
Bear Lake	Taleomey
Bear Bay	Porcher
Tsuadhi Creek	Adams Lake
Narrows Inlet	

Sawmill Operations

Bay Forest Products 683-7611
730 Taylor Street
Vancouver, B.C. V6B 4H5

McDonald Cedar Products 888-1616
P.O. Box 69
Fort Langley, B.C. V0X 1J0

MacKenzie Mills 580-1494
11732 - 130th Street
Surrey, B.C. V3R 2Y3

Pacific Pine 525-9411
Ft. of Johnston Street
New Westminster, B.C. V3M 5H6

Silvertree 327-9242
P.O. Box 67339, Stn. "O"
Vancouver, B.C. V5W 3T1

Whonnock Lumber 462-7111
P.O. Box 10,
Whonnock, B.C. V0M 1S0

Whonnock Shake & Shingle 462-7111
P.O. Box 10
Whonnock, B.C. V0M 1S0

Holding Lumber Co. Ltd. 679-3234
R.R. 2
Chase, B.C. V0E 1N0

Head Office**Registered Office**

Suite 3500, Bentall Tower Four
1055 Dunsmuir Street
Vancouver, B.C.
(604) 681-3221

Officers

M.H. MacKenzie
Chairman
W.L. Sauder
President and Chief Executive Officer
J.C. Southcott
Executive Vice-President
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.
A. Holding, Chase, B.C.
H. Kneteman, Vancouver, B.C.
T.E. Lougheed, Penticton, B.C.
M.H. MacKenzie, Vancouver, B.C.
R.A.C. McColl, Portland, Oregon
J.A. Milroy, 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.

