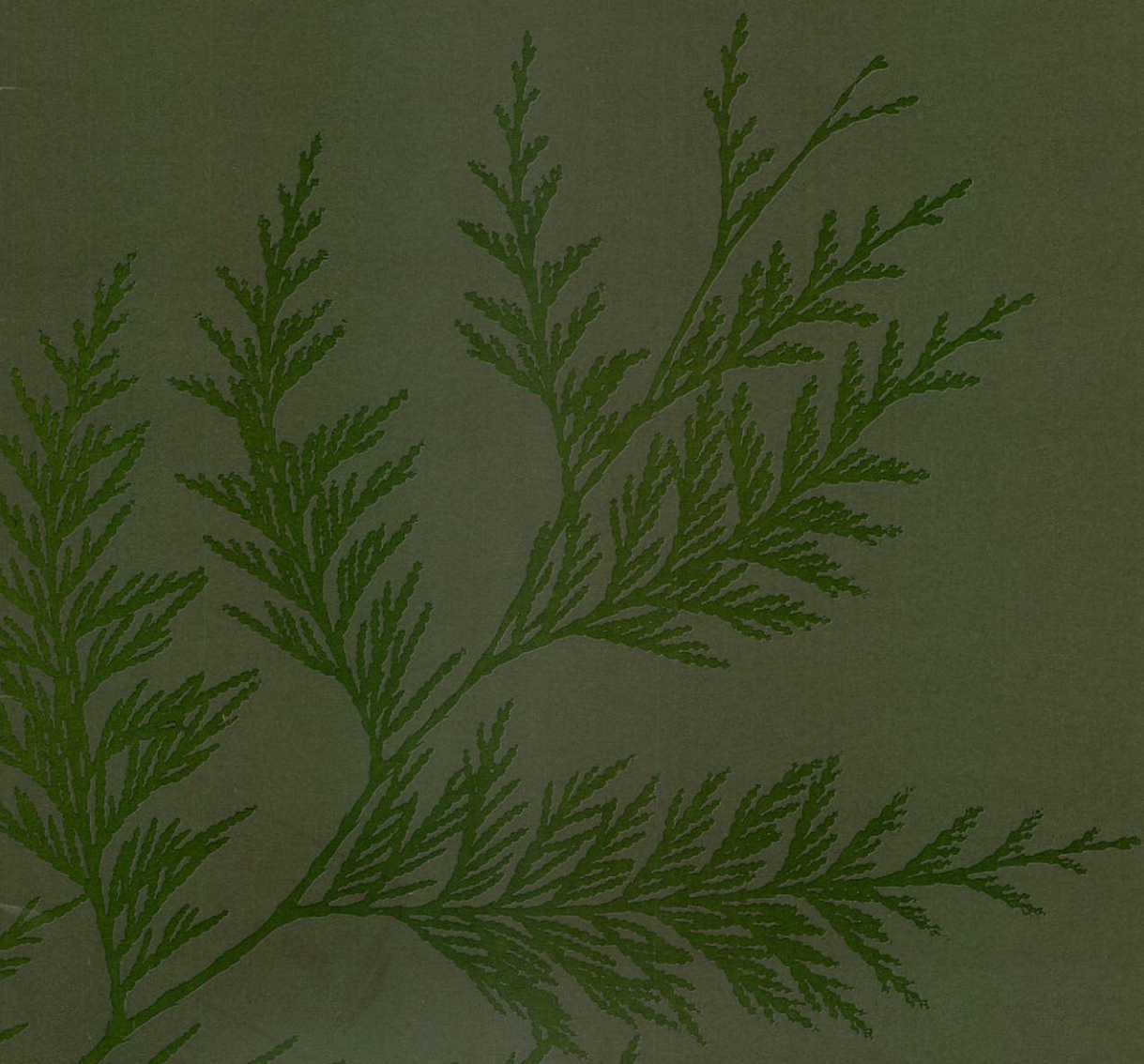




WHONNOCK INDUSTRIES LIMITED
ANNUAL REPORT 1980



FINANCIAL HIGHLIGHTS

INCOME STATEMENT	13 months ended	
	December 31, 1980	December 31, 1979
Sales	\$206,445,000	\$204,526,000
Net Income	12,181,000	24,455,000
Earnings per share	2.08	4.18

BALANCE SHEET	December 31, 1980	November 30, 1979
	Working Capital	\$ 19,999,000
Total Assets	181,872,000	114,314,000
Total Equity	61,556,000	51,394,000
Equity per share	10.52	8.79

WHONNOCK INDUSTRIES LIMITED

**At home in the woods.
At work in the world.**

At work in the world.
At home in the woods.

A Natural Partnership

The partnership between man and nature which characterizes every aspect of life in British Columbia is nowhere more apparent than in our forests. It is a partnership in which Whonnock Industries is proud to play an increasingly important role.



President's Report to our Shareholders & Employees

The results of the last five years are a clear indication of your company's ability to grow.

It is also significant that despite the economic downturn in all markets, 1980 earnings were second only to 1979, a record year in the history of Whonnock Industries.

Net earnings for the thirteen months ending December 31, 1980 were \$12.2 million compared with \$24.5 million during the same period in 1979. That is \$2.08 per share compared to \$4.18 the previous year.

In the U.S.A. high interest rates reduced residential construction by 25%. Offshore markets eased in both price and demand, particularly in the fourth quarter. As a result, the company's sales total increased only slightly from \$204.5 million in 1979 to \$206.4 million in 1980.

Increased costs in manufacturing, logging and stumpage also put downward pressure on earnings. On the positive side however, the favourable Canadian dollar exchange and higher revenues from sawmill residuals, made a significant contribution to the financial results of the company.

Demand should reach a low point during 1981 and we expect world lumber markets to begin a slow but steady recovery in the second half of the year. North American consumption of lumber should improve dramatically as soon as interest rates decline, which should also have a favourable impact on export prices.

Indicative of this optimism, Whonnock's \$60,000,000 investment in the purchase of Rayonier Canada adds new dimension and potential to the company's operations. As equal partners with British Columbia Forest Products Limited and Doman Industries Limited, we have acquired a significant position in the pulp and paper industry and look forward to building the new company, Western Forest Products, into a leader in its field.

The task of upgrading and improving the facilities of Western Forest Products is already underway and, when completed, will enable the company to utilize its extensive timber resources to the best advantage.

It is our intention to capitalize certain costs involved in this undertaking until the new facilities are in place and operating satisfactorily. Whonnock's initial investment has also been increased by the interest paid on the amount borrowed for the acquisition and this policy will continue during the period of initial planning and reorientation.

An aggressive program of product and market diversification combined with new equipment were major factors in making 1980 the

second most successful year for the company. Since 1978, a total of \$59 million has been invested in new equipment and facilities. Direct spending on silviculture also increased by 50 percent in 1980 and will increase tenfold by 1985.

A comprehensive study of all our manufacturing facilities is underway and this study will provide the basis for improvements and additions designed to further increase productivity and efficiency in the years ahead. Our first priority will be the relocation of Bay Forest Products in order to make room for B.C. Place and the Transpo 86 facilities in Vancouver. Physical relocation of the mill is several years away, however, and will not affect the company's operations until that time.

Our employees did a remarkably good job in 1980 and we are confident of their superior performance in the future. We are fortunate to have a team of particularly capable and experienced managers and we encourage them to tackle problems and opportunities as and when they arise.

Mr. Ches. Johnson retired as President and Chief Executive Officer early in 1980. The company expresses its thanks to him for his contribution during his term of office and wishes him well in his new endeavours.

Executive appointments made during the year include John Southcott as Executive Vice President. John replaces Ed Hildebrand who is on loan to Western Forest Products in a similar capacity. Ron Neil has assumed the new position of Vice President, Manufacturing and Gerry Friesen has been promoted to Treasurer and Controller.

In conclusion may I say how much I appreciate the co-operation of my fellow employees which has made these results possible. I am also grateful for the guidance of our directors and the continued support of our shareholders.

On behalf of the Board of Directors.



William L. Sauder
President & Chief Executive Officer



Port Alice pulp mill

Western Forest Products Limited

In November, Whonnock along with British Columbia Forest Products Limited and Doman Industries Limited formed a new company to acquire the assets of Rayonier Canada in British Columbia for approximately \$420 million.

One of the larger forest companies in Western Canada, with extensive timber holdings, Western Forest Products, operates pulp mills at Port Alice and Woodfibre as well as three sawmills in the Vancouver area.

An extensive five-year mill modernization program, including \$20 million already scheduled for an environmental project at Port Alice, is planned for the new company and, when completed, will place Western Forest Products in the forefront of the industry.

The formation of Western Forest Products is a major diversification for Whonnock Industries and places our company in the top rank of lumber producers in Canada. The involvement of Whonnock in the pulp and paper industry through this diversification will undoubtedly give a better balance to earnings in the future.





*Simoon Sound,
site of Whonnock's
logging operations
on Gilford Island.*



Forests

Forest lands cover more than 128 million acres (52 million hectares) of British Columbia and forest management is guided by the principles of sustained yield. This dictates that the timber harvest shall not exceed the forests' ability to reproduce sound wood.

Intensive Resource Management Key to the Future

Fortunately trees are a marvellously renewable resource and government and industry are working together to find ways to reduce growing time and improve the yield and quality of our forest lands.

A leader among Timber Sale Harvesting Licence holders, Whonnock has been a consistent advocate of intensive forest management and has taken the initiative in reforestation. In 1979, the company launched a multi-million dollar program of accelerated silviculture. An ambitious undertaking, it is designed to increase the yield from existing timberland by 10 percent within five years, 20 percent by 1990 and 30 percent by 1995.

Administered by the Chief Forester, the program calls for a permanent staff of professional foresters and technicians who will be involved in every aspect of silviculture from site reclamation to tree planting, fertilizing, spacing and commercial thinning.

Compared with 1979, direct spending on the company's silviculture programs increased by over 50 percent in 1980 and will increase tenfold by 1985.

A total of 1.2 million seedlings were planted by Whonnock in 1980, an increase of 36 percent over the previous year. While situations vary, up to 1000 seedlings per hectare are planted where natural regeneration is insufficient.

The company also continues to strengthen and diversify its forest holdings through acquisition of additional timber positions as well as through its interest in Western Forest Products which has extensive forest holdings in British Columbia.



Mature cedar typical of those found in the Coastal forest region of British Columbia.



Logging

British Columbia forests provide an annual harvest of over 14.4 billion board feet (80 million cubic metres) each year. This comprises over 50 percent of the national total and more than 70 percent of the softwood lumber manufactured in Canada.

For its part Whonnock harvested just under 360 million board feet (2 million cubic metres) of logs from its operations of which about 60 percent is logged by independent logging contractors.

Increasing the volume, quality and efficiency of the timber harvest

The company has four Coastal logging divisions extending from the Fraser Valley to Prince Rupert and another in the Central Interior of British Columbia.

In keeping with the company's philosophy of decentralized operation and responsibility these divisions are largely autonomous. A small but efficient head office group provides the necessary staff functions and contributes effectively in areas of forest management, safety supervision, equipment maintenance and the planning, co-ordination and allocation of timber resources.

Upgrading of the company's logging equipment and facilities continued in 1980 and, in spite of prevailing economic conditions, we continued to invest in the future with expenditures of over \$12 million on roads and equipment. Consequently Whonnock is in an excellent position to capitalize on the substantial opportunities and rising markets anticipated in the 1980's.

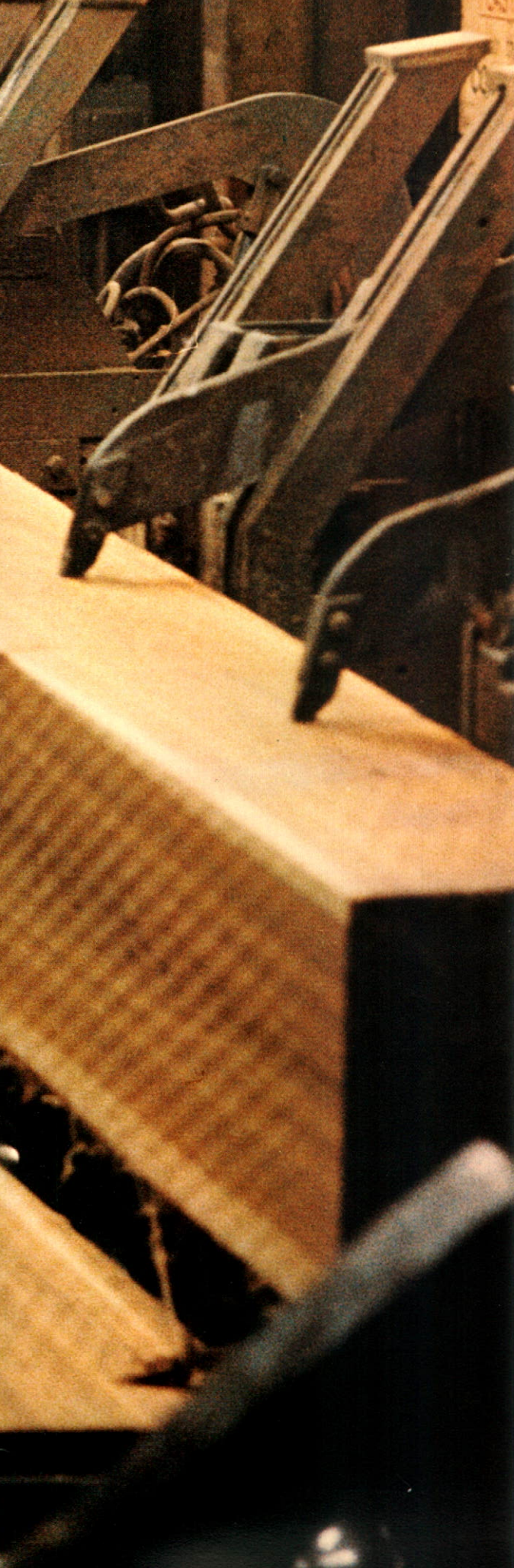
A pioneer in the field of helicopter logging, Whonnock now harvests 10 percent of its total volume in this manner while setting new records for equipment utilization and productivity. While more expensive than conventional highlead or cable logging, helicopter logging has many compensations. Road building is unnecessary, environmental damage is minimized, and trees can be harvested from smaller and otherwise inaccessible areas.



Timber is felled, bucked and lifted out by helicopter to "waterdrop" landing areas where it is processed, boomed and towed to the sawmill.



After debarking, a bandsaw headrig is used for the primary breakdown of large logs.



Manufacturing

Whonnock operates four sawmills and a shake and shingle mill on the Lower Mainland of British Columbia and a fifth sawmill in the Interior of the province.

Total lumber production in 1980 amounted to 453 million board feet. In addition, 195,000 squares were manufactured by the Whonnock shake and shingle mill.

Improving cost efficiency and lumber recovery

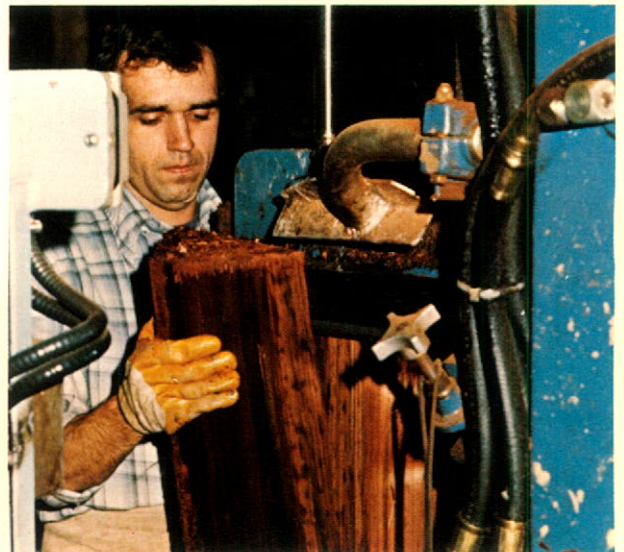
Well maintained and undergoing modernization programs, the company's mills are efficient and competitive in the production of quality lumber for North American and overseas markets.

From the moment the logs enter the sawmill, man and machinery combine to extract the greatest possible amount and value of merchantable lumber from each log. Not all of the log is suitable for conversion to saleable lumber; consequently the skill of the headrig sawyer and other experienced personnel is critical in maximizing lumber recovery and profits.

Beyond the headrig, edgers, trimmers and resaws process the product to the final desired dimension before it is graded. Although lumber is the primary product, an increasing variety of by-products is making an important contribution to the overall profitability of mill operations.

In the past three years a substantial sum has been expended on new equipment and plans are currently being developed for each mill which will further expand production and improve cost efficiency in the 1980's.

Cedar blocks are split by a cuberman prior to final processing into shakes or shingles.





Products

Each of the company's mills is treated as a separate profit centre and each is in control of its own marketing program. Quick to respond to customer needs and new business opportunities, the mills have developed considerable expertise and flexibility in manufacturing the required products and specialty grades.

From the unique beauty and versatility of western red cedar siding to the natural strength and durability of dimension lumber manufactured from hemlock, fir and spruce, Whonnock offers a remarkably varied and saleable selection of primary wood products as well as a variety of increasingly valuable by-products.

Building a flexible product and marketing mix

Production of lumber, wood chips and cedar shakes has reached record levels in recent years and plans to further diversify and expand production capacity are being developed for each division.

Three of the Coastal mills, Whonnock Lumber, Pacific Pine and Bay Forest Products produce fir and hemlock lumber in specialty sizes for sale overseas as well as dimension lumber for the United States East Coast construction market. The Interior mill, Holding Lumber, caters primarily to Midwest U.S. and Canadian rail and truck markets for spruce, fir and cedar.

The fourth coastal mill, McDonald Cedar, manufactures a broad range of quality cedar lumber and siding specialties for shipment by rail and truck to the Southern and Western States. Roofing products from the Shake and Shingle Division are destined for the new home and home renovation market in the United States.

Whonnock Industries also realizes significant revenue from secondary by-products such as chips, sawdust and shavings which are sold to the pulp and paper industry. As energy prices continue to escalate expanding markets have also developed for woodwaste as a substitute for oil or natural gas.

This diversity of products and markets coupled with the ability to alter the mix to suit prevailing world conditions, provides an important element of stability in the company's operations.



Lumber is graded, sorted, stacked and stored at the sawmill prior to shipment by rail or truck.





Markets

With markets on five continents and in a score of countries, Whonnock ranks as one of the largest shippers of lumber from the B.C. coast.

Sales have risen steadily from approximately \$26 million in 1975 to over \$200 million in 1980 and, in spite of the current unfavourable economic conditions, the longterm outlook for lumber remains excellent.

Strength and diversity at home and abroad

The company continues to be regarded as a reliable supplier of high quality lumber products both at home and abroad. While the United States remains our single largest market, fully fifty percent of the total is now sold overseas.

This aggressive program of product and market diversification has considerably reduced



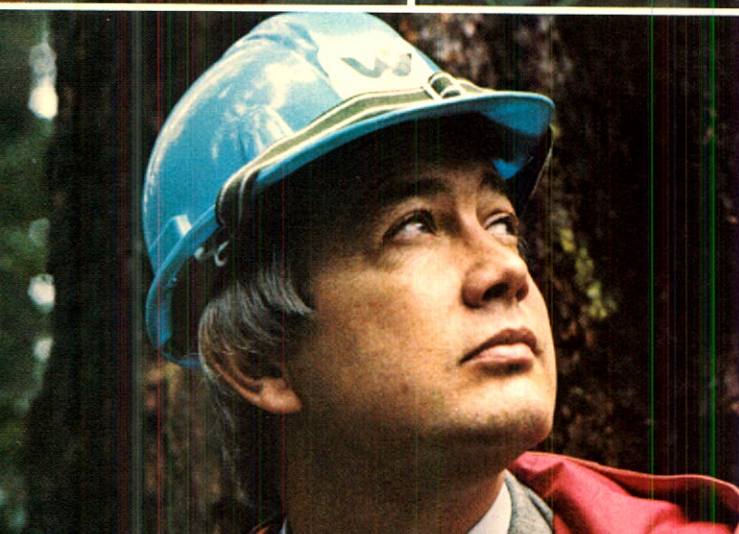
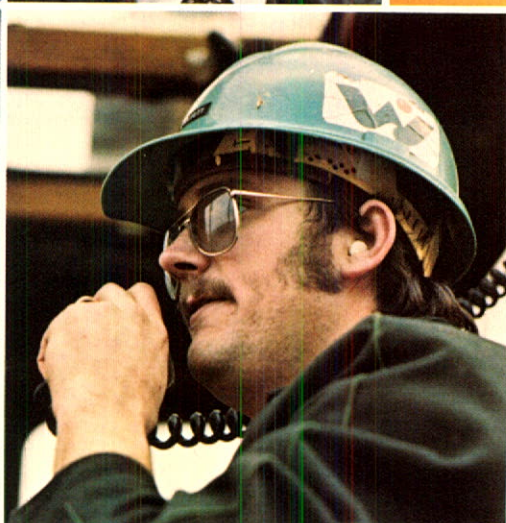
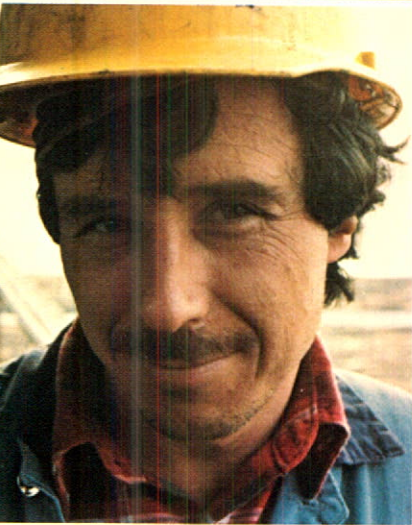
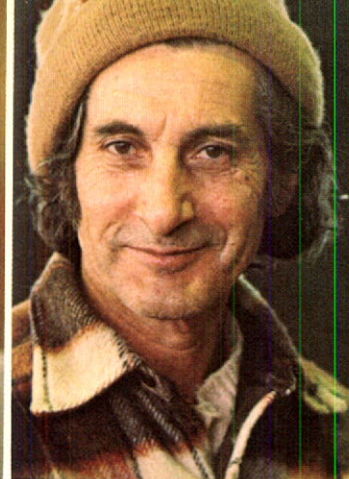
The roll-on loading operation reduces turnaround time by as much as 50%, minimizes handling and assures the product is delivered in first class condition.

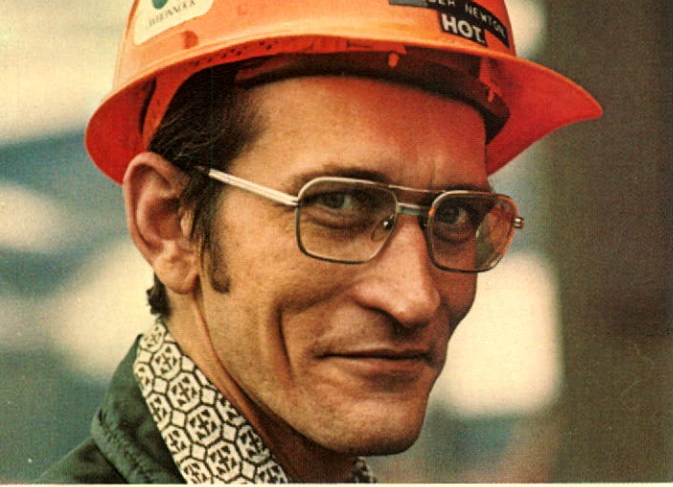
our vulnerability to cyclical downturns in the North American market for dimension lumber while taking maximum advantage of firmer prices and demand abroad.

Sales of shakes and shingles are concentrated in California and the southwestern United States and this specialized market should resume its rapid growth as soon as interest rates decline.

Products destined for the North American market are shipped by rail, truck, or by ship to the Eastern United States. Seaboard Lumber Sales, a consortium of local forest product manufacturers, sells and ships the company's product overseas. Currently Whonnock accounts for about one-fifth of Seaboard's total sales, making it one of their largest export suppliers.

One of Seaboard Shipping Company's ultra modern roll-on/roll-off vessels being loaded at the company's International Terminal on Burrard Inlet.

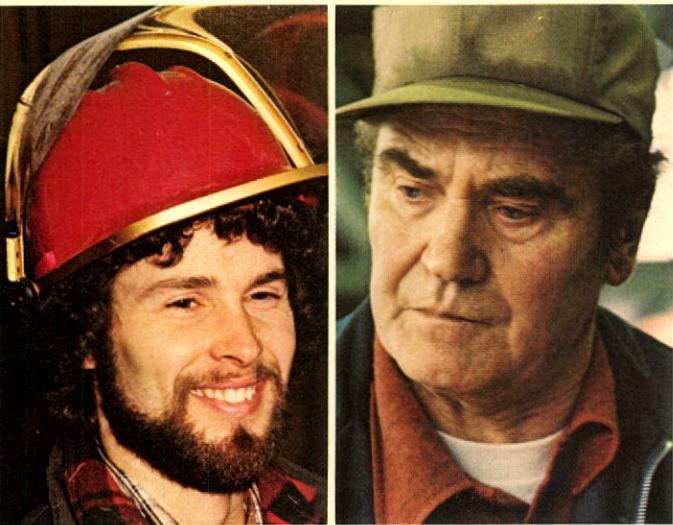




Teamwork

Decentralized and dynamic, Whonnock has shown remarkable growth and development in the last decade and we are well positioned to capitalize on the opportunities for expansion in the 1980's.

Today our natural resources, organization, equipment and facilities make the company a leader in the forest industry. We have proven our ability to diversify and expand in a most competitive market because ...



People are our most important asset

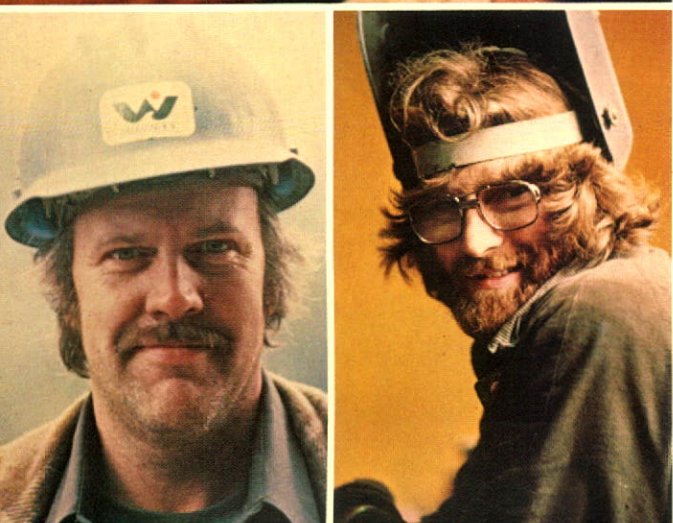
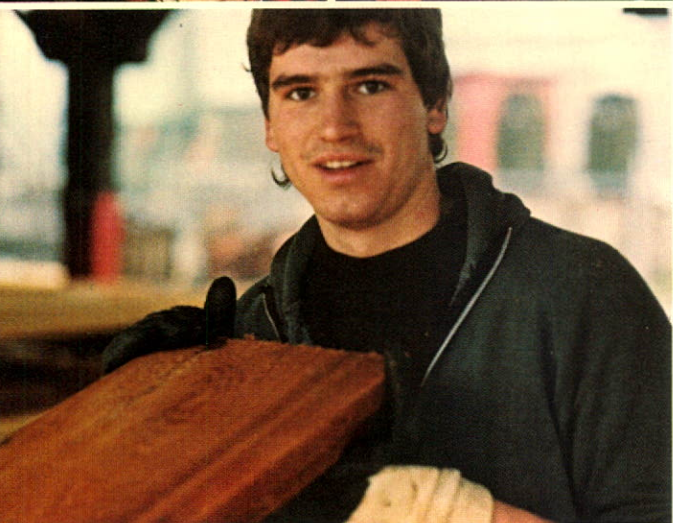
One of the basic strategic policies of the Whonnock organization is to offer ample scope for individual initiative and development. As a result we have built an unusually strong team of people with the skills, authority and enthusiasm to realize not only our corporate goals but the personal goals which make all work worthwhile.

We work at many different jobs in many different places. For some, Whonnock is a job in an office tower. Others find the challenge of manufacturing more to their liking. Still more prefer the rugged environment of the woods and the camaraderie and freedom of life in a remote logging camp.

Each in his or her own way is a vital part of the Whonnock group.

Beyond this, we value the support and encouragement of those in government, the dependability of our suppliers and logging contractors and, not least, the continued loyalty and confidence of our shareholders.

We have come a long way together and the future looks as rewarding as it will be challenging.





Results 1980 Financial Review

These results reflect a decision by the Board of Directors to change the year-end of the company from November 30 to December 31 commencing with 1980. Accordingly the year has been extended to thirteen months. The new calendar year reporting period will coincide with those of our partners in the Rayonier acquisition, and will facilitate reporting to the B.C. Forest Service.

WHONNOCK INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF INCOME

(Thousands of dollars)

	13 months ended		12 months ended
	December 31, 1980	December 31, 1979	November 30, 1979
	(audited)	(unaudited)	(audited)
Sales	<u>\$206,445</u>	<u>\$204,526</u>	<u>\$190,845</u>
Costs and expenses			
Production	160,497	138,601	129,503
Selling and administration	10,851	10,844	10,042
Depreciation	6,452	4,388	3,970
Depletion and road amortization	5,198	6,047	5,724
Interest on long-term debt	1,188	1,340	1,331
Other interest	<u>2,242</u>	<u>448</u>	<u>343</u>
	<u>186,428</u>	<u>161,668</u>	<u>150,913</u>
Operating income	20,017	42,858	39,932
Other income			
Investment income	584	407	374
Income from disposal of business	—	353	353
Gain on disposal of fixed assets and investments	<u>280</u>	<u>245</u>	<u>226</u>
Income before income taxes	<u>20,881</u>	<u>43,863</u>	<u>40,885</u>
Income taxes			
Current	5,400	17,740	16,340
Deferred	<u>3,300</u>	<u>1,668</u>	<u>1,668</u>
	<u>8,700</u>	<u>19,408</u>	<u>18,008</u>
NET INCOME	<u>\$ 12,181</u>	<u>\$ 24,455</u>	<u>\$ 22,877</u>
Earnings per share	<u>\$2.08</u>	<u>\$4.18</u>	<u>\$3.91</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Thousands of dollars)

	13 months ended	12 months ended
	December 31, 1980	November 30, 1979
	(audited)	(audited)
BALANCE AT BEGINNING OF PERIOD	\$43,588	\$21,969
Net income	<u>12,181</u>	<u>22,877</u>
	<u>55,769</u>	<u>44,846</u>
Less		
Class A common share dividends	1,871	1,195
Class B common share dividends	<u>148</u>	<u>63</u>
	<u>2,019</u>	<u>1,258</u>
BALANCE AT END OF PERIOD	<u>\$53,750</u>	<u>\$43,588</u>

WHONNOCK INDUSTRIES LIMITED

(Amalgamated in the Province of British Columbia)

CONSOLIDATED BALANCE SHEET

(Thousands of dollars)

ASSETS

	December 31, 1980	November 30, 1979
	(audited)	(audited)
CURRENT ASSETS		
Term deposits	—	\$ 4,000
Trade and other accounts receivable	\$ 11,726	10,833
Inventories (note 2)	47,345	44,593
Prepaid expenses	1,144	346
	<u>60,215</u>	<u>59,772</u>
INVESTMENTS AND OTHER ASSETS		
Investments and advances, at cost	2,242	2,433
Timber sale deposits, at cost	467	505
Investment in Western Forest Products Limited	61,453	—
	<u>64,162</u>	<u>2,938</u>
FIXED ASSETS (note 3)		
Property, plant and equipment, at cost	60,946	51,909
Less accumulated depreciation	19,499	13,621
	<u>41,447</u>	<u>38,288</u>
Timber, at cost less accumulated depletion (note 1)	5,570	5,220
Logging roads, at cost less accumulated amortization	10,478	8,096
	<u>57,495</u>	<u>51,604</u>
	<u>\$181,872</u>	<u>\$114,314</u>

Approved by the Board

M.H. MacKenzie, Director

W.L. Sauder, Director

LIABILITIES

	December 31, 1980	November 30, 1979
	<u>(audited)</u>	<u>(audited)</u>
CURRENT LIABILITIES		
Bank indebtedness (note 4)	\$ 19,050	\$ 635
Accounts payable and accrued liabilities	16,078	27,382
Income taxes payable	4,988	15,919
Principal due within one year on long-term debt (note 4)	<u>100</u>	<u>100</u>
	<u>40,216</u>	<u>44,036</u>
LONG - TERM DEBT (note 4)	<u>70,200</u>	<u>12,300</u>
DEFERRED INCOME TAXES	<u>9,900</u>	<u>6,584</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 5)		
Issued and fully paid	7,806	7,806
5,195,982 class A shares		
653,248 class B shares		
RETAINED EARNINGS	<u>53,750</u>	<u>43,588</u>
	<u>61,556</u>	<u>51,394</u>
	<u>\$181,872</u>	<u>\$114,314</u>

Commitment (note 6)

WHONNOCK INDUSTRIES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Thousands of dollars)

	13 months ended		12 months ended
	December 31, 1980 (audited)	December 31, 1979 (unaudited)	November 30, 1979 (audited)
WORKING CAPITAL DERIVED FROM			
Operations	\$26,867	\$36,213	\$33,913
Disposal of property, plant and equipment	634	787	787
Disposal of business	—	1,629	1,629
Disposal of investments and other assets	267	305	281
	<u>27,768</u>	<u>38,934</u>	<u>36,610</u>
WORKING CAPITAL APPLIED TO			
Investment in Western Forest Products Limited, net of increase in term bank loan of \$60,000	1,453	—	—
Property, plant and equipment Timber	10,003	15,505	14,302
Logging roads	599	1,654	1,654
Investments and other assets	7,331	7,434	7,079
Reduction in long-term debt	—	1,533	1,533
Dividends on class A and B common shares	2,100	7,503	7,503
	<u>2,019</u>	<u>1,258</u>	<u>1,258</u>
	<u>23,505</u>	<u>34,887</u>	<u>33,329</u>
INCREASE IN WORKING CAPITAL	4,263	4,047	3,281
WORKING CAPITAL AT BEGINNING OF PERIOD	<u>15,736</u>	<u>12,455</u>	<u>12,455</u>
WORKING CAPITAL AT END OF PERIOD	<u>\$19,999</u>	<u>\$16,502</u>	<u>\$15,736</u>

WHONNOCK INDUSTRIES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 13 MONTHS ENDED DECEMBER 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The financial statements include the accounts of the wholly-owned subsidiary, Holding Lumber Company Limited.

On December 1, 1979, a statutory amalgamation reduced the number of subsidiary companies to one and resulted in two shares of the amalgamated company being issued for each previous share outstanding. The amalgamation had no effect on the financial reporting of the company.

Where appropriate the total excess cost of shares in subsidiaries over their net book values at dates of acquisition has been allocated to the cost of property, plant and equipment and is being depreciated in accordance with the company's regular depreciation policy.

The amount previously shown as unallocated purchase price of shares of subsidiary has now been reflected as timber and continues to be amortized over forty years on a straight-line basis.

(b) Inventories

Inventories have been valued at the lower of cost and net realizable value.

(c) Investments

The company's 33 $\frac{1}{3}$ % interest in Western Forest Products Limited is accounted for on the equity basis whereby the company's equity in the earnings (loss) of the associated company is reflected each year in the income statement and the investment account.

Western Forest Products Limited was formed to acquire most of the assets of Rayonier Canada as of October 30, 1980. Since Western Forest Products Limited will be deferring all expenses, net of revenues, during the initial six-month period of planning and reorientating, under the equity basis of accounting, no amounts have been reflected in income for 1980.

The company's direct investment of \$60,000,000 in Western has been increased by the interest incurred on the funds borrowed for the acquisition. Portions of future interest on these borrowings will continue to be treated as increases in the carrying value of the investment while the essential first projects in Western Forest's program of rebuilding several of its plants are being carried through.

(d) Depreciation, amortization and depletion

Depreciation of plant and equipment is provided on a straight-line basis 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.

(e) Deferred income taxes

The company follows the policy of charging current earnings with the income taxes deferred by claiming deferred interest and capital cost allowance for tax purposes in excess of the amounts recorded in the accounts.

2. INVENTORIES (Thousands of dollars)

	December 31, 1980	November 30, 1979
Logs	\$38,158	\$36,969
Lumber	8,905	7,343
Other	282	281
	<u>\$47,345</u>	<u>\$44,593</u>

3. FIXED ASSETS (Thousands of dollars)

	December 31, 1980			November 30, 1979
	Cost	Accumulated depreciation	Net	Net
Land	\$ 6,398	—	\$ 6,398	\$ 4,945
Buildings	10,913	\$ 3,426	7,487	6,822
Machinery and equipment	35,491	12,217	23,274	22,250
Automotive equipment	4,756	2,551	2,205	2,106
Other	3,388	1,305	2,083	2,165
	<u>\$60,946</u>	<u>\$19,499</u>	<u>\$41,447</u>	<u>\$38,288</u>

4. LONG-TERM DEBT (Thousands of dollars)

	December 31, 1980	November 30, 1979
Bank term loan, with interest at bank prime plus $\frac{5}{8}\%$, with no repayment required until 1986	\$10,000	\$ 4,000
Bank term loan with interest at bank prime plus $\frac{5}{8}\%$ with the first repayment due in 1985	60,000	—
Short-term obligations, to be refinanced	—	8,000
Purchase agreement, repayable in annual instalments of \$100,000 with interest at 8%	<u>300</u>	<u>400</u>
	70,300	12,400
Less principal included in current liabilities	<u>100</u>	<u>100</u>
	<u>\$70,200</u>	<u>\$12,300</u>

Included in the bank term loans are short term banker's acceptances of \$45,000,000, with interest at varying rates. These loans are supported under the term loan agreement with the company's banker and are properly included as long-term debt.

The company has established an overall line of credit with its bankers of \$110,000,000 of which \$87,000,000 is on a term basis. A standby fee of $\frac{1}{4}\%$ per annum is payable monthly on the unutilized portion of the line of credit.

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. As a condition of the bank loans, the loan agreement requires the company to maintain consolidated net worth of not less than \$45,000,000 and various ratios related to working capital and debt to net worth. All of the requirements under the loan agreement have been met.

Principal payments due within the next three years amount to \$100,000 per year. A payment of \$6,000,000 is due in the fifth year.

5. 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

The first $13\frac{1}{3}\%$ per share 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. 653,248 class A common shares are reserved for the conversion of class B common shares.

6. COMMITMENT

The company is obligated under various operating leases requiring minimum annual rental payments of \$1,357,000 in 1981 and decreasing amounts of \$455,000 to \$255,000 from 1982 through 1985. The company has not acquired any assets under capital leases.

7. 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.

8. RELATED PARTY TRANSACTIONS

- (a) Land adjacent to one of the mills was acquired from the controlling shareholder at its fair market value of \$1,229,000 as appraised by Macaulay Nicolls, Maitland & Co. Ltd., independent professional appraisers. This property is considered by management to be desirable for future expansion.
- (b) In 1980, sales to the controlling shareholder in the regular course of business amounted to \$2,349,000. These transactions were conducted on a normal commercial basis, including terms and prices.

9. STATUTORY INFORMATION

Remuneration of directors and senior officers of the company amounted to \$870,000 (1979 - \$742,000). In addition, in 1980 \$508,000 was paid on the retirement of a former officer in settlement of a management contract and in lieu of pension entitlements.

10. SEGMENTED INFORMATION

The company operates exclusively in the forest product 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 Ltd. Total sales to U.S. and offshore markets amounted to \$138,132,000. Other sales, including domestic sales of logs, amounted to \$68,313,000.

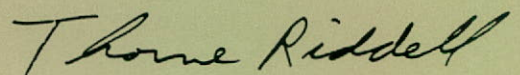
AUDITORS' REPORT

To the Shareholders of
Whonnock Industries Limited

We have examined the consolidated balance sheet of Whonnock Industries Limited as at December 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the 13 months 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, 1980 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
February 3, 1981



Chartered Accountants

WHONNOCK INDUSTRIES LIMITED

EIGHT YEAR REVIEW

		1980(1)	1979	1978	1977	1976	1975	1974	1973
PRODUCTION STATISTICS									
Lumber (MFBM)		424	445	343	274	173	111	146	170
Logs (M Cubic Meters)		1,958	2,316	1,543	1,022	776	552	702	756
EMPLOYEE STATISTICS									
Wages, salaries	(\$000)	39,218	34,855	28,953	18,441	11,427	7,117	7,633	7,743
Number of employees		1,590	1,610	1,617	1,040	668	534	582	728
FINANCIAL STATISTICS									
Sales	(\$000)	190,565	190,845	121,429	81,021	43,541	25,889	37,181	37,495
Stumpage	(\$000)	21,143	19,057	5,990	2,727	1,515	943	2,608	4,192
Income taxes	(\$000)	8,030	18,008	6,511	3,781	2,162	1,190	1,698	3,723
Net income	(\$000)	11,244	22,877	7,612	4,306	2,260	1,524	1,668	4,278
Earnings per share	\$	1.92	3.91	1.30	.74	.40	.28	.30	.76
Total assets	(\$000)	181,872	114,314	87,589	58,741	41,157	23,366	21,904	23,484
RATIO & INVESTMENT INFORMATION									
Current Ratio		1.5:1	1.4:1	1.4:1	1.2:1	1.2:1	2.8:1	3.0:1	2.0:1
Return on closing equity		18.5%	44.5%	25.5%	18.6%	12.9%	9.6%	11.0%	30.2%
Return on capital employed		8.4%	33.6%	14.9%	12.9%	9.2%	8.2%	9.5%	24.7%
Equity per common share	\$	10.52	8.79	5.09	3.96	3.43	3.17	3.02	2.86
Share price range - high	\$	15.38	11.50	4.94	3.50	2.83	2.25	2.83	3.92
- low	\$	7.13	4.00	2.79	2.50	1.75	1.13	1.17	2.41
Price/Earnings ratio (2)		8.0	2.9	3.8	4.7	7.1	8.0	9.4	5.2
RE-INVESTMENT									
Working capital generated from operations	(\$000)	24,800	33,913	14,362	7,496	4,500	2,510	3,239	90,820
Plant, equipment & roads	(\$000)	16,554	23,035	17,902	10,741	10,562	1,721	1,779	82,294
Working capital retained		8,246	10,878	(3,540)	(3,245)	(6,062)	789	1,460	8,526

Note: (1) Information for the 13 months of 1980 has been annualized where applicable for more effective comparisons.

(2) The Price/Earnings ratio is calculated on the high share price for the year.

WHONNOCK INDUSTRIES LIMITED

Whonnock Industries 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.

HEAD OFFICE

REGISTERED OFFICE

3063 - 595 Burrard Street, Vancouver, B.C. V7X 1H7

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. Neil
Vice-President, Manufacturing

G.J. Friesen
Treasurer and Controller

DIRECTORS

H.L. Henri, Chase, B.C.
E.D. Hildebrand, Vancouver, 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

The Montreal Trust Company, Vancouver, B.C.

