

Weldwood

1984
Annual Report



Contents

<i>Financial Highlights</i>	1
<i>Directors' Report</i>	2
<i>Review of Operations</i>	4
<i>Marketing</i>	6
<i>Financial Review</i>	8
<i>Consolidated Income and Retained Earnings</i>	11
<i>Consolidated Balance Sheet</i>	12
<i>Consolidated Changes in Cash Position</i>	14
<i>Notes to Consolidated Financial Statements</i>	15
<i>Auditors' Report</i>	23
<i>Ten Year Review</i>	24
<i>Directors and Officers</i>	25

The Twenty-first Annual General Meeting of the Company will be held in the Victoria Room, Holiday Inn, 1133 West Hastings Street, Vancouver, B.C. on Thursday, April 25, 1985 at 11:00 a.m.

Financial Highlights

<i>(dollars in thousands, except per share)</i>	1984	1983
Sales and Income		
Net sales	\$572,348	\$586,153
Income (loss) before income taxes.....	(12,460)	13,285
Income taxes (recovery).....	(8,704)	3,717
Net income (loss) before extraordinary item ..	(3,809)	9,568
Net income (loss)	(5,265)	9,568
Per Common and Ordinary Share		
Earnings (loss) before extraordinary item.....	\$ (0.39)	\$ 0.97
Earnings (loss) after extraordinary item.....	(0.54)	0.97
Dividends		
Common	0.50	0.25
Ordinary.....	0.50	0.25
Shareholders' equity.....	15.28	16.32
Financial position		
Working capital.....	\$ 70,157	\$111,229
Total assets.....	342,077	350,795
Long-term debt.....	68,286	82,487
Shareholders' equity.....	150,330	160,524
Analytical information		
Ratio of current assets to current liabilities	1.71:1	2.46:1
Net debt as percentage of total capitalization (1)	39.0%	32.3%
Return on average capital employed (2)	0.9%	5.3%
Return on shareholders' equity (3).....	(2.4%)	6.2%
Capital expenditures	\$ 27,926	\$ 15,163

NOTES: (1) Net debt is defined as all interest-bearing debt less temporary investments. Total capitalization is defined as the sum of net debt, deferred income taxes, minority interest and shareholders' equity.

(2) Return on average capital employed is defined as net income after tax before extraordinary item and before interest expense, divided by average total capitalization.

(3) Return on shareholders' equity is defined as net income before extraordinary item less dividends paid on Preference Shares divided by Common and Ordinary shareholders' equity at the beginning of the year.

Directors' Report to the Shareholders

1984 was another disappointing year for your company. Conditions throughout the year were extremely difficult in virtually all the market areas in which we participate. Unfortunately, this has now been the case for most of the 1980s.

Weak market conditions during the year and a two-month shutdown of Cariboo Pulp & Paper by a province-wide labour dispute caused us to operate at less than capacity in certain of our operations.

Sales for the year were \$572,348,000 compared to \$586,153,000 in 1983, with a loss for the year of \$3,809,000 or 39 cents a share, compared with a profit of \$9,568,000 or 97 cents a share in 1983. This loss is before the extraordinary item of \$1,456,000 or 15 cents a share, which is the estimated after-tax impact of the closure of our Timberland sawmill scheduled for June of 1985.

The U.S. dollar continued to strengthen during 1984 and the resulting value of the Canadian dollar in relation to other world currencies had an even more serious impact on our competitive position in offshore markets than we experienced in 1983. This made it particularly difficult to compete against Scandinavian products in European markets.

Pulp prices rose substantially in the first half of the year, largely as a result of the work stoppage in the B.C. industry, but by year-end this increase had been almost completely eroded.

Lumber prices in North America were somewhat better early in 1984 and picked up again slightly at year-end, but apart from that, the year was generally flat with no opportunity for satisfactory margins.

Housing activity in Canada was disappointing and resulted in a difficult year for our Wholesale Building Materials Division and for our panelboard business in general. Although housing starts in the U.S. were at reasonable levels, the over-supply of wood was reflected in less than satisfactory prices.

Our new state-of-the-art sawmill at 100 Mile House, B.C. started up in mid-1984 and had made satisfactory progress toward its rated capacity by year-end. It is an excellent facility and will play an important role in the future of your company.

We regret the necessity of our decision to close the Timberland sawmill in Surrey, B.C. because of the effect the closure will have on our employees. The operation has a long history in the coastal industry dating back to the early part

of the century, and has made a significant contribution to the company. However, we see no end to the high log costs, poor world market conditions and other economic problems which plague the coastal lumber industry. We felt rationalization was necessary to assure the continuing viability of our coastal operations; therefore, we will be transferring the production of fir lumber from Timberland to our Empire mill at Squamish, B.C. That mill, which specializes in the production of hemlock lumber, operated well below capacity during the past year. The addition of fir production will mean substantially increased employment levels there.

Despite all the problems, we had an outstanding year in terms of productivity and cost control, and a gratifying performance from our employees. We are dedicated to improving communications within Weldwood, and to furthering the concept of individual involvement in the success of the company.

During 1984, environmental impact studies required by the provincial government were approved for the Quinsam coal project after an extensive public hearing. This allows the project to proceed to the permitting and licensing stage which is expected to be completed in 1985. However, due to the current unfavourable coal

market conditions, it is not expected that commercial production would commence prior to 1988.

Pit Desjardins, vice-chairman of the board and president of Cariboo Pulp & Paper, retired in 1984 after a 38-year career in senior positions with Weldwood during which time he contributed substantially to the direction and growth of the company. Mr. Desjardins is succeeded as president of Cariboo by Dick Sainsbury who is also vice-president, coastal and hardwood operations.

There is complete justification to believe that we will continue to be a leader in the forest products business. While continuing to improve productivity and the quality of our products, we are also reducing costs wherever possible. However, the future of our business remains clouded, and we believe that the conditions we are currently experiencing will not substantially improve in the next few years; therefore we must learn to function in this depressed environment. The company remains strong financially and although faced with difficult conditions, with the support of our employees and a recognition of the challenges that face us, we will be able to respond to new opportunities as they arise and assure the company's success.

On behalf of the Directors



THOMAS A. BUELL
*Chairman of the Board,
President and Chief Executive Officer*

Review of Operations

Weldwood is one of the major producers of forest products in Canada, with logging and manufacturing operations in British Columbia, Alberta and Ontario, and a Canada-wide chain of wholesale distribution outlets.

In British Columbia the company operates six sawmills, four plywood plants and a veneer plant and holds major interests in Babine Forest Products Company, Houston Forest Products Company and Cariboo Pulp & Paper Company. Weldwood operates a waferboard plant in Alberta and a waferboard plant, a plywood plant, two veneer plants and two sawmills in Ontario. The company currently employs approximately 4,400 people.

Logging and Forestry

Spruce and pine bark beetle infestations continued unchecked in the B.C. interior despite intensive efforts to control the insects' spread. To date, the interior mills have been able to process all the infested timber before the quality of the wood was affected, but the need for rapid removal of beetle-attacked stands has disrupted logging schedules and created a demand for many more kilometres of new logging roads every year.

On the B.C. coast three logging operations sustained about \$750,000 damage from fall rains and floods which washed out roads and bridges. Logging had finished for the season at the affected camps just prior to the flooding, but repairs to the damage were expected to delay the start-up of operations in the spring of 1985.

Weldwood and its affiliated companies harvested 4.5 million cubic metres of timber in the three provinces. This was slightly less than 1983's record harvest of 4.8 million cubic metres. In the interior of B.C. the 1984 log harvest was

3,187,000 cubic metres, up from the previous year's 3,185,000 cubic metres. The B.C. coastal harvest was 1,003,000 cubic metres in 1984, down from 1,227,000 cubic metres in 1983.

The company and its affiliates constructed a total of 478 kilometres of logging roads in 1984, compared with 425 kilometres the previous year. Nearly 7 million seedlings were planted on more than 6,000 hectares of logged-over land and another 6,300 hectares were burned or scarified in preparation for future planting or natural regeneration. By comparison 1983 saw 6.8 million seedlings planted on 5,000 hectares and 5,200 hectares prepared for reforestation. Other silvicultural activities in 1984 included stand spacing and thinning, brush removal, stand fertilization and cone collection.

Test sites have been planted at Quesnel and Merrill & Wagner as part of the continuing industry-government genetic tree improvement program in the B.C. interior. A total of 24 hectares were planted with the progeny of naturally growing trees selected for their superior characteristics. The young trees which bear their parents' superior qualities will become stock for future seed orchards.

Manufacturing

Most of our manufacturing facilities operated close to capacity during 1984. However, Cariboo Pulp & Paper was closed for two months by an industry-wide labour dispute which also idled two of our other Interior mills for nearly a month; and poor markets forced us to reduce production severely at our coastal hemlock sawmill and the Alberta waferboard mill.

Weldwood produced 638 million board feet of softwood lumber in 1984, down somewhat from 1983's record production level of 668 million.

These volumes include the company's share of production of joint venture sawmills in B.C. Hardwood lumber production from Ontario mills also dropped slightly, to 28 million board feet from 30 million.

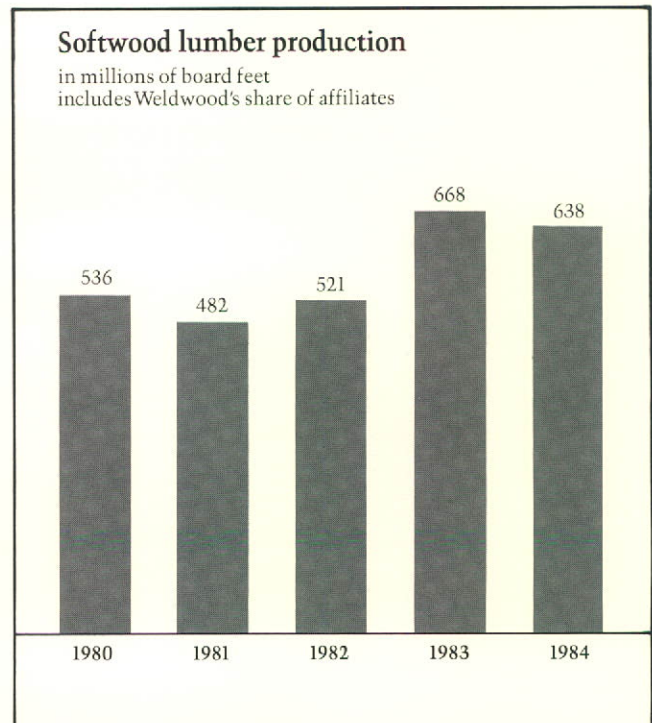
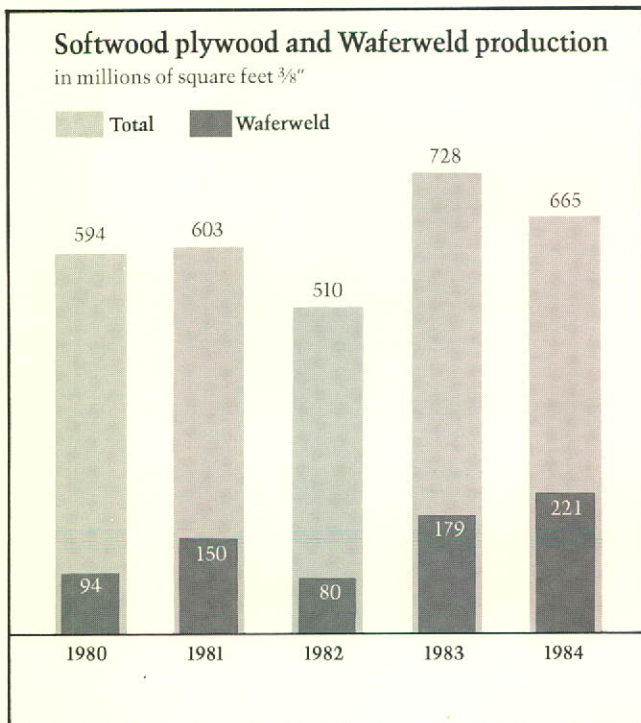
The new sawmill at 100 Mile House, B.C. came on stream in May, 1984, with a rated capacity of 154 million board feet, more than twice that of the mill it replaced. The mill is the most modern in B.C., utilizing state-of-the-art technology to maximize throughput and recovery. It is designed to cut logs ranging from six to 28 inches at the butt.

Other capital projects in 1984 included improvements to the Searchmont, Ont. sawmill and the installation of a waste-wood energy system at Babine Forest Products Company. Babine is burning shavings from the planer mill to fuel a hot-oil circulating system which heats the dry kilns, sawmill and planer mill. The installation is similar to that in place at 100 Mile House and a third such system is currently

under construction at Houston.

The company's softwood plywood production was 444 million square feet in 1984, down from 549 million the previous year. The closure of the plywood plant at 100 Mile House removed 120 million square feet of production capacity. Waferboard production continued to increase in 1984, reaching 221 million square feet, up from 179 million in 1983 as a result of the Longlac, Ont. plant operating at full production throughout the year. Production of hardwood and specialty plywood increased to 62 million square feet, up from the previous year's 59 million.

Cariboo Pulp & Paper Company, as a result of the two month shutdown, produced only 218,000 short air dry tons of bleached kraft pulp in 1984, down from the record production of 282,000 tons in 1983. Though somewhat reduced due to financial constraints, the program to increase production capacity was successfully continued during the year.



Marketing

The year began with some promise in North America, with a good level of construction activity in the U.S. and a modest recovery under way in Canada.

As the year progressed interest rate increases began to slow housing activity particularly in Canada and the unfavourable supply-demand ratio for commodity products kept prices low.

The depressed economic conditions in western Canada resulted in significantly reduced housing starts

Overseas markets remained stagnant during 1984 with no significant improvement to the slump which began in 1980. The high value of the Canadian dollar against European and Japanese currencies contributed significantly to the weakness in demand. Australia was one of the few active overseas markets last year. China continues to offer future potential for our wood products.

Pulp markets and prices improved during the first half of 1984. However, unfavourable exchange rates occasioned by the strong U.S. dollar coupled with an increased world supply of market pulp brought about a severe reduction in prices by year-end.

Panelboards

Total panelboard production volume was 727 million square feet, down 7.6 per cent from the 1983 level. A reduction in softwood plywood sheathing production resulted from mill closures but was offset, in part, by increased production of both Waferweld and hardwood plywood. The total sales value of panel products declined by some 6 per cent from the 1983 level.

In Canada, and particularly in western Canada, the market for commodity panelboards was

adversely affected by a reduction in housing starts and strong competition from reconstituted panel products. As a result prices remained at unsatisfactory levels. Export softwood plywood shipments continued at the 1983 level; however, prices remained depressed due to competition from other world shippers and the strength of the Canadian dollar in relation to other world currencies.

Our domestic sales of hardwood and specialty plywood were adversely affected by the slow-down in the western economy. Sales of hardwood plywood into the U.S. market increased and returns were more favourable.

Lumber

The total volume of lumber shipments was below the 1983 level by 5 per cent due primarily to the loss of production in our Interior operations during the pulp labour dispute.

North American housing starts in 1984 were close to the 1983 level. Due to the unfavourable supply-demand ratio the year-to-year average market prices for commodity products declined by 16 per cent between 1983 and 1984.

As a result of changes in transportation economics, we have been able to broaden our customer base and increase our service capability.

Western red cedar and Douglas fir specialty markets have been less volatile than those of commodity items and our ability to serve these markets has strengthened our position.

In our traditional markets decreased demand and negative exchange factors severely depressed both volumes and returns. We continue to explore new product and market opportunities and have seen positive results in sales to the Pacific Rim countries and North Africa.

Wholesale Building Materials

Total sales were maintained within 5 per cent of the record levels achieved in 1983 despite a decline in Canadian housing starts and the reduction in panelboard supply caused by our sheathing mill closures. The lost volume was partially offset by increased sales of lumber and purchased products.

Extremely competitive conditions in the panelboard markets resulted in lower than satisfactory margins throughout the year.

In March, 1984 a consolidation of our London and Windsor distribution centers in southern Ontario was accomplished by the acquisition of a modern, cost effective facility in London.

Pulp

Pulp markets in general remained strong during 1984 with prices increasing steadily during the second and third quarters but declining during the fourth quarter.

Weldwood receives 50 per cent of the production from Cariboo Pulp & Paper and the sales of bleached kraft pulp in 1984 were \$48.4 million, down from the previous year's \$52.7 million.

Cariboo quality remains popular with our buyers in Europe and the U.S.A., most of whom operated at full capacity during 1984.

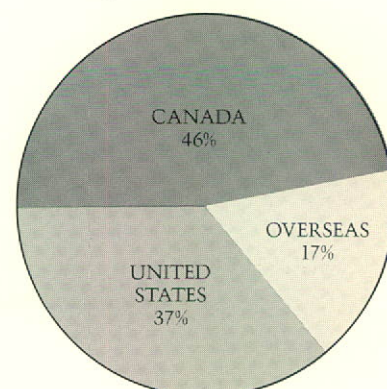
Net Sales by Product *(in millions)*

	1984	1983	1982	1981
Products produced by Weldwood:				
Softwood plywood and Waferweld.....	\$148.5	\$162.7	\$115.3	\$146.6
Hardwood plywood.....	33.1	29.9	18.6	22.1
Softwood lumber.....	162.0	168.5	112.1	111.1
Hardwood lumber.....	7.4	5.6	6.2	7.8
Veneer.....	7.1	6.3	3.7	4.6
Logs.....	31.6	19.6	9.9	14.8
Pulp.....	48.4	52.7	52.4	54.0
	<u>438.1</u>	<u>445.3</u>	<u>318.2</u>	<u>361.0</u>
Products purchased and resold.....	134.2	140.9	97.0	120.1
	<u>\$572.3</u>	<u>\$586.2</u>	<u>\$415.2</u>	<u>\$481.1</u>

Net Sales by Market *(in millions)*

	1984			
	Total	Canada	U.S.	Overseas
Softwood plywood and Waferweld.....	\$151.4	\$127.0	\$ 12.6	\$ 11.8
Hardwood plywood.....	55.2	40.9	13.8	0.5
Softwood lumber.....	209.9	66.9	116.7	26.3
Hardwood lumber.....	8.7	4.9	2.6	1.2
Veneer.....	7.1	2.1	4.7	0.3
Logs.....	34.5	27.5	—	7.0
Pulp.....	48.4	—	21.4	27.0
Other products.....	57.1	56.5	—	0.6
Total.....	\$572.3	\$325.8	\$171.8	\$ 74.7
% 1984.....	100.0	56.9	30.0	13.1
% 1983.....	100.0	55.6	31.4	13.0

Net sales by market of products produced by Weldwood



Financial Review

Sales of \$572.3 million were 2 per cent lower than the record set in 1983. This drop was due primarily to the reduced volume of softwood plywood, lumber and pulp shipments, offset somewhat by the inclusion of sales of lumber produced by Babine Forest Products Company after the reorganization discussed below. In total, costs and expenses increased by only 1.4 per cent over the 1983 level due to the continuation of tight cost control measures and a lower level of production at some mills. However, these small percentage changes caused a \$21.8 million decline in operating income. Net interest expense increased by \$2.4 million. The major factors contributing to the increase were interest rates, which averaged slightly above the 1983 levels; and an increase in current bank borrowing and the use of temporary investment funds to complete construction of the 100 Mile House sawmill.

Current assets at December 31, 1984 were \$168.7 million or \$18.7 million less than at the end of 1983. This was mainly due to the reduction of temporary investments and lower log inventories. Net fixed assets increased by \$12.4 million with capital spending for the year of \$27.9 million exceeding depreciation and amortization. The major expenditure was \$16.7 million for the completion of the sawmill at 100 Mile House, bringing the total cost of the project to \$27.5 million, which was almost \$4 million less than the amount budgeted. Total current liabilities increased by \$22.4 million because of the higher level of bank and commercial paper borrowing, an increase in the portion of the long-term debt repayable in one year and an increase in the company's share of current liabilities of joint ventures. The latter results from the consolidation of accounts of Babine Forest Products Limited in 1984.

At the end of the year the company's working capital ratio was 1.7:1, and net debt as percentage of total capitalization stood at 39 per cent. This compares to 2.5:1 and 32.3 per cent at the end of 1983. The effect of the unsatisfactory operating results was reflected in the return on average capital employed and in the return on shareholders' equity, which dropped to 0.9 per cent and negative 2.4 per cent respectively.

During the year the shareholders of Babine Forest Products Limited (Babine) decided to restructure the ownership of that company and its assets. Two shareholders, Eurocan Pulp and Paper Co. Ltd. (Eurocan) and Westar Timber Ltd. (Westar), each purchased a proportionate share of the net assets of Babine in return for their Babine common shares. This resulted in Babine becoming an 84.6 per cent owned subsidiary of Weldwood, with the remaining 15.4 per cent of common shares owned by the Burns Lake Native Development Corporation. As part of the restructuring, Eurocan, Westar and Babine have entered into a joint venture agreement to operate the sawmill at Burns Lake, B.C. under the name Babine Forest Products Company. Weldwood will continue to manage the operation and market the mill's lumber production on behalf of the joint venturers. Until the date of the reorganization, May 29, 1984, Weldwood's investment in Babine was accounted for on an equity basis and thereafter consolidation was adopted. This had the effect of increasing current assets by \$5.7 million, fixed assets and deferred charges by \$6.2 million, current liabilities by \$3.9 million and deferred income taxes by \$1.7 million. Investments were reduced by \$5.3 million and a minority interest of \$955,000 was established.

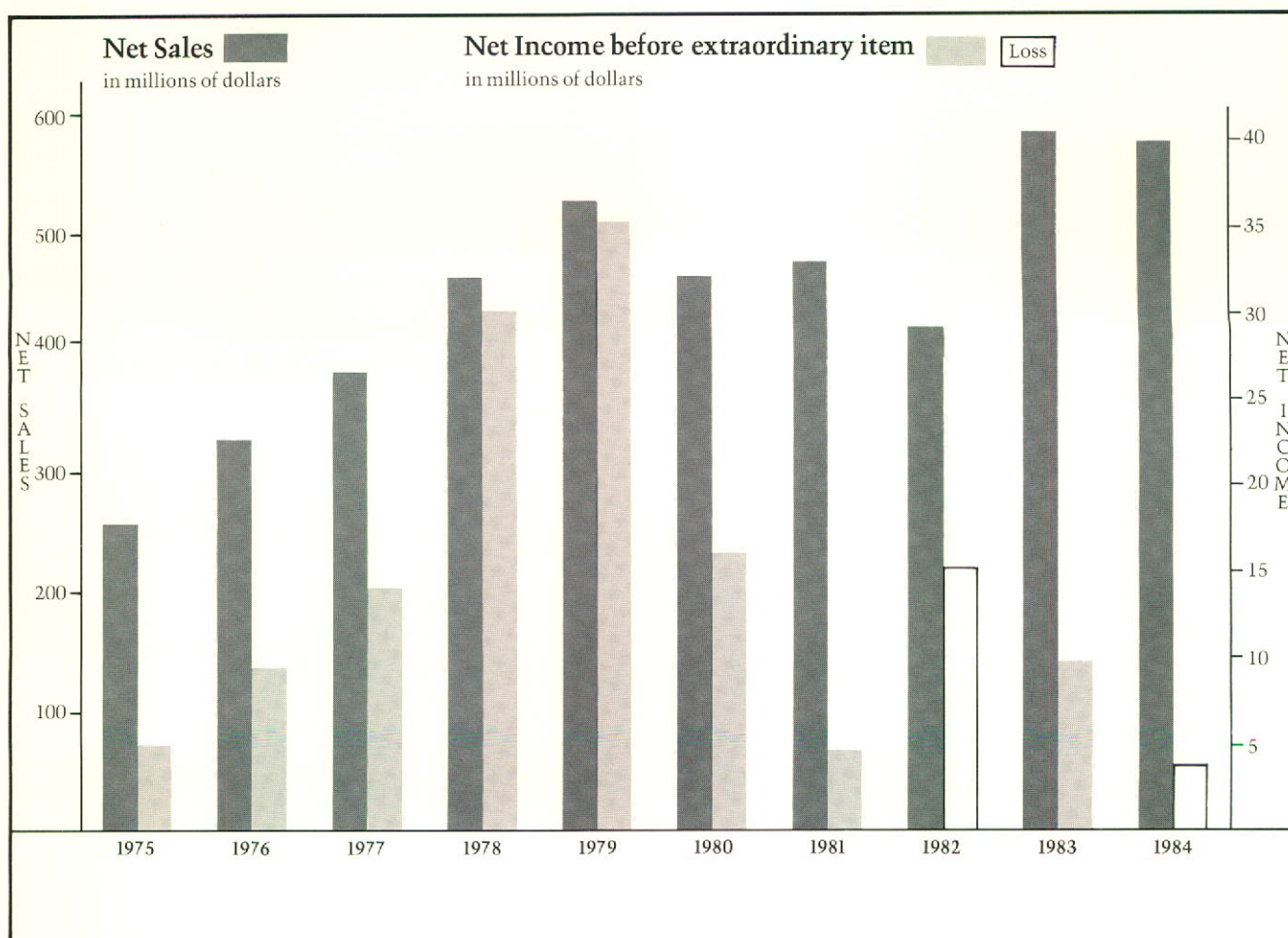
In an attempt to provide more meaningful financial information we have replaced the statement of Changes in Financial Position which emphasized working capital with a statement of Changes in Cash Position which explains the changes to our net cash and short-term borrowing position.

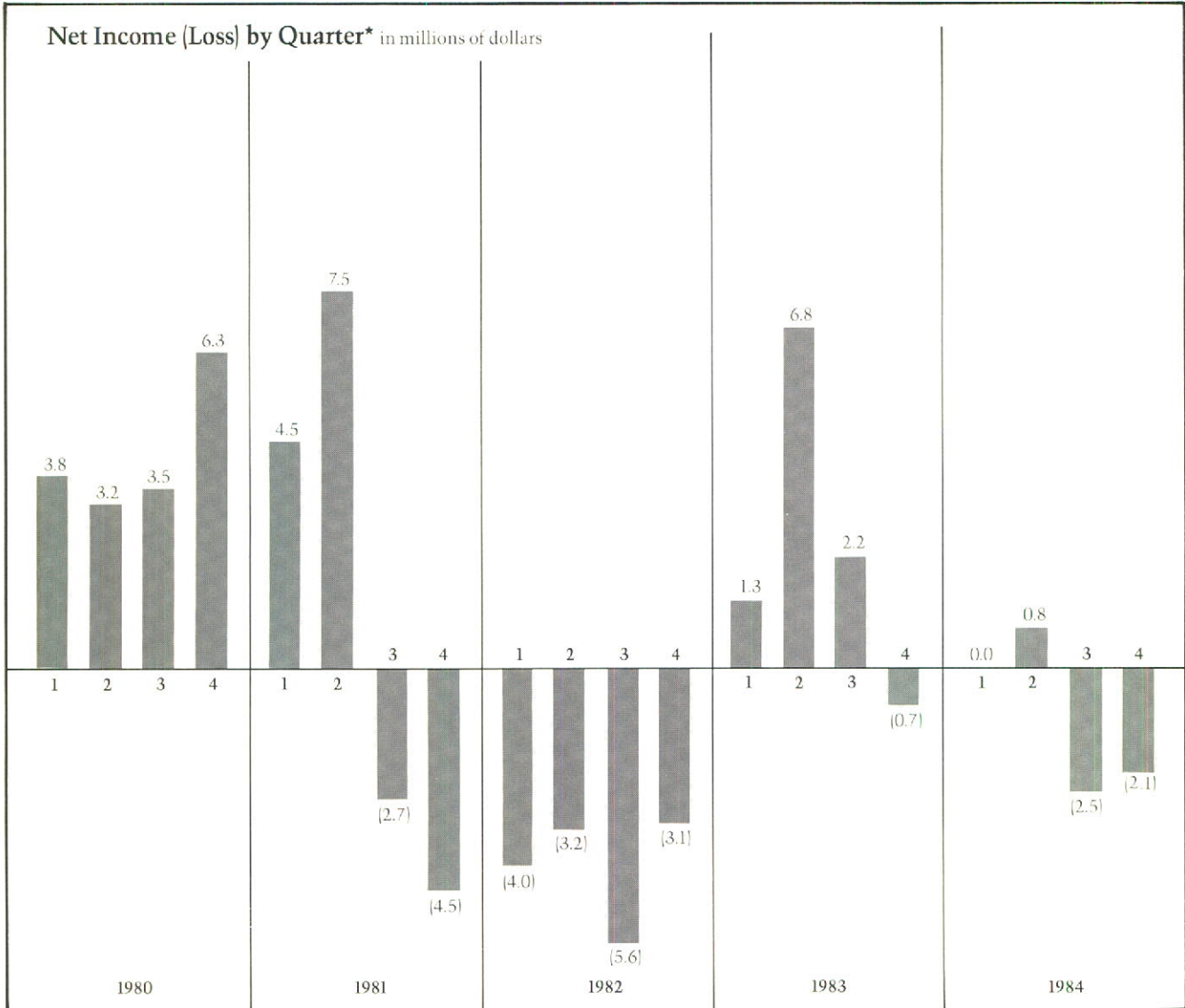
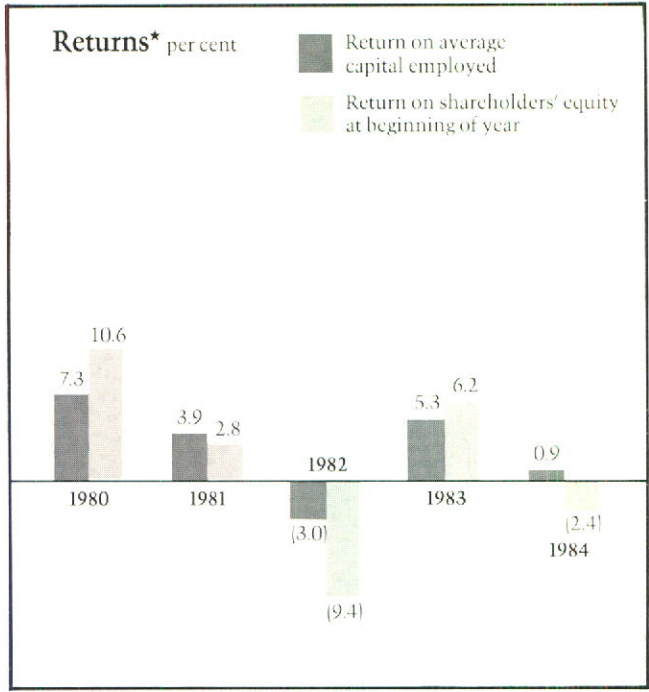
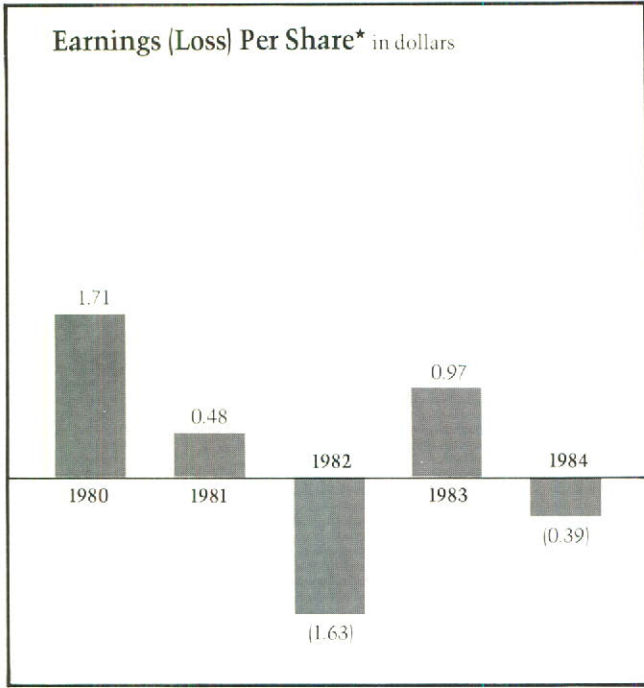
As approved by the shareholders at the 1984 annual general meeting, the Common and Ordinary Shares were split in May 1984 on a two-for-one basis. All per share information in this annual report has been restated to reflect this split.

The Common Shares listed on the Toronto Stock Exchange traded in the range of \$12¼ to \$19¼ during the year, closing at \$14¾, with 1,103 shareholders on record. During the year dividends of 50 cents per share were declared on both the Common and Ordinary Shares.

Capital Expenditures

<i>(in thousands)</i>	1984	1983	1982	1981	1980
Manufacturing and logging	\$20,747	\$ 9,851	\$ 1,337	\$11,816	\$15,046
Logging roads.....	2,571	3,125	757	1,908	5,643
Sales distribution.....	1,387	1,116	48	981	2,914
Pulp	2,637	272	595	3,463	943
Other	584	799	432	792	3,603
	<u>\$27,926</u>	<u>\$15,163</u>	<u>\$ 3,169</u>	<u>\$18,960</u>	<u>\$28,149</u>





*Before extraordinary item

Consolidated Income and Retained Earnings

For the Years Ended December 31

<i>(in thousands, except per share)</i>	1984	1983
Net sales	\$572,348	\$586,153
Costs and expenses		
Cost of sales	524,215	519,434
Selling, shipping and warehouse	23,609	22,976
General and administrative	29,465	26,935
Operating income (loss)	(4,941)	16,808
Interest expense (Note 15)	(11,592)	(9,180)
Gain (loss) on disposal of property and equipment	(651)	321
Other income (Note 16)	4,724	5,336
Income (loss) before income taxes, minority interest and extraordinary item	(12,460)	13,285
Income taxes (recovery) (Note 17)	(8,704)	3,717
Minority interest	53	—
Net income (loss) before extraordinary item	(3,809)	9,568
Extraordinary item		
Provision for closure of the Timberland sawmill (net of applicable income taxes of \$1,244)	(1,456)	—
Net income (loss)	(5,265)	9,568
Retained earnings—beginning of year	106,943	99,854
	101,678	109,422
Dividends (Note 13)	4,929	2,479
Retained earnings—end of year (Note 8)	\$ 96,749	\$106,943
Earnings (loss) per share		
Before extraordinary item	\$ (0.39)	\$ 0.97
After extraordinary item	\$ (0.54)	\$ 0.97

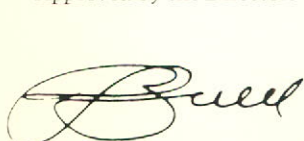
Consolidated Balance Sheet

at December 31

ASSETS	<i>(in thousands)</i>	1984	1983
Current			
Temporary investments		\$ 850	\$ 14,748
Accounts receivable			
Trade		43,302	47,298
Parent company (Note 2)		3,302	3,010
Other		10,470	7,227
Inventories (Note 3)		90,289	99,171
Income taxes recoverable		172	—
Prepaid expenses		8,265	8,469
Company's share of current assets of joint ventures		12,010	7,417
		<u>168,660</u>	<u>187,340</u>
Investments and other assets (Note 4)		<u>4,304</u>	<u>8,449</u>
Timber and roads (Note 5)			
Timber holdings		3,324	3,817
Logging roads		12,361	13,282
		<u>15,685</u>	<u>17,099</u>
Property and equipment (Notes 6 and 8)		<u>283,621</u>	<u>256,794</u>
Accumulated depreciation		143,157	130,114
		<u>140,464</u>	<u>126,680</u>
Deferred charges (Note 7)		<u>12,964</u>	<u>11,227</u>
		<u>\$342,077</u>	<u>\$350,795</u>

LIABILITIES	<i>(in thousands)</i>	1984	1983
Current			
Bank indebtedness.....		\$ 24,960	\$ 13,703
Commercial notes.....		6,000	—
Accounts payable and accruals.....		41,352	44,834
Income taxes.....		—	619
Current instalments of long-term debt (Note 8).....		13,797	10,232
Company's share of current liabilities of joint ventures.....		12,394	6,723
		<u>98,503</u>	<u>76,111</u>
Long-term debt (Note 8).....		<u>68,286</u>	<u>82,487</u>
Deferred income taxes		<u>24,104</u>	<u>31,673</u>
Minority interest		<u>854</u>	<u>—</u>
Shareholders' equity			
Share capital (Note 12).....		47,042	47,042
Contributed surplus.....		6,539	6,539
Retained earnings (Note 8).....		96,749	106,943
		<u>150,330</u>	<u>160,524</u>
		<u>\$342,077</u>	<u>\$350,795</u>

Approved by the Directors



THOMAS A. BUELL



COLIN B. WARNER

Consolidated Changes in Cash Position

For the Years Ended December 31

<i>(in thousands)</i>	1984	1983
CASH PROVIDED FROM (USED FOR)		
Operating Activities		
Operating income (loss).....	\$ (4,941)	\$ 16,808
Items included in costs and expenses not requiring an outlay of cash (Note 14).....	21,331	20,108
Other income	4,724	5,336
Current income tax recovery.....	670	297
Decrease (increase) in operating working capital	6,352	(7,526)
	<u>28,136</u>	<u>35,023</u>
Investment Activities		
Capital Expenditures:		
Property and equipment	(25,345)	(12,028)
Timber and roads	(2,581)	(3,135)
Proceeds from sale of property and equipment.....	1,089	683
Deferred charges	(3,414)	(630)
Investments and other assets	971	972
Extraordinary item before tax	(2,700)	—
	<u>(31,980)</u>	<u>(14,138)</u>
Financing Activities		
Interest on debt—net	(11,592)	(9,180)
Dividends to:		
Shareholders	(4,929)	(2,479)
Minority shareholder of a subsidiary	(154)	—
Repayment of long-term debt	(10,636)	(6,715)
Proceeds from issue of Common shares	—	88
	<u>(27,311)</u>	<u>(18,286)</u>
NET CASH (LOAN) POSITION*		
Increase (decrease) during the year	(31,155)	2,599
Balance at beginning of year	1,045	(1,554)
Balance at end of year.....	<u>\$ (30,110)</u>	<u>\$ 1,045</u>

*Net cash position is comprised of temporary investments, bank indebtedness and commercial notes.

Notes to Consolidated Financial Statements

I. Summary of Significant Accounting Policies

A. CONSOLIDATION

The consolidated financial statements include all subsidiary companies (Note 20). The unamortized excess of the purchase price of the common shares of these subsidiaries over the net book value of their assets, amounting to \$3,670,000, has been included in timber holdings (\$1,792,000) and in property and equipment (\$1,878,000). This excess is being amortized over the estimated lives of the underlying principal assets; the maximum period of amortization is 27 years and the balance will be fully amortized by December 31, 1996. During 1984, \$523,000 of the excess was amortized and charged to income (1983—\$530,000).

B. PARTLY-OWNED COMPANIES

Investments in partly-owned companies (Note 20) are recorded by the equity method of accounting. The Company's share of the net income of these companies is included in Other income.

C. JOINT VENTURES

The investments in joint ventures (Note 20) are presented in the consolidated financial statements on a proportionate consolidation basis. Under this method, the Company's share of assets and liabilities of joint ventures is included in each major balance sheet classification.

The principals in the ventures are committed to pay their share of the production costs and to receive their share of the production. The revenue from the sale of the Company's share of the production is included in Net sales and its share of costs is included in Costs and expenses.

D. INVENTORIES

Inventories are stated at the lower of average cost and net realizable value.

E. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Upon sale or retirement any resulting gain or loss is reflected in income.

F. DEPRECIATION

Except for major units of logging equipment, depreciation is calculated using the straight-line method at the following rates applied to the original cost less estimated salvage values:

Buildings and land improvements	3.0 to 5.0%
Machinery and equipment, other than logging	7.2 to 20.0%
Logging equipment, other than major units	16.7 to 33.3%
Automotive equipment and aircraft	10.0 to 50.0%

Major units of logging equipment are depreciated on a usage basis.

G. DEPLETION

Timber holdings are depleted on a production basis over the volume of timber to be harvested.

H. ROAD AMORTIZATION

Capitalized logging roads are amortized on a production basis, at rates based on the volume of timber developed.

I. DEFERRED CHARGES

Significant development, preproduction and start-up costs incurred on major projects are deferred until conclusion of the start-up period and then amortized over a period not to exceed five years. Financing expenses are deferred and amortized over the life of the related long-term liability. Significant interest costs directly attributable to major projects are deferred and amortized over the estimated life of the underlying assets.

J. INCOME TAXES

Income taxes are accounted for by the tax allocation method. Under this method, provision for taxes is made in the year transactions affect net income as opposed to when such items are recognized for tax purposes. Differences between the provision for taxes and taxes currently payable are reflected as deferred income taxes.

Investment tax credits relating to property and equipment additions during the year are accounted for as a reduction in that year's tax provision net of the applicable deferred income taxes.

K. EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of Common and Ordinary Shares outstanding during the year. For the purpose of this computation net income is reduced by dividends paid on the 5¼% Cumulative Redeemable Preference Shares, Series A.

L. FOREIGN EXCHANGE

Purchases and sales in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at transaction dates. The effect of any fluctuations in exchange rates between the dates of transactions and of settlements is reflected in Other income. Asset and liability accounts in foreign currencies are translated at the rates of exchange in effect at the balance sheet dates.

2. Transactions with Parent Company

Sales of panelboard, lumber and bleached kraft pulp to the Company's parent company, Champion International Corporation (Champion) (Note 12) totalled \$26,916,000 in 1984 (\$26,153,000 in 1983). Sales to Champion are made on the same terms which apply to the Company's other customers.

The Company purchases certain building material products from Champion but the aggregate annual amount is not significant. The purchases are made at normal trade prices and credit terms.

3. Inventories	<i>(in thousands)</i>	1984	1983
Logs		\$ 28,349	\$ 42,326
Panelboard		21,344	23,330
Lumber		22,558	17,031
Veneer		3,965	3,410
Pulp		4,030	1,813
Other building products and supplies		10,043	11,261
		<u>\$ 90,289</u>	<u>\$ 99,171</u>
4. Investments and Other Assets	<i>(in thousands)</i>	1984	1983
Deposits—timber and other		\$ 2,908	\$ 2,937
Investment in Babine Forest Products Limited		—	4,773
Other investments, at cost		1,396	739
		<u>\$ 4,304</u>	<u>\$ 8,449</u>
5. Timber and Roads	<i>(in thousands)</i>	1984	1983
Timber holdings			
Cost		\$ 10,556	\$ 10,545
Accumulated depletion		7,232	6,728
		<u>\$ 3,324</u>	<u>\$ 3,817</u>
Logging roads			
Cost		\$ 38,155	\$ 41,148
Accumulated amortization		27,193	28,488
		<u>10,962</u>	<u>12,660</u>
Company's share of roads of joint ventures			
Cost		2,193	979
Accumulated amortization		794	357
		<u>1,399</u>	<u>622</u>
		<u>\$ 12,361</u>	<u>\$13,282</u>

6. Property

and Equipment

(in thousands)

	1984			1983
	Cost	Accumulated Depreciation	Net	Net
Land.....	\$ 5,488	\$ —	\$ 5,488	\$ 5,514
Buildings.....	50,808	22,824	27,984	21,513
Machinery and equipment.....	136,775	71,753	65,022	51,824
Logging equipment.....	17,197	12,515	4,682	5,571
Construction in progress.....	437	—	437	11,326
Company's share of property and equipment of joint ventures	72,916	36,065	36,851	30,932
	<u>\$283,621</u>	<u>\$143,157</u>	<u>\$140,464</u>	<u>\$126,680</u>

7. Deferred Charges

(in thousands)

	1984			1983
	Cost	Accumulated Amortization	Net	Net
Financing expenses.....	\$ 1,042	\$ 896	\$ 146	\$ 188
Interest.....	5,572	2,533	3,039	2,983
Coal properties development costs.....	4,342	—	4,342	3,912
Preproduction and start-up costs.....	9,418	3,981	5,437	4,144
	<u>\$ 20,374</u>	<u>\$ 7,410</u>	<u>\$ 12,964</u>	<u>\$ 11,227</u>

8. Long-Term Debt

(in thousands)

	1984	1983
6 ⁷ / ₈ % First Mortgage and Collateral Trust Bonds Series B, due September 30, 1984...	\$ —	\$ 1,480
9 ³ / ₄ % First Mortgage and Collateral Trust Bonds Series C, due September 30, 1991...	12,675	14,325
Bank Credit Agreements.....	69,000	76,000
Other.....	408	914
	<u>82,083</u>	<u>92,719</u>
Less current instalments.....	13,797	10,232
	<u>\$ 68,286</u>	<u>\$ 82,487</u>

The principal payments required in each of the next five years are:

1985—\$13,797,000	1988—\$13,660,000
1986—\$13,822,000	1989—\$13,650,000
1987—\$13,729,000	

The bonds are secured equally and rateably. Under the terms of the Trust Deed securing these bonds, the Company has pledged substantially all of its assets by way of fixed or floating charges and is prohibited from paying dividends (other than stock dividends) or any other distribution on any class of its shares except as permitted under the Trust Deed. At December 31, 1984, the maximum amount permitted is \$44,584,000.

The Bank Credit Agreements consist of separate long-term financing arrangements under which funds may be borrowed in U.S. or Canadian dollars at prevailing market interest rates. Principal balances are repayable by instalments through to December 31, 1991.

9. Salaried Pension Plans

Salaried pension plans cover substantially all salaried employees over 25 years of age and employed by the Company for more than one year. The latest actuarial valuation, dated December 31, 1983, indicated a surplus in one of the plans. As a result no contributions were made to that plan and the total pension cost in 1984 was \$143,000 (1983—\$1,628,000).

The salaried pension plans of joint ventures were also in surplus positions and there was no expense recorded in 1984 (1983—\$136,000).

10. Long-Term Lease Commitments

The Company is committed to pay an aggregate amount of \$4,697,000 under long-term, non-cancellable operating leases having a term exceeding one year. The maximum lease term is 30 years and the latest expiry date is 2011.

Lease payments required in each of the next five years are:

1985—\$996,000	1988—\$737,000
1986—\$922,000	1989—\$502,000
1987—\$845,000	

The Company's share of lease commitments of joint ventures is \$2,435,000 in aggregate and as follows in the next five years:

1985—\$310,000	1988—\$316,000
1986—\$324,000	1989—\$301,000
1987—\$317,000	

11. Contingency

Under a former agreement with Luscar Limited (Luscar) to form a joint venture to develop the Quinsam coal property the Company is contingently liable to reimburse Luscar for an amount of approximately \$2,000,000. The liability will be payable if the Company, or any associated company, commences construction of a coal mine on or sells any part of the coal property which was included in the agreement, before September 1985.

If the proposed development of the Quinsam coal property with Brinco Limited proceeds, this contingent liability will become a liability of the new venture.

12. Share Capital

A. AUTHORIZED AND OUTSTANDING

During 1984 the Common and Ordinary Shares were split on a two-for-one basis. All prior year information has been restated to reflect this change.

Two classes of previously authorized but unissued Preference Shares were cancelled during the year.

<i>(dollars in thousands)</i>	Authorized	Outstanding December 31, 1984		Outstanding December 31, 1983	
		No. of Shares	No. of Shares	Amount	No. of Shares
5¼% Cumulative Redeemable Preference Shares, Series A with a par value of \$20 each (Note 13)	275,000	25,000	\$ 500	25,000	\$ 500
Series B Preference Shares with a par value of \$20 each	225,000	—	—	—	—
Common Shares without nominal or par value	4,000,000	2,645,594	14,337	2,645,594	14,337
Ordinary Shares without nominal or par value	8,000,000	7,160,582	32,205	7,160,582	32,205
Outstanding at end of year			<u>\$ 47,042</u>		<u>\$ 47,042</u>

All the outstanding Ordinary Shares are held by Champion International Corporation.

B. SPECIAL PROVISIONS FOR 5¼% CUMULATIVE REDEEMABLE PREFERENCE SHARES, SERIES A

The redemption price is \$20 per share plus unpaid dividends accumulated to the date of redemption, plus a premium on the sum of \$20 of 2.25% if redeemed on or before March 15, 1986 and 1.25% if redeemed thereafter.

C. OPTIONS TO PURCHASE COMMON SHARES

Under the Company's Stock Option Plan, options on up to 54,000 Common Shares may be granted to officers and employees. At December 31, 1984 there are no options outstanding.

13. Dividends

A. DIVIDENDS DECLARED

	1984		1983	
	Amount Per Share	Amount (in thousands)	Amount Per Share	Amount (in thousands)
5¼% Cumulative Redeemable Preference Shares, Series A	\$1.05	\$ 26	\$1.05	\$ 26
Common Shares.....	0.50	1,323	0.25	663
Ordinary Shares	0.50	3,580	0.25	1,790
		<u>\$4,929</u>		<u>\$2,479</u>

B. Certain limitations are imposed on the payment of dividends on any class of shares by the Trust Deed securing the Series C Bonds (Note 8) and by the rights and restrictions relating to the 25,000 5¼% Cumulative Redeemable Preference Shares, Series A (Note 12), contained in the Articles of Association of the Company.

C. Under the terms of issue of the Ordinary and Common Shares, dividends per share paid on the Ordinary Shares may not exceed dividends per share paid on the Common Shares from the date of issue. Where dividends paid on Ordinary Shares are less than those paid on Common Shares, additional dividends may be paid to the holders of Ordinary Shares up to an amount equal to the total dividends paid on each Common Share. To December 31, 1984, equal dividends per share have been declared on the Common and Ordinary Shares.

14. Depreciation, Depletion and Amortization

The following amounts are included in costs and expenses.

	(in thousands)	1984	1983
Depreciation.....		\$ 15,136	\$ 13,871
Depletion		504	487
Amortization of logging roads		4,015	3,991
Amortization of deferred financing expenses and interest costs		342	347
Amortization of other deferred costs		1,334	1,412
		<u>\$ 21,331</u>	<u>\$ 20,108</u>

15. Interest Expense

(in thousands)

	1984	1983
Interest expense—long-term debt.....	\$ 10,001	\$ 9,820
— current borrowings.....	1,977	1,131
Interest income	(386)	(1,771)
Net	<u>\$ 11,592</u>	<u>\$ 9,180</u>

16. Other Income

Other income includes the Company's equity in the net income of partly-owned companies, sales commissions, management fees, and the net gains arising from fluctuations in the exchange rate for foreign currencies between the dates of transactions and settlements.

17. Income Taxes

The income tax provision (recovery) is made up of the following components:

<i>(in thousands)</i>	1984	1983
Income tax provision (recovery) based on combined Canadian federal and provincial income tax rates, net of manufacturing and processing deduction:		
Rate	46.1%	47.9%
Amount	\$ (5,743)	\$ 6,360
Change in tax provision (recovery) due to:		
Inventory allowance	(1,374)	(1,251)
Benefit of investment tax credits	(1,268)	(424)
Other	(319)	(968)
Income tax provision (recovery)	\$ (8,704)	\$ 3,717

In 1984 the rate of recovery is based on the effective average rate of accumulation of deferred income taxes.

18. Segmented Information

A. INDUSTRY SEGMENTATION

The Company has substantially all its operations in the forest products industry and is vertically integrated therein. Its revenue is generated from the sale of lumber, plywood, pulp, logs and other wood products manufactured by the Company and from the sale of other building products and supplies which are purchased for resale.

B. GEOGRAPHIC SEGMENTATION

All of the Company's operations, assets and employees are located in Canada.

C. EXPORT SALES

A substantial portion of the Company's Net sales are to customers in foreign countries:

Sales by Country	<i>(in thousands)</i>		1984		1983	
United States of America	\$171,847	30.0%	\$184,209	31.4%		
Other foreign countries	74,692	13.1%	75,788	12.9%		
Total export sales	246,539	43.1%	259,997	44.3%		
Canada	325,809	56.9%	326,156	55.7%		
Net sales	\$572,348	100.0%	\$586,153	100.0%		

Substantially all of the Company's sales to foreign countries other than the U.S.A. are handled by sales agents who assume all credit risks.

19. Joint Venture

Before May 30, 1984 Babine Forest Products Limited (Babine) owned and operated a sawmill at Burns Lake, B.C. The shareholders of the company were Burns Lake Native Development Corporation (BLNDC), Eurocan Pulp & Paper Co. Ltd. (Eurocan), Westar Timber Ltd. (Westar) and Weldwood of Canada Limited (Weldwood). On the above date Babine sold a proportionate share of its net assets to Eurocan and Westar in return for their Babine common shares. This resulted in Babine becoming an 84.6% owned subsidiary of Weldwood. From May 30, 1984 the accounts of Babine, previously accounted for on the equity method, were consolidated in these financial statements.

Eurocan, Westar and Babine have entered into a joint venture agreement to operate the sawmill. Weldwood continues to act as the manager of the operation and to be responsible for marketing the mill's lumber production on behalf of the joint venturers.

20. Subsidiary and Affiliated Companies

A. (i) SUBSIDIARY COMPANIES—ACTIVE

Annplyco Properties, Limited
Babine Forest Products Limited (84.6%)
D. A. Clarke Veneers Limited
Weldwood of Canada Sales Limited
Weldwood Lumber Sales Limited
Weldwood Transportation Limited

(ii) SUBSIDIARY COMPANIES—INACTIVE

Canadian Collieries Timber Air Services Ltd.
Henry Johnson Timber Co. Ltd.
Houston Forest Products Ltd. (in voluntary liquidation)
Kirk Coal (Victoria) Co. Ltd.
Ladysmith Developments Limited
M & W Logging Co. Ltd.
Parkhome Developments Limited
W & W Holdings Limited
Western Fuel Corporation of Canada Limited

B. PARTLY-OWNED COMPANIES

Quinsam Coal Ltd. (50%)
Cariboo Pulp & Paper Company Limited (50%)—inactive
Babine Forest Products (Trustee) Limited (52% by Babine Forest Products Limited)

C. JOINT VENTURES

Babine Forest Products Company (52% by Babine Forest Products Limited)
Cariboo Pulp & Paper Company (50%)
Houston Forest Products Company (50%)

21. Comparative Figures

Certain comparative figures have been reclassified to conform with the 1984 presentation.

Auditors' Report

To the shareholders of Weldwood of Canada Limited:

We have examined the consolidated balance sheet of WELDWOOD OF CANADA LIMITED (a British Columbia company) as of December 31, 1984 and 1983, and the consolidated statements of income and retained earnings and changes in cash position for the years 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, the accompanying consolidated financial statements present fairly the financial position of the company as of December 31, 1984 and 1983, and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

Vancouver, Canada
January 13, 1985

ARTHUR ANDERSEN & Co.
Chartered Accountants

Ten Year Review

(Years Ended December 31)

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Earnings (\$ Millions)										
Net sales	572.3	586.2	415.2	481.1	467.9	528.4	474.4	386.7	331.8	261.1
Cost of sales	524.2	519.4	389.9	417.7	401.6	430.1	387.2	324.3	276.5	221.6
Selling, shipping and administrative expenses	53.1	49.9	48.9	51.5	44.2	43.9	38.7	36.6	33.1	26.9
Interest expense, net	11.6	9.2	13.5	14.2	7.5	5.8	5.4	5.4	5.1	4.9
Other	(4.1)	(5.6)	(3.7)	(4.1)	(9.0)	(8.5)	(8.0)	(4.0)	(1.7)	(2.5)
Income taxes (recovery)	(8.7)	3.7	(17.5)	(3.0)	6.8	21.7	20.5	11.3	9.4	5.0
Extraordinary item	1.5	—	—	—	—	—	(.5)	(1.1)	—	—
Net income (loss)	(5.3)	9.6	(15.9)	4.8	16.8	35.4	31.1	14.2	9.4	5.2
Per Common and Ordinary Share										
Net earnings (loss)										
—before extraordinary item	(.39)	.97	(1.63)	.49	1.71	3.59	3.11	1.31	.92	.47
—after extraordinary item	(.54)	.97	(1.63)	.49	1.71	3.59	3.16	1.42	.92	.47
Dividends—common	0.50	0.25	0.125	0.50	0.50	0.44	0.380	0.285	0.27	0.25
—ordinary	0.50	0.25	0.125	0.50	0.50	0.44	0.665	—	0.27	0.25
Shareholders' equity	15.28	16.32	15.60	17.36	17.38	16.19	13.32	10.77	9.43	8.58
Shareholders at year end	1,103	1,267	1,514	1,620	1,799	1,907	2,196	2,471	2,571	2,708
Common share price range (\$/share)										
High	19¼	18¼	13¼	16¼	13¼	13½	11¼	6⅝	6¾	5⅞
Low	12¼	13¼	8½	9¾	8¾	9⅞	5¼	4⅞	5	3¾
Financial Position (\$ Millions)										
Current assets	168.7	187.3	163.8	168.9	163.9	170.7	141.9	116.3	98.1	87.8
Current liabilities	98.5	76.1	58.9	88.4	107.2	113.7	85.4	66.9	49.8	41.3
Working capital	70.2	111.2	104.9	80.5	56.7	57.0	56.5	49.4	48.3	46.5
Investments and other assets	4.3	8.4	9.4	9.1	17.9	18.2	14.4	5.5	4.1	3.9
Timber and roads	15.7	17.1	18.5	20.2	22.4	21.6	18.5	18.3	17.4	18.4
Property and equipment, net	140.4	126.7	128.9	140.7	131.1	120.3	97.7	88.9	79.9	81.9
Deferred charges	13.0	11.2	12.4	13.4	9.3	3.3	3.4	5.6	6.7	7.6
	243.6	274.6	274.1	263.9	237.4	220.4	190.5	167.7	156.4	158.3
Long-term debt	68.3	82.5	93.0	49.1	21.8	24.6	27.2	31.6	34.8	40.0
Deferred income taxes	24.1	31.7	27.7	44.4	45.0	37.2	29.6	27.5	26.1	26.1
Minority interest	0.9	—	—	—	—	—	—	—	—	—
Share capital	47.0	47.0	47.0	46.9	46.9	46.8	50.0	49.9	49.9	54.8
Contributed surplus	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	4.6
Retained earnings	96.8	106.9	99.9	117.0	117.2	105.3	77.2	52.2	39.1	32.8
	243.6	274.6	274.1	263.9	237.4	220.4	190.5	167.7	156.4	158.3
Other Statistics										
Ratio of current assets to current liabilities	1.71	2.46	2.78	1.91	1.53	1.50	1.66	1.76	1.97	2.16
Net debt to total capitalization (%)	39.0	32.3	35.8	31.7	27.6	30.7	26.7	32.9	32.0	33.4
Return on average capital employed (%)	0.9	5.3	(3.0)	3.9	7.3	15.6	16.2	8.6	6.8	4.6
Return on shareholders' equity at beginning of year (%)	(2.4)	6.2	(9.4)	2.8	10.6	27.0	29.0	13.9	10.7	5.6
Employees at year end (adjusted for seasonal and short-term curtailments)	4,400	4,700	4,200	4,900	5,600	5,500	5,600	5,300	4,800	4,500
Production Statistics										
Softwood plywood and Waferweld (Millions sq. ft. ¾")	665	728	510	603	594	692	724	637	586	507
Hardwood and specialty plywood (Millions sq. ft. ¾")	62	59	51	55	52	55	27	43	36	92
Softwood lumber (Millions Fbm)										
Company	445	496	374	355	388	450	477	469	365	281
Share of affiliates	193	172	147	127	148	126	80	51	47	18
Hardwood lumber (Millions Fbm)	28	30	27	29	28	33	33	32	29	25
Pulp (Thousands short air dry tons)	109	141	133	118	132	132	129	129	129	88

Board of Directors

John A. Ball Senior Vice-President, Champion International Corporation, Stamford, Connecticut	Richard W. Lowry Executive Vice-President, Champion International Corporation, Stamford, Connecticut
*John Bene International Consultant, Vancouver	*John O. McCutcheon Financial Consultant, Calgary
John Bruk Chairman, Asia Pacific Foundation of Canada, Vancouver	Bryce P. Page Executive Vice-President, Marketing, Weldwood of Canada Limited, Vancouver
*Thomas A. Buell Chairman of the Board, President and Chief Executive Officer, Weldwood of Canada Limited, Vancouver	Colin B. Warner Vice-President, Finance, Weldwood of Canada Limited, Vancouver
Pit Desjardins Consultant, Vancouver	*H. Richard Whittall Vice-Chairman and Director, Richardson Greenshields of Canada Limited, Vancouver
*Paul Gourdeau Chairman of the Board, Logistec Corporation, Quebec City	

*Audit Committee Members.

Officers

Thomas A. Buell Chairman of the Board, President and Chief Executive Officer	W. Dick Sainsbury Vice-President, Coastal and Hardwood Operations
Bryce P. Page Executive Vice-President, Marketing	C. Robert Solloway Vice-President, General Counsel and Secretary
George R. Richards Vice-President and General Manager, Interior Operations	Colin B. Warner Vice-President, Finance
Mark R. Rushton Treasurer	Kent T. Williamson Comptroller

Executive Offices 1055 West Hastings Street, Vancouver, B.C.	Seaboard Lumber Sales Company Limited Vancouver Agents for waterborne sales of lumber and panelboard.
Postal Address P.O. Box 2179, Vancouver, B.C. V6B 3V8	Price & Pierce International Ltd. London, New York, Vancouver Agents for the sale of pulp.

Distribution Centres

Eastern Division Dartmouth, N.S. Saint John, N.B. Quebec, Que. Three Rivers, Que. Sherbrooke, Que. Montreal, Que.	Central Division (Ontario) Ottawa Kingston Toronto London Sudbury Thunder Bay	Western Division Winnipeg, Man. Regina, Sask. Saskatoon, Sask. Calgary, Alta. Edmonton, Alta. Grande Prairie, Alta. Kelowna, B.C. Prince George, B.C. Vancouver, B.C.
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Products, Operations, Effective Capacities and Production

	Effective Capacity	1984 Production
Million Square Feet 3/8" Basis		
Softwood Plywood		
Kent Avenue, Vancouver, B.C.	190	148
Quesnel, B.C.	160	134
Merrill & Wagner, Williams Lake, B.C.	157	130
Waferboard		
Longlac, Ont.	136	131
Slave Lake, Alta.	129	90
Specialty Plywood		
T-Ply, Surrey, B.C.	40	31
Longlac, Ont.	35	31
Million Square Feet		
Veneers		
Quesnel, B.C. (3/8" Basis)	77	62
Searchmont, Ont.	80	58
South River, Ont.	40	36
Million Board Feet		
Lumber		
Empire Lumber, Squamish, B.C.	150	51
Flavelle Cedar, Port Moody, B.C.	85	82
†Timberland Surrey, B.C.	70	73
100 Mile House, B.C.	154	52
Westree, Quesnel, B.C.	90	79
**Babine Forest Products, Burns Lake, B.C.	180	182
Merrill & Wagner, Williams Lake, B.C.	95	79
**Houston Forest Products Houston, B.C.	195	198
Huntsville, Ont.	21	18
Searchmont, Ont.	15	10
Thousands Short Air Dry Tons		
Pulp		
**Cariboo Pulp & Paper, Quesnel, B.C.	280	218

**Partly owned

†To close June 1, 1985.

