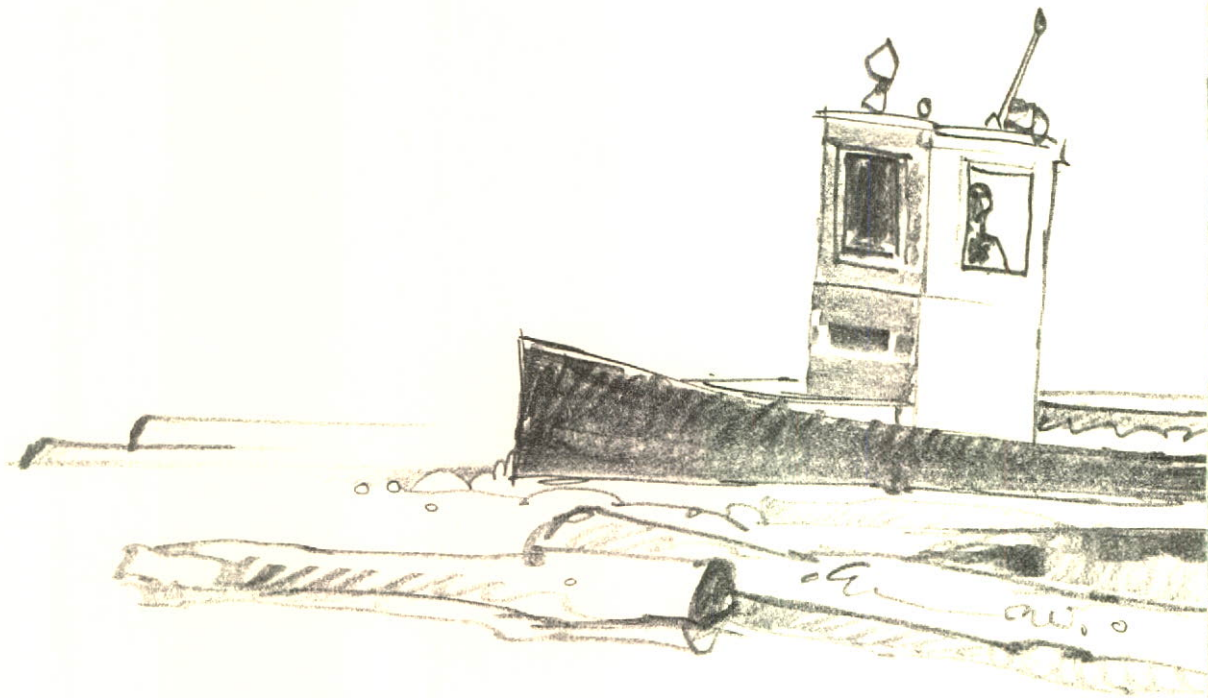
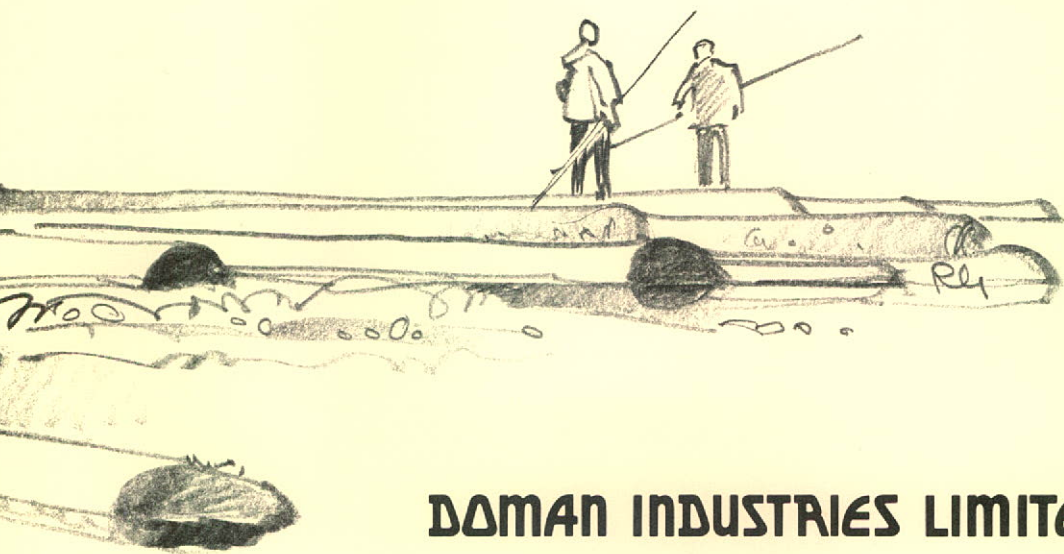


DOMAN INDUSTRIES LIMITED

Annual Report 1982

MCGILL UNIVERSITY
1983





DOMAN INDUSTRIES LIMITED

ANNUAL REPORT 1982

DOMAN INDUSTRIES LIMITED

(Incorporated under the laws of British Columbia)

Board of Directors

H. S. Doman, President and Chairman of the Board,
Doman Industries, Duncan, B.C.
I. C. Danvers, Executive, Phoenix, Arizona.
J. C. Davie, Barrister & Solicitor, Williams, Davie & Company,
Duncan, B.C.
J. R. Abercrombie, C.A., Vice President, Doman Industries,
Duncan, B.C.
J. R. Frumento, Vice President, Doman Industries, Duncan, B.C.
C. A. Johnson, President, West Fraser Timber Co. Ltd.,
Vancouver, B.C.

Audit Committee

C. A. Johnson, Chairman
I. C. Danvers
J. R. Abercrombie

Officers

H. S. Doman, President
J. C. Davie, Secretary
J. R. Abercrombie, Treasurer, Vice President Finance and
Administration
J. R. Frumento, Vice President Timber and Manufacturing

Head Office

435 Trunk Road
Duncan, B.C.
V9L 2P8
(telephone 604-748-3711)

Transfer Agent and Registrar for Common Shares

Royal Trust Company, Vancouver, B.C. and Toronto, Ontario

Stock Exchanges

Common Shares — Toronto and Vancouver

Transfer Agent and Registrar for 10¼% Series A Debentures

The Canada Trust Company
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

Bankers

The Royal Bank of Canada

Solicitors

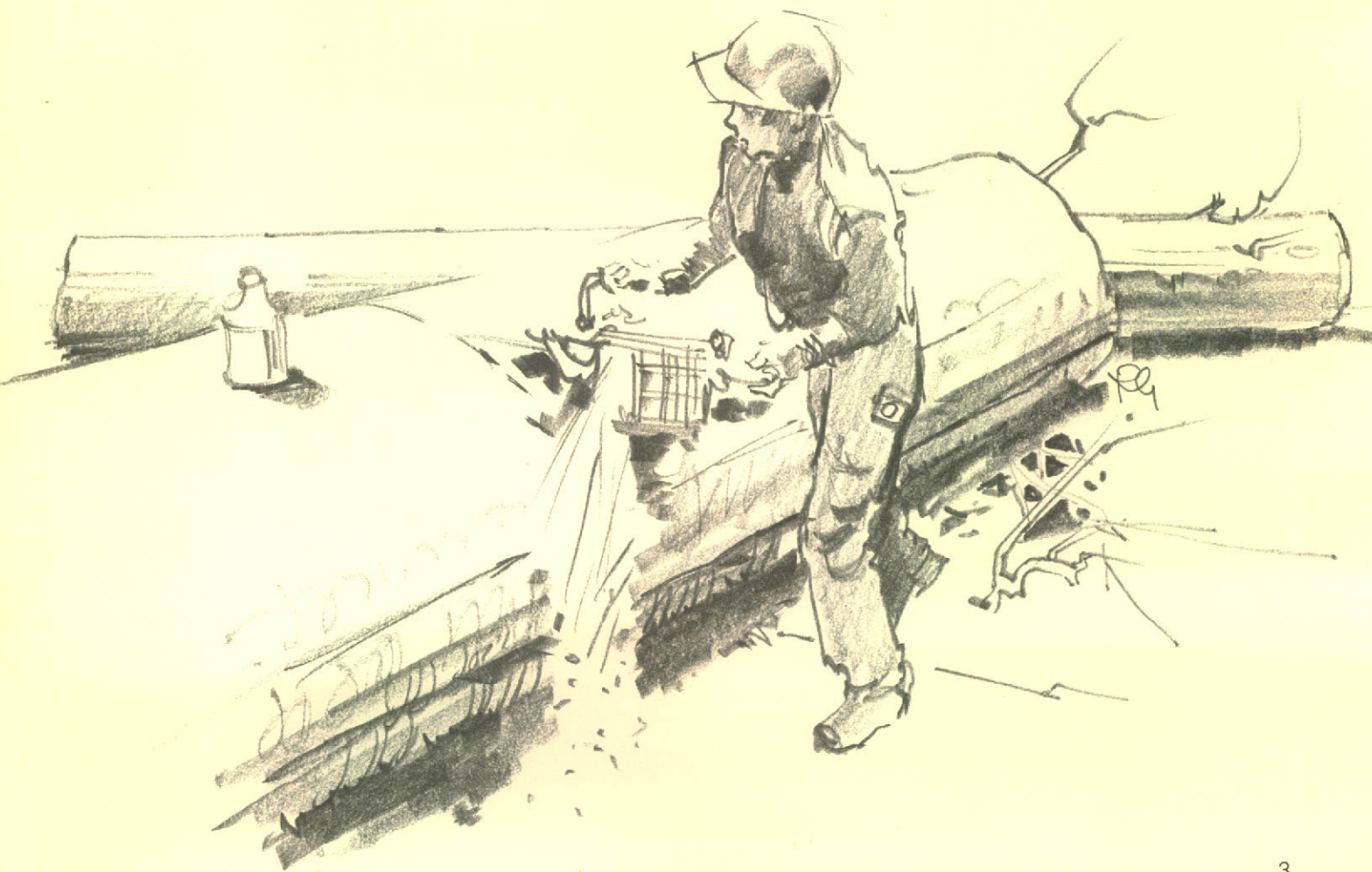
Williams, Davie & Company, Duncan, B.C.

Annual Meeting

The Annual General Meeting of the Shareholders of the Company will be held in Duncan, B.C. at the Village Green Inn on Wednesday, March 23, 1983 at 2:00 p.m.

Index

President's Report	4
About the Company	6
Financial Summary 1972 to 1982	10
Financial Statements	12
Quarterly Operating Results	19
Historical Notes.....	20



President's Report to the Shareholders

We enter 1983 on an optimistic note leaving behind a three year recession. This recession was precipitated in the fall of 1979 when the U.S. Federal Reserve began its tight money policy. The same agency is presently expanding the U.S. economy by providing money and credit. The U.S. inflation rate is now under control and interest rates which have fallen dramatically since mid 1982, continue to move down. I emphasize the U.S. situation because it is our main market, and it will be the bellwether market for world wide economic recovery. There is reason for optimism, and 1983 could be one of the good years for the lumber business. Certainly the mid eighties will be among the best years we have seen in our business.

1982 in review

In 1982 the global recession created a disastrous year for us. There was neither consumer confidence nor business confidence, and interest rates were punitively high for most of the year. In the North American market the lack of buyers for new housing discouraged building activity, lumber sales were difficult to make and prices were unsatisfactory. Other world markets were similarly depressed. Our sales in 1982 were \$130.7 million, up from \$115.8 million in 1981. This increase in sales is attributable to the operations of the Nanaimo sawmill which has been performing well, and from which we can continue to expect increasingly good results. Our 1982 consolidated loss from operations was \$23 million, after expensing interest of \$24.6 million. In the previous year the consolidated loss from operations was \$11.9 million after interest expense of \$16.5 million. During 1982 we operated at 58% of total sawmill capacity because of market conditions. Logging was curtailed, and business was down in all divisions. Fortunately we had no capital projects underway, and our costs were well controlled. The only exception was interest expense. In mid 1982 the Canadian prime rate on which most of our debt is based stood at 18¼%, and U.S. housing starts on which we depend looked to be less than 1 million units for the year. At present the prime rate is 11½% and U.S. housing starts in 1983 should range between 1.3 and 1.4 million, two positive and dramatic reversals which are benefiting the Company in 1983.



Western Forest Products Limited

Throughout 1981 and 1982 a number of steps were taken to adjust the operations of Western Forest Products Limited (Western). As a result, this company is out of the sawmill business, and is concentrating all of its efforts on logging and on the production of kraft pulp and sulphite dissolving pulp. It has been burdened with a large floating rate interest load and it has had to bear the substantial severance and extraordinary costs of trimming its operations. In 1982 the markets for pulp have been weak, as a result of which the two pulp mills of Western ran on an intermittent basis. This type of operating schedule increases costs far beyond normal levels. Western is now benefiting from lower interest rates. When the pulp business comes out of its present downturn the company will be assisted in two ways; its costs will decrease with the pulp mills operating on a regular basis, and its selling prices will improve. Western's timber is its most valuable asset and the company is an important supplier of logs to Doman Industries.

Employees

Labour relations were good in 1982. There was a great deal of extra effort put out by our employees at all levels and in all divisions. These willing efforts together with the positive attitude evidenced by every employee with whom I came in contact in the year are very

encouraging. I would like to thank all of our employees for a job well done. The Company currently employs 681 people on a full time basis, down from 780 people at this time last year. In 1982 the Company paid salaries, wages and employment benefits of \$27,337,000 (1981 \$21,000,000). In June 1983 a new two year labour agreement will be negotiated by Forest Industrial Relations for the B.C. Forest Industry.

Board of directors

In 1982 Mr. Chester Johnson was appointed to our Board of Directors. Mr. Johnson is a director of a number of Canadian companies and is President of West Fraser Timber Co. Ltd., a private company with major forest products manufacturing facilities in the interior of British Columbia. Mr. Johnson was formerly the President and Chief Executive Officer of Whonnock Industries Limited. He is an outstanding Board member, and has contributed greatly to the well being of the Company with his advice and counsel during the difficult business conditions of 1982.

Stock dividend

Our first cash dividend was paid in January 1972 and from that point regular quarterly dividends in increasing amounts were paid through to January 1982. While quarterly dividends were omitted for the balance of 1982, a 2% stock dividend (1 share for each 50 shares held) was distributed to shareholders on January 3, 1983.

Financing

In December 1982 the Company converted \$40 million of its short term debt with the Royal Bank of Canada into \$40 million in redeemable preferred shares issued from treasury to the bank. An additional \$8.7 million in short term debt was converted to a capital loan with the bank. The bank was paid a financing fee and used the proceeds to subscribe to 748,179 common shares, which subject to authorization at the Annual General Meeting of Shareholders in 1983, will be limited voting Class B common shares.

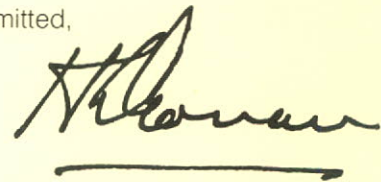
Outlook

In summary, the outlook for 1983 is distinctly positive. While it is always hard to forecast the point where recession ends and the benefits of greater business activity will be realized, the negative conditions of the past three years are reversing and the recovery trend has started and is underway. The fundamentals are now *in place* in North America for a recovery in housing. In the U.S. the inflation rate is under control, we expect conventional mortgage rates will settle around 12% and the prime rate should approach 10% in 1983. While interest rates may rise again by 1 or 2% this will probably not take place until the recovery is perceived by the U.S. Federal Reserve to be well underway. Housing starts in the U.S. are expected to run between 1.3 to 1.4 million in 1983 and around 1.6 million in 1984. The demographics indicate an extraordinarily strong demand exists for

housing in the U.S. The threat of a U.S. countervailing duty should be resolved one way or the other in March and I will have more information on this at our Annual Meeting. On the cost side, we are experiencing much lower interest rates and the lower inflation rate is helping us to control general costs. Productivity is high and we have been able to lower break even points.

The Company is lean and efficient. Its balance sheet and working capital have been restored to a healthy position at December 31, 1982. Our three main sawmills are at the forefront of present technology, particularly as this applies to the processing of all types of logs, including low grade logs which can be difficult to handle. These mills have a high lineal output and are modern and up to date in every respect. We have invested heavily in the Forest Industry in B.C. All of our assets, including modern plants, extensive logging facilities and highly trained people with the right attitude, are in place and represent our future. These assets will achieve great results in the coming cyclical upturn in the lumber business. While the 1980's have been slow in getting started the future for the lumber business over the balance of this decade is excellent.

Respectfully submitted,



H. S. Doman
President and Chairman of the Board

DUNCAN, B.C. February, 1983

About the Company

The business of Doman Industries Limited includes logging, sawmilling, lumber remanufacturing, truck transportation, domestic marketing of building supplies and lumber exporting. The Company is vertically integrated in the lumber industry. Through its one-third interest in Western Forest Products Limited, Doman Industries is also involved in the production of kraft pulp and sulphite dissolving pulp.

Sales according to the main categories of business over the past five years have been:

	1982	1981	1980	1979	1978
	(in millions of dollars)				
Logging, manufacturing and exporting	111	87	83	90	94
Domestic building supplies	12	20	19	15	14
Truck transportation	8	9	9	8	7
Total	<u>131</u>	<u>116</u>	<u>111</u>	<u>113</u>	<u>115</u>

Logging

Doman Industries has four major logging divisions on the coast of British Columbia located at Jervis Inlet, Nootka Island, Rivers Inlet and Kimsquit River. These four divisions operate on Timber Supply Areas ("TSA's") which are areas of Crown land managed by the Forest Service of British Columbia. Each TSA provides the timber needs of a number of operators. The Forest Service calculates the rate of annual timber cutting which will permit the area to provide a sustained yield. Our logging operations at the above four locations are based on tenures known as Forest Licences. Under this form of tenure, we have the right to harvest a specified amount of timber, known as our allowable annual cut, and we have certain responsibilities for reforestation and fire protection. Authority to cut is conferred by the Forest Service through the issuance of cutting permits. The Company also has several small logging operations based on Timber Sale Licences which permit the logging of Crown timber on designated tracts of land within TSA's.

Log supply

The Company is able to supply two thirds of the logs required for the 580 million board feet annual rated capacity of its five sawmills from Doman logging divisions, logs contractually committed to Doman and logs acquired on a fibre exchange basis for Doman sawmill by-products. The remaining one third of the logs required are obtained on the Vancouver log market and from independent suppliers on Vancouver Island.

Sawmills

Doman Industries owns and operates four sawmills, and from December 1, 1981 has leased with an option to purchase, the New Westminster sawmill of Western Forest Products Limited. These sawmills are situated close to deep sea docks and rail lines. Three of the sawmills are located on tidewater at Nanaimo, Ladysmith and Cowichan Bay on Vancouver Island. The fourth is a dryland sawmill at Chemainus on Vancouver Island. The New Westminster sawmill is located on the Fraser River.

The Nanaimo plant includes a large log sawmill and a lumber remanufacturing plant. This sawmill has an annual lumber production capacity of 200 million board feet. The remanufacturing plant is an integral part of the Nanaimo sawmill and provides the facilities to upgrade lumber without slowing down the sawmill's production flow. The remanufacturing plant is also able to process lumber and cants from other sawmills. An important feature of the Nanaimo plant is a barge load-out to handle waterborne shipments of by-products from the Company's Vancouver Island sawmills. The Cowichan Bay sawmill cuts small and medium sized logs and has an annual lumber production capacity of 145 million board feet. The Ladysmith sawmill cuts small logs and has an annual lumber production capacity of 125 million board feet. The mill at Chemainus has an annual lumber production capacity of 30 million board feet and cuts logs of all sizes. The adjacent remanufacturing plant handles both lumber from this sawmill and lumber purchased from others. The New Westminster sawmill has an annual lumber production capacity of 80 million board feet. All five sawmills have planer mills attached as an integral part of the manufacturing process.

Sawmill by-products include pulp chips, sawdust and hog fuel. Most of the Company's Vancouver Island sawmill by-products are moved by truck to two Vancouver Island pulp mills and the balance is shipped by barge from facilities at the Nanaimo sawmill. By-products of the New Westminster sawmill are shipped by barge from facilities at that mill.

Lumber production

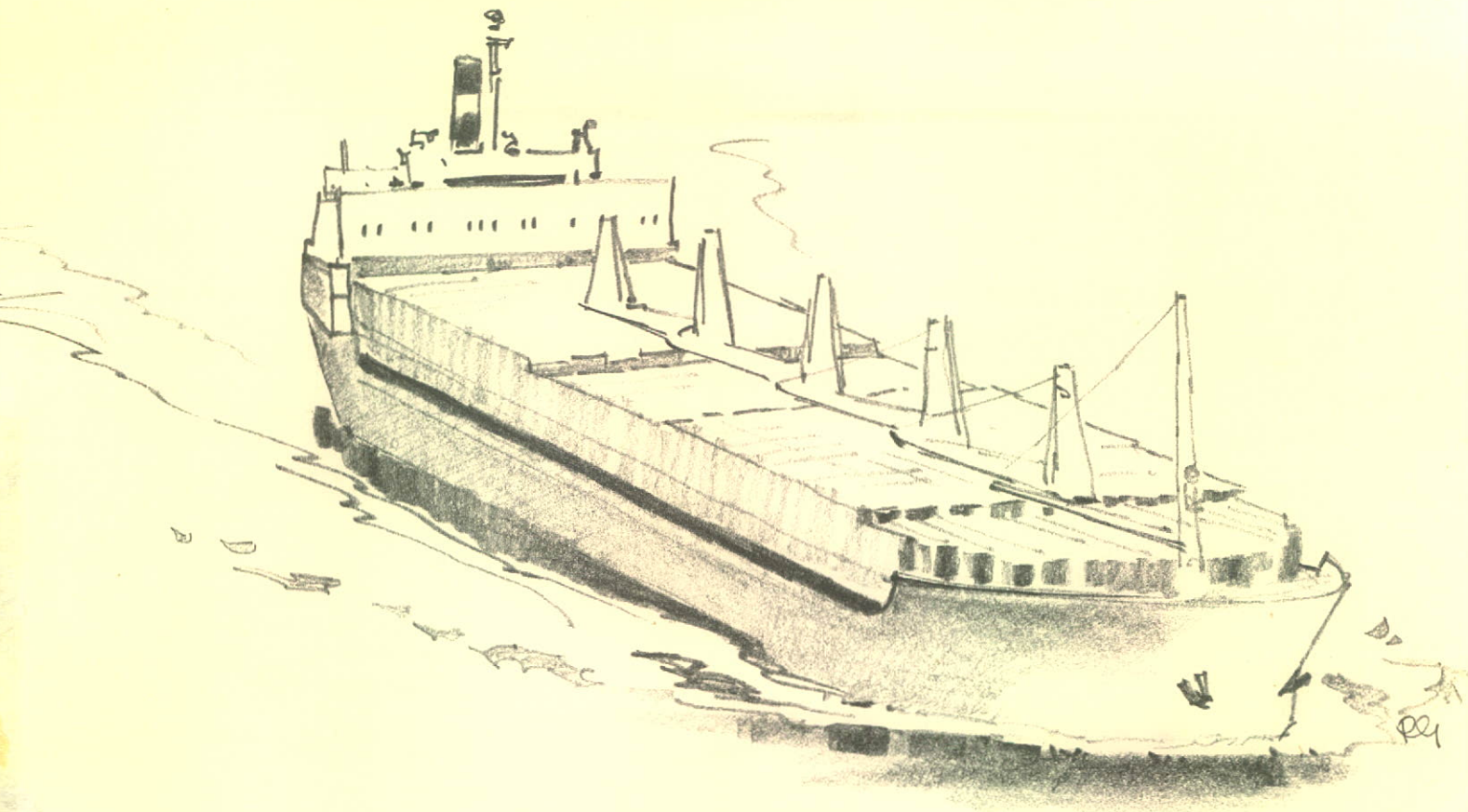
The combined lumber production capacity of the five sawmills of Doman Industries, on a three shift five day week basis, is 580 million board feet, (mfbm) annually, 1981 500 mfbm, 1980 300 mfbm. In 1982, 1981 and 1980 lumber production was curtailed because of poor market conditions.

Lumber production over the past five years (including production of a small Vancouver mill sold in 1978) has been:

	1982	1981	1980	1979	1978
	(million board feet)				
Lumber production	335	245	248	240	305

Lumber marketing

Canadian markets are serviced by truck and by rail. Doman's lumber is also sold through its five domestic building supply outlets on Vancouver Island and in the Vancouver area. U.S. markets are reached by truck, rail, barge and ship. Deliveries to offshore markets are by ship. Canadian truck and rail shipments together with lumber sales from the five building supply outlets accounted for 14% of lumber footage sold in 1982, (1981 17%). Barge shipments to the U.S. West Coast together with U.S. rail business represented 11% of lumber



footage sold in 1982 (1981 24%). Sales on the U.S. east coast, where our lumber is delivered by ship accounted for 57% of 1982 lumber footage sold, up from 51% in 1981. Offshore markets accounted for 18% of 1982 Doman lumber footage sold, up significantly from 8% in 1981. The distribution of lumber footage sold over the past five years has been:

	1982	1981	1980	1979	1978
Canada	14%	17%	17%	14%	12%
United States.....	68	75	50	61	79
Other Export	18	8	33	25	9
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Transportation

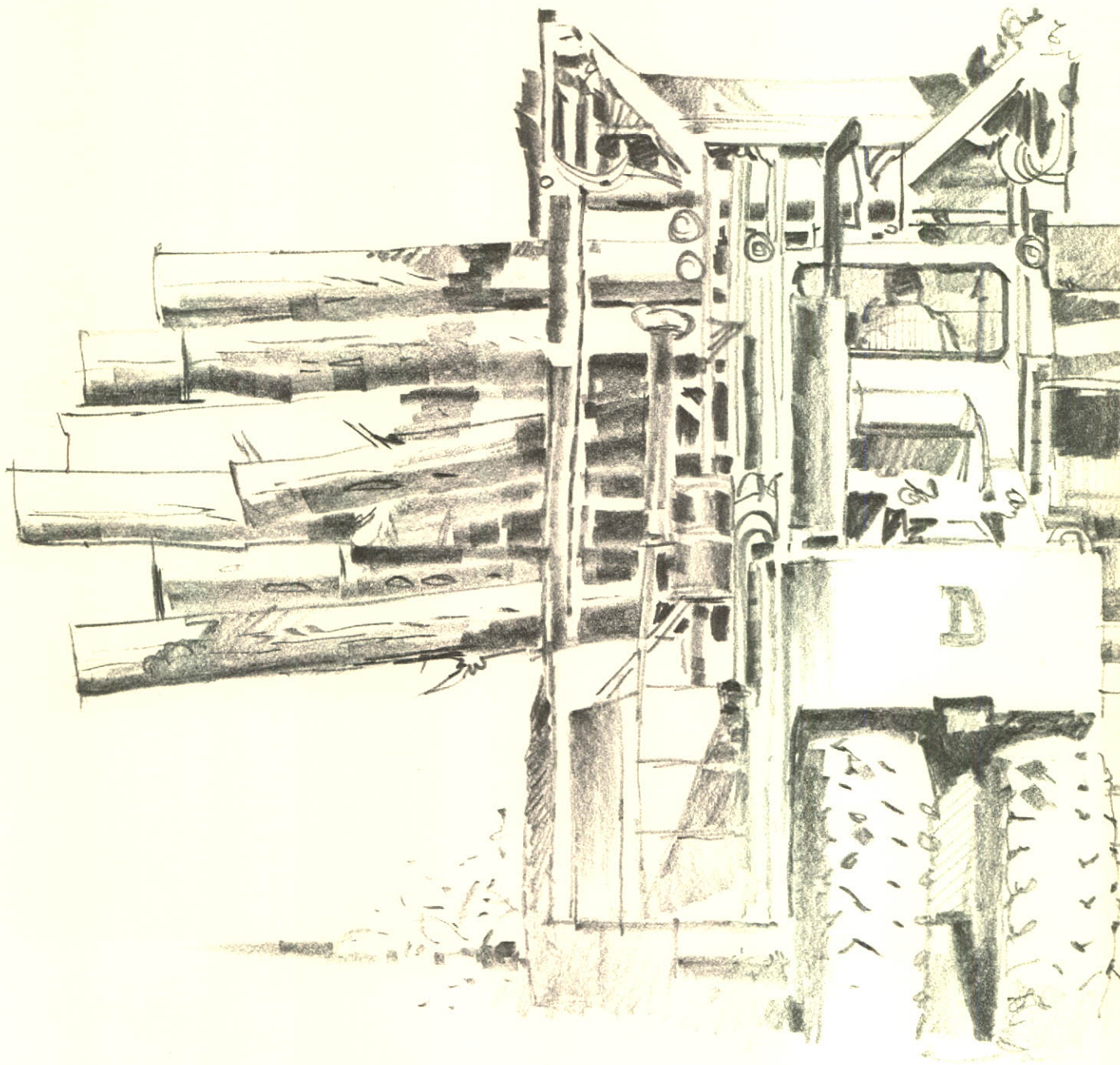
The Transportation division conducts a public freight business in British Columbia, Washington and Oregon using 70 highway diesel tractors and 180 trailers. Additional equipment is leased as required. Our business is handling trailer load lots principally for the forest industry and the construction industry. Specialized pieces of equipment for hauling pulp chips, hog fuel, sawdust, chemicals and other bulk cargoes are operated by this division. In addition to its public freight business the transportation division does the hauling for the Doman sawmills and for the Doman Building Supply Centres. Truck dispatch and repair facilities are located at Duncan on Vancouver Island and at Richmond, B.C. Annual sales of this division in 1982 were \$8 million.

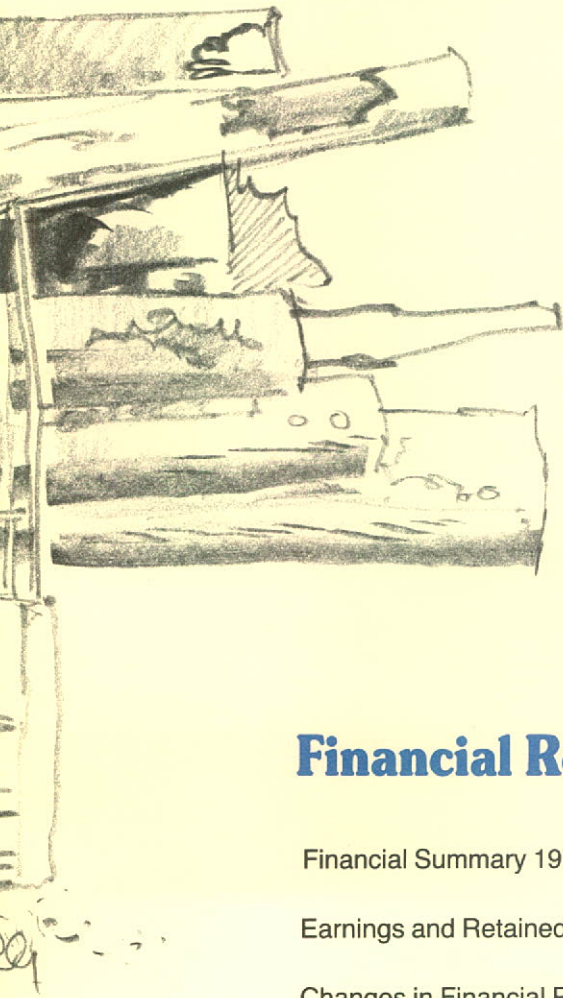
Domestic marketing of building supplies

The Company's domestic building supply yards are all located in British Columbia, with two in Victoria and one in each of Duncan, Nanaimo and Surrey. The Duncan yard includes a ready-mix concrete business. The building supply yards are supported by assembly yards at Chemainus on Vancouver Island and at Richmond, B.C. The domestic division sells lumber and a full range of building materials. Annual sales of this division in 1982 were \$12 million.

Western Forest Products Limited

Doman Industries, British Columbia Forest Products Limited and Whonnock Industries Limited each own one-third of the shares of Western Forest Products Limited, (Western). Western is a pulp and timber company and owns a kraft pulp mill at Woodfibre on Howe Sound, B.C., and a sulphite dissolving pulp mill at Port Alice on Vancouver Island, three Tree Farm Licences, fee simple lands some of which are under sustained yield management and certain old temporary timber tenures on the coast of British Columbia. Western is an important supplier of logs to Doman Industries.



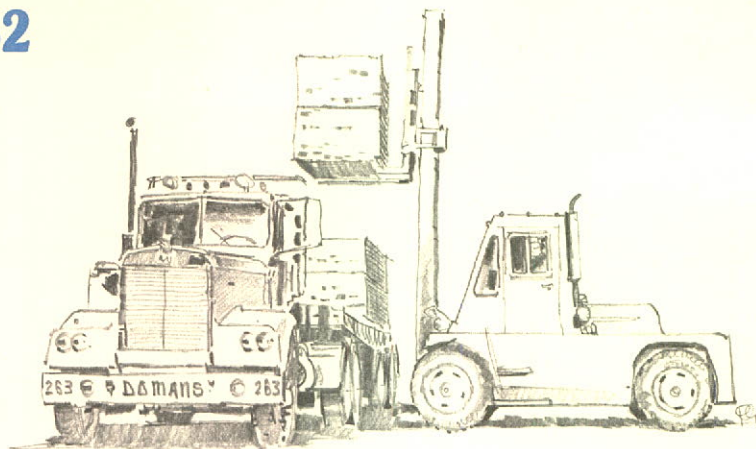


Financial Reports

Financial Summary 1972–1982	10
Earnings and Retained Earnings	12
Changes in Financial Position	13
Balance Sheet	14
Notes	16
Five Year Operating Results by Quarter	19

Financial Summary 1972-1982

(Thousands of dollars except for earnings per share which are in dollars. Beginning with 1976 figures are for the twelve months ended December 31, prior to 1976 figures are for the twelve months ended October 31.)



	1982	1981	1980	1979
EARNINGS				
Sales.....	130,729	115,793	110,565	113,178
Earnings (loss) before income taxes.....	(29,482)	(16,991)	1,861	18,085
Income taxes.....	(3,508)	(6,089)	14	7,405
Net earnings (loss).....	(25,974)	(10,902)	1,847	10,680
Earnings (loss) per common share	(3.93)	(1.65)	.28	1.62
CASH FLOW				
Operations (negative)	(15,488)	(7,694)	7,655	16,983
Preferred shares issued	40,000	—	—	—
Common shares issued.....	—	—	—	—
Class B common subscription	3,703	—	—	—
Increase (decrease) in long-term debt..	(6,901)	14,409	79,765	(738)
Disposal of fixed assets.....	130	1,020	472	125
Additions to fixed assets	2,053	7,304	28,386	18,944
Deferred costs	4,780	—	42	373
Investments and other.....	4,600	7,021	60,464	(309)
Cash dividends.....	—	1,980	2,641	2,146
Increase (decrease) in working capital	10,011	(8,570)	(3,641)	(4,784)
BALANCE SHEET				
Current assets.....	49,836	56,209	60,678	46,253
Current liabilities.....	31,471	47,855	43,754	25,688
Working capital	18,365	8,354	16,924	20,565
Fixed assets — net.....	59,006	63,507	61,541	37,631
Other assets	67,566	65,703	64,314	5,199
Long-term indebtedness.....	107,214	114,115	99,706	19,942
Deferred income taxes	(2,758)	697	7,439	7,025
Shareholders' equity	40,481	22,752	35,634	36,428
Interest of minority shareholders	—	—	—	—

1978	1977	1976	1975	1974	1973	1972
115,302	92,022	68,956	34,648	38,843	42,483	26,330
19,565	10,941	4,772	2,825	4,118	9,409	4,674
8,484	4,977	1,895	1,492	2,116	4,723	2,406
11,081	5,964	2,877	1,333	2,002	4,686	2,268
1.68	.90	.44	.20	.30	.72	.35
14,254	8,479	5,560	3,174	3,294	6,453	3,386
—	—	—	—	—	—	—
—	—	17	4	33	91	103
—	—	—	—	—	—	—
(433)	10,102	21	6,715	(343)	1,691	366
1,543	271	425	185	162	143	256
5,884	2,799	2,520	8,153	1,918	4,033	2,303
44	977	855	201	—	—	—
956	842	1,092	342	502	47	359
3,495	660	655	652	1,361	560	181
4,985	13,574	901	730	(635)	3,738	1,268
44,090	40,063	29,741	19,617	13,852	18,571	9,812
18,741	19,699	22,951	11,459	6,424	10,508	5,487
25,349	20,364	6,790	8,158	7,428	8,063	4,325
22,413	20,084	19,707	17,579	10,662	9,877	6,866
5,159	4,134	2,603	1,361	1,087	1,231	964
20,680	21,112	11,010	11,178	4,463	4,806	3,115
4,347	3,162	3,082	1,617	1,133	1,103	766
27,894	20,308	15,008	13,034	12,349	11,676	7,459
—	—	—	1,269	1,232	1,586	815

Consolidated Statement of Earnings and Retained Earnings

(thousands of dollars except for earnings per share which are in dollars)

For the years ended December 31,	1982	1981
Sales of products, merchandise and services	<u>130,729</u>	<u>115,793</u>
Costs and expenses		
Cost of sales	116,969	101,261
Selling and administration	5,721	5,375
Depreciation	4,165	2,474
Depletion of timber and amortization of roads.....	2,259	2,076
Interest.....	<u>24,650</u>	<u>16,471</u>
	<u>153,764</u>	<u>127,657</u>
Loss from operations.....	23,035	11,864
Equity in losses of joint venture companies	<u>6,447</u>	<u>5,127</u>
Loss before income taxes.....	<u>29,482</u>	<u>16,991</u>
Income taxes		
Current.....	(2)	653
Deferred	<u>(3,506)</u>	<u>(6,742)</u>
	<u>(3,508)</u>	<u>(6,089)</u>
LOSS FOR THE YEAR	<u>25,974</u>	<u>10,902</u>
Loss per share	3.93	1.65
RETAINED EARNINGS BEGINNING OF YEAR	20,911	33,793
Loss for the year.....	25,974	10,902
Deduct		
Cash dividends	—	1,980
Stock dividend	<u>396</u>	<u>—</u>
RETAINED EARNINGS (DEFICIT) END OF YEAR.....	<u>(5,459)</u>	<u>20,911</u>

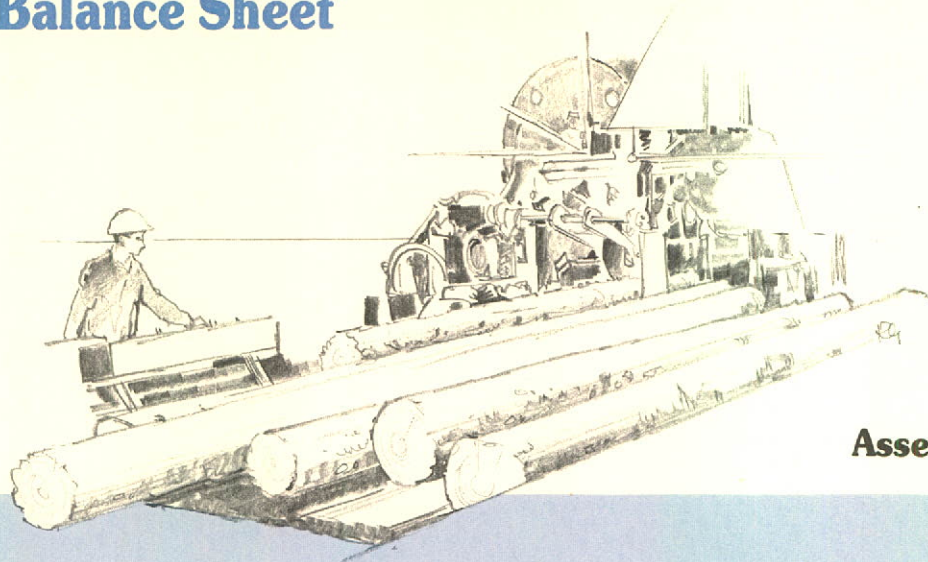
Consolidated Statement of Changes in Financial Position

(thousands of dollars)

For the years ended December 31,	1982	1981
WORKING CAPITAL DERIVED FROM		
Preferred shares issued	40,000	—
Common share subscription	3,703	—
Increase in long-term debt	—	14,409
Disposal of fixed assets, net of gains and losses	<u>130</u>	<u>1,020</u>
	43,833	15,429
WORKING CAPITAL APPLIED TO		
Operations	15,488	7,694
Additions to fixed assets	2,053	7,304
Reduction of long-term debt	6,901	—
Increase in deferred costs	4,780	—
Increase in investments	4,600	7,021
Cash dividends	<u>—</u>	<u>1,980</u>
	33,822	23,999
INCREASE (DECREASE) IN WORKING CAPITAL	10,011	(8,570)
Working capital beginning of the year	<u>8,354</u>	<u>16,924</u>
WORKING CAPITAL END OF THE YEAR	<u>18,365</u>	<u>8,354</u>

Consolidated Balance Sheet

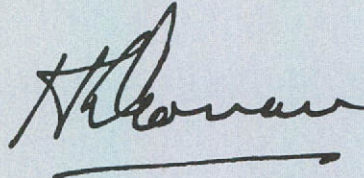
(thousands of dollars)

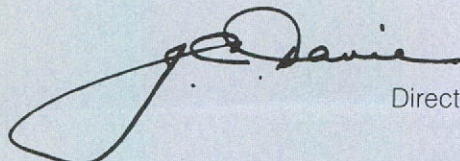


Assets

As at December 31,	1982	1981
CURRENT ASSETS		
Cash	44	378
Accounts receivable	9,252	13,995
Inventories (note 2).....	38,933	40,573
Prepaid expenses	1,607	1,263
	<u>49,836</u>	<u>56,209</u>
 INVESTMENTS (note 3)	 <u>62,276</u>	 <u>65,091</u>
 FIXED ASSETS, at cost		
Land, buildings, machinery and equipment (note 4)	65,796	65,882
Less accumulated depreciation.....	<u>17,377</u>	<u>13,498</u>
	48,419	52,384
 Timber holdings and logging roads, less amounts written off	 <u>10,587</u>	 <u>11,123</u>
	<u>59,006</u>	<u>63,507</u>
 DEFERRED INCOME TAXES	 <u>2,758</u>	 <u>—</u>
 DEFERRED COSTS, less amortization	 <u>5,290</u>	 <u>612</u>
	<u>179,166</u>	<u>185,419</u>

On Behalf of the Board:


Director


Director

Liabilities

As at December 31,	1982	1981
CURRENT LIABILITIES		
Bank indebtedness (note 5)	17,004	31,457
Accounts payable and accrued liabilities.....	14,447	16,380
Principal due within one year on long-term debt	<u>20</u>	<u>18</u>
	<u>31,471</u>	<u>47,855</u>
 LONG-TERM DEBT (note 5)	 <u>107,214</u>	 <u>114,115</u>
 DEFERRED INCOME TAXES	 <u>—</u>	 <u>697</u>

Shareholders' Equity

SHARE CAPITAL (note 6)		
Authorized: 5,000,000 Class A preferred shares without par value		
13,363,184 common shares without par value		
Issued: 40,000 Class A preferred shares	40,000	—
6,733,612 common shares (1981 - 6,601,680)	2,237	1,841
Subscription to common shares.....	3,703	—
 RETAINED EARNINGS (DEFICIT)	 <u>(5,459)</u>	 <u>20,911</u>
	<u>40,481</u>	<u>22,752</u>
	<u>179,166</u>	<u>185,419</u>

Auditors' Report

To the Shareholders of
Doman Industries Limited

We have examined the consolidated balance sheet of Doman Industries Limited as at December 31, 1982 and the consolidated statements of earnings and 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 applied, except for the change in the method of accounting for the investment in Western Forest Products Limited as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Vancouver, Canada
February 4, 1983

Thorne Riddell
Chartered Accountants

Notes to Consolidated Financial Statements

Year ended December 31, 1982.

1. ACCOUNTING POLICIES

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

(b) Inventories

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

(c) Investments

Investments in joint venture companies, with the exception of Western Forest Products Limited (Western), are recorded on the equity basis and therefore the values at which they are carried on the balance sheet are adjusted by the company's share in their undistributed earnings or losses.

With effect from January 31, 1982, the Company changed its method of accounting for its 33⅓% investment in Western from the equity method to the cost method (see note 3).

During the initial six month period of planning and orientation to April 30, 1981, the company increased the carrying value of its \$60,000,000 investment in Western by the interest incurred on the funds borrowed for the acquisition. This deferred interest of \$5,029,000 is being charged against earnings of the Company over the five year period commencing November 1, 1981. The amount amortized and written off against earnings in 1982 was \$1,020,000, (1981 — \$170,000).

From May 1, 1981 to January 31, 1982 the Company has added to the cost of its investment in Western \$2,596,000 being the proportion of interest on monies borrowed to make the investment which is the same proportion of interest charges deferred during that period by Western in respect of its initial borrowings identified with the Woodfibre Pulp Mill. This interest will continue to be treated as deferred until such time as a decision is made as to the future of the rebuild project.

All interest incurred subsequent to January 31, 1982 on the borrowings related to the Western acquisition has been charged against the earnings of the Company.

Other investments are recorded at cost.

(d) Fixed Assets

Fixed assets are stated at cost including interest during construction of major projects. Depreciation is provided on a straight-line basis for the period of operations at rates based on the estimated useful lives of the assets. The estimated useful lives range between 5 to 10 years for automotive equipment, 10 to 15 years for other equipment and 20 to 25 years for buildings. Costs of timber holdings and logging roads are written off as timber is removed.

(e) Deferred Costs

Deferred costs consist of a financing fee related to a debt restructuring (see note 5), debenture issue expenses, and certain shutdown costs. These costs are being amortized and charged to operations over the relevant periods benefiting from the expenditures.

(f) Income Taxes

The Company charges earnings with income taxes related to these earnings. Any difference between these taxes and the taxes currently payable are shown as deferred income taxes.

2. INVENTORIES

(thousands of dollars)

	1982	1981
Logs	10,136	18,106
Lumber.....	25,415	18,695
Merchandise	1,952	2,401
Supplies.....	1,430	1,371
	<u>38,933</u>	<u>40,573</u>

3. INVESTMENTS

(thousands of dollars)

	1982	1981
Western Forest Products Limited	59,596	62,667
Other investments	2,680	2,424
	<u>62,276</u>	<u>65,091</u>

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

(thousands of dollars)

	1982	1981
Original investment	60,000	60,000
Interest deferred during the initial six-month period of planning and orientation	5,029	5,029
Interest relating to the rebuild of the Woodfibre Pulp Mill	2,596	2,352
	<u>67,625</u>	<u>67,381</u>
Equity in losses of Western	(6,839)	(4,544)
Amortization of interest deferred in the initial six-month period.....	(1,190)	(170)
	<u>59,596</u>	<u>62,667</u>

(b) Change in accounting policy

Western has not satisfied certain covenants under its bank loan agreement and is not in a position to remedy the situation. The resulting bank influence at Western has resulted in the Company no longer having the ability to exercise significant influence over the affairs of Western. Consequently, from January 31, 1982 the Company has changed to the cost method of accounting for its investment in Western.

Under the cost method of accounting, only dividends received from this investment are included in income. 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. Had the equity method of accounting been continued, the Company's loss for the year would be increased and its investment in Western would be decreased by \$18,081,000.

(c) Contingency

The summarized financial statements of Western presented below 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 would require that the stated amounts of assets and liabilities be reflected on a liquidation basis which amounts may differ from those presented. It is not possible to determine at this time whether there has been a permanent decline in the value of the investment. As the Company has not guaranteed any portion of Western's debt, the maximum possible loss to the Company, should the banks elect to realize on their security or refuse to advance required funds to Western, would be \$59,596,000, the carrying value of the investment. Any loss would be a charge to income in the year in which the amount of the loss, if any, can be reasonably estimated.

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

WESTERN FOREST PRODUCTS LIMITED
Balance Sheet — October 31, 1982

(thousands of dollars)	1982	1981
Assets		
Current assets.....	103,279	121,036
Fixed assets	411,144	403,803
Deferred expenses	34,462	32,332
Other assets, net	16,353	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).

4. FIXED ASSETS

(thousands of dollars)	1982	1981
Land	2,961	2,961
Buildings	16,936	16,935
Machinery and equipment	45,899	45,986
	65,796	65,882
Accumulated depreciation	17,377	13,498
	<u>48,419</u>	<u>52,384</u>

5. LONG-TERM DEBT

(thousands of dollars)	1982	1981
Loans secured by first mortgages:		
Sinking fund debentures Series A, 10¼% due December 1997, retractable at the option of the holder on December 15, 1987 ..	17,941	18,491
Royal Bank capital loan due 1983	—	15,000
Royal Bank capital loan due 1995	20,000	20,000
Royal Bank capital loan due 1984	8,668	—
Royal Bank capital loan due 1994	60,000	60,000
Other.....	625	642
	<u>107,234</u>	<u>114,133</u>
Principal included in current liabilities	<u>20</u>	<u>18</u>
	<u>107,214</u>	<u>114,115</u>

The sinking fund debentures are secured by fixed and floating charges on certain assets of the Company and certain of its subsidiaries. The trust agreement relating to the debentures requires the Company to establish sinking funds to retire in each of the years 1988 to 1996 5% of the principal balance of the debentures outstanding on December 15, 1987.



The Royal Bank capital loans bear interest at the bank prime rate plus 1½%. At the Company's option these rates may be fixed for varying periods at rates based on the bank's U.S. base rate, Euro-dollar rates or Banker's Acceptances.

The Royal Bank capital loan for \$60,000,000 due 1994 is secured by the shares owned by the Company in Western Forest Products Limited. These capital loans together with current bank indebtedness are also secured by assignment of accounts receivable and inventories and by a \$25,000,000 second floating charge debenture.

Long-term debt maturing in the next five years is as follows:

	(thousands of dollars)	
1983	20	1986..... 2,000
1984	10,668	1987..... 2,000
1985	2,000	

By agreement dated December 31, 1982, the Company and its bankers agreed to a comprehensive restructuring of the Company's debt. Terms of the agreement provide for the following:

- Conversion of \$40,000,000 of the Company's debt to 40,000 Class A Preferred Shares, series 1, at an issue price of \$40,000,000,
- Conversion of current debt to a capital loan in the amount of \$8,668,000, and
- Payment by the Company of a financing fee of an amount equal to the subscription price of 748,179 common shares of the Company, and granting an option to purchase common shares of the Company under certain conditions (see note 6). The common shares to be issued in respect of the financing fee have been valued at the quoted market value of the Company's shares at the close of trading on December 30, 1982. The resulting finance fee of \$3,703,000 will be amortized and charged to operations on a straight line basis over 12 years, corresponding to the remaining term to maturity of the Company's capital loans.

6. SHARE CAPITAL

(a) Authorized Share Capital

Series 1 of the Class A Preferred Shares carry a cumulative annual dividend rate of one-half Royal Bank prime, plus 3%, payable semi-annually commencing July 1, 1983. The shares are redeemable and retractable for consideration equal to the issue price plus any accumulated dividends accruing to the shares and are to be redeemed in full on December 15, 1987.

(b) Issue of Shares
(thousands of dollars)

	Class A Preferred, Series 1		Common	
	Number	Stated Value	Number	Stated Value
Balance, January 1, 1982 ..	—	—	6,601,680	1,841
Stock dividend	—	—	131,932	396
Debt restructuring (see note 5)	40,000	40,000	—	—
Balance, December 31, 1982	<u>40,000</u>	<u>40,000</u>	<u>6,733,612</u>	<u>2,237</u>
Share subscription (see note 5)			<u>748,179</u>	<u>3,703</u>

The share subscription is in respect of common shares. Subject to authorization at the Annual General Meeting of the shareholders on March 23, 1983, limited voting Class B common shares will be issued in satisfaction of the subscription.

(c) Share Options

Outstanding options granted to directors and officers of the Company to purchase a total of 60,000 common shares at \$7.76 per share may be exercised up to 1990.

In conjunction with the debt restructuring (see note 5), the Company has granted to the Royal Bank a conditional option to acquire, at \$3 per share, common shares equivalent to ten percent of the Company's outstanding common shares at the

date of exercise. The option becomes exercisable after December 15, 1987 only if the quoted market price of the Company's common shares does not reach \$11 prior to that date.

7. OTHER INFORMATION

(a) Related Party Transactions

Included in total sales for the period are sales of \$45,345,000 (1981 — \$29,933,000) made to a joint venture company. Accounts receivable included \$731,000 (1981 — \$1,239,000) due from the joint venture company.

(b) Segmented Information

(i) Export sales

The company's export sales by geographic area were as follows:

(thousands of dollars)	1982	1981
United States	<u>39,448</u>	<u>38,247</u>
Europe	<u>8,183</u>	<u>3,832</u>
Other	<u>4,736</u>	<u>2,541</u>
	<u>52,367</u>	<u>44,620</u>

(ii) Industry segments

The Company conducts essentially all of its business activity in the Forest Industry.

(c) Interest Expense

Interest on current debt amounted to \$4,818,000 (1981 \$6,038,000) and on long term debt amounted to \$19,832,000 (1981 \$10,433,000).

8. INCOME TAXES

(thousands of dollars)

At December 31, 1982 the Company has the following amounts available to reduce future years' income for tax purposes, the tax benefit of which has not been recorded in the accounts.

Loss carry forward for tax purposes expiring in years beginning with 1986	70,507
Excess of book value of fixed assets over undepreciated capital cost and deferred costs deducted for tax purposes	<u>49,501</u>
	<u>21,006</u>



Five Year Operating Results by Quarter

(thousands of dollars except for earnings per share which are in dollars)

For the years ended December 31,	1982	1981	1980	1979	1978
SALES					
First quarter.....	30,588	30,859	28,680	23,146	21,978
Second quarter	35,179	34,755	26,893	26,817	28,807
Third quarter	34,201	24,658	29,886	35,757	32,889
Fourth quarter	30,761	25,521	25,106	27,458	31,628
Year	130,729	115,793	110,565	113,178	115,302
NET EARNINGS (LOSS)					
First quarter.....	(7,668)	(713)	1,278	2,548	1,468
Second quarter	(8,156)	231	(329)	2,387	2,451
Third quarter	(6,575)	(3,527)	339	3,716	3,271
Fourth quarter	(3,575)	(6,893)	559	2,029	3,891
Year	(25,974)	(10,902)	1,847	10,680	11,081
EARNINGS (LOSS) PER SHARE					
First quarter.....	(1.16)	(.11)	.19	.39	.22
Second quarter	(1.24)	.04	(.05)	.36	.37
Third quarter	(.99)	(.54)	.06	.56	.50
Fourth quarter	(.54)	(1.04)	.08	.31	.59
Year	(3.93)	(1.65)	.28	1.62	1.68
CASH FLOW (NEGATIVE)					
First quarter.....	(2,885)	29	2,669	3,406	723
Second quarter	(4,695)	(28)	181	3,048	3,232
Third quarter	(5,403)	(3,907)	2,369	6,123	4,429
Fourth quarter	(2,505)	(3,788)	2,436	4,406	5,870
Year	(15,488)	(7,694)	7,655	16,983	14,254

The History of Doman Industries

Founded in 1955, Doman Industries took over the business of Mr. H. S. Doman, who commenced his career as a sole proprietor hauling lumber and copper ore under contract, selling lumber to building supply contractors and selling wood fuel on Vancouver Island. By 1965 the business included retail and wholesale merchandising of lumber and building supplies, ready-mix concrete, contract trucking, logging, sawmilling and lumber remanufacturing. In 1964 Doman Industries became a public company and in 1965 its shares were listed on the Vancouver Stock Exchange.

The first major sawmill was built at Ladysmith in 1966. In 1969 the Company acquired its first Forest Licence. There was a 3 for 1 common share stock split in 1969 and these shares were called for trading on the Toronto Stock Exchange in 1970. Common share dividends commenced in 1972 and the shares were split 2 for 1 in 1973. A small sawmill was built at Chemainus in 1973 on the site of a mill destroyed by fire in the preceding year. The Company's second major sawmill was constructed at Cowichan Bay in 1975. In 1976 the common shares were split a third time, this time 2 for 1. In 1977 the Company was awarded three Forest Licences to support a new sawmill at Nanaimo and

to support a pulpmill development planned for the 1980's. In the period 1978 through 1981 extensive logging operations were developed. In 1979 and 1980 the Company's largest sawmill was constructed at Nanaimo. This mill started operations in December 1980. On October 30, 1980 Doman Industries acquired a one-third interest in Western Forest Products Limited, (Western), a major integrated forest products company. In 1981 the operations of Western were trimmed down to make it more manageable. Its Alberta sawmill and certain other properties were sold, its Vancouver Island sawmill was closed permanently, and the three remaining sawmills of Western were leased to each of its shareholders. Doman Industries took over the New Westminster sawmill from Western on December 1, 1981 under a lease with option to purchase. With these important changes, Western remains a pulp and timber company operating its two pulp mills and its extensive logging operations all on the B.C. Coast.

The year 1981 was spent on the affairs of Western and on breaking in the Nanaimo sawmill. As a world wide recession was taking hold in 1981 no new capital projects were launched. The events of 1982 are dealt with elsewhere in this report.

