

Doman Industries Limited

Doman Industries Limited is active in many sectors of the forest products industry in British Columbia. Its business includes logging, sawmilling, lumber remanufacturing, lumber exporting and trucking. The Company's logging operations are all on the B.C. Coast. Its sawmills and lumber remanufacturing facilities are located on Vancouver Island and at New Westminster, B.C. The truck freight business operates throughout British Columbia, and into the eleven western states of the United States. The Company also markets lumber and building supplies in British Columbia and ready mix concrete in the central area of Vancouver Island.

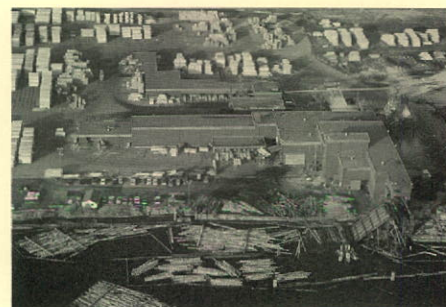
Financial Highlights 1984

THOUSANDS OF DOLLARS
EXCEPT PER SHARE AMOUNTS

Years ended December 31	1984	1983
Sales	187,867	175,357
Earnings before interest expense	5,230	18,986
Net earnings (loss)	(12,527)	4,007
Funds from (to) operations	(7,554)	5,832
Common dividends		
• Distributed December 28, 1984	2% stock	
• Paid December 30, 1983		\$0.05 cash
• Distributed January 3, 1983		2% stock
As at December 31	1984	1983
Total assets	186,831	200,759
Working capital	16,146	14,878
Long-term debt	91,540	106,592
Shareholders' equity and preferred shares of subsidiary	54,759	40,670



Nanaimo Sawmill



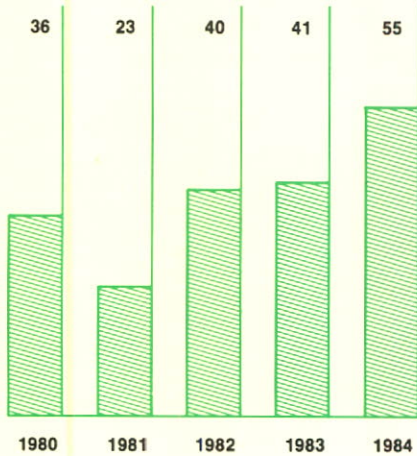
Cowichan Bay Sawmill

President's Report to the Shareholders



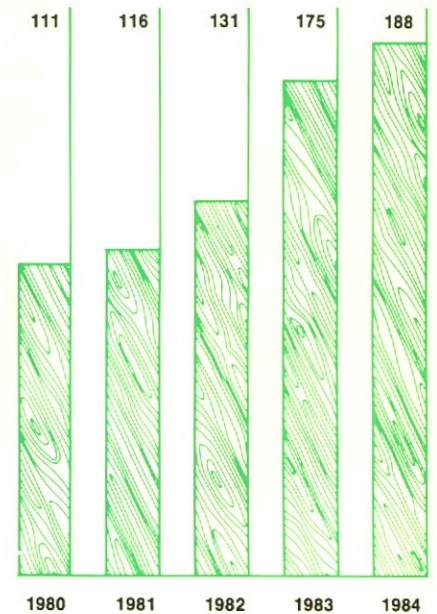
Deep sea freighter loading

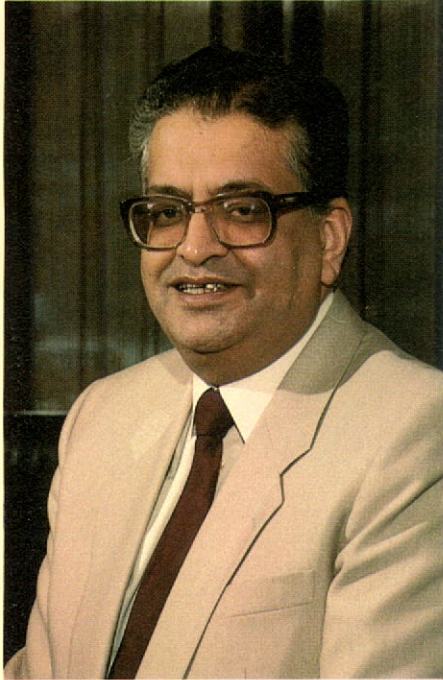
SHAREHOLDERS' EQUITY AND PREFERRED SHARES OF SUBSIDIARY COMPANY (MILLIONS OF DOLLARS)



1984 Tree planting on Forest Licence at Jervis Inlet

ANNUAL SALES (MILLIONS OF DOLLARS)





H. S. Doman, President and Chairman of the Board

On behalf of the Board of Directors of Doman Industries Limited I am pleased to present to you the Company's annual report for the year ended December 31, 1984.

As we enter 1985 we do so with optimism for the decade which lies before us. While the lumber business is still only slowly recovering from the long recession of the early 1980's, better times are ahead. We are in a business which is dependant upon both reasonable interest rates, and an ample supply of money being available for housing, and in particular upon these conditions being in place to encourage North American house building. At this point in the economic cycle there are no inflationary pressures to drive interest rates up significantly from present levels, and we may even see some interest rate reductions from these levels before the end of 1985.

During 1984 we expanded our lumber production to a record 430 million board feet. Consolidated 1984 sales reached \$187,867,000 on which we realized a profit of \$5,230,000 before interest and income taxes, and a loss of \$12,527,000 after interest and income taxes. The loss was 82 cents per share before the provision for preferred dividends.

In April 1984 one Class B non-voting share was distributed to the holder of record on April 3 of each Class A common share and to the holder of each Class B series 1 non-voting share. In December 1984 shareholders of record on December 14 received a 2% stock dividend paid in Class B series 2 non-voting shares. Per share figures throughout this report give retroactive effect to all stock splits and stock dividends.

Your company completed a major refinancing with its bankers as 1984 drew to a close. As a result of these changes in our banking arrangements the balance sheet has been strengthened, the interest load has been reduced and there will be a more accurate matching of interest and preferred dividend payments with the Company's anticipated cash flows. The positive effects of this refinancing will be felt in 1985. With further planned increases in lumber production in 1985 we will also be spreading our fixed costs including interest over a larger volume.

The Company has a tremendous potential. Its five sawmills are modern and efficient; its logging practices are proven cost effective; the trucking division is successfully meeting the fierce competition in its industry; and the formerly labour intensive domestic lumber and building supplies division is evolving into a lean and efficient lumber wholesaling business. Our employees have the ambition and the drive to employ the Company's asset base to the best possible advantage. We have taken constructive action to ensure that Doman Industries is well positioned in its industry and has a strong competitive edge. Given reasonable interest rates and an adequate supply of money for housing the Company's potential will be achieved.

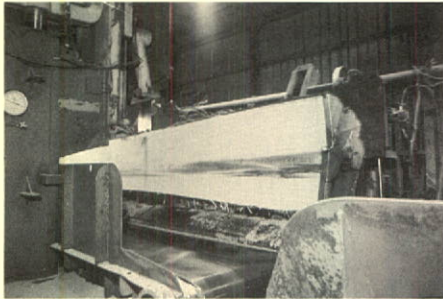
Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'H. S. Doman', written in a cursive style. The signature is underlined.

Duncan, B.C.
March 1985

H. S. Doman,
President and
Chairman of the Board

Sawmills



Sawmill headrig



Lumber grading station

Doman operates five modern sawmills with a combined annual lumber production capacity of 580 million board feet. Four of these mills are on Vancouver Island at Nanaimo, Ladysmith, Chemainus and Cowichan Bay. The fifth mill is at New Westminster, B.C. The sawmills are strategically located, being close to deep-sea docks and rail lines for lumber shipments. They have ready access to pulp mills on Vancouver Island and on the B.C. mainland for delivery of pulp chips and other sawmill by-products.

Logs are carefully sorted by specie, size and grade before delivery to the Doman sawmill which is best suited to process them. By delivering the appropriate log to each mill, sawmill production flow is simplified, productivity is enhanced and lumber grade recovery is optimized.

The Nanaimo mill includes a 200 million board foot per annum large log sawmill, a lumber remanufacturing plant, and a barge load-out. The remanufacturing plant allows the Company to achieve higher selling prices by further processing lumber from this mill and other mills without slowing down the sawmill's production flow. The barge load-out facilities handle waterborne shipments of by-products from Doman's Vancouver Island sawmills.

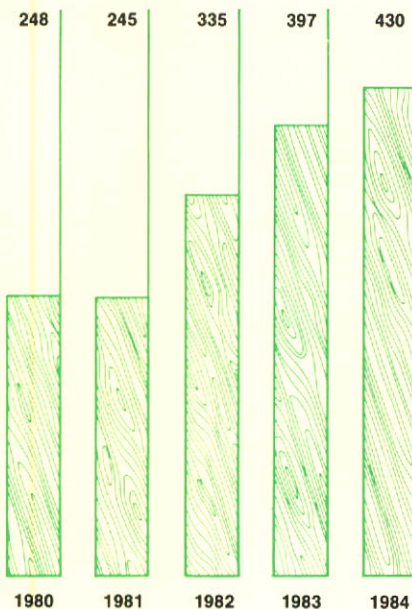
At Cowichan Bay the Company has the capacity to manufacture 145 million board feet of lumber annually from medium sized and small logs, and at Ladysmith the annual lumber production capacity is 125 million board feet of lumber from small logs. These two sawmills have a high lineal flow rate and are particularly well suited to process large numbers of low grade logs rapidly and efficiently.

The Chemainus sawmill has an annual lumber production capacity on a two-shift basis of 30 million board feet. This plant is capable of cutting most log sizes and is the Company's only dry land operation. The lumber remanufacturing plant at Chemainus is important to the Company's Vancouver Island sawmills allowing a portion of their lumber to be remanufactured as required, without interfering with or slowing down sawmill production.

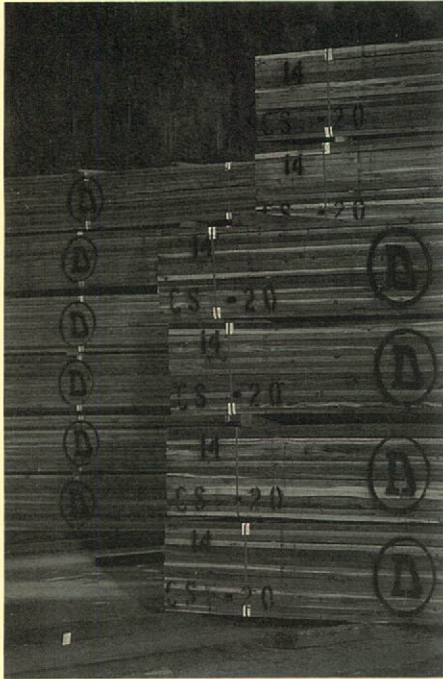
The New Westminster sawmill cuts medium to small size logs and has an annual lumber production capacity of 80 million board feet.

All five Doman sawmills have high speed planer mills with sufficient capacity to plane the respective rough lumber production from each sawmill. The combined annual lumber production capacity of 580 million board feet is based on 250 days per year on 3 shifts except for Chemainus which is rated on a 2-shift basis.

LUMBER PRODUCTION (MILLIONS OF BOARD FEET)



Marketing



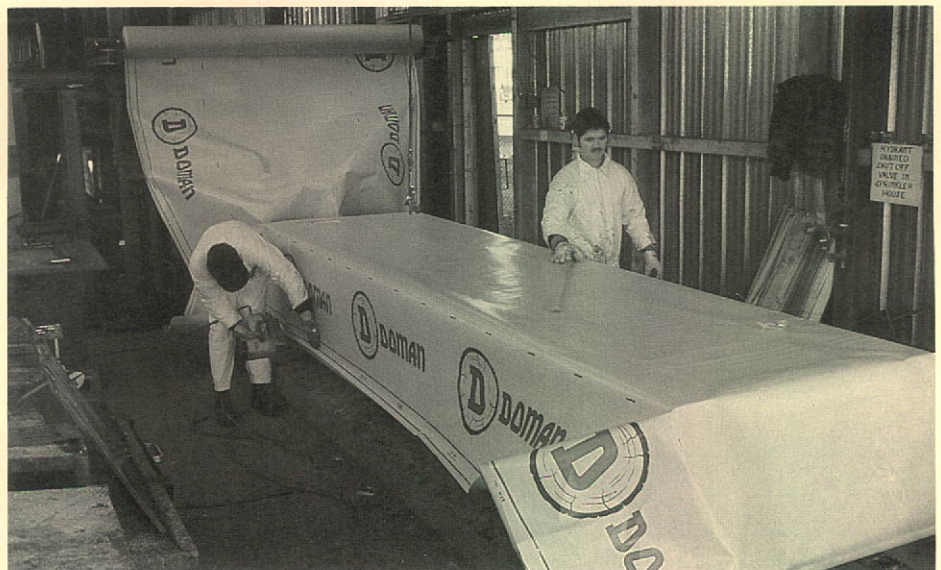
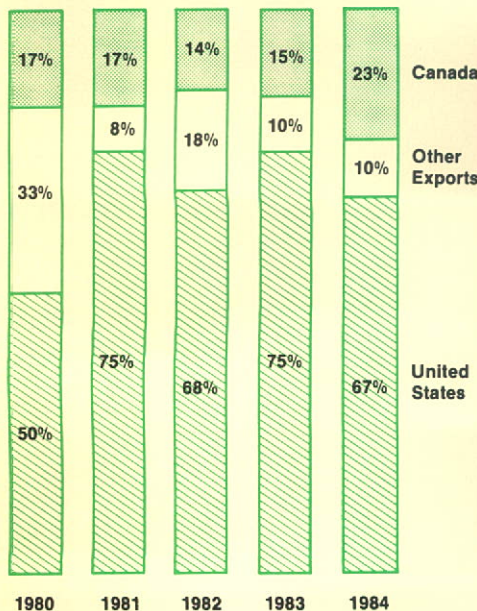
Lumber ready for shipment

Doman's lumber markets become more diverse each year as we add to our product lines. The wide range of lumber presently produced at the Company's five sawmills and two remanufacturing plants provides the flexibility which is required to cater to most market demands. We are able to manufacture the items that customers want on time and at competitive prices. Our reputation has been built on being a reliable long-term supplier in all market conditions. In 1984, a difficult year for lumber exports due to currency exchange rates, we generated record lumber sales volumes which allowed the Doman plants to operate at 74% of rated capacity throughout the year.

We sell across the United States with deliveries by barge to the west coast, by deep-sea ship to the east coast and by rail and truck to areas in between. Overseas shipments to the U.K. and Europe, the Middle East, the Orient and Australia are all by deep-sea ship direct from Vancouver Island ports.

During 1984 Doman's changed the emphasis of its domestic marketing of lumber and building supplies away from operating Company retail and wholesale building supply yards. The Company now operates only one retail building supply yard in Victoria, B.C. and concentrates its efforts on wholesaling lumber in the domestic market. The result has been a dramatic increase in lumber volume sold in the Canadian market. The Canadian market is serviced by direct mill shipments from the Company's sawmills plus from inventories maintained at Doman's lumber assembly yards at Surrey and Richmond on the B.C. mainland and at Chemainus on Vancouver Island.

DISTRIBUTION OF LUMBER FOOTAGE SOLD



Paper wrapping lumber for rail shipment

Logging and Log Supply



Log loading

Doman's principal logging divisions are located on the coast of British Columbia at Jervis Inlet, Nootka Island, Rivers Inlet and Kimsquit River. These four divisions operate in Timber Supply Areas on Crown land managed by the Forest Service of British Columbia. Each Timber Supply Area provides the timber needs of a number of operators. The Forest Service calculates the rate of annual timber cutting, which permits each Timber Supply Area to provide a sustained yield. Doman logging operations at these locations are based on tenures known as Forest Licences. Under this form of tenure, the Company has the right to harvest a specified amount of timber known as its allowable annual cut; the Company also has 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 Timber Supply Areas.

The Company obtains the logs required for its five sawmills from Doman logging divisions; logs acquired on a fibre exchange basis for sawmill by-products or otherwise contractually committed to Doman; and logs obtained on the Vancouver log market or purchased from independent suppliers.



Assembling log booms



At the log dump

Transportation



Dry Cargo Bulk Carrier

The truck transport division of the Company operates as a licenced public carrier of trailer load lots throughout British Columbia and into the eleven western states of the United States. On Vancouver Island this division, in addition to its business as a public carrier, hauls many of the products of the Company's sawmill division.

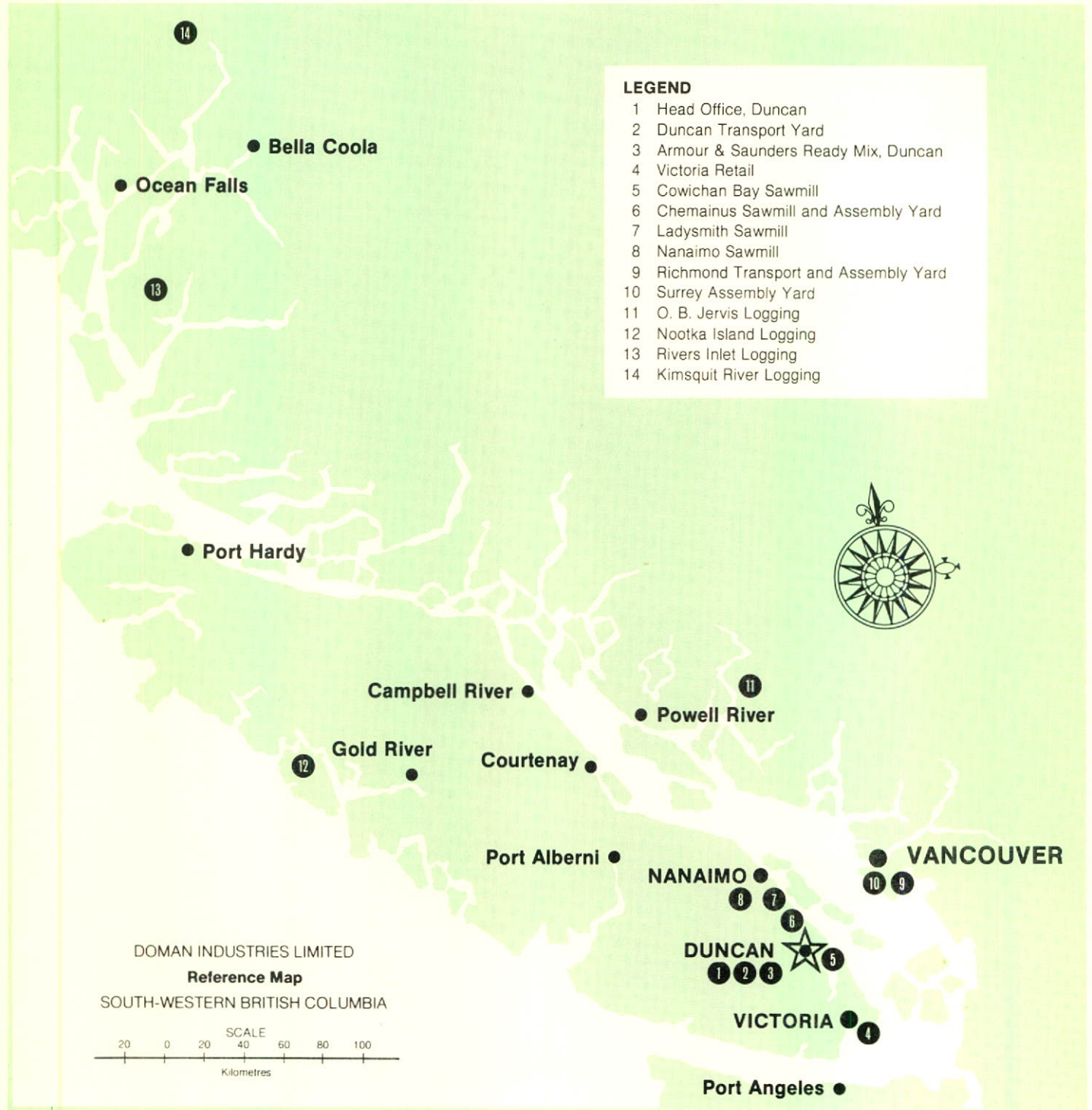
In recent years the truck freighting business has become increasingly more competitive. Doman has met this competition head on by closely controlling all aspects of its business and by employing a mixture of Company owned equipment with owner operators who provide their own tractors.

Based out of truck terminals at Richmond on the British Columbia mainland and Duncan on Vancouver Island this oldest division of the Company has been adapting to the fierce competition in its industry.



Low Bed Carrier

Reference Map



Financial Reports

Operating Results By Quarter

THOUSANDS OF DOLLARS EXCEPT FOR PER SHARE FIGURES WHICH ARE IN DOLLARS

Years ended December 31,	1984	1983	1982	1981	1980	1979
Sales						
First	56,392	43,104	30,588	30,859	28,680	23,146
Second	41,079	54,584	35,179	34,755	26,893	26,817
Third	47,026	42,623	34,201	24,658	29,886	35,757
Fourth	43,370	35,046	30,761	25,521	25,106	27,458
Year	187,867	175,357	130,729	115,793	110,565	113,178
Net Earnings						
First	(2,647)	2,002	(7,668)	(713)	1,278	2,548
Second	(2,547)	5,274	(8,156)	231	(329)	2,387
Third	(3,907)	359	(6,575)	(3,527)	339	3,716
Fourth	(3,426)	(3,628)	(3,575)	(6,893)	559	2,029
Year	(12,527)	4,007	(25,974)	(10,902)	1,847	10,680
Earnings (Loss) Per Share						
First	(.23)	.07	(.56)	(.05)	.09	.19
Second	(.22)	.29	(.59)	.02	(.02)	.17
Third	(.32)	(.03)	(.48)	(.26)	.02	.27
Fourth	(.28)	(.29)	(.26)	(.50)	.04	.15
Year	(1.05)	.04	(1.89)	(.79)	.13	.78
Cash Flow (Negative)						
First	(1,694)	2,018	(2,885)	29	2,669	3,406
Second	(1,191)	3,722	(4,695)	(28)	181	3,048
Third	(2,362)	1,188	(5,403)	(3,907)	2,369	6,123
Fourth	(2,307)	(1,096)	(2,505)	(3,788)	2,436	4,406
Year	(7,554)	5,832	(15,488)	(7,694)	7,655	16,983

Financial Summary

THOUSANDS OF DOLLARS EXCEPT FOR PER SHARE FIGURES WHICH ARE IN DOLLARS

	For the years ended December 31,	1984	1983
Earnings			
	Sales	187,867	175,357
	Earnings (loss) before income taxes	(15,343)	376
	Income tax recovery	2,816	3,631
	Net earnings (loss)	(12,527)	4,007
	Earnings (loss) per share	(1.05)	.04
Cash Flow			
	Operations (negative)	(7,554)	5,832
	Extraordinary item	—	2,690
	Preferred shares issued	26,616	—
	Class B non-voting shares subscription	—	—
	Increase (decrease) in term debt	(15,052)	(622)
	Disposals of property, plant and equipment	41	19
	Additions to property, plant and equipment	2,210	8,253
	Increase in deferred costs	—	—
	Increase (decrease) in other investments	573	(665)
	Dividends	—	3,818
	Increase (decrease) in working capital	1,268	(3,487)
	As at December 31,	1984	1983
Balance Sheet			
	Current assets	56,678	68,375
	Current liabilities	40,532	53,497
	Working capital	16,146	14,878
	Property, plant and equipment	57,244	61,536
	Other assets	63,617	64,458
	Long-term debt	91,540	106,592
	Deferred income taxes	(9,292)	(6,390)
	Shareholders' equity and preferred shares of subsidiary	54,759	40,670

1982	1981	1980	1979	1978	1977	1976
130,729	115,793	110,565	113,178	115,302	92,022	68,956
(29,482)	(16,991)	1,861	18,085	19,565	10,941	4,772
3,508	6,089	(14)	(7,405)	(8,484)	(4,977)	(1,895)
(25,974)	(10,902)	1,847	10,680	11,081	5,964	2,877
(1.89)	(.79)	.13	.78	.80	.43	.21
(15,488)	(7,694)	7,655	16,983	14,254	8,479	5,560
—	—	—	—	—	—	—
40,000	—	—	—	—	—	—
3,703	—	—	—	—	—	—
(6,901)	14,409	79,765	(738)	(433)	10,102	21
130	1,020	472	125	1,543	271	425
3,130	7,304	28,386	18,944	5,884	2,799	2,520
3,703	—	42	373	44	977	855
4,600	7,021	60,464	(309)	956	842	1,075
—	1,980	2,641	2,146	3,495	660	655
10,011	(8,570)	(3,641)	(4,784)	4,985	13,574	901
1982	1981	1980	1979	1978	1977	1976
49,836	56,209	60,678	46,253	44,090	40,063	29,741
31,471	47,855	43,754	25,688	18,741	19,699	22,951
18,365	8,354	16,924	20,565	25,349	20,364	6,790
60,082	63,507	61,541	37,631	22,413	20,084	19,707
66,490	65,703	64,314	5,199	5,159	4,134	2,603
107,214	114,115	99,706	19,942	20,680	21,112	11,010
(2,758)	697	7,439	7,025	4,347	3,162	3,082
40,481	22,752	35,634	36,428	27,894	20,308	15,008

Consolidated Financial Statements

THOUSANDS OF DOLLARS EXCEPT FOR PER SHARE AMOUNTS WHICH ARE IN DOLLARS

Earnings and Deficit

For the years ended December 31,	1984	1983
Sales of products, merchandise and services	187,867	175,357
Costs and expenses		
Cost of goods sold	168,605	142,931
Selling and administration	7,571	6,660
Depreciation	4,332	3,989
Depletion of timber and amortization of roads	2,129	2,791
	182,637	156,371
Earnings before interest expense	5,230	18,986
Interest expense (note 10(c))	20,573	18,610
(Loss) earnings before income taxes and extraordinary item	(15,343)	376
Income taxes (recovery) (note 8(a))		
Current	86	2,690
Deferred	(2,902)	(3,631)
	(2,816)	(941)
(Loss) earnings before extraordinary item	(12,527)	1,317
Per share		
• before preferred dividends	(.82)	.08
• provision for preferred dividends	(.23)	(.22)
• after provision for preferred dividends	(1.05)	(.14)
Extraordinary item		
Income tax reduction on utilization of loss carry-forwards	—	2,690
Net (Loss) Earnings	(12,527)	4,007
(Loss) Earnings per Share (note 9)		
• before preferred dividends	(.82)	.26
• provision for preferred dividends	(.23)	(.22)
• after provision for preferred dividends	(1.05)	.04
Deficit Beginning of Year	5,270	5,459
Net (loss) earnings	(12,527)	4,007
	17,797	1,452
Cash dividends		
• Class A preferred shares, series 1	—	3,444
• Common shares and non-voting shares	—	374
Stock dividend		
• Common shares and non-voting shares	449	—
Deficit End of Year	18,246	5,270

Changes in Financial Position

For the years ended December 31,	1984	1983
Working Capital Derived from		
Operations	—	5,832
Extraordinary item	—	2,690
Preferred shares issued by the company	8,616	—
Preferred shares issued by a subsidiary company	18,000	—
Bank term loan	12,000	—
Decrease in investments	—	665
Disposals of property, plant and equipment	41	19
	38,657	9,206
Working Capital Applied to		
Operations	7,554	—
Additions to property, plant and equipment	2,210	8,253
Reduction of long-term debt	27,052	622
Increase in investments	573	—
Cash dividends	—	3,818
	37,389	12,693
Increase (Decrease) in Working Capital	1,268	(3,487)
Working Capital Beginning of Year	14,878	18,365
Working Capital End of Year	16,146	14,878
Working Capital End of Year		
Current assets	56,678	68,375
Current liabilities	40,532	53,497
	16,146	14,878

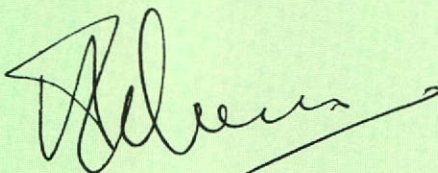
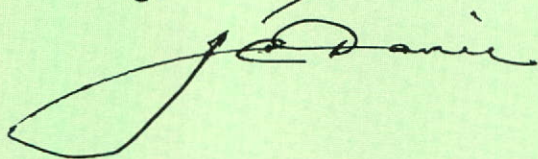
Consolidated Balance Sheet

THOUSANDS OF DOLLARS

Assets

As at December 31,	1984	1983
Current Assets		
Cash	1,107	46
Accounts receivable	12,874	12,439
Inventories (note 2)	41,307	53,970
Prepaid expenses	1,390	1,920
	56,678	68,375
Investments (note 3)	60,225	60,655
Property, Plant and Equipment		
Land, buildings, machinery and equipment (note 4)	72,272	72,265
Less accumulated depreciation	24,217	21,081
	48,055	51,184
Timber holdings and logging roads, less accumulated depletion and amortization	9,189	10,352
	57,244	61,536
Deferred Income Taxes	9,292	6,390
Deferred Costs , less amortization	3,392	3,803
	186,831	200,759

On behalf of the Board:

DIRECTOR

DIRECTOR

Liabilities and Shareholders' Equity

As at December 31,	1984	1983
Current Liabilities		
Bank indebtedness (note 5)	25,249	24,775
Accounts payable and accrued liabilities	15,263	26,990
Preferred share dividend payable	—	1,714
Principal due within one year on long-term debt	20	18
	40,532	53,497
Long-Term Debt (note 5)	91,540	106,592
Preferred Shares of Subsidiary Company (note 6)	18,000	—
Shareholders' Equity		
Share capital (note 7)	60,115	45,940
Deficit	(18,246)	(5,270)
	41,869	40,670
Shares held by subsidiary company (note 6)	(5,110)	—
	36,759	40,670
	186,831	200,759

Auditors' Report

To the Shareholders of Doman Industries Limited:

We have examined the consolidated balance sheet of Doman Industries Limited as at December 31, 1984 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
February 4, 1985.

Deloitte Haskins & Sells
Chartered Accountants

Notes to the Consolidated Financial Statements

December 31, 1984

1. Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Doman Industries Limited and all of its subsidiaries (the Company).

(b) Inventories

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

(c) Investments

Investments in joint venture companies are accounted for using the equity method whereby the Company's share of their earnings and losses is included in earnings and its investments therein adjusted by a like amount. Dividends received are credited to the investment accounts.

The investment in Western Forest Products Limited (Western) and other investments are accounted for using the cost method whereby dividends are included in earnings when received. The investment in Western includes \$4,395,000 of unamortized capitalized interest on funds borrowed for the acquisition which is being amortized and charged against earnings of the Company on a straight-line basis to 1989. Amortization charged against earnings was \$1,020,000 in each of 1984 and 1983.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost including interest capitalized during construction of major projects. Depreciation is charged to earnings on a straight-line basis for the period of operations at rates based on the estimated useful lives of 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 charged to earnings on the basis of timber removed.

(e) Deferred Costs

Deferred costs consist of debenture issue expenses and a financing fee related to a debt restructuring which are being amortized to earnings on a straight-line basis to 1987 and 1994 respectively.

(f) Income Taxes

The Company uses the tax allocation method of accounting for income taxes whereby differences between the provision for income taxes on earnings for accounting purposes and the income taxes currently payable are shown as deferred income taxes.

2. Inventories

THOUSANDS OF DOLLARS

	1984	1983
Logs	17,289	16,812
Lumber	20,554	33,470
Merchandise	878	1,789
Supplies	2,586	1,899
	41,307	53,970

3. Investments

THOUSANDS OF DOLLARS

	1984	1983
Western Forest Products Limited	57,556	58,576
Other investments	2,669	2,079
	60,225	60,655

3. Investments (cont'd)

(a) Western Forest Products Limited (Western)

The investment in Western is carried at cost less equity in losses to January 31, 1982 at which time the Company changed to the cost method of accounting for its investment in Western.

In December 1983 Western sold its two pulp mills to Western Pulp Limited Partnership for \$150,000,000, converted \$195,000,000 of demand bank indebtedness into a long-term capital loan, and issued an aggregate of \$243,902,000 of share capital. At December 31, 1984 the Company's interest in the voting shares of Western is 19.4% on a fully diluted basis. By agreement, the Company is required to purchase up to \$10,000,000 of a class of voting preferred shares of Western at the annual rate of the lesser of \$2,500,000 and 20% of the Company's net earnings (as defined) for the preceding year, commencing in 1986. This will result in the Company's interest in the voting shares of Western increasing to 22.6% on a fully diluted basis.

(b) Western Pulp Limited Partnership (the Partnership)

On December 30, 1983 the Partnership issued Class A Limited Partnership Units (the Class A Units) to the public for aggregate net proceeds of approximately \$100,600,000 which, together with a bank term loan of \$150,000,000, are being used to modernize the two pulp mills acquired from Western.

The Class A Units are exchangeable at the option of the holders between April 1, 1987 and June 30, 1990 at pre-determined values into a package of shares of Doman Industries and two other corporate shareholders of Western (the Principals). Under certain circumstances, the Principals may after January 1, 1989, require the exchange of any Class A Units not already held by them and after June 30, 1990 may acquire such Class A Units for a consideration to be determined at that time. Doman Industries may be required to issue, up to a maximum of 4,888,889 Class B non-voting shares, series 2 in connection with the exchange privilege.

The Partnership has granted Western an option to acquire Class B Units for cash or by application of amounts owing for the purchase of the two pulp mills. If this option is exercised at the earliest possible time, Western will have acquired an approximate 41% interest in the Partnership by January 1, 1990, increasing to approximately 60% by January 1, 1996. The exercise of this option may be accelerated if all Class A Units other than those held by Western's bankers or their affiliates have been acquired by the Principals.

If all Class A Units are exchanged and if Western exercises its option to acquire the Class B Units of the Partnership, the Company will have a direct and indirect (through its shareholdings in Western) interest in the Partnership as follows:

The Company's direct (13.3%) and indirect (11.6%) interest in the Partnership before making any further investment in Western will be	24.9%
The Company's further indirect interest in the Partnership if all of the Western preferred shares described in (a) above are acquired will be	<u>2.0%</u>
The Company's total direct and indirect investment will then be	<u>26.9%</u>

The Company has established a line of credit with its bank to make revolving loans to the Partnership to cover any cash deficiencies that may occur before July 1, 1990, to a maximum of \$10,000,000 in the period to September 30, 1986, and reducing to \$5,000,000 thereafter to June 30, 1988, \$3,000,000 thereafter to June 30, 1989 and \$2,000,000 thereafter to June 30, 1990.

Notes (continued)

3. Investments (cont'd)

THOUSANDS OF DOLLARS

(c) Condensed Financial Information of Western

Condensed financial information of Western as at October 31, 1984 follows. Management of the Company believes that there has been no permanent decline in the value of the Company's investment in Western.

Balance Sheet October 31,	1984	1983
Assets		
Current assets	48,875	122,128
Investment in limited partnership	181,216	—
Fixed assets	232,274	401,077
Other assets	55,434	61,191
	517,799	584,396
Liabilities		
Current bank indebtedness	10,257	489,590
Accounts payable and other liabilities	16,091	30,504
Term bank loan, non-current	195,000	—
	221,348	520,094
Shareholders' Equity		
Share capital	422,472	180,000
Deficit	(126,021)	(115,698)
	296,451	64,302
	517,799	584,396

For the year ended October 31, 1984 Western incurred losses of \$10,323 (1983 - \$40,939) on sales of \$148,754 (1983 - \$227,801).

4. Land, Buildings, Machinery and Equipment

THOUSANDS OF DOLLARS

	1984	1983
Land	3,108	2,961
Buildings	17,079	16,992
Machinery and equipment	52,085	52,312
	72,272	72,265
Accumulated depreciation	24,217	21,081
	48,055	51,184

5. Long-term Debt

THOUSANDS OF DOLLARS

	1984	1983
Sinking Fund Debentures, Series A 10¼% maturing in 1997, retractable at the option of the holder in 1987	16,933	17,385
Bank term loan	—	8,616
Bank term loan maturing in 1988	12,000	—
Bank capital loan maturing in 1994	42,000	60,000
Bank capital loan maturing in 1995	20,000	20,000
Other	627	609
	91,560	106,610
Principal amount included in current liabilities	20	18
	91,540	106,592

The Sinking Fund Debentures, Series A (the Debentures) are secured by fixed and floating charges on certain assets of the Company. 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 \$42,000,000 bank capital loan bears interest at 14¼%. Other capital and term bank loans bear interest at the Royal Bank prime rate plus 1¼%. At the Company's option, the rate for the \$20,000,000 capital loan may be fixed for varying periods at rates based on the bank's U.S. base rate, London Interbank offered rates or Bankers' Acceptances. At the Company's option the rate for the \$12,000,000 term loan may be fixed for varying periods at rates based on Bankers' Acceptances.

The bank loans including the current bank indebtedness are secured by the shares owned by the Company in Western Forest Products Limited, an assignment of accounts receivable and inventories and, subject to the prior charges of the Debentures, fixed and floating charges on the assets of the Company.

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

1985	20
1986	20
1987	20
1988	13,377
1989	10,882

6. Preferred Shares of Subsidiary Company

The preferred shares of a subsidiary company were issued pursuant to a debt restructuring. No dividends are payable on these preferred shares, which are redeemable by the subsidiary company not later than December 31, 1987 at the issue price of \$1,000 per share plus a premium (the Redemption Price). The premium accrues at 14¼%, and is payable either in cash or by the assignment of shares in Doman Industries to a maximum of 1,528,000 Class B non-voting shares, series 2 and 1,188,444 Class C non-voting shares, which will be reduced proportionately by any cash payments. These preferred shares are retractable in certain circumstances at the option of the holder at the Redemption Price. At December 31, 1984 the Redemption Price was \$1,036 per share.

The subsidiary company's obligations to redeem these preferred shares and to pay the premium thereon are supported by a debenture securing a \$42,000,000 bank capital loan and by a pledge of its investments in 1,528,000 Class B non-voting shares, series 2 and 1,188,444 Class C non-voting shares of Doman Industries acquired for an aggregate cost of \$5,110,000.

Notes (continued)

7. Share Capital

(a) Changes in Authorized and Issued Share Capital

During the year the authorized number of Class A common shares was increased from 14,000,000 to 25,000,000 and the authorized number of Class B non-voting shares was increased from 15,000,000 to 60,000,000 (of which 1,496,358 were designated as series 1 and 58,503,642 as series 2). The authorized share capital was also increased by the creation of 100,000 Class B preferred shares and 4,000,000 Class C non-voting shares.

The issued share capital was reorganized during the year by subdividing the Class A common shares and the Class B non-voting shares, series 1 on a two for one basis and redesignating 6,733,612 of the issued Class A common shares as Class B non-voting shares, series 2.

During the year and pursuant to a debt restructuring, 8,616 Class B preferred shares were issued for cash of \$8,616,000, and 1,528,000 Class B non-voting shares, series 2 and 1,188,444 Class C non-voting shares were issued to a subsidiary company for a cash consideration of \$2,674,000 and \$2,436,000, respectively. In addition, 298,494 Class B non-voting shares, series 2 were issued pursuant to a stock dividend of \$449,000.

As a result the authorized and issued share capital at December 31, 1984 are as follows:

		1984	1983
THOUSANDS OF DOLLARS			
Authorized shares (without par value)			
5,000,000	Class A preferred		
100,000	Class B preferred		
25,000,000	Class A common		
60,000,000	Class B non-voting		
4,000,000	Class C non-voting		
Issued shares:			
40,000	Class A preferred, series 1	40,000	40,000
8,616	Class B preferred	8,616	—
		48,616	40,000
	6,733,612 Class A common	1,118	2,237
	1,496,358 Class B non-voting, series 1	3,703	3,703
	7,032,106 Class B non-voting, series 2	1,568	—
	1,528,000 Class B non-voting, series 2	2,674	—
	1,188,444 Class C non-voting	2,436	—
		11,499	5,940
		60,115	45,940

held by a subsidiary company (note 6)—
held by a subsidiary company (note 6)—

(b) Rights of Classes of Issued Shares

The Class A preferred shares, series 1 presently carry a cumulative annual dividend rate of one-half of the Royal Bank prime rate plus 2% to a maximum of 10%, payable semi-annually but with no compounding where dividends are not declared and paid. These shares are retractable at any time at the option of the holder at the issue price of \$1,000 per share plus any accrued and unpaid dividends (the Redemption Price) payable six months after notice by the holder and are redeemable by Doman Industries not later than December 15, 1987 at the Redemption Price.

The Class B preferred shares have a 0% dividend rate to June 30, 1986. Commencing July 1, 1986 these shares carry a cumulative annual dividend rate of 10% payable semi-annually but with no compounding where dividends are not declared and paid. These shares are redeemable by Doman Industries at any time at the issue price of \$1,000 per share plus any accrued and unpaid dividends.

7. Share Capital (cont'd)

The Class B non-voting shares and the Class C non-voting shares have the same rights as the Class A common shares except as to voting and conversion rights. The Class A common shares and the Class B non-voting shares, series 1 are convertible at the option of the holder into Class B non-voting shares, series 2 on a share-for-share basis, and the Class C non-voting shares are convertible at the option of the holder into Class A common shares on the same basis. The Class B non-voting shares, series 2 are not convertible into any other class of shares except in the case of an offer made to purchase all or substantially all of the outstanding Class A common shares. In that case, the Class B non-voting shares, series 2 shall, for purposes of the offer only, be deemed to have been converted into Class A common shares on a share-for-share basis.

(c) Commitments to Issue Shares

Outstanding options granted to directors and senior officers of Doman Industries to purchase a total of 60,000 Class A common shares and 60,000 Class B non-voting shares, series 2 at \$3.88 per share may be exercised up to 1990.

In conjunction with a debt restructuring during the year, Doman Industries has granted to the Royal Bank a contingent option to acquire between December 15, 1987 and December 15, 1988, at \$2.10 per share, Class A common shares equivalent to 10% of the aggregate of the company's then outstanding Class A common shares, Class B non-voting shares and Class C non-voting shares after the exercise of such contingent option. The Royal Bank is limited under this contingent option to acquiring, on a fully-diluted basis, no more than 25% of the Class A common shares then outstanding after the exercise of such contingent option. The contingent option will be exercisable only in the event that the Class B non-voting shares, series 2 do not prior to December 15, 1987 trade for a specified period at or above \$5.50 per share.

Doman Industries has reserved an adequate number of authorized and unissued shares to satisfy the rights outstanding under the conversion rights attached to each class of shares, the options and the contingent option to acquire shares and the exchange privilege with respect to the Class A Units issued by Western Pulp Limited Partnership as discussed in note 3(b).

(d) Dividends on Class A Preferred Shares, Series 1

At December 31, 1984, cumulative undeclared dividends on the outstanding Class A preferred shares, series 1 amounted to \$3,518,000.

8. Income Taxes

THOUSANDS OF DOLLARS

(a) Provision for Income Taxes	1984	1983
Income taxes (recovery) on earnings (loss) before income taxes and extraordinary item based on combined basic Canadian Federal and Provincial income tax rates of 52%	(7,978)	196
Increase (decrease) resulting from:		
Manufacturing and processing profits deduction	378	(4)
Inventory allowance	(823)	(588)
Non-taxable income	(8)	(33)
Accounting losses for which potential future tax benefits have not been recognized	5,615	453
Other deductions for income tax purposes in excess of amounts charged against earnings	—	(965)
	(2,816)	(941)

Notes (continued)

8. Income Taxes (cont'd)

THOUSANDS OF DOLLARS

(b) Loss Carry-forwards

At December 31, 1984, the Company had loss carry-forwards for income tax purposes available to reduce future years' income for tax purposes. The Company is allowed to file amended tax returns reducing the amount of tax loss carry-forwards expiring in any year and increasing capital cost allowances available in future years.

Loss carry-forwards for income tax purposes are as follows:

<i>Expiry</i>	
1985	8,239
1986	31,127
1987	26,844
1988	1,474
1991	10,352
	<hr/>
	78,036
Less excess of amounts claimed for income tax purposes over amounts charged to earnings	<hr/>
	35,028
	<hr/>
	43,008
Less accounting losses for which the future tax benefits have been recognized in the accounts	<hr/>
	19,246
	<hr/>
Accounting losses for which potential future tax benefits have not been recognized in the accounts	<hr/>
	23,762

9. (Loss) Earnings Per Share

The (loss) earnings per share have been calculated using the weighted average aggregate number of Class A common shares, Class B non-voting shares and Class C non-voting shares outstanding during each year (excluding those held by the subsidiary company) after adjusting the net loss or earnings by the cumulative dividend obligation with respect to the outstanding Class A preferred shares, series 1 and after giving retroactive effect to stock dividends and the reorganization of the issued shares.

The potential effect on the (loss) earnings per share of the commitments to issue additional shares and the redemption provisions attached to the preferred shares of a subsidiary was not dilutive in the current year and not material in 1983.

10. Other Information

THOUSANDS OF DOLLARS

(a) Related Party Transactions

Sales to a joint venture company during the year were \$56,564 (1983 - \$61,026) and interest paid or payable amounted to \$2,200 (1983 - \$2,363).

(b) Segmented Information

(i) Industry segments

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

(ii) Export sales

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

	1984	1983
United States	88,180	84,465
Europe	7,350	10,356
Other	18,341	8,032
	113,871	102,853

(c) Interest Expense

Interest on current debt amounted to \$5,912 (1983 - \$4,656) and on long-term debt amounted to \$14,661 (1983 - \$13,954).

(d) Equity in Earnings of Other Companies

Earnings before interest expense include equity in earnings of other companies in the amount of \$17 (1983 - \$64).

(e) Operating Lease Commitment

The Company is obligated under an operating lease of a sawmill to the following annual payments:

1985	1,731
1986	1,586
Thereafter to 2008	872

(f) Subsidiary Companies (all wholly-owned)

Doman Forest Products Limited
 Doman's Transport Limited
 Doman-Marpole Transport Limited
 Doman Freightways Limited
 Doman Investments Limited
 Armour & Saunders Limited

(g) Joint Venture Companies (both 50% owned)

Eacom Timber Sales Limited
 Timber Crest Estates Limited

(h) Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

Doman Industries Limited

Incorporated under the laws of British Columbia

Doman Industries Limited is vertically integrated in the forest products industry in British Columbia. The principal business of the Company is sawmilling based on five modern and efficient sawmills and lumber marketing where Domans has established a reputation as a reliable supplier of a broad range of products.

Starting in 1955 in the truck freighting business the Company expanded into the domestic marketing of lumber and building supplies which latter business has evolved into domestic lumber wholesaling. Since 1966 when the Company built its first major sawmill at Ladysmith, followed by mills at Chemainus in 1973, Cowichan Bay in 1975 and Nanaimo in 1980 the main growth area has been sawmilling and lumber marketing. Logging commenced in 1969 and has grown with the sawmill expansion. The Company's acquisition of an interest in Western Forest Products Limited in 1980 provided an important source of logs for Domans from Western's extensive timber holdings. Through Western and Western Pulp Limited Partnership Doman also participates in the pulp business at Squamish and Port Alice, B.C.

Doman is well positioned in the forest industry in British Columbia with modern plants, an excellent work force and an established reputation as a supplier of high quality products.

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, D.S.C., C.D.,
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
J. C. Davie
J. R. Abercrombie

Officers

H. S. Doman, President
J. C. Davie, Secretary
D. R. Williams, Q.C., Assistant 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 2P9 (telephone 604-748-3711)

Transfer Agent and Registrar for Common Shares and Class B Shares

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

Stock Exchanges

Class A Common Shares
Toronto and Vancouver
Class B Series 2 Non Voting Shares
Toronto and Vancouver

Transfer Agent and Registrar for 10¹/₄% 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.

Auditors

Deloitte Haskins & Sells, Vancouver, 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
Thursday, April 25, 1985 at 11 a.m.

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