

THE CHALLENGE OF WOOD



BRITISH COLUMBIA
FOREST PRODUCTS LIMITED
1979 ANNUAL REPORT

An Extraordinary Material

To most people, there's little glamour to wood products...for they are generally thought of as common place construction materials in today's sophisticated world.

And in a way, that's a considerable tribute to forest product companies like BCFP, because the truth is, wood products are anything but ordinary. In fact, home construction in much of the world is dependent on the exceptional and unusual qualities found in wood building materials. Attempts to create new man-made materials to match wood's special capabilities have never quite succeeded like the real thing.

There are a number of reasons.

Firstly, wood products are widely available in standard sizes and at reasonable costs. Secondly, wood is easy to use...it's simple to shape, cut and fasten with just ordinary tools. Even an unskilled home-owner can use wood material for basic repairs and for making simple furnishings. Yet, in the hands of a masterbuilder, wood can express dynamic architectural concepts and even the cultural heritage of a people.

Thirdly, wood's versatility has allowed for an unlimited variety of designs in home construction, pioneered first in North America and now spread throughout the world.

In addition, wood is one of the most energy efficient building materials on earth. It requires the lowest energy input to produce of all the materials used in the construction industry. What's more, wood is a natural insulator, so it keeps on saving energy year after year...And perhaps best of all is the reassuring fact that wood is a renewable resource, which can even be expanded and improved upon over time.

So finding a substitute for wood is an unnecessary challenge. But there are related challenges that are demanding, particularly in meeting growing world demand for more and better wood products, for more efficient converting methods that yield greater amounts of useful wood from the same amount of raw log; that utilize even less energy and do the job more safely and with more worker satisfaction.

The Challenge of Wood is substantial and the topic of a special review in BCFP's 1979 Annual Report.

COVER PHOTO -- Twenty-eight million board feet of framing lumber, destined for U.S. Atlantic Coast markets, is loaded on an ocean-going vessel at BCFP's lumber assembly wharves and deep sea docks at Crofton on Vancouver Island. The lumber, produced at the Company's Coastal sawmills, will be used in the construction of over 2800 homes on the Eastern Seaboard.

FINANCIAL HIGHLIGHTS

For The Year	1979	1978	% Increase
Net sales	\$799,961,000	\$704,140,000	13.6
Depreciation and depletion	32,625,000	31,714,000	2.9
Earnings before income taxes	170,781,000	121,520,000	40.5
Income taxes	74,038,000	52,494,000	41.0
Net earnings	96,743,000	69,026,000	40.2
— per common share (after preferred dividends) ...	\$6.35	\$4.53	40.2
Funds from operations	129,667,000	106,273,000	
— per common share (after preferred dividends) ...	\$8.52	\$6.99	21.9
Return on net assets	18.0%	15.2%	
Return on common shareholders' equity	30.4%	28.6%	
Dividends paid			
— common	17,437,000	9,152,000	
— per share	1.150	.605	90.1
— preferred	442,000	465,000	
— per share	3.00	3.00	
Capital expenditures	58,296,000	42,597,000	36.9
Salaries and wages	164,483,000	147,510,000	11.5
Employee benefits	41,642,000	39,563,000	5.3
Stumpage and royalty (to governments)	42,744,000	15,979,000	167.5
Property taxes	9,583,000	8,852,000	8.3
At Year End			
Ratio of current assets to current liabilities	2.1	2.4	
Ratio of long term debt to equity60	.84	
Shareholders' equity per common share	\$20.85	\$15.82	
Number of common shareholders	3,515	3,461	
Number of preferred shareholders	1,158	1,268	
Number of employees	8,180	7,895	
Assets employed per employee	\$88,400	\$78,700	

Canadian capital gains tax

Valuation Day prices:

Common shares (subdivided)	\$ 4 ¹⁵ / ₁₆
6% Preferred shares	41 ¹ / ₂
Series A, 4 ¹ / ₂ % debentures	92
Series B, 5 ¹ / ₂ % debentures	74
Series C, 6 ¹ / ₂ % debentures	80 ¹ / ₂
Series D, 9 ³ / ₄ % debentures	106

TO OUR SHAREHOLDERS AND EMPLOYEES

Highlight Review

Sustained high levels of consumption of forest products, improved prices for all the Company's products and a favourable exchange rate helped bring about the highest sales and earnings in BCFP's history in 1979. Major contributions to results were the record production levels achieved in the Company's pulp, newsprint and coated paper operations.

Two key factors combined in achieving this new record; the excellent performance of BCFP's employees and the numerous improvements to production facilities which have been made in recent years.

Consolidated net earnings for 1979 were \$96,743,000 or \$6.35 per common share, after preferred dividends, with sales of \$799,961,000 compared with earnings in 1978 of \$69,026,000 or \$4.53 per share and sales of \$704,140,000.

The exchange rate between Canadian and U.S. currency continued to make a major contribution to the year's results. The gain on exchange, included in net sales, amounted to \$89.1 million compared to \$62.3 million in 1978. Exchange represented a net contribution to per share earnings of \$2.51 in 1979 compared to a \$1.64 per share in the previous year.

The Company is taking advantage of increased earnings by making expenditures to modernize and expand production facilities to meet increased future demand for its products and to reduce production costs. Capital expenditures in 1979 totalled \$58.3 million, mainly directed at mill production improvements and energy conservation.

Return on investment reached a new high of 18.0 per cent compared to 15.2 per cent in 1978, and return on shareholders' equity increased from 28.6 per cent to 30.4 per cent, a significant improvement over levels achieved during the previous five years.

Although all logging operations had a reasonably good year, inclement weather and job action affected overall performance in the woods. Chip supply was difficult during the year due to high usage and rail delivery disruptions. Forest management work saw high levels of cruising, mapping, planting, spacing and fertilization accomplished.

The Company's sawmills faced labour disruptions at mid-year and reduced demand in the latter part of the year, lowering the year's total production of lumber and plywood below the record levels achieved in 1978. High U.S. housing starts were reflected in sustained strong demand for lumber in the U.S. rail and Atlantic Coast markets until fall, when the rapid escalation of interest rates dropped the annual rate of starts from 1.9 million to just below 1.6 million over a three month period, significantly affecting lumber demand and prices. Offshore markets also weakened.

Plywood demand was weak during the year and fell off further in the latter part, as U.S. suppliers, in the face of failing domestic markets, pushed into export markets, which resulted in surplus plywood in Canada and falling prices at year-end.

The balance between demand and supply for market pulp was more favourable in 1979 than it has been for several years. North American and Scandinavian pulp producer inventories dropped to about 630,000 tonnes, well below a normal level of 1.3 million tonnes. Consuming paper mill inventories are also low. As a result, both the Mackenzie and Crofton pulp mills had high production levels notwithstanding some operating problems in the early part of the year.

World demand for newsprint exceeded supply throughout the year and U.S. consumer inventories are estimated to be at their lowest levels in seven years. Newsprint operations at Crofton reached a new high prompted by the heavy demand. Crofton's \$150 million expansion program to add a third newsprint machine will increase the mill's capacity by 68 per cent.

Demand for Blandin's lightweight coated papers continued very strong resulting in an increased level of production at the mill. Blandin Paper has a \$28.4 million energy project nearing completion. Blandin Wood Products had a difficult year due to plant problems early in 1979 and market conditions at year end. A \$37.5 million expansion of the waferboard plant to triple its capacity is well underway with completion expected in 1981.

The Company is opposing the complaint filed by the U.S. Department of Justice, Antitrust Division, pertaining to the Company's acquisition of Blandin Paper Company in August, 1977. The action is currently scheduled to proceed to trial in U.S. District Court in April, 1981.

The Donohue St-Felicien pulp mill continued its high steady performance since its startup in late 1978, running at 97 per cent of rated capacity for the year and exceeding capacity for seven of the last eight

months of 1979. In December, BCFP exercised its option to acquire an additional 5 per cent interest in Donohue St-Felicien Inc., at a cost of \$6.4 million, increasing the Company's shareholding to 45 per cent.

In March, Croftech Inc., a project and construction management company, was formed as a wholly owned subsidiary of BCFP. Croftech, with offices in Vancouver, will manage the major expansion projects undertaken by BCFP and will undertake work for others.

In June, BCFP acquired a 43 per cent interest in Finlay Forest Industries Ltd. which currently operates a refiner groundwood pulp mill and two sawmills at Mackenzie, B.C.

During the year, the Company's interest in Fraser River Pile Driving Company Limited increased from 39 per cent to 61 per cent.

The Minister of Energy and Natural Resources for the Province of Alberta announced in November that a \$300 million proposal made by BCFP for the development of Alberta's Berland Forest Management Area, including two sawmills and a paper mill, had been accepted by the Provincial Cabinet. Negotiations are currently underway on an Agreement for rights to harvest timber from some two million acres of forest area lying 200 miles northwest of Edmonton.

On February 15, 1980 the Company was advised that its bid for the purchase of the assets of Elk River Timber Company Limited (Elk) had been accepted. Elk is owned two-thirds by Scott Paper Company of Philadelphia and one-third by Crown Zellerbach Canada Limited.

The assets of Elk consist of approximately 100,000 acres of timberlands on the east coast of Vancouver Island in the vicinity of Campbell River and include logging equipment, roads, booming grounds and a log dump. Elk is an active logging operation producing approximately 8 million cubic feet of logs per year. BCFP intends to continue the logging operation and to increase the log production from these lands.

The purchase of the assets of Elk is an important acquisition of timberlands, and will greatly improve BCFP's timber supply on the Coast. The closing date for the purchase is mid-April, 1980.

At the Annual General Meeting in April, three new members were elected to the Board: H.C. Bentall, L. Beaudoin and B.R. Roberts. Retiring from the Board after 19 years of outstanding service was A.F. Armstrong. J.L. Shane also resigned after serving for two and one half years.

Also at the Annual General Meeting, Ian A. Barclay relinquished his position as Chief Executive Officer but remained as Chairman of the Board. K.P. Benson, President, was appointed Chief Executive Officer.

In December, two new Directors were appointed to the Board; A.F. Campney and J.M. Tennant, succeeding Dr. G.H. Sheets and T.B. Stanley, Jr. who resigned after several years of distinguished service. G.F. Cameron, formerly Director of Industrial and Labour Relations was appointed Vice-President, Employee Relations.

At a meeting of the Board of Directors on February 22, 1980, the resignation of W.L. Batts from the Board was accepted with regret; and J.W. McSwiney was appointed to fill the vacancy. Mr. McSwiney had retired from the Board in April, 1979. At the same meeting, the Board decided to recommend to the common shareholders at the April 17, 1980 Annual General Meeting that the BCFP common shares be subdivided on a two-for-one basis, in order to increase the number of shares available to the public and improve their marketability.

Forecast

As we enter this new decade, we find a definite slowing of real growth in the economies of most of the Western countries and heightening international political confrontation.

The economic sluggishness has been affected by increased oil prices, restrictive domestic monetary policies to lower unacceptable inflation rates and a lessening in the expansion of world trade due in large measure to the anticipated recession in the United States.

What happens to the U.S. economy is of significant importance to Canada. The consensus forecast for the United States' economy has been for a mild recession during the first part of the year, followed by a gradual recovery. However, increased government spending, brought about partly by the current international confrontation, may defer the start of the anticipated recession.

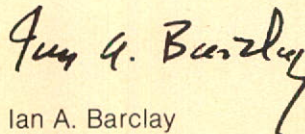
For BCFP, lumber and plywood sales are expected to be reduced in 1980. U.S. annualized housing starts are expected to be around 1.5 million, or could be lower unless there is some form of governmental housing program, while in Canada, housing starts may fall to as low as 178,000, which would be one of the weakest

years in recent history. The lower U.S. housing levels will also have an adverse effect on waferboard sales by Blandin Wood Products.

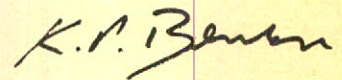
Pulp sales forecasts are for some softening of demand in 1980, but in view of the current excess of demand over supply and low inventories, good operating rates are predicted for BCFP pulp mills. Some easing in demand is also expected for Crofton newsprint, but high operating rates are most likely to be maintained. Blandin's coated paper sales should remain strong.

The Company's confidence in the future is mirrored by the substantial new investments being made by BCFP in British Columbia, Minnesota and soon in Alberta, ensuring that the Company is well balanced, from its fibre supply to finished products. Over the next five years, BCFP expects to spend up to \$900 million to strengthen the Company's competitive ability by modernization and development of new forest products facilities.

The ability of BCFP employees to produce and sell the Company's products even during difficult periods is well known. Considering the overall position of BCFP, all operations should run at reasonably good levels during 1980 and the Company should again record another successful year.



Ian A. Barclay
Chairman



Kenneth P. Benson
President

February 22, 1980

OPERATIONS REVIEW

Wood Supply and Forestry

Log production at BCFP's Coastal and Interior operations was 182.6 million cubic feet in 1979, a level second only to the record 195.3 million cubic feet produced during 1978.

Operating conditions on the Coast were fairly normal and most divisions reached their harvesting objectives despite disruptions resulting from labor action and precautionary closures for hazardous 'fire' weather. Poor weather persisted in the opening months of the year affecting some divisions but production recovered gradually through the balance of the year, particularly in the fourth quarter when mild, wet weather prevailed. Combined log production for the Coast was 126.8 million cubic feet.

Logging volume at Mackenzie was reduced in 1979 as the Division started the year with a high inventory. The inventory included some logs stranded on the shores of Lake Williston because of low lake levels. These logs are now being reclaimed. Ideal winter conditions existed during January and February permitting direct haul of 16.4 million cubic feet of logs contributing to total log production at Mackenzie for the year of 55.8 million cubic feet.

The chip supply/demand situation in B.C. has been extremely volatile over the past three years, ranging from a massive surplus in 1977 to a growing shortage in 1979. This resulted from increased usage, delivery disruptions and the intrusion of export buyers. As a result, there was a serious decline in the chip inventory at Crofton. With the intensifying competition for chips, efficient operation of Crofton's two woodrooms will be critical in maintaining the desired inventory both in volume and species balance.

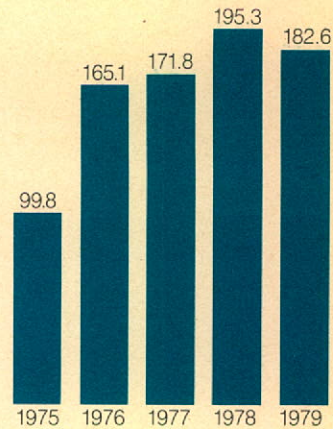
At Mackenzie, a similar reduction of chips occurred at the start of 1979, and while the supply improved throughout the balance of the year, high pulp production levels and operating interruptions on the B.C. Railway caused the inventory to drop again by year end, forcing resumption of whole log chipping.

The Forest Service cost allowances for stumpage appraisal calculations continued to lag behind actual logging costs during 1979, and representations to bring the relationship into balance were the focus of ongoing effort. Stumpage in the Mackenzie Division was subjected to normal appraisal procedures for the first time and a total of \$8.2 million was levied compared to the incentive stumpage of \$.3 million paid in 1978.

Total stumpage and royalty fees paid by BCFP for cutting timber in 1979 reached \$42.7 million, a 167 per cent increase over the previous year.

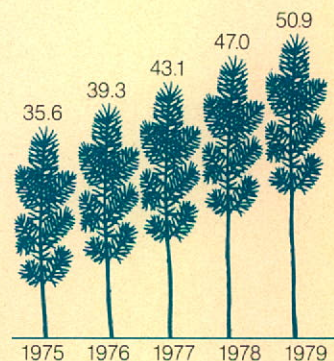
Log Production

(millions of cubic feet)

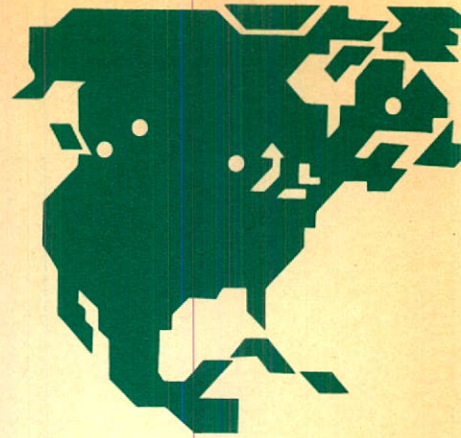


Cumulative Tree Planting

(millions of trees)



With the exception of one small operation, all logs produced in Coastal divisions are now processed at dry land sorts before being transported to Company manufacturing facilities. Productivity at the Shoal Islands central dry land sort, a 20-acre man-made island located near Crofton, improved to an average of 113,000 cubic feet of logs per day during its first full year of operation.



The Company's Timberlands department concluded an active year in which potential forest properties and related cutting rights were examined in B.C. and Alberta.

Considerable advance work and preparation was undertaken for the Company's proposal to develop approximately two million acres of forest land in northwestern Alberta. Negotiations for a Forest Management Agreement are still in progress.

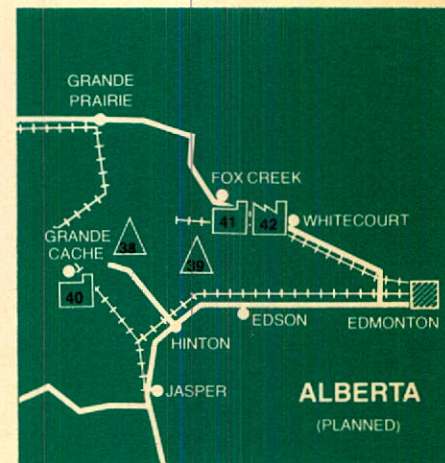
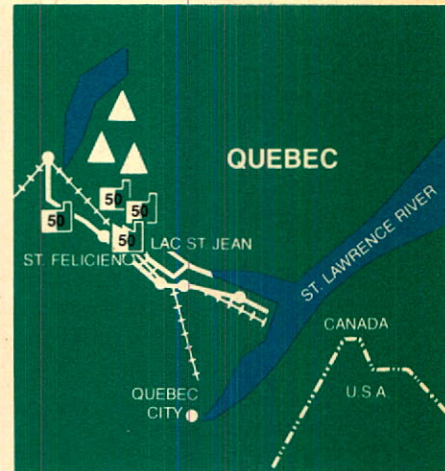
Forestry crews planted a total of 3.9 million seedlings on 11,000 acres of Company-owned or managed lands in B.C. The Company's long-standing commitment to intensive forest management led to record levels in several areas including juvenile spacing of over 10,000 acres, aerial fertilization of 4700 acres and brush eradication from 3300 acres. Total acreage undergoing intensive forestry programs in 1979 was a record 29,000 acres.

Work commenced during 1979 on a 100 acre seed orchard on the Sannich Peninsula of southern Vancouver Island,

operated jointly by the Company [60 per cent] and Crown Zellerbach Canada Limited [40 per cent].

During the year the Company embarked on its first sustained attempt to log deciduous trees from the fertile bottom lands in its Renfrew and Cowichan logging divisions. Logs produced in the harvest, mainly alder, were sold on the open market. When these lands are rehabilitated, they will provide ideal growing sites for future conifer plantations.

Swiftsure Towing Company Ltd., the Company's marine subsidiary, had an active year on the Coast transporting logs for BCFP. The volume of towing by Swiftsure's fleet of coastal and river tugs was 112 million cubic feet in 1979. The Company's two self-loading, self-dumping barges carried an additional 37 million cubic feet of logs. During 1979, a large tug was purchased and recommissioned as the Swiftsure X. This tug substantially aided the performance of the Forest Prince log barge, setting a new record of 95 trips. The tug, Swiftsure II, was stretched and repowered during the year to increase its capacity.



BRITISH COLUMBIA

Logging Operations

- 1. Koksilah - 35*
- 2. Renfrew - 360/25*
- 3. Cowichan/Nitinat - 325/30*
- 4. Parksville - 20*
- 5. Barkley - 30*
- 6. Clayoquot - 55*
- 7. Mooyah Bay - 30*
- 8. Tsowwin - 25*
- 9. Machmell - 50*
- 10. Nekite - 40/5*
- 11. Wakeman/Acteon - 60/90*
- 12. Knight Inlet - 65*
- 13. Tom Brown Lake - 35*
- 14. Phillips Arm - 35*
- 15. Quatam - 30*
- 16. Seshal/Glacial Creek - 35*
- 17. Narrows Inlet - 65
- 18. Pitt Lake - 75
- 19. Stave Lake - 40*
- 20. Port Douglas - 30*

- 21. Silver River - 75
- 22. American Creek - 15*
- 23. Boston Bar - 25/130*
- 24. Mackenzie - 80/320*
- 25. Shoal Islands
Log Sort - 26/5*

Coastal Area Logging Offices

- 26. Campbell River - 40
- 27. Crofton - 25
- 28. Maple Ridge - 20

Lumber Mills

- 29. Mackenzie - 660
(Sawmill, Studmill,
Small Log Mill)
- 30. Boston Bar - 250
- 31. Hammond - 480
- 32. Victoria - 560
- 33. Cowichan - 640
- 34. Tilbury - 170

Shingle Mill

- 31. Hammond - 40

Plywood and Veneer Plants

- 32. Victoria Plywood - 410
- 33. Cowichan (Veneer) - 90
- 35. Delta Plywood - 330

Pulp and Newsprint Mills

- 29. Mackenzie - 265
(Kraft Pulp)
- 36. Crofton - 1090
(Kraft Pulp, Newsprint)

Deep Sea Docks

- 37. Stuart Channel Wharves
(Crofton) - 30

ALBERTA (Planned Operational Date)

- Woodlands**
- 38. Grande Cache (1980)
- 39. Fox Creek (1980)
- Lumber Mills**
- 40. Grande Cache (1981)
- 41. Knight (1982)
- TMP/Paper Mill**
- 42. Hurdy (1985)

WHOLLY-OWNED SUBSIDIARIES

- 43. Blandin Paper - 1165
- 44. Blandin Wood Products - 165
- 45. Swiftsure Towing - 80
- 46. Croftech - 15

PARTLY-OWNED COMPANIES

- 47. Pinette & Therrien Mills - 400
- 48. Fraser River Pile Driving - 150
- 49. Finlay Forest Industries - 550/225*
- 50. Donohue St-Felicien Inc. - 1800

EXECUTIVE AND ADMINISTRATIVE OFFICES

- 51. Vancouver Head Office - 290
- 29. Mackenzie Administration - 80

Average number of full time employees under normal conditions is shown in italics.
*Designates number of contractor employees in division.

1980 OPERATIONS



Wood Products

Severe winter weather in early 1979 in the mid-west and eastern United States and Canada resulted in rail car shortages, decreases in demand and production disruptions for the Company's wood products sector. Higher interest rates through the second half, particularly in the fourth quarter, in both Canada and the United States depressed housing starts and severely affected plywood sales. Overseas, markets strengthened throughout the year reaching record highs by the third quarter. At year end, demand weakened and prices decreased.

Total lumber produced at BCFP's eight sawmills was 795 million board feet, down from the 1978 level of 835 million, mainly due to labour disruptions. Higher average prices prevailed in 1979.

Operating disruptions and lack of demand held plywood production to 1.232 billion square feet [1/16th inch basis], down from the record volumes produced in 1978.

Coastal lumber production reached 519 million board feet compared to the record 538 million produced in 1978. The Mackenzie sawmills produced 276 million board feet of lumber, compared to the 297 million high established in 1978.

At Mackenzie, reduced shipments, poor sales return on studs and a rail disruption late in

the year had a negative effect on performance. Installation of a new Chip-N-Saw and major modifications to the large log mill interrupted and reduced the mill's production. A new Chip-N-Saw in the stud mill and an additional Chip-N-Saw shift at the small log mill contributed to their good levels of production.

Boston Bar performed well during 1979, aided greatly by a new timber deck which permits a more diversified and profitable product mix. Its production of 91 million board feet established a record for that division. Tilbury's production of 73 million board feet was a record for that division as well.

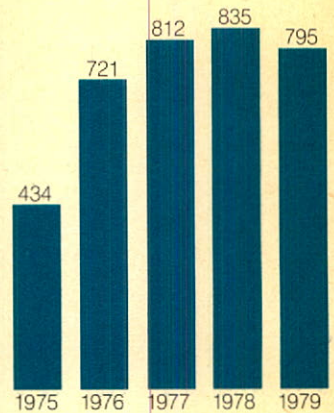
A new \$4.0 million planer mill at Victoria was completed in June and is performing up to expectations. The project included a large tray sorter and packaging equipment for finished lumber.

Work began mid-year on a \$4.5 million bin sorter system at Cowichan Wood Products and the system was completed and undergoing trials early in 1980. The mechanical lumber sorting system will eliminate hand-sorting of material and will reduce the number of injuries related to manual handling.

The Company's 1980 capital program includes a start on construction of a new \$35 million sawmill at Hammond to replace the existing mill by 1982, a bin sorter system for Victoria Wood Products, and major renovations to Cowichan's small log line.

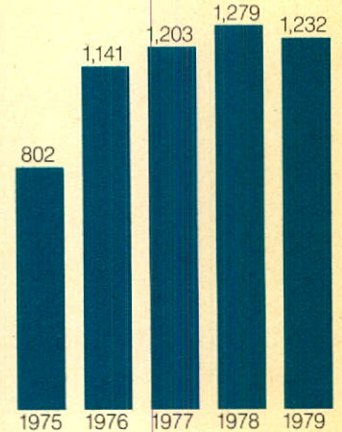
Lumber Production

(millions of board feet)



Plywood Production

(millions of square feet 1/16")



The Company's deep sea dock facilities near Crofton, had an active year of shipments of lumber, pulp, newsprint, shingles and plywood. Total shipments of lumber, including other producers', was 444 million board feet during 1979 and other cargo amounted to 22,279 tonnes. During the course of the year, 223 vessels called at the docks compared to 281 in 1978.

Pulp and Paper

Recovering from the depressed levels of two years ago, the pulp market continued to improve through 1979 leading to high production performance at the Mackenzie and Crofton mills. Total pulp production for 1979 reached a new high of 452,000 tonnes, 4,200 tonnes above the record level established during 1978.

Crofton's production of 268,600 tonnes of market kraft pulp was just slightly under the previous record high but Mackenzie's 183,400 tonnes of production for the year was 5,500 tonnes over the record established in 1978.

The demand for newsprint continued to be strong during 1979 and Crofton produced a record 254,300 tonnes of standard newsprint. Demand has exceeded supply in North America for nearly two years.

Both Crofton and Mackenzie encountered an unusual number of production losses during 1979 as the result of electric power outages, labor disruptions, cold weather problems and equipment failures. Performance at Crofton was also affected by a series of boiler incidents.

Shipments of both pulp and newsprint were impeded by a box car shortage early in the year, a longshoremen's strike in June, and a B.C. Rail strike at year end. Disruptions of service on the B.C. Railway persisted into the opening

weeks of 1980 and a truck fleet was organized to make deliveries of chemicals to the mill and pulp to customers. Despite these problems, market pulp inventories at Crofton and Mackenzie remained at low levels.

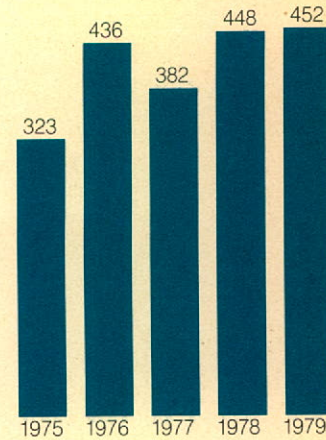
Installation of the new 20-megawatt turbogenerator at the Mackenzie pulp mill was completed and the \$6.3 million unit is now producing about two-thirds of the electrical requirements of the lumber and pulp complex. At Crofton, a 35-megawatt turbogenerator project, costing \$8.6 million, is expected to startup in early 1981. Both of the turbo-generators operate on steam, largely produced from the combustion of waste fuels, and are important steps in the Company's energy conservation programs.

In the newsprint operation at Crofton, a \$650,000 ventanip press system was installed on No. 2 machine early in the year, allowing the machine to operate at faster speeds. A second ventanip has been ordered for No. 1 machine and will be installed during 1980. Also at Crofton newsprint, a new finishing line computer and documentation system will be installed in 1980.

Detailed design and purchasing for a \$150 million third newsprint machine at Crofton have begun. A high speed twin-wire Beloit Bel Baie II machine is now on order. Pulp furnish will be supplied from a

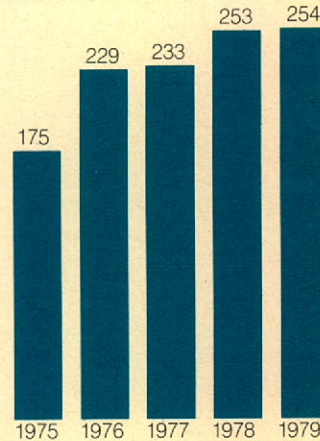
Market Pulp Production

(thousands of air dry tonnes)



Newsprint Production

(thousands of tonnes)



thermo-mechanical pulping plant to be built at Crofton utilizing Sprout-Waldron refiners. The addition of No. 3 news machine will increase Crofton's newsprint capacity by 68 per cent to 432,000 tonnes annually when the project is completed in mid-1982. Ground breaking for the expansion program took place early in 1980 and construction is now underway.

Blandin Paper Company

Blandin Paper Company had a record year for both shipments and production of lightweight coated papers at its Grand Rapids, Minnesota mill as the market remained strong throughout the year. Coated paper production in 1979 was 308,000 tons compared to 300,000 tons in 1978.

Blandin's major energy project progressed well and is scheduled for startup in mid-1980. The \$28.4 million project includes the installation of an electric turbogenerator and two boilers capable of burning wood waste or coal. The boilers will replace gas-fired ones now in use.

Blandin Wood Products Company, a wholly-owned subsidiary of Blandin Paper, had a difficult year, and produced only 42,000 tons of aspen waferboard, down 11,000 tons from the previous year. The plant was down for the month of January for modifications and as demand dropped sharply during the latter part of the year, a further month of downtime was taken for inventory correction.

The future demand for this product is most encouraging and a start has been made on a \$37.5 million project to expand the mill's capacity to 178,000 tons annually. Site preparation has been completed and the enlarged mill should be in operation by the last half of 1981.

New Developments Alberta

In November, the Minister of Energy and Natural Resources for Alberta announced that BCFP's proposal for the development of approximately two million acres in the Berland Forest Management Area, in northwestern Alberta, had been selected from among several submitted.

Studies of the forest region and potential sites for converting facilities were undertaken earlier in the year by the Company, and a proposal for development was submitted, outlining a plan for development of the forest region, and for construction and operation of sawmilling and fibre processing facilities.

The proposal includes the three phase, five year development of an integrated forest products complex estimated to cost \$300 million.

The first phase of the development, an 80 million board feet sawmill near Grande Cache, is planned for commencement of construction in 1980 along with

woodlands development in the western sector of the Berland. This sawmill is planned for startup in late 1981.

The second phase of construction is planned to commence in 1981 on a second sawmill of 100 million board feet capacity in the Knight region, southeast of Fox Creek. Startup of the mill is scheduled in late 1982.

The third and largest phase of the development will be the construction of a 500 tonnes per day thermo-mechanical pulp and paper mill at Hurdy, 30 kilometres west of Whitecourt. Construction should begin in 1982 and startup is expected in 1985.

The mills and woodlands operations will create a total of 975 forest related jobs, of which 360 will be in the Grande Cache area and the other 615 in the Fox Creek and Whitecourt areas.

Negotiations are currently underway with the Alberta Government for a Forest Management Agreement to secure the forest resources necessary to support the Company's planned facilities.

Partly-Owned Companies Donohue St-Felicien Inc.

[45 per cent owned]

Donohue St-Felicien Inc. had a successful first full year in its pulp mill operations, while five months of strike action significantly reduced lumber production from the three D.S.F. sawmills.

Total pulp production reached 229,600 tonnes for the year, approximately 97 per cent of the mill's rated capacity. The pulp was well accepted in Canadian, U.S. and overseas markets.

A five month strike at the Girardville and St.Thomas sawmills was finally settled in mid-June, and the mills quickly returned to full production. However, combined lumber production for the year from all three mills reached only 125 million board feet compared to 145 million board feet in 1978.

Finlay Forest Industries Ltd.

[42.7 per cent owned]

In June, BCFP purchased a 42.7 per cent interest in Finlay Forest Industries Ltd., at Mackenzie, B.C. with a refiner groundwood pulp mill having an annual capacity of 96,000 tonnes, a sawmill of 110 million board feet capacity and cutting rights of 400,000 cunits per year in the Finlay P.S.Y.U.

In November, F.F.I. purchased a sawmill at Mackenzie with 90 million board feet capacity and cutting rights of just over 100,000 cunits.

Finlay Forest Industries now has a three fold expansion project underway including a \$20.8 million project to increase the capacity of the groundwood pulp mill to 145,000 tonnes by 1981. A \$5 million planer mill and a dry kiln expected to cost \$650,000 are being added to the recently acquired sawmill.

Approximately 50 per cent of the groundwood pulp produced will be shipped to BCFP's Crofton operations following completion of the No.3 newsprint machine.

Fraser River Pile Driving Company Limited

[60.8 per cent owned]

Fraser River had a successful year with a number of significant projects among the many undertaken during 1979 including a new deep-sea, wood chip shipping wharf in North Vancouver, major foreshore development for a large Vancouver hotel, major participation in repairs to the damaged Canadian National rail bridge at Second Narrows in Vancouver and a new deep sea wharf at Tahsis, on Vancouver Island.

Pinette & Therrien Mills Limited

[50 per cent owned]

Pinette & Therrien Mills had another very good year with lumber production reaching 183.1 million board feet, down slightly from the record level of 188.1 million board feet in 1978. A new \$1 million finger-jointing mill was started up in May, with an annual capacity of 11 million board feet.

Employee Relations

BCFP faced major challenges as it entered 1979, preparing for industry-wide contract negotiations with trade unions representing employees in every sector of the Company's B.C. operations.

Collective agreements were signed with the International Woodworkers of America, the Canadian Paperworkers Union and the Pulp, Paper and Woodworkers of Canada after a few work stoppages during negotiations. These new agreements cover all of the hourly employees in the Company's logging and manufacturing divisions. The term of the new agreements is for two years and generally provides for increases in wages and benefits amounting to 12 per cent in the first year and 10 per cent in the second.

A three year collective agreement was negotiated between the B.C. Maritime Employers Association and the International Longshoremen's and Warehousemen's Union

covering Stuart Channel Wharves Division. Two of three unions representing Swiftsure employees have also signed new two year agreements.

At the end of 1979, employment at all Company operations was 8,180, including 1,321 employees at Blandin, compared to a total of 7,895 employees in 1978.

Despite some improvements in individual operations, the Company's overall safety performance was disappointing and unfortunately, two fatalities occurred during 1979. Steps have been initiated to strengthen the existing safety programs in an effort to reverse the trend.

Crofton Pulp and Paper Division was named the safest pulp and paper mill in Canada. Tilbury Sawmill Division continued excellent progress in dropping its accident frequency rate and several operations including the logging group at Crofton, Silver River, Maple Ridge, Campbell River, Plumper Bay, Shoal Islands and the Kent Street Warehouse achieved accident-free years.

Inforum, the Company's employee meetings, visited 16 locations central to Company operations and reached an audience of 4,000 employees, their spouses, and retirees. Both the Company's annual report for 1978 and a special report to employees, 'Spirit', were recognized with top awards by the Financial Post newspaper and the Canadian Public Relations Society.

The Company's salaried employees' pension plan was made non-contributory in July and salaries, wages and other benefits were upgraded to help lessen the impact of inflation.

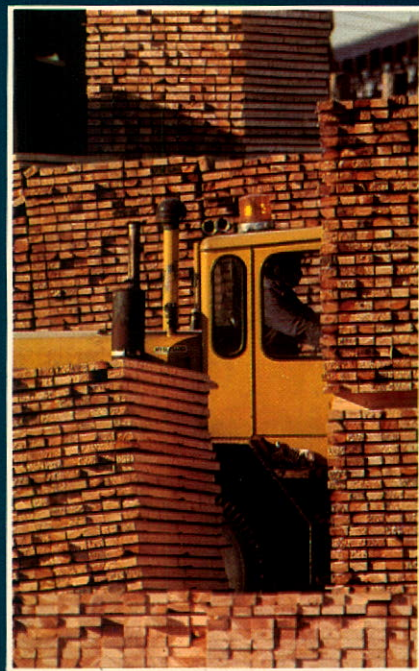
THE CHALLENGE OF WOOD

Wood was one of man's earliest building blocks, a familiar and useful material even during the early centuries of civilization.

Those early builders and craftsmen quickly discovered that the tree had unlimited potential. Over time, tools and machines were designed to ease the conversion from round tree stems into an endless variety of building and finishing materials, in more consistent form and greater quantities.

Thus began wood products manufacturing on a factory scale, bringing trees together with the engineering inventiveness of man and the demands of growing populations for shelter.

Fundamentally, the production of solid wood products still involves the same central challenge it did when timbers were first hewn from logs with an adze; that is, creating rectangular, uniform products from round and often highly variable raw material. However, the industry today is facing additional challenges.



Kiln-dried, rough lumber at Tilbury

Western North America, between the Rocky Mountains and the Pacific Coast, contains some of the finest stands of softwood trees in the world. One challenge is ensuring that these great stands of trees, the base of the Western forest industry, are better managed, and are perpetuated for coming generations.

A second challenge is the need to adapt the industry from its past and current use of large, old growth timber to new methods for converting the smaller second growth.

A continuing challenge is to make sure that the forest industry remains competitive. This requires the investment of substantial funds in new technology and in ways to better utilize both human and fibre resources.

Space age technology is increasingly being applied in wood products production, all contributing to faster and better manufacturing decisions with increased accuracy. With this new technology come other benefits; less bullwork and more headwork; a more highly trained workforce using more controls and fewer hand tools; and more challenging and better paying jobs. Also, the work environment is more pleasant, with better protection from noise, dust and weather.

The new equipment in wood products mills has come about through constant trial and learning. It takes the very best of efforts, to improve further on what generations have already sought to improve. This special report illustrates some of the progress made in meeting 'the challenge of wood'.

It is not surprising that one of the most senior operating jobs in a large log sawmill is that of the headrig sawyer, for it is on his judgement and experience that a mill depends for the successful breakdown of thousands of such logs into their highest value and a maximum amount of lumber. The

job demands special skills and dexterity and long experience. Many sawyers have made their jobs a lifetime career.

Since part of each log that is sawn into lumber will also end up as wood chips used to make pulp and paper, bark on the log must be removed by a mechanical barker prior to sawing. It whirls around the

log literally scraping off the bark and sending it to a pulverizing unit called a hog and then to a collection area.

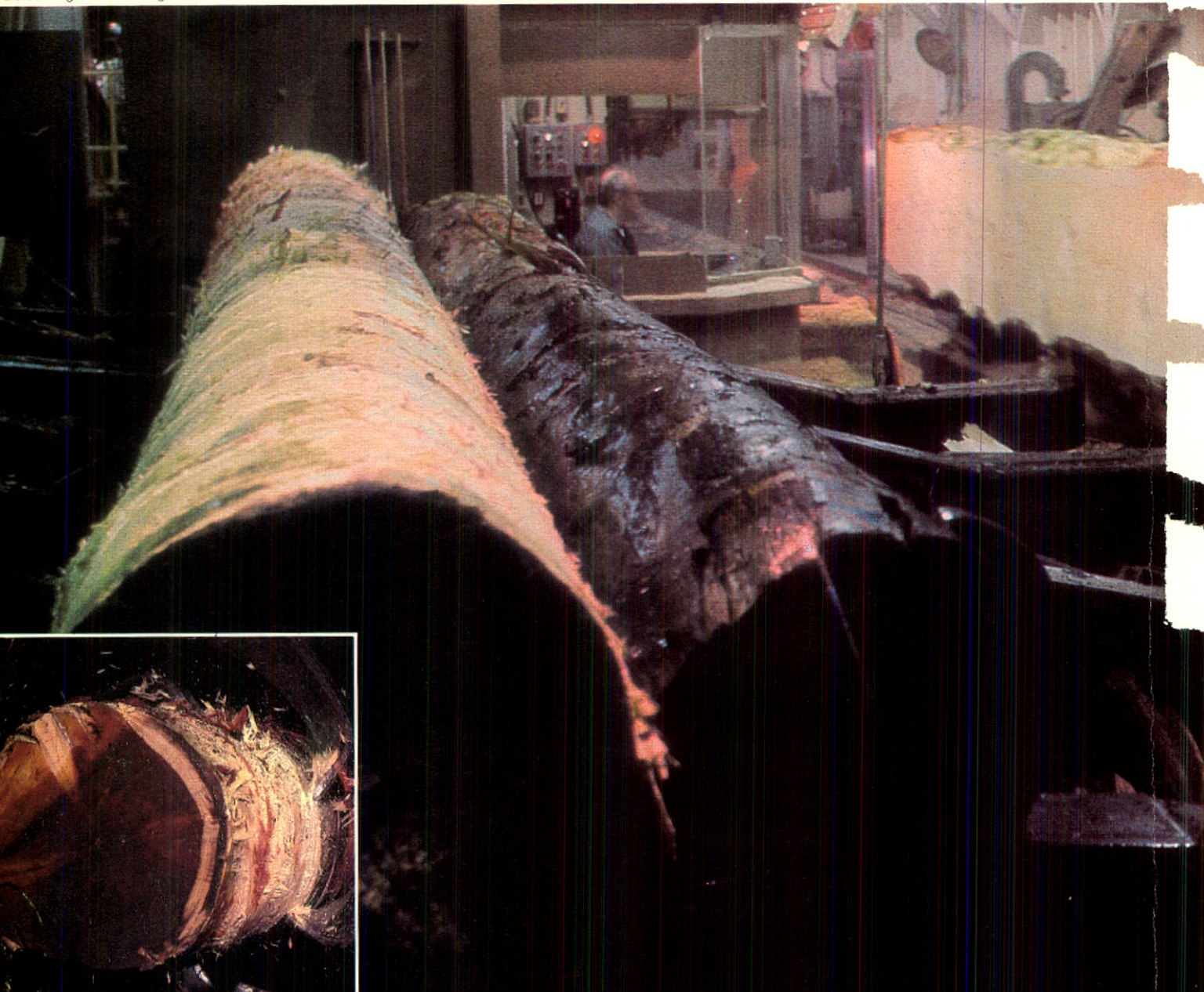
As each de-barked log arrives at the headrig saw, the sawyer must eyeball it for its quality and soundness and then after rotating the log, pass it through a large high-speed

Experienced judgment maximizes large log value

The first cut from each log is a slab, rounded on the outer face, usually destined to be reduced to chips for making pulp. The headrig sawyer either goes around the log, removing the highest grade boards or will make several cuts on one side and then flip

De-barking a Coastal log

Sawyer Kenneth McMillan operates Victoria's headrig band saw.



band saw, cutting it into various forms of lumber and timbers.

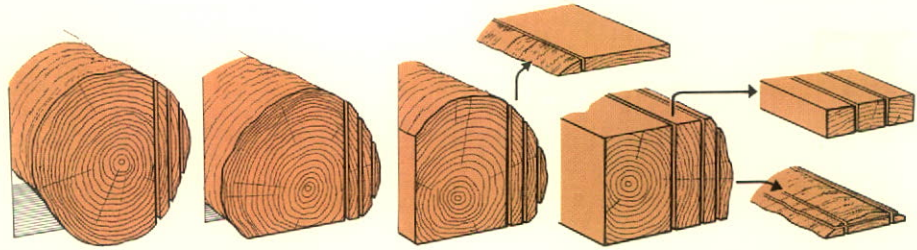
The sawyer follows a manufacturing process similar to that shown in the line drawing, constantly revising his cutting plan as the internal structure of the log is exposed; keeping in mind the orders from various markets for certain sizes and grades of lumber.

The head rig pictured features a 16 inch wide band saw which slices through logs at over 100 miles an hour. The log sits on a special carriage which can flip over a log weighing many tons with the simple touch of a lever and position the log exactly for each pass through the band saw. The Victoria mill will cut

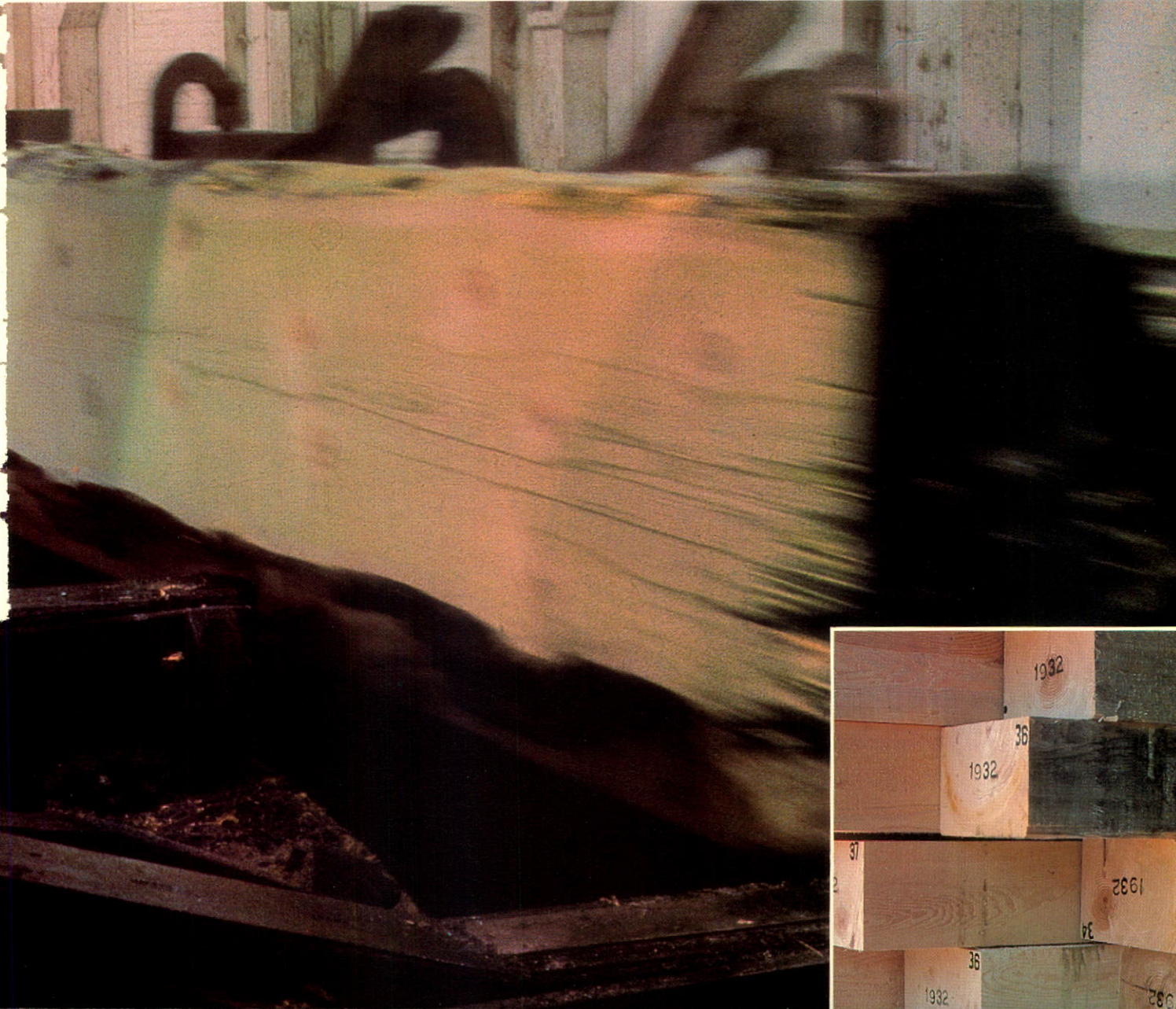
about 600 such large logs on its headrig in a full day.

Downstream from the headrig are a variety of smaller machines used to recover further grades of lumber and to cut lumber to order before it leaves the mill for sorting and finishing.

the log 180 degrees making further cuts on the opposite side. The outer zone of the log usually contains knot-free or select grades of wood. Near the centre is the heartwood, more likely to contain knots and splits.



Export timbers from Cowichan



While BCFP's Victoria sawmill will cut some 13,000 large logs on its headrig band saw in an average month, the Company's small log mill at Mackenzie, in British Columbia's northern interior, in comparison will cut about 220,000 logs on its Chip-N-Saw equipment in the same period. The difference is the size of the trees. Timber in the interior is

comparatively small and log grade quite consistent, with little clear wood (that is, wood without knots); so the emphasis is on fast, accurate conversion of logs to dimension lumber . . . 2" by 4" to 2" by 10".

Computerized scanning equipment is used to quickly pre-measure the diameter and shape of each log as it enters the converting machine. Scanning results are dis-

played on a TV monitor for the operator, so that he can see the sawing pattern which the computer has selected to recover the most lumber possible from each log. The sawyer can over-ride the computer if a log is irregular in shape.

To handle the logs efficiently, trees up to 100 feet long are trimmed to 16 foot lengths by a bank of saws on log decks, then are de-

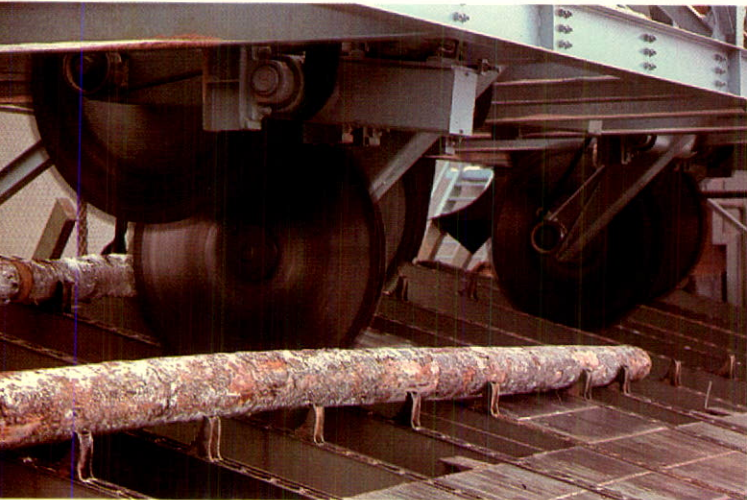
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Small logs get high speed processing

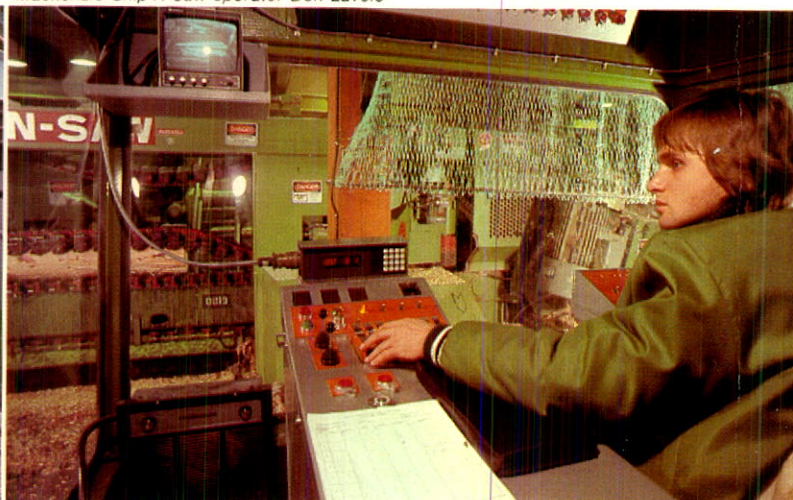
The Chip-N-Saw method of log conversion uses combinations of chipping knives which chip a rectangular or stepped pattern the length of the log. Combinations of band saws or vertical arbor saws then cut the patterned

log into dimension lumber of varying widths, depending on log size. This chipping/canter has four chipping heads followed by twin band saws and produces lumber at about 200 feet per minute.

Slasher saws at Mackenzie

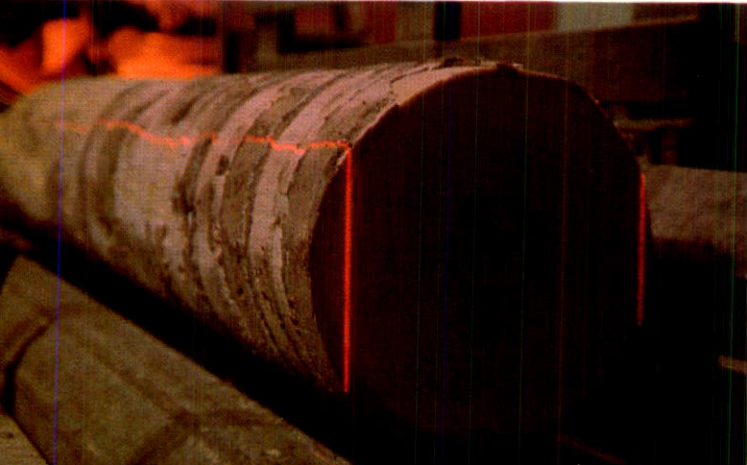


Mackenzie Chip-N-Saw operator Don Lavore

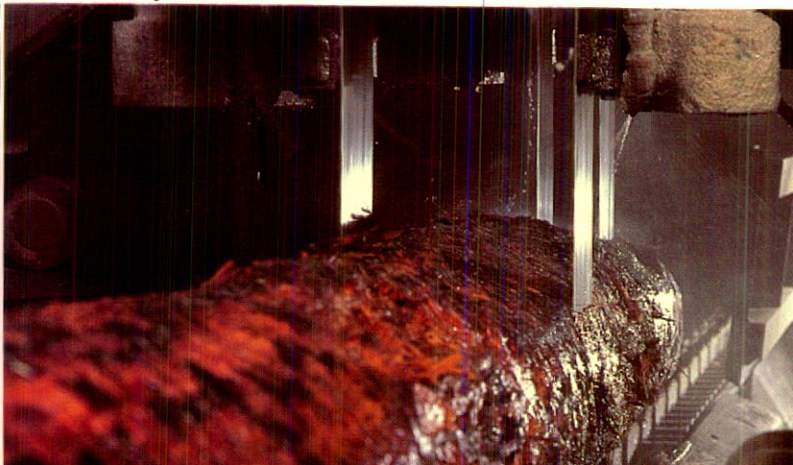


Computers and lasers are the tools of today's sawyer

Laser lines guide sawyer



Quad saw cuts logs into cants



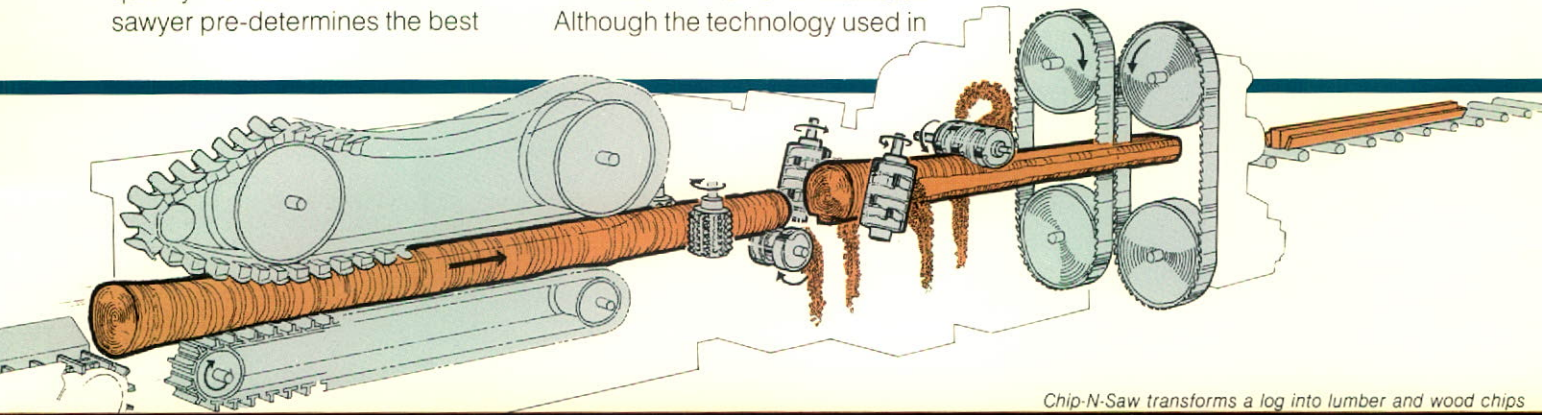
barked and passed through high speed equipment that literally squares, then saws, the whole log into lumber in one pass, reducing the excess to pulp chips at the same time.

Slightly larger logs are often sawn on a quad saw, a combination of four bandsaws which can be quickly moved in and out as the sawyer pre-determines the best

cutting dimensions for each log. Helping the sawyer is a ruby laser which lays down a clear straight line of light along the log helping him position the log for best lumber recovery.

Logs sawn in BCFP's Interior mills and on some Coastal small log processing lines will range in size from about 4" to 16" in diameter. Although the technology used in

small log sawmilling is continually evolving, present equipment can accurately convert logs to lumber at speeds of 200 to 300 feet per minute. The equipment is highly automated and operators usually sit in noise protected, glass enclosed booths.



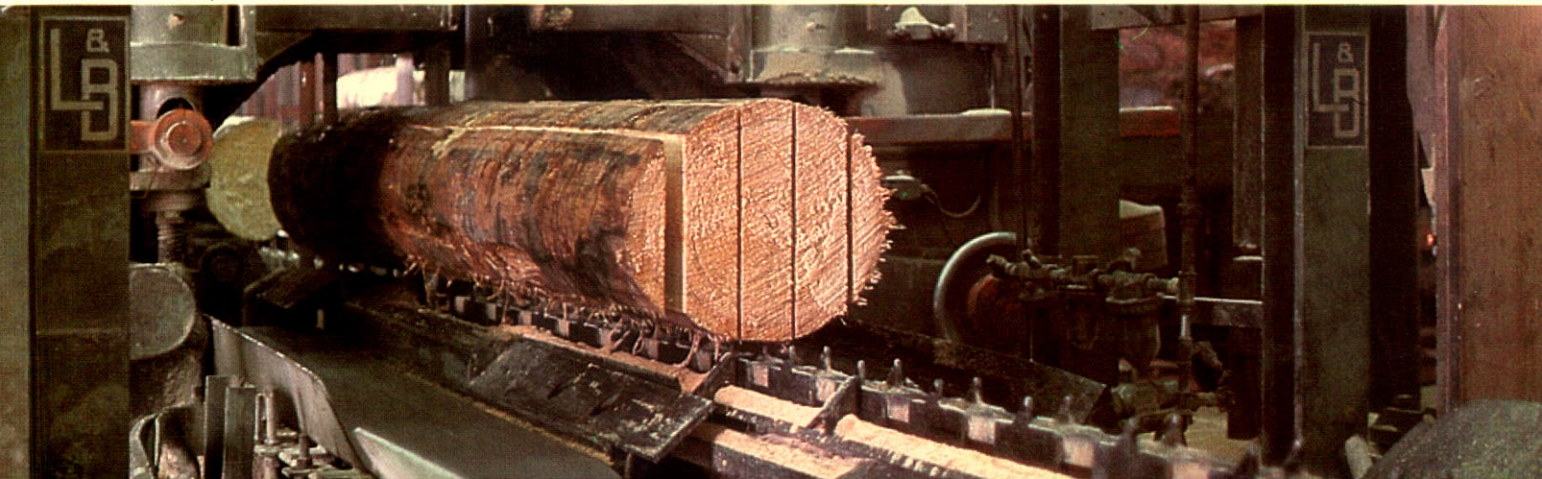
Chip-N-Saw transforms a log into lumber and wood chips



The two quad saws shown below are located hundreds of miles apart; the first in BCFP's Tilbury sawmill near Vancouver, and the second in the Company's stud mill at Mackenzie. Water is sprayed

on the four fast moving band saw blades to keep them cool. The different widths of lumber coming out of the saws will be conveyed to edgers whose blades will saw off the rough edges.

Four inch cants will be processed into 2" x 4"s



Lumber flowing out of a sawmill must be trimmed and sorted, either to place it directly into the mill's shipping systems or to separate it from that flow for further finishing, including kiln drying and planing, prior to grading, packaging and shipping.

Automation is now being applied to the sorting process using computers. Bin systems in the

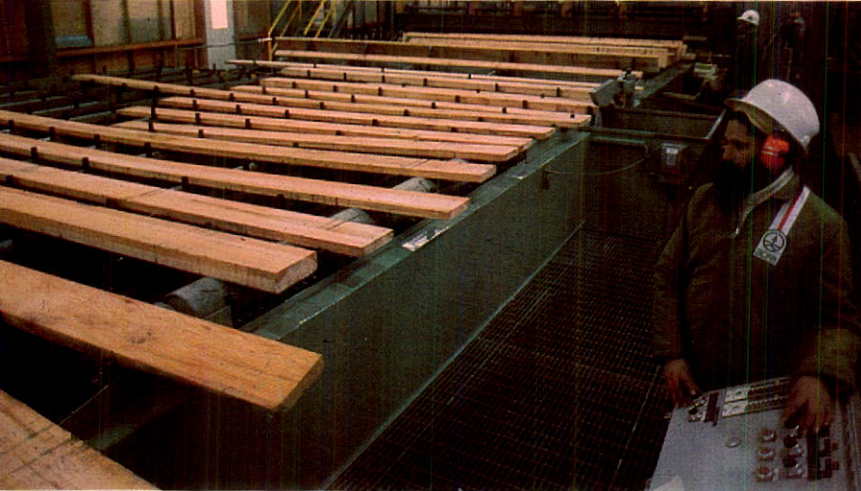
Coastal mills can make as many as 90 sorts. In the small log mills, the dimension lumber (2" thick), varies mainly in length and width, so sorting is simpler. The automated systems not only increase the mill's productivity, but reduce the heavy, muscle-straining hand work required on the traditional green chains. Even the sorting of heavy timbers has been simplified by

special hydraulic equipment.

Up to one third of the production of Coastal sawmills may be shipped rough sawn, particularly timbers. The balance of Coastal production, and all the production of BCFP's small log mills, is dressed (planed) to finished sizes for the Atlantic Coast cargo market, and, after kiln drying, for North American rail markets.

Complex systems organize a river of lumber

Kashmira Jaswal operates Cowichan's computerized lumber sorter



Drop sorting lumber by length is Tilbury's John Douglas

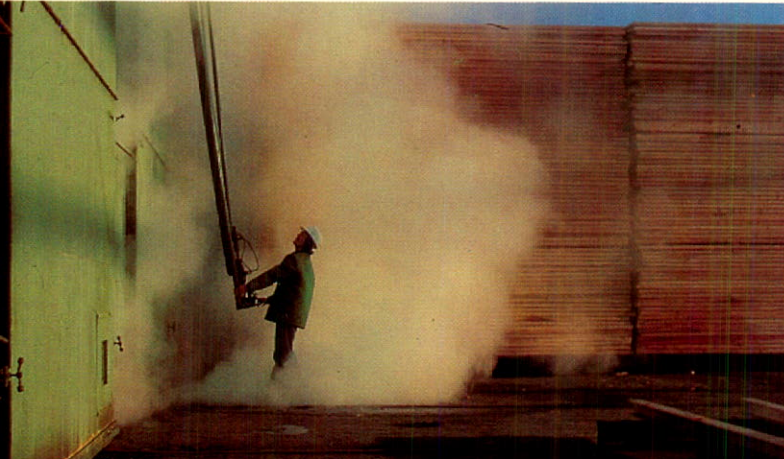


Lumber for rail markets is dried in gas or steam heated kilns. Temperature and humidity are carefully controlled to give fast, uniform drying, while electronic detectors monitor the changes in the wood.

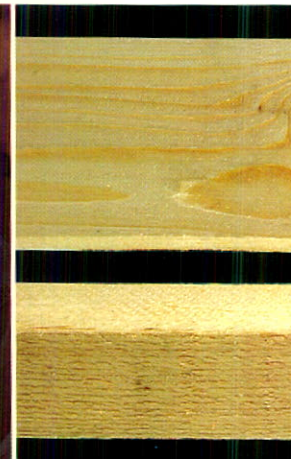
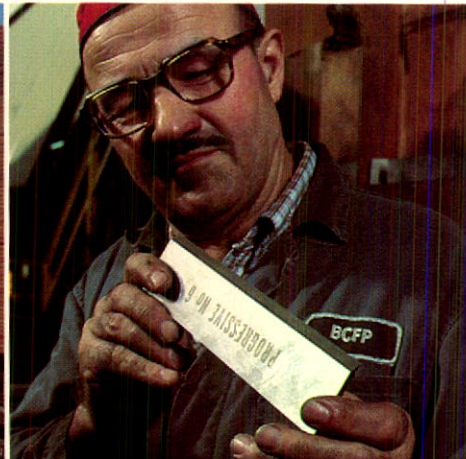
Drying and planing lumber adds value

In the planer, revolving cutting heads shave off a small amount of wood from all four sides of the lumber and round the corners to produce a smooth, easily handled

Les Meszarics opens a Tilbury dry kiln



Grinderman Harry Glowachuk checks planer knife



Lumber is kiln dried primarily to reduce shipping costs and to improve the product by making it more stable in use. Kiln drying minimizes the natural tendencies of wood to warp, shrink and check as it dries, and makes the wood less likely to deteriorate from decay, stain, fungus and insect attack.

Kiln dried lumber provides better end use performance in heated

buildings and low-humidity locations, and such wood is likely to hold paint better, glue better and will hold nails better. Strength and stiffness are also increased. Pitch in the wood is hardened and so is less likely to bleed later.

The drying process simply involves the accelerated evaporation of water from the surface of lumber, under carefully controlled condi-

tions, until the moisture content of the wood reaches a desired level.

The drying of lumber in kilns can take as long as seven days for clear lumber (no knots) but dimension lumber can sometimes be dried in as little as 36 hours. The species of wood and its original growing location, and even the method of delivering logs to a sawmill can influence the drying period.

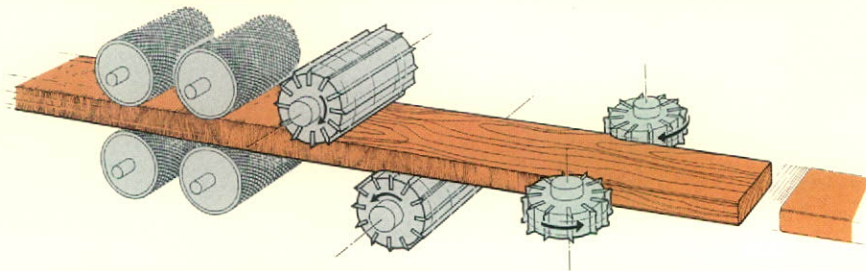
Sorters for rough lumber were first developed for the straight-forward sorting programs of Interior sawmills, as at Mackenzie. Rapid

advances in electronics and process computers are now permitting the control of complex sorting programs at Coastal sawmills as well.

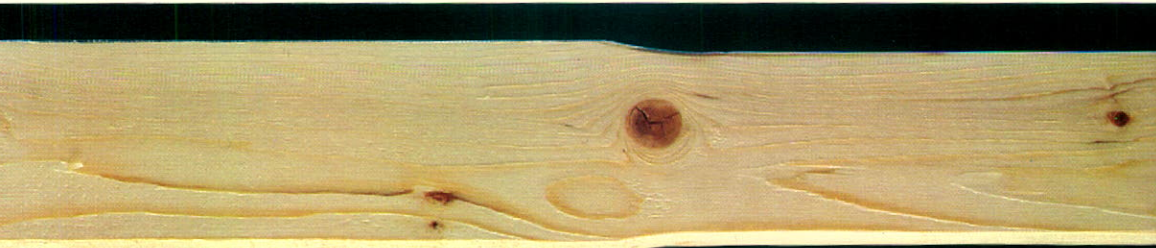
Jerry Forman sorts export timbers at Boston Bar



product of accurate size. Lumber such as 2' by 4's can flow through a planer at the rate of 1,000 feet per minute.



Planing smooths lumber surfaces



Grading is an essential part of lumber manufacture to ensure that structural lumber will meet strength standards which have been established on a national and international basis. It also ensures that specialty lumber products meet customer requirements. This means that each piece

of lumber, before leaving the mill, must be individually inspected and marked, first by hand and then by grade stamping machines, to indicate its quality.

Grading is a special skill requiring considerable training, particularly in Coastal sawmills, where the work involves grading to the standards of customers around the

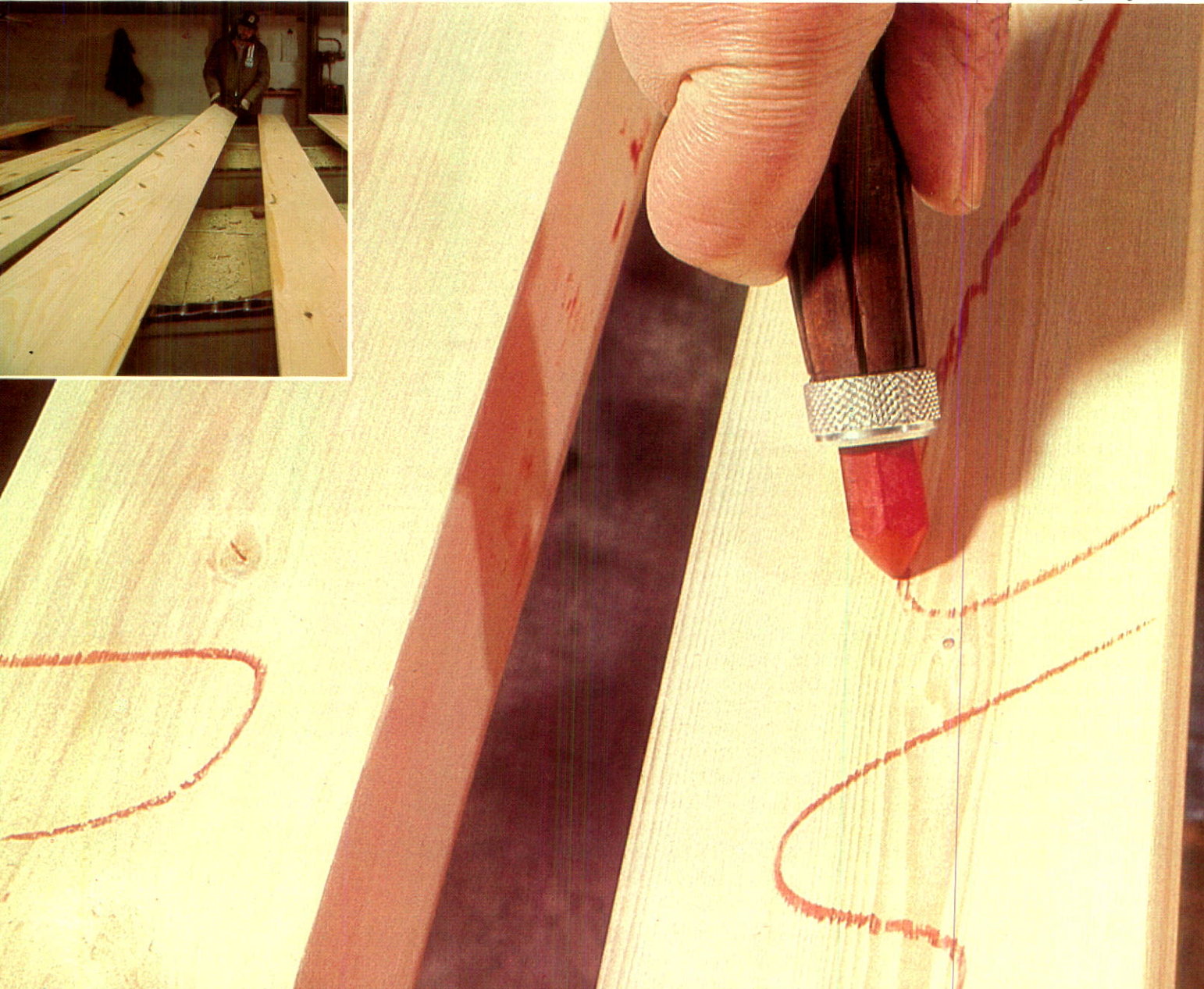
world. The Council of Forest Industries of British Columbia assists mills in organizing grading classes to train new graders and to keep both graders and key machine operators up to date on rule changes.

Standards of quality mark each piece of lumber

Frank Taylor grades 2" x 10" lumber at Victoria



Mackenzie kiln-dried lumber being hand-graded



It is important to use exactly the right size and quality of material in construction. Overbuilding, that is, using a higher grade or larger size of lumber than is needed for a specific construction application, adds cost, but not value, to a

structure and tends to waste valuable raw material. Underbuilding, using a wood product for structural applications whose strength standard is less than required by building codes, or that cannot meet the stresses that may be placed on the wood, could lead to structural failure.

Grading standards have been established to ensure that architects, engineers, designers, contractors and builders can select, specify and obtain the right material to meet the standards required for the application.

The lumber grading standards for North America have been developed to meet user requirements, and the terms reflect that. For example, surfaced lumber products, two to four inches thick for frame construction, are divided into five basic grad-

ing categories; 'light framing', 'structural light framing', 'stud', 'structural joists and planks' and 'planks'. The category names reflect the basic applications. Within each basic category are several grade levels which describe the quality and

characteristics of a specific piece of lumber according to widely recognized standards. Coastal production in British Columbia is generally graded by individuals working for, or certified by, the Pacific Lumber Inspection Bureau (PLIB), a non-profit

industry sponsored grading agency, active in the United States and Canada. B.C. Interior mill production is graded by employees certified by the Interior branches of the Council of Forest Industries of B.C. (COFI).

Select structural lumber ready for packaging



BCFP lumber is packaged and shipped in a variety of ways to meet the needs created by a multiplicity of products and markets.

Timbers and lumber which will be shipped on deep sea vessels to

off-shore and U.S. Atlantic Coast markets are usually loaded at the Company's lumber assembly wharves and docks at Crofton on Vancouver Island.

The lumber is made up in lift-truck size packages which are tightly squeezed and strapped with metal bands at the mills. Dunnage blocks are held to the bottom of

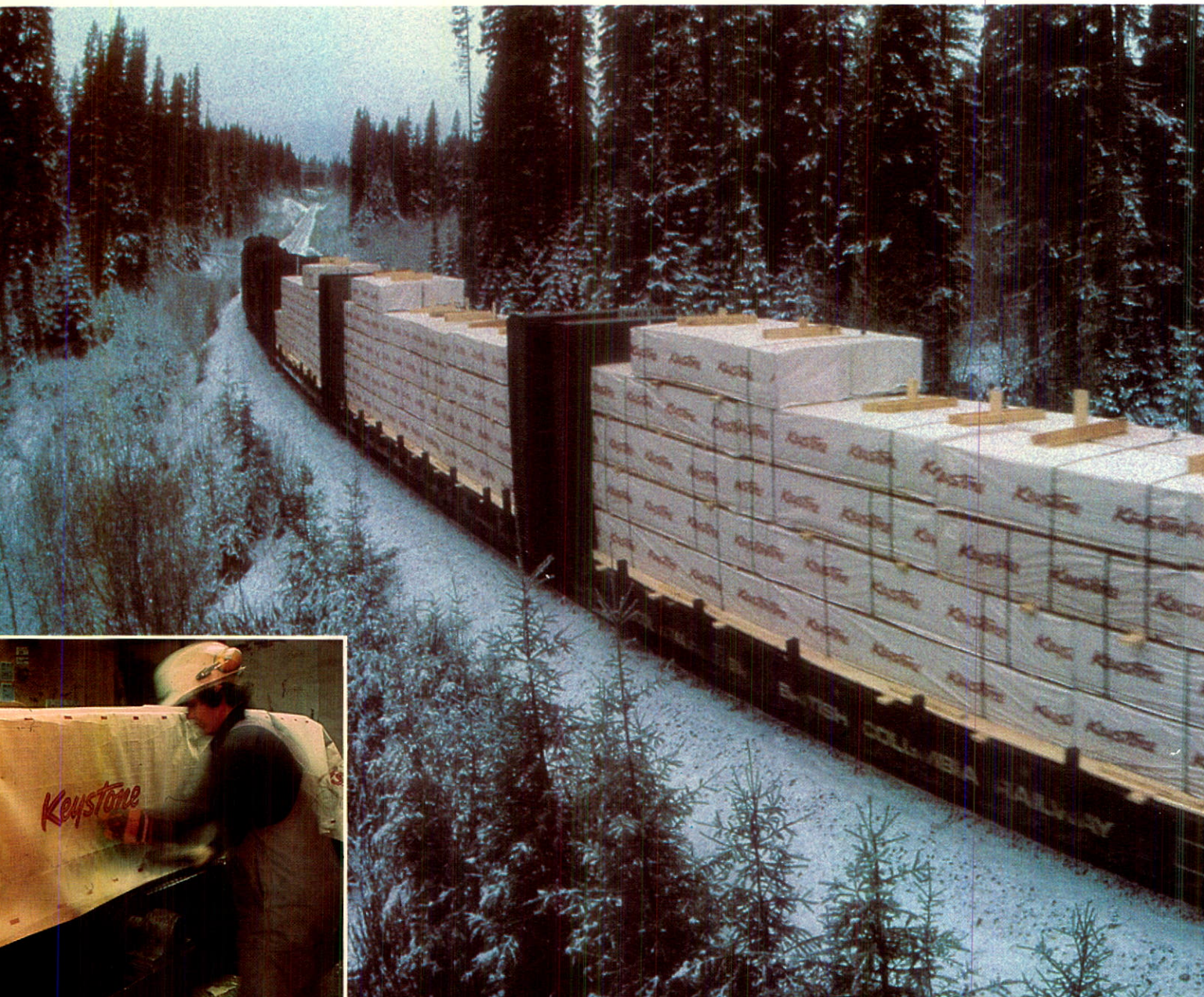
each package by the bands to act as skids, so that lift-trucks at the docks and in customer lumber yards have no difficulty in picking up the packages without damage.

Kiln dried lumber, from the Company's Interior mills and Boston Bar,

Dependable delivery is vital to wood products buyers

Wrapping lumber for rail shipment

Quality kiln-dried lumber rolls south from Mackenzie



is usually wrapped with a strong waterproof covering and loaded by fork lift or crane onto flat cars. The covering protects the dry lumber from the weather during transit and in storage afterwards. The many packages on a rail car are strapped together with wide bands of metal to

form a solid, unitized load of about 50,000 board feet of lumber per rail car, which will not shift during its long journey to market, sometimes several thousand miles away from the mill.

Specialty lumber products, like cedar siding, are usually shipped in double-door box cars to further reduce the possibility of damage.

BCFP has also built strong local markets for its products. Hammond, for example, may ship as much as 40 per cent of its production into the Vancouver and northwestern Washington areas.

Transportation of forest products from BCFP's several sawmills and plywood plants is coordinated through a head office traffic department. This group works with the mills to expedite the movement of

hundreds of rail cars over many different rail lines and coordinates the scheduling of more than 200 deep seas vessels calling annually at the Company's docks and lumber assembly wharves at Crofton on Vancouver Island,

one of the busiest ports on Canada's West Coast. BCFP also leases several hundred rail cars to ensure their availability to deliver the products of the mills to rail markets in North America.



Loading export lumber at Tilbury

BCFP has been very successful in the marketing of its wood products in the highly competitive international markets. The bulk of those sales are made through a network of lumber wholesalers and agents located throughout the world.

In North America, it is these wholesalers who are the Company's vital link to virtually thousands of retail lumber and building supply dealers and stores, where both amateur and professional builders and remodelers make their lumber and plywood purchases.

At BCFP's head office, marketing specialists regularly contact

hundreds of wood products wholesalers to quote and finalize orders for the various products produced by the Company.

Major markets for BCFP wood products include all provinces of Canada, where about 30 per cent of the Company's production is sold. Largest of all the markets is the United States which is serviced by

Distribution centres get the product home

Lumber wholesaler Ray Sierpina and BCFP marketing specialist Elvin Fiebelkorn check cedar deliveries



Between 1961 and 1970, U.S. household formations totalled about one million per year. From 1971 to 1977, such formations increased to an average of about 1.5 million annually. Currently, they are running at more than 1.6 million a year. This increase is

directly attributable to the baby boom of some 20 to 30 years ago. New family growth is taking place at a rapid rate and families are looking for new housing in unprecedented numbers. Only the supply of mortgage money, high interest rates

and a recessionary economy would hold back the substantial growth expected in housing construction and the related demand for construction lumber and plywood during the 1980's.

U.S. home construction is BCFP's largest lumber market



rail, truck and water borne carriers depending on the geographical location of the customer. Offshore, BCFP's wood products are sold in such countries as the United Kingdom, Japan, North Africa, Australia and countries within the European Common Market.

Home construction continues to be the largest single application of BCFP lumber and plywood. As a

result, the marketing group constantly monitors the growth of populations and the related new housing expectations in all market areas. Careful study is also made of the supply of money for mortgages, general buying trends, inflation and interest rate levels, currency values, employment figures and the com-

petitive growth of other suppliers and products.

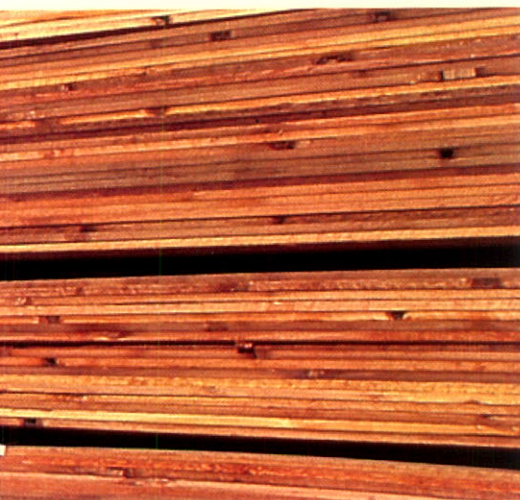
BCFP believes that there will continue to be a fundamental and growing demand for wood products, and for shelter built from wood, throughout the world for many decades to come.

Some wholesalers specialize in specific BCFP wood products lines, while others carry the full complement of the Company's wood products including dimension lumber, studs, timbers, boards and

specialty products such as cedar siding, as well as various types of plywood. Many of the Company's wood products are sold under the KEYSTONE trademark, a product identity which re-

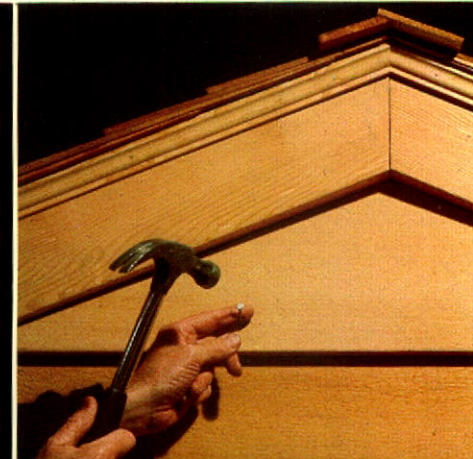
flects a high standard of quality control maintained at the Company's manufacturing facilities . . . an important assurance of quality in the marketplace.

Loading a retailer's truck with KEYSTONE cedar siding



Wood remains the best for home construction

Cedar products add the finishing touch



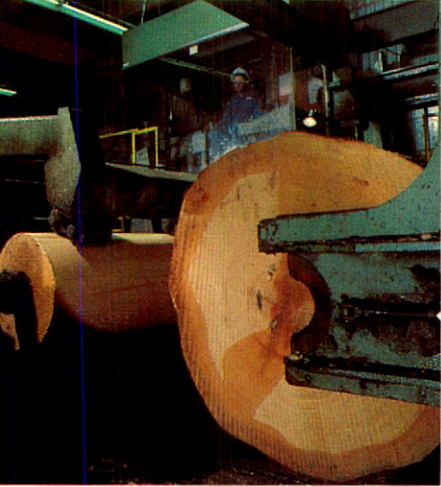
Plywood is the most widely used of all man-made boards. Archaeologists have found traces of laminated wood in the tombs of the Pharaohs. The Chinese 'shaved' wood and glued it together a thousand years ago and some of this was made into furniture.

In more modern times, the first patent involving what would now be called plywood was issued in New York City in 1865 to John K. Mayo. The first Douglas Fir plywood mill in British Columbia was located in New Westminster in 1913. The mill machinery was cumbersome and required heavy physical labour to operate.

One of the most important forward steps in plywood technology was the discovery in the late 1930's of a waterproof glue that made plywood fully resistant to the extremes of temperature and moisture, and a stronger material than wood from the original tree.

Ribbons of veneer flow from a spinning log

Lathe operator Rod McLean peels veneer / [Bottom] Delta's Gary Wooding guides veneer to clipper knives



Logs used to make plywood are called peelers, a name reflecting the production process in which a thin layer of wood called veneer is peeled from the log on a massive lathe. Peeler logs are usually the best quality logs from the forests.

The logs are de-barked and cut into eight foot long blocks for peel-

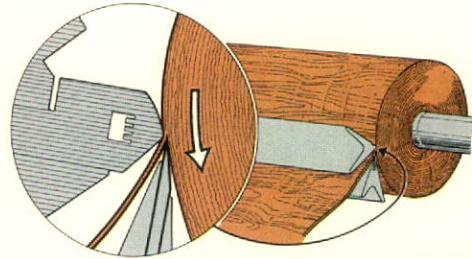
ing. The transformation into veneer takes place on a lathe such as shown in the photos below at BCFP's Delta plywood mill. The lathe is a specialized machine which can cut veneer from a rotating block at speeds up to 600 feet per minute. The veneer varies in thickness from 1/10th to 1/6th inch depending on log quality and the

requirements for the plywood being manufactured.

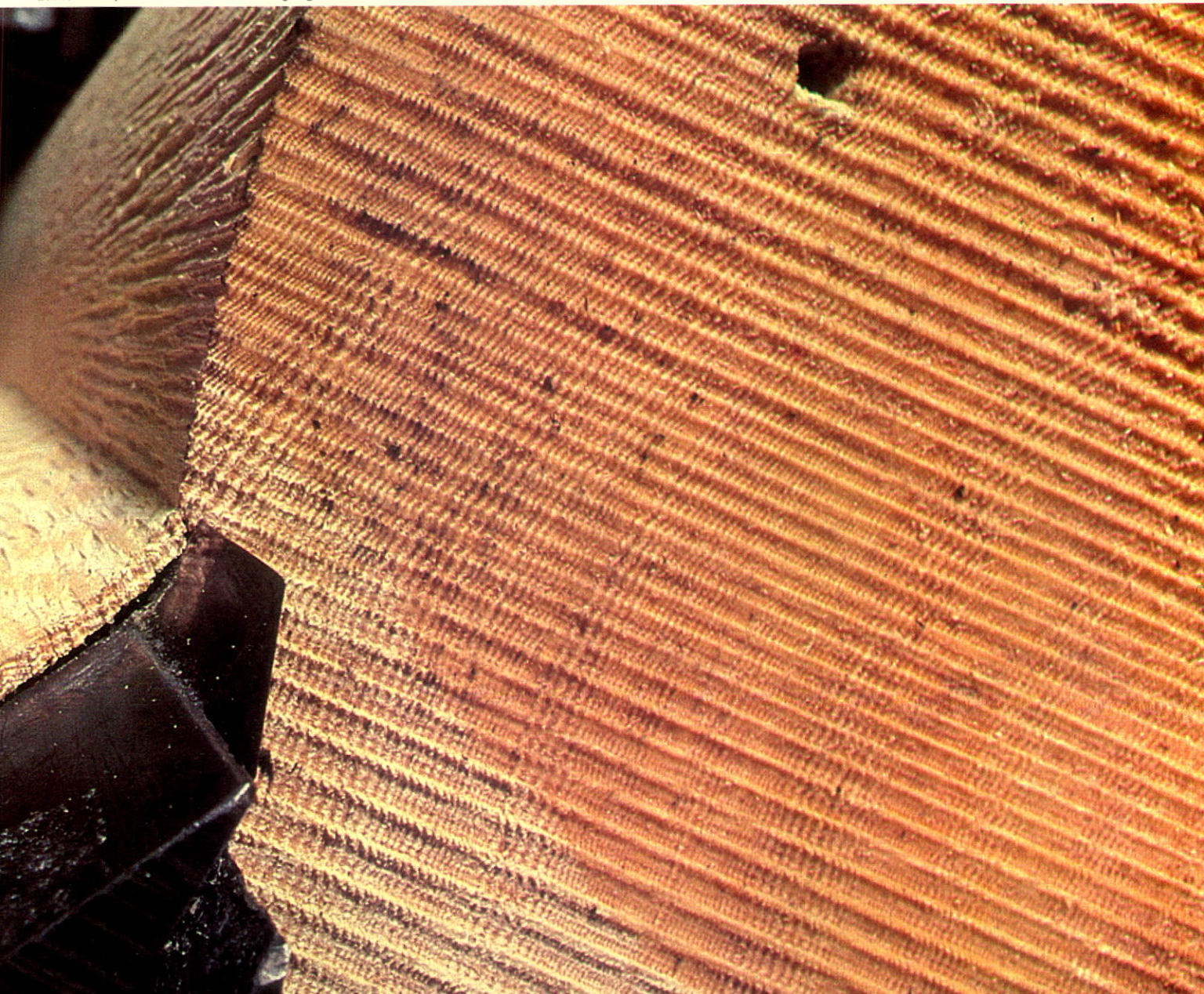
The continuous ribbon of veneer flows through holding trays to clipping knives which cut the veneer sheets, while they are moving, into the widths required for the finished plywood sizes.

An eight foot long log is peeled into a continuous sheet of thin veneer by rotating the log against a razor sharp knife. The restraining steam-heated 'nose bar' in the left of the photo, normally presses against the log just over the tip of the knife to ensure that smooth, uniform

veneer is produced. While one block is being peeled, the operator moves another one into place, keeping the conversion process almost continuous. The second large block has been cut from an old growth Douglas Fir tree.



Lathe knife peels veneer from rotating log



The production of plywood following the peeling of a log into veneer involves the clipping, sorting, drying, patching and lay-up of the veneer into plies, held together with a special glue.

The moisture content of a log is high when peeled, so the wet or 'green' veneer must be dried to a moisture level of less than five per cent to achieve a successful bond

with waterproof glue.

Some strips of veneer are less than four feet wide. These are also dried and then edge-glued together into a continuous sheet and cut to panel size. To improve the grade of the finished panel, defects in veneer are cut out and plugged with wood patches.

At a combination glue spreader and lay-up table, one operator nimbly feeds narrow pieces of veneer core through glue spreading rollers which control the amount of phenolic resin glue applied to both sides of the veneer. The operator on the other side drops 4-foot cross-bands of veneer on top of an 8-foot long, veneer sheet and then a second 8-foot sheet is applied on top,

Special lay-up pattern gives plywood its stability

Knot-holes, bark or pitch pockets are unwanted defects in face veneers. Special patching machines are used to precisely cut out such de-

fects and in the same action replace the oval cut-out with a piece of identical size clear veneer cut from a 2½ inch wide strip. The patch fits so

Siu Foo Lee and John Joe sort dry veneer into grades at Delta

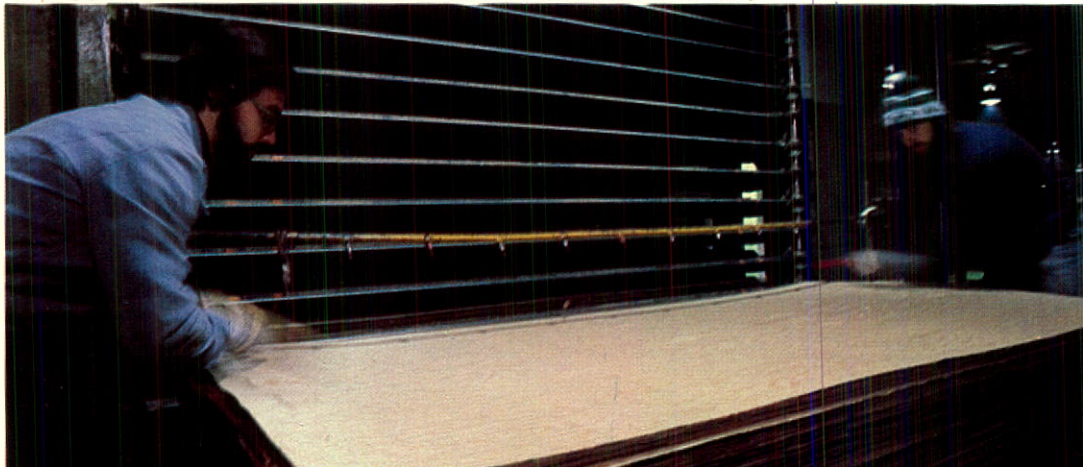


Narrow veneer strips await edge-gluing



Bonded veneer produces multi-directional strength

Feeding glued veneer into hot presses at Delta are John Timmermans and Dave Findlay



and so on until the desired number of plies is built up. Usually an odd number of plies are used; 3, 5, 7 or 9, to balance construction.

It is the alternating direction of grain which gives plywood its stability and exceptional strength. Wood is stronger along the grain than across the grain. By alternating the direction of the grain 90 degrees

as each ply is formed, the strength properties of the plywood panel are almost equalized in each direction.

The glue used is a synthetic resin discovered several decades ago which has adhesive properties not found in most glues. After the resin coated veneer layers have been formed into a panel, heat and pressure are applied and the resin polymerizes, or cures, forming an

extremely strong bond between the veneer layers. In fact, the glue is stronger than the wood.

After edge trimming, the top grade sheets are sanded smooth. All plywood is carefully inspected and graded to national standards, marked as to quality and carefully packaged for shipment.

tightly into the sheet that no glue is required to hold it in place while the veneer is being assembled into plywood.



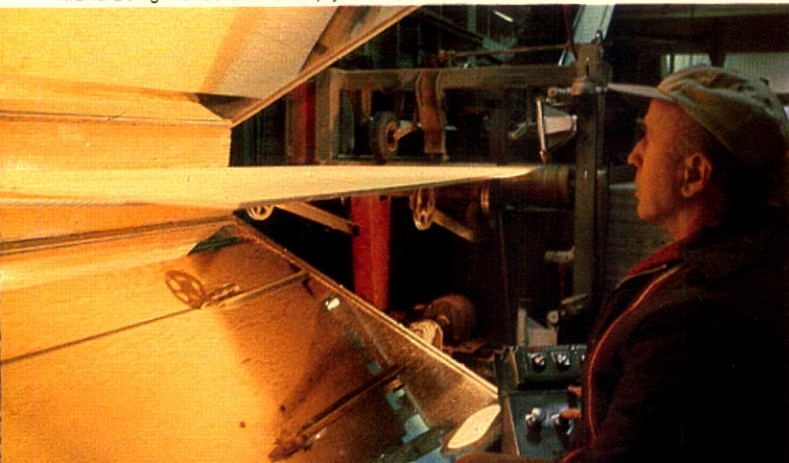
Victoria's Earl Horner and Paul Talbot lay-up veneer



Once the desired number of plies are assembled, the glued panels are cured in a hot press at 150 degrees Celsius and 200 pounds per square inch pressure. The resulting glueline is water-proof to the extent that it can

withstand immersion in boiling water. Panel quality is checked by transferring the sheet between angled mirrors which reflect both top and bottom surfaces to the operator.

Mario Benigni checks Victoria plywood for defects



Trent Abbott applies BCFP mark to Delta plywood



There was a time when the by-products of sawmilling; the bark, sawdust and trimmings, were a nuisance, to be incinerated in a burner or sold cheaply for firewood. Today, every part of the log that enters a BCFP sawmill or plywood plant is considered valuable.

The reasons are two-fold. Firstly, the expanding pulp and paper in-

dustry now runs primarily on by-product wood chips produced in sawmills and plywood plants as part of the manufacturing process. Secondly, the increasing costs of non-renewable fuels and electrical power used by the industry, make wood by-product-fuels more attractive, despite the high capital costs needed to build steam and power plants to use them.

BCFP's logging and manufacturing facilities are integrated; that is they are interdependent on each other. Logging plans consider not only the amount of lumber that might be produced from a given forest area, but also the log quality, the various forms of lumber those logs might produce and the volume of lower value wood in that forest that will be converted to chips for

There is no such thing as 'waste-wood' anymore

Hammond's hog fuel makes steam and electricity

Victoria Presto-logs ready for home fireplaces

Spruce and pine chips for Mackenzie pulp



pulp manufacturing.

In fact the production of high quality pulp chips by the sawmills is essential to the continued operation of the Company's pulp and paper mills. At Mackenzie, almost all the chips for BCFP's pulp mill are produced in the three adjacent sawmills. On the Coast, chips from Company sawmills and plywood plants are trucked or barged to

BCFP's Crofton pulp and paper operations on Vancouver Island.

Each year, more uses are found for mill by-products. Bark stripped from logs is pulverized, and either used at the sawmill or at a Company pulp mill to generate electricity, produce process steam, drive equipment or to dry lumber, pulp and newsprint. Some bark is sold as garden mulch. Sawdust is collected

and used in making newsprint at BCFP's Crofton mill. Cores from the plywood lathes are either converted into lumber or chipped for pulp production.

Veneer unsuitable for plywood is also chipped. At Victoria, dry waste material from trim saws and sanders is used to make pressed fuel logs for use in home fireplaces.

Most people guess that about 90 per cent of the harvested tree ends up as lumber or plywood. However, not all trees grow the same height, size, quality and shape and some parts of

every log are unsuitable for conversion into any finished products. As a result, their eventual use as lumber usually ranges up to 60 per cent of the wood available in the tree. With plywood, the range

is up to 50 per cent. The rest . . . its no longer waste as it was in the early part of this century and before, but now becomes highly valuable wood chips for producing pulp and paper or hog fuel,

an important energy source. Needless to say, research continues in mills and laboratories on how to produce more high value products from the tree. In the meantime, little is wasted.

Wood chips for Crofton pulp and lumber for Japan leave Tilbury





Office interior of Western red cedar in Atlanta, Georgia

One of the principal aims of the architect working with wood is to show its natural beauty. People like wood; they respond to it in a special way, enjoying its smell; are impressed by its strength and resiliency, warmth and infinite variety, and the relief it brings from the more unforgiving hardness of man-made materials.

FINANCIAL SECTION

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FINANCIAL REVIEW

Earnings for 1979 of \$96,743,000 were 40 per cent over the 1978 earnings of \$69,026,000 and resulted in an increased cash flow from operations for the year of \$129,667,000 or \$8.52 per common share compared to \$106,273,000 or \$6.99 per share in 1978. In comparison to 1978, the rate of return on net assets of the Company increased from 15.2 per cent to 18.0 per cent, return on shareholder's equity increased from 28.6 to 30.4 per cent and earnings before income taxes as a percentage of net sales increased from 17.3 to 21.3 per cent in 1979.

Exchange on the U.S. dollar added \$2.51 per share to after tax earnings compared to \$1.64 per share in 1978. The increase is attributable to the change in the value of the Canadian dollar in relation to the U.S. dollar, averaging \$.854 for the year compared to \$.877 in 1978, and to increased sales in U.S. currency. Each one cent change in the currency relationship affected net earnings by approximately 17 cents per share.

The U.S. dollar weakened further during 1979 in relation to all major currencies except the Japanese yen. This continued to support the strong markets for some products.

Because commodities such as pulp are sold in U.S. dollars, customers in countries where the currency value is high in relation to the U.S. dollar obtained some relief from price increases for products purchased in U.S. funds.

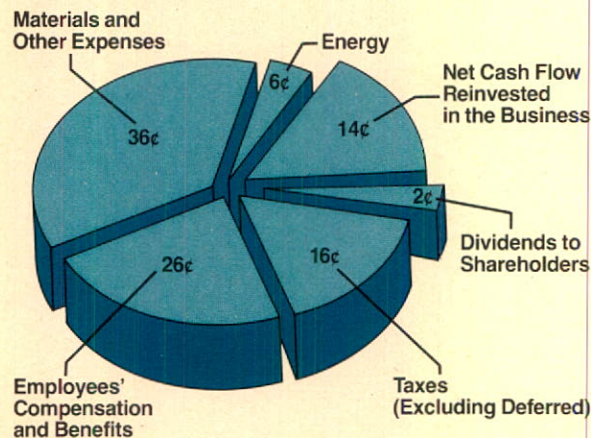
Excluding the gains from exchange, 1979 earnings were \$3.84 per share compared to \$2.89 in 1978. The increase of \$.95 per share, or 33 per cent, is attributable to good production performance, improved prices for all products, particularly pulp and offshore lumber, and improved profits from partly-owned companies. However, prices for plywood did not keep pace with escalating costs.

The following summarizes the contribution to earnings from the major product groups.

	(millions of dollars)	
	1979	1978
Earnings Contribution		
Pulp and Paper	\$135.8	\$ 98.1
Wood Products and Related	55.3	50.6
	<u>191.1</u>	<u>148.7</u>
Unallocated General Expenses, net	20.3	27.2
	<u>170.8</u>	<u>121.5</u>
Income Tax	74.1	52.5
Net Earnings	<u>\$ 96.7</u>	<u>\$ 69.0</u>

Net Sales for the year were \$800.0 million compared to \$704.1 million in 1978, an increase of \$95.9 million or 14 per cent. Exchange on U.S. currency increased by \$27 million. Lumber, plywood and waferboard sales increased by \$22 million, reflecting higher prices but lower shipments. Pulp sales were up \$33 million, although shipments were lower, prices moved up significantly. Newsprint and coated paper sales increased by \$25 million as a result of higher prices.

Sales Dollar Uses



Cost of products sold

increased from \$517.2 million in 1978 to \$569.0 million in 1979. As a percentage of net sales, cost of products sold decreased by 2.4 per cent from 73.5 per cent in 1978 to 71.1 per cent in 1979. The reduction is affected by the inclusion of the U.S. dollar exchange in sales. Exclusive of exchange, the percentage of cost of products sold to sales dropped from 77.8 per cent in 1978 to 76.9 per cent in 1979.

Continued inflation resulted in increased costs for raw materials, labour and supplies. Fuel costs and stumpage fees were very high.

Depreciation and depletion

totalled \$32.6 million in 1979, an increase of \$.9 million over 1978 as a result of the capital programs in the wood products and pulp and paper groups.

Selling and administration

expenses at \$20.9 million increased by \$1.6 million over 1978 as a result of increased commissions on sales, and higher salaries and other expenses.

Interest expense on both long and short term borrowings decreased by \$.6 million to \$21.3 million reflecting the reduction in long term debt during the year, substantially offset by higher borrowing costs on debt subject to variable interest rates.

Interest earned increased from \$2.3 million in 1978 to \$6.4 million in 1979 as a result of higher term deposits and increased interest rates.

Equity in earnings of associate companies increased from \$3.6 million in 1978 to \$7.3 million in 1979. Pinette & Therrien Mills Limited earnings increased from sawmill operations as a result of the strong lumber market and good production. Donohue St-Felicien Inc. earnings increased substantially as the pulp mill operated at a high level in its first year in a strong pulp market. Fraser River Pile Driving Company Limited earnings were sustained at good levels. Finlay Forest Industries Ltd. earnings benefitted from the strong lumber and pulp markets.

Other income of \$.4 million decreased by \$1.0 million as some miscellaneous income items in 1978 were non-recurring.

Income taxes - The Company's consolidated tax rate for 1979 increased marginally to 43.4 per cent from 43.2 per cent in 1978. The slight increase was due to a reduced investment tax credit in Blandin Paper Company which caused its tax rate to increase in 1979.

Nearly offsetting the increase were improved earnings of partly owned companies on which tax had already been provided by those companies and an increased Canadian investment tax credit applied to higher capital spending.

Consolidated 1979 income taxes aggregate \$74.0 million, comprised of \$46.6 million for Canadian and U.S. federal income taxes, \$18.5 million for Provincial and State income taxes and \$8.9 million for B.C. logging taxes.

Financial position - Total assets of the Company increased by \$101.8 million to \$723.3 million in 1979, primarily in inventories, increased investments in associate companies and additions to fixed assets. Shareholders' equity per common share at the end of 1979 was \$20.85 compared to \$15.82 at the end of 1978. The ratio of current assets to current liabilities decreased from 2.4 in 1978 to 2.1 in 1979. At December 31, 1979 working capital was \$138.5 million, an increase of \$16.0 million over the position a year ago. The major changes in working capital include increased accounts receivable of \$9.0 million due to increased sales, higher inventories of \$42.0 million, made up of increased log inventory volumes and values which were partially offset by an increase of \$27.9 million in accounts payable and accrued liabilities.

Accounting for Inflation – The earnings of \$96.7 million in 1979 resulted in a return of 18 per cent, based on net assets of the Company totalling \$602,167,000. Returns based on the historical cost of assets owned by the Company are misleading, as the cost of replacing these assets is much higher because of inflation. Both the earnings and the return would be lower if the replacement cost of assets was used and depreciation was increased accordingly. Even though the return as stated is the highest the Company has ever attained, it is only adequate to maintain the business of the Company in times of high inflation.

The problem of accounting for inflation has been under review by professional accounting associations and business organizations for several years. The Accounting Research Committee of the Canadian Institute of Chartered Accountants has issued a new proposal called "Current Cost Accounting", for review by the accounting profession and industry during 1980. The Company is participating in these studies and is hopeful that a standard will be developed which will better inform shareholders and employees of the effects of inflation on the Company.

Capital program – Capital expenditures for 1979 at \$58.3 million were directed at modernization programs, energy cost reduction, logging road construction and expansion.

The Company's 1980 capital program is planned to be approximately \$330 million. Four-fifths of the expenditures will be for improving and expanding operations in British Columbia including the purchase of timberlands and expenditures on the Crofton newsprint project.

Long term debt was reduced by \$15.2 million in 1979 to \$192.9 million from \$208.1 million as a result of planned debt repayments and no requirement for additional long term funds. The debt reduction, combined with the increase during the year in shareholders' equity, improved the debt to equity ratio from .84 in 1978 to .60 in 1979.

Dividends – In February, 1979, the quarterly common share dividend rate was increased from \$.20 per share to \$.30 per share and in September, 1979, was increased to \$.35 per share effective with the November 1, 1979 dividend payment. The normal quarterly preferred share dividend of \$.75 per share was paid in 1979.

Audit committee – The Audit Committee of the Board of Directors met twice during the year with representatives of the Company's external auditors to review the financial controls of the Company and to discuss the scope of the reviews conducted by both internal and external auditors.

Share trading – The combined trading of the Company's shares on the Vancouver, Toronto and Montreal Stock Exchanges amounted to 1,837,123 common and 23,872 preferred shares. The price range on The Toronto Stock Exchange for common shares was \$29.00 to \$18.875 and for preferred shares \$44.00 to \$35.00. At year-end, there were 3,515 common and 1,158 preferred shareholders holding 15,174,736 common and 145,160 preferred shares respectively.

**Consolidated Statement of Earnings and
Earnings Reinvested in the Business**

For the Year Ended December 31, 1979
(in thousands of dollars)

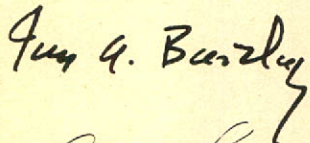
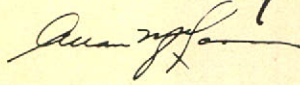
**FINANCIAL
STATEMENTS**

	1979	1978
Net Sales , including exchange premium of \$89,044,000 (1978 — \$62,355,000) on U.S. dollar sales	\$799,961	\$704,140
Costs and expenses		
Cost of products sold	568,970	517,221
Depreciation	30,069	28,598
Depletion	2,556	3,116
Selling and administration	20,898	19,334
Interest on long term debt	20,978	21,554
Other interest	352	333
	643,823	590,156
	156,138	113,984
Other income		
Gain on disposal of fixed assets	478	271
Interest earned	6,402	2,327
Equity in earnings of associate companies	7,349	3,568
Other	414	1,370
Earnings Before Income Taxes	170,781	121,520
Income taxes		
Current	67,640	44,586
Deferred	6,398	7,908
	74,038	52,494
Net Earnings	96,743	69,026
<i>Per common share</i>	\$6.35	\$4.53
Earnings reinvested in the business		
at beginning of year	205,916	147,338
	302,659	216,364
Deduct dividends declared		
6% preferred shares	437	460
Common shares	19,720	9,988
	20,157	10,448
Earnings Reinvested In The Business At End Of Year	\$282,502	\$205,916

BRITISH COLUMBIA
FOREST PRODUCTS LIMITED

**Consolidated
Balance Sheet**

as at December 31, 1979
(in thousands of dollars)

	1979	1978
Assets		
Current Assets		
Cash and short term investments	\$ 24,846	\$ 28,057
Accounts receivable	93,513	84,555
Inventories (Note 2)	137,174	95,221
Prepaid expenses	4,125	1,741
	<u>259,658</u>	<u>209,574</u>
Long Term Investments And Advances		
Investments in associate companies (Note 3)	64,819	37,130
Housing agreements and other investments	5,576	6,164
	<u>70,395</u>	<u>43,294</u>
Fixed Assets		
Property, plant and equipment (Note 4)	371,599	344,770
Timber and timber cutting rights less accumulated depletion of \$33,288,000 (1978 — \$30,732,000)	20,387	22,501
	<u>391,986</u>	<u>367,271</u>
Unamortized Debt Discount And Expenses	<u>1,250</u>	<u>1,364</u>
	<u>\$723,289</u>	<u>\$621,503</u>
Approved by the Directors		
	Director	
	Director	

	1979	1978
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 82,806	\$ 54,927
Dividends payable	5,420	3,142
Income taxes payable	28,361	24,339
Current portion of long term debt	4,535	4,588
	<u>121,122</u>	<u>86,996</u>
Long Term Debt (Note 5)	<u>192,881</u>	<u>208,107</u>
Deferred Income Taxes	<u>85,634</u>	<u>79,236</u>
Shareholders' Equity		
Share Capital (Note 6)		
6% cumulative preferred shares of \$50 par value, redeemable at \$53		
Authorized — 240,000 shares		
Outstanding — 145,160 shares (1978 — 152,360 shares)	7,258	7,618
Common shares without par value		
Authorized — 20,000,000 shares		
Outstanding — 15,174,736 shares (1978 — 15,139,376 shares)	33,892	33,630
	<u>41,150</u>	<u>41,248</u>
Earnings Reinvested In The Business	<u>282,502</u>	<u>205,916</u>
	<u>323,652</u>	<u>247,164</u>
Commitments and Contingent Liabilities (Note 7)		
	<u>\$723,289</u>	<u>\$621,503</u>

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1979
(in thousands of dollars)

	1979	1978
Working Capital Provided		
Net earnings	\$ 96,743	\$ 69,026
Depreciation and depletion	32,625	31,714
Deferred income taxes	6,398	7,908
Earnings of associate companies, net of dividends received	(5,679)	(2,692)
Other	(420)	317
Funds from operations	129,667	106,273
<i>Per common share</i>	\$8.52	\$6.99
Proceeds from disposal of fixed assets	1,434	811
Issue of common shares	262	150
	131,363	107,234
Working Capital Applied		
Additions to fixed assets	58,296	42,597
Long term investments and advances	21,422	(1,781)
Dividends declared, common and preferred shares	20,157	10,448
Repayment of long term debt	15,219	28,902
Purchase of preferred shares	311	290
	115,405	80,456
Increase in working capital	15,958	26,778
Amount at beginning of year	122,578	95,800
Amount at end of year	\$138,536	\$122,578
Changes In Working Capital Components		
Current Assets — increase (decrease)		
Cash and short term investments	\$ (3,211)	\$ 16,781
Accounts receivable	8,958	22,169
Inventories	41,953	1,051
Prepaid expenses	2,384	(663)
	50,084	39,338
Current Liabilities — decrease (increase)		
Short term notes payable	—	4,100
Accounts payable and accrued liabilities	(27,879)	(5,241)
Dividends payable	(2,278)	(830)
Income taxes payable	(4,022)	(15,543)
Current portion of long term debt	53	4,954
	(34,126)	(12,560)
Increase In Working Capital	\$ 15,958	\$ 26,778

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of all wholly owned subsidiary companies which are, Blandin Paper Company, Croftech Inc., Stuart Channel Transportation Limited and Swiftsure Towing Company Ltd. The cost of shares in subsidiary companies has been allocated to the assets acquired. Since all share purchases have represented the acquisition of tangible underlying assets, there is no goodwill to recognize in the financial statements.

Inventories

Inventories, other than supplies inventories which are valued at cost, are valued at the lower of average cost and net realizable value.

Investments in associate companies

Investments in Donohue St-Felicien Inc. (45 per cent owned), Finlay Forest Industries Ltd. (42.7 per cent owned), Fraser River Pile Driving Limited (60.8 per cent owned), Pinette & Therrien Mills Limited and Muir Creek Logging Company Limited (both 50 per cent owned) are accounted for on the equity method. Under this method the Company takes into earnings and reflects in the investment account its share of the income or loss; dividends received are credited to the investment account. Donohue St-Felicien Inc. has capitalized the pre-operating costs of its new pulp mill.

Fixed assets

These assets are stated at cost which, in cases of major expansion projects includes interest during pre-operating periods on funds borrowed for their construction. When properties are sold or retired, the related cost and accumulated depreciation or depletion are removed from the accounts and the gain or loss is reflected in earnings.

Depreciation and depletion

Plants, buildings and equipment are depreciated on a straight-line basis at rates (ranging from 3 per cent to 15 per cent per annum) which reflect estimates of the economic life of the assets. Timber and timber cutting rights and logging roads are amortized in a systematic manner based on the utilization of the timber resources.

Foreign currency transactions

The Company conducts a substantial portion of its business in U.S. dollars. Income and expenses are translated at exchange rates prevailing when the transactions occur, with two exceptions: depreciation, depletion and amortization are translated at historic rates and items covered by forward exchange contracts are translated at the rates established by those contracts. In the balance sheet, current assets, excluding inventories, and current liabilities are translated at current rates, and all other items are translated at historic rates. Unrealized gains or losses on outstanding forward exchange contracts are reflected in income.

Unamortized debt discount and expenses

These items are charged to earnings over the term of the particular debt issue.

Income taxes

Reported earnings are charged with income taxes related to those earnings. Any differences between these taxes and taxes currently payable for the year are reflected in Deferred Income Taxes.

Earnings per common share

Earnings per common share are calculated by dividing the weighted average number of shares outstanding during the year into the net earnings for the year after allowing for preferred dividends.

2. Inventories

	<i>(in thousands of dollars)</i>	
	1979	1978
Logs and wood chips	\$ 86,895	\$ 55,092
Lumber, plywood and other wood products	22,990	14,930
Pulp, paper and newsprint	6,502	6,392
Materials and supplies	20,787	18,807
	<u>\$137,174</u>	<u>\$ 95,221</u>

3. Investments in Associate Companies

	<i>(in thousands of dollars)</i>	
	1979	1978
Investments in shares, at cost	\$ 46,971	\$ 34,122
Accumulated equity in earnings since acquisition, net of dividends received	7,287	1,608
Bonds and advances	10,561	1,400
	<u>\$ 64,819</u>	<u>\$ 37,130</u>

4. Property, Plant and Equipment

	<i>(in thousands of dollars)</i>		
	Cost	Accumulated Depreciation	Net Book Value
December 31, 1979			
Pulp and paper mills ..	\$407,753	\$178,505	\$229,248
Sawmill, plywood and other wood products plants	143,789	62,040	81,749
Logging buildings and equipment	48,439	22,955	25,484
Logging roads	38,105	20,658	17,447
Other equipment and facilities	18,968	7,874	11,094
Land	6,577	—	6,577
	<u>\$663,631</u>	<u>\$292,032</u>	<u>\$371,599</u>
December 31, 1978			
Pulp and paper mills ..	\$381,786	\$163,835	\$217,951
Sawmill, plywood and other wood products plants	124,944	54,637	70,307
Logging buildings and equipment	43,674	19,462	24,212
Logging roads	33,785	18,184	15,601
Other equipment and facilities	17,644	6,668	10,976
Land	5,723	—	5,723
	<u>\$607,556</u>	<u>\$262,786</u>	<u>\$344,770</u>

5. Long Term Debt

	<i>(in thousands of dollars)</i>	
	1979	1978
British Columbia Forest Products Limited		
Sinking fund debentures		
Series A, 4½% due 1981	\$ 2,481	\$ 3,725
Series B, 5½% due 1989	7,082	7,771
Series C, 6½% due 1992	10,389	11,492
Series D, 9¾% due 1992	14,674	15,714
Series E, 9% due 1995	32,441	34,446
Series F, 8.95% due 1997 (U.S. \$40,000,000)	42,123	42,123
	<u>109,190</u>	<u>115,271</u>
Purchase money mortgage due 1979-1990 (U.S. \$37,333,000; 1978 — U.S. \$40,000,000)	40,077	42,940
18-month notes due to bank, secured (U.S. \$20,000,000; 1978 — U.S. \$25,000,000)	21,470	26,837
Housing development mortgages	2,194	2,539
Other	—	488
	<u>172,931</u>	<u>188,075</u>
Blandin Paper Company		
Notes payable, 10½% due 1981-1988, unsecured	23,540	23,540
Other	684	773
(U.S. \$22,640,000; 1978 — U.S. \$22,722,000)	24,224	24,313
Less amounts due within one year (converted to \$4,535,000 and \$4,588,000 at the prevailing exchange rates)	4,274	4,281
	<u>\$192,881</u>	<u>\$208,107</u>

Long term liabilities in U.S. dollars, aggregating \$119,973,000, have been translated into Canadian dollars at the rates prevailing when the debts were incurred, or, in the case of the long term debt of Blandin Paper Company, at the rate prevailing on the date of acquisition. If the increased premium for the U.S. dollars at December 31, 1979 were to prevail at the various maturities of these debts, the additional foreign exchange cost in terms of Canadian dollars would approximate \$12,000,000. The financial statements do not reflect the cost of this eventuality as only that portion of long term debt which is payable within a year is translated at the current rate.

The sinking fund debentures are secured by a floating charge on the Company's assets. The purchase money mortgage is secured by the shares of Blandin Paper Company.

The purchase money mortgage and the 18-month notes bear interest at rates (currently 16% and 15½% respectively) which fluctuate with the lender's prime commercial rates, or at the Company's option, rates which are fixed for varying periods and based on Eurodollar rates. The housing development mortgages are repayable over twenty-five years and bear interest at rates ranging from 6¼% to 9½%.

Payments on long term debt required for each of the five years ending after December 31, 1979 are as follows:

(in thousands of dollars)

1980 (after adjustment to current exchange rate) ..	\$ 4,535
1981	29,700
1982	8,900
1983	9,800
1984	9,900

6. Share Capital

Purchase of preferred shares

The Company is obligated, subject to certain relief provisions, to purchase 7,200 preferred shares annually for cancellation when available at \$50 per share or less including costs of purchase. In 1979, 7,200 shares were purchased and cancelled at an average cost of \$43.15 per share, reducing preferred share capital by \$360,000.

Share options

At December 31, 1979 there were options outstanding under the terms of the Company's Employee Share Option Incentive Plan to purchase an aggregate of 451,900 common shares. The options are exercisable in equal annual amounts over a ten year period, on a cumulative basis commencing one year after the date of grant. Option prices, which range from \$5.41 to \$20.00 per share, are not less than the price at which the last board lot traded on The Toronto Stock Exchange immediately preceding the date of each grant. In 1979, 35,360 shares were issued under this plan for \$262,000.

7. Commitments and Contingent Liabilities

The Company has commenced construction of a third newsprint machine and related facilities at Crofton, B.C. to be completed by mid-1982, at an estimated cost of \$150,000,000.

The Company is currently negotiating a Forest Management Agreement with the Alberta government, which could result in the Company being committed to bring into production two sawmills and a paper mill at an estimated cost of \$300,000,000 over a period of six years.

Except for the above noted items the Company has no material commitments and contingent liabilities other than those incurred in the ordinary course of business.

8. Employee Retirement Plans

The Company and its Canadian subsidiaries maintain pension plans open to all salaried employees and hourly employees not covered by union pension plans. Based on an actuarial evaluation to December 31, 1978, the unfunded actuarial liability for past services amounted to \$1,100,000, which was paid in 1979.

The Company's U.S. subsidiary maintains various pension plans which cover substantially all of its employees. Based on the most recent independent actuarial report as of August 1, 1978, there were no unfunded past service benefits and the assets of the pension trust exceeded the value of vested benefits.

9. Litigation

On August 17, 1978, the U.S. Department of Justice, Antitrust Division, filed a complaint in the U.S. against the Company, Noranda Mines Limited and The Mead Corporation. The complaint alleges that the Company's acquisition, in August 1977, of the Blandin Paper Company contravenes U.S. antitrust laws. The Department of Justice is seeking divestiture of Blandin Paper Company by the Company or, alternatively, divestiture by Noranda Mines Limited and The Mead Corporation of their interest in the Company. The Company is actively opposing this action and the trial is currently scheduled to commence in April, 1981.

10. Statutory Information

Selling and administrative expenses include remuneration paid to directors and senior officers of the Company aggregating \$1,508,000 (1978 — \$1,032,000).

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of British Columbia Forest Products Limited as at December 31, 1979 and the consolidated statements of earnings and earnings reinvested in the business and changes in financial position for the year then ended. Our examination of the financial statements of British Columbia Forest Products Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of other auditors for one subsidiary company and for the companies which are accounted for on the equity basis.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 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
January 25, 1980

THORNE RIDDELL
Chartered Accountants

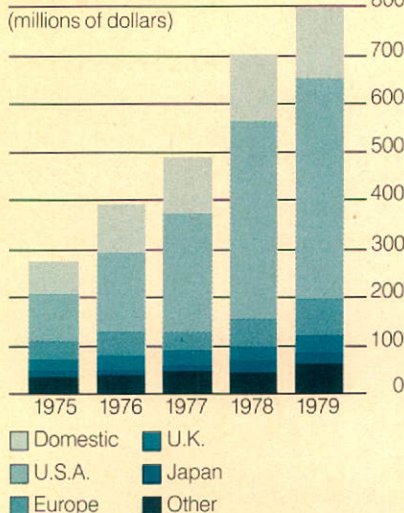
CORPORATE DATA

Sales by Markets

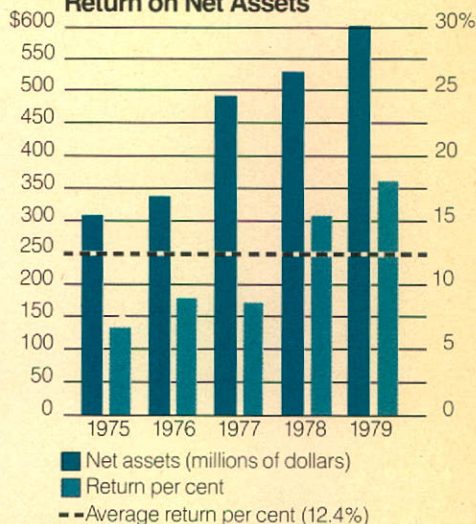
(millions of dollars)

	1979	1978
Domestic	147.1	139.5
U.S.A.	453.9	405.9
Europe	77.0	58.2
U.K.	33.4	25.2
Japan	29.4	29.5
Other	59.2	45.8
Total	800.0	704.1

Sales by Markets



Return on Net Assets

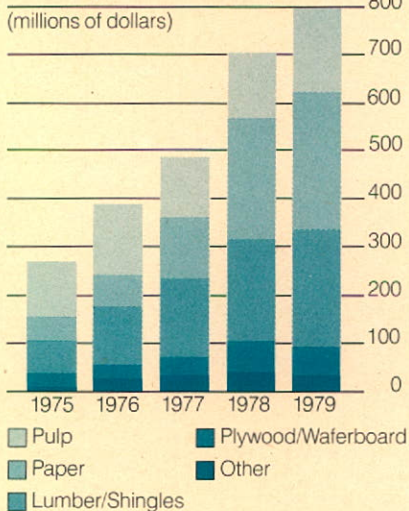


Sales by Product Group

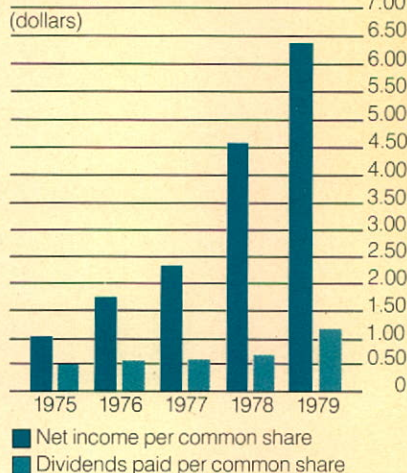
(millions of dollars)

	1979	1978
Pulp	174.9	139.8
Paper	286.3	250.6
Lumber/shingles	244.4	213.1
Plywood/waferboard	56.8	58.9
Other	37.6	41.7
Total	800.0	704.1

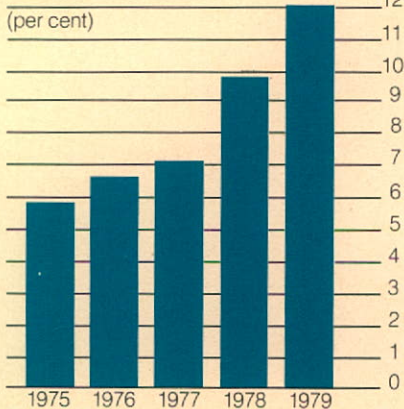
Sales by Product Group



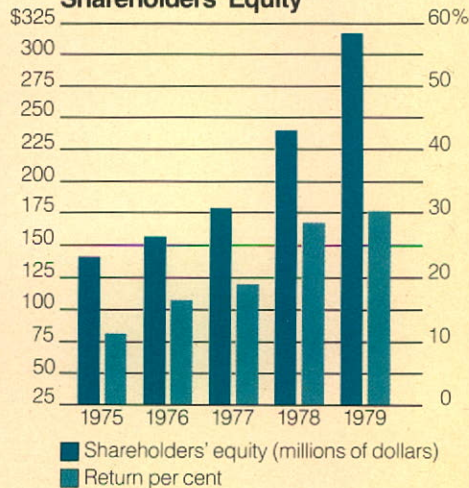
Earnings and Dividends



Return on Sales



Return on Common Shareholders' Equity



TEN YEAR COMPARATIVE REVIEW

1979

Notes and Explanations

A. Major changes in capitalization

1. Series D sinking fund debentures:
\$20,000,000 issued November 1970.
2. Series E sinking fund debentures:
\$40,000,000 issued December 1973.
3. Series F sinking fund debentures:
U.S. \$40,000,000 issued March 1977.
4. Purchase money mortgage:
U.S. \$50,000,000 issued September 1977.

B. Completion of major expansion projects

December 1972: Mackenzie pulp mill.

C. Significant accounting policy changes

1. In 1970, the Company changed the treatment of debenture discount and issue expense, and financing expense and interest on major expansion projects to defer or capitalize such charges. In prior years debenture discount and expenses were charged to earnings reinvested in the business, and interest and financing expenses were charged to earnings. Prior years have not been revised to reflect this change.
2. In 1973, log sales to outsiders were included in net sales; previously these were credited to cost of products sold. For 1973, the cost of short term roads was included in the cost of products sold; previously these roads were treated as fixed assets and written off as depreciation in the same year the costs were incurred. Prior years have been revised to reflect these changes.

D. Condensed working capital statement

1. *Cash flow from other* includes proceeds from debenture and share issues and asset disposals.
2. *Other expenditures* include long term debt repayments, non-current investments and, in 1977, the acquisition of Blandin Paper Company.

E. Terms and definitions

1. *Cash flow per common share* is the funds from operations less preferred dividends.
2.
$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$
3.
$$\text{Return on net assets} = \frac{\text{Net earnings plus interest, after tax}}{\text{Net assets}}$$
4.
$$\text{Return on common shareholders' equity} = \frac{\text{Net earnings} - \text{preferred dividends}}{\text{Common share capital} + \text{earnings reinvested in the business}}$$

SALES AND EARNINGS (\$000)

Net sales	799,961
Cost of products sold	568,970
Depreciation and depletion	32,625
Selling and administration expenses	20,898
Interest on long term debt	20,978
Other (income) and expense	(14,291)
Earnings before provision for income taxes	170,781
Current income taxes	67,640
Deferred income taxes	6,398
Net earnings	96,743

ASSETS AND CAPITALIZATION (\$000)

Current assets	259,658
Current liabilities	121,122
Working capital	138,536
Long term investments and advances	70,395
Plant and equipment at cost	663,631
Less accumulated depreciation	(292,032)
Timber at cost less depletion	20,387
Deferred charges	1,250
Net assets	602,167
Long term debt	192,881
Deferred income taxes	85,634
Preferred share capital	7,258
Common share capital	33,892
Earnings reinvested in the business	282,502
Total capitalization	602,167

WORKING CAPITAL STATEMENT (\$000)

Source — operations	129,667
— other	1,696
	131,363
Application — plant and equipment	57,556
— timber and land	740
— dividends	20,157
— other	36,952
	115,405
Net increase (decrease) in working capital	15,958

FINANCIAL DATA

Common shares outstanding (000)	15,175
Number of common shareholders	3,515
Preferred shares outstanding (000)	145
Number of preferred shareholders	1,158
Net earnings per common share — \$	6.35
Cash flow per common share — \$	8.52
Equity per common share — \$	20.85
Dividends paid per common share — \$	1.15
Price range for common shares — high — \$	29.00
— low — \$	18.88
Net earnings to sales — %	12.1
Cash flow from operations to sales — %	16.2
Return on net assets — %	18.0
Return on common shareholders' equity — %	30.4
Current ratio	2.1

PRODUCTION AND OTHER STATISTICS

Logs — 100 cu. ft.	1,826,000
Lumber — MFBM	795,000
Shingles and shakes — squares	121,000
Plywood — M sq. ft. 1/16"	1,232,000
Market pulp — air dry tonnes	452,000
Newsprint and specialty papers — tonnes	254,000
Coated paper — short tons	308,000
Waferboard — short tons	42,000
Number of employees	8,180

1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
704,140	491,949	392,010	273,426	279,054	253,603	173,830	145,219	120,478	135,472
517,221	375,462	295,304	201,866	201,727	172,148	133,868	115,251	101,626	100,745
31,714	27,121	23,450	19,944	17,334	16,772	11,255	10,658	9,062	9,138
19,334	14,752	13,094	11,361	10,090	10,188	7,968	6,689	6,203	5,795
21,554	14,402	7,833	8,585	8,376	6,209	2,578	2,531	2,405	2,500
(7,203)	(2,460)	199	(118)	(639)	71	(3,102)	(915)	(1,110)	(1,922)
121,520	62,672	52,130	31,788	42,166	48,215	21,263	11,005	2,292	19,216
44,586	24,457	23,560	9,320	12,395	16,400	2,660	500	(286)	9,950
7,908	3,102	2,400	6,580	8,685	6,350	7,780	5,050	1,242	(100)
69,026	35,113	26,170	15,888	21,086	25,465	10,823	5,455	1,336	9,366
209,574	170,236	134,176	112,053	105,296	89,651	63,445	56,302	50,506	55,585
86,996	74,436	65,276	57,036	58,284	42,231	45,762	43,724	15,136	19,048
122,578	95,800	68,900	55,017	47,012	47,420	17,683	12,578	35,370	36,537
43,294	42,426	30,022	10,972	11,317	11,757	8,644	4,396	4,486	2,140
607,556	567,664	386,430	367,224	344,196	301,786	280,993	254,364	202,306	200,244
(262,786)	(236,140)	(156,999)	(136,580)	(119,080)	(104,918)	(92,125)	(83,415)	(74,040)	(88,484)
22,501	25,404	11,230	13,744	15,134	16,902	18,608	21,345	14,612	15,160
1,364	1,482	1,276	1,378	1,482	1,583	487	692	536	—
534,507	496,636	340,859	311,755	300,061	274,530	234,290	209,960	183,270	165,597
208,107	236,512	110,187	101,114	103,500	100,069	88,108	79,438	62,059	42,259
79,236	71,328	67,900	65,500	58,920	50,235	43,885	36,089	31,039	29,797
7,618	7,978	8,338	8,698	9,058	9,418	9,778	10,138	10,498	10,858
33,630	33,480	33,411	33,234	33,202	33,188	32,055	32,052	32,052	32,047
205,916	147,338	121,023	103,209	95,381	81,620	60,464	52,243	47,622	50,636
534,507	496,636	340,859	311,755	300,061	274,530	234,290	209,960	183,270	165,597
106,273	63,830	51,377	41,769	47,048	48,875	28,482	21,092	11,860	18,944
961	104,090	15,197	2,713	7,434	44,348	17,860	18,338	20,067	275
107,234	167,920	66,574	44,482	54,482	93,223	46,342	39,430	31,927	19,219
42,179	31,886	19,801	23,980	42,355	24,493	31,635	52,397	24,617	6,206
418	2	205	323	2,208	51	84	8,325	672	517
10,448	8,798	8,356	8,060	7,325	4,309	2,602	834	4,350	4,375
27,411	100,334	24,329	4,114	3,002	34,633	6,916	666	3,455	3,514
80,456	141,020	52,691	36,477	54,890	63,486	41,237	62,222	33,094	14,612
26,778	26,900	13,883	8,005	(408)	29,737	5,105	(22,792)	(1,167)	4,607
15,139	15,117	15,106	15,076	15,070	15,068	14,875	14,874	14,874	14,873
3,461	2,908	2,725	2,849	2,917	2,878	2,700	2,826	2,995	3,148
152	160	167	174	181	188	196	203	210	217
1,268	1,355	1,433	1,538	1,626	1,689	1,775	1,861	1,926	2,012
4.53	2.29	1.70	1.02	1.36	1.66	.68	.33	.05	.58
6.99	4.19	3.37	2.75	3.08	3.20	1.87	1.38	.75	1.23
15.82	11.96	10.22	9.05	8.53	7.62	6.22	5.66	5.35	5.56
.61	.54	.51	.50	.40	.20	.10	.09	.25	.25
21.25	13.25	12.25	8.62	11.25	13.00	6.37	6.37	8.56	10.37
10.12	9.50	7.75	5.50	4.31	5.94	4.81	3.84	5.62	7.31
9.8	7.1	6.7	5.8	7.6	10.0	6.2	3.8	1.1	6.9
15.1	13.0	13.1	15.3	16.9	19.3	16.4	14.5	9.8	14.0
15.2	8.7	8.8	6.5	8.4	10.5	5.2	3.2	1.5	6.4
28.6	19.1	16.6	11.3	16.0	21.7	11.1	5.8	0.9	10.5
2.4	2.3	2.1	2.0	1.8	2.1	1.4	1.3	3.3	2.9
1,953,000	1,718,000	1,651,000	998,000	1,358,000	1,251,000	1,106,000	1,217,000	989,000	884,000
835,000	812,000	721,000	434,000	474,000	536,000	537,000	483,000	485,000	486,000
135,000	104,000	132,000	96,000	106,000	125,000	102,000	109,000	79,000	110,000
1,279,000	1,203,000	1,141,000	802,000	986,000	1,162,000	748,000	804,000	659,000	684,000
448,000	382,000	436,000	323,000	423,000	410,000	248,000	200,000	197,000	247,000
253,000	233,000	229,000	175,000	223,000	232,000	211,000	210,000	169,000	202,000
300,000	102,000	—	—	—	—	—	—	—	—
53,000	20,000	—	—	—	—	—	—	—	—
7,895	7,888	6,105	5,105	5,134	5,087	5,096	4,808	4,160	4,122

CORPORATE INFORMATION

Board of Directors

IAN A. BARCLAY *†
Chairman of the Board
Vancouver, B.C.

LAURENT BEAUDOIN
Chairman and
Chief Executive Officer
Bombardier Inc.
Montreal, Que.

KENNETH P. BENSON *
President and
Chief Executive Officer
Vancouver, B.C.

H. CLARK BENTALL
Chairman and
Chief Executive Officer
Dominion Construction
Company Limited
Vancouver, B.C.

ALAN F. CAMPNEY
Partner
Campney & Murphy
Vancouver, B.C.

DAVID C. DAVENPORT †
Partner
Bourne and Co.,
Vancouver, B.C.

CHARLES D. DICKEY, JR. *
Chairman and
Chief Executive Officer
Scott Paper Company
Philadelphia, Pa.

OSCAR F. LUNDELL, Q.C. *
Associate Counsel
Lawson, Lundell and Co.
Vancouver, B.C.

ALLAN M. MCGAVIN *†
Chairman of the Board
McGavin Foods Limited
Vancouver, B.C.

JAMES W. McSWINEY *
Chairman and
Chief Executive Officer
The Mead Corporation
Dayton, Ohio

ALFRED POWIS *
Chairman and President
Noranda Mines Limited
Toronto, Ont.

BURNELL R. ROBERTS *
Senior Group Vice-President
Pulp and Forest Products
The Mead Corporation
Dayton, Ohio

JOHN M. TENNANT
Partner
Lawson, Lundell and Co.
Vancouver, B.C.

RICHARD B. WILSON †
Retired Businessman
Victoria, B.C.

ADAM H. ZIMMERMAN *
Executive Vice-President
Noranda Mines Limited
Toronto, Ont.

* *Member of Executive Committee*

† *Member of Audit Committee*

Head Office

1050 West Pender Street
Vancouver, B.C., Canada
V6E 2X3

Transfer Agents and Registrars

National Trust Company,
Limited
Calgary, Montreal, Toronto,
Vancouver, Winnipeg
The Canada Trust Company
Halifax

Stock Listings

Vancouver, Toronto and
Montreal
Stock Exchanges

Wholly Owned Subsidiary Companies

Blandin Paper Company
Crofttech Inc.
Liberty Leasing of Canada
No.3, Ltd.
Stuart Channel Transportation
Limited
Swiftsure Towing Company Ltd.

Interest in other Companies

Fraser River Pile Driving
Company Limited [60.8%]
Muir Creek Logging
Company Limited [50%]
Pinette & Therrien Mills
Limited [50%]
Donohue St-Felicien Inc. [45%]
Finlay Forest Industries
Ltd. [42.7%]

Officers

IAN A. BARCLAY
Chairman of the Board

KENNETH P. BENSON
President and
Chief Executive Officer

ROY J. WHITTLE
Executive Vice-President

HARRY DEMBICKI
Group Vice-President,
Logging and Wood Supply

GEORGE G. FLATER
Group Vice-President,
Pulp and Paper

WILLIAM R. STEEN
Vice-President Finance
and Secretary

W. GERRY BURCH
Vice-President,
Timberlands and Forestry

GORDON F. CAMERON
Vice-President,
Employee Relations

KENNETH P. CLARK
Vice-President,
Wood Products Marketing

W. JOHN CONNERY
Vice-President,
Wood Products Production

DOUGLAS R. KRAFT
Vice-President and
Comptroller

STUART WADDELL
Vice-President,
Pulp and Paper Marketing

JOHN K. GRAF
Treasurer

BCFP Today*

British Columbia Forest Products Limited is one of Canada's largest integrated forest products companies with operations and investments in British Columbia, Quebec and in the U.S.A. The Company was incorporated in 1946 as a logging and sawmilling company and over the years has expanded and diversified into related forest products manufacturing and sales. Net assets of the Company in 1979 were \$602 million with combined sales of lumber, plywood, waferboard, shingles, market pulp, newsprint and coated paper, and related products reaching \$800 million.

The Company's total work force of 8,200 operates 24 logging divisions, eight sawmills, a veneer mill, two plywood plants, a shingle mill, two kraft pulp mills and a newsprint mill, all in British Columbia and a coated paper mill and waferboard plant in Minnesota. Head office is Vancouver, B.C.

BCFP has three major wholly-owned subsidiaries, Blandin Paper Company, Swiftsure Towing Company Ltd. and Croftech Inc. Blandin, located in Grand Rapids, Minnesota, is a major producer of lightweight coated paper and its subsidiary, Blandin Wood Products Company, produces aspen waferboard. Swiftsure,

the Company's marine subsidiary, operates a fleet of tugs and log barges on the B.C. Coast. Croftech Inc. is a project management company.

The Company has a 45 per cent interest in Donohue St-Felicien Inc., a Quebec company which operates a kraft pulp mill, three sawmills and extensive woodlands in the Lac St.Jean region of that province.

BCFP holds a 50 per cent interest in Pinette & Therrien Mills Limited which operates three sawmills in the B.C. Interior. The Company holds a 42.7 per cent interest in Finlay Forest Industries Ltd., which operates a refiner groundwood pulp mill and two sawmills at Mackenzie, B.C. BCFP also holds a 60.8 per cent interest in Fraser River Pile Driving Company Limited, a marine construction company based in New Westminster, B.C.

In 1980 the Company plans to start work on the first phase of a \$300 million forest development in Alberta which will include construction of two sawmills and a paper manufacturing facility when fully completed in 1985.

Most of the timberlands owned or managed by BCFP are operated on a sustained yield basis so that no more wood is harvested than is replaced by new growth. The Company also purchases and sells a substantial quantity of logs and wood chips on the open market to supplement and balance its own production.

Approximately 75.2 per cent of the Company's common shareholders are Canadian and Canadian companies, holding 53.5 per cent of the outstanding shares.

**As of December 31, 1979*

The Annual General Meeting

The Annual General Meeting will be held Thursday, April 17, 1980 at 12 noon in the Social Suite West at the Hotel Vancouver, Vancouver, British Columbia.

