

British Columbia Forest Products Limited

Annual Report 1980



Cover Photo. The daily delivery of newspapers, by carriers like Robert Anderson, of Vancouver, brings the world to our door steps. We stoop to pick our paper up and fail to realize that a complex series of events makes it all possible. The theme for this year's annual report, *Pulp and Paper: The Everyday Wonders* tells the story behind the story starting on page 12.

Financial Highlights

	1980	1979	% Increase (Decrease)
For The Year			
Net sales	\$850,307,000	\$799,961,000	6.3
Depreciation and depletion	36,839,000	32,625,000	12.9
Earnings before income taxes	88,453,000	170,781,000	(48.2)
Income taxes	27,923,000	74,038,000	(62.3)
Net earnings	60,530,000	96,743,000	(37.4)
— <i>per common share</i>			
<i>(after preferred dividends)</i>	\$1.98	\$3.18	(37.7)
Funds from operations	113,828,000	129,667,000	
— <i>per common share</i>			
<i>(after preferred dividends)</i>	\$3.73	\$4.26	(12.4)
Return on net assets	10.6%	19.0%	
Return on common shareholders' equity	18.0%	34.6%	
Dividends paid			
— common	23,552,000	17,437,000	
— per share775	.575	34.8
— preferred	419,000	442,000	
— per share	3.00	3.00	
Capital expenditures	277,453,000	58,296,000	375.9
Salaries and wages	188,282,000	164,483,000	14.5
Employee benefits	49,546,000	41,642,000	19.0
Stumpage and royalty (to governments)	37,809,000	42,744,000	(11.6)
Property taxes	10,746,000	9,583,000	12.1
At Year End			
Ratio of current assets to current liabilities	2.0	2.1	
Ratio of long term debt to equity	1.20	.60	
Shareholders' equity per common share	\$11.59	\$10.43	
Number of common shareholders	4,411	3,515	
Number of preferred shareholders	1,064	1,158	
Number of employees	8,305	8,180	
Assets employed per employee	\$122,600	\$88,400	
<i>Canadian capital gains tax</i>			
<i>Valuation Day prices:</i>			
Common shares (subdivided)	\$ 2-15/32		
6% Preferred shares	41 ½		
Series A, 4 ½% debentures	92		
Series B, 5 ½% debentures	74		
Series C, 6 ½% debentures	80 ½		
Series D, 9 ¾% debentures	106		

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ecuring
the future

Highlight Review

The growing awareness by governments and industry that a higher degree of silvicultural management is required to prevent a potential timber shortage was consistent with BCFP's goals and achievements during 1980.

The acquisition of private timberlands and Crown cutting rights and high levels of intensive forestry applications were two major steps taken by the Company to insure a secure fibre base for its existing and planned manufacturing facilities.

As a measure of the Company's commitment to the future, record capital spending of \$277 million was devoted to timber acquisitions; plant modernization and expansions; and pollution control and energy conservation programs.

Company operations and earnings in 1980 were adversely affected by the prevailing economic conditions throughout the Western World. Continuing high inflation resulted in reduced demand and prices for wood products, higher operating costs in all sectors and high rates of interest on increased borrowings.

These negative factors were partially offset by record production and sales of pulp and newsprint, the favorable exchange rate on U.S. dollars and reduced taxes.

Consolidated net earnings were \$60.5 million or \$1.98 per common share, after preferred dividends, compared with the record earnings of \$96.7 million or \$3.18 per common share reported in 1979.

Net sales of \$850.3 million were a new record for the Company compared with sales of \$800 million reached in 1979.

U.S. dollar exchange, included in net earnings, contributed \$1.36 per common share compared with \$1.25 per common share in the previous year.

The rate of return on the Company's net assets of 10.6 per cent in 1980 fell below the previous five-year weighted average of 13.3 per cent and the record 19 per cent reached during 1979. Return on shareholders' equity dropped to 18 per cent from 34.6 per cent in 1979.

Logging operations adjusted to sawmill curtailments, producing volumes only slightly below those of 1979. Reasonable weather conditions allowed most operations to meet their revised objectives.

Reduced sawmilling production on the Coast and in the Interior of the Province and increased export demand for wood chips resulted in considerably higher chip prices and problems of supply were experienced at various times during the year.

Forest management activities increased in 1980 with high levels of performance recorded in planting, spacing and fertilization. Reflecting the additional timberlands which came under the Company's management, field and inventory cruising expanded by 340 per cent.

Total lumber and plywood production was below capacity in the wake of depressed prices and lower demand. Employees at the Company's logging and wood products operations responded to the uncertain conditions, adjusting to temporary measures such as reduced work weeks and changes in holiday times.

Despite the unpredictably high interest rates, housing starts in the United States averaged out to 1.3 million units, recovering from a mid-year trough of 920,000 units. The U.S. rail and Atlantic Coast lumber markets tracked the rise and fall of interest rates while offshore prices and demand were firm until mid-year.

Domestic sales of plywood, which were weak at the beginning of the year, steadily

improved during the second half. Export sales were also weak in early 1980, strengthened in the summer and then dropped off sharply during the rest of the year.

Demand for BCFP's market kraft pulp and newsprint remained strong throughout the year. Pulp and newsprint employees achieved record levels of production and shipments at both Crofton and Mackenzie mills.

Blandin completed another strong year of coated paper production and sales. Waferboard sales, which were modestly lower than 1979, were still limited by the decline in home building and industrial construction in the United States.

The Donohue St-Felicien pulp mill operated at 114 per cent of capacity during its second full year of production. Production at DSF's sawmills was disrupted by strikes in the Quebec woodlands resulting in lower levels of output.

In April, BCFP was the successful bidder for the purchase of the assets of Elk River Timber Company Limited. The purchase price of \$151 million included assets comprised of 100,000 acres of timberlands on the east coast of Vancouver Island, logging equipment, roads and booming grounds.

A Forest Management Agreement covering approximately two million acres was signed with the Province of Alberta in July of 1980. Woodlands development and construction of an 80 million board feet sawmill began at Grande Cache, the first phase of a \$300 million Alberta development planned by the Company.

An agreement to purchase the assets of the Rayonier Canada Division of ITT Industries of Canada Ltd. was finalized at the end of October. BCFP, Doman Industries Limited and Whonnock Industries Limited

each invested \$60 million in equity to become equal partners in Western Forest Products Limited, a new company formed to make the purchase. WFP operates two pulp mills, three sawmills and has extensive logging operations in B.C.

In April, the remaining shares of Fraser River Pile Driving Company Limited were acquired, raising BCFP's interest in the company from 60.8 per cent to 100 per cent.

Warren L. Batts resigned as a Director and James W. McSwiney was appointed to fill the vacancy on the Board in February 1980. At BCFP's Annual General Meeting in April, Gordon F. MacFarlane was elected a Director. Shareholders also approved a two-for-one subdivision of the common shares of the Company and approved the implementation of an Employee Share Purchase Plan.

In consideration of the Company's expansion into Alberta, BCFP's common and preferred shares will be listed on The Alberta Stock Exchange, Calgary.

In December, Alfred C. Wallace, formerly General Manager, Pulp & Paper Operations, was appointed an officer of the Company and Vice President, Pulp & Paper Production.

Forecast

Western nations will continue to face restrictive monetary policies following a decade of rising inflation and higher energy costs. The forest industry's ability to perform in the early 1980s will be severely tested and until long-term solutions to these problems are forthcoming, general economic recovery will be slow.

The new administration in the United States has proposed a policy of restraint with less Government spending, reduced interference in the private sector and a three-year program to lower income taxes.

Hopefully, these measures will be successful but they will require time to be effective.

Lower economic growth has also been projected for Western Europe and Japan and it is most unlikely that these economies will improve until the United States economy recovers.

The current year has started in a sluggish manner but is expected to show some signs of improvement in the second half. Such a forecast masks the real demand for housing but until interest rates return to more acceptable and stable levels, the demand in Canada and the U.S. for adequate and affordable dwellings will not be met.

Demand for BCFP's wood products therefore will be slow until mid-year when some strengthening should occur.

Reduced paper and paperboard production in the United States and offshore markets will prevail during the first half of 1981. Market conditions are expected to improve during the latter part of the year and as world market pulp inventories are relatively low, BCFP's pulp shipments should be close to those of 1980.

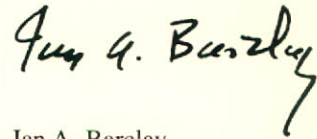
Newsprint demand in Western North America and in the Company's established markets is expected to remain firm. New capacity in the Pacific Northwest, scheduled to enter the market at mid-year, will have an impact on supply but BCFP's operations should run at acceptable rates.

Sales of coated paper are also expected to remain at a satisfactory level.

Labor agreements covering the Company's hourly employees expire this year and successful negotiations will play a large role in determining BCFP's performance in 1981. The pressure of inflation is causing expectations to be high, making

the task of reaching settlements that much harder in light of the general economic conditions.

With a general improvement in world economies during the second half and with the successful conclusion of labor negotiations, the Company is expecting to have a reasonable year in 1981.



Ian A. Barclay
Chairman



Kenneth P. Benson
President and Chief Executive Officer

February 27, 1981

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ifficult year for logging, wood products

Wood Supply and Forestry

Curtailments to maintain log inventories at manageable levels resulted in a slight decline in logging activity at BCFP's Coastal and Interior Operations. Despite these curtailments, which were prompted by depressed lumber market conditions, total log production during 1980 was 4.9 million cubic metres compared with 5.2 million cubic metres harvested during the previous year.

On the Coast, a brief cold spell with accompanying snowfalls prevented an earlier scheduled startup. Divisions were activated as weather conditions moderated and planned operating levels were maintained until the normal fire hazard season at mid-year.



Early holiday closures were implemented and extended to allow for a normal level of production activity during the balance of the year. Favorable operating conditions prevailed until winter weather progressively closed down divisions in early December.

Log requirements at Mackenzie were affected by lumber production curtailments which were forced by excessive log and lumber inventories. Total log production was reduced to 1.4 million cubic metres compared to the volume of 1.6 million cubic metres harvested in 1979. The Mackenzie Woodlands group concentrated on the early salvage of windfallen timber when a wet summer and late freeze-up prevented access to areas planned for winter operations. An unseasonably mild winter forced an early Christmas shutdown.

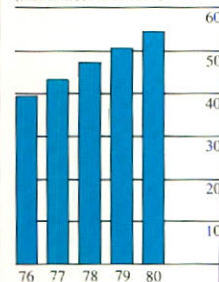
A total of 470 kilometres of new logging road construction was completed at the Coast and in Mackenzie during the year.

In keeping with the Company's policy regarding improved log sorting and security, a new dry land sort/log dump was completed on Cowichan Lake near the Youbou mill. Substantial progress was also achieved on a new dry land sort facility on Harrison Lake. At Mackenzie, work commenced on a new causeway and permanent bridge crossing at the head of Williston Lake. When completed, the crossing will reduce the direct winter haul distances to the sawmills, permit direct truck deliveries throughout the year for most log production and will eliminate the need for the present ferry system used for crew and supply transport. During the year, the Coastal logging group met the challenge of backhauling a substantial volume of logs from Renfrew to Cowichan. In addition, a sunken log salvage program began on Cowichan Lake and retrieved logs were blended in with fresh logs at the Caycuse dry land sort for consumption at the Cowichan Wood Products Division.

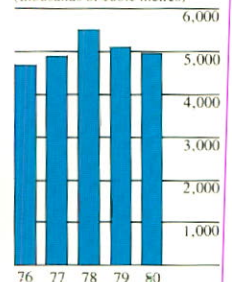


Following the pattern of the past several years, chip supply volume and species balance continued to be a problem for the Company. Chip supply was particularly aggravated by depressed wood products markets which reduced local supply and intensified competition from U.S. pur-

Cumulative tree planting
(No. of trees in million)



Log production
(thousands of cubic metres)



chasers. Inventories of chips at both of BCFP's pulp mills were well below desired levels at the start of the year. The situation improved slightly through the balance of the year and by year-end inventories were adequate.

Delivered wood chip prices on the Coast rose 75 per cent over 1979 prices and by 47 per cent in the Interior reflecting lower availability and pressure from export buyers.

Coastal logging operations faced increased costs during 1980 as a result of higher labor and supply costs and continued high stumpage rates.

During 1980 the Company paid total stumpage and royalty fees of \$37.8 million compared to \$42.7 million paid in 1979.

As a result of increased timber acquisitions and new harvesting rights, the Company's Timberlands department completed a heavy schedule of related activities during the year. This resulted in field and inventory cruising of a record 262,700 hectares (225,000 in Alberta) and photographic mapping of a record 161,700 hectares. Intensive forestry applications included the planting of 3.7 million seedlings on the Coast and at Mackenzie and record levels of juvenile spacing (5900 hectares) and fertilization (4600 hectares).

Work continued on the seed orchard on the Saanich peninsula in preparation to receive nursery stock. The orchard is jointly owned by BCFP (60 per cent) and Crown Zellerbach Canada Limited (40 per cent). Major projects completed during the year included construction of access roads, drainage systems and a reservoir.

Vessel and barge repairs and lower log production resulted in a moderate year of activity for Swiftsure Towing Company Ltd., BCFP's marine subsidiary. Swiftsure's fleet of tugs towed a total 1.7 million cubic metres of logs during 1980. Log deliveries for BCFP and other forest industry companies accounted for 134 trips for Swiftsure's two-self loading, self-dumping, log barges. Total volume for both barges was 887,000 cubic metres.

Wood Products

Higher interest rates, which brought about a decline in housing construction in the United States and Canada, resulted in lower prices and reduced demand for the Company's wood products in 1980.

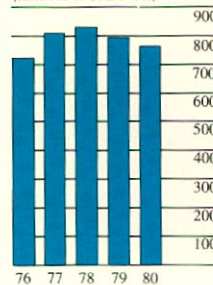
Export demand for lumber in the first half of the year was fairly strong with reasonable prices but fell off sharply in the second half.

Demand for plywood in both domestic and overseas markets was weak early in the year but improved slightly in the summer. Domestic markets continued to strengthen during the balance of the year.

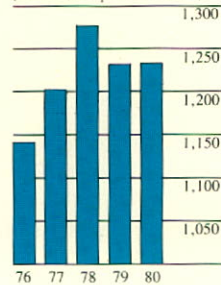
Combined lumber production at BCFP's eight sawmills was 766 million board feet, four per cent lower than the 795 million board feet produced during the previous year. Plywood production and shipments of 1.23 billion square feet (1/16 inch basis) equalled output of 1979.



Lumber production
(millions of board feet)



Plywood production
(millions of square feet 1/16")



Lumber production on the Coast was 490 million board feet compared to 1979 production of 519 million board feet. Total lumber output from Mackenzie's three sawmills was 276 million board feet, the same level of production achieved in the previous year.

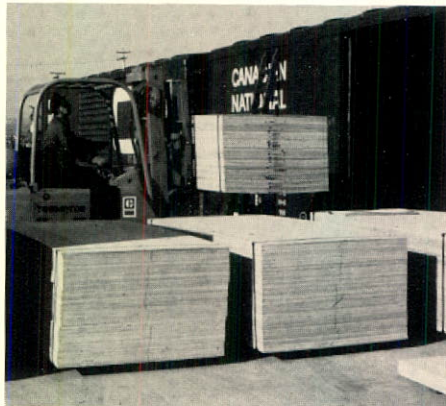
Rail freight rates for products shipped to U.S. destinations increased by 20 per cent in 1980. Canadian freight rates more closely followed general inflationary trends of approximately 12 per cent.

A four-day work week was instituted at Mackenzie Wood Products from April through July as a temporary measure to keep mill inventories in balance. A general two week holiday in July was also required due to poor markets. Despite the unsettled conditions, employees accomplished several daily records of production in all three sawmills.

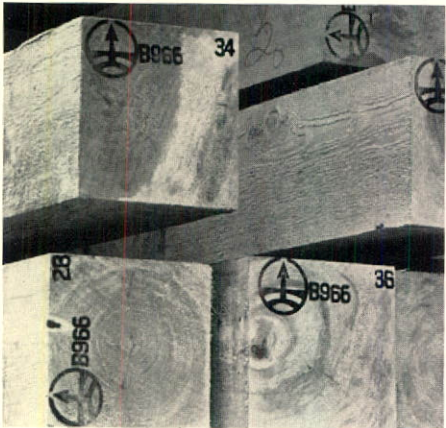
The \$4.5 million automatic lumber sorter system at Cowichan Wood Products was completed in February and is now operating satisfactorily but some additional refinements are planned to improve lumber flow.

The J Bar component of a new 60-bin sorting system at Victoria Wood Products started up in November and was performing well by year end. Installation of a traveling crane is scheduled for April 1981 to complete the total project.

Pulp and newsprint in strong demand



Site work and building foundations were completed on the new \$35 million sawmill at Hammond by year end and structural steel arrived in early 1981. Major equipment for the replacement sawmill has been placed on order and startup is planned for 1982. Also at Hammond, a new tray sorting system for the planer mill was installed and began operation early this year.



Due to poor market conditions, Hammond's shingle mill was closed for 68 days during 1980 and a further 10 day shutdown of both the shingle mill and the sawmill was taken during the Christmas holiday season.

Both Tilbury and Boston Bar sawmills operated well during 1980 but also faced curtailed production due to reduced lumber demand.

The Company's deep sea docks at Crofton and lumber assembly facilities at Stuart Channel Wharves loaded 239 vessels during the year. Total lumber shipments, including production from other companies, was 374 million board feet during 1980 compared with 444 million board feet shipped in the previous year from Stuart Channel Wharves. BCFP's pulp and newsprint shipments from Crofton's docks totalled 362,000 tonnes.

Pulp and Paper

Pulp and newsprint operations ran smoothly during 1980 without major outages, achieving record volumes of production and shipments. Combined market pulp production at Crofton and Mackenzie was 468,000 tonnes compared to the previous record 452,000 tonnes achieved during 1979. Crofton newsprint production of 268,000 tonnes substantially exceeded the 1979 high of 254,300 tonnes.

Mackenzie's production of market kraft pulp rose from 183,000 tonnes in 1979 to 196,000 tonnes in 1980 and Crofton's production of 272,000 tonnes was up 3300 tonnes from the previous year.

The Company's market mix permitted steady sales of kraft pulp throughout the year despite an easing in world demand. Sales of Crofton newsprint continued to be strong during 1980 as demand exceeded supply in BCFP's major markets.

Heavy inflation was encountered in all manufacturing cost elements and also in shipping the products. U.S. rail freight

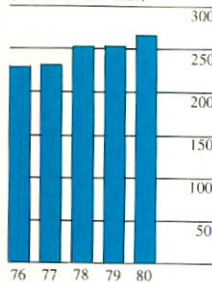
rates for pulp increased by 23 per cent during 1980 while newsprint rates rose by 22 per cent. Canadian freight rates also increased by an average 12 per cent for both products.

A 12-year charter agreement was concluded in 1980 for a side-loading newsprint cargo ship. The ship, now being constructed in Scandinavia will be completed in 1982 and will normally operate between Crofton and California ports.

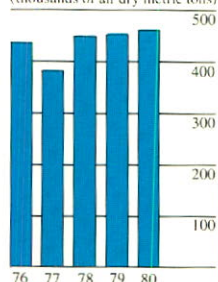
A 35 megawatt turbo-generator was delivered at Crofton in October and installation is on schedule for startup in April 1981. When fully-operational, the turbo-generator will reduce the Division's outside purchases of electricity. Also at Crofton, a waste wood hogger was installed to create combustible fuel for steam production. The hogger will convert wood debris from the nearby Shoal Islands dry land sort into hog fuel for use in the No. 4 power boiler.

In Crofton's newsprint mill, an \$860,000 ventanip press was installed on No. 1 news machine, identical to the press installed during the previous year on No. 2 machine. The ventanip system improves machine speed and helps reduce the

Newsprint production
(thousands of tonnes)



Market pulp production
(thousands of air dry metric tons)



amount of energy required to dry newsprint by removing greater amounts of moisture. Both machines ran at speeds in the range of 945-975 metres per minute throughout the year.



A channel connecting Mackenzie pulp mill's water supply in Lake Williston with the Parsnip River was completed in 1980 at a cost of \$840,000. It will be used when low lake level conditions threaten the mill's normal intake.

Structural steel work for the new No. 3 newsprint machine building has been substantially completed and good progress was made in 1980 on the adjoining thermo-mechanical pulp mill. The \$150 million project will be completed in mid-1982 and will increase Crofton's newsprint production by 68 per cent.

Croftech Inc., BCFP's wholly-owned engineering management company, was actively engaged in many projects in 1980 including the refiner pulp mill expansion by Finlay Forest Industries in Mackenzie, BCFP's Grande Cache sawmill development in Alberta, the No. 3 newsprint machine project at Crofton and the revisions to Western Forest Products' Port Alice and Woodfibre pulp mills.

Employee Relations

The Company's operations were relatively free from labor disruption during 1980. No new collective agreements involving the Company were negotiated in British Columbia during the year and production losses due to a few short-lived walkouts were minimal.

Collective negotiations with the major forest industry unions covering the Company's logging, wood products, and pulp and newsprint hourly employees in B.C. will commence before contracts expire in mid-1981. A two-year agreement between the International Longshoremen's and Warehousemen's Union and the B.C. Maritime Employers Association, affecting employees at the Company's dock complex at Stuart Channel Wharves, has been reopened for wage negotiations due to a rise in the cost of living index. The contract expires in December 1981.

Agreements with maritime unions covering employees at BCFP's marine subsidiary, Swiftsure Towing Company Ltd., also expire later in the year.

Collective agreements covering employees at Blandin Paper Company and its subsidiary Blandin Wood Products Company were signed during 1980.

Employment at all BCFP operations totalled 8,305 at the end of 1980 (including 1,377 employees at Blandin) compared with total employment of 8,180 in 1979.

The Company's overall safety performance improved slightly during the year and no fatalities occurred. Significant improvement was achieved in the wood products sector, notably in Mackenzie's three sawmills where compensable injuries were cut by 50 per cent. Tilbury Sawmill recorded the lowest accident frequency rate in the wood products group.

The total number of compensable injuries in all sectors declined from 655 cases in 1979 to 630 in 1980. Accident frequency rates in pulp and newsprint and in logging operations unfortunately increased over the previous year. Three Divisions, Silver River, Crofton Logging and Kent Street, posted accident-free years.

Following a management conference last spring, the Company renewed its commitment to improve training and development of its supervisory employees. A comprehensive training needs analysis for wood products operations began during the year and programs are now being developed. Efforts in this area will increase in 1981 with the expansion of the program into other sectors.

Since implementation of an employee share purchase plan in June of 1980, 587 salaried and 1,228 hourly employees have made total contributions of \$1,465,585. Over 350 employees took advantage of BCFP's program to encourage continuing education resulting in Company refunds of \$50,000 for partial or full repayment of tuition fees. The Company also awarded a total \$29,000 in scholarships and bursaries to qualifying post secondary students.

BCFP's annual report to employees, Spirit, was distributed in April and was later awarded top honors for the best internal annual report produced in Canada.

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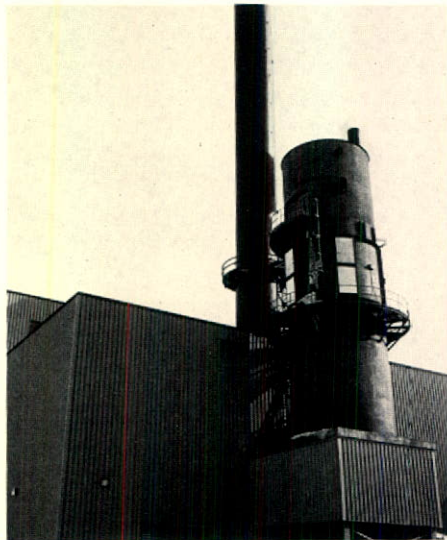
holly owned subsidiaries
and partly-owned companies

Blandin Paper Company (100 per cent owned)

Blandin concluded another successful year of lightweight coated paper production although total shipments were marginally lower than during the previous year. Total production of 303,000 tons compared with record production of 308,000 tons in 1979.

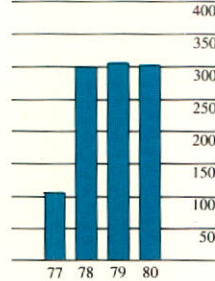
A \$33.4 million (U.S.) power generation project for the paper mill started up late in the year with the installation of a turbo-generator and completion of two new boilers. The new coal and wood waste burning boilers will replace former gas-fired units. The energy program will help reduce the paper mill's outside purchases of electricity and gas.

Blandin Wood Products, still affected by lower rates of housing and industrial construction in the United States, produced 40,000 tons of aspen waferboard compared to 42,000 tons during 1979.

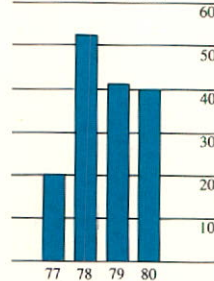


Blandin power project

Coated paper production
(thousands of short tons)



Waferboard production
(thousands of short tons)



Good progress was achieved on a \$49.7 million (U.S.) waferboard mill expansion project at Blandin Wood Products during the year. New woodroom and warehouse buildings were completed and major manufacturing equipment is now being put into place. With startup scheduled for fall 1981, the expansion will raise total waferboard production capacity to 178,000 short tons annually.

The complaint filed by the U.S. Department of Justice, Anti-Trust Division, pertaining to BCFP's original purchase of Blandin in August, 1977, is scheduled for trial in late fall of 1981. BCFP, The Mead Corporation and Noranda Mines Limited are opposing the action.

Fraser River Pile Driving Company Limited (100 per cent owned)

Fraser River Pile Driving, which became a wholly-owned BCFP subsidiary in April, completed over 700 individual contracts during an exceptionally active year.

Major projects included deep sea wharves at Tahsis and Kitimat, a new ferry docking facility at Skidegate in the Queen Charlotte Islands and a number of expansion and repair contracts for the B.C. Ferry Authority.

Foundation piling contracts included the sinking of 3500 piles for the Crofton No. 3 newsprint project, a large scale expansion program at Elk Falls and a large sewer installation at Matsqui. The most unique project undertaken by FRPD during the year was the construction of a low water channel and weir to insure a water supply for BCFP's Mackenzie pulp mill.

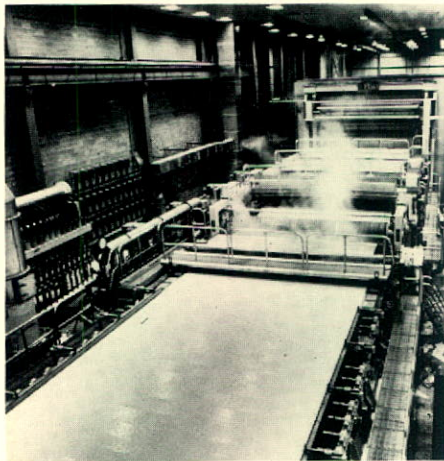
Pinette & Therrien Mills Limited (50 per cent owned)

Higher interest rates and depressed lumber prices resulted in a less profitable year of operation for Pinette and Therrien. Combined lumber production at the company's sawmills at Williams Lake and Takla Lake in the B.C. Interior was 165 million board feet compared to 183.1 million board feet produced in the previous year. Railway tie production continued at reasonable levels throughout the year and some pole production was also achieved.



Donohue St-Felicien Inc. (45 per cent owned)

In its second full year of operation Donohue St-Felicien's pulp operations ran at high levels of production exceeding design capacity by 14 per cent. A woodlands strike and the poor lumber market adversely affected lumber production at DSF's sawmills.



Total pulp production for the year was 265,200 tonnes compared to 229,600 tonnes reached during the mill's first full year in 1979. Negotiations with the Canadian Paperworkers Union were successfully completed in 1980 and a two-year agreement was signed. Construction on a 22.8 megawatt turbo-generator project commenced during the year and is on schedule for startup in late 1981.

Combined lumber production from DSF's three sawmills was 152 million board feet compared to 125 million in 1979, a year when labor disruption significantly hampered operations. Major capital projects completed in the sawmills during

1980 included the installation of automatic tray sorters at Chibougamau and St-Thomas and new kilns at Girardville.

A six-week woodlands strike in the St-Thomas region ended with the signing of a two year collective agreement. A similar contract was negotiated without labor disruption in the Chibougamau sector but a strike by woodlands employees in the Girardville region, which began in mid-August was still unresolved at year end.

Finlay Forest Industries Ltd. (42.7 per cent owned)

Reduced sales and lower values for lumber and higher interest rates on increased borrowings during a year of major capital expansion seriously affected FFI's performance in 1980.

Total refiner groundwood pulp production increased by 10 per cent to 100,000 tonnes while combined lumber production from FFI's two sawmills was 162 million board feet.

Reduced work weeks were instituted in the sawmills during the summer when markets reached their lowest points.

A new \$5 million planer mill was completed for the second sawmill which FFI acquired in 1979. The planer commenced operation in November and is running satisfactorily.

Structural steel work is nearing completion on the \$20.8 million groundwood mill expansion where a third pulp line will raise total production to 500 tonnes per day. Startup is scheduled for fall of 1981.

Western Forest Products Limited (33 1/3 per cent owned)

The formation of a new company, Western Forest Products Limited, to purchase the Western Canadian assets of the Rayonier Canada Division of ITT Industries of Canada Ltd. was completed in November.

BCFP, Doman Industries Limited and Whonnock Industries Limited became equal partners in the new company, investing \$60 million each in equity in the new company to make the purchase. The remaining \$240 million of the total \$420 million purchase price was raised through bank borrowings by WFP.

Major assets include two pulp mills, at Port Alice and Woodfibre, three sawmills in the Vancouver area, private timberlands and extensive harvesting rights.

Western Forest Products is developing plans for a full scale mill modernization and improvement program to be completed over the next five years. The program includes a rebuild of the kraft pulp mill at Woodfibre and completion of an effluent system and air pollution abatement project at Port Alice pulp mill.

Company plans also include a major modernization program for two of the three sawmills.

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xpansion marks important year

New Developments

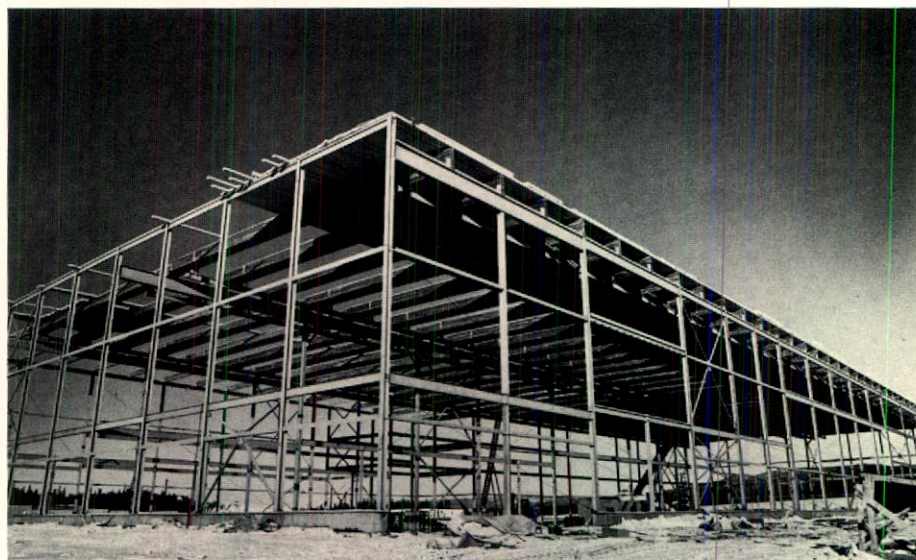
BCFP's first project in Alberta and the purchase of more than 100,000 acres of private timberlands in British Columbia marked a year of important development for the Company.

In April, the Company acquired its newest logging division with the purchase of the assets of Elk River Timber Company Limited for \$151 million. A few months later, in July, a Forest Management Agreement was signed with the Province of Alberta giving BCFP harvesting rights on 707,700 hectares in the Berland-Fox Creek region of that province.

The new Elk River Division, located near Campbell River on the east coast of Vancouver Island, contains some of the finest private timberlands remaining in B.C. Elk River has been an active logging site since the turn of the century.

Superb stands of first growth timber and prime growing sites make the acquisition suitable for intensive forest management. A catch-up program of forestry work began during the year with emphasis on the restocking of logged-over lands. Planting of seedlings is expected to reach 900,000 annually when the program is in full operation and fertilization, thinning and land rehabilitation projects are also planned. Tree Farm status was approved for Elk River lands at year end and an applied genetics program is being developed.

The Division's annual cut will be gradually raised over a five-year period from the present 227,000 cubic metres to 396,000 cubic metres. Negotiations are continuing with the Federal Department of



Grande Cache sawmill

Fisheries and Department of Lands to select an appropriate site for a new dry land sorting area.

Following a series of public hearings and negotiations with the Government of Alberta, BCFP's \$300 million development proposal was accepted in early summer. The finalization of a Forest Management Agreement was completed in July and the first stage of the project began immediately.

The Company's plans in Alberta are to construct an 80 million board feet sawmill at Grande Cache, a 100 million board feet sawmill at Knight, and a 500 tonne per day thermo-mechanical pulp and newsprint mill at Hurdy.

Site preparation for the \$35 million Grande Cache sawmill was 80 per cent complete before winter arrived and structural steel work is proceeding on schedule. Startup for the mill is planned for the fall of 1981.

Preliminary design work and site selection for the second sawmill at Knight is underway and construction will begin mid-year with startup planned in late 1982.

The third phase TMP and newsprint complex at Hurdy will be started in 1983 with completion in 1985.

Woodlands development and right of way logging and road construction began in Grande Cache by mid-July. By year end, 25 kilometers of logging roads had been completed, including an access road to the mill site.

A major forestry program starting with field and inventory cruising of 225,000 hectares was conducted during the year. Soil and hydrology mapping, cone collection and some test planting were also part of the active program. Future plans include development of a tree nursery and participation in a genetics research project.

In preparation for new employees, the Company is finalizing home construction arrangements and drafting training programs prior to startup.

Company Operations

BRITISH COLUMBIA

Logging Operations

Koksilah – 35*
Renfrew – 370/25*
Cowichan/Nitinat – 325/30*
Parksville – 20*
Barkley – 30*
Clayoquot – 55*
Mooyah Bay – 35*
Tsowwin – 20*
Machmell – 55*
Elk River – 100/30*
Wakeman/Acteon – 70/15*
Knight Inlet – 75*
Tom Brown Lake – 35*
Phillips Arm – 35*
Quatam – 40*
Seshal/Glacial Creek – 35*
Narrows Inlet – 60
Pitt Lake – 70
Stave Lake – 40*
Port Douglas – 30*
Silver River – 75
Boston Bar – 25/130*
Mackenzie – 80/320*
Shoal Islands Log Sort – 25/5*

Coastal Area Logging Offices

Campbell River – 40
Crofton – 25
Maple Ridge – 20

Lumber Mills

Mackenzie – 660
(Sawmill, Studmill,
Small Log Mill)
Boston Bar – 250
Hammond – 480
Victoria – 560
Cowichan – 640
Tilbury – 170

Shingle Mill

Hammond – 40

Plywood and Veneer Plants

Victoria Plywood – 410
Cowichan (Veneer) – 90
Delta Plywood – 330

Pulp and Newsprint Mills

Mackenzie – 265
(Kraft Pulp)
Crofton – 1090
(Kraft Pulp, Newsprint)

Deep Sea Docks

Stuart Channel Wharves
(Crofton) – 30

ALBERTA

(Planned Operational Date)

Lumber Mills

Grande Cache (1981)
Knight (1982)

TMP/Paper Mill

Hurdy (1985)

WHOLLY-OWNED SUBSIDIARIES

Blandin Paper Company – 1165
Blandin Wood Products – 165
Swiftsure Towing Company Ltd. – 80
Croftech Inc. – 15
Fraser River Pile Driving – 150

PARTLY-OWNED COMPANIES

Pinette & Therrien Mills Limited – 400
Finlay Forest Industries Ltd. – 550/225*
Donohue St-Felicien Inc. – 1800
Western Forest Products Limited – 3000

EXECUTIVE AND ADMINISTRATIVE OFFICES

Vancouver Office – 290
Mackenzie Administration – 80

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

**Designates number of contractor
employees in division.*

Pulp & Paper

The Everyday Wonders. When you stop and think about it for a moment, a world without pulp and paper is hard to imagine. The wondrous array of products that generate from its source touch our lives in many familiar ways, every day. Perhaps it's because these products are common and plentiful that we lose sight of them in this age of technological marvels. But those of us who spend our working lives manufacturing pulp and paper think differently. To us, pulp and paper are everyday wonders. The process of our work is complex and confounding to the uninitiated but the results are as familiar as the paper you are now holding in your hands. It would be a different world without pulp and paper. Our story can be told in many ways, but we've selected a few elements we believe to be integral to our company's commitment to this vital aspect of contemporary life. BCFP, as part of a \$10 billion industry in Canada, works hard to make certain the everyday wonders continue to be part of our lives.





An aerial photograph of terraced rice fields, showing the rhythmic, curved patterns of the terraces. The fields are filled with green rice plants, and the terraces are separated by dark, narrow paths. The lighting creates strong shadows, emphasizing the three-dimensional structure of the terraces. In the top right corner, the word "Row" is written in a large, white, sans-serif font, with a white horizontal bar underneath it.

Row

Materials





The residuals from efficient lumber manufacture flow into stockpiles before individual fibres are separated by pulping.

A diet of leftovers



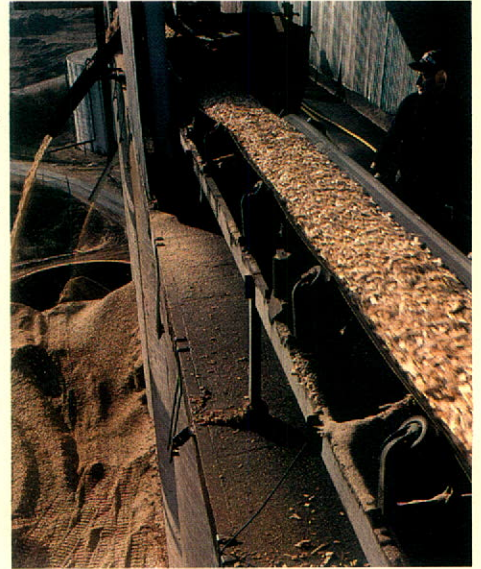
Thirty years ago most of the raw materials of today's pulp and paper industry were being swept off the mill floor or burned at the forest landing. We thought the forest would last forever. Today it's a different story. The pulp and paper sector is part of a delicate cycle of integrated activities that starts and ends in the forest. A modern pulp mill thrives on a steady diet of leftovers; wood chips fashioned from the residual remains of lumber and plywood manufacturing. Sawdust and logs unsuited for wood products combine to produce

groundwood pulp for newsprint. Bark and unusable wood debris fuel furnaces to produce steam and electrical energy. We've learned there is no such thing as waste wood anymore.

Even though wood chips have humble origins they are the essence of a marvelous process that depends on a renewable resource. With proper stewardship of Canada's forests the supply will never end.

If you magnified the paper of this page you would be confronted with a gossamer log jam of hollow fibres. The fibres are provided by Nature but their arrangement and individual qualities are no accident. It is the result of a highly-technological manufacturing process that is constantly adjusting to new improvements to keep pulp and paper products affordable and in abundant supply.

Each wood species has fibres of characteristic length, diameter and wall thickness. Douglas Fir, for instance, yields a long, thick-walled fibre while Western Red Cedar offers a fine, thin-walled fibre. Western Hemlock has properties in between these Coastal species. Slow-growing trees in the B.C. Interior, such as Lodgepole Pine or White Spruce, produce long, slender fibres with fine features. It's the careful blending of the different fibres, the process cooking and bleaching controls, and intensive cleaning that produce the qualities required by BCFP's customers for their own finished products. For example, a fully-bleached blend of Western Hemlock, Western Red Cedar and Douglas Fir fibres is used to produce the largest volume of BCFP's pulp. Its properties make it ideal for a full range of paper products from tissues to fine writing papers. An unbleached grade produced with Interior species is ideal for the manufacture of electrical cable wrapping, transformer insulation and electrical insulation board. While customer demand helps determine pulp grades, it's the mills that keep the standards high.



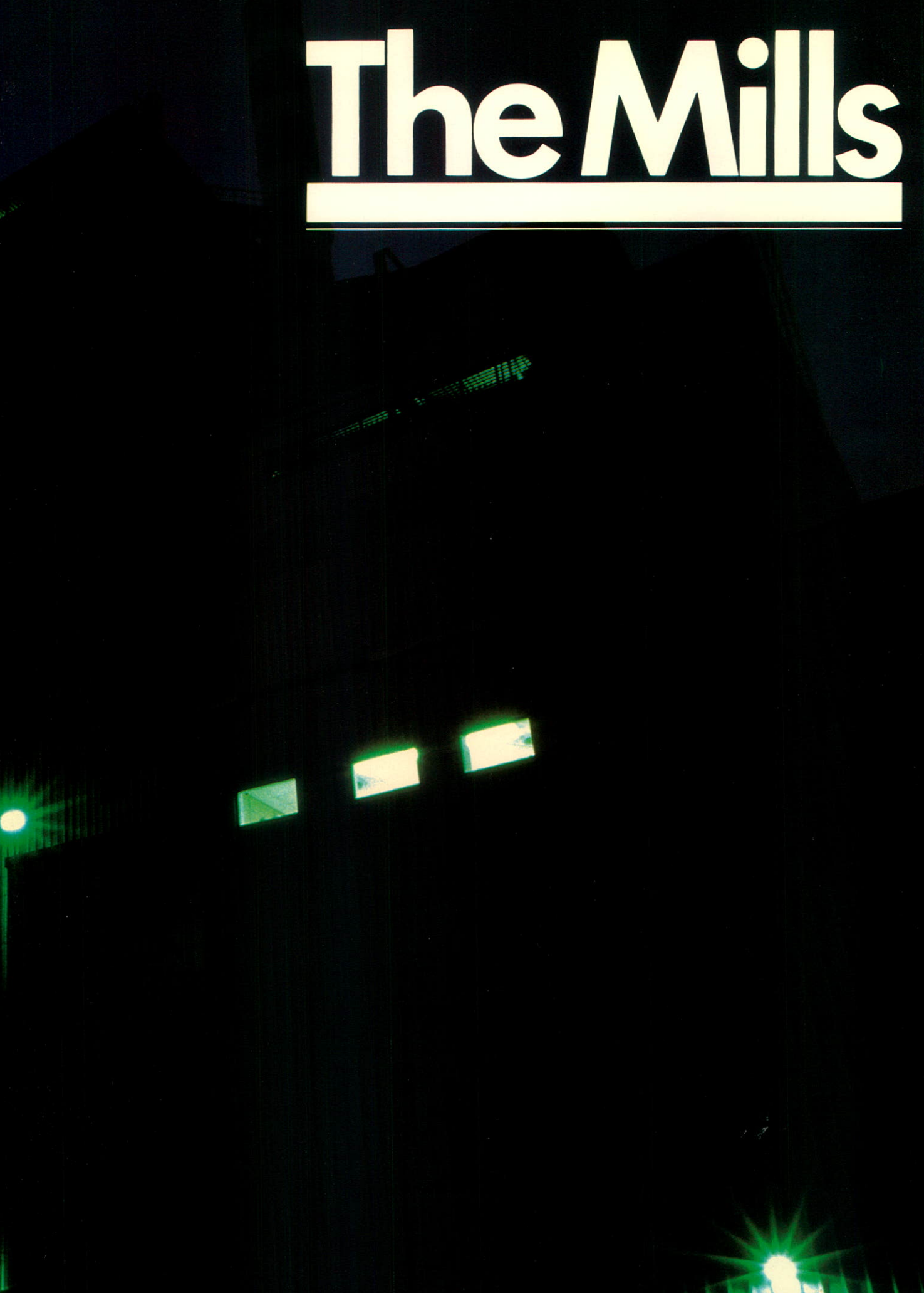
Merely a spoonful for a hearty eater, a clamshell takes a bite out of a chip scow's load.

Unsuitable for lumber, debarked logs head for enormous grinding stones which will provide a pulp for newsprint production.

Conveyors carry chips, forging a continuous link between supply and demand.

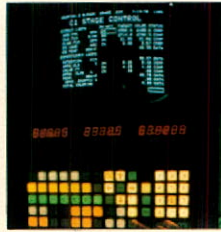


The Mills



T

echnical know how talented people



With an ever-increasing number of producers around the globe, all seeking their share of the same market, there are two fundamentals to survive the competition — keep the costs low and the quality high. The place to achieve both is in the mills. A modern pulp mill is an engineering triumph. It has to be, because to remain competitive and productive a mill must run around the clock; day-in, day-out; year after year. BCFP built its first pulp mill at Crofton, on Vancouver Island, in 1958 for a cost of \$48 million. It was a staggering sum to pay in those days. Today, that amount would only be a small down payment on a pulp mill. If we use Mackenzie's 560 tonne per day mill as an example, the numbers tell the story of capital intensity. The mill was built in the early 1970s for approximately \$65 million. Today it would cost \$224 million. And since pulp mills aren't built overnight, the costs could easily reach \$300 million before the first pulp was produced.

But it takes more than sheer financial courage to build a pulp and paper mill; it takes skill. Human skill. Long before the first bulldozers arrive to clear a site for a new mill, a team of highly-specialized individuals is working with models and drawings at BCFP's project management subsidiary, Croftech Inc. Their expertise helped build the highly-successful Donohue St-Felicien pulp mill in which BCFP has a 45 per cent interest. Today Croftech is working on the new No. 3 newsprint machine project at Crofton, a thermo-mechanical pulp mill and newsprint mill for Alberta, and projects for affiliated companies such as Western Forest Products Limited and Finlay Forest Industries Ltd. Planning and building new facilities wouldn't be any use unless there were more skilled people to operate them. The opportunities for people in the pulp and paper sector are almost boundless. Pipefitters, mechanics, machinists, steam engineers and dozens of production equipment operators bring their skills to work every day. They help keep technology in perspective. Their innovations have helped to make machines faster, more efficient. Their knowledge, often learned over a lifetime, reflects in the quality that measures our success. And they search the world over for the right equipment for the job at hand.

Over the past few years, many improvements have been made at both BCFP's mills to extract more moisture from the pulp and newsprint before they enter the dryers. This results not only in more production but also reduces the amount of energy required to dry the product. In search of still higher speeds without sacrificing quality, BCFP has ordered a new twin-wire machine for its Crofton news mill. The new machine, which will go into production next year, forms a newsprint sheet vertically, pulling it through a series of vacuum foils and suction rolls before sending it on to the dryers. It will operate at speeds up to 1200 metres per minute. Capital investment, constant improvements, skill and care all play their part in what comes out of the mills.

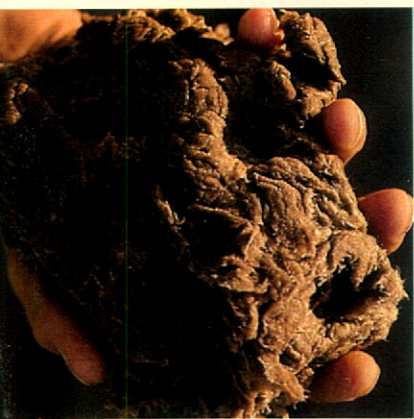


*Preceding page:
Mackenzie pulp mill at
dusk.*

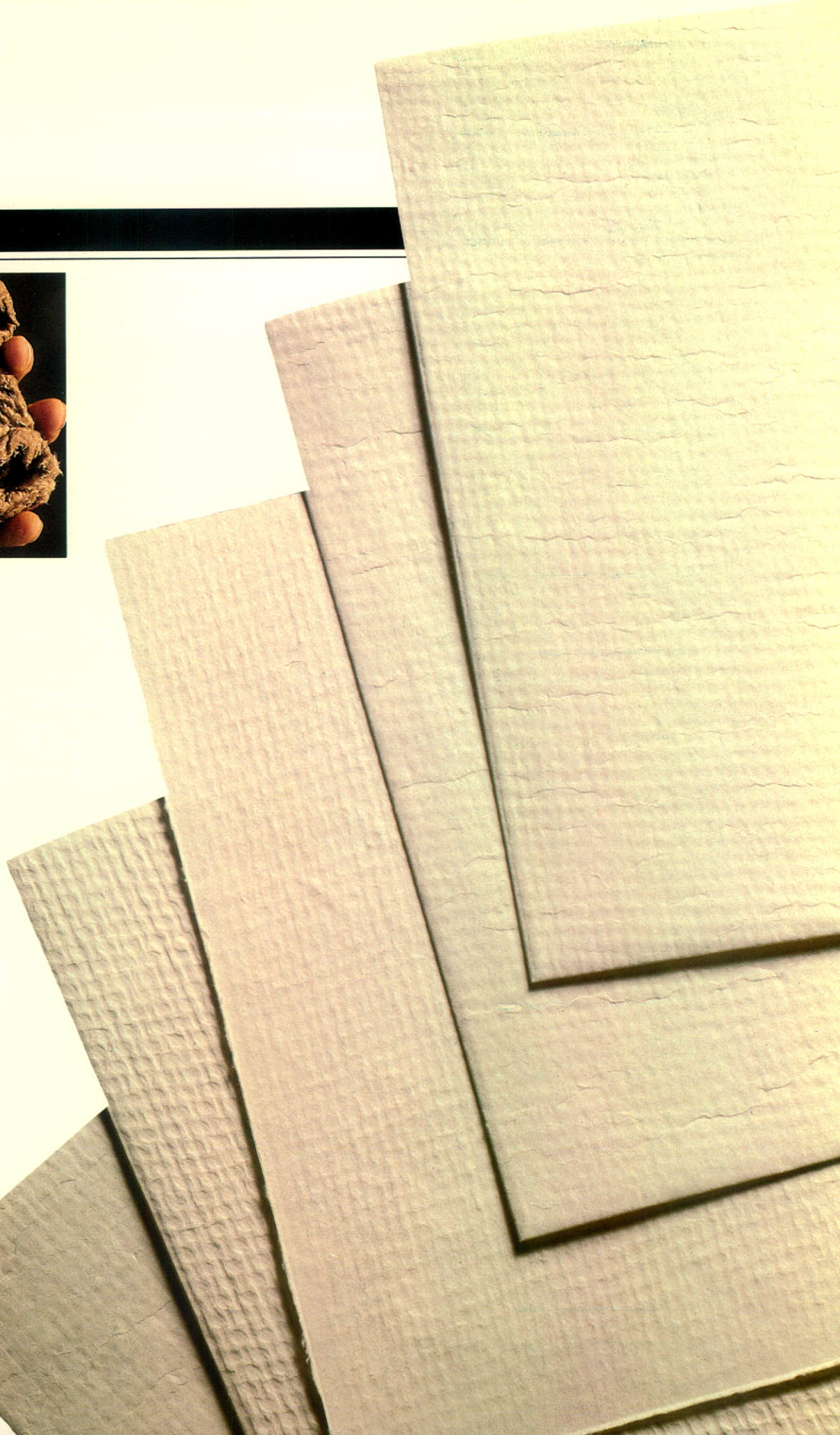
*Ever watchful, sensitive
electronic instruments
provide up-to-the-
minute data on the
mill's operating
performance.*

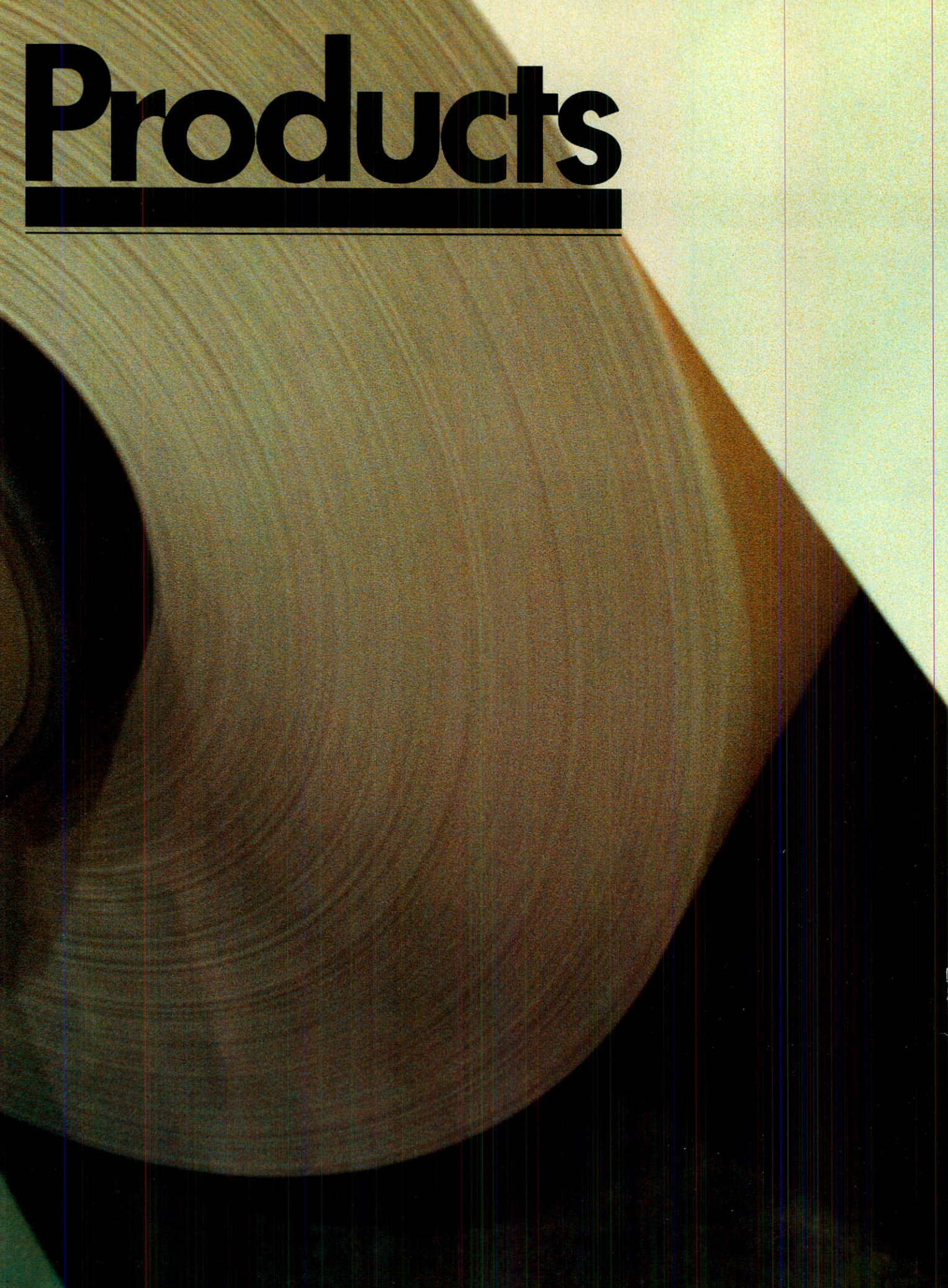
*Computerized chemistry
monitors the bleaching
stages of the pulp
process, supplying
operators with current
information.*

*Viscosity testing of pulp
in process warns of any
drift in pulp strength.*

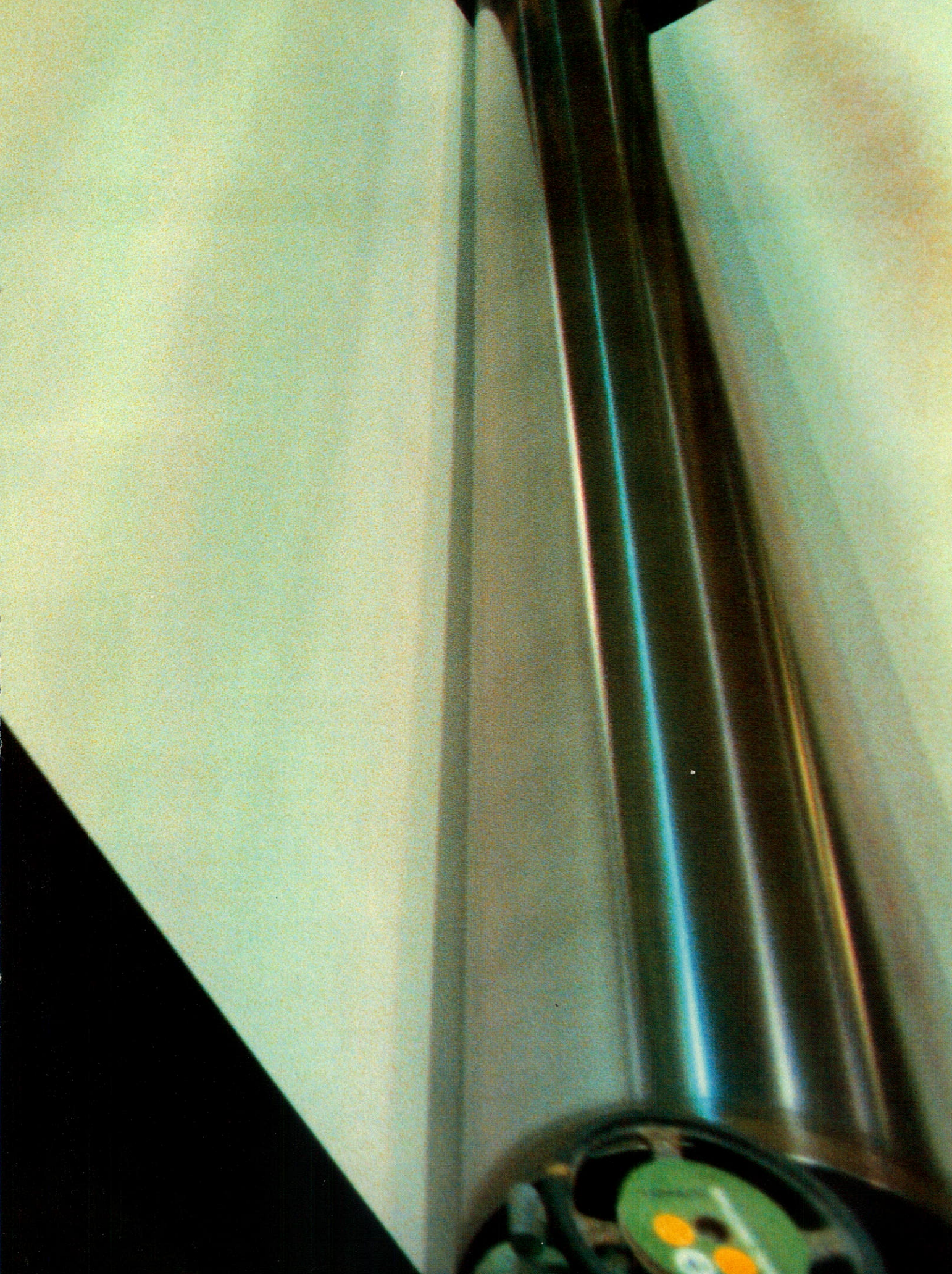


*Bleaching and washing
will transform this raw
product into the white
sheets of market kraft
pulp shown at right.*





Products



C

onsistency of quality
results in superior products



Imagine a world without pulp and paper products and how inconvenient it would be if there were no paper cartons for your breakfast cereal, crackers, ice cream or milk. There wouldn't be any paper towels to wipe up a spill. No bathroom tissue or paper napkins. No cellophane — that's made from pulp, too. There would be no movies, no photographic paper, no school books for your children, no stamps, paper money or tea bags. Those are items that we depend on, often unconsciously, to make our lives meaningful and easier. But there are some more that may surprise you. The oil filter in your car's engine, the insulation around the electrical wires in your house and surgical supplies at your local hospital. Those are a few to spark your imagination. There are thousands more.

And if you think the computer age is replacing paper you're wrong. Without paper to record data the computer would be a helpless tool. And if the press rooms of the world's newspapers were to be silenced for want of newsprint, how would we note the events which record our past and determine our future?

Consistency is the base from which quality products spring. BCFP's pulp and paper customers, like all consumers, expect consistency and the special qualities which their own products determine. The tea bag manufacturer wants odorless, tasteless pulp that will keep the leaves in but let the flavor out. The photographic paper company wants pulp that is free from radioactive trace elements that would prematurely "expose" its product. And the surgical supply firm requires pulp that will result in strong, absorbent, germ-free dressings. No two customers are exactly alike.

We measure their likes and dislikes by a number of standards. Brightness is one standard that is self-explanatory but there are others that are more technical. Opacity, viscosity, tensile strength, tear, and burst are a few to consider but it takes more than a few paragraphs to explain what they all mean. Cleanliness is one test that is more meaningful to our average reader here and it's an essential part of our quality control. Pulp that fails to make the grade, goes back in for rebeating and is corrected until it conforms. Dependability is not just a goal, it's a fact of life.

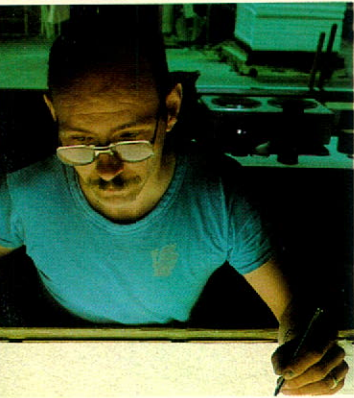
There's just as much care involved in the production of newsprint at Crofton, or the production of coated paper at Blandin, BCFP's wholly-owned subsidiary in Minnesota. Computers continuously monitor newsprint and coated magazine paper production maintaining moisture content and searching for weaknesses. In the high-speed world of newspapers, whether in Los Angeles, Vancouver, or New Delhi, there's very little forgiveness for a product that snaps in the middle of a press run.



BCFP's pulp customers create the everyday products upon which we all depend.

Bales of dried kraft pulp will end up in ports throughout the world where they will help form thousands of familiar products.

Checking for dirt, is just one of many quality control checks to insure a high quality product.

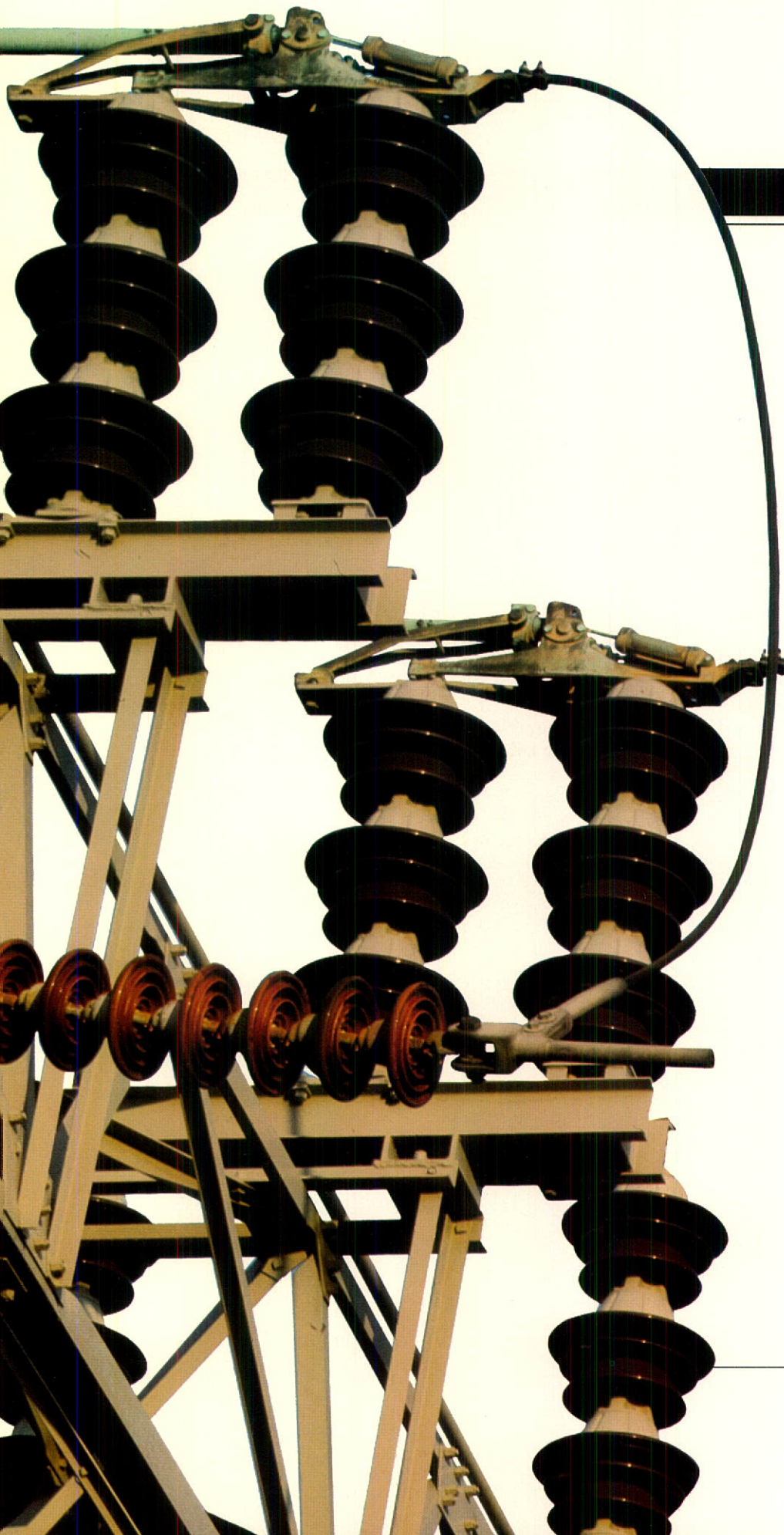


*Tender clutch,
specially-equipped fork
lift carries newsprint
rolls for shipment.*



Conservation





Primary effluent clarifier provides initial treatment of wastewater before returning back into the mill.

Circles within circles cycles within cycles



Conservation, a watchword of the Seventies, is an awareness that shapes the future for pulp and paper. Its place in the broad cycle of the forest products industry goes beyond simplistic altruism; there are other reasons to consider such as efficiency and economics. And while the larger cycle helps us understand the regeneration of the forest resource, there are other smaller cycles contained in our day-to-day operations that often go unnoticed. The integrated cycle of water, chemical recovery and energy efficiency are standard to the industry and date back to the very start of mechanized pulp and paper production.

Just as a pulp mill has an enormous appetite for fibre, it also has an unquenchable thirst for water. Millions of litres of water (230 million litres a day at Crofton for example) are required for the cookings and chemical treatments of pulp. Water also provides a major energy force in the form of steam which is used to drive process equipment. Even if there was an endless supply of good clean water it would be unthinkable to pour it in one end of a mill and out the other end.



We've learned a lot about water purity over the years. A glass of cool, clear tap-water is a necessity to the human machine. Unfortunately, it's not good enough for a pulp and paper mill. The elements essential to a good healthy body, iron and other naturally occurring minerals, can inflict severe damage on boilers and the hundreds of miles of piping that keep a mill humming. The water used at both of BCFP's mills is subjected to screening, filtration and chemical purification before it enters the process. Since water is recycled back into the mill, or discharged into the environment, we're just as concerned about what is left in the water after the process. Clarifiers and aeration lagoons are used to settle out suspended solids and chemicals. A small amount of fibre that escapes with process water is later collected and burned as fuel to produce more steam.

Chemicals used to help separate the individual wood fibres and later to bleach them are also recycled and almost totally reclaimed in the recovery process of a pulp mill. Small amounts of "make-

up" chemicals are added to replenish the various liquors as they return in a constant cycle. The careful containment and use of chemicals at BCFP pulp mills has resulted in recognition for high-performance safety achievements.

A quick trip to the gas pumps tells a sad story about what can happen to a resource that is threatened by overuse. For a number of years BCFP has been reducing its dependence on oil by building power boilers capable of burning hog fuel (wood debris such as bark) to produce steam. The steam, in turn, drives turbo-generators to produce electrical energy thereby reducing outside purchases of another overused resource. Conservation will continue to play its role in the future of the pulp and paper industry. Mere hewers of wood and drawers of water won't survive the task.



Suspended solids are retrieved from recycled process water and later burned as fuel to produce steam.

Hundreds of miles of piping and electrical cable are necessary to power a pulp mill.

Giant power boiler uses waste wood as a fuel, replacing costly energy consumption of oil.

Challenges



We live in a time of rapid change, confronted by new challenges unpredicted even five years ago. The very future of the pulp and paper industry depends on its ability to contend with the pressures of modern day business today by being prepared for tomorrow. Among the more pressing challenges are the availability and price of fibre, chemicals, water and energy. The intent and extent of government legislation and all the challenges related to capital formation and financing are also fundamental issues to be faced in the decade of the eighties. But if the challenges ahead loom large, so do the potential rewards for meeting them. BCFP has made its commitment to the future by expanding production capacities and by maintaining an organization that can deliver the levels of quality, service and dependability our customers have come to expect.



Financial Review

Earnings for 1980 of \$60,530,000 were 37% less than the 1979 earnings of \$96,743,000 and resulted in a reduced cash flow from operations for the year of \$113,828,000 or \$3.73 per common share compared to \$129,667,000 or \$4.26 per share in 1979. In comparison to 1979, the rate of return on net assets of the company decreased from 19.0% to 10.6%, return on shareholders' equity declined from 34.6% to 18.0% and earnings before income taxes as a percentage of net sales dropped from 21.3% to 10.4% in 1980.

Exchange on the U.S. dollar added \$1.36 per share to after tax earnings compared to \$1.25 in 1979. The increase is attributable to increased sales as the value of the Canadian dollar in relation to the U.S. dollar, although variable through the year, averaged \$.855 in both 1980 and 1979.

Each one cent change in the currency relationship affected net earnings by approximately nine cents per share.

Excluding the gains from exchange, 1980 earnings were \$.62 per share compared to \$1.93 in 1979. The reduction of \$1.31 per share or 68% is attributable to inflationary effects on costs while demand and prices for lumber, plywood, and waferboard during 1980 were depressed. High interest rates combined with increased debt were also a factor. Good production performance, particularly in the pulp, newsprint and coated paper operations, where prices and demand were firm, resulted in operating profits for that sector being similar to 1979.

Net Sales for the year were \$850.3 million compared to \$800.0 million in 1979, an increase of \$50.3 million or 6%. Exchange on U.S. currency increased by \$3.6 million. Lumber, shingles, plywood and waferboard sales decreased by \$56 million as both prices and shipments were lower. Pulp sales were up \$50 million, reflecting higher prices and shipments. Newsprint and coated paper sales increased by \$33 million as a result of higher prices. Fraser River Pile Driving Company Limited's sales of \$16 million were included from the date that company became a wholly-owned subsidiary.

Cost of products sold increased from \$569.0 million in 1979 to \$680.9 million in 1980. As a percentage of net sales, cost of products sold increased by 9.0% from 71.1% in 1979 to 80.1% in 1980. Exclusive of exchange, the percentage of cost of products sold to sales increased from 76.9% in 1979 to 86.4% in 1980.

Costs continue to be affected by inflationary pressures resulting in higher costs for labour, supplies and energy. Raw material costs were significantly affected by the imbalance between the wood products and pulp and paper sectors, resulting in a decreased supply of chips for pulp production while demand was increasing. Prices for wood chips escalated rapidly resulting in a 67% increase over 1979 in the cost of fibre used for pulp manufacture. Stumpage fees for log production on the Coast were high relative to product values because of the protracted lag in the reaction of the log market prices upon which coastal stumpage is determined.

Depreciation and depletion totalled \$36.8 million in 1980, an increase of \$4.2 million over 1979 as a result of the capital programs in the manufacturing groups and the purchase of the assets of Elk River Timber Company Limited.

Selling and Administration expenses increased by \$2.6 million over 1979 to \$23.5 million as a result of commissions on increased sales, higher salaries and other expenses.

Interest expense on both long and short term borrowings increased by \$13.8 million to \$35.1 million. The increase is primarily related to the increased borrowings required to accomplish the purchase of the assets of Elk River Timber Company Limited. Interest capitalized on major capital projects and interest added to the investment in Western Forest Products Limited totalled \$6.8 million in 1980 and \$.4 million in 1979.

Interest earned decreased from \$6.4 million in 1979 to \$2.3 million in 1980 as surplus funds held in 1979 were employed in the business in 1980.

Equity in earnings of partly owned companies increased from \$7.3 million in 1979 to \$7.8 million in 1980. Donohue St-Felicien Inc. earnings increased as the pulp mill operation continued to exceed design capacities in a firm market. Earnings from the three sawmills were reduced substantially as demand and prices were depressed. Pinette & Therrien Mills Limited earnings from sawmill operations suffered from the decline in lumber demand and prices. Finlay Forest Industries Ltd. earnings were also adversely affected by the lumber markets but pulp demand and prices were better through most of the year. Western Forest Products Limited is deferring all expenses, net of income and its activities in 1980 did not affect the earnings of the Company.

Other income of \$5.0 million increased by \$4.6 million as a result of exchange gains on U.S. dollar receivables, other exchange transactions, an adjustment on the sale of recreational property by Blandin Paper Company, and other sundry income increases.

Income taxes — The Company's consolidated tax rate for 1980 of 31.6% was significantly lower than the rate for 1979 of 43.3%. The reduction by 11.7% is primarily attributable to a material increase in the Canadian and American investment tax credits (7.7% in 1980 versus 0.8% in 1979) and the recognition in the United States of energy credits (3.9%) in 1980 which were not earned in 1979.

Consolidated 1980 income taxes aggregate \$27.9 million, comprised of \$16.0 million for Canadian and American federal income taxes, \$8.7 million for provincial and state income taxes and \$3.2 million for B.C. logging taxes.

Financial position — Total assets of the Company increased by \$295.0 million to \$1,018.3 million in 1980 reflecting the investment in Western Forest Products Limited, the purchase of the assets of Elk River Timber Company Limited and the major capital construction program including the No. 3 newsprint machine at Crofton and the sawmill at Grande Cache, Alberta. Shareholders' equity per common share at the end of 1980 was \$11.59 compared to \$10.43 at the end of 1979. The ratio of current assets to current

liabilities dropped slightly from 2.1 in 1979 to 2.0 in 1980. At December 31, 1980 working capital was \$129.0 million, a decrease of \$9.5 million over the position at the end of 1979.

The major changes in working capital include a reduction in cash and short term investments of \$23.8 million and an increase in bank loans and notes payable of \$18.2 million, both resulting from the high investment levels in 1980. Income taxes payable fell by \$28.0 million reflecting the lower earnings and effective tax rates in the year.

Accounting for Western Forest Products Limited — Western Forest Products Limited, owned equally by the Company and two other British Columbia companies in the forest industry, was formed to acquire all the assets of the Rayonier Canada Division of ITT Industries of Canada Ltd. in Western Canada. These assets consist mainly of extensive timber holdings and timber harvesting operations, all integrated with three sawmills and two pulp mills. An essential second step in this joint venture is an intensive modernization program to more fully develop the economic returns from the resource base.

During an initial six months of planning and reorientation, Western Forest Products Limited is deferring all its expenses, including interest on its borrowings for the initial acquisition, net of revenues. These deferred operating and interest costs will be written off to earnings by Western Forest Products over five years beginning November 1, 1981 which is the beginning of their second fiscal year.

Accordingly, there will be no amounts included for Western Forest Products in the earnings of the Company for the six months ending April 30, 1981. During that initial period the cost of the investment in Western Forest Products will be increased by interest charges on the \$60,000,000 borrowed by the Company for the acquisition. The Company will write these interest charges off to earnings over a five year period commencing November 1, 1981.

Western Forest Products will also carry forward as deferred charges interest costs after May 1, 1981 on initial borrowings identified with the mills which are being rebuilt and with the timber related to these mills, less the amount of operating profits net of losses of these mills during the periods of reconstruction. These deferred charges will be amortized by Western Forest Products over seven years commencing upon the completion of reconstruction of each mill. Interest on borrowings for the rebuilding program is to be capitalized as a cost of reconstructing the mills and will be depreciated in the same way as the mill rebuilding costs.

After May 1, 1981 the Company's share of the reported earnings or losses of Western Forest Products will be reflected in income. Until the rebuilding program is completed the Company

will add to the cost of its investment interest on the monies borrowed for the investment in proportion to the interest charges being deferred by Western Forest Products. These charges will be amortized against earnings on the same basis as that followed by Western Forest Products.

Segmented Information — A "Statement of Segmented Information", as required by the Canadian Institute of Chartered Accountants, is included in the "Notes to Consolidated Financial Statements". The operations of the company are fully integrated, with by-products such as wood chips and hog fuel from sawmill and plywood operations being utilized in the operations of the pulp and paper mills. For this reason the segmented earnings contribution must be viewed on the basis that the transfer prices of these by-products between segments may not represent the value of the product to the company as a whole.

Capital program — Capital expenditures for 1980 at \$277.5 million included the purchase of timberlands, expenditures on the Crofton newsprint project, the Grande Cache sawmill, the Blandin waferboard expansion and completion of the Blandin energy project. During 1980 the modernization and energy cost reduction programs continued and the new Hammond sawmill project commenced.

The Company's 1981 capital program is planned to be approximately \$225 million. Approximately two-thirds of the expenditures will be for improving and expanding operations in British Columbia including expenditures on the Crofton newsprint project and the new sawmill at Hammond. One-fifth of the expenditures will be for the Alberta development and the balance is for Blandin Paper Company which is constructing a new waferboard mill.

Long term debt increased by \$238.1 million in 1980 to \$431.0 million as a result of the increase in funds required to accomplish the major capital and investment programs during 1980. The increase in debt resulted in a debt equity ratio of 1.20 at the end of 1980.

Dividends — In May, 1980 the quarterly common share dividend rate was increased from \$.175 per share to \$.20 per share on the split basis. The normal quarterly preferred share dividend of \$.75 per share was paid in 1980.

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 affairs of the Company.

Share trading — The combined trading of the Company's shares on the Vancouver, Toronto and Montreal Stock Exchanges amounted to 4,006,804 common and 18,078 preferred shares. The price range on The Toronto Stock Exchange for common shares on the split basis was \$18.625 to \$11.00 and for preferred shares \$39.00 to \$30.50. At year-end, there were 4,411 common and 1,064 preferred shareholders holding 30,418,792 common and 137,960 preferred shares.

Consolidated Statement of Earnings and Earnings Reinvested in the Business

<i>For the Year Ended December 31, 1980</i>		
<i>(in thousands of dollars)</i>		
	1980	1979
Net Sales	<u>\$850,307</u>	<u>\$799,961</u>
<i>Costs and expenses</i>		
Cost of products sold	680,895	568,970
Depreciation	33,157	30,069
Depletion	3,682	2,556
Selling and administration	23,476	20,898
Interest on long term debt	31,625	20,978
Other interest	3,496	352
	<u>776,331</u>	<u>643,823</u>
	73,976	156,138
<i>Other income</i>		
Interest earned	2,279	6,402
Equity in earnings of associate companies	7,834	7,349
(Loss) Gain on disposal of fixed assets	(615)	478
Other	4,979	414
Earnings Before Income Taxes	<u>88,453</u>	<u>170,781</u>
<i>Income taxes</i>		
Current	10,028	67,640
Deferred	17,895	6,398
	<u>27,923</u>	<u>74,038</u>
Net Earnings	<u>60,530</u>	<u>96,743</u>
<i>Per common share</i>	<u>\$1.98</u>	<u>\$3.18</u>
Earnings reinvested in the business		
at beginning of year	<u>282,502</u>	<u>205,916</u>
	<u>343,032</u>	<u>302,659</u>
Deduct dividends declared		
6% preferred shares	414	437
Common shares	24,324	19,720
	<u>24,738</u>	<u>20,157</u>
Earnings Reinvested in the Business at End of Year	<u>\$318,294</u>	<u>\$282,502</u>

Consolidated Statement of Changes in Financial Position

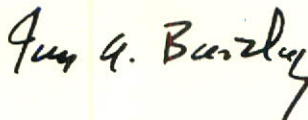
For the Year Ended December 31, 1980
(in thousands of dollars)

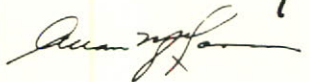
	1980	1979
Working Capital Provided		
Net earnings	\$ 60,530	\$ 96,743
Depreciation and depletion	36,839	32,625
Deferred income taxes	17,895	6,398
Earnings of associate companies, net of dividends received	(2,192)	(5,679)
Other	756	(420)
Funds from Operations	113,828	129,667
Per common share	\$3.73	\$4.26
Issue of long term debt	255,000	—
Proceeds from disposal of fixed assets	1,853	1,434
Issue of common shares	310	262
	<u>370,991</u>	<u>131,363</u>
Working Capital Applied		
Additions to fixed assets	277,453	58,296
Long term investments and advances	61,032	21,422
Dividends declared, common and preferred shares	24,738	20,157
Repayment of long term debt	17,025	15,219
Purchase of preferred shares	281	311
	<u>380,529</u>	<u>115,405</u>
(Decrease) Increase in Working Capital ..	(9,538)	15,958
Amount at beginning of year	138,536	122,578
Amount at End of Year	<u>\$128,998</u>	<u>\$138,536</u>
CHANGES IN WORKING CAPITAL COMPONENTS		
Current Assets — increase (decrease)		
Cash and short term investments	\$ (23,826)	\$ (3,211)
Accounts receivable	9,542	8,958
Inventories	6,947	41,953
Prepaid expenses	542	2,384
	<u>(6,795)</u>	<u>50,084</u>
Current Liabilities — decrease (increase)		
Bank loans and notes payable	(18,170)	—
Accounts payable and accrued liabilities	(7,565)	(27,879)
Dividends payable	(767)	(2,278)
Income taxes payable	28,014	(4,022)
Current portion of long term debt	(4,255)	53
	<u>(2,743)</u>	<u>(34,126)</u>
Increase (decrease) in Working Capital	<u>\$ (9,538)</u>	<u>\$ 15,958</u>

Consolidated Balance Sheet

<i>as at December 31, 1980</i> <i>(in thousands of dollars)</i>	1980	1979
ASSETS		
Current Assets		
Cash and short term investments	\$ 1,020	\$ 24,846
Accounts receivable	103,055	93,513
Inventories (Note 2)	144,121	137,174
Prepaid expenses	4,667	4,125
	<u>252,863</u>	<u>259,658</u>
Long Term Investments and Advances		
Investments in associate companies (Note 3) ..	124,014	64,819
Housing agreements and other investments . . .	5,644	5,576
	<u>129,658</u>	<u>70,395</u>
Fixed Assets		
Property, plant and equipment (Note 4)	493,575	371,599
Timber and timber cutting rights less accumulated depletion of \$36,970,000 (1979 — \$33,288,000)	141,023	20,387
	<u>634,598</u>	<u>391,986</u>
Unamortized Debt Discount and Expenses	<u>1,138</u>	<u>1,250</u>
	<u>\$1,018,257</u>	<u>\$723,289</u>

Approved by the Directors

 Director

 Director

	1980	1979
LIABILITIES		
Current Liabilities		
Bank loans and notes payable	\$ 18,170	\$ —
Accounts payable and accrued liabilities	90,371	82,806
Dividends payable	6,187	5,420
Income taxes payable	347	28,361
Current portion of long term debt	8,790	4,535
	<u>123,865</u>	<u>121,122</u>
Long Term Debt (Note 5)	430,965	192,881
Deferred Income Taxes	104,033	85,634
SHAREHOLDERS' EQUITY		
Share Capital (Note 6)		
6% cumulative preferred shares of \$50 par value, redeemable at \$53		
Authorized — 240,000 shares		
Outstanding — 137,960 shares		
(1979 — 145,160 shares)	6,898	7,258
Common shares without par value		
Authorized — 40,000,000 shares		
Outstanding — 30,418,792 shares		
(1979 — 30,349,472 shares)	34,202	33,892
	41,100	41,150
Earnings Reinvested in the Business	318,294	282,502
	<u>359,394</u>	<u>323,652</u>
	<u>\$1,018,257</u>	<u>\$723,289</u>
 Commitments and Contingent Liabilities (Note 8)		

Notes To Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include Blandin Paper Company, Croftech Inc., Fraser River Pile Driving Company Limited, Stuart Channel Transportation Limited and Swiftsure Towing Company Ltd., all of which are wholly owned.

Inventories

Inventories, other than supplies 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% owned), Finlay Forest Industries Ltd. (42.7% owned), Pinette & Therrien Mills Limited and Muir Creek Logging Company Limited (both 50% owned) and Western Forest Products Limited (33⅓% 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.

Western Forest Products Limited, which acquired all the assets of the Rayonier Canada Division of ITT Industries of Canada Ltd. in Western Canada on October 30, 1980, is deferring all expenses, net of income, for an initial six month period of planning and reorientation. Accordingly, there are no amounts included for it in the earnings of the Company for 1980. The cost of the investment in Western Forest Products Limited has been increased by interest charges of \$1,545,000 on the \$60,000,000 borrowed by the Company for the acquisition. Portions of future interest on these borrowings will continue to be treated as increases in the carrying value of the investment while the essential first projects in Western Forest's program of rebuilding several of its plants are being carried through.

Fixed assets

These assets are stated at cost, which for 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 reflected in earnings.

Depreciation and depletion

Plants, buildings and equipment are depreciated on a straight-line basis at rates (ranging from 3% to 15% 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.

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

(in thousands of dollars)

	1980	1979
Logs and wood chips	\$ 83,139	\$ 86,895
Lumber, plywood and other wood products	22,883	22,990
Pulp, paper and newsprint	11,863	6,502
Supplies	26,236	20,787
	<u>\$144,121</u>	<u>\$137,174</u>

3. INVESTMENTS IN ASSOCIATE COMPANIES

(in thousands of dollars)

	1980	1979
Investments in shares, at cost	\$105,309	\$ 46,971
Accumulated equity in earnings since acquisition, net of dividends received	8,419	7,287
Bonds and advances	10,286	10,561
	<u>\$124,014</u>	<u>\$ 64,819</u>

4. PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)

	Cost	Accumulated Depreciation	Net Book Value
December 31, 1980			
Pulp and paper mills	\$478,913	\$193,647	\$285,266
Sawmill, plywood and other wood products plants	181,793	69,283	112,510
Logging buildings and equipment	58,504	27,012	31,492
Logging roads	54,773	21,263	33,510
Other equipment and facilities	28,221	12,402	15,819
Land	14,978	—	14,978
	<u>\$817,182</u>	<u>\$323,607</u>	<u>\$493,575</u>
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>

5. LONG TERM DEBT

British Columbia Forest Products Limited

(in thousands of dollars)

	1980	1979
Sinking fund debentures		
Series A, 4½% due 1981	\$ 1,247	\$ 2,481
Series B, 5½% due 1989	6,582	7,082
Series C, 6½% due 1992	10,123	10,389
Series D, 9¾% due 1992	13,940	14,674
Series E, 9% due 1995	31,099	32,441
Series F, 8.95% due 1997 (U.S. \$40,000,000)	42,123	42,123
	<u>105,114</u>	<u>109,190</u>
Purchase money mortgage due		
1981-1990 (U.S. \$34,666,000; 1979 — U.S. \$37,333,000)	37,214	40,077
18-month notes due to bank, secured (including U.S. \$15,000,000; 1979 — U.S. \$20,000,000)		
	243,253	21,470
Notes payable due in following year	27,850	—
Housing development mortgages	1,994	2,194
	<u>415,425</u>	<u>172,931</u>

Blandin Paper Company

Notes payable, 10½% due		
1981-1988, unsecured	23,540	23,540
Other	—	684
(U.S. \$22,000,000; 1979 — U.S. \$22,640,000)	23,540	24,224
Less amounts due within one year (converted to \$8,790,000 and \$4,535,000 at the prevailing exchange rates)		
	8,000	4,274
	<u>\$430,965</u>	<u>\$192,881</u>

Long term liabilities in U.S. dollars, aggregating \$111,666,000, have been translated into Canadian dollars at the rates prevailing when the debts were incurred or, in the case of Blandin Paper Company, at the rate prevailing on the date of acquisition. If the increased premium for the U.S. dollar at December 31, 1980 was to prevail at the various maturities of these debts, the additional foreign exchange cost in terms of Canadian dollars would approximate \$13,600,000. 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 and the 18-month notes are secured by floating charges on the Company's assets. The purchase money mortgage is secured by the shares of Blandin Paper Company.

The purchase money mortgage and the U.S. dollar 18-month notes bear interest at rates (currently averaging 17.17%) 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 Canadian dollar 18-month notes bear interest at the prime rate.

Arrangements with the Company's bankers permit the Company to repay \$27,850,000 notes payable due in 1981 out of the proceeds of bank loans which would be due 18 months from the date of issue. Accordingly, the notes, which bear interest at an average rate of 14.84%, are classified as long term debt.

The housing development mortgages are repayable over twenty-five years and bear interest at rates ranging from 6¾% to 9½%.

Payments on long term debt required for each of the five years ending after December 31, 1980 are as follows:

(in thousands of dollars)	
1981 (after adjustment to current exchange rate)	\$ 8,790
1982	277,900
1983	8,600
1984	9,700
1985	12,000

6. SHARE CAPITAL

Subdivision of common shares

In April 1980 the common shares were subdivided two-for-one. The figures in these statements have been adjusted retroactively to reflect this change.

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 1980, 7,200 shares were purchased and cancelled at an average cost of \$39.05 per share, reducing preferred share capital by \$360,000.

Share options

At December 31, 1980 there were options outstanding under the terms of the Company's Employee Share Option Incentive Plan to purchase an aggregate of 823,280 common shares. The options are exercisable over a ten year period, on a cumulative basis commencing one year after the date of grant. Option prices, which range from \$2.70 to \$10.00 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 1980, 69,320 shares were issued under this plan for \$310,000.

7. RELATED PARTY TRANSACTIONS

Sales to "related parties" (which by definition of the Canadian Institute of Chartered Accountants include The Mead Corporation, Noranda Mines Limited and Scott Paper Company, together with their subsidiaries and affiliates) amounted to \$90,916,000 in 1980 (1979 — \$68,788,000). The prices and terms of these sales are the same as all other commercial transactions. The net amount of trade receivables from these companies at December 31, 1980 was \$16,235,000 (1979 — \$16,139,000).

8. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has embarked on major capital expenditure programs at Crofton and in Alberta with construction costs estimated at \$450,000,000 through 1986. To December 31, 1980 the Company has spent \$44,000,000 on these programs and expects to spend \$115,000,000 in 1981.

The Company has agreed to issue in 1981 U.S. \$60,000,000 of Series G 11 $\frac{3}{8}$ % sinking fund debentures due 2001. The future U.S. dollar proceeds of this issue have been sold on a forward basis for \$70,892,000 in Canadian funds.

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.

9. 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, 1979, there were no unfunded past service benefits and the assets of the pension trust exceeded the value of vested benefits.

10. LITIGATION

In 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 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 late 1981.

11. STATUTORY INFORMATION

Selling and administrative expenses include remuneration paid to directors and senior officers of the Company aggregating \$1,759,000 (1979 — \$1,508,000).

12. SEGMENTED INFORMATION

Information concerning the Company's business on a segmented basis is set out in the Statement of Segmented Information which follows.

Statement of Segmented Information

Year ended December 31, 1980
(in millions of dollars)

	By Industry Segment						By Geographic Region					
	Wood & Wood Products		Pulp & Paper		Services & Other		Consolidated		Canada		United States	
	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979
Revenue												
Sales to external customers	\$290.3	\$338.8	\$543.9	\$461.2	\$ 16.1	\$ —	\$850.3	\$800.0	\$635.5	\$600.4	\$214.8	\$199.6
Sales to other segments	67.4	37.0	—	—	2.5	—			16.4	13.4	—	—
	<u>\$357.7</u>	<u>\$375.8</u>	<u>\$543.9</u>	<u>\$461.2</u>	<u>\$ 18.6</u>	<u>\$ —</u>			<u>\$651.9</u>	<u>\$613.8</u>	<u>\$214.8</u>	<u>\$199.6</u>
Earnings												
Operating profit before unallocated items including income taxes (below)	\$ (13.2)	\$ 55.9	\$134.6	\$135.2	\$ 3.0	\$ —	\$ 124.4	\$191.1	\$102.7	\$155.3	\$21.7	\$ 35.8
General and administration							(15.3)	(13.6)				
Interest							(35.1)	(21.4)				
Earnings from associate companies							7.8	7.4				
Other income							6.6	7.3				
Income taxes							(27.9)	(74.1)				
Net earnings							<u>\$ 60.5</u>	<u>\$ 96.7</u>				
Identifiable Assets												
Segment assets	\$455.2	\$280.3	\$417.8	\$370.8	\$ 12.2	\$ —	\$ 885.2	\$651.1	\$683.5	\$472.2	\$201.7	\$178.9
Corporate assets							9.1	7.4				
Investment in associate and other companies							124.0	64.8				
Total Assets							<u>\$1,018.3</u>	<u>\$723.3</u>				
Depreciation, Depletion and Amortization	\$ 19.4	\$ 16.1	\$ 16.5	\$ 16.0	\$.9	\$.5	\$ 36.8	\$ 32.6	\$ 29.6	\$ 25.8	\$ 7.2	\$ 6.8
Capital Expenditures	\$200.7	\$ 30.9	\$ 73.8	\$ 26.9	\$ 3.0	\$.5	\$ 277.5	\$ 58.3	\$224.8	\$ 36.7	\$ 52.7	\$ 21.6

NOTES TO THE STATEMENT OF SEGMENTED INFORMATION

Year ended December 31, 1980

- The Company operates in three industry segments: Wood & Wood Products, Pulp & Paper and Services and Other
- Sales to other segments are accounted for at prices which approximate market.
- Investment income and assets relating to the overall direction and management of the Company's activities are not allocated to industry segments.
- Canadian sales include export sales amounting to \$477.3 million (1979 — \$468.1 million).

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of British Columbia Forest Products Limited as at December 31, 1980 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 and for two 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, 1980 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 21, 1981

THORNE RIDDELL
Chartered Accountants

1978	1977	1976	1975	1974	1973	1972	1971	1970
704,140	491,949	392,010	273,426	279,054	253,603	173,830	145,219	120,478
517,221	375,462	295,304	201,866	201,727	172,148	133,868	115,251	101,626
31,714	27,121	23,450	19,944	17,334	16,772	11,255	10,658	9,062
19,334	14,752	13,094	11,361	10,090	10,188	7,968	6,689	6,203
21,554	14,402	7,833	8,585	8,376	6,209	2,578	2,531	2,405
(7,203)	(2,460)	199	(118)	(639)	71	(3,102)	(915)	(1,110)
121,520	62,672	52,130	31,788	42,166	48,215	21,263	11,005	2,292
44,586	24,457	23,560	9,320	12,395	16,400	2,660	500	(286)
7,908	3,102	2,400	6,580	8,685	6,350	7,780	5,050	1,242
69,026	35,113	26,170	15,888	21,086	25,465	10,823	5,455	1,336
209,574	170,236	134,176	112,053	105,296	89,651	63,445	56,302	50,506
86,996	74,436	65,276	57,036	58,284	42,231	45,762	43,724	15,136
122,578	95,800	68,900	55,017	47,012	47,420	17,683	12,578	35,370
43,294	42,426	30,022	10,972	11,317	11,757	8,644	4,396	4,486
607,556	567,664	386,430	367,224	344,196	301,786	280,993	254,364	202,306
(262,786)	(236,140)	(156,999)	(136,580)	(119,080)	(104,918)	(92,125)	(83,415)	(74,040)
22,501	25,404	11,230	13,744	15,134	16,902	18,608	21,345	14,612
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
208,107	236,512	110,187	101,114	103,500	100,069	88,108	79,438	62,059
79,236	71,328	67,900	65,500	58,920	50,235	43,885	36,089	31,039
7,618	7,978	8,338	8,698	9,058	9,418	9,778	10,138	10,498
33,630	33,480	33,411	33,234	33,202	33,188	32,055	32,052	32,052
205,916	147,338	121,023	103,209	95,381	81,620	60,464	52,243	47,622
534,507	496,636	340,859	311,755	300,061	274,530	234,290	209,960	183,270
106,273	63,830	51,377	41,769	47,048	48,875	28,482	21,092	11,860
961	104,090	15,197	2,713	7,434	44,348	17,860	18,338	20,067
107,234	167,920	66,574	44,482	54,482	93,223	46,342	39,430	31,927
42,179	31,886	19,801	23,980	42,355	24,493	31,635	52,397	24,617
418	2	205	323	2,208	51	84	8,325	672
10,448	8,798	8,356	8,060	7,325	4,309	2,602	834	4,350
27,411	100,334	24,329	4,114	3,002	34,633	6,916	666	3,455
80,456	141,020	52,691	36,477	54,890	63,486	41,237	62,222	33,094
26,778	26,900	13,883	8,005	(408)	29,737	5,105	(22,792)	(1,167)
30,279	30,235	30,212	30,151	30,139	30,136	29,750	29,749	29,749
3,461	2,908	2,725	2,849	2,917	2,878	2,700	2,826	2,995
152	160	167	174	181	188	196	203	210
1,268	1,355	1,433	1,538	1,626	1,689	1,775	1,861	1,926
2.27	1.15	.85	.51	.68	.83	.34	.17	.02
3.50	2.10	1.68	1.37	1.54	1.61	.93	.69	.38
7.91	5.98	5.11	4.53	4.27	3.81	3.11	2.83	2.68
.30	.27	.26	.25	.20	.10	.05	.04	.13
10.63	6.63	6.13	4.31	5.63	6.50	3.19	3.19	4.28
5.06	4.75	3.88	2.75	2.16	2.97	2.41	1.92	2.81
9.8	7.1	6.7	5.8	7.6	10.0	6.2	3.8	1.1
15.1	13.0	13.1	15.3	16.9	19.3	16.4	14.5	9.8
15.7	10.3	9.2	6.6	8.8	11.3	5.5	3.4	1.6
32.6	20.7	17.6	11.6	16.9	24.0	11.6	5.9	0.9
2.4	2.3	2.1	2.0	1.8	2.1	1.4	1.3	3.3
5,530,000	4,864,000	4,675,000	2,825,000	3,847,000	3,542,000	3,132,000	3,446,000	2,800,000
835,000	812,000	721,000	434,000	474,000	536,000	537,000	483,000	485,000
135,000	104,000	132,000	96,000	106,000	125,000	102,000	109,000	79,000
1,279,000	1,203,000	1,141,000	802,000	986,000	1,162,000	748,000	804,000	659,000
448,000	382,000	436,000	323,000	423,000	410,000	248,000	200,000	197,000
253,000	233,000	229,000	175,000	223,000	232,000	211,000	210,000	169,000
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

Corporate Data

Sales by Products

(in millions of dollars)

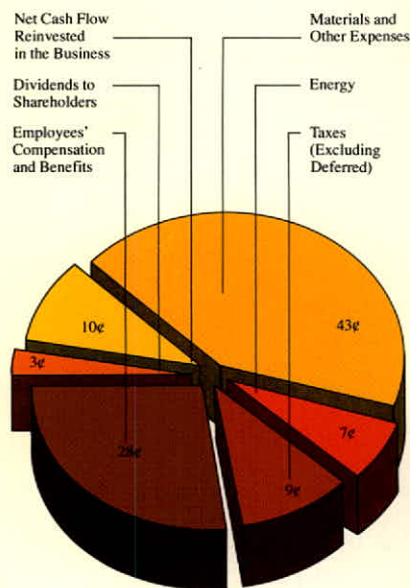
	1980	1979
Pulp	224.8	174.9
Paper	319.1	286.3
Lumber/shingles	190.7	244.4
Plywood/waferboard	54.2	56.8
Other	61.5	37.6
Total	850.3	800.0

Sales by Markets

(in millions of dollars)

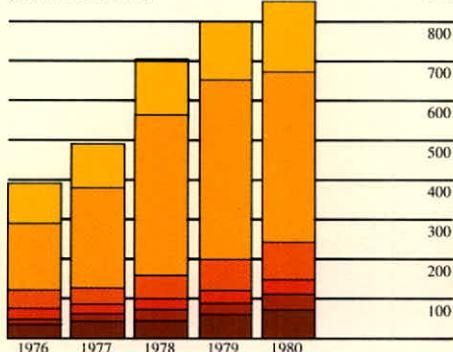
	1980	1979
Domestic	176.2	147.1
U.S.A.	429.8	453.9
Europe	95.7	77.0
U.K.	38.5	33.4
Japan	35.2	29.4
Other	74.9	59.2
Total	850.3	800.0

Sales Dollar Uses



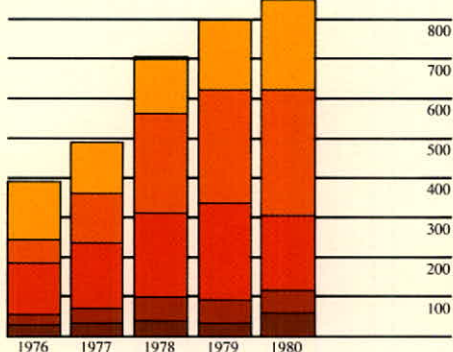
Sales by Markets

(in millions of dollars)



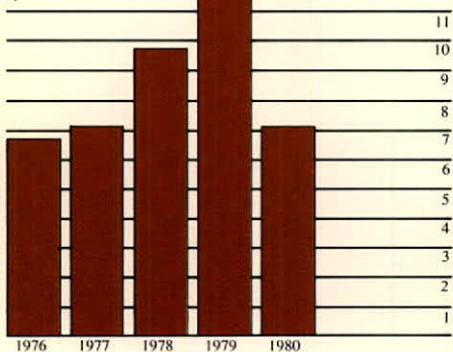
Sales by Products

(in millions of dollars)



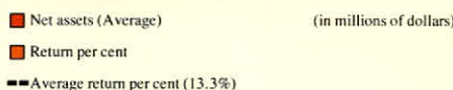
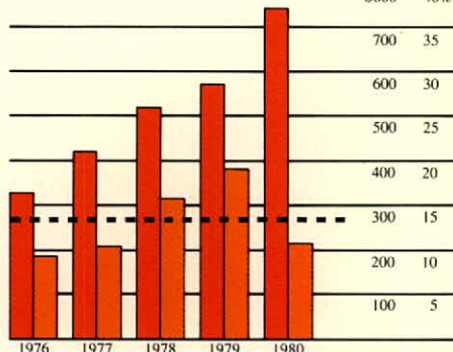
Return on Sales

(per cent)



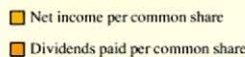
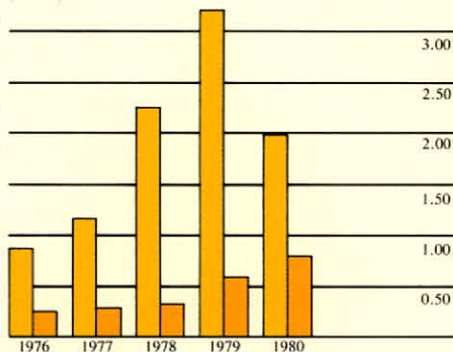
Return on Net Assets

(in millions of dollars)



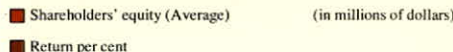
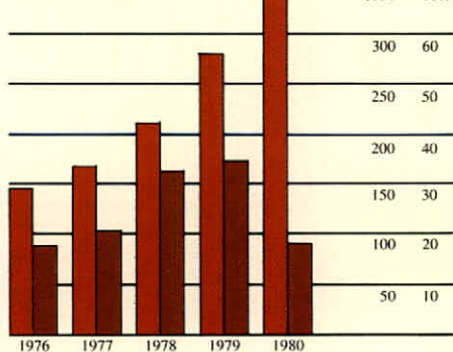
Earnings and Dividends

(dollars)



Return on Common Shareholders' Equity

(in millions of dollars)



Ten Year Comparative Review

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

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 long term debt, share issues and asset disposals.
2. In 1980 the purchase of the assets of Elk River Timber Company Limited is included in plant and equipment, timber and land.
3. *Other expenditures* include long term debt repayments, non-current investments, in 1977 the acquisition of Blandin Paper Company and, in 1980, the investment in Western Forest Products Limited.

E. Terms and definitions

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

	1980	1979
Sales and Earnings (\$000)		
Net sales	850,307	799,961
Cost of products sold	680,895	568,970
Depreciation and depletion	36,839	32,625
Selling and administration expenses	23,476	20,898
Interest on long term debt	31,625	20,978
Other (income) and expense	(10,981)	(14,291)
Earnings before provision for income taxes	88,453	170,781
Current income taxes	10,028	67,640
Deferred income taxes	17,895	6,398
Net earnings	60,530	96,743

	1980	1979
Assets and Capitalization (\$000)		
Current assets	252,863	259,658
Current liabilities	123,865	121,122
Working capital	128,998	138,536
Long term investments and advances	129,658	70,395
Plant and equipment at cost	817,182	663,631
Less accumulated depreciation	(323,607)	(292,032)
Timber at cost less depletion	141,023	20,387
Deferred charges	1,138	1,250
Net assets	894,392	602,167
Long term debt	430,965	192,881
Deferred income taxes	104,033	85,634
Preferred share capital	6,898	7,258
Common share capital	34,202	33,892
Earnings reinvested in the business	318,294	282,502
Total capitalization	894,392	602,167

	1980	1979
Working Capital Statement (\$000)		
Source — operations	113,828	129,667
— other	257,163	1,696
	370,991	131,363
Application — plant and equipment	144,430	57,556
— timber and land	133,023	740
— dividends	24,738	20,157
— other	78,338	36,952
	380,529	115,405
Net increase (decrease) in working capital	(9,538)	15,958

	1980	1979
Financial Data		
Common shares outstanding (000)	30,419	30,349
Number of common shareholders	4,411	3,515
Preferred shares outstanding (000)	138	145
Number of preferred shareholders	1,064	1,158
Net earnings per common share — \$	1.98	3.18
Cash flow per common share — \$	3.73	4.26
Equity per common share — \$	11.59	10.43
Dividends paid per common share — \$.78	.58
Price range for common shares — high — \$	18.63	14.50
— low — \$	11.00	9.44
Net earnings to sales — %	7.1	12.1
Cash flow from operations to sales — %	13.4	16.2
Return on net assets — %	10.6	19.0
Return on common shareholders' equity — %	18.0	34.6
Current ratio	2.0	2.1

	1980	1979
Production and Other Statistics		
Logs — cubic metres	4,943,000	5,171,000
Lumber — MFBM	766,000	795,000
Shingles and shakes — squares	65,000	121,000
Plywood — M sq. ft. 1/16"	1,233,000	1,232,000
Market pulp — air dry tonnes	468,000	452,000
Newsprint and specialty papers — tonnes	268,000	254,000
Coated paper — short tons	303,000	308,000
Waferboard — short tons	40,000	42,000
Number of employees	8,305	8,180

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, Quebec

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

H. CLARK BENTALL
Chairman of the Board
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.

GORDON F. MacFARLANE
Chairman and Chief Executive Officer
British Columbia Telephone Company
Burnaby, B.C.

ALLAN McGAVIN†
Chairman of the Board
McGavin Foods Limited
Vancouver, B.C.

JAMES W. McSWINEY
Chairman of the Board
The Mead Corporation
Dayton, Ohio

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

BURNELL R. ROBERTS
President
The Mead Corporation
Dayton, Ohio

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

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

†Member of Audit Committee

Vancouver 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, Alberta, Toronto and Montreal
Stock Exchanges

Wholly Owned Subsidiary Companies

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

Interest in Other Companies

Muir Creek Logging Company Limited (50%)
Pinette & Therrien Mills Limited (50%)
Donohue St-Felicien Inc. (45%)
Finlay Forest Industries Ltd. (42.7%)
Owikeno Lake Transportation Ltd. (33½%)
Western Forest Products Limited (33½%)

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 &
Wood Supply

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

WILLIAM R. STEEN
Vice-President, Finance and Secretary

W. GERRY BURCH
Vice-President, Timberlands & 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 & Paper Marketing

ALFRED C. WALLACE
Vice-President, Pulp & Paper Production

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, Alberta, 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 1980 were \$894 million with combined sales of lumber, plywood, waferboard, shingles, market pulp, newsprint and coated paper, and related products reaching \$850 million.

The Company's total work force of 8,300 operates 23 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 major wholly-owned subsidiaries, Blandin Paper Company, Swiftsure Towing Company Ltd., Fraser River Pile Driving Company Limited 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. Fraser River Pile Driving Company Limited is a marine construction company based in New Westminster, B.C. 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 is a 33⅓ per cent shareholder of Western Forest Products Limited. WFP operates two pulp mills and three sawmills in B.C.

In 1980 the Company started 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.

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.

The Annual General Meeting. British Columbia Forest Products Limited's Annual General Meeting will be held Thursday, April 16, 1981 at 12 noon in the Arbutus Room of the Four Seasons Hotel, Vancouver, British Columbia.

