

British
Columbia
Forest
Products
Limited

1981
Annual
Report

HOWARD ROSS LIBRARY
OF MANAGEMENT

MAY 2 1997

MCGILL UNIVERSITY

Cover:

True grit

of the logger's
working life is
etched in the
face of Renfrew
Division faller
Jim Eddy. Like
other BCFP
employees, Jim
had more than
bad weather to
face in 1981.
Severe market
conditions for
wood products
led to logging
curtailments for
most of the year.

Financial Highlights

 British Columbia
 Forest Products Limited

	1981	1980	% Increase (Decrease)
For the Year			
Net Sales	\$814,922,000	\$850,307,000	(4.2)
Depreciation and depletion	40,337,000	36,839,000	9.5
Earnings before income taxes	23,145,000	97,563,000	(76.3)
Income taxes	5,958,000	37,033,000	(83.9)
Net earnings	17,187,000	60,530,000	(71.6)
<i>per common share</i>			
<i>(after preferred dividends)</i>	\$0.55	\$1.98	(72.2)
Funds from operations	62,905,000	113,828,000	
<i>per common share</i>			
<i>(after preferred dividends)</i>	\$2.04	\$3.73	(45.3)
Return on net assets	5.1%	10.6%	
Return on common share- holders' equity	4.8%	18.0%	
Dividends paid			
common	24,478,000	23,552,000	
per share	.80	.775	3.2
preferred	398,000	419,000	
per share	3.00	3.00	
Capital expenditures	219,560,000	277,453,000	(20.9)
Salaries and wages	193,130,000	188,282,000	2.6
Employee benefits	53,096,000	49,546,000	7.2
Stumpage and royalty (to governments)	8,233,000	37,809,000	(78.2)
Property taxes	14,385,000	10,746,000	33.9
At Year End			
Ratio of current assets to current liabilities	1.8	2.0	
Ratio of long term debt to equity	1.83	1.20	
Shareholders' equity per common share	\$11.41	\$11.59	
Number of common shareholders	4,711	4,411	
Number of preferred shareholders	972	1,064	
Number of employees	8,245	8,305	
Assets per employee	\$154,700	\$122,600	
<i>Canadian capital gains tax</i>			
<i>Valuation Day prices:</i>			
<i>Common shares (subdivided)</i>	\$2.47		
<i>6% Preferred shares</i>	41.50		
<i>Series A, 4½% debentures</i>	92.00		
<i>Series B, 5½% debentures</i>	74.00		
<i>Series C, 6½% debentures</i>	80.50		
<i>Series D, 9¾% debentures</i>	106.00		

67-82.7

Nothing is more symbolic of world markets than a ship. It has been the major tool of trade since man realized that goods, which were commonplace to him, had potentially greater value elsewhere. Today, the ship still continues to form the link between seller and buyer. In the Vaagen Verft shipyard in Norway, a side-loading newsprint vessel is being completed for use by BCFP. The ship, when launched this summer, will operate between Crofton Pulp and Paper Division and California ports. It is a measure of the Company's growth in export markets — the theme of this year's annual report.



Western economies, battered by high interest rates and inflation, pitched into steep recession during the second half of 1981 posing serious difficulties for the Company and its operations. Punitive interest rates reduced home construction in the United States to the lowest level since 1946 creating severe market conditions for all building materials.

In Canada, interest payments on borrowings for capital projects and investments seriously restricted the Company's performance and results. Inflation continued to drive the price of labor and materials upwards resulting in increased manufacturing costs in virtually every sector of the Company.

A six-week industry strike during the summer also marked the turning point for what had been a reasonable first half performance.

In response to these recessionary pressures and corresponding drop in cash flow, the Company took steps to conserve cash by cancelling certain discretionary spending. Major capital projects underway during the year were continued. In an attempt to gain relief from interest payments, inventories were trimmed

and capital spending on some future projects was deferred.

Housing starts in the U.S., which have eroded steadily for two consecutive years, stayed below an annualized rate of one million for most of 1981. As a result, production curtailments, shift reductions, and temporary shutdowns prevailed throughout the last two quarters of 1981 in most of the Company's logging and wood products operations. Many employees in these sectors suffered a loss of income due to these measures which were taken reluctantly as demand for wood products slumped.

Consolidated net earnings for 1981 fell by 71.6 per cent to \$17.2 million or \$0.55 per common share compared with earnings of \$60.5 million or \$1.98 per common share in 1980. Net sales of \$814.9 million were also down from the record sales of \$850.3 million achieved during the previous year.

Reflecting a broader asset base, the return on net assets fell to 5.1 per cent during 1981 from the previous year's mark of 10.6 per cent. Major capital projects at Crofton, Grande Cache, Blandin and Hammond, as well as an investment in The Mead Corporation, increased the Company's assets by \$258 million to \$1,276 million. Return on shareholders' equity fell to 4.8 per cent from 18 per cent in 1980.

Construction on the new \$150 million No. 3 newsprint machine project at Crofton Pulp and Paper Division continued on budget and on schedule for startup in mid-1982. Good progress was achieved on the new \$35 million Hammond sawmill which will also begin operation at mid-year. The Company's first sawmill in Alberta is scheduled to begin operation at Grande

Cache in April of the current year.

At Blandin, a \$50 million (U.S. funds) waferboard expansion was completed at the end of the year and is now approaching design capacity.

Because of the serious economic conditions, production in the Company's logging and wood products groups declined below the previous year's levels. Forestry activities were curtailed somewhat but essential planting and intensive forestry practices were continued.

The Company's pulp and paper mills ran at full operating rates except for production losses sustained during the strike period. Markets for pulp and newsprint were adequate throughout the year, however, some slackening in demand was apparent by the fourth quarter. Demand and prices for coated paper and waferboard, produced at Blandin in Grand Rapids, Minnesota, were depressed.

With few exceptions, the Company's associate companies were similarly affected by the weakened economy. Finlay Forest Industries Ltd., Pinette & Therrien Mills Limited, and Western Forest Products Limited were hard hit by poor market conditions.

Donohue St-Felicien Inc., on the strength of excellent pulp mill production, continued to contribute to the Company's earnings.

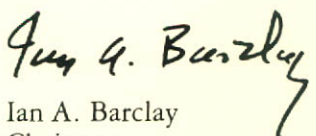
At the Company's Annual General Meeting in April, Mr. W.D.H. Gardiner, President, W.D.H.G. Financial Associates Ltd., was elected a Director, succeeding Mr. R.B. Wilson, who did not seek re-election.


In June, Noranda Mines Limited completed the sale of its shareholding of 8,597,592 common shares in the Company and Alberta Energy Company Ltd. now holds a 28 per cent interest in the Company. As a result of the transaction, the following Directors tendered their resignations: Mr. Alfred Powis, Mr. Adam Zimmerman and Mr. D.C. Davenport.

The vacancies on the Board were subsequently filled by Mr. D.E. Mitchell, Mr. J.G. Armstrong and Mr. K.R. King, all of Alberta Energy. In September, Mr. King resigned and was replaced by Mr. R.J. Nelson, President, Nelson Lumber Company Ltd.

Despite the unpredictable depth and duration of the recession, the Company remains confident about the long-range prospects of the forest products industry. As a result of its capital improvements and a secure supply of fibre, the Company is well-positioned to recover when market conditions improve.

On behalf of the board,


Ian A. Barclay
Chairman


Kenneth P. Benson
President and
Chief Executive Officer

Mill production cutbacks limit logging activity; essential forestry work continues.

Demand for wood products throughout 1981 was adversely affected by a continuation of the restrictive monetary policies initiated by the United States and adopted by other Western economies. Production curtailments at the Company's wood products operations, and the need to keep inventories low, substantially reduced the level of logging activity in 1981.



Wood Supply and Forestry

Coastal log production was 2.72 million cubic metres, compared to 3.51 million cubic metres in 1980.

While winter logging conditions were generally favorable, resumption of

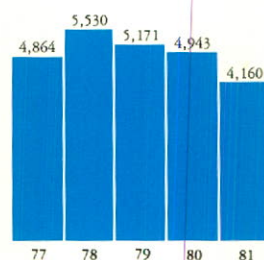
logging was delayed. Mill curtailments, reduced external log sales and increased log inventories resulted in logging cutbacks in March.

All logging activity was shut down in July because of the industry strike, and when the disruption ended a resumption of logging was delayed until mid-September when the wood products market further weakened. Logging closed down in November and remained idle until year-end because of adequate inventories.

Log production at Mackenzie totalled 1.43 million cubic metres, a marginal increase over 1980 levels. An abnormally mild winter prevented construction of the ice bridge over Lake Williston, but the Parsnip River bridge route was used for a direct haul to the mill yard.

A major inventory cruising program was completed in the Company's Berland

Log production
(In thousands of cubic metres)



woodlands in Alberta, and direct hauling of logs to the Grande Cache sawmill site began in December and will continue through March.

The field cruising staff examined a record 28,500 hectares of operational cutting permits and inventory cruising in the Company's B.C. operations, and cruising of 503,000 hectares was completed in Alberta.

Log production at Grande Cache was reduced as a result of the mill's re-scheduled startup.

The longest logging bridge in Canada, the 102-metre Pashleth River Bridge at BCFP's Machmell Logging



Division, was completed in October. The bridge deck was launched across the chasm using two "A" frames.

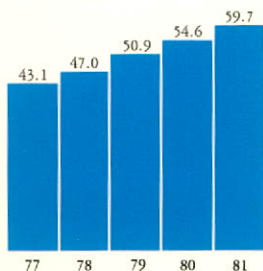
Despite the economic constraints, BCFP's timberlands and forestry group completed many forestry projects during 1981. A

record
5.149
mil-
lion



Ernie Harrison, Renfrew

Cumulative tree planting (B.C.)
(No. of trees in millions)



seedlings were planted at Company operations in B.C., and a total of 4,850 hectares were spaced. Some 2,362 hectares were fertilized.

Timberland's photogrammetric staff produced contour and timber maps covering 648,500 hectares.

The development of the Mt. Newton Seed Orchard on Vancouver Island, which is jointly operated by the Company and Crown Zellerbach, continued during 1981.

As a result of logging curtailments and lower log prices, BCFP's stumpage and royalty fees were considerably lower in 1981.

BCFP paid fees of \$8.2 million compared to \$37.8 million in 1980.

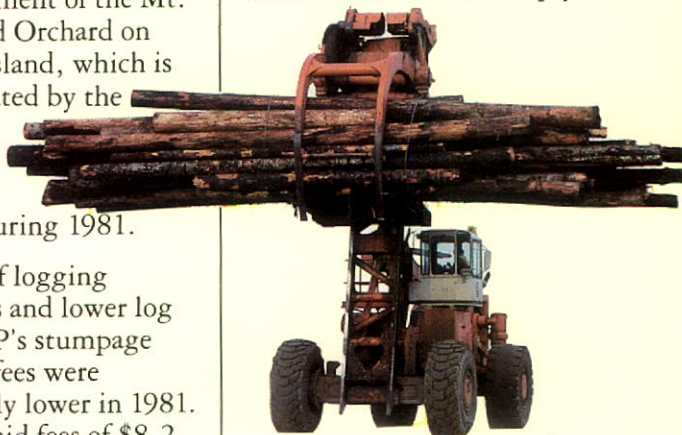
With the mid-year industry strike

BCFP's chip production was lower in 1981, but inventories were high for most of the year, particularly at Crofton although shortages in fir chips did develop later in the year.

At Mackenzie, chip inventories reached very high levels.

But as sawmill curtailments in the interior spread, inventories returned to normal by year-end.

Mill curtailments also affected the supply of hog fuel during 1981. Prices per truck unit increased steeply



and are expected to remain high through 1982.

The industry slowdown impacted on the operations of Swiftsure Towing Company Ltd., BCFP's marine subsidiary in New Westminster. Swiftsure tugs towed 1.09 million cubic metres of logs in 1981, down from the 1.7 million towed in 1980. Swiftsure's two log barges made 120 trips last year, compared to 134 in 1980. Total log volume barged was 818,400 cubic metres, against 887,000 in 1980.

Essential capital spending on major projects continued; the Company is confident about the future prospects of the forest product industry.

Curtailments, temporary plant closures, result from slump; production volumes fall due to strike and market conditions.



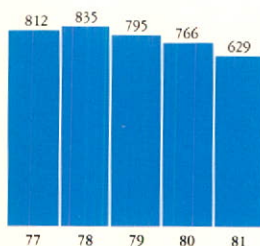
Wood Products

Production losses were encountered when the Company's eight B.C. wood products operations were closed for a six-week period during the industry-wide strike.

As the rate of U.S. housing starts declined from 1.585 million units early in January to a record low rate of 857,000 in October, demand for lumber fell sharply. U.S. interest rates peaked in the third quarter and began to decrease early in the last quarter, but resulted in only minimal improvement in demand and prices.

U.S. Atlantic Coast lumber prices for the third quarter of 1981 remained at depressed levels for all products and improved

Lumber production
(In millions of board feet)



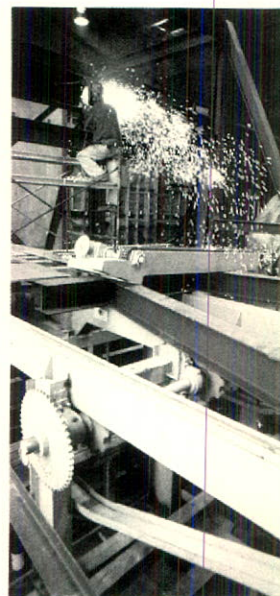
slightly in the fourth quarter in phase with some decrease in interest rates. Overseas demand, already at depressed levels because of poor economies throughout the world, was further adversely affected by the decline in currency values in relation to the U.S. dollar.

Poor economies also affected demand for plywood both domestically and overseas, although shortages of some specific product lines resulted in improved prices later in the year.

Combined lumber production from BCFP's sawmills was 629 million board feet, compared to 766 million in 1980.

Plywood production was 971 million square feet (1/16 inch basis) compared to 1.23 billion in 1980.

Production curtailments affected many of BCFP's wood products operations during 1981, particularly during the second half when market demand and prices slipped. The Company's three Mackenzie sawmills



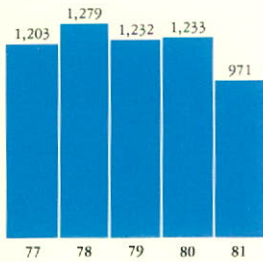
were shut down for a three-week period during October and most other mills operated on a two-shift basis. The shingle mill at the Company's Hammond Division was closed permanently November 27.

The Company's major capital projects were on schedule and within budget during 1981. The \$5 million remodelling of the small log 'B' mill at the Cowichan Wood Products Division was completed in December with the installation of a new quad bandsaw, a double arbor gang edger, a chipping edger and log scanning equipment controlling the canter-quad machine.

Construction of the \$35 million cedar sawmill at Hammond also proceeded smoothly. Scheduled for completion in June, 1982, the sawmill building was completed in December and most of the equipment is on site.

The Company's sawmill at Grande Cache, Alberta, is substantially complete, with

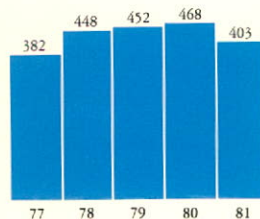
Plywood production
(In millions of square feet 1/16")



start-up scheduled for April 1982. Engineering for the planned sawmill at Knight commenced but construction has been delayed until the spring of 1983.

Due to a restructuring of Western Forest Products Limited, BCFP took over the operation of the company's Marpole sawmill in late 1981. The operation became BCFP's Vancouver Sawmill Division, and the 277 employees became employees of the Company. The division is in the midst of a \$7 million renovation, including the installation of a new log infeed system with a Peco log lift and Nicholson grapple crane which will be in operation by mid-April.

Market pulp production
(In thousands of air dry tonnes)



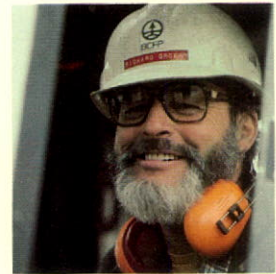
Pulp and Paper

Production levels and shipments of pulp and newsprint were lower than those in 1980 as a result

of the forest industry strike.

Sales in excess of 60,000 tonnes of market pulp and 37,000 tonnes of newsprint were lost due to labor interruption.

Richard Grober, Hammond



Although pulp and paper demand weakened in the latter part of the year, Crofton and Mackenzie were able to operate at near capacity levels following the strike. The Mackenzie pulp mill produced 170,000 tonnes for the year. The Crofton mill produced 233,000 tonnes of market pulp and 236,000 tonnes of newsprint. Extraordinary boiler repair costs were encountered in both mills; however, operations were normal overall. Manufacturing costs in pulp and newsprint continued to escalate at a greater rate than price increases which are difficult to obtain in faltering markets.

In spite of the strike and lower income, substantial progress was achieved in both environmental improvements and energy self-sufficiency.

The Mackenzie mill reduced the suspended solids content in the outfall by means of revisions to the effluent clarifier and plant process control.



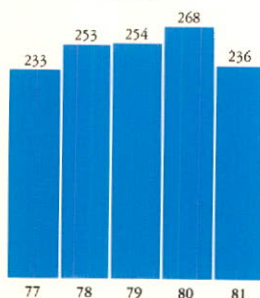


As the result of a number of capital equipment expenditures Crofton was able to reduce lime mud loss to sewer, hydrogen sulphide discharge from the lime kilns, and fibre and liquor spills from the pulping department.

Also at Crofton the new turbo-generator installation was completed and successfully started up. At a cost of \$8.6 million, the machine is capable of generating up to 40 megawatts of power and is currently producing about 30% of the mill's requirements.

Employees at both plants performed well in the area of accident prevention.

Newsprint production
(In thousands of tonnes)



Construction of the No. 3 newsprint machine and thermo-mechanical pulp (TMP) plant at Crofton was halted during the strike but by year-end the building structures were substantially completed and the installation of machinery was well underway. A phased-in start-up of the expansion is expected in the second quarter of 1982 and the first newsprint will be produced at mid-year. This \$150 million project is managed by Croftech, the Company's wholly-owned project management firm.

Other projects Croftech was engaged in during the year were: the expansion of the Finlay Forest Industries Ltd. groundwood mill, and the BCFP sawmill at Grande Cache, Alberta. Both these projects are nearing completion and start-up. In addition, Croftech has been working on pulp mill renovations for Western Forest Products Limited, and site selection for the proposed BCFP newsprint mill at Whitecourt, Alberta.

Transportation

Freight rates for the rail shipment of all BCFP products generally increased in 1981 as a result of major legislative changes in the U.S.



The 'Staggers Act', passed in October of 1980, relieved railways from the burden of universal regulations. As a result, lumber freight rates have increased by 13.4 per cent since December, 1980.

Due to lower traffic volumes, rail cars were in good supply during 1981. Utilization of leased rail cars was reduced because of market conditions and mill shutdowns.

The final hearing before the Canadian Transport Commission will be held later this year on the application by Canadian National Railways to abandon its line to Youbou. The Company is opposing the application.

A restive labor climate preceded forest industry negotiations; Company operations were idled for six weeks when talks broke down and a full-scale strike ensued.



Construction of BCFP's newsprint vessel is proceeding on schedule at the Vaagen Shipyards in northern Norway, and will be delivered to Crofton in July of 1982. BCFP has chartered the vessel for a 12-year period to ship newsprint from Crofton to ports in California.

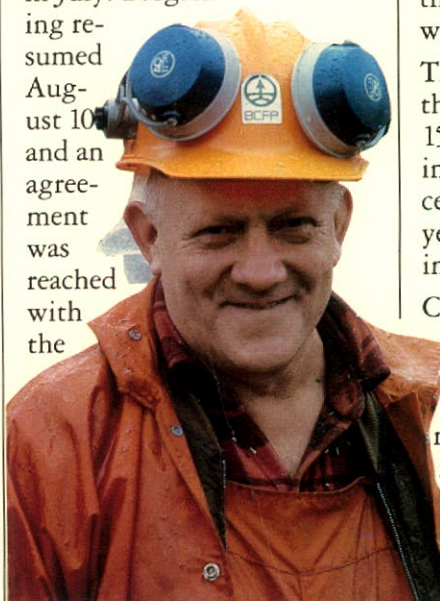
Lumber volumes shipped from the Company's deep sea docks at Stuart Channel Wharves declined from 1980 levels dropping from 374 million board feet to 262 million board feet during 1981. Shipment volumes of pulp and newsprint rose to 15,803 tonnes from 12,117 tonnes in 1980. A total of 199

vessels were loaded at the facility during the year.

Employee Relations

Collective agreements between the Company and its major unions expired in June of 1981 and negotiations, which began in April, failed to produce settlements.

The result was a six-week shutdown of the industry when talks broke down early in July. Bargaining resumed August 10 and an agreement was reached with the



Martin Hedman. Renfrew

International Woodworkers of America and the Canadian Paperworkers Union allowing for mill startups August 24. However some operations were shut down until August 28 when employees honored rotating picket lines implemented by the Pulp, Paper and Woodworkers of Canada Union.

The final agreement with all three unions provided for a 15 per cent general increase in the first year, and a 13 per cent increase in the second year, as well as fringe benefit improvements.

Contracts in the tow boat industry and the long-shore industry also expired in 1981 and new agreements have not yet been reached. In both cases, progress has been slow although there appears to be no immediate threat of strike action.

Overall accident frequency rates decline as safety programs stepped up.



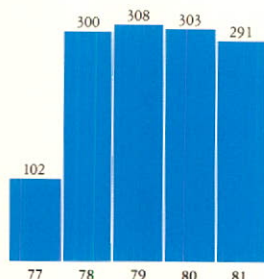
The combined accident-frequency rate (based on one million man hours) for all product groups was 46.87 in 1981, compared to 50.81 in 1980. The logging sector recorded a decrease of 34.89.

The Mackenzie pulp mill achieved the second-lowest frequency in the B.C. pulp and paper industry with only one compensable injury and a frequency of 2.08.

In its continuing commitment to improve safety in all areas, the Company appointed a corporate manager of occupational health and safety during 1981. Programs are being developed with the aim of making more progress in this area.

At the end of 1981 the number of employees at all BCFP's divisions and operations totalled 8,245, compared to 8,305 in 1980. At year end a total of 1,862 employees were participating in the common share purchase plan. Employee contributions to the plan totalled more than \$2.95 million for the year.

Coated paper production
(In thousands of short tons)



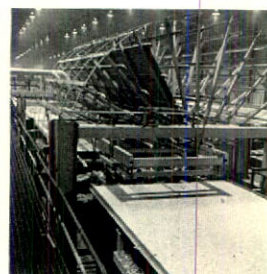
Blandin Paper Company

Grand Rapids, Minnesota

A wholly-owned subsidiary

Shipments of lightweight coated papers declined by 4 per cent to 291,000 short tons in 1981 from 303,000 short tons in the previous year as the result of reduced demand.

Shipments of aspen waferboard increased by 17.6 million square feet ($\frac{3}{8}$ " basis) to 90.9 million square feet. A \$50 million (U.S.) expansion of the waferboard plant was completed in December, tripling total



capacity to 285 million square feet annually. Developmental work on a new concrete forming board was completed during 1981 and is currently undergoing preproduction field trials.

Fraser River Pile Driving Company Limited

New Westminster, B.C.

A wholly-owned subsidiary

Despite the general economic turndown, FRPD enjoyed an active year, undertaking a total of 684 individual marine construction projects.

Major contracts included the reconstruction of the number one berth at the Company's Crofton deep sea docks; the construction of deep sea wharf facilities for the Ocelot Industries methanol plant at Kitimat; and the refurbishing of the pulp dock at Elk Falls. Work on B.C. Ferries facilities included reconstruction of the Swartz

Bay number one berth, as well as a number of repair and maintenance contracts at other locations.

All marine facilities for the new L&K mill at Port Mellon were completed and major repairs were also carried out to the fire-damaged Squamish Terminals wharf.

Work has commenced on foundation pilings for a major railway bridge at Sicamous, B.C., which will involve the installation of over 20,000 lineal feet of pilings.

Pinette & Therrien Mills Limited

Williams Lake, B.C.

50 per cent owned

The industry-wide strike and market-induced closures of the Williams Lake and Takla Lake sawmills resulted in production totalling 145.8 million board feet, compared to 165 million board feet in 1980. The company's operations were reduced to one shift daily during the final quarter because of depressed product prices.

Donohue St-Felicien Inc.

Québec City, P.Q.

45 per cent owned

The pulp mill continued to produce beyond its designed capacity during 1981 with total production of 271,000 tonnes compared to 265,200 achieved during its second full year of operation.

Combined lumber production from two of the three sawmills was down to 142.6 million board feet from 152 million board feet in 1980 as the result of market conditions and the year-long closure of the Girardville mill due to an 11-month woodlands strike.

A \$6.9 million turbo-generator was installed in the pulp mill during the year and is now producing approximately 87 per cent of the mill's electrical requirements.

Finlay Forest Industries Ltd.

Mackenzie, B.C.

42.7 per cent owned

Market conditions and the summer strike resulted in reduced production of lumber and pulp at FFI. Sawmill production dropped to 139.3 million board feet from 161 million board feet in the previous year while pulp production declined to 85,700 tonnes from 100,900 tonnes.

Construction on the \$20.8 million expansion to FFI's refiner groundwood pulp mill was delayed by the strike. The expansion, which includes a third finishing line, is now scheduled for startup by April of the current year.

Western Forest Products Limited

Vancouver, B.C.

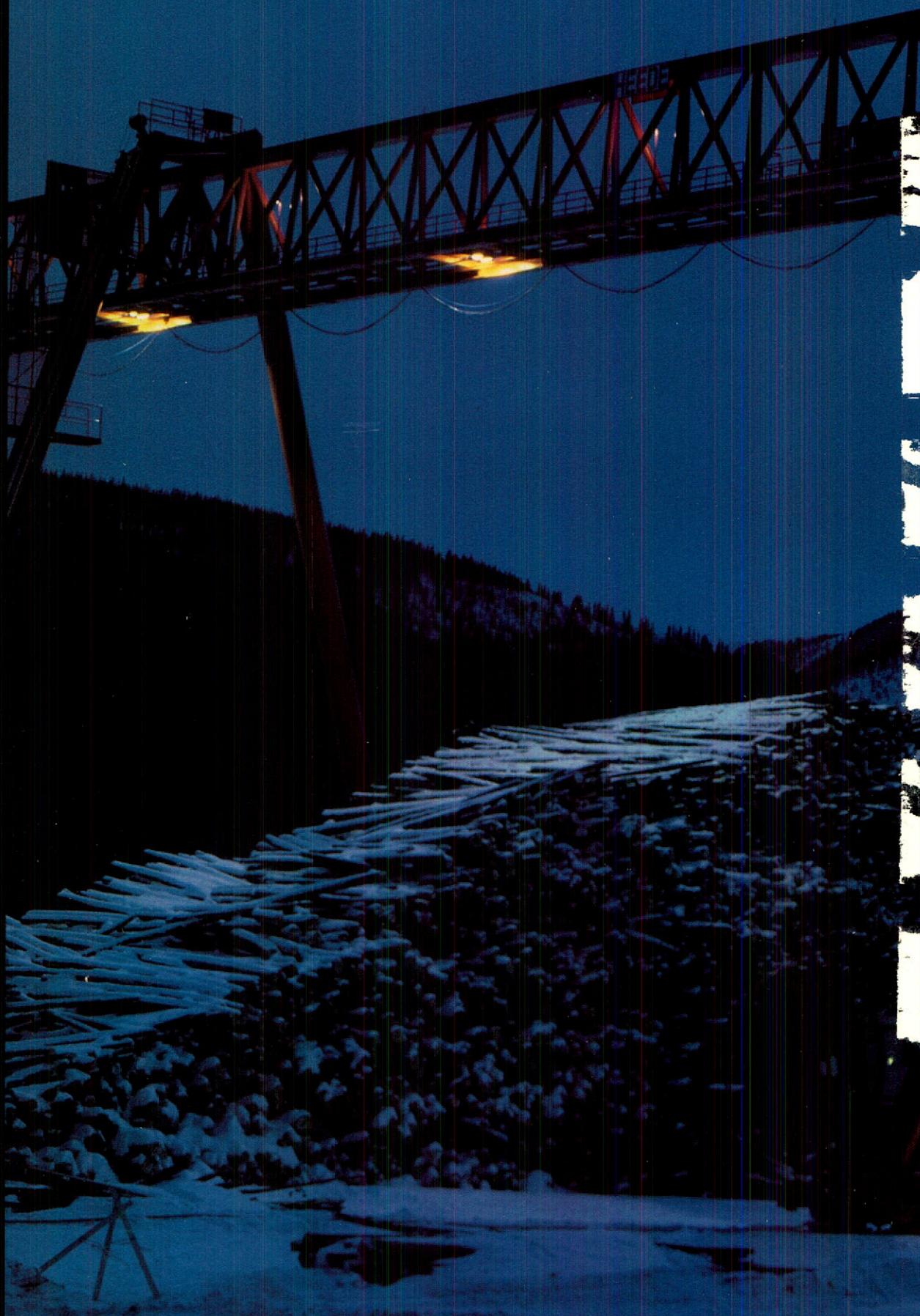
33 1/3 per cent owned

Heavy operating losses were incurred during 1981, leading to a restructuring of the company and the permanent closure of a subsidiary logging and sawmill operation at Honeymoon Bay on Vancouver Island.

In December, the three equal shareholders — BCFP, Doman Industries Limited, and Whonnock Industries Limited — each took over operation of one of the company's three sawmills. BCFP acquired the Marpole Sawmill Division on a lease basis in the restructuring process.

DSF, Fraser River enjoy active year while other subsidiaries and partly-owned companies feel the pinch of recession.

Dwarfed by comparison, a logging truck yields its load to the new Heede crane in the predawn hours at BCFP's new \$35 million Grande Cache sawmill in Alberta. To remain competitive in the marketplace, new manufacturing facilities and upgraded existing mills are a necessity.



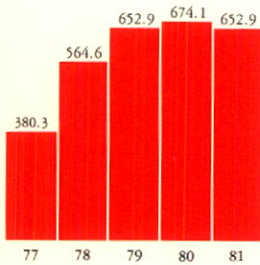


The world has become our marketplace. More than 80 per cent of our sales are to customers outside of Canada.

Our mission is not only to serve this global market today, but to cultivate the opportunities for the future. ☹️ United Nations' forecasters say world demand for forest products will double by the year 2020. That's less than a human lifetime away.



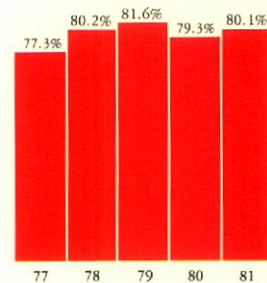
Export Sales
(millions of dollars)



That means rich opportunity for those willing to accept the responsibilities of resource management and the challenges of world marketing. We number ourselves among those able to accept both. ☹️ Five years ago, BCFP's annual allowable cut of timber on Company-owned and Crown lands was 4.7 million cubic metres. Today, on the

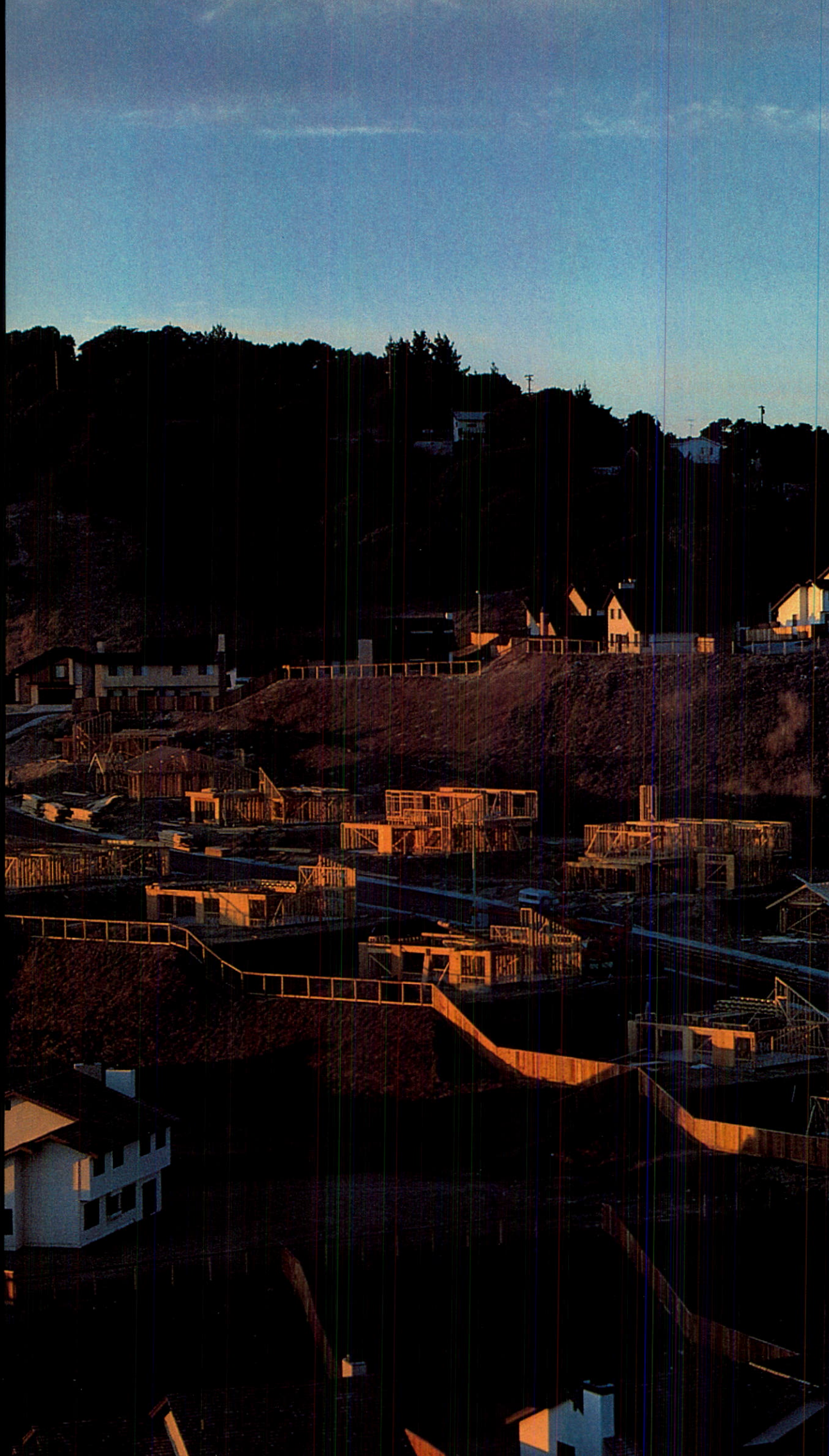
strength of timber acquisitions and strong forest management practices, that cut has risen to 6.5 million cubic metres. Over that same time period, the Company's assets have more than doubled to 1.2 billion dollars reflecting new production capabilities at home in British Columbia and in new areas of expansion in Minnesota and Alberta. Our growth in new market areas also reflects the maturing process the Company has undergone during the course of its history.

Exports as percentage of total sales



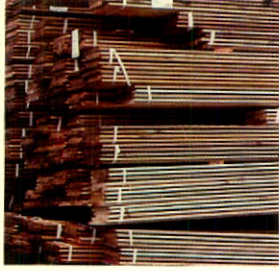
It's a process that will continue as our products serve a wider circle of world customers.

The hammers fell silent on this suburban Californian housing project during 1981. Around the world the same story was told in different languages: millions wanted new homes but could not buy them. Their desires have been delayed — not abandoned.





Wood building products from Canada help shelter the world. Our Company alone exports 75 per cent of all the



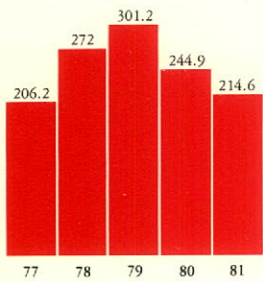
lumber we manufacture.

Our largest single customer is the United States. We also ship to a dozen other nations. ♡ It's all business, of course. And yet this participation in world markets tends to make economic relatives of us all. When people a half a world away are on the move and concentrating their energies on building new homes, schools, offices and factories, we prosper with them, working

just as vigorously to provide the building materials they need. And, just as certainly, when the market suffers in Kansas City, Turin or Liverpool we may feel some of the pain in Mackenzie, Cowichan and Victoria. Most of

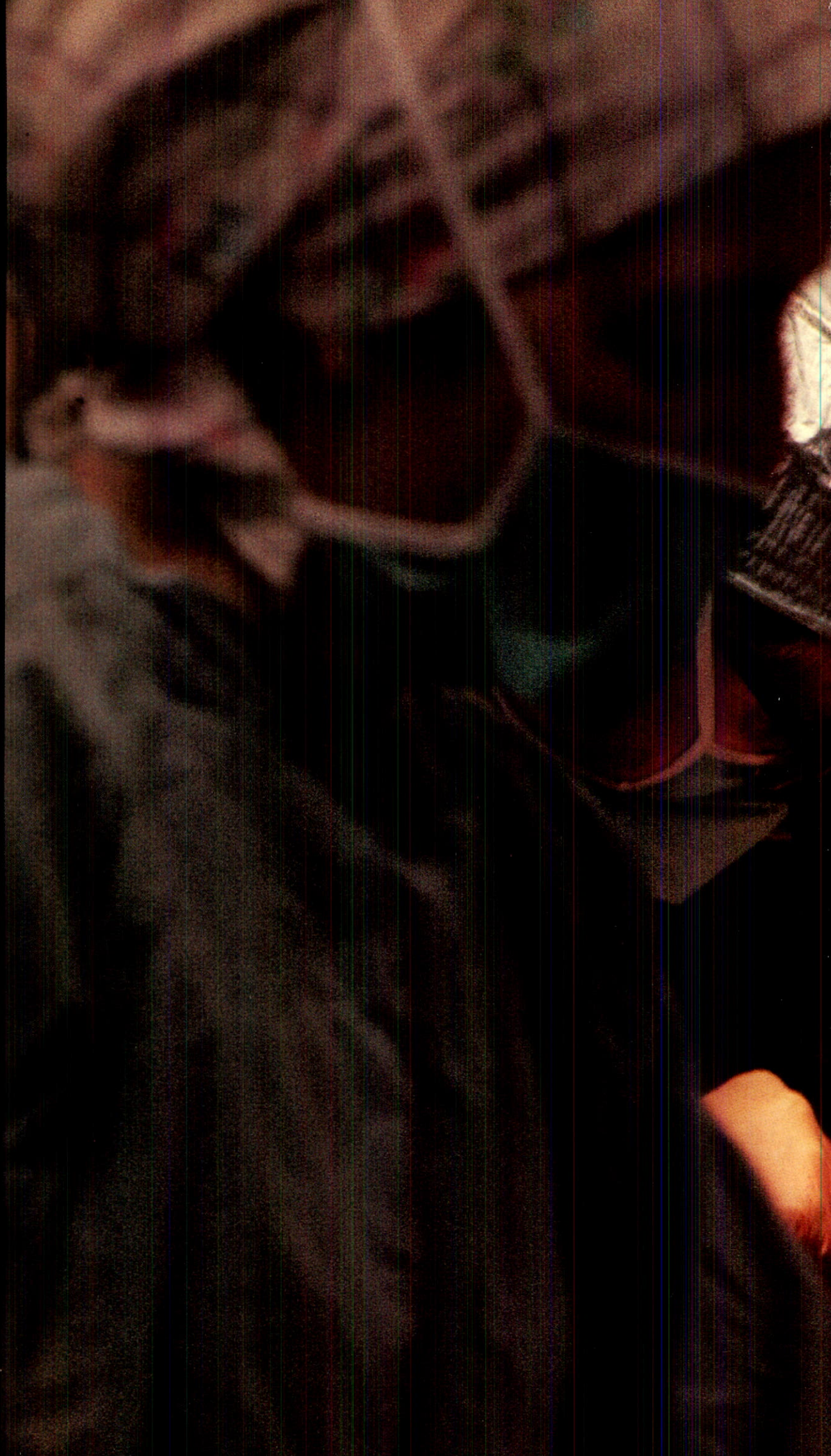


Wood Products Sales
(millions of dollars)



our markets for building materials were suffering in 1981. There were, however, a few pockets of opportunity and we worked hard to compete for them. In the long run, the outlook is positive. Continued growth over the long haul seems as predictable as the human urge to build a better future.

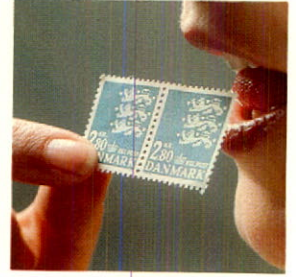
Skill and precision are the surgeon's tools. But the same care and dedication goes into the BCFP pulp which is used to make these disposable surgical gowns for U.S. hospitals.





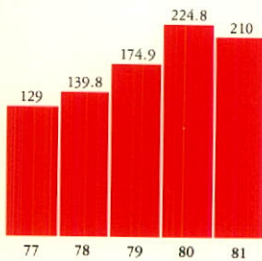
Except perhaps for wheat and hockey, the world knows Canada best for its pulp and paper.

And like all countries with a valuable resource to export,



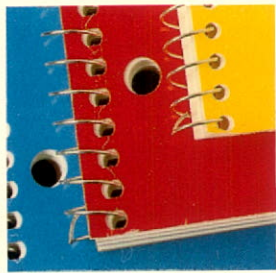
markets shape its destiny. ☹️ Fortunately for BCFP and other Canadian producers, the largest consumers of pulp and paper products are also our neighbors. But that doesn't mean guaranteed sales of pulp. Competition

Pulp sales
(millions of dollars)



for those markets in the United States, and indeed everywhere, is intense and it's getting tougher. ☹️ BCFP pulp has to distinguish itself against competition from other world producers

in terms of quality, dependability, and price. ☹️ The ability to deliver a uniform product, year after year, which conforms to exacting standards is the challenge that is met by our experienced employees. Dependability is measured by our ability to retain long-standing customers at home and abroad; the foundation for new growth and



expanded market activity. Productivity and cost control are the determining factors to maintain a price structure that allows for re-investment in plant and equipment in the short-term and for economic survival in the long-term.

Newsprint touches the lives of people around the world. Here, in Sydney, Australia, a truckload of Crofton newsprint is on its way to a suburban publishing house.





BUS STOP

LLC 770

Nowhere is the relationship between our prosperity and our reliance on export markets more apparent than in newsprint production and sales.

Canada has the capacity to produce about 9.5 million tonnes of newsprint annually. Yet Canadian newspapers



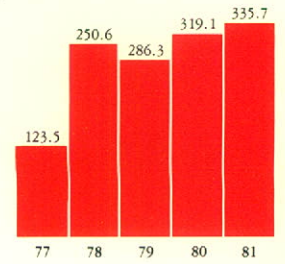
used less than a million tonnes of newsprint last year.

In other words, Canadians manufacture nine times more newsprint than we need. Export is vital. ❧ BCFP is a relatively small, but growing, factor in the total market picture.

Crofton newsprint is a factor of life in the suburbs of Sydney, Australia; the market towns of South America; and on the fast-paced streets of

California. In a normal year our two newsprint machines produce some 260,000 tonnes. By mid-1982, the addition of a third machine at Crofton will increase our total capacity by 68 per cent to 436,000 tonnes annually.

Paper sales
(millions of dollars)



We regard newsprint as a healthy, growing market. So do our competitors. New capacity entering the marketplace means that sales must be based on consistent high quality, dependability and service. Those are difficult principles to maintain in turbulent economic times and in rapidly changing markets. But sticking with them pays off.

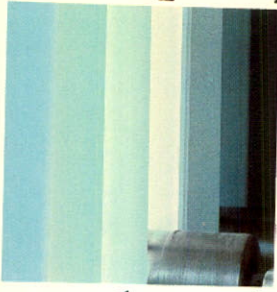


Lightweight coated paper from Blandin keeps some of the world's best read magazines on the stands.





The acquisition of Blandin Paper Company in 1977 not only secured a pulp customer for BCFP it also expanded the Company's market horizons in two new product lines: coated paper and waferboard. Blandin was one of the first customers of Crofton pulp so it made good business sense to preserve that relationship when the company became available. The people at Blandin, who live for the most part in Grand Rapids, Minnesota, have established their business on the same fundamentals that helped BCFP succeed. Their annual production of coated paper (300,000 short tons)



ranks them among the larger producers in the business. But their more important ranking is that they're also among the very best. Blandin paper is highly regarded in the publishing industry and numbered in

their customers are some of the world's most familiar magazines and catalogues.



❧ Blandin also produces aspen waferboard, a strong panel product used in residential and light commercial construction. A new addition to the waferboard operation completed in 1981 will triple waferboard production. ❧ The challenge for BCFP and all its operations is clear: to survive in the world marketplace the Company must continue to produce quality, affordable and necessary products.

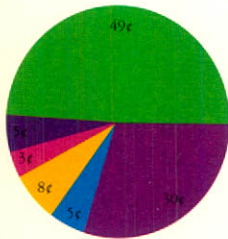
Sales by Products (in millions of dollars)

	1981	1980
Pulp	210.0	224.8
Paper	335.7	319.1
Lumber/shingles	161.9	190.7
Plywood/waferboard	52.7	54.2
Other	54.6	61.5
	814.9	850.3

Sales by Markets (in millions of dollars)

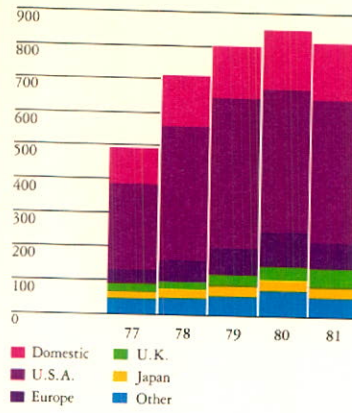
	1981	1980
Domestic	162.0	176.2
U.S.A.	425.4	429.8
Europe	88.2	95.7
U.K.	43.1	38.5
Japan	32.6	35.2
Other	63.6	74.9
	814.9	850.3

Sales Dollar Uses

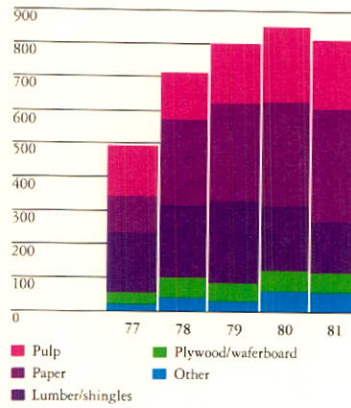


- Materials and other expenses
- Employees' compensation and benefits
- Taxes (excluding deferred)
- Energy
- Dividends to shareholders
- Net cash flow reinvested in the business

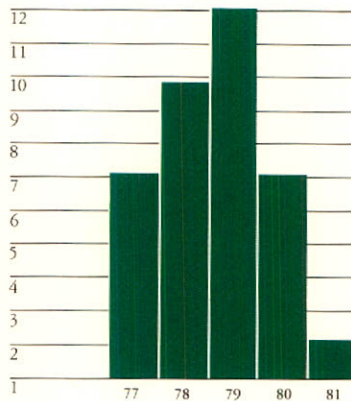
Sales by Markets (in millions of dollars)



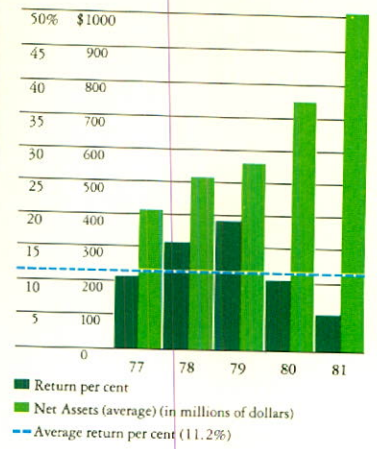
Sales by Products (in millions of dollars)



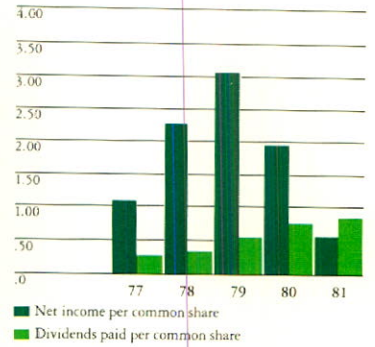
Return on Sales (per cent)



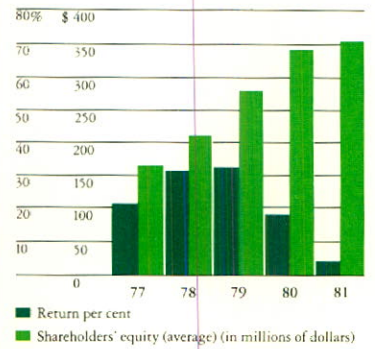
Return on Net Assets



Earnings and Dividends (dollars)



Return on Common Shareholders' Equity



**Financial
Section**

British Columbia
Forest Products Limited

Financial Review

British Columbia
Forest Products Limited

Statement of Earnings

Net sales for the year were \$814.9 million and include \$102.7 million exchange on sales in U.S. dollars. Sales volumes were low for wood products, pulp and newsprint due to the six-week industry strike in B.C. Coated paper and waferboard shipments were also down from 1980 levels as U.S. markets reflected the weaker economy. Although prices for wood products continued to decline, some increases in paper prices were established during the year.

The total costs and expenses at \$809.2 million for the year increased over 1980 even though the total sales were down.

Cost of products sold totalled \$681.5 million and is unchanged from the corresponding total for 1980 despite lower sales. Continued inflationary pressures resulted in higher costs for labor, supplies and energy. Raw material costs increased at a slower rate than in 1980 as the supply of chips for pulp production improved and stumpage fees for logs were reduced. Costs were also adversely affected by reduced production because of the strike and lower level of production in wood products operations.

Non-cash charges for depreciation and depletion increased in 1981 to \$40.3 million as depreciation was taken on the completed power generation project at Blandin.

Selling and administration expenses of \$25.4 million increased over 1980 by 8% as a result of inflationary increases for salaries and other expenses.

Interest expense on both long-term and short-term borrowings increased by \$26.9 million to \$62.0 million. This increase is attributable to higher interest rates and increased borrowings for capital expenditures and investments. Interest capitalized was \$24.5 million and interest deferred on the Western Forest Products Limited investment was \$5.5 million.

Investment income on short-term surplus funds and other investments amounted to \$2.5 million compared to \$2.3 million in 1980.

Earnings before income taxes from associate companies decreased from \$16.9 million in 1980 to \$6.4 million in 1981. Donohue St-Felicien earnings decreased slightly as earnings from the three sawmills were reduced because of weak demand and low prices for lumber. The pulp mill operation continued to exceed design capacity in a stable market. Pinette and Therrien Mills Limited losses from sawmill operations were incurred as a result of reduced production caused by the B.C. industry strike and depressed demand for lumber. Finlay Forest Industries Ltd. and Western Forest Products Limited losses also reflect the strike and depressed market. The accounting policies of Western Forest Products Limited and the manner in which the Company is accounting for its investment in Western Forest Products Limited are described in the Notes to Consolidated Financial Statements. The investment in Western Forest Products Limited affected the Company's earnings for 1981 as follows:

	\$ Million	
	Before Tax	After Tax
The Company's share of the loss of Western Forest Products Limited for the year ended October 31, 1981	\$ 5.8	\$4.5
Interest on the \$60,000,000 borrowed by the Company for the investment less interest added to the cost of the investment, net of amortization	<u>6.5</u>	<u>4.5</u>
Total loss reflected in the Company's earnings	<u>\$12.3</u>	<u>\$9.0</u>
Total loss — per share		<u>\$.29</u>

Gain (loss) on disposal of fixed assets increased from a loss of \$.6 million in 1980 to a gain of \$5.0 million in 1981, primarily because of a \$4.7 million profit on the sale of real estate.

Other income of \$3.6 million decreased by \$1.4 million from 1980 as a result of reduced exchange gains on U.S. dollar receivables.

The Company's consolidated tax rate for 1981 was 25.7% compared to 38.0% for 1980. Increases in the effective tax rates for both the U.S. operations and associate companies' operations were more than offset by investment tax credits in Canadian operations.

Earnings for 1981 of \$17.2 million (55¢ per common share) were 72% lower than the 1980 earnings of \$60.5 million (\$1.98 per common share). The rate of return on net assets for the Company, in comparison with 1980, decreased from 10.6% to 5.1%, and the return on shareholders' equity declined from 18% to 4.8%.

Earnings reinvested in the business totalled \$315.2 million at December 31, 1981 and were \$3.1 million lower than the opening balance at December 31, 1980 and resulted from total dividends of \$20.3 million declared during the year, exceeding the year's net earnings.

Changes In Financial Position

As a result of the lower profits, funds provided from operations for the year amounted to \$62.9 million compared to \$113.8 million in 1980. The lower funds from operations combined with the ongoing capital commitments made it necessary to increase term borrowings by a further \$237.2 million. The increase in debt resulted in a debt/equity ratio of 1.83 at the end of 1981 compared to 1.20 at the end of 1980. In December the Company issued Series G sinking fund debentures for \$60 million U.S., realizing \$70.5 million Canadian at an interest rate of 11½%.

Total funds provided from the operations and borrowings during the year were \$378.3 million, including proceeds on sales of assets and the issue of 305,549 common shares under the Company's Employee Share Option Incentive Plan.

Capital expenditures for 1981 at \$219.6 million included expenditures on the No. 3 newsprint machine at Crofton, the new Hammond sawmill, the Grande Cache sawmill and completion of the Blandin waferboard expansion. During 1981 the energy cost reduction programs continued but no new projects were started.

The Company's 1982 capital program for the completion of major projects currently under construction and unavoidable expenditures is planned to be approximately \$103 million. Approximately 90% of the expenditures will be in British Columbia, with the balance in Alberta and at Blandin in Minnesota.

Long-term investments increased during the year by \$60.7 million, which includes housing at Grande Cache, and an investment in 1,100,300 common shares of The Mead Corporation.

Term debt retired during the year amounted to \$86 million.

Dividends of \$.20 on the common and \$.75 on the preferred shares were paid quarterly during 1981. Total dividends of \$20.3 million were declared during the year. In December 1981 the Board of Directors reduced the quarterly dividend to \$.05 on the common shares payable February 1, 1982.

Total funds expended for the foregoing investments and dividends and the purchase of redeemable preferred shares amounted to \$386.8 million and exceeded the funds received by \$8.5 million, resulting in a net decrease in working capital by this amount.

Financial Position — December 31, 1981

Working capital at December 31, 1981 was \$120.5 million, being current assets of \$274.9 million less current liabilities of \$154.4 million. The major changes in working capital during the year include increases in accounts receivable of \$11.8 million, increased income taxes recoverable of \$7.4 million and increased bank loans and notes payable of \$38.5 million. The ratio of current assets to current liabilities dropped slightly from 2.0 in 1980 to 1.8 in 1981.

Total assets of the Company increased by \$257.7 million to \$1,276.0 million in 1981 including the major capital construction programs, as well as the investment in the shares of The Mead Corporation of Dayton, Ohio.

Long-term debt increased by \$222.3 million to \$653.3 million as a result of the increase in borrowings required to carry on with the major capital and investment programs during 1981. This debt includes 18-month notes due to the bank for \$216.9 million and banker's acceptances and commercial notes of \$214.0 million which are payable from the proceeds of bank loans which would be due in 18 months.

Deferred income taxes increased during the year by \$7.2 million for a total of \$111.2 million. Deferred income taxes arise by claiming capital cost allowances for tax purposes in excess of booked depreciation.

Common shareholders' equity at December 31, 1981 was \$350.4 million or \$11.41 per share for 30,724,341 outstanding common shares, compared to \$11.59 per share at the end of 1980. The combined trading of the Company's shares on the Vancouver, Toronto, Montreal and Alberta Stock Exchanges amounted to 5,798,117 common and 25,085 preferred shares. The price range during 1981 on the Toronto Stock Exchange for common shares was \$24 to \$10½ and for preferred shares \$37 to \$25. At year-end there were 4,711 common and 972 preferred shareholders holding 30,724,341 common and 130,760 preferred shares respectively.

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.

**Report of
Management**

British Columbia
Forest Products Limited

In The Annual Report for the year ended December 31, 1981, management reviews the operations of the Company and its subsidiaries, and reports on any significant events which have occurred during the year.

Management declares its responsibility for all information and representations contained in the Annual Report. Financial data presented throughout the report is consistent with the information contained in the Company's Financial Statements.

The Consolidated Financial Statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The Company maintains an internal accounting control system which is designed to provide reasonable assurance that assets are safeguarded and that reliable financial records are maintained.

The Consolidated Financial Statements have been examined by the Company's auditors, Thorne Riddell, and their report offers an unqualified independent opinion to shareholders of the financial position and operating results for the year.

The Audit Committee of the Board of Directors is composed entirely of Directors who are not employees of the Company. The Committee meets from time to time with management, the Company's internal audit staff and the Company's independent public accounting firm to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the Consolidated Financial Statements with the Company's auditors and has submitted its report to the Board of Directors.

The Board of Directors of the Company has reviewed the Annual Report in advance of its release and has approved its contents and authorized its publication and distribution to shareholders.

**Auditors'
Report
to the
Shareholders**

We have examined the consolidated balance sheet of British Columbia Forest Products Limited as at December 31, 1981 and the consolidated statements of earnings and earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 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 22, 1982

THORNE RIDDELL
Chartered Accountants

**Consolidated
Statement of
Earnings and
Earnings
Reinvested in
the Business**
British Columbia
Forest Products Limited

For the Year Ended December 31, 1981 (in thousands of dollars)

	1981	1980
Net Sales	<u>\$814,922</u>	<u>\$850,307</u>
Costs and expenses		
Cost of products sold	681,512	680,895
Depreciation and depletion	40,337	36,839
Selling and administration	25,364	23,476
Interest on long term debt	56,731	31,625
Other interest	<u>5,250</u>	<u>3,496</u>
	<u>809,194</u>	<u>776,331</u>
	5,728	73,976
Other Income		
Investment income	2,462	2,279
Earnings from associate companies before income taxes	6,410	16,944
Gain (loss) on disposal of fixed assets	4,973	(615)
Other	<u>3,572</u>	<u>4,979</u>
Earnings Before Income Taxes	<u>23,145</u>	<u>97,563</u>
Income taxes		
Current	(6,882)	10,028
Deferred	7,215	17,895
Share of income taxes of associate companies	<u>5,625</u>	<u>9,110</u>
	<u>5,958</u>	<u>37,033</u>
Net Earnings	17,187	60,530
<i>Per common share</i>	\$0.55	\$1.98
Earnings reinvested in the business at beginning of year	<u>318,294</u>	<u>282,502</u>
	<u>335,481</u>	<u>343,032</u>
Deduct dividends declared		
6% preferred shares	392	414
Common shares	<u>19,931</u>	<u>24,324</u>
	<u>20,323</u>	<u>24,738</u>
Earnings Reinvested in the Business at End of Year	<u>\$315,158</u>	<u>\$318,294</u>

**Consolidated
Balance Sheet**
British Columbia
Forest Products Limited

As at December 31, 1981 (in thousands of dollars)

1981

1980

ASSETS

Current Assets

Cash and short term investments	\$ 2,282	\$ 1,020
Accounts receivable	114,896	103,055
Income taxes recoverable	7,351	—
Inventories (Note 2)	141,143	144,121
Prepaid expense	9,213	4,667
	<u>274,885</u>	<u>252,863</u>

Long Term Investments and Advances

Investment in associate companies (Note 3)	126,673	124,014
Other investments and advances (Note 4)	61,729	5,644
	<u>188,402</u>	<u>129,658</u>

Fixed Assets

Property, plant and equipment (Note 5)	672,936	493,575
Timber and timber cutting rights less accumulated depletion of \$39,268,000 (1980 — \$36,970,000)	138,259	141,023
	<u>811,195</u>	<u>634,598</u>

Unamortized Debt Discount and Expenses

	<u>1,474</u>	<u>1,138</u>
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\$1,275,956

\$1,018,257

Approved by the Directors

Jan A. Banzley Director
Jan A. Banzley Director

**Consolidated
Balance Sheet**
British Columbia
Forest Products Limited

As at December 31, 1981 (in thousands of dollars)

1981

1980

LIABILITIES

Current Liabilities

Bank loans and notes payable	\$ 56,689	\$ 18,170
Accounts payable and accrued liabilities	88,603	90,371
Dividends payable	1,634	6,187
Income taxes payable	—	347
Current portion of long term debt	7,490	8,790

154,416 123,865

Long Term Debt (Note 6)

653,322 430,965

Deferred Income Taxes

111,248 104,033

SHAREHOLDERS' EQUITY

Share Capital (Note 7)

6% cumulative preferred shares of \$50 par value,
redeemable at \$53

Authorized — 240,000 shares

Outstanding — 130,760 shares

(1980 — 137,960 shares)

6,538 6,898

Common shares without par value

Authorized — 40,000,000 shares

Outstanding — 30,724,341 shares

(1980 — 30,418,792 shares)

35,274 34,202

41,812 41,100

Earnings Reinvested in the Business

315,158 318,294

356,970 359,394

\$1,275,956

\$1,018,257

Commitments and Contingent Liabilities (Note 9)

**Consolidated
Statement of
Changes in
Financial Position**
British Columbia
Forest Products Limited

For the Year Ended December 31, 1981 (in thousands of dollars)

	1981	1980
Working Capital Provided		
Net earnings	\$ 17,187	\$ 60,530
Depreciation and depletion	40,337	36,839
Deferred income taxes	7,215	17,895
Earnings of associate companies, net of dividends received	2,839	(2,192)
Other	<u>(4,673)</u>	<u>756</u>
Funds from Operations	62,905	113,828
<i>Per common share</i>	\$2.04	\$3.73
Issue of debentures	70,452	—
Increase in term loans	237,179	255,000
Proceeds from disposal of fixed assets	6,693	1,853
Issue of common shares	<u>1,072</u>	<u>310</u>
	<u>378,301</u>	<u>370,991</u>
Working Capital Applied		
Additions to fixed assets	219,560	277,453
Long term investments and advances	60,676	61,032
Dividends declared	20,323	24,738
Repayment of long term debt	86,004	17,025
Purchase of preferred shares	<u>267</u>	<u>281</u>
	<u>386,830</u>	<u>380,529</u>
Decrease in Working Capital	8,529	9,538
Working capital at beginning of year	<u>128,998</u>	<u>138,536</u>
Working Capital at end of Year	<u>\$120,469</u>	<u>\$128,998</u>
CHANGES IN WORKING CAPITAL COMPONENTS		
Current Assets — Increase (Decrease)		
Cash and short term investments	1,262	\$ (23,826)
Accounts receivable	11,841	9,542
Income taxes recoverable	7,351	—
Inventories	(2,978)	6,947
Prepaid expenses	<u>4,546</u>	<u>542</u>
	<u>22,022</u>	<u>(6,795)</u>
Current Liabilities — Decrease (Increase)		
Bank loans and notes payable	(38,519)	(18,170)
Accounts payable and accrued liabilities	1,768	(7,565)
Dividends payable	4,553	(767)
Income taxes payable	347	28,014
Current portion of long term debt	<u>1,300</u>	<u>(4,255)</u>
	<u>(30,551)</u>	<u>(2,743)</u>
Decrease in Working Capital	<u>\$ 8,529</u>	<u>\$ 9,538</u>

Notes to Consolidated Financial Statements

British Columbia Forest Products Limited

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.

Investment in Associate Companies:

Investments in Donohue St-Felicien Inc. (45% owned), Finlay Forest Industries Ltd. (42.7% owned), Pinette & Therrien Mills Limited (50% owned) and Western Forest Products Limited (33 1/3% owned) are accounted for on the equity method, whereby 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. In the statement of earnings the equity in earnings of associate companies is shown before income taxes with the income taxes being shown separately.

Western Forest Products Limited (Western) for an initial six month period of planning and reorientation ended April 30, 1981, deferred all of its expenses, including interest on borrowings for the initial acquisition of assets, net of revenue. These deferrals, which totalled \$20,774,000 to April 30, 1981, are being amortized over a five year period commencing November 1, 1981. From May 1, 1981 Western has also carried forward as a deferred charge interest costs on initial borrowings identified with the Squamish pulp mill, which was being rebuilt at December 31, 1981, and with the timber related to this mill, less the amount of operating profits net of losses during the reconstruction period. These deferred charges which to October 31, 1981 total \$11,558,000 will be amortized over a seven year period. Interest on borrowings for the rebuilding program are capitalized as a cost of reconstructing the mill and will be depreciated over the life of the asset.

The investment by the Company in Western has been increased by the interest cost on the \$60 million of borrowings for the six month period ended April 30, 1981, such costs being written off to earnings over a five year period commencing November 1, 1981. In addition, commencing May 1, 1981 the Company has added to the cost of its investment interest on monies borrowed to make the investment in the same proportion as the interest charges being deferred by Western. These charges will be amortized against earnings on the same basis as that followed by Western.

Fixed Assets:

These assets are stated at cost, which for major expansion projects includes interest 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 losses on outstanding forward exchange contracts are reflected in income.

2. Inventories

	(in thousands of dollars)	
	1981	1980
Logs and wood chips	\$ 79,382	\$ 83,139
Lumber, plywood and other wood products	20,448	22,883
Pulp, paper and newsprint	10,920	11,863
Supplies	<u>30,393</u>	<u>26,236</u>
	<u>\$141,143</u>	<u>\$144,121</u>

3. Investment in Associate Companies

	(in thousands of dollars)	
	1981	1980
Investment in shares, at cost	\$103,764	\$103,764
Accumulated equity in net earnings since acquisition, net of dividends received	5,806	8,419
Deferred interest re Western Forest Products Limited, net of amortization	6,872	1,545
Bonds and advances	<u>10,231</u>	<u>10,286</u>
	<u>\$126,673</u>	<u>\$124,014</u>

The foregoing amounts include \$62,330,000 at December 31, 1981 (1980 \$61,545,000) for the Company's investment in Western Forest Products Limited. Condensed consolidated financial information for this company at its year end October 31, 1981 is as follows:

	(in thousands of dollars)	
	October 31, 1981	
Fixed Assets	\$403,803	
Deferred Costs	32,332	
Other assets, net	960	
	<u>\$437,095</u>	
Working Capital		
Deficiency	270,730	
Net Assets	<u>\$166,365</u>	
Represented by —		
Capital Stock	\$180,000	
Deficit	(13,635)	
	<u>\$166,365</u>	

Sales	<u>\$260,628</u>
Loss for the year to October 31, 1981	<u>\$ 13,635</u>
Company's Share of Loss	<u>\$ 4,545</u>

Bank capital loans of \$280,797,000 are included in working capital deficiency since Western Forest Products Limited has not satisfied certain covenants on its loan agreements. However, the Western bank loans are not guaranteed by its shareholders.

The Company's share of Western's loss for November and December 1981 of \$1,150,000 will be included in 1982 operating results.

4. Other Investments and Advances

	(in thousands of dollars)	
	1981	1980
Investment in common shares of The Mead Corporation (quoted market value December 31, 1981 — \$30,338,000)	\$ 50,744	\$ —
Other investments and advances	<u>10,985</u>	<u>5,644</u>
	<u>\$ 61,729</u>	<u>\$ 5,644</u>

5. Property, Plant and Equipment

	(in thousands of dollars)		
December 31, 1981	Cost	Accumulated Depreciation	Net Book Value
Pulp and paper mills	\$ 585,652	\$211,094	\$374,558
Sawmill, plywood and other wood products plants	281,243	76,245	204,998
Logging buildings and equipment	61,586	31,105	30,481
Logging roads	57,173	23,263	33,910
Other equipment and facilities	27,588	14,195	13,393
Land	15,596	—	15,596
	<u>\$1,028,838</u>	<u>\$355,902</u>	<u>\$672,936</u>

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>

6. Long Term Debt

British Columbia Forest Products Limited

	(in thousands of dollars)	
	1981	1980
Sinking fund debentures		
Series A, 4½% due 1981	\$ —	\$ 1,247
Series B, 5½% due 1989	6,246	6,582
Series C, 6½% due 1992	9,748	10,123
Series D, 9¾% due 1992	13,292	13,940
Series E, 9% due 1995	29,903	31,099
Series F, 8.95% due 1997 (U.S. \$38,680,000; 1980 — U.S. \$40,000,000)	40,733	42,123
Series G, 11⅝% due 2001 (U.S. \$60,000,000)	70,896	—
	<u>170,818</u>	<u>105,114</u>

Purchase money mortgage due 1982-1990 (U.S. \$31,999,000; 1980 — U.S. \$34,666,000)	34,351	37,214
18-month notes due to bank, secured (including U.S. \$10,000,000; 1980 — U.S. \$15,000,000)	191,735	243,253
Bankers' acceptances and notes payable due in following year	214,000	27,850
Housing development mortgages	<u>2,913</u>	<u>1,994</u>
	<u>613,817</u>	<u>415,425</u>

<i>Blandin Paper Company</i> Notes payable, 10⅛% due 1982-1988, unsecured (U.S. \$19,750,000; 1980 — U.S. \$22,000,000)	21,132	23,540
18-month notes, unsecured (U.S. \$21,000,000)	<u>25,127</u>	<u>—</u>
	<u>46,259</u>	<u>23,540</u>
Less current portion of long term debt (converted to \$7,490,000 and \$8,790,000 at the pre- vailing exchange rates)	<u>6,754</u>	<u>8,000</u>
	<u>\$653,322</u>	<u>\$430,965</u>

Long term liabilities in U.S. dollars, aggregating \$181,429,000, have been translated into Canadian dollars at the rates prevailing when the debts were incurred or, in the case of the Blandin Paper Company notes payable due 1982-1988, at the rate prevailing on the date of acquisition. If the increased premium for the U.S. dollar at December 31, 1981 was to prevail at the various maturities of these debts, the additional foreign exchange cost in terms of Canadian dollars would approximate \$11,500,000. 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 due to bank 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 due to bank bear interest at rates (currently averaging 13.94%) which fluctuate with the lender's prime rate or, at the Company's option, rates which are fixed for varying periods and based on Eurodollar rates. The balance of the 18-month notes bear interest at prime rates.

Arrangements with the Company's bankers permit the Company to repay \$214,000,000 bankers' acceptances and notes payable due in 1982 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 16.94%, are classified as long term debt.

The housing development mortgages are repayable over ten to twenty-five years and bear interest at rates ranging from 6¼% to 10⅞%.

Payments on long term debt required for each of the five years ending after December 31, 1981 are as follows:

	(in thousands of dollars)
1982 (after adjustment to current exchange rate)	\$ 7,490
1983	437,700
1984	9,000
1985	12,000
1986	12,000

7. Share Capital

Purchase of Preferred Shares:

The Company is obligated, subject to certain relief provisions, to purchase 7,200 preferred shares annually for cancellation when available at \$50 per share or less including costs of purchase. In 1981, 7,200 shares were purchased and cancelled at an average cost of \$37.12 per share, reducing preferred share capital by \$360,000.

Share Options:

At December 31, 1981 there were options outstanding under the term of the Company's Employee Share Option Incentive Plan to purchase an aggregate of 507,371 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 1981, 305,549 shares were issued under this plan for \$1,072,000.

8. Related Party Transactions

Sales to "related parties" (which by definition of the Canadian Institute of Chartered Accountants include during 1981 The Mead Corporation, Alberta Energy Company Ltd., Noranda Mines Limited and Scott Paper Company, together with their subsidiaries and affiliates) amounted to \$78,955,000 in 1981 (1980 — \$90,916,000). 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, 1981 was \$16,456,000 (1980 — \$16,235,000).

9. 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, 1981 the Company has spent \$146,000,000 on these programs and expects to spend \$39,000,000 in 1982.

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

10. 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. In 1982 an actuarial evaluation will be made as of December 31, 1981.

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, 1980, there were no unfunded past service benefits and the assets of the pension trust exceeded the value of vested benefits.

11. 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 sale in June, 1981 of Noranda Mines Limited's interest in the Company has significantly altered the facts upon which the Blandin antitrust suit was originally founded and accordingly the trial which was to commence September 1981 has been postponed. Discussions to resolve the issues are underway.

In October 1981, the Foreign Investment Review Agency demanded that the Company file notices pursuant to the Foreign Investment Review Act of its acquisitions of the assets of Elk River Timber Company Limited and its interest in Finlay Forest Industries Ltd. A similar demand was received by Western Forest Products Limited in respect to its acquisition of the Rayonier Canada Division assets of ITT Industries of Canada Ltd. The Company has commenced proceedings against the Minister of Industry, Trade and Commerce and the Commissioner of the Agency seeking a Declaration that they are not "non-eligible persons" under the Act. The Company was successful on an Interim Injunction application to restrain the Minister from taking further action until determination of the Company's status. The Agency is appealing that decision.

12. Statutory Information

Selling and administrative expenses include remuneration paid to directors and senior officers of the Company aggregating \$2,175,000 (1980 — \$1,759,000).

13. 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

British Columbia
Forest Products Limited

For the Year Ended December 31, 1981 (in millions of dollars)

	By Industry Segment						By Geographic Region					
	Wood & Wood Products		Pulp & Paper		Services & Other		Consolidated		Canada		United States	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
<i>Revenue</i>												
Sales to external customers	\$245.1	\$290.3	\$545.7	\$543.9	\$24.1	\$16.1	\$ 814.9	\$ 850.3	\$580.4	\$635.5	\$234.5	\$214.8
Sales to other segments	64.1	67.4	—	—	5.5	2.5			15.0	16.4	—	—
	<u>\$309.2</u>	<u>\$357.7</u>	<u>\$545.7</u>	<u>\$543.9</u>	<u>\$29.6</u>	<u>\$18.6</u>			<u>\$595.4</u>	<u>\$651.9</u>	<u>\$234.5</u>	<u>\$214.8</u>
<i>Earnings</i>												
Operating profit before unallocated items including income taxes (below)	<u>\$(30.1)</u>	<u>\$(13.2)</u>	<u>\$110.3</u>	<u>\$134.6</u>	<u>\$ 3.9</u>	<u>\$ 3.0</u>	\$ 84.1	\$ 124.4	<u>\$ 60.7</u>	<u>\$102.7</u>	<u>\$ 23.4</u>	<u>\$ 21.7</u>
General and administration							(16.4)	(15.3)				
Interest							(62.0)	(35.1)				
Earnings from associate companies							6.4	16.9				
Other income							11.0	6.6				
Income taxes							(5.9)	(37.0)				
Net earnings							<u>\$ 17.2</u>	<u>\$ 60.5</u>				
<i>Identifiable Assets</i>												
Segment assets	<u>\$543.7</u>	<u>\$455.2</u>	<u>\$519.9</u>	<u>\$417.8</u>	<u>\$13.1</u>	<u>\$12.2</u>	\$1,076.7	\$ 885.2	<u>\$829.7</u>	<u>\$683.5</u>	<u>\$247.0</u>	<u>\$201.7</u>
Corporate Assets							72.6	9.1				
Investment in associate companies							126.7	124.0				
TOTAL ASSETS							<u>\$1,276.0</u>	<u>\$1,018.3</u>				
<i>Depreciation and Depletion</i>	<u>\$ 20.1</u>	<u>\$ 19.4</u>	<u>\$ 19.0</u>	<u>\$ 16.5</u>	<u>\$ 1.2</u>	<u>\$.9</u>	\$ 40.3	\$ 36.8	<u>\$ 30.7</u>	<u>\$ 29.6</u>	<u>\$ 9.6</u>	<u>\$ 7.2</u>
<i>Additions to Fixed Assets</i>	<u>\$111.9</u>	<u>\$200.7</u>	<u>\$106.7</u>	<u>\$ 73.8</u>	<u>\$ 1.0</u>	<u>\$ 3.0</u>	\$ 219.6	\$ 277.5	<u>\$170.5</u>	<u>\$224.8</u>	<u>\$ 49.1</u>	<u>\$ 52.7</u>

Notes to the Statement of Segmented Information

Year Ended December 31, 1981

- The Company operates in three industry segments:
Wood & Wood Products
Pulp & Paper
Services & Other
- Sales to other segments are accounted for at prices which approximate market.
- Canadian sales include export sales amounting to \$437.0 million (1980 — \$477.3 million).

**Ten Year
Comparative
Review**

British Columbia
Forest Products Limited

NOTES AND EXPLANATIONS

A. Major changes in capitalization

1. Series E sinking fund debentures:
\$40,000,000 issued December 1973.
2. Series F sinking fund debentures:
U.S. \$40,000,000 issued March 1977.
3. Purchase money mortgage:
U.S. \$50,000,000 issued September 1977.
4. Series G sinking fund debentures:
U.S. \$60,000,000 issued December 1981.

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, in 1980 the investment in Western Forest Products Limited and, in 1981, a portfolio investment in The Mead Corporation.

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* = $\frac{\text{Net earnings — preferred dividends}}{\text{Average common share capital + average earnings reinvested in the business}}$

Sales and Earnings (\$000)

	1981
Net sales	814,922
Cost of products sold	681,512
Depreciation and depletion	40,337
Selling and administration	25,364
Interest on long term debt	56,731
Other (income) and expense	(12,167)
Earnings before income taxes	23,145
Current income taxes	(6,882)
Deferred income taxes	7,215
Income taxes of assoc. companies	5,625
Net earnings	17,187

Assets and Capitalization (\$000)

Current assets	274,885
Current liabilities	154,416
Working capital	120,469
Long term investments and advances	188,402
Property, plant & equipment	1,028,838
Less accumulated depreciation	(355,902)
Timber less depletion	138,259
Deferred charges	1,474
Net assets	1,121,540
Long term debt	653,322
Deferred income taxes	111,248
Preferred share capital	6,538
Common share capital	35,274
Earnings reinvested in the business	315,158
Total capitalization	1,121,540

Working Capital Statement (\$000)

Source — operations	62,905
— other	315,396
	378,301
Application — plant and equipment	218,096
— timber and land	1,464
— dividends	20,323
— other	146,947
	386,830
Net increase (decrease) in working capital	(8,529)

Financial Data

Common shares outstanding (000)	30,724
Number of common shareholders	4,711
Preferred shares outstanding (000)	131
Number of preferred shareholders	972
Net earnings per common share — \$.55
Cash flow per common share — \$	2.04
Equity per common share — \$	11.41
Dividends paid per common share — \$.80
Price range for common shares	
— high — \$	24.00
— low — \$	10.63
Net earnings to sales — %	2.1
Cash flow from operations to sales — %	7.7
Return on net assets — %	5.1
Return on common shareholders' equity — %	4.8
Current ratio	1.8

Production and Other Statistics

Logs — cubic metres	4,160,000
Lumber — MFBM	629,000
Shingles and shakes — squares	68,000
Plywood — M sq. ft. 1/16"	971,000
Market pulp — air dry tonnes	403,000
Newsprint and specialty papers	
— tonnes	236,000
Coated paper — short tons	291,000
Waferboard — short tons	57,000
Number of employees	8,245

1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
850,307	799,961	704,140	491,949	392,010	273,426	279,054	253,603	173,830	145,219
680,895	568,970	517,221	375,462	295,304	201,866	201,727	172,148	133,868	115,251
36,839	32,625	31,714	27,121	23,450	19,944	17,334	16,772	11,255	10,658
23,476	20,898	19,334	14,752	13,094	11,361	10,090	10,188	7,968	6,689
31,625	20,978	21,554	14,402	7,833	8,585	8,376	6,209	2,578	2,531
(20,091)	(19,490)	(9,859)	(3,528)	135	(425)	(946)	(552)	(3,692)	(1,220)
97,563	175,980	124,176	63,740	52,194	32,095	42,473	48,838	21,853	11,310
10,028	67,640	44,586	24,457	23,560	9,320	12,395	16,400	2,660	500
17,895	6,398	7,908	3,102	2,400	6,580	8,685	6,350	7,780	5,050
9,110	5,199	2,656	1,068	64	307	307	623	590	305
60,530	96,743	69,026	35,113	26,170	15,888	21,086	25,465	10,823	5,455
252,863	259,658	209,574	170,236	134,176	112,053	105,296	89,651	63,445	56,302
123,865	121,122	86,996	74,436	65,276	57,036	58,284	42,231	45,762	43,724
128,998	138,536	122,578	95,800	68,900	55,017	47,012	47,420	17,683	12,578
129,658	70,395	43,294	42,426	30,022	10,972	11,317	11,757	8,644	4,396
817,182	663,631	607,556	567,664	386,430	367,224	344,196	301,786	280,993	254,364
(323,607)	(292,032)	(262,786)	(236,140)	(156,999)	(136,580)	(119,080)	(104,918)	(92,125)	(83,415)
141,023	20,387	22,501	25,404	11,230	13,744	15,134	16,902	18,608	21,345
1,138	1,250	1,364	1,482	1,276	1,378	1,482	1,583	487	692
894,392	602,167	534,507	496,636	340,859	311,755	300,061	274,530	234,290	209,960
430,965	192,881	208,107	236,512	110,187	101,114	103,500	100,069	88,108	79,438
104,033	85,634	79,236	71,328	67,900	65,500	58,920	50,235	43,885	36,089
6,898	7,258	7,618	7,978	8,338	8,698	9,058	9,418	9,778	10,138
34,202	33,892	33,630	33,480	33,411	33,234	33,202	33,188	32,055	32,052
318,294	282,502	205,916	147,338	121,023	103,209	95,381	81,620	60,464	52,243
894,392	602,167	534,507	496,636	340,859	311,755	300,061	274,530	234,290	209,960
113,828	129,667	106,273	63,830	51,377	41,769	47,048	48,875	28,482	21,092
257,163	1,696	961	104,090	15,197	2,713	7,434	44,348	17,860	18,338
370,991	131,363	107,234	167,920	66,574	44,482	54,482	93,223	46,342	39,430
144,430	57,556	42,179	31,886	19,801	23,980	42,355	24,493	31,635	52,397
133,023	740	418	2	205	323	2,208	51	84	8,325
24,738	20,157	10,448	8,798	8,356	8,060	7,325	4,309	2,602	834
78,338	36,952	27,411	100,334	24,329	4,114	3,002	34,633	6,916	666
380,529	115,405	80,456	141,020	52,691	36,477	54,890	63,486	41,237	62,222
(9,538)	15,958	26,778	26,900	13,883	8,005	(408)	29,737	5,105	(22,792)
30,419	30,349	30,279	30,235	30,212	30,151	30,139	30,136	29,750	29,749
4,411	3,515	3,461	2,908	2,725	2,849	2,917	2,878	2,700	2,826
138	145	152	160	167	174	181	188	196	203
1,064	1,158	1,268	1,355	1,433	1,538	1,626	1,689	1,775	1,861
1.98	3.18	2.27	1.15	.85	.51	.68	.83	.34	.17
3.73	4.26	3.50	2.10	1.68	1.37	1.54	1.61	.93	.69
11.59	10.43	7.91	5.98	5.11	4.53	4.27	3.81	3.11	2.83
.78	.58	.30	.27	.26	.25	.20	.10	.05	.04
18.63	14.50	10.63	6.63	6.13	4.31	5.63	6.50	3.19	3.19
11.00	9.44	5.06	4.75	3.88	2.75	2.16	2.97	2.41	1.92
7.1	12.1	9.8	7.1	6.7	5.8	7.6	10.0	6.2	3.8
13.4	16.2	15.1	13.0	13.1	15.3	16.9	19.3	16.4	14.5
10.6	19.0	15.7	10.3	9.2	6.6	8.8	11.3	5.5	3.4
18.0	34.6	32.6	20.7	17.6	11.6	16.9	24.0	11.6	5.9
2.0	2.1	2.4	2.3	2.1	2.0	1.8	2.1	1.4	1.3
4,943,000	5,171,000	5,530,000	4,864,000	4,675,000	2,825,000	3,847,000	3,542,000	3,132,000	3,446,000
766,000	795,000	835,000	812,000	721,000	434,000	474,000	536,000	537,000	483,000
65,000	121,000	135,000	104,000	132,000	96,000	106,000	125,000	102,000	109,000
1,233,000	1,232,000	1,279,000	1,203,000	1,141,000	802,000	986,000	1,162,000	748,000	804,000
468,000	452,000	448,000	382,000	436,000	323,000	423,000	410,000	248,000	200,000
268,000	254,000	253,000	233,000	229,000	175,000	223,000	232,000	211,000	210,000
303,000	308,000	300,000	102,000	—	—	—	—	—	—
40,000	42,000	53,000	20,000	—	—	—	—	—	—
8,305	8,180	7,895	7,888	6,105	5,105	5,134	5,087	5,096	4,808

Corporate Information

British Columbia
Forest Products Limited

Board of Directors

Jack G. Armstrong
*Senior Vice-President, Finance
Alberta Energy Company Ltd.
Calgary, Alta.*

Ian A. Barclay
*Chairman of the Board
Vancouver, B.C.*

Laurent Beaudoin
*Chairman and Chief Executive Officer
Bombardier Inc.
Montreal, Que.*

Kenneth P. Benson
*President and Chief Executive Officer
Vancouver, B.C.*

H. Clark Bentall
*Chairman of the Board
The Bentall Group Ltd.
Vancouver, B.C.*

Alan F. Campney
*Partner
Campney & Murphy
Vancouver, B.C.*

Charles D. Dickey, Jr.
*Chairman and Chief Executive Officer
Scott Paper Company
Philadelphia, Pa.*

W. Douglas H. Gardiner†
*President
W.D.H.G. Financial Associates Ltd.
Vancouver, B.C.*

Oscar F. Lundell, Q.C.
*Lawson, Lundell, Lawson
and McIntosh
Vancouver, B.C.*

Gordon F. MacFarlane†
*Chairman and Chief Executive Officer
British Columbia Telephone Company
Burnaby, B.C.*

Allan McGavin†
*Honorary Director
McGavin Foods Limited
Vancouver, B.C.*

James W. McSwiney
*Chairman of the Board
The Mead Corporation
Dayton, Ohio*

David E. Mitchell
*President and Chief Executive Officer
Alberta Energy Company Ltd.
Calgary, Alta.*

Raymond J. Nelson
*President
Nelson Lumber Company Ltd.
Lloydminster, Alta.*

Burnell R. Roberts
*President
The Mead Corporation
Dayton, Ohio*

†Member of Audit Committee

Head Office

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

Transfer Agents and Registrars

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

Stock Listings

Vancouver, 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.
Mackenzie Forest Products
Limited (Inactive)
Stuart Channel
Transportation Limited
Swifsure Towing Company
Ltd.

Interest in Other Companies

Pinette & Therrien Mills
Limited (50%)
Donohue St-Felicien Inc. (45%)
Finlay Forest Industries Ltd.
(42.7%)
Owikeno Lake Transportation
Ltd. (33⅓%)
Western Forest Products Limited
(33⅓%)

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

Annual General Meeting

The Company's *Annual General Meeting* will be held Thursday, April 15, 1982 in the Arbutus Room of the Four Seasons Hotel, Vancouver, British Columbia, commencing at 12 noon.

