

# BCFP

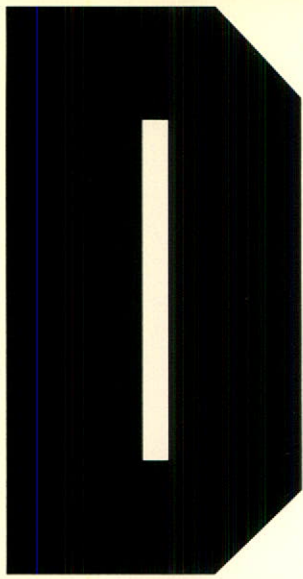
British Columbia  
Forest Products  
Limited  
Annual Report  
1982

BRITISH COLUMBIA LIBRARY  
VICTORIA  
APR 1983  
MAY 1983



## FINANCIAL HIGHLIGHTS

<b>For the year</b>	<u>1982</u>	<u>1981</u>
Net sales	\$799,159,000	\$814,922,000
Depreciation and depletion	53,054,000	40,337,000
Earnings before income taxes	(99,641,000)	23,145,000
Income taxes	(38,680,000)	5,958,000
Net earnings	(60,961,000)	17,187,000
<i>Per common share</i>		
<i>(after preferred dividends)</i>	\$(1.92)	\$0.55
Funds from operations	(9,837,000)	62,905,000
<i>Per common share</i>		
<i>(after preferred dividends)</i>	\$(0.32)	\$2.04
Return on net assets	(2.0)%	5.1%
Return on common shareholders' equity	(18.9)%	4.8%
Dividends paid		
common	3,073,000	24,478,000
per share	\$0.10	\$0.80
preferred	388,000	398,000
per share	\$3.00	\$3.00
Capital expenditures	105,266,000	219,560,000
Salaries and wages	197,805,000	193,130,000
Employee benefits	59,897,000	53,096,000
Stumpage and royalty (to governments)	6,837,000	8,233,000
Property taxes	18,246,000	14,385,000
<b>At year-end</b>		
Ratio of current assets to current liabilities	1.5	1.8
Ratio of long term debt to equity	1.5	1.8
Shareholders' equity per common share	\$8.26	\$11.41
Number of common shareholders	5,215	4,711
Number of preferred shareholders	912	972
Number of employees	7,770	8,245
Assets per employee	\$165,100	\$154,700
Canadian capital gains tax Valuation Day prices:		
Common shares (subdivided)	\$ 2.47	
6% Preferred shares	41.50	
Series B, 5½% debentures	74.00	
Series C, 6½% debentures	80.50	
Series D, 9¾% debentures	106.00	



# Despite a steady decline in interest rates during the recession were unrelenting in the Company's major markets for all forest products led to the most difficult year in

## **To Our Shareholders and Employees:**

Reduced sales and earnings, widespread production curtailments and losses from investments in other companies were among the harsh consequences arising from unsettled world economies.

The Company's employees faced these difficulties with understanding, even though many salaried and hourly personnel were required to accept layoffs and reduced working hours.

The consolidated net loss for 12 months ended December 31 was \$61 million or \$1.92 per common share compared with earnings of \$17.2 million or \$.55 per common share in 1981. Net sales for the year were down from \$814.9 million in the previous year to \$799.2 million in 1982.

Wood products markets, which have been depressed since 1980, showed little sign of recovery in 1982. U.S. housing starts held to an annualized rate of 1.06 million, only fractionally higher than last year's record low.

The Company's pulp and paper mills at Crofton and Mackenzie operated at only 85 per

cent of capacity as markets for kraft pulp and newsprint weakened steadily throughout the year.

Because of continuing losses and high borrowings the Company revised some planned capital expenditures. The Company has asked the Alberta provincial government to amend terms of a Forest Management Agreement to permit construction startup delays on the sawmill project at Knight and the newsprint mill at Whitecourt.

The first phase of the \$360 million Alberta development project started up in April with the opening of an 80 million board feet sawmill at Grande Cache.

In B.C., the Company finished the last of its major capital projects underway in the province with the startup at mid-year of the third newsprint machine at Crofton and the new sawmill at Hammond.

At the Annual General Meeting, Mr. Hector J. McFadyen was elected a Director, succeeding Mr. David E. Mitchell.

Due to continuing losses sustained by the Company, the Directors suspended payment of the common share divi-

dends normally payable in August and November.

At an Extraordinary General Meeting on November 25, shareholders approved an increase in the authorized common share capital from 40 million to 60 million shares. In December, 16,940,894 common shares were issued to the Canadian public and to two of the Company's major shareholders, The Mead Corporation and Brunswick Pulp & Paper Company. Net proceeds of the issue were \$106 million, which were used to reduce bank indebtedness.

It is with regret that we record the passing of Mr. Oscar F. Lundell, Q.C. and Mr. Allan McGavin, both long-time directors of the Company. Both gentlemen made a significant contribution to the development of the Company and will be missed by their many friends and colleagues.

Mr. D.J. Kelsey, formerly of Thorne Riddell, Chartered Accountants, was appointed to the Board in September.

A number of promotions have occurred as a result of the impending retirements of two senior officers of the Com-

# ing the second half of 1982, the symptoms of market areas • Falling demand and weak prices BCFP's history •

pany. Mr. Roy J. Whittle, Executive Vice-President, and Mr. Harry Dembicki, Group Vice-President, Logging & Wood Supply, will both retire at the end of 1983.

The appointments, which came into effect January 1, 1983 are: Mr. George G. Flater, Executive Vice-President; Mr. W. John Connerly, Group Vice-President, Wood Products; Mr. Stuart Waddell, Group Vice-President, Pulp & Paper; Mr. C. Roy Sworder, Group Vice-President, Logging & Wood Supply; Mr. George N. Bird, Vice-President, Pulp & Paper Production; and Mr. Richard A. Drake, Vice-President, Wood Products Production.

In addition, Mr. John K. Graf was appointed Vice-President and Treasurer; and Mr. Michael E. Hoole was appointed Vice-President and General Counsel.

At Blandin Paper Company, Mr. Alfred C. Wallace became President and Chief Executive Officer in February 1983. Mr. Wallace, who was formerly BCFP's Vice-President, Pulp & Paper Production, succeeds Mr. Harold F. Zigmund who will continue on as Chairman until his retirement in 1984.

The Company expects to face another difficult year in 1983 even though there are some signs of economic recovery.

Some improvements are forecast for pulp and paper as the result of low customer inventories and market stabilization. There have been indications that improved market activity for lumber and waferboard in early 1983 may lead to recovery in the wood products sector.

Coated paper sales are expected to be slightly lower in 1983 due to increased competition and little improvement is expected in the market for plywood.

A proposal to impose a countervailing duty on Canadian softwood lumber imports into the United States is under review in Washington, D.C. The tariff barrier is being sought by a group of U.S. softwood lumber producers who allege

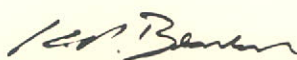
Canadian lumber is helped in the marketplace by government subsidies.

A preliminary ruling issued March 8, 1983 by the U.S. Department of Commerce rejected all of the main allegations made by U.S. petitioners. Further hearings are scheduled in the U.S. capital before a final decision is reached May 23, 1983.

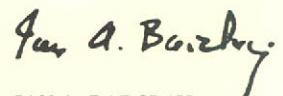
Industry-wide negotiations with unions covering forest products workers in B.C. will be another critical issue facing the Company.

The forest products industry in B.C. has been seriously damaged by recession and recovery will require both improved markets and several years of labor peace. These conditions are vital to the revival of the industry. It is imperative that an equitable settlement is reached based on the economic state of the industry.

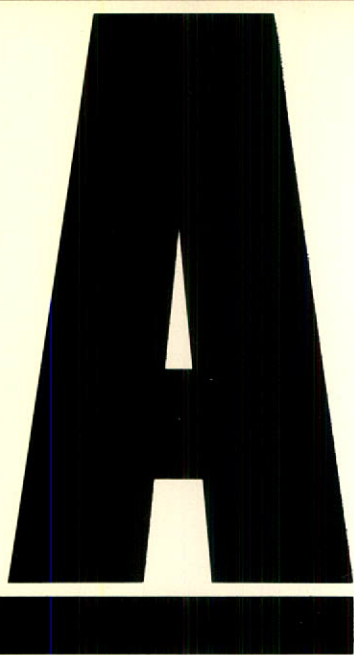
On behalf of the Board,



KENNETH P. BENSON,  
*President and Chief Executive Officer*



IAN A. BARCLAY,  
*Chairman*



# As production tapered off in the manufacturing divisions, work in the woods was curtailed to keep log inventories at low levels ●

### Wood Supply and Forestry

Mill curtailments and the need to reduce log inventories cut deeply into BCFP's log production.

Coastal log production fell to its lowest point in several years with a harvest of 2.01 million cubic metres during the year compared with 2.72 million cubic metres in 1981.

In addition to reducing log inventories, cost-saving measures were also implemented, including the closing of Company camps at Wakeman-Acteon and Silver River and a contractor logging operation at Machmell.

All Coastal logging operations were subject to prolonged shutdowns as demand from the Company's manufacturing divisions diminished. Boston Bar logging closed simultaneously with the sawmill in July and did not resume activity during the rest of the year.

The new dry land sort at Elk River Division was completed at mid-year as part of

a major revision of log handling procedures in order to increase efficiency and to improve the fisheries habitat in the Campbell River estuary. BCFP's initiative in the project resulted in an environmental protection award from the Province of British Columbia.

A major shift in the flow of logs to the Company's mills was initiated in mid-October. By year-end, the Renfrew Division dry land sort on tidewater was phased out and relocated at the former Western Forest Industries' dry land sort at Honeymoon Bay on Cowichan Lake. All Renfrew production is now delivered and processed through this facility. After sorting, suitable logs are either delivered to the Company's nearby Cowichan sawmill or to the Shoal Island dry land sort for further processing. The Renfrew Division headquarters is scheduled for closure and relocation at Gordon River in mid-1983.

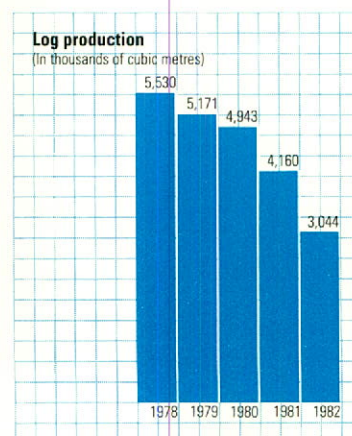
At Mackenzie, reduced sawmilling activity resulted in a drop in log production. Total log production was 891,000

cubic metres compared with 1.43 million cubic metres in the previous year.

As a result of economic conditions and the reduced production requirements road construction and other capital programs were also severely cutback. Total road construction declined from 390 kilometres in 1981 to 223 kilometres in 1982.

A decline in demand for market pulp during the second half of the year created a surplus of wood chips at both Mackenzie and Crofton at year-end.

In Alberta, logging began early in the year and 143,000 cubic metres were produced to provide an inventory for





# Forest management practices continued and goals of replanting, spacing and fertilization were helped by special funding ●

the Grande Cache sawmill startup. Development of a Native Indian logging training program was completed during the year and members of local Native co-ops began contract logging for the Company in November.

Despite economic constraints, the Company completed many of its forestry goals, primarily with funding offered by incentives under Section 88 of the Forest Act. Intensive forestry work included the planting of 4.6 million seedlings on 6,750 hectares on the Coast and 2.05 million seedlings on 4,850 hectares at Mackenzie.

Despite reduced activity in logging, Swiftsure Towing Company Ltd., the Company's marine subsidiary in New Westminster, completed an active year. Swiftsure tugs towed a volume of 1.93 million cubic metres of logs in 1982 compared with 2.38 million cubic metres in 1981. Swiftsure's two self-loading, self-dumping log barges completed 125 trips during

1982 carrying a total volume of 820,000 cubic metres compared to 120 trips and 818,000 cubic metres in the previous year.

BCFP also embarked on its first forestry programs in Alberta with the initial planting of 251,000 seedlings on 201 hectares.

The Employment Bridging Assistance Program (EBAP), jointly sponsored by the Federal and Provincial governments, also contributed to the completion of the Company's forestry objectives during a difficult year.

In the Company's Coastal divisions, a total of 1,701 hectares was spaced while aerial fertilization was applied to an additional 4,065 hectares.

The Mount Newton Seed Orchard on Vancouver Island, jointly operated by BCFP (60 per cent) and Crown Zellerbach Canada Limited (40 per cent), officially opened in May following completion of major irrigation systems. The first half of a Douglas fir orchard was planted during the year and drainage work was com-

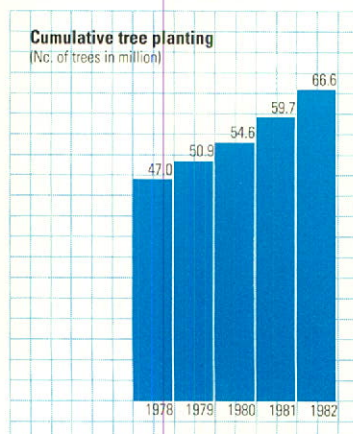
pleted on future cedar and cypress orchards.

## Wood Products

Depressed markets and prices impacted severely on the Company's wood products operations, causing wide-spread production curtailments.

In response to the depressed level of home construction, particularly in the United States, U.S. rail and Atlantic Coast markets for the Company's lumber were extremely weak.

The annualized rate of U.S. housing starts began the year at a low of 894,000 units but climbed back over the one million mark at mid-year as interest rates began to trend







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## ill closures and cutbacks resulted from sagging export markets and extremely low prices for virtually all wood products ●

downward. The rate improved slowly, peaking in November, but fell back in December to produce a 1982 total of 1,061,000 starts.

Overseas, market conditions were also poor. European prices were held down by devalued Scandinavian currencies and by the entrance into the market of additional lumber produced by the Soviet Union.

Lumber sales to Japan were reduced and prices were erratic.

Sales of plywood, both in Canada and overseas, were adversely affected by slack demand and low prices. The severely depressed market for plywood in the U.S. allowed American producers an opportunity to compete at low prices, particularly in the United Kingdom market.

Total lumber production of 629 million board feet from the Company's sawmills was unchanged from the previous

year. Plywood production fell sharply from 162 million square feet ( $\frac{3}{8}$  inch basis) in 1981 to 104 million square feet during 1982.

Weak markets forced the closure at mid-year of the sawmill and plywood operations at Victoria, the Boston Bar sawmill and the Cowichan veneer mill. These operations remained closed throughout the balance of the year. Mackenzie's three sawmills operated on a reduced work week for most of the year.

Tilbury sawmill rebounded from a six-week shutdown to establish new production records in November and December in response to a rise in demand for kiln dried hemlock.

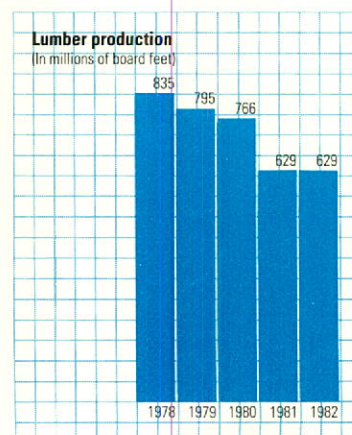
The new \$35 million Hammond sawmill started up in July, replacing a 70-year-old facility which had occupied the site since 1912. Extensive training programs in electronics, computer processing and equipment operation prepared employees for the transition to the new highly-automated mill. After overcoming typical startup

problems, the mill began to improve in productivity reaching 75 per cent of design capacity towards the end of the year.

The Company's first sawmill in Alberta, located at Grande Cache, was completed and started up in April slightly behind schedule due to construction delays.

A \$3.9 million log handling and preparation system was completed at Vancouver Sawmill Division along with other capital improvements.

Despite difficult market conditions, Delta Plywood maintained a full year of operation by effective cost control and by producing a higher percentage of premium grades.





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## umber 3 newsprint machine came alive during the year, providing new capacity and a quality product.

### Pulp and Paper

Weaker demand, falling prices and additional capacity presented a difficult year for the Company's pulp and paper operations.

Total pulp production from Crofton and Mackenzie was 402,300 tonnes in 1982, down marginally from the strike-reduced production of 403,000 tonnes in 1981.

Plant shutdowns in June, July, October and December accounted for a total loss of 19 days of production which was necessary to keep inventories at manageable levels.

Pulp prices began the year in the \$565-\$580 (U.S.) per tonne range. By the end of the year however, oversupply and competitive price cutting resulted in reductions to \$410-\$450 levels in the European and U.S. markets respectively. Overseas, European markets were adversely affected by weak demand and the devaluation of Scandinavian currencies.

Record newsprint production of 295,100 tonnes was well above the 1981 level of

236,000 tonnes as the result of the completion and startup of the Company's third newsprint machine at Crofton.

In spite of the severe recession, newsprint consumption in North America during 1982 was unchanged over the previous year. However, new machines completed during the past two years in Canada and the U.S. have raised the total newsprint capacity by 17 per cent.

BCFP successfully completed a number of major capital projects at Crofton and Mackenzie, led by the startup of Crofton's third newsprint machine in June. The \$149 million project was completed on time and on budget despite a nine-week interruption in work resulting from the forest industry strike of 1981. The speed on the Beloit twin wire machine has gradually been increased from 3,200 feet per minute at startup to 3,500 feet per minute. The machine increases BCFP's annual newsprint capacity by 68 per cent to 436,000 tonnes.

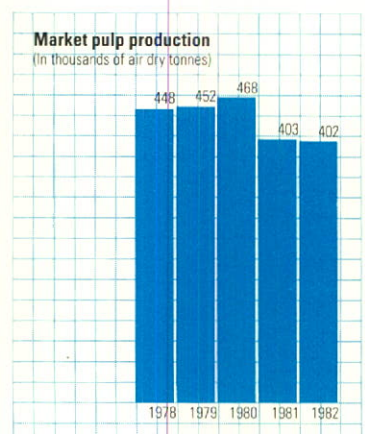
At Crofton, energy conservation was improved by the installation of a hog fuel dryer on the hog boiler. The \$8.2

million project reduces the moisture content of incoming hog fuel to improve its combustion in the power boilers. Completed in October, early indications are that the installation will be able to meet the savings of 200,000 barrels of oil a year as projected.

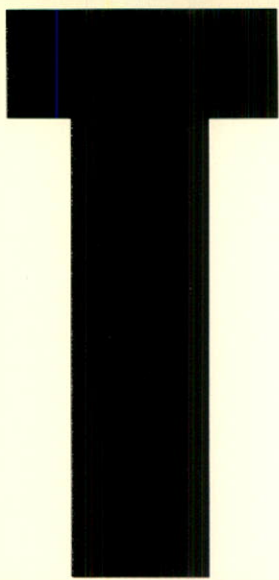
Croftech Inc., the Company's wholly-owned engineering project management firm, completed its supervision of the No. 3 news machine project at Crofton and the refiner groundwood expansion at Finlay Forest Industries Ltd. in Mackenzie to cap off an active year.

### Transportation

The Company took delivery of a 5,400 deadweight ton newsprint vessel in August







# The charter vessel Ferncroft logged its first trips carrying shipments of Crofton newsprint to California ports on a regular basis ●

on a long-term charter. The ship, christened the "Ferncroft", completed 11 return voyages between Crofton and California ports during the year carrying a total of 42,000 tonnes of newsprint.

The Ferncroft's platforms and elevators, which comprise the unique sideport loading method, have been designed to load at a rate of 250 tonnes of product per hour. Average cargo per trip is 3,800 tonnes.

The volume of lumber and newsprint shipped from the Crofton dock complex increased during the year despite a longshoring strike in October.

A total of 308 million board feet of lumber was shipped from the docks compared with 262 million board feet in the previous year. Pulp and newsprint shipments from other producers rose from 15,800 tonnes to 17,000 tonnes in 1982. Replacement

of Crofton's No. 1 dock was completed in April. The total number of vessels visiting the facility rose slightly from 199 in 1981 to 201 in 1982.

### Employee Relations

Successful negotiations were completed during the year leading to collective agreements with unions representing employees at two wholly-owned subsidiaries in B.C., and at Donohue St-Felicien operations in Quebec.

Negotiations also began in Alberta with the International Woodworkers of America (IWA), representing employees at the Company's Grande Cache sawmill. Employees at the mill were certified in September, and negotiations for a first collective agreement had not been completed at year-end.

BCFP's accident control efforts showed improvement during 1982. There were 185 fewer loss time accidents in 1982 compared to 1981. This translates into an accident-frequency rate (based on one million man hours) of 33.16 in 1982 compared to 46.87 in 1981.

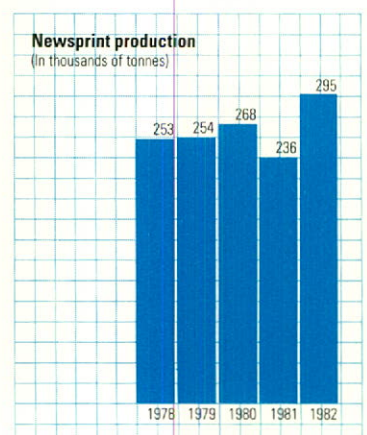
### Blandin Paper Company

GRAND RAPIDS, MINNESOTA

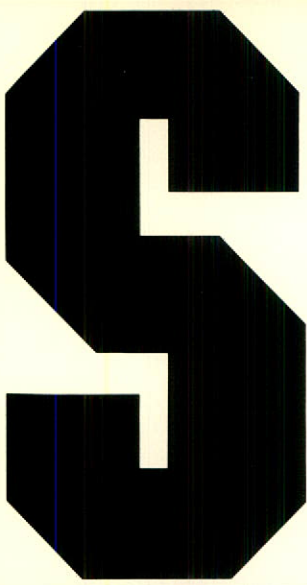
*A wholly-owned subsidiary*

Production of lightweight coated paper dropped from 291,000 short tons in 1981 to 288,000 short tons in 1982. The marginal drop in production during an otherwise full operating year was due to reduced output from a conversion coating machine. The machine, which coated 100 short tons a day of base papers from other producers, operated on a five-day schedule during 1982.

Blandin Wood Products' new \$55 million (U.S.) wafer-board plant expansion completed its first year of operation. Production of aspen







## Squeeze of recession also lowered revenues from wholly-owned subsidiaries and associated forest product companies ●

waferboard rose substantially from 90.9 million square feet ( $\frac{3}{8}$  inch basis) in 1981 to 132.2 million square feet in 1982.

**Finlay Forest Industries Ltd.**  
MACKENZIE, B.C.  
*42.7 per cent owned*

Completion of a \$25 million pulp mill expansion resulted in increased capacity and production of refiner groundwood pulp.

While total pulp production increased from 85,700 tonnes in 1981 to 100,800 tonnes in 1982, the mill operated below capacity due to low product demand.

Adverse market conditions also led to curtailed operating rates for FFI's sawmills. Lumber production fell from 139.2 million board feet in 1981 to 134.2 million board feet in 1982.

**Pinette & Therrien Mills Limited**  
WILLIAMS LAKE, B.C.  
*50 per cent owned*

Lumber production fell from 139.1 million board feet in

1981 to 114.5 million board feet in 1982 reflecting lower sales and shipments due to weak markets.

The sale of the company's Silvacan assets, including a sawmill at Takla Lake, and related timber, was completed in July.

**Western Forest Products Limited**  
VANCOUVER, B.C.  
*33 $\frac{1}{3}$  per cent owned*

Limited production due to poor market conditions, and a heavy debt load resulted in another difficult year of operation for the company.

Total pulp production in fiscal 1982 was 192,500 tonnes including 114,300 tonnes of sulphate pulp from Wood-fibre and 78,200 tonnes of dissolving sulphite pulp produced at the Port Alice mill.

The operation of both mills was severely curtailed throughout the year due to low market demand.

**Donohue St-Felicien Inc.**  
QUEBEC CITY, P.Q.  
*45 per cent owned*

Pulp production declined by 24,800 tonnes from 271,300 tonnes in 1981 to 246,500 tonnes in 1982. Severe price

erosion and weakening demand led to the lower production.

Despite the fall in production, the pulp mill established a record operating month in November with an average daily rate of 855 tonnes.

Combined lumber production from DSF's sawmills at Chibougamau, St-Thomas and Girardville was 147 million board feet compared with 142.6 million in the previous year.

**Fraser River Pile Driving Company Limited**  
NEW WESTMINSTER, B.C.  
*A wholly-owned subsidiary*

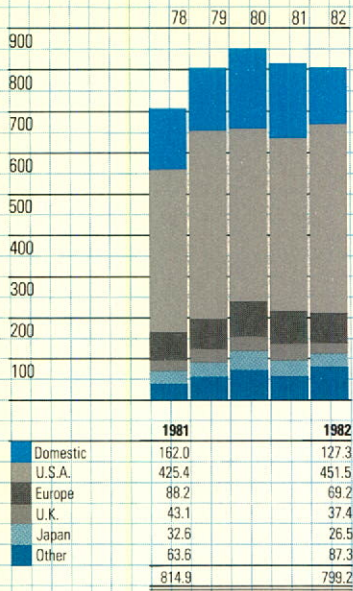
The continued downturn in the economy, notably in the forest industry sector, resulted in a reduced volume of marine and dredging contracts.

The total number of projects declined from 684 in 1981 to 498 in 1982. Major contracts included work on the new BCFP dryland sort at Campbell River and government wharves and ferry landings on the Coast.

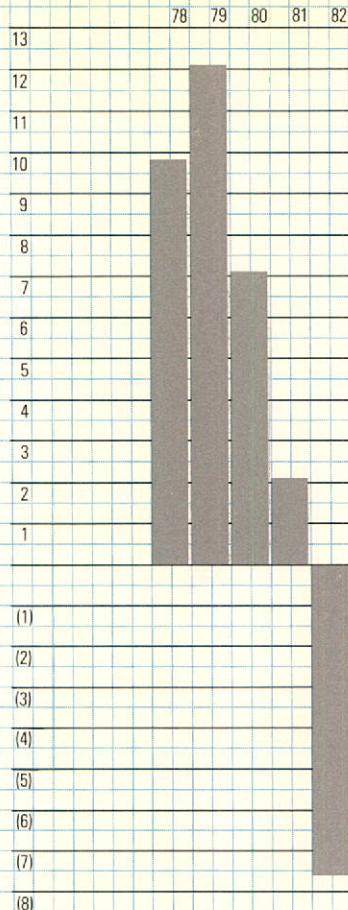




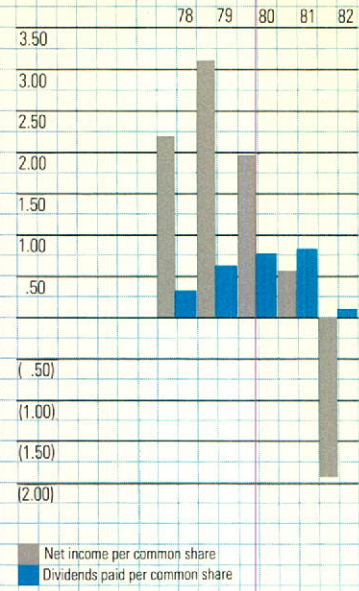
**Sales by Markets** (In millions of dollars)



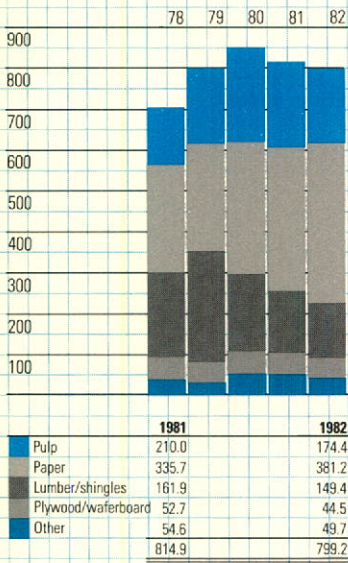
**Return on Sales** (Per cent)



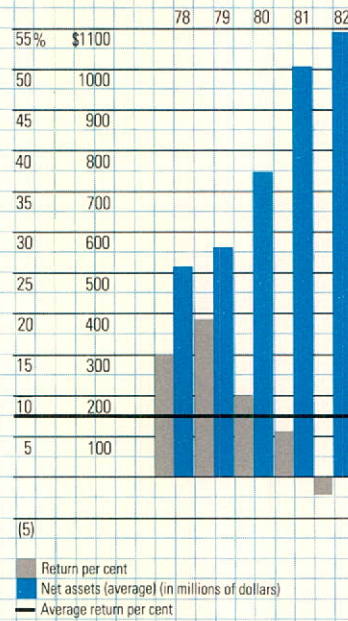
**Earnings and Dividends** (Dollars)



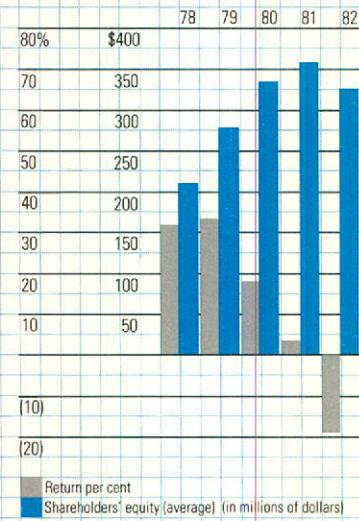
**Sales by Products** (In millions of dollars)



**Return on Net Assets**



**Return on Common Shareholders' Equity**



## FINANCIAL REVIEW

### Statement of Earnings

Net sales for 1982 at \$799.2 million were \$15.8 million lower than 1981 sales as the economic recession continued. Wood products shipments during the year were down from 1981 despite the new capacity of the Grande Cache and Vancouver sawmills and the expanded waferboard facilities in Minnesota. Pulp shipments were lower as a result of weaker demand for market pulp. The volume of newsprint shipped in 1982 increased over 1981 as a result of the start-up of the No. 3 Newsprint Machine at Crofton in June. Prices for all products deteriorated during the year.

Cost of products sold was higher despite lower shipment volumes. At \$718.4 million this amount was the highest ever experienced by the Company both as a percentage of sales (90%) and in total dollars as a result of inflation and depressed product prices.

Depreciation and depletion increased to \$53.1 million as depreciation was taken on new projects completed during the year. These included the No. 3 Newsprint Machine at Crofton and the new sawmills at Hammond and Grande Cache.

Selling and administration expenses of \$23.4 million were lower than in 1981. Strict control over discretionary expenditures, reductions in salaried personnel and a shorter work-week for some employees accounted for the lower costs.

Interest on both long term and short term debt increased to \$86.1 million. Average interest rates were lower in 1982. However, borrowings increased because of continued capital expenditures. Interest is capitalized on major projects during construction but continuing interest charges on capital loans are expensed when the new facilities commence operations. Interest capitalized on projects under construction during 1982 totalled \$15.9 million, compared to \$24.5 million in 1981.

Investment income of \$4.7 million is made up of interest and dividends on investments. The amount of income increased over 1981 mainly because of dividends from The Mead Corporation.

Associate companies suffered losses before taxes totalling \$25.3 million compared to profits of \$6.4 million in 1981. Pinette & Therrien Mills Limited showed a reduced loss for the year but continued to operate at low levels due to the depressed lumber market. Western Forest Products Limited (WFP) and Finlay Forest Industries Ltd. both experienced higher losses in 1982 because of weak lumber markets and the deteriorating pulp market. Deferrals of interest and pre-operating expenses were discontinued for WFP during 1982. The Company considers it prudent to continue to equity account for its investment in WFP. The accounting policies of WFP and the manner in which the Company is accounting for its investment in WFP are described in the Notes to the Consolidated Financial Statements. Although Donohue St-Felicien Inc. remained profitable for the year, the weak markets substantially reduced earnings in the second half.

The gain on disposal of fixed assets for the year of \$2.4 million resulted mainly from the sale of real estate.

Other income in 1982 was down from previous years primarily due to losses on foreign exchange.

The consolidated tax rate for 1982 was 38.8% compared to 25.7% in 1981. The effective rate was higher in 1982 as investment tax credits utilized declined with reduced income levels.

The loss in 1982 was \$61.0 million or \$1.92 per share compared to a 1981 profit of \$17.2 million or 55¢ per share. Earnings reinvested in the business totalled \$248.4 million at December 31, 1982 and were \$66.7 million lower than at the end of 1981. The reduction results from the loss of \$61.0 million, share issue expenses of \$3.8 million and dividends declared during the year of \$1.9 million.

## FINANCIAL REVIEW

### Changes in Financial Position

The 1982 loss resulted in a negative cash flow from operations amounting to \$9.8 million. This cash loss from operations combined with the \$105.3 million capital expenditures resulted in increased debt which was partly repaid from the proceeds of the issue of common shares.

Term loans decreased by a net \$45.2 million and long term funded debt was reduced through sinking fund and mortgage payments of \$8.9 million.

In March 1982 the Company received a demand loan of \$70.0 million from The Mead Corporation. Under the terms of the loan agreement the Company can tender the shares in Mead held by the Company as part payment for the loan. Therefore the share investment in Mead amounting to \$50.7 million has been transferred to current assets.

The Company invested \$13.1 million in long term investments and advances during 1982, including \$10.0 million in Finlay Forest Industries Ltd. convertible preferred shares.

Dividends during the year totalled \$1.9 million. Because of continuing losses common share dividends were suspended in June. Dividends on preferred shares were paid throughout 1982.

Working capital decreased by \$23.0 million. Inventories were lower at the end of 1982 and current liabilities increased because of the loan from The Mead Corporation.

### Financial Position – December 31, 1982

The ratio of current assets to current liabilities dropped to 1.5 at year-end compared to 1.8 at December 31, 1981.

Long term debt decreased during 1982 by \$52.9 million. This debt totalling \$600.4 million at year-end includes 18-month notes due to the bank of \$168.6 million, bankers' acceptances and commercial notes of \$217.1 million which are payable from the proceeds of bank loans which would be due in 18 months and long term funded debt of \$214.7 million.

Deferred income taxes decreased by \$39.8 million to \$71.4 million. The reduction results principally from claiming capital cost allowances for income tax purposes in an amount which is less than depreciation charged to earnings.

In November, 1982, shareholders approved an increase in the authorized common share capital from 40,000,000 common shares to 60,000,000 common shares.

In December the Company completed the issue of 16,940,894 common shares at \$6.50 per share. The net proceeds of this issue amounted to \$106.1 million and increased the paid up common share capital to \$145.5 million. The proceeds of the issue were used to reduce bank indebtedness. The ratio of long term debt to equity at December 31, 1982 was 1.5 compared to 1.8 a year earlier.

Common shareholders' equity at December 31, 1982 was \$394.0 million or \$8.26 per common share for 47,707,015 outstanding common shares. At the end of 1981 common shareholders' equity amounted to \$350.4 million or \$11.41 per common share for 30,724,341 outstanding common shares.

The trading of the Company's shares on the Vancouver, Alberta, Toronto and Montreal Stock Exchanges amounted to 3,588,372 common and 11,860 preferred shares. The price range during 1982 on The Toronto Stock Exchange for common shares was \$12.875 to \$5.375 and for preferred shares, \$28.50 to \$23.00. At year-end there were 5,215 common and 912 preferred shareholders holding 47,707,015 and 128,300 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

In the Annual Report for the year ended December 31, 1982, 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, 1982 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, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada  
January 17, 1983

Thorne Riddell  
*Chartered Accountants*

## CONSOLIDATED STATEMENT OF EARNINGS AND EARNINGS REINVESTED IN THE BUSINESS

For the Year Ended December 31, 1982

(in thousands of dollars)

	<u>1982</u>	<u>1981</u>
<b>Net Sales</b>	\$799,159	\$814,922
Costs and expenses		
Cost of products sold	718,407	681,512
Depreciation and depletion	53,054	40,337
Selling and administration	23,408	25,364
Interest on long term debt	77,123	56,731
Other interest	8,952	5,250
	<u>880,944</u>	<u>809,194</u>
	(81,785)	5,728
Other income		
Investment income	4,650	2,462
Earnings (losses) from associate companies before income taxes	(25,275)	6,410
Gain on disposal of fixed assets	2,420	4,973
Other	349	3,572
<b>Earnings (Loss) Before Income Taxes</b>	<u>(99,641)</u>	<u>23,145</u>
Income taxes		
Current	3,120	(6,882)
Deferred	(39,565)	7,215
Share of income taxes of associate companies	(2,235)	5,625
	<u>(38,680)</u>	<u>5,958</u>
<b>Net Earnings (Loss)</b>	(60,961)	17,187
Per common share	\$(1.92)	\$0.55
Earnings reinvested in the business at beginning of year	<u>315,158</u>	<u>318,294</u>
	254,197	335,481
Deduct common share issue expenses, net of income taxes	<u>3,830</u>	<u>—</u>
	250,367	335,481
Deduct dividends declared		
6% preferred shares	386	392
Common shares	1,537	19,931
	<u>1,923</u>	<u>20,323</u>
<b>Earnings Reinvested in the   Business at End of Year</b>	<u>\$248,444</u>	<u>\$315,158</u>

## CONSOLIDATED BALANCE SHEET

As at December 31, 1982  
(in thousands of dollars)

	<u>1982</u>	<u>1981</u>
<b>Assets</b>		
<b>CURRENT ASSETS</b>		
Cash and short term investments	\$ 1,528	\$ 2,282
Securities (Note 2)	50,744	—
Accounts receivable	113,922	114,896
Income taxes recoverable	—	7,351
Inventories (Note 3)	132,483	141,143
Prepaid expense	9,603	9,213
	<u>308,280</u>	<u>274,885</u>
<b>LONG TERM INVESTMENTS AND ADVANCES</b>		
Investment in associate companies (Note 4)	98,123	126,673
Other investments and advances (Note 2)	13,826	61,729
	<u>111,949</u>	<u>188,402</u>
<b>FIXED ASSETS</b>		
Property, plant and equipment (Note 5)	725,959	672,936
Timber and timber cutting rights less accumulated depletion of \$42,884,000 (1981 - \$39,268,000)	135,538	138,259
	<u>861,497</u>	<u>811,195</u>
<b>UNAMORTIZED DEBT DISCOUNT AND EXPENSES</b>	<u>1,328</u>	<u>1,474</u>
	<u>\$1,283,054</u>	<u>\$1,275,956</u>

Approved by the Directors

*Jan A. Bozdog*

Director

*[Signature]*

Director



As at December 31, 1982  
(in thousands of dollars)

	<u>1982</u>	<u>1981</u>
<b>Liabilities</b>		
<b>CURRENT LIABILITIES</b>		
Bank loans and notes payable (Note 6)	\$ 54,047	\$ 56,689
Loan from The Mead Corporation (Note 2)	70,000	—
Accounts payable and accrued liabilities	73,693	88,603
Dividends payable	97	1,634
Income taxes payable	5,213	—
Current portion of long term debt	7,763	7,490
	<u>210,813</u>	<u>154,416</u>
LONG TERM DEBT (Note 6)	600,402	653,322
DEFERRED INCOME TAXES	71,447	111,248
	<u>672,662</u>	<u>818,986</u>
<b>Shareholders' Equity</b>		
<b>SHARE CAPITAL (Note 7)</b>		
6% cumulative preferred shares of \$50 par value, redeemable at \$53		
Authorized – 240,000 shares		
Outstanding – 128,300 shares (1981 – 130,760 shares)	6,415	6,538
Common shares without par value		
Authorized – 60,000,000 shares (1981 – 40,000,000 shares)		
Outstanding – 47,707,015 shares (1981 – 30,724,341 shares)	145,533	35,274
	<u>151,948</u>	<u>41,812</u>
EARNINGS REINVESTED IN THE BUSINESS	248,444	315,158
	<u>400,392</u>	<u>356,970</u>
	<u>\$1,283,054</u>	<u>\$1,275,956</u>

Commitments and Contingencies  
(Notes 4, 9 and 11)

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1982  
(in thousands of dollars)

	1982	1981
<b>Working capital provided</b>		
Net earnings (loss)	\$ (60,961)	\$ 17,187
Depreciation and depletion	53,054	40,337
Deferred income taxes	(39,565)	7,215
Associate companies		
(Earnings) losses	23,040	(785)
Dividends received	15,750	3,624
Other	(1,155)	(4,673)
<b>Funds from operations</b>	(9,837)	62,905
Per common share	\$(0.32)	\$2.04
Increase in term loans	139,652	237,179
Issue of common shares	106,194	1,072
Reduction in long term investments	50,744	-
Proceeds from disposal of fixed assets	4,330	6,693
Issue of debentures	-	70,452
	<u>291,083</u>	<u>378,301</u>
<b>Working capital applied</b>		
Repayment of long term debt	193,760	86,004
Additions to fixed assets	105,266	219,560
Long term investments and advances	13,073	60,676
Dividends declared	1,923	20,323
Purchase of preferred shares	63	267
	<u>314,085</u>	<u>386,830</u>
<b>Decrease in working capital</b>	23,002	8,529
Working capital at beginning of year	<u>120,469</u>	<u>128,998</u>
<b>Working capital at end of year</b>	<u>\$ 97,467</u>	<u>\$120,469</u>

## CHANGES IN WORKING CAPITAL COMPONENTS

**Current assets – increase (decrease)**

Cash and short term investments	\$ (754)	\$ 1,262
Securities	50,744	-
Accounts receivable	(974)	11,841
Income taxes recoverable	(7,351)	7,351
Inventories	(8,660)	(2,978)
Prepaid expense	390	4,546
	<u>33,395</u>	<u>22,022</u>

**Current liabilities – decrease (increase)**

Bank loans and notes payable	2,642	(38,519)
Loan from The Mead Corporation	(70,000)	-
Accounts payable and accrued liabilities	14,910	1,768
Dividends payable	1,537	4,553
Income taxes payable	(5,213)	347
Current portion of long term debt	(273)	1,300
	<u>(56,397)</u>	<u>(30,551)</u>

**Decrease in working capital**

	<u>\$ 23,002</u>	<u>\$ 8,529</u>
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 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 (33⅓% owned) are accounted for on the equity method, whereby the Company takes into earnings and reflects in the investment account its share of the earnings or loss; dividends received are credited to the investment account. In the statement of earnings the equity in earnings (losses) of associate companies is shown before income taxes with the income taxes shown separately.

*Fixed Assets:*

These assets are stated at cost, which for major expansion projects includes interest on funds borrowed for their construction. 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.

## Note 2

**Other Investments and Advances**

<i>(in thousands of dollars)</i>	<u>1982</u>	<u>1981</u>
Investment in common shares of The Mead Corporation	\$ —	\$ 50,744
Other investments and advances	13,826	10,985
	<u>\$ 13,826</u>	<u>\$ 61,729</u>

In March, 1982 The Mead Corporation, a major shareholder of the Company, made a loan to the Company of \$70,000,000 payable on demand which is interest free to June 30, 1984 and thereafter bears interest at a rate of 8½% below the then current Canadian prime rate of interest. The Company has the option of either paying the loan in cash or in a combination of cash and shares (at an agreed price of \$40.47 per share) which it owns of The Mead Corporation. The investment in shares of The Mead Corporation (\$50,744,000) has been included in current assets as Securities in 1982.

## Note 3

**Inventories**

<i>(in thousands of dollars)</i>	<u>1982</u>	<u>1981</u>
Logs and wood chips	\$ 59,142	\$ 79,382
Lumber, plywood and other wood products	20,020	20,448
Pulp, paper and newsprint	19,427	10,920
Supplies	33,894	30,393
	<u>\$132,483</u>	<u>\$141,143</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 4

## Investment in Associate Companies

<i>(in thousands of dollars)</i>	1982	1981
Investment in shares, at cost	\$123,995	\$103,764
Accumulated equity in net earnings (losses) since acquisition, net of dividends received	(31,976)	5,806
Deferred interest re Western Forest Products Limited, net of amortization	6,104	6,872
Bonds and advances	-	10,231
	<u>\$ 98,123</u>	<u>\$126,673</u>

Condensed financial information for Western Forest Products Limited (Western) and other associate companies accounted for by the equity method is summarized as follows:

<i>(in thousands of dollars)</i>	1982		1981	
	Western	Others	Western	Others
Working capital (deficiency)	\$(356,718)	\$ 21,018	\$(270,730)	\$102,217
Fixed assets	411,144	262,324	403,803	261,377
Deferred charges	34,462	-	32,332	-
Other assets	4,170	8,501	2,641	5,782
	93,058	291,843	168,046	369,376
Less:				
Long term debt	3,321	153,379	5,367	225,652
Deferred taxes	(15,504)	40,310	(3,686)	42,020
Shareholders' equity	<u>\$ 105,241</u>	<u>\$ 98,154</u>	<u>\$166,365</u>	<u>\$101,704</u>
Net Sales	<u>\$ 211,126</u>	<u>\$233,896</u>	<u>\$260,628</u>	<u>\$261,381</u>
Net Earnings (Losses)	<u>\$ (61,124)</u>	<u>\$ (4,973)</u>	<u>\$ (13,635)</u>	<u>\$ 8,352</u>
BCFP's Share of Net Earnings (Losses)	<u>\$ (20,375)</u>	<u>\$ (1,894)</u>	<u>\$ (4,545)</u>	<u>\$ 3,910</u>

The Company has not guaranteed any debts of associate companies at December 31, 1982.

The investment in Western has been increased by the interest cost on the initial \$60 million of borrowings for the first six month period of planning and reorientation. Western deferred all of its expenses net of revenue for that initial six month period. Both companies are amortizing these costs over a five year period to November, 1986. From May 1, 1981 until December 1, 1981 in the case of two sawmills and to January, 1982 for the Squamish pulp mill, the Company and Western deferred interest associated with the original borrowings identified with these operations. On December 1, 1981, Western leased its three sawmills to its shareholders and on January 22, 1982 plans for rebuilding the Squamish mill were suspended; consequently there has been no deferral of costs from those dates.

Western has incurred significant losses since its inception in November, 1980 and is in material default under the loan agreement with its bankers. Accordingly, Western's bank capital loans of \$371,384,000 at October 31, 1982 and \$280,797,000 at October 31, 1981 are included in the working capital deficiency. The financial statements of Western have been prepared on the basis that the company will continue as a going concern. A failure to continue as a going concern would require the assets and liabilities to be stated on a liquidation basis which could differ substantially from the going concern basis. The amount of the ultimate realization of the Company's investment in Western is not determinable and, because the Company has not guaranteed any of the Western loans, the maximum charge to the statement of earnings would be \$44,419,000 at December 31, 1982 and there would be no effect on working capital.

The Company's share of Western's loss for November and December, 1981 of \$1,150,000 is included in the 1982 operating results. The loss of \$4,013,000 for November and December, 1982 will be included in the 1983 operating results.

## Note 5

## Property, Plant and Equipment

<i>(in thousands of dollars)</i>	Accumulated		Net Book Value
	Cost	Depreciation	
<b>1982</b>			
Pulp and paper mills	\$ 648,436	\$233,312	\$415,124
Sawmill, plywood and other wood products plants	316,647	93,993	222,654
Logging buildings and equipment	64,638	35,222	29,416
Logging roads	57,828	24,813	33,015
Other equipment and facilities	27,584	15,705	11,879
Land	13,871	-	13,871
	<u>\$1,129,004</u>	<u>\$403,045</u>	<u>\$725,959</u>
<b>1981</b>			
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>

## Note 6

## Long Term Debt

<i>(in thousands of dollars)</i>	1982	1981
<b>British Columbia Forest Products Limited</b>		
Sinking fund debentures		
Series B, 5½% due 1989	\$ 6,120	\$ 6,246
Series C, 6½% due 1992	9,613	9,748
Series D, 9¾% due 1992	13,026	13,292
Series E, 9% due 1995	29,515	29,903
Series F, 8.95% due 1997 (U.S. \$37,360,000; 1981 – U.S. \$38,680,000)	39,343	40,733
Series G, 11½% due 2001 (U.S. \$60,000,000)	70,896	70,896
	<u>168,513</u>	<u>170,818</u>
Purchase money mortgage due 1983-1990 (U.S. \$29,332,000; 1981 – U.S. \$31,999,000)	31,488	34,351
18-month notes due to bank, secured (including U.S. \$5,000,000; 1981 – U.S. \$10,000,000)	161,367	191,735
Bankers' acceptances and notes payable due in following year	217,100	214,000
Housing development mortgages	2,769	2,913
	<u>581,237</u>	<u>613,817</u>
<b>Blandin Paper Company</b>		
Notes payable, 10⅞% due 1983-1988, unsecured (U.S. \$17,500,000; 1981 – U.S. \$19,750,000)	18,725	21,132
18-month notes, unsecured (U.S. \$6,000,000; 1981 – U.S. \$21,000,000)	7,195	25,127
	<u>25,920</u>	<u>46,259</u>
Less current portion of long term debt (before translation to the prevailing exchange rates)	6,755	6,754
	<u>\$600,402</u>	<u>\$653,322</u>

Long term liabilities in U.S. dollars, aggregating \$155,192,000 at December 31, 1982, 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 1983-1988, at the rate prevailing on the date of acquisition. If the increased premium for the U.S. dollar at December 31, 1982 were to prevail at the various maturities of these debts, the additional foreign exchange cost in terms of Canadian dollars would approximate \$16,800,000. 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.

Subject to certain fixed charges granted on specific assets, the sinking fund debentures are secured by a first floating charge on the assets of the Company. The bank loans, the 18-month bank notes and the bankers' acceptances are secured by a charge on inventory, an assignment of accounts receivable and, in the case of 18-month notes and bankers' acceptances included under long term debt, by a \$350 million second floating charge debenture on all other assets of the Company. 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 (averaging 10.6% on December 31, 1982) 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 to December 31, 1982.

Arrangements with the Company's bankers permit the Company to repay \$217,100,000 of bankers' acceptances and notes payable due in 1983 out of the proceeds of bank loans which would be due 18 months from the date of issue. Accordingly, the bankers' acceptances and notes payable, which bear interest at an average rate of 11.4%, are classified as long term debt.

Payments on long term debt required to 1987 are as follows:

<i>(in thousands of dollars)</i>	
1983 (after adjustment to current rate of exchange)	\$ 7,763
1984	393,900
1985	12,000
1986	12,000
1987	13,000

## Note 7

## Share Capital

*(a) Issue of Additional Common Shares:*

In November, 1982, the authorized common share capital of the Company was increased from 40,000,000 to 60,000,000 shares. In December, 1982, 16,940,894 common shares were issued for aggregate proceeds of \$110,115,800. Issue expenses totalled \$3,830,000, net of income taxes of \$235,000.

*(b) 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 1982, 2,460 shares were purchased and cancelled at an average cost of \$25.73 per share, reducing preferred share capital by \$123,000.

*(c) Share Options:*

At December 31, 1982 there were options outstanding under the term of the Company's Employee Share Option Incentive Plan to purchase an aggregate of 1,292,528 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 \$4.13 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 1982, 41,780 shares were issued under this plan for \$143,000.

*Note 8*

**Related Party Transactions**

Sales to "related parties" (which by definition of the Canadian Institute of Chartered Accountants include The Mead Corporation, Alberta Energy Company Ltd., Noranda Mines Limited to May 31, 1981 and Scott Paper Company, together with their subsidiaries and affiliates) for the years 1982 and 1981 amounted to \$66,286,000 and \$78,955,000 respectively.

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, 1982 was \$16,970,000 and at December 31, 1981 was \$16,456,000. During the year, the Company received a loan of \$70,000,000 from The Mead Corporation as outlined in Note 2.

*Note 9*

**Commitments and Contingencies**

The Company has commenced, under a Forest Management Agreement with the Province of Alberta, a major capital expenditure program with construction costs estimated at \$360,000,000 through 1986. The Company has requested permission from the Alberta Government to delay the construction program by two years. To December 31, 1982 the Company has spent \$54,000,000 on the program.

Except for the foregoing and the contingencies referred to in Notes 4 and 11 the Company has no material commitments or contingencies other than those incurred in the ordinary course of business.

*Note 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. The Company's U.S. subsidiary maintains

various pension plans which cover substantially all of its employees. Based on actuarial evaluations of these plans as of December 31, 1981 and August 1, 1981 respectively there was no unfunded liability for past services.

*Note 11*

**Litigation**

(a) A Settlement Order has been agreed to with the United States Department of Justice and filed with the Court in connection with the Department of Justice's complaint that the acquisition by the Company of Blandin Paper Company contravened U.S. antitrust laws. Due to the statutory waiting period for public comment, the Court cannot approve the proposed Order prior to February 21, 1983. The proposed Order does not require divestiture by the Company of its interest in Blandin Paper Company or divestiture by The Mead Corporation of its interest in the Company as was originally sought, or the payment of any damages.

(b) In September, 1981, the Company and 56 other companies or associations involved in the sale of pulp in Europe received notification from the Commission of the European Economic Community of alleged unlawful concerted sales practices in the sale of pulp within the Common Market. If the alleged conduct of the Company is established, the Commission will seek termination of such practices and the imposition of fines. The Company has actively opposed these proceedings, and hearings were held in 1982. No decision has been rendered as a result of these hearings. The Company is pursuing discussions with the Commission with a view to discontinuing the proceedings.

(c) In October, 1981, the Foreign Investment Review Agency demanded that the Company file notices pursuant to the Foreign Investment Review Act of its acquisition 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 of its acquisition of the Rayonier Canada Division assets of ITT Industries of Canada Ltd. The Company and Western Forest Products Limited have commenced legal proceedings to establish that they are not "non-eligible persons" under the Act.

*Note 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, 1982 (in millions of dollars)	By Industry Segment						By Geographic Region					
	Wood & Wood Products		Pulp & Paper		Services & Other		Consolidated		Canada		United States	
	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981
<b>Revenue</b>												
Sales to external customers	\$223.0	\$245.1	\$555.6	\$545.7	\$ 20.6	\$ 24.1	\$ 799.2	\$ 814.9	\$552.6	\$580.4	\$246.6	\$234.5
Sales to other segments	54.0	64.1	—	—	3.9	5.5			20.7	15.0	—	—
	<u>\$277.0</u>	<u>\$309.2</u>	<u>\$555.6</u>	<u>\$545.7</u>	<u>\$ 24.5</u>	<u>\$ 29.6</u>			<u>\$573.3</u>	<u>\$595.4</u>	<u>\$246.6</u>	<u>\$234.5</u>
<b>Earnings</b>												
Operating profit (loss) before unallocated items including income taxes (below)	\$ (69.2)	\$ (30.1)	\$ 85.2	\$110.3	\$ 2.9	\$ 3.9	\$ 18.9	\$ 84.1	\$ Nil	\$ 60.7	\$ 18.9	\$ 23.4
General and administration							(14.6)	(16.4)				
Interest							(86.1)	(62.0)				
Earnings (losses) from associate companies							(25.3)	6.4				
Other income							7.4	11.0				
Income taxes							38.7	(5.9)				
Net earnings (loss)							<u>\$ (61.0)</u>	<u>\$ 17.2</u>				
<b>Identifiable Assets</b>												
Segment assets	\$527.1	\$543.7	\$578.7	\$519.9	\$ 9.2	\$ 13.1	\$1,115.0	\$1,076.7	\$870.8	\$829.7	\$244.2	\$247.0
Corporate assets							69.9	72.6				
Investment in associate companies							98.1	126.7				
<b>Total Assets</b>							<u>\$1,283.0</u>	<u>\$1,276.0</u>				
<b>Depreciation and Depletion</b>	\$ 27.8	\$ 20.1	\$ 24.0	\$ 19.0	\$ 1.3	\$ 1.2	\$ 53.1	\$ 40.3	\$ 38.4	\$ 30.7	\$ 14.7	\$ 9.6
<b>Additions to Fixed Assets</b>	\$ 39.5	\$111.9	\$ 65.6	\$106.7	\$ .2	\$ 1.0	\$ 105.3	\$ 219.6	\$ 97.2	\$170.5	\$ 8.1	\$ 49.1

## NOTES TO THE STATEMENT OF SEGMENTED INFORMATION

- The Company operates in three industry segments:  
Wood and Wood Products  
Pulp and Paper  
Services and Other
- Sales to other segments are accounted for at prices which approximate market.
- Canadian sales include export sales amounting to \$426.6 million (1981 - \$437.0 million).

## TEN YEAR COMPARATIVE REVIEW

## 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.
5. Common shares: 16,940,894 shares issued for  
\$110,115,800 December 1982.

**B. Completion of major expansion projects**

December 1972: Mackenzie pulp mill.  
June 1982: Crofton No. 3 Newsprint Machine.

**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, an investment in The Mead Corporation which has subsequently been reclassified as a current asset in 1982.

**E. Terms and definitions**

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

**Sales and Earnings (\$000)**

	1982
Net sales	799,159
Cost of products sold	718,407
Depreciation and depletion	53,054
Selling and administration	23,408
Interest on long term debt	77,123
Other (income) and expense	26,808
Earnings before income taxes	(99,641)
Current income taxes	3,120
Deferred income taxes	(39,565)
Income taxes of assoc. companies	(2,235)
Net earnings	(60,961)

**Assets and Capitalization (\$000)**

Current assets	308,280
Current liabilities	210,813
Working capital	97,467
Long term investments and advances	111,949
Property, plant & equipment	1,129,004
Less accumulated depreciation	(403,045)
Timber less depletion	135,538
Deferred charges	1,328
Net assets	1,072,241
Long term debt	600,402
Deferred income taxes	71,447
Preferred share capital	6,415
Common share capital	145,533
Earnings reinvested in the business	248,444
Total capitalization	1,072,241

**Working Capital Statement (\$000)**

Source – operations	(9,837)
– other	300,920
	291,083
Application – plant and equipment	104,301
– timber and land	965
– dividends	1,923
– other	206,896
	314,085
Net increase (decrease) in working capital	(23,002)

**Financial Data**

Common shares outstanding (000)	47,707
Number of common shareholders	5,215
Preferred shares outstanding (000)	128
Number of preferred shareholders	912
Net earnings per common share – \$	(1.92)
Cash flow per common share – \$	(.32)
Equity per common share – \$	8.26
Dividends paid per common share – \$	.10
Price range for common shares	
– high – \$	12.88
– low – \$	5.38
Net earnings to sales – %	(7.6)
Cash flow from operations to sales – %	(1.2)
Return on net assets – %	(2.0)
Return on common shareholders' equity – %	(18.9)
Current ratio	1.5
Ratio of long term debt to equity	1.5

**Production and Other Statistics**

Logs – cubic metres	3,044,000
Lumber – MFBM	629,000
Shingles and shakes – squares	–
Plywood – M sq. ft. $\frac{3}{8}$ "	104,000
Market pulp – air dry tonnes	402,000
Newsprint and specialty papers – tonnes	295,000
Coated paper – short tons	288,000
Waferboard – M sq. ft. $\frac{3}{8}$ "	132,000
Number of employees	7,770



1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
814,922	850,307	799,961	704,140	491,949	392,010	273,426	279,054	253,603	173,830
681,512	680,895	568,970	517,221	375,462	295,304	201,866	201,727	172,148	133,868
40,337	36,839	32,625	31,714	27,121	23,450	19,944	17,334	16,772	11,255
25,364	23,476	20,898	19,334	14,752	13,094	11,361	10,090	10,188	7,968
56,731	31,625	20,978	21,554	14,402	7,833	8,585	8,376	6,209	2,578
(12,167)	(20,091)	(19,490)	(9,859)	(3,528)	135	(425)	(946)	(552)	(3,692)
23,145	97,563	175,980	124,176	63,740	52,194	32,095	42,473	48,838	21,853
(6,882)	10,028	67,640	44,586	24,457	23,560	9,320	12,395	16,400	2,660
7,215	17,895	6,398	7,908	3,102	2,400	6,580	8,685	6,350	7,780
5,625	9,110	5,199	2,656	1,068	64	307	307	623	590
17,187	60,530	96,743	69,026	35,113	26,170	15,888	21,086	25,465	10,823
274,885	252,863	259,658	209,574	170,236	134,176	112,053	105,296	89,651	63,445
154,416	123,865	121,122	86,996	74,436	65,276	57,036	58,284	42,231	45,762
120,469	128,998	138,536	122,578	95,800	68,900	55,017	47,012	47,420	17,683
188,402	129,658	70,395	43,294	42,426	30,022	10,972	11,317	11,757	8,644
1,028,838	817,182	663,631	607,556	567,664	386,430	367,224	344,196	301,786	280,993
(355,902)	(323,607)	(292,032)	(262,786)	(236,140)	(156,999)	(136,580)	(119,080)	(104,918)	(92,125)
138,259	141,023	20,387	22,501	25,404	11,230	13,744	15,134	16,902	18,608
1,474	1,138	1,250	1,364	1,482	1,276	1,378	1,482	1,583	487
1,121,540	894,392	602,167	534,507	496,636	340,859	311,755	300,061	274,530	234,290
653,322	430,965	192,881	208,107	236,512	110,187	101,114	103,500	100,069	88,108
111,248	104,033	85,634	79,236	71,328	67,900	65,500	58,920	50,235	43,885
6,538	6,898	7,258	7,618	7,978	8,338	8,698	9,058	9,418	9,778
35,274	34,202	33,892	33,630	33,480	33,411	33,234	33,202	33,188	32,055
315,158	318,294	282,502	205,916	147,338	121,023	103,209	95,381	81,620	60,464
1,121,540	894,392	602,167	534,507	496,636	340,859	311,755	300,061	274,530	234,290
62,905	113,828	129,667	106,273	63,830	51,377	41,769	47,048	48,875	28,482
315,396	257,163	1,696	961	104,090	15,197	2,713	7,434	44,348	17,860
378,301	370,991	131,363	107,234	167,920	66,574	44,482	54,482	93,223	46,342
218,096	144,430	57,556	42,179	31,886	19,801	23,980	42,355	24,493	31,635
1,464	133,023	740	418	2	205	323	2,208	51	84
20,323	24,738	20,157	10,448	8,798	8,356	8,060	7,325	4,309	2,602
146,947	78,338	36,952	27,411	100,334	24,329	4,114	3,002	34,633	6,916
386,830	380,529	115,405	80,456	141,020	52,691	36,477	54,890	63,486	41,237
(8,529)	(9,538)	15,958	26,778	26,900	13,883	8,005	(408)	29,737	5,105
30,724	30,419	30,349	30,279	30,235	30,212	30,151	30,139	30,136	29,750
4,711	4,411	3,515	3,461	2,908	2,725	2,849	2,917	2,878	2,700
131	138	145	152	160	167	174	181	188	196
972	1,064	1,158	1,268	1,355	1,433	1,538	1,626	1,689	1,775
.55	1.98	3.18	2.27	1.15	.85	.51	.68	.83	.34
2.04	3.73	4.26	3.50	2.10	1.68	1.37	1.54	1.61	.93
11.41	11.59	10.43	7.91	5.98	5.11	4.53	4.27	3.81	3.11
.80	.78	.58	.30	.27	.26	.25	.20	.10	.05
24.00	18.63	14.50	10.63	6.63	6.13	4.31	5.63	6.50	3.19
10.63	11.00	9.44	5.06	4.75	3.88	2.75	2.16	2.97	2.41
2.1	7.1	12.1	9.8	7.1	6.7	5.8	7.6	10.0	6.2
7.7	13.4	16.2	15.1	13.0	13.1	15.3	16.9	19.3	16.4
5.1	10.6	19.0	15.7	10.3	9.2	6.6	8.8	11.3	5.5
4.8	18.0	34.6	32.6	20.7	17.6	11.6	16.9	24.0	11.6
1.8	2.0	2.1	2.4	2.3	2.1	2.0	1.8	2.1	1.4
1.8	1.2	0.6	0.8	1.3	0.7	0.7	0.8	0.8	0.9
4,160,000	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
629,000	766,000	795,000	835,000	812,000	721,000	434,000	474,000	536,000	537,000
68,000	65,000	121,000	135,000	104,000	132,000	96,000	106,000	125,000	102,000
162,000	206,000	205,000	213,000	201,000	190,000	134,000	164,000	194,000	125,000
403,000	468,000	452,000	448,000	382,000	436,000	323,000	423,000	410,000	248,000
236,000	268,000	254,000	253,000	233,000	229,000	175,000	223,000	232,000	211,000
291,000	303,000	308,000	300,000	102,000	—	—	—	—	—
91,000	64,000	66,000	86,000	32,000	—	—	—	—	—
8,245	8,305	8,180	7,895	7,888	6,105	5,105	5,134	5,087	5,096

## CORPORATE INFORMATION

At December 31, 1982

### Board of Directors

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

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*  
The Bentall Group Ltd.  
Vancouver, B.C.

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

Charles D. Dickey, Jr.  
*Chairman of the Board*  
Scott Paper Company  
Philadelphia, Pa.

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

Denham J. Kelsey  
*Consultant*  
Vancouver, B.C.

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

Hector J. McFadyen  
*Vice-President*  
Alberta Energy Company Ltd.  
Calgary, Alberta

James W. McSwiney  
*Director*  
The Mead Corporation  
Dayton, Ohio

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

Burnell R. Roberts  
*Chairman and Chief Executive Officer*  
The Mead Corporation  
Dayton, Ohio

### Head Office

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

### Transfer Agent and Registrar

National Trust Company, Limited  
Vancouver, Calgary, Winnipeg,  
Toronto, Montreal; and its  
agent, The Canada Trust  
Company in Regina and  
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  
Swiftsure 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 Friday, April 22, 1983 in the Social Suite West, Hotel Vancouver, Vancouver, British Columbia, commencing at 12 Noon.

†Member of Audit Committee



