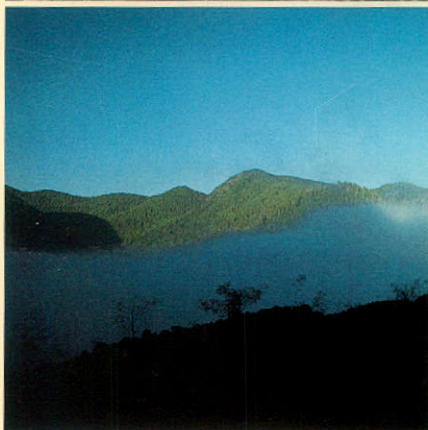
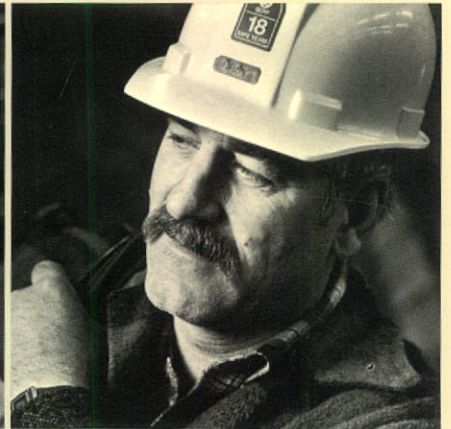


*British Columbia
Forest Products
Limited*

*Annual Report
1983*

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HOWARD BOSS SCHOOL
OF MANAGEMENT
APR 9 1984
MILL UNIVERSITY



Financial Highlights

FOR THE YEAR	1983	1982
Net Sales	\$899,676,000	\$799,159,000
Depreciation and depletion	60,350,000	53,054,000
Earnings (loss) before income taxes	(51,329,000)	(99,641,000)
Income taxes	(18,585,000)	(38,680,000)
Net earnings (loss)	(32,744,000)	(60,961,000)
<i>per common share</i>	\$(.68)	\$(1.92)
Cash from operations	25,539,000	(2,939,000)
<i>per common share</i>	\$0.53	\$(0.09)
Return on net assets	.1%	(2.0)%
Return on common shareholders' equity	(8.7)%	(18.9)%
Dividends paid		
common (1983 — stock dividend)	6,749,000	3,073,000
per share	\$0.14	\$0.10
preferred	369,000	388,000
per share	\$3.00	\$3.00
Capital expenditures	4,277,000	105,266,000
Salaries and wages	212,159,000	197,805,000
Employee benefits	64,001,000	59,897,000
Stumpage and royalty (to governments)	11,254,000	6,837,000
Property taxes	18,836,000	17,002,000
AT YEAR END		
Ratio of current assets to current liabilities	1.7	1.5
Ratio of long term debt to equity	1.6	1.5
Shareholders' equity per common share	\$7.50	\$8.29
Number of common shareholders	5,273	5,215
Number of preferred shareholders	792	912
Number of employees	7,153	7,770
Assets per employee	\$164,000	\$165,100
<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 B, 5½% debentures</i>	74.00	
<i>Series C, 6½% debentures</i>	80.50	
<i>Series D, 9¾% debentures</i>	106.00	

The Company benefitted from a strong economic recovery in the United States during 1983. As the year progressed it resulted in improved conditions for coated paper and market pulp. Negative factors however, were the continued oversupply of lumber and newsprint which had an adverse effect on prices in the U.S. market. The offshore markets, on which the Company product mix is heavily dependent, lagged behind the U.S. in recovery. The net result of these conditions in 1983 was to diminish greatly the Company's losses in comparison to the previous year, leaving much need for improvement in 1984 and subsequent years.

The consolidated net loss for the 12 months ended December 31, 1983 was \$32.7 million or \$.68 per common share compared with the loss of \$61 million or \$1.92 per common share in the previous year. Net sales of \$899.7 million, up from \$799.2 million in 1982, were a record for the Company.

The Company continued intensive efforts in 1983 to reduce overhead costs and increase productivity. The total number of employees working for the Company was substantially reduced from the peak year of 1980. Also, there was emphasis on marketing performance to achieve the best results. However, the decision in 1983 to permanently discontinue operation of the plywood and veneer mills at Victoria and Cowichan was an example that cost restraint and sales effort are not the complete answer to economic problems. Substitute panelboards, which have made large inroads into plywood markets, combined with

the higher manufacturing costs associated with older plants, forced the permanent closure of the two Vancouver Island operations.

The commitment to the completion of capital projects underway at the depth of the recession was an important decision for the Company, despite the burden of increased bank borrowings. The new facilities in 1983 began to show their worth to the Company's future. With the completion of the larger projects in the previous year, the 1983 capital expenditure program was held to only \$4.3 million. Earlier completion of energy-saving projects also proved to be important to the Company.

The recession in the forest industry over the past three years has made it impossible for the Company to finance its \$360 million project in Alberta. After fulfilling the first phase of the project, the building of the Grande Cache sawmill, the Company requested a deferral from the Alberta Provincial Government on the balance of the project. Various alternative plans for the development were considered during 1983 but these too were beyond the financial capacity of the Company. Consequently, in February, 1984, the Company informed the Alberta Provincial Government that it could not complete the remaining phases of the development. The Minister of Natural Resources for the Province of Alberta has informed BCFP of his intention to issue a Notice of Default to the Company in connection with the Berland Forest Management Agreement. The Company expects to receive sufficient cutting rights in the region to operate the Grande Cache sawmill at capacity.

The Company joined in the industry's defense against an application by a group of U.S. softwood lumber producers seeking countervailing duties on Canadian lumber exports to the U.S. After numerous hearings, rulings and appeals, the International Trade Commission denied the application in late May.

The lengthy anti-trust case dating back to BCFP's acquisition of Blandin Paper Company was finally concluded in March 1983 with a successful outcome for the Company which allows it to retain its 100 per cent interest in the Grand Rapids, Minnesota operations. One of the terms of the settlement forbids a director of The Mead Corporation from also being a director of BCFP. Because of this stipulation two of the Company's long-standing directors from Mead, James W. McSwiney and Burnell R. Roberts, did not stand for re-election to the Board in April 1983. Both men have made a significant contribution to the Company and their services will be missed.

The Board vacancies were filled by two senior officers from Mead, A.D. Correll, Jr. and William A. Enouen. During the year two prominent Canadian businessmen, Mr. Ward C. Pitfield and Mr. Raymond Garneau, became members of the Board. The resignation from the Board of Laurent Beaudoin was accepted with regret in June.

Mr. Morris Douglas was appointed Vice-President, Wood Products Marketing during the year succeeding Mr. Kenneth Clark who retired after lengthy service with the Company.

Although there were no cash dividends paid on common shares during the year, a dividend of one share for every 80 common shares held was declared in September.

Two significant business transactions were concluded late in the year. The Company sold its investment in The Mead Corporation for \$54.4 million, using the proceeds, together with additional bank borrowings, to repay a demand loan from Mead of \$70 million. The restructuring of Western Forest Products Limited was also completed by year-end with the sale of partnership units in a new entity, Western Pulp Limited Partnership. The Partnership acquired WFP's pulp mills at Port Alice and Squamish for a \$150 million exchangeable debenture and then issued \$110 million in partnership units to the Canadian public and two chartered banks. As part of the restructuring, the two banks acquired an equity position in WFP, reducing BCFP's common share interest to 19.4 per cent from 33 $\frac{1}{3}$ per cent.

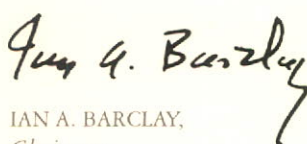
After successfully reaching an agreement in December with the International Woodworkers of America, the industry has not been able to reach a settlement with its two pulp and paper unions. An industry-wide lockout began February 2, 1984 and was still in effect in early March. A successful resolution of the negotiations is essential to the Company's performance over the next few years.

Although there is concern for government deficit spending and high interest rates, the outlook for 1984 is more favorable, with a continued positive growth forecast for the U.S. economy and some improvement in offshore markets. Realization of these forecasts would result in an improvement in the Company's overall performance in 1984. The depth of the recession from which the Company is now emerging has clearly emphasized that reinvestment for cost effectiveness is a necessary criteria for survival and continued growth.

On behalf of the Board,



KENNETH P. BENSON,
President and Chief Executive Officer



IAN A. BARCLAY,
Chairman

March 5, 1984

FORESTRY AND WOOD SUPPLY

A total of 6.3 million seedlings were planted on Crown and private timberlands on the Coast, in Mackenzie and Alberta. Basic and intensive forestry projects were completed on a total of 12,740 hectares.

The Mount Newton Seed Orchard on Vancouver Island, jointly operated by BCFP and Crown Forest Industries Limited, completed its first full year of operation. Three of a

total of five orchards were planted during the year and planning for irrigation and drainage on the remaining plots is underway.

Incentives offered under Section 88 of the provincial Forest Act provided funding for intensive forestry programs conducted during a year of budgetary constraints.

The Company continued to participate in federal and provincial government employment assistance

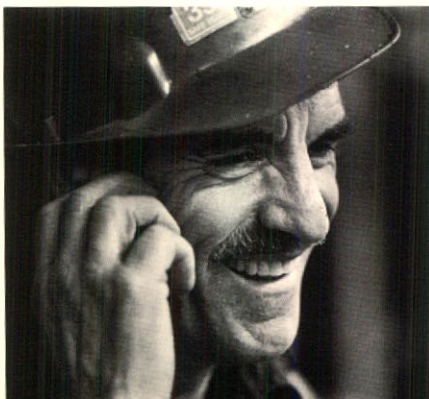
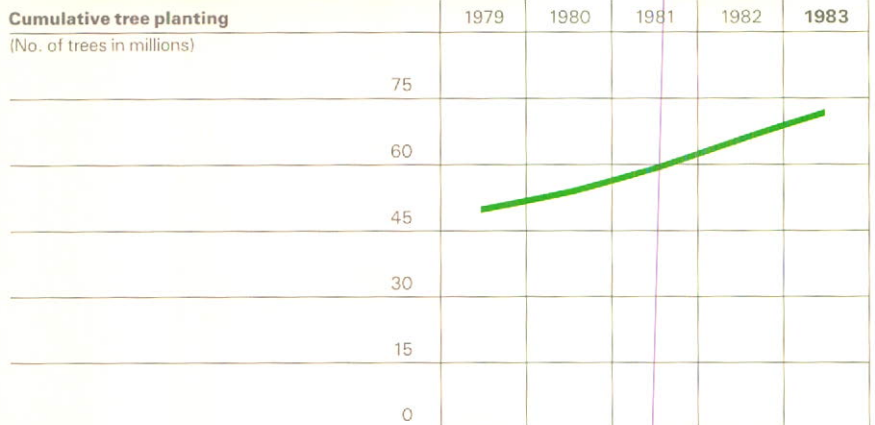
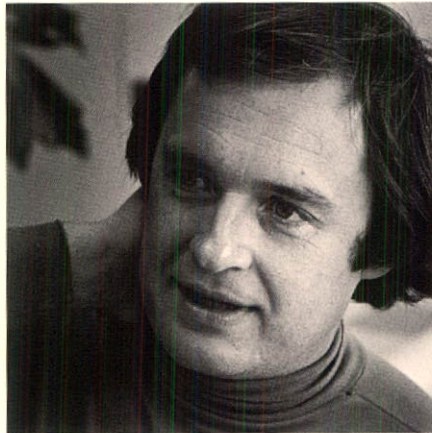
programs providing temporary work opportunities totalling over 11,000 man-weeks.

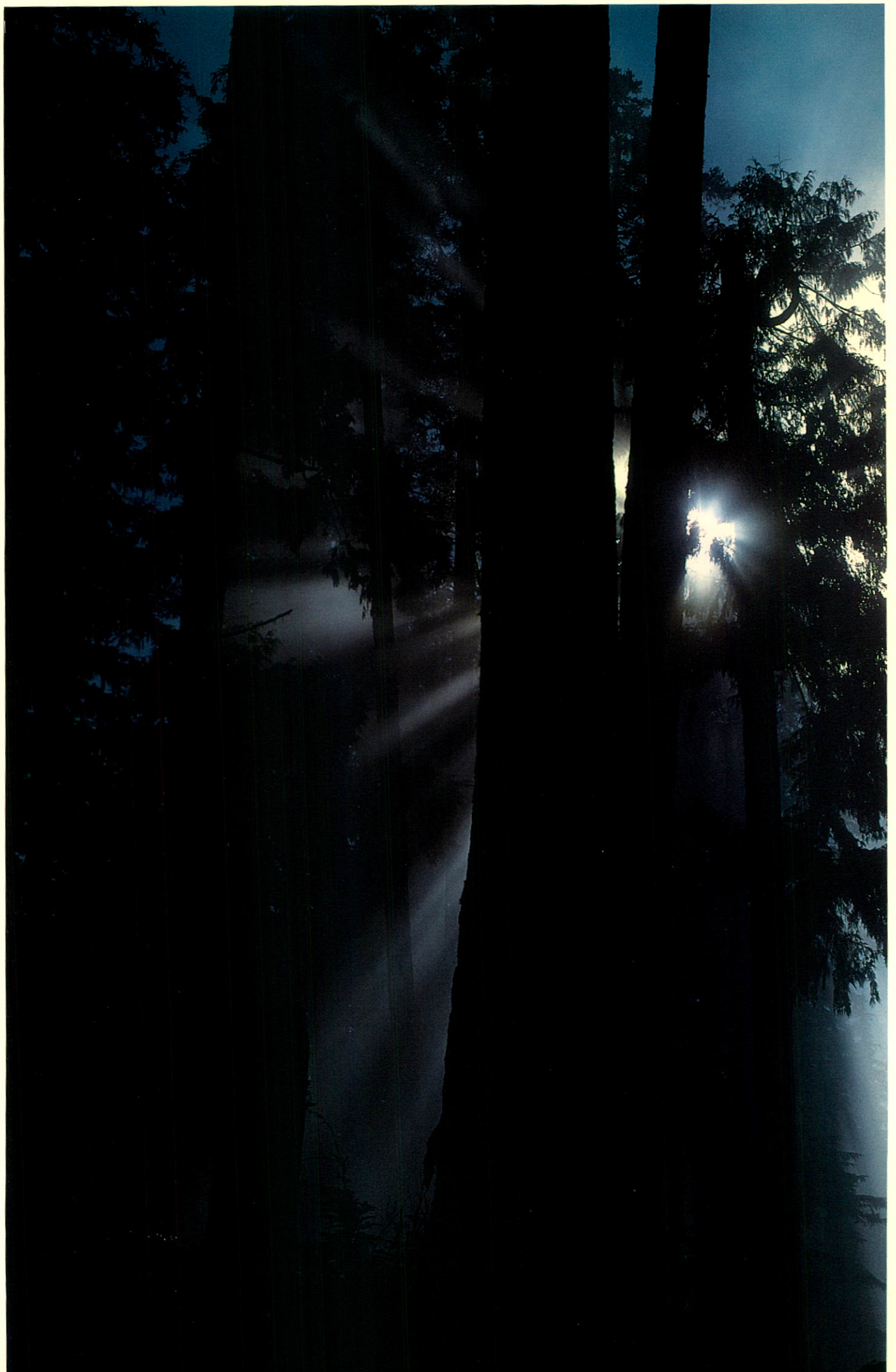
Mild weather and moderating economic conditions led to the Company's most active logging year since 1979 with total log production amounting to 5.01 million cubic metres.

The 20 operations comprising the Company's Coast logging sector produced a harvest of 2.9 million cubic

R *eplenishing the resource*

Future forests are nurtured decades before they reach economic maturity. At the Mount Newton Seed Orchard, the hand of science helps determine the most desirable stock for the years ahead. BCFP's experienced foresters and engineers plan for the new growth which will eventually provide the raw materials for the Company's manufacturing facilities. In keeping with BCFP's forest management practices, 6.3 million seedlings were planted on timberlands owned by or under the care of the Company during 1983.





metres in 1983 rebounding from the low level of 1.84 million cubic metres logged during the previous year.

Responding to marketplace demand and better product values, Cedar was the preferred species representing approximately 36 per cent of production. Under pressure of generally weak lumber prices, efforts to reduce Coast logging costs were intensified with positive results.

Relocation of Port Renfrew

Division's headquarters to Gordon River, near Lake Cowichan, to reduce operating costs was completed during the year resulting in the permanent closure of the former camp and dry land sort facilities. The division's production is now processed at dry land sorts at Honey-moon Bay and Shoal Islands.

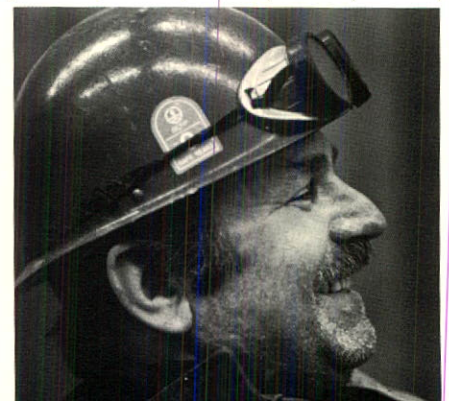
Logging in the Fraser Canyon began in June after an 11-month shutdown of the Boston Bar sawmill.

Record monthly production was achieved in August and September leading to total production for 1983 of 281,000 cubic metres.

In the Interior, logging at Mackenzie was reactivated swiftly in early 1983 in response to the reopening of the Company's three sawmills which also had been curtailed due to poor market conditions. Log production rose to 1.5 million cubic metres compared with

Harvesting the forest

The forest lands of British Columbia offer a bountiful harvest of timber for the Company's manufacturing operations. With 29 logging divisions in B.C. and Alberta, the production of logs is a dynamic aspect in a chain of integrated activities. The raw terrain of Coastal inlets and valleys provides a challenge to the Company's engineers and foresters as they develop a network of roads to access the resource while considering the environmental impact of their work. Most of the logging operations are near tidewater or large lakes, providing an economic transportation route to BCFP's mills. In the B.C. Interior and Alberta, the cutting of smaller diameter trees is accomplished with the help of mechanical harvesters and delimiters. New advances in that equipment were successfully introduced into the Company's Mackenzie and Grand Cache, Alberta logging divisions during the year.



the previous year's level of 891,000 cubic metres.

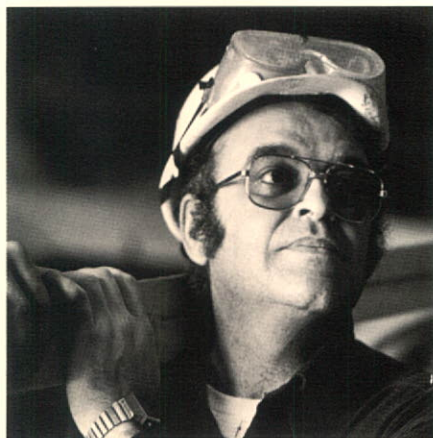
An advance in mechanical harvesting which reduces wood damage by substituting a circular saw in place of the customary cutting shears was introduced at both Mackenzie and Grande Cache, Alberta resulting in improved log quality. The annual production at Grande Cache reached 282,000 cubic metres in comparison with

142,000 cubic metres in 1982.

The supply of wood chips, a sawmilling by-product essential for the manufacture of pulp, continued to be out of balance for most of the year. On the Coast chip prices fell substantially over the year paralleling the drop in pulp prices. An oversupply of chips which existed at Mackenzie at the start of the year was only partially corrected as increased pulp production was offset by record

lumber manufacture.

Swiftsure, the Company's wholly-owned marine subsidiary based in New Westminster, experienced a reduction in towing volumes due to a decline in business from other forest product companies. Swiftsure's tug fleet towed 1.64 million cubic metres of logs in 1983 compared with 1.93 million cubic metres in the previous year. The Company's two log barges completed 10 fewer



trips during the year dropping to 115 trips from the previous year's 125 trips.

WOOD PRODUCTS

Record high production volumes, partially offset by low prices and fluctuating demand, resulted in improved performance for the wood products sector over the previous two years. However, further market improvement is required for Coastal operations to be profitable.

U.S. housing starts improved substantially to 1.7 million units in 1983 compared with 1.1 million units in 1982. The improved activity and better prices resulted in the startup of Boston Bar and Victoria sawmills at mid-year, both of which had been closed for nearly a year due to poor markets.

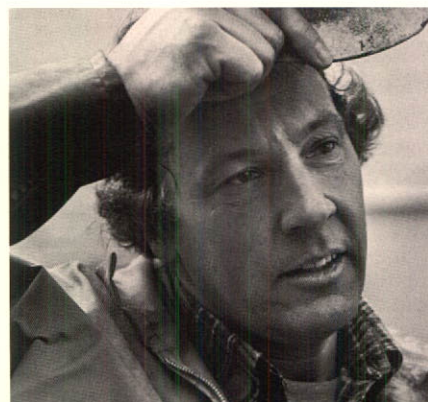
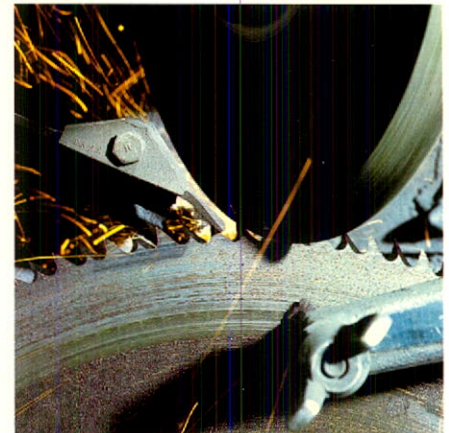
Unfortunately, the market improvement resulted in large production volumes entering the U.S. and

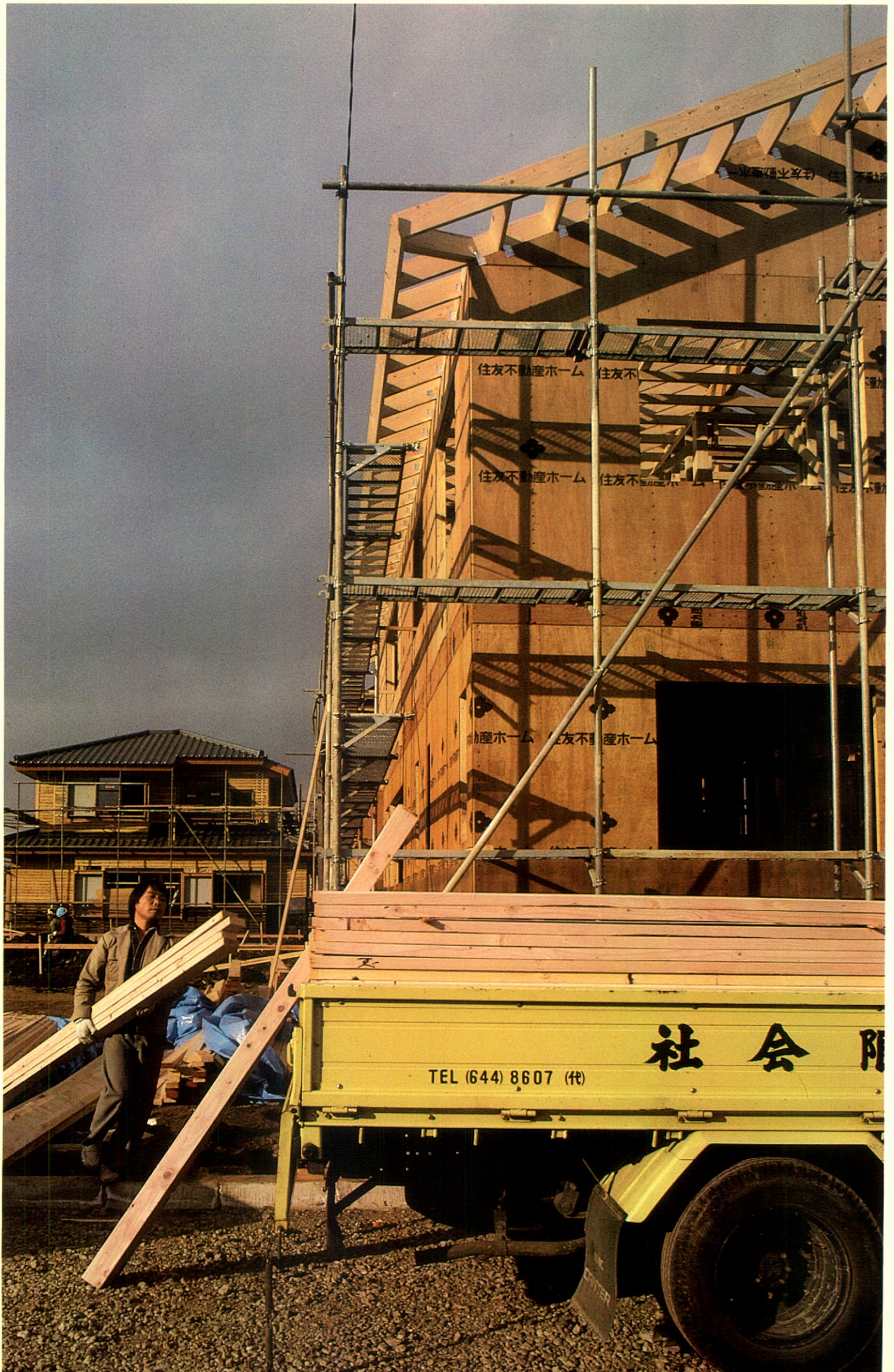
prices dropped severely in the third quarter. Oversupply in North America spilled over to overseas markets and in combination with the adverse effect of the strong U.S. dollar, prices were depressed to unsatisfactory levels. Vancouver Sawmill Division began a three-month shutdown in October due to losses incurred by low price levels.

The Company completed its first lumber sale to the People's Republic

Wood for a growing world

Western-style construction, with some traditional touches, helps the Company's overseas marketing efforts in Japan. While exports of lumber to the Orient declined during 1983, expansion of the Japanese and Chinese markets in future will help broaden the Company's sales base. Currently, North America comprises the largest single market for lumber, accounting for 70 per cent of total exports. One of the bright spots during the year for wood products in an otherwise difficult year was the sale of 12.8 million board feet of timbers to the People's Republic of China — a first for the Company. BCFP operates 9 sawmills and one plywood plant in B.C. and one sawmill in Alberta. The Company has kept pace with changing sawmilling technology, utilizing advances in computerization and electronics to increase product output and recovery. These developments helped establish record production during 1983 of a total 899 million board feet.





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of China. Three shipments totalling 12.8 million board feet of timbers produced by the Company's Cowichan, Boston Bar and Victoria divisions were shipped to Chinese ports.

Sawmills operated at near-record rates of production during the year. Total production was 899 million board feet compared with 629 million board feet in the previous year. Record productivity levels were established at Boston Bar,

Hammond, Tilbury, Victoria and Cowichan.

The new Hammond and Grande Cache sawmills completed their first full year of operation with improved productivity. Both divisions encountered the usual production problems associated with new sawmills but approached capacity levels of operation by year-end.

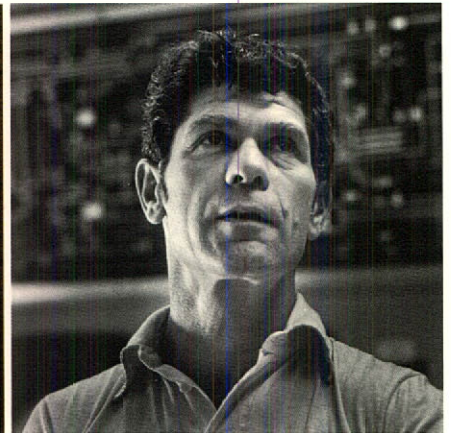
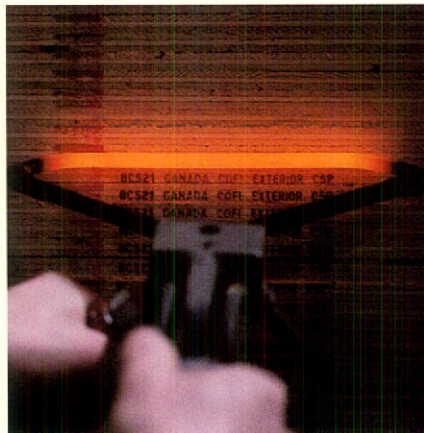
The falling demand for plywood continued in 1983 as consumers

shifted away from the product in favor of less expensive substitutes. This trend resulted in the permanent closure of Victoria Plywood and Cowichan Veneer in June. The two Vancouver Island plants had been idle for almost a year due to adverse market conditions.

The Company's remaining plywood operation, Delta Plywood, moderated its losses by raising the production of sanded and select

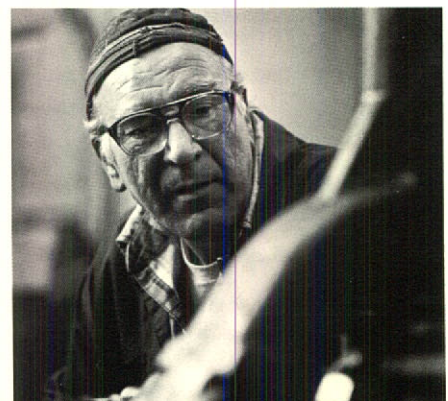
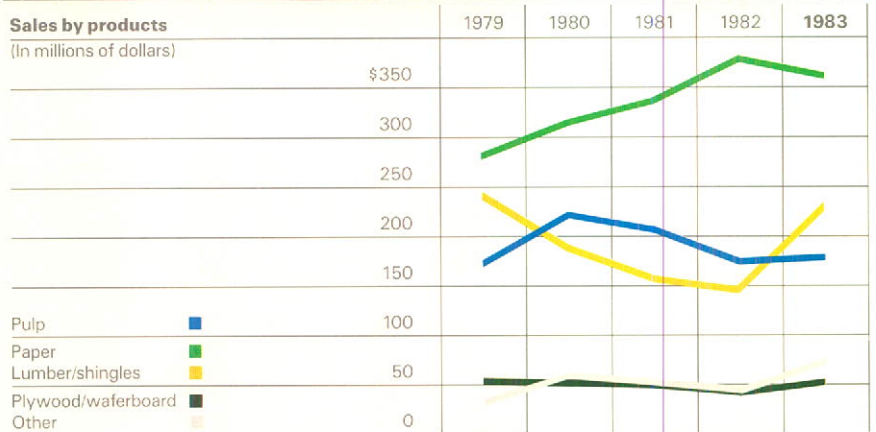
The wheel of production

The integrated activities of the Company forge a link between forestry, logging and manufacturing. From the point of harvest, the felled tree begins a process which will see its eventual conversion into a useful product. For example, the by-products left from sawmilling become the essential raw materials for pulp and paper production. And the remaining waste wood is used as a fuel source to produce electrical energy. The Company's investment in new manufacturing technology and energy conservation programs has resulted in a greater rate of utilization in recent years.



Sales by products

(In millions of dollars)



grades from lower quality logs.

PULP AND PAPER

The Company's pulp and newsprint operations opened the year facing weak market conditions in North America and overseas.

Pulp markets began firming during the third quarter and continued to improve through year end as economic conditions in the U.S. recovered.

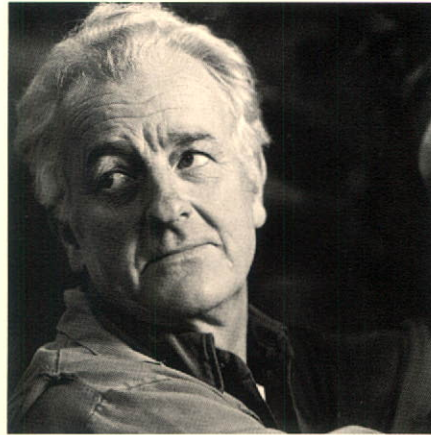
In spite of difficult markets, both

Crofton and Mackenzie pulp mills operated at high levels for most of the year. Combined production of both mills totalled 456,000 tonnes compared with 402,000 tonnes in the previous year.

Some price recovery was achieved in U.S., European and Japanese markets during the second quarter. Further price increases in those markets became effective in the first quarter of 1984.

While pulp demand was improving, the main obstacle to price increases in Europe and Japan continued to be the relative strength of the U.S. dollar.

For newsprint, 1983 was a disappointing and difficult year. Consumption remained static at 1982 levels and overcapacity on the West Coast resulted in production curtailments at Crofton to adjust inventories. Consequently, newsprint pro-



duction operated at 75 per cent of capacity even though actual shipments increased by 40,000 tonnes to a record 332,000 tonnes. No. 3 newsprint machine completed its first full operating year achieving excellent quality at speeds of 3,400 feet per minute.

Competitive pressures forced newsprint prices down five per cent per tonne in the U.S. during the year but as market conditions improved

slightly at year-end an increase was announced for March 1, 1984.

With no major capital projects underway during 1983, emphasis shifted to cost reduction and plant maintenance programs in preparation for anticipated market recovery. Manufacturing cost reduction programs, notably in the areas of productivity and energy conservation, were very successful at Crofton and Mackenzie.

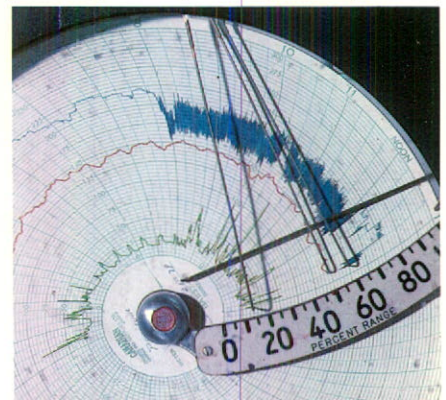
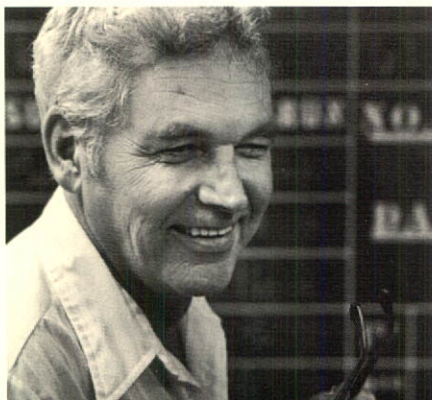
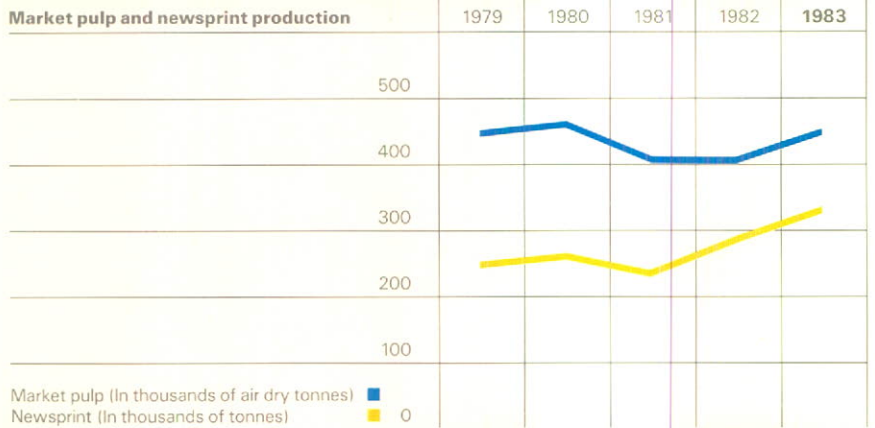
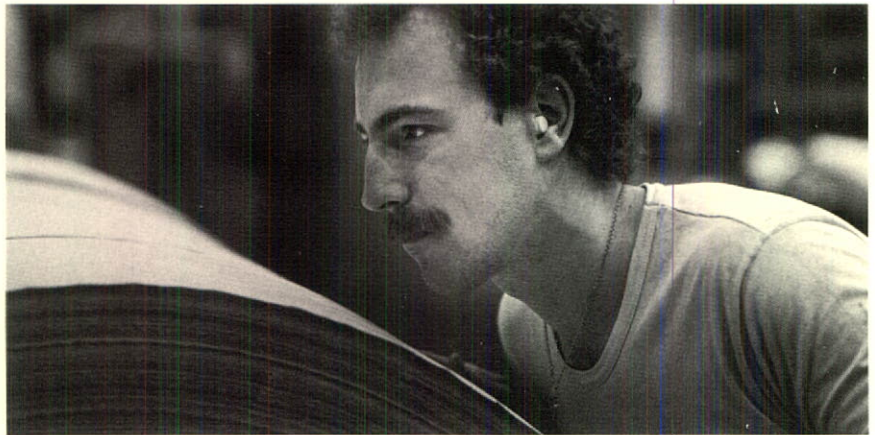
BLANDIN PAPER COMPANY

Lightweight coated paper production at the Company's wholly-owned subsidiary in Grand Rapids, Minnesota, declined to 276,000 short tons during 1983 compared with production of 288,000 short tons in the previous year.

A coating machine which had become uncompetitive on a quality basis was shut down in 1982 removing 33,000 short tons from

Exports of quality

With a glorious history of merchant fleets behind it, the Netherlands is a natural starting place for the inland waterways of Europe. Located on the Nieuwe Maas, the city and port of Rotterdam is one Continental delivery point for BCFP's market pulp. The familiar low-slung barges travel a network of canals and rivers to carry the Company's pulp to its final destination. Market conditions for pulp and newsprint were difficult during 1983 but both Crofton and Mackenzie mills operated near capacity. Newsprint supply continued to exceed demand, however Crofton's new No. 3 news machine produced excellent results in high-speed performance and quality.





annual capacity. This loss was largely offset by improved performance from the remaining four machines.

In addition to the strong operating performance, price levels for lightweight coated paper which dropped early in 1983 were restored during the fourth quarter as market conditions improved. A further price increase was introduced in January, 1984.

A three-year collective agreement

between Blandin and the Independent Union of Paper Mill Workers was successfully concluded in August.

Blandin Wood Products new waferboard plant completed its second full year of operation, producing 216 million square feet (3/8 inch basis) of aspen waferboard compared with the 132 million square feet produced in its startup year.

Demand for waferboard gained

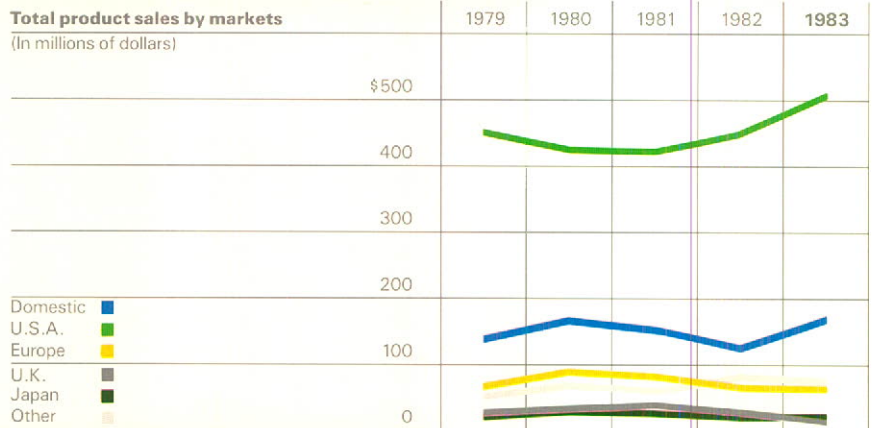
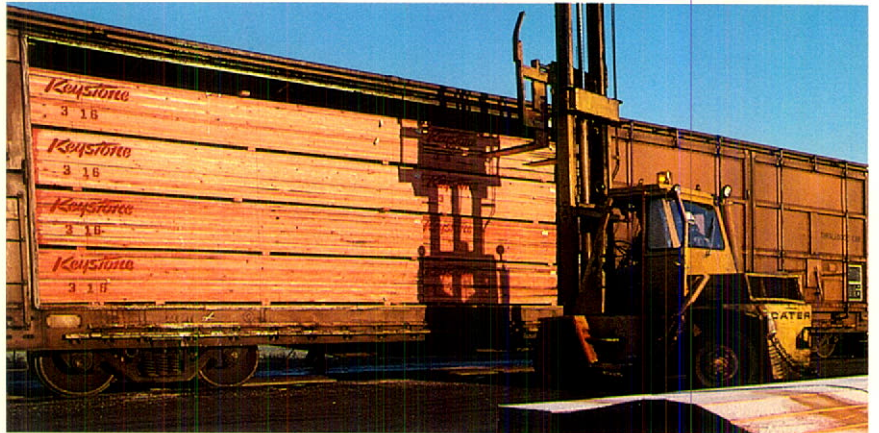
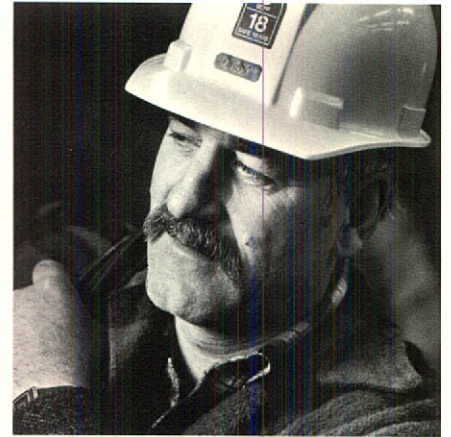
some strength early in the year but softened considerably by the fourth quarter. Prices were depressed under competitive pressure from new capacity.

FRASER RIVER PILE DRIVING LIMITED
The Company's wholly-owned marine construction subsidiary in New Westminster, B.C. completed 497 individual projects during 1983, virtually unchanged from the previous year. While the economy

F

rom mill to market

The delivery of finished products to destinations all over the world, on time, and in top condition is key to the marketing of all of the Company's product lines. Thousands of rail cars and over 200 ships carried away BCFP's forest products during 1983. It was a full year for the Company's chartered newsprint vessel Ferncroft. Carrying Crofton newsprint to ports in California the 5000 ton Ferncroft completed 32 voyages with 123,000 tonnes of newsprint. Swiftsure, the Company's wholly-owned marine transportation subsidiary was also busy on Coastal waterways towing logs and barges for BCFP and other forest product companies.



has slowed construction in general, FRPD was prominent in a number of high-profile building sites including dredging and foreshore work at False Creek as part of the Expo 86 development.

TRANSPORTATION

Raw materials and finished goods moved in and out of the Company's mills at record levels during 1983. Over 10,000 rail cars were loaded at BCFP's divisions and 219 ships,

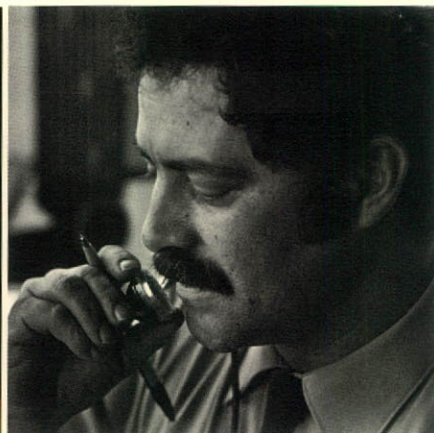
including the charter vessel Ferncroft, called at the Crofton dock complex during the year.

While the recession was hurting product sales, it did enable the Company to negotiate excellent water carrier freight rates for lumber, pulp and newsprint bound for ports on the U.S. East Coast, Asia, Europe, Australia and South America.

Deregulation, which has been gathering momentum in the U.S.,

together with competition from water carriers, contributed to substantial rail rate reductions.

The Ferncroft, which was put into service in August, 1982, completed its first full year of carrying newsprint from Crofton to California markets. During 1983 the Ferncroft completed 32 voyages, carrying a total 123,000 tonnes of newsprint for an average load of 3,800 tonnes per voyage. The ship's loading rate



was increased to 275 tonnes per hour from 250 tonnes per hour in 1982.

Total shipments of lumber leaving the Crofton docks in other vessels during the year totalled 298 million board feet, down slightly from 308 million board feet in the previous year.

EMPLOYEE RELATIONS

Negotiations with forest industry unions continued on several fronts during 1983 with the expiration of major labor agreements.

An agreement, the first between the Company and its Grande Cache Sawmill hourly employees, was successfully concluded in May with the International Woodworkers of America.

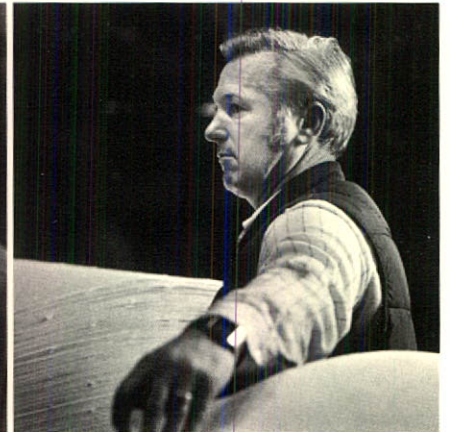
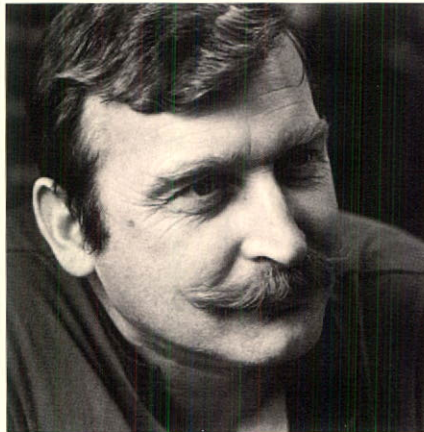
On the Coast, negotiations between the three unions and industry were protracted and difficult. Negotiations and the assistance of an outside mediator led to an agreement with the largest of the

three unions on December 9, 1983. The agreement between Forest Industrial Relations, representing the industry, and the IWA, provides for a three-year contract with no wage increases in the first year, followed by increases of four per cent and four and one-half per cent in the succeeding years.

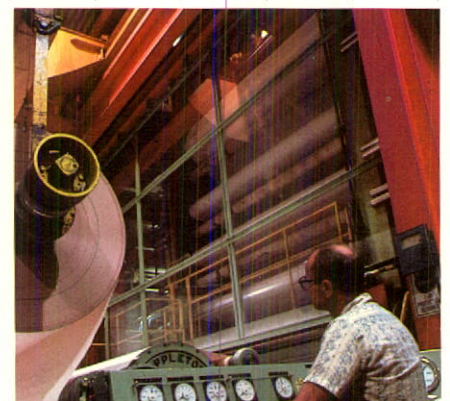
Negotiations with the Pulp, Paper and Woodworkers of Canada, and the Canadian Paperworkers

Carrying the message

In a busy world, the magazine has retained its importance as a communication vehicle. Far from the bustle of New York City, lightweight coated paper is produced at the Company's wholly-owned subsidiary in Grand Rapids, Minnesota. With major markets in the large U.S. publishing centres of Chicago and New York, Blandin paper is used to print many of the world's most familiar magazines and catalogues. After four years of difficult market conditions caused by recession and overcapacity, coated paper sales and prices improved by the end of 1983. Blandin's four paper machines produced 276,000 short tons during the year.



Coated paper production
(In thousands of short tons)





Union, were at an impasse at year-end which resulted in an industry-wide lockout in February, 1984.

Meetings with the PPWC concerning a new collective agreement for Mackenzie Wood Products were held over the summer and early fall. Discussions were adjourned pending finalization of an industry settlement.

The displacement of 230 employees as the result of the permanent closure of Victoria Plywood

and Cowichan Veneer in June prompted a Company initiative to relocate personnel in other BCFP divisions or to aid in their search for alternate employment. The success rate of the program exceeded 90 per cent.

ASSOCIATED COMPANIES

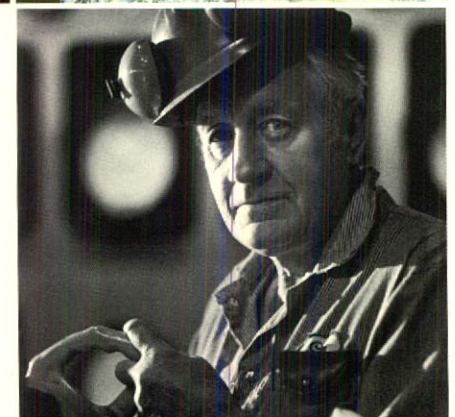
Improved pulp sales permitted the Donohue St-Felicien Inc. pulp mill to operate at record levels. DSF is 45 per cent owned by the Company.

Production of 283,000 tonnes was up substantially from the 247,000 tonnes produced in 1982 and was the highest level of output in the mill's five-year history. A record high monthly average of 880 tonnes per day was set in November.

Reflecting the acquisition of La Doré sawmill, and improved operation at Chibougamau, St-Thomas and Girardville, lumber production rose to 279 million board feet in

M^{eeting the challenge}

The formula for a successful company must include the very sizable contribution made to the enterprise by its employees. While capital formation, raw materials, efficient mills and secure markets are essential, the performance and vitality of a company like BCFP is dependent on a skilled workforce. This was never more apparent than in 1983 when the continuing recession placed extreme pressure on the Company and its employees. The response by employees was excellent and many accomplishments were achieved despite the difficult economic conditions. The pages of this year's annual report contain photographs of employees who are representative of the total 7,153 men and women who apply their skills and labor to the Company every day.



1983 compared with 147 million board feet in the previous year.

Finlay Forest Industries Ltd. operated its refiner groundwood mill and two sawmills at Mackenzie during 1983 under difficult market conditions.

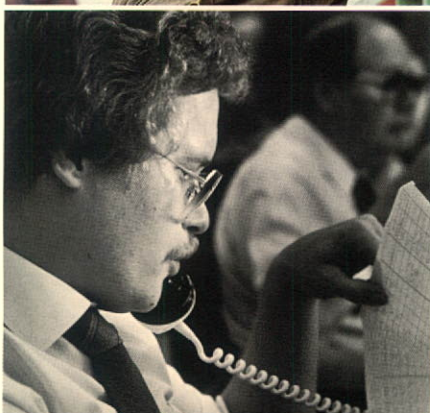
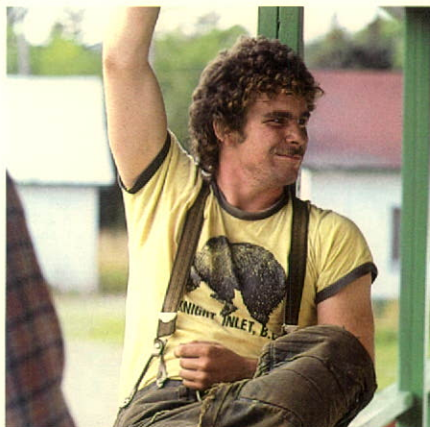
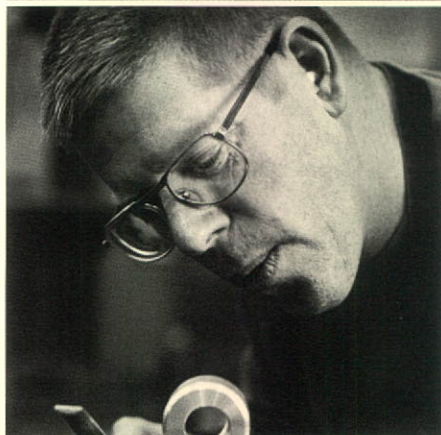
Reduced demand for refiner pulp resulted in below capacity production. Total pulp production was 100,000 tonnes compared with 101,000 tonnes in 1982. Lumber

production rose to 173.9 million board feet during 1983, compared with 134.2 million in the previous year. FFI is 42.7 per cent owned by the Company.

Pinette & Therrien Mills Limited operated well producing 144.9 million board feet of studs, dimension lumber, railway ties and finger-jointed stock compared with total production of 114.5 million in 1982.

Based in Williams Lake, Pinette & Therrien operated its stud mill on a three-shift basis during the year while the adjoining dimension sawmill was curtailed to single-shift operation. P&T is 50 per cent owned by the Company.

Lower selling prices and high inventories resulted in another difficult year for Western Forest Products Limited (WFP). Total production of 185,000 tonnes, consisting of



103,000 tonnes of dissolving sulphite pulp and 82,000 tonnes of sulphate pulp was slightly lower than the total 193,000 tonnes produced during the previous fiscal year ending October 31. As noted in the Report to Shareholders, BCFP's interest in WFP has been reduced to 19.4 per cent from 33 1/3 per cent as a result of the financial restructuring of WFP.

Effective cost reduction programs

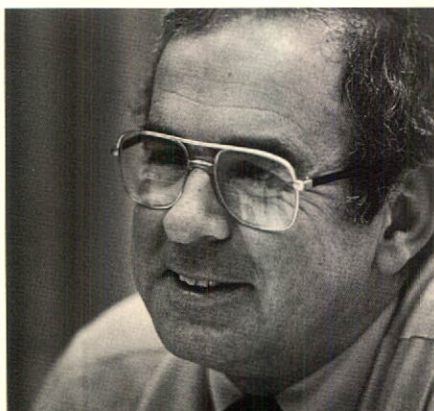
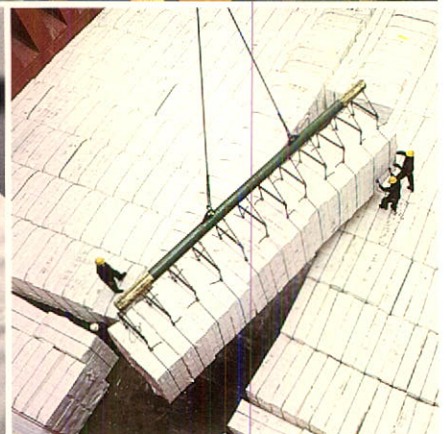
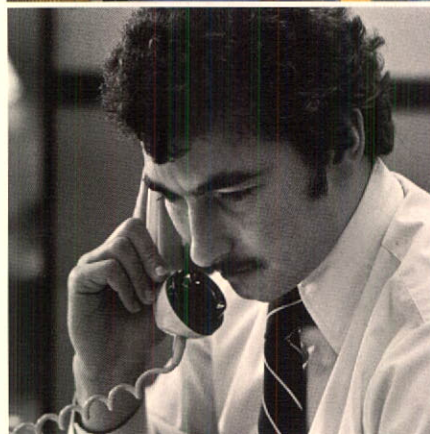
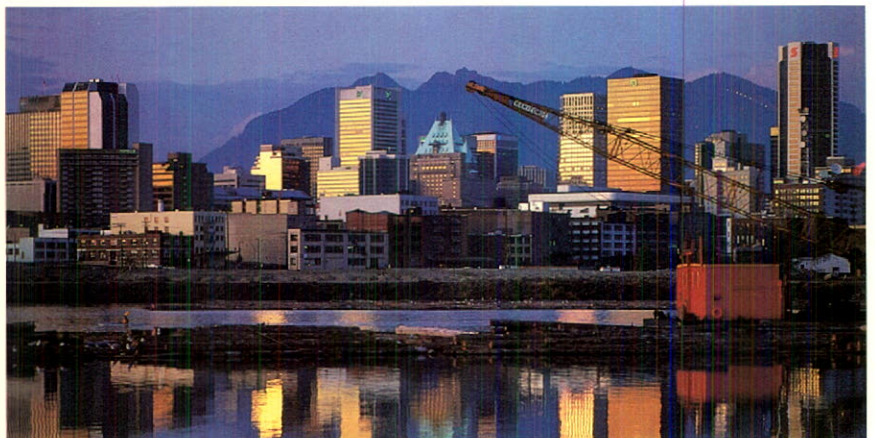
at pulp mill operations at Port Alice and Squamish were continued through 1983, however poor market conditions still forced production curtailments.

Improvement in sales and earnings will be the cornerstone for a modernization plan at Squamish over the next two and one-half years. Croftech Inc., BCFP's wholly-owned project engineering group, will manage the mill's rebuild program

for Western Pulp Limited Partnership which acquired WFP's pulp mills at year-end. BCFP also has a contract to manage the Partnership up to March 31, 1987.

*E*xtending a hand

Whether driving foundation piles on Vancouver's False Creek or producing kraft pulp in Northern Quebec, BCFP's subsidiaries and partly-owned companies help contribute to overall performance. Record production of 283,000 tonnes of kraft pulp was produced by Donohue St-Felicien in its best performance since opening five years ago. Many of BCFP's associated forest product companies were feeling the pinch of economic downturn during 1983. Fraser River Pile Driving Limited played a role in shaping Vancouver's new waterfront development which is being readied for a world exposition in 1986.



Financial Section

*British Columbia
Forest Products
Limited*

Financial Review

STATEMENT OF EARNINGS

Net sales for 1983 at \$899.7 were \$100.5 million higher than 1982 as the improving economy allowed a return to more normal operating levels. Shipments of lumber were higher and average prices were better because of a strong U.S. rail market early in the year. Pulp and newsprint shipments improved but were offset by lower sales prices during the year, particularly for pulp.

Cost of products sold increased over 1982 because of higher production and shipments. The cost of products sold at \$781.6 million was 87% of sales, 3% lower than in 1982.

Depreciation and depletion increased to \$60.4 million as depreciation was taken for a full year in 1983 on new projects completed during 1982. These include the No. 3 newsprint machine at Crofton and the new Hammond and Grande Cache sawmills.

Selling and administration expenses of \$24.5 million were higher because of increased sales commissions on higher sales. Administration expenses were held at 1982 levels as discretionary expenditures continued to be strictly controlled.

Interest on both long term and short term debt decreased to \$70.4 million because of lower average interest rates and lower debt resulting from the common share issue in December of 1982. Interest is capitalized on major projects during construction but continuing interest charges on capital loans are expensed when the new facilities commence operation. No interest was capitalized in 1983 as all major projects were complete although \$15.9 million was capitalized in 1982.

The Company's share of losses before taxes from associate companies decreased to \$17.0 million in 1983 from losses of \$25.3 million in 1982. Pinette & Therrien Mills Limited showed a profit for the year as a result of the strong lumber market in the U.S. early in the year. Finlay Forest Industries Ltd. experienced a lower loss in 1983 because of improved earnings from lumber. Western Forest Products Limited (WFP) also had a lower loss in 1983 chiefly because of lower interest costs and higher earnings from log sales. The Company continued in 1983 to account for its investment in WFP using the equity method. The restructuring of WFP in late 1983 and the resulting effect on the Company's accounting for its investment in WFP are described in the Notes to Consolidated Financial Statements. Although Donohue St-Felicien Inc. remained profitable for the year, the lower prices for kraft pulp reduced earnings in spite of improved results from lumber sales.

Investment and other income was lower in 1983 as the costs of permanent closure of Victoria Plywood and Cowichan Veneer of \$4.8 million were netted against investment and other income. These costs were partly offset by a \$3.7 million gain on the sale of the investment in shares of The Mead Corporation. Interest and dividend income were also lower in 1983.

The consolidated tax rate for 1983 was 36.2% compared to 38.8% in 1982.

The loss in 1983 was \$32.7 million or 68¢ per share compared to a 1982 loss of \$61.0 million or \$1.92 per share. Earnings reinvested in the business totalled \$210.3 million at December 31, 1983 and were \$39.8 million lower than at the end of 1982. This reduction results from the loss of \$32.7 million and dividends declared during the year of \$7.1 million.

CHANGES IN FINANCIAL POSITION

In spite of a loss in 1983, cash flow from operations at \$25.5 million provided the Company with sufficient funds to make required debt repayments and pay for essential capital expenditures without increasing long term debt. The Company's net operating loans at year end remained unchanged during 1983 at \$52.6 million and payments of \$10.1 million were made on long-term debt.

In December 1983, the Company sold its investment in shares of The Mead Corporation for \$54.4 million. The proceeds, together with additional bank borrowings, were used to repay a \$70.0 million demand loan from Mead.

Capital expenditures in 1983 were only \$4.3 million, sharply down from \$105.3 million in 1982. All major capital expenditures were completed during 1982 and only small projects essential for continued operation were done in 1983.

Dividends on preferred shares in both 1983 and 1982 were \$.4 million. Cash dividends on common shares were suspended in June, 1982 because of continuing losses.

Operating working capital, included in Cash from Operations for 1983, provided \$6.4 million as increased wood product accounts receivable and inventories were more than offset by higher accounts payable.

FINANCIAL POSITION

The ratio of current assets to current liabilities improved to 1.7 at year end compared to 1.5 at December 31, 1982.

Long term debt decreased during 1983 by \$9.5 million. This debt, totalling \$590.9 million at year end, includes 18 month notes due to the bank of \$166.4 million, bankers' acceptances and commercial notes of \$219.5 million which are payable from the proceeds of bank loans which would be due in 18 months and long term funded debt of \$205.0 million.

Deferred income taxes decreased by \$23.1 million to \$46.7 million. This 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, 1983 the Company paid a stock dividend of 595,516 common shares valued at \$11.30 per share.

Common shareholders' equity at December 31, 1983 was \$363.1 million or \$7.50 per common share for 48,396,376 outstanding common shares. At the end of 1982 common shareholders' equity amounted to \$395.7 million or \$8.29 per common share for 47,707,015 common shares. The ratio of long term debt to equity at December 31, 1983 was 1.6 compared to 1.5 a year earlier.

The trading of the Company's shares on the Vancouver, Alberta, Toronto and Montreal Stock Exchanges amounted to 11,667,722 common and 22,167 preferred shares. The price range during 1983 on the Toronto Stock Exchange for common shares was \$14.75 to \$8.38 and for preferred shares \$33.50 to \$25.00. At year end there were 5,273 common and 792 preferred shareholders holding 48,396,376 and 121,100 shares, respectively.

*Report of Management**Auditors' Report to the Shareholders*

In the Annual Report for the year ended December 31, 1983, 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.

We have examined the consolidated balance sheet of British Columbia Forest Products Limited as at December 31, 1983 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, 1983 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 19, 1984
[February 27, 1984
as to Note 9(a)]

Thorne Riddell
Chartered Accountants

Consolidated Statement of Earnings and Earnings Reinvested in the Business

FOR THE YEAR ENDED DECEMBER 31, 1983
(IN THOUSANDS OF DOLLARS)

	1983	1982
NET SALES	<u>\$899,676</u>	<u>\$799,159</u>
Costs and expenses		
Cost of products sold	781,592	718,407
Depreciation and depletion	60,350	53,054
Selling and administration	24,452	23,408
Interest on long term debt	64,301	77,123
Other interest	<u>6,099</u>	<u>8,952</u>
	<u>936,794</u>	<u>880,944</u>
	(37,118)	(81,785)
Other income		
Losses from associate companies before income taxes	(16,972)	(25,275)
Gain on disposal of fixed assets	45	2,420
Investment and other income	<u>2,716</u>	<u>4,999</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	<u>(51,329)</u>	<u>(99,641)</u>
Income taxes		
Current	7,898	3,120
Deferred	(23,051)	(39,565)
Share of income taxes of associate companies	<u>(3,432)</u>	<u>(2,235)</u>
	<u>(18,585)</u>	<u>(38,680)</u>
NET EARNINGS (LOSS)	(32,744)	(60,961)
<i>per common share</i>	\$(.68)	\$(1.92)
Earnings reinvested in the business at beginning of year (Note 2)	<u>250,144</u>	<u>315,158</u>
	217,400	254,197
Common share issue expenses, net of income taxes (Note 2)	<u>—</u>	<u>2,130</u>
	217,400	252,067
Dividends		
6% preferred shares	363	386
Common shares (Note 7)	<u>6,749</u>	<u>1,537</u>
	<u>7,112</u>	<u>1,923</u>
EARNINGS REINVESTED IN THE BUSINESS AT END OF YEAR	<u>\$210,288</u>	<u>\$250,144</u>

*Consolidated Balance Sheet*AS AT DECEMBER 31, 1983
(IN THOUSANDS OF DOLLARS)

	1983	1982
Assets		
CURRENT ASSETS		
Cash and short term investments	\$ 3,196	\$ 1,528
Securities	—	50,744
Accounts receivable	123,612	113,922
Inventories (Note 3)	144,137	132,483
Prepaid expense	5,535	9,603
	<u>276,480</u>	<u>308,280</u>
LONG TERM INVESTMENTS AND ADVANCES		
Investment in associate companies (Note 4)	83,530	98,123
Other investments and advances	9,352	13,826
	<u>92,882</u>	<u>111,949</u>
FIXED ASSETS (NOTE 5)		
Property, plant and equipment	638,279	692,944
Timberlands and logging roads less accumulated depletion of \$74,260,000 (1982 — \$69,697,000)	164,208	168,553
	<u>802,487</u>	<u>861,497</u>
UNAMORTIZED DEBT DISCOUNT AND EXPENSES	<u>1,197</u>	<u>1,328</u>
	<u>\$1,173,046</u>	<u>\$1,283,054</u>

Approved by the Directors

John G. Bousley
Director

Stuart Farlane

Director

AS AT DECEMBER 31, 1983 (IN THOUSANDS OF DOLLARS)	1983	1982
Liabilities		
CURRENT LIABILITIES		
Bank loans and notes payable (Note 6)	\$ 55,783	\$ 54,047
Loan from The Mead Corporation	—	70,000
Accounts payable and accrued liabilities	95,816	73,693
Dividends payable	91	97
Income taxes payable	6,755	5,213
Current portion of long term debt	<u>7,857</u>	<u>7,763</u>
	<u>166,302</u>	<u>210,813</u>
LONG TERM DEBT (NOTE 6)	<u>590,928</u>	<u>600,402</u>
DEFERRED INCOME TAXES	<u>46,697</u>	<u>69,747</u>
Shareholders' Equity		
SHARE CAPITAL (NOTE 7)		
6% cumulative preferred shares of \$50 par value, redeemable at \$53		
Authorized — 240,000 shares		
Outstanding — 121,100 shares (1982 — 128,300 shares)	6,055	6,415
Common shares without par value		
Authorized — 60,000,000 shares		
Outstanding — 48,396,376 shares (1982 — 47,707,015 shares)	<u>152,776</u>	<u>145,533</u>
	158,831	151,948
EARNINGS REINVESTED IN THE BUSINESS (NOTE 2)	<u>210,288</u>	<u>250,144</u>
	<u>369,119</u>	<u>402,092</u>
	<u>\$1,173,046</u>	<u>\$1,283,054</u>

Commitments and Contingencies
(Notes 4, 9 and 11)

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1983
(IN THOUSANDS OF DOLLARS)

	1983	1982
SOURCES OF CASH		
Net earnings (loss)	\$(32,744)	\$ (60,961)
Depreciation and depletion	60,350	53,054
Deferred income taxes	(23,051)	(39,565)
Associate companies		
Losses	13,540	23,040
Dividends received	2,411	15,750
Other	(1,356)	(1,155)
	<u>19,150</u>	<u>(9,837)</u>
Cash generated from operating working capital (below)	<u>6,389</u>	<u>6,898</u>
CASH FROM OPERATIONS	25,539	(2,939)
<i>Per common share</i>	<i>\$0.53</i>	<i>\$(0.09)</i>
Issue of common shares	514	106,194
Loan from The Mead Corporation	—	70,000
Proceeds from disposal of fixed assets	<u>1,342</u>	<u>4,330</u>
	<u>27,395</u>	<u>177,585</u>
USES OF CASH		
Repayment of The Mead Corporation loan, net of proceeds from sale of Mead shares of \$54,396,000	15,604	—
Repayment of long term debt	10,093	53,835
Additions to fixed assets	4,277	105,266
Dividends paid	388	3,460
Purchase of preferred shares	217	63
Long term investments and advances	(3,116)	13,073
	<u>27,463</u>	<u>175,697</u>
INCREASE (DECREASE) IN CASH DEFICIENCY	68	(1,888)
CASH DEFICIENCY AT BEGINNING OF YEAR	<u>52,519</u>	<u>54,407</u>
CASH DEFICIENCY AT END OF YEAR	<u>\$ 52,587</u>	<u>\$ 52,519</u>
Cash generated from (used for) operating working capital		
Accounts receivable	\$(9,690)	\$ 974
Income taxes payable	1,542	12,564
Inventories	(11,654)	8,660
Prepaid expenses	4,068	(390)
Accounts payable	<u>22,123</u>	<u>(14,910)</u>
	<u>\$ 6,389</u>	<u>\$ 6,898</u>

(Cash deficiency is defined to include cash, short term investments, current bank loans and notes payable.)

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 (19.4% owned — see Note 4) 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 or losses of associate companies is shown before income taxes with 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. Timberlands 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. PRIOR PERIOD ADJUSTMENT

Earnings Reinvested in the Business at the end of 1982 have been restated to record an adjustment of \$1,700,000 to income taxes related to common share issue expenses that were incurred in 1982.

NOTE 3. INVENTORIES

<i>(in thousands of dollars)</i>	1983	1982
Logs and wood chips	\$ 61,830	\$ 59,142
Lumber and other		
wood products	27,219	20,020
Pulp, paper and newsprint	19,443	19,427
Supplies	<u>35,645</u>	<u>33,894</u>
	<u>\$144,137</u>	<u>\$132,483</u>

NOTE 4. INVESTMENT IN ASSOCIATE COMPANIES

<i>(in thousands of dollars)</i>	1983	1982
Investment in shares,		
at cost	\$123,995	\$123,995
Accumulated equity in net		
earnings (losses) since		
acquisition, net of dividends		
received	(46,919)	(31,976)
Deferred interest re Western		
Forest Products Limited,		
net of amortization	5,096	6,104
Advances	<u>1,358</u>	<u>—</u>
	<u>\$ 83,530</u>	<u>\$ 98,123</u>

Condensed financial information for associate companies accounted for by the equity method has been summarized below for 1983, with comparative figures for 1982. In the case

of Western Forest Products Limited (Western), the information for 1983 is after giving effect to the reorganization described following the summary.

<i>(in thousands of dollars)</i>	Western		Others	
	October 31		December 31	
	1983	1982	1983	1982
	Pro Forma			
Working capital (deficiency)	\$ 43,722	\$(356,718)	\$ 88,461	\$ 21,018
Investment in Limited Partnership	175,242	—	—	—
Fixed assets	238,564	411,144	247,084	262,324
Deferred charges	16,326	34,462	14,500	—
Other assets	2,860	4,170	4,908	8,501
	476,714	93,058	354,953	291,843
Less: Long term debt	197,787	3,321	218,269	153,379
Deferred taxes	(29,276)	(15,504)	38,578	40,310
Shareholders' equity	<u>\$308,203</u>	<u>\$ 105,241</u>	<u>\$ 98,106</u>	<u>\$ 98,154</u>
Net Sales	<u>\$227,391</u>	<u>\$ 211,126</u>	<u>\$286,396</u>	<u>\$233,896</u>
Net Earnings (Losses)	<u>\$(40,939)</u>	<u>\$ (61,124)</u>	<u>\$ 5,741</u>	<u>\$ (4,973)</u>
BCFP's Share of Net Earnings (Losses)	<u>\$ (13,646)</u>	<u>\$ (20,375)</u>	<u>\$ 2,782</u>	<u>\$ (1,894)</u>

The Company has not guaranteed any debts of associate companies at December 31, 1983.

WESTERN FOREST PRODUCTS LIMITED

In December 1983, as part of a financial reorganization, Western sold its Squamish and Port Alice pulp mills to Western Pulp Limited Partnership (the Partnership) for consideration which included a \$150,000,000 debenture and an option to acquire, between 1987 and 1996, up to 15,000 Class B partnership units per year. If fully exercised, Western's partnership interest will increase to 60.1% from 0.1% as of December 31, 1983. Financing for a modernization program at the mills is being provided by the sale to the public of \$110,000,000 of Class A partnership units and by a \$150,000,000 bank term loan.

Under a contingency fund agreement, Western and its shareholders have agreed to make loans to the Partnership to fund cash deficiencies to a maximum of \$50,000,000 to September 30, 1986, reducing thereafter until 1990. The maximum exposure under this agreement to British Columbia Forest Products Limited (BCFP) is \$10,000,000.

Concurrently, with the sale of the pulp mills, Western's bankers converted \$195,000,000 of their outstanding loans into a new term loan and \$243,901,330 of loans were converted into preferred and common shares of Western,

leaving \$24,623,000 of short term bank loans outstanding. Under certain conditions, BCFP is obligated commencing March 31, 1986 to purchase from the banks up to \$10,000,000 of convertible preferred shares of Western. The effect of the current recapitalization is to reduce BCFP's common share interest at December 31, 1983 to 19.4%. As a result of its reduced ownership, BCFP will cease equity accounting for its investment in Western effective January 1, 1984.

The Class A units issued by the Partnership are exchangeable at the option of the holders at any time between April 1, 1987 and June 30, 1990 for a package of shares of BCFP and two other forest product companies. The exchange value will fluctuate to reflect earnings or losses of the Partnership but BCFP is not obligated to issue shares for units for a value in excess of \$1,000 per unit. Any excess over \$1,000 not exchanged for shares will be paid in cash when distributed by the Partnership. At \$1,000 per unit the maximum dilutive effect to BCFP is 4.0% of the common shares outstanding at December 31, 1983.

NOTE 5. FIXED ASSETS

(in thousands of dollars)

1983	Cost	Accumulated Depreciation	Net Book Value
Pulp and paper mills Sawmill and other wood products plants	\$ 650,134	\$259,333	\$390,801
Logging buildings and equipment	304,740	105,634	199,106
Other equipment and facilities	63,269	38,885	24,384
Land	27,379	17,262	10,117
	13,871	—	13,871
	<u>\$1,059,393</u>	<u>\$421,114</u>	<u>\$638,279</u>
1982			
Pulp and paper mills Sawmill and other wood products plants	\$ 648,436	\$233,312	\$415,124
Logging buildings and equipment	316,647	93,993	222,654
Other equipment and facilities	64,638	35,222	29,416
Land	27,584	15,705	11,879
	13,871	—	13,871
	<u>\$1,071,176</u>	<u>\$378,232</u>	<u>\$692,944</u>

Logging roads have been included with Timberlands in 1983 and comparative figures for 1982 restated accordingly.

NOTE 6. LONG TERM DEBT

(in thousands of dollars)

British Columbia Forest Products Limited	1983	1982
Sinking fund debentures		
Series B, 5½% due 1989	\$ 5,712	\$ 6,120
Series C, 6½% due 1992	9,155	9,613
Series D, 9¾% due 1992	12,150	13,026
Series E, 9% due 1995	28,596	29,515
Series F, 8.95% due 1997 (U.S. \$36,040,000; 1982 — U.S. \$37,360,000)	37,953	39,343
Series G, 11¾% due 2001 (U.S. \$60,000,000)	70,896	70,896
	<u>164,462</u>	<u>168,513</u>
Purchase money mortgage due 1984-1990 (U.S. \$26,665,000; 1982 — U.S. \$29,332,000)	28,625	31,488

18-month notes due to bank, secured (including U.S. \$95,000,000; 1982 — U.S. \$5,000,000)	166,436	161,367
Bankers' acceptances and notes payable due in following year	219,450	217,100
Housing development mortgages	2,393	2,769
	<u>581,366</u>	<u>581,237</u>
Blandin Paper Company		
Notes payable, 10¼% due 1984-1988, unsecured (U.S. \$15,250,000; 1982 — U.S. \$17,500,000)	16,318	18,725
18-month notes, unsecured (1982 — U.S. \$6,000,000)	—	7,195
	<u>16,318</u>	<u>25,920</u>
Less current portion of long term debt (before translation to the pre- valuing exchange rates)	6,756	6,755
	<u>\$590,928</u>	<u>\$600,402</u>

Long term liabilities in U.S. dollars aggregate \$232,995,000 at December 31, 1983 of which \$95,000,000 is covered by forward exchange contracts. The remaining \$137,995,000 has 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 1984-1988, at the rate prevailing on the date of acquisition. If the increased premium for the U.S. dollar at December 31, 1983 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 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 10.5% on December 31, 1983) 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 plus ¼ of 1%.

Arrangements with the Company's bankers permit the Company to repay \$219,450,000 of bankers' acceptances and notes payable due in 1984 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 10.6%, are classified as long term debt.

Payments on long term debt required to 1988 are as follows:

(in thousands of dollars)

1984	(after adjustment to current rate of exchange)	\$ 7,857
1985		397,000
1986		12,000
1987		12,000
1988		16,000

NOTE 7. SHARE CAPITAL

(a) Issue of Additional Common Shares

In November the Company paid a stock dividend consisting of 595,516 common shares at \$11.30 per share.

At December 31, 1983 there were options outstanding under the terms of the Company's Employee Share Option Incentive Plan to purchase an aggregate of 1,218,023 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 \$5.00 to \$14.25 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 1983, 93,845 shares were issued under this plan for \$514,000.

Under an agreement with the partners of the Western Pulp Limited Partnership, the Company is contingently obligated to issue a maximum of 1,955,555 common shares commencing April 1, 1987, in exchange for units of the Partnership.

(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 1983, 7,200 shares were purchased and cancelled at an average cost of \$30.16 per share, reducing preferred share capital by \$360,000.

NOTE 8. RELATED PARTY TRANSACTIONS

Related parties as defined by the Canadian Institute of Chartered Accountants include The Mead Corporation, Scott Paper Company, Finlay Forest Industries Ltd., Pinette & Therrien Mills Limited and Western Forest Products Limited, together with their subsidiaries and affiliates. Sales to related parties for the years 1983 and 1982 amounted to \$60,653,000 and \$66,286,000 respectively. Purchases from related parties for the years 1983 and 1982 amounted to \$39,905,000 and \$25,465,000 respectively.

The prices and terms of these transactions are in accordance with normal trade practice. The net amount of trade receivables from these companies at December 31, 1983 was \$16,414,000 and at December 31, 1982 was \$13,192,000.

NOTE 9. COMMITMENTS AND CONTINGENCIES

(a) Under a Forest Management Agreement with the Province of Alberta, the Company had commenced a major capital expansion program estimated to cost \$360,000,000 through 1986. To December 31, 1983, the Company had spent \$51,000,000 on the construction of a sawmill and related facilities at Grande Cache. On February 27, 1984, the Company advised officials of the Province of Alberta that it would not proceed with this capital expansion program. Management is of the opinion this matter will have no material impact on the financial statements.

(b) The Company has no material commitments or contingencies other than those incurred in the ordinary course of business, except for those disclosed in notes 4, 9(a) and 11.

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, 1982 respectively there was no unfunded liability for past services.

NOTE 11. LITIGATION

(a) In September 1981 the Company and 56 other suppliers 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 a hearing was held in 1982. No decision has been rendered as a result of these hearings. Discussions with the Commission to resolve the proceedings continued through 1983.

(b) 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. In December 1983 the Federal Cabinet allowed the acquisition of the Rayonier Canada Division assets by Western Forest Products Limited as being of significant benefit to Canada. The Company is pursuing discussions with the Foreign Investment Review Agency with a view to resolving its status.

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

	By Industry Segment						By Geographic Region					
	Wood & Wood Products		Pulp & Paper		Services & Other		Consolidated		Canada		United States	
	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982
REVENUE												
Sales to external customers	\$336.3	\$223.0	\$539.5	\$555.6	\$23.9	\$20.6	\$899.7	\$799.2	\$660.9	\$552.6	\$238.8	\$246.6
Sales to other segments	47.9	54.0	—	—	.4	3.9			19.4	20.7	—	—
	<u>\$384.2</u>	<u>\$277.0</u>	<u>\$539.5</u>	<u>\$555.6</u>	<u>\$24.3</u>	<u>\$24.5</u>			<u>\$680.3</u>	<u>\$573.3</u>	<u>\$238.8</u>	<u>\$246.6</u>
EARNINGS												
Operating profit (loss)	\$ (16.0)	\$ (69.2)	\$ 61.5	\$ 85.2	\$ 2.4	\$ 2.9	\$ 47.9	\$ 18.9	\$ 27.0	\$ —	\$ 20.9	\$ 18.9
Administration	(6.7)	(5.4)	(7.9)	(9.2)	—	—	(14.6)	(14.6)	(14.6)	(14.6)	—	—
Interest	(32.3)	(37.5)	(38.1)	(48.6)	—	—	(70.4)	(86.1)	(67.0)	(79.5)	(3.4)	(6.6)
Losses from associate companies	(.1)	(7.2)	(16.9)	(18.1)	—	—	(17.0)	(25.3)	(17.0)	(25.3)	—	—
Other income (expense)	(1.4)	3.5	4.1	3.6	-.1	.3	2.8	7.4	1.9	4.5	-.9	2.9
Income taxes	(56.5)	(115.8)	2.7	12.9	2.5	3.2	(51.3)	(99.7)	(69.7)	(114.9)	18.4	15.2
Net earnings (loss)	<u>\$ (28.3)</u>	<u>\$ (60.6)</u>	<u>\$ (5.4)</u>	<u>\$ (1.6)</u>	<u>\$ 1.0</u>	<u>\$ 1.2</u>	<u>\$ (32.7)</u>	<u>\$ (61.0)</u>	<u>\$ (41.8)</u>	<u>\$ (68.8)</u>	<u>\$ 9.1</u>	<u>\$ 7.8</u>
IDENTIFIABLE ASSETS												
Segment assets	<u>\$525.4</u>	<u>\$527.1</u>	<u>\$547.2</u>	<u>\$578.7</u>	<u>\$10.3</u>	<u>\$ 9.2</u>	<u>\$1,082.9</u>	<u>\$1,115.0</u>	<u>\$848.9</u>	<u>\$870.8</u>	<u>\$234.0</u>	<u>\$244.2</u>
Corporate assets							6.6	69.9				
Investment in associate companies							83.5	98.1				
TOTAL ASSETS							<u>\$1,173.0</u>	<u>\$1,283.0</u>				
DEPRECIATION AND DEPLETION												
	<u>\$ 30.5</u>	<u>\$ 27.8</u>	<u>\$ 28.7</u>	<u>\$ 24.0</u>	<u>\$ 1.1</u>	<u>\$ 1.3</u>	<u>\$ 60.3</u>	<u>\$ 53.1</u>	<u>\$ 45.5</u>	<u>\$ 38.4</u>	<u>\$ 14.8</u>	<u>\$ 14.7</u>
ADDITIONS TO FIXED ASSETS												
	<u>\$.8</u>	<u>\$ 39.5</u>	<u>\$ 3.3</u>	<u>\$ 65.6</u>	<u>\$.2</u>	<u>\$.2</u>	<u>\$ 4.3</u>	<u>\$ 105.3</u>	<u>\$ —</u>	<u>\$ 97.2</u>	<u>\$ 4.3</u>	<u>\$ 8.1</u>

REVENUE

1. Sales to other segments are accounted for at prices which approximate market.
2. Canadian sales include export sales amounting to \$486.6 million (1982 — \$426.6 million).

EARNINGS

Segmented information reflects the following allocations:

ITEM	BASIS OF ALLOCATION
Interest	Use of borrowings
Losses from associate companies	Forest industry segments
Administration and other income (expense)	Sales to external customers
Income taxes	Income before taxes

MANAGEMENT COMMENTS

The Company is a fully integrated forest products company involved in extensive transfers of logs and chips amongst operations. For this reason the segmented earnings contribution must be viewed on the basis that the prices for these product transfers between segments may not represent the value of the product to the Company as a whole.

Ten Year Comparative Review

NOTES AND EXPLANATIONS

A. MAJOR CHANGES IN CAPITALIZATION

- Series E sinking fund debentures: \$40,000,000 issued December 1973.
- Series F sinking fund debentures: U.S. \$40,000,000 issued March 1977.
- Purchase money mortgage: U.S. \$50,000,000 issued September 1977.
- Series G sinking fund debentures: U.S. \$60,000,000 issued December 1981.
- Common shares: 16,940,894 shares issued for \$110,115,800 December 1982.

B. COMPLETION OF MAJOR EXPANSION PROJECTS

June 1982: Crofton No. 3 Newsprint Machine.

C. STATEMENT OF CHANGES IN FINANCIAL POSITION

- Sources* — *Other* includes proceeds from long term debt, share issues and asset disposals.
- In 1980, the purchase of the assets of Elk River Timber Company Limited is included in *Additions to fixed assets*.
- Uses* — *Other* includes 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 was subsequently sold in 1983.

D. TERMS AND DEFINITIONS

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

Net sales	899,676	799,159
Cost of products sold	781,592	718,407
Depreciation and depletion	60,350	53,054
Selling and administration	24,452	23,408
Interest on long term debt	64,301	77,123
Other (income) and expense	20,310	26,808
Earnings before income taxes	(51,329)	(99,641)
Current income taxes	7,898	3,120
Deferred income taxes	(23,051)	(39,565)
Income taxes of associate companies	(3,432)	(2,235)
Net earnings	(32,744)	(60,961)

ASSETS AND CAPITALIZATION (\$'000)

Current assets	276,480	308,280
Current liabilities	166,302	210,813
Working capital	110,178	97,467
Long term investments and advances	92,882	111,949
Property, plant & equipment	1,059,393	1,071,176
Less accumulated depreciation	(421,114)	(378,232)
Timber and roads less depletion	164,208	168,553
Deferred charges	1,197	1,328
Net assets	1,006,744	1,072,241
Long term debt	590,928	600,402
Deferred income taxes	46,697	69,747
Preferred share capital	6,055	6,415
Common share capital	152,776	145,533
Earnings reinvested in the business	210,288	250,144
Total capitalization	1,006,744	1,072,241

CHANGES IN FINANCIAL POSITION (\$'000)

Sources — Operations	25,539	(2,939)
— Other	1,856	180,524
	27,395	177,585
Uses — Additions to fixed assets	4,277	105,266
— Dividends	388	3,400
— Other	22,798	66,971
	27,463	175,697
Net increase (decrease) in cash position	(68)	1,888

FINANCIAL DATA

Common shares outstanding (000)	48,396	47,707
Number of common shareholders	5,273	5,215
Preferred shares outstanding (000)	121	128
Number of preferred shareholders	792	912
Net earnings per common share — \$	(.68)	(1.92)
Cash flow per common share — \$.53	(.09)
Equity per common share — \$	7.50	8.29
Dividends paid per common share — \$.14	.10
Price range for common shares		
— high — \$	14.75	12.88
— low — \$	8.38	5.38
Net earnings to sales — %	(3.6)	(7.6)
Cash flow from operations to sales — %	2.8	(.4)
Return on net assets — %	.1	(2.0)
Return on common shareholders' equity — %	(8.7)	(18.9)
Current ratio	1.7	1.5
Ratio of long term debt to equity	1.6	1.5

PRODUCTION AND OTHER STATISTICS

Logs — cubic metres	5,010,000	3,044,000
Lumber — MFBM	899,000	629,000
Shingles and shakes — squares	—	—
Plywood — M sq. ft. 3/8"	73,000	104,000
Market pulp — air dry tonnes	456,000	402,000
Newsprint and specialty papers — tonnes	338,000	295,000
Coated paper — short tons	276,000	288,000
Waferboard — M sq. ft. 3/8"	216,000	132,000
Number of employees	7,153	7,770

1981	1980	1979	1978	1977	1976	1975	1974	1973
814,922	850,307	799,961	704,140	491,949	392,010	273,426	279,054	253,603
681,512	680,895	568,970	517,221	375,462	295,304	201,866	201,727	172,148
40,337	36,839	32,625	31,714	27,121	23,450	19,944	17,334	16,772
25,364	23,476	20,898	19,334	14,752	13,094	11,361	10,090	10,188
56,731	31,625	20,978	21,554	14,402	7,833	8,585	8,376	6,209
(12,167)	(20,091)	(19,490)	(9,859)	(3,528)	135	(425)	(946)	(552)
23,145	97,563	175,980	124,176	63,740	52,194	32,095	42,473	48,838
(6,882)	10,028	67,640	44,586	24,457	23,560	9,320	12,395	16,400
7,215	17,895	6,398	7,908	3,102	2,400	6,580	8,685	6,350
5,625	9,110	5,199	2,656	1,068	64	307	307	623
17,187	60,530	96,743	69,026	35,113	26,170	15,888	21,086	25,465
274,885	252,863	259,658	209,574	170,236	134,176	112,053	105,296	89,651
154,416	123,865	121,122	86,996	74,436	65,276	57,036	58,284	42,231
120,469	128,998	138,536	122,578	95,800	68,900	55,017	47,012	47,420
188,402	129,658	70,395	43,294	42,426	30,022	10,972	11,317	11,757
971,665	762,409	625,526	573,771	538,279	359,875	343,868	324,633	286,711
(332,639)	(302,344)	(271,374)	(244,602)	(220,791)	(144,462)	(126,490)	(110,509)	(97,813)
172,169	174,533	37,834	38,102	39,440	25,248	27,010	26,126	24,872
1,474	1,138	1,250	1,364	1,482	1,276	1,378	1,482	1,583
1,121,540	894,392	602,167	534,507	496,636	340,859	311,755	300,061	274,530
653,322	430,965	192,881	208,107	236,512	110,187	101,114	103,500	100,069
111,248	104,033	85,634	79,236	71,328	67,900	65,500	58,920	50,235
6,538	6,898	7,258	7,618	7,978	8,338	8,698	9,058	9,418
35,274	34,202	33,892	33,630	33,480	33,411	33,234	33,202	33,188
315,158	318,294	282,502	205,916	147,338	121,023	103,209	95,381	81,620
1,121,540	894,392	602,167	534,507	496,636	340,859	311,755	300,061	274,530
40,030	76,348	108,273	104,500	41,610	51,212	34,106	17,011	44,504
237,976	251,796	1,696	961	104,090	15,197	2,713	6,703	40,818
278,006	328,144	109,969	105,461	145,700	66,409	36,819	23,714	85,322
219,560	277,453	58,296	42,597	31,888	20,006	24,303	44,563	24,544
24,876	23,971	17,879	9,618	8,651	8,206	8,065	6,576	3,556
70,827	68,716	37,005	32,365	92,185	24,351	4,097	1,683	30,647
315,263	370,140	113,180	84,580	132,724	52,563	36,465	52,822	58,747
(37,257)	(41,996)	(3,211)	20,881	12,976	13,846	354	(29,108)	26,575
30,724	30,419	30,349	30,279	30,235	30,212	30,151	30,139	30,136
4,711	4,411	3,515	3,461	2,908	2,725	2,849	2,917	2,878
131	138	145	152	160	167	174	181	188
972	1,064	1,158	1,268	1,355	1,433	1,538	1,626	1,689
.55	1.98	3.18	2.27	1.15	.85	.51	.68	.83
1.29	2.50	3.56	3.44	1.36	1.68	1.11	.55	1.47
11.41	11.59	10.43	7.91	5.98	5.11	4.53	4.27	3.81
.80	.78	.58	.30	.27	.26	.25	.20	.10
24.00	18.63	14.50	10.63	6.63	6.13	4.31	5.63	6.50
10.63	11.00	9.44	5.06	4.75	3.88	2.75	2.16	2.97
2.1	7.1	12.1	9.8	7.1	6.7	5.8	7.6	10.0
4.9	9.0	13.5	14.8	8.5	13.1	12.5	6.1	17.5
5.1	10.6	19.0	15.7	10.3	9.2	6.6	8.8	11.3
4.8	18.0	34.6	32.6	20.7	17.6	11.6	16.9	24.0
1.8	2.0	2.1	2.4	2.3	2.1	2.0	1.8	2.1
1.8	1.2	0.6	0.8	1.3	0.7	0.7	0.8	0.8
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
629,000	766,000	795,000	835,000	812,000	721,000	434,000	474,000	536,000
68,000	65,000	121,000	135,000	104,000	132,000	96,000	106,000	125,000
162,000	206,000	205,000	213,000	201,000	190,000	134,000	164,000	194,000
403,000	468,000	452,000	448,000	382,000	436,000	323,000	423,000	410,000
236,000	268,000	254,000	253,000	233,000	229,000	175,000	223,000	232,000
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

Corporate Information

At December 31, 1983

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.

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
Businessman
Vancouver, B.C.

A.D. Correll, Jr.
Senior Vice-President, Forest Products
The Mead Corporation
Dayton, Ohio

Charles D. Dickey, Jr.
Director and Retired
Chairman of the Board
Scott Paper Company
Philadelphia, Pa.

William A. Enouen†
Vice-President, Pulp Affiliates
The Mead Corporation
Dayton, Ohio

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

Raymond Garneau
Chairman and Chief Executive Officer
The Montreal City & District Savings Bank
Montreal, Quebec

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

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

Ward C. Pitfield†
Chairman and Chief Executive Officer
Pitfield MacKay Ross Limited
Toronto, Ontario

†Member of Audit Committee

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 SUBSIDIARIES

Blandin Paper Company
Croftech 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.
(33 1/3%)
Western Forest Products Limited
(19.4%)

OFFICERS

Ian A. Barclay
Chairman of the Board

Kenneth P. Benson
President and Chief Executive Officer

George G. Flater
Executive Vice-President

W. John Connery
Group Vice-President, Wood Products

C. Roy Sworder
Group Vice-President, Logging and Wood Supply

Stuart Waddell
Group Vice-President, Pulp and Paper

William R. Steen
Vice-President Finance and Secretary

George N. Bird
Vice-President, Pulp & Paper Production

W. Gerry Burch
Vice-President, Timberlands & Forestry

Gordon F. Cameron
Vice-President, Employee Relations

Morris Douglas
Vice-President, Wood Products Marketing

Richard A. Drake
Vice-President, Wood Products Production

John K. Graf
Vice-President and Treasurer

Michael E. Hoole
Vice-President and General Counsel

ANNUAL GENERAL MEETING

The Company's *Annual General Meeting* will be held Thursday, April 19 in the Plaza Ballroom East, Hyatt Regency Hotel, 655 Burrard Street, Vancouver, B.C. commencing at 12 noon.

