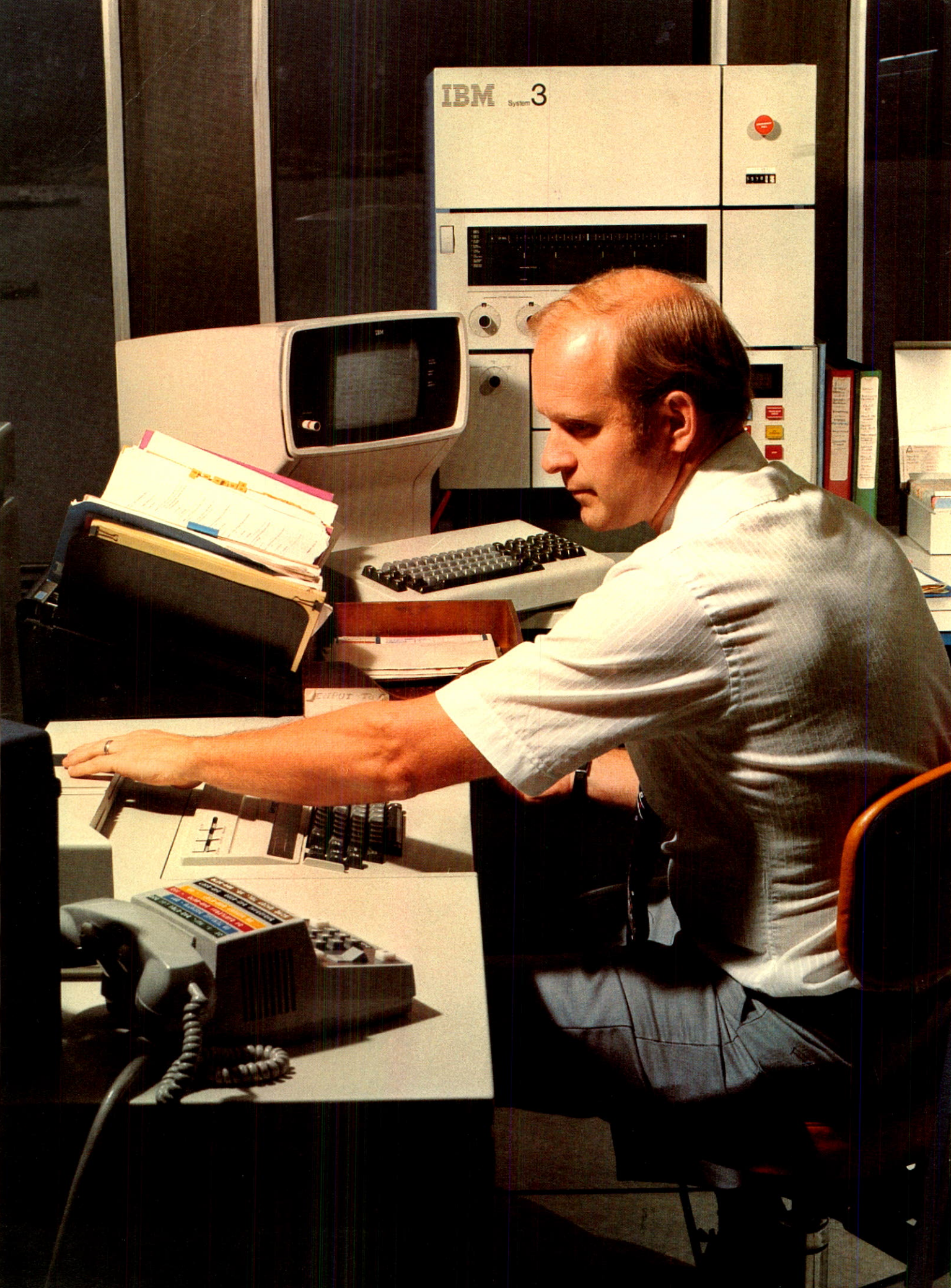




Canadian Cellulose Company, Limited 1979 Annual Report





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The Company

Canadian Cellulose is a British Columbia-based forest products company employing approximately 3,000 persons in its pulp and lumber manufacturing and logging operations. These facilities are located in the northwestern and southern interior regions of the province. Pulp marketing offices are located in Brussels, Montreal and at the corporate office in Vancouver while lumber sales are handled from sawmill locations at Castlegar and Terrace.

The Company's softwood bleached kraft pulp mills at Prince Rupert and Castlegar have a combined production capacity in excess of 1,600 tonnes per day. The Castlegar, Terrace and Kitwanga sawmills have a combined annual lumber production capacity of 380 million board feet. Logging divisions are situated near Terrace and the Nakusp/Revelstoke area.

Export sales account for more than 90 percent of sales revenue. Softwood bleached kraft pulp is the Company's principal product and is marketed, largely on a long term basis, in more than 15 countries. Lumber is sold mainly in North America.

Annual General Meeting

April 25, 1980, 10:00 a.m.
 Social Suite West
 Hotel Vancouver,
 Vancouver, B.C.

Index

Highlights	1
Letter to Shareholders and Employees	2
Financial Section	
Financial Review	7
Summary by Quarter	8
Earnings Statement	9
Balance Sheet	10
Changes in Financial Position	12
Notes to Financial Statements	13
Auditors' Report	15
Five Year Review	16
Five Years at a Glance	17
Corporate Information	19

Highlights

1979 Annual Report

	1979	1978
Earnings		
Net sales	\$263,213,000	175,490,000
Earnings before taxes and extraordinary item	28,232,000	3,374,000
Earnings before extraordinary item	15,832,000	2,774,000
Net earnings	15,832,000	6,774,000
Per share		
Earnings before extraordinary item	\$ 1.30	.23
Net earnings	1.30	.55
Cash flow from operations	3.67	1.52
Shareholders' equity (book value)	10.92	9.94
Dividends	32¢	32¢
Financial position at end of year		
Working capital	\$ 60,518,000	65,947,000
Total assets	312,190,000	324,045,000
Long term debt	121,265,000	152,862,000
Shareholders' equity	133,470,000	121,448,000
Analytical information		
Percent return on net sales	6.0%	1.6%
Percent return on capital employed	8.8%	1.8%
Percent return on shareholders' equity	11.9%	2.3%
Current ratio	2.5:1	2.5:1
Long term debt as a percent of capital employed	44.5%	54.6%
Additional information		
Expenditures on fixed assets	\$ 15,629,000	80,405,000
Depreciation, amortization and depletion	18,061,000	12,457,000
Wages, salaries and employee benefits	73,100,000	60,750,000
Number of employees at end of year	2,918	2,741
Number of registered shareholders at end of year	4,597	4,835
Note: <i>These Highlights and the letter to Shareholders and Employees constitute the Directors' Report to the members for the year 1979.</i>		

Photography:**The cover:**

The forest resource forms the cornerstone of the Company's operations and we are committed to improved forest management practices to enhance the long term productivity of the forests entrusted to our care.

Opposite:

Advanced computerized process-control systems are utilized at the Company's pulp mills.

Inside front cover (left):

Quality control to rigid standards is maintained in the production of our softwood bleached kraft pulp. Sampling here is during a "washing" stage in the manufacturing process.

Inside front cover (right):

We utilize a sophisticated information system to help us manage our business as effectively and efficiently as possible.

To Our Shareholders and Employees:

Strong markets and higher prices led to record sales and improved earnings.

The Company's financial performance improved substantially in 1979 over that of the previous year. Sales revenue advanced by \$87.7 million to reach a record level of \$263.2 million. Earnings for the year of \$15.8 million or \$1.30 per share were the second highest ever achieved by Canadian Cellulose. In 1978, a year in which several factors essentially beyond the control of the Company adversely affected performance, earnings were \$2.8 million or 23 cents per share. An extraordinary tax credit in 1978 increased net earnings for that year to \$6.8 million or 55 cents per share.

Higher prices for kraft pulp, the Company's principal product, was the major factor influencing a return to a more acceptable earnings performance in 1979, although the Company also benefitted from firm demand and higher prices for lumber and continued favourable foreign exchange.

There were also, however, some factors that adversely affected performance. The most significant was the loss of 40 days of pulp production due to strike action, primarily at Prince Rupert. Inflation-fueled cost pressures increased through the year, and operating difficulties experienced at Prince Rupert also affected production and earnings.

In terms of economic conditions, the generally predicted recession in the United States did not occur. In that country, as well as in Western Europe, the moderate growth rates of 1978 continued through the first two quarters of 1979 before declining to more modest levels. In Japan, our other major market area, the economy grew at a GNP rate of six percent. However, Japanese growth was also slowing by year-end.

Market pulp producer inventories declined dramatically.

In this economic environment, papermakers in all markets experienced record production levels and this created a strong demand for pulp, particularly bleached softwood kraft, our primary product. Inventory levels of chemical grade market pulp in North America and Scandinavia declined 30 percent during the year to an all-time low of 631,000 tonnes, estimated to be only slightly more than two weeks' supply at current rates of consumption.

Although the cyclical nature of the forest products industry has long been recognized, few observers of the pulp and paper sector predicted that inventories at the producer level, which peaked at close to three million tonnes in mid-1977, would decline so dramatically.



Donald N. Watson

**Pulp price recovery
equally significant.**

Equally significant, from a producer's point of view, was the continued recovery of pulp prices which rose from generally U.S. \$395 per tonne at the beginning of the year to generally U.S. \$490 at the beginning of 1980. Further increases are expected to be announced for the second quarter of 1980.

Canadian Cellulose is one of the largest exporting manufacturers of bleached softwood kraft "market" pulp in the world.

We continue to pursue our marketing strategy of maintaining long term relationships with a customer base that is balanced from a geographic and end-product point of view. Currently, nearly all of our pulp sales are on a long term contract basis and we have strived to earn a reputation for quality and service.

Because of lower than planned pulp production at Prince Rupert, the Company was unable to deliver all of its 1979 contracted sales. However, with the co-operation of our customers, we were generally able to balance shipments and satisfy most needs. Total shipments for the year were 449,600 tonnes, compared to 411,800 tonnes in 1978, while total production increased to 440,300 tonnes from 366,700 tonnes.

The increase in production reflects the first full year of operation of the modified kraft mill at Prince Rupert. Following an orderly start-up of the additional design capacity that resulted from the modification of the former sulphite mill, the Company experienced some difficulties, as might be expected in a project of such complexity, in immediately achieving the overall initial production target of 1,100 tonnes per day. Although this daily rate was often exceeded, average daily operating production for the year was at a level of just under 1,000 tonnes.

**Profit improvement projects
at Prince Rupert pulp
complex to boost production.**

Several major profit improvement capital projects will be undertaken over the next three years to increase production at Prince Rupert to a target rate of 1,220 tonnes per day which is within the design capacity of the major components of the modification project. These new capital projects should contribute to an improvement in earnings.

Substantial management attention continues to be devoted to reducing costs at this facility. Because of the need to decrease energy costs, the Company, plans to restore and upgrade the power boiler system at the complex to permit extensive utilization of waste wood for steam generation.

The Castlegar kraft pulp mill operated in 1979 at near capacity with production of 170,500 tonnes compared to 171,200 tonnes in 1978. Mill performance continued to be satisfactory and efforts to control costs were intensified.

The mill is increasing its waste wood burning to generate additional low cost energy and further reduce dependence on fossil fuels. A recent waste wood handling project costing \$750,000 is expected to generate pre-tax fuel cost savings in excess of \$400,000 annually.

The Company's participation in technological research projects directed by the Pulp and Paper Research Institute of Canada resulted in the installation of an air pollution abatement system at Castlegar. The process incorporates a scrubber which is designed to reduce significantly the characteristic pulp mill odour by reducing sulphur emissions from the recovery boiler from 250 parts per million to about 25 parts per million. The \$2.3 million system is the second of its kind to be installed in Canada and is designed to enable the Company to meet or exceed established environmental standards.

**Lumber sector turned in a
record performance.**

Our lumber sector turned in a record performance in 1979 both in terms of production and earnings. The continuing program of modernizing and fine-tuning various components at all mills, together with a resumption of full operations at the reconstructed large log sawmill and the new smallwood

Lumber demand and prices were higher than anticipated.

mill at Castlegar, contributed to a production achievement of 266 million board feet of lumber. By comparison in 1978, we produced 212 million board feet and in 1977 produced 258 million board feet, the previous high. Babine Forest Products Limited, which operates a sawmill complex at Burns Lake, B.C. and in which the Company has a 24 percent interest, also had a good year.

The demand for lumber was firm for most of the year and prices were higher than had been expected. Housing starts in the United States, where approximately two-thirds of the Company's lumber is sold, declined in 1979 to 1.7 million units, compared to 2.1 million starts in 1978. Before October, when initiatives of the United States Federal Reserve Board resulted in interest rates rising to unprecedented levels, the pace of housing activity was similar to the previous year. Even though the volume of starts fell in the fourth quarter, lumber demand remained reasonably strong due to the impetus of industrial and commercial construction and renewed interest in home remodelling.

In early 1980 we acquired, for approximately \$14 million, Price-Skeena Forest Products Ltd. which operates a sawmill in Terrace and holds timber-cutting rights in the area. That company, whose name has since been changed to Skeena Lumber Ltd., has traditionally supplied an important quantity of residual wood chips and pulp logs to our Prince Rupert pulp operations and the acquisition protects this fibre source for Canadian Cellulose.

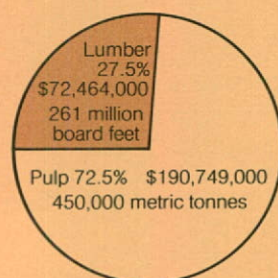
Capacity increased as a result of acquisition.

The purchase also increases our lumber capacity by approximately one-third since the mill currently has an annual production capacity of 85 million board feet. We plan to invest a further \$3.0 million in 1980 to improve efficiency and increase production to 93 million board feet annually. In addition, we are reviewing a future expansion to an annual capacity of 120 million board feet.

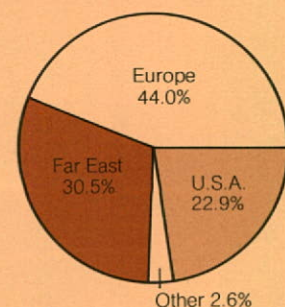
Crown timber cutting rights licenced to that company in the region provide an annual allowable cut of nearly 190,000 cunits. These forest lands complement existing Company tenures in the northwest.

Our woodlands operations are located in the northwest region of the province, primarily in Tree Farm Licence No. 1, and in the southern interior, principally in Tree Farm Licence No. 23. These forest lands are owned by the Province of British Columbia, and the Company has management obligations under the tree farm licences to maintain the forest as well as rights to harvest an established annual allowable cut. During 1979, the Company obtained a replacement licence for TFL No. 23, which expired at the end of the year. The new licence is for a period of 25 years, with replacement provisions, and the proposed initial five-year working plan which is still subject to final approval, provides for an annual allowable cut by the Company

Sales by major product — 1979



Pulp sales revenue by market area — 1979



of 377,000 cunits of timber. TFL No. 1, which expires at the end of 1983, will be subject to a similar replacement process. It provides for an annual allowable cut of 456,000 cunits. The Company now also holds or manages under Timber Sales Harvesting Licences rights to harvest an additional 382,000 cunits of timber annually, including the tenures of newly-acquired Skeena Lumber Ltd.

**Company now controls
80 percent of required raw
material supply.**

This forest resource, together with residual chips from Company sawmill operations, provides approximately 80 percent of our required raw material supply. Our remaining needs are balanced by purchases of residual chips from other sawmills and by purchases of logs.

Log production from the various tenures in 1979 amounted to 808,000 cunits compared to 770,000 cunits in 1978. Approximately 45 percent of the total volume is produced through Company operations and the balance by independent logging contractors. Log purchases from other companies amounted to 56,000 cunits during the year.

Because the forest lands under Company management form the cornerstone of our manufacturing operations, we are constantly improving our forest management organization and practices to enhance the long term productivity of the resource entrusted to our care. Advanced silvicultural techniques have long been applied in southern coastal British Columbian forests and other geographic regions where trees grow more quickly than on areas managed by the Company. Several of these practices are being tested by the Company to determine the feasibility of wider-scale application to forest lands under our management. Furthermore, considerable attention has been focused recently on reassessing our current and future wood fibre requirements.

**Strategic and long range
planning accelerated.**

During 1979, we also accelerated initiatives in the areas of strategic and long range planning, human resource development and corporate social responsibility. These actions and programs are leading to development of a renewed sense of direction.

As part of our planning process, we are continuing an extensive assessment of several options that would complement the present kraft mill facilities at Castlegar and which would result in the most effective utilization of the region's current surplus of wood fibre.

We have also taken action during the past year to improve our organizational effectiveness. In an approach to ensure an internal climate that is conducive to employee self-fulfillment, we are concentrating attention on such techniques as self-appraisal performance analysis, succession planning, training and development and management by objectives. We believe in the importance of every individual associated with the Company and our organizational philosophy is designed to encourage the best efforts of all employees.

**Corporate management
structure re-organized.**

Our senior corporate management structure was re-organized in 1979 following the sudden and regrettable death in May of Herschell F. Huff, who was Senior Vice President, Pulp. Roy W. Murphy was appointed Senior Vice President, Operations and assumed overall responsibility for our pulp and lumber manufacturing operations. Chris R. Scott joined the Company as Senior Vice President, Pulp Marketing and the responsibilities of four other senior executives were also expanded. Clive B. Symons assumed additional responsibility for corporate planning as Vice President, Finance and Planning. Orjan Burchardt was appointed Vice President, Technical Development and assumed responsibility for our intensified technical development and engineering function and Roger J. Duncan became Vice President, Administration, adding additional administrative responsibilities to his general counsel and secretarial duties. Harry R. Papushka was appointed

Corporate philosophy and conduct code identified fundamental relationship requirements.

Vice President, Pulp Marketing and also oversees the supply and distribution functions. Late in the year, the appointment was announced of Roy S. Jewesson as Vice President, Woodlands effective March 1, 1980.

Max Litvine, who has served the Company as a Director for nearly seven years, has advised that, due to personal reasons, he will not seek re-election to the Board at the Annual General Meeting in April. Mr. Litvine has been a dedicated Director since 1973 and has contributed greatly to the success of the Company during the years of his participation. His counsel will be missed.

Reference was made earlier to the belief that the Company is developing a renewed sense of direction. Contributing to this process was the formalization in late 1979 of a corporate philosophy and a separate code of corporate conduct which sets out minimum acceptable standards. These identify the fundamental requirements of the business, people and community relationships to which we subscribe. We believe they will continue to serve us well as we look ahead to continued growth of the Company and improvement in the quality of life of our people.

Outlook

The unsettling international political events, high interest rates and escalating inflation, largely caused by increasing energy costs have been well publicized in recent months.

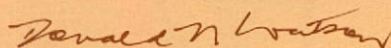
Assuming that the international political situation stabilizes, we anticipate a resumption of modest economic growth in the United States toward the beginning of 1981 and a continuing, but slower upturn in Western Europe. The Japanese rate of growth is forecast to decline slightly from recent levels, but growth is nonetheless expected to continue despite world economic problems.

Under these conditions, a stable demand is expected to prevail for pulp, and price levels should remain firm. With excellent prospects for labour stability in 1980 and gradually improving production at the Prince Rupert pulp complex, our pulp sector is expected to contribute substantially to earnings.

Lumber demand and prices will be lower than the previous two years due to a reduced level of housing starts in the U.S. Nonetheless, we expect our lumber business to be reasonably good and, with our increased production capacity, the Company is in an excellent position to benefit from a resurgence in demand when interest rates ease. Due to uncertainty as to when such easing will occur, current projections for 1980 housing starts in the U.S. range from 1.3 million to 1.7 million units. Because of demographics, demand for housing in the early-to-mid 1980's is predicted to exceed two million units annually.

The Company is well prepared to participate competitively and profitably in world markets as a major forest products producer. We will continue to address ourselves to opportunities for the long term benefit of our shareholders and employees, as well as the communities in which we operate, the Province and the Nation.

On behalf of the Board of Directors,



Donald N. Watson,
President and Chief Executive Officer.

Vancouver, B.C. February 26, 1980

Firm prices and stable demand expected for pulp but lumber performance will be lower.

Company prepared to operate competitively and profitably in world markets.

Financial Review

Earnings for 1979 amounted to \$15.8 million or \$1.30 per share compared with the previous year's earnings of \$2.8 million or \$.23 per share. An extraordinary tax credit increased net earnings in 1978 to \$6.8 million or \$.55 per share. The rate of return on capital employed increased from 1.8 percent in 1978 to 8.8 percent in 1979 and the return on shareholders' equity increased from 2.3 percent to 11.9 percent. The increase in earnings is largely due to a strong recovery in pulp prices, higher lumber prices in the first nine months of the year, foreign exchange benefits and additional production from a full year's operation of the new kraft facilities at Prince Rupert. These favourable factors were partly offset by a lengthy strike at the Prince Rupert pulp mill, higher stumpage and royalty costs and a full year's interest on the debt related to the Prince Rupert modification project. Foreign exchange on the U.S. dollar increased after-tax earnings by \$.28 per share in 1979 over 1978.

Net sales in 1979 were \$263.2 million compared to \$175.5 million in 1978. The increase reflects higher pulp prices, resumption of lumber production at the fire-damaged Castlegar sawmill, start-up of the new smallwood sawmill, increased lumber prices, greater foreign exchange benefits and higher pulp sales volumes due to operation of the modified kraft mill at Prince Rupert for the entire year.

Other income totalled \$2.4 million compared to \$8.3 million in 1978. 1979 other income included \$1.1 million with respect to the Company's equity in the earnings of Babine Forest Products Limited, \$774,000 for the remainder of insurance recoveries for loss of earnings caused by the Castlegar sawmill fire and \$517,000 interest income on short term investments.

Cost of goods sold amounted to \$211.0 million, an increase of \$43.8 million over the previous year. The increase is due to higher volumes of pulp and lumber sales, increased costs of production due to inflation and increased stumpage and royalty charges. As a percentage of net sales, cost of goods sold decreased from 95 percent in 1978 to 80 percent in 1979 which is close to the average for the past five years. The decrease in percentage from 1978 is mainly due to the effect of increased pulp prices.

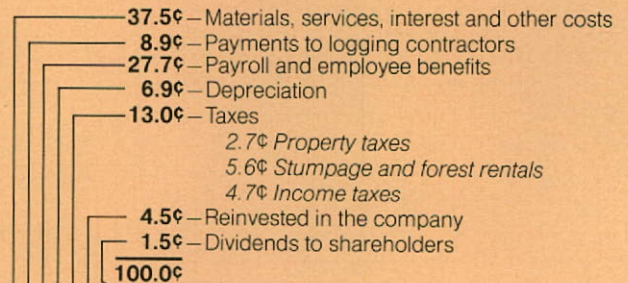
Selling and administration expenses amounted to \$9.4 million in 1979 compared to \$7.4 million in 1978. The increase is primarily due to commissions on increased sales, additional staff and general inflation. As a percentage of sales, selling and administration costs were 3.6 percent in 1979, down from 4.2 percent in 1978.

Depreciation, amortization and depletion, included mostly in cost of goods sold, amounted to \$18.1 million in 1979, an increase of \$5.6 million over the previous year. The increase is due to a full year's depreciation on the pulp mill modification project at Prince Rupert.

Long term debt interest increased from \$10.7 million in 1978 (of which \$6.3 million was capitalized as interest during construction and \$4.4 million was charged to earnings) to \$15.3 million in 1979. Substantially all of the increase relates to the additional debt required to finance the completion of the Prince Rupert pulp mill modification project.

Exchange loss on repayment of long term debt amounted to \$1.1 million, a decrease of \$142,000 from the previous year.

Disposition of 1979 sales dollar



Income taxes increased to \$12.4 million from \$600,000 the previous year. The increase was primarily due to the increase in pre-tax earnings from \$3.4 million to \$28.2 million. In addition, the effective tax rate on earnings increased to 44 percent from 18 percent in 1978. The unusually low rate in 1978 was caused by the net favourable effect of adjustments to taxable income which do not vary with earnings; these are the three percent credit on inventory, the tax-paid status of earnings from Babine Forest Products and the non-deductibility of foreign exchange loss on long term debt.

The extraordinary item of \$4.0 million in 1978 represented a reduction of logging taxes due to revision of prior years' tax depreciation claims primarily as a consequence of the high level of capital expenditures since 1976.

Capital program — Capital expenditures in 1979 amounted to \$15.6 million. The expenditures were primarily for road construction, maintenance of business and pollution control. The Company is planning a substantially increased capital spending program in 1980.

Financial position — As a result of higher earnings, funds generated from operations totalled \$44.9 million compared to \$18.6 million in 1978. Funds applied totalled \$51.1 million of which \$31.6 million was used to reduce long term debt, \$15.6 million related to expenditures on fixed assets and \$3.9 million was for dividends. The reduction of long term debt consisted of \$25.0 million partial repayment of the revolving bank loans and \$6.5 million repayment of Bonds. Capital expenditures declined significantly from 1978 as a result of the completion of the Prince Rupert pulp mill modification work.

The debt repayments in 1979 decreased long term debt from \$152.9 million at the end of 1978 to \$121.3 million at the end of 1979. The percentage of long term debt to total capital employed declined from 55 percent at the end of 1978 to 45 percent at the end of 1979.

Working capital decreased during 1979 by \$5.4 million to \$60.5 million. The current ratio at December 31, 1979 was 2.5 to 1, the same as at the end of 1978.

Retained earnings were increased by net earnings of \$1.30 per share and decreased by dividends of \$.32 per share. The remaining \$.98 per share was reinvested in the business and increased the book value per share from \$9.94 to \$10.92.

Five year comparison of earnings before extraordinary item, by quarter

Quarter	(Thousands of dollars)
First	\$ 6,305
Second	7,407
Third	246
Fourth	1,328
1975	\$15,286
First	\$ 4,000
Second	4,274
Third	4,014
Fourth	2,307
1976	\$14,595
First	\$ 3,381
Second	5,837
Third	2,166
Fourth	1,168
1977	\$12,552
First	\$ 551
Second	641
Third	494
Fourth	1,088
1978	\$ 2,774
First	\$ 2,735
Second	3,997
Third	3,726
Fourth	5,374
1979	\$15,832

1979 Summary by Quarter

(Thousands of dollars)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year 1979
Net sales	\$55,072	65,680	61,002	81,459	263,213
Earnings before taxes	4,715	7,527	6,773	9,217	28,232
Provision for income taxes	1,980	3,530	3,047	3,843	12,400
Net earnings	\$ 2,735	3,997	3,726	5,374	15,832
Per share	\$.22	.33	.31	.44	1.30

Consolidated Statement of Earnings

<i>(Thousands of dollars)</i>	1979	1978
Revenues		
Net sales	\$263,213	175,490
Other income (note 11)	2,361	8,318
	265,574	183,808
Cost and expenses		
Cost of goods sold	210,992	167,154
Selling and administration	9,441	7,351
Long term debt interest	15,305	4,381
Exchange loss on repayment of long term debt	1,121	1,263
Other	483	285
	237,342	180,434
Earnings before taxes and extraordinary item	28,232	3,374
Provision for income taxes	12,400	600
Earnings before extraordinary item	15,832	2,774
Income tax reduction	—	4,000
Net earnings	\$ 15,832	6,774
Per share		
Earnings before extraordinary item	\$ 1.30	.23
Extraordinary item	—	.32
Net earnings	1.30	.55

Consolidated Statement of Retained Earnings

Retained earnings at beginning of year	\$ 52,584	49,715
Net earnings for the year	15,832	6,774
	68,416	56,489
Dividends — 32¢ per share	3,911	3,905
Retained earnings at end of year	\$ 64,505	52,584

Consolidated Balance Sheet at December 31

ASSETS <i>(Thousands of dollars)</i>	1979	1978
Current assets		
Short term investments	\$ —	4,495
Accounts receivable (note 2)	32,839	43,952
Inventories (note 3)	66,086	60,508
Prepaid expenses	1,195	1,235
	100,120	110,190
Investment in and advances to associated company	3,101	2,117
Timber deposits and other investments	1,178	1,361
Property, plant and equipment (note 4)	207,791	210,377
	\$312,190	324,045

LIABILITIES *(Thousands of dollars)***1979****1978****Current liabilities**

Bank indebtedness	\$ 3,596	2,195
Accounts payable and accrued liabilities	28,362	34,384
Current portion of long term debt	7,644	7,664
	39,602	44,243

Long term debt (note 6)

121,265 152,862

Deferred income taxes

17,853 5,492

SHAREHOLDERS' EQUITY

Share capital (note 8)	68,965	68,864
Retained earnings (note 9)	64,505	52,584
	133,470	121,448
	\$312,190	324,045

*Approved by the Directors**Donald N. Watson* Director*Amundson* Director

Consolidated Statement of Changes in Financial Position

<i>(Thousands of dollars)</i>	1979	1978
Source of funds		
From operations		
Earnings before extraordinary item	\$ 15,832	2,774
Charges to earnings not involving use of funds		
Depreciation, amortization and depletion	18,061	12,457
Deferred income taxes	12,361	501
Other	(1,363)	(1,122)
	44,891	14,610
Income tax reduction	—	4,000
	44,891	18,610
Sale of fixed assets	528	460
Issue of Common Shares	101	75
Issue of long term debt	—	79,998
Other	188	468
	45,708	99,611
Application of funds		
Expenditures on fixed assets	15,629	80,405
Dividends	3,911	3,905
Reduction of long term debt	31,597	6,488
	51,137	90,798
Increase (decrease) in working capital	(5,429)	8,813
Working capital at beginning of year	65,947	57,134
Working capital at end of year	\$ 60,518	65,947

Notes to the Consolidated Financial Statements

1. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned.

(b) Investment in associated company

The investment in Babine Forest Products Limited (24% owned) is accounted for by the equity method.

(c) Translation of foreign currencies

Where covered by forward contracts, current assets and current liabilities in foreign currencies are translated into Canadian dollars at the related contract rates. Where not so covered, current assets and current liabilities are translated at exchange rates prevailing at the end of each year. Long term debt is translated at the rates at which the funds were converted into Canadian dollars except the Bonds which have been translated at the rate prevailing on the date of the June 29, 1973 re-organization. Revenues and expenses of foreign subsidiaries are translated at average rates for each year.

(d) Inventories

Logs, wood chips and other raw materials are valued at the lower of average cost and replacement cost. Finished products (pulp and lumber) are valued at the lower of average cost and net realizable value. Supplies are valued at average cost.

(e) Property, plant and equipment

These assets are stated at cost. When such assets, except logging equipment, are disposed of in the normal course of business, the cost is removed from the asset accounts and charged to the accumulated depreciation account and the proceeds are credited to the accumulated depreciation account. When logging equipment is disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings.

(f) Depreciation, amortization and depletion

Depreciation, amortization and depletion are computed on original cost as follows:

Asset	Method
Pulp mills	4% composite rate; straight-line
Sawmills	4% to 6% composite rate; straight-line
Logging equipment	10% to 20% rate; diminishing balance
Timber cutting rights, roads and related facilities	Units of production method, using current log production as a percentage of estimated total log production available from such assets

(g) Income taxes

Income taxes are provided on reported earnings at current tax rates. Differences between these taxes and those currently payable, which arise principally from claiming depreciation, amortization and depletion for tax purposes in amounts different from those recorded for accounting purposes, are reflected as deferred income taxes. Investment tax credits, when claimed, are recorded as a reduction in the provision for income taxes.

2. Accounts receivable

(Thousands of dollars)	1979	1978
Trade	\$ 29,750	35,855
Insurance claims	985	5,112
Other	2,104	2,985
	\$ 32,839	43,952

3. Inventories

(Thousands of dollars)	1979	1978
Logs, wood chips and other raw materials	\$ 41,980	36,824
Pulp and lumber	15,386	16,182
Supplies	8,720	7,502
	\$ 66,086	60,508

4. Property, plant and equipment

(Thousands of dollars)	1979	1978
Pulp mills	\$331,474	325,876
Sawmills	34,599	31,545
Timber cutting rights, roads and related facilities	53,098	48,061
Logging equipment and other facilities	19,211	19,351
Land	940	956
	439,322	425,789
Less: Accumulated depreciation, amortization and depletion	231,531	215,412
	\$207,791	210,377

As a result of the June 29, 1973 re-organization, property, plant and equipment was written down by \$75,485,000, of which \$9,964,000 was applied against the net book value of specific assets and \$65,521,000 was added to accumulated depreciation, amortization and depletion. In 1979, the \$65,521,000 was specifically allocated to the Prince Rupert pulp mill.

Effective January 1, 1979, the company changed its method of accounting for capital leases in accordance with recommendations of the Canadian Institute of Chartered Accountants. For capital leases entered into before 1979 the company has elected to continue to account for such leases as operating leases. If such leases were accounted for under the new method, property, plant and equipment, net of accumulated depreciation, would be increased by approximately \$2,548,000 and \$2,024,000, and liabilities would be increased by approximately \$2,476,000 and \$1,967,000 as of December 31, 1978 and 1979, respectively. Net earnings for the years ending December 31, 1978 and 1979 would not have materially changed. The company did not enter into any capital leases in 1979.

5. Income taxes

The net future benefit of investment tax credits which may be claimed is estimated to be \$7,000,000. Unless utilized by the application against current federal income taxes, these benefits will expire as follows: \$100,000 in 1980, \$600,000 in 1981, \$2,600,000 in 1982, \$2,800,000 in 1983 and \$900,000 in 1984.

6. Long term debt

<i>(Thousands of dollars)</i>	1979	1978
Bonds, excluding the portion payable within one year which is included in current liabilities:		
6½% Bonds due January 2, 1981 with annual principal payments (1979 U.S. \$4,000,000; 1978 U.S. \$8,000,000)	\$ 3,993	7,986
5½% Bonds due July 1, 1985 with annual principal payments (1979 U.S. \$17,500,000; 1978 U.S. \$20,000,000)	17,468	19,964
	\$ 21,461	27,950
Promissory Notes:		
10½% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983 (U.S. \$50,000,000)	\$ 54,385	54,385
11½% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983	20,000	20,000
	74,385	74,385
Bank loans	25,000	50,000
Other	419	527
	\$121,265	152,862

The Bonds, Promissory Notes and bank loans are unsecured. The Province of British Columbia has unconditionally guaranteed the payment of principal and interest on the Bonds.

The company has contractual bank lines of credit of \$45,000,000 on a revolving credit facility with any loans at June 30, 1981 converting into term loans repayable up to nine years in equal semi-annual or annual instalments, and, subject to certain restrictions, an additional \$20,000,000 on a revolving credit facility repayable by December 15, 1980. At December 31, 1979, the outstanding loans under these facilities were \$25,000,000 and \$ nil respectively. Interest is at varying rates.

Principal payments required on long term debt in each of the next five years, with the United States dollar component translated at the December 31, 1979 rate of exchange, are:

1980	\$ 7,644,000
1981	8,816,000
1982	6,892,000
1983	14,770,000
1984	14,770,000

7. Pensions

Benefits under the company's pension plan for salaried employees were improved in 1979. The resulting actuarially estimated present value of the unfunded past service liability at December 31, 1979 is \$4,750,000 and will be charged to earnings and funded over fourteen years.

8. Share capital

<i>(Thousands of dollars)</i>	1979	1978
Non-Voting Shares without par value. Authorized 60,000 shares; issued 39,750 shares	\$ 39,750	39,750
Common Shares without par value. Authorized 24,318,119 shares; issued 12,186,493 shares (1978 - 12,169,993 shares)	29,215	29,114
	\$ 68,965	68,864

Other than with respect to voting, the Non-Voting Shares and the Common Shares are equal and carry the same rights including the right to payment of dividends and distributions of the same amount per share.

Under the company's stock option plan, 125,000 Common Shares were reserved at December 31, 1979 for issue to key employees at prices equal to the market values on the dates of grant. The options are for a term of ten years and are exercisable after one year to the extent of 20% a year on a cumulative basis.

At December 31, 1979, there were outstanding options to purchase 70,850 Common Shares at prices ranging from \$4.325 to \$10.25 per share. These options expire on various dates from 1984 through 1989. During 1979, 16,500 shares were issued for \$101,000 cash under the plan.

9. Dividend restrictions

The trust deed relating to the Bonds and the agreements relating to the Promissory Notes contain restrictions on certain payments including dividends. Under the most restrictive provision, the amount available at December 31, 1979 for such payments was \$10,281,000.

10. Commitments

Rental obligations under long term leases, including capital leases entered into before 1979 which the company is accounting for as operating leases (note 4), amount to approximately \$3,000,000 in each of the years 1980 and 1981, \$2,500,000 in 1982 and \$1,700,000 in each of the years 1983 and 1984.

11. Other income

<i>(Thousands of dollars)</i>	1979	1978
Insurance coverage for loss of earnings due to a fire at the Castlegar sawmill	\$ 774	3,570
Income related to cancellation of a sales contract	—	3,370
Equity in earnings of associated company	1,070	1,230
Income from other investments	517	148
	\$ 2,361	8,318

12. Remuneration of directors and senior officers

The aggregate direct remuneration paid or payable to directors and senior officers amounted to \$811,000 in 1979.

13. Subsidiary companies

Calum Lumber Limited
 Canadian Cellulose International S.A.
 Celgar Properties Limited
 Celtran Equipment Limited
 High Arrow Limited
 Pohle Lumber Co. Ltd.
 Twinriver Timber Limited

14. Subsequent event

On January 10, 1980, the company agreed to purchase for approximately \$14,000,000 Price-Skeena Forest Products Ltd., which owns a sawmill in Terrace, British Columbia and holds related crown timber rights.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canadian Cellulose Company, Limited as at December 31, 1979 and the consolidated statements of earnings, retained earnings 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, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

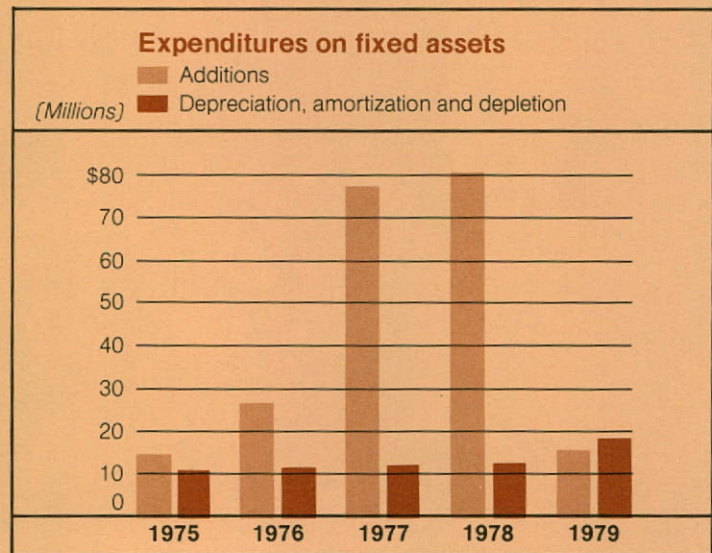
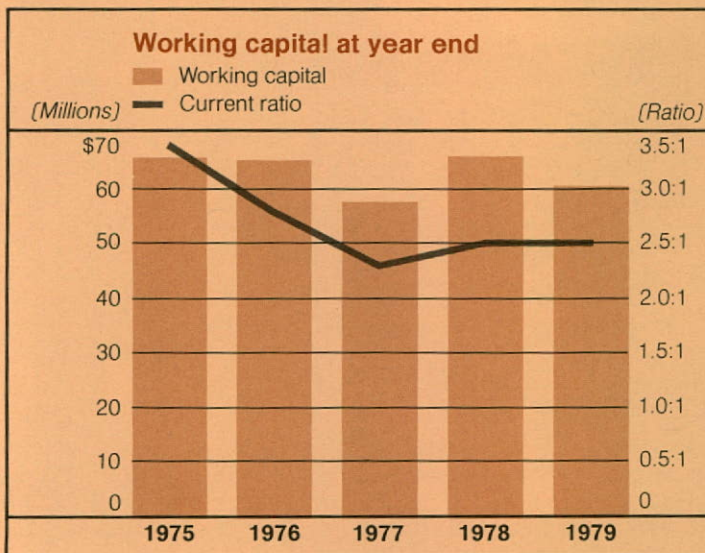
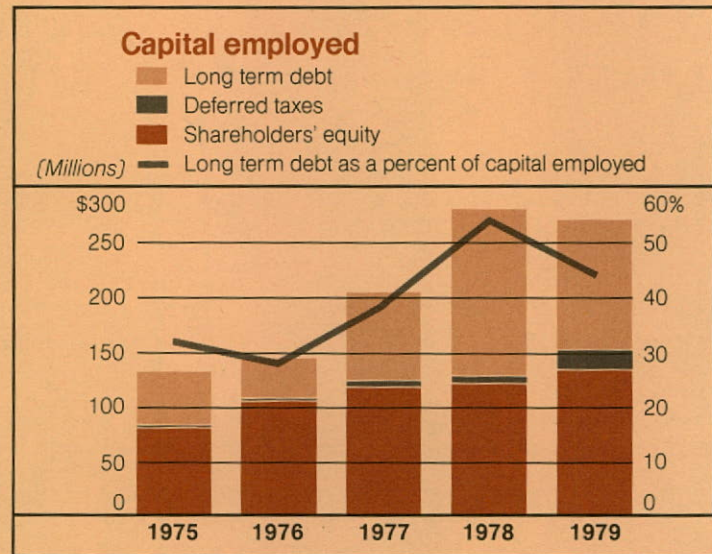
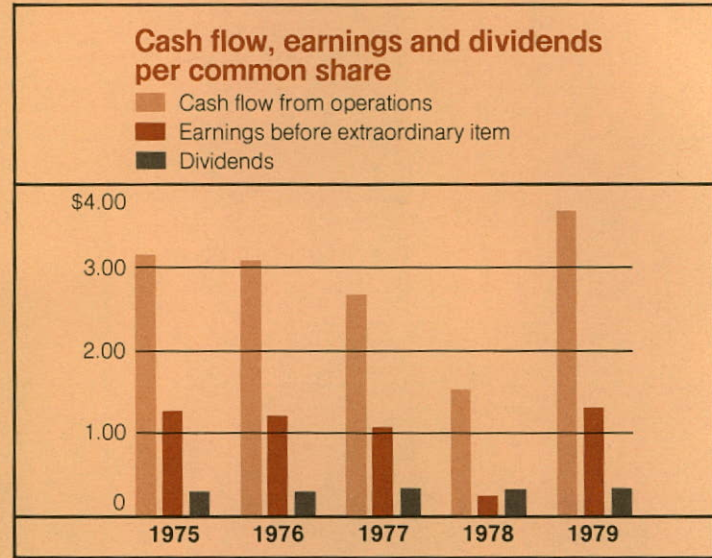
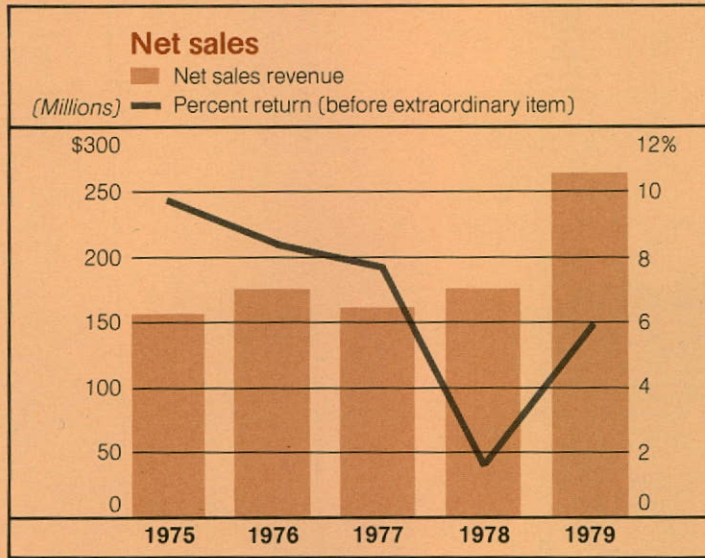
Vancouver, B.C.
 January 21, 1980

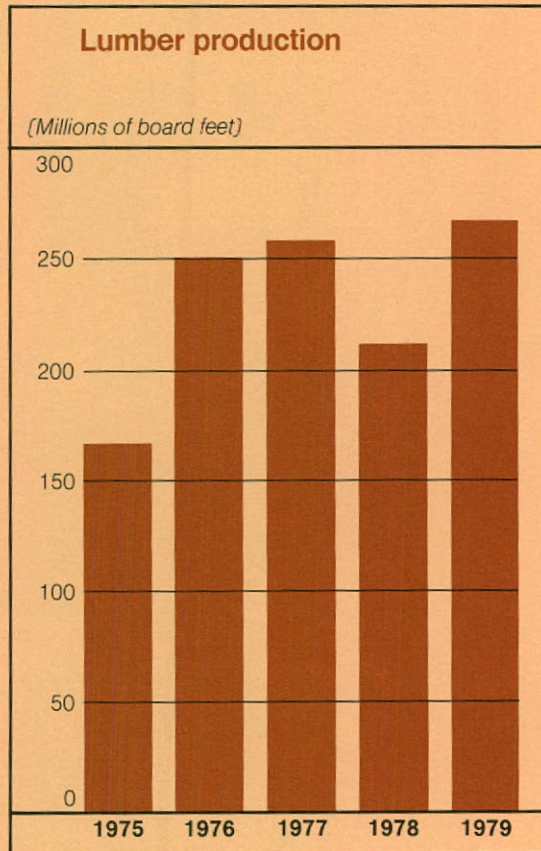
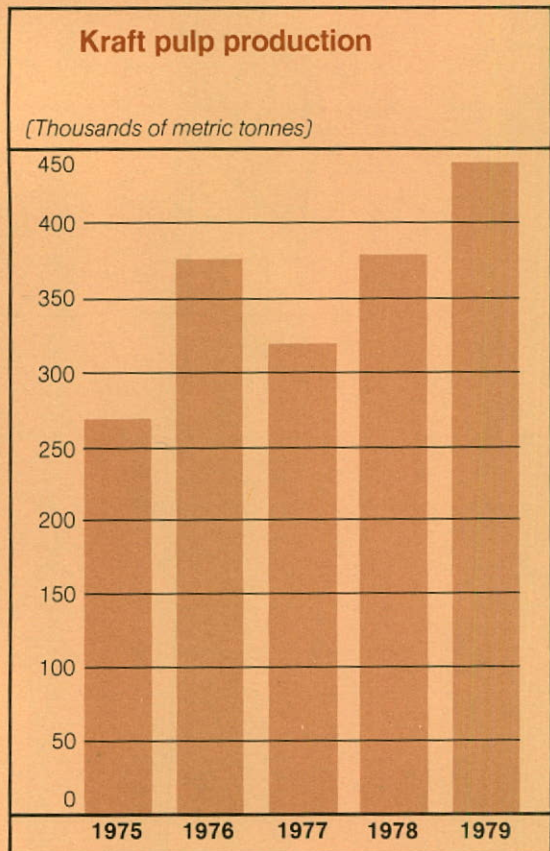
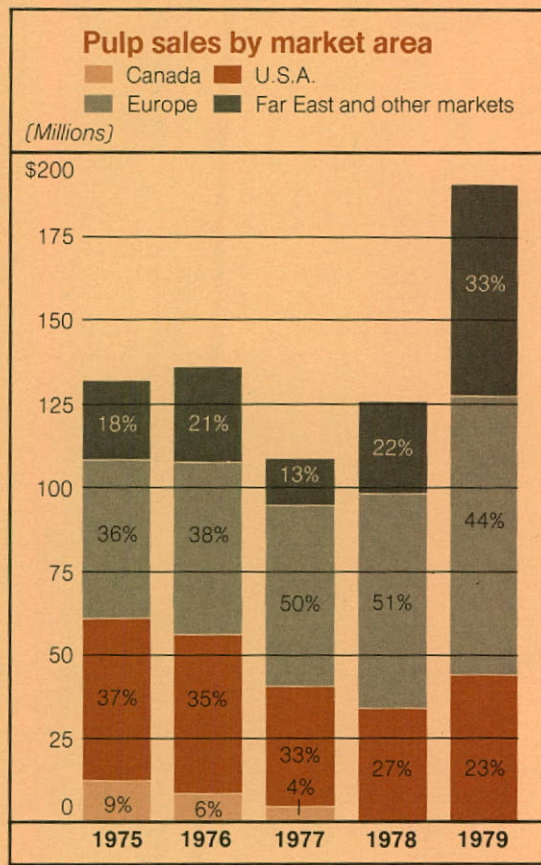
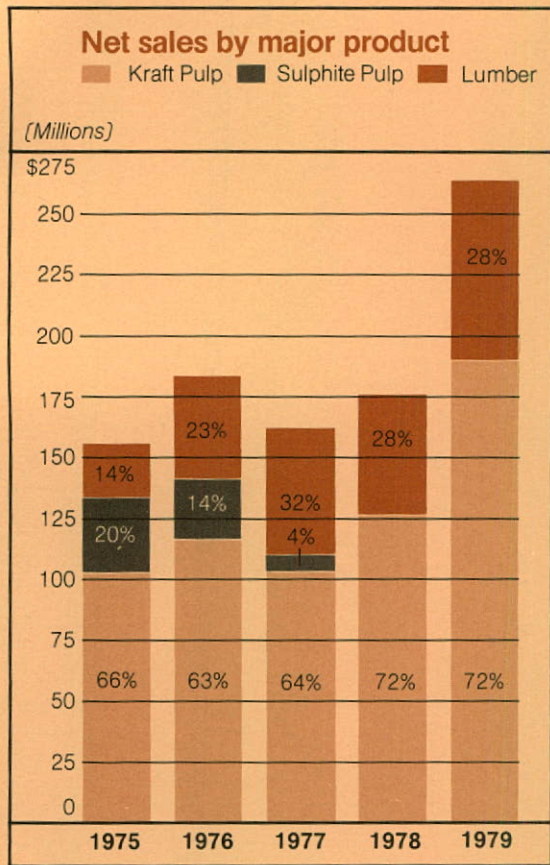
Coopers & Lybrand
 Chartered Accountants

Five Year Review

	1979	1978	1977	1976	1975
Earnings (millions)					
Net sales	\$263.2	175.5	161.1	177.6	156.0
Earnings before undernoted items	28.2	3.4	23.5	29.4	29.5
Provision for income taxes	12.4	.6	10.9	14.8	14.2
Earnings before extraordinary item	15.8	2.8	12.6	14.6	15.3
Extraordinary item	—	4.0	4.7	11.5	12.2
Net earnings	\$ 15.8	6.8	17.3	26.1	27.5
Per share					
Earnings before extraordinary item	\$ 1.30	.23	1.03	1.20	1.25
Net earnings	1.30	.55	1.41	2.14	2.25
Cash flow from operations before extraordinary item	3.67	1.20	2.30	2.12	2.15
Cash flow from operations	3.67	1.52	2.68	3.06	3.15
Dividends	32¢	32¢	32¢	30½¢	30¢
Financial position (millions)					
Working capital	\$ 60.5	65.9	57.1	65.3	65.6
Fixed assets	439.3	425.8	347.6	272.3	276.9
Accumulated depreciation, amortization and depletion	(231.5)	(215.4)	(204.8)	(195.5)	(216.0)
Other assets	4.3	3.5	3.1	4.3	4.0
	272.6	279.8	203.0	146.4	130.5
Long term debt	121.3	152.9	79.5	41.2	47.7
Deferred income taxes	17.8	5.5	5.0	.1	.1
Shareholders' equity	133.5	121.4	118.5	105.1	82.7
	\$272.6	279.8	203.0	146.4	130.5
Changes in financial position (millions)					
Sources: Cash flow from operations	\$ 44.9	18.6	32.7	37.3	38.4
Issue of long term debt	—	80.0	44.4	—	—
Other	.8	1.0	3.1	.1	.4
	45.7	99.6	80.2	37.4	38.8
Applications: Fixed assets	15.6	80.4	77.9	27.5	14.9
Dividends	3.9	3.9	3.9	3.7	3.7
Long term debt	31.6	6.5	6.5	6.5	6.5
Other	—	—	.1	—	.7
	51.1	90.8	88.4	37.7	25.8
Increase (decrease) in working capital	\$ (5.4)	8.8	(8.2)	(.3)	13.0

Five Years at a Glance





Corporate Information

BOARD OF DIRECTORS

Donald N. Watson*

Chairman, Canadian Cellulose Company, Limited, Vancouver

E. Bertram Berkley†

Chairman and President, Tension Envelope Corporation, Kansas City

D. Michael M. Goldie*

Partner, Russell & DuMoulin, Vancouver

Alan S. Gordon*

Consultant, Merrill Lynch, Royal Securities Limited, Montreal

David L. Helliwell*

President and Chief Executive Officer, British Columbia Resources Investment Corporation, Vancouver

W. C. Raymond Jones†

Consultant, Vancouver

Max Litvine

Managing Director, Compagnie Bruxelles Lambert, Brussels

Richard I. Nelson

Chairman and Chief Executive Officer, British Columbia Packers Limited, Vancouver

John W. Poole

President and Chief Executive Officer, Daon Development Corporation, Vancouver

John H. Spicert†

Executive Vice-President, Canadian National Railways, Montreal

Ira D. Wallach*

Chairman, Gottesman & Company, Inc. and Central National Corporation, New York

Ray G. Williston†

Chairman and President, British Columbia Cellulose Company, Victoria

OFFICERS

Donald N. Watson

Chairman, President and Chief Executive Officer

Roy W. Murphy

Senior Vice President, Operations

Gordon R. McLachlin

Senior Vice President, Lumber

Chris R. Scott

Senior Vice President, Pulp Marketing

Orjan Burchardt

Vice President, Technical Development

Roger J. Duncan

Vice President, Administration and Secretary

Roy S. Jewesson

Vice President, Woodlands

Harry R. Papushka

Vice President, Pulp Marketing

Clive B. Symons

Vice President, Finance and Planning

William H. Vaughan

Vice President, Pulp Marketing

Alan K. Wilkinson

Treasurer

*Member of Executive Committee — Chairman, D. Michael M. Goldie

†Member of Audit Committee — Chairman, E. Bertram Berkley

DIVISIONS

John N. Babcock

Manager, Kitwanga Lumber
Division

Robert E. Davis

Manager, Pohle Lumber
Division

G. C. Dinning

Manager, Celgar Lumber
Division

Jac W. Kreut

General Manager,
Skeena Pulp Division

G. Edward Lloyd

Manager, Twinriver Woodlands
Division

H. E. Roberts

Manager, Celgar Woodlands
Division

R. W. Sweeney

General Manager,
Celgar Pulp Division

CORPORATE MANAGEMENT

John T. Fowle

Director, Operational Planning

Kenneth D. Halliday

Director, Labour Relations

Kristian Juel

Director, Pulp Marketing

R. Bryan Keeler

Corporate Controller

Peter J. Kirby

Director, Forest Resources

Douglas R. Main

Assistant Controller

Eileen McKenzie

Administrative Assistant
to the President

C. J. Neil Neufeld

Director, Personnel Administration

J. M. O'Halloran

Director, Pulp Marketing

R. Schwartz

Director, Strategic Planning

Samuel H. Smillie

Director, Management Training
and Development

Alan H. Smith

Director, Pulp Marketing

Robert E. Swenarchuk

Director, Public Affairs

W. Frederick Waldie

General Manager,
Woodlands Operations

CORPORATE DATA

Share Transfer Agent and Registrar

Montreal Trust Company,
466 Howe Street, Vancouver, B.C.
V6C 2A8, and branches in Toronto
and Montreal

Share Listings

Montreal, Toronto and Vancouver
Stock Exchanges

Auditors

Coopers & Lybrand,
28th Floor, 1055 West Georgia Street,
Vancouver, B.C. V6E 3R2

Principal Subsidiary and Affiliated Companies

Babine Forest Products Limited
(24% owned)
Canadian Cellulose International S.A.
High Arrow Limited

PLANTS AND OFFICES

Corporate Office

1200 - 1111 West Hastings Street,
Vancouver, B.C. V6E 2K2

Pulp Marketing Offices

Montreal, P.Q., Vancouver, B.C.
Brussels, Belgium

Kraft Pulp Mills

Castlegar, B.C., Prince Rupert, B.C.

Lumber Mills

Castlegar, B.C., Kitwanga, B.C.,
Terrace, B.C.

Woodlands Operations

Nakusp, B.C., Terrace, B.C.

Opposite:

Wood chips, the raw material for making pulp at our Prince Rupert and Castlegar mills, are obtained as a by-product of lumber manufacturing and from chipping of low-quality, whole logs.

Inside back cover (right):

The senior management team — left-to-right, [standing] — H. R. Papushka, W. H. Vaughan, R. S. Jewesson, Orjan Burchardt, A. K. Wilkinson, [seated] — R. W. Murphy, C. R. Scott, C. B. Symons, R. J. Duncan, G. R. McLachlin, D. N. Watson.

Inside back cover (left):

The small log sawmill at Castlegar incorporates the most recent proven advances in computer and electronic sawmill technology.



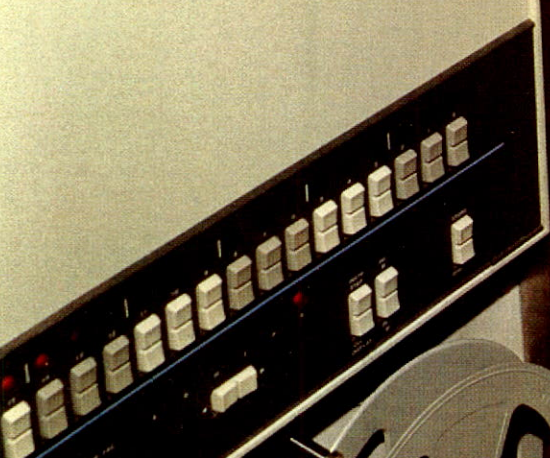




ON/OFF

CHIP-N-SAW

CONTROL SYSTEM





Canadian Cellulose Company, Limited

1200 - 1111 West Hastings Street, Vancouver, B.C. V6E 2K2

