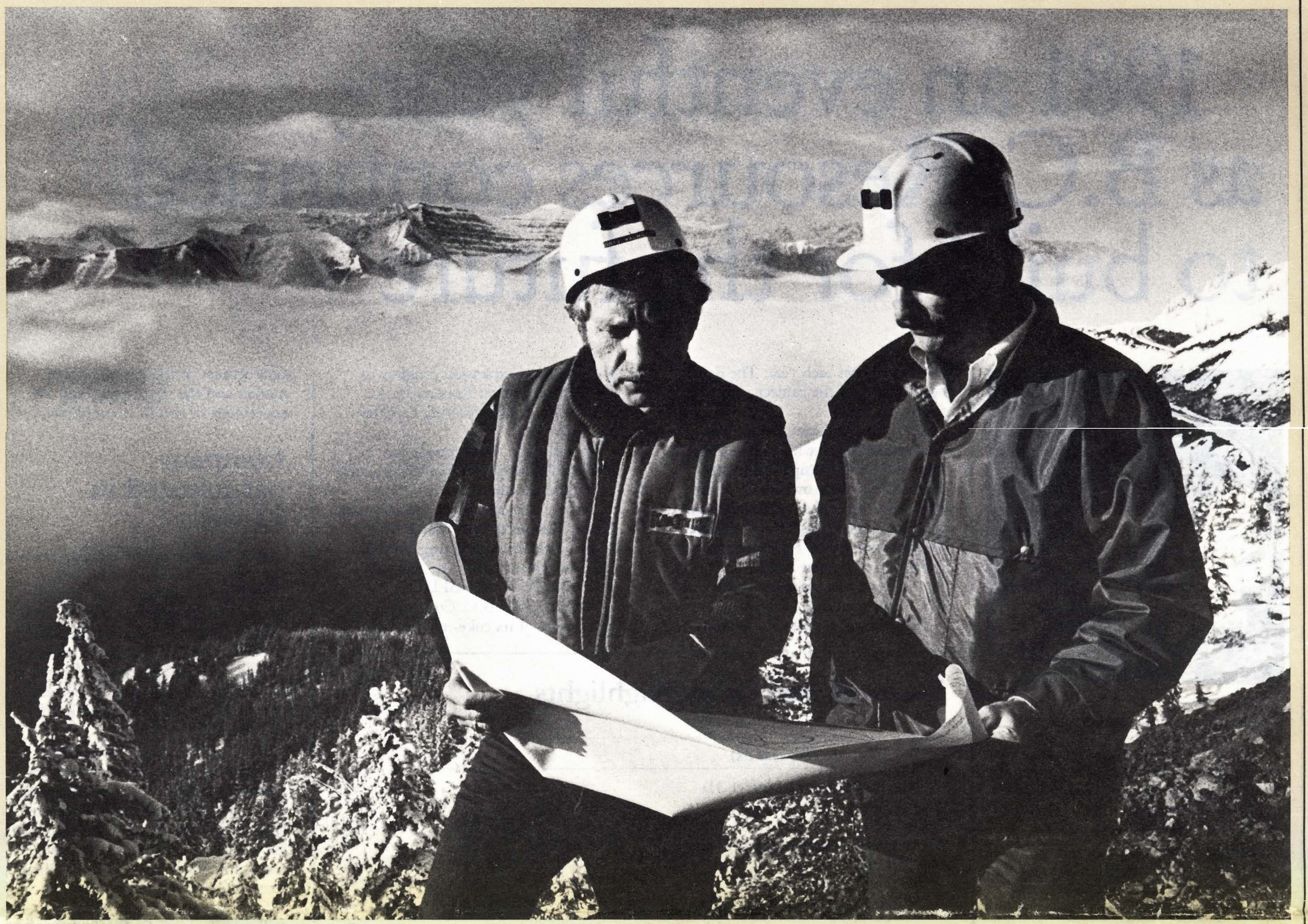
British Columbia Resources Investment Corp. C

B C RESOURCES

ANNUAL REPORT 1981



Building for tomorrow

Perched high atop a mountain in the southeastern corner of British Columbia, two B.C. Coal employees review details of the company's new Greenhills surface mine which is now taking shape 1,800 meters above sea level. The $282 million project is part of B.C. Resources commitment to build on its assets of coal, forest products and oil and gas. Men like Shorty Walmsley and Al Merritt are among more than 6,500 people in the B.C. Resources Group who are helping make the future happen.

Looking ahead: A note from the president

Four years have passed since British Columbia Resources Investment Corporation first captured the attention of thousands of investors, each eager to share in the future of Canada's natural resources. Since shares began trading on August 7, 1979, the Company has lived in the public spotlight because its fortunes have meant so much to so many different people.

It has experienced triumphs and disappointments, events which have been shared by the Company's management, its employees and the many people who invested in the Company's future.

A great deal has happened to B.C. Resources in the past, and as the Company enters its fifth year of operations, its future is brighter than ever before. Its assets in coal, forest products, oil and gas are sizeable; its operations, among the largest in the country. A strengthened management team is now in place.

But above all, B.C. Resources is a company with its sights firmly fixed on the future. Plans are now underway to expand and upgrade operating sectors to keep pace with the expected growth of world markets. The Company has great faith in the future of Canada and intends to remain one of its leading suppliers to a resource-hungry world.

The facts and figures in this 1981 Annual Report talk about how B.C. Resources performed during the year, what it accomplished, and why. What the figures may not reveal is just how much was achieved in building and preparing the Company and its people for a strong future of steady growth.

This Annual Report may seem unconventional at first. Gone are the color photographs and glossy paper that are a part of traditional annual reports. B.C. Resources considers itself a unique company with a special responsibility to communicate to its shareholders. It has made a conscientious effort to tell its story, simply and factually, in an easy-to-read tabloid newspaper format. It is management's belief that the story the Company has to tell is one well worth reading.

— *Bruce Howe*

About B.C. Resources

British Columbia Resources Investment Corporation is a diversified, B.C.-based company with primary interests in the major natural resource industries of Western Canada including coal, forest products, oil and gas. The book value of its total assets is about $1.8 billion and more than 90 percent of its products are sold to international markets.

The Company has some 128,000 registered shareholders and more than one million holders of bearer shares, making it one of the most widely-held companies in North America.

Its principal operating subsidiaries are B.C. Coal Ltd. (67 percent ownership) and BC Timber Ltd. (100 percent). The Company has an oil and gas division with active exploration programs underway through various arrangements with other firms on properties in British Columbia, Alberta, parts of the United States and near Sable Island in Canada. Through B.C. Coal, the Company is also participating in exploration and development programs offshore in the Beaufort Sea, and in the United Kingdom sector of the North Sea. The Company also owns 8.5 percent of Westcoast Transmission Company Limited.

B.C. Resources is an operating company dedicated to building value for its shareholders through growth in earnings and asset values. The Company's corporate offices are at 1176 West Georgia Street, Vancouver, B.C.

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1981 an eventful year as B.C. Resources continued to build for the future

Bruce I. Howe
President and Chief Executive Officer

British Columbia Resources Investment Corporation devoted much of 1981 to laying the groundwork for a growing and profitable future as one of Canada's major natural resource companies. The Company and its subsidiaries concentrated on expanding operations during the year. The Company's strategic objective is to build for the future.

Like many other resource companies in North America, B.C. Resources financial performance in 1981 was disappointing. High interest rates and a world-wide recession cut heavily into operating profits, and caused a decrease in earnings from the previous year. But the Company's holdings in three different natural resource sectors — coal mining, forest products, and oil and gas — provided a buffer against today's difficult world economy. Once economic conditions return to more normal levels, the Company will be ready to take full advantage of increased demand from customers around the world.

The Company's strategy of building for the future is reflected in the new construction activity at B.C. Coal Ltd. Since B.C. Resources purchased its 67 percent interest in the coal mining company, construction has begun on the new Greenhills mine, a major expansion to the Roberts Bank superport, and several other projects at Sparwood, B.C.

Coal operations set records

B.C. Coal is the largest exporter of metallurgical coal in Canada with proven recoverable reserves of clean coal of 463 million tonnes. In 1981, several production and shipping records were set and sales increased from $365.4 million in 1980 to $511.8 million.

This consistent performance is expected to continue as the company moves closer to the scheduled startup of its new facilities. By mid-1983, metallurgical coal, which is used in the steel manufacturing process, will be moving from the new Greenhills mine, while shipments of thermal coal will begin as early as summer, 1982. The mine will be capable of producing 1.8 million tonnes of metallurgical coal, and an additional 750,000 tonnes of thermal coal each year. The development cost of the project is $282 million.

B.C. Coal has initialled a joint venture agreement with Korea's Pohang Iron and Steel Company Limited (POSCO) to share ownership of the operation, subject to approvals from the Korean government and Canada's Foreign Investment Review Agency. POSCO will assume 20 percent of the mine's costs and ownership, with B.C. Coal retaining 80 percent.

The company is also undergoing a $127 million expansion program at its deep-sea port at Roberts Bank, which will double existing capacity by 1983.

In addition, the company has established its own coal marketing group to handle all sales and marketing activities. The company's contract with Kaiser Resources ends March 31, 1982. This new marketing team has been assembled under the name of B.C. Coal International Ltd.

Late in 1981, B.C. Coal announced the closure of its coke-making operation because of the loss of a major market and the short remaining life expectancy of the 30-year-old plant.

Financial and Other Highlights

	1981	1980
Operations ($ Thousands)		
(For the year ended December 31)		
Revenue	859,057	520,414
Earnings before extraordinary items	7,930	45,708
Net earnings	42,487	47,937
Funds provided by operations	77,572	110,297
Additions to property, plant and equipment	295,546	99,945
Financial position ($ Thousands)		
(At December 31)		
Working capital	87,904	82,228
Total assets	1,799,851	1,676,287
Long term debt	718,949	585,215
Shareholders' equity	773,585	731,098
Per share ($)		
Earnings before extraordinary items	0.08	0.47
Net earnings	0.44	0.50
Book value (December 31)	8.04	7.60
Price range (V.S.E. and T.S.E.)		
High	6.25	9.25
Low	3.05	5.75
Ratios		
Current ratio	1.51 to 1	1.43 to 1
Debt to equity ratio	.93 to 1	.80 to 1
Percentage of long term debt to total capital employed	44.3%	39.5%
Return on shareholders' equity	1.1%	6.5%
Return on capital employed (Note 1)	3.9%	6.2%
Other information		
Number of employees (at December 31)	6,562	6,819
Wages, salaries and employee benefits ($ Thousands) (Note 2)	217,655	140,378
Number of registered shareholders	127,944	133,309

Note 1 — Return on capital employed is the percentage that earnings before extraordinary items, minority interest and interest adjusted for income taxes is of the average total assets less average current liabilities.

Note 2 — The 1980 figure includes B.C. Coal Ltd. from October 15, 1980.

Report of the Directors

The 1981 Report of the Directors to the Members consists of the President's Report, the Reviews of B.C. Resources Operations, Financial and Other Highlights, Financial Review and the Consolidated Financial Statements of the Company and its subsidiaries for the year ended December 31, 1981 and the related Notes.

Company participated in 52 wells

B.C. Resources Oil and Gas Division, which is based in Calgary, consolidated its exploration activities in 1981 by farming out seismic and drilling activities to other developers. It participated in drilling 52 wells during 1981, of which eight tested oil and seven tested gas. This year, the Division will participate in the drilling of 40 new wells.

B.C. Coal's oil and gas holdings, managed by B.C. Resources, have a promising future. Recent evaluations of the Brae Field off the coast of the United Kingdom, where the company has a 7.7 percent interest, indicate reserves in South Brae of 300 million recoverable barrels of oil, of which B.C. Coal's portion would be some 23 million barrels. B.C. Coal's share of Brae Field expenditures will require an additional investment, including a carried interest obligation, of approximately $100 million in 1982 and a further $40 million in 1983.

B.C. Resources reorganized its forest products holdings late in 1980, when it merged three subsidiaries into a single company now called BC Timber Ltd. A dismal building products market and softening pulp business required considerable attention during the year, but the company is moving ahead with plans to continue to modernize its lumber manufacturing operations. The company has also committed $75 million to reduce the impact of pulp mill operations on the environment and bring them in line with government pollution control standards.

Production capacity of bleached kraft pulp at the company's Skeena Pulp operations in Prince Rupert is planned to increase from 1,100 to 1,220 tonnes per day during 1982.

The company is still considering a possible expansion of its Celgar Pulp operations in Castlegar, and has completed feasibility studies ranging from production increases of 100 tonnes per day to as high as 500 tonnes. But uncertainties in the pulp market and record-high interest rates have prompted the company to delay, at least temporarily, any further engineering work on this project.

1981 revenues top $859 million

B.C. Resources 1981 consolidated earnings (before extraordinary items) of $7.9 million or 8 cents per share were disappointingly low, while revenues for the year stood at $859.1 million. This compares to $45.7 million or 47 cents per share on revenues of $520.4 million in 1980.

The Company's net earnings for 1981 include a profit of $34.6 million

Receptionist Sheri Thomas handles many of the incoming telephone calls through B.C. Resources' main switchboard in Vancouver.

on the sale of its 20 percent holding in MacMillan Bloedel Limited, which was sold in the second quarter. After this extraordinary gain, the Company's net earnings for the year amounted to $42.5 million or 44 cents per share for the year.

At the end of 1981, the total book value of all of the Company's assets, including its coal reserves and production equipment, forestry and mill operations, and oil and gas reserves, stood at $1.8 billion. The book value of the shares of the Company, after all debts and tax liabilities were subtracted, was $8.04 per share by year-end, compared to $7.60 a year ago.

The Company's investment plans are based on its firm belief in the future of Canada's resource industry. In 1982, B.C. Resources and its subsidiaries expect to invest about $475 million to upgrade and expand existing operations. Part of this money will be spent to open up the new Greenhills mine in southeastern B.C. and to expand the deep-sea shipping port at Roberts Bank. Other funds will be used to modernize lumber manufacturing operations to make them more productive and efficient. B.C. Resources Oil and Gas Division will also benefit from the Company's planned 1982 expenditures as it sets out to explore for new sources of fossil fuel and develop its proven reserves.

To help pay for these investments, the Company needs the flexibility to raise the necessary funds by issuing preferred shares as an alternative to borrowing. This method of raising money from investors is used by many successful corporations to finance their construction and expansion programs.

Exports represent 93% of all sales

B.C. Resources is now one of Canada's leading diversified natural resource companies. In the few short years since its incorporation, the Company has developed an international reputation based on its growing exports. Export shipments last year accounted for roughly 93 percent of the Company's total sales. As production and exports continue over the next few years, B.C. Resources will play an important role in helping to maintain Canada's balance of payments.

Currently, 53 percent of the value of its gross assets are in mining, 25 percent in forest products, 18 percent are related to oil and gas exploration, and four percent in other investments, including holdings in Westcoast Transmission Company Limited.

Even though the Company's financial performance in 1981 was disappointing, its strengths and future potential appeal to many investors, particularly the large investment funds and pension plans. During the past year, there has been a noticeable shift in the ownership of registered shares from British Columbia to Eastern Canada, where many of these investment funds are based.

By the end of 1981, Ontario and Quebec alone accounted for 16 percent of all outstanding registered shares, while B.C. residents reduced their registered holdings from 70 percent at December 31, 1980 to 64 percent at December 31, 1981.

During the year, a number of changes were made to the Company's top management team (page 4) and the makeup of its Board of Directors was altered. David L. Helliwell, who was the founding president of B.C. Resources and its chairman since November, 1980, resigned from the Company on October 30, 1981. Mr. Helliwell made a major contribution to the Company's early development and growth and established the original guidelines that saw B.C. Resources through its startup years.

New chairman appointed

The Board of Directors appointed Donald N. Watson as its new chairman. A Company director since August, 1981, Mr. Watson was the president and chief executive officer of BC Timber Ltd. at the time of his appointment. Mr. Watson brings many years of business experience in the B.C. forest industry and Canada's aviation industry to his new position.

B.C. Resources also welcomed five other new board members during 1981. They are Donald S. Harvie, Edwin C. Phillips, James A. Pattison, Lucille M. Johnstone, and Walter J. Riva. *(See profiles page 24)*

Three directors, W. Maurice Young, Edgar F. Kaiser, Jr. and John W. Poole, resigned during the year. Their business acumen and experience were invaluable to the Company during its formative years.

In the past year, the Company embarked on a course to foster better relations with its employees. Management firmly believes that employees at all levels of the organization should be given the chance to participate in the Company's growth and expansion.

However, the Company is deeply concerned about the rift that has grown between management and organized labor in Canada. Every year, strikes and other labor disagreements exact a heavy toll on the economy of this country, on the financial performance of corporations, and on millions of individuals. B.C. Resources believes it is time to find an alternative to the adversary system in an effort to end the traditional struggle that has often taken place between labor and management.

In the first quarter of 1982, B.C. Coal successfully concluded a two-year agreement with members of the United Mine Workers of America, local 7292 without a labor disruption at its Sparwood operations.

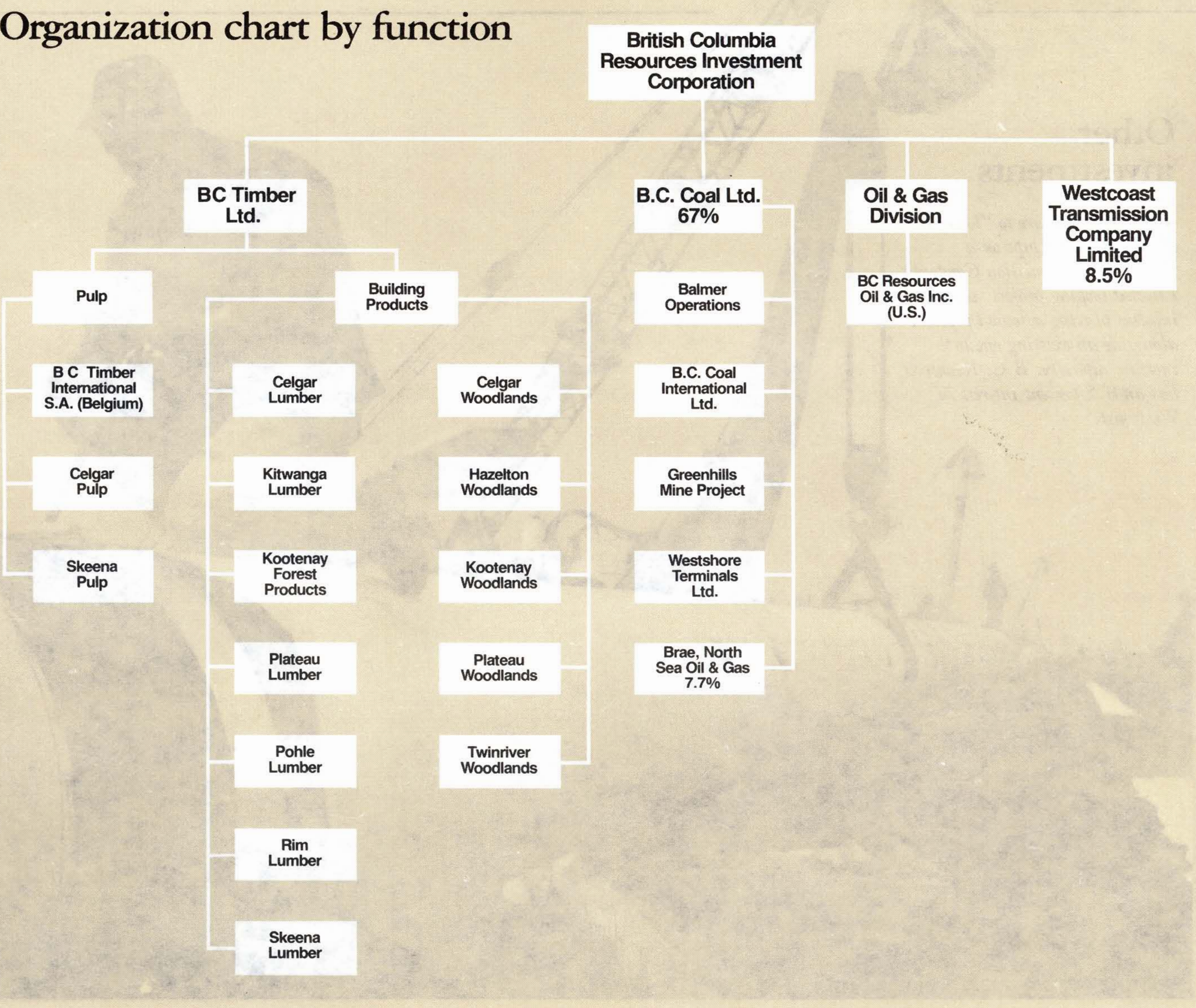
The 6,562 men and women who work for the B.C. Resources Group of companies are its greatest strength. The dedication and pride they demonstrate each day on the job have helped the Company move ever closer to its goal of becoming more efficient, productive and profitable. With their continued help, B.C. Resources will grow and prosper.

On behalf of the Board of Directors,

Bruce I. Howe
President and
Chief Executive Officer

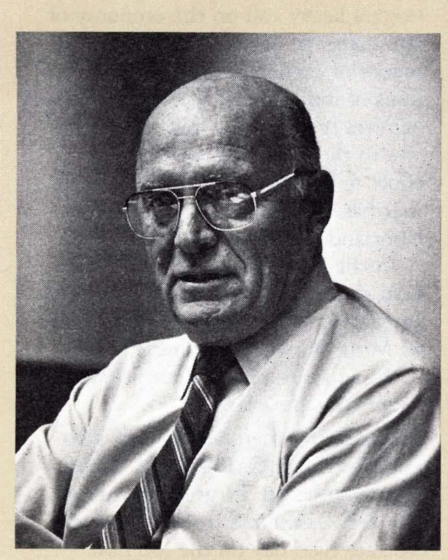
Vancouver, B.C.
February 26, 1982

Organization chart by function



Management team assembled

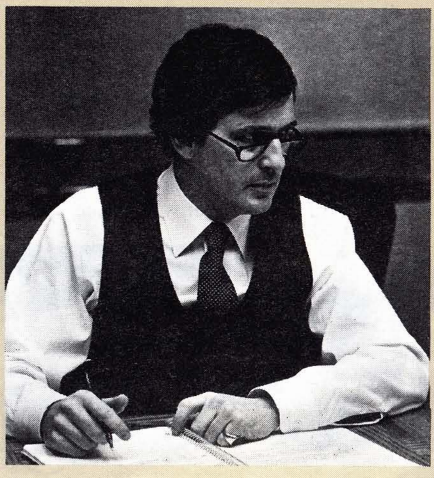
The challenges and opportunities facing B.C. Resources have brought together a new team of experienced corporate executives. Following the appointment of **Bruce Howe**, 45, as president and chief executive officer in November, 1980, the Company began to build a new senior management team to develop the organization and operating structure that will lead B.C. Resources into the future. In brief:



Donald Watson, 60, was appointed chairman of the board of B.C. Resources in October, 1981 after serving as president and chief executive officer of BC Timber, the Company's forest products subsidiary. He was previously president and chief executive officer of Pacific Western Airlines *(See Directors, page 24)*.

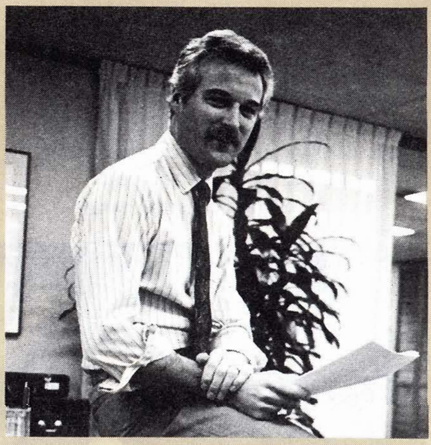
Jack Smith, 42, held the senior financial post at Westcoast Transmission in Vancouver before joining B.C. Resources in April, 1981 as executive vice president, finance and chief financial officer of the Company. He is responsible for all financial matters that relate to B.C. Resources and its subsidiaries.

Jean Cormier, 40, joined B.C. Resources in May, 1981 and is now senior vice president, corporate affairs. His responsibilities cover government relations, shareholder relations and public affairs as well as the Company's administrative functions. He was formerly president of CN's Hotel and Tower division, located in Montreal.



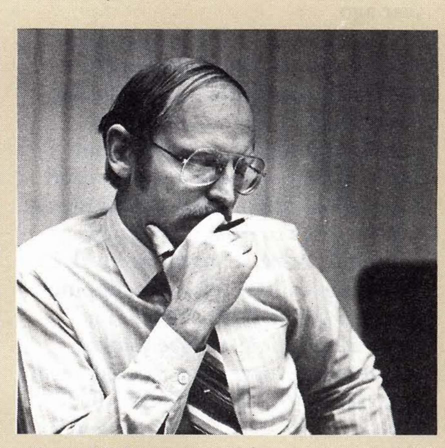
Roger Duncan, 39, was appointed senior vice president, law and secretary in May, 1981. He was formerly a vice president of BC Timber. He is responsible for all legal and corporate secretarial matters.

Walter Riva, 59, was named chairman of the board and chief executive officer of B.C. Coal in December, 1981. Prior to his appointment, he was president and chief executive officer of B.C. Coal, which he joined in 1973. He has some 40 years of Western Canada coal experience and is a past president and past chairman of the Coal Association of Canada.



John Montgomery, 41, has been president of BC Timber since October, 1981. He formerly headed up the packaging products division of MacMillan Bloedel, and has extensive experience in manufacturing and marketing of pulp, paper and packaging.

Robert Currie, 60, was appointed senior vice president, Oil and Gas Division in May, 1981. An experienced petroleum executive, he has headed the Calgary-based Division since 1978.



Gary Livingstone, 36, was appointed president of B.C. Coal in December, 1981, and was previously that company's executive vice president, mining operations. He has spent his entire working career in the mining industry both in Quebec and for the past 11 years, at B.C. Coal's operations at Sparwood, B.C.

Other investments

Work crews prepare to "lower in" a large diameter pipe on a Westcoast Transmission Company Limited looping project, which involves placing a second pipeline alongside an existing one to increase capacity. B.C. Resources has an 8.5 percent interest in Westcoast.

COAL OPERATIONS

Major expansions underway as coal operations set shipping and sales records

B.C. Coal Ltd. built upon its position as Canada's leading producer and exporter of metallurgical coal in 1981. It established records in sales and production, formed a new marketing subsidiary, and began work on a number of projects which will ensure a productive and profitable future for the company.

Eighty-nine percent of the company's annual production comes from the Balmer surface mine located near Sparwood, in the southeast corner of British Columbia. At about 1,800 meters above sea level, B.C. Coal operates Canada's largest metallurgical surface coal mine, which covers an area of 1,200 hectares.

The company established several monthly production records in 1981. In all, 8.1 million tonnes of coal were produced at the Balmer surface mine in 1981, more than 875,000 tonnes above target.

Underground operations, which account for about 11 percent of B.C. Coal's production, mined 994,000 tonnes. While this figure was below target for 1981, it was the best performance by underground operations in six years.

Monthly shipping records set

The company's Elkview coal preparation plant was able to keep up with the outstanding volume of coal produced by the surface and underground mines and thus also had a record year. From a raw coal feed of 8.9 million tonnes, the plant produced 7.1 million tonnes of clean coal, both company records. Shipping records were broken every month except May when railway work stoppages closed the CP Rail main line for one week. During the year, 751 unit trains each made up of 108 cars were loaded at Elkview and carried clean coal to Westshore Terminals at Roberts Bank.

While these production records were being set, overall job safety improved. The company's accident frequency rate dropped by 30 percent with several departments establishing safety records.

Japan remains B.C. Coal's largest single market, taking about 63 percent of metallurgical coal shipped. Shipments to Korea increased by 66 percent over 1980, contributing to the 29 percent overall increase in B.C.Coal sales. Other markets in 1981 included Mexico, Brazil, Chile, Denmark, Belgium, Spain, Pakistan, Taiwan, United States, Sweden and Canada.

A two-year contract with the United Mine Workers of America, Local 7292, which represents some 1,600 B.C. Coal production and maintenance employees, expired December 31, 1981. (Negotiations continued into the first quarter of 1982 and a new two-year collective agreement was reached March 2, 1982.) More than $30 million worth of major projects were started during 1981 to upgrade working and operating conditions at Balmer Operations.

A $5 million stockpile reclaim system at the Elkview coal preparation plant was completed in December. The new reclaim system loads rail cars from ground storage at the rate of 2,730 tonnes per hour and will result in more efficient and economical loading of trains from stockpile. The plant's clean coal silos will still handle the majority of train loading but the new stockpile system enables the plant to continue operating when train schedules are disrupted.

An extension to the surface mine maintenance shop will be completed by December, 1982 at a cost of $10.8 million. The extension will provide eight new truck bays, enlarging maintenance facilities for the 51 large haul trucks in B.C. Coal's truck fleet. The new shop will also maintain 12 new 154-tonne trucks being added to handle increasing volumes and longer hauling routes.

Long-range maintenance programs are also being introduced which will help improve truck availability. Shop re-organization and the institution of new work procedures have already combined to improve equipment availability.

Construction of a new three-storey surface mine office and washhouse facility is well underway. Scheduled for completion in April, 1983, the new building will provide modern wash facilities for more than 1,200 employees and 1,200 square meters of office space. The project will cost $9.7 million. A $1.6 million analytical lab is also being erected and will be ready for use in October, 1982. It will provide better conditions for quality analysis of the company's product and for the evaluation of coal samples generated by B.C. Coal's extensive exploration program.

About $1.75 million is being spent on an extension to one of B.C. Coal's settling lagoons near the Elkview plant to provide for the continuing storage of plant rejects.

Computing contract signed

In 1981, B.C. Coal signed a contract with a major computing firm for the worldwide marketing rights for all computing programs developed by B.C. Coal. The programs will be licensed to computer users with B.C. Coal receiving a royalty for each licence granted.

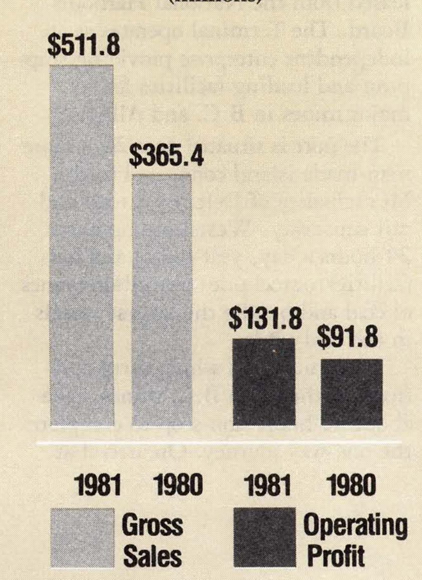
While establishing an enviable record in production, shipping and sales, the company is at the same time strongly committed to protecting the natural beauty of the Elk Valley in which it operates.

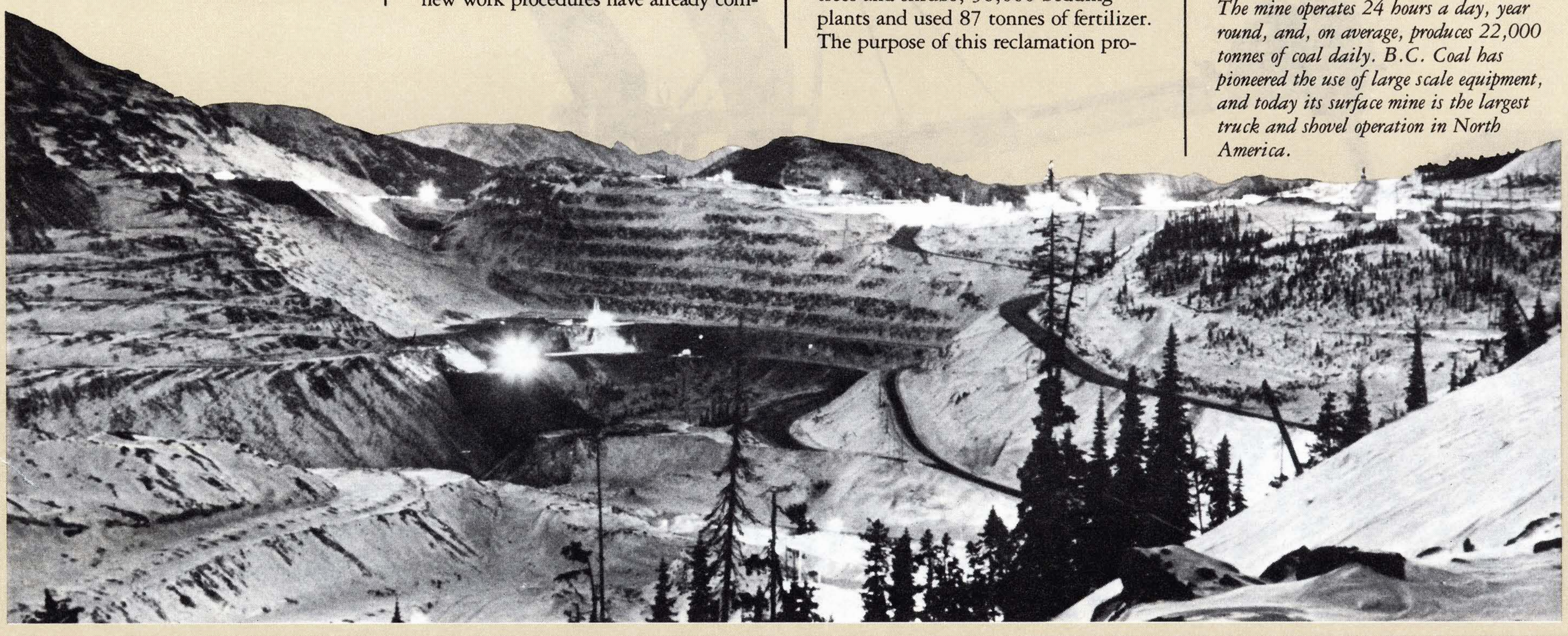
The B.C. Mine Reclamation Association recognized B.C. Coal's environmental protection program as the best at any coal mine in the province in 1981. This is the sixth consecutive year that B.C. Coal has been recognized for work in this area. B.C. Coal's reclamation program provides a standard for the mining industry. The company has reclaimed more than 1,000 hectares of land to date, with 15 hectares being sloped and seeded in 1981. It planted 23,000 trees and shrubs, 36,000 bedding plants and used 87 tonnes of fertilizer. The purpose of this reclamation program is to return mined land to a self-sustaining state for wildlife habitat. Monthly animal counts done by the Environmental Services department indicate B.C. Coal has attained success in this goal.

1982 outlook encouraging

The outlook for B.C. Coal in 1982 is again encouraging. Shipments to Japan are expected to reach 4.3 million tonnes while Korea is expected to buy 1.2 million tonnes. Other sales are expected to bring 1982's total to more than 6.5 million tonnes of metallurgical coal, similar to 1981's record sales. With Balmer Operations expected to perform well again, shipments from Greenhills expected to begin in mid-1982, the completion of expansion projects at Westshore Terminals and Balmer, and a positive sales outlook, B.C. Coal looks ahead with confidence.

B.C. Coal Sales and Operating Profit (millions)





Dawn breaks over B.C. Coal's enormous surface mine at Sparwood, B.C. The mine operates 24 hours a day, year round, and, on average, produces 22,000 tonnes of coal daily. B.C. Coal has pioneered the use of large scale equipment, and today its surface mine is the largest truck and shovel operation in North America.

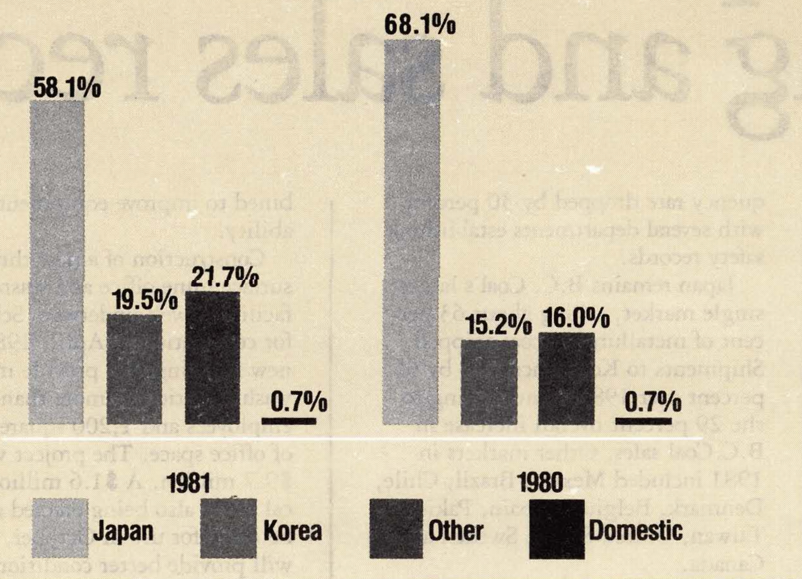
Coal marketing arm established

B.C. Coal's sales and marketing philosophy is based on a policy of developing long-term relationships with its customers and providing them with uninterrupted service. The marketing of coal does not end with the signing of a contract and is tied in to a very intricate system of production and transportation components. Reliable production and transportation are the key elements in developing and maintaining the necessary long-term relationships with its customers.

B.C. Coal International Ltd. was established in December, 1981 to assume the marketing function for all B.C. Coal products, a task previously performed under contract by Kaiser Resources Ltd. which ends March 31, 1982. This new subsidiary company will service current contracts and customers, renegotiate long-term pricing agreements and develop new markets for all coal produced by new and expanded mine facilities.

In today's highly competitive international coal marketplace, an efficient marketing operation is vital to a company like B.C. Coal, which is almost exclusively dependent on exports. The company's primary product is metallurgical coal which is used in steelmaking. It has undergone a substantial increase in demand, particularly from customers in the Pacific Rim countries in recent years. While the demand for metallurgical coal will continue to grow during this decade the rate of growth is expected to moderate.

B.C. Coal Sales by Market



The outlook for thermal coal is extremely bright. Thermal coal, used to generate power and heat, is becoming increasingly attractive as an alternative to more expensive fuels like oil and gas. Until recently, the company sold only limited quantities of thermal coal. However, with increased worldwide demand the company has responded by scheduling increases in thermal coal production during 1982, particularly from its new Greenhills mine.

The new marketing company reports to Robert Stanlake, B.C. Coal's executive vice president, marketing and transportation. Under the leadership of president, Robert H. Brady, it is moving ahead aggressively. B.C. Coal International Ltd. expects to complete a number of new agreements for metallurgical and thermal coal in 1982.

Port expansion will double capacity

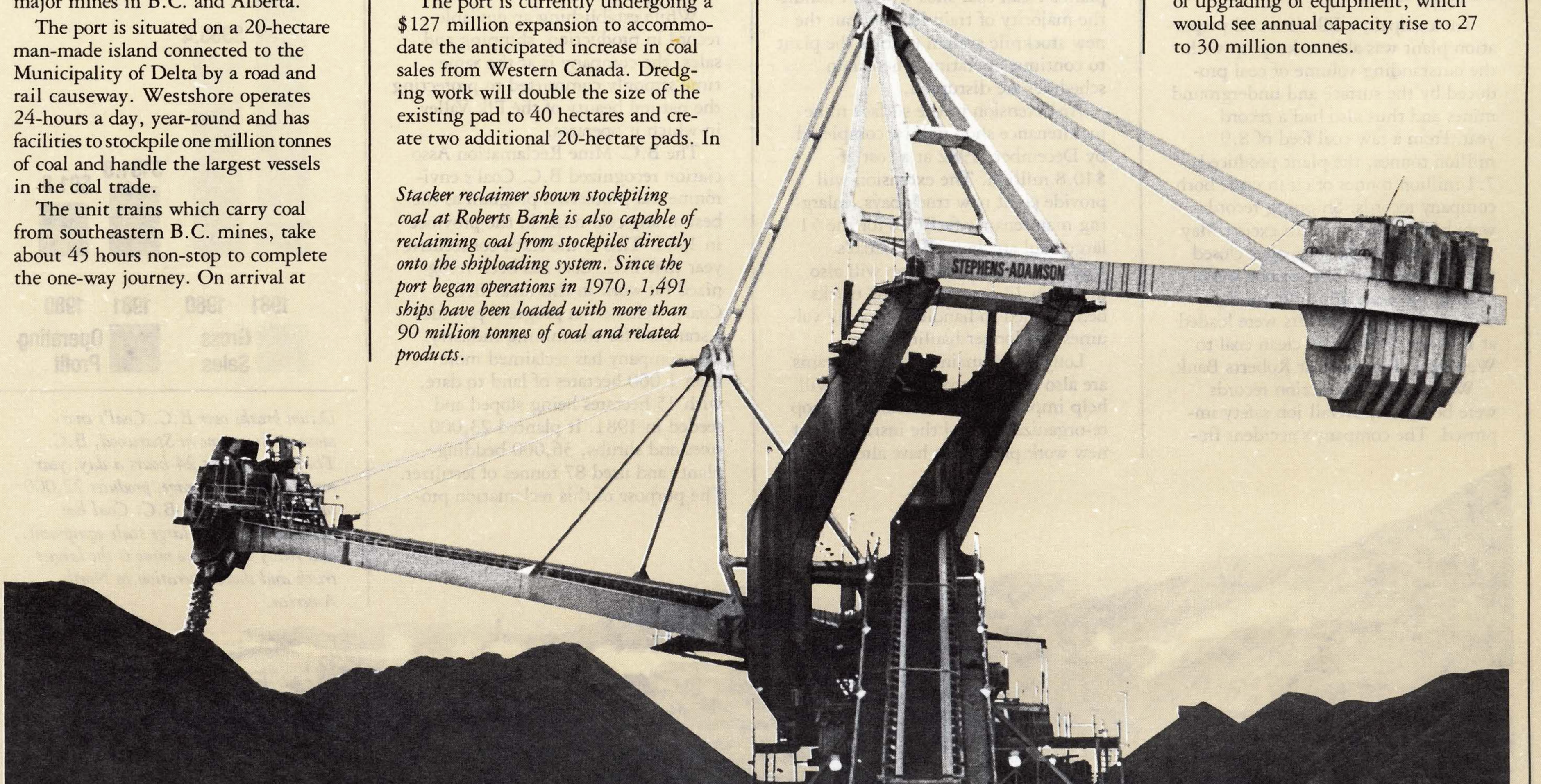
A vital link in the B.C. Coal system is Westshore Terminals Ltd., a wholly-owned subsidiary which operates the coal superport at Roberts Bank, south of Vancouver. Westshore is a highly-mechanized and efficient operation, situated on reclaimed land leased from the National Harbours Board. The Terminal operates as an independent enterprise providing shipping and loading facilities for six major mines in B.C. and Alberta.

The port is situated on a 20-hectare man-made island connected to the Municipality of Delta by a road and rail causeway. Westshore operates 24-hours a day, year-round and has facilities to stockpile one million tonnes of coal and handle the largest vessels in the coal trade.

The unit trains which carry coal from southeastern B.C. mines, take about 45 hours non-stop to complete the one-way journey. On arrival at Roberts Bank, the train is moved through the rotary dumper using remote control. The cars used in the unit train system are solid bottom gondolas with swivel couplings for rotary dumping without disconnecting the cars. A unit train of 10,000 tonnes is dumped in about five hours. The coal is then conveyed from the dumping station to stockpiles or directly onto the shiploading system.

The port is currently undergoing a $127 million expansion to accommodate the anticipated increase in coal sales from Western Canada. Dredging work will double the size of the existing pad to 40 hectares and create two additional 20-hectare pads. In addition, the causeway and ship turning channel will be widened. Westshore will occupy the enlarged pad and the remaining two pads will be held for later development.

By July, 1983, when new shiploading facilities are in place, the port will be able to accommodate a new generation of vessels which are being designed to carry up to 250,000 deadweight tonnes. A new tandem dumper, capable of unloading two rail cars at once, will help to increase annual capacity to 22 million tonnes. The company is working on plans for a final phase of the expansion, consisting of upgrading of equipment, which would see annual capacity rise to 27 to 30 million tonnes.



Stacker reclaimer shown stockpiling coal at Roberts Bank is also capable of reclaiming coal from stockpiles directly onto the shiploading system. Since the port began operations in 1970, 1,491 ships have been loaded with more than 90 million tonnes of coal and related products.

Greenhills mine to begin production in 1983

B.C. Coal is spending $282 million to develop its Greenhills Project, a surface coal mine located near Elkford, B.C., about 35 kilometers north of the company's Balmer Operations at Sparwood.

Greenhills was originally intended to produce 1.8 million tonnes of metallurgical coal and about 200,000 tonnes of thermal coal per year starting in mid-1983. The production plan for thermal coal has been expanded to 500,000 tonnes in 1982 and 750,000 tonnes in each succeeding year for the first 20 years. The thermal coal schedule has been advanced to August, 1982, to meet the growing demand for the high-quality Greenhills product from customers in Korea, Hong Kong and Denmark.

Greenhills will be a joint development between B.C. Coal, and Korea's Pohang Iron and Steel Company Limited (POSCO) which will own 20 percent. POSCO will be taking 500,000 tonnes of Greenhills metallurgical coal each year and the balance is expected to be sold to customers in Japan, Taiwan and Latin America.

Construction, hiring and other preparatory work began in 1981. Because of British Columbia's extremely wet spring in 1981, which made working and ground conditions difficult, construction got off to a slow start. But much of that lost time has since been made up. All Greenhills facilities, including the coal processing plant, are scheduled to be finished by July, 1983.

The access road system has been completed, after 710,000 bank cubic meters (BCM) of material were cut and removed and 750,000 BCM of fill were used in other areas. In all, ten kilometers of access road have been built with seeding and other reclamation work already begun along most of the road system.

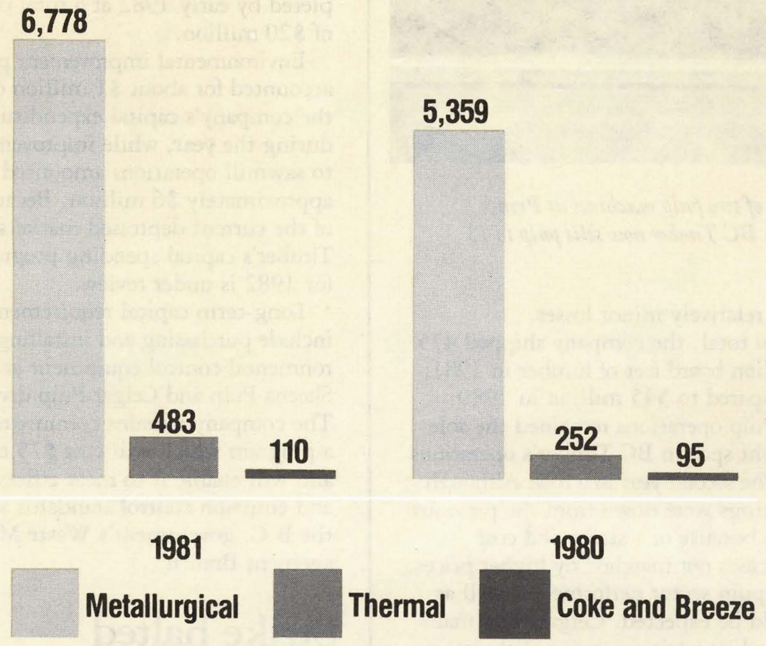
The work involved in building the roads, rail loop, maintenance complex, processing plant and other Greenhills facilities, saw the construction camp at the site accommodate as many as 564 contractors' employees in 1981. The start-up and operation of the mine itself will provide hundreds of additional employment opportunities. Greenhills itself had a workforce of 172 at the end of 1981 and another 239 people will be hired this year. A 12-hour shift is currently in effect. Greenhills will have a workforce of 650 when fully operational.

B.C. Coal's Greenhills operations and maintenance departments will provide all training for new employees. All hourly employees hired in 1981 are now qualified and proficient on at least two types of heavy equipment. The Canada Manpower Industrial Training Program contributed to employee training costs. Other training includes first aid, mine rescue, fire protection and safety courses. Greenhills did not record a single lost time accident in 1981.

Greenhills will also employ the most up-to-date surface mining equipment available. The first of three equipment fleets was put into operation in September, 1981. The second fleet is on order for arrival in the spring of 1982.

Greenhouse attendant *Jewel Cockrell checks the health of seedlings in B.C. Coal's greenhouse. The company is a consecutive winner of the B.C. Mine Reclamation Award for Leadership in Restoration. Since the program began, over 1,000 hectares have been restored.*

B.C. Coal Sales by Product
(thousands of tonnes)



Building a management team

Walter J. Riva
Chairman and Chief Executive Officer
B.C. Coal Ltd.

B.C. Coal has invested a considerable amount of time and effort in building its management team. We've done this to ensure that it functions effectively, not only in the short term, but to ensure succession in the years ahead.

We have recruited and promoted from within our organization a group of executives and senior managers who are, on average, young, but also well qualified and experienced. They form the central core of our management team and I believe they have aptly demonstrated their capabilities during the last few years. I use the phrase "management team" deliberately because management at B.C. Coal is really teamwork.

Teams of managers at different levels meet regularly to decide how policy is best translated into productive activity. They also decide how each manager can best contribute to the success of the company with his or her colleagues. Generally speaking, once policy has been determined, each operating unit has the responsibility and authority to accomplish its goals, and is accountable for them.

This framework provides the opportunity for each manager to contribute to the company's success and profitability, to develop his or her abilities, and to contribute to the development and satisfaction of the employees who report to that manager.

To the greatest extent possible, major profit centres are autonomous and the managers responsible for the performance of these centres are located at the site.

There is nothing radically new in our management philosophy. Simply, it means that the prominence we enjoy within our industry is largely due to the skill and dedication of our young managers and the accomplishments and enthusiasm of all our employees.

— *Walter Riva*

Forest products operations hurt by poor markets and low prices

1981 was a dismal year for BC Timber Ltd. The company's building products sector, in particular, was hit hard by the U.S. housing recession, which saw lumber prices plummet to their lowest level in many years. Tough economic times forced it to cut back production at many of its sawmills and woodlands operations, idling both employees and machinery.

But the company did not stand still during the year. Despite gloomy markets and poor financial performance, BC Timber developed plans to be ready to respond quickly when an end comes to the slump that plagues the entire Canadian forest products industry. It continued its programs to cut costs, to increase production at its northern pulp mill, and launched a $75 million project to improve pollution controls in its operating communities.

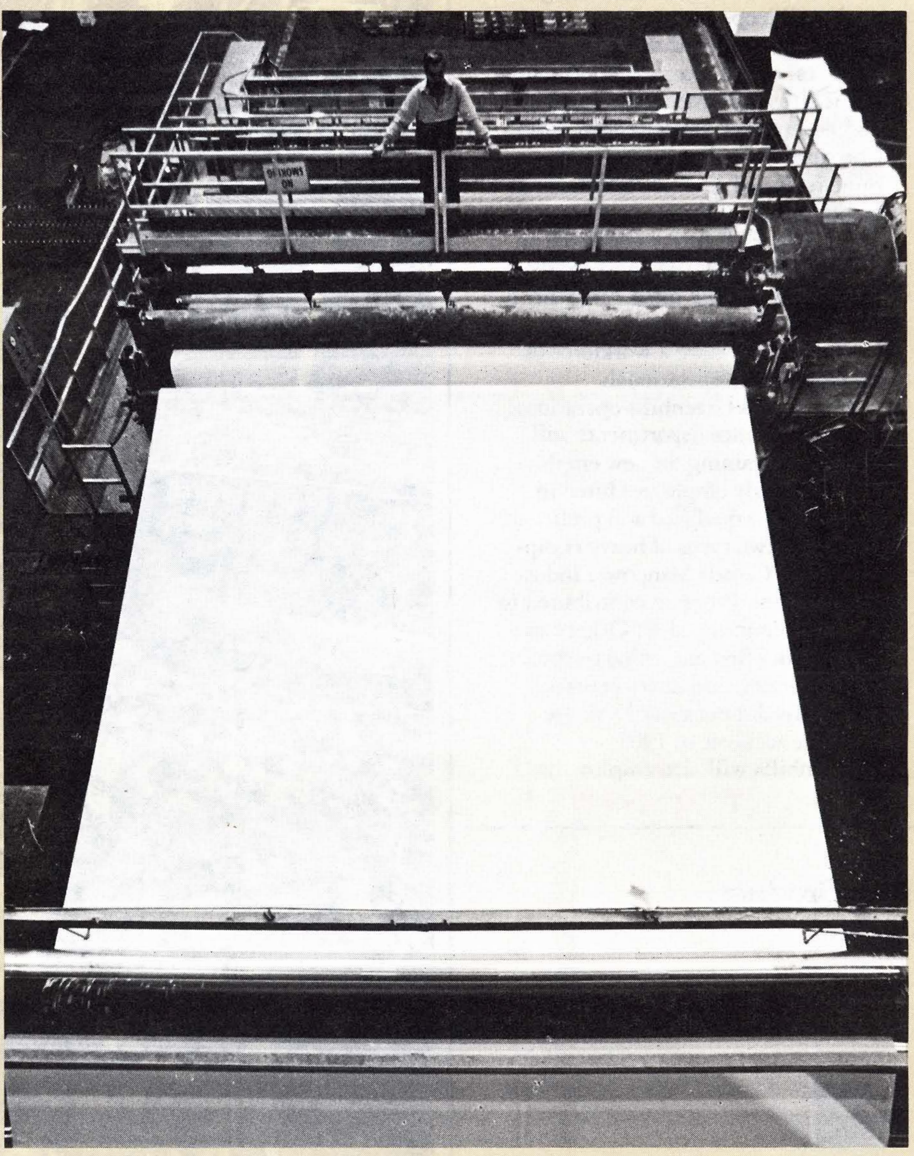
BC Timber is one of the largest exporters of bleached market kraft softwood pulp in North America. Its lumber capacity ranks it among the top 12 lumber producers on the continent. Its 4,000 employees operate two kraft pulp mills in Prince Rupert and Castlegar and sawmills and logging divisions in Terrace, Kitwanga, Hazelton, Vanderhoof, Castlegar, Nelson and Nakusp.

The company's pulp mills have an annual capacity of 550,000 tonnes of kraft pulp and its sawmills have a capacity to produce 675 million board feet of lumber, enough to build 67,000 average-size wood frame homes. The forest resources it manages on behalf of the people of the province are immense, covering approximately 1.9 million hectares in the northern and interior sectors of the province. Together, the tenures under its control represent an area three times that of Prince Edward Island and ensure the company has a renewable source of fibre for the foreseeable future.

Operations merged in late 1980

With some facilities dating back to the end of World War II, the company underwent a gradual expansion as new mills were acquired and older ones updated. It was a public company until August, 1980 when all remaining outstanding shares were purchased by B.C. Resources. On December 31, 1980, B.C. Resources amalgamated its forest products operations — Kootenay Forest Products Ltd. in Nelson, Plateau Mills Ltd. near Vanderhoof and Canadian Cellulose Company, Limited. The name of this organization was changed to BC Timber Ltd. on June 1, 1981. Largely because of the difficult lumber market, BC Timber lost money in 1981 after making a profit the previous year.

The company's seven sawmills and plywood plant together operated at a loss in 1981, with the Kootenay Forest Products and Celgar Lumber divisions particularly vulnerable to



A continuous 6-meter wide sheet of pulp moves along one of two pulp machines at Prince Rupert before it is cut into sheets and wrapped for export. BC Timber now sells pulp to 15 different countries.

the depressed market for building products.

A detailed study of these two divisions revealed serious losses would continue for the foreseeable future because of poor log quality, high operating and fibre costs, and outdated equipment. The company is developing plans to update and improve some of these facilities.

Production curtailed in north

In its northern operations, the company was forced to reduce production at four of its five sawmills because of constant operating losses during the fall and winter months. To keep the pulp mill at Prince Rupert supplied with wood chips, these mills carried on limited production by chipping pulp logs, which were shipped to the coastal pulp mill by rail car. This program also helped the company provide employment for many of its sawmill and woodlands employees.

The most consistent sawmill performer during the year was the Plateau Lumber division in Engen, near Vanderhoof. Modern equipment and a supply of sound fibre allowed this operation to continue production throughout most of 1981 while recording relatively minor losses.

In total, the company shipped 475 million board feet of lumber in 1981, compared to 545 million in 1980.

Pulp operations remained the sole bright spot in BC Timber's operations for the second year in a row. Although earnings were down from the previous year because of a strike and cost increases not matched by higher prices, the pulp sector performed as well as could be expected. Celgar Pulp maintained its position as one of the most reliable and consistent mills in the province. BC Timber's mills shipped 409,000 tonnes of pulp in 1981, compared to 480,000 the previous year.

Unlike lumber, the pulp market is not as sharply influenced by high interest rates or inflation, but the economic slowdown in its major markets continues to keep pressure on pulp prices. As long as the recession continues to depress demand for fine papers and packaging products, the pulp market will remain soft and unpredictable. The eventual pick-up in the United States and other major world economies should lead to higher prices and better demand for company products. The predictions for 1983 through 1985 call for growing economic stability and good markets for pulp products.

Almost all of the company's pulp is marketed through long-term contracts with customers in 15 different countries. By selling its products to well-established paper manufacturers in its principal markets of Europe, Japan and the United States, the company's mills are better able to make firm production plans even if demand falls in some regions of the world. Sales offices in Vancouver, Montreal and Brussels provide quick access to new and existing markets and personal service to customers.

New projects underway at the two pulp mills accounted for roughly 52 percent of the company's capital expenditures in 1981. In total, $39 million was spent to improve and upgrade all facilities and equipment, of which $25 million went to increase profitability and energy self-sufficiency at the Prince Rupert pulp mill. The profit improvement project will have cost about $18.5 million by completion in mid-1982, and will increase the mill's production capacity from its current level of 1,100 tonnes to 1,220 tonnes per day.

The mill's energy self-sufficiency project will reduce the cost of purchased fuel by 25 percent by converting the major power boiler to operate with wood wastes rather than fossil fuels. Work is due to be completed by early 1982 at a total cost of $20 million.

Environmental improvement projects accounted for about $1 million of the company's capital expenditures during the year, while improvements to sawmill operations amounted to approximately $6 million. Because of the current depressed markets, BC Timber's capital spending program for 1982 is under review.

Long-term capital requirements include purchasing and installing environmental control equipment at the Skeena Pulp and Celgar Pulp divisions. The company remains committed to a program which will cost $75 million and will enable it to meet effluent and emission control standards set by the B.C. government's Waste Management Branch.

Strike halted all operations

Operations at all company mills were interrupted during the summer of 1981 because of a six-week province-wide strike of unionized forest products employees. This lengthy work stoppage halted all production and shipments of building products and pulp from the company's operations and led to an estimated $17 million net pre-tax loss during the year. However, the new two-year agreement signed by the unions and industry's bargaining arms in September, which called for annual increases of 15 percent and 13 percent, should provide continuing labor stability throughout 1982 and well into 1983.

BC Timber continues to stress the importance of safe working conditions throughout its operations. Local plant committees work closely with mill management to devise safer operating methods and recommend changes to existing equipment and processes. During 1981, the company launched a comprehensive noise abatement program to reduce on-the-job noise levels. An audit of all company sawmills was completed during the year to measure noise exposure levels, and the results of this study have already led to a number of mill improvements. The company intends to further reduce noise levels at its plants.

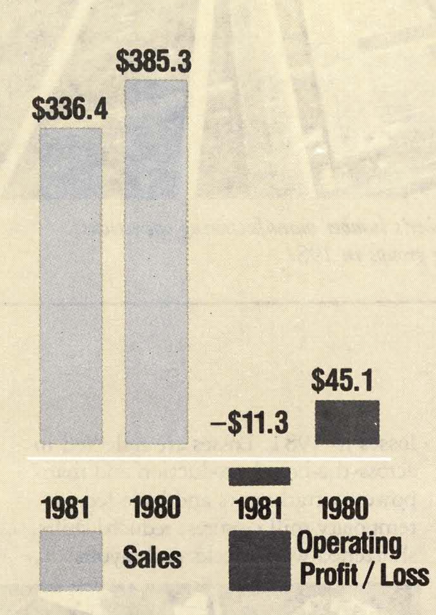
The immediate future of the forest products industry remains clouded. There are still no firm indications of a pick-up in the market for building products.

For kraft pulp, the weakened world economy is expected to continue to affect prices and demand well into the third quarter of the year. If the effects of international recession are lessened, demand for fine paper products and packaging should increase, allowing the company to increase its prices. Over the long term, pulp should continue to provide excellent earnings to the company.

Overall, the forest products sector faces a gloomy forecast for the balance of the year. When the recession eases, the company's building products and pulp groups are expected to show major improvement.

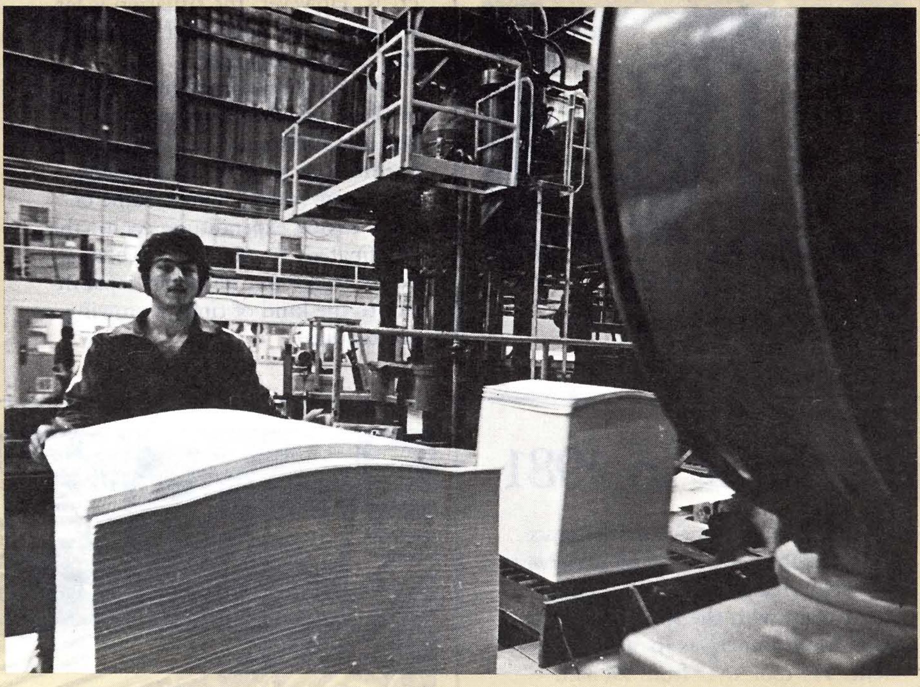
BC Timber Sales and Operating Profit/Loss

(millions)



Environmental improvements underway

A $75 million environmental control program launched by BC Timber in 1981 will ensure operations at its two pulp mills fall within the strict environmental limits set by the provincial government.



Sheets of air dried pulp are automatically cut and stacked at Skeena Pulp division. Each stack is then weighed by Eric DeJong to ensure accuracy before it is baled and wrapped for shipping.

This major investment program will ensure that Skeena Pulp division in Prince Rupert and Celgar Pulp division in Castlegar meet the standards that have been set for both air and water pollution control.

Skeena Pulp division has been allocated $43 million of the total package, including $30 million earmarked directly for air control measures.

Two of the largest single projects at Prince Rupert will be the installation of electrostatic precipitators on two boilers which will remove solid particles from the flue gas. Modifications will also be made to one of the mill's recovery boilers to cut down the release of minute quantities of sulphur gas.

On other equipment, a new scrubber, which will prevent the discharge of particles into the atmosphere, is to be installed and an existing scrubber modified to improve efficiency.

Steps will also be taken to control liquid wastes. A major undertaking in the program will be the installation of an effluent clarifier. Engineering for this system is nearly complete and major equipment components have been purchased. The clarifier will remove suspended solids from certain liquid emissions for use as landfill or as boiler fuel.

Additional treatment measures at the Skeena Pulp mill will reduce the level of other contaminants in the pulp mill effluent. Mechanical log debarkers will replace high pressure water debarkers now being used to strip bark from logs before they are made into chips. The cost of this project is tagged at $2.3 million.

At Celgar Pulp division in Castlegar, $32 million will be spent for environmental controls.

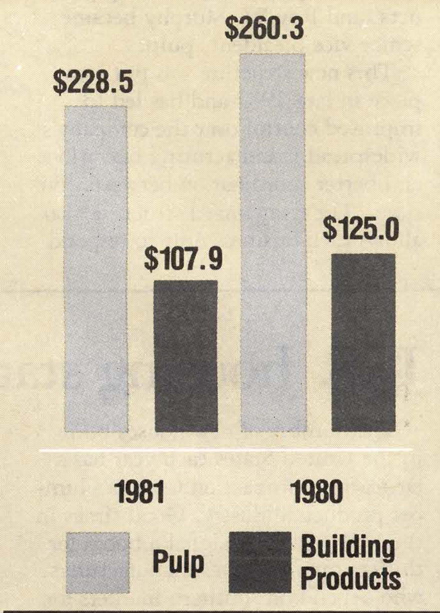
A new treatment system for improving the quality of the effluent discharges to the Columbia River will account for a major portion of the capital expenditure. This facility will include a biological treatment lagoon, covering approximately 12 hectares, in which mill effluent will be held until contaminants have been consumed by bacterial action.

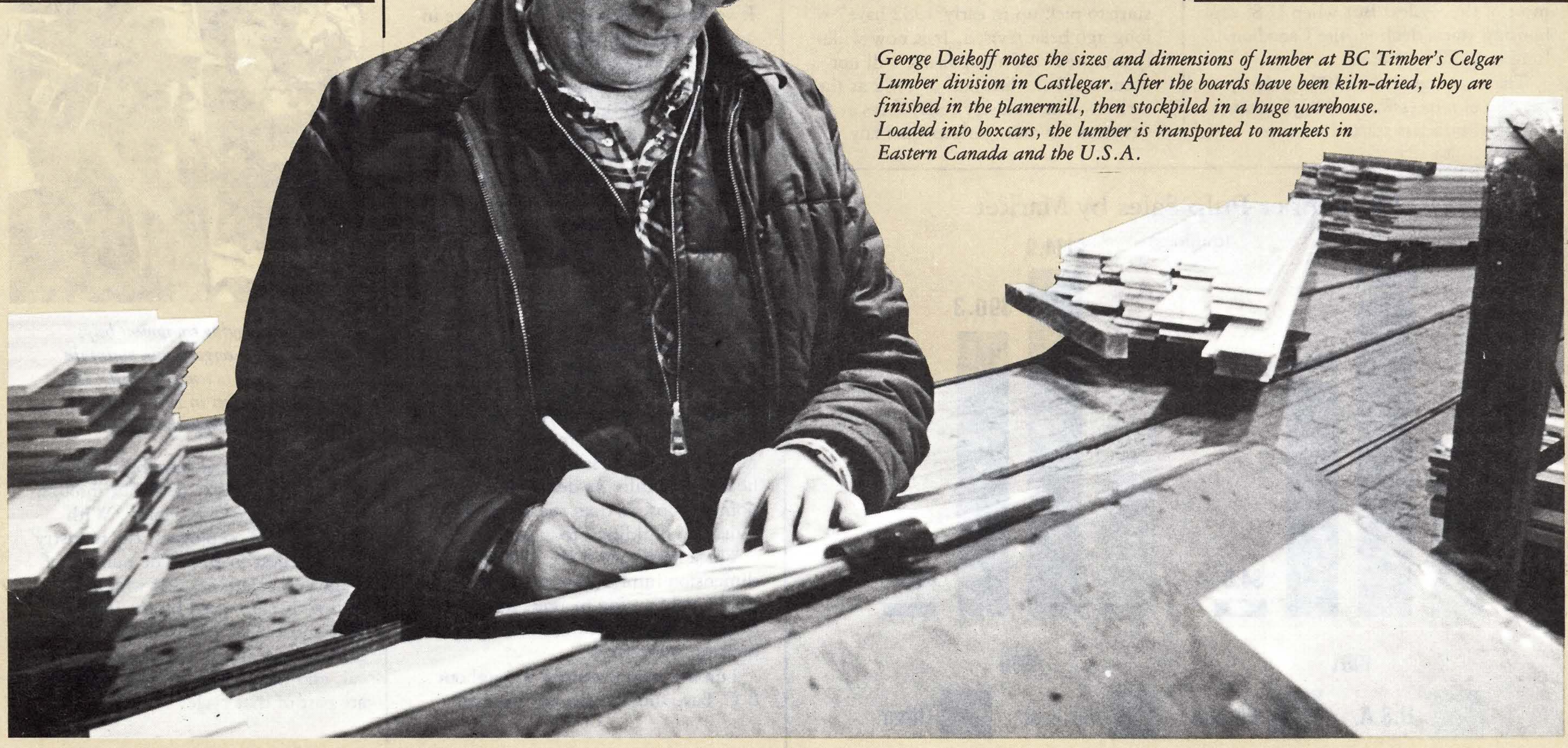
Preliminary studies and design work for this bio-basin have been completed, and detailed engineering is to follow.

Air emissions at Celgar Pulp have already been greatly reduced under a pollution abatement program started in 1973. However, one of the mill's power boilers, which converts sawmill wood wastes to energy, requires a particulate collector to remove fly ash from the flue gas discharged from the boiler stack. This work will account for most of the $7.8 million in air emission control planned for Castlegar.

BC Timber Sales by Product

(millions)





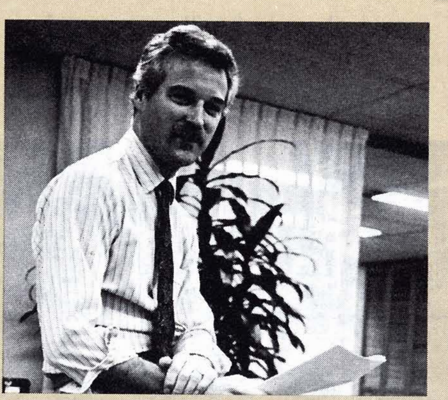
George Deikoff notes the sizes and dimensions of lumber at BC Timber's Celgar Lumber division in Castlegar. After the boards have been kiln-dried, they are finished in the planermill, then stockpiled in a huge warehouse. Loaded into boxcars, the lumber is transported to markets in Eastern Canada and the U.S.A.

Preparing for recovery

The forest industry is a cyclical business. There's no question it will recover from the present slump but this recession is by far the worst we have ever experienced.

Today's economic downturn underlines the need to build a lean company that's responsive and cost-effective in an extremely competitive world. The restructuring of BC Timber last fall as a product line organization was a move to streamline management. A relatively small, flexible core of managers improves communications and results in a stronger overall operation.

My top priority as president is to ensure the company is in the best shape possible to take advantage of the future recovery in the industry. Our planning strategy has been geared to getting us through the present crisis. However, the situation is far worse and has continued much longer than anyone expected.



John S.R. Montgomery
President
BC Timber Ltd.

It accentuates problem areas in the mill and woods operations. While our initial intention was to upgrade our mills as we rode the cycle up, we've now had to address some of those capital expenditures sooner than anticipated. In particular, we must better match our sawmills' capabilities to the kind of timber growing on our tenures.

Fortunately for BC Timber, as a member of the B.C. Resources Group, we can draw on the combined assets of the overall group. We can get started on critical programs to make the mills more cost-effective.

The solutions are still relatively straightforward but are not necessarily easy. We are continuing to look for ways of being even more cost-effective. We're relying on the input of all our employees. We're also continuing to work on the safety front because managing for safer operations will contribute to the resolution of many operating problems.

— John Montgomery

Management changes made in 1981

The rapid growth of BC Timber's lumber manufacturing operations in late 1980 sparked a change in the company's traditional management structure in 1981.

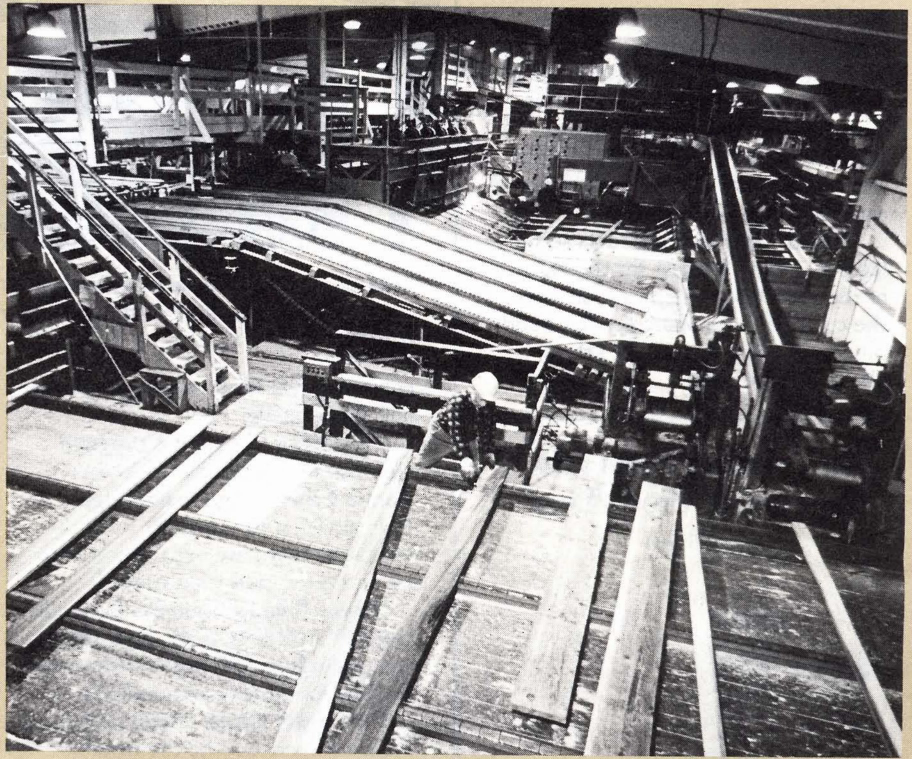
Partly to recognize the increasing importance of BC Timber as a world exporter and also to provide the necessary direction and support, the company was restructured into two separate operating groups, pulp and building products. Each of these units now operates independently and is headed by a senior vice president who is responsible for all activities in his unit. Sandy M. Fulton was appointed senior vice president, building products, and Roy W. Murphy became senior vice president, pulp.

This new structure was put into place in late 1981 and has led to improved control over the company's widespread manufacturing operations and better coordination between divisions. The reorganized structure also allows each business unit to respond faster to changes in the marketplace.

In October, the company underwent a further change to its top management team with the appointment of John Montgomery as its new president. He took over from Donald Watson, who was appointed Chairman of the Board of B.C. Resources.

Mr. Montgomery has spent his entire working career in the B.C. forest industry and directed the packaging products division of MacMillan Bloedel Limited before joining BC Timber. He has travelled and worked in many of the Pacific Rim countries which now make up an important segment of the company's pulp export markets.

As part of the company's reorganization, a number of BC Timber employees were integrated into B.C. Resources corporate organization during 1981. The functions include Finance, Taxation, Treasury, Public Affairs, Legal, Corporate Secretary, Risk Management, and Internal Audit.



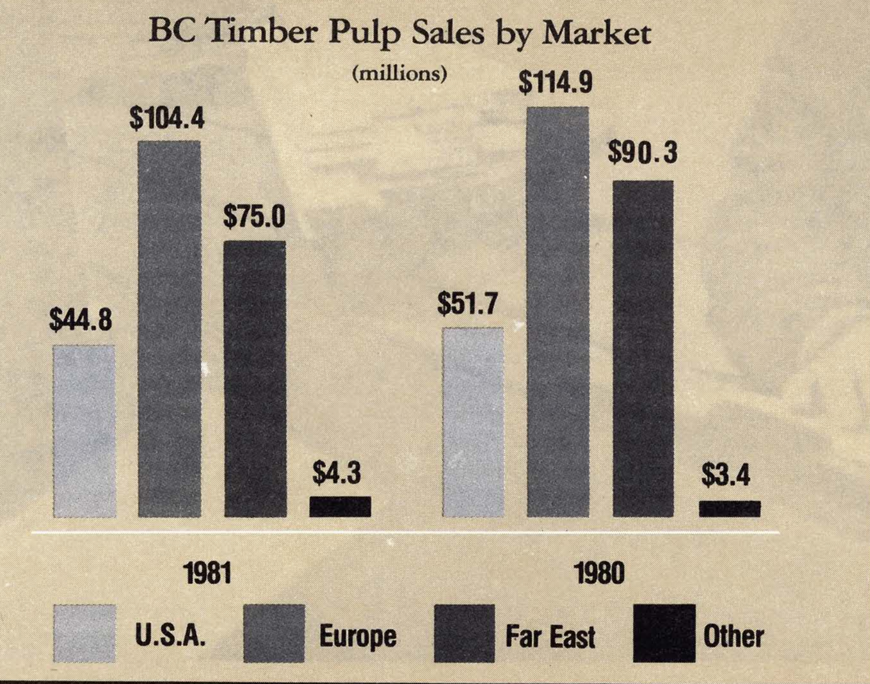
Partly to recognize the rapid growth of BC Timber's lumber manufacturing operations, the company was restructured into two operating groups in 1981.

U.S. housing starts the key to recovery

The number of new houses built in the United States each year has a far-reaching impact on Canada's lumber products industry. Good times in the U.S. normally signal a boom for this country's lumber manufacturers, who depend on southern markets for most of their sales. But when U.S. housing starts decline, the Canadian lumber industry suffers.

That was the case in 1981, when, because of a recession and high interest rates, builders started work on about one million new homes, less than one-half the level of previous good years. The result for British Columbia's forest products industry was disastrous.

Predictions that the forest industry had reached bottom and would start to pick up in early 1982 have long ago been revised. It is now widely accepted that an upswing will not occur until the last half of 1982 at the earliest. The industry today faces a situation far more serious than any since the 1940's and one from which recovery will take considerable time.



U.S. housing starts for the 1980's are expected to be sharply lower than in the 1970's. As population demographics change, there will be fewer young adults in the 1980's and thus fewer house purchases. This change in adult population will result in a reduction in the number of actual households from previous years, thus affecting housing starts. Shifts in lifestyles, for example to more single adults sharing homes, and other factors such as the increasing costs of owning or renting a home, trends toward mobile homes and apartments, will all contribute to a lessening of the number of new homes built each year in the current decade.

Housing is very much a supply and demand market. As well, the higher the interest rates, the lower the number of housing starts. Fewer people in the house-buying market can afford to borrow money as interest rates climb. The result is that fewer houses are built. As demand for new homes drops, so does the demand for Canadian building products.

Since nearly all of BC Timber's dimension lumber goes to the U.S. residential housing market, its well-being is directly tied to the number of housing starts there.

Lumber manufacturers throughout B.C. have suffered serious financial losses in 1981. Losses are reflected in across-the-board production and manpower curtailments and have led to temporary mill closures, reduced shifts, shortened work weeks and layoffs.

Modern day logging equipment helps employees like George Braun maintain a supply of fibre to company mills. But a poor lumber market in 1981 resulted in layoffs for many company employees.

The shock waves have been felt not only in the industry itself but throughout the provincial economy. With some 98,000 employees, the industry is the largest in B.C. The number of wage and salary earners who are indirectly supported by the industry now approaches 193,000. The forest industry has always been highly cyclical, and the present depressed markets are part of that cycle.

Financial Section

Financial Review

The inclusion of operating results of B.C. Coal from October 15, 1980 resulted in significant variations in revenue and expense and Note 17 to the consolidated financial statements reflects the impact of this new business segment on the revenues and expenses for 1981 and 1980.

Net Earnings

Consolidated earnings before extraordinary items in 1981 totalled $7.9 million compared with $45.7 million in the previous year. After extraordinary items, net earnings in 1981 were $42.5 million and net earnings in 1980 were $47.9 million. In 1981, net earnings included as an extraordinary item $34.6 million representing the gain after income taxes on the sale of the Company's interest in MacMillan Bloedel Limited.

Earnings for the year were significantly lower than in 1980 due to substantial losses in the forest products sector. The losses reflect an industry wide strike that shut down operations for approximately 6 weeks combined with depressed prices for building materials and significant cost increases not matched by higher sales prices in all operating segments of the business.

The elimination of investment income on cash balances and the incurring of interest expense on borrowings associated with the acquisition of B.C. Coal in October 1980 was offset by the inclusion of B.C. Coal earnings for a full year compared to 2½ months in 1980. B.C. Coal had an excellent year in 1981 in terms of productivity, shipments and earnings. The elimination of the Company's share of the earnings of MacMillan Bloedel Limited was more than offset by interest savings as a result of the proceeds of the sale of the investment.

Revenue

Total revenue for the year was $859.1 million compared to $520.4 million in 1980, an increase of $338.7 million.

Coal revenue increased by $428.1 million due to the inclusion of B.C. Coal in consolidated sales for the full year compared to only 2½ months in 1980.

Sales of forest products decreased by $48.9 million largely due to a six-week industry wide strike.

Interest and other income was significantly reduced in 1981 as the Company used available cash reserves for the acquisition of B.C. Coal in October 1980.

Costs and expenses

Costs and expenses increased by $358.1 million in 1981. B.C. Coal accounted for $326.1 million of the increase. The remainder is accounted for as follows:

Costs of products sold increased in the forest product sector by $8.3 million despite shutdown of operations for the strike period and market-induced curtailments of lumber operations in the last quarter of the year. The increase was the result of higher costs for wood, labor, chemicals and energy.

General, selling and administrative expenses increased by $4.1 million in the forest products, oil and gas and corporate office activities and relates primarily to additions to staff and the effects of general inflation.

Interest expense for both long and short term borrowings increased by $22.0 million as a result of debt incurred in conjunction with the acquisition of B.C. Coal combined with higher average interest rates.

Depreciation, depletion and amortization was lower due to curtailment in the forest products sector as a result of strikes and market weakness.

Equity

Equity in net earnings of associated companies was $9.9 million lower in 1981 compared to 1980 as the Company sold in April 1981 its 20% holding in MacMillan Bloedel Limited.

Capital Expenditures

Capital expenditures for 1981 totalled $295.5 million compared to $99.9 million in 1980. Included in the 1981 capital program was spending on the new Greenhills surface mine, expansion of the coal port facilities at Roberts Bank and expenditures on the North Sea oil field currently under development.

B.C. Resources' 1982 capital program is estimated at $475 million. Approximately $275 million of the expenditures will be for the Greenhills mine project and expansion of the coal port facilities. Expenditures on oil and gas exploration and development including development of the South Brae oil field in the North Sea are estimated at $85 million. The balance of the estimated capital spending is split approximately evenly between the coal and forest products sectors and is aimed at maintaining operations in good working order, keeping them safe and environmentally sound and improving productivity.

Financial Position

Total assets of the Company increased by $123.6 million to $1,799.8 million in 1981 and reflects the sale of the Company's interest in MacMillan Bloedel Limited offset by significant capital expenditures. Shareholders' equity per common share at the end of 1981 was $8.04 compared to $7.60 at the end of 1980. While funds provided from operations declined in 1981 to $77.6 million from $110.3 million in 1980 as a result of losses in the forest products sector, working capital at year end increased to $87.9 million, or $5.7 million over the position at the end of 1980.

Long term debt increased by $133.7 million in 1981 to $718.9 million at year end. These additional funds were used to supplement operating cash flow and the proceeds from the sale of the Company's interest in MacMillan Bloedel Limited to accomplish the Company's major capital programs and the carried interest obligation on the North Sea oil field development.

The increase in long term debt was largely represented by $41 million in additional bank credit agreements with various Canadian banks at varying interest rates, and by an additional $108 million of interim project financing for the Brae Field development project. It is the Company's intention to replace in 1982 the interim project financing on the Brae Field with a long term credit facility.

The increase in long term debt resulted in a ratio of long term debt to total capital employed (including deferred income taxes) of 44% compared to 40% at the end of 1980.

Management's Responsibility for Financial Reporting

The information and consolidated financial statements in the Annual Report are the responsibility of management and the Board of Directors of the Company. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. The preparation of financial statements involves the use of estimates because a precise determination of certain assets and liabilities is dependent upon future events. Where estimates have been made they have been made using careful judgement and with information available to February 12, 1982.

The Company maintains internal controls which are designed to provide, as far as practical, the orderly and efficient conduct of its business, including the safeguard of the assets, the reliability of accounting records, the timely preparation of reliable financial information and the adherence to company policies and statutory requirements. The Company has an internal audit department which carries out audits to determine whether the controls are operating effectively.

Coopers & Lybrand, who were appointed by the shareholders as the Company's auditors, have examined the consolidated financial statements in order to express an opinion as to whether the consolidated financial statements present fairly the Company's financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles applied on a consistent basis. Their report covering the 1981 consolidated financial statements is presented on page 17. The comparative figures for 1980 were examined and reported on by other auditors.

The Audit Committee of the Board of Directors, which is composed of five outside directors, meets with management and the auditors to ensure that they are fulfilling their responsibilities and reviews with them the consolidated financial statements before these financial statements are presented to the Board of Directors for approval.

President and Chief Executive Officer	Executive Vice President, Finance and Chief Financial Officer

Consolidated Statement of Earnings

For the Year Ended December 31, 1981

	Note Reference	1981	1980
		(Thousands)	
Revenue			
Coal	3	$ 511,771	$ 83,679
Forest products		336,382	385,345
Interest and other income	10	10,904	51,390
		859,057	520,414
Costs and expenses			
Cost of products sold		623,073	353,756
General, selling and administrative		71,269	31,479
Interest	11	59,722	27,926
Depreciation, depletion and amortization		53,047	35,839
		807,111	449,000
Earnings before income taxes and other items		51,946	71,414
Income taxes	12	23,062	33,001
		28,884	38,413
Equity in net earnings of associated companies		1,736	11,623
Minority interest in net earnings of subsidiaries		(22,690)	(4,328)
Earnings before extraordinary items		7,930	45,708
Extraordinary items	13	34,557	2,229
Net earnings		$ 42,487	$ 47,937
Earnings per share			
Before extraordinary items		$ 0.08	$ 0.47
Net earnings		$ 0.44	$ 0.50

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1981

	1981	1980
	(Thousands)	
Retained earnings at beginning of the year	$ 92,106	$ 44,169
Net earnings	42,487	47,937
Retained earnings at end of the year	$ 134,593	$ 92,106

Notes to the Consolidated Financial Statements

December 31, 1981

1. Significant Accounting Policies

The Company is incorporated under the Company Act of the Province of British Columbia and prepares its consolidated financial statements within the framework of the significant accounting policies summarized below:

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Investments

Investments where the Company is able to exercise significant influence are accounted for using the equity method. Other investments, including short term investments, are carried at cost.

Translation of Foreign Currencies

The consolidated financial statements include assets and liabilities which are denominated in foreign currencies. Monetary assets and liabilities, principally accounts receivable, exploration and development advances and long term debt, are translated at the year-end rate or at the contract rate when covered by a foreign exchange contract. Property, plant and equipment is translated at historical rates, except in the case of the Brae Field oil and gas properties, exploration and development costs where the year-end rate is used. Gains and losses resulting from translation of foreign currency are reflected in earnings except for those relating to long term debt which are deferred and amortized over the term of the debt and those relating to the net investment in the Brae Field which are deferred until the investment is realized.

Inventories

Inventories of coal, pulp, lumber and plywood are valued at the lower of average cost and net realizable value. Logs, wood chips and other raw materials are valued at the lower of average cost and replacement cost, except that logs at non-integrated divisions are valued at the lower of average cost and net realizable value. Operating and maintenance supplies are valued at average cost. Real estate under development for employee housing is valued at the lower of cost and net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. During the construction or development stages of major capital projects, interest is capitalized as a cost of these projects on the basis of expenditures incurred without restriction to specific borrowings for these projects. Gains and losses arising from the disposal or abandonment of property, plant and equipment are included in income, except for those mills determining asset lives on a composite basis where the gain or loss is included in accumulated depreciation.

Acquisition costs of coal bearing lands are capitalized and depleted over the expected recovery of coal from the property by the unit of production method. Coal exploration costs are charged against earnings when incurred. Preproduction and development costs are capitalized and amortized on the straight line basis over the life of each mine.

Coal plant and equipment is depreciated using a unit of production method based on the estimated useful lives of the assets, at normal production levels, for periods up to 30 years.

Timber cutting rights, roads and related facilities are amortized on the unit of production method.

Pulp mills and sawmills are depreciated using a unit of production method based on the estimated useful lives of the assets, at normal production levels, for periods up to 25 years. Certain mills determine estimated useful lives on a composite basis.

Logging and mobile mill equipment is depreciated using the diminishing balance method at rates of 10% to 30%.

Oil and gas properties are accounted for using a form of the full cost method whereby all acquisition, exploration and development costs, net of

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1981

	1981	1980
	(Thousands)	
Source of funds		
Earnings before extraordinary items	$ 7,930	$ 45,708
Add (deduct) items not affecting working capital		
Depreciation, depletion and amortization	53,047	35,839
Deferred income taxes	(7,711)	28,429
Minority interest	22,690	4,328
Other	1,616	(4,007)
Funds provided by operations	77,572	110,297
Additions to long term debt	350,842	439,524
Proceeds on sale of investment in MacMillan Bloedel Limited	213,600	—
Other	6,593	2,390
	648,607	552,211
Application of funds		
Additions to property, plant and equipment		
Coal	139,850	18,890
Forest products	56,872	40,655
Oil and gas	95,481	40,400
Other	3,343	—
	295,546	99,945
Investments and advances	64,028	168,968
Reduction of long term debt	217,108	12,226
Dividends paid to minority shareholders of B.C. Coal Ltd.	58,325	1,561
Redemption of shares by B.C. Coal Ltd.	7,924	—
Acquisition of subsidiaries	—	747,002
	642,931	1,029,702
Increase (decrease) in working capital	5,676	(477,491)
Working capital at beginning of the year	82,228	559,719
Working capital at end of the year	$ 87,904	$ 82,228
Represented by:		
Current assets	$ 261,366	$ 275,584
Less: Current liabilities	173,462	193,356
	$ 87,904	$ 82,228

petroleum incentive grants receivable, are capitalized as incurred by cost centre. These costs will be amortized on the unit of production method when production commences. Costs relating to certain unproven oil and gas properties are amortized to provide for possible impairment. Oil and gas properties are reviewed periodically to assess the extent to which the carrying value of the properties has been impaired and the adequacy of the accumulated amortization of properties. Plant and equipment relating to developed oil and gas properties will be amortized on the unit of production method.

Pension Plans

Annual contributions to employees' pension plans are charged against earnings. Pension contributions are actuarially determined to include amounts necessary to provide for current service and for funding of past service liabilities over 15 years for retroactive benefit improvements.

Income Taxes

Income taxes are accounted for by the tax allocation method, whereby provision for taxes is made in the year transactions affect net earnings rather than when such items are recognized for tax purposes. Differences between the provision for taxes and taxes currently payable are reflected as deferred income taxes. Tax benefits from earned depletion and investment tax credits are reflected as a reduction in the provision for income taxes.

2. Accounting Changes

Capitalized Interest

The Company has changed its method of accounting for the capitalization of interest costs. The method adopted allocates interest costs on the basis of expenditures incurred during the construction or development stages of major capital projects without restriction to specific borrowings for these projects. This change increased net earnings for the year ended December 31, 1981 by $7.8 million or $.08 per share.

Depreciation

The Company has changed its method of calculating depreciation on its coal plant, pulp mills, sawmills and equipment to a unit of production method from the straight line method. This change increased net earnings for the year ended December 31, 1981 by $1.8 million or $.02 per share.

These changes, when applied retroactively, have no material effect on the net earnings of prior years.

3. Acquisition of Subsidiaries

During 1980, the Company acquired 66% of the outstanding shares of B.C. Coal Ltd. and increased its ownership interest in BC Timber Ltd. to 100% from 81% and BC Timber acquired 100% of the outstanding shares of Rim Forest Products Ltd. and Skeena Lumber Ltd. The excess of the purchase price over the book value of net assets acquired was allocated to property, plant and equipment. In 1981, as a result of the redemption of shares by B.C. Coal, the Company's interest increased to 67%.

4. Inventories

	1981	1980
	(Thousands)	
Coal	$ 13,079	$ 8,654
Pulp	28,473	20,949
Lumber and plywood	7,510	10,329
Logs, wood chips and other raw materials	60,641	65,737
Operating and maintenance supplies	39,068	33,241
Real estate	7,633	—
	$ 156,404	$ 138,910

Consolidated Balance Sheet

December 31, 1981

	Note Reference	1981	1980
		(Thousands)	
Assets			
Current			
Short term investments		**$ 24,023**	$ 67,538
Accounts receivable		**77,798**	66,150
Inventories	4	**156,404**	138,910
Prepaid expenses		**3,141**	2,986
		261,366	275,584
Notes receivable	5	**18,022**	22,657
Investments, advances and other assets	6	**162,788**	263,538
Property, plant and equipment	7	**1,715,944**	1,428,575
Less: Accumulated depreciation, depletion and amortization		**358,269**	314,067
		1,357,675	1,114,508
		$1,799,851	$1,676,287

Approved by the Directors: Director

Director

5. Notes Receivable

	1981	1980
	(Thousands)	
Note receivable, interest at 11%, principal repayments of $1,159,000 quarterly commencing January 14, 1981 (See Note 15)	**$ 13,908**	$ 18,543
Note receivable, interest at 13¾%, principal repayments of $2,500,000 on February 22, 1983 and $6,250,000 on February 22, 1985	**8,750**	11,250
	22,658	29,793
Less: Current portion included in accounts receivable	**4,636**	7,136
	$ 18,022	$ 22,657

6. Investments, Advances and Other Assets

	1981	1980
	(Thousands)	
Associated companies—carried at equity:		
MacMillan Bloedel Limited—20% interest	**$ —**	$ 163,679
Babine Forest Products Limited—24% interest	**2,587**	3,349
Other investments—carried at cost:		
Westcoast Transmission Company Limited—8.5% interest (market value, $45,966,000; $51,637,000 in 1980)	**37,364**	37,364
Exploration and development advances, (U.S. $88,572,000; 1980 U.S. $34,800,000) (See Note 9)	**105,038**	41,584
Other	**17,799**	17,562
	$ 162,788	$ 263,538

During 1981, the Company sold its investment in MacMillan Bloedel Limited for $213,600,000 resulting in a gain of $34,557,000 net of income taxes of $14,199,000.

7. Property, Plant and Equipment

	1981	1980
	(Thousands)	
Coal		
Properties and development costs	**$ 556,486**	$ 548,637
Plant and equipment	**333,237**	205,152
	889,723	753,789
Less: Accumulated depreciation, depletion and amortization	**22,975**	4,646
	866,748	749,143
Forest products		
Land	**3,896**	3,560
Pulp mills	**369,774**	340,044
Sawmills	**110,274**	97,541
Timber cutting rights, roads and related facilities	**96,285**	84,760
Logging equipment and other facilities	**27,995**	28,912
	608,224	554,817
Less: Accumulated depreciation, depletion and amortization	**324,765**	303,320
	283,459	251,497
Oil and gas		
Properties, exploration and development costs, and plant and equipment	**214,647**	119,962
Less: Accumulated depreciation and amortization	**10,376**	6,101
	204,271	113,861
Other	**3,350**	7
Less: Accumulated depreciation and amortization	**153**	—
	3,197	7
	$1,357,675	$1,114,508

Oil and gas properties and exploration and development costs have been reduced by petroleum incentive grants in the amount of $14,244,000 which are included in accounts receivable. In October, 1980 the Federal government introduced the National Energy Program which included the Petroleum Incentive Program. This program provides for incentive grants based on a percentage of eligible exploration and development expenses and eligible asset costs. The Petroleum Incentive Program Bill has not yet been enacted by the Canadian Parliament.

	Note Reference	1981	1980
		(Thousands)	
Liabilities and Shareholders' Equity			
Current			
Bank indebtedness		$ 48,469	$ 32,868
Accounts payable and accrued liabilities		110,670	77,761
Income taxes payable		10,181	73,767
Current portion of long term debt		4,142	8,960
		173,462	193,356
Long term debt	8	718,949	585,215
Deferred income taxes		110,064	103,576
Minority interest in subsidiary companies		23,791	63,042
Shareholders' equity			
Share capital			
Authorized – 100,000,000 shares without par value			
Issued – 96,243,235 shares		638,992	638,992
Retained earnings		134,593	92,106
		773,585	731,098
Commitments	9		
		$1,799,851	$1,676,287

8. Long Term Debt

	1981	1980
	(Thousands)	
Bank credit agreements	$ 476,114	$ 434,933
Interim Brae Field project bank financing (U.S. $123,656,000; 1980 U.S. $32,589,000)	146,643	38,934
6⅛% Bonds due January 2, 1981	—	4,779
5⅜% Bonds due July 1, 1985 with annual principal payments, (U.S. $14,000,000; 1980 U.S. $17,500,000)	16,603	20,907
10½% Promissory notes due December 15, 1992 with annual principal payments commencing December 15, 1983, (U.S. $50,000,000)	59,295	59,735
11½% Promissory notes due December 15, 1992 with annual principal payments commencing December 15, 1983	20,000	20,000
Other	4,436	14,887
	723,091	594,175
Less: Amounts due within one year	4,142	8,960
	$ 718,949	$ 585,215

The Company and its subsidiaries have bank credit agreements with interest at floating rates. Borrowings under these agreements can be in prime rate based funds, bankers acceptances or in London Interbank Offered Rate (LIBOR) based funds in any freely convertible currency. Bankers acceptances can be for periods of up to one year and LIBOR borrowings, subject to availability, for periods up to five years. Interest rates on these borrowings vary, depending on changes in prime or base rates and in the form, currency and maturity dates of the borrowings. The average interest cost of borrowings under these agreements at December 31, 1981 was 16.88%. The amounts outstanding at December 31, 1981 under these bank credit agreements have maturities as follows: $245,393,000 due April 1, 1983, and $230,721,000 with repayments to commence no earlier than 1983; equally over not less than 9 years thereafter.

The interim project financing for the Brae Field is at floating rates based on LIBOR and it is the intention of the Company to replace the financing with a long term credit facility.

Principal repayments required on the bonds and promissory notes for the next five years are $4,142,000 in 1982, $12,059,000 in each of the years 1983, 1984 and 1985 and $7,917,000 in 1986.

At December 31, 1981, the Company and its subsidiaries had available a further $574 million in long term bank credit agreements and an additional $265 million in operating lines of credit.

9. Commitments

B.C. Coal has interests in several licenses for the exploration and development of oil and gas in the United Kingdom sector of the North Sea. Under the terms of the acquisition of its interests, B.C. Coal is obligated to finance an amount equivalent to its own share of exploration and development costs, for another participant under a carried interest obligation. Amounts advanced under the carried interest obligation are repayable with interest solely out of 70% of the net proceeds earned by the participant from commercial production of oil and gas from the licensed areas. Development commenced in 1980 in an area of the Brae Field designated as the South Brae in which B.C. Coal holds a 7.7% working interest. The B.C. Coal share of the development costs together with the carried interest obligation, is estimated to be $346 million ($414 million including financing costs) of which $148 million ($158 million including financing costs) has been incurred to December 31, 1981. Commercial production is scheduled for 1983.

B.C. Coal is developing a surface mine on its Greenhills property. The cost of development is estimated to be $282 million ($335 million including financing costs) of which $89 million ($94 million including financing costs) has been incurred to December 31, 1981. Commercial production of thermal and metallurgical coal from this property is scheduled for 1982 and 1983, respectively. B.C. Coal has initialled a joint venture agreement with Pohang Iron and Steel Company Limited of Korea which provides for Pohang to acquire a 20% interest in the project. The agreement is subject to various Korean government approvals as well as approval of the Foreign Investment Review Agency in Canada.

B.C. Coal has commenced expansion of its Westshore Terminals facilities at Roberts Bank which will increase the port's annual capacity to 22 million tonnes on completion in 1983. The cost of the expansion is estimated to be $127 million ($144 million including financing costs) of which $5 million has been incurred to December 31, 1981.

Substantially all of the forest product sales are denominated in U.S. dollars. The Company is committed to sell U.S. $161 million under forward exchange contracts at rates which average approximately $1.2077 Canadian for each U.S. $1.00.

10. Interest and Other Income

	1981	1980
	(Thousands)	
Interest on short term investments	$ 7,673	$ 47,884
Dividends from Westcoast Transmission Company Limited	3,194	2,777
Other	37	729
	$ 10,904	$ 51,390

11. Interest

	1981	1980
	(Thousands)	
Interest expense relates to:		
Short term borrowings	$ 4,687	$ 4,319
Long term borrowings	90,489	27,990
Less:		
Interest charged to major capital projects	(35,454)	(4,383)
	$ 59,722	$ 27,926

12. Income Taxes

	1981	1980
	(Thousands)	
The provision for income taxes comprises the following:		
Current	$ 30,773	$ 4,572
Deferred	(7,711)	28,429
	$ 23,062	$ 33,001

BC Timber has investment tax credit benefits of approximately $10,000,000 available to reduce future federal income taxes payable which will expire as follows: $2,800,000 in 1982, $2,800,000 in 1983, $1,600,000 in 1984, $1,100,000 in 1985 and $1,700,000 in 1986. These benefits have not been recognized and will be recorded when claimed.

13. Extraordinary Items

	1981	1980
	(Thousands)	
Gain on sale of investment in MacMillan Bloedel Limited, net of income taxes of $14,199,000	$ 34,557	$ —
Realization of unrecorded income tax benefits which accumulated when two subsidiaries were exempt from income taxes	—	3,918
Write off of plywood plant and equipment, net of tax reduction of $1,498,000	—	(1,689)
	$ 34,557	$ 2,229

14. Pension Plans

The Company has pension plans for hourly and salaried employees. At December 31, 1981 the aggregate of the unfunded past service liabilities for all pension plans amounted to $13,400,000.

15. Related Party Transactions

B.C. Coal sells metallurgical coal under a long term contract extending through March 31, 1985 to Mitsubishi Corporation for resale to nine Japanese corporations. At December 31, 1981, Mitsubishi Corporation owned 13% of the outstanding shares of B.C. Coal and the other nine corporations together owned 20%. Sales under the contract amounted to $283,877,000 for the year ended December 31, 1981, and $55,013,000 during the period October 15 to December 31, 1980.

B.C. Coal paid $17,459,000 in 1981 and $2,792,000 in 1980 under the terms of a coal marketing contract with Kaiser Resources Ltd., a company controlled by the former Chairman and Chief Executive Officer of B.C. Coal. There is a note receivable from Kaiser Resources Ltd. in the amount of $13,908,000 (See Note 5).

16. Subsidiary Companies

The active subsidiaries of the Company, which are wholly-owned except where indicated, are:

B.C. Coal Ltd. (67% owned)
Westshore Terminals Ltd.
B.C. Coal International Ltd.
BCRIC Holdings (U.K.) Limited
BCRIC Oil (U.K.) Limited
BCRIC Finance (U.K.) Limited
BCRIC Exploration (U.K.) Limited

BC Resources Oil & Gas Inc.

BC Timber Ltd.
(formerly Canadian Cellulose Company, Limited)
BC Timber International S.A.
High Arrow Limited

6870400 Holdings Ltd.
BCRIC Enterprises Ltd.

17. Segmented Information

(See Schedule of Segmented Information on opposite page.)

Quarterly Information

(Unaudited – $ Millions)

	Three Months Ended								Year Ended	
	March 31		June 30		September 30		December 31		December 31	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
Revenue:										
Forest products	104.8	91.8	111.7	97.8	33.3	97.5	86.6	98.2	336.4	385.3
Coal	110.8	—	131.0	—	133.4	—	136.6	83.7	511.8	83.7
Interest & other income	6.1	18.6	3.1	15.8	.8	12.5	.9	4.5	10.9	51.4
	221.7	110.4	245.8	113.6	167.5	110.0	224.1	186.4	859.1	520.4
Earnings (loss) before extraordinary items	2.7	13.5	6.0	15.0	(2.1)	15.3	1.3	1.9	7.9	45.7
Net earnings (loss)	2.7	13.5	40.6	15.0	(2.1)	15.3	1.3	4.1	42.5	47.9
Earnings per share ($):										
Earnings (loss) before extraordinary items	0.03	0.14	0.06	0.16	(0.02)	0.16	0.01	0.01	0.08	0.47
Net earnings (loss)	0.03	0.14	0.42	0.16	(0.02)	0.16	0.01	0.04	0.44	0.50

Schedule of Segmented Information

($ Millions)

	Total		Domestic		Export	
	1981	1980	**1981**	1980	**1981**	1980
Sales						
Coal (1)	**511.8**	83.7	**14.7**	2.7	**497.1**	81.0
Forest products (2)						
Pulp	**228.5**	260.3	**.7**	—	**227.8**	260.3
Lumber and plywood	**107.9**	125.0	**45.6**	41.7	**62.3**	83.3
	848.2	469.0	**61.0**	44.4	**787.2**	424.6

	Total	
	1981	1980
Operating profit (loss)		
Coal (1)	**131.8**	16.9
Forest products (3)		
Pulp	**20.0**	70.3
Lumber and plywood	**(22.1)**	(16.8)
Unallocated administration and other	**(9.2)**	(8.4)
	(11.3)	45.1
Oil and gas	**(5.2)**	(6.7)
	115.3	55.3
Corporate expenses, less interest and other income	**(3.6)**	44.0
Interest expense	**(59.7)**	(27.9)
Income taxes	**(23.1)**	(33.0)
Equity income	**1.7**	11.6
Minority interest	**(22.7)**	(4.3)
Earnings before extraordinary items	**7.9**	45.7

	Identifiable Assets		Capital Expenditure		Depreciation Depletion and Amortization	
	1981	1980	**1981**	1980	**1981**	1980
Coal (1)	**959.2**	875.5	**139.8**	18.9	**24.3**	4.6
Forest products						
Pulp	**246.4**	207.9	**31.8**	9.1	**9.8**	11.0
Lumber and plywood	**79.5**	83.7	**5.8**	14.2	**4.8**	6.8
Woodlands	**114.5**	111.5	**17.0**	16.9	**9.6**	8.7
Unallocated	**8.6**	9.2	**2.3**	.4	**.1**	.1
	449.0	412.3	**56.9**	40.6	**24.3**	26.6
Oil and gas						
Canada	**98.6**	73.4	**15.1**	27.7	**3.7**	4.6
United States	**12.9**	3.8	**9.6**	3.8	**.6**	—
United Kingdom (Brae Field)	**215.5**	81.2	**70.8**	8.9	**—**	—
	327.0	158.4	**95.5**	40.4	**4.3**	4.6
Corporate (4)	**64.6**	230.0	**3.3**	—	**.1**	—
Total	**1,799.8**	1,676.2	**295.5**	99.9	**53.0**	35.8

1. The information for the coal segment reflects the Company's interest from October 15, 1980.
2. The sales for the forest products segments do not include sales of wood chips at estimated market value from the lumber and plywood to the pulp segment in the amount of $10.0 million in 1981 and $9.1 million in 1980.
3. The operating profit (loss) for the forest product segments are after deducting costs allocated, on a cost recovery basis, for the logs used by the segment.
4. The corporate assets include investments amounting to $40.0 million and $204.4 million as at December 31, 1981 and 1980, respectively (See Note 6).

Auditors' Report

To the Shareholders of
British Columbia Resources Investment Corporation

We have examined the consolidated balance sheet of British Columbia Resources Investment Corporation as at December 31, 1981 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, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the changes in the method of capitalizing interest costs and of calculating depreciation as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Coopers & Lybrand

Vancouver, Canada
February 12, 1982

Chartered Accountants

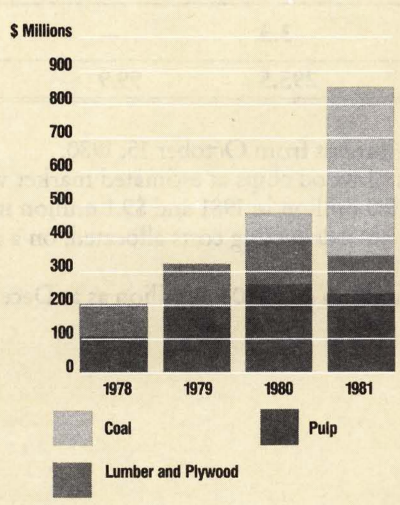
Financial and Statistical Summary

For four years from date of incorporation, February 22, 1978, to December 31, 1981

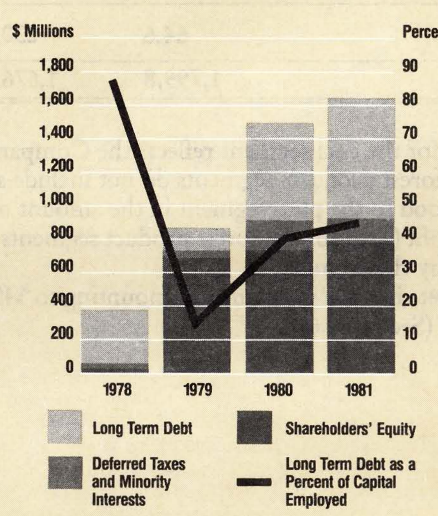
	1981	1980[1]	1979[2,3]	1978[3]
Financial Information ($ Millions)				
For the year				
Revenues				
Coal	**511.8**	83.7	—	—
Forest products	**336.4**	385.3	321.6	202.7
Interest and other income	**10.9**	51.4	36.8	10.9
	859.1	520.4	358.4	213.6
Earnings before extraordinary items	**7.9**	45.7	40.8	12.7
Net earnings for the year	**42.5**	47.9	40.8	15.9
Funds provided by operations	**77.6**	110.3	76.2	24.6
Additions to property, plant and equipment	**295.5**	99.9	35.2	77.6
At end of year				
Working capital	**87.9**	82.2	559.7	77.8
Total assets	**1,799.8**	1,676.2	940.7	425.1
Long term debt	**718.9**	585.2	132.6	319.8
Deferred income taxes and minority interest	**133.9**	166.6	42.6	28.5
Shareholders' equity	**773.6**	731.1	683.2	15.9
Per Share Information ($)				
Earnings before extraordinary items	**0.08**	0.47	0.69	—
Net earnings	**0.44**	0.50	0.69	—
Book value	**8.04**	7.60	7.10	—
Price Range				
High	**6.25**	9.25	9.25	—
Low	**3.05**	5.75	5.87	—
Close	**4.00**	5.95	7.10	—
Statistical Information				
Shipments (Thousands)				
Pulp-air dry tonnes	**409**	480	450	360
Lumber-thousand foot board measure	**475**	545	434	338
Coal-tonnes	**7,371**	1,300	—	—
Employees	**6,562**	6,819	3,918	3,742
Registered Shareholders (Thousands)	**128.0**	133.3	136.1	—

Notes:
1. Includes information relating to B.C. Coal Ltd. from October 15, 1980.
2. The Company issued 96,243,230 shares for $638,992,310.
3. The Company and two of its subsidiaries were tax exempt during 1978 and up to April 25, 1979.

Net Sales

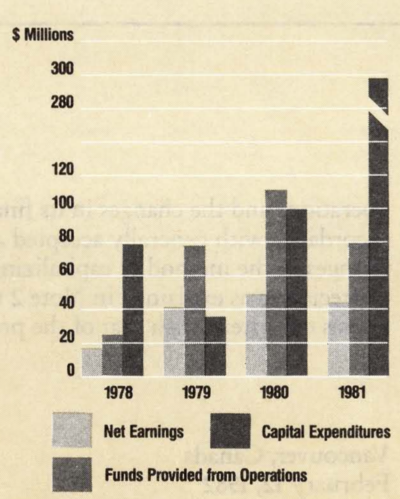


Capital Employed

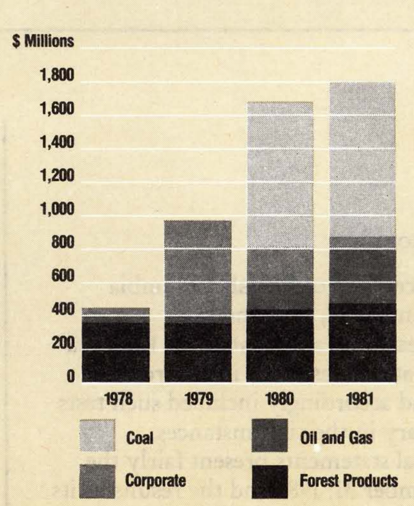


Net Earnings

Funds Provided from Operations and Capital Expenditures



Total Assets



OIL AND GAS OPERATIONS

Active exploration and drilling program to continue in 1982

The Oil and Gas Division of B.C. Resources has been in existence since 1978. The Division has experienced rapid growth and is involved in some of the most promising areas of oil and gas exploration.

During 1981, the Division was involved in the drilling of 52 wells, including those on B.C.'s Licence Lands in northeastern British Columbia. Of these, eight were oil discoveries, seven were gas, eight were suspended at year end, two were still being drilled, and 27 were dry and abandoned.

B.C. Resources will be involved in the drilling of more than 40 new wells in 1982. Anticipated expenditures in oil and gas projects, excluding development of South Brae, will be approximately $22 million.

Licence Lands, British Columbia

B.C. Resources has the exclusive right to explore on 948,482 gross hectares in B.C. These lands, which are referred to as the Licence Lands, were acquired from the Province of British Columbia in 1978, when B.C. Resources was established.

The terms of the Licence allow B.C. Resources to carry out geological and geophysical exploration, alone or with others, but require that exploratory drilling be farmed out to third parties.

By the end of 1981, B.C. Resources had made farm-out agreements covering all of the Licence Lands. At year end 4,276 kilometers of seismic and 1,071 kilometers of gravimetric surveys had been conducted and 22 wells had been drilled. While results so far have been somewhat disappointing — with only three small gas discoveries — it is still far too early to evaluate the full potential of the Licence Lands. A vast amount of exploratory work remains to be done.

During the 1981-82 drilling season six new exploratory wells will be drilled on the Licence Lands. In addition, two previously suspended wells will be drilled to final depth, two suspended wells may be completed, and 300 kilometers of seismic data will be gathered.

Microscopic examination of core samples reveals valuable information about the earth's structure and potential oil-bearing formations to geologist Dave Beal.

Other Activities in British Columbia

Besides the Licence Lands, B.C. Resources has interests in 2,672,741 gross hectares in central and northeastern British Columbia. The bulk of these holdings are located in the Nechako Basin where the Company has been involved in an extensive exploration program with Canadian Hunter Exploration Ltd. and Esso Resources Canada Limited. To date no hydrocarbons have been discovered in the Nechako Basin, which remains the largest unproven sedimentary basin in British Columbia.

On the Company's other holdings in northeastern B.C., two oil wells were drilled — and are currently producing — and three gas wells, which are shut in awaiting markets. During the 1981-82 drilling season, the Company and its partners will be drilling a minimum of four new wells on the jointly-held lands in northeastern British Columbia.

Alberta

B.C. Resources has an interest in 147,926 gross hectares in Alberta. Up to the end of 1981, the Company had participated in the drilling of 33 wells in the province. Of these wells, two were oil discoveries, 12 were gas, while 15 were dry and abandoned. At year end, one well was being drilled and three were suspended.

The Company's most noteworthy success in Alberta has been in the discovery of a new gas pool in the Livock area, about 80 kilometers west of Fort McMurray. The gas in this field is found in the Grossmont and McMurray formations, the latter famous for huge reserves of tar which impregnate the sand. The Company's partner in the Livock play is Coseka Resources Limited.

Approximately 14 development wells will be drilled in the Livock field during the 1982 drilling season. A pipeline is planned and a gas sales contract is currently being negotiated. It is anticipated that the Livock field will be producing and contributing to revenue in the latter half of 1983.

The Company is also involved in an extensive exploration program with Sulpetro Limited on a variety of promising prospects, mostly in central and northern Alberta. A very substantial amount of geological and geophysical work has been carried out and during 1982 and 1983 B.C. Resources will be participating with Sulpetro in the drilling of 17 wells.

A third joint venture program is being undertaken with L.K. Oil & Gas Ltd. and Roxy Petroleum Ltd. Under this agreement five wells will be drilled in 1982.

B.C. Resources has interests in numerous other prospects and will be involved in at least three further wells in Alberta in 1982.

The United States

The Company has interests in 328,605 gross hectares in the United States. The majority of this land is in Kansas; the rest is in Colorado, Oklahoma, Mississippi and Texas. The Company's interests are held through a wholly-owned subsidiary, B.C. Resources Oil & Gas Inc., with an office in Denver.

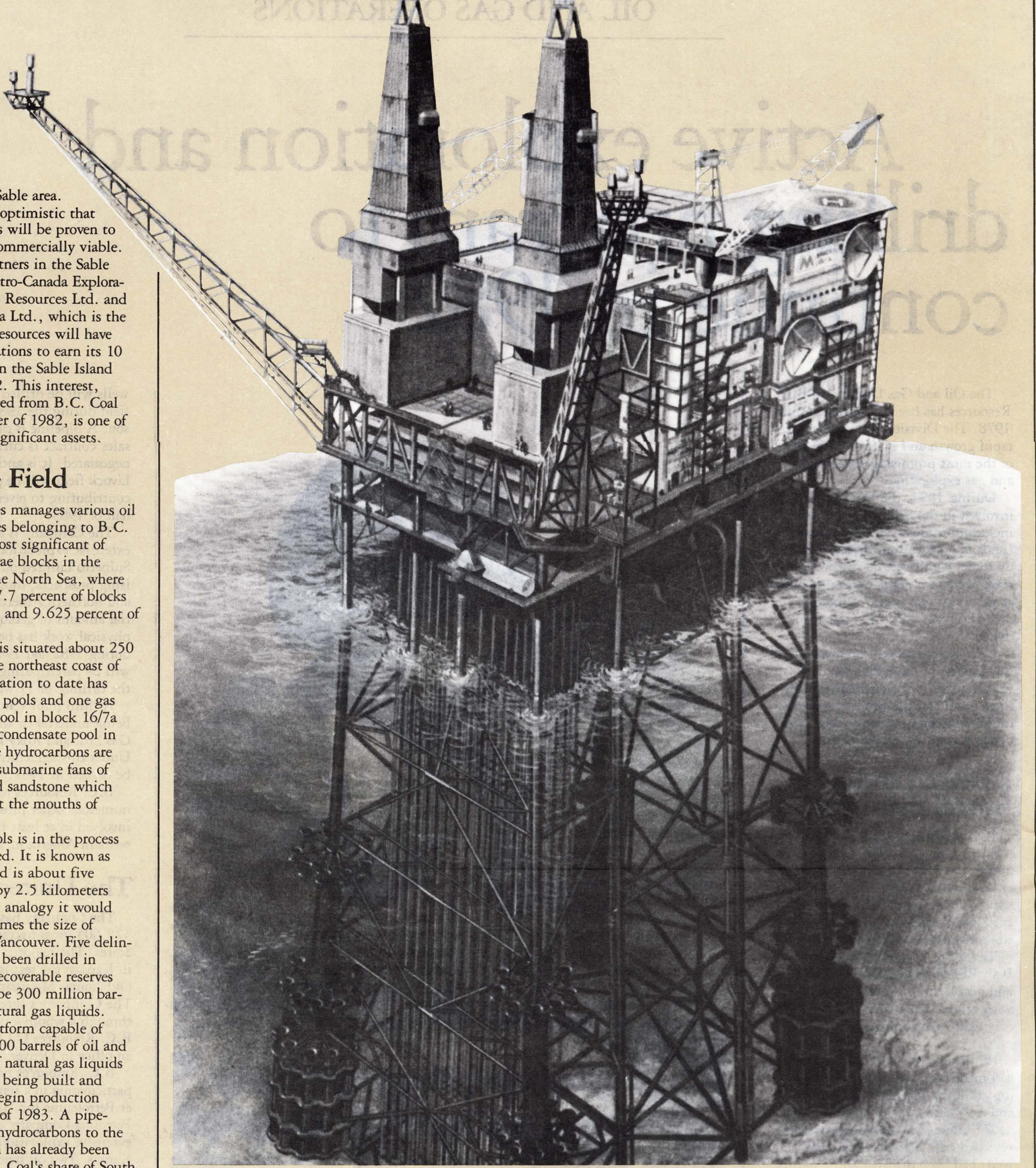
B.C. Resources has a 25 percent participation in a venture with Voyager Petroleums Inc. and with American Petrofina Company of Texas in an extensive exploration program in West Kansas. Two oil fields have been discovered and will be delineated in 1982. Production and cash flow from these discoveries will commence in 1982. Production is now being obtained from three other small oil discoveries.

In a promising area of East Kansas, B.C. Resources has committed to drill four wells in 1982 on lands held in partnership with Coseka Resources (U.S.A.) Limited. These four wells will earn B.C. Resources a 66-2/3 percent interest in 14,000 hectares, and the rights to drill up to four option wells to earn a 66-2/3 percent interest in a further 14,000 hectares.

To date the Company has been involved in the drilling of 29 wells in the United States and during 1982 expects to be involved in a further 36 wells.

Sable Island

The Sable Island gas fields are one of the most promising finds in the so-called frontier exploration areas of Canada. Three gas-bearing structures have been discovered so far, Venture, Citnalta, and Thebaud, while several other structures remain to be drilled. One drilling rig — "Rowan Juneau" — has drilled two delineation wells in the Venture structure. A second rig, "Zapata Scotian" is to start drilling in the spring of 1982 on another



structure in the Sable area. The Company is optimistic that sufficient reserves will be proven to make the field commercially viable.

The major partners in the Sable Island play are Petro-Canada Exploration Inc., Texaco Resources Ltd. and Mobil Oil Canada Ltd., which is the operator. B.C. Resources will have completed obligations to earn its 10 percent interest in the Sable Island play during 1982. This interest, which was acquired from B.C. Coal in the first quarter of 1982, is one of the Company's significant assets.

The Brae Field

B.C. Resources manages various oil and gas properties belonging to B.C. Coal Ltd. The most significant of these is in the Brae blocks in the U.K. sector of the North Sea, where B.C. Coal owns 7.7 percent of blocks 16/7a and 16/3a, and 9.625 percent of block 16/2a.

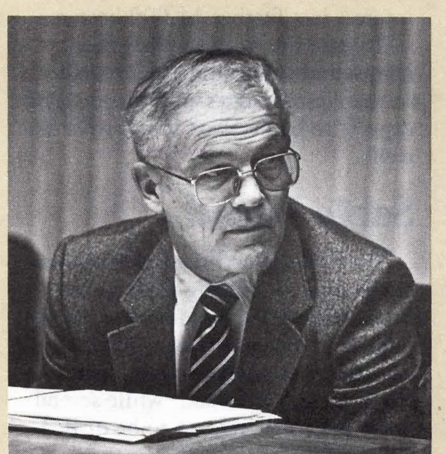
The Brae area is situated about 250 kilometers off the northeast coast of Scotland. Exploration to date has revealed three oil pools and one gas and condensate pool in block 16/7a and one gas and condensate pool in block 16/3a. The hydrocarbons are trapped in large submarine fans of conglomerate and sandstone which were laid down at the mouths of ancient rivers.

One of the pools is in the process of being developed. It is known as "South Brae" and is about five kilometers long by 2.5 kilometers wide. As a rough analogy it would be nearly three times the size of Stanley Park in Vancouver. Five delineation wells have been drilled in South Brae and recoverable reserves are estimated to be 300 million barrels of oil and natural gas liquids. A production platform capable of producing 100,000 barrels of oil and 12,000 barrels of natural gas liquids daily is currently being built and is scheduled to begin production in the latter half of 1983. A pipeline to carry the hydrocarbons to the United Kingdom has already been constructed. B.C. Coal's share of South Brae reserves amounts to 23 million barrels.

Mammoth production platform now under construction in Europe will be capable of producing 100,000 barrels of oil daily from the South Brae field in the North Sea. Artist's conception shows how structure will be anchored to the seabed, about 250 kilometers from the coast of Scotland.

Building an oil and gas business

In the oil and gas business, land is the basis of wealth. Before a company can explore for oil or gas, it first must own or lease the mineral rights on the land it wishes to explore. The first objective of our Division, therefore, has been to acquire rights to a large area of geologically interesting land. Indeed, the Division actually owes its origins to the so-called "Licence Lands" which were one of the original assets of the Company and which the Division was formed to administer.



Robert G.S. Currie
Senior Vice President
Oil and Gas

The second aspect of our business philosophy is patience. In the oil and gas business a great deal of time is needed before investors see a return on their money. It takes between five and eight years to build up a successful oil and gas operation. Consider the various activities that have to be carried out before oil and gas can be sold: the evaluation and interpretation of geological evidence; geophysical surveying; the acquisition of land; drilling, testing and bringing into production, all of which can often take several years. This is particularly true in northeastern B.C. and northern Alberta where drilling can only be carried out during winter months.

The third aspect of our philosophy is a willingness to live with risk. There is absolutely no guarantee that drilling a well will produce hydrocarbons. It is not, therefore, a game for pessimists. One has to be able to stand a long string of failures and accept them philosophically. To find oil and gas you must be a risk taker and an optimist.

Fourthly, while the risks are great the rewards are equally great. Very often return on investment is 30 percent and not infrequently many times that. Aside from high returns, the industry has other unique financial aspects. One is that a dry hole, which costs a lot of money and yields no production, is not necessarily a wasted effort. Each hole is a treasure trove of geological knowledge. It can tell you where not to drill, and suggest where to drill. Traces of hydrocarbons in a particular rock formation at one drill site can suggest an accumulation of oil or gas at another site a few miles away.

Our policy favors joint venture agreements known as farm-ins and farm-outs. Besides the shared risk involved in these joint venture agreements they are an invaluable tool for raising capital. For instance, in the three years the Division has been operating, more than $60 million worth of capital expenditures have been incurred by third parties on our lands. The Company has therefore been involved in a good deal more exploration than we could have financed and carried out on our own account.

Today, the Division is pursuing a two-part strategy. First, we are developing smaller, lower cost, lower risk prospects that can be brought on stream quickly, thus generating immediate funds for re-investment. Second, we pursue larger, higher cost, higher risk prospects from which we can expect major returns, but not for several years. An example of a shorter term venture would be the prospects we are developing in Kansas; an example of the latter would be our involvement in the Sable Island play off Nova Scotia from which we do not expect returns for some years.

— Robert Currie

Exploring: a costly and complex business

It takes a lot of data, a lot of hard thinking, and a lot of good judgment to find an oil or gas field.

Oil and gas (hydrocarbons) were formed from large amounts of organic matter deposited with other material as sediments in ancient seas and lakes. As the sediments built up over many millions of years, they turned into rocks such as shale, limestone and sandstone, with oil, gas and water trapped in their pore spaces.

For an oil or gas reservoir to form, there are three essential elements: a *source rock* — that is a rock with sufficient organic matter to generate hydrocarbons; a *reservoir rock* — which is porous, or full of crevices; and a *trap* — this can be either structural, consisting of an overlying layer of non-porous rock combined with a fold, or fault, which holds the hydrocarbons in place; or the trap can be stratigraphic, for example, an ancient coral reef surrounded by impermeable rock. The Leduc field in Alberta is such a reef.

Several kinds of evidence are used to locate oil and gas reservoirs. General geological knowledge suggests likely areas in which to search. Records of previously drilled wells show the sequence of rock formations, their type, porosity, and whether hydrocarbons have been found. Geophysical methods reveal sub-surface folding of strata and other anomalies.

By far the most important geophysical tool in use today is seismography. In a seismic survey, sound waves are bounced off the rock formations and recorded by extremely sensitive instruments. As every substance reflects the sound waves in a different manner — with its own signature as it were — faults, folds, reefs, sometimes even hydrocarbons themselves, can be detected.

Final proof, of course, can only be had by drilling, which is getting very expensive and gets more and more expensive as drilling gets deeper. Some of the wells in which B.C. Resources participated were drilled to depths of 5,800 meters. Looking at drill bits alone, it takes 40 or 50 of them to drill that deep and each bit costs at least $10,000.

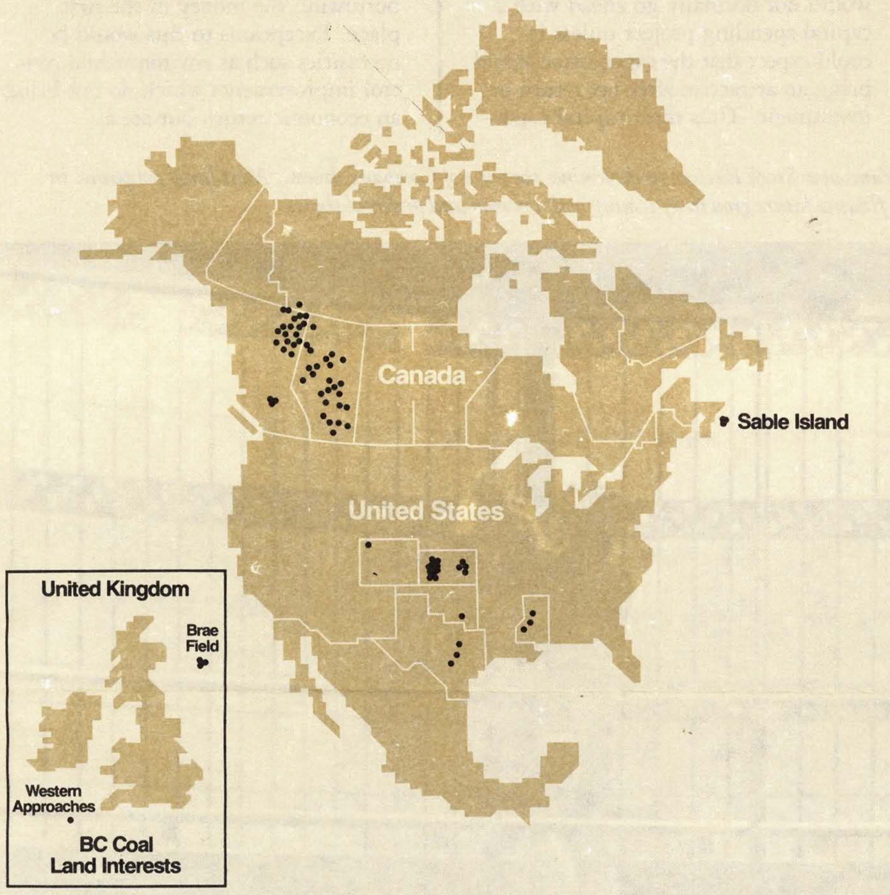
The other big cost factor today is remoteness. The easily accessible oil has mostly been found. Companies therefore search in other areas like Northern Canada, the Arctic, and offshore. Just getting a drill rig into position in such remote places can cost several million dollars.

Finally, no matter how often or how deep wells are drilled, there is absolutely no guarantee that oil or gas will be found. All the evidence can point to it, but the end result may be a tight — non-porous — formation, or salty water. Lady Luck must play her part.

Finding hydrocarbons is not enough. In today's frontier areas for instance, enormous quantities of oil or gas have to be proven to justify the equally enormous expense of development and transportation. A find in Alberta that would set the Oil Patch ablaze with excitement might be an uneconomic puddle if located under the Arctic ice.

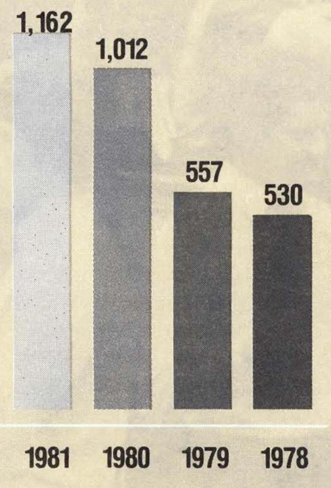
Worse perhaps, is finding oil or gas, then not being able to sell it because of a glut in the market and no government licence to export. At year end, B.C. Resources had 16 gas wells that could not be exploited due to these factors. Ultimately, then, oil and gas exploration is a game for optimists.

Printed records of seismic surveys indicate subsurface folds, faults, reefs — even hydrocarbons themselves to geophysicists like Calgary-based Clem Trenholm.



BC Resources Oil & Gas Division Land Holdings

Oil and Gas Land Holdings
(thousands of net hectares)

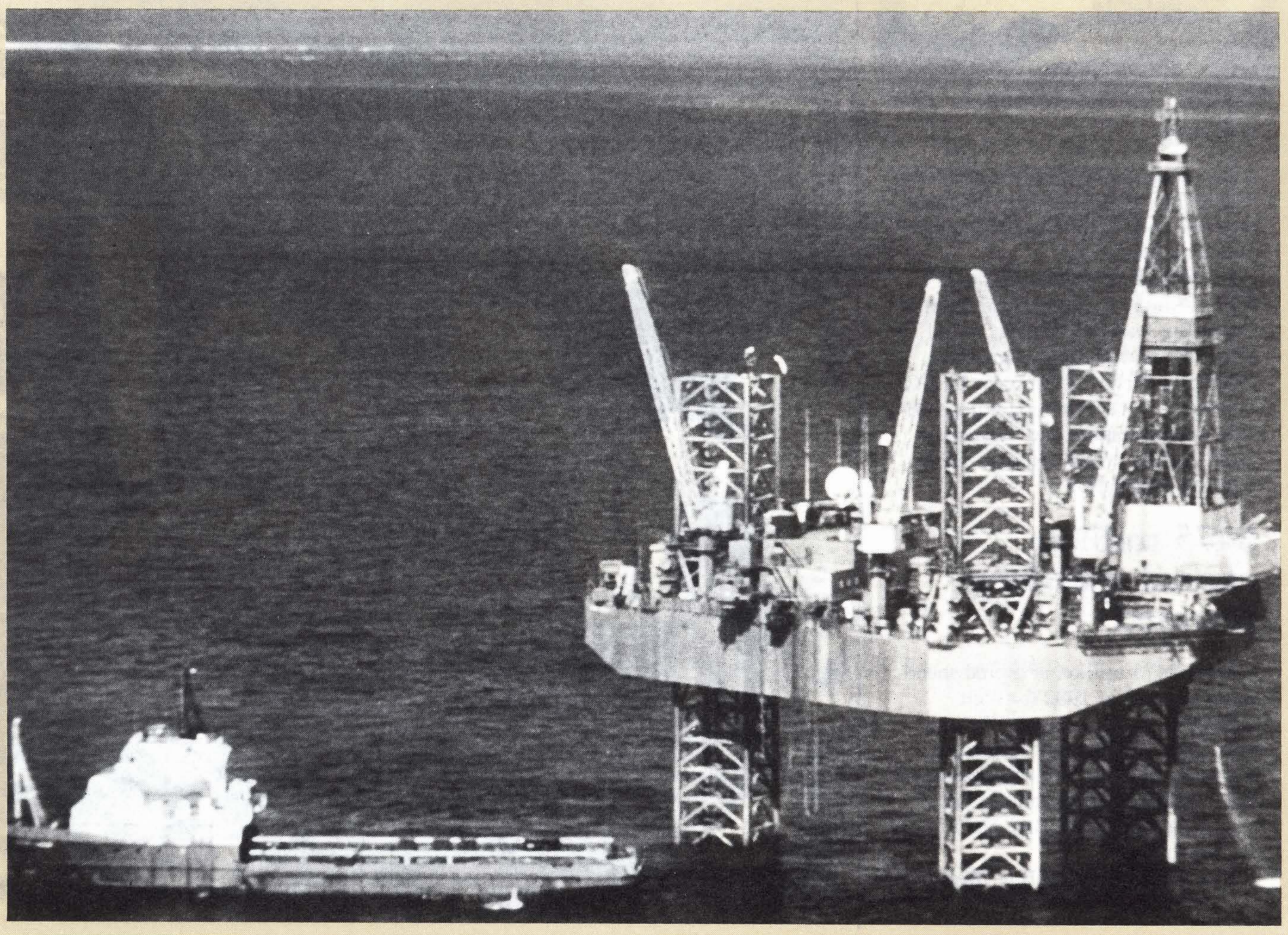


Total B.C. Resources land interests

Location	Gross Hectares	Net Hectares
British Columbia (including Licence Lands)	3,621,223	1,016,880
Alberta	147,926	23,456
Sable Island	447,125	44,712
Northwest Territories	13,427	1,376
United States	328,605	76,081

Oil and gas companies often become involved in joint ventures, with a number of participants each owning a percentage of the land rights in a certain area. *Gross hectares* refers to the total land holdings to which a company and its partners have exploration and drilling rights. *Net hectares* is a company's own share of these gross land holdings, calculated according to the interests it holds in each property. One hectare equals approximately 2.5 acres.

Supply ship brings provisions to crew of the Rowan Juneau, a drilling rig stationed off Sable Island in Eastern Canada. The Company has a 10 percent interest in the play.



Share creation needed for future growth

The Company will seek approval from shareholders for a recapitalization program at its Annual General Meeting on May 14. To raise funds for capital spending, and possible debt retirement, B.C. Resources is asking for authority to create, but not immediately issue, 100 million preferred shares and 100 million additional common shares.

More than $1 billion will be needed to carry out B.C. Resources capital expansion programs over the next five years to maintain a competitive position in world markets for its coal, forest products, oil and gas operations.

"At the present time, B.C. Resources is limited in the ways it can raise new capital," according to Jack Smith, the Company's chief financial officer. "This puts us at a competitive disadvantage compared with other companies. B.C. Resources does not have the same flexibility. The Company has authorized 100 million shares, and more than 96 million already have been issued since the Company was formed in 1978. We have no preferred class of shares. With fewer than four million common shares remaining

Jack Smith

in our treasury, our choice is effectively reduced to either borrowing the funds needed to take advantage of an opportunity, or pass it up."

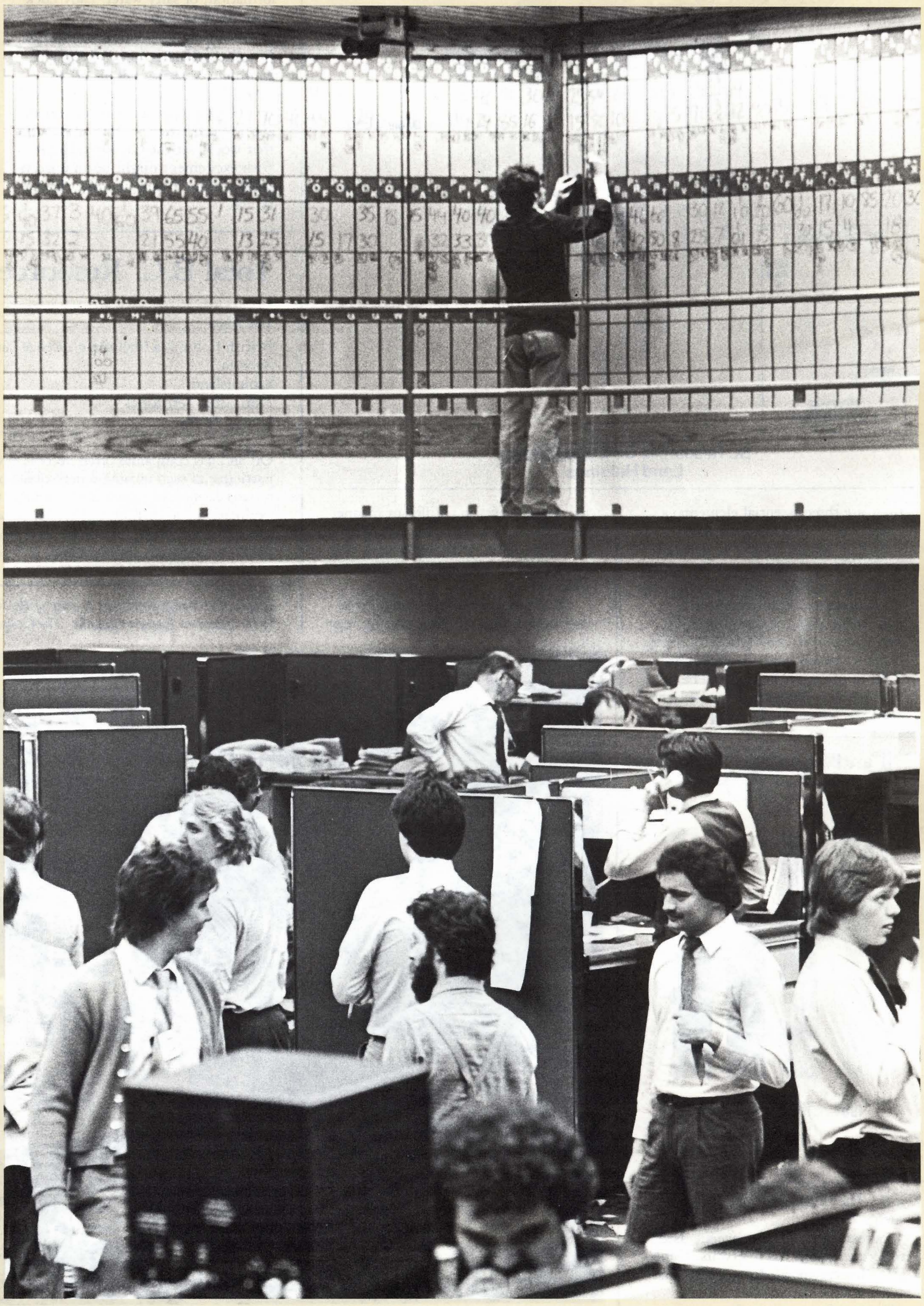
In 1981, B.C. Resources spent $295 million on capital expenditures; 47 percent was spent by B.C. Coal, which has several capital expansion projects underway; 19 percent by BC Timber, where several upgrading projects were necessary; and 32 percent by oil and gas which required investment for exploration.

$475 million capital spending planned

Some $475 million of capital spending is planned in 1982 for such projects as the new Greenhills mine, expansion of Westshore Terminals, upgrading of forest products operations and investment in oil and gas projects, in particular the Brae Field in the North Sea.

The challenge facing B.C. Resources in 1982 is how to best finance these expenditures for the current year and those which lie ahead in the next four to five years. Each project has been looked at carefully in terms of priority, how urgently it is needed, and what the return on investment will be. Companies like B.C. Resources look at capital spending as a means of increasing income as well as maintaining corporate assets. A company would not normally go ahead with a capital spending project unless it could expect that the expenditure would bring an attractive after-tax return on investment. Thus most capital expenditures can be considered as a form of investment which provides a return greater than the cost of raising or borrowing the money in the first place. Exceptions to this would be necessities such as environmental control improvements which do not bring an economic return but are a

Buying and selling activity on The Toronto and Vancouver Stock Exchanges determines the price of Company shares. Most large companies in Canada have authority from their shareholders to finance future growth by issuing both common and preferred shares.



necessary cost of doing business.

Most companies finance capital requirements by a mix of two primary methods. These are by debt financing — short and long-term borrowing such as bank loans or the issuing of bonds and by selling equity in the company through new share issues, both common and preferred.

1981 interest charges top $95 million

Bank borrowing, at current interest rates, is extremely expensive. In 1981, B.C. Resources paid $35.5 million in interest for money borrowed to finance major capital projects. Other short and long-term borrowings added another $59.7 million in interest charges for a 1981 total of $95.2 million. Clearly, with interest rates near an all-time high, the Company would prefer to keep its interest charges as low as possible.

Corporate bonds are another means of financing capital expenditures. However, they too reflect the level of current interest rates, although the interest rate on bonds is fixed while bank borrowing costs fluctuate. Interest expense can also offer the company tax savings which can make this debt financing less costly than financing through shares. However, competition to raise money through bonds is very strong. Most companies and various levels of government use bonds as one means of raising capital. B.C. Resources may consider a bond issue to raise part of its capital requirements.

The other traditional method of financing is through the issue of additional shares. Most large companies in Canada have authorization from their shareholders to issue both common and preferred shares under appropriate circumstances. When an opportunity arises to improve a company's position through an investment of capital, it can choose between raising money either by borrowing or by issuing shares — common, preferred or both. The company has the flexibility to pick the means most beneficial.

Approval sought from shareholders

"At today's high interest rates," says Mr. Smith, "there are some advantages to the Company in raising money through a preferred share issue rather than borrowing. Proceeds from a preferred share issue could even be used to reduce the Company's bank debt, to the benefit of shareholders," he said. "We are asking for shareholder approval to give B.C. Resources a balanced capital structure — based on common shares, preferred shares, and borrowing.

"Our own studies, which included looking at the financial structure of other companies, and the advice of outside financial experts, has led us to propose the authorization figure of 100 million preferred and 100 million additional common shares," Mr. Smith said. "Like other companies, we will put these on the shelf and use the authority to issue new shares only when it makes good business sense. The authorization should last us for several years of normal business growth and avoids the need to go back and call a special shareholder meeting each time new financing proves advantageous.

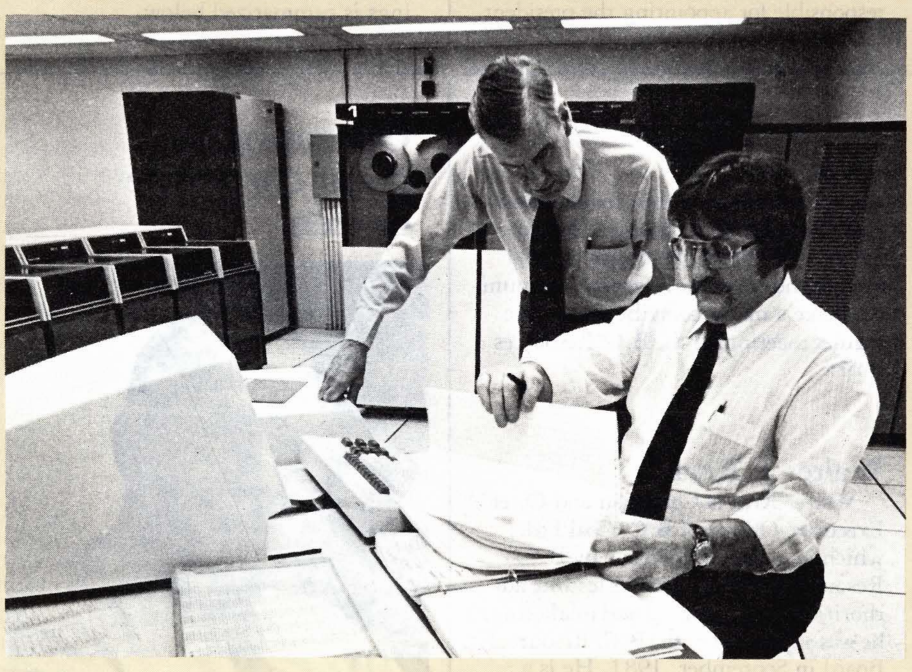
"Depending on the Company's tax position at any given time," Mr. Smith points out, "it is often of more benefit to issue preferred shares than borrow. We expect to explore the possibilities of tapping potential preferred share markets to the Company's advantage during 1982-83."

Mr. Smith emphasizes that Company management has no intention of issuing more common shares at today's depressed market prices. He said B.C. Resources has no intention to take steps which would "dilute" the value of the existing 96 million shares now in the marketplace.

He also pointed out that, as few as two million of the preferred shares could be issued in 1982 or 1983 to raise perhaps $50 million.

"We are looking for longer term flexibility which will accord us the same financing options open to other companies," Mr. Smith explained. "What we are asking for is approval now to create the shares. We want to have them ready to be issued at the right time in the future for the right opportunity with minimum delay.

"This would give us the options we need to take the proper steps to increase the Company's ability to raise capital funds and thereby take advantage of future investment opportunities as they occur," Mr. Smith said. (Differences between common and preferred shares are explained in the above story.)



A recent computer conversion at the Vancouver head office of BC Timber has increased the information storage capacity to 2.4 billion bytes. Supervisor Len Wilson and Bob Spencer discuss data before it is fed into the computer through a video terminal.

A look at common and preferred shares

There are both similarities and differences between common and preferred shares.

Common shares fluctuate in value according to market demand, which in turn is affected by a company's earnings performance and its potential. As the value goes up, the shareholder stands to realize a gain on the share price. If the value goes down the shareholder faces a loss. Shareholders seeking a capital gain normally buy common shares. These shares may also pay a dividend when a company returns a reasonable and consistent profit. Thus common shareholders can doubly benefit from favorable business and market conditions by receiving both capital gains and dividends. Common shareholders usually have the right to vote at a company's Annual General Meeting.

Preferred shares are normally issued by a company when it wants to raise money but does not wish to borrow at the bank or through other lending institutions and does not wish to issue additional common shares.

These shares have little relationship to the market value of common shares.

Preferred shares have similarities to a debt instrument, or a bond, in that the issuing company promises to pay out of profits, a fixed annual percentage of the face value to the preferred shareholder. Although it is called a dividend, it is more like an interest payment one would receive from a term deposit. Preferred shares usually do not include voting rights.

The issuing company usually reserves the right to call these shares back at the specified date, paying the owner the face value of the share.

These shares must be paid their annual dividend before dividends are paid to common shareholders. As well, if a company should be wound up, preferred shareholders normally have a claim on assets ahead of common shareholders.

Preferred shares offer attractive tax treatment of their dividends to the holder under Canadian income tax law.

But the common shareholder, who in essence takes more risk, can get a much larger rate of return if the company does well. A common share which increases in price from $4 to $6 provides the investor with a 50 percent gain. Preferred shares usually do not fluctuate enough in the market to make significant capital gains.

Preferred shares can be issued with a number of different features. Investors should consult a stock broker for more information about them. B.C. Resources, if it receives approval to create preferred shares, has not yet decided when a preferred share issue would be made.

Regional meetings improve information flow

In 1981, B.C. Resources introduced its shareholders to a new form of communication — the regional shareholder meeting. Mini-meetings, as they have come to be known, are actually scaled-down versions of the Annual General Meeting. While no official business is conducted, these meetings have a dual purpose: to pass along information about Company activities, and to provide a forum in which shareholders can express their views and concerns to top management.

As manager of the Company's shareholder relations centre, Maureen Ross and staff have coordinated four mini-meetings to date.

Since it is impossible for even a small percentage of the Company's 128,000 registered shareholders to attend the Annual General Meeting in Vancouver, the mini-meetings are designed to take the Company to its shareholders.

To date, there have been four such mini-meetings. The first three — in Prince George, Kelowna and Victoria — were aimed largely at shareholders. The fourth, held in Prince Rupert in January, 1982, was expanded to include those employees of BC Timber who work at its pulp mill on nearby Watson Island.

Each of these informal meetings has followed a similar format. Bruce Howe, president and chief executive officer of B.C. Resources, presents an outline of the Company and a summary of its activities.

The main focus of the meeting, however, is the open question period which follows the presentation. Lasting from one to two hours, this question period allows shareholders and employees to express their views and concerns about a wide range of subjects. When the meeting closes, those in attendance are invited to stay for coffee and meet personally with management representatives.

The most important aspect of these meetings is the opportunity they give top managers to hear what is being said about the Company. By understanding how B.C. Resources is perceived by its shareholders and employees, managers are better able to tackle the problems that are of greatest concern. In this respect, the mini-meetings have been highly successful.

Directors represent shareholders' interests

The people who sit on B.C. Resources Board of Directors have a vital responsibility to the Company's shareholders. It is their job to set objectives for B.C. Resources and to chart its future. On behalf of the shareholders who elect them each year, directors safeguard the Company's assets and make sure its operations are run as efficiently and profitably as possible.

They are the ultimate management of B.C. Resources. As with any other company in Canada, directors can accept or reject the plans that company officers present to them. They can decide what businesses the company should be involved in, or what line of products show the best potential. Often, they set specific targets for a company, such as the optimum earnings per share or rate of growth they think best for the organization.

B.C. Resources directors meet at regular intervals, usually about once a month, to approve spending, monitor the Company's performance and discuss its latest plans and proposals. They also review the actions that the Company's top management has taken to make sure the Board's wishes are being carried out. Directors also devote a considerable amount of their own time to reviewing Company plans and proposals and take an active interest in the Company's progress. The outside directors are not employees, nor do they receive salaries or such benefits as pensions. B.C. Resources outside directors are paid a $5,000 annual fee plus meeting attendance fees. The three B.C. Resources officers currently serving on the Board receive no remuneration for this work.

If business conditions change, board members may alter the company's direction or steer it away from a possible threat to the organization. Since they are the representative voice of the shareholders, the directors are also responsible for appointing the president and the other officers, who manage the company on the board's behalf.

Board members play a crucial role in guiding a company and ensuring that its assets provide the best possible return to shareholders, so directors must have a solid combination of experience, knowledge and skills gained from wide exposure to the business world. This is certainly true in the case of B.C. Resources, which relies heavily on the advice and guidance of some of the top industrial leaders in Western Canada. The background and a summary of the experience which current members bring to board meetings is summarized below.

B.C. Resources Board of Directors

Donald S. Harvie

Donald Harvie is Chairman of The Devonian Group of Charitable Foundations, a non-profit charitable organization based in Alberta. A resident of Calgary, he has spent much of his career in Alberta's oil and gas industry, and has held senior positions with both Petrofina and Petro-Canada, where he was deputy chairman until 1980. Mr. Harvie was elected to the Board at the Company's annual general meeting in 1981 and is the only Company director from outside B.C. He is eminently qualified as an expert in the field of oil and gas and in business finance. He is a member of B.C. Resources executive committee and its audit committee.

Bruce I. Howe

Bruce Howe is President and Chief Executive Officer and a director of B.C. Resources, a position he has held since November, 1980. Mr. Howe joined the Company after an 18-year career with MacMillan Bloedel Limited, Canada's largest forest products company. He has broad experience as an operating executive, and is particularly skilled at organizing and motivating others. His philosophy of building B.C. Resources into one of Canada's best-run resource companies by upgrading and expanding existing operations is crucial to the long-term development and financial success of the Company. Mr. Howe is also a member of the Board's executive committee.

Lucille M. Johnstone

Lucille Johnstone is Senior Vice President and Secretary, and a director of RivTow Straits Limited of Vancouver. This diversified company operates throughout the Western Provinces and is involved in marine, shipyard, aggregates and industrial equipment activities. Mrs. Johnstone is one of B.C.'s outstanding businesswomen, and is responsible for all financial, legal and administrative functions at RivTow, where she has worked for the past 36 years. Her background in business finance and experience gained as director of banking and other organizations have earned her a reputation as an astute guardian of shareholders' investments. Mrs. Johnstone was appointed a director of B.C. Resources Board in August, 1981, and is a member of its audit committee.

James A. Pattison

Jim Pattison is Chairman, President and Chief Executive Officer of The Jim Pattison Group Inc., a private company with extensive interests in the automotive, communications, real estate development, food and beverage and financial services businesses. Mr. Pattison is one of Western Canada's best-known business entrepreneurs. His experience as a major retail merchandiser and corporate builder have made him an authority on the views of consumers and the communities they live in. Mr. Pattison was elected to the Board of B.C. Resources at the Company's 1981 annual general meeting. He is a member of its executive committee and its human resources and compensation committee.

Edwin C. Phillips

Ed Phillips is Chairman and Chief Executive Officer, a director and a member of the executive committee of Westcoast Transmission Company Limited of Vancouver. Acknowledged as one of B.C.'s leading businessmen, Mr. Phillips has a wealth of experience in the natural gas industry. In addition to his business associations, he is deeply involved in supporting the arts and education, and holds directorships with a number of non-profit organizations and businesses both in Canada and the U.S. Mr. Phillips was elected to the B.C. Resources Board at the Company's annual general meeting in 1981. He is a member of its executive committee and the audit committee.

Trevor W. Pilley

Trevor Pilley is Chairman and Chief Executive Officer of the Bank of British Columbia, which he joined in 1974 after a career with the Bank of Nova Scotia. Mr. Pilley's 30-year career with Canada's financial community has made him a leading expert in financial and banking matters. His knowledge of financial institutions and proven managerial experience are among the business skills he brings to the B.C. Resources Board. Mr. Pilley is one of the original directors of B.C. Resources, and a member of the Company's audit committee and its human resources and compensation committee.

John W. Pitts

John Pitts, formerly Chairman, President and Chief Executive Officer of Okanagan Helicopters Ltd., was the first Chairman of the Board of B.C. Resources, a position he accepted at the time of the Company's formation. He is chairman of the Board's audit committee. Mr. Pitt's broad knowledge of business management techniques, his experience in corporate organizations, and understanding of the financial community, make a major contribution to the regular meetings of the B.C. Resources Board.

Walter J. Riva

Walter Riva is Chairman and Chief Executive Officer of B.C. Coal Ltd., which is owned 67 percent by B.C. Resources. One of Canada's leading authorities on coal mining and marketing, he was appointed to the B.C. Resources Board in September, 1981. He is a member of the Board's executive committee. Mr. Riva has spent more than 40 years in the coal industry, and has been associated with B.C. Coal since 1973. His extensive knowledge of the world coal industry and the experience he has gained as the head of Canada's largest metallurgical coal company have made him a valuable addition to the Board.

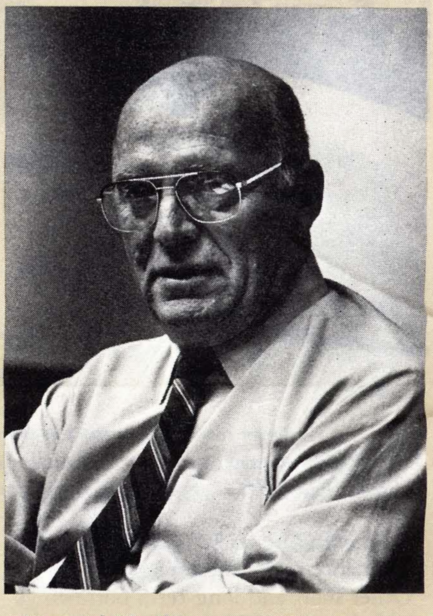
Donald N. Watson

Don Watson was appointed Chairman of the Board of B.C. Resources on October 30, 1981 after having been President and Chief Executive Officer of its forest products subsidiary, BC Timber Ltd. He was appointed a director of the Company in August, 1981 and is chairman of its executive committee. Mr. Watson's experience in the forest products industry was gained following an equally challenging career with Canada's airline industry, where he rose to become President and Chief Executive Officer of Pacific Western Airlines. He is one of three B.C. Resources Group officers currently members of the Board.

Charles N.W. Woodward

Charles Woodward is Chairman and Chief Executive Officer of Woodward Stores Limited, one of Western Canada's major retail merchandising companies. A Vancouver native, Mr. Woodward has established a broad reputation as an experienced and respected businessman. His lifelong involvement with the retail merchandising industry has given him a thorough understanding of the desires and needs of consumers in Western Canada. He is owner of Canada's largest commercial ranch, the Douglas Lake Cattle Company and serves on the boards of other major Canadian corporations. He has been a member of the B.C. Resources Board since its formation and is chairman of its human resources and compensation committee.

Operating as a good corporate citizen



Donald N. Watson
Chairman of the Board

The objective of B.C. Resources is to operate profitably and build upon the value of the Company for the benefit of the shareholders through growth in earnings and asset values.

At the same time, no company can operate in a social vacuum. Every time an organization like B.C. Resources makes a decision, it affects other people, so it has to weigh the consequences carefully. We have an obligation to the people of this province to carry out our business in a responsible manner, and to act in the best interests of our operating communities. That is corporate citizenship.

There are a number of different ways we respond to the needs of our various publics. As a custodian of natural resources, it's our responsibility to make sure they are used efficiently and wisely. We have a duty to operate our mills, mines and plants without harming the surrounding environment. People expect us to provide stable employment for the communities we operate in by choosing products that have a long-term future. We recognize that our employees, too, have a right to a safe and healthy workplace. And we are firmly committed to helping local organizations by lending our support and employees' time to help with worthwhile projects.

We're not looking for credit when we carry out these programs. We get involved simply because we believe we can and should contribute to a better environment in which to work and live.

— Donald Watson

How to read an annual report

The hundreds of facts and figures that appear in a company's annual report can be confusing to a reader who is not familiar with accounting terms and procedures. This unofficial guide is designed to help readers understand the significance of the numbers and financial statements in this Report.

So you've held your B.C. Resources shares for more than two years now, and you'd sure like to know what your Company did and how it performed in 1981. You've got the Annual Report in your hands, and at first wary glance it seems to be just a bit less threatening than Rubik's Cube. Don't lose heart. For many B.C. Resources shareholders, the Annual Report is a relatively new experience.

Your problem is how to unravel all the information contained in this document and make some sense of it. Too hard, or impossible, you say? You're intimidated by the blocks of figures, graphs and charts, and a terminology difficult to understand? Relax. If you take the time you might be pleasantly surprised to see just how quickly you can become your own expert at reading and understanding annual reports. And, you won't need an accountant or legal expert to help you.

Now, then, first things first. At the outset, you'll notice that the 1981 B.C. Resources Annual Report doesn't look at all like those most of us have seen before: cover-to-cover compilations of statistics and graphs in booklet form. This year's Report to B.C. Resources shareholders was designed to be read much like a daily newspaper. In fact, so many newsworthy things happened to the Company last year that it made good sense to present the Annual Report as a newspaper.

So, setting aside your skepticism for just a moment, let's proceed.

Message to shareholders

We'll start with the boss, Bruce I. Howe, President and Chief Executive Officer of B.C. Resources. In his message to shareholders, Mr. Howe, on behalf of the directors (have you checked the names for someone you might know?) tells us in general terms where the Company stands today, itemizes the major developments of the past year, and how they affect B.C. Resources three key resource enterprises — coal, forest products, oil and gas. His message stresses growth, important transactions, and reports on significant internal changes that have taken place to improve Company management.

While the Annual Report limits itself essentially to dealing with the actual status of the Company's affairs, the President's message goes considerably further by touching on the future. It is here that the CEO (Chief Executive Officer) stakes his expertise and credibility to present as accurate a picture as he can in the hope of satisfying shareholder expectations. He summons all his knowledge and resources just short of a crystal ball.

Elsewhere in the Report's introduction you'll find a statement of Company objectives and the strategy to be employed in achieving them. And if any refresher is needed, we've also included a brief picture on how B.C. Resources is structured.

Now that you've digested the preliminaries, we get right to the nitty-gritty, i.e. how much the Company sold and for how many dollars. What you see in the opening statement entitled Financial and Other Highlights briefly summarizes the overall revenues from B.C. Resources — and what its profit was for the year. (The accompanying column of figures throughout the various financial statements shows the Company's comparative performance for the previous year.)

Quite naturally the operating costs, number of employees and total wages, salaries and benefits are of importance, as are the number of registered shareholders and book value per share, and the performance of these shares on the Vancouver and Toronto stock exchanges during a year of severe economic dislocations and setbacks. But don't dwell too long on this initial financial report — save your strength for later.

Earnings statement worth examining

Rather, it is the Consolidated Statement of Earnings that is one of the most important sections of the Annual Report, because it details and summarizes all of B.C. Resources operations during 1981. Here, the money from the revenue-producing resources is weighed against the cost of producing and selling them. The owner of a general store faces the same task each year, balancing off his sales against costs in hope of showing a profit that will allow him to stay in business. What's left over in both instances, if anything at all, is known as Net Earnings (i.e. profits) to be added to previous years' net earnings (Retained Earnings) and carried over into the following year. B.C. Resources did this at the beginning of 1981 with $92,106,000 carried over from previous years. This is shown in the Consolidated Statement of Retained Earnings.

You will see from the Report, now that you've got this far, that your

Kelvin Lobban

Bruna Misura

Dino DePaoli

shares made only a little money in 1981. Net earnings per share were scarcely cause for joy. But since you've already read the explanatory words of Mr. Howe, let's look at the Consolidated Balance Sheet.

Back in simpler days, the old company bookkeeper would come up each year with little more than a single sheet of paper with two columns of figures simply headed assets and liabilities. If, for no other reason than to reassure his banker and creditors, the owner of the business had to prove that he was not liable for more than he was worth, and thus justified his staying in business.

The process today is not much different, just more complicated and the figures much bigger. From B.C. Resources Balance Sheet you can see that the assets tally with the liabilities and equity of the shareholders. It's also evident that the Company is approaching the status of a multi-billion dollar corporation.

In your review of each of the three resource components — forest products, coal, oil and gas — you will be told of the substantial outlays of capital in each sector designed to meet world demands over the coming decade. Each is designed to be self-sustaining as its own profit centre, as you will see from the reorganized management and marketing programs and their team set-ups. The current exception is oil and gas which continues in the development and exploration stages.

Notes explain financial details

Having reached this point, you should now consult the Notes to the Consolidated Financial Statements. The notes help to explain, in itemized form after appropriate annotation, the rationale for various entries in the Statements that you might find puzzling. These are kept as simple and informative as possible in a day of complex financing. We don't always achieve simplicity, but it's not for the lack of trying. Some items are more straightforward than others, which need explaining.

For example, while nearly everyone knows that Accounts Receivable (under current assets) is money owed to B.C. Resources from sales of products and other services, and will be collected at an early date by the Company, Notes Receivable needs more explanation than the mere figure next to the entry. By referring to the appropriate Note, the investor finds the breakdown of various Notes Receivable, interest rates and the year they mature, or are payable to the Company.

Similarly, Extraordinary Items in the Consolidated Statement of Earnings is bound to pique the curiosity of the sharp-eyed investor until he turns to the suitable Note which itemizes tax benefits, writeoffs, deferrals and principles involved. And so on. You are urged to consult the Notes frequently, for they clarify items and thereby make the investors' task less difficult, at the same time allowing cross-checking and referencing.

Ratios used by many experts

Since by now you're having real fun and are confident you can handle an Annual Report, you might want to experiment with some of the more refined analytical techniques used by investors, brokers and analysts in determining the worth of the Company. These entail what's known in the industry as "ratios" that are keyed to the various items in the annual report. There are literally dozens of ratios used today, and probably there are others not yet invented. While some skeptics dismiss the ratio technique as inaccurate and even misleading, others are equally certain that ratios are valid indicators of corporations' health. To help you experiment, some of the most commonly used are listed in the Financial and Other Highlights at the beginning of this report.

$$\frac{\textit{Current Assets}}{\textit{Current Liabilities}}$$

The current ratio, or as it is sometimes called, the working capital ratio, is an indicator of liquidity. Put another way, it tells how ably a company can meet its current obligations.

$$\frac{\textit{Long-Term Debt}}{\textit{Shareholders' Equity and Long-Term Debt}}$$

From this ratio we learn to what degree a company is financing itself through bonds and shares.

$$\frac{\textit{Net Income}}{\textit{Shareholders' Equity}}$$

This is the return the company is making on shareholders' equity, in turn a helpful index in determining company profitability.

There are many other ratios, of course, and each can be a financial indicator to those who follow the stock market closely. As you read through this report, you may even pick up ideas for ratios of your own.

Good idea to check with brokers

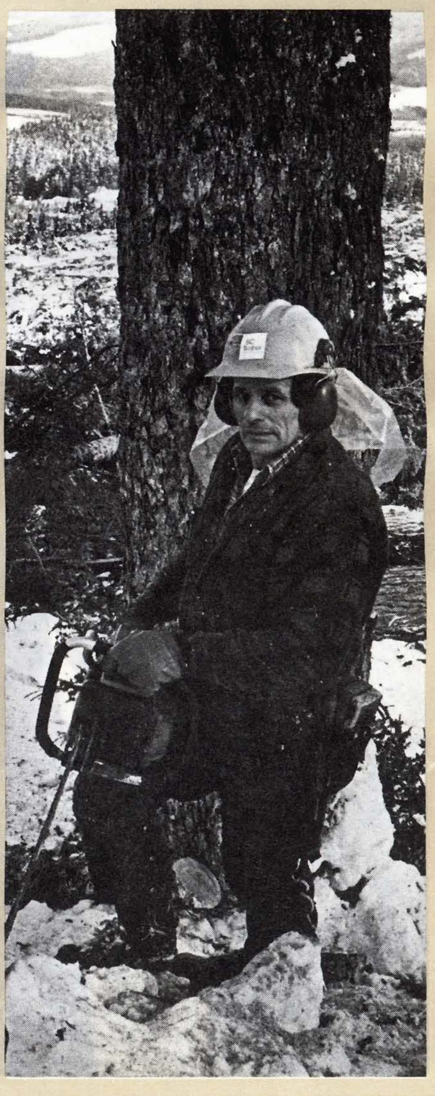
While you're mulling over your findings in the B.C. Resources Annual Report, bear in mind that a good idea is to check from time to time with stockbrokers and investment houses for outside opinions about what they think of the Company. They will more often than not be direct and even brutal in their assessments. But their opinions are at least as valid as those you'll get in the financial pages of the daily newspapers, and quite often more so. No one is a prophet, but a variety of opinions and careful study on your part can help you reach sound judgments.

Finally, what about that item in the Annual Report headed Auditors' Report? Well, this is required by law to safeguard the investment of thousands of shareholders. Actually, it's a statement by an independent firm of chartered accountants which has been retained to scrutinize B.C. Resources' financial statements and judge them for their accuracy and adherence to "generally accepted accounting principles". The auditors also offer the opinion that the statements fairly present B.C. Resources' financial position as well as the results of the operations of the Company.

One of the enjoyments of being a shareholder in any company is being able to follow and understand the financial statements and performance of the company. If you are new to analyzing the Annual Report, we hope that the foregoing has you well on your way. However you must be wary of the fact that if you get too interested in these matters, you may find yourself wanting to become an accountant!

Alberta Vogelaar

Alec Kawinsky



Erick Jepsen

Steve Liska

Glossary of terms

Coal Mining

Breeze
Coke dust developed in the heating process and in the handling of coke. It is mechanically collected and sold as a filtering agent or fuel.

Hydraulic mining
An underground mining method using a high pressure water jet to dislodge the coal, which is then flushed out of a sloping tunnel using water.

Metallurgical coal
Also known as coking coal, is most commonly used in steel making.

Preparation plant
Site where coal is sized and sorted to separate it from debris.

Reclamation
The process of restoring disturbed lands to their former uses or other productive land uses.

Surface mining
An excavation method used to mine coal located close to the earth's surface. It is also known as open pit mining.

Thermal coal
Also known as steam coal, it is normally used as fuel for boilers which make steam to drive turbines.

Unit train
A train made up of a fixed number of railcars operating between two locations in continuous roundtrip cycles.

Forestry

Bleached kraft pulp
Cellulose material used to make paper. It is produced by "cooking" wood chips in chemicals to loosen fibres, which are bleached chemically and formed into dry sheets for shipment.

Debarker
Used in pulp mills and sawmills to remove bark from whole logs before processing. Can operate mechanically or with high pressure jets of water.

Flue gas
Waste gases produced when any compound is burned.

Housing starts
The number of new houses under construction. Used as an indicator of the health of the lumber market.

Market pulp
Pulp produced for sale to others rather than for use in the manufacturing company's own or related plants.

Precipitator
Device which uses an electrical charge to remove dust from gases.

Woodlands
Those operations responsible for logging, log transportation, forest management and related functions.

Oil and Gas

Crown Lands
Owned by federal or provincial governments, which permit exploration and development of resources under various forms of tenure.

Farm-in
Agreement under which a company participates in exploration and/or drilling on another company's property to earn an interest.

Farm-out
Agreement by which a company contracts for exploration activity on its property by another company.

Gross hectares
The total area of land in which a company has any interest in oil and gas rights.

Licence Lands
Refers to the 948,482 gross hectares of land in British Columbia for which the province issued an exploration licence to the Company in 1978.

Net hectares
Represents a company's share of the gross land holdings calculated in accordance with its various ownership interests.

Seismic program
An exploration method in which energy sources are used to cause earth vibrations which are "interpreted" scientifically to determine the location of potential oil and gas reservoirs.

Financial

Asset
Anything owned by a company which has a measurable dollar value.

Capital expenditure
Funds spent by a company to increase or improve its property, plant and equipment.

Carried interest obligation
A commitment to pay all or some of the exploration and development costs on behalf of another participant who owns a working interest in an oil or gas property. In return, the company is reimbursed from the participant's share of the oil or gas proceeds.

Consolidation
Financial statements which combine operating results for a company and its subsidiaries.

Current asset
An asset which is expected to be converted into cash or used to produce income within one year.

Depreciation
An accounting procedure which charges the cost of an asset to company earnings over its estimated useful life.

Earnings per share
A company's annual net earnings divided by the total number of issued common shares.

Liability
A debt owed by a company. A current liability is a debt which will fall due within one year.

Net earnings
The revenue which is left after all expenses and taxes have been deducted.

Operating profit
Revenue which remains after all expenses — except for interest — have been deducted and before income taxes, equity income and minority interests share.

Preferred shares
A class of shares with special rights or restrictions which may take preference over common shares when it comes to dividend payments and rights in the event of the liquidation of a company.

Retained earnings
Accumulated profits which are reinvested in the business after dividend payments and losses have been deducted.

Revenues
Amounts which have been received or are owed to a company from the sale of its products and services or from the investments it holds.

Working capital
The amount left after current liabilities are subtracted from current assets.

Weights and Measures

Bank cubic meter
Volume of solid rock or overburden which has to be removed before coal seam is reached.

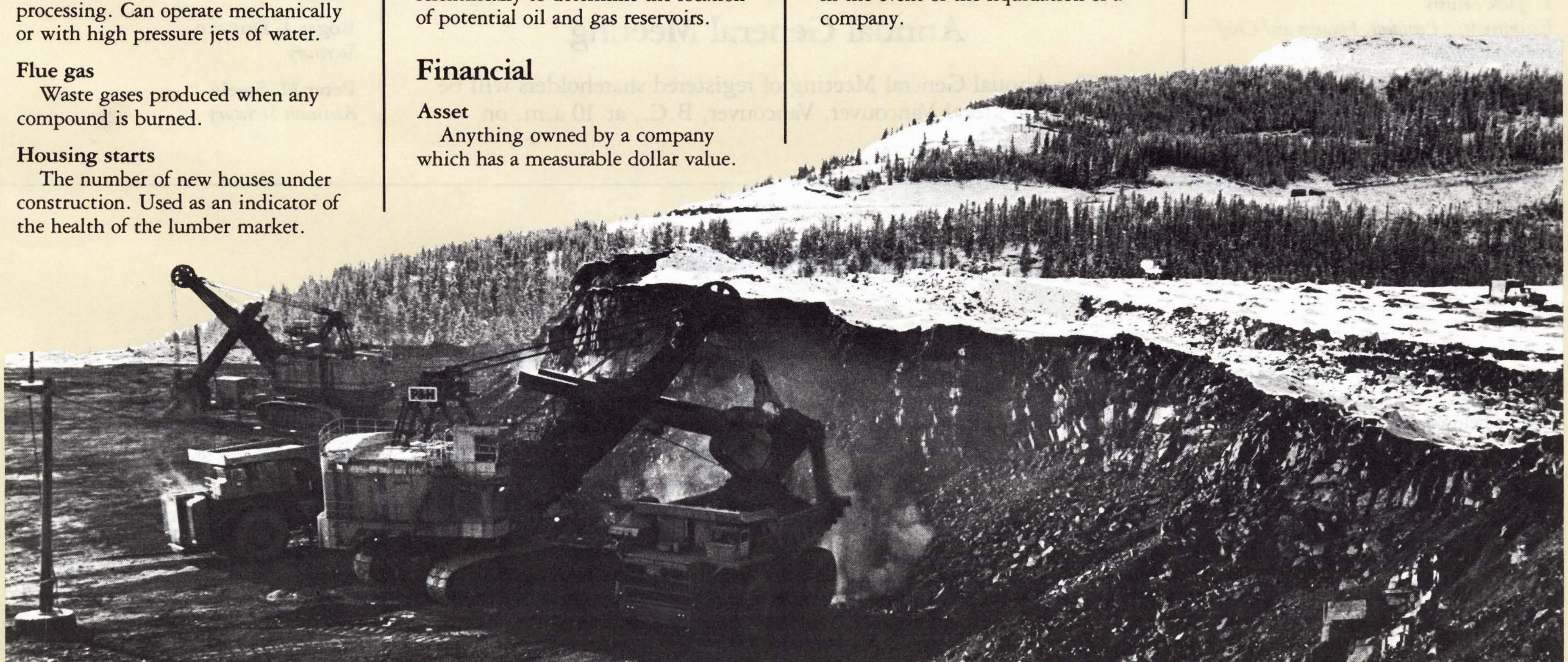
Foot Board Measure
Standard measure of lumber volume, usually stated in units of 1,000 board feet (MFBM). One board foot is equal to one-twelfth of a cubic foot and is equivalent to a board one inch thick and one foot square.

Hectare
Metric measurement of area which equals 10,000 square meters. Equivalent to roughly 2.5 acres.

Kilometer
Metric distance measurement which equals 1,000 meters or .621 mile.

Tonne
Metric weight measurement which equals 1,000 kilograms or 1.1 short tons or 2,204.6 pounds.

In the mining process, overburden is first blasted and the fragmented rock is then removed using electric shovels and 180-tonne trucks. A fleet of dozers, front-end loaders and 90-tonne trucks then move in and begin recovering coal from the exposed seam.



Corporate Information

Board of Directors

Bruce I. Howe
President and Chief Executive Officer
British Columbia Resources Investment Corporation

Donald S. Harvie
Chairman
The Devonian Group of Charitable Foundations

Lucille M. Johnstone
Senior Vice President and Secretary
RivTow Straits Limited

James A. Pattison
Chairman, President and Chief Executive Officer
The Jim Pattison Group Inc.

Edwin C. Phillips
Chairman and Chief Executive Officer
Westcoast Transmission Company Limited

Trevor W. Pilley
Chairman and Chief Executive Officer
Bank of British Columbia

John W. Pitts
Former Chairman, President and Chief Executive Officer
Okanagan Helicopters Ltd.

Walter J. Riva
Chairman and Chief Executive Officer
B.C. Coal Ltd.

Donald N. Watson
Chairman
British Columbia Resources Investment Corporation

Charles N. W. Woodward
Chairman and Chief Executive Officer
Woodward Stores Limited

B.C. Resources Officers

Donald N. Watson
Chairman

Bruce I. Howe
President and Chief Executive Officer

L. Jack Smith
Executive Vice President, Finance and Chief Financial Officer

Jean G. Cormier
Senior Vice President, Corporate Affairs

Robert G. S. Currie
Senior Vice President, Oil and Gas

Roger J. Duncan
Senior Vice President, Law and Secretary

Robert F. Chase
Vice President, Brae

Richard A.D. Commerford
Vice President, Controller

Gary S. Duke
Vice President, Government Relations

Michael G. McKibbin
Vice President, Corporate Development

Clive B. Symons
Vice President, Treasurer

David J. R. Petitpierre
Assistant Secretary

B.C. Coal Officers

Walter J. Riva
Chairman and Chief Executive Officer

Bruce I. Howe
Vice Chairman of the Board and Chairman of the Executive Committee

Gary K. Livingstone
President

Robert C. Stanlake
Executive Vice President, Marketing and Transportation

Robert H. Gronotte
Senior Vice President, Engineering and Capital Projects

Thomas A. Beckett
Vice President, General Counsel and Secretary

Arthur E. Geikie
Vice President, Human Resources

Bent H. Larsen
Vice President and Controller

Clive B. Symons
Treasurer

Suzanne K. Wiltshire
Assistant Secretary

W. Larry Millar
Assistant Secretary

BC Timber Officers

Bruce I. Howe
Chairman

John S.R. Montgomery
President

Roy W. Murphy
Senior Vice President, Pulp

Sandy M. Fulton
Senior Vice President, Building Products

Orjan Burchardt
Vice President, Technical Development

Ken D. Halliday
Vice President, Human Resources

Roy S. Jewesson
Vice President, Woodlands

Jack E. Kennedy
Vice President, Wood Products

Robert M. McDonald
Vice President, Operations Services

Harry R. Papushka
Vice President, Pulp Marketing

William H. Vaughan
Vice President, Market Planning and Development

Clive B. Symons
Treasurer

Roger J. Duncan
Secretary

Peter M. Steele
Assistant Secretary

Shareholder Information Centre

Write:
British Columbia Resources Investment Corporation, 1176 West Georgia Street, Vancouver, B.C. V6E 4B9
(604) 687-2600

Shareholder Information:
Within Greater Vancouver area call 669-4443. Outside Greater Vancouver and within B.C. call toll free (112) 800 663-9123. North of Stewart and Wonowon, B.C. call collect 669-4443.

Stock Quotation Line 681-2445

Share Transfer Agent and Registrar
Montreal Trust Company, 466 Howe Street, Vancouver, B.C. V6C 2A8
Telephone (604) 688-4411
Also in Calgary, Winnipeg, Toronto, Montreal.

Shares Listed
Vancouver Stock Exchange
The Toronto Stock Exchange

Duplicate Reports
While every effort is made to avoid sending more than one copy of the annual and interim reports to each registered shareholder, duplicate mailings will occur when shares are listed under different first names or initials. Shareholders who receive more than one report are asked to contact Montreal Trust Company to have their shares registered under the exact same name to avoid the cost of duplicate mailings.

Change of Address
In order to ensure that reports are sent to the correct address, shareholders should advise Montreal Trust Company in writing of any change of address.

Annual General Meeting

The Annual General Meeting of registered shareholders will be held at the Hotel Vancouver, Vancouver, B.C., at 10 a.m. on Friday, May 14, 1982.

Did you know?

- With 128,000 registered shareholders and more than one million bearer shareholders, B.C. Resources is the widest-held company in Canada.
- The book value of the Company's assets, including its holdings in coal, forest products, oil and gas, its production equipment, plants and buildings now totals $1.8 billion. Foremost among its assets are the 6,562 men and women who work for the B.C. Resources Group.
- B.C. Coal, which is 67 percent owned by B.C. Resources, operates the largest surface metallurgical coal mine in Canada. Its 1,200-hectare surface area is equivalent to that of 2,000 football fields.
- More than 11.5 million tonnes of coal were shipped by B.C. Coal's subsidiary, Westshore Terminals in 1981. If all that coal were put back in rail cars and connected into a single train, it would stretch for 2,400 kilometers.
- BC Timber is one of North America's largest exporters of softwood bleached market kraft pulp and its total lumber capacity ranks it among the top 12 producers on the continent.
- The company's annual lumber manufacturing capacity of 675 million board feet is enough to build 67,000 three-bedroom homes.
- During 1981, BC Timber planted about 3.7 million seedlings in its forest tenures, an increase of 85 percent from the previous year.
- B.C. Resources has the exclusive right to explore for oil and gas on nearly one million hectares in northeastern British Columbia, an area one quarter the size of Holland.
- The total reserves of oil in the North Sea's South Brae Field, in which B.C. Coal holds a 7.7 percent interest, are large enough to supply an entire city the size of Vancouver for eight years.