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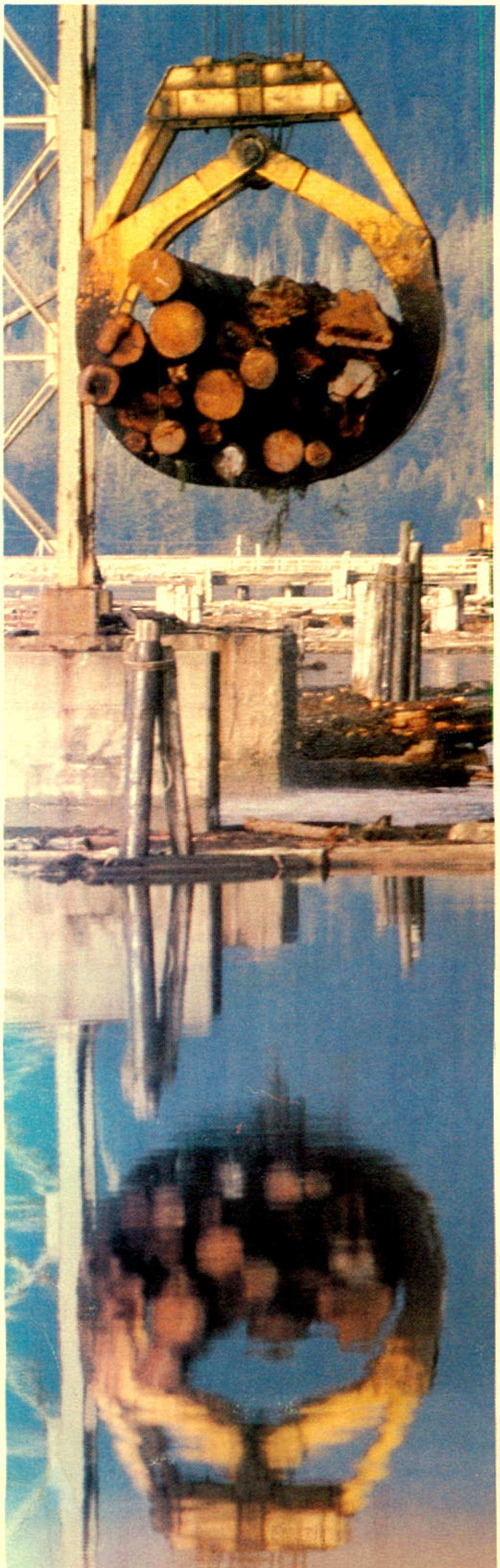
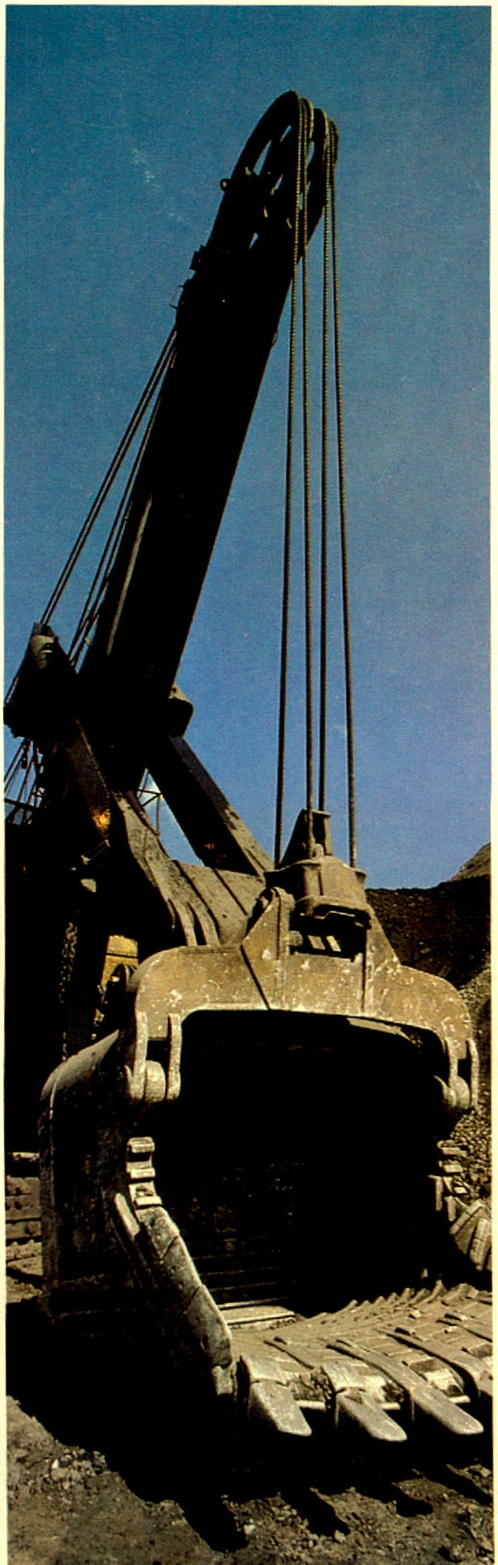
British Columbia Resources Investment Corporation

BC RESOURCES

1980 ANNUAL REPORT





BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

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 and energy exploration. With total assets in excess of $1.6 billion, the Company is among Canada's largest corporations and serves customers throughout the world.

Its principal operating subsidiaries are B.C. Coal Ltd., formerly Kaiser Resources Ltd., (66 per cent ownership) and Canadian Cellulose Company, Limited (100 per cent). The Company also has substantial minority holdings in MacMillan Bloedel Limited (20 per cent) and Westcoast Transmission Company Limited (9.6 per cent). In addition, the Company has an active gas and oil exploration program underway through various arrangements with other firms on properties in British Columbia, Alberta and parts of the United States. Through B.C. Coal, the Company is also participating in exploration and development programs offshore in the Beaufort Sea, near Sable Island in Canada and in the U.K. sector of the North Sea.

With 133,000 registered and more than one million non-registered shareholders, the Company is among the most widely held companies in North America and is Canadian owned.

ANNUAL GENERAL MEETING

The annual general meeting of registered shareholders will be held in the British Columbia Ballroom at the Hotel Vancouver, Vancouver, B.C., at 10 a.m. on Monday, May 4, 1981.

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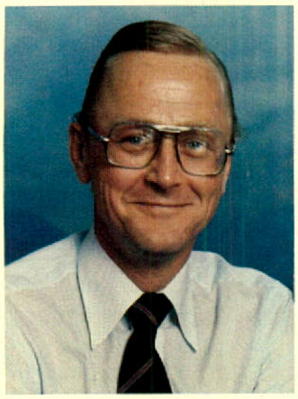
FINANCIAL AND OTHER HIGHLIGHTS

		1980	1979
For the year	Revenue	**$ 520,414,000**	$ 358,395,000
	Earnings before extraordinary items	**45,708,000**	40,757,000
	Net earnings	**47,937,000**	40,757,000
	Funds provided by operations	**110,297,000**	76,217,000
	Additions to property, plant and equipment	**99,945,000**	35,221,000
	Total wages, salaries and employee benefits	**140,378,000**	95,514,000
	Shipments		
	Pulp — tonnes	**480,000**	450,000
	Lumber — MFBM	**545,000**	434,000
	Coal — tonnes	**1,300,000**	—
At year end	Working capital	**$ 82,228,000**	$ 559,719,000
	Total assets	**1,676,287,000**	940,720,000
	Long term debt	**585,215,000**	132,591,000
	Percentage of long term debt to total capital employed	**39.5%**	15.4%
	Shareholders' equity	**731,098,000**	683,161,000
	Shareholders' equity per share	**7.60**	7.10
	Number of registered shareholders	**133,309**	136,143
	Number of employees	**6,819**	3,918
Common share data	Price range of common shares on Vancouver and Toronto Stock Exchanges		Aug. 7-Dec. 31
	High	**$ 9.25**	$ 9.25
	Low	**5.75**	5.87
	Close	**5.95**	7.10

These Highlights, the President's Report to Shareholders, the Review of Operations and Activities and the Financial Review constitute the Directors' Report to the Shareholders for the year 1980.

TO OUR SHAREHOLDERS:



Bruce I. Howe,
President and
Chief Executive Officer.

1980 was an eventful year for British Columbia Resources Investment Corporation. In those 12 months, the Company invested a significant portion of its capital with the purchase of majority ownership of Canada's largest metallurgical coal company, increased its holdings in forest products, and expanded its energy exploration program.

The purchase of a 66 per cent interest in B.C. Coal Ltd. for $55 per share was the largest acquisition by B.C. Resources in 1980. The total cost of this transaction was $672 million of which $315 million came from available funds and the balance by bank financing. This purchase of majority ownership has given B.C. Resources control of a company with proven reserves of 1.3 billion tonnes of coal, and with projected and partially explored reserves of an additional 11.8 billion tonnes. In addition, significant gas and oil exploration and development interests have been obtained in the United Kingdom sector of the North Sea, near Sable Island off Canada's East Coast, and in the Beaufort Sea off Canada's North Coast. This purchase should substantially benefit B.C. Resources' shareholders in the years ahead, particularly as the demand for coal increases in world markets.

The Company was also active in the forest products sector. A 20 per cent interest in MacMillan Bloedel Limited was acquired by purchasing 14.25 per cent from Canadian Pacific interests and 5.75 per cent in the open market. The total cost of this acquisition was $156.7 million. Average cost per share was $36.82. While still a minority position, this holding is the largest single shareholding in MacMillan Bloedel and enables B.C. Resources to include in its financial statements 20 per cent of MacMillan Bloedel's earnings, rather than dividend income only.

Also in the forestry sector, the Company purchased at $15 per share all the remaining publicly held shares in Canadian Cellulose Company, Limited (CanCel), bringing B.C. Resources' holding to 100 per cent. Total cost of this acquisition was $36.8 million. In December, the Company merged its two smaller forestry companies, Kootenay Forest Products Ltd. and Plateau Mills Ltd., with CanCel in order to achieve economies and enhance the potential for improved fibre use among all three operations.

The Gas and Oil Division accelerated its energy exploration program in 1980. It added to its activities in Western Canada and expanded into the U.S. through various joint venture and other farmin agreements. Total expenditures by the Division in building its land bank and in drilling and other activities amounted to $29 million in 1980 compared to $7.5 million in 1979. In addition, expenditures by B.C. Coal in exploration and development activity since acquisition amounted to $11 million.

B.C. Resources has now become a diversified natural resources operating company selling products in a variety of international markets. Approximately 52 per cent of gross assets are in mining, 25 per cent in forest products manufacturing, nine per cent in energy exploration, and 14 per cent in various investments and related activities, including its holdings in MacMillan Bloedel and in Westcoast Transmission Company Limited.

After accounting for debt obligations and taxes, the book value of a B.C. Resources share was $7.60 as of December 31, 1980.

For the year, B.C. Resources had consolidated net earnings of $47.9 million or 50 cents per share on total revenue of $520.4 million. In 1979 earnings were $40.8 million on total revenue of $358.4 million. Details of the Company's financial performance are included in the Financial Review section of this report.

In 1981 B.C. Resources and its subsidiaries expect to invest more than $320 million, continuing a program of upgrading and expansion which began in 1979. This program emphasizes the excellent intermediate and long term growth prospects of the Company's coal, forest products and energy sectors. In the short term, the Company's over-all financial performance in 1981 will be affected by uncertain markets and rapidly changing economic conditions. However, some improvement is expected to be evident in the second half of the year, particularly in the important United States lumber market.

B.C. Coal will experience some short term reduction in profit margins. Expansion in this company will require additional borrowings. The development of a new mine at Greenhills and the expansion of the shipping facilities at Roberts Bank by 1983 are expected to produce substantial benefits over the longer term.

Gas and oil exploration activities will continue through 1981, although the immediate prospects are difficult to determine because of the uncertainties generated by the federal government's national energy program. Over the longer term, however, the Company's energy exploration and development activities are expected to bring considerable rewards.

Following the acquisition of majority interest in B.C. Coal and full ownership of CanCel in 1980, B.C. Resources is undertaking a reorganization and realignment as it completes the transition from a holding company to an operating company. Part of this process has included the setting up of a Senior Management Committee involving the senior officers of B.C. Resources and its subsidiary operating companies and the planned consolidation of B.C. Resources, CanCel and B.C. Coal head office staff in one Vancouver location. During 1981, the emphasis will be on completing the operational structure and organization while expanding the Company's base through capital investment.

Several management and board changes were made during 1980. David Helliwell was named Chairman, replacing John Pitts who continues as a director. Bruce Howe was appointed President and Chief Executive Officer, and a director, coming to B.C. Resources from MacMillan Bloedel where he was President and Chief Operating Officer. Edgar F. Kaiser, Jr., former Chairman and Chief Executive Officer of the coal company, was also appointed to the board.

The dedication and effort of all of B.C. Resources' people, including those employees of the operating companies, contributed substantially to the forward movement of the Company in 1980. As B.C. Resources enters a new phase as a strong, well-balanced operating company, that contribution, and the support of its many shareholders, will continue to be an important factor in the growth of B.C. Resources.

On behalf of the Board of Directors,

Bruce I. Howe
President and
Chief Executive Officer

Vancouver, B.C.
February 19, 1981

British Columbia Resources Investment Corporation

BC RESOURCES

REVIEW OF OPERATIONS AND ACTIVITIES

Forest Products

Donald N. Watson, President and Chief Executive Officer, Canadian Cellulose.

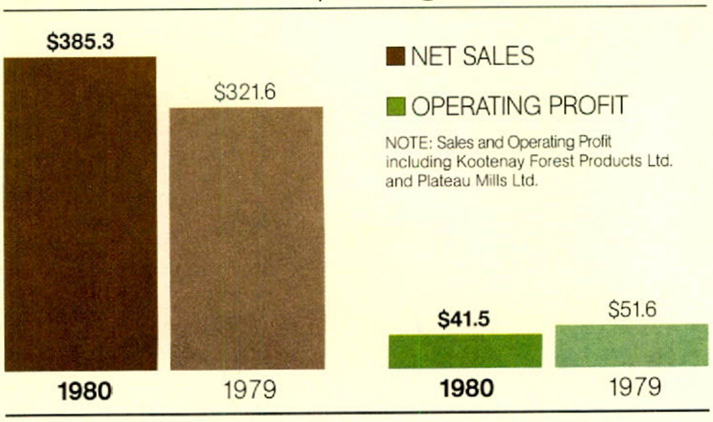
During 1980, B.C. Resources acquired the remaining 19 per cent of Canadian Cellulose Company, Limited and integrated its wholly-owned forest products holdings into one forest products group by amalgamating Kootenay Forest Products Ltd., Plateau Mills Ltd. and CanCel. This company has now become North America's second largest exporter of market softwood kraft pulp and the eleventh largest lumber producer.

With the completion of this amalgamation in December, the forest products group has an annual capacity of 550,000 tonnes of pulp and 675 million board feet of lumber. Its 4,300 employees now operate two bleached kraft pulp mills at Prince Rupert and Castlegar, B.C., and sawmills and logging divisions at Terrace, Kitwanga, Hazelton, Vanderhoof, Nakusp, Castlegar and Nelson, B.C.

During 1980, CanCel purchased Skeena Lumber Ltd. (formerly Price-Skeena Forest Products Ltd.), which operates a sawmill in Terrace, and Rim Forest Products Ltd., which operates a sawmill in Hazelton. These acquisitions increased annual lumber production by 161 million board feet and protected long term sources of fibre and residual wood chips for the Prince Rupert pulp mill and northern sawmills.

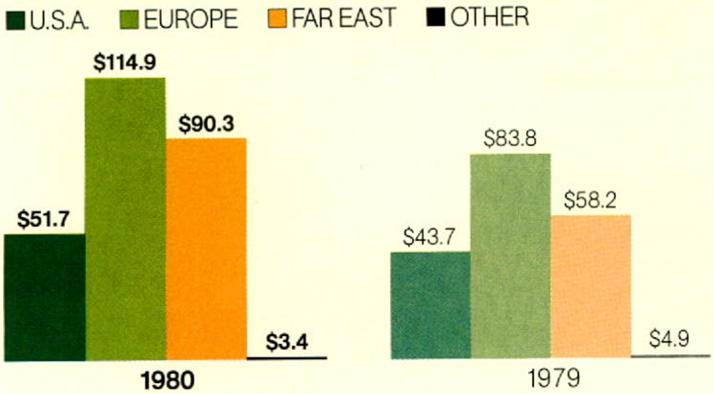
The forest products sector, including the minority interest in MacMillan Bloedel, made a significant contribution to B.C. Resources' earnings in 1980, despite depressed lumber markets. Consolidated operating profit from CanCel during the year totalled $41.5 million or approximately 44 per cent of B.C. Resources' total operating profit. Net earnings from MacMillan Bloedel amounted to $11.3 million or 24 per cent of B.C. Resources' consolidated net earnings.

CanCel Sales and Operating Profit (millions)



Looking to the future, Canadian Cellulose will plant more than 4 million trees in 1981, double the number planted in 1980.

CanCel Pulp Sales by Markets (millions)



Earnings were adversely affected by sluggish demand and low prices for building materials which resulted in most of the sawmills and the plywood mill operating at a loss, particularly Kootenay Forest Products and the Celgar Lumber division in Castlegar. High operating and fibre costs contributed to the significant losses at Kootenay. High costs and an adverse change in the quality of logs being delivered to the mill contributed to the losses at Celgar Lumber. A detailed study of both divisions is underway and steps are being taken to resolve the operating problems. In the interim, Kootenay's plywood plant has been written off since its plywood operations are currently not economic without major upgrading and modifications requiring significant capital expenditures.

Earnings from pulp operations, however, increased as a result of firm demand, higher prices, increased production and a higher foreign exchange premium on sales in U.S. dollars. During 1980 prices for bleached softwood kraft pulp climbed to $545 U.S. a tonne on the European and Japanese markets and $530 U.S. a tonne to the United States. Production at the Skeena Pulp division continued to climb steadily during 1980 toward the design capacity of 1,100 tonnes per day after the completion in 1978 of an extensive modification program. The company has a diversified marketing program, selling pulp to more than 15 countries in the Pacific Rim, United States and Europe, with almost all sales made on the basis of long term contracts.

Capital spending by CanCel during 1980 totalled approximately $41 million, of which $5 million was spent to increase productivity and improve energy self-sufficiency at the Prince Rupert pulp mill. The profit improvement project, estimated to cost about $20 million and to be completed by 1982, will increase the mill's daily production capacity by 120 tonnes to 1,220 tonnes per day. The energy project, costing about $15 million with completion estimated for July, 1981, involves conversion of a power boiler from fossil fuels to wood wastes in order to reduce the mill's purchased energy by 25 per cent. Modernization and productivity improvement at Skeena Lumber began immediately after acquisition with the installation of a new lumber sorter/stacker at a cost of $3 million.

CanCel plans to spend $73 million on capital projects in 1981, the larger of which include $26 million for completion of the

Huge quantities of wood chips are needed to produce high grade kraft pulp at Canadian Cellulose pulp mills.

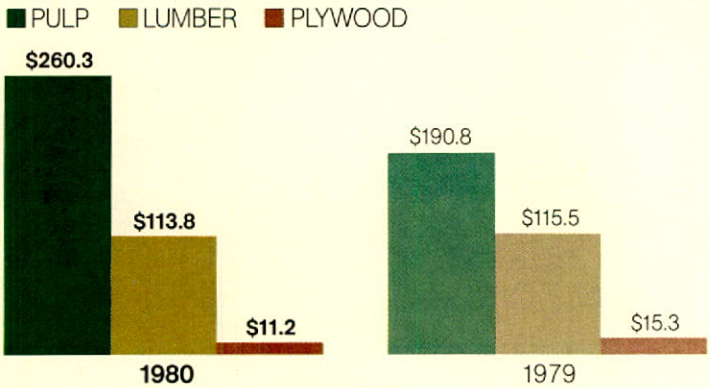
Modern process control technology is used in CanCel's pulp mills to ensure the highest quality product for its customers.

productivity and energy projects at Prince Rupert and $19 million for the construction of new logging roads.

Long term capital requirements include the implementation of a comprehensive pollution control program at both the Skeena Pulp division and the Celgar Pulp division. The program is expected to cost $55 million over the next five years and will help the company comply with the B.C. Government's Waste Management Branch effluent and emission standards.

Since the purchase of Rim Forest Products a new rail spur line has been constructed to facilitate efficient loading of finished lumber. In addition, a chip blowing and loading facility has been installed with the result that all residual chips are being shipped by rail to Prince Rupert rather than a large volume being burned as waste.

CanCel Sales by Products (millions)



CanCel continues to place increased emphasis on the quality of forest management on its many woodland holdings. In 1980, 2 million trees were planted on company administered lands in the northwest and interior of British Columbia, up 40 per cent from the 1.4 million planted in 1979. This program will be expanded to 4 million seedlings in 1981.

A transplant nursery will be opened in Terrace later this year with an initial stock of 400,000 seedlings. These transplant seedlings will be used in areas where conventional seedlings would have difficulty surviving because of site conditions. Juvenile spacing has been introduced to increase the quality and yield of selected forest areas.

The Skeena Pulp division of Canadian Cellulose, located near Prince Rupert, B.C., produces high quality bleached kraft pulp which is sold to more than 15 countries around the world.

Additional forest analyses are being undertaken to accurately predict the range of forest products which can be expected from future harvests, thereby providing the opportunity to phase in marketing or production modifications in time to maximize the return on future forest crops.

Employee relations were positive during 1980 with little time lost to labour disputes. The year saw a new emphasis on safety, and many of the operating divisions had significant improvements in safety performance. The Celgar Pulp division had the lowest accident frequency in the industry during the third quarter of 1980. The company also implemented an intensive management skills development program at all of its operating divisions.

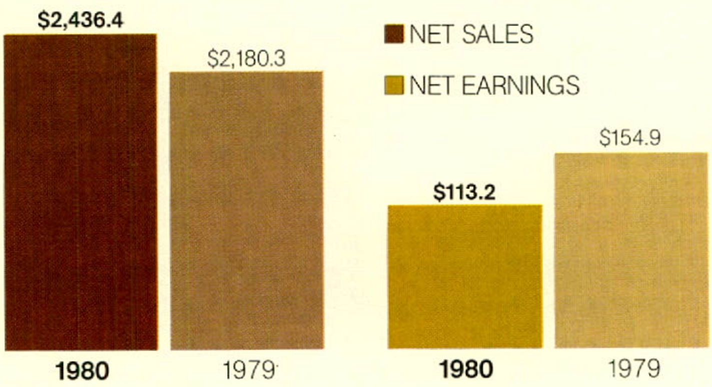
Looking to the year ahead, the outlook for forest products is clouded by economic uncertainties and by labour negotiations in both the pulp and lumber sectors where industry wide contracts expire in June. Lumber markets are predicted to continue weakening for the first half, with some pick-up in housing starts expected to bring improvement in the second half of 1981. For kraft pulp, the firm markets experienced during most of 1980 showed signs of weakness at year end.

The forest products group is expected to show some decline in earnings from those of 1980, especially during the first half of the year. The longer term outlook is favourable, and it is expected that this group will be a major contributor to B.C. Resources' performance.

MacMILLAN BLOEDEL LIMITED

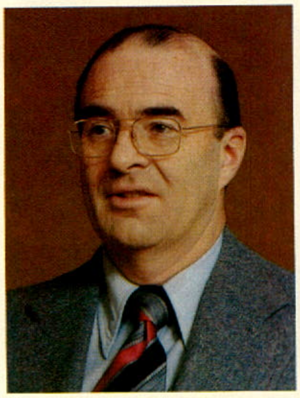
Sales of MacMillan Bloedel rose in 1980 compared with the previous year but earnings were lower, primarily reflecting depressed building materials markets in North America and overseas. B.C. Resources' share of MacMillan Bloedel earnings in 1980 amounted to $11.3 million. Dividends received from MacMillan Bloedel totalled $4.2 million.

MacMillan Bloedel Sales and Earnings (millions)



An Ottawa pulp carrier moves a load of baled pulp to the deep water dock of CanCel's Skeena Pulp division at Prince Rupert.

Mining



Walter J. Riva,
President and
Chief Executive Officer,
B.C. Coal.

B.C. Resources entered the coal mining business in October 1980 when it acquired a 66 per cent interest in Kaiser Resources Ltd., which was subsequently renamed B.C. Coal Ltd. The coal company's Japanese shareholders retain ownership of one-third of the shares.

B.C. Coal is Canada's largest producer of metallurgical coal, which is used in making steel. The company's mining operations, employing nearly 2,100 workers, are located at Sparwood in southeastern British Columbia and include a large surface mine, a technologically advanced underground hydraulic mine and a processing plant to clean and dry the coal. B.C. Coal's wholly-owned subsidiary, Westshore Terminals Ltd., operates a deep-sea port at Roberts Bank, near Vancouver. Coal produced by B.C. Coal and other companies is shipped from Roberts Bank to world markets, the most important of which is located in Japan. In addition, B.C. Coal holds significant gas and oil interests in the U.K. sector of the North Sea, near Sable Island off Canada's East Coast and in the Beaufort Sea off Canada's North Coast (see Gas and Oil section).

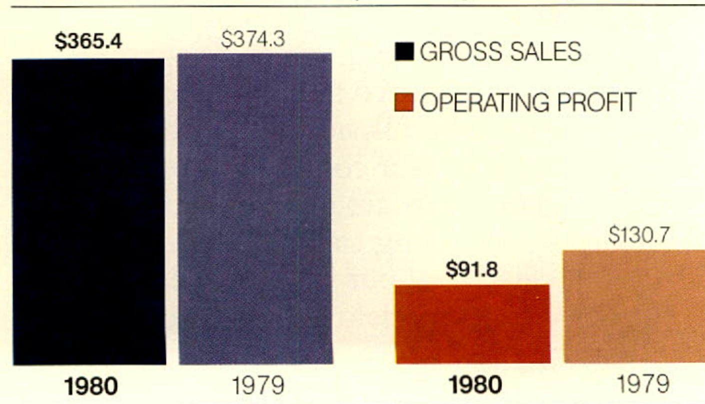
One of a fleet of 180 tonne trucks used for hauling rock from the open pit.

Shipments of coal in 1980 totalled 5.4 million tonnes of metallurgical coal, 252,000 tonnes of thermal coal, 82,000 tonnes of coke and 13,000 tonnes of breeze. Total production and shipments in 1980 were lower than those of 1979 because of a two month strike during the first quarter by mine workers at the Sparwood operations, and labour difficulties experienced by CP Rail resulting in reduced rail shipments between the mine and the port.

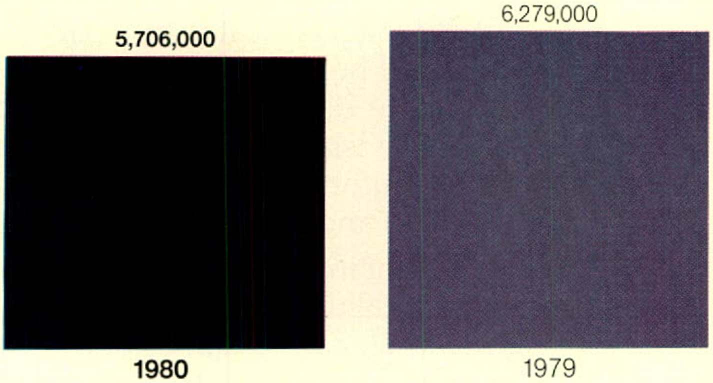
The majority of the company's 1980 metallurgical coal shipments (73 per cent) was taken by Mitsubishi Corporation of Tokyo, B.C. Coal's largest Japanese shareholder. Mitsubishi acts as an agent in the sale and distribution within Japan of the company's coal to the remaining nine Japanese shareholders. Negotiations on coal pricing take place directly with coordinators representing the entire group and, during the year, agreement was reached for an increase in price effective April 1, 1980 of \$4.28 to \$62.94 per tonne and a further increase effective April 1, 1981 of \$4.03 to \$66.97 per tonne.

In July, B.C. Coal signed an agreement in principle to develop as a joint venture with Pohang Iron and Steel Company Limited (POSCO) of Korea, the \$282 million

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



B.C. Coal Shipments (tonnes)



Located near Sparwood in southeastern British Columbia, B.C. Coal operates the largest open pit, truck and shovel operation in the western world.

Greenhills surface mine, located 40 kilometres north of Sparwood. The Greenhills mine is expected to commence production mid 1983 and to become fully operational the following year with a total workforce of approximately 600. Designed as a fully integrated open pit mine with an anticipated annual capacity of 1.8 million tonnes, Greenhills, based on the agreement in principle, will be owned 80 per cent by B.C. Coal and 20 per cent by POSCO, with pro-rata contributions to capital and other costs. The agreement calls for delivery to POSCO of 500,000 tonnes of coal annually over the next twenty years. Negotiations are underway with several potential customers who have signed letters of intent for the balance of the tonnage.

During 1980, B.C. Coal's capital expenditures for coal operations totalled $41.9 million and included the purchase of seven new 154 tonne trucks and a 23 cubic metre shovel. A new 28 cubic metre front-end loader, with 50 per cent more capacity than existing units, was acquired on a trial basis. Cost efficiency studies on the 318 tonne Terex Titan, the world's largest truck, are nearing completion.

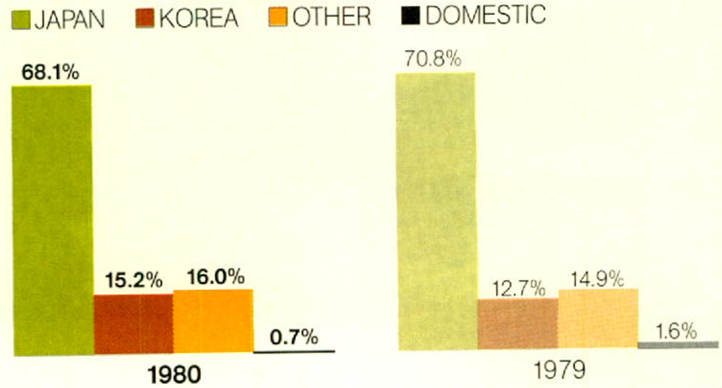
A $10 million modification program undertaken to improve the efficiency and productivity of the Elkview coal preparation plant is scheduled for completion by July 1981. These modifications are expected to increase the plant's processing capacity to 6.5 million tonnes of clean coal per year, based on the historic 76 per cent yield from raw coal.

A $3 million component-rebuild centre and a $3.4 million high density storage warehouse were completed during the year. In addition, the company officially opened a new $4.4 million two storey, 6,000 square metre administration building in Sparwood in July.

A two year collective agreement, which ends December 31, 1981, was reached with the United Mine Workers of America, which represents some 1,600 production and maintenance employees. In April, a two year contract, which also ends December 31, 1981, was signed with 150 employees belonging to the Office and Technical Employees Union.

The company's land reclamation program, an integral part of the mining operation, involves the re-establishment of wildlife and watershed qualities as soon as possible after mining. In 1980, the company

B.C. Coal Sales by Markets (per cent)



Last year, 10.6 million tonnes of coal were shipped to 12 countries from Westshore Terminal's coal handling facility at Roberts Bank, south of Vancouver.

B.C. Coal's new administration building, opened in July 1980, symbolizes an era of environmentally sensitive coal development in the Elk Valley.

reclaimed approximately 80 hectares, bringing to more than 1,000 hectares the amount of land rehabilitated since the program began 11 years ago. The company's leadership in reclamation and in the development of reclamation technology has been recognized repeatedly with awards sponsored by the provincial government and the Mining Association of British Columbia.

Westshore Terminals Ltd., B.C. Coal's wholly-owned subsidiary and operator of the Roberts Bank port, shipped 10.6 million tonnes of coal during the year, an amount in excess of the port's annual rated capacity. Thus, with the anticipated increase in future coal shipments resulting from mine expansion in the southeast Kootenays, plans were completed for expansion of the port and, in August, federal government approval was obtained. The expansion will take place in three stages:

1. Expansion of the terminal's present annual capacity at a cost of $15.8 million will enable Westshore Terminals to efficiently handle the increased tonnage until the second stage of the expansion is completed.

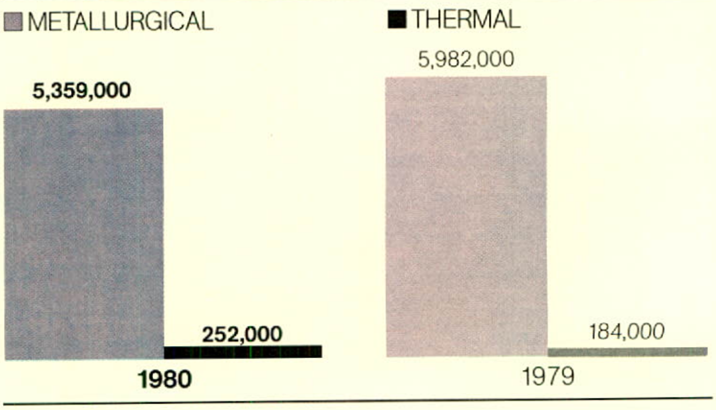
2. Stage II expansion, including construction of a second terminal on a new 20 hectare pad, to be completed by 1983 at a cost of $123 million, will increase capacity to 20.3 million tonnes annually.

3. A third expansion to increase total capacity to 27.4 million tonnes per year. Development of this stage will take place as and when market conditions dictate and, on completion, Westshore will have invested $200 million in port expansion.

Additional expenditures will be incurred by the National Harbours Board which is responsible for dredging of the shipping channels, widening of the existing causeway to allow increased rail facilities and the creation of the additional pad on which the second terminal will be constructed.

The outlook for the coal division is encouraging. Shipments to the Japanese steel industry will continue to represent the largest share of B.C. Coal's production, with over 4 million tonnes targeted for delivery in the 12 months ending March 31, 1982. Further negotiations are underway for extension of this long term contract beyond 1985. Additional company efforts towards diversification into other world markets for both metallurgical and thermal coal will represent a significant aspect of B.C. Coal's 1981 marketing efforts, with total coal sales expected to be at a level which will keep the mine and port operating at or near capacity.

B.C. Coal Sales by Product Mix (tonnes)

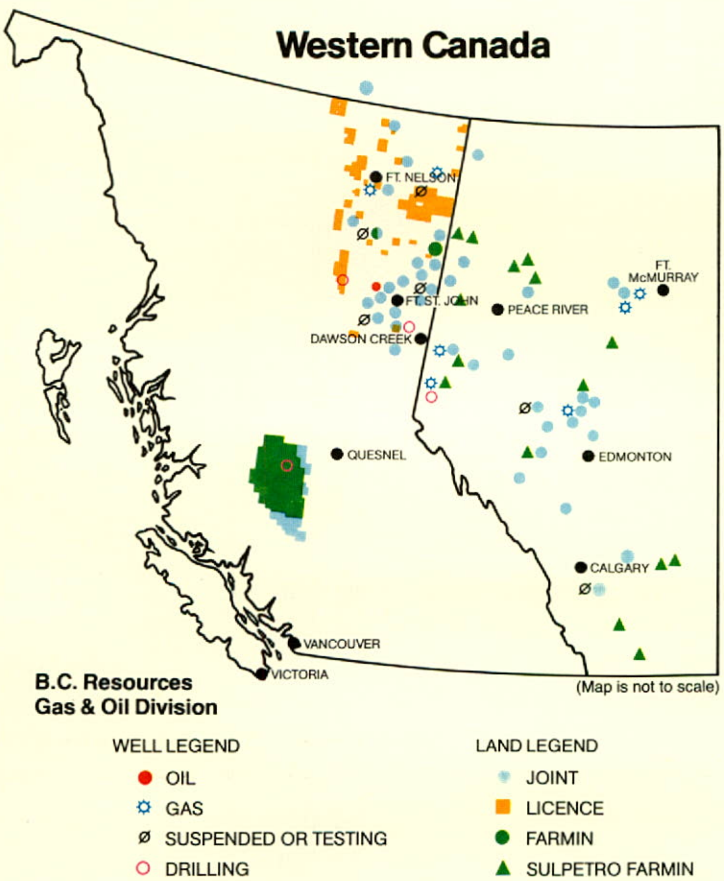


Gas and Oil

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

The year 1980 was one of substantial activity for the Gas and Oil Division. Exploratory drilling, seismic programs, and land acquisition all showed a marked increase over 1979, as B.C. Resources positioned itself to achieve a more significant role in the energy development industry.

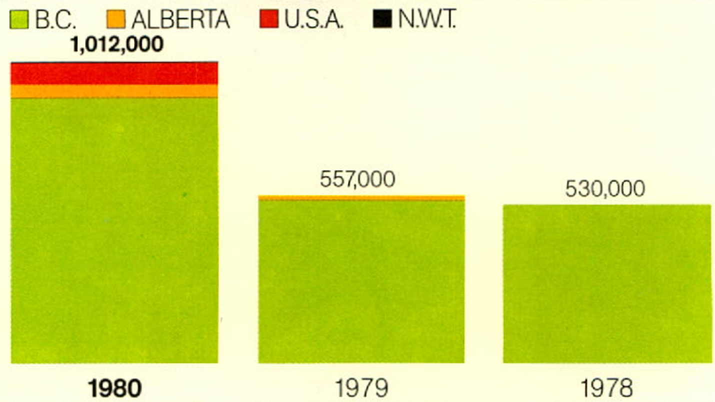
The Division's long term strategy is one of building up a good reserve inventory in high-risk, high-reward regions. This goal, reinforced by an increase of senior technical staff and an aggressive land acquisition plan, brought about greatly expanded activities in 1980.



At the end of 1980, the Company's total cumulative holdings in Canada, including Licenced Lands, Crown lands and farmins, was 929,000 net hectares. In the United States land holdings reached 83,000 net hectares in Kansas, Texas, Oklahoma and Mississippi. Total land expenditures in 1980 were $16.2 million compared with $6.2 million in 1979.

During the year, B.C. Resources directly and through its wholly-owned United States subsidiary, BCRIC Oil & Gas Inc., entered into a total of 42 agreements with other exploration companies.

Gas and Oil Land Holdings Net Hectares



A total of 13 wells were drilled on the original Licenced Lands in British Columbia. Two of these wells were gas discoveries, one was drilling at year end, one was suspended for further testing and nine were abandoned. The Company also participated in the drilling of nine wells on B.C. lands acquired through Crown sales and farmins. One resulted in a successful oil well in the South Inga area in northeastern B.C., two were drilling at year end, three were suspended or testing and three were abandoned.

In Alberta the Company participated in the drilling of 15 wells. Five were gas discoveries, seven were abandoned, one was still being drilled at year end and two were suspended pending further testing. Of the five gas discoveries, one is located in the Westlock area, two are in the Livock region, and two are in the Cutbank and Grande Prairie areas of central Alberta.

In the Northwest Territories, one well was drilled and abandoned.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Activity in the United States centred in West Kansas where the Company's U.S. subsidiary participated in seven wells, five of which were abandoned. Two wells were still being drilled at year end. Five of these ventures were on joint holdings and two were farmouts drilled by third parties.

In total, the Company participated in the drilling of 45 wells. Of these, one was an oil well, seven were gas wells, six were suspended or testing, 25 were abandoned and six were being drilled at year end.

Reserves contained in 11 areas in which the Company had discoveries in Western Canada during 1979 and 1980 cannot be accurately calculated at this time since, due to a lack of markets, additional drilling to properly delineate the producing areas has not been undertaken. Calculations of reserves, which at this stage are largely in a category of "probable reserves", indicate an order of magnitude of about 90 billion cubic feet of natural gas. In terms of thermal equivalent to oil this would be approximately 15 million barrels.

By acquiring majority ownership of B.C. Coal Ltd., the Company became involved in exploration activities in the Brae Blocks located in the North Sea off the United Kingdom, and in the Sable Island area off Canada's East Coast.

In the North Sea, the south Brae Field has been credited with proven reserves of 300 million barrels of oil. Four other fields in the Brae area have reserves which have not been adequately evaluated as yet, two of which contain gas and the other two contain oil.

In early September, B.C. Coal announced that it had entered into an agreement in principle with Svenska Petroleum Exploration AB of Sweden for the sale of 70 per cent of the company's 7.7 per cent interest in the Brae Field. The sale would give SP Exploration a 5.4 per cent working interest in the Brae Field, with B.C. Coal retaining 2.3 per cent. In connection with this arrangement, SP Exploration would finance past and future costs of B.C. Coal's retained interest up to the lesser of (U.S.) $45 million or the total advanced by January 1, 1985. SP would also assume the company's obligation to finance the 7.7 per cent interest held by another Canadian company. The funds advanced, including interest, would be repayable out of 70 per cent of future net revenues from the field.

B.C. Coal is also in the process of earning a 10 per cent working interest in 455,000 hectares off Sable Island, approximately 300 kilometres east of Halifax. Other exploration companies involved in this project include Petro-Canada Exploration Inc. and Mobil Oil Canada Ltd. In this acreage there are three known large gas bearing structures. B.C. Coal also holds a one per cent net profits interest in four blocks in the Beaufort Sea off Canada's North Coast.

In 1981, the Division will participate in the drilling of a projected 33 wells in British Columbia and Alberta. United States prospects during the year will include involvement through joint ventures in a minimum of 20 wells in West Kansas and four wells in East Kansas, in addition to a significant degree of activity in the Gulf Coast region and to a lesser extent in Oklahoma.

United States

BCRIC Oil & Gas Inc.
Areas of Land Ownership

(Map is not to scale)

The drill rig Aladdin pictured at work during drilling operations in the Brae Field in 1980.

FINANCIAL REVIEW

Net Earnings

Consolidated earnings before extraordinary items in 1980 totalled $45.7 million compared with the previous year's earnings of $40.8 million. An extraordinary tax credit partially offset by an extraordinary charge, representing writeoff of the Kootenay plywood plant, increased 1980 earnings by $2.2 million to $47.9 million. These financial results are not directly comparable with those of the previous year as a result of the impact of the significant acquisitions in 1980. In addition, B.C. Resources and its two wholly-owned subsidiaries (Plateau Mills and Kootenay Forest Products) were tax exempt government owned corporations up to April 1979, and the Company had not received and invested until June 1979 a significant portion of the funds from its public share issue.

Net earnings for 1980 were largely influenced by buoyant pulp prices; low lumber and plywood prices due to the distressed state of the building materials market for essentially the whole year; the utilization of B.C. Resources' cash reserves; and interest costs incurred on bank borrowings to complete the various investments made during the year. The 1980 earnings reflect the Company's proportionate interest in the earnings of the companies acquired from their dates of acquisition.

Acquisitions Made in 1980

B.C. Resources made the following acquisitions during the year:

In March, purchased from Canadian Pacific 3,030,400 common shares (14.25 per cent) of MacMillan Bloedel Limited at a price of $35 per share, for a total cost of $106.1 million.

In May, purchased at a price of $15 per share all of the publicly held common shares of CanCel, amounting to 19 per cent of the total outstanding shares. Total cost of this acquisition was $36.8 million.

In October, acquired 66 per cent of the outstanding common shares of Kaiser Resources Ltd. (subsequently renamed B.C. Coal Ltd.) at a price of $55 per share, for a total cost of $671.7 million. Of this amount, $356.7 million was borrowed from a Canadian chartered bank and the balance was provided from cash on hand.

In November and December, purchased in the open market an additional 1,224,190 common shares of MacMillan Bloedel Limited at an average price of $41.28 per share, for a total cost of $50.6 million. This brought B.C. Resources' interest in MacMillan Bloedel to 20 per cent.

In addition, CanCel purchased two sawmills with related timber rights during the year. In January 1980, CanCel acquired Price-Skeena Forest Products Ltd. at Terrace, B.C. and in October, Rim Forest Products Ltd. at Hazelton. The cash consideration for these acquisitions totalled $22 million.

Allocation of Purchase Price

The excess of the total price paid for the shares of B.C. Coal Ltd. over the book value of the shares reflected in that company's accounts, was allocated to the underlying assets purchased, namely plant and equipment and coal reserves, to effectively state their fair value to B.C. Resources. The purchase premium related to plant and equipment will be amortized over the remaining useful lives of these facilities. Amortization of the premium allocated to coal reserves will be based on the unit of production method. The purchase premium amortization will initially amount to approximately $6 million annually.

Interest Income

Interest income amounted to $47.9 million in 1980, compared with $33.1 million in 1979. The increase resulted from significantly higher interest rates throughout the year and higher average cash balances during the year.

Operating Profit Margin

The operating profit margin for the forest products subsidiaries was 10.8 per cent in 1980 compared with 16.0 per cent in 1979. Significantly higher lumber sales volumes at substantially reduced prices and increased pulp production costs, primarily for fibre, were the major reasons for the reduced profit margin. Increased pulp production volume and higher prices for pulp partially offset these unfavourable factors. The operating profit margin in the coal operations was 20.2 per cent and represented the operating margin since the acquisition of B.C. Coal in October, 1980.

Long Term Debt

The increase in interest on long term debt largely reflects the borrowing of $356.7 million from a Canadian bank to partially finance the acquisition of 66 per cent of B.C. Coal Ltd. The loan matures April 1, 1982, is prepayable at the Company's option, and is renegotiable into a long term arrangement prior to maturity. Interest is based on various rates including Canadian prime, the bank's U.S. base lending rate and spreads over London Interbank Offered Rate (LIBOR).

General, Selling and Administrative

These expenses amounted to $43.2 million in 1980 compared to $19.2 million in 1979. The increase is due to the inclusion of the operations of B.C. Coal for the last 2½ months of 1980, higher short term interest expense, additional staff, primarily in the Gas and Oil Division due to an acceleration in their activity, and general inflation.

Income Taxes

Income taxes have been provided at an effective rate of 46.2 per cent compared to the 1979 effective rate of 35.8 per cent. The major difference was due to the tax free period in early 1979. Details of factors influencing the effective income tax rates are given in Note 9 to the financial statements. Of the $33 million provided, $28.4 million has been deferred primarily as a result of being able to claim certain allowances at a faster rate for tax purposes. Amortization of the purchase premiums paid in connection with the acquisition of B.C. Coal and other share acquisitions is not a deductible expense for tax purposes. This will tend to increase the effective tax rate in future years.

Extraordinary Items

Extraordinary items consist of an extraordinary tax credit of $3.9 million and a writeoff of assets of $1.7 million. The tax credit arose in prior years when Kootenay and Plateau provided for depreciation, depletion and amortization but claimed no such amounts for income tax purposes since they were non-taxable corporations. The resultant tax benefits have now been realized largely as a result of the amalgamation of these two companies with CanCel. The writeoff of assets occurred at Kootenay since its plywood operations are currently not economic without major upgrading and modifications requiring significant capital expenditures.

Forest Products Subsidiaries

	$ Millions
Revenue	387.3
Operating profit before interest and taxes	41.5
Capital expenditures	40.7
Acquisition of businesses	22.0
Total assets	412.3

Net sales of forest products were $385.3 million compared to $321.6 million in 1979. The increase resulted from a higher level of pulp and lumber shipments and pulp prices, partly offset by significantly lower lumber prices. Total shipments of pulp in 1980 were 480,000 tonnes, compared to 450,000 tonnes in 1979. Approximately 44 per cent, 35 per cent and 20 per cent of pulp revenues in 1980 were derived from shipments to Europe, the Far East and the U.S., respectively. This compared with 44 per cent, 31 per cent and 23 per cent, respectively, in 1979. Pulp prices were U.S. $490 per tonne at the beginning of 1980 and were increased in April to approximately U.S. $540 per tonne. There have been no further changes in pulp prices. Total lumber shipments in 1980 were 545 million board feet compared to 434 million board feet in 1979. The increase in lumber shipments is largely the result of the acquisition of Skeena Lumber and Rim Forest Products. Approximately 70 per cent of lumber revenues in both 1980 and 1979 were derived from shipments to the United States.

Additions to property, plant and equipment in the forest product subsidiaries amounted to $40.7 million in 1980. Capital expenditures in 1981 are expected to total approximately $73 million.

Coal Operations

	$ Millions
Revenue	84.2
Operating profit before interest and taxes	16.9
Capital expenditures	18.9
Total assets	875.5

(Operating results from October 15, 1980.)

Revenues from the coal sector for the 2½ months ended December 31, 1980 amounted to $84.2 million. Total shipments of coal, coke and related products during the period were 1.3 million tonnes.

Shipments to Japan and Korea represented 68 per cent and 15 per cent, respectively, of the total revenues. Shipments to Japan consist of metallurgical coal used in the production of steel, delivered under a contract with Mitsubishi Corporation. The contract extends through March 31, 1985. Under an amendment to the contract, the price of coal was established at $62.94 per tonne effective April 1, 1980, and will increase to $66.97 effective April 1, 1981.

During the last 2½ months of 1980, additions to property, plant and equipment amounted to $18.9 million. Capital expenditures in 1981 are expected to total approximately $190 million, including $148 million on the new Greenhills mine development and Roberts Bank expansion.

Gas and Oil Operations

The Gas and Oil Division, including B.C. Coal's activities in Canada and the North Sea for the last 2½ months of 1980, spent $40 million on exploration and development during 1980. It is expected that approximately $60 million will be spent on gas and oil exploration and development during 1981.

BC RESOURCES

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended December 31, 1980

	1980	1979
	(Thousands)	
Revenue		
Forest products	**$385,345**	$321,567
Coal	**83,679**	—
Interest and other income (Note 8)	**51,390**	36,828
	520,414	358,395
Costs and expenses		
Cost of products sold	**382,227**	256,634
General, selling and administrative	**43,166**	19,238
Interest on long term debt	**23,607**	16,048
	449,000	291,920
Earnings before income taxes and other items	**71,414**	66,475
Provision for income taxes (Note 9)	**33,001**	23,780
	38,413	42,695
Equity in net earnings of associated companies	**11,623**	1,070
Minority interest in net earnings of subsidiaries	**(4,328)**	(3,008)
Earnings before extraordinary items	**45,708**	40,757
Extraordinary items (Note 10)	**2,229**	—
Net earnings	**$ 47,937**	$ 40,757
Weighted average number of shares outstanding	**96,243**	59,200
Earnings per share		
Before extraordinary items	**$0.47**	$0.69
Net earnings	**$0.50**	$0.69

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1980

	1980	1979
	(Thousands)	
Retained earnings at beginning of the year	**$44,169**	$15,922
Net earnings	**47,937**	40,757
	92,106	56,679
Share issue expenses (net of $9,320,000 income tax reduction)	**—**	12,510
Retained earnings at end of the year	**$92,106**	$44,169

British Columbia Resources Investment Corporation

BC RESOURCES

CONSOLIDATED BALANCE SHEET

December 31, 1980

	1980	1979
	(Thousands)	
Assets		
Current		
Short term investments	**$ 67,538**	$ 517,505
Accounts receivable	**69,136**	41,028
Inventories (Note 3)	**138,910**	83,513
	275,584	642,046
Notes receivable (Note 4)	**22,657**	—
Investments and advances (Note 5)	**259,562**	41,877
Property, plant and equipment (Note 15)	**1,114,508**	252,981
Other	**3,976**	3,816
	$1,676,287	$ 940,720
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness	**$ 32,868**	$ 12,357
Accounts payable and accrued liabilities	**77,761**	59,006
Current portion of long term debt	**8,960**	8,264
Income taxes	**73,767**	2,700
	193,356	82,327
Long term debt (Note 6)	**585,215**	132,591
Deferred income taxes	**103,576**	17,213
Minority interests	**63,042**	25,428
Shareholders' equity		
Share capital		
Authorized — 100,000,000 common shares without par value		
Issued — 96,243,235 common shares	**638,992**	638,992
Retained earnings	**92,106**	44,169
	731,098	683,161
Commitments and contingencies (Note 7)		
	$1,676,287	$ 940,720

Approved by the Directors: [signature] Director

[signature] Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1980

	1980	1979
	(Thousands)	
Source of funds		
Provided by operations	**$ 110,297**	$ 76,217
Additions to long term debt	**439,524**	—
Proceeds from issue of shares	**—**	487,459
Issue of shares on conversion of promissory note	**—**	151,533
Other	**829**	588
	550,650	715,797
Application of funds		
Acquisition of subsidiaries (Note 2)	**747,002**	—
Other investments and advances	**168,968**	—
Additions to property, plant and equipment	**99,945**	35,221
Reduction of long term debt	**12,226**	34,636
Conversion of promissory note to share capital	**—**	151,533
Share issue expenses	**—**	12,510
	1,028,141	233,900
Increase (decrease) in working capital	**(477,491)**	481,897
Working capital at beginning of the year	**559,719**	77,822
Working capital at end of the year	**$ 82,228**	$ 559,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

The Company is incorporated under the Company Act of the Province of British Columbia and prepares its accounts within the framework of the 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

Transactions in foreign currencies are translated at rates in effect on dates of the transactions. Assets and liabilities, carried at current prices, principally receivables and long term debt, are translated at the year end rate, except where covered by forward contracts in which case translations are at the related contract rates. Property, plant and equipment is translated at rates prevailing at dates of acquisition. Unrealized gains or losses are included in income except for those relating to long term debt which are amortized over the remaining term of the debt.

INVENTORIES

Product inventories 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.

PROPERTY, PLANT AND EQUIPMENT

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

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.

Petroleum and natural gas properties are accounted for using a form of the full cost method of accounting whereby all acquisition, exploration and development costs are capitalized as incurred. Costs related to the petroleum and natural gas rights, originally acquired under an agreement with the Province of British Columbia, are being amortized over the periods during which exploration activity in each area of interest is expected to continue.

Pulp mills, sawmills and the plywood mill are depreciated using the straight line basis at composite rates of 4% to 6% on certain mills and on the diminishing balance basis at rates of 4% to 30% on the others.

Logging equipment is depreciated using the diminishing balance method at rates of 10% to 20%.

Mobile mill equipment is depreciated using the diminishing balance method at rates of 15% to 30%.

Coal plant and equipment is depreciated on the straight line basis over the estimated useful life of each asset for periods up to 30 years.

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.

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.

2. ACQUISITION OF SUBSIDIARIES

On October 14, 1980, the Company acquired 66% of the outstanding shares of Kaiser Resources Ltd., which changed its name to B.C. Coal Ltd. on January 16, 1981. The company is engaged primarily in the mining, processing and sale of metallurgical or coking coal. The excess of purchase price over the book value of net assets acquired has been allocated to coal properties, plant and equipment.

During 1980, Canadian Cellulose Company, Limited (CanCel) acquired 100% of the outstanding shares of Rim Forest Products Ltd. and Skeena Lumber Ltd. (formerly Price-Skeena Forest Products Ltd.) which operate sawmills and hold related Crown timber rights. The excess of the purchase price over the book value of net assets acquired has been allocated to property, plant and equipment.

During the year, the Company increased its ownership interest in CanCel to 100% from 81%.

These transactions have been accounted for using the purchase method. The results of operations of the acquired companies have been consolidated from the dates of acquisition. The net assets of the companies acquired are summarized as follows:

	B.C. Coal Ltd.	Forest Products Subsidiaries	Total
		(Thousands)	
Property, plant and equipment:			
Timber cutting rights, roads and related facilities	$ —	$ 9,078	$ 9,078
Coal properties	539,706	—	539,706
Plant and equipment	195,681	16,553	212,234
Gas and oil properties	31,083	—	31,083
Allocation of excess of net book value of CanCel over purchase price to accumulated depreciation	—	9,927	9,927
Other assets	63,884	118	64,002
	830,354	35,676	866,030
Less: Long term debt	(23,843)	—	(23,843)
Deferred income taxes	(59,992)	(662)	(60,654)
Minority interest	(61,377)	26,846	(34,531)
Net non-current assets	685,142	61,860	747,002
Working capital deficiency	13,470	3,076	16,546
Total cash consideration, including acquisition costs	$671,672	$ 58,784	$730,456

3. INVENTORIES

	1980	1979
	(Thousands)	
Pulp, lumber and plywood	$ 31,278	$ 18,536
Coal	8,654	—
Logs, wood chips and other raw materials	65,737	55,151
Operating supplies	33,241	9,826
	$138,910	$ 83,513

4. NOTES RECEIVABLE

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

5. INVESTMENTS AND ADVANCES

	1980	1979
	(Thousands)	
Associated companies — carried at equity:		
MacMillan Bloedel Limited — 20% interest (market value $172,311,000)	$163,679	$ —
Babine Forest Products Limited — 24% interest	3,349	3,101
Other investments — carried at cost:		
Westcoast Transmission Company Limited — 9.6% interest (market value $51,637,000; $49,901,000 in 1979)	37,364	37,364
Exploration and development advances, U.S. $34,800,000 (see Note 7)	41,584	—
Other	13,586	1,412
	$259,562	$41,877

During 1980 the Company acquired 4,254,590 common shares of MacMillan Bloedel Limited at a total cash consideration of $156,662,000, which exceeded their underlying book value by $9,413,000. This difference is being amortized straight line over a period of twenty years.

6. LONG TERM DEBT

	1980	1979
	(Thousands)	
B.C. Resources:		
Bank credit agreement maturing April 1, 1982		
Bankers acceptances at rates of 12.85% to 18.25%	$311,536	$ —
Loan with interest at London Interbank Offered Rate (LIBOR) plus ⅜%	25,000	—
Loans with interest at prime rate		
Repayable in Canadian dollars	10,922	—
Repayable in U.S. dollars	15,975	—
CanCel:		
6⅛% Bonds due January 2, 1981 with annual principal payments (U.S. $4,000,000)	4,779	9,372
5⅜% Bonds due July 1, 1985 with annual principal payments (U.S. $17,500,000)	20,907	23,430
10½% Promissory notes due December 15, 1992 with annual principal payments commencing December 15, 1983 (U.S. $50,000,000)	59,735	58,575
11½% Promissory notes due December 15, 1992 with annual principal payments commencing December 15, 1983	20,000	20,000
Bank loans on revolving credit facilities, with interest at various rates	71,500	25,000
Other	387	4,478
B.C. Coal:		
Interim bank financing, interest at prime rate	14,500	—
Brae Field interim bank financing, interest at LIBOR plus ⅜% (U.S. $32,589,000)	38,934	—
	594,175	140,855
Less: Amounts due within one year	8,960	8,264
	$585,215	$132,591

Principal payments required on the bonds and promissory notes for the next five years, with the U.S. dollar component translated using the December 31, 1980 rate of exchange, are $8,960,000 in 1981, $4,181,000 in 1982 and $12,155,000 in each of the years 1983, 1984 and 1985.

B.C. Resources' bank credit agreement has a maturity date of April 1, 1982. The repayment of the loan outstanding at that date may be extended provided that a lending agreement is entered into between the Company and the bank at least thirty days prior to the maturity date. It is the intention of the Company to refinance the loans outstanding under the agreement prior to the maturity date.

B.C. Resources and its subsidiaries have arranged bank lines of credit aggregating $660,000,000 under revolving credits and interim financing agreements of which $488,000,000 was utilized at December 31, 1980. The Company or the banks involved may convert, upon giving notice, outstanding advances on credit facilities up to $170,000,000 into term loans.

7. COMMITMENTS AND CONTINGENCIES

B.C. Coal has interests in several licences for the exploration and development of gas and oil in the U.K. sector of the North Sea. Under the terms of the acquisition of its interests, B.C. Coal is obligated, in addition to its own share of exploration and development costs, to finance an equivalent amount 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 gas and oil from the licenced areas. Development commenced in 1980 in an area designated as the Brae Field in which B.C. Coal holds a 7.7% working interest. B.C. Coal's share of the development costs together with the carried interest obligation is estimated to be $375,000,000, of which $72,000,000 was spent to December 31, 1980. Commercial production is scheduled for 1983. B.C. Coal has signed a letter of intent for the sale of 70% of its working interest in the North Sea with the purchaser undertaking to finance B.C. Coal's carried interest obligation and the remaining 30% of its working interest.

B.C. Coal has commenced development of a surface mine on its Greenhills property. The cost of development is estimated to be $282,000,000, of which $13,000,000 has been incurred to December 31, 1980. Commercial production of metallurgical coal from this property is scheduled for 1983. B.C. Coal has reached agreement in principle with a Korean steelmill which provides for the steelmill to obtain a 20% interest in the project.

CanCel is improving production facilities and the power boiler system at its Prince Rupert pulp mill and upgrading its log rail car fleet at Terrace. The total cost of these programs is estimated to be $40,000,000, of which $6,000,000 has been incurred to December 31, 1980.

Substantially all of CanCel's sales are denominated in U.S. dollars. It is committed to sell U.S. $260,000,000 under forward exchange contracts at rates which average approximately $1.1834 Canadian for each U.S. $1.00.

8. INTEREST AND OTHER INCOME

	1980	1979
	(Thousands)	
Interest on short term investments	**$47,884**	$33,114
Dividends from Westcoast Transmission Company Limited	**2,777**	2,777
Other	**729**	937
	$51,390	$36,828

9. PROVISION FOR INCOME TAXES

The provision for income taxes is summarized as follows:

	1980	1979
	(Thousands)	
Current	**$ 4,572**	$ —
Deferred	**28,429**	23,780
	$33,001	$23,780

Deferred income taxes result from timing differences between the recognition of expenses for income tax and financial statement purposes and are summarized as follows:

	1980	1979
	(Thousands)	
Depreciation	**$20,117**	$14,383
Exploration and development costs	**7,459**	11,380
Other	**853**	(1,983)
	$28,429	$23,780

The difference between the statutory income tax rate and the effective tax rate is summarized as follows:

	1980	1979
Statutory federal and provincial tax rate	**51.0%**	51.0%
Increase (decrease) resulting from:		
Dividend income	**(2.0)**	(2.1)
Non-deductible payments to provincial governments for mining taxes, mineral land taxes and royalties	**3.1**	—
Federal resource allowance	**(2.0)**	—
Earned depletion	**(2.6)**	—
Manufacturing and processing and inventory allowances	**(3.8)**	(3.8)
Tax exempt period	**—**	(6.6)
Federal surtax and other	**2.5**	(2.7)
	46.2%	35.8%

CanCel has investment tax credit benefits of approximately $9,000,000 available to reduce future federal income taxes payable through December 31, 1985. The benefits will be recorded as and when they are realized.

10. EXTRAORDINARY ITEMS

	1980
	(Thousands)
Realization of unrecorded income tax benefits which accumulated when Kootenay Forest Products Ltd. and Plateau Mills Ltd. were exempt from income taxes	**$ 3,918**
Writeoff of Kootenay Forest Products plywood plant and equipment, net of deferred tax reduction of $1,498,000	**(1,689)**
	$ 2,229

11. PENSION PLANS

Subsidiary companies have pension plans for hourly and salaried employees. At December 31, 1980 the unfunded past service liability for all pension plans amounted to $12,400,000.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid to directors and senior officers of the Company amounted to $625,940 (1979: $522,892).

13. 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, 1980, Mitsubishi Corporation owned 13.0% of the outstanding shares of B.C. Coal and the other nine corporations together owned 20.2%. During the period October 15 to December 31, 1980 sales under the contract amounted to $55,013,000.

On October 14, 1980, concurrently with the Company acquiring shares of B.C. Coal, certain contracts became effective which provided for marketing services by and the sale of certain assets to E. K. Holdings (One) Ltd. (now called Kaiser Resources Ltd.), a company controlled by the then Chairman and Chief Executive Officer of B.C. Coal, who subsequently became a director of B.C. Resources. The marketing contract provides for the marketing of all of the coal products of B.C. Coal for a fee of 3.5% of coal revenues. Fees paid under the contract to December 31, 1980 amounted to $2,792,000. The assets, which included the 90% interest of B.C. Coal in Kaiser Oil (U.S.) Ltd., were sold for $38,279,000; the reasonableness of such value was reviewed by independent consultants. B.C. Coal received $19,736,000 in cash and the balance was secured by a promissory note (See Note 4).

14. SUBSIDIARY COMPANIES

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

- B.C. Coal Ltd. (66% owned)
  - Kaiser Canadian Oil (U.K.) Limited
  - Kaiser Canadian Finance (U.K.) Limited
  - Kaiser Exploration (U.K.) Limited
  - Westshore Terminals Ltd.
- BCRIC Oil & Gas Inc.
- Canadian Cellulose Company, Limited
  - Canadian Cellulose International S.A.
  - High Arrow Limited
  - Rim Forest Products Ltd.
  - Skeena Lumber Ltd.
- 6870400 Holdings Ltd.
  - BCRIC Enterprises Ltd.

On December 31, 1980 three wholly-owned subsidiaries of the Company, Canadian Cellulose Company, Limited, Kootenay Forest Products Ltd. and Plateau Mills Ltd., were amalgamated into a new company, Canadian Cellulose Company, Limited.

15. SEGMENTED INFORMATION

(Thousands)

	1980					1979			
	Total	Forest Products	Coal[1]	Gas and Oil	Unallocated	Total	Forest Products	Gas and Oil	Unallocated
Revenue:									
Export	$ 424,572	$343,601	$ 80,971	$ —	$ —	$273,976	$273,976	$ —	$ —
Domestic	44,452	41,744	2,708	—	—	47,591	47,591	—	—
Interest and other income	51,390	2,001	558	—	48,831	36,828	937	—	35,891
	$ 520,414	$387,346	$ 84,237	$ —	$ 48,831	$358,395	$322,504	$ —	$ 35,891
Operating profit	$ 95,021	$ 41,459	$ 16,897	$ (6,696)	$ 43,361	$ 82,523	$ 51,578	$ (2,336)	$ 33,281
Interest on long term debt	(23,607)					(16,048)			
Income taxes	(33,001)					(23,780)			
Equity income	11,623					1,070			
Minority interest	(4,328)					(3,008)			
Earnings before extraordinary items	$ 45,708					$ 40,757			
Depreciation, depletion and amortization	$ 37,160	$ 27,899	$ 4,646	$ 4,615	$ —	$ 21,653	$ 20,167	$ 1,486	$ —
Capital expenditures	$ 99,945	$ 40,655	$ 18,890	$ 40,400	$ —	$ 35,221	$ 27,694	$ 7,527	$ —
Property, plant and equipment:									
Property, timber cutting rights and related development costs	$ 756,901	$ 88,320	$548,637	$119,944	$ —	$114,868	$ 66,400	$ 48,468	$ —
Plant and equipment	671,674	466,497	205,152	25	—	430,064	430,046	18	—
	1,428,575	554,817	753,789	119,969	—	544,932	496,446	48,486	—
Accumulated depreciation, depletion and amortization	314,067	303,320	4,646	6,101	—	291,951	290,465	1,486	—
	$1,114,508	$251,497	$749,143	$113,868	$ —	$252,981	$205,981	$ 47,000	$ —
Total assets[2]	$1,676,287	$412,332	$875,481	$158,440	$230,034	$940,720	$335,712	$ 47,000	$558,008

1 The information for the coal segment reflects the Company's interest in the operations of B.C. Coal Ltd. from October 15, 1980.

2 Total unallocated assets include investments in companies carried at equity amounting to $167,028 and $3,101 as at December 31, 1980 and 1979, respectively (See Note 5).

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, 1980 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 Corporation as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
February 13, 1981

Clarkson Gordon
Chartered Accountants

GLOSSARY OF TERMS

Forest Products

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

Juvenile spacing Removal of some trees in a young (15-20 year) stand, giving the remaining trees more space, light and soil nutrients for better growth.

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

Silviculture The science of cultivating trees.

Mining

Breeze Coke dust developed in the heating process and in the handling of coke; 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.

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

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

Gas and Oil

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

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

Farmout Agreement by which a company contracts for exploration activity on its property by another company.

Licenced Lands Refers to the 948,500 gross hectares of land in British Columbia for which the province issued an exploration licence to the Company in 1978.

Net hectares Represents the 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 gas and oil reservoirs.

Weights and measures

Foot Board Measure (FBM) 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, equivalent to a board one inch thick and one foot square.

Hectare Metric measurement of area; equals 10,000 square metres; equivalent to roughly 2½ acres.

Kilometre Metric distance measurement; equals 1,000 metres; or .621 mile.

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

Financial

Depreciation Gradual reduction of the cost of a fixed asset by charging its cost to company expenses in portions spread over the useful life of the asset.

Earnings per share Annual net earnings divided by the number of issued common shares.

Net earnings The amount of profit left after deducting all expenses and taxes from total revenues.

Retained earnings The portion of total profits earned by a company since incorporation which is not paid out as dividends but is reinvested in the business.

Working capital Current assets less current liabilities.

BC RESOURCES

CORPORATE INFORMATION

Board of Directors

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

* David L. Helliwell
Chairman
British Columbia Resources Investment Corporation

Edgar F. Kaiser, Jr.
Chairman and Chief Executive Officer
Kaiser Resources Ltd.•

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

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

† John W. Poole
President and Chief Executive Officer
Daon Development Corporation

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

* W. Maurice Young
Chairman and Chief Executive Officer
Finning Tractor & Equipment Company Limited

* Member of Audit Committee — Chairman, W. Maurice Young
† Member of Compensation Committee — Chairman, Charles N. W. Woodward
• Formerly E. K. Holdings (One) Ltd.

Officers

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President and Chief Executive Officer

David L. Helliwell
Chairman

George W. Rutledge
Senior Vice President, Corporate Development

Robert F. Chase
Vice President, Administration

Richard A. D. Commerford
Vice President, Controller

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

Michael G. McKibbin
Vice President, Financing

Clive B. Symons
Vice President, Treasurer

Roger J. Duncan
Secretary

David J. R. Petitpierre
Assistant Secretary

B.C. Coal Officers

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Chairman

Gary K. Livingstone
Executive Vice President, Mining Operations

Robert C. Stanlake
Executive Vice President
Production Planning, Transportation and Sales

Robert H. Gronotte
Senior Vice President
Engineering and Capital Projects

Thomas A. Beckett
Vice President, General Counsel
and Secretary

Gary S. Duke
Vice President, Government Relations

John E. Hoegg
Vice President, Corporate Affairs

Bent H. Larsen
Vice President and Controller

Robert F. Chase
Treasurer

Peter J. Surrao
Assistant Secretary

Canadian Cellulose Officers

Donald N. Watson
President and Chief Executive Officer

Bruce I. Howe
Chairman

Roy W. Murphy
Senior Vice President, Operations

Chris R. Scott
Senior Vice President, Marketing

Orjan Burchardt
Vice President, Technical Development

Roger J. Duncan
Vice President, Administration,
General Counsel and Secretary

Ken D. Halliday
Vice President, Human Resources

Roy S. Jewesson
Vice President, Woodlands

Jack E. Kennedy
Vice President, Lumber

Harry R. Papushka
Vice President, Pulp Marketing

Clive B. Symons
Vice President, Finance and Planning

William H. Vaughan
Vice President, Market Planning and
Development

Alan K. Wilkinson
Treasurer

Shareholder Information Service

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PHONE: Within Greater Vancouver area 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 in address.

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