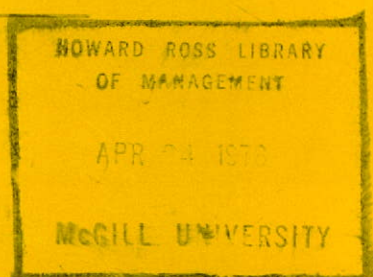




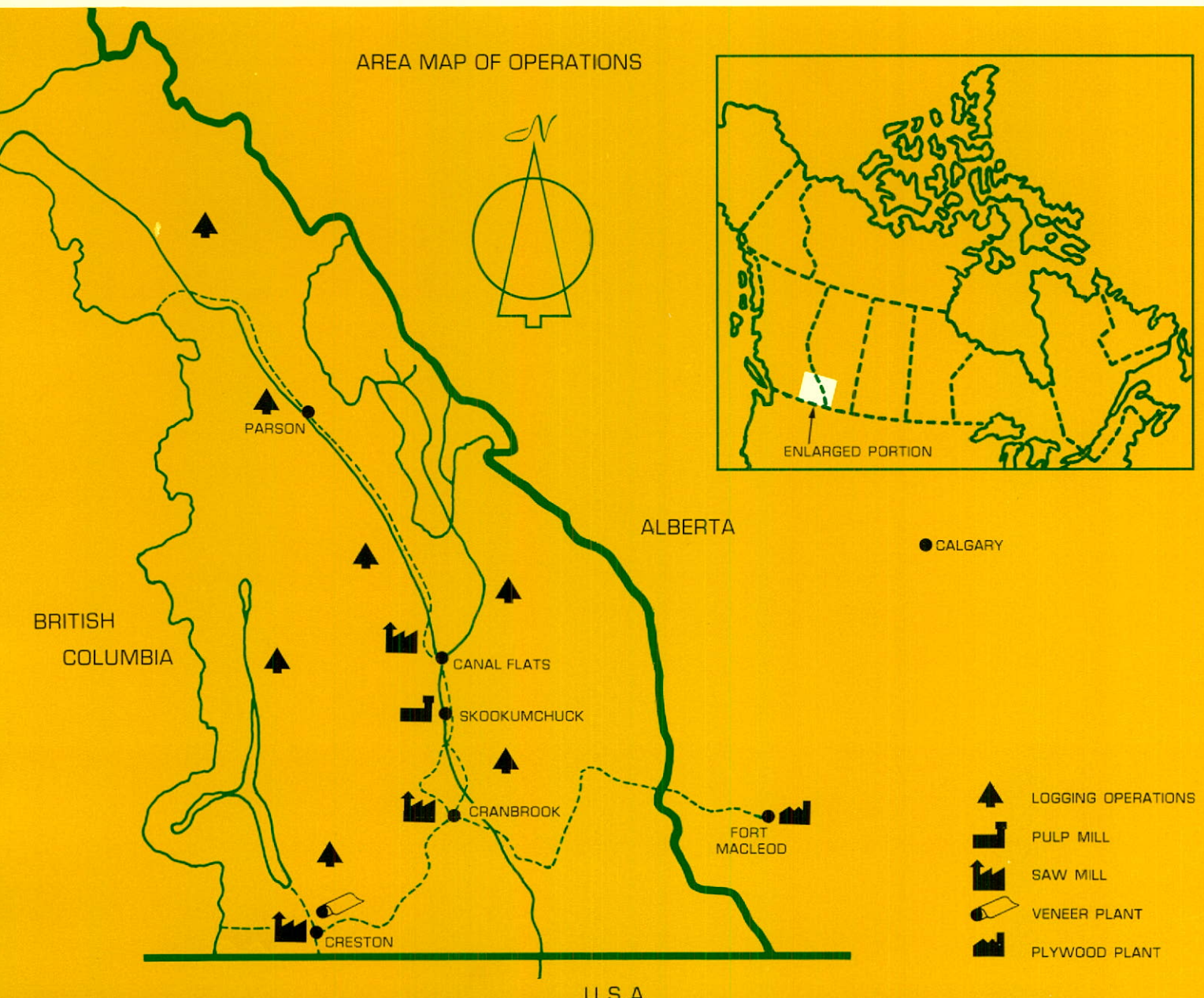
# annual report 1975



**crestbrook forest industries ltd.**



AREA MAP OF OPERATIONS





# crestbrook forest industries ltd.

## cover

### WINTER DAY IN CRANBROOK

A view of the Cranbrook Sawmill, looking northeast towards the picturesque Rocky Mountains in which Fisher Peak rises above the skyline. Sorting bins dominate the foreground, while in the background rough lumber is piled, prior to being kiln-dried and planed. The planer mills are seen in the background, left. In the distance a loaded logging truck approaches the mill.

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## report to the shareholders

APRIL 13, 1976

Sales of all products in 1975 were significantly below 1974 levels, due to poor lumber and pulp markets and a shutdown of our operations from mid July to mid October caused by an industry-wide labour dispute in B.C. In addition, the inflationary trend continued to affect the cost of raw materials, energy, and wages. As a result of the substantial production decrease, low prices for lumber, and the higher costs of sales, the Company lost \$1,927,000 on sales of \$44,596,000.

Working capital decreased from \$3,829,000 to \$2,615,000 at year end. New long term borrowing of \$4,250,000 was required to finance capital expenditures of \$3,277,000 and other expenditures resulting from the lengthy labour dispute in the industry in 1975.

The following table compares the significant financial highlights to those of the previous year.

	1975	1974
Sales	\$44,596,000	\$54,752,000
Cash flow from operations	2,728,000	6,640,000
Net income before taxes and extraordinary items	(1,927,000)	2,356,000
Net income	(1,927,000)	1,407,000
Income per common share, after providing for cumulative dividends on preferred shares		
—before extraordinary items	(2.47)	(.07)
—net income	(2.47)	.02

In 1975 the Company had to open new timber limits at a considerable cost, to replace areas developed earlier which were closed due to environmental decisions. Although much new road development will be necessary in 1976, an adequate supply of timber will be made available. The Company presented a brief to the Royal Commission on Forest Resources outlining its views on tenure, forest service guidelines, and administration.

Following completion of studies to improve recovery at the sawmills, a new small log line was installed at Canal Flats. This equipment was required to handle the increased volume of small wood which is currently being harvested. The Company is presently preparing a proposal for installation of similar equipment at its Cranbrook sawmill.

In 1975 the Company completed an in-depth study of the problems affecting the operation of the bleach plant at the Skookumchuck pulp mill. As a result of this study a major modification program was prepared and, as recently announced, modifications to the bleach plant are presently underway with completion projected for November, 1977. These modifications, which will cost approximately \$17,000,000, will improve pulp quality and stabilize production around 440 tons per day. Funds for the project have been arranged through the Company's Bankers with the assistance of the Company's major shareholders, the Honshu Paper Co. Ltd. and the Mitsubishi Corporation.

The Company continued to make significant progress in environmental control, in spite of the disrupting effects of the three month shutdown of operations. A program was initiated jointly with the Pollution Control Branch of the Department of Lands, Forests and Water Resources to carry out evaluation trials of methods to reduce the colour in pulp mill effluent. In addition, two projects were completed at the pulp mill to reduce atmospheric emissions to conform with more stringent regulations. The Company has participated actively in the Steep Slope Logging Committee, a joint industry and government effort, and has been instrumental in establishing guidelines for improved ground skidding operations.

Despite the economic hardships of last year, the Company endeavoured to fulfil its role as a good corporate citizen in the various areas of its operations. The Company is keenly interested in the needs of the many communities where it carries on its operations, and recognizes that stable operations benefit those communities and their residents. It was regretful, therefore, that economic conditions forced the curtailment of the Company's sawmill and logging operations in 1975, with consequent loss of employment. Every effort will be made to restore operations to the level existing in the early part of 1975.

At the end of last year the number of employees totalled 933 compared to 1,183 in 1974. Total wages, salaries, and benefits paid in 1975 were \$15,920,000 compared to \$15,878,000 in 1974.

The lumber and plywood markets improved in December, and have continued to strengthen in 1976, with an outlook for further price increases. The pulp market continues to be depressed by excess inventories and weak world markets, and no changes are currently anticipated in either demand or price.

Although lumber prices must rise considerably before the Company's lumber operations become profitable, management expects that with the anticipated improvement in the lumber and plywood market the Company can look forward to a substantial improvement in results for 1976.

In March 1976, Mr. K. Takaya resigned from the Board to accept a senior position at Honshu Paper Co., Ltd., Tokyo, and was replaced on the Board by Mr. T. Endo of Honshu Paper Co., Ltd. Mr. Endo was also appointed Assistant to the Chairman of the Board of the Company.

On behalf of the Board, I wish to express our appreciation of the contributions made to the Company by Mr. K. Takaya.

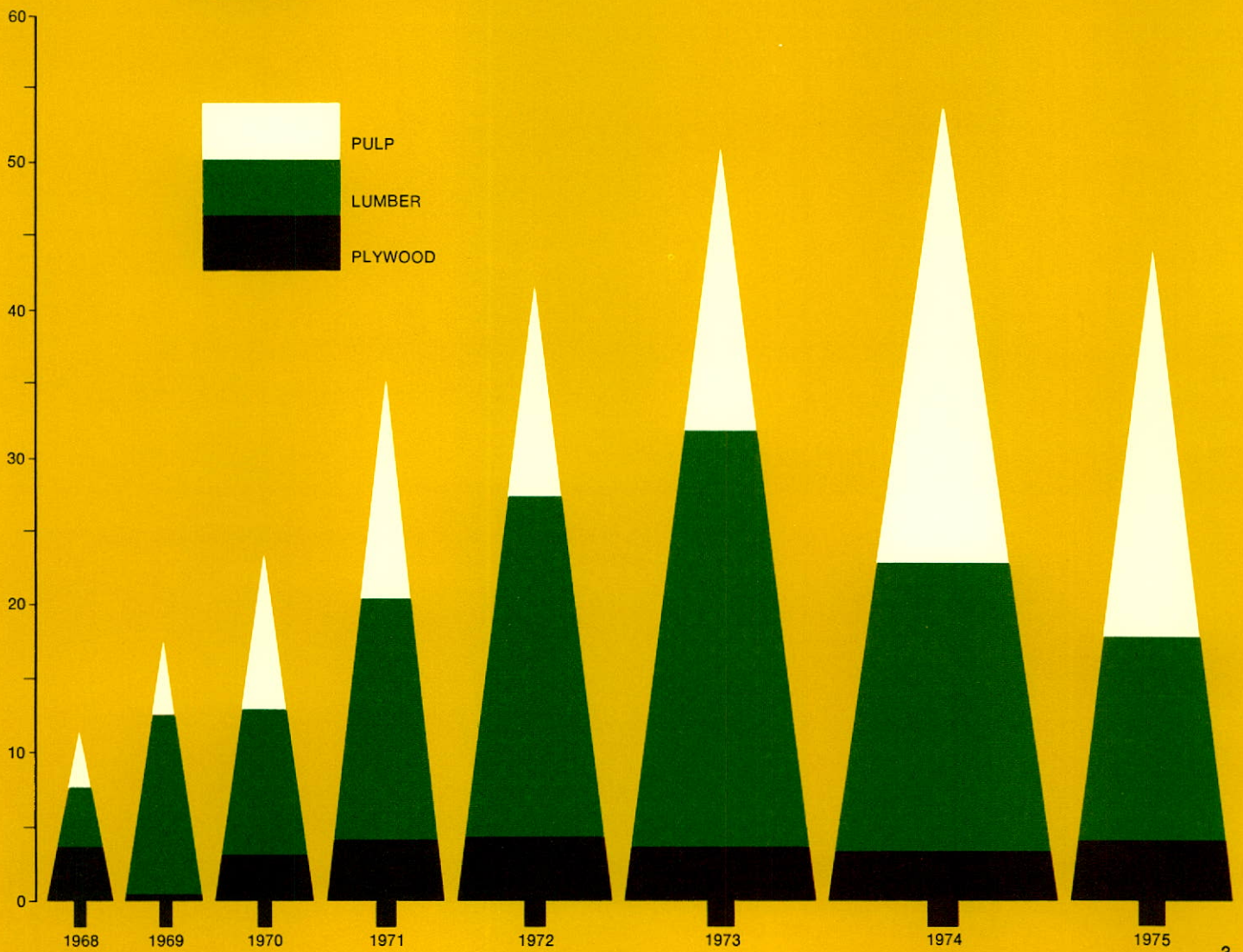
The Board recognizes that many of our employees had more than normal problems to cope with this past difficult year and wishes to express its appreciation of their efforts on behalf of the Company in 1975.

On behalf of the Board

V. C. BROWN, President

MILLIONS

# sales





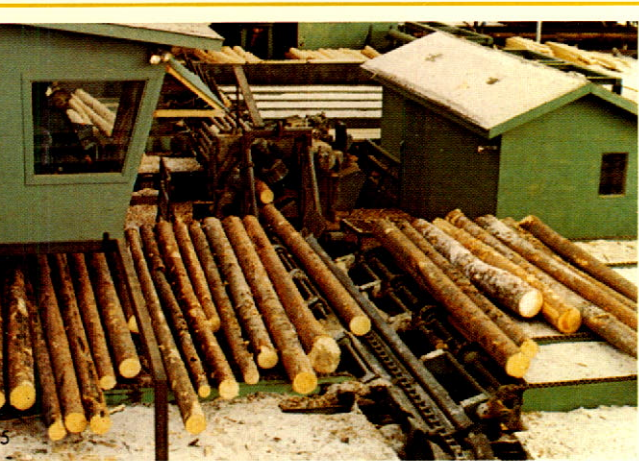
**people  
and our operations**



Crestbrook Forest Industries is an integrated Company with logging operations in the East Kootenay Valley, stretching from Creston in the south to Golden in the north. Sawmills are located at Cranbrook, Canal Flats and Creston, and wood wastes from these and other independent sawmills are converted into chips for pulp production at a full bleached kraft mill, located 35 miles north of Cranbrook at Skookumchuck. In addition, the Creston mill produces veneer from peeler logs, for shipment to a plywood lay-up plant at Fort Macleod, in the southern Alberta foothills.

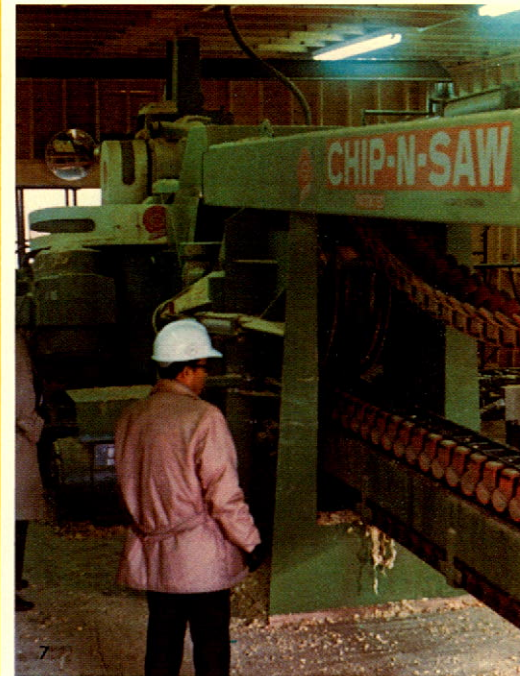
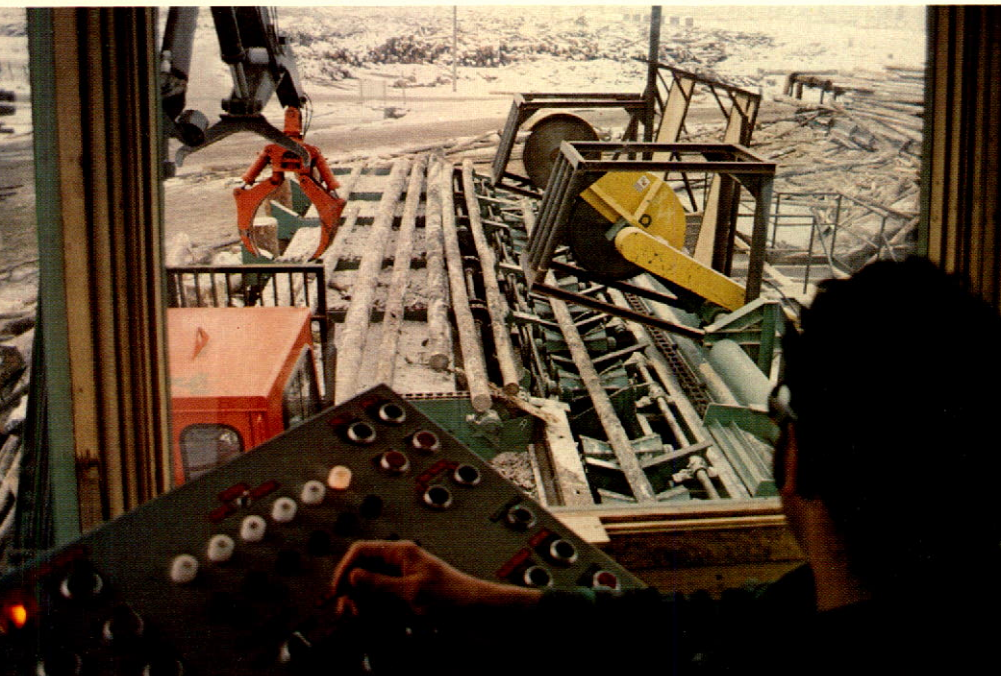
Maximum utilization of the forest is the goal of Crestbrook, and through the people in our Company we work at achieving this. In photo three, a large fir tree is felled by logger Don Mallard, at work in the Parson area. Smaller wood is more efficiently handled by mechanical harvesters such as the feller-buncher, shown in photo one, also operating in the Parson area.





Sometimes, however, natural forest catastrophes leave the logger with a difficult problem. Photo four shows the tragic result of a mountain pine beetle attack in the Elk Creek area, east of Canal Flats. This wood must be logged without delay to stop further spreading of beetle kill. In the nearby Coyote Creek area, Rod Aune, photo two, cuts logs to length, prior to loading and a 25 mile haul to Canal Flats sawmill.

Operator Elmer Scherger, photo six, starts the careful processing of logs delivered from the nearby woodland operations. Elmer operates the loading crane and cut-off saws, which were recently installed as part of the new small log line at Canal Flats. Using his experience and judgement, he regulates the feed rate and continuously adjusts log positions for cutting to the desired length. In photo five, barker operator Ivan Stojic co-ordinates his log flow with a second operator, to ensure the proper movement of large and small logs.



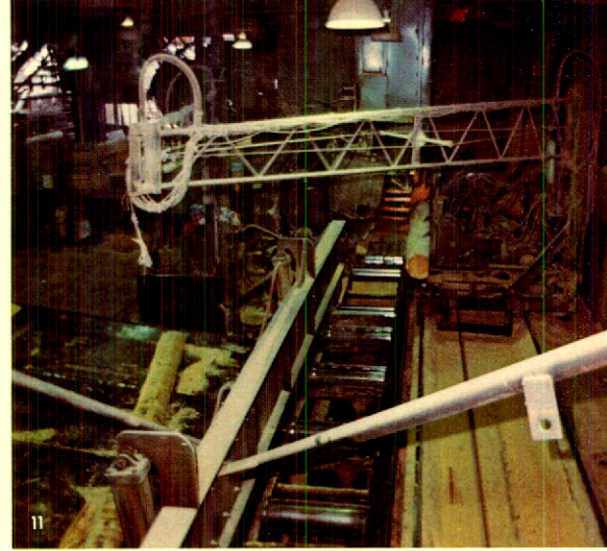
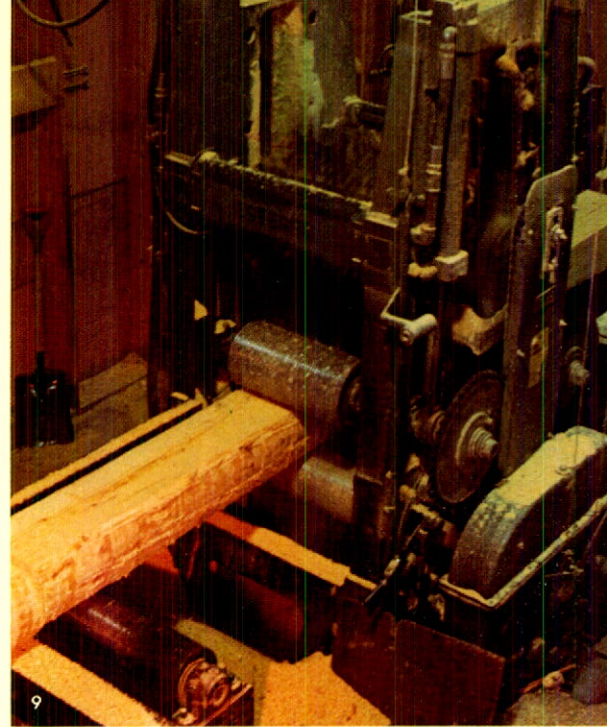
The heart of the new small log line at Canal Flats is a Mark II Chip-N-Saw, photo seven, installed to improve lumber and chip recovery from small diameter logs. The machine automatically gauges average log diameter, and the operator then programs the adjustment of the chipping heads to match the log diameter. Photo eight shows a typical lumber profile cut by the chipping heads and horizontal arbour saw blades, which are mounted at opposite ends of the machine for separation of the sawdust and chips. This operation is a development of the forest products industry to improve utilization of the tree.

Large diameter logs are processed through a conventional headrig and gang saw. Photos nine and eleven show a large spruce log being cut into cants on the headrig, and a cant being fed into the reciprocating blades of the gang saw, for the production of two inch dimension lumber.

After trimming to length, the lumber is sorted, kiln-dried, planed, stacked and loaded for shipment. In photo thirteen, Don Morton and Ernie Hayhurst are busy loading lumber bins. At the Cranbrook sawmill lumber sorting has recently been automated. A new Moore Tek tray sorter receives grade and length information for channeling of each piece of lumber into a pre-selected tray. In photo ten, Paul Bohme activates the unloading mechanism of the sorter.

The product, dressed lumber, is loaded onto rail cars for shipment, shown in photo twelve. Wood chips, a by-product of sawmill wastes but the essential ingredient for pulp manufacturing, are shown being unloaded at the pulp mill, photo fourteen, p. 7.

At the Skookumchuck pulp mill, conversion of chips into full bleached kraft pulp is carried out with modern equipment. In photo sixteen, shift superintendent John Baker (rear) reviews the control panel while senior pulping group operator Jim O'Neil (foremost) discusses the digester operation with Bev Rauch (centre), and bleach plant operator Rick Hillier (right) receives current test results over the phone. These highly







trained operators control the cooking, bleaching, pulp cleaning, and chemical preparation operations from this central control room. The finished product, bleached kraft pulp for use in fine paper production, packaging and a multitude of other purposes, is cut into sheets which are baled and wired together into larger units for shipment by rail. In photo fifteen, pulp grader Dale Fox is shown stamping each bale.

Environmental protection receives top priority at the pulp mill. In addition to several in-plant control features, there are two settling ponds and a biological basin to stabilize effluent pH and reduce oxygen demand of the effluent prior to discharge into the Kootenay River. In photo seventeen, shift technician Rod Montieth is seen taking a routine sample of treated effluent for analysis in the laboratory. Photo eighteen shows this same treated effluent in the biological lagoon.

From pine cone to lumber, chips to pulp, all phases of our operation depend on the care of people to utilize the raw material from the forest to create products for distribution in world markets.





## review of operations

### OPERATIONS

Although most of the logging operations were shut down for three months following closure of the sawmills, operating costs were under control as a result of an unusually mild winter, which enabled efficient operations to be maintained.

As a direct result of the reduced chip requirements at the pulp mill and the unfavourable lumber market, both the Cranbrook and Canal Flats sawmill operations were curtailed from April to the end of June. The Company considered the method of curtailment carefully to minimize the economic hardship on employees. Following the strike at the pulp mill, these sawmills were shut down completely from mid July to mid October.

In December, a new small log line was started up at the Canal Flats sawmill, to more efficiently handle the increasing percentage of small wood. In October, a new automatic tray sorting system was put into operation at the Cranbrook sawmill.

The Creston sawmill lost 23 days of production due to picketing by pulp mill union employees. In addition, both lumber recovery and veneer production were adversely affected by a reduction of large diameter logs. With the return of full quota cutting volumes to the Creston P.S.Y.U., it is expected that recovery will improve.

Production was maintained at the Fort Macleod plywood division despite the shutdowns and strikes in the B.C. Forest Industry.

Although production at the pulp mill produced the highest average ever per operating day for the first six months, total production was short of target due to an extended Easter shutdown resulting from poor pulp markets. Annual production was well below plan due to the province-wide strike from July 16 to October 14.

Although significant gains have been made in pulp quality and production rates through much effort, the bleach plant continues to prevent the pulp mill from operating at its full production potential, and pulp quality remained marginal. A thorough study of the bleach plant was completed in 1975 from which a major modification program has been proposed to improve quality, reliability, and to some extent increase production.

Parallel to 1974, costs have continued to escalate dramatically in 1975. Combined with the production curtailment experienced, results for 1975 are unsatisfactory in spite of constant vigilance and efforts by Company personnel.



### GENERAL

A brief was presented at the public hearings on Columbia Natural Gas rates, protesting the increase in rates. The Company was successful in having a restrictive clause on the use of hog fuel deleted.

A brief was presented to the Royal Commission on Forest Resources, outlining Crestbrook's views on tenure and forest service guidelines and administration.

### ENVIRONMENTAL

Last year, through the efforts of Crestbrook, an initial draft of improved ground skidding guidelines was prepared by an industry committee. By improving ground skidding to acceptable environmental standards, it is hoped to make it a less costly alternative to cable logging for most logging systems.

Two air pollution abatement projects were completed at the pulp mill. The major project, a black liquor oxidation system, has reduced malodorous emissions out of the recovery boiler stack to acceptable levels.

A brief was presented to the Pollution Control Board on an effluent decolorization Order issued against Crestbrook, and this has been deferred for review until August 1976, pending results of certain trials and programs being developed by Crestbrook in conjunction with the Pollution Control Branch.

### EMPLOYEE RELATIONS

This year witnessed a most difficult period in the area of labour relations within the Company. All four collective labour agreements required negotiating at a time when the economic conditions within the industry were less than ideal. At the same time, labour agreements being concluded in the public sector of the Province and in service industries were establishing unparalleled increases. This created an atmosphere of expectation in the minds of some people and made collective bargaining extremely difficult.

The Pulp Paper and Woodworkers of Canada struck the pulp mill on July 16, 1975, and the plant remained closed until provincial back to work legislation compelled all strikes and lock-outs to cease. The mill lost 87 production days as a result of the strike.

As a result of this strike it was necessary for the Company to suspend logging and production work in the Cranbrook and Canal Flats areas. These operations remained closed for the period of the strike although they were not on strike.

The Creston operations continued during the pulp strike except for 23 days when PPWC pickets appeared at this plant resulting in its closure.

Collective agreements of a two year duration have now been finalized with the International Woodworkers of America, the Lumber and Sawmill Workers and the Pulp Paper and Woodworkers of Canada and industrial peace is anticipated.

In the area of accident control it is significant to note that Canal Flats Logging, Creston Logging, Creston Sawmill and Creston Veneer completed 1975 without suffering a lost time injury. The Cranbrook Planer and Sawmill reported a combined accident frequency of 9.23 for 1975, a 73% improvement over their previous year's record. Accident control continues to receive high emphasis as an operating objective of the Company. In the picture at the left, Creston sawmill manager Gordon Fisher holds a recent award for zero accident frequency from the I.L.M.A., with employees Connie Brunham (right) and Joe Nixon (left).

In addition to the scholarship program in which the Company has participated over the years, a new bursary program was introduced in 1975. Through it the Company provides cash grants to sons and daughters of employees who are proceeding with post secondary education.

Employee turnover was at the lowest level in recent history and the Company did not realize any substantial difficulty in manning its operations with good people.

In 1975 the Factories Branch began an intensified program to upgrade physical conditions within industry, and our Company is feeling the cost impact of this program. The Workers Compensation Board has also introduced more stringent requirements in the area of industrial hygiene, hearing conservation, and noise suppression. As a result of the increased costs of some of their programs and their administration, the W.C.B. has announced increased assessment rates for the coming year, some of which exceed 40%.

The Company will continue to develop programs which are aimed at improving the efficiency and effectiveness of the work force, and will continue to view its role in the community carefully so that good relations are maintained.

## historical review

In thousands of dollars

	1975	1974	1973	1972	1971	1970	1969	1968
<b>EARNINGS</b>								
Sales	\$44,596	\$ 54,752	\$ 51,360	\$ 42,222	\$ 36,230	\$ 23,818	\$ 18,000	\$ 11,454
Cost of Sales and General Expenses	37,988	43,135	38,083	34,964	31,123	23,592	15,464	9,698
Depreciation, Amortization & Depletion	4,655	5,346	5,015	4,525	4,302	3,504	2,042	493
Income From Operations	1,953	6,271	8,262	2,733	805	(3,278)	494	1,263
Interest and Other Charges	3,880	4,864	4,801	4,443	4,550	5,065	1,992	274
Net Income (Loss)	(1,927)	1,407	3,461	(1,710)	(3,745)	(8,343)	(1,498)	989
<b>FUNDS FLOW</b>								
Funds From Operations	\$ 2,728	\$ 6,640	\$ 7,734	\$ 3,216	\$ 582	\$ (4,302)	\$ 544	\$ 1,482
Proceeds From Preferred Share Issue	—	—	—	11,100	12,000	—	—	—
Increase (Decrease) Long Term Debt	(956)	(3,013)	(5,913)	(8,373)	(8,844)	16,282	4,224	29,574
Additions to Fixed Assets	(3,277)	(3,843)	(3,037)	(3,487)	(2,828)	(5,077)	(8,709)	(28,611)
Dividends on Preferred Shares	—	(1,386)	(1,386)	—	—	—	—	—
Other	291	262	969	528	496	(375)	(1,218)	(2,807)
Increase (Decrease) in Working Capital	(1,214)	(1,340)	(1,633)	2,984	1,406	6,528	(5,159)	(362)
<b>FINANCIAL POSITION</b>								
Working Capital	\$ 2,615	\$ 3,829	\$ 5,169	\$ 6,802	\$ 3,817	\$ 2,411	\$ (4,117)	\$ 1,042
Fixed Assets	48,283	49,894	51,236	52,626	53,508	54,261	52,611	45,638
Other Assets	577	635	945	1,760	2,846	4,088	4,327	3,415
Net Assets	51,475	54,358	57,350	61,188	60,171	60,760	52,821	50,095
Long Term Debt	32,510	33,466	36,479	42,392	50,765	59,609	43,327	39,103
Shareholders' Equity	18,965	20,892	20,871	18,796	9,406	1,151	9,494	10,992
<b>PRODUCTION VOLUMES</b>								
Lumber—MFBM	113,192	166,507	192,661	191,000	184,784	134,232	113,979	88,656
Pulp—ADT	96,058	123,685	127,599	124,818	124,541	91,128	53,214	—
Plywood—MSF 1/16's Equivalent	212,457	201,727	226,785	295,604	347,586	312,379	58,108	332,396



## CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1975

(with comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
NET SALES		
Lumber	\$13,905,000	\$19,819,000
Pulp	26,529,000	31,605,000
Plywood	4,162,000	3,328,000
	<u>44,596,000</u>	<u>54,752,000</u>
OPERATING COSTS		
Cost of sales	35,485,000	40,819,000
Selling, general and administrative expenses	2,503,000	2,316,000
Depreciation	3,774,000	3,754,000
Depletion	72,000	112,000
Amortization – roads and bridges	750,000	1,016,000
– pre-operating expenses	59,000	464,000
	<u>42,643,000</u>	<u>48,481,000</u>
INCOME FROM OPERATIONS	<u>1,953,000</u>	<u>6,271,000</u>
FINANCIAL COSTS (RECOVERIES)		
Interest on long-term debt	3,607,000	4,414,000
Interest income	(23,000)	(480,000)
Other	296,000	(19,000)
	<u>3,880,000</u>	<u>3,915,000</u>
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	<u>(1,927,000)</u>	<u>2,356,000</u>
INCOME TAXES		<u>1,062,000</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	<u>(1,927,000)</u>	<u>1,294,000</u>
EXTRAORDINARY ITEMS		
Reduction of income taxes by application of losses of prior years		942,000
Loss on foreign exchange		(829,000)
		<u>113,000</u>
NET INCOME (LOSS) FOR THE YEAR	<u>\$ (1,927,000)</u>	<u>\$ 1,407,000</u>
NET INCOME (LOSS) PER COMMON SHARE, AFTER PROVIDING FOR CUMULATIVE DIVIDENDS ON PREFERRED SHARES:		
Loss before extraordinary items	<u>\$ (2.47)</u>	<u>\$ (.07)</u>
Net income (loss) for the year	<u>\$ (2.47)</u>	<u>\$ .02</u>

## CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1975

(with comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
Deficit at beginning of year	\$10,031,000	\$10,052,000
Net income (loss) for the year	(1,927,000)	1,407,000
Dividends on preferred shares		1,386,000
	<u>(1,927,000)</u>	<u>21,000</u>
DEFICIT AT END OF YEAR	<u>\$11,958,000</u>	<u>\$10,031,000</u>

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1975

(with comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
SOURCE OF WORKING CAPITAL		
Income (loss) before extraordinary items	\$ (1,927,000)	\$ 1,294,000
Items not involving working capital		
Depreciation, depletion and amortization	4,655,000	5,346,000
Funds from operations	2,728,000	6,640,000
New long-term debt	4,250,000	1,400,000
Proceeds from sale of fixed assets	292,000	303,000
Extraordinary items		113,000
	<u>7,270,000</u>	<u>8,456,000</u>
USE OF WORKING CAPITAL		
Additions to fixed assets	3,277,000	3,843,000
Reduction of long-term debt	5,206,000	4,413,000
Increase in other assets	1,000	154,000
Dividends on preferred shares		1,386,000
	<u>8,484,000</u>	<u>9,796,000</u>
DECREASE IN WORKING CAPITAL	1,214,000	1,340,000
WORKING CAPITAL AT BEGINNING OF YEAR	<u>3,829,000</u>	<u>5,169,000</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 2,615,000</u>	<u>\$ 3,829,000</u>



Incorporated under the laws of British Columbia

**CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1975**  
 (with comparative figures at December 31, 1974)

**ASSETS**

**CURRENT ASSETS**

	<b>1975</b>	<b>1974</b>
Cash	\$ 5,554,000	\$ 219,000
Accounts receivable	10,903,000	5,779,000
Inventories (note 2)	330,000	9,489,000
Prepaid expenses	16,787,000	55,000
	<u>16,787,000</u>	<u>15,542,000</u>

**OTHER ASSETS**

Company housing project	384,000	373,000
Deposits and investments	193,000	203,000
	<u>577,000</u>	<u>576,000</u>

**FIXED ASSETS**

Buildings, machinery and equipment, at cost (note 3)	66,914,000	64,860,000
Less accumulated depreciation	21,538,000	17,873,000
	<u>45,376,000</u>	<u>46,987,000</u>
Roads and bridges, at cost less amortization	2,131,000	2,073,000
Timber holdings, at cost less depletion	391,000	463,000
Land, at cost	385,000	371,000
	<u>48,283,000</u>	<u>49,894,000</u>

**DEFERRED CHARGES**

Pre-operating expenses less amortization		59,000
	<u>\$65,647,000</u>	<u>\$66,071,000</u>

Approved by the Board

*Ichiro Ogawa*, Director  
*J. C. Brown*, Director

LIABILITIES

CURRENT LIABILITIES

	<u>1975</u>	<u>1974</u>
Bank advances (note 4)	\$ 3,194,000	\$ 1,076,000
Accounts payable and accrued liabilities	5,788,000	6,280,000
Principal due within one year on long-term debt	5,190,000	4,357,000
	<u>14,172,000</u>	<u>11,713,000</u>

LONG-TERM DEBT (note 5)

	<u>32,510,000</u>	<u>33,466,000</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized

462,000 6% cumulative redeemable non-voting preferred shares of a par value of \$50 each, consisting of:

240,000 Class A shares and

222,000 Class B shares

4,500,000 common shares of no par value

Issued

462,000 preferred shares (note 6)

1,343,068 common shares

	23,100,000	23,100,000
--	------------	------------

	7,568,000	7,568,000
--	-----------	-----------

	<u>30,668,000</u>	<u>30,668,000</u>
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CONTRIBUTED SURPLUS

	255,000	255,000
--	---------	---------

DEFICIT

	(11,958,000)	(10,031,000)
--	--------------	--------------

	<u>18,965,000</u>	<u>20,892,000</u>
--	-------------------	-------------------

	<u>\$65,647,000</u>	<u>\$66,071,000</u>
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COMMITMENTS AND CONTINGENT LIABILITIES (notes 7 and 8)



NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 1975

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies, all of which are wholly owned.

Translation of Foreign Currencies

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at the rate of exchange in effect at the end of the year. Long-term debt is translated at historic rates.

Inventories

Inventories are stated at the lower of cost and net realizable value with the exception of supplies and other raw materials which are stated at the lower of cost and replacement cost.

Depreciation, Depletion and Amortization

Buildings, machinery and equipment are depreciated using annual rates ranging from 3% to 20% on a straight-line basis over their estimated useful lives.

Roads and bridges, and timber holdings are amortized in a systematic manner based on the utilization of timber resources.

2. INVENTORIES

	<u>1975</u>	<u>1974</u>
Logs	\$ 3,126,000	\$ 3,970,000
Chips	1,303,000	845,000
Lumber	2,125,000	2,174,000
Plywood and Veneer	605,000	462,000
Pulp	1,861,000	183,000
Supplies and other raw materials	1,883,000	1,855,000
	<u>\$10,903,000</u>	<u>\$ 9,489,000</u>

3. BUILDINGS, MACHINERY AND EQUIPMENT

	<u>1975</u>			<u>1974</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Net</u>
Buildings and site improvements	\$12,454,000	\$ 2,942,000	\$ 9,512,000	\$ 9,585,000
Machinery and equipment	50,748,000	16,918,000	33,830,000	34,099,000
Mobile equipment	3,289,000	1,678,000	1,611,000	1,875,000
Construction in progress	423,000		423,000	1,428,000
	<u>\$66,914,000</u>	<u>\$21,538,000</u>	<u>\$45,376,000</u>	<u>\$46,987,000</u>

4. BANK ADVANCES

Bank advances are secured by an assignment of accounts receivable and inventories.

5. LONG-TERM DEBT

	<u>1975</u>	<u>1974</u>
Honshu Paper Co. Ltd. 7.56% Series One Bonds repayable 1977 to 1981	\$ 6,450,000	\$ 6,450,000
Mitsubishi Corporation 7.56% Series One Bonds repayable 1977 to 1981	6,450,000	6,450,000
6.65% Series Two Bonds repayable 1976 to 1978	1,446,000	1,927,000



The Royal Bank of Canada Capital loans, interest at prime rate plus 1½%, repayable 1976 to 1977	1,000,000	2,500,000
The Royal Bank of Canada Mobile equipment loan, interest at prime rate plus 2%, repayable 1976 to 1979	1,213,000	1,344,000
Mercantile Bank of Canada Capital loan, interest at prime rate plus 1½%, repayable in 1976	500,000	1,000,000
The Bank of Tokyo Ltd. Notes payable, interest at prime rate of Chase Manhattan Bank plus 2%, repayable 1976 to 1980 (U.S. \$6,200,000)	6,297,000	6,435,000
The Mitsubishi Bank Ltd. Notes payable, interest at prime rate of Bank of America plus 2%, repayable 1976 to 1980 (U.S. \$3,400,000)	3,453,000	3,465,000
The Dai-Ichi Kangyo Bank Ltd. Notes payable, interest at prime rate of Chase Manhattan Bank plus 2%, repayable 1976 to 1980 (U.S. \$3,400,000)	3,453,000	3,465,000
TohCan Ltd. Notes payable, interest at prime rate of Bank of British Columbia plus 1¼% per 365 days on \$2,000,000 and 1¼% over prime rate per 360 days on \$2,000,000, repayable 1978 to 1981	4,000,000	
Notes payable to others, interest at the 6 month Eurodollar deposit rate in London per 360 days plus 1.2%, repayable 1976 to 1977 (U.S. \$3,500,000)	3,555,000	4,455,000
Other	28,000	82,000
	<u>37,845,000</u>	<u>37,573,000</u>
Less portion payable within one year included in current liabilities	<u>5,190,000</u>	<u>4,357,000</u>
	32,655,000	33,216,000
Less unrealized exchange loss (gain), being the difference between the rates of exchange in effect at the year end and the historic rates	<u>145,000</u>	<u>(250,000)</u>
	<u>\$32,510,000</u>	<u>\$33,466,000</u>

Principal due within each of the next five years (translated at rates of exchange in effect at December 31, 1975) is as follows:

1976	\$5,190,000	1977	\$6,266,000	1978	\$8,604,000
1979	\$7,339,000	1980	\$7,147,000		

## 6. PREFERRED SHARES

The rights and restrictions attached to Class A and Class B preferred shares provide, inter-alia, that:

- (a) the preferred shares are redeemable at any time on payment of the amount paid thereon plus all accrued and unpaid dividends;
- (b) so long as any preferred shares are outstanding no other shares may be created or issued; and
- (c) so long as any dividends on the preferred shares are in arrears the company shall not:

- (i) declare any dividends on common shares;
- (ii) redeem less than all of the preferred shares; or
- (iii) reduce the amount of its issued capital ranking junior to the preferred shares except out of the proceeds of an issue of shares ranking junior to the preferred shares.

At January 1, 1976 dividends on preferred shares had been paid to February 25, 1974 and were in arrears as follows: Class A, \$1,329,000 and Class B, \$1,230,000 for a total of \$2,559,000.

#### 7. COMMITMENTS

The company has made commitments to suppliers and others in connection with an improvement program at the pulp mill to be completed in 1977.

The estimated cost of the program is \$16,800,000 of which \$3,330,000 had been committed at the end of the year.

#### 8. CONTINGENT LIABILITIES

(a) The company is disputing the position being taken by the British Columbia Forest Service that the company was undercharged approximately \$450,000 in respect of stumpage on certain timber harvested prior to 1975. In the opinion of management the company's arguments will succeed.

(b) The company has guaranteed certain mortgages payable amounting to \$424,000.

#### 9. INCOME TAXES

The tax recognized value of depreciable assets exceeds the corresponding net book value by approximately \$6,250,000, but the accounts do not reflect the future tax savings that may result from this situation.

#### 10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration of directors and senior officers (as defined by the British Columbia Companies Act) was \$378,000 (1974 - \$324,000).

#### 11. ANTI-INFLATION PROGRAM

The company and its subsidiaries are subject to the anti-inflation act which places restrictions on prices and profits, employees' remuneration and dividends.

Although full details of the regulations are not yet available it is the opinion of management that the effect, if any, on earnings for 1975 will not be significant.

#### AUDITORS' REPORT

To the Shareholders of Crestbrook Forest Industries Ltd.  
We have examined the consolidated balance sheet of Crestbrook Forest Industries Ltd. as at December 31, 1975 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Thorne Riddell & Co.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their 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.

THORNE RIDDELL & CO. Chartered Accountants  
Cranbrook, British Columbia  
March 17, 1976



Chartered Accountants, Thorne Riddell & Co.



## DIRECTORS

VICTOR C. BROWN, Cranbrook, British Columbia  
ARTHUR C. DRAPER, Cranbrook, British Columbia  
TOSHIO EBIMOTO, Cranbrook, British Columbia  
ALFONSE A. FABRO, Kimberley, British Columbia  
TAKAO ISHIKAWA, Tokyo, Japan  
RIKINOBU NAKAZAKI, Tokyo, Japan  
THE HON. JOHN R. NICHOLSON, P.C., O.B.E.,  
Vancouver, British Columbia  
ICHIRO OGAWA, Cranbrook, British Columbia  
AKIRA SUHARA, Tokyo, Japan  
ALBERT G. SWINARTON, Fort Macleod, Alberta  
KEN TAKAYA, Cranbrook, British Columbia  
ROBERT A. WHITE, Vancouver, British Columbia

## HEAD OFFICE

800 Cranbrook Street, Cranbrook, British Columbia

## EXECUTIVE OFFICE

2724 - 200 Granville Street, Vancouver, British Columbia

## REGISTERED OFFICE

2500 - 595 Burrard Street, Vancouver, British Columbia

## RECORDS OFFICE

2500 - 595 Burrard Street, Vancouver, British Columbia

## TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Vancouver, Toronto and Calgary

## STOCK LISTINGS

Vancouver Stock Exchange, Toronto Stock Exchange

## AUDITORS

Thorne Riddell & Co., Chartered Accountants

## WHOLLY OWNED SUBSIDIARY COMPANIES

Crestbrook Pulp and Paper Ltd.  
Fort Plywood & Lumber Ltd.

## OFFICERS

ICHIRO OGAWA, Chairman of the Board and  
Chief Executive Officer  
VICTOR C. BROWN, President  
DON B. LOYD, Executive Vice-President  
CLEMENT GARSIDE, Vice-President, Operations  
TOSHIO EBIMOTO, Vice-President and Treasurer  
DAVID V. McDOUGALL, Controller  
JOSEPH H. KONST, Secretary  
KEN TAKAYA, Assistant Treasurer and  
Assistant to the Chairman of the Board  
MASAYASU INOUE, Assistant Secretary

## DIVISION MANAGERS

KENNETH W. HALL, Pulp Division  
JOHN G. MURRAY, Woodlands Division

