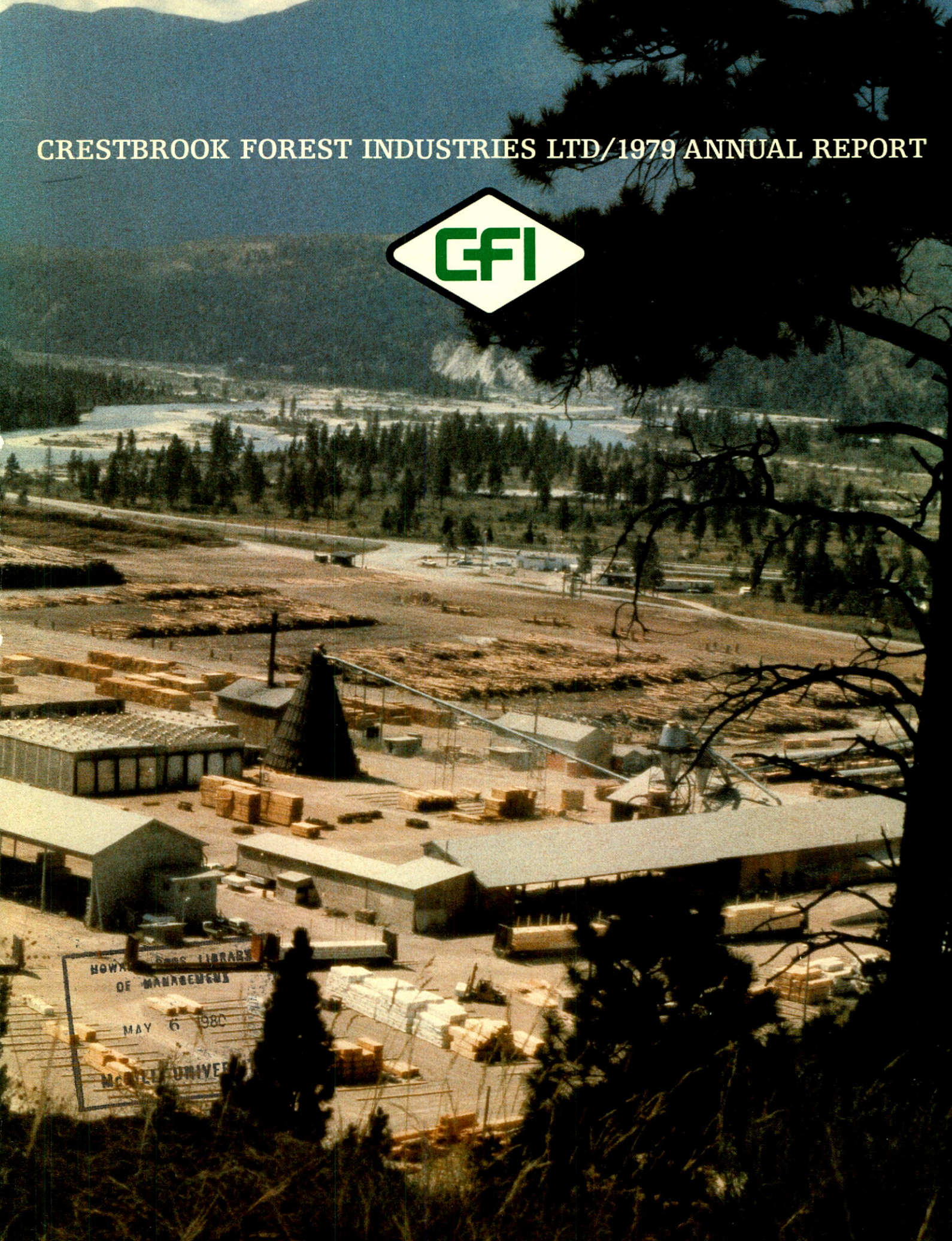


CRESTBROOK FOREST INDUSTRIES LTD/1979 ANNUAL REPORT





ANNUAL GENERAL MEETING

Town & Country Motor Hotel,
Cranbrook, British Columbia,
May 29, 1980

REPORT TO THE SHAREHOLDERS

MARCH 25, 1980



It is gratifying to report to you a record year for 1979. For the first time the sales volume exceeded \$100-million, reaching \$110,400,000. Of this volume, pulp contributed 56 percent with lumber and plywood contributing 44 percent versus 50 percent for each group in 1978. The record sales resulted in all-time high net earnings of \$13,640,000 versus \$4,834,000 in 1978. This translates into 12.3 percent on sales versus 5.3 percent in 1978. Net earnings per common share improved from \$2.57 in 1978 to \$9.12 in 1979.

The markets for our products in 1979 were, on the average, good. Demand for bleached kraft pulp was strong during the year with prices rising to a record high by year-end. Lumber prices started low and rose steadily, reaching a peak in September. In the last quarter they declined very rapidly as a result of the sharp reduction in housing starts.

The contribution to earnings attributable to the devalued Canadian dollar in 1979 was \$12,049,000, versus \$9,190,000 for 1978.

In 1979 the improved earnings and cash flow enabled your Company to declare payable all dividends on the 6 percent preferred shares including those in arrears since 1975. The financial statements reflect the payment of \$6,716,000 on these shares. This is the first time since the shares were issued in 1971 and 1972 that your Company has been current on its preferred share dividends.

Major capital expenditures completed during the year included a second Chip-N-Saw facility at the Cranbrook Sawmill and the chip pre-steaming unit at the Pulp Division. Both have performed well since start-up. The construction of logging roads during 1979 required expenditures of \$2,835,000.

During the year the Company initiated a fibre resource study which will be completed by mid-1980. This study will determine the volume and

character of fibre available to the Company through utilization of modern forestry and harvesting techniques. The results will provide the basis for our future development and expansion in the East Kootenay.

It was with regret that we announced during 1979 the retirement of Mr. Victor C. Brown as President after 40 years of service with Crestbrook and its predecessor companies. His contribution through those years laid the foundation for the success achieved by the Company. We are pleased to report that Mr. Brown will continue as a Director and a member of the Executive Committee. Mr. Stuart A. Lang assumed the position of President in September. Mr. Kunihiro Nishimura and Mr. Don B. Loyd resigned as Directors after two and two and one-half years respectively on your Board of Directors and were replaced by Mr. Toru Aizawa and Mr. Lang.

It is gratifying to have reported, not only the growth of sales in 1979, but in particular the substantial increase in earnings which has enabled us to meet and become current on all our past obligations. The performance and accomplishments of the Company in 1979 reflect the joint effort and support of all its employees and shareholders.

We look forward to 1980 with a degree of cautious optimism. Your pulp is recognized as one of the highest quality kraft pulps manufactured in Canada and is very well received in the United States, European and Japanese markets. The kraft pulp market is expected to continue strong throughout 1980. The level of the lumber and plywood markets will be determined by the housing and construction activities in the United States and Canada. The opening months of 1980 point to a good year. However, the final results for 1980 will depend upon the ability of all sectors, both public and private, to control inflation and prevent recession.

On behalf of the Board of Directors

A handwritten signature in dark ink, appearing to read "Stuart A. Lang". The signature is fluid and cursive.

S.A. Lang, President

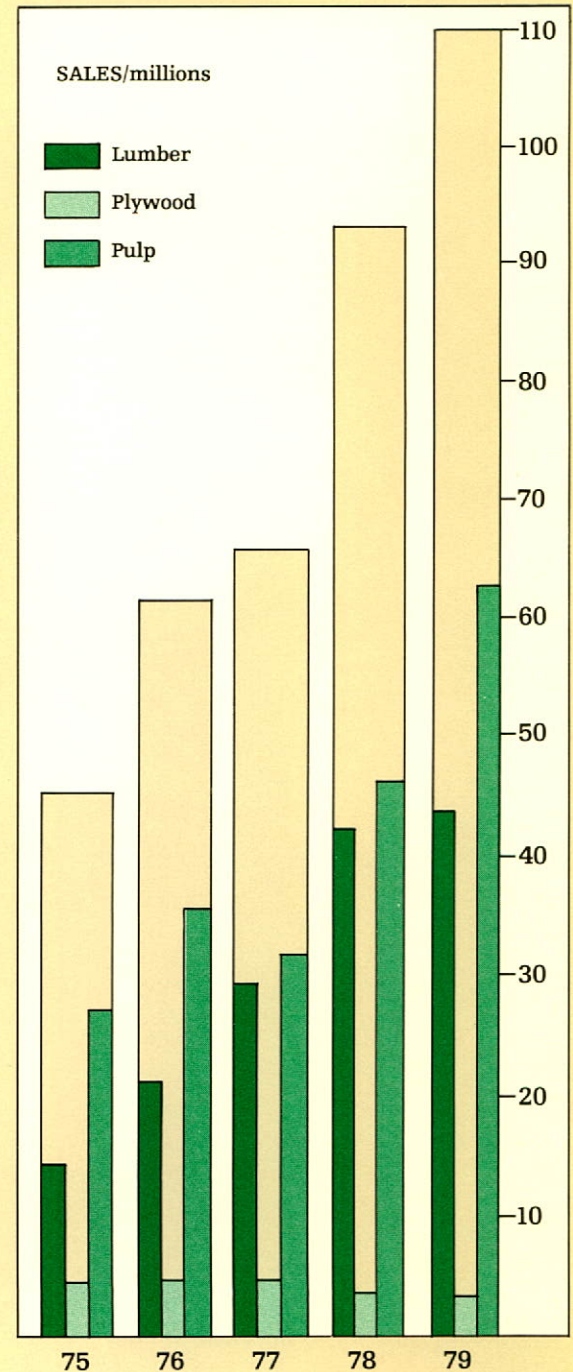
FINANCIAL HIGHLIGHTS 1979

1979 SALES

PULP	\$ 61,595,000
LUMBER	45,117,000
PLYWOOD	<u>3,688,000</u>
	<u>\$110,400,000</u>

	1979	1978
FOR THE YEAR		
Sales — Pulp	\$ 61,595,000	\$45,852,000
— Lumber	45,117,000	42,025,000
— Plywood	<u>3,688,000</u>	<u>3,888,000</u>
Total	110,400,000	91,765,000
Net earnings		
Before extraordinary item	13,640,000	3,699,000
After extraordinary item	13,640,000	4,834,000
Per common share:		
Before extraordinary item	\$9.12	\$1.72
After extraordinary item	\$9.12	\$2.57
Return on net assets*	22.8%	11.8%
Cash flow from operations:		
Amount	26,853,000	13,317,000
Per common share	\$19.99	\$9.92
Capital expenditures	7,418,000	4,401,000
Salaries and wages	22,944,000	20,962,000
Employee benefits	4,880,000	4,205,000
Stumpage and royalty	6,595,000	3,421,000
Property taxes	1,645,000	1,560,000
AT YEAR END		
Working capital	15,101,000	9,370,000
Current ratio	1.6:1	1.6:1
Long term debt	31,276,000	38,788,000
Shareholders' Equity	33,156,000	26,232,000
Number of employees	1,017	1,032

*Return on net assets is defined as net earnings plus long term debt interest after tax as a percentage of total assets less current liabilities.



REVIEW OF OPERATIONS

Woodlands Division

The Woodlands Division achieved its commitments in log production, road construction and reforestation in 1979.

The Company was successful in restricting major forest fires in its operating areas despite high temperatures and extremely low precipitation.

Log costs exceeded budget during the year. This resulted primarily from the increase of personnel to meet management requirements for the new Forest Act and implementation of operating plan changes to allow for the salvage of timber affected by insect, disease and wind.

Light snowfall and generally milder temperatures during the winter of 1978-79 promoted the spread of the Mountain Pine Beetle resulting in increased attacks on mature Lodgepole Pine, particularly in the Upper Kootenay Public Sustained Yield Unit. To facilitate salvage of infested timber, a major road program was developed by the Company in every drainage area containing Lodgepole Pine.

In co-operation with the British Columbia Forest Service, the Company

transferred allowable cuts from other tenures to permit an overcut in the Upper Kootenay, enabling increased harvesting of the beetle-attacked stands. The Forest Service recognized the inferior grade of the older attacked stands by implementing salvage stumpage rates in September.

Salvage of timber attacked by White Pine Blister Rust continued at an accelerated rate in the Creston-Nelson areas with the result that log deliveries to the Creston Sawmill consisted of an increased percentage of White Pine during the year. This will continue until the salvage program has been completed.

Severe windfall occurred in Spruce-Balsam stands in the Cranbrook-Creston areas during 1979. In order to salvage this material before it degrades, major programs were carried out in 1979 and will continue in 1980.

The Company co-operated with an equipment manufacturer in the development of a reliable light-floatation skidder to replace the prototype machine in use on Tree Farm Licence No. 14. The new machine performed up to expectations and was subsequently acquired.



Above. Prototype critical site cable yarder and Drott 50 loader, Lewis Creek, northeast of Cranbrook.

Top Left. Parson Woodlands Division office.

Bottom Left. Kutlits Creek in Moyie drainage, southwest of Cranbrook.



Parson Logyard-Railhead

Based on the successful conversion of a feller-buncher from a shearhead (knife) to an augerhead (rotary cutter) system in 1978, remaining units used on Company operations were converted in 1979. The conversion effectively eliminates butt shatter and produces an improved cut on approximately 60,000 cunits harvested annually by feller-bunchers.

Implementation by the Forest Service of the new Timber Supply Area program, which replaces the Public Sustained Yield Unit, is presently behind schedule in our operating areas and will probably not be completed until the second half of 1980. Until this program is finalized, the Company will not have confirmation of its annual allowable cut.

The renewal of Tree Farm Licence No. 14 for 25 years was completed and signed prior to year-end by the Hon. T.M. Waterland, Minister of Forests. The renewal is on an evergreen basis and effectively provides the Company with an assured and known timber supply from the Parson area, while continuing the practice of superior forestry management on the Tree Farm Licence.

Forty-thousand acres of land owned

by the Company, of which approximately 20,000 acres are located in Tree Farm No. 54 near Creston, are being studied for inclusion in a long-term intensive forestry program.

The Company planted approximately 300,000 seedlings during 1979 to supplement natural regeneration in Public Sustained Yield Units and on Tree Farm Licence No. 14. In addition, 1,750 acres received site preparation treatment to promote natural regeneration.

The 'white paper' of the Forest Service which set down proposals for incentives for intensive forestry was circulated to industry during the latter part of the year. The Company is participating in discussions aimed at developing realistic guidelines which will permit it to initiate a major intensive forestry program on all of its holdings.

Lumber and Plywood Division

Over the past few years it has been apparent that the supply of large diameter logs has been decreasing in the Cranbrook-Canal Flats areas to the point that sufficient logs to sustain operation

of only one headrig shift were available. As a higher percentage of large logs were produced in the Canal Flats area, the decision was made to shutdown the headrig at the Cranbrook Sawmill and to utilize all large logs at the Canal Flats Sawmill. The decline in the availability of large diameter logs resulted in lumber production dropping to 175,967 MFBM (thousand feet board measure) from 181,194 MFBM in 1978.

Lumber shipments were approximately 4,000 MFBM lower than production at 171,853 MFBM due to a serious shortage of railcars during the first half of the year and an erratic supply in the last quarter.

Lumber sales rose to \$45,117,000 from \$42,025,000 in the previous year. Selling prices of lumber were substantially over budget during the first nine months of the year, but dropped significantly in the fourth quarter when soaring interest rates in Canada and the United States lowered housing starts and the demand for lumber.

The chipper-flatter originally installed in the Cranbrook Sawmill was removed in July and replaced with a Mark II Chip-N-Saw. At the same time, scanning and computer controls were successfully installed on both Chip-N-

Saws and production commitments were achieved in the first month of operation.

During the annual July shutdown, the waste-wood burner at the Cranbrook Sawmill was replaced with a fully-automated burner of modern design.

Production of plywood at 140,481 MSF (thousand square feet 1/16-inch basis) was approximately 6,000 MSF higher than the 1978 total of 134,880 MSF despite four days of lost production due to a fire at the Fort Macleod plant on December 29, 1978.

Plywood sales dropped slightly during the year to \$3,688,000 from \$3,888,000 in 1978. The selling price of plywood rose steadily for the first five months of the year, but was suddenly reversed as record Canadian production easily outpaced a reduced demand.

Pulp Division

In 1979, pulp sales sharply increased to \$61,595,000 from \$45,852,000 in 1978 with total production surpassing budget commitments and rising to 159,732 ADT (air-dry tons) from 157,602 ADT. Off-quality pulp was reduced to 6.6 percent from 10.9 percent the previous year.

The mill broke the 600-ton level to achieve a new single-day production record of 604 ADT during the fourth quarter. New weekly and monthly

Canal Flats Sawmill



average production levels of 555 ADT and 512 ADT respectively were also established in the October operating period. Average actual daily tonnage of 475 ADT exceeded the mill's budget rate of 448 ADT.

A number of projects were successfully completed in 1979 at Skookumchuck. Most significant was the installation of a \$491,000 chip bin pre-steaming system which heats frozen chips and allows the pulping process to be maintained at high efficiency during adverse winter conditions. Another major project completed was repairs to the recovery boiler at a cost of approximately \$270,000.

In furtherance of Company policy to reduce its impact on the environment, the rapid infiltration system program to remove color from pulpmill effluent is progressing. The Pollution Control Board has directed the Company to have a system operational in 1981. This order has been appealed to allow additional time for the Company to confirm the process and ascertain design criteria.

INDUSTRIAL AND COMMUNITY RELATIONS

The Company's safety performance was within the top quartile for the industry in the interior of British Columbia.

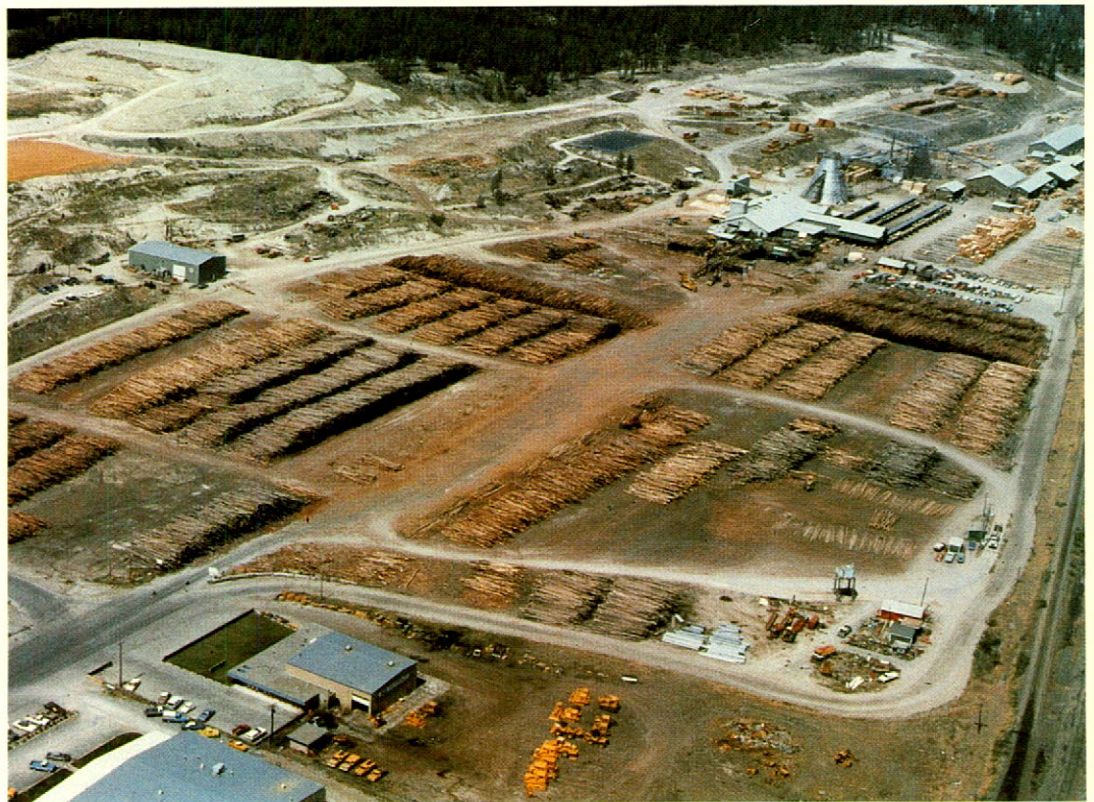
However, the 1979 accident prevention results, with the exception of the Pulp Division and Creston Veneer, were not up to a standard that the Company sets as satisfactory. An aggressive campaign has been started to correct this situation.

Good safety achievement was evidenced at the Creston Veneer Plant which completed the year accident free. The Pulp Division concluded 1979 with a 60.5 percent decrease in accident frequency and was awarded the Company's annual interdivisional safety award for recording the most improved safety performance. In addition, the mill achieved fourth-place overall in the safety standings of British Columbia pulp mills and received a number of departmental awards from the British Columbia Safety Council.

A four-member team from the Pulp Division won the zone championships of the East Kootenay Mine and Industrial Safety Association in June and participated in the Provincial Mine Rescue and First-Aid Championships.

The four collective agreements to which the Company is a party were negotiated without a work disruption and all issues of conflict between the trade unions and the Company were resolved satisfactorily.

Cranbrook Sawmill



A six and one-half day production loss in November occurred at the Pulp Division as a result of a strike over a disciplinary matter.

Employee turnover remains low in all Divisions and compares extremely well with other forest industry companies in British Columbia.

The Company witnessed a full utilization of its scholarship and bursary programs during the year and the response from the recipients indicates these programs are meeting their objectives.

In 1979, the Company continued its program of providing support and encouragement to the activities and organizations of the communities in the East Kootenay.

The new decade offers many challenges. The efforts of the Company will continue to be directed toward improving the effectiveness of all concerned in order that its employees and shareholders will be able to achieve mutual objectives in the eighties.

Top. Fort Macleod Plywood Plant. Bottom. Creston Sawmill.





Skookumchuck Pulp Division.



CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1979



	<u>1979</u>	<u>1978</u>
NET SALES		
Including exchange premium of \$12,049,000 (1978 — \$9,190,000)		
Pulp	\$ 61,595,000	\$45,852,000
Lumber and plywood	<u>48,805,000</u>	<u>45,913,000</u>
	<u>110,400,000</u>	<u>91,765,000</u>
OPERATING COSTS AND EXPENSES		
Cost of sales	71,954,000	68,241,000
Selling, general and administrative	3,547,000	3,060,000
Depreciation, depletion and amortization	<u>5,912,000</u>	<u>6,002,000</u>
	<u>81,413,000</u>	<u>77,303,000</u>
EARNINGS FROM OPERATIONS	28,987,000	14,462,000
Financial expenses (note 6)	<u>5,777,000</u>	<u>7,147,000</u>
Earnings before income taxes and extraordinary item	<u>23,210,000</u>	<u>7,315,000</u>
Income taxes		
Current	2,269,000	—
Deferred	<u>7,301,000</u>	<u>3,616,000</u>
	<u>9,570,000</u>	<u>3,616,000</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	13,640,000	3,699,000
Extraordinary item		
Reduction of income taxes by application of losses of prior years	<u>—</u>	<u>1,135,000</u>
NET EARNINGS	<u>\$ 13,640,000</u>	<u>\$ 4,834,000</u>
NET EARNINGS PER COMMON SHARE, after providing for dividends on preferred shares		
Before extraordinary item	\$9.12	\$1.72
Extraordinary item	<u>—</u>	<u>.85</u>
After extraordinary item	<u>\$9.12</u>	<u>\$2.57</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT) YEAR ENDED DECEMBER 31, 1979

	<u>1979</u>	<u>1978</u>
DEFICIT AT BEGINNING OF YEAR	\$ (4,691,000)	\$ (8,139,000)
Net Earnings	13,640,000	4,834,000
Dividends on preferred shares	(6,716,000)	(1,386,000)
	<u>6,924,000</u>	<u>3,448,000</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ 2,233,000</u>	<u>\$ (4,691,000)</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1979

	<u>1979</u>	<u>1978</u>
WORKING CAPITAL DERIVED FROM		
Operations		
Earnings before extraordinary item	\$13,640,000	\$ 3,699,000
Depreciation, depletion and amortization	5,912,000	6,002,000
Deferred income taxes	7,301,000	2,481,000
Income taxes reduced by losses of prior years	—	1,135,000
	<u>26,853,000</u>	<u>13,317,000</u>
Proceeds from disposal of fixed assets	<u>557,000</u>	<u>322,000</u>
	<u>27,410,000</u>	<u>13,639,000</u>
WORKING CAPITAL APPLIED TO		
Additions to property, plant and equipment	7,418,000	4,401,000
Reduction of long term debt	7,512,000	6,087,000
Dividends on preferred shares	6,716,000	1,386,000
Other	33,000	(74,000)
	<u>21,679,000</u>	<u>11,800,000</u>
INCREASE IN WORKING CAPITAL	5,731,000	1,839,000
WORKING CAPITAL AT BEGINNING OF YEAR	<u>9,370,000</u>	<u>7,531,000</u>
WORKING CAPITAL AT END OF YEAR	<u>\$15,101,000</u>	<u>\$ 9,370,000</u>

CONSOLIDATED DECEMBER 31, 1979
BALANCE
SHEET



ASSETS

	<u>1979</u>	<u>1978</u>
CURRENT ASSETS		
Cash and short term deposits	\$ 8,194,000	\$ 1,397,000
Accounts receivable (note 7)	11,622,000	7,358,000
Inventories (note 2)	18,716,000	17,045,000
Prepaid expenses	266,000	538,000
	<u>38,798,000</u>	<u>26,338,000</u>
 INVESTMENTS AND DEPOSITS	 <u>566,000</u>	 <u>533,000</u>
 PROPERTY, PLANT AND EQUIPMENT		
Buildings, machinery and equipment (note 3)	88,762,000	85,420,000
Less accumulated depreciation	<u>36,426,000</u>	<u>32,427,000</u>
	52,336,000	52,993,000
 Roads and bridges less amortization		
\$8,098,000 (1978 — \$6,967,000)	5,775,000	4,072,000
Land	436,000	436,000
Timber holdings	—	97,000
	<u>58,547,000</u>	<u>57,598,000</u>
	 <u><u>\$97,911,000</u></u>	 <u><u>\$84,469,000</u></u>

Approved by the Directors:

Takeshi Morioka, Director

Stuart A. Lang, Director

LIABILITIES

	<u>1979</u>	<u>1978</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$12,226,000	\$ 9,852,000
Income taxes payable	2,269,000	—
Preferred dividends payable	693,000	—
Principal due within one year on long term debt	<u>8,509,000</u>	<u>7,116,000</u>
	<u>23,697,000</u>	<u>16,968,000</u>
LONG TERM DEBT (note 4)	<u>31,276,000</u>	<u>38,788,000</u>
DEFERRED INCOME TAXES	<u>9,782,000</u>	<u>2,481,000</u>
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 5)	23,100,000	23,100,000
1,343,068 common shares	<u>7,568,000</u>	<u>7,568,000</u>
	30,668,000	30,668,000
CONTRIBUTED SURPLUS	255,000	255,000
RETAINED EARNINGS (DEFICIT)	<u>2,233,000</u>	<u>(4,691,000)</u>
	<u>33,156,000</u>	<u>26,232,000</u>
	<u>\$97,911,000</u>	<u>\$84,469,000</u>

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS**



YEAR ENDED DECEMBER 31, 1979

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of the company's only subsidiary company, which is 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.

A large portion of the company's sales are in U.S. dollars and the company reduces its exposure to exchange fluctuations by entering into forward exchange contracts. Income and expense items are translated at the rates prevailing when the transaction occurred or at the rates established by the forward exchange contracts.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. The cost and related accumulated depreciation of items disposed of are removed from the accounts and any gain or loss is included in earnings.

Depreciation is computed on a straight-line basis on original cost. Rates of depreciation by principal asset classification are as follows —

Buildings and site improvements	3% and 5%
Pulp mill machinery and equipment	5%
Lumber and plywood mill machinery and equipment	6%
Logging and other machinery and equipment	6% to 20%

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

Income Taxes

The company follows the tax allocation method whereby income taxes are fully provided on reported earnings at current tax rates.

Deferred income taxes arise from claiming depreciation, depletion and amortization for tax purposes in amounts differing from those recorded in the accounts.

Reclassification

Certain of the 1978 figures have been reclassified to conform with the 1979 presentation.

2. INVENTORIES	<u>1979</u>	<u>1978</u>
Logs	\$ 7,127,000	\$ 6,806,000
Chips	1,691,000	1,400,000
Lumber and plywood	5,337,000	3,770,000
Pulp	1,615,000	2,696,000
Materials and supplies	2,946,000	2,373,000
	<u>\$18,716,000</u>	<u>\$17,045,000</u>

3. BUILDINGS, MACHINERY AND EQUIPMENT

	1979			1978
	Cost	Accumulated Depreciation	Net	Net
Buildings and site improvements	\$15,890,000	\$ 4,907,000	\$10,983,000	\$11,431,000
Machinery and equipment	65,505,000	28,410,000	37,095,000	38,242,000
Mobile equipment	7,026,000	3,109,000	3,917,000	2,724,000
Construction in progress	341,000	—	341,000	596,000
	<u>\$88,762,000</u>	<u>\$36,426,000</u>	<u>\$52,336,000</u>	<u>\$52,993,000</u>

4. LONG TERM DEBT

	1979	1978
Honshu Paper Co., Ltd. Series One Bonds repayable 1980 to 1987*	\$ 6,450,000	\$ 6,450,000
Mitsubishi Corporation Series One Bonds repayable 1980 to 1987*	6,450,000	6,450,000
Royal Bank of Canada Mortgage loan, interest at Royal Bank U.S. base rate plus 1% repayable 1980 to 1985 (U.S. \$16,040,000)	18,736,000	20,969,000
The Bank of Tokyo Ltd. Notes payable, interest at Chase Manhattan Bank prime rate plus 1% repayable 1980 (U.S. \$1,000,000)	1,168,000	3,641,000
The Mitsubishi Bank Ltd. Notes payable, interest at Bank of America prime rate plus 1% repayable 1980 (U.S. \$1,000,000)	1,168,000	2,330,000
The Dai-Ichi Kangyo Bank Ltd. Notes payable, interest at Chase Manhattan Bank prime rate plus 1% repayable 1980 to 1985 (U.S. \$4,000,000)	4,673,000	5,888,000
TohCan Limited Capital loan, interest at Royal Bank U.S. base rate plus 1% repayable 1980 to 1985 (U.S. \$3,460,000)	4,042,000	4,531,000
	<u>42,687,000</u>	<u>50,259,000</u>
Less principal due within one year included in current liabilities	<u>8,509,000</u>	<u>7,116,000</u>
	<u>34,178,000</u>	<u>43,143,000</u>
Deduct unrealized loss, being the difference between the rates of exchange in effect at the year end and historic rates	<u>2,902,000</u>	<u>4,355,000</u>
	<u>\$31,276,000</u>	<u>\$38,788,000</u>

*The bonds bear interest at 7.56% or, if the original repayment has been deferred, at the Industrial Bank of Japan long term prime rate plus 1.5%.

The Series One Bonds and the mortgage loan are secured by fixed and floating charges on the company's assets.

Principal due within each of the next five years (translated at rates of exchange in effect at December 31, 1979) is as follows:

1980	\$8,509,000	1981	\$7,373,000	1982	\$7,373,000
1983	\$7,356,000	1984	\$7,356,000		

5. 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 3, 1980 dividends on preferred shares had been paid to December 31, 1979.

6. FINANCIAL EXPENSES

	<u>1979</u>	<u>1978</u>
Interest on long term debt	\$ 5,946,000	\$ 5,691,000
Other interest	48,000	226,000
Interest income	<u>(1,050,000)</u>	<u>(222,000)</u>
	4,944,000	5,695,000
Foreign exchange loss on reduction of long term debt	<u>833,000</u>	<u>1,452,000</u>
	<u>\$ 5,777,000</u>	<u>\$ 7,147,000</u>

7. RELATED PARTY TRANSACTIONS

Honshu Paper Co., Ltd. and Mitsubishi Corporation are parties related to the company. Between them, Honshu and Mitsubishi own 52% of the common shares and all of the preferred shares issued. They also hold the Series One Bonds and have guaranteed certain bank loans.

The company, Honshu and Mitsubishi are parties to a pulp sales agreement, which obliges Honshu and Mitsubishi to purchase, and the company to sell, for a period of twenty years from September 30th, 1967, pulp produced by the company. In consideration of the obligations of Honshu and Mitsubishi arising under the agreement, they are entitled to purchase the pulp at current market prices less varying discounts which for the year 1979 amounted to \$2,920,000. At December 31, 1979 the accounts receivable arising from these transactions amounted to \$7,144,000.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration of directors and senior officers (as defined by the British Columbia Companies Act) was \$487,000 (1978 \$481,000).

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, 1979 and the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cranbrook, Canada
March 11, 1980

Thorne Riddell & Co.
Chartered Accountants

FINANCIAL REVIEW



In thousands of dollars	1979	1978	1977
EARNINGS			
Sales	\$110,400	\$91,765	\$65,115
Cost of Sales and General Expenses	75,501	71,300	52,340
Depreciation, Depletion and Amortization	<u>5,912</u>	<u>6,003</u>	<u>6,038</u>
Earnings from Operations	28,987	14,462	6,737
Financial Expense	5,777	7,147	4,381
Taxes on Income	<u>9,570</u>	<u>2,481</u>	<u>139</u>
Net Earnings (Loss)	<u>13,640</u>	<u>4,834</u>	<u>2,217</u>
CHANGES IN WORKING CAPITAL			
Working Capital from Operations	\$ 19,552	\$10,836	\$ 8,929
Proceeds from Preferred Share Issue	—	—	—
Deferred Income Tax	7,301	2,481	—
Increase (Decrease) Long Term Debt	(7,512)	(6,087)	5,734
Additions to Property, Plant & Equipment	(7,418)	(4,401)	(13,491)
Dividends on Preferred Shares	(6,716)	(1,386)	—
Other	<u>524</u>	<u>396</u>	<u>353</u>
Increase (Decrease) in Working Capital	<u>5,731</u>	<u>1,839</u>	<u>1,525</u>
FINANCIAL POSITION			
Working Capital	\$ 15,101	\$ 9,370	\$ 7,531
Property, Plant and Equipment	58,547	57,598	59,521
Other Assets	<u>566</u>	<u>533</u>	<u>607</u>
Net Assets	74,214	67,501	67,659
Deferred Income Tax	9,782	2,481	—
Long Term Debt	<u>31,276</u>	<u>38,788</u>	<u>44,875</u>
Shareholders' Equity	<u>33,156</u>	<u>26,232</u>	<u>22,784</u>
PRODUCTION VOLUMES			
Pulp — ADT	159,732	157,602	131,371
Lumber — MFBM	175,967	181,194	167,947
Plywood — MSF 1/16's Equivalent	140,481	134,880	205,224

1976	1975	1974	1973	1972	1971	1970
\$60,795	\$44,596	\$54,752	\$51,360	\$42,222	\$36,230	\$23,818
50,537	37,988	43,135	38,083	34,964	31,122	24,537
<u>5,331</u>	<u>4,655</u>	<u>5,346</u>	<u>5,015</u>	<u>4,926</u>	<u>4,302</u>	<u>4,006</u>
4,927	1,953	6,271	8,262	2,332	806	(4,725)
3,325	3,880	4,744	4,801	4,042	4,551	3,618
—	—	120	—	—	—	—
<u>1,602</u>	<u>(1,927)</u>	<u>1,407</u>	<u>3,461</u>	<u>(1,710)</u>	<u>(3,745)</u>	<u>(8,343)</u>
\$ 6,933	\$ 2,728	\$ 6,753	\$ 8,476	\$ 3,616	\$ 623	\$ (4,302)
—	—	—	—	11,100	12,000	—
—	—	—	—	—	—	—
6,631	(956)	(3,013)	(5,913)	(8,373)	(8,844)	16,282
(10,539)	(3,277)	(3,843)	(3,037)	(3,487)	(2,828)	(5,077)
—	—	(1,386)	(1,386)	—	—	—
<u>366</u>	<u>291</u>	<u>149</u>	<u>227</u>	<u>128</u>	<u>455</u>	<u>(375)</u>
<u>3,391</u>	<u>(1,214)</u>	<u>(1,340)</u>	<u>(1,633)</u>	<u>2,984</u>	<u>1,406</u>	<u>6,528</u>
\$ 6,006	\$ 2,615	\$ 3,829	\$ 5,169	\$ 6,802	\$ 3,817	\$ 2,411
53,133	48,283	49,894	51,236	52,626	53,508	54,261
<u>569</u>	<u>577</u>	<u>635</u>	<u>945</u>	<u>1,760</u>	<u>2,846</u>	<u>4,088</u>
59,708	51,475	54,358	57,350	61,188	60,171	60,760
—	—	—	—	—	—	—
<u>39,141</u>	<u>32,510</u>	<u>33,466</u>	<u>36,479</u>	<u>42,392</u>	<u>50,765</u>	<u>59,609</u>
<u>20,567</u>	<u>18,965</u>	<u>20,892</u>	<u>20,871</u>	<u>18,796</u>	<u>9,406</u>	<u>1,151</u>
127,362	96,058	123,685	127,599	124,818	124,541	91,128
141,298	113,192	166,507	192,661	191,000	184,784	134,232
218,602	212,457	201,727	226,785	295,604	347,586	312,379

CORPORATE INFORMATION

(AS AT DECEMBER 31, 1979)

DIRECTORS

TORU AIZAWA, Vancouver,
British Columbia
*VICTOR C. BROWN, Cranbrook,
British Columbia
†ARTHUR C. DRAPER, Cranbrook,
British Columbia
TOMOAKI ENDO, Tokyo, Japan
†TAKAO ISHIKAWA, Tokyo, Japan
*STUART A. LANG, Cranbrook,
British Columbia
*TAKESHI MORIOKA, Cranbrook,
British Columbia
RIKINOBU NAKAZAKI, Tokyo, Japan
†THE HON. JOHN R. NICHOLSON,
P.C., O.B.E., Vancouver, British Columbia
†A.D. (PETER) STANLEY, Vancouver,
British Columbia
AKIRA SUHARA, Tokyo, Japan
ROBERT A. WHITE, Vancouver,
British Columbia
*Denotes Member of Executive Committee.
†Denotes Member of Audit Committee.

HONORARY DIRECTORS

ALFONSE A. FABRO, Kimberley,
British Columbia
ALBERT G. SWINARTON, Fort Macleod,
Alberta

HEAD OFFICE

800 Cranbrook Street, Cranbrook,
British Columbia V1C 4J7

EXECUTIVE OFFICE

2724 - 200 Granville Street, Vancouver,
British Columbia V6C 1S4

REGISTERED OFFICE

2500 - 595 Burrard Street, Vancouver,
British Columbia V7X 1L1

OFFICERS

TAKESHI MORIOKA, Chairman of the
Board and Chief Executive Officer
STUART A. LANG, President
CLEMENT GARSIDE, Senior Vice-President,
Operations
DAVID V. McDOUGALL, Vice-President,
Finance and Treasurer
JOHN G. MURRAY, Vice-President,
Woodlands
EDWARD A. TAYLOR, Controller
JOSEPH H. KONST, Secretary
HIDEKI SHINOHARA, Assistant Secretary
and Assistant to the Chairman of
the Board

DIVISION MANAGER

JAMES P. GORMLEY, Skookumchuck

PLANT MANAGERS

R. GORDON FISHER, Creston
JOHN M. PLOURDE, Fort Macleod
ARTHUR B. YONKMAN, Canal Flats,
Cranbrook

RECORDS OFFICE

2500 - 595 Burrard Street, Vancouver,
British Columbia V7X 1L1

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



