

CRESTBROOK FOREST INDUSTRIES LTD. / 1980 ANNUAL REPORT



ANNUAL GENERAL MEETING

Town & Country Motor Hotel,
Cranbrook, British Columbia,
11:00 a.m., June 5, 1981

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FRONT COVER






Harold Nixon, Quality Control Supervisor, Woodlands Division, records timber lengths measured in log decks.

BACK COVER

Brian Stevenson, Lab Technician, Pulp Division, monitors water quality of the Kootenay River.

AREA MAP OF OPERATIONS



-  LOGGING OPERATIONS
-  PULP MILL
-  SAW MILL
-  VENEER PLANT
-  PLYWOOD PLANT

BRITISH COLUMBIA

ALBERTA

U.S.A.

REPORT TO THE SHAREHOLDERS

APRIL 3, 1981



We are happy to report that in spite of an adverse market for the Company's wood products and rising costs for labour and supplies, the financial position of your Company continues to improve. Net equity per common share has increased to \$14.15 at December 31, 1980 (1979 - \$7.49).

Net earnings for 1980 amounted to \$11,671,000 which is a decline of 15 percent from the record earnings of 1979. Earnings per share amounted to \$7.66, compared to \$9.12 for the previous year.

The sales volume for the year was \$118,080,000 compared to \$110,400,000 in 1979. Pulp sales at \$76,296,000 accounted for 65 percent of sales (1979 - 56 percent) and wood products 35 percent of the total (1979 - 44 percent). This reflects the strong demand for pulp and the very poor lumber market.

Net earnings for 1980 were adversely affected by a 13 percent increase in the cost of sales, principally due to higher prices for fibre, energy and labour. A substantial decrease of outstanding debt in 1980 reduced financial expense to \$4,514,000 (1979 - \$5,777,000).

A dividend of \$1.00 per common share was declared in 1980. This is the first dividend paid on common shares since Crestbrook became an integrated forest products company in 1967.

Capital expenditures in 1980 totalled \$9,052,000 including an automatic computerized lumber sorting system at the Cranbrook Sawmill. Expenditures on road construction amounted to \$2,433,000.

Your Company continues to look for methods to use the available resources effectively and thereby to improve our profitability. To this end the position of Director, Engineering and Planning has been established and will report directly to the President. To emphasize the importance of the forestry resource, the position of Vice-President, Woodlands has been realigned and will also report directly to the President. Discussions with the Forest Service are continuing to determine how we might participate in

the further development of the East Kootenay region.

The 1981 capital program is now underway and includes a computerized lumber sorting system, similar to the installation at Cranbrook, for the Canal Flats Sawmill, and a rapid infiltration process to remove colour from the pulpmill effluent at Skookumchuck. This process, which was pioneered by Crestbrook, is a major technological advance in overcoming the aesthetic "colour problem" in pulpmill effluent.

The outlook for 1981 remains uncertain due to the present economic climate, particularly as it relates to residential construction in the United States. In addition, we anticipate increased operational costs which, without an upturn in the market, can only cause a reduction in earnings.

During the year, Mr. Toru Aizawa, a Director of the Company since 1979, returned to Japan to assume new responsibilities with the Mitsubishi Corporation. The Board appointed Mr. Suketaka Kikuchi, President of Mitsubishi Canada Limited, to complete the balance of Mr. Aizawa's term of office.

The theme of this year's annual report is 'quality control'. Crestbrook and its employees are proud of the lumber, plywood and pulp which it manufactures. The quality of these products and the service associated with them is recognized as being among the best in the world. The Company will continue its efforts to maintain this position in the forest industry.

We extend our thanks to all employees, contractors and suppliers who were instrumental in the success of your Company in 1980.

On behalf of the Board of Directors

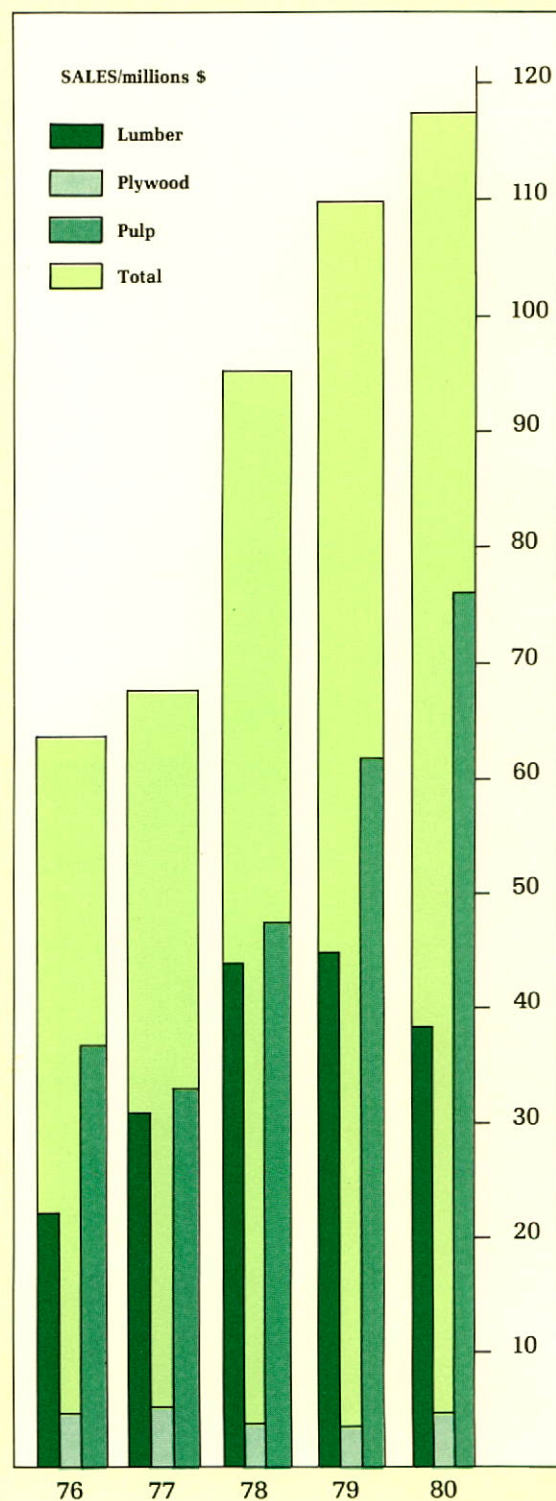
A handwritten signature in dark ink, appearing to read "Stuart A. Lang". The signature is fluid and cursive.

Stuart A. Lang, President

FINANCIAL HIGHLIGHTS 1980

	1980	1979
FOR THE YEAR		
Sales - Pulp	\$ 76,296,000	\$ 61,595,000
- Lumber	37,416,000	45,117,000
- Plywood	4,368,000	3,688,000
Total	118,080,000	110,400,000
Net earnings		
Amount	11,671,000	13,640,000
Per common share	\$7.66	\$9.12
Dividends		
Preferred shares	1,386,000	6,716,000
Common shares	1,343,000	—
Return on net assets*	18.1%	22.8%
Cash flow from operations		
Amount	22,124,000	26,853,000
Per common share	\$16.47	\$19.99
Capital expenditures	9,052,000	7,418,000
Wages, salaries, and employee benefits	30,552,000	27,824,000
Stumpage and royalty	2,347,000	6,595,000
Property taxes	1,642,000	1,645,000
AT YEAR END		
Working capital	19,409,000	15,101,000
Current ratio	1.7:1	1.6:1
Long term debt	24,339,000	31,276,000
Shareholders' equity		
Amount	42,098,000	33,156,000
Per common share	\$14.15	\$7.49
Number of employees	1,018	1,017

*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

Theme

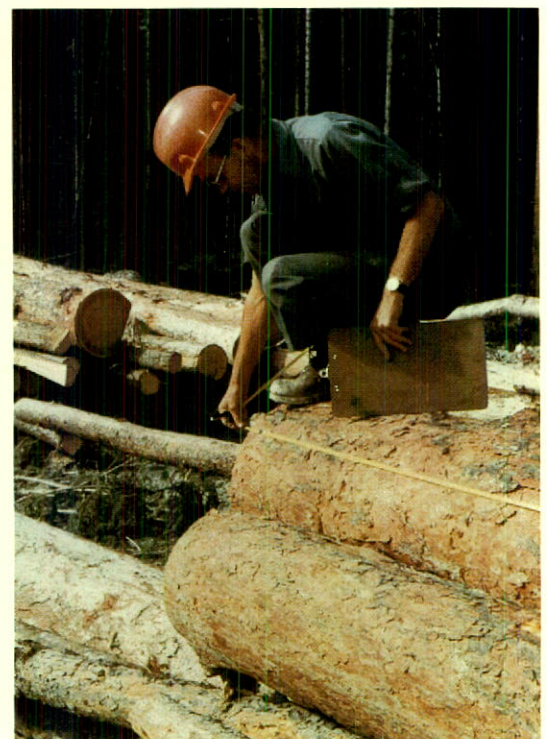
The pictorial theme of this year's annual report is 'quality control'.

Whether it be in the proper harvesting of the natural resource, the manufacture of strong straight lumber, well-bonded plywood or high-quality kraft pulp, quality is a vital element in all operations of Crestbrook.

Quality control enables the Company to achieve high utilization of the fibre resource and improved productivity in manufacturing processes. It helps

promote employee safety and contributes to the protection of the Company's investment in timber, plant and equipment while bringing greater personal satisfaction to employees at all levels and an enhanced reputation for the Company's products.

Clearly, the successful implementation of quality control assists the Company in maintaining its competitive position in the market and thereby contributes to the maintenance of employment in the Kootenays.



Industrial and Community Relations

Quality control is intrinsically linked to the quality and efficiency of the Company's most important resource, its employees. In 1980, significant numbers of employees from all divisions attended various upgrading programs to ensure that they and the Company remained qualified and efficient. The Company is proud of the interest in and contributions made to these programs by its employees.

The Company's operating divisions have long been rated among the top safety performers in the forest industry in British Columbia. The Company's overall safety record in 1980 can be attributed directly to the special efforts made last year at all levels of its operations — with a resulting 21.5 percent improvement over 1979.

Special tribute is due to the Creston Veneer Plant which continued to operate throughout 1980 without a lost-time accident, thereby extending its accident-free record to 12 years. Collectively, the Lumber and Plywood Division reduced their accident frequency rate by 47 percent. In the Pulp Division, the Company realized a 52 percent decrease in accident frequency and reduced its 1980 annual rate to a very low 3.30. This performance earned it, for the third

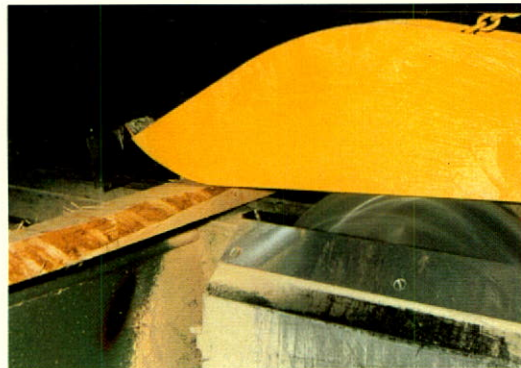
time since its startup in 1968, the Pulp and Paper Industrial Relations Bureau award as the safest pulpmill in British Columbia.

Relations between the Company and its certified trade unions remained at a very good level throughout the year with no major conflicts and satisfactory resolution of any minor issues. The constructive approach of management and labour to their mutual interests and the good channels of communication established between them is responsible for the Company's excellent employee relations. It is an indication of the Company's successful industrial relations policies that it enjoys the lowest labour turnover of any integrated forest products company in British Columbia.

Company scholarships, bursaries and established corporate donations to community activities in the Kootenays were increased in 1980 and the Company is pleased that all were fully utilized.

Woodlands Division

The achievement of a high standard of log quality to comply with the utilization standards of the Forest Service remains a major priority of the Woodlands Division. To this end log manufacturing specifications are continually reviewed

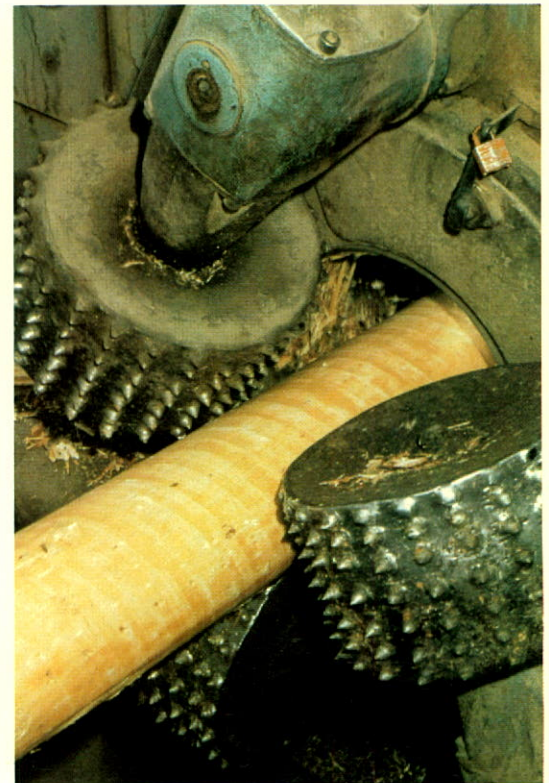


PAGE FOUR. Top. The introduction of auger-head (rotary cutter) feller-bunchers has improved log quality and increased utilization through the elimination of butt shatter.

Left. A landing buckler cuts timber into preferred lengths for maximum recovery.

Right. Quality Control Supervisor Harold Nixon measures log lengths.

PAGE FIVE. Above. A trim saw prepares to upgrade a piece of lumber by removing excessive wane and cutting it to proper length. **Right.** A debarking unit cleanly removes bark from a log before entry into the milling process.



and updated in cooperation with the Company's wood processing plants.

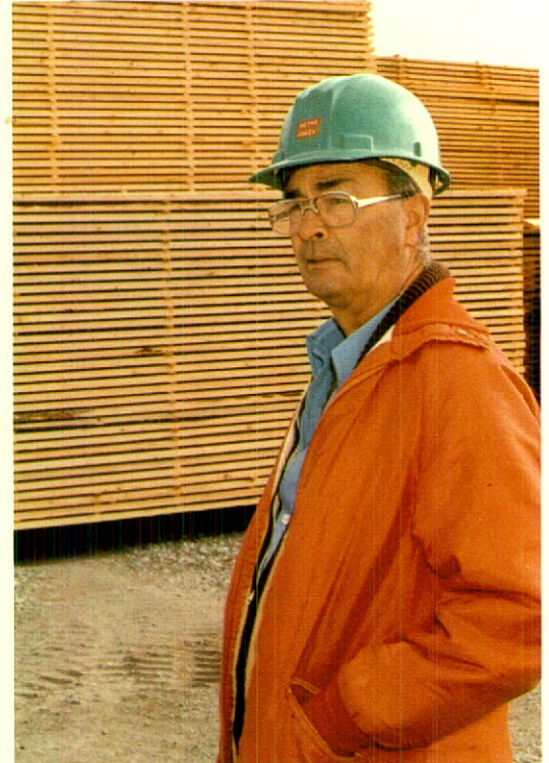
Three augerhead (rotary cutter) feller-bunchers introduced by the Woodlands Division to improve log quality operated in 1980 and produced approximately 60,000 cunits of logs free of butt shatter. (See photograph on page 4.)

The Company carried out site preparation on about 1,600 acres of forest lands in order to promote natural regeneration of timber. Unfortunately, planting on Company-controlled lands in 1980 was reduced from a budgeted 400,000 to 250,000 seedlings because of the difficulties encountered in obtaining suitable stock from nurseries.

The establishment of the new Timber Supply Areas (TSA) in the Kootenays, originally scheduled for completion in

1980, was not completed until March of this year due to delays in studies undertaken by the Forest Service to determine timber inventories. The changeover is now scheduled for completion in 1981. The establishment of the TSAs will provide the Company with a confirmation of its annual allowable cut and will be the basis upon which the Company will make application for Forest Licences under the new Forest Act. With the issuance of Forest Licences the Company will be in a position to develop long-term operating and expansion plans.

An application has been made to the Province to have about 38,000 acres of Company-owned forest lands incorporated into Taxation Tree Farms. The establishment of Taxation Tree Farms will permit the Company to



implement a comprehensive intensive forestry program which is presently being developed with the Forest Service.

The continuing trend of milder winters with lighter snowfall assisted the Woodlands Division in meeting budget commitments in all areas of log production and road construction in 1980.

Although the fire hazard was high in the early part of the operating season, fairly heavy and frequent rain from late July onward reduced the danger and kept losses to the lowest level in several years.

Mountain Pine Beetle attacks on Lodgepole Pine continued to spread at an alarming rate through the East Kootenay. The Woodlands Division, in conjunction with other members of the East Kootenay Insect and Disease Control Committee, developed a master salvage plan for all areas under attack in the region. The objectives of the plan are to harvest the infested timber before it seriously deteriorates and to control the spread of the beetle by processing the timber in sawmills where the broods can be destroyed in the milling process.

The Forest Service's white paper which outlined 'Alternatives for Crown Timber Pricing' was circulated to the industry in July. In response, the

Company's Woodlands Division submitted a brief recommending changes based on timber species, harvesting, terrain, weather and other operating and environmental considerations in the East Kootenay. The response recognized the Company's philosophy that environmental logging, production, quality and safety are compatible with, and vital to, the success of the Company.

Lumber and Plywood Division

Approximately 60 percent of the logs supplied to the Company's Canal Flats and Cranbrook Sawmills were Lodgepole Pine from beetle-attacked stands in the East Kootenay. In spite of the lower average diameters of Lodgepole Pine, production from these mills was higher in 1980 than 1979 mainly due to the sophisticated scanning and computer controls previously installed on all Chip-N-Saw units. Lumber production from all mills totalled 182,327 MFBM (thousand feet board measure), 6,360 MFBM higher than in 1979.

The Canal Flats Sawmill produced 469 MFBM on November 28, surpassing the Company's previous single-day record. In December this mill's production averaged 408 MFBM per day, also a new record.

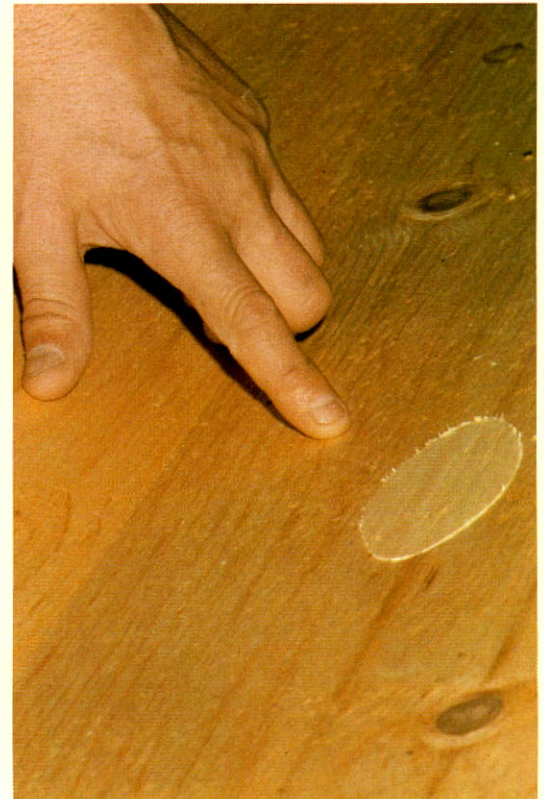
Lumber shipments for 1980 totalled



PAGE SIX. Top Right. Quality Control Superintendent Wayne Agnew, Lumber and Plywood Division. **Counter-clockwise,** from top left, calipers, gauge and tape measure help monitor lumber size and quality.

PAGE SEVEN. Above. A meter measures the moisture content of veneer following machine drying at the Fort Macleod Plywood Plant.

Right. A sheet of veneer is upgraded through the use of a patching machine which removes defects and faults and replaces them with a clear patch.



180,442 MFBM and were approximately 2,000 MFBM below production due to reduced market demand. A continuation of high interest rates that prevailed in late 1979 saw a serious curtailment of housing starts in the United States and Canada with a resulting drop in lumber prices. As a consequence, lumber sales revenue for the year fell to \$37,416,000 from \$45,117,000 in 1979.

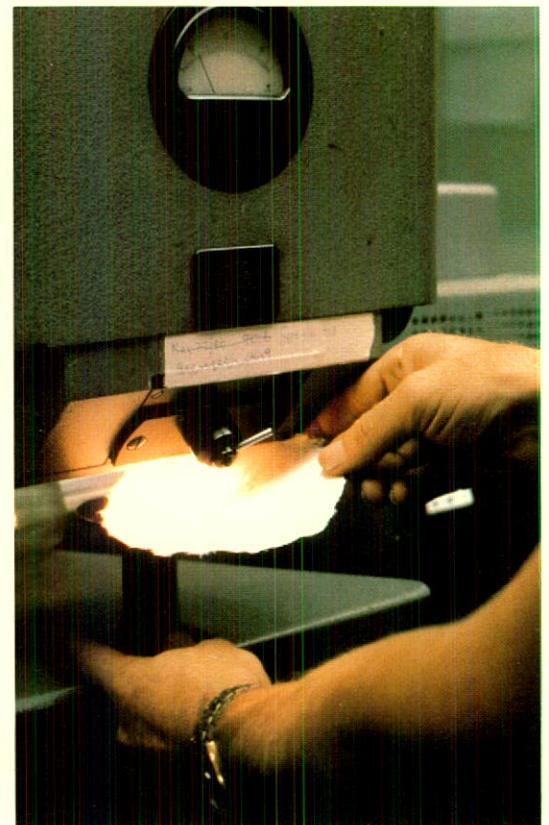
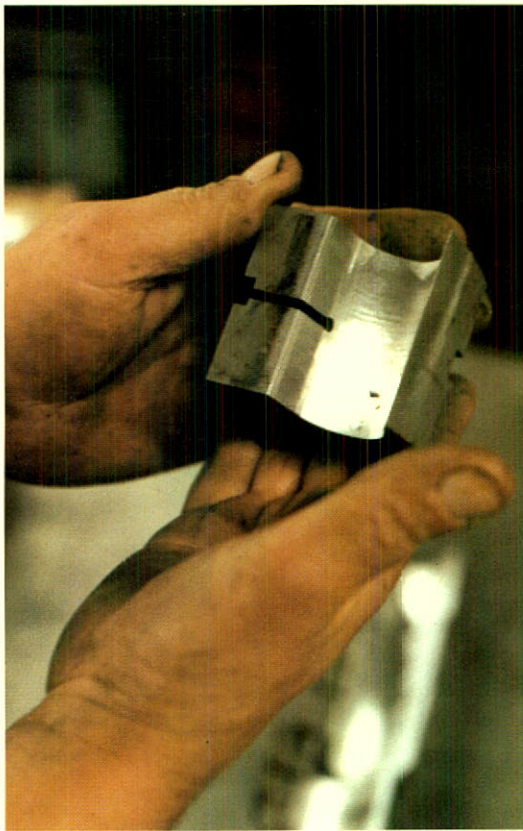
A computer-controlled automatic lumber sorting system was put into operation in July at the Cranbrook Sawmill. In addition to reducing operating costs and improving lumber yield, this installation has eliminated hazardous jobs that previously had caused about 40 percent of the mill's annual lost-time accidents. A similar,

but larger, sorting system will be installed at the Canal Flats Sawmill in 1981.

Plywood production was 140,086 MSF (thousand square feet 1/16-inch basis), almost identical with the previous year's performance of 140,481 MSF. Shipments exceeded production by about 10,000 MSF and plywood sales revenue increased to \$4,368,000 from \$3,688,000 in 1979 due to a stable demand for sheathing products in Canada throughout the year.

Pulp Division

Pulp sales in 1980 increased sharply to \$76,296,000 from \$61,595,000 in 1979 with total production surpassing budget commitments and rising to 164,514 ADT



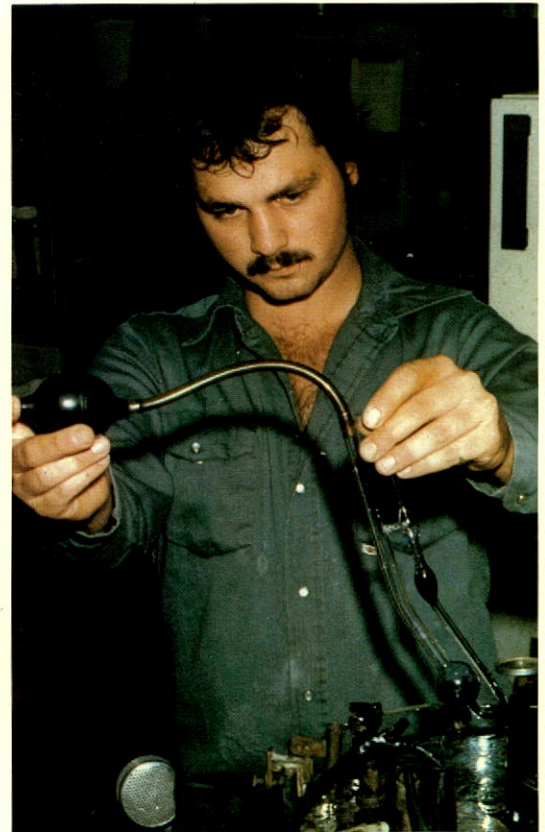
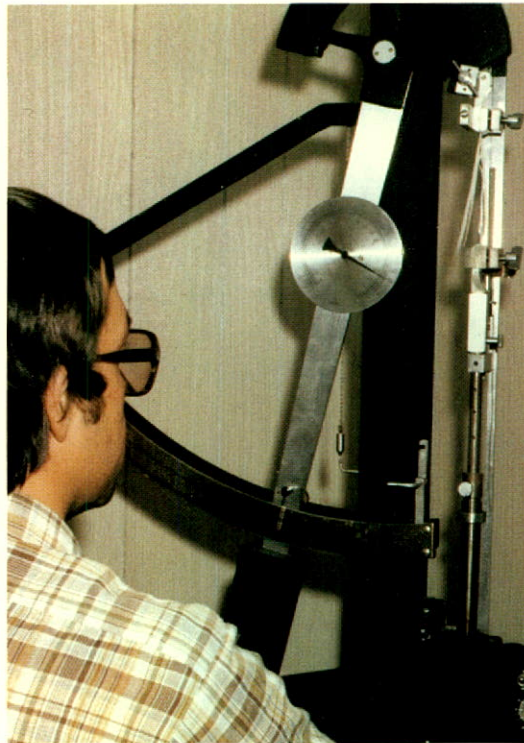
(air-dry tons) from 159,732 ADT. Off-quality pulp was 7.7 percent of bleached production, up slightly from the 1979 figure of 6.6 percent.

The mill achieved a new single-day production record of 610 ADT in 1980. New weekly and monthly average production records of 575 and 522 respectively were also established. Average daily production of 478 ADT exceeded the mill's 1980 budgeted rate of 467 ADT.

The Company, in conjunction with the B.C. Research Council, was able to establish the mechanism of colour removal in the rapid infiltration system

which the Company had been studying and testing for several years. As a result, the Company undertook construction in November of the first phase of the installation which, when completed in 1981, will remove about 90 percent of the existing colour from the pulpmill's effluent.

Throughout the year several other substantial projects were undertaken at the pulpmill including the installation of a pulp bale wrapper-dispenser, additional aerators to the aeration basin, and new chip screens and knotters.



PAGE EIGHT. Top Left. A sharp Chip-N-Saw knife helps produce high-quality chips for use in the pulping process. **Top Right.** Part of the quality analysis at the pulpmill is to check chips for bark content, other contaminants, and size. **Bottom Left.** Pulp Grader Doug Fraser wets pulp as part of his inspection to determine quality. **Bottom Right.** A meter monitors the brightness of pulp from the bleaching sequence to completion of the finished product.

PAGE NINE. Above. Lab Technician Jim Armstrong uses a tensile tester to measure one of the pulp's strength properties. **Top Right.** Shift Technician Greg Russell performs a viscosity test on finished pulp. **Bottom Right.** Production Manager Gerry Fenner and Technical Superintendent Brian Clifford examine a sheet of pulp produced at Skookumchuck.



**CONSOLIDATED
STATEMENT
OF EARNINGS**

YEAR ENDED DECEMBER 31, 1980



NET SALES

Pulp
Lumber and plywood

	<u>1980</u>	<u>1979</u>
	\$ 76,296,000	\$ 61,595,000
	41,784,000	48,805,000
	<u>118,080,000</u>	<u>110,400,000</u>

OPERATING COSTS AND EXPENSES

Cost of sales
Selling, general and administrative
Depreciation and amortization

	81,337,000	71,954,000
	4,315,000	3,547,000
	6,279,000	5,912,000
	<u>91,931,000</u>	<u>81,413,000</u>

EARNINGS FROM OPERATIONS

	26,149,000	28,987,000
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Financial expenses (note 6)

	<u>4,514,000</u>	<u>5,777,000</u>
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EARNINGS BEFORE INCOME TAXES

	21,635,000	23,210,000
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Income Taxes

	<u>9,964,000</u>	<u>9,570,000</u>
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NET EARNINGS

	<u>\$ 11,671,000</u>	<u>\$ 13,640,000</u>
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NET EARNINGS PER COMMON SHARE

	<u>\$ 7.66</u>	<u>\$ 9.12</u>
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**CONSOLIDATED
STATEMENT
OF RETAINED
EARNINGS**

YEAR ENDED DECEMBER 31, 1980

RETAINED EARNINGS (DEFICIT) AT BEGINNING
OF YEAR

	<u>1980</u>	<u>1979</u>
	\$ 2,233,000	\$ (4,691,000)

Net earnings

	<u>11,671,000</u>	<u>13,640,000</u>
	<u>13,904,000</u>	<u>8,949,000</u>

Dividends

6% Preferred shares
Common shares - \$1.00 per share

	1,386,000	6,716,000
	<u>1,343,000</u>	<u>—</u>
	<u>2,729,000</u>	<u>6,716,000</u>

RETAINED EARNINGS AT END OF YEAR

	<u>\$ 11,175,000</u>	<u>\$ 2,233,000</u>
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**CONSOLIDATED
STATEMENT
OF CHANGES
IN FINANCIAL
POSITION**

YEAR ENDED DECEMBER 31, 1980

	<u>1980</u>	<u>1979</u>
WORKING CAPITAL DERIVED FROM		
Operations		
Net earnings	\$ 11,671,000	\$ 13,640,000
Depreciation and amortization	6,279,000	5,912,000
Deferred income taxes	<u>4,174,000</u>	<u>7,301,000</u>
	22,124,000	26,853,000
Proceeds from disposal of fixed assets	703,000	557,000
Other	<u>199,000</u>	<u>(33,000)</u>
	<u>23,026,000</u>	<u>27,377,000</u>
WORKING CAPITAL APPLIED TO		
Additions to property, plant and equipment	9,052,000	7,418,000
Reduction of long term debt	6,937,000	7,512,000
Dividends	<u>2,729,000</u>	<u>6,716,000</u>
	<u>18,718,000</u>	<u>21,646,000</u>
INCREASE IN WORKING CAPITAL	4,308,000	5,731,000
WORKING CAPITAL AT BEGINNING OF YEAR	<u>15,101,000</u>	<u>9,370,000</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 19,409,000</u>	<u>\$ 15,101,000</u>

**CONSOLIDATED
BALANCE
SHEET**

DECEMBER 31, 1980



ASSETS

	<u>1980</u>	<u>1979</u>
CURRENT ASSETS		
Cash and deposits	\$ 296,000	\$ 5,694,000
Short term investments	18,017,000	2,500,000
Accounts receivable (note 7)	11,414,000	11,622,000
Inventories (note 2)	16,291,000	18,716,000
Prepaid expenses	310,000	266,000
	<u>46,328,000</u>	<u>38,798,000</u>
INVESTMENTS AND DEPOSITS	<u>367,000</u>	<u>566,000</u>
PROPERTY, PLANT AND EQUIPMENT		
Buildings, machinery and equipment (note 3)	93,034,000	88,762,000
Less accumulated depreciation	<u>39,861,000</u>	<u>36,426,000</u>
	53,173,000	52,336,000
Roads and bridges less amortization of \$ 9,298,000 (1979 - \$ 8,098,000)	7,010,000	5,775,000
Land	<u>434,000</u>	<u>436,000</u>
	<u>60,617,000</u>	<u>58,547,000</u>
	<u>\$107,312,000</u>	<u>\$ 97,911,000</u>

Signed on behalf of the Board of Directors:

“Takeshi Morioka”
Director

“Stuart A. Lang”
Director

LIABILITIES

	<u>1980</u>	<u>1979</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 11,001,000	\$ 12,226,000
Income taxes payable	6,327,000	2,269,000
Dividends payable	2,036,000	693,000
Principal due within one year on long term debt	<u>7,555,000</u>	<u>8,509,000</u>
	<u>26,919,000</u>	<u>23,697,000</u>
LONG TERM DEBT (note 4)	<u>24,339,000</u>	<u>31,276,000</u>
DEFERRED INCOME TAXES	<u>13,956,000</u>	<u>9,782,000</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)

1,343,068 Common shares

	23,100,000	23,100,000
	<u>7,568,000</u>	<u>7,568,000</u>
	30,668,000	30,668,000
CONTRIBUTED SURPLUS	255,000	255,000
RETAINED EARNINGS	<u>11,175,000</u>	<u>2,233,000</u>
	<u>42,098,000</u>	<u>33,156,000</u>
	<u>\$107,312,000</u>	<u>\$ 97,911,000</u>

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS**



YEAR ENDED DECEMBER 31, 1980

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.

Short Term Investments

Short term investments are stated at cost which approximates market value.

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 25%

Roads and bridges are amortized 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 and amortization for tax purposes in amounts differing from those recorded in the accounts.

2. INVENTORIES

	1980	1979
Logs	\$ 5,940,000	\$ 7,127,000
Chips	1,084,000	1,691,000
Lumber and plywood	4,737,000	5,337,000
Pulp	1,306,000	1,615,000
Materials and supplies	3,224,000	2,946,000
	<u>\$ 16,291,000</u>	<u>\$ 18,716,000</u>

3. BUILDINGS, MACHINERY AND EQUIPMENT

	1980			1979
	Cost	Accumulated Depreciation	Net	Net
Buildings and site improvements	\$ 16,313,000	\$ 5,466,000	\$ 10,847,000	\$ 10,983,000
Machinery and equipment	67,148,000	31,119,000	36,029,000	37,095,000
Mobile equipment	9,286,000	3,276,000	6,010,000	3,917,000
Construction in progress	287,000	—	287,000	341,000
	<u>\$ 93,034,000</u>	<u>\$ 39,861,000</u>	<u>\$ 53,173,000</u>	<u>\$ 52,336,000</u>

4. LONG TERM DEBT

	1980	1979
Honshu Paper Co., Ltd.		
7.56 Series One Bonds repayable 1981 to 1987*	\$ 5,700,000	\$ 6,450,000
Mitsubishi Corporation		
Series One Bonds repayable 1981 to 1987*	5,700,000	6,450,000
The Royal Bank of Canada		
15 1/4 Mortgage loan, interest at London Inter Bank Offered Rate plus 1 1/4 % repayable 1981 to 1984 (U.S. \$13,400,000)	16,009,000	18,736,000
The Dai-Ichi Kangyo Bank Ltd.		
16 1/2 Notes payable, interest at Chase Manhattan Bank prime rate plus 1% repayable 1981 to 1985 (U.S. \$3,000,000)	3,584,000	4,673,000
Tovan Investments Ltd.		
15 1/4 Capital loan, interest at London Inter Bank Offered Rate plus 1 1/4 % repayable 1981 to 1984 (U.S. \$2,900,000)	3,465,000	4,042,000
Other	—	2,336,000
	<u>34,458,000</u>	<u>42,687,000</u>
Less principal due within one year included in current liabilities	<u>7,555,000</u>	<u>8,509,000</u>
	26,903,000	34,178,000
Deduct unrealized loss, being the difference between the rates of exchange in effect at the year end and historic rates	<u>2,564,000</u>	<u>2,902,000</u>
	<u>\$ 24,339,000</u>	<u>\$ 31,276,000</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, 1980) is as follows:

1981	\$ 7,555,000	1982	\$ 7,555,000	1983	\$ 7,655,000
1984	\$ 7,775,000	1985	\$ 1,418,000		

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.

6. FINANCIAL EXPENSES

	<u>1980</u>	<u>1979</u>
Interest on long term debt	\$ 5,282,000	\$ 5,946,000
Other interest	48,000	48,000
Interest income	<u>(1,682,000)</u>	<u>(1,050,000)</u>
	3,648,000	4,944,000
Foreign exchange loss on reduction of long term debt	<u>866,000</u>	<u>833,000</u>
	<u>\$ 4,514,000</u>	<u>\$ 5,777,000</u>

7. RELATED PARTY TRANSACTIONS

Honshu Paper Co., Ltd. and Mitsubishi Corporation are parties related to the company. Between them, Honshu and Mitsubishi own 54% of the common shares and all of the preferred shares outstanding. 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 30, 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 1980 amounted to \$4,250,000. At December 31, 1980 the accounts receivable arising from these transactions amounted to \$5,959,000.

8. SEGMENTED INFORMATION

The geographic distribution of net sales was as follows:

	<u>1980</u>	<u>1979</u>
Canada	\$ 26,553,000	\$ 29,398,000
United States	61,134,000	57,722,000
Japan	18,028,000	12,683,000
Europe	9,797,000	10,214,000
Other	<u>2,568,000</u>	<u>383,000</u>
	<u>\$118,080,000</u>	<u>\$110,400,000</u>

9. EMPLOYEE PENSION PLANS

The company maintains a pension plan for all salaried employees. Based on an actuarial valuation to December 31, 1979 no unfunded liability exists. The company also contributes to pension plans for all hourly employees under the terms of its collective agreements.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration of directors and senior officers was \$506,000 (1979 -\$487,000).

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, 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 company 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.

Cranbrook, Canada
March 6, 1981

“Thorne Riddell”
Chartered Accountants

FINANCIAL REVIEW



In thousands of dollars	1980	1979	1978
EARNINGS			
Net Sales	\$ 118,080	\$ 110,400	\$ 91,765
Cost of Sales and General Expenses	85,652	75,501	71,300
Depreciation, Depletion and Amortization	6,279	5,912	6,003
Earnings from Operations	26,149	28,987	14,462
Financial Expenses	4,514	5,777	7,147
Income Taxes	9,964	9,570	2,481
Net Earnings (Loss)	<u>\$ 11,671</u>	<u>\$ 13,640</u>	<u>\$ 4,834</u>
CHANGES IN WORKING CAPITAL			
Working Capital from Operations	\$ 22,124	\$ 26,853	\$ 13,317
Proceeds from Preferred Share Issue	—	—	—
Increase (Decrease) Long Term Debt	(6,937)	(7,512)	(6,087)
Additions to Property, Plant & Equipment	(9,052)	(7,418)	(4,401)
Dividends on Preferred Shares	(1,386)	(6,716)	(1,386)
Dividend on Common Shares	(1,343)	—	—
Other	902	524	396
Increase (Decrease) in Working Capital	<u>\$ 4,308</u>	<u>\$ 5,731</u>	<u>\$ 1,839</u>
FINANCIAL POSITION			
Working Capital	\$ 19,409	\$ 15,101	\$ 9,370
Property, Plant and Equipment	60,617	58,547	57,598
Other Assets	367	566	533
Net Assets	80,393	74,214	67,501
Deferred Income Tax	13,956	9,782	2,481
Long Term Debt	24,339	31,276	38,788
Shareholders' Equity	<u>\$ 42,098</u>	<u>\$ 33,156</u>	<u>\$ 26,232</u>
PRODUCTION VOLUMES			
Pulp — ADT	164,514	159,732	157,602
Lumber — MFBM	182,327	175,967	181,194
Plywood — MSF 1/16's Equivalent	140,086	140,481	134,880

1977	1976	1975	1974	1973	1972	1971
\$ 65,115	\$ 60,795	\$ 44,596	\$ 54,752	\$ 51,360	\$ 42,222	\$ 36,230
52,340	50,537	37,988	43,135	38,083	34,964	31,122
6,038	5,331	4,655	5,346	5,015	4,926	4,302
6,737	4,927	1,953	6,271	8,262	2,332	806
4,381	3,325	3,880	4,744	4,801	4,042	4,551
139	—	—	120	—	—	—
<u>\$ 2,217</u>	<u>\$ 1,602</u>	<u>\$ (1,927)</u>	<u>\$ 1,407</u>	<u>\$ 3,461</u>	<u>\$ (1,710)</u>	<u>\$ (3,745)</u>

\$ 8,929	\$ 6,933	\$ 2,728	\$ 6,753	\$ 8,476	\$ 3,616	\$ 623
—	—	—	—	—	11,100	12,000
5,734	6,631	(956)	(3,013)	(5,913)	(8,373)	(8,844)
(13,491)	(10,539)	(3,277)	(3,843)	(3,037)	(3,487)	(2,828)
—	—	—	(1,386)	(1,386)	—	—
—	—	—	—	—	—	—
353	366	291	149	227	128	455
<u>\$ 1,525</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>

\$ 7,531	\$ 6,006	\$ 2,615	\$ 3,829	\$ 5,169	\$ 6,802	\$ 3,817
59,521	53,133	48,283	49,894	51,236	52,626	53,508
607	569	577	635	945	1,760	2,846
67,659	59,708	51,475	54,358	57,350	61,188	60,171
—	—	—	—	—	—	—
44,875	39,141	32,510	33,466	36,479	42,392	50,765
<u>\$ 22,784</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>

131,371	127,362	96,058	123,685	127,599	124,818	124,541
167,947	141,298	113,192	166,507	192,661	191,000	184,784
205,224	218,602	212,457	201,727	226,785	295,604	347,586

CORPORATE INFORMATION

DIRECTORS

- *VICTOR C. BROWN, Cranbrook,
British Columbia
- †ARTHUR C. DRAPER, Cranbrook,
British Columbia
- TOMOAKI ENDO, Tokyo, Japan
- †TAKAO ISHIKAWA, Tokyo, Japan
- SUKETAKA KIKUCHI, Vancouver,
British Columbia
- *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
Telephone: 426-6241
Telex: 041-45114

VANCOUVER OFFICE

2724 - 200 Granville Street, Vancouver,
British Columbia V6C 1S4
Telephone: 685-3221
Telex: 04-507518

OFFICERS

- TAKESHI MORIOKA, Chairman of the
Board and Chief Executive Officer
- STUART A. LANG, President and Chief
Operating Officer
- CLEMENT GARSIDE, Senior Vice-President,
Operations
- DAVID V. McDOUGALL, Vice-President,
Finance and Treasurer
- JOHN G. MURRAY, Vice-President,
Woodlands Division
- JAMES P. GORMLEY, Vice-President,
Pulp Division
- EDWARD A. TAYLOR, Controller
- S. RODERICK PEARCE, Director,
Industrial and Community Relations
- JOSEPH H. KONST, Secretary
- HIDEKI SHINOHARA, Assistant Secretary
and Assistant to the Chairman of
the Board

RECORDS AND REGISTERED 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
Chartered Accountants

