

C

CHESTER ROCK FOREST INDUSTRIES LTD. 1951 ANNUAL REPORT



HOWARD BOSS LIBRARY
OF MANAGEMENT
MAR 22 1957
MCGILL UNIVERSITY

CRESTBROOK FOREST INDUSTRIES LTD. 1981 ANNUAL REPORT



ANNUAL GENERAL MEETING

Town & Country Inn,
Cranbrook, British Columbia,
11:00 a.m., May 25, 1982

CONTENTS

Annual General Meeting Information	Inside Front Flyleaf
Contents and Area Map of Operations	1
Report to the Shareholders	2
Financial Highlights and Sales Graph	3
Review of Operations	4
Rapid Infiltration System	8
Consolidated Statement of Earnings	10
Consolidated Statement of Retained Earnings	10
Consolidated Statement of Changes in Financial Position	11
Auditors' Report	11
Consolidated Balance Sheet	12
Notes to Consolidated Financial Statements	14
Financial Review	16
Construction of Rapid Infiltration System	Inside Back Flyleaf
Corporate Information	Inside Back Cover

FRONT COVER AND FLYLEAF
 An aerial view of the Skookumchuck pulpmill of Crestbrook Forest Industries Ltd. highlights the seven basins of the rapid infiltration system.

AREA MAP OF OPERATIONS



**REPORT
TO THE
SHAREHOLDERS**
MARCH 25, 1982



The financial performance of the Company in 1981 confirmed the forecast of a decline in earnings made in the 1980 annual report. Sales were \$94,051,000 in 1981, compared to \$118,080,000 during 1980. Net earnings were \$2,344,000, down significantly from \$11,671,000 achieved the preceding year.

Cost increases have outpaced the growth of selling prices. From data in Company reports, it can be seen that to put one cunit of wood in marketable form cost \$184 in 1981, compared to \$159 in 1980 — an increase of 16 per cent. During the same period, the selling price of a cunit processed into either lumber or pulp averaged \$229 per cunit in 1981, compared to \$230 in 1980.

This trend has developed in spite of improvements to productivity, production and cost control. For example, a program of inventory reduction was implemented during the year which maintained raw materials and finished goods at low, but workable levels.

A dividend of \$1 per common share was declared in 1981. Preferred share dividends were paid and long-term debt was reduced to \$17,604,000. Shareholders' equity declined slightly to \$41,713,000 in 1981, down from \$42,098,000 in 1980.

Time lost in woodlands, sawmill, veneer and pulp operations due to labour disputes contributed substantially to the Company's reduced sales and earnings in 1981.

With that exception, all divisions operated at close to their rated capacity and several production records were established during the year. Improvements in productivity at our sawmills have enabled these plants to continue operations despite extremely low markets. Clearly they are among the most efficient within the industry.

Changes in the Board of Directors during the year saw the retirement of Mr. Takeshi Morioka, Chairman of the Board for four years, and Mr. Rikinobu Nakazaki, a Director since 1972 and also Chairman from 1972 to 1974. Mr. Shoichi Nishiyama, formerly with Mitsubishi Corporation, Tokyo, Japan, was appointed Chairman of the Board and Mr. Rinzo Tanaka, also of Mitsubishi, was appointed a Director.

At the executive level, Mr. Clement Garside, Senior Vice-President, Operations, reached retirement age after 10 years service with the Company and Mr. Michael J. Rouse, an experienced industry

executive, joined the Company as Vice-President, Wood Products.

The capital spending program for 1981 was curtailed due to the generally poor economic climate. Only those projects of the highest priority were completed during the year, including the computerized lumber sorting system at the Canal Flats Sawmill and the rapid infiltration system at the Skookumchuck Pulp Division. The pulpmill effluent colour removal system has been operational since November. Both shareholders and employees can be very proud of this innovative technological advance which is the theme of this year's annual report.

Safety performance achieved during the year by all divisions, without exception, enabled the Company to maintain its safety leadership within the forest industry.

The Company experienced a substantial decline in earnings reported for 1981. We feel confident, however, that Crestbrook performed well in the difficult economic climate that existed throughout the past year.

The economy in which the Company operated during 1981 was one of general concern. The conditions of the Western world, rates of growth, inflation and interest rates are all matters which have a significant bearing on business. The world and its national economies did not perform as forecasted. Continuous pressures on governments are forcing people to analyze their expectations, hopes and lifestyles.

There are some who predict demand for forest products will remain at depressed levels for several years. We, however, feel that the industry provides a sound, basic need to society. There will always be demand for wood products.

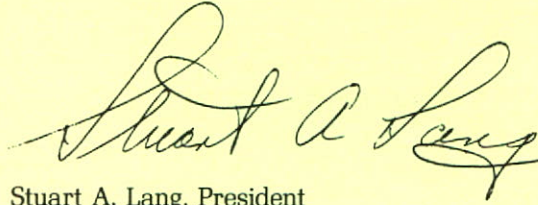
We produce all of our products from trees grown in the southeastern corner of British Columbia and utilize labour, materials and supplies from this region's communities. The Company's plants are efficient, however, its markets are throughout the world where competition is keen. We must remain cost competitive, not only in our own industry, but against substitute products if we are to be successful. That is our intent.

The Company continues to explore opportunities to expand and grow. Products manufactured by Crestbrook are of the quality that will ensure long-term growth in the marketplace, although the short-term outlook foresees continuation of

the difficult and challenging conditions the Company experienced during 1981.

We extend our thanks to all those who have helped contribute to the success of the Company during the past year.

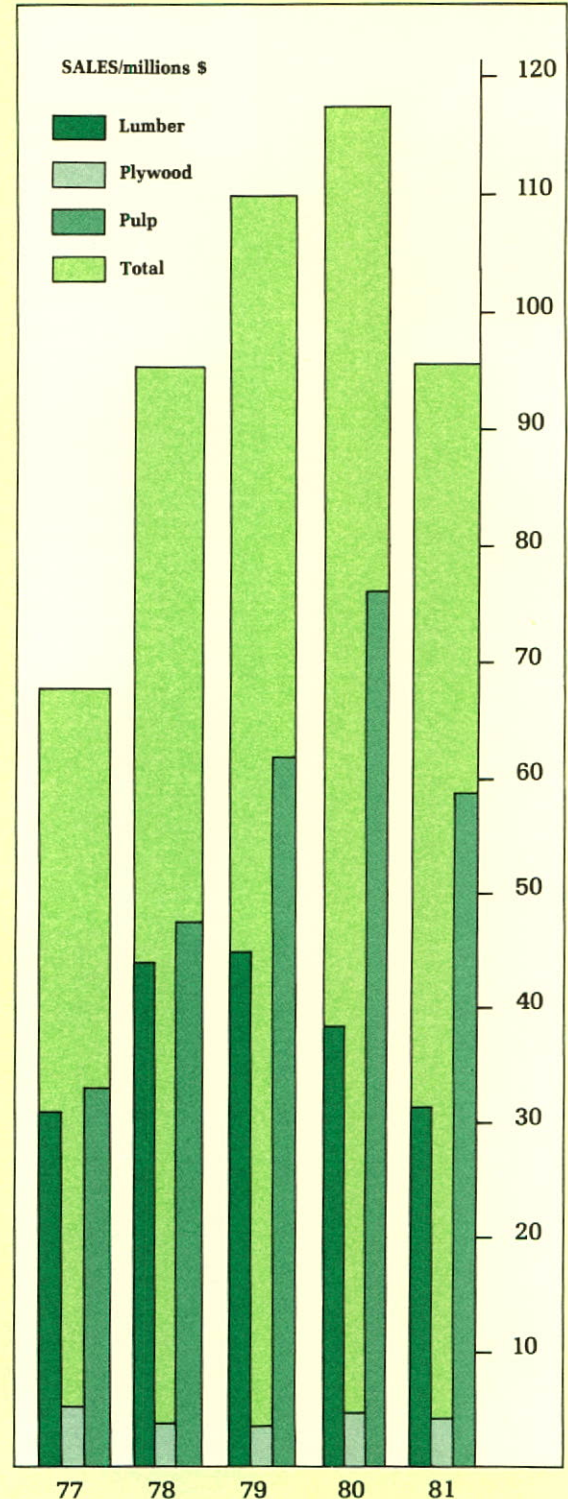
On behalf of the Board of Directors



Stuart A. Lang, President

FINANCIAL HIGHLIGHTS 1981

	1981	1980
FOR THE YEAR		
Sales - Pulp	\$ 58,561,000	\$ 76,296,000
- Lumber	31,189,000	37,416,000
- Plywood	4,301,000	4,368,000
Total	94,051,000	118,080,000
Net earnings		
Amount	2,344,000	11,671,000
Per common share	\$.71	\$7.66
Dividends		
Preferred shares	1,386,000	1,386,000
Common shares	1,343,000	1,343,000
Return on net assets*	6.3%	18.1%
Cash flow from operations		
Amount	10,791,000	22,124,000
Per common share	\$8.03	\$16.47
Capital expenditures	9,251,000	9,052,000
Wages, salaries, and employee benefits	27,739,000	30,552,000
Stumpage and royalty	1,251,000	2,347,000
Property taxes	2,165,000	1,642,000
AT YEAR END		
Working capital	11,763,000	19,409,000
Current ratio	1.7:1	1.7:1
Long term debt	17,604,000	24,339,000
Shareholders' equity		
Amount	41,713,000	42,098,000
Per common share	\$13.86	\$14.15
Number of employees	970	1,018



*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.

Theme

Canada's first full-scale external effluent colour treatment system became operational at the Skookumchuck, British Columbia bleached kraft pulpmill of Crestbrook Forest Industries Ltd. in November 1981.

This innovative pollution abatement technique, termed 'rapid infiltration', removes 90 per cent of effluent colour and is the theme of this year's annual report. The system is shown in illustrations on this and the following pages. A construction sequence appears on the inside back flyleaf.

Industrial and Community Relations

Industry-wide strikes with the International Woodworkers of America and the Pulp, Paper and Woodworkers of Canada resulted in a six-week shutdown of Company woodlands, sawmill and veneer operations, and a seven-week closure of the pulpmill. These labour disruptions, combined with depressed lumber and plywood markets, adversely affected the Company's financial performance in 1981.

Members of the Lumber and Sawmill Workers Union in the Creston operating area elected to change their certification to the International Woodworkers of America in September. The transition was completed without difficulty.

Accident prevention results in 1981 were the best ever achieved by the Company. All product groups improved their safety records during the year, resulting in a 33 per cent reduction in lost-

time accidents. Overall, accident frequency within Crestbrook has decreased 54 per cent over the past two years.

During 1981, the Creston Veneer Plant completed 13 years without experiencing a lost-time accident and the Fort Macleod Plywood Plant won the Company's annual 'most improved divisional safety performance' award.

For the second consecutive year and the fourth time since the pulpmill's startup in 1968, the Pulp Division was presented the Pulp and Paper Industrial Relations Bureau trophy as the safest pulpmill in British Columbia. The mill completed 1981 with a very low accident frequency rate of 1.91, compared to 3.30 for the previous year.

Company employees participated fully throughout the year in educational and development programs aimed at upgrading their skills and knowledge. These activities ensure that the Company remains competitive with new technology as well as preparing its employees for advancement.

Employees at all levels of the Company continue to take active roles within the communities where Crestbrook maintains operations to ensure these areas are a better place in which to live and grow. The Company is proud of its employees and encourages them in these very worthwhile endeavours.

Woodlands Division

Woodlands Division production dropped to 276,000 cunits for 1981, compared to 350,000 cunits harvested during 1980.

Heavy precipitation during July and



August contributed to one of the East Kootenay's highest recorded annual rainfalls. This resulted in a low fire hazard and consequently, no fires were recorded on Company operations during 1981.

The trend to mild winters continued to promote the spread of the Mountain Pine Beetle throughout the region. Salvage of the infested timber has been complicated by a major outbreak of the Spruce Bark Beetle, first noticed in the Creston area in May. The Woodlands Division, in conjunction with the East Kootenay Insect and Disease Control Committee, is developing a master salvage and control plan, the objective of which is to provide some measure of control through harvesting of attacked pine and spruce stands.

The annual allowable cut for each of the four Timber Supply Areas in which the Company operates were announced during the year. Upon confirmation in 1982 of its timber quotas, the Company will be in a position to develop long-term operating and expansion plans through application

for Forest Licences under the Forest Act.

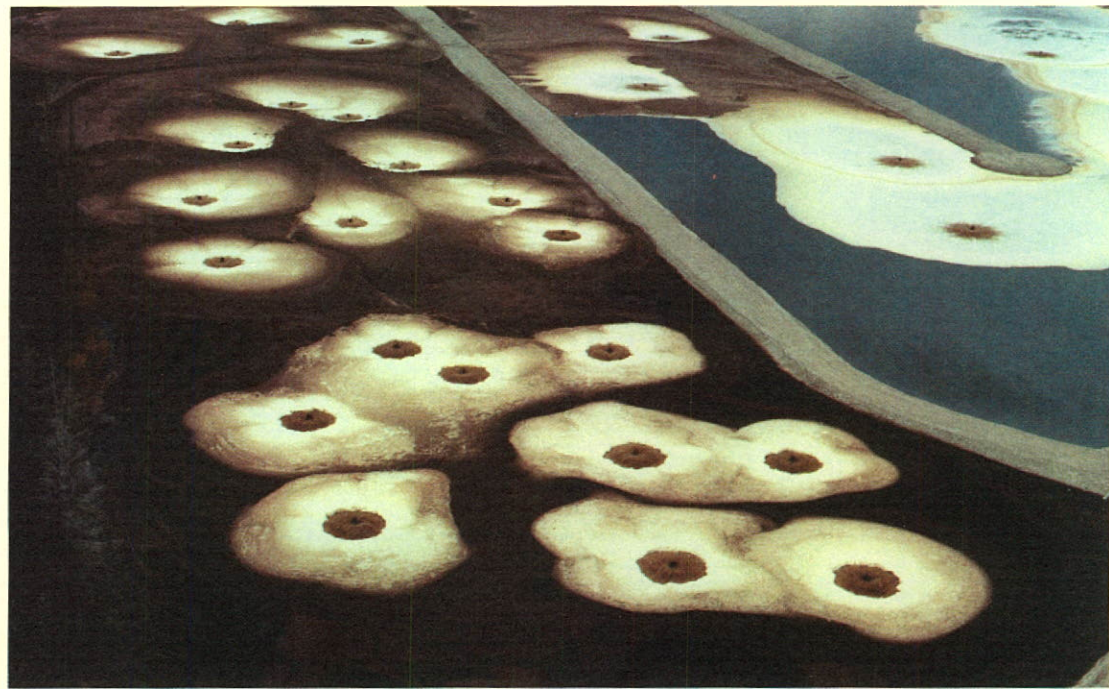
In 1981, Tree Farm No. 54 near Creston was increased to 23,487 acres from 19,440 acres and a new Tree Farm, No. 72, involving 12,668 acres was formed at Canal Flats. These Tree Farms are a major step toward the Company's goal of practicing intensive forestry while obtaining a secure fibre base.

The Company planted 880,000 seedlings during 1981 on Crestbrook-controlled lands. In addition, 1,550 acres were scarified to promote regeneration of the forest resource.

The Woodlands Division is preparing a response to the Ministry of Forests' 'Discussion Paper on Incentives for Improved Utilization' released in December. The intent of the Paper is to develop government policies which will encourage the increased utilization of the province's forest resource. The finalized policy could have a profound effect on the Company's plans to expand its fibre base.

Wood Products Division

Lumber production from Company sawmills



PAGE FOUR. Backgrounded by the Kootenay River and snowcapped Rocky Mountains, an aerial view shows part of the pulp mill effluent treatment system at Skookumchuck. Clockwise, from right, are the settling ponds, aeration pond and polishing basin. From the polishing basin, effluent is pumped to one of seven rapid infiltration basins.

PAGE FIVE. Above and Right are two views of the aeration pond. Effluent remains in the pond for 6.5 days where 35 floating mechanical aerators reduce the oxygen demand on the receiving environment.



in 1981 totalled 155,639 MFBM (thousand feet board measure), 26,688 MFBM less than the 1980 total of 182,327 MFBM.

Single-day lumber production records were established in November at the Canal Flats and Cranbrook Sawmills, respectively 478 MFBM and 402 MFBM. Also in November, average daily production of 411 MFBM at Canal Flats set a new monthly record.

Lumber shipments in 1981 totalled 158,160 MFBM, 22,282 MFBM less than 1980 shipments of 180,442 MFBM. During the year, markets for the Company's lumber products continued the downward trend begun in late 1979, reflecting reduced housing starts in Canada and the United States caused by prevailing high interest rates. Lumber sales revenue in 1981 dropped to \$31,189,000 from \$37,416,000 in the previous year.

A computer-controlled lumber sorting system was put into operation at the Canal Flats Sawmill in September. The system is larger, but similar to a facility installed at the Cranbrook Sawmill in 1980. In addition to reducing operating costs and improving lumber yield, these installations have eliminated hazardous operations that previously had contributed to a large percentage of annual lost-time accidents.

The Company temporarily closed the

Creston Sawmill in November to minimize the financial impact of depressed market conditions on this small, inefficient mill. Harvesting operations in the area were maintained at full production to provide sufficient peeler logs for the Creston Veneer Plant which continued to operate and supply veneer to the Fort Macleod Plywood Plant.

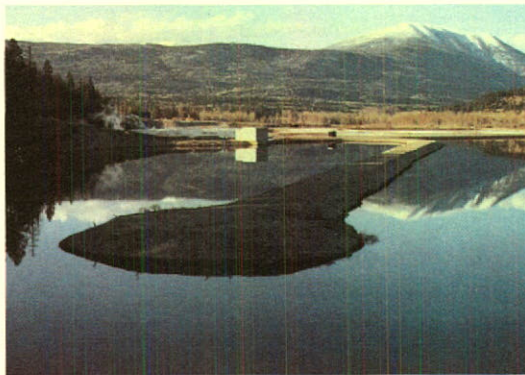
Plywood production during 1981 decreased to 125,587 MSF (thousand square feet 1/16-inch basis) from the 1980 total of 140,086 MSF, while shipments also dropped to 118,102 MSF from 150,043 MSF of the previous year. Plywood sales revenue of \$4,301,000 was almost identical to the 1980 figure of \$4,368,000.

The Plywood Plant achieved monthly and annual average daily production records during 1981, respectively 656 MSF in December and 622 MSF for the year.

Pulp Division

Pulp production in 1981 fell significantly to 127,110 ADT (air-dry tons) from 164,514 ADT in 1980 with shipments reduced to 126,051 ADT from 166,332 ADT. Pulp sales revenue for the year dropped sharply to \$58,561,000 from the previous year's figure of \$76,296,000.

Off-quality pulp was a record low 6.5 per cent of bleached production, down from the 1980 figure of 7.7 per cent.



PAGE SIX. Above. "Polishing" the effluent in a basin for 2.5 days removes the balance of settleable solids. Right. Shift Technician Wayne McDonald officially opened the valve on October 31, 1981 to allow effluent to flow from the aeration pond to the polishing basin.

PAGE SEVEN. Operation of the rapid infiltration system removes 90 per cent of the effluent colour which was previously discharged into the glacial-fed Kootenay River. At this level, colour is virtually undetectable to the naked eye and the system thereby effectively alleviates the river's aesthetic colour condition.



The Pulp Division experienced considerable mechanical and labour problems throughout the year, resulting in a total loss of 87 production days. Maintenance problems with the digester, turbo-generator vibration damage, a lightning strike to the main electrical control centre and a 49-day labour dispute all contributed to lower than budget production tonnage at Skookumchuck.

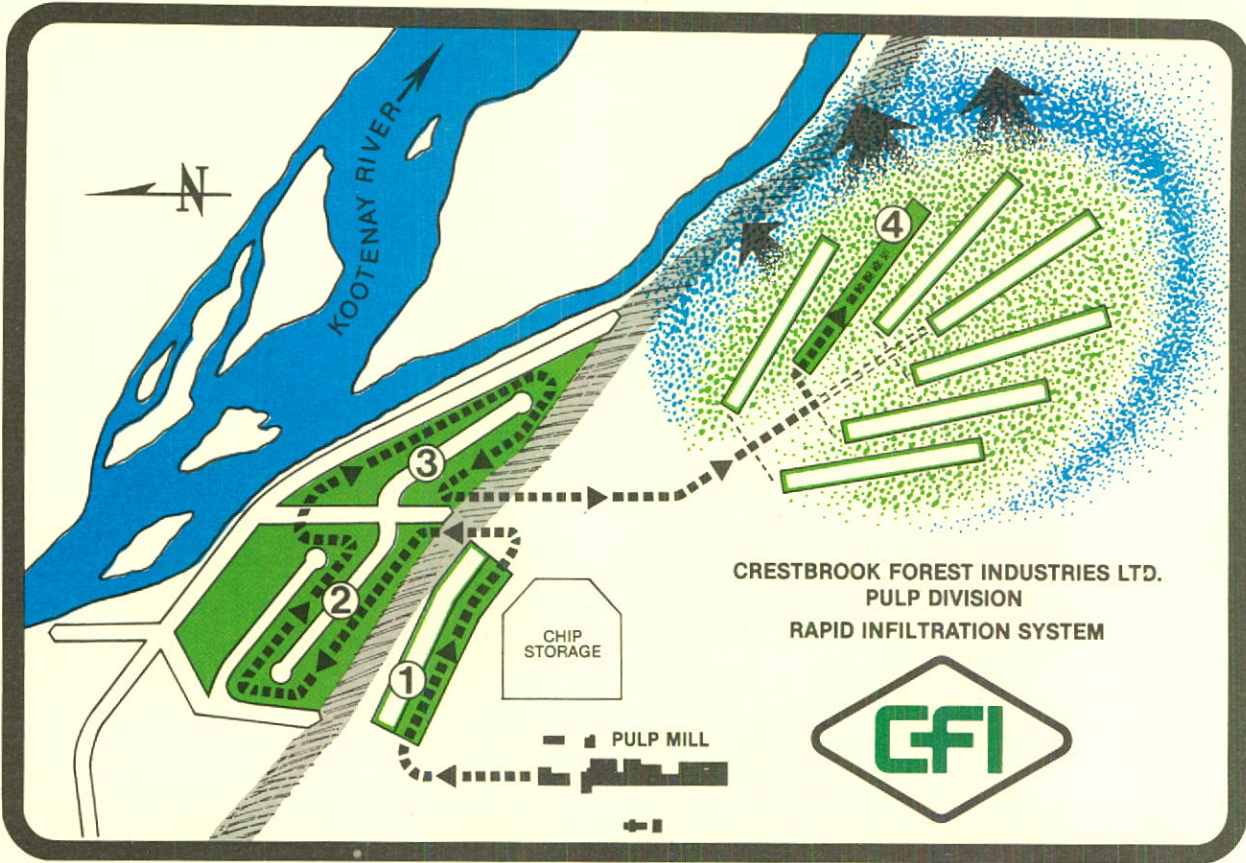
Only necessary capital projects at the

pulpmill were undertaken in 1981. Construction of the rapid infiltration system, begun in November 1980, was successfully completed during the year. Designed to remove colour from pulpmill effluent, the system is performing to specifications. The Company has received wide public approval for its action in the research, development and construction of this significant technological advance in the field of environmental protection.

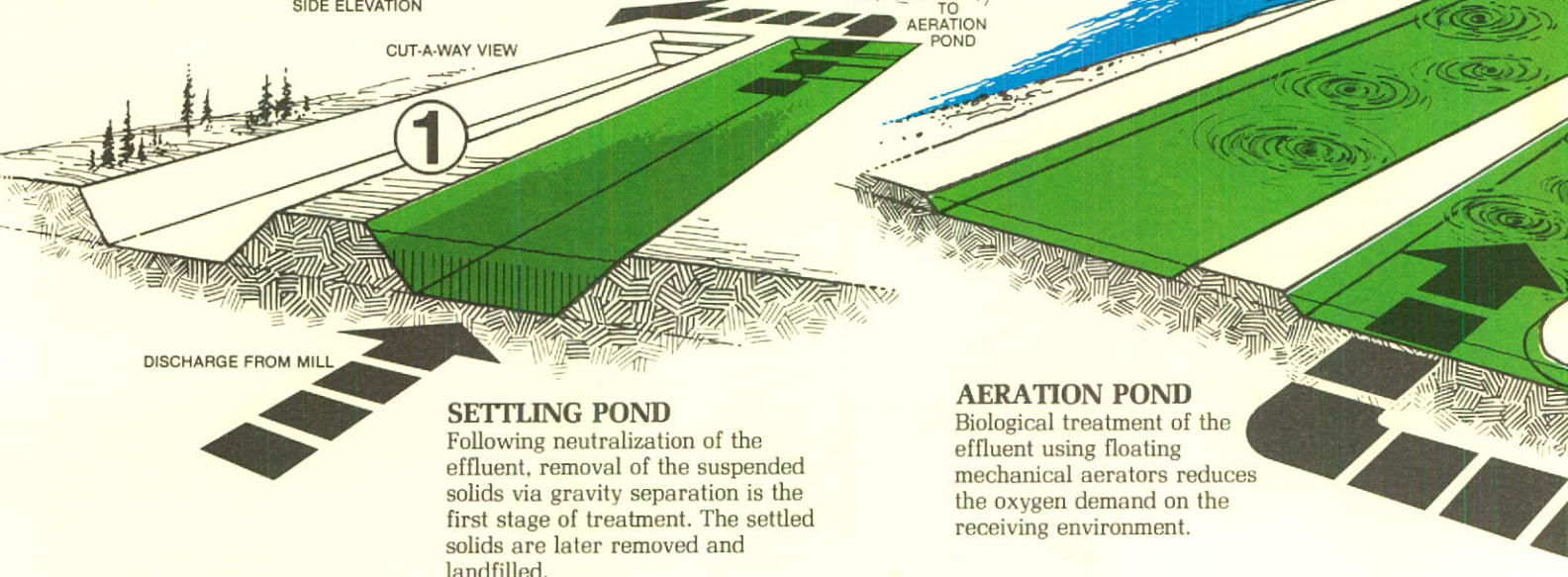
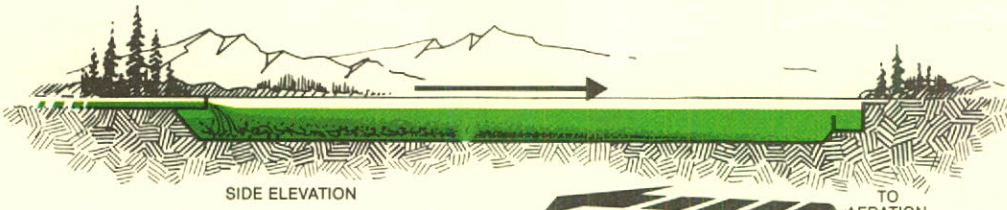
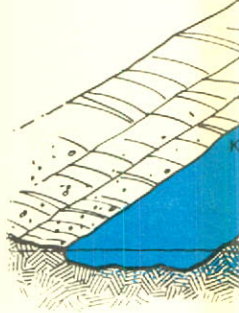


RAPID INFILTRATION SYSTEM

Canada's first full-scale external effluent colour treatment system became operational at the Skookumchuck, British Columbia bleached kraft pulpmill of Crestbrook Forest Industries Ltd. in November 1981.



RAPID
Colour
of efflu
infiltrat
daily ro
basis.



SETTLING POND
Following neutralization of the effluent, removal of the suspended solids via gravity separation is the first stage of treatment. The settled solids are later removed and landfilled.

AERATION POND
Biological treatment of the effluent using floating mechanical aerators reduces the oxygen demand on the receiving environment.

Operation of the 'rapid infiltration' system removes 90 per cent of the effluent colour which was previously discharged into the glacial-fed Kootenay River. At this level, colour is virtually undetectable to the naked eye and the system thereby effectively alleviates the river's aesthetic colour condition.

Rapid infiltration is an innovative pollution abatement technique which relies on ground application of effluent. The procedure requires flooding of a fixed area, in this case a series of infiltration basins, and percolation of the effluent through the unsaturated soil zone to groundwater. Through a combination of both sub-surface chemical action and characteristic soil structure, decolourization of the effluent results.

INFILTRATION BASINS

Removal involves the distribution of effluent to one of seven infiltration basins on a rotational basis.

KOOTENAY RIVER

FROM POLISHING BASIN
4

WATER FLOW

POLISHING BASIN

'Polishing' the effluent removes the balance of settleable solids as well as those which are biologically generated.

3

PUMP HOUSE

FROM SETTLING POND

TO RAPID INFILTRATION BASINS

FLOATING MECHANICAL AERATOR

LAURIE '81

EFFLUENT TREATMENT AT SKOOKUMCHUCK

Effluent from a bleached kraft pulpmill normally contains about 2,500 parts-per-million of colour, the majority of which comes from the bleach plant. Conventional treatment of this effluent prior to discharge involves three separate stages — neutralization, settleable solids removal and bio-treatment.

The following treatment description pertains to the operation at Skookumchuck:

Neutralization buffers the effluent pH from mildly acidic to near neutral through use of a calcium carbonate solution. Solids removal is accomplished in one of two 12-hour retention time settling ponds. The settled material, consisting mainly of calcium carbonate and pulp fibre, is later removed and landfilled. Bio-treatment of the effluent through use of 35 25-horsepower floating mechanical aerators in a 6.5-day aeration pond reduces the oxygen demand on the receiving environment.

The improved treatment system at Skookumchuck includes two additional stages — polishing and colour removal. Polishing the effluent in a 2.5-day basin is primarily designed to remove solids biologically generated in the aeration pond, although all settleable solids are removed. In the final colour removal stage of rapid infiltration, effluent is distributed to one of seven basins for a 24-hour period, after which time the basin 'rests' for six days and is thereby regenerated for its next cycle.

Extended dormant periods scheduled annually during spring runoff will allow the rapid infiltration beds to completely dry out, thus ensuring maximum hydraulic and colour removal longevity.

HOW RAPID INFILTRATION WORKS

Colour removal by the rapid infiltration mechanism was studied extensively by the B.C. Research Council in 1980. Briefly, the explanation of the phenomenon is as follows:

As effluent percolates through the soil, the dissolved organic solids (colour) are precipitated by the soluble ions (calcium, magnesium, iron) which are characteristic of the soil in the Kootenay River valley. These larger size insoluble molecules are then filtered by the soil. During the rest period, decomposition of some of the organic components left in the soil generate carbon dioxide which locally acidifies soil particles, thereby releasing more soluble ions for the next dosing cycle.

HISTORY OF RAPID INFILTRATION

Several research studies and laboratory and pilot scale trials were undertaken over a period of four years prior to construction of a full-scale rapid infiltration system at Skookumchuck.

August 1975 - August 1976

A joint study by Crestbrook and the Pollution Control Branch, now Waste Management Branch, was undertaken to review options for effluent colour removal. Rapid infiltration, although unconventional, was selected from the available processes and a permit to operate a pilot scale trial was issued by the Branch.

July 1977 — December 1979

Operation of a pilot scale basin with extensive monitoring of colour removal capacity and hydrology variables was conducted in conjunction with completion of the preliminary full-scale design.

March 1980 — January 1981

A joint study by Crestbrook and Weyerhaeuser Canada Ltd. was undertaken and completed with the B.C. Research Council to determine the mechanism of colour removal.

November 1980 — November 1981

The construction and startup phases of a full-scale rapid infiltration system were initiated and completed.

**CONSOLIDATED
STATEMENT
OF EARNINGS**

YEAR ENDED DECEMBER 31, 1981



	<u>1981</u>	<u>1980</u>
REVENUE		
Net Sales		
Pulp	\$ 58,561,000	\$ 76,296,000
Lumber and plywood	<u>35,490,000</u>	<u>41,784,000</u>
	94,051,000	118,080,000
Business Interruption Insurance	<u>1,700,000</u>	<u>—</u>
	<u>95,751,000</u>	<u>118,080,000</u>
OPERATING COSTS AND EXPENSES		
Cost of sales	75,664,000	81,337,000
Selling, general and administrative	4,630,000	4,315,000
Depreciation and amortization	<u>6,984,000</u>	<u>6,279,000</u>
	<u>87,278,000</u>	<u>91,931,000</u>
EARNINGS FROM OPERATIONS	8,473,000	26,149,000
Financial expenses (note 7)	<u>4,083,000</u>	<u>4,514,000</u>
EARNINGS BEFORE INCOME TAXES	4,390,000	21,635,000
Income Taxes	<u>2,046,000</u>	<u>9,964,000</u>
NET EARNINGS	<u>\$ 2,344,000</u>	<u>\$ 11,671,000</u>
NET EARNINGS PER COMMON SHARE	<u>\$.71</u>	<u>\$ 7.66</u>

**CONSOLIDATED
STATEMENT
OF RETAINED
EARNINGS**

YEAR ENDED DECEMBER 31, 1981

	<u>1981</u>	<u>1980</u>
RETAINED EARNINGS AT BEGINNING OF YEAR	\$ 11,175,000	\$ 2,233,000
Net earnings	<u>2,344,000</u>	<u>11,671,000</u>
	<u>13,519,000</u>	<u>13,904,000</u>
Dividends		
6% Preferred shares	1,386,000	1,386,000
Common shares	<u>1,343,000</u>	<u>1,343,000</u>
	<u>2,729,000</u>	<u>2,729,000</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 10,790,000</u>	<u>\$ 11,175,000</u>

**CONSOLIDATED
STATEMENT
OF CHANGES
IN FINANCIAL
POSITION**

YEAR ENDED DECEMBER 31, 1981

	<u>1981</u>	<u>1980</u>
WORKING CAPITAL DERIVED FROM		
Operations		
Net earnings	\$ 2,344,000	\$ 11,671,000
Depreciation and amortization	6,984,000	6,279,000
Deferred income taxes	<u>1,463,000</u>	<u>4,174,000</u>
	10,791,000	22,124,000
Disposal of fixed assets	<u>348,000</u>	<u>703,000</u>
	<u>11,139,000</u>	<u>22,827,000</u>
WORKING CAPITAL APPLIED TO		
Additions to property, plant and equipment	9,251,000	9,052,000
Reduction of long term debt	6,735,000	6,937,000
Dividends	2,729,000	2,729,000
Other	<u>70,000</u>	<u>(199,000)</u>
	<u>18,785,000</u>	<u>18,519,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(7,646,000)	4,308,000
WORKING CAPITAL AT BEGINNING OF YEAR	<u>19,409,000</u>	<u>15,101,000</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 11,763,000</u>	<u>\$ 19,409,000</u>

**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, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cranbrook, Canada
March 8, 1982

“Thorne Riddell”
Chartered Accountants

**CONSOLIDATED
BALANCE
SHEET**

DECEMBER 31, 1981



ASSETS

CURRENT ASSETS

	<u>1981</u>	<u>1980</u>
Cash and deposits	\$ —	\$ 296,000
Short term investments	495,000	18,017,000
Accounts receivable (notes 2 & 8)	11,269,000	11,414,000
Inventories (note 3)	17,251,000	16,291,000
Prepaid expenses	<u>372,000</u>	<u>310,000</u>
	<u>29,387,000</u>	<u>46,328,000</u>

INVESTMENTS AND DEPOSITS

<u>437,000</u>	<u>367,000</u>
----------------	----------------

PROPERTY, PLANT AND EQUIPMENT

Buildings, machinery and equipment (note 4)	97,499,000	93,034,000
Less accumulated depreciation	<u>44,233,000</u>	<u>39,861,000</u>
	53,266,000	53,173,000

Roads and bridges less amortization of
\$10,425,000 (1980 - \$ 9,298,000)

	8,556,000	7,010,000
Land	<u>714,000</u>	<u>434,000</u>
	<u>62,536,000</u>	<u>60,617,000</u>

<u>\$ 92,360,000</u>	<u>\$107,312,000</u>
----------------------	----------------------

Signed on behalf of the Board of Directors:

“Shoichi Nishiyama”
Director

“Stuart A. Lang”
Director

LIABILITIES

	<u>1981</u>	<u>1980</u>
CURRENT LIABILITIES		
Bank indebtedness	\$ 373,000	\$ —
Accounts payable and accrued liabilities	8,382,000	11,001,000
Income taxes payable	—	6,327,000
Dividends payable	1,365,000	2,036,000
Principal due within one year on long term debt	<u>7,504,000</u>	<u>7,555,000</u>
	<u>17,624,000</u>	<u>26,919,000</u>
LONG TERM DEBT (note 5)	<u>17,604,000</u>	<u>24,339,000</u>
DEFERRED INCOME TAXES	<u>15,419,000</u>	<u>13,956,000</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 6)

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>10,790,000</u>	<u>11,175,000</u>
	<u>41,713,000</u>	<u>42,098,000</u>
	<u>\$ 92,360,000</u>	<u>\$107,312,000</u>

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS**

YEAR ENDED DECEMBER 31, 1981



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. These contracts aggregated U.S. \$75,000,000 at December 31, 1981 at an average rate of Cdn. \$1.2222. Income and expense items are translated at rates prevailing when the transaction occurred or at rates established by the forward exchange contracts.

Short Term Investments

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

Inventories

Inventories are valued at the lower of cost and net realizable value with the exception of materials and supplies which are valued 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% to 15%
Lumber and plywood mill machinery and equipment	6%
Logging and other machinery and equipment	6% to 20%

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. ACCOUNTS RECEIVABLE

Accounts receivable include insurance claims of \$2,054,000 and an amount of \$1,655,000 arising from forestry projects and roads constructed on behalf of the Province of British Columbia. The receivable from the Province will be recovered as a deduction from stumpage payments.

3. INVENTORIES

	<u>1981</u>	<u>1980</u>
Logs	\$ 6,370,000	\$ 5,940,000
Chips	1,654,000	1,084,000
Lumber and plywood	3,793,000	4,737,000
Pulp	1,755,000	1,306,000
Materials and supplies	<u>3,679,000</u>	<u>3,224,000</u>
	<u>\$ 17,251,000</u>	<u>\$ 16,291,000</u>

4. BUILDINGS, MACHINERY AND EQUIPMENT

	1981			1980
	Cost	Accumulated Depreciation	Net	Net
Buildings and site improvements	\$ 16,708,000	\$ 6,041,000	\$ 10,667,000	\$ 10,847,000
Machinery and equipment	70,155,000	34,021,000	36,134,000	36,029,000
Mobile equipment	10,060,000	4,171,000	5,889,000	6,010,000
Construction in progress	576,000	—	576,000	287,000
	<u>\$ 97,499,000</u>	<u>\$ 44,233,000</u>	<u>\$ 53,266,000</u>	<u>\$ 53,173,000</u>

5. LONG TERM DEBT

	1981	1980
Honshu Paper Co., Ltd.		
Series One Bonds repayable 1982 to 1987*	\$ 4,700,000	\$ 5,700,000
Mitsubishi Corporation		
Series One Bonds repayable 1982 to 1987*	4,700,000	5,700,000
The Royal Bank of Canada		
Mortgage loan, interest at London Inter Bank Offered Rate plus ¾% repayable 1982 to 1984 (U.S. \$10,050,000)	11,896,000	16,009,000
The Dai-Ichi Kangyo Bank Ltd.		
Notes payable, interest at London Inter Bank Offered Rate plus ¾% repayable 1982 to 1985 (U.S. \$2,400,000)	2,841,000	3,584,000
The Bank of Tokyo Canada		
Capital loan, interest at London Inter Bank Offered Rate plus ¾% repayable 1982 to 1984 (U.S. \$2,200,000)	2,604,000	3,465,000
	26,741,000	34,458,000
Less principal due within one year included in current liabilities	7,504,000	7,555,000
	19,237,000	26,903,000
Less unrealized loss, being the difference between the rates of exchange in effect at the year end and historic rates	1,633,000	2,564,000
	<u>\$ 17,604,000</u>	<u>\$ 24,339,000</u>

*The bonds bear interest 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, 1981) is as follows:

1982	\$ 7,504,000	1983	\$ 7,604,000	1984	\$ 7,723,000
1985	\$ 1,410,000	1986	\$ 1,000,000		

6. PREFERRED SHARES

The preferred shares are redeemable at par at any time. So long as any preferred shares are outstanding, no additional common shares may be issued.

7. FINANCIAL EXPENSES

	1981	1980
Interest on long term debt	\$ 4,390,000	\$ 5,282,000
Other interest	79,000	48,000
Interest income	(1,183,000)	(1,682,000)
	3,286,000	3,648,000
Foreign exchange loss on reduction of long term debt	797,000	866,000
	<u>\$ 4,083,000</u>	<u>\$ 4,514,000</u>

8. 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. 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 1981 amounted to \$3,290,000. At December 31, 1981 the accounts receivable arising from these transactions amounted to \$5,181,000.

9. SEGMENTED INFORMATION

The geographic distribution of net sales was as follows:

	1981	1980
Canada	\$ 25,976,000	\$ 26,553,000
United States	43,466,000	61,134,000
Japan	13,670,000	18,028,000
Europe	9,911,000	9,797,000
Other	1,028,000	2,568,000
	<u>\$ 94,051,000</u>	<u>\$ 118,080,000</u>

10. 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.

11. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration of directors and senior officers was \$691,000 (1980 - \$506,000).

FINANCIAL REVIEW

In thousands of dollars	1981	1980	1979	1978	1977
EARNINGS					
Revenue	\$ 95,751	\$ 118,080	\$ 110,400	\$ 91,765	\$ 65,115
Cost of Sales and General Expenses	80,294	85,652	75,501	71,300	52,340
Depreciation, Depletion and Amortization	6,984	6,279	5,912	6,003	6,038
Earnings from Operations	8,473	26,149	28,987	14,462	6,737
Financial Expenses	4,083	4,514	5,777	7,147	4,381
Income Taxes	2,046	9,964	9,570	2,481	139
Net Earnings	<u>\$ 2,344</u>	<u>\$ 11,671</u>	<u>\$ 13,640</u>	<u>\$ 4,834</u>	<u>\$ 2,217</u>
CHANGES IN WORKING CAPITAL					
Working Capital from Operations	\$ 10,791	\$ 22,124	\$ 26,853	\$ 13,317	\$ 8,929
Increase (Decrease) Long Term Debt	(6,735)	(6,937)	(7,512)	(6,087)	5,734
Additions to Property, Plant & Equipment	(9,251)	(9,052)	(7,418)	(4,401)	(13,491)
Dividends on Preferred Shares	(1,386)	(1,386)	(6,716)	(1,386)	—
Dividend on Common Shares	(1,343)	(1,343)	—	—	—
Other	278	902	524	396	353
Increase (Decrease) in Working Capital	<u>\$ (7,646)</u>	<u>\$ 4,308</u>	<u>\$ 5,731</u>	<u>\$ 1,839</u>	<u>\$ 1,525</u>
FINANCIAL POSITION					
Working Capital	\$ 11,763	\$ 19,409	\$ 15,101	\$ 9,370	\$ 7,531
Property, Plant and Equipment	62,536	60,617	58,547	57,598	59,521
Investments and Deposits	437	367	566	533	607
Net Assets	74,736	80,393	74,214	67,501	67,659
Deferred Income Tax	15,419	13,956	9,782	2,481	—
Long Term Debt	17,604	24,339	31,276	38,788	44,875
Shareholders' Equity	<u>\$ 41,713</u>	<u>\$ 42,098</u>	<u>\$ 33,156</u>	<u>\$ 26,232</u>	<u>\$ 22,784</u>
PRODUCTION VOLUMES					
Pulp — ADT	127,110	164,514	159,732	157,602	131,371
Lumber — MFBM	155,639	182,327	175,967	181,194	167,947
Plywood — MSF 1/16's Equivalent	125,587	140,086	140,481	134,880	205,224

CONSTRUCTION OF RAPID INFILTRATION SYSTEM

1. Work began on the rapid infiltration system in November 1980 with the clearing of the polishing basin. This was followed in February 1981 with the clearing of the seven infiltration basins and pipeline right-of-way.

2. The excavation for the infiltration basins began in March and continued until May. Each of these basins are 1,350-feet long, 150-feet wide and four-feet deep. This required excavating a total of 220,000 cubic yards of material which was hauled an average distance of one-half mile.

3-4. The excavated material was used to construct the aeration pond diversion dykes and polishing basin retaining dykes. The

polishing basin dykes were built on silty river bottom land with low permeability. After the outside dyke was completed, a two-foot thick layer of this silty material was placed on the inside surface and compacted to prevent leakage.

5. The pumphouse was constructed during April and May. This building contains an electrical control room and three 5,500 gallons-per-minute vertical turbine pumps.

6. The fabrication and installation of the pipeline from the pumphouse to the infiltration basins was completed during the first three weeks of June. The 36-inch diameter high-density polyethylene pipeline runs a distance of approximately 3,400-feet.

Final electrical and mechanical installations of the system were completed during September and October.





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
†THE HON. JOHN R. NICHOLSON,
P.C., O.B.E., Vancouver,
British Columbia
*SHOICHI NISHIYAMA, Cranbrook,
British Columbia
†A. D. (PETER) STANLEY, Vancouver,
British Columbia
AKIRA SUHARA, Tokyo, Japan
RINZO TANAKA, 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

SHOICHI NISHIYAMA, Chairman of the
Board and Chief Executive Officer
STUART A. LANG, President and Chief
Operating Officer
JAMES P. GORMLEY, Vice-President,
Pulp Division
DAVID V. McDOUGALL, Vice-President,
Finance and Treasurer
JOHN G. MURRAY, Vice-President,
Woodlands Division
MICHAEL J. ROUSE, Vice-President,
Wood Products Division
JOSEPH H. KONST, Secretary
S. RODERICK PEARCE, Director,
Industrial and Community Relations
HIDEKI SHINOHARA, Assistant Secretary
and Assistant to the Chairman of
the Board
EDWARD A. TAYLOR, Controller

RECORDS AND REGISTERED OFFICE

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

TRANSFER AGENT AND REGISTRAR

National Trust Company Limited,
Vancouver and Toronto

STOCK LISTINGS

Vancouver Stock Exchange,
Toronto Stock Exchange

AUDITORS

Thorne Riddell
Chartered Accountants
