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CRESTBROOK FOREST INDUSTRIES LTD. 1982 ANNUAL REPORT



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MCGILL UNIVERSITY

CORPORATE INFORMATION

DIRECTORS

- *VICTOR C. BROWN, Cranbrook,
British Columbia
- †ARTHUR C. DRAPER, Cranbrook,
British Columbia
- †TAKAO ISHIKAWA, Tokyo, Japan
- °SUKETAKA KIKUCHI, Vancouver,
British Columbia
- *STUART A. LANG, Cranbrook,
British Columbia
- *SHOICHI NISHIYAMA, Cranbrook,
British Columbia
- °†A. D. (PETER) STANLEY, Vancouver,
British Columbia
- AKIRA SUHARA, Tokyo, Japan
- RINZO TANAKA, Tokyo, Japan
- †ALAN G. THOMPSON, Vancouver,
British Columbia
- TSUTOMU TOKUNAGA, Tokyo, Japan
- °ROBERT A. WHITE, Vancouver,
British Columbia

†Denotes Member of Audit Committee
*Denotes Member of Executive Committee
°Denotes Member of Executive
Compensation Committee

HONORARY DIRECTOR

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
DAVID V. McDOUGALL, Vice-President,
Finance and Treasurer
JOHN G. MURRAY, Vice-President,
Woodlands
MICHAEL J. ROUSE, Vice-President,
Wood Products
EDWIN H. JACKSON, Director,
Engineering and Planning
JOSEPH H. KONST, Secretary
SHOICHIRO NAGAI, Assistant Secretary
and Assistant to the Chairman of
the Board
S. RODERICK PEARCE, Director,
Industrial and Community Relations
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

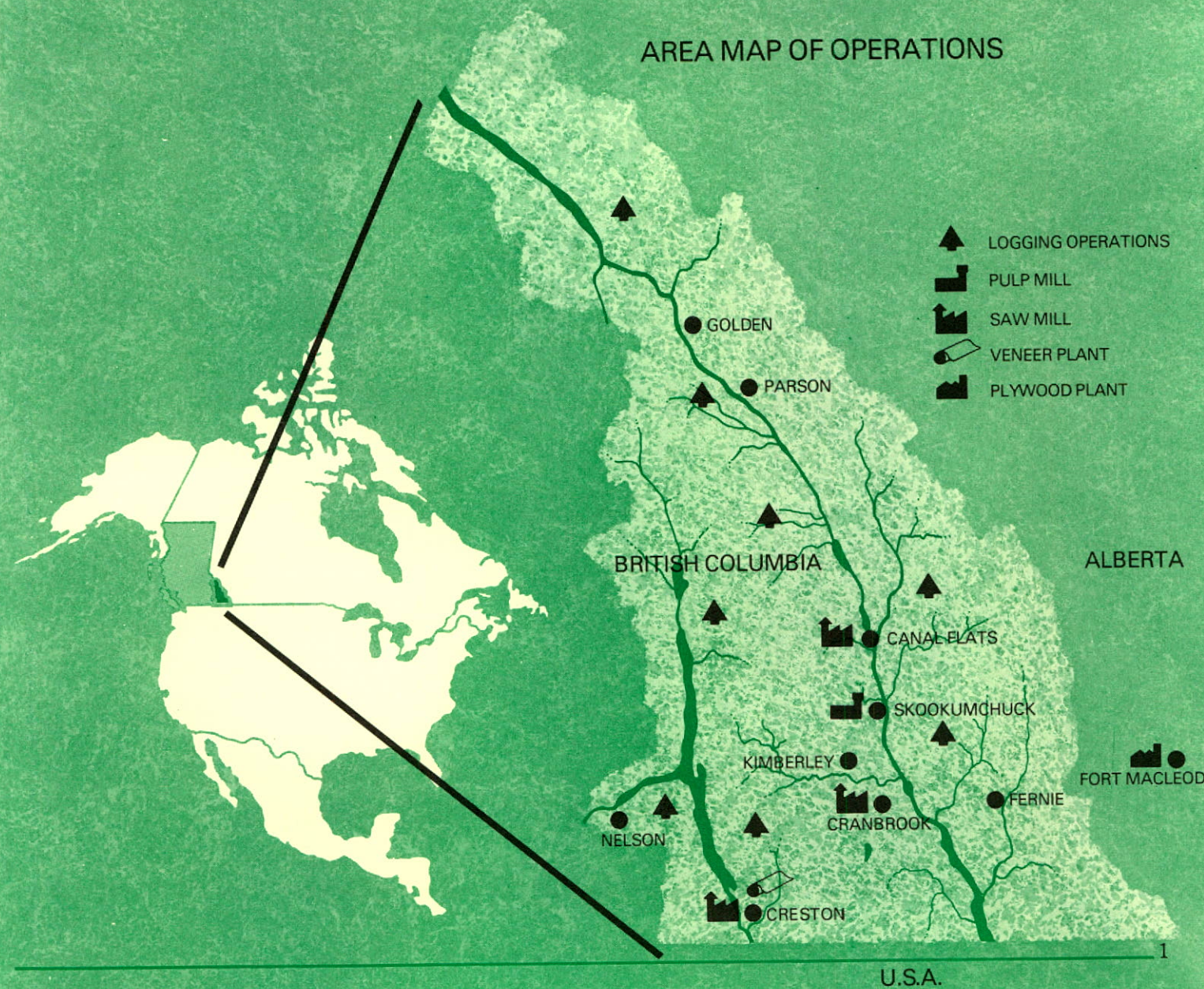
ANNUAL GENERAL MEETING

Town & Country Inn,
Cranbrook, British Columbia,
11:00 a.m., May 19, 1983.

CONTENTS

| | |
|---------------------------------------------------------|--------------------|
| Corporate and Annual General Meeting Information | Inside Front Cover |
| Contents and Area Map of Operations | 1 |
| Report To The Shareholders | 2 |
| Financial Highlights and Sales Graph | 3 |
| Review Of Operations | 4 |
| Consolidated Statement of Earnings | 6 |
| Consolidated Statement of Retained Earnings | 6 |
| Consolidated Statement of Changes in Financial Position | 7 |
| Auditors' Report | 7 |
| Consolidated Balance Sheet | 8 |
| Notes to Consolidated Financial Statements | 10 |
| Financial Review | Inside Back Cover |

AREA MAP OF OPERATIONS



REPORT TO THE SHAREHOLDERS

March 24, 1983

The financial results of Crestbrook were most disappointing in 1982. They reflect deteriorating markets and escalating costs, resulting in the first loss since 1975 and the worst loss since 1970.

The 1982 loss of \$6,199,000 or \$5.65 per common share was significantly below 1981 earnings of \$2,344,000 or 71 cents per common share. Total sales for the year were \$93,811,000, declining slightly from the previous year's level of \$94,051,000.

From the beginning of the year, the selling price for Company products continued to decline while costs escalated. The average manufacturing cost to convert a cubic meter of wood into finished products, excluding administration, finance and depreciation, increased to \$68 in 1982 from \$65 in 1981. Product selling prices for the same period declined from an average of \$81 to \$74. Respective cost and selling prices in 1980 were \$56 and \$81.

Toward the end of 1982, signs of an economic upturn in North America, and particularly the United States, began to appear. The selling price for lumber increased gradually during the latter half of the year. By year end, this price increased significantly, but still did not fully cover operating costs. There was, however, a small but positive cash flow which reversed a trend established 18 months earlier.

Pulp prices reached a low point by the end of 1982 after declining throughout the year. In our opinion, the bottom has been reached and we expect pulp prices to increase in the latter half of 1983. However, significant improvements in the selling prices of lumber and pulp will be necessary before the Company can return to a profitable operation and one which would provide an acceptable return on investment.

The Directors were unable to declare a dividend for common shares as a result of the losses incurred in 1982. The Company paid its first dividend in 1980 and it was disappointing to interrupt these payments after only two years. The half-year portion of the preferred shares dividend was paid, however, the year-end dividend was deferred.

During 1982, the Company met its commitment on repayment of long-term debt in the amount of \$7,669,000. The negative cash flow from operations and capital requirements, however, necessitated new borrowings of \$9,798,000 to restore working capital to a satisfactory level. Shareholders' equity declined by \$6,892,000 to \$34,821,000 at year end.

To offset weak markets and rising costs, the Company undertook steps to minimize losses during this critical economic period including some layoffs, a restraint program and the deferral of all but absolutely necessary expenditures.

During the difficult times of 1982, Crestbrook can be proud of the fact that it was able to maintain, with a few

exceptions, the employment of most personnel. At year end, Crestbrook employed 858 people, compared with 970 in 1981. Total wages, salaries and employee benefits rose to \$30.7-million from \$27.7-million, increasing from a 1981 per annum average of \$28,500 to \$36,000 per employee in 1982.

Significant events in the resource area of the Company's operations occurred during 1982. Crestbrook was successful in the renewal of three major forest licences and is assured of a timber supply totalling almost 980,000 cubic meters. The Company began 1982 with an annual allowable cut of slightly more than one-million cubic meters, but lost 66,000 cubic meters due to a variety of reasons. To offset this loss, the Company has acquired timber from other sources, plus increased intensive forestry in its harvesting areas.

Production losses at the pulp mill resulted from a labour dispute and major maintenance problems. This lost time necessitated a curtailment of sawmill operations due to the decline in wood chip consumption. The Creston Sawmill remained closed during the year.

With the above exceptions, all plants operated at full capacity and achieved record production levels. For example, the reported increase in lumber recovery represents an annual pre-tax saving of \$1.5-million. Company employees, for the most part, responded admirably during a difficult year and significant progress was made in improvements to productivity at all plants, making them among the most efficient in today's forest industry.

Changes in the Board of Directors during the year saw the retirement of the Hon. John R. Nicholson and Mr. Tomoaki Endo. Mr. Alan G. Thompson, Chairman of the Board and Chief Executive Officer, of Brink, Hudson and Lefever, and Mr. Tsutomu Tokunaga, General Manager, International Business Office, of Honshu Paper Co. Ltd., were elected Directors. Mr. Alfonse A. Fabro, an original Director of the Company and an Honorary Director since 1977, passed away just prior to publication of this report.

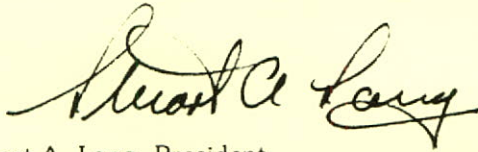
At the executive level, Mr. Edwin H. Jackson, Director, Engineering and Planning, was appointed an Officer of the Company. Mr. Shoichiro Nagai, of Mitsubishi Corporation, was appointed Assistant Secretary and Assistant to the Chairman of the Board, replacing Mr. Hideki Shinohara who has returned to Japan.

The short-term outlook foresees continuation of the difficult and challenging conditions that Crestbrook experienced during 1982 and the Company will be doing everything possible to restrain costs. There is a demand for the Company's products, however, Crestbrook cannot continue to compete in these markets unless it can reverse the trend of escalating costs.

Ever-increasing pressures are being placed upon the Company without consideration of its ability to pay or to remain competitive in the world marketplace. For example, Crestbrook's cost for equal quantities of natural gas has increased 107 per cent over the last three years and property taxes have risen 45 per cent. These and similar demands cannot continue if the Company is to remain cost competitive.

Today, the Company continues to convert an excellent forest resource into finished wood products. Crestbrook's operations are sounder than ever, its personnel are competent, and although it may not be easy, the Company will be able to face the new challenges of 1983.

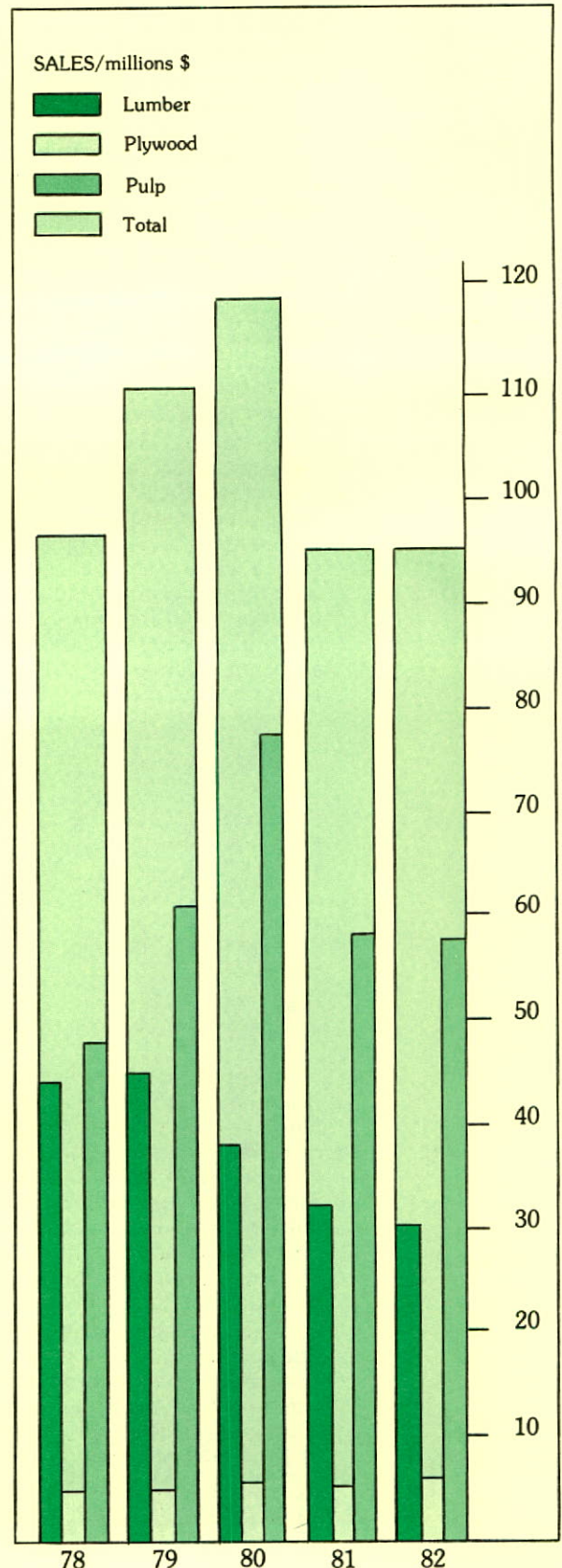
On behalf of the Board of Directors,



Stuart A. Lang, President

FINANCIAL HIGHLIGHTS 1982

| FOR THE YEAR | 1982 | 1981 |
|----------------------------------------|-------------------|-------------------|
| Sales - Pulp | \$56,841,000 | \$58,561,000 |
| - Lumber | 30,651,000 | 31,189,000 |
| - Plywood | 6,319,000 | 4,301,000 |
| | <u>93,811,000</u> | <u>94,051,000</u> |
| Net earnings (loss) | | |
| Amount | (6,199,000) | 2,344,000 |
| Per common share | (\$5.65) | \$.71 |
| Dividends | | |
| Preferred shares | 693,000 | 1,386,000 |
| Common shares | - | 1,343,000 |
| Return on net assets* | - | 6.3% |
| Cash flow from operations | | |
| Amount | (3,487,000) | 12,413,000 |
| Per common share | (\$2.60) | \$9.24 |
| Capital expenditures | 4,205,000 | 9,251,000 |
| Wages, salaries, and employee benefits | 30,732,000 | 27,739,000 |
| Stumpage and royalty | 769,000 | 1,251,000 |
| Property taxes | 2,379,000 | 2,165,000 |
| AT YEAR END | | |
| Working capital | 8,068,000 | 13,385,000 |
| Current ratio | 1.3:1 | 1.8:1 |
| Long term debt | 20,568,000 | 17,604,000 |
| Shareholders' equity | | |
| Amount | 34,821,000 | 41,713,000 |
| Per common share | \$8.21 | \$13.86 |
| Number of employees | 858 | 970 |



*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

Woodlands Division production in 1982 increased to 823,100 cubic meters from 781,500 cubic meters in 1981. However, log shipments were under budget by 165,571 cubic meters due to labour and mechanical difficulties at the Skookumchuck pulp mill which resulted in the shutdown of the Company's Canal Flats and Cranbrook sawmills.

The fire hazard for the year was lower than normal due to higher than average precipitation during the late summer and fall. Only one minor fire was recorded in harvesting areas operated by the Company.

Continuation of the trend to milder winters assisted logging operations, but also contributed to the spread of Mountain Pine and Spruce Bark beetle attacks throughout the Kootenay region. The salvage and control of beetle-infested trees through harvesting is proceeding on schedule and will minimize the downgrading of lumber.

The award in December of three Forest Licences, which are renewable on an 'Evergreen Basis' for 15-year periods, completed tenure arrangements for the Company's timber supply. This secure fibre source will enable the Company to develop long-term operating and expansion plans including vital information on species percentages, log size and quality, and sawlog and chip volumes for efficient sawmill operation and modification.

| Forest | Gross Annual Allowable Cut [Cubic Meters] | Percentage of Supply |
|----------------------------------|-------------------------------------------|----------------------|
| Cranbrook Timber Supply Area | 342,810 | 35.0 |
| Invermere Timber Supply Area | 332,450 | 34.0 |
| Kootenay Lake Timber Supply Area | 156,540 | 16.0 |
| Spillimacheen T.F.L. 14 | 122,500 | 12.4 |
| Creston T.F. 54 | 17,846 | 1.8 |
| Canal Flats T.F. 72 | 7,775 | .8 |
| | 979,921 | 100.0 |

Completion of a major bridge across the Kootenay River and the introduction of 85-foot railcars will improve the Company's capacity in tree-length off-highway log transportation to the Canal Flats sawmill. These shipments will not only result in a substantial reduction in log costs, but will also provide benefits through increased lumber recovery and a better ability to meet changing market conditions.

The Company planted 990,000 seedlings during 1982 on Crestbrook-controlled lands. In addition, seed bed preparation was conducted on 450 acres of logged areas through scarification to promote regeneration of the forest resource.

Commercial thinning operations were completed on 50 acres of immature forest in Tree Farm Licence No. 14 near Parson.

This program will be expanded within the Tree Farm Licence and on other Crestbrook harvesting areas as part of the Company's policy toward practicing intensive forestry while obtaining a secure fibre base.

WOOD PRODUCTS DIVISION

The impact of the recession on the sale of Crestbrook's wood products has been devastating and overshadowed any 1982 accomplishments. During the year, markets for the Company's solid wood products continued the downward trend begun in late 1979, reflecting the lowest level of housing starts in North America since 1946. Manufacturing costs were stringently controlled, however, this failed to offset the decline in selling prices. As a result, losses were much greater than the previous year despite increased production and sales at all plants.

Lumber production from Company sawmills at Canal Flats and Cranbrook in 1982 totalled 179,746 MFBM (thousand feet board measure), 41,498 MFBM more than the 1981 total of 138,248 MFBM. Both plants produced within 93 per cent of their budget and exceeded prior years' production despite the loss of 25 operating days due to problems at the pulp mill which stopped chip deliveries. The two plants established 12 individual and combined records during the year including highest daily, weekly, monthly and annual production.

Lumber recovery rose six per cent over 1981 and 20 per cent over levels achieved five years ago. Man-day productivity increased an average of 20.5 per cent to 2,695 MFBM in 1982.

Lumber shipments in 1982 totalled 178,437 MFBM, 20,277 MFBM more than 1981 shipments of 158,160 MFBM. Lumber sales revenue dropped to \$30,651,000 from \$31,189,000.

Crestbrook entered the machine stress-rated lumber market during the year. The necessary testing machinery was installed on a contract basis at the Cranbrook plant in January and permitted the Company to develop production and marketing competence of a new product during a period of restraint.

The noise control program was continued in 1982 and significant improvements were made to the Cranbrook planer enclosure, planer outfeed and grader stations. This experience will permit similar improvements to be made at Canal Flats in 1983.

The Creston Sawmill remained closed during the year. The Company temporarily shutdown the operation in November 1981 to minimize the financial impact of depressed market conditions on this small, inefficient mill. Harvesting operations in the area have been maintained at full production to provide sufficient peeler logs for the Creston

Veneer Plant which operated at record levels during the year.

Plywood production in 1982 increased to 221,415 MSF (thousand square feet 1/16-inch basis) from the 1981 total of 125,587 MSF, while shipments rose to 224,157 MSF from 118,102 MSF of the previous year. Plywood sales revenue of \$6,319,000 reflected the plant's increased productivity, rising substantially from the 1981 sales total of \$4,301,000.

Fort Macleod operated without interruption for the entire year. An extra one-half shift, made possible through an abundance of market veneer, was added in March. This addition has had a positive effect at the plant by lowering both the unit labour and manufacturing costs.

PULP DIVISION

Pulp production in 1982 was 137,456 ADT (air-dry tons), up from 127,110 ADT in 1981 with shipments increasing to 132,578 ADT from 126,051 ADT. Pulp sales revenue for the year dropped to \$56,841,000 from the previous year's figure of \$58,561,000.

Off-quality pulp was up slightly at 7.9 per cent of bleached production, compared to the record low figure of 6.5 per cent achieved in 1981.

The Pulp Division experienced considerable mechanical and labour problems throughout the year, resulting in a loss of 51 production days. Maintenance problems with the digester, turbo-generator, recovery boiler and a 12-day labour dispute all contributed to the lower than budget production tonnage at Skookumchuck.

The Pulp Division made significant contributions to Crestbrook's cost restraint program through the reduction of manning and inplant inventories, as well as the deferral of any expense not essential to the well being of the Company. Only necessary capital expenditures at the pulp mill were undertaken during 1982.

The rapid infiltration system, successfully completed in October 1981, was officially inaugurated in May. Designed to remove colour from pulp mill effluent, the system is performing to specifications. The Company continues to receive wide public approval for its action in the research, development and construction of this significant technological advance. Most recently, an award from the Province of British Columbia was presented to Crestbrook by the Hon. Stephen Rogers, Minister of the Environment, recognizing the Company's contribution in the field of environmental protection.

INDUSTRIAL AND COMMUNITY RELATIONS

For the most part, all employees of Crestbrook recognize the many economic challenges facing the Company. This

awareness was reinforced during the year through a communications program which saw senior management personnel explaining fully the financial state of the Company to all employees. We believe this program had a degree of influence on the production and productivity results in 1982.

Special commendation should be given to all employees who worked extremely hard in 1982 toward lessening the impact on the Company during difficult economic times. Salaried employees, in particular, must be singled out for praise. Their wage adjustment was deferred from April until July and in August, the staff work week was reduced with salaries adjusted accordingly. Logging contractors, who form 80 per cent of the Company's harvesting group, also agreed to freeze their contract rates to 1981 levels.

A previously-contracted labour settlement of 13 per cent with members of the International Woodworkers of America and Pulp, Paper and Woodworkers of Canada was put into effect in July, increasing the economic burden on Company operations.

An illegal two-week walkout of Local 15 of the Pulp, Paper and Woodworkers of Canada took place at the Skookumchuck pulp mill on September 1 following a one-day disciplinary suspension of an employee. The Company has lodged a grievance against the Union for the losses arising from this action. All other issues with the Company's unionized employees were resolved without difficulty.

The Company is not satisfied with the overall accident prevention results of Crestbrook's operations in 1982. All operating groups, however, remain in the upper quartile of the forest industry and accordingly are among the safest in the province. Accelerated programs during the coming year will be designed to improve and return all groups to a high level of performance and standard acceptable to Crestbrook's accident prevention policy.

During 1982, the Creston Veneer Plant continued to maintain a high standard of employee safety awareness and completed 14 years without experiencing a lost-time accident. The Cranbrook Sawmill won the Company's annual 'most improved divisional safety performance' award.

Participation by the Company in the federal-provincial Employment Bridging Assistance Program has received high praise from both the Ministry of Forests and Ministry of Labour. Crestbrook was the first company in British Columbia to become involved in the unemployed forest workers program and has maintained a high level of participation through intensive forestry projects.

**CONSOLIDATED
STATEMENT
OF EARNINGS**

YEAR ENDED DECEMBER 31, 1982



| | <u>1982</u> | <u>1981</u> |
|--------------------------------------------|-----------------------------|----------------------------|
| REVENUE | | |
| Sales | | |
| Pulp, net of selling and delivery costs | \$56,841,000 | \$58,561,000 |
| Lumber and plywood | <u>36,970,000</u> | <u>35,490,000</u> |
| | 93,811,000 | 94,051,000 |
| Business interruption insurance | | <u>1,700,000</u> |
| | <u>93,811,000</u> | <u>95,751,000</u> |
| OPERATING COSTS AND EXPENSES | | |
| Cost of sales | 86,050,000 | 75,664,000 |
| Selling, general and administrative | 5,629,000 | 4,630,000 |
| Depreciation, amortization and depletion | <u>6,994,000</u> | <u>6,984,000</u> |
| | 98,673,000 | 87,278,000 |
| EARNINGS (LOSS) FROM OPERATIONS | (4,862,000) | 8,473,000 |
| Financial expenses (note 8) | <u>5,340,000</u> | <u>4,083,000</u> |
| EARNINGS (LOSS) BEFORE INCOME TAXES | (10,202,000) | 4,390,000 |
| Income taxes | <u>(4,003,000)</u> | <u>2,046,000</u> |
| NET EARNINGS (LOSS) | <u><u>\$(6,199,000)</u></u> | <u><u>\$ 2,344,000</u></u> |
| NET EARNINGS (LOSS) PER COMMON SHARE | <u>\$ (5.65)</u> | <u>\$.71</u> |

**CONSOLIDATED
STATEMENT
OF RETAINED
EARNINGS**

YEAR ENDED DECEMBER 31, 1982

| | <u>1982</u> | <u>1981</u> |
|-------------------------------------------|----------------------------|----------------------------|
| RETAINED EARNINGS AT BEGINNING OF YEAR | \$10,790,000 | \$11,175,000 |
| Net earnings (loss) | <u>(6,199,000)</u> | <u>2,344,000</u> |
| | 4,591,000 | <u>13,519,000</u> |
| Dividends | | |
| Preferred shares | 693,000 | 1,386,000 |
| Common shares | | <u>1,343,000</u> |
| | <u>693,000</u> | <u>2,729,000</u> |
| RETAINED EARNINGS AT END OF YEAR | <u><u>\$ 3,898,000</u></u> | <u><u>\$10,790,000</u></u> |

**CONSOLIDATED
STATEMENT
OF CHANGES
IN FINANCIAL
POSITION**

YEAR ENDED DECEMBER 31, 1982

| | <u>1982</u> | <u>1981</u> |
|------------------------------------------------------|---------------------|---------------------|
| WORKING CAPITAL DERIVED FROM | | |
| Operations (note 9) | \$ | \$12,413,000 |
| New long term debt | 9,798,000 | |
| Disposal of fixed assets | <u>131,000</u> | <u>348,000</u> |
| | <u>9,929,000</u> | <u>12,761,000</u> |
| WORKING CAPITAL APPLIED TO | | |
| Operations (note 9) | 3,487,000 | |
| Additions to property, plant and equipment | 4,205,000 | 9,251,000 |
| Reduction of long term debt | 6,834,000 | 6,735,000 |
| Dividends | 693,000 | 2,729,000 |
| Other | <u>27,000</u> | <u>70,000</u> |
| | <u>15,246,000</u> | <u>18,785,000</u> |
| DECREASE IN WORKING CAPITAL | <u>5,317,000</u> | <u>6,024,000</u> |
| WORKING CAPITAL AT BEGINNING OF YEAR | | |
| As previously stated | 11,763,000 | 19,409,000 |
| Adjustment of prior year's income taxes (note 11) | <u>1,622,000</u> | |
| As restated | <u>13,385,000</u> | <u>19,409,000</u> |
| WORKING CAPITAL AT END OF YEAR | <u>\$ 8,068,000</u> | <u>\$13,385,000</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, 1982 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, 1982 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 1, 1983

"Thorne Riddell"
Chartered Accountants

**CONSOLIDATED
BALANCE
SHEET**

DECEMBER 31, 1982



ASSETS

| | <u>1982</u> | <u>1981</u> |
|--------------------------------------------------------------------------------|-------------------------|-------------------------|
| CURRENT ASSETS | | |
| Short term investments | \$ | \$ 495,000 |
| Accounts receivable (notes 2 & 10) | 11,948,000 | 11,174,000 |
| Income taxes recoverable | 1,134,000 | 1,717,000 |
| Inventories (note 3) | 21,578,000 | 17,251,000 |
| Prepaid expenses | <u>239,000</u> | <u>372,000</u> |
| | <u>34,899,000</u> | <u>31,009,000</u> |
| INVESTMENTS AND DEPOSITS | <u>464,000</u> | <u>437,000</u> |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Buildings, machinery and equipment (note 4) | 98,288,000 | 97,499,000 |
| Less accumulated depreciation | <u>49,450,000</u> | <u>44,233,000</u> |
| | 48,838,000 | 53,266,000 |
| Roads and bridges less amortization of \$11,686,000 (1981-\$10,425,000) | 9,217,000 | 8,556,000 |
| Timber holdings less depletion of \$32,000 | 847,000 | |
| Land | <u>714,000</u> | <u>714,000</u> |
| | <u>59,616,000</u> | <u>62,536,000</u> |
| | <u>\$94,979,000</u> | <u>\$93,982,000</u> |

Signed on behalf of the Board of Directors:

“Shoichi Nishiyama”
Director

“Stuart A. Lang”
Director

LIABILITIES

| | <u>1982</u> | <u>1981</u> |
|-------------------------------------------------|-------------------|-------------------|
| CURRENT LIABILITIES | | |
| Bank indebtedness (note 5) | \$ 8,920,000 | \$ 373,000 |
| Accounts payable and accrued liabilities | 10,094,000 | 8,382,000 |
| Dividends payable | | 1,365,000 |
| Principal due within one year on long term debt | <u>7,817,000</u> | <u>7,504,000</u> |
| | <u>26,831,000</u> | <u>17,624,000</u> |
| LONG TERM DEBT (note 6) | <u>20,568,000</u> | <u>17,604,000</u> |
| DEFERRED INCOME TAXES | <u>12,759,000</u> | <u>17,041,000</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 7) | 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 | <u>3,898,000</u> | <u>10,790,000</u> |
| | <u>34,821,000</u> | <u>41,713,000</u> |
| | <u>\$94,979,000</u> | <u>\$93,982,000</u> |



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. \$60,000,000 at December 31, 1982 at an average rate of Cdn. \$1.2269. Income and expense items are translated at rates prevailing when the transaction occurred or at rates established by the forward exchange contracts.

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% to 12½% |
| Logging and other machinery and equipment | 6% to 25% |

Roads, bridges and timber holdings 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, amortization and other items for tax purposes in amounts differing from those recorded in the accounts.

2. ACCOUNTS RECEIVABLE

Accounts receivable include \$2,252,000 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

| | 1982 | 1981 |
|------------------------|---------------------|---------------------|
| Logs | \$ 5,239,000 | \$ 6,370,000 |
| Chips | 3,021,000 | 1,654,000 |
| Lumber and plywood | 5,533,000 | 3,793,000 |
| Pulp | 3,959,000 | 1,755,000 |
| Materials and supplies | 3,826,000 | 3,679,000 |
| | <u>\$21,578,000</u> | <u>\$17,251,000</u> |

4. BUILDINGS, MACHINERY AND EQUIPMENT

| | 1982 | | | 1981 |
|---------------------------------|---------------------|-----------------------------|---------------------|---------------------|
| | Cost | Accumulated Depreciation | Net | Net |
| Buildings and site improvements | \$16,787,000 | \$ 6,638,000 | \$10,149,000 | \$10,667,000 |
| Machinery and equipment | 70,860,000 | 37,504,000 | 33,356,000 | 36,134,000 |
| Mobile equipment | 10,030,000 | 5,308,000 | 4,722,000 | 5,889,000 |
| Construction in progress | 611,000 | | 611,000 | 576,000 |
| | <u>\$98,288,000</u> | <u>\$49,450,000</u> | <u>\$48,838,000</u> | <u>\$53,266,000</u> |

5. BANK INDEBTEDNESS

The bank indebtedness is secured by a general assignment of accounts receivable and inventories.

6. LONG TERM DEBT

| | 1982 | 1981 |
|-----------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Honshu Paper Co., Ltd. | | |
| Series One Bonds, interest at Industrial Bank of Japan long term prime rate plus 1½%, repayable 1983 to 1987 | \$ 3,700,000 | \$ 4,700,000 |
| Mitsubishi Corporation | | |
| Series One Bonds, interest at Industrial Bank of Japan long term prime rate plus 1½%, repayable 1983 to 1987 | 3,700,000 | 4,700,000 |
| The Royal Bank of Canada | | |
| Mortgage loan, interest at London Inter Bank Offered Rate plus ¾% repayable 1983 to 1987 (U.S. \$14,700,000) | 18,072,000 | 11,896,000 |
| The Dai-Ichi Kangyo Bank Ltd. | | |
| Notes payable, interest at London Inter Bank Offered Rate plus ¾% repayable 1983 to 1985 (U.S. \$1,800,000) | 2,213,000 | 2,841,000 |
| The Bank of Tokyo Canada | | |
| Capital loan, interest at London Inter Bank Offered Rate plus ¾% repayable 1983 to 1984 (U.S. \$1,500,000) | 1,844,000 | 2,604,000 |
| | <u>29,529,000</u> | <u>26,741,000</u> |
| Less principal due within one year included in current liabilities | <u>7,817,000</u> | <u>7,504,000</u> |
| | 21,712,000 | 19,237,000 |
| Less unrealized loss, being the difference between the rates of exchange in effect at the year end and historic rates | <u>1,144,000</u> | <u>1,633,000</u> |
| | <u>\$20,568,000</u> | <u>\$17,604,000</u> |

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, 1982) is as follows:

| | | | | | |
|------|-------------|------|-------------|------|-------------|
| 1983 | \$7,817,000 | 1984 | \$7,940,000 | 1985 | \$4,511,000 |
| 1986 | \$4,073,000 | 1987 | \$5,188,000 | | |

7. 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.

At January 1, 1983 dividends on preferred shares were in arrears as follows: Class A, \$360,000 and Class B, \$333,000 for a total of \$693,000. So long as any dividends on the preferred shares are in arrears the company shall not declare any dividends on common shares.

8. FINANCIAL EXPENSES

| | 1982 | 1981 |
|---------------------------------------------------------|---------------------|---------------------|
| Interest on long term debt | \$ 3,124,000 | \$ 4,390,000 |
| Other interest | 1,377,000 | 79,000 |
| Interest income | <u>(308,000)</u> | <u>(1,183,000)</u> |
| | 4,193,000 | 3,286,000 |
| Foreign exchange loss on reduction of long term debt | <u>1,147,000</u> | <u>797,000</u> |
| | <u>\$ 5,340,000</u> | <u>\$ 4,083,000</u> |

9. NET EARNINGS (LOSS) BEFORE NON-CASH ITEMS

| | 1982 | 1981 |
|------------------------------------------|----------------------|---------------------|
| Net earnings (loss) | \$(6,199,000) | \$ 2,344,000 |
| Add (deduct) non-cash items | | |
| Depreciation, amortization and depletion | 6,994,000 | 6,984,000 |
| Deferred income taxes | <u>(4,282,000)</u> | <u>3,085,000</u> |
| | <u>\$(3,487,000)</u> | <u>\$12,413,000</u> |

10. RELATED PARTY TRANSACTIONS

Honshu Paper Co., Ltd. and Mitsubishi Corporation are parties related to the company. Between them, Honshu and Mitsubishi own 55% 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, and extendable for a further 10 years, pulp produced by the company, at prices reflecting marketing costs to the company. For the 1982 year, gross transactions related to this agreement amounted to \$71,694,000 and such marketing costs to the company amounted to \$3,192,000.

At December 31, 1982, an amount of \$6,121,000, arising from recent sales, was included in accounts receivable.

11. ADJUSTMENT OF PRIOR YEAR'S INCOME TAXES

Comparative figures have been restated to reflect a change in current and deferred income taxes. Certain amounts were excluded when computing taxable income which resulted in a tax loss carry back and an increase in deferred income taxes.

12. SEGMENTED INFORMATION

The geographic distribution of net sales was as follows:

| | 1982 | 1981 |
|---------------|---------------------|---------------------|
| Canada | \$21,362,000 | \$25,976,000 |
| United States | 50,575,000 | 43,466,000 |
| Japan | 14,771,000 | 13,670,000 |
| Europe | 6,848,000 | 9,911,000 |
| Other | <u>255,000</u> | <u>1,028,000</u> |
| | <u>\$93,811,000</u> | <u>\$94,051,000</u> |

13. EMPLOYEE PENSION PLANS

The Company maintains a pension plan for all salaried employees. As at January 1, 1982, an actuarial report indicates that there is an unfunded liability of approximately \$250,000 which relates to past service credits. This amount will be funded over 10 years. The Company also contributes to pension plans for all hourly employees under the terms of its collective agreements. The company's obligation to the pension plans for hourly employees is limited to the contribution rate specified in the agreements.

FINANCIAL REVIEW

| | 1982 | 1981 | 1980 | 1979 | 1978 |
|------------------------------------------|------------|------------|-----------|-----------|-----------|
| In thousands of dollars | | | | | |
| EARNINGS | | | | | |
| Revenue | \$ 93,811 | \$ 95,751 | \$118,080 | \$110,400 | \$ 91,765 |
| Cost of Sales and General Expenses | 91,679 | 80,294 | 85,652 | 75,501 | 71,300 |
| Depreciation, Amortization & Depletion | 6,994 | 6,984 | 6,279 | 5,912 | 6,003 |
| Earnings (Loss) from Operations | (4,862) | 8,473 | 26,149 | 28,987 | 14,462 |
| Financial Expenses | 5,340 | 4,083 | 4,514 | 5,777 | 7,147 |
| Income Taxes | (4,003) | 2,046 | 9,964 | 9,570 | 2,481 |
| Net Earnings (Loss) | \$ (6,199) | \$ 2,344 | \$ 11,671 | \$ 13,640 | \$ 4,834 |
| Net Earnings (Loss) per Common Share | \$ (5.65) | \$.71 | \$ 7.66 | \$ 9.12 | \$ 2.57 |
| CHANGES IN WORKING CAPITAL | | | | | |
| Working Capital from Operations | \$ (3,487) | \$ 12,413 | \$ 22,124 | \$ 26,853 | \$ 13,317 |
| Increase (Decrease) Long Term Debt | 2,964 | (6,735) | (6,937) | (7,512) | (6,087) |
| Additions to Property, Plant & Equipment | (4,205) | (9,251) | (9,052) | (7,418) | (4,401) |
| Dividends on Preferred Shares | (693) | (1,386) | (1,386) | (6,716) | (1,386) |
| Dividends on Common Shares | - | (1,343) | (1,343) | - | - |
| Other | 104 | 278 | 902 | 524 | 396 |
| Increase (Decrease) in Working Capital | \$ (5,317) | \$ (6,024) | \$ 4,308 | \$ 5,731 | \$ 1,839 |
| FINANCIAL POSITION | | | | | |
| Working Capital | \$ 8,068 | \$ 13,385 | \$ 19,409 | \$ 15,101 | \$ 9,370 |
| Property, Plant and Equipment | 59,616 | 62,536 | 60,617 | 58,547 | 57,598 |
| Investments and Deposits | 464 | 437 | 367 | 566 | 533 |
| Net Assets | 68,148 | 76,358 | 80,393 | 74,214 | 67,501 |
| Deferred Income Tax | 12,759 | 17,041 | 13,956 | 9,782 | 2,481 |
| Long Term Debt | 20,568 | 17,604 | 24,339 | 31,276 | 38,788 |
| Shareholders' Equity | \$ 34,821 | \$ 41,713 | \$ 42,098 | \$ 33,156 | \$ 26,232 |
| PRODUCTION VOLUMES | | | | | |
| Pulp - ADT | 137,456 | 127,110 | 164,514 | 159,732 | 157,602 |
| Lumber - MFBM | 182,019 | 155,639 | 182,327 | 175,967 | 181,194 |
| Plywood - MSF 1/16's Equivalent | 221,415 | 125,587 | 140,086 | 140,481 | 134,880 |

