C

CRESTBROOK FOREST INDUSTRIES LTD.

1984 ANNUAL REPORT

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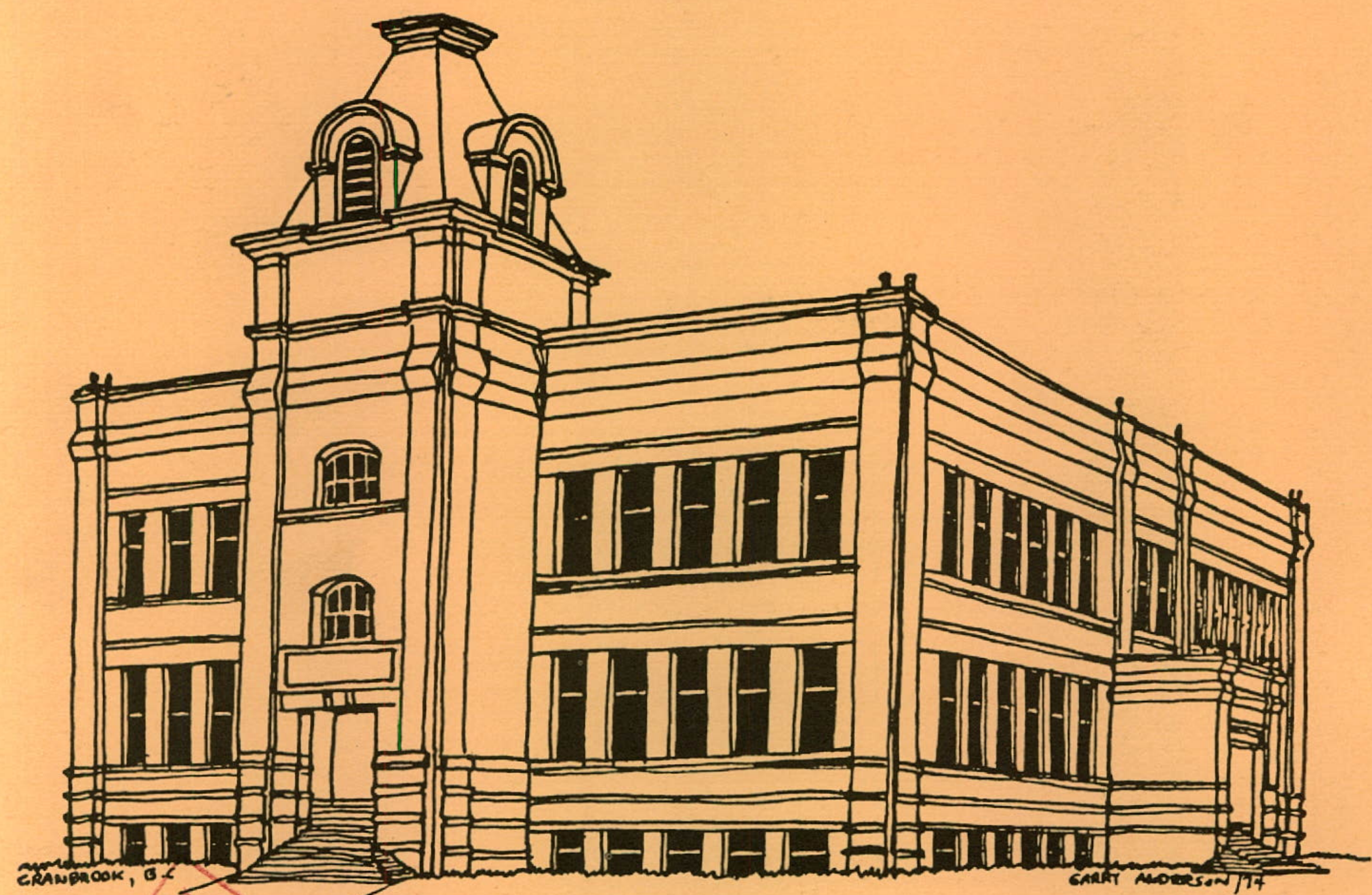

CORPORATE INFORMATION

DIRECTORS

•VICTOR C. BROWN, Cranbrook, British Columbia

†ARTHUR C. DRAPER, Cranbrook, British Columbia

†TAKAO ISHIKAWA, Tokyo, Japan

•STUART A. LANG, Cranbrook, British Columbia

KICHIRO OKUMURA, Tokyo, Japan

°SUMIO OKUSAWA, Vancouver, British Columbia

•AKIRA SHIBANUMA, Cranbrook, British Columbia

°†A. D. (PETER) STANLEY, Vancouver, British Columbia

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

AKIRA SHIBANUMA, 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

S. RODERICK PEARCE, Director, Industrial and Community Relations

JUN SAITO, Assistant to the Chairman of the Board and Assistant Secretary

EDWARD A. TAYLOR, Controller

RECORDS AND REGISTERED OFFICE

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

TRANSFER AGENTS AND REGISTRARS

National Victoria and Grey Trust Company, Calgary, Toronto, Vancouver and Winnipeg

Canada Permanent Trust Company, Regina

STOCK LISTINGS

Toronto Stock Exchange
Vancouver Stock Exchange

AUDITORS

Thorne Riddell
Chartered Accountants

COVER AND ANNUAL GENERAL MEETING

During 1984, Crestbrook acquired the Central Elementary School building from School District No. 2 (Cranbrook) and began renovations in July to transform the structure into the Company's new corporate headquarters. The cover drawing, by Garry Anderson of Cranbrook, depicts Central as it originally appeared following construction in 1909. Crestbrook's annual general meeting will be held in Cranbrook, British Columbia, on May 9, 1985, beginning at 11:00 a.m.

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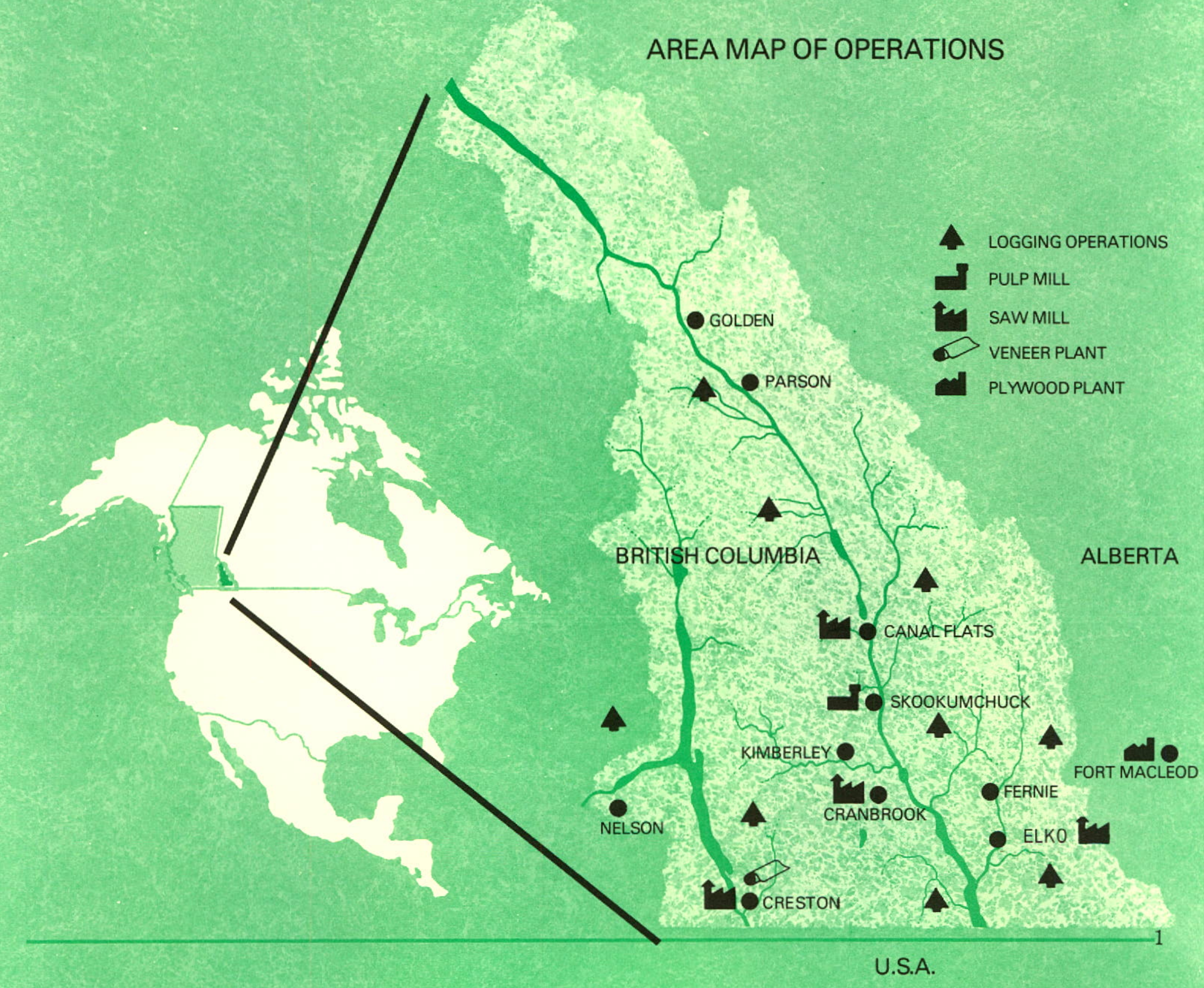


REPORT TO THE SHAREHOLDERS

February 14, 1985

We are pleased to report a profit of $981,000 for 1984. This was on sales of $137.9-million, an all-time high for the Company. More important, however, is that for the last nine months of 1984, net earnings were $3.3-million which is a very significant improvement over 1983.

In last year's annual report we commented on the acquisition of the Elko Division which increased the Company's fibre base and lumber manufacturing facilities by some 50 percent. For 1985 we are forecasting that this new Division will become your Company's largest, most efficient and lowest cost producer of high-grade lumber. These goals have been attained through the investment programs previously reported to you. As an additional benefit of this acquisition, your Company's three lumber manufacturing plants at Canal Flats, Cranbrook and Elko now provide approximately 75 percent of the Company's chip requirements.

The Elko Division was very effectively integrated into the existing Crestbrook organization. A commendable job was done by all concerned.

As stated elsewhere in this report, we continue to expand our lumber manufacturing operation with machine stress-rated lumber and other value-added products. Crestbrook will continue this diversification in 1985 in order to provide the maximum possible returns to the Company.

The fibre base or wood supply is fundamental to the success of any forest products company. In 1984, the timber which was extracted from Crestbrook's operations, together with a small amount of purchased logs, totalled in excess of 1.6-million cubic meters. This is a Company record. Investments in highways, railroad equipment, bridges, planning and forestry infrastructure have proven their worth. As a result, your Company has been successful in maintaining consistently low log costs. It is the delivery of an economic log supply to our efficient mills that enable us to participate profitably in a very competitive lumber market.

We wish to reiterate that our Company utilizes the most modern reforestation techniques to ensure the preservation of our basic forest wealth. We do this in close harmony and cooperation with government agencies, public awareness groups and others who believe in multiple-land use.

During 1984, there was a successful offering of 900,000 treasury shares coincidentally with a secondary offering of 1.5-million common shares. The conversion of $23.1-million of preferred shares into common shares and the issuance of the new shares has significantly strengthened your Company. Shareholders' equity at 1984 year end was $42,823,000. Your Company has a much broader public distribution of its common shares and today we are pleased to report that there are over 1,000 shareholders including a significant number of Crestbrook employees. We would like to take this opportunity to thank our principal shareholders and all others who made possible the capital restructuring. We welcome our new shareholders into the Company.

During the year we continued an analysis of all operating facilities. The Company's already efficient pulp mill was examined under the concept of the best available technology on a worldwide basis. As a result, a pulp mill optimization project was undertaken in 1984. Upon completion of this $20-million project in September 1985, operating costs will be substantially reduced and production increased. Annual costs will be reduced by approximately $7-million, and 30,000 tons of additional annual production will be available for the world marketplace. At today's prices, this volume will represent an increase in annual sales of some $13-million. The project is anticipated to have an after-tax payback of approximately three years.

The pulp mill optimization project together with ongoing improvements in all Divisions will greatly enhance Crestbrook's position in the forest products industry. The maintenance of state-of-the-art, economically efficient facilities is the Company's stated objective. Such facilities coupled with abundant resources and marketing programs will strengthen both the short and long-term profitability of the Company.

A new long-term borrowing facility was negotiated with our principal banker in December 1984, after incorporating a (U.S.) $8,000,000 existing loan. This facility will provide the capital required to complete the pulp mill optimization and other capital projects. The banking agreement provides for attractive floating rate interest alternatives which will permit the Company to minimize financial expense.

We have continued to improve our internal management information systems. During 1985, procedures and methods developed in 1984 will be implemented to provide our offices and manufacturing plants with a fully-integrated system. As a result, all levels of personnel will have the closest possible immediate contact with operating data. This will enable more timely decisions to be made, leading to improved profitability.

The Company is continuing to improve its industrial relations. We believe it is absolutely essential that labour and management work together to ensure short and long-term economic benefits. We are expanding communications with both our employees and the public.

We can be proud of the relationship that exists between the Company and its customers. Users of our products are essential to our economic well-being. To stengthen this relationship, we encourage customer visits to all our facilities. We also pursue a program of visits of Company personnel to customer's offices and manufacturing plants. Through this relationship and with a quality product, we feel we have the competitive advantage.

The markets for our products in 1984 were generally mixed. Demand for lumber in the United States was good, reflecting the excellent housing starts. However, the decline in demand for Canadian lumber in Europe and Japan led to a surplus in the United States. This applied downward pressure on prices which reached a low for Crestbrook in November 1984. Toward year end, there was a slight improvement in lumber prices.

Pulp prices were very low at the end of 1983 and into early 1984. They rose to a high level by June, but subsequently declined. Prices at year end were some $50 per ton below the June peak. The American, European and Japanese economies are expected to remain strong. We would, therefore, expect lumber prices to continue to strengthen. For similar reasons, pulp prices are projected to improve in the last half of 1985.

Although the year's results were not satisfactory, all factors considered, we are pleased with the overall performance in 1984. The Company's earnings rate in the last three quarters of the year enabled your Board, at its February meeting, to declare a dividend of five cents ($.05) per share.

The Company, its officers and employees are looking forward to the challenges of 1985.

On behalf of the Board of Directors,

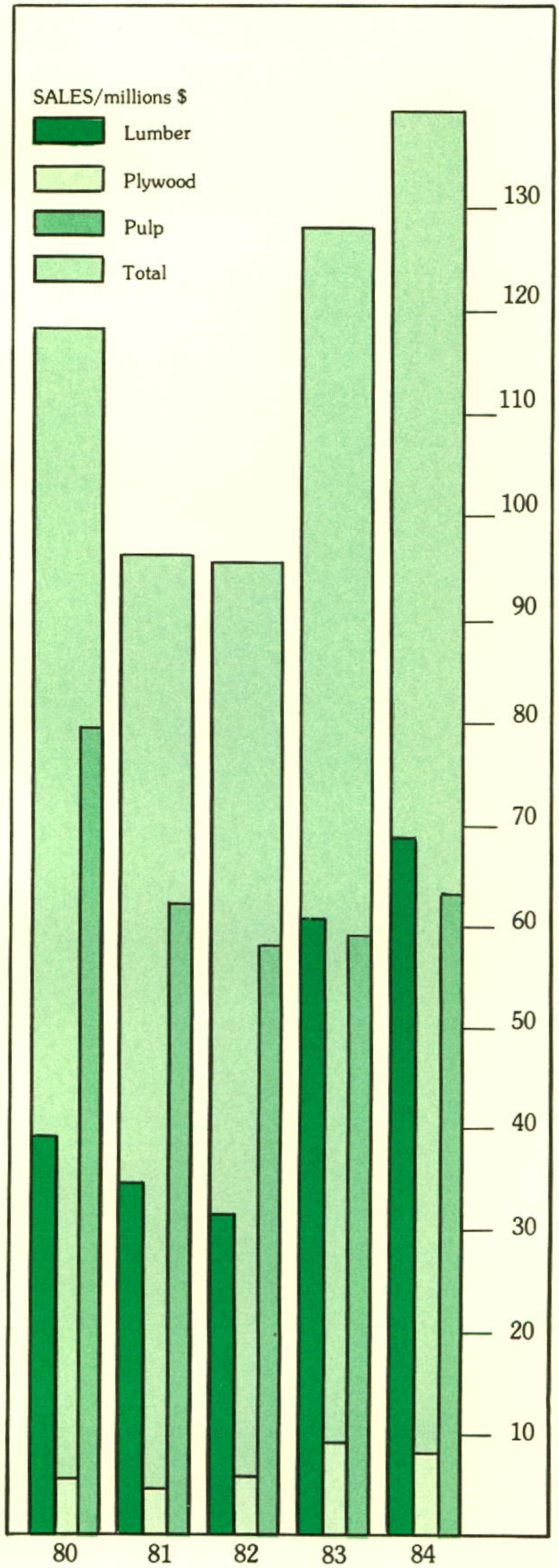
Stuart A. Lang

Stuart A. Lang, President

FINANCIAL HIGHLIGHTS 1984

	1984	1983
FOR THE YEAR		
Sales - Pulp	$ 62,388,000	$ 58,008,000
- Lumber	67,782,000	59,213,000
- Plywood	7,774,000	9,262,000
	137,944,000	126,483,000
Net earnings (loss)		
Amount	981,000	(1,162,000)
Per common share	$.13	($.17)
Return on net assets*	4.8%	1.5%
Cash flow from operations		
Amount	10,606,000	6,613,000
Per common share	$1.45	$ .98
Capital expenditures	12,698,000	15,880,000
Wages, salaries and employee benefits	45,095,000	38,768,000
Stumpage	1,568,000	1,304,000
Property taxes	2,510,000	2,381,000
AT YEAR END		
Working capital	13,132,000	10,742,000
Current ratio	1.4:1	1.3:1
Long term debt	28,130,000	32,462,000
Shareholders' equity		
Amount	42,823,000	33,659,000
Per common share	$5.61	$5.00
Number of employees	1186	1204

*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 log production in 1984 increased to 1,633,000 cubic meters from 1,294,000 cubic meters in 1983. The additional 339,000 cubic meters was cut primarily in the Elko Division harvesting areas which were acquired in 1983.

A relatively mild winter with light snowfall combined with a dry summer enabled the Company to surpass 1984 log delivery targets by substantial margins. Increased productivity was achieved through maximum utilization of the Company's off-highway road and railcar systems.

Increased use of mechanical harvesting equipment continued during the year with the acquisition of mobile log processors. These units delimb, measure, buck and top trees at the road side. This mechanization results in a higher-quality manufactured log at reduced costs with a safer operation.

The Company and other members of the industry participated with the Ministry of Forests in the development of a subsidiary management agreement for Tree Farm Licences. Such 'partnerships in management' will produce better and more cost efficient forest administration for both industry and the Province.

In 1984, the fire hazard was somewhat above average with twenty fires occuring in the Company's operating areas. All fires were extinguished with only minor losses by the prompt action of both the Company and the Forest Service.

Beetle attacks in spruce and Lodgepole pine stands were moderate in the Company's operating areas. Salvage of the affected timber was carried out without serious downgrading of fibre.

The Company's extensive road system allowed access for the rapid salvage of approximately 30,000 cubic meters of windfall timber blown down during the year. The balance of approximately 70,000 cubic meters will be salvaged in 1985 before any fibre degradation occurs.

Historically, about 75 percent of the area that the Company harvests is sufficiently restocked by natural regeneration. The balance is restocked from seedlings from nurseries. Crestbrook planted 2,000,000 seedlings during 1984. Scarification and slash burning was undertaken on 1,200 hectares of logged areas to promote natural regeneration.

In the forest industry bio-degradable plastic covers are used to create miniature greenhouses. These shelter cones protect and accelerate seed growth. In 1984 Crestbrook applied 70,000 of these cones on 60 hectares. Timber stand improvement and commercial thinning was expanded during 1984 to 3,000 hectares.

To test the impact of irrigation on growth rates the Company, with the cooperation of the City of Cranbrook, planted samplings of seven species of trees on the City's spray irrigation site. In 1985 this program will be continued with the planting of an additional 12 species. This experiment and activities of a similar nature are part of the Company's intensive forestry program undertaken to increase the forest yield.

WOOD PRODUCTS DIVISION

Housing starts in the United States, reflecting the strength of the American economy, reached 1.8-million in 1984, a level which normally balances supply with demand and results in profits to the industry. However, continuing weakness in the European economy, with only a modest level of housing activity in Japan, has been translated into supply pressure on the United States marketplace.

During 1984, lumber prices did not permit satisfactory profit levels for most companies. As a consequence, the American lumber industry, spurred on by the major forest product companies and with the assistance of their trade associations, is again actively seeking controls on Canadian lumber imports. This action is despite the International Trade Administration decision in 1983 which ruled that Canadian lumber was not being subsidized and therefore, should not be subject to countervailing duties. The outcome of this issue is important to Crestbrook which currently exports 90 percent of its lumber to the United States.

Lumber production from Company sawmills at Canal Flats, Cranbrook and Elko was at an all-time high in 1984, totalling 318,000 MFBM (thousand feet board measure), 45,000 MFBM more than the 1983 total of 273,000 MFBM. Increased lumber output reflects the uninterrupted operations at Canal Flats and Cranbrook, and a full year of manufacturing at Elko, a plant acquired by Crestbrook in mid-1983.

Lumber shipments in 1984 totalled 309,000 MFBM, an increase of 44,000 MFBM over 1983 shipments. Revenue from lumber sales increased to $67,782,000 from $59,213,000. On a fully-allocated basis both the Canal Flats and Cranbrook mills produced a modest profit in 1984. The Elko plant suffered losses but the modernization program commenced in 1984 should bring this plant to profitable levels by mid-1985.

A $1.6-million lumber sorting system and a machine stress-rated (MSR) grading line was completed at the Canal Flats planermill in May 1984. This modern, high-speed system will permit maximum product flexibility, as well as substantially reducing manpower requirements and operating costs.

Installation of a $2.8-million automatic lumber sorting system at the Elko sawmill was completed in August. The system is similar, but larger in design, to those in operation at Canal Flats and Cranbrook and will significantly improve Elko's operating results and profitability. In addition, work has begun at the Elko planermill on a $1.9-million lumber sorting system and an MSR Line similar to Canal Flats. This addition will result in a further reduction in operating costs, while improving profit margins and broadening product lines.

Crestbrook first produced MSR lumber in 1982 and, since then has made significant progress in developing a market for this specialty. Approximately 47,000 MFBM of the Company's total lumber output in 1984 was MSR production. In 1984, MSR production represented about 14 percent of the Company's lumber production. By mid-1985 Crestbrook will have an annual capacity of over 100-million FBM of marketable grades, making it one of the largest producers in Canada.

Plywood operations were not profitable for the industry or for Crestbrook in 1984. Plywood production at Fort Macleod decreased to 44,000 MSF (thousand square feet 3/8-inch basis) with shipments also dropping to 40,000 MSF. Sales revenue of $7,774,000, down from $9,260,000, reflected the year's decrease in production and shipments.

The Creston veneer plant operated on a one-shift basis throughout 1984, producing 70 percent of Fort Macleod's veneer requirements. The balance was purchased from outside sources.

In 1984, Crestbrook purchased some used equipment to modestly upgrade the Creston and Fort Macleod plants. The major improvement is a veneer dryer extension at Fort Macleod.

Transportation of Crestbrook's wood products to the North American marketplace received high priority in 1984. This was to take advantage of the lowest cost combination for direct rail and truck-rail reload opportunities made possible by United States rail deregulation. The Company strongly supports similar deregulation in Canada under which privately negotiated contracts between Canadian railroads and shippers would be authorized.

PULP DIVISION

Production and earnings in the Pulp Division were adversely affected in 1984 by the industry-wide labour dispute which took place from February 2 to April 9. During the remainder of the year, the pulp mill achieved record production levels with minimum amounts of off-quality pulp.

Pulp production in 1984 was 134,000 ADST (air-dry short tons), down from 156,000 ADST in 1983. Shipments decreased to 133,000 ADST from 162,000 ADST. Net pulp sales revenue, because of the improved selling prices, increased to $62,388,000 from the previous year's level of $58,008,000.

The Pulp Division continued to make significant contributions to the Company's cost restraint program. Reductions in manning and in-plant inventories were achieved. All non-essential expenses were deferred. Cost reduction projects, such as the addition of an oxygen extraction stage in the bleach plant and the installation of a chip conveying system to the digester were instrumental in allowing record daily pulp production to be achieved in 1984.

INDUSTRIAL AND COMMUNITY RELATIONS

As previously mentioned, due to a labour dispute in early 1984 the Company's pulp mill operations were curtailed for 66 days. Production resumed on April 9 and continued uninterrupted for the balance of the year. A collective agreement was signed with the Pulp, Paper and Woodworkers of Canada on July 9. Both the Company's International Woodworkers of America agreement signed in 1983 and the PPWC agreement expire June 30, 1986.

A new two-year collective agreement, which expires on July 31, 1986, was successfully negotiated with the IWA at the Fort Macleod plywood plant during 1984 without any disruption of production.

In spite of the prolonged labour dispute in 1984, there was no deterioration of union-management dialogue. Communications play an important role in Crestbrook's relationships with its employees.

In the spring of 1984, in conjunction with the Company's common share issue, a share purchase plan was offered to its employees. Over 25 percent of Crestbrook's employees participated in the plan and are now shareholders.

In 1984, the Company maintained its commitment to upgrade the technical and professional skills of its personnel. During the year a variety of training programs were made available for employees. Crestbrook's ongoing scholarship, bursary and donations programs were fully utilized throughout the year.

Accident prevention continues to be one of the Company's primary objectives. There was a 22 percent reduction in injury frequency in 1984. Crestbrook's safety performance puts it in the top quartile of the British Columbia interior forest industry. The Company has pioneered innovative programs such as faller certification for woodlands operations. This program was developed in response to an identified need to ensure that personnel employed in this hazardous occupation are properly trained to minimize risks to themselves and their co-workers.

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1984

	1984	1983
NET SALES		
Pulp	$ 62,388,000	$ 58,008,000
Lumber and plywood	75,556,000	68,475,000
	137,944,000	126,483,000
OPERATING COSTS AND EXPENSES		
Cost of sales	115,101,000	108,599,000
Selling, general and administrative	6,548,000	5,719,000
Depreciation, amortization and depletion	9,048,000	8,229,000
	130,697,000	122,547,000
EARNINGS FROM OPERATIONS	7,247,000	3,936,000
Financial expenses (note 10)	5,775,000	5,552,000
EARNINGS (LOSS) BEFORE INCOME TAXES	1,472,000	(1,616,000)
Income taxes (note 11)	491,000	(454,000)
NET EARNINGS (LOSS) FOR THE YEAR	$ 981,000	$ (1,162,000)
NET EARNINGS (LOSS) PER COMMON SHARE (note 8)	$ .13	$ (.17)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1984

	1984	1983
RETAINED EARNINGS AT BEGINNING OF YEAR	$ 2,991,000	$ 3,898,000
Net earnings (loss) for the year	981,000	(1,162,000)
Share issue expenses, less income tax reduction of $311,000 (note 9)	(367,000)	-
Contributed surplus	-	255,000
RETAINED EARNINGS AT END OF YEAR	$ 3,605,000	$ 2,991,000

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1984

	1984	1983
WORKING CAPITAL DERIVED FROM		
Operations (note 12)	$10,606,000	$ 6,613,000
Long term debt	-	20,359,000
Common share issue (note 8)	8,550,000	-
Disposal of property, plant and equipment	933,000	175,000
Other	9,000	-
	20,098,000	27,147,000
WORKING CAPITAL APPLIED TO		
Additions to property, plant and equipment	12,698,000	15,880,000
Reduction of long term debt	4,332,000	8,465,000
Share issue expenses (notes 8 and 9)	678,000	-
Other	-	128,000
	17,708,000	24,473,000
INCREASE IN WORKING CAPITAL	2,390,000	2,674,000
WORKING CAPITAL AT BEGINNING OF YEAR	10,742,000	8,068,000
WORKING CAPITAL AT END OF YEAR	$13,132,000	$10,742,000

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, 1984 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, 1984 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, except for the change in the method of accounting for the translation of foreign currency explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Cranbrook, Canada
January 30, 1985.

"Thorne Riddell"
Chartered Accountants

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1984

ASSETS	1984	1983
CURRENT ASSETS		
Accounts receivable (notes 3 and 13)	$14,618,000	$17,281,000
Inventories (note 4)	28,445,000	25,156,000
Prepaid expenses	551,000	593,000
	43,614,000	43,030,000
INVESTMENTS AND DEPOSITS , at cost	583,000	592,000
PROPERTY, PLANT AND EQUIPMENT		
Buildings, machinery and equipment (note 5)	111,914,000	105,407,000
Less accumulated depreciation	59,536,000	54,793,000
	52,378,000	50,614,000
Roads and bridges less amortization of $16,425,000 (1983-$13,889,000)	11,924,000	10,571,000
Timber holdings less depletion of $742,000 (1983-$311,000)	4,159,000	4,590,000
Land	1,348,000	1,317,000
	69,809,000	67,092,000
	$114,006,000	$110,714,000

Signed on behalf of the Board of Directors:
"Akira Shibanuma"
Director
"Stuart A. Lang"
Director

LIABILITIES	1984	1983
CURRENT LIABILITIES		
Bank indebtedness (note 6)	$ 9,611,000	$ 8,974,000
Accounts payable and accrued liabilities	16,190,000	13,661,000
Principal due within one year on long term debt	4,681,000	9,653,000
	30,482,000	32,288,000
LONG TERM DEBT (note 7)	28,130,000	32,462,000
DEFERRED INCOME TAXES	12,571,000	12,305,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)		
Authorized		
20,000,000 Common shares without par value		
462,000 6% Cumulative convertible redeemable non-voting preferred shares with a par value of $50.		
Issued		
Common shares (1984-7,633,438, 1983-4,029,204)	39,218,000	7,568,000
Preferred shares (1984-Nil, 1983-462,000)	-	23,100,000
	39,218,000	30,668,000
RETAINED EARNINGS	3,605,000	2,991,000
	42,823,000	33,659,000
	$114,006,000	$110,714,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1984

1. SIGNIFICANT ACCOUNTING POLICIES

[a] Basis of Consolidation

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

[b] Translation of Foreign Currencies

Current assets, current liabilities and long term debt in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the end of the year. Exchange gains and losses are included in the determination of net earnings, except for those related to translating the long term debt, which are deferred and amortized over the remaining life of the debt. Income and expense items are translated at rates prevailing when the transaction occurred or at rates established by forward exchange contracts.

[c] 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.

[d] 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. Rates of depreciation by principal asset classification on assets purchased new are as follows:

Buildings and site improvements	5%
Pulp mill machinery and equipment	5% to 15%
Lumber and plywood mill machinery and equipment	6% to 15%
Logging and other machinery and equipment	6% to 25%

Mobile equipment, used buildings and used machinery and equipment are depreciated at rates based upon their estimated remaining useful lives.

Roads, bridges and timber holdings are amortized based on the utilization of timber resources.

[e] 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, depletion and other items for tax purposes in amounts differing from those recorded in the accounts.

2. CHANGE IN ACCOUNTING FOR TRANSLATION OF FOREIGN CURRENCIES

The method for translating long term debt in foreign currencies into Canadian dollars has been changed in 1984 in accordance with an amendment to generally accepted accounting principles and is described in note 1 (b). In prior years current assets and current liabilities were translated into Canadian dollars at the rate of exchange in effect at the end of the year. The non current portion of long term debt was translated at historic rates.

As a result of this change, which has been adopted on a prospective basis, net earnings for 1984 have been decreased by $238,000.

3. ACCOUNTS RECEIVABLE

Accounts receivable include $2,418,000 (1983 - $2,420,000) 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.

4. INVENTORIES

	1984	1983
Logs	$10,200,000	$ 8,650,000
Chips	802,000	2,170,000
Lumber and plywood	11,418,000	8,585,000
Pulp	2,056,000	1,557,000
Materials and supplies	3,969,000	4,194,000
	$28,445,000	$25,156,000

5. BUILDINGS, MACHINERY AND EQUIPMENT

	1984			1983
	Cost	Accumulated Depreciation	Net	Net
Buildings and site improvements	$ 18,688,000	$ 7,966,000	$10,722,000	$10,676,000
Machinery and equipment	78,789,000	44,575,000	34,214,000	33,976,000
Mobile equipment	12,024,000	6,995,000	5,029,000	4,996,000
Construction in progress	2,413,000	-	2,413,000	966,000
	$111,914,000	$59,536,000	$52,378,000	$50,614,000

6. BANK INDEBTEDNESS

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

7. LONG TERM DEBT	1984	1983
Honshu Paper Co., Ltd. Series One Bonds, interest at Industrial Bank of Japan long term prime rate plus 1½% repayable 1985 to 1987	$ 1,600,000	$ 2,650,000
Mitsubishi Corporation Series One Bonds, interest at Industrial Bank of Japan long term prime rate plus 1½% repayable 1985 to 1987	1,600,000	2,650,000
The Royal Bank of Canada Revolving loan, interest at London Inter-Bank Offered Rate plus ½% repayable 1988 to 1990 (U.S.$8,000,000)	10,564,000	14,124,000
Dai-Ichi Kangyo Bank (Canada) Note payable, interest at London Inter Bank Offered Rate plus ½% repayable 1985 to 1989 (U.S.$4,000,000)	5,282,000	4,978,000
Note payable	-	1,493,000
The Bank of Tokyo Canada Note payable, interest at London Inter Bank Offered Rate plus ½% repayable 1985 to 1989 (U.S.$3,000,000)	3,962,000	3.733,000
Note payable	-	996,000
Mitsubishi Bank of Canada Note payable, interest at London Inter Bank Offered Rate plus ½% repayable 1985 to 1989 (U.S.$3,000,000)	3,962,000	3,733,000
Shell Canada Resources Limited Agreement payable, interest at Bank of Montreal prime rate payable 1985 to 1987	7,000,000	7,895,000
	33,970,000	42,252,000
Less principal due within one year included in current liabilities	4,681,000	9,653,000
	29,289,000	32,599,000
Less deferred charge, being the unamortized exchange loss on translation of U.S. dollar loans to Canadian dollars at the year end.	1,159,000	-
Less unrealized loss	-	137,000
	$28,130,000	$32,462,000

The Series One Bonds and the Shell Canada Resources Limited agreement payable are secured by fixed and floating charges on the company's assets.

The company has entered into a loan agreement with the Royal Bank of Canada which enables it to borrow on a revolving basis up to $35,000,000 or its U.S. equivalent, to June 30, 1987. The balance of the loan outstanding at June 30, 1987 will be repaid over the period from June 30, 1988 until June 30, 1992. Interest rates will be at the bank prime rate on Canadian dollar borrowings and at the London Inter Bank Offered Rate plus ½% on U.S. dollar borrowings until June 30, 1987 and subsequent to that date will be increased by ¼%. The borrowings under the agreement are secured by fixed and floating charges on the company's assets.

Principal due within each of the next five years (translated at the rate of exchange in effect at December 31, 1984) is as follows:

1985 $4,681,000	1986 $5,641,000	1987 $4,500,000
	1988 $9,292,000	1989 $9,292,000

8. CAPITAL STOCK

On April 6, 1984, the shareholders authorized the subdivision of all the unissued and issued common shares on the basis of three for one and increased the authorized common shares from 13,500,000, following the subdivision, to 20,000,000 common shares. In addition, the shareholders after approval by a majority of common shareholders other than Honshu Paper Co., Ltd. and Mitsubishi Corporation, amended the special rights and restrictions attached to the preferred shares by deleting a prohibition on the creation or issuance of common shares and by attaching a provision entitling the existing holders of the preferred shares to convert the preferred shares into common shares on the basis described below.

On May 15, 1984, the company made a public issue, for cash, of 900,000 common shares at a price of $9.50 per share. Concurrently with the public offering of common shares, the 462,000 issued preferred shares held by Honshu Paper Co., Ltd. and Mitsubishi Corporation were converted into 2,704,234 common shares. The number of common shares issued on the conversion was the par value of the preferred shares plus an amount equal to cumulative dividends in arrears accruing to May 15, 1984 divided by the $9.50 per share price paid by the public for common shares issued. The cumulative dividends in arrears were extinguished by operation of law upon the conversion into common shares.

All references in these financial statements to numbers of common shares reflect the three for one subdivision.

9. SHARE ISSUE EXPENSES

Expenses relating to the May 15, 1984 share issue amounted to $678,000. A reduction in income taxes of $311,000 attributable to these expenses has been offset against the share issue expenses charged to retained earnings.

10. FINANCIAL EXPENSES

	1984	1983
Interest on long term debt	$4,521,000	$3,229,000
Other interest	763,000	1,189,000
Interest income	(46,000)	(62,000)
	5,238,000	4,356,000
Foreign exchange loss on long term debt	537,000	1,196,000
	$5,775,000	$5,552,000

11. INCOME TAXES

The company's effective rate of income taxes (recoveries) is made up as follows:

	1984	1983
Combined basic federal and provincial rate (recovery)	52.0%	(52.0)%
Manufacturing and processing allowance	(6.0)	6.0
	46.0	(46.0)
Deferred tax drawdown difference between current and historic rates	-	.7
Foreign exchange loss on long term debt	16.8	33.5
Inventory allowance	(20.8)	(15.7)
Other	(8.6)	(.6)
Effective rate of income taxes (recovery)	33.4%	(28.1)%

12 WORKING CAPITAL DERIVED FROM OPERATIONS

	1984	1983
Net earnings (loss) for the year	$ 981,000	$(1,162,000)
Items not involving working capital:		
Depreciation, amortization and depletion	9,048,000	8,229,000
Deferred income taxes	577,000	(454,000)
	$10,606,000	$ 6,613,000

13. RELATED PARTY TRANSACTIONS

Honshu Paper Co., Ltd. and Mitsubishi Corporation are parties related to the company. Between them, Honshu and Mitsubishi own 64% of the common shares and hold the Series One Bonds.

The company, Honshu and Mitsubishi are parties to a pulp sales agreement. Under the terms of the agreement, Honshu and Mitsubishi are obligated to purchase all pulp produced by the company at current prices in the various markets less percentage discounts fixed by the agreement. The gross transactions and related discounts were as follows:

	1984	1983
Gross transactions	$78,427,000	$75,401,000
Discounts	3,503,000	3,254,000

An amount of $6,318,000 at December 31, 1984 (1983-$8,666,000) relating to the agreement and arising in the ordinary course of business was included in accounts receivable.

14. SEGMENTED INFORMATION.

a) Industry Segmentation

The company has all its operations in the forest products industry and is vertically integrated therein. All its revenues are generated from the sale of bleached kraft pulp, lumber and plywoood manufactured by the company.

b) Distribution of net sales

The distribution of net sales was as follows:

	1984	1983
United States	$100,281,000	$ 81,575,000
Canada	17,633,000	21,914,000
Japan	15,018,000	14,285,000
Europe	3,090,000	5,435,000
Mexico	1,922,000	3,274,000
	$137,944,000	$126,483,000

15. COMMITMENTS

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. $30,000,000 at December 31, 1984 at an average rate of Canadian $1.2363. One half of the contracts expire in each of 1985 and 1986.

The company engages in a lumber hedging program whereby it reduces its exposure to lumber price fluctuations. At December 31, 1984, the company had hedged 34,710 MFBM at an average price of U.S. $171.59 per MFBM.

The company has committed $11,558,000 at December 31, 1984 for a capital project at the pulp mill to increase production and reduce operating costs that will eventually cost approximately $20,000,000 and is scheduled for completion in September, 1985.

16. EMPLOYEE PENSION PLANS

The company maintains pension plans for all salaried employees. As at January 1, 1984, the date of the last actuarial evaluation, the pension plans in total were fully funded. 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 those agreements.

17. RECLASSIFICATION

Certain of the 1983 figures have been reclassified to conform with the 1984 presentation.

FINANCIAL REVIEW

In thousands of dollars	1984	1983	1982	1981	1980
EARNINGS					
Revenue	$137,944	$126,483	$ 93,811	$ 95,751	$118,080
Cost of Sales and General Expenses	121,649	114,318	91,679	80,294	85,652
Depreciation, Amortization & Depletion	9,048	8,229	6,994	6,984	6,279
Earnings (Loss) from Operations	7,247	3,936	(4,862)	8,473	26,149
Financial Expenses	5,775	5,552	5,340	4,083	4,514
Income Taxes	491	(454)	(4,003)	2,046	9,964
Net Earnings (Loss)	$ 981	$ (1,162)	$ (6,199)	$ 2,344	$ 11,671
Net Earnings (Loss) per Common Share	$ .13	$ (.17)	$ (.92)	$ .35	$ 1.73
CHANGES IN WORKING CAPITAL					
Working Capital from Operations	$ 10,606	$ 6,613	$ (3,487)	$ 12,413	$ 22,124
Common share issue	7,872	-			
Increase (Decrease) Long Term Debt	(4,332)	11,894	2,964	(6,735)	(6,937)
Additions to Property, Plant & Equipment	(12,698)	(15,880)	(4,205)	(9,251)	(9,052)
Dividends on Preferred Shares	-	-	(693)	(1,386)	(1,386)
Dividends on Common Shares	-	-	-	(1,343)	(1,343)
Other	942	47	104	278	902
Increase (Decrease) in Working Capital	$ 2,390	$ 2,674	$ (5,317)	$ (6,024)	$ 4,308
FINANCIAL POSITION					
Working Capital	$ 13,132	$ 10,742	$ 8,068	$ 13,385	$ 19,409
Property, Plant & Equipment	69,809	67,092	59,616	62,536	60,617
Investments and Deposits	583	592	464	437	367
Net Assets	83,524	78,426	68,148	76,358	80,393
Deferred Income Tax	12,571	12,305	12,759	17,041	13,956
Long Term Debt	28,130	32,462	20,568	17,604	24,339
Shareholders' Equity	$ 42,823	$ 33,659	$ 34,821	$ 41,713	$ 42,098
PRODUCTION VOLUMES					
Pulp — ADST	133,810	156,269	137,456	127,110	164,514
Lumber — MFBM	318,016	272,674	182,019	155,639	182,327
Plywood — MSF 3/8's Equivalent	43,500	44,818	36,903	20,931	23,348

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