

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

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In 1972, for instance, 6 percent of the people in this country held 49.5 percent of all assets, including 72.2 percent of all stock, and had 52.4 percent of the total net worth.³ A broader distribution of wealth, it is argued, would increase not only the material well-being of people, but also would give them a greater sense of participation in the economic system. This in turn would result in greater productivity.

The second argument is that employee ownership provides a means to save businesses and jobs when a company would otherwise close, be liquidated, or relocate, possibly abroad. Many companies close for reasons unrelated to profitability, such as the retirement of the owner or cash needs of a conglomerate; while others which were previously unprofitable can be made profitable when employees actually own the company. Employee ownership, in these cases, would provide a very desirable alternative to a program of government transfer payments for unemployed workers. This, of course, would also be a tremendous benefit to the community which would otherwise lose the business activity and have to be a contributor to the unemployed.

The Government policy on employee ownership has been mixed. The Small Business Administration, the Farmers Home Administration, and especially the Economic Development Administration have made loans to employee organizations who have purchased their firms, but the number of loans has been limited (13) and most employee take-overs have had to be accomplished through conventional financing means. At this point, financing employee ownership conventionally is extremely difficult. Government tax support for employee ownership has concentrated on ESOPs, giving substantial benefits to companies who can take advantage of these provisions.

The remainder of this report will develop these points in detail, with particular attention to companies actually owned by employees, as it is in this area that Congress will be considering new legislation next year.

I. DIMENSIONS OF EMPLOYEE OWNERSHIP

As mentioned above, according to one estimate approximately 1,000-3,000 firms have ESOPs.⁴ ESOPs are employee ownership plans in which employer contributions and/or the use of employee stock ownership trusts as leveraging devices are used to transfer stock ownership to employees over a period of time. Their operation will be discussed in detail below. There are, in addition, an undetermined, but probably small, number of companies whose assets are directly owned by employees, either through stock purchase or cooperative purchase of assets.

Roughly ninety firms have been identified in which a majority of the equity is owned by a majority of the employees. This list probably is fairly comprehensive for all but the smallest of businesses, since it excludes what is probably a large number of small producer cooperatives.

The characteristics of employee owned firms recently have been explored by the University of Michigan's Survey Research Center.

³ James D. Smith and Steven Franklin, "The Distribution of Wealth Among Individuals and Families," 1975.

⁴ Employee Ownership: Report to the Economic Development Administration, Survey Research Center, Institute for Social Research, University of Michigan, estimated 1,100 in 1977, while the Employee Stock Ownership Council of America estimated 3,000 to committee staff in 1978.

In a survey of 100 employee owned firms, the Center found that 68 of 98 firms for which data was available were owned through ESOPs.⁵ In a related study, about one-third of the firms were found to be small, using the Small Business Administration's criteria.⁶ The ESOP firms tended to be larger than the non-ESOP firms.⁷ Table 1 gives a detailed breakdown of the size characteristics of the surveyed firms.

TABLE 1.—SIZE CHARACTERISTICS OF EMPLOYEE OWNED FIRMS BY OWNERSHIP TYPE

[In percent]

	ESOP's (68)	Direct (30)	Total (98)
Number of employees:			
4 to 99.....	18	20	18
100 to 249.....	18	37	23
250 to 999.....	38	23	34
1,000 plus.....	26	20	25

Source: "Employee Ownership, op. cit."

The percentage of equity owned by employees varies considerably as well:

TABLE 2.—PERCENT OF EQUITY OWNED BY EMPLOYEES, BY EMPLOYEE TYPE, AND BY OWNERSHIP PLAN

[Percent owned by all workers/percent owned by hourly workers]

	Ownership plan					
	ESOP's		Direct		Total	
	All	Hourly	All	Hourly	All	Hourly
Percent of equity owned:						
0 to 9.9.....	4	50	4	16	4	40
10 to 49.9.....	18	43	18	20	18	36
50 to 100.....	78	7	78	64	78	24

Source: "Employee Ownership, op. cit."

The table shows that employees own a majority of the equity in a majority of the companies. This is probably misleading, however, if it is taken to be representative of all companies with some degree of employee ownership. The 100 companies identified for the survey are probably owned by employees more than the several hundred not identified, since the survey was not a random sampling, but simply a survey of all the companies the authors could find that were known to have employee ownership. Those with substantial employee ownership, being unusual, are probably better known and thus more likely to be included. Committee staff, for instance, has been able to find only 90 companies in the country in which a majority of the equity is owned by a majority of employees. It appears, therefore, that in most companies with employee ownership allow employees to own only a minority of the stock, and that the distribution of ownership is skewed towards management.

The table is more revealing with respect to the differences between direct and ESOP ownership. In directly owned companies, hourly workers are much more likely to own a majority of the equity (64 per-

⁵ Employee Ownership, op. cit., p. 7.⁶ Sockell, op. cit.⁷ Employee Ownership, op. cit.

cent of the cases), whereas in ESOP companies hourly workers own considerably less (only 7 percent of the ESOP companies have hourly employees owning a majority of the equity). These companies concentrate ownership in managers, since most distribute stock according to salary to qualify for certain tax benefits. Overall, the study found that regardless of ownership form, firms of moderate size (100-250 workers) were most likely to be owned by hourly workers.⁸

The study found that companies chose to become partly or wholly owned by employees for a variety of reasons, but ESOP firms cited employee incentives most commonly, closely followed by the financial benefits to the firm of using ESOPs for capital acquisition. Directly owned companies cited saving jobs most frequently.⁹ The reason for this is that ESOPs are generally set up by existing companies as employee benefit plans, while direct employee ownership is usually the result of employee efforts to keep a plant alive.

In the following sections, ESOP and direct ownership plans will be evaluated in greater detail. The overall performance of employee owned firms will then be evaluated, followed by a section on government support for the idea and one on pending legislation.

II. EMPLOYEE STOCK OWNERSHIP PLANS

Employee Stock Ownership Plans are largely the effort of Louis Kelso, a San Francisco attorney who has argued that the success of the capitalist system will depend on broadening stock ownership. When a company sets up an ESOP it can now qualify for a number of tax benefits, a result of Congress's favorable position on the plans. Partly as a result of these benefits, ESOPs have been spreading widely in recent years.

Under an ESOP, a company establishes an employee stock ownership trust (ESOT). As Congress specified in the Employee Retirement Income Security Act of 1974, the trust, if properly established, qualifies as a stock bonus plan under section 401(a) of the Internal Revenue Code. The Trust then arranges a loan from a bank or other credit source to be used for company capital needs. The creditors will require that the company fully guarantee the ESOT borrowing, something the company is specifically allowed to do under the 1974 Pension Reform Act. The Trust uses the money it has received from the creditor to purchase company stock. The stock stays in the Trust: the company pledges to pay the Trust sufficient amounts to repay the principal and interest on the loan. Interest and principal are tax deductible, up to 15 percent of the covered payroll or 25 percent if the plan is being used as a retirement fund. The company benefits in that normally only interest payments are deductible on a loan. The entire contribution to the ESOT is thus in pretax dollars, so that a company in a 46-percent bracket will, in effect, be paying only 54 percent of the cost of both the program and the loan. The employees benefit because they will acquire the stock, which will vest with them as the loan is repaid. Vesting usually begins a few years after the loan is made. The employees receive their stock when they retire, died, or leave the company.

⁸ *Employee Ownership*, op. cit., pp. 14-5.

⁹ *Employee Ownership*, op. cit.

Ten year income averaging, rollover into Independent Retirement Accounts, and capital gains treatment of the income, are the usual ways to avoid paying high taxes on the benefits. During their period of employment, however, the employees have paid nothing for the stock.

This added stake in the company, theoretically, will help the morale and motivation of the employees, resulting in greater productivity. The distribution of stock is usually made according to salary.¹⁰ Plan participation is voluntary.

This description of ESOPs suggests that they allow a company to use the same dollars to repay a loan and to establish an employee benefit plan, while deducting much of the cost through tax writeoffs. As we shall see below, moreover, ESOPs have additional special tax benefits. There is, however, considerable disagreement about the actual benefits of ESOPs both for the company and for the worker.

ESOPs AND TAXES

The Tax Reduction Act of 1975 established an additional 1-percent investment tax credit for any company setting up a qualified ESOP. The essential new qualifications were that the stock had to be distributed according to salary (ignoring amounts over \$100,000), stock voting rights had to be passed through, and vesting had to be immediate. Until that time, ESOPs had been limited primarily to small, closely held companies which have used ESOPs as a means of creating a market for their stock, transferring ownership of stock to favored employees, or establishing an employee benefit plan. Use for financing growth was less common.¹¹ The 1-percent credit meant, however, that a company which was making investments, qualified under the investment credit provisions of the law, could receive from the government an amount equal to 1 percent of the cost of the investment if they established an ESOP. In other words, the government would make a contribution to the ESOP. The 1975 Act applied only to 1975 and 1976. In 1976, however, it was extended to 1980 and increased to 1.5 percent, provided the employees contributed .5 percent (otherwise the 1-percent credit applied). In 1978, the credit was further extended to 1983.

ESOPs established under this act (called TRASOPs) have been found primarily in large, capital intensive industries, for it is these companies who are making large enough investments and have few enough employees so that the 1- or 1.5-percent credit amounts to a significant amount per employee.¹² By contrast, for a large retailer, for instance, the benefit per employee would be less than \$10.¹³ Under these conditions, the cost of establishing the plan would exceed its benefits, especially since the plan requires that employees have voting rights. Even if a company had an ESOP, it might choose not to use the credit if it were small or labor intensive, due to the additional plan requirements stipulated by the act. Finally, a company cannot be sure that the credit will last beyond 1983, even though the ESOP obligation established under the bill would continue past that date.

¹⁰ *Employee Ownership*, op. cit.

¹¹ *ESOPs—An Analytical Report*, Hewitt Associates, 1977, p. 12.

¹² *Broadening the Ownership of New Capital*, op. cit., pp. 41-9.

¹³ *Making New Capitalists—A Creative Response to Income Inequities*, Richard J. Smith, Department of State Executive Seminars, 1978, p. 18.

In addition to the limits of the tax advantage under the Tax Reduction Act, there is some debate over the usefulness of ESOPs to finance growth and employee benefit funds with pretax dollars. A company could borrow money from a creditor and make a stock contribution equal to the principal amount of the loan to an employee fund. The tax situation of the company would be precisely the same, since it could deduct the interest on the loan and the amount being contributed in stock to the fund.¹⁴ While the difference between the two approaches would be negligible for the employer, except that he would not have to create an ESOT, the employee might notice a very important difference: under an ESOP, the entire amount of the loan is credited to the ESOT at the time the loan is made (in stock). In the alternative plan, stock accumulates only as the loan is repaid. The employee thus loses all the appreciation on the stock not credited to the fund over the life of the loan, an appreciation which could be substantial, especially during periods of inflation. Viewed conversely, if the employee must wait for installments of stock over a period of years, he is, in effect, having the value of the stock discounted by its anticipated appreciation, including the amount due to inflation.

In sum, the tax benefits for a company employing an ESOP are significant for some companies, but for most the tax laws simply put ESOPs on a similar footing with other employee benefit plans. The increase in their use, therefore, probably cannot be attributed to tax incentives per se. In fact, as of 1978, only 200 TRASOPs had been set up, but, altogether, there were at least five times as many ESOPs.¹⁵ The spread of ESOPs, therefore, must be attributed to its other uses: a vehicle for financing, a genuine desire of employers to broaden stock ownership as a means to increase employee incentives, or as a means to transfer ownership of a company to employees. Data referred to above confirm this view. The following sections will explore these areas in greater specificity.

ESOP'S AS A FINANCING VEHICLE

The primary advantages of ESOPs as financing vehicles were listed at the outset of this chapter: The entire loan repayment (principal and interest) is deductible, there is a tax credit for some companies of 1 or 1.5 percent, a source is provided for buying out large stockholders or transferring stock to employees, and ESOP financing can be used simultaneously for a wide variety of financial needs and setting up an employee benefit plan with the same dollars. These advantages must be set against a number of disadvantages:

(1) A company could follow the example set forth on the preceding page and contribute stock to a fund as it repaid the loan. This would be less beneficial for employees, but the company would retain the stock, and thus any appreciation it might have, for a longer time.

(2) The issuance of new stock to the ESOT will mean a dilution of stock value for existing shareholders unless the new growth financed through the ESOP is large enough to offset the dilution. This can be of serious concern in a small, privately held company, especially if the plan carries voting rights with it.

¹⁴ *Making New Capitalists*, op. cit., p. 19.

¹⁵ *Making New Capitalists*, op. cit., p. 20.

(3) ESOPs must conform to pension laws and, if a credit is sought, TRASOP provisions. The cost of compliance may be a significant barrier for some companies.^{15a}

Of course, in any case, a company seeking to finance new growth must evaluate all the costs of whatever financing method it chooses—debt financing (eg; conventional loans), equity financing (eg; selling stock), or ESOP financing. One careful analysis of the costs of these approaches was made by Hewitt Associates. The study assumed that the company was in the highest tax bracket and thus could make full use of the principal and interest deduction features of ESOP, but did not assume the 1 percent credit was claimed. The study concluded that ESOP financing was better than debt financing by 15 percent over a 10-year period, but 15–20 percent worse than equity financing.¹⁶ Of course, this example makes a number of important assumptions, but it does suggest that ESOPs should be more popular with closely held companies, since they would have difficulty with equity financing. Other than publicly held companies using the 1.5 percent credit of TRASOPs, this does seem to be true among ESOP companies.

The study also may be less applicable to small firms with lower corporate tax rates. For them, the ability to deduct the principal and interest portions of the payments to the Trust are less important than for more highly taxed firms.

As with the tax benefits for ESOPs, then, the financing benefits appear mixed and appropriate only to certain firms. A large or moderate sized company with a payroll large enough so that the borrowing it envisaged would be less than the 15 percent limit on deductibility would be ideally suited for ESOPs.

The previous two sections, however, have disaggregated the benefits of ESOPs and evaluated them separately. In fact, the primary advantage of an ESOP is that it can simultaneously be used for financing, for tax benefits in some cases, and for establishing an employee benefit plan, a plan which, by disbursing ownership, should increase motivation. While a company might be able to accomplish all these goals separately for the same money, ESOPs provide a convenient device to do all three which, at least for some companies, could provide important financial benefits.

ESOPs should not be evaluated only as a tool for the company, however, since they have important consequences for employees as well, as will be discussed below.

USING ESOP'S TO TRANSFER OWNERSHIP TO EMPLOYEES

Before turning to the effects of ESOPs on employees, however, one additional function of the plans needs to be considered their use to transfer a business to its employees. It is in this respect that ESOPs are particularly helpful. All analysts, including those critical of ESOPs, seem to agree that they provide a very advantageous approach for these situations.

There are two situations in which a company is sold—a divestiture from a parent company or a sale from an independent owner upon retirement, death, movement to a new position, etc.

^{15a} For a comprehensive review of ESOP financing disadvantages see Jared Kaplan, "ESOP's Fable," *Taxes*, 1975, pp. 898–912.

¹⁶ ESOP's—An Analytical Report, Hewitt Associates, 1977, pp. 34–5.

In the divestiture case, an ESOP would work as follows: The parent company creates a new company, which in turn creates an ESOP. The ESOP sets up an ESOT which secures a loan, which the new company (and sometimes the parent company) guarantees, using the assets of the company it is about to buy as collateral. The ESOT uses the money from the loan to buy the new company. The assets of the new company are exchanged for stock in the company (in effect, the ESOT gives the assets to the new company in return for an equivalent value in stock). The loan is repaid through the ESOT by the new company, which has pledged to make sufficient funds available to the ESOT for repayment. The payments through the ESOT, of course, are deductible up to the 15-percent or 25-percent limit.¹⁷

The company could accomplish the same thing by getting a bank loan and then setting up an employee benefit fund and making stock contributions equal to principal payments. This would amount to the same thing as an ESOP, except that the employees, who are now the owners of the company, would not get the full benefit of stock appreciation as the loan is being repaid. Since the employees now own the company, there would be no reason not to set up a plan in this manner.

Unless a government agency or the parent firm is backing up the loan to the ESOP, it is unlikely that a bank or other creditor would loan the money for the purchase of the company unless the individual employees could put forward a substantial amount of their own capital. The ESOP device, therefore, is not a magical tool for creating capital and credit where none existed before, but it is extremely useful in many circumstances.

The main benefit it offers is the creation of a market for the subsidiary. When a parent company decides to close or sell a subsidiary, other buyers may be reluctant to take the firm over. In many cases, the buyers simply may be other conglomerates only. ESOPs thus offer a way to sell a company so that new company is an independent, locally owned firm. Because the ESOP offers a means for purchasing the company in pretax dollars the new buyers are off to a better start than if they had to raise their capital on their own to buy the firm (in that case only the interest would be deductible). The result of all this is that the parent company has a buyer and the employees, rather than losing their jobs or being taken over by another conglomerate, can keep their jobs and have a stake in their new company.

ESOPs are also very useful when an owner wants to sell his company or his share in his company. Normally the sale of stock by an owner to his corporation is taxed as income, unless all or most of the stock is sold at one time, which an owner may not want to do as he plans to leave a company over a period of time. Under an ESOP, the owner simply makes contributions to an ESOT (straight contributions, not new borrowings), which the ESOT then uses to buy the stock. The IRS has held that this is not the same as a normal stock purchase and the sale of the stock is treated as a capital gain.¹⁸

In addition, of course, in any sale by an owner to his employees, the ESOP offers the same advantages as in the divestiture case: Creation of a market and the ability of employees to buy the company in pretax dollars.

¹⁷ "ESOP: Pluses and Minuses", Robert Reum and Sherry Milliken Reum, *Taxes*, July-August, 1976, p. 139.

¹⁸ Neil Wassner, statement before the Joint Economic Committee, hearings on ESOPs, 1975.

Unlike the other aspects of ESOPs, then, their use in transferring ownership seems almost unequivocally beneficial, especially for the employee purchasers. Only in the case where a company desires to sell to another company through an exchange of stock (which would avoid capital gains taxes) would an ESOP purchase present a problem. This option only applies, however, in cases where a subsidiary is highly marketable and another conglomerate with desirable stock is interested.

ESOPs AND EMPLOYEES

ESOPs are clearly beneficial to employees seeking to buy their firms, but in ongoing concerns their benefits depend on the values of the employees.

ESOP proponents claim that ESOPs provide employees with stock at no cost to them. Thus, even if the company goes out of business and the stock becomes worthless, the employees have not lost anything. This, however, is an unrealistic view, since the ESOPs are likely to be viewed by the company as a form of employee compensation, thus reducing the need for other modes of compensation.

For the employee, in many cases, the choice is between an ESOP and some other form of employee benefit plan, such as profit sharing or, in some cases, a pension plan. Ownership of stock in the company is only beneficial, of course, inasmuch as the value of the stock increases. If the stock increases at rate faster than the loan rate, then the employees benefit more than had the money simply been returned through profitsharing.¹⁹ If the stock declines, the employees lose, and if the plan represents their pension, they could face serious problems. Since most firms do eventually close, this is a problem that must be addressed.²⁰ In California, ESOP insurance at reasonable rates has started.²¹ Employees can also be assured of gaining some equity when the company is sold or liquidated.

On the other hand, data will show later that employee owned firms do much better than non-employee owned firms, and the more equity employees own, the better the companies do. If a company succeeds, an employee, over the life of his participation, could accumulate considerable sums. ESOP proponents point to workers who have left ESOPs with hundreds of thousands of dollars. Finally, participation in ESOPs is voluntary, and employees could bargain for a choice of employees—ESOPs or a like contribution to another benefit plan.

Unions have generally opposed ESOPs due to the risks involved and due to a fear that worker-owners will be co-opted by management.²² Where ESOPs are an employee benefit program, clearly the employees have the most to lose in relation to other alternatives. Employees must choose whether participation in their companies' possible success or failure is worth more than a more secure and conventional plan. The decision is not unlike deciding whether or not to buy stock or put money in the bank, except that the employee knows the stock better and can contribute to its value.

Where ESOPs are used to purchase or eventually transfer ownership to employees, however, the situation may be viewed differently.

¹⁹ *Broadening the Ownership of Capital*, op. cit., p. 37, and *ESOPs: An Analytical Report*, op. cit., pp. 24-5.

²⁰ *Broadening the Ownership of Capital*, op. cit., p. 36.

²¹ Statement of Louis Kelso before JEC hearings, op. cit.

²² *Broadening the Ownership of New Capital*, op. cit., p. 38.

Now the employees must choose between a simple wage and an opportunity to earn a wage and partake substantially in the company's direction and future. The risks are greater, but, since individual employees are not liable if a company does go bankrupt or suffer losses except inasmuch as salaries may decline, the risks are not as great as normal ownership. All of the psychic and financial opportunities are present, however.

These psychic rewards, of course, are one reason why ESOPs are established. Management hopes that employees will be stimulated to greater levels of productivity. Their hopes seem to be confirmed by the studies available (cited below in section VI), although it appears that ESOPs which provide only small amounts of stock to employees have little impact. Employee ownership of substantial equity, on the other hand, provides considerable incentives.

In sum, ESOPs present both risks and advantages for employers and employees, and each case must be evaluated individually. Nonetheless, ESOPs appear very useful for transferring ownership to employees and, in ongoing businesses, can often create substantial opportunities for businesses and employees. While not the financial miracle some proponents claim, they have important advantages, perhaps the most significant of which is the possibility for a new way of organizing American worklife by creating a much broader participation in the capitalist system.

III. NON-ESOP MODES OF OWNERSHIP

While ESOPs have gained considerable popularity and constitute the bulk of employee ownership plans, there are alternatives to ESOPs. The most common of these alternatives are cooperative ownership, in which all or most employees purchase shares of a company and participate in its management, and direct ownership, in which employees purchase all or part of a company but retain traditional management forms. Both forms have advantages and disadvantages, but both require that individual employees put up a substantial amount of their own capital in order to purchase their companies, a process that requires not only considerable willingness to undertake risk on the part of employees, but also requires tremendous organization and leadership in order to assure that the employees will actually put forth the necessary capital in the limited time available to purchase the firm. While this obviously presents significant obstacles, using this procedure may make lenders and the company's prior owners more willing to loan or sell than in an ESOP situation, where employees may not be risking any of their own assets.

COOPERATIVE OWNERSHIP

There are an unknown number of producer cooperatives in the United States, most of them small, non-conventional local businesses often motivated by concerns other than profit. While these businesses present an interesting alternative to traditional business forms, they will not be discussed in this report, which is, instead, focusing on uses of employee ownership in the more traditional sphere of business organized primarily for profit. The reader interested in these businesses

is referred to Daniel Zwerdling's excellent collection, *Democracy at Work*.²³

Cooperatives have been used to organize more traditional businesses in at least a few industries, and case histories are available for those in agriculture, garbage collection, and plywood manufacturing. Of these, the most detailed information is available on plywood coops, and they present an important and illustrative example of the potential and problems of cooperative organization.

In the Pacific Northwest, there are currently about 16 cooperative plywood companies, about half the number that have been created at one time or another in the last 50 years. Most are of moderate size, and collectively they account for about one-eighth of the total Douglas Fir Plywood output.²⁴ The first of the cooperatives was formed in 1921 in the Seattle area, which had a large Scandinavian population with a cooperative tradition.²⁵ The company's success led to the formation of other plywood coops, sometimes at the instigation of promoters who took advantage of the workers.

The coops provided that each member would be allowed to buy only one share. In many companies, this could be done through a payroll deduction plan. Every shareholder is guaranteed a job. Wages are the same for all shareholders, but all the companies have non-owner general managers who are paid substantially more. Also, many companies hire non-owning workers, especially for temporary or less-desirable jobs, and most companies have incentive pay systems for unpleasant work. Shareholders elect a board of directors from among their ranks, and the directors meet periodically to make policy decisions. Day to day management is in the hands of the general manager. Directors, of course, continue at their jobs, and most usually serve for a limited time. Working shareholders are paid conventional wages, but at the end of the year are returned "surpluses" (the coop word for profits). Share values generally increase, and now are worth from \$20,000 to \$200,000.²⁶

The subsequent resale of stock by retiring workers is limited to people who will or could become workers in the company (although it is not necessary to take a job immediately). Dividends are very limited so that benefits of ownership will accrue primarily to worker-owners. Shareholders can demand a job at any time when they are not working.²⁷

Overall, the plywood coops have been successful. Some have made a great deal of money for their owners, while others have just survived and still others have failed. Given the often difficult conditions in the industry over the period of their existence, however, the companies have an admirable performance record. Workers, in addition to the share value they have accumulated, are paid about 25 percent more than in comparable plywood companies and are about 30 percent more productive.²⁸ Interestingly, Northwest plywood unions are uncomfort-

²³ Daniel Zwerdling, *Democracy at Work* (Association for Self-Management, Washington, D.C., 1978).

²⁴ Bruce Stokes, "Worker Participation and the Quality of Worklife", (Worldwatch Institute, Washington, D.C., 1978), p. 28.

²⁵ Carl J. Bellas, *Industrial Democracy and the Worker Owned Firm*, (New York, Praeger Publishers, 1972), p. 17.

²⁶ For an excellent review of the plywood coops and their structure see Katrina Berman, *Worker Owned Plywood Companies* (Pullman, Washington State University Press, 1967).

²⁷ Berman, *op. cit.*

²⁸ Paul Bernstein, "Run Your Own Business", *Working Papers for a New Society*, v. 2, No. 2, summer, 1974.

table with the coops, since the role of the union is less important in the coops (most do have unions, but they are mostly concerned with relatively minor matters) and since coops will reduce worker pay when the company is not doing well.²⁹

Management of the coops can present problems, since the workers are always tempted to reduce investment for the future in order to increase wages or surplus returns in the present. When financial problems arise, raising new capital becomes difficult, since it cannot be raised through stock offerings and some creditors have been reluctant to make loans.³⁰ Nonetheless, most of the plywood coops have managed to overcome these problems.

In fact, of the plywood companies that have gone out of business, four did so because they were too successful. Share values increased so much that no new investors could be found who were willing to buy the shares. Those with enough money would not be interested in working in the company, with the result that in order to dispose of the shares and to raise new capital the companies were forced to sell to larger firms. Of course, in addition, the shareholders made substantial profits through the sale and generally urged that the sale be made.³¹ Some other plywood coops only lasted a short time, as they were the creation of promoters trying to unload a dying business or simply to get rich quick by taking a substantial fee for their efforts.³² According to Bernstein, only four of the coops simply failed once they had been established.³³

One way to solve the problem of shares costing too much to attract new worker-owners would be for all companies to use a payroll deduction plan. Another approach would be to limit share value to a certain amount for the worker and have the company purchase the excess value, contributing the excess amount (a percentage of the actual share value) to a pension fund which would be recapturable by the employee only when he left the company.³⁴ The problem, although difficult, is capable of resolution, provided the coop plans ahead.

Coops do present one significant tax benefit to owners in that the IRS has ruled payments to shareholders could not be considered taxable corporate income, allowing the owners to transfer profits to themselves at lower tax rates than would be the case if they were retained as company profits. IRS rules require, however, that the coops show that the wages they pay are not in excess of reasonable labor costs. Since the coop workers have been more productive than their non-coop counterparts, the IRS has allowed the coops to pay substantially higher compensation to their employees.³⁵

In sum, the coop experience in the plywood industry has been generally successful, demonstrating that workers can own their companies and manage them as well, and in so doing make high wages and a company "profit" (which they can keep for themselves). Although growth and management problems do arise, the problems have not been insurmountable. The rewards for the workers—a secure, high paying job in their own company—have been, it seems, well worth the efforts

²⁹ Berman, *op. cit.*, p. 127.

³⁰ Bellas, *op. cit.*, p. 97.

³¹ Bernstein, *op. cit.*

³² Berman, *op. cit.*

³³ Bernstein, *op. cit.*

³⁴ Bernstein, *op. cit.*

³⁵ Berman, *op. cit.*, pp. 165 and 175.

to overcome obstacles. It appears, however, that few other cooperative ventures exist, and none are so widespread or well-developed as the plywood coops. Detailed information about them is not available. The most that can be said, then, is that the coop alternative shows considerable promise, but has been too uncommon to justify any firm conclusions about the precise role it might play in American business.

DIRECT WORKER OWNERSHIP OF BUSINESS

The phenomenon of workers buying their companies directly is a relatively recent one in this country. In this situation, when a company would otherwise close or relocate, workers, sometimes in cooperation with local community people, agree to raise the money needed to buy the firm themselves, generally through a purchase of stock issued by the new company. Of all forms of worker ownership, this is the most simple and direct as far as transition arrangements are concerned. It is not, however, easy to accomplish.

From the data gathered by the Survey Research Center and by committee staff, it appears that about one-fourth of the employee owned firms (where employees own half the equity or more) are owned directly by employees or employee-community groups. The term direct ownership here is simply meant to distinguish between firms in which ownership is accomplished through an ESOP or through a cooperative and firms in which employees or employees and local people simply purchase the stock of a company on a normal stock offering basis (although stock may be limited to employees or local people, and ownership of more than a certain amount of shares may be prohibited). Unlike coops, owners can own more than one share.

The direct ownership concept is surely the simplest of the three arrangements discussed. When a plant is about to close, an organization is formed to sell stock in a new company which will buy the old plant from its previous owner. Generally, it appears that the stock offering is not limited to employees in order to facilitate raising the necessary capital, although some companies limit subsequent resale to the company or to employees. In some cases, the sale has been from former owners who have gradually transferred stock to employees over a period of time, while the company continued in operation, while in a few cases, employers have simply given the stock to their employees (most notably in International Group Plans of Washington, D.C.).

When a benevolent owner does not exist, raising the necessary capital in this manner can be extremely difficult. Employees may be asked to raise thousands of dollars in a few days or a few weeks. Banks may be very unwilling to loan money at this point, given the uncertainty of the endeavor at this early stage. Employees may end up owning worthless stock. Nonetheless, since their jobs are at stake, the investment risk may seem worthwhile. From the information available to the committee, it does not appear that any employees have lost their investments in the cases that follow this pattern that have occurred in this decade, when most of the employee takeovers have taken place.

Once the stock is owned by the company, and operating loans are secured, the company has a number of options concerning the role employees will play as owners. From the cases on which information is available, however, a common pattern seems to have emerged: Employees vote their stock, as would any owner, but the board of directors

rarely has substantial employee representation and worker participation in management is generally limited. The employees, in buying the company, are naturally primarily concerned with preserving their jobs, and give little thought to how the company will be run once it is saved. Moreover, it appears most companies do not plan for the transfer of stock from retiring employees to new employees, so that the idea of employee ownership may fade over time. Some companies do not even provide that stock must be sold back to the company, so that an outside interest can purchase a majority of company stock. This is precisely what happened in one of the best known cases of employee ownership, the Vermont Asbestos Group.³⁰

The result of this lack of planning can be employee disenchantment after a few years. In this respect, ESOPs and cooperatives have clear advantages in that they specifically address questions of stock ownership and employee voting rights (although ESOPs, unlike coops, have no requirements for employee participation in management and many ESOP promoters oppose the idea). Nonetheless, this is not an inherent disadvantage for direct ownership. The problems of ownership transfer and employee participation can be resolved, but they must be addressed at an early stage, prior to the disappearance of a majority of the stock or the alienation of employee owners.

While direct ownership is the simplest way of transferring ownership to employees from a financial standpoint, it does not offer the tax benefits available to employee owners under an ESOP (the ability to deduct principal and interest repayments on the loans used to buy the company—employee owners in the direct ownership model can only deduct their interest, or nothing at all if they used their own savings) or coops (the ability to return profits to employees without having the company pay taxes on the profits). The value of these tax savings will vary from case to case, but certainly should be a consideration when employees purchase a company.

IV. TRANSFER OF OWNERSHIP TO EMPLOYEES

The previous sections have explored the three basic modes of employee ownership and in so doing have discussed how each can be used to transfer ownership to employees. In this section, the reasons for transferring ownership to employees and the obstacles involved in doing it will be discussed.

Transfer of ownership occurs primarily under four conditions: (1) A company sets up an employee stock ownership plan as an employee benefit, usually either to provide an incentive to employees or to help finance expansion (or both), (2) a conglomerate decides to divest itself of a subsidiary, (3) an independent owner dies, retires, or leaves the business, and (4) an owner decides to give his company to his employees.

ESOPs have been discussed in detail above. This form of transfer is generally initiated by the employer and results in employees owning a minority of company stock, although there are cases, such as Hallmark Cards, in which employees will eventually own a majority of the stock. The use of an ESOP by management does not need further elaboration at this point, however.

³⁰ Zwerdling is again insightful on this point. See Zwerdling, *op. cit.*, pp. 53-76.

A decision by an owner to give his company to his employees is, to the committee's knowledge, very rare, although a few cases have been documented.³⁷ The practice appears unusual enough, however, not to merit discussion here.

The other two cases are more common and more interesting, and both involve the actual sale of a company to its employees. As such, they provide potential for saving jobs and business activity in communities that would otherwise lose them, or for preventing independent or potentially independent businesses from being swallowed by conglomerates.

Sockell has concluded that almost all of the cases of employees purchasing a firm have occurred in this decade, with the exception of the plywood companies.³⁸ Of these purchases, the large majority appear to be corporate divestitures.³⁹ Precise data are not available on all instances of known employee purchases, however, so estimates such as these are only approximate.

It may appear at first blush that a company that could not survive as a subsidiary of a conglomerate will also not survive as an employee owned firm. This, however, is often not the case. In many cases, a conglomerate sets certain rates of return (typically around 15 percent) it expects from its subsidiaries. If they do not achieve these rates, they are closed or sold. Employee owners, however, may well be satisfied with a lower, but still profitable, rate of return, since their jobs are at stake. In other cases, a conglomerate may simply find that a subsidiary does not fit into its current plans, or that it needs the cash that would result from a sale. Finally, conglomerates may mismanage firms, saddling them with substantial overhead costs or making inappropriate decisions. Even a subsidiary that is well run, moreover, might be better run by employee owners, since their new owners would presumably work harder than before.

Sociologist William Whyte, who is heading a research project at Cornell University's School of Industrial and Labor Relations on this project, has cited these reasons and others as the explanation for the fact that, to the knowledge of researchers in the field, of the companies which have had employee takeovers in this decade, all are still in operation, and many have been turned from money losers into profit makers.⁴⁰ Given what many economists see as the over-acquisition of the sixties and seventies, there could be ample opportunities for employee ownership in the years ahead.⁴¹ For employees and communities where conglomerates have erred, employee ownership may be the only way out of a desperate situation.

For independent owners who are retiring, leaving their company, or who have died, transfer to employees may be a very attractive alternative. An extensive survey of owners of wholesale distributing companies showed that few have given serious thought to this problem, and most had unrealistic expectations about prospects for their company's sale.⁴² Although use of the techniques is still uncommon, its advan-

³⁷ See Zwerdling, *op. cit.*, pp. 113-130.

³⁸ Sockell, *op. cit.*

³⁹ Sockell, *op. cit.*

⁴⁰ William Whyte, "In Support of the Voluntary Job Preservation and Community Stabilization Act", p. E3326 of the *Congressional Record* of June 19, 1978.

⁴¹ "How To Buy Your Own Company", *Dun's Review*, November 1977.

⁴² "Profile of the Perpetuation Crisis", National Association of Wholesale Distributors, 1975, p. 5.

tages—creating a market for the owner, preserving jobs for the employees, and providing an opportunity for the owner to see his company perpetuated as an independent business—suggest that it deserves much more serious consideration.

Despite the clear advantages of selling to employees, many conglomerates or individual owners are reluctant to do so. In some cases, an owner or conglomerate can sell a company to another company through an exchange of stock. Such exchanges are not taxed, whereas cash purchases are treated as capital gains. Using an ESOP can reduce some of the tax disadvantage in some situations, but not all. Many sellers simply do not take the idea of employee ownership seriously and refuse to negotiate with employees or fail to provide notice far enough in advance so that employees can organize. In some cases, a company can gain more through a liquidation sale and tax writeoff than it could through a sale, while in others a company is closing a subsidiary in one place to relocate elsewhere, and does not want anyone to own its former plant, since it would be a competitor.

Research on failures of employees to buy their firms is, unfortunately, very limited, but it appears that more important than any of the above reasons for failure is simply the inability of employees to raise the capital needed in a short enough time.⁴³ The problems in raising the money are obvious: employees must be organized quickly around a novel idea, cash must often be raised from low asset employees, and creditors must be convinced that an unconventional approach can work. Every case with which the committee is familiar in which employees succeeded in making the purchase has involved something extraordinary: A benevolent owner, and exceptionally talented organizer, or government assistance—assistance almost always prompted by the intervention of a Senator or Congressman.

The problems of transition, of course, suggest a role for the federal government as a source of credit or credit guarantees. The idea has intuitive appeal: in any case in which a firm would otherwise close or relocate the government has, in effect, two choices. It can pay unemployment insurance and possibly food stamps and welfare to unemployed workers or it can loan the workers money for buying the plant and keeping their jobs. In the first case, the money is a permanent transfer; in the second, it is a loan and, presumably, most of the loans will be repaid. As the next section will indicate, however, government involvement in employee ownership has been spotty and generally reluctant.

V. GOVERNMENT SUPPORT FOR EMPLOYEE OWNERSHIP

In this section, government support for employee ownership will be reviewed. As tax support for ESOPs has already been discussed, this section will focus on loan programs for employees who attempt to buy their businesses. There are four potential sources of funds: EDA's title IX program; SBA's 7a program, Farmers Home Business and Industrial Loans, and Loans to Producer Coops from the Cooperative Bank.

The Economic Development Administration, an agency of the Commerce Department, can grant and loan funds under its Title IX

⁴³ Robert Stern and Tove Helland Hammer, "Buying Your Job: Reconsiderations on Recent Experience", paper delivered at the 9th World Congress of Sociology, Uppsala, Sweden, Aug. 14-19, 1978.

program for business development in areas of high unemployment. EDA regulations require that assistance be given on a priority basis to areas affected by defense realignment, Environmental Protection Agency caused plant shutdowns, and disasters. All other assistance under this title receives lower priority. Nonetheless, to the committee's knowledge (records are not available with precise information) EDA has assisted nine employee organizations to purchase their companies, either through low-interest loans or grants to local agencies who in turn use the money to make loans to the employee organizations. In at least some of the cases, the assistance was a result of political pressure on the agency, but at least some of the agency's administrators have shown enthusiasm for the idea. Given the agency's required priorities, however, it is doubtful that EDA assistance can expand beyond its currently very limited scope without specific Congressional action. A proposal along these lines will be discussed later.

The Small Business Administration can make loans and guarantee loans under its 7a program. Direct loans are limited to \$350,000 and guarantees to 90 percent of the loan for not more than \$500,000. SBA has guaranteed three loans to employee organizations and appears to be about to guarantee a fourth. The SBA will not, however, make or guarantee loans to an ESOP. SBA regulations state that an ESOP is not a small business and that the advantages of an ESOP could be obtained in other ways.⁴⁵ While it is true that an ESOP or its trust is not formally a small business, it is simply a creation of a business, and its loans are formally guaranteed by the business. The distinction between the ESOP and the business is purely a paper distinction, and Senators Nelson and Long have expressed their disappointment and disagreement with the SBA position on this matter. Moreover, while it is true that in some cases a business could get the tax advantages of an ESOP without setting one up, as pointed out earlier, the employees benefit more if an ESOP is established than if an ESOP alternative is created. As was also pointed out, ESOPs are excellent tools for employee purchase of businesses, and there are on alternative methods of accomplishing the same tax purposes in this case. Since the SBA has stressed to the staff their concern with making loans to preserve or (in the case of a spinoff of a subsidiary) create independent small businesses, their refusal to make loans to ESOPs, which accomplish this extremely well, seems very contradictory and shortsighted.⁴⁶

The loans SBA has guaranteed, then, have been in non-ESOP cases, but, even here, SBA officials have told staff that they do not see making loans to employee organizations as consistent with the primary purpose of the agency (as they see it), namely to assist individual entrepreneurs. Given SBA guidelines for making loans, which include sufficient collateral on the part of those receiving the loans, it is easy to understand why the SBA, at this time, is not likely to be a primary source of loans to employees. If SBA were to become an effective force in this area, its rules on ESOPs would have to be changed and its evaluation of loans to employee organizations would have to be based on an assessment of the future prospects of the company.

⁴⁵ Letter from A. Vernon Weaver, Administrator, SBA, to the Honorable Russell Long, May 15, 1978.

⁴⁶ See Jan. 23, 1958, SBA memo reprinted in *Opinion Digest*, No. 56, Feb. 26, 1965 for SBA policy of encouraging the preservation and creation of small business.

The Farmers Home Administration also can make loan guarantees to employees and has done so in one instance (Bates Fabric in Maine). FmHA loans are not restricted by size of firm and can be as large as necessary, but must be made to businesses in places of 25,000 people or less. FmHA does, however, encourage small businesses even in these areas to approach SBA. Farmers Home officials have expressed enthusiasm about the idea of employee ownership to the staff, but said that they have not had many inquiries. For businesses in qualified areas, then, FmHA might be a logical place to seek credit.

Finally, the Cooperative Bank, created by the 95th Congress, can make loans to producer coops. There is a \$10 million limit on these funds, since the bank was primarily intended for consumer coops. The program is just beginning, but could provide a modest source of capital for employee ownership.

Overall, then, government involvement has been limited—probably less than 15 or 20 percent of the cases of employee ownership known to the committee involved government assistance. As the next section will make clear, however, the government could stand to benefit itself and the country significantly by becoming more involved in employee ownership.

VI. EVALUATING EMPLOYEE OWNERSHIP

Employee ownership of companies has worked. The overwhelming preponderance of evidence shows that employee owned firms are both more profitable and productive than similar conventional firms and that employee ownership results in better working conditions for everyone. Most importantly, where employees have bought their companies, it results in the preservation of jobs that would otherwise be lost. This is not to say that there are not pitfalls in employee ownership—a program for the support of employee ownership could result in aiding shaky businesses to take advantage of their employees if not carefully administered, and even successful employee owned firms have had difficulty determining the role employees should play in management, but the overall record of employee ownership is very impressive.

In a study of the plywood industry, Paul Bernstein found that employee owned firms had 30 percent higher productivity and 25 percent higher wages than conventional firms.⁴⁶ In addition, of course, each employee owner has equity in the company. In the Survey Research Center study of 100 employee owned firms, profits were 1.5 times higher in employee owned firms than non-employee owned firms, and the greater the equity owned by employees, the higher the profits (the study included a variety of ownership arrangements, from a minority employee ownership arrangement to full ownership).⁴⁷ Managers surveyed in the study reported much higher levels of employee satisfaction with employee ownership compared to the prior conventional ownership of their companies.⁴⁸ They also contended that employee ownership improved productivity and work atmosphere.⁴⁹

⁴⁶ Paul Bernstein, "Worker-Owned Plywood Firms Steadily Outperform Industry," *World of Work Report*, June 24, 1977.

⁴⁷ *Employee Ownership*, op. cit., p. 24.

⁴⁸ *Employee Ownership*, op. cit., p. 30.

⁴⁹ *Employee Ownership*, op. cit., p. 36.

The idea of employee ownership is also a popular one: a 1975 national poll by Hart Research showed that a margin of 66 percent to 25 percent would prefer to work in an employee owned firm.⁶⁰

Perhaps the most important data, however, concerns the companies who would have gone out of business had employees not bought the company. Of the companies purchased by employees in the seventies, to the knowledge of the staff and researchers in the area, all are still in business, and many are succeeding where predecessors were failing. All told, perhaps 50,000 to 100,000 jobs have been saved. As a job creation program alone, employee ownership would compare very favorably to government funded public works jobs.

There are problems as well, however. Employee participation in management is often not planned, resulting in disenchantment of workers. According to the Survey Research Center, only about half the ESOP companies allow significant employee input into decisions and only 27 percent allow employees to vote their stock. By contrast, non-ESOP firms almost unanimously allow voting rights, and generally (77 percent of the firms) allow for employee input into major decisions.⁶¹ Sockell's more detailed study of the issue showed that of 32 firms surveyed, only nine allowed direct participation in management by employees, although 23 allowed stock to be voted.⁶²

Arguments can be made on either side of the issue of employee participation in management, but research conclusively shows that productivity increases with worker participation.⁶³

Research by Zwerdling cited above showed that when such participation is not allowed, workers-owners become alienated. While still pleased to have their jobs, they feel their equity position should give them more of a say in company operations. At the very least then, companies contemplating employee ownership should give serious thought to worker participation and be prepared to allow as much participation as possible.

Finally, it is possible that employees could be sold a company that was dying or had poor prospects. This happened in a few cases in the plywood industry in the fifties, although there are no apparent cases of it in the wave of employee takeovers in the seventies. ESOP plans could be used to reduce employee compensation or to substitute stock in a weak company for a pension fund. At this point, however, these problems seem to have been very minor compared to the success of the idea of employee ownership. Moreover, there is no reason why employees are not capable of making sound financial decisions, nor is there any reason to believe that the government would be unable, when it makes loans to employee organizations, to avoid assisting weak companies take advantage of their employees. These dangers should be avoided, but they should not be allowed to prevent the government from encouraging what has been an extremely successful experiment.

VII. CASE STUDIES

Some of the points made above can best be illustrated by specific examples. The following section will, therefore, briefly detail instances of employee takeovers of firms.

⁶⁰ Quoted by Whyte in Whyte, *op. cit.*

⁶¹ Employee Ownership, *op. cit.*, p. 21.

⁶² Sockell, *op. cit.*

⁶³ Paul Blumberg, *Industrial Democracy* (London: Constable, 1968), p. 123. Blumberg cites a number of studies to this effect.

SOUTH BEND LATHE

In 1975, Amsted Industries, a Chicago based conglomerate, decided to liquidate its South Bend Lathe subsidiary. The company employed 500 people and, although one of the few lathe manufacturers in the country, was just barely breaking even. SBL executives believed that with proper management, the company could make a profit, however, and decided to try to purchase it themselves. The executives joined with the union and city officials (South Bend was still recovering from the loss of Studebaker years before) and took their case to the EDA. EDA quickly agreed to grant \$5 million to the city which in turn loaned the money to SBL's newly created ESOT. With this as a start, the company was able to secure another \$4.5 million (roughly) and purchase the plant from Amsted. The employees in this arrangement put up none of their own money, but as the loan is repaid over 25 years will gradually build up equity in the company (the employees will have a percentage of the stock vested prior to the full 25 years, however). The loans are secured by the company's assets, which were worth at least the \$10 million paid for the company.⁵⁴

After the first year, the company had 20% higher productivity and 10% more pretax profits than the year before, and has continued profitably since. A typical employee at the plant accumulated about \$2,000 in stock in his or her ESOP account.⁵⁵ While the reports of SBL's success have been glowing, there are reports that workers feel that the plant continues to operate as before as far as their role is concerned, and that greater employee participation is needed.⁵⁶

VERMONT ASBESTOS GROUP

One of the most publicized employee ownership stories is that of the Vermont Asbestos Group. In late 1974 the GAF company decided that new EPA regulations and declining profits at its Vermont asbestos mine subsidiary made the mine no longer profitable and decided to close it. In Vermont's depressed Northern Kingdom, the closing of the mine meant that the almost 200 workers would have a difficult, if not impossible, time in finding new employment. Spurred by an aggressive former maintenance supervisor, the employees decided to try to buy the company. After a long and difficult process, employees were able to raise \$100,000 and finally convince enough banks and the SBA to loan them enough money (\$2.15 million) to buy the company from GAF. GAF agreed to sell the company for \$400,000—a very good price. In the next year, the VAG, as the company was now called, installed all the needed pollution equipment.

In the next few years, fortuitous events in the world market made VAG a tremendously profitable company. Employee owners' wages went up substantially and the value of the stock, most of which was owned by employees, increased in value from \$50 a share to \$3,500 a share in 1976. Unfortunately, the company was not able to cope with success. Worker-owners were not pleased with the limited role they were playing in management, and disputes over how much money to

⁵⁴ *Newsweek*, Sept. 1, 1975, p. 49.

⁵⁵ *Time*, Oct. 4, 1976, p. 80.

⁵⁶ Zwerdling, *op. cit.*, 63-76.

reinvest and how much to redistribute were frequent. The originator of the employee ownership movement lost his leadership position in the company, and many employees sold their stock. Unofficial reports now say that a majority of the stock is owned by one local individual.⁵⁷

The VAG experience shows the potential that employee ownership has for saving jobs, but it also shows the need for planning ways to keep stock in the hands of workers if the goal of employee ownership is to be maintained, and the need to come to grips with the fact that when employees become owners they may demand a greater role in management.

MOHAWK VALLEY CORP.

In early 1976 the Sperry Rand Company announced plans to close its Library Bureau division in Herkimer, New York. The Bureau had been making a small profit, but less than what Sperry expected from its subsidiaries. Library Bureau managers and employees were convinced that the company, which makes library furniture and has several hundred employees, could be profitable enough and has local ownership and organized an effort to purchase the company from Sperry. At first, Sperry was extremely reluctant to sell at all, since it could liquidate for more than the employees were willing to pay. Under intense pressure from Congressional representatives, however, Sperry agreed to sell for \$6 million. The employees and members of the community raised \$2 million through the sale of stock, with an initial pledge of \$1,000 per employee in nonrefundable funds as a pledge to Sperry and to pay for legal and other costs. EDA arranged a \$2 million loan and another \$2 million was secured from local banks. The company has established an ESOP and the workers will eventually own all the stock in the company.

During its first year of operation the company made a profit, but during its second broke just about even. Company officials attribute that to the cost of the loans and expansion, plus a loss of business as a result of uncertainty on the part of customers during the transition period. Company officials are very optimistic about the future, however.

As in other companies, employees have a limited role in management, but, in this case, this is partly the result of the wishes of the employees, who have not actively sought a role in management decision.⁵⁸

JONES AND PRESNELL

When the W. T. Grant Co. went bankrupt in 1976, one of its subsidiaries, Jones and Presnell, a firm specializing in color photographs of children, decided to try to survive on its own. The company set up an ESOT, which was able to secure a bank loan to buy the company from W. T. Grant. The loan was for \$3.5 million, and another \$1 million was raised from company capital and an existing profit sharing plan. During the first year of operation, company employees took voluntary salary cuts, but by the end of the year, the company has succeeded in stabilizing its business and, as of the time of the report on

⁵⁷ Data for the above information comes from a report by Edgar May, "Mining for Jobs and Profit," Springfield, Vt., 1977. Reports of the end of worker ownership in VAG are from several people following the situation.

⁵⁸ Information on the Mohawk Valley Corp. is from conversations with company officials and staff and from testimony at a hearing in Jamestown, N.Y. on employee ownership held by Congressman Stanley Lundine, Nov. 20, 1978.

which this is based was published, seemed well on its way to financial stability.⁵⁹

KASANOF'S BAKERY

In 1976 Fink Baking Co. of Brooklyn decided to close its subsidiary, Kasanof's Bakery, a profitable Boston bakery employing almost 300 people in the Roxbury section of the city. Although the company had been making a profit, labor problems and a long legal dispute over the noise levels of the bakery made future prospects very uncertain. The company had a good reputation and dedicated customers, however, and the employees, spurred by a local self-management group, made an effort to buy the firm. While this organization was getting started, the plant was closed and the workers went on unemployment. Despite that, and despite the fact that most were low income workers from the poor Roxbury area, they were able to raise \$200,000 from funds owed them by the company for vacation pay and a smaller additional amount from their own savings, which were already depleted by their unemployment. The workers would use the \$200,000 plus as a down payment and finance the acquisition of the company with a \$1.8 million bank loan, hopefully guaranteed by EDA and/or SBA. The company's owners, however, insisted on an additional \$20,000 per month to cover security and other costs of keeping the plant open. The workers would not be reimbursed any of this money, even if the deal failed. Unable to raise the \$20,000 and unable to get a decision from the government agencies, the employees gave up and the plant closed.⁶⁰

Of course, there are numerous other examples, but few have been documented very well—stories concerning the initial transition appear in newspapers, but followup stories are hard to find. Research at Cornell has confirmed the continued existence of most the companies, but little is known at this point about individual company performance. Related research at the Survey Research Center has provided information on the overall success and characteristics of the companies, but the individual cases on which that data are based are not available to the public. The cases here represent a sampling of some typical examples where information is available in some detail, but should not be taken as a basis for generalizations. For instance, in these examples, government involvement was much more significant than it usually is. All of the cases were medium sized firms, whereas, as previously pointed out, firm size varies from several to several thousand. What can be generalized is that in each case that succeeded jobs were saved and companies went on to make profits. The comparison with the Kasanof case, where the government paid hundreds of workers months of unemployment, is instructive.

VIII. LEGISLATION

In addition to tax legislation for ESOPs discussed above, during the 95th Congress, Congressmen Kostmayer, Lundine, and McHugh introduced H.R. 11222, "The Voluntary Job Preservation and Community Stabilization Act". The bill would create a \$100 million loan

⁵⁹ *Wall Street Journal*, "Jones and Presnell, a Grant Unit, Survives Via Leveraged Employee Ownership Plan," July 22, 1976, p. 6.

⁶⁰ Information in this section from the *Boston Phoenix*, Apr. 26, 1977.

fund in EDA to make loans to employees and employee organizations who are purchasing plants that would otherwise close or relocate. In approving the loan funds, the administrator of EDA would first require a feasibility study, for which EDA could also loan funds, which would have to include a plan for repayment of the loan, with provisions for employee payroll deductions if necessary. The bill allows for members of the community to participate in ownership as well. The bill attracted approximately 75 cosponsors, and will be reintroduced in the 96th Congress. Senator Nelson will introduce a similar, but not identical, bill in the Senate in that Congress.

Senators Nelson and Long will also introduce a bill in the Senate to require that the SBA include ESOTs as eligible for SBA loans and loan guarantees under all SBA programs. The bill will also encourage the SBA to make loans to employee organizations seeking to purchase their companies when they would otherwise close, relocate, or be purchased by a large business. Again, feasibility studies would be required, and loans could be made for this purpose. The bill would require, however, that the assessment of the soundness of the loan be based on the feasibility report for the company's prospects, and not on the individual assets of employees.

The advisability of such legislation most likely will be challenged on the basis of the risk the government is taking in making loans to employees or employee organizations. Even if individual employees were held liable for their portion of the loan, collecting the loan from individuals who have left the company, or from all the employees should the company fail, would be impractical and probably impossible. Moreover, this lack of direct liability could encourage some business owners to sell to their employees when their company is failing and other buyers cannot be interested.

These arguments have some merit but are not, on the whole, persuasive. Any loan to the employee organization, whether to an ESOT or to the company itself, would be secured by the assets of the company, so the government's liability would be limited to the difference between the worth of the assets and the amount of the loan or loan guarantee. In any loan guarantee, the pledge of the borrower's personal assets is more a test of good faith than a source of likely funds for repayment in the case of default.

Of course, with employees, this test of good faith may be lacking if there is no practical way to make individuals responsible. This presents two problems: (1) Cases where employee owners simply walk out on a firm; and (2) cases where employee owners are sold a bad company. In the first case, the problem is substantially alleviated by the fact that the employees stand to lose their jobs if the loan is not repaid, and there is likely to be considerable effort on their part, therefore, to make the company succeed at all costs. Data on employee owned firms confirm this argument. The threat of employees gullibly buying a company with poor prospects, figuring that they will not be liable if it fails, is more serious, but the agencies and the banks making the loan will have a feasibility report which should help them weed out such cases. Moreover, in most cases of employee ownership for which information is available, employees have put up some of their own money to buy the company, and even in ESOP arrangements where they do not, in the first few years, most employees accumulate

thousands of dollars worth of stock in the ESOT, which they will not get if the company fails.

What this suggests is that in making loans to employee organizations, the fact that individual employees may not be liable does introduce an element of risk not present when a conventional loan is made. This risk, for the reasons cited above, is small, however, and should be offset by the fact that employee owned firms are more successful than non-employee owned firms. In general, loans to employee owned firms should be more likely to be repaid, then, if these data are considered. All current loans to employee owned firms from the government (13) are being repaid.

Any decision to proceed with a government program should proceed on the basis of comparing alternatives, however. When a plant is closing or relocating, the government has a choice: it can make a loan, which will have a good chance of repayment, although one might argue whether the chance is as good as a conventional loan at this early date, or it cannot make a loan. If it does not make a loan, it will pay unemployment insurance and possibly food stamps, welfare, public works employment, or CETA money as well. Clearly, if there is a reasonable chance that the company could succeed as an employee owned firm, a loan to preserve the jobs would be vastly cheaper than the alternatives, as well as substantially more productive for the employees and the community.

In addition to these loan programs, it should be noted that Senator Long may introduce further legislation to encourage ESOPs through the tax system.

CONCLUSION

Employee ownership of business is still in its very early stages in this country, and government involvement in the process has been limited. Nonetheless, the experience with employee ownership so far has been very positive and encouraging. Employee ownership of business could provide a way to save jobs, save businesses, increase productivity, and spread the benefits of capitalism—goals the government has spent billions to achieve in the past. For much smaller sums, in the forms of loans and limited tax incentives, the government may be able to accomplish the same goals by supporting this promising form of free enterprise.

LIST OF EMPLOYEE OWNED FIRMS

1. A. C. Lawrence Leather Co., Paris, Maine.
2. Advance Micro Devices, Sunnyvale, Calif.
3. Algoma Plywood, Algoma, Wis.
4. Allied Plywood, Alexandria, Va.
5. American Cast Iron Pipe Co., Birmingham, Ala.
6. American Tube and Controls, West Warwick, R.I.
7. Arrow Lakes Dairy, Cranston, R.I.
8. Associated Freight Lines, Oakland, Calif.
9. Astoria Plywood, Astoria, Oreg.
10. Bates Fabrics Inc., Lewiston, Maine.
11. Beyda Stores.
12. Boston Consulting Group, Boston, Mass.
13. Brookings Plywood, Brookings, Oreg.

14. Brooks Camera, San Francisco, Calif.
15. Buffelin Woodworking, Tacoma, Wash.
16. Chicago and Northwestern Trans, Chicago, Ill.
17. Crosby Valve, Wrentham, Mass.
18. Elma Plywood, Elma, Wash.
19. Everett Plywood and Door, Everett, Wash.
20. Fairbanks Daily News Miner, Fairbanks, Alaska.
21. Fort Vancouver Plywood Co., Vancouver, Wash.
22. Gladding Corp., Gladding, Maine.
23. Graybar Electric, New York, N.Y.
24. Great Western Inorganics, Golden, Colo.
25. Harde! Mutual Plywood, Olympia, Wash.
26. Hoguam Plywood, Tacoma, Wash.
27. Huebner Publications, Solon, Ohio.
28. Infant's Specialty, San Francisco, Calif.
29. Independent Mining & Mfg., Connellsville, Pa.
30. International Group Plans, Washington, D.C.
31. International Poultry, Willamantic, Conn.
32. Jamestown Metal Products, Jamestown, N.Y.
33. Jones and Presnell Studios, Charlotte, N.C.
34. Kansas City Star, Kansas City, Mo.
35. Katz Agency, New York, N.Y.
36. Kreamo Bakers, Inc., South Bend, Ind.
37. Lacey Plywood, Lacey, Oreg.
38. Lionel D. Edie & Co., New York, N.Y.
39. Linton Plywood, Portland, Oreg.
40. Manalytics, San Francisco, Calif.
41. Marott Shoes Stores, Inc., Indianapolis, Ind.
42. Medford Veneer, White City, Oreg.
43. Merchant & Evans Co., Mt. Laurel, N.J.
44. Milwaukee Journal Co., Milwaukee, Wis.
45. Mohawk Valley Community Corp., Herkimer, N.Y.
46. Mt. Baker Plywood, Bellingham, Wash.
47. Mullach Steel, Bridgeville, Pa.
48. Multnomah Plywood, Portland, Oreg.
49. Muses (Menswear), Atlanta, Ga.
50. National School Studios, Bloomington, Minn.
51. North Pacific Plywood, Tacoma, Wash.
52. NWL Transformers, Bordentown, N.J.
53. Okonite Corp., Ramsey, N.J.
54. Operations Research, Inc., Silver Spring, Md.
55. Pacific Paperboard Products, Stockton, Calif.
56. Paine Lumber Co., Oshkosh, Wis.
57. Peninsula Newspaper, Palto Alto, Calif.
58. Puget Sound Plywood, Tacoma, Wash.
59. Radio Distributing Co., Inc., South Bend, Ind.
60. Rich-Sea Pak Corp., Brunswick, Ga.
61. Saski, Walker, Roberts & Ass., Sausalito, Calif.
62. Saratoga Knitting Mills, Saratoga, N.Y.
63. S-B Printers, Honolulu, Hawaii.
64. South Bend Lathe, South Bend, Ind.
65. Squire Heating Supply Co., Columbus, Ohio.
66. Stevenson CoPly, Washougal, Wash.

67. Sullair, Michigan City, Ind.
68. Spartan Motors Inc., Lansing, N.C.
69. Vermont Asbestos Group, Eden, Vt.
70. Washington Plywood, Tacoma, Wash.
71. Webb's City, St. Petersburg, Fla.
72. Western States Plywood, Port Orford, Oreg.
73. Woodland Mobile Homes, Mountain View, Calif.
74. Luna Beverage Distributors, North Babylon, N.Y.

POTENTIAL WORKER-OWNED FIRMS¹

1. Abrogast Bastion, Allentown, Pa.
2. Bearing Specialty, San Francisco, Calif.
3. Natural Beers Inc., Yonkers, N.Y.
4. Crows Publications, Portland, Oreg.
5. Steiger Tractor, Fargo, N. Dak.
6. SWA Group, Sausalito, Calif.
7. Summers Electric, Dallas, Tex.
8. Resistance Corp., Bremen, Ind.
9. Gray Tool, Kansas City, Mo.
10. Hallmark Cards, Kansas City, Mo.
11. Hatfield Packing, Hatfield, Pa.
12. Construction City.
13. Devor Nursery, Pleasanton, Calif.
14. First Bank Shares, Boca Raton, Fla.
15. W. H. Newholds Son Corp., Philadelphia, Pa.
16. O'Conner Lumber Co., Mass.
17. San Mateo Times, San Mateo, Calif.

In addition, Western Bank and Trust of California has apparently sold 41 of its units to employees.

ADDENDUM

Since the first printing of this study there have been a number of developments. On February 8, 1979, Senators Nelson, Stewart, Hatch, Weicker and Pressler introduced S. 388, the Small Business Employee Ownership Act. This bill would authorize the Small Business Administration to guarantee loans to ESOTs and to employee organizations seeking to purchase their businesses when they would otherwise close or relocate. A companion bill, H.R. 2480, was introduced on February 28 in the House by Congressmen Baldus, Kostmayer, Bedell and Daschle. On February 27, 1979 the Senate Small Business Committee held hearings on S. 388, and a majority of the committee is now committed to the bill. The Small Business Administration, in the meantime, has revised its stance on employee ownership, and has said that it would reconsider the issue. In addition, the SBA, with some reservations, gave its support to S. 388.

¹ Firms with plans to become employee-owned in the next several years.

Congressmen Kostmayer, Lundine and McHugh reintroduced the Voluntary Job Preservation and Community Stabilization Act in the House, and a similar bill will be introduced in the Senate in mid-March by Senators Gravel, Nelson, Heinz, and Hatfield. Senator Williams will be introducing legislation also containing employee ownership provisions, along with provisions requiring pre-notification of plant closings providing for certain employee protections when a plant closes.

The Farmers Home Administration continues its policy of placing a high priority on employee ownership, and the Department of Housing and Urban Development is considering ways to use its urban development action grant program to encourage employee ownership. The Carter administration is drafting legislation to create a national development bank within the Economic Development Administration, and has asked staff members of the offices involved in the employee ownership concept to assist in drafting provisions in that legislation.



6/11/79



Kelso.

- 1) Sect. 10.50.120 - Treasury Ruling
- 2) Sect. Added with make clear that Amendment ABCA does not necessarily Amend the AgSoc

Proposal →

- * Building Data R.K. - Cost will saved if the work is integrated with the U.S. Census
- 2) Develop catalog of Types of Potential investment - in-State vs. out-State Etc.
- 3) Detailed analysis of the Bill!!
- 4) Lobbying Congress on significance of AgSoc. & attempting to get a reform of Subchpt. II.
 - A) No Tax on issuance of Stocks.
 - B) Above was already turned down by the Treasury
- 5) Mgmt Structure & Mgmt Operations Study
 - A) Type of Mgmt needed?
 - B) Should Mgmt operation should the AgSoc have

6) - Develop Dialogue w/ Reg. +
Finance Divisions of SEC.
W & Mer - Arthur Pickerson.

7)

Further
work - w/

Maybe desirable to amend
SSOC law to permit issuance of
multiple classes of stock!!

- 1) to cover those who after initial
issuance of stock!!
i.e. - A. B. C. - Allow long-term residents
to have more class - but avoids
the dilution of original issuance!!
- 2) May also ~~also~~ help in the problem
of ~~of~~ people moving outside
the State - Trade common for
Preferred - Allow - maintain
ownership in-State

AGSoc - August 14
Hotel $\frac{3}{17}$

~~ABCDE~~

Section 10.50.215 (B)

A A)B)C)

1) - Should at least Chief Exec.
Officer & perhaps VP - be members
of the Bd of Directors



Official Business

JIM DUNCAN
REVISED
5-22-79

Alaska State Legislature

House of Representatives

Committee on State Affairs

Pouch V
State Capitol
Juneau, Alaska 99811

A.G.S.O.C. MEETINGS

SAN FRANCISCO

Hotel Reservations:

Chancellor Hotel
433 Powell Street
San Francisco, Ca. (415) 362-2004

Schedule:

June 11, 1979 1:00 p.m.
Meeting with Louis Kelso and John Miskimen

Kelso & Co., Inc.
111 Pine Street
San Francisco, Ca. 94111
(415) 788-7454

June 12, 1979 10.00 a.m. (tentative)
Meeting with Professor Daniel Fessler
(916) 752-2896

Western Office of the Council of State Governments
165 Post Street
Fifth Floor
San Francisco, Ca. 94108
(415) 986-3760

W.C.S.G. Staff contact: Mr. Preston Cook

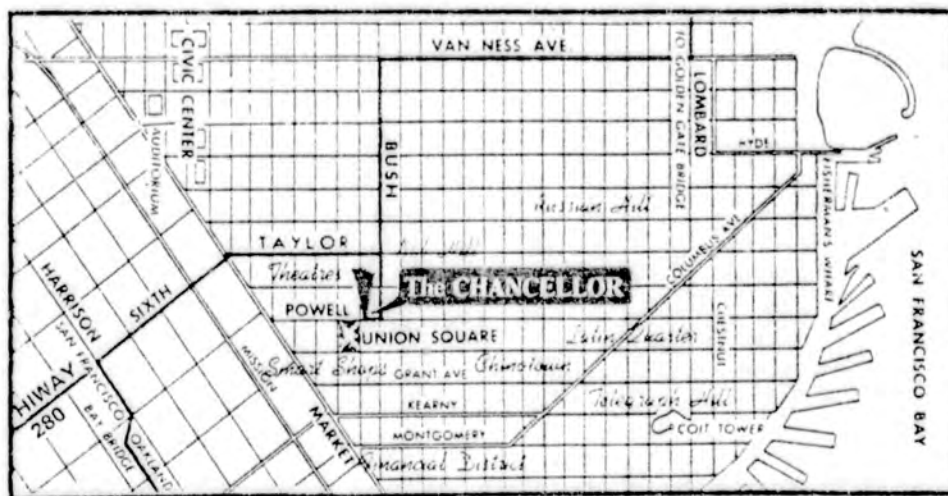


YOUR reservation at the Chancellor Hotel has been made as shown on the inside of this card. Please present the card to the Room Clerk upon your arrival. Every effort will be made to have your accommodations available immediately, but assignment may be subject to some delay, especially during peak travel seasons, conventions or special events.

Reservations ordinarily are held until 6 p.m. If you expect to arrive later, please be sure to notify us before that hour.

Chancellor Hotel

Powell and Post Street at Union Square
San Francisco, California 94102
(415) 362-2004



How to Reach the CHANCELLOR HOTEL:

ARRIVING AT: Bus, rail, steamship or air line terminals — we recommend cabs or the Airport Bus Service to Downtown Terminal.

DRIVING IN OVER SAN FRANCISCO-OAKLAND BAY BRIDGE: Off bridge at Fifth St. ramp — up Harrison one block to Sixth — right on Sixth to Market — across Market to Taylor — up Taylor to Bush — right on Bush to Powell — right on Powell one and one-half blocks to CHANCELLOR.

DRIVING IN OVER GOLDEN GATE BRIDGE: Follow Lombard to Van Ness Avenue. Turn right on Van Ness Avenue to Bush. Turn left on Bush to Powell. Turn right on Powell and one and one-half blocks to CHANCELLOR.

DRIVING IN FROM SOUTH VIA BAYSHORE FREEWAY (Highway 101): As you approach San Francisco take Highway "280 Downtown" and follow to where it exits at Sixth Street. Continue north on 6th Street to Market and cross Market into Taylor Street, going north to Bush Street. Turn right at Bush Street two blocks to Powell Street and then down Powell one and one half blocks to the CHANCELLOR.

RATES: ONE PERSON		\$22.00
TWO PERSONS (Double Bed)		\$28.00
TWO PERSONS (Twin Beds)		\$32.00

QUEEN
SIZE \$30.00

YOUR RESERVATION IS CONFIRMED AS FOLLOWS:

NAME:	TO ARRIVE:	June 10, 1979
Representatives		
Duncan, Gardiner,		
Rosenstein, Barker		
ADDRESS:	ACCOMMODATIONS:	
Alaska	3 single bedrooms	
	1 Queen bedroom	

deposit required to hold after 6 pm
Thank You!



Official Business

Alaska State Legislature

House of Representatives

Committee on State Affairs

*For File.
June Trip*

Pouch V
State Capitol
Juneau, Alaska 99811

A.G.S.O.C. MEETINGS

SAN FRANCISCO

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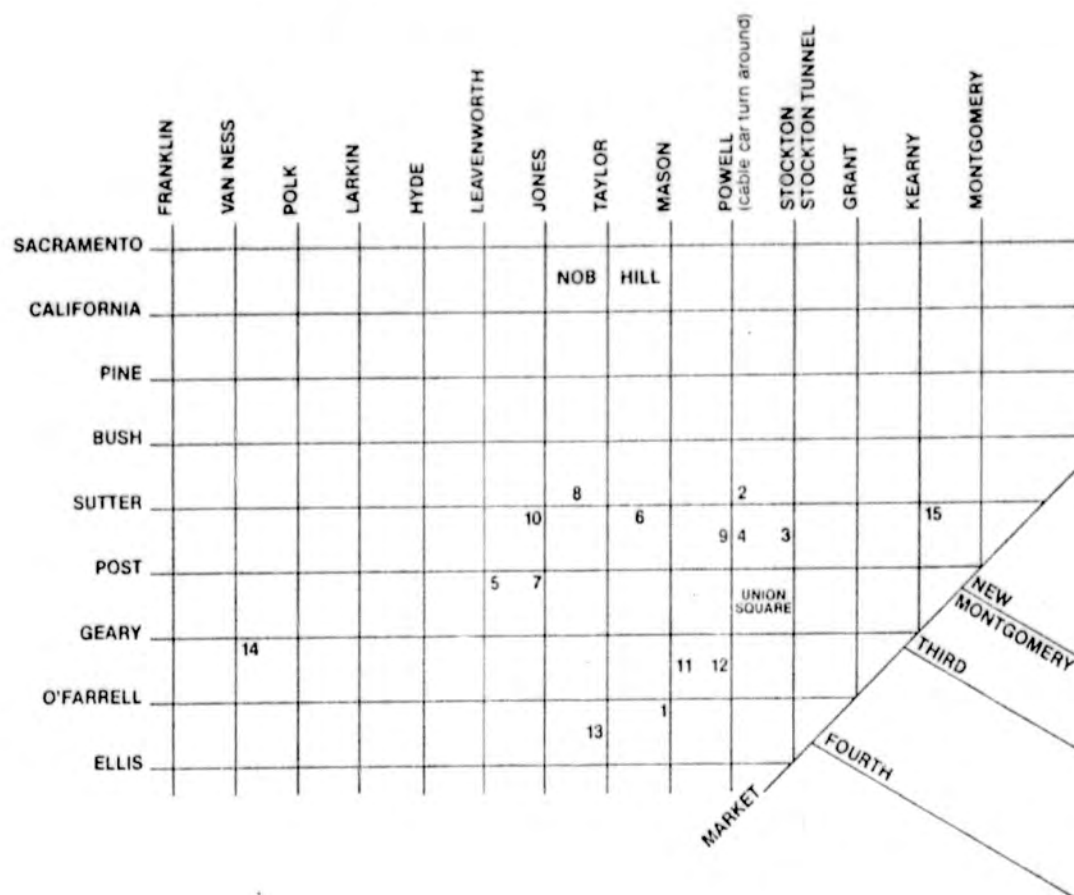
Western Office of the Council of State Governments
85 Post Street
San Francisco, Ca. 94104
(415) 986-3760

W.C.S.G. Staff contact: Mr. Preston Cook



Hotel Locations

Map of Downtown San Francisco—Hotel Area



1. San Francisco Hilton—Headquarters
2. Holiday Inn—Union Square
3. Hyatt on Union Square
4. Sir Francis Drake
5. * The Bedford
6. * Beresford Hotel
7. * Beresford Arms
8. * Canterbury Hotel
9. * Chancellor Hotel
10. * Commodore Hotel
11. * King George
12. * Manx Hotel
13. * Mark Twain Hotel
14. * Richelieu Motor Hotel
15. * Sutter Hotel

* Denotes one of the smaller hotels with between 20 and 75 rooms each.



CC: JIM DUNCAN
S. File.
Trip
Assoc

May 11, 1979

Chancellor Hotel
433 Powell
San Francisco, California

Dear Sirs:

This letter confirms the reservations made for Representatives Duncan and Gardiner and myself and staff members Rosenstein and Barker. Mr. Duncan, Mr. Gardiner, Mr. Rosenstein and Mr. Barker will be arriving June 10, 1979, although they may not be arriving until sometime that evening. I will be arriving June 11, 1979. Reservations were also made for Mr. Eliason, but he will not be coming. Please cancel his reservations.

We are advising each member to send down a deposit for the first night. My room will be paid for (and guaranteed) through my American Express card (#AX 3726 026660 61000).

Sincerely,


Representative Mike Miller

(Room rate is \$24⁰⁰ per day - Single w/ bath)

REP. MIKE MILLER
ALASKA STATE LEGISLATURE

DURING SESSIONS: POUCH V. JUNEAU, ALASKA 99811
BETWEEN SESSIONS: BOX 1494, JUNEAU, ALASKA 99802
HOME PHONE (907) 586-3067
LEGISLATIVE PHONE (907) 465-4964 OR 465-4965

CHAIRMAN, HOUSE STATE AFFAIRS COMMITTEE
MEMBER, RULES COMMITTEE
MEMBER, LABOR & MANAGEMENT COMMITTEE
MEMBER, ALASKA LEGISLATIVE COUNCIL

SCOMM

#32:18

B. C. Resources Investment Corp.

One of the operating models
for comparison with AGSOC.

REMARKS FOR THE
TORONTO SOCIETY OF FINANCIAL ANALYSTS

BY

DAVID L. HELLIWELL
PRESIDENT AND CHIEF EXECUTIVE OFFICER
BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

SHERATON CENTRE

SEPTEMBER 27, 1979

1.

IN THE PAST, I HAVE RECEIVED ADVICE THAT, WHEN TALKING TO FINANCIAL ANALYSTS, I SHOULD NEVER SPEND MUCH TIME DWELLING ON HISTORY, BUT SHOULD EMPHASIZE WHAT I ANTICIPATE FOR THE FUTURE. IF YOU WILL PERMIT ME, I WANT TODAY, FOR AT LEAST A FEW MINUTES, TO GO AGAINST THAT ADVICE FOR THE FOLLOWING TWO REASONS: FIRST, THE TOTAL HISTORY OF B.C. RESOURCES IS JUST OVER TWO YEARS AND IS, THEREFORE, RELATIVELY BRIEF: SECOND, AND MUCH MORE IMPORTANT, THERE SEEMS TO BE DEVELOPING IN CANADA A BODY OF OPINION THAT FEELS A BCRIC SOLUTION WOULD BE APPROPRIATE AND A DESIRABLE OUTCOME IN THE PETROCAN DEBATE. I CERTAINLY DO NOT WANT TO OFFER MY OPINION ON THE QUESTION OF WHETHER "BRICKING" PETROCAN WOULD BE GOOD OR BAD, BUT ONLY WANT TO LET YOU, AND PEOPLE LIKE YOURSELVES, MORE CLEARLY UNDERSTAND HOW BCRIC CAME ABOUT AND WHAT IT IS TODAY, SO THAT YOU CAN HAVE A BETTER BASIS TO MAKE YOUR OWN JUDGEMENT AS TO ITS APPLICABILITY TO THE PETROCAN SITUATION.

B.C. RESOURCES WAS INITIALLY CONCEIVED TO BE A VEHICLE TO RETURN TO THE PRIVATE SECTOR CERTAIN INVESTMENTS WHICH WERE OWNED BY THE PROVINCE OF BRITISH COLUMBIA. THE GOVERNMENT WANTED TO AVOID THE CONFLICTS WHICH CAN ARISE WHERE IT HAD REGULATORY AUTHORITY OVER THE FOREST INDUSTRY, FOR EXAMPLE, AND YET HAD A DIRECT HOLDING IN SOME FORESTRY COMPANIES. IN SHORT, TO SEPARATE EXPLOITATION FROM REGULATION.

IN ADDITION, THE GOVERNMENT FELT THE PROCESS COULD PROVIDE A MECHANISM TO RAISE SOME BADLY NEEDED EQUITY CAPITAL THAT WOULD AT THE SAME TIME ENABLE ITS CITIZENS, WHO WERE WATCHING THEIR BANK DEPOSIT SAVINGS ERODE BY INFLATION, PARTICIPATE DIRECTLY, BUT INDIVIDUALLY, IN RESOURCE OWNERSHIP.

THE ARCHITECTS OF OUR CONCEPT PATTERNED BOTH THE UNDERLYING PRINCIPLES AND THE RESULTANT LEGISLATION VERY MUCH AFTER THE CANADA DEVELOPMENT CORPORATION AND THE ALBERTA ENERGY COMPANY.

SO, IN THE SUMMER OF 1977, THE GOVERNMENT PASSED INITIAL ENABLING LEGISLATION MUCH ALONG THE CDC AND AEC EXAMPLES. SHORTLY AFTER, THEY APPOINTED FIVE VERY PROMINENT BRITISH COLUMBIANS TO BE THE FOUNDING INCORPORATORS OF THE COMPANY AND ITS INITIAL DIRECTORS. THEY HAD ONE COMMON AND VERY SIGNIFICANT CHARACTERISTIC: THEY ARE ALL CHIEF EXECUTIVE OFFICER OF THEIR OWN HIGHLY SUCCESSFUL B.C. HEADQUARTERED PUBLIC COMPANY.

WHILE SOME OF THEM ARE NOT AS WELL KNOWN NATIONALLY AS OTHERS, ALL ARE VERY HIGHLY REGARDED IN B.C. THEY ARE: TREVOR PILLEY, CHAIRMAN OF THE BANK OF B.C.; JOHN PITTS, PRESIDENT OF OKANAGAN HELICOPTERS; JACK POOLE, PRESIDENT OF DAON DEVELOPMENT CORPORATION; CHUNKY WOODWARD, CHAIRMAN OF WOODWARD'S STORES; AND MAURY YOUNG, CHAIRMAN OF FINNING TRACTOR AND EQUIPMENT COMPANY.

INITIALLY, THIS GROUP DECIDED TO SPEND SOME TIME GRAPPLING WITH THE QUESTION OF OBJECTIVES, STRATEGIES, AND SO ON. THEY QUICKLY DECIDED THIS WAS NOT THEIR ROLE, BUT THAT THEY HAD TO FACE AT THE BEGINNING AND AS THEIR FIRST CONCERN, THAT WHICH MANY BOARDS LOSE SIGHT OF AS THEIR PRIME RESPONSIBILITY, THE SELECTION OF A CHIEF EXECUTIVE OFFICER.

I ONLY GO TO SUCH LENGTH ON THIS POINT TO UNDERSCORE THAT OURS IS A COMPANY WHERE THE BOARD CAME FIRST AND THE MANAGEMENT CAME SECOND AND NOT VICE VERSA, WHICH IS OFTEN THE CASE IN A MORE MATURE SITUATION. IT IS VERY CLEAR IN OUR CIRCUMSTANCES WHO REPORTS TO WHOM. I AM THEIR SELECTION AND AM FULLY ACCOUNTABLE TO THEM.

I WAS OFFERED THE OPPORTUNITY TO BECOME PRESIDENT AND CHIEF EXECUTIVE OFFICER AND BECAME THE FIRST BCRIC EMPLOYEE ON MARCH 1ST, 1978. THE COMPANY HAD BEEN INCORPORATED SIX DAYS EARLIER AND ON MARCH 6TH, WE ACQUIRED OUR FOUNDING ASSETS IN EXCHANGE FOR OUR ISSUANCE OF A PROMISSORY NOTE FOR 151½ MILLION DOLLARS. THOSE ASSETS WERE:

- 81 PER CENT OF CANADIAN CELLULOSE, A PUBLIC COMPANY AND A MAJOR PULP AND LUMBER PRODUCER IN THE PROVINCE.
- 100 PER CENT OF TWO MEDIUM-SIZED LUMBER PRODUCERS, KOOTENAY FOREST PRODUCTS AND PLATEAU MILLS, THE FORMER ALSO A PRODUCER OF SHEATHING PLYWOOD.

4.

- 10 PER CENT OF THE SHARES OF WESTCOAST TRANSMISSION, A NATURAL GAS PIPELINE FIRM.
- AND, TO GIVE THAT "GRAB BAG" SOME SIZZLE, A LICENCE TO EXPLORE FOR GAS AND OIL ON SOME 2.3 MILLION ACRES OF LAND IN NORTHEASTERN BRITISH COLUMBIA.

THEN, WE WERE FACED WITH THE CONUNDRUM OF HAVING TO DECIDE HOW TO ACHIEVE INDIVIDUAL OWNERSHIP OF THE CORPORATION.

OUR FIRST CONCERN WAS THAT THE INVESTMENTS WE HAD, PROVIDED LITTLE OR NO CASH FLOW FOR DEBT SERVICE AND, IN ADDITION, WE WOULD REQUIRE FAIRLY SUBSTANTIAL CASH RESOURCES TO TAKE ADVANTAGE OF OUR POSITION IN THE GAS AND OIL EXPLORATION ACTIVITIES. OUR FURTHER CONCERN WAS THAT WE WERE ADVISED BY OUR DEALER-MANAGER GROUP THAT WE WOULD BE UNABLE TO SELL COMMON SHARES, PARTICULARLY TO BRITISH COLUMBIANS, THAT DID NOT CARRY A COMMITMENT TO DIVIDENDS. WHEN WE TRIED TO RECONCILE THESE CONCERNS INTO VARIOUS PRO FORMA CAPITALIZATIONS, IT BECAME CLEAR, THAT UNLESS THE GOVERNMENT WERE PREPARED TO GIVE US A SIGNIFICANT FREE CARRY ON A MAJOR PORTION OF THE 151½ MILLION DOLLAR NOTE, THEN THE CORPORATION WOULD NEVER GET OFF THE DRAWING BOARD.

THE PREMIER RECOGNIZED THAT TO AGREE TO THAT ASSESSMENT WOULD BE TANTAMOUNT TO GIVING THE CORPORATION AWAY, SO HE DECIDED TO DO JUST THAT, BUT TOTALLY AND EQUALLY TO ALL THE CITIZENS OF THE PROVINCE. THAT DECISION ALSO ELIMINATED THE TROUBLESOME QUESTION OF ASKING PEOPLE TO BUY BACK WHAT THEY ALREADY OWNED.

IN ORDER TO HAVE THE SHARES TO GIVE AWAY, THE GOVERNMENT AGREED TO EXCHANGE THE \$151½ MILLION PROMISSORY NOTE IN FULL SETTLEMENT FOR 15 MILLION COMMON SHARES. OF THOSE 15 MILLION SHARES, THEY OFFERED TO GIVE 12 MILLION AWAY, OR FIVE EACH, TO EACH OF THE ELIGIBLE RESIDENTS. AT THE SAME TIME AS APPLICATIONS WERE TO BE RECEIVED FOR FREE SHARES, WE WOULD ACCEPT SUBSCRIPTIONS FOR FURTHER SHARES AT SIX DOLLARS EACH, TO BE ISSUED FROM OUR TREASURY, TO A MAXIMUM OF 5000 PER ELIGIBLE PERSON.

THIS TURN OF EVENTS WOULD ALSO REQUIRE FURTHER LEGISLATION TO AMEND OUR ACT, PRIMARILY BECAUSE WE WERE GOING TO ISSUE BEARER SHARES AND THERE WAS NO PROVISION FOR THAT IN THE B.C. COMPANIES ACT. BEARER SHARES WERE TO BE USED IN ORDER TO SAVE THE CORPORATION THE EXPENSE OF REGISTERING POTENTIALLY 2.4 MILLION SHAREHOLDERS. IN ORDER TO BE A REGISTERED, AND A VOTING SHAREHOLDER, ONE HAD TO PURCHASE A MINIMUM OF 95 OF OUR SHARES, TO BE ADDED TO THE FIVE FREE ONES IN ORDER TO QUALIFY.

THE DETAILED MECHANICS OF THE DISTRIBUTION ARE NOT GERMANE TO OUR DISCUSSION TODAY, BUT LOGISTICALLY IT WAS AN AWESOME AND EXPENSIVE UNDERTAKING. BECAUSE IT INVOLVED A POTENTIAL DISTRIBUTION TO 2.4 MILLION PEOPLE, IT REQUIRED THE UTILIZATION OF ALL THE FINANCIAL INSTITUTIONS IN THE PROVINCE. WITHOUT THE FULL PARTICIPATION OF THOSE INSTITUTIONS, INVOLVING SOME 1300 INDIVIDUAL LOCATIONS, THE JOB COULD NOT HAVE BEEN ACCOMPLISHED.

THE DISTRIBUTION AND THE SALE RESULTED IN 87 PER CENT OF THE ELIGIBLE POPULATION, OR TWO MILLION PEOPLE, APPLYING FOR THEIR FREE SHARES AND 130,000 OF THE INDIVIDUALS APPLYING TO BUY ONE HUNDRED OR MORE SHARES, YIELDING US GROSS PROCEEDS OF 487½ MILLION DOLLARS. INCIDENTALLY, ANOTHER 40,000 PEOPLE PURCHASED EXTRA SHARES, BUT NOT IN SUFFICIENT NUMBER TO BE QUALIFIED FOR REGISTRATION.

IN TOTAL, BCRIC HAS NOW 96¼ MILLION ISSUED SHARES, A LOT OF NEAR CASH ASSETS, AND A SHAREHOLDER LIST HIGHER THAN THIS PODIUM.

I KNOW OF NO SINGLE PERSON WHO GUESSED THE RESPONSE WOULD BE SO OVERWHELMING.

IN RETROSPECT, WE THINK THERE WERE A NUMBER OF FACTORS THAT PRODUCED SUCH ASTOUNDING RESULTS. FIRST, THE STOCK MARKET WAS BUOYANT AND A LOT OF PEOPLE WERE INTERESTED IN THE

MARKET GENERALLY, WITH GAS AND OIL INTEREST PARTICULARLY STRONG. SECOND, PEOPLE IN BRITISH COLUMBIA HAVE PRIDE IN THEIR PROVINCE, AND THEY RESPONDED VERY POSITIVELY TO THE CONCEPT OF A TOTALLY B.C. OPERATED AND DIRECTED COMPANY IN THE RESOURCE FIELD. THEY WANTED A CHANCE TO PUT THEIR MONEY IN A COMPANY LIKE BCRIC AND IT CERTAINLY APPEALED TO THE CHIP ON THE PROVINCE'S SHOULDER. THIRD, WAS THE PREMIER'S OWN PERSONAL SUPPORT OF THE ISSUE. FOURTH, THE BOARD OF DIRECTORS HAD GREAT PROVINCIAL CREDIBILITY. FIFTH, THE GENERAL MOMENTUM THAT THE ISSUE DEVELOPED AS PEOPLE READ ABOUT IT, TALKED ABOUT IT, AND LISTENED TO THE ADVICE OF PROFESSIONALS AS WELL AS THEIR FRIENDS AND NEIGHBOURS. THEY FELT IT WAS ATTRACTIVELY PRICED. AND FINALLY, OF COURSE, THERE WAS ALSO AN ELEMENT OF STRAIGHT SPECULATION BY PEOPLE ANTICIPATING A FAST, PROFITABLE TURN.

WHAT WERE THE IMPLICATIONS OF SUCH A RESPONSE TO OUR SHARE ISSUE? I DON'T MIND ACKNOWLEDGING THE FACT THAT THE BCRIC BOARD, AND ALL THOSE CONCERNED WITH THE ISSUE, SPENT SOME VERY NERVOUS DAYS, AND NIGHTS, BETWEEN LATE JUNE AND AUGUST 7TH, WHEN TRADING IN OUR SHARES WAS TO COMMENCE. NATURALLY, THERE WAS DELIBERATION ON THE QUESTION OF THE APPROPRIATENESS OF THE COMPANY DECLARING ITS INTENTION TO PROVIDE ASSISTANCE IN THE MAINTENANCE OF AN ORDERLY MARKET, SHOULD IT BE REQUIRED. HOWEVER, THE BOARD HAD THE COURAGE OF THEIR CONVICTION IN THE PRINCIPLE OF A FREE MARKET, AND IN OUR CIRCUMSTANCES, I MEAN FREE MARKET, AS THERE WAS NO MARKET MAKER, AND ELECTED NOT TO DECLARE INTENTION TO PROVIDE SUPPORT.

WHILE THAT DECISION DID TAKE COURAGE, IT WAS ALSO REINFORCED BY THE BELIEF THAT THE LARGE MAJORITY OF THE ORIGINAL PURCHASERS WERE LONG-TERM INVESTORS AND NOT SHORT-TERM SPECULATORS, AND THAT INDEED HAS NOW BEEN BORNE OUT.

FOR THE INVESTMENT COMMUNITY, I BELIEVE THE IMPLICATIONS OF OUR SHARE ISSUE ARE ALSO VERY SIGNIFICANT. ALMOST OVERNIGHT, SOME TWO MILLION PEOPLE IN B.C. HAVE BECOME OWNERS OF COMMON SHARES. THEY WILL NEED THE ASSISTANCE, ADVICE AND COUNSEL OF THE INVESTMENT COMMUNITY. THESE PEOPLE, HOPEFULLY, NOW HAVE THE FEELING THEY ARE OWNERS AND PARTICIPANTS.

LET ME MAKE TWO FINAL POINTS ABOUT BCRIC THAT RELATE TO THE "BRICKING" QUESTION AND THEN I'LL FOCUS ON WHERE I THINK WE ARE HEADED.

FIRST, BCRIC IS NOT RUN BY THE GOVERNMENT OF BRITISH COLUMBIA. THE GOVERNMENT NOW OWNS LESS THAN FIVE PER CENT OF BCRIC'S SHARES AND, WHILE THAT IS STILL THE LARGEST BLOCK, I CAN'T IMAGINE ANY GOVERNMENT GETTING INTO A PROXY BATTLE WHEN THE BALANCE OF THE OWNERSHIP IS ON SUCH A WIDESPREAD BASIS. WITH SO MANY OF THE CITIZENS OWNING OUR SHARES, THE GOVERNMENT IS OBVIOUSLY INTERESTED IN US AND OUR WELL BEING, PARTICULARLY AS WE ARE ALSO NOW POTENTIALLY A MAJOR ECONOMIC FORCE IN THE PROVINCE. BUT, WE HAVE NO FUNCTION NOR RESPONSIBILITY TO CARRY OUT ANY ASPECT OF GOVERNMENT POLICY OR DIRECTION OTHER THAN THAT EXPECTED OF ANY GOOD CORPORATE CITIZEN.

SECOND, B.C. RESOURCES HAS AS ITS PRINCIPAL OBJECTIVE THE MAKING OF PROFITS FOR ITS SHAREHOLDERS AND PROTECTION OF THEIR INVESTMENT. WE ARE NOT RESTRICTED TO OPERATING SOLELY IN BRITISH COLUMBIA, THOUGH OBVIOUSLY WE SEE SOME VERY EXCITING RESOURCE DEVELOPMENT POTENTIAL IN B.C.

WHAT ARE WE DOING NOW?

LET ME TELL YOU ABOUT OUR PERFORMANCE FOR THE FIRST SIX MONTHS OF THIS YEAR. TO JUNE 30TH, WE HAD CONSOLIDATED EARNINGS OF \$14.2 MILLION ON SALES REVENUE OF \$151.8 MILLION. THERE ARE NO FULLY COMPARATIVE FIGURES FOR LAST YEAR, SINCE WE ONLY COMMENCED BUSINESS IN MARCH, 1978. BUT THE RESULTS SHOW A SUBSTANTIAL IMPROVEMENT OVER THE OPERATING PERFORMANCE IN THE PRIOR PERIOD.

THESE RESULTS ARE GRATIFYING. BUT, BECAUSE OF THE SUBSTANTIAL INTEREST INCOME WE ARE NOW EARNING, AT A RATE OF OVER \$1 MILLION A WEEK, WE OBVIOUSLY EXPECT OUR SECOND HALF EARNINGS TO BE CONSIDERABLY HIGHER. ALL OF THE CASH PROCEEDS OF OUR ISSUE ARE IN MONEY MARKET INSTRUMENTS, YIELDING WELL OVER 11 PER CENT. TO THE EXTENT THAT WE HAVE OIL AND GAS EXPENDITURES AND CAPITAL COST ALLOWANCES AVAILABLE AS A TAX SHELTER, WE HAVE AT LEAST INTERIM PROTECTION FROM INFLATION WHILE WE ASSESS LONGER-TERM DEPLOYMENT.

WE DID HAVE GENERALLY GOOD RESULTS FROM OUR FOREST PRODUCTS HOLDINGS DURING THE FIRST HALF BECAUSE OF STRONG LUMBER MARKETS AND STRENGTHENING PULP PRICES. BUT HIGHER THAN ANTICIPATED COSTS AT CANADIAN CELLULOSE'S PRINCE RUPERT PULP MILL, START-UP DIFFICULTIES AT OUR PLATEAU MILLS SAWMILL EXPANSION, AND A RAILCAR SHORTAGE ALSO HAD AN ADVERSE IMPACT ON OUR FOREST PRODUCTS EARNINGS.

I ANTICIPATE AN IMPROVEMENT IN OUR FORESTRY SECTOR EARNINGS FOR THE BALANCE OF THE YEAR, AS I BELIEVE, IN OUR CIRCUMSTANCES, INCREASES IN PULP PRICES WILL MORE THAN OFFSET THE EFFECT OF DECREASING LUMBER AND PLYWOOD PRICES.

OUR GAS AND OIL DIVISION CONTINUES TO MOVE AHEAD WITH ITS LONG-RANGE PLANS FOR EXPLORATION OF OUR LAND HOLDING IN BRITISH COLUMBIA. ALL OF THE ORIGINAL 2.3 MILLION ACRES COVERED BY OUR LICENCE HAVE NOW BEEN FARMED OUT TO 32 COMPANIES, COVERING COMPANIES LARGE AND SMALL, NATIONAL AND INTERNATIONAL. SOME OF THESE AGREEMENTS PROVIDE FOR DRILLING COMMITMENTS, WHILE OTHERS CALL FOR SEISMIC AND OTHER EXPLORATORY PROGRAMS LEADING TO AN OPTION TO DRILL. IF THE OPTION IS NOT EXERCISED, THE LANDS RETURN TO US SO THAT THEY CAN BE FARMED OUT TO SOMEONE ELSE.

IT WOULD TAKE MORE TIME THAN I HAVE TO PROVIDE YOU WITH DETAILS OF THE VARIOUS DEVICES WHICH HAVE BEEN USED IN THE FARM-OUT AGREEMENTS. THERE IS NO QUESTION THAT OUR LANDS WILL BE FULLY EXPLORED. WE WILL PARTICIPATE IN THE DEVELOPMENT AND DELINEATION OF ANY FIELD DISCOVERED BY OUR FARMERS, BUT ALL EXPLORATORY WORK, WHETHER IT TAKES ONE WELL OR TEN, WILL BE DONE BY THE FARMER.

CURRENTLY, COMMITMENTS EXIST REQUIRING THE DRILLING OF EIGHT WELLS IN THE COMING WINTER SEASON ON OUR LICENSED LAND, WITH THE POSSIBILITY THAT AN ADDITIONAL 12 WELLS COULD RESULT, DEPENDING ON THE OUTCOME OF SEISMIC INTERPRETATIONS. FURTHER DRILLING COMMITMENTS EXTEND INTO BOTH 1981 AND 1982.

OUR GAS AND OIL DIVISION IS NOT FOCUSING ENTIRELY ON THE LICENSED LANDS, BUT IS EXPECTED TO DEVELOP HYDROCARBONS IN OTHER AREAS OF NORTH-EASTERN BRITISH COLUMBIA AND, FOR THAT MATTER, BEYOND THE BORDERS OF THE PROVINCE SHOULD PROSPECTIVE AREAS BECOME AVAILABLE. IN THIS CONNECTION, BY PARTICIPATING IN LAND SALES AND FARM-INS, AN ADDITIONAL 22,000 ACRES HAVE BEEN ACQUIRED IN ALBERTA AND AN ADDITIONAL 40,000 ACRES IN BRITISH COLUMBIA. THERE ALREADY IS DRILLING ACTIVITY UNDER WAY ON SOME OF THESE PARCELS.

12.

ALTHOUGH THE ROUTE IS STILL SOMEWHAT TORTUOUS, WE ARE VERY PLEASED WITH THE PROGRESS OF BOTH FOOTHILLS PROPOSALS INVOLVING WESTCOAST TRANSMISSION. THEY WILL BE SIGNIFICANT ELEMENTS IN THE FORWARD PROGRESS OF THAT IMPORTANT INVESTMENT. I CONTINUE TO BE IMPRESSED BY THE REQUIREMENT FOR TENACITY AND DEDICATION TO PURPOSE IN THE ACHIEVEMENT OF OBJECTIVES IN THE HIGHLY REGULATED ACTIVITY OF ENERGY TRANSMISSION AND DISTRIBUTION. WE ARE WELL SERVED IN THAT REGARD AT WESTCOAST.

OBVIOUSLY, THE QUESTION MOST PEOPLE IN THE INVESTMENT COMMUNITY, AS WELL AS OUR SHAREHOLDERS, ARE ASKING IS WHAT WE'RE PLANNING TO DO WITH THE SUBSTANTIAL AMOUNT OF CASH WE HAVE AVAILABLE. AT THE MOMENT, WE'RE LOOKING AT SOME VERY INTERESTING PROSPECTS AND, ALTHOUGH I TRULY WISH I COULD ELABORATE, I CAN'T DISCUSS THEM TODAY BECAUSE IT WOULD BE IMPRUDENT TO DO SO.

THE EXTRAORDINARY SUCCESS OF THE PUBLIC OFFERING HAS BROADENED CONSIDERABLY THE SIZE AND SCOPE OF THE INVESTMENT CAPACITY OF BCRIC. IT IS NECESSARY, THEREFORE, TO CONTINUE TO WORK ON FUNDAMENTALS - THE DEVELOPMENT OF OBJECTIVES AND GOALS OF THE CORPORATION AND THE STRATEGY NECESSARY TO ACHIEVE THEM. WHILE A GREAT DEAL OF WORK HAS ALREADY BEEN DONE IN THIS AREA, THE MAGNITUDE OF THE PUBLIC OFFERING HAS NECESSITATED A REASSESSMENT. WE'RE COMMITTED TO MAKING THE RIGHT INVESTMENT DECISIONS ON BEHALF OF OUR SHAREHOLDERS, AND WE'LL TAKE THE TIME NECESSARY TO MAKE SURE WE DO SO.

IN THE MEANTIME, RUMOURS STILL ABOUND -- ABOUT THIS COMPANY BEING A TAKEOVER TARGET ONE DAY ... AND ANOTHER COMPANY THE FOLLOWING DAY. IN AUGUST, THE RUMOURS CONCERNING MACMILLAN BLOEDEL WERE SO PREVALENT THE TORONTO STOCK EXCHANGE ASKED US TO ISSUE A PUBLIC STATEMENT ABOUT OUR INTENTIONS ... WHICH, IN A GENERAL WAY, WE DID. THE TSE ASKED US PARTICULARLY ABOUT MB. BUT THEY UNDERSTOOD OUR POSITION THAT, WE COULD NOT START CONFIRMING OR DENYING SPECIFICS, OTHERWISE WE WOULD BE IN AN IMPOSSIBLE SITUATION VIS A VIS DOING THE RIGHT THING BY OUR SHAREHOLDERS.

AS THERE ARE SO MANY INTERESTING POSSIBILITIES OPEN TO US, THERE IS NO DOUBT THERE WILL CONTINUE TO BE SPECULATION FOR SOME TIME TO COME.

IN TERMS OF DECISIONS, HOWEVER, I CAN SAY THAT WE AS A COMPANY HAVE DECIDED TO INCREASE SIGNIFICANTLY OUR PRESENCE IN THE ENERGY FIELD IN WESTERN CANADA. I HAVE ALREADY MENTIONED OUR GAS AND OIL EXPLORATION ACTIVITIES. IN RECENT WEEKS, WE HAVE COMMITTED TO SUBSTANTIALLY INCREASED EXPLORATION EXPENDITURES, PRIMARILY BY EXTENDING OUR LAND POSITION AND BY FARM-INS WITH OTHERS. WE THINK THIS IS A BUSINESS OPPORTUNITY FOR BCRIC AND THAT WE HAVE THE EXPERTISE AND THE OPPORTUNITY TO PARTICIPATE IN A MAJOR WAY IN THIS ACTIVITY.

14.

OVERALL, I BELIEVE B.C. RESOURCES IS VERY FAVOURABLY POSITIONED TO TAKE ADVANTAGE OF OPPORTUNITIES. WE HAVE EXCEPTIONAL LIQUIDITY THROUGH OUR SUBSTANTIAL INVESTMENTS IN THE MONEY MARKET AT CURRENT HIGH INTEREST LEVELS. AND OUR HORIZONS ARE BROAD IN TERMS OF POTENTIAL OPPORTUNITIES.

WE DO, HOWEVER, HAVE SOME GENERAL GUIDELINES WHICH WILL LIKELY DETERMINE MOST OF OUR MAJOR INVESTMENT DECISIONS. FIRSTLY, WE BELIEVE THE NATURAL RESOURCE SECTOR IS WHERE WE SHOULD BE. SECONDLY, WESTERN CANADA IS WHERE WE BELIEVE RESOURCE OPPORTUNITIES ABOUND, AND THAT'S GOING TO BE OUR MAJOR FOCUS. THIRDLY, ENERGY AND ENERGY RELATED FIELDS ARE KEY OPPORTUNITY AREAS AND THAT'S WHERE WE WANT BCRC TO HAVE A PRESENCE.

IN RESPONSE TO MANY ENQUIRIES, LET ME TOUCH ON THE MATTER OF DIVIDENDS. WE INDICATED IN OUR PROSPECTUS THAT WE DID NOT ANTICIPATE MAKING DIVIDEND PAYMENTS IN THE NEAR FUTURE. IT IS POSSIBLE, HOWEVER, THAT THE BOARD MIGHT BE ABLE TO ADOPT A DIVIDEND POLICY SOONER THAN WE HAD EARLIER ANTICIPATED BECAUSE OF THE GREATER INVESTMENT FLEXIBILITY WE NOW HAVE. THIS DECISION, HOWEVER, WILL HAVE TO REMAIN DEPENDENT ON THE TYPES OF EARLY INVESTMENT THAT WE MAKE, AND OUR VIEW OF THEIR CAPACITY TO GENERATE THE CONSISTENT CASH FLOW REQUIRED TO SUPPORT A LONG-TERM DIVIDEND POLICY.

15.

THAT'S WHAT IS HAPPENING AT BCRIC. WE HAVE BEEN PLEASANTLY SHOCKED, AND EXCITED, BY THE RESPONSE TO OUR SHARE ISSUE. WE HAVE A GREAT DEAL OF CASH, A LOT OF POTENTIAL LEVERAGE, AND A WIDE-OPEN HORIZON OF POSSIBILITIES BEFORE US. WE'RE NOW ENERGETICALLY, BUT PRUDENTLY, DEVELOPING OUR GOALS AND OBJECTIVES AND CONSEQUENT INVESTMENT STRATEGY. WITHIN THAT STRATEGY, WE'RE LOOKING AT SOME INTERESTING INVESTMENT OPPORTUNITIES, PRIMARILY IN THE RESOURCE AND ENERGY FIELDS. WE THINK THEY ARE VERY EXCITING, IN TERMS OF POTENTIAL, BUT WE'VE GOT SOME MORE HOMEWORK TO DO BEFORE WE REACH ANY CONCLUSIONS. I CAN SAY, HOWEVER, THAT THE OPPORTUNITIES AVAILABLE TO BCRIC ARE VERY CONSIDERABLE AND I EXPECT YOU WILL BE HEARING ABOUT SOME OF THESE IN THE NOT TOO DISTANT FUTURE.

NOW, I HAVE DESCRIBED THE CONCEPT BEHIND THE CREATION OF BCRIC, THE MANNER IN WHICH PUBLIC PARTICIPATION WAS OBTAINED AND HAVE TRIED TO GIVE YOU SOME INSIGHT INTO THE DIRECTION WE ARE HEADED AND THE OPPORTUNITIES OPEN TO US. IN PARTICULAR, I WILL LET YOU DECIDE FOR YOURSELVES WHETHER THE "BRICKING" OF PETROCAN WOULD BE APPROPRIATE.

SPEAKING OF OPPORTUNITIES, I UNDERSTAND THAT THIS IS THE END OF MY OPPORTUNITY, BUT THE BEGINNING OF YOURS, IN TERMS OF "HAVING AT ME" WITH QUESTIONS. I'LL DO MY BEST.

THANK YOU.

British Columbia Resources Investment Corporation
(Free Shares) Regulation

Interpretation

1. In this regulation,

"Act"

means the British Columbia Resources Investment Corporation Act;

"age"

means the age of an individual attained on his or her last birthday preceding June 16, 1979;

"attorney"

means a person appointed as the attorney of an applicant for shares of British Columbia Resources Investment Corporation by instrument in writing required by this regulation and who furnishes the identification required by the instrument or this regulation;

"authorized agents"

means the persons authorized to receive and stamp applications as provided by this regulation;

"corporation"

means British Columbia Resources Investment Corporation;

"eligible resident"

means a Canadian citizen or individual qualified to be a Canadian citizen who has applied for Canadian citizenship, and who

(a) has ordinarily resided in British Columbia for at least the immediately preceding 12 months, or has so resided since birth, or

(b) is

(i) a member of the Canadian Forces,

(ii) an agent-general, officer or servant of the Province,

(iii) performing services in a country other than Canada under a program of the Government of Canada, or

(iv) attending an educational institution outside of the Province,

and before his posting, appointment or attendance described in subparagraphs (i) to (iv) inclusive, has ordinarily resided in British Columbia for the preceding 36 consecutive months, or

(c) has ordinarily resided in British Columbia for at least 10 consecutive years before leaving the Province for not more than 60 months and who before January 1, 1979 has returned to and has resumed permanent residence in British Columbia, or

(d) is the spouse living with, or is the child under the age of 16 years of, an individual described in paragraph (b) (i), (ii), (iii), (iv) or (c);

"minister"

means the Minister of Finance.

Applications

2. (1) The Final Date for applications for free shares of the corporation is June 15, 1979 or such later date as the minister may, before that date, specify.

(2) The application form must be in Form A to this regulation and must be presented and stamped by an authorized agent on or before the Final Date.

(3) Applications may be presented at locations in British

This prospectus constitutes a public offering of these securities only in British Columbia.

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

New Issue

British Columbia Resources Investment Corporation

Common Shares (without par value)

This offer is made only to individuals who have qualified for free common shares of British Columbia Resources Investment Corporation ("BCRIC") to be distributed by the Province of British Columbia as described under "Distribution of Free Common Shares" on page 23. This offer commences on March 15, 1979 and will expire on June 15, 1979 unless extended by BCRIC. Up to 5,000 common shares may be purchased, in integral multiples of five, by or in respect of each eligible resident of British Columbia. Bearer share certificates will be issued on all applications for less than 100 common shares. See "Plan of Distribution".

Price: \$6.00 per share

No market has been established for the common shares of BCRIC, but application will be made to list the common shares on the Vancouver Stock Exchange. The offering price for the common shares was determined by BCRIC and the Province of British Columbia was notified of this price. BCRIC has agreed to pay an agents' commission of \$0.25 per common share purchased pursuant to this offer. The net proceeds to BCRIC from this offer will be \$5.75 per common share sold, before deducting expenses of issue payable by BCRIC estimated at \$2,500,000. Other expenses common to the distribution of free common shares by the Province of British Columbia will be borne by the Province.

The common shares are not guaranteed in any manner by the Province of British Columbia or any other government, nor has any government any direct or indirect obligation with respect to them. The common shares are subject to certain risk factors as described under "Risk Factors Affecting Common Shares" on page 23. If a material change occurs during the offering period that makes untrue or misleading any statement of a material fact contained in this prospectus, an amendment will be filed with the Superintendent of Brokers of British Columbia.

These common shares are conditionally offered if, as and when issued by BCRIC subject to enabling legislation and the distribution of free common shares by the Province, all as more particularly set out under "Plan of Distribution" and "Details of the Offering".

TABLE OF CONTENTS

	Page
British Columbia Resources Investment Corporation	3
Business and Properties of BCRIC	3
Sketch of BCRIC Properties	4
Forest Products Investments	5
Canadian Cellulose Company, Limited	5
Kootenay Forest Products Ltd.	10
Plateau Mills Ltd.	12
Energy Investments	13
Gas and Oil Division	13
Westcoast Transmission Company Limited	17
Consolidated Capitalization	20
Details of the Offering	21
Plan of Distribution	23
Use of Proceeds	24
Taxation Matters	24
Directors and Management	25
Stock Options	26
Material Contracts	26
Interests of Management and Others in Material Transactions	27
Legal Matters	27
Auditors	28
Registrar and Transfer Agent	28
Purchaser's Rights of Rescission	28
Financial Statements	29
Auditors' Report	35
Certificates	36

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

British Columbia Resources Investment Corporation ("BCRIC") was incorporated under the Companies Act of British Columbia on February 22, 1978. The British Columbia Resources Investment Corporation Act (the "BCRIC Act"), which was proclaimed in parts on September 14, 1977 and March 9, 1978 and was amended on August 24, 1978, contains provisions relating to BCRIC, including conditions concerning the ownership and voting of its shares. Reference is made to "British Columbia Resources Investment Corporation Act" on page 21.

The head office and registered office of BCRIC is located at Suite 2600, 1177 West Hastings Street, Vancouver, British Columbia, V6E 3Y3.

Objective

The objective of BCRIC is to operate profitably and to maximize the value of BCRIC for the benefit of the shareholders through growth in earnings and asset values. BCRIC was established in part to encourage British Columbians to participate individually in equity investments based in British Columbia. The first efforts of BCRIC will be directed towards identifying additional investment or business opportunities within British Columbia which are consistent with its objective. However, BCRIC has the same unlimited investment opportunity available to it as any Canadian company and may vary or extend its investments in a manner that the directors believe will benefit the shareholders of BCRIC.

Dividend Policy

BCRIC has not paid dividends on its common shares and does not expect to pay dividends in the early years of its operation. All available funds are expected to be used by BCRIC to finance expansion and new investment until dividends from existing holdings improve or satisfactory cash returns are developed. This policy will be reviewed from time to time by the directors of BCRIC and any change in policy will be influenced by the level of earnings available for distribution in BCRIC, financial market and economic conditions in general, and the degree to which funds should be retained to finance internal requirements such as debt repayment, capital expenditures or working capital.

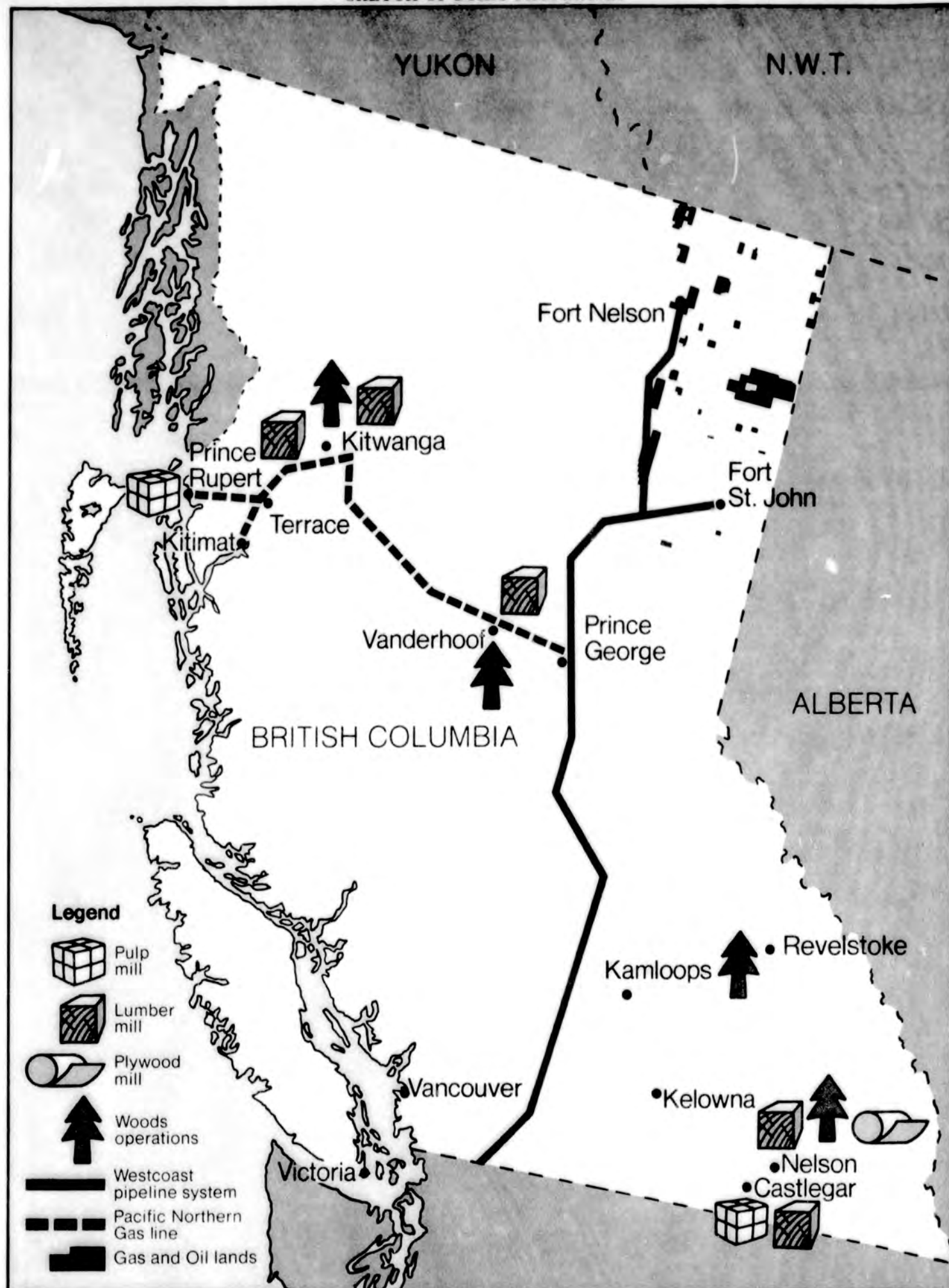
BUSINESS AND PROPERTIES OF BCRIC

BCRIC has to date acquired investments in the forest products industry, which involve the manufacture and sale of pulp, lumber and plywood, and in the energy industry, which involve the exploration, development and transmission of energy resources. The forest products investments consist of approximately 81% of the shares of Canadian Cellulose Company, Limited and all of the shares of Kootenay Forest Products Ltd. and Plateau Mills Ltd. The energy investments include a licence to explore for petroleum and natural gas over approximately 2.3 million acres of land located in northeastern British Columbia and approximately 10% of the common shares in Westcoast Transmission Company Limited.

These investments were acquired on March 9, 1978 from the Province of British Columbia at a transfer price of \$151,532,930. As consideration for these interests BCRIC issued to the Province a non-interest bearing demand note which will be exchanged for 15,000,000 common shares of BCRIC. Reference is made to "Consolidated Capitalization", "Plan of Distribution" and Note 2 to the Consolidated Financial Statements.

Each of these investments is described in more detail below. However, BCRIC is not limited to these investments or industries and may invest in a broad spectrum of ventures. A sketch of the location of BCRIC's properties is presented on page 4.

SKETCH OF BCRIC PROPERTIES



FOREST PRODUCTS INVESTMENTS

CANADIAN CELLULOSE COMPANY, LIMITED

Canadian Cellulose Company, Limited ("CanCel") produces bleached softwood kraft pulp in British Columbia at Prince Rupert and Castlegar for sale in North America, Europe and the Far East. CanCel also manufactures lumber at Castlegar, Terrace and Kitwanga in British Columbia, for sale principally in North America.

CanCel's business had its origins in operations in British Columbia formerly controlled by Celanese Corporation of New York. These consisted of a sulphite pulp mill constructed near Prince Rupert in 1951, two bleached softwood kraft pulp mills, one constructed at Castlegar in 1961 and the other at Prince Rupert in 1966, and three sawmills at Castlegar, Terrace and Kitwanga. On June 29, 1973 the Province of British Columbia acquired 79% of the Common Shares and all of the 39,750 Non-Voting Shares of CanCel from Celanese Corporation in exchange for the Province's guarantee of \$68,000,000 (U.S.) of First Mortgage Bonds of CanCel, formerly guaranteed by Celanese Corporation. There was no cash outlay by the Province. The remaining 21% of CanCel's Common Shares were received by the public and the Common Shares were listed on the Toronto, Montreal and Vancouver stock exchanges. In 1975 the Province acquired an additional 2% of the Common Shares from the public. In October 1976 production of sulphite pulp was discontinued.

Financial Summary

CanCel's net sales, earnings and dividends paid in each of the past five fiscal years ended December 31 were as follows:

	1978	1977	1976	1975	1974
	(in millions of dollars)				
Net sales	\$175.5	\$161.1	\$177.6	\$156.0	\$191.5
Earnings before income taxes and extraordinary items	3.4	23.5	29.4	29.5	54.6
Provision for income taxes	.6	10.9	14.8	14.2	25.6
Earnings before extraordinary items	2.8	12.6	14.6	15.3	29.0
Extraordinary items (1)	4.0	4.7	11.5	12.2	21.9
Net earnings	\$ 6.8	\$ 17.3	\$ 26.1	\$ 27.5	\$ 50.9
Dividends	\$ 3.9	\$ 3.9	\$ 3.7	\$ 3.7	\$ 0.6

(1) In each of the years 1974 to 1977, the extraordinary item was a tax credit arising from prior years' losses. In 1978 the extraordinary item represented a reduction of provincial logging taxes of prior years due mainly to adjustment of tax depreciation claims.

CanCel's financial performance is dependent upon the demand for and supply of market pulp, the value of the Canadian dollar in terms of United States currency and, to a lesser extent, lumber prices. In the 1974 - 1976 period CanCel's results largely reflected a strong pulp market, offset in 1975 by low lumber prices and an industry-wide labour dispute and in 1976 by the closure of the sulphite mill and unfavourable foreign exchange. The pulp market weakened during 1977 and 1978. Earnings in 1977 were reduced by lower pulp prices, partially offset by fire insurance proceeds, foreign exchange gains and higher lumber sales and prices. A continuation of poor pulp prices into the third quarter of 1978 significantly lowered 1978 earnings. In addition, higher manufacturing costs at Prince Rupert associated with tie-ins and startup of the kraft pulp mill modification described under "Pulp Operations" below, failure of a turbo-generator, a major fire at the Castlegar sawmill and a disruption in operations and damage to logging roads and bridges caused by a severe winter flood in the northwestern region all contributed to the substantial earnings decline. Higher lumber prices and favourable foreign exchange partly offset these factors.

Sales and Marketing

CanCel's net sales by principal product, after deducting freight and delivery charges, in each of the last five years were as follows:

	1978	1977	1976	1975	1974
	(in millions of dollars)				
Kraft pulp	\$126.0	\$103.0	\$112.1	\$102.4	\$106.7
Lumber	49.5	51.7	40.9	22.6	34.7
Sulphite pulp (1)	—	6.4	24.6	31.0	50.1
Total	\$175.5	\$161.1	\$177.6	\$156.0	\$191.5

(1) Production of sulphite pulp was discontinued in October 1976.

The following table shows the geographic distribution of CanCel's net sales by principal product during the past five years:

	1978		1977		1976		1975		1974	
	(in millions of dollars)									
Pulp:										
Canada	—	—	\$ 4.0	4%	\$ 8.2	6%	\$ 11.2	8%	\$ 11.2	7%
United States	\$ 33.5	27%	36.2	33	48.2	35	49.4	37	63.0	40
Europe	64.7	51	55.6	51	51.3	38	49.3	37	52.4	34
Far East	25.4	20	11.3	10	26.6	19	21.4	16	27.7	17
Other	2.4	2	2.3	2	2.4	2	2.1	2	2.5	2
	<u>\$126.0</u>	<u>100%</u>	<u>\$109.4</u>	<u>100%</u>	<u>\$136.7</u>	<u>100%</u>	<u>\$133.4</u>	<u>100%</u>	<u>\$156.8</u>	<u>100%</u>
Lumber:										
Canada	\$ 15.6	32%	\$ 11.9	23%	\$ 10.1	25%	\$ 6.5	29%	\$ 9.2	27%
United States	33.9	68	39.8	77	30.8	75	16.1	71	25.5	73
	<u>\$ 49.5</u>	<u>100%</u>	<u>\$ 51.7</u>	<u>100%</u>	<u>\$ 40.9</u>	<u>100%</u>	<u>\$ 22.6</u>	<u>100%</u>	<u>\$ 34.7</u>	<u>100%</u>
Total	<u>\$175.5</u>		<u>\$161.1</u>		<u>\$177.6</u>		<u>\$156.0</u>		<u>\$191.5</u>	

With the substantial completion of the kraft pulp mill modification at Prince Rupert in late 1978, CanCel has increased its kraft pulp capacity by approximately 35%. CanCel is susceptible to the cyclical demand and price trends of pulp markets as it lacks the product diversification and secondary manufacturing facilities of more integrated competitors. CanCel has attempted to minimize the effects of non-integration by negotiating longer term contracts and broadening its customer base. Approximately 90% of pulp production in 1979 and 1980 has been committed under contracts for fixed terms of between three and seven years, compared to virtually none before 1973. CanCel has broadened its customer base to more than 100 customers in 19 countries and operates sales offices in Vancouver, Montreal and Brussels.

Kraft pulp prices are principally determined by world market factors. CanCel's sales are based on its announced prices in force at the date of customers' requisitions, but some are subject to discounts based on volume and to meet competitive situations.

The principal market for pulp produced at Castlegar is the United States, where it is shipped by rail. Castlegar pulp also moves by rail to Vancouver for shipment to Southeast Asia, Europe and South America. Pulp manufactured at Prince Rupert is transported by bulk ocean carrier to Western Europe, the Mediterranean, China and Japan. CanCel maintains inventories at key distribution points in the United States and Europe.

All lumber is sold in the North American market by sales staffs at the Terrace and Castlegar sawmills.

Pulp Operations

The Prince Rupert pulp mill, located on Watson Island eight miles south of Prince Rupert, has a daily capacity of 1100 tonnes. In 1976 a modification project was undertaken which incorporated usable portions of the adjacent sulphite pulp mill into the kraft pulp mill and increased its capacity. The modified mill has been in a run-in phase since October 1978 and average daily production at Prince Rupert in the first two months of 1979 was 964 tonnes. The Castlegar pulp mill, completed in 1961, has a daily capacity of 515 tonnes.

Production of kraft pulp and sulphite pulp over the past five years was as follows:

	1978	1977	1976	1975(1)	1974
	(in thousands of tonnes)				
Kraft pulp					
Prince Rupert	195.6(2)	155.0(3)	200.5	143.3	194.2
Castlegar	171.2	164.0	164.8	126.2	176.7
Sulphite pulp					
Prince Rupert (4)	—	—	66.9	79.3	141.7

(1) Operations were suspended for 95 days due to a strike.

(2) Production was affected by power outages and the mill modification project.

(3) Production was affected by a shortage of chemicals due to a strike in the chemical industry and by a shutdown of approximately two months primarily for major improvements.

(4) Sulphite pulp production ceased in October 1976.

Lumber Operations

The Terrace sawmill produces annually 120 million board feet of dimension lumber and the Kitwanga mill, located on 22 acres of leased land, produces annually 40 million board feet of green dimension lumber. The Castlegar sawmill consists of a large log facility which produces annually 100 million board feet of lumber and a small log facility constructed in 1978 with an estimated annual capacity of 35 million board feet. The output of the Castlegar mill is approximately evenly divided between boards and dimension lumber.

On June 17, 1978 the Castlegar sawmill, including the just completed small log facility, was severely damaged by fire. Reconstruction of the sawmill was substantially completed in late 1978. Production from the large log facility reached approximately 80% of design capacity by the end of January 1979 and the small log facility commenced production in February 1979.

Production of lumber over the past five years was as follows:

	1978	1977	1976	1975(1)	1974
		(in millions of board feet)			
Terrace	122.5	127.2	111.8	66.6	93.6
Kitwanga	40.3	36.8	35.7	16.6	32.3
Castlegar	49.2(2)	94.0	102.5	83.9	116.8
	<u>212.0</u>	<u>258.0</u>	<u>250.0</u>	<u>167.1</u>	<u>242.7</u>

(1) Operations were curtailed by a labour dispute.

(2) Sawmill closed by fire on June 17, 1978.

Timber Resource

The Province of British Columbia owns approximately 95% of all forest lands in British Columbia and grants licences to harvest timber from these lands. CanCel holds tenure in the form of two tree farm licences ("TFLs") and three timber sale harvesting licences ("TSHLs"). Both TFLs were granted for terms of 21 years and were stipulated to be renewable. The present Forest Act, which came into force on January 1, 1979, provides that both TFLs will expire within the next five years and gives CanCel the right to replace them on expiry with new 25 year TFLs. A TFL grants to its holder the exclusive right to harvest timber from a designated area of forest land, under short term cutting permits, at a rate, called the "allowable annual cut" ("AAC"), that is calculated according to sustained yield forestry principles. The licensee is responsible for managing the licence area for timber production and forest renewal under the general supervision of the British Columbia Forest Service and has obligations respecting recreation, fish, wildlife and associated resources. Under its TFLs CanCel is obliged to pay to the Province annual rent, based on the AAC, and stumpage for timber harvested from the licence area. Stumpage rates fluctuate according to the market values of forest products, estimated logging, production and forest management costs and allowances for profit, risk and incentive.

TSHLs typically are for terms of ten years, although some are longer. The licensee is granted the right to harvest an AAC in a designated Public Sustained Yield Unit ("PSYU"), which is an area of forest land managed according to sustained yield forestry principles by the Forest Service. In almost all PSYUs harvesting rights are held concurrently by a number of licensees. The licence itself does not specify areas within the PSYU where the licensee will carry out his logging operations. Short term cutting permits are issued from time to time by the Forest Service to identify specific areas to be logged. The holder of a TSHL is obliged to pay annual rent, based on the AAC specified in the licence, and stumpage on timber harvested. The holder of a TSHL has the right to obtain a new form of tenure, a forest licence with a 15 year term, as a replacement for the TSHL when it expires or is surrendered.

The AAC authorized under an existing or replacement TFL, a TSHL or a forest licence may be reduced permanently by the Province if the licensee undercuts. Where the volume of timber actually harvested under the licence during a five year cut control period is less than the minimum volume required to be harvested during that period, the AAC may be reduced by as much as the deficiency. In the case of a TFL the Province may delete land from the licence area sufficient to account for the reduction in AAC or as an alternative grant timber sale licences in the TFL authorizing the reduction in the original holder's AAC to be harvested by others.

Northern Operations

CanCel harvests its wood supply for its northern operations (the Prince Rupert pulp mill and Terrace and Kitwanga sawmills) primarily from TFL No. 1 under which CanCel has exclusive cutting rights over certain forest lands in the Skeena and Nass river valleys in northwestern British Columbia. During 1978 CanCel and the Province agreed to reduce the area of the TFL from approximately 2,300,000 productive acres to approximately 935,000 productive acres and the AAC from 72,000,000 cubic feet to 45,606,000 cubic feet. The licence expires in 1983 and CanCel has the right to a replacement TFL. The three TSHLs held by CanCel have an aggregate AAC of 16,200,000 cubic feet. CanCel also manages two TSHLs held by others with a combined AAC of 3,253,000 cubic feet. The sulphite pulp mill, which has now been phased out, required chips produced from roundwood at the mill whereas approximately 45% of the future requirements of the modified kraft pulp mill are anticipated to be supplied by residual chips produced as a lumber by-product by sawmills. CanCel believes that the reduced AAC for TFL No. 1, the AAC of the other tenures available to CanCel and purchased pulp logs and residual chips are sufficient to meet the requirements of its mills. Logs are transported to the mills by road, on the Canadian National Railway and by towed booms.

Interior Operations

TFL No. 23 grants CanCel cutting rights over approximately 968,000 productive acres of forest lands in the basin of the Columbia River. Timber from the TFL supplies logs for the Castlegar sawmill, which in turn supplies residual chips to the adjacent pulp mill. The balance of the requirement of the pulp mill is met by purchasing residual chips from other sawmills in the area and from pulp logs from the TFL. Logs are transported by truck to dumps along the Columbia River below Revelstoke and are towed to the mills in log booms. The construction of the Revelstoke Dam, two miles north of Revelstoke on the river, will affect log transport from the north block of the TFL. The conditional licence issued by the Comptroller of Water Rights to British Columbia Hydro and Power Authority ("B.C. Hydro") for the dam authorizes provision for such log handling facilities as the Comptroller may order.

In 1978 the Province amended TFL No. 23 to provide for licences to an independent sawmill operator to harvest timber in a designated area comprising approximately 112,000 productive acres of the TFL. Such a licence has been granted with an AAC of 5,660,000 cubic feet, effectively reducing CanCel's AAC from 41,500,000 cubic feet to 35,840,000 cubic feet in 1979. CanCel believes that this reduced AAC and available log inventory will provide sufficient wood for the mills in 1979 because the sawmill has not yet reached full production and CanCel is entitled to cut up to 50% in excess of the AAC in one year. When the sawmill achieves full production, CanCel believes that it will require approximately 46,000,000 cubic feet of AAC under the TFL to maintain full production at its mills. TFL No. 23 expires on December 31, 1979 and CanCel has the right to a replacement TFL. The AAC under the replacement TFL has not yet been determined, but will be based on the latest independent inventory of the TFL made in 1975. In CanCel's opinion this inventory substantiates an increase in the AAC for the TFL and CanCel anticipates that, subject to the concurrence of the Minister of Forests, its AAC will be increased under the replacement TFL to meet its wood requirements.

Employee Relations

CanCel employs approximately 2,700 people, of whom approximately 2,200 are represented by industrial unions. There are ten collective agreements involving four unions, the International Woodworkers of America (the "IWA"), the Pulp, Paper and Woodworkers of Canada (the "PPWC"), the British Columbia Government Employees Union, and the Canadian Merchant Service Guild, which directly affect CanCel's operations. The IWA is the certified bargaining agent for approximately 1,080 employees engaged in logging and sawmill activities and the PPWC bargains for approximately 1,025 employees at the pulp mills. Negotiations with the IWA and the PPWC are conducted on an industry-wide basis in British Columbia through employers' organizations of which CanCel is a member. Both unions are operating under two year contracts which were negotiated under federal anti-inflation controls without work stoppages and expire in June 1979.

In July 1975 a Province-wide pulp and paper workers' strike shut down CanCel's pulp mills. This strike also forced curtailment of CanCel's logging and sawmill operations. The strike continued until mid-October 1975 when the Province enacted "back-to-work" legislation. Operations may be affected by work

stoppages in other industries on which CanCel depends, such as the chemical, towboat, shipping and rail transportation industries. In early 1977, the pulp mill at Prince Rupert was shut down for about 20 days due to a shortage of chemicals caused by a strike in the chemical industry.

Environment

In the forest products industry, pollution control is primarily regulated provincially under the Pollution Control Act, 1967 and federally under the Fisheries Act and the Clean Air Act. CanCel's operations do not currently comply with certain requirements of its permits and pollution control standards. CanCel is modifying its facilities to comply with some of the requirements and is evaluating alternatives for compliance with others.

During the last five years CanCel has expended approximately \$6,200,000 on projects involving pollution abatement. In addition the modification project at Prince Rupert avoided pollution abatement requirements for the sulphite mill which were estimated in 1975 to cost \$80,000,000. CanCel estimates that it may be required to expend during the period 1979 to 1987 approximately \$40,000,000 (in 1978 dollars) primarily to meet existing and anticipated pollution control requirements. The specific facilities required and the amounts and timing of expenditures have not been determined and will be subject to the requirements of regulatory authorities and approval by CanCel's directors.

Additions to Property, Plant and Equipment

Capital expenditures on property, plant and equipment during the five fiscal years ended December 31, including expenditures on roads to the extent not offset against provincial stumpage payments, were as follows:

	1978	1977	1976	1975	1974	Total
			(in millions of dollars)			
Logging	\$ 4.8	\$ 7.2	\$ 4.5	\$ 9.9	\$ 7.9	\$ 34.3
Lumber	7.9	2.5	0.5	1.1	3.5	15.5
Pulp	67.6	68.0	22.2	3.9	3.2	164.9
Other	0.1	0.2	0.3	—	—	0.6
Total	\$80.4	\$77.9	\$27.5	\$14.9	\$14.6	\$215.3

Included in the above table are \$133,000,000 of construction costs and \$11,800,000 of interest and other capitalized costs relating to the modification of the pulp mill at Prince Rupert, \$7,400,000 relating to the new small log facility at the Castlegar sawmill, and \$22,100,000 relating to logging roads net of stumpage offsets. The balance relates mainly to logging operations, pollution abatement and plant replacement and improvement.

CanCel has planned capital expenditures of \$12,600,000 in 1979 for additions to property, plant and equipment including an estimated \$2,200,000 to complete the pulp mill modification. In addition expenditures of approximately \$7,000,000 will be made in 1979 for logging roads, part of which will be eligible for stumpage offset. The planned expenditures may be increased as described under "Environment".

Energy

CanCel utilizes hydro-electric power, natural gas, petroleum products and hog fuel in its manufacturing processes. Natural gas, the price of which is set by the British Columbia Energy Commission, is supplied through pipelines to Prince Rupert and Terrace by Pacific Northern Gas Ltd. and to Castlegar by Inland Natural Gas Co. Ltd. Oil is supplied to Prince Rupert by barge and to Castlegar by rail. At Prince Rupert and Castlegar, part of CanCel's electrical energy requirements is met from its own steam driven turbo-generators and the balance is supplied at Castlegar by Cominco Ltd. and at Prince Rupert by B.C. Hydro. It is expected that a recent connection to the Peace River generating facilities through the provincial power grid will reduce disruptions in the supply of purchased power to Prince Rupert.

Investment

CanCel has a 24% interest in Babine Forest Products Limited ("Babine") which owns a sawmill, opened in 1975, at Burns Lake in the central interior of British Columbia. The sawmill's annual production is 100 million board feet of dimension lumber and 24% of its residual chips are committed for sale to CanCel's Prince Rupert pulp mill. In 1978 CanCel's equity in Babine's net earnings amounted to \$1,230,000.

KOOTENAY FOREST PRODUCTS LTD.

Kootenay Forest Products Ltd. ("Kootenay") commenced sawmill operations in 1952 at Nelson in the Kootenay Lake area of British Columbia. In 1967 a plywood plant was added to the sawmill operations. In 1974 Kootenay was acquired by the Province of British Columbia.

Kootenay's net sales and earnings in each of the fiscal periods from 1975 to 1978 inclusive were as follows:

	12 months ended December 31		10 months ended December 31	12 months ended February	
	1978	1977	1976	1976	1975
	(in thousands of dollars)				
Net sales	\$28,560	\$21,522	\$16,031	\$15,263	\$12,385
Earnings (loss) before extraordinary items (1) (3)	3,896	(11)	530	601	(4,210)
Extraordinary items (2)	—	848	—	84	1,284
Net earnings (loss) (3)	\$ 3,896	\$ 837	\$ 530	\$ 685	(\$2,926)

- (1) Kootenay received a non-interest bearing advance of approximately \$11.6 million from the Province in March 1974. This advance was repaid in March 1978 out of the proceeds of an issue of common shares to the Province. As part of these arrangements Kootenay agreed to transfer certain of its freehold lands to the Province.
- (2) Gains arising on sale of private land to the Province.
- (3) No provision has been made for income taxes as Kootenay has been exempt since March 1974 due to its status as a Crown corporation. Kootenay will lose this exemption in 1979.

Strong demand and higher prices for both plywood and lumber in 1978, the beneficial effects of the substantially lower value of the Canadian dollar in terms of U.S. currency, and improved productivity combined to increase Kootenay's sales and earnings over previous years. These favourable factors were partially offset by higher operating and stumpage expenses.

Business of Kootenay

Kootenay carries on logging operations primarily through independent contractors and operates a sawmill, a plywood plant and related facilities in Nelson on approximately 30 acres of land and nine acres of leased foreshore lots served by two railway lines. The sawmill has an annual capacity of 55 million board feet of dimension lumber and the annual capacity of the plywood plant is 570 million square feet (1/16th inch) of sheathing plywood.

Production, sales volumes and sales revenues by product for the past five years were as follows:

	Twelve months ended December 31				
	1978	1977	1976	1975	1974
Lumber					
Production (MMFBM)	52.2	52.8	38.8	25.2	32.1
Sales volume (MMFBM)	54.4	51.1	37.7	29.5	34.0
Sales revenue (millions)	\$12.8	\$9.9	\$6.2	\$3.9	\$5.1
Plywood					
Production (MMSF 1/16") (1)	530.7	504.4	552.4	452.1	412.9
Sales volume (MMSF 1/16")	533.3	500.5	554.5	466.2	413.0
Sales revenue (millions)	\$15.7	\$11.6	\$13.1	\$9.9	\$7.9

(1) Includes purchased veneer.

(2) MMFBM means millions of board feet and MMSF 1/16" means millions of square feet on a 1/16 inch basis.

Inadequate log supply resulted in curtailed production in 1974 and 1975. Increased expenditures on logging and road construction together with sawmill modifications have led to increased sawmill production.

Kootenay's lumber and plywood production is marketed by its own sales staff at Nelson. Lumber is sold primarily to wholesalers and is shipped by both rail and truck. In 1978, approximately 22% of lumber

was sold in Canada and 78% in the United States. The majority of Kootenay's plywood is transported by rail and sold in Eastern Canada. In 1978, 90% of plywood was sold to Canadian purchasers and 10% was exported.

Kootenay also sells wood chips to CanCel's pulp mill at Castlegar and to Georgia-Pacific Corporation in Bellingham, Washington. In 1978, wood chip sales revenues were approximately \$959,000.

Kootenay employs approximately 500 people of whom 82% are union members represented by the IWA. The present collective agreement, which was negotiated under federal anti-inflation controls, expires on June 30, 1979. Collective bargaining is conducted by the Interior Forest Labour Relations Association which represents Kootenay and other forest industry employers in the southern interior region. Kootenay may be affected by work stoppages in other services on which it depends such as transportation.

Kootenay is subject to various environmental protection laws and regulations and is currently installing emission control devices at an estimated cost of \$200,000 to meet provincial requirements. Additional expenditures to meet environmental protection requirements in 1979 are projected to be \$160,000.

Timber Resource

Kootenay holds two TSHLs expiring in 1981 and 1982 which it expects to replace with a forest licence having a 15 year term. The present AAC is approximately 12,600,000 cubic feet. The timber consists of many species and contains a high proportion of small, over-mature and decadent trees. Harvesting operations are conducted in steep terrain at relatively long distances from conversion facilities resulting in high raw material costs. Logs are transported by truck and by towing on Kootenay Lake.

In previous years Kootenay has logged its private timberlands to supplement its AAC by between 900,000 and 3,200,000 cubic feet per annum. These private lands were recently transferred to the Province. Kootenay retains harvesting rights on these lands and is preparing a plan for logging operations over a maximum of twenty years. Kootenay anticipates continuing to cut approximately 1,200,000 cubic feet per year for its mills from these lands.

Kootenay's conversion facilities annually require approximately 14,500,000 cubic feet of timber composed of 7,500,000 cubic feet of peeler logs and 7,000,000 cubic feet of saw logs. Logging operations have generally yielded an insufficient supply of peeler logs and an excess of small saw logs. To overcome this wood imbalance, Kootenay has had to purchase peeler logs. As a result of inadequate log handling and log preparation facilities it has also had to purchase green veneer. Both these problems have contributed to excessive saw log inventory. Kootenay expects to continue to depend upon purchases of between 3,500,000 and 4,500,000 cubic feet of peeler logs per annum for the foreseeable future as well as purchasing varying quantities of veneer.

Kootenay has increased expenditures on roads to improve its access to timber stands with a higher peeler log content. Continued substantial expenditures are anticipated because of the imbalance between Kootenay's timber resources and its conversion facilities.

Capital Expenditures

Total capital expenditures during the five years ended December 31, 1978, including expenditures on roads to the extent not offset against provincial stumpage payments, were as follows:

<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
(in thousands of dollars)				
\$1,515	\$1,996	\$2,317	\$2,256	\$1,464

Capital expenditures in recent years have been directed primarily to renovation of the sawmill in 1975 and 1976 and development of logging roads. BCRIC and Kootenay are studying plans to adapt facilities for better use of the timber resource and to improve log handling and log preparation. These plans, if implemented, would increase sawmill capacity, reduce inventory and eliminate purchases of veneer. Current projections for such expenditures through 1980 amount to approximately \$10 million. In addition Kootenay expects to spend an average of \$1.7 million annually, before stumpage offsets, over the next three years on road development to provide access to better stands of timber suitable for plywood manufacture as well as

to increase the supply of harvestable timber. Roads currently developed permit access to sufficient timber which, together with purchases of peeler logs and veneer at present levels, will supply present mill requirements for approximately one and one-half years.

PLATEAU MILLS LTD.

Plateau Mills Ltd. ("Plateau"), incorporated in 1967, has sawmill operations at Engen, twelve miles west of Vanderhoof, British Columbia. The Province of British Columbia acquired control of Plateau in 1973 and the remaining minority interest in 1974.

Plateau's net sales and earnings in each of the past five fiscal years ended December 31 were as follows:

	1978	1977	1976	1975	1974
	(in thousands of dollars)				
Net sales	\$28,224	\$21,826	\$11,573	\$8,624	\$9,385
Earnings (loss) before extraordinary item (1)	4,432	4,378	1,937	68	(316)
Extraordinary item (2)	—	—	—	—	229
Net earnings (loss) (1)	\$ 4,432	\$ 4,378	\$ 1,937	\$ 68	\$ (87)

(1) Plateau has been exempt from income taxes since 1974 due to its status as a Crown corporation. Plateau will lose this exemption in 1979.

(2) Reduction of deferred income taxes upon acquiring status as a Crown corporation.

Plateau's results in 1978 compared to 1977 were favourably affected by strong demand and higher prices for lumber, as well as by exchange gains resulting from the lower value of the Canadian dollar. Earnings were affected adversely by higher stumpage, logging and operating costs and by marketing and productivity problems.

Business of Plateau

Plateau operates two sawmills and related facilities in Engen on its 1,080 acre site adjacent to the Canadian National Railway and the Yellowhead Highway. The older mill, constructed in 1970, handles larger diameter logs and the newer mill, constructed in 1976, handles small logs. The combined annual capacity of these mills is 149 million board feet of dimension lumber. The newer mill is being expanded so as to be able to process both small and large logs. Upon completion of the expansion in March 1979, the older mill will be phased out. The designed annual capacity of the expanded mill is 156 million board feet. Plateau anticipates a reduction of unit costs and an improvement in timber utilization as a result of the expansion.

Lumber production and sales volumes for the past five years ended December 31 have been as follows:

	1978	1977	1976	1975	1974
	(in millions of board feet)				
Production	133.9	142.6	95.5	66.8	86.3
Sales	141.7	138.4	89.3	82.3	84.7

Plateau's sales staff at Engen markets its lumber to wholesalers, retailers and industrial users. In 1978, approximately 6% was sold in Canada and 94% in the United States. Wood chips are sold to Prince George Pulp and Paper Ltd. In 1978 wood chip sales revenues amounted to \$2,068,000.

Plateau employs approximately 330 full-time employees of whom 85% are represented by the IWA. The collective agreement which was negotiated under federal anti-inflation controls expires on August 31, 1979. Collective bargaining is conducted by the North Cariboo Forest Labour Relations Association on behalf of Plateau and many of the forest employers in the northern interior region. Shortages of skilled labour and a high turnover rate have adversely affected productivity. Plateau expects that the improvement in working conditions associated with the sawmill expansion will reduce turnover.

Plateau depends on outside sources for transportation of lumber products and for supply of energy. Plateau is pioneering a wastewood burner as a heat source for two of its six kilns used for drying lumber. If this process is commercially successful, Plateau will significantly reduce natural gas purchases.

Plateau is subject to various environmental protection laws and regulations. Plateau believes its operations are generally in compliance with all requirements.

Timber Resource

Plateau holds three TSHLs and one timber sale licence with a total AAC of 26,468,000 cubic feet and annually harvests approximately another 720,000 cubic feet under a private agreement. Licences for 63% of the AAC have been extended under the new Forest Act to expire in 1981 and the other licences expire in 1988. Plateau intends to replace its existing licences with a forest licence having a term of 15 years.

Plateau's timber consists of accessible stands of lodgepole pine, spruce and balsam fir. Most logging operations and log transport are carried out by independent contractors. Plateau does not foresee any shortage of suitable wood for its existing facilities.

Capital Expenditures

Total capital expenditures during the past five years ended December 31, including expenditures on roads to the extent not offset against provincial stumpage payments, have been as follows:

<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
		(in thousands of dollars)		
\$8,814	\$4,291	\$4,069	\$4,537	\$2,750

This table includes approximately \$6.3 million relating to construction of a new sawmill completed in November 1976 and \$5.7 million relating to the current mill expansion. Road expenditures in recent years have been increased to support the increase in production. Existing logging roads provide access to sufficient timber to supply the present mill requirements for approximately four years. Plateau anticipates that total capital expenditures in 1979 will be approximately \$4.5 million, including about \$2 million for the sawmill expansion and log yard improvements.

ENERGY INVESTMENTS

GAS AND OIL DIVISION

On March 9, 1978, the Province of British Columbia issued to BCRIC a petroleum and natural gas licence (the "Licence") under which BCRIC has the exploration rights described below covering 2,343,667 acres of unproven and undeveloped land in northeastern British Columbia ("the Licenced Lands"). BCRIC paid \$40,896,043 for the Licence. The location of the Licenced Lands is illustrated on the map on page 15.

The Licence

The Licence stipulates that BCRIC may undertake geological and geophysical methods of exploratory work, alone or in conjunction with others, but may not drill, in its own right, exploratory wells for petroleum and natural gas on the Licenced Lands. In order to drill and prove potentially productive geological horizons, farmout agreements must be negotiated with third parties who undertake the drilling operation on behalf of themselves and BCRIC. This provision ensures that the oil and gas industry will have the opportunity to participate in the exploration and development of the Licenced Lands.

During the five year term of the Licence, BCRIC has the exclusive right to receive petroleum and natural gas permits from the British Columbia Ministry of Energy, Mines and Petroleum Resources for any portion of the Licenced Lands which will be evaluated under a farmout agreement. Each permit will cover a land area specified by BCRIC in its application and will be issued for a term of eight years where the permit relates to blocks designated "A" on the map on page 15 or for a term of ten years where the permit relates to blocks designated "B" on the same map. The Licence makes provision for the renewal of a permit for a five year term if a subsequent agreement is entered into for further exploration. Land under permit may be surrendered by BCRIC at any time subject to outstanding farmout agreements.

The right to produce from the Licenced Lands may be granted by way of leases issued pursuant to the Petroleum and Natural Gas Act, 1965 of British Columbia (the "PNG Act") after a well has been drilled. The area covered by these leases will be determined by the geographical location and depth of the well and its capability of producing.

Most of the provisions of the PNG Act and the regulations thereto will apply to BCRIC under the terms of the Licence. However, there are provisions of the Licence which supersede provisions of the PNG Act, including reduced rentals, the elimination of work obligations while under permit and enhanced lease entitlements.

The properties included in the Licenced Lands were valued in a report dated February 15, 1978 and prepared for the Minister of Energy, Mines and Petroleum Resources of British Columbia by D & S Petroleum Consultants (1974) Ltd. and D & S Geological Services Ltd. of Calgary, Alberta and London, England. The report set out appraised values for each of the tracts of land comprising the Licenced Lands and established a total value for the Licenced Lands of \$40,896,043 or an average price of \$17.45 per acre (\$43.11 per hectare). (A hectare is a metric unit of area which equals 10,000 square metres or 2.471 acres.) Because much of the Licenced Lands was remote from exploration activity in 1977, the valuation was based on a variety of factors including the results of recent land sales in the area, prevailing land prices for unproven wildcat acreage, the results of drilling on offsetting lands which might indicate reservoirs which could be encountered on the Licenced Lands, and the general level of exploration activity in the area.

Industry Price and Drilling Statistics

As BCRIC has no existing production or established oil and gas reserves on the lands managed by it, the following statistical information is provided in connection with land value and drilling activity trends in British Columbia. The bonuses paid on the sale of Crown reserve petroleum and natural gas rights for each of the last five years by type of disposition are set out below.

Crown Reserve Disposition Bonuses					
	1978	1977	1976	1975	1974
	(in millions of dollars)				
Permits	\$ 49.5	\$ 60.0	\$27.5	\$ 6.6	\$15.4
Drilling reservations	64.5	30.6	6.2	2.7	2.7
Leases	63.5	34.8	9.5	3.4	4.9
Total	<u>\$177.5</u>	<u>\$125.4</u>	<u>\$43.2</u>	<u>\$12.7</u>	<u>\$23.0</u>

During 1978, monies paid by the oil and gas industry to acquire petroleum and natural gas permits covering British Columbia Crown lands amounted to \$49.5 million or \$61.14 per acre, which compared to a total of \$60.0 million in 1977 on significantly more land area for an average of \$38.31 per acre. While the rights obtained by BCRIC under the Licence are not directly comparable to any of the disposition categories shown above, the bonus amounts realized on permit dispositions represent most closely the trend in values which might apply to the Licenced Lands.

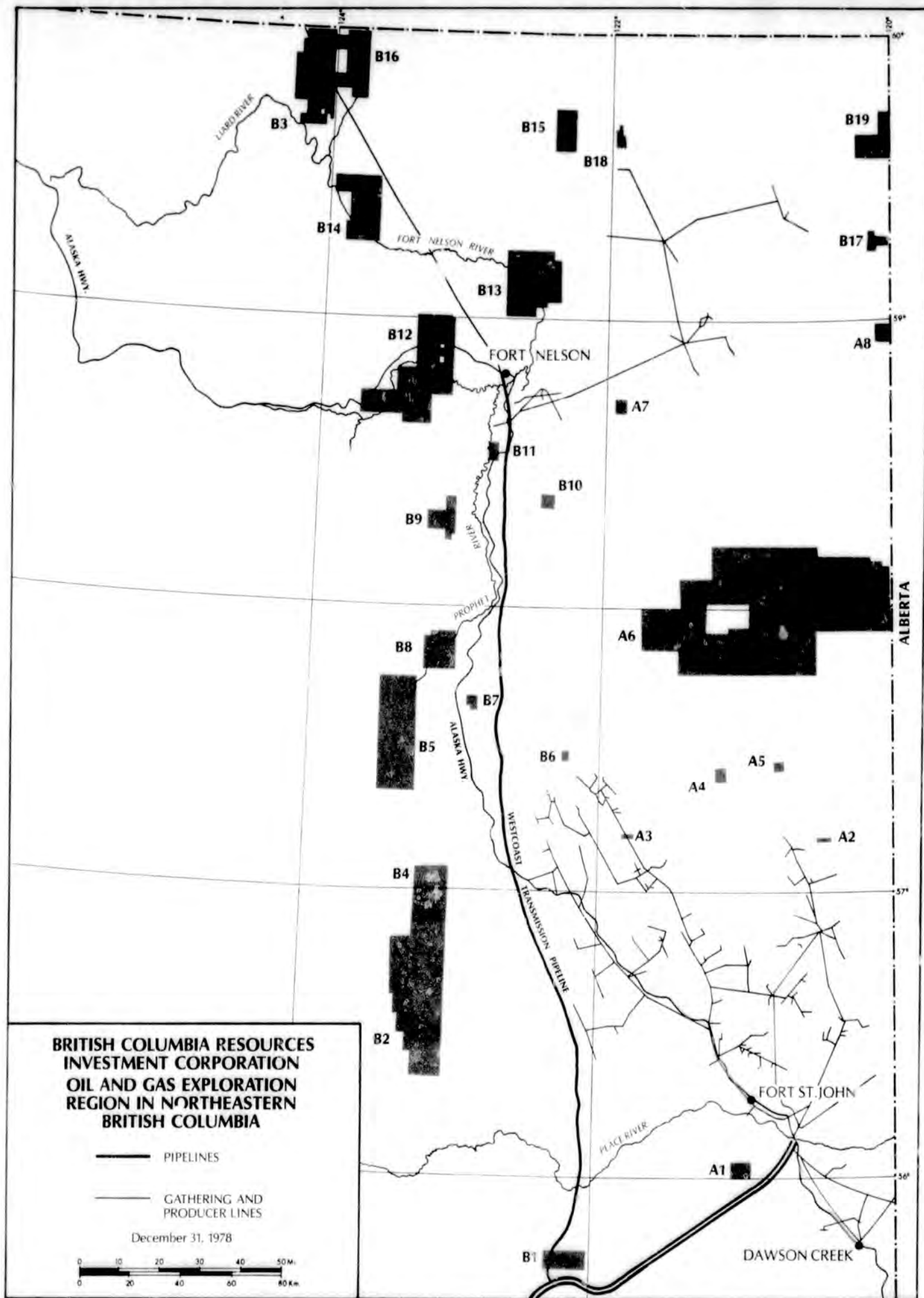
The following table sets out a review of drilling activity and results over the past five years in British Columbia.

Drilling Activity in British Columbia					
	1978	1977	1976	1975	1974
Oil wells	72	38	13	2	6
Gas wells	201	165	95	31	51
Dry holes	129	118	71	44	84
Servicing and standing wells	6	7	5	4	6
Total wells completed	<u>408</u>	<u>328</u>	<u>184</u>	<u>81</u>	<u>147</u>

Operating Strategies

BCRIC opened a Gas and Oil Division office in Calgary in June 1978. A small staff of experienced professionals is pursuing the following operating strategies and priorities for the Gas and Oil Division:

- to negotiate farmout agreements requiring farmees to provide all exploratory funds for seismic and drilling activity on Licenced Lands so that these lands are fully and expeditiously explored;
- to participate fully in development activity with others on the Licenced Lands;
- to pursue exploration prospects on other than Licenced Lands;
- to acquire selectively both semi-proven and unproven acreage in order to offset the dilution of BCRIC's land inventory which results from farmout agreements on the Licenced Lands; and
- to pursue opportunities to acquire interests in producing properties.



Farmout Agreements

All farmout agreements negotiated to date essentially provide that the third party farmee absorb all costs of exploratory activities on the Licenced Lands, although BCRIC has undertaken some minor seismic programs for control purposes on Licenced Lands prior to farmout. In addition, each farmee must drill one or more wells to a prescribed depth to earn a 50% interest in any leases which may issue from a permit. The interest earned extends down only to the depth or geological horizon penetrated by the well. Since a field discovered on Licenced Lands may extend to adjacent areas, another feature of most agreements is that an area of mutual interest is established covering the petroleum and natural gas rights on land adjacent to the farmout block. BCRIC will attempt to protect its interest in the related lands by participating with its farmee in any subsequent development work.

Twenty-two of the twenty-seven blocks comprising the Licenced Lands have been committed to farm-out agreements, although formal agreements have not been signed in every case. Over 89% of the Licenced Lands are covered by these commitments. To this date in negotiations, farmees are obligated to conduct a minimum of 1,460 kilometres of seismic and to drill 18 wells over the next three and one-half years. Farmees on commitments negotiated to date include a broad range of experienced exploration companies.

Block A-6, the largest block in the Licenced Lands consisting of 905,019 acres, was divided into eleven parcels and farmed out to a number of operators in order to generate more concentrated exploration activity. One parcel has been retained by BCRIC. Some of the operators on Block A-6 have subsequently joined with others to explore jointly on this land. Approximately 550 kilometres of seismic line and nine wells have been committed on this block.

Drilling Activity

Four of the wells referred to above under "Farmout Agreements" are being drilled in the 1978-1979 winter drilling season. The first well on the Licenced Lands was Wainoco BCRIC Sojer, drilled in November 1978 on Block A-3 in the Nig Creek area 120 kilometres northwest of Fort St. John. An area of mutual interest was established adjacent to Block A-3. Consequently three parcels of land were purchased jointly by Wainoco Oil & Gas Limited and BCRIC at the November 22, 1978 Crown sale. The Sojer well found a gas-bearing section capable of commercial production and has been capped.

Gulf BCRIC Cheves, a 3,140 metre test, has been drilled on Block B-9 and is currently testing. This well is 3.5 kilometres south southeast of an earlier Gulf Cheves well which was drilled in early 1978.

Esso BCRIC Stanislas, a 3,000 metre test, commenced drilling operations on January 19, 1979 on Block B-15.

Czar BCRIC Dobin, a 1,000 metre test, commenced drilling operations on February 15, 1979 at the southwest extremity of Block B-19.

As the first investment in BCRIC's strategy to expand its activities beyond the Licenced Lands and related mutual interest lands, BCRIC has entered into a farmin agreement on a parcel of land located in the Sahtaneh area east of Fort Nelson. By paying 12½ % of well costs, BCRIC will earn a 6¼ % interest in production from the well after well costs have been recovered. The well, known as Tri Star et al Sahtaneh, is currently drilling and offsets Mobil Sahtaneh to the southwest, a well which flowed gas at a rate in excess of 11.5 million cubic feet per day.

Oil and gas exploration involves a high degree of risk, which can be reduced by a combination of experience, knowledge and careful evaluation. BCRIC intends to engage in the drilling of both exploratory and development wells. There is no assurance that commercial quantities of gas or oil will be discovered by BCRIC. The marketability of gas and oil which may be acquired or discovered by BCRIC will be affected by market fluctuations, the proximity and capacity of gas and oil pipelines and processing equipment and government regulations, including regulations related to prices, taxes, royalties, land tenure, methods of operation, allowable production, importing and exporting of oil and gas and environmental protection. Hazards such as unusual or unexpected formations, high pressures or other anomalous conditions are encountered in drilling and operating wells. BCRIC will have the benefit of insurance placed in such amounts as it considers adequate. BCRIC may become subject to liability for pollution, blow outs or other hazards against which it is not fully insured.

Expenditure Plans

BCRIC has established a preliminary five year expenditure plan totalling approximately \$55 million. This amount is allocated approximately equally to expenditures on Licenced Lands and to expenditures for or on other lands. The amount of actual expenditures will depend upon many factors including the success of prior expenditures in this program, the cash flow which may result from these expenditures, the amount of net proceeds from the present sale of BCRIC common shares which can be dedicated to this program and the opportunities for expenditure which become available to or are developed by BCRIC's Gas and Oil Division.

As part of this five year plan, BCRIC has developed an expenditure budget of \$8.3 million for 1979. These expenditures may include seismic and drilling work and land acquisition costs and will be allocated to participating in joint operations on Licenced Lands and mutual interest lands, the purchase of semi-proven and wildcat acreage not related to the Licenced Lands, and exploratory drilling on new acreage. The 1979 program will be financed from internal cash flow of BCRIC, the proceeds from the sale of common shares offered by this prospectus and debt capital where the expenditure plan will support such financing.

Government Regulation

All of BCRIC's present exploration activities are being conducted in British Columbia. The exploratory work carried out by BCRIC and its farmees and any production of petroleum or natural gas will be governed by the PNG Act as modified by the Licence.

The PNG Act and regulations prescribe royalties payable in respect of the sale of natural gas, natural gas by-products and petroleum produced in British Columbia. Virtually all natural gas and by-products produced in the Province are sold under contract with the British Columbia Petroleum Corporation ("BCPC"), a Crown corporation, and are exempt from royalties. The price payable to producers is based upon a "field price" reviewed annually by the British Columbia Energy Commission and is adjusted in accordance with changes in the average market value and volume of export and domestic gas sales, transmission costs and federal taxes. In December 1978 the price payable for "new gas" (generally, gas drawn from a pool which did not flow prior to November 14, 1973) was fixed at \$1.046 per thousand cubic feet and the price payable for "old gas" was fixed at \$0.766 per thousand cubic feet, at wellhead. The time of completion of a well also determines the royalty payable on "new oil" and "old oil". New pool discovery wells are exempt from royalties for the first three years of production and royalties on "new oil" (generally, oil drawn from a pool which did not contain a completed well prior to November 1, 1975) are usually less than those levied on "old oil". Royalty rates are also determined by the volume of monthly production from a particular well.

The Federal Government regulates the prices of crude oil and natural gas in interprovincial and export trade and controls the volumes of crude oil and natural gas exported from Canada.

WESTCOAST TRANSMISSION COMPANY LIMITED

BCRIC owns 3,471,375 common shares (approximately 10% of the outstanding common shares and the second largest shareholding) in the capital of Westcoast Transmission Company Limited ("Westcoast"). Westcoast is primarily engaged in purchasing, gathering, processing, transmitting and selling natural gas.

The following table sets out a five year history of Westcoast's operating revenues, net income, cash flow, net income per common share (weighted average) and dividends per common share and the high and low prices for Westcoast's common shares on The Toronto Stock Exchange.

	Year ended December 31				
	1978	1977	1976	1975	1974
Operating revenues (in thousands)	\$843,902	\$780,164	\$579,276	\$416,677	\$266,600
Net income after preferred dividends (in thousands)	41,538	39,450	36,059	29,619	25,172
Cash flow (in thousands)	85,805	81,419	75,867	55,060	47,161
Net income per common share	1.21	1.19	1.11	0.99	0.97
Dividends per common share	0.69	0.653	0.612	0.60	0.433
Common share price high—low	12¾-10¾	11¾-8¾	9¾-7¾	7¾-6½	8¾-4¾

The Pipeline System

Westcoast, together with two wholly-owned subsidiaries, owns and operates a natural gas pipeline system (the "Pipeline System") consisting on May 31, 1978 of 1,400 miles of main transmission pipeline in British Columbia with 17 mainline compressor stations, 1,101 miles of gathering lines in British Columbia, Alberta, the Yukon Territory and the Northwest Territories with 13 field compressor stations, three gas processing plants located at Fort Nelson, Taylor and Boundary Lake, British Columbia with a total marketable gas capacity of 1,430 million cubic feet per day and two elemental sulphur recovery plants located at Fort Nelson and Taylor. The main transmission pipeline runs from Fort Nelson and Taylor in northern British Columbia to a point on the United States border near Huntingdon, British Columbia where it connects with the pipeline system of Northwest Pipeline Corporation ("Northwest"). The Pipeline System has a mainline transmission capacity (mainline sales plus compressor fuel) of approximately 1,360 million cubic feet per day.

Westcoast is in the midst of an extensive construction program involving expenditures in the order of \$225,000,000 during 1978 and 1979. Major projects completed in 1978 include the Grizzly Valley—Sukunka pipeline, the Silver—Dahl pipeline and the Clarke Lake South and Red Creek gas field connections. Scheduled for completion in 1979 are a processing plant near Chetwynd associated with the Grizzly Valley—Sukunka pipeline and other gathering facilities and additions to the Pipeline System.

Gas Supply, Cost of Service and Rate of Return

Westcoast has, in connection with the operation of the Pipeline System, entered into an agreement (the "BCPC Agreement") with BCPC. Under the BCPC Agreement substantially all of the gas produced in British Columbia is sold by the producers to BCPC which, in turn, commits and sells the gas to Westcoast. In addition, approximately 22% of Westcoast's gas is purchased from producers in northwestern Alberta, the Yukon Territory and the Northwest Territories.

Under the BCPC Agreement the price paid by Westcoast for the gas purchased from BCPC is an amount equal to the gross revenues received by Westcoast from the sale of gas transmitted through the Pipeline System and gas by-products from the processing and sulphur recovery plants, less both the cost incurred in purchasing gas from sources other than BCPC and the cost of service, including a return on rate base.

The rate base consists of actual investment in plant, property and equipment in service less depreciation plus working capital. The BCPC Agreement provides that the rate of return on rate base is subject to change by agreement or by arbitration. The present 11% rate of return has been in effect since January 1, 1977. Because operating income is generated by a return on rate base, the net income of Westcoast is not affected by fluctuations in the price or volume of gas sold and delivered through the Pipeline System. Net income is increased with additions to rate base by expansion of the Pipeline System.

National Energy Board Rate Application

Westcoast's tariffs, tolls and charges applicable to its customers are subject to the jurisdiction of the National Energy Board ("NEB"). The price payable for gas purchased outside British Columbia is governed by The Petroleum Administration Act.

In 1977 Westcoast filed its first rate application to be heard by the NEB. The application is being heard in three phases. Phase I which dealt with the depreciation and income tax components of cost of service has been heard. The NEB has approved an alteration of Westcoast's accounting treatment of depreciation, effectively increasing the recovery of depreciation, and a change from flow-through to normalized income tax accounting. A decision on methods of allocating these costs to domestic and export sales was postponed until Phase II. The components of rate base and the remaining components of the cost of service, including the return on rate base, are being considered in Phase II which is scheduled to be completed in March 1979. The design of rates and tolls charged to domestic customers will be considered in Phase III which is scheduled to be completed in April 1979.

Substantially all the decisions of the NEB as to depreciation, amortization and income taxes will be given effect to by the BCPC Agreement for purposes of determining the price to be paid by Westcoast for gas purchased from BCPC. Any increase in Westcoast charges authorized by the NEB will not necessarily result in additional after tax net profits.

Gas Sales

All gas transported through the Pipeline System, other than compressor fuel, is either exported to Northwest or sold to distributors in British Columbia, primarily B.C. Hydro, Inland Natural Gas Co. Ltd. ("Inland") and Pacific Northern Gas Ltd. ("Pacific Northern").

B.C. Hydro, Inland and Pacific Northern distribute approximately 95% of all the natural gas distributed to consumers in British Columbia. B.C. Hydro distributes gas throughout the lower mainland area of British Columbia including the metropolitan area of Vancouver. Inland carries on a gas distribution business principally in central and southern British Columbia. Pacific Northern carries on a gas distribution business in northwestern British Columbia as referred to under "Other Businesses" on page 20. Westcoast sells gas to B.C. Hydro, Inland and Pacific Northern pursuant to agreements each of which terminates on October 31, 1991.

Northwest, which is Westcoast's largest customer, owns and operates a gas transmission system in the United States serving markets in the States of Washington, Oregon, Idaho, Colorado, Utah, Nevada and Wyoming. Westcoast and Northwest have the necessary regulatory authorizations to export and import natural gas near Huntington under a contract which terminates on October 31, 1989. This contract provides for delivery of a maximum volume of 809.2 million cubic feet of gas per day.

Alaska Highway Pipeline Project

Westcoast owns 50% of the voting shares of Foothills Pipe Lines (Yukon) Ltd. ("Foothills Yukon") which, through its subsidiaries, is responsible for the construction and operation of the Canadian portion of the Alaska Highway Pipeline Project (the "Project"). The Project is sponsored by Westcoast, The Alberta Gas Trunk Line Company Limited and Northwest Alaskan Pipeline Company, an affiliate of Northwest, and will comprise a gas transmission system totalling 2,759 miles of large diameter pipe extending from Alaska through Canada to the lower 48 States with a throughput capacity of approximately 2.4 billion cubic feet of gas per day. Approximately 2,000 miles of the pipeline will be located in Canada. Completion of the Project is scheduled for the winter of 1984-85.

Five subsidiaries of Foothills Yukon, each of which will be owned to the extent of at least 51% of its voting shares by Foothills Yukon, will construct separate segments of the Canadian portion of the Project. Westcoast will be responsible for construction and operation of the northern British Columbia segment (approximately 440 miles) and will hold the remaining 49% voting interest in Foothills Pipe Lines (North B. C.) Ltd., the subsidiary company handling this phase of the Project.

The capital costs of the Project were estimated in mid-1978 to be approximately \$8.1 billion of which approximately \$4.4 billion was to be expended by Foothills Yukon and its subsidiaries for the Canadian portion of the Project. The foregoing capital cost estimates are currently being revised upward due to delays in the scheduled completion of the Project. These estimates are also subject to definitive design, timing and certain other factors affecting the Project and do not include capital cost estimates for a pipeline system from the Mackenzie Delta/Beaufort Basin along the route of the Dempster Highway to connect with the Project at Whitehorse, Yukon Territory.

As of December 31, 1978 Westcoast's total expenditures in respect of Foothills Yukon and its subsidiaries were \$24.5 million. Westcoast will continue to contribute its proportionate share to cover the costs to be incurred by Foothills Yukon and its subsidiaries to develop the Project. The amount and timing of any commitment with respect to Project construction will be subject to a number of factors including regulatory approvals, the execution of gas sales and transportation contracts and the financing of the Project. Westcoast estimated in mid-1978 that its equity contribution to Foothills Yukon and its subsidiaries in connection with the construction of the Project would be approximately \$440 million. This estimate will be updated based upon the revised capital cost estimates for the Project. Westcoast proposes to fund its equity contribution by means of a combination of debt issues, preferred share issues and funds received upon the exercise of outstanding share purchase warrants as well as cash flow which may result from the early construction and operation of the southern Alberta, southern British Columbia, and Saskatchewan sections of the Project or cash flow from other operations.

Feasibility studies are also progressing through Foothills Oil Pipe Line Ltd. on a concept to carry Alaskan oil through the same Alaska Highway transportation corridor to supply markets in the mid-western United States.

Other Businesses

Westcoast Petroleum Ltd. ("Westpete"), which is 59.8% owned (including 57.6% of the voting shares as at December 31, 1978), is engaged in oil and gas exploration, development and production and as at December 31, 1978 had interests in 8,249,090 gross acres (2,304,571 net acres) of prospective oil and gas lands in western Canada, the Yukon Territory, the Northwest Territories and the Arctic Islands. Westpete also owns and operates an oil pipeline extending for 505 miles between Taylor and Kamloops, British Columbia. Westpete accounted for approximately 10.6% of Westcoast's 1978 net income after tax.

Pacific Northern, which is 45% owned (including 100% of the voting shares), is a gas transmission and distribution company serving communities along its system which extends from a point on the Westcoast main transmission line near Summit Lake to Prince Rupert and Kitimat on the Pacific Coast as shown on the sketch on page 4.

The foregoing information with respect to Westcoast's business and operations was obtained from or based upon publicly available documents and records, particularly reports and other information which Westcoast has filed with the Superintendent of Brokers of the Province of British Columbia or the United States Securities and Exchange Commission, the 1977 Annual Report, the 1978 Mid-Year Update, the 1978 Third Quarter Interim Report to Shareholders and Westcoast's announcement of preliminary results for 1978.

CONSOLIDATED CAPITALIZATION

	Authorized	Outstanding as at December 31, 1978	Outstanding as at January 31, 1979
	(in thousands of dollars)		
Indebtedness			
Indebtedness of BCRIC			
Non-interest bearing promissory note payable (1)	\$151,533	\$151,533	\$151,533
Long term debt of CanCel			
6 1/8 % Bonds due January 2, 1981 (2)	\$ 71,136	\$ 14,202	\$ 9,531
5 3/8 % Bonds due July 1, 1985 (2)	\$ 47,424	\$ 26,664	\$ 26,807
10 1/2 % Promissory notes due December 15, 1992 (2)	\$ 59,288	\$ 59,288	\$ 59,570
11 1/2 % Promissory notes due December 15, 1992	\$ 20,000	\$ 20,000	\$ 20,000
Bank loans (3)	\$ 65,000	\$ 50,000	\$ 55,000
Sundry indebtedness		\$ 7,377	\$ 7,369
Minority interest in a subsidiary			
Common shares and retained earnings		\$ 23,066	\$ 23,101
Share capital (4)			
Common shares without par value (1)	100,000,000 shs.	5 shs. (\$5.00)	5 shs. (\$5.00)

NOTES:

- (1) The Province of British Columbia which holds the note has agreed to exchange it for 15,000,000 fully paid common shares of BCRIC. Reference is made to "Plan of Distribution".
- (2) Payable in U.S. dollars. Amounts shown are the Canadian dollar equivalents translated on the basis set out in Note 1 to the Consolidated Financial Statements.
- (3) Reference is made to Note 7 to the Consolidated Financial Statements for further details.
- (4) In addition to the stated dollar value for capital stock as indicated above, BCRIC had consolidated retained earnings of \$15,922,000 at December 31, 1978.
- (5) Reference is made to Note 9 to the Consolidated Financial Statements for particulars of long term leases.

DETAILS OF THE OFFERING

Common Shares

The authorized capital of BCRIC consists of 100,000,000 common shares without par value. The holders of common shares are entitled to dividends as and when declared by the board of directors; are entitled upon liquidation to receive pro rata such assets of BCRIC as are distributable to the holders of common shares; and have no pre-emptive, conversion or subscription rights. The common shares offered hereby will be fully paid and non-assessable. The holders of common shares are subject to the provisions of the BCRIC Act which are summarized below under "British Columbia Resources Investment Corporation Act".

Holders of common shares who hold registered share certificates are "members" of BCRIC for the purposes of the British Columbia Companies Act, are entitled to attend meetings of shareholders of BCRIC and will have one vote for each registered common share held. **The holder of common shares represented by a bearer share certificate will not be a "member" of BCRIC and will not be entitled to notice of or to attend at meetings of shareholders of BCRIC nor to vote as a shareholder.**

Bearer Share Certificates

Bearer share certificates will be issued on all applications for less than 100 common shares, including free common shares received from the Province of British Columbia as described under "Plan of Distribution". Holders of common shares represented by bearer share certificates will have the rights and restrictions summarized below. Amendments to the BCRIC Act will be required to authorize the issue by BCRIC of bearer share certificates. For full particulars reference should be made to the BCRIC Act and the Articles of BCRIC when amended and to the Companies Act of British Columbia.

Shareholder Rights

The holder of common shares represented by a bearer share certificate will be entitled to the principal rights and protections afforded individual registered shareholders under the Companies Act of British Columbia except the right to attend shareholders' meetings and to vote as a shareholder and the right to receive information mailed by BCRIC.

Share Registration

The bearer of bearer share certificates aggregating at least 100 common shares of BCRIC may become a registered shareholder of BCRIC by having such shares registered in his or her name subject to the restrictions on share ownership and share holdings described below.

Dividends

Declaration of dividends will be advertised and dividends payable on common shares represented by bearer share certificates will be paid to the bearer on presentation of such certificates to any dividend paying agent named in such advertisements. Dividends declared and not claimed within six years following their respective payment dates will be paid to the Minister of Finance to be held pursuant to the Unclaimed Money Deposits Act.

Loss or Destruction

Bearer share certificates will not be replaced by BCRIC if lost, stolen or destroyed.

British Columbia Resources Investment Corporation Act

Restrictions on Share Ownership

Only Canadian citizens or residents of Canada are eligible to purchase, own, or hold voting shares of BCRIC. Common shares of BCRIC represented by bearer share certificates will, by definition, not be voting shares. Voting shares may not be purchased or held in right of or for the use or benefit of a non-resident of Canada who is not a Canadian citizen.

For this purpose a resident of Canada is a person other than any of the following:

- an individual who is not ordinarily resident in Canada;
- a corporation that is incorporated, formed or otherwise organized elsewhere than in Canada or that is controlled directly or indirectly by non-residents or by a non-resident trust or of which the majority of directors are non-residents;

- the government of a foreign state or a political subdivision thereof, or an agent of either;
- a trust established by a non-resident (other than a trust for the administration of a pension fund for the benefit of individuals, a majority of whom are residents of Canada) or in which non-residents have more than 50% of the beneficial interest.

Maximum Share Holdings

The maximum number of voting shares of BCRIC which may be owned by or held for the use or benefit of any person or associated group of persons, other than the Province of British Columbia or a mutual fund, or pension or other similar fund, is 1% of the outstanding voting shares of BCRIC. A mutual fund or pension or other similar fund may hold up to 3% of the total number of the outstanding voting shares. The Lieutenant-Governor in Council is authorized by the BCRIC Act to change these limits.

Disposal of Excess Shareholding

Where voting shares of BCRIC are held in contravention of the BCRIC Act, BCRIC may require the holder to dispose of such shares to an eligible holder within a specified period of not less than sixty days. Failing compliance with such requirement, the voting shares may be redeemed for cancellation by BCRIC at its option at a price which is the lesser of the issue price on the initial issue of shares of that class or the market price prevailing at the time of redemption.

Voting Restrictions

The Province of British Columbia, while it owns 10% or more of the outstanding voting shares of BCRIC, may not vote those shares for the election of directors but may appoint:

- one director if the number of directors is four or less;
- two directors if the number of directors is five, six, seven or eight; and
- three directors if the number of directors is more than eight.

Where any of the shares of BCRIC are held or deemed to be held in contravention of the BCRIC Act, the voting rights attaching to those shares shall not be exercised, and any proceeding at a meeting at which voting rights pertaining to shares of BCRIC so held are exercised is, at any time within one year after the commencement of that meeting, voidable at the option of the directors.

Declarations

To ensure compliance with the restrictions imposed by the BCRIC Act on the holding and ownership of shares, BCRIC is entitled to receive, as a condition of registration of any shares of BCRIC on any subscription or transfer or on registration of bearer share certificates and at any time after registration, a declaration confirming that the subscriber or transferee or shareholder meets the requirements of the BCRIC Act. When a declaration is not received within 30 days after being requested, shares are deemed to be held in contravention of the BCRIC Act until the declaration is filed.

Redemption of Shares Held by the Province

BCRIC may redeem for cancellation voting shares held by or on behalf of the Province of British Columbia at a price per share agreed upon between BCRIC and the Minister of Finance, and approved by the Lieutenant-Governor in Council.

Company Meetings

BCRIC is seeking an amendment to the BCRIC Act which would provide that where the Supreme Court of British Columbia determines that it is impracticable to call or to conduct any general meeting of registered shareholders in the usual manner, or for any other reason the Court considers appropriate, the Court may order that the business to be transacted or the votes to be cast at the meeting be transacted or taken in such manner, and with or without the holding of a meeting, as the directors or the Court may prescribe. BCRIC is also seeking amendments to the BCRIC Act which would permit the directors of BCRIC to publish materials usually mailed to registered shareholders where they consider the cost of producing and mailing such material to be excessive or for any other reason they consider appropriate.

Winding Up

Proceedings to wind up BCRIC are invalid unless approved by the Lieutenant-Governor in Council.

Risk Factors Affecting Common Shares

The common shares are not guaranteed in any manner by the Province of British Columbia or any other government, nor has any government any direct or indirect obligation with respect to them. Future prices of the common shares will be determined by such factors as the selling intentions of persons receiving free common shares from the Province, the general economic climate, conditions in financial markets and the success or otherwise of BCRIC and its subsidiaries in attaining their objectives. Since BCRIC has only recently commenced operations, potential projects and investments in which BCRIC may participate or which may be acquired by it are not yet known. In addition results experienced by BCRIC's subsidiaries over the past five years are not necessarily indicative of future performance. No representations can be made as to the future influence of these factors on prices for BCRIC's common shares.

PLAN OF DISTRIBUTION

General

The common shares offered by this prospectus are offered for sale to individuals who qualify for free common shares of BCRIC to be distributed by the Province of British Columbia as described below. This offer is conditional upon such distribution being made by the Province.

An application for free common shares must be completed and validated before the expiry of this offer to establish qualification to purchase additional common shares. Each qualified applicant may purchase common shares in integral multiples of five, up to a total of 5,000 in respect of each eligible resident of British Columbia named in the application. The purchase price must be deposited with the application and will be invested by BCRIC in short term securities of Canadian financial institutions or governments until share certificates are available for delivery. Any interest earned from the time of deposit will accrue to BCRIC.

If any cheque tendered in payment with an application for common shares is returned "N.S.F.", the purchase is voidable at the option of BCRIC. Free common shares applied for in the same application must be re-applied for through the office of the Minister of Finance after October 1, 1979.

Distribution of Free Common Shares

On January 11, 1979 the Province of British Columbia announced its intention to make a gift of five common shares to each eligible resident of British Columbia. An eligible resident is an individual who is a Canadian citizen, or has qualified and applied for Canadian citizenship, and has either (i) ordinarily resided in British Columbia for at least the immediately preceding twelve months or has so resided since birth, or (ii) not met the qualifications in (i) but is otherwise qualified by residency as determined by the Minister of Finance.

Applicants must be 16 years of age or older. The parent or guardian is qualified to apply for and receive common shares in respect of eligible residents born after June 15, 1963. Applications to obtain free common shares may be made only at offices in British Columbia of participating chartered banks, trust companies, credit unions and registered investment dealers and at government offices designated by the Minister of Finance. The application period for free common shares is stated to commence on March 15, 1979 and to close on June 15, 1979, subject to the processing of appeals.

At the date of this prospectus the Province is the beneficial owner of the five outstanding common shares in the capital of BCRIC, which are held of record in the names of five of the directors of BCRIC. Pursuant to the BCRIC Act, on March 1, 1979 the Lieutenant-Governor in Council authorized the Minister of Finance to exchange the non-interest bearing demand note of BCRIC in the amount of \$151,532,930 described under "Business and Properties of BCRIC" for 15,000,000 fully paid common shares of BCRIC. The Province's gift of common shares will be distributed from these common shares to be issued by BCRIC. The Province estimates that there are approximately 2,400,000 residents of British Columbia who are eligible for free common shares. If free common shares are distributed to or in respect of all such eligible residents, the Province will continue to hold approximately 3,000,000 common shares of BCRIC and has announced that it intends to retain beneficial ownership of any free common shares not distributed.

Dilution

After the issue of the 15,000,000 fully paid common shares of BCRIC, the pro forma net book value per common share of BCRIC, based on the Consolidated Balance Sheet of BCRIC as at December 31, 1978, would be \$11.16 per share. The increment to the net book value of BCRIC for common shares sold on this offering is \$6.00 per share, less agents' commissions and expenses of issue. The sale of each common share will result in immediate dilution of the pro forma net book value per share referred to above. The full

extent of the dilution resulting from this offering cannot be determined until the offering is completed and the number of common shares sold is known.

Necessary Legislation

The offering of common shares by BCRIC by this prospectus is conditional upon the necessary amendments to the BCRIC Act being passed to authorize the issue by BCRIC of bearer share certificates representing common shares of BCRIC. For particulars of the proposed bearer share certificates see "Details of the Offering".

Agents

Participating chartered banks, credit unions, trust companies and registered investment dealers have agreed in principle to act as agents of the Province in connection with the distribution of free common shares and as agents of BCRIC for the sale of the common shares offered by this prospectus. BCRIC has agreed to pay to the agents a commission of \$.25 per common share purchased.

Delivery of Share Certificates

Share certificates will be available for delivery between August 7 and September 28, 1979 at the point of application and through the office of the Minister of Finance from October 22 to December 31, 1979. If the total of free and purchased common shares covered by any application form is less than 100, the common shares will not be registered in the name of the applicant but will be delivered in the form of bearer share certificates.

USE OF PROCEEDS

The proceeds to be derived from the sale of common shares offered hereby will depend upon the degree to which BCRIC's offer is accepted by qualified purchasers. BCRIC estimates that its expenses associated with this offering will amount to approximately \$2,500,000, which amount and commissions will be deducted from the proceeds.

BCRIC proposes to allocate a portion of the net proceeds to expenditures of its Gas and Oil Division as described under "Expenditure Plans" on page 17. The balance will be applied towards future expenditures, investments and projects related to both the presently owned interests and ventures hereafter acquired or participated in by BCRIC. The exact timing, amount and identification of these expenditures or investments cannot be determined at this time and accordingly no amount has been allotted to any particular project. Pending such expenditures or investments, the net proceeds of this offering will be deposited with or invested in instruments issued by Canadian financial institutions and in such marketable securities as from time to time are approved by the directors of BCRIC.

TAXATION MATTERS

Taxation of BCRIC

At the present time, BCRIC and its wholly-owned subsidiaries are exempt from tax under the Income Tax Act (Canada) and the Income Tax Act (British Columbia) (the "Tax Acts") because all the shares of BCRIC are owned by the Province of British Columbia. BCRIC and its wholly-owned subsidiaries will lose this exemption during 1979 because of the distribution of the free common shares and the sale of additional common shares.

Taxation of a BCRIC Shareholder

A tax ruling has been received from the Department of National Revenue to the effect that a recipient of free common shares of BCRIC will have received them as a gift with no immediate tax consequences. The cost of the free common shares for tax purposes will be equal to their fair market value at the time of receipt, which value has yet to be determined. Where such common shares are capital property to a shareholder resident in British Columbia, no Canadian tax consequences will arise (except with respect to any dividends which may be paid in the future) until such time as the common shares are, or are deemed to be, disposed of under the provisions of the Tax Acts or any other applicable legislation. Where such shareholder has also purchased common shares of BCRIC, the purchase price of these shares will be averaged with the fair market value of free common shares for the purpose of computing any gain or loss on disposition. If BCRIC pays a dividend, such dividend will be subject to the normal rules respecting the taxation of dividends in the hands of a shareholder.

DIRECTORS AND MANAGEMENT

Directors and Officers

<u>Name and Address</u>	<u>Office</u>	<u>Principal Occupation</u>
JOHN WILSON PITTS 4391 Agar Drive, Richmond, British Columbia	Chairman of the Board and Director	Chairman, President and Chief Executive Officer, Okanagan Helicopters Ltd.
DAVID LEEDOM HELLIWELL 2600 - 1177 West Hastings Street, Vancouver, British Columbia	President and Director	President and Chief Executive Officer, BCRIC
TREVOR WILLIAM PILLEY 555 Burrard Street, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, a Canadian chartered bank
JOHN WILSON POOLE 1050 West Pender Street, Vancouver, British Columbia	Director	President and Chief Executive Officer, Daon Development Corporation
CHARLES NAMBY WYNN WOODWARD 101 West Hastings Street, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, Woodward Stores Limited
WILLIAM MAURICE YOUNG 555 Great Northern Way, Vancouver, British Columbia	Director	Chairman and Chief Executive Officer, Finning Tractor & Equipment Company Limited
RICHARD ARTHUR DANIEL COMMERFORD 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Vice President and Controller	Vice President and Controller, BCRIC
ROBERT GORDON SCOTT CURRIE 200 - 355 - 4th Avenue S.W. Calgary, Alberta	Vice President	Vice President, Gas and Oil Division, BCRIC
MICHAEL GILDAY MCKIBBIN 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Vice President and Treasurer	Vice President and Treasurer, BCRIC
GEORGE BUCHAN MCINTOSH 2800 - 650 West Georgia Street, Vancouver, British Columbia	Secretary	Barrister and Solicitor, Partner, Lawson, Lundell, Lawson & McIntosh
DAVID JOHN ROBERT PETITPIERRE 2600 - 1177 West Hastings Street, Vancouver, British Columbia	Assistant Secretary	Assistant Secretary, BCRIC

During the last five years, all of the directors and officers have been associated in various capacities with the companies or firms listed opposite their names except Mr. Helliwell who prior to March 1978 was employed by Steel Brothers Canada Ltd., Mr. Pilley who prior to May 1974 was employed by another Canadian chartered bank, Mr. Commerford who prior to June 1978 was employed by CanCel and prior to July 1975 was employed by MacMillan Bloedel Limited, Mr. Currie who prior to June 1978 was employed by Panarctic Oils Ltd., Mr. McKibbin who prior to March 1978 was employed by Okanagan Helicopters Ltd. and prior to September 1976 was employed by Wood Gundy Limited, and Mr. Petitpierre who prior to October 1978 was employed by The White Pass and Yukon Corporation Limited and prior to November 1975 was employed by the Canadian Cancer Society — British Columbia and Yukon Division.

Messrs. Helliwell and Poole, directors of BCRIC, are also directors of CanCel. Mr. Woodward, a director of BCRIC, is also a director of Westcoast and Mr. Helliwell has been proposed by management of Westcoast for election as a director of that company.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid by BCRIC and its subsidiaries to the directors and senior officers of BCRIC was \$262,684 for the ten months ended December 31, 1978 and was \$31,667 for the month ended January 31, 1979.

STOCK OPTIONS

Under the employee stock option plan of CanCel, as of January 31, 1979 there were options outstanding for senior officers of CanCel to purchase an aggregate of 19,900 Common Shares of CanCel and for other employees of CanCel to purchase an aggregate of 55,500 Common Shares of CanCel as shown in the following table:

Date of Grant	Held by Senior Officers	Held by Other Employees	Option Price
February 26, 1974	12,660	38,060	\$6.375
April 23, 1974	—	1,140	\$6.375
July 29, 1974	—	1,500	\$5.562
August 1, 1974	440	—	\$5.687
November 12, 1974	—	800	\$4.325
August 3, 1976	—	1,300	\$6.875
November 30, 1976	700	1,500	\$6.250
July 25, 1977	600	—	\$7.375
August 2, 1977	—	300	\$7.438
November 28, 1977	—	5,800	\$5.312
February 28, 1978	400	2,500	\$6.375
March 1, 1978	5,000	—	\$6.875
August 22, 1978	100	2,600	\$7.625
	19,900	55,500	

In each case the option price is the average of the high and low prices on The Toronto Stock Exchange on the date of grant. The options expire ten years after the date of grant subject to earlier expiration in the event of death or cessation of employment and may be exercised on a cumulative basis to the extent of 20% each year commencing one year after the date of grant. The closing price of the Common Shares of CanCel on The Toronto Stock Exchange on January 31, 1979 was \$9.625 per share.

MATERIAL CONTRACTS

The only contracts entered into by BCRIC and its subsidiaries within the two years prior to the date of this prospectus, other than in the ordinary course of business, which could reasonably be regarded as presently material to the purchasers of the common shares offered hereby are the following:

- (1) Two note agreements, each dated April 15, 1977, entered into by CanCel with The Prudential Insurance Company of America and Metropolitan Life Insurance Company, respectively, providing for the issue and sale by CanCel of \$50,000,000 (U.S.) 10½% Notes due December 15, 1992 and \$20,000,000 11½% Notes due December 15, 1992, and amending agreements dated June 15, 1978 and December 15, 1978.
- (2) Agreement dated March 9, 1978 between the Province of British Columbia and BCRIC providing for the acquisition of assets by BCRIC from the Province. See "Business and Properties of BCRIC".
- (3) The Petroleum and Natural Gas Licence dated March 9, 1978 issued by the Province of British Columbia to BCRIC. See "Gas and Oil Division".
- (4) Three loan agreements, each dated May 1, 1978, entered into by CanCel with three Canadian chartered banks, respectively, establishing lines of credit aggregating \$45,000,000 and amending agreements dated December 15, 1978 increasing the lines by an aggregate of \$20,000,000. See Note 7 to the Consolidated Financial Statements.
- (5) Agreement dated March 1, 1979 between the Province of British Columbia and BCRIC providing for the exchange of BCRIC's non-interest bearing demand note for 15,000,000 common shares of BCRIC, the introduction of enabling legislation including a provision that the issue of common shares at the offering price is deemed to be in the best interests of BCRIC and in compliance with sections 41 and 42 of the Companies Act, the establishment of procedures for the distribution of common shares and the allocation of the costs of the distribution.

Copies of these contracts except item (4) may be examined during ordinary business hours at the head office of BCRIC during primary distribution of the common shares offered by this prospectus. When the agreements with the financial institutions referred to under "Agents" on page 24 have been entered into, copies of these agreements may also be so examined.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Within the three years preceding the date of this prospectus, there have been no material transactions with BCRIC or its subsidiaries in which any of the directors, senior officers or any associate thereof has any material interest, direct or indirect. The Province of British Columbia, the holder of all of the outstanding common shares of BCRIC, has a material interest in the material transactions described under "Business and Properties of BCRIC" and "Plan of Distribution".

Within the three years preceding the date of this prospectus, the Province, B.C. Hydro and other governmental agencies of, and corporations beneficially owned by, the Province have entered into certain leases, licences, permits, contracts and other instruments with CanCel, Kootenay and Plateau in relation to timber rights and forest products, the supply of electricity and water and other matters, all in connection with, and in the ordinary course of, their respective businesses and which may materially affect them.

The Province, as guarantor of the 6 $\frac{1}{8}$ % and 5 $\frac{3}{8}$ % Bonds of CanCel, assented to the release on February 1, 1977 of all property mortgaged by CanCel as security therefor, and to the amendment on June 15, 1978 and December 15, 1978 of the trust deed relating to such Bonds to permit CanCel to incur indebtedness under the bank lines of credit referred to in Note 7 to the Consolidated Financial Statements.

In February 1979, Kootenay completed the transfer to the Province of approximately 32,900 acres of timber and other lands. This transfer was made pursuant to commitments arising out of the purchase of Kootenay and the loan of \$11.6 million to Kootenay by the Province in 1974. On the condition that Kootenay transfer these lands, the Province subscribed in 1978 for 11,602,729 common shares of Kootenay with a par value of \$1.00 each, the proceeds of which were used to repay the Province's loan. Kootenay retained certain harvesting and other rights on the lands. In addition, Kootenay sold approximately 337 acres of land to the Province in 1977 for approximately \$920,000.

LEGAL MATTERS

BCRIC has advised General Telephone & Electronics Corporation that it is prepared, in principle, to act as a voting trustee in respect of certain ordinary shares of British Columbia Telephone Company ("B.C. Tel") which may be issued by B.C. Tel to GTE International Incorporated in exchange for shares in GTE Automatic Electric (Canada) Ltd. The latter company owns all the issued shares of GTE Lenkurt Electric (Canada) Ltd. If the transaction does proceed, BCRIC would have no beneficial interest in those shares.

BCRIC is not party to nor is its property the subject of any pending legal proceedings nor are any such proceedings known to be contemplated. The only proceedings to which any subsidiary of BCRIC is a party or to which any of its property is subject, and the only such proceedings known to BCRIC to be contemplated, other than proceedings the outcome of which is not considered material to BCRIC, are as follows:

- (1) CanCel commenced an action against B.C. Hydro on June 28, 1977 in the Supreme Court of British Columbia for damages for additional costs to transport logs arising out of the operation of the Mica Dam on the Columbia River and consequent deprivation from 1973 of rights to float logs down the river. The claim for damages is estimated at approximately \$1,000,000.
- (2) The Supreme Court of British Columbia has found Star Bulk Shipping Company liable to CanCel for breach of a contract of affreightment. The original claim was for approximately \$1,300,000, but the estimate of damages, not yet determined, on the basis of the present finding is approximately \$100,000. On February 8, 1978, CanCel commenced an appeal in the British Columbia Court of Appeal.

- (3) CanCel commenced an action against Royal Insurance Company of Canada, The Boiler Inspection and Insurance Company of Canada and New Hampshire Insurance Company on January 19, 1979 in the Supreme Court of British Columbia claiming approximately \$309,000 under contracts of insurance. The claim concerns costs and damages to CanCel resulting from a spill of polychlorinated biphenyls into Porpoise Harbour at Prince Rupert.
- (4) CanCel is contemplating proceedings against Brown Boveri Canada Limited, the supplier of a turbo-generator at its Prince Rupert pulp mill which failed in July 1978. The contemplated proceedings are to recover partial reimbursement of total costs of approximately \$2,800,000. The supplier has denied liability.

Legal matters in connection with this offering have been approved on behalf of BCRIC by Lawson, Lundell, Lawson & McIntosh, Vancouver. Mr. G. B. McIntosh, the Secretary of BCRIC, is a partner of Lawson, Lundell, Lawson & McIntosh.

AUDITORS

The auditors of BCRIC are Clarkson, Gordon & Co., Chartered Accountants, 700 West Georgia Street, Vancouver, British Columbia.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent for the common shares will be Montreal Trust Company at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal.

PURCHASER'S RIGHTS OF RESCISSION

An applicant may rescind the purchase of common shares to which this prospectus relates if written notice of the intention to rescind is received by BCRIC before the earlier of:

- (a) seven days after the date of the application covering the purchase of such shares, or
- (b) June 15, 1979.

For these purposes, a notice of rescission received by BCRIC by mail at P.O. Box 4800, 349 West Georgia Street, Vancouver, B.C. V6B 4A4, shall be deemed to be received on the date postmarked on the enclosing envelope.

An applicant may also rescind the purchase of common shares to which this prospectus relates, while still the owner of the shares, if the prospectus and any amended prospectus filed with the Superintendent of Brokers of British Columbia as of the date of application for the shares contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement contained therein not misleading in the light of the circumstances in which it was made. No action for rescission under this paragraph may be commenced after September 15, 1979, nor may any action be commenced under this paragraph if the purchaser knew of the untruth of the statement or knew of the omission at the time he made application for the shares. It shall be a good defence to an action for rescission under this paragraph if the untruth of the statement or the fact of the omission was unknown to BCRIC at the time the application was filed and, in the exercise of reasonable diligence, could not have been known to BCRIC.

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Consolidated Statement of Earnings and Retained Earnings

For the Period from Incorporation on February 22, 1978 to December 31, 1978

(in thousands of dollars)

Revenues	
Sales of forest products	\$ 202,659
Other income (Note 10)	10,960
	<u>213,619</u>
Costs and expenses	
Cost of goods sold	184,130
Selling and administration	9,603
Interest on long term debt	4,715
Other	1,694
	<u>200,142</u>
Earnings before the undernoted items	13,477
Provision for income taxes (Note 8)	303
Earnings before minority interest and extraordinary item	13,174
Minority interest in earnings of subsidiary	494
Earnings before extraordinary item	12,680
Recovery of logging taxes, net of minority interest - \$758 (Note 8)	3,242
Net earnings and retained earnings at end of the period	<u>\$ 15,922</u>

See accompanying notes

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION
(Incorporated under the laws of British Columbia)

Consolidated Balance Sheet

December 31, 1978

(in thousands of dollars)

Assets

Current

Cash and short term investments	\$ 9,787
Accounts receivable (Note 3)	52,040
Inventories (Note 4)	75,475
Prepaid expenses	1,328
	<u>138,630</u>

Investments and advances (Note 5)	<u>41,067</u>
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Fixed

Property, plant, and equipment (Note 6)	198,773
Petroleum and natural gas rights	40,959
	<u>239,732</u>

Unrealized foreign exchange losses	5,639
	<u>\$425,068</u>

Liabilities

Current

Bank loans	\$ 7,017
Accounts payable and accrued charges	44,507
Current portion of long term debt	9,284
	<u>60,808</u>

Long term debt (Note 7)	168,247
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Promissory note payable to the Province of British Columbia (Note 13)	151,533
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Deferred income taxes (Note 8)	5,492
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Minority interest in subsidiary	23,066
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Shareholders' Equity

Share capital (Note 13)

Authorized - 5 common shares without par value

Issued - 5 common shares for one dollar each

Retained earnings	<u>15,922</u>
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Commitments (Note 9)

\$425,068

See accompanying notes

Approved by the Board of Directors:

(Signed) D. L. HELLIWELL, Director

(Signed) JOHN W. PITTS, Director

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Consolidated Statement of Changes in Financial Position

For the Period from Incorporation on February 22, 1978 to December 31, 1978

(in thousands of dollars)

Source of funds

From operations

Earnings before extraordinary item	\$ 12,680
Charges to earnings not requiring an outlay of funds	
Depreciation, amortization and depletion	12,207
Deferred income taxes	256
Other	(591)

24,552

Recovery of logging taxes (Note 8)

4,000

Acquisition of assets from the Province of British Columbia (Note 2)

Promissory note issued as consideration \$151,533

Less assets acquired

Investment in Westcoast Transmission

Company Limited \$37,364

Petroleum and natural gas licence 40,896

Net long term assets of subsidiary companies 21,722 99,982

Working capital of subsidiary companies acquired 51,551

Issue of long term debt 79,998

Proceeds on sale of fixed assets 591

Other 571

161,263

Application of funds

Additions to fixed assets 77,669

Reduction in long term debt 5,031

Dividends paid to minority shareholders 741

83,441

Working capital at end of the period \$ 77,822

See accompanying notes

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements using information available up to February 27, 1979, except for Note 13 which was prepared as of March 1, 1979. Because a precise determination of many assets and liabilities is dependent upon future events, estimates and approximations have been used where necessary. The financial statements have been prepared within the framework of the accounting policies summarized below:

Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries (see Notes 2 and 14).

Translation of foreign currencies

Transactions in foreign currencies are translated at rates in effect on the dates of the transactions. Cash, receivables, payables and other assets and liabilities carried at current prices are translated at the rate at the end of the period. Unrealized gains or losses are included in income except for those related to long term debt which are amortized over the remaining term of the debt. This policy conforms to the recommendations of the Canadian Institute of Chartered Accountants on foreign currency translation.

Inventories

Logs, pulp chips and other raw materials are valued at the lower of average cost and replacement cost. Finished products (pulp, lumber and plywood) are valued at the lower of average cost and net realizable value.

Property, plant and equipment

These assets are stated at cost less accumulated depreciation, amortization and depletion. Depreciation, amortization and depletion are computed as follows:

Asset	Rate and Method
Pulp mills	4% composite rate; straight-line
Sawmills	4% to 6% composite rate; straight-line
Logging equipment	10% to 20% rate; diminishing balance
Timber cutting rights, roads and related facilities	unit of production method, using current log production as a percentage of estimated total log production available from such assets.

Petroleum and natural gas rights

The gas and oil operations of the Corporation are in the exploratory stage. The costs of acquiring petroleum and natural gas rights, including the licence acquired from the Province of British Columbia (see Note 2), and exploration costs are being capitalized.

2. INCORPORATION AND ACQUISITION OF ASSETS

On September 1, 1977, the British Columbia Resources Investment Corporation Act was enacted. The Act authorized the incorporation of British Columbia Resources Investment Corporation under the Companies Act (British Columbia). Incorporation took place on February 22, 1978 and 5 common shares were issued for \$1 each.

Effective March 9, 1978, the Corporation acquired the following assets from the Province of British Columbia:

- 81% of the outstanding shares of Canadian Cellulose Company, Limited, a pulp and lumber manufacturer ("CanCel")
- 100% of the outstanding shares of Kootenay Forest Products Ltd., a lumber and plywood manufacturer ("Kootenay")
- 100% of the outstanding shares of Plateau Mills Ltd., a lumber manufacturer ("Plateau")
- 10% of the outstanding shares of Westcoast Transmission Company Limited, a gas transmission company ("Westcoast")
- A petroleum and natural gas licence covering 2.3 million acres in northeastern British Columbia.

In consideration for the above, the Corporation issued a non-interest bearing promissory note payable on demand to the Province of British Columbia in the amount of \$151,532,930 (see Note 13). The purchase price was allocated as follows:

	(in thousands)
CanCel, Kootenay and Plateau	\$ 73,273
Westcoast	37,364
Petroleum and natural gas licence	40,896
	<u>\$151,533</u>

The acquisition of CanCel, Kootenay and Plateau has been accounted for by the purchase method and the results of operations and the changes in financial position of these companies since the date of acquisition have been consolidated with those of the Corporation. A summary of the net assets acquired is as follows:

	<u>CanCel</u>	<u>Kootenay</u>	<u>Plateau</u>	<u>Total</u>
		(in thousands)		
Working capital	\$ 41,998	\$ 4,435	\$ 5,118	\$ 51,551
Net book value of fixed assets	157,256	9,162	11,193	177,611
Less long term debt, deferred income taxes and minority interest	103,068	2,226	5,347	110,641
Book value of net assets	<u>\$ 96,186</u>	<u>\$11,371</u>	<u>\$10,964</u>	<u>\$118,521</u>
Excess of book value of net assets acquired over the consideration paid				45,248
Consideration				<u>\$ 73,273</u>

The excess of book value of net assets acquired over the consideration paid, less \$4,217,000 which has been allocated to increase long term debt, is not allocable to specific assets or liabilities. The balance of \$41,031,000 has been deducted from the net book value of fixed assets and is being amortized as a reduction of depreciation expense over the remaining lives of these assets, estimated at fifteen years (see Note 6).

3. ACCOUNTS RECEIVABLE

	(in thousands)
Trade	\$ 40,700
Insurance claims	5,112
Other	6,228
	<u>\$ 52,040</u>

4. INVENTORIES

	(in thousands)
Logs, pulp chips and other raw materials	\$ 48,877
Pulp, lumber and plywood	18,106
Supplies	8,492
	<u>\$ 75,475</u>

5. INVESTMENTS AND ADVANCES

	(in thousands)
Investment in Westcoast, at cost (quoted market value of \$40,784,000 which does not necessarily reflect the realizable value of this investment)	\$ 37,364
Investment in an associated company, at cost plus equity in earnings less dividends received	2,117
Other	1,586
	<u>\$ 41,067</u>

6. PROPERTY, PLANT AND EQUIPMENT

	(in thousands)
Pulp mills	\$325,876
Sawmills	64,466
Timber cutting rights, roads and related facilities	58,722
Logging equipment and other facilities	21,369
	470,433
Less accumulated depreciation, amortization and depletion	272,956
	197,477
Land	1,296
	<u>\$198,773</u>

Accumulated depreciation, amortization and depletion has been increased by \$38,731,000 which represents an allocation of the excess of the book value of acquired net assets of subsidiary companies over the consideration paid, net of the \$2,300,000 amortization of this excess for the period ended December 31, 1978 (see Note 2).

7. LONG TERM DEBT

CanCel	(in thousands)
6 1/8% Bonds due January 2, 1981 with annual principal payments (U.S. \$12,000,000)	\$ 14,202
5 3/8% Bonds due July 1, 1985 with annual principal payments (U.S. \$22,500,000)	26,664
10 1/2% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983 (U.S. \$50,000,000)	59,288
11 1/2% Promissory Notes due December 15, 1992 with annual principal payments commencing December 15, 1983	20,000
Bank loans on revolving credit facilities, with interest at various rates	50,000
Other	527
	170,681
Other subsidiaries	
Term bank loan with repayments in 1979 and 1980, with interest at bank prime plus 3/4%	2,200
Term loan with quarterly principal payments to 1986 with interest at bank prime plus 1/2%	4,650
	177,531
Less amounts due within one year	9,284
	<u>\$168,247</u>

CanCel has bank lines of credit of \$45,000,000 on revolving credit facilities with any loans at June 30, 1981 converting into term loans repayable over periods of up to nine years in equal semi-annual or annual installments, and an additional \$20,000,000 on a revolving credit facility repayable by December 15, 1980. At December 31, 1978 the outstanding loans under these facilities were \$45,000,000 and \$5,000,000 respectively.

The bonds, promissory notes and bank loans on revolving credit facilities are unsecured. Certain assets have been pledged as collateral for the term loan and the term bank loan.

CanCel's trust deed relating to its bonds and the agreements relating to its promissory notes, in general terms, restrict dividends and certain other payments by CanCel to a maximum of \$4,000,000 plus 50% of its net earnings after December 31, 1976. The amount available for payment of dividends at December 31, 1978 was \$6,985,000.

Principal payments required on long term debt in each of the next five years with the United States dollar component translated at the December 31, 1978 rate of exchange are:

	(in thousands)
1979	\$ 9,284
1980	\$14,529
1981	\$10,075
1982	\$ 9,771
1983	\$17,711

8. INCOME TAXES

The Corporation and two of its subsidiaries were exempt from income taxes in 1978 because not less than 90% of their outstanding shares were owned by the Province of British Columbia. When this condition is no longer met the companies will become taxable and will provide for income taxes based on the earnings reported in their accounts. The companies will be able to deduct from future taxable income various amounts comprised primarily of depreciation which were charged to earnings while the companies were exempt from income taxes. The potential future tax reduction is estimated to be \$5,400,000 at December 31, 1978. Had the Corporation and its two subsidiaries not been exempt from income taxes in 1978, and on the basis that the potential tax reduction will be accounted for as realized, the provision for income taxes in the Consolidated Statement of Earnings and Retained Earnings would have been increased by \$3,000,000, there would have been an extraordinary credit in the amount of \$2,400,000 and net earnings for the period would have been decreased by \$600,000.

In prior years, CanCel claimed depreciation for tax purposes in excess of depreciation recorded in its accounts in order to maximize the deferral of liability for income taxes. This resulted in increased liability for logging taxes. In 1978 the liability for such logging taxes was reduced by \$4,000,000 due to revision by CanCel of its tax depreciation claims as a consequence of the high level of capital expenditures in recent years and other factors. These revisions have been accepted by the taxing authorities. The logging tax reduction has been shown as an extraordinary item.

CanCel has made fixed asset acquisitions qualifying for federal investment tax credits which would enable it to reduce income tax expense by approximately \$6,000,000 if sufficient income taxes became payable prior to December 31, 1983. These benefits will not be recorded in the consolidated accounts of the Corporation until they are realized.

9. COMMITMENTS

Rental obligations under long term leases amount to approximately \$2,600,000 in each of the years 1979, 1980 and 1981, \$2,200,000 in 1982 and \$1,100,000 in 1983.

At December 31, 1978 commitments for expenditures on fixed assets amounted to \$4,400,000.

10. OTHER INCOME

	(in thousands)
Insurance proceeds relating to estimated loss of earnings due to a fire at CanCel's Castlegar sawmill	\$3,570
Income related to cancellation of a sales contract	3,370
Equity in earnings of an associated company	1,104
Income from other investments	2,916
	<u>\$10,960</u>

11. INSURANCE DEDUCTIBLES

During 1978 CanCel experienced a major fire, a severe storm and the failure of a major piece of equipment. The estimated insurance recoveries have been recorded as other income or as reductions in cost of goods sold, as appropriate. The deductible portion of the losses has been included as a reduction of earnings and amounts to approximately \$5,000,000.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable to directors and senior officers amounted to \$262,684 in 1978.

13. SUBSEQUENT EVENT

The Corporation has increased its authorized common shares to 100,000,000 and has agreed to carry out the following in 1979:

- (a) issue 15,000,000 common shares to the Province of British Columbia in exchange for the promissory note of \$151,532,930, and
- (b) subject to enabling legislation being passed, offer for sale up to 5,000 common shares to or in respect of each eligible resident of British Columbia at a price of \$6.00 per share. Management anticipates that, in addition to agents' commissions which are dependent on the number of shares sold, expenses of approximately \$2,500,000 will be incurred in connection with the share offering.

14. SUBSIDIARY COMPANIES

Canadian Cellulose Company, Limited
Calum Lumber Limited
Canadian Cellulose International S.A.
Celgar Properties Limited
Celtran Equipment Limited
High Arrow Limited
Pohle Lumber Co. Ltd.
Twinriver Timber Limited

Kootenay Forest Products Ltd.

Plateau Mills Ltd.
Plateau Timber Ltd.
Nechako Valley Pulp Mill Ltd.

AUDITORS' REPORT

To the Directors of

British Columbia Resources Investment Corporation:

We have examined the consolidated balance sheet of British Columbia Resources Investment Corporation as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the period from incorporation on February 22, 1978 to December 31, 1978. 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 Corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.

Vancouver, Canada,

February 27, 1979

(except for note 13 which is dated March 1, 1979).

(Signed) CLARKSON, GORDON & Co.
Chartered Accountants

CERTIFICATES

Dated: March 1, 1979

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act (British Columbia) and the regulations thereunder.

(Signed) JOHN W. PITTS
Director

(Signed) D. L. HELLIWELL
Director

(Signed) T. W. PILLEY
Director

(Signed) J. W. POOLE
Director

(Signed) C. N. W. WOODWARD
Director

(Signed) W. M. YOUNG
Director

11-9-79

Lenders would first be interested ~~to~~ in borrowers financial security and as that was lessened the more they would look to the proposed project to be invested in and its ability alone to generate repayment. NOTE today's interest cost may make a 100% financing impossible but it all depends on the project and the risk involved.

David

Best position would be an outright gift of cash because a guarantee would improperly influence the appearance of the viability of any potential project to stand on its own as a good investment risk.

implementation cost = \$5,000 / application (15 mil.)

11-9-79 B.C. Resources Mr David Hellewell C.E.O.

Reps. Miller, Fuller, Hately, Gardiner & Parker, Rosenbaum,
Kris Warden, Steve Jismagian (of Kelco), and Jerry Bauche

David - BCRIIC was not formed under a socialist admin. and
during last election the corp. was termed galloping capitalism

Board of 5 all CEO's of 5 successful B.C. companies that
are successful in their own right and are not conflicting
or competing companies to BCRIIC

^{ASCO}
Lingen
Vis. ^{note} ~~BCRIIC~~ retained earnings taxed at a punitive rate of 20% rather
than normal 46% rate for ^{Corp} profits

4 investment dealers determined for the Gov. what companies
would be good investments for BCRIIC to start off with

the B.C. people really see BCRIIC as their own personal
Corp. and are very directly interested

also Government has taken quite a risk i.e. if BCRIIC
stock is low at election time this could affect public opinion
Kaw states that it is illegal to organize blocks of stock
i.e. a group representing say 15% interest trying to control
Corp direction (no individual may own more than 1% pensions etc. 3%)