

**APPENDIX II - OBJECTIVES AND STRATEGIES FOR
EMPLOYMENT AND ECONOMIC OPPORTUNITY**

January 29, 1999

**STATEMENT OF OBJECTIVES FOR EMPLOYMENT AND
ECONOMIC OPPORTUNITY**

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INTRODUCTION

This is a statement of objectives regarding the employment and economic opportunities associated with the operations of Crestbrook's Tree Farm Licence 14.

Crestbrook Forest Industries Ltd. is an integrated forest products company, which is listed on the Toronto Stock Exchange. Present ownership is 30.65 percent Mitsubishi Corporation, 20.43 percent Oji Paper Co. Ltd., with the remaining stock being widely held publicly.

From its head office in Cranbrook, Crestbrook operates two modern sawmills located at Canal Flats and Elko, three planer mills at Canal Flats, Elko and Cranbrook, and a bleached kraft pulp mill at Skookumchuck. These facilities, together with woodlands operations, directly employ nearly 1,077 persons plus 550 independent logging and trucking contractors. Indirect and direct employment from Crestbrook's operations are estimated to be an additional 813 people.¹

Crestbrook's annual operations produce a payroll exceeding \$76.8 million, property taxes exceeding \$1.2 million, stumpage and royalty payments to the Province of British Columbia exceeding \$23 million, Capital taxes of \$2.2 million, payments to independent woodlands contractors and suppliers in excess of \$80 million, and log purchase payments in excess of \$20 million.²

Crestbrook procures fibre for its mills from its three forest licences, TFL 14, two Managed Forests, the MoF small business program as well as log purchases from private owners in British Columbia and Alberta. The fibre supply is tight and is necessary to operating its sawmills at two-shift capacity. Any significant reductions in allowable annual cut or restrictions on availability could result in further downsizing or curtailment of operations if volumes could not be replaced by the purchase of private timber.

1.0 DIRECT WORK ACTIVITIES

Crestbrook's mill and woodlands employment base is relatively stable with only slight variations due to seasonal demands. The employment base for TFL 14, and the mills it furnishes, includes the communities of Cranbrook, Kimberley, Elko, Fernie, Canal Flats, Parson and numerous communities in the Columbia Valley.

¹ 1627direct employed x 1.5 multiplier from TSA Socio-Economic Analysis

² Figures based upon year-end December 1997.

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The following table sets out the number of active hourly, salaried forest planning and contract employees as of September 1998. Independent contractors carry out the majority of the timber harvesting on TFL 14.

Employment by Job Category attributed to TFL 14 volume (in person years)

	Hourly	Casual	Salaried	Contractual	Total
Inventory and Planning	1	1	3	12.5	17.5
Development and Road Construction				8	8
Timber Harvesting	7		3	44.6	54.6
Log Transportation	3			5	8
Timber Processing	Sawmill 63.5	3.2	5		71.7
Sawmills and Pulpmill	Pulpmill 12.1	1.3	4.2		19.1
Silviculture				7.5	7.5
Woodlands Administration			2.5		2.5
Head Office Administration			8.4		8.4
Total	86.6	5.5	26.1	77.6	195.8

Timber harvested from TFL 14 accounts for 6% of the pulpmill's raw material and 12% of the furnish for both Crestbrook sawmills (Elko and Canal Flats). Most of the sawlogs harvested from the TFL are processed at the Canal Flats sawmill. The Canal Flats sawmill converts sawlogs into dimensional lumber, chips, sawdust, chip fines, shavings and by-products including hog fuel(bark and wood residue) and trim-ends for finger-jointing stock.

On a two shift basis, the Canal Flats sawmill directly employs 141 hourly personnel and 16 staff.

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2.0 INDIRECT ECONOMIC IMPACT

The lumber by-products from Canal Flats are sold to other manufacturing facilities. Wood chips from the mills or the whole log chipper are sent to the pulpmill in Skookumchuck. Bark and wood waste is presently being shipped to Elko for burning. Chip fines, sawdust and planer shavings are sold to Plum Creek's medium density fire board (MDF) plant in Columbia Falls, Montana in a trade arrangement for chips for the pulpmill. A contract has been signed for the utilization of hog fuel at a proposed electrical co-generation facility at Skookumchuck.

Crestbrook has fiber sales and exchanges with ten other companies for lumber, logs and an array of minor and specialty products. Short term and spot sale arrangements are in place with thirty-two other companies and individuals. Pole material goes to Brisco Wood Preservers, while post and rail small-wood is sent mainly to J.R. Blackmore and Sons Ltd..

Based on the data drawn from the Invermere TSA Socio-economic Analysis the multiplier for indirect and induced employment is 0.37 (within the TSA). Total direct employment of 195.8 person years (PY), represents a further 72.4 PY's of indirect employment within the TSA. The total provincial employment generated from the TFL is approximately 695.7 PY.

3.0 ABORIGINAL EMPLOYMENT

Crestbrook does not track employment by heritage and can not identify specific numbers of aboriginals in our employ. The company is aware however, that there are individuals of aboriginal decent who are currently working in our harvesting and milling operations.

A program that encourages increased aboriginal employment within Crestbrook's operations has been underway for the past five years. The program has focused on matching the skills and abilities of K'tunaxa/ Kinbasket citizens to the operational needs of Crestbrook. Most of the program has involved the southern band communities, however individuals from Columbia Lake and Shuswap Bands are participating. A result of these efforts has seen the establishment of a native Archeological Services corporation, and a Labor Resource contracting service company.

Regular dialogue, during the course of these normal business activities allows for future opportunities to be considered on an ongoing basis. Support of the various capacity-building initiatives that the member bands have in place, may see further involvement of aboriginals in our operations.

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4.0 EMPLOYMENT AND ECONOMIC OBJECTIVES AND STRATEGIES

Crestbrook remains committed to providing a stable employment base for our local communities. Our ability to do this is contingent upon external pressures such as available timber supply, technological change and lumber quotas effecting the sale of products. It is in the social and economic best interest of Crestbrook however, to have available to it a stable, well-trained, and educated work force. Training facilities established at each of our facilities has been a positive step to further this objective.

Crestbrook will achieve its employment objectives by ensuring that its international competitive position is maintained or improved by:

- Minimizing operating costs;
- Maintaining or enhancing wood supply;
- Maximizing utilization of the timber resource; and
- Maximizing economic return to the timber resource.

It is Crestbrook's strategy to continue harvesting, silviculture and trucking activities using contractors as it's primary workforce. Performance on this issue is consistently above the requirements of the Contractors clause (Sect. 15.0) of the TFL document.

Due to a decrease in timber supply and the net result of decreasing lumber quota Crestbrook closed the Cranbrook Sawmill in the fall of 1998. However, Crestbrook's Board of Directors has approved the establishment of a value-added plant subject to financing arrangements being made. It is our strategy to continue to operate our two sawmills and three planer mills on a two shift basis year round . Economics and external influences such as the lumber quota issue, may allow for temporary operations on a three shift basis.

Crestbrook's objective is to continue to conduct our operations in a manner which allows us to remain competitive in an international market. If we remain competitive, we hope to be able to maintain stable levels of employment. These employment levels will however be contingent upon sustained harvest levels and no further negative external forces to profitability.