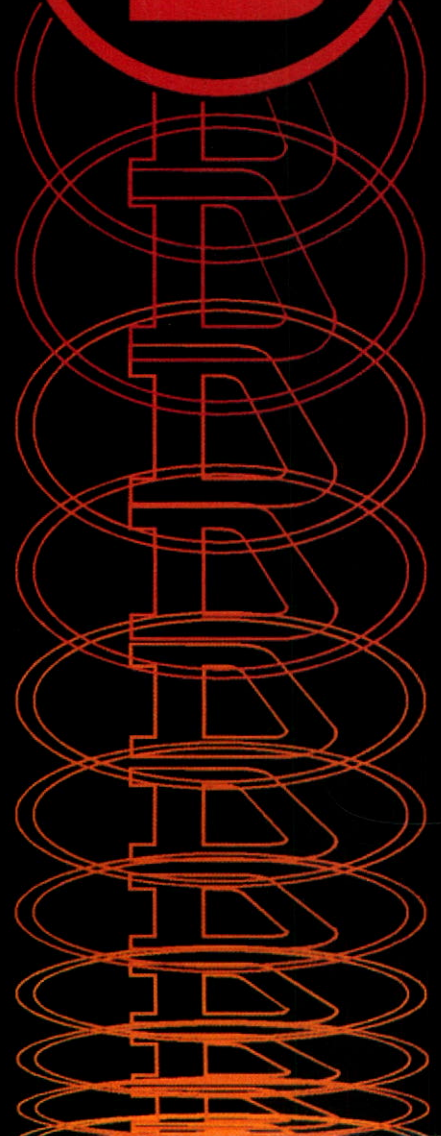
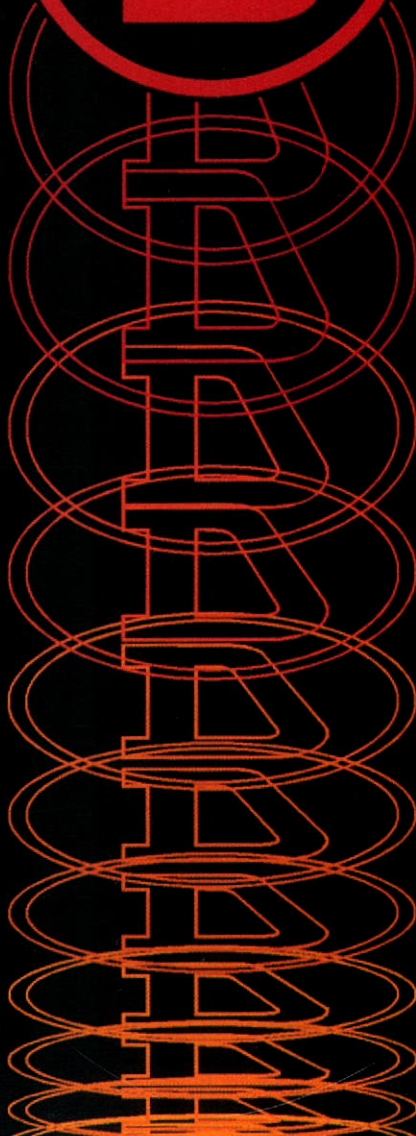
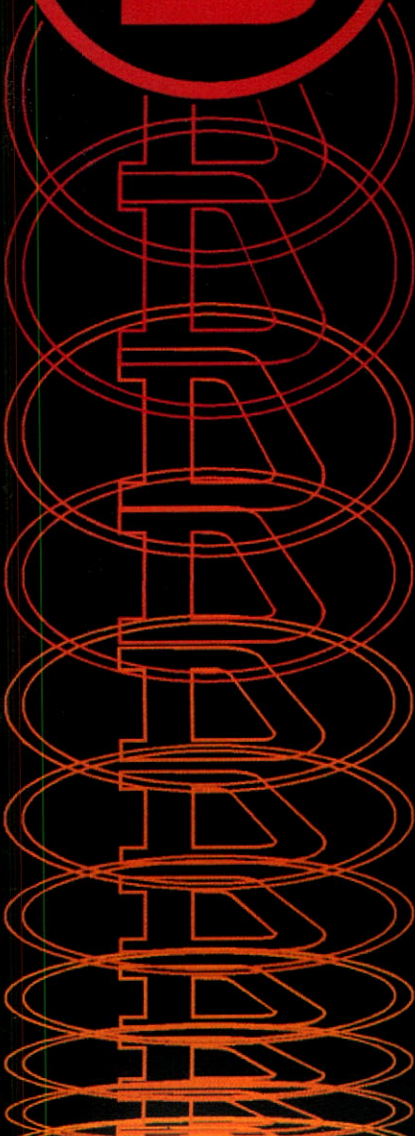


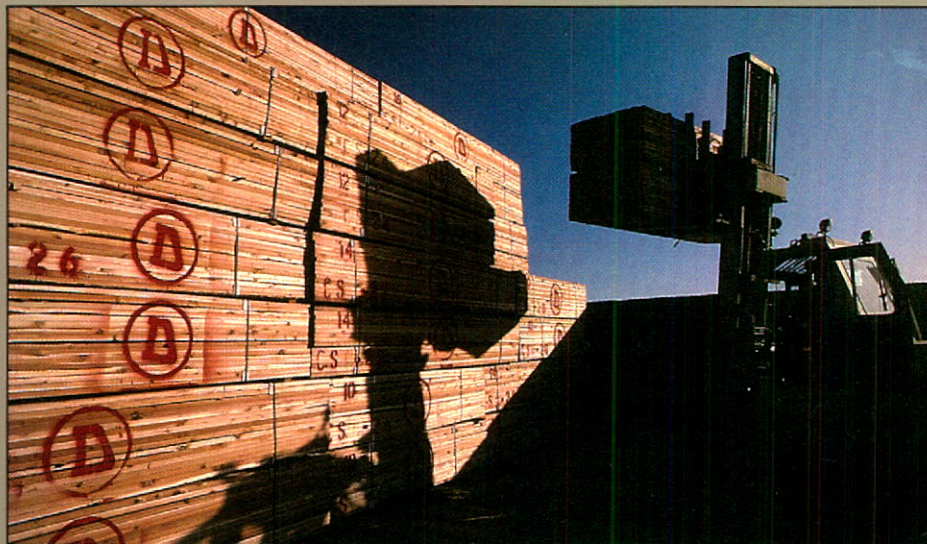
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**DOMAN
INDUSTRIES
LIMITED**

**Annual Report
1983**



About the Company



Right: Barge loading at Cowichan Bay

Doman Industries Limited, headquartered in Duncan, British Columbia, is active in many sectors of the forest products industry: logging, sawmilling, lumber remanufacturing, domestic marketing of building supplies and lumber exporting. The Company operates a truck freight business and a ready mix concrete business. Doman Industries Limited is vertically integrated in the lumber industry.

Financial Highlights 1983

(thousands of dollars except for per share amounts)

Years ended December 31,	1983	1982
Sales	175,357	130,729
Net earnings (loss)	4,007	(25,974)
Funds from (to) operations	6,967	(15,488)
Common dividends		
— Distributed January 3, 1983	2% stock	
— Paid December 30, 1983	\$.05 cash	
— Paid January 4, 1982		\$.05 cash

As at December 31,	1983	1982
Total assets	200,759	179,166
Working capital	14,878	18,365
Long term debt	106,592	107,214
Shareholders' equity, common and preferred	40,670	40,481

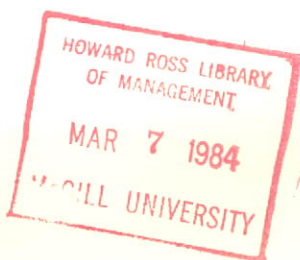
“... a year of positive developments”

President's Report to the Shareholders

1983 Overview

We have completed a most interesting year during which we did the largest volume of business in the Company's history. In response to rising prices and an increasing demand for lumber in the early part of the year, U.S. and Canadian lumber mills expanded production by approximately 25% over 1982 levels. This resulted in lumber price reductions and pressure on sawmill profit margins as the year progressed. However, through strict discipline and with a united effort on the part of our employees we were able to hold the line on costs and the Company continued to make productivity gains. The result was that in spite of difficult business conditions the Company operated profitably in 1983. Our 1983 sales were \$175 million up from \$131 million in 1982. Our net earnings were \$4 million in 1983 compared to a loss of \$26 million in 1982 when the recession was in full swing. In 1983 we enjoyed a positive cash flow from operations of \$7 million and we expect that our capacity to generate funds internally will increase in 1984. Throughout the year we maintained and built on the operating base, completing our current capital expansion program. Our asset base has the potential for a large expansion in production and sales without any further significant capital expenditures. This operating base today supports a strong feeling of optimism throughout the Company.

In December a major restructuring and refinancing of Western Forest Products Limited was completed, thus assuring a good future for Western Forest as a forestry and logging company based on its three Tree Farm Licences and owned timberlands. This was followed by a successful public issue of \$110,000,000 Western Pulp Limited Partnership units and the completion of related debt financing to permit Western Pulp to undertake a rebuild of the Squamish pulpmill and to make capital improvements at the Port Alice pulp mill. These matters, which are explained more fully throughout this report, are positive developments for Doman Industries. The steps taken in respect to Western Forest protect the value of our investment, assure us of a long term log supply, give us a long term lease of Western Forest's New Westminster sawmill with option to purchase, and will ultimately provide us through our shareholdings in Western Forest with an indirect equity of 11.6% rising to 13.6% in the two pulp mills. The steps taken in respect to Western Pulp will give Doman Industries a further 13.3% direct equity in the two pulp mills if all of the unit holders exercise their exchange privilege. The full exchange of Western Pulp units would result in the issue of 2,444,445 Class B series 2 non-voting shares by Doman Industries at \$15 per share.



“... our financial position will strengthen further during 1984”

1983 Dividends

Following a 2% stock dividend distributed to shareholders on January 3, your directors continued to consider the matter of dividends and in December a cash dividend was declared payable on December 30 to common shareholders of record on December 19. Your directors will continue to review the policy in respect to dividends at their meetings throughout the coming year.

Employees

In 1983 our employees once again came through, making it possible for us to control costs and to achieve productivity gains throughout the Company. On behalf of the Board of Directors I would like to thank our 750 employees for the dedicated and untiring efforts which resulted in their getting the job done and our products produced at the lowest effective cost. Many thanks for a job well done. In 1983 the Company paid salaries, wages and employment benefits of \$30,022,000 (1982 \$27,337,000).

1983 was a contract bargaining year for the B.C. Forest Industry with major contracts coming up for renewal in mid-year. Most of Doman's unionized employees are represented by the International Woodworkers of America (the IWA), the largest of the three forest products unions and the one which represents the majority of the sawmill workers and loggers on the B.C. coast. The IWA has agreed to a new three year contract including a wage freeze in the first year



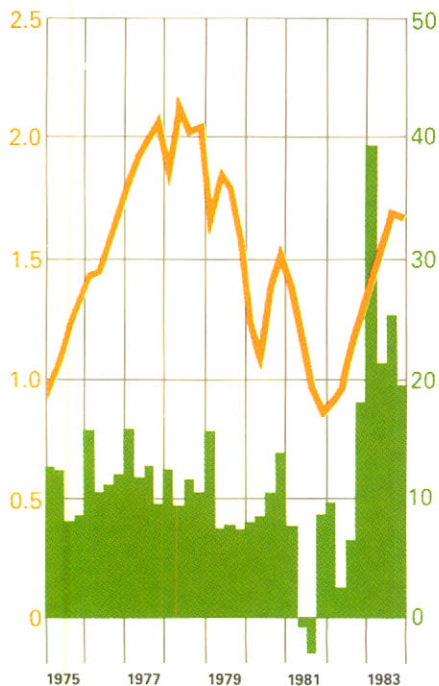
which commenced on June 15, 1983, a 4% increase in the second year and a 4.5% increase in the third year. The two other forest products unions which represent the pulp workers have not yet settled. Throughout the year we have enjoyed the full co-operation of all our employees with no loss of available production time in Doman's plants due to labour disputes.

U.S. Housing and Lumber Markets

Following the free fall in U.S. housing demand and construction during the recession which began in late 1979, a recovery started at the end of 1982 and gained momentum in 1983. The stage is set for a continuation of this housing recovery in 1984 once we get the winter behind us. Fueling the strength in housing is a strong U.S. economic recovery accompanied by low inflation. The power of the U.S.

U.S. Savings Flows and Housing Starts

▲ U.S. Housing Starts (Annual Rate)
(millions of housing starts)
■ Net Savings Flows into U.S. Savings
and Loans Associations
(Billion of dollars)



economy in this phase is enormous. The spill-over effect on housing in 1983 when starts were 1.7 million units, up from 1982 levels of just over 1 million, has been gratifying. In 1983 buyers adjusting to current interest costs came into the market as their incomes improved, many taking advantage of variable rate mortgages to achieve lower initial monthly costs. In 1984 we expect that housing starts will move up to the 1.8 million level. While the U.S. Federal Reserve will be keeping a close eye on money supply, inflation should remain under control because of the remaining slack in the U.S. and world economies. As a result there should be no unpleasant surprises in interest costs, and mortgage rates can be expected to revolve around 13.5% for a conventional loan with funds in good supply. The positive demographics resulting from the baby boom years will continue the strong demand which developed in 1983.


Outlook

The outlook for your Company is positive. The Western Forest Products reorganization is behind us and the Western Pulp Limited Partnership has been successfully launched. Lumber is our principal product and the U.S. market is our main market. The 1983 resurgence in housing is the result of a solid U.S. economic recovery which has the momentum to carry it right through into 1985. We expect that following the U.S. lead the world economy will pick up in 1984, and that the prospects for

lumber will brighten in our other traditional market areas. In addition our plans include moving into new trading areas, particularly on the Pacific Rim where the emerging China market holds positive prospects for the future.

We foresee lumber price and volume improvements in 1984. Some increases in by-product revenues can also be anticipated as the pulp market recovers. Your Company has completed its current capital expansion and modernization program including major changes at the New Westminster sawmill and is in a position to increase production and sales volumes with the market demand in 1984. We are efficient and we can compete aggressively in the market place. Our Cash Flow from operations which rose to \$7 million in 1983 will be up substantially in the coming year. No significant capital expenditures are planned and internally generated funds will strengthen our financial position further during 1984. Throughout the Company we enter 1984 with optimism because of our strong operating base and the steadily improving market outlook. 1984 will be a good year for Doman Industries.

Respectfully submitted,



H. S. Doman,
President and
Chairman of the Board.

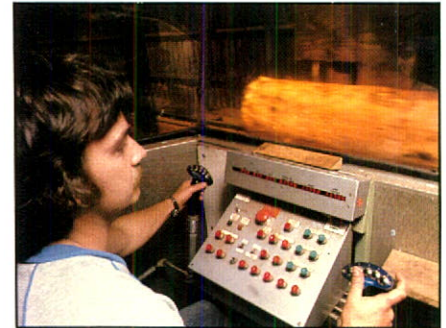
Duncan, B.C. February 1984

“ . . . automated and highly efficient ”

Sawmills

Sawmilling has been Doman's primary business since 1965, and we have consistently moved forward with the latest advances in milling technology. All of our mills are highly automated, employing computer controls which improve product quality and increase yields. The use of modern production machinery has reduced energy consumption significantly.

The Company owns and operates four sawmills on Vancouver Island, and operates the New Westminster sawmill of Western Forest Products Limited under a long term lease with an option to purchase. The mills are situated close to deep sea



docks and rail lines. The Nanaimo, Ladysmith and Cowichan Bay mills front on tidewater. The New Westminster mill has frontage on the Fraser River and the Chemainus Mill has a dryland location.

The Nanaimo plant includes a large log mill and a lumber remanufacturing plant; this sawmill has an annual lumber production capacity of 200 million board feet. The remanufacturing plant is an integral part of the mill and provides the facilities to upgrade lumber without slowing down the sawmill's production flow. The remanufacturing plant also processes lumber and cants from other mills. Facilities at the Nanaimo plant include a barge load-out to handle waterborne shipments of by-products from the Company's Vancouver Island sawmills.

The Cowichan Bay sawmill, which cuts small and medium sized logs, has an annual lumber production

Above right: Headrig at Nanaimo sawmill

Below: Ladysmith sawmill



Below right: Nanaimo sawmill

Lumber Production
(million board feet)

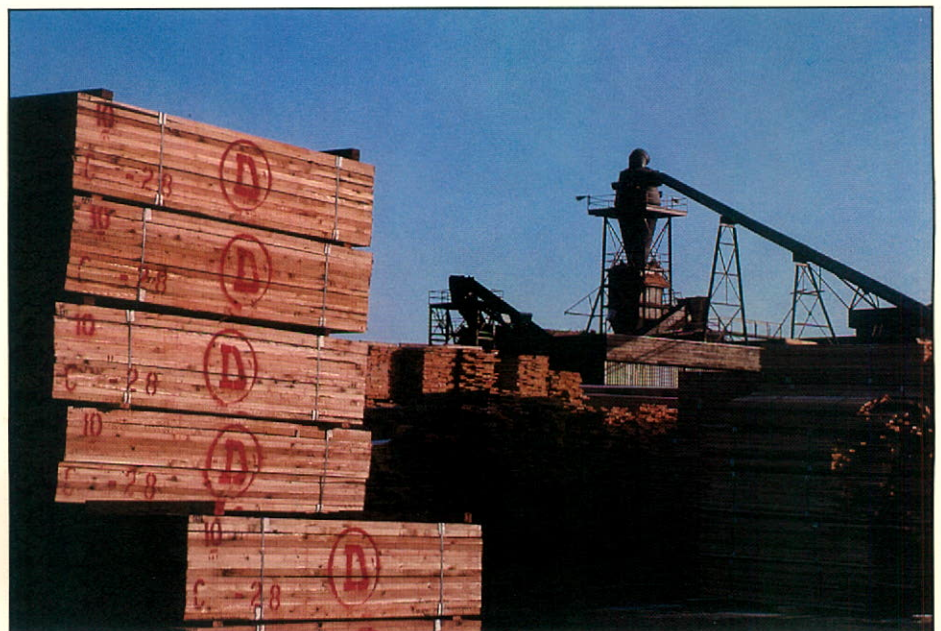


capacity of 145 million board feet. The Ladysmith sawmill cuts small logs and has an annual lumber production capacity of 125 million board feet. The mill at Chemainus has an annual lumber production capacity of 30 million board feet and cuts logs of all sizes. The adjacent remanufacturing plant handles lumber from this sawmill and lumber purchased from others. The New Westminster sawmill, which cuts small and medium sized logs, has an annual lumber production capacity of 80 million board feet. All five mills have planer mills attached as an integral part of the manufacturing process.

Sawmill by-products include pulp chips, sawdust

and hog fuel. Most of the Company's Vancouver Island sawmill by-products are moved by truck to two Vancouver Island pulp mills; the balance is shipped by barge from facilities at the Nanaimo sawmill. By-products from the New Westminster sawmill are shipped directly from that plant by barge to the Squamish pulp mill of the Western Pulp Limited Partnership.

The present combined lumber production capacity of the five sawmills of Doman Industries is 580 million board feet per annum, rated on a 3 shift per day, 250 days per year basis (except for Chemainus, which is rated on a 2 shift basis).



“... established markets and growth prospects”

Marketing

Lumber

Over the past five years, most of our lumber was marketed in North America. The United States has been and continues to be the primary market for our lumber. We conduct a portion of our U.S. sales and our export sales through Eacom Timber Sales Limited, the third largest ocean cargo shipper of lumber in Canada. Doman Industries owns 47% of Eacom Timber Sales.

Lumber sold in the British Columbia market is routed by direct truck shipments from our sawmills or from our assembly yards, with smaller lots being sold through the five Doman Building Supply Yards.

We have steadily expanded and broadened our coverage of the U.S. market through rail and truck shipments, which are in addition to our traditional ship and barge deliveries. Offshore markets are serviced by ship.

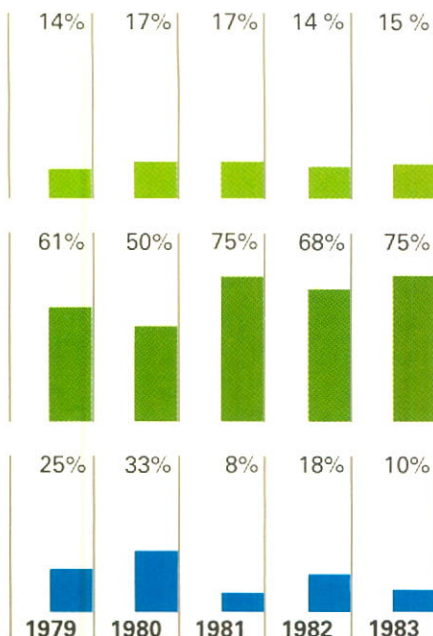
Doman has made aggressive efforts to expand its marketing of lumber worldwide. Recently the emphasis has been on developing opportunities in the Pacific Rim, including the emerging China market.

Building Supplies

Trends which we notice in our domestic building supply centres are often good indicators of North American

Below right: Paper wrapped lumber for U.S. rail market

Distribution of lumber footage sold



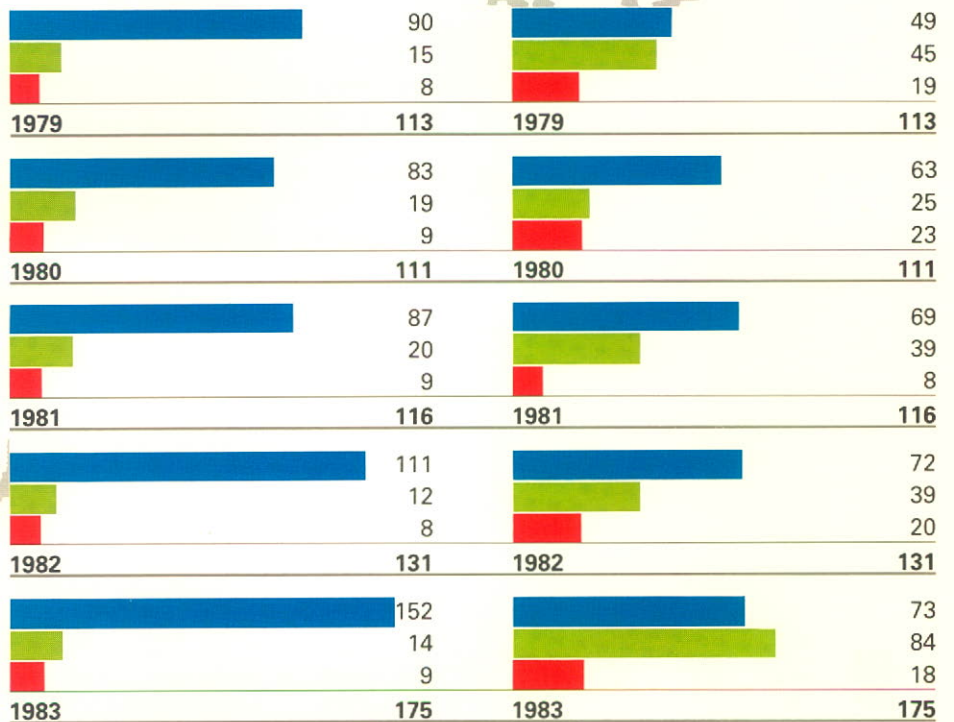


Above: Ready-mix concrete

market conditions. The increase in our building supply sales volume during 1983 reflected the gradual recovery of the construction industry.

The Doman Industries Limited domestic building supply yards are located in British Columbia, with two in Victoria, and one each in Duncan, Nanaimo and Surrey. The Duncan yard is complemented by Armour & Saunders Ltd., a wholly-

owned subsidiary which operates a ready mix concrete business. The five building supply yards are supported by bulk assembly yards at Chemainus and Cowichan Bay on Vancouver Island, and at Richmond in the lower mainland of British Columbia. This division sells lumber and a full range of building materials. Sales of this division in 1983 were \$13,650,000 [1982 \$11,395,000].



Distribution of sales by product line (millions of dollars)



Distribution of sales by geographic area (millions of dollars)



“... a vital link in the export chain”

Transportation

The transportation fleet forms the oldest division of the Company. Since our inception, Doman trucks have facilitated the rapid movement of products within the Company. This modern truck fleet is a vital link in the movement of our lumber products to export docks, and is responsible for the timely delivery to pulpmills of bright, clean pulp chips from the sawmills.

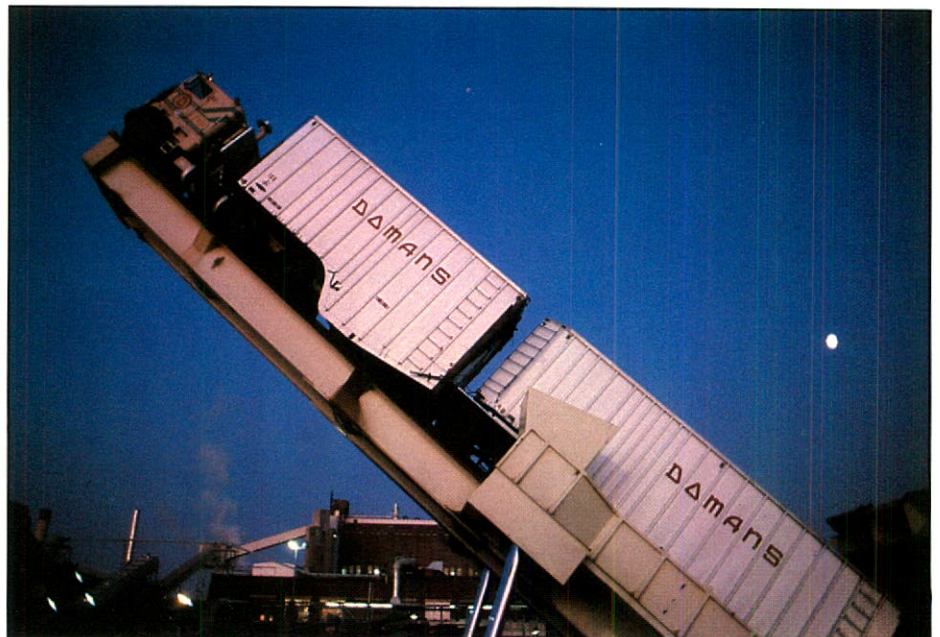
The transportation division is operated by three wholly-owned subsidiaries: Doman's Transport Limited, Doman-Marpole Transport Limited and Doman Freightways Limited. Truck transportation terminals are located on 17 acres at Richmond, B.C., and on 8

acres at Duncan, B.C. This division owns 70 tractors and 195 trailers with additional equipment leased as required.

A major portion of the business is handling trailer load lots for the forest industry and for the construction industry. The fleet includes specialized equipment for moving pulp chips, hog fuel, sawdust, chemicals and bulk cargoes.

In addition to its public freight business in British Columbia, Washington and Oregon, the transportation division does the truck hauling for the Doman sawmills and for the Doman Building Supply Centres. The transportation division had sales of \$8,580,000 in 1983 [1982 \$8,269,000].

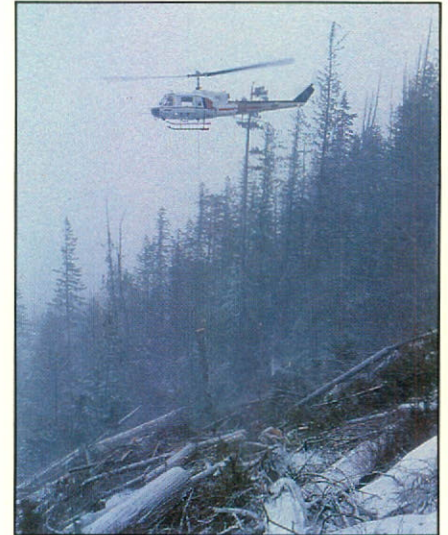
Below right: Chip trailer being dumped



“... the raw material that starts the process”

Logging

An essential part of the export chain, which ultimately ends with lumber delivered to the consumer, is the raw material which starts the whole process. We have gradually expanded our logging operations over the years on the British Columbia coast. Doman Industries has logging divisions located at Jervis Inlet, Nootka Island, Rivers Inlet and Kimsquit River. These four divisions operate in Timber Supply Areas (TSA's) on Crown land managed by the Forest Service of British Columbia. Each TSA provides the timber needs of a number of operators. The Forest Service calculates the rate of annual timber cutting, which permits the area to provide a sustained yield. Our logging operations at these locations are based on tenures known as Forest Licences. Under this form of tenure, we have the right to harvest a specified amount of timber, known as our allowable annual cut; we also have certain responsibilities for reforestation and fire protection. Authority to cut is conferred by the Forest Service through the issuance of cutting permits. The Company has several small logging operations based on Timber Sale Licences which permit the logging of Crown



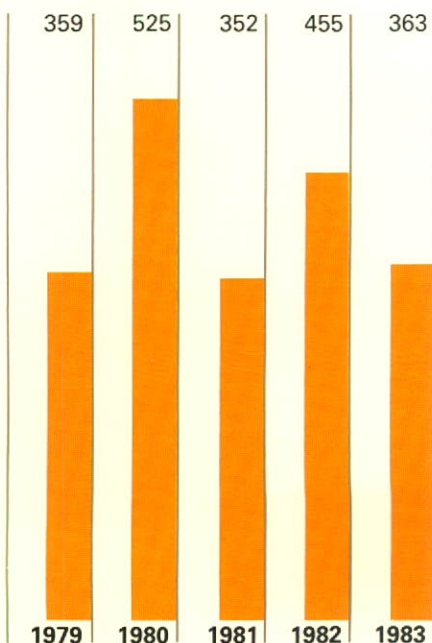
timber on designated tracts of land within TSA's.

Log Supply

The Company is able to supply approximately two-thirds of the logs required for the 580 million board feet annual capacity of its five sawmills from Doman logging divisions, logs contractually committed to Doman and logs acquired on a fibre exchange basis for sawmill by-products. The balance of the logs required are obtained on the Vancouver log market and from independent suppliers.

Above right: Helicopter logging

Log Production
(thousand cubic metres)



“restructured and refinanced . . .”

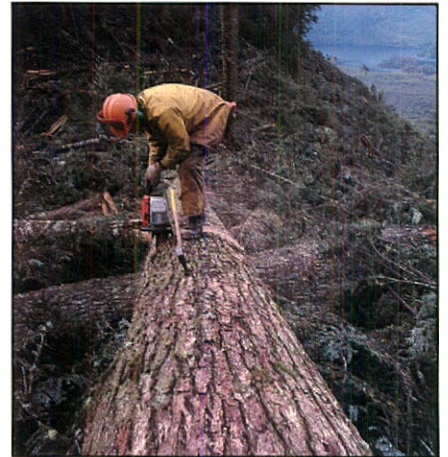
Western Forest Products Limited . . .



Above right: Western Forest Products logging

Below: Port Alice sulphite mill

Western Forest Products Limited (Western) was formed in 1980 to acquire the British Columbia and Alberta assets of Rayonier Canada. Doman Industries Limited, British Columbia Forest Products Limited and Whonnock Industries Limited became equal partners in the new company. The major assets acquired from Rayonier included two pulp mills, five sawmills (two of which have been disposed of) and extensive timber holdings. Western has timber rights to 686,000 hectares of forest land, representing a total allowable annual cut of 2.5 million cubic metres. Forestry and logging are carried out on three Tree Farm Licences and on owned timber lands.



Western is committed to a high standard of forest management; this includes measures to increase its allowable annual cut.

In December of 1983, Western transferred its two pulp mills to the Western Pulp Limited Partnership (Western Pulp). Western leased out its remaining three sawmills on a long term basis, converted \$243,900,000 of its bank debt into equity, arranged a bank loan which includes a \$195,000,000 capital loan and entered into long-term contracts to sell its log production to Western Pulp, Doman Industries, British Columbia Forest Products and Whonnock Industries. Condensed financial information for Western, including pro-forma information giving effect to the above capital reorganization, is contained on page 20.

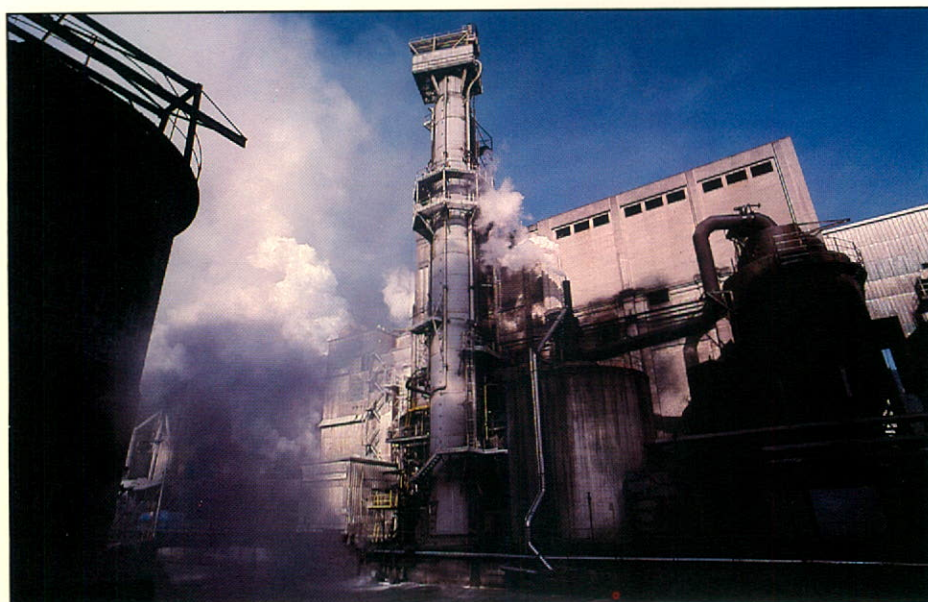


“ . . . building for the future ”

*. . . and
the Western
Pulp Limited
Partnership*



Below: Squamish kraft mill



Following Western's reorganization, Western Pulp issued 110,000 Class A Limited Partnership Units to the public, realizing net proceeds of approximately \$101,000,000; these proceeds, together with a bank term loan of \$150,000,000, will be used to modernize the two pulp mills acquired from Western. The Class A Units are exchangeable at the option of the holders between April 1, 1987 and June 30, 1990 into a package of shares of Doman Industries, British Columbia Forest Products and Whonnock Industries (the Principals). In certain circumstances, the Principals after January 1, 1989 may require the exchange of any Class A Units not already held by them, and after June

30, 1990 may acquire such Class A Units for a consideration to be determined at that time. Doman Industries intends to issue Class B non-voting shares, series 2 in connection with the exchange privilege.

Western Pulp has granted Western an option to acquire Class B Units for cash or by application of amounts owing for the purchase of the two pulp mills. If this option is exercised at the earliest possible time, Western will have acquired an approximate 41% interest in the Partnership by January 1, 1990, increasing to approximately 60% by January 1, 1996. The exercise of this option will be accelerated if all Class A Units, other than those held by Western's bankers or their affiliates, have been acquired by the Principals. If all Class A Units are exchanged, and if Western exercises its option to acquire the Class B Units of the Partnership, Doman Industries will have a 13.3% direct interest in Western Pulp and an indirect interest through its shareholdings in Western ranging between 11.6% and 13.6%, depending on the number of voting preferred shares of Western that Doman Industries has acquired commencing in 1986. For details, see page 19.

Financial Summary

(thousands of dollars except for earnings per share which are in dollars)

For the years ended December 31, 1983

Earnings

Sales	175,357
Earnings (loss) before income taxes	376
Income tax recovery	3,631
Net earnings (loss)	4,007
Earnings (loss) per common share	.08

Cash Flow

Operations (negative)	6,967
Extraordinary item	2,690
Preferred shares issued	—
Class B common subscription	—
Increase (decrease) in term debt	(622)
Disposals of property, plant and equipment	19
Additions to property, plant and equipment	8,253
Increase in deferred costs	—
Increase in other investments	470
Dividends	3,818
Increase (decrease) in working capital	(3,487)

As at December 31, 1983

Balance Sheet

Current assets	68,375
Current liabilities	53,497
Working capital	14,878
Property, plant and equipment	61,536
Other assets	64,458
Long-term debt	106,592
Deferred income taxes	(6,390)
Shareholders' equity	40,670

1982	1981	1980	1979	1978	1977	1976
130,729	115,793	110,565	113,178	115,302	92,022	68,956
(29,482)	(16,991)	1,861	18,085	19,565	10,941	4,772
3,508	6,089	(14)	(7,405)	(8,484)	(4,977)	(1,895)
(25,974)	(10,902)	1,847	10,680	11,081	5,964	2,877
(3.86)	(1.62)	.27	1.59	1.65	.89	.43
(15,488)	(7,694)	7,655	16,983	14,254	8,479	5,560
—	—	—	—	—	—	—
40,000	—	—	—	—	—	—
3,703	—	—	—	—	—	—
(6,901)	14,409	79,765	(738)	(433)	10,102	21
130	1,020	472	125	1,543	271	425
3,130	7,304	28,386	18,944	5,884	2,799	2,520
3,703	—	42	373	44	977	855
4,600	7,021	60,464	(309)	956	842	1,075
—	1,980	2,641	2,146	3,495	660	655
10,011	(8,570)	(3,641)	(4,784)	4,985	13,574	901
1982	1981	1980	1979	1978	1977	1976
49,836	56,209	60,678	46,253	44,090	40,063	29,741
31,471	47,855	43,754	25,688	18,741	19,699	22,951
18,365	8,354	16,924	20,565	25,349	20,364	6,790
60,082	63,507	61,541	37,631	22,413	20,084	19,707
66,490	65,703	64,314	5,199	5,159	4,134	2,603
107,214	114,115	99,706	19,942	20,680	21,112	11,010
(2,758)	697	7,439	7,025	4,347	3,162	3,082
40,481	22,752	35,634	36,428	27,894	20,308	15,008

Consolidated Statement of Earnings and Retained Earnings

(thousands of dollars except for per share amounts which are in dollars)

For the years ended December 31,	1983	1982
Sales of products, merchandise and services	175,357	130,729
Costs and expenses		
Cost of goods sold	142,931	119,103
Selling and administration	6,724	5,570
Depreciation	3,989	4,165
Depletion of timber and amortization of roads	2,791	2,259
Interest (note 9(c))	18,610	26,854
	175,045	157,951
Earnings (loss) from operations	312	(27,222)
Equity in earnings (losses) of other companies	64	(2,260)
Earnings (loss) before income taxes and extraordinary item	376	(29,482)
Income taxes (recovery) (note 7(a))		
Current	2,690	(2)
Deferred	(3,631)	(3,506)
	(941)	3,508)
Earnings (loss) before extraordinary item	1,317	(25,974)
Extraordinary item		
Income tax reduction on utilization of loss carry-forwards	2,690	—
Net Earnings (Loss)	4,007	(25,974)
Earnings (loss) from operations before depreciation, depletion and amortization of roads	7,092	(20,798)
Earnings (Loss) Per Share (note 8)		
Earnings (loss) before extraordinary item	(.28)	(3.86)
Extraordinary item	.36	—
Net earnings (loss)	.08	(3.86)
Retained Earnings (Deficit) Beginning of Year	(5,459)	20,911
Net earnings (loss)	4,007	(25,974)
Cash dividends—Class A preferred shares, series 1	3,444	—
—Class A common shares	337	—
—Class B non-voting shares, series 1	37	—
Stock dividend—Class A common shares	—	396
Retained Earnings (Deficit) End of Year	(5,270)	(5,459)

Consolidated Statement of Changes in Financial Position

(thousands of dollars)

For the years ended December 31,	1983	1982
Working Capital Derived From		
Operations	6,967	—
Extraordinary item	2,690	—
Preferred shares issued	—	40,000
Share subscription	—	3,703
Disposals of property, plant and equipment	19	130
	9,676	43,833
Working Capital Applied To		
Operations	—	15,488
Additions to property, plant and equipment	8,253	3,130
Reduction of long-term debt	622	6,901
Increase in deferred costs	—	3,703
Increase in investments	470	4,600
Dividends	3,818	—
	13,163	33,822
Increase (Decrease) In Working Capital	(3,487)	10,011
Working Capital Beginning of Year	18,365	8,354
Working Capital End of Year	14,878	18,365
Working Capital End of Year		
Current assets	68,375	49,836
Current liabilities	53,497	31,471
	14,878	18,365

Auditors' Report

To the Shareholders of Doman Industries Limited:

We have examined the consolidated balance sheet of Doman Industries Limited as at December 31, 1983 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
February 6, 1984.

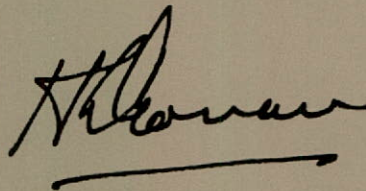
Deloitte Haskins & Sells
Chartered Accountants

Consolidated Balance Sheet

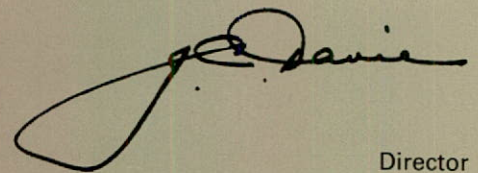
(thousands of dollars)

	As at December 31,	1983	1982
Assets			
Current Assets			
Cash		46	44
Accounts receivable		12,439	9,252
Inventories (note 2)		53,970	38,933
Prepaid expenses		1,920	1,607
		<u>68,375</u>	<u>49,836</u>
Investments (note 3)		<u>60,655</u>	<u>62,276</u>
Property, Plant and Equipment			
Land, buildings, machinery and equipment (note 4)		72,265	66,872
Less accumulated depreciation		<u>21,081</u>	<u>17,377</u>
		51,184	49,495
Timber holdings and logging roads, less accumulated depletion and amortization		<u>10,352</u>	<u>10,587</u>
		<u>61,536</u>	<u>60,082</u>
Deferred Income Taxes (note 7 (b))		<u>6,390</u>	<u>2,758</u>
Deferred Costs, less amortization		<u>3,803</u>	<u>4,214</u>
		<u>200,759</u>	<u>179,166</u>

On Behalf of the Board:



Director



Director

	As at December 31,	1983	1982
Liabilities	Current Liabilities		
	Bank indebtedness (note 5)	24,775	17,004
	Accounts payable and accrued liabilities	26,990	14,447
	Preferred share dividend payable	1,714	—
	Principal due within one year on long-term debt	18	20
		<u>53,497</u>	<u>31,471</u>
	Long-Term Debt (note 5)	106,592	107,214
		<u>160,089</u>	<u>138,685</u>
Shareholders' Equity	Share Capital (note 6)		
	Authorized shares (without par value)		
	5,000,000 Class A preferred		
	14,000,000 Class A common		
	15,000,000 Class B non-voting		
	Issued shares		
	40,000 Class A preferred, series 1	40,000	40,000
	6,733,612 Class A common	2,237	2,237
	748,179 Class B non-voting, series 1	3,703	—
	Subscription for shares	—	3,703
	Retained Earnings (Deficit)	<u>(5,270)</u>	<u>(5,459)</u>
		<u>40,670</u>	<u>40,481</u>
		<u>200,759</u>	<u>179,166</u>

Notes to the Consolidated Financial Statements

December 31, 1983

1. Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Doman Industries Limited and all of its subsidiaries (collectively referred to as the Company).

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Investments

Investments in joint venture companies are accounted for using the equity method whereby the Company's share of their earnings and losses is included in earnings and its investments therein adjusted by a like amount. Dividends received are credited to the investment accounts.

The investment in Western Forest Products Limited (Western) and other investments are accounted for using the cost method whereby dividends are included in earnings when received. The investment in Western includes \$5,415,000 of unamortized capitalized interest on funds borrowed for the acquisition which is being amortized and charged against earnings of the Company on a straight-line basis to 1989. Amortization charged against earnings was \$1,020,000 in 1983 and \$1,020,000 in 1982.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost including interest capitalized during construction of major projects. Depreciation is charged to earnings on a straight-line basis for the period of operations at rates based on the estimated useful lives of between 5 to 10 years for automotive equipment, 10 to 15 years for other equipment and 20 to 25 years for buildings. Costs of timber holdings and logging roads are charged to earnings on the basis of timber removed.

(e) Deferred Costs

Deferred costs consist of debenture issue expenses and a financing fee related to a debt restructuring which are being amortized to earnings on a straight-line basis to 1987 and 1994 respectively.

(f) Income Taxes

The Company uses the tax allocation method of accounting for income taxes whereby differences between the provision for income taxes on earnings for accounting purposes and the income taxes currently payable are shown as deferred income taxes. Investment tax credits are generally accounted for in the year of the related expenditure as a reduction of the provision for income taxes.

2. Inventories

(thousands of dollars)	1983	1982
Logs	16,812	10,136
Lumber	33,470	25,415
Merchandise	1,789	1,952
Supplies	1,899	1,430
	53,970	38,933

3. Investments

(thousands of dollars)	1983	1982
Western Forest Products Limited	58,576	59,596
Other investments	2,079	2,680
	60,655	62,276

(a) Western Forest Products Limited (Western)

The investment in Western is carried at cost less equity in losses to January 31, 1982 at which time the Company changed to the cost method of accounting for its investment in Western.

In December 1983 Western sold its two pulp mills to Western Pulp Limited Partnership for \$150,000,000, converted \$195,000,000 of demand bank

3. Investments (con't)

indebtedness into a long-term capital loan, and issued an aggregate of \$243,901,330 of share capital. At December 31, 1983 the Company's interest in the voting shares of Western is 19.4% on a fully diluted basis. By agreement, the Company will purchase up to \$10,000,000 of a class of voting preferred shares of Western at the annual rate of the lesser of \$2,500,000 and 20% of the Company's net earnings (as defined) for the preceding year, commencing in 1986. This will result in the Company's interest in the voting shares of Western increasing to 22.6% on a fully diluted basis.

(b) Western Pulp Limited Partnership (the Partnership)

On December 30, 1983 the Partnership issued Class A Limited Partnership Units (the Class A Units) to the public for aggregate net proceeds of approximately \$101,000,000 which, together with a bank term loan of \$150,000,000, will be used to modernize the two pulp mills acquired from Western.

The Class A Units are exchangeable at the option of the holders between April 1, 1987 and June 30, 1990 into a package of shares of the Company and two other corporate shareholders of Western (the Principals). Under certain circumstances, the Principals after January 1, 1989 may require the exchange of any Class A Units not already held by them and after June 30, 1990 may acquire such Class A Units for a consideration to be determined at that time. The Company intends to issue Class B non-voting shares, series 2 in connection with the exchange privilege.

The Partnership has granted Western an option to acquire Class B Units for cash or by application of amounts owing for the purchase of the two pulp mills. If this option is exercised at the earliest possible time, Western will have acquired an approximate 41% interest in the Partnership by January 1, 1990, increasing to approximately 60% by January 1, 1996. The exercise of this option will be accelerated if all Class A Units other than those held by Western's bankers or their affiliates have been acquired by the Principals.

If all Class A Units are exchanged and if Western exercises its option to acquire the Class B Units of the Partnership, the Company will have a 13.3% direct interest in the Partnership and an indirect interest through its shareholdings in Western ranging between 11.6% and 13.6% depending on the number of voting preferred shares described in (a) above that the Company has acquired. In summary on this basis:

The Company's direct (13.3%) and indirect (11.6%) interest in the Partnership before making any further investment in Western will be	24.9%
The Company's further indirect interest in the Partnership if all of the Western voting preferred shares described in (a) are acquired will be	<u>2.0</u>
The Company's total direct and indirect interest will then be	<u>26.9%</u>

The Company has established a line of credit with its bank to make revolving loans to the Partnership to cover any cash deficiencies that may occur before July 1, 1990, to a maximum of \$10,000,000 in the period to September 30, 1986 and reducing to maximums of \$5,000,000 thereafter to June 30, 1988, \$3,000,000 thereafter to June 30, 1989 and \$2,000,000 thereafter to June 30, 1990.

(c) Condensed Financial Information of Western

Condensed financial information of Western, including pro-forma information giving effect to the capital reorganization discussed in (a) above, as at October 31, 1983 is presented below. Management of the Company believes that there has been no permanent decline in the value of the Company's investment in Western.

Notes to the Consolidated Financial Statements

December 31, 1983

3. Investments (con't)

Western Forest Products Limited Balance Sheet October 31, (thousands of dollars)	Pro-forma 1983	1983
Assets		
Current assets	98,205	122,128
Fixed assets	238,564	401,077
Investment in limited partnership	175,242	—
Other assets	45,675	58,404
	557,686	581,609
Liabilities		
Current bank loan	26,766	489,590
Accounts payable and accrued liabilities	27,717	27,717
Term bank loan, non-current	195,000	—
	249,483	517,307
Shareholders' Equity		
Share capital	423,901	180,000
Deficit	(115,698)	(115,698)
	308,203	64,302
	557,686	581,609

For the year ended October 31, 1983 Western incurred losses of \$40,939,000 on sales of \$227,801,000.

4. Land, Buildings, Machinery and Equipment

(thousands of dollars)	1983	1982
Land	2,961	2,961
Buildings	16,992	16,936
Machinery and equipment	52,312	46,975
	72,265	66,872
Accumulated depreciation	21,081	17,377
	51,184	49,495

5. Long-term Debt

(thousands of dollars)	1983	1982
Sinking Fund Debentures, Series A 10¼% maturing in 1997, retractable at the option of the holder in 1987	17,385	17,941
Bank term loans maturing in 1985	8,616	8,668
Bank capital loan maturing in 1994	60,000	60,000
Bank capital loan maturing in 1995	20,000	20,000
Other	609	625
	106,610	107,234
Principal amount included in current liabilities	18	20
	106,592	107,214

The Sinking Fund Debentures, Series A (the Debentures) are secured by fixed and floating charges on certain assets of the Company. The trust agreement relating to the Debentures requires the Company to establish sinking funds to retire in each of the years 1988 to 1996, 5% of the principal balance of the Debentures outstanding on December 15, 1987.

The bank loans bear interest at the Royal Bank prime rate plus 1¼%. At the Company's option, the rates for the capital loans may be fixed for varying periods at rates based on the bank's U.S. base rate, London Interbank offered rates or Bankers' Acceptances.

5. Long-Term Debt (con't)

The bank loans including the current bank indebtedness are secured by the shares owned by the Company in Western Forest Products Limited, an assignment of accounts receivable and inventories and, subject to the prior charges of the Debentures, fixed and floating charges on certain assets of the Company.

Long-term debt maturing in the next five years assuming the Company exercises its option to extend bank loan payments due in 1984 for a further twelve months is as follows:

	(thousands of dollars)
1984	\$ 18
1985	12,634
1986	2,018
1987	2,018
1988	8,887

6. Share Capital

(a) Changes in Authorized Share Capital

In 1983 the authorized and issued common shares were designated as Class A common shares, the authorized number of such shares was increased from 13,363,184 to 14,000,000 shares and the authorized share capital was increased by the creation of 15,000,000 Class B non-voting shares.

(b) Rights of Classes of Issued Shares

The Class A preferred shares, series 1 carry a cumulative annual dividend rate of one-half of the Royal Bank prime rate plus 3%, payable semi-annually. These shares are retractable at any time at the option of the holder at the issue price of \$1,000 per share plus any accrued and unpaid dividends (the Redemption Price) payable twelve months after notice by the holder, are redeemable at the option of the Company at the Redemption Price and are to be redeemed in full by December 15, 1987.

The Company issued 748,179 Class B non-voting shares (the Class B shares), series 1 during the year. These shares have the same rights as the Class A common shares (the Class A Shares) except as to voting. They are convertible at the option of the holder into the Class A shares on a share-for-share basis at any time prior to the Company establishing a public market for any other series of its Class B shares and thereafter are convertible on a share-for-share basis only into that other series of Class B shares.

(c) Share Options and Exchange Privilege

Outstanding options granted to directors and senior officers of the Company to purchase a total of 60,000 Class A shares at \$7.76 per share may be exercised up to 1990.

In conjunction with a debt restructuring in 1982 the Company granted to the Royal Bank a conditional option to acquire between December 15, 1987 and December 15, 1988, at \$3 per share, Class A shares equivalent to ten percent of the Company's outstanding common shares after the exercise of such option. The option becomes exercisable only in the event that the common shares do not prior to December 15, 1987 trade for a specified period at or above \$11 per share adjusted for stock splits and stock dividends.

The Company has reserved 60,000 Class A shares for outstanding options and 2,444,445 Class A shares for the Western Pulp Limited Partnership exchange privilege. The 2,444,445 Class A shares may at the option of the Company be issued in the form of Class B non-voting shares, series 2.

Notes to the Consolidated Financial Statements

December 31, 1983

7. Income Taxes

(a) Provision for Income Taxes

The 1983 income tax recovery arises principally from the 3% inventory allowance and other deductions allowed for income tax purposes in excess of charges to earnings. In 1982 the income tax recovery arose from future tax benefits associated with depreciation, depletion and amortization of roads charged against earnings.

(b) Loss Carry-forwards

At December 31, 1983, the Company had loss carry-forwards for income tax purposes available to reduce future years' income for tax purposes. The Company is allowed to file amended tax returns reducing the amount of tax loss carry-forwards expiring in any year and increasing capital cost allowances available in future years.

	(thousands of dollars)
1985	8,239
1986	31,127
1987	28,007
1988	1,474
	<hr/> 68,847
Less excess of amounts claimed for income tax purposes over amounts charged to earnings	41,913
	<hr/> 26,934
Less accounting losses for which the future tax benefits have been recognized in the accounts	13,607
	<hr/> 13,327
Accounting losses for which potential future tax benefits have not been recognized in the accounts	13,327

8. Earnings Per Share

Earnings per share have been calculated using the weighted average aggregate number of Class A common shares and Class B non-voting shares outstanding during the year and after reducing the net earnings by the cumulative dividend obligation with respect to the outstanding Class A preferred shares. Class A common shares issued with respect to a stock dividend declared in December 1982 and paid on January 3, 1983 have been assumed to have been outstanding at the beginning of 1982 and the loss per share for that year has been restated accordingly.

The potential dilutive effect on earnings per share of the share options and exchange privilege described in Note 6(c) is not material.

9. Other Information

(a) Related Party Transactions

Included in sales are sales of \$61,026,000 (1982—\$45,345,000) made to a joint venture company. Accounts receivable include \$929,000 (1982—\$731,000) due from the joint venture company.

(b) Segmented Information

(i) Industry segments

The Company conducts essentially all of its business activities in the Forest Industry.

(ii) Export Sales

The Company's export sales by geographic area were as follows:

(thousands of dollars)	1983	1982
United States	84,465	39,448
Europe	10,356	8,183
Other	8,032	11,297
	102,853	58,928

(c) Interest Expense

Interest on current debt amounted to \$4,656,000 (1982—\$7,022,000), and on long-term debt amounted to \$13,954,000 (1982—\$19,832,000).

(d) Operating Lease Commitment

The Company is obligated under an operating lease to the following annual payments

	(thousands of dollars)
1984	1,827
1985	1,743
1986	1,597
Thereafter to 2008	862

(e) Subsidiary Companies (all wholly-owned)

Doman Forest Products Limited
Doman's Transport Limited
Doman-Marpole Transport Limited
Doman Freightways Limited
Doman Investments Limited
Armour & Saunders Limited

(f) Joint Venture Companies

Eacom Timber Sales Limited — 47% owned
Timber Crest Estates Limited — 50% owned

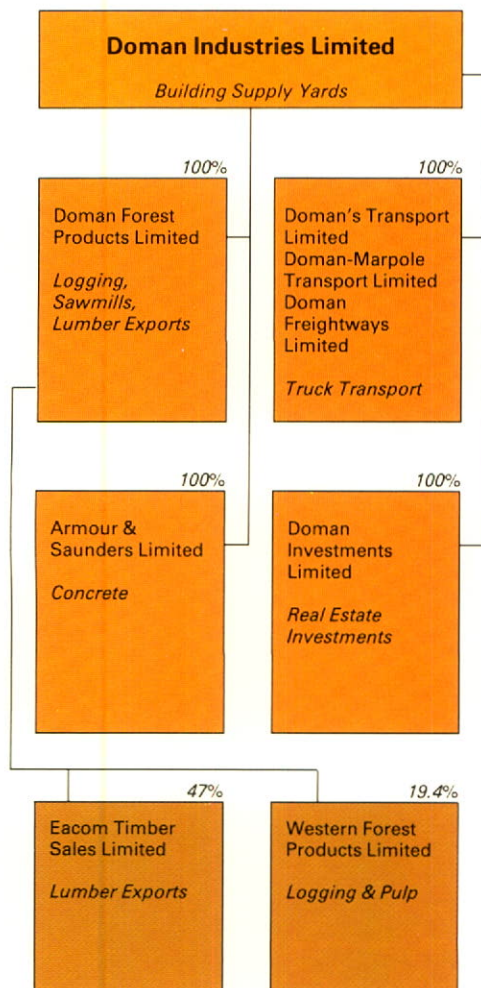
(g) Comparative Figures

The consolidated financial statements for the year ended December 31, 1982 were reported upon by other auditors. Certain of the comparative figures have been reclassified to conform with the current year's presentation.

“ . . . a record of achievement and growth.”

Doman Industries Limited

Corporate Structure



Doman Industries Limited is a familiar name in Western Canada's forest products industry. The Company has built a solid reputation in the industry as a reliable supplier of lumber, and sawmill by-products. Its modern plants enjoy a high lumber recovery factor and exceptional labour productivity. Doman's efficient lumber production facilities offer a consistently high quality product.

The Company commenced operations in 1955 by acquiring Mr. H. S. Doman's business of trucking lumber and copper ore, and selling lumber and wood fuel on Vancouver Island. In the ten year period to 1965, the Company diversified its operations to include retail and wholesale merchandising of lumber and building supplies, logging, the production and sale of ready mix concrete, and a greatly expanded truck freight business. During this period, Doman moved into lumber manufacturing, which today is the main business of the Company. Doman Industries became a public company in 1964.

Since 1965 Doman Industries has expanded steadily in the lumber manufacturing business in British Columbia. The Company's first major mill was built at Ladysmith in 1966, followed by mills at Chemainus in 1973, Cowichan Bay in 1975 and Nanaimo in 1980. All of its mills are highly automated and feature advanced sawmilling technology.

Logging commenced on a significant scale in 1969. As a result of expanding the logging program in 1977, the Company presently operates three Forest Licences and several Timber Sale Licences on the coast of B.C. To supplement its traditional supply of saw logs from independent contractors, Doman acquired an interest in Western Forest Products Limited in 1980. Doman Industries benefits greatly

from Western's extensive timber holdings.

Doman's lumber is marketed worldwide, with approximately seventy-five percent of sales to the U.S. market. The major portion of our export sales are conducted through Eacom, the third largest ocean-cargo shipper in Canada. Doman owns forty-seven percent of Eacom.

With five building supply yards, five sawmills, four logging divisions and a major truck transportation fleet operating in British Columbia, Washington and Oregon, the Company's sales have grown from \$42 million in 1973 to \$175 million in 1983.

Modern equipment, an experienced workforce, high productivity, the efficient use of resources and diversified holdings . . . these are a few reasons behind Doman's strong reputation in the industry. With the North American construction industry in a steady recovery and Doman Industries' current capital expansion program completed, the potential for further sales growth and profitability is promising.

Doman Industries Limited

(Incorporated under the laws
of British Columbia)

Board of Directors

H. S. Doman, President and Chairman of the Board, Doman Industries,
Duncan, B.C.
I. C. Danvers, Executive, Phoenix, Arizona
J. C. Davie, D.S.C., C.D., Barrister & Solicitor, Williams, Davie & Company,
Duncan, B.C.
J. R. Abercrombie, C.A., Vice President, Doman Industries, Duncan, B.C.
J. R. Frumento, Vice President, Doman Industries, Duncan, B.C.
C. A. Johnson, President, West Fraser Timber Co. Ltd., Vancouver, B.C.

Audit Committee

C. A. Johnson, Chairman
I. C. Danvers
J. R. Abercrombie

Officers

H. S. Doman, President
J. C. Davie, Secretary
D. R. Williams, Q.C., Assistant Secretary
J. R. Abercrombie, Treasurer, Vice President Finance and Administration
J. R. Frumento, Vice President Timber and Manufacturing

Head Office

435 Trunk Road, Duncan, B.C.
V9L 2P8 (telephone 604-748-3711)

Transfer Agent and Registrar For Common Shares

The Royal Trust Company, Vancouver, B.C. and Toronto, Ontario

Stock Exchanges

Class A Common Shares — Toronto and Vancouver

Transfer Agent and Registrar For 10¼% Series A Debentures

The Canada Trust Company, Montreal, Toronto, Winnipeg, Calgary and
Vancouver

Bankers

The Royal Bank of Canada

Solicitors

Williams, Davie & Company, Duncan, B.C.

Auditors

Deloitte Haskins & Sells, Vancouver, B.C.

Annual Meeting

The Annual General Meeting of the Shareholders of the Company will be
held in Duncan, B.C. at the Village Green Inn on Wednesday, March 21, 1984
at 10:30 A.M.

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