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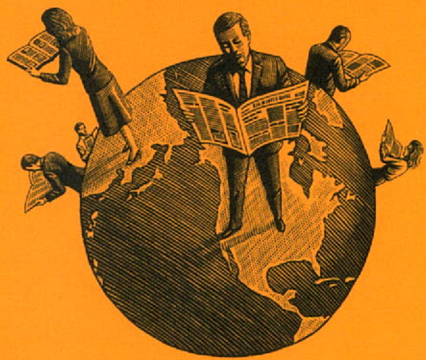
FLETCHER CHALLENGE CANADA LIMITED



ANNUAL REPORT 1996

Contents

Corporate Profile

Fletcher Challenge Canada is an established supplier of printing papers to the publishing and commercial printing industries in western North America and the rapidly growing markets of the North Pacific Rim. The Company produces four lines of printing papers:

Newsprint
Directory Paper
High Bright Specialty Paper
Lightweight Coated Paper

Fletcher Challenge Canada also produces market pulp and containerboard. The Company's products are manufactured at three facilities in British Columbia – Crofton, Elk Falls and Mackenzie – and at subsidiary Blandin Paper Company in Grand Rapids, Minnesota. Fletcher Challenge Canada also has a 52 per cent interest in TimberWest Forest Limited, a BC wood products manufacturer with five sawmills and substantial timber holdings.

Shares of Fletcher Challenge Canada are traded on the Toronto, Montreal and Vancouver stock exchanges.

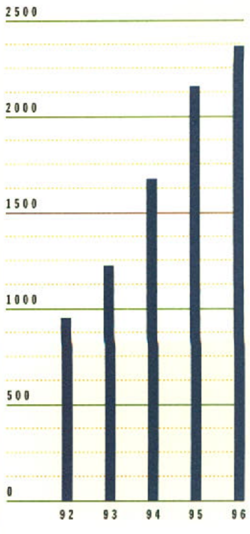
FINANCIAL HIGHLIGHTS

For the years ended June 30	1996	1995	1994
Financial Summary			
in millions of dollars			
Net sales	**$ 2,362.5**	$ 2,153.9	$ 1,675.4
Operating earnings	**319.9**	271.0	44.3
Net earnings	**154.4**	120.1	26.4
Cash flow from operations	**411.3**	312.2	123.5
Capital expenditures	**216.7**	113.9	81.6
Financial Position			
in millions of dollars			
Total assets	**$ 2,912.4**	$ 2,931.2	$ 2,818.7
Long term debt	**176.3**	227.6	391.5
Common shareholders' equity	**1,946.9**	1,869.4	1,766.8
Ratio of debt to equity	**8:92**	14:86	19:81
Per Common Share			
in dollars (except shares outstanding)			
Net earnings	**$ 1.24**	$ 0.97	$ 0.21
Cash flow from operations	**3.31**	2.51	0.99
Book value	**15.68**	15.05	14.23
Shares outstanding (in millions)	**124.2**	124.2	124.2

The Company's year end is June 30

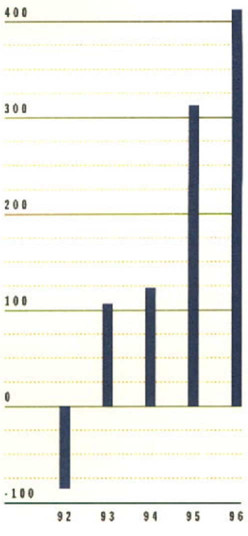
Net Sales

(in millions of dollars)



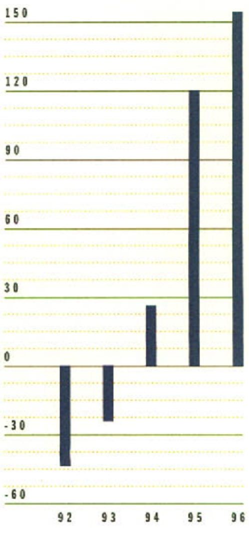
Cash Flow From Operations

(in millions of dollars)



Net Earnings (Loss)

(in millions of dollars)



I am pleased to report that the business strategy the Company embarked upon three years ago – focusing on groundwood printing papers in the North Pacific Rim – made significant advances during the year and continues to gain momentum.

We strengthened our printing papers position by improving our ability to deliver products and services with exceptional customer value. Our financial results improved over fiscal 1995, although a downturn in pulp and paper markets midway through the year kept cash flow and earnings from reaching the levels we had expected. The sharp swing in pulp markets reinforces our strategy to concentrate on printing papers to improve our return on invested capital.

In January we further narrowed our business focus with the sale of our wood products operations at Mackenzie to TimberWest Forest Limited. Our sole remaining involvement in the wood products business is our 52 per cent ownership in TimberWest.

In implementing our printing papers strategy, we continue to lead the western North American market in establishing the standard for lightweight newsprint. With basis weights of 45 gsm (grams per square metre) and under, these high-value paper grades provide cost advantages to customers while requiring less fibre to produce. During the year, sales of lightweight grades increased to 60 per cent of our newsprint and uncoated specialty printing paper volumes.

Contract sales of CATALYST™, our brand of lightweight directory papers launched in 1994, continued to grow, as did sales of our :advance™ high bright specialty grades, used for advertising flyers and newspaper inserts. Our Minnesota-based subsidiary, Blandin Paper Company, increased sales of its Intrepid™ line of lightweight coated papers, introduced to magazine and catalogue publishers in 1995. A number of initiatives are underway in our paper production and marketing groups, in cooperation with several major customers, to ensure that our products and related services meet the highest performance standards.

Results

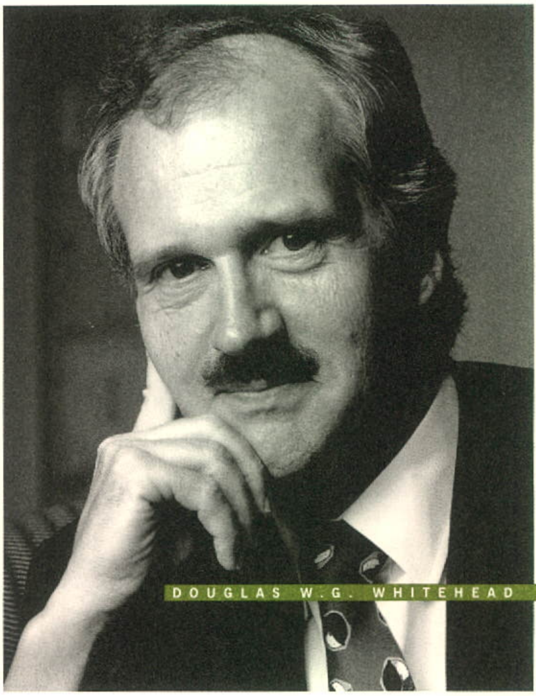
The Company's financial results for the year ended June 30, 1996 reflected strong markets through the first six months followed by a slowdown in the second half. Net earnings for the year were $154.4 million. This compares with net earnings of $120.1 million for fiscal 1995, which included a $9.7 million one-time recovery of countervailing duties on lumber shipped to the United States. Sales were a record $2.4 billion, up from $2.2 billion in fiscal 1995 when sales were reduced by a seven-week strike at our BC pulp and paper operations. Cash flow from operations was a record $411 million, up $99 million over 1995.

Net earnings for the first six months were $150.5 million on strong demand and record pulp and paper prices. However, as prices rose many consumers built inventory levels in anticipation of further increases. They started drawing down inventories and reducing consumption late in calendar 1995. As a result, orders slowed and prices dropped, reducing net earnings for the second half to $3.9 million.

By April, pulp prices had declined by about 50 per cent from their peak near the end of the first half. Prices for newsprint were firm through the end of March, but fell by approximately 11 per cent during the fourth quarter. Coated groundwood paper prices declined by approximately 17 per cent during the last six months.

To match lower order levels, we curtailed pulp and paper production, mainly in the second half. At our three BC mills, pulp production was curtailed by 117,000 tonnes. Production difficulties at Crofton resulted in a further 20,000 tonne reduction in pulp volumes. Paper production from Crofton and Elk Falls was reduced by 81,000 tonnes and at Blandin by 24,000 short tons.

For TimberWest Forest Limited, lumber demand was weak during much of the year, contributing to lower lumber and log prices and lower log shipment volumes than in the previous year.

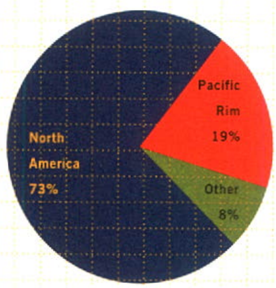


DOUGLAS W.G. WHITEHEAD

Investments in selected high payback projects contributed to an increase in capital spending to $217 million in fiscal 1996 from $114 million last year.

Quarterly dividends of 15 cents per share were paid to shareholders during the year. The annual dividend payout of 60 cents per share represents 49 per cent of net earnings and 18 per cent of cash flow from operations. Fletcher Challenge Canada closed fiscal 1996 in excellent financial condition. With a debt-to-equity ratio of 8:92, the Company has one of the healthiest balance sheets in the North American industry and is well positioned to take advantage of strategic growth opportunities.

Total sales of $2.4 billion



During the year, 73 per cent of the Company's sales were made to customers within western North America while high growth markets in the Pacific Rim accounted for 19 per cent of sales.

Printing Papers

Our printing paper strategy aims to create value by delivering a combination of products and services that help our customers gain success and profitability in their own businesses. In particular, we are working to increase production of lightweight papers and to achieve superior runnability – the ability of paper to run through modern high-speed printing presses free of breaks. In this effort, we are developing much closer working relationships with a number of major customers, seeking to increase business stability and realize mutual benefits.

Geographically, Fletcher Challenge Canada is already a significant offshore supplier of newsprint to Asian markets. Our experience in Japan, where quality standards for products and services are demanding, offers valuable lessons as we pursue lightweight runnability as a competitive edge.

A $31-million investment at Crofton, scheduled for completion in early 1997, will enable the Company to produce newsprint in weights as low as 40 gsm. This investment will provide an excellent payback through increased production and improved profit margins. At Blandin, installation of a new US$28 million coater on the No. 4 paper line is expected to strengthen Blandin's position in supplying higher value papers to the U.S. magazine and catalogue publishing market. This project will be completed in early 1997.

During the past year we signed five long term directory paper contracts. These contracts, typical of the directory paper market, offer stability in price and volumes and we are aggressively pursuing similar business.

Our sales of :advance™ high bright specialty paper also increased last year. These grades have created a new market segment in Japan where they have been accepted as a cost-effective alternative to coated papers for advertising media such as retail flyers and newspaper inserts. Trials of a lighter version of :advance™ are underway.

Containerboard

We continue to increase value and cost savings for packaging manufacturing customers by reducing the basis weight of our containerboard, produced at Elk Falls. Because of its outstanding printing characteristics, the Company's popular SilverLiner™ whitetop containerboard performs better at lower basis weights than many competing products. Last year, high value whitetop containerboard averaged 60 per cent of our total containerboard production, up slightly from fiscal 1995. Plans are to increase whitetop production to 75 per cent as markets improve.

Pulp

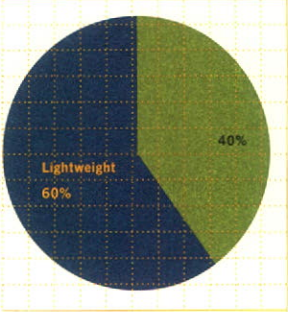
Projects scheduled for completion by the end of December 1996 at Elk Falls and Mackenzie will increase our capacity to produce mini-chip specialty pulp. The new installation at Mackenzie and expansion of existing facilities at Elk Falls involve a combined investment of $79 million. The Company already ranks as the world's leading market producer of mini-chip pulp, made from sawdust, shavings and residual wood fragments from lumber manufacturing. With the startup of the new facilities, the mills will reduce production of long-fibre market pulp, as well as their consumption of higher cost wood chips. The mini-chip pulp will be marketed under the trade name Triax™. In addition to creating environmental benefits, mini-chip pulp offers customers cost advantages and special papermaking characteristics, resulting in desirable printing qualities similar to those of hardwood pulps.

A senior management team has been formed to chart the future direction of our pulp business, which includes a range of long-fibre pulp varieties as well as the mini-chip products.

Learning and Development

Achieving success in our increasingly competitive business environment requires the skills, ingenuity and dedication of every member of our organization. To this end, we are committed to continuous learning as a fundamental organizational value and have been creating and delivering a broad range of programs to promote the individual growth and development of all employees. These programs, designed and developed with a high degree of employee input, are aimed at fostering leading-edge technical skills as well as the key interpersonal skills required in a working environment that increasingly involves creating value through teams.

Total newsprint and specialty printing paper sales of 816,000 tonnes



Sales of lightweight grades increased to 60 per cent of sales of newsprint and uncoated specialty printing paper. Lightweight paper grades provide cost advantages to customers while requiring less fibre to produce.

During the year, all salaried employees identified their personal development objectives while preparing individual annual performance plans, which are linked with the Company's business strategy. Training programs are structured to meet specific needs identified by the employees and the Company.

Acknowledgments

We are pleased to welcome Eva Lee Kwok, president of Amara International Investment Corp., and Robert T. Stewart, former president and chief executive officer of Scott Paper Limited, to our board of directors. We appreciate the commitment and long standing service of Gordon MacFarlane and Cameron Wilkinson who retired from the board in October 1995 and the contribution of Al Wallace who retired from the board in July 1996 in advance of his pending retirement from Blandin Paper.

We made a number of senior executive appointments during the year. Larry Jackson was appointed senior vice-president, sales and marketing, to spearhead our drive to differentiate products and services. Larry replaces David Meyers who assumed a senior marketing position with a major technology company in the United States. Luke Moriarty, formerly equity management director with Fletcher Challenge in New Zealand, joins the Company as senior vice-president, finance, replacing John Longley who is assuming a senior position with Fletcher Challenge Limited. At Blandin Paper, Doug Johnston was appointed president and chief executive officer, succeeding Al Wallace.

Outlook

We expect pulp and paper markets to remain difficult in the first six months of fiscal 1997. Paper markets remain slow and prices are under continued pressure. Improved pulp demand late in fiscal 1996 brought a measure of stability to pulp markets and a slight improvement in prices entering fiscal 1997.

Over the longer term, we anticipate a return to growth and stability in our key markets. Our progress over the past year positions us to build on our core product lines – newsprint, directory, high bright specialty and lightweight coated papers. Our strong balance sheet and favourable cash flow enable us to pursue strategic growth. We are taking a disciplined, value-based approach in evaluating growth opportunities, investments in existing operations and distributions to shareholders.

Douglas Whitehead

Douglas W. G. Whitehead
President, Fletcher Challenge Canada and
Chief Executive Officer, Canadian Operations
July 25, 1996

The world as we know it is changing and one of the harbingers of our times is *Wired* magazine, a publication focused on "delivering news from the future." In a recent discussion, *Wired*'s creative director John Plunkett talked about the magazine and the changing role of paper in an increasingly electronic age.

"*Wired* is not a computer magazine – it's about the anthropology of our times. The reason *Wired* exists is to report on what we think are fundamental changes that are happening across society brought on by technological changes creating these new electronic media. Whether someone works with these technologies or not, we're all being affected by them one way or another. Our job is to make that visible and understandable to the reader.

Ordinary information delivered in ordinary ways is going to tend to become electronic in nature. But that does not in any way spell the end of print. What it means is, if you have extraordinary information, particularly high quality information, and if you deliver it with a high quality presentation, it will be more highly valued by readers and consumers. The part that you will really care about will be the part that's on paper.

That was the business framework we developed for ourselves. We wanted to make a magazine that had valuable content. We believed if it had valuable content, people would pay more for it. So we charged $5 for it instead of $3. The typical American magazine is $2 or $3. This translated into a design problem: What do you do with the look and feel of the publication to communicate to a stranger at a newsstand that this magazine they've never seen before is worth $5 instead of $3?

And that led us to the paper and the printing. There are a lot of people in the magazine industry who believe that if you're not on glossy paper then you're not a high quality magazine. Part of that is because there's not enough technical expertise on how to print well on a dull sheet. We wanted to use dull paper to differentiate ourselves from other magazines and because from our perspective it has a higher quality feel – it's more like a book and less like a magazine.

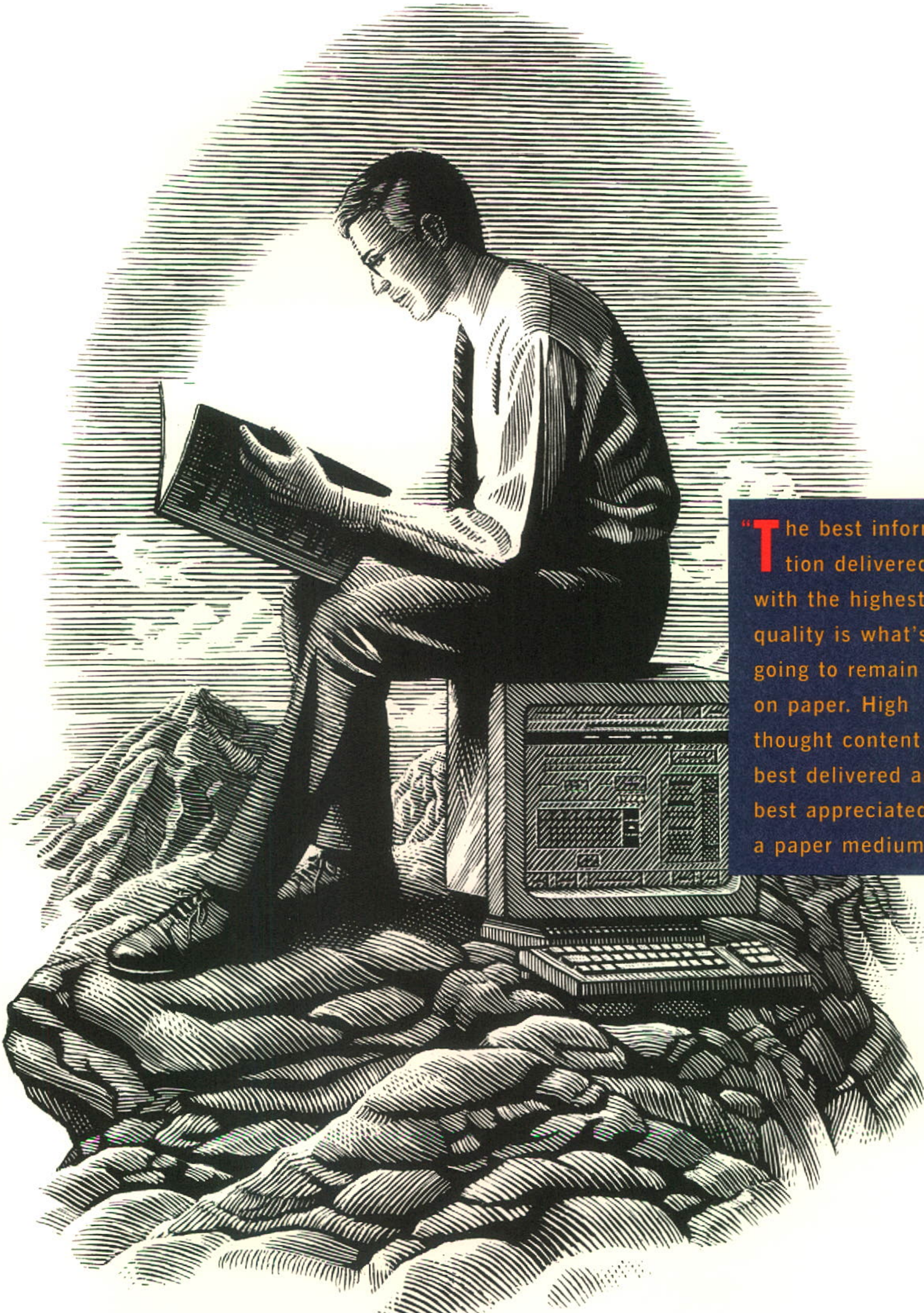
As publishers and commercial printers strive to create greater appeal for readers and advertisers, we foresee more colour, more variety of formats and paper sizes, and greater demand for cost effective and high quality paper grades. At Fletcher Challenge Canada, we are working to develop higher performance printing papers and value-creating services that will meet the future needs of our customers.

Another key part of our business strategy – we deliberately did not go to a magazine printer because we did not want an ordinary printed magazine. We went to a commercial printer who had never done a single magazine but had printed a lot of corporate publications and annual reports. That's how we got the quality of prepress and printing that combined with our paper choices to create a product that has a look and feel that's very different from other magazines on the stand and connotes a higher level of quality.

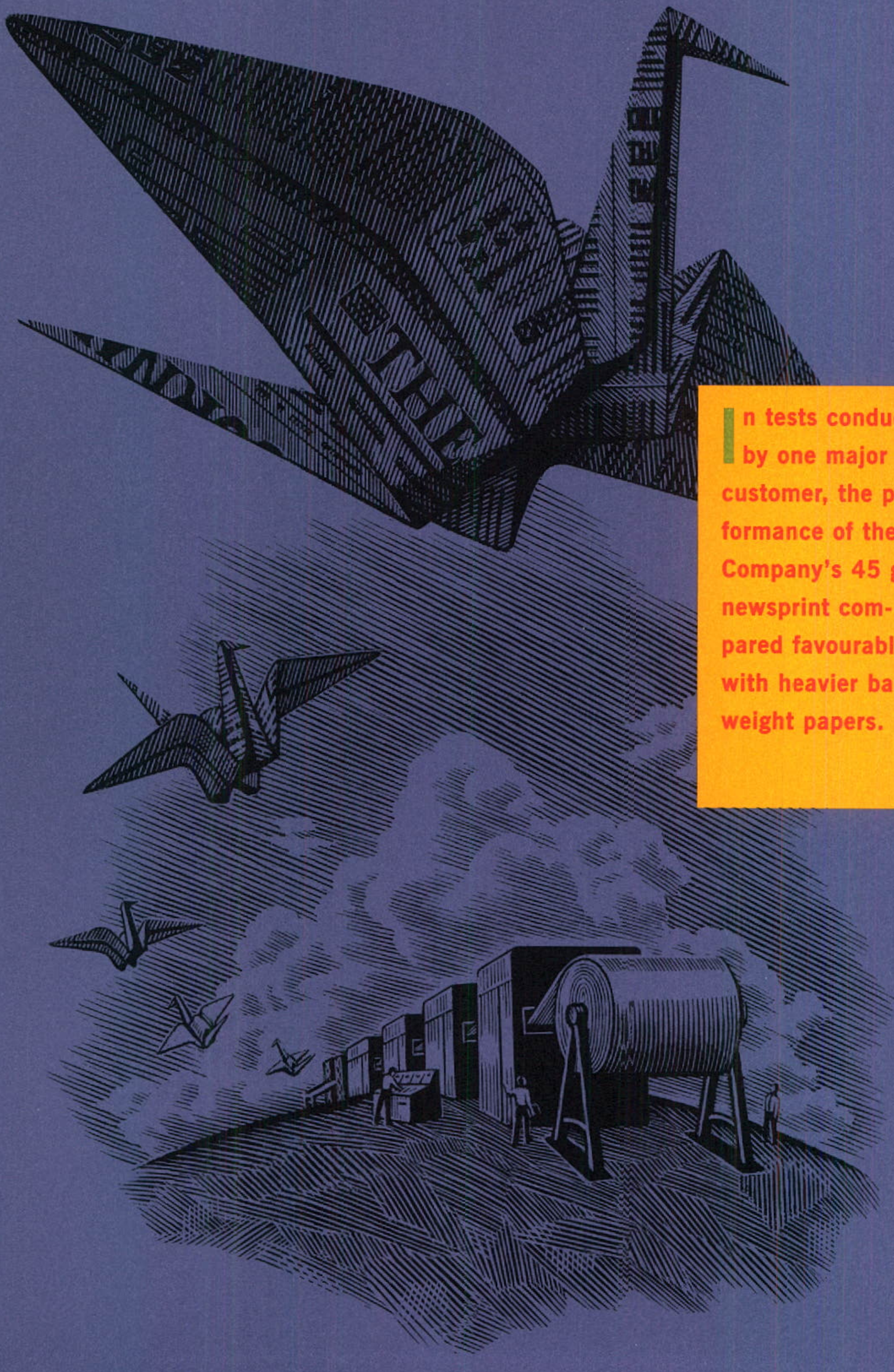
Wired gets a lot of attention because of its design. What's more interesting about *Wired* is its content, and the design is a reflection of that content.

Somebody made the point that if we'd had computers for the last 300 years and all of a sudden someone invented paper, then we'd all be marvelling about this incredible, portable, interactive, lightweight medium. That's our interest in being on paper, in publishing a magazine."

Wired's inside pages are printed exclusively on Blandin's 45 lb. Intrepid™ low glare paper.



"The best information delivered with the highest quality is what's going to remain on paper. High thought content is best delivered and best appreciated in a paper medium."



In tests conducted by one major customer, the performance of the Company's 45 gsm newsprint compared favourably with heavier basis weight papers.

During the past year Fletcher Challenge Canada continued to lead the western North American industry in reducing the basis weight of newsprint, achieving a number of advances in the development and production of lightweight grades. Lightweight paper grades deliver more printing surface per tonne and consume less fibre in the production process.

The Company plans to increase sales to the Japanese market where the standard basis weight is 43 gsm, compared with the 48.8 gsm North American standard. Japanese publishers pay a premium price for quality lightweight newsprint and accompanying high value services, such as just-in-time delivery and guaranteed volumes.

A $31-million investment is underway at Crofton to enhance the Company's ability to produce lightweight newsprint. The investment will increase newsprint production capacity by approximately 23,000 tonnes and enable the Company to produce newsprint in weights as low as 40 gsm. This high payback project, scheduled for completion in early 1997, is designed to increase production and improve profit margins.

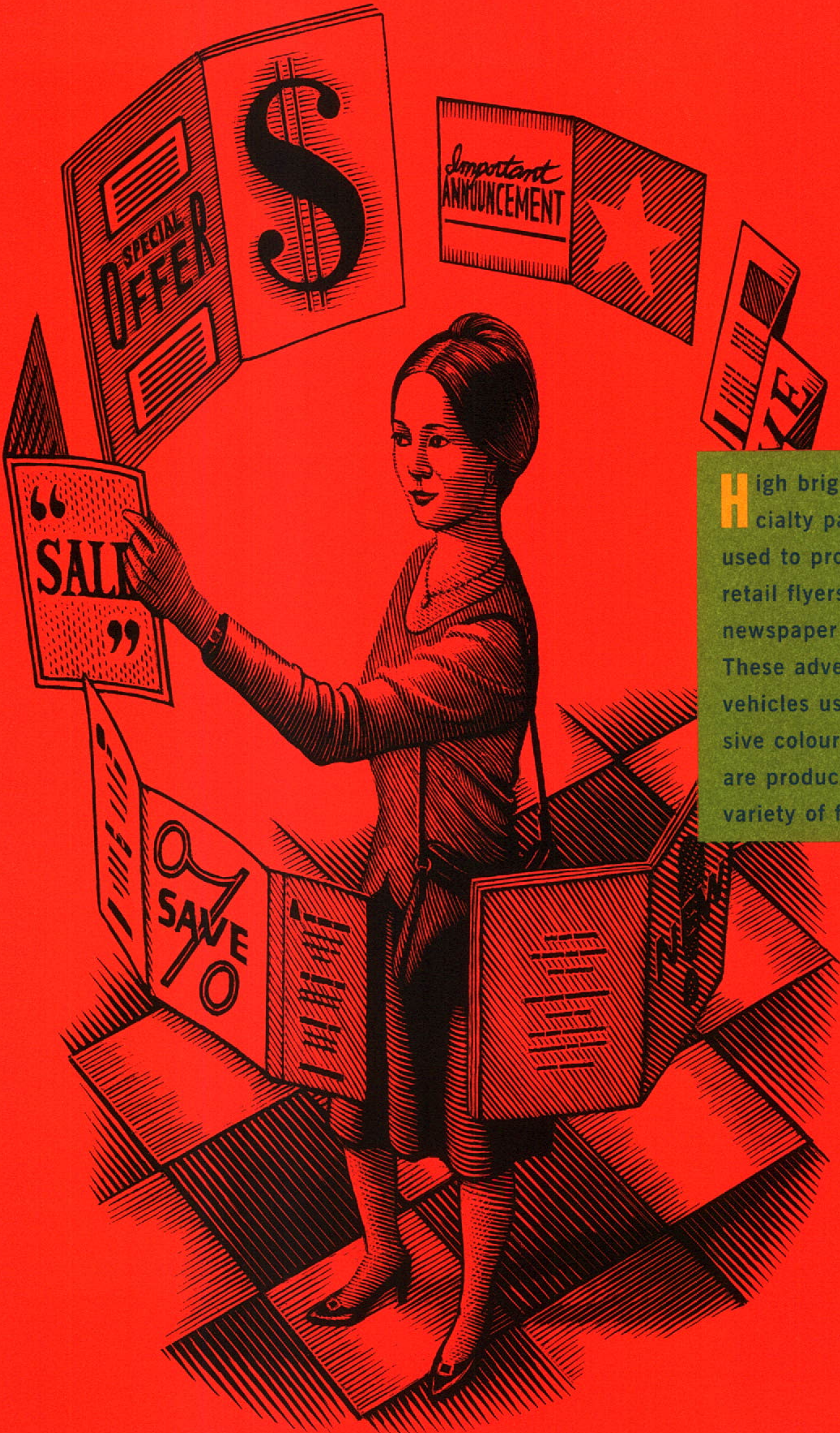
Fletcher Challenge Canada's lightweight printing papers strategy includes the delivery of outstanding products and services that create exceptional value for customers. To achieve superior newsprint runnability, the Company is developing closer working relationships with a number of major customers.

Sales of :advance™, the Company's branded soft-calendered specialty paper, increased 75 per cent over the year, reflecting an aggressive sales effort targeted to commercial printers. The paper's printing surface is smoother and glossier than newsprint, making it attractive for sales and advertising tools such as retail flyers and newspaper inserts.

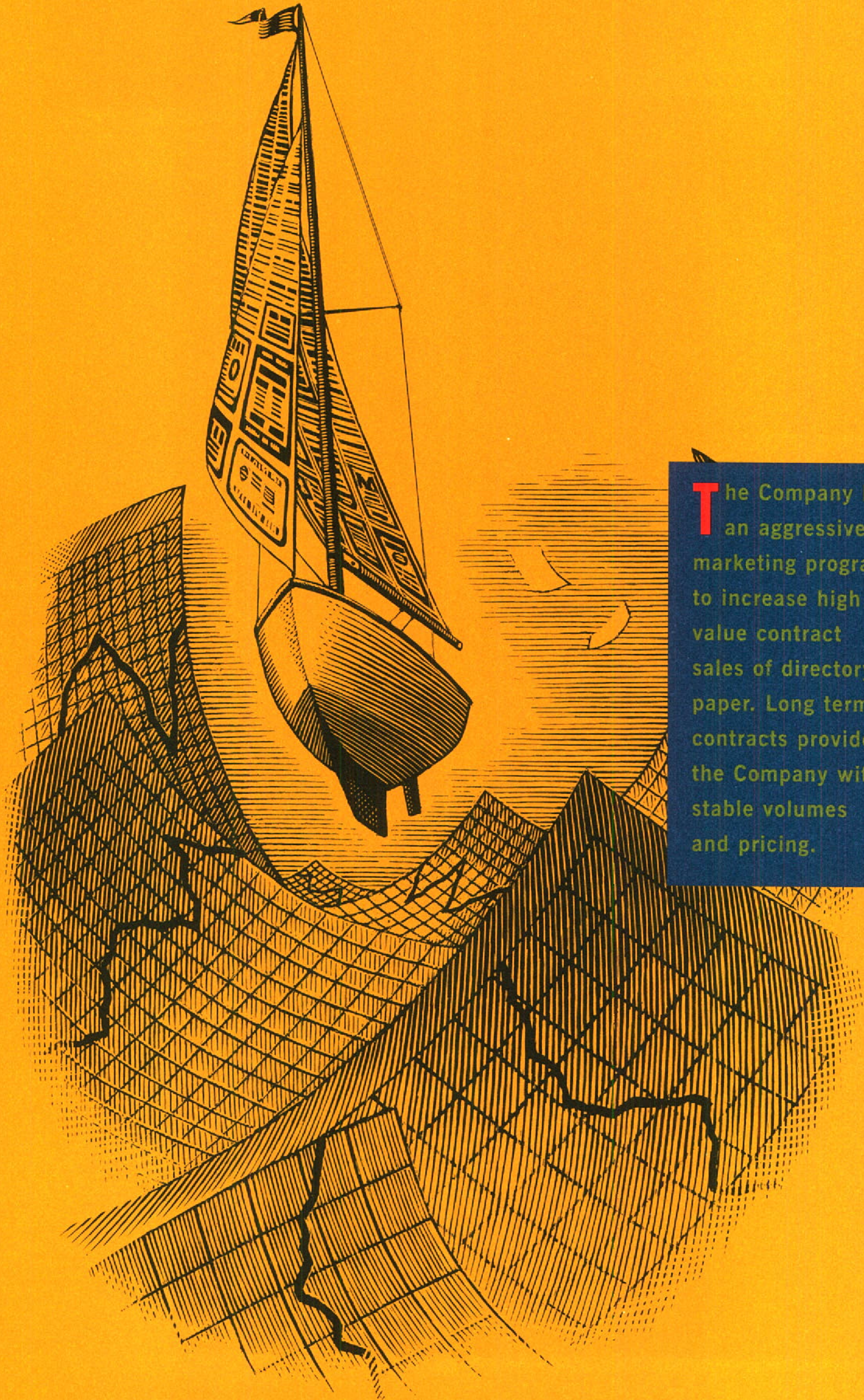
More than 10 per cent of :advance™ volumes were sold to Japan, a new market segment where its light weight and superior printability have high value. With a healthy consumer base and a population of 80 million in the Tokyo and Osaka region, Japan has a large established market for advertising materials. During the year, two sales delegations from Japan visited the Elk Falls mill where :advance™ is manufactured.

Trials are being conducted this summer at several customer sites to assess the print performance of a lighter basis weight sheet. In addition to using fibre more efficiently, a lighter basis weight paper has the potential to reduce distribution, inventory and postage costs for customers.

Print performance is important to commercial printers who work in a demanding industry, producing flyers and inserts on short lead times for a variety of customers. The Company's ability to maintain high levels of opacity, printability and runnability is the result of its papermaking expertise, quality processes and strong northern fibre which contributes to high strength paper.



High bright specialty paper is used to produce retail flyers and newspaper inserts. These advertising vehicles use extensive colour and are produced in a variety of formats.



The Company has an aggressive marketing program to increase high value contract sales of directory paper. Long term contracts provide the Company with stable volumes and pricing.

The Company is successfully marketing CATALYST™, its directory paper introduced in 1994. Sales for the year increased to 62,000 tonnes, up from 48,000 tonnes in fiscal 1995. When fully marketed, annual sales of directory paper will increase to 95,000 tonnes.

Five long term contracts were signed during the year, providing the Company with stable volumes and pricing while ensuring supply for customers. The Company has an aggressive marketing program in place to build high value contract sales volumes.

The brand identity of CATALYST™ presents a consistent product message for customers, differentiating it from competing directory papers. The identity has created customer awareness of the paper's value-added features – strength, improved print quality and better opacity with less show through on a page. CATALYST™ has been well-received by customers for its runnability and pressroom performance.

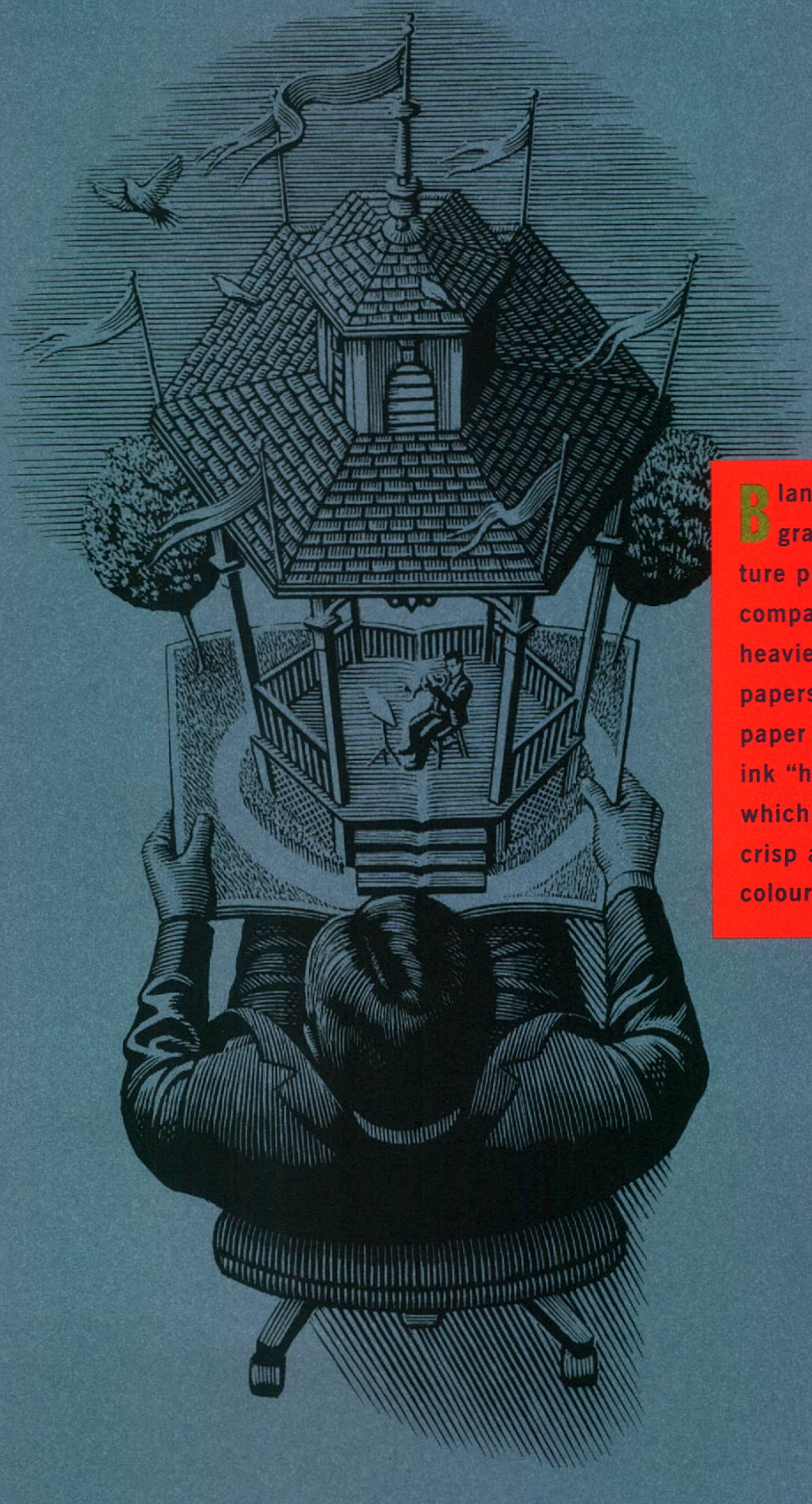
The development of CATALYST™ builds on the Company's core strengths in producing lightweight paper. Fletcher Challenge Canada's supply of northern softwood fibre combined with Crofton's diverse pulp furnish contribute to CATALYST's strength and opacity, while the Company's papermaking expertise and production equipment ensure a consistent and uniform sheet of paper. These capabilities enable the Company to produce a quality directory paper that performs well under exacting print conditions.

Blandin Paper Company is developing a higher value paper grade that will expand the market niche created with the launch of its Intrepid™ brand in 1995. The new grade, to be introduced next spring, will feature a smoother sheet with increased brightness for use in glossy magazines and catalogues.

To manufacture the new paper, Blandin is adding a new US$28 million coater to the No. 4 paper line. Like Intrepid, the new grade will be produced using an alkaline papermaking process and will be more cost effective for customers in lighter basis weights – 36 to 60 lb. – than competing grades.

Shipments of Intrepid™ low glare increased over the year, reflecting higher market penetration and continuing improvements in the alkaline papermaking process. While low glare paper has been popular in Europe for many years, it is relatively new to North America. Blandin was the first company in North America to introduce a lightweight coated low glare paper.

Blandin is also developing production methods to give very lightweight paper the appearance and "feel" of greater substance, to meet the needs of customers printing publications with fewer pages. Preserving consumer perceptions of bulk and good value in smaller publications – while retaining the benefits of lightweight paper – is expected to become increasingly important as publishers produce more specialty magazines and catalogues to serve the interests of highly focused readerships.



Blandin's new grade will feature print qualities comparable to heavier basis weight papers. Blandin's paper provides good ink "hold-out," which results in crisp and appealing colour images.

PRINTING PAPERS

	ANNUAL PRODUCTION CAPACITY
Newsprint and groundwood specialties	**930,000 tonnes**
Annual Mill Capacity	
Crofton Crofton, BC	430,000 tonnes
Elk Falls Campbell River, BC	500,000 tonnes

End Uses
Newspapers, telephone and specialty directories, newspaper inserts and retail flyers.

Lightweight coated paper	**475,000 short tons**
Annual Mill Capacity	
Blandin Paper Company Grand Rapids, Minnesota	475,000 short tons

End Uses
Magazines, catalogues, and coupon inserts.

MARKET PULP

	730,000 tonnes
Annual Mill Capacity	
Crofton Crofton, BC	325,000 tonnes
Elk Falls Campbell River, BC	200,000 tonnes
Mackenzie Mackenzie, BC	205,000 tonnes

End Uses
Manufacture of printing and writing papers and specialty papers and products.

CONTAINERBOARD

	90,000 tonnes
Annual Mill Capacity	
Elk Falls Campbell River, BC	90,000 tonnes

End Uses
Product packaging.

Financial Review

In 1993 Fletcher Challenge Canada established a new business direction that began a significant transformation of the Company. Since that time, considerable progress has been made in changing the Company's business and culture to:

- Focus on groundwood printing papers and the markets of the North Pacific Rim.
- Create sustainable value through:
  - product development;
  - geographic optimization;
  - operational improvement; and
  - fibre rationalization.
- Maintain a disciplined approach to the reinvestment of capital.
- Build a solid financial base to support future groundwood printing papers growth.

Fletcher Challenge Canada today is an organization with a clear business direction, a collective sense of purpose in implementing its strategy, and the human and capital resources to be a leading supplier of differentiated groundwood printing papers to the markets of the North Pacific Rim.

During the past year, the Company continued to move forward with the implementation of its business strategy. Progress during the year is highlighted by specific achievements on several key fronts:

- The sale in January 1996 of the Company's Mackenzie, B.C. wood products operations to 52 per cent-owned subsidiary TimberWest Forest Limited ("TimberWest") for $167.4 million plus working capital. The sale further narrows Fletcher Challenge Canada's business focus, with the Company's sole remaining involvement in the wood products business being its investment in TimberWest.
- Further increases in the marketing and production of value-added groundwood specialty papers, despite a downturn in markets in the second half of the fiscal year. Sales of soft calendered and other high bright papers produced at Elk Falls increased 10 per cent to 121,000 tonnes from 110,000 tonnes one year earlier. Directory and lightweight paper sales from Crofton increased 27 per cent to 66,000 tonnes from 52,000 tonnes in the previous year. At the Company's U.S. subsidiary, Blandin Paper Company ("Blandin"), sales of higher brightness coated groundwood specialty papers increased 19 per cent to 62,000 short tons from 52,000 short tons one year ago.
- Continued reductions in newsprint basis weights. Average newsprint basis weights in the year were reduced to 46.5 grams, down from 47.7 grams in fiscal 1995 and 48.5 grams in fiscal 1994. Fletcher Challenge Canada leads the western North American industry in moving to lower basis weight newsprint. Lower basis weight papers require less fibre to produce and are less costly to ship. They benefit customers by providing more printing surface per tonne, which reduces costs associated with roll changes, storage, handling and distribution.
- Commenced selected modest capital, high payback projects that will provide increased margins through product line enhancement, productivity improvement, fibre supply rationalization and cost reduction. New projects include a $31 million upgrade of the No.3 paper machine at Crofton, the US$28 million installation of a new coater for Blandin's No. 4 paper line, and two projects totalling $79 million to convert existing long-fibre pulp capacity at Elk Falls and Mackenzie to sawdust based "mini-chip" pulp.

While there was much progress in advancing the Company's strategy in fiscal 1996, it was also a year of disappointment, as pulp and paper markets weakened considerably in the first half of calendar 1996.

Strong global demand at a time of limited industry capacity growth fueled increasing prices for the Company's groundwood printing paper and market pulp product lines throughout the previous fiscal year. Markets remained strong through much of the second half of calendar 1995, supporting further increases in product prices and record profit levels for the Company. A slowdown in world economic growth and widespread customer inventory destocking led to a sharp reduction in demand for groundwood printing papers and market pulp in the first half of 1996. Cash flow and earnings were significantly lower in the first half of 1996 as product prices declined from the record levels attained in the second half of 1995 and the Company curtailed pulp and paper production to match the lower level of demand.

Net earnings for the year ended June 30, 1996 were $154 million, or $1.24 per common share, up from the previous year's net earnings of $120 million, or $0.97 per common share. The fiscal 1995 earnings included $10 million after tax, or $0.08 per common share, for the one-time recovery of countervailing duties on lumber shipped to the United States. The increase in earnings reflected the exceptional strength of pulp and paper markets during the second half of 1995.

Sales for the year were a record $2.4 billion, up 10 per cent from one year earlier. Sales in the previous year were affected by a seven-week strike at the Company's three pulp and paper facilities in British Columbia.

Cash flow from operations totalled a record $411 million, up from $312 million in fiscal 1995. Capital spending increased to $217 million from $114 million in the previous year reflecting selected modest capital, high payback projects underway to enhance operations and improve operating margins. The Company closed fiscal 1996 in excellent financial condition, with a ratio of debt to equity of 8:92.

Dividends of $0.15 per share were paid quarterly to shareholders during the year. The total dividend payout of $0.60 per share for the year represents 48 per cent of net earnings and 18 per cent of cash flow from operations.

Prices for northern bleached softwood kraft ("NBSK") pulp increased by 20 per cent over the first four months of fiscal 1996. International pulp markets began to weaken towards the end of 1995. A slowdown in end use product demand and aggressive inventory destocking by pulp buyers globally resulted in a sharp reduction in pulp demand and intense price competition among pulp producers. By April 1996, pulp prices had fallen by almost 50 per cent from the record levels reached in the second half of 1995.

North American and offshore demand for newsprint and groundwood specialty papers was strong during the second half of 1995. Newsprint prices in the Company's main western North American market area increased by 13 per cent in September 1995 to a record high. In response to increases in newsprint prices, many end users began to reduce consumption levels and customers accumulated inventory. In the first half of 1996, many buyers began to reduce inventory levels and newsprint demand slackened. Prices moved lower in April 1996 and by June had fallen back to levels that existed prior to September's increase.

In the United States, healthy growth in magazine advertising contributed to strong demand for coated groundwood paper during much of the second half of 1995. Blandin increased prices in July and October, moving price levels up by 14 per cent. Publishers and other end users began to respond to higher prices in late 1995 by reducing consumption and adjusting inventory levels downward. Prices began to move lower in December 1995 and by June had declined by 17 per cent.

For 52 per cent owned TimberWest, the Japanese lumber market was weak throughout fiscal 1996 as a sluggish economy reduced demand for lumber products. Log prices and sales volumes declined from the previous year due to the softer Japanese lumber market and weaker pulp markets. The North American lumber market was flat during much of the year before rallying strongly in the final quarter.

A detailed review of the Company's financial results for the year ended June 30, 1996 is included in the Management's Discussion and Analysis section beginning on page 24.

At Blandin Paper Company, Doug Johnston was appointed President and Chief Executive Officer, succeeding Al Wallace, who will be retiring later this year. Mr. Johnston was previously Blandin's Group Vice-President, Manufacturing.

Two new directors, Eva Lee Kwok and Robert T. Stewart, were elected to the Board at the Company's 1995 Annual General Meeting. Gordon F. MacFarlane and F. Cameron Wilkinson retired from the Board and did not stand for re-election. Alfred C. Wallace retired from the Board in July in advance of his pending retirement. The Board acknowledges the outstanding contribution Mr. MacFarlane, Mr. Wallace and Mr. Wilkinson have made to the Company, and expresses its appreciation for their years of dedicated service.

In 1995, the Montreal and Toronto Stock Exchanges adopted a new bylaw requiring listed companies to disclose, on an annual basis, their corporate governance practices. The Board has established corporate governance practices that are responsive to the recommendations contained in the December 1994 Report of The Toronto Stock Exchange Committee on Corporate Governance Practices in Canada. A description of the Company's corporate governance practices is included within the Information Circular for the Company's 1996 Annual General Meeting.

Fletcher Challenge Canada expects market conditions for its printing paper and market pulp product lines to remain difficult during the second half of calendar 1996.

Demand for newsprint, groundwood specialty papers and coated groundwood paper remains slow, as many customers have reduced consumption and are continuing to adjust inventory levels downward. The

Company lowered prices for newsprint in its main western North American market area by US$45 and US$30 per tonne effective July 1 and August 1, respectively. July prices for Blandin's coated groundwood paper are down by approximately US$40 per short ton from one month earlier. The Company believes the current weakness in demand for these paper grades is temporary in nature. Stronger growth in key world economies and an end to inventory destocking by paper end users are expected to lead to an improvement in market conditions by the first half of calendar 1997.

An increase in demand, combined with significant industry downtime, resulted in a substantial reduction in producer pulp inventories late in fiscal 1996, which brought some stability to pulp markets. A July pulp price increase is currently being implemented, bringing NBSK pulp prices to a level US$60 per tonne above the low reached in April 1996. Improved markets and higher production rates for printing and writing paper end users, particularly in Europe and North America, will be important factors for sustaining the recovery in pulp demand in fiscal 1997.

For TimberWest, some improvement in wood products markets is expected in fiscal 1997, with stronger economic growth benefiting demand for lumber in North America and Japan.

Fletcher Challenge Canada is a company with a clear business direction, focusing on groundwood printing papers in North Pacific Rim markets. The Company's efforts in fiscal 1997 will be directed towards continuing to narrow its business focus, converting more of its product line to differentiated specialty products, and further improvements in operations and productivity. Fletcher Challenge Canada is committed to maintaining a strong value-based discipline in evaluating opportunities for future growth, reinvesting capital, and providing distributions to its shareholders.

On behalf of the Board,
July 25, 1996

John Hood

John A. Hood
Chairman

Douglas Whitehead

Douglas W. G. Whitehead
President, Fletcher Challenge Canada Limited
and Chief Executive Officer,
Canadian Operations

RESULTS OF OPERATIONS

Summary of Operating Results

The following table shows the Company's product sales and operating earnings by industry segment for the years ended June 30, 1996, 1995 and 1994:

(in millions of dollars)	1996	1995	1994
Product Sales			
Newsprint & Specialties	$ 877	$ 639	$ 509
Coated Paper	552	509	396
Market Pulp	431	444	263
Wood Products	503	562	507
	$ 2,363	$ 2,154	$ 1,675
Operating Earnings (Loss)			
Newsprint & Specialties	$ 187	$ 42	$ (30)
Coated Paper	109	49	22
Market Pulp	9	89	(54)
Wood Products	15	91	106
	320	271	44
Other Expense	27	1	–
Income Taxes	131	116	2
Net Earnings before Non-Controlling Interest	162	154	42
Non-Controlling Interest	8	34	16
Net Earnings	$ 154	$ 120	$ 26
Cash Provided by Operations	$ 411	$ 312	$ 123

Summary of Shipments

The following table shows the Company's shipments by product line for the years ended June 30, 1996, 1995, and 1994:

	1996	1995	1994
Product Shipments			
Newsprint & Specialties[1] (m tonnes)	906	964	1,018
Coated Paper (m short tons)	398	470	433
Market Pulp[2] (m tonnes)	478	542	574
Lumber (m thousand board feet)	554	518	591

Notes:

(1) Includes containerboard shipments of 90 m tonnes in 1996, 93 m tonnes in 1995, and 89 m tonnes in 1994.

(2) Excludes shipments to Blandin of 83 m tonnes in 1996, 77 m tonnes in 1995, and 77 m tonnes in 1994

Comparison of Earnings

Year Ended June 30, 1996 vs Year Ended June 30, 1995

Fletcher Challenge Canada Limited's earnings for the year ended June 30, 1996, improved from the previous year due primarily to strong pulp and paper demand and record product prices in the second half of 1995. Economic growth in the major developed regions of the world, mainly North America, Western Europe and Japan, slowed in late 1995. Faltering economic growth contributed to a significant deterioration in pulp markets and a slowdown in paper markets in the first half of 1996, substantially lowering earnings for the second half of the Company's fiscal year.

Aggressive inventory destocking by pulp buyers globally resulted in weak demand and considerably lower pulp prices in the first half of 1996. Demand for newsprint and groundwood specialty paper also slowed in early 1996 as many customers began to reduce inventories that had accumulated in the second half of 1995. Coated groundwood paper demand also eased in early 1996.

The Company recorded net earnings of $154 million, or $1.24 per Class A common share, in the year ended June 30, 1996, compared to net earnings of $120 million, or $0.97 per Class A common share, for the year ended June 30, 1995. The fiscal 1995 results included $10 million after-tax, or $0.08 per Class A common share, for the one-time recovery of U.S. countervailing duties. Excluding the countervailing duty recovery, the fiscal 1996 net earnings represent an improvement of $44 million, or $0.35 per Class A common share, from one year earlier.

Sales for the year ended June 30, 1996 were a record $2.4 billion, up 10 per cent from $2.2 billion in the previous year.

The change in product sales by industry segment is shown below:

Change in Sales – 1996 vs. 1995

(in millions of dollars)

	1996 Sales	1995 Sales	Total Change	Increase (Decrease) from 1995: Volume	Price	Exchange
Newsprint & Specialties	$ 877	$ 639	$ 238	$ (56)	$ 303	$ (9)
Coated Paper	552	509	43	(100)	150	(7)
Market Pulp	431	444	(13)	(57)	50	(6)
Wood Products	503	562	(59)	(10)	(46)	(3)
	$ 2,363	$ 2,154	$ 209	$ (223)	$ 457	$ (25)

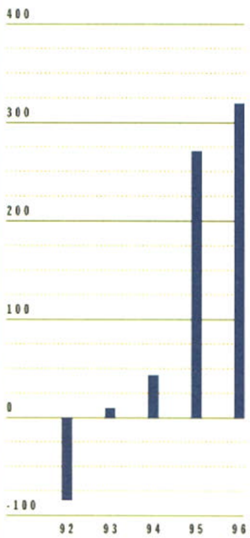
Operating earnings were $320 million for the year ended June 30, 1996, an improvement of $49 million from operating earnings of $271 million for the year ended June 30, 1995. The improvement was due primarily to strong demand and increased prices for pulp and paper in the second half of 1995. Higher fibre costs, market related production curtailment, mainly in the first half of 1996, and a weakening in the U.S. dollar from an average of C$1.38 to C$1.36 were the principal offsetting factors.

Sharply lower pulp prices and industry production curtailments resulted in a significant decline in fibre prices during the first half of 1996, with fibre prices falling by some 60 per cent from the peak levels reached late in 1995.

A four-month strike at the Company's Mackenzie lumber operations and a seven-week strike at the Company's B.C. pulp and paper operations and TimberWest's Elk Falls lumbermill adversely affected the Company's sales and earnings during fiscal 1995.

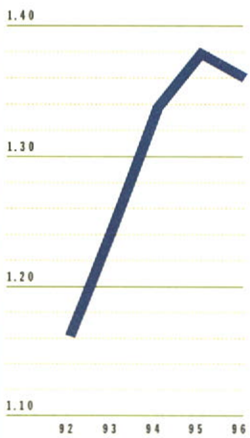
Operating Earnings (Loss)

(in millions of dollars)



Canadian/US dollar Exchange

($Cdn/$US)



Newsprint and Specialties

Operating earnings for newsprint and specialties totalled $187 million in the year ended June 30, 1996, an improvement of $145 million from the previous year.

In fiscal 1996, average prices for newsprint and groundwood specialty papers were up significantly from levels realized in fiscal 1995. Overall demand for newsprint in North America in 1995 was slightly ahead of 1994 and industry operating rates were at virtual capacity. The Company increased newsprint prices by US$85 per tonne in its main western North American market area on September 1, 1995. Offshore newsprint demand was particularly strong in the second half of 1995 and prices were well above North American levels. Many newsprint end users reduced consumption in response to record-high price levels, leading to an accumulation of customer inventories during the second half of 1995 and into early 1996. Demand slackened as many buyers began reducing inventories in the first half of 1996 and newsprint prices were reduced by US$20 per tonne effective April 1. By the end of the first quarter of 1996, average offshore prices had declined to levels comparable with those in North America. In response to reduced order levels, newsprint prices in western North America were reduced a further US$40 and $25 per tonne on May 1 and June 1, respectively. Prices for groundwood specialty grades followed the trend in newsprint pricing, with prices and demand adversely affected in the first half of 1996 by inventory reductions at commercial printers. The Company's CATALYST™ directory paper volume and price were somewhat insulated from the deterioration in market conditions, due to long term contracts and annual pricing arrangements in place with major North American customers. The Company curtailed newsprint and groundwood specialty paper production commencing in February 1996 to match production to customer order levels.

Due to the market slowdown and an increase in the production of lighter basis weight papers, total shipments of newsprint and groundwood specialties decreased to 816,000 tonnes in fiscal 1996 from 871,000 tonnes one year earlier. Sales of directory and lightweight specialty papers from Crofton increased to 66,000 tonnes in fiscal 1996 from 52,000 tonnes one year earlier. Sales of higher brightness groundwood specialty grades from Elk Falls increased to 121,000 tonnes in fiscal 1996 from 110,000 tonnes the previous year. Average sales realizations for the Company's newsprint and groundwood specialty printing papers increased by approximately $335 per tonne, or 51 per cent, over fiscal 1995 levels.

Total newsprint and groundwood specialty printing paper production for the year was 840,000 tonnes, compared to 823,000 tonnes in fiscal 1995. The strike in fiscal 1995 resulted in the loss of some 120,000 tonnes of production. Unit operating costs were 23 per cent higher in fiscal 1996 due primarily to increased fibre costs, up by 32 per cent, and the adverse effect of production curtailments.

Despite curtailments and increased production of lighter weight directory and other specialty papers, paper production at Crofton increased by 5 per cent to 395,000 tonnes in fiscal 1996. This represented a 91 per cent operating rate. Market related downtime reduced production by approximately 32,000 tonnes in fiscal 1996.

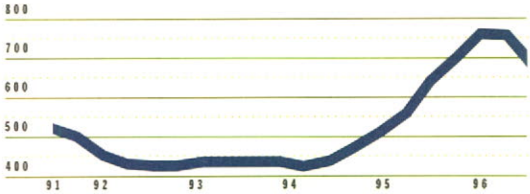
Printing paper production at Elk Falls decreased by 1 per cent to 445,000 tonnes in fiscal 1996, representing an 89 per cent operating rate. Market related downtime in fiscal 1996 reduced production by approximately 49,000 tonnes. Improved paper machine efficiencies helped to partially offset production curtailments during fiscal 1996.

Elk Falls' containerboard specialties sales volume decreased by 3 per cent to 90,000 tonnes. Containerboard production increased by 9 per cent to 93,000 tonnes in fiscal 1996, representing a 103 per cent operating rate. The strike in fiscal 1995 reduced containerboard production by approximately 10,000 tonnes. Production volume in fiscal 1996 benefited from the installation of a new secondary headbox on the containerboard specialties machine and improved efficiencies. In conjunction with a millwide shutdown at Elk Falls, containerboard production was curtailed by approximately 2,000 tonnes in fiscal 1996,

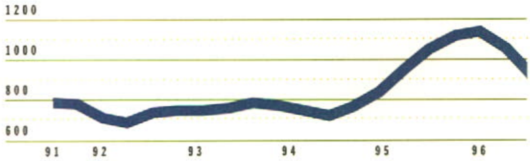
Product Prices

(Based on average quarterly prices in $US per unit)

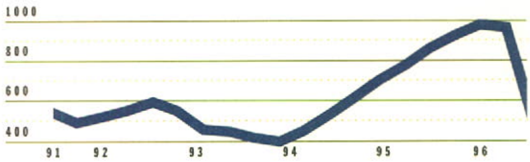
Newsprint Prices[1]



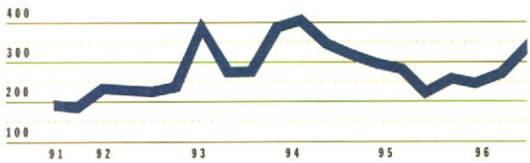
Lightweight Coated Paper Prices[2]



NBSK Pulp Prices[3]



North American Lumber Prices[4]



1 *Average US West Transaction Price – 48.8 gram: Source RISI*
2 *Average Coated No. 5 Transaction Price – 40 lb: Source RISI*
3 *Average Price to Contract Buyers – Delivered to Northern Europe: Source RISI*
4 *Average Western SPF Price (F.O.B. Mill) – 2" x 4" Random Length: Source Random Lengths*

Year	Calendar Quarter	Newsprint US$ per tonne	LWC US$ per short ton	NBSK US$ per tonne	Lumber US$ per MFBM
1991	3	520	780	538	192
	4	500	773	487	185
1992	1	452	703	517	233
	2	430	680	547	229
	3	425	730	590	225
	4	425	740	547	237
1993	1	435	740	453	393
	2	435	752	442	274
	3	435	778	412	275
	4	435	763	392	386
1994	1	423	740	445	404
	2	437	713	527	345
	3	470	757	607	319
	4	510	830	700	296
1995	1	558	947	775	281
	2	640	1,043	858	222
	3	700	1,110	925	257
	4	760	1,130	975	245
1996	1	757	1,047	692	270
	2	677	907	507	338

although order files remained strong. Average containerboard sales realizations for fiscal 1996 were up by approximately $55 per tonne, or 7 per cent, from the levels prevailing in fiscal 1995, although prices began to fall during the second half of 1995. The Company was forced to follow eastern North American producers and provide price changes as a result of weak eastern U.S. manufactured goods demand. Whitetop grades accounted for 61 per cent of total containerboard sales volume in fiscal 1996, compared to 55 per cent in fiscal 1995, reflecting an increased emphasis on marketing and production of these higher value grades. By the end of fiscal 1996, the Company had converted all but one customer to the purchase of whitetop grades. Unit operating costs for containerboard were 23 per cent higher in fiscal 1996 due primarily to increased fibre costs, up by 22 per cent.

Coated Paper

Operating earnings for coated paper produced by Blandin were $109 million in fiscal 1996, a $60 million improvement from operating earnings of $49 million in fiscal 1995.

Market conditions for coated paper changed significantly during fiscal 1996. Healthy growth in magazine advertising in the United States contributed to increased consumption of coated groundwood paper during 1995. Blandin increased coated paper prices by an average of US$100 per short ton on July 1, and a further increase of US$60 to $70 was implemented on October 1, 1995. Following the October price increase, demand began to ease because of reduced paper consumption and customer inventory reductions. By January 1996, downtime was being taken by industry manufacturers. Average sales realizations were down by approximately US$70 per short ton during the first quarter of 1996. Blandin curtailed production by 24,000 short tons in the second quarter of 1996 because of the weakness in demand. During the second quarter of 1996, average sales realizations declined by approximately US$95 per short ton from the previous quarter.

Despite the decline in selling prices in the first half of 1996, Blandin's average sales realizations were approximately US$235 per short ton, or 30 per cent, higher than in the previous year. Coated paper sales volume decreased by 15 per cent to 398,000 short tons in fiscal 1996. Production volume decreased by 8 per cent to 424,000 short tons, reflecting the production curtailment and some equipment difficulties experienced during the third quarter of 1995. Unit operating costs were 15 per cent higher in fiscal 1996 due primarily to increased prices for purchased kraft pulp and lower production volume.

Market Pulp

Operating earnings for market pulp were $9 million in fiscal 1996, an $80 million decline from operating earnings of $89 million in the previous year.

Average northern bleached softwood kraft ("NBSK") pulp prices for fiscal 1996 were up by over 5 per cent from the levels prevailing in fiscal 1995. NBSK pulp prices increased five times in fiscal 1995. By June 1, 1995, NBSK pulp prices reached US$910 per tonne in North America and US$925 per tonne offshore, up significantly from US$560 at the beginning of fiscal 1995. Prices increased a further US$75 per tonne on October 1, 1995. A slowdown in markets for certain printing and writing paper grades in Europe began a worldwide inventory destocking by pulp buyers, which resulted in a significant weakening in pulp demand and prices during the fourth quarter of 1995 and the first quarter of 1996. Prices for NBSK pulp were reduced by US$50 per tonne in December 1995 as markets weakened. By the end of the first quarter of 1996, prices for NBSK pulp had fallen to a level almost 50 per cent below the preceding quarter's prices, before bottoming at a low of US$500 to $520 per tonne in major world markets. Stability began to return to pulp markets in the second quarter of 1996 as demand improved and producer pulp inventory levels declined. The Company began to curtail production at its market pulp operations in late 1995 to offset lower order levels and avoid an excessive inventory buildup. The curtailments continued throughout the balance of fiscal 1996 and by the end of the fiscal year Company pulp inventories had been brought back into balance.

The Company's total market pulp shipments decreased to 561,000 tonnes in fiscal 1996 from 619,000 tonnes the previous year. The Company's average market pulp sales realizations were up by approximately $95 per tonne, or 11 per cent, from fiscal 1995 levels. Total market pulp production was 568,000 tonnes in the year, down from 591,000 tonnes in fiscal 1995. The strike resulted in the loss of some 90,000 tonnes of market pulp production in fiscal 1995. Unit operating costs were 32 per cent higher in fiscal 1996 due primarily to increased fibre costs, up by 43 per cent, and the effect of production curtailments, operating problems and mill downtime.

Market pulp production at Crofton decreased by 4 per cent to 239,000 tonnes in fiscal 1996, representing an operating rate of 74 per cent. In fiscal 1996, market pulp production at Crofton was curtailed by approximately 68,000 tonnes because of poor market conditions. Kraft mill operation was adversely affected in April 1996 when a recovery boiler tube leak reduced production volume by approximately 10,000 tonnes. Kraft operations were further affected in June 1996 when the digester operations were shut down for the completion of an unplanned inspection and repair program. The shutdown of the digesters reduced kraft pulp production by approximately 10,000 tonnes, with a loss of a further 13,000 tonnes extending into fiscal 1997.

At Mackenzie, market pulp production was virtually unchanged at 172,000 tonnes in fiscal 1996, for an 84 per cent operating rate. In fiscal 1996, market pulp production at Mackenzie was curtailed by approximately 13,000 tonnes. Production was adversely affected in the second quarter of fiscal 1996 due to an extremely difficult startup following the September 1995 maintenance shutdown. Production volume was further affected in the second half of fiscal 1996 by the decision to slow down the digester to a 95 per cent operating rate, in response to poor market conditions.

Market pulp production at Elk Falls decreased by 8 per cent to 157,000 tonnes in fiscal 1996, representing a 79 per cent operating rate. The Elk Falls kraft pulp mill's production was curtailed by approximately 36,000 tonnes in fiscal 1996.

Wood Products

Operating earnings for wood products were $15 million in fiscal 1996, $76 million lower than operating earnings of $91 million recorded in fiscal 1995.

Lumber markets were slow during much of the year, with average lumber sales realizations down by approximately $55 per thousand board feet, or 12 per cent, from one year earlier.

After prices dropped to a three-year low in June 1995, North American lumber markets showed signs of improvement in the first half of fiscal 1996 before closing the year strongly. Lower interest rates and uncertainty over the export quota on Canadian lumber shipments to the United States led to stronger lumber demand and a rally in prices towards the end of the year.

The Japanese lumber market, which began to show signs of softening late in fiscal 1995, was weak throughout fiscal 1996 as a sluggish economy resulted in lower demand for lumber products. Structural changes in the Japanese lumber market and an increase in competing supplies from producers in Scandinavia and eastern Siberia also kept prices low.

Coastal log prices and volumes declined from fiscal 1995 levels. Lower log prices, down by 10 per cent, reflected a weaker Japanese lumber market and weaker pulp markets. Hemlock sawlogs, the main product for the Japanese market, dropped an average of 20 per cent in fiscal 1996. Weak market conditions for market pulp in the first half of 1996 forced chip related curtailments at lumbermills and resulted in lower overall demand for logs. Log sales volumes were 16 per cent lower in fiscal 1996 because of lower purchases, fewer log trading opportunities and an aggressive program by TimberWest to reduce log inventories in fiscal 1995 while prices were high. Higher logging costs, mainly related to the implementation of Forest Practices Code requirements, adversely affected operating earnings in fiscal 1996. TimberWest is presently pursuing a number of initiatives to improve log sales realizations and to reduce the effect on costs of the Forest Practices Code.

Lumber shipments in the year ended June 30, 1996 were 554 million board feet, compared to 518 million board feet in the year ended June 30, 1995.

Comparison of Other Income/Expense

Other Expense in the year ended June 30, 1996 was $27 million compared to $1 million in the year ended June 30, 1995. Other Expense in fiscal 1996 was the result of interest expense of $27 million, partially offset by investment and other income of less than $1 million.

Major items included in investment and other income in fiscal 1996 were $3 million in investment income, $3 million from the utilization of tax losses by TimberWest, and $3 million arising from the reassessment of previously recorded restructuring provisions based on current estimates of remaining costs, partially offset by an $8 million expense incurred on the early redemption of debentures.

Other Expense in fiscal 1995 was the result of interest expense of $40 million, virtually offset by $19 million in countervailing duty recovery and investment and other income of $20 million.

Major items included in investment and other income in fiscal 1995 were $3 million in investment income, $11 million from the utilization of tax losses by TimberWest, and a net credit of $3 million. This arose from the reassessment of previously recorded restructuring provisions based on current estimates of remaining costs; it was also after the costs of an early retirement program at Blandin of $7 million being recorded during the year.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

The Company's ratio of debt to equity was 8:92 at June 30, 1996, compared to 14:86 at June 30, 1995. In calculating the above ratio, debt is composed of total interest bearing debt and fixed term and retractable preferred shares issued by subsidiaries, less cash and short term investments. Equity is composed of total shareholders' equity and non-controlling interest in subsidiaries.

The reduction in the ratio of debt to equity during the year was a result of a significant increase in cash flow from operations.

The Company's total capital is composed of:

(in millions of dollars)

	June 30, 1996		June 30, 1995	
Long Term Debt (including current portion)	$ 216	8%	$ 294	12%
Deferred Income Taxes	282	11%	190	7%
Preferred Shares Issued by Subsidiaries	–	–	34	1%
Non-controlling Interest	176	7%	175	7%
Shareholders' Equity	1,947	74%	1,869	73%
	$2,621	100%	$2,562	100%

As of June 30, 1996, the Company and its subsidiaries maintained committed bank lines of $100 million, of which none were utilized.

Fletcher Challenge Canada Limited (excluding Blandin Paper Company) is designated by Fletcher Challenge Industries Limited ("FCIL"), a company wholly owned by Fletcher Challenge Limited, as a "Core Subsidiary" with respect to covenants that FCIL has made to its lenders. For purposes of administering its covenants, FCIL has a right of first refusal to provide the additional borrowing requirements of the Company above a threshold amount under terms and conditions no less favourable than the Company could achieve from external sources. If at any time FCIL chooses not to provide such funding, the Company may source its requirements externally. Commitments of the Company to its existing lenders are not affected by the performance of FCIL under its covenants.

The Company estimates that capital expenditures for the year ended June 30, 1997 will be approximately $200 million, of which $130 million is for projects in progress at the end of June 1996. These expenditures cover improvement of existing product lines, maintenance of business and environmental protection.

In addition to the funding requirements resulting from ongoing capital expenditures, the Company and its subsidiaries must make mandatory debt repayment of $40 million in the year ended June 30, 1997. It is expected that these commitments will be funded from cash flow from operations.

Cash Flow from Operations

Cash flow from operations, before changes in operating working capital, was $425 million in fiscal 1996, up slightly from $420 million in fiscal 1995. The improvement was due primarily to higher average pulp and paper prices, partially offset by a weakening in the U.S. dollar relative to the Canadian dollar and lower pulp and paper sales volumes.

Operating working capital requirements were up by $13 million in the year ended June 30, 1996 due primarily to a decrease in accounts payable, partially offset by a decrease in accounts receivable. In fiscal 1995, operating working capital requirements were up by $108 million due primarily to an increase in accounts receivable resulting from higher pulp and paper prices. After working capital changes, cash flow from operations for the 1996 fiscal year was a record $411 million, up from $312 million one year earlier.

Investing Activities

Capital spending totalled $217 million for the year ended June 30, 1996, compared to $114 million for the previous year. The higher level of capital expenditures in fiscal 1996 reflects maintenance level investment and a continuing spending discipline emphasizing low risk, high payback profit adding projects. Projects underway in fiscal 1996 and scheduled for completion in fiscal 1997 include: a $31 million upgrade of the No. 3 paper machine at Crofton; the US$28 million installation of a new coater for Blandin's No. 4 paper line; and two projects totalling $79 million to convert existing long-fibre pulp capacity at Elk Falls and Mackenzie to sawdust based "mini-chip" pulp.

Cash flow from operations exceeded capital spending by almost $195 million in fiscal 1996.

Proceeds from the sale of fixed assets in the year ended June 30, 1996 totalled $7 million compared to $8 million one year earlier.

In fiscal 1995, the Company acquired from a related party, at market value of $53 million, companies with $191 million in available non-capital losses carried forward. In previous years, TimberWest acquired from a related party, a company with $134 million in available non-capital losses carried forward. The purchase prices to acquire the companies are subject to adjustment under certain conditions. The purchase prices were reduced by a total of $14 million in fiscal 1996.

Financing Activities

Total long term debt, including current portion, decreased by $77 million during the year ended June 30, 1996. The reduction in long term debt was funded by cash from operations of $411 million, which exceeded capital expenditures of $217 million, common share dividends of $75 million, a redemption of preferred shares issued by a subsidiary of $34 million, and an increase in cash and short term investments balances of $15 million.

In fiscal 1996, TimberWest repurchased $2 million of its common shares through a normal course issuer bid which expired in December 1995.

In fiscal 1995, TimberWest redeemed $5 million of Class B preferred shares. TimberWest also repurchased $3 million of its common shares through a normal course issuer bid.

Dividends

The Company resumed quarterly cash dividends with the payment of a $0.10 per Class A common share cash dividend during the fourth quarter of fiscal 1995. During fiscal 1996, cash dividends of $0.60 per Class A common share were paid.

OTHER

Uncertainties

Fletcher Challenge Canada produces and markets products that are sold in world markets. The Company seeks to differentiate its product lines from those of other producers by supplying specialty products oriented to niche markets. However, the Company's operating environment is subject to uncertainties, many of which are common to virtually all companies in the forest products industry in North America and also some that are more specifically applicable to the Company's operations based in British Columbia. A discussion of the principal uncertainties to which the Company is subject follows.

Product Prices

The forest products industry is cyclical in nature. Markets for the Company's principal products are affected by fluctuations in supply and demand within each cycle, which in turn affect product prices.

Demand for forest products has historically been determined by the level of economic growth and has been very closely tied to overall business activity and personal income. The Company's earnings are sensitive to price changes for its principal products, with the effect of price changes on newsprint and groundwood specialty grades being the greatest.

The effect of changes in product prices on the Company's net earnings is shown in the Product Price Sensitivity table on page 37.

Currency

The profitability of the Company's Canadian operations is subject to fluctuations in foreign currencies, particularly the U.S. dollar in which most of the Company's sales are denominated. Fluctuations in foreign currencies affect the Company's competitive position in world markets. Apart from the value of the Canadian dollar relative to the U.S. dollar, the Company's competitiveness in world markets is also affected by the relative strength of the currencies of other producing countries.

The effect of a $.01 change in the value of the Canadian dollar relative to the U.S. dollar is shown in the Exchange Sensitivity table on page 37.

Pulp and Paper Fibre Supply

The cost of wood chips and pulpwood in British Columbia increased significantly in 1995. Fibre pricing peaked at historical highs in late 1995 reflecting tight supply of traditional domestic fibre, high demand and historically high market pulp prices. Plummeting market pulp prices and associated production curtailments in the industry during the first half of 1996 resulted in fibre prices declining by some 60 per cent from peak levels reached late in 1995.

Sawmill wood chips comprise approximately 65 per cent of the fibre supply for the Crofton and Elk Falls pulp and paper mills. The remainder is composed of: pulpwood, 18 per cent; sawdust, 14 per cent; and recycled deinked pulp, 3 per cent.

TimberWest's operations are a major supplier of wood chips, pulpwood, and sawdust to the Company's B.C. pulp and paper operations. Fibre is purchased directly from TimberWest under long term contracts at market prices. TimberWest also has a long term contract with the Company to supply sawlogs at market prices to suppliers of wood chips to the Company. TimberWest's operations directly and indirectly supply an equivalent of approximately 40 per cent of the fibre requirements for the Crofton and Elk Falls pulp and paper mills.

Fibre for the Mackenzie pulp mill is presently composed entirely of wood chips. TimberWest's Mackenzie and Williams Lake wood products operations supply approximately 70 per cent of the fibre requirements for the Mackenzie pulp mill.

The remainder of the fibre requirements for the Company's three pulp and paper operations in British Columbia is sourced from over 40 non-affiliated suppliers, mainly under long term contracts. Fibre is purchased from non-affiliated suppliers at market prices or at prices determined under market based formulas.

A project to increase annual production capacity of mini-chip pulp at Elk Falls by 32,000 tonnes is expected to be completed in the fall of 1996, displacing an equivalent volume of long-fibre pulp production. As a result, annual wood chip and pulpwood requirements will be reduced by approximately 160,000 cubic metres. The combined fibre supply for the Crofton and Elk Falls pulp and paper mills will then be composed of: wood chips, 63 per cent;

pulpwood, 15 per cent; sawdust, 19 per cent, and recycled deinked pulp, 3 per cent. Approximately 60 per cent of Elk Falls' sawdust requirements will be sourced from independent suppliers under long term agreements, with TimberWest supplying a further 10 per cent.

A project to commence production of mini-chip pulp at Mackenzie is expected to be completed by the end of 1996. The project will add 77,000 tonnes of mini-chip pulp to the mill's annual production capacity and will be largely offset by a 62,000 tonne reduction in long-fibre pulp production. Annual wood chip requirements will be reduced by approximately 325,000 cubic metres. Following project completion, approximately 65 per cent of the Mackenzie pulp mill's fibre requirements will be composed of wood chips, with the remaining 35 per cent being composed of sawdust. TimberWest's Mackenzie and Williams Lake operations will supply approximately 95 per cent of the wood chip requirements and 45 per cent of the sawdust requirements, with the balance being provided by independent lumbermills in the region.

The Company presently has an adequate supply of fibre for its B.C. pulp and paper operations, and is repositioning its product lines and developing alternative sources to offset any future reduction in availability from existing sources.

Labour Agreements

Collective agreements with Company pulp and paper hourly employees expire in April 1997. The collective agreements with TimberWest's coastal and Williams Lake, B.C. hourly employees expire in June 1997. The collective agreement with TimberWest's Mackenzie wood products hourly employees expires in June 1999. Blandin Paper Company had a three-year labour contract with its hourly employees, which expired June 30, 1996. The contract has been extended pending the outcome of negotiations currently in progress.

Environment

The various operations of the Company are subject to a wide variety of environmental laws and regulations. Environmental performance is monitored regularly by the Company. The Company believes that its environmental performance is sound and generally conforms with the various requirements under legislation.

The British Columbia provincial government instituted an amendment to the pulp mill effluent regulations limiting AOX discharges to 1.5 kilograms per tonne by December 31, 1995. The Company has made the necessary system improvements and its facilities are operating within the 1995 limits. The B.C. provincial government has further mandated the elimination of AOX in mill effluent by the year 2002. The B.C. pulp and paper industry and the B.C. provincial government are presently following developments in science and technology to find meaningful economic solutions for the industry.

The United States Environmental Protection Agency is still in the process of developing integrated regulations for the U.S. pulp and paper industry that will include standards for air emissions and effluent discharge. These regulations, known as the "Cluster Rule", are intended to launch a new era of rule making by "clustering" air and water standards to avoid the sometimes incompatible and contradictory regulations resulting from establishing air and water regulations separately. The proposed regulations include the revisions of mill effluent standards under authority of the Clean Water Act and the development of new standards for the industry under the Clean Air Act. Relative to effluent discharge standards, the Cluster Rule would establish much tighter guidelines for biochemical oxygen demand and suspended solids and establish new limitations for chemical oxygen demand, colour and volatile organic compounds. The regulations would establish new "maximum achievable control technology" for hazardous air pollutants and are expected to be promulgated by the end of 1997. The proposed regulations are not expected to have a significant effect on the operations of Blandin Paper Company in the near term.

All three of the Company's pulp and paper mills in British Columbia are being asked by the B.C. Ministry of Environment to make improvements in air emissions as part of their air permit reviews. At Elk Falls and Crofton, the area of most attention concerns ambient odour levels from the kraft pulp mills. At Mackenzie, the focus is on power boiler particulate emissions. The Company is presently working with the Ministry of Environment to find satisfactory solutions in these areas. This is expected to require some additional capital expenditures, but the Company should not be disadvantaged competitively with other producers in those regions in which it operates.

More detailed environmental reporting is provided under separate cover in the Company's 1996 Annual Environmental Report.

Recycled Containing Newsprint

Fletcher Challenge Canada Limited is a major supplier of newsprint and other groundwood printing papers to western North America. The most significant of these markets is the western United States where in three states – California, Arizona and Oregon – newspaper publishers and commercial printers are required by law to use a certain proportion of recycled containing paper. That proportion is currently 35 per cent and will increase to 50 per cent by the year 2000. While the other western states and Canada do not have legislated requirements for recycled containing paper, many printers and publishers are demanding some recycled containing paper as part of their supply mix.

The Company is currently meeting this market demand through the use of recycled pulp purchased from Newstech Recycling Inc., located in Coquitlam, B.C. This deinked post-consumer recycled pulp is mixed with virgin pulp furnish, primarily at the Crofton mill, to produce newsprint that meets the legislated requirement. It is anticipated, however, that availability of purchased pulp from this source may not meet the growth in the market demand beyond 1998. The Company is assessing alternative ways to meet this growing demand from its customers in a cost-effective way.

Lumber Export Quota

In April 1996, members of the Canadian lumber industry and provincial and federal governments reached a five-year agreement with the U.S. lumber industry that is intended to avoid another countervailing duty action. Under the agreement, B.C., Alberta, Quebec and Ontario will be able to export annually a total of 14.7 billion board feet of softwood lumber to the United States. Exports in excess of this level, or the quarterly maximum of 28.75 per cent of the annual quota, will incur a US$50 per thousand board feet export tax on the first 650 million board feet, after which shipments will attract a US$100 per thousand board feet export tax. The agreement permits an increase in exports without export tax for each calendar quarter when the average price of 2x4 Eastern SPF, delivered Great Lakes, exceeds US$405 per thousand board feet in the first two years and US$410 per thousand board feet in the final three years. The federal government will establish company allocations after consulting with the industry and provincial governments. The agreement should provide stability to the industry and avoid long and expensive legal battles once these allocations are made. TimberWest does not expect its quota allocation to significantly affect its lumber sales volumes.

Forest Practices Code

The Forest Practices Code of B.C. Act ("Forest Practices Code") which was implemented on June 15, 1995, establishes standards for both operational planning and forest practices on Crown timber tenures. TimberWest's implementation plan is focusing on providing its forest workers and supervisors with the knowledge and skills they require to carry out their daily tasks in full compliance with the Forest Practices Code. The Forest Practices Code also permits the B.C. provincial government to regulate forest practices on private lands. TimberWest has worked with large and small land owners to draft objectives-based regulations that protect private property rights and owners 'freedom to manage', while also protecting key public environmental values of water quality, fish habitat, critical wildlife habitat and soil productivity. A coalition of private land owners, with the support of the IWA - Canada and small sawmill owners, is urging the B.C. provincial government to adopt the proposed regulation for a two-year trial period, subject to agency monitoring and independent audits.

Timber Tenures

Implementation of the Forest Practices Code is resulting in constraints on harvest flexibility and in a reduction of the amount of timber available for harvesting. The effects of the Forest Practices Code are extremely variable depending upon the type of forest area, the history of previous forest management, and the frequency and extent of other forest values on the area. The implementation of the Forest Practices Code is expected to result in some reduction of TimberWest's allowable annual cut ("AAC").

The B.C. provincial government continues to implement its Protected Areas Strategy with an overall goal of protecting 12 per cent of B.C.'s land base in a natural condition. While the strategy is now fully implemented for Vancouver Island, other TimberWest operating areas are expected to be affected over the next several years as protected areas are chosen. The extent of the effect on TimberWest's AAC is not known at this time.

The B.C. provincial government has stated its intention to undertake a review of the provincial Crown timber tenure system. This review is expected to commence within the next year and the outcome may affect TimberWest's tenures and its AAC.

Aboriginal Land Claims

Many First Nations have filed statements of claim to aboriginal rights and traditional territories with the B.C. Treaty Commission. This Commission has begun the process of facilitating negotiations between individual First Nations and the provincial and federal governments. Settlements will likely involve a combination of cash and land, and may affect TimberWest's Crown timber tenures.

Williston Lake Levels

In response to the recent discovery of a sinkhole in the W.A.C. Bennett Dam, and high water inflows into Williston Lake, B.C. Hydro began a precautionary spill on June 24, 1996 to reduce the level of the reservoir. As the investigation into the sinkhole is continuing, the actual duration and effect of the precautionary spill is uncertain. The release of water may affect the Company's kraft pulp mill at Mackenzie, B.C. in the spring of 1997 should B.C. Hydro reduce the lake level to below 2,145 feet.

In late 1993, the Company completed the construction of mitigation facilities to avert possible production interruption in the event water levels in the Williston Lake reservoir recede below 2,145 feet above sea level. Should the lake level drop below 2,145 feet, the mitigation facilities allow the Company's operations to operate at a lake level as low as 2,130 feet. To date, the lake level has not dropped below 2,146 feet.

New Insurance Program

The Company, excluding its 52 per cent owned subsidiary TimberWest Forest Limited, has instituted a new insurance program whereby it will, with minor exceptions, insure only against 'catastrophic' losses. In consequence, it will now self insure the first US$25 million of each loss. The Company believes that this level of exposure is manageable and that the cost of the new program will be materially less than the previous program.

Earnings Sensitivities

Fletcher Challenge Canada's earnings are sensitive to fluctuations in prices for its products and in currency exchange rates.

Product Price Sensitivity

Based on production capacities and exchange rates as at June 30, 1996, a US$10 per unit change in the net sales price of its principal products would affect the Company's annualized after tax earnings as follows (in millions of dollars):

Newsprint and specialties – $10 change per tonne	$8.5
Coated paper – $10 change per short ton	4.0
Market pulp – $10 change per tonne	5.1[1]
Lumber – $10 change per thousand board feet	3.0

Note:
(1) Net of pulp volumes consumed in Blandin's coated paper operations.

Exchange Sensitivity

Based on anticipated fiscal 1997 sales volumes and prices, a change in the Canadian/U.S. dollar exchange rate would affect the Company's after tax earnings as follows (in millions of dollars):

Canadian dollar – change of C$.01 relative to US$1.00	$5.7

Outlook

Fletcher Challenge Canada expects market conditions for its printing paper and market pulp product lines to remain difficult during the second half of calendar 1996.

Demand remains weak for newsprint, groundwood specialty and coated groundwood printing papers, as customers continue to adjust inventory levels downward. Improvement in prices for these paper grades is not anticipated until producer and customer inventory levels decline and industry operating rates increase. The Company believes the current weakness in demand for its printing paper products is temporary and market conditions will improve in the first half of calendar 1997, following a further acceleration of economic growth in key world economies and an end to destocking by end users.

The Company has lowered prices for newsprint in its main western North American market by US$45 and US$30 per tonne effective July 1 and August 1, 1996, respectively. This represents a US$160 per tonne decline from the record price level implemented in September 1995. Despite mill downtime and inventory reductions by U.S. daily newspapers, newsprint inventories have not yet declined sufficiently to support capacity operating rates for the industry. The Company took market related production curtailment at Crofton and Elk Falls in July 1996 and anticipates further downtime will be required at its B.C. paper operations during the balance of 1996. Demand is expected to improve once customer inventories have stabilized and purchases return to underlying consumption levels.

The coated groundwood paper market remains weak. As a result, Blandin was forced to curtail production in July and additional downtime may be necessary. An improvement in demand is expected during the latter half of 1996, with customer inventories stabilizing and a seasonal pickup in paper consumption occurring.

An increase in demand, combined with significant industry downtime, resulted in a substantial reduction in producer pulp inventories late in fiscal 1996 which brought some stability to pulp markets. A July pulp price increase is currently being implemented, bringing NBSK pulp pricing to US$580 per tonne, US$60 per tonne above the low reached late in fiscal 1996. The Company expects market pulp demand and prices to continue to improve as end use demand strengthens, producers' inventories return to more normal levels, and the rate of capacity expansion moderates.

Fibre prices began to fall significantly in the first quarter of 1996 as a result of declining pulp prices, curtailed production and oversupplied fibre markets. The benefit of lower fibre prices was not fully reflected in costs until the second quarter of 1996. Lower fibre prices will continue to partially offset the effect of lower prices for the Company's pulp and paper products. Both the Mackenzie and Elk Falls sawdust pulp expansions will reduce the need for the supply of higher cost incremental chips.

With continuing low interest rates and a generally strong economy expected to benefit interest-rate sensitive sectors of the economy such as housing, North American lumber prices are expected to remain relatively strong for the foreseeable future. However, the new quota on exports of Canadian lumber to the U.S. of 14.7 billion board feet is a complicating factor that adds a degree of uncertainty to the outlook for the North American lumber market. The Japanese lumber market continues to show few signs of improvement, with the exception of the 2x4 housing segment where demand is strengthening. While the Japanese economy currently lags behind most other major economies, a general recovery is expected late in 1996. Housing starts should increase as the general economy improves. The outlook for the coastal log market varies by species. Pulplog and chip prices appear to have bottomed and could improve based on recent signs of a strengthening pulp market. TimberWest is focusing on reducing pulplog production as much as possible to mitigate the effects of the soft market.

Fletcher Challenge Canada's efforts in fiscal 1997 will be directed at continuing to narrow its business focus, converting more of its product line to differentiated specialty products, and making further improvements in operations and productivity. With its strong balance sheet and clear business direction, the Company is well positioned to further advance its strategy in the coming year.

The management of Fletcher Challenge Canada Limited is responsible for the preparation, integrity and fair presentation of the accompanying consolidated financial statements and other information contained in this Annual Report. The consolidated financial statements and related notes were prepared in accordance with accounting principles generally accepted in Canada and reflect management's best judgments and estimates. Financial information provided elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains a system of internal controls over financial reporting, which encompasses policies, procedures and controls to provide reasonable assurance that assets are safeguarded against loss or unauthorized use, transactions are executed and recorded in accordance with management's authorization, and financial records are accurate and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, which consists of eight non-management members of the Board of Directors, provides oversight to the financial reporting process. The Audit Committee meets periodically with management, the internal auditors and the external auditors to review the consolidated financial statements, the adequacy of financial reporting, accounting systems and controls and internal and external auditing functions.

The consolidated financial statements have been reviewed by the Audit Committee which recommended their approval by the Board of Directors. These consolidated financial statements have been audited by KPMG, the external auditors, whose report follows.

Douglas Whitehead

Douglas W.G. Whitehead
President, Fletcher Challenge Canada Limited
and Chief Executive Officer,
Canadian Operations

J E Longley

John E. Longley
Senior Vice-President, Finance

July 19, 1996

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Fletcher Challenge Canada Limited as at June 30, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the Company Act (British Columbia), we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG

Chartered Accountants

Vancouver, Canada
July 19, 1996

Consolidated Balance Sheets

as at June 30 (in millions of dollars)	1996	1995
Assets		
Current assets		
Cash and short term investments	$ 20.1	$ 5.6
Accounts receivable (note 2)	199.0	282.2
Inventories (note 3)	332.4	309.2
Prepaid expenses	10.5	17.3
	562.0	614.3
Fixed assets (note 4)		
Property, plant and equipment	1,976.5	1,927.8
Timberlands and logging roads	278.2	272.5
	2,254.7	2,200.3
Other assets (note 5)	95.7	116.6
	$ 2,912.4	$ 2,931.2
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 262.4	$ 345.4
Income taxes payable	8.0	5.0
Current portion of long term debt (note 6)	39.8	66.2
	310.2	416.6
Silviculture liability (note 7)	20.8	18.8
Long term debt (note 6)	176.3	227.6
Deferred income taxes	282.0	190.0
Preferred shares issued by a subsidiary (note 8)	–	34.3
Non-controlling interest	176.2	174.5
	965.5	1,061.8
Shareholders' equity		
Share capital (note 9)	1,262.6	1,262.6
Retained earnings	644.0	564.1
Foreign currency adjustment	40.3	42.7
	1,946.9	1,869.4
	$ 2,912.4	$ 2,931.2

Commitments (note 13)

Approved by the directors:

John Hood

John A. Hood, Director

Douglas Whitehead

Douglas W. G. Whitehead, Director

Consolidated Statements of Earnings

for the years ended June 30 (in millions of dollars, except per share amounts)	1996	1995
Net sales	$ 2,362.5	$ 2,153.9
Operating costs and expenses		
Cost of products sold	1,790.4	1,649.0
Depreciation, depletion and amortization	154.1	146.9
Selling and administrative	98.1	87.0
	2,042.6	1,882.9
Operating earnings	319.9	271.0
Other income (expense)		
Interest expense	(27.1)	(40.5)
Countervailing duty recovery (note 15)	–	19.5
Investment and other income	0.6	19.6
Earnings before income taxes and non-controlling interest	293.4	269.6
Income taxes (note 10)	130.7	115.4
Net earnings before non-controlling interest	162.7	154.2
Non-controlling interest	8.3	34.1
Net earnings	$ 154.4	$ 120.1
Net earnings per weighted average common share	$ 1.24	$ 0.97
Weighted average common shares outstanding (000)	124,189	124,189

Consolidated Statements of Retained Earnings

for the years ended June 30 (in millions of dollars)	1996	1995
Balance at beginning of year	$ 564.1	$ 456.4
Net earnings	154.4	120.1
Dividends	(74.5)	(12.4)
Balance at end of year	$ 644.0	$ 564.1

Consolidated Statements of Changes in Financial Position

for the years ended June 30 (in millions of dollars, except per share amounts)	1996	1995
Cash provided by (used for)		
Operations		
Net earnings	$ 154.4	$ 120.1
Items not requiring cash		
Depreciation, depletion and amortization	154.1	146.9
Income taxes	95.8	99.5
Non-controlling interest	8.3	34.1
Other	11.9	19.4
	424.5	420.0
Increase in operating working capital	(13.2)	(107.8)
	411.3	312.2
Per weighted average common share	$ 3.31	$ 2.51
Financing		
Decrease in long term debt	(76.8)	(146.7)
Redemption of preferred shares issued by subsidiaries	(34.1)	(5.0)
Repurchase of common shares by a subsidiary (note 11)	(2.0)	(3.3)
Dividends paid to non-controlling shareholders of a subsidiary	(4.8)	–
Dividends paid to shareholders	(74.5)	(12.4)
	(192.2)	(167.4)
Investment		
Additions to fixed assets	(216.7)	(113.9)
Proceeds from sale of fixed assets	7.4	7.6
Decrease (increase) in other assets	4.7	(68.6)
	(204.6)	(174.9)
Increase (decrease) in cash	14.5	(30.1)
Cash at beginning of year	5.6	35.7
Cash at end of year	$ 20.1	$ 5.6

(Cash includes cash and short term investments)

Notes to Consolidated Financial Statements for the years ended June 30, 1996 and 1995

1. Significant Accounting Policies

(a) Basis of Consolidation

The financial statements include the accounts of Fletcher Challenge Canada Limited consolidated with its subsidiaries. Major subsidiaries included are Blandin Paper Company, Elk Falls Forest Industries Limited, Fletcher Challenge Paper Company, Fletcher Challenge Canada Sales Inc. (all wholly owned), and TimberWest Forest Limited ("TimberWest") (51.6 per cent owned). All significant intercompany transactions and balances have been eliminated.

(b) Inventories

Inventories, other than supplies which are valued at cost, are valued at the lower of average cost and net realizable value.

(c) Fixed Assets

Fixed assets are stated at cost, which for major capital projects includes interest on the equivalent amount of borrowed funds during the period of construction.

Plants, buildings and equipment are depreciated on a straight line basis at rates that reflect estimates of the economic lives of the assets. The rates for major classes of assets are:

Buildings	2.5 – 5.0%
Pulp and paper machinery and equipment	5.0%
Sawmill and logging machinery and equipment	5.0 – 25.0%

During periods of major production interruption, an obsolescence amount of 10 per cent of normal depreciation is charged on manufacturing equipment.

Timberlands are depleted in a systematic manner based on the utilization of the timber resources. Logging roads are amortized on a straight line basis over 12 years, which approximates the utilization of the related timber resources.

No depreciation is charged on capital projects during the period of construction. Start-up costs incurred in achieving normal operating capacity on major capital projects are deferred and amortized over a five-year period.

(d) Silviculture Costs

The Forest Act (British Columbia) requires holders of timber harvesting licences to assume the cost of reforestation on these licences. Accordingly, the Company records the estimated cost of reforestation on these licences as the timber is harvested. The portion of this liability representing expenditures projected to take place within the next year is classified as a current liability and the remainder is classified as non-current.

(e) Foreign Currency

The assets and liabilities of the Company's Canadian operations denominated in foreign currencies are translated at the period end exchange rates. Gains or losses on translation of current assets and current liabilities are reflected in net earnings for the period. For U.S. funds long term debt not hedged by specific forward contracts, the Company has designated certain revenue streams as a hedge. Accordingly, exchange gains or losses are deferred and recorded as repayments are made.

The assets and liabilities of self-sustaining foreign subsidiaries are translated at the period end rates of exchange with the resulting foreign currency adjustment forming part of shareholders' equity. Revenue and expense items are translated at the rates of exchange prevailing during the period.

(f) Post-retirement Benefits

The Company provides certain health care and life insurance benefits to eligible retired employees. The costs of providing these benefits are expensed by the Company as paid.

(g) Comparative Figures

Certain 1995 comparative figures have been reclassified to conform with the presentation adopted for the current year.

2. Sale of Receivables

A subsidiary of the Company has sold to a bank, without recourse, an interest representing approximately US$65 million in a designated pool of accounts receivable. As these accounts receivable are collected they are replaced by new receivables to maintain the aggregate outstanding balance. The Company's subsidiary initially received cash proceeds of US$60 million from the sale, with the remaining balance payable to it upon final collection of the receivables at the end of the term of the agreement. The agreement was to end in 1996 but has been extended into 1997. The agreement may be terminated by the Company at any time, subject to a prescribed notification period. Under certain conditions, the bank may also terminate the agreement.

Crown Forest Industries Limited ("CFIL"), a wholly owned subsidiary of the Company's majority shareholder, Fletcher Challenge Limited, has undertaken to provide an equivalent arrangement through June 30, 1998 upon the expiration of the existing agreement. As well, the Company has entered into an agreement to purchase US$60 million for C$75 million from CFIL in June 1998. The latter agreement is translated at period end exchange rates.

3. Inventories

(in millions of dollars)	1996	1995
Paper, newsprint and pulp	$ 113.3	$ 73.1
Logs	97.4	115.2
Chips	24.4	32.8
Lumber and other wood products	31.1	22.7
Supplies	66.2	65.4
	$ 332.4	$ 309.2

4. Fixed Assets

(in millions of dollars)	1996 Cost	1996 Accumulated Depreciation	1996 Net book Value
Property, plant and equipment			
Pulp and paper mills	$ 2,828.7	$ 1,019.2	$ 1,809.5
Sawmills and logging facilities	261.5	136.3	125.2
Other equipment and facilities	30.3	15.5	14.8
Land	27.0	–	27.0
	$ 3,147.5	$ 1,171.0	$ 1,976.5
Timberlands and logging roads (net of depletion and amortization)			$ 278.2

(in millions of dollars)	1995 Cost	1995 Accumulated Depreciation	1995 Net book Value
Property, plant and equipment			
Pulp and paper mills	$ 2,689.8	$ 905.0	$ 1,784.8
Sawmills and logging facilities	228.5	126.9	101.6
Other equipment and facilities	27.7	13.5	14.2
Land	27.2	–	27.2
	$ 2,973.2	$ 1,045.4	$ 1,927.8
Timberlands and logging roads (net of depletion and amortization)			$ 272.5

5. Other Assets

(in millions of dollars)	1996	1995
Notes and other long term receivables	$ 12.7	$ 13.6
Investments and advances	12.5	10.5
Unrealized foreign exchange losses on long term debt	–	9.2
Future tax benefits (note 12)	52.5	69.6
Other deferred charges	18.0	13.7
	$ 95.7	$ 116.6

6. Long Term Debt

(in millions of dollars)	1996	1995
Fletcher Challenge Canada Limited		
Debentures		
Series E, 9%	$ –	$ 14.4
Series F, 8.95% (Nil; 1995 US$9.5)	–	13.0
Series G, 11 5/8% (Nil; 1995 US$32.6)	–	44.8
Series H, 11% due June 1998	75.0	75.0
Blandin Paper Company		
Senior notes payable, 10.35% due November 1996-1997, unsecured (US$53.0; 1995 US$79.4)	72.2	109.0
FINEX 3.75% equipment term loan due July 1996 – January 1998 (US$5.6; 1995 US$8.4)	7.6	11.5
Affiliate loan (US$45.0; 1995 US$19.0) (note 12)	61.3	26.1
	216.1	293.8
Less current portion of long term debt	39.8	66.2
	$ 176.3	$ 227.6

Fletcher Challenge Canada Limited

Subject to fixed charges granted on specific assets, the debentures are secured by a first floating charge on the assets of the Company.

Blandin Paper Company

Blandin Paper Company has a revolving credit agreement with a U.S. affiliated company that provides for unsecured borrowings of up to US$60 million to be made available until November 1, 1997. All amounts drawn under the facility are due 18 months from the date of drawdown. Borrowings under the agreement bear interest at variable rates related to Eurodollar rates.

Blandin Paper Company has advised its senior note holders that it intends to redeem these notes. The redemption will be financed by long term borrowings from an affiliated company.

Payments on long term debt required in each of the years ended June 30 are as follows:

(in millions of dollars)	
1997	$ 39.8
1998	176.3

7. Silviculture Liability

(in millions of dollars)	1996	1995
Total silviculture liability	$ 29.9	$ 28.4
Less current portion included in accounts payable and accrued liabilities	9.1	9.6
	$ 20.8	$ 18.8

8. Preferred Shares Issued by a Subsidiary

(in millions of dollars)	1996	1995
Blandin Paper Company		
Series A preferred shares, redeemable at the issue price of US$100 per share with cumulative annual dividends of US$6.76 per share, payable quarterly nil (1995 – 250,000) shares	$ –	$ 34.3

9. Share Capital

(in millions of dollars)	1996	1995
Authorized		
150,000,000 Class A common shares without par value		
100,000,000 Class B preferred shares without par value		
Issued and outstanding		
124,189,252 Class A common shares	$ 1,262.6	$ 1,262.6

10. Income Taxes

The Company's income taxes and effective income tax rates pertaining to its operations were as follows:

(in millions of dollars)	1996	1995
Earnings before income taxes and non-controlling interest	$ 293.4	$ 269.6
Income taxes	$ 130.7	$ 115.4
Effective income tax rate	44.5%	42.8%

The effective income tax rate differs from the Canadian statutory income tax rate. The principal factors causing these different income tax rates are shown below:

Canadian income tax at statutory rates	38.5%	38.4%
Non-allowable expenses, net	2.5	0.8
Large corporations tax	1.6	1.4
Other	1.9	2.2
Effective income tax rate	44.5%	42.8%

11. Repurchase of Common Shares by a Subsidiary

On December 16, 1994, TimberWest announced its intention to make a normal course issuer bid to repurchase up to 1,551,020 TimberWest common shares, representing 5 per cent of TimberWest's outstanding common shares. The bid was for a one-year period. To June 30, 1995, TimberWest had acquired 242,200 common shares on the open market at a cost of $3.3 million. From July 1, 1995 to December 16, 1995, TimberWest acquired a further 137,500 common shares on the open market at a cost of $2.0 million.

As a result, the Company's ownership in TimberWest has increased to 51.6 per cent.

12. Related Party Transactions

Related parties include Fletcher Challenge Limited, the majority shareholder, together with its subsidiaries and affiliates.

The prices and terms of sales and purchase transactions with related parties are in accordance with normal trade practices. Net sales to related parties for the year ended June 30, 1996 amounted to $11.8 million (1995 $11.9 million). Net purchases from related parties for the year ended June 30, 1996 amounted to $1.5 million (1995 $31.0 million). The Company has trade receivables of $1.7 million (1995 $2.3 million) and other receivables of $22.8 million (1995 $10.8 million) due from related parties.

The Company borrows funds from affiliates at market rates. Interest incurred on these loans amounted to $1.5 million (1995 $2.2 million).

On June 27, 1995, Fletcher Challenge Canada Limited and Elk Falls Forest Industries Limited acquired from a related company, at market value, companies with $190.7 million in non-capital losses carried forward for cash consideration of $53.4 million. These companies were wound up into the respective acquirer prior to June 30, 1995. In previous years, TimberWest acquired from a related company, a company with non-capital losses carried forward of $133.9 million which was wound up into TimberWest prior to June 30, 1994. The purchase prices to acquire the companies are subject to adjustment under certain conditions. During the year the purchase prices were reduced by a total of $14.0 million. The acquisition cost of these companies has been included in other assets as future tax benefits. The excess of the benefit of these losses over their cost is included in other income as the losses are utilized. In 1996, this excess amounted to $3.0 million (1995 $10.7 million).

13. Commitments

The Company is committed to make the following future minimum payments under various operating leases in each of the years ended June 30:

(in millions of dollars)	
1997	$ 6.3
1998	6.1
1999	3.9
2000	2.1
2001	1.3
Subsequent years	4.3
	$24.0

14. Employee Retirement Plans

The Company and its Canadian subsidiaries maintain pension plans that include defined benefit and defined contribution segments, which are available to all salaried employees and to hourly employees not covered by union pension plans. Employees hired subsequent to January 1, 1994 enroll in the defined contribution segment.

The defined benefit segment provides a pension based on years of service and earnings. For the defined contribution segment, the Company's contributions are based on a percentage of an employee's earnings with the employee's pension benefits based on these contributions along with investment earnings from those contributions. For the defined contribution segment, the Company's obligations are satisfied upon crediting contributions to the employees' accounts and no further obligation accrues.

The Company's U.S. subsidiaries maintain various defined benefit pension plans that cover substantially all of their employees. Benefits are based on years of service and earnings for salaried employees and a specified dollar amount per year of service for hourly employees.

Based on the most recent actuarial valuations of these defined benefit plans as of December 31, 1995 and April 1, 1996, respectively, there was no unfunded liability for past services. Utilizing management estimates, which include the effect of plan amendments made to June 30, 1996, the status of the defined benefit pension plans is as follows as at June 30:

(in millions of dollars)	1996	1995
Present value of accrued pension benefits	$ 357.4	$ 338.5
Pension fund assets	$ 396.2	$ 374.0

Unionized employees of the Company and its Canadian subsidiaries are members of industry-wide benefit plans to which the Company contributed a predetermined amount per hour worked by an employee. The pension expense for this plan is equal to the Company's required contribution which in 1996 and 1995 included negotiated lump sum payments.

15. Countervailing Duty Recovery

During the period March 12, 1992 to August 17, 1994, the Government of the United States imposed a countervailing duty ("CVD") on all softwood lumber imported into the United States from Canada.

Pursuant to the provisions of the Canada-United States Free Trade Agreement, the Canadian Forest Industries Council ("CFIC"), representing the forest industry, appealed the imposition of this CVD but, as there was no reasonable assurance this appeal would be successful, the Company deducted the CVD from sales in the amount of $1.7 million in 1992, $7.2 million in 1993, $8.1 million in 1994, and $0.5 million in 1995.

In December 1994, with assistance of the Government of Canada, CFIC was successful in obtaining a decision from the U.S. Department of Commerce to refund the CVD with interest. Accordingly, in 1995 the Company recorded income of $19.5 million (including interest and foreign exchange fluctuations).

16. Segmented Information

The Company's operations are segmented among four primary business segments: newsprint and specialties, coated paper, market pulp, and wood products. The operations are also segmented by geographic region based on the location of the Company's manufacturing facilities. The Company's subsidiary, Blandin Paper Company, is located in the United States. All other manufacturing operations are located in Canada.

The Canadian-based operations of the Company undertake extensive transfers of wood fibre (primarily by-product chips and pulp logs) between industry segments, based on market values. Segmenting the operations of the Company involves the use of management's best estimates of a fair and appropriate allocation between segments.

Information concerning the Company's business on a segmented basis is as follows (in millions of dollars):

1996	Business Segments					Geographic Segments	
	Newsprint & Specialties	Coated Paper	Market Pulp	Wood Products	**Consolidated**	Canada	United States
External sales by market:							
Canada	$ 114	$ –	$ 67	$ 312	**$ 493**	$ 493	$ –
United States	524	552	62*	103	**1,241**	689	552
Pacific Rim	190	–	173	82	**445**	445	–
Other Offshore	49	–	129	6	**184**	184	–
Total sales to external customers	877	552	431	503	**2,363**	1,811	552
Operating earnings	187	109	9	15	**320**	211	109
Identifiable assets	901	646	757	608	**2,912**	2,266	646
Current liabilities and silviculture liability	90	79	77	85	**331**	252	79
Depreciation, depletion and amortization	54	38	35	27	**154**	116	38
Capital expenditures	36	39	82	60	**217**	178	39

1995	Business Segments					Geographic Segments	
	Newsprint & Specialties	Coated Paper	Market Pulp	Wood Products	**Consolidated**	Canada	United States
External sales by market:							
Canada	$ 98	$ –	$ 56	$ 353	**$ 507**	$ 507	$ –
United States	372	509	67*	102	**1,050**	541	509
Pacific Rim	114	–	181	102	**397**	397	–
Other Offshore	55	–	140	5	**200**	200	–
Total sales to external customers	639	509	444	562	**2,154**	1,645	509
Operating earnings	42	49	89	91	**271**	222	49
Identifiable assets	953	624	765	589	**2,931**	2,307	624
Current liabilities and silviculture liability	127	85	103	120	**435**	350	85
Depreciation, depletion and amortization	52	38	35	22	**147**	109	38
Capital expenditures	19	18	27	50	**114**	96	18

**Excludes revenues from pulp sales of 83,000 tonnes (1995 77,000 tonnes) to Blandin.*

Years ended June 30 (millions of dollars except for Financial and Statistical Data section)	1996	1995	1994	1993
Earnings				
Net sales	$ 2,362.5	$ 2,153.9	$ 1,675.4	$ 1,226.8
Cost of products sold	1,790.4	1,649.0	1,397.6	1,041.8
Depreciation, depletion and amortization	154.1	146.9	154.4	112.9
Selling and administrative	98.1	87.0	79.1	62.1
(Earnings) losses from associate companies	–	–	–	–
Operating earnings (loss)	319.9	271.0	44.3	10.0
Interest expense	(27.1)	(40.5)	(47.1)	(48.3)
Other income	0.6	39.1	47.8	8.4
Earnings (loss) before income taxes and non-controlling interest	293.4	269.6	45.0	(29.9)
Income taxes (recovery)	130.7	115.4	2.3	(5.7)
Net earnings (loss) before non-controlling interest	162.7	154.2	42.7	(24.2)
Non-controlling interest	8.3	34.1	16.3	–
Net earnings (loss)	$ 154.4	$ 120.1	$ 26.4	$ (24.2)
Changes in Financial Position				
Cash provided by (used for)				
Operations	411.3	312.2	123.5	107.3
Financing				
Issue of shares and funded debt	–	–	185.4	889.4
(Decrease) increase in term loans	35.7	(94.1)	53.1	15.3
Repayment of long term debt	(112.5)	(52.6)	(49.7)	(55.0)
(Decrease) increase in current bank loans	–	–	–	–
Purchase and redemption of shares	(36.1)	(8.3)	(237.2)	(7.5)
Dividends paid	(79.3)	(12.4)	–	–
Investment				
Dividends received	–	–	–	–
Additions to fixed assets	(216.7)	(113.9)	(81.6)	(31.9)
Proceeds from sale of fixed assets	7.4	7.6	8.3	18.8
Investments and advances	4.7	(68.6)	(40.5)	*(866.5)
Increase (decrease) in cash	$ 14.5	$ (30.1)	$ (38.7)	$ 69.9

**Includes acquisition of Elk Falls Forest Industries Limited - $896.1 million.*

1992	1991	1990	1989	1988	1987	1986
$ 957.3	$ 1,115.4	$ 1,282.2	$ 1,423.4	$ 1,470.1	$ 1,187.2	$ 1,166.0
902.6	1,013.9	1,064.1	1,082.3	1,053.7	902.3	913.7
92.0	78.6	68.4	62.8	61.0	60.6	62.1
49.3	68.3	83.8	80.1	68.6	62.3	58.7
(1.4)	(21.4)	(54.8)	(58.3)	(40.7)	(28.0)	(5.3)
(85.2)	(24.0)	120.7	256.5	327.5	190.0	136.8
(61.3)	(45.4)	(18.6)	(23.3)	(33.9)	(47.5)	(63.3)
61.3	26.0	14.4	25.1	0.5	1.5	8.2
(85.2)	(43.4)	116.5	258.3	294.1	144.0	81.7
(41.7)	(18.4)	38.8	99.2	124.7	63.5	41.9
(43.5)	(25.0)	77.7	159.1	169.4	80.5	39.8
–	–	–	–	–	–	–
$ (43.5)	$ (25.0)	$ 77.7	$ 159.1	$ 169.4	$ 80.5	$ 39.8
(83.7)	50.4	176.8	246.5	291.3	158.7	67.1
245.7	1.2	10.6	158.0	218.7	123.1	0.7
(166.2)	207.0	5.0	(15.9)	(177.6)	(110.7)	(20.8)
(45.6)	(9.0)	(7.2)	(11.1)	(7.3)	(53.8)	(15.7)
(19.8)	14.8	(2.8)	(3.3)	1.3	(50.4)	6.0
–	–	–	(4.0)	(0.3)	(0.1)	(0.3)
–	(24.0)	(48.0)	(43.3)	(33.1)	(20.3)	(0.4)
3.4	3.4	44.7	34.3	10.3	10.3	3.5
(78.4)	(237.2)	(348.7)	(439.0)	(157.8)	(50.2)	(41.9)
41.3	9.2	78.6	3.6	3.1	5.8	1.3
82.8	7.2	71.0	75.9	(137.0)	(6.6)	(2.6)
$ (20.5)	$ 23.0	$ (20.0)	$ 1.7	$ 11.6	$ 5.8	$ (3.1)

Years ended June 30 (millions of dollars except for Financial and Statistical Data section)	1996	1995	1994	1993
Assets and Capitalization				
Working capital	$ 251.8	$ 197.7	$ 133.6	$ 163.0
Investments and other	74.9	97.8	72.4	29.3
Fixed assets (net)	2,254.7	2,200.3	2,248.7	2,278.0
Net assets	$ 2,581.4	$ 2,495.8	$ 2,454.7	$ 2,470.3
Long term debt	176.3	227.6	391.5	367.7
Deferred income taxes	282.0	190.0	113.2	112.4
Preferred shares issued by subsidiaries	–	34.3	39.8	275.0
Non-controlling interest	176.2	174.5	143.4	–
Shareholders' equity	1,946.9	1,869.4	1,766.8	1,715.2
Total capitalization	$ 2,581.4	$ 2,495.8	$ 2,454.7	$ 2,470.3
Financial & Statistical Data				
per common share				
net earnings (loss)	$ 1.24	$ .97	$ .21	$ (.26)
cash flow from operations	3.31	2.51	.99	1.14
equity	15.68	15.05	14.23	14.02
dividends paid	.60	.10	.28	.26
market price range				
high	24.75	23.00	23.25	22.13
low	17.63	16.50	16.00	14.25
Net earnings to sales (%)	6.5	5.6	1.6	(2.0)
Return on net assets (%)	6.9	7.3	2.9	0.3
Return on common shareholders' equity (%)	7.9	6.7	1.5	(1.9)
Ratios				
Current	1.8	1.5	1.4	1.6
Debt to equity	8:92	14:86	19:81	26:74
Common shares outstanding (000's)	124,189	124,189	124,189	90,730
Number of employees	5,932	6,009	6,014	6,225

Notes and Explanations

A. Statement of Earnings

Divisional administration expenses previously included in selling and administrative expenses are included in cost of products sold in 1992 onwards.

B. Major Increases in Common Share Capital

Common shares:	$ Million	Effective Year ended June 30
6,266,239	119	1987
1,910,987	33	1989
16,872,000	249	1992
12,421,053	177	1993
31,578,947 (note 1)	450	1993

Note 1 – In 1993, Elk Falls Forest Industries Limited issued common share equivalents represented by 450,000 Class A preferred shares that were subsequently exchanged into 31,578,947 common shares of the Company in 1994.

1992	1991	1990	1989	1988	1987	1986
$ 127.4	$ 63.7	$ 140.2	$ 197.0	$ 206.0	$ 210.9	$ 148.5
47.1	80.7	72.0	163.8	256.5	119.1	113.6
1,470.2	1,502.5	1,365.9	1,188.0	823.1	747.4	768.1
$ 1,644.7	$ 1,646.9	$ 1,578.1	$ 1,548.8	$ 1,285.6	$ 1,077.4	$ 1,030.2
413.7	586.4	436.0	440.3	344.6	348.7	511.3
117.1	156.6	190.4	189.6	164.3	78.5	48.3
12.0	16.4	16.7	16.4	14.6	–	–
–	–	–	–	–	–	–
1,101.9	887.5	935.0	902.5	762.1	650.2	470.6
$ 1,644.7	$ 1,646.9	$ 1,578.1	$ 1,548.8	$ 1,285.6	$ 1,077.4	$ 1,030.2
$ (.70)	$ (.42)	$ 1.30	$ 2.68	$ 2.95	$ 1.45	$ .79
(1.35)	.84	2.94	4.14	5.10	2.94	1.32
14.30	14.77	15.59	15.09	13.19	11.31	9.26
.03	.40	.80	.73	.57	.38	.13
18.63	18.50	19.75	20.50	25.88	23.25	15.63
14.00	12.25	14.50	16.75	14.25	12.00	8.25
(4.5)	(2.2)	6.1	11.2	11.5	6.8	3.4
(0.4)	0.1	5.7	12.2	16.0	9.9	6.9
(4.9)	(2.7)	8.5	18.6	24.2	15.0	9.0
1.6	1.2	1.6	1.9	2.2	2.5	1.8
28:72	41:59	32:68	32:68	31:69	35:65	55:45
77,058	60,086	59,971	59,814	57,763	57,490	50,808
4,960	5,839	6,299	7,261	7,074	7,131	7,145

C. Statement of Changes in Financial Position

Cash is defined to include cash and short term investments.

D. Terms and Definitions

1. Return on net assets = $\dfrac{\text{Net earnings before non-controlling interest plus after tax interest on long term debt}}{\text{Average net assets}}$

2. Return on common shareholders'equity = $\dfrac{\text{Net earnings – preferred dividends}}{\text{Average shareholders' equity – average preferred share capital}}$

3. Ratio of debt to equity = $\dfrac{\text{Debt}}{\text{Debt plus equity}}$ to $\dfrac{\text{Equity}}{\text{Debt plus equity}}$

For purposes of calculating ratio of debt to equity, debt is defined as bank loans plus long term debt (including current portion), less cash, plus fixed term and retractable preferred shares issued by subsidiaries and equity is defined as shareholders' equity plus non-controlling interest.

DIRECTORS & OFFICERS

Directors

Ian Donald [1]
Auckland, New Zealand
Chief Financial Officer,
Fletcher Challenge Limited

Hugh A. Fletcher [1,3,4]
Auckland, New Zealand
Chief Executive Officer,
Fletcher Challenge Limited

John A. Hood [1,3,4]
Auckland, New Zealand
Chairman, Fletcher Challenge Canada Limited and Chief Executive, Fletcher Challenge Paper Division, Fletcher Challenge Limited

Eva Lee Kwok [2,3,4]
West Vancouver, British Columbia
President, Amara International Investment Corporation

John McDonald [2]
Auckland, New Zealand
Commercial Director, Fletcher Challenge Paper and Group Treasurer, Fletcher Challenge Limited

Ward C. Pitfield [1,4,5]
Toronto, Ontario
Corporate Director

William P. Rosenfeld [1,2,4]
Toronto, Ontario
Partner, Goodman, Phillips & Vineberg

Ronald D. Southern [1,3,4]
Calgary, Alberta
Chairman and Chief Executive Officer,
ATCO Ltd. and Canadian Utilities Limited

Robert T. Stewart [1,2,3]
West Vancouver, British Columbia
Corporate Director

Douglas W. G. Whitehead [2]
Coquitlam, British Columbia
President, Fletcher Challenge Canada Limited and Chief Executive Officer, Canadian Operations

W. Robert Wyman [1,3,5]
West Vancouver, British Columbia
Vice-Chairman, Fletcher Challenge Canada Limited; Chairman, Suncor Inc.

Officers

John. A Hood
Chairman of the Board

Douglas W.G. Whitehead
President, Fletcher Challenge Canada Limited and Chief Executive Officer, Canadian Operations

Dennis J. Day
Senior Vice-President, Human Resources

Lawrence J. Jackson
Senior Vice-President, Sales and Marketing

A. David Leighton
Senior Vice-President, Corporate Strategic Planning

S. Luke Moriarty
Senior Vice-President, Finance

George N. Bird
Vice-President, Corporate Technology

Alfred R. Carter
Vice-President, Crofton Division

William B. Clarke
Vice-President, Environment

Mark R. Gibson
Vice-President, Paper Marketing

John K. Graf
Vice-President, Secretary and Treasurer

Randall D. Henderson
Vice-President and Comptroller

James M. Miller
Vice-President, Pulp Marketing

Thomas Milner
Vice-President, Mackenzie Region

Ian B. Murray
Vice-President, Elk Falls Division

Jay G. Whitwham
Assistant Secretary

Bill J.M. Wong
Vice-President, Taxation

1 *Member of the Audit Committee*
2 *Member of the Environmental, Health and Safety Committee*
3 *Member of the Governance and Nomination Committee*
4 *Member of the Human Resources Committee*
5 *Member of the Pension Advisory Committee*

Corporate Information

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Campbell River, B.C. V9W 5C9
(604) 287-5200

Mackenzie Pulp
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Pulp: (604) 997-2431

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Pulp
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Blandin Sales Corporation
200 Park Avenue, Suite 210,
East Mezzanine,
New York, NY 10166
Telephone: (212) 986-0079
Fax: (212) 986-0083

Shareholder Information

Transfer Agent and Registrar
The R-M Trust Company at its principal offices in Vancouver, Calgary, Toronto, Montreal and Halifax.

Auditors
KPMG, Vancouver, British Columbia

Shares Listed
Common Shares (symbol: FCC.A)
The Toronto Stock Exchange, Montreal Exchange, Vancouver Stock Exchange

Investor Relations Contact
Jay G. Whitwham,
Manager, Investor Relations and
Assistant Secretary
Telephone: (604) 654-4419
Fax: (606) 654-4254

Annual General Meeting

The Annual General Meeting of the Shareholders will be held on Wednesday, October 23, 1996 at 2.00 pm in the Park Ballroom of the Four Seasons Hotel in Vancouver, British Columbia.

Annual Environmental Report 1996

For copies of Fletcher Challenge Canada's 1996 Annual Environmental Report contact:
Telephone: (604) 654-4000
Fax: (604) 654-4961

Annual and Quarterly Reports

For copies of Annual and Quarterly reports contact:
Telephone: (604) 654-4380
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