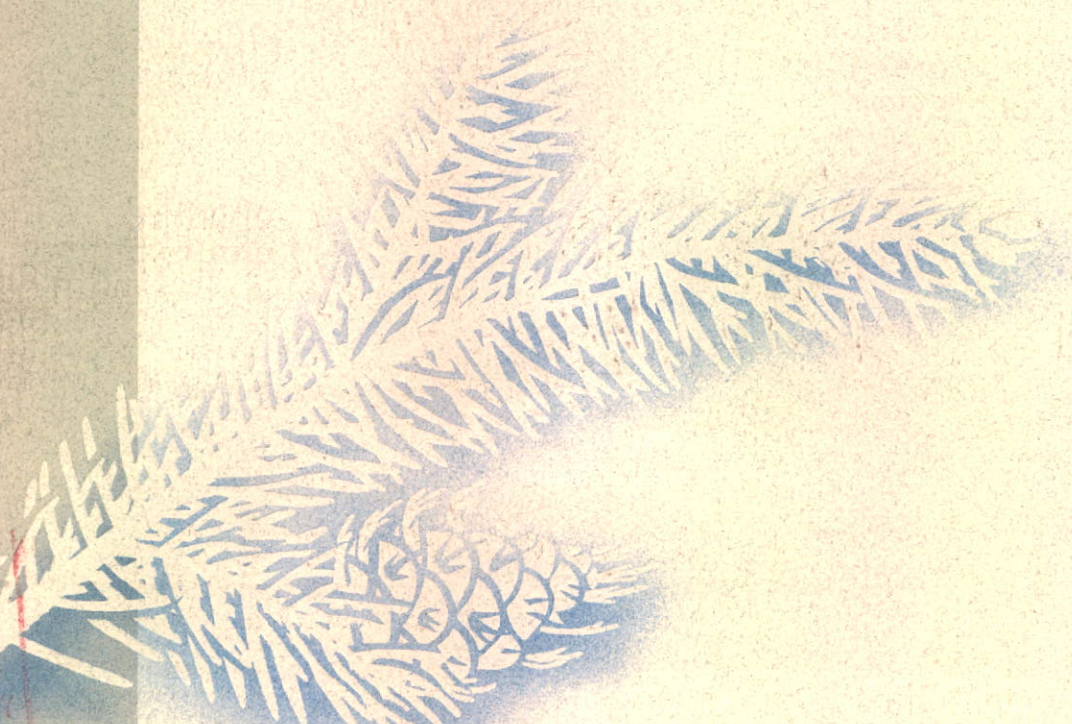


C

International
Forest
Products
Limited

1987
ANNUAL
REPORT



MAR 31 1988
UNIVERSITY

Financial Summary

Year Ended **Dec. 31, 1987** Dec. 31, 1986

Income Statement

Sales	\$ 382,549,000	\$ 325,544,000
Operating Profit	54,567,000	27,055,000
Income Before Extraordinary Item	30,318,000	14,040,000
Income After Extraordinary Item	30,318,000	21,540,000
Net Income After Dividends on Preferred Shares of Subsidiary	21,051,000	11,281,000
Net Income Per Share	1.48	1.08

Balance Sheet

Working Capital	\$ 41,307,000	\$ 43,358,000
Total Assets	307,167,000	228,503,000
Shareholders' Equity	108,882,000	49,699,000
Equity per Common Share	6.37	4.01

International Forest Products Limited is a Canadian-owned forest products company with sawmills and logging operations on the Coast and in the Interior of British Columbia. Originally incorporated in 1963 to operate a lumber mill in Whonnock, B.C., the Company has expanded rapidly to become one of the larger sawmill operators and lumber exporters in British Columbia.

International Forest Products owns 27 logging operations cutting Hemlock, Balsam, Cedar, Fir, Cypress and Spruce. The Company has seven sawmills and one shake and shingle mill. The mills process a variety of species into a wide range of products, many of which are custom orders.

Through International Forest Products' interest in Western Forest Products, the Company has access to one-third of WFP's extensive timber holdings in British Columbia and an interest in Western Pulp's two pulp mills.

International Forest Products' decentralized operations focus responsibility at the ground level, encouraging the development of an entrepreneurial spirit. In the mills and in the woods, each team makes marketing and production decisions, and each is accountable for results.

International Forest Products nurtures this system while encouraging coordination, recognizing that flexibility to the marketplace makes good business sense.

On January 1, 1988,
Whonnock
Industries Limited
became International
Forest Products Limited.

With "International
Forest Products Limited,"
we have a name which
better communicates
the nature of our
business and the
international scope of
our markets.

REPORT FROM THE CHAIRMAN

1987 results from operations

We are pleased to report results for 1987 that represent a record in at least five important areas:

- record sales of \$383 million, up 17 percent from 1986
- record lumber production of 651 million board feet, up 8 percent from 1986
- record operating profit of \$55 million, double the \$27 million earned in 1986
- record cash flow from operations of \$69 million, double the \$34 million generated in 1986
- record equity level of \$109 million, more than double the \$50 million level attained in 1986.

Net income, after paying preferred share dividends of \$9 million, was \$21 million for the year, five times greater than the amount earned last year (before the extraordinary item). It fell slightly short of the record \$23 million earned in 1979 - a year when the Company had very low debt service costs.

Certain economic trends that began in 1985 continued in 1987. Overseas currencies continued to strengthen, as did construction activities, providing very active offshore markets. North American housing activity in both new and renovation markets was healthy, providing strong Canadian and U.S. sales particularly for our Western Red Cedar products. As expected, the export tax on lumber destined for the U.S. had minimal effect on our coastal operations.

Capital programs

The three major components of our capital program are now completed. Bay Forest and McDonald Cedar are already operating near their new capacity levels and Western Whitewood, the new small-log mill is expected to reach target levels early in the third quarter.

The decision to embark on our capital program was probably the most difficult we have ever made. The urgent need for these improvements was balanced against the availability of funding and we decided in 1986 to proceed slowly. In early 1987, however, two well-received share issues enabled us to accelerate the program to complete the major projects in 1987.



*Bill Sauder,
chairman and chief
executive officer*

Organizational changes

A new director, Clark Bentall, Chairman of The Bentall Group of Companies, was added to our board at the annual general meeting in April. We welcome the benefit of his years of experience and management ability. In July, Bob Fechtner was appointed vice-president, Forestry and Logging. He joined our Company as an area logging manager in 1985.

In October, our last remaining operating subsidiary, Holding Lumber Company Limited, was merged into the parent Company and renamed Adams Lake Lumber representing its Interior location. Other operational changes at about that time and particularly our marketing thrust to offshore markets prompted the change in our name to International Forest Products Limited. With a target offshore volume of over 400 million board feet in 1988, we will be one of North America's largest "international" exporters.

Outlook

We expect that some of the records set in 1987 will be broken again in 1988. Lumber production is expected to exceed 800 million board feet, with more than half of that production destined to offshore markets. Total sales in dollar terms will also be higher, but not quite proportionately, since more of our log production will be used internally.

Offshore markets are expected to continue strong with a similar demand for lumber and continued favourable currency relationships. Orders are already being taken for the third and fourth quarters of 1988.

North American markets are expected to reflect lower demand for new construction; but are expected to have continued growth in the renovation and improvement trade. First quarter results will likely not meet the levels of profitability set in the immediately preceding third and fourth quarters due to seasonal logging curtailments, certain higher manufacturing costs and lower production volumes during the start-up phase of the new projects.

On balance, however, we are looking forward to another good year and wish once again to thank our customers, shareholders, and fellow employees for their continued support.

A handwritten signature in blue ink that reads "W.L. Sauder".

W.L. Sauder
Chairman and Chief Executive Officer

CAPITAL EXPENDITURE PROGRAM

Clearing the recession

International Forest Products Limited is well advanced in its \$123 million, four-year capital expenditure program. This program will allow the Company to seize opportunities in three areas:



*John Southcott,
president*

- to lower the unit cost of its products
- to better and more fully utilize smaller logs within the Company's timber resources
- to add value to its products.

Approximately \$65 million was spent in 1987.

A balanced mill complement

The biggest project undertaken was the construction of the new small-log sawmill, called Western Whitewood ("3W"). This new mill will have a very beneficial ripple effect on operations throughout the Company. In addition to cutting small logs efficiently, it allows International's other mills to perform better because they receive only the logs for which they are best suited — the larger ones.

Overall, the Company's sawmilling production on a two-shift basis will increase by 200 million fbm, to approximately 850 million fbm annually.

Project details

The Western Whitewood mill cost \$46 million. At year-end, it had commenced start-up operations, and it will expand to two shifts in early 1988. This mill is International's largest, producing 180 million fbm annually.

Secondary breakdown equipment, an automatic sorter and revamped mill flow, trim grade lines and grading stations at Bay cost \$9 million and will

increase production to 140 million fbm annually on a two-shift basis. Mill flexibility and marketing opportunities are greatly enhanced.

McDonald Cedar's expansion included an automatic sorter, quad-band resaw, circular gang and mill flow revisions. The \$8.5 million cost will increase production by 70 percent, to 85 million fbm annually.

Where the money came from

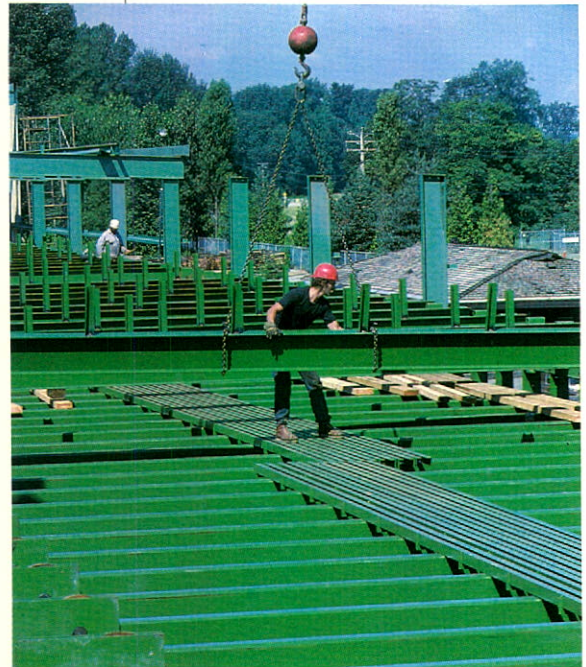
Over a nine-month period in 1986 and 1987, the Company completed three share offerings, raising \$44 million in the market. Of this, \$32 million was raised in 1987.

The balance of the money needed came from internally generated funds.

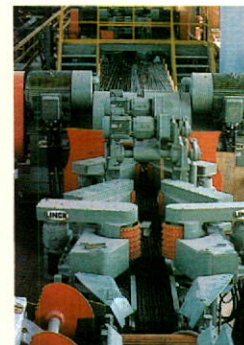
What is the payback period?

Company-wide, the unit cost of manufacture will be lowered by \$20-25 per fbm, for an annual saving of \$15-20 million. This means that the \$65 million spent in 1987 will be recouped in cost savings alone within four years, and sooner with the increase in production.

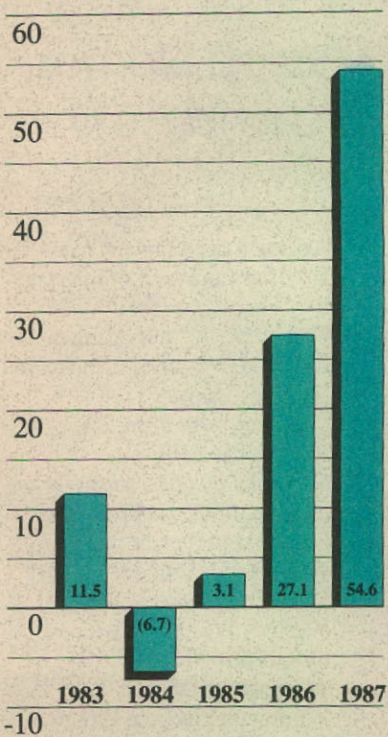
Capital improvements at Bay Forest cost \$9 million and will increase production to 140 million fbm annually.



The new small-log sawmill is the Company's largest, with a capacity of 180 million fbm annually.



Results Before Taxes and
Financing Costs
(\$ millions)



Highlights:

- accelerated capital expenditure program
- 30% increase in total production capacity
- 1987 construction costs will be recovered within four years or sooner
- Company-wide savings in manufacturing costs of \$15-20 million per year

Division Names, Old and New:

- Adams Lake Lumber, formerly Holding Lumber Company
- Bay Forest
- Classic Shake and Shingle, formerly Whonnock Shake and Shingle
- Custom Cedar Products
- MacKenzie Mills
- McDonald Cedar, formerly McDonald Cedar Products
- Pioneer Lumber, formerly Whonnock Lumber
- Silvertree
- Western Whitewood, a new mill, replaces Pacific Pine
- Whitewood Custom Cut
- Whitewood Reman Products

Comparison of International's New Mill with a Conventional Mill

The Coastal Advantage... Large Logs


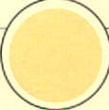
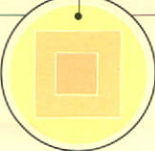
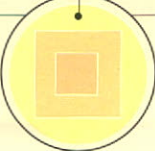
Construction grade lumber is produced from smaller logs or the center of large logs. This lumber is less valuable because it contains knots. The most valuable lumber comes from the outside of larger (coastal) logs, which are more likely to be free of knots.

Western Whitewood (new small-log sawmill)

- based on German technology
- logs presorted to 72 sorts
- logs bucked to suit specific orders
- 2 (computer) decisions made in process
- single line primary log breakdown
- logs fed continuously without readjustment
- high lumber recovery
- high production
- high degree of precision cutting, doesn't usually require planing
- simple process
- 6 months to reach full production
- higher productivity, lower operating costs, lower maintenance costs

Conventional (new small-log sawmill)

- based on N. American technology
- few sorts or random diameter logs are sawn
- not as easily able to match logs to orders
- 7 (operator or computer) decisions in process required
- 2 to 4 log breakdown lines
- charge feed, continuous readjustment required (approx. 3,000 per shift)
- high lumber recovery
- high production
- planing required to achieve precision lumber
- requires high technology, complex process (greater potential for problems)
- 6-24 months of start-up time

Section	Log	Relative Value	Mill Type
20'		1.0	Chip 'n' Saw Mill
40'		1.15	Small-Log Sawmill
40'		1.45-2.25	Standard Head Rig Mill
30'		3.00-4.00	Specialty Mill

MARKETING / MANUFACTURING

International maintained production *and* made money despite the heavy burden of being "a big construction site" for most of the year.

Sales and markets

Sales in 1987 were \$383 million, a Company record.

A major customer was Japan. Analysts had projected 1.1 million housing starts in 1987, however there were 1.6 million. The result was a very strong log and lumber market for most of the year.

Once again, the United Kingdom and Continental Europe were large volume buyers, mainly because of a return to traditional currency relationships. Other markets were China, Australia and north Africa. The United States and Canada were major markets for the Company's coastal Cedar mills and its mill in Interior B.C., Adams Lake Lumber (formerly Holding Lumber).

New products

Many of International's new products are developed in the Cedar and Whitewood Custom Cut and Remanufacturing Divisions. Terms of reference for the two divisions are to be experimental, to lead the Company into new marketing and production programs, and to be profitable at the same time.

Also, there is an increased emphasis within the Company on remanufacturing and maximizing the value of the wood. Recent examples of remanufacturing ("adding value") for offshore markets include window components for Germany, "taruki" (small rafters) for Japan; and spindles.

International is constantly looking for the optimum combination of trees, mills and customers to maximize the



*Bob Sitter,
vice-president,
Manufacturing*

Company's profit. How well the Company is doing in this regard is the focus of continuous operational analyses.

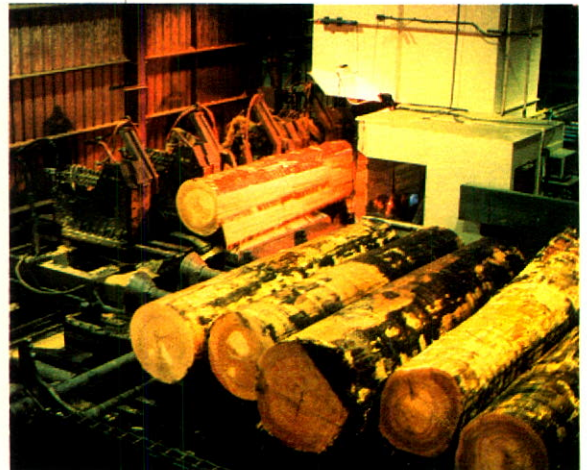
Dramatic safety improvements

Safety is a matter of extreme importance to executives of the Company, so the 42 percent decrease in accident frequency in the mills is an operational highlight for 1987. International attributes this turnaround to a clear commitment from management and the IWA to improved safety, and most importantly, to the significant participation of employees at all levels to improve safety in the workplace.

There was a heavy emphasis on training this year. In addition to safety, there was special focus on operating new mill equipment, product quality, and providing additional skills to first-line management.

The Canadian Mental Health Association awarded the 1987 Workplace Awareness Award to the Company for "outstanding achievement in co-operatively promoting well-being in the workplace."

The significantly improved safety record of the mills is a matter of pride to both management and employees.



Highlights:

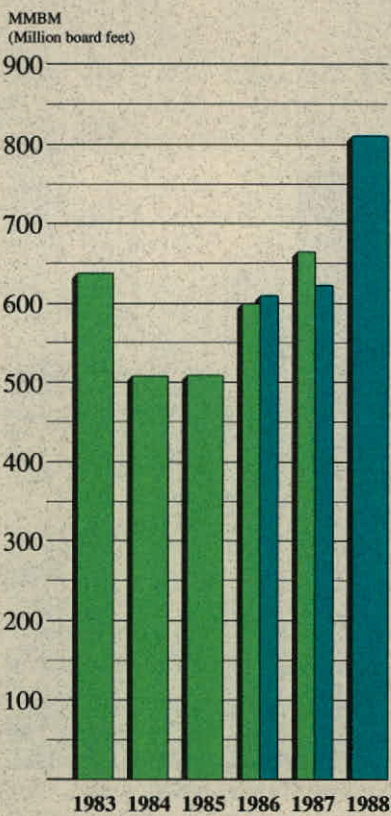
- 42% decrease in accident frequency
- a record operating profit of \$55 million
- \$62 million capital expenditure in coast mills
- “Outstanding Achievement” award from the Canadian Mental Health Association
- record sales of \$317 million
- maintained production despite major construction

Lumber Production and Capacity

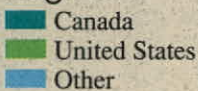
(on a two-shift basis)

■ Lumber Production

■ Lumber Capacity

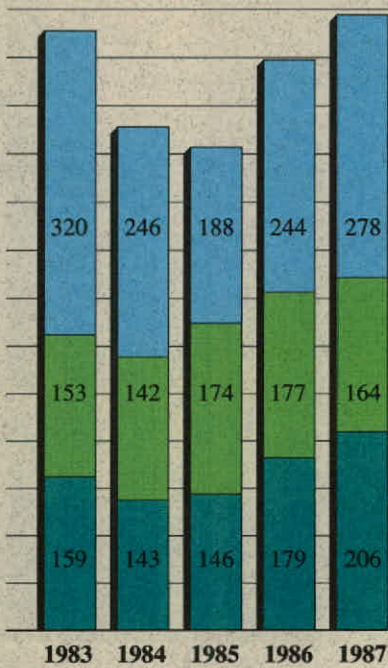


Sales Volume by Segment



Total
MMBM

632	531	508	600	648
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Rapport and mutual respect

The Company places a high value on maintaining an excellent relationship with its employees and their union, the International Woodworkers of America (IWA). This relationship was tested and strengthened when the Pacific Pine mill was replaced by the new Western Whitewood with a net loss of 116 jobs. Some employees chose an attractive early retirement package but most were reassigned to International's other mills, particularly to man the additional shift at Bay.

The effect of the lumber export tax

International's 1987 export taxes on softwood lumber shipped into the U.S. were confined primarily to Western Red Cedar and some of the whitewood produced in the Interior operations. Since Cedar was in short

supply in the U.S., some of the tax was recovered in higher prices.

The tax was discontinued effective December 1, 1987 as a negotiated result of higher stumpage charges in B.C.

In 1987, 43% of International's lumber production went to overseas customers.



FORESTRY AND LOGGING

Production increase

Forestry and Logging produced 2.3 million m³ on the coast in 1987, surpassing the target of 2.1 million m³ in order to take advantage of excellent market conditions, both export and domestic. In addition, Adams Lake Lumber produced 360,000 m³.



*Bob Fechtner,
vice-president,
Forestry and Logging*

Sales and profits

During 1987, International sold 63 percent of its coastal log production to its own mills, 25 percent to other "outside" domestic sawmills and pulp mills and 12 percent to Japan. All logs cut in the Interior were used by Adams Lake Lumber.

In 1988, exports of logs to Japan are expected to drop to five percent, outside sales of pulp logs and lower quality sawlogs will remain about the same, and internal use of the Company's own log production will increase to about 70 percent.

The Forestry and Logging Group showed excellent profits during 1987 in both the domestic and export log markets, especially in the second half of the year.

Cost control

The goal this year was to minimize any increase in costs while improving log quality. At the camp level, actual production costs (falling, bucking, yarding, etc.) increased by 4.6 percent. About one third of this increase is attributable to the wage and benefit settlement negotiated with the IWA in 1986, and the balance to efforts in log quality improvement and production mix.

Safety reaches plateau

The Group's safety record, while much better than it was several years ago, seems to have reached a plateau below the best year recorded in 1985.

Employees, contractors and management are renewing their efforts to improve the Company's record of safety in the woods.

B.C. forest policy changes

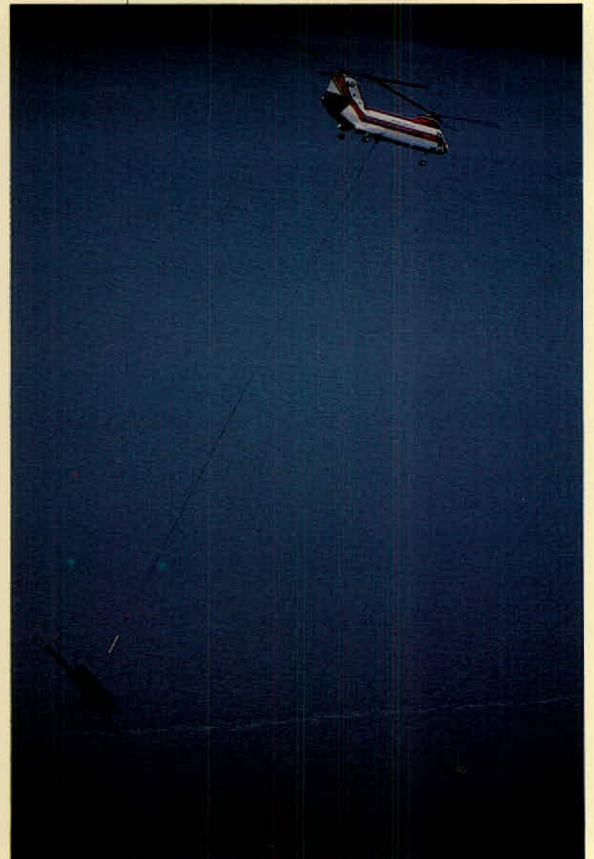
The new comparative value pricing system adopted by the provincial government has several features which affect the Company's coastal operations. Under the old stumpage system, International utilized only three percent of the provincial cut but paid about ten percent of the net provincial stumpage. This inequity is somewhat reduced under the new stumpage system.

The increased log export tax is viewed as a fair return to the Province, although it will have the effect of significantly reducing the Company's profits in that area.

Five percent of International's timber quota (and that of other companies) will be transferred to the Small Business Enterprise Program. These logs will still be available to the Company for purchase on the open market at market prices.

The Section 88 allowances under which the government paid companies

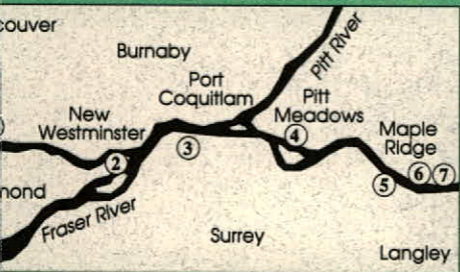
Helilogging continued to set production records in 1987.



Logging Operations

- | | |
|--------------------|-----------------|
| A. Hecate | M. Homathko |
| B. Kumealon | N. Chamiss |
| C. Kwatna | O. Port Neville |
| D. Quatlena | P. Moh Creek |
| E. Taleomey | Q. Bear Lake |
| F. Mereworth Sound | R. Menzies Bay |
| G. Caviar Cove | S. Goat Lake |
| H. Helilog Inlet | T. Narrows |
| I. Kingcome | U. Lizzie Creek |
| J. Cleagh | V. Adams Lake |
| K. Malcolm | W. Big Silver |
| L. Scott Cove | X. Hope (3) |

Coastal Sawmill Locations



1. Silvertree
Vancouver
2. Western Whitewood
New Westminster
3. MacKenzie
Surrey
4. Bay Forest
Pitt Meadows
5. McDonald Cedar
Langley
6. Classic Shake & Shingle
Whonnock
7. Pioneer Lumber
Whonnock
8. Adams Lake Lumber
Chase

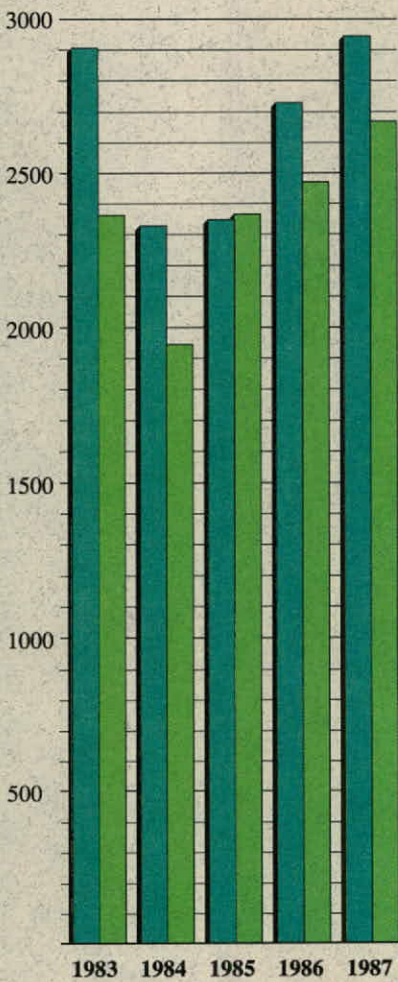
British Columbia



Log Production & Consumption

■ Log Production
■ Log Consumption

Km³
(thousand
cubic
metres)



In 1987, coastal log production was 2.3 million m³, to complete a two-year record of 4.6 million m³.

for some road construction, reforestation and other silvicultural projects on Crown land will be removed. These costs will now be borne by the companies.

Becoming market driven

The Forestry and Logging Group is becoming more market driven. Throughout the year, efforts were made

to produce better logs, sort them more accurately and to bundle and boom them more securely. Results in these areas have been significant. For example, the breakage of log bundles during barge dumping has decreased to just 6-8 percent from higher levels three years ago.

Endeavors such as these result in an improved product that will command higher market values as well as more secure markets, even during economic downturns. And of course, improving product quality to meet the needs of customers has a beneficial effect on the Company's bottom line.

Silvicultural costs

In 1987, International planted 3.7 million trees, about 57 percent of them on the coast and the balance (43%) in the Interior. The total amount spent on all silviculture projects except slash burning (such as planting, spraying, surveys, and site preparation) was almost \$2.2 million.

1988 outlook

Next year looks like another good year for the Logging Group even though planned coastal log production will be slightly less. The volume of logs available for the Company's mills, however, shouldn't be reduced because the Company plans to export fewer logs.



FISCAL COMMENTARY

1987 was a year of considerable growth and improvement in the Company's financial position. A number of operational and profitability records were achieved and three major components of our capital expenditure program were successfully completed as outlined earlier in this report. There were also substantial improvements and changes in two other major segments of our balance sheet – the debt and equity side, and our investment in Western Forest Products Limited.



*Gerry Friesen,
vice-president,
Finance*

in 1987 and to anticipate favourable results from its logging operations in 1988. In addition, WFP's 30 percent interest in Western Pulp Limited Partnership (WPLP) should enable WFP to record improved earnings from the pulp business in 1988.

During 1987, a number of WPLP's unit holders exchanged their units of WPLP for shares of our Company, BCFP, and Doman Industries under the terms of an exchange agreement. This enabled the Company to acquire 5,358 units of WPLP representing a 3 1/2 percent interest in the partnership.

Subsequent to the year-end, WFP made an offer to acquire all of the outstanding units of WPLP that it does not already own. If this offer is successful, the improvement to WFP's financial position will be accelerated.

Debt/equity

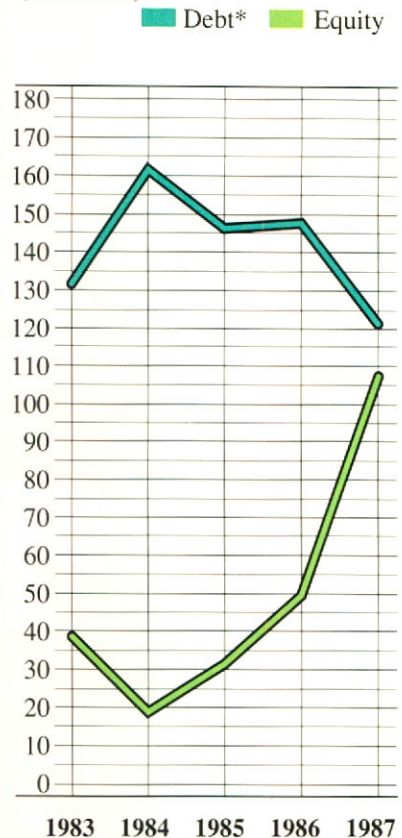
An important focus of the Company is to continue the improvement in the debt to equity relationship. As shown in the graph, term debt (including the Bank term preferred shares) has been reduced from a high of \$161 million in 1984 to \$121 million this year. While the difference may not seem significant at first glance, it was accomplished while investing \$113 million in plant, equipment and roads in the same three years. The Company's equity grew from a low of \$19 million in 1984 to \$109 million this year. Part of this increase was due to two share issues early in 1987 generating \$34 million. At the end of the year, 94 percent of the outstanding warrants from a previous issue were exercised, raising an additional \$4 million. This occurred despite the severe stock market correction, particularly in forest product stocks.

As a result, the term debt to equity ratio has declined from a high of 8.6:1 to 1.1:1 and is expected to improve to better than 1:1 in 1988.

Investment in Western Forest Products/WPLP

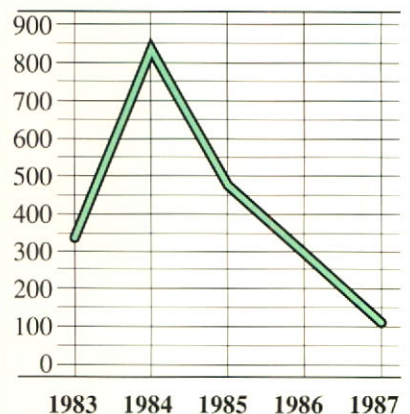
Improved economic conditions have enabled Western Forest Products to record a profit of almost \$22 million

Term Debt to Equity
(\$ millions)



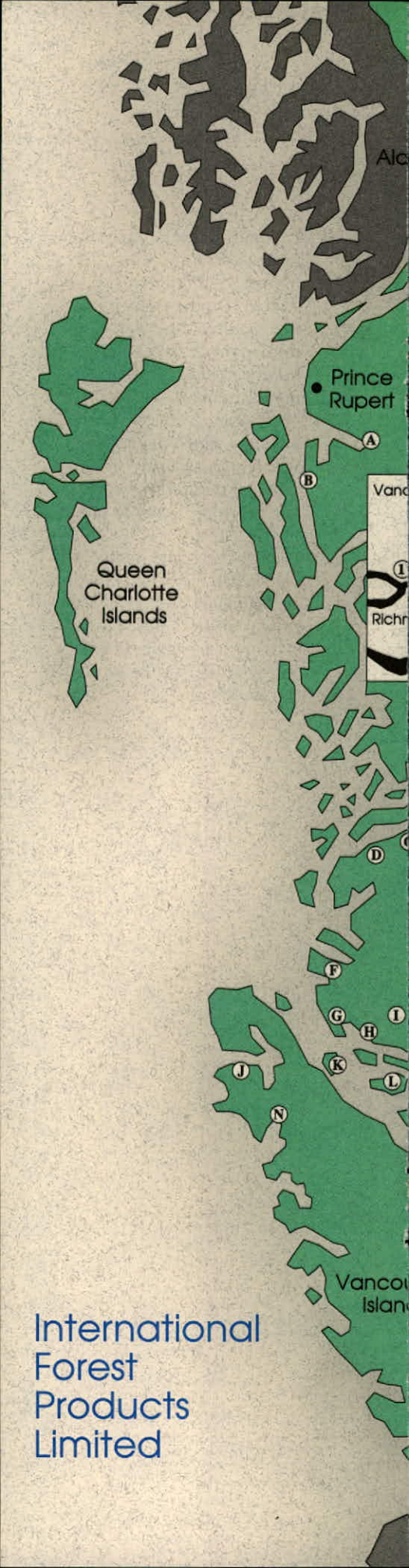
*including term preferred shares

Term Debt/Equity Ratio
(%)



Highlights:

- \$30 million operating profit, an increase of 300% over 1986
- logged 2.3 million m³.
1986/87 production was a two-year record at 4.6 million m³
- improved the quality of logs to our mills and to outside customers
- a helilog single-day record was set: more than 1,700 m³ (about 3 million pounds) were flown to water in one day in August
- Cleagh Creek and Scott Cove camps had the distinction of being the lowest cost, highest producers and safest camps, proving once again that safety need never be sacrificed for production.



Alco

Prince Rupert

Queen Charlotte Islands

Vanc

Richm

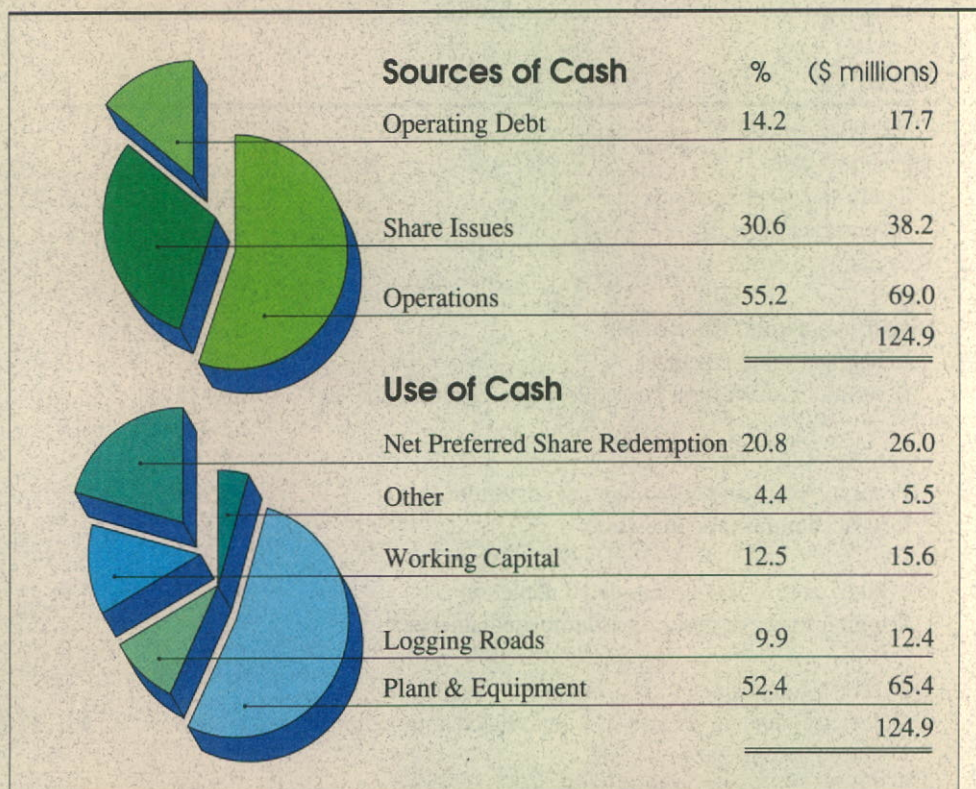
Vancouver Island

International
Forest
Products
Limited

Highlights:

1987 Highlights: Cash Flow

- significant turnaround: equity of Company is \$109 million, more than double that of 1986
- record cash flow from operations was \$69 million, almost double that of 1986
- a manageable term debt to equity ratio of 1.1:1
- operating profit of \$55 million, double that of 1986



Five Year Review

	1987	1986	1985	1984	1983
Production Statistics					
Lumber (million FBM)	651	600	510	508	641
Logs (thousand cubic metres)	2,679	2,484	2,381	1,949	2,365
Employee Statistics					
Wages, salaries (\$000)	73,937	66,744	59,171	57,106	65,503
Number of employees	2,028	1,970	2,009	2,089	2,081
Financial Statistics					
Sales (\$000)	382,549	325,544	260,321	239,929	269,612
Stumpage (\$000)	18,557	12,011	9,984	8,612	9,320
Income taxes (recovery) (\$000)	25,600	4,500	—	(6,100)	(2,600)
Net income (loss) (\$000)	21,051	11,281	(6,860)	(19,774)	4,746
Earnings (loss) per share*	\$ 1.48	\$ 1.08	\$.66	\$(2.68)	\$.64
Total assets (\$000)	307,167	228,503	216,914	202,353	218,948
Ratio and Investment Information					
Current ratio	1.6:1	2.3:1	1.7:1	2.3:1	1.5:1
Equity per common share* \$	6.37	4.01	2.98	2.55	5.23
Share price range — high \$	9.38	8.50	5.88	10.75	12.00
— low \$	4.55	4.60	3.10	3.00	6.38
Re-Investment					
Working capital generated from (applied to) operations (\$000)	68,952	34,195	8,177	(11,995)	11,932
Plant, equipment and roads (\$000)	77,855	20,083	16,692	9,901	11,240
Working capital retained (provided from other sources)	(8,903)	14,112	(8,515)	(21,896)	692

*Stock dividends applied retroactively

CONSOLIDATED BALANCE SHEET

ASSETS

	1987	1986
(Thousands of dollars)		
Current Assets		
Trade and other accounts receivable	\$ 29,726	\$ 22,694
Inventories (note 2)	73,796	51,077
Prepaid expenses	2,021	1,374
	<u>105,543</u>	<u>75,145</u>
Investments and Other Assets		
Investments and advances	7,595	12,997
Investment in Western Forest Products Limited (note 3)	55,817	55,541
	<u>63,412</u>	<u>68,538</u>
Fixed Assets		
Property, plant and equipment, at cost (note 4)	171,961	97,505
Less accumulated depreciation	58,648	51,754
	<u>113,313</u>	<u>45,751</u>
Timber, at cost less accumulated depletion	10,347	11,081
Logging roads, at cost less accumulated amortization	13,684	14,226
	<u>137,344</u>	<u>71,058</u>
Deferred Charges		
Deferred financing fee, net of accumulated amortization	868	1,012
Deferred income taxes	-	12,750
	<u>868</u>	<u>13,762</u>
	<u>\$ 307,167</u>	<u>\$ 228,503</u>

International Forest
Products Limited

As at December 31, 1987

Approved by the Board:

W. L. Fauder

Director

J. Southcott

Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1987

1. Significant Accounting Policies

(a) Principles of consolidation

These financial statements include the accounts of the wholly-owned subsidiaries, Wide Angle Forest Products Inc. and 286101 British Columbia Ltd., the company formed to issue the redeemable preferred shares, and the 99 percent interest in the Bay Lumber Partnership.

During the year the wholly-owned subsidiary, Holding Lumber Company Limited, was wound up and its operations continued as a division of the Company.

The Company's investment in the Bay Lumber Partnership increased from 65 percent to 99 percent during the year. The investment is now accounted for on a consolidated basis whereas previously it was accounted for on the equity basis.

(b) Inventories

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

(c) Investment in Western Forest Products Limited

The investment in Western Forest Products Limited ("WFP") has been accounted for on the cost basis since January 31, 1982.

(d) Depreciation, amortization and depletion

Depreciation of plant and equipment is provided on a straight-line basis during periods of production at rates (ranging from 5% to 20%) based on the estimated useful lives of the assets. Depletion and road amortization are computed on the basis of timber cut. Amortization of the deferred financing fee is provided over the original term of the related bank credit facility.

(e) Change of company name

Effective January 1, 1988 the Company's name was changed from Whonnock Industries Limited to International Forest Products Limited.

2. Inventories

(Thousands of dollars)	1987	1986
Logs	\$ 54,660	\$ 36,420
Lumber	18,565	13,786
Other	571	871
	<u>\$ 73,796</u>	<u>\$ 51,077</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investment in Western Forest Products Limited

The Company holds a 19.6% voting interest in WFP. Condensed consolidated financial information for WFP at its October 31, 1987 year end was as follows:

Balance Sheet As at October 31, 1987

(Thousands of dollars)	1987	1986
ASSETS		
Working Capital	\$ 28,800	\$ 22,067
Investment in		
Western Pulp Limited Partnership	194,292	191,199
Investment in		
Oil and Gas	26,138	35,352
Fixed Assets	208,446	216,033
Other Assets, net	55,968	55,160
	\$513,644	\$519,811
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-Term Debt	\$200,556	\$226,273
Preferred Shares	135,547	141,094
Common Shares	286,120	282,614
Deficit	(108,579)	(130,170)
	\$513,644	\$519,811

In the year ended October 31, 1987, WFP reported net income of \$21,591,000 (1986 - \$1,766,000) on sales of \$136,783,000 (1986 - \$121,011,000).

The Western Pulp Limited Partnership ("WPLP") was formed in 1983 to acquire and operate two pulp mills formerly owned by WFP and to raise \$110,000,000 in new equity to rebuild and improve the two mills. WFP has the option to convert its investment into a 60.1% interest in the limited partnership by 1996.

Subsequent to the year end, WFP offered to purchase all class A units of WPLP. The offer is subject to certain conditions which include acceptance of the offer by more than 66-2/3 percent of the unitholders.

The Company has not guaranteed any bank loans or other liabilities of WFP. Management has carefully considered the underlying values of the timber and other assets of WFP and its future prospects, and has concluded that there has not been a permanent impairment in the value of this investment.

CONSOLIDATED BALANCE SHEET *con't*

International Forest
Products Limited

As at December 31, 1987

LIABILITIES	1987	1986
Current Liabilities		
Bank indebtedness (note 5)	\$ 26,545	\$ 8,797
Accounts payable and accrued liabilities	37,460	22,703
Principal due within one year on long-term debt (note 5)	231	287
	<u>64,236</u>	<u>31,787</u>
Long-Term Debt (note 5)	<u>40,739</u>	<u>1,017</u>
Deferred Income Taxes (note 6)	<u>13,310</u>	<u>-</u>
 SHAREHOLDERS' EQUITY		
Redeemable Preferred Shares of		
Subsidiary Company (note 7)	<u>80,000</u>	<u>146,000</u>
Capital Stock (note 8)		
Issued and fully paid		
Class A subordinate voting shares	71,974	28,924
Class B common shares	5,249	5,044
7% convertible preference shares	7,994	8,003
	<u>85,217</u>	<u>41,971</u>
Retained Earnings	<u>23,665</u>	<u>7,728</u>
	<u>108,882</u>	<u>49,699</u>
	<u>\$ 307,167</u>	<u>\$ 228,503</u>
 Commitments and contingent liability (note 9)		
Subsequent event (note 14)		

AUDITORS' REPORT

To the Shareholders of
International Forest Products Limited
(formerly Whonnock Industries Limited)

We have examined the consolidated balance sheet of International Forest Products Limited (formerly Whonnock Industries Limited) as at December 31, 1987 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
February 19, 1988

Thorne Ernst & Whinney
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME

	1987	1986
(Thousands of dollars)		
Sales	\$ 382,549	\$ 325,544
Costs and expenses		
Production	289,185	265,469
Selling and administration	16,888	13,145
Depreciation	7,621	6,682
Depletion and amortization	14,288	13,193
	<u>327,982</u>	<u>298,489</u>
Operating income	54,567	27,055
Interest expense on long-term debt	190	103
Other interest (income) expense	(837)	1,073
Other income	704	161
Income before the following	55,918	26,040
Income taxes (note 6)		
Current	100	1,300
Deferred	25,500	10,700
	<u>25,600</u>	<u>12,000</u>
Income before extraordinary item and dividends on preferred shares of subsidiary company	30,318	14,040
Extraordinary item		
Income tax reduction on application of prior years' losses	-	7,500
Income before dividends on preferred shares of subsidiary company	30,318	21,540
Dividends on preferred shares of subsidiary company	9,267	10,259
Net Income	\$ 21,051	\$ 11,281
Net Income Per Share (note 10)		
Before extraordinary item	\$ 1.48	\$ 0.36
Net income	<u>\$ 1.48</u>	<u>\$ 1.08</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1987	1986
(Thousands of dollars)		
Retained Earnings at Beginning of Year	\$ 7,728	\$ (390)
Net income	21,051	11,281
	<u>28,779</u>	<u>10,891</u>
Less		
Share issue expenses, net of deferred income taxes of \$570,000 (1986 - \$350,000)	699	414
Cash dividend on 7% convertible preference shares	560	121
Stock dividends		
7% convertible preference shares	418	-
Class A subordinate voting shares	3,232	2,417
Class B common shares	205	211
	<u>5,114</u>	<u>3,163</u>
Retained Earnings at End of Year	\$ 23,665	\$ 7,728

International Forest
Products Limited

Year Ended December 31, 1987

International Forest
Products Limited

Year Ended December 31, 1987

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Property, Plant and Equipment

(Thousands of dollars)	1987	
		Accumulated Cost Depreciation
Land	\$ 11,162	\$ —
Buildings	32,501	10,977
Machinery and equipment	109,255	38,654
Automotive equipment	8,277	5,283
Other	10,766	3,734
	\$171,961	\$ 58,648

(Thousands of dollars)	1987	1986
	Net	Net
Land	\$ 11,162	\$ 10,336
Buildings	21,524	9,261
Machinery and equipment	70,601	22,011
Automotive equipment	2,994	1,217
Other	7,032	2,926
	\$113,313	\$ 45,751

5. Bank Indebtedness and Long-Term Debt

(Thousands of dollars)	1987	1986
Bank term loan	\$ 40,000	\$ —
Obligations under capital lease and purchase agreement	970	1,304
	40,970	1,304
Less principal included in current liabilities	231	287
	\$ 40,739	\$ 1,017

The bank term loan bears interest at bank prime rate plus five-eighth percent and is repayable in accordance with an excess cash flow formula, set out in agreements between the Company, the subsidiary which issued the redeemable preferred shares and the bank (see note 7).

Principal amounts due on obligations under capital lease and purchase agreement within the next five years are as follows:

1988	\$231,000
1989	233,000
1990	248,000
1991	228,000
1992	30,000

The Company has available operating lines of credit totalling \$69,000,000. The lines of credit are subject to certain working capital requirements.

Bank indebtedness and bank term loan are secured by accounts receivable, inventories, the shares in WFP and a debenture providing a first floating charge on the assets of the Company (see note 7).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Income Taxes

The Company's effective income tax rate is determined as follows:

	1987	1986
Basic federal and provincial tax rate	51.5%	52.5%
Manufacturing and processing allowance	(6.5)	(5.0)
Effect of deferred tax debit previously recorded at 47.5%	1.0	—
	46.0%	47.5%

The Company's income taxes are determined as follows:

(Thousands of dollars)	1987	1986
Income before income taxes, extraordinary item and dividends on preferred shares of subsidiary company	\$55,918	\$26,040
Inventory allowance	—	(200)
Other	(268)	(580)
Accounting income	\$55,650	\$25,260
Income taxes at 46% (1986 - 47.5%)	\$25,600	\$12,000

The Company has not recorded the benefit of investment tax credits totalling \$3,000,000 which are available for periods of one to seven years.

7. Redeemable Preferred Shares of Subsidiary Company

A wholly-owned subsidiary company, which was created in 1985 solely to meet legal requirements for the issuance of the preferred shares, issued to the bank \$146,000,000 in cumulative, redeemable, retractable non-voting first preferred shares with a dividend rate of one-half of bank prime plus 1-3/4%. These preferred shares are redeemable at any time or as follows:

- (i) The subsidiary is required to redeem the shares at par in accordance with an excess cash flow formula, set out in agreements between the Company, the subsidiary and the bank.
- (ii) The outstanding shares will, in any event, be redeemed in full at par not later than December 31, 1989.

During the year, \$66,000,000 of the preferred shares were redeemed at par value. The redemption was partly funded by drawing \$40,000,000 under the Company's term standby credit facility which was arranged to fund the redemption of the outstanding preferred shares. A term

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

International Forest
Products Limited

Year Ended December 31, 1987

	1987	1986
(Thousands of dollars)		
Cash Provided by (Used for):		
Operations		
Income before extraordinary item	\$ 30,318	\$ 14,040
Less dividends on preferred shares of subsidiary company (note 7)	9,267	10,259
	<u>21,051</u>	<u>3,781</u>
Items not affecting cash		
Depreciation, depletion and amortization	21,909	19,875
Deferred income taxes	25,500	10,700
Equity in earnings of investee companies	(842)	20
Other	1,334	(181)
	<u>68,952</u>	<u>34,195</u>
Cash generated from (used in) operating working capital		
Trade and other accounts receivable	(7,032)	(1,046)
Inventories	(22,719)	(6,864)
Prepaid expenses	(647)	(713)
Accounts payable and accrued liabilities	14,757	1,916
	<u>53,311</u>	<u>27,488</u>
Financing		
Issue of		
Class A subordinate voting shares, net of issue expenses	38,158	-
7% convertible preference shares, net of issue expenses	-	7,238
Redemption of preferred shares of subsidiary company	(66,000)	-
Additions to (reduction in) long-term debt	39,666	(950)
Cash dividend on 7% convertible preference shares	(560)	(121)
Other	(36)	(36)
	<u>11,228</u>	<u>6,131</u>
Investments		
Additions to property, plant and equipment	(65,465)	(8,700)
Disposal of property, plant and equipment	533	412
Logging roads	(12,390)	(11,383)
Investments and other assets	(4,965)	(5,858)
	<u>(82,287)</u>	<u>(25,529)</u>
Increase (Decrease) in Bank Indebtedness	17,748	(8,090)
Bank indebtedness at beginning of year	8,797	16,887
Bank Indebtedness at End of Year	\$ 26,545	\$ 8,797

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

standby facility of \$80,000,000 exists to fund the redemption of the remaining outstanding preferred shares.

The redeemable preferred shares of the subsidiary are subject to an agreement wherein, upon the occurrence of certain events of default, the bank may at its option require the Company to purchase these shares at par on 30 days notice. This agreement is secured as set out in the existing loan agreement between the bank and the Company (note 5).

8. Capital Stock

Authorized capital consists of:

100,000,000	class A subordinate voting shares without par value
1,700,000	class B common shares without par value
5,000,000	preference shares without par value
1,455,000	7% cumulative, redeemable, convertible preference shares without par value, series I

Share transactions during the year were as follows:

	Number		7% convertible preference	Total	Amount
	Class A	Class B			
Balance at beginning of year	8,661,571	1,325,703	1,455,000	11,442,274	\$41,970,500
Issued for cash including 682,500 shares issued pursuant to warrants	5,179,318	-	-	5,179,318	36,731,500
Issued for units in WPLP	152,931	-	-	152,931	2,695,400
Share conversion	1,500	-	(1,500)	-	-
Stock dividends	490,195	27,728	-	517,923	3,819,600
Balance at end of year	14,485,515	1,353,431	1,453,500	17,292,446	\$85,217,000

The holders of the 7% convertible preference shares are entitled to fixed cumulative dividends of \$0.385 per annum per share. Each 7% convertible preference share is convertible at the option of the holder at any time prior to July 31, 1993 into one class A subordinate voting share at a conversion price of \$5.50 per share, subject to adjustment in certain events.

The 7% convertible preference shares are redeemable at the option of the Company after July 31, 1989 at either \$5.75 or \$5.50 per share depending on the circumstances and the timing of the redemption.

The first 13-1/3% per share per annum of dividends to common shareholders declared are paid on the class A shares. Any additional dividends shall be declared in equal per share amounts on the class A and B shares.

The class B shares (carrying ten votes per share) are exchangeable into class A shares (carrying one vote per share) at any time at the option of the holder or, under certain conditions which will result in the automatic conversion of the class B shares into class A shares, on the basis of one class A share for one class B share.

During the year the Company established an employee share option plan. To date options have been granted to purchase 198,000 class A shares at \$5.125 per share, the closing market price for the shares on the date that the options were granted. The options are exercisable after November 2, 1989 and expire on November 2, 1997.

Class A shares are reserved for possible future issuance as follows:

- 1,353,431 class A shares are reserved for the conversion of class B shares;
- 1,777,305 class A shares are reserved for possible issuance to holders of WPLP units at a price of \$17.63 per share in exchange for their partnership units;
- 1,453,500 class A shares are reserved for the conversion of the 7% convertible preference shares; and
- 1,000,000 class A shares are reserved for possible issuance pursuant to the employee share option plan.

9. Commitments and Contingent Liability

(a) The Company is obligated under various operating leases requiring minimum annual rental payments in each of the next five years as follows:

1988	1989	1990	1991	1992
\$4,560,000	\$4,096,000	\$3,765,000	\$3,164,000	\$3,000,000

(b) Under the terms of the 1983 refinancing agreement entered into by the Company and WFP, the Company is required, commencing in 1987, to acquire \$10,000,000 of the voting preferred shares of WFP plus accumulated dividends at an annual rate equal to the lesser of \$2,500,000 or 20% of the Company's net income for the previous year, after excluding non-cash extraordinary items. During the year, 632,912 of the voting preferred shares were acquired under the terms of the agreement.

(c) Under the terms of the WPLP agreement, the Company has agreed, if required, to make revolving loans to the partnership. The Company's share of the contingent liability is limited to a maximum of \$5,000,000 to June 30, 1988, \$3,000,000 thereafter to June 30, 1989 and \$2,000,000 thereafter to June 30, 1990 (see note 14).

10. Income Per Share

The basic income per share is calculated using the weighted average number of shares outstanding during the respective fiscal years after giving retroactive effect to stock dividends.

The possible conversion of the 7% convertible preference shares and the WPLP units does not have a material dilutive effect on the earnings per share.

11. Pension Plans

The Company contributes to several defined contribution retirement plans for its employees on a current service basis. These plans are fully funded and there is no unfunded past service liability.

12. Related Party Transactions

Lumber sales to an affiliate of a significant shareholder amounted to \$3,274,000 (1986 - \$3,521,000). These transactions were conducted on a normal commercial basis, including terms and prices.

13. Segmented Information

The Company operates exclusively in the forest products industry and all of its operations are based in Canada.

The company sells to foreign markets, principally through a Canadian sales agency, Seaboard Lumber Sales Company Limited. Sales by major markets are as follows:

	1987				1986
	Lumber and Shakes	Chips and Other By-products	Logs	Total	
Canada	\$ 66,775	\$20,011	\$26,521	\$113,307	\$101,747
United States	81,802	4,859	-	86,661	86,858
Other export	143,389	-	39,192	182,581	136,939
	\$291,966	\$24,870	\$65,713	\$382,549	\$325,544

14. Subsequent Event

Pursuant to a public offer by WFP to purchase all class A units of WPLP (note 3), the Company has agreed to accept the offer to purchase its class A units in WPLP subject to certain conditions. The Company has agreed to fund a portion of the purchase, by way of a subordinated term loan to WFP, bearing interest at bank prime plus 1-1/2%, to a maximum of \$6,200,000. Proceeds to the Company from the sale of the class A units to WFP would be approximately \$4,400,000.

C

International Forest Products Limited

NOTICE OF ANNUAL GENERAL MEETING APRIL 28, 1988

The Annual General Meeting of the members of International Forest Products Limited will be held in the Arbutus Room, Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia on Thursday, April 28, 1988 at the hour of 11:00 o'clock in the forenoon for the purpose of:

1. Receiving the Financial Statements of International Forest Products Limited for the fiscal year ended December 31, 1987 and the Auditors' Report thereon and the Directors' Report;
2. Appointing Auditors of the Company for the ensuing year and authorizing the Directors to fix the remuneration to be paid to the Auditors;
3. Approving a share option plan for employees of the Company or a subsidiary of the Company;
4. Fixing the number of directors;
5. Electing the Directors of the Company for the ensuing year;
6. Transacting any other business that may properly come before the meeting.

Accompanying this Notice are copies of:

1. The Report of Directors included in Annual Report;
2. The Financial Statements for the fiscal year ended December 31, 1987;
3. The Information Circular; and
4. The Form of Proxy.

Members who are unable or who are not expecting to be present at the meeting are urged to complete the enclosed form of proxy and return it to Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, not later than 48 hours, excluding Saturdays and holidays, before the time for holding the Annual General Meeting.

Dated at Vancouver, British Columbia, this 21st day of March, 1988.



HELMUTH KNETEMAN
Secretary

International Forest Products Limited

INFORMATION CIRCULAR

FOR THE ANNUAL GENERAL MEETING OF MEMBERS
TO BE HELD ON APRIL 28, 1988

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation of proxies BY THE MANAGEMENT OF INTERNATIONAL FOREST PRODUCTS LIMITED (the "Company"), formerly Whonnock Industries Limited, for use at the Annual General Meeting of the members of the Company to be held at the time and place and for the purpose set out in the accompanying Notice of Annual General Meeting. The cost of solicitation by management will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons designated as proxyholders in the enclosed form of proxy are Directors of the Company. A member desiring to appoint a person to attend and act for him and on his behalf at the meeting, other than the persons so designated, may do so in accordance with the form of proxy.

A member may revoke a proxy by an instrument in writing:

- (a) executed by the member or by his attorney authorized in writing or, where the member is a corporation, by a duly authorized officer or attorney of the corporation; and
- (b) delivered either to the registered office of the Company at any time up to and including the last business day preceding the day of the meeting at which the proxy is to be used, or to the chairman of the meeting on the day of the meeting;

or in any other manner provided by law.

EXERCISE OF DISCRETION BY PROXYHOLDERS

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in the manner specified in the form of proxy. So far as is known no matters other than those stated in the Notice of Annual General Meeting will be presented at the meeting, but if any such matters should arise the enclosed form of proxy confers a discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Annual General Meeting and with respect to other matters which may properly come before the meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

Members registered as holders of Class "A" Subordinate Voting shares ("Class "A" Shares") and members registered as holders of Class "B" Common shares ("Class "B" Shares") on March 21, 1988 (the "Record Date") will be entitled to attend and vote at the meeting. Each person appointed under a form of proxy for use at the meeting will be entitled to vote the shares represented thereby if the form of proxy is properly completed and delivered to Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, not later than 48 hours, excluding Saturdays and holidays, before the time of the meeting or any adjournment thereof.

The authorized capital of the Company consists of 106,700,000 shares without par value divided into 100,000,000 Class "A" Shares, 1,700,000 Class "B" Shares and 5,000,000 Preference shares, of which 1,455,000 shares have been designated as 7% Cumulative Redeemable Convertible Preference shares, Series 1

("Redeemable Preference Shares"). Each Class "A" Share carries the right to one vote either on a show of hands or on a poll. Each Class "B" Share carries the right to one vote on a show of hands and to ten votes on a poll. The Preference shares do not carry the right to vote except as provided in Article 21.3(h) of the Articles of the Company.

As of the Record Date, there are 14,486,086 Class "A" Shares, 1,353,431 Class "B" Shares and 1,453,500 Redeemable Preference Shares outstanding. The holders of Class "A" Shares have the exclusive right, voting separately as a class, to elect one Director of the Company. The holders of the Class "B" Shares have the exclusive right, voting separately as a class, to elect the remaining Directors of the Company. If there are no holders of Class "B" Shares, the holders of Class "A" Shares have the right to elect all the Directors of the Company. Class "B" Shares are exchangeable for Class "A" Shares, share for share.

To the knowledge of the Directors and senior officers of the Company only the following persons beneficially own, directly or indirectly, or exercise control or direction over voting securities carrying more than 10% of the voting rights attached to either class of voting securities of the Company:

Name	Number and Class of Shares	Percentage of Class
Mountclair Investment Corporation	2,970,928 Class "A" Shares	20.51
	676,874 Class "B" Shares	50.01
Vanpac Company No. 9512	2,222,720 Class "A" Shares	15.34
	671,349 Class "B" Shares	49.60

All the issued shares of Mountclair Investment Corporation are owned by a holding company, the voting shares of which are held directly or indirectly by William L. Sauder, proposed nominee for Director.

Vanpac Company No. 9512 is a nominee for The Toronto-Dominion Bank and, pursuant to an agreement made the 30th day of April, 1985, between Mountclair Investment Corporation, The Toronto-Dominion Bank, the Company and The Canada Trust Company, Mountclair Investment Corporation has the right to vote the shares owned by Vanpac Company No. 9512 so long as none of the events permitting the bank to vote the shares has occurred.

REMUNERATION OF MANAGEMENT AND OTHERS

The Company has six executive officers whose aggregate cash compensation during the year ended December 31, 1987 was \$1,118,167. Each director who is not an officer of the Company was paid a director's fee of \$10,000 per year and an amount of \$500 for each board meeting attended. In addition, each director who is a member of the audit committee was paid a further fee of \$1,000 per year.

In lieu of pension benefits, the Company has entered into a consulting agreement with a long-time executive officer which commences upon retirement. The maximum remuneration proposed under the agreement will be \$494,000 payable over a ten year period in equal monthly installments with a final balance at the end of the tenth year.

Pursuant to the share option plan described below and subject to approval by the members at the meeting, the Company has during the financial year completed on December 31, 1987 granted options to executive officers to purchase an aggregate of 125,000 Class "A" Shares at an exercise price of \$5.125, the market value of the Class "A" Shares on the date the options were granted. None of these options may be exercised earlier than November 3, 1989 or after November 2, 1997 and their exercise is subject to the following cumulative limitations (except in the event of retirement in which case the limitations are waived):

After	Maximum Percentage of Optioned Shares That May Be Purchased
November 2, 1989	40
November 2, 1990	60
November 2, 1991	80
November 2, 1992	100

CHANGE OF NAME

At an extraordinary meeting of members of the Company held on December 4, 1987 it was resolved as a special resolution that the name of the Company be changed from "Whonnock Industries Limited" to "International Forest Products Limited". The change of name became effective on January 1, 1988.

APPOINTMENT OF AUDITORS

The persons designated in the enclosed form of proxy intend to vote in favor of the appointment of Thorne Ernst & Whinney, Chartered Accountants, Vancouver, British Columbia, as auditors of the Company to hold office until the next Annual General Meeting of members and to authorize the directors to fix the remuneration of the auditors so appointed.

SHARE OPTION PLAN

On November 3, 1987 the Directors of the Company established a share option plan (the "Plan") for persons regularly employed on a full-time basis by the Company or a subsidiary of the Company. The Plan has been approved by The Toronto Stock Exchange and the Vancouver Stock Exchange, subject to approval by the members at the meeting.

The Plan provides that the Directors of the Company may grant options to employees to purchase Class "A" Shares on terms that the Directors may determine, within the following limitations. The aggregate number of Class "A" Shares reserved for issue under the Plan plus the number of Class "A" Shares that are the subject of other options granted by the Company must not exceed 1,000,000, which is less than 10% of the outstanding issue (on a non-diluted basis) of the Class "A" Shares. The exercise price of an option under the Plan shall not be less than 90% of the closing market price of the Class "A" Shares on the last trading day preceding the date on which the option is granted. An option shall not be exercisable after the tenth anniversary on which it is granted and, except in the event of the death of an employee, shall not be exercisable after 30 days following the date on which an employee ceases to be regularly employed by the Company or a subsidiary of the Company. In the event of a capital reorganization of the Company, the terms of any options outstanding at that time will be adjusted accordingly. Upon exercise of an option the full purchase price is to be paid to the Company by the employee.

The persons designated in the enclosed form of proxy intend to vote in favour of approval of the Plan. Each senior officer of the Company has a material interest in the approval of the Plan by the members. The approval of the Plan requires a majority of votes cast in favour of the ordinary resolution.

ELECTION OF DIRECTORS

Each of the persons whose name appears hereunder is proposed by the management to be nominated for election as a Director of the Company to serve until the next Annual General Meeting of the members or until he sooner ceases to hold office.

The persons designated in the enclosed form of proxy intend to vote in favour of the election of these nominees and the management does not contemplate that any of the nominees will be unable to serve as a Director. All of the nominees are ordinarily resident in Canada except Robert A.C. McColl who is ordinarily resident in the United States of America. The following information concerning the respective nominees has been furnished by them:

Nominee for Holders of Class "A" Shares only	Present Principal Occupation	Director Since	Number of shares beneficially owned or over which control or direction is exercised	
			Class "A" Shares	Class "B" Shares
Robert A.C. McColl (b)	Vice-President, Administration of Home America TV Appliance Audio Inc. (Appliance Distributors)	Dec. 17, 1967	355	Nil
Nominees for Holders of Class "B" Shares only				
H. Clark Bentall	Chairman of the Bentall Group Ltd. (Real estate developers and general contractors)	Apr. 30, 1987	Nil	Nil
Herbert L. Henri	Vice-President of the Company	Mar. 22, 1974	67	Nil
Helmuth Kneteman	Retired	Jan. 4, 1966	30,353	Nil
John A. Milroy (b)	Business Consultant	Mar. 23, 1978	2,769	Nil
George L. O'Leary	Chairman of Scott Paper Limited, Canada (Manufacturers of tissue products and fine papers)	Feb. 2, 1987	1,039	Nil
Jack W. Poole	Chairman and Chief Executive Officer of BCE Development Corporation (Real estate developers) prior to 1985 he was President and Chief Executive Officer of the same company which was then called Daon Development Corporation	Feb. 29, 1988	1,000	Nil
E. Lawrence Sauder (a)	Executive Vice-President of Sauder Industries Limited (Manufacturers and distributors of building products)	Apr. 18, 1984	Nil	Nil
William L. Sauder (a)(b)	Chairman of the Board and Chief Executive Officer of the Company, President of Sauder Industries Limited	Jul. 27, 1977	2,970,928	676,874
Joseph Segal (b)	President of Kingswood Capital Corporation (Venture capital)	Feb. 2, 1987	2,078	Nil

	Present Principal Occupation	Director Since	Number of shares beneficially owned or over which control or direction is exercised	
			Class "A" Shares	Class "B" Shares
Nominee for Holders of Class "B" Shares only				
John C. Southcott (a)	President and Chief Operating Officer of the Company	Mar. 21, 1980	3,926	Nil

- (a) Member of the Executive Committee
- (b) Member of the Audit Committee

NOTES:

1. The advance notice required to be published under Section 135 of the *Company Act* was published in The Vancouver Sun on March 2, 1988. Copies of the advance notice were sent to the Vancouver Stock Exchange and the British Columbia Superintendent of Brokers.
2. The number of shares of the Company beneficially owned, directly or indirectly, by the nominees for Director is based on information provided by each nominee as of March 8, 1988.

DATED at Vancouver, British Columbia, this 21st day of March, 1988.



HELMUTH KNETEMAN
Secretary

Head Office**Registered Office**

P.O. Box 49114, Bentall Centre
Suite 3500, Bentall Tower Four
1055 Dunsmuir Street
Vancouver, B.C. V7X 1H7
(604) 681-3221

Officers

W.L. Sauder
Chairman and Chief Executive Officer
J.C. Southcott
President and Chief Operating Officer
H.L. Henri
Vice-President
R.M. Sitter
Vice-President, Manufacturing
R.W. Fechtner
Vice-President, Forestry and Logging
G.J. Friesen
Vice-President, Finance
L.D. Cocke
Controller

Directors

H.C. Bentall, Vancouver, B.C.
H.L. Henri, Chase, B.C.
H. Kneteman, Vancouver, B.C.
R.A.C. McColl, Phoenix, Arizona
J.A. Milroy, Vancouver, B.C.
G.L. O'Leary, West Vancouver, B.C.
J.W. Poole, Vancouver, B.C.
E.L. Sauder, Vancouver, B.C.
W.L. Sauder, Vancouver, B.C.
J. Segal, Vancouver, B.C.
J.C. Southcott, Vancouver, B.C.

Auditors

Thorne Ernst & Whinney,
Vancouver, B.C.

Transfer Agent

Montreal Trust Company,
Vancouver, B.C. and Toronto, Ont.

Forestry and Logging Group

P.O. Box 49114, Bentall Centre
Suite 3400, Bentall Tower Four
1055 Dunsmuir Street
Vancouver, B.C.
V7X 1H7 (604) 681-3221

Sawmill Operations**BAY FOREST**

465-9933
Box 577
10985 South Bonson Road
Pitt Meadows, B.C. V0M 1T0

McDONALD CEDAR

888-1616
P.O. Box 69
9269 Glover Road
Fort Langley, B.C. V0X 1J0

MacKENZIE MILLS

580-1494
11732 - 130th Street
Surrey, B.C. V3R 2Y3

SILVERTREE

327-9242
P.O. Box 67339, Station "O"
Ft. of St. George Street
Vancouver, B.C. V5W 3T1

PIONEER LUMBER

462-7111
P.O. Box 10
26324 Lougheed Hwy.
Whonnock, B.C. V0M 1S0

CLASSIC SHAKE & SHINGLE

462-7111
P.O. Box 10
25910 Lougheed Hwy.
Whonnock, B.C. V0M 1S0

ADAMS LAKE LUMBER

679-3234
R.R. 2 Chase, B.C. V0E 1M0

WESTERN WHITEWOOD

525-9411
501 Boyd Street
New Westminster, B.C. V3M 5H6

Logging Locations

Adams Lake	Kwatna Bay
Bear Lake	Lizzie Creek
Big Silver	Malcolm Island
Caviar Cove	Menzies Bay
Chamiss Bay	Mereworth Sound
Cleagh Creek	Moh Creek
Goat Lake	Narrows Inlet
Hecate	Port Neville
Helilog	Quatlena
Hope (3)	Scott Cove
Homathko	Surf Inlet
Kingcome Inlet	Taleomey
Kumealon	



