MacMillan Bloedel Limited
Information Circular and
Annual Statutory Report 1994



The Annual Statutory Report Comprises:

Annual Information Form – March 1, 1995
Management's Discussion and Analysis
Consolidated Financial Statements

INFORMATION CIRCULAR AND ANNUAL STATUTORY REPORT FOR 1994 OF MacMILLAN BLOEDEL LIMITED

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NOTICE OF ANNUAL GENERAL MEETING OF COMMON SHAREHOLDERS

MACMILLAN BLOEDEL LIMITED HEREBY GIVES NOTICE that the Annual General Meeting of the common shareholders of MacMillan Bloedel Limited will be held at the Hyatt Regency Hotel, 655 Burrard Street, Vancouver, British Columbia on Thursday, April 13, 1995 at 10:00 a.m. local time, for the following purposes:

- 1. To receive and consider the report of the directors and the financial statements of the Company for the year which ended on December 31, 1994;
- 2. To elect directors for the ensuing year;
- 3. To appoint auditors for the ensuing year and to authorize the directors to fix their remuneration; and
- 4. To transact any other business that may properly be brought before the meeting.

NOTICE IS ALSO GIVEN that at this meeting the common shareholders will be asked to consider and, if thought fit, to pass the following items of Special Business in the form and for the reasons set out in the Information Circular, with or without modification.

- 1. An Ordinary Resolution to alter the compensation payable to directors;
- 2. An Ordinary Resolution to approve the outside directors compensation plan;
- 3. An Ordinary Resolution to amend the Company's Memorandum to increase the authorized capital; and
- 4. An Ordinary Resolution to confirm a Shareholder Rights Plan adopted by the directors on December 14, 1994.

As a common shareholder you are invited to join us at the 1995 Annual General Meeting of MacMillan Bloedel Limited. If, however, you are unable to be present in person we do encourage you to vote your shares by completing the enclosed form of proxy. Your vote is important regardless of the number of shares you own. You should specify your choices by marking the appropriate boxes on the proxy form enclosed, and by dating, signing and returning your proxy form in the enclosed return envelope. Please do this as promptly as possible. Voting by proxy will not prevent you from voting in person if you attend the meeting, but will assure that your vote will be counted if you are unable to attend.

Although we are distributing this Notice of Meeting and Information Circular to holders of preferred shares as well as to common shareholders, only holders of common shares are entitled to vote. Consequently we are not sending the form of proxy to holders of preferred shares. Holders of preferred shares are, nevertheless, invited to attend the meeting. In order to assist us in estimating the number of people who will be attending, we do request any holder of preferred shares who wishes to attend the meeting to ask the Corporate Secretary's office for a guest pass by telephoning or faxing the numbers set out in the section: Availability of Documents (page 23).

G.E. MYNETT, FCIS Corporate Secretary

Vancouver, British Columbia March 1, 1995.

INFORMATION CIRCULAR

In connection with the meeting to be held on April 13, 1995 Dated March 1, 1995

The Board of Directors of MacMillan Bloedel Limited (the "Company") has determined that the Annual General Meeting of the common shareholders will take place on Thursday, April 13, 1995 at the time and place and for the purposes set out in the Notice of Meeting.

The management of the Company is soliciting proxies for use at that meeting, and has designated as the persons whom shareholders may appoint as their proxyholder the persons listed on the enclosed form of proxy. If a shareholder wants to appoint a person not listed on the form of proxy to represent him or her at the meeting, the shareholder may do so either by substituting the name of that person, who need not be a shareholder, on the form of proxy or by completing another form of proxy. If the shareholder is a corporation, it must execute the proxy by an officer or properly appointed attorney. For the proxy to be valid the shareholder (or the shareholder's attorney, who must be authorized in writing) must sign and date it, and must deposit it at the offices of Montreal Trust Company of Canada, 4th floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, not less than 48 hours before the time of the meeting. A shareholder may revoke a proxy at any time before the meeting. If the shareholder attends the meeting and votes in a poll, he or she will be automatically revoking the proxy. An undated but executed proxy will be dated the date of receipt by Montreal Trust Company of Canada.

If the instructions are certain, on any poll the persons named in the enclosed form of proxy will vote the shares held under proxy in accordance with the instructions of the shareholder who appointed them. If there are no instructions, on any poll they will vote those shares in favour of each of the nominees for election as directors, and for each other matter shown on the form of proxy. The form of proxy enclosed, when properly signed, confers discretionary authority to the appointed persons to vote as they see fit on any amendment or variation to any of the matters identified in the Notice of Meeting and on any other matter that may properly be brought before the meeting. Neither the directors nor the management of the Company is aware of any variation, amendment or other matter to be presented for a vote at the meeting.

The Company has used independent scrutineers at its meetings of shareholders for over forty years and recognizes the importance of this in affirming the confidentiality of voting at shareholder meetings. In the interests of continuing this policy the Board of Directors has adopted a formal policy on confidential voting. At meetings of its shareholders the Company will, therefore, continue its long-standing practice of appointing independent scrutineers to tabulate the proxies and count the ballots in the event of a poll. Proxies in connection with meetings of its shareholders will be counted and tabulated in such a manner as to preserve the confidentiality of individual shareholder votes except where the proxy contains a comment intended for management, review by the Company is required by law or is necessary to enable management to comply with a duty imposed by law, or it is necessary to have reference to the proxy in order to determine its validity or for the Chairman to carry out his legal duties and responsibilities.

The Company is paying for this solicitation, which is being made by mail. The Company has retained The Proxy Solicitation Company Ltd. in Canada and Shareholder Communications Corporation in the United States to assist it in the solicitation of proxies, and anticipates paying approximately Cdn. \$10,000 and US\$5,000 for these services.

RECORD DATE AND ADVANCE NOTICE

The Board of Directors fixed the record date for determining the names of common shareholders entitled to this Notice of Meeting and Information Circular as the close of business on February 24, 1995. Each person who is listed in the register of members of the Company as a holder of one or more common shares on February 24, 1995 is entitled to attend the Annual General Meeting in person or by proxy and to cast one vote for each share on a poll. Registered holders of Installment Receipts at the opening of business on February 24, 1995 will, subject to the procedures set out in National Policy 41, be entitled to attend, to vote at the meeting and to execute proxies.

The advance notice of the Annual General Meeting to be held on Thursday, April 13, 1995, which was published in Vancouver on February 1, 1995, included an invitation for written nominations signed by members holding in the aggregate not less than 10% of the Company's common shares. The Company had received no such nominations for inclusion in this Information Circular by March 1, 1995.

VOTING SHARES AND PRINCIPAL HOLDERS

On February 1, 1995, 124,297,300 common shares of the Company entitled to be voted at the meeting were outstanding. This figure excludes 552 shares represented by warrants. Each share carries the right to one vote.

As far as the directors and officers of the Company are aware, on March 1, 1995 no person or company, owns or exercises control over, directly or indirectly, shares carrying more than 5% of the voting rights attaching to all common shares of the Company entitled to be voted at the meeting.

On February 1, 1995 the directors and executive officers as a group beneficially own 444,371 common shares. This number, which includes qualifying shares of directors, represents less than .5% of all common shares.

ELECTION OF DIRECTORS

Unless otherwise directed, the persons named in the enclosed form of proxy intend to vote for the election of a Board of Directors composed of the thirteen nominees in the list below. If any nominee does not stand for election or is unable to serve, the named proxyholder may vote the proxies for a smaller board at his discretion. Unless his office is earlier vacated in accordance with applicable law or the Articles of the Company, each director who is elected will hold office until the end of the next Annual General Meeting.

INFORMATION CONCERNING NOMINEES

Name and residence	Principal occupation of nominee during the past five years	Age at Feb. 1, 1995	Director since	Shares held*
J.T. Arnold	Senior Vice-President, Tilbury Cement Limited since 1993 (cement and construction materials); prior to which he was President, Ocean Construction Supplies Limited (concrete construction and supplies).	58	1992	3,704
D.C. Davenport	Vice-Chairman of the Board since 1993, Partner of Davis & Company (barristers and solicitors).	62	1981	540
P.W. Douglas	Corporate Director since 1991; prior to which he was Chairman and Chief Executive Officer of The Pittston Company (natural resources and specialized transport services).	68	1992	1,000
R.B. Findlay	President and Chief Executive Officer since 1990; prior to which he was Senior Vice-President, Marketing.	61	1990	49,557
R.F. HaskayneCalgary, Canada	Chairman of the Board, Nova Corporation (pipelines and petrochemicals) since 1992; prior to which he was Special Advisor to the Board of Directors of Nova Corporation; prior to which he was Chairman, President and Chief Executive Officer of Interhome Energy Inc.	60	1994	5,000
C.C. Knudsen	Corporate Director since 1990; prior to which he was Vice-Chairman of the Board.	71	1976	18,107
W.C. Minnick	Corporate Director since January 31, 1995; prior to which he was President and Chief Executive Officer of TJ International, Inc. (engineered lumber products).	52	1993	1,172

Information concerning nominees (continued)

Name and residence	Principal occupation of nominee during the past five years	Age at Feb. 1, 1995	Director since	Shares held*
C.E. Ritchie, O.C. Don Mills, Canada	Corporate Director since January 17, 1995; prior to which he was Chairman of the Board of Directors of The Bank of Nova Scotia (banking and financial services) since 1993; prior to which he was Chairman of the Board of Directors and Chief Executive Officer of The Bank of Nova Scotia.	67	1994	1,000
J. St.C. Ross	Corporate Director since 1993; prior to which he was Executive Vice-President and Chief Operating Officer since 1990; prior to which he was Senior Vice-President, Operations.	63	1990	41,888
R.V. Smith	Chairman of the Board since 1990; prior to which he was President and Chief Executive Officer of the Company.	68	1980	71,848
Dr. D.W. Strangway Vancouver, Canada	President of The University of British Columbia.	60	1986	1,704
J.S. Walton	Chairman, Endeavour Financial Corporation (corporate and financial advisory services) since 1992; prior to which he was President, Endeavour Capital Corporation (predecessor company to Endeavour Financial Corporation).	64	1988	2,000
A.H. Zimmerman, O.C Toronto, Canada	Corporate Director since 1994; prior to which he was Chairman, Confederation Life Insurance Company (group life and health insurance products and services) since 1993; prior to April, 1993 he was Chairman, Noranda Forest Inc. (forest products); prior to 1991 he was Chief Executive Officer, Noranda Forest Inc.; Chairman of the Board of the Company prior to 1990.	67	1981	22,703

^{*}This column shows the number of common shares (including 500 qualifying shares), as reported to the Company, beneficially owned directly or indirectly or over which control is exercised by each of the nominees. The percentage of shares other than qualifying shares held by each nominee is in no case greater than .1%.

The nominees listed below hold directorships in other companies with a class of securities registered pursuant to Section 12 of the United States Securities Exchange Act of 1934 or which are subject to the requirements of Section 15(d) of such Act or which are registered as investment companies under the United States Investment Company Act of 1940:

D.C. Davenport	Vengold Inc.	(mining and	exploration)
		The second second second	

P.W. Douglas Holmes Protection Group, Inc. (electronic security services)

New York Life Insurance Co. (insurance)

Phelps Dodge Corporation (international mining and manufacturing)

Philip Morris Companies Inc. (tobacco and food)

U.S. Trust Corporation NYC (financial)

R.B. Findlay	TJ International, Inc. (engineered lumber) Methanex Corporation (methanol production)
R.F. Haskayne	Alberta Energy Company Ltd. (energy) Home Oil Company Limited (oil and natural gas) Manufacturer's Life Insurance Company (insurance) Nova Corporation (pipelines and petrochemicals)
C.C. Knudsen	Cascade Corporation (components for heavy industrial equipment) Penwest Ltd. (corn derivatives) Safeco Corporation (insurance)
W.C. Minnick	Eljer Industries Inc. (plumbing fixtures and household appliances)
C.E. Ritchie	Ingersoll-Rand Company (industrial equipment) J. Ray McDermott, S.A. (marine construction) Minorco (international mining) Moore Corporation Limited (business forms) Nova Corporation (pipelines and petrochemicals)
D.W. Strangway	Echo Bay Mines Ltd. (gold and silver ores)
J.S. Walton	Vengold Inc. (mining and exploration)
A.H. Zimmerman	The Pittston Company (natural resources and specialized transport services)

The Board of Directors of the Company consists of thirteen members, presently made up of one executive officer and twelve directors who are not executive officers. The Board of Directors held eleven meetings during 1994. From among its members, the Board appoints a number of committees with specific duties, including an Executive Committee, an Audit Committee, an Environmental Committee, a Corporate Governance Committee and a Compensation Committee.

Executive	Governance	Environmental	Audit	Compensation
Committee	Committee	Committee	Committee	Committee
R.V. Smith* D.C. Davenport R.B. Findlay C.C. Knudsen J.St.C. Ross J.S. Walton	D.C. Davenport* J.T. Arnold P.W. Douglas R.F. Haskayne D.W. Strangway J.S. Walton A.H. Zimmerman EX-OFFICIO R.V. Smith R.B. Findlay	J.St.C. Ross* J.T. Arnold D.C. Davenport C.C. Knudsen W.C. Minnick D.W. Strangway J.S. Walton A.H. Zimmerman	D.C. Davenport* P.W. Douglas C.C. Knudsen C.E. Ritchie	P.W. Douglas* J.T. Arnold R.F. Haskayne D.W. Strangway J.S. Walton A.H. Zimmerman

^{*}Chairman

BUSINESS RELATIONSHIPS

In the ordinary course of business, the Company enters into transactions with various companies and firms of which certain of its directors are officers, directors or partners. Other than the purchase in 1994 of approximately \$166 million of engineered lumber products from Trus Joist MacMillan, a partnership owned 51% by TJ International, Inc., of which R.B. Findlay is a director and of which W.C. Minnick was President and Chief Executive Officer, none of these transactions have been material to the Company, and the Company believes that they have not been material to the other companies or firms involved. During the year and in the ordinary course of business, the Company consulted and is continuing to consult Davis & Company, a law firm of which D.C. Davenport is a partner. R.V. Smith, who retired as Chief Executive Officer of the Company in 1990 and is currently Chairman of the Board, continues to be retained as a consultant. For his consulting services R.V. Smith was paid \$91,250 in 1994. At December 31, 1994 four directors held shares and loans under the Company's senior management share purchase plan which is described below in the executive compensation section: R.B. Findlay 38,330 shares (\$586,023); J.St.C. Ross 37,897 shares (\$568,288); R.V. Smith 50,264 shares (\$764,227); A.H. Zimmerman 18,502 shares (\$282,077). At December 31, 1994 two directors held share rights under the Company's 1992 phantom stock issue: R.B. Findlay 16,064 rights and J.St.C. Ross 10,000 rights.

APPOINTMENT OF AUDITORS

Unless otherwise directed, the persons named in the enclosed form of proxy will vote for the re-appointment of Price Waterhouse as the auditors of the Company for the ensuing year, and for the delegation to the Board of Directors of the power to set their fees. Representatives of this firm will be present at the Annual General Meeting to respond to questions asked at the meeting and will have the opportunity to make a statement if they see fit.

SPECIAL BUSINESS

1. Directors compensation

Article 12.5 of the Company's Articles provides that each director shall be entitled to receive as remuneration for serving as a director such amounts up to an aggregate amount fixed by ordinary resolution of the shareholders. On March 26, 1987 the common shareholders established the amount of \$250,000 as the aggregate amount of fees to be paid to directors as compensation for their services as directors. It is now appropriate to re-establish the authority for the payment of remuneration to directors. All directors and their associates other than a full-time executive officer therefore have an interest in the increase of directors compensation.

Since March 26, 1987 the duties of directors have increased considerably, and the directors have met more frequently. In addition, two new committees, the Environmental Committee and Governance Committee, have been established. The role of the directors has also expanded as corporate governance issues have been addressed. This has increased the aggregate fees payable to directors.

Inflation since 1987 has reduced the effective value of fees paid to directors.

Directors fees paid by comparable Canadian companies are now in many instances significantly greater than fees currently paid to directors by the Company.

Accordingly the directors request that the resolution set out below be adopted by the common shareholders at the Annual General Meeting.

RESOLVED THAT the authorized aggregate amount of fees payable annually to the directors for service on the Board of Directors be increased to \$450,000 and that the Board of Directors be authorized to establish the annual retainer and meeting fees for attendance at meetings of the Board of Directors and committees.

2. Outside directors share compensation plan

During 1994, the Governance Committee of the Board of Directors reviewed the Company's director compensation programs. The Committee recommended that to appropriately compensate outside directors and better align the interests of the directors with those of the shareholders, the Company issue up to 500 common shares annually to each outside director as additional compensation. All directors and their associates other than a full-time executive officer therefore have an interest in the outside directors share compensation plan.

The purpose of this outside directors share compensation plan is to promote the interests of the Company by attracting and retaining qualified persons who are neither employees nor officers of the Company or its subsidiaries to serve on the Board of Directors. The plan is intended to align the interests of outside directors with the interests of shareholders, thereby promoting long term growth and performance by the Company.

The plan provides that, before each Annual General Meeting of common shareholders of the Company, the Board of Directors may issue to each outside director who is not a full-time executive officer of the Company up to 500 common shares in consideration for services rendered by such director to the Company during the past year. The actual number of shares to be issued to the outside directors under the plan in any particular year will depend upon the Board of Directors' assessment of the value of the services rendered to the Company during such year and the trading price of the Company's common shares immediately before the date of issue of such shares.

The price at which common shares will be issued to outside directors under the plan will be the weighted average closing price of the common shares on The Toronto Stock Exchange for the 5 consecutive trading days immediately preceding the date of issue of such shares.

The issue of common shares under the outside directors share compensation plan requires the approval of a simple majority of the votes cast, in person or by proxy, on a motion to approve the plan. The votes of present outside directors of the Company, and their associates, will not be counted for this purpose. The number of votes attaching to common shares that will not be counted for the purpose of determining whether the required level of shareholder approval has been obtained is 170,666.

The maximum number of common shares that may be issued under the plan is 75,000. The Board of Directors proposes to allot and, subject to the approval by the shareholders on April 13, 1995, to issue 500 common shares of the Company to each of the present directors who is not a full-time executive officer as additional compensation for his services during the past year.

The Board of Directors requests that the resolution set out below be adopted by the common shareholders at the Annual General Meeting.

RESOLVED THAT the outside directors share compensation plan as described in the Information Circular be approved and the issue of common shares pursuant to this plan to directors who are not full-time executive officers, including the 500 common shares to be issued to each of the present outside directors of the Company for his services during the past year, be approved.

3. Increase in authorized share capital

The Board of Directors recommends to the shareholders that the authorized capital of the Company be increased by the creation of an additional 750 million common shares. The reasons for this are to provide a larger authorized capital base for the issue of common shares for any future financings or acquisitions involving the issue of common shares and also to provide the ability to issue common shares pursuant to the exercise of rights granted under the shareholder rights plan.

The Board of Directors recommends that the resolution set out below be adopted by the common shareholders at the Annual General Meeting.

RESOLVED THAT

- The authorized capital of the Company be increased by creating an additional seven hundred and fifty million (750,000,000) common shares without par value so that, after giving effect to the foregoing, the authorized capital of the Company shall consist of 1,023,400,000 shares without par value divided into 1,000,000,000 common shares, 3,400,000 Class A Preferred shares, and 20,000,000 Class B Preferred shares.
- 2. The Memorandum of the Company be altered by deleting paragraph 2 thereof and substituting the following:
 - "2. The authorized capital of the Company consists of 1,023,400,000 shares without par value divided into:
 - (a) 1,000,000,000 common shares;
 - (b) 3,400,000 Class A Preferred shares having attached thereto the special rights and restrictions set forth in Part 23 of the Articles; and
 - (c) 20,000,000 Class B Preferred shares issuable in series and having attached thereto the special rights and restrictions set forth in Part 24 of the Articles,
 - of which the first series shall be 2,000,000 shares which are designated as \$2.00 Class B Convertible Preferred shares Series 1, having attached thereto the special rights and restrictions set forth in Part 25 of the Articles;
 - (ii) of which the second series shall be 2,000,000 shares which are designated as \$2.08 Class B
 Convertible Preferred shares Series 2, having attached thereto the special rights and restrictions set forth in Part 26 of the Articles;
 - (iii) of which the third series shall be 280,000 shares which are designated as Class B Preferred shares Series 3, having attached thereto the special rights and restrictions set forth in Part 27 of the Articles;
 - (iv) of which the fourth series shall be 250,000 shares which are designated as Class B Preferred shares Series 4, having attached thereto the special rights and restrictions set forth in Part 28 of the Articles;
 - (v) of which the fifth series shall be 15,500 shares which are designated as Class B Preferred shares Series 5, having attached thereto the special rights and restrictions set out in Part 29 of the Articles;
 - (vi) of which the sixth series shall be 2,000,000 shares which are designated as \$2.21 Class B Retractable Preferred Shares Series 6, having attached thereto the special rights and restrictions set out in Part 30 of the Articles;

3. Increase in authorized share capital (continued)

- (vii) of which the seventh series shall be 200 shares which are designated as \$52.5 thousand Class B Redeemable Preferred Shares Series 7, having attached thereto the special rights and restrictions set out in Part 31 of the Articles:
- (viii) of which the eighth series shall be 2,400,000 shares which are designated as Class B Preferred Shares Series 8, having attached thereto the special rights and restrictions set out in Part 32 of the Articles;
- (ix) of which the ninth series shall be 1,000 shares which are designated as Class B participating Preferred Shares Series 9, having attached thereto the special rights and restrictions set out in Part 33 of the Articles;
- (x) of which the tenth series shall be 2,640,000 shares which are designated as Class B Preferred Shares Series 10, having attached thereto the special rights and restrictions set out in Part 34 of the Articles; and
- (xi) of which the eleventh series shall be 104,500 shares which are designated as Class B Preferred Shares Series 11, having attached thereto the special rights and restrictions set out in Part 35 of the Articles."

4. Shareholder Rights Plan

Introduction

On December 14, 1994, the Board of Directors of the Company adopted a shareholder rights plan (the "Rights Plan"). Under the Rights Plan, the Company issued one common share purchase right ("Right") for each common share of the Company outstanding on December 15, 1994. The Company will also issue one Right for each common share issued in the future. The terms of the Rights Plan are set out in a Shareholder Rights Plan Agreement dated as of December 15, 1994 (the "Rights Agreement") between the Company and Montreal Trust Company of Canada as rights agent (the "Rights Agent").

Each Right entitles the holder to purchase from the Company one common share at the Exercise Price of Cdn. \$70 per share, subject to adjustments, at any time after the Separation Time. However, if a Flip-in Event occurs, each Right will entitle the holder to receive, upon payment of the Exercise Price, common shares having a market value equal to two times the Exercise Price. The Rights are not exercisable until the Separation Time.

The Rights Plan will terminate after the Annual General Meeting unless it is confirmed by a majority vote at that meeting.

Purpose and Background

The Rights Plan is not intended to deter take-over bids. It is designed to ensure that all shareholders receive equal treatment in the event of a take-over bid or other acquisition that could lead to a change in control of the Company. Take-over bid contests for corporate control provide a singular opportunity for shareholders to obtain a once and for all gain. After the acquisition of effective control of a company, the opportunity for this one time gain normally does not recur. Like most companies, effective control of the Company can be secured through the ownership of much less than 50% of its shares. Without a Rights Plan, it would be possible to acquire effective control of the Company through open market purchases using various techniques permitted under the Securities Acts without making a bid available to all shareholders. Such acquisition of control would be a deterrent to other potential offerors. The person acquiring effective control would thus be able, over a period of time, to consolidate and increase its control position without the price for control ever being tested through an open market offer to all shareholders. Shareholder rights plans are designed to prevent this by forcing all acquisitions of control into a public offer mode and, where feasible, into a public auction.

A public offer will not necessarily achieve all the objectives of ensuring the maximum values to shareholders. A take-over bid can be completed in between 21 and 30 days. This is too short a time period to ensure that the directors can develop other competing alternatives. The Rights Plan is intended to provide time to shareholders to properly assess any take-over bid and to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value including, if considered appropriate, identifying and locating other potential bidders.

Because the common shares are quoted on NASDAQ and therefore trade in the United States, there is a possibility that the differences between United States and Canadian securities regulations could result in unequal treatment of shareholders in the two jurisdictions. The Rights Plan is intended to ensure equal treatment of shareholders regardless of country of residence.

Where the Company is the target of a bid, particularly a partial bid, the directors of the Company must deal with an issue specific to a British Columbia timberland licensee. The British Columbia Forest Act narrowly restricts the right of a licensee to transfer a tree farm licence including an indirect transfer through a change in control of a corporate holder. Even where no excessively onerous conditions are imposed by the Minister of Forests pursuant to the legislation, the 5% reductions to allowable annual cut that result automatically from a transfer of control will be material to the Company. There is therefore a risk, especially for the holders of shares in the Company who do not tender, that the value of the Company will be diminished materially.

Summary of Plan

The following is a summary of the terms of the Rights Agreement. The capitalized defined terms in the summary are defined in the "Definitions" subsection at the end of this summary.

Article 9.5 of the Company's Articles provides that where any special business includes the presenting, considering, approving, ratifying or authorizing the execution of any document, the portion of the notice relating to it shall be sufficient if it states that a copy of the document will be available for inspection by shareholders at a place in the Province of British Columbia specified in such notice during business hours in any specified working day before the meeting. The Rights Plan will be available for inspection by any shareholder at the Company's registered office at 925 West Georgia Street, 22nd floor, Vancouver, British Columbia during business hours. Please contact the Corporate Secretary for any such inspection. Shareholders may obtain a copy of the Rights Agreement upon request to the Corporate Secretary by mail or by telephoning or by faxing the numbers set out in the section: Availability of Documents (page 23).

Convertible Debentures

The Rights Agreement treats the holders of adjustable rate convertible subordinated debentures Series 1 substantially the same as holders of common shares.

Convertible Debentures evidence 34.9345 Rights per \$1,000 of Convertible Debentures up to the Adjustment Date and 31.8979 Rights per \$1,000 of Convertible Debentures thereafter.

Trading of Rights

Until the Separation Time, the Rights will be evidenced by certificates for common shares and will be transferred with, and only with, the common shares. As soon as practicable following the Separation Time, separate certificates evidencing the Rights ("Rights Certificates") will be mailed to holders of record of common shares as of the close of business at the Separation Time and the separate Rights Certificates will thereafter evidence the Rights.

Separation Time

The Rights will become exercisable at the Separation Time. "Separation Time" generally means the close of business on the eighth trading day following the commencement or announcement of the intent of any person to commence a Take-over Bid, other than a Permitted Bid or a Competing Permitted Bid, but under certain circumstances can mean the eighth trading day after a person acquires 20% or more of the voting shares of any class.

Flip-in Event

A "Flip-in Event" will, in general terms, occur when a person becomes an Acquiring Person through the acquisition of Beneficial Ownership of 20% or more of the Voting Shares of any class. Upon the occurrence of a Flip-in Event, each Right will entitle the holder to acquire, on payment of the Exercise Price, common shares having a market value equal to two times the Exercise Price. However, any Rights Beneficially Owned by an Acquiring Person or by any direct or indirect transferees of such person will be void. The concept of Beneficial Ownership encompasses, under certain circumstances, shares owned indirectly through Affiliates, Associates, trusts and partnerships, other situations of ownership deemed by operation of law, shares subject to acquisition or voting agreements and shares owned by persons acting jointly or in concert. There are several exceptions including

4. Shareholder Rights Plan (continued)

exceptions directed towards investment managers, trust companies and independent managers of pension plans not participating in a Take-over Bid.

Permitted Bids

Permitted Bids and Competing Permitted Bids are exempted from the operation of the Rights Plan. A Permitted Bid is a Take-over Bid made by way of take-over bid circular which complies with the following provisions:

- (a) It is made to all holders of voting shares of the Company of a particular class and for all those voting
- (b) No voting shares can be taken up and paid for before the close of business on a date not less than 75 days following the date of the Take-over Bid unless more than 50% of voting shares held by shareholders independent of the offeror are tendered and not withdrawn.
- (c) Voting shares may be deposited any time during such 75 day period and may be withdrawn until taken up and paid for.
- (d) If the condition described in (b) above is met, there will be a public announcement and the Take-over Bid will be open for a further period of 10 business days.

The Rights Plan contains provisions designed to ensure that, if considered appropriate, the time for depositing to two or more Competing Permitted Bids will occur on the same date.

Exchange Option

Under certain circumstances, the Board of Directors of the Company can, on exercise of a Right and payment of the Exercise Price, issue other securities or assets of the Company in lieu of common shares. The Board of Directors of the Company can also determine to issue in exchange for the Right, but without payment of the Exercise Price, common shares having a value equal to the Exercise Price or other securities or assets of the Company having the same value.

Adjustments

The Exercise Price, the number and kind of shares subject to purchase upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time to prevent dilution in the event that the Company takes certain actions involving the Company's share capital.

Redemption

At any time before the occurrence of a Flip-in Event, the Board of Directors may elect to redeem the Rights in whole at a redemption price of \$0.00001 per Right. In addition, the Board of Directors are deemed to elect to redeem the Rights if a person acquires not less than 90% of the outstanding common shares pursuant to a Permitted Bid or a Competing Permitted Bid.

Waiver

The Board of Directors may waive the application of the Rights Plan to any Flip-in Event if it determines that a person became an Acquiring Person by inadvertence, conditional upon such person having, within 10 days after the determination by the Board of Directors, reduced its beneficial ownership of shares such that it is no longer an Acquiring Person. The Board of Directors may also, until a Flip-in Event has occurred, waive the application of the Rights Plan to any particular Flip-in Event, but in that event, the Board of Directors must waive the application of the Rights Plan to any other Flip-in Event occurring within 75 days after the initial waiver.

Amendments

The Board of Directors may amend the Rights Agreement to correct clerical or typographical errors, to maintain the validity of the Rights Agreement as the result of any change in any applicable legislation or to increase or decrease the Exercise Price. Any amendments required to maintain the validity of the Rights Agreement shall be submitted to the shareholders of the Company or, after the Separation Time, to the holders of the Rights for confirmation.

Prior to the Company's Annual General Meeting to be held on April 13, 1995, the Board of Directors may supplement or amend the Rights Agreement in any way it considers necessary.

Other amendments can only be made with the approval of the shareholders of the Company or, after the Separation Time, the holders of the Rights.

Term

The Rights Agreement came into force on December 15, 1994 and expires on the earlier of:

- (a) shareholder refusal to confirm it at the Annual General Meeting to be held on April 13, 1995;
- (b) shareholder refusal to reconfirm it at the first Annual General Meeting held after January 1, 2000 and December 15, 2004.

Definitions

- (1) "Acquiring Person" means any Person who is the Beneficial Owner of 20% or more of the outstanding Voting Shares of any class, but the term "Acquiring Person" does not include:
 - (i) the Company or any subsidiary of the Company; or
 - (ii) any Person who becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares of any class as a result of one or any combination of:
 - (a) an acquisition or redemption by the Company of Voting Shares of any class which, by reducing the number of Voting Shares of that particular class outstanding, increases the proportionate number of common shares of that particular class Beneficially Owned by such Person to 20% or more of the Voting Shares of that particular class then outstanding;
 - (b) Permitted Bid Acquisitions; or
 - (c) a Pro Rata Acquisition;
 - except that if a Person becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares of any class by reason of one or any combination of the operation of paragraphs (a), (b) or (c) above and such Person thereafter becomes the Beneficial Owner of any additional Voting Shares of that particular class other than pursuant to Permitted Bid Acquisitions or Pro Rata Acquisitions, then as of the date such Person becomes the Beneficial Owner of such additional Voting Shares of that particular class, such Person becomes an "Acquiring Person";
 - (iii) for a period of 10 days after the Disqualification Date, any Person who becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares as a result of such Person becoming disqualified from relying on paragraph 5(vii) solely because such Person or the Beneficial Owner of such Voting Shares has participated in, proposes or intends to make or is participating in a Take-over Bid or any plan or proposal relating thereto or resulting therefrom, either alone or by acting jointly or in concert with any other Person, and for the purposes of this definition "Disqualification Date" means the first date of public announcement of facts indicating that a Person has participated in, has made, proposes or intends to make or is participating in a Take-over Bid or any plans or proposals relating thereto or resulting therefrom including, without limitation, a report filed pursuant to section 93 of the Securities Act (British Columbia) or section 13(d) of the 1934 Exchange Act (United States); or
 - (iv) an underwriter or member of a banking or selling group that becomes the Beneficial Owner of 20% or more of the Voting Shares in connection with a bona fide distribution to the public of securities;
- (2) "Adjustment Date" means the close of business on the date the Company elects to adjust the price at which common shares are acquired upon a conversion into common shares pursuant to the terms and conditions of the Trust Indenture;
- (3) "Affiliate" used to indicate a relationship with a specified Person, shall mean a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such a specified Person;
- (4) "Associate" means, when used to indicate a relationship with a specified Person:
 - a corporation of which that Person owns at law or in equity securities carrying more than 10% of the voting rights exercisable with respect to the election of directors under all circumstances or by reason of the occurrence of an event that has occurred and is continuing;
 - (ii) a partnership of which that Person is a partner;
 - (iii) a trust or estate in which that Person has a substantial beneficial interest or in respect of which he or she serves as a trustee or in a similar capacity, except that a Person is not an Associate of a trust by reason only that the Person serves as trustee or in a similar capacity in relation to such trust if the Person is

4. Shareholder Rights Plan (continued)

duly licensed to carry on the business of a trust company under the laws of Canada or any province thereof or if the ordinary business of the Person includes the management of investment funds for unaffiliated investors and the Person acts as trustee or in a similar capacity in relation to such trust in the ordinary course of such business;

- (iv) a spouse of that Person or any Person of the same or opposite sex with whom that Person is living in a conjugal relationship outside marriage or a child of that Person; and
- (v) a relative of that Person or of a Person mentioned in paragraph 4(iv) if that relative has the same residence as that Person or of the Person mentioned in paragraph 4(iv);
- (5) "Beneficial Owner" A Person is deemed the "Beneficial Owner" of and to have "Beneficial Ownership" of and to "Beneficially Own":
 - (i) any securities of which such Person or any of such Person's Affiliates is the direct or indirect owner at law or in equity, and for the purpose of this paragraph a Person is deemed to be a Beneficial Owner of all securities:
 - (a) owned by a partnership of which the Person is a partner;
 - (b) owned by a trust of which the Person has a substantial beneficial interest (whether such Person's interest in the trust is present or future, and/or vested or contingent);
 - (c) owned jointly or in common with others; and
 - (d) of which the Person may be deemed to be the Beneficial Owner (whether or not of record) pursuant to the provisions of the Company Act (British Columbia) or the Securities Act (British Columbia), including section 77 thereof, or pursuant to Rule 13d-3 or 13d-5 under the 1934 Exchange Act (United States) (or pursuant to any comparable or successor laws, regulations or rules or, if such laws, regulations or rules shall be rescinded and there shall be no comparable or successor laws, regulations or rules, pursuant to the provisions of the Company Act (British Columbia) or the Securities Act (British Columbia) or pursuant to Rule 13d-3 or 13d-5 of the 1934 Exchange Act (United States) as in effect on the date of this Agreement);
 - (ii) any securities as to which such Person or any of such Person's Affiliates or Associates has, directly or indirectly:
 - (a) the right to acquire (whether such right is exercisable immediately or after the lapse or passage of time and whether or not on condition or the happening of any contingency or otherwise) pursuant to any agreement, whether or not in writing (other than customary agreements among underwriters and banking group members and selling group members with respect to a bona fide public offering of securities and other than bona fide pledges of securities in the ordinary course of business); or
 - (b) the right to vote such securities (whether such right is exercisable immediately or after the lapse or passage of time and whether or not on condition or the happening of any contingency or otherwise), pursuant to any agreement, arrangement or understanding (whether or not in writing) or otherwise (other than bona fide pledges of securities in the ordinary course of business);
 - (iii) any securities that are Beneficially Owned within the meaning of paragraphs 5(i) or (ii) by any other Person with whom such Person or any of such Person's Affiliates is acting jointly or in concert or has any agreement, whether or not in writing (other than customary agreements with and between underwriters and/or banking group members and/or selling group members with respect to a bona fide public offering of securities and other than bona fide pledges in the ordinary course of business with respect to or for the purpose of acquiring, holding, voting or disposing of any Voting Shares of any class); and
 - (iv) any securities that are directly or indirectly owned at law or in equity by an Associate of such Person. A Person is not to be deemed the "Beneficial Owner" of or to have "Beneficial Ownership" of or to "Beneficially Own" any security:
 - (v) because such security has been deposited or tendered pursuant to any Take-over Bid made by such Person, by any of such Person's Affiliates or Associates or by any other Person referred to in

- paragraph 5(iii), until such deposited or tendered security has been taken up or paid for, or accepted unconditionally for payment or exchange, whichever shall occur first;
- (vi) because such Person, has or shares the power to vote or direct the voting of such security pursuant to a revocable proxy given in response to (or in connection with or in order to participate in) a public proxy solicitation or has an agreement, arrangement or understanding with respect to a shareholder proposal or a matter to come before a meeting of shareholders, including the election of directors;
- (vii) because such Person holds or exercises voting or dispositive power over such security if:
 - (a) the ordinary business of any such Person (the "Investment Manager") includes the management of investment funds for others (which for greater certainty, may include or be limited to one or more employee benefit plans or pension plans) and such voting or dispositive power over such security is held by the Investment Manager in the ordinary course of such business in the performance of such Investment Manager's duties for the account of any other Person (a "Client") who is not an Associate or Affiliate of the Investment Manager;
 - (b) such Person (the "Trust Company") is licensed to carry on the business of a trust company under applicable laws and, as such, acts as trustee or administrator or in a similar capacity in relation to the estates of deceased or incompetent Persons (each an "Estate Account") or in relation to other accounts (each an "Other Account") and holds such voting or dispositive power over such security in the ordinary course of such duties for the estate of any such deceased or incompetent Person or for such other accounts, where such estate or any beneficiary thereof is not an Associate or Affiliate of the Trust Company;
 - (c) the ordinary business of such Person includes acting as an agent of the Crown in the management of public assets (the "Crown Agent"); or
 - (d) the Person is an independent person established by statute for, among other things, the administration of benefit plans (the "Independent Person");

Provided that the Investment Manager, the Trust Company, the Crown Agent or the Independent Person, as the case may be, has not made or participated in or proposed to make or participate in a Take-over Bid alone or by acting jointly or in concert with any other Person; or

- (viii) because such Person is a Client of the same Investment Manager as another Person on whose account the Investment Manager holds or exercises voting or dispositive power over such security, or solely because such Person is an Estate Account or an Other Account of the same Trust Company as another Person on whose account the Trust Company holds or exercises voting or dispositive power over such security;
- (6) "Competing Permitted Bid" means a Take-over Bid made while another Permitted Bid is in existence and that satisfies all of the provisions of a Permitted Bid except that the condition set forth in paragraph 13(iii) of the Rights Plan may provide that the Voting Shares of the particular class that are the subject of the Take-over Bid may be taken up or paid for on a date which is not earlier than the later of:
 - (i) 21 days after the date of the Take-over Bid; and
 - (ii) the earliest date on which Voting Shares of that particular class may be taken up or paid for under any other Permitted Bid or Competing Permitted Bid that is then in existence for the Voting Shares of that particular class;
- (7) "Convertible Debentures" means the Adjustable Rate Convertible Subordinated Debentures Series 1, issued pursuant to the Trust Indenture;
- (8) "Effective Date" means December 15, 1994;
- (9) "Flip-in Event" means a transaction pursuant to which any Person becomes an Acquiring Person;
- (10) "Independent Shareholders" means holders of Voting Shares, other than:
 - (i) any Acquiring Person,
 - (ii) any Offeror,
 - (iii) any Affiliate or Associate of any Acquiring Person or Offeror,
 - (iv) any Person acting jointly or in concert with any Acquiring Person or Offeror, or with any Affiliate or Associate of any Acquiring Person or Offeror, and

4. Shareholder Rights Plan (continued)-

- (v) any employee benefit plan, deferred profit sharing plan, stock participation plan or trust for the benefit of employees of the Company unless the employee directs the manner in which the Voting Shares are to be voted or directs whether the Voting Shares be tendered to a Take-over Bid;
- (11) "Offer to Acquire" includes:
 - (i) an offer to purchase or a solicitation of an offer to sell Voting Shares of any class or classes, and
 - (ii) an acceptance of an offer to sell Voting Shares of any class or classes, whether or not such offer to sell has been solicited,

or any combination thereof, and the Person accepting an offer to sell shall be deemed to be making an Offer to Acquire to the Person that made the offer to sell;

- (12) "Offeror" means a Person who has announced an intention to make or who has made a Take-over Bid;
- (13) "Offeror's Securities" means Voting Shares Beneficially Owned by an Offeror on the date of the Offer to Acquire;
- (14) "Permitted Bid" means a Take-over Bid made by an Offeror which is made by way of a Take-over Bid circular and which also complies with the following additional provisions:
 - the Take-over Bid is made for all outstanding Voting Shares of a particular class and to all holders of Voting Shares of that particular class as registered on the books of the Company, other than the Offeror;
 - (ii) the Take-over Bid contains, and the take-up and payment for securities tendered or deposited are subject to, an irrevocable and unqualified condition that no Voting Shares shall be taken up and paid for by the Offeror:
 - (a) before the close of business on a date that is not less than 75 days following the date on which the Take-over Bid circular relating to such Take-over Bid is sent to the shareholders of the Company and
 - (b) unless on that date more than 50% of the Voting Shares held by Independent Shareholders have been deposited or tendered pursuant to the Take-over Bid and not withdrawn;
 - (iii) the Take-over Bid contains an irrevocable and unqualified provision that Voting Shares may be deposited pursuant to such Take-over Bid at any time during the period of time described in paragraph 13(ii) of the Rights Plan and that any Voting Shares deposited pursuant to the Take-over Bid may be withdrawn until taken up and paid for; and
 - (iv) the Take-over Bid contains an irrevocable and unqualified provision that in the event that the deposit condition set forth in paragraph 13(ii) of the Rights Plan is satisfied the Offeror will make a public announcement of that fact and the Take-over Bid will remain open for deposits and tenders of Voting Shares for not less than 10 business days from the date of such public announcement;
- (15) "Person" includes an individual, body corporate, partnership, syndicate or other form of unincorporated association, a government and its agencies or instrumentalities, any entity or group (as such term is used in Rule 13d-5 under the 1934 Exchange Act (United States) as in effect on the date hereof) whether or not having legal personality and any of the foregoing acting in any derivative, representative or fiduciary capacity;
- (16) "Pro Rata Acquisition" means an acquisition of Voting Shares of any class:
 - as a result of a stock dividend, stock split or other event pursuant to which a Person receives or acquires Voting Shares of any class on the same pro rata basis as all other holders of Voting Shares of the same class;
 - (ii) pursuant to a regular dividend reinvestment or other plan of the Company made available by the Company to the holders of the shares of the Company where such plan permits the holder to direct that the dividends paid in respect of such shares of the Company be applied to the purchase from the Company of further securities of the Company;
 - (iii) pursuant to the receipt or exercise of rights issued by the Company to all the holders of a class of Voting Shares to subscribe for or purchase Voting Shares, provided that such rights are acquired directly from the Company and not from any other Person; or
 - (iv) a distribution to the public of Voting Shares, or securities convertible into or exchangeable for Voting Shares (and the conversion or exchange of such convertible or exchangeable securities), made pursuant

to a prospectus or by way of a private placement, provided that the Person does not thereby acquire a greater percentage of such Voting Shares, or securities convertible into or exchangeable for Voting Shares, so offered than the Person's percentage of Voting Shares Beneficially Owned immediately prior to such acquisition;

- (17) "Right" means a right to purchase a common share of the Company on the terms and subject to the conditions set forth in the Rights Agreement;
- (18) "Separation Time" means the close of business on the eighth trading day after the earlier of:
 - (i) the Stock Acquisition Date; and
 - (ii) the date of commencement of or first public announcement of the intent of any Person (other than the Company or any subsidiary of the Company) to commence a Take-over Bid (other than a Permitted Bid or a Competing Permitted Bid), or such earlier or later time as may be determined by the Board of Directors, except that if any Take-over Bid referred to in this subparagraph expires, is cancelled, terminated or otherwise withdrawn before the Separation Time, such Take-over Bid is deemed, for the purposes of this definition, not to have been made;
- (19) "Stock Acquisition Date" means the first date of public announcement (which, for purposes of this definition includes, without limitation, a report filed pursuant to section 93 of the Securities Act (British Columbia) or section 13(d) of the 1934 Exchange Act (United States)) by the Company or an Acquiring Person that an Acquiring Person has become such;
- (20) "Take-over Bid" means an Offer to Acquire Voting Shares of any class or securities convertible into Voting Shares of any class if, assuming that the Voting Shares or convertible securities subject to the Offer to Acquire are acquired at the date of such Offer to Acquire by the Person making such Offer to Acquire, such Voting Shares (including Voting Shares that may be acquired upon conversion of securities convertible into Voting Shares) together with the Offeror's Securities, constitute in the aggregate 20% or more of the outstanding Voting Shares of that particular class at the date of the Offer to Acquire;
- (21) "Trust Indenture" means the trust indenture between the Company and The Royal Trust Company, dated May 21, 1987, under which the Convertible Debentures have been issued;
- (22) "Voting Shares" means the common shares of the Company and any other shares in the capital of the Company entitled to vote generally in the election of all directors.

The Board of Directors recommends that the resolution set out below be adopted by the common shareholders at the Annual General Meeting.

WHEREAS the Board of Directors of the Company adopted the Shareholder Rights Plan on December 14, 1994 on the basis that it be confirmed by the common shareholders of the Company at the Annual General Meeting to be held on April 13, 1995.

RESOLVED THAT the common shareholders of MacMillan Bloedel Limited hereby confirm the Shareholder Rights Plan described in the Information Circular with any authorized amendments.

EXECUTIVE COMPENSATION

Summary compensation table

The following table sets forth all compensation paid in respect of the individuals who were, at December 31, 1994, the Chief Executive Officer and the four most highly compensated executive officers (the "named executive officers") (1):

		A	nnual Compensa	ntion	Long term Compensation Awards Securities Under	
Name and principal position	Year	Salary	Bonus(2)	Other Annual Compensation (3)	Options/SARs Granted(4)	All Other Compensation(5)
		(\$)	(\$)	(\$)	(#)	(\$)
R.B. Findlay	1994	\$382,500	\$110,000	\$32,271	_	\$60,568
President and Chief	1993	\$360,000	\$ 54,000	\$38,035	_	_
Executive Officer	1992	\$300,000	- ·	\$43,898	15,000	_
R.D. Tuckey	1994	\$252,496	\$ 51,700	\$ 6,894		\$43,262
Executive Vice-President,	1993	\$248,748	\$ 25,000	\$ 8,125	1 1 2 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	_
Operations since January 1, 1993; prior to which he was Executive Vice-President, Business Development since	1992	\$194,844	. 117	\$ 9,517	9,000	
July 1, 1992; prior to which he was Vice-President, Alberni Region						
F.V. Ernst (6)	1994	US\$226,500	US\$44,300		_	· —
Senior Vice-President, Packaging Group	1993	US\$140,625	US\$22,500		8,500	
G.M. Ferguson	1994	\$186,045	\$ 38,100	\$10,803	<u> </u>	_
Senior Vice-President,	1993	\$162,930	\$ 17,000	\$16,312	_	_
Finance and Chief Financial Officer since February 9, 1994; prior to which he was Senior Vice-President, Finance since April 8, 1993; prior to which he	1992	\$144,816		\$18,827	6,500	
was Vice-President, Treasurer						
W.G. Low	1994	\$188,330	\$ 32,600	\$ 6,802		
Senior Vice-President, Paper	1993	\$172,497	\$ 18,000	\$ 8,352		14
Group since February 22, 1994; prior to which he was Vice-President, Powell River Region	1992	\$160,508	-	\$ 9,894	7,500	-

In this Information Circular "executive officer" means the President and Chief Executive Officer, all Vice-Presidents and the Corporate Secretary of the Company.

(2) There were no bonuses awarded for 1992.

(5) Amounts in this column are payments for previously earned vacation.

⁽³⁾ Perquisites and other personal benefits do not exceed the lesser of \$50,000 and 10% of the total of the annual salary and bonus for any of the named executive officers. The amounts in this column relate to imputed interest on senior management share purchase plan loans.

⁽⁴⁾ The 1992 amounts in this column relate to the number of units issued under the 1992 phantom stock issue, with F.V. Ernst's units issued to him in 1993.

⁽⁶⁾ F.V. Ernst joined MacMillan Bloedel on May 15, 1993 and the 1993 salary represents 7.5 months.

Aggregate executive compensation

In 1994, 29 executive officers as a group were paid cash compensation of \$4,771,390 which includes salaries and bonuses but excludes 1994 benefits of \$328,990 not available to all employees. The group of 29 includes part year salaries for three executive officers who retired during 1994 and six who became executive officers during 1994.

Aggregated option/SAR exercises during the most recently completed financial year and financial year-end option/SAR values

Information regarding unexercised SARs held by the named executive officers at December 31, 1994 is summarized in the following table:

	Securities Acquired on Exercise		Number of Unexercised Options/SARs December 31, 1994(1)(2)		Value of Unexercised in-the-money options/SARs at December 31, 1994	
		Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
	(#)	(\$)		(#)		(\$)
R.B. Findlay	_	_	46,664	7,730	\$100,419	\$9,808
R.D. Tuckey		_	13,326	4,383	\$ 21,665	\$5,526
F.V. Ernst	_	_	5,906	3,042	\$ 4,530	\$2,334
G.M. Ferguson	4,491	\$32,112	15,225	3,536	\$ 31,952	\$4,591
W.G. Low	_	_	12,200	3,705	\$ 21,544	\$4,856

(1) A description of SARs unexercised at December 31, 1994 follows:

(a) 1992 phantom stock issue

Effective October 1, 1992, the Company granted certain phantom stock rights to selected members of management at a price of \$17.75. The number of units issued to each participant was based on salary grade and ranged from a minimum of 2,500 units to a maximum of 15,000 units. Each unit is credited with the equivalent of any dividend declared on common shares of the Company, and with any stock dividend, stock split or other change to the Company's common shares. Participants may elect to receive the difference between the issue price and the price of the Company's shares on The Toronto Stock Exchange on the date of the election. At the Company's option, payment may be made either in cash or in treasury shares.

No units could be exercised before October 1, 1993, thereafter a participant may exercise units held according to the following schedule:

Period	Maximum units exercisable
From Oct. 1, 1993 to Sept. 30, 1994	33%
From Oct. 1, 1994 to Sept. 30, 1995	66%
From Oct. 1, 1995 to Sept. 30, 1998	100%

(b) Senior management share purchase plan

The Company's senior management share purchase plan was set up to provide a long term incentive and capital appreciation opportunity for selected key employees of the Company directly related to corporate performance and to the market price of the Company's shares. The number of shares which each participant bought under the plan depended on the Company's return on investment for the previous year, the participant's salary during such year and the share price. The purchase was financed by a ten year non-recourse interest free loan granted to the participant by the Company and secured by a pledge of the shares. At December 31, 1994 loan balances for shares issued in 1987, 1988, 1989 and 1990 were outstanding. At any time within the ten year period for the 1987, 1988 and 1989 issues the participant may repay the loan and take possession of the pledged shares. For the 1990 issue 60% of the original loan may be repaid from April 2, 1993 to April 1, 1994; 80% thereafter to April 1, 1995; and thereafter 100%.

(2) Common share dividends declared by the Company adjust the value or number of shares held under SARs.

The market price for the Company's common shares on December 31, 1994 was \$17% and on February 1, 1995 was \$161/8.

Retirement plans

The following table sets forth various annual retirement benefits that become payable under the Company's executive pension plan:

Annual average	Years of service							
covered remuneration	10	15	20	25	30	35		
\$150,000	\$ 30,000	\$ 45,000	\$ 60,000	\$ 75,000	\$ 90,000	\$105,000		
\$200,000	\$ 40,000	\$ 60,000	\$ 80,000	\$100,000	\$120,000	\$140,000		
\$250,000	\$ 50,000	\$ 75,000	\$100,000	\$125,000	\$150,000	\$175,000		
\$300,000	\$ 60,000	\$ 90,000	\$120,000	\$150,000	\$180,000	\$210,000		
\$350,000	\$ 70,000	\$105,000	\$140,000	\$175,000	\$210,000	\$245,000		
\$400,000	\$ 80,000	\$120,000	\$160,000	\$200,000	\$240,000	\$280,000		
\$450,000	\$ 90,000	\$135,000	\$180,000	\$225,000	\$270,000	\$315,000		
\$500,000	\$100,000	\$150,000	\$200,000	\$250,000	\$300,000	\$350,000		
\$550,000	\$110,000	\$165,000	\$220,000	\$275,000	\$330,000	\$385,000		

The named executive officers (except for F.V. Ernst) are members of the executive pension plan under which executive officers retire at age 65 with a monthly pension amounting to 2% for each accredited year of service to a maximum of 35 years applied to the average monthly salary and bonus (one half bonus for 1991 onwards) during the 36 consecutive months when the salary and bonus were highest, with a widow's benefit of 60% of the employee's pension. Pensions are not reduced by Canada Pension Plan payments.

As at December 31, 1994 R.B. Findlay had 29 years of service with the Company, R.D. Tuckey had 33 years of service with the Company, G.M. Ferguson had 12 years of service with the Company and W.G. Low had 16 years of service with the Company.

F.V. Ernst has a service agreement with the Company under which the Company agrees to pay him a monthly pension amounting to 2% for each accredited year of service applied to the average monthly salary and one half of bonuses during the 36 consecutive month period when the salary and bonus was highest, with a widow's benefit of 50% of the employee's pension. His pension is not reduced by U.S. Social Security payments.

On F.V. Ernst's first, second, eighth and thereafter anniversary date, one year will be credited to his years of service, while on his third through seventh anniversary date two years will be credited to his years of service. On May 15, 1995 F.V. Ernst will have had two years of service with the Company.

Termination of employment, change in responsibilities and employment contracts

An agreement exists between the Company and F.V. Ernst. Should the Company sell or otherwise dispose of its U.S. packaging business while he retains the position of Senior Vice-President, Packaging Group of the Company, and President, MacMillan Bloedel Packaging Inc. and until he reaches his seventh year of service with the Company, and the new owner does not offer him a comparable position, the Company or the new owner will provide two years notice as severance at his current salary and after the seventh year one year of notice as severance.

Compensation Committee

The Compensation Committee of the Board (the "Committee") consists of six outside directors: P.W. Douglas (Chairman since April 14, 1994), J.T. Arnold, R.F. Haskayne, D.W. Strangway, J.S. Walton and A.H. Zimmerman. No member of the Committee is an executive officer of a company on whose board an executive officer of MacMillan Bloedel serves as a director. R.V. Smith, who was the chairman of the Committee until April 14, 1994, was President and Chief Executive Officer of the Company before 1990.

The Committee met twice during 1994. All members attended both meetings. The named executive officers were not present during any discussion of their compensation.

Report on executive compensation

The Company's compensation philosophy for executive officers is to provide a competitive total compensation package in a manner that encourages maximum individual and team contribution rewarding productivity, innovation and commitment. In addition to being evaluated for short term performance, the Company's executives have a

responsibility to improve the long range success and growth of the Company. An element of their compensation is therefore based on the long term performance of the Company.

There are three components of their compensation package:

1. Competitive base salary

The competitive base salary is determined largely by salaries paid by other key companies for comparable job responsibilities. External salary surveys are conducted regularly to ensure this objective is met, and salaries are adjusted whenever information indicates a change is necessary. Jobs are reviewed when duties change materially and internal equity comparisons are made regularly.

2. Variable incentive compensation and incentive fund (bonus)

When the Company earns a competitive return for its shareholders, executive officers have the opportunity to earn an incentive award based on corporate, division and team performance, and based on the executive's own performance as part of these units. For the named executive officers (other than R.B. Findlay) the guideline bonus is 40% of their actual salary earnings in the calendar year in which the award is earned with a maximum of 60% (R.B. Findlay's guideline is 50% and maximum is 80%).

The total incentive awards paid to all employees cannot exceed the total amount established by an incentive fund schedule where threshold, guideline and maximum amounts are related to returns on common shareholders' equity. The schedule used to generate the fund has been designed to provide a basic return for shareholders by establishing a minimum (threshold) profit level (8% in 1994) which must be achieved before any incentive funds are generated and provide a reasonable expectation that in a year of good corporate results there will be sufficient funds to pay meaningful incentive awards to business units and employees who are performing well. For 1994, a 40% salary guideline bonus would require a 16% return on common shareholders' equity and would establish an \$18 million incentive fund for all salaried employees, while the 60% maximum bonus (80% maximum for R.B. Findlay) would require a 25% return establishing a \$27 million fund.

For 1994 an 11.3% return on opening common shareholders' equity was achieved and in early 1995 the Committee approved that the amount in the incentive fund for 1994 would be 48.3% of the total guideline or \$8.5 million. For the named executive officers as a group, this bonus represents on average approximately 22% of base pay.

The Committee at their discretion may provide a fund for incentive awards even though the threshold return is not achieved. This happened in 1993. This is to acknowledge the historically cyclical nature of MacMillan Bloedel's industry noting that executives work as hard and effectively in down market cycles as they do in better times. The Committee has the authority to increase the amount in the incentive fund in any year by up to one half of the total guideline amount (\$9 million) provided it is satisfied that the Company is out-performing competing companies and has achieved challenging objectives. In early 1994 the Committee decided that the amount in the incentive fund for 1993 would be one quarter of the total guideline. For the named executive officers as a group, that bonus represented on average approximately 10% of base pay. The Committee's decision was based on the relative performance of MacMillan Bloedel compared to other Canadian competitors especially in building materials.

3. Long term compensation

In 1993 the Committee approved the senior management phantom stock plan (the "plan") which is designed to align the interests of management with those of shareholders and to provide a long term incentive for executive officers and senior managers of the Company whose actions have a direct and identifiable impact on corporate earnings, and who have material responsibility for long range strategy development and implementation. The plan replaces the senior management share purchase plan and the 1992 phantom stock issue as the basis for executive long term compensation.

At the discretion of the Committee and if the Company's return on common shareholders' equity targets were achieved, units of phantom stocks are granted to plan participants. No units were granted in 1994 because corporate results in 1993 did not so justify. The 1994 results warranted an award in 1995 which will be reported as 1995 compensation.

When an award is granted by the Committee, the number of shares allocated is based on an amount divided by the current price of the Company's common shares. The amount is calculated by multiplying the employee's base salary earned by a corporate performance factor which is in turn multiplied by a salary grade factor. The performance factor is based on a net return on shareholders' equity according to a schedule. If the return is 8% the performance factor is .2 and at 16% it is 1.0. The maximum performance factor of 1.5 is reached when the return is 25%. At December 31, 1994 the salary grade factors for the named executive officers were 1.2 for R.B. Findlay, 1.0 for R.D. Tuckey and .9 for F.V. Ernst, G.M. Ferguson and W.G. Low. The plan gives the Committee the right to adjust the salary grade factors for any one distribution.

Participants may elect to receive the difference between the issue price and price of the Company's shares on The Toronto Stock Exchange on the date of election. At the Company's option payment may be made either in cash or in treasury shares.

The phantom stock units may be held for a period not to exceed ten years. No units can be exercised in the first year since issue. Thereafter a participant may exercise units as follows:

up to 20% after the expiry of one year from the date of issue

up to 40% after two years

up to 60% after three years

up to 80% after four years

up to 100% after five years

Compensation of Chief Executive Officer

At the beginning of 1993 R.B. Findlay's annual base salary, which had remained at \$300,000 for two years, was increased by \$60,000 to \$360,000 and on October 1, 1994, on an annualized basis, increased to \$450,000 a year. Both these increases occurred after review by the Committee of his personal performance and competitive surveys. In early 1995 and 1994 R.B. Findlay was awarded bonuses of \$110,000 and \$54,000 respectively, which were based on the Company's performance in the previous year. The 1994 bonus was based on 48.3% of his 50% guideline with a 20% merit adjustment. The 1993 bonus was based on a quarter of his 50% guideline with a 20% merit adjustment.

Report submitted by:

J.T. Arnold D.W. Strangway P.W. Douglas J.S. Walton

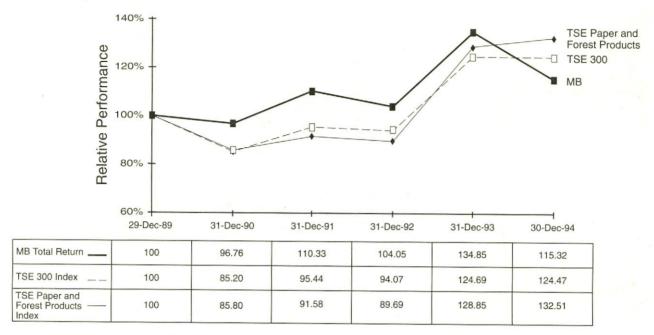
R.F. Haskayne A.H. Zimmerman

Compensation of directors

Directors who are not in receipt of salaries as executive officers of the Company or its subsidiaries are each paid an annual retainer of \$8,000 and \$1,500 for each board meeting attended. Members of the Executive Committee who are not in receipt of salaries are each paid \$1,000 for each meeting attended. Directors acting on other committees of the Board who are not in receipt of salaries are paid \$750 for each meeting attended. Committee chairmen receive an additional fee of \$250 for each meeting attended, except for the chairman of the Audit Committee, who receives an additional fee of \$750. Directors who are asked to undertake additional assignments are paid a per diem amount equal to the attendance fee for Board meetings. In addition the directors are reimbursed for their reasonable expenses in connection with such meetings. Director fees are paid, at the director's option, in cash or in common shares of the Company. During 1994 \$301,000 was paid and 2,572 shares were allocated to directors.

Performance graph

The following chart compares a \$100 investment in MacMillan Bloedel shares with a similar investment in the group of TSE 300 and TSE Paper and Forest Products companies. The chart portrays total nominal return 1989-1994 assuming reinvestment of dividends.



AVAILABILITY OF DOCUMENTS

The Company will provide to any person or company, upon request to the Corporate Secretary, one copy of any of the following documents:

- the Company's latest Annual Information Form, together with any document, or the pertinent pages of any document, incorporated in it by reference, filed with the applicable securities regulatory authorities;
- (b) the comparative financial statements of the Company filed with the applicable securities regulatory authorities for the Company's most recently completed financial year together with the accompanying report of the auditor and any interim financial statements of the Company filed with the applicable securities regulatory authorities subsequent to the filing of the annual financial statements;
- (c) the Information Circular of the Company filed with the applicable securities regulatory authorities in respect of the most recent annual meeting of shareholders of the Company which involved the election of directors;
- (d) this document in French;
- (e) the Shareholder Rights Plan Agreement described under "Shareholder Rights Plan"; and
- (f) the Company's Annual Report (Form 10-K) to the United States Securities and Exchange Commission (SEC). This document contains most of the information required by the SEC. Form 10-K information not included is:
 - (i) Cover page.
 - (ii) Cross reference index page to Form 10-K Items.
 - (iii) Signature page.
 - (iv) Item 14 Exhibits, financial statement schedules and reports on Form 8-K.

Copies of the above documents will be provided free of charge to security holders of the Company upon request to the Corporate Secretary at the Company's head office: 22nd Floor 925 West Georgia Street, Vancouver, British Columbia V6C 3L2. Telephone numbers: (604) 661-8389 or (604) 661-8302; fax number: (604) 687-2314.

1994 ANNUAL STATUTORY REPORT

GLOSSARY OF TERMS

MEASUREMENTS

foot board measure (board foot) - one square foot of lumber one inch fbm

hectare 2.471 acres

cubic metre or 35.315 cubic feet m^3

M cubic feet thousand cubic feet

thousand (million) foot board measure Mfbm (MMfbm)

million square feet, % inch thick used to measure panelboard volumes MM sq.ft. 3/8" the measure of shingles required to cover 100 sq. ft. of surface

square tonne metric ton - 1,000 kilograms or 2,204 pounds

k tonnes thousand tonnes

the number of units which can be produced in a year based on operations annual capacity at year-end

over a long term period with the normal number of shifts and maintenance interruptions

production divided by the annual capacity averaged over the production capacity utilization period

PRODUCTS

Paper

paper which is coated with clay and treated to impart a smooth glossy Coated paper surface

coated paper having a basis weight generally below 72 grams per square Lightweight coated paper

paper with mechanical pulp as its major component which differs from Groundwood printing paper newsprint in brightness, surface characteristics and end uses

paper produced principally from mechanical pulp or CTMP for use in newspapers

Packaging

Newsprint

Containerboard linerboard and corrugating medium (medium) used to produce corrugated boxes (containers)

containers made from sheets of linerboard with medium corrugated Corrugated containers

(fluted) between the linerboard is a disposable, recyclable intermediate bulk container for transporting and SpaceKraft®

storing liquid foods and non-hazardous chemicals. It is a continuously wrapped, eight-ply corrugated sleeve which has no manufacturer's joint, no wood or metal components, and can withstand more than 40,000 pounds of compression

a plant that purchases sheets from a corrugator plant to manufacture Sheet plant corrugated containers

Sheet feeder plants a corrugator plant that exclusively manufactures containerboard for supplying sheets to corrugated container plants

GLOSSARY OF TERMS (continued)

Building materials

Solid Wood

High value/quality cedar lumber products	-	numerous grades of specialty products including bevel siding, channel sidings, tongue and groove products (suitable for panelling) and patio
		grades for decking

High value/quality whitewood lumber products	 lumber extracted from hemlock, balsam, spruce and fir logs to achieve the maximum value for specific customers and export markets. A significant
	amount of this lumber is remanufactured locally for further reprocessing to
	higher value products such as window frames

Custom-cut lumber	_	high value lumber manufactured in non-traditional methods and produced
		at non-MB mills from MB logs

Dimension lumber	 lumber cut and planed to standard sizes and lengths nominally 2×4 inches
	through 2×12 inches in cross section by 8 to 24 feet in length

Engineered Lumber (made by Trus Joist MacMillan)

Ingineered Edition (Indiae by 1145	voist iriacivinan)
Parallam® parallel strand lumber -	parallel strand lumber headers, beams, columns, and posts are made from 8-foot-long (2.5 m) veneer strands taken from small-diameter, second-growth trees. The strands are bonded through a patented microwave pressing process into a variety of large sizes suitable for heavy load bearing applications where uniform and reliable strength is required
TimberStrand (formerly PSL – 300) laminated strand lumber	- is manufactured from 12-inch (300 mm) strands of wood to create strong, stable lumber for both industrial and structural use. It uses fibre from formerly non-commercial species such as aspen, rather than from the

		traditio	onal an	d expen	sive	fir and p	ine resou	rce
MICRO=LAM® laminated	-	made	from	sheets	of	veneer	peeled	fron
veneer lumber		MICR	O=LA	M® is	used	for head	lers, bear	ns an

made from sheets of veneer peeled from second-growth trees.
 MICRO=LAM® is used for headers, beams and high quality flanges for I-beam joists

plywood, oriented strand board, waferboard, particleboard and medium

Composite Wood

Panelboards

Specialtyboard

Cement-Fibre

Oriented Strand Board (OSB)	_	density fibreboard is an engineered structural panelboard made by bonding, under heat and
		pressure, large thin wafers of wood which are "oriented" in layers
		perpendicular to each other. The result is a strong, water-resistant
		waferboard panel ideal for wall and roof sheathing, sub-flooring and

Medium-Density	Fibreboard	_
(MDF)		

underlayment
 is a panel product made from a combination of resin, wood chips and sawdust/shavings. MDF has a very fine surface and can be edge machined, moulded, shaped, painted or glued, and is well suited for furniture and millwork manufacturing

Particleboard — is a product made by bonding clean sawdust and planer shavings with wax and resin to produce a panel with surface consistency ideal for overlaying and subsequent manufacturing into shelving and cabinet components, as well as furniture and other industrial components and underlayments

a product using particleboard with either melamine, vinyl or paper overlays
 Cemwood Shake and Permatek are wood fibre-cement roofing tiles that simulate the look of cedar shakes. The patented wood-cement process combines the light weight and look of wood with the strength and fire resistance of cement

1994 ANNUAL INFORMATION FORM

THE COMPANY

Incorporation

MacMillan Bloedel Limited (the "Company"), a British Columbia ("B.C.") corporation, is a corporation resulting from the amalgamation of MacMillan Bloedel Limited, incorporated under the British Columbia Company Act by Memorandum of Association registered July 13, 1911, and certain of its wholly-owned subsidiaries.

Subsidiaries

A list of the Company's active subsidiaries is set out in the Consolidated Financial Statements on page 68 of this report.

Corporate profile

The Company together with its subsidiaries ("MacMillan Bloedel" or "MB") is the largest forest products company in Canada and has integrated operations in Canada and the United States as well as major investments in Canada, the U.S., Japan, Mexico and Continental Europe. MB manages 1.6 million hectares of productive timberlands, which supply most of its fibre requirements. Of these timberlands, 1.1 million hectares are in B.C. where approximately 60% of MB's property, plant and equipment and the Company's head office are located. The products of MB and its affiliated companies are marketed throughout the world and include lumber, panelboards, engineered lumber, cement-fibre roofing, kraft pulp, newsprint, groundwood printing papers, containerboard, corrugated containers and SpaceKraft[®].

GENERAL DEVELOPMENTS OF MacMILLAN BLOEDEL OVER PRECEDING FIVE YEARS

The following table summarizes total revenue, operating earnings (loss) and assets for each of MB's three industrial segments during the last five years:

				Corporate			
	Building			and	Inter-	Total	
	materials	Paper	Packaging	Other	segment	operations	
			(\$ mil	lions)			
Total revenue —							
1994	2,790.2	618.3	642.6	146.0	(248.3)	3,948.8	
1993	2,366.8	608.5	486.7	98.8	(211.7)	3,349.1	
1992	1,715.8	517.3	475.4	96.8	(192.8)	2,612.5	
1991	1,402.0	610.6	373.8	103.0	(198.7)	2,290.7	
1990	1,462.8	737.6	424.8	98.2	(232.2)	2,491.2	
Operating earnings (loss) —							
1994	360.4	(65.7)	41.7	(46.0)	(2.8)	287.6	
1993	332.4	(84.0)	(22.0)	(39.3)	(9.1)	178.0	
1992	159.9	(61.2)	(.2)	(40.0)	(2.8)	55.7	
1991	(49.9)	9.5	(13.7)	(83.2)	(3.2)	(140.5)	
1990	(29.8)	70.3	39.8	(84.2)	10.5	6.6	
Assets —							
December 31, 1994	1,425.8	1,027.8	668.7	79.2	5.6	3,207.1	
December 31, 1993	1,342.3	992.0	594.0	55.1	8.4	2,991.8	
December 31, 1992	1,125.5	1,018.0	563.7	66.5	17.5	2,791.2	
December 31, 1991	1,029.1	954.9	503.0	51.1	20.3	2,558.4	
December 31, 1990	1,200.8	912.7	499.8	26.8	23.5	2,663.6	

Certain prior year figures have been restated to conform with the 1994 presentation.

MB's interests in affiliates are described on page 35 of this report.

Since 1991, when MB reported a net loss of \$93.4 million, MB has shown improved results each year, attaining net earnings of \$180.2 million in 1994.

In 1994 MB implemented a new corporate strategy (the "GAP Attack") aimed at substantially increasing operating earnings over the five year period ending December 31, 1998. Activities to significantly improve operating profits are focused on cost reduction, higher margin added products and growth through greenfield capital investment and acquisitions.

MB's focus on higher margin added products, coupled with building materials prices substantially increasing in late 1991, resulted in improved earnings for MB. MB's North American building materials distribution centres have expanded the sale of non-MB products. Recently the Company has announced expansions of its building materials segment. The two major additions are the purchase in January, 1995 of Green Forest Lumber Corporation, an Ontario based lumber and distribution company, and the plans to construct a medium density fibreboard plant in Pennsylvania.

During the last five years the pulp and paper markets experienced additional new machines, the closures of old inefficient machines in the more recent years, reduced demand and declining product prices until 1994 when they began to rise. The Company's focus was on cost reduction as only low cost producers could survive the highly competitive market. In 1994 MB sold its Harmac pulp operations. The focus for groundwood printing papers, in addition to cost reductions, was to improve the grade mix. The No. 10 paper machine at Powell River was upgraded and at Port Alberni the NEXGEN project which will produce light weight coated paper was launched.

During the five year period, the packaging business experienced low product prices due to the weak U.S. economy. MB upgraded the Alabama containerboard mill to improve product quality and cost competitiveness and restructured its container operations in the U.S. With stronger markets in 1994, MB has started construction of a new 100% recycled linerboard mill in the U.S.

In 1991 MB entered into a joint venture with TJ International, Inc. forming Trus Joist MacMillan (TJM) to realize the potential of the MB developed engineered lumber, Parallam® PSL and TimberStrand® LSL. TJM is the dominant supplier in the increasingly profitable and expanding engineered lumber market. TJM is undertaking a major capital expenditure program.

As at December 31, 1994 MB held 17,028,091 shares of NV Koninklijke KNP BT (KNP BT) representing a 17% equity interest. KNP BT is the company resulting from a merger in 1993 of N.V. Koninklijke (KNP) and two other major Dutch companies in related businesses.

In 1993 MB sold its investments in UK Corrugated and Island Paper Mills.

In 1993 Noranda Forest Inc. sold its 49% common share interest in the Company by way of a secondary public offering.

Capital expenditure program

Over the past five years capital expenditures totaled \$1.0 billion of which \$236 million was spent on environmental projects. Also a significant portion of capital expenditures was related to the maintenance and replacement of existing capacity. Major discretionary capital expenditures are described in the facilities section of each industry segment.

The following table summarizes consolidated capital expenditures by business over the past five years:

	1994	1993	1992	1991	1990	Total
			(\$ m	illions)		
Building materials	63.9	43.2	26.9	31.1	83.1	248.2
Paper	56.1	59.2	112.5	80.6	118.3	426.7
Packaging	47.4	37.5	30.7	43.0	76.6	235.2
Other and corporate	12.8	4.6	5.6	11.8	5.4	40.2
	180.2	144.5	175.7	166.5	283.4	950.3
Engineered lumber*				45.2	47.5	92.7
	180.2	144.5	<u>175.7</u>	211.7	330.9	1,043.0

^{*} Reclassified to investment in Trus Joist MacMillan on October 1, 1991

BUSINESS OF MacMILLAN BLOEDEL

Financial information and explanatory notes pertaining to each of MB's industry and geographic segments and export sales are presented in the Consolidated Financial Statements on pages 66 and 67 of this report.

BUILDING MATERIALS SEGMENT

Logging operations

Log harvesting operations, primarily on the West Coast of B.C. and in Alabama are conducted to supply the wood fibre requirements of the converting plants. Logs are harvested and sorted according to species, size and quality and directed to the appropriate converting mill to extract maximum profit value. To balance supply and demand of grade and species, logs are traded in the open market. Most logs are used in the manufacture of lumber. Chips from converting operations and lower grade logs form part of the fibre supply for pulp, paper and containerboard mills. Hog fuel (principally sawdust and bark) is used to produce energy required by the converting facilities.

The following table shows the volumes of logs harvested as part of the activity of supplying the fibre requirements of MB's major converting facilities in each of the years 1994, 1993 and 1992:

	Year e	nded Decen	iber 31
	1994	1993	1992
	(thousa	nds of cubic	metres)
British Columbia	6,126	6,081	6,542
Alabama and Mississippi (includes hardwood)	739	705	817

Reforestation

To ensure future supply of fibre MB maintains an active reforestation program in B.C., Alabama and Mississippi.

Company managed lands in B.C. must be restocked promptly, generally within three years of logging. This is consistent with the Company's practices.

MB produces an annual crop of 28 million seedlings in B.C. and Alabama. These seedlings are planted on MB controlled forest lands with approximately 80% of Alabama's crop sold.

Forest lands

The total area of commercial forest lands under MB's control at December 31, 1994 is:

		ctares
British Columbia (Note 1):		
Area operated on a sustained yield basis —		
Tree farm licences		
Crown lands (Note 2)	721,000	
Timber licences (Note 3)	123,000	
Owned lands (Note 4)	79,000	
	923,000	
Managed forest lands (owned lands) (Note 4)	143,000	1,066,000
Other tenures —		
Timber licences (Note 5)	37,000	
Owned lands	3,000	40,000
		1,106,000
Ontario (Note 6)		_
Saskatchewan (Note 7)		309,000
Alabama and Mississippi (Note 8)		
Owned lands	72,000	
Long term cutting rights	102,000	174,000
		1,589,000

Notes:

British Columbia

- (1) Includes 62,000 hectares of forest lands which in prior years were classified as inaccessible and therefore not included in the total area of forest lands under MB's control.
- (2) These are contained within MB's two tree farm licences. These tree farm licences were renewed for 25-year terms in the early 1980's and are in the final stages of again being renewed for another 25 years.
- (3) The Company owns exclusive rights to harvest timber on the land held under timber licences. A royalty is payable upon harvesting the timber. After the timber is harvested on these lands, the Company has the responsibility to reforest them. They then revert to the Crown but will be retained within the tree farm licences as "Crown lands". Approximately 35,000 hectares of these lands have been logged but not reverted.
- (4) Certain Company owned lands have been put into tree farms ("managed forest units") to obtain an incentive property tax rate.
- (5) Included are approximately 12,000 hectares of lands which have already been logged and will revert to the Crown when restocked at the Company's expense.

Ontario

(6) In January, 1995 MB acquired Green Forest Lumber Corporation. To supply its two sawmills in Ontario, Green Forest holds a Forest Management Agreement covering 725,000 productive hectares.

Saskatchewan

(7) MB's cutting rights in Saskatchewan, which are limited to species used by the oriented strand board plant at Hudson Bay, Saskatchewan, are held under a forest management licence that expired in June, 1994. MB exercised its renewal rights at that time. MB is negotiating with the Saskatchewan government on the renewal and expansion terms of the licence.

Alabama and Mississippi

(8) The wood from its own timber resources supplied 30% in 1994 (30% in 1993) of the fibre requirements of the Pine Hill, Alabama mills. Other sources of raw material for the mills are economically available.

Canadian stumpage and royalty payments

British Columbia

A stumpage charge is assessed by the B.C. Provincial Government (the "Government") on all Crown timber harvested. On those lands held under timber licences a fixed royalty is payable when the timber is harvested. No royalty or stumpage charges are payable in respect of timber from Company owned lands. In the spring of 1994 the Government introduced new stumpage and royalties which resulted in increased costs.

Saskatchewan

The Saskatchewan government has indicated it will adopt stumpage rates similar to Alberta and Ontario practices which reflect movement in product prices. This will result in higher stumpage costs.

Ontario

In January, 1995 MB acquired Green Forest Lumber Corporation which has an allowable annual cut of approximately 550,000 cubic metres. The Ontario forest products industry is negotiating with the provincial government as to future increases in stumpage costs and possible reductions in allowable annual cut.

British Columbia forest land use

The Province of B.C. owns approximately 95% of all forest lands in the Province. Under the Forest Act, the Government is empowered to grant "tree farm licences" (TFLs) to a licensee who undertakes to manage an area of Crown forest land, often in conjunction with forest land held by the licensee, to yield an annual crop on a sustained yield basis (i.e. in perpetuity). The Government determines the allowable annual cut (AAC) on TFLs.

Effective January 1, 1995 MB's available cut from accessible timberlands operated on a sustained yield basis was 6.7 million cubic metres (January 1, 1994 — 7.0 million cubic metres and January 1, 1993 — 7.3 million cubic metres).

During 1994 the establishment of protected areas (Clayoquot Sound and Barkley Sound) in one of the Company's TFLs resulted in allowable cut reductions. Harvest levels will be reduced in TFLs to accommodate the Commission on Resources and Environment (CORE) recommendations, the Government's Protected Areas Strategy and the Government's new Forest Practices Code.

The Company sold the Harmac pulp mill to Harmac Pacific Inc. (HPI) in 1994 and contracted to supply HPI with sufficient wood fibre to operate its Harmac pulp mill at 100% capacity for the remainder of 1994 and 1995. This supply commitment reduces at 5% per year until 1999 when it reaches 80% of the mill's fibre requirement, where it remains until 2019. At full capacity the mill consumes 2.1 million cubic metres of wood fibre.

The available sustainable cut, together with timber harvested from other MB tenures, is sufficient to provide, on average, about 85% of the fibre requirement (logs and chips) for MB's present production facilities in B.C. and MB's supply commitment to HPI.

Further discussion of B.C. Government policies surrounding timber tenure are noted on page 48 of this report.

Countervailing duty on Canadian softwood lumber

As a result of decisions by the U.S. Department of Commerce and the U.S. International Trade Commission, a countervailing duty on shipments of Canadian softwood lumber into the U.S. was imposed on March 12, 1992. The countervailing duty was removed in 1994 and the U.S. Department of Commerce has agreed to refund duty amounts and release all deposits. Consequently MB has recorded pre-tax income of \$20 million in 1994.

Building materials manufacturing operations

MB manufactures lumber, plywood, oriented strand board, particleboard and cement-fibre roofing materials at its mills. It also has logs cut into lumber at rented facilities in B.C. In addition to handling MB produced products, the wholesale building materials distribution business purchases significant amounts of lumber and building materials for resale. For each of the years ended December 31, 1994, 1993 and 1992 lumber accounted for 40% of MB's consolidated sales values to unaffiliated customers.

Building materials facilities

	Mill	Location	Annual capacities at year-end 1994	1994 production
			(MMfl	om)
Lumber and lumber	7 Sawmills	British Columbia	766	695
specialties	1 Sawmill	Alabama	_98	103
			864	798
	Custom-cut	British Columbia		_79
				877
			(MM s	sq.ft. ¾s")
Panelboards	1 Plywood mill	Alabama	153	160
	1 Plywood mill	Ontario	30	29
	1 Oriented strand board mill	Saskatchewan	210	210
	1 Particleboard mill	British Columbia	100	101
	1 Particleboard mill	Mexico	73(1)	35
			566	535

⁽¹⁾ Acquired in August, 1994 and production includes amounts since acquisition.

Lumber

MB produces approximately 750 MMfbm of high grade lumber products in its B.C. sawmills and purchases approximately 1,000 MMfbm from non-MB producers. In 1994 lumber sales from all sources accounted for 57% of building materials segment sales of almost \$2.8 billion. In recent years the volume of non-MB produced lumber sold by MB has increased. On average, prices of these mainly dimension grade products are significantly less than MB produced lumber. High value cedar products are manufactured at the New Westminster, Canadian White Pine (Vancouver), and Somass (Port Alberni) mills with most of the sales to the U.S. market. The Company's whitewood sawmills, Alberni Pacific (Port Alberni), Chemainus, Powell River and Island Phoenix (Nanaimo), direct their output to export markets, with Japan the main market. The Company's Custom Processing division further processes whitewood lumber from the Company's mills to meet the specifications of customers worldwide for uses such as European window frames and special Japanese decorative applications. The Alabama mill produces dimension lumber for the U.S. market.

In January, 1995 MB acquired Green Forest Lumber Corporation which has two sawmills and three remanufacturing centres in Ontario. For the year ended March 31, 1994 the sawmills produced 110 MMfbm. In addition to its own production, Green Forest purchases approximately 600 MMfbm which is the basis of its highly successful lumber trading operations.

Panelboards

Standard plywood sold in the U.S. market is produced from pine logs at the Alabama mill. A hardwood plywood plant at Nipigon, Ontario produces specialty products, and particleboard and specialtyboard are manufactured in Vancouver. MB manufactures Aspenite (1990) at its oriented strand board mill at Hudson Bay, Saskatchewan. In August, 1994 MB acquired in Mexico a particleboard and a laminated particleboard plant and leased a fibre-cement plant.

Cement-fibre roofing materials

In April, 1993 MB acquired an 81% interest in American Cemwood Corporation for \$40.3 million. American Cemwood Corporation with an annual capacity of 280,000 squares manufactures high quality cement-fibre roofing materials which simulate the appearance of cedar shakes. In early 1995 MB increased its interest to 100%.

Engineered lumber

MB has a 49% limited partnership in TJM which produces and markets a wide range of engineered lumber products. In 1994 sales were approximately US\$500 million while 1993 was US\$440 million with a large portion now being sold through MB's U.S. and Canadian building materials distribution centres. (See investment in affiliates section on page 35).

Capital expenditures

Capital expenditures in the building materials segment in 1994 amounted to \$63.9 million compared to \$43.2 million in 1993 and \$26.9 million in 1992. In 1994 work commenced on a \$16 million project to improve the Alberni Pacific sawmill's cost competitiveness and to boost lumber recovery and value extraction. The project should be completed in September, 1995.

In May, 1994 work started on a US\$24 million project to upgrade the methods of log handling, debarking, chipping and chip handling and storage at the Pine Hill, Alabama facility. The project is expected to be completed in late 1995. The new system is designed to reduce operating costs and improve fibre recovery and chip quality.

In 1994 MB announced plans to construct a medium density fiberboard plant in Pennsylvania at a cost of US\$110 million. MB will have a 70% interest in a world scale plant which is expected to be completed in late 1996 with an annual capacity of 132,000 MSF (¾" basis).

In early 1995 the Company acquired all of the shares of Green Forest Lumber Corporation for a cost of approximately \$120 million. Green Forest operates two sawmills in Chapleau, Ontario, three remanufacturing/distribution centres in Fort Erie, Windsor and Bolton, Ontario and three distribution centres in the U.S. Headquartered in Toronto, Green Forest has about 500 employees and in the fiscal year ended March 31, 1994 had sales of \$377 million and net earnings of \$11.7 million.

In January, 1995 the Company also announced the purchase of Plenk's Wood Centre, a Chemainus, B.C. remanufacturing operation which produces high quality windows and doors.

Building materials marketing

MB's marketing activities for building materials extend into most major world markets through sales offices and independent sales agents. In 1994 sales revenues were 35% in Canada, 38% in the U.S., 21% in Japan and the Orient and 6% elsewhere. The following table shows the distribution by volume and by market of MB's building materials sales in 1994, 1993 and 1992:

		Canada	United States	Japan & Orient	Europe & Other	Total
Lumber (MMfbm)	1994	491.3	849.6	394.7	122.1	1,857.7
	1993	486.8	829.5	336.7	116.8	1,769.8
	1992	443.2	762.0	358.7	114.2	1,678.1
Panelboards (MM sq.ft. 3%")	1994	516.4	498.9	56.4	35.8	1,107.5
(plywood, oriented strand board and	1993	656.2	389.1	51.7	3.7	1,100.7
particleboard)	1992	629.8	316.5	24.4	4.7	975.4

At December 31, 1994 MB operated 23 distribution centres in the U.S. and 21 in Canada. With the acquisition of Green Forest Lumber in January, 1995, three more distribution centres will be added in the U.S. and three in

Canada. Two distribution centres in Canada are being closed in early 1995. Overseas, MB has a lumber distribution company in Japan, sales offices in Hong Kong and Australia, and in Europe uses established independent sales agents.

The building materials markets in which MB sells are highly competitive with no dominant supplier. Competition is on the basis of quality, price and service. Many of MB's products also compete with substitutes of various kinds. Japan is the principal market for MB's high value whitewood lumber products.

PAPER SEGMENT

MB operates paper mills at two locations in B.C. — Powell River and Port Alberni. Both mills manufacture newsprint and other groundwood printing papers. Powell River also produces market kraft pulp. For the years ended December 31, 1994, 1993 and 1992 newsprint and other groundwood printing papers accounted for 15%, 17% and 18% respectively of MB's consolidated sales values to unaffiliated customers.

Paper facilities

	Division	Location	Annual capacities at year-end 1994 (k toni	1994 production	
Newsprint and other groundwood printing papers	Alberni Specialties Powell River	Port Alberni, B.C. Powell River, B.C.	328 465	268(1) 431	
			793	699	
Market pulp	Powell River	Powell River, B.C.	_50	46	

⁽¹⁾ Production has been reduced by a continuing strike which commenced November 10, 1994.

Newsprint and other groundwood printing papers

The Company has six paper machines with an annual capacity of 793,000 tonnes. Powell River currently has one machine manufacturing standard newsprint (No. 11) and two machines manufacturing other groundwood printing papers (Nos. 9 and 10). Paper machine No. 7 was closed in 1992 and No. 6 closed at the end of 1993. Both had annual capacities of 82,000 tonnes. Alberni Specialties operates three machines (Nos. 3, 4 and 5) capable of producing a wide range of lightweight groundwood printing papers and newsprint. Paper machine No. 3 with an annual capacity of 93,000 tonnes was started up January 25, 1994. It had been shut down at the end of 1992. Recycled fibre content in newsprint is required by some customers and by legislation or voluntary agreements in some U.S. states. At Port Alberni equipment has been installed to allow the use of recycled pulp in its newsprint and telephone directory paper, and Powell River also has the capability to use recycled pulp on a limited scale. As a result of a labour dispute related to the construction of the NEXGEN project (see Human Resources) the Alberni Specialties mill employees have been on strike since November 10, 1994.

The Company manufactures newsprint and groundwood printing papers. The following table shows the percentage of MB production related to standard newsprint and telephone directory and other groundwood printing papers in 1994, 1993 and 1992:

	1994	1993	1992
Standard newsprint		62%	59%
Telephone directory and other groundwood printing papers	_40	_38	41
	100%	100%	100%

The Alberni Specialties mill is one of the largest producers of telephone directory paper in the world which is used for telephone and commercial directories. High quality groundwood printing papers typically used for publications such as Sunday magazines, newspaper advertising inserts, flyers and computer printout forms are produced at Powell River.

Market pulp

In 1994 the Company sold its Harmac pulp mill and pulp marketing operations to Harmac Pacific Inc.(HPI). In late 1993 the Company permanently closed its Port Alberni market pulp production. Powell River continues to produce about 50,000 tonnes of semi and unbleached market pulp annually. The Alberni Specialties mill has entered into a pulp purchase agreement with HPI for a period of 15 years. MB has the option to vary the annual purchases between 40,000 and 60,000 tonnes.

Capital expenditures

Capital expenditures in the paper segment in 1994 amounted to \$56.1 million, compared to \$59.2 million and \$112.5 million in 1993 and 1992 respectively.

In recent years the major capital expenditures have been to reduce dioxins and to install and expand secondary treatment of effluent. The aggregate cost of these and other projects related to them is \$155 million, with \$56 million at Alberni Specialties and \$99 million at Powell River.

At Port Alberni a wrap line and management production system was completed at the end of 1992 at a cost of \$20 million. A \$33 million project to upgrade the No. 10 paper machine at Powell River for the production of highly calendered, high bright groundwood printing paper was completed at the end of 1993.

In early 1994 the Company started a \$193 million project to convert Port Alberni's No. 5 paper machine from standard newsprint to lightweight coated paper — the NEXGEN project. Engineering has started on the project and the machine is expected to be operational by the end of 1995. When completed the No. 5 machine will have an annual capacity of 160,000 tonnes.

The NEXGEN manufacturing process will produce a high quality coated paper. The machine will have a strategic geographic advantage in the western U.S. markets.

Paper marketing

Newsprint sales are mainly in North America (73% of 1994 shipments). In its largest newsprint market, the western and central U.S., MB operates four sales offices. MB also has paper sales offices in Tokyo, Hong Kong and Sydney and employs sales agents in other Pacific Rim markets. United Kingdom newsprint and groundwood paper customers are serviced from a sales office in London. MB also markets paper products for other companies. Powell River's market pulp is sold through HPI.

The following table shows the distribution by volume and by market of MB's paper sales in 1994, 1993 and 1992:

		Canada	United States	Japan & Orient	U.K. & Europe	Other	Total
		(k tonnes)					
Newsprint and other							
groundwood printing papers	1994	113.6	552.6	137.9	29.1	75.8	909.0
	1993	110.2	556.6	140.9	36.1	85.6	929.4
	1992	83.6	507.9	128.7	33.9	68.8	822.9

There is no dominant producer of newsprint and competition is on the basis of quality, service and price.

During 1992 and 1993 over-capacity and weak demand resulted in newsprint and groundwood printing paper price deterioration. In recent years, particularly in 1993, there have been significant capacity withdrawals. This, together with increased demand and limited new capacity, has resulted in increased prices in 1994 and early 1995.

PACKAGING SEGMENT

MB manufactures containerboard (linerboard and corrugating medium) at Pine Hill, Alabama, corrugating medium at Sturgeon Falls, Ontario, corrugated containers and SpaceKraft® in the U.S. In 1994 containerboard sold outside the consolidated enterprise accounted for 8% of consolidated sales values and in 1993 and 1992 it was 6% and 8% respectively. For the years ended December 31, 1994, 1993 and 1992 corrugated containers accounted for 8%, 8% and 10% respectively of MB's consolidated sales values to unaffiliated customers.

Packaging facilities

	<u>Division</u> <u>Location</u>		Annual capacities at year-end 1994	1994 production
			(k toni	nes)
Linerboard	Pine Hill	Pine Hill, Alabama	454	445
Corrugating medium	Pine Hill	Pine Hill, Alabama	243	242
	Sturgeon Falls	Sturgeon Falls, Ontario	85	_82
			328	324
Corrugated containers (including				
sheet plants)	15 plants	United States	379	328

The U.S. corrugated container group consists of plants in Arkansas, Florida, Illinois, Kentucky, Louisiana, Mississippi, New Jersey, New York, Ohio, Tennessee and Texas. Eight are corrugated container converting plants and seven are sheet plants or sheet feeder plants. A corrugated container plant was closed in the spring of 1993. MB also has two SpaceKraft® plants, one in Indiana and one in Georgia. SpaceKraft® is a bulk bin container concept developed by MB for large, heavy quantities of liquids or solids.

Capital expenditures

Capital expenditures in the containerboard and packaging segment in 1994 amounted to \$47.4 million compared to \$37.5 million and \$30.7 million in 1993 and 1992 respectively.

In August, 1994 construction commenced on a US\$98 million 100% recycled linerboard mill in Kentucky with US\$12 million spent in 1994. The plant's planned annual capacity of approximately 127,000 tonnes of lightweight linerboard grades will be used in the manufacture of corrugated containers. This will complement the production of heavier weight linerboard grades manufactured at Pine Hill. The mill is expected to start up in early 1996.

A US\$15 million SpaceKraft® plant in Indiana was completed in late 1993.

In 1992 MB purchased sheet feeder facilities located in three states. Since then sheet and sheet feeder plants have been added in the U.S. South.

Packaging marketing

The following table shows the distribution by volume and by market of MB's containerboard and packaging sales in 1994, 1993 and 1992:

		Canada	United States	Europe & Other	Total
		(k tonnes)			
Containerboard	1994	117.7	426.1	102.7	646.5
	1993	107.4	369.0	95.5	571.9
	1992	88.2	333.9	122.1	544.2
Corrugated containers (including sheet plants)	1994		326.4		326.4
	1993		313.4		313.4
	1992		324.0		324.0

Over half of the linerboard and corrugating medium sold or traded by the Pine Hill, Alabama mill is utilized by MB's packaging operations in the U.S. The Alabama mill also sells containerboard to affiliated corrugated container plants in Canada. Virtually all the corrugating medium sold by Sturgeon Falls, Ontario is used by affiliated Canadian corrugated container plants. The manufacture and marketing of corrugated containers is a specialized regional business and is highly competitive. There is no dominant producer of either containerboard or corrugated containers and competition is on the basis of quality, price and service. There is no material backlog of sales orders.

OTHER SEGMENT

This segment of MB's business consists mainly of third party transportation operations. MB controls, through long term charters, six deep sea vessels which are used to transport MB's forest products as well as a wide range of cargoes.

FOREIGN EXCHANGE

A significant portion of MB's export sales are denominated in U.S. dollars or Japanese yen. Any change in the Canadian dollar against the U.S. dollar or Japanese yen affects the Canadian dollar amounts realized.

INVESTMENTS IN AFFILIATES

As at December 31, 1994 investments in affiliates accounted for by the equity method were carried in the financial statements at a value of \$868.2 million, an increase of \$224.9 million over the \$643.3 million recorded at the end of 1993. During 1993 MB sold its investments in UK Corrugated and Island Paper Mills.

NV Koninklijke KNP BT

As at December 31, 1994 MB held 17,028,091 shares of NV Koninklijke KNP BT (KNP BT) representing a 17% equity interest. In 1993 MB invested \$62.9 million in a KNP BT rights share offering.

KNP BT operates in four sectors: paper merchanting and office products; graphic and information systems; packaging; and paper. The first two comprise trading and distribution and the latter two are production oriented. KNP BT has facilities to produce annually 270,000 tonnes of graphic board, 460,000 tonnes of packaging board, 70,000 tonnes of specialties board, 820,000 tonnes of corrugated board and 1.7 million tonnes of fine paper. KNP BT's 1994 sales amounted to 13.1 billion Dutch guilders.

Trus Joist MacMillan

Trus Joist MacMillan is a limited partnership (TJM) between 51% TJ International, Inc. and 49% MB. The partnership is the largest engineered lumber entity in the world with 14 manufacturing plants across North America and an extensive marketing network. In 1994 and 1993 annual sales were US\$500 million and US\$440 million respectively.

TJM manufactures and markets high quality engineered structural lumber products. Its main products are MICRO=LAM® laminated veneer lumber, Parallam® parallel strand lumber, TimberStrand® (formerly PSL 300®) laminated strand lumber and I-beam joists. These products are made into floor joists, roof rafters, headers, beams, columns, posts, door components and structural rim boards. In addition to these residential building products, TJM also manufactures open web trusses for light commercial construction.

In 1994 construction started on a US\$100 million TimberStrand plant in Kentucky, which is expected to be completed in mid-1995. During the year, construction also began on a US\$83 million MICRO=LAM®/Parallam® plant in West Virginia expected to be completed in late 1995.

A significant portion of TJM's products are sold through MB's building materials distribution centres in North America.

MacMillan Bathurst

The Company has a 50% partnership interest in MacMillan Bathurst, the largest corrugated container manufacturer in Canada operating 12 corrugated container plants in Canada with an annual production of 500,000 tonnes of corrugated containers.

Other

During 1994 MB invested \$29 million in several partnerships and joint ventures in the composite wood business which will commence production in 1995 and 1996. Other equity investments include a 30% interest in a sawmill at Courtenay, B.C. In January, 1995 the Company also announced plans to build a remanufacturing window and door component plant near Nanaimo which will be 49% owned by MB.

RESEARCH AND DEVELOPMENT

	1994	1993	1992
		(\$ millions)	
Gross expenditures		17.4	19.8
Less: government grants	2.6	.9	3.0
Less: investment tax credits	2.0	3.2	2.8
Less: recovered from Trus Joist MacMillan	2.2	1.5	3.6
Less: recovered from Harmac Pacific	.3		_
Net	7.6	11.8	10.4

MB employs approximately 100 professional, technical and support staff located at its Research and Development Centre in Burnaby, B.C.

MB's research and development programs are aimed at the development of new processes and products, greater utilization of timber resources, technical improvements to existing processes and products, and improved methods of silviculture and environmental protection.

HUMAN RESOURCES

At December 31, 1994 MB employed approximately 8,800 people in Canada, 3,500 in the U.S. and 300 elsewhere (1993 — 9,500; 3,400 and 100). (The reduction in the number of Canadian employees reflects the sale of HPI).

In B.C., MB employs 4,100 people in the logging and building materials operations, 3,800 of whom are represented by IWA-Canada and 300 by the Pulp, Paper and Woodworkers of Canada (PPWC). The IWA agreement expired June 15, 1994 and a new agreement was ratified in October, 1994. This agreement calls for a 3% wage increase in the first and second years and a 2% increase in the third year. One-time bonuses of \$1,000 in 1994 and \$500 in 1995 are provided, with a further \$500 bonus to be paid in 1996 dependent upon an economic trigger. PPWC negotiations are proceeding.

In B.C., 2,000 people who work in the Company's two paper operations are represented by the Communications, Energy & Paperworkers Union of Canada (CEP). Their agreement expired April 30, 1994. Although the B.C. pulp and paper industry has historically bargained on an industry-wide basis, mill-by-mill bargaining replaced this system in 1994. The unions selected Fletcher Challenge Canada (FCC) as the 'target' and later included MB's Port Alberni paper operation due to an 'open shop' contracting issue. The CEP commenced a strike of the Alberni Specialties mill on November 10, 1994 in opposition to the awarding of contracts to TNL Construction, a unionized contractor who does not use Building Trades members. At the end of 1994 the FCC mills went on strike and in February, 1995 a new contract was approved. MB has indicated that it will match the principal terms of the FCC agreement. The FCC contract, which expires April 30, 1997, includes pay increases of 3% in each of three years, plus a signing bonus of \$1,000. It also provides for a company payment of about \$2,000 per member towards an industry pension plan. The FCC agreement also resolves two issues which will form the basis for an early resolution at Alberni Specialties — company operating flexibility and construction work by open shop and non-union contractors.

In Alabama, MB employs 1,000 people at Pine Hill, 400 of whom are represented by the United Paperworkers International Union (UPIU) in the Pulp and Paper Division. That contract expires October 4, 1996. Another 300 employees in the Wood Products Division are also represented by the UPIU with a contract expiring April 29, 1995.

ENVIRONMENT

In common with other companies in the forest products industry, the operations of MB are subject to various environmental protection laws and regulations. MB believes that all of its operations generally conform with the various legislated requirements. To ensure this, MB regularly monitors discharges and has established an Environmental Committee of the Board. Accompanying this year's Annual Statutory Report is MB's second Annual Environmental Report which discloses MB's compliance with the regulations.

In 1994 MB spent approximately \$10 million on environmental capital projects (1993 — \$40 million and 1992 — \$146 million). (Prior year's amounts include discontinued operations). In the early 1990's significant capital expenditures were made in the pulp and paper segment to ensure that the Company's manufacturing

processes met increasingly stringent discharge standards. Environmental focus has shifted to forestry practices. MB is committed to 100% compliance with the new forest practice regulations which are increasing operating costs. The Company has a program to remove and destroy PCB's and contaminated materials from various properties.

For additional discussion of environmental issues, see the environmental issues in the Outlook and Uncertainties section of the Management and Discussion and Analysis section on page 48 of this report.

Energy

A significant portion of MB's energy requirements are self-generated. The balance is purchased and in the opinion of MB there is no threat that suitable sources would not be available in the future.

Recycling

In the aggregate MB utilizes 330,000 tonnes of recycled fibre in its North American operations.

Pine Hill, Alabama	175,000
Powell River and Port Alberni, B.C.	55,000
Sturgeon Falls, Ontario	100,000
	330,000

When the Kentucky linerboard mill is completed in early 1996 it will recycle 160,000 tonnes of old corrugated containers.

SUMMARY OF FINANCIAL INFORMATION

DIVIDENDS

During the two years ended December 31, 1994 the Company declared the following dividends:

	1994	1993
	(\$ milli	ions)
Class B preferred shares		
Series 8	1.7	1.9
Series 10	2.7	2.6
Common shares	74.2	69.9

At its meeting on February 8, 1995 the Board of Directors declared a dividend of \$.15 per common share payable on March 15, 1995 to shareholders of record on February 22, 1995. The Board of Directors also declared the stated dividends on the preferred shares.

The Company has a dividend reinvestment plan. For more information on the plan contact the Corporate Secretary at (604) 661-8302 or FAX (604) 687-2314.

The terms of issue of the Company's preferred shares prohibit the declaration or payment of any dividends, other than stock dividends in common shares, unless all accrued dividends on such preferred shares have been paid or set apart for payment.

Dividends paid to U.S. shareholders are subject to a 15% Canadian non-resident withholding tax.

FIVE YEAR FINANCIAL DATA

	1994	1993*	1992* (\$ millions)	1991*	1990*
Current assets	1 626 2	1 407 5		1.025.2	0000
Property, plant and equipment	1,636.2 1,887.8	1,407.5	1,123.1	1,035.3	889.8
Investments and other assets	957.1	1,825.6 944.6	1,845.0	1,793.1	1,932.8
	A Committee of the Comm		899.1	909.7	707.9
Total assets	4,481.1	4,177.7	3,867.2	3,738.1	3,530.5
Short term interest-bearing debt	122.4	83.8	87.5	140.1	48.5
Current portion of long term debt	367.0	109.2	14.6	8.5	30.7
Long term debt	1,234.7	1,490.3	1,512.7	1,231.1	1,032.9
Convertible subordinated debentures	149.9	149.9	149.9	149.9	150.0
Total interest-bearing debt	1,874.0	1,833.2	1,764.7	1,529.6	1,262.1
Other current liabilities	524.1	391.5	326.3	267.3	292.8
Other long term obligations and deferred income taxes	306.2	323.1	327.6	341.6	378.7
Redeemable term preferred shares	1 to 100	_	·	13.8	15.4
Other redeemable preferred shares	73.8	75.7	96.2	98.1	104.1
Common equity	1,703.0	1,554.2	1,352.4	1,487.7	1,477.4
Total liabilities and shareholders' equity	4,481.1	4,177.7	3,867.2	3,738.1	3,530.5
Interest-bearing debt as a percentage of interest-bearing					
debt and shareholders' equity	51%	53%	55%	49%	44%
Interest-bearing debt (excluding convertible debentures)					
as a percentage of interest-bearing debt and convertible debentures and shareholders' equity	47%	49%	50%	44%	39%
convertible depontates and shareholders equity	4170	47/0		4470	
Funds generated by operations	196.0	94.2	5.4	60.5	91.3
Depreciation, depletion and amortization	172.5	175.9	157.7	143.9	146.7
Capital expenditures	180.2	144.5	175.7	211.7	330.9
Interest	148.0	136.3	112.9	104.5	71.7
Preferred share dividends paid	4.2	4.8	11.8	14.1	15.5
Common share dividends paid in cash	74.2	69.9	50.0	38.4	82.1
			E 55 E1	5.45	

^{*} Certain prior year figures have been restated to conform with the 1994 presentation.

For a summary of U.S. and Canadian dollar exchange rates see page 40 of this report.

SELECTED QUARTERLY FINANCIAL DATA

	1993*			1994				
		Quart	ters	<u> </u>		Qua	rters	
	I	II	III	IV	I	II	III	IV
				(\$ 1	nillions)			
Sales of products and services	791.6	899.5	828.2	829.8	859.5	1,019.3	1,035.0	1,035.0
Costs and expenses:								
Materials, labour and other								
operating expenses	630.0	726.9	710.7	694.4	704.3	829.2	854.1	840.0
Depreciation, depletion and								
amortization		46.0	43.2	46.1	42.1	49.4	43.4	37.6
Selling, general and administrative	54.1	58.5	61.2	59.4	58.9	64.9	65.5	71.8
	724.7	831.4	815.1	799.9	805.3	943.5	963.0	949.4
Operating earnings	. 66.9	68.1	13.1	29.9	54.2	75.8	72.0	85.6
Other income		5.3	7.6	24.2	4.6	14.5	5.5	23.3
Interest expense		(32.7)	(35.4)	(36.3)	(36.7)	(36.3)	(36.5)	(38.2)
Earnings (loss) before income taxes	71.6	40.7	(14.7)	17.8	22.1	54.0	41.0	70.7
Income tax (recovery) expense		13.6	(6.9)	2.6	9.2	16.1	20.4	23.3
Earnings (loss) before undernoted		(
items	. 60.1	27.1	(7.8)	15.2	12.9	37.9	20.6	47.4
After tax earnings (loss) of affiliates		1.7	(.9)	(1.9)	7.8	14.7	16.7	12.5
Earnings (loss) from operations sold		(6.3)	(12.0)	(8.2)	(6.8)	(4.3)	20.8	
Net earnings (loss)	Name and Address	22.5	(20.7)	5.1	13.9	48.3	58.1	59.9
Provision for dividends on preferred								
shares	. (1.5)	(1.1)	(1.0)	(1.0)	(.9)	(1.0)	(1.2)	(1.2)
Net earnings (loss) attributable to								
common shareholders	. 44.8	21.4	(21.7)	4.1	13.0	47.3	56.9	58.7
Earnings (loss) per common share								
(dollars):								
basic	40	.19	(.19)	.03	.11	.38	.46	.47
fully diluted		.19	(.19)	.03	.11	.37	.44	.44
Price range of common shares on								
Toronto Stock Exchange								
(dollars):								
high	. 203/8	235/8	231/2	221/4	231/2	211/4	201/8	20
low		187/8	201/8	193/4	203/4	151/2	17	17
Cash dividends per common share					0.000	(c) -m	1.20	C growners
(dollars)	15	.15	.15	.15	.15	.15	.15	.15

^{*} Certain prior year figures have been restated to conform with the 1994 presentation.

FIVE YEAR EARNINGS DATA

	1994	1993*	1992* (\$ millions)	1991*	1990*
Sales	3,948.8	3,349.1	2,612.5	2,290.7	2,491.2
Operating earnings (loss):					
Building materials	360.4	332.4	159.9	(49.9)	(29.8)
Paper	(65.7)	(84.0)	(61.2)	9.5	70.3
Packaging	41.7	(22.0)	(.2)	(13.7)	39.8
Corporate and other	(46.0)	(39.3)	(40.0)	(83.2)	(84.2)
Inter-segment	(2.8)	(9.1)	(2.8)	(3.2)	10.5
Operating earnings (loss)	287.6	178.0	55.7	(140.5)	6.6
Other income	47.9	75.4	27.3	28.4	11.3
Interest expense	(147.7)	(138.0)	(127.0)	(103.1)	(75.7)
Earnings (loss) before income taxes	187.8	115.4	(44.0)	(215.2)	(57.8)
Income tax recovery (expense)	(69.0)	(20.8)	20.4	98.8	32.8
After tax earnings (loss) of affiliates	51.7	(6.8)	(14.8)	37.7	41.6
Earnings (loss) from operations sold	9.7	(34.6)	(10.4)	(14.7)	34.2
Net earnings (loss)	180.2	53.2	(48.8)	(93.4)	50.8
Provision for preferred dividends	(4.3)	(4.6)	(8.9)	(11.2)	(13.1)
Net earnings (loss) attributable to common					
shareholders	175.9	48.6	_(57.7)	(104.6)	37.7
Net earnings (loss) per common share (dollars):					
basic	1.42	.42	(.52)	(.98)	.37
fully diluted	1.36	.42	(.52)	(.98)	.37
Cash dividends on common shares	.60	.60	.60	.60	.80

^{*} Certain prior year figures have been restated to conform with the 1994 presentation.

Financial information is expressed in Canadian dollars. Canadian/U.S. dollar exchange rates as reported by the Bank of Canada were as follows:

	One Canadian dollar buys					
	High	Low	Average	Year end		
1994	US\$.7632	US\$.7105	US\$.7321	USS.7128		
1993	.8050	.7435	.7753	.7553		
1992	.8760	.7760	.8276	.7867		
1991	.8934	.8573	.8728	.8654		
1990	.8859	.8275	.8570	.8621		

SELECTED PRODUCT PRICES

The following table sets forth, for the years indicated, annual average "bench mark" prices or representative prices in U.S. dollars for some of MB's principal products in major markets:

	1994	1993	1992	1991	1990
Hemlock lumber export to Japan per Mfbm (1)	\$856	\$821	\$602	\$543	\$549
Western Red Cedar lumber export to U.S. per Mfbm (2)	352	414	444	329	295
Newsprint per tonne (3)	460	435	433	534	558
Groundwood paper per tonne (4)	725	752	791	811	839
Linerboard per tonne (5)	405	330	377	371	408

- (1) 3%16" square as reported per Random Lengths Year Book (cost and freight).
- (2) 2" × 4" dimension as delivered by U.S. Rail as reported by Random Lengths Year Book (prices net f.o.b. mill).
- (3) Average contract transaction price delivered in western U.S. as estimated by Resource Information Systems Inc. (RISI).
- (4) Average transaction price for 22.5 lb. white directory paper as estimated by RISI.
- (5) Average transaction price for 42 lb. unbleached kraftliner delivered in eastern U.S. as estimated by RISI.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

To assist the reader in this discussion, reference is made to five year earnings data and selected product prices on the previous page of this report.

COMPARISON OF 1994 AND 1993 EARNINGS

MacMillan Bloedel reported net earnings of \$180.2 million in 1994, up \$127.0 million over 1993. This improvement is mainly due to a \$109.6 million increase in operating earnings and a \$58.5 million turnaround in after tax earnings from investments in affiliates.

The \$109.6 million increase in operating earnings reflects improvement in all three of MB's business segments. The weaker Canadian dollar against the U.S. dollar and Japanese yen enhanced before tax earnings by approximately \$53 million. The packaging segment contributed \$63.7 million to the increase in operating earnings. Selling, general and administrative expenses, however, increased \$27.9 million largely due to increased salaries, benefits and consulting fees.

Other income decreased \$27.5 million reflecting the \$39.0 million after tax gain in 1993 on the disposal of MB's investment in UK Corrugated. In 1994 other income included a pre-tax refund of \$20.1 million in countervail duty on shipments of Canadian softwood lumber into the U.S.

Interest costs increased \$9.7 million in 1994 over 1993 due to the effect of U.S. dollar, Japanese yen, and Dutch guilder interest costs translated into the weaker Canadian dollar.

After tax earnings from investments in affiliates were \$51.7 million, an improvement of \$58.5 million over the 1993 loss. KNP BT made a strong contribution to 1994 earnings reflecting improved paper markets in Europe and the positive impact of its internal reorganization. Earnings from TJM also increased and MB benefited from the fact that 1994 was the first year in which the partnership earnings were split on a 49/51% basis. In past years, MB's share of TJM's earnings was less than 49% in recognition of start up costs associated with the facilities contributed by MB.

In 1994 the Harmac market pulp operations were sold. The net loss from market pulp operations was \$11.1 million, \$23.5 million lower than the \$34.6 million loss reported in 1993. A \$20.8 million after tax gain was realized on the sale of that business. Since late 1993 pulp prices have appreciated significantly.

In 1994 sales of products and services amounted to \$3,948.8 million, an increase of \$599.7 million from the \$3,349.1 million reported for 1993. The increase is mainly due to building materials markets and the translation of U.S. dollar and Japanese yen denominated sales into the Canadian dollar. Beginning January 1, 1994 MB excluded freight from the determination of sales to conform with general industry practice. The comparative sales figures for prior years have been restated to reflect this change.

The following table provides an analysis of the change in key product sales from 1993 to 1994:

Product		ange sales	Change attributable to:			
		o 1994	Volume	Price*	Other	
Building materials:			(\$ millions)			
Lumber	229.8		96.9	132.9		
Panelboards	39.6		(9.2)	48.8		
Engineered lumber	31.0		16.6	11.8	2.6	
Logs and chips	100.6		42.9	57.7		
Other	22.4		1.7	(.5)	21.2	
		423.4	148.9	250.7	23.8	
Paper:						
Groundwood printing paper —						
Standard newsprint	12.2		(11.8)	24.0		
Other groundwood printing paper	11.5		1.5	10.0		
Market pulp	(12.5)		(13.6)	1.1		
Other	(1.4)				(1.4)	
		9.8	(23.9)	35.1	(1.4)	
Packaging:						
Containerboard	88.8		27.0	61.8		
Corrugated containers	61.0		11.2	49.8		
Other	6.1		5.1	1.0		
		155.9	43.3	112.6		
Other (includes transportation services)		47.2			47.2	
Inter-segment		(36.6)	7.2	(43.8)		
Total		599.7	175.5	354.6*	69.6	

^{*} Includes the effect of foreign currency exchange rate changes estimated to be \$173 million.

Building materials segment

The building materials segment reported earnings of \$360.4 million in 1994, an improvement of \$28.0 million over the \$332.4 million in 1993. Sales increased \$423.4 million or 18% from \$2,366.8 million in 1993 to \$2,790.2 million in 1994. Although sales increased, costs too were higher reflecting higher B.C. logging costs due to increased stumpage, additional costs from implementing the new Forest Practices Code and higher labour costs.

The following table shows sales and production of building materials products and the percentage of capacity utilization in each of the years 1994, 1993 and 1992:

	Sale	s	Prod		
	Value (\$ millions)	Volume	Volume	Operating rate	
1994					
Lumber (MMfbm)	1,580.9	1,858	798	93%	
Panelboards (MM sq.ft. %")	344.0	1,107	535	101%	
Other	865.3				
	2,790.2				
1993					
Lumber (MMfbm)	1,351.1	1,770	703	82%	
Panelboards (MM sq.ft. %")	308.1	1,101	479	101%	
Other	707.6				
	2,366.8				

	Sales		Production	
	Value (\$ millions)	Volume	Volume	Operating rate
1992 Lumber (MMfbm) Panelboards (MM sq.ft. ¾") Other	1,039.5 233.4 442.9 1,715.8	1,678 975	718 405	83% 88%

In 1994 housing starts in the U.S. increased 13% to 1.45 million while starts in Japan increased 6% to 1.57 million. Total U.S. and Japanese softwood lumber consumption increased 6% and 4% respectively. In 1993 the Japanese economy was stagnant while 1994 saw a modest economic gain. Improved demand together with reduced log imports into Japan reduced the oversupply situation in that market since mid-1993. The U.S. economy in 1994 was also stronger than in 1993. In 1994 MB increased its market share in both of these major markets and this combined with product diversification, resulted in higher building materials shipments.

In early 1993 the perceived shortage of logs, notably in the U.S. Northwest, resulted in many wood product prices reaching record highs in the spring of 1993. In 1994 log exports from the U.S. Pacific Northwest were reduced and diverted to the domestic market with previously exported lower grade logs rerouted to sawmills. This, along with increased harvests from private lands as a result of high prices, allowed U.S. mills to increase production in 1994, contrary to their expected decline.

Lumber

The value of MB's total lumber sales increased \$229.8 million or 17% while the volume increased 88 MMfbm or 5%. Sales of purchased lumber increased \$73.2 million despite volume decreasing 14 MMfbm. Sales volumes on MB produced lumber increased 86 MMfbm or 12% to 794 MMfbm while sales revenue increased \$131.5 million or 20%. In addition, sales of 73 MMfbm were produced by the Company at rented custom-cut facilities, up 16 MMfbm from 1993. MB produced lumber in 1994 accounted for 47% of total lumber sales volume compared to 43% in 1993. MB's sawmills in total ran at 93% of capacity in 1994 compared with 82% in 1993 producing 798 MMfbm of lumber in 1994, up 95 MMfbm from 703 in 1993.

In 1994 lumber prices for most species when converted into Canadian dollars were moderately higher than in 1993. While 1993 prices spiked in the spring reaching record highs for almost all species and grades, then weakened or leveled off for the balance of the year, 1994 prices were more stable at levels moderately higher than 1993 due to gains related to exchange rates.

Most whitewood prices for MB produced products exported to Japan followed the general trend, except for those grades used mainly in the housing construction market which increased throughout 1994 reaching record highs at the end of the year. Western Red Cedar prices for products produced by MB and exported to the U.S. were relatively flat for 1994, weakening towards the end of the year, the exception being high value products such as clear bevel siding the price of which climbed throughout the year fueled by strong demand in the export markets for clear cedar siding. For most species, dimension lumber prices stated in U.S. dollars were on average unchanged in 1994 as compared to 1993.

Panelboards and other

Panelboard markets were strong in 1994 and MB's panelboard mills operated at full capacity in 1994 and 1993. Other building materials sales increased \$157.7 million in 1994 compared to 1993. MB's distribution centres increased sales of engineered wood products and other building materials products. Domestic chip sales have increased reflecting sales to HPI.

Paper segment

MB's paper segment lost \$65.7 million in 1994, an improvement of \$18.3 million from the \$84.0 million loss in 1993 as newsprint and groundwood printing paper markets improved. Wood fibre costs were higher in 1994 because of the province-wide fibre shortage with logs previously destined for pulp directed to sawmills because lumber prices were higher. Sales increased \$9.8 million to \$618.3 million. In late 1993 the market pulp operations at Port Alberni were closed. In 1994 the paper segment continues to include the results of Powell River pulp while the Harmac pulp results, sold in 1994, are reported for all periods in operations sold.

The following table shows sales and production of pulp and paper products and the percentage of capacity utilization in each of the years 1994, 1993 and 1992:

	Sale	es	Production	
	Value (\$ millions)	Volume k tonnes	Volume k tonnes	Operating rate
1994				
Standard newsprint	346.0	624	416	
(including telephone directories)	234.3	285	283	
Total	580.3	909	699	88%
Market pulp	28.7	50	46	92%
Other	9.3			
	618.3			
1993				
Standard newsprint	333.8	646	447	
(including telephone directories)	222.8	283	272	
Total	556.6	929	719	92%
Market pulp	41.2	74	82	64%
Other	10.7			
	608.5			
1992				
Standard newsprint	266.9	559	382	
Other groundwood printing papers				
(including telephone directories)	201.1	264	266	
Total	468.0	823	648	72%
Market pulp	43.2	80	87	67%
Other	6.1			
	517.3			

Groundwood printing paper

In 1994, after several years of excess capacity, paper markets have become balanced reflecting the significant capacity withdrawals in recent years, particularly in 1993, limited new capacities and increased demand. The increase in demand reflects a 5% increase in U.S. newspaper daily consumption resulting from increased advertising linage and increased worldwide newsprint consumption particularly in the offshore European, Latin American and Far East markets. The Company's groundwood paper capacity utilization decreased from 92% in 1993 to 88% in 1994 as the Alberni Specialties mill was on strike during the last seven weeks of 1994. Production decreased 20,000 tonnes from 719,000 tonnes in 1993 to 699,000 tonnes in 1994.

Standard newsprint production decreased 31,000 tonnes and other groundwood printing paper products increased 11,000 tonnes while total paper sales decreased 20,000 tonnes to 909,000 tonnes. MB is committed by agreement to sell most of the production of Alberta Newsprint Company (ANC), a standard newsprint mill at Whitecourt, Alberta. In 1994 MB sold 198,000 tonnes of standard newsprint from ANC, up 17,000 tonnes from 181,000 tonnes in 1993. ANC sales are mainly in the U.S. Midwest.

By the beginning of 1993 excess supply had forced transaction prices of standard newsprint to a very low level. Prices increased modestly in early 1993 but came under pressure towards the end of that year and early 1994. In 1994 as demand increased and mill inventory levels fell to very low levels, newsprint transaction prices increased. Since the spring of 1994 standard newsprint prices increased steadily reaching approximately US\$500 per tonne at the end of the year, or approximately 18% higher than at the beginning of 1994, but on average, prices in US dollars were the same in 1994 as 1993. Average transaction prices for telephone directory papers, as with most other groundwood printing papers, were unchanged in 1994 from 1993.

Packaging segment

Improved markets resulted in packaging's operating profit of \$41.7 million in 1994, \$63.7 million higher than 1993's loss of \$22.0 million. Sales increased \$155.9 million in 1994 to \$642.6 million. The continued strength throughout 1994 in the U.S. economy, higher sales of consumer goods and increased business activity all contributed to improved results.

The following table shows sales and production of containerboard and packaging products and the percentage of capacity utilization in each of the years 1994, 1993 and 1992:

	Sales (outside MB)		Production	
	Value (\$ millions)	Volume k tonnes	Volume k tonnes	Operating rate
1994				
Linerboard	162.0	355	445	98%
Corrugating medium	139.1	292	324	99%
Total containerboard	301.1	647	769	99%
Corrugated containers	325.3	326	328	87%
Other	16.2			
	642.6			
1993				
Linerboard	115.9	318	408	91%
Corrugating medium	96.4	254	280	94%
Total containerboard	212.3	572	688	92%
Corrugated containers	264.3	312	311	84%
Other	10.1			
	486.7			
1992				
Linerboard	115.4	298	393	87%
Corrugating medium	91.1	246	297	98%
Total containerboard	206.5	544	690	92%
Corrugated containers	264.1	324	330	90%
Other	4.8			
	475.4			

Containerboard

In 1994 stronger economies in North America and overseas increased the demand for containerboard. Supply of containerboard at the same time tightened. In 1994 U.S. dollar transaction prices were higher than in 1993 as several price increases took effect. In late 1993 prices increased US\$25 per ton, in April, 1994 prices increased US\$30 per ton, in July, 1994 another US\$40 per ton increase, and in October, 1994 another US\$40 per ton increase. Inventories throughout most of 1994 have been at historically low levels. The weak dollar has allowed U.S. and Canadian producers to remain competitive in overseas markets.

The Alabama linerboard mill operated at 98% of capacity in 1994 compared with 91% in 1993. In 1994 the Alabama corrugating medium mill operated at full capacity compared with 92% in 1993. In both years Sturgeon Falls operated at near full capacity, selling virtually all of its production to MacMillan Bathurst, an affiliated corrugated container manufacturer.

Corrugated containers

Profit margins increased in 1994 for the corrugated container segment of the business. Higher prices more than offset higher board costs. There were several price increases in 1994. The operating rate for corrugated containers was 87% in 1994 as compared to 84% in 1993.

EARNINGS SENSITIVITIES

MB's earnings are sensitive to fluctuations in prices for its products and in currency exchange rates. Based on production in 1994 and annual productive capacity at December 31, 1994, the changes below affect after tax earnings approximately as follows:

		Approximate annual effect on net earnings	
	(\$ millions)		
	at 1994 production	at full capacity	
Price sensitivity —			
Lumber — \$10 change per Mfbm (excludes custom-cut)	5	5	
Newsprint and other groundwood printing papers — \$10 change per tonne	4	5	
Containerboard — \$10 change per tonne	5	5	
	At current	sales levels	
Exchange sensitivity —			
Canadian dollar/U.S. dollar — change of Cdn.\$.01	5	5	
Canadian dollar/Japanese yen — change of one Japanese yen	3	3	

COMPARISON OF 1993 EARNINGS AND 1992 LOSS

In 1993 MB recorded net earnings of \$53.2 million, an improvement of \$102.0 million from 1992's net loss of \$48.8 million. This improvement is mainly due to a \$122.3 million increase in operating earnings and a \$39.0 million after tax gain on the disposal of MB's investment in UK Corrugated included in other income.

The improvement in operating earnings is due to higher prices for building materials and the weaker Canadian dollar against the U.S. dollar and Japanese yen, partially offset by higher production costs for most major products (except containerboard).

Other factors contributing to improved earnings were an \$11.0 million reduction in provision for closures, and an \$8.0 million reduction in after tax losses of affiliates. More than offsetting these two items was an increased loss in Harmac pulp operations reflecting a sharp decline in pulp prices in 1993.

MB's building materials segment earnings improved \$172.5 million in 1993 to \$332.4 million. Lumber prices for most species and grades spiked to record highs in March, 1993 as there was a perceived shortage of supply due to reductions of timber harvested in the U.S. Northwest.

The paper segment loss increased by \$22.8 million to a loss of \$84.0 million due to an imbalance between supply and demand which caused weak product prices.

The packaging segment reported a \$22.0 million loss in 1993 as compared to a loss of \$.2 million in 1992. Containerboard U.S. transaction prices were lower.

LIQUIDITY AND CAPITAL RESOURCES

MB accesses the world capital markets for both public and private financing. MB's debt leverage objective is to maintain a ratio which together with other key criteria will enable it to maintain investment grade ratings.

At December 31, 1994 interest-bearing debt (excluding the subordinated convertible debentures) as a ratio to interest-bearing debt and shareholders' equity was 47% compared to 49% at the end of 1993. MB's cash and short term investments at December 31, 1994 were \$324.8 million (1993 — \$260.5 million).

As at December 31, 1994 MB's available borrowing capacity was as follows:

	Available	Utilized
	(\$ mil	lions)
Short term lines of credit	437	120
Long term lines of credit	575	_
	1,012	120

The only significant derivatives utilized by MB are forward contracts used to hedge future foreign currency revenue streams in excess of interest payments and operating cash flow requirements.

Financing activities

At December 31, 1994 MB's total interest-bearing debt was \$1,874.0 million, up \$40.8 million from \$1,833.2 million at December 31, 1993. During 1994 short term interest-bearing debt increased \$38.6 million to \$122.4 million and long term increased \$2.2 million to \$1,751.6 million.

In 1994 MB sold its Harmac pulp business. Net proceeds to MB of the 100% divestiture of Harmac were \$253.6 million, resulting in an after-tax gain of \$20.8 million for MB. Of the \$253.6 million in proceeds, \$121.9 million was received in 1994 and the \$131.7 million balance is due in 1995.

In January, 1995 MB guaranteed the issue of US\$90.0 million 25 year Exempt Facilities Revenue Bonds of The Pennsylvania Economic Development Financing Authority to finance the construction of a medium density fibreboard plant in Pennsylvania. MB will own 70% of this facility. These funds are escrowed and will only be used for approved capital expenditures for the project.

Cash flow from operations

Funds generated by operations in 1994 amounted to \$196.0 million (1993 — \$94.2 million) with operating earnings contributing \$287.6 million (1993 — \$178.0 million). Interest payments were \$148.0 million (1993 — \$136.3 million) and non-cash working capital increased \$84.6 million principally due to higher accounts receivable. Net funds required were \$150.9 million (1993 — \$250.3 million) after capital expenditures and investments of \$324.1 million (1993 — \$309.9 million) and payment of preferred dividends and common share dividends of \$78.4 million (1993 — \$74.7 million).

Investment activities

Capital expenditures in 1994 on property, plant and equipment were \$180.2 million, of which \$10.0 million was related to environmental projects and \$77.7 million related to discretionary expansion or modernization projects, excluding the \$27.5 million acquisition of building materials businesses in northern Mexico which is reported under business acquisitions. The remaining capital expenditures related to existing capacity replacements and technological updating. Details of specific discretionary capital expenditures have been described in each segment's section.

The increase in investments and other assets includes US\$49 million for the new TJM Kentucky mill and \$29 million invested in new composite wood partnerships.

In January, 1995 the Company purchased 98% of the common shares of Green Forest Lumber Corporation, an Ontario based lumber and distribution company for \$118 million. The remaining 2% was acquired in February, 1995.

OUTLOOK AND UNCERTAINTIES

Market outlook

Markets remain stable for MB lumber products worldwide. Volume gains in 1994 are being maintained, and the strategy in 1995 is to continue the diversification into emerging and specialized markets.

The outlook for standard newsprint in 1995 looks positive with the announced December 1, 1994 transaction price increase of 10% and March 1, 1995 9% increase both becoming effective in the first quarter. The March 1, 1995 increase brings the transaction price to US\$599 per tonne. An additional US\$75 per tonne increase has been announced and is expected to be in effect May 1, 1995. The outlook for other groundwood printing papers is also positive as demand outstrips supply and prices increase in concert with standard newsprint. The strikes at the Alberni Specialties mill and Fletcher Challenge's two mills have caused newsprint supply problems for newspapers in B.C. and the U.S. West Coast.

Prices have also increased in the packaging business with another containerboard price increase of US\$50 per ton effective in early 1995. Both domestic and overseas demand have increased and inventories are at historically low levels. Further price increases are expected in 1995.

Results should continue to improve over the next year as recently announced newsprint and expected containerboard price increases are put in place. However the reduction in allowable annual cut in B.C. is adversely affecting chip and pulp log costs.

Timber tenure

In 1992 a special Commission on Resources and Environment (CORE) was charged with the responsibility of developing a land use strategy for B.C. In June, 1994 the Government announced its decision on the recommendations of the CORE Commissioner for Vancouver Island. The plan revises from 10% to 13% the proportion of Vancouver Island in parks or protected areas. It places an additional 8% of Government forests in special management zones. New protected areas have reduced MB's allowable annual cut by 250,000 cubic metres.

In May, 1994 the B.C. Government introduced a new Forest Practices Code to be fully effective in 1996. Meanwhile uncertainties as to interpretation of code practices is causing delays in Government approvals of harvest plans. There is likely to be a further reduction in AAC as a consequence. MB estimates that upon full implementation of the Code the additional cost per year to MB will be approximately \$45 million.

The Company expects and is seeking compensation for fee lands and timber licences expropriated. In October, 1993 the Company was awarded \$6.7 million in compensation for timber licences expropriated for a park reserve on South Moresby Island in the Queen Charlotte Island chain. The final amount is under appeal. Compensation is also expected for expropriations for Carmanah Pacific Park and for parts of the Clayoquot Sound area on Vancouver Island.

Native land claims

The Government is advocating a policy of settling aboriginal land claims through negotiation. The policy envisages compensation by some combination of cash, resource transfers and the right of aboriginals to use public lands for traditional sustenance. The possible impact on the Company is indeterminable at this time.

Environmental issues

The B.C. Government has passed an Environmental Assessment Act for major projects which will parallel the new federal initiative Bill C-13 and in early 1995 B.C. is expected to finalize its regulations to Bill 26 covering soil contamination. It is also starting discussions on a "new" Clean Air Strategy for the B.C. pulp and paper industry, with a soon to be released consultant's report on proposed levels of emission control.

In 1993 Environment Canada conducted a study on emissions from another forest products company's boiler burning excess secondary treatment bio-solids and salt laden hog fuel. In April, 1994 Environment Canada released a health risk assessment report of its study which indicates that the emissions are not a public health risk. In response to this study, the B.C. coastal pulp and paper industry, through the Pulp and Paper Research Institute of Canada, has assembled a research team to expand the study of these boiler emissions. At this date, it is not possible to assess what effect the results may have on the Company or the paper industry in B.C.

The U.S. Environmental Protection Agency has initiated development of its cluster rules for effluents and emissions. Pine Hill has budgeted approximately \$20 million for capital expenditures.

SHAREHOLDER INFORMATION AND EXCHANGE LISTINGS

Montreal Trust Company of Canada (Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal) and Mellon Securities Trust Company (New Jersey) are the Company's transfer agents and registrars.

Distribution of common shares and registered common shareholders as at February 1, 1995:

	Common shares	Common shareholders*
Canada	119,430,284	5,929
United States	4,850,646	642
Other	16,370	62
	124,297,300	6,633
Share warrants	552	
	124,297,852	

^{*} Excluding approximately 35,000 beneficial shareholders, 6,285 of whom are employees of MB.

Exchange listings:

Common shares listed: Toronto, Montreal and Vancouver stock exchanges.

Common shares quoted: NASDAQ.

Class B preferred shares series 8 and 10 listings: Toronto, Montreal and Vancouver stock exchanges.

Ticker symbols: Canadian stock exchanges — MB; NASDAQ — MMBLF.

DIRECTORS

Information on the Company's directors is presented in the Information Circular (pages 5 to 7 of this document).

OFFICERS

Name	Address	Age at Feb. 1, 1995	Positions held during past five years
R.B. Findlay	West Vancouver, B.C.	61	President and Chief Executive Officer since 1990; prior to which he was Senior Vice- President, Marketing
R.D. Tuckey	West Vancouver, B.C.	54	Executive Vice-President, Operations since 1993; prior to which he was Executive Vice-President, Business Development since 1992; prior to which he was Vice-President, Alberni Region
F.V. Ernst	Montgomery, Alabama	56	Senior Vice-President, Packaging Group and President, MacMillan Bloedel Packaging Inc. since November 2, 1994; prior to which he was Senior Vice-President, Containerboard and Packaging of the Company and President, MacMillan Bloedel Inc. since 1993; prior to which he was Executive Vice-President of Chesapeake Corporation (containerboard and packaging)
G.M. Ferguson	North Vancouver, B.C.	54	Senior Vice-President, Finance and Chief Financial Officer since February 9,1994; prior to which he was Senior Vice-President, Finance since 1993; prior to which he was Vice-President, Treasurer
A.N. Grunder	North Vancouver, B.C.	58	Senior Vice-President, Administration and Business Development since 1993; prior to which he was Senior Vice-President, Finance and Administration
J.L. Howard, Q.C	Vancouver, B.C.	63	Senior Vice-President, Law and Corporate Affairs
W.G. Low	Powell River, B.C.	64	Senior Vice-President, Paper Group since February 22, 1994; prior to which he was Vice- President, Powell River Region
C.D. Neeser	North Vancouver, B.C.	40	Senior Vice-President, Solid Wood Group since November 2, 1994; prior to which he was Vice- President, Building Materials Marketing since 1993; prior to which he was Vice-President, Alberni Region since 1992; prior to which he was General Manager, Lumber Marketing since 1991; prior to which he was Manager, Whitewood Marketing

Name	Address	Age at Feb. 1, 1995	Positions held during past five years
V.R. Worthy	West Vancouver, B.C.	57	Senior Vice-President, Composite Wood Group since November 2, 1994; prior to which he was Vice-President, Engineered Wood Products since 1990; prior to which he was Vice-President, Panelboards
G.A. Adams	West Vancouver, B.C.	56	Vice-President, Transportation
W.A. Adams	Vancouver, B.C.	54	Vice-President, Distribution Group since November 2, 1994; prior to which he was Vice- President, Island Forestry and Building Materials since February 22, 1994; prior to which he was Vice-President, Nanaimo Region
W.N. Cafferata	West Vancouver, B.C.	55	Vice-President, Chief Forester since February 22, 1994; prior to which he was General Manager, Solid Wood for Alberni Region
Y.L. Coady	Vancouver, B.C.	42	Vice-President, Environmental Affairs since May 11, 1994; prior to which she was Director, Governmental Affairs since 1993; prior to which she was Senior Manager Government Affairs at the Council of Forest Industries
J.F. Connor	Nanaimo, B.C.	46	Vice-President, Woodlands since November 2, 1994; prior to which he was General Manager, Coast Woodlands (South) since February 22, 1994; prior to which he was General Manager, Woodlands, Nanaimo Region
J.C. Finkbeiner	North Vancouver, B.C.	47	Vice-President, Business Development since March 9, 1994; prior to which he was Vice- President, Tax, Properties and Risk Management
R.G. Ford	North Vancouver, B.C.	46	Vice-President, Controller since August 1, 1994; prior to which he was Vice-President, Strategic Planning since 1993; prior to which he was Director, Corporate Planning
G.H. Johncox	West Vancouver, B.C.	54	Vice-President, Human Resources
C.G. Kennedy	North Vancouver, B.C.	45	Vice-President, Taxation since February 15, 1995; prior to which he was Director, Taxation
A.D. Laberge	Vancouver, B.C.	38	Vice-President, Treasurer since 1993; prior to which she was Assistant Treasurer since 1991; prior to which she was Director, Corporate Finance
R.G. MacFarlane	Vancouver, B.C.	51	Vice-President, Composite Wood Operations since November 2, 1994; prior to which he was Vice-President, Alberni Forestry and Building Materials since February 22, 1994; prior to which he was Vice-President, Alberni Region since 1993; prior to which he was General Manager, Building Materials, Alberni Region
G.N. Marshall	Ladysmith, B.C.	54	Vice-President, Whitewood Lumber since November 2, 1994; prior to which he was General Manager Building Materials
G.E. Mynett	Vancouver, B.C.	48	Corporate Secretary

Name	Address	Age at Feb. 1, 1995	Positions held during past five years
Dr. A.I. Pelman	Richmond, B.C.	49	Vice-President, Research and Development since April 1, 1994; prior to which he was President and Chief Executive Officer of Powertech Labs Inc., a subsidiary of B.C. Hydro
H. Reithaug	West Vancouver, B.C.	56	Vice-President, Engineering since 1992; prior to which he was Manager, Maintenance and Distribution, Alberni Pulp and Paper Division since 1990; prior to which he was Manager, Maintenance and Engineering Services, Alberni Pulp and Paper Division
A.N. Small	North Vancouver, B.C.	48	Vice-President, Paper Marketing since February 22, 1994; prior to which he was Director, Paper Development
A.C. Stubbs	Gibsons, B.C.	50	Vice-President, Public Affairs since 1992; prior to which he was Vice-President, Corporate Communications
K.R. Young	North Vancouver, B.C.	43	Vice-President, Cedar Lumber since November 2, 1994; prior to which he was General Manager, Building Materials Marketing

ADDITIONAL INFORMATION

Additional information, including directors' and executive officers' remuneration and indebtedness, principal holders of the Company's common shares, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's Information Circular in connection with the meeting to be held on April 13, 1995 (pages 4 to 23 of this document). Additional financial information is provided in Consolidated Financial Statements (pages 52 to 68 of this document).

Consolidated Financial Statements December 31, 1994

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements of MacMillan Bloedel Limited for the years ended December 31, 1992, 1993 and 1994 have been prepared by management in accordance with generally accepted accounting principles. Management is responsible for the integrity and objectivity of the consolidated financial statements, which are presented on the accrual basis of accounting and accordingly include amounts based on judgment. Other financial information in the annual report is consistent with that in the consolidated financial statements. The accounting procedures and related system of internal controls are designed to assure that the financial records reflect the transactions of the consolidated enterprise. The internal accounting process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors through its Audit Committee, consisting solely of non-management members of the Board, recommend the appointment of the auditors, monitor the basis of engagement and receive the report of the external auditors and review the audit program and significant findings of the internal auditor so as to gain assurance about the adequacy of internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the Company's consolidated financial statements with the financial executives of the Company and the external auditors and recommends their approval by the Board of Directors, and reviews the Company's Annual Statutory Report including the sufficiency of the management discussion and analysis.

Price Waterhouse, independent auditors, have audited the consolidated financial statements of the Company for the years ended December 31, 1992, 1993 and 1994 and their report is included herein. The auditors met with the Audit Committee to discuss the results of their audit, and were afforded an opportunity to present their opinions in the absence of management personnel with respect to the adequacy of internal controls and the quality of the financial reporting of the Company.

R.B. Findlay
President and Chief Executive Officer

G.M. Ferguson Senior Vice-President, Finance and Chief Financial Officer

February 8, 1995

Consolidated Statements of Earnings (Loss)

	Year ended December 31		
	1994	1993	1992
		(\$ millions)	
Sales	\$3,948.8	\$3,349.1	\$2,612.5
Costs and expenses:			
Materials, labour and other operating expenses	3,227.6	2,762.0	2,188.6
Depreciation, depletion and amortization	172.5	175.9	157.7
Selling, general and administrative	261.1	233.2	210.5
	3,661.2	3,171.1	2,556.8
Operating earnings	287.6	178.0	55.7
Other income	47.9	75.4	27.3
Interest expense	(147.7)	(138.0)	(127.0)
Earnings (loss) before income taxes	187.8	115.4	(44.0)
Income tax expense:			
Current	85.8	5.0	(9.0)
Deferred	(16.8)	15.8	(11.4)
	69.0	20.8	(20.4)
Earnings (loss) before undernoted items	118.8	94.6	(23.6)
After tax earnings (loss) of affiliates	51.7	(6.8)	(14.8)
Earnings (loss) from operations sold (Note 10(c))	9.7	(34.6)	(10.4)
Net earnings (loss)	180.2	53.2	(48.8)
Provision for dividends on preferred shares	4.3	4.6	8.9
Net earnings (loss) attributable to common shareholders	\$ 175.9	\$ 48.6	\$ (57.7)
Earnings (loss) per common share:		(dollars)	
Basic	\$ 1.42	\$.42	\$ (.52)
Fully diluted	\$ 1.36	\$.42	\$ (.52)

Consolidated Balance Sheets

Assets

	Decen	nber 31
	1994	1993
	(\$ mi	illions)
Current assets:		
Cash and short term investments	\$ 324.8	\$ 260.5
Accounts receivable	635.7	512.1
Inventories (Note 2)	660.7	621.7
Other	15.0	13.2
	1,636.2	1,407.5
Net assets held for sale (Note 10(c))		226.9
Investments and other assets (Nets 2)	0040	667.4
Investments and other assets (Note 3)	904.9	667.4
Property, plant and equipment: (Note 4)		
Buildings and equipment	3,378.1	3,157.1
Less: Accumulated depreciation	1,721.0	1,551.8
	1,657.1	1,605.3
Timber and land less accumulated depletion	219.8	210.0
Logging roads	10.9	10.3
	1,887.8	1,825.6
	1,007.0	1,023.0
Intangibles less amortization	52.2	50.3
	\$4,481.1	\$4,177.7
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Approved by the Board:

R.B. Findlay, Director

R.V. Smith, Director

Consolidated Balance Sheets

Liabilities and Shareholders' Equity

	Decem	ber 31
	1994	1993
	(\$ mil	lions)
Current liabilities: Bank indebtedness Trade accounts payable Accounts payable, income taxes payable and accrued liabilities Current portion of long term debt (Note 5)	\$ 122.4 208.9 315.2 367.0 1,013.5	\$ 83.8 182.5 209.0 109.2 584.5
Long term debt (Note 5)	1,234.7	1,490.3
Convertible subordinated debentures (Note 6)	149.9	149.9
Other long term obligations	74.4	75.9
Deferred income taxes	231.8	247.2
	2,704.3	2,547.8
Shareholders' equity: (Note 7) Preferred shares Common shares Retained earnings	991.0 747.8	75.7 990.6 645.9
Foreign exchange translation adjustment	$\frac{(35.8)}{1,703.0}$	
Total shareholders' equity	1,776.8	1,629.9
Commitments (Note 8) Subsequent events (Note 9)	<u>\$4,481.1</u>	\$4,177.7

Consolidated Statements of Changes in Financial Position

	Year	Year ended December 31		
	1994	1993	1992	
		(\$ millions)		
Internal funds:				
Operating earnings	\$ 287.6	\$ 178.0	\$ 55.7	
Interest	(148.0)	(136.3)	(112.9)	
Income taxes recovered (paid)	(31.5)	13.2	62.0	
Depreciation, depletion and amortization	172.5	175.9	157.7	
Change in non-cash working capital	(84.6)	(136.6)	(157.1)	
Generated by operations	196.0	94.2	5.4	
Other income	47.9	32.0	27.3	
Distributions from affiliates	7.7	8.1	22.8	
Net internal funds	251.6	134.3	55.5	
Funds invested long term:				
Capital expenditures	180.2	144.5	175.7	
Businesses acquired	27.5	40.3	14.3	
Investments and other assets	116.4	125.1	25.8	
	324.1	309.9	215.8	
	(72.5)	(175.6)	(160.3)	
Dividends to common and preferred shareholders	78.4	74.7	78.9	
Funds required	(150.9)	(250.3)	(239.2)	
Financing transactions:				
Net debt incurred (repaid)	(70.4)	30.4	127.1	
Issue of common shares	.4	235.4	24.3	
Retraction and redemption of preferred shares	(1.6)	(16.6)	(21.2)	
Proceeds from sale of businesses	253.6	148.1	-	
Disposal of investments and other	48.2	17.5	60.0	
Financing provided	230.2	414.8	190.2	
	79.3	164.5	(49.0)	
Funds used in operations sold	15.0	46.7	38.4	
Increase (decrease) in cash and short term investments	\$ 64.3	\$ 117.8	\$ (87.4)	

Consolidated Statements of Retained Earnings

	Year ended December 31		
	1994	1993	1992
		(\$ millions)	
Balance at beginning of year	\$645.9	\$668.3	\$800.3
Net earnings (loss)	180.2	53.2	(48.8)
	826.1	721.5	751.5
Deduct:			
Preferred share dividends	4.4	4.5	11.6
Common share dividends —			
Cash	74.2	69.9	50.0
Stock	_	-	17.1
Costs of issue (gains on redemption) of shares	(.3)	1.2	4.5
	78.3	75.6	83.2
Balance at end of year	\$747.8	\$645.9	\$668.3

AUDITORS' REPORT

To the Shareholders of MacMillan Bloedel Limited:

We have audited the consolidated balance sheets of MacMillan Bloedel Limited as at December 31, 1994 and 1993 and the consolidated statements of earnings (loss), retained earnings and changes in financial position for each of the years ended December 31, 1994, 1993 and 1992. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years ended December 31, 1994, 1993 and 1992 in accordance with generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been consistently applied.

Price Waterhouse Chartered Accountants Vancouver, British Columbia February 8, 1995

Notes to Consolidated Financial Statements December 31, 1994, 1993 and 1992

In these notes 'MacMillan Bloedel' means MacMillan Bloedel Limited and its consolidated subsidiaries, and 'Company' means MacMillan Bloedel Limited as a corporation.

1. Accounting policies:

MacMillan Bloedel follows accounting principles generally accepted in Canada. Information with respect to generally accepted accounting principles in the United States is provided in Note 13.

(a) Principles of consolidation

The consolidated financial statements include all subsidiaries.

(b) Foreign currency translations

The assets and liabilities of self-sustaining foreign operations are translated at current rates of exchange while those of integrated foreign operations are translated at current rates for items measured at current prices, and at historical rates for items measured at past prices. Other assets and liabilities denominated in foreign currencies are translated at the year-end rate of exchange.

MacMillan Bloedel considers that its foreign currency denominated debt represents an effective hedge of its foreign currency investments in subsidiaries and affiliates. Accordingly, foreign currency translation adjustments relating to foreign currency debt are included with the foreign exchange translation adjustment relating to self-sustaining foreign operations as a separate component of shareholders' equity.

(c) Valuation of inventories

Inventories of operating and maintenance supplies and raw materials are valued at the lower of average cost and replacement cost or net realizable value. Inventories of manufactured products are valued at the lower of average cost and net realizable value.

(d) Property, plant and equipment

Property, plant and equipment are recorded at cost.

MacMillan Bloedel employs the units-of-production basis for depreciation of manufacturing assets. Non-manufacturing assets are depreciated on a straight line basis.

The rates of depreciation being applied are intended to fully depreciate manufacturing assets (at normal production levels) and non-manufacturing assets over the following periods:

Buildings	20 and 40 years
Pulp and paper mill machinery and equipment	20 years
Logging machinery and equipment	5 to 7 years
Other manufacturing machinery and equipment	7 to 13 years
Vessels	10 to 13 years

Depletion of timber and amortization of main logging roads are determined on a basis related to log production.

Interest is capitalized during construction of major capital projects.

(e) Intangibles

The goodwill component of investments in affiliates is being amortized over 20 years. The goodwill component of intangibles is being amortized over 10 years and the financing component over the life of the related debt.

(f) Restatement of comparative figures

Comparative figures have been restated to reflect:

- (i) The sale of the Harmac pulp business during 1994 (see Note 10(c)).
- (ii) The exclusion, to conform with general industry practice, of freight from the determination of sales.
- (iii) Reclassification to conform with the 1994 presentation.

2. Inventories:

	Decen	iber 31
	1994	1993
	(\$ mi	llions)
Operating and maintenance supplies	\$ 68.4	\$ 68.4
Logs and wood chips.	175.3	149.5
Lumber, panelboards and other building materials	325.7	327.8
Paper products	50.5	41.2
Packaging products	40.8	34.8
	\$660.7	\$621.7

3. Investments and other assets:

			December 31		
			1994		1993
	% Owned	Cost	Undistributed earnings (\$ millions)	Total	Total
Investments in affiliates accounted for by the equity method:					
NV Koninklijke KNP BT (KNP BT)	17.0	\$236.1	\$238.2	\$474.3	\$403.5
Trus Joist MacMillan (TJM)	49.0	268.0	35.8	303.8	185.6
Other		72.2	17.9	90.1	54.2
		\$576.3	\$291.9	868.2	643.3
Other investments and assets				36.7	24.1
				\$904.9	\$667.4

The unamortized goodwill attributable to MB's investment in KNP BT at December 31, 1994 is \$22.2 million (1993 — \$23.7 million).

Summarized financial information —

Investments in affiliates accounted for by the equity method:

Financial position:

			December 31		
		19	994		1993
	KNP BT	TJM	Other	Total	Total
			(\$ millions)		
Current assets	\$3,685.3	\$ 133.1	\$ 245.3	\$4,063.7	\$3,180.4
equity method	211.9		4.6	216.5	286.3
Other non-current assets	3,652.2	477.6	264.9	4,394.7	3,705.5
Intangibles	863.9	45.4	5.2	914.5	737.3
	\$8,413.3	\$ 656.1	\$ 520.0	\$9,589.4	\$7,909.5
Current liabilities	\$2,218.8	\$ 68.3	\$ 138.6	\$2,425.7	\$2,149.6
Non-current liabilities	2,612.7	96.0	153.8	2,862.5	2,712.8
Minority interests	317.9			317.9	148.0
	5,149.4	164.3	292.4	5,606.1	5,010.4
Shareholders' equity	3,263.9	491.8	227.6	3,983.3	2,899.1
	\$8,413.3	\$ 656.1	\$ 520.0	\$9,589.4	\$7,909.5

3. Investments and other assets: (continued)

5.

Results of operations:							
			Year ended	d December 31	in the second		
	-		994		1993	1993	2
	KNP BT	TJM	Other (\$ r	Total millions)	Total	Tota	al
Net sales	\$9,898.4	\$ 677.8	\$ 822.9	\$11,399.1	\$9,957.4	\$3,43	0.3
Gross profit	\$ 320.7	\$ 73.5	\$ 48.8	\$ 443.0	\$ 197.5	\$ 2	7.5
Net earnings (loss)	\$ 282.3	\$ 74.8	\$ 24.7	\$ 381.8	\$ (196.2)	\$ (<u>4.1</u>)
Property, plant and equipment:							
Buildings and equipment —							
				Cost	Accumulated depreciation	Net	t
					(\$ millions)		
December 31, 1994							
Building materials				\$ 793.3	\$ 459.7 743.6		3.6
Packaging				1,529.3 923.3	437.4		5.7 5.9
Corporate and other assets				132.2	80.3		1.9
corporate and other assets				\$3,378.1	\$1,721.0	\$1,65	
D 1 21 1002				\$5,576.1	\$1,721.0	\$1,03	7.1
December 31, 1993 Building materials				\$ 742.4	\$ 420.0	\$ 32	2.4
Paper				\$ 742.4 1,475.0	\$ 420.0 688.7	The state of the s	6.3
Packaging				833.4	375.2		8.2
Corporate and other assets				106.3	67.9		8.4
				\$3,157.1	\$1,551.8	\$1,60	
Long term debt:					-		
					Decen	iber 31	
					1994	1993	3
						llions)	
8.31% and 8.54% US\$75.0 millio	n maturing	1994			. \$ —		9.3
9.4% to 9.54% US\$250.0 million							1.0
8.1% Dutch guilders 215.0 millio	n maturing	1996			. 173.9		6.2
9% notes maturing 1996 (US\$10 Floating rates \$139.0 million materials)							2.4 9.0
9.2% US\$200.0 million maturing							4.8
10.125% senior debentures, series	1, maturing	g 2002			. 100.0		0.0
8.5% debentures maturing 2004							8.6
Industrial development revenue a from 4.9% to 7.759% and mate	uring from 1	995 to 2009	(US\$30.2 m	illion)		4	1.0
7.75% solid waste disposal facility					12.7	1.1	2.0
(US\$9.1 million)							2.0 5.2
Guici					100		
Less: Payments due within one y	rear				1,601.7 . 367.0	1,59	9.5
Less. I ayments due within one y	odi						
					\$1,234.7	\$1,49	0.5

Payments required on long term debt in the next five years are as follows:

quirea	0,	•	 ***	0		•		•	•						-	, -			-		-	-	•	•					(\$ millions)
1995																												 	\$367.0
1996																													
1997																												 	214.1
1998			 •																								•	 	10.5
1999			 •							 •				•				•								 •		 	284.1

6. Convertible subordinated debentures:

The debentures bear interest at a minimum of 5% which can increase dependent on the Company's dividend payments. The debentures are convertible at the holder's option into common shares at a conversion price of \$28.625 per common share. At the Company's option, the debentures can be redeemed for cash; upon maturity in 2007 they are redeemable for common shares.

7. Share capital:

The Company's authorized capital consists of 250.0 million common shares, 3.4 million class A preferred shares and 20.0 million class B preferred shares issuable in series, all without par value.

Changes in share capital —

Class B preferred shares

		Is	sued and outstan	ding	
	Seri	es 8	Serie	es 10	Total
	Number of shares	(\$ millions)	Number of shares	(\$ millions)	(\$ millions)
January 1, 1992	1,804,800	\$45.1	2,119,900	\$53.0	\$98.1
Redeemed during 1992	(77,400)	(1.9)		_	(1.9)
Redeemed during 1993	(253,000)	(6.3)	(565,700)	(14.2)	(20.5)
Redeemed during 1994	(76,000)	(1.9)			(1.9)
December 31, 1994	1,398,400	\$35.0	1,554,200	\$38.8	\$73.8

The class B preferred shares rank prior to the common shares of the Company.

The Series 8 and Series 10 are redeemable at the Company's option at \$25.00 per share. The Company is to make all reasonable efforts to purchase 18,998 Series 8 shares quarterly at a price not exceeding \$25.00 per share. Cumulative preferential dividends for Series 8 and 10 are payable at rates related to the Canadian prime interest rate.

	Issued and o	outstanding
	Number of shares	(\$ millions)
Common shares		
January 1, 1992	111,301,640	\$730.9
Issued during 1992:		
Employees share purchase plan	87,587	1.6
Dividend reinvestment and share purchase plan	338,709	5.6
Stock dividends	900,686	17.1
December 31, 1992	112,628,622	755.2
Issued during 1993:		
For cash	9,000,000	194.6
For interest in subsidiary	2,082,262	40.3
Dividend reinvestment and share purchase plan	20,842	.5
December 31, 1993	123,731,726	990.6
Issued during 1994:		
Dividend reinvestment and share purchase plan	21,998	.4
December 31, 1994	123,753,724	\$991.0
	===,,	====

The Company has reserved 6.2 million common shares for issuance pursuant to the employee share purchase plan and the terms of issue of the convertible subordinated debentures.

7. Share capital: (continued)

Shareholder Rights Plan:

On December 15, 1994, the Board of Directors adopted a Shareholder Rights Plan that will be submitted for ratification at the Annual General Meeting to be held on April 13, 1995. Under the terms of the plan, rights are attached to the common shares and convertible subordinated debentures. The rights become marketable and exercisable only after certain specified events. If a person acquires or announces its intention to acquire 20% or more of the outstanding common shares in a non-permitted bid, each right, on exercise, entitles the holders (other than the acquiring person) to purchase common shares at one-half of the then market price.

The rights are not triggered by a "permitted bid" which is, in effect, a bid made to all shareholders for all voting shares by way of a bid circular. Such an offer must remain outstanding for at least 75 days and must be accepted by at least 50% of the outstanding shares not held by the bidder. At any time prior to the rights becoming exercisable, the Board of Directors may redeem all rights at \$.00001 per right. The Plan expires December 15, 2004 and will be submitted for reconfirmation at the annual general meeting following January 1, 2000.

8. Commitments:

MacMillan Bloedel is committed at December 31, 1994 as follows:

Capital expenditure commitments —

Major commitments for capital expenditures at December 31, 1994 were a \$193.0 million project to convert Port Alberni's No. 5 paper machine to lightweight coated paper (Nexgen) and a \$134.0 million recycled linerboard mill in Kentucky. At December 31, 1994 \$40.2 million had been spent on the Nexgen project (expected completion by the end of 1995) and \$16.9 million on the linerboard mill (expected completion early 1996).

Ship charters and operating leases —

	(\$ millions)
1995	\$54.5
1996	
1997	48.6
1998	47.7
1999	47.0
2000 – 2014	84.9

9. Subsequent events:

The Company purchased Green Forest Lumber Corporation, an Ontario based lumber and distribution company for \$120.1 million.

The Company guaranteed the issue of 25 year US\$90.0 million Exempt Facilities Revenue Bonds of The Pennsylvania Economic Development Financing Authority to finance the construction of a medium density fiberboard plant in Pennsylvania. The Company will own 70% of this facility.

10. Earnings statements supplementary information:

(a) Costs and expenses —

	Year	ended Decemb	er 31
	1994	1993	1992
		(\$ millions)	
Interest expense			
Long term debt	\$137.0	\$129.1	\$121.9
Convertible subordinated debentures	7.5	7.5	7.5
Other	4.1	5.6	5.5
	148.6	142.2	134.9
Less: Capitalized	.9	4.2	7.9
	\$147.7	\$138.0	\$127.0

			Year	ended Decemb	er 31
			1994	1993	1992
				(\$ millions)	
	Other income Income from investments Other		\$ 13.5 14.3	\$ 7.7 24.2	\$ 13.9 13.4
	Disposal of businesses Countervailing duty		20.1	43.5	
			\$ 47.9	\$ 75.4	\$ 27.3
	Depreciation		\$156.0 11.4	\$160.8 9.4	\$139.4 11.5
	Amortization		5.1 \$172.5	5.7 \$175.9	6.8 \$157.7
	Research and development expenses		$ \begin{array}{r} & 10.9 \\ \hline & 3.6 \\ \hline & 7.3 \end{array} $	$\frac{$11.8}{3.1}$ \$8.7	\$ 11.7 3.7 \$ 8.0
	Rental expense		\$ 57.8	\$ 53.6	\$ 52.1
	Remuneration of directors and executive officers		\$ 5.1	\$ 4.3	\$ 4.1
	Wages, salaries and benefits		\$751.6	\$706.7	\$658.2
	Pension expense (Note 12)		\$ 64.3	\$ 60.1	\$ 60.8
(b)	Income tax expense —				
		Canadian federal	Canadian provincial (\$ mil	Foreign lions)	Total
	Year ended December 31, 1994				
	Current	\$ 7.8 19.4 \$ 27.2	\$ 69.9 (46.9) \$ 23.0	\$ 8.1 10.7 \$ 18.8	\$ 85.8 (16.8) \$ 69.0
	Year ended December 31, 1993	25			
	Current	\$ 3.3 15.0 \$ 18.3	$\frac{11.5}{11.2}$	\$ 2.0 (10.7) \$ (8.7)	\$ 5.0 15.8 \$ 20.8
	Year ended December 31, 1992 Current	\$ (3.7)	\$ (5.1)	\$ (.2)	\$ (9.0)
	Deferred	(5.8) \$ (9.5)	$\frac{3.0}{\$ (2.1)}$	(8.6) (8.8)	$\frac{(11.4)}{\$(20.4)}$

The principal items giving rise to deferred income tax expense are depreciation, depletion and amortization.

MacMillan Bloedel has available investment tax credits of \$36.7 million that have been recognized in the results. These investment tax credits expire in 1998-2004.

10. Earnings statements supplementary information: (continued)

Income tax (recovery) rate reconciliation:

	Year er	ided Decemb	per 31
	1994	1993	1992
Canadian federal income tax rate	38.0%	38.0%	(38.0)%
Provincial and state taxes and federal surtax	5.7	4.7	(6.7)
Large corporations tax	0.9	3.2	8.7
Canadian manufacturing and processing allowance	(4.2)	(3.0)	5.6
Capital gains	(0.3)	(15.7)	(2.3)
Foreign tax rates	(3.5)	(7.0)	(18.5)
Other items	0.1	(2.2)	4.9
Effective income tax rate	36.7%	18.0%	(46.3)%

(c) Earnings (loss) from operations sold —

During 1994, the Company sold the Harmac pulp business for net proceeds of \$253.6 million and an after tax profit of \$20.8 million.

MacMillan Bloedel's share of the pulp mill operation results is:

	9 months ended	December 31	
	September 30, 1994	1993	1992
	(\$ n		
Sales	\$147.9	\$110.1	\$151.4
Net loss	\$(11.1) 20.8	\$(34.6)	\$(10.4)
	\$ 9.7	\$(34.6)	\$(10.4)
Earnings (loss) per common share (dollars)	\$.08	\$ (.30)	\$ (.10)

(d) Net earnings per common share -

Basic net earnings per common share is computed by dividing the net earnings, after providing for dividends on the preferred shares, by the weighted average number of shares outstanding during the year. The provision for dividends on the preferred shares is made on a time lapsed basis rather than on a declared basis.

Fully diluted net earnings per common share is computed by dividing basic net earnings (adjusted for the after tax interest expense on the convertible subordinated debentures) by the weighted average number of shares outstanding during the period (adjusted for the number of common shares which would have been issued had the conversion taken place at the beginning of the year).

11. Related party transactions:

MacMillan Bloedel sells products and services in the ordinary course of business and at fair market values to related parties and also purchases certain services and products for resale from related parties. These transactions include the sale of containerboard to MacMillan Bathurst, ship charters from Transmacan Limited and the purchase of engineered wood products from Trus Joist MacMillan.

and the barenage of engineered have been also as a second	Year	Year ended December 31		
	1994	1993	1992	
		(\$ millions)		
Sales to related parties	\$ 67.1	\$ 70.6	\$ 68.7	
Purchases from related parties		\$185.9	\$111.6	
		Decem	iber 31	
		1994	1993	
		(\$ mi	llions)	
Accounts receivable from related parties		. \$ 24.2	\$ 40.0	

12. Pension plans:

Consolidated summary of MacMillan Bloedel sponsored pension plans:

	December 31		
	1994	1993	1992
		(\$ millions)	
Obligations for pension benefits	\$588.4	\$606.4	\$557.7
Pension fund assets at market related values	516.2	490.8	461.2
Excess of obligations over fund assets	72.2	115.6	96.5
Provisions	45.9	64.3	62.0
Excess of obligations over provision and fund assets	\$ 26.3	\$ 51.3	\$ 34.5

Salaried pension plan amendments and changes in assumptions increased pension plan liabilities by \$13.7 million in 1992, \$20.0 million in 1993 and decreased liabilities by \$21.9 million in 1994. These amounts are being amortized over appropriate periods. The hourly employees are generally members of negotiated plans that require contributions specified by collective agreements. Agreements with some officers and executives (including retirees) call for payments to be made under certain conditions following retirement.

13. Information with respect to United States generally accepted accounting principles (U.S. GAAP):

Financial information under U.S. GAAP:

	Year ended December 31		
	1994	1993	1992
		(\$ millions)	
Net earnings (loss) per financial statements	\$180.2	\$53.2	\$(48.8)
Provision for dividends on preferred shares	(4.3)	(4.6)	(8.9)
Post retirement benefits (net of tax)	(7.2)	(3.9)	(3.4)
Deferred income taxes	(15.6)	3.6	(1.1)
Net earnings (loss) according to U.S. GAAP	\$153.1	\$48.3	<u>\$(62.2)</u>

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	December 31		
	1994	1993	
Common shareholders' equity —	(\$ millions)		
Common shares	\$ 991.0	\$ 990.6	
Retained earnings — U.S. GAAP	730.8	651.7	
	1,721.8	1,642.3	
Foreign exchange translation adjustment	(35.8)	(82.3)	
	\$1,686.0	\$1,560.0	
Post-retirement benefits obligations	\$ 69.9	\$ 64.7	
Deferred income taxes	\$ 165.0	\$ 169.0	

Note: There is no fund established for post-retirement benefits and the Company intends to continue to expense such benefits as paid.

14. Segment information:

	Total revenue	Contributions to earnings	Depreciation, depletion and amortization	Capital expenditures	Assets
Version and all December 21, 1004			(\$ millions)		
Year ended December 31, 1994	¢2.700.2	d 2004	Φ (2.2	0.620	44 42 5 0
Building materials	\$2,790.2	\$ 360.4	\$ 63.2	\$ 63.9	\$1,425.8
Paper	618.3	(65.7)	56.4	56.1	1,027.8
Packaging	642.6	41.7	42.7	47.4	668.7
Corporate and other	146.0	(46.0)	5.0	2.9	79.2
Inter-segment	(248.3)	(2.8)			5.6
Operating earnings	3,948.8	287.6	167.3	170.3	3,207.1
General corporate		47.9	5.2	9.9	1,274.0
Interest expense	· 14-	_(147.7)	K		
Consolidated totals	\$3,948.8	\$ 187.8	\$172.5	\$180.2	\$4,481.1
Year ended December 31, 1993					
Building materials	\$2,366.8	\$ 332.4	\$ 55.7	\$ 43.2	\$1,342.3
Paper	608.5	(84.0)	72.9	59.2	992.0
Packaging	486.7	(22.0)	37.7	37.5	594.0
Corporate and other	98.8	(39.3)	1.4	.2	55.1
Inter-segment	(211.7)	(9.1)			8.4
Operating earnings	3,349.1	178.0	167.7	140.1	2,991.8
General corporate		75.4	8.2	4.4	1,185.9
Interest expense		(138.0)			
Consolidated totals	\$3,349.1	\$ 115.4	\$175.9	\$144.5	\$4,177.7
Year ended December 31, 1992					
Building materials	\$1,715.8	\$ 159.9	\$ 59.1	\$ 26.9	\$1,125.5
Paper	517.3	(61.2)	54.6	112.5	1,018.0
Packaging	475.4	(.2)	34.9	30.7	563.7
Corporate and other	96.8	(40.0)	1.4	_	66.5
Inter-segment	(192.8)	(2.8)			17.5
Operating earnings	2,612.5	55.7	150.0	170.1	2,791.2
General corporate	-,	27.3	7.7	5.6	1,076.0
Interest expense		(127.0)			
Consolidated totals	\$2,612.5	\$ (44.0)	\$157.7	\$175.7	\$3,867.2

	Sales originating in Canada	Sales to unaffiliated customers from	Contributions to operating earnings	Assets
		(\$ millions)		
Year ended December 31, 1994				
Canada	\$ 941.5	\$1,449.1	\$ 262.2	\$1,731.9
United States	553.4	1,947.4	74.2	1,169.3
Europe	119.5	30.9	.3	20.9
Japan and other	672.9	521.4	18.3	321.8
	2,287.3	3,948.8	355.0	3,243.9
Eliminations and adjustments:				
Inter-segment			(1.7)	(36.8)
Corporate			(17.8)	1,274.0
Interest expense			(147.7)	y-
Consolidated totals	\$2,287.3	\$3,948.8	\$ 187.8	\$4,481.1
Year ended December 31, 1993				
Canada	\$ 850.8	\$1,345.7	\$ 195.4	\$1,745.6
United States	480.9	1,603.5	16.3	1,069.0
Europe	179.3	35.5	.7	18.8
Japan and other	629.6	364.4	8.6	193.5
	2,140.6	3,349.1	221.0	3,026.9
Eliminations and adjustments:			0.2	(25.1)
Inter-segment			9.2	(35.1)
Corporate			23.2	1,185.9
Interest expense			_(138.0)	-
Consolidated totals	\$2,140.6	\$3,349.1	\$ 115.4	\$4,177.7
Year ended December 31, 1992				
Canada	\$ 590.0	\$1,012.1	\$ 87.6	\$1,680.9
United States	435.7	1,288.8	24.1	966.2
Europe	150.5	36.7	.7	25.8
Japan and other	521.1	274.9	15.1	162.6
	1,697.3	2,612.5	127.5	2,835.5
Eliminations and adjustments:				
Inter-segment			(22.7)	(44.3)
Corporate			(21.8)	1,076.0
Interest expense			(127.0)	-
Consolidated totals	\$1,697.3	\$2,612.5	\$ (44.0)	\$3,867.2

15. Subsidiary companies and jurisdiction of incorporation: (100% owned unless otherwise noted)

British Columbia

Altair Property and Casualty Corporation Forest Industries Flying Tankers Limited (57.5% interest)

MacMillan Bloedel Building Limited

MacMillan Bloedel Building Materials Limited

MacMillan Bloedel (Georgia) Limited

Vancouver Marine Engines Ltd.

Alabama

MacMillan Bloedel of America Inc.

MacMillan Bloedel Financial Inc. MacMillan Bloedel Inc.

MacMillan Bloedel Packaging Inc.

MacMillan Bloedel Timberlands Inc.

Delaware

MacMillan Bloedel (Delaware) Inc.

MacMillan Bloedel (U.S.A.) Inc.

MacMillan Bloedel Paper Sales Incorporated

Kentucky

MacMillan Bloedel Energy Inc.

Oregon

American Cemwood Corporation

Washington

Fibres International, Inc. (51% interest)

Australia

MacMillan Bloedel Pty. Limited

Barbados

Camarin Limited

Canadian Transport Company Limited MacMillan Bloedel Finance Limited

MacMillan Bloedel FSC Ltd.

England

MacMillan Bloedel Pulp and Paper Sales

Hong Kong

MacMillan Bloedel (Asia) Limited

Ireland

MacMillan Bloedel (Ireland)

Japan

MacMillan Bloedel K.K.

Mexico

MacMillan Guadiana, S.A. de C.V.

Netherlands

MacMillan Bloedel (Limburg) N.V.

Netherlands Antilles

Canadian Maas River Investment N.V. MacMillan Bloedel St. Maarten N.V.



MacMillan Bloedel Limited

925 West Georgia Street Vancouver, British Columbia Canada V6C 3L2

