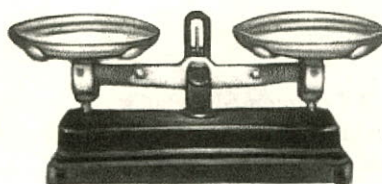


MACMILLAN BLOEDEL LIMITED



INFORMATION CIRCULAR AND



ANNUAL STATUTORY REPORT 1993



The Annual Statutory Report Comprises:
Annual Information Form – February 21, 1994
Management's Discussion and Analysis
Consolidated Financial Statements



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INFORMATION CIRCULAR AND ANNUAL STATUTORY REPORT FOR 1993 OF MacMILLAN BLOEDEL LIMITED

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AVAILABLE DOCUMENTS

The Company's Annual Report to the United States Securities and Exchange Commission (Form 10-K), the Annual Report of NV Koninklijke KNP BT (KNP BT) and a copy of this document in French are available to shareholders on request from the Corporate Secretary of the Company at the Company's head office at 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2, (604) 661-8302.

This document contains most of the information required by the United States Securities and Exchange Commission. Form 10-K information not included is:

1. Cover page.
2. Cross reference index page to Form 10-K Items.
3. Signature page.
4. Item 14 — Exhibits, financial statement schedules and reports on Form 8-K.

NOTICE OF ANNUAL GENERAL MEETING OF COMMON SHAREHOLDERS

To the Common Shareholders of
MacMillan Bloedel Limited:

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the common shareholders of MacMillan Bloedel Limited will be held at the Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia on Thursday, April 14, 1994 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 ended December 31, 1993;
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.

SPECIAL BUSINESS

NOTICE IS ALSO GIVEN that at this meeting the common shareholders will be asked to consider, and, if thought fit, to pass in the form set out in the attached Information Circular, with or without modification, a Special Resolution to amend the Company's Articles to reduce the quorum necessary for the holding of a meeting of shareholders.

DATED at Vancouver, British Columbia the 21st day of February, 1994.

BY ORDER OF THE BOARD

G.E. MYNETT, FCIS
Corporate Secretary



Join us at the 1994 Annual General Meeting of MacMillan Bloedel Limited. However, if you cannot be present in person I do invite and encourage you to vote your shares by completing the

proxy form, indicating your choices by marking the appropriate boxes on the proxy form enclosed, and by returning your proxy form in the enclosed return envelope as promptly as possible.

Sincerely,

R.B. Findlay
President and Chief Executive Officer

INFORMATION CIRCULAR

In connection with the meeting to be held on April 14, 1994

Dated February 21, 1994

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 14, 1994 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 person 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 the proxyholder. **If there are no instructions, on any poll the proxyholder 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 is paying for this solicitation, which is being made by mail. The Company has retained ADP Independent Investor Communications Corporation in Canada and Shareholder Communications Corporation in the United States of America to assist it in the solicitation of proxies and anticipates paying approximately Cdn\$2,000 and US\$4,000 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 28, 1994. **Each person who is listed in the register of members of the Company as a holder of one or more common shares on February 28, 1994 is entitled to attend the Annual General Meeting in person or by proxy and to cast one vote for each share on a poll.** Pursuant to the instalment receipt agreement dated February 25, 1993, holders of instalment receipts on February 28, 1994, as beneficial shareholders, are also entitled to attend and vote at the meeting or appoint a proxyholder.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

On February 1, 1994, 123,731,174 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.

To the knowledge of the directors and officers of the Company, on February 21, 1994 no person or company owns or directly or indirectly exercises control over 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, 1994 the directors and officers as a group beneficially owned 554,701 common shares. This number, which includes qualifying shares of directors, represents less than 1% of all issued and outstanding common shares.

DIRECTORS MEETINGS

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 nine meetings during 1993. From among its members, the Board appoints a number of committees with specific duties, including an Executive Committee, an Audit Committee, an Environmental Committee and a Compensation Committee.

The advance notice of the Annual General Meeting to be held on Thursday, April 14, 1994, which was published in Vancouver on February 2, 1994, 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 February 21, 1994.

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, they may vote the proxies for a smaller board at their 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

<u>Name and residence</u>	<u>Principal occupation during the past five years</u>	<u>Age at Feb. 1, 1994</u>	<u>Director since</u>	<u>Shares held*</u>
J.T. Arnold West Vancouver, Canada	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). (Notes 3 and 4)	57	1992	2,420
D.C. Davenport Vancouver, Canada	Vice-Chairman of the Board since 1993, Partner of Davis & Company (barristers and solicitors). (Notes 1, 2 and 3)	61	1981	540
P.W. Douglas New York, U.S.A.	Corporate Director since 1991; prior to which he was Chairman and Chief Executive Officer of The Pittston Company (natural resources and specialized transport services). (Notes 2 and 4)	67	1992	1,000
R.B. Findlay West Vancouver, Canada	President and Chief Executive Officer since 1990; prior to which he was Senior Vice-President, Marketing since 1989; prior to which he was Senior Vice-President, Alberni Region. (Note 1)	60	1990	45,631
R.F. Haskayne Calgary, Canada	Chairman of Nova Corporation of Alberta (pipelines and petrochemicals) since 1992; prior to which he was Special Advisor to the Board of Directors of Nova Corporation of Alberta; prior to which he was Chairman, President and Chief Executive Officer of Interhome Energy Inc.	59	—	3,000
C.C. Knudsen Seattle, U.S.A.	Corporate Director since 1990; prior to which he was Vice-Chairman of the Board. (Notes 1, 2 and 3)	70	1976	16,941

Information concerning nominees (continued)

Name and residence	Principal occupation during the past five years	Age at Feb. 1, 1994	Director since	Shares held*
W.C. Minnick Boise, U.S.A.	President and Chief Executive Officer of TJ International, Inc. (engineered lumber products).	51	1993	1,000
C.E. Ritchie, O.C. Don Mills, Canada	Chairman of the Board of Directors and Chairman of the Executive Committee of the Board 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.	66	—	—
J. St.C. Ross West Vancouver, Canada	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 since 1989; prior to which he was Senior Vice-President, Nanaimo Region. (Notes 1 and 3)	62	1990	41,888
R.V. Smith West Vancouver, Canada	Chairman of the Board since 1990; prior to which he was President and Chief Executive Officer of the Company. (Notes 1 and 4)	67	1980	106,682
Dr. D.W. Strangway Vancouver, Canada	President of The University of British Columbia. (Notes 3 and 4)	59	1986	1,651
J.S. Walton Vancouver, Canada	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) since 1989; prior to which he was a Corporate Director. (Notes 1, 3 and 4)	63	1988	2,000
A.H. Zimmerman Toronto, Canada	Chairman, Confederation Life Insurance Company (group life and health insurance products and services) since 1993; Chairman of the Board of the Company prior to 1990; prior to 1994 Chairman, Noranda Forest Inc. (forest products); prior to 1991 he was Chief Executive Officer, Noranda Forest Inc. (Note 3)	66	1981	22,573

*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%.

- Notes: 1) member of the Executive Committee
2) member of the Audit Committee
3) member of the Environmental Committee
4) member of the Compensation Committee

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:

P.W. Douglas	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)
R.F. Haskayne	Alberta Energy Company Ltd. (energy) Canadian Imperial Bank of Commerce (banking) Home Oil Company Limited (oil and natural gas) Manufacturer's Life Insurance Company (insurance) Nova Corporation of Alberta (pipelines and petrochemicals)
C.C. Knudsen	Cascade Corporation (components for heavy industrial equipment) Penwest Ltd. (corn derivatives) Portland General Corporation (utilities holding) Portland General Electric Company (electric utility) Safeco Corporation (insurance) Seattle First National Bank (banking) West Fraser Timber Co. Limited (forest products)
W.C. Minnick	TJ International, Inc. (engineered lumber) Eljer Industries Inc. (plumbing fixtures and household appliances)
C.E. Ritchie, O.C.	Ingersoll-Rand Company (industrial equipment) Minorco (international mining) Moore Corporation Limited (business forms) Nova Corporation of Alberta (pipelines and petrochemicals)
Dr. D.W. Strangway	Echo Bay Mines Ltd. (gold and silver ores)
A.H. Zimmerman	The Pittston Company (natural resources and specialized transport services)

RETIRING DIRECTORS

Mr. D.W. Kerr and Mr. A. Powis, O.C., who have been directors of the Company since 1988 and 1981, respectively, have informed the Company that they are not standing for election at the meeting of shareholders on April 14, 1994. Mr. Kerr is the President and Chief Executive Officer, Noranda Inc. (mining and metallurgy, manufacturing, forest products, oil and gas exploration) and Mr. Powis, O.C. is Chairman, Noranda Inc. These retiring directors 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.W. Kerr	Hemlo Gold Mines Inc. (gold production) Norcen Energy Resources Limited (oil and gas)
A. Powis, O.C.	Gulf Canada Resources (oil and gas) Norcen Energy Resources Limited (oil and gas)

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 1993 of approximately \$135 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 is 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 \$101,000 in 1993. At December 31, 1993 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 37,183 shares (\$586,023); J. St.C. Ross 37,897 shares (\$591,026); R.V. Smith 85,098 shares (\$1,323,331); and A.H. Zimmerman 18,502 shares (\$293,179). At December 31, 1993 two directors held share rights under the Company's 1992 phantom stock issue: R.B. Findlay 15,581 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 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

Amendment of Articles to reduce quorum for shareholders meeting

The shareholders are being requested to pass a special resolution amending Article 10.3 of the Company's Articles, which prescribes the quorum required for a meeting of the shareholders of the Company. To be effective, the special resolution requires approval by 75% of the votes cast in person or by proxy at the meeting.

Article 10.3 currently provides that a quorum for a general meeting of shareholders is three individuals, who are members or proxyholders personally present and representing shares aggregating one third of the shares entitled to be voted at the general meeting of shareholders. Before 1993 the Company had a major shareholder which held almost 50% of the Company's common shares. In early 1993 this shareholder sold its block of the Company's shares, with the result that the voting shares of the Company are now widely held. In view of that development, the Board of Directors believes that the quorum required for a meeting of shareholders should be reduced to a level consistent with that of other widely held Canadian companies.

RESOLVED AS A SPECIAL RESOLUTION that the Articles of the Company be altered by:

Deleting Article 10.3 and substituting the following therefor:

"10.3. The quorum for a general meeting of the Company shall be three individuals, who are members or proxyholders personally present and representing in person or by proxy shares aggregating 15% of the shares entitled to be voted at the general meeting."

EXECUTIVE COMPENSATION AND COMPENSATION COMMITTEE REPORT

Summary compensation table

The following table sets forth all compensation paid in respect of the individuals who were, at December 31, 1993, the Chief Executive Officer and the four most highly compensated executive officers (the "named executive officers") (1):

Name and principal position	Year	Annual compensation			Long term compensation awards (4) (units)
		Salary	Bonus (2)	Other (3)	
R.B. Findlay President and Chief Executive Officer	1993	\$360,000	\$54,000	\$38,035	—
	1992	300,000	—	43,898	15,000
	1991	300,000	—	62,932	—
R.D. Tuckey Executive Vice-President, Operations since January 1, 1993; prior to which he was Executive Vice-President, Business Development since July 1, 1992; prior to which he was Vice-President, Alberni Region	1993	248,748	25,000	8,125	—
	1992	194,844	—	9,517	9,000
	1991	154,524	—	14,126	—
F.V. Ernst (5) Senior Vice-President, Containerboard and Packaging and President, MacMillan Bloedel Inc. since May 15, 1993	1993	183,726	29,790	—	8,500
J.L. Howard Senior Vice-President, Law and Corporate Affairs	1993	178,728	18,000	32,232	—
	1992	172,896	—	38,596	8,500
	1991	172,896	—	57,332	—
W.G. Low Vice-President, Powell River Region	1993	172,497	18,000	8,352	—
	1992	160,508	—	9,894	7,500
	1991	151,524	—	14,278	—

(1) 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 in 1991 and 1992.

(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 amounts in this column relate to the number of units issued under the 1992 phantom stock issue. F.V. Ernst's units were issued to him in 1993. There were no shares and loans issued under the senior management share purchase plan and no share options issued in 1991, 1992 or 1993.

(5) F.V. Ernst joined MacMillan Bloedel on May 15, 1993.

Long term incentive plan awards table

The following table sets forth all long term incentive plan awards made to the named executive officers during 1993.

	Number of units issued	Maturation or pay out
F.V. Ernst	8,500 units of 1992 phantom stock issue	For a description of exercisable times see narrative accompanying the next table

Value at December 31, 1993 of long term incentive awards

Information regarding unexercised long term incentive awards held by the named executive officers at December 31, 1993 is summarized in the following table(1):

	Number of unexercised units/shares at December 31, 1993(2)(3)		Value of unexercised in-the-money long term awards at December 31, 1993	
	Exercisable	Unexercisable	Exercisable	Unexercisable
R.B. Findlay	38,967	13,796	\$153,279	\$115,675
R.D. Tuckey	9,152	8,025	16,056	64,037
F.V. Ernst	2,894	5,787	11,196	22,392
J.L. Howard	31,875	7,915	145,162	71,853
W.G. Low	8,680	6,984	14,549	59,650

(1) The named executive officers did not exercise any long term incentive awards during 1991, 1992 or 1993.

(2) There were no options of the Company issued or outstanding during 1991, 1992 or 1993.

A description of long term incentive awards unexercised at December 31, 1993 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, 1993 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%.

(3) Common share dividends declared by the Company adjust the value or number of shares held under long term incentive awards.

The market price for the Company's common shares on December 31, 1993 was 21¼ and on February 1, 1994 was 22¼.

Retirement plans

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

Annual average covered remuneration	Years of service					
	10	15	20	25	30	35
\$100,000	\$20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ 60,000	\$ 70,000
\$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

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, 1993 R.B. Findlay had 28 years of service with the Company, R.D. Tuckey had 32 years of service with the Company, J.L. Howard had 14 years of service with the Company and W.G. Low had 15 years of service with the Company.

As at December 31, 1993 F.V. Ernst had 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, 1994 F.V. Ernst will have had one year 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. containerboard and packaging business while he retains the position of Senior Vice-President, Containerboard and Packaging of the Company, and President, MacMillan Bloedel 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 five outside directors: R.V. Smith (Chairman), J.T. Arnold, P.W. Douglas, D.W. Strangway, J.S. Walton. D.W. Strangway replaced A. Powis as of April 8, 1993. 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 was President and Chief Executive Officer of the Company prior to 1990.

The Committee met three times during 1993 with an 87% attendance record. 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 executives 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%). Awards are usually paid in February or March based on performance in the previous calendar year.

The total incentive awards paid to all employees can not exceed the total amount established by an incentive fund schedule where threshold, guideline and maximum amounts are related to returns on 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 1993) 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 1993, a 40% salary guideline bonus would require a 16% return on shareholders' equity and would establish an \$18 million incentive fund for all salaried employees, while the 60% maximum bonus would require a 25% return establishing a \$27 million fund.

Although the 8% threshold was not achieved in 1993, the Committee at their discretion may provide a fund for incentive awards. This is to acknowledge the historically cyclical nature of MB'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 in 1993) 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, this bonus represents on average approximately 10% of base pay. The Committee's decision was based on the relative performance of MB 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 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 equity targets were achieved (8% threshold in 1993) units of phantom stocks will be granted to plan participants. Since the return for 1993 was below 8% no units have been awarded for 1993.

When an award has been 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 salary grade factor which is in turn multiplied by a corporate performance factor, the latter of which 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 factor of 1.5 is reached when the return is 25%. At December 31, 1993 the salary grade factors for the named executive officers were 1.2 for R.B. Findlay, 1.0 for R.D. Tuckey, .9 for F.V. Ernst and J.L. Howard and .8 for W.G. Low.

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

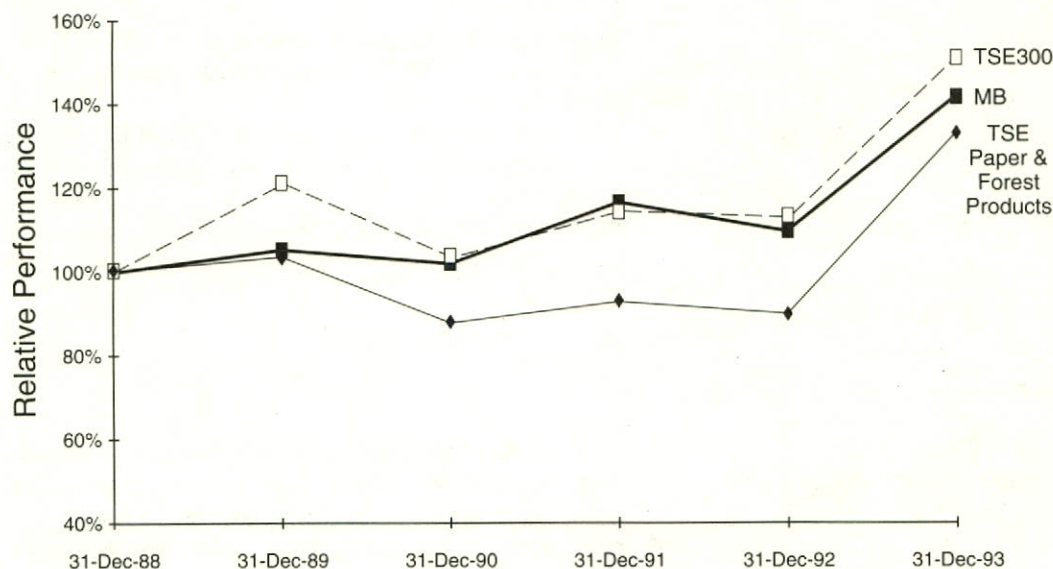
Compensation of Chief Executive Officer

R.B. Findlay's annual base salary of \$300,000 (paid in 1991 and 1992) was increased by \$60,000 in 1993 to \$360,000 after review by the Committee of his personal performance and competitive surveys. In early 1994 R.B. Findlay was awarded a 1993 bonus of \$54,000. The bonus was based on 50% of guideline with a 20% merit adjustment. No portion of his 1993 compensation related to the issue of new long term incentive awards as the

minimum return on shareholders' equity was not met. However, during the year the Company's common share price increased resulting in an increase of \$255,996 in the money value of shares/units previously issued to him under the senior management share plan and 1992 phantom stock issue.

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 1988 — 1993 assuming reinvestment of dividends.



MB Total Return —	100	105	102	116	109	142
TSE 300 Index - -	100	121	103	114	113	151
TSE Paper and Forest Products Index —	100	103	88	93	90	133

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. In addition the directors are reimbursed for their reasonable expenses in connection with such meetings. The annual retainer portion of the director's fees is paid, at the director's option, in cash or in common shares of the Company. During 1993 \$232,000 was paid and 1,322 shares were allocated to directors.

1993 ANNUAL STATUTORY REPORT

GLOSSARY OF TERMS

MEASUREMENTS

fbm	— foot board measure (board foot) — one square foot of lumber one inch thick
hectare	— 2.471 acres
m ³	— cubic metre or 35.315 cubic feet
M cubic feet	— thousand cubic feet
Mfbm (MMfbm)	— thousand (million) foot board measure
MM sq.ft. 3/8"	— million square feet, 3/8 inch thick used to measure panelboard volumes
square	— the measure of shingles required to cover 100 sq. ft. of surface
tonne	— metric ton — 1,000 kilograms or 2,204 pounds
k tonnes	— thousand tonnes
annual capacity at year end	— the number of units which can be produced in a year based on operations over a long term period with the normal number of shifts and maintenance interruptions
capacity utilization	— production divided by the annual capacity averaged over the production period

PRODUCTS

Pulp

Bleached pulp	— pulp that has been brightened using bleaching chemicals
Chemi-thermomechanical pulp (CTMP)	— pulp produced from wood chips using heated mechanical and chemical processes to break the bonds between wood fibres
Chemical pulp	— pulp produced from wood chips using chemical processes to break the bonds between wood fibres
Groundwood pulp	— pulp produced by grinding blocks of wood to break bonds between wood fibres
Kraft or sulphate pulp	— chemical pulp produced by an alkaline cooking process using sodium sulphate
Market pulp	— pulp produced for sale on the open market
Mechanical pulp	— pulp produced from roundwood or woodchips by mechanically breaking the bonds between wood fibres
Softwood pulp	— pulp produced from coniferous wood species, noted for its strength

Paper

Coated paper	— paper which is coated with clay and treated to impart a smooth glossy surface
Lightweight coated paper	— coated paper having a basis weight generally below 72 grams per square metre
Newsprint	— paper produced principally from mechanical pulp or CTMP for use in newspapers
Specialty groundwood printing paper	— paper with mechanical pulp as its major component which differs from newsprint in brightness, surface characteristics and end uses

GLOSSARY OF TERMS (continued)

Building materials

- High value/quality cedar lumber products — numerous grades of specialty products including bevel siding, channel sidings, tongue and groove products (suitable for paneling) 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
- Waferboard — panelboard produced by chemically bonding wafers of wood under pressure
- Panelboards — plywood, waferboard and particleboard

Engineered lumber (made by Trus Joist MacMillan)

- Parallam® parallel strand lumber — engineered lumber manufactured by bonding long strands of veneer into structural beams using a microwave press process and waterproof adhesives
- TimberStrand™ (formerly PSL 300™) laminated strand lumber — engineered lumber manufactured by bonding woodstrands in parallel using a steam injection press process and waterproof adhesives to form panels 8 ft. by 35 ft. which are then cut into specific dimensions required by customers (laminated strand lumber)
- MICRO=LAM® laminated veneer lumber — engineered lumber consisting of many layers of thin veneer, laid with all the veneer faces in parallel direction and glue-laminated at high temperatures by large presses

Containerboard and packaging

- Containerboard — linerboard and corrugating medium (medium) used to produce corrugated boxes (containers)
- Corrugated containers — containers made from sheets of linerboard with medium corrugated (fluted) between the linerboard
- SpaceKraft® — seamless multi-layered intermediate bulk bin corrugated packaging used for large, heavy quantities of liquids or solids

1993 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 subsidiaries is set out on page 60 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 United States and Continental Europe. MB manages 1.5 million hectares of productive timberlands, which supply most of its fibre requirements. Of these timberlands, one million hectares are in B.C. where approximately 67% of MB's property, plant and equipment and the Company's head office are located. The products of MacMillan Bloedel and its affiliated companies are marketed throughout the world and include lumber, panelboards, engineered wood, 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, contributions to earnings (loss) and assets for each of MB's three industrial segments during the last five years:

	Building materials	Pulp and paper	Containerboard and packaging (\$ millions)	Other	Inter- segment	Total operations
Total revenue —						
1993	2,504.6	877.0	531.9	60.3	(211.8)	3,762.0
1992	1,841.0	819.1	514.3	57.7	(192.8)	3,039.3
1991	1,522.1	928.7	406.0	68.1	(198.7)	2,726.2
1990	1,591.1	1,127.5	456.1	60.7	(232.2)	3,003.2
1989	1,697.4	1,310.2	504.1	50.8	(288.8)	3,273.7
Contributions to earnings (loss) —						
1993	333.0	(126.2)	(21.5)	2.4	(7.2)	180.5
1992	156.2	(76.6)	(2.9)	7.0	7.5	91.2
1991	(41.7)	(11.4)	(16.0)	4.9	(2.4)	(66.6)
1990	(31.6)	137.6	44.7	2.9	(8.3)	145.3
1989	66.8	247.3	113.6	2.3	5.8	435.8
Assets —						
December 31, 1993	1,312.6	1,234.3	597.4	12.8	14.7	3,171.8
December 31, 1992	1,122.3	1,291.7	572.6	13.9	7.5	3,008.0
December 31, 1991	1,034.2	1,191.2	503.0	33.5	15.0	2,776.9
December 31, 1990	1,210.9	1,142.6	499.4	13.0	12.6	2,878.5
December 31, 1989	1,152.0	1,076.4	457.0	28.0	4.3	2,717.7

Certain prior year figures have been restated to conform with the 1993 presentation.

MB's interests in affiliates are described on page 25 of this report.

In the last five years MB's results varied from a profit of \$246.7 million in 1989 to a loss of \$93.4 million in 1991. During the period MB continued to focus on higher margin added products and reducing costs. MB's North American building materials distribution centres have expanded the sale of non-MB products. In the pulp and paper markets new capacities and reduced demand have resulted in a substantial decline in product prices during the period. MB upgraded the Alabama containerboard mill to improve product quality and cost competitiveness. Packaging operations in the U.S. continue to be restructured.

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 has announced a major capital expenditure program.

As at December 31, 1993 MB held 17,028,091 shares of N.V. Koninklijke KNP BT (KNP BT) representing a 17.1% equity interest. In 1993 MB invested \$62.9 million in a KNP BT rights share offering. KNP BT is the new company resulting from the merger in early 1993 of N.V. Koninklijke (KNP) and two major Netherland companies.

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

In early 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 \$1.5 billion. Of the \$633.8 million incurred in 1991, 1992 and 1993, over 40% 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:

	1993	1992	1991	1990	1989	Total
			(\$ millions)			
Building materials.....	43.2	26.9	31.1	83.1	187.8	372.1
Engineered lumber*	—	—	45.2	47.5	59.0	151.7
	43.2	26.9	76.3	130.6	246.8	523.8
Pulp and paper	80.4	163.8	110.0	153.9	194.5	702.6
Containerboard and packaging	37.5	30.7**	43.0	76.6	59.4	247.2
Other and corporate	4.6	5.6	11.8	5.4	17.7	45.1
	<u>165.7</u>	<u>227.0</u>	<u>241.1</u>	<u>366.5</u>	<u>518.4</u>	<u>1,518.7</u>

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

**Restated

BUSINESS OF MacMILLAN BLOEDEL

Financial information and explanatory notes pertaining to each of MB's industry and geographic segments and export sales are presented on pages 58 and 59 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 margin. To balance supply and demand of grade and species, logs are traded in the open market. High grade 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. Wood waste (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 1993, 1992 and 1991:

	Year ended December 31		
	1993	1992	1991
	(thousands of cubic metres)		
British Columbia.....	6,081	6,542	6,660
Alabama and Mississippi (includes hardwood)	705	817	741

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 annual crops of four million seedlings in B.C. and 25 million seedlings in Alabama. These seedlings are planted on MB controlled forest lands or sold.

Forest lands

The total area of forest lands under MB's control is:

		Hectares
British Columbia:		
Area operated on a sustained yield basis —		
Tree farm licences		
Crown lands (Note 1)	659,000	
Timber licences (Note 2)	125,000	
Owned lands (Note 3)	79,000	
	863,000	
Managed forest lands (owned lands) (Note 3)	142,000	1,005,000
Other tenures —		
Timber licences (Note 4)	36,000	
Owned lands	3,000	39,000
		1,044,000
Saskatchewan (Note 5)		309,000
Alabama and Mississippi: (Note 6)		
Owned lands	72,000	
Long term cutting rights	102,000	174,000
		<u>1,527,000</u>

Notes:

British Columbia

- (1) 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.
- (2) 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.

- (3) Certain Company owned lands have been put into tree farms ("managed forest units") to obtain an incentive property tax rate.
- (4) Included are approximately 14,000 hectares of lands which have already been logged and will revert to the Crown when restocked at the Company's expense.

Saskatchewan

- (5) MB's cutting rights in Saskatchewan, which are limited to species used by the waferboard plant at Hudson Bay, Saskatchewan, are held under a forest management licence expiring in 1994. Licence renewal is currently being negotiated.

Alabama and Mississippi

- (6) The wood from its own timber resources supplied 30% in 1993 (37% in 1992) 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 Company owned lands.

Saskatchewan

Stumpage rates have been confirmed at the present fixed rate level to June 30, 1994.

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" (TFL) 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 its forest lands.

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

On April 13, 1993 the Government announced that the harvest levels in Clayoquot Sound would be reduced. MB is expected to absorb about two thirds of this reduction (200,000 cubic metres of AAC).

On December 31, 1993 the B.C. Chief Forester reduced the AAC for the tree farm licence that supplies MB's Port Alberni mills from 2.68 million cubic metres to 2.45 million cubic metres.

The sustainable cut, together with timber harvested from other MB tenures, is sufficient to provide, on average, about 80% of the fibre requirement (logs and chips) for MB's present production facilities in B.C.

Uncertainties surrounding timber tenure are discussed on page 38 of this report.

Countervailing duty on Canadian softwood lumber

On January 6, 1994 the U.S. Commerce Department acceded to the December 17, 1993 Canada-U.S. trade panel decision that punitive tariffs (countervailing duty) on Canadian softwood exports to the U.S. would be removed. On January 28, 1994 the panel also found that there was no substantial evidence to uphold a determination of injury. The U.S. Department of Commerce may under the Free Trade Agreement launch an extraordinary challenge. If there is no challenge, or, if on challenge the Canadian industry succeeds, MB would recover approximately \$15 million.

Building materials manufacturing operations

MB manufactures lumber, plywood, waferboard, 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 the years ended December 31, 1993, 1992 and 1991 lumber accounted for 39%, 37% and 35% respectively of MB's consolidated sales values to unaffiliated customers.

Building materials facilities

	<u>Mill</u>	<u>Location</u>	Annual capacities at year end 1993 (MMfbm)	1993 production
<u>Lumber and lumber specialties</u>	7 Sawmills	British Columbia	766	622
	1 Sawmill	Alabama	88	81
			<u>854</u>	<u>703</u>
	Custom-cut	British Columbia		54
				<u>757</u>
<u>Panelboards</u>	1 Plywood mill	Alabama	152	143
	1 Plywood mill	Ontario	30	31
	1 Waferboard mill	Saskatchewan	191	192
	1 Particleboard mill	British Columbia	114	113
			<u>487</u>	<u>479</u>

Lumber

The Company produces a wide range of specialty lumber products in its sawmills. This combined with lumber purchased from other producers account for 58% of building materials segment sales. High value cedar products are manufactured at the New Westminster, Canadian White Pine (Vancouver), and Somass (Port Alberni) mills and are mainly directed to the U.S. market. The Company's whitewood sawmills, Alberni Pacific, Chemainus, Powell River and Island Phoenix (Nanaimo), direct their output to export markets. 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 1991 a sawmill at Nanaimo and a section of a sawmill at Port Alberni were closed.

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 specialty board are manufactured in Vancouver. The Company manufactures Aspenite[®] at its waferboard mill at Hudson Bay, Saskatchewan. In 1991 the Port Alberni plywood and the Sturgeon Falls hardboard siding mills were closed.

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 228,000 squares manufactures high quality cement-fibre roofing materials which simulate the appearance of cedar shakes.

Engineered lumber

On October 1, 1991 MB formed TJM, a limited partnership, with TJ International, Inc. TJM produces and markets a wide range of engineered lumber products. MB's Parallam[®] PSL operations in B.C. and Georgia and TimberStrand[®] LSL plant in Minnesota were merged into TJM. In 1993 TJM reported significantly increased sales (approximately US\$440 million) with a large portion now being sold through MB's U.S. and Canadian building materials distribution centres.

Capital expenditures

Capital expenditures in the building materials segment in 1993 and 1992 amounted to \$43.2 million and \$26.9 million respectively. 1991 capital expenditures were \$76.3 million and included amounts spent on engineered lumber plants transferred to TJM.

Building materials marketing

MB's marketing activities for building materials extend into most major world markets through sales offices and independent sales agents. In 1993 sales revenues were distributed 34% in Canada, 37% in the United States, 22% in Japan and the Orient and 7% elsewhere. The following table shows the distribution by volume and by market of MB's building materials sales in 1993, 1992 and 1991:

		Canada	United States	Japan & Orient	Europe & Other	Total
<u>Lumber</u> (MMfbm)	1993	486.8	829.5	336.7	116.8	1,769.8
	1992	443.2	762.0	358.7	114.2	1,678.1
	1991	395.9	786.5	292.5	146.8	1,621.7
<u>Panelboards</u> (MM sq.ft. ¾")	1993	656.2	389.1	51.7	3.7	1,100.7
	1992	629.8	316.5	24.4	4.7	975.4
	1991	478.4	282.3	20.4	9.3	790.4

MB operates 23 distribution centres in the United States and 23 in Canada. 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. The Japanese market is the principal market for MB's high value whitewood lumber products.

PULP AND PAPER SEGMENT

MB operates pulp and paper mills at three locations in B.C. — an integrated market pulp and newsprint mill at Powell River, a newsprint mill at Port Alberni, and a market pulp mill at Harmac. These mills manufacture newsprint and specialty groundwood printing papers and market kraft pulp. For the years ended December 31, 1993, 1992 and 1991 newsprint and specialty groundwood printing papers accounted for 17%, 18% and 23% respectively of MB's consolidated sales values to unaffiliated customers while for market pulp the percentages were 5%, 7% and 9% respectively.

Pulp and paper facilities

	Division	Location	Annual capacities at year end 1993	1993 production
			(k tonnes)	
<u>Market pulp</u>	Harmac	Nanaimo, B.C.	370	252
	Alberni Specialties	Port Alberni, B.C.	— (1)	46
	Powell River	Powell River, B.C.	50	36
			420	334
<u>Newsprint and specialty groundwood printing papers</u>	Alberni Specialties	Port Alberni, B.C.	328 (2)	218
	Powell River	Powell River, B.C.	465 (3)	501
			793	719

(1) The kraft pulp mill at Port Alberni with an annual productive capacity of 79,000 tonnes was closed permanently on November 15, 1993.

(2) Included is the No. 3 paper machine with annual capacity of 93,000 tonnes. This machine was shut at the end of 1992 and started up again on January 25, 1994.

(3) The No. 6 paper machine at Powell River with an annual capacity of 82,000 tonnes was shut permanently on December 23, 1993 and is not included.

Newsprint and specialty 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 and two machines manufacturing specialty groundwood printing papers (paper machine No. 7 was closed in 1992 and No. 6 on December 23, 1993). Alberni Specialties has three machines capable of producing a wide range of lightweight groundwood printing papers and newsprint. 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.

The Company manufactures many grades of newsprint and specialty groundwood printing papers. The following table shows the percentage of MB production related to standard newsprint and telephone directory and other specialty papers in 1993, 1992 and 1991:

	<u>1993</u>	<u>1992</u>	<u>1991</u>
Standard newsprint	62%	59%	56%
Telephone directory and other specialty papers	38	41	44
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

Market pulp

The Company manufactures bleached, semi-bleached and unbleached softwood kraft pulp at Harmac and semi-bleached and unbleached pulp at Powell River. Worldwide over-capacity for softwood pulp resulted in production curtailments at the Harmac pulp division in 1993 and 1992.

Capital expenditures

Capital expenditures in the pulp and paper segment in 1993 amounted to \$80.4 million, compared to \$163.8 million and \$110.0 million in 1992 and 1991 respectively.

In recent years the major pulp and paper capital expenditures have been completed to reduce dioxins and to install and expand secondary treatment of effluent. The aggregate cost of these and other projects related to them is \$267 million, with \$112 million at Harmac, \$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. In August, 1992 work commenced on a \$33 million project to upgrade the No. 10 paper machine at Powell River for the production of highly calendered, high bright specialty newsprint. The project was completed at the end of 1993.

On February 9, 1994 the Company announced a \$200 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. It will have an annual capacity of 160,000 tonnes. The current No. 5 machine has an annual capacity of 145,000 tonnes.

The NEXGEN manufacturing process will produce a high quality coated paper through application of a clay finish to a base sheet. The technology involved was adapted by MB's research and development facility for the type of wood fibre found in B.C. The machine will have a strategic geographic advantage as the only one of its kind in western North America and is part of the Company's strategy to upgrade to higher margin products.

Pulp and paper marketing

MB pulp and newsprint are shipped worldwide. Newsprint sales are mainly in North America (72% of 1993 shipments) while pulp sales are mainly to offshore markets (82% of 1993 shipments). In its largest newsprint market, the western and central U.S., MB operates four sales offices. MB also has pulp and 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. European pulp markets are serviced from Brussels and U.S. pulp customers from Danbury, Connecticut. MB also markets paper products for other companies.

The following table shows the distribution by volume and by market of MB's pulp and paper sales in 1993, 1992 and 1991:

		Canada	United States	Japan & Orient	U.K. & Europe	Other	Total
		(k tonnes)					
<u>Newsprint</u>	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
	1991	90.4	493.5	119.7	45.3	83.4	832.3
<u>Market pulp</u>	1993	13.0	47.6	80.7	149.6	36.9	327.8
	1992	10.7	60.3	77.8	167.6	39.2	355.6
	1991	11.5	56.8	81.7	232.3	28.7	411.0

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

During 1993 over-capacity and weak demand resulted in price deterioration in both pulp and newsprint.

CONTAINERBOARD AND PACKAGING SEGMENT

MB manufactures containerboard (linerboard and corrugating medium) at Pine Hill, Alabama, corrugating medium at Sturgeon Falls, Ontario, and corrugated containers in the United States. In 1993 containerboard sold outside the consolidated enterprise accounted for 7% of consolidated sales values and in 1992 and 1991 it was 8% and 7% respectively. For the years ended December 31, 1993, 1992 and 1991 corrugated containers accounted for 8%, 9% and 8% respectively of MB's consolidated sales values to unaffiliated customers.

Containerboard and packaging facilities

	Division	Location	Annual capacities at year end 1993 (k tonnes)	1993 production
<u>Linerboard</u>	Pine Hill	Pine Hill, Alabama	450	408
<u>Corrugating medium</u>	Pine Hill	Pine Hill, Alabama	233	214
	Sturgeon Falls	Sturgeon Falls, Ontario	71	66
			304	280
<u>Corrugated containers including sheet plants and SpaceKraft®</u>	15 locations	United States	373	326

The U.S. corrugated container group consists of plants in 10 states between New York and Texas. Seven are full line corrugated plants and six are sheet plants or sheet feeder plants.

A corrugated container plant was closed in the spring of 1993.

Capital expenditures

Capital expenditures in the containerboard and packaging segment in 1993 amounted to \$37.5 million compared to \$30.7 million and \$43.0 million in 1992 and 1991 respectively.

During 1992 construction started on a US\$15 million SpaceKraft® plant in Indiana and was completed in November, 1993. SpaceKraft® is a bulk bin container concept developed by MB for large, heavy quantities of liquids or solids. MB also has a smaller SpaceKraft® plant in Georgia.

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

Containerboard and packaging marketing

The following table shows the distribution by volume and by market of MB's containerboard and packaging sales in 1993, 1992 and 1991:

		Canada	United States	Europe & Other	Total
			(k tonnes)		
<u>Containerboard</u>	1993	107.4	369.0	95.5	571.9
	1992	88.2	333.9	122.1	544.2
	1991	72.0	319.7	102.6	494.3
<u>Corrugated containers</u>	1993	.2	313.0	.2	313.4
	1992	.3	323.7	—	324.0
	1991	.1	247.2	—	247.3

Approximately 60% of the linerboard and corrugating medium sold or traded by the Pine Hill, Alabama mill is utilized by MB's packaging operations in the United States. 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 its transportation operations that are not related to the movement of MB forest products.

Transportation

MB controls, through long term charters, a fleet of vessels capable of transporting to market approximately one half of MB's forest products volume shipped by water. MB currently has five vessels, totaling approximately 200,000 deadweight tonnes, under charter for initial periods in excess of one year. In 1993 three of the vessels previously under long term charter to MB were sold to Transmacan Limited, a joint venture formed to own and operate these ships. MB owns 50% of Transmacan Limited and has chartered these three vessels from the joint venture.

To meet other freighting requirements, MB contracts with Canadian and U.S. railroads and trucking firms for varying periods. MB also operates a fleet of tugs, barges and log carriers which are used primarily between logging divisions and mill storage grounds in B.C.

FOREIGN EXCHANGE

A significant portion of MB's export sales are denominated in United States 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, 1993 investments in affiliates accounted for by the equity method were carried in the financial statements at a value of \$643.3 million. During 1993 MB sold its investment in U.K. Corrugated and Island Paper Mills.

NV Koninklijke KNP BT

As at December 31, 1993 MB held 17,028,091 shares of N.V. Koninklijke KNP BT (KNP BT) representing 17.1% equity interest. In 1993 MB invested \$62.9 million in a KNP BT rights share offering.

KNP BT, a large public company in The Netherlands, is a major producer of graphic paper and packaging products. It also has a significant presence, particularly in the EEC, in the trading and distribution of office products, graphic paper, graphic systems and information systems.

KNP BT employs approximately 28,000 people and operates in 30 countries. Its annual sales are approximately 11.9 billion Dutch guilders and its total assets are approximately 8.5 billion Dutch guilders.

Trus Joist MacMillan

Trus Joist MacMillan, a Limited Partnership (TJM) is the result of an October 1, 1991 joint venture between 51% owner and managing partner TJ International, Inc. (TJI) of Boise, Idaho and 49% owner MB. The partnership is the largest engineered lumber entity in the world with 14 manufacturing plants across North America and an extensive marketing network. Annual sales are approximately US\$440 million.

TJM manufactures and markets high quality engineered structural lumber products. Its main products are MICRO=LAM® laminated veneer lumber, Parallam® parallel strand lumber, and TimberStrand® (formerly PSL 300®) laminated strand lumber. 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.

During the initial years of the partnership MB was allocated the major share of start up losses in Parallam®PSL and TimberStrand® LSL while receiving a small interest in the positive results from other products. Commencing in 1994 MB's share of profits will be 49%.

MacMillan Bathurst

The Company has a 50% partnership interest in MacMillan Bathurst, a corrugated container manufacturer operating 13 corrugated container plants in Canada with an annual productive capacity of 425,000 tonnes of corrugated containers.

RESEARCH AND DEVELOPMENT

	1993	1992	1991
	(\$ millions)		
Gross expenditures	17.4	19.8	17.7
Less: government grants .....	.9	3.0	2.4
Less: investment tax credits	3.2	2.8	3.3
Less: recovered from Trus Joist MacMillan	1.5	3.6	.8
Net	<u>11.8</u>	<u>10.4</u>	<u>11.2</u>

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

HUMAN RESOURCES

At December 31, 1993 MB employed approximately 9,500 people in Canada and 3,400 in the United States (1992 — 9,800 and 3,300).

In B.C. MB employs 3,800 people who are represented by the IWA-Canada. Their agreement was ratified in April, 1992, and will expire June 15, 1994. 2,800 people who work in the Company's three pulp and paper operations are represented by either the Communications, Energy & Paperworkers Union of Canada (formerly the Canadian Paperworkers Union) or the Pulp, Paper and Woodworkers of Canada. Both pulp and paper agreements were ratified in July, 1992 and will expire April 30, 1994.

B.C. pulp and paper producers, including the Company, which have historically bargained on an industry-wide basis, have informed the pulp and paper unions that they intend to bargain with the unions on an individual mill basis. The unions have indicated opposition to this change.

In Alabama MB employs 700 people who are represented by the United Paperworkers International Union. The contract expires October 4, 1996.

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 continuously monitors emissions and has established an Environmental Committee of the Board. Accompanying this year's Annual Statutory Report is MB's first Annual Environmental Report which discloses its compliance with the numerous regulations.

In 1993 MB spent approximately \$40 million on environmental capital projects (1992 — \$146 million).

For a discussion of environmental issues see page 38 of this report.

Site clean-up

In New Westminster, B.C. MB owns 26 hectares of vacant property that was formerly a mill site. In late 1990 MB succeeded in rezoning this property for residential purposes. MB will spend approximately \$5 million to excavate, and transport to approved landfills, contaminated materials from this property.

The Company has contracts for and intends to spend approximately \$3 million to remove and destroy PCB's from various B.C. locations and estimates \$2.0 million to stop seepage from a land fill site.

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

The Pine Hill, Alabama mill can recycle an average of 605 tons per day of used corrugated containers. This constitutes about 25% of production requirements.

The Company's B.C. mills purchase 60,000 tonnes a year of de-inked pulp from a newspaper recycling plant. California, the largest single market for MB newsprint, has legislation requiring that 25% of their newsprint contain 40% recycled fibre.

The Sturgeon Falls, Ontario corrugating medium mill now uses old corrugated containers to completely meet its fibre requirement. The \$13 million project was completed in mid-1993.

SUMMARY OF FINANCIAL INFORMATION

DIVIDENDS

During the two years ended December 31, 1993 the Company declared the following dividends:

	<u>1993</u>	<u>1992</u>
	(\$ millions)	
Class B preferred shares		
Series 4	—	.7
Series 8	1.9	2.4
Series 9	—	4.6
Series 10	2.6	3.9
Common shares	69.9	67.1

Common share dividends declared in 1992 through September 15, 1992 were payable in either cash or common stock at the shareholder's option. Subsequently, common share dividends have been paid in cash.

At its meeting on February 9, 1994 the Board of Directors declared a dividend of \$.15 per common share payable on March 15, 1994 to shareholders of record on February 22, 1994. 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 United States shareholders are subject to a 15% Canadian non-resident withholding tax.

FIVE YEAR FINANCIAL DATA

	1993	1992*	1991* (\$ millions)	1990*	1989*
Current assets	1,465.9	1,193.0	1,165.2	999.7	986.2
Current operating liabilities	418.0	358.7	351.6	344.6	367.2
Operating working capital	1,047.9	834.3	813.6	655.1	619.0
Property, plant and equipment	2,020.6	2,034.6	1,943.3	2,065.8	1,869.6
Investments and other assets	717.7	672.0	713.9	516.8	421.2
Net assets employed	3,786.2	3,540.9	3,470.8	3,237.7	2,909.8
Total assets	4,204.2	3,899.6	3,822.4	3,582.3	3,277.0
Short term interest-bearing debt	83.8	87.5	140.1	48.5	79.0
Current portion of long term debt	109.2	14.6	8.5	30.7	18.8
Long term debt	1,490.3	1,512.7	1,231.1	1,032.9	658.5
Interest-bearing debt (excluding convertible subordinated debentures)	1,683.3	1,614.8	1,379.7	1,112.1	756.3
Other long term liabilities	75.9	75.6	67.3	59.0	50.4
Convertible subordinated debentures	149.9	149.9	149.9	150.0	150.0
Redeemable term preferred shares	—	—	13.8	15.4	17.0
Other redeemable preferred shares	75.7	96.2	98.1	104.1	106.5
Common equity	1,554.2	1,352.4	1,487.7	1,477.4	1,509.1
Deferred income taxes	247.2	252.0	274.3	319.7	320.5
Total invested capital	3,786.2	3,540.9	3,470.8	3,237.7	2,909.8
Total long term debt, convertible subordinated debentures and redeemable preferred shares	1,715.9	1,758.8	1,492.9	1,302.4	932.0
Interest-bearing debt as a percentage of capital invested**	44%	46%	40%	35%	27%
Funds generated by operations	198.9	88.2	63.3	255.0	522.5
Depreciation, depletion and amortization	191.6	170.4	156.6	156.5	130.4
Capital expenditures	165.7	227.0	241.1	366.5	518.4
Interest paid	145.2	122.5	111.1	77.0	51.7
Preferred share dividends paid	4.8	11.8	14.1	15.5	15.6
Common share dividends paid in cash	69.9	50.0	38.4	82.1	82.1

* Certain prior year figures have been restated to conform with the 1993 presentation.

**Interest-bearing debt excludes convertible subordinated debentures and includes redeemable term preferred shares.

For a summary of U.S. and Canadian dollar exchange rates see page 30 of this report.

SELECTED QUARTERLY FINANCIAL DATA

	1992				1993			
	Quarters				Quarters			
	I	II	III	IV	I	II	III	IV
	(\$ millions)							
Sales of products and services	718.5	775.5	755.8	789.5	888.2*	1,012.6*	922.4*	938.8
Costs and expenses:								
Materials, labour and other operating expenses	617.2	669.0	636.8	660.5	731.2*	841.3*	815.4*	802.3
Depreciation, depletion and amortization	41.9	42.6	40.4	45.5	44.4	50.0	47.1	50.1
Selling, general and administrative ...	50.3	53.1	54.8	60.4	56.2	60.6	63.4	61.7
	709.4	764.7	732.0	766.4	831.8*	951.9*	925.9*	914.1
Operating earnings (loss)	9.1	10.8	23.8	23.1	56.4	60.7	(3.5)	24.7
Other income (expense)	1.0	4.8	(1.7)	5.0	38.3	5.3	7.6	17.0
Interest expense	(34.6)	(34.4)	(35.3)	(32.3)	(36.2)	(35.6)	(38.0)	(37.1)
Earnings (loss) before income taxes ...	(24.5)	(18.8)	(13.2)	(4.2)	58.5	30.4	(33.9)	4.6
Income tax (recovery) expense	(9.2)	(8.9)	(5.2)	(3.4)	6.5	9.6	(14.1)	(2.4)
Earnings (loss) before undernoted item	(15.3)	(9.9)	(8.0)	(.8)	52.0	20.8	(19.8)	7.0
Equity in earnings of affiliates	4.3	2.8	(6.2)	(15.7)	(5.7)	1.7	(.9)	(1.9)
Net earnings (loss)	(11.0)	(7.1)	(14.2)	(16.5)	46.3	22.5	(20.7)	5.1
Provision for dividends on preferred shares	(2.1)	(2.3)	(2.1)	(2.4)	(1.5)	(1.1)	(1.0)	(1.0)
Net earnings (loss) attributable to common shareholders	(13.1)	(9.4)	(16.3)	(18.9)	44.8	21.4	(21.7)	4.1
Earnings (loss) per common share (dollars):								
basic	(.12)	(.08)	(.15)	(.17)	.40	.19	(.19)	.03
fully diluted	(.12)	(.08)	(.15)	(.17)	.38	.19	(.19)	.03
Price range of common shares on Toronto Stock Exchange (dollars):								
high	21 $\frac{1}{8}$	19 $\frac{9}{8}$	18 $\frac{3}{4}$	17 $\frac{3}{4}$	20 $\frac{3}{8}$	23 $\frac{3}{8}$	23 $\frac{1}{2}$	22 $\frac{1}{4}$
low	17 $\frac{7}{8}$	17	16 $\frac{3}{4}$	15 $\frac{5}{8}$	16 $\frac{1}{8}$	18 $\frac{7}{8}$	20 $\frac{1}{8}$	19 $\frac{3}{4}$
Cash dividends per common share (dollars) .....	.15	.15	.15	.15	.15	.15	.15	.15

*Restated

Common share dividends declared in 1992 through September 15, 1992 were payable in either cash or common stock at the shareholder's option. Subsequently, common share dividends have been paid in cash.

FIVE YEAR EARNINGS DATA

	1993	1992	1991 (\$ millions)	1990	1989
Sales	<u>3,762.0</u>	<u>3,039.3</u>	<u>2,726.2</u>	<u>3,003.2</u>	<u>3,273.7</u>
Contributions to earnings (loss):					
Building materials	333.0	156.2	(41.7)	(31.6)	66.8
Pulp and paper	(126.2)	(76.6)	(11.4)	137.6	247.3
Containerboard and packaging	(21.5)	(2.9)	(16.0)	44.7	113.6
Eliminations and unallocated items	(47.0)	(9.9)	(48.4)	(59.4)	(62.6)
Operating earnings (loss)	138.3	66.8	(117.5)	91.3	365.1
Other income (expense)	68.2	9.1	(11.7)	(13.0)	11.5
Interest expense	(146.9)	(136.6)	(109.7)	(81.0)	(53.6)
Earnings (loss) before income taxes	59.6	(60.7)	(238.9)	(2.7)	323.0
Income tax (recovery) expense	(.4)	(26.7)	(107.8)	(11.9)	123.5
Equity in earnings (losses) of affiliates	(6.8)	(14.8)	37.7	41.6	47.2
Net earnings (loss)	53.2	(48.8)	(93.4)	50.8	246.7
Less: Provision for preferred dividends	4.6	8.9	11.2	13.1	13.2
Net earnings (loss) attributable to common shareholders	<u>48.6</u>	<u>(57.7)</u>	<u>(104.6)</u>	<u>37.7</u>	<u>233.5</u>
Net earnings (loss) per common share (dollars):					
basic .....	.42	(.52)	(.98)	.37	2.27
fully diluted .....	.42	(.52)	(.98)	.37	2.21
Cash dividends on common shares .....	.60	.60	.60	.80	.80

Certain prior year figures have been restated to conform with the 1993 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
1993	US\$.8050	US\$.7435	US\$.7753	US\$.7553
1992 .....	.8760	.7760	.8276	.7867
1991 .....	.8934	.8573	.8728	.8654
1990 .....	.8859	.8275	.8570	.8621
1989 .....	.8652	.8254	.8445	.8632

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:

	1993	1992	1991	1990	1989
Hemlock lumber export to Japan per Mfbm (1)	\$821	\$602	\$543	\$549	\$606
Western Red Cedar lumber export to U.S. per Mfbm (2)	414	444	329	295	284
Bleached softwood kraft pulp per tonne (3)	425	550	580	797	833
Newsprint per tonne (4)	435	433	534	558	555
Groundwood paper per tonne (5)	756	791	811	839	860
Linerboard per tonne (6)	325	377	371	408	452

(1) 3³/₁₆" square as reported per Random Lengths Year Book (cost and freight).

(2) 2" X 4" dimension as delivered by U.S. Rail as reported by Random Lengths Year Book (prices net f.o.b. mill).

(3) Average prices delivered in northern Europe as estimated by Resource Information Systems Inc. ("RISI").

(4) Average contract transaction price delivered in western U.S. as estimated by RISI.

(5) Average transaction price for 22.5 lb. white directory paper as estimated by RISI.

(6) Average transaction price for 42 lb. unbleached kraftliner delivered in the 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 1993 EARNINGS AND 1992 LOSS

In 1993 MB recorded net earnings of \$53.2 million, or \$.42 per common share, an improvement of \$102.0 million from 1992's net loss of \$48.8 million, or \$.52 per common share in 1992. This improvement is mainly due to a \$71.5 million increase in operating earnings and a \$39.0 million non-taxable gain on the disposal of MB's investment in U.K. Corrugated included in other income.

The improvement in operating earnings of \$71.5 million is due to higher prices for building materials and the weaker Canadian dollar against the U.S. dollar and Japanese yen. It is estimated that MB's before tax earnings were enhanced by approximately \$65 million due to the lower Canadian dollar. These improvements were partially offset by significantly lower pulp prices, marginally lower containerboard prices, higher production costs for most major products (except containerboard) and a \$23.3 million increase in selling, general and administrative expenses relating to increased salaries and benefits.

MB has closed and announced the closure of certain facilities and provided for the write-off of other facilities that were not competitive. Provisions for these costs were \$7.2 million in 1993 as compared with \$18.2 million in 1992.

Interest costs increased \$10.3 million in 1993 over 1992 due to increased borrowings of \$68.5 million and the effect of the lower Canadian dollar on foreign-denominated interest costs.

Equity in losses of affiliates decreased \$8.0 million year over year. Due to continuing depressed European markets, KNP BT's results were adversely affected. This was partially offset by a significant improvement in the results of TJM. TJM is benefiting from a growing market for engineered lumber products in residential construction.

In 1993 sales of products and services amounted to \$3,762.0 million, an increase of \$722.7 million from the \$3,039.3 million reported in 1992. The increase is mainly due to stronger building materials markets and a weaker Canadian dollar. The following table provides an analysis of the change in key product sales from 1992 to 1993:

Product	Change in sales 1992 to 1993	Change attributable to:		
	(1)	Volume	Price	Other
		(\$ millions)		
Building materials:				
Lumber	311.6	30.1	281.5	
Panelboards and other	<u>321.0</u>	<u>54.4</u>	<u>48.5</u>	<u>218.1</u> (3)
	632.6	<u>84.5</u>	<u>330.0</u>	<u>218.1</u>
Pulp and paper:				
Groundwood paper —				
Standard newsprint	66.9	42.6	24.3	
Specialties	21.7	15.2	6.5	
Pulp	(43.4)	(15.2)	(28.2)	
Other	<u>(3.4)</u>			<u>(3.4)</u>
	41.8	<u>42.6</u>	<u>2.6</u>	<u>(3.4)</u>
Containerboard and packaging:				
Containerboard	5.8	11.6	(5.8)	
Corrugated containers .....	.1	(8.9)	9.0	
Other	<u>3.7</u>			<u>3.7</u>
	9.6	<u>2.7</u>	<u>3.2</u>	<u>3.7</u>
Transportation services	30.7			30.7
Miscellaneous income	<u>8.0</u>			<u>8.0</u>
Total	<u>722.7</u>	<u>129.8</u>	<u>335.8</u>	<u>257.1</u>

(1) Change in sales by product excludes freight (sales reported in segment information and financial statements include freight).

(2) Includes the effect of foreign currency exchange rate changes estimated to be in excess of \$160 million.

(3) Includes 1993 domestic log sales which in 1992 were recorded as a reduction of log purchases. 1992 has not been restated.

Building materials

The building materials segment reported a \$333.0 million contribution to earnings in 1993, an improvement of \$176.8 million over the \$156.2 million contributed in 1992. Sales increased \$663.6 million or 36% from \$1,841.0 million in 1992 to \$2,504.6 million in 1993. MB's continued strategy has been to move away from manufacturing commodity lumber products and to focus on the manufacture and distribution of higher margin products.

The following table shows sales and production of building materials products and the percentage of capacity utilization in each of the years 1993, 1992 and 1991:

	Sales		Production	
	Value (\$ millions)	Volume	Volume	Operating rate
1993				
Lumber (MMfbm)	1,452.6	1,770	703	82%
Panelboards (MM sq.ft. $\frac{3}{8}$ ")	335.2	1,101	479	101%
Other	716.8			
	<u>2,504.6</u>			
1992				
Lumber (MMfbm)	1,134.7	1,678	718	83%
Panelboards (MM sq.ft. $\frac{3}{8}$ ")	256.1	975	405	88%
Other	450.2*			
	<u>1,841.0</u>			
1991				
Lumber (MMfbm)	947.8	1,622	702	75%
Panelboards (MM sq.ft. $\frac{3}{8}$ ")	178.6	790	323	62%
Other	395.7*			
	<u>1,522.1</u>			

*Restated

In 1993 housing starts in the U.S. increased 7% to 1.28 million while starts in Japan recorded a modest increase to 1.49 million. U.S. and Japanese lumber consumption also remained somewhat constant. Despite this, wood product prices in the U.S. reached record levels in the spring of 1993. This significant spike in prices was attributed to a perceived shortage of supply. This perception relates to concerns over the continued reductions in timber supply, notably in the U.S. Northwest. The U.S. Northwest traditionally supplied the U.S. market with 35 to 40% of its timber supply, and indications are that the Northwest's share will substantially decline in the future.

Lumber

In 1993 prices for MB's lumber products were higher than in 1992. MB's whitewood lumber prices increased throughout 1992 while prices for the Western Red Cedar products, which are principally sold in the U.S., reached their 1992 peak in the spring. By late 1992 concerns about available timber for harvest in the U.S. resulted in price increases with almost all species and grades reaching record highs in March, 1993. In mid-1993 prices decreased as European economies remained depressed and oversupply to Japan weakened prices in that market. The last half of 1993 saw prices strengthen as the U.S. economy improved, particularly for high valued species and grades. Offshore markets are stable for MB's product lines.

MB's total lumber sales increased \$317.9 million or 28% and 5% based on a volume increase of 92 MMfbm. Sales of purchased lumber increased \$180.9 million on increased volume of 131 MMfbm. Sales volumes on MB produced lumber decreased 39 MMfbm or 5% while sales revenue increased \$137.0 million or 20%. MB produced lumber in 1993 accounted for 43% of total lumber sales volume compared to 48% in 1992. MB's sawmills in total ran at 82% of capacity in 1993 compared with 83% in 1992 producing 703 MMfbm of lumber in 1993, down 15 MMfbm from 718 in 1992. In addition, 54 MMfbm was produced at rented facilities, a decrease of 21 MMfbm from 1992.

Panelboards and other

Panelboard markets were stronger in 1993, reflecting increased demand. MB's panelboard mills operated at full capacity in 1993, up from 88% in 1992.

Other building materials sales increased \$266.6 million in 1993 versus 1992. MB's distribution centres increased sales of engineered wood products and other building materials products. New products became available through distribution partnerships during the latter part of 1993. 1993 sales include fire-resistant cement-fibre roofing materials manufactured by American Cemwood, a subsidiary acquired in 1993.

Pulp and paper

MB's pulp and paper segment reported a loss of \$126.2 million, an increase of \$49.6 when compared to the \$76.6 million loss in 1992. Sales increased by \$57.9 million from \$819.1 million in 1992 to \$877.0 million in 1993. Pulp as well as paper markets were depressed during the year due to an imbalance in supply and demand. Pulp markets were particularly poor with prices falling to very low levels.

The following table shows sales and production of pulp and paper products and the percentage of capacity utilization in each of the years 1993, 1992 and 1991:

	Sales		Production	
	Value (\$ millions)	Volume k tonnes	Volume k tonnes	Operating rate
1993				
Newsprint — standard	395.5	646	447	
— specialty papers	246.9	283	272	
Total groundwood paper	642.4	929	719	92%
Market pulp	179.0	328	334	71%
Other	55.6			
	<u>877.0</u>			
1992				
Newsprint — standard	320.8	559	382	
— specialty papers	223.9	264	266	
Total groundwood paper	544.7	823	648	72%
Market pulp	223.4	356	367	74%
Other	51.0			
	<u>819.1</u>			
1991				
Newsprint — standard	357.4	525	397	
— specialty papers	270.8	307	307	
Total groundwood paper	628.2	832	704	72%
Market pulp	255.2	411	381	76%
Other	45.3			
	<u>928.7</u>			

Paper

U.S. newsprint consumption increased almost 1% in 1993 following an increase of 2% in 1992. The imbalance between capacity and demand was reduced by further withdrawals of capacity in 1993 through machine closures or conversions to other grades. The Company's groundwood paper capacity utilization improved from 72% in 1992 to 92% in 1993. Production increased 71,000 tonnes from 648,000 tonnes in 1992 to 719,000 tonnes in 1993, mainly reflecting the five week strike in 1992.

Standard newsprint and specialty paper production increased 65,000 and 6,000 tonnes respectively while total paper sales increased 106,000 tonnes to 929,000 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 1993 MB sold 181,000 tonnes of standard newsprint from ANC, down from 190,000 tonnes in 1992. ANC sales are mainly in the U.S. Midwest.

In 1992 and 1993 excess supply forced transaction prices of standard newsprint substantially lower. Transaction prices fell throughout 1992 and bottomed out late in the year. Prices increased modestly at the beginning of 1993 but came under pressure towards the end of the year.

Transaction prices for telephone directory papers in the Canadian and U.S. markets did not decline as much in 1993 as those of standard newsprint. Other specialty groundwood printing paper transaction prices paralleled those of standard newsprint.

Market pulp

MB's pulp shipments decreased 28,000 tonnes in 1993 compared with 1992. Sales to Europe in 1993 were 18,000 tonnes lower than 1992 reflecting the recession in Europe and increased price competition as a result of the devaluations of Nordic currencies. Markets for Canadian northern bleached softwood kraft pulp continue to be influenced by fibre from lower cost U.S. South and Latin American producers. Canadian mills took market downtime in 1992 and 1993 and during mid-1992 the B.C. pulp mills were on strike for approximately five weeks. MB's market pulp production was at 71% of capacity in 1993 compared with 74% in 1992.

At the beginning of 1992 pulp prices in western Europe, MB's major market, were below US\$500 per tonne. In the first half of 1992 there were several price increases which were influenced by the threat of a labour disruption in B.C. and during the strike in the summer months prices reached US\$600 per tonne. Following the strike oversupply pressures brought the price down to US\$520 at the end of 1992 and by mid-1993 the price had fallen further to US\$450. By late 1993 the price dipped below US\$400. Poor economic conditions in Europe and Japan resulted in depressed markets for paper and consequently lower demand for pulp.

In late 1993 the Company closed the Port Alberni kraft pulp mill.

Containerboard and packaging

MB's containerboard and packaging segment reported a \$21.5 million loss in 1993 compared to a \$2.9 million loss in 1992. Sales increased \$17.6 million in 1993.

The following table shows sales and production of containerboard and packaging products and the percentage of capacity utilization in each of the years 1993, 1992 and 1991:

	Sales (outside MB)		Production	
	Value (\$ millions)	Volume k tonnes	Volume k tonnes	Operating rate
1993				
Linerboard	141.4	318	408	91%
Corrugating medium	103.9	254	280	94%
Total containerboard	245.3	572	688	92%
Corrugated containers	284.3	313	326	88%
Other	2.3			
	<u>531.9</u>			
1992				
Linerboard	137.1	298	393	87%
Corrugating medium	98.6	246	297	98%
Total containerboard	235.7	544	690	92%
Corrugated containers	273.6	324	330	90%
Other	5.0			
	<u>514.3</u>			
1991				
Linerboard	117.3	265	330	80%
Corrugating medium	82.8	229	278	91%
Total containerboard	200.1	494	608	85%
Corrugated containers	204.2	247	252	83%
Other	1.7			
	<u>406.0</u>			

Containerboard

MB's linerboard and corrugating medium transaction prices in U.S. dollars were lower in 1993 than 1992 as industry containerboard inventories remained high. On October 1, 1993 producers announced a US\$25 per ton increase. The market has accepted this increase.

The Alabama linerboard mill operated at 91% of capacity in 1993 compared with 87% in 1992. In 1993 the Alabama corrugating medium mill operated at 92% of capacity compared with 96% in 1992. In both years Sturgeon Falls operated at full capacity, selling virtually all of its production to MacMillan Bathurst, an affiliated corrugated container manufacturer.

Packaging

Profit margins decreased in 1993 for the corrugated container segment of the business. Lower board costs were more than offset by lower customer sales prices. The operating rate for corrugated containers declined to 88% in 1993 from 90% in 1992.

EARNINGS SENSITIVITIES

MB's earnings are sensitive to fluctuations in prices for its products and in currency exchange rates. Based on production in 1993 and annual productive capacity at December 31, 1993, the changes below affect after tax earnings approximately as follows:

	Approximate annual effect on net earnings	
	(\$ millions)	
	at 1993 production	at full capacity
Price sensitivity —		
Lumber — \$10 change per Mfbm (excludes custom-cut)	4	5
Newsprint and specialty papers — \$10 change per tonne	4	5
Containerboard — \$10 change per tonne	4	5
Pulp — \$10 change per tonne	2	3
	At current sales levels	
Exchange sensitivity —		
Canadian dollar/U.S. dollar — change of Cdn\$.01	5	
Canadian dollar/Japanese yen — change of one Japanese yen	2	

COMPARISON OF 1992 AND 1991 LOSS

In 1992 MB recorded a net loss of \$48.8 million compared to 1991's record net loss of \$93.4 million. On a per common share basis, the net loss decreased from \$.98 per common share in 1991 to a net loss of \$.52 per common share in 1992.

The major items contributing to the improvement were a \$184.3 million improvement in operating results partially offset by a \$26.9 million increase in interest expense due to increased borrowings and a \$52.5 million decrease in equity earnings of affiliates because of a significant decline in KNP profits.

The \$184.3 million favourable change in operating results was mainly attributable to strong lumber prices during the last half of 1992 and the decline in the Canadian dollar against the U.S. dollar and Japanese yen. Other contributing factors were improved operating efficiencies and the closure of several unprofitable operations. Provisions for closures were \$21.9 million lower in 1992.

MB's building materials segment results improved \$197.9 million contributing \$156.2 million to earnings in 1992. This improvement reflected the strong lumber prices due to an improving U.S. economy, better U.S. housing starts and U.S. Pacific Northwest timber supply constraints.

The pulp and paper segment loss increased by \$65.2 million to a loss of \$76.6 million due to the 1992 imbalance between supply and demand which caused unfavourable product prices.

The containerboard and packaging segment results improved \$13.1 million to a loss of \$2.9 million due to higher sales volumes and lower conversion costs.

LIQUIDITY AND CAPITAL RESOURCES

MB accesses a wide variety of financing sources including both public and private markets. MB's debt leverage objective is to maintain a ratio which together with other key criteria will enable it to maintain investment grade ratings in its primary capital markets.

At December 31, 1993 interest-bearing debt as a ratio to invested capital was 44% compared to 46% at the end of 1992. MB's cash and short term investments at December 31, 1993 were \$260.5 million representing 6.8% of invested capital (1992 — \$142.7 million or 4.0%).

As at December 31, 1993 MB's available borrowing capacity was as follows:

	Available	Utilized
	(\$ millions)	
Short term lines of credit	\$370.5	\$83.8
Long term lines of credit	575.0	—
	<u>\$945.5</u>	<u>\$83.8</u>

Financing activities

At December 31, 1993 MB's total interest-bearing debt (excluding \$149.9 million of convertible subordinated debentures) was \$1,683.3 million, up \$68.5 million from \$1,614.8 million at December 31, 1992. During 1993 short term interest-bearing debt increased \$90.9 million to \$193.0 while long term decreased \$22.4 million to \$1,490.3 million.

During 1993 the Company issued 11.1 million common shares for \$235.4 million of which 9 million shares were issued September 30, 1993 at \$21.625 per share for net proceeds of \$186.5 million.

In 1993 MB sold U.K. Corrugated and Island Paper Mills realizing \$148.1 million proceeds of disposal.

Cash flow from operations

Funds generated by operations in 1993 amounted to \$198.9 million (1992 — \$88.2 million). Net funds required were \$306.0 million (1992 — \$286.4 million) after capital expenditures and investments of \$331.1 million (1992 — \$267.1 million), payment of preferred dividends and interest of \$150.0 million (1992 — \$134.3 million) and payment of common share dividends of \$69.9 million (1992 — \$67.1 million).

Investment activities

Capital expenditures in 1993 on property, plant and equipment were \$165.7 million of which \$39.6 million related to environmental projects. \$88.6 million related to existing capacity replacements and technological updating. Details of specific discretionary capital expenditures have been described in each segment's section.

As discussed in the pulp and paper capital expenditure section, the Company in February, 1994 embarked on a two year \$200 million NEXGEN project to convert a Port Alberni newsprint machine to produce lightweight coated paper.

In 1993 KNP merged with Bühmann-Tetterode nv and VRG-Groep NV to form KNP BT. MacMillan Bloedel's resulting interest was 17.1%. In October, 1993 MacMillan Bloedel participated in a KNP BT common share rights issue by purchasing 2.8 million shares of KNP BT for \$62.9 million thereby maintaining its ownership position at 17.1%.

On April 16, 1993 the Company issued 2,082,262 common shares for \$40.3 million to acquire an 81% interest in American Cemwood Corporation. American Cemwood manufactures fire-resistant, high quality cement-fibre roofing materials which closely simulate the appearance of cedar shakes.

The partners of Trus Joist MacMillan have approved a capital program designed to meet the rapidly expanding engineered lumber market and maintain the partnership's dominant position. To support this program MB is committed to a US\$49 million capital contribution in 1994.

OUTLOOK AND UNCERTAINTIES

Market outlook

The immediate outlook is improving for the pulp and packaging markets. Price increases announced in recent months for these products have been realized.

Pulp markets bottomed in late 1993. Lower producer inventories, shortages in the supply of hardwood pulp and signs of improving economies have contributed to price improvements of US\$50 to US\$60 per tonne in MB's major markets in early 1994.

The announced October 1, 1993 containerboard price increase of US\$25 per ton was accepted by November, 1993. In early 1994 economic activity had improved to such an extent that along with lower inventories suppliers have been able to announce price increases. MB expects to announce a further price increase.

In recent months there has been a modest increase in U.S. newsprint consumption and a reduction in consumers' inventories. Despite the improvement in the supply/demand balance, newsprint discounts increased by a further 3% or US\$19 per tonne at the beginning of 1994. However, MB has announced a 7% discount reduction amounting to US\$41 per tonne effective March 1, 1994.

Lumber prices in North America and most overseas markets have been strong in recent months for most grades and species. MB's lumber sales to Japan are a major source of building materials segment profit. Prices are generally increasing and market conditions are favourable.

Prices and volumes for all of MB's products are strongly influenced by supply and demand factors and foreign exchange factors.

Timber tenure

Special interest groups advocating the preservation of old-growth timber on the B.C. coast have engaged in civil disobedience. Their objective is to prevent logging with a view to having lands withdrawn from timber production. Recently concerns related to B.C. logging practices and pollution have received widespread publicity. This has been particularly the case in Europe where environmental groups are pressing consumers to boycott B.C. forest products.

In January, 1993 the Government announced the formation of a forest sector strategy advisory group. In 1992 a special Commission on Resources and Environment (CORE) was charged with the responsibility of developing a land use strategy. This strategy potentially affects 184 separate areas in the Province, of which 16 such areas are within the Company's timber tenures. The Government has stated that decisions on the majority of these areas will be made by 1995. CORE negotiations for Vancouver Island were concluded in November, 1993. The CORE Commissioner handed his recommendations to the Government on February 9, 1994. Indications are that MB could lose another 160,000 cubic metres of AAC in new protected areas plus an unknown volume in "Regionally Significant Lands", if all the recommendations set out in the CORE report were implemented by the Government.

The Company is seeking or expects compensation for fee lands and timber licences expropriated. On October 4, 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 as the Government expected to pay less and the Company had expected more. Compensation is also expected for expropriations for Carmanah Pacific Park and in the Clayoquot Sound area on Vancouver Island.

In the spring of 1994 the B.C. Government's proposed new legislated forest practice code is expected to emphasize environmental concerns over economic costs. The code will likely lead to higher costs which at this time cannot be determined.

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

In early 1992 a new B.C. Government announced deadlines for additional reduction of chlorinated organics to 1.5 kilograms per tonne of product by December 31, 1995 and zero kilograms by the end of 2002. The Company's mills currently meet the 1996 levels.

The Government is developing an Environmental Assessment Act for major projects which will parallel the new federal initiative Bill C-13 and is starting discussions on a Clean Air Strategy for B.C. In 1994 it will also finalize its regulations to Bill 26 covering soil contamination.

Air emission standards in most jurisdictions are being reviewed and are expected to become more stringent in the next few years. In 1993 Environment Canada conducted a study on emissions from a non-MacMillan Bloedel boiler burning excess secondary treatment bio-solids and salt laden hog fuel. In response to the 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. If these reviews lead to the introduction of more stringent standards, additional capital expenditures will be required.

U.S. legislation and publisher requirements specify recycled content in newsprint giving a competitive advantage to mills located close to large urban centres in the U.S. where substantial quantities of waste newspaper and magazines are available. The high cost of recycled pulp-fibre produced in B.C. makes it more economically difficult for B.C. newsprint producers to meet the legislated recycle content requirements.

SHAREHOLDER INFORMATION AND EXCHANGE LISTINGS

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

Distribution of common shares and registered common shareholders as at February 1, 1994:

	Common shares	Common shareholders*
Canada	118,514,335	5,798
United States	5,198,636	649
Other	18,203	63
	<u>123,731,174</u>	<u>6,510</u>
Share warrants	552	
	<u>123,731,726</u>	

*Excluding approximately 23,000 beneficial shareholders, 7,130 of whom are employees of the Company.

Exchange listings:

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

Common shares quoted: NASDAQ.

Class B preferred share 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 on pages 5 to 8.

OFFICERS

<u>Name</u>	<u>Address</u>	<u>Age at Feb. 1, 1994</u>	<u>Positions held during past five years</u>
R.B. Findlay	West Vancouver, B.C.	60	President and Chief Executive Officer since 1990; prior to which he was Senior Vice-President, Marketing since 1989; prior to which he was Senior Vice-President, Alberni Region
R.D. Tuckey	West Vancouver, B.C.	53	Executive Vice-President, Operations since January 1, 1993; prior to which he was Executive Vice-President, Business Development since 1992; prior to which he was Vice-President, Alberni Region since 1989; prior to which he was General Manager, Harmac
F.V. Ernst	Montgomery, Alabama	55	Senior Vice-President, Containerboard and Packaging of the Company and President, MacMillan Bloedel Inc. since May 15, 1993; prior to which he was Executive Vice-President of Chesapeake Corporation (containerboard and packaging)
G.M. Ferguson	North Vancouver, B.C.	53	Senior Vice-President, 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 was Vice-President, Treasurer
O.L. Forgacs	Vancouver, B.C.	63	Senior Vice-President, Research and Development (retiring March 1, 1994)
A.N. Grunder	North Vancouver, B.C.	57	Senior Vice-President, Administration and Business Development since April 8, 1993; prior to which he was Senior Vice-President, Finance and Administration since 1989; prior to which he was Vice-President, Information Systems and Services
J.L. Howard, Q.C.	Vancouver, B.C.	62	Senior Vice-President, Law and Corporate Affairs
G.A. Adams	West Vancouver, B.C.	55	Vice-President, Transportation
W.A. Adams	Nanaimo, B.C.	53	Vice-President, Nanaimo Region since 1989; prior to which he was President and Chief Executive Officer, Island Paper Mills Company
J.C. Finkbeiner	North Vancouver, B.C.	46	Vice-President, Tax, Properties and Risk Management
R.G. Ford	North Vancouver, B.C.	45	Vice-President, Strategic Planning since April 8, 1993; prior to which he was Director, Corporate Planning
G.H. Johncox	West Vancouver, B.C.	53	Vice-President, Human Resources
A.D. Laberge	Vancouver, B.C.	37	Vice-President, Treasurer since April 8, 1993; prior to which she was Assistant Treasurer since 1991; prior to which she was Director, Corporate Finance

<u>Name</u>	<u>Address</u>	<u>Age at Feb. 1, 1994</u>	<u>Positions held during past five years</u>
E. Lauritzen	West Vancouver, B.C.	55	Vice-President, Pulp and Paper Marketing
W.G. Low	Powell River, B.C.	63	Vice-President, Powell River Region since 1989; prior to which he was General Manager, Alberni Pulp and Paper Division
J.N. MacFarlane	Vancouver, B.C.	56	Vice-President, Chief Forester since 1992; prior to which he was Chief Forester since 1991; prior to which he was General Manager, Powell River Woodlands
R.G. MacFarlane	Port Alberni, B.C.	50	Vice-President, Alberni Region since November 4, 1993; prior to which he was General Manager, Building Materials, Alberni Region
G.E. Mynett	Vancouver, B.C.	47	Corporate Secretary
C.D. Neeser	Vancouver, B.C.	39	Vice-President, Building Materials Marketing since November 4, 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
H. Reithaug	West Vancouver, B.C.	55	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
D.W. St. John	Vancouver, B.C.	62	Vice-President, Building Materials Development since November 4, 1993; prior to which he was Vice-President, Building Materials Marketing since 1990; prior to which he was Vice-President, Lumber Marketing
A.C. Stubbs	Gibsons, B.C.	49	Vice-President, Public Affairs since 1992; prior to which he was Vice-President, Corporate Communications
V.R. Worthy	West Vancouver, B.C.	56	Vice-President, Engineered Wood Products since 1990; prior to which he was Vice-President, Panelboards

ADDITIONAL INFORMATION

Additional information, including directors' and executive officers' remuneration and indebtedness, principal holders of MacMillan Bloedel Limited's common shares, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in MacMillan Bloedel Limited's Information Circular in connection with the meeting to be held on April 14, 1994 (pages 4 to 13 of this document). Additional financial information is provided in Consolidated Financial Statements (pages 42 to 60 of this document).

MacMILLAN BLOEDEL LIMITED

Consolidated Financial Statements December 31, 1993

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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, 1991, 1992 and 1993 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, 1991, 1992 and 1993 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 9, 1994

MacMILLAN BLOEDEL LIMITED

Consolidated Statements of Earnings (Loss) and Retained Earnings

	Year ended December 31		
	1993	1992*	1991*
		(\$ millions)	
Sales of products and services	\$3,762.0	\$3,039.3	\$2,726.2
Costs and expenses:			
Materials, labour and other operating expenses	3,190.2	2,583.5	2,469.4
Depreciation, depletion and amortization	191.6	170.4	156.6
Selling, general and administrative	241.9	218.6	217.7
	<u>3,623.7</u>	<u>2,972.5</u>	<u>2,843.7</u>
Operating earnings (loss)	138.3	66.8	(117.5)
Other income	75.4	27.3	28.4
Provision for severance and closures	(7.2)	(18.2)	(40.1)
Interest expense	(146.9)	(136.6)	(109.7)
Earnings (loss) before income taxes	<u>59.6</u>	<u>(60.7)</u>	<u>(238.9)</u>
Income tax expense (recovery):			
Current	5.0	(9.0)	(62.4)
Deferred	(5.4)	(17.7)	(45.4)
	<u>(.4)</u>	<u>(26.7)</u>	<u>(107.8)</u>
Earnings (loss) before undernoted items	60.0	(34.0)	(131.1)
Equity in earnings (loss) of affiliates	(6.8)	(14.8)	37.7
Net earnings (loss)	<u>53.2</u>	<u>(48.8)</u>	<u>(93.4)</u>
Retained earnings:			
Balance at beginning of year	668.3	800.3	976.1
	<u>721.5</u>	<u>751.5</u>	<u>882.7</u>
Deduct:			
Preferred share dividends	4.5	11.6	14.8
Common share dividends —			
Cash	69.9	50.0	38.4
Stock	—	17.1	25.6
Costs of issue and redemption of shares less applicable			
income taxes of \$3.2 million (1992 \$NIL, 1991 \$2.6 million)	1.2	4.5	3.6
	<u>75.6</u>	<u>83.2</u>	<u>82.4</u>
Balance at end of year	<u>\$ 645.9</u>	<u>\$ 668.3</u>	<u>\$ 800.3</u>
Earnings (loss) per common share (dollars):			
Basic	<u>\$.42</u>	<u>\$ (.52)</u>	<u>\$ (.98)</u>
Fully diluted	<u>\$.42</u>	<u>\$ (.52)</u>	<u>\$ (.98)</u>

*Certain 1992 and 1991 figures have been reclassified to conform with the 1993 presentation.

MacMILLAN BLOEDEL LIMITED
Consolidated Statements of Financial Position
Net Assets Employed

	December 31	
	1993	1992*
	(\$ millions)	
Current assets:		
Cash and short term investments	\$ 260.5	\$ 142.7
Accounts receivable —		
Trade	488.1	432.0
Other	52.3	34.3
Inventories (Note 2)	651.7	552.7
Prepaid expenses	7.0	6.2
Investments held for resale	6.3	25.1
	<u>1,465.9</u>	<u>1,193.0</u>
Deduct current liabilities (excluding interest-bearing debt):		
Trade accounts payable	199.5	171.7
Accrued payroll and related liabilities	71.2	67.6
Accrued interest on borrowed funds	34.9	33.2
Income taxes payable (recoverable)	9.5	(8.5)
Other accounts payable and accrued liabilities	102.9	94.7
	<u>418.0</u>	<u>358.7</u>
Operating working capital	<u>1,047.9</u>	<u>834.3</u>
Investments and other assets:		
Investments in affiliates (Note 3)	643.3	634.8
Other investments and assets, at cost	24.1	21.7
	<u>667.4</u>	<u>656.5</u>
Property, plant and equipment: (Note 4)		
Buildings and equipment	3,531.4	3,386.6
Less: Accumulated depreciation	1,731.8	1,570.9
	<u>1,799.6</u>	<u>1,815.7</u>
Timber and land less accumulated depletion	210.7	207.6
Logging roads	10.3	11.3
	<u>2,020.6</u>	<u>2,034.6</u>
Intangibles less amortization	<u>50.3</u>	<u>15.5</u>
	<u><u>\$3,786.2</u></u>	<u><u>\$3,540.9</u></u>

*Certain 1992 figures have been reclassified to conform with the 1993 presentation.

Approved by the Board:

R.B. Findlay,
Director

R.V. Smith,
Director

MacMILLAN BLOEDEL LIMITED

Consolidated Statements of Financial Position

Invested Capital

	December 31	
	1993	1992*
	(\$ millions)	
Interest-bearing debt:		
Short term —		
Bank indebtedness	\$ 83.8	\$ 87.5
Current portion of long term debt (Note 5)	109.2	14.6
	<u>193.0</u>	<u>102.1</u>
Long term —		
Term loans (Note 6)	993.4	1,025.4
Notes, bonds, debentures and other (Note 7)	496.9	487.3
	<u>1,490.3</u>	<u>1,512.7</u>
Total interest-bearing debt	1,683.3	1,614.8
Other long term obligations	75.9	75.6
Deferred income taxes	247.2	252.0
Convertible debentures and shareholders' equity:		
Convertible subordinated debentures (Note 8)	149.9	149.9
Shareholders' equity		
Share capital: (Note 9)		
Preferred shares	75.7	96.2
Common shares	990.6	755.2
	<u>1,066.3</u>	<u>851.4</u>
Retained earnings	645.9	668.3
	<u>1,712.2</u>	<u>1,519.7</u>
Foreign exchange translation adjustment	(82.3)	(71.1)
Shareholders' equity	<u>1,629.9</u>	<u>1,448.6</u>
	<u>1,779.8</u>	<u>1,598.5</u>
Commitments (Notes 9 and 10)		
	<u>\$3,786.2</u>	<u>\$3,540.9</u>

*Certain 1992 figures have been reclassified to conform with the 1993 presentation.

MacMILLAN BLOEDEL LIMITED

Consolidated Statements of Changes in Financial Position

	Year ended December 31		
	1993	1992**	1991**
	(\$ millions)		
Internal funds:			
Operating earnings (loss)	\$ 138.3	\$ 66.8	\$ (117.5)
Depreciation, depletion and amortization	191.6	170.4	156.6
Decrease (increase) in operating working capital			
Receivables	(75.9)	(74.5)	(28.6)
Inventories	(97.0)	(66.3)	42.3
Other	41.9	(8.2)	10.5
Generated by operations	198.9	88.2	63.3
Other income	32.0	27.3	28.4
Provision for severance and closures	(7.2)	(18.2)	(40.1)
Distributions from affiliates	8.1	22.8	25.8
	<u>231.8</u>	<u>120.1</u>	<u>77.4</u>
Required for:			
Interest	145.2	122.5	111.1
Dividends to preferred shareholders	4.8	11.8	14.1
Income taxes recovered	(13.2)	(62.0)	(28.9)
	<u>136.8</u>	<u>72.3</u>	<u>96.3</u>
Net internal funds	<u>95.0</u>	<u>47.8</u>	<u>(18.9)</u>
Funds invested long term:			
Capital expenditures	165.7	227.0	241.1
Businesses acquired	40.3	14.3	—
Investments and other assets	125.1	25.8	23.3
	<u>331.1</u>	<u>267.1</u>	<u>264.4</u>
	(236.1)	(219.3)	(283.3)
Dividends to common shareholders	<u>(69.9)</u>	<u>(67.1)</u>	<u>(64.0)</u>
Funds required	<u>(306.0)</u>	<u>(286.4)</u>	<u>(347.3)</u>
Financing transactions:			
Net interest-bearing debt incurred	30.4	127.1	274.3
Issue of common shares	235.4	24.3	178.9
Retraction and redemption of preferred shares	(16.6)	(21.2)	(7.5)
Proceeds from sale of businesses	148.1	—	—
Disposal of investments and other	26.5	68.8	45.5
Financing provided	<u>423.8</u>	<u>199.0</u>	<u>491.2</u>
Increase (decrease) in funds*	<u>\$ 117.8</u>	<u>\$ (87.4)</u>	<u>\$ 143.9</u>

* Funds are defined as cash and short term investments.

**Certain 1992 and 1991 figures have been reclassified to conform with the 1993 presentation.

AUDITORS' REPORT

To the Shareholders of
MacMillan Bloedel Limited:

We have audited the consolidated statements of financial position of MacMillan Bloedel Limited as at December 31, 1993 and 1992 and the consolidated statements of earnings (loss) and retained earnings and changes in financial position for each of the years ended December 31, 1993, 1992 and 1991. 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 audit.

We conducted our audit 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, 1993 and 1992 and the results of its operations and the changes in its financial position for the years ended December 31, 1993, 1992 and 1991 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 9, 1994

MacMILLAN BLOEDEL LIMITED

Notes to Consolidated Financial Statements December 31, 1993, 1992 and 1991

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 15.

(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 long term 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.

(e) Capitalized interest

Interest is capitalized during construction of major capital projects.

(f) 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.

2. Inventories:

	December 31	
	1993	1992
	(\$ millions)	
Operating and maintenance supplies	\$ 75.4	\$ 78.2
Logs, pulp chips and pulpwood	157.7	141.9
Lumber, panelboards and other building materials	327.8	235.3
Pulp and paper products	56.0	60.3
Containerboard and packaging products	34.8	37.0
	<u>\$651.7</u>	<u>\$552.7</u>

3. Investments in affiliates accounted for by the equity method:

	December 31			
	1993			1992
	% Owned	Cost	Undistributed earnings (\$ millions)	Total
NV Koninklijke KNP BT (formerly N.V. Koninklijke KNP) (KNP BT)	17.1	\$198.6	\$204.9	\$403.5
Other		239.4	.4	239.8
		<u>\$438.0</u>	<u>\$205.3</u>	<u>\$643.3</u>
				<u>\$634.8</u>

The unamortized goodwill attributable to MB's investment in KNP BT at December 31, 1993 is \$23.7 million (1992 — \$25.3 million).

Summarized financial information —

Financial position:

	December 31		
	1993		1992
	KNP BT	Other	Total
	(\$ millions)		
Current assets	\$2,742.7	\$ 437.7	\$3,180.4
Investment in affiliates accounted for by the equity method	281.8	4.5	286.3
Other non-current assets	3,201.9	503.6	3,705.5
Intangibles	697.9	39.4	737.3
	<u>\$6,924.3</u>	<u>\$ 985.2</u>	<u>\$7,909.5</u>
			<u>\$4,513.0</u>
Current liabilities	\$1,934.6	\$ 215.0	\$2,149.6
Non-current liabilities	2,517.3	195.5	2,712.8
Minority interests	148.0	—	148.0
	<u>4,599.9</u>	<u>410.5</u>	<u>5,010.4</u>
Shareholders' equity	2,324.4	574.7	2,899.1
	<u>\$6,924.3</u>	<u>\$ 985.2</u>	<u>\$7,909.5</u>
			<u>\$4,513.0</u>

3. Investments in affiliates accounted for by the equity method: (continued)

Results of operations:

	Year ended December 31				
	1993			1992	1991
	KNP BT	Other	Total (\$ millions)	Total	Total
Net sales	\$8,574.7	\$1,382.7	\$9,957.4	\$3,430.3	\$2,290.9
Gross profit	\$ 104.7	\$ 92.8	\$ 197.5	\$ 27.5	\$ 138.4
Net earnings (loss)	\$ (271.1)	\$ 74.9	\$ (196.2)	\$ (4.1)	\$ 144.8

In 1993 KNP merged with Bührmann-Tetterode nv and VRG-Groep NV to form N.V. Koninklijke KNP BT (KNP BT). MacMillan Bloedel's resulting interest was 17.1%. In October 1993 MacMillan Bloedel participated in a KNP BT common share rights issue by purchasing 2.8 million shares of KNP BT for \$62.9 million thereby maintaining its ownership position at 17.1%.

Certain 1992 figures have been reclassified to conform with 1993 presentation.

4. Property, plant and equipment:

Buildings and equipment —

	Cost	Accumulated depreciation (\$ millions)	Net
December 31, 1993			
Building materials	\$ 742.4	\$ 420.0	\$ 322.4
Pulp and paper	1,849.3	868.7	980.6
Containerboard and packaging	833.4	375.2	458.2
Corporate assets and other	106.3	67.9	38.4
	<u>\$3,531.4</u>	<u>\$1,731.8</u>	<u>\$1,799.6</u>
December 31, 1992			
Building materials	\$ 709.7	\$ 382.9	\$ 326.8
Pulp and paper	1,790.7	796.6	994.1
Containerboard and packaging	769.5	326.7	442.8
Corporate assets and other	116.7	64.7	52.0
	<u>\$3,386.6</u>	<u>\$1,570.9</u>	<u>\$1,815.7</u>

Certain 1992 figures have been restated to conform with the 1993 presentation.

5. Payments required on long term debt in the next five years:

	Term bank loans	Notes, bonds, debentures and other (\$ millions)	Total
1994	\$102.9	\$ 6.3	\$109.2
1995	341.9	2.6	344.5
1996	174.9	133.8	308.7
1997	202.9	1.4	204.3
1998	7.1	1.3	8.4

6. Term loans:

	December 31	
	1993	1992
	(\$ millions)	
8.31% and 8.54% US\$75.0 million maturing 1994	\$ 99.3	\$ 95.3
9.4% to 9.54% US\$250.0 million maturing 1995	331.0	317.8
8.1% Dutch Guilders 215.0 million maturing 1996	146.2	150.2
LIBOR US\$50.0 million maturing 1997	66.2	63.6
Floating rates \$139.0 million maturing 1996 to 1997	139.0	129.0
9.2% US\$200.0 million maturing 1999	264.8	254.2
3.7% to 6.9% Yen 4,200 million maturing from 1994 to 1999	49.8	21.4
	1,096.3	1,031.5
Less: Payments due within one year	102.9	6.1
	<u>\$ 993.4</u>	<u>\$1,025.4</u>

7. Notes, bonds, debentures and other:

	December 31	
	1993	1992
	(\$ millions)	
9% notes maturing 1996 (US\$100.0 million)	\$132.4	\$127.1
10.125% senior debentures, series 1, maturing 2002	100.0	100.0
8.5% debentures maturing 2004 (US\$150.0 million)	198.6	190.7
Industrial development revenue and pollution control bonds at interest rates ranging from 4.9% to 10.5% and maturing from 1994 to 2009 (US\$30.9 million)	41.0	44.1
7.75% solid waste disposal facilities revenue bonds series 1991-A, maturing 2019 (US\$9.1 million)	12.0	11.5
Other	19.2	22.4
	503.2	495.8
Less: Payments due within one year	6.3	8.5
	<u>\$496.9</u>	<u>\$487.3</u>

Certain 1992 figures have been reclassified to conform with the 1993 presentation.

8. 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. The characteristics and attributes attaching to the convertible subordinated debentures, including the Company's option to require the trustee to apply the proceeds and purchase common shares, causes the Company to view these securities as substantially permanent capital and consequently these debentures are shown under the heading "convertible debentures and shareholders' equity".

9. 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.

	December 31	
	1993	1992
	(\$ millions)	
Outstanding shares without par value		
Preferred —		
1,474,400 class B, series 8	\$ 36.9	\$ 43.2
1,554,200 class B, series 10	38.8	53.0
	75.7	96.2
Common —		
123,731,726 shares	990.6	755.2
	<u>\$1,066.3</u>	<u>\$851.4</u>

Changes in share capital —

Class B preferred shares

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

	Issued and outstanding	
	Number of shares	(\$ millions)
Series 8		
January 1, 1991	1,892,800	\$ 47.3
Redeemed during 1991	(88,000)	(2.2)
December 31, 1991	1,804,800	45.1
Redeemed during 1992	(77,400)	(1.9)
December 31, 1992	1,727,400	43.2
Redeemed during 1993	(253,000)	(6.3)
December 31, 1993	<u>1,474,400</u>	<u>\$ 36.9</u>
Series 10		
January 1, 1991	2,272,900	\$ 56.8
Redeemed during 1991	(153,000)	(3.8)
December 31, 1991 and 1992	2,119,900	53.0
Redeemed during 1993	(565,700)	(14.2)
December 31, 1993	<u>1,554,200</u>	<u>\$ 38.8</u>

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

The series 10 are redeemable at the Company's option at \$25.00 per share. Cumulative preferential dividends are payable monthly at rates related to the Canadian prime interest rate.

	Issued and outstanding	
	Number of shares	(\$ millions)
Common shares		
January 1, 1991	102,649,825	\$552.0
Issued during 1991:		
For cash	7,200,000	151.2
Conversion of subordinated debentures	1,815	.1
Employees share purchase plan	107,261	2.0
Stock dividends	1,342,739	25.6
December 31, 1991	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	<u>123,731,726</u>	<u>\$990.6</u>

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.

Senior management share purchase plan —

At December 31, 1993 loans to employees under the senior management share purchase plan amounted to \$9.4 million (1992 — \$10.2 million). The loans are non-recourse, interest free, maturing at various dates to the year 2000 and secured by a pledge of the common shares.

10. Commitments:

In addition to commitments for capital expenditures and the future supply of operating services and materials, MacMillan Bloedel is committed at December 31, 1993 in respect of the following:

Ship charters and rentals under non-cancellable operating leases having an initial term of more than one year as follows —

	Ship charters	Leases (\$ millions)	Total
1994	\$25.2	\$18.8	\$44.0
1995	26.6	11.9	38.5
1996	27.8	9.1	36.9
1997	28.0	7.1	35.1
1998	28.4	6.1	34.5
1999 - 2013	47.0	65.2	112.2

11. Earnings statements supplementary information:

(a) Costs and expenses —

	Year ended December 31		
	1993	1992	1991
	(\$ millions)		
Interest expense			
Long term debt	\$138.0	\$131.5	\$102.4
Convertible subordinated debentures	7.5	7.5	7.5
Other	5.6	5.5	10.8
	<u>151.1</u>	<u>144.5</u>	<u>120.7</u>
Less: Capitalized	4.2	7.9	11.0
	<u>\$146.9</u>	<u>\$136.6</u>	<u>\$109.7</u>
Effective average interest rate	8%	8%	8%
Other income			
Income from investments	\$ 7.7	\$ 13.9	\$ 15.6
Other	24.2	13.4	12.8
Disposal of businesses	43.5	—	—
	<u>\$ 75.4</u>	<u>\$ 27.3</u>	<u>\$ 28.4</u>
Provision for severance and closures	\$ 7.2	\$ 18.2	\$ 40.1
Depreciation	\$176.5	\$152.1	\$139.1
Depletion	9.4	11.5	11.2
Amortization	5.7	6.8	6.3
	<u>\$191.6</u>	<u>\$170.4</u>	<u>\$156.6</u>
Research and development expenses	\$ 11.8	\$ 11.7	\$ 14.1
Less: Government grants and investment tax credits	3.1	3.7	4.1
	<u>\$ 8.7</u>	<u>\$ 8.0</u>	<u>\$ 10.0</u>
Rental expense	\$ 54.2	\$ 52.9	\$ 47.6
Remuneration of directors and executive officers	\$ 4.3	\$ 4.1	\$ 3.6
Wages, salaries and benefits	\$748.3	\$701.9	\$738.7
Pension expense (Note 13)	<u>\$ 63.3</u>	<u>\$ 63.6</u>	<u>\$ 61.7</u>

(b) Income tax (recovery) —

<u>Years ended December 31</u>	<u>Canadian federal</u>	<u>Canadian provincial</u>	<u>Foreign</u>	<u>Total</u>
		(\$ millions)		
1993				
Current	\$ 3.3	\$ (.3)	\$ 2.0	\$ 5.0
Deferred	<u>3.0</u>	<u>2.3</u>	<u>(10.7)</u>	<u>(5.4)</u>
	<u>\$ 6.3</u>	<u>\$ 2.0</u>	<u>\$ (8.7)</u>	<u>\$ (.4)</u>
1992				
Current	\$ (3.7)	\$ (5.1)	\$ (.2)	\$ (9.0)
Deferred	<u>(9.0)</u>	<u>(.1)</u>	<u>(8.6)</u>	<u>(17.7)</u>
	<u>\$ (12.7)</u>	<u>\$ (5.2)</u>	<u>\$ (8.8)</u>	<u>\$ (26.7)</u>
1991				
Current	\$ (21.9)	\$ (21.9)	\$ (18.6)	\$ (62.4)
Deferred	<u>(38.2)</u>	<u>(4.1)</u>	<u>(3.1)</u>	<u>(45.4)</u>
	<u>\$ (60.1)</u>	<u>\$ (26.0)</u>	<u>\$ (21.7)</u>	<u>\$ (107.8)</u>

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

MacMillan Bloedel has available investment tax credits of \$106.2 million that have been recognized in the results. The majority of these investment tax credits expire in 1998.

Income tax recovery rate reconciliation:

	<u>Year ended December 31</u>		
	<u>1993</u>	<u>1992</u>	<u>1991</u>
Canadian federal income tax rate	38.0%	(38.0)%	(38.0)%
Provincial and state taxes and federal surtax	3.0	(6.6)	(6.5)
Large corporations tax	6.2	6.3	1.6
Canadian manufacturing and processing allowance	(1.2)	5.2	3.3
Capital gains	(30.5)	(1.7)	(1.7)
Foreign tax rates	(13.5)	(13.4)	(1.3)
Other items	<u>(2.7)</u>	<u>4.2</u>	<u>(2.5)</u>
Effective income tax rate	<u>(.7)%</u>	<u>(44.0)%</u>	<u>(45.1)%</u>

Certain 1992 and 1991 figures have been reclassified to conform with the 1993 presentation.

(c) 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).

12. 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 pulp to NV Koninklijke KNP BT, the sale of containerboard to MacMillan Bathurst, ship charters from Transmacan Limited and the purchase of engineered wood products from Trus Joist MacMillan.

	Year ended December 31		
	1993	1992	1991
		(\$ millions)	
Sales to related parties	\$ 72.2	\$ 68.7	\$ 85.4
Purchases from related parties	\$178.2	\$102.9	\$ 12.3
		December 31	
		1993	1992
		(\$ millions)	
Accounts receivable from related parties		\$ 41.4	\$ 31.0

1992 and 1991 figures have been restated to conform with the 1993 presentation.

13. Pension plans:

Consolidated summary of MacMillan Bloedel sponsored pension plans:

	December 31		
	1993	1992	1991
		(\$ millions)	
Obligations for pension benefits	\$606.4	\$557.7	\$517.6
Pension fund assets at market related values	490.8	461.2	435.3
Excess of obligations over fund assets	115.6	96.5	82.3
Provisions	64.3	62.0	50.9
Excess of obligations over provision and fund assets	\$ 51.3	\$ 34.5	\$ 31.4

All the salaried employees are eligible to be members of company sponsored plans. Salaried pension plan amendments in 1992 and changes in assumptions in 1993 cost \$13.7 and \$20.0 million respectively. These costs 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.

14. Countervailing duty:

Countervailing duty of \$15.0 million has been expensed by the Company.

During 1992 the United States Department of Commerce and the International Trade Commission imposed a countervailing duty rate of 6.51% on certain softwood lumber exports from Canada. A binational panel convened under the United States-Canada Free Trade Agreement Implementation Act overruled a U.S. determination that Canadian lumber imports were unfairly subsidized and damaged United States producers and remanded the case to United States Government agencies for redetermination.

The United States has until about March 21, 1994 to challenge this ruling and a final determination is expected in mid-1994. The Company expects to recover the \$15.0 million.

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

The balance sheet captions listed below are specifically shown for compliance with requirements of the United States Securities and Exchange Commission (SEC):

	December 31	
	1993	1992
	(\$ millions)	
Total assets	\$4,204.2	\$3,899.6
Current assets	1,465.9	1,193.0
Current liabilities	611.0	460.8

The SEC requires that redeemable preferred shares not be shown as part of shareholders' equity. Accordingly, under SEC requirements shareholders' equity would be:

	December 31	
	1993	1992
	(\$ millions)	
Common shares	\$ 990.6	\$ 755.2
Retained earnings — U.S. GAAP	654.0	674.4
	1,644.6	1,429.6
Foreign exchange translation adjustment	(82.3)	(71.1)
	<u>\$1,562.3</u>	<u>\$1,358.5</u>

The Company's obligations for post-retirement benefits and deferred income tax calculated under U.S. GAAP is disclosed below. Net earnings would be decreased by \$3.9 million net of income tax in 1993 (1992 — \$3.4 million) for post-retirement benefits and increased by \$3.6 million (1992 — \$1.1 million reduction) for the effect of income tax calculated under U.S. GAAP. At December 31, 1991 the Company's accounting adjustment for post-retirement benefits would have increased the 1991 loss by \$37.6 million after tax.

	December 31	
	1993	1992
	(\$ millions)	
Post-retirement benefits obligations	<u>\$ 64.7</u>	<u>\$ 66.2</u>
Deferred income taxes	<u>\$ 169.0</u>	<u>\$ 179.7</u>

There is no fund established for post-retirement benefits and the Company intends to continue to expense on a current basis.

Fair value of financial instruments —

The estimated fair value of the Company's financial instruments, primarily long term debt, bonds and debentures, as at December 31, 1993, based on market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities, was approximately \$89 million higher (1992 — \$40 million lower) than carrying value. This difference occurred primarily because of recent declines in interest rates. The fair value of the Company's foreign exchange contracts as at December 31, 1993, based on currently available forward rates, approximated contract value (1992 — \$10.5 million lower).

16. Segment information:

	Total revenue	Contributions to earnings (1) (2)	Depreciation, depletion and amortization (\$ millions)	Capital expenditures	Assets
Year ended December 31, 1993					
Building materials	\$2,504.6	\$ 333.0	\$ 55.7	\$ 43.2	\$1,312.6
Pulp and paper	877.0	(126.2)	88.6	80.4	1,234.3
Containerboard and packaging	531.9	(21.5)	37.7	37.5	597.4
Other	60.3	2.4	1.4	.2	12.8
Inter-segment	(211.8)	(7.2)			14.7
Total operations	3,762.0	180.5	183.4	161.3	3,171.8
General corporate		26.0	8.2	4.4	1,032.4
Interest expense		(146.9)			
Consolidated totals	<u>\$3,762.0</u>	<u>\$ 59.6</u>	<u>\$191.6</u>	<u>\$165.7</u>	<u>\$4,204.2</u>
Year ended December 31, 1992					
Building materials	\$1,841.0	\$ 156.2	\$ 59.1	\$ 26.9	\$1,122.3
Pulp and paper	819.1	(76.6)	67.3	163.8	1,291.7
Containerboard and packaging	514.3	(2.9)	34.9	30.7	572.6
Other	57.7	7.0	1.4	—	13.9
Inter-segment	(192.8)	7.5			7.5
Total operations	3,039.3	91.2	162.7	221.4	3,008.0
General corporate		(15.3)	7.7	5.6	891.6
Interest expense		(136.6)			
Consolidated totals	<u>\$3,039.3</u>	<u>\$ (60.7)</u>	<u>\$170.4</u>	<u>\$227.0</u>	<u>\$3,899.6</u>
Year ended December 31, 1991					
Building materials	\$1,522.1	\$ (41.7)	\$ 60.1	\$ 76.3	\$1,034.2
Pulp and paper	928.7	(11.4)	57.0	110.0	1,191.2
Containerboard and packaging	406.0	(16.0)	29.9	43.0	503.0
Other	68.1	4.9	1.5	.2	33.5
Inter-segment	(198.7)	(2.4)			15.0
Total operations	2,726.2	(66.6)	148.5	229.5	2,776.9
General corporate		(62.6)	8.1	11.6	1,045.5
Interest expense		(109.7)			
Consolidated totals	<u>\$2,726.2</u>	<u>\$ (238.9)</u>	<u>\$156.6</u>	<u>\$241.1</u>	<u>\$3,822.4</u>

Notes:

(1) Basis of segmentation

MacMillan Bloedel carries on an integrated forest products business which involves extensive transfers of raw materials and products among operations. Accordingly, segmenting of the business by product and service categories involves allocating conversion and other costs and establishing transfer pricing policies for joint raw materials and other products. Under the policy followed by MacMillan Bloedel, inter-segment transfers of products, including logs and wood chips transferred from the building materials segment to the pulp and paper segment, are made at market values. Costs are allocated on a basis which MacMillan Bloedel believes to be reasonable. Other pricing policies and methods of allocating costs are possible.

(2) Contributions to earnings

Contributions to earnings represent sales of products and services less cost of sales and services, selling expenses and allocated general and administrative expenses.

(3) Sales of products and services

1993 sales of the building materials segment include the proceeds of log sales. Sales of the building materials segment include the proceeds of logs and chips transferred to the pulp and paper segment.

(4) Certain 1992 and 1991 figures have been restated to conform with the 1993 presentation.

	Sales originating in Canada	Sales to unaffiliated customers from	Contributions to operating earnings (2)	Assets
	(\$ millions)			
Year ended December 31, 1993				
Canada	\$ 904.2	\$1,572.2	\$ 157.8	\$1,944.6
United States	563.8	1,720.8	19.4	1,049.6
Europe	241.2	78.0	.2	30.6
Japan and other	737.8	391.0	8.6	195.8
	<u>2,447.0</u>	<u>3,762.0</u>	<u>186.0</u>	<u>3,220.6</u>
Eliminations and adjustments:				
Inter-segment			(5.5)	(48.8)
General corporate			26.0	1,032.4
Interest expense			(146.9)	
Consolidated totals	<u>\$2,447.0</u>	<u>\$3,762.0</u>	<u>\$ 59.6</u>	<u>\$4,204.2</u>
Year ended December 31, 1992				
Canada	\$ 627.7	\$1,275.2	\$ 69.3	\$1,878.2
United States	519.5	1,392.8	28.8	976.1
Europe	243.2	75.5	(.3)	33.1
Japan and other	626.2	295.8	15.1	163.9
	<u>2,016.6</u>	<u>3,039.3</u>	<u>112.9</u>	<u>3,051.3</u>
Eliminations and adjustments:				
Inter-segment			(21.7)	(43.3)
General corporate			(15.3)	891.6
Interest expense			(136.6)	
Consolidated totals	<u>\$2,016.6</u>	<u>\$3,039.3</u>	<u>\$ (60.7)</u>	<u>\$3,899.6</u>
Year ended December 31, 1991				
Canada	\$ 538.9	\$1,207.7	\$ (46.7)	\$1,811.6
United States	606.4	1,197.2	(22.9)	852.7
Europe	292.0	95.3	.5	31.0
Japan and other	544.6	226.0	9.4	103.2
	<u>1,981.9</u>	<u>2,726.2</u>	<u>(59.7)</u>	<u>2,798.5</u>
Eliminations and adjustments:				
Inter-segment			(6.9)	(21.6)
General corporate			(62.6)	1,045.5
Interest expense			(109.7)	
Consolidated totals	<u>\$1,981.9</u>	<u>\$2,726.2</u>	<u>\$ (238.9)</u>	<u>\$3,822.4</u>

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

British Columbia

Altair Property and Casualty Corporation
Canadian Transport Company
(International) Limited*
Forest Industries Flying Tankers Limited
(57.5% interest)
MacMillan Bloedel Building Limited
MacMillan Bloedel Building Materials Limited
MacMillan Bloedel Parallam Services Limited*
Port Royal Development Limited*
Port Royal Village Developments Inc.*
Vancouver Marine Engines Ltd.
234185 British Columbia Ltd.*
360107 B.C. Limited*
364941 B.C. Limited*
444592 British Columbia Ltd.*

Ontario

MacMillan Bloedel Export Sales Ltd.*

Alabama

MacMillan Bloedel of America Inc.
MacMillan Bloedel Financial Inc.
MacMillan Bloedel Holdings Inc.*
MacMillan Bloedel Inc.
MacMillan Bloedel Particleboard Inc.*
MacMillan Bloedel Radio System, Inc.*
MacMillan Bloedel Timberlands Inc.

Delaware

MacMillan Bloedel (Delaware) Inc.
MacMillan Bloedel (U.S.A.) Inc.
Powell River-Alberni Sales Corporation

Kentucky

MacMillan Bloedel Energy Inc.

Oregon

American Cemwood Corporation (81% interest)
CXC Trucking, Ltd.

Washington

Fibres International, Inc. (51% interest)

Australia

Canadian Transport Company Pty. Limited*
MacMillan Bloedel Pty. Limited

Barbados

Camarin Limited
Canadian Transport Company Limited
MacMillan Bloedel Finance Limited
MacMillan Bloedel FSC Ltd.

England

Hygrade Corrugated Cases Limited*
MacMillan Bloedel Pulp
and Paper Sales Limited

Hong Kong

MacMillan Bloedel (Asia) Limited

Japan

MacMillan Bloedel K.K.

Netherlands

MacMillan Bloedel (Limburg) N.V.

Netherlands Antilles

Canadian Maas River Investment N.V.
MacMillan Bloedel (Curacao) N.V.*
MacMillan Bloedel St. Maarten N.V.

*Inactive



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