MacMillan Bloedel Limited

1983 Annual Report

Regionalization... Moving us closer to our customers

Corporate profile

MacMillan Bloedel is one of North America's largest forest products companies, with integrated operations in Canada and the United States as well as major investments in Canada, the United Kingdom and Continental Europe. The Company manages 1.6 million hectares of productive timberlands which supply approximately 80 percent of its total fibre requirements. Of these timberlands, 1.1 million hectares are in British Columbia where the Company's headquarters and approximately 55 percent of its assets are located. The products of MacMillan Bloedel and its affiliated companies are marketed throughout the world and include lumber, panelboards, kraft pulp, newsprint, groundwood specialty papers, fine papers, containerboard and corrugated containers.

Annual Meeting

The Annual General Meeting of shareholders will be held in the Regency Ballroom of the Hyatt Regency Hotel, 655 Burrard Street, Vancouver, B.C., on Wednesday, April 25, 1984 at 10 a.m. Shareholders are invited to attend this meeting, take part in discussions about the Company, and meet the directors and officers responsible for the operation of MacMillan Bloedel.

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MacMillan Bloedel Limited dup

1075 West Georgia Street,
Vancouver, British Columbia, Canada V6E 3R9

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

To the Shareholders of
MacMillan Bloedel Limited:

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of MacMillan Bloedel Limited will be held in the Regency Ballroom of the Hyatt Regency Hotel, 655 Burrard Street, Vancouver, B.C. on Wednesday, April 25, 1984 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, 1983;
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;
4. To transact any other business that may properly be brought before the meeting.

SPECIAL BUSINESS

AND TAKE NOTICE that at the said meeting the shareholders will be asked to consider and if thought fit to pass, with or without modification, a resolution on the following matter in the form set out in the attached Information Circular:

A) Replacement of the Company's Stock Option Plan for Selected Employees with the 1984 Stock Option and Appreciation Right Plan.

. . . .

Shareholders who are unable to attend the Annual General Meeting in person are invited to complete the enclosed form of proxy and mail it as soon as possible in the envelope provided.

DATED at Vancouver, B.C. the 22nd day of March, 1984.

BY ORDER OF THE BOARD

G. WISHART, FCIS
Secretary

INFORMATION CIRCULAR
DATED AS OF MARCH 22, 1984

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the board of directors of MacMillan Bloedel Limited (the "Company") of proxies for use at the Annual General Meeting of shareholders to be held on Wednesday, April 25, 1984 at the time and place and for the purposes set forth in the notice of the meeting accompanying this information circular.

RECORD DATE AND ADVANCE NOTICE

The record date for determining the names of shareholders entitled to the notice of meeting and this information circular was fixed at the close of business March 7, 1984. At the date of the Annual General Meeting, April 25, 1984, each person who is then entered in the register of members of the Company as a holder of one or more common shares shall be entitled to attend the meeting in person or by proxy and in the event of a poll to cast one vote for each share. Advance notice of the Annual General Meeting was published in Vancouver, British Columbia on February 24, 1984.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy were designated by the directors of the Company. **A shareholder desiring to appoint some other person to represent him at the meeting may do so either by writing such person's name on the form of proxy or by completing another proper form of proxy. A person appointed as proxy need not be a shareholder of the Company.** All completed proxy forms must be deposited with Guaranty Trust Company of Canada, 800 West Pender Street, Vancouver, B.C. or the Secretary of the Company, not less than 24 hours before the time of the meeting.

The form of proxy must be signed by the shareholder or by his attorney authorized in writing, or if the shareholder is a corporation, the form of proxy must be signed by an officer or by the duly authorized attorney of the corporation.

A shareholder who has given a proxy may revoke it at any time before it is exercised. Attendance at the meeting and participation in a poll by a shareholder automatically revokes the proxy.

VOTING BY PROXIES

If a poll is taken, the persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **In the absence of such direction such shares will be voted 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 with respect to amendments of the matters identified in the notice of meeting and any other matters that may properly be brought before the meeting. At the time of printing this information circular, the directors of the Company are not aware that any such amendments or other matters are to be presented for action at the meeting.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Company has outstanding and entitled to be voted at the meeting 26,483,804 common shares, each share carrying the right to one vote. This figure includes warrants for 186 shares.

To the knowledge of the directors and officers of the Company, no person or company owns, directly or indirectly, shares carrying more than 5% of the voting rights attaching to all common shares of the Company entitled to be voted at the meeting except as set out below.

Title of class	Name and address of beneficial holder	Amount beneficially owned	Percentage of class
Common shares	Northwood Mills Ltd., (a subsidiary of Noranda Mines Limited) P.O. Box 45, Commerce Court West, Toronto, Ontario M5L 1B6	13,006,359	49.11

Title of class	Name and address of beneficial holder	Amount beneficially owned	Percentage of class
Common shares	Olympia & York Holdings Corporation 1 First Canadian Place Toronto, Ontario M5X 1B5	1,841,045	6.95

Shares owned beneficially by the directors and officers as a group (other than qualifying shares but including stock options) are as follows:

Title of class	Amount beneficially owned	Percentage of class
Common shares	175,143	*
Preference shares		
Class A	—	—
$2.00 Class B Convertible Preferred shares Series 1	500	*
$2.08 Class B Convertible Preferred shares Series 2	5,200	*
Class B Preferred shares Series 3	—	—
Class B Preferred shares Series 4	—	—
$2.21 Class B Retractable Preferred shares Series 6	—	—

* less than 1%

MANAGEMENT REMUNERATION

(a) **Current cash compensation**

The following table shows cash compensation paid and accrued for services in 1983 for each of the six most highly compensated executive officers of the Company, as well as the cash compensation paid and accrued in 1983 for all officers of the Company as a group:

Cash Compensation Table

Name of individual or number in group	Capacities in which served	Cash compensation
C.C. Knudsen	Vice-Chairman	$ 350,592
R.V. Smith	President and Chief Executive Officer	$ 233,755
D.L. McLauchlin	Executive Vice-President, Operations	$ 159,502
J.H. Lawson	Senior Vice-President, Raw Materials	$ 148,500
J. St.C. Ross	Senior Vice-President, Nanaimo Region	$ 148,500
R.N. Wiewel	Senior Vice-President, Marketing Group	$ 148,500
32 *	All officers as a group (including the six individuals named above)	$3,504,610

* Includes persons who became or ceased to be officers during the year and excludes benefits of $128,591 not available to all employees. The amounts included relate only to the portions of the year during which the officers were actually in office.

(b) **Compensation pursuant to plans**

Remuneration payments proposed to be made in future to the officers listed in Section (a) Current cash compensation are included under (d) and as follows:

(1) Management Incentive Compensation Plan
The Company has adopted a management incentive compensation plan which applies to a number of key employees throughout the Company. The plan provides for the creation of an annual fund equal to 4% of adjusted consolidated net earnings in excess of a percentage (11% in 1983) of the average consolidated capital employed, or as determined by the compensation committee of the board of directors. It also provides for distribution of all or part of that fund to participants according to individual and unit performance without carryover to future years. No amounts were paid during 1983, but $1,126,000 was accrued in 1983 and paid in 1984.

(2) Phantom Stock Plan
The Company has granted certain phantom stock rights to selected members of management. The effective date of issue was January 1, 1983 and the issue price was the closing price of the Company's common shares on the Toronto Stock Exchange on December 31, 1982 (which was $24.00). At any time after January 1, 1984 and before January 1, 1988, participants may elect to receive the difference between the issue price and the price of the Company's common shares on the Toronto Stock Exchange on the date of the election. The phantom stock rights thus granted will be adjusted both as to the number and the issue price of phantom stock units in the event, before January 1, 1988 the Company should subdivide, consolidate, or reclassify the outstanding common shares including the payment of cash and stock dividends on common shares. At the option of the Company, payments to participants may be in the form of cash or common treasury shares. Payments are to be made in cash for rights exercised during 1984. Phantom stock rights as at December 31, 1983 granted to the six officers listed in the Cash Compensation Table were: C.C. Knudsen 8,118 units; R.V. Smith 5,412 units; D.L. McLauchlin 4,330 units; J.H. Lawson 3,247 units; J. St.C. Ross 4,330 units; R.N. Wiewel 4,330 units; all other officers 57,911 units.

(3) Noranda Share Purchase Plan
Noranda Mines Limited has a share purchase plan which is offered by the directors of Noranda Mines Limited to senior employees of subsidiary or affiliated companies, and is intended to provide an opportunity for capital appreciation to key employees. The employees have the opportunity to purchase shares of Noranda Mines Limited, financed by a seven year interest-free recourse loan provided by Noranda Mines Limited, and secured by a promissory note and the shares which are held as collateral. The employee is entitled to receive dividends on the shares, but is not required to apply the dividends to reduce the outstanding loan. The participant may repay the loan at any time within the seven year period and take possession of the pledged shares. Shares currently held by the Company's employees under this plan were issued in 1982. The market price for Noranda Mines Limited's common shares on March 1, 1984 was $23.50 per share.

Common shares of Noranda Mines Limited held by officers as at December 31, 1983 under the Noranda Share Purchase Plan

	Share purchase	Purchase price	Loan outstanding
C.C. Knudsen	2,500	$18.50	$ 46,250
R.V. Smith	2,500	18.50	46,250
D.L. McLauchlin	1,000	18.50	18,500
J.H. Lawson	2,000	18.50	37,000
J. St.C. Ross	2,000	18.50	37,000
R.N. Wiewel	2,000	18.50	37,000
Other officers	26,000	18.50	481,000
	38,000		$703,000

(4) Retirement plans
Of the thirty-two officers covered by the Cash Compensation Table, fourteen including C.C. Knudsen have retirement benefits under service agreements and eighteen have retirement benefits under the Company's

pension plan for salaried employees. The estimated annual benefits payable upon normal retirement to the thirty-two officers with pension arrangements are $1,929,000 based upon remuneration as at December 31, 1983 and assuming that guideline payments are made under the Management Incentive Compensation Plan.

Benefits from service agreements are not reduced by government pension payments.

(i) The service agreement between the Company and C.C. Knudsen provides that on six months' notice he is entitled to retire on an annual pension of 50% of his highest consecutive twelve months' salary and bonus, with a pension for his widow of 50% of his pension. As at December 31, 1983, estimated annual retirement benefits for C.C. Knudsen were $222,000.

(ii) Thirteen other officers have signed service agreements with the Company pursuant to which each agrees to retire at age 65, and the Company agrees to pay him a monthly pension at the rate of 50% of the average monthly salary and applicable bonus in the thirty-six consecutive months during which his salary and applicable bonus was highest and to pay to his widow a pension of 50% of his pension. These service agreements provide for termination prior to age 65 by either party on six months' notice, and under certain circumstances the officers will be entitled to the pension calculated as above, or reduced by a formula based on age and years of service under contract.

As at December 31, 1983, estimated annual retirement benefits were $150,000 for R.V. Smith, $105,000 for D.L. McLauchlin, $81,000 for J.H. Lawson, $81,000 for J. St.C. Ross and $81,000 for R.N. Wiewel.

(iii) Eighteen officers are members of the Company's pension plan for salaried employees under which employees retire at age 65 with a monthly pension amounting to 1.75% for each accredited year of service applied to the average monthly salary and applicable bonus during the sixty consecutive months when the salary and applicable bonus was highest. Widows' benefits are elective and reduce the pension benefits paid to the officers as do certain government pension payments.

The following table sets forth various annual retirement benefits that become payable under the Company's pension plan for salaried employees, excluding officers with service agreements. The benefits include payments under the Canada Pension Plan which are integrated with those under the Company's pension plan. The benefits are subject to withholding tax.

Annual average covered remuneration	Years of service				
	10	15	20	25	30
$ 50,000	$ 8,750	$13,125	$17,500	$21,875	$26,250
$ 75,000	$13,125	$19,688	$26,250	$32,813	$39,375
$100,000	$17,500	$26,250	$35,000	$43,750	$52,500
$125,000	$21,875	$32,813	$43,750	$54,688	$65,625
$150,000	$26,250	$39,375	$52,500	$65,625	$78,750
$175,000	$30,625	$45,937	$61,250	$76,562	$91,875

(c) **Remuneration of directors**

Directors who are not in receipt of salaries as officers of the Company or its subsidiaries are each paid an annual retainer of $8,000 and $500 for each meeting attended. Members of the executive committee who are not in receipt of salaries are each paid an additional retainer of $4,000. Directors acting on other committees of the board are paid $500 for each meeting attended (except for the nominating committee in respect of which no fees are paid). In addition the directors are reimbursed for their reasonable expenses in connection with such meetings. With effect from June 25, 1982 the annual retainer portion of the directors' fees is paid one-half in cash and one-half in common shares of the Company. During 1983, cash compensation paid to directors who are not officers of the Company amounted to $117,500, and 2,026 shares (including stock dividends) were issued to directors as fees.

(d) **Stock option and stock appreciation right plans**

(1) The Company has a stock option plan for selected employees under which options on common shares may be granted to selected key employees. The number of participants in the plan is limited to 150 and the aggregate number of shares in respect of which options may be granted is 200,000 shares. Each option granted shall be for a period not exceeding five years. The price at which each option is issued is at least 90% of the preceding day's

closing price on the Vancouver or Toronto Stock Exchange. If the shareholders adopt the 1984 Stock Option and Stock Appreciation Right Plan additional benefits may be conferred on certain officers.

Name	Options granted 1983 at a price per share of $24.00*	Options exercised 1983	Options relinquished 1983 at $17.92 per share	Options under the plan not exercised as at December 31, 1983 at $16.87 per share**	at $22.17 per share**
C.C. Knudsen	—	—	—	5,631	—
R.V. Smith	—	—	—	2,815	—
D.L. McLauchlin	—	—	—	1,971	—
J.H. Lawson	—	—	—	1,689	—
J. St.C. Ross	—	—	—	1,971	—
R.N. Wiewel	—	—	—	1,971	—
Other officers	—	857***	742	18,571	—
Others	14,000	1,082****	—	16,556	15,154
	14,000	1,939	742	51,175	15,154

* granted on January 1, 1983; during the preceding 30 days the market price ranged between $21.50 and $24.00 per share

** see sub-section (4)

*** 857 shares at $17.90 (market price $30.00) per share

**** 530 shares at $17.92 (market price $30.625) per share and 552 shares at $17.21 (market price $27.625) per share

(2) The Company has a senior management share purchase plan which is intended 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. Between March 1st and June 30th of each year, participants will have the opportunity to buy a specified number of shares at the then current market price on the Toronto Stock Exchange. The number of shares which each participant may buy under the plan depends on the Company's return on investment for the previous year, the participant's salary during such year and the share price. The purchase is financed by a ten year non-recourse interest-free loan granted to the participant by the Company, secured by a pledge of the shares. Cash dividends on the pledged shares are applied to reduce the loan. At any time within the ten year period the participant may repay the loan and take possession of the pledged shares. No shares are allocable under the plan in 1984 with respect to 1983.

Common shares held as at December 31, 1983 under the Senior Management Share Purchase Plan:

	Share balance	Loan outstanding*
C.C. Knudsen	5,612	$ 208,611
R.V. Smith	2,333	86,736
D.L. McLauchlin	1,971	73,279
J.H. Lawson	2,061	76,636
J. St.C. Ross	2,045	76,026
R.N. Wiewel	1,851	68,846
Other officers	14,195	528,457
Others	5,212	194,066
	35,280	$1,312,657

* These loans are non-recourse loans except in the case of C.C. Knudsen. The original loans have been reduced by cash dividends received.

(3) Two option agreements are outstanding outside the terms of the stock option plan:

a) Option in favour of C.C. Knudsen in the amount of 56,568 common shares as at December 31, 1983 at an exercise price of $17.40 per share and expiring August 31, 1986.

b) Option in favour of an officer of a foreign partly-owned company in the amount of 1,131 shares as at December 31, 1983 at an exercise price of $37.65 per share and expiring June 24, 1991.

The market price for the Company's common shares on March 1, 1984 was $31.625 per share.

(4) Stock option agreements include a provision whereby an adjustment will be made in the number of shares subject to option and in the purchase price per share, in the event the Company shall, prior to the termination of the option, subdivide, consolidate or reclassify the outstanding shares of the Company, including payment of a stock dividend on common shares.

(e) **Indebtedness of management**

The Company has assisted an officer with the purchase of his home by granting an interest free loan:

Name	Highest amount outstanding in the last fiscal year	Amount outstanding March 1, 1984
S.W. Forstrom	$10,500	$3,500

(f) **Transactions with management**

As at December 31, 1983 Island Paper Mills Limited and Fraser Island Holdings Limited of which J.P. Fisher is an executive officer were indebted to the Company for $5,797,000 and $11,987,000 respectively; MacMillan Bathurst Inc. of which D.L. McLauchlin is an executive officer was indebted to the Company for $846,000; MacMillan Smurfit SCA Limited of which C.C. Knudsen is an executive officer was indebted to a subsidiary of the Company for £ 9,761,000. The Company owns 50% of Island Paper Mills Limited and MacMillan Bathurst Inc. and, indirectly through subsidiaries, 50% of MacMillan Smurfit SCA Limited, the other 50% being owned by third party corporate joint venturers.

In the ordinary course of business, the Company has transactions with various companies and firms of which certain of its directors are officers or directors. None of these transactions, however, has 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 McMillan, Binch, a law firm of which the Honourable J.N. Turner, P.C., Q.C. is a partner. Transactions with related parties are disclosed in the financial statements.

DIRECTORS' MEETINGS

The board of directors of the Company consists of thirteen members, presently made up of three officers of the Company and ten directors who are not officers of the Company.

The board appoints from among its members committees with responsibility to perform specific functions. These committees include an executive committee, an audit committee, a compensation committee, and a nominating committee. A summary of the functions of these committees and the number of meetings held during 1983 is as follows.

The executive committee, during the intervals between the meetings of the board, possesses and may exercise, subject to any restrictions imposed by the board or by law, all the powers of the board in the management of the business of the Company. In addition to individual consultations with the chairman, eight meetings were held during 1983.

The audit committee assists the board in fulfilling its responsibilities relating to financial accounting and reporting practices; reviews any financial statement to be included in any prospectus or to be presented at an annual general meeting; considers the report of the external auditors, assesses the adequacy of the internal and external audit procedures; examines the fees and expenses for both audit and non-audit services; recommends to the board a firm of independent auditors for appointment by the shareholders; and receives and reviews at least annually the chief executive officer's certificate under the Company's code of corporate behaviour. Three meetings were held during 1983.

The compensation committee determines, within the framework of the basic compensation policy established by the board, the salary scales and general salary structures, fixes the salaries of the chairman, vice-chairman and president and on the recommendation of the chief executive officer approves the salaries of all officers of the Company. It also oversees the administration of the Company's benefit programs for salaried employees, the employee share purchase plan, stock option plan, pension plan, management incentive compensation plan, senior management share purchase plan and phantom stock plan. Six meetings were held during 1983.

The nominating committee recommends to the board the size and composition of the board and the names of persons to be nominated as directors for the ensuing year or to fill casual vacancies as they occur during the year. One meeting was held during 1983. The advance notice of the Annual General Meeting to be held on Wednesday, April 25, 1984, which was published on February 24, 1984, included an invitation for written nominations signed by members holding in the aggregate not less than ten percent of the Company's common shares for inclusion in this information circular. No such nominations had been received by March 20, 1984.

The board of directors held nine meetings during 1983. Each present director attended seventy-five percent or more of the aggregate of the total number of meetings of the board of directors (held during the period the director acted) and the total number of meetings held by all committees of the board on which the director served (during the period served) except as follows: J.N. Turner, who attended four out of nine meetings and C.B. Wright, who attended five out of eighteen meetings. Directors who were unable to attend or participate in meetings held by conference telephone, were informed of the matters to be discussed and had an opportunity to express their views and to review the minutes of the meetings.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy will, unless otherwise directed, vote for the re-appointment of Price Waterhouse as auditors of the Company for the ensuing year, with authority to the directors to set their fees. Representatives of this firm will be present at the Annual General Meeting to respond to questions asked at the meeting.

COST OF SOLICITATION

This solicitation is being made by mail and the cost will be borne by the Company. Shareholder Communications Corporation was retained to assist the Company in the solicitation of proxies in the United States at a fee of approximately U.S. $2,500.

VOTES REQUIRED FOR RESOLUTIONS

The resolutions to be presented at the meeting other than Special Business are ordinary resolutions which require the affirmative votes of the holders of a majority of the shares represented in person or by proxy.

The resolution relating to Special Business requires the affirmative votes of a majority of the holders of the shares entitled to vote at the meeting.

ANNUAL GENERAL MEETING IN 1985

Proposals of shareholders intended to be presented at the Annual General Meeting to be held in 1985 must be received by the Company for inclusion in the information circular for that meeting by December 15, 1984.

ELECTION OF DIRECTORS

The persons named in the enclosed form of proxy intend, unless otherwise directed, 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, proxies may be voted for a smaller board at the discretion of the person exercising the proxy vote.

Each director elected will hold office until the conclusion of the next Annual General Meeting, unless his office is earlier vacated in accordance with the Articles of the Company.

INFORMATION CONCERNING NOMINEES

Name and country of ordinary residence	Principal present occupation and employment of such nominee during the past five years	Age at March 1 1984	Director since	Shares held*
E.K. Cork Toronto, Canada	Senior Vice-President-Treasurer, Noranda Mines Limited (mining and metallurgy, manufacturing, forest products, oil and gas exploration) since 1980; prior to which he was Vice-President-Treasurer of that company. (Notes 2 and 4)	51	1981	796
D.C. Davenport Vancouver, Canada	Partner — Bourne, Lyall, Davenport & Herbert (barristers and solicitors). (Note 1 as alternate for A. Powis and Notes 2 and 4)	51	1981	584

Name and country of ordinary residence	Principal present occupation and employment of such nominee during the past five years	Age at March 1 1984	Director since	Shares held*
J.P. Fisher Edmundston, Canada	Chairman and Chief Executive Officer, Fraser Inc. since 1982; prior to which he was President of that company and its predecessor Fraser Companies, Limited (manufacture of pulp, lumber and fine papers). (Note 1 as alternate for A.H. Zimmerman and Note 4)	56	1981	796
R.E. Harrison Toronto, Canada	Chairman and Chief Executive Officer, Canadian Imperial Bank of Commerce. (Notes 3 and 4)	62	1981	796
G.H.D. Hobbs Vancouver, Canada	Corporate Director since 1980; prior to which he was Chairman, Cominco Ltd. (mining and refining of base metals and manufacturing of chemicals and fertilizers). (Notes 1, 2, 3, 4 and 5)	62	1972	2,042
C.C. Knudsen Seattle, U.S.A.	Vice-Chairman of the Board since 1983, prior to which he was Chairman and Chief Executive Officer since 1980; prior to which he was President and Chief Executive Officer of the Company. (Notes 1, 3 and 4)	60	1976	9,610
Dr. K.G. Pedersen Vancouver, Canada	President of The University of British Columbia since 1983; prior to which he was President of Simon Fraser University.	52	—	—
A. Powis Toronto, Canada	Chairman and Chief Executive Officer, Noranda Mines Limited since 1982; prior to which he was Chairman and President of that company (mining and metallurgy, manufacturing, forest products, oil and gas exploration). (Notes 1 and 4)	53	1981	913
R.V. Smith West Vancouver, Canada	President and Chief Executive Officer since 1983; prior to which he was President and Chief Operating Officer since 1980; prior to which he was Senior Vice-President, Pulp and Paper of the Company. (Notes 1, 3 and 4)	57	1980	5,013
Jean M. Southam Vancouver, Canada	Private Investor; Member, Board of Trustees, Lester B. Pearson College of the Pacific; Governor, Vancouver Public Aquarium; Member of the Board, H.R. MacMillan Planetarium and Gordon M. Southam Observatory. (Notes 4 and 6)	68	1981	17,843
G.M. Tidball Langley, Canada	President and Chief Executive Officer of Keg Restaurants Ltd. (food services).	53	—	—
The Honourable J.N. Turner, P.C., Q.C. Toronto, Canada	Partner, McMillan, Binch (barristers & solicitors). (Note 4)	54	1976	796

Name and country of ordinary residence	Principal present occupation and employment of such nominee during the past five years	Age at March 1 1984	Director since	Shares held*
A.H. Zimmerman Toronto, Canada	Chairman of the Board since 1983; prior to which he was Vice-Chairman of the Board of the Company since 1981; President and Chief Operating Officer, Noranda Mines Limited since 1982; prior to which he was Executive Vice-President of that company (mining and metallurgy, manufacturing, forest products, oil and gas exploration). (Notes 1, 3 and 4)	57	1981	1,476

* This column shows the number of common shares, as reported to the Company, held beneficially by each of the nominees, including 500 qualifying shares held by each nominee. The percentage of shares other than qualifying shares held by each nominee is in no case greater than .1 percent.

Note:
1) Member of the Executive Committee
2) Member of the Audit Committee
3) Member of the Compensation Committee
4) Member of the Nominating Committee
5) Member of Pension Fund Investment Advisory Committee
6) Member of Donations Committee

In addition, the directors listed below hold directorships in other reporting companies i.e. 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 an investment company under the United States Investment Company Act of 1940:

R.E. Harrison	Trans Canada Pipelines Limited (oil and gas transmission, exploration and production) Falconbridge Nickel Mines Limited (mining and metals production) Campbell Soup Company (food products)
G.H.D. Hobbs	Suncor Inc. (oil and gas exploration, production and distribution) British Columbia Telephone Company (utilities)
C.C. Knudsen	Cascade Corporation (components for heavy industrial equipment) Castle and Cooke Inc. (food products) Rainier Bancorporation (bank holding) Rainier National Bank (banking) Safeco Corporation (insurance)
A. Powis	Gulf Canada Ltd. (exploration, production, refining and distribution of petroleum products) Placer Development Ltd. (mining, oil and gas)
The Honourable J.N. Turner, P.C., Q.C.	Canadian Pacific Limited (transportation, natural resources development and manufacturing) The Seagram Company Limited (distilled spirits and wines) Massey-Ferguson Limited (farm and industrial machinery and diesel engines)
A.H. Zimmerman	Placer Development Ltd. (mining, oil and gas)

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SPECIAL BUSINESS

The Stock Option Plan for Selected Employees (the "Plan") was originally authorized by the shareholders on April 27, 1965. The Plan authorizes the directors to grant options on a maximum aggregate of 200,000 common shares to employees they select. Since 1965 the directors have granted a number of options to employees who have exercised options in respect of 38,900 shares and who as at December 31, 1983 held options on an additional 51,175 shares, leaving approximately 100,000 shares available for further options. Since 1965 a number of changes have been made to securities and tax laws that apply to employee options, making revision desirable at this time. The directors of the Company have broad powers to amend the Plan, but recent case law developments in the United States require shareholder approval of certain amendments before options granted pursuant to the amendments can qualify for exemption from the special six-month insider trading provisions of the United States securities laws.

The amendments now proposed are mere technical amendments that would have been made by the directors in the absence of those legal constraints. Since the amendments are numerous, the Plan has been rewritten. The proposed amendments do not impose any additional cost on the Company and do not confer any advantage on any class of optionees relative to other optionees. The number of shares available to be granted under options is not proposed to be increased. Options outstanding under the Plan will be deemed to be outstanding under the revised plan.

Three specific amendments are incorporated in the proposed revision: (1) to clarify the powers of the directors to grant options that qualify for special treatment under the present United States tax laws and the proposed Canadian tax laws; (2) to authorize the directors at their discretion to grant to optionees stock appreciation rights, which permit surrender of appreciation rights for cash under circumstances whereby the surrendering optionee will qualify for an exemption from the special six-month insider trading provisions of the U.S. Securities Exchange Act of 1934; and (3) to authorize the directors to accept shares owned by an optionee at market price in exchange for shares at the option price so as to enable him to exercise his option without having to finance the transaction with cash during the six-month mandatory holding period.

> RESOLVED THAT the shareholders approve the Company's stock option plan on the terms set out in the Schedule below and that any options outstanding under the stock option plan be deemed to be outstanding under the stock option plan as so amended.

SCHEDULE

1984 Stock Option and Stock Appreciation Right Plan

1.00 **Purpose and Definitions**

1.01 The primary purpose of the Plan is to advance the interests of the Company and its shareholders by affording selected employees, upon whose judgment, initiative and efforts the Company is largely dependent for its progress, an opportunity to acquire or increase their proprietary interest in the success of the Company and to encourage them to remain in the employ of the Company or one of its Subsidiaries.

1.02 Without derogating from any other compensation program approved by the Board or shareholders of the Company, the Board may authorize the Committee to grant stock options or stock appreciation rights to employees it may select under the Plan. The Committee may grant options under the Plan in the form of

- (a) Incentive Stock Options, or
- (b) non-statutory stock options that do not qualify as Incentive Stock Options.

1.03 In the Plan

- (a) "Board" means the board of directors of the Company;
- (b) "Code" means the United States Internal Revenue Code of 1954;
- (c) "Committee" means the committee appointed by the Board to administer the Plan;
- (d) "Company" means MacMillan Bloedel Limited;
- (e) "Incentive Stock Option" means an option that qualifies under §422A of the Code;
- (f) "Plan" means the 1984 Stock Option and Stock Appreciation Right hereby constituted;

(g) "Shares" means common shares of the Company;

(h) "SAR" means a stock appreciation right referred to in Part 6.00;

(i) "Securities Exchange Act" means the U.S. Securities Exchange Act of 1934; and

(j) "Subsidiary" means any company 50% or more of the shares of which are owned by or which is effectively controlled by the Company.

2.00 **Administration of the Plan**

2.01 The Committee, which is to consist of three or more members each of whom is a "disinterested person" within the meaning of Rule 16b-3 under the Securities Exchange Act, is authorized to administer the Plan.

2.02 A person who is a member of the Committee is not eligible to be granted an option or SAR under the Plan or any other plan of the Company or any of its Subsidiaries that entitle a participant to acquire shares, options or SARs of the Company or any of its Subsidiaries.

2.03 Subject to the control of the Board, the Committee may

(a) select employees who are eligible under Part 3.00, up to a maximum of 150 employees, to be granted options and SARs under the Plan;

(b) subject to §4.01, grant options with or without related SARs in respect of any specific number of shares to each selected employee and establish the terms pursuant to which options or SARs are to be granted and to be made exercisable;

(c) designate any options as Incentive Stock Options or as non-statutory options;

(d) interpret the Plan; and

(e) make all determinations in connection with the grant of options and SARs and the administration of the Plan.

3.00 **Eligible Employees**

3.01 The Committee may determine each employee of the Company or any of its Subsidiaries who is eligible to acquire options and SARs under the Plan by reason that the employee, in the opinion of the Committee, is or gives promise of becoming of exceptional importance to the Company because of his experience and ability.

3.02 A person, including a director of the Company or any of its Subsidiaries, is not eligible to participate in the Plan unless he is a full time employee of the Company or one of its Subsidiaries.

3.03 "Full time employee" includes any employee of the Company or any of its Subsidiaries who is on leave of absence or sick leave but does not include any temporary employee or any person employed on a part time basis.

4.00 **Shares**

4.01 Subject to §4.02, the aggregate number of Shares in respect of which options or SARs may be outstanding under the Plan is 200,000 authorized and unissued Shares.

4.02 The Committee may increase the aggregate number of Shares referred to in §4.01 in accordance with any adjustment made under Part 9.00.

4.03 Shares subject to options that terminate or expire or that are voluntarily surrendered before exercise and shares subject to options granted under a predecessor plan that are exchanged for options under the Plan are to be added back to the aggregate number of Shares referred to in §4.01.

4.04 Shares represented by an unexercised option that is surrendered on exercise of a SAR, including without duplication any Shares issued in payment of any SAR, are to be deducted from the aggregate number of Shares referred to in §4.01.

4.05 Each option granted under the Plan is subject to the requirement that, if at any time the Board or the Committee determines that the listing, registration or qualification of the Shares subject to the option on any securities exchange or compliance with any law or the consent of any government agency or any investment or other representation is necessary or desirable in connection with the issue or purchase of Shares subject to the option, the option and any related SAR may not be exercised in whole or in part until after such listing, registration, qualification, consent, approval or representation has been effected or obtained free of any conditions unacceptable to the Board or the Committee.

4.06 The Board or Committee may require as a pre-condition to exercise of an option or SAR that the optionee deliver an investment letter to the Company.

5.00 Option Terms

5.01 (1) The Committee may determine and fix

(a) subject to §4.01, the number of shares to be granted each optionee under an option granted pursuant to the Plan,

(b) subject to §5.01(2), the period for exercise of each such option and any related SAR, and

(c) subject to §5.02, the price of each Share under each such option and any related SAR.

(2) Each option the Commitee grants under the Plan is to be

(a) for a period not exceeding five years from the date of grant of the option,

(b) evidenced by a written agreement between the Company and the optionee, and

(c) subject to the terms set out in the Plan.

5.02 (1) The Committee shall not fix the option price of a Share under

(a) an Incentive Stock Option at less than 100% of the fair market value of a Share on the date of grant of such option, and

(b) a non-statutory stock option that is not an Incentive Stock Option at less than 50% of the fair market value of a Share on the date of grant of such option.

(2) The Committee shall determine fair market value in accordance with any reasonable valuation method it establishes.

5.03 (1) Before its termination, an option may be exercised by the optionee or in case of his death or incapacity by his legal representative at any time and for the number of Shares specified in the option agreement by giving written notice of exercise to the Company, which specifies the number of Shares to be purchased and which is accompanied by full payment of the option price for those Shares.

(2) The Committee may grant an option exercisable in installments that may be exercised in part from time to time after they become exercisable. The Committee may accelerate the maturity of any installment or installments. An optionee has no right to exercise an option to acquire a fraction of a Share.

5.04 (1) Where an option granted under the Plan has not been exercised, it terminates on the earlier of

(a) the termination date stipulated in the option agreement, and

(b) if before that stipulated date the optionee ceases to be a full time employee of the Company or any of its Subsidiaries because of his voluntary resignation or discharge for cause, on the effective date of such resignation or discharge.

(2) If an optionee ceases to be a full time employee of the Company or any of its Subsidiaries because of his death or retirement with the consent of the Company, the option granted to him terminates on the earliest of

(a) twelve months after his death,

(b) twelve months after such retirement, and

(c) the termination date stipulated in the option agreement.

5.05 (1) The Board or the Committee may delay the actual issue of Shares to any optionee who has exercised an option or SAR granted under the Plan for a period not to exceed 90 days after such exercise.

(2) An optionee has no right to become a holder of record of any Shares in respect of which he has exercised his option or SAR until after the date when the Shares are actually issued to him.

5.06 The Committee may stipulate in an option agreement any other terms that are not inconsistent with the Plan.

5.07 (1) An optionee has no right to exercise an option that is an Incentive Stock Option while there is "outstanding" (within the meaning of §422A(c)(7) of the Code) any Incentive Stock Option previously granted to such participant to purchase Shares or to acquire shares of a parent or a Subsidiary of the Company or a predecessor of any such corporation.

(2) Nothing contained in the Plan or in any option or SAR granted pursuant to the Plan confers on a participant any right to be continued in the employ of the Company or any of its Subsidiaries.

(3) The Committee shall not grant any Incentive Stock Option during a calendar year to a participant under the Plan if the aggregate fair market value (as of the time the option is granted) of the Shares covered by all Incentive Stock Options granted to such participant in that calendar year under the Plan and any other plan of the Company or any of its Subsidiaries exceeds the sum of

(a) $100,000, and

(b) the optionee's unused "limited carryover" as defined in §422A(c)(4) of the Code.

6.00 **Stock Appreciation Rights (SARs)**

6.01 (1) The Committee may grant SARs in connection with any stock option granted pursuant to the Plan at the time of grant of the option or at any subsequent time. The Committee may determine the form of SARs granted under the Plan, but all such SARs are subject to the terms set out in this Part 6.00.

(2) The Committee shall not grant any SAR that entitles the holder to surrender his option rights for cash. Such holder may surrender his option rights for cash only with the previous consent of the Committee. The Committee may delegate to an officer of the Company authority to give such consent.

6.02 The number of Shares covered by a grant of SARs shall not exceed the number of Shares the grantee may purchase by exercise of the stock option with respect to which the SAR is granted.

6.03 A SAR is exercisable at such times and in such amounts as the stock option in connection with which the SAR is granted, except that if a SAR is granted to a person subject to §16(b) of the United States Securities Exchange Act of 1934 in respect of the Company,

(a) such SAR and the option in connection with which it was granted are not exercisable during the first six months of their term (except that the limitation does not apply in the event the grantee dies before the six month period expires), and

(b) the optionee may give notice of exercise of such SAR only during the period beginning on the third business day following the release of the Company's quarterly or annual summary of sales and earnings and ending on the 12th business day after such release unless the Committee has previously consented to giving notice of exercise at another time.

6.04 The holder of a SAR is entitled to surrender to the Company the unexercised stock option in connection with which a SAR is granted, or any portion thereof, and receive from the Company in exchange therefor an amount equal to the amount, if any, by which the aggregate fair market value of the Shares covered by the surrendered option at the exercise date exceeds the aggregate option exercise price of those Shares. On exercise of the SAR, the Company shall pay to the holder the appropriate amount

(a) in Shares valued at fair market value,

(b) in cash, or

(c) partly in shares and partly in cash

as the Committee may determine. The Committee may determine fair market value in accordance with any reasonable valuation method it establishes.

6.05 (1) A holder of a SAR may exercise his SAR by delivering written notice to the Company stating the number of Shares with respect to which the SAR is being exercised.

(2) The Committee may not issue fractional shares in connection with the exercise of a SAR but instead shall pay cash for any fraction of a Share.

7.00 **Payment for Shares (including "Pyramiding")**

7.01 On the exercise of an option, the optionee may pay the option exercise price in cash, Shares valued by the Committee at fair market value, or a combination of cash and shares. The Committee shall determine fair market value in accordance with any reasonable valuation method it establishes.

7.02 If the fair market value of the Shares delivered in exchange under §7.01 exceeds the aggregate option price of the Shares being acquired, the Company shall pay to the optionee cash in an amount equal to the fair market value of the fractional portion of any Shares so delivered and not applied by the Company in payment of the aggregate option price and a share certificate for any whole shares not required to be applied by the Company in payment of the aggregate option price.

8.00 **Non-Assignability**

8.01 An optionee has no right to transfer his rights under an option or a related SAR except in case of his death or incapacity. An option is exercisable by the optionee or, in case of the optionee's death or incapacity, by his legal representative on submitting proof of the facts of such death or incapacity and compliance with the terms of the option agreement.

9.00 **Adjustments**

9.01 If before the exercise or termination of an option the Company subdivides, consolidates or reclassifies outstanding Shares or pays any stock dividends in Shares, the Committee shall make an appropriate adjustment of the number of Shares subject to each option and to the purchase price per share so that the rights of an optionee under an option are not diluted. A decision by the Committee with respect to such adjustment is binding for all purposes of the Plan including all options then outstanding.

10.00 **Mergers**

10.01 (1) Each option granted under the Plan automatically terminates on

(a) dissolution or liquidation of the Company, or

(b) amalgamation of the Company with any other corporation, other than a wholly-owned subsidiary, where the Company is not the surviving corporation.

(2) Before the Company is dissolved, liquidated or amalgamated with another corporation, the Committee shall grant each optionee the right to exercise his option before such dissolution, liquidation or amalgamation, notwithstanding any limitation contained in the option agreement that would otherwise prevent the option from being exercised in whole or in part during any period of its term.

(3) If an optionee does not exercise his rights under this §10.01, the optionee has no right to receive any share of any other corporation with which the Company has been amalgamated.

11.00 **Amendment**

11.01 The Board may from time to time amend the Plan but, except with respect to dilution adjustments or other adjustments relating to an amalgamation, may not without the approval of the shareholders

(a) increase the aggregate number of Shares available for options and SARs under the Plan,

(b) change the price at which options and SARs may be exercised, or

(c) extend the maximum period during which an option or SAR may be exercised.

12.00 **Exchange of Options**

12.01 The Committee may by written agreement accept from an optionee any option previously granted by the Company that he holds, whether granted under a predecessor plan or otherwise, in exchange for an option or SARs or both granted under the Plan, subject to the condition that the option or SARs or both granted under the Plan do not increase the aggregate number or reduce the option price of Shares with respect to which the optionee has an option at the time of such exchange.

13.00 **Issue of Shares**

13.01 Subject to the limits set out in Part 4.00 of the Plan, where an optionee exercises an option or a SAR granted hereunder the Company may issue the specified number of Shares to the optionee without further reference to the Board.

14.00 **Termination of Plan ("Sunset")**

14.01 The Plan terminates on December 31, 1989 unless sooner terminated by resolution of the Board. The Committee shall not grant any option or SAR hereunder after termination of the Plan, but such termination does not affect the validity of any option or SAR then outstanding.

15.00 **Approval of Plan**

15.01 The Plan was adopted by the Board on .... subject to approval by the shareholders of the Company and was approved by the shareholders of the Company on ...., which was their first annual meeting held after adoption of the Plan by the Board.

Printed in Canada

	1983	1982
Financial results *($ millions)*		
Sales	**2,044.1**	1,843.1
Operating earnings (loss)	**40.5**	(66.8)
Earnings (loss) before extraordinary items	**2.8**	(93.3)
Net earnings (loss) after extraordinary items	**23.9**	(57.3)
Funds generated by operations	**54.9**	125.9
Return on invested capital (Note 2)	**3.1%**	(5.8)%
Return on common shareholders' equity (Note 3)	**.6%**	(10.8)%
Per Common Share *($ per common share)*		
Loss before extraordinary items and after preferred dividends	**(.66)**	(4.65)
Net earnings (loss) after extraordinary items and preferred dividends	**.16**	(3.17)
Funds generated by operations	**2.14**	5.17
Cash dividends	**—**	.09
Stock dividends	**2.11**	.82
Book value (year end)	**27.94**	27.53
Assets *($ millions)*		
Capital expenditures	**103.6**	206.8
Total assets (year end)	**2,118.8**	2,150.4
Invested capital (year end) (Note 1)	**1,850.1**	1,889.3
Additional information		
Debt to invested capital (year end)	**41.8%**	45.8%
Common shareholders of record (year end)	**10,319**	10,685
Common shares outstanding (year end)	**26,448,029**	22,612,501
Number of employees (year end)	**15,472**	18,581
Employee compensation ($ millions)	**601.8**	613.8

NOTES:

1. *"Invested capital" is defined as the sum of interest-bearing debt, deferred income taxes, minority interests, preferred share capital, and common shareholders' equity including retained earnings.*
2. *"Return on invested capital" is defined as net operating profit after taxes (NOPAT) as a percentage of average invested capital. NOPAT is defined as the sum of net earnings before extraordinary items and minority interest, the change in deferred income taxes, and interest expense net of associated current taxes.*
3. *"Return on common shareholders' equity" is defined as net earnings available to common shareholders as a percentage of average common shareholders' equity.*
4. *Certain 1982 figures have been restated to reflect stock dividends issued in 1983 and to conform with the new presentation in 1983.*

MacMillan Bloedel made significant gains in improving its long term competitive position in 1983 – gains it would not have realized had it not streamlined and decentralized its operations during the recession. The Company's leaner operating style has now become standard procedure.

Actions initiated by the Company during the past three years have been well documented: non-profitable and marginal operations were closed or reconfigured, assets were sold, common and preferred shares were issued, corporate overhead was reduced, and joint ventures were struck. These actions generated over $400 million in additional cash and saved over $100 million in overhead, thereby preserving the Company's financial integrity to ensure profitable participation in recovery.

Several business strategies adopted by MacMillan Bloedel also contributed to its improved financial position in 1983. The Company entered into two joint ventures – MacMillan Smurfit SCA in the United Kingdom and MacMillan Bathurst in Canada – merging its packaging operations in these two countries with those of other industry leaders. These moves expanded MacMillan Bloedel's market for containerboard and, through the rationalization of the combined packaging operations, the Company expects to realize a greater return on 50 percent of the merged operations than could be expected from 100 percent of its former holdings.

In today's highly competitive environment it is important to respond quickly to the ever-changing needs and challenges of the marketplace. By decentralizing into five primary business units, which emphasize autonomy and entrepreneurship, MacMillan Bloedel brought decision making as close to the customer's doorstep as any company in the forest products industry. Marketing staff and key operating people work together in the field with customers to understand and be more responsive to their needs. This provides a knowledge base from which to determine which product lines and configurations offer MacMillan Bloedel a comparative advantage over other forest products companies, not only to serve the customer in the best way, but also to extract the maximum value from the timber resource.

Regional management and participation in decision making by employees at all levels has led to lasting cost efficiencies throughout MB. There have been impressive productivity gains, both in the mills and the woodlands. Such improvements in productivity and in value extraction were the primary sources of the $107.3 million increase in operating earnings during 1983.

While these strategies help to improve the Company's financial picture, MacMillan Bloedel must also rely on its inherent strengths: a solid timber base and experienced, hard working employees.

In British Columbia, the Company controls a standing inventory of old-growth softwood timber as large as that of any forest products company in the world. While this timber base is very high in value, the rugged terrain makes coastal logging costs among the highest in the world. This cost disadvantage underscores the need to focus on extracting maximum value and quality from the B.C. timber base, rather than simply striving for volume of output.

MacMillan Bloedel is now positioned to fully exploit continued economic recovery. Over the past five years capital expenditures have totalled over $1.2 billion, with major modernizations and expansions at several locations. During the next few years capital spending to maintain, upgrade and expand operations will continue in pace with economic recovery, thereby preserving financial strength as well as flexibility to pursue investment opportunities.

Old sawmills must be modernized or replaced with smaller, more efficient mills that emphasize grade and quality as much as they emphasize productivity. The Company plans to have all of its sawmills, both old and new, specialize in particular grades and species of logs. Each of these mills will match its unique mix of logs to those end-uses which best fit the value potential that can be realized from our timber resource. New projects will emphasize the ability of the Company's logging and forestry operations to provide quality logs to the mills at the lowest possible cost. MacMillan Bloedel recently announced that a new sawmill will be built in Chemainus, B.C., designed specifically for cost-effective extraction of the maximum value from high quality hemlock and balsam logs. It will replace the antiquated Chemainus sawmill – a mill built for the markets and competitive forces of a bygone era – which the Company closed in 1982.

Achieving maximum value from our timber resource also extends to pulp and paper products. In British Columbia, pulp and groundwood papers are manufactured primarily from wood chips, which are a sawmill by-product, and from smaller, less valuable logs. Again, the emphasis is on value-added products in order to take full advantage of the high strength, long fibre softwoods from the B.C. coastal forests. MacMillan Bloedel will continue to upgrade its B.C. pulp and paper facilities, focusing upon further cost reductions for standard newsprint and expanding the production of high value groundwood specialty papers.

The period of recession just passed demonstrated the need for expectations to be moderated by reality; incomes had to be brought in line with productivity and the ability to compete in world markets. The resulting change in attitude will play a major role in ensuring recovery over the long term.

After eight months of negotiations without a work stoppage, the International Woodworkers of America and the forest products industry in British Columbia agreed upon a three year contract with no increase in the first year, a 4 percent increase in the second year and a 4.5 percent increase in the third year. The collective bargaining process worked, and the settlement will help the B.C. forest industry to re-establish its position as a tough competitor and reliable supplier in world markets.

To date, it has not been possible to negotiate a similar contract with the Canadian Paperworkers' Union or with the Pulp, Paper and Woodworkers of Canada. Failure to reach an agreement after nine months of negotiations led to a lockout of these unions by the B.C. forest industry on February 2, 1984, which remained in effect as of March 19, 1984. The secondary picketing which resulted, shut down virtually all of the Company's other B.C. operations for four weeks.

This year is expected to be a year of continued recovery, but there are risks. Economic expansion in the United States could start to lose its momentum and interest rates could rise again. U.S. housing starts are expected to hold at about 1.7 million but, as was clearly demonstrated in 1983, a strong U.S. housing sector cannot alone sustain a strong lumber market. The support of other key markets, Europe, Japan and Canada, is also a necessary ingredient to restore industry operating rates and mill returns to healthy levels.

Building materials prices in 1984 are expected to be, on average, modestly higher and volumes to be above last year's levels. Containerboard prices in the U.S. have increased and the Company's operations are expected to have a full order file for the balance of 1984. Improved demand for newsprint is expected, and a price increase has recently been implemented. Pulp markets have also firmed and both prices and volumes are expected to be better.

As was previously reported, on October 1, 1983 C. Calvert Knudsen stepped down as Chief Executive Officer and was succeeded by the Company's President, Raymond V. Smith. This orderly transition of executive responsibility had been planned for some time and was concluded as the Company emerged from the severe recessionary environment. Mr. Knudsen will continue with the Company as Vice-Chairman of the Board and Chairman of the Executive Committee and in a related move Mr. Adam Zimmerman, formerly Vice-Chairman, succeeded Mr. Knudsen as Chairman of the Company's Board of Directors.

MacMillan Bloedel's employees are to be commended for their perseverance through the tough times we have faced together over the past few years and for their cooperative efforts in implementing the changes required to improve responsiveness and enhance the Company's competitive position. Employees made it happen. This kind of effort has been the key to our recent successes and will continue to be the critical factor in reaching our goals.

R.V. Smith
President and
Chief Executive Officer

A.H. Zimmerman
Chairman of the Board

Vancouver, Canada, March 19, 1984

MacMillan Bloedel – its regional concept

Ray Smith, President and Chief Executive Officer

MacMillan Bloedel is in business to serve its customers. This means making top quality products that the market needs, at a competitive price. To achieve this goal and to be more responsive to the changing needs of the marketplace and the communities where MacMillan Bloedel operates, the Company was reorganized in 1982 into separate management units. This new organization consists of five primary operating units: the Nanaimo Region, the Alberni Region, the Powell River Region, the Containerboard Group and the Marketing Group.

Each of MacMillan Bloedel's operating units is run much like an independent forest products company, with one man in charge and responsible for the unit's results. This change has brought the decision-making right to the customer's door and to the community. But the common goal of meeting the customer's needs while achieving maximum value extraction is the unifying thread for the entire Company.

The Company's five operating units are supported by a number of other groups. For example:

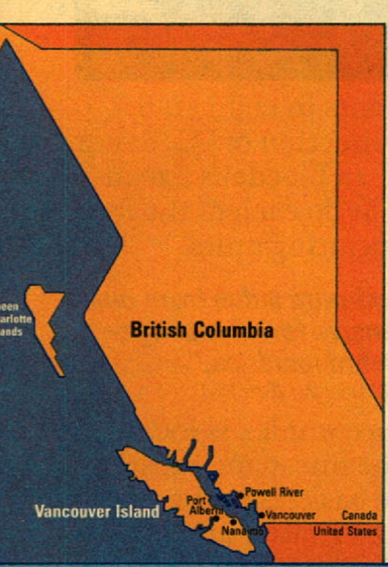
- Raw Materials Services is responsible for the buying and selling of logs and chips for the three B.C. geographic regions. MB's subsidiary, Kingcome Navigation, transports these raw materials along the B.C. coastline with its fleet of tugs and barges.
- The Research and Development Department helps the Company to keep in the forefront of product development to meet the needs of its customers and to exploit new market opportunities. The most recent proprietary development is a new building product called Parallel Strand Lumber, which is a high strength, uniform product designed to serve the industrial construction market. The Research and Development Department also carries out a variety of projects aimed at greater utilization of the timber base and the development of improved and new manufacturing processes.
- The Corporate Forestry Division manages MacMillan Bloedel's extensive forest base in British Columbia through a

program of reforestation and timber stand management that ensures a perpetual supply of timber for the Company.

Many other men and women involved in other support groups work to make MacMillan Bloedel a responsive organization capable of meeting our customers' present and future needs.

MacMillan Bloedel also has major investments in several companies which provide steady markets for its products and a degree of geographic diversification complementary to its North American base.

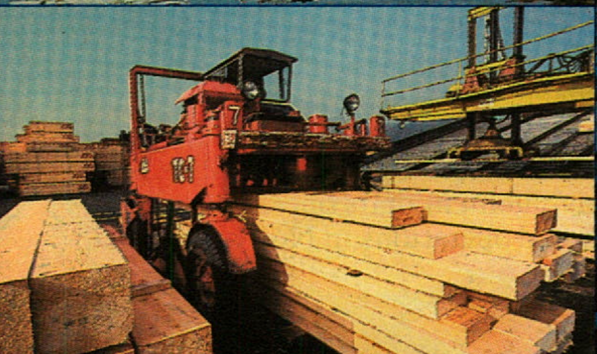
The largest such investment is the Company's 40.7 percent interest in Koninklijke Nederlandse Papierfabrieken N.V., a Dutch company which is one of Europe's largest producers of coated and uncoated printing papers and an important pulp customer for MacMillan Bloedel. KNP owns and operates three paper mills in the Netherlands and one in Belgium, with a total annual capacity of 395,000 tonnes. KNP also has packaging facilities with an annual capacity to produce 240,000 tonnes of paperboard and packaging material and 80,000 tonnes of corrugated containers.



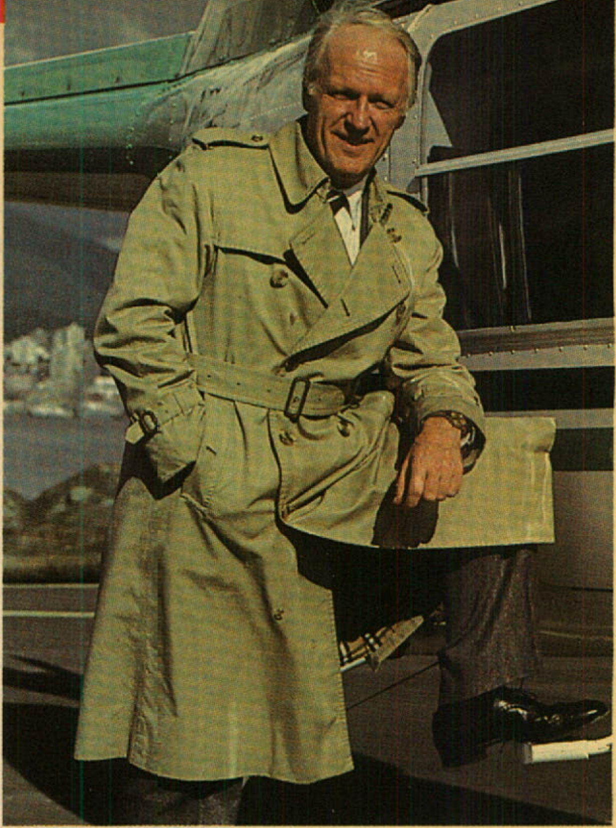
MacMillan Bloedel and Fraser Inc., a Canadian fine paper producer, each own 50 percent of Island Paper Mills Limited, a Vancouver-based producer of fine papers with an annual capacity of 112,000 tonnes.

During 1983 the Company entered into two joint ventures in the packaging business: MacMillan Bathurst Inc. which has 16 plants across Canada and MacMillan Smurfit SCA Limited which has 16 plants in the United Kingdom. MacMillan Bloedel's Pine Hill, Alabama mill supplies linerboard and corrugating medium to both of these companies and most of the corrugating medium produced at the Company's mill in Sturgeon Falls, Ontario is sold to MacMillan Bathurst.

In the following pages the five major operating units will be highlighted: their business, their philosophy, their goals and some of their successes in working towards these goals.



Containerboard group

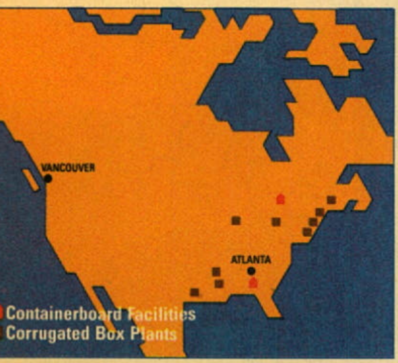


"Capital investment, including the Pine Hill expansion, coupled with the streamlining and restructuring of operations, have positioned MB to take full advantage of dynamic opportunities in the container-board and packaging business."
Don McLauchlin, Executive Vice-President, Operations

The Containerboard Group is comprised of three main operating entities:

- ■ MacMillan Bloedel Inc. (Pine Hill), a fully integrated containerboard complex, headed by W.W. Shorter.
- ■ The Sturgeon Falls, Ontario corrugating medium mill, led by B.C. Barrington.
- ■ MacMillan Bloedel Containers, which operates nine corrugated container plants in eight states, and is headquartered in Atlanta, Georgia, under the direction of J.C. Bauer.

These three gentlemen report directly to MacMillan Bloedel's Executive Vice-President of Operations, D.L. McLauchlin, as do each of the four Senior Vice-Presidents heading each of MB's other operating units.



Product	Facility	Annual Capacity
Containerboard (K-tonnes)		
Pine Hill Linerboard		403
Pine Hill Corrugating Medium		190
Sturgeon Falls Corrugating Medium		71
Lumber (MMfbm)		
Pine Hill, Alabama		75
Plywood (MM sq. ft. – ⅜")		
Pine Hill, Alabama		133
Corrugated Containers (K-tonnes)		
(9 locations)		234

"Our goal is to realize maximum value from our timberlands through intensive forest management and our fully integrated facilities."
Wyatt Shorter, President, MacMillan Bloedel Inc. (Pine Hill)

The Pine Hill, Alabama complex is located in the heart of one of the finest and most market-accessible fibre baskets in the world. At the core of this facility are its 403,000 tonnes per year linerboard machine and its 190,000 tonnes per year corrugating medium machine. They are complemented by a modern plywood mill and a "chip-and-saw" lumber mill to get full value from the 171,000 hectares of Company timberlands. Pine Hill's timberland investment is enhanced by a modern genetics program carried out at the Company's seed orchard and 20 hectare nursery which annually produces up to 30 million genetically-superior seedlings.

Pine Hill's solid wood operations produce high-value products from southern pine timber and the by-product chips are used to make pulp for the manufacture of containerboard. The mill's corrugating medium is produced primarily from hardwoods, supplemented by waste paper, much of which comes from clippings from the Company's U.S. packaging plants. Through the use of coal and waste wood for power, Pine Hill will be one of the most energy-efficient mills in North America.

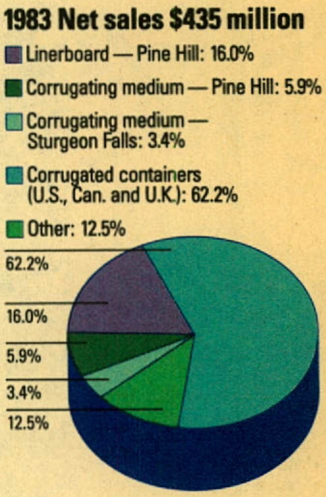
The start-up of the new corrugating medium mill in 1983 was the final step in making Pine Hill a total fibre utilization complex. The mill was designed and constructed with the full involvement of its operating people to be one of the lowest cost containerboard operations in North America.

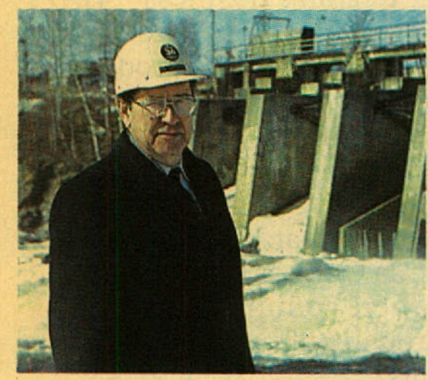
"We are proud of our reputation for dependable quality, service and innovations to meet our customers' needs."
Joseph C. Bauer, President, MacMillan Bloedel Containers

MB Containers is comprised of nine corrugated container plants from New York to Texas. Since MacMillan Bloedel acquired the plants in 1972, it has spent US$34 million in modernization and expansion.

To meet the needs of customers, these plants produce a wide range of corrugated containers – from huge, bulk bin industrial containers to small custom-designed and printed display packaging to lamp wrappers. In fact, when someone in the United States purchases a light bulb, the chances are that the packaging was supplied by MacMillan Bloedel. Many of MB Containers' accounts are among the biggest companies in the United States but its marketplace is international in scope, extending to South America and Africa, primarily for fruit and produce containers.

MB Containers has introduced a number of product innovations to the industry, including a new type of coating called Caremac® designed to protect container contents from abrasion. This division has also developed a new moisture repellant coating called Guardmac® and the industry's first commercial ultra-violet ink printing system for use on kraft board.





"Participative management is the key to our success."
Cam Barrington, Mill Manager, Sturgeon Falls

The Company's mill at Sturgeon Falls, a French-speaking community approximately 350 kilometres north of Toronto, Ontario, has the capacity to produce 71,000 tonnes of corrugating medium annually. Most of this product is sold to MB's affiliate, MacMillan Bathurst Inc., to be converted into a variety of corrugated containers for the Canadian market. Situated on the Sturgeon River, the mill has a hydro-electric plant meeting about 60 percent of its electric power requirements.

The Sturgeon Falls complex also contains a hardboard mill producing exterior sidings for the housing industry and the "do-it-yourself" market. The use of common services and facilities provides cost benefits for the containerboard and hardboard operations, enabling both products to be more competitive.

Under Cam Barrington's management since 1967, the mill has had the benefit of consistent and experienced leadership. Excellent maintenance and modernization over the years, plus an experienced and innovative workforce, has made the Sturgeon Falls mill a competitive operation.

"The underlying reason for the major improvement in the Alberni Region's results is a better understanding by our employees of their forest products business, and their individual and active involvement in contributing to its success."
Bob Findlay, Senior Vice-President, Alberni Region

Located at the head of an inlet on the west coast of Vancouver Island, the Alberni Region is a totally integrated forest products business unit with management offices, manufacturing plants and logging divisions all located in one geographic area. The natural resource base for the Region consists of 240,000 hectares of old growth timber which provides an annual log harvest up to 3.2 million cubic metres.

The full impact of the recession was felt in the Alberni Valley in early 1982 when the paper mill was temporarily shut down due to poor markets. At that time the Regional management informed employees of the crisis facing the Valley's operations and asked for support in helping their business to survive. A publication called "Your Region's Business" was developed and mailed to the homes of over 4,600 employees. Three goals were emphasized for the Alberni Region: to become a low cost producer of high value products, to get closer to the customer, and to become a lean organization which would manage entrepreneurially to achieve productivity and excellence. Throughout the year, these plans and expectations, as well as the quarterly financial results, were communicated to all employees through publications and quarterly meetings.

Product	Facility	Annual Capacity
Lumber (MMfbm)		
	Alberni Pacific Division	238
	Somass Division	175
Plywood (MM sq. ft. – ⅜")		
	Alberni Plywood Division	129
Pulp (K-tonnes)		70
Groundwood specialties or newsprint (K-tonnes)		
	Number 3 paper machine	112
	Number 4 paper machine	115
Newsprint (K-tonnes)		
	Number 5 paper machine	155

Early in 1982 the Region streamlined its organization by reducing the number of salaried and hourly employees by approximately 20 percent while continuing to operate at all divisions. The result? The Region's annual operating cost was reduced by $43 million in 1983. The positive response by all employees made this improvement in cost-effectiveness possible.

The management teams of the woodlands, building materials and pulp and paper divisions have worked closely with employees to manage

the business more efficiently by reducing log and finished goods inventories, changing the operational strategies in logging and converting plants, and by making better utilization of the fibre resource.

Through the hard work, experience and knowledge of employees, logging costs were reduced and productivity was increased by about 40 percent in just two years in the woodlands operations. In 1983 these divisions harvested 2.6 million cubic metres of logs most of which were converted by the Region's own facilities.

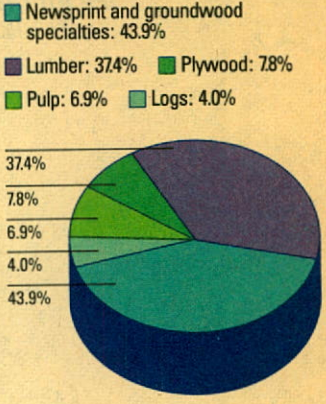
There have been similar productivity improvements in the building materials plants. The Alberni Pacific Division, a highly efficient sawmill built in 1980 at a cost of $54 million, continues to set new production records while meeting the demanding quality requirements for fir and hemlock lumber in markets around the world. The Somass Division was converted recently to a cost-competitive specialty cedar lumber mill by adopting a number of innovative sawmill techniques. Employees at the mill now produce a variety of green and kiln-dried cedar lumber specialty products, predominantly for the U.S. market.

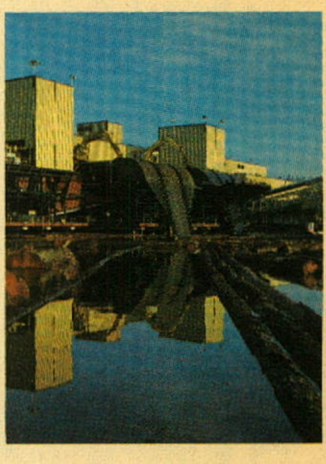
In 1980 the Alberni Plywood Division completed a $26 million modernization program to reduce costs and improve its competitive position by using small diameter logs. Since that time, the division has more than doubled its proportion of high-grade sanded fir panels, which now comprise about one-half of its output. Although productivity improved at this division by 25 percent over the past two years, it was not profitable in 1983 due to very weak markets.

The Alberni Pulp and Paper Division reduced its unit conversion cost of standard newsprint and pulp by 12 percent on a constant dollar basis and set five production records in 1983. This operation is now a recognized supplier of superior quality telephone directory paper. It was successful in obtaining the first order of telephone directory paper for Japan awarded to a North American supplier.

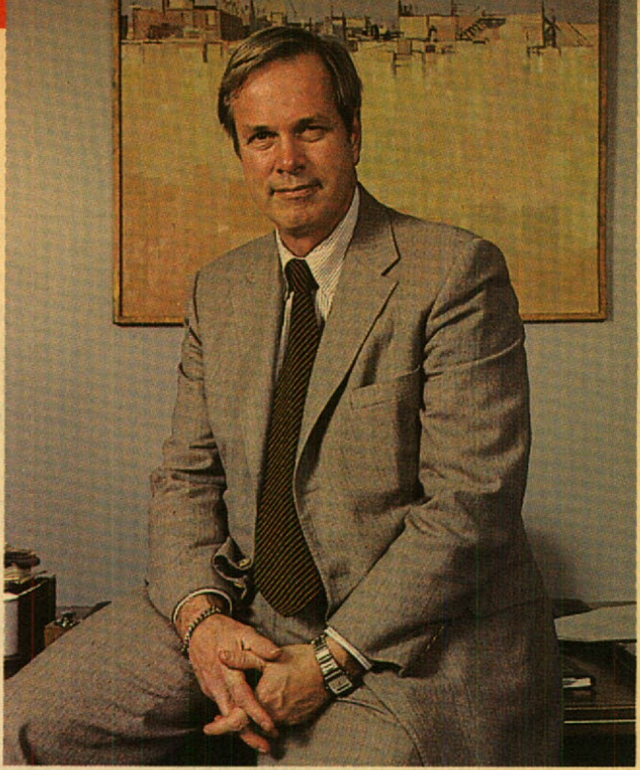
The involvement and commitment of employees to reduce costs and improve quality made a significant impact on the Region's success in 1983. Their contribution and continuing involvement will be a key to success in 1984 and beyond.

1983 Net sales $313 million





Nanaimo region



"During the past two years we've had to make some tough decisions in the Nanaimo Region. We've come out of this period with productivity up 20 percent and now we're in position to capitalize on the economic upturn."
John St.C. Ross, Senior Vice-President, Nanaimo Region

The Nanaimo Region is comprised of one logging division on the Queen Charlotte Islands, two on south-east Vancouver Island, and one in the Powell River area and manufacturing operations on the east coast of Vancouver Island and near Vancouver. These geographically dispersed operations are linked by protected coastal waterways which provide economic transportation of fibre. To use every part of the tree, logs from the woodlands divisions are directed to the appropriate primary conversion unit and the by-product chips and bark are transported to the Company's pulp and paper operations.

The four logging divisions supply fibre to the Region's converting facilities, the Company's other B.C. regions, and to domestic and export markets. In the woodlands divisions the emphasis is on strict cost controls and improved logging practices to enhance the value of the log harvest. These efforts have resulted in a 14 percent productivity increase in 1983, while at the same time achieving a nine percent reduction in unit costs.

Product	Facility	Annual Capacity
Lumber (MMfbm)		
Harmac:		
	Wood Room #3	170
	Wood Room #4	142
Fraser River Mills:		
	Canadian White Pine	115
	New Westminster	53
	Queensborough	24
Lumber specialties (MMfbm)		
Mainland Processing (Fraser River)		72
Plywood (MM sq. ft. – ⅜")		
Vancouver Plywood (Fraser River)		96
Pulp (K-tonnes)		
Harmac		340
Poles (M pieces)		17

The Nanaimo Region operates six lumber mills, two of which are part of the Harmac complex in Nanaimo and four are located on the Fraser River near Vancouver. The Region also operates a pole and wood preserving plant near Vancouver. The mills manufacture lumber for both North American and overseas markets. Productivity improvements in these mills have been numerous; for example, in 1983 productivity was improved by over 20 percent at the Canadian White Pine Division and by 33 percent at Woodroom Number 4 at Harmac. Downsizing these operations, increasing log size , modifying sawing practices and minimizing downtime were the key factors to these improvements.

During 1983 the strategic direction of the Region's lumber facilities was re-examined. Future plans are to rebuild or replace mills with smaller

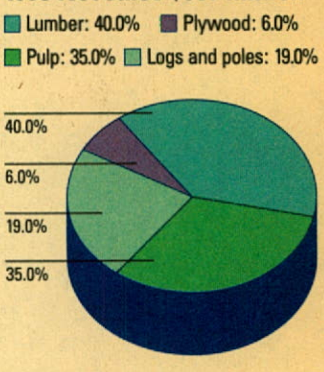
and more flexible facilities designed to match the available fibre supply to the needs of the marketplace. As a first step in this Solid Wood Products Plan, a new sawmill will be built at Chemainus, B.C. to replace the existing facility that was closed in 1982. The new mill is designed to extract maximum value from high-grade logs and be one of the most cost-competitive and flexible producers on the B.C. coast. It will cost approximately $22 million to construct, employ 130 people and have an annual production capacity of 106 million board feet. Start up is scheduled for the second quarter of 1985.

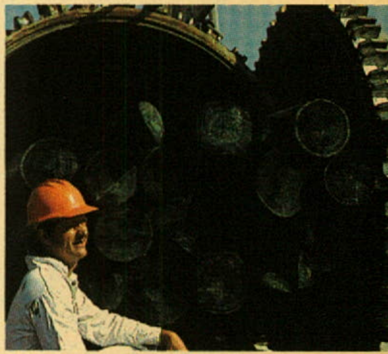
The Harmac mill, with an annual capacity of 340,000 tonnes, produces fully-bleached northern softwood pulps, much of which is manufactured and blended to meet the specific requirements of its customers who produce a wide variety of high grade paper products. Pulp quality has been significantly improved and Harmac has a worldwide reputation for producing high grade pulps, free of contaminants such as plastic. Approximately 61 percent of Harmac's pulp is sold in Europe, 22 percent in the Pacific Rim, and 17 percent in North America. KNP, the Company's affiliate in the Netherlands, is Harmac's largest customer. Through the employees' efforts a significant productivity improvement – 18 percent over 1982 – was achieved and to further enhance the cost-competitiveness of the mill, a $13 million modernization of the Number 6 recovery boiler was completed in late 1983.

Over the past two years many tough decisions have had to be made in the Nanaimo Region, including major job cutbacks and downsizing. Now the Region is looking ahead – at new markets and new products. New lumber products and new cutting programs have been developed through direct contact by lumber production personnel and the Region's customers.

Communications with employees and with the communities in which the Region operates have improved over the past few years. During the downturn it was essential that everyone was aware of the facts of international competitiveness in the forest products industry. Most mills in the Region now publish daily and weekly newsletters to keep everyone up-to-date as to production goals, safety objectives and of the achievements of employees in handling the ever-changing situations and challenges.

1983 Net sales $337 million





"We have a commitment to quality performance based on defect prevention that foretells improved results in every aspect of the job – safety, production, customer service, cost, productivity and job satisfaction. Our policy is We will meet our customer requirements every time."

Sidney Forstrom, Senior Vice-President, Powell River Region

The Powell River Region is made up of a pulp and paper mill and a lumber mill, located at Powell River, and logging divisions to the north of Campbell River on Vancouver Island at Menzies Bay, Kelsey Bay, Eve River and Port McNeill. In terms of logging capacity – 2.5 million cubic metres were harvested in 1983 – Powell River is the smallest of the three B.C. Regions. However, it is MB's largest B.C. region in terms of capital employed – \$421 million at year end. With the start-up of its Number 1 machine in 1912, Powell River was the first Canadian newsprint operation west of Lake Superior. Since that time it has expanded and modernized substantially – as indicated by its growth in capital invested and profitability.

Highlights of modernization projects at Powell River in recent years include the construction of the Number 11 newsprint machine and the thermo-mechanical pulp ("TMP") production plant. Machine modifications have permitted important changes in product mix from standard newsprint to specialty papers, including hi-brite papers such as the 50 gram electraheat used for printing this annual report. The Number 11 machine first produced newsprint in March 1981 and in its second full year of operation it exceeded proforma production levels. In August 1983 it was the most productive newsprint machine in the world.

Product	Facility	Annual Capacity
Lumber (MMfbm)		
	Powell River Sawmill	85
Pulp (K-tonnes)		50
Groundwood specialties or newsprint (K-tonnes)		
	Number 6 paper machine	80
	Number 7 paper machine	80
	Number 8 paper machine	50
Newsprint (K-tonnes)		
	Number 9 paper machine	100
	Number 10 paper machine	145
	Number 11 paper machine	165

The Region has taken several steps over the past few years to retire older components of its operations, resulting in increased efficiency without sacrificing production. The expansion of Powell River's thermo-mechanical pulping facilities permitted the closure of obsolete stone groundwood facilities as well as grade rationalization. Increased newsprint production speeds and efficiencies and specialty paper development have permitted the closure of the Number 5 machine. With five paper machines, Powell River

produced more paper of higher value in 1983 than in any year since 1974 when eight paper machines were in operation. Last year the paper mill completed twenty-five new product trials designed to meet the needs of its customers. Most of these trials resulted in new orders.

Profit improvement opportunities have been planned for the mill which will permit the continuation of the trend to specialties. The first phase is a $6 million capital project to rebuild the Number 9 machine to improve quality and to enable it to produce lightweight specialty papers. As well, the Powell River Region plans to upgrade its TMP lines to the chemi-thermo-mechanical pulp process, known as CTMP. With the help of MacMillan Bloedel Research, the Region is going one step further through the development of a new process called "Extended Thermo-Mechanical Pulping" or "ETMP". Both of these processes permit the reduction of the amount of kraft pulp used in the manufacture of groundwood papers.

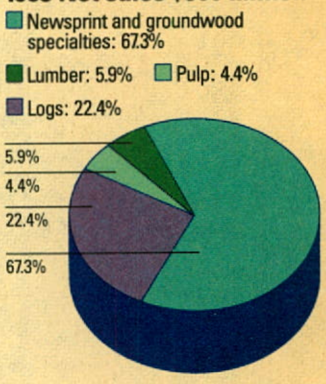
Employees in the Region's logging divisions performed well in 1983, increasing productivity by 20 percent over 1982. On a constant dollar basis, the costs of logging have been reduced by more than 25 percent since 1981.

Reflecting the Powell River Region's commitment to quality performance, productivity throughout the Region improved by an average of 22 percent over the last two years. This improved productivity made a significant contribution to reducing the Region's overall production cost by $30 million during the year.

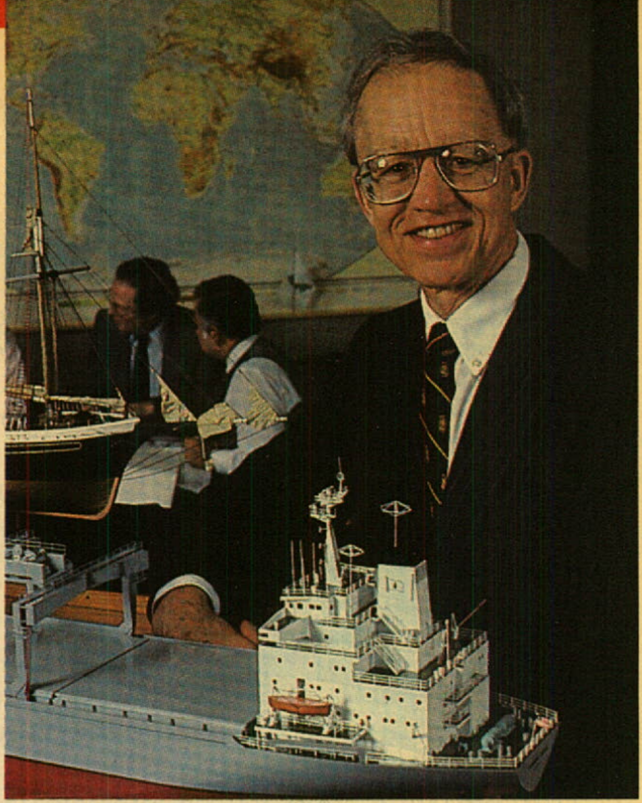
Safety and accident prevention have a very high profile at Powell River and are important criteria in the measurement of performance. Safety performance statistics are not yet satisfactory, but present safety activities and accident prevention teamwork will be increased in order to reduce and eliminate accidents and more quickly approach the "zero defect" target for safety performance.

The policy at Powell River is "We will meet our customer requirements every time"; the goal is "Do it right the first time"; the system is "Defect prevention". This quality management is a long range process involving team building, employee participation and improved communication. It will take more time to reach every one of the 2,900 MB employees in the Region. This change in style and culture is not just a program, it is a long term commitment to our customers, our employees, and our shareholders.

1983 Net sales $366 million



Marketing group



"The Marketing Group has focussed on an aggressive product development program to take advantage of the superior wood quality of the Company's old-growth timber stands."
Roger Wiewel, Senior Vice-President, Marketing Group

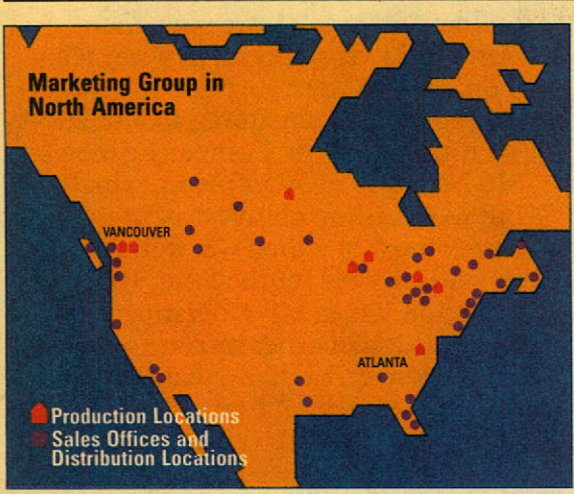
The Marketing Group is an integral part of MacMillan Bloedel's regional concept. Under the direction of Roger Wiewel, its activities fall into three areas: sales and distribution networks marketing the products of MB's three B.C. regions, an operating unit producing a variety of panelboards and specialty products, and a department providing transportation for MB's products domestically and internationally.

The inherent advantages of the Company's northern softwood fibre has allowed MB to take a leadership position in the manufacture of telephone directory paper, lightweight newsprint grades, specialty offset groundwood printing papers and other upgraded newsprint products. These value-added grades provide a much higher return and are experiencing higher growth rates than standard newsprint. MacMillan Bloedel's pulps provide outstanding value to paper makers worldwide particularly where the strong west coast fibres can allow our customers to increase machine speeds thus lowering their costs.

Product	Facility	Annual Capacity
Lumber specialties (MMfbm)		
	Edenton, North Carolina	15
Waferboard (MM sq. ft. – 3/8")		
	Thunder Bay, Ontario	128
	Hudson Bay, Saskatchewan	150
Plywood (MM sq. ft. – 3/8")		
	Nipigon, Ontario	26
Hardboard (MM sq. ft.)		
	Sturgeon Falls, Ontario	47
Particleboard (MM sq. ft. – 3/4")		
	Vancouver, B.C.	54
Specialty board (MM sq. ft.)		
	Vancouver, B.C.	37
Mouldings (MM lineal ft.)		
	Toronto, Ontario	69

MB manufactures a variety of building materials including a wide range of high quality products specifically designed for the rapidly expanding "do-it-yourself", markets. The Company supplies a major portion of the world's western red cedar lumber. Over the past few years MB has increased its production of high grade cedar products including interior panelling, exterior siding and other specialties. Following on recent successes in upgrading the product mix for cedar, the current emphasis of the wood marketing program is to boost the value of hemlock and balsam products by taking advantage of their excellent characteristics for decorative and industrial uses.

MacMillan Bloedel's pulp, paper and building materials products are marketed by the Marketing Group's sales offices and distribution



centres worldwide. By keeping as close to the market as possible, MacMillan Bloedel can consistently and quickly adapt to changing customer requirements and maximize opportunities for value-added products.

The Marketing Group operates a wholesale building materials distribution organization, MacMillan Bloedel Building Materials, located in 34 cities in Canada and the United States. In addition to the Company's own products, MBBM distributed approximately $272 million of building supplies manufactured by other companies in 1983.

Of the eight manufacturing plants run by the Marketing Group in North America, five manufacture reconstituted wood products. These plants consist of two waferboard mills in Saskatchewan and Ontario, a particleboard mill in British Columbia, a hardboard mill in Ontario and a specialty plywood mill in Ontario. These operations produce structural building materials as well as other products which range from prefinished residential sidings to hockey stick shafts.

The Marketing Group operates a specialty board mill in B.C., which adds value to basic panel products by applying various paints or overlays. These products are used mainly in the furniture, cabinetry and millwork industries. The Group also operates a moulding mill in Ontario and a specialty lumber products mill in North Carolina which manufactures Atlantic white cedar specialty products.

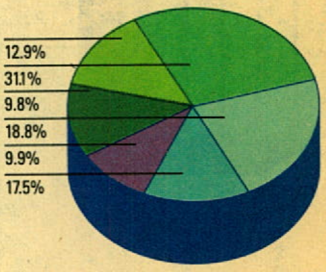
To ensure cargo care and frequent service for its customers, MB is involved in all aspects of surface transportation including deep sea shipping and barging, ship brokerage and agency services, stevedoring, freight solicitation, bookings, forwarding and terminal operations. The Transportation Department organizes most of the freighting of MB's products both inland and overseas. Through this department, MB has taken advantage of opportunities to reduce costs, particularly from the deregulation of transportation in the United States. The result was a significant reduction of transportation costs during 1983.

Shipments to overseas markets are made on vessels operated by the Company's subsidiary, Canadian Transport Company Limited, and by independent carriers. C.T.Co. operates a fleet of sophisticated forest products vessels and has expertise in damage-free delivery of high grade pulp, paper and solid wood products to Europe, Japan, Latin America and the U.S. East Coast. MB recently agreed to charter three new ships of 35,000 deadweight tons each that are efficient in cargo handling and fuel consumption. These ships were designed by the Company and their eight year charters will start during 1985 upon the completion of construction.

1983 Net sales $79 million

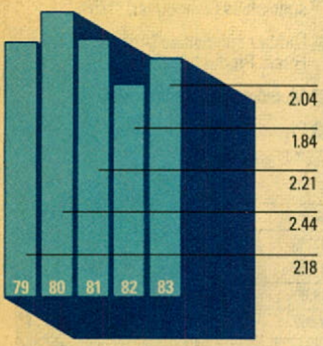
Products Produced by the Marketing Group:

- Waferboard: 31.1%
- Hardboard (Sturgeon Falls): 18.8%
- Particleboard and panelboard specialties (Vancouver): 17.5%
- Lumber specialties (Atlantic Forest Products): 12.9%
- Mouldings (Kingtrim): 9.9%
- Plywood (Nipigon): 9.8%



Results of operations

Sales ($ billions)



The Company's sales in 1983 totalled $2,044 million, an increase of $201 million above the $1,843 million of sales in 1982. Higher shipment volumes from MacMillan Bloedel's continuing operations increased sales by $252 million, of which $57 million related to products sold but not produced by the Company. Of the increase in sales of the Company's products, $37 million was due to increased shipments of containerboard from the expanded Pine Hill complex and $63 million from exporting logs from British Columbia. These increases were partly offset by approximately $105 million because Island Paper Mills and the Company's corrugated container plants in Canada and the United Kingdom were consolidated for only part of the year and equity accounted on a net earnings only basis after these operations were transferred to joint ventures (see Note 3 to the consolidated financial statements). Net sales values for pulp, newsprint and groundwood specialties were lower for the year, reducing sales by approximately $74 million. This reduction was partly offset by higher net sales values for the Company's building materials products.

In 1983 MacMillan Bloedel's operating earnings totalled $40.5 million, a $107.3 million improvement over the $66.8 million operating loss incurred in 1982. The turnaround in operating earnings was primarily the result of cost reductions due to improved productivity and lower overhead. These cost efficiencies in large part originated from actions initiated in 1981 and 1982 to decentralize and streamline the Company's operations, particularly in British Columbia. Higher sales volumes, including those from the export log business, also contributed to the improvement in operating earnings. Higher prices for the Company's building materials were more than offset by lower prices for newsprint and pulp, with the average price of containerboard remaining about flat.

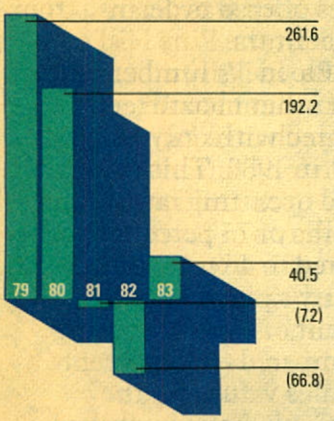
During 1983 the Company generated $18.7 million of other income, including $8.4 million of investment income, most of which was derived from funds escrowed for the Pine Hill construction project. In November 1983 $8.2 million of other income arose from a foreign exchange gain on the repayment of two long term loans denominated in Dutch guilders. During 1982 the Company's other income totalled $19.3 million which was primarily attributable to interest earned on escrowed funds and to a foreign exchange gain from the refunding of a Sterling loan.

Interest charges in 1983 totalled $84.2 million, comprised of $80.8 million of interest expense and $3.4 million of capitalized interest. Interest charges in 1982 totalled $100.6 million, including $22.3 million of capitalized interest for major projects. The $16.4 million reduction of interest charges in 1983 reflected lower interest rates for the Company's floating rate debt plus a lower average level of debt during the year.

During 1982 the Company booked $65.7 million for severance and closure costs and other items, in large part related to non-competitive facilities. In 1983 the net amount of severance, closure costs and other items was $6.6 million.

In 1983 MacMillan Bloedel recorded extraordinary items amounting to $21.1 million. In the first quarter of the year the Company realized $25.4 million of extraordinary gains from the sale of its head office building in Vancouver and the sale of a 50 percent interest in Island Paper Mills. These gains were partly offset in the fourth quarter by extraordinary items primarily relating to the Company's investment in Celupal, a Spanish fine paper

Operating earnings (loss)
($ millions)

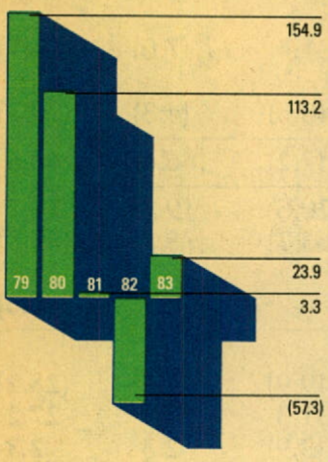


Five year earnings data	1979	1980	1981	1982	**1983**
Sales ($ millions)	2,180.3	2,436.4	2,209.7	1,843.1	**2,044.1**
Contributions to earnings ($ millions)					
Raw materials and building materials	155.4	56.9	(82.2)	(105.1)	**13.5**
Pulp and paper	122.5	131.2	92.1	49.6	**53.4**
Containerboard and packaging	26.9	38.5	31.4	(7.0)	**(5.7)**
Eliminations and unallocated items	(43.2)	(34.4)	(48.5)	(4.3)	**(20.7)**
Operating earnings (loss)	261.6	192.2	(7.2)	(66.8)	**40.5**
Other income	24.3	19.9	20.5	19.3	**18.7**
Interest expense	(28.9)	(31.9)	(63.2)	(78.3)	**(80.8)**
Severance and closure costs and other items	—	—	—	(65.7)	**(6.6)**
Earnings (loss) before income taxes	257.0	180.2	(49.9)	(191.5)	**(28.2)**
Income taxes	(100.3)	(63.0)	31.3	95.3	**27.2**
Equity earnings (losses)	1.8	—	(3.9)	2.3	**2.3**
Minority interests	(3.6)	(4.0)	(4.2)	.6	**1.5**
Earnings (loss) before extraordinary items	154.9	113.2	(26.7)	(93.3)	**2.8**
Extraordinary items	—	—	30.0	36.0	**21.1**
Net earnings (loss)	154.9	113.2	3.3	(57.3)	**23.9**
Less: Provision for preferred dividends	5.3	6.2	14.7	19.9	**19.6**
Net earnings (loss) for common shareholders	149.6	107.0	(11.4)	(77.2)	**4.3**
Per common share* ($ per common share)					
Operating earnings	10.83	7.95	(.30)	(2.74)	**1.58**
Net earnings (loss):					
before extraordinary items	6.19	4.43	(1.71)	(4.65)	**(.66)**
after extraordinary items	6.19	4.43	(.47)	(3.17)	**.16**
Cash dividends on common shares	1.54	1.54	1.02	.09	**—**
Stock dividends	—	—	—	.82	**2.11**
Return on invested capital**					
Raw materials and building materials	22.1%	8.3%	(12.6)%	(17.2)%	**2.4%**
Pulp and paper	22.4%	21.6%	14.2%	7.6%	**8.8%**
Containerboard and packaging	11.9%	14.1%	6.8%	(1.3)%	**(.6)%**
Total Company	16.2%	12.1%	.1%	(5.8)%	**3.1%**

**Restated to reflect stock dividends. **Defined on page 1.*

producer. Further details are provided in Note 11(c) to the consolidated financial statements. In 1982 an extraordinary gain of $36.0 million arose from the sale of future tax benefits in the United States.

Net earnings (loss) ($ millions)



The Company's net profit after extraordinary items amounted to $23.9 million in 1983. After deducting $19.6 million of preferred share dividends, net earnings available for common shareholders totalled $4.3 million, or $.16 per common share. This compares to a net loss of $57.3 million in 1982 which, after deducting $19.9 million of preferred dividends, equated to a net loss of $3.17 per common share.

Raw Materials and Building Materials

Residential construction in the United States remained depressed for most of 1982 with housing starts totalling only 1.1 million for the year. Signs of recovery in this sector became apparent in the final quarter of that year, which in turn caused dimension lumber prices in North America to rise through the first half of 1983. Higher prices and volumes for MacMillan Bloedel's building materials were a major contributor to operating earnings of $38.7 million in the second quarter. In response to higher prices, North American lumber producers increased their output significantly. Despite the strength of the housing sector in the second half of the year, when seasonally adjusted U.S. housing starts averaged 1.7 million on an annualized basis, this surge of lumber supply could not be absorbed, causing North American lumber prices to fall sharply in the third quarter. Prices for most grades of dimension lumber in this market ended 1983 about equal to prices at the start of the year.

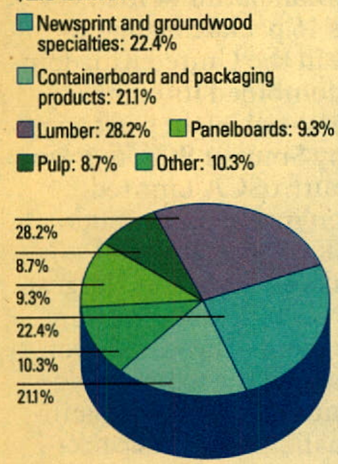
Overseas lumber markets, which are key to the full utilization of North American capacity and consequently to price strength, remained very depressed during 1983. Moreover, the high value of the U.S. and Canadian dollar made North American building materials relatively expensive in overseas markets, particularly in comparison with prices offered by Scandinavian competitors.

MacMillan Bloedel's lumber mills produced 822 million board feet in 1983 as compared with only 635 million board feet in 1982. This resulted in an increased operating rate for the Company's mills of 75 percent of capacity as compared to 46 percent in 1982.

The Company's plywood mills ran at 79 percent of capacity during the year as compared to 55 percent in 1982. Net sales values for the Company's B.C. plywood improved modestly during the second quarter of the year but subsequently declined, averaging slightly less than in 1982. Increased competitive pressure from lower cost plywood producing regions and reconstituted wood products such as waferboard have had an adverse effect on most coastal plywood producers in terms of both market share and price. As a result the Company's two B.C. plywood mills have not been profitable for several years.

During 1983 the Company's waferboard operations at Thunder Bay, Ontario and Hudson Bay, Saskatchewan operated at an average rate of 65 percent as compared to 41 percent in 1982. The Hudson Bay mill was shut down from late September to the end of the year while a $14 million modernization project was in progress. This project is being funded entirely by loans from the Saskatchewan and Federal governments. Waferboard prices rose during the first half of 1983 but fell during the second half, ending the year approximately 15 percent lower than at the start. Nevertheless, net mill returns for the Company's waferboard averaged ten percent higher than the depressed levels of 1982.

1983 Sales by product
$2.0 billion



The Company's log harvest in British Columbia totalled approximately 7.5 million cubic metres during the year, up from 5.0 million cubic metres in 1982 and 6.0 million cubic metres in 1981, but well below the 8.4 million cubic metres harvested in 1980. During most of 1983 markets for lumber manufactured by producers on the B.C. coast were extremely depressed in terms of both price and volume. To maintain employment at its logging operations and to sustain cash flow, MacMillan Bloedel exported $63 million of logs from British Columbia that could not be competitively converted by existing facilities in the province.

The Company's program to streamline its operations, combined with the efforts of its employees at all levels, resulted in significant improvements in productivity at its building materials facilities in British Columbia. Production per manday at the Company's B.C. lumber mills and logging operations improved significantly over 1982 levels.

Pulp and Paper

Despite the recession, consumption of newsprint in North America remained relatively stable from the end of 1978 through 1982. Prices in North America were depressed by a large increase in industry capacity and hence of newsprint supply during the same period. The price of newsprint in the Company's principal market, the United States, held at US$500 per tonne or better for most of 1982, until November when it was reduced to US$468.50 per tonne. In the second half of 1983 the Company implemented a program offering a five percent rebate to each customer meeting its contract volume commitments.

Newsprint consumption in the United States in 1983 was 4.7 percent higher than in 1982 because of increased advertising lineage and circulation for newspapers and continued strength in commercial printing. Reflecting an improved balance between supply and demand, effective March 1, 1984, MacMillan Bloedel increased the price of newsprint in the U.S. market from US$468.50 per tonne to US$500 per tonne, with the rebate program remaining in effect. Because of reduced levels of demand, two newsprint machines at the Powell River mill were closed in late 1982 and have remained closed. One of these, the Number 9 paper machine, is undergoing a $6 million capital improvement program which will enable it to produce groundwood specialty papers. During 1983 MacMillan Bloedel's newsprint facilities operated at 79 percent of capacity, up from 67 percent during 1982.

Although the average net sales value for the Company's newsprint decreased by 11 percent in 1983, the combination of a higher operating rate, lower fibre costs, the closure of high cost capacity and improved production per manday sustained the level of profitability from its newsprint operations.

The price of bleached kraft market pulp delivered in Europe fell from a high of US$545 per tonne in the first quarter of 1982 to approximately US$400 per tonne in the first quarter of 1983, the lowest level in four years. Price increases were implemented during the second quarter of 1983 and a further 11 percent price increase is taking effect in the first quarter of 1984, bringing the price to US$490 per tonne. During 1983 MacMillan Bloedel's pulp production averaged approximately 80 percent of capacity compared to 71 percent in the previous year. In 1983, however, production was curtailed at the Harmac pulp mill for approximately three months to implement a $13 million capital project to modernize the Number 6 recovery boiler.

Containerboard and Packaging

Containerboard prices improved and packaging markets strengthened in response to the economic recovery in 1983. The price of linerboard in the United States market increased from a low of US$250 per ton in the first quarter to US$290 per ton as of September 1, 1983. Linerboard producers in the United States, including MacMillan Bloedel, have announced a 10 percent price increase to US$320 per ton effective in the first quarter of 1984. The Company's linerboard machine and corrugating medium machine at Pine Hill, Alabama operated at an average rate of 73 percent of capacity in 1983, mainly because of production problems related to the start-up of its new facilities. In January an explosion of a low pressure vessel closed the entire mill for almost two months, and extensive downtime was required in the third quarter to effect design modifications to the new recovery boiler and to do routine maintenance. The Sturgeon Falls mill ran at 92 percent of capacity during the year. Since the first quarter of 1983 the demand for containerboard has increased such that MacMillan Bloedel's mills in Pine Hill, Alabama and Sturgeon Falls, Ontario have relatively full order files.

As a result of the extensive downtime taken in 1983, the Containerboard and Packaging segment incurred an operating loss of $5.7 million, despite positive contributions from the Sturgeon Falls mill and from the Company's Canadian packaging division before it was sold in July. Continued economic growth, particularly in the United States, combined with the restricted ability of North American producers to expand capacity, is expected to result in higher prices and volumes for the Company's U.S. containerboard operations in 1984.

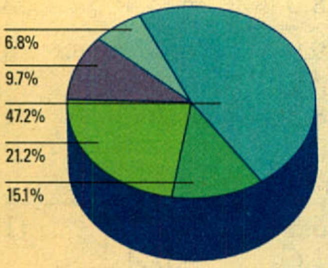
During the year the Company entered into two joint ventures in the packaging business with two other forest products companies. In Canada, MacMillan Bloedel and Consolidated Bathurst Inc. merged their operations to form MacMillan Bathurst Inc., which operates 16 packaging plants across Canada. In the United Kingdom the Company combined its eight packaging plants with eight packaging plants owned by Smurfit SCA to form MacMillan Smurfit SCA Limited, which carries on its business under the name of U.K. Corrugated and which now ranks as the second largest producer of corrugated containers in the United Kingdom. These joint ventures have expanded the Company's markets for containerboard and facilitated the rationalization of its packaging operations in both countries.

Labour Relations

Labour contracts with hourly employees at most of MacMillan Bloedel's operations in British Columbia expired in June 1983. A settlement has been reached with the largest of the three principal unions, the International Woodworkers of America, providing for a three year agreement with no wage increases in the first year, 4 percent in the second year and 4.5 percent in the third year.

To date, it has not been possible to negotiate a similar contract with the Canadian Paperworkers' Union or with the Pulp, Paper and Woodworkers of Canada. Failure to reach an agreement after nine months of negotiations led to a lockout of these unions by the B.C. forest industry on February 2, 1984, which remained in effect as of March 19, 1984. The secondary picketing which resulted, shut down virtually all of the Company's other B.C. operations for four weeks.

1983 Sales by market
$2.0 billion



Foreign Exchange

The Company's Canadian operations presently generate an annual net inflow of approximately US$500 million. Apart from the effect of translating various balance sheet items, a one cent change in the Canadian dollar exchange rate relative to the U.S. dollar has an after-tax impact on the Company of approximately $2.9 million or 11 cents per common share.

1982 Sales and Earnings

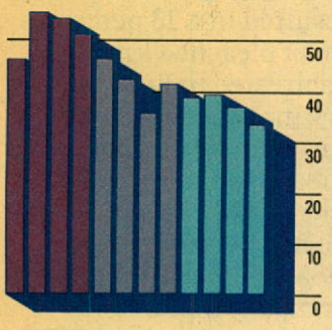
In 1982 the Company incurred a net loss of $57.3 million after extraordinary items, as compared to net earnings of $3.3 million in 1981. Extraordinary items in 1982 of $36.0 million resulted from the sale of future tax benefits. Sales fell from $2,210 million in 1981 to $1,843 million in 1982, a drop of 17 percent of which 5 percent was attributable to the divestiture of MacMillan Rothesay Limited.

Building materials markets remained depressed in 1982 largely due to a weak residential construction sector. Weak demand for containerboard resulted in linerboard prices in the United States dropping from US$270 to US$250 per ton. The Company's packaging plants in Canada, the United States and United Kingdom increased their earnings in 1982, mainly through improved cost control.

During 1982 pulp and newsprint markets also deteriorated. Poor worldwide economic conditions and currency devaluations by Scandinavian countries resulted in a 23 percent drop in the price of bleached kraft softwood pulp delivered in Europe. Increased newsprint capacity, combined with static demand and competition from overseas suppliers, led to price rollbacks in 1982 for newsprint in the U.S. market from a high of US$525 to US$468.50 per tonne.

In 1982 the Company incurred various costs and provisions totalling $65.7 million, primarily relating to severance payments and closure costs for certain operations. Interest expense increased from $63.2 million in 1981 to $78.3 million in 1982. Income from investments decreased slightly to $13.1 million in 1982 from $15.6 million in 1981.

Quarterly selling, general and administrative expense
($ millions)



Selected quarterly financial data

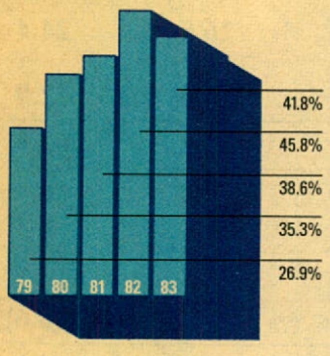
($ millions) 1981	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	611.7	707.9	358.5	531.6
Costs and expenses				
Operating expenses	510.2	596.8	356.1	458.0
Depreciation, depletion and amortization	26.3	26.6	13.7	25.4
Selling, general and administrative	45.4	54.6	53.6	50.2
	581.9	678.0	423.4	533.6
Operating earnings (loss)	29.8	29.9	(64.9)	(2.0)
Other income	5.6	4.9	4.8	5.2
Interest expense	(11.0)	(18.3)	(16.6)	(17.3)
Severance and closure costs and other items	—	—	—	—
Earnings (loss) before income taxes	24.4	16.5	(76.7)	(14.1)
Income tax	(8.2)	(1.6)	37.4	3.7
	16.2	14.9	(39.3)	(10.4)
Equity in earnings (losses) of partly-owned companies	(3.9)	(3.5)	1.9	1.6
Minority interests in subsidiaries	(.8)	(1.4)	(1.0)	(1.0)
Earnings (loss) before extraordinary items	11.5	10.0	(38.4)	(9.8)
Extraordinary items	—	—	30.0	—
Net earnings (loss)	11.5	10.0	(8.4)	(9.8)
Net earnings (loss) per common share* (dollars)				
before extraordinary items	.35	.28	(1.76)	(.58)
after extraordinary items	.35	.28	(.52)	(.58)
Price range of common shares on Toronto Stock Exchange* (dollars)				
high	44.90	47.02	37.12	24.45
low	31.25	34.13	22.91	17.62
Dividends per common share* (dollars)				
cash dividends	.31	.31	.31	.09
stock dividends	—	—	—	—

**Restated to reflect stock dividends.*

1982				1983			
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
504.5	466.8	427.0	444.8	**442.0**	**583.7**	**497.0**	**521.4**
446.3	413.4	400.4	404.2	**403.2**	**477.3**	**428.1**	**445.2**
21.1	20.5	20.3	20.3	**23.4**	**29.2**	**26.5**	**24.4**
45.4	41.9	35.3	40.8	**38.3**	**38.5**	**36.6**	**32.9**
512.8	475.8	456.0	465.3	**464.9**	**545.0**	**491.2**	**502.5**
(8.3)	(9.0)	(29.0)	(20.5)	**(22.9)**	**38.7**	**5.8**	**18.9**
12.1	2.3	4.9	—	**4.8**	**.4**	**4.8**	**8.7**
(17.1)	(19.9)	(21.8)	(19.5)	**(20.6)**	**(20.6)**	**(19.6)**	**(20.0)**
—	(8.5)	(3.0)	(54.2)	**—**	**—**	**—**	**(6.6)**
(13.3)	(35.1)	(48.9)	(94.2)	**(38.7)**	**18.5**	**(9.0)**	**1.0**
3.7	17.2	20.6	53.8	**15.4**	**(8.0)**	**6.2**	**13.6**
(9.6)	(17.9)	(28.3)	(40.4)	**(23.3)**	**10.5**	**(2.8)**	**14.6**
(.7)	2.6	(2.3)	2.7	**—**	**.9**	**2.8**	**(1.4)**
(.1)	(.3)	.6	.4	**.3**	**.3**	**.6**	**.3**
(10.4)	(15.6)	(30.0)	(37.3)	**(23.0)**	**11.7**	**.6**	**13.5**
—	4.5	—	31.5	**25.4**	**—**	**—**	**(4.3)**
(10.4)	(11.1)	(30.0)	(5.8)	**2.4**	**11.7**	**.6**	**9.2**
(.59)	(.85)	(1.45)	(1.76)	**(1.14)**	**.28**	**(.16)**	**.32**
(.59)	(.66)	(1.45)	(.47)	**(.11)**	**.28**	**(.16)**	**.16**
23.35	20.35	20.55	22.57	**29.37**	**31.24**	**31.13**	**30.25**
18.06	14.49	14.79	18.89	**22.56**	**25.71**	**26.11**	**26.75**
.09	—	—	—	**—**	**—**	**—**	**—**
—	.09	.34	.39	**.50**	**.52**	**.55**	**.54**

Financial position

Interest-bearing debt to invested capital



In order to provide an element of stability to balance the cyclicality of forest products markets, MacMillan Bloedel has a long-standing policy of maintaining a prudent and flexible financial structure. The Company has over $1.1 billion of credit lines with major commercial banks, of which $737 million remained unutilized at the end of 1983. Of the Company's credit lines $548 million are contractually committed for periods of 8 and 13 years and at year end $405 million remained unutilized.

On January 1, 1981 interest-bearing debt totalled $631 million. The sale of the Company's interest in MacMillan Rothesay for $103 million and the issuance of $78 million of preferred shares during that year could not fully offset the cash outflow due to the severity of the recession and the need to complete capital projects in progress. Thus interest-bearing debt rose to $723 million during that year. In 1982 the recession deepened further. Although inventories were reduced by $90 million and $61 million was realized from the sale of future tax benefits in the United States, interest-bearing debt rose to $866 million or 45.8 percent of invested capital.

The recovery in 1983 and consequent increase in sales resulted in an increase in receivables of $70 million. Inventories were rebuilt at a cost of $76 million. During the first quarter of the year the Company sold its head office building for $61 million and sold a 50 percent share of Island Paper Mills for $31 million. A further $26 million was raised by entering into a joint venture agreement to form MacMillan Bathurst Inc. in Canada. The Company raised $9.3 million of common equity during the year by selling treasury shares to its employee purchase plan. In June the Company sold 1,575,000 common shares in Canada at $31.75 per share, realizing net proceeds of $49.6 million. The combined effect of these actions, together with cash generated by operations, made it possible to reduce interest-bearing debt by $92.3 million to $773.2 million or 41.8 percent of invested capital.

The Company tapped an attractive source of funds for the first time in 1983, the U.S. commercial paper market. Commercial paper with maturities of up to 270 days is issued by the Company's U.S. subsidiary, MacMillan Bloedel Inc., under letters of credit from major banks. In 1983 a US$75 million commercial paper facility was established, of which US$25 million was utilized at year end. Agreements are being finalized to expand this commercial paper program to US$130 million.

On November 30, 1983 the Company repaid two long term loans totalling 97 million Dutch guilders (approximately US$32 million) and so realized a net gain of $8.2 million due to the depreciation of the Dutch guilder in relation to the Canadian dollar since the loans were made in 1980 and 1981. These loans were replaced by a US$35 million floating rate facility which has a term of approximately 8 years and a number of funding and currency options.

On January 5, 1984 the Company issued $50 million of retractable preferred shares with a term of approximately four years and a dividend equal to 8.84 percent of their face value. These shares were issued in the Canadian public market and the net proceeds of $48.35 million were used to retire bank borrowings.

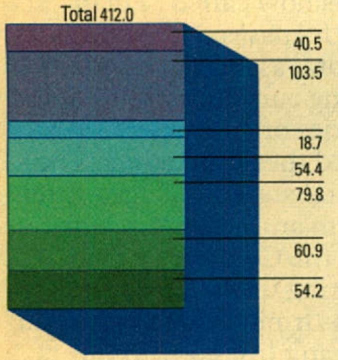
Capital Expenditures

Over the past five years MacMillan Bloedel's capital expenditures have totalled over $1.2 billion, with major expansions and modernizations completed at several locations. Facilities which could not become competitive or which did not maximize the value extracted from the timber resource have been closed.

1983 Funds Flow ($ millions)

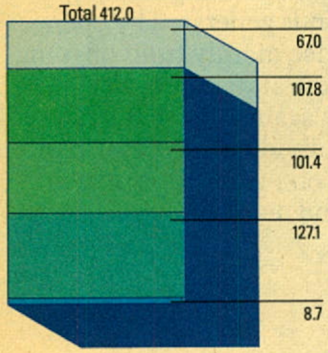
Inflows:

- Operating earnings
- Depreciation, depletion and amortization
- Other income
- Reduction of escrowed funds and net cash
- Extraordinary items
- New shares
- Disposals of investments and other items



Outflows:

- Reduction of interest-bearing debt
- Increase in operating working capital
- Interest and preferred dividends
- Capital expenditures and investments
- Other



Five year financial data

($ millions)	1979	1980	1981	1982	**1983**
Funds generated by operations	308.1	183.3	129.5	125.9	**54.9**
Depreciation, depletion, and amortization	82.6	88.7	92.0	82.2	**103.5**
Capital expenditures	280.4	327.7	307.9	206.8	**103.6**
Interest paid	29.3	27.9	62.4	78.0	**81.2**
Preferred dividends paid	5.3	5.9	14.1	19.3	**19.9**
Current assets	671.1	760.2	700.5	615.8	**673.9**
Current operating liabilities	328.1	272.1	277.9	236.4	**250.6**
Operating working capital	343.0	488.1	422.6	379.4	**423.3**
Property, plant and equipment	899.2	1,121.0	1,266.3	1,365.8	**1,235.6**
Investments and other assets	102.7	179.4	184.1	144.1	**191.2**
Net assets employed	1,344.9	1,788.5	1,873.0	1,889.3	**1,850.1**
Interest-bearing debt	362.3	630.7	723.1	865.5	**773.2**
Redeemable term preferred shares	87.9	87.9	115.9	135.3	**136.4**
Redeemable convertible preferred shares	—	50.0	95.9	95.9	**95.9**
Common equity, including retained earnings	714.4	783.4	752.7	678.3	**741.2**
Deferred credits and minority interests	180.3	236.5	185.4	114.3	**103.4**
Total invested capital	1,344.9	1,788.5	1,873.0	1,889.3	**1,850.1**
Interest-bearing debt as a percentage of invested capital	26.9%	35.3%	38.6%	45.8%	**41.8%**

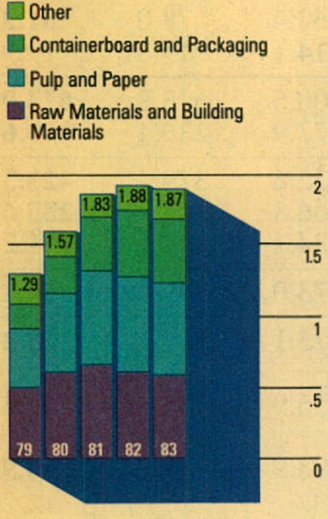
Capital expenditures in 1983 totalled $103.6 million, of which $56.6 million was for non-discretionary projects such as logging roads and equipment replacement. $28.9 million was expended for the completion of the Pine Hill containerboard expansion project, and by year end the Company had substantially completed a $14 million modernization of its waferboard plant in Hudson Bay, Saskatchewan. The construction of a new recovery boiler at the Harmac pulp mill was discontinued in 1982, but in 1983 the Company spent $13 million to completely refurbish the mill's Number 6 recovery boiler. While MacMillan Bloedel's capital expenditures over the last three years have totalled $618 million, interest-bearing debt has increased by only $143 million and preferred shares by $94 million in that same three year period.

The economic recession compelled the Company to curtail its capital expenditure program, although the Pine Hill expansion project was completed during 1983. While significant modernization and expansion projects were completed in British Columbia prior to the cutbacks, such as the new Alberni Pacific Division sawmill and the Number 11 paper machine at Powell River, much remains to be done to upgrade the B.C. base in order to extract higher values from the Company's timber resource.

Capital expenditures

($ millions)	1979	1980	1981	1982	1983	**5 Year Total**	% of Total
Raw materials and building materials							
Raw materials	56.5	41.6	48.2	14.7	20.3	**181.3**	14.8
Building materials	62.9	46.8	10.0	1.2	15.8	**136.7**	11.2
Pulp and paper	118.3	183.0	105.3	41.3	23.1	**471.0**	38.4
Containerboard and packaging	36.8	47.5	133.2	143.0	42.3	**402.8**	32.8
Other	5.9	8.8	11.2	6.6	2.1	**34.6**	2.8
Total	280.4	327.7	307.9	206.8	103.6	**1,226.4**	100.0

Average invested capital
($ billion)



The Company has allocated approximately $85 million for non-discretionary capital projects in 1984, including the replacement of logging equipment in British Columbia. At the top of MacMillan Bloedel's list of discretionary projects is the further upgrading of its sawmills in British Columbia. The first step will be the construction of a $22 million sawmill at Chemainus which is designed to extract maximum value from high grade hemlock and balsam logs. Further sawmill projects will likely follow. As well, opportunities have been identified to upgrade its pulp and paper facilities in the province.

The Company has set an objective of reducing its financial leverage from current levels and accordingly, the speed with which discretionary expenditures are implemented will be contingent upon the pace of economic recovery and resultant improvement in operating cash flow.

New format for financial statements

In order to provide investors with more useful financial information, the Company has adopted a new format for its consolidated financial statements which differs from more traditional presentations. The new balance sheet format is now called "Financial Position" and focusses on "Net Assets Employed" (total assets net of non-interest-bearing current liabilities) and on the categories of "Invested Capital" which financed these net assets. The Invested Capital statement aggregates both short term and long term borrowings to reflect the Company's flexibility in selecting the lowest cost source of funds from either short term or long term bank lines due to the ability to draw down and repay borrowings under its contractual lines of credit without penalty.

The Consolidated Statements of Earnings and Changes in Financial Position focus on operating earnings and internal funds generated by operations, which arise mainly from ongoing operations. These statements also disclose claims against these funds such as interest and dividend payments to investors and "one-time" items such as closure costs and disposals.

MacMillan Bloedel Limited
Consolidated Statements

Earnings

($ millions)	1983	1982	1981
	Year ended December 31		
Sales of products and services	**$2,044.1**	$1,843.1	$2,209.7
Costs and expenses:			
Materials, labour and other operating expenses	**1,753.8**	1,664.3	1,921.1
Depreciation, depletion and amortization	**103.5**	82.2	92.0
Selling, general and administrative	**146.3**	163.4	203.8
	2,003.6	1,909.9	2,216.9
Operating earnings (loss)	**40.5**	(66.8)	(7.2)
Other income	**18.7**	19.3	20.5
Interest expense	**(80.8)**	(78.3)	(63.2)
Severance and closure costs and other items	**(6.6)**	(65.7)	—
Loss before income taxes	**(28.2)**	(191.5)	(49.9)
Income tax recovery (expense):			
Current	**3.8**	1.8	(7.6)
Deferred	**23.4**	93.5	38.9
	27.2	95.3	31.3
Loss before undernoted items	**(1.0)**	(96.2)	(18.6)
Equity in earnings (losses) of partly-owned companies	**2.3**	2.3	(3.9)
Minority interests in subsidiaries	**1.5**	.6	(4.2)
Earnings (loss) before extraordinary items	**2.8**	(93.3)	(26.7)
Extraordinary items	**21.1**	36.0	30.0
Net earnings (loss)	**23.9**	(57.3)	3.3
Provision for dividends on preferred shares	**19.6**	19.9	14.7
Net earnings (loss) attributable to common shareholders	**$ 4.3**	$ (77.2)	$ (11.4)
Net earnings (loss) per common share			
Before extraordinary items	**$ (.66)**	$ (4.65)	$ (1.71)
After extraordinary items	**$ .16**	$ (3.17)	$ (.47)

Retained earnings

	1983	1982	1981
Balance at beginning of year	**$476.9**	$575.5	$611.9
Net earnings (loss)	**23.9**	(57.3)	3.3
	500.8	518.2	615.2
Deduct:			
Cash dividends:			
Preferred shares	**19.9**	19.3	14.1
Common shares – 1983 $nil per share* (1982 $.09 and 1981 $1.02 per share)	**.3**	2.3	24.5
	20.2	21.6	38.6
Stock dividends:			
Common shares 1983 $2.11 per share (1982 $.82 per share)	**53.5**	19.7	—
Costs of issue of class B preferred shares, less applicable income taxes of $1.0 million	—	—	1.1
Costs of issue of common shares, less applicable income taxes of $.2 million	**.2**	—	—
	73.9	41.3	39.7
Balance at end of year	**$426.9**	$476.9	$575.5

Per share figures have been restated to reflect stock dividends issued in 1983. See Note 11 for earnings statement supplementary information.

**In 1983 cash dividends on common shares represent cash paid in lieu of issuing fractional common shares as stock dividends.*

MacMillan Bloedel Limited
Consolidated Statements

Financial position

Net assets employed ($ millions)	December 31 1983	1982
Current assets:		
Short term investments and deposits	**$ 25.2**	$ 42.7
Accounts receivable –		
Trade	**239.4**	221.0
Other	**26.9**	17.7
Inventories (Note 2)	**374.3**	327.0
Prepaid expenses	**8.1**	7.4
	673.9	615.8
Deduct current liabilities (excluding interest-bearing liabilities) –		
Bank overdrafts in excess of cash in banks	**7.9**	6.4
Trade accounts payable	**107.3**	76.7
Accrued payroll and related liabilities	**90.3**	89.6
Accrued interest on borrowed funds	**17.1**	17.5
Other accounts payable and accrued liabilities	**25.3**	39.5
Income taxes payable	**2.7**	6.7
	250.6	236.4
Operating working capital	**423.3**	379.4
Investments and other assets: (Note 3)		
Investments accounted for by the equity method	**148.7**	60.2
Other investments and assets, at cost	**24.9**	12.8
Subsidiaries not consolidated	**13.3**	11.9
	186.9	84.9
Funds held for construction projects	**—**	36.2
Property, plant and equipment: (Note 4)		
Buildings and equipment	**1,930.8**	1,976.4
Less: Accumulated depreciation	**843.0**	831.6
	1,087.8	1,144.8
Construction in progress	**6.7**	73.8
	1,094.5	1,218.6
Timber and land less accumulated depletion	**128.4**	131.4
Logging roads	**12.7**	15.8
	1,235.6	1,365.8
Intangible assets:		
Goodwill (Note 3(c))	**—**	18.0
Financing expenses	**4.3**	5.0
	4.3	23.0
	$1,850.1	$1,889.3

These consolidated financial statements have been approved by the Board of Directors:

R.V. Smith, Director

A.H. Zimmerman, Director

Invested capital ($ millions)	*December 31* 1983	1982
Interest-bearing indebtedness:		
Current liabilities –		
Bank indebtedness (Note 5)	**$ 209.4**	$ 108.8
Notes payable	**—**	1.0
Current portion of long term debt (Note 6)	**19.7**	79.7
	229.1	189.5
Long term liabilities –		
Term bank loans (Note 7)	**253.5**	366.9
Bonds and debentures (Note 8)	**273.2**	288.8
Other secured liabilities	**17.4**	20.3
	544.1	676.0
Total interest-bearing indebtedness	**773.2**	865.5
Deferred income taxes	**79.0**	109.3
Deferred revenue	**22.0**	—
Minority interests in subsidiaries	**2.4**	5.0
	876.6	979.8
Shareholders' equity:		
Share capital: (Note 9)		
Preferred shares	**232.3**	231.2
Common shares	**314.3**	201.4
	546.6	432.6
Retained earnings	**426.9**	476.9
	973.5	909.5
Commitments (Notes 9 and 10)		
Subsequent event (Note 15)		
	$1,850.1	$1,889.3

Certain 1982 amounts have been reclassified to conform with the new presentation in 1983.

MacMillan Bloedel Limited
Consolidated Statements

Changes in financial position

($ millions)	Year ended December 31 1983	1982	1981
Internal Funds:			
Generated by operations			
Operating earnings (loss)	**$ 40.5**	$ (66.8)	$ (7.2)
Depreciation, depletion and amortization	**103.5**	82.2	92.0
Other income	**18.7**	19.3	20.5
Decrease (increase) in operating working capital**			
Receivables	**(70.0)**	20.1	27.8
Inventories	**(76.0)**	89.9	(9.8)
Other	**38.2**	(18.8)	6.2
Generated by operations	**54.9**	125.9	129.5
Required for:			
Interest	**81.2**	78.0	62.4
Dividends	**20.2**	21.6	38.6
Severance costs and other items	**8.5**	23.6	—
Income taxes currently paid	**.2**	(1.6)	10.2
	110.1	121.6	111.2
Net internal funds	**(55.2)**	4.3	18.3
Funds invested long term:			
Capital expenditures	**103.6**	206.8	307.9
Investments and other assets	**23.5**	22.4	13.4
	127.1	229.2	321.3
Funds required	**$182.3**	$224.9	$303.0
Sources of financing:			
Extraordinary items	**$ 79.8**	$ 61.0	$103.4
Interest-bearing debt net of repayments	**(67.0)**	142.4	98.5
Issue of common shares	**59.4**	4.5	1.6
Issue of class B preferred shares	**1.5**	20.8	76.9
Disposal of investments and other items	**54.2**	8.0	7.9
Financing provided	**127.9**	236.7	288.3
Decrease (increase) in funds*	**54.4**	(11.8)	14.7
Funds supplied	**$182.3**	$224.9	$303.0

**Funds are defined as cash less bank overdrafts, short term investments and deposits and funds held for construction projects.*

***Changes in operating working capital are after deducting working capital transferred to the joint ventures formed in 1983 and the sale of MacMillan Rothesay Limited in 1981.*

Certain amounts have been reclassified to conform with the new presentation in 1983.

Auditors' report

To the Shareholders of MacMillan Bloedel Limited:

We have examined the consolidated statements of financial position of MacMillan Bloedel Limited as at December 31, 1983 and 1982 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years ended December 31, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1983 and 1982 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1983 in accordance with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE
Chartered Accountants

February 22, 1984
Vancouver, B.C.

Notes

MacMillan Bloedel Limited Consolidated Statements (December 31, 1983, 1982 and 1981)

In these financial statements "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 differences between generally accepted accounting principles in Canada and the United States is provided in Note 14.

(a) Principles of consolidation –

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries other than the subsidiaries located in Brazil. The majority of the capital investment in the Brazilian subsidiaries is not registered under Brazilian foreign investment legislation with the result that there are significant restrictions on the repatriation of funds from that country. Consolidation is therefore inappropriate.

(b) Foreign currency translations –

MacMillan Bloedel uses the current-noncurrent method of accounting for foreign currency transactions and balances.

(c) Valuation of inventories –

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

(d) Partly-owned companies –

Investments in partly-owned companies are accounted for by the equity method. Under this method, MacMillan Bloedel's share of the net earnings (losses) of the partly-owned companies is included in consolidated net earnings (loss).

(e) 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
Tugs, barges and scows	10 to 13 years

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

(f) Intangible assets –

Amortization of financing expenses relating to bonds and debentures is computed on a basis related to the principal amounts outstanding over the terms of the issues.

(g) Income taxes –

Income taxes are recorded on a tax allocation basis.

Investment tax credits are accounted for as an income tax rate reduction of current and deferred income tax.

(h) Pension costs –

Pension costs charged to earnings, including applicable amortization of pension plan experience gains and losses, are determined on the basis of annual reviews of MacMillan Bloedel's various pension plans and other retirement arrangements. The reduction in actuarial liabilities for accrued pension benefits arising from changes in actuarial assumptions during 1982, net of the unamortized past service pension obligations existing at that date, is being allocated as a reduction of pension costs over a period of five years commencing in 1982 (Note 13).

(i) Capitalized interest –

Interest charges are allocated to major capital projects during the construction phase.

2. Inventories:

	December 31 1983	1982
	($ millions)	
Operating and maintenance supplies	**$ 57.2**	$ 58.2
Logs, poles, pulp chips, pulpwood and cordwood	**99.7**	95.0
Lumber, plywood and other building materials	**145.7**	98.2
Pulp and paper products	**41.7**	36.6
Containerboard and packaging products	**30.0**	39.0
	$374.3	$327.0

3. Investments and other assets:

Investments accounted for by the equity method –

		December 31 1983			1982
	% owned	Cost	Undistributed Earnings	Total	Total
		($ millions)			
Koninklijke Nederlandse Papierfabrieken N.V.	40.7	$ 19.2	$38.0	$57.2	$53.4
MacMillan Smurfit SCA Limited	50.0	34.3	(1.7)	32.6	—
Island Paper Mills Limited	50.0	28.7	—	28.7	—
MacMillan Bathurst Inc.	50.0	26.6	1.5	28.1	—
Other		5.8	(3.7)	2.1	6.8
		$114.6	$34.1	$148.7	$60.2

During 1983 the convertible debentures of Koninklijke Nederlandse Papierfabrieken N.V. ("KNP") were converted into common shares of that company resulting in a reduction of MacMillan Bloedel's interest from 48.0% to 40.7%.

In 1983 MacMillan Bloedel completed the following joint venture transactions:

(a) A sale, in February 1983, of a 50% interest in Island Paper Mills Limited (a fine paper manufacturer) to Fraser Inc. (a related party) for proceeds of $30.8 million. The profit on this sale has been included in extraordinary items (see Note 11(c)).

(b) A transfer of its Canadian packaging plants effective July 1, 1983, to MacMillan Bathurst Inc., a newly-formed 50% owned joint venture with Consolidated Bathurst Inc. MacMillan Bloedel has accounted for this transaction on a pooling of interests basis.

(c) A transfer of its United Kingdom packaging plants, effective October 31, 1983, to MacMillan Smurfit SCA Limited, a newly-formed 50% owned joint venture with the Jefferson Smurfit Group Limited and Svenska Cellulosa Aktiebolaget SCA. MacMillan Bloedel has accounted for this transaction on a pooling of interests basis.

The goodwill related to the United Kingdom packaging operations of $16.8 million at December 31, 1983 is included in the cost of the investment in MacMillan Smurfit SCA Limited. It is continuing to be amortized on a straight-line basis over a period of 20 years from January 1, 1978.

MacMillan Bloedel made a net provision for loss in the amount of $6.7 million during 1983 in respect of the full amount of its investment in and receivables from Celupal S.A., a Spanish fine paper manufacturer. KNP, which also holds an interest in Celupal S.A., recorded a similar provision during the year, MacMillan Bloedel's share of which amounted to $1.5 million. These amounts have been recorded as extraordinary items in the consolidated statements of earnings (see Note 11(c)).

Summarized financial information relating to investments accounted for by the equity method is as follows:

	December 31 1983	1982
	($ millions)	
Current assets	$311.6	$202.5
Non-current assets	348.3	185.4
	$659.9	$387.9
Current liabilities	$163.4	$126.1
Non-current liabilities	212.0	104.6
Shareholders' equity	284.5	157.2
	$659.9	$387.9

	Year Ended December 31 1983	1982	1981
		($ millions)	
Net sales	$798.8	$671.8	$716.8
Gross profit	$ 21.0	$ 8.9	$ 2.0
Earnings before extraordinary items	$ .1	$ 1.9	$ (7.9)
Net earnings	$ 2.8	$ 1.9	$ (7.9)

Subsidiaries not consolidated –

In 1982 MacMillan Bloedel acquired 100% of the voting shares of the Brazilian subsidiaries as part of a series of transactions by which the Company received $19.8 million in 1982 and $2.3 million in 1983 and as consideration issued 250,000 Class B preferred shares series 4 to Brascan Limited, a related party. The Company's share of the losses of the Brazilian subsidiaries for the year ended December 31, 1983 aggregated $4.7 million (1982 – $1.8 million), which amounts have been charged to earnings. Its share of the losses of the subsidiaries since the original acquisition of shares aggregated $13.0 million at December 31, 1983. The investment is carried in the statements of financial position at cost less provision for these losses.

4. Buildings and equipment:

	Cost	Accumulated depreciation	Net
		($ millions)	
December 31, 1983 –			
Raw materials and building materials	**$ 523.9**	**$295.5**	**$ 228.4**
Pulp and paper	**911.3**	**435.9**	**475.4**
Containerboard and packaging	**454.3**	**91.3**	**363.0**
Corporate assets and other	**48.0**	**20.3**	**27.7**
	$1,937.5	**$843.0**	**$1,094.5**
December 31, 1982 –			
Raw materials and building materials	$ 526.7	$284.1	$ 242.6
Pulp and paper	957.8	412.6	545.2
Containerboard and packaging	502.5	111.0	391.5
Corporate assets and other	63.2	23.9	39.3
	$2,050.2	$831.6	$1,218.6

Assets aggregating $165.8 million (1982 – $159.4 million) (mainly the Alabama facilities) and the related depreciation and long term debt included in these financial statements are held under capital leases.

5. Short term bank indebtedness:

At December 31, 1983 MacMillan Bloedel had short term bank lines of credit aggregating $541.1 million (December 31, 1982 – $412.7 million). At December 31, 1983 $209.4 million (December 31, 1982 – $108.8 million) of these short term bank lines had been drawn down. At December 31, 1983 the available unutilized short term lines of credit aggregated $331.7 million.

6. Payments on long term debt:

Payments on long term debt required for each of the five years after December 31, 1983 are as follows –

	Bonds and debentures	Term bank loans	Other liabilities	Total
		($ millions)		
1984 (after adjustment to current rate of exchange Note 8)	$15.6	$ 1.1	$ 3.0	$19.7
1985	20.4	3.1	2.3	25.8
1986	22.3	3.1	2.4	27.8
1987	21.1	18.7	.8	40.6
1988	19.9	32.9	.8	53.6

7. Term bank loans:

	December 31 1983	1982
	($ millions)	
Advances under contractual term lines of credit	**$143.0**	$268.8
Unsecured term bank loan of U.S. $50.0 million maturing September 30, 1990 bearing interest at a floating rate not to be less than 9% nor greater than 12½%	**58.8**	58.8
Unsecured term bank loan of U.S. $35.0 million maturing September 15, 1991 bearing interest at rates related to prime	**43.3**	—
Unsecured term bank loan of U.S. $7.9 million maturing March 31, 1989 bearing interest in part at 9⅝% and in part at a rate related to the London Interbank rate for U.S. dollar deposits	**9.5**	9.5
Unsecured term bank loan of 60.0 million Dutch guilders	**—**	34.0
Unsecured term bank loan of 39.0 million Dutch guilders	**—**	18.8
	254.6	389.9
Less: Payments due within one year, before adjustment to current rate of exchange (Note 6)	**1.1**	23.0
	$253.5	$366.9

At December 31, 1983 MacMillan Bloedel had contractual term bank lines of credit aggregating $548.1 million (1982 – $588.3 million). At December 31, 1983 $143.0 million (1982 – $268.8 million) of these term bank lines had been drawn down. These contractual term lines provide for loans on a revolving basis for one or three years, followed by repayment periods of seven or ten years. As at December 31, 1983 the available unutilized contractual term lines of credit aggregated $405.1 million.

8. Bonds and debentures:

	December 31 1983	1982
	($ millions)	
MacMillan Bloedel Limited –		
6.45% sinking fund debentures, series A, maturing October 1, 1990 (U.S. $14.7 million)	**$ 15.8**	$ 18.0
6½% sinking fund debentures, series C, maturing July 15, 1992 (U.S. $11.3 million)	**12.2**	12.8
8½% sinking fund debentures, series E, maturing May 15, 1991	**13.0**	14.1
8¾% sinking fund debentures, series F, maturing July 1, 1994 (U.S. $52.5 million)	**50.7**	55.0
11¼% sinking fund debentures, series G, maturing January 15, 1995	**32.0**	33.9
9% sinking fund debentures, series J, maturing February 1, 1992 (U.S. $39.4 million)	**40.1**	41.8
9¼% sinking fund debentures, series K, maturing March 15, 1993 (U.S. $39.8 million)	**43.9**	45.7
8½% subordinated debentures, maturing December 20, 1984 (U.S. $2.1 million)	**2.1**	2.1
	209.8	223.4
MacMillan Bloedel Inc.* –		
4⅜% sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. $20.5 million)	**22.1**	26.2
4.90% – 5.50% general obligation industrial bonds, series 1977, maturing December 1, 1997 (U.S. $.8 million)	**.8**	.9
10¼% pollution control bonds, maturing November 1, 2000 (U.S. $15.0 million)	**18.0**	18.0
10½% pollution control bonds, maturing November 1, 2015 (U.S. $15.0 million)	**18.0**	18.0
8¼% environmental improvement and industrial development bonds matured November 1, 1983	**—**	42.2
9⅝% industrial development revenue bond, maturing April 30, 1987 (U.S. $8.4 million)	**10.1**	13.0
8½% to 10½% industrial development revenue bonds, maturing 1993 (U.S. $6.0 million)	**7.5**	—
	76.5	118.3
	286.3	341.7
Less: Payments due within one year, before adjustment to current rate of exchange (Note 6)	**13.1**	52.9
	$273.2	$288.8

**These bonds are direct obligations of Industrial Development Boards and municipal authorities in Alabama, Mississippi, and New Jersey.*

Substantially all of MacMillan Bloedel's assets are pledged by fixed and floating charges as security for the outstanding bonds and debentures and other liabilities. Long term debt repayable in foreign currencies has been translated into Canadian dollars at historical exchange rates. At December 31, 1983 there were unrealized losses on foreign exchange relating to long term debt of approximately $41.2 million which have not been recognized in the accompanying financial statements.

9. Share capital:

By resolution of the shareholders passed on April 20, 1983 the Company's authorized capital was increased to 50.0 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 1983	1982
Outstanding shares without par value	($ millions)	
Preferred –		
3,400,000 class A	**$ 87.9**	$ 87.9
1,848,270 class B, series 1	**46.2**	46.2
1,986,515 class B, series 2	**49.7**	49.7
262,500 class B, series 3	**26.2**	26.6
250,000 class B, series 4	**22.3**	20.8
	232.3	231.2
Common –		
26,448,029 shares	**314.3**	201.4
	$546.6	$432.6

The class A preferred shares –

The class A preferred shares are redeemable, at the option of the Company, at U.S. $25.00 per share; the shares are retractable, at the option of the holder, on May 1, 1987 at U.S. $25.00 per share. The shares carry the right to cumulative preferential dividends at a rate of 1½% above one-half of the average U.S. prime rate.

The class B preferred shares –

These shares rank on a parity with the class A preferred shares and prior to the common shares of the Company.

Conversion features	**Date**	**Price**
Series 1:		
Convertible into one common share on or before	December 1, 1985	$34.10
	December 1, 1990	35.88
Series 2:		
Convertible into one common share on or before	March 1, 1986	$39.86
	March 1, 1991	43.41
Redemption features		
Series 1:		
Company's redemption options –		
redeemable after	August 31, 1983	$26.25 (1)
	September 1, 1985	26.25 (2)
Company's redemption obligation – make all reasonable efforts to purchase during each calendar quarter commencing January 1, 1991 1% of the shares outstanding on December 2, 1990		maximum $25.00
Series 2:		
Company's redemption options –		
redeemable after	February 29, 1984	$26.25 (1)
	March 1, 1986	26.25 (2)
Company's redemption obligation – make all reasonable efforts during each calendar quarter commencing April 1, 1991 to purchase 1% of the shares outstanding on March 2, 1991		maximum $25.00
Series 3:		
Company's redemption options –		
redeemable after	July 1, 1985	$103.00 (3)
Company's redemption obligations –		
offer to redeem 5% of original holdings annually during	March of 1983 through 1985	100.00
redeem 5% of original holdings annually on	July 1 of 1986 through 1990	100.00
redeem remaining shares on	July 1, 1991	100.00
Series 4:		
Company's redemption options –		
redeemable before	September 1, 1987	U.S. $100.00
Company's redemption obligations –		
redeem 4,687 shares each quarter	September 1, 1987 through June 1, 1992	U.S. $100.00
redeem remaining shares on	September 1, 1992	U.S. $100.00

(1) Redeemable only if the weighted average price is not less than $42.63 for series 1 and $49.83 for series 2.
(2) This price declines $.25 annually to $25.00.
(3) This price declines $.50 annually to $100.00.

Dividends

Series 1	$2.00 per annum cumulative preferential, payable quarterly.
Series 2	$2.08 per annum cumulative preferential, payable quarterly.
Series 3	cumulative preferential equal to the sum of 1¾% and ½ of the defined average minimum lending rate per annum, payable quarterly.
Series 4	cumulative preferential equal to the sum of 1½% and ½ of the defined average U.S. prime rate per annum, payable quarterly.

Employee share purchase plan –

The Company has reserved 1.0 million common shares for issuance pursuant to the employee share purchase plan of which 590,912 had been taken up as at December 31, 1983.

Options to purchase common shares –

An option for 1,000 shares was granted and an option for 5,000 shares was exercised in 1981. Options for 48,450 shares were granted and an option for 500 shares was relinquished during 1982. Options for 14,000 shares were granted, options for 1,939 shares were exercised and options for 742 shares were relinquished during 1983. The options outstanding and the option prices are adjusted so that options are not diluted by the payment of common stock dividends, leaving the outstanding options at December 31, 1983 as follows –

Number of shares	Option price	Expiry date
56,567 shares	$17.40	August 31, 1986
1,131 shares	37.65	June 24, 1991
51,175 shares	16.87	July 27, 1987
15,154 shares	22.17	January 1, 1988

At December 31, 1983 loans to employees under the senior management share purchase plan amounted to $1.3 million. The majority of the loans are non-recourse, interest free, maturing June 25, 1991 and secured by a pledge of the common shares.

Changes in share capital –

The following is a summary of the changes in share capital since January 1, 1981 –

	Number of shares	Issued ($ millions)
Class A preferred shares		
Balance January 1, 1981 unchanged December 31, 1983	3,400,000	$ 87.9
Class B preferred shares		
Series 1		
Balance January 1, 1981	2,000,000	$ 50.0
Converted to 98,323 common shares during 1981	(151,530)	(3.8)
Balance December 31, 1981	1,848,470	46.2
Converted to 129 common shares during 1982	(200)	—
Balance December 31, 1982 and 1983	1,848,270	$ 46.2
Series 2		
Issued in 1981	2,000,000	$ 50.0
Converted to 7,375 common shares during 1981	(13,300)	(.3)
Balance December 31, 1981	1,986,700	49.7
Converted to 102 common shares during 1982	(185)	—
Balance December 31, 1982 and 1983	1,986,515	$ 49.7
Series 3		
Issued in 1981 and outstanding at December 31, 1981	280,000	$ 28.0
Redeemed during 1982	(14,000)	(1.4)
Balance December 31, 1982	266,000	26.6
Redeemed during 1983	(3,500)	(.4)
Balance December 31, 1983	262,500	$ 26.2
Series 4		
Issued in 1982 and outstanding at December 31, 1982	233,100	$ 20.8
Issued in 1983	16,900	1.5
Balance December 31, 1983	250,000	$ 22.3
Series 5		
Issued in 1983	15,500	$ 15.5
Redeemed during 1983	(15,500)	(15.5)
Balance December 31, 1983	—	$ —
Common shares		
Balance January 1, 1981	21,272,975	$171.5
Share options exercised	5,000	.1
Senior management share purchase plan	35,520	1.5
Conversion of class B preferred shares	105,698	4.1
Balance December 31, 1981	21,419,193	177.2
Conversion of class B preferred shares	231	—
Stock dividends	965,038	19.7
Employee share purchase plan	228,039	4.5
Balance December 31, 1982	22,612,501	201.4
Shares issued for cash*	1,575,000	50.0
Stock dividends	1,928,167	53.5
Employee share purchase plan	330,422	9.3
Share options exercised	1,939	.1
Balance December 31, 1983	26,448,029	$314.3

**During 1983 the Company issued 967,500 common shares to Noranda Mines Limited, a related party, for cash of $30.7 million as part of a public offering of such 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, 1983 in respect of the following –

(a) Ship charters and rentals under non-cancellable leases having an initial term of more than one year as follows –

	Ship charters	Leases	Total
		($ millions)	
1984	$33.8	$10.8	$44.6
1985	19.6	8.5	28.1
1986	11.1	7.9	19.0
1987	10.7	6.6	17.3
1988	4.5	6.2	10.7
1989 - 1993	—	14.8	14.8
1994 - 1998	—	2.3	2.3
1999 - 2003	—	1.5	1.5
Subsequent to 2003	—	.6	.6
	$79.7	$59.2	$138.9

Ship charter commitments payable in foreign currencies, including a major portion in Deutsche marks, have been translated into Canadian dollars at exchange rates prevailing at December 31, 1983.

As at December 31, 1983 some of the ship charters are at rates above those prevailing in the spot charter market.

The Company is committed to time charter three new forest products carriers for terms of eight years following their construction and delivery in 1985. The vessels will have an aggregate cargo capacity of 106,000 deadweight tons and will replace four other forest products carriers with an aggregate capacity of 198,000 deadweight tons which are to be redelivered to their owners in 1984 and 1985 upon the completion of their eight-year charter terms.

(b) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2034); payment of approximately $5.1 million is required in each of the next five years.

11. Earnings statements supplementary information:

(a) Costs and expenses include the following –

	Year ended December 31 1983	1982	1981
		($ millions)	
Interest expense –			
Long term debt interest	**$ 66.0**	$75.8	$66.4
Other interest	**18.2**	24.8	10.1
	84.2	100.6	76.5
Less: Interest capitalized	**3.4**	22.3	13.3
	$ 80.8	$78.3	$63.2
Effective average interest rate	**10%**	12%	12%
Other income –			
Income from investments	**$ 8.4**	$13.1	$15.6
Profit on disposition of non-current items	**10.3**	6.2	4.9
	$ 18.7	$19.3	$20.5
Depreciation	**$ 86.9**	$69.2	$74.2
Depletion	**11.2**	9.2	12.8
Amortization	**5.4**	3.8	5.0
	$103.5	$82.2	$92.0
Pension expense (Note 13)	**$ 16.9**	$21.3	$42.4
Research and development expenses	**$ 8.8**	$ 6.7	$ 9.8
Less: Government grants	**.6**	.3	.4
	$ 8.2	$ 6.4	$ 9.4
Rental expense on leases of more than one month, and time charter hire	**$ 54.7**	$49.2	$49.5

Selling, general and administrative expenses include direct remuneration of the directors and officers of the Company aggregating $3.7 million (1982 – $3.1 million; 1981 – $3.6 million).

(b) Income taxes –

Consolidated income tax (expense) recovery is composed of –

	Canadian federal	Canadian provincial	Foreign	Total
		($ millions)		
Year ended December 31, 1983				
Current	**$ (.2)**	**$ 1.5**	**$ 2.5**	**$ 3.8**
Deferred	**8.6**	**4.5**	**10.3**	**23.4**
	$ 8.4	**$ 6.0**	**$12.8**	**$27.2**
Year ended December 31, 1982				
Current	$ (.4)	$ 3.0	$ (.8)	$ 1.8
Deferred	60.1	30.4	3.0	93.5
	$59.7	$33.4	$ 2.2	$95.3
Year ended December 31, 1981				
Current	$ (.8)	$ 1.0	$ (7.8)	$ (7.6)
Deferred	15.8	12.8	10.3	38.9
	$15.0	$13.8	$ 2.5	$31.3

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effects of each were as follows:

	Year ended December 31 1983	1982	1981
		($ millions)	
Deferred income tax recovery (expense) related to –			
Financial statement depreciation and logging road amortization compared to income tax allowances	**$18.1**	$61.7	$18.5
Inventory valuation for financial statement purposes compared to valuation for income tax purposes	**.3**	1.6	(9.1)
Provision for withholding taxes	**—**	—	2.5
Taxable income not currently recognized for accounting purposes	**4.7**	—	—
Income and expense provisions not recognized for income tax purposes	**.2**	.2	15.6
Losses for which tax recoveries are provided	**(3.2)**	34.9	13.1
United States and Canadian investment tax credits	**—**	1.4	2.9
Timberland accounting	**—**	(5.0)	(3.9)
Other items	**3.3**	(1.3)	(.7)
	$23.4	$93.5	$38.9

The components of MacMillan Bloedel's income tax recoveries for 1983, 1982 and 1981 as a percentage of loss before income taxes are as follows –

	Year ended December 31 1983	1982	1981
Canadian federal income tax rate	**46.0%**	46.0%	46.0%
Canadian manufacturing and processing allowance	**(2.3)**	(3.9)	(5.7)
Provincial, state and withholding taxes	**.8**	5.5	7.1
Losses for which tax recoveries were not recorded	**—**	—	1.1
Deferred rate adjustments including investment tax credits	**(19.9)**	(1.7)	18.8
Inventory allowances	**9.9**	2.1	10.2
Foreign exchange translation adjustments	**(2.3)**	(.8)	(.5)
Capital gains	**10.3**	.9	.5
Tax adjustments and assessments	**16.0**	3.5	(12.4)
Foreign tax rates different from Canadian rates	**10.7**	1.1	1.6
Items not subject to tax	**19.6**	(1.7)	(2.1)
Other items	**7.6**	(1.2)	(1.9)
Effective income tax rate	**96.4%**	49.8%	62.7%

(c) Extraordinary items –

1983 –

Profit on disposal of head office building, after provision for income taxes of $6.5 million and deferral of $23.8 million to future periods in connection with the leaseback of part of the head office building	**$20.1**
Profit on disposal of 50% interest in Island Paper Mills Limited after provision for income taxes of $1.5 million	**5.3**
MacMillan Bloedel's interest in income tax reductions arising from losses carried forward by Koninklijke Nederlandse Papierfabrieken N.V.	**3.9**
	29.3
Deduct:	
Provision for loss with respect to investment in and amounts receivable from Celupal S.A.	**8.2**
	$21.1

1982 –

Sale of tax benefits including investment tax credits and energy tax credits associated with plant and equipment having an aggregate cost of $205.0 million in the United States for $61.0 million less income taxes of $25.0 million.	$36.0

1981 –

Sale of 65% interest in MacMillan Rothesay Limited, a manufacturer of newsprint located in St. John, New Brunswick, net of income taxes of $9.2 million.	$30.0

(d) Net earnings per common share –

Net earnings per common share is computed by dividing the net earnings, after providing for dividends on the class A and class B preferred shares, by the weighted average number of common shares outstanding during the year. The number of shares outstanding is adjusted to the beginning of the period for share dividends issued during the period.

There would have been no decrease in the net earnings per common share in 1983 from the conversion of outstanding convertible securities.

12. Related party transactions:

MacMillan Bloedel sells products in the ordinary course of business and at fair market values to related parties and also purchases certain products for resale from related parties. These transactions include the sale of pulp to Koninklijke Nederlandse Papierfabrieken N.V., Celupal S.A. and Island Paper Mills Limited, the sale of containerboard to MacMillan Bathurst Inc. and MacMillan Smurfit SCA Limited and the purchase of lumber from Northwood Pulp and Timber Limited.

	Year ended December 31		
	1983	1982	1981
		($ millions)	
Sales to related parties	**$43.7**	$29.0	$27.7
Purchases from related parties	**$23.7**	$15.1	$15.6

	December 31	
	1983	1982
	($ millions)	
Trade accounts receivable from related parties	**$12.1**	$8.0

13. Pension plans:

MacMillan Bloedel has a number of contributory and non-contributory pension plans, participation in which is available to substantially all employees after one or two years of continuous service. In addition, the Company has agreements with a number of its officers and executives (including some now retired) which call for payments to be made under certain conditions following retirement. Pension and retirement benefits are determined as a function of service and earnings.

In the latter part of 1982, the Company reviewed the historical relationship of investment earnings to changes in levels of remuneration and reviewed current life expectancy tables relating to pension plans in Canada. The result of these deliberations was the adoption of revised assumptions for the primary Canadian plans. The effect of these changes has been to reduce the net loss for the year ended December 31, 1982 by $2.8 million after tax ($.12 per common share).

As at December 31, 1983 the estimated excess of pension fund assets and provisions over the estimated obligations for pension benefits amounted to approximately $43.2 million.

	1983	December 31 1982	1981
		($ millions)	
Pension fund assets	**$304.4**	$296.1	$265.4
Obligations for pension benefits under all plans and agreements	**274.6**	282.9	306.7
Excess (deficiency) of fund assets over obligations for benefits	**29.8**	13.2	(41.3)
Provisions	**13.4**	18.8	27.2
Excess (deficiency) over plan obligations	**$ 43.2**	$ 32.0	$ (14.1)

14. Information with respect to generally accepted accounting principles in the United States:

As disclosed in Note 1, the attached financial statements are prepared in accordance with accounting principles generally accepted in Canada. These accounting principles differ from those generally accepted in the United States. Had accounting principles generally accepted in the United States been followed in the preparation of these financial statements, the consolidated net earnings in 1983 would have been decreased by approximately $9.0 million ($.35 per common share), and consolidated loss increased in 1982 by approximately $19.0 million ($.78 per common share), and the consolidated net earnings increased by approximately $27.0 million in 1981 ($1.11 per common share).

As at December 31, 1983 and December 31, 1982 common shareholders' equity as shown in the statements of financial position would have amounted to $688.6 million and $644.9 million respectively.

1982 and 1981 amounts above have been restated to reflect the retroactive application of United States foreign currency translation accounting.

15. Subsequent event:

On January 5, 1984 the Company issued 2,000,000 $2.21 class B retractable preferred shares series 6 for $50.0 million less expenses of $1.6 million.

16. Segment information:

	Sales from Canada to	Sales to unaffiliated customers from	Contributions to earnings (loss) (2)	Assets
		($ millions)		
Year ended December 31, 1983				
Canada	**$ 427.1**	**$ 951.6**	**$ 62.8**	**$1,094.9**
United States	**541.7**	**940.5**	**(6.1)**	**695.6**
Europe (primarily the United Kingdom)	**193.3**	**150.1**	**.5**	**42.5**
Other	**322.4**	**1.9**	**1.1**	**6.2**
	1,484.5	**2,044.1**	**58.3**	**1,839.2**
Eliminations and adjustments:				
Inter-segment			**2.8**	**.4**
General corporate			**(8.5)**	**279.2**
Interest expense			**(80.8)**	
Consolidated totals	**$1,484.5**	**$2,044.1**	**$ (28.2)**	**$2,118.8**
Year ended December 31, 1982				
Canada	$ 442.3	$ 891.6	$ (30.2)	$1,193.3
United States	458.7	779.0	(21.1)	686.9
Europe (primarily the United Kingdom)	164.8	169.1	(1.4)	94.3
Other	270.4	3.4	2.6	2.1
	1,336.2	1,843.1	(50.1)	1,976.6
Eliminations and adjustments:				
Inter-segment			(1.1)	(2.4)
General corporate			(62.0)	176.2
Interest expense			(78.3)	
Consolidated totals	$1,336.2	$1,843.1	$(191.5)	$2,150.4
Year ended December 31, 1981				
Canada	$ 530.8	$1,172.6	$ 18.2	$1,325.0
United States	546.8	828.6	22.3	557.8
Europe (primarily the United Kingdom)	207.1	202.5	(1.1)	110.6
Other	363.0	6.0	.7	3.8
	1,647.7	2,209.7	40.1	1,997.2
Eliminations and adjustments:				
Inter-segment			4.5	(1.3)
General corporate			(31.3)	176.2
Interest expense			(63.2)	
Consolidated totals	$1,647.7	$2,209.7	$ (49.9)	$2,172.1

	Sales to unaffiliated customers (3)	Inter-segment sales (3)	Total revenue	Contributions to earnings (loss) (2)	Depreciation, depletion and amortization	Capital expenditures	Assets
				($ millions)			
Year ended December 31, 1983							
Raw materials and building materials	**$ 906.0**	**$ 69.6**	**$ 975.6**	**$ 13.5**	**$ 44.6**	**$ 36.1**	**$ 689.8**
Pulp and paper	**661.0**		**661.0**	**53.4**	**33.7**	**23.1**	**672.3**
Containerboard and packaging	**437.1**		**437.1**	**(5.7)**	**21.8**	**42.3**	**459.6**
Other	**40.0**		**40.0**	**1.4**	**.5**		**4.4**
Total operations	**2,044.1**	**69.6**	**2,113.7**	**62.6**	**100.6**	**101.5**	**1,826.1**
Eliminations and adjustments:							
Inter-segment		**(69.6)**	**(69.6)**	**(1.5)**			**13.5**
General corporate				**(8.5)**	**2.9**	**2.1**	**279.2**
Interest expense				**(80.8)**			
Consolidated totals	**$2,044.1**	**$**	**$2,044.1**	**$ (28.2)**	**$103.5**	**$103.6**	**$2,118.8**
Year ended December 31, 1982							
Raw materials and building materials	$ 667.9	$ 103.3	$ 771.2	$(105.1)	$ 36.8	$ 15.9	$ 622.2
Pulp and paper	683.0		683.0	49.6	29.1	41.3	743.3
Containerboard and packaging	460.6		460.6	(7.0)	13.1	143.0	587.1
Other	31.6		31.6	1.3	.4	.4	6.6
Total operations	1,843.1	103.3	1,946.4	(61.2)	79.4	200.6	1,959.2
Eliminations and adjustments:							
Inter-segment		(103.3)	(103.3)	10.0			15.0
General corporate				(62.0)	2.8	6.2	176.2
Interest expense				(78.3)			
Consolidated totals	$1,843.1	$	$1,843.1	$(191.5)	$ 82.2	$206.8	$2,150.4
Year ended December 31, 1981							
Raw materials and building materials	$ 838.9	$ 108.0	$ 946.9	$ (82.2)	$ 44.4	$ 58.2	$ 738.8
Pulp and paper	813.1	17.8	830.9	92.1	31.4	105.3	738.2
Containerboard and packaging	524.5		524.5	31.4	13.1	133.2	506.0
Other	33.2		33.2	.9	.6		7.9
Total operations	2,209.7	125.8	2,335.5	42.2	89.5	296.7	1,990.9
Eliminations and adjustments:							
Inter-segment		(125.8)	(125.8)	2.4			5.0
General corporate				(31.3)	2.5	11.2	176.2
Interest expense				(63.2)			
Consolidated totals	$2,209.7	$	$2,209.7	$ (49.9)	$ 92.0	$307.9	$2,172.1

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, segmentation 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 raw materials and 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. However, other pricing policies and methods of allocating costs are possible.

(2) Contributions to earnings (loss)
Contributions to earnings (loss) 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
Sales of the raw materials and building materials segment exclude the proceeds of domestic log sales and trades with third parties resulting from the need to match logs produced with the requirements of the converting mills. Such proceeds are credited against production costs. Sales of the raw materials and building materials segment include the proceeds of logs and chips transferred to the pulp and paper segment and export sales of logs.

17. Litigation:

The Company is not involved in legal proceedings other than routine litigation incidental to its business, except antitrust proceedings relating to its pulp business in the European Economic Community which could result in payment of a fine. Counsel is of the opinion that if any fine is levied it is not likely to be material.

18. Subsidiary companies:

Active	Inactive (including holding companies not carrying on active operations)
Canada	
Canadian Transport Company Limited	Harmac Ltd.
Canadian Transport (Europe) Limited	MacMillan Bloedel Building Limited
Forest Industries Flying Tankers Limited	MacMillan Bloedel Export Sales Ltd.
Kingcome Navigation Company Ltd.	MacMillan Bloedel Packaging Limited
MacMillan Bloedel Building Materials Limited	MacMillan Bloedel (Saskatchewan) Limited
MacMillan Bloedel (Hudson Bay) Limited	Premare Holdings Ltd.
MacMillan Bloedel (Pacific) Limited	
Vancouver Island Stevedoring Co. Ltd.	
Vancouver Marine Engines Ltd.	
United States	
Atlantic Forest Products Inc.	MacMillan Bloedel Radio System, Inc.
Canadian Transport (N.Y.) Inc.	MacMillan Bloedel Timberlands Inc.
Fibres International, Inc.	MacMillan Bloedel (U.S.A.) Inc.
MacMillan Bloedel Export Inc.	
MacMillan Bloedel Financial Inc.	
MacMillan Bloedel Inc.	
MacMillan Bloedel Particleboard Inc.	
Powell River-Alberni Sales Corporation	
Star Terminal Company, Incorporated	
United Kingdom	
MacMillan Bloedel Meyer Limited	Canadian Transport (Terminals) Limited
MacMillan Bloedel Pulp and Paper Sales Limited	Hygrade Corrugated Cases Limited
	MacMillan Bloedel Containers Holdings Limited
	MacMillan Bloedel Holdings (U.K.) Limited
	MacMillan Bloedel Meyer (Terminals) Limited
	MacMillan Bloedel Panelboard Agencies Limited
Other	
Altair Limited (1)	Canadian Transport Company Pty. Limited
Canadian Maas River Investment N.V.	Comfloresta-Parana Empreendimentos Florestais S.A. (2)
Comfloresta – Companhia Catarinense de Empreendimentos Florestais (2)	Comfloresta-Serrana Empreendimentos Florestais S.A. (2)
Embrasca-Empreendimentos Florestais e Agricolas Ltda. (2)	MacMillan Bloedel (Brasil) Ltda.
Fortrans N.V.	MacMillan Bloedel European Holdings B.V.
MacMillan Bloedel Europe B.V.	MacMillan Bloedel Holding N.V.
MacMillan Bloedel Pty. Limited	MacMillan Bloedel (Japan) Limited
MacMillan Bloedel (Asia) Limited	Oceanspan Carriers Limited
MacMillan Bloedel Finance Limited	Recursos Florestais Socieda de Civil Limitada (2)
MacMillan Bloedel KK	Sociedade Civil de Investimentos Florestais Limitada (2)
MacMillan Bloedel (South East Asia) Limited	
MB (Bermuda) Limited	

(1) November 30 year-end for fiscal purposes.
(2) These subsidiaries are not consolidated. (Notes 1 and 3)

Sales by segment

($ millions)	1979	1980	1981	1982	**1983**
Raw materials and building materials					
Lumber	734.7	705.3	534.3	462.6	**576.6**
Plywood	123.1	111.8	121.7	83.6	**108.3**
Waferboard	63.0	58.4	60.6	24.1	**40.8**
Particleboard	30.6	29.3	16.7	10.4	**10.7**
Other (includes inter-segment sales of logs and chips)	225.1	251.9	213.6	190.5	**239.2**
	1,176.5	1,156.7	946.9	771.2	**975.6**
Pulp and paper					
Newsprint	425.7	586.4	559.6	449.9	**458.5**
Market pulp	181.7	246.6	207.0	180.3	**177.6**
Fine papers*	29.6	35.7	35.4	38.3	**4.3**
Recycled fibre and other	35.4	46.2	28.9	14.5	**20.6**
	672.4	914.9	830.9	683.0	**661.0**
Containerboard and packaging					
Corrugated containers*	308.1	374.3	391.0	365.8	**281.3**
Containerboard	90.6	116.1	115.0	82.0	**138.7**
Bags	8.6	9.9	10.9	10.4	**10.3**
Other	6.7	14.8	7.6	2.4	**6.9**
	414.0	515.1	524.5	460.6	**437.2**

**Includes sales from fine paper and corrugated container operations until they were transferred to joint ventures in 1983.*

1983 Sales by market

	Canada	United States	Japan and Orient	U.K., Europe and Other	Total
Building materials					
Lumber (MMfbm)	211	694	110	258	**1,273**
Plywood (MMsq.ft. – ⅜″)	170	148	—	76	**394**
Waferboard (MMsq.ft. – ⅜″)	145	99	—	1	**245**
Particleboard (MMsq.ft. – ¾″)	37	3	—	—	**40**
Pulp and paper					
Newsprint (K-tonnes)	99	524	69	82	**774**
Market pulp (K-tonnes)	7	41	89	218	**355**
Recycled products (K-tonnes)	18	92	—	—	**110**
Containerboard and packaging					
Linerboard (K-tonnes)	5	191	2	63	**261**
Corrugating medium (K-tonnes)	40	83	5	5	**133**
Corrugated containers (K-tonnes)*	69	170	—	83	**322**

Production

	1979	1980	1981	1982	**1983**
Building materials					
Lumber (MMfbm)	1,285	1,171	910	635	**822**
Plywood (MMsq.ft. – ⅜″)	410	380	357	254	**314**
Waferboard (MMsq.ft. – ⅜″)	286	233	259	114	**182**
Particleboard (MMsq.ft. – ¾″)	125	74	41	35	**40**
Pulp and paper					
Newsprint (K-tonnes)	939	1,149	961	702	**788**
Market pulp (K-tonnes)	375	437	342	326	**369**
Containerboard and packaging					
Linerboard (K-tonnes)	411	369	363	288	**299**
Corrugating medium (K-tonnes)	4	67	68	42	**199**
Corrugated containers (K-tonnes)*	414	440	434	386	**322**

Operating rates

(percent)	1979	1980	1981	1982	**1983**
Building materials					
Lumber	80	74	56	46	**75**
Plywood	82	74	69	55	**79**
Waferboard	103	84	93	41	**65**
Particleboard	97	86	76	65	**74**
Pulp and paper					
Newsprint	78	95	82	67	**79**
Market pulp	82	95	78	71	**80**
Containerboard and packaging					
Linerboard	93	80	78	76	**74**
Corrugating medium	73	96	96	58	**76**
Corrugated containers*	74	70	71	63	**68**

**Includes corrugated container plants in Canada and the United Kingdom until they were transferred to joint ventures in 1983.*

Principal facilities

	Location	Aggregate effective annual capacities at year end 1983	1983 Production
Building materials	**Lumber**		(MMfbm)
	Port Alberni, British Columbia (1)	413	307
	Nanaimo, British Columbia	312	229
	Vancouver, British Columbia	115	111
	New Westminster, British Columbia (1)	77	29
	Powell River, British Columbia	85	70
	Pine Hill, Alabama	75	63
	Edenton, North Carolina (1)	15	13
		1,092	822
	(1) Lumber specialty mills at these locations.		
	Plywood		(MM sq.ft. – 3/8")
	Port Alberni, British Columbia	129	104
	Vancouver, British Columbia	96	78
	Pine Hill, Alabama	133	113
	Nipigon, Ontario	26	19
		384	314
	Waferboard		(MM sq.ft. – 3/8")
	Hudson Bay, Saskatchewan	150	76
	Thunder Bay, Ontario	128	106
		278	182
Pulp and paper	**Newsprint, including groundwood specialties**		(K-tonnes)
	Powell River, British Columbia	620	499
	Port Alberni, British Columbia	382	289
		1,002	788
	Market Pulp		(K-tonnes)
	Nanaimo, British Columbia	340	264
	Port Alberni, British Columbia	70	61
	Powell River, British Columbia	50	44
		460	369
Containerboard and packaging	**Linerboard**		(K-tonnes)
	Pine Hill, Alabama	403	299
	Corrugating medium		(K-tonnes)
	Pine Hill, Alabama	190	134
	Sturgeon Falls, Ontario	71	65
		261	199
	Corrugated containers		(K-tonnes)
	9 plants in the United States	234	172

Directors

E.K. Cork [2, 4]
Toronto, Ontario
Senior Vice-President, Treasurer
Noranda Mines Limited

D.C. Davenport [2, 4]
Vancouver, British Columbia
Partner, Bourne, Lyall, Davenport & Herbert

J.P. Fisher [4]
Edmundston, New Brunswick
Chairman and Chief Executive Officer, Fraser Inc.

R.E. Harrison [3, 4]
Toronto, Ontario
Chairman of the Board
Canadian Imperial Bank of Commerce

G.H.D. Hobbs [1, 2, 3, 4, 5]
Vancouver, British Columbia
Corporate Director

J.N. Hyland [1, 2, 4, 5, 6]
Vancouver, British Columbia
Corporate Director

C.C. Knudsen [1, 3, 4]
Seattle, Washington
Vice-Chairman
MacMillan Bloedel Limited

A. Powis [1, 4]
Toronto, Ontario
Chairman and Chief Executive Officer, Noranda Mines Limited

R.V. Smith [1, 3, 4]
Vancouver, British Columbia
President and Chief Executive Officer, MacMillan Bloedel Limited

Jean M. Southam [4, 6]
Vancouver, British Columbia
Private Investor

The Honourable J.N. Turner, P.C., Q.C. [4]
Toronto, Ontario
Partner, McMillan, Binch

C.B. Wright [4]
Seattle, Washington
Private Investor

A.H. Zimmerman [1, 3, 4]
Toronto, Ontario
President and Chief Operating Officer, Noranda Mines Limited

Honorary Directors

The Honourable J.V. Clyne, C.C., K.St.J.
J.E. Richardson

Officers

R.V. Smith
President and Chief Executive Officer

A.H. Zimmerman
Chairman of the Board

C.C. Knudsen
Vice-Chairman of the Board

D.L. McLauchlin
Executive Vice-President, Operations

R.B. Findlay
Senior Vice-President, Alberni Region

O.L. Forgacs
Senior Vice-President, Research and Development

S.W. Forstrom
Senior Vice-President, Powell River Region

J.L. Howard, Q.C.
Senior Vice-President, Law and Corporate Affairs

J.H. Lawson
Senior Vice-President, Raw Materials Services

Wilhelm Peppler
Senior Vice-President, International

J.S. Rogers
Senior Vice-President, Engineering

J. St.C. Ross
Senior Vice-President, Nanaimo Region

G.J. Towill
Senior Vice-President, Human Resources

R.N. Wiewel
Senior Vice-President, Marketing Group

G.A. Adams
Vice-President, Transportation

G.L. Ainscough
Vice-President and Chief Forester

J.C. Bauer
President, MacMillan Bloedel Containers

J.G. Dickinson
Vice-President, Planning and Analysis

D.A. Dowsley
Vice-President, Building Materials, Nanaimo Region

G.M. Ferguson
Vice-President, Treasurer

J.C. Finkbeiner
Vice-President, Tax, Properties and Risk Management

H.E. Fliessbach
Assistant Treasurer

A.N. Grunder
Vice-President, Information Systems and Services

D.H. Holden
Vice-President, Corporate Communications

Claire-Marie Jadot
Assistant Secretary

G.H. Johncox
Vice-President, Industrial Relations

E. Lauritzen
Vice-President, Pulp and Paper, Marketing Group

E.G. Legg
Vice-President, Controller, Marketing Group

R.V. Matthews
Vice-President, Controller

F.H. Moonen
Vice-President, Government Affairs

W.W. Shorter
President, MacMillan Bloedel Inc.

D.W. St. John
Vice-President, Lumber, Marketing Group

G. Wishart
Secretary

V.R. Worthy
Vice-President, Panelboards, Marketing Group

Committees of the Board

Executive Committee [1]
Audit Committee [2]
Compensation Committee [3]
Nominating Committee [4]
Pension Fund Investment Advisory Committee [5]
Donations Committee [6]

Tax Provisions Relating to Dividends and Interest to Non-resident Security Holders

Dividends paid to United States shareholders of the Company's shares are subject to a 15% Canadian non-resident withholding tax. Also, interest paid to United States holders of the Company's debt obligations is subject to 15% Canadian non-resident withholding tax, except for interest payable to exempt entities and to holders of debt issued by the Company after June 23, 1975 where the terms of the debt do not require repayment of more than 25% of the principal amount within five years from the date of issue.

Distribution of Common Shares and Registered Common Shareholders as at February 10, 1984

	Common Shares	Common Shareholders*
Canada	25,270,227	9,320
United States	1,183,759	830
Other	26,871	105
	26,480,857	10,255
Share warrants	186	
	26,481,043	

**excludes approximately 7,500 beneficial shareholders, many of whom are employees of the Company.*

Exchange Listings

Common Share Listings: New York, Toronto, Montreal, Vancouver.
Class B Preferred Share Listings: Toronto, Montreal, Vancouver.
Ticker Symbols: New York Stock Exchange–MMB; Canadian Stock Exchanges–MB.

Transfer Agents and Registrars

Guaranty Trust Company of Canada
Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal

The Chase Manhattan Bank
New York

Form 10-K Available

The Company's Annual Report to the United States Securities and Exchange Commission (Form 10-K) is available on request. Write to:

The Secretary
MacMillan Bloedel Limited
1075 West Georgia Street
Vancouver, B.C. V6E 3R9

***Cover Stock:** 300 gram Glazed White Ivory Board, produced by the Company's Dutch affiliate, Koninklijke Nederlandse Papierfabrieken N.V.*

***Text Stock:** 50 gram Electraheat, a groundwood printing paper produced at the Company's mill in Powell River, British Columbia.*