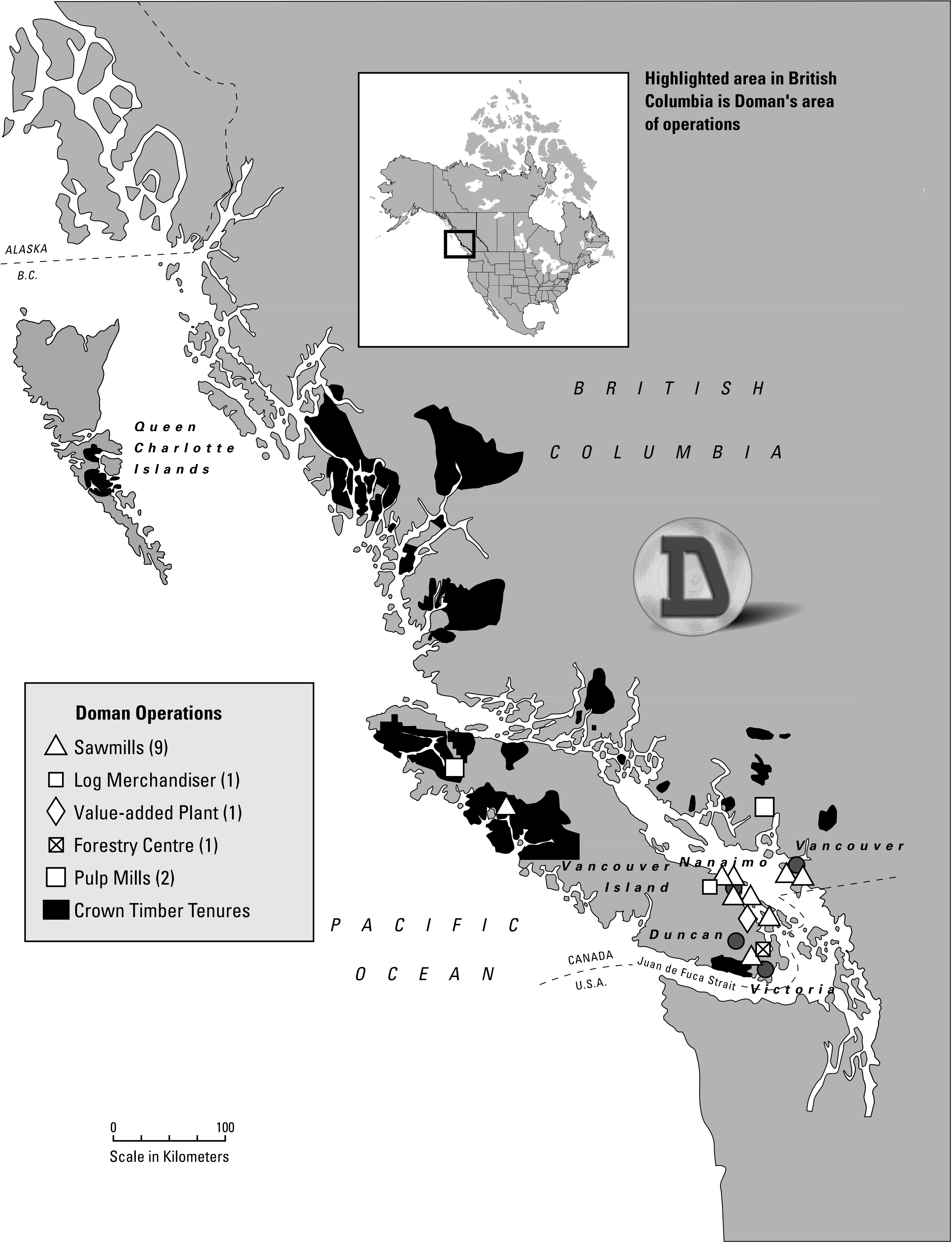
DOMAN INDUSTRIES LIMITED

ANNUAL STATUTORY REPORT
FOR 1999

Directors' Report
Notice of Meeting
Information Circular
1999 Annual Information Form — May 10, 2000
Consolidated Financial Statements


Highlighted area in British Columbia is Doman's area of operations
ALASKA
B.C.
Queen Charlotte Islands
BRITISH COLUMBIA
Doman Operations
Sawmills (9)
Log Merchandiser (1)
Value-added Plant (1)
Forestry Centre (1)
Pulp Mills (2)
Crown Timber Tenures
Vancouver Island
Nanaimo
Vancouver
Duncan
Victoria
PACIFIC OCEAN
CANADA
U.S.A.
Juan de Fuca Strait
0
100
Scale in Kilometers

FINANCIAL HIGHLIGHTS

	For the Years Ended December 31, 1999	1998
	(millions of dollars except per share amounts)	
Operating Results		
Sales	$ 873.6	$ 779.2
EBITDA[1]	112.0	63.8
EBIT [2]	30.4	(7.1)
Interest expense	110.8	104.8
Operating loss	(80.4)	(111.9)
Other income (expense)	(2.0)	(2.5)
Income and capital taxes expense	(26.5)	(39.7)
Net loss	(55.9)	(74.7)
Funds provided by operating activities	90.7	10.0
Capital expenditures	35.2	69.6
Per Common and Non-voting Share		
Net loss[3]	$ (1.41)	$ (1.85)
Funds provided by operating activities	2.14	0.24
Dividends paid	—	—
Price range – TSE		
Class A Common		
High	4.35	7.85
Low	1.90	1.70
Close	2.40	2.00
Volume of shares traded	237,320 shs.	491,722 shs.
Class B Common		
High	2.99	7.75
Low	1.45	1.20
Close	1.80	1.80
Volume of shares traded	27,300,751 shs.	27,018,342 shs.
Book value of common and non-voting shares at year end	3.99	5.31

	As of December 31, 1999	1998
	(millions of dollars)	
Assets and Liabilities		
Working capital	$ 378.3	$ 222.4
Total assets	1,486.0	1,528.6
Long-term debt	1,024.7	884.2
Deferred income taxes	58.9	88.1
Shareholders' equity	233.6	289.6

(1) EBITDA represents operating earnings before interest, income and capital taxes, depreciation, amortization and other non–operating income and expenses. The Company has included information concerning EBITDA because the Company understands that it is used by certain investors as a measure of the Company's performance. EBITDA does not represent cash generated from operations as defined by generally accepted accounting principles and it is not necessarily indicative of cash available to fund cash needs.
(2) EBIT represents operating earnings (loss) before interest, income and capital taxes and other non–operating income and expenses.
(3) After provision for dividends on preferred shares.

DIRECTORS' REPORT

TO OUR SHAREHOLDERS

Last year was one of rebuilding during which the implementation of a difficult inventory and debt reduction plan in the first half of 1999 let us realize upon improved markets during the second half.

We entered 1999 coming off one of the most difficult years in the forest products industry in recent memory. Prices for lumber and pulp were both generally weak and the Asian economic crisis prevented any real market improvements. Further, the quota imposed on Canadian lumber producers restricted our ability to fully access the U.S. lumber market.

These difficult market conditions and a build-up in inventories resulted in our implementing a plan during the latter part of 1998 to reduce inventories and bank indebtedness and take production curtailments. In the first quarter of 1999, we accelerated our inventory and debt reduction plan in response to market conditions and in connection with negotiations with our bank lenders. The plan had a negative impact on our overall financial performance during the first half of 1999 as production curtailments increased our per-unit cost of production and we discounted prices in order to achieve sales volumes.

By mid-year, we had substantially implemented our plan and in June 1999, we completed an issue of U.S.$160 million of senior secured notes maturing in 2004. We used the proceeds to repay in full all of our existing bank indebtedness and the balance was used for working capital and other corporate purposes. The proceeds of this issue provided us with enhanced liquidity and permitted us to return to operating our business at optimal levels.

During the second half of 1999, our results improving dramatically over the first half of 1999. Our EBITDA improved from $(7.0) million in the first quarter of 1999 to $18.8 million, $51.6 million and $48.6 million in the second, third and fourth quarters of the year, respectively. Overall, in 1999, EBITDA increased by over 75% to $112.0 million from $63.8 million in 1998. Of our total EBITDA in 1999, $100.2 million was generated in the second half of the year. Our net loss in 1999 was $55.9 million, or $1.41 per share, compared to $74.8 million, or $1.85 per share, in 1998. Over 85% of our net loss in 1999 was incurred in the first six months.

Product prices, which were weak in 1998 and the start of 1999, improved through 1999. Strong U.S. housing starts led to higher lumber prices in the U.S. market through the first half of 1999. Although U.S. lumber prices declined somewhat in the latter part of 1999, they were generally stable. In addition, lumber prices in Japan began a slow and steady improvement in 1999. Prices for 105 hemlock "baby squares" increased from about U.S.$530 per mfbm at the start of the year to approximately U.S.$620 per mfbm at the end of 1999.

Kraft pulp prices increased from about U.S.$460 per tonne in the first quarter of 1999 to U.S.$600 per tonne at the end of the year. In addition, a U.S.$30 per tonne price increase to U.S.$630 per tonne was implemented on January 1, 2000 and a further U.S.$40 per tonne price increase to U.S.$670 per tonne was effected on April 1, 2000.

Operationally, our Squamish pulp mill had record production of 263,920 tonnes in 1999. In addition, we successfully converted some of the production at our Port Alice pulp mill to sulphite paper grade pulp. This has permitted the mill to run at full capacity since October 1999. The current market outlook for kraft pulp is positive for 2000.

In our solid wood business, the labour agreement with our hourly workers expires in mid-2000 and negotiations with union representatives for a new master collective agreement commenced in April 2000. Although no assurances can be provided, we hope that the recent challenges faced by industry will be recognized by stakeholders and permit both sides to reach an acceptable agreement without any material work stoppages. Further, while areas upon which we harvest timber are subject to competing claims of other stakeholders, we will continue to try to work with them, including government, to find solutions that permit responsible sustainable harvesting. In April 2000, we successfully achieved ISO 14001 environmental management system certification for all of our forestry operations.

In 1999, our EBITDA improved by 75% over 1998 and over 89% (or $100.2 million) of our total EBITDA was generated in the second half of the year. We are pleased with the improvement in our performance in the second half compared to the first half of 1999 and are committed to pursuing initiatives to build upon such improvement in 2000.

ON BEHALF OF THE BOARD OF DIRECTORS

P. G. Hosier

PHILIP G. HOSIER
Secretary
Duncan, British Columbia
May 2000

ANNUAL STATUTORY REPORT FOR 1999

TABLE OF CONTENTS

NOTICE OF ANNUAL GENERAL MEETING OF MEMBERS
To Be Held On June 28, 2000

TO: The Members of Doman Industries Limited

NOTICE IS HEREBY GIVEN that the annual general meeting of the members of Doman Industries Limited (hereinafter called the "Company") will be held at the Silver Bridge Inn, 140 Trans–Canada Highway, Duncan, British Columbia on Wednesday, the 28th day of June, 2000, at 11:30 a.m., for the following purposes:

1. To have placed before the meeting the consolidated financial statements of the Company for the financial year ended December 31, 1999 and the report of the auditors thereon;

2. To elect directors for the ensuing year;

3. To appoint auditors for the ensuing year, and to authorize the directors to fix their remuneration; and

4. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Members who are entitled to vote at but are unable to attend the meeting in person are requested to complete, sign, date and return the enclosed form of proxy. A proxy will not be valid unless it is deposited at the office of CIBC Mellon Trust Company, Corporate Trust Department, Mall Level, 1066 West Hastings Street, 1600 Oceanic Plaza, Vancouver, British Columbia, V6E 3X1, not less than 24 hours before the time fixed for the meeting.

DATED at Duncan, British Columbia, this 10th day of May, 2000.

BY ORDER OF THE BOARD OF DIRECTORS

P. G. Hosier

PHILIP G. HOSIER
Secretary

INFORMATION CIRCULAR

INFORMATION PROVIDED AS AT MAY 10, 2000, UNLESS OTHERWISE SPECIFIED,
FOR THE ANNUAL GENERAL MEETING OF MEMBERS TO BE HELD ON JUNE 28, 2000

This information circular is furnished in connection with the solicitation of proxies by management of Doman Industries Limited (hereinafter called the "Company") for use at the annual general meeting of members of the Company to be held on June 28, 2000, at the time and place and for the purposes set forth in the notice of meeting. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by officers of the Company at nominal cost.

The cost of this solicitation will be borne by the Company.

The Company will also pay the broker-dealers, banks or other nominee shareholders of record of the Company their reasonable expenses in mailing copies of the foregoing material to beneficial owners of shares.

All dollar amounts in this information circular are in Canadian currency, unless otherwise specified.

NOTICE OF MEETING

Advance notice of the meeting was published in the Vancouver Province newspaper on April 17, 2000 and The Cowichan Valley Citizen newspaper on April 19, 2000 and was delivered to the Canadian securities administrators and The Toronto Stock Exchange on April 12, 2000.

RECORD DATE

The directors have set May 10, 2000 as the record date for determining which members shall be entitled to receive notice of the meeting. If a member transfers any shares after the record date and the new holder of such shares establishes proper ownership thereof, the new holder may have his or her name included in the list of members entitled to vote at the meeting upon filing a written request to that effect with the secretary of the Company not later than 10 days before the meeting or any adjournment thereof.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the accompanying form of proxy are directors of the Company. A member desiring to appoint some other person (who need not be a member) to represent him at the meeting may do so, either by striking out the printed names and inserting the desired person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and in either case delivering the completed proxy to the office of CIBC Mellon Trust Company, Corporate Trust Department, Mall Level, 1066 West Hastings Street, 1600 Oceanic Plaza, Vancouver, British Columbia, V6E 3X1, not less than 24 hours (excluding Saturdays, Sundays and holidays) before the time fixed for the meeting.

A member who has given a proxy may revoke it by an instrument in writing delivered to the registered office of the Company at Suite 1900, 700 West Georgia Street, P.O. Box 10354, Vancouver, British Columbia, V7Y 1G5, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, or to the chairman of the meeting on the day of the meeting, or any adjournment thereof, or in any manner provided by law.

VOTING OF PROXIES

The form of proxy accompanying this information circular confers discretionary authority upon the named proxyholder with respect to matters identified in the accompanying notice of meeting or any amendments or variations or other matters which may properly come before the meeting. If the instructions as to voting are certain, the shares represented by the proxyholder will be voted on any poll and where a choice with respect to any matters to be acted upon has been specified on the form of proxy the shares will be voted in accordance with the specification so made. **IF A CHOICE IS NOT SO SPECIFIED, IT IS INTENDED THAT THE PERSON DESIGNATED BY MANAGEMENT IN THE ACCOMPANYING FORM OF PROXY WILL VOTE THE SHARES REPRESENTED BY THE PROXY IN FAVOUR OF EACH MATTER IDENTIFIED ON THE FORM OF PROXY AND FOR THE NOMINEES OF MANAGEMENT FOR DIRECTORS AND AUDITORS.**

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

As at the date of this information circular, 4,794,341 Class A Common Shares without par value (the "Class A Shares") were issued and outstanding, each such share carrying the right to one vote at the meeting.

Holders of the Class B Non-Voting Shares, Series 2 (the "Class B Shares") and the Class A Cumulative Redeemable Preferred Shares, Series 4 of the Company at the close of business on the record date, May 10, 2000, are entitled to attend the meeting but are not entitled to vote.

To the knowledge of the directors and senior officers of the Company, the following parties beneficially own, directly or indirectly, or exercise control or direction over, more than 10% of the outstanding Class A Shares:

Name	**No. of Class A Shares Owned**	**% of Issued Shares**
H.S. DOMAN	3,416,248[(1)]	71.26%

(1) Of the foregoing, 2,275,212 Class A Shares are owned by Cedar Chines Holdings Limited ("Cedar") and 1,108,316 are owned by Darcia Holdings Limited ("Darcia"). H.S. Doman is the holder of all of the voting shares of Darcia and Cedar. In addition, H.S. Doman, Cedar and Darcia own an aggregate of 3,991,089 Class B Shares.

COAT-TAIL

The Class B Shares have "coat-tail" provisions attached to them as provided for in the Articles of the Company. Under the "coat-tail" provisions, each Class B Share will be deemed to be a Class A Share if an offer to purchase (an "Offer") is made to all or substantially all of the holders of the Class A Shares. The deemed conversion will not occur, however, if, in general terms, (i) less than 50% of the outstanding Class A Shares are tendered in acceptance of the Offer, or (ii) H.S. Doman, his children, grandchildren and other descendants, and certain companies and trusts holding Class A Shares on their behalf, hold at least 20% of the outstanding Class A Shares, and H.S. Doman (or his estate) certifies that he will not accept the Offer. The deemed conversion will also not occur if, at the time of the Offer, an offer on the same terms and conditions is made to substantially all the holders of the Class B Shares. While these "coat-tail" provisions are designed to provide the holders of the Class B Shares with the right to participate in an Offer subject to the foregoing exceptions, there may be circumstances in which effective control of the Company could be acquired by a third party without the "coat-tail" provisions becoming operative by their terms.

ELECTION OF DIRECTORS

The persons named in the following table are proposed by management for election as directors of the Company. Each director elected will hold office until the next annual general meeting or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with the articles of the Company or unless he becomes disqualified to act as a director. With the exception of H.S. Doman, all nominees are currently directors of the Company.

The following information concerning the respective nominees has been furnished by each of them:

Name of Proposed Nominee and Present Position with the Company	Principal Occupation	Director Since	Approximate Number of Shares Beneficially Owned Directly or Indirectly as of the Date Hereof
H.S. DOMAN	Chief Executive Officer and President of Doman Forest Products Limited, Western Forest Products Limited and Western Pulp Inc; Chairman of the Board, Chief Executive Officer and President of the Company until October 1999	1955-1999	3,416,248 Class A Shares and 3,991,089 Class B Shares
J.R. FRUMENTO[(1)] President and Director	President of the Company; Consultant	1974	600 Class A Shares and 130,272 Class B Shares
C.A. JOHNSON[(1)] Director	Retired; formerly Chairman of the Vancouver International Airport Authority	1982-1985, 1990	51,138 Class B Shares
J. BROUWER Director	Chairman of the Board of Brouwer Claims Canada & Co. Ltd.	1985	550 Class A Shares and 1,000 Class B Shares
J.H. DOMAN Director	Manager, North American Lumber Sales of the Company	1988	30,529 Class B Shares
B.D. GREGSON[(1)] Director	Retired	1991	2,500 Class A Shares and 12,500 Class B Shares
V.R. WOODS Director	Vice President, Logging of the Company; Vice President and General Manager of Western Forest Products Limited	1995	3,100 Class A Shares and 5,356 Class B Shares

(1) Member of the Audit Committee.

In 1989, H.S. Doman was charged with breaching the *Securities Act* (British Columbia) (the "Act") by allegedly informing two individuals about a material fact or change in the affairs of the Company which had not been generally disclosed. At a trial held in the Provincial Court of British Columbia, Mr. Doman and the two individuals were acquitted of all charges and the decision was not appealed.

Following an administrative hearing, in 1996 the British Columbia Securities Commission found that Mr. Doman and the two individuals had contravened the Act. Following various appeals, a settlement (the "Settlement") was reached in October 1999 pursuant to which, *inter alia*, Mr. Doman continued as Chief Executive Officer, President and a director of all of the Company's operating subsidiaries, without interruption, but resigned as an officer and director of the Company with effect from October 26, 1999 for a period of eight months. Commencing June 26, 2000, Mr. Doman may return as Chief Executive Officer, President and a director of the Company provided that: (i) the Company maintains a governance committee comprised of a majority of independent directors and chaired by an independent director; and (ii) Mr. Doman does not act as Chief Executive Officer/President and Chairman of the Board at the same time. Pursuant to the terms of the Settlement, Mr. Doman also agreed that certain trading exemptions will not apply to him for a period of ten years.

STATEMENT OF EXECUTIVE COMPENSATION

Executive Compensation

The following table provides a summary of compensation paid during each of the last three financial years to the Chief Executive Officer of the Company and the four most highly compensated Executive Officers of the Company other than the Chief Executive Officer. The Chief Executive Officer and such four Executive Officers are referred to collectively as the "Named Executives". Specific aspects of this compensation are dealt with in detail in the tables to follow.

SUMMARY COMPENSATION TABLE

		Annual Compensation			
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation(1) ($)**	**All Other Compensation(2) ($)**
J.R. FRUMENTO(3) President	1999 1998 1997	— — —	— — —	— — —	304,000(4) 227,800(4) 43,750(4)
H.S. DOMAN Chief Executive Officer and President, Doman Forest Products Limited, Western Forest Products Limited and Western Pulp Inc.	1999(5) 1998 1997	445,110 437,760 437,760	125,000 75,000 150,000	— — —	4,083 — 315
V.R. WOODS Vice President, Logging of the Company; Vice President and General Manager, Western Forest Products Limited	1999 1998 1997	188,125 185,000 185,000	115,000 75,000 125,000	15,299 12,727 7,843	3,654 3,887 3,085
J.V. LUKOSEVICIUS Vice President and General Manager, Western Pulp Inc.	1999 1998 1997	188,125 185,000 185,000	75,000 50,000 50,000	— — —	3,654 3,729 3,085
B.S. FALLOWS Vice President, Marketing and Sales, Western Pulp Inc.	1999 1998 1997	142,375 140,000 140,000	25,000 12,000 12,000	1,696 2,051 1,972	3,593 3,636 2,800
P.G. HOSIER(6) Vice President, Finance and Secretary of the Company; Chief Financial Officer of Western Forest Products Limited	1999 1998 1997	134,200 118,200 111,102	20,000 12,000 12,000	— — —	3,016 3,038 3,008

(1) Perquisites and other personal benefits did not exceed the lesser of $50,000 and 10% of the total annual salary and bonus for any of the Named Executives. Amounts reported in this column refer to imputed interest on housing loans.
(2) Unless otherwise specified, amounts reported in this column refer to the dollar values of insurance premiums paid with respect to term life insurance, medical benefits and amounts contributed in respect of an employee savings plan.
(3) J.R. Frumento was appointed President of the Company in October 1999.
(4) These amounts include fees paid for consulting services in respect of an acquisition of $261,000 in 1999 and $187,800 in 1998, directors' fees and pension payments.
(5) H.S. Doman resigned as Chief Executive Officer and President of the Company effective October 1999.
(6) P.G. Hosier was appointed Secretary of the Company in March 1999 and Vice President, Finance of the Company in July 1999.

OPTION GRANTS DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 1999

The Company did not issue any options under its incentive stock option plan during the financial year ended December 31, 1999.

AGGREGATED OPTION EXERCISES DURING THE FINANCIAL YEAR ENDED DECEMBER 31, 1999 AND FINANCIAL YEAR-END OPTION VALUES

The following table sets forth aggregated option exercises during the financial year ended December 31, 1999 by the Named Executives and December 31, 1999 option values.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at December 31, 1999 (#) Exercisable/ Unexercisable	Value of Unexercised in-the-Money Options at December 31, 1999 ($) Exercisable/ Unexercisable(1)
H.S. Doman (2)	NIL	N/A	32,000/48,000	NIL/NIL
H.S. Doman	NIL	N/A	40,000/60,000	NIL/NIL
V.R. Woods	NIL	N/A	20,000/30,000	NIL/NIL
J.V. Lukosevicius	NIL	N/A	14,000/21,000	NIL/NIL
B.S. Fallows	NIL	N/A	8,000/12,000	NIL/NIL
P.G. Hosier	NIL	N/A	6,000/9,000	NIL/NIL

(1) The market price for the Class A Shares on December 31, 1999 was $2.40 and the market price for the Class B Shares on December 31, 1999 was $1.80.
(2) Options to purchase securities referred to in this row relate to Class A Shares. All other information in this table relates to options to purchase Class B Shares.

RETIREMENT PLANS

The following tables set forth annual benefits that become payable under pension plans established by Western Forest Products Limited, a subsidiary of the Company. H.S. Doman, V.R. Woods, J.V. Lukosevicius, B.S. Fallows and P.G. Hosier are members of the Western Forest Products Limited salaried employees pension plan (the "WFP Plan"). Mr. Doman, Mr. Woods, Mr. Lukosevicius and Mr. Hosier are also members of the Western Forest Products Limited supplementary retirement plan (the "Supplementary Plan"). Table I sets forth information relevant to the WFP Plan.

PENSION PLAN TABLE

TABLE I – WFP PLAN

Pensionable Earnings ($)	Years of Service					
	15	20	25	30	35	40
100,000	25,134	33,512	41,890	50,268	58,646	67,024
125,000	25,833	34,444	43,056	51,667	60,278	68,889
150,000	25,833	34,444	43,056	51,667	60,278	68,889
175,000	25,833	34,444	43,056	51,667	60,278	68,889
200,000	25,833	34,444	43,056	51,667	60,278	68,889
225,000	25,833	34,444	43,056	51,667	60,278	68,889
250,000	25,833	34,444	43,056	51,667	60,278	68,889
275,000	25,833	34,444	43,056	51,667	60,278	68,889
300,000	25,833	34,444	43,056	51,667	60,278	68,889

Under the WFP Plan, pensionable earnings equal the highest average earnings of the executive officer based upon a 60 consecutive month period while the WFP Plan is in operation. Pension benefits are equal to 1.9% of pensionable earnings per year of service to a maximum of 40 years minus an adjustment for Canada Pension Plan Benefits. If a Named Executive retires before age 60, his pension will be reduced. If a Named Executive retires before age 65, he will receive a bridging benefit which ranges from $2,822 to $9,012 for the range of salaries and services set out in Table I. Apart from the bridging benefit which terminates at age 65, pensions are paid for life with a guarantee of at least five years payment should the retired executive die within five years following retirement. Benefits payable under the WFP Plan are limited to the maximum amounts permitted under the *Income Tax Act* (Canada), currently set at $1,722 of annual pension for each year of credited service (the "ITA Limit").

The Supplementary Plan provides a pension supplement to eligible members of the WFP Plan in order to provide pension benefits to the level that members would receive if no ITA Limit was in place. Pensionable earnings and benefits under the WFP Plan, as supplemented by the Supplementary Plan are calculated upon the same basis as benefits and earnings under the WFP Plan alone, with the exception that the ITA Limit does not apply.

Benefits accruing payable to Mr. Fallows are set out in Table I. Benefits accruing payable to Mr. Doman, Mr. Woods, Mr. Lukosevicius and Mr. Hosier are set out in Table II, provided that the maximum pension benefit payable to Mr. Doman under the Supplementary Plan is capped at $271,655 per annum. As at December 31, 1999, Mr. Doman had completed 44 years of pensionable service, Mr. Woods had completed 15 years of pensionable service, Mr. Lukosevicius had completed and been credited with 18 years of pensionable service, Mr. Fallows had completed 3 years of pensionable service and Mr. Hosier had completed 20 years of pensionable service.

PENSION PLAN TABLE

TABLE II — WFP PLAN
(as supplemented by the Supplementary Plan)

Pensionable Earnings ($)	Years of Service					
	15	20	25	30	35	40
100,000	25,134	33,512	41,890	50,268	58,646	67,024
125,000	32,259	43,012	53,765	64,518	75,271	86,024
150,000	39,384	52,512	65,640	78,768	91,896	105,024
175,000	46,509	62,012	77,515	93,018	108,521	124,024
200,000	53,634	71,512	89,390	107,268	125,146	143,024
225,000	60,759	81,012	101,265	121,518	141,771	162,024
250,000	67,884	90,512	113,140	135,768	158,396	181,024
275,000	75,009	100,012	125,015	150,018	175,021	200,024
300,000	82,134	109,512	136,890	164,268	191,646	219,024
325,000	89,259	119,012	148,765	178,518	208,271	238,024
350,000	96,384	128,512	160,640	192,768	224,896	257,024
375,000	103,509	138,012	172,515	207,018	241,521	276,024
400,000	110,634	147,512	184,390	221,268	258,146	295,024

J.R. Frumento receives benefits under a pension plan established by the Company (the "DIL Plan"). Under the DIL Plan, pensions are paid for life with a guarantee of at least five years of payment should the retired executive die within five years from retirement. Benefits payable under the DIL Plan are subject to the ITA Limit. In 1999, Mr. Frumento received pension benefits under the DIL Plan in the amount of $22,500.

EMPLOYMENT CONTRACTS

An agreement exists between a subsidiary of the Company and J.V. Lukosevicius. The agreement is of an indefinite term and provides that Mr. Lukosevicius shall be paid $185,000 per annum reviewable on an annual basis. Bonuses may be paid under the agreement at the discretion of the employer. Mr. Lukosevicius has also been credited under the agreement for a period of pensionable service under the employer's salaried employees pension plan. The agreement provides that if Mr. Lukosevicius' employment is terminated for any reason other than just cause, he shall be paid an amount equal to not less than 12 months salary and not more than 24 months salary, dependant upon length of service.

TABLE OF INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

As at May 10, 2000, the aggregate indebtedness to the Company or any of its subsidiaries (other than routine indebtedness) of all present and former officers, directors and employees of the Company or any of its subsidiaries amounted to $296,150. The following table sets forth the indebtedness to the Company or any of its subsidiaries (other than routine indebtedness) incurred by directors, executive officers and senior officers of the Company and its subsidiaries.

Name and Principal Position	Involvement of Issuer or Subsidiary	Largest Amount Outstanding during Financial Year ended December 31, 1999 ($)	Amount Outstanding as at May 10, 2000 ($)
V.R. Woods Vice President, Logging of the Company; Vice President and General Manager, Western Forest Products Limited	Lender	267,750(1)	267,750(1)
B.S. Fallows Vice President, Marketing and Sales, Western Pulp Inc.	Lender	37,866(2)	28,400(2)

(1) Interest free housing loan repayable on the earlier of the date on which employment with a subsidiary of the Company ceases and March 31, 2007. The loan is secured against the borrower's residence.
(2) Interest free housing loan repayable in annual installments of $9,466.66 maturing on August 1, 2002. The loan was advanced to replace an existing housing loan upon the borrower commencing employment with a subsidiary of the Company. The loan is unsecured but may, at the option of the lender, become secured against the borrower's residence.

REPORT ON EXECUTIVE COMPENSATION

The Governance and Compensation Committee of the Company is currently comprised of J. Brouwer, J.R. Frumento and B.D. Gregson, who are all directors of the Company. J. Brouwer is chairman of the Committee and is an "unrelated director" as that expression is used in The Toronto Stock Exchange guidelines relating to corporate governance disclosure. One member of the Committee, J.R. Frumento, was appointed an officer of the Company on an interim basis effective October 1999. The Committee is responsible for, among other things, the periodic review of the Company's short-term and long-term policies for attracting, retaining, developing and motivating executive officers of the Company. The Committee met three times in 1999 to review compensation policies relating to the Company and its subsidiaries and to approve specific compensation awards and benefits.

The executive officers of the Company, including the Chief Executive Officer, are compensated based on the market value of the jobs they perform, their levels of performance and the performance of the Company. Effective October 1999, H.S. Doman resigned as Chief Executive Officer and President of the Company and J.R. Frumento was appointed interim President. Mr. Doman will be reappointed Chief Executive Officer and President of the Company in June 2000.

The Company's executive compensation policies are designed to recognize and reward executive officers based upon individual and corporate performance. In addition, remuneration packages are monitored to ensure that compensation levels remain competitive in order to allow the Company to attract and retain the executive talent that it requires. The Governance and Compensation Committee monitors levels of executive remuneration to ensure overall compensation reflects the Company's objectives and philosophies and meets the Company's desired relative compensation position.

The key components comprising executive officer compensation are base salary and annual bonus (short-term incentives) and participation in an incentive stock option plan and one or more pension plans (long-term incentives). The short and long-term incentive components of the executive compensation program provide variable compensation linked to shareholder wealth and to Company and individual performance. In reviewing and setting levels of executive compensation, the Company reviews its policies and practices against those of other comparable companies operating in the forest industry in British Columbia.

The Governance and Compensation Committee approves salary ranges for executive officers of the Company based on competitive industry data for the markets in which the Company operates. In establishing base salaries and salary ranges, the objective of the Committee is to set target levels which, over time, will be competitive with market. Individual levels, which are set annually, may vary from this objective, dependent upon individual performance levels. The Chief Executive Officer does not participate in discussions or review relating to his own compensation.

The Company also provides annual incentive compensation to executive officers, including the Named Executives, through the provision of incentive bonuses. Incentive bonuses are awarded annually, on a discretionary basis, to executive officers, based upon a review of Company and individual performance over the prior financial year relative to each executive officer's area of responsibility and taking into account other compensation paid or awarded to the executive officer in such year, and having regard to competitive factors.

The Company also has in place an incentive stock option plan which was established in 1993. The incentive stock option plan is designed to encourage employees and executive officers to focus on the long-term interests of the Company and its shareholders. The board of directors of the Company (the "Board") has the authority to establish terms and conditions of each granted option, so long as such terms and conditions are not inconsistent with provisions of the incentive stock option plan. To assist in determining terms and conditions for each grant, the Governance and Compensation Committee reviews available market information for comparative groups and reviews the terms and total number of options issued in the past, as well as the numbers of options outstanding at any given time. Grant sizes allocated to individuals are based on individual salary level and performance. The Company did not issue any options under the incentive stock option plan during 1999.

In recent years, the Company's share price performance has resulted in the Company's issued stock options being exercisable at prices in excess of the market price of the Company's shares. The Company has not sought to reprice existing stock options or issue new stock options at current market prices. Rather, the Company currently emphasizes the bonus component of its compensation package pending any improvement in the market price for its shares.

The salary of the Chief Executive Officer is based on competitive salaries for positions of similar responsibility. In assessing compensation paid to the Chief Executive Officer, the Governance and Compensation Committee reviews available industry data relating to other integrated forest products companies in British Columbia.

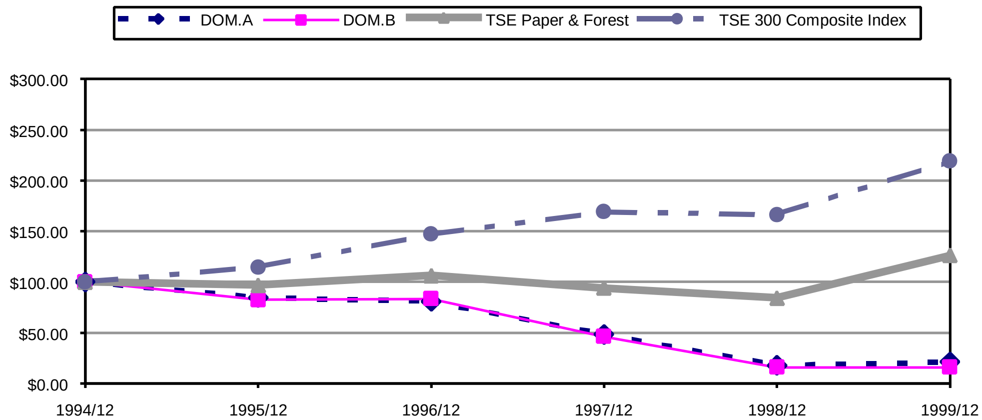
Governance and Compensation Committee report presented by:

J. Brouwer (Chairman)
J.R. Frumento
B.D. Gregson

PERFORMANCE GRAPH

The following chart compares a $100 investment in Class A Shares and Class B Shares of the Company with a similar investment in the group of TSE 300 and TSE Paper and Forest Products companies. The chart portrays total nominal return, 1994 - 1999, assuming reinvestment of dividends.

Total Return Index Value



DOM.A	$100.00	$84.57	$80.64	$48.21	$17.53	$21.04
DOM.B	$100.00	$82.39	$83.24	$46.00	$15.77	$15.77
TSE Paper and Forest	$100.00	$96.88	$106.24	$94.10	$84.37	$126.15
TSE 300 Composite Index	$100.00	$114.53	$146.99	$169.01	$166.33	$219.08

COMPENSATION OF DIRECTORS

Directors of the Company who are not officers or employees are compensated for their services as directors through a combination of retainer fees and meeting attendance fees. In 1999, the annual retainer fee paid to such directors was $12,000. In 2000, this fee was increased to $20,000. The chairman of any committee of the Board receives an additional fee of $1,000 per annum and directors receive a fee of $1,000 per day for director and committee meetings attended. Directors are reimbursed for expenses incurred in connection with their services as directors.

The following individuals who acted as directors of the Company in 1999 received the following amounts for acting as directors of subsidiaries of the Company in 1999:

H.S. Doman	$ 14,000
C.A. Johnson..	14,000
B.D. Gregson	14,000
J.H. Doman	14,000

A consulting agreement exists between a subsidiary of the Company and C.A. Johnson. Under the agreement, Mr. Johnson is paid consulting fees in the amount of $50,000 per annum until November 2003. The consulting services provided by Mr. Johnson relate to the Company's pulp operations.

J.R. Frumento was paid $261,000 for the financial year ended December 31, 1999 for consulting services relating to the acquisition, integration and management of the three sawmills acquired by the Company in December 1997.

Directors of the Company are also eligible to participate in the Company's incentive stock option plan. No options under the incentive stock option plan are held by directors of the Company in their capacities as directors.

CORPORATE GOVERNANCE

This report on corporate governance is provided in accordance with The Toronto Stock Exchange guidelines relating to the disclosure of corporate governance practices (the "TSE Guidelines"). The TSE Guidelines address matters such as the constitution, independence, functional performance and effectiveness of corporate boards and their committees, and the effectiveness and education of individual Board members.

The Board is responsible for the supervision of the management of the Company's business and affairs. Responsibilities not specifically delegated to senior management or committees of the Board remain those of the Board as a whole, including responsibility for: (1) the appointment of the chief executive officer and senior management of the Company; (2) the development and monitoring of long-term strategic planning, including business risk identification and management and succession planning; (3) the review and monitoring of financial performance; (4) the review and monitoring of the Company's communication policy and internal control and management systems; (5) the establishment and supervision of committees relating to key areas of the Company's business and affairs; and (6) the establishment and monitoring of short-term operational plans.

The Board has established three committees of directors, being the Governance and Compensation Committee, the Audit Committee and the Environmental, Risk and Public Policy Committee (the "Environmental Committee").

The Governance and Compensation Committee is responsible for proposing prospective Board nominees, developing the Company's corporate governance policies and assessing the effectiveness of the Board, committees of the Board and individual directors, and reporting to the Board with respect to these matters. It is also responsible for the periodic review of the Company's short-term and long-term policies for attracting, retaining, developing and motivating executive officers of the Company, reporting to the Board in connection with compensation and reporting with respect to executive compensation in the Company's annual information circular.

The Governance and Compensation Committee, on behalf of the Board, has reviewed the definition of "unrelated director" set out in the TSE Guidelines. Having reference to the principals underlying the definition of such term, the Governance and Compensation Committee has determined that three of the Company's six directors are "unrelated directors". Such directors have no interest, business or other relationship with the Company, or its significant shareholder, which could reasonably be perceived to materially interfere with their ability to act solely in the best interests of the Company. The three other directors of the Company are involved in the management of the Company and, as such, are not "unrelated directors". Each of the Company's committees is comprised of both related and unrelated directors. The majority of the operations of the Company are conducted through three subsidiary companies, two of which had boards of directors comprised of a majority of "unrelated directors" in 1999. Subsequently, such boards were reorganized and streamlined to consist of solely management personnel. The Company believes that the composition of the Board and the boards of its subsidiaries fairly represents the interests of shareholders other than its significant shareholder.

Prior to October 1999, H.S. Doman served as the Chairman of the Board and Chief Executive Officer of the Company and acted in such capacity since founding the Company in 1955. The Chairman's industry experience and expertise assisted in ensuring that appropriate matters were placed on the agenda at each meeting and that sufficient information was made available to the Board to allow for full deliberation. In the conduct of Board meetings, the Chairman canvassed the views of the unrelated directors, particularly in connection with matters that might affect management. The Company believes that, in the particular circumstances affecting its business, it derived an advantage flowing from the Chairman of the Board having more detailed knowledge of the business and activities of the Company than would be possible in the case of a non-executive chairman. In addition, as the Chairman and Chief Executive Officer was also the Company's largest shareholder, his interests greatly coincided with those of shareholders generally. The Board believes that the separation of the two offices was not necessary in order to ensure that the Chief Executive Officer represented shareholder interests, or for the Board to act independently of management. The Board believes that any benefits that would result from a separation of the positions could be achieved through an effective corporate governance system. Pursuant to the Settlement, Mr. Doman resigned as Chairman of the Board, Chief Executive Officer and President of the Company in October 1999. Mr. Doman will be reappointed as Chief Executive Officer and President of the Company in June 2000, but will not act as Chairman of the Board.

The Board also has access to and reviews committee recommendations in fulfilling its mandate. Where appropriate, directors absent themselves from portions of Board or committee meetings to allow independent discussion of points in issue.

In addition to its statutory duties, the Audit Committee is responsible to review and report to the Board with its recommendations in connection with all external financial reporting. The Audit Committee also reports to the Board, from time to time, with respect to internal audit and accounting procedures. The Audit Committee meets with the external auditors separately from management to review specific issues as appropriate and also receives written reports from the external auditors. With the exception of J.R. Frumento, who was appointed interim President of the Company from October 1999 to June 2000, the Audit Committee is comprised only of non-management directors.

The Environmental Committee liaises with management and reports to the Board in connection with the Company's environmental management system and environmental issues that may arise from time to time. The Environmental Committee also performs risk analyses and assessments relating to the Company's business practises and public policy and reports to the Board with respect to these matters.

The Board reviews the performance of the senior management of the Company and its subsidiaries on an annual basis. The Board expects senior management to perform to a standard comparable to or greater than that demanded of senior management of similar companies in the forest industry in British Columbia.

Senior management of the Company and its subsidiaries are responsible for day-to-day operational management. Prior Board approval is required in connection with matters that the Company deems significant such as major acquisitions or divestitures, significant amendments to the Company's credit facilities, significant financings or changes to the Company's strategic objectives.

The Vice President, Finance is responsible for overseeing the Company's shareholder and U.S. senior note holder relations program. The Company attempts to respond to individual shareholder and note holder concerns as they arise and makes senior management available to analysts and fund managers who represent shareholders or note holders or who are involved in the dissemination of information to shareholders or note holders.

The Board has not developed formal position descriptions for the Chief Executive Officer or Board members and, as all of the current Board members have been on the Board or otherwise involved with the business of the Company for a significant period of time, has not yet developed a formal process for the orientation of new Board members. The Governance and Compensation Committee intends to develop formal position descriptions and recommend a formal orientation procedure to the Board as the need arises.

The Board is generally satisfied that its current number is appropriate, providing a diversity of views and experience while maintaining efficiency. The Board has in place a policy whereby individual directors may, subject to approval by the Governance and Compensation Committee, engage outside advisers at the Company's expense.

The Board and the Governance and Compensation Committee shall continue to review the Company's corporate governance policies but believes that the Board, directly and through its committee structure, effectively oversees the Company's affairs.

APPOINTMENT OF AUDITORS

The management of the Company will recommend at the annual general meeting that the members vote for the reappointment of KPMG LLP as the Company's auditors to hold office until the next annual general meeting of members and that the members authorize the Board to fix the remuneration of the auditors. KPMG LLP was appointed as the Company's auditors in 1999.

INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this information circular, no director or senior officer of the Company or any associate or affiliate of the foregoing has any substantial interest, direct or indirect, by way of beneficial ownership of shares of the Company or otherwise except for interests arising from the ownership of shares of the Company where the shareholder will receive no extra or special benefit or advantage not shared on a pro rata basis by all holders of shares in the capital of the Company.

ADDITIONAL INFORMATION

The Company will provide, upon request to the Secretary at 3rd Floor, 435 Trunk Road, Duncan, British Columbia V9L 2P9, a copy of the following documents: (a) the latest Annual Information Form of the Company, together with any document, or the pertinent pages of any document, incorporated by reference therein; (b) the consolidated financial statements of the Company for the financial year ended December 31, 1999 together with the accompanying report of the auditors thereon and any interim financial statements of the Company for periods subsequent to December 31, 1999; and (c) this information circular. The Company may require a reasonable charge if the request is made by a person who is not a security holder of the Company.

OTHER MATTERS

THE MANAGEMENT KNOWS OF NO OTHER MATTERS TO COME BEFORE THE MEETING OF SHAREHOLDERS OTHER THAN THOSE REFERRED TO IN THE NOTICE OF MEETING. HOWEVER, IF ANY OTHER MATTERS WHICH ARE NOT KNOWN TO THE MANAGEMENT OF THE COMPANY SHALL PROPERLY COME BEFORE THE SAID MEETING, THE FORM OF PROXY GIVEN PURSUANT TO THE SOLICITATION BY MANAGEMENT OF THE COMPANY WILL BE VOTED ON SUCH MATTERS IN ACCORDANCE WITH THE BEST JUDGMENT OF THE PERSONS VOTING THE PROXY.

APPROVAL

The contents and sending of this information circular have been approved by the directors of the Company.

BY ORDER OF THE BOARD OF DIRECTORS

P. G. Hosier

PHILIP G. HOSIER
Secretary

GLOSSARY OF CERTAIN TERMS

Certain terms used herein are defined below.

"AAC"	Allowable annual cut — the volume of timber which the holder of a tree farm licence or forest licence may harvest under the licence in any given year as determined by the Ministry of Forests.
"ADMT"	Air dried metric tonne — a metric tonne of pulp with a moisture content of 10% or less.
"annual cut"	The volume of timber which the holder of a timber licence expects to harvest annually from that timber licence.
"board foot"	One square foot of lumber, one inch (1") thick.
"Class A Common Shares"	The Class A Common Shares of the Company.
"Code"	The *Forest Practices Code of British Columbia Act*, R.S.B.C. 1996, c.59, as amended.
"Crown Acquisition"	The Company's acquisition of the Crown Operations from Pacific which completed in December 1997.
"Crown Operations"	The Company's sawmills at Tahsis, Ladysmith and Nanaimo, British Columbia, associated woodland and forestry operations in British Columbia having an AAC and annual cut of 1.7 million cubic metres, the Saanich Forestry Centre, certain surplus fee simple lands and the fee simple lands related to Tree Farm Licence No. 19, all of which were acquired pursuant to the Crown Acquisition.
"Crown Sawlog Agreement"	The sawlog purchase agreement entered into between the Company and Pacific as part of the Crown Acquisition pursuant to which the Company receives between 330,000 and 350,000 cubic metres of sawlogs annually, in perpetuity, at market prices.
"dissolving sulphite pulp"	A specialty pulp manufactured by an acid cooking process and used in the production of garments, food products, lacquers, disposable diapers, cigarette filters and quality paper products.
"ECF pulp"	Elemental-chlorine free pulp produced using chlorine dioxide instead of chlorine.
"Equity Shares"	The Class A Common Shares and Non-Voting Shares of the Company.
"*Forest Act*"	The *Forest Act*, R.S.B.C. 1996, c.57, as amended.
"Forest Renewal B.C."	A provincial government program whose mandate is to plan and implement a program of expenditures in order to renew the forest economy of British Columbia, enhance the productive capacity and environmental value of forest lands, create jobs, provide training for forest workers and strengthen communities.
"hectare"	An area equal to 2.47 acres.

"hog fuel"...	Wood residue produced by a sawmill or a log merchandiser.
"Ministry of Forests".............................	The Ministry of Forests of British Columbia.
"NBSK pulp"	A high quality white chemical kraft pulp produced from slow growing northern softwood trees and differentiated from other grades of pulp by its fibre length and strength.
"1994 Notes"	The U.S.$425 million of unsecured 8.75% senior notes due March 15, 2004 issued by the Company and guaranteed by substantially all of its subsidiaries.
"1997 Notes"	The U.S.$125 million of unsecured 9.25% senior notes due November 15, 2007 issued by the Company and guaranteed by substantially all of its subsidiaries.
"1999 Notes"	The U.S.$160 million of 12% senior secured notes due July 1, 2004 issued by the Company and guaranteed by substantially all of its subsidiaries.
"Non-Voting Shares".............................	The Class B Non-Voting Shares, Series 2, of the Company.
"Pacific"...	Pacific Forest Products Limited.
"pulp segment"	The Company's pulp management, manufacturing and sales operations.
"solid wood segment"	The Company's sawmilling, lumber remanufacturing, lumber marketing, log merchandiser and logging operations.
"SPF 2x4 lumber"	2" x 4" kiln dried random lengths of spruce, pine and fir lumber, which is a North American commodity grade of standard and better dimensional lumber.
"sustained yield"....................................	The yield that a forest can produce continuously (i.e. in perpetuity) at a given intensity of management without impairment of the land's productivity, with the intent that there will be a balance between timber growth and harvesting on a sustainable basis.
"tonne"...	A metric ton — 1,000 kilograms or 2,204.6 pounds.
"unit"	Between 1,500 to 2,000 pounds of wood chips, depending upon the species of timber.
"upper grade lumber"	A grade of lumber which is substantially clear of knots.
"wood chips"..	Small pieces of wood used to make pulp. The wood chips are produced either from wood waste in a sawmill or a log merchandiser or from pulp wood cut specifically for this purpose. Wood chips are generally uniform in size and are larger and coarser than sawdust.

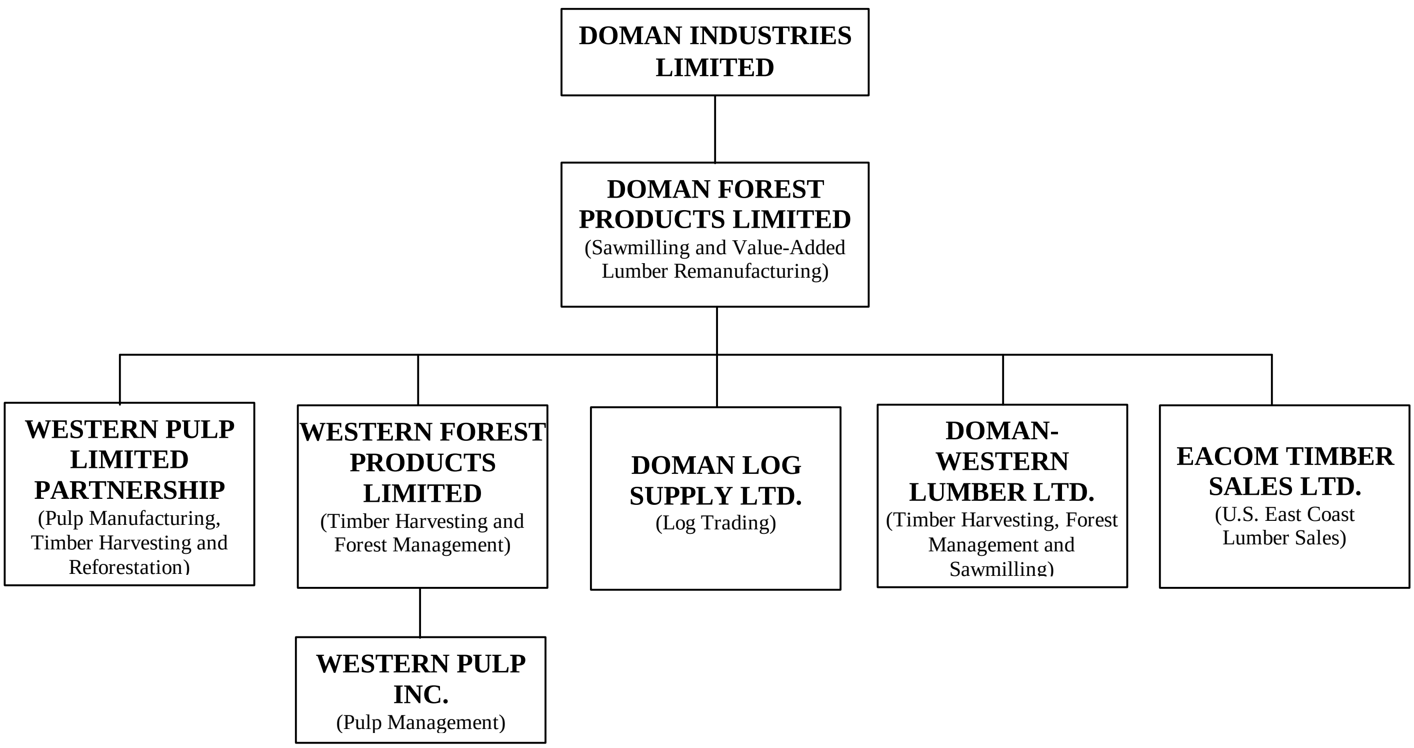
THE COMPANY

Doman Industries Limited was formed by the amalgamation on December 31, 1979 of Doman Industries Limited and Duncan Financial Centre Ltd. pursuant to the *Company Act* (British Columbia). The principal predecessor company was incorporated on April 18, 1955 under the name "Doman's Lumber & Transport Ltd." and changed its name to "Doman Industries Limited" in 1964. The Company has amended its Articles at various times to create Class A Preferred Shares, Class B Preferred Shares and Class B Non-Voting Shares.

In this document, unless the context otherwise requires, the "Company" and "Doman" refer to Doman Industries Limited and its subsidiaries, including Western Pulp Limited Partnership.

The head office of the Company is located at 435 Trunk Road, Duncan, British Columbia, V9L 2P9.

The following chart sets out the Company's principal operating subsidiaries, all of which are wholly owned and incorporated or organized under the laws of the Province of British Columbia, and their primary activities.



BUSINESS OF THE COMPANY

Company Profile

The Company is a major integrated forest products company in British Columbia operating in the solid wood and pulp businesses. Solid wood is the Company's primary business and includes timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips and value-added lumber remanufacturing. The Company is the largest lumber producer and has the second largest available timber harvest on the coast of British Columbia. The Company's pulp operations consist of producing and marketing NBSK pulp and dissolving sulphite pulp. All of the Company's operations are located in the coastal region of British Columbia and its products are sold in 30 countries worldwide.

The Company has an allowable annual timber harvest of approximately 4.2 million cubic metres under its timber tenures and a perpetual annual supply of an additional 330,000 to 350,000 cubic metres of sawlogs. Logging operations are conducted on government owned timberlands in accordance with the Company's three tree farm licences, seven forest licences and numerous timber licences and on private forest lands.

The Company's manufacturing plants consist of:

- nine sawmills with a total annual production capacity of approximately 1.2 billion board feet of lumber and 755,000 units of wood chips;
- two pulp mills with a total annual production capacity of approximately 420,000 ADMT of pulp;
- a value-added lumber remanufacturing plant with an annual drying and production capacity of approximately 80 million board feet; and
- a log merchandiser.

Industry

British Columbia is one of the world's leading forest products regions, with lumber shipments averaging approximately 14 billion board feet per year and pulp and paper shipments of approximately seven million tonnes per year, supported by an annual timber harvest averaging approximately 75 million cubic metres over the last ten years. British Columbia has two major forest regions, coastal and interior, which are differentiated by climate, terrain and forest type and have given rise to two distinctly different segments of the forest industry. Historically, approximately one-third of British Columbia's timber harvest is from the coastal region. In contrast to the interior forest industry, the British Columbia coastal forest industry is distinguished by a wet maritime climate, rugged topography and a variety of high-value coastal forest species with highly productive growing sites. Over the past decade, the coastal timber harvest has declined as a result of the establishment of new parks and protected areas, declining harvest of timber on private lands, timber previously included in non-sustainable timber licences no longer being made available and AAC reductions to conform harvest levels to long-term sustained yields.

The forest products industry categorizes lumber into either hardwoods or softwoods. Softwoods such as hemlock, cedar, spruce, pine and fir are used primarily in construction due to their strength. The forest industry also grades lumber into various classifications according to quality. The two broad categories within which all grades fall, based upon the absence or presence of knots and the grain of the wood, are upper grade lumber and commodity grade lumber, respectively. Upper grade lumber is a grade of lumber which is substantially clear of knots and is obtained primarily from mature timber in areas which have not been previously harvested. The timber used to produce upper grade softwood lumber grows primarily in the coastal climates of British Columbia, the U.S. Pacific Northwest and Alaska.

Competition

The Company competes on both a domestic and international level with a large number of forest products firms, ranging from very large integrated firms to smaller specialty firms. Many of these competitors have substantially greater financial and operating resources than the Company. The Company also competes indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. The markets for pulp and lumber are highly competitive and sensitive to cyclical changes in industry capacity and the economy, both domestically and internationally. Changes in the level of competition, industry capacity and the global economy have a significant impact on the Company's selling prices and overall profitability. The Company's competitive position is influenced by the availability, quality and cost of fibre, energy and labour, and its plant efficiencies and productivity in relation to its competitors.

The global competitiveness of coastal British Columbia lumber and pulp producers continues to be burdened by high operating costs and stumpage rates. Industry is working cooperatively with the British Columbia government to develop and implement cost reduction initiatives in both of these areas.

The Company's competitive position is also affected by quotas imposed under the softwood lumber agreement between the governments of Canada and the United States. The quota imposed on shipments of softwood lumber into the United States from Canada has enabled producers who do not face quota restrictions to gain market share in the United States. The quota also restricts British Columbia coastal sawmills that normally produce for the Japanese market from shifting production to the U.S. market in response to market conditions in Japan and Southeast Asia.

Development

The Company was formed in 1955 and commenced sawmill and logging operations in 1964. Its first major sawmill came into production at Ladysmith, British Columbia on Vancouver Island in 1967 and three additional sawmills were built on Vancouver Island between 1973 and 1980. In 1980, the Company and two other British Columbia forest products companies formed Western Forest Products Limited, which purchased the British Columbia timber resources and manufacturing facilities of ITT Industries of Canada Limited. The Company increased its ownership of the outstanding voting shares of Western Forest Products Limited to 56.1% in 1989 and in 1992 purchased the remaining minority shareholdings. In 1994, the Company completed the construction of a value-added lumber remanufacturing plant at Chemainus on Vancouver Island.

Environmental issues have been a major focus for the Company over the past several years. During the last five years, approximately $71.5 million was spent on capital expenditures at the Company's two pulp mills to reduce effluent discharges and air emissions. In 1995, a secondary treatment plant was completed at the Company's Port Alice dissolving sulphite pulp mill at an aggregate cost of approximately $63 million. This project, along with certain bleaching process changes, has enabled the mill to reduce its level of effluent discharge to prescribed levels and convert all its production to ECF pulp. In 1996, modifications were made to the bleach plant at the Company's Squamish NBSK pulp mill. The mill produces 100% ECF pulp and is in compliance with prescribed effluent discharge levels.

On December 10, 1997, the Company purchased the Crown Operations from Pacific for aggregate consideration of $143.8 million. The acquisition was financed through the issue of U.S.$125 million of the 1997 Notes. The Crown Operations included:

- three modern sawmills located at Tahsis, Nanaimo and Ladysmith, British Columbia;
- Crown timber tenures (including a tree farm licence and approximately 2,000 hectares of private lands located therein) having a total AAC and annual cut of approximately 1.7 million cubic metres;
- the associated woodlands, forestry and logging operations;
- a perpetual supply of an additional 330,000 to 350,000 cubic metres of sawlogs pursuant to the Crown Sawlog Agreement;
- the Saanich Forestry Centre, comprised of a nursery, nine seed orchards and a forest research facility;
- certain surplus fee simple lands; and

- approximately $23 million of working capital.

Management and administration of the Crown Operations has been integrated with the Company's other forest management, harvesting, lumber manufacturing and sales activities.

Strategy

The Company's strategy is to obtain the maximum value for its timber resources by producing premium products and by fully utilizing its harvested timber in an integrated forest products operation. The Company's sawmills process high quality logs, including western red cedar, into primarily long length, wide width and upper grade lumber, and to a lesser degree, commodity grades of lumber. As a result of its strategy, the Company focuses upon producing finished specialty products, such as lumber with various sizes and end uses, and western red cedar, instead of commodity items such as SPF 2x4 lumber. Lower quality logs are first processed by the Company's log merchandiser in order to extract the lumber quality portion of the logs for processing at the Company's sawmills. The residual portion of such logs, smaller or defective logs not suitable for the production of lumber and wood chips are used to produce pulp. Hog fuel, a by-product from the sawmills and the log merchandiser, is used at the Company's Squamish NBSK pulp mill and sold to other pulp mills as an energy resource. The Company's value-added lumber remanufacturing plant dries, saws and trims lumber for use in producing higher value products such as mouldings, frames and panelling. The Company believes that the complete and efficient utilization of its timber resources is essential, given the decline in the supply of high quality timber resulting from increasing environmental and conservation restrictions.

Forest Resources

Fibre Supply and Harvesting

The Company's fibre requirements are met with logs harvested from its timber tenures and private lands, logs purchased on the open market, logs acquired under the Crown Sawlog Agreement, log trading activities and logs acquired in exchange for wood chips. The Company's log trading department is responsible for ensuring an adequate supply of suitable logs for the Company's plants. It engages in log trading activities to correct imbalances in the supply and demand in size, grade and species of logs. In addition, in order to ensure a continuing supply of timber, the Company maintains an active reforestation program and manages approximately 885,000 hectares of productive timberlands of which 550,000 hectares are operable. The Company's annual timber harvest from these timberlands, on a sustained yield basis, is approximately 4.2 million cubic metres.

All of the Company's timber harvesting operations are located in the coastal region of British Columbia. Logging is conducted primarily on government timberlands allocated to the Company under its tree farm licences and to a lesser extent under its forest licences and timber licences. In addition, some logging takes place on private lands. The timber covered by the Company's timber tenures contains a substantial amount of presently harvestable mature timber stands that are located in areas that have never been commercially harvested. These stands are particularly valuable, as the substantial size of the trees allows the Company to produce a high volume of upper grade lumber. Upper grade lumber is sold based upon appearance and is used in the manufacturing of doors, window frames, panelling, mouldings and siding.

The long-term species distribution of the Company's timber resources is estimated to be approximately 48% hemlock, 27% western red cedar and 12% balsam, with the balance being comprised of spruce, yellow cedar and douglas fir. The Company's AAC, together with harvest from other lands and the Crown Sawlog Agreement, is sufficient to provide, directly or through log trading activities, approximately 85% of the fibre requirements for the Company's manufacturing plants.

The Company's total available cut, including the AAC of the Company's tree farm licences ("TFLs") and forest licences ("FLs"), log supply and log usage for each of the last two years are set out in the following table:

	Actual Cut Years Ended December 31,		**Available Cut**[1] As at December 31,	
	1999	**1998**	**1999**	**1998**
	(thousands of cubic metres)			
Tree farm licences	2,359	1,898	3,040	2,996
Forest licences	857	674	1,036	1,050
Other lands	138	135	449[2]	449[2]
Total log production	3,354	2,707	4,525	4,495
Total logs purchased	1,684	1,421		
Total logs consumed	4,150	4,041		
Total logs sold[3]	626	732		

(1) The available cut of the TFLs and FLs consist of AAC.
(2) Consists of 119,000 cubic metres of annual cut from the Company's TLs and private lands and 330,000 cubic metres of sawlogs from the Crown Sawlog Agreement.
(3) Logs sold consist of species or quality not suitable for the Company's manufacturing plants.

Upon completion of the acquisition of the Crown Operations, the AAC of the timber tenures of the Crown Operations was reduced by 5%. In June 1997, the Ministry of Forests announced a Jobs and Timber Accord (the "Accord") which is targeted primarily at job creation in the forest industry. The Accord provides that companies which implement acceptable job creation plans that build toward the targets in the Accord will be eligible for, among other things, exemption from the 5% reduction in AAC associated with the transfer of Crown timber tenures. The Company applied for a waiver of the 5% reduction in the AAC associated with the change of control of the Crown timber tenures of the Crown Operations, as contemplated under the Accord. The Company's application was approved in principle in 1999 and the 5% reduction that was imposed upon completion of the Crown Acquisition has been added back retroactive to December 22, 1997.

In connection with the acquisition of the Crown Operations, the Company entered into the Crown Sawlog Agreement pursuant to which it receives between 330,000 and 350,000 cubic metres of sawlogs annually, in perpetuity, at market prices.

As part of the acquisition of the Crown Operations, the Company entered into a chip and log supply agreement (the "Supply Agreement") to supply the Gold River pulp mill the wood chips produced by, and the lower quality pulp logs harvested from, the Crown Operations. In February 1999, the Gold River pulp mill was closed and, pursuant to its terms, the Supply Agreement was terminated. The fibre previously committed under the Supply Agreement is now utilized by the Company at its pulp mills, or traded or sold.

The Company operates 30 logging operations with a combination of its own logging crews and equipment and logging contractors. Logging is seasonal and takes place each year from approximately mid-February through mid-November, with possible interruptions during the fire season, from mid-April to mid-October. In the remaining three months, from approximately mid-November through to mid-February, logging is not usually possible because of winter weather conditions. Approximately one month of logging can be lost each year during the fire season if dry conditions in the forest are such that logging must be curtailed until humidity levels increase and it is safe for logging to continue.

Logs are sorted and directed to either the Company's sawmills, its log merchandiser or its Port Alice dissolving sulphite pulp mill, according to size, grade and species. High quality logs are shipped primarily to the Company's sawmills, while lower quality logs, small or defective parts of trees and wood chips from sawmill operations and the log merchandiser are shipped to, and form the basic raw material for, the Company's pulp mills. Flat rafts, bundle booms or self-dumping log barges are used to transport logs to the Company's manufacturing plants and to the Vancouver log market. A small percentage of logs are delivered to the Company's manufacturing plants by truck.

The Company's sawmills have a total annual production capacity of 755,000 units of wood chips. These wood chips are used at the Company's Squamish pulp mill as a source of fibre, traded with third parties for sawlogs or sold. Wood residue produced by the sawmills and the log merchandiser, principally sawdust and bark, is either used as hog fuel in the boiler at the pulp mills or sold to other pulp mills. Wood chips and other by-products of the sawmills and log merchandiser are transported by barge or by truck to pulp mills.

The Company's wood chip supply and usage for each of the last two years are set out in the following table:

	Years Ended December 31,	
	1999	1998
	(thousands of units)	
Wood chips produced	805	645
Wood chips purchased	222	219
Total wood chips consumed	734	608
Total wood chips sold	282	262

Timber Tenures

Approximately 95% of all timberlands in British Columbia are owned by the Province of British Columbia and administered by the Ministry of Forests. The *Forest Act* empowers the Ministry of Forests to grant timber tenures, including TFLs, FLs and timber licences ("TLs"), and to determine the AAC applicable thereto.

A TFL is an area based tenure granted for a term of 25 years that is replaced every five years for a further 25 year term, subject to satisfactory performance by the licensee of its forest management obligations as determined by the Ministry of Forests. Over 72% of the Company's AAC is derived from its TFLs which, as a result of their 25 year term, are the most secure form of timber tenure. The Company has three TFLs: TFL Nos. 6, 19 and 25. TFL Nos. 6 and 19 were replaced in 1995 and 1996, respectively, for 25 year terms. TFL No. 25 was replaced in 1999 for a 25 year term.

The Company also holds and harvests timber from 144 TLs covering approximately 86,000 hectares, of which 18 TLs are situated outside of its TFLs and 126 are situated within its TFLs. The Company's TLs contain more than 26 million cubic metres of mature timber. TLs are area based tenures which historically were charged a royalty fee by the Province for timber harvested thereon. TLs within TFLs are managed on an integrated basis with other government land and private timberlands within TFLs, and remain part of the TFL after harvest. The timing of harvesting from these tenures is subject to the practice guidelines of the Ministry of Forests, but is otherwise at the discretion of the Company. The terms of the Company's TLs coincide with the terms of the TFLs in which they are incorporated. Those TLs which are outside of the Company's TFLs expire at varying dates ranging from 2000 to 2016. A 1998 study of the Company's TLs situated outside of its TFLs indicated a feasible harvest schedule of approximately 100,000 cubic metres annually from these TLs over the next 20 years. Approximately 14% of the Company's 1999 aggregate annual harvest was from TLs.

Provincial government timberlands which are not designated as TFLs are organized into timber supply areas ("TSAs"). FLs are issued within each TSA with the overall harvest for the TSA managed by the Ministry of Forests on a sustained yield basis. FLs are volume based tenures which authorize a specified volume of timber to be cut within a specific TSA. FLs have a term of 15 years and are generally replaceable every five years for a term of 15 years, subject to satisfactory performance by the licensee of its forest management obligations as determined by the Ministry of Forests. The Company has seven FLs located in the Mid-Coast, Kingcome, Strathcona, Soo, Fraser and Sunshine TSAs, respectively. All of the Company's FLs were replaced in 1998 for 15 year terms.

The Company is in compliance in all material respects with the terms of its forest tenures.

The AAC for timber tenures is determined by the Ministry of Forests and reflects timber conditions, regional and local economic and social interests, and environmental considerations. The actual cut from a TFL or FL for any given year may vary up to 50% above or below the designated AAC for the tenure as long as the annual average cut over a five year prescribed period is within 10% of the designated AAC for that period.

Under the *Forest Act*, the Minister of Forests may cancel timber tenures without compensation if direct or indirect control of a corporation holding such tenures changes or the tenures are transferred without prior written consent. The Minister evaluates various factors in determining whether to approve corporate take-overs involving the transfer of timber rights, including: the degree of regional corporate concentration of harvesting rights; the effect on the competitive market for wood fibre; and the effect on the level of structural diversity in the provincial or regional forest industry (e.g. large company versus small company; integrated company versus specialty company). If the Minister of Forests consents to a change of control of a corporation or a transfer of tenures, the AAC of the government tenures is reduced by 5%, without compensation, and a range of conditions and requirements may be imposed as a condition of the consent. Pursuant to the terms of the Accord, the Minister of Forests may, subject to the satisfaction of any imposed conditions and the implementation of a satisfactory job creation plan, reinstate the 5% reduction of AAC resulting from a change of control.

Provincial legislation requires the Chief Forester for British Columbia to review sustainable timber harvesting levels in each TSA and TFL in the Province every five years. Such determinations involve the Company's three TFLs and seven FLs. Overall, there have been modest reductions to the Company's AACs as a result of these reviews. The Company expects continued downward pressures on harvest rates to result from provincial requirements for additional parkland and changes in forest practices rules.

It is expected that the provincial government's target of doubling the protected provincial land base from 6% to 12% will be met in the year 2000, resulting in further reductions to the commercial forest land base. Certain regions of British Columbia, including the coastal rainforest area, will have more than 12% of lands in protected status. To date, approximately 75% of the Company's forest tenures have been assessed as part of the Province's land use and park review process. The Company has participated for three years in the Central Coast Land and Resources Management Plan (the "CCLRMP") process, which covers approximately 20% of the Company's AAC. The CCLRMP is expected to recommend several new parks in the Central Coast region in 2000, which could affect the Company's AAC.

The Company also participates with five other major forest companies in the Coastal Forest Conservation Initiative (the "CFCI"), which is seeking to conclude a resolution of land use conflicts in the Central and North Coast regions. As part of the CFCI, discussions have been held with Greenpeace, the Sierra Club of British Columbia, the Coastal Rainforest Coalition, First Nations groups and other stakeholders, including discussions on the Company's commitments to temporarily defer logging in several contentious areas in return for a cessation of boycott actions in the marketplace. It is not possible to accurately predict the magnitude of reductions in AAC in the Central Coast region as a result of the processes and initiatives underway. Any such reductions may be partially offset by new data showing second growth forests are producing timber at higher rates than previously determined.

Stumpage Charges

A stumpage charge is assessed by the Province of British Columbia on all government timber harvested under the various forms of timber tenures. In each year since 1987, stumpage charges have been adjusted quarterly. The charges are based on a revenue target set by the provincial government. A base stumpage rate is then determined having reference to the revenue target. The base rate is subsequently adjusted by the Ministry of Forests for various factors, prior to determining the actual stumpage charge for each particular cutting area. Individual stumpage rates are then calculated for each cutting permit, taking into account projected timber prices and operating costs. Stumpage charges fluctuate based upon the provincial government's revenue targets, the quality and species of timber harvested, harvesting technology, the Company's operating costs and other factors.

In 1995, the provincial government eliminated royalties for TLs and replaced them with stumpage, which will increase to 100% of regular stumpage by 2001. The rate increased to 87% of regular stumpage on April 1, 1999 and 93% of regular stumpage on April 1, 2000. Certain forestry companies have initiated court actions against the provincial government claiming substantial damages as a result of this change in the calculation of rates. In December 1999, the court ruled against the provincial government in an action to dismiss the damage claims. In March 2000, the Company also initiated a court action against the provincial government to recover damages resulting from the elimination of royalties and their replacement with stumpage charges.

The following table illustrates the relationship of stumpage and royalty expenses relative to the Company's total log production for each of the last five years:

	Years Ended December 31,				
	1999	**1998**	**1997**	**1996**	**1995**
			(thousands)		
Log production (cubic metres)	3,354	2,707	2,337	2,363	2,483
Stumpage and royalty expenses	$ 84,785	$ 70,549	$ 70,049	$ 70,640	$ 70,501

Forest Management

The Company manages the forests on its timber tenures and privately held lands pursuant to the principles of "Integrated Resource Management" and "Sustained Yield" established by the Ministry of Forests. Under these principles, the Company is required to carry out, at its own cost, reforestation or other treatments for the re-establishment of forests after logging. The reforested areas are monitored and silviculture treatments are applied where necessary to ensure that a crop of healthy trees is managed for future harvesting. In 1999, the Company incurred approximately $5.8 million in reforestation costs.

The Company develops a five year development plan for each harvest operation, which takes into consideration environmental and other concerns, including wildlife, fisheries, water, soil, visual quality, biodiversity, archeological sites, caves, cultural heritage, local employment, tourism, recreation and the protection of endangered species. Prior to final approval, these development plans are subject to extensive public and First Nations reviews. The plans are amended to reflect comments received and are presented to the Ministry of Forests for final approval prior to the commencement of harvesting. The Company also engages in road development, fire protection and insect and disease control in the forests which it manages.

The management of the Company's timber tenures is supervised by its staff of registered professional foresters and other forestry technicians, who are involved in planning, road development, harvesting, reforestation and protection programs, and initiatives to improve the yield and quality of its timber harvest. The Company operates the Saanich Forestry Centre which includes a seedling nursery and a tree seed orchard which produce seed for reforestation in its harvesting operations.

In 1994, the Province of British Columbia adopted a long-term forest plan which included the establishment of a fund to pay for enhanced silviculture, job skills retraining, environmental protection, assistance for value-added manufacturers, road deactivation and increased research and development. This fund is administered by Forest Renewal B.C. in partnership with industry, environmental groups, First Nations bands and communities. In 1994, the Province of British Columbia increased stumpage and royalty rates on all timber tenures to fund Forest Renewal B.C. and to make up tax revenues lost as a result of making tax credits available to forestry companies for stumpage costs. The Company has contributed approximately $74 million to the fund as at December 31, 1999 and has spent approximately $58 million on projects funded by Forest Renewal B.C.

In 1995, the provincial government introduced the Code, which became fully effective in mid-1997. The Code governs every facet of a company's forest management activities from planning through harvesting and forest renewal and provides a uniform set of rules which are designed to better secure the long-term sustainability of the forest industry. The Code has had a significant impact on harvesting practices as the size of cutblocks has been reduced, road construction per cubic metre of fibre harvested has increased and harvesting methods have been restricted in particularly sensitive areas to minimize any adverse environmental effects. The Ministry of Environment, Lands and Parks, the Ministry of Employment and Investments, and the Ministry of Forests have the power to enforce the provisions of the Code by, among other things, issuing "stop work" orders and levying fines of up to $1 million for serious breaches of the Code. The Company's harvesting practices are in substantial compliance with the standards set out in the Code.

Solid Wood Facilities

The Company owns and operates nine sawmills, a log merchandiser and a value-added lumber remanufacturing plant. The sawmills each use computer controlled equipment to optimize the lumber recovery from each log. The Company's high quality timber supply and the particular design of its sawmills enable it to produce specialty products such as upper grade lumber, lumber with long lengths (over 20 feet) and wide widths (over 10 inches), lumber produced from western red cedar, and baby squares and beams used in traditional Japanese housing. These products command premium prices compared to commodity construction grades, such as SPF 2x4 lumber. Much of the softwood timber in North America is not capable of producing substantial quantities of these specialty products, as the trees are too small or have a poor knot structure.

Seven of the Company's sawmills are located on Vancouver Island. The Company's Duke Point and Nanaimo sawmills are both located in Nanaimo. The Company's Ladysmith and Saltair sawmills are both located on the same property in Ladysmith. The Company's other sawmills on Vancouver Island are located at Cowichan Bay, Chemainus and Tahsis. The Duke Point and Nanaimo sawmills process large diameter logs, the Chemainus sawmill processes medium to small diameter logs and the Cowichan Bay and Ladysmith sawmills process small diameter logs. The Cowichan Bay sawmill also processes western red cedar. All of the Company's sawmills on Vancouver Island, other than the Chemainus mill, have adjacent water lots which are leased from the Province of British Columbia and have barge loading facilities to handle water-borne shipments of sawmill products.

The Duke Point, Chemainus, Cowichan Bay, Ladysmith and Saltair sawmills are situated on land owned by the Company. The Tahsis sawmill is located on a 12 hectare site, which includes five hectares owned by the Company and seven hectares leased from the provincial government. The Nanaimo sawmill is situated on an 8.5 hectare site, which includes 6.1 hectares owned by the Company and 2.4 hectares leased from the Nanaimo Harbour Commission ("NHC").

The Saltair, Nanaimo and Tahsis sawmills cut predominantly Douglas-fir and hemlock logs and produce a wide range of high-value specialty lumber products primarily for the Japanese market. The Saltair and Nanaimo sawmills have received authorization to stamp their lumber as having met the quality control requirements of the Japanese Agricultural Standard, indicating that the lumber meets rigorous Japanese structural grading rules.

The Company's Marpole and Silvertree sawmills are located in Vancouver. The Marpole sawmill processes large diameter logs and the Silvertree sawmill specializes in processing cedar logs. The Marpole and Silvertree sawmills are located on land which fronts the Fraser River and is owned by the Company. Both of these sawmills are equipped with barge loading facilities to handle water-borne shipments of sawmill products. The water lots necessary to operate the two Vancouver sawmills are leased from the North Fraser Harbour Commission.

The Company's annual lumber production capacity and actual lumber production for each of its sawmills for each of the last five years are set out in the following table:

	Location	Annual Lumber Production Capacity(1)	Lumber Production Years Ended December 31, 1999	1998	1997	1996	1995
			(millions of board feet)				
Sawmills							
Ladysmith	Ladysmith	119	98	107	111	104	134
Duke Point	Nanaimo	188	82	77	93	91	85
Marpole	Vancouver	188	55	95	149	125	92
Cowichan Bay	Cowichan Bay	100	67	104	117	124	60
Silvertree	Vancouver	125	75	89	92	82	80
Chemainus	Chemainus	50	32	38	42	34	37
Saltair(2)	Ladysmith	188	134	118	—	—	—
Tahsis(2)	Tahsis	125	69	64	—	—	—
Nanaimo(2)	Nanaimo	125	105	112	—	—	—
		1,208	717	804	604	560	488

(1) Capacity is stated as at December 31, 1999 on a two shifts per day, 250 days per year basis.
(2) These sawmills were part of the Crown Operations acquired on December 10, 1997.

The Company's log merchandiser is located at Nanaimo on Vancouver Island. The plant extracts the lumber quality portion out of lower quality logs and processes the balance into wood chips and other by-products. The lumber portion is sent to the Company's sawmills for processing and the wood chips are used principally at the Squamish pulp mill. The water lots necessary to operate this plant are leased from the Province of British Columbia and the NHC.

The Company's value-added lumber remanufacturing plant dries, cuts, resaws and trims lumber into various grades and dimensions, which are used primarily in the manufacturing of mouldings, panelling and frames for doors and windows. The plant is located adjacent to the Chemainus sawmill and is situated on land owned by the Company. It is comprised of 10 kilns, which are utilized to dry lumber produced at the Company's sawmills, a planer mill, and resawing, sorting and trimming facilities. The plant has an annual drying and production capacity of approximately 80 million board feet of lumber and in 1999 processed 59 million board feet of lumber.

The Company also owns and operates two lumber distribution yards located at Richmond and Chemainus in British Columbia.

Pulp Mills

The Company owns and operates a NBSK pulp mill on the mainland of British Columbia near Squamish and a dissolving sulphite pulp mill near Port Alice on Vancouver Island. Both mills are located on the coast with easy access to water transportation and a stable fibre supply, principally from the Company's timber resources and the wood chips produced by its sawmills and log merchandiser.

The Squamish NBSK pulp mill has an annual production capacity of 260,000 ADMT and is located approximately 65 kilometres north of Vancouver. The mill has a high quality water supply, access to a natural gas pipeline, close proximity to sources of raw materials, major storage and shipping terminals, and access via ferry to Squamish and then by road to Vancouver. The Squamish pulp mill employs 330 people and is situated on land owned by the Company. The water lot necessary to operate the mill is leased from the Province of British Columbia.

NBSK pulp is a long-fibred northern softwood pulp manufactured from primarily a mixture of hemlock, balsam, fir and cedar wood chips and is noted for its strength, whiteness and absorption properties. NBSK pulp is used to produce a variety of products, including lightweight publication grades of paper, tissues and hygiene products.

In the last five years, approximately $24.7 million, including approximately $12.7 million on environmental projects, has been expended at the Squamish pulp mill to improve production efficiency and provide environmental enhancements. These changes have, among other things, permitted the mill to produce 100% ECF pulp and remain in compliance with prescribed effluent discharge levels. This grade of pulp has achieved a high level of product acceptability in European markets.

The Squamish pulp mill received its official ISO 14001 registration in May 1999.

The Port Alice dissolving sulphite pulp mill is the only producer of dissolving sulphite pulp in British Columbia and one of only three dissolving sulphite pulp mills in Canada. The mill has an annual production capacity of 160,000 ADMT and is located near Port Alice, a village of approximately 1,400 people in the northwest corner of Vancouver Island. The mill employs 450 people and is situated on land owned by the Company. The water lot necessary to operate the mill is leased from the Province of British Columbia.

Dissolving sulphite pulp is a long-fibred pulp manufactured by an acid cooking process from primarily hemlock and is noted for its chemical properties. The dissolving sulphite pulp produced at the Port Alice pulp mill is used to make such products as garments, artificial silk, plastics, lacquers, cosmetics and pharmaceuticals. The mill also produces paper grade sulphite pulp when market conditions warrant.

In the last five years, approximately $107.1 million was expended to upgrade and modernize the Port Alice pulp mill, including approximately $58.7 million on environmental projects. The largest environmental project was the installation of a secondary treatment plant and modifications to the bleaching process to reduce the discharge of chlorinated organic compounds to prescribed levels. This project permitted the mill to convert its entire production to ECF pulp and cost approximately $62.9 million. In 1998, a $23.5 million project was completed that included additional digesters, evaporators and other equipment. These additions improved productivity, pulp quality and reduced operating costs.

The Port Alice mill is actively working to obtain ISO 14001 registration and expects a registration audit to be completed by late fall 2000.

The Company's annual pulp production capacity and actual pulp production for each of its pulp mills for each of the last five years are set out in the following table:

	Annual Pulp Production Capacity(1)	Pulp Production Years Ended December 31, (thousands of ADMT)				
		1999	1998	1997	1996	1995
Pulp Mills						
Squamish	260	264	221	256	199	242
Port Alice	160	97	92	112	110	142
	420	361	313	368	309	384

(1) Capacity is stated as at December 31, 1999 on a three shifts per day, 340 days per year basis.

Sales, Marketing and Distribution

The Company produces and markets 15 upper grades and 20 commodity grades of lumber and various grades of NBSK and dissolving and paper grade sulphite pulp, which are sold in 30 countries worldwide. The Company's lumber products are marketed and sold in North America by a separate sales and marketing division which sells the Company's lumber products through agents and directly to wholesale lumber distributors, retail lumber yards and window and door manufacturers. Offshore lumber sales are primarily conducted directly with the end-user instead of relying upon traditional agency arrangements. Direct liaison with the consumers of its lumber products provides the Company with the ability to react quickly to changes in market conditions and customer requirements and achieve lower selling costs. The Company adjusts its sawmill processing programs in order to customize products to meet the specific requirements of the Company's customers.

The lumber produced by the Tahsis, Nanaimo and Saltair sawmills is targeted primarily for the Japanese market and is comprised principally of finished products used as components to construct Japanese traditional housing, where each product is of a specific species, size, length, grade and finish that reflects its end use. Most products are sold green; however, certain specialty products require kiln-drying. The Company offers a complete line of traditional components for the Japanese market, including lamination stock and kiln-dried components for the pre-fabricated housing market. The Company's focus in Europe is structural Douglas-fir products for Belgium and kiln-dried, high-grade specialty products used predominantly in Germany.

During 1999, the Company began selling its commodity grade lumber products into the Hong Kong market. The lumber sold into Hong Kong is primarily purchased by customers based in mainland China. These products are often further processed. The Chinese market represents an important potential source of growth and provides the Company with a broader customer base for its commodity grade products.

The Company's NBSK pulp is a commodity product and sales are handled by the Company's pulp sales division and by agents. NBSK pulp is sold primarily to paper producers and tissue manufacturers. Sales of dissolving sulphite pulp are conducted by the Company's pulp sales division and are generally made directly to end users. These purchasers often send their own technical experts to the Port Alice pulp mill to customize the dissolving sulphite pulp to their particular specifications.

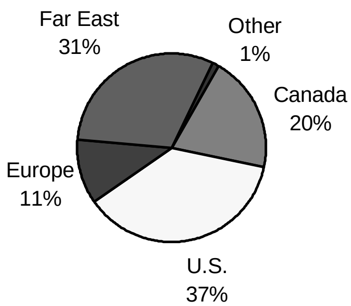
The distribution of the Company's sales by geographic area and by product line for each of the last five years is set out in the following table:

	Years Ended December 31,				
	1999	1998	1997(1)	1996	1995
	(thousands of dollars)				
Sales by geographic area					
Canada	$ 175,884	$ 164,771	$ 167,860	$ 193,091	$ 187,838
U.S.	324,057	264,397	289,003	237,100	204,603
Europe	95,199	100,182	129,661	102,301	157,159
Far East	271,354	240,836	138,670	137,522	234,317
Other	7,142	9,055	11,540	10,191	34,304
	$ 873,636	$ 779,241	$ 736,734	$ 680,205	$ 818,221
Sales by product line					
Lumber	$ 498,341	$ 437,183	$ 405,801	$ 342,980	$ 269,157
Pulp	262,088	233,040	249,785	215,692	419,823
Logs	93,602	90,779	73,069	106,861	112,414
Sawmill by-products	19,605	18,239	8,079	14,672	16,827
	$ 873,636	$ 779,241	$ 736,734	$ 680,205	$ 818,221
Solid wood segment					
Lumber					
Canada	$ 60,331	$ 48,843	$ 82,711	$ 71,462	$ 55,951
U.S.	309,636	249,985	268,210	223,816	162,733
Europe	25,653	29,984	33,933	38,561	27,477
Far East	102,721	108,371	20,947	9,141	22,996
Other	—	—	—	—	—
	498,341	437,183	405,801	342,980	269,157
Logs					
Canada	93,602	90,779	73,069	106,861	112,414
Sawmill by-products					
Canada	19,605	18,239	8,079	14,672	16,827
Total solid wood segment	$ 611,548	$ 546,201	$ 486,949	$ 464,513	$ 398,398
Pulp segment					
Canada	$ 2,346	$ 6,910	$ 4,001	$ 96	$ 2,646
U.S.	14,421	14,412	20,793	13,284	41,870
Europe	69,546	70,198	95,728	63,740	129,682
Far East	168,633	132,465	117,723	128,381	211,321
Other	7,142	9,055	11,540	10,191	34,304
Total pulp segment	$ 262,088	$ 233,040	$ 249,785	$ 215,692	$ 419,823

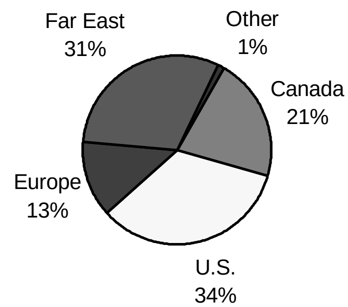
(1) Includes the results of the Crown Operations from the acquisition date of December 10, 1997.

The following two charts illustrate the geographic distribution of the Company's sales for each of the last two years:

Year Ended
December 31, 1999



Year Ended
December 31, 1998



In 1999 and 1998, pulp sales to the Far East represented approximately 64% and 57%, respectively, of the Company's total pulp segment sales. Lumber sales to the U.S. in 1999 and 1998 represented approximately 51% and 46%, respectively, of the Company's total solid wood segment sales. No single customer accounted for 10% or more of sales in 1999.

Lumber from the Company's sawmills is delivered to market by ocean-going vessel and barge, and by rail and truck. Pulp from the Company's pulp mills is shipped by ocean-going vessel and barge.

Lumber shipments and sales to North American lumber markets occur primarily during the period from mid-March to mid-September of each year, coinciding with the preferred weather for housing construction. Other export markets for the solid wood segment do not have a pronounced seasonal pattern. Pulp shipments and sales are not seasonal in nature.

Environment

The Company's operations are regulated by a wide array of federal, provincial and local environmental legislation. Operation managers at each manufacturing plant and logging operation have been assigned responsibility for monitoring compliance with prescribed standards and with the Company's own environmental management systems. The Company has established an environmental committee of the board of directors of the Company (the "Board") and implemented a reporting system that is designed to monitor environmental compliance with regulatory requirements, and identify environmental issues and communicate them to all levels of management and to the directors of the Company.

The Company's solid wood segment is in substantial compliance with the requirements of all applicable environmental legislation. Public concern about the effect of logging on the environment is also being monitored by the Company. Claims for competing land use, including preservation of mature forests, are becoming more disruptive to proper sustained yield forest management. First Nations bands are also claiming large areas of forests as part of ongoing treaty negotiations. Special interest groups have taken action in a number of areas in British Columbia to prevent logging by forestry companies and are lobbying to have lands withdrawn from timber production. Some special interest groups have also attempted to deter purchases by European and other buyers of British Columbia forest products. The Company anticipates that there may be more of these types of actions as the public debate about the environment continues.

The Company's pulp segment is in substantial compliance with the requirements of all applicable environmental legislation, other than that it must reduce the level of particulate emissions at the Port Alice dissolving sulphite pulp mill when it is using hog fuel as an energy source. A program approved by the Ministry of Environment, Lands and Parks to meet the prescribed limits by December 31, 2001 is in place. In the five year period ended December 31, 1999, environmental protection programs at the Company's two pulp mills have resulted in capital expenditures of approximately $71.5 million. These expenditures included a new secondary treatment plant and modification to the bleaching process at the Port Alice dissolving sulphite pulp mill which were completed in 1995 and, among other things, reduced the level of chlorinated organics discharged by the mill to prescribed levels. In 1996, the Company completed modifications to the Squamish pulp mill's bleach plant which now produces 100% ECF pulp and complies with all prescribed effluent standards.

Under present legislation, all pulp mills in British Columbia must completely eliminate all discharges of chlorinated organic compounds by the end of the year 2002. The British Columbia pulp and paper industry has indicated to the government that the elimination of all discharges of chlorinated organic compounds is not required from an environmental perspective. In addition, technology is not currently available which would allow dissolving sulphite pulp mills to eliminate such discharges. Although technology is available which can substantially eliminate all discharges of chlorinated organic compounds in NBSK pulp mills, capital and operating costs associated therewith are presently prohibitive. British Columbia is the only jurisdiction in the world with such requirements. The United States Environmental Protection Agency has established chlorinated organic discharge limits for the U.S. based bleach kraft pulp mills which do not require complete elimination of chlorinated organic compounds.

The provincial government has enacted legislation governing contaminated sites which came into force on April 1, 1997. This legislation specifies circumstances in which a "site profile" must be prepared in respect of any property that has been used for an industrial or commercial purpose. A "site profile" may be required in order to determine whether the site in question is contaminated, in which case remediation may be required under government supervision. As both present and past operations of sawmills and pulp mills may have contaminated mill sites, all forest products companies in British Columbia may face remediation costs. At this time, the Company cannot assess the effect, if any, this legislation may have on its operations.

Canada-wide Standards for particulate matter and ground-level ozone, as well as for dioxins and furans, are currently being prepared. In November 1999, the Canadian Council of Ministers of the Environment (the "CCME") agreed to numerical targets and implementation timeframes for particulate matter and ground-level ozone emissions, which may be finalized at the next CCME meeting in June 2000. The proposed timeframe for implementation of these Canada-wide Standards is 2010. Recommendations by a multi-stakeholder working group on Canada-wide Standards for dioxins and furans will also be tabled at the June 2000 CCME meeting. The working group was struck to study emissions from power boilers burning salt-laden hog fuel, which primarily affects coastal mills in British Columbia. Implementation of the Canada-wide Standards could lead to higher compliance costs for the industry.

In both the solid wood and pulp segments, the Company performs environmental audits of operational sites and procedures with assistance from outside consultants specializing in environmental matters. The Company is also seeking certification as to its environmental and forest management practices from a number of organizations that have developed certification standards.

Forest certification is a worldwide initiative that provides independent third party assessments of sustainable forest management practices by forest products producers. It is voluntary and involves a systematic verification and assessment process against a set of principles and criteria. Certification will provide recognition in the marketplace and address on-going environmental concerns customers have raised in both the U.S. and European markets. Many different types of forest certification are now becoming available but the dominant system in the marketplace in terms of customer acceptance is the Forest Stewardship Council ("FSC") process. The Company is pursuing certification in respect of its forestry operations under the FSC certification system and the Canadian Standards Association Sustainable Forest Management ("SFM") standard. The Company has completed pre-assessment procedures and is preparing for the assessment required to be undertaken in connection with the FSC certification procedure. The Company achieved ISO 14001 certification for all of its forestry operations in April 2000.

The Company's forestry operations have been active in supporting community based environmental programs to protect, enhance and restore salmonid habitats and fish stocks. As part of environmental restoration financed through Forest Renewal B.C., the Company has spent more than $23 million to enhance watersheds and restore habitats affected by past logging and natural events.

First Nations Issues

First Nations groups have claimed aboriginal title or other rights in substantial portions of land in British Columbia and are seeking compensation from government with respect to these claims as the majority of First Nations groups in the Province have not entered into governmental treaties settling their rights. The areas which have been claimed include areas where the Company's forest tenures and operations are situated.

In December 1997, the Supreme Court of Canada held that First Nations groups have a spectrum of aboriginal rights in lands that have been traditionally used or occupied by their ancestors. Such rights can vary from rights of limited use for things such as food gathering to aboriginal title. The decision has added to the uncertainty regarding the exact nature and scope of First Nations land claims, including claims to forestry and other resource rights. The Court's decision did not apply to any particular lands and was stated in general terms. The Court held that aboriginal rights and title are not absolute and may be infringed upon by government in furtherance of a legislative objective, including forestry, subject to meeting a justification test and being consistent with the fiduciary relationship between government and First Nations groups. It is not possible to determine how the general principles enunciated by the Court will be applied until subsequent decisions provide clarification. In addition, the effect on any particular lands will not be determinable until the exact nature of historical use, occupancy and rights in any particular piece of property have been determined. The Court encouraged government and First Nations groups to negotiate in good faith to resolve outstanding claims. The governments of Canada and British Columbia have instituted a tripartite negotiation process with numerous First Nations groups towards establishing comprehensive settlements and treaties. Although there can be no assurances, it is expected that third parties whose rights are affected by settlements and treaties will be compensated for economic losses.

Provincial government policy requires that forest management and operating plans take into account and not infringe aboriginal rights and provides for consultation with First Nations groups. First Nations groups have, at times, sought to restrict the provincial government from granting or renewing forest tenures and other operating authorizations relating to tenures on lands claimed by them without their consent. The Company expects that consultations with First Nations groups and the process of obtaining operating authorizations from the government may be affected by the uncertainties created by the decision of the Supreme Court of Canada and resulting increased demands from First Nations groups. However, the Company believes that the fostering of mutually beneficial business relationships with First Nations groups will facilitate these consultations and processes. The Company continues to develop working relationships with many First Nations groups and has initiated several cooperative logging and forestry contracting businesses.

In 1998, British Columbia finalized the terms of a treaty (the "Nisga'a Treaty") with the Nisga'a First Nation (the "Nisga'a"). The Nisga'a Treaty was ratified by the Nisga'a in 1998, the provincial legislature in 1999 and the federal legislature in early 2000. The Nisga'a Treaty provides for expropriation of forest tenures from licencees in a region extending over approximately 2,000 square kilometres. The expropriated timber represents approximately 7% of the local region's timber supply. The Nisga'a Treaty cedes title to the 2,000 square kilometre region, including the forest resources situate thereon, to the Nisga'a. The Nisga'a Treaty also establishes a nine year transition process, during which existing commitments to provide fibre to tree farm licencees, currently supplied from the Nisga'a lands, will be eliminated. Once the transition process is complete, the Nisga'a will have control over all harvesting of timber and sales of wood from their lands.

The Nisga'a Treaty does not deal directly with compensation payable to the forest licencees whose timber supply will be affected. The provincial government has announced that it will provide fair and reasonable compensation to affected parties. The principles governing compensation have not been formalized. The Nisga'a Treaty may establish principles for future negotiations between the provincial government and the First Nations.

None of the Company's forest tenures and operations are situated in the areas covered under the Nisga'a Treaty.

Capital Expenditures

The Company's capital expenditures in 1999 totaled $35.2 million, of which $1.9 million was expended in the pulp segment and $33.3 million was expended in the solid wood segment. Approximately $30.9 million of this amount was for logging roads, timber development and logging equipment.

The following table summarizes the capital expenditures of the Company's two business segments for each of the last five years:

	Five Years Ended December 31, 1999	**Years Ended December 31,**				
		1999	**1998**	**1997**	**1996**	**1995**
		(millions of dollars)				
Solid wood segment	$201.8	$ 33.3	$ 50.1	$ 41.3	$ 39.7	$ 37.4
Pulp segment	132.0	1.9	19.5	16.3	13.7	80.6
	$333.8	$ 35.2	$ 69.6	$ 57.6	$ 53.4	$ 118.0

Softwood Lumber Quotas

Softwood lumber exports to the United States by Canadian producers have been a contentious issue between Canada and the U.S. for a number of years. In 1996, the governments of Canada and the U.S. concluded a five year trade agreement expiring in March 2001 relating to the export of Canadian softwood lumber to the U.S. The agreement provides for the following:

- The U.S. government will not initiate any trade actions on softwood lumber exports from Canada.

- Producers in British Columbia, Alberta, Ontario and Québec are permitted to export 14.7 billion board feet of lumber a year free of any export fee.

- The Canadian government will collect an export fee of approximately U.S.$53 per thousand board feet for the first 650 million board feet exported in excess of the initial 14.7 billion board feet (the "lower fee base") and approximately U.S.$106 per thousand board feet for exports over such amounts (the "upper fee base").

- For the last three years of the agreement, the average price of softwood lumber must exceed U.S.$410 per thousand board feet per quarter for Canadian producers to be entitled to the additional 92 million board feet export fee free shipments.

In December 1998, an arbitration panel was appointed to review whether the reduction in stumpage implemented by the British Columbia government in 1998 resulted in a breach of the softwood lumber agreement. In August 1999, the dispute was settled by amending the softwood lumber agreement such that in the fourth and fifth years, for British Columbia only, 25% of the lower fee base volume will be re-priced to the upper fee base rate, exports from British Columbia of upper fee base volume will be limited to 110 million board feet per year, and an additional export fee of approximately U.S.$146 per thousand board feet will be applied to volumes over this amount. There are no changes which affect the other provinces.

The Canadian federal government has commenced a consultation process to determine options and strategies for renewal in advance of the expiration of the softwood lumber agreement in March 2001.

Human Resources

The Company employs approximately 2,700 people. The majority of the Company's hourly paid workers in its solid wood segment are represented by IWA-Canada (the "IWA"). The Company is a member of Forest Industrial Relations Limited, which represents all but two of the major forestry companies in the coastal region of the Province of British Columbia in their negotiations with the IWA. The current master labour agreement with the IWA remains in force until June 2000. Although no assurances can be provided, the Company currently believes that a new master labour agreement will be reached without material work stoppages.

The majority of the Company's hourly workers in the pulp segment are represented by either the Communications, Energy and Paperworkers Union of Canada or the Pulp, Paper and Woodworkers Union of Canada. In 1998, the Company signed five-year collective agreements with both unions which expire in April 2003 and provide for a 365 day production schedule and flexible work practices.

Research and Development

The Company has in-house laboratories and testing facilities for its pulp segment and also uses the services and technical expertise of independent laboratories. Research and development in the solid wood segment is conducted primarily by the Company's employees at the Company's Saanich Forestry Centre (the "Centre") on Vancouver Island and at the Port McNeill forest operations. The Centre is located north of Victoria, British Columbia and was founded in 1964. The Centre comprises nine seed orchards, a state-of-the-art nursery with an annual capacity of approximately 3.8 million seedlings, a forest research centre and a laboratory that provides technical support to maintain seed and seedling quality. The Centre provides the Company with the ability to select and breed superior trees to improve the quality of timber produced and the annual yield of fibre. The Centre's seed orchards occupy 15 hectares and consist of Douglas-fir, western hemlock, western red cedar, yellow-cedar and Sitka spruce. The nursery supplies the Company's requirements for most species of seedlings. Additional research and development for the Company's solid wood segment is contracted out. The Company spent approximately $0.8 million and $1.3 million in 1999 and 1998, respectively, on research and development.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Five Year Summary

The following table is a summary of selected financial information concerning the Company for each of the last five years:

	Years Ended December 31, 1999	1998	1997	1996	1995
	(thousands of dollars except per share amounts)				
Operating results					
Sales	$ 873,636	$ 779,241	$ 736,734	$ 680,205	$ 818,221
Operating earnings (loss) before interest expense	30,361	(7,082)	75,083	(7,210)	151,282
Interest expense	110,778	104,854	68,911	63,027	55,667
Operating (loss) earnings	(80,417)	(111,936)	6,172	(70,237)	95,615
Other (expense) income	(1,966)	(2,510)	811	594	1,400
Net (loss) earnings	(55,913)	(74,752)	(2,315)	(49,067)	53,192
Financial position					
Working capital	378,347	222,385	283,509	218,566	291,054
Total assets	1,486,033	1,528,587	1,543,031	1,276,103	1,317,145
Long-term debt	1,024,743	884,257	787,188	583,349	580,963
Shareholders' equity					
Preferred shareholders (1)	64,076	64,076	64,076	112,309	112,309
Equity shareholders (2)	169,564	225,477	304,074	263,428	323,473
Net (loss) earnings per Equity Share (3)					
Basic	(1.41)	(1.85)	(0.16)	(1.53)	1.32
Fully diluted	(1.41)	(1.85)	(0.16)	(1.53)	1.17
Dividends per Equity Share					
Cash	—	—	—	0.10	0.20

(1) Includes $48,233,000 for the Company's Class A Preferred Shares, Series 3, which were all converted into Non-Voting Shares on February 28, 1997.
(2) Before accrued dividends on preferred shares.
(3) After giving retroactive effect to stock dividends and after provision, where applicable, for dividends on preferred shares.

Quarterly Financial Information

The following table is a summary of selected quarterly financial information concerning the Company for each of the last eight quarters ended December 31, 1999:

	1999 Dec.	1999 Sept.	1999 June	1999 Mar.	1998 Dec.	1998 Sept.	1998 June	1998 Mar.
	(thousands of dollars except per share amounts)							
Sales	$ 240,610	$ 233,724	$ 203,909	$ 195,393	$ 190,581	$ 201,955	$ 184,937	$ 201,768
Costs and expenses (1)	217,218	206,603	205,933	213,521	196,651	203,246	190,138	196,288
Operating earnings (loss) before interest expense	23,392	27,121	(2,024)	(18,128)	(6,070)	(1,291)	(5,201)	5,480
Interest expense	28,947	30,309	24,892	26,630	28,261	29,142	24,641	22,810
Operating loss	(5,555)	(3,188)	(26,916)	(44,758)	(34,331)	(30,433)	(29,842)	(17,330)
Other (expense) income	(74)	314	(886)	(1,320)	(655)	(193)	(862)	(800)
Loss before income and capital taxes	(5,629)	(2,874)	(27,802)	(46,078)	(34,986)	(30,626)	(30,704)	(18,130)
Income and capital taxes recovery (expense)	798	(276)	9,486	16,462	12,010	11,151	10,620	5,913
Net loss	$ (4,831)	$ (3,150)	$ (18,316)	$ (29,616)	$ (22,976)	$ (19,475)	$ (20,084)	$ (12,217)
Provision for preferred dividends	$ 1,091	$ 970	$ 958	$ 948	$ 969	$ 970	$ 958	$ 948
Net loss per Equity Share:								
Basic	$ (0.14)	$ (0.10)	$ (0.45)	$ (0.72)	$ (0.55)	$ (0.48)	$ (0.50)	$ (0.32)
Fully diluted	$ (0.14)	$ (0.10)	$ (0.45)	$ (0.72)	$ (0.55)	$ (0.48)	$ (0.50)	$ (0.32)

(1) Including amortization of property, plant and equipment.

CREDIT FACILITIES

The Company does not currently maintain any bank credit facilities. The Company's operations are financed through cash generated from operating activities, working capital and cash on hand. As at December 31, 1999, the Company had cash and cash equivalents of approximately $93.4 million. The Company anticipates that it may arrange new credit facilities during 2000.

In March 1994, the Company issued the 1994 Notes, which have no principal payments or sinking fund requirements until they mature in 2004. In November 1997, the Company issued the 1997 Notes, which have no principal payments or sinking fund requirements until they mature in 2007. The proceeds from the issuance of the 1997 Notes were used primarily to fund the Crown Acquisition.

In June 1999, the Company issued the 1999 Notes, which have no principal payments or sinking fund requirements until they mature in 2004. The proceeds from the issuance of the 1999 Notes were used to repay debt under the Company's bank credit facilities, to fund working capital and for other general corporate purposes. The 1999 Notes are secured by a first priority lien upon a portion of the Company's timber tenures which have an AAC of approximately 4.0 million cubic metres, eight of its sawmills, its Squamish pulp mill and its value-added lumber remanufacturing plant, but not by its receivables and inventories.

DIVIDENDS

The payment of dividends on the Equity Shares is at the discretion of the Board and depends on the financial condition of the Company, the need to finance capital expenditures, financial covenants in credit agreements and other factors the Board may consider appropriate. The quarterly cash dividends on the Equity Shares were suspended in the third quarter of 1996 by the Board in order to preserve cash.

The following table shows the dividends paid per share by the Company in each of the last five years:

	Years Ended December 31,				
	1999	1998	1997	1996	1995
Class A Preferred Shares, Series 3 [1]	$ —	$ —	$1.48	$2.26	$3.00
Class A Preferred Shares, Series 4	—	3.00	3.00	2.01	1.50
Class A Common Shares	—	—	—	0.10	0.20
Non-Voting Shares	—	—	—	0.10	0.20

(1) Converted into Non-Voting Shares on February 28, 1997.

The Company's Class A Preferred Shares are entitled to dividends in priority to the payment of dividends on the other classes of shares. As of December 31, 1999, the Class A Preferred Shares, Series 4 (the "Series 4 Shares") were outstanding and entitled to cumulative variable dividends. The dividend rate on the Series 4 Shares is 6% or $3.8 million per annum until January 31, 2004. Thereafter, the dividend rate will be the greater of: (i) 6%; and (ii) one-half of bank prime rate plus 1%. The Company has deferred dividend payments on the Series 4 Shares since December 1998. The Class A Preferred Shares, Series 3 were all converted into Non-Voting Shares in February 1997.

The trust indentures between the Company and the trustees for the 1994 Notes, the 1997 Notes and the 1999 Notes (the "Indentures"), respectively, contain covenants limiting certain Restricted Payments (as defined in the Indentures), including the payment of dividends on Equity Shares (other than stock dividends). The Indentures provide, among other things, that the Company will not make a Restricted Payment unless: (i) no default has occurred and is continuing; (ii) the Company meets the fixed charge coverage ratios in the Indentures; and (iii) such Restricted Payment along with all other Restricted Payments is less than the aggregate amount of Restricted Payments permitted pursuant to a ratio as set forth in the Indentures.

DIRECTORS AND OFFICERS

The names and municipalities of residence, offices held with the Company and principal occupations of the directors and officers of the Company are as follows:

Name and Address	Principal Occupations In The Last 5 Years	Director Since
JOSEPH R. FRUMENTO [(1)] .... North Cowichan, B.C.	President of the Company; Consultant	1974
CHESTER A. JOHNSON,[(1)] .... Garibaldi Highlands, B.C.	Retired; formerly Chairman of the Board of the Vancouver International Airport Authority	1982-85 1990
JACOB BROUWER.. West Vancouver, B.C.	Chairman of the Board of Brouwer Claims Canada & Co. Ltd.	1985
JASPAUL H. DOMAN... Cowichan Valley Regional District, B.C.	Manager, North American Lumber Sales of the Company	1988
BRIAN D. GREGSON [(1)].. Vancouver, B.C.	Retired	1991
VICTOR R. WOODS .... North Vancouver, B.C.	Vice President, Logging of the Company; Vice President and General Manager of Western Forest Products Limited	1995
PHILIP G. HOSIER... Vancouver, B.C.	Vice President, Finance and Secretary of the Company; Chief Financial Officer of Western Forest Products Limited	n/a
RAMESH V. MANIAR... Vancouver, B.C.	Treasurer of the Company; Chief Financial Officer of Western Pulp Inc.	n/a

(1) Member of the Audit Committee.

As at December 31, 1999, less than 1% of the Class A Common Shares of the Company were beneficially owned, directly or indirectly, or control or direction was exercised over those shares, by the directors and senior officers of the Company as a group. H.S. Doman, who beneficially owned, directly or indirectly, approximately 71% of the Class A Common Shares of the Company as at December 31, 1999, is the Chief Executive Officer and President of Doman Forest Products Limited, Western Forest Products Limited and Western Pulp Inc. and will be reappointed Chief Executive Officer and President of the Company in June 2000.

Each director is elected to hold office until the next annual general meeting of the Company or until his successor is elected or appointed, unless his office is earlier vacated in accordance with either the Articles of the Company or the provisions of the *Company Act* (British Columbia). The Company does not have an executive committee of directors.

MARKET FOR SECURITIES

The Equity Shares are listed for trading on The Toronto Stock Exchange.

	Stock Symbol
Class A Common Shares	DOM.A
Non-Voting Shares	DOM.B

The Non-Voting Shares have "coat-tail" provisions attached to them as set out in Part 25 of the Articles of the Company. Under the "coat-tail" provisions, each Non-Voting Share will be deemed to be a Class A Common Share if an offer to purchase (an "Offer") is made to all or substantially all of the holders of Class A Common Shares. The deemed conversion will not occur, however, if, in general terms: (i) less than 50% of the outstanding Class A Common Shares are tendered in acceptance of the Offer; or (ii) H.S. Doman, his children, grandchildren and other descendants, and certain companies and trusts holding Class A Common Shares on their behalf, hold at least 20% of the outstanding Class A Common Shares, and H.S. Doman (or his estate) certifies that he will not accept the Offer. The deemed conversion will also not occur if, at the time of the Offer, an offer on the same terms and conditions is made to substantially all of the holders of the Non-Voting Shares. While these "coat-tail" provisions are designed to provide the holders of the Non-Voting Shares with the right to participate in an Offer subject to the foregoing exceptions, there may be circumstances in which effective control of the Company could be acquired by a third party without the "coat-tail" provisions becoming operative by their terms.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial condition and results of operations of the Company for the years ended December 31, 1999 and 1998 should be read in conjunction with the Annual Information Form and the consolidated financial statements and related notes thereto included in the Company's Annual Statutory Report. In the following discussion and analysis, "EBITDA" refers to operating earnings (losses) before interest, income and capital taxes, depreciation, amortization and other non-operating income and expenses. The Company has included information concerning EBITDA because the Company understands that it is used by certain investors as a measure of the Company's performance. EBITDA does not represent cash generated from operations as defined by generally accepted accounting principles and it is not necessarily indicative of cash available to fund cash needs. "EBIT" refers to operating earnings (losses) before interest, income and capital taxes and other non-operating income and expenses.

Summary of Operating Results

The following table sets forth selected operating results for the Company for each of the last two years:

	Years Ended December 31,	
	1999	**1998**
Sales volumes		
— lumber, millions of board feet	808	724
— logs, thousands of cubic metres	626	732
— wood chips, thousands of units	282	262
— pulp, thousands of ADMT	373	333
	(millions of dollars)	
Sales		
— lumber	$ 498.3	$ 437.2
— logs	93.6	90.8
— by-products	19.6	18.2
Solid wood segment	611.5	546.2
Pulp segment	262.1	233.0
Consolidated	$ 873.6	$ 779.2
EBITDA		
Solid wood segment	$ 120.9	$ 86.8
Pulp segment	(3.8)	(19.9)
General corporate	(5.1)	(3.1)
Consolidated	$ 112.0	$ 63.8
Amortization of property, plant and equipment		
Solid wood segment	$ 53.5	$ 46.5
Pulp segment	28.1	24.4
Consolidated	$ 81.6	$ 70.9
EBIT		
Solid wood segment	$ 67.4	$ 40.3
Pulp segment	(31.9)	(44.3)
General corporate	(5.1)	(3.1)
Consolidated	$ 30.4	$ (7.1)
Capital expenditures		
Solid wood segment	$ 33.3	$ 50.1
Pulp segment	1.9	19.5
Consolidated	$ 35.2	$ 69.6

General

The Company's business is the harvesting of timber and the manufacturing and sale of lumber and pulp for worldwide markets. Factors that have affected and will continue to affect operating results include the economic health of the U.S., Japan and Canada, which are the leading markets for the Company's lumber products, and of Asia and Europe, which are the leading markets for the Company's pulp products.

Demand for the Company's lumber products is significantly driven by the level of U.S. housing starts, and indirectly is a function of the health of the U.S. economy and mortgage borrowing rates. The supply of lumber to the U.S. is tied to the levels of lumber industry production, the ability or inability of certain producers to shift production between different lumber markets, and more recently, the quotas established for Canadian producers on softwood lumber exports to the U.S. The Company has been allocated a quota that allows it to maintain significant lumber shipments to the U.S. free of any export fee. Three of the Company's nine sawmills produce lumber targeted for the Japanese market. As a result of the foregoing, and the ability of U.S. lumber producers to shift production between markets, the condition of the Japanese economy also has significant impact on the demand for the Company's lumber products.

The pulp industry is highly competitive on a global basis and producers compete primarily on price. Over the long-term, demand for NBSK pulp is a function of economic growth generally, and paper and paperboard demand specifically. The supply of market pulp is a function of both industry production and the level of inventories that exist, and, over short periods of time, NBSK prices are subject to wide fluctuations depending on the balance between demand and supply. The expansion of hardwood pulp production in recent years and the implementation of new paper making technologies have made the partial substitution of hardwood pulp for NBSK pulp a feasible alternative for certain products. Due to its more limited supply, broader industrial uses and higher production costs, dissolving sulphite pulp prices have historically been both higher and more stable than NBSK pulp prices.

Overview

Difficult market conditions and a build-up in inventories resulted in the Company implementing a plan during the latter part of 1998 to reduce inventories and bank indebtedness and take production curtailments. The inventory and debt reduction plan was accelerated in the first quarter of 1999 in response to market conditions and in connection with negotiations with the Company's bank lenders. During the first half of 1999, sawmill production was curtailed by more than 190 million board feet. The plan had a negative impact on the Company's overall financial performance during the first half of 1999, as production curtailments increased the Company's per-unit cost of production and the Company discounted prices in order to achieve sales volumes.

By mid-year, the Company had substantially implemented its plan. In June 1999, the Company completed an issuance of U.S.$160 million of the 1999 Notes, and used the proceeds to repay in full all of its existing bank indebtedness and for working capital and other corporate purposes. The proceeds of this issue provided the Company with enhanced liquidity and permitted it to return to operating its business at optimal levels and realize upon improved market conditions in the second half of 1999.

Results of Operations - 1999 versus 1998

In 1999, the Company's sales increased by approximately 12% to $873.6 million from $779.2 million in 1998, primarily as a result of increased lumber and pulp sales volumes and prices. In 1999, the Company's EBITDA, EBIT and operating earnings after interest all increased primarily as a result of higher lumber prices throughout the year and significantly higher pulp prices in the second half of the year.

Sales for the solid wood segment increased by approximately 12% to $611.5 million in 1999 from $546.2 million in 1998, primarily as a result of increased sales volumes and prices. Lumber sales increased by approximately 14% to $498.3 million in 1999 from $437.2 million in 1998 on a volume increase of 12% and a price increase of approximately 2%. Lumber markets in 1999 were stronger than in 1998. Strong U.S. housing starts led to higher lumber prices in the U.S. market in the first half of 1999. Although U.S. lumber prices declined somewhat in the latter half of 1999, they remained generally stable. In addition, lumber prices in Japan began a slow and steady improvement in 1999. Prices for 105 hemlock "baby squares" increased from about U.S. $530 per mfbm at the start of the year to approximately U.S. $620 per mfbm at the end of 1999.

Log sales in 1999 increased to $93.6 million from $90.8 million in 1998 on a volume decrease of 17% and an average price increase of 20%. By-product sales in 1999 increased to $19.6 million from $18.2 million in 1998 on a volume increase of 7% and a price decrease of 2%.

Sales for the pulp segment increased to $262.1 million in 1999 from $233.0 million in 1998, as a result of a 12% increase in sales volume, significantly higher pulp prices in the second half of 1999 and the successful conversion of some of the production at the Port Alice mill to sulphite paper grade pulp in the latter part of the year which permitted the mill to operate continuously since October 1999. Prior to such conversion, the Port Alice mill took approximately 136 days of downtime in 1999. NBSK pulp prices started 1999 at U.S.$460 per ADMT and remained weak in the early part of the year as excess world inventories prevented any sustained price increases. NBSK pulp prices increased in the second half of 1999 to U.S.$600 per ADMT at the end of the year as a result of declining pulp inventories held by North American and Scandinavian producers ("Norscan producers"). In addition, pulp producers implemented a U.S.$30 per ADMT price increase to U.S.$630 per ADMT on January 1, 2000 and a further U.S.$40 per ADMT increase to U.S.$670 per ADMT on April 1, 2000. Norscan producer inventories at February 28, 2000 were approximately 1.3 tonnes, a level which has historically supported improving prices. Prices for dissolving sulphite pulp sales to specialty cellulose markets remained weak through 1999. Improvements in dissolving sulphite pulp prices have historically trailed improvements in NBSK pulp prices by approximately nine months.

Costs and expenses in 1999 increased to $761.7 million from $715.4 million in 1998, primarily as a result of increased sales volumes in the second half of 1999. Costs and expenses in the solid wood segment increased to $495.8 million in 1999 from $462.4 million in 1998. U.S. quota restrictions on softwood lumber exports from British Columbia resulted in the Company paying approximately $9.2 million in countervailing duties in 1999, compared to $3.3 million in 1998. In the pulp segment, costs and expenses in 1999 increased to $265.9 million from $253.0 million in 1998.

In 1999, the Company's EBITDA increased by 76% or $48.2 million to $112.0 million from $63.8 million in 1998. Of the Company's total EBITDA in 1999, $100.2 million was generated in the second half of the year. EBITDA from the solid wood segment increased to $120.9 million from $86.8 million in 1998. In 1999, EBITDA from the pulp segment was $(3.8) million, compared to $(19.9) million in 1998. Interest expense increased to $110.8 million in 1999 from $104.9 million in 1998, primarily as a result of increased indebtedness and the higher interest rate on the 1999 Notes. The operating loss after interest expense was $80.4 million in 1999, compared to an operating loss after interest expense of $111.9 million in 1998.

In 1999, the Company reported a net loss of $55.9 million or $1.41 per share, compared to a net loss in 1998 of $74.8 million or $1.85 per share.

Liquidity and Capital Resources

The Company's principal sources of liquidity are cash flow generated from operations, working capital and cash on hand. At December 31, 1999, the Company had cash and cash equivalents of $93.4 million, compared to short-term bank indebtedness of $138.4 million at the end of 1998.

Operating activities provided cash of $90.7 million in 1999, compared to $10.0 million in 1998. Working capital provided by operations was $14.3 million in 1999, compared to working capital used by operations of $30.3 million in 1998.

Financing activities provided cash of $33.5 million in 1999, compared to $57.5 million in 1998. In 1999, net proceeds from the issuance of the 1999 Notes provided cash of $213.5 million, while the repayment of the Company's existing bank indebtedness used cash of $178.4 million.

Investing activities used cash of $30.9 million in 1999, compared to $67.5 million in 1998. Capital expenditures on property plant and equipment aggregated $35.2 million in 1999, compared to $69.6 million in 1998. Approximately $28.3 million of the capital expenditures in 1999 was for the construction of logging roads. The Company expects capital expenditures in 2000 to be approximately $45 million.

Cyclical Nature of Business; Competitive Position

The Company competes at both a domestic and international level with a large number of forest products firms, ranging from very large integrated firms to smaller specialty firms. Many of these competitors have substantially greater financial and operating resources than the Company. The Company also competes indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. The markets for pulp and lumber are highly competitive and sensitive to cyclical changes in industry capacity and the economy, both domestically and internationally. Changes in the level of competition, industry capacity and the global economy have a significant impact on the Company's selling prices and overall profitability. The Company's competitive position is influenced by the availability, quality and cost of fibre, energy and labour, and its plant efficiencies and productivity in relation to its competitors.

The following table illustrates the effect of changes in selling prices for pulp and lumber on the Company's net earnings, based on 1999 and 1998 sales, respectively:

	Years Ended December 31, 1999	1998
	(thousands of dollars except per share amounts)	
Pulp — $50 per ADMT change	$ 11,444	$ 10,214
Per share	0.27	0.24
Lumber — $10 per thousand board feet change	4,958	4,445
Per share	0.12	0.10

Foreign Currencies

Since a significant amount of the Company's sales are conducted in international markets, its financial results are subject to foreign currency rate fluctuations. In particular, all of the Company's pulp sales are made in U.S. dollars, as are its lumber sales to the U.S. As a result, a significant amount of the Company's sales revenue is denominated in U.S. dollars, while a large proportion of its costs are in Canadian dollars. U.S. dollar based sales, expressed in Canadian dollars, were $600.5 million in 1999 and $513.0 million in 1998, representing 69% and 66% of total sales, respectively. The value of the Canadian dollar per U.S.$1.00 in 1999 and 1998 averaged $1.4889 and $1.4811, respectively.

All of the Company's borrowings (currently U.S.$710.0 million) are in U.S. dollars, but these arrangements only partially offset the Company's exchange rate exposure. A 1% change in the U.S. dollar in respect of the Company's current U.S. dollar borrowings has an effect on its net earnings of approximately $0.05 per share.

The Company has in the past used forward foreign currency contracts to manage foreign currency exposures, as well as for speculative purposes. Currently, the Company does not have any forward foreign currency contracts outstanding.

The Company translates its monetary assets and liabilities into Canadian dollars at the year-end exchange rate. Unrealized exchange gains or losses on translation of operating debt are recognized in earnings and those relating to long-term debt are deferred and amortized to earnings over the remaining life of the debt. As a result of changes in exchange rates, the amount of the 1994 and 1997 Notes, expressed in Canadian dollars, was $793.8 million at the end of 1999 compared to $843.3 million at the end of 1998. The amount of the 1999 Notes, expressed in Canadian dollars, was $230.9 million at the end of 1999.

The following table illustrates the effect of changes in currency exchange rates on the Company's net earnings, based on 1999 and 1998 sales, respectively:

	Years Ended December 31, 1999	1998
	(thousands of dollars except per share amounts)	
1% change in the U.S. dollar	$ 3,686	$ 3,146
Per share	0.09	0.07

Other Matters

The Company's principal products are sold in international markets. As a result, economic conditions in the U.S., Japan and Europe, the strength of the housing markets in the U.S. and Japan with its sensitivity to interest rates, and the strength of world markets for NBSK pulp can all have a significant effect on the operations and results of the Company. Other factors which may affect the Company's operations and results are common to forestry companies in North America and particularly those in British Columbia, and are discussed below.

Quota on Exports of Canadian Lumber to the U.S.

As a result of a trade agreement between the governments of Canada and the U.S., primary softwood lumber producers and remanufacturers based in British Columbia are entitled to export approximately 8.5 billion board feet per annum of softwood lumber to the U.S. with no export fee imposed. Thereafter, a two-tier fee is charged on the amount of lumber exported to the U.S. in excess of the base amount. Companies have been allocated a specific quota within each tier and the Company's allocation has permitted it to maintain its U.S. sales substantially at historical levels. The trade agreement expires in March 2001. The Canadian federal government has commenced a consultation process to determine options and strategies for renewal of the agreement upon its expiry.

Timber Harvesting and Fibre Supply

The provincial government's target of doubling the protected land base from 6% to 12% will likely be met in the year 2000. The process will result in reductions to the commercial forest land base. Approximately 75% of the Company's AACs have now been reviewed under the Province's park review procedures. The Company's remaining tenures in the Queen Charlotte Islands and Central Coast regions are under review for further park withdrawals.

The provincial government brought the Code into force in 1995 and it became fully effective in mid-1997. The Code consolidates a wide array of existing legislation, regulations and guidelines and provides a uniform set of rules whose objectives are to better secure the long-term sustainability of the forest industry. The Code has had a significant impact on harvesting practices and has increased the timber harvesting and silviculture costs of all companies in the forest industry in British Columbia. As a result of problems with, and higher than anticipated costs from, implementing the Code, the provincial government and industry participants participated in a review process to consider amendments which would permit the industry to meet the standards desired while preserving the objectives of the Code. This process has resulted in legislative amendments to the Code, but not in a significant reduction in costs to date. Further amendments may be made.

The current stumpage system does not recognize the changes in operating costs associated with the Code. The forestry industry has recommended changes to the timber pricing system that would enhance market sensitivity, incorporate cost recognition and price pulp logs appropriately. Such changes would enhance the forestry industry's competitive position, ensure a fair return to the Province and industry from forest resources and add value to Crown forest tenures. However, amending the stumpage system is a complex process and involves lumber trade issues between Canada and the United States.

The Company's stumpage costs per cubic metre of logs produced were approximately $25 in 1999 and $26 in 1998. In 1995, the provincial government eliminated royalties for TLs and replaced them with stumpage, which increased to 87% of regular stumpage rates on April 1, 1999 and 93% of regular stumpage rates on April 1, 2000, and which will increase to 100% of regular stumpage rates by 2001. Certain forestry companies have initiated court actions against the provincial government claiming substantial damages as a result of the change in the calculation of stumpage rates. In December 1999, the court ruled against the provincial government in an action to dismiss the damage claims. In March 2000, the Company also initiated a court action against the provincial government to recover damages resulting from the change in the calculation of stumpage rates.

Environment

The various operations of the Company are subject to a wide variety of environmental legislation and regulations. The Company believes that it generally complies with the various environmental laws.

Under current legislation, all pulp mills in British Columbia are required to eliminate the discharge of chlorinated organic compounds by December 31, 2002. The British Columbia pulp and paper industry has indicated to the government that the elimination of all discharges of chlorinated organic compounds is not required from an environmental perspective. In addition, technology does not currently exist which would permit dissolving sulphite pulp mills to comply with this legislation. Although technology is available to eliminate all chlorinated organic compounds at NBSK pulp mills in British Columbia, capital and operating costs associated therewith are presently prohibitive.

Forestry Campaigns

Environmental activists have targetted customers of British Columbia forestry companies in campaigns against the use of wood from mature (old growth) forests. The campaigns have prompted some customers to seek assurances from forestry companies that products are coming from well-managed forests. The Company is committed to ensuring that its forestry operations meet the most accepted international environmental standards and is working with customers to assist them in making informed, environmentally responsible purchasing decisions. The Company is also involved in discussions with local and international environmental organizations to seek an end to marketplace actions against customers in return for changes to forest management and the resolution of issues relating to new parks in the Central Coast region.

First Nations Land Claims

First Nations groups in British Columbia have made claims of ownership or interests in substantial portions of land in the Province and are seeking compensation from government with respect to these claims. To address these claims, the governments of Canada and British Columbia instituted a tripartite negotiation process under the administration of a treaty commission. A British Columbia Treaty Commission has been established to oversee the treaty negotiation process. Any settlements that may result from the tripartite negotiation process may involve a combination of cash and resources and grants of conditional rights to gather food on public lands and some rights of self-government. The effect of any treaties on timber tenure rights, including timber tenures of the Company, cannot be estimated at this time.

In December 1997, the Supreme Court of Canada held that the First Nations groups have a spectrum of aboriginal rights in lands that have been traditionally used or occupied by their ancestors. The Court's decision did not apply to any particular lands and was stated in general terms. The Court held that aboriginal rights and title are not absolute and may be infringed upon by government in furtherance of a legislative objective, including forestry, subject to meeting a justification test and being consistent with the fiduciary relationship between government and First Nations groups. It is not possible to determine how the general principles enunciated by the Court will be applied until subsequent decisions provide clarification. In addition, the effect on any particular lands will not be determinable until the exact nature of historical use, occupancy and rights in any particular piece of property have been determined. The Company expects that consultations with First Nations groups and the process of obtaining operating authorizations from the government may be affected by the uncertainties created by the decision of the Supreme Court of Canada and resulting increased demands from First Nations groups. However, the Company believes that the fostering of mutually beneficial business relationships with First Nations groups will facilitate these consultations and processes.

Year 2000

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. To date, no significant issues have arisen from the year 2000 issue. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 issue that may affect the Company, including those related to customers, suppliers, or other third parties, have been fully resolved.

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Information Form contains statements which constitute forward-looking statements within the meaning of the United States *Private Securities Litigation Reform Act of 1995.* Those statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels, export quotas and future operating performance of the Company. Such statements may be indicated by words such as "estimate", "expect", "intend", "the Company believes", and similar words and phrases. Readers are cautioned that any such forward-looking statements are not guarantees and may involve risks and uncertainties, and that actual results may differ from those in the forward-looking statements as a result of various factors, including general economic and business conditions, changes in government regulation, fluctuations in demand and supply for the Company's products, industry production levels, the ability of the Company to execute its business plan and misjudgments in the course of preparing forward-looking statements. The accompanying information contained in this Annual Information Form, including, without limitation, the information set forth under the headings "Management Discussion and Analysis" and "Business of the Company", identifies important factors that could cause such differences. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by such cautionary statements.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase the Company's securities, and a statement as to the interest of insiders in material transactions is contained in the information circular for the Company's annual general meeting to be held on June 28, 2000. Additional financial information is provided in the Consolidated Financial Statements for the year ended December 31, 1999.

The Company will provide to any person, upon request to the Secretary of the Company at 435 Trunk Road, Duncan, British Columbia, V9L 2P9:

(a) when securities of the Company are in the course of distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed in respect of a distribution of its securities,

- (i) one copy of the Annual Information Form together with one copy of any document, or the pertinent pages from any document, incorporated by reference in the Annual Information Form;

- (ii) one copy of the audited Consolidated Financial Statements of the Company for the year ended December 31, 1999, together with the accompanying report of the auditors thereon, and one copy of any interim financial statements of the Company subsequent to the Consolidated Financial Statements;

- (iii) one copy of the Company's information circular relating to its most recent annual general meeting that involved the election of directors; and

- (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or short form prospectus other than those referred to in items (i) to (iii) above; or

(b) at any other time, one copy of any of the documents referred to in (a)(i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

To the Shareholders of
DOMAN INDUSTRIES LIMITED:

The management of Doman Industries Limited is responsible for the preparation of all information included in the Company's Annual Statutory Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and necessarily include amounts based on management's informed judgements and estimates. A reconciliation with accounting principles generally applied in the United States is also included therein. Financial information included elsewhere in the Company's Annual Statutory Report is consistent with the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal accounting and administrative controls has been established to provide reasonable assurance that the consolidated financial statements are relevant and reliable, and that assets are safeguarded. The concept of reasonable assurance is based on the recognition that the cost of a system of internal controls must not exceed the related benefits. Management believes that the system of internal controls has operated effectively during the year ended December 31, 1999.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee of the Board is responsible for reviewing the annual consolidated financial statements and recommending them to the Board for approval, making recommendations with respect to the appointment and remuneration of the Company's external auditors and reviewing the scope of the annual audit.

The consolidated financial statements for the year ended December 31, 1999 have been audited by KPMG LLP, Chartered Accountants, who were appointed as the Company's external auditors by the shareholders at the last annual general meeting. Management has made available to the external auditors all financial records and related data.

J. R. FRUMENTO
President

P. G. HOSIER
Vice President, Finance

Vancouver, Canada
February 11, 2000

AUDITORS' REPORT

To the Shareholders of
DOMAN INDUSTRIES LIMITED:

We have audited the consolidated balance sheet of Doman Industries Limited as at December 31, 1999 and the consolidated statements of operations, retained earnings (deficit) and its cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at and for the year ended December 31, 1998 were audited by other auditors who expressed an opinion without reservation on those statements in their report principally dated February 23, 1999.

Significant differences between Canadian and United States accounting principles as they affect these consolidated statements are explained and quantified in Note 15.

Vancouver, Canada
February 11, 2000

KPMG LLP
Chartered Accountants

DOMAN INDUSTRIES LIMITED

Consolidated Balance Sheets

ASSETS

	December 31, 1999	December 31, 1998
	($000's)	
Current Assets		
Cash	$ 93,376	$ —
Accounts receivable	105,280	97,710
Inventories (Note 3)	329,574	372,374
Prepaid expenses	8,153	8,456
	536,383	478,540
Investments (Note 4)	13,478	12,888
Property, Plant and Equipment (Note 5)		
Land, buildings and equipment	677,757	717,478
Timberlands and logging roads	184,937	194,172
	862,694	911,650
Other Assets (Note 6)	73,478	125,509
	$1,486,033	$1,528,587

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1999	December 31, 1998
Current Liabilities		
Bank indebtedness (Note 7)	$ —	$ 138,449
Accounts payable and accrued liabilities	158,012	117,110
Current portion of long-term debt (Note 8)	24	596
	158,036	256,155
Long-Term Debt (Note 8)	1,024,743	884,237
Other Liabilities	10,697	10,520
Deferred income taxes	58,917	88,122
	1,252,393	1,239,034
Shareholders' Equity		
Share capital (Note 9(a))		
Preferred shares	64,076	64,076
Common and non-voting shares	242,942	242,942
	307,018	307,018
Deficit	(73,378)	(17,465)
Total shareholders' equity	233,640	289,553
	$1,486,033	$1,528,587

ON BEHALF OF THE BOARD:

(Signed) JOSEPH R. FRUMENTO
Director

(Signed) BRIAN D. GREGSON
Director

DOMAN INDUSTRIES LIMITED

Consolidated Statements of Operations

	Years Ended December 31, 1999	1998
	($000's except for share and per share amounts)	
Sales	$ 873,636	$ 779,241
Costs and Expenses		
Cost of goods sold (excluding amortization shown separately below)	744,490	699,557
Selling and administration	17,170	15,877
	761,660	715,434
Operating earnings before interest and amortization	111,976	63,807
Amortization of property, plant and equipment (Note 14(a))	81,615	70,889
Operating Earnings (Loss) Before Interest Expense	30,361	(7,082)
Interest expense (Note 14(b))	110,778	104,854
Operating Earnings (Loss)	(80,417)	(111,936)
Other income (expense) (Note 14(c))	(1,966)	(2,510)
Loss before income taxes	(82,383)	(114,446)
Income taxes (recovery) (Note 10)	(26,470)	(39,694)
Net Loss	(55,913)	(74,752)
Provision for dividends on preferred shares	3,967	3,845
Net loss attributable to common and non-voting shares	$ (59,880)	$ (78,597)
Weighted average number of common and non-voting shares outstanding (000's)	42,481	42,481
Basic Loss Per Share (Note 11)	$ (1.41)	$ (1.85)
Fully Diluted Loss Per Share (Note 11)	$ (1.41)	$ (1.85)

Consolidated Statements of Retained Earnings (Deficit)

	Years Ended December 31, 1999	1998
	($000's)	
Retained Earnings (Deficit), beginning of year	$ (17,465)	$ 61,132
Net loss	(55,913)	(74,752)
	(73,378)	(13,620)
Deduct		
Dividends (Note 9(d))	—	3,845
Deficit, end of year	$ (73,378)	$ (17,465)

DOMAN INDUSTRIES LIMITED

Consolidated Statements of Cash Flows

	Years Ended December 31, 1999	1998
	($000's)	
Operating Activities		
Net loss	$ (55,913)	$ (74,752)
Add (deduct) items not involving cash:		
Amortization of property, plant and equipment	81,615	70,889
Amortization of deferred charges	20,003	18,897
Deferred income taxes	(29,205)	(43,461)
Other	(2,186)	(1,870)
Working capital provided by (used in) operations	14,314	(30,297)
Net change in non-cash working capital items (Note 14(d))	76,435	40,285
Funds provided by operating activities	90,749	9,988
Financing Activities		
Increase (decrease) in long-term debt and capital leases	(1,494)	40,674
Increase (decrease) in bank indebtedness	(178,449)	20,674
Senior notes issue proceeds	233,760	—
Senior notes issue costs	(20,305)	—
Cash dividends on preferred shares	—	(3,845)
Funds provided by financing activities	33,512	57,503
Investing Activities		
Additions to property, plant and equipment	(35,191)	(69,605)
Additions to investments	(528)	(407)
Disposals of property, plant and equipment	4,834	2,521
Funds used in investing activities	(30,885)	(67,491)
Increase in cash	93,376	—
Cash, beginning of year	—	—
Cash, end of year	$ 93,376	$ —

DOMAN INDUSTRIES LIMITED

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which require management to make assumptions and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Information regarding United States generally accepted accounting principles ("U.S. GAAP") as it affects the Company's consolidated financial statements is presented in Note 15.

The significant policies are summarized below.

(a) *Basis of Consolidation*

These consolidated financial statements include the accounts of Doman Industries Limited and all of its subsidiaries (see Note 14(h)) (individually and collectively referred to as the "Company").

(b) *Inventories*

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

(c) *Investments*

Investments in companies over which the Company has the ability to exercise significant influence are accounted for using the equity method whereby the Company's proportionate share of earnings and losses is included in earnings. Dividends received are credited to the investment accounts.

Other investments are accounted for using the cost method whereby income is included in earnings when received or receivable.

(d) *Property, Plant and Equipment*

Property, plant and equipment, including those under capital leases, are stated at cost, including capitalized interest and start-up costs incurred for major projects during the period of construction. Amortization of the pulp mills is provided on a unit-of-production basis over twenty-five years except for (i) the modernized portion of the Squamish pulp mill which is over forty years and (ii) other major replacements and renewals which are over twelve years. Amortization of the solid wood facilities and equipment is provided for the period of operations on a straight-line basis over fifteen to twenty years for buildings and major plant and equipment and over five to ten years for mobile and office equipment. These rates reflect the estimated useful lives of the assets. Amortization of timberlands and logging roads is computed on the basis of the volume of timber cut.

The Company conducts reviews for the impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimates of future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount.

(e) *Deferred Financing Costs*

These costs are amortized on a straight-line basis over the term of the related debt. The amount of the amortization is included in interest on long-term debt.

(f) *Foreign Currency Translation*

Transactions denominated in U.S. dollars have been translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities have been translated into Canadian dollars at the year-end exchange rate, except for hedged net asset positions which are translated at the applicable forward currency contract rate. All exchange gains and losses are included directly in earnings, except for the unrealized exchange losses on translation of long-term debt which are deferred and amortized to earnings over the remaining life of the debt. Exchange gains and losses included in earnings that relate to long-term debt are considered to be an integral part of financing costs and accordingly, are included in interest expense.

The Company periodically uses forward foreign currency contracts to manage foreign currency exposures of existing net asset balances. Forward currency contracts in excess of existing hedged net asset balances are considered speculative and are marked to market.

(g) *Reforestation Obligation*

Timber is harvested under various licences issued by the Province of British Columbia. The future estimated reforestation obligation is accrued on the basis of the volume of timber cut. The non-current and current portion of this obligation are included in other liabilities and accounts payable and accrued liabilities, respectively.

(h) *Pension Costs*

Pension costs for hourly paid employees are charged to earnings as they accrue based on hours worked.

Pension costs for salaried employees are also charged to earnings as they accrue. In determining pension expense, the initial past service liability on implementation of these pension plans, adjustments arising from changes in actuarial assumptions, and experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of the employee groups. The assets of these pension plans are valued at market values.

(i) *Income Taxes*

The Company uses the tax allocation method of accounting for income taxes whereby differences between the provision for income taxes on earnings for accounting purposes and the income taxes currently payable are shown as deferred income taxes.

(j) *Revenue Recognition*

Sales are recognized at the time products are shipped to external customers.

(k) *Adoption of New Accounting Standard*

Effective January 1, 1999 the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants relating to cash flows. The new standard has been retroactively applied and prior year comparative amounts have been restated to conform to the new standard. Significant differences affecting the Company include changing the name of the statement of changes in financial position to a statement of cash flows, reclassifying bank indebtedness as a financing activity from a cash and cash equivalent and disclosing the following supplemental information.

	December 31,	
	1999	**1998**
Cash paid for:	**($000's)**	
Interest	$ 90,775	$ 85,957
Income Taxes	2,735	3,767

(l) *Comparative figures*

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

2. Change in Accounting Policy

Effective January 1, 1998 the Company changed its accounting policy to recognize by-product sales in the period in which they are realized. Previously, a maximum of 25% of such sales were generally accounted for as a reduction in log costs. The impact of this change was to reduce the 1998 net loss by $5 million.

3. Inventories

	December 31, 1999	December 31, 1998
	($000's)	
Raw materials	$ 4,264	$ 2,839
Logs	115,954	93,974
Finished pulp	31,281	40,582
Lumber	137,423	196,860
Supplies and other	40,652	38,119
	$ 329,574	$ 372,374

4. Investments

	December 31, 1999	December 31, 1998
	($000's)	
Land held for development	$ 6,734	$ 6,734
Other investments	6,744	6,154
	$ 13,478	$ 12,888

5. Property, Plant and Equipment

	December 31, 1999			1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
		($000's)		
Land, buildings and equipment				
Pulp mills	$ 726,660	$ 217,474	$ 509,186	$ 535,363
Solid wood facilities	290,853	144,778	146,075	157,833
Land	22,496	—	22,496	24,282
	$1,040,009	$ 362,252	$ 677,757	$ 717,478
Timberlands	$ 161,332	$ 32,431	$ 128,901	$ 132,204
Logging roads	239,721	183,685	56,036	61,968
	$ 401,053	$ 216,116	$ 184,937	$ 194,172

6. Other Assets

	December 31, 1999	December 31, 1998
	($000's)	
Deferred charges, net of amortization		
Foreign currency translation losses	$ 45,643	$ 113,832
Financing costs	27,835	11,677
	$ 73,478	$ 125,509

7. Bank Credit Facilities

At December 31, 1998, the Company had a bank operating credit facility of $120,000,000, of which $118,449,000 had been drawn down, and a bank revolving term credit facility of $100,000,000 maturing in 2000, of which $60,000,000 had been utilized. The effective interest rates on these two facilities were 8.25% and 6.875% respectively. At December 31, 1998, $20,000,000 of the $60,000,000 term loan was included in current bank indebtedness, consistent with the banking agreements.

During the year ended December 31, 1999 the Company repaid all amounts owing under the operating and term credit facilities and agreed with its lenders to cancel these facilities.

8. Long-Term Debt

	December 31,	
	1999	1998
	($000's)	
Doman Industries Limited		
Senior Notes (U.S. $425,000,000) 8.75% due in 2004	$ 613,402	$ 651,652
Senior Secured Notes (U.S. $160,000,000) 12.00% due in 2004	230,928	—
Senior Notes (U.S. $125,000,000) 9.25% due in 2007	180,413	191,663
Term Credit Facility (Note 7)	—	40,000
Western Pulp Limited Partnership		
Capital lease obligations maturing in 1999	24	1,518
	1,024,767	884,833
Principal amount included in current liabilities	24	596
	$1,024,743	$ 884,237

The Senior Notes are guaranteed by all of the Company's subsidiaries, except for Doman Industries (U.S.) Limited and Doman's Freightways Ltd. The 8.75% Senior Notes due in 2004 are unsecured and are redeemable at the option of the Company at any time after March 15, 1999 at their principal amount plus (i) a premium (which decreases annually to 2002) and (ii) any accrued and unpaid interest. The 12.00% senior notes due in 2004 are redeemable at the option of the Company at any time after July 1, 2002 at their principal amount plus (i) a premium (which decreases annually to 2003) and (ii) any accrued and unpaid interest. The 12% Senior Notes are secured by a first priority lien upon a portion of the Company's timber tenures, eight of the Company's solid wood facilities, the Squamish pulp mill and the valued-added lumber remanufacturing plant. The 9.25% Senior Notes due in 2007 are unsecured and are redeemable at the option of the Company at any time after November 15, 2002 at their principal amount plus (i) a premium (which decreases annually to 2005) and (ii) any accrued and unpaid interest. The Indentures governing the Senior Notes contain certain restrictions regarding, among other things, the ability of the Company to incur additional indebtedness (with certain exceptions) and the payment of cash dividends in certain circumstances.

9. Share Capital

(a) *Authorized and Issued Share Capital*

Authorized shares (without par value)

5,000,000 Class A preferred
100,000 Class B preferred
29,000,000 Class A common
60,000,000 Class B non-voting

Issued Shares

	December 31, 1999	December 31, 1998
	($000's)	
1,281,526 (1998 — 1,281,526) Class A preferred, series 4	$ 64,076	$ 64,076
4,794,341 (1998 — 4,794,341) Class A common	907	907
37,686,642 (1998 — 37,686,642) Class B non-voting, series 2	242,035	242,035
	242,942	242,942
	$307,018	$307,018

(b) *Rights of Classes of Issued Shares*

The Class A preferred shares, series 4 have a cumulative annual dividend, generally payable quarterly, of 6% until January 31, 2004 and thereafter at the greater of (i) 6% and (ii) one-half of bank prime rate plus 1%. These preferred shares are redeemable at the option of the Company at any time at $50.00 per share plus any accrued and unpaid dividends.

The Class A common shares are convertible at the option of the holder into Class B non-voting shares, series 2 on a share-for-share basis. The Class B non-voting shares, series 2 have the same rights as the Class A common shares except that (i) they have no right to vote at meetings of shareholders and (ii) they are not convertible into another class of shares of the Company. However, if an offer to purchase is made to all or substantially all of the holders of the Class A common shares, each Class B non-voting share, series 2 shall, in certain circumstances, be deemed to be a Class A common share.

(c) *Changes in Issued Shares*

The changes in the issued shares since December 31, 1997 were as follows:

Common and non-voting shares

	Number of Shares			
	Class A	Class B, Series 2	Total	Amount (000's)
Balance, December 31, 1997	4,818,913	37,662,070	42,480,983	$ 242,942
Conversions	(24,572)	24,572	—	—
Balance, December 31, 1998, and 1999	4,794,341	37,686,642	42,480,983	$ 242,942

(d) *Dividends*

Dividends on the Class A preferred shares were as follows:

	Years Ended December 31, 1999	Years Ended December 31, 1998
	($000's)	
Class A preferred shares Series 4	$ —	$ 3,845

The payment of quarterly cash dividends on the common and non-voting shares was suspended by the Company in the third quarter of 1996. The Company deferred the payment of the quarterly cumulative dividends on the Series 4 Class A preferred shares from December 1, 1998 in the aggregate amount of $4,864,000.

(e) *Stock Options*

The Company grants, from time to time, stock options to directors, officers and employees to purchase its common and non-voting shares at the quoted market value on the date of the grant.

At December 31, 1999, there were options outstanding to purchase 80,000 (1998 – 80,000) Class A common shares at $7.65 per share, and 400,000 (1998 – 465,000) Class B non-voting shares, series 2, at $7.65 per share, exercisable on a cumulative basis as to 20% annually over a five-year period ending in March 2003, and nil (1998 – 1,000,000) Class B non-voting shares, series 2 at $12.50 per share, exercisable at any time prior to July 1999.

10. Income Taxes

	Years Ended December 31, 1999	1998
	($000's)	
Income tax recovery on the pre-tax (loss) earnings based on the Combined basic Federal and Provincial income tax rates of 38.62%	$ 31,816	$ 44,199
Differences resulting from:		
Large Corporation taxes	(2,735)	(2,229)
Non-taxable income	27	28
Other, primarily non-deductible items	(2,638)	(2,304)
Income tax recovery (expense)	$ 26,470	$ 39,694
Comprised of:		
Current income taxes	$ (2,735)	$ (3,767)
Deferred income tax recovery	29,205	43,461
	$ 26,470	$ 39,694

Deferred income taxes arise principally from timing differences between the amortization of property, plant and equipment and deferred charges against earnings and the related amounts claimed for income tax purposes, net of the accounting recognition for non-capital loss carry-forwards.

11. Loss Per Share

(a) The basic loss per share has been calculated using the weighted average aggregate number of common and non-voting shares outstanding after giving retroactive effect to stock dividends on the common and non-voting shares.

(b) The fully diluted earnings (loss) per share have been calculated using the weighted average aggregate number of common and non-voting shares which would have been outstanding assuming that additional shares had been issued at the beginning of the period or on the date of issue of the exercise rights, as applicable, pursuant to the outstanding stock options. For purposes of these calculations, the net loss attributable to the common and non-voting shares has been increased by the provision for dividends on preferred shares and by imputed earnings at 6% on the assumed increase in share capital on exercise of the stock options. The potential effect of these adjustments on the loss per share was not dilutive in 1999 and 1998.

12. Commitments

Future minimum lease payments at December 31, 1999 under operating leases were as follows:

	Operating Leases ($000's)
2000	$ 3,196
2001	2,871
2002	2,585
2003	2,357
2004	2,232
Thereafter	3,385
Total minimum lease payments	$16,626

13. Segmented Information

(a) *Industry Segments*

The Company is an integrated Canadian forest products company operating in two industry segments. The Solid Wood Segment comprises the Company's timber harvesting, reforestation, sawmilling, value-added lumber remanufacturing and lumber marketing operations. The Pulp Segment comprises the Company's dissolving sulphite and kraft ("NBSK") pulp manufacturing, pulp management and sales operations.

	Year Ended December 31, 1999		
	Solid Wood	Pulp ($000's)	Total
Sales			
To external customers	$ 611,548	$ 262,088	$ 873,636
To other segment[(1)]	53,115	—	
	$ 664,663	$ 262,088	
Segmented operating earnings (loss) before interest expense	$ 67,400	$ (31,919)	$ 35,481
General corporate expenses			(5,120)
Interest expense			(110,778)
Other income (expense)			(1,966)
Income tax recovery			26,470
Net loss			$ (55,913)
Identifiable assets	$ 774,309	$ 624,768	$ 1,399,077
Corporate assets, including investments			86,956
Total assets			$ 1,486,033
Amortization of property, plant and equipment	$ 53,481	$ 28,134	$ 81,615
Capital expenditures	$ 33,249	$ 1,942	$ 35,191

	Year Ended December 31, 1999		
	Solid Wood	Pulp ($000's)	Total
Sales			
To external customers	$ 546,201	$ 233,040	$ 779,241
To other segment[(1)]	65,240	—	
	$ 611,441	$ 233,040	
Segmented operating earnings	$ 40,333	$ (44,318)	$ (3,985)
General corporate expenses			(3,097)
Interest expense			(104,854)
Other income (expense)			(2,510)
Income tax recovery			39,694
Net loss			$ (74,752)
Identifiable assets	$ 741,957	$ 648,233	$ 1,390,190
Corporate assets, including investments			138,397
Total assets			$ 1,528,587
Amortization of property, plant and equipment	$ 46,481	$ 24,408	$ 70,889
Capital expenditures	$ 50,091	$ 19,514	$ 69,605

(1) Inter-segment sales are accounted for at prevailing market prices.

(b) *Geographic Information*

(i) Sales

The Company's sales, based on the known origin of the customer, during the last two years were as follows:

	Years Ended December 31, 1999	1998
	($000's)	
Canada	$ 175,884	$ 164,771
United States	324,057	264,397
Asia	271,354	240,836
Europe	95,199	100,182
Other	7,142	9,055
	$ 873,636	$ 779,241

(ii) Capital Assets

All of the Company's capital assets are located in British Columbia, Canada.

14. Other Information

(a) *Amortization of Property, Plant and Equipment*

	Years Ended December 31, 1999	1998
	($000's)	
Amortization of buildings and equipment	$ 44,067	$ 40,666
Amortization of timberlands and logging roads	37,548	30,223
	$ 81,615	$ 70,889

(b) *Interest Expense*

	Years Ended December 31, 1999	1998
	($000's)	
Current debt	$ 5,192	$ 9,445
Long-term debt	107,971	95,554
	113,163	104,999
Less:		
Interest income	(2,385)	(145)
	$ 110,778	$ 104,854

Interest on long-term debt includes amortization of deferred foreign currency translation losses amounting to $15,857,000 in 1999 and $16,977,000 in 1998, and amortization of deferred financing costs amounting to $4,146,000 in 1999 and $1,920,000 in 1998.

(c) *Other Income (Expense)*

	Years Ended December 31, 1999	1998
	($000's)	
Gain on sale of property	$ 2,302	$ 975
B.C. Corporation Capital Tax	(4,361)	(3,786)
Other	31	228
Equity in operating earnings of significantly influenced investees	62	73
	$ (1,966)	$ (2,510)

(d) *Changes in Non-Cash Working Capital Items*

	Years Ended December 31, 1999	1998
	($000's)	
(Increase) decrease in:		
Accounts receivable	$ (7,570)	$ 25,230
Inventories	42,800	28,239
Prepaid expenses	303	(3,731)
Increase (decrease) in:		
Accounts payable and accrued liabilities	40,902	(9,453)
	$ 76,435	$ 40,285

(e) *Pension Plans*

The Company's hourly paid employees are members of union pension plans established pursuant to collective bargaining agreements. The aggregate contributions made by the Company and charged to earnings amounted to $8,932,000 in 1999 and $8,571,000 in 1998.

The Company has defined benefit pension plans which cover substantially all salaried employees. The plans provide pensions based on length of service and final average annual earnings (as defined). The pension costs charged to earnings amounted to $591,000 in 1999 and $787,000 in 1998.

The actuarial present value of accrued pension benefits of the Company pension plans for salaried employees as at December 31, 1999 and 1998 approximated $83,427,000 and $76,527,000, respectively, and the assets of these plans approximated $100,473,000 and $99,545,000, respectively.

(f) *Concentration of Credit Risk*

The Company has significant exposures to individual customers. However, with the exception of sales to four major companies, all of the Company's sales are either made on a cash basis, without credit terms, or are insured with the Export Development Corporation or a private United States credit insurance company.

(g) *Fair Value of Financial Instruments*

The estimated fair value of the Company's financial instruments as at December 31, 1999 and 1998 is as follows:

	December 31,			
	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	($000's)		($000's)	
Accounts receivable	$ 105,280	$ 105,280	$ 97,710	$ 97,710
Other investments	6,744	6,744	6,154	6,154
Bank indebtedness	—	—	138,449	138,449
Accounts payable and accrued liabilities	158,012	158,012	117,110	117,110
8.75% Senior Notes	613,402	526,641	651,652	511,547
9.25% Senior Notes	180,413	147,371	191,663	142,789
12.00% Senior Notes	230,928	230,928	—	—
Term Credit Facility - Long term portion	—	—	40,000	40,000
Capital lease obligations, including current portion	24	24	1,518	1,518

The fair value of the Company's accounts receivable, bank indebtedness, and accounts payable and accrued liabilities was estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair value of the Company's other investments, as a result of their nature, was also estimated to approximate their carrying values. The fair value of the Company's Senior Notes and the capital lease obligations was estimated based on the last quoted market prices, where they existed, or on the current rates available to the Company for similar debt.

(h) *Subsidiaries*

The active subsidiaries of the Company, all wholly-owned, are as follows:

Western Pulp Limited Partnership
Doman Forest Products Limited
Western Forest Products Limited
Western Pulp Inc.
Eacom Timber Sales Ltd.
Doman Log Supply Ltd.
Doman Enterprises Limited
Doman Holdings Limited
Doman Investments Limited
Doman-Western Lumber Ltd.
315940 B.C. Ltd.

15. Differences between Canadian and United States generally accepted accounting principles

As indicated in Note 1, these consolidated financial statements have been prepared in accordance with Canadian GAAP, which, in the case of the Company, conforms in all material respects with U.S. GAAP, except as set forth below.

(a) *Adjustments to Losses*

	Years Ended December 31, 1999	1998
	(000's except for Share and per share amounts)	
Net loss in accordance with Canadian GAAP	$ (55,913)	$ (74,752)
Deferred foreign currency translation gains (losses), net of deferred income taxes of $26,335,000 in 1999 and $15,280,000 in 1998[1]	41,854	(24,285)
Application of SFAS 109[2]:		
Increase in amortization costs	(4,313)	(4,165)
Decrease in provision for deferred income taxes	3,232	2,808
Net loss in accordance with U.S. GAAP	$ (15,140)	$ (100,394)
Weighted average number of common and non-voting shares outstanding under U.S. GAAP (000's)[3]	42,481	41,481
Basic loss per share in accordance with U.S. GAAP[3]	$ (0.45)	$ (2.45)
Fully diluted loss per share in accordance with U.S. GAAP[3]	$ (0.45)	$ (2.45)

(b) *Adjustments to Assets, Liabilities and Shareholders' Equity*

	Years Ended December 31, 1999	1998
	($000's)	
(i) Total assets in accordance with Canadian GAAP	$1,486,033	$1,528,587
Write-off of deferred foreign currency translation losses[1]	(45,643)	(113,832)
Net increase, on application of SFAS 109, in the carrying value of:		
Property, plant and equipment[2]	26,450	27,367
Goodwill[2]	37,855	41,251
Total assets in accordance with U.S. GAAP	$1,504,695	$1,483,373
(ii) Total liabilities in accordance with Canadian GAAP	$1,252,393	$1,239,034
Deferred income taxes relating to:		
Write-off of deferred foreign currency translation losses[1]	(17,627)	(43,962)
Application of SFAS 109[2]	68,759	71,991
Total liabilities in accordance with U.S. GAAP	$1,303,525	$1,267,063
(iii) Total shareholders' equity in accordance with Canadian GAAP	$ 233,640	$ 289,553
Change in retained earnings relating to:		
Write-off of deferred foreign currency translation losses[1]	(28,016)	(69,870)
Application of SFAS 109[2]	(4,454)	(3,373)
Total shareholders' equity in accordance with U.S. GAAP	$ 201,170	$ 216,310

(1) Under U.S. GAAP, the unrealized exchange losses arising from the translation of long-term debt repayable in U.S. dollars, which are deferred under Canadian GAAP (see Note 6), are included in earnings.

(2) Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes", issued under U.S. GAAP, is described as the liability method, as compared to the deferred credit method currently used by the Company. Under SFAS 109, the deferred income tax liability is calculated using current tax rates and is adjusted if those tax rates are changed. In addition, SFAS 109 requires that provision be made for potential future income taxes arising from differences between the tax bases of assets and liabilities acquired on the purchase of Western Forest Products Limited ("WFP") effective July 1, 1989 and Doman-Western Lumber Ltd. ("DWL") effective December 10, 1997 and their carrying values at that date. The Company adopted SFAS 109 retroactively. Accordingly, the remeasurement of the acquisition of WFP resulted in an increase in the cost of property, plant and equipment acquired by $33,902,000, the acquisition of

goodwill of $54,758,000 (which is being amortized on a straight-line basis over its estimated life of 20 years), and an increase in deferred income taxes of $88,660,000 as of the date of acquisition. Furthermore, the remeasurement of the acquisition of DWL resulted in an increase in the acquisition of goodwill of $13,162,000 (which is being amortized on a straight-line basis over its estimated life of 20 years) and a corresponding increase in deferred income taxes of $13,162,000 as of the date of acquisition.

(3) Under U.S. GAAP, the basic loss per share is also based on the weighted average aggregate number of common and non-voting shares outstanding during each period. The fully diluted loss per share under U.S. GAAP assumes that the convertible preferred shares had been converted and the outstanding stock options had been exercised (using the "treasury stock method") at the beginning of the period. The effect of these adjustments was not dilutive in 1999 and 1998.

(c) *Other information regarding U.S. GAAP*

(i) The Company has adopted, for U.S. GAAP purposes, the accounting for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees".

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", issued in October 1995, requires the use of a fair value based method of accounting for stock options. Under this method, compensation cost is measured at the grant date based on the fair value of the options granted and is recognized over the exercise period. However, SFAS No. 123 allows the Company to continue to measure compensation cost in accordance with APB No. 25.

(ii) In June 1998, the Financial Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities", which is effective for years beginning after June 15, 1999. The Company has not yet determined the effect, if any, of the adoption of this statement on its financial position and results of operations.

DOMAN INDUSTRIES LIMITED – CORPORATE INFORMATION

Board of Directors
J.R. FRUMENTO
North Cowichan,
British Columbia

C.A. JOHNSON, F.C.A., C.M.
Garibaldi Highlands,
British Columbia

J. BROUWER
West Vancouver,
British Columbia

J.H. DOMAN
Cowichan Valley Regional District,
British Columbia

B.D. GREGSON
Vancouver,
British Columbia

V.R. WOODS
North Vancouver,
British Columbia

Head Office
435 Trunk Road
Duncan, British Columbia
Canada V9L 2P9
☎ (250) 748-3711
Fax: (250) 748-6045

Visit us at our website: www.domans.com

Bankers
THE TORONTO-DOMINION BANK

Officers
J.R. FRUMENTO
President

V.R. WOODS
Vice President, Logging of the Company and Vice President and General Manager of Western Forest Products Limited

P.G. HOSIER
Vice President, Finance and Secretary

RAMESH V. MANIAR
Treasurer

Solicitors
SANGRA, MOLLER
Vancouver, British Columbia

Auditors
KPMG LLP

Stock Exchanges
TORONTO

Trading Symbols
DOM.A
DOM.B

Transfer Agent and Registrar for Shares
CIBC MELLON TRUST COMPANY

Transfer Agent and Registrar for Senior Notes
UNITED STATES TRUST COMPANY OF NEW YORK
NORWEST BANK MINNESOTA, N.A.

Annual Meeting in 2000
The Annual General Meeting of the Shareholders of the Company will be held at the Silver Bridge Inn, 140 Trans-Canada Highway, Duncan, British Columbia, on Wednesday, June 28, 2000 at 11:30 a.m.

Doman Industries Limited
435 Trunk Road
Duncan, British Columbia
Canada V9L 2P9
Telephone: (250) 748-3711
Facsimile: (250) 748-6045