ANNUAL INFORMATION FORM

(with respect to the year ended June 30, 1998)
AS OF SEPTEMBER 1, 1998

INCORPORATION

Fletcher Challenge Canada Limited is a company formed by the amalgamation under the laws of the Province of British Columbia on December 30, 1971 of the principal predecessor company, British Columbia Forest Products Limited, and 24 of its wholly owned subsidiary companies. The principal predecessor company was incorporated by certificate of incorporation, with memorandum and articles, under the laws of the Province of British Columbia on January 31, 1946. On September 2, 1988, British Columbia Forest Products Limited changed its name to Fletcher Challenge Canada Limited.

The registered and principal office of Fletcher Challenge Canada Limited is located at 900 – 700 West Georgia Street, Vancouver, British Columbia, V7Y 1J7. In the remainder of this form, unless the context otherwise dictates, a reference to the Company refers to Fletcher Challenge Canada Limited and its subsidiaries.

The Company owns all of the shares of: Elk Falls Forest Industries Limited, a subsidiary incorporated in the province of British Columbia; Fletcher Challenge Canada Sales Inc., a subsidiary incorporated in the province of British Columbia; Fletcher Challenge Paper Company, a subsidiary incorporated in the state of California; and Fletcher Challenge Canada Pulp Operations Limited, a subsidiary incorporated under the laws of Canada.

CORPORATE PROFILE

Fletcher Challenge Canada Limited is a major North American manufacturer of groundwood printing papers and market pulp. The Company has the capacity to produce some 1.8 million tonnes annually of newsprint, groundwood specialty papers, market pulp and containerboard at three mills.

The Company's three pulp and paper operations are located in British Columbia, including two pulp and paper mills, Crofton and Elk Falls, on Vancouver Island, and a kraft pulp mill in the province's northern Interior at Mackenzie.

The capacities, in thousands of metric tonnes, of the Company's pulp and paper facilities as at June 30, 1998 are:

		Capacity by Product (m tonnes)				
Mill	Location	Newsprint	Groundwood Specialties	Market Pulp	Container Board	Total
Crofton	Crofton, B.C.	340	95	325		760
Elk Falls	Campbell River, B.C.	365	135	200	100	800
Mackenzie	Mackenzie, B.C.			220		220
		705	230	745	100	1,780

The Company's principal business is groundwood printing papers, including newsprint and groundwood specialty papers. Printing papers comprise approximately 53 per cent of the Company's pulp and paper manufacturing capacity. For the fiscal year ended June 30, 1998, groundwood printing papers contributed approximately 53 per cent of the Company's revenues from continuing operations.

The principal markets for the Company's products are located in North America and the North Pacific Rim. Some Company products are also marketed in Europe and other overseas locations.

Fletcher Challenge Limited, a New Zealand based international company with four main businesses - paper, building, energy and forests, indirectly owns approximately 51 per cent of the Company's outstanding Class A common shares.

DEVELOPMENT OF THE BUSINESS

Since 1993, Fletcher Challenge Canada has been focusing its business on groundwood printing papers and the markets of western North America and the North Pacific Rim. During this time, the Company has made significant progress in narrowing its business focus and creating an enterprise dedicated to delivering superior value for shareholders. In support of this strategy, the following key corporate developments have taken place over the past five years:

- exiting the solid wood products business through the creation and subsequent sale of TimberWest Forest Limited, narrowing the Company's business focus;
- sale of Minnesota-based lightweight coated paper subsidiary, Blandin Paper Company, to narrow the Company's geographic and customer focus;
- creating separate management structures for the Company's B.C. paper and pulp operations, further focusing the Company organizationally;
- differentiating the product line for added value;
- maintaining a disciplined capital spending philosophy;
- achieving a competitive long term labour agreement to improve productivity and operational efficiency; and
- building a strategic balance sheet to support further value initiatives.

Fletcher Challenge Canada is the largest producer of newsprint and groundwood specialty printing papers in western North America. Consistent with the Company's strategy, it has an agreement in principle to acquire a 51 per cent interest in Trust International Paper Company, the largest producer of newsprint in the Philippines. The Company is looking to forge further alliances to enhance its position as one of the pre-eminent suppliers in the Asia Pacific region.

Solid Wood Products Exit

TimberWest Forest Limited was created in 1993 to provide a separate organization for the Company's coastal and Williams Lake B.C. wood products operations. At that time, TimberWest purchased three lumber manufacturing facilities, forestry and logging operations, and 210,000 hectares of private timberlands from Fletcher Challenge Canada. Partial funding for the purchase was provided by an initial public offering of a 49 per cent interest in TimberWest. The creation of TimberWest as a separate, publicly-traded company exposed the value of those operations directly to equity markets and enabled Fletcher Challenge Canada to focus more closely on managing its pulp and paper operations.

In early 1996, TimberWest acquired Fletcher Challenge Canada's remaining wholly owned wood products operations, located in the northern B.C. Interior at Mackenzie, further narrowing the Company's business focus. The Mackenzie facilities included two lumbermills and related forestry and logging operations.

Following a search for prospective purchasers of TimberWest that began in late 1996, Fletcher Challenge Canada's 52 per cent interest in TimberWest was sold in June 1997. With the sale of TimberWest, the Company has now exited its remaining position in the solid wood products business. Long term contractual commitments provide Fletcher Challenge Canada with a secure supply of fibre from its divested wood products operations.

Blandin Sale

In June 1997, Fletcher Challenge Canada announced it was considering strategic alternatives for Blandin Paper Company. Blandin's lightweight coated paper business in the mid-western United States had a market and customer base distinct from Fletcher Challenge Canada's western North American newsprint and groundwood specialty paper business. In October 1997, Fletcher Challenge Canada completed the sale of Blandin to UPM-Kymmene Corporation. While a full range of options was considered for Blandin, it was concluded the sale provided excellent value for Fletcher Challenge Canada, while allowing the Company to further focus its energy and resources on the newsprint and groundwood specialty paper business in western North America and the North Pacific Rim.

Paper/Pulp Organizational Separation

To further focus the Company organizationally, Fletcher Challenge Canada restructured its Canadian operations in 1996 to create separate management structures and distinct strategies for its pulp and paper businesses. The new organization structure provides greater management focus, improved operating efficiencies and a significant reduction in overhead costs. The strategy for the Company's paper organization concentrates on the marketing and production of highly runnable, lightweight groundwood paper products. The pulp organization's business is focused on the marketing and manufacture of long-fibre northern bleached softwood kraft pulps and sawdust-based pulp products. The pulp organization has adopted a low-cost strategy centered on the innovative sourcing of lower cost fibre, reducing conversion costs and improving operational efficiency.

Product Line Differentiation

The Company has introduced a number of specialty and differentiated products to diversify its product line away from pure commodity grades of pulp and paper. Since 1993, the following product lines have been developed or expanded by Fletcher Challenge Canada:

- highly runnable, lightweight newsprint grades;
- higher brightness soft calendered groundwood specialty papers;
- directory paper;
- sawdust-based pulp; and
- whitetop linerboard.

These product lines compete in more attractive market segments and offer enhanced margins over standard commodity grade pulp and paper products. Fletcher Challenge Canada is concentrating on differentiating its products where it can deliver unique customer advantages for added value.

Capital Spending Discipline

Fletcher Challenge Canada maintains a value-based discipline for reinvesting in its business, focusing on modest capital, high payback projects that enhance the Company's product lines, improve productivity, rationalize fibre supply and usage, and reduce costs. Specific projects completed over the past five years include:

- A $12 million project, completed in 1994, to enable Crofton's No. 2 paper machine to produce up to 95,000 tonnes of lightweight directory paper grades annually;
- Projects at Elk Falls and Mackenzie to convert 95,000 tonnes of conventional long-fibre pulp capacity to 110,000 tonnes of low-cost sawdust-based pulp. These projects were completed in late 1996 at a capital cost of $76 million.
- An upgrade of Crofton's No. 3 paper machine to increase production by 23,000 tonnes annually and enhance the Company's position as a leading manufacturer of highly runnable, lighter basis weight newsprint. This $27 million project was completed in January 1997.

Projects currently underway include:

- An upgrade of the No. 5 paper machine at Elk Falls, to be completed in February 1999. This $30 million project further enhances the Company's leadership position in manufacturing highly runnable, lightweight newsprint grades.
- Modifications to the No. 2 paper machine at Crofton are underway, to be completed in June 1999. This $16 million project will enable the Company to deliver an innovative, ultra-lightweight directory paper product that will run on high-speed printing presses with fewer paper breaks.

Long Term Labour Agreement

The Company and unions representing hourly employees reached new six-year collective agreements on April 18, 1998. The Company and unions agreed to a settlement that contains flexible work practices, 365-day operations and a long term contract, key to a competitive agreement. The new collective agreements put Fletcher Challenge Canada on an equal footing with labour practices in place at mills in Eastern Canada and provide long term stability for the Company's customers and employees. The unions have also agreed that Fletcher Challenge Canada will not be chosen as the target company in negotiations in 2003.

Strategic Balance Sheet

During the past five years Fletcher Challenge Canada has reduced debt and significantly strengthened its balance sheet. At June 30, 1993 the Company had net debt of $341 million and a 26 per cent ratio of debt to capitalization. The Company closed fiscal 1998 with a cash position of $844 million and no debt. Fletcher Challenge Canada's significant sources and uses of cash over the five-year period include:

- generating cash flow from operations of $915 million;
- realizing proceeds of approximately $1.65 billion from the divestment of non-core assets;
- reinvesting $641 million in capital improvements at its facilities;
- redeeming $276 million in preferred shares issued by subsidiaries; and
- distributing $236 million to Company shareholders through dividends.

Today, Fletcher Challenge Canada is a company with focused strategies for both its paper and pulp businesses, distinct organizations dedicated to executing those strategies to create superior shareholder value, and a balance sheet capable of supporting future value initiatives.

BUSINESS SEGMENTS

Fletcher Challenge Canada Limited has two business segments: newsprint and specialties and market pulp and containerboard. Financial information for each of the Company's business segments is contained in note 17 of the consolidated financial statements, located on page 53 of the Company's 1998 Annual Report.

NEWSPRINT AND SPECIALTIES

Newsprint and Specialties Operations

The Company manufactures newsprint and groundwood specialty papers on six paper production lines at its Crofton and Elk Falls, B.C. pulp and paper mills, located on the east coast of Vancouver Island.

			Year Ended June 30	
(m tonnes)	*Mill*	*Annual Capacity*(1)	*1998 Production*	*1997 Production*
Newsprint & Groundwood Specialties	Crofton	435	85	361
	Elk Falls	500	89	448

Note:

(1) As at June 30, 1998.

The Crofton paper mill, which produces newsprint and lightweight directory paper, has three paper machines that were put in operation during 1964, 1968 and 1982. All machines were installed with, or converted to, twin-wire sheet formation, which provides a more uniform quality of sheet for both printing surfaces. Pulp furnish for the paper mill comes from a four-line stone groundwood mill, a three-line thermomechanical pulp mill, a two-line refiner mechanical pulp mill, and the kraft pulp mill. In addition, the Company purchases approximately 62,000 tonnes of recycled deinked pulp annually from an outside supplier on a contractual basis.

Crofton's No. 2 paper machine produces up to 95,000 tonnes annually of lightweight directory paper grades used in telephone and other directories, as well as other lightweight printing papers, with basis weights as low as 30 gsm. The No. 2 paper machine remains capable of producing newsprint grades as market conditions warrant.

A $27 million upgrade of Crofton's No. 3 paper machine, completed in January 1997, increases production capacity by approximately 23,000 tonnes annually, on a 45 gram equivalent basis, further enhancing the Company's position in the marketing of lighter basis weight newsprint. Significant improvements have been seen in machine trim, sheet profiles and roll quality.

To further the Company's lightweight runnability strategy for directory paper, approval was given in fiscal 1998 for $16 million in modifications to Crofton's No. 2 paper machine. These modifications will enable the Company to produce an innovative directory paper at basis weights as low as 29.3 gsm, with improved consistency, runnability and printability. Annual capacity for this product is expected to be up to approximately 105,000 tonnes, depending on basis weight, with project completion scheduled for June 1999.

Crofton's capacity for the year ended June 30, 1999 is expected to be approximately 435,000 tonnes of newsprint and directory paper, reflecting an increase in available operating days from 362 to 365 and increased production capacity from No. 3 paper machine, offset by a reduction in the average basis weight of paper produced. Crofton's annual capacity on a 48.8 gram equivalent basis is approximately 505,000 tonnes.

The Elk Falls paper mill, which produces standard newsprint and soft calendered high brightness specialty grades, has three paper machines that were put in operation during 1952, 1957 and 1982. All machines were installed with, or converted to, twin-wire sheet formation. Pulp furnish for the newsprint mill is supplied primarily from the mill's seven-line thermomechanical pulp mill and its semi-bleached kraft pulping facilities, with some volumes of recycled deinked pulp purchased from an outside supplier on a contractual basis.

Elk Falls has continually broadened its range of groundwood specialty grades to meet the needs of commercial printers. Demand for better quality has been met through equipment upgrades to produce a cleaner, more refined pulp furnish. Smoothness and printability have been improved to meet the exacting standards of large commercial printers, and high brightness offset grades have been developed in a variety of basis weights. The mill's No. 2 paper machine has a soft roll calendering system designed to produce up to 135,000 tonnes annually of groundwood specialty grades. Soft calendered specialty grades, marketed under the *:advance* label, are used mainly by the growing commercial print market for advertising flyers and newspaper supplements. The Company is a leading West Coast supplier of soft calendered grades.

Elk Falls increased the capacity of its thermomechanical pulp peroxide bleach plant and improved filler systems in fiscal 1996, enabling increased production of higher brightness specialty paper grades. The expanded bleach plant has been run up to its design capacity of 600 tonnes per day enabling Elk Falls to produce up to 70 brightness on both the No. 1 and No. 2 paper machines.

To further the Company's lightweight runnability strategy for newsprint, approval was given in fiscal 1997 for $30 million in capital expenditures at Elk Falls which include replacement of the headbox on No. 5 paper machine and thermomechanical pulp improvements. Annual capacity is expected to increase by approximately 9,000 tonnes, on a 45 gram equivalent basis. These improvements will allow the Company to make lighter weight paper with fewer defects, while lowering production costs and are expected to be completed in February 1999.

Elk Falls' capacity for the year ended June 30, 1999 is expected to be approximately 495,000 tonnes of newsprint and high brightness specialty grades of paper reflecting an increase in available operating days from 362 to 365 and increased production capacity from No. 5 paper machine, offset by a reduction in the average basis weight of paper produced. On a 48.8 gram equivalent basis, the annual capacity of the Elk Falls paper operations is approximately 520,000 tonnes.

Newsprint and Specialties Marketing

Revenues by Market		*Canada*	*United States*	*Pacific Rim*	*Other Offshore*	*Total $ Millions*
Newsprint & Groundwood Specialties	1998	20%	44%	23%	13%	151
	1997	15%	52%	25%	8%	529

Historically, changes in newsprint consumption have followed movements in economic growth. The volume of overall advertising expenditure has the greatest effect on the demand for newsprint and is related to advertising demand determinants such as real disposable personal income, employment levels; and to factors influencing advertisers, such as those in the automobile, real estate, and retail stores industries. The other major determinant of sales of newsprint is the level of newspaper circulation. Groundwood specialty paper markets generally tend to follow newsprint market trends, with these grades typically selling at a price premium to standard newsprint.

The Company believes its newsprint and groundwood specialties are regarded by publishers and commercial printers as high quality products with excellent running and printing characteristics on printing presses.

The principal customers for the Company's newsprint and groundwood specialty papers are newspaper publishers and commercial printers, located primarily in western North America and the North Pacific Rim. Newsprint and groundwood specialty customers are served primarily by Company sales and marketing personnel in North America and distributors and agents in other geographic markets.

The Crofton and Elk Falls pulp and paper mills are located on tidewater and have deep sea vessel loading facilities. Newsprint and groundwood specialties are shipped primarily by deep sea vessel, and for inland destinations by combination of ship, barge, rail and truck. The Company uses the services of independent warehouses in western North America and Europe for distribution to its customers.

Machine shutdowns and conversions to other grades led to a reduction in North American newsprint capacity from 1991 to 1995, helping to improve the newsprint supply and demand balance following a period of oversupply in the early 1990's. There have been no new newsprint machines started up in North America since 1991 and no new capacity is presently under construction. Efficiency improvements resulting from machine rebuilds and speed-ups continue to be offset by conversions to specialty papers.

Normally, more than 50 per cent of the Company's newsprint and groundwood specialties sales revenue is derived from the United States. The United States is the world's largest consumer of newsprint, with consumption of approximately 11.4 million tonnes in 1997, representing about 31 per cent of total world consumption. Global demand for newsprint increased by 6.8 per cent in 1997, following a 2.5 per cent decline in 1996. Newsprint consumption by daily newspapers in the United States increased by 4.1 per cent, following a 3.1 per cent decline in 1996. Advertising lineage was at record levels in 1997 and several large dailies added pages to their papers in response to a robust U.S. economy and consumer optimism, while the decline in U.S. newspaper circulation slowed to 0.4 per cent.

For the years ended June 30, 1998 and 1997, newsprint and groundwood specialty grades accounted for 53 per cent and 56 per cent, respectively, of Fletcher Challenge Canada Limited's consolidated net sales. No single customer accounts for more than 10 per cent of the Company's consolidated net sales, nor is a material part of the business dependent on a small group of customers. Newsprint and groundwood specialties markets are not subject to significant seasonal fluctuations.

MARKET PULP AND CONTAINERBOARD

Market Pulp and Containerboard Operations

The Company manufactures market pulp on four kraft pulp lines at its Crofton and Elk Falls pulp and paper mills, located in British Columbia on the east coast of Vancouver Island, and at the Mackenzie pulp mill in the province's northern Interior. The Elk Falls pulp and paper mill also manufactures containerboard specialties.

			Year Ended June 30	
(m tonnes)	*Mill*	*Annual Capacity*[(1)]	*1998 Production*	*1997 Production*
Market Pulp	Crofton	325	50	294
	Elk Falls	200	32	190
	Mackenzie	220	29	178
Containerboard	Elk Falls	100	19	98

Note:

(1) As at June 30, 1998.

The Crofton kraft pulp mill is a two-line mill, with the first line starting up in 1957 and the second in 1965. It is equipped with two continuous digesters and eight batch digesters, which provide the flexibility to cook different species of chips independently and to blend them into a wide variety of pulp grades that can be tailored to individual customer needs. Crofton's batch digesters utilize a rapid displacement heating ("RDH") cooking system. The RDH system allows for rapid turnaround in the batch cooking process, as the cooking liquor is rapidly extracted and replaced in the cooking vessel for each batch without a significant loss in temperature. This technology improves the overall quality of Crofton pulps and provides a stronger and more uniform pulp than conventional cooking.

The Crofton kraft pulp mill produces a range of high quality NBSK pulp grades, predominantly for customers that require high strength pulp in applications such as printing and writing papers. A number of specialty pulp grades are also produced at Crofton, including a high fir pulp for the manufacture of ceremonial wrapping papers (washi paper) in Japan, and a high cedar pulp for the U.S. medical garment industry.

The Elk Falls kraft pulp mill is equipped with eight batch digesters and three continuous digesters with a total annual market pulp capacity of 200,000 tonnes. The mill manufactures two main types of kraft pulp for sale on world markets: a sawdust-based pulp branded "Elk Prime", with a capacity of 168,000 tonnes per year, and conventional NBSK semi-bleached pulp with a capacity of 32,000 tonnes per year.

Elk Prime is a fully bleached sawdust-based pulp that is manufactured from a combination of low-cost sawdust, wood shavings and chip screenings. Blending of these residuals produces a pulp with an average fibre length between that of conventional softwood and hardwood pulps, giving Elk Prime the special properties of both wood types including ease of refinement, high strength and dimensional stability. Manufacturers of products such as specialty papers, tissue, paper towelling, printing and writing and other paper products can substitute Elk Prime for portions of their conventional NBSK pulp feedstock, realizing cost savings and, in many cases, improved quality. Sawdust-based pulps have an added environmental advantage in that they are made from fibre that would otherwise have been a waste product. Elk Falls uses some of its own sawdust-based pulp in producing its specialty brands of high quality linerboard, sold to customers who manufacture corrugated containers for a wide range of products.

The Elk Falls kraft pulp mill was initially commissioned in 1956, with its sawdust-based pulp production beginning in 1964. The mill has been extensively modernized over recent years to meet or exceed current environmental standards and to improve operating efficiency and costs. In late 1996, a project to increase sawdust-based pulp capacity was completed at a cost of $21 million. This project included a new 325 tonne per day digester to replace a smaller existing system, plus related equipment and machine upgrades. As a result of this project, Elk Prime production capacity was increased by 32,000 tonnes to 168,000 tonnes per year with a corresponding reduction in NBSK pulp production.

The Mackenzie kraft pulp mill, initially commissioned in 1972, is equipped with two continuous digesters which feed a single bleaching and drying line.

The long-fibre NBSK pulp produced at Mackenzie is sold under the brand name "MK-90". The long, flexible fibres of the northern Interior species (principally spruce, pine and fir), used to make MK-90, produce one of the highest strength pulps in the world. The main markets for MK-90 are specialty applications requiring high strength including tape stock, twisting grades, release papers, lightweight and ultra-lightweight papers and thin papers.

Building on its sawdust-based pulping expertise at Elk Falls, the Company commenced production of sawdust-based pulp at Mackenzie in October 1996 following the installation of a sawdust digester and related equipment at a cost of $55 million. The addition of 77,000 tonnes per year of sawdust-based pulp capacity was largely offset by a reduction in capacity of 62,000 tonnes per year in long-fibre pulp production, increasing the total mill capacity from 205,000 tonnes per year to 220,000 tonnes per year. Since the initial installation of the sawdust-based pulp capacity, further operational refinements have resulted in sawdust-based pulp capacity increasing to 88,000 tonnes per year, with a corresponding reduction of long-fibre pulp capacity. Branded "Mack Prime", the sawdust-based pulp produced at Mackenzie has similar properties to that produced at Elk Falls.

All three of the Company's kraft pulp operations are equipped with chlorine dioxide bleaching systems and secondary effluent treatment facilities and are presently operating in substantial compliance with applicable environmental laws and regulations.

The Elk Falls mill also has a containerboard specialties machine which was originally installed in 1966. The machine produces primarily specialty whitetop linerboard grades for sale to the packaging industry in western North America and the North Pacific Rim. Annual production capacity of containerboard is approximately 100,000 tonnes.

Whitetop linerboard is a premium product that combines a layer of unbleached kraft pulp with a layer of bleached kraft pulp. The two layers are not glued together but are formed on the paper machine by uniting bleached and unbleached stock into what is known as a duplex stock. This specialty product is white on the top and brown on the reverse side and is used in packaging, where bright, high quality graphics are important. Elk Falls' competitive advantage in producing this product stems from its use of lower cost sawdust rather than wood chips in the pulp. The inclusion of sawdust-based pulp in the furnish also results in a smoother, more consistent surface which performs better in customers' conversion facilities.

Production of whitetop linerboard grades totalled approximately 80,000 tonnes, or 82 per cent of production from the Elk Falls containerboard machine, in the year ended June 1997. These products are marketed under the brand name, "*Metaliner*".

Approximately 60 percent of the furnish for the containerboard specialties produced at Elk Falls is long-fibre pulp; with the remaining 40 per cent made up of alternative fibre sources such as sawdust-based pulp and rejects from the Elk Falls kraft pulp mill as well as clippings received from converting plants and post-consumer waste.

Pulp and Containerboard Marketing

Revenues by Market		*Canada*	*United States*	*Pacific Rim*	*Other Offshore*	*Total $ Millions* 1998	1997
Market Pulp [1]	1998	5%	32%	34%	29%	115	
	1997	13%	26%	39%	22%		362
Containerboard	1998	43%	55%	2%	-	18	
	1997	39%	61%	-	-		59
						133	421

Note:

(1) Market pulp sales include sales to Blandin.

Market pulp is an international commodity used primarily in the manufacture of paper, paperboard and packaging, and tissue and sanitary products, with most major producers selling to the world market. In 1997, approximately 39 million tonnes of market pulp were consumed worldwide. Major market pulp producing regions include North America, Scandinavia, South America, Asia and Western Europe. Major market pulp consuming regions include Western Europe, Northern Asia and the United States. Historically, demand for market pulp has been determined primarily by the prevailing level of economic growth and has been closely tied to overall business activity and personal income in the marketplaces.

The Company's primary market pulp customers include manufacturers of coated paper, woodfree printing and writing papers, tissue, towelling and sanitary products, and a wide variety of unique and specialized products. The ability of the Company's operations to produce specialty pulps — customized pulp blends at Crofton, sawdust-based pulp at Elk Falls and Mackenzie, and high strength and brightness MK-90 at Mackenzie — provides marketing advantages and allows the Company to increase its volume of higher margin pulps for specialty applications business. The Company markets its pulp throughout North America, Northern Asia and Europe.

Access to high quality softwood species and unique processing capabilities have enabled the Company to develop a range of specialty blended pulps such as a high fir pulp for washi paper in Japan and a high cedar pulp for the medical garment industry in the United States. These pulps are marketed as unique grades and achieve a pricing premium over standard NBSK grades of up to US$50 per tonne.

Sales of sawdust-based pulp increased in fiscal 1997 on completion of conversion projects at both Elk Falls and Mackenzie mid-way through the fiscal year and are expected to increase further in fiscal 1999 based on a full year of operation.

Market pulp customers are served by Company sales and marketing staff and a network of agents in locations throughout the world.

The Crofton and Elk Falls pulp and paper mills are located on tidewater and have deep sea vessel loading facilities. Market pulp is shipped to offshore locations by deep sea vessels and to inland North American destinations by a combination of ship, barge, rail, and truck. Pulp from the Mackenzie mill is shipped by rail to tidewater for offshore destinations and by rail and truck to inland North American destinations.

Containerboard produced by Elk Falls is sold primarily to corrugated box plants located in Western Canada and the western United States. In recent years, the marketing strategy for containerboard has been to increase the sales volume of specialty whitetop linerboard grades which have provided higher prices and greater price stability than unbleached linerboard and corrugated medium grades. The Company plans to further differentiate its containerboard products into more specialty grades.

Containerboard customers are served by Company sales and marketing staff.

For the year ended June 30, 1998, market pulp and containerboard accounted for 47 per cent of consolidated net sales. This compares with 44 per cent for the year ended June 30, 1997. There is no single customer who accounts for more than 10 per cent of consolidated net sales, nor is a material part of the business dependent upon a small group of customers.

PULP AND PAPER FIBRE SUPPLY

Fletcher Challenge Canada’s operations in British Columbia consume wood fibre which is purchased as either wood chips, sawdust or pulp logs. Fibre is acquired from independent suppliers, primarily under secure long term contracts.

Sawmill wood chips presently comprise approximately 62 per cent of the fibre supply for the Company’s three pulp and paper operations in British Columbia. The remainder is composed of: pulpwood, 13 per cent; sawdust, 22 per cent; and recycled deinked pulp, 3 per cent.

Fibre for the Company’s coastal mills, Crofton and Elk Falls, is acquired from approximately 50 independent mills, primarily as residual wood chips and sawdust from lumber operations located on the Coast and in the southern Interior of the province. The Mackenzie pulp mill is supplied with fibre from independent suppliers within the local region.

Five wood chip and sawdust suppliers provide approximately 51 per cent of the Company’s fibre supply. The supply contracts with these companies were negotiated by Fletcher Challenge Canada for indefinite terms (“evergreen”) when certain of the Company’s timber and processing assets were sold. In addition, the Company, through evergreen contracts with a coastal log producer, is able to secure additional coastal wood chip supply through sawlog sales made by it to coastal sawmills. These contracts provide an additional 13 per cent of the Company’s fibre supply. Together, fibre purchased from these suppliers comprises approximately 64 per cent of the Company’s fibre supply.

The remainder of the fibre requirements for the Company’s three pulp and paper operations in British Columbia is sourced from independent suppliers, mainly under long term contracts. Fibre is purchased from suppliers at market prices or at prices determined under market-based formulas.

The Company's sawdust-based pulp capacity has recently been expanded with the installation of new sawdust digesters at Elk Falls and Mackenzie. These projects, which were commissioned in October and November 1996, respectively, increased the Company's annual sawdust consumption from 1.0 million cubic metres to 1.6 million cubic metres, with a reduction in annual wood chip consumption of 0.5 million cubic metres.

CAPITAL EXPENDITURES

Over the past five years the Company's capital expenditures have totalled $641 million. With major expansions and modernizations having been largely completed by the end of 1991, the Company has had more modest capital spending requirements over the past five years. In the year ended June 30, 1998, $70 million was spent on various environmental, and maintenance of business and discretionary projects. The following table summarizes capital expenditures by product line over the past five years:

	Year Ended June 30					
$ Millions	*1998*	*1997*	*1996*	*1995*	*1994*	*Total*
Newsprint & Specialties	34	40	31	19	17	141
Coated Paper	26	47	39	18	16	146
Market Pulp & Containerboard	10	28	87	27	20	172
Wood Products	-	43	60	50	29	182
	70	158	217	114	82	641

HUMAN RESOURCES

At June 30, 1998, the Company and its subsidiaries employed approximately 2,700 employees.

All of the approximately 2,100 hourly employees at the Company's pulp and paper mills in British Columbia are members of either the Communications, Energy & Paperworkers Union of Canada ("CEP"), or the Pulp, Paper and Woodworkers of Canada ("PPWC").

Collective agreements with the CEP and PPWC expired on April 30, 1997 for the Company's pulp and paper mills in British Columbia. The Company was selected by the two unions representing its hourly pulp and paper employees in British Columbia to lead the process of individual mill bargaining in the province. The Company's B.C. pulp and paper mills were idled on July 14, 1997 as a result of strike action following a breakdown in negotiations with the unions. The strike ended on April 18, 1998 following ratification of new six-year collective agreements which expire in April 2003. The new agreements provide improvements in the area of workplace flexibility and an increase in the number of annual operating days from 362 to 365. The new agreements provide wage increases of 2 per cent per year in the last five years, a $2,750 signing bonus, payments for flexible work practices of $0.95 per hour for maintenance employees and $0.40 per hour for operations employees, and increased employer pension contributions commencing January 1, 1999.

The unions have agreed, as part of the collective agreements, that the Company will not be selected to lead the process of individual mill bargaining in British Columbia at the expiry of the contract in 2003.

ENVIRONMENT

The operations of the Company are subject to a wide range of general and industry-specific environmental laws and regulations related to waste management. There has been significant upgrading of Company facilities to comply with solid and special waste, effluent and air regulations. Environmental performance is monitored regularly by the Company. The Company believes that its facilities are operating in substantial compliance with applicable environmental laws and regulations.

In addition to regular monitoring of emission points and reporting to regulatory authorities, the Company manages its environmental performance through internal environmental audits. An environmental audit system, developed in conjunction with an independent environmental audit consultant, was established approximately eight years ago. This system ensures that an audit is carried out in each facility at least every two years. The consultant's findings are communicated directly to management as the audits are conducted, so that action plans can be developed to correct deficiencies. The bi-annual audits completed during the last two years have indicated that the Company's facilities are operating substantially in compliance with applicable environmental laws and regulations with only minor problems detected.

Solid Waste

One of the most significant environmental issues faced by large manufacturing operations is the disposal of solid waste. The Company is working to reduce volumes sent to landfill by increasing recycling efforts and investigating alternative uses for effluent sludge and boiler ash.

Elk Falls and Crofton are also investigating a number of other avenues to reduce solid wastes, including the use of lime wastes to neutralize acidic soil. Mackenzie is conducting a study of the constituents of the mill's primary sludge to explore alternative options to landfill disposal. The mill is also designing a new landfill site to meet future requirements for solid waste disposal.

Leachate from Crofton's Swallowfield landfill, decommissioned in 1995, was found to be toxic. A leachate treatment system has been installed and permission has been received from provincial regulatory authorities allowing the discharge of the treated non-toxic leachate into the environment.

The Company is the world's leading producer of sawdust-based market pulp, a product made from sawdust and wood shavings. With the completion of projects at Elk Falls and Mackenzie in late 1996, the Company's annual production capacity of sawdust-based pulp has increased to about 256,000 tonnes which has reduced the consumption of wood chips and production of long-fibre pulp. This product helps to reduce air pollution and solid waste because sawdust and wood shavings would otherwise be burned or landfilled if they were not used to make sawdust-based pulp.

Effluent

The British Columbia provincial government's pulp mill effluent regulations limit AOX discharges to 1.5 kilograms per tonne of pulp produced. The Company's facilities are operating within these limits. The B.C. provincial government has further mandated the elimination of AOX in mill effluent by December 31, 2002. Although technology is available to eliminate all AOX discharge at kraft pulp mills in British Columbia, capital and operating costs associated therewith are presently prohibitive. In early 1997, the provincial government indicated that it may re-examine the appropriateness of this regulation. In November 1997, the United States Environmental Protection Agency ("EPA") established AOX discharge limits for United States-based bleach kraft pulp mills at 0.623 kg/ADBt. Following completion of capital projects currently planned or nearing completion, all Company mills will be in substantial compliance with the new United States EPA limits by December 31, 2002.

In 1989, the Canadian federal government imposed commercial shellfish closures in the vicinity of coastal pulp mills including Crofton and Elk Falls because of dioxin contamination. Changes in bleach plant operations, which were initiated at Company operations to prevent the formation of dioxins, have resulted in a decline in contamination levels. The government has removed the restrictions in some specific areas following improved test results. The Company expects the reopening process will continue at both of its coastal pulp mills over the next few years.

In fiscal 1996, the Crofton, Elk Falls and Mackenzie pulp mills completed the first phase of Environment Canada's "Environmental Effects Monitoring" with the submission of reports on the results of extensive testing and sampling of marine and aquatic life in the area of mill effluent discharge. The program was implemented by Environment Canada in 1992 to determine the effects of mill effluent on the environment. All pulp and paper mills in Canada are participating in the program. Company mill representatives will be meeting with local monitoring committees to review the first survey and to develop plans for the next three-year cycle. The survey provides a baseline of information to track changes over time.

During fiscal 1996, the Mackenzie mill extended its effluent diffuser two kilometres into Williston Lake to reduce environmental impact by more effectively dispersing effluent. This action was taken as a preventative measure in the event that B.C. Hydro is required to lower the lake level during years of low snowfall. Williston Lake serves as a reservoir for hydro-electric generation.

Air Emissions

All three of the Company's pulp and paper mills in British Columbia are being asked by the B.C. Ministry of Environment to make improvements in air emissions as part of their air permit reviews. At Crofton and Elk Falls, the area of most attention concerns ambient odour levels from the kraft mills. At Mackenzie, the focus is on power boiler particulate emissions. The Company is presently working with the Ministry of Environment to find satisfactory solutions in these areas. This is expected to require some additional capital expenditures but the Company should not be disadvantaged competitively with other producers in those regions in which it operates.

Past studies conducted at coastal pulp mills using salt laden hog fuel identified dioxin and furan concentrations in emissions above proposed guidelines set by the Canadian Council of Ministers of the Environment. A subsequent health risk assessment commissioned by Environment Canada determined that there was no substantial risk to the local population. The Company is actively working with The Pulp and Paper Research Institute of Canada and Environment Canada to develop technologies to eliminate the formation of dioxins and furans in coastal hog boilers.

Contaminated Sites

Provincial legislation governing contaminated sites was passed into law in British Columbia in 1996 and came into effect on April 1, 1997. If a particular site exceeds prescribed levels of certain classes of substances, the site is determined to be a "contaminated site" under the legislation. The legislation specifies the circumstances in which a "site profile" must be prepared in respect of any property that has been used for certain industrial or commercial purposes. If a site is determined to be contaminated, remediation will normally be required under government supervision. As current and past owners of mill sites, all forest products companies in British Columbia may face remediation costs. The Company does not expect any material effect on its operations in complying with this legislation.

More detailed environmental reporting is provided in the Company's 1998 Annual Report.

RESEARCH AND DEVELOPMENT

The Company contributes to industry supported research organizations such as the Pulp and Paper Research Institute of Canada. In addition, research required to meet specific needs of the Company is conducted at private laboratories under the direction of the Company's technical experts and at the mill laboratories.

Business unit technical staff provide scientific and technological expertise in support of the Company's pulp and paper operations and product development efforts.

The Company's research and development expenditures totalled approximately $1 million in fiscal 1998 and $5 million in fiscal 1997.

FOREIGN OPERATIONS

The Company has no foreign manufacturing operations.

DIVIDENDS

The following dividends (per share) were paid in the years ended June 30, 1998 and 1997:

	1998	1997
Common Shares	$0.60	$0.60

STOCK EXCHANGE LISTINGS

The Company's Class A common shares are listed for trading on the Vancouver, Toronto and Montreal stock exchanges under the symbol FCC.A.

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company; Vancouver, Toronto and Montreal.

ADDITIONAL INFORMATION

Reference is made to the section of the Company's 1998 Annual Report entitled "Management's Discussion and Analysis" and to the section of the accompanying Information Circular entitled "Election of Directors", both of which are incorporated by reference herein.

Additional information, including principal holders of the Company's securities, executive compensation and loans to directors, executive officers and senior officers is contained in the accompanying Information Circular for the Company's 1998 Annual General Meeting. Additional financial information is provided in the Company's comparative financial statements and management's discussion and analysis for its most recently completed fiscal year, which are contained in the Company's 1998 Annual Report.

In addition, the Company will provide to any person, upon request to the Secretary:

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

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

   (ii) one copy of the comparative financial statements of the Company for its most recently completed fiscal year together with the accompanying report of the auditor and one copy of any interim financial statements of the Company subsequent to the financial statements for the Company's most recently completed fiscal year,

   (iii) one copy of the Information Circular of the Company in respect of its most recent annual meeting of shareholders 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 the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any other documents referred to in (a) (i), (ii) and (iii) above, provided 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.