This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Company, at Suite 240, 10451 Shellbridge Way, Richmond, British Columbia, V6X 2W8, telephone: (604) 278-7311. For the purposes of the Province of Quebec, this simplified prospectus contains information to be completed by consulting the permanent information record, a copy of which may be obtained from the Secretary of the Company at the above address and telephone number.

The securities offered hereunder have not been and will not be registered under the United States Securities Act of 1933, as amended. Accordingly, except to the extent permitted by the Underwriting Agreement, the securities offered by this short form prospectus may not be offered, sold or delivered within the United States and this short form prospectus does not constitute an offer or solicitation of an offer to buy any of the securities offered hereby within the United States. See "Plan of Distribution".

New Issue April 24, 1997

Slocan Forest Products Ltd.

$83,490,000

6,900,000 Subscription Receipts, each representing the right to receive one common share of Slocan Forest Products Ltd.

The net proceeds from the issuance of the Subscription Receipts will be held in escrow by The R-M Trust Company, as subscription receipt agent, and invested in short-term obligations of the Government of Canada pending the acquisition by Slocan Forest Products Ltd. (the "Company") of all of the outstanding shares of a subsidiary of TimberWest Forest Limited ("TimberWest") which will indirectly own the sawmilling operations of TimberWest located at Mackenzie in the interior region of British Columbia, together with the associated timber harvesting operations and rights (the "Acquisition"). Each Subscription Receipt entitles the holder thereof to receive one common share (a "Common Share") of the Company upon closing of the Acquisition (the "Acquisition Closing") without the payment of additional consideration. In the event that the Acquisition Closing does not occur on or before June 30, 1997 (the "Termination Date"), the Company will repay to holders of Subscription Receipts as of 5:00 p.m., Vancouver time, on the Termination Date an amount equal to the issue price thereof, and a *pro rata* share of the interest actually earned on the escrowed funds between the closing of this offering and the Termination Date. See "Details of the Offering".

The Common Shares of the Company are listed on The Toronto Stock Exchange (the "TSE"). The closing price of the Common Shares on the TSE on April 23, 1997 was $12.50. The TSE has conditionally approved the listing of the Subscription Receipts and the Common Shares represented thereby, subject to the fulfilment of certain requirements on or before July 22, 1997.

Two of the Underwriters, TD Securities Inc. and CIBC Wood Gundy Securities Inc., are subsidiaries of Canadian chartered banks which are lenders to the Company. See "Use of Proceeds" and "Plan of Distribution".

The Subscription Receipts and the Common Shares for which they may be exchanged will not, at the date of closing, be precluded as investments under certain statutes. See "Eligibility for Investment".

Price: $12.10 per Subscription Receipt

	Price to the Public	Underwriters' Fee	Net Proceeds to the Company (1)
Per Subscription Receipt	$12.10	$0.484	$11.616
Total	$83,490,000	$3,339,600	$80,150,400

(1) Before deducting expenses of this offering estimated at $200,000.

The Underwriters, as principals, conditionally offer the Subscription Receipts, subject to prior sale, if, as and when issued and delivered by the Company and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution", and subject to the approval of certain legal matters by McCarthy Tétrault, on behalf of the Company, and by Bull, Housser & Tupper, on behalf of the Underwriters. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Certificates representing the Subscription Receipts will be available for delivery at closing, which is expected to occur on or about May 6, 1997.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Company, filed with the various securities commissions or similar authorities in certain provinces of Canada, are specifically incorporated by reference in and form an integral part of this prospectus:

(a) the Annual Information Form dated March 3, 1997, including Management's Discussion and Analysis of Financial Results incorporated by reference therein;

(b) the Information Circular dated March 3, 1997, excluding the sections entitled "Report of the Compensation Committee" and "Stock Performance Graph" contained therein;

(c) the audited consolidated financial statements for the years ended December 31, 1996 and 1995, together with the auditors' report thereon;

(d) the unaudited interim consolidated financial statements for the three months ended March 31, 1997 and 1996; and

(e) the Material Change Reports dated March 14, 1997 and April 10, 1997 with respect to the Acquisition.

Any document of the type referred to in the preceding paragraph (other than confidential material change reports) and any interim consolidated financial statements filed by the Company with the securities commissions or similar authorities in Canada after the date of this prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference into this prospectus.

Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this prospectus to the extent that a statement contained herein, or in any subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Company, at Suite 240, 10451 Shellbridge Way, Richmond, British Columbia, V6X 2W8, telephone: (604) 278-7311.

CERTAIN DEFINITIONS

Unless the context otherwise requires, the “Company” refers to Slocan Forest Products Ltd. and “Slocan” refers to the Company together with its subsidiaries and their respective interests in joint ventures and partnerships, and does not include the Mackenzie Operations except where used in respect of pro forma information relating to the Acquisition.

The following terms have the meanings indicated:

“**AAC**” means allowable annual cut, the volume of timber which the holder of a tree farm licence, a forest licence or a timber sale licence may harvest under the licence in a given year;

“**Acquisition**” means the acquisition by the Company of all of the outstanding shares of the subsidiary of TimberWest which will indirectly own the Mackenzie Operations;

“**Acquisition Closing**” means the closing of the Acquisition, expected to occur between May 30, 1997 and June 30, 1997;

“**ADMt**” means an air dried metric tonne of pulp with a moisture content of 10% or less;

“**BDU**” means one bone dry unit of 2,400 pounds of oven-dried wood fibre;

“**CTMP**” means chemi-thermo mechanical pulp, which is pulp produced from wood chips using heated mechanical and chemical processes to break the bonds between the wood fibres;

“**Interior Operations**” means, collectively, the Mackenzie Operations and the Williams Lake Operations;

“**Mackenzie Operations**” means the sawmilling operations of TimberWest and its subsidiaries located at Mackenzie, British Columbia, together with the associated timber harvesting operations and rights;

“**mmfbm**” means millions of foot board measures, a foot board measure being one square foot of lumber one inch thick which has been planed, finished and dried;

“**OSB**” means oriented strand board, a panel board product used in the construction industry;

“**Pulp Joint Venture**” means the joint venture between the Company and Fibreco Export Inc. which owns a pulp mill located at Taylor, British Columbia;

“**TMP**” means thermo mechanical pulp, which is pulp produced from wood chips using heated mechanical processes to break the bonds between wood fibres;

“**tonne**” means one metric tonne, which equals 1,000 kilograms or 2,204.6 lbs.;

“**TSA**” means Timber Supply Area;

“**TSE**” means Toronto Stock Exchange;

“**Williams Lake Operations**” means the sawmilling operations of TimberWest located at Williams Lake, British Columbia, together with the associated timber harvesting operations and rights and TimberWest’s railway tie treatment plant located at Ashcroft, British Columbia; and

“**wood chips**” means pieces of wood approximately one inch square by ⅛ inch thick resulting from the cutting of logs in chippers or as a by-product of the lumber manufacturing process.

PROSPECTUS SUMMARY

The following information is a summary only and should be read in conjunction with the more detailed information appearing elsewhere in this prospectus.

The Offering

Issuer:	Slocan Forest Products Ltd.
Offering:	6,900,000 Subscription Receipts, each representing the right to receive one Common Share of the Company.
Amount:	$83,490,000.
Price:	$12.10 per Subscription Receipt.
Date of Closing:	On or about May 6, 1997.
Use of Proceeds:	The estimated net proceeds of this offering of $80.0 million, together with approximately $70 million from funds to be drawn under a five-year term credit facility (the "Credit Facility"), will be used by the Company to finance the Acquisition. The net proceeds from the sale of the Subscription Receipts will be held in escrow pending the Acquisition Closing, which is expected to occur between May 30, 1997 and June 30, 1997. See "The Acquisition," "Use of Proceeds" and "Details of the Offering".
Subscription Receipts:	Each Subscription Receipt entitles the holder thereof to receive one Common Share upon the Acquisition Closing, without payment of additional consideration. In the event that the Acquisition Closing does not occur on or before June 30, 1997, the Company will repay to holders of Subscription Receipts as of 5:00 p.m., Vancouver time, on the Termination Date, an amount equal to the issue price thereof, and a *pro rata* portion of the interest earned on the escrowed funds between the closing of this offering and the Termination Date. See "Details of the Offering".

Slocan

Slocan is a major British Columbia integrated forest products organization with an annual capacity (before giving effect to the Acquisition) of approximately 1.3 billion board feet of lumber, 245 million square feet of plywood (3/8 inch basis), 400 million square feet of OSB (3/8 inch basis), 770,000 BDUs of wood chips, 240,000 ADMts of CTMP and 100,000 tonnes of newsprint and specialty paper. Slocan is one of British Columbia's largest public forest licensees, managing Crown forest land in the interior of British Columbia. Under forest tenures granted by the Province of British Columbia, Slocan has the right to harvest or may obtain the right to harvest approximately 4.8 million cubic metres of timber annually, including its proportionate share of the forest tenure held by Finlay Forest Industries Inc. ("Finlay").

Slocan operates eight sawmills, a plywood mill and an OSB plant in the interior of British Columbia and a lumber remanufacturing plant near Vancouver, British Columbia. Slocan also has partial interests in the pulp mill owned by the Pulp Joint Venture at Taylor, British Columbia (86 percent), the Finlay sawmill and papermill complex at Mackenzie, British Columbia (49.9 percent), the Cantree Plywood Corp. ("Cantree") plant near Vancouver, British Columbia (50 percent) and a remanufacturing facility at Vanderhoof, British Columbia (24.5 percent). A portion of the Company's lumber production is remanufactured into specialty products by independent British Columbia value-added operators.

Slocan employs in excess of 4,600 employees and contractors at 11 locations throughout British Columbia.

The Acquisition

On March 23, 1997, the Company entered into an agreement (the "Purchase Agreement") with TimberWest and Fletcher Challenge Canada Limited ("FCCL") to acquire for an aggregate consideration of $210 million, plus the assumption of operating debt of approximately $40 million, (i) all of the outstanding shares of a subsidiary of TimberWest which will own all of the outstanding shares of TimberNorth Forest Limited ("TimberNorth"), which in turn owns the Mackenzie Operations, and (ii) all of the outstanding common shares of another subsidiary of TimberWest which will own the Williams Lake Operations.

On April 3, 1997, the Company agreed to assign to Riverside Forest Products Limited ("Riverside") the Company's rights under the Purchase Agreement to acquire the Williams Lake Operations for an aggregate consideration payable by Riverside to TimberWest of $50 million, plus net working capital and operating debt of approximately $13 million.

TimberWest is one of Canada's largest public companies operating exclusively in the lumber and logging segments of the forest products industry. FCCL owns, directly or indirectly, approximately 52% of the outstanding common shares of TimberWest.

The Mackenzie Operations include:

(a) two sawmills and two planer mills at Mackenzie, British Columbia with a combined annual capacity of 350 million board feet of lumber and 250,000 BDUs of wood chips; and

(b) associated timber harvesting operations and rights with an AAC of 1,412,524 cubic metres (after the five percent reduction in AAC that will occur upon the Acquisition Closing).

See "The Mackenzie Operations".

The Company intends to finance the Acquisition from the net proceeds of this offering, together with funds drawn under the Credit Facility. See "The Acquisition — Credit Facilities" and "Use of Proceeds".

The completion of the Acquisition is subject to the satisfaction of closing conditions customary for transactions similar to the Acquisition, including obtaining the approval of the Ministry of Forests for British Columbia. At the same time that the Company agreed to acquire the Interior Operations from TimberWest, TAL Acquisition Ltd. ("TAL") agreed with TimberWest and FCCL to acquire all of the outstanding common shares of TimberWest (the "TAL Transaction"). The TAL Transaction is to be completed immediately after the completion of the acquisition of the Mackenzie Operations by the Company and the acquisition of the Williams Lake Operations by Riverside. The completion of the Acquisition is also subject to the condition that all conditions for the completion of the TAL Transaction (other than the final step to give effect to the plan of arrangement contemplated as part of the TAL Transaction) are satisfied. The Acquisition Closing is expected to occur between May 30, 1997 and June 30, 1997. See "The Acquisition".

The Company believes that the Acquisition represents an attractive strategic opportunity consistent with its growth strategy. The Acquisition will provide for a significant expansion of Slocan's existing lumber business, enhancing its position as a major interior region producer of lumber and strengthening its position in the North American and Japanese markets for spruce-pine-fir dimension lumber. After giving effect to the Acquisition, Slocan will be Canada's leading lumber manufacturer, with annual capacity of approximately 1.65 billion board feet of lumber. The Mackenzie Operations, which are self-sufficient in timber, complement the Company's 49.9 percent interest in the Finlay operations at Mackenzie. The timber tenures associated with the Mackenzie Operations are contiguous with those held by Finlay. Slocan expects to benefit from processing efficiencies, as well as marketing and transportation cost savings between the two operations.

Selected Pro Forma Consolidated Financial Information and Other Data

The following table presents selected unaudited pro forma consolidated financial information and other data for the Company after giving effect to the Acquisition, the financing thereof (including this offering), and certain adjustments with respect thereto, as set forth in the notes to the unaudited pro forma consolidated financial statements contained herein, and should be read in conjunction with such statements and the notes thereto. The selected pro forma consolidated financial information and other data are not necessarily indicative of the operating results or financial condition that would have occurred or been in effect had the Mackenzie Operations and Slocan been operated as a single combined entity.

	Actual Year Ended December 31, 1996	Pro Forma Year Ended December 31, 1996 (1)	Actual Six Months Ended December 31, 1996	Pro Forma Six Months Ended December 31, 1996
		(unaudited)	(unaudited)	(unaudited)
	(in millions of dollars, except per share amounts)			
Income Statement Data (2)				
Sales	$796.3	$ 960.2	$ 413.6	$ 514.2
Operating Earnings	54.1	42.7	43.7	54.0
Interest Expense (3)	30.2	38.1	14.4	17.6
Net Earnings	17.6	4.2	20.6	24.6
Net Earnings per Common Share	0.57	0.11	0.66	0.65
Balance Sheet Data (2)				
Total Assets	$972.8	$1,192.3		
Total Long-Term Debt (4)	470.6	540.6		
Shareholders' Equity	185.7	267.1		
Other Data (unaudited)				
EBITDA (5)	$108.1	$ 106.6	$ 74.2	$ 91.6
Long-term Debt/Equity	2.53	2.02		
Long-term Debt/Total Capitalization (6)	71.7%	66.9%		

Notes:

(1) The pro forma year ended December 31, 1996 combines the year ended December 31, 1996 of the Company and the year ended June 30, 1996 of TimberNorth.

(2) See note 3 to the unaudited pro forma consolidated financial statements for adjustments and assumptions.

(3) Interest expense includes interest on all indebtedness plus amortization of debt issuance costs.

(4) Total long-term debt includes limited recourse debt and the current portion of long-term debt.

(5) EBITDA is earnings before interest, taxes, depreciation and amortization. EBITDA does not have an established meaning under generally accepted accounting principles but has been included because management of the Company believes that it is an indicative measure of a company's operating performance and is generally used by investors to evaluate companies in the forest products industry. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

(6) Total capitalization is shareholders' equity plus long-term debt.

THE COMPANY

The Company was incorporated on May 2, 1978, under the *Company Act* (British Columbia). Its principal and head office are located at Suite 240, 10451 Shellbridge Way, Richmond, British Columbia, V6X 2W8. Its registered office is located at 1600 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

BUSINESS OF SLOCAN

Slocan is one of the largest forest products organizations in British Columbia, with timber resources and production facilities in the northern, central and southern regions of the Province. Under forest tenures granted by the Province of British Columbia, Slocan has the right to harvest or may obtain the right to harvest approximately 4.8 million cubic metres of timber annually, including its proportionate share of the forest tenure held by Finlay.

Slocan presently owns and operates eight sawmills and one plywood facility in the interior of British Columbia and has a 50 percent share interest in the plywood facility owned by Cantree near Vancouver, British Columbia and a 49.9 percent interest in two sawmills at the Finlay operations in Mackenzie, British Columbia. The combined total annual production capacity of these facilities (including Slocan's proportionate share from the Finlay and Cantree operations) is approximately 1.3 billion board feet of lumber, 245 million square feet of plywood (⅜ inch basis) and 770,000 BDUs of wood chips. Slocan also owns an OSB plant at Fort Nelson, British Columbia with an annual capacity of approximately 400 million square feet of OSB on a ⅜ inch basis that reached commercial production in the fourth quarter of 1996. Slocan also has a 24.5 percent interest in a remanufacturing facility at Vanderhoof, British Columbia. In September 1996, Slocan acquired Uneeda Wood Products, a custom processing and remanufacturing facility located near Vancouver, British Columbia.

Through its share interest in Finlay, Slocan also has a 49.9 percent interest in a newsprint and specialty paper mill that has an annual capacity of 205,000 tonnes and a modern TMP mill with a sufficient annual capacity to supply the total requirements of the newsprint and specialty paper mill from Finlay's internal chip supply.

Slocan also has an 80 percent direct joint venture interest in the Pulp Joint Venture with Fibreco Export Inc. that owns a CTMP mill at Taylor in northern British Columbia with an annual production capacity of 240,000 ADMts of pulp. The Pulp Joint Venture has obtained the regulatory approval required to expand the annual production capacity of the CTMP mill to over 300,000 ADMts of pulp. Slocan is developing a deciduous investment strategy for the pulpwood agreement in the Fort St. John TSA for submission to the provincial government.

1997 First Quarter Results (unaudited)

The Company's net earnings for the first quarter of 1997 were $4.7 million or $0.15 per share compared to a net loss of $7.0 million or $0.23 per share for the first quarter of 1996. The Company's improvement in net earnings for the first quarter of 1997 compared to the same period in 1996 was primarily due to the increased demand for lumber resulting in higher lumber selling prices, which were offset in part by lower chip and newsprint prices. As a result of the current low OSB prices, the Company's earnings were negatively affected by its OSB operation. The Company's lumber production, which was negatively affected by unusually adverse weather conditions in January and February, 1997, has returned to normal levels with improved weather conditions.

The Company's sales for the first quarter of 1997 were $204.7 million compared to 1996 first quarter sales of $185.8 million. The 1997 first quarter sales revenues were up due to higher selling prices for lumber and plywood, offset in part by lower prices for wood chips and pulp and paper. In addition, the 1997 first quarter sales included revenues from the OSB facility which commenced commercial production on October 1, 1996.

For the 1997 first quarter, the Company's cash flow from operations, before change in non-cash working capital, was $28.0 million or $0.91 per share, compared to $17.0 million or $0.55 per share for the same period in 1996.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE COMPANY

	Years Ended December 31				
	1996	**1995**	**1994**	**1993**	**1992**(1)
	(in millions of dollars, except per share amounts)				
Sales	$796.3	$862.0	$728.3	$466.4	$257.3
Net Earnings	17.6	50.8	97.7(2)	61.5(3)	6.4
Total Assets	972.8	976.4	766.7	521.0	218.4
Total Long-term Debt (4)	470.6	469.1	178.4	157.1	61.0
Net Earnings per Common Share (5)	0.57	1.60	2.56(2)	1.95(3)	0.23

Notes:

(1) From May 1991, the date of acquisition of its 80% direct interest in the Pulp Joint Venture, until December 31, 1992, the Company accounted for its investment in the Pulp Joint Venture on an equity basis. Effective January 1, 1993, the method of accounting for this investment was changed to a consolidated basis.

(2) Includes a recovery of countervailing duty of $27.4 million, net of income tax, or $0.72 per Common Share.

(3) Includes a net gain of approximately $19.1 million or $0.60 per Common Share arising on the purchase and retirement of indebtedness relating to the Pulp Joint Venture.

(4) Includes limited recourse debt in 1996, 1995, 1994 and 1993 and the current portion of long-term debt.

(5) Calculated on the weighted average number of Common Shares outstanding during the period after giving retroactive effect to a two-for-one Common Share subdivision in May 1994.

THE ACQUISITION

Overview

The Company has agreed with TimberWest and FCCL to acquire the Interior Operations for an aggregate consideration of approximately $250 million, made up of $210 million of purchase consideration plus operating debt (estimated to be approximately $40 million at the time of the Acquisition Closing). The Company subsequently agreed to assign to Riverside its right to acquire the Williams Lake Operations for aggregate consideration payable by Riverside to TimberWest of $50 million plus the net working capital in respect of the Williams Lake Operations at the time of the Acquisition Closing (estimated to be $10 million) and Riverside agreed to perform the Company's obligations in respect of the acquisition of the Williams Lake Operations, including assuming or repaying an estimated $3 million of operating debt. The Company is to purchase the Mackenzie Operations by purchasing all of the outstanding shares of a subsidiary of TimberWest that is to own all of the outstanding shares of TimberNorth, the corporation that owns the Mackenzie Operations.

TimberWest is one of Canada's largest public companies operating exclusively in the lumber and logging segments of the forest products industry. The common shares of TimberWest are listed on the TSE. FCCL owns, directly or indirectly, approximately 52 percent of the outstanding common shares of TimberWest.

At the same time that the Company agreed to purchase the Interior Operations from TimberWest, TAL agreed with FCCL to purchase the common shares of TimberWest held directly and indirectly by FCCL, and agreed with TimberWest to purchase, pursuant to a plan of arrangement, the balance of the outstanding common shares of TimberWest, at a price of $22 per share or approximately $674 million in total. The TAL Transaction is to be completed immediately after, and is conditional upon, the completion of the acquisition of the Interior Operations. The acquisition of the Williams Lake Operations by Riverside is to be completed immediately prior to the Acquisition Closing.

The completion of the Acquisition is subject to the satisfaction of closing conditions customary for transactions similar to the Acquisition, including obtaining the approval of the Ministry of Forests for British Columbia, and to the condition that all conditions to the completion of the TAL Transaction (other than the final step to give effect to the plan of arrangement contemplated as part of the TAL Transaction) are satisfied. The Acquisition Closing is expected to occur between May 30, 1997 and June 30, 1997.

The Company believes that the Acquisition represents an attractive strategic opportunity consistent with its growth strategy. The Acquisition will provide for a significant expansion of Slocan's existing lumber business, enhancing its position as a major interior region producer of lumber and strengthening its position in the North American and Japanese markets for spruce-pine-fir dimension lumber. After giving effect to the Acquisition, Slocan will be Canada's leading lumber manufacturer, with annual capacity of approximately 1.65 billion board feet of lumber. The Mackenzie Operations, which are self-sufficient in timber, complement the Company's 49.9 percent interest in the Finlay operations at Mackenzie. The timber tenures associated with the Mackenzie Operations are contiguous with those held by Finlay. Slocan expects to benefit from processing efficiencies, as well as marketing and transportation cost savings between the two operations.

Agreements with TimberWest

On March 7, 1997, the Company entered into an agreement (the "Initial Agreement") with TimberWest and FCCL for the acquisition of the Interior Operations for a price of $200 million plus assumption of operating debt associated with the Interior Operations, then estimated to be $50 million, subject to a definitive purchase and sale agreement being concluded between the parties by March 23, 1997. Under the Purchase Agreement, which was entered into on March 23, 1997, the aggregate consideration payable for both the Mackenzie Operations and the Williams Lake Operations is $210 million plus the amount of operating debt outstanding at the Acquisition Closing, estimated to be approximately $40 million. The $210 million portion of the aggregate consideration has increased from the $200 million specified in the Initial Agreement to reflect a $10 million reduction in the amount of operating debt of TimberNorth required to be effected prior to the Acquisition Closing as a condition of the Purchase Agreement.

The Purchase Agreement provides that, prior to the Acquisition, TimberWest is to transfer all the common shares of TimberNorth to a newly created, wholly-owned subsidiary ("Mackenzie Co.") and is to transfer the assets and liabilities of the Williams Lake Operations to another newly created, wholly-owned subsidiary ("Williams Lake

Co."). The consideration payable by Williams Lake Co. to TimberWest for the Williams Lake Operations is to include common shares of Williams Lake Co. representing the net working capital of the Williams Lake Operations and redeemable preferred shares of Williams Lake Co. having an aggregate redemption price of $50 million (the "WLC Preferred Shares"). The Purchase Agreement further provides that at the Acquisition Closing, the Company is to purchase from TimberWest, for an aggregate consideration of $160 million, all of the issued and outstanding shares of Mackenzie Co. and all of the issued and outstanding common shares of Williams Lake Co. (collectively, the "Purchase Shares").

As part of the acquisition of Williams Lake Co., the Company agreed to lend to TimberWest, on an interest free basis, $50 million (the "Loan") repayable on demand at any time after eight months after the Acquisition Closing and secured by a pledge of the WLC Preferred Shares. On redemption of the WLC Preferred Shares by Williams Lake Co., TimberWest will use the $50 million redemption proceeds to repay the Loan. The Company's obligations with respect to the Loan have been assigned to Riverside.

TimberWest has advanced funds to TimberNorth to fund its working capital requirements (the "TimberNorth Operating Debt") and a portion of TimberWest's own operating line is attributable to the working capital requirements of the Williams Lake Operations (the "Williams Lake Operating Debt"). The Purchase Agreement provides that the Company is either to purchase from TimberWest at its face value the TimberNorth Operating Debt and the Williams Lake Operating Debt or to cause TimberNorth and Williams Lake Co. to repay such operating debt at the Acquisition Closing.

The Purchase Agreement contains representations and warranties of TimberWest as to various matters, including title to the assets and property, compliance with environmental and other applicable laws, the absence of undisclosed legal proceedings, compliance with material contracts, leases and permits and the absence of certain material changes or events since December 31, 1996. The representations and warranties do not survive the Acquisition Closing, except for certain limited representations and warranties, including those pertaining to TimberWest's title to the Purchase Shares.

The Purchase Agreement contains conditions of closing customary for transactions of this nature, including (i) obtaining all material required consents, including the consent of the Minister of Forests for British Columbia under the *Forest Act* (British Columbia) (the "Forest Act") to the transfer of Crown tenure rights and the change of control of Mackenzie Co. and Williams Lake Co., (ii) the representations and warranties being true and correct in all material respects, (iii) from December 31, 1996 until the Acquisition Closing, there being no material adverse change in the business, operations, assets, liabilities or financial position or condition or prospects of the Interior Operations taken as a whole (other than any change in general business conditions or any change in the markets for, or prices of, the principal products of the Interior Operations), and (iv) there being no material adverse change in the financial, banking or capital market conditions in Canada or the United States generally. In addition, all conditions to the completion of the TAL Transaction (other than the final step required to give effect to the plan of arrangement contemplated as part of the TAL Transaction) are to have been satisfied.

The completion of the TAL Transaction is subject to substantially the same conditions as those for completion of the Acquisition, and to the approval of the plan of arrangement contemplated as part of the TAL Transaction by the required majority of the TimberWest shareholders who vote, in person or by proxy, at the meeting of TimberWest shareholders to be called to approve the plan of arrangement, and by the Supreme Court of British Columbia. The Company understands that TimberWest plans to apply to the Supreme Court of British Columbia on April 10, 1997 for an order calling a meeting of shareholders of TimberWest to be held on May 14, 1997.

Under the Purchase Agreement, the closing conditions requiring the consent of the Minister of Forests for British Columbia to the change of control of Mackenzie Co. and Williams Lake Co. will be satisfied only if the conditions to such consent imposed by the Minister of Forests do not materially reduce the value of TimberWest's Crown timber tenures including those relating to the Interior Operations or have a material adverse effect on the Interior Operations or any other forest industry operations of TimberWest or any forest industry operations of Slocan in British Columbia, provided that the following requirements shall be deemed not to materially reduce the value of such tenures or to have a material adverse effect on such operations:

(1) the reduction of the AAC available under TimberWest's or its subsidiaries' Crown timber tenures as provided in the Forest Act; and

(2) confirmation of:

(a) maintenance of cut control requirements under TimberWest's and its subsidiaries' Crown timber tenures;

(b) continued operation of TimberWest's and its subsidiaries' timber processing facilities;

(c) acceptance of all obligations of the licensee under TimberWest's and its subsidiaries' Crown timber tenures; and

(d) participation in programs as required by, and compliance with operational requirements of, the Ministry of Forests for British Columbia applicable to the forest industry generally.

Under the terms of the Purchase Agreement, all of the employees of TimberWest employed exclusively in the Interior Operations are to be offered employment with the Company at the same salaries and positions and otherwise on substantially the same terms and conditions on which such employees were employed by TimberWest. At the Acquisition Closing, the Company is to become bound by the collective agreements related to the Interior Operations. Under the Purchase Agreement, the Company is also to assume the obligations and liabilities of TimberWest in respect of pension, post-retirement and other benefits TimberWest was obligated to pay with respect to individuals who were employed by TimberWest or any of its predecessors in connection with the Interior Operations prior to the Acquisition Closing. By virtue of the assignment of the rights of the Company under the Purchase Agreement to Riverside, the foregoing obligations in respect of the Williams Lake Operations are to be assumed by Riverside.

If the conditions for the completion of the Acquisition are satisfied, the Acquisition Closing will occur not earlier than May 30, 1997 and not later than June 30, 1997. Any of the Company, TimberWest or FCCL may extend the date of the Acquisition Closing from May 30, 1997 to any date up to June 30, 1997. If, by June 30, 1997, the conditions for the Acquisition are not fulfilled or, to the extent that any of those conditions can be waived by the Company, TimberWest or FCCL, waived, then the agreement with respect to the acquisition of the Interior Operations may be terminated by any of the Company, TimberWest or FCCL by notice to the others.

The Purchase Agreement provides that TimberWest will not solicit, initiate or encourage submission of proposals or offers from any other person relating to the acquisition or disposition of the Interior Operations or any other business combination involving the Interior Operations.

Agreement with Riverside

On April 3, 1997, the Company entered into an agreement (the "Assignment Agreement") with Riverside under which the Company agreed to assign its rights under the Purchase Agreement relating to the Williams Lake Operations and Riverside agreed to perform the Company's obligations under the Purchase Agreement relating to the Williams Lake Operations, including the purchase of the common shares of Williams Lake Co., the Loan and the purchase or payment of the Williams Lake Operating Debt. TimberWest has not released the Company from its obligations under the Purchase Agreement as they relate to the Williams Lake Operations. Consequently, the Assignment Agreement provides that in the event that Riverside fails for any reason to fulfill the Company's obligations under the Purchase Agreement as they relate to the Williams Lake Operations, the Company will have the right to do so. If that circumstance should arise, the Company would use funds, on an interim basis, from its present operating line of credit to finance the acquisition of the Williams Lake Operations.

Credit Facilities

The Company has obtained a commitment from a Canadian chartered bank for a $70 million five-year term syndicated credit facility (the "Credit Facility"). Draw-down under the Credit Facility will be subject, among other things, to execution of a loan agreement and completion of this offering. The Credit Facility is to be repaid by quarterly payments of $4.2 million commencing on July 1, 1998 and a final $7.0 million payment. The Credit Facility may be prepaid without penalty and permanently cancelled at any time. Borrowings under the Credit Facility will bear interest, at the Company's option, based on various base rates, including Canadian prime to Canadian prime plus ¼ percent. The Credit Facility will be unsecured, subject to a negative pledge, and will contain customary affirmative and negative covenants and restrictions including certain financial ratio maintenance tests.

The Company is proposing to increase its existing unsecured operating credit facility from $100 million to $150 million.

THE MACKENZIE OPERATIONS

The following is a description of the Mackenzie Operations which is based on information provided by TimberWest. The Company is not aware that any information provided by TimberWest is untrue or incomplete and, after due diligence, believes it to be accurate in all material respects.

History

The Mackenzie Operations were established by FCCL, beginning in 1965 with the construction of a sawmill. Additional sawmills were added in 1972 and 1975, and the first mill was closed in 1993 as improved log sorting and handling capabilities enabled more efficient processing of harvested timber through the remaining two mills.

The Mackenzie Operations were acquired by TimberWest (through TimberNorth) from FCCL in January 1996 for $167.4 million, plus the value of the working capital of approximately $20.0 million. To finance the acquisition, TimberNorth issued $158.5 million of preferred shares to FCCL, paid cash for the working capital and assumed long-term silviculture liabilities of approximately $8.9 million. The preferred shares have been redeemed.

Overview

The Mackenzie Operations are situated around Williston Lake, British Columbia, in the Mackenzie TSA, which covers approximately 15,000 square miles. Within this TSA, the Mackenzie Operations have an AAC of 1,412,524 cubic metres (after the five percent reduction that will occur upon the Acquisition Closing), consisting primarily of Western white spruce, lodgepole pine and alpine fir. The Mackenzie Operations include two dimension sawmills and two planer mills. The Mackenzie Operations also have agreements with a contract whole log chipping facility, a contract finger-jointing plant, and a contract to process pulp logs into chips and process trim-blocks into value-added lumber products. The two sawmills produce dimension lumber, primarily for the North American and Japanese home construction markets.

To improve the recovery from the sawmills and to develop new products, the Mackenzie Operations have arranged for the production of Parallel 55, a finger-joint stud, to be manufactured by East Fraser Fibre Ltd. ("East Fraser") at Mackenzie using trim ends from the Mackenzie Operations' two dimension mills and outside sources. Annual Parallel 55 stud production is approximately 20.0 mmfbm. Ospika Lath Ltd. ("Ospika"), originally formed to run economy and utility grades produced by the two lumber mills, manufactures a range of value-added, custom-designed products destined for Pacific Rim markets. Ospika has the capacity to produce 36.0 mmfbm of value-added lumber products per year. Neither East Fraser nor Ospika is a subsidiary or affiliate of TimberWest or Slocan.

All residual chips produced by the Mackenzie Operations are consumed by FCCL's Mackenzie pulp mill. The Mackenzie Operations supply, under agreement, approximately 65 percent of the Mackenzie pulp mill's current fibre requirements. This agreement with FCCL will remain in place after the Acquisition.

The Mackenzie Operations' harvesting activities are centred around Williston Lake. The harvesting activities, which are largely mechanical, utilize a cut-to-length system. To gain access to logging sites across Williston Lake, the Mackenzie Operations utilize, under a long-term contract, a 360-foot icebreaking log ferry that is capable of carrying up to 5,000 cubic metres of logs per trip.

Wood Products Manufacturing

The Mackenzie Operations have an annual rated capacity of 350 mmfbm on a two-shift basis. The species on the Crown timber tenures at the Mackenzie Operations are approximately 80 percent western white spruce and lodgepole pine and 20 percent alpine fir. Annual wood chip capacity is 250,000 BDUs. The lumber and wood chip production volumes for the Mackenzie Operations for the periods indicated were as follows:

	Six Months Ended December 31, 1996	Year Ended June 30	
		1996 (1)	**1995** (2)
Lumber (mmfbm)	150.1	315.1	219.0
Wood chips (BDUs) (000s)	90	174	190

Notes:

(1) Production volumes were negatively affected by two weeks of production curtailments intended to reduce chip inventories.

(2) During fiscal 1995, four months of production was lost due to a strike.

Wood Products Marketing

Lumber sales by market for the Mackenzie Operations for the periods indicated were as follows:

	Revenues by Market			
	Canada	**United States**	**Offshore**	**Total Sales** (millions of dollars)
Six Months Ended December 31, 1996	22%	58%	20%	$ 83.2
Year Ended June 30				
1996	26%	56%	18%	$116.3
1995	22%	60%	18%	$ 91.5

Lumber from the Mackenzie Operations is marketed in North America and to a lesser extent in Japan. In North America lumber production has been sold to selected wholesale distributors and stocking distributors under the brand name "Keystone" and is regarded as a high quality lumber product. In Japan, lumber production is sold directly to house manufacturers. In both North America and Japan, the lumber is used for structural housing components.

North American lumber sales are usually not contracted beyond five weeks, although yearly volume commitments exist. Contractual commitments for Japan are generally contracted on a quarterly basis.

Crown Tenures

Approximately 95 percent of all forest lands in the province of British Columbia are Crown land. Under the Forest Act and the Forest Practices Code, the Ministry of Forests regulates forestry operations on these lands and uses a system of timber tenures to provide the private sector with controlled access to the forest resource.

A major form of Crown tenure is the forest licence. A forest licence provides harvesting rights for 15-year terms, renewable every five years for a further 15-year term subject to maintaining satisfactory levels of performance. Forest licences are volume-based tenures which authorize a specific volume of timber to be cut within a TSA as specified under the Forest Act. The Crown timber harvesting rights included in the Acquisition are covered by one forest licence, which was renewed in May 1993 for a term of 15 years. A stumpage fee is charged by the Provincial Crown on timber harvested from a forest licence.

Forest Management and Harvesting

Forest Management Strategy

Reforestation is the responsibility of the holder of Crown timber tenures on all lands harvested. Successful regeneration through a mix of natural regeneration and tree planting must be achieved within a specified time period prescribed for each harvest block. Regeneration plans are approved by the Ministry of Forests, and specify the target and minimum stocking density by species and the maximum time frames within which full regeneration must be achieved. The regeneration commitment ensures that newly established stands of suitable tree species reach a free-growing state unimpeded by competition from other plants. Regeneration of all logged areas on Crown timber tenures is audited by Ministry of Forests' staff. The Forest Practices Code sets standards of performance for forest practices, establishes planning procedures and sets a range of activity-specific penalties for non-compliance.

Harvesting Operations

The Mackenzie Operations replaced its traditional harvesting equipment in July 1995 with a cut-to-length system developed in Scandinavia. The new system improves log handling and sorting, reduces log breakage, lengthens the logging season and minimizes logging debris in the woods. Cut-to-length harvesting, together with transportation system improvements, is expected to increase fibre recovery, allowing greater control over species mix utilized in the Mackenzie Operations' mills, improving both product quality and consistency, and reducing working capital requirements.

AAC Determination

The AAC for Crown timber tenures is determined by the Ministry of Forests and reflects timber conditions, regional and local economic and social interests, and environmental considerations. Harvest levels by the tenure holder in any one year may vary up to 50 percent above or below the designated AAC as long as the average annual cut over the five-year period is within ten percent of the specified AAC for the period. Overcuts of more than ten percent at the end of the five years result in a reduction in AAC in the next five-year period and may be subject to penalties. Undercuts of more than ten percent may result in a reduction of AAC. Relief from the AAC reduction may be granted if the undercut has resulted from circumstances beyond the control of the licence holder. The Ministry of Forests may also dispose of the undercut of timber if relief is not granted. The AAC for a Crown timber tenure is also subject, pursuant to the Forest Act, to an automatic five percent reduction upon the change of control of the holder of the tenure. The AAC for the forest licence held by the Mackenzie Operations will be reduced by five percent upon the Acquisition Closing, as the Acquisition results in a change of control of the holder of the forest licence.

Amendments to the Forest Act in 1992 and 1995 required the provincial Chief Forester to determine an AAC for every TSA in the province by the end of 1996, and every five years thereafter. The provincial Chief Forester has completed a review of AAC's for each TSA. The AAC for the forest licence held by the Mackenzie Operations has not been changed significantly relative to past determinations.

The AAC for the forest licence included in the Mackenzie Operations is 1,486,867 cubic metres (before the five percent reduction in AAC that will occur upon the Acquisition Closing). Actual cut for the periods indicated was as follows:

	Six Months Ended December 31, 1996	Year ended June 30 1996	Year ended June 30 1995
Actual Cut (mm^3)	860	1,533	1,202

The Ministry of Forests recently completed its review of harvest levels for the Mackenzie TSA and concluded that under existing guidelines, current harvest levels can be sustained for up to 30 years. The Forest Practices Code is not expected to reduce harvest levels in the Mackenzie TSA by more than three percent. The British Columbia provincial government's protected areas program will be extended to the Mackenzie TSA over the next few years and may result in some reduction in future harvest levels.

Stumpage and Royalty Charges

The British Columbia provincial government periodically establishes the fees ("stumpage") to be paid for the right to harvest timber in the province's forests. Timber harvested from provincial Crown land is subject to stumpage at the time of harvest. Stumpage rates are established for each site and species harvested and are charged for timber harvested under forest licences based on the amount of timber scaled and the stumpage rates then in effect. Total stumpage charges incurred by the Mackenzie Operations were approximately $34.0 million in fiscal 1996 and $39.3 million in fiscal 1995. Stumpage costs for logs harvested from Crown lands have risen significantly over the last few years.

Environmental Matters

Environmental standards on the Mackenzie Operations' Crown tenures are established principally under the Forest Practices Code. The British Columbia Ministry of Forests and the British Columbia Ministry of Environment, Lands and Parks are responsible for monitoring performance under the Forest Practices Code. The Forest Practices Board is required to undertake audits of performance and to report the findings publicly.

The Mackenzie Operations are in substantial compliance with applicable environmental laws, including the *Environmental Protection Act* (Canada), the *Waste Management Act* (British Columbia), the *Fisheries Act* (Canada), the Forest Practices Code and permits issued thereunder.

Environmental performance at the Mackenzie Operations has been monitored through both facility and forest practices internal audits. Audits completed during 1996 indicate that the Mackenzie Operations were generally in compliance, with only minor problems being detected, and that appropriate remedial actions are being undertaken where necessary.

Provincial regulations required the closure of lumber mill waste burners by December 31, 1995. However, TimberWest obtained a permit extension to December 31, 1997 for its beehive burner at Mackenzie. New facilities for handling waste materials from the Mackenzie lumber manufacturing operations were constructed in the first quarter of fiscal 1997, at a cost of $4.4 million. Fibre that can be utilized in the new mini-chip digester at FCCL's Mackenzie pulp mill is being sorted and recovered from sawmill wood waste formerly burned in the on-site beehive burner. The material to be recovered includes sawdust and planer shavings, which consitute a new source of revenue. Other wood waste material, primarily bark, will be kept separate from the recovered mini-chip fibre and will be utilized by the Mackenzie Operations as fuel for steam and power generation.

The British Columbia provincial government proclaimed in force on April 1, 1997 the *Contaminated Sites Regulation* and the *Waste Management Amendment Act, 1993* (British Columbia) which seek to reduce the environmental impact of contaminated sites by imposing liability for remediation of a contaminated site which is absolute, retroactive, and joint and several. No significant liability is expected to arise as a result of this legislation in respect of the Mackenzie Operations.

Capital Expenditures

Over the past two fiscal years ended June 30, 1996 and the six months ended December 31, 1996, capital expenditures on the Mackenzie Operations totalled approximately $51.1 million. The following table summarizes capital expenditures over the periods indicated:

	Six Months Ended December 31, 1996	Year Ended June 30	
		1996	1995
	(unaudited)		
Sawmill Machinery and Equipment	$ 8.5	$10.7	$ 3.4
Logging Machinery and Equipment	0.2	1.2	2.1
Logging Roads	5.9	10.0	9.1
	$14.6	$21.9	$14.6

Human Resources

The Mackenzie Operations employed, as at December 31, 1996, 109 salaried employees and 398 hourly employees. Hourly employees at the Mackenzie Operations are members of the Pulp, Paper and Woodworkers of Canada — Local 18 (the "Union").

In November of 1994, a new five-year collective agreement, expiring in June 1999, was entered into with the Union. This followed a four-month strike during which production was halted. The five-year agreement was the first of its kind negotiated in the wood products manufacturing industry in British Columbia. The new agreement provides for wage increases of three percent in each of the first two years and two percent in the third year. Wages in the fourth and fifth years will be based on settlements elsewhere in the northern sector of the solid wood products industry in British Columbia. The agreement also provides for lump-sum "length of contract" bonuses of $1,000 per employee in the first year and $500 per employee in each of the fourth and fifth years.

SELECTED HISTORICAL FINANCIAL INFORMATION OF THE MACKENZIE OPERATIONS

	TimberNorth		Fletcher Challenge Canada Limited		
	Six months ended December 31, 1996	Period from January 19, 1996 to June 30, 1996	Period from July 1, 1995 to January 19, 1996	Years ended June 1995	Years ended June 1994
	(unaudited)		(unaudited)		
		(in millions of dollars)			
Income Statement Data					
Sales	$100.6	$ 64.2	$ 96.4	$119.7	$152.0
Operating Earnings (Loss)	10.1	0.6	(13.4)	(3.2)	29.0
Balance Sheet Data					
Total Assets	248.1	231.4	Not available		
Other Data (unaudited)					
EBITDA (2)	16.3	5.0	(9.1)	1.5	34.0
Capital Expenditures	14.6	3.9	18.0	14.6	8.8

Notes:

(1) This information describes the Mackenzie Operations during the period they were owned by FCCL and the period during which they were owned by TimberNorth.

(2) EBITDA is earnings before interest, taxes, depreciation and amortization and other non-recurring and non-operating items. EBITDA does not have an established meaning under generally accepted accounting principles but has been included because management of the Company believes that it is an indicative measure of a company's operating performance and is generally used by investors to evaluate companies in the forest products industry. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following table presents selected unaudited pro forma consolidated financial information and other data for the Company after giving effect to the Acquisition, the financing thereof (including this offering), and certain adjustments with respect thereto, as set forth in the notes to the unaudited pro forma consolidated financial statements contained herein, and should be read in conjunction with such statements and the notes thereto. The selected pro forma consolidated financial information and other data are not necessarily indicative of the operating results or financial condition that would have occurred or been in effect had the Mackenzie Operations and Slocan been operated as a single combined entity.

	Actual Year Ended December 31, 1996	Pro Forma Year Ended December 31, 1996 (1)	Actual Six Months Ended December 31, 1996	Pro Forma Six Months Ended December 31, 1996
		(unaudited)	(unaudited)	(unaudited)
	(in millions of dollars, except per share amounts)			
Income Statement Data (2)				
Sales	$796.3	$ 960.2	$ 413.6	$ 514.2
Operating Earnings	54.1	42.7	43.7	54.0
Interest Expense (3)	30.2	38.1	14.4	17.6
Net Earnings	17.6	4.2	20.6	24.6
Net Earnings per Common Share	0.57	0.11	0.66	0.65
Balance Sheet Data (2)				
Total Assets	$972.8	$1,192.3		
Total Long-Term Debt (4)	470.6	540.6		
Shareholders' Equity	185.7	267.1		
Other Data (unaudited)				
EBITDA (5)	$108.1	$ 106.6	$ 74.2	$ 91.6
Long-term Debt/Equity	2.53	2.02		
Long-term Debt/Total Capitalization (6)	71.7%	66.9%		

Notes:

(1) The pro forma year ended December 31, 1996 combines the year ended December 31, 1996 of the Company and the year ended June 30, 1996 of TimberNorth.

(2) See note 3 to the unaudited pro forma consolidated financial statements for adjustments and assumptions.

(3) Interest expense includes interest on all indebtedness plus amortization of debt issuance costs.

(4) Total long-term debt includes limited recourse debt and the current portion of long-term debt.

(5) EBITDA is earnings before interest, taxes, depreciation and amortization and other non-recurring and non-operating items. EBITDA does not have an established meaning under generally accepted accounting principles but has been included because management of the Company believes that it is an indicative measure of a company's operating performance and is generally used by investors to evaluate companies in the forest products industry. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

(6) Total capitalization is shareholders' equity plus long-term debt.

PRO FORMA COMBINED PRODUCTION CAPACITY

Upon completion of the Acquisition, Slocan's approximate annual production capacity for its principal products will be as follows:

	Slocan	Mackenzie Operations	Combined
Lumber (mmfbm)	1,300	350	1,650
Plywood (⅜ inch basis) (millions sq. ft.)	245	—	245
OSB (⅜ inch basis) (millions sq. ft.)	400	—	400
Wood Chips (BDUs) (000s)	770	250	1,020
CTMP (ADMts) (000s)	240	—	240
Newsprint and Specialty Paper (tonnes) (000s)	100	—	100
Timber Harvesting Rights (m^3) (000s)	4,800	1,413(1)	6,213

Note:

(1) After giving effect to the five percent reduction in AAC that will occur upon the Acquisition Closing.

USE OF PROCEEDS

The estimated net proceeds to the Company from this offering, after deducting the Underwriters' fee and the estimated offering expenses, will be $80.0 million. These net proceeds, together with $70 million from funds to be drawn under the Credit Facility, will be used to finance the Acquisition. See "The Acquisition". The net proceeds from the sale of the Subscription Receipts will be held in escrow pending the Acquisition Closing. See "Details of the Offering".

Two of the Underwriters are subsidiaries of Canadian chartered banks which are lenders to the Company. None of the proceeds of this offering will be applied to reduce indebtedness to such lenders. See "Plan of Distribution".

DETAILS OF THE OFFERING

Subscription Receipts will be issued at the closing of this offering pursuant to a subscription receipt agreement (the "Subscription Receipt Agreement") to be dated as of the closing date among the Company, the Underwriters and The R-M Trust Company (the "Subscription Receipt Agent"), as subscription receipt agent. Pursuant to the Subscription Receipt Agreement, subscribers are subscribing for the number of Common Shares specified in their respective Subscription Receipt certificates and the net proceeds from the sale of the Subscription Receipts (the "Escrowed Funds") will be delivered to and held by the Subscription Receipt Agent and invested in short-term obligations of the Government of Canada pending the Acquisition Closing. Subscriptions and payment of the subscription price will be evidenced by transferable Subscription Receipt certificates in fully registered form. Each Subscription Receipt evidences the right of the holder thereof to receive one Common Share, without payment of additional consideration, upon surrender of the certificates representing such holder's Subscription Receipts to the Subscription Receipt Agent after the Acquisition Closing. If any certificates representing Subscription Receipts have not been surrendered within 15 days after the Acquisition Closing, the Subscription Receipt Agent will mail certificates representing the Common Shares which a holder of such Subscription Receipts is entitled to receive to the holder's last address of record. In the event that the Acquisition Closing does not occur on or before June 30, 1997, subscriptions evidenced by all Subscription Receipts will terminate and the Company will repay to holders of Subscription Receipts as of 5:00 p.m., Vancouver time, on the Termination Date an amount equal to the issue price thereof and a *pro rata* portion of the interest earned on the Escrowed Funds between the closing of the Offering and the Termination Date.

Provided the Acquisition Closing occurs on or before the Termination Date, holders of Subscription Receipts will be entitled to receive from the Company, in respect of each Subscription Receipt held, an amount equal to the dividends per share, if any, paid in respect of the Common Shares as at a record date after the issuance of the Subscription Receipts and before the exchange of Subscription Receipts for Common Shares after the Acquisition Closing.

The Subscription Receipt Agent will release the Escrowed Funds and interest earned thereon to the Company at the Acquisition Closing against (i) an irrevocable direction of the Company to the Subscription Receipt Agent (in its capacity as registrar and transfer agent of the Common Shares) to issue Common Shares to holders of any Subscription Receipts of record as at the close of business on the date of the Acquisition Closing and deliver certificates therefor upon surrender of Subscription Receipt certificates to the Subscription Receipt Agent, and (ii) a joint notice from the Company and Goepel Shields & Partners Inc. on behalf of the Underwriters to the Subscription Receipt Agent, confirming that the conditions of the exchange of the Subscription Receipts for Common Shares and the finalization of all matters relating to the Acquisition Closing have been fulfilled to their satisfaction. The transfer register with respect to the Subscription Receipts shall be closed at the close of business on the date of the Acquisition Closing. The Company shall, as soon as practicable, issue a press release setting out the date of the Acquisition Closing and the date on which the Subscription Receipt transfer register closed.

The Subscription Receipt Agreement will provide for adjustments to the number of Common Shares that a holder of a Subscription Receipt is entitled to receive on surrender of its Subscription Receipts in the following circumstances:

(a) the subdivision, consolidation or reclassification of the Common Shares;

(b) the distribution by the Company of Common Shares (or securities convertible into or exchangeable for Common Shares) to all or substantially all holders of Common Shares by way of dividend or otherwise, other than a distribution of Common Shares (or securities convertible into or exchangeable for Common Shares) by way of dividends in the normal course to the holders of Common Shares where such holders may elect to receive such dividends in the form of Common Shares (or securities convertible into or exchangeable for Common Shares) instead of by way of cash dividends;

(c) the distribution by the Company of rights, options or warrants to all or substantially all of the holders of Common Shares, conferring on such holders the right for a period of 45 days from their date of issue to acquire Common Shares (or securities convertible into or exchangeable for Common Shares) at a price per share (or, in the case of securities convertible into or exchangeable for Common Shares, at an exchange or conversion price per share at the date of issue of the security) which is less than 95 percent of the current market price; and

(d) the distribution by the Company to all or substantially all of the holders of Common Shares of shares of any other class or of rights, options or warrants (other than those referred to above) or of property or other assets (including cash or debt securities) otherwise than by way of dividends in the normal course.

There will be no adjustment to the number of Common Shares issuable upon surrender of the Subscription Receipts in respect of any of the distributions referred to in (b), (c) or (d) above if the holders of Subscription Rights are entitled to participate in the distribution as though they had received Common Shares pursuant to the surrender of Subscription Receipts prior to the applicable record date or effective date for such distribution.

The Company will give the holders of Subscription Receipts at least 14 days' prior notice of the record date or effective date for each of the distributions referred to in (b), (c) or (d) above. The holders of Subscription Receipts will be entitled to receive notice of any adjustments to the number of Common Shares issuable upon surrender of the Subscription Receipts. The Company will not be required to make adjustments to the number of Common Shares issuable upon surrender of the Subscription Receipts unless the cumulative effect of such adjustments would change the number of such shares by at least one percent. Any adjustment which is not required to be made will be deferred and will be taken into consideration at the time of any subsequent adjustment.

No fraction of a share shall be issued upon exercise of the Subscription Receipts. In lieu of such fraction of a share, the holder will receive a cash payment which will be equal to the market price of such fractional right.

The holders of Subscription Receipts will not be shareholders of the Company. Holders of Subscription Receipts are entitled only to receive Common Shares on surrender of their Subscription Receipts to the Subscription Receipt Agent (and, in certain circumstances, to receive an amount equal to dividends paid on the Common Shares) or to require the Company to repay the issue price and a pro rata share of all interest accrued thereon, as set out in the Subscription Receipt Agreement.

DESCRIPTION OF SHARE CAPITAL

The authorized share capital of the Company consists of 80,000,000 Common Shares without par value and 10,000,000 Preferred shares without par value having attached thereto the special rights and restrictions set out in the Articles of the Company. As of April 23, 1997 there were 31,008,808 Common Shares and no Preferred shares issued and outstanding.

Common Shares

The holders of Common Shares are entitled to one vote for each share on all matters voted on by shareholders and, subject to the rights of the holders of any Preferred shares, are entitled to receive dividends as may be declared by the directors out of funds legally available therefor and, on liquidation, dissolution or winding up of the Company, to receive the remaining property of the Company, subject to the payment of all outstanding debts. The holders of the Common Shares have no pre-emptive, redemption or conversion rights.

Preferred Shares

The Preferred shares are issuable in one or more series, each series to consist of such number of shares as may be determined by the directors before issuance. The directors also have the power to alter the Memorandum or Articles of the Company to create, define and attach special rights and restrictions already attached to the Preferred shares, subject to the *Company Act* (British Columbia) and the special rights and restrictions already attached to the Preferred shares. The Preferred shares are entitled to preference over the Common Shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up.

Shareholder Rights Plan

On November 10, 1995, the directors of the Company adopted a Shareholder Rights Plan, subsequently approved by the shareholders on April 26, 1996 (the "Rights Plan"). Pursuant to the Rights Plan, one Right to purchase an additional Common Share of the Company was issued in respect of each Common Share outstanding on November 10, 1995 and became issuable in respect of each Common Share issued thereafter, so long as the Rights remain outstanding. A Right becomes exercisable only after the occurence of certain specified events, including certain non-permitted acquisitions of 20 percent or more of the outstanding Common Shares. The intent of the Rights Plan is to require anyone who seeks to acquire 20 percent or more of the Company's Common Shares to make a "Permitted Bid" as defined in the Rights Plan.

PRICE RANGE AND TRADING VOLUME

The Common Shares of the Company are listed on the TSE. The following table sets forth the market price range and trading volume of the Common Shares of the Company traded on the TSE for the periods indicated:

Calendar Year	Price Range High	Price Range Low	Trading Volume
1995			
First Quarter	$16.500	$12.500	15,965,400
Second Quarter	$13.125	$11.125	6,734,426
Third Quarter	$12.875	$11.750	3,913,244
Fourth Quarter	$13.375	$12.000	4,635,353
1996			
First Quarter	$14.750	$11.500	2,000,456
Second Quarter	$15.100	$12.500	4,002,364
Third Quarter	$15.250	$12.000	2,343,910
Fourth Quarter	$16.000	$13.250	8,086,760
1997			
First Quarter			
January	$16.000	$14.250	2,186,725
February	$15.250	$14.350	549,060
March	$14.750	$13.400	1,330,832
April (to April 23)	$13.850	$12.250	778,648

During the calendar periods indicated above, the Company declared quarterly dividends of $0.075 per share on the Common Shares of the Company. On April 23, 1997, the Company declared a quarterly dividend of $0.075 per Common Share of the Company payable on May 8, 1997 to holders of the Common Shares of record on May 1, 1997. On April 23, 1997, the closing price of the Common Shares of the Company on the TSE was $12.50.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the "Underwriting Agreement") dated April 24, 1997 among the Company and Goepel Shields & Partners Inc., TD Securities Inc., Midland Walwyn Capital Inc., CIBC Wood Gundy Securities Inc. and Lévesque Beaubien Geoffrion Inc. (collectively, the "Underwriters"), the Company has agreed to issue and the Underwriters have agreed to subscribe for, on May 6, 1997 or on such other date as may be agreed upon, but in any event not later than June 5, 1997, subject to the terms and conditions contained therein, and the approval of certain legal matters, all but not less than all of the Subscription Receipts, for a total consideration of $83,490,000, payable to the Subscription Receipt Agent against delivery of the Subscription Receipts. The Company has agreed to pay to the Underwriters an aggregate fee of 4.0 percent of the gross proceeds of this offering for services rendered in connection therewith.

Pursuant to the terms of the Underwriting Agreement, the obligations of the Underwriters are several and not joint and may be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all the Subscription Receipts if any of the Subscription Receipts are subscribed for under the Underwriting Agreement.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution under this prospectus, bid for or purchase Subscription Receipts or Common Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Subscription Receipts or the Common Shares. Such exceptions include a bid or purchase permitted under the by-laws and rules of the TSE relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing and applicable law, the Underwriters may over-allot Subscription Receipts or effect transactions intended to stabilize or maintain the market price of the Subscription Receipts or the Common Shares at a higher level than that which might otherwise prevail on the open market. Such transactions may be commenced or discontinued at any time during the period of distribution.

The Subscription Receipts and the Common Shares issuable upon exchange thereof have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the "U.S. Securities Act") and may not be offered or sold within the United States, except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Each Underwriter has agreed that, except in accordance with the terms of such exemptions, it will not offer, sell or deliver the Subscription Receipts within the United States of America or any territories or possessions thereof. In addition, until 40 days after the commencement of this offering, an offer or sale of the Subscription Receipts within the United States by any dealer (whether or not participating in this offering) may violate the registration requirements of the U.S. Securities Act, if such an offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act.

Two of the Underwriters, TD Securities Inc. and CIBC Wood Gundy Securities Inc. are wholly-owned subsidiaries of Canadian chartered banks (the "Banks") which are lenders to the Company under an unsecured operating credit facility. At December 31, 1996, indebtedness owing under this credit facility amounted to $28.7 million. The Company is in compliance with the terms of this credit facility. The Banks will also be lenders under the Credit Facility. See "The Acquisition — Credit Facilities". The decision to issue the Subscription Receipts and the determination of the terms of the distribution was made through negotiations between the Company and the Underwriters. The Banks did not have any involvement in such determination or decision. As a consequence of this offering, TD Securities Inc. and CIBC Wood Gundy Securities Inc. will receive their share of the Underwriters' fee. None of the net proceeds of this offering will be applied to reduce the indebtedness of the Company to the Banks.

One of the Underwriters, Goepel Shields & Partners Inc., is acting as an advisor to the Company in connection with the Acquisition and will receive an advisory fee for its services.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McCarthy Tétrault, counsel for the Company, and Bull, Housser & Tupper, counsel for the Underwriters, the following general summary describes the principal Canadian federal income tax consequences applicable to holders of Subscription Receipts who for purposes of the *Income Tax Act* (Canada) (the "Act") are resident in Canada, are the original holders of their Subscription Receipts, hold such Subscription Receipts and any Common Shares as capital property, deal at arm's length with the Company, and are not exempt from taxation under Part I of the Act.

This summary is based upon the provisions of the Act, the regulations thereunder, counsel's understanding of the current published administrative and assessment policies of Revenue Canada, Customs, Excise and Taxation and the proposed amendments to the Act and regulations publicly announced prior to the date hereof (the "Tax Proposals"). The Act contains certain provisions relating to securities held by certain financial institutions (the "Mark to Market Rules"). This summary does not take into account these Mark to Market Rules or any amendments thereto contained in the Tax Proposals, and taxpayers that are financial institutions, as defined for the purposes of those Rules, should consult their own tax advisers. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not take into account or anticipate any changes in law by way of judicial, legislative or governmental decision or action, nor does it take into account provincial, territorial or foreign tax considerations.

This summary is of a general nature only and is not intended to constitute legal or tax advice to any particular subscriber. Consequently, subscribers should consult their own tax advisers with respect to their particular circumstances.

Termination of Subscriptions

If the issue price for a Subscription Receipt is repaid by the Company to the holder with interest upon the termination of the Subscription Receipt in the circumstances referred to above, such holder must include the interest so payable in computing his income.

Dispositions of Subscription Receipts

A disposition or deemed disposition by a holder of a Subscription Receipt will generally result in the holder realizing a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any costs of disposition, exceed (or are exceeded by) the aggregate of the holder's adjusted cost base thereof immediately before the disposition.

Issuance of Common Shares

The cost of Common Shares issued to the holder of a Subscription Receipt acquired pursuant to this offering will equal the holder's cost of the Subscription Receipt acquired pursuant to the Offering. The adjusted cost base to the holder of Common Shares so acquired will be determined by averaging the cost of the Common Shares so acquired with the adjusted cost base of all other Common Shares owned by the holder as capital property.

Taxation of Dividends

Dividends received by an individual on the Common Shares must be included in computing the holder's income for purposes of the Act, and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations.

Dividends received by a corporation on the Common Shares will be included in computing the holder's income but generally will be deductible in computing its taxable income. Private corporations (as defined in the Act) and certain other corporations controlled by or for the benefit of an individual or related group of individuals generally will be liable for the 33⅓ percent refundable tax under Part IV of the Act on dividends received on the Common Shares.

Dispositions of Common Shares

Upon a disposition of the Common Shares, the holder will generally realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any costs of disposition, exceed (or are exceeded by) the aggregate of the holder's adjusted cost base of such Common Shares immediately before the disposition.

Tax Treatment of Capital Gains and Capital Losses

Three-quarters of any capital gain realized by a holder on the disposition of a Subscription Receipt or a Common Share will be required to be included in computing the holder's income as a taxable capital gain. Three-quarters of any capital loss realized by a holder may normally be deducted against taxable capital gains realized in the year of disposition or in the three preceding taxation years or in any subsequent taxation year, subject to detailed rules contained in the Act in this regard. Certain restrictions may apply to holders that are corporations or where a corporation is a member of a partnership or a beneficiary of a trust that holds Common Shares.

Capital gains realized by an individual may give rise to an alternative minimum tax.

A Canadian-controlled private corporation (as defined in the Act) may be liable to pay an additional 6⅔% refundable tax on certain investment income, including taxable capital gains and interest.

ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault and Bull, Housser & Tupper, based on legislation in effect as of the date hereof and subject to compliance with the prudent investment standards and general investment provisions and restrictions of the following statutes (and, where applicable, the regulations thereunder) and, where applicable, without resort to so-called "basket" provisions, the Subscription Receipts and the Common Shares relating thereto, at the closing date, will not be prohibited as investments for purchasers to which the following statutes apply:

Insurance Companies Act (Canada);
Pension Benefits Standards Act, 1985 (Canada);
Trust and Loan Companies Act (Canada);
Financial Institutions Act (British Columbia);
Pension Benefits Standards Act (British Columbia);
Loan and Trust Corporations Act (Alberta);
Pension Benefits Act, 1992 (Saskatchewan);
Pension Benefits Act (Manitoba);
Trustee Act (Manitoba):
Pension Benefits Act (Ontario);
Supplemental Pension Plans Act (Quebec);
an *Act respecting insurance* (Quebec) (in respect of insurers other than mutual associations, professional corporations and guarantee fund corporations); and

an *Act respecting trust companies and savings companies*(Quebec) (for trust companies investing their own funds as well as the deposits they receive and savings companies investing their own funds).

In the opinion of such counsel, the Subscription Receipts and the Common Shares relating thereto will also be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans under the *Income Tax Act* (Canada).

LEGAL MATTERS

Certain legal matters relating to the Subscription Receipts will be passed upon by McCarthy Tétrault, on behalf of the Company, and by Bull, Housser & Tupper, on behalf of the Underwriters. As at the date hereof, partners and associates of McCarthy Tétrault and Bull, Housser & Tupper, as a group, beneficially own, directly or indirectly, less than one percent of the Common Shares.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are Coopers & Lybrand, Chartered Accountants, 1111 West Hastings Street, Vancouver, British Columbia, V6E 3R2.

The transfer agent and registrar for the Common Shares is The R-M Trust Company at its principal offices in Vancouver and Toronto.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in several of the provinces provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser but such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

COMPILATION REPORT ON PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

To the Directors of
SLOCAN FOREST PRODUCTS LTD.

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of Slocan Forest Products Ltd. as at December 31, 1996 and the pro forma consolidated statement of earnings for the year ended December 31, 1996 and the pro forma consolidated statement of earnings for the six months ended December 31, 1996. These pro forma consolidated financial statements have been prepared for inclusion in a short form prospectus dated April 24, 1997 relating to a proposed sale of Subscription Receipts, each representing the right to receive one common share of Slocan Forest Products Ltd. In our opinion, these pro forma consolidated financial statements have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

(Signed) COOPERS & LYBRAND
Chartered Accountants

Vancouver, B.C.
April 24, 1997

SLOCAN FOREST PRODUCTS LTD.

PRO FORMA CONSOLIDATED BALANCE SHEET
(Unaudited)
(in millions of dollars)

	Slocan(1) As at December 31, 1996	TimberNorth(2) As at June 30, 1996	Pro forma adjustments (note 3)	Pro forma Consolidated As at December 31, 1996
Assets				
Current Assets:				
Accounts receivable	$ 82.8	$ 21.7		$ 104.5
Inventories	211.6	37.1		248.7
Prepaid expenses	9.6	3.3		12.9
	304.0	62.1		366.1
Property, Plant and Equipment	617.6	166.9	$ 0.9 b(v) (14.1) b(iv)	771.3
Investments and Other Assets	42.1	2.4		44.5
Deferred Charges	9.1	—	1.3 b(v)	10.4
	$ 972.8	$ 231.4		$1,192.3
Liabilities				
Current Liabilities:				
Bank indebtedness/operating loans	$ 28.7	$ 41.5	(10.0) b(i) (31.5) b(iii) 33.7 b(iii)	$ 62.4
Accounts payable and accrued liabilities	130.9	26.4		157.3
Current portion of long-term debt	3.4	—		3.4
	163.0	67.9		223.1
Reforestation Obligation	13.4	9.2		22.6
Long-Term Debt	409.9	—	70.0 b(iii)	479.9
Limited Recourse Debt	57.3	—		57.3
Deferred Income Taxes	109.3	0.2	(1.4) b(v)	108.1
Non-Controlling Interest	34.2	—		34.2
	787.1	77.3		925.2
Shareholders' Equity				
Share Capital	99.8	—	83.5 b(ii)	183.3
TimberNorth Equity(3)	—	154.1	10.0 b(i) (164.1) b(iv)	—
Retained Earnings	85.9	—	(2.1) b(v)	83.8
	185.7	154.1		267.1
	$ 972.8	$ 231.4		$1,192.3

(1) Derived from the audited consolidated balance sheet of the Company as at December 31, 1996.

(2) Derived from the audited balance sheet of TimberNorth Forest Limited ("TimberNorth") as at June 30, 1996.

(3) TimberNorth equity is represented by a deficit of $4.5 million and the $158.6 million redeemable preferred shares (see note 7 to the financial statements of TimberNorth) which were redeemed from funds provided by TimberWest Forest Limited prior to the acquisition. All TimberNorth equity is eliminated on acquisition.

Approved by the Board:

(Signed) IRVING K. BARBER
Director

(Signed) RONALD D. PRICE
Director

See accompanying notes to pro forma consolidated financial statements.

SLOCAN FOREST PRODUCTS LTD.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)
(in millions of dollars)

		Mackenzie Operations				
	Slocan(1)	**TimberNorth(2)**	**FCCL(3)**		**Pro forma**	**Pro forma Consolidated**
	Year ended December 31, 1996	**January 19, 1996 to June 30, 1996**	**July 1, 1995 to January 18, 1996**	**Pro forma adjustments (note 3)**	**Year ended June 30, 1996**	**Year ended December 31, 1996**
Sales	$ 796.3	$ 64.2	$ 96.4	$ 3.3 c(ii)	$ 163.9	$ 960.2
Costs and Expenses						
Cost of products sold	663.0	58.0	104.7		162.7	825.7
Depreciation and amortization	51.7	4.4	4.3	1.9 c(i)	10.6	62.3
Selling and administration	27.5	1.2	0.8		2.0	29.5
	742.2	63.6	109.8		175.3	917.5
Earnings (Loss) from Operations	54.1	0.6	(13.4)		(11.4)	42.7
Other Income (Expenses)	2.3	(0.7)	—		(0.7)	1.6
	56.4	(0.1)	(13.4)		(12.1)	44.3
Interest Expense						
Short-term debt	1.1	3.7		(1.2) c(iii)	2.5	3.6
Long-term debt	24.4	—		5.4 c(iii)	5.4	29.8
Limited recourse debt	4.7	—			—	4.7
	30.2	3.7			7.9	38.1
Earnings (Loss) Before Income Taxes	26.2	(3.8)			(20.0)	6.2
Income Tax Expense (Recovery)	11.4	0.7		(7.3) c(iv)	(6.6)	4.8
Earnings (Loss) Before Equity in Loss of Affiliates and Non-controlling Interest	14.8	(4.5)			(13.4)	1.4
Equity in Loss of Affiliates	(0.6)	—			—	(0.6)
Non-controlling Interest	3.4	—			—	3.4
Net Earnings (Loss) for the Year	$ 17.6	$ (4.5)			$ (13.4)	$ 4.2
Weighted Average Number of Shares Outstanding	30,826,868					37,726,868
Net Earnings per Common Share	$ 0.57					$ 0.11

(1) Derived from the audited consolidated statement of earnings of the Company for the year ended December 31, 1996.

(2) Derived from the audited statement of operations of TimberNorth for the period from January 19, 1996 to June 30, 1996.

(3) See note 3(b) to the financial statements of TimberNorth.

See accompanying notes to pro forma consolidated financial statements.

SLOCAN FOREST PRODUCTS LTD.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
(Unaudited)
(in millions of dollars)

	Slocan	Mackenzie Operations: TimberNorth	Mackenzie Operations:	Mackenzie Operations: Pro forma	Pro forma consolidated
	Six months ended December 31, 1996	Six months ended December 31, 1996	Pro forma adjustments (note 3)	Six months ended December 31, 1996	Six months ended December 31, 1996
Sales	$ 413.6	$100.6		$100.6	$ 514.2
Costs and Expenses					
Cost of products sold	325.7	83.2		83.2	408.9
Depreciation and amortization	28.2	6.2	$(0.2) d(i)	6.0	34.2
Selling and administration	16.0	1.1		1.1	17.1
	369.9	90.5		90.3	460.2
Earnings from Operations	43.7	10.1		10.3	54.0
Other Income	2.3	1.1		1.1	3.4
	46.0	11.2		11.4	57.4
Interest Expense	14.4	4.1	(0.9) d(ii)	3.2	17.6
Earnings Before Income Taxes	31.6	7.1		8.2	39.8
Income Tax Expense	12.9	5.4	(1.2) d(iii)	4.2	17.1
Earnings Before Equity in Earnings of Affiliates and Non-controlling Interest	18.7	1.7		4.0	22.7
Equity in Earnings of Affiliates	0.8	—		—	0.8
Non-controlling Interest	1.1	—		—	1.1
Net Earnings for the Period	$ 20.6	$ 1.7		$ 4.0	$ 24.6
Weighted Average Number of Shares Outstanding	30,904,490				37,804,490
Net Earnings per Common Share	$ 0.66				$ 0.65

See accompanying notes to pro forma consolidated financial statements.

SLOCAN FOREST PRODUCTS LTD.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Preparation

Slocan Forest Products Ltd. (the "Company") has entered into an agreement to purchase TimberNorth Forest Limited ("TimberNorth") from TimberWest Forest Limited ("TimberWest") for an aggregate consideration of approximately $150 million plus the assumption of the TimberNorth Operating Loan. The acquisition comprises the timber processing facilities and related woodlands operations of TimberNorth at Mackenzie, B.C. ("Mackenzie Operations").

The accompanying pro forma consolidated financial statements have been prepared for inclusion in a short form prospectus to be filed by the Company in respect of the proposed issuance of subscription receipts, each representing the right to receive one common share of the Company, for gross proceeds of $83.5 million.

The pro forma consolidated financial statements include:

a) a pro forma consolidated balance sheet prepared from the audited consolidated balance sheet of the Company as at December 31, 1996 (the Company's fiscal year end) and the audited balance sheet of TimberNorth as at June 30, 1996 (TimberNorth's fiscal year end) after giving effect to the purchase of the Mackenzie Operations pursuant to the purchase agreement together with the debt to be issued to finance the acquisition and the equity to be issued pursuant to the short form prospectus. The pro forma consolidated balance sheet assumes that the purchase transaction referred to above occurred on June 30, 1996;

b) a pro forma consolidated statement of earnings combining the audited consolidated statement of earnings of the Company for the year ended December 31, 1996 with the audited statement of operations of TimberNorth for the period from January 19, 1996 to June 30, 1996, and the unaudited statement of operating earnings of the Mackenzie Operations for the period it was owned by Fletcher Challenge Canada Limited ("FCCL") (July 1, 1995 to January 18, 1996), adjusted for the assumptions made giving effect to the acquisition as described in note 3(c).

c) a pro forma consolidated statement of earnings combining the unaudited interim consolidated statement of earnings of the Company with that of TimberNorth for the six months ended December 31, 1996 adjusted for the assumptions made giving effect to the acquisition as described in note 3(d).

   The pro forma consolidated statements of earnings for the year end December 31, 1996 and for the six months ended December 31, 1996 assume that the purchase transaction referred to above occurred on, and that the debt and equity used to finance the acquisition were issued on, July 1, 1995 and July 1, 1996 respectively.

The pro forma consolidated financial statements are not necessarily indicative of future consolidated operating results of the Company nor the consolidated financial position of the Company at the time of closing the purchase transaction referred to above.

The pro forma consolidated financial statements should be read in conjunction with:

i) the audited consolidated financial statements of the Company for the year ended December 31, 1996, incorporated by reference into the short form prospectus;

ii) the unaudited consolidated statement of operations of the Company for the six months ended June 30, 1996;

iii) the audited financial statements of TimberNorth for the periods from January 19, 1996 to June 30, 1996 and the unaudited statement of operations for the six months ended December 31, 1996 contained elsewhere in the short form prospectus.

2. Summary of Significant Accounting Policies

The pro forma consolidated financial statements have been compiled using the significant accounting policies as set out in the audited consolidated financial statements of the Company for the year ended December 31, 1996. The significant accounting policies of TimberNorth do not differ materially from those of the Company except that the cost of Crown timberlands is amortized on a straight-line basis over 40 years. For purposes of the pro forma consolidated financial statements, the Company has adopted the same policy for amortizing the Crown timberlands acquired in the acquisition.

3. Pro forma Assumptions

a) Acquisition

The acquisition of the Mackenzie Operations has been accounted for in the accompanying pro forma consolidated financial statements using the purchase method as set out below. The amounts assigned to the assets and liabilities are based on the account balances at June 30, 1996. Account balances at the time of closing will vary and, accordingly, adjustments to the purchase price allocation will be required at that time.

	June 30, 1996
	(millions)
Net assets acquired, at fair value	
Current assets	$ 62.1
Property, plant and equipment	153.7
Other assets	3.7
	219.5
Current liabilities	(26.4)
Reforestation obligation, net of current portion	(9.2)
Deferred income taxes	(0.2)
	$ 183.7
The acquisition is being financed as follows:	
Issue of subscription receipts exchangeable for common shares pursuant to the short form prospectus	$ 80.0
Long-term debt	70.0
Operating loan	33.7
	$ 183.7

The long-term debt facility is represented by a five-year unsecured bank term loan repayable in quarterly instalments of $4.2 million commencing July 1, 1998 and a final $7.0 million payment with interest based on various base rates including Canadian prime to Canadian prime plus ¼%. The loan facility contains covenants requiring the maintenance of certain financial ratios.

b) Assumptions for balance sheet

i) Repayment of Operating Loan

Prior to acquisition, TimberWest will contribute $10.0 million of additional capital to TimberNorth which will be used to repay $10.0 million of the operating loan.

ii) Financing

The Company will issue 6.9 million subscription receipts, each representing the right to receive one common share, for net proceeds of $80.0 million to be used to finance part of the acquisition (gross proceeds $83.5 million).

iii) Borrowings

The Company will borrow $70.0 million of long-term debt to finance part of the acquisition. In addition, the Company will use $33.7 million of its operating bank line to repay the TimberNorth operating loan assumed on acquisition and pay for certain financing and acquisition costs.

iv) Investment

The acquisition price will be allocated to the fair values of the assets and liabilities of the Mackenzie Operations, and any excess or deficiency between the purchase price and the fair values will be allocated to the cost of Crown timberlands. At June 30, 1996, the deficiency amounted to $14.1 million.

v) Transaction Costs

The Company will incur approximately $5.7 million of financing and acquisition costs, of which $1.3 million will be deferred and amortized over the term of the debt; $3.5 million, less deferred income taxes of $1.4 million, will be charged to retained earnings; and $0.9 million will be included as part of the purchase price of the acquisition. Costs of $3.5 million, including the underwriters' fees and expenses of the issue, will be paid for out of the proceeds of the issue of subscription receipts and $2.2 million will be paid for out of the Company's operating bank line.

c) Assumptions for pro forma consolidated statement of earnings for the year ended December 31, 1996

i) An adjustment for additional depreciation and amortization expense of $2.2 million to reflect depreciation for the period July 1, 1995 to January 18, 1996 based upon the purchase price of the assets acquired by TimberNorth from FCCL, and a reduction of depreciation of $0.3 million to reflect depreciation based upon the acquisition.

ii) An adjustment for additional revenue on the sale of wood chips to FCCL of $3.3 million based upon management estimates of the additional revenue which would have been received under a Chip Supply Agreement put in place at the time of the sale of the Mackenzie Operations to TimberNorth (January 19, 1996).

iii) An adjustment to interest expense based upon the debt financing required to finance the acquisition at a blended annual interest rate of 7.32% plus amortization of financing fees of $0.3 million.

	1996
	(millions)
Short-term debt	$ 2.5
Long-term debt	5.4
Total interest	$ 7.9

iv) An adjustment for income tax recovery of $7.3 million based on the adjusted loss before tax of $20.0 million for the Mackenzie Operations. The carrying value of assets purchased will exceed the values for income tax purposes by approximately $90.7 million, which decreases the effective tax rate to 33.0% for calculating the tax recovery.

d) Assumptions for pro forma consolidated statement of earnings for the six months ended December 31, 1996

i) An adjustment for a reduction of depreciation of $0.2 million to reflect depreciation based on the acquisition.

ii) An adjustment to interest expense based upon the debt financing required to finance the acquisition at a blended annual interest rate of 5.75% plus amortization of financing fees of $0.2 million.

	1996
	(millions)
Short-term debt	$ 1.0
Long-term debt	2.2
Total interest	$ 3.2

iii) An adjustment for income tax expense of $1.2 million based on the adjusted earnings before tax of $8.2 million for the Mackenzie Operations. The carrying value of assets purchased will exceed the values for income tax purposes by approximately $90.7 million, which increases the effective tax rate to 51.2%.

AUDITORS' REPORT

To the Board of Directors
TimberNorth Forest Limited

We have audited the balance sheet of TimberNorth Forest Limited as at June 30, 1996 and the statements of operations and deficit and changes in financial position for the period from January 19, 1996 to June 30, 1996. 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 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 financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1996 and the results of its operations and the changes in its financial position for the period from January 19, 1996 to June 30, 1996 in accordance with generally accepted accounting principles.

(signed) KPMG
Chartered Accountants

Vancouver, Canada
July 11, 1996,
except as to note 15,
which is as of April 1, 1997

TIMBERNORTH FOREST LIMITED

BALANCE SHEETS
(in millions of dollars)

	December 31, 1996 (Unaudited)	June 30, 1996
Assets		
Current assets:		
Accounts receivable	$ 21.3	$ 21.7
Inventory (note 4)	49.3	37.1
Prepaid expenses	0.8	3.3
	71.4	62.1
Capital assets (note 5):		
Property, plant and equipment	64.9	60.0
Timberlands and roads	110.2	106.9
	175.1	166.9
Other assets	1.6	2.4
	$ 248.1	$ 231.4
Liabilities and Deficiency in Assets		
Current liabilities:		
Operating loan (note 6)	$ 34.1	$ 41.5
Accounts payable and accrued liabilities	43.0	26.4
	77.1	67.9
Long-term silviculture liability	9.6	9.2
Deferred income taxes	5.3	0.2
Redeemable preferred shares (note 7)	158.9	158.6
Deficiency in assets:		
Common shares (note 8)	—	—
Deficit	(2.8)	(4.5)
	(2.8)	(4.5)
Commitments and contingencies (note 13)		
Subsequent events (note 15)		
	$ 248.1	$ 231.4

Approved by the Board:

(Signed) R. Keith Purchase
Director

(Signed) Wanda C. Costuros
Director

See accompanying notes to financial statements.

TIMBERNORTH FOREST LIMITED

STATEMENTS OF OPERATIONS AND DEFICIT
(in millions of dollars)

	Six months ended December 31, 1996	Period from January 19, 1996 to June 30, 1996
	(Unaudited)	
Net sales	$ 100.6	$ 64.2
Operating costs and expenses:		
Costs of products sold	83.2	58.0
Depreciation, depletion and amortization	6.2	4.4
Selling expenses and other	1.1	1.2
	90.5	63.6
Operating earnings	10.1	0.6
Financing costs (note 9)	(4.1)	(3.7)
Other income (expense)	1.1	(0.7)
Earnings (loss) before income taxes	7.1	(3.8)
Income taxes	(5.4)	(0.7)
Net earnings (loss)	1.7	(4.5)
Deficit, beginning of period	(4.5)	—
Deficit, end of period	$ (2.8)	$ (4.5)

See accompanying notes to financial statements.

TIMBERNORTH FOREST LIMITED

STATEMENTS OF CHANGES IN FINANCIAL POSITION
(in millions of dollars)

	Six months ended December 31, 1996	Period from January 19, 1996 to June 30, 1996
	(Unaudited)	
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ 1.7	$ (4.5)
Items not requiring (providing) cash:		
Depreciation, depletion and amortization	6.2	4.4
Income taxes	5.1	0.2
Gain on sale of capital assets	—	(0.2)
Other	0.4	0.3
	13.4	0.2
Decrease (increase) in non-cash working capital	7.3	(15.7)
Cash provided by operations	20.7	(15.5)
Financing:		
Issue of preferred shares	—	158.5
Investing:		
Acquisition of operations (note 3)	—	(178.5)
Additions to capital assets	(14.6)	(3.9)
Decrease (increase) in other assets	1.1	(2.3)
Proceeds from sale of capital assets	0.2	0.2
	(13.3)	(184.5)
Decrease (increase) in operating loan	7.4	(41.5)
Operating loan, beginning of period	(41.5)	—
Operating loan, end of period	$ (34.1)	$ (41.5)

See accompanying notes to financial statements.

TIMBERNORTH FOREST LIMITED

NOTES TO FINANCIAL STATEMENTS
(in millions of dollars)

Six months ended December 31, 1996 (Unaudited)
Period from January 19, to June 30, 1996

1. Basis of presentation:

TimberNorth Forest Limited ("TimberNorth" or the "Company") is a wholly owned subsidiary of TimberWest Forest Limited ("TimberWest"). TimberNorth commenced operations on January 19, 1996 after acquiring certain timber processing facilities located at Mackenzie, British Columbia and related woodlands operations from Fletcher Challenge Canada Limited ("FCCL").

These financial statements have been prepared for inclusion in a prospectus of Slocan Forest Products Ltd. ("Slocan") (note 15).

2. Summary of significant accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include the following policies:

(a) Inventories:

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

(b) Capital assets:

Capital assets are stated at cost. Buildings and equipment are depreciated on a straight-line basis at rates which reflect estimates of the economic lives of the assets. The rates for major classes of assets are:

Buildings	2.5%-4%
Lumbermill machinery and equipment	8%
Logging machinery and equipment	10%-25%

During periods of major production interruption, an obsolescence amount equal to 10% of normal depreciation is charged on manufacturing equipment. No depreciation is charged on capital projects during the period of construction.

The cost of Crown timber tenures is amortized on a straight-line basis over 40 years.

Logging roads are amortized on a straight-line basis over 12 years which approximates the utilization of the related timber resources.

(c) Silviculture costs:

The Forest Act (British Columbia) requires holders of timber harvesting licences to assume the cost of reforestation on these licences. Accordingly, the estimated cost of reforestation on these licences is recorded as the timber is harvested. These costs are included in the cost of current production. The portion of this liability representing expenditures projected to take place within the next year is classified as a current liability and the remainder is classified as a long-term liability.

(d) Foreign currency transactions:

Monetary assets and liabilities denominated in foreign currencies are translated at the period-end exchange rates. Gains or losses on translation of current assets and current liabilities are reflected in net earnings for the period. For preferred shares denominated in U.S. funds, the Company has designated certain revenue streams as a hedge. Accordingly, exchange gains or losses are deferred and recorded when these shares are redeemed. Revenue and expense items denominated in foreign currencies are translated at the rates of exchange prevailing during the period.

(e) Post-retirement benefits:

The Company provides certain health care and limited life insurance benefits to eligible retired employees. The costs of providing these benefits are expensed and reflected in operating earnings as paid.

(f) Environmental:

Environmental expenditures that qualify as property, plant and equipment or substantially increase the economic value or extend the useful life of an asset are capitalized. Other environmental expenditures are expensed as incurred. Liabilities are recorded when environmental remediation efforts are probable and the costs can be reasonably estimated.

(g) Employee benefits:

The employees of TimberNorth participate in a number of employee benefit plans, including pensions, some of which are administered by TimberWest and some of which are administered by the employees' union. TimberNorth has been charged for its portion of the costs of such plans and the associated assets and liabilities have been allocated to TimberNorth.

(h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Financial instruments:

The carrying value of accounts receivable, the operating loan, and accounts payable and accrued liabilities approximate their fair value due to their short-term maturities. The carrying value of the redeemable preferred shares approximates fair value as the cumulative dividend rates are based on current market after tax interest rates.

3. Business acquisition:

On January 19, 1996, the Company acquired the Mackenzie wood products operations of FCCL. The operations acquired included two sawmills with a combined annual lumber capacity of 350 million board feet and associated timber cutting rights of approximately 1.5 million cubic meters per annum (the "Mackenzie Operations"). The transaction has been accounted for by the purchase method with the results of operations included in these financial statements from the date of acquisition. Details of the net assets acquired and consideration paid are:

(a) Net assets acquired:

Net working	$ 20.0
Capital assets	167.4
	187.4
Silviculture liability, net of current portion	(8.9)
	$178.5
Consideration paid:	
Operating loan	$ 20.0
Preferred shares	158.5
Consideration paid	$178.5

As part of the purchase of the Mackenzie Operations, TimberNorth acquired certain assets whose elected amount for tax purposes approximated $60.0 million. Accordingly, the carrying value of assets purchased exceeded the elected value for income tax purposes by approximately $100.2 million (December 31, 1996 — $96.3 million).

Purchase price adjustments:

The purchase price of the Mackenzie Operations is subject to adjustment annually, based on average lumber and wood chip prices for the 1996, 1997 and 1998 calendar years. For lumber prices a purchase price adjustment occurs in respect of a calendar year if the average US dollar price for the year of 1,000 board feet of SPF 2×4 standard and better, as published in Random Lengths, falls outside a range of US $272 to US $317, inclusive (subject to adjustment under certain prescribed events). For chip prices a purchase price adjustment occurs in respect of a calendar year if the average price of chips for the year, expressed in Canadian dollars per Bone Dry Unit, payable by FCCL to TimberNorth for residual and pulpwood chips falls outside a range of $194 to $227, inclusive.

The purchase price is reduced or increased if the average lumber or wood chip price falls below or above the established price thresholds, respectively. A purchase price adjustment resulting when the average price of either lumber or wood chips exceeds the established threshold will be payable by TimberNorth to FCCL. A purchase price adjustment resulting when the average price of either lumber or wood chips falls below the established threshold will be payable by FCCL to TimberNorth.

The purchase price adjustments for lumber are determined by multiplying the difference between the calendar average and the threshold by US $200,000, US $160,000 and US $120,000 for 1996, 1997 and 1998, respectively. The purchase price adjustments for wood chips are determined by multiplying the difference between the calendar average price and the threshold by $150,000, $120,000 and $100,000 for 1996, 1997 and 1998, respectively.

If there is an adjustment to the purchase price, any adjustment shall be made by way of either an adjustment to the redemption value of any outstanding preferred shares held by FCCL at that time or by a cash payment, at FCCL's option, if any such preferred shares are outstanding at the adjustment date, or by way of a cash payment if no shares are outstanding at the adjustment date.

Adjustments to the purchase price will be recorded by the Company as an increase or decrease at the date when the adjustments are determinable (note 15).

(b) Supplementary information:

The following supplementary statements of operating earnings (loss) and capital expenditures of the Mackenzie Operations were compiled from the records of Fletcher Challenge Canada Limited and reflect the results of these operations prior to their acquisition by TimberNorth. The statements of operating earnings (loss) for the years ended June 30, 1995 and 1994 were included in the Information Circular of TimberWest dated December 1, 1995.

	Period from July 1, 1995 to January 19, 1996	Years ended June 30	
		1995	1994
	(Unaudited)		
Net sales	$ 96.4	$119.7	$152.0
Operating costs and expenses:			
Costs of products sold	104.7	116.9	116.4
Depreciation, depletion and amortization	4.3	4.7	5.0
Selling expenses and other	0.8	1.3	1.6
	109.8	122.9	123.0
Operating earnings (loss)	$(13.4)	$ (3.2)	$ 29.0
Capital expenditures	$ 18.0	$ 14.6	$ 8.8

4. **Inventories:**

	December 31, 1996	June 30, 1996
	(Unaudited)	
Logs	$37.3	$23.9
Lumber and other	9.9	13.1
Supplies	2.1	0.1
	$49.3	$37.1

5. **Capital assets:**

	December 31, 1996		
	Cost	Accumulated depreciation	Net book value
		(Unaudited)	
Property, plant and equipment:			
Lumbermill and other wood products plants	$54.7	$ 4.6	$ 50.1
Logging buildings and equipment	13.1	1.3	11.8
Other equipment and facilities	0.6	0.1	0.5
Land	2.5	—	2.5
	$70.9	$ 6.0	$ 64.9
Timber tenures and logging roads (net of depletion and amortization)			$110.2

	June 30, 1996		
	Cost	Accumulated depreciation	Net book value
Property, plant and equipment:			
Lumbermill and other wood products plants	$46.8	$ 2.5	$ 44.3
Logging buildings and equipment	13.1	0.4	12.7
Other equipment and facilities	0.6	0.1	0.5
Land	2.5	—	2.5
	$63.0	$ 3.0	$ 60.0
Timber tenures and logging roads (net of depletion and amortization)			$106.9

6. **Loan facilities:**

The operating financing requirements of TimberNorth are provided by TimberWest. Loans bear interest at short-term rates, at a competitive margin over rates based on Canadian dollar bankers' acceptance yields.

7. Redeemable preferred shares:

Redeemable preferred shares issued by TimberNorth meet the definition of a financial liability and have been classified as such. Accordingly, dividends relating to the redeemable preferred shares have been reported in the statement of operations as financing costs.

(a) Authorized:

200,000 Class A preferred shares with a par value of $820

200,000 Class B preferred shares with a par value of U.S.$820

(b) Issued and outstanding:

Shares issued on Mackenzie acquisition:	
35,776 Class A preferred shares issued at $1,000 each	$ 35.8
90,000 Class B preferred shares issued at U.S.$1,000 each	122.7
	158.5
Exchange difference from date of issuance	0.1
Balance at June 30, 1996	158.6
Exchange difference	0.3
Balance at December 31, 1996	$ 158.9

(c) Rights of preferred shares:

(i) Class A preferred shares:

The Class A preferred shares are non-voting. Each Class A preferred share entitles its holder to a monthly cumulative preferential cash dividend on the redemption amount of such shares equal to 75% of the prevailing 30 day Canadian bankers' acceptance rates, payable monthly. The Class A redemption amount is equal to $1,000 per share adjusted by Canadian dollar adjustments described in note 3.

The Class A preferred shares are redeemable at the option of TimberNorth and retractable at the option of the holder at any time after January 19, 1998 at the Class A redemption amount.

(ii) Class B preferred shares:

The Class B preferred shares are non-voting. Each Class B preferred share entitles its holder to a monthly cumulative preferential cash dividend on the redemption amount of such shares equal to 75% of the prevailing rate on one month LIBOR deposits in U.S. dollars, payable monthly. The Class B redemption amount is equal to $1,000 per share adjusted by U.S. dollar adjustments described in note 3.

The Class B preferred shares are redeemable at the option of TimberNorth and retractable at the option of the holder at any time after January 19, 1998 at the Class B redemption amount.

(d) Dividends paid:

Details of dividends paid are as follows:

	Six months ended December 31, 1996	**Period from January 19, 1996 to June 30, 1996**
	(Unaudited)	
On Class A preferred shares	$ 0.5	$ 0.6
On Class B preferred shares	2.6	2.3
	$ 3.1	$ 2.9

8. Common shares:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued and outstanding:

1 common share	$ 1.00

9. Financing costs:

	Six months ended December 31, 1996	Period from January 19, 1996 to June 30, 1996
	(Unaudited)	
Preferred share dividends	$ 3.1	$ 2.9
Interest expense	1.0	0.8
	$ 4.1	$ 3.7

10. Income taxes:

The Company's effective income tax rate differs from the Canadian statutory income tax rate. The principal factors causing the difference are as follows:

	Tax rate	Six months ended December 31, 1996	Tax rate	Period from January 19, 1996 to June 30, 1996
		(Unaudited)		
Earning (loss) before income taxes		$ 7.1		$(3.8)
Income taxes at statutory rates	39.5%	$ 2.8	(39.5)%	$(1.5)
Large corporation tax	4.2	0.3	13.2	0.5
Amortization of excess purchase price over value for income tax purposes at date of acquisition	11.2	0.8	13.2	0.5
Preferred share dividends presented as financing cost	16.9	1.2	28.9	1.1
Other	4.2	0.3	2.6	0.1
Income taxes	76.0%	$ 5.4	18.4%	$ 0.7
Income and other taxes are represented by:				
Deferred income tax		$ 5.1		$ 0.2
Large corporation tax		0.3		0.5
Income taxes		$ 5.4		$ 0.7

11. Related party transactions:

Related parties include TimberWest and FCCL and its subsidiaries.

All lumber sales of TimberNorth are conducted through TimberWest. However, for purposes of these financial statements, accounts receivable is considered to be comprised of the individual account receivable balances of the ultimate customers.

Sales of wood chips and other lumbermill fibre residuals under contract to FCCL were $12.5 million for the six months ended December 31, 1996 (period ended June 30, 1996 — $9.7 million). The price received for wood chips is based on a formula based pricing mechanism to reflect the regional market.

The prices and terms of sales and purchase transactions with related parties are in accordance with normal trade practices. The amount of trade receivables from related parties at December 31, 1996 was $4.5 million (June 30, 1996 — $6.9 million) while the amount of trade payables to related parties was $11.1 million (June 30, 1996 — $10.0 million).

The Company has drawn on its unsecured credit facility with TimberWest (see note 6). At December 31, 1996 there was a balance of $34.1 million (June 30, 1996 — $41.5 million) outstanding under this facility. Interest of $1.0 million (period ended June 30, 1996 — $0.8 million) was paid to TimberWest during the six months ended December 31, 1996.

Payments for various services provided by related parties to the Company during the six months ended December 31, 1996 were $1.1 million (period ended June 30, 1996 — $0.9 million).

At December 31, 1996, TimberNorth had $158.9 million (period ended June 30, 1996 — $158.6 million) of outstanding preferred shares held by FCCL (notes 3 and 7). During the six months ended December 31, 1996 $3.1 million (period ended June 30, 1996 — $2.9 million) of dividends were paid on the preferred shares which are classified as financing costs (note 9).

12. Pensions:

TimberWest maintains pension plans which include defined benefit and defined contribution segments available to all salaried employees and to hourly employees not covered by union pension plans. Effective January 1, 1994, all eligible employees were offered the option of converting from the defined benefit segment to the defined contribution segment. Employees hired subsequent to January 1, 1994 are enrolled in the defined contribution segment. Based on the most recent actuarial valuation of these pension plans, there was no unfunded liability for past service.

The portion of TimberWest's pension expense included in the accompanying statements of operations attributable to employees of TimberNorth totalled $0.3 million and $0.2 million for the six months ended December 31, 1996 and the period from January 19, 1996 to June 30, 1996, respectively.

Unionized employees of TimberNorth are members of industry wide defined contribution plans to which TimberNorth contributes a pre-set amount per hour worked by an employee. TimberNorth has no further obligations relating to the pension benefits of its unionized employees.

13. Commitments and contingencies:

(a) Capital expenditures:

TimberNorth has commitments for capital expenditures totalling approximately $3.4 million at December 31, 1996.

(b) Native land claims:

First Nations and aboriginal bands have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where the timber tenures of TimberNorth are situated. Settlements will likely involve a combination of cash and land, and may affect TimberNorth timber tenures.

(c) Fibre supply agreements:

The Company is committed to provide certain volumes of pulp logs harvested and wood chips processed by it under fibre supply agreements with FCCL.

14. Segmented information:

All of TimberNorth's operations are located within British Columbia. Net sales, segmented by major product and geographic market are as follows:

	Six months ended December 31, 1996	Period from January 19, 1996 to June 30, 1996
	(Unaudited)	
Product segment:		
Lumber	$ 83.2	$ 50.4
Wood chips and other	17.4	13.8
	$ 100.6	$ 64.2
Geographic segment:		
Canada	$ 35.4	$ 26.5
United States	48.5	27.7
Japan	16.5	9.9
Other	0.2	0.1
	$ 100.6	$ 64.2

15. Subsequent events:

(a) On March 7, 1997, the Board of Directors of TimberWest announced that it had received a joint unsolicited offer (the "TAL Offer") from TAL Acquisition Ltd. ("TAL") and Slocan Forest Products Ltd. ("Slocan") pursuant to which TAL offered to purchase all of the common shares of TimberWest at a price of $22 per share. As a part of the TAL Offer, Slocan will acquire from TimberWest immediately prior to the TAL transaction the operations of TimberWest located in the interior of British Columbia (the "Interior Operations") for $210 million plus the operating loan of TimberWest attributed to the Interior Operations at the completion date. The Mackenzie Operations, conducted through TimberNorth, comprise part of the Interior Operations. The TAL Offer is subject to Ministry of Forest and shareholder approval. If these approvals are obtained, TimberWest expects these agreements to be completed in June, 1997.

(b) The purchase price of the Mackenzie wood products operations as disclosed in note 3 is subject to adjustments based on average lumber and wood chip prices for the 1996, 1997 and 1998 calendar years. On January 31, 1997, the application of this price adjustment formula to average lumber and wood chip prices received in the 1996 calendar year resulted in a reduction of the purchase price of $1.4 million. This reduction has not been reflected in these financial statements. Under the agreement with Slocan, FCCL will assign its rights and obligations under the agreement containing the adjustments of the purchase price with respect to the 1997 and 1998 calendar years to Slocan.

(c) On April 1, 1997, TimberNorth redeemed all of its outstanding preferred shares using funds provided, directly and indirectly, from TimberWest and as a consequence has outstanding indebtedness in the amount of $147 million to a wholly-owned subsidiary of TimberWest and additional contributed capital of $12 million.

As a result of the above, the Company has written off its deferred foreign exchange loss in respect of the Class B preferred shares on April 1, 1997.

CERTIFICATE OF THE COMPANY

Dated: April 24, 1997

The foregoing, together with the documents incorporated herein by reference and the information deemed to be incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities laws of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario and, for purposes of the securities laws of Quebec, does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

SLOCAN FOREST PRODUCTS LTD.

(Signed) IRVING K. BARBER
Chairman, President and
Chief Executive Officer

(Signed) RONALD D. PRICE
Senior Vice-President,
Chief Financial Officer and Secretary

On behalf of the Board of Directors

(Signed) BRANDT C. LOUIE
Director

(Signed) BRIAN D. GREGSON
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: April 24, 1997

To the best of our knowledge, information and belief, the foregoing, together with the documents incorporated herein by reference and the information deemed to be incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities laws of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario and, for purposes of the securities laws of Quebec, does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed.

GOEPEL SHIELDS & PARTNERS INC.	TD SECURITIES INC.
By: (Signed) DONALD M. SHUMKA	By: (Signed) LEE DAVIS
MIDLAND WALWYN CAPITAL INC.	CIBC WOOD GUNDY SECURITIES INC.
By: (Signed) BRIAN J. HURL	By: (Signed) ALAN C. WALLACE

LÉVESQUE BEAUBIEN GEOFFRION INC.

By: (Signed) ALEXANDER A. KERKOVIUS

The following includes the names of all persons having an interest either directly or indirectly, to the extent of not less than 5% in the capital of:

GOEPEL SHIELDS & PARTNERS INC.: K.A. Shields, D.E. Roberts, R.E.T. Goepel, P.B. Nixon, K.R. Cory and H. Kerr;

TD SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank;

MIDLAND WALWYN CAPITAL INC.: a wholly-owned subsidiary of Midland Walwyn Inc.;

CIBC WOOD GUNDY SECURITIES INC.: a wholly-owned subsidiary of a Canadian chartered bank; and

LÉVESQUE BEAUBIEN GEOFFRION INC.: a wholly-owned subsidiary of Lévesque Beaubien and Company Inc., a majority-owned subsidiary of a Canadian chartered bank.