



Annual Review 2004

moving forward – by design



**Tolko is constantly changing and growing, reaching and advancing its goals.**

**All aspects of the Company are developed to successfully achieve a shared vision and our employees embrace this momentum.**

**We are moving forward – by design ■▶**



moving forward – by design



### Vision

Tolko's vision is to be a leading marketer and manufacturer of specialty forest products.

### Mission

Tolko's mission is to be an environmentally responsible and innovative company that prospers and grows by serving the needs of diverse customers in world markets, with products derived from the forest.

### Distinctive Excellence

Our structure and culture encourage improvement, growth and change in an open and participative environment.

### Commitment

Customer oriented, results focused.

### Values

**Strong values guide us at Tolko**

#### Respect

**Respect for people is the foundation for all our business practices.**

We will demonstrate respect for people through our commitment to safety, the environment and internal and external business relationships.

#### Progressiveness

**Progressiveness is essential for the health of the Company.**

We believe that being progressive and constantly seeking ways to improve is essential for the success of the Company. Everyone is encouraged to propose new ideas and to take ownership of their work. Individual initiative and innovation are valued.

#### Integrity

**Integrity is essential in all business relationships.**

We believe that integrity in business is as important to the Company as an individual's personal reputation and self-worth. The pride we all take in working for the Company demands that we be honest, fair and ethical.

#### Open Communication

**Open communication will enhance employee job satisfaction and performance.**

We believe that open, constructive communication will develop a shared commitment by all employees to achieve Company goals.

#### Profit

**Profits are essential to the success of the Company, employees and business partners.**

We believe that profits will support company growth, employment stability and our ability to meet changing customer needs.

#### Employees from previous page:

Tammy Delaney • Dryer Grader • Heffley Creek Division  
Rodney McLeod • Deckman • Manitoba Solid Wood Division  
Chuck Lewis • Lab Tech Trainee • Manitoba Kraft Papers Division



■▶ Resolute  
Guidance

Financial  
Prudence

Select  
Products

Resource  
Stewardship

Embracing  
Change

Progressive  
Teamwork

Responsible  
Contributor

Sustainable  
Growth



Resolute Guidance  
President's Message

4

Resource Stewardship  
Woodlands

12

Responsible Contributor  
Sustainability - Social & Environmental

22

Financial Prudence  
Financial Review

6

Embracing Change  
Business and Corporate Services

15

Sustainable Growth  
Sustainability - Economical

25

Select Products  
Manufacturing

8

Progressive Teamwork  
Tolko Marketing and Sales

18

Corporate Directory  
Products and Services

28

29





Al Thorlakson  
President and CEO



### Growth

**Tolko's strategic growth during 2004 reflects the success of our planning process.**

Early in the year, Tolko was able to strategically align its Alberta growth plans with Weyerhaeuser's desire to sell their Slave Lake Oriented Strand Board (OSB) mill and the Alberta government's plans to auction a portion of its hardwood tenure. By concluding an agreement to purchase the Slave Lake plant, Tolko was able to strategically purchase these additional harvesting rights. This increased volume provides us with more wood supply flexibility and allows timber interchanges that benefit our Slave Lake and High Prairie OSB facilities. This also created opportunities for expansion at Slave Lake and optimization of existing facilities at High Prairie.

In May we officially celebrated the opening of our Meadow Lake OSB mill in Saskatchewan. This project has been uniquely successful from its inception. When analyzed in retrospect, it is clear that this project's success is largely a result of the outstanding efforts of the people involved: the project team, the successful recruiting and training programs and the ongoing management at the mill.

November saw the culmination of our year's activities when we successfully completed the acquisition of Riverside Forest Products Limited. This acquisition gives us a more extensive product mix and diversification and we expect to see substantial synergies from this merger because of the proximity and similarity of both operations. I have been very encouraged by the positive attitude and outstanding talent that Riverside employees have demonstrated. I am certain our new Tolko employees will thrive in our culture and be key contributors in the years ahead.

Capital planning was completed and projects were undertaken at Lavington Planer Division, Nicola Valley

Division and High Level Lumber Division. These capital projects will elevate the efficiency of all three operations to top quartile performance.

### Safety

I am pleased with our safety results for 2004. Three Divisions operated with no lost time accidents: Nicola Valley, High Level Lumber and High Prairie. As well, Nicola Valley achieved 3 years accident-free and High Prairie reached 2 years accident-free. In past years we awarded the President's Safety Award based on the measure of lost time accidents. In 2004, we adopted the Recordable Incident Rate (RIR) standard for industry benchmarking. Based on this new standard, High Prairie Division was the winner of the President's Safety Award with an RIR of 2.05.

I extend my congratulations to the Divisions with excellent safety records and I challenge the others to renew their focus on safety. Ultimately, our goal is not to win awards but to send our employees home safely to their families each day.

### First Nations relationships

We continued to strengthen our First Nations relationships throughout the year.

Our Lavington Division and the Okanagan Indian Band (OKIB) signed a Cooperative Working protocol to define and facilitate a working relationship between the two groups. The Protocol is intended to ensure that Lavington's forest management is respectful of OKIB's values for the land and objectives for sustainable community development. This Protocol forms a firm foundation to build upon as we work together to manage the forest lands entrusted to us.

Whitefish Lake First Nations and High Prairie OSB Division signed Alberta's first Joint Deciduous Timber Allocation (DTA) on December 16. This agreement



marks the province's first joint forest tenure between industry and a First Nations group and is a continuation of the positive relationship between Tolko and Whitefish Lake First Nations that started ten years ago when we constructed the oriented strand board (OSB) mill in High Prairie.

We look forward to developing further First Nations cooperative partnerships and building relationships to achieve common goals.

### Commitment to Sustainability

A big step towards our long term commitment to Sustainable Forest Management was fulfilled in 2004 when we achieved our customer commitment from 2001 by completing ISO 14001 EMS registration and Canadian Standards Association (CSA) Z809 SFM third-party certification at our Tolko Woodlands Divisions. Our legacy Riverside Divisions also reached full third-party certification under ISO 14001 and the Sustainable Forestry Initiative (SFI) standard. We will continue to involve our local operating communities, First Nations communities and our customers in our forest stewardship activities and sustainable forest management practices.

### A look ahead

The Riverside integration will take some months to complete. Realignment of all our systems and facilities is complex and requires the energy, enthusiasm and commitment of our senior management team and our employees. With the combined talent and implementation of best practices from both Tolko and Riverside, we look forward to an even stronger management team leading the Company. Leveraging our diverse product mix through technology and a focused marketing and sales strategy will be a key focus for our Tolko Marketing and Sales teams as they seek to serve the

needs of our customers in global markets and be an industry leader in supply chain management.

Our expansion plans in Alberta will be our priority as we develop world-class OSB operations in Slave Lake, invest additional capital at High Prairie, and complete our High Level Lumber Division expansion. We are committed to our growth plans in Alberta and we intend to continue to seek additional resource opportunities to allow us to complete our value added expansion plans in the province.

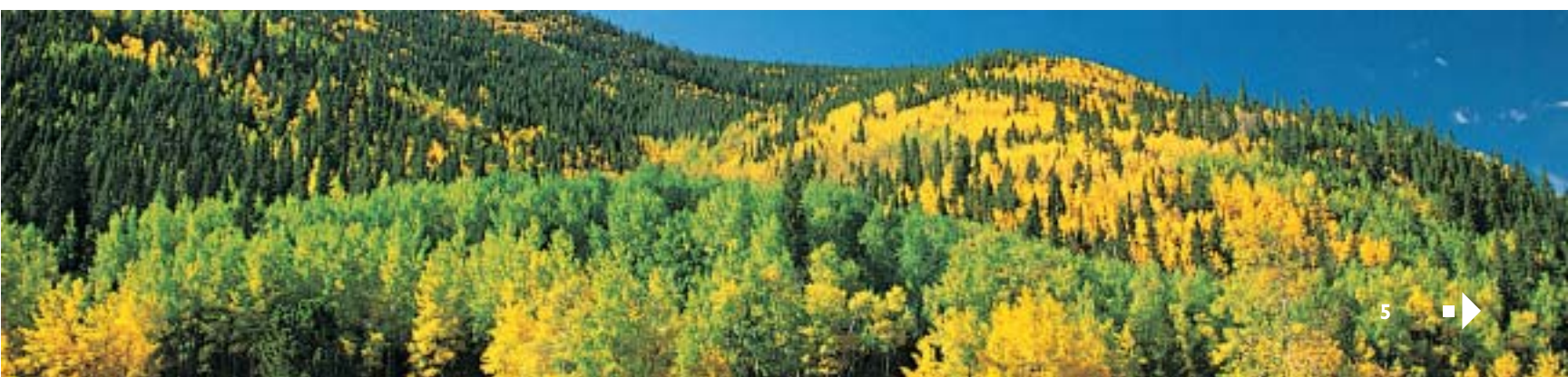
The Canada-US softwood lumber dispute continues unabated. There is currently a new initiative underway to seek a negotiated settlement for this protracted dispute. We have been actively involved in seeking a resolution. With the Canadian government's increased support and continued success through the North American Free Trade (NAFTA) panels and World Trade Organization (WTO) rulings, we hope to see the US Department of Commerce and the Coalition more willing to compromise on a reasonable solution to this trade war.

Tolko's growth over the past decade, and particularly over the past year, can be directly attributed to the motivation and talent of our many employees. My thanks go out to each one of you for your commitment and dedication. To the many new employees who have joined us over the past year – welcome.

The year ahead will be filled with both challenges and opportunities. I hope you look forward to the adventure as much as I do!



J.A. (Al) Thorlakson, President & CEO





**Tolko experienced a profitable year and took advantage of significant growth opportunities in 2004. Early in the first quarter an agreement to purchase the Slave Lake OSB mill coincided with the purchase of additional tenure at the province of Alberta's first public auction of fibre. These two events continue to fulfill Tolko's plans for strategic growth in Alberta.**

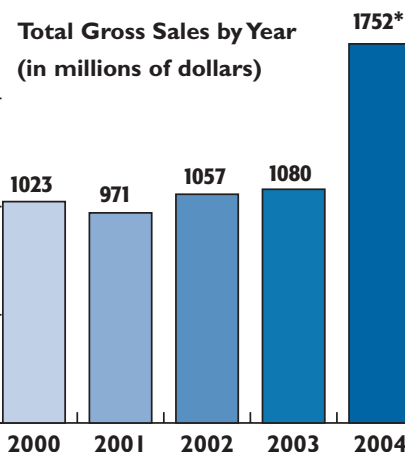
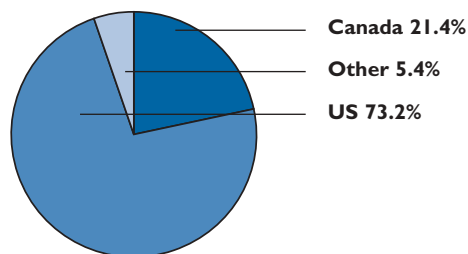
In the fourth quarter, Tolko made an Offer to Purchase the outstanding shares of Riverside Forest Products Limited (Riverside). Following a number of weeks of negotiations, Riverside's Board of Directors and its senior management recommended that their shareholders tender their shares to Tolko's offer. With this acquisition the Company's manufacturing units total eighteen. We expect substantial synergies to emerge as a result of this acquisition.

Pricing for OSB remained strong throughout the year and reached unprecedented levels in the second and third quarter. Plywood prices were also strong. Lumber prices fluctuated throughout the year partly due to the ongoing

softwood lumber trade dispute with the US. Lumber prices gained significant strength in the 2nd and 3rd quarters and contributed positively to Tolko's revenues in 2004.

An increasingly strong Canadian dollar had a negative impact on Tolko's revenues, especially in its Kraft Papers sector. This appreciation of the Canadian dollar and the weakening of the US dollar are expected to continue in 2005. We are hopeful that a resolution to the Canada-US trade dispute will be reached over the next year. We anticipate that housing starts in the US will remain strong in the first half of the year with a slowdown anticipated in the latter half.

Total Sales by Geographic Area



\* Includes November & December Riverside Sales





Resolute  
Guidance

► **Financial  
Prudence**

Select  
Products

Resource  
Stewardship

Embracing  
Change

Progressive  
Teamwork

Responsible  
Contributor

Sustainable  
Growth



Sandi Horochuk • Secretary/Receptionist • Vernon Office

Founded in the 1950's, diligence and respect for a dollar were key factors in the Company's early growth. Those same principles are applied to each financial decision made today. Tolko strategically reinvests to continue growing our business – by design.

► Recognized Employee 2004

► Select Products



TRENT BIERMANN

Millwright  
Meadow Lake OSB Division

- “Lead by example” employee
- Living Tolko’s values has earned him trust and respect



LARRY SMITH

Millwright  
High Prairie Division

- Demonstrates respect and integrity

## Manufacturing

**Our manufacturers encountered consolidations, changing forest policies, and financial challenges, both in terms of the dollar’s rising value and the on-going trade dispute with our largest market, the United States. Particularly throughout Western Canada, companies faced with global competition and a changing industry, merged, bought, or built to gain a competitive edge through size and market placement.**

Through it all, Tolko Industries stayed with its long term plan, and continued building value in production and service.

### Lumber

While the challenges to the sector mounted, the lumber manufacturing Business Units of Tolko surged forward. Production records were broken and capital projects were initiated. Through strategic planning of all our Solid Wood activities, we were primed to take advantage of the soaring lumber prices and strong markets seen through the summer.

Capital investments and technological advancements helped **Lavington Planer** and **Nicola Valley Divisions** experience significant productivity growth. Sawmill and planer production increased in Lavington by approximately 30% over 2003.

**Nicola Valley Division** in Merritt, BC, used technology to improve value and reduce costs. Their plans include creative approaches to manufacture more valued product from the growing amounts of blue-stained, beetle-killed wood.

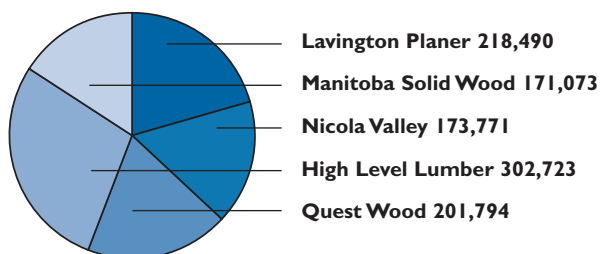
**High Level Lumber Division** also set a new production record. This topped off a year focussed on developing a modernization strategy for the sawmill. The \$65 million, three-phase project started in September. Among other advantages, this upgrade will improve fibre recovery, increasing the value achieved from each log.

**Quest Wood Division** focussed on product quality. A three-year capital plan will guide the plant’s investments through 2007. Improvements with drying, manufacturing processes, and equipment upgrades are helping Quest Wood Division achieve its goal of being a supplier-of-choice.

**Manitoba Solid Wood Division** in The Pas broke a number of Divisional records based on its key performance indicators. All the manageable indicators, with the exception of closing inventory, were better than baseline and all but one indicator were the best ever. Improvements with lumber appearance, on-time shipping, and recovery were highlights in 2004.

In 2005 our lumber manufacturing Business Units will benefit from their updated, company-wide, solid wood strategic plan. Plans include building economy-of-scale operations as we progress with major capital projects in Lavington, Merritt, Quesnel, and High Level. Capturing

### Lumber - (MBF) Production Volumes



Resolute  
Guidance

Financial  
Prudence

■▶ Select  
Products

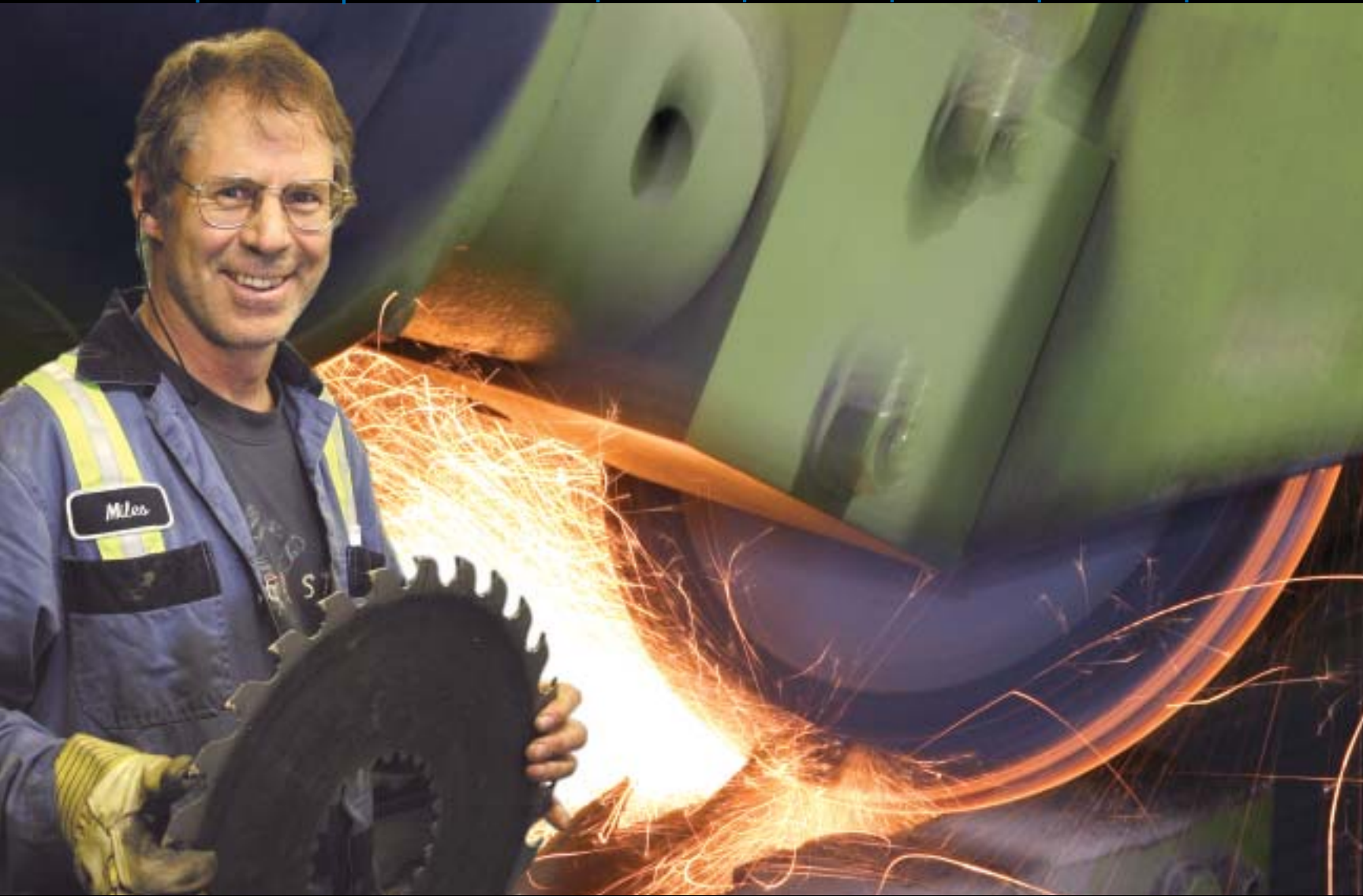
Resource  
Stewardship

Embracing  
Change

Progressive  
Teamwork

Responsible  
Contributor

Sustainable  
Growth



Miles Hopkins • Filer • Lavington Planer Division

Tolko is customer oriented and results focused. We listen to our customers and adapt our products and facilities to respond to changes in the marketplace. Our technology and product mix serve the needs of diverse customers – by design.

Recognized Employee 2004

Select Products



GERRI LUST

Payroll Administrator  
Quest Wood Division

- Company payroll system champion
- Excels in quality and service



synergies with the newly acquired solid wood Divisions of Riverside Forest Products Limited (Riverside) will be a focus. The quality stud lumber produced by these mills in Armstrong, Kelowna, and Williams Lake are a welcome addition to the Tolko lumber product line.

The initial integration of Riverside included a structural change for the BC Divisions. Williams Lake Division, comprised of three sawmills, will join Quest Wood Division to create the Cariboo Region in Tolko's structure. The remainder make up the Southern Interior Region.

**Panel**

Tolko's panel sector experienced major growth in 2004. The year began with the purchase of **Slave Lake OSB** from Weyerhaeuser Canada in February. With the grand opening of **Meadow Lake OSB** in May, the celebration of the one millionth press load at **High Prairie Division** in December, and the record plywood market prices and production experienced by **Heffley Creek Division**, the year secured a prominent place in Tolko's panel products history.

This was capped by the inclusion of the former Riverside plywood plants in Armstrong and Kelowna, and the veneer plant in Lumby, BC, into the Tolko panel products team. As in other areas of the Company, building cooperation and capitalizing on shared strengths with the new people and assets will be an ongoing part of the integration process throughout 2005.

This past year **Heffley Creek (HC)** plywood operations developed long term plans to move the Division forward. The completion of an innovative energy system will guide the plant's progress towards energy self-sufficiency.

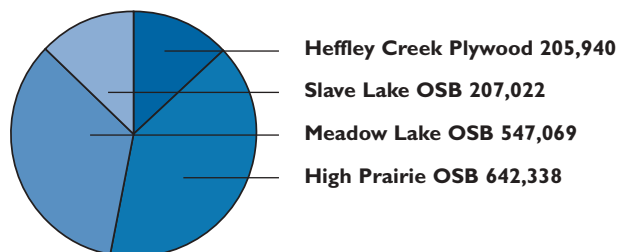
Up to forty percent of HC's skilled and valued employees are expected to retire over the next ten years. To prepare, the HC management team began active succession planning and recruiting efforts.

**Meadow Lake OSB (MLOSB)** Limited Partnership made a smooth transition from start-up to stable operation. In December they added a new rim board product to their output. With the plant's perforated platen press and use of very strong, fast-curing resin, MLOSB was able to act quickly on the decision to produce the 1 1/8 inch rim board.

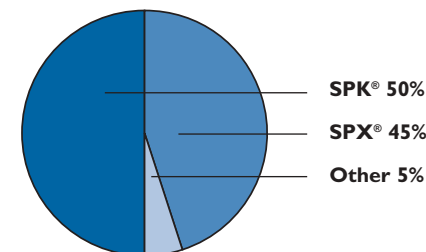
**High Prairie Division** credits adherence to their strategic plan and employee development for successfully increasing production more than ten percent over 2003. This was accomplished in a year of many changes, including the introduction of cut-to-size jumbo panels for the Structural Insulated Panel industry to their product line.

**Slave Lake OSB (SL)** staff and employees underwent a fast induction into the Tolko culture. Throughout a reorganising of structure, reallocated responsibilities, and introduction of new faces, our SL team performed admirably. They achieved a record production year with the lowest injury rate in the mill's history.

**Panel - (M 3/8") Production Volumes**



**Kraft Papers - Production Volumes**  
Total: 155,001 metric tonnes



No slow down is in sight. Plans that will direct SL operation's transformation to world scale are nearly finalised. This project is a top capital priority for Tolko's panel growth in 2005.

### Kraft Papers

Kraft Papers Division in The Pas, Manitoba, through the efforts of the Product Development and Sales teams, developed a new paper grade this past year. SPX® Vector was developed for single ply sack construction, requiring superior strength and stiffness with a high degree of air permeability. Used in this application, SPX® Vector will provide more economical and efficient sack construction and filling.

In response to increased Canadian and European competition, Kraft Papers lowered production costs and increased production volumes. Having made significant progress in reducing energy consumption and developing a firm strategic plan, the Division looks forward to an even stronger 2005.

### Co-Products

Tolko's Co-products department continued to develop markets for sawdust and wood shavings. These products, produced in conjunction with primary products, are used in end products such as particle board, medium density fibre board, pulping, wood pellets, and animal bedding.

In 2004 a hog system was installed at **Lavington Planer Division** for processing bark. This allowed for closing the on-site burner. A generation facility in Kettle Falls, WA, is purchasing and transporting the hog fuel for conversion to electricity.

**Heffley Creek Division** is developing a hog fuel conversion system to serve as a source of heat energy. The plant will burn hog fuel, offsetting natural gas use in part of their manufacturing process. Further development of this system is planned.

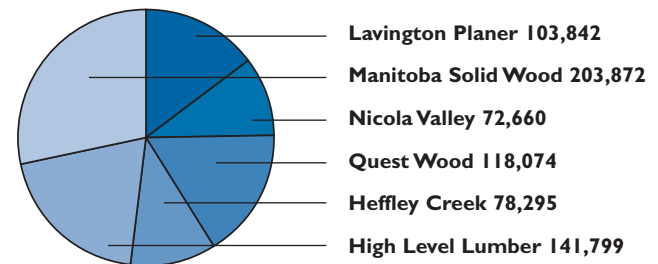
Along with the Cache Creek Woodchips operation acquired with Riverside, co-generation facilities in Armstrong and Kelowna provide new opportunities for this department. The Co-Products department will also continue looking at innovative applications of this increasingly valuable group of products.

### Remanufacturers

Despite **Compwood Products'** superior product, new global competition in the Japanese glulam market assure 2005 will be full of challenges. Compwood Products will also focus on growing a newly certified glulam window and door header for the US market.

Compwood Products operates as an associated remanufacturer of Tolko. Joining Tolko's remanufacturing group is Lake Country Division, a bin and pallet plant in Winfield, BC, and Ashcroft Treating Division, a tie treatment plant in Ashcroft, BC.

### Co-Products - (BDU) Sales Volumes



## Recognized Employee 2004



STAN ALLEN

Woodlands Area Supervisor  
Lavington Planer Division

- Hardworking, honest and dedicated
- “True blue” employee who exemplifies all of Tolko’s values



THOMAS BENNETT

Woodlands IS Supervisor  
Heffley Creek Division

- Outstanding contribution to developing Tolko’s EMS and managing change
- “Walks the talk” of the Tolko Way

## Resource Stewardship

### Woodlands

**Changing policies, moving tenures, and combatant insects made Woodlands a fascinating place to be in 2004.**

Government forestry policies underwent frequent changes and implementation challenges. This requires ongoing education among our Woodlands teams. They commit a lot of effort toward communicating the changes to their contractors and other stakeholders and helping everyone concerned understand and comply.

To help meet the objectives of British Columbia, Alberta, Saskatchewan, and Manitoba, members of our Woodlands fostered relationships with their respective provincial governments. Woodlands of **Meadow Lake OSB**, for example, engaged in a joint study with the Province of Saskatchewan. Together they evaluated the suitability of the timber resource in northeast Saskatchewan for supporting investment in engineered wood ventures.

British Columbia ratified Bill 28 authorizing a 20% re-allocation of major licensee forest tenure.

Approximately half will be added to the available timber sales by auction. This will bolster the amount available for auction, which establishes market prices as a gauge for setting stumpage rates. The other half will serve to increase small wood lot, First Nations, and community

forest initiatives. Our BC Woodlands will not realize the full effect of this reallocation until the 2006 harvest season.

A 275,000 cubic metre trade of timber rights with Weyerhaeuser affected three of our BC Divisions. **Heffley Creek Woodlands** saw their volume reduced while that of **Nicola Valley** and **Lavington Planer** grew. This provided enhancement opportunities for these two manufacturing operations.

The Mountain Pine beetle epidemic continues to be a major factor in directing harvest plans in the BC Interior. Freshly infested and high-risk plots garner the majority of **Quest Wood’s** and **Nicola Valley’s** harvest allocations as the Woodlands implement control and resource recovery measures. This issue is receiving increasing attention by Southern Interior operations and being cautiously watched by some of our Alberta Woodlands.

**Manitoba Woodlands** continued to work with the Province of Manitoba to review and successfully implement change to cut control policy and forestry regulations with an aim to make the Manitoba industry more competitive with other regions of Canada. They worked closely with contractors to improve their efficiency and the quality of saw logs and chip fiber delivered to the mills. An extremely cool and wet spring,

### moving forward ■ ■ ■ ▶

Our Company is committed to Sustainable Forest Management.  
Our Woodlands departments have received third-party certification  
on the 17.75 million gross hectares of forestland  
they manage across Western Canada.





Allan Bell • Woodlands Manager • Meadow Lake OSB Division

As proud stewards of resource lands, Tolko is – by design – committed to professional and sustainable forest management. Our continued growth depends on managing forest resources, respecting all forest values, and seeking opportunities for improvement.

## Recognized Employee 2004



JIM MANUEL

Welder  
Slave Lake OSB Division

- Valuable team member who helps through hard work and innovation
- Dedicated community volunteer



## Resource Stewardship

summer, and fall seriously impacted logging and hauling opportunities. However, log and chip inventories were maintained through to freeze up allowing both the sawmill and the Kraft paper mill to run without interruption.

**Slave Lake OSB** was purchased in February from Weyerhaeuser Canada. This purchase was preceded by the successful bid on a forest license to harvest over 240,000 cubic metres of hardwood tenure in northern Alberta. A regional approach implemented by AB Woodlands involves directing raw fibre to the plant that will extract the most value from it.

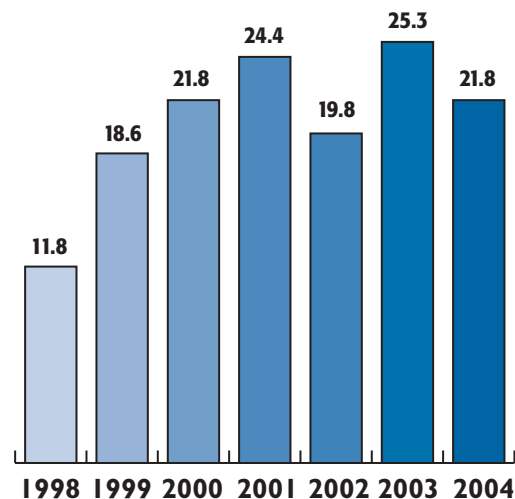
With a firm placement in the region, Tolko moved ahead with long-term planning to support the productive capacity of the facilities in High Level, Slave Lake, and High Prairie. Plans to enhance the operations in Slave Lake are nearly finalized. **High Prairie Woodlands** will continue pursuing security of adequate fibre supply to warrant substantial investment in modernizing and adding product flexibility to its High Prairie OSB operation.

**High Level Lumber Woodlands** celebrated approval from Alberta Sustainable Resource Development on their first Detailed Forest Management Plan. The department continues to explore opportunities with their overlapping tenure holders and strengthen their working relationship with Footner Forest Products, their partner in a Forest Management Area.

As part of the changing roles, policies, and responsibilities of our Woodlands teams, they are moving ahead with their entrepreneurial focus. Increasingly, Tolko Woodlands are offering their expertise beyond their customer mills to external customers. This will be a continuing area of development for these departments.

Working in the woods involves working with Aboriginal communities. The exchange of knowledge, demonstration of mutual respect, and recognition of values continues to be the cornerstones of our strengthening relationships. This will continue to be a focus for our Woodlands.

Trees Planted (in millions)



moving forward ■ ■ ■ ►

To date, the Woodlands of our Company have planted over 400 million seedlings.





Resolute  
Guidance

Financial  
Prudence

Select  
Products

Resource  
Stewardship

▶ Embracing  
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Teamwork

Responsible  
Contributor

Sustainable  
Growth



John Walker • Woodhandling Technician • Slave Lake OSB Division

Our decentralized structure encourages improvement, growth, and innovation in an open and participative environment. We are adaptable to change—in fact, we embrace it. Our progressiveness shapes our unique culture – by design.



## Recognized Employee 2004



TRUDI LANG

GIS Technician  
High Level Lumber Division

- Champion of ISO/CSA certification who coordinated the effort between two companies
- Clear demonstrator of Tolko's core values



## Embracing Change

### Business and Corporate Services

**Building a successful organization requires strong support from teams that recognize the importance of their internal customers. The business and corporate services of Tolko provide the technological, human resource, and communication base needed by other departments within the Company. The strength of this structure is a key component of Tolko's ability to adapt and grow.**

#### Information Services

Maintaining consistent computerized systems across a company is never easy. Achieving it in a growing company like Tolko is an incredible challenge. Yet this is what our Information Services (IS) department continues to do, all the while keeping our systems up-to-date and adapted to changing customer and staff needs.

IS began 2004 with a company-wide change in e-mail program and adoption of Microsoft as the single operating system. Soon they were integrating the systems at Slave Lake OSB, rolling out the Kraft Papers e-business program, and implementing the Woodlands Information System (WISE) in Manitoba. In September IS initiated the move to Blackberry handhelds for more connectivity. With the acquisition of RFP, they entered 2005 with the

challenge of integrating the systems, infrastructure, and resources of a company near the size of its original. Though IS have doubled the size of their department, their project management and co-ordination skills will be key to their success.

#### Employee Services

2004 was a busy year for Employee Services (ES). Support for the Slave Lake acquisition; the 360 Degree Feedback Survey roll out preparation; implementation of consistent Recordable Incident Rates and Absenteeism tracking throughout the company; and development of a Company Privacy Policy were a few of the many projects. ES also continued development of Core Competencies for key positions within the organization and provided Supervisory Training and Cultural Awareness Sessions to enhance leadership skills of employees throughout the Company.

The focus for 2005 will be support for the Riverside Forest Products (Riverside) integration, transition of Riverside payroll to our in-house system, review of and implementation to a company-wide, salaried benefit and pension program, and engagement of Human Resource best practices.

moving forward ■ ■ ■ ►

2005 Gross Sales are projected to near \$2.4 billion.  
Tolko products are shipped to twenty countries worldwide:  
21% Canada, 73% US, and 6% Other Export.



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Sustainable  
Growth

2005 is an Employee Opinion Survey year. This gives us the opportunity to obtain a baseline for the new mills and measure successes with our original mills since the last survey. The Employee Opinion Survey and our new 360 Degree Survey process will serve in furthering our Company's cultural integration along with strengthening our employee succession and development initiatives.

### Corporate Communications Services

Corporate Communications Services facilitated the flow of information throughout an expanding company and responded to Tolko's growing public image.

Meadow Lake OSB's grand opening in May and the launch of Panel Sales' True Blue campaign were among the year's highlights. The Company's newsletter, The Circular, went through a number of exciting changes to format and colour. As part of our support for sustainability initiatives, we produced fact cards and brochures on the Company and the boreal forest, coordinated the development of a company-wide reporting tool for Woodlands, and delivered key messages via radio and other media. A large focus was also on managing the spotlight directed by the Slave Lake OSB and Riverside acquisitions.

The coming months offer a particular challenge as we communicate our approach to doing business, The Tolko Way, with the Company's new employees and share our corporate values with community stakeholders.

We look forward to supporting the progress of this enhanced Company in meeting the challenges and seizing the opportunities ahead.

### Financial Services

In 2004 the Financial Services department participated in the successful implementation and integration of the new company, Tolko Marketing and Sales Ltd., and integration of the Slave Lake OSB Division with Tolko Industries Ltd. They will apply the same qualities of success—team work, planning, and communication—to the task of integrating and converting the systems and reporting to meet the needs of Riverside (its wholly owned subsidiary) and Tolko.

The team was essential to the anti-dumping duty (ADD) administrative review of the first period of review by the US Department of Commerce. The administrative review for the second period of review is anticipated to take place in April 2005. Financial Services lead the project to upgrade to a new version of financial software and will work to complete the migration to company-wide JDE One World Financial Systems in 2005.





PETER MACLACHLAN

Lumber Sales Representative  
Mill Sales

- Excellence in teamwork and communication



## Tolko Marketing and Sales

**Establishing Tolko Marketing and Sales Ltd. (TMS) as a subsidiary of Tolko Industries Ltd. was a key event in 2004. TMS is responsible for the marketing and movement of Tolko products world-wide.**

Excellent demand for structural building materials was a constant in 2004. A record setting year for North American housing starts helped ease the negative impact of the ongoing trade dispute with our biggest customer, the United States. A potential market decline is anticipated for the latter half of 2005 with a slow down in housing starts, further industry consolidation, and maintained relative strength of the Canadian dollar.

However, with the acquisition of Riverside Forest Products, 2005 is forecasted to be a momentous year. Based on past figures, our strengthened Company is anticipating combined sales of close to two billion dollars. While the expanded product mix offers exciting potential, we will also continue to evaluate our overall business design. We will continue to align Tolko and the services of TMS with customers in each key segment of our core markets and product lines.

### North American Lumber

Eurowood sales were a significant area of growth for our North American (NA) Lumber sales team. This import reload service will continue pursuing exciting opportunities for European spruce sales as part of the Tolko Brokerage Department in 2005.

NA Lumber also focussed on development of sales through destination reloads. This worked in conjunction with systems improvements for managing reload and Vendor Managed Inventory (VMI) programs.

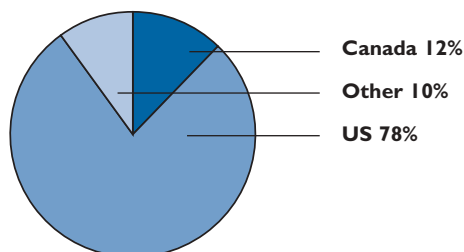
The NA Lumber Sales team will restructure to better fulfill their customer needs, achieve best practices, and address the increased lumber sales volume, which will double in 2005. The results from our 2004 customer survey will also be incorporated in our overall sales plans.

### Panel Products

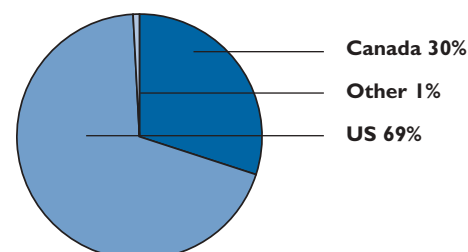
Record production and volatile pricing created a challenging year for our panel customers and sales team.

Our focus on margin added OSB products, new markets, and available manufacturing technology in 2004 created an expanded customer base in the mid west and eastern US markets. We also increased our product offerings to include flooring, RIM Board Plus, and Radiant Barrier, a value-added sheathing used for insulation by the home construction industry.

Lumber Sales by Geographic Area



Panel Sales by Geographic Area



Resolute  
Guidance

Financial  
Prudence

Select  
Products

Resource  
Stewardship

Embracing  
Change

▶ Progressive  
Teamwork

Responsible  
Contributor

Sustainable  
Growth



Elaine Nelson • Panel Sales Representative (OSB) • Marketing and Sales | Chris Reeves • Brokerage Sales Representative • Brokerage

Respect, integrity, and open communication foster an environment of progressive teamwork at Tolko. Working with colleagues, between departments, and across Divisions, we develop best practices and stimulate new ideas – by design.



## ► Recognized Employee 2004



ROB POLMAN TUIJN

Brokerage Sales Representative  
Brokerage

- Excellence in teamwork and communication



DIANE TRITTON

Export Sales Assistant  
Vernon Office

- Outstanding integrity, positive attitude, commitment, and customer service

## ► Progressive Teamwork

Plywood sales followed the course of the OSB market, supported by strong housing starts throughout 2004. Canada continues to be the major market for Tolko plywood.

### Kraft Papers

Winnipeg Kraft Papers sales team focussed on the North American market. With increased sales of SPX® Velocity, they exceeded their sales plan in the United States by 7%.

Through diligent team effort, including our Information Services department, financial sales personnel, sales staff, and our customers, Kraft Papers successfully launched its E-Business project this past fall. Aptly named “paper e’s,” this web-based system allows customers to view the full supply chain. The user-friendly technology provides online inventory management, real-time information, and around-the-clock access.

A customer survey completed in 2004 provided guidance for 2005's strategic plans. The feedback also fed into the development of a new 5-year Kraft Papers Business Plan.

SPX® Vector was introduced to the market as our grade for single ply sack construction, offering superior strength and stiffness. Used in this application, SPX® Vector will benefit both sack producers and end users.

### Export Sales

Japan was the focus for Export Sales. The department successfully expanded their SPF lumber sales to the country as part of a 126% increase in SPF High Line sales.

Looking ahead, the department recognises the challenge of marketing the substantial increased volumes that come with Tolko's growth. However, over the past five years Export Sales have laid the groundwork to well position themselves. They have an established infrastructure at export reloads, streamlined sales systems, capable staff, and a diverse customer base.

### Brokerage

The Brokerage department had a highly successful year. The integration of Tolko Distribution Services, a new panel initiative, and strong markets allowed the department to achieve record results in key performance areas. The department sold 56% more volume than 2003 and realised a net sale increase of 73%.

In 2005 Import Sales joins the team. The department will also work with the newly acquired Vancouver Sales Office. Both offer opportunities for expansion and service enhancement. The excitement that 2005 promises will be led by a continued focus on Specialty, Panel and MSR sales.

moving forward ■ ■ ■ ►

The Company anticipates selling  
167,800 metric tonnes of kraft paper in 2005.



### Transportation

Thriving markets strained transportation services. In particular, a rail car shortage impeded timely deliveries. TMS transportation department worked with sales staff and mill shippers to use a variety of car types and sizes, trucks, and reloads to maximise loadings and keep inventories moving. The acquisition of three hundred new 73' centre beam rail cars in 2nd Quarter of 2005 will relieve some of the pressure.

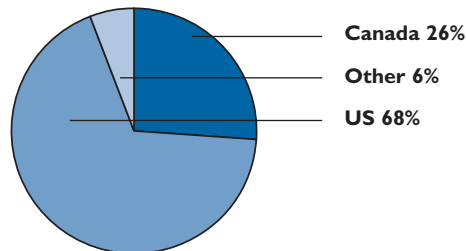
Equipment shortages and high oil prices translated into increasing costs and challenging product movement. Hard work, persistence, and the good relationships developed with carriers over the years, were crucial aspects to Transportation's achievements. The department anticipates a lessened—but still imbalanced—higher demand for services than carriers can supply in all modes of transportation.

### Financial Support

TMS becoming its own entity involved great effort by our financial support staff. Having created a smooth system and infrastructure, they now embark on another challenge: consolidating our sales systems with those used by Riverside. This requires an integration of three separate sales systems. An action plan has been established and full integration of sales systems is expected to be complete by mid-year.

Keeping up with the market was the greatest stimulus for the Credit Department. Credit lines were challenged from all selling departments in 2004. To maximise sales and minimise credit risk, extra effort was dedicated to reviewing and monitoring customer accounts. A new credit-ranking program was implemented to improve the process.

**Kraft Paper Sales by Geographic Area**





DALE JONES

Woodlands Forestry Supervisor  
Nicola Valley Division

• Excellence in getting things done



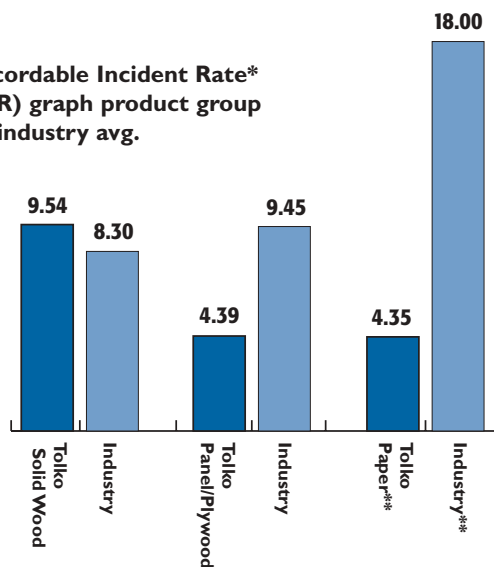
## Sustainability

Tolko's development as a company since its start in 1956 is remarkable. Yet, while significant to us, it represents just a small interval in the history of this industry and lesser still in terms of the future that we see ahead. We strive for sustainability so the benefits that we as a company, individuals, and communities share today are available for endless generations to come. This requires us to balance our social, environmental, and economic responsibilities.

### Social Responsibilities

Tolko seeks unique qualities in its employees, partners, and home communities. These factor into decisions that involve expanding a workforce, pursuing a project, and adding operations. Time and again we have been successful in this search and, in appreciation, make a lasting contribution in return.

Recordable Incident Rate\* (RIR) graph product group vs. industry avg.



\*RIR =

$$\frac{(\text{Restricted Work} + \text{Lost Time Accidents} + \text{Medical Treatments}) \times 200,000}{\text{Exposure Hours}}$$

\*\* Tolko rate based on FIAS formula, which does not include Medical Aids. Industry figure from Pulp & Paper Canada includes Medical Aids.

### For our employees

As an employee recently commented, "I believe in treating my job as if it were my own business." That is the type of attitude that sets the Tolko employee apart. They are a take-action group striving to achieve progress as individuals and as a Company. Tolko employees take pride in their work and operate with integrity.

As their employer, Tolko is responsible for supporting this unique culture and providing employees with the tools and environment that they need to succeed. Bi-annual employee opinion surveys and annual communication surveys provide us with a report card. This process confirms we are on track. For example, Heffley Creek Division's positive rating on open communication increased from 54% in 2001 to 80% in 2004.

### To work safe

Safety of employees, contractors, and visitors is paramount to Tolko. As our workforce grows, the potential for accidents rises. We remain committed to providing a safe working environment and instilling an individual mindset that is optimal for an injury-free workplace. To better determine problem areas and progress in preventing work-related injuries, Tolko adopted the Forest Industry Advisory Service's (FIAS) benchmarking structure in 2004.

Several Tolko Divisions reached safety milestones in 2004:

- Nicola Valley Division celebrated their third year anniversary and over a million person-hours worked with no lost time accidents (LTAs)
- High Prairie Division completed two years with no LTAs
- High Level Lumber Division completed one year with no LTAs

As part of their 2005 plans, each Business Unit reviewed their programs and set objectives to advance their safety records.





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▀▶ Responsible  
Contributor

Sustainable  
Growth



Marc Paradis • Millwright • High Prairie Division

Our commitment to sustainability ensures that our growth goes beyond the size of the Company to enhance our communities, workers, and forests. By design – Tolko supports and recognizes the community contributions of our employees and Divisions.



## Recognized Employee 2004



JUHA JARVINEN

Production Area Team Leader  
Manitoba Kraft Papers  
Division

- Outstanding initiative, continuous improvement efforts, and leadership in production and transportation



## Responsible Contributor

### In our communities

Tolko is more than a corporation. We are members of communities—our employees are your neighbours. As such, we become part of the community, actively doing our part to make it a better place.

Scholarships are supported throughout the company, helping youth achieve their dreams. We also support school-aged education programs, instilling a respect for natural resources in our young people. Quest Wood Division supports the Women in Timber program, teaching about forests in primary classrooms. They also sponsored high school class trips to the regional Forestry Educations Centre. Heffley Creek Division helped five students attend Silver Lake Forestry Camp, made presentations in local classrooms, and joined Nicola Valley Division and other companies to contract a new forestry educator for the region.

In the Southern Interior, Tolko supported their educational liaison's development and distribution of "The Force of Fire", a resource kit for teachers. Lavington Planer Division then toured students to see the rejuvenation of the area impacted by the Silver Creek fire in 1998. Slave Lake OSB and High Prairie Divisions again participated in the Boreal Forest Discovery Camp and supported Lesser Slave Forest Education Society and Mackenzie Forest Education Society in Alberta.

Community spirit is vital to a healthy community. Along with extensive support of youth sports, Nicola Valley Division was active in National Forest Week events and worked with economic groups to develop plans for attracting other business to the area.

High Level's "Team Tolko" became the champions at the community's 1st Annual Winterfest Challenge. They also hosted their 5th Annual Open House for the community and surrounding region. Staff time was donated to support local outdoor recreational clubs, search and rescue teams, and the High Level Minor Hockey Association. Meadow Lake OSB created a

business partnership that provides meaningful employment for challenged adults.

In Manitoba, Tolko sponsored the Junior Dog Sled Race during the popular Trappers Festival. Gifts for the Wanless Homecoming celebration, prizes at the Benito snowmobile derby, judges for science fairs, and time toward the Operation Red Nose campaign were just a few of the neighbourly contributions of Manitoba Solid Wood and Kraft Papers Divisions.

### With our Aboriginal partners

Tolko continues to strengthen its ties with the Aboriginal communities in the regions where we work. Through a commitment of mutual respect, sharing of knowledge, and recognition of values, we are developing partnerships in the bush and in the communities. For example, Whitefish Lake First Nations and Tolko Industries Ltd., High Prairie OSB Division signed Alberta's first Joint Deciduous Timber Allocation (DTA). This also marked the province's first joint forest tenure between industry and a First Nations group.

Lavington Division and the Okanagan Indian Band (OKIB) in British Columbia celebrated a Cooperative Working Protocol that defines and facilitates the working relationship between the parties.

In Saskatchewan, Meadow Lake OSB Division focussed on fostering social capital. They engaged in Meadow Lake Tribal Council's work Experience Program, helping youth gain that crucial early work experience.

### Environmental Responsibilities

We had a big goal for 2004: achieve certification to the Canadian Standards Association's CSA-Z809 Sustainable Forest Management standard at all of our Woodlands. We succeeded. The nine Divisions held at the time we made our commitment have now been recommended to the internationally recognized certification. This is in addition to the ISO 14001 certifications they already held.



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► Sustainable  
Growth



Bruce Avery • Silviculture Superintendent • High Level Lumber Division

We are proud of the opportunities provided through our operations – by design. Our sustainable growth supports employment stability, service and supply contract availability, sponsorships and donations, partnerships, tax and fee payments, and training.



## Recognized Employee 2004



GREG TAVENER

Scaling Supervisor  
Manitoba Solid Wood  
Division

- A Tolko employee with 31 years of service
- Well respected by co-workers and contractors for his dedication and integrity



## Sustainable Growth

The certification requires continuous improvement, measurable standards, and audits by internal teams and third-parties. Crucial to this process are volunteers from the community of each working forest. They provide input and have a role in setting standards and ensuring diverse values are reflected in our forest management plans.

Meadow Lake OSB (MLOSB) Limited Partnership, built in 2003 and officially opened in 2004, is currently going through the CSA process. MLOSB Woodlands began the process in November 2004 and are on schedule to achieve their CSA-Z809 certification in December 2005. Along with our First Nation, Métis, and provincial government partners, Tolko congratulated MLOSB on achieving certification to ISO 14001 in August 2004.

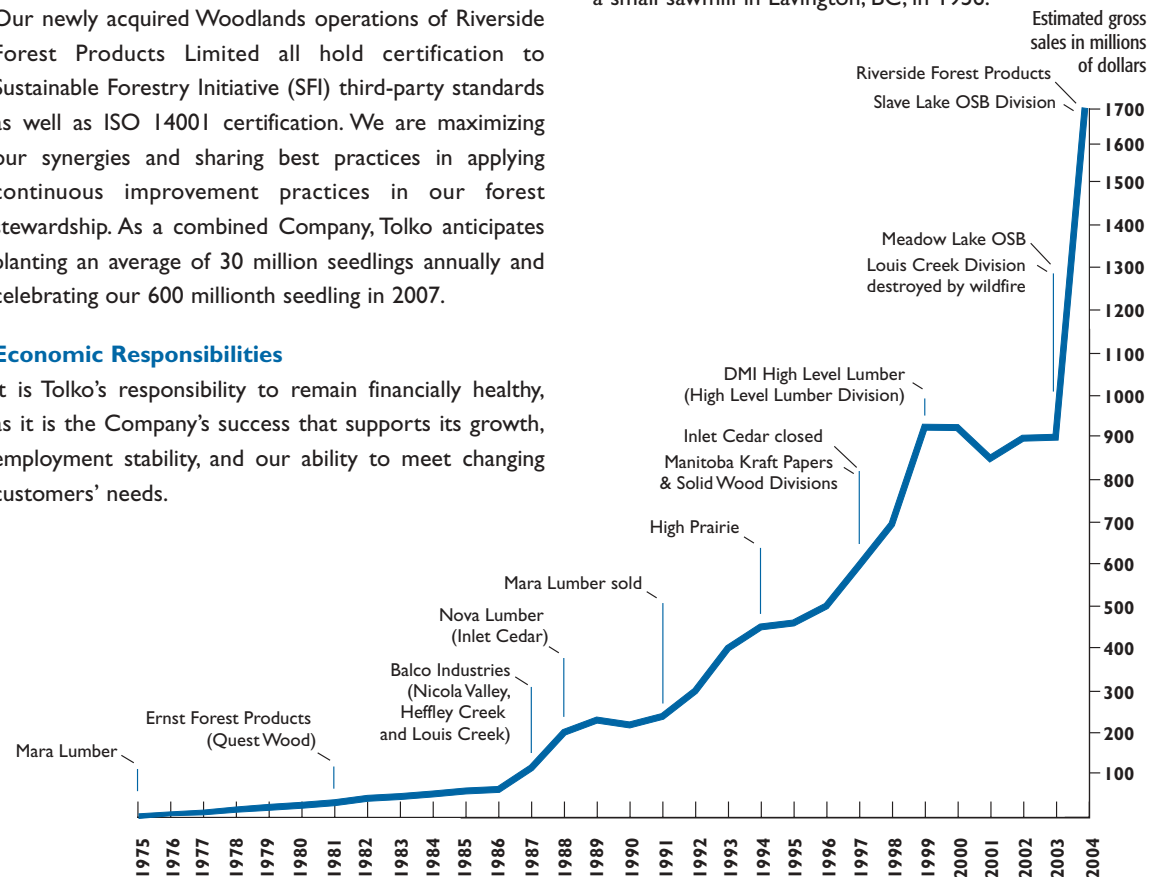
Our newly acquired Woodlands operations of Riverside Forest Products Limited all hold certification to Sustainable Forestry Initiative (SFI) third-party standards as well as ISO 14001 certification. We are maximizing our synergies and sharing best practices in applying continuous improvement practices in our forest stewardship. As a combined Company, Tolko anticipates planting an average of 30 million seedlings annually and celebrating our 600 millionth seedling in 2007.

### Economic Responsibilities

It is Tolko's responsibility to remain financially healthy, as it is the Company's success that supports its growth, employment stability, and our ability to meet changing customers' needs.

We now have over 4800 employees and provide contract opportunities to thousands more, including haulers, loggers, and tree planters. This spins off throughout the economy to multiply the benefits in our communities and regions, whether it's the tire shop, the hardware store, or the corner grocer.

As part of an \$81 billion industry, Tolko's economic impact affects everyone on a province-wide and national basis. In 2004 Tolko paid more than \$120 million to provincial and federal governments in payments such as taxes, licenses, and stumpage. Tolko will continue to respectfully care for its economic responsibilities, seizing opportunities for growth and investment in accordance with the formula that has guided our development from a small sawmill in Lavington, BC, in 1956.



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► Sustainable  
Growth



Baldev Nijjar • Hewsaw Operator (Canter Operator, Relief) • Quest Wood Division

Tolko is committed to the well-being of future generations through responsible environmental performance. The health of the forest and its diverse values is an essential ingredient of our continued growth – by design.





### Directors

**J. A. (Allan) Thorlakson**

**J. E. (John) Thorlakson**

**J. B. (Brad) Thorlakson**

### Executive Team

**J. A. (Allan) Thorlakson**

President & Chief  
Executive Officer

**J. E. (John) Thorlakson**

Vice President & General Manager,  
Specialty Projects

**J. B. (Brad) Thorlakson**

President, Tolko  
Marketing and Sales Ltd.

**M. L. (Mike) Harkies**

Vice President & General Manager,  
Lumber & Plywood

**R. E. (Rick) Huff**

Vice President & General Manager,  
OSB & Kraft Papers

**T. W. (Trevor) Jähnig**

Vice President Finance  
& Chief Financial Officer

**C. A. (Conrad) Pinette**

Executive Vice President

**V. E. (Vyvian) Burton**

Privacy Officer

moving forward ■ ■ ■ ▶

Tolko has Divisions in British Columbia, Alberta,  
Saskatchewan and Manitoba and employs over 4,800 people.





Kevin Moore • Process Quality Control • Nicola Valley Division

## LUMBER

### DIMENSION

Premium quality products available in a variety of sizes and grades, sold worldwide. Kiln dried and green.

### FEATURES

Tight grain, small knots, high strength to weight ratio

### SPECIES

SPF, Douglas Fir, Larch, Lodgepole Pine

### SIZES

1 x 3 to 1 x 6, 2 x 3 to 2 x 12  
Lengths: 6' - 20'

P.E.T., Riverside Quality Studs

Also available in a range of metric sizes on request, odd and even lengths.

### GRADES

A full range of North American & export grades including:

MSR, J-Grade, Lamstock, 2 & Btr, #3, Stud

### SPECIALTIES

Mixed car loading, customized tallies, specialty cutting, grading and packaging to customer specifications



### CONTACT

Sales: 250.549.5300  
lumber.sales@tolko.com

## LUMBER

### IMPORT & RELOADS

### DIMENSION & STUDS

### FEATURES

High quality finish, tight grain, small knots

### SPECIES

Tolko SPF, Euro Spruce

### SIZES

2 x 4 to 2 x 12 (8'-24')  
2 x 4, 2 x 6 studs (8'-10')

### GRADES

2 & Btr

### SPECIALTIES

P.E.T. stock

### US RELOADS

Western SPF:

Charlotte, NC  
Vinegrove, KY

Euro Spruce:

Wilmington, NC  
Cape Canaveral, FL  
Baltimore, MD



### IMPORT CONTACT

Sales: 250.549.5330  
sunny.both@tolko.com

### RELOADS CONTACT

Sales: 250.549.5300  
lumber.sales@tolko.com

## PANEL

### OSB

Engineered wood products for global markets

### FEATURES

Quality engineered wood panels, precision cut to customer specifications

### MAIN USES

Floor, roof and wall sheathing, I-Beam webstock, packaging and pallets, structural insulated panels, furniture frames and Rimboard Plus.

### SPECIES

Aspen

### SIZES

Flexibility to produce a range of metric and imperial sizes  
4' x 4' through 9' x 24'

### THICKNESS

1/4" to 1 1/8" (6.4mm to 28.7mm)

### GRADING AGENCIES

APA (The Engineered Wood Assoc.), CSA (Canadian Standards Assoc.), JAS (Japanese Agriculture Standard), TECO

### SPECIALTIES

Conveyor drying, booksaw system

### PRESS SIZE

12'x24' (3658mm x 7315mm),  
4'x16' (1219mm x 4877mm)



### CONTACT

Sales: 250.549.5311  
osb.sales@tolko.com





**PANEL**  
**PLYWOOD**

Quality plywood products for construction and industrial applications

**FEATURES**

Flexible and innovative production to meet specific needs of world markets – JAS (Japanese Agriculture Standard) grade, Select, oiled, edgesealed, PWF, standard sheathing, BFU 100

**MAIN USES**

Residential and commercial building sheathing applications for wall, roof and floor sheathing; variety of industrial end uses; concrete forming; DFP/CSP ULAY® Specialty plywood underlayment

**SPECIES**

DFP (Fir), CSP (Spruce)

**SIZES**

1220mm x 2440mm (4' x 8') and cut to size

**THICKNESS**

8.5mm to 28.5mm (5/16" to 1 1/8")

**PROFILES**

Easy T&G;

T&G

**GRADING AGENCIES**

CANPLY (Canadian Plywood Association), CSA, JAS, PSI-95 CE



**CONTACT**

Sales: 250.550.2557  
plywood.sales@tolko.com

**PANEL**  
**VENEER**

**FEATURES**

Green and dry veneer custom peeled and clipped to customer specification, Metriguard® capability

**MAIN USES**

Plywood and LVL

**SPECIES**

Fir, SPF, Larch, Hemlock, Aspen

**SIZES**

Full and half sheets, random and fishtails

**THICKNESS**

2.4mm to 4.3mm

**SPECIALTIES**

3 x 8 veneer in both green and dry for the Japanese market

**CONTACT:**

Sales: 250.550.2557  
plywood.sales@tolko.com

**EXPORT**

**PRODUCTS**

Engineered laminated beams and columns, J-grade dimension, metric clear lumber, metric knotty lumber, lamstock, finger-jointed products (standard and metric), cut to size OSB and plywood, pattern stock, paneling, bevels, fascia, traditional Japanese housing components.

**SERVICES**

Custom cutting and grading, export grades available, all grades, common through clear, custom packaging, container size packaging, kiln drying expertise as low as 10 -12% moisture content, bar coding, priming.

**CONTACT**

Sales: 250.549.5300  
export.sales@tolko.com

**KRAFT PAPERS**

A world leader in high performance kraft paper

**FEATURES**

Balanced strength for demanding applications.

**BASIS WEIGHT**

From 65gsm to 160gsm (40lb to 100lb)

**MAIN USES**

**SPK®** - For multiwall shipping sacks; flour, sugar, seed, feed, potatoes, air filled dunnage bags & other specialty uses. Proven to perform exceptionally well in industrial applications and high strength laminated paper products.

**SPX® (extensible)** - Even stronger than SPK®, multiwall shipping sacks made from SPX® use less paper in demanding applications for a variety of products such as cement and other construction materials.

**SPX® Velocity** - Porous paper used mainly for pasted valve bags when no perforations are used. Growing in demand where there is a need for faster filling and cleaner packaging. A cost effective packaging solution.

**SPX® Vector** - Used mainly for pneumatic filled sacks when no perforations are used. Intended for single ply sack construction where the basis weight is higher and stiffness is increased. This application provides more economical and efficient sack construction and filling.



**CONTACT**

Sales: 204.940.4411 • 1.877.918.6556  
kraftpapers@tolko.com





**PANEL**

SK	Meadow Lake*	OSB
AB	High Prairie	OSB
	Slave Lake	OSB
BC	Armstrong	Plywood
	Heffley Creek	Plywood
		Veneer
	Kelowna	Plywood
	Lumby	Veneer

**LUMBER**

MB	The Pas
AB	High Level
BC	Armstrong
	Kelowna
	Lavington
	Lumby
	Merritt
	Quesnel
	Williams Lake (3)

**PAPER**

MB	The Pas	Kraft Paper
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**CO-PRODUCTS**

BC	Armstrong	Co-generation
	Cache Creek	Woodchips

**SEEDLING NURSERY**

BC	Armstrong
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**REMANUFACTURERS**

BC	Ashcroft	Tie treatment
	Heffley Creek	Compwood Products (affiliated)
	Winfield	Bin & Pallet

**US RELOADS**

Western SPF:  
Charlotte, NC  
Vinegrove, KY

Euro Spruce:  
Wilmington, NC  
Cape Canaveral, FL  
Baltimore, MD

\*75% holding in partnership







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