

# our roots

foundations for the future



**TOLKO**  
INDUSTRIES LTD.

SUSTAINABILITY PERFORMANCE REPORT 2002

# » Sustainability

Balancing economic,  
social, and environmental  
responsibilities.

## MISSION

- » President's Message 1

## RESPECT

- » Safety, Environment, Biodiversity 2
- » Energy Use, Partnerships 3

## PROGRESSIVENESS

- » Certification 4
- » Employee Growth, Industry Research 5

## OPEN COMMUNICATION

- » Employee Communication,  
Communication Tools 6
- » Best Practices, Public Involvement 7

## INTEGRITY

- » Employee Satisfaction, Customer Relations 8
- » Opportunities in our Communities, Youth 9

## PROFIT

- » Company Growth, Maximizing Recovery 10
- » Product Research | Development,  
Economy Contributor 11

## POLICIES & PRINCIPLES

- » Environmental Policy,  
Forest Management Principles 12
- » Aboriginal Policy 13

## P R E S I D E N T ' S   M E S S A G E

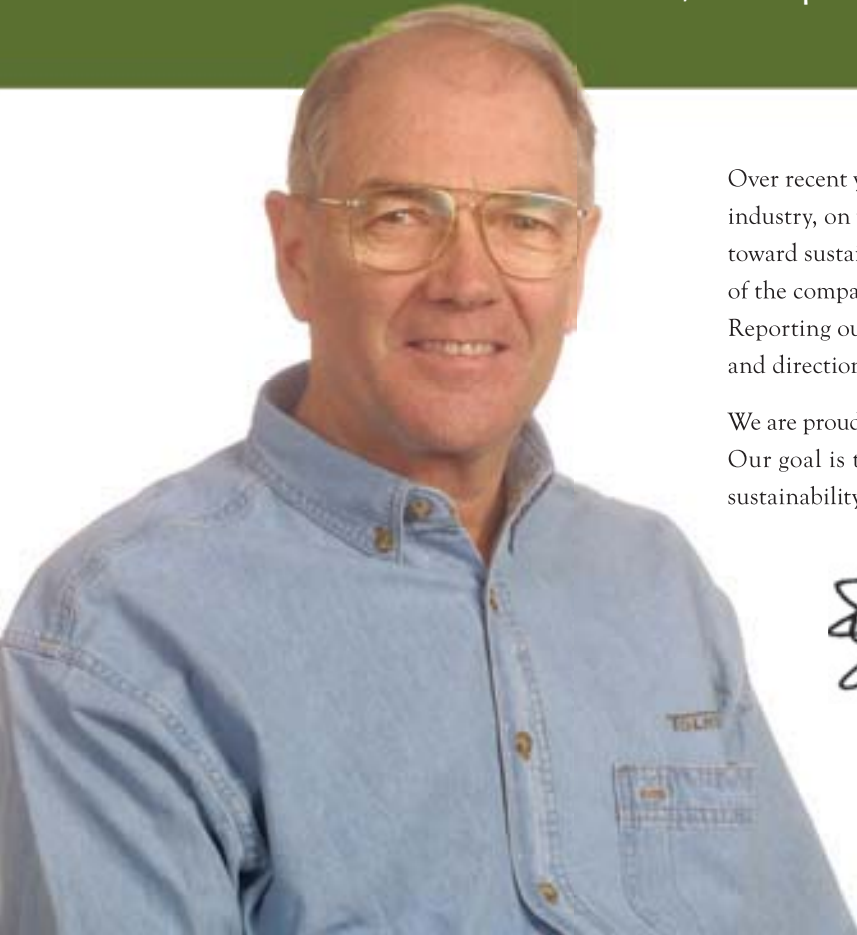
- » Our commitment to sustainability is embedded in our corporate values.

Tolko Industries Ltd. grew from an entrepreneurial spirit rooted in a firm foundation of family principles. Just as our father was before us, my brother John and I are guided by corporate values based on these principles. We are committed to seeing that the benefits we experience today are available for generations to come. Sustainability—balancing the economic, social, and environmental responsibilities—is essential to achieving this goal.

This report is a look at our progress, particularly since our first report on sustainability in 1999. Here we share with you our action on sustainability as reflected through our corporate values: respect, progressiveness, integrity, open communication, and profit. We are also now using more measurable indicators. This makes it easier for us to see where we are being successful and where we need further work. These measurements are valuable tools in our efforts to have sustainability incorporated into all of our strategic plans.

- » 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 forests.

## mission



Over recent years our knowledge has grown, as it has throughout the industry, on what it means to be sustainable. Measuring our progress toward sustainability helps us ensure that growth goes beyond the size of the company, enhancing our communities, workers, and forests. Reporting our progress is an opportunity to share our achievements and direction with you—our customers, employees, and stakeholders.

We are proud of Tolko's history and record of respect for the environment. Our goal is to keep on growing, based on our commitment to sustainability and to future generations.

A handwritten signature in black ink, which appears to read "J.A. Thorlakson". The signature is fluid and cursive.

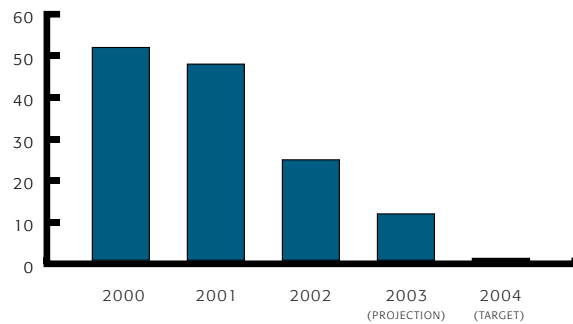
J.A. (Al) Thorlakson  
President & CEO



## SAFETY

- » Our commitment to safety applies to each employee, contractor, and visitor at our manufacturing facilities and on our forestry operations. Over the past three years, we have instituted a performance program that targets a safe working environment and an employee mindset that is dedicated to maintaining an injury-free workplace. The results include 50% less lost time accidents with more than four million man-hours worked each year. Though proud of this progress, we will not be satisfied until we can regularly report years of being accident-free company-wide.

NUMBER OF LOST TIME ACCIDENTS (per year)



## ENVIRONMENT

- » The foundation of our company and an essential ingredient to our continued growth is a respect for the forest and its diverse values. Not only are trees necessary for our basic need of clean air, but forests also serve as a source for shelter, diverse vegetation and habitat, recreation, spiritual significance, and industrial resources.

One way Tolko ensures that our forests will maintain their riches for future generations is through our reforestation practices. In 2002, Tolko Woodlands planted over 19 million seedlings and we look forward to planting our 300 millionth seedling as a company in 2004.

## BIODIVERSITY

- » Maintaining biodiversity in our forests ensures sufficient habitats for plants, animals and micro-organisms that provide a wide array of both timber and non-timber benefits to society. Tolko uses a multitude of planning and operational processes to sustain the rich biodiversity in our forest tenure areas, such as the following activities:

- addressing biodiversity requirements in forest management plans
- replanting of native tree species on harvested areas
- retaining wildlife patches and individual leave trees
- leaving coarse woody debris after harvesting for insect and small mammal habitat

By respecting the need to maintain forest ecosystems, we can be confident that our activities are sustainable both economically and environmentally.



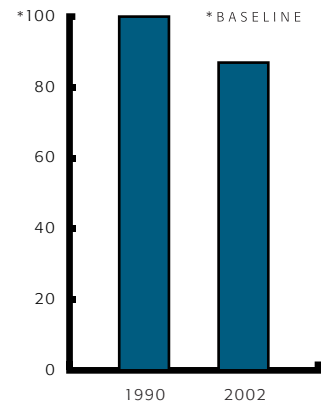
## ENERGY USE

- » Tolko wants to do its part in limiting the pollutants that contaminate the air we breathe and the emission of elements that many believe contribute to global warming. Tolko's manufacturing plants are voluntarily participating in a study to ensure that we stay on track with a reduction in the emission of greenhouse gases. This will also support the federal government's commitment to the Kyoto accord. Kyoto is a global commitment to reduce damaging air emissions, such as carbon dioxide, by 6% relative to 1990 levels over the next ten years.

The data gathering process of historical and current emissions of Tolko plants is underway. Initial results from Tolko's Kraft Papers mill show an encouraging downward trend, and reinforce our commitment to continue doing better.

With an average tonne of production at Tolko's Manitoba Kraft Papers Division, greenhouse gas emissions are down 12.4% since 1990.

## GREENHOUSE GAS EMISSIONS (%)



- » 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.

# respect

## PARTNERSHIPS

- » An enriching aspect of our growth is our relationship with other businesses, local groups, government, and aboriginal communities. Through mutual respect, we have had increasing opportunities to share knowledge and broaden the recognition of diverse values that exist on our shared forest lands. For example, to maximize our opportunities in both environmental stewardship and business efficiencies, we have collaborated with others through unique Forest Management Agreements (FMA). Our joint FMAs with Buchanan Lumber in High Prairie and Footner Forest Products Ltd. in High Level were firsts of their kind in Alberta. These have been mutually rewarding experiences that we will continue to encourage.

We are very proud of our innovative joint venture, the Meadow Lake OSB Ltd. Partnership, a collaboration with government, Aboriginals, and local communities. Tolko's partners in the project are the Meadow Lake Tribal Council Resource Development Inc., CIC OSB Products Inc., and North West Communities Holdings Ltd. in Saskatchewan. With completion expected in fall 2003, the \$220 million Oriented Strand Board (OSB) plant will provide work for approximately 250 people through its plant and Woodlands operations when in full production.

## CERTIFICATION

- » A clear measure of our commitment to the environment is our requirement for third party auditing of our forest management practices. Adopting the ISO 14001 Environmental Management System at our Woodlands Divisions helps us manage and continually improve our forest stewardship responsibilities.

We are also pursuing the Canadian Standards Association's CSA Z809 forestry certification at most divisions, particularly because of its requirement for comprehensive local public involvement.

We are currently considering other certification programs in relation to our customers' needs and conformance with our corporate values.



| TOLKO WOODLANDS DIVISION | ISO 14001   | CSA Z809    | FORESTCARE (ALBERTA) |
|--------------------------|-------------|-------------|----------------------|
| LOUIS CREEK              | ●           | ●           |                      |
| HIGH PRAIRIE             | IN PROGRESS |             | ●                    |
| LAVINGTON                | ●           | IN PROGRESS |                      |
| NICOLA VALLEY            | ●           | ●           |                      |
| QUEST WOOD               | ●           | IN PROGRESS |                      |
| HIGH LEVEL               | IN PROGRESS |             | ●                    |
| MANITOBA                 | ●           | IN PROGRESS |                      |

Status of registration to recognized certification standards by Tolko Woodlands as of March 2003.

## FORESTRY CERTIFICATION - CUSTOMER COMMITMENT

*updated January 2003*

- » Tolko Industries Ltd. will have all of its Woodlands registered to a recognized certification standard (that includes independent third party auditing) by December 31, 2002. Tolko will achieve additional certification at each division (to an internationally recognized certification standard) by 2004.



## EMPLOYEE GROWTH

- » Our success as an organization stems in part from the many successes of our individual employees. By offering opportunities for advancement and training that fit with each particular employee, our whole company progresses. It is individuals that have the drive to continually improve who find their fit within Tolko.

To help fulfil their potential, employees are given opportunities for on-the-job training, workshops, apprenticeships, in-house courses, and cross training. This effort aligns with our priority to promote from within and to fulfil in-house succession plans. It also supports our company's Statement of Distinctive Excellence: Tolko has a structure and culture that encourages improvement, growth and change in an open and participate environment.

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

# progressiveness

## INDUSTRY RESEARCH

- » In addition to internal research initiatives, Tolko supports and participates in external efforts to advance the industry and the environment. As members or direct participants, Tolko supports the research initiatives of a wide number of industry associations, special interest groups, universities, and societies.

Manitoba Woodlands, for example, participates in caribou research and funds climate change research through the University of Wisconsin. High Level Division is also involved in a long term caribou project, studying behaviour trends, migration patterns, and preferred habitat.

At our Louis Creek Division, Woodlands staff are studying how harvesting in different patterns affects wildlife and wildlife habitat. Having mimicked the effects of naturally occurring wildfires, we are now seeing increased winter forage for mule deer and the return of bird species that had disappeared before harvest. A future step will be to apply the results of this research on other dense, dry forests in similar areas.

## EMPLOYEE COMMUNICATION

- » We promote an open atmosphere at Tolko. By keeping our employees informed of our direction and expectations, Tolko encourages a culture of sharing, commitment, and unity.

Our performance on communication is rated from both directions—providing and receiving information. It is essential for the long term prosperity of the company that clear, open dialogue occurs in our workplaces.

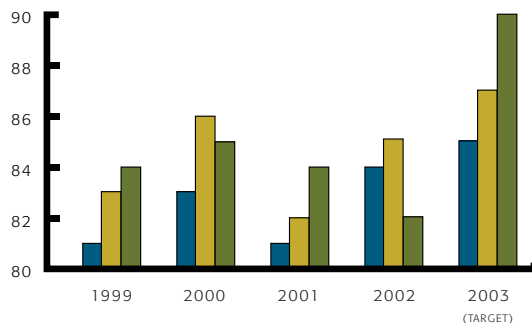
We strive to hear what our employees are saying in terms of their jobs, the company’s direction, and their perspective of the company’s performance on the issues that are important to them.

We regularly ask our employees to grade us on the quality of open communication in their workplace. While we recognize outside influences can affect the results from year to year, surveys provide us an indicator of where we are succeeding and where to focus our communication efforts to enhance our workplace.



### TOLKO COMMUNICATION SURVEY RESULTS

(divisional average of % agreed)



- I GET ALL THE INFORMATION I NEED TO DO MY JOB PROPERLY
- MY SUPERVISOR IS WILLING TO LISTEN TO MY SUGGESTIONS AND CONCERNS
- I GET ENOUGH INFORMATION ON TOLKO'S FORESTRY AND ENVIRONMENTAL ISSUES

### COMMUNICATION TOOLS

- » This report is just one way we strive to share our goals and performance with our employees, our customers, and the public. We also have our company internet web site ([www.tolko.com](http://www.tolko.com)) newsletters at each Division, an Annual Report, a quarterly corporate newsletter “The Circular,” and employee bulletins.

In 2003 we will explore how best to expand access to our Intranet, the T-Net, to our entire production workforce. Among other things, this communication vehicle provides a means to share minutes of weekly management meetings from each Division, internal job postings, a discussion forum, company policies and objectives, and notices to employees.



## BEST PRACTICES

- » As part of our annual review of company operations, each Division provides data on their performance over the past year. At our February Business Review, awards are given to the Division that has excelled in specific, indicator areas (Safety, Customer Service, Harvesting, Forest Management Practices, Communication, Financial Improvement, and Performance vs. Budget). Each Division receives formal feedback on how well they are performing in relation to the company overall and what is working best for Divisions in each indicator area. This encourages best practices and continually raises the expectations for Divisional performance each year.

- » 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.

# open communication

## PUBLIC INVOLVEMENT

- » Our forest management activities are almost solely on publicly owned (Crown) land through various provincial tenures. This places a responsibility on us to ensure that interested stakeholders and the general public have opportunities to give us their input on our land use plans and activities. Each Tolko Division offers many ways to communicate with and hear the public.

An example of public involvement efforts by our Divisions can be seen in Louis Creek's CSA – Sustainable Forest Management monitoring report (which has been subject to third party auditing). During the 2001 reporting year, Louis Creek Woodlands staff participated in 6 local resource use planning processes, attended 6 Forest Development Plan public meetings, undertook 18 classroom visits to schools, met with 28 local ranchers, participated in 14 partnerships/agreements with First Nation groups, and organized and facilitated 3 town hall meetings for specific rural communities.

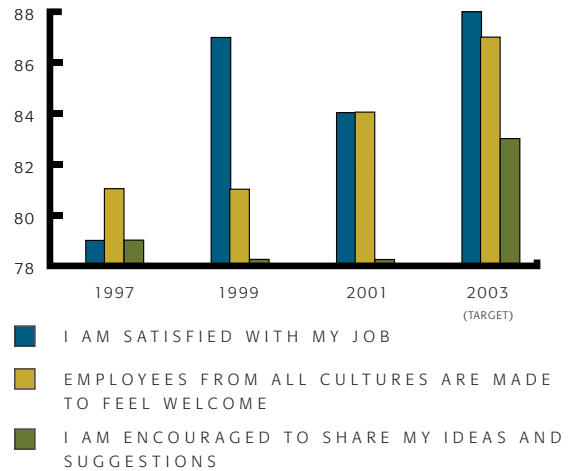
This type of public involvement effort is found at all Tolko Divisions.

## EMPLOYEE SATISFACTION

» Each individual is a valuable member of our Tolko team and of the community we work in. We relate to our employees with the high level of integrity that we expect from them. It is important to us that all employees are recognized for their individual contributions and for upholding the high standards we set for honesty, fairness, and ethics in all our business relationships.

Opinion surveys help us gauge how well we are succeeding in our relationship with our employees. We will continue working toward a highly satisfied workforce and a workplace that demonstrates the integrity we consider necessary for an economically and socially sustainable future.

## TOLKO EMPLOYEE SURVEY RESULTS (% agreed)



## CUSTOMER RELATIONS

» We are customer oriented, results focused. A strong partnership is fundamental to Tolko's and our customers' long term success.

Our customers are treated with the same code of high standards as our employees—with unbending honesty, fairness, and adherence to our ethics. We pride ourselves on creating relationships with our customers: business is personal at Tolko.

Conducting regular surveys helps tell us how we are doing. And it seems we are doing quite well. Ninety-two percent of our customers surveyed in 2001 agreed that our salespeople develop relationships. The same percentage were pleased with the response to problems. While we strive for no problems, when one does arise, customers trust Tolko salespeople to solve it.

## OPPORTUNITIES IN OUR COMMUNITIES

- » Our standard of conduct as a company and as individuals extends into our communities and to their residents. We are proud of these relationships and of the opportunities provided through our operations. This includes employment opportunities, the awarding of service contracts, advising and assisting on forestry issues and practices, event sponsorships, and fund-raising support. For example, our Manitoba Solid Wood Division has formed long term alliances and partnerships with many First Nations in the area including Chemawawin Cree Nation (Easterville), Mosakahiken Cree Nation (Moose Lake), Nisichawayasihk Cree Nation (Nelson House), Norway House Cree Nation, Pine Creek First Nation, Marcel Colomb Cree Nation and the Grand Rapids First Nation. More than \$12.3 million was contracted out for harvesting and silviculture activities to Aboriginals last year from our Woodlands department in The Pas.

- » 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 we are honest, fair and ethical.

integrity

## YOUTH

- » Investing in youth today will pay dividends in the future. Tolko encourages the development of youth by supporting programs, funding scholarships and bursaries, sponsoring sports teams and camps, and facilitating opportunities.

For example, last year the Alberta government formally recognized the High Level Division for its sponsorship of the Alberta Future Leaders program. This indigenous youth development program is based on the belief that future leaders will make the greatest difference in their communities by first making a difference in themselves.

In Manitoba, Tolko participates in Blueprint for the Future, an expo of the National Aboriginal Achievement Foundation that offers workshops and trade booths delivering information and inspiration on employment options.

We also cooperate with other companies on educational programs throughout the year. As part of our British Columbia initiative, more than 9,600 students and teachers were presented with information on the history of logging during National Forest Week, May 5-11, 2002. In High Prairie, Tolko employees celebrated by giving away seedlings, raffling off a child's bike and helmet, and holding a forestry field trip. Students were introduced to the basics of plant identification, forest measurement, protection, and silviculture.

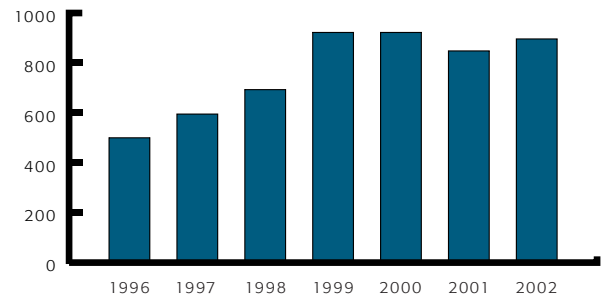


## COMPANY GROWTH

- » Tolko has over 2300 employees directly employed and numerous contractors involved with our operations in British Columbia, Alberta and Manitoba. Providing consistent employment leads to stability in our home communities.

Sustaining an employment base for all these individuals and small businesses requires a company that is strategically geared for long term growth, despite the challenges that face our industry. Tolko is meeting those challenges. Sales from our expanding revenue base of lumber, kraft paper, panel, and engineered wood products reached over \$896 million in 2002.

TOTAL SALES BY YEAR (in millions of dollars)

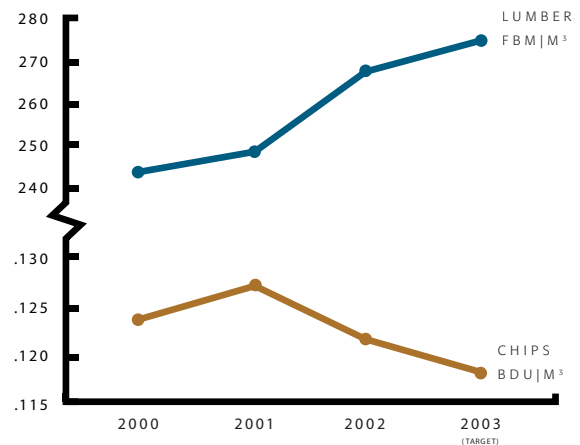


## MAXIMIZING RECOVERY

- » As stewards of the forest and manufacturers of wood products, we aim to achieve maximum value from each tree harvested. Over recent years, significant advances in technology have helped us towards this goal. New equipment using optimization technology has greatly improved lumber recovery, while achieving higher grade products from each log processed in our mills. Even sawdust is now being used to create select paper products.

In partnership with suppliers, our Nicola Valley Division has become a test site for the development of new sawmill equipment. This will help Tolko to continue as an industry leader in sustainable production practices.

RECOVERY FACTORS (Lavington Division)



At Tolko's Lavington Division, adding optimization equipment for curve sawing in late 2001 translated into more high grade lumber and less chips from each cubic metre of log.

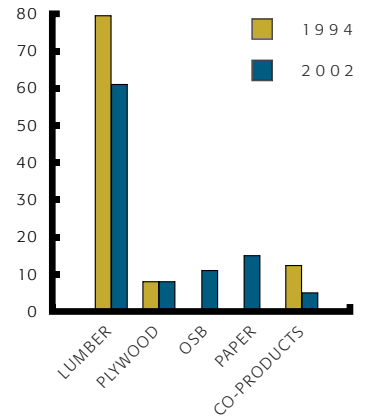
**PRODUCT RESEARCH | DEVELOPMENT**

- » Tolko’s vision is to be a leading marketer and manufacturer of specialty wood products. In that pursuit, we consistently talk to our customers about their changing needs, conduct and partner on industry research, and brainstorm with our employees and suppliers on how we can improve and add to our product line.

Recent successes include the in-house development of SPX® Velocity grade paper. This porous grade paper allows our customers to manufacture bags that fill faster, provide greater strength, and use less paper. We are also perfecting our line of wet strength paper, providing fully compostable options for garden refuse bags. These are just a couple of ways we are continuing to increase our value-added line of products that provide functional and environmental benefits.

**TOLKO PRODUCT DIVERSIFICATION**

(% of sales dollars)



- » 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.

profit

**ECONOMY CONTRIBUTOR**

- » The Business Units of Tolko are active members of their community, supporting groups and individuals through monetary, service, and material donations. We provide sponsorships, scholarships, and bursaries. Tolko hosts and participates in a wide array of open house events, goodwill campaigns, and local celebrations.

In addition to paying local taxes and service fees, Tolko operations substantially contribute through provincial and federal coffers. This provides dollars for things we all rely on, including health, education, defense, highways, and social programs.

**LOCAL | PROVINCIAL |**

**FEDERAL PAYMENTS (\$000,000s)**

|                                |              |
|--------------------------------|--------------|
| 2002 PROPERTY (LOCAL) TAXES    | 4.9          |
| 2002 PROVINCIAL TAXES AND FEES | 16.5         |
| 2002 FEDERAL TAXES (ESTIMATE)  | 7.7          |
| 2002 WOODLANDS PAYMENTS:       |              |
| STUMPAGE                       | 61.9         |
| SILVICULTURE                   | 37.1         |
| ANNUAL FOREST LICENCE   RENTAL | 2.1          |
| <b>TOTAL</b>                   | <b>101.1</b> |

## ENVIRONMENTAL POLICY

- » Tolko is committed to the well-being of future generations through responsible environmental performance. This is a key value of the Company. Our ability to operate the business, satisfy customers and other stakeholders and build sustainable economic success is increasingly dependent on our environmental performance. Our commitment applies to all aspects of our business.

Tolko's Management Team, drawing on the input of employees and stakeholders, provides strategic direction and resources to help the Company honour this policy. This includes ensuring that employees receive the education and training necessary for them to carry out their work in an environmentally responsible manner. Employees will actively participate in environmental management and challenge operating principles they believe can be improved.

- » **Activities that support this policy are:**

- Complying with environmental laws and regulations and other requirements to which we commit;
- Integrating the requirements of environmental laws and regulations and our other commitments into business planning and decision making;
- Managing forest land in a professional and sustainable manner consistent with Tolko's Forest Management Principles;
- Managing operations to minimize pollution;
- Evaluating our environmental performance through internal and external audits, reviews and benchmarking;
- Communicating environmental, social and economic performance with our employees, the public and other stakeholders; and
- Encouraging and recognizing employees for their contribution towards improving our environmental performance.

Tolko's performance will be reviewed and reported annually.

## FOREST MANAGEMENT PRINCIPLES

- » Forest lands managed by Tolko make an important contribution to the quality of life for many communities by providing a wide range of environmental, social and economic benefits.

Tolko is committed to professional and sustainable forest management. Our ability to provide raw materials to our manufacturing facilities depends on managing forest resources and respecting all forest values.

Tolko's Management Team develops strategic direction and provides resources to the Woodlands departments. The Woodlands group, drawing on the input from our employees, stakeholders and members of the public, will develop professional resource plans that demonstrate an innovative and sensitive approach to forest land management. Tolko's activities will be ecologically suitable, economically feasible and socially acceptable.

- » **Activities that support these principles are:**

- Maintaining or improving the health and productivity of forest ecosystems and biological diversity;
- Actively promoting stakeholder and public participation through open communication;
- Complying with forest management legislation;
- Evaluating our forest management performance through internal and external audits, reviews and benchmarking; and
- Practicing adaptive management by increasing our knowledge and expertise.



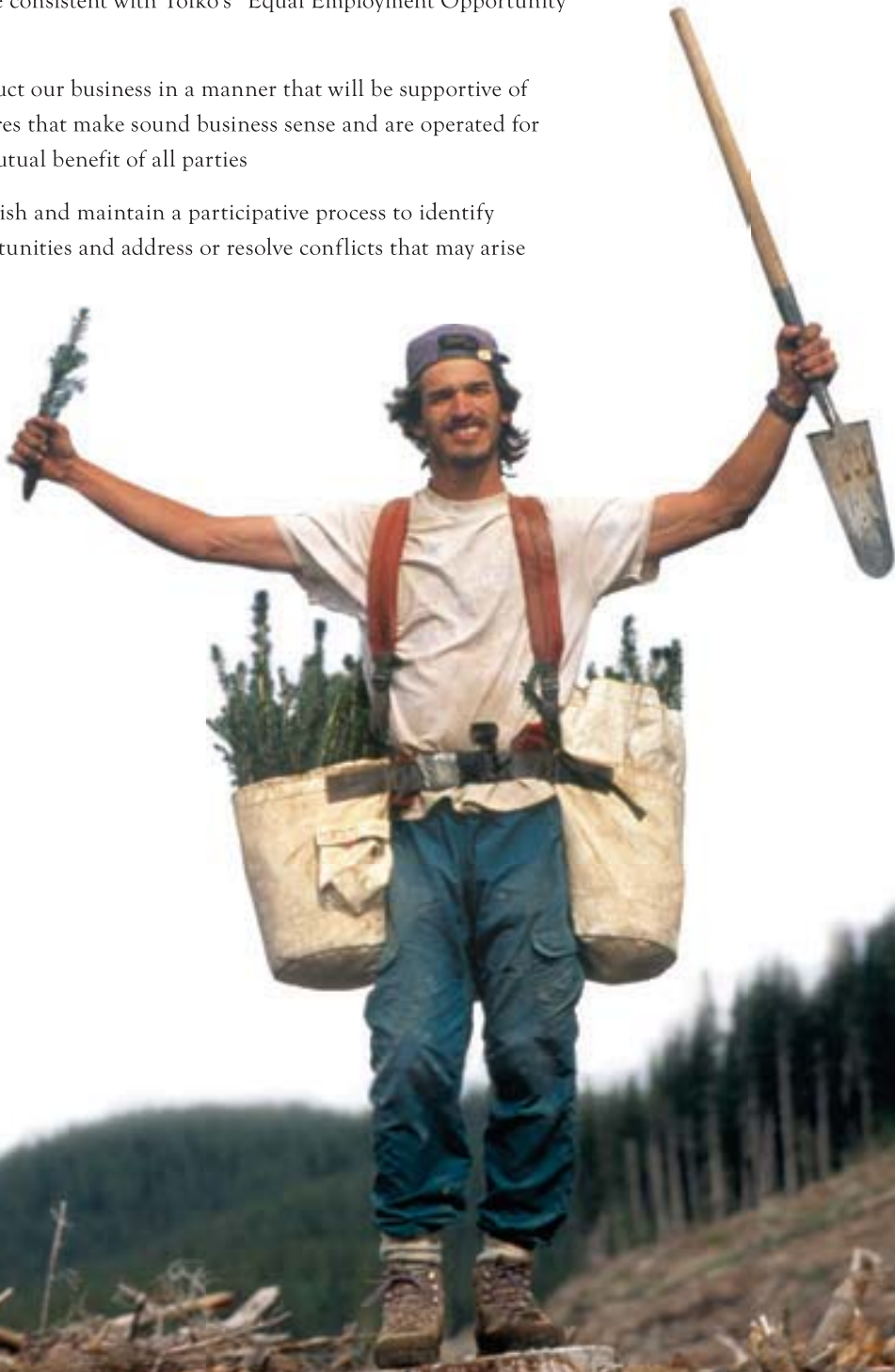
## ABORIGINAL POLICY

### » Guiding Principle

Tolko is committed to work with aboriginal communities and individuals on the basis of mutual understanding, respect, trust, as well as recognition of, and sensitivity to the different cultural values and traditions of each community in which Tolko operates.

### » Business Principles:

- Ensure effective communication on forest management activities that involve traditional aboriginal areas of interest
- Provide employment and contract opportunities to aboriginal people consistent with Tolko's "Equal Employment Opportunity" policy
- Conduct our business in a manner that will be supportive of ventures that make sound business sense and are operated for the mutual benefit of all parties
- Establish and maintain a participative process to identify opportunities and address or resolve conflicts that may arise





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This report was published in March 2003. More information on Tolko and an online version of this report can be found on our website at [www.tolko.com](http://www.tolko.com).

We welcome your comments on this report of our sustainability performance. Please write to our Sustainability Manager at Tolko Industries Ltd., Box 39, Vernon, BC V1T 6M1 or fill out the on-line feedback form at [www.tolko.com/sustainability/report/feedback.html](http://www.tolko.com/sustainability/report/feedback.html)