

### TO THE SHAREHOLDERS OF WEST FRASER TIMBER CO. LTD.

We have audited the consolidated balance sheets of West Fraser Timber Co. Ltd. as at December 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

*PricewaterhouseCoopers LLP*

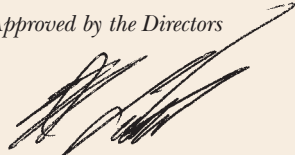
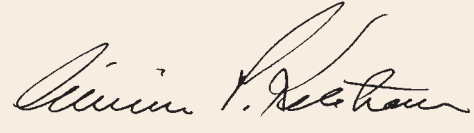
PricewaterhouseCoopers LLP (signed) Chartered Accountants

Vancouver, B.C.

January 31, 2000

# CONSOLIDATED BALANCE SHEETS

As at December 31 (in thousands of Canadian dollars)

	1999	1 9 9 8
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and short-term investments	<b>\$ 97,504</b>	\$ -
Accounts receivable	<b>186,244</b>	176,816
Inventories (note 4)	<b>500,104</b>	448,371
Prepaid expenses	<b>9,697</b>	9,424
	<b>793,549</b>	634,611
Other assets (note 5)	<b>33,779</b>	35,319
Capital assets (note 6)	<b>1,414,795</b>	1,371,070
Deferred charges (note 7)	<b>22,797</b>	67,930
	<b>\$ 2,264,920</b>	\$ 2,108,930
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness	<b>\$ 42,171</b>	\$ 21,058
Accounts payable and accrued liabilities	<b>371,576</b>	246,843
Current portion of long-term debt (note 8)	<b>36,083</b>	42,166
	<b>449,830</b>	310,067
<b>Long-term debt (note 8)</b>	<b>589,878</b>	718,449
<b>Reforestation obligation</b>	<b>59,419</b>	40,469
<b>Deferred income taxes</b>	<b>139,520</b>	142,314
	<b>1,238,647</b>	1,211,299
<b>SHAREHOLDERS' EQUITY</b>		
Convertible obligation (note 10(c))	<b>17,256</b>	15,746
Share capital (note 9)	<b>326,121</b>	331,628
Contributed surplus (note 9)	<b>1,402</b>	-
Retained earnings	<b>681,494</b>	550,257
	<b>1,026,273</b>	897,631
	<b>\$ 2,264,920</b>	\$ 2,108,930
Approved by the Directors		
		
Harald H. Ludwig (signed) Director	William P. Ketcham (signed) Director	

# CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the years ended December 31 (in thousands of Canadian dollars)

	1999	1 9 9 8
<b>EARNINGS</b>		
Net sales	<b>\$ 2,204,115</b>	\$ 1,863,399
<b>Costs and expenses</b>		
Cost of products sold	<b>1,530,642</b>	1,415,958
Retail store operating	<b>159,167</b>	135,622
Amortization of capital assets	<b>125,142</b>	127,774
Selling, general and administrative	<b>67,756</b>	65,146
	<b>1,882,707</b>	1,744,500
<b>OPERATING EARNINGS</b>	<b>321,408</b>	118,899
<b>Other expenses</b>		
Financing (note 12)	<b>(59,445)</b>	(80,209)
Other (note 13)	<b>(7,368)</b>	(11,412)
<b>Earnings before income taxes</b>	<b>254,595</b>	27,278
<b>Provision for (recovery of) income taxes (note 14)</b>		
Current	<b>109,968</b>	20,350
Deferred	<b>(2,794)</b>	1,303
	<b>107,174</b>	21,653
<b>NET EARNINGS</b>	<b>\$ 147,421</b>	\$ 5,625
<b>Earnings per common share (in dollars) (note 15)</b>		
Basic	<b>\$ 4.88</b>	\$ 0.05
Fully diluted	<b>\$ 4.75</b>	\$ 0.05
<b>RETAINED EARNINGS</b>		
Balance – beginning of year	<b>\$ 550,257</b>	\$ 562,719
Net earnings	<b>147,421</b>	5,625
	<b>697,678</b>	568,344
Convertible obligation (note 10(c))	<b>(1,510)</b>	(1,589)
Surplus on cancellation of shares (note 9)	<b>2,149</b>	1,669
<b>Dividends</b>		
Preferred shares	<b>(615)</b>	(2,494)
Common shares	<b>(16,208)</b>	(15,673)
<b>Balance – end of year</b>	<b>\$ 681,494</b>	\$ 550,257

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*For the years ended December 31 (in thousands of Canadian dollars)*

	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 147,421	\$ 5,625
<b>Items not affecting cash</b>		
Amortization of capital assets	125,142	127,774
Amortization of deferred foreign exchange loss	9,760	18,986
Deferred income taxes	(2,794)	1,303
Change in reforestation obligation	2,832	2,787
Other	6,601	4,723
	288,962	161,198
Changes in non-cash working capital items	84,767	(20,418)
	373,729	140,780
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	-	70,990
Repayment of long-term debt	(99,765)	(129,136)
Dividends	(16,823)	(18,167)
Other	(1,956)	2,931
	(118,544)	(73,382)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital asset additions	(106,656)	(107,873)
Proceeds from disposal of capital assets	1,914	34,113
Acquisitions (note 2)	(74,403)	(23,600)
Bank indebtedness assumed on acquisition (note 2)	-	(12,034)
Decrease (increase) in other assets	351	(5,477)
	(178,794)	(114,871)
<b>INCREASE (DECREASE) IN CASH</b>	76,391	(47,473)
Net cash - beginning of year	(21,058)	26,415
Net cash - end of year	\$ 55,333	\$ (21,058)
<b>Net cash consists of</b>		
Cash and short-term investments	\$ 97,504	\$ -
Bank indebtedness	(42,171)	(21,058)
	\$ 55,333	\$ (21,058)
<b>INTEREST PAID</b>	\$ 53,611	\$ 61,465
<b>INCOME TAXES PAID</b>	\$ 25,772	\$ 23,779

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Principal direct and indirect operating subsidiaries are West Fraser Mills Ltd., Blue Ridge Lumber (1981) Ltd., Revelstoke Home Centres Ltd., and Revy Home Centres Inc.

Investments in and operations of the Company's joint ventures are accounted for by the proportionate consolidation method.

### Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The company harvests timber under various provincial tenures. Estimated future reforestation obligations are charged to earnings based on the volume of timber harvested. The difference in actual costs of reforestation, if any, are credited or charged to earnings when realized.

### Cash and short-term investments

Cash and short-term investments consist of cash on deposit with banks and highly-liquid short-term interest-bearing securities with maturities at purchase date of three months or less.

### Foreign currency translation

Monetary assets and liabilities in foreign currencies, including long-term debt, are translated into Canadian dollars at the exchange rates prevailing at the end of the year. Other assets and liabilities and income and expense items are translated at the exchange rates prevailing on the transaction dates. Resulting exchange gains or losses are included in earnings, except for unrealized foreign exchange gains and losses on long-term debt, which are deferred and amortized over the term of the related debt or reflected in earnings when the debt is repaid.

### Inventories

Inventories of logs, manufactured products and retail goods are valued at the lower of average cost and net realizable value. Inventories of raw materials and supplies are valued at the lower of average cost and replacement cost.

### Capital assets

Capital assets are stated at cost, which for major manufacturing assets under construction includes capitalized interest and preproduction and start-up costs. Company-owned timberlands include the cost of acquisition and all costs associated with establishing and maintaining the timberlands. Expenditures for additions, improvements and renewals are capitalized. Expenditures for maintenance and repairs are charged to earnings. Upon retirement, disposal or destruction of assets, the cost and related amortization are removed from the accounts and any gain or loss is reflected in earnings.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Amortization

Amortization is provided to reduce the original cost of capital assets to estimated residual values over their useful lives. The Company employs the units-of-production basis for amortization of the newsprint mill. All other capital assets are amortized on a straight-line basis.

The rates of amortization being applied are intended to amortize the assets over the following periods:

Buildings	10 - 40 years
Manufacturing equipment and machinery	10 - 20 years
Fixtures, equipment and other	3 - 10 years

Costs of logging roads are amortized on the basis of timber harvested. The cost of timber rights is amortized over the life of the rights on the basis of timber harvested, not to exceed 25 years. Amortization of Company-owned timberlands commences when harvesting begins.

Goodwill arising on business acquisitions is amortized over its estimated period of future benefit up to 25 years. Any impairment in value is recorded in earnings when it is identified, based on management's assessment of future operating results.

Deferred financing fees are amortized over the term of the related debt.

### Income taxes

Income taxes are recorded using the deferral method of accounting. Deferred income taxes result from differences in the timing of income and expense recognition for accounting and tax purposes.

## 2. ACQUISITIONS

### 1999

Effective November 3, 1999, the Company acquired the forest products business and assets of Zeidler Forest Industries Ltd., consisting of plywood and veneer plants and related timber rights.

The acquisition has been accounted for by the purchase method and the results of operations have been included with those of the Company from the effective date.

Net assets acquired at fair values:

Non-cash working capital	<b>\$ 20,550</b>
Capital assets	<b>69,053</b>
Reforestation obligation assumed	<b>(15,200)</b>
Cash consideration	<b><u>\$ 74,403</u></b>

### 1998

Effective May 22, 1998, the Company purchased the home improvement business of Lansing Buildall. The acquisition has been accounted for by the purchase method and the results of operations have been included with those of the Company from the effective date.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

### 2. ACQUISITIONS (continued)

#### 1998

Net assets acquired at fair values:

Non-cash working capital	\$	24,520
Capital assets		7,743
Goodwill		18,226
Deferred income taxes		(698)
	\$	<u>49,791</u>
Consideration:		
Cash	\$	23,600
Bank indebtedness assumed		12,034
Convertible obligation (note 10(c))		14,157
	\$	<u>49,791</u>

### 3. INVESTMENTS IN JOINT VENTURES

The Company's joint ventures consist of Quesnel River Pulp Company (50%), Alberta Newsprint Company (50%), Houston Forest Products Company (50%), and Babine Forest Products Company (31.58%). The Company's proportionate share of the financial position, operating results, and cash flows of the joint ventures is as follows:

	1999	1998
Current assets	\$ <b>63,575</b>	\$ 64,019
Non-current assets	<b>212,079</b>	226,673
Total assets	<b>275,654</b>	290,692
Current liabilities	<b>28,100</b>	32,961
Equity	<b>\$ 247,554</b>	\$ 257,731
Net sales	<b>\$ 265,449</b>	\$ 244,214
Expenses	<b>214,071</b>	213,390
Net earnings	<b>\$ 51,378</b>	\$ 30,824
Cash flows from:		
Operating activities	<b>\$ 74,492</b>	\$ 63,298
Financing activities	<b>\$ -</b>	\$ (113,805)
Investing activities	<b>\$ (6,322)</b>	\$ (8,272)

The Company has business transactions with certain of its joint venture participants and corporations related to these participants. All transactions are at market prices and on normal business terms.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

### 4. INVENTORIES

	1999	1998
Logs and wood chips	<b>\$ 129,948</b>	\$ 109,531
Manufactured products	<b>127,019</b>	132,236
Retail products	<b>191,924</b>	161,929
Processing materials and supplies	<b>51,213</b>	44,675
	<b><u>\$ 500,104</u></b>	<u>\$ 448,371</u>

### 5. OTHER ASSETS

	1999	1998
Goodwill – net of accumulated amortization	<b>\$ 16,993</b>	\$ 17,733
Investments	<b>8,760</b>	7,614
Advances for timber and timber deposits	<b>3,348</b>	5,019
Non-interest bearing loans to employees	<b>2,444</b>	2,434
Other	<b>2,234</b>	2,519
	<b><u>\$ 33,779</u></b>	<u>\$ 35,319</u>

### 6. CAPITAL ASSETS

	1999		
	COST	ACCUMULATED AMORTIZATION	NET
Manufacturing plant and equipment	<b>\$ 1,938,269</b>	<b>\$ 964,782</b>	<b>\$ 973,487</b>
Timber rights, timberlands and roads	<b>311,201</b>	<b>138,792</b>	<b>172,409</b>
Retail stores and equipment	<b>233,282</b>	<b>73,371</b>	<b>159,911</b>
Land	<b>108,988</b>	-	<b>108,988</b>
	<b><u>\$ 2,591,740</u></b>	<b><u>\$ 1,176,945</u></b>	<b><u>\$ 1,414,795</u></b>
	1998		
	COST	ACCUMULATED AMORTIZATION	NET
Manufacturing plant and equipment	\$ 1,856,303	\$ 873,290	\$ 983,013
Timber rights, timberlands and roads	279,952	120,742	159,210
Retail stores and equipment	207,432	63,826	143,606
Land	85,241	-	85,241
	<b><u>\$ 2,428,928</u></b>	<b><u>\$ 1,057,858</u></b>	<b><u>\$ 1,371,070</u></b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

### 7. DEFERRED CHARGES

	1999	1998
Deferred foreign exchange loss	<b>\$ 10,665</b>	\$ 55,409
Deferred pension costs	<b>9,421</b>	9,217
Deferred financing fees	<b>2,711</b>	3,304
	<b><u>\$ 22,797</u></b>	<u>\$ 67,930</u>

### 8. LONG-TERM DEBT

	1999	1998
US\$125 million term notes due 2002; interest at 7.25%	<b>\$ 180,283</b>	\$ 191,503
US\$125 million term notes due 2005; interest at 7.50%	<b>180,140</b>	191,326
Cdn\$125 million term notes due 2007; interest at 6.80%	<b>124,816</b>	124,791
US\$97.5 (1998 - US\$125) million term notes due 2000 to 2004; interest at 8.44%	<b>140,722</b>	191,663
U.S. revolving bank loan repaid in 1999	-	61,332
	<b><u>625,961</u></b>	<u>760,615</u>
Less: Current portion	<b>36,083</b>	42,166
	<b><u>\$ 589,878</u></b>	<u>\$ 718,449</u>

All long-term debt is unsecured.

Principal repayments for the next five years are:

2000	<b>\$ 36,083</b>
2001	<b>36,083</b>
2002	<b>216,365</b>
2003	<b>18,041</b>
2004	<b>14,433</b>
Thereafter	<b><u>304,956</u></b>
	<b><u>\$ 625,961</u></b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

### 9. SHARE CAPITAL

Authorized

10,000,000 preferred shares, issuable in series, without par value

50,000,000 common shares without par value

20,000,000 Class B common shares without par value

Issued –

	1999		1998	
	NO. OF SHARES	AMOUNT	NO. OF SHARES	AMOUNT
Series I preferred shares	-	\$ -	1,250,000	\$ 49,875
Common shares	<b>24,643,606</b>	<b>326,735</b>	23,630,869	283,533
Class B common shares	<b>5,947,068</b>	<b>597</b>	5,949,068	597
	<b>30,590,674</b>	<b>327,332</b>	29,597,937	284,130
Shares owned by a subsidiary	<b>(259,545)</b>	<b>(1,211)</b>	(509,545)	(2,377)
Total common shares	<b>30,331,129</b>	<b>326,121</b>	29,070,392	281,753
Total share capital		<b>\$ 326,121</b>		\$ 331,628

#### Share capital transactions during 1999

The Company purchased for cancellation 1,250,000 Series 1 preferred shares. Consideration consisted of 1,250,000 common shares issued for \$46,151,250 and a cash payment of \$2,322,000 (note 10(d)). The resulting surplus has been credited to contributed surplus.

The Company issued 10,737 common shares for \$365,143; 2,000 Class B shares were converted to common shares.

The Company cancelled 250,000 common shares owned by a subsidiary. The resulting surplus has been credited to retained earnings.

#### Share capital transactions during 1998

The Company issued 93,860 common shares for \$2,931,000.

The Company cancelled 230,000 common shares owned by a subsidiary. The resulting surplus has been credited to retained earnings.

#### Rights and restrictions

##### Common shares

Common shares and Class B common shares are equal in all respects except that each Class B common share may at any time be exchanged for one common share.

##### Dividends payable

Dividends declared and unpaid at December 31, 1999 amounted to \$4,130,000 (1998 - \$4,553,000) and are included in accounts payable and accrued liabilities.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

## 9. SHARE CAPITAL (continued)

### Share options

The Company has a fixed share option plan for its directors and officers, under which it may issue up to 1,526,000 share options. No expense is recognized for share options issued under this plan. The exercise price of options is equal to the closing price of the Company's shares on the day preceding the grant date. The options vest at 20% per year from the grant date and expire after 10 years. The weighted average contractual life of the options outstanding is 7 years.

A summary of the status of the plan as at December 31, 1999 and 1998 is presented below:

	1999		1998	
	NUMBER OF SHARES	WEIGHTED AVERAGE SHARE PRICE (DOLLARS)	NUMBER OF SHARES	WEIGHTED AVERAGE SHARE PRICE (DOLLARS)
Outstanding –				
beginning of year	<b>543,479</b>	<b>\$ 36.14</b>	455,121	\$ 36.42
Granted	<b>132,000</b>	<b>\$ 34.00</b>	143,000	\$ 35.00
Exercised	<b>(1,100)</b>	<b>\$ 29.13</b>	(4,400)	\$ 29.13
Expired	<b>(4,400)</b>	<b>\$ 37.97</b>	(50,242)	\$ 36.12
Outstanding - end of year	<b>669,979</b>		543,479	\$ 36.14
Options exercisable at the end of the year	<b>263,065</b>		161,942	

## 10. COMMITMENTS

### a) Operating leases

The Company is committed to payments under certain operating leases for equipment, land, buildings and office space. Minimum payments required under these leases in each of the next five years are:

2000	\$ 17,900
2001	16,200
2002	12,000
2003	9,400
2004	8,200
	<u>\$ 63,700</u>

The majority of the leases provide the Company with the right to early termination without penalty.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

## 10. COMMITMENTS (continued)

### b) Pension plans

The Company maintains non-contributory, defined-benefit pension plans covering a significant portion of its employees. These plans provide pensions based on length of service and, in some cases, earnings and length of service.

Pension expense includes the amortization of past service liabilities and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of each employee group.

As at December 31, the actuarial calculation of the total present values of accrued pension benefits and the market-related value of net assets available to provide these benefits are as follows:

	1999	1998
Accrued pension benefits	<u>\$ 182,057</u>	\$ 158,317
Pension fund assets	<u>\$ 181,966</u>	\$ 153,662

Other full-time employees are covered by various defined-contribution pension plans.

The Company has entered into agreements with certain employees pursuant to which the Company has a liability to pay each of them a supplementary retirement benefit upon retirement. The unfunded liability of \$13,000,000 (1998 - \$13,568,000) is included in accrued pension benefits.

### c) Convertible obligation

On the acquisition of the home improvement business of Lansing Buildall, a subsidiary of the Company issued 1,500,000 of its common shares to the vendors of that business. The Company entered into an agreement with the vendors whereby, among other things, (a) the vendors may require the Company to purchase such shares at fair market value within a specified period after the end of each of 2001, 2002 and 2003, (b) the vendors may require the Company to purchase such shares on December 31, 2004 at the price of \$21.40 each, and (c) the Company has the right to purchase such shares at the same price on December 31, 2004. The Company has the right to issue common shares to the vendors in satisfaction of the price payable to the vendors under (b). Accordingly, the present value of this obligation has been recorded in shareholders' equity as a convertible obligation and is being increased through a charge to retained earnings as the present value of the obligation increases. Under certain circumstances, including specified capital market transactions, the rights and obligations referred to above will terminate before December 31, 2004.

### d) Preferred share purchase

Under the terms of the preferred share purchase described in note 9, the Company may be required to pay additional purchase consideration based on the market value of Company's common shares between the purchase date and July 31, 2002. The maximum additional purchase consideration that could become payable is \$39.90 per share less the market price of the Company's common shares on July 31, 2002, plus the excess dividend entitlement on the preferred shares over the common shares between July 29, 2000 and July 31, 2002.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

## 10. COMMITMENTS (continued)

The obligation will be terminated at the earliest of:

- i) the date on which the market price equals or exceeds \$49.875 for a 10-day period on or before July 29, 2000;
- ii) the date on which the market price equals or exceeds \$39.90 for a 10-day period after July 29, 2000;
- iii) the date on which the shareholder ceases to hold the common shares issued by the Company as partial consideration for the preferred shares; or
- iv) July 31, 2002.

## 11. FINANCIAL INSTRUMENTS

### a) Fair values

The recorded amounts for cash and short-term investments, accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate fair values based on the short maturity of those instruments.

The fair value of the Company's long-term debt is estimated as the book value adjusted for the premium or discount required to provide a yield equal to current rates on new debt with maturities equal to the remaining terms to maturity.

	1999		1998	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Long-term debt (note 8)				
Term notes	\$ 485,239	\$ 472,292	\$ 507,620	\$ 513,772
Other notes	140,722	150,517	191,663	203,190
Revolving bank loan	-	-	61,332	61,332
	<b>\$ 625,961</b>	<b>\$ 622,809</b>	<b>\$ 760,615</b>	<b>\$ 778,294</b>

### b) Credit risk

The Company sells its products to a variety of customers and, accordingly, is exposed to credit risk on the accounts receivable from its customers. The Company has adopted policies and procedures designed to limit its credit risk.

## 12. FINANCING EXPENSE

	1999	1998
Long-term interest	\$ 51,352	\$ 58,667
Current interest - net	(1,667)	2,556
Amortization of deferred foreign exchange loss	9,760	18,986
	<b>\$ 59,445</b>	<b>\$ 80,209</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

### 13. OTHER INCOME (EXPENSES)

	1999	1998
Loss from equity investments	\$ (149)	\$ (1,911)
Earnings (loss) on sale of capital assets - net	1,210	(1,404)
Early retirement and severance payments	(30)	(6,686)
Write-down of capital asset	(7,050)	-
Other - net	(1,349)	(1,411)
	<u>\$ (7,368)</u>	<u>\$ (11,412)</u>

### 14. INCOME TAXES

The company's effective tax rate is as follows:

	1999		1998	
	AMOUNT	%	AMOUNT	%
Federal income taxes	\$ 71,290	28.0	\$ 7,638	28.0
Provincial income taxes	41,083	16.1	4,136	15.2
Manufacturing and processing allowances	(16,746)	(6.6)	(502)	(1.8)
Large corporations tax	3,600	1.4	3,600	13.2
Permanent differences arising from acquisitions	6,342	2.5	5,977	21.9
Permanent differences arising from deferred foreign exchange	927	0.4	1,804	6.6
Other	678	0.3	(1,000)	(3.7)
	<u>\$ 107,174</u>	<u>42.1</u>	<u>\$ 21,653</u>	<u>79.4</u>

### 15. EARNINGS PER COMMON SHARE

Basic earnings per common share are calculated based on net earnings available to common shareholders, as set out below, using the weighted average common shares outstanding. Adjusted basic earnings per share assume the conversion of preferred shares at the beginning of the year. Fully diluted earnings per share assume the conversion of preferred shares and exercise of options, if dilutive, at the beginning of the year or on their dates of issue, if later.

Supplemental fully diluted earnings per share assume the convertible obligation (note 10(c)) is settled by issuing common shares of the Company.

	1999	1998
Net earnings	\$ 147,421	\$ 5,625
Preferred share dividends	(615)	(2,494)
Convertible obligation	(1,510)	(1,589)
Net earnings available to common shareholders	<u>\$ 145,296</u>	<u>\$ 1,542</u>
Weighted average common shares outstanding	<u>29,733,000</u>	<u>29,004,000</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in tables are in thousands of Canadian dollars, except where indicated)

## 15. EARNINGS PER COMMON SHARE (continued)

Earnings per common share (in dollars)

Basic	\$ 4.88	\$ 0.05
Fully diluted	\$ 4.75	\$ 0.05
Adjusted basic	\$ 4.81	\$ N/A
Supplemental fully diluted	\$ 4.73	\$ 0.05

## 16. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including the efforts of customers, suppliers, or other third parties, will be fully resolved.

## 17. SEGMENTED INFORMATION

The segmentation of the Company's manufacturing operations into lumber, panels and pulp and paper is based on a number of factors, including similarities in products, production processes, and economic characteristics. The principal operations of each segment are as follows:

Lumber	– 11 sawmills, which includes the Company's interest in joint ventures, producing lumber and by-product wood chips
Panels	– 2 MDF plants and 1 plywood plant
Pulp and paper	– 4 mills, which includes the Company's interest in joint ventures, producing a range of products including linerboard, kraft paper, softwood and hardwood BCTMP, and newsprint
Retail	– 14 full-service warehouse stores and 43 retail home improvement centres in western and central Canada

The accounting policies of each segment are the same as those described in note 1.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in table are in millions of Canadian dollars)

## 17. SEGMENTED INFORMATION (continued)

1999

	LUMBER	PANELS	PULP & PAPER	RETAIL	CORPORATE & OTHER	CONSOLIDATED
Net sales at market prices –						
To external customers	\$ 811.4	\$ 118.7	\$ 485.6	\$ 788.4	\$ –	\$ 2,204.1
To other segments	68.4	–	–	–	–	–
	<u>\$ 879.8</u>	<u>\$ 118.7</u>	<u>\$ 485.6</u>	<u>\$ 788.4</u>	<u>\$ –</u>	
EBITDA	\$ 291.7	\$ 25.7	\$ 85.8	\$ 48.9	\$ (5.6)	\$ 446.5
Amortization of capital assets	42.4	18.6	51.9	12.0	0.2	125.1
Operating income	249.3	7.1	33.9	36.9	(5.8)	321.4
Financing Expense	10.3	7.4	26.7	14.8	0.2	59.4
Other	1.1	–	(0.3)	7.6	(1.0)	7.4
Earnings (loss) before income taxes	<u>\$ 237.9</u>	<u>\$ (0.3)</u>	<u>\$ 7.5</u>	<u>\$ 14.5</u>	<u>\$ (5.0)</u>	<u>\$ 254.6</u>
Capital employed (*)	<u>\$ 432.9</u>	<u>\$ 267.5</u>	<u>\$ 710.5</u>	<u>\$ 419.6</u>	<u>\$ 62.8</u>	<u>\$ 1,893.3</u>
Identifiable assets	<u>\$ 517.7</u>	<u>\$ 304.7</u>	<u>\$ 765.7</u>	<u>\$ 501.9</u>	<u>\$ 174.9</u>	<u>\$ 2,264.9</u>
Capital asset additions, including acquisitions	<u>\$ 33.5</u>	<u>\$ 76.9</u>	<u>\$ 10.7</u>	<u>\$ 57.3</u>	<u>\$ 2.7</u>	<u>\$ 181.1</u>

## SALES BY GEOGRAPHIC AREA

Net sales to external customers

U.S.A.	\$ 578.2	\$ 48.5	\$ 134.0	\$ 4.4	\$ –	\$ 765.1
Canada	180.5	57.8	56.9	782.5	–	1,077.7
Europe	0.3	0.5	94.8	–	–	95.6
Far East	52.4	11.9	144.7	1.5	–	210.5
Other	–	–	55.2	–	–	55.2
	<u>\$ 811.4</u>	<u>\$ 118.7</u>	<u>\$ 485.6</u>	<u>\$ 788.4</u>	<u>\$ –</u>	<u>\$ 2,204.1</u>

(\*) Capital employed is defined as identifiable assets less current non-interest bearing liabilities.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31 (figures in table are in millions of Canadian dollars)

## 17. SEGMENTED INFORMATION (continued)

1998

	LUMBER	PANELS	PULP & PAPER	RETAIL	CORPORATE & OTHER	CONSOLIDATED
Net sales at market prices –						
To external customers	\$ 668.6	\$ 78.3	\$ 441.5	\$ 688.2	\$ (13.2)	<u>\$ 1,863.4</u>
To other segments	74.3	–	–	–	–	
	<u>\$ 742.9</u>	<u>\$ 78.3</u>	<u>\$ 441.5</u>	<u>\$ 688.2</u>	<u>\$ (13.2)</u>	
EBITDA	\$ 124.3	\$ 7.9	\$ 89.1	\$ 41.6	\$ (16.2)	\$ 246.7
Amortization of capital assets	46.9	17.9	50.2	12.6	0.2	127.8
Operating income	77.4	(10.0)	38.9	29.0	(16.4)	118.9
Financing Expense	12.9	7.1	26.9	11.7	21.6	80.2
Other	3.7	(0.3)	7.3	(1.0)	1.7	11.4
Earnings (loss) before income taxes	<u>\$ 60.8</u>	<u>\$ (16.8)</u>	<u>\$ 4.7</u>	<u>\$ 18.3</u>	<u>\$ (39.7)</u>	<u>\$ 27.3</u>
Capital employed (*)	<u>\$ 439.6</u>	<u>\$ 208.9</u>	<u>\$ 760.5</u>	<u>\$ 368.3</u>	<u>\$ 84.8</u>	<u>\$ 1,862.1</u>
Identifiable assets	<u>\$ 531.1</u>	<u>\$ 215.7</u>	<u>\$ 821.9</u>	<u>\$ 432.2</u>	<u>\$ 108.0</u>	<u>\$ 2,108.9</u>
Capital asset additions, including acquisitions	<u>\$ 43.3</u>	<u>\$ 2.2</u>	<u>\$ 27.7</u>	<u>\$ 79.0</u>	<u>\$ 5.5</u>	<u>\$ 157.7</u>

## SALES BY GEOGRAPHIC AREA

Net sales to external customers						
U.S.A.	\$ 443.4	\$ 30.2	\$ 126.3	\$ 7.2	\$ –	\$ 607.1
Canada	190.0	42.5	40.5	680.0	(13.2)	939.8
Europe	0.4	0.1	99.3	–	–	99.8
Far East	34.7	5.0	102.3	1.0	–	143.0
Other	0.1	0.5	73.1	–	–	73.7
	<u>\$ 668.6</u>	<u>\$ 78.3</u>	<u>\$ 441.5</u>	<u>\$ 688.2</u>	<u>\$ (13.2)</u>	<u>\$ 1,863.4</u>

(\*) Capital employed is defined as identifiable assets less related current non-interest bearing liabilities.

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## TEN-YEAR REVIEW

	1999	1998	1997	1996
<b>FINANCIAL</b>				
<b>Sales &amp; Earnings</b> (\$ millions)				
Net Sales	2,204.1	1,863.4	1,869.8	1,641.8
Cost of Product Sold	1,689.8	1,551.6	1,480.6	1,262.8
Amortization	125.1	127.8	129.1	113.5
Selling, General and Administrative	67.8	65.1	78.4	66.3
Operating Earnings	321.4	118.9	181.7	199.2
Financing Expense	59.4	80.2	68.2	61.4
Other	7.4	11.4	(2.9)	(0.5)
Income Taxes	107.2	21.7	46.9	46.0
Net Earnings (Loss)	147.4	5.6	69.5	92.3
<b>Cash Provided from Operations</b> (\$ millions)				
	373.7	140.8	233.2	254.7
<b>Cash Dividends Declared</b> (\$ millions)				
Common Shares	16.2	15.7	14.5	13.0
Preferred Shares	0.6	2.5	2.5	2.5
<b>Capital Asset Additions and Acquisitions</b> (\$ millions)				
	181.1	157.7	156.2	219.8
<b>Financial Position</b> (\$ millions)				
Working Capital	343.7	324.5	353.0	321.4
Capital Assets, Net	1,414.8	1,371.1	1,415.7	1,415.9
Long-Term Debt	589.9	718.4	660.6	650.3
Non-Recourse Debt	—	—	101.1	120.4
Deferred Income Taxes	139.5	142.3	140.3	128.5
Preferred Shares	—	49.9	49.9	49.9
Common Shareholders' Equity	1,026.3	847.7	843.2	790.5
<b>Per Common Share</b> (dollars)				
Fully Diluted Earnings	4.75	0.05	2.30	3.11
Cash Dividends Declared	0.54	0.54	0.50	0.455
Common Shareholders' Equity	33.27	29.16	29.10	27.29
Price Range – High	40.00	41.00	47.00	44.00
– Low	29.00	19.05	30.65	28.50
Return on Net Assets Employed <sup>(2)</sup>	8.2%	0.3%	3.9%	5.2%
Return on Net Sales	6.7%	0.3%	3.7%	5.6%
Return on Average Common Shareholders' Equity	15.8%	0.2%	8.2%	12.3%
Net Debt to Capitalization	.36	.47	.46	.48
Number of Employees (year-end)	8,320	7,269	6,511	5,425
<b>OPERATIONS</b>				
<b>Production</b> (figures in thousands)				
Lumber (Mfbm)	1,645	1,513	1,544	1,562
Linerboard (tonnes)	331	311	310	330
Kraft Paper (tonnes)	103	104	102	80
BCTMP (tonnes)	337	288	300	250
Newsprint (tonnes)	124	123	125	119
MDF (Msf)	215	181	161	102
Plywood (Msf)	37	—	—	—
(1) Prior years' figures restated to reflect stock dividends (2) Net of Deferred Foreign Exchange (Gain) Loss				

## TEN-YEAR REVIEW

1995	1994	1993	1992	1991	1990
1,491.8	1,280.5	904.0	677.3	533.9	540.5
1,128.9	975.4	687.3	554.0	474.5	455.1
95.2	74.4	57.3	48.9	42.9	38.1
63.8	54.6	35.7	29.7	28.8	27.7
203.9	176.1	123.8	44.6	(12.3)	19.6
57.1	47.3	31.0	25.4	21.3	16.1
(5.5)	(61.6)	(1.7)	0.2	1.7	(0.4)
56.4	71.9	41.0	8.8	(18.8)	0.5
95.9	118.5	53.5	10.2	(16.5)	3.4
185.2	108.0	114.8	89.5	37.1	37.4
10.7	9.1	7.9	6.8	6.5	6.2
1.1	-	-	-	-	-
602.8	218.2	235.0	41.9	33.3	116.6
226.3	164.9	125.7	143.6	134.7	93.3
1,322.6	875.6	743.9	567.2	575.5	593.9
578.9	245.3	207.4	169.0	154.8	153.1
149.5	177.2	178.0	181.0	176.2	164.0
112.1	116.3	109.1	101.9	104.4	102.6
49.9	-	-	-	-	-
673.7	532.2	393.6	276.0	272.6	265.3
3.51	4.71	2.28	0.45	(0.77)	0.17
0.40	0.40	0.40	0.40	0.40	0.40
24.30	21.21	15.68	12.17	12.02	12.82
36.36	39.88	41.12	23.67	16.90	15.78
28.50	30.00	21.60	15.03	12.77	12.40
6.1%	11.1%	6.1%	1.4%	(2.3%)	0.7%
6.4%	9.3%	5.9%	1.5%	(3.1%)	0.6%
15.8%	26.4%	16.7%	3.7%	(6.1%)	1.3%
.54	.51	.53	.54	.56	.59
5,099	4,070	3,560	2,654	2,632	2,627
1,380	1,320	1,133	999	971	993
312	316	188	125	141	127
96	84	58	39	41	44
187	152	146	146	141	144
119	117	112	110	87	22
14	-	-	-	-	-
-	-	-	-	-	-