

**THE MANAGEMENT OF WEST FRASER TIMBER CO. LTD. IS RESPONSIBLE** for the preparation as well as the integrity of the accompanying consolidated financial statements and all related financial data contained in the annual report. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and necessarily include amounts that represent the best estimates and judgments of management. The Company has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorizations.

The consolidated financial statements have been examined by the Company's auditors, PricewaterhouseCoopers LLP, who have issued their report thereon.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, comprised of five Directors, none of whom is an officer or employee of the Company. The Committee meets from time to time with management and the Company's auditors to review the financial statements and matters relating to the audit. The Company's auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders.

***Henry H. Ketcham (signed)***

Henry H. Ketcham  
Chairman of the Board,  
President & Chief Executive Officer

***Martti Solin (signed)***

Martti Solin  
Vice President, Finance  
& Chief Financial Officer

January 31, 2001

**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, 2000 and 1999 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, 2000 and 1999 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, after giving effect to the change in accounting policies described in note 2 to the consolidated financial statements, on a consistent basis.

***PricewaterhouseCoopers LLP (signed)***

Chartered Accountants

Vancouver, B.C.

January 31, 2001

~~Debt~~**ASSETS****Current assets**

Cash and short-term investments  
 Accounts receivable  
 Inventories (note 5)  
 Prepaid expenses

	2000	1999
	\$ —	\$ 97,504
	224,612	186,244
	523,468	500,104
	9,585	9,697

Other assets (note 6)

Capital assets (note 7)

Deferred charges (note 8)

	757,665	793,549
	96,876	33,779
	1,562,478	1,414,795
	36,433	22,797
	<b>\$ 2,453,452</b>	<b>\$ 2,264,920</b>

**LIABILITIES****Current liabilities**

Bank indebtedness (note 9)  
 Accounts payable and accrued liabilities  
 Current portion of long-term debt (note 9)

	\$ 95,633	\$ 42,171
	310,201	371,576
	37,488	36,083
	443,322	449,830

**Long-term debt** (note 9)

**Reforestation obligation**

**Future income taxes**

	570,633	589,878
	63,678	59,419
	248,488	139,520
	<b>1,326,121</b>	<b>1,238,647</b>

**SHAREHOLDERS' EQUITY**

**Convertible obligation** (note 11(b))

**Share capital** (note 10)

**Contributed surplus** (note 11(c))

**Retained earnings**

	19,536	17,256
	324,303	326,121
	650	1,402
	782,842	681,494
	1,127,331	1,026,273
	<b>\$ 2,453,452</b>	<b>\$ 2,264,920</b>

Approved by the Directors

**C. Calvert Knudsen (signed)**

**William P. Ketcham (signed)**

C. Calvert Knudsen  
 Director

William P. Ketcham  
 Director

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

## EARNINGS

	2000	1999
<b>Net sales</b>	<b>\$ 2,309,440</b>	<b>\$ 2,204,115</b>
<b>Costs and expenses</b>		
Cost of products sold	1,651,722	1,530,642
Retail store operating	182,463	174,506
Amortization of capital assets	136,961	125,142
Selling, general and administrative	59,472	52,417
	<b>2,030,618</b>	<b>1,882,707</b>
<b>OPERATING EARNINGS</b>	<b>278,822</b>	<b>321,408</b>
<b>Other</b>		
Financing (note 14)	(54,781)	(59,445)
Writedown of capital assets	(20,837)	(7,050)
Other income (expense) (note 15)	8,763	(318)
	<b>211,967</b>	<b>254,595</b>
<b>Earnings before income taxes</b>		
<b>Provision for (recovery of) income taxes</b> (note 16)		
Current	103,495	109,968
Future	(22,986)	(2,794)
	<b>80,509</b>	<b>107,174</b>
<b>NET EARNINGS</b>	<b>\$ 131,458</b>	<b>\$ 147,421</b>
<b>Earnings per common share</b> (notes 2 and 17)		
Basic	<b>\$ 4.23</b>	<b>\$ 4.93</b>
Diluted	<b>\$ 4.14</b>	<b>\$ 4.82</b>
<b>RETAINED EARNINGS</b>		
<b>Balance—beginning of year</b>	<b>\$ 681,494</b>	<b>\$ 550,257</b>
<b>Change in accounting for future income taxes</b> (note 2)	<b>(13,054)</b>	<b>—</b>
	<b>668,440</b>	<b>550,257</b>
<b>Net earnings</b>	<b>131,458</b>	<b>147,421</b>
	<b>799,898</b>	<b>697,678</b>
<b>Convertible obligation</b> (note 11(b))	<b>(2,280)</b>	<b>(1,510)</b>
<b>Cancellation of shares</b> (note 10)	<b>2,213</b>	<b>2,149</b>
<b>Dividends</b>		
Preferred shares	—	(615)
Common shares	<b>(16,989)</b>	<b>(16,208)</b>
<b>Balance—end of year</b>	<b>\$ 782,842</b>	<b>\$ 681,494</b>

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

### CASH FLOWS FROM OPERATING ACTIVITIES

#### Net earnings

2000	1999
\$ 131,458	\$ 147,421

#### Items not affecting cash

Amortization of capital assets

136,961                      125,142

Amortization of deferred foreign exchange loss

8,696                         9,760

Future income taxes

(22,986)                      (2,794)

Change in reforestation obligation

9,914                         2,832

Writedown of capital assets

20,837                         7,050

Other

(11,350)                      (449)

**273,530**                      288,962

Net change in non-cash working capital items

**(111,093)**                      84,767

**162,437**                      373,729

### CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of long-term debt

(37,413)                      (99,765)

Dividends

(16,989)                      (16,823)

Other

(357)                         (1,956)

**(54,759)**                      (118,544)

### CASH FLOWS FROM INVESTING ACTIVITIES

Capital asset additions

(100,566)                      (106,656)

Proceeds from disposal of capital assets

12,365                         1,914

Acquisitions (note 3)

(117,545)                      (74,403)

Decrease (increase) in other assets

(52,898)                         351

**(258,644)**                      (178,794)

### INCREASE (DECREASE) IN CASH

(150,966)                      76,391

#### Net cash—beginning of year

55,333                         (21,058)

#### Net cash—end of year

**\$ (95,633)**                      \$ 55,333

#### Net cash consists of

Cash and short-term investments

\$ —                             \$ 97,504

Bank indebtedness

(95,633)                      (42,171)

**\$ (95,633)**                      \$ 55,333

#### INTEREST PAID

**\$ 53,662**                      \$ 53,611

#### INCOME TAXES PAID

**\$ 160,101**                      \$ 25,772

(figures in tables are in thousands of Canadian dollars, except where indicated)

## I. 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., Alberta Plywood Ltd., West Fraser (South), Inc., 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.

### 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 period. 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.

The company's foreign operations are considered to be integrated and, accordingly, have been translated using the temporal method. Under this method, monetary items are translated at the rate of exchange in effect at the balance sheet dates, and non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the average rate of exchange in effect during the period in which they occur, except for amortization of assets, which is translated at the same exchange rates as the assets to which it relates. Gains or losses on the translation of monetary items are included in earnings.

### 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.

### 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. Any permanent impairment in the carrying value of capital assets is charged against earnings in the period such an impairment is determined.

(figures in tables are in thousands of Canadian dollars, except where indicated)

## **I. 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 50 years. Amortization of company-owned timberlands will commence 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.

## **2. CHANGE IN ACCOUNTING POLICIES**

### **Future income taxes**

Effective January 1, 2000, the company adopted the liability method of accounting for income taxes in accordance with the recommendations of the Canadian Institute of Chartered Accountants ("CICA"). Under this method, future tax assets and liabilities are based upon differences between financial reporting and tax bases of assets and liabilities measured using current income tax rates. The company has adopted the new recommendations retroactively without restating prior years' financial statements. The cumulative effect of adopting the liability method of accounting for income taxes at January 1, 2000 was to increase capital assets by \$119 million, decrease retained earnings by \$13 million and increase future income taxes (previously described as deferred income taxes) by \$132 million. Net earnings and earnings per share for 1999 remain unchanged. Prior to January 1, 2000, income taxes were accounted for by the deferral method.

### **Earnings per share**

Effective December 31, 2000, the company changed its method of calculating earnings per share in accordance with the recommendations of the CICA. The company has adopted the new recommendations retroactively and has restated prior years' financial statements. The effect of adopting the new recommendations on the prior year's financial statements is as follows:

	1999		1999
	(Restated)		
Basic earnings per share (dollars)	\$ 4.93	\$	4.88
Diluted earnings per share (dollars)	\$ 4.82	\$	4.75

(figures in tables are in thousands of Canadian dollars, except where indicated)

### Employee benefit plans

Effective January 1, 2000, the company changed its policy for accounting for employee future benefits in accordance with the recommendations of the CICA, on a prospective basis. Prior to adoption of the new recommendations, post-retirement benefits other than pensions were accounted for on a cash basis.

The company accrues its obligation under employee benefit plans and related costs, net of plan assets. The cost of pensions and other post-retirement benefits earned by employees is determined actuarially, using the projected benefit method prorated on length of service and management's best estimate of expected investment performance, salary escalation, retirement age of employees and expected health care costs and premiums.

Defined benefit pension plan assets are reported at market values. The discount rate used to determine the accrued benefit obligation was determined by reference to market yields. Adjustments and transitional amounts are amortized on a straight-line basis over the average service period of the employee groups, which is estimated to be 13 years.

## 3. ACQUISITIONS

### 2000

a) Effective December 15, 2000, the company acquired two sawmills in the southern United States and entered into a long-term timber supply contract with the seller.

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>16,997</b>
Timber deposits		<b>3,689</b>
Capital assets		<b>91,174</b>
Cash consideration	\$	<b>111,860</b>

b) Effective November 1, 2000, the company acquired a 50% interest in a sawmill and timber rights located in Alberta. The company's share of the cash consideration for the purchase amounted to \$5,685,000.

### 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>74,403</b>

(figures in tables are in thousands of Canadian dollars, except where indicated)

#### 4. INVESTMENTS IN JOINT VENTURES

The company's principal 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:

	<b>2000</b>	1999
Current assets	\$ <b>62,851</b>	\$ 63,575
Non-current assets	<b>219,950</b>	212,079
Total assets	<b>282,801</b>	275,654
Current liabilities	<b>38,741</b>	28,100
Non-current liabilities	<b>2,584</b>	—
Equity	\$ <b>241,476</b>	\$ 247,554
Net sales	\$ <b>284,964</b>	\$ 265,449
Expenses	<b>222,130</b>	214,071
Net earnings	\$ <b>62,834</b>	\$ 51,378
Cash flows from:		
Operating activities	\$ <b>94,783</b>	\$ 74,492
Financing activities	\$ <b>2,650</b>	\$ —
Investing activities	\$ <b>(15,194)</b>	\$ (6,322)

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.

#### 5. INVENTORIES

	<b>2000</b>	1999
Logs and wood chips	\$ <b>117,198</b>	\$ 129,948
Manufactured products	<b>165,640</b>	127,019
Retail products	<b>188,603</b>	191,924
Processing materials and supplies	<b>52,027</b>	51,213
	\$ <b>523,468</b>	\$ 500,104

#### 6. OTHER ASSETS

	<b>2000</b>	1999
Power purchase agreements (note 11(d))	\$ <b>38,737</b>	\$ —
Goodwill—net of accumulated amortization	<b>16,253</b>	16,993
Investments	<b>32,638</b>	8,760
Advances for timber and timber deposits	<b>5,030</b>	3,348
Non-interest bearing loans to employees	<b>2,291</b>	2,444
Other	<b>1,927</b>	2,234
	\$ <b>96,876</b>	\$ 33,779

*(figures in tables are in thousands of Canadian dollars, except where indicated)***7. CAPITAL ASSETS**

	2000		
	Cost	Accumulated amortization	Net
Manufacturing plant and equipment	\$ 2,076,528	\$ 1,081,199	\$ 995,329
Timber rights, timberlands and roads	424,633	147,298	277,335
Retail stores and equipment	250,019	82,074	167,945
Land	121,869	–	121,869
	<b>\$ 2,873,049</b>	<b>\$ 1,310,571</b>	<b>\$ 1,562,478</b>

  

	1999		
	Cost	Accumulated amortization	Net
Manufacturing plant and equipment	\$ 1,938,269	\$ 964,782	\$ 973,487
Timber rights, timberlands and roads	311,201	138,792	172,409
Retail stores and equipment	233,282	73,371	159,911
Land	108,988	–	108,988
	<b>\$ 2,591,740</b>	<b>\$ 1,176,945</b>	<b>\$ 1,414,795</b>

**8. DEFERRED CHARGES**

	2000	1999
Deferred foreign exchange loss	\$ 21,424	\$ 10,665
Deferred pension costs	12,891	9,421
Deferred financing fees	2,118	2,711
	<b>\$ 36,433</b>	<b>\$ 22,797</b>

**9. LONG-TERM DEBT AND BANK INDEBTEDNESS**

Long-Term Debt	2000	1999
U.S. \$125 million term notes due 2002; interest at 7.25%	\$ 187,339	\$ 180,283
U.S. \$125 million term notes due 2005; interest at 7.50%	187,229	180,140
Cdn. \$125 million term notes due 2007; interest at 6.80%	124,840	124,816
U.S. \$72.5 (1999–U.S. \$97.5) million notes due 2001 to 2004; interest at 8.44%	108,713	140,722
	<b>608,121</b>	625,961
Less: Current portion	37,488	36,083
	<b>\$ 570,633</b>	<b>\$ 589,878</b>

All long-term debt and utilized bank lines of credit are unsecured.

Principal repayments required are as follows:

2001	\$ 37,488
2002	224,826
2003	18,744
2004	14,995
2005	187,229
Thereafter	124,839
	<b>\$ 608,121</b>

(figures in tables are in thousands of Canadian dollars, except where indicated)

### Bank indebtedness

The company has approximately \$430 million in demand or revolver lines of credit available, of which \$95.6 million was utilized as at December 31, 2000 (1999—\$42.2 million). The amounts drawn under these facilities may include bankers' acceptances, demand loans or advances, which may be made in U.S. or Canadian dollars, and bear interest at market rates based on bank prime, LIBOR or bankers' acceptance rates.

## 10. SHARE CAPITAL

Authorized

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

200,000,000 common shares, without par value

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

Issued	2000		1999	
	Number of shares	Amount	Number of Shares	Amount
Common shares	24,515,504	\$ 323,718	24,643,606	\$ 326,735
Class B common shares	5,829,068	585	5,947,068	597
	<b>30,344,572</b>	<b>324,303</b>	30,590,674	327,332
Shares owned by a subsidiary	—	—	(259,545)	(1,211)
Total common shares	<b>30,344,572</b>	<b>\$ 324,303</b>	30,331,129	\$ 326,121

### Share capital transactions during 2000

The company issued 13,443 common shares for \$394,000; 118,000 Class B shares were converted to common shares.

The company cancelled 259,545 common shares owned by a subsidiary. The resulting surplus of \$2,213,000 has been credited to retained earnings.

### 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 11(c)). 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 of \$2,149,000 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, 2000 amounted to \$4,248,000 (1999—\$4,130,000) and are included in accounts payable and accrued liabilities.

#### Share options

The company has a fixed share option plan for its directors, officers and employees, under which it may issue up to 2,000,000 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 stock 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 seven years.

(figures in tables are in thousands of Canadian dollars, except where indicated)

A summary of the activity in the stock option plan is presented below:

	2000		1999	
	Number of shares	Weighted average share price (dollars)	Number of Shares	Weighted average share price (dollars)
Outstanding—				
Beginning of year	<b>669,979</b>	<b>\$ 35.18</b>	543,479	\$ 36.14
Granted	<b>334,000</b>	<b>36.00</b>	132,000	34.00
Exercised	—	—	(1,100)	29.13
Expired	<b>(3,657)</b>	<b>33.78</b>	(4,400)	37.97
Outstanding—				
End of year	<b>1,000,322</b>	<b>\$ 35.46</b>	669,979	\$ 35.18
Options exercisable at the end of the year	<b>413,872</b>		301,479	

The following table summarizes information about the stock options outstanding at December 31, 2000:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of exercisable options	Average weighted exercise price
\$20–\$30	118,250	5	\$ 29.13	97,350	\$ 29.13
\$30–\$40	741,822	7	\$ 35.04	226,872	\$ 34.13
\$40–\$50	140,250	6	\$ 43.00	89,650	\$ 43.00
	<b>1,000,322</b>			<b>413,872</b>	

## II. 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:

2001	\$ 17,330
2002	13,174
2003	10,350
2004	8,324
2005	7,584
	<b>\$ 56,762</b>

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

*(figures in tables are in thousands of Canadian dollars, except where indicated)*

#### **b) 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, (i) 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, (ii) the vendors may require the company to purchase on December 31, 2004 such shares at the price of \$21.40 each, and (iii) 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 (i) and (ii). 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.

#### **c) Preferred share purchase**

Under the terms of the preferred share purchase described in note 10, the company may be required to pay additional purchase consideration based on the market value of the 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. In addition, the company is required to pay an excess dividend entitlement dependent upon the common share dividends paid. During 2000, an excess dividend entitlement of \$752,000 was paid and charged to contributed surplus.

Both obligations will be terminated at the earliest of:

- i) the date on which the market price equals or exceeds \$39.90 per share for a 10-day period;
- ii) the date on which the shareholder ceases to hold the common shares;
- iii) July 31, 2002.

#### **d) Power purchase agreements**

In 2000, the company entered into agreements to acquire a portion of the electricity to be generated from two power plants in Alberta over the next 20 years, beginning January 1, 2001, at largely predetermined prices. The company's share is expected to be 150 megawatts per year for the first 14 years and 120 megawatts per year for the final six years. The company also has entered into agreements to resell the electricity through the Alberta Power Pool at prevailing market prices or through direct sales. The initial payment for these rights of \$39 million is being amortized over the life of the underlying agreements.

## **12. POST-RETIREMENT BENEFITS**

The company maintains non-contributory defined benefit and defined contribution pension plans covering a majority of its employees. The defined benefit plans provide pension benefits based on length of service and, in some cases, earnings and length of service. The company has unfunded supplemental defined benefit pension plans for certain salaried employees. The present value of accumulated pension benefits based on earnings and length of service is provided for in the financial statements. The company also provides group life insurance, medical and extended health benefits to certain employee groups. Under its non-pension post-retirement benefit plans, the projected benefit obligations were \$6,444,000 at December 31, 2000.

The total pension expense for the company's defined contribution pension plans is \$1,530,000 (1999-\$1,415,000).

*(figures in tables are in thousands of Canadian dollars, except where indicated)*

The status of the company's defined benefit pension plans at December 31, 2000 and 1999 was as follows:

	<b>2000</b>		1999
<b>Pension expense</b>			
Current service cost	\$ 9,857	\$	9,617
Interest cost	13,316		12,216
Expected plan return	(13,389)		(11,461)
Amortization of transition amount and experience gains (losses)	(16)		1,506
<b>Net expense</b>	<b>\$ 9,768</b>	<b>\$</b>	<b>11,878</b>
<b>Accrued benefit obligation</b>			
Projected benefit obligations—opening	\$ 183,511	\$	166,006
Current service cost	9,857		9,617
Interest cost	13,316		12,216
Benefits paid	(6,899)		(5,829)
Actuarial gains	127		1,075
Other	312		426
<b>Projected benefit obligations—ending</b>	<b>\$ 200,224</b>	<b>\$</b>	<b>183,511</b>
<b>Plan assets</b>			
Fair value—opening	\$ 190,464	\$	167,736
Actual return	11,802		19,552
Contributions	8,519		9,900
Benefits paid	(7,039)		(6,724)
<b>Fair value—ending</b>	<b>\$ 203,746</b>	<b>\$</b>	<b>190,464</b>
<b>Funded status of the plan</b>			
Plan surplus	\$ 3,522	\$	6,953
Unamortized net actuarial gains (losses)	1,877		(756)
Unamortized past service costs	698		—
Unamortized net transitional liability	(2,703)		—
<b>Net accrued benefit asset</b>	<b>\$ 3,394</b>	<b>\$</b>	<b>6,197</b>
<b>Represented by</b>			
Deferred pension costs	\$ 12,891	\$	9,421
Pension liability	(9,497)		(3,224)
	<b>\$ 3,394</b>	<b>\$</b>	<b>6,197</b>

The significant actuarial assumptions are as follows:

Discount rate	7%
Expected rate of return on plan assets	7%
Compensation increase	2%–5%
Inflation rate	4%

(figures in tables are in thousands of Canadian dollars, except where indicated)

### 13. 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-term 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.

	2000		1999	
	Book value	Fair value	Book value	Fair value
Long-term debt (note 9)				
Term notes	\$ 499,408	\$ 488,161	\$ 485,239	\$ 472,292
Other notes	108,713	112,788	140,722	150,517
	\$ 608,121	\$ 600,949	\$ 625,961	\$ 622,809

#### b) Credit risk

The company sells its products to a variety of customers with various payment terms and, as such, is exposed to credit risk. The company has adopted policies and procedures designed to limit its credit risk.

### 14. FINANCING EXPENSE

	2000	1999
Long-term interest	\$ 47,277	\$ 51,352
Current interest—net	(1,192)	(1,667)
Amortization of deferred foreign exchange loss	8,696	9,760
	\$ 54,781	\$ 59,445

### 15. OTHER INCOME (EXPENSE)

	2000	1999
Earnings (loss) from equity investments	\$ 916	\$ (149)
Gain on sale of capital assets—net	8,592	1,210
Other—net	(745)	(1,379)
	\$ 8,763	\$ (318)

### 16. INCOME TAXES

The company's effective tax rate is as follows:

	2000		1999	
	Amount	%	Amount	%
Federal income taxes	\$ 59,351	28.0	\$ 71,290	28.0
Provincial income taxes	31,096	14.7	41,083	16.1
Manufacturing and processing allowances	(10,862)	(5.1)	(16,746)	(6.6)
Large corporations tax	3,900	1.8	3,600	1.4
Permanent differences on acquisitions	—	—	6,342	2.5
Other	(2,976)	(1.4)	1,605	0.7
	\$ 80,509	38.0	\$ 107,174	42.1

(figures in tables are in thousands of Canadian dollars, except where indicated)

The components of the future income tax liability at December 31, 2000 are as follows:

Future income tax liabilities	
Capital assets	<b>\$ 280,068</b>
Other assets	<b>10,408</b>
	<b>290,476</b>
Future income tax assets	
Reforestation accrual	<b>35,222</b>
Other liabilities	<b>6,766</b>
	<b>41,988</b>
	<b>\$ 248,488</b>

## 17. 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 number of common shares outstanding. Diluted earnings per share assume the conversion of preferred shares, settlement of convertible obligations (note 11(b)) and exercise of options, if dilutive, at the beginning of the year or on their dates of issue, if later.

	<b>2000</b>	1999
Net earnings	<b>\$ 131,458</b>	\$ 147,421
Preferred share dividend	-	(615)
Surplus (excess dividend) on purchase of preferred shares	<b>(752)</b>	1,402
Convertible obligation	<b>(2,280)</b>	(1,510)
Net earnings available to common shareholders	<b>\$ 128,426</b>	\$ 146,698
Weighted average number of common shares outstanding	<b>30,337,000</b>	29,733,000

## 18. 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	<ul style="list-style-type: none"> <li>• 14 sawmills, which includes the company's interest in joint ventures, producing lumber and by-product wood chips</li> </ul>
Panels	<ul style="list-style-type: none"> <li>• 2 MDF plants and 1 plywood plant</li> </ul>
Pulp and paper	<ul style="list-style-type: none"> <li>• 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</li> </ul>
Retail	<ul style="list-style-type: none"> <li>• 15 full-service warehouse stores and 41 retail home improvement centres in western and central Canada</li> </ul>

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

(figures in table are in millions of Canadian dollars)

<b>2000</b>	Lumber	Panels	Pulp & paper	Retail	Corporate and other	Consolidated
Net sales at market prices						
To external customers	\$ 724.3	\$ 198.5	\$ 582.0	\$ 804.6	\$ –	\$ 2,309.4
To other segments	64.4	–	–	–	–	
	<u>\$ 788.7</u>	<u>\$ 198.5</u>	<u>\$ 582.0</u>	<u>\$ 804.6</u>	<u>\$ –</u>	
EBITDA	\$ 150.8	\$ 47.8	\$ 173.7	\$ 47.8	\$ (4.2)	\$ 415.9
Amortization of capital assets	49.0	22.9	52.0	12.9	0.2	137.0
Operating income (loss)	101.8	24.9	121.7	34.9	(4.4)	278.9
Financing expense (income)	10.5	7.1	20.5	19.6	(2.9)	54.8
Other	14.2	–	(1.8)	(1.5)	1.2	12.1
Earnings (loss) before income taxes	\$ 77.1	\$ 17.8	\$ 103.0	\$ 16.8	\$ (2.7)	\$ 212.0
Capital employed (*)	\$ 615.6	\$ 253.6	\$ 717.4	\$ 459.4	\$ 100.8	\$ 2,146.8
Identifiable assets	\$ 711.1	\$ 274.1	\$ 774.8	\$ 524.1	\$ 169.4	\$ 2,453.5
Capital asset additions, including acquisitions	\$ 154.2	\$ 7.2	\$ 16.2	\$ 36.5	\$ 4.0	\$ 218.1
Sales by geographic area						
Net sales to external customers						
U.S.A.	\$ 363.1	\$ 55.3	\$ 156.8	\$ 2.9	\$ –	\$ 578.1
Canada	276.5	127.4	56.2	799.8	–	1,259.9
Europe	–	–	103.8	–	–	103.8
Far East	84.7	15.8	186.9	1.4	–	288.8
Other	–	–	78.3	0.5	–	78.8
	<u>\$ 724.3</u>	<u>\$ 198.5</u>	<u>\$ 582.0</u>	<u>\$ 804.6</u>	<u>\$ –</u>	<u>\$ 2,309.4</u>

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

*(figures in tables are in millions of Canadian dollars)***1999**

	Lumber	Panels	Pulp & paper	Retail	Corporate and 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 (loss)	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	\$ 237.9	\$ (0.3)	\$ 7.5	\$ 14.5	\$ (5.0)	\$ 254.6
Capital employed (*)	\$ 432.9	\$ 267.5	\$ 710.5	\$ 419.6	\$ 62.8	\$ 1,893.3
Identifiable assets	\$ 517.7	\$ 304.7	\$ 765.7	\$ 501.9	\$ 174.9	\$ 2,264.9
Capital asset additions, including acquisitions	\$ 33.5	\$ 76.9	\$ 10.7	\$ 57.3	\$ 2.7	\$ 181.1
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.