Responsibility of Management

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
Chairman of the Board,
President & Chief Executive Officer

Martti Solin
Vice President, Finance
& Chief Financial Officer

January 31, 2002

Auditors' Report

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, 2001 and 2000 and the consolidated statements of earnings, 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, 2001 and 2000 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 policy described in note 2 to the consolidated financial statements, on a consistent basis.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, B.C.

January 31, 2002

Consolidated Balance Sheets

As at December 31 (in thousands of Canadian dollars)	**2001**	2000
ASSETS		
Current Assets		
Cash and Short-term Investments	**$ 270,057**	$ —
Accounts Receivable	**169,635**	182,510
Inventories *(note 6)*	**305,550**	334,844
Prepaid Expenses	**7,789**	6,446
Discontinued Operations – Current Assets *(note 3)*	**5,984**	233,866
	759,015	757,666
Other Assets *(note 7)*	**86,490**	78,591
Capital Assets *(note 8)*	**1,290,713**	1,272,566
Deferred Charges *(note 9)*	**49,348**	36,433
Discontinued Operations – Long-term Assets *(note 3)*	**167,020**	308,196
	$ 2,352,586	$ 2,453,452
LIABILITIES		
Current Liabilities		
Bank Indebtedness *(note 10)*	**$ —**	$ 95,633
Accounts Payable and Accrued Liabilities	**188,799**	206,564
Current Portion of Reforestation Obligation	**28,135**	29,846
Current Portion of Long-term Debt *(note 10)*	**238,920**	37,488
Discontinued Operations – Current Liabilities *(note 3)*	**15,370**	65,091
	471,224	434,622
Long-term Debt *(note 10)*	**359,589**	570,633
Other Liabilities *(note 11)*	**100,649**	72,378
Future Income Taxes *(note 18)*	**213,171**	245,242
Discontinued Operations – Long-term Liabilities *(note 3)*	**4,543**	3,246
	1,149,176	1,326,121
SHAREHOLDERS' EQUITY		
Convertible Obligation *(note 3)*	**—**	19,536
Share Capital *(note 12)*	**324,789**	324,303
Contributed Surplus *(note 13(b))*	**—**	650
Retained Earnings	**878,621**	782,842
	1,203,410	1,127,331
	$ 2,352,586	$ 2,453,452

Contingency *(note 21)*

APPROVED BY THE DIRECTORS

C. CALVERT KNUDSEN
DIRECTOR

WILLIAM P. KETCHAM
DIRECTOR

Consolidated Statements of Earnings and Retained Earnings

For the years ended December 31 (in thousands of Canadian dollars)	**2001**	2000
EARNINGS		
Net Sales	**$ 1,562,306**	$ 1,504,833
Costs and Expenses		
Cost of Products Sold	**1,181,304**	1,077,361
Amortization of Capital Assets	**123,279**	123,951
Selling, General and Administrative	**70,494**	60,377
	1,375,077	1,261,689
Operating Earnings	**187,229**	243,144
Other		
Financing Expense *(note 16)*	**(48,575)**	(35,164)
Write-down of Capital Assets	**—**	(19,837)
Other Income *(note 17)*	**4,705**	6,256
Earnings from Continuing Operations Before Income Taxes	**143,359**	194,399
Provision for (Recovery of) Income Taxes *(note 18)*		
Current	**66,590**	96,236
Future	**(32,071)**	(23,686)
	34,519	72,550
Earnings from Continuing Operations	**108,840**	121,849
Earnings from Discontinued Operations *(note 3)*	**17,648**	9,609
Earnings	**$ 126,488**	$ 131,458
Earnings per Share *(note 19)*		
Basic from Continuing Operations	**$ 3.53**	$ 3.99
Basic after Discontinued Operations	**$ 3.69**	$ 4.23
Diluted from Continuing Operations	**$ 3.52**	$ 3.99
Diluted after Discontinued Operations	**$ 3.68**	$ 4.14
RETAINED EARNINGS		
Balance – Beginning of Year	**$ 782,842**	$ 681,494
Change in Accounting for Future Income Taxes *(note 2)*	**—**	(13,054)
	782,842	668,440
Earnings	**126,488**	131,458
	909,330	799,898
Common Share Dividends	**(17,001)**	(16,989)
Cancellation of Shares *(note 12)*	**—**	2,213
Discontinued Operations – Convertible Obligation *(note 3)*	**(12,564)**	(2,280)
Preferred Share Payment *(note 13(b))*	**(1,144)**	—
Balance – End of Year	**$ 878,621**	$ 782,842

Consolidated Statements of Cash Flows

For the years ended December 31 (in thousands of Canadian dollars)	2001	2000
Cash Flows from Operating Activities		
Earnings from Continuing Operations	$ 108,840	$ 121,849
Items Not Affecting Cash		
Amortization of Capital Assets	123,279	123,951
Write-down of Capital Assets	—	19,837
Amortization of Deferred Foreign Exchange Loss	15,048	8,696
Change in Reforestation Obligation	(12,682)	15,978
Change in Other Long-term Liabilities	27,811	5,476
Future Income Taxes	(32,071)	(23,686)
Other	(871)	(7,800)
	229,354	264,301
Net Change in Non-cash Working Capital Items	30,358	(110,546)
	259,712	153,755
Cash Flows from Financing Activities		
Proceeds from Long-term Debt	76,446	—
Repayment of Long-term Debt	(112,796)	(37,413)
Dividends	(17,001)	(16,989)
Other	(1,308)	(6,042)
	(54,659)	(60,444)
Cash Flows from Investing Activities		
Capital Asset Additions	(112,910)	(64,111)
Proceeds from Disposal of Capital Assets	1,548	2,497
Acquisitions *(note 4)*	(29,929)	(111,860)
Increase in Other Assets	(3,124)	(51,982)
	(144,415)	(225,456)
Change in Cash from Continuing Operations	60,638	(132,145)
Change in Cash from Discontinued Operations *(note 3)*	305,052	(18,821)
Net Cash – Beginning of Year	(95,633)	55,333
Net Cash – End of Year	$ 270,057	$ (95,633)
Net Cash Consists of		
Cash and Short-term Investments	$ 270,057	$ —
Bank Indebtedness	—	(95,633)
	$ 270,057	$ (95,633)
Interest Paid	$ 46,665	$ 53,662
Income Taxes Paid	$ 93,403	$ 160,101

Notes to Consolidated Financial Statements

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 Inc., Alberta Plywood Ltd., West Fraser (South), Inc., West Fraser Newsprint Ltd., West Fraser Real Estate Holdings Ltd. (formerly Revelstoke Home Centres Ltd.) and West Fraser Home Centres Inc. (formerly Revy Home Centres Inc.).

Investments in and operations of the company's principal 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.

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 rates 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 short-term interest-bearing securities with maturities at purchase date of three months or less.

Inventories

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

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

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.

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 and timber rights are amortized on the basis of timber harvested.

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

Reforestation obligation

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

2. CHANGE IN ACCOUNTING POLICY

Future income taxes

Effective January 1, 2000, the company retroactively adopted the liability method of accounting for income taxes. The cumulative effect of this change was to increase capital assets by $118,900, decrease retained earnings by $13,054 and increase future income taxes by $131,954. Prior to January 1, 2000, income taxes were accounted for by the deferral method.

(figures are in thousands of Canadian dollars except where indicated) 47

3. DISCONTINUED OPERATIONS

Retail home improvement

On April 30, 2001 (the Measurement Date), the company adopted a plan to dispose of its retail home improvement operations and the majority of related real estate. Effective June 6, 2001, the company sold substantially all of its retail home improvement operations for proceeds of $184,690. The majority of the real estate is expected to be sold in 2002.

The loss from discontinued operations is based on management's best estimates. These include the proceeds to be realized on the sale of the real estate and other retained assets, closure and other costs related to the disposition of the remaining retail sales operations owned, and other liabilities and possible claims. Changes to these estimates will be recognized as a gain or loss from discontinued operations in the period in which such changes are determined.

Non-current assets of discontinued operations principally comprise capital assets. Retail sales up to the date of disposal were $433,787 (2000–$804,607).

Convertible obligation

On the acquisition of a home improvement business in 1998, a subsidiary of the company issued 1,500,000 of its common shares. Under certain circumstances, the company had the right to issue common shares in satisfaction of a contractual repurchase obligation. Accordingly, the present value was recorded in shareholders' equity as a convertible obligation. On July 13, 2001, the company acquired these shares for $32,100, which resulted in a charge of $12,564 to retained earnings.

Timber plantations

On June 29, 2001, the company sold its timber plantations for net proceeds of $72,185. The resulting gain on sale of $33,292 has been accounted for as discontinued operations. Capital losses are available to eliminate taxes on the sale.

Discontinued operations

The results of discontinued operations are as follows:

	2001	2000
Earnings (loss) before income tax to Measurement Date	**$ (1,685)**	$ 16,795
Income tax recovery (expense)	**799**	(7,959)
Earnings (loss) from operations to Measurement Date	**(886)**	8,836
Loss on disposal of retail home improvement operations – net of tax recovery of $3,100	**(14,758)**	—
Earnings (loss) from discontinued retail operations	**(15,644)**	8,836
Timber plantations	**33,292**	773
Earnings from discontinued operations	**$ 17,648**	$ 9,609

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

Cash flows from discontinued operations consist of cash provided from (used in):

		2001		2000
Operating activities	**$**	**50,741**	$	7,767
Financing activities		**(32,100)**		—
Investing activities		**286,411**		(26,588)
Increase (decrease) in cash	**$**	**305,052**	$	(18,821)

4. ACQUISITIONS

2001

Effective April 24, 2001, the company acquired a sawmill and associated timber rights located in British Columbia. 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	**$**	**7,295**
Capital assets		**34,061**
Reforestation obligation assumed		**(11,427)**
Cash consideration	**$**	**29,929**

2000

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	$	16,997
Timber deposits		3,689
Capital assets		91,174
Cash consideration	$	111,860

(figures are in thousands of Canadian dollars except where indicated) 49

5. 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:

	2001	2000
Current assets	$ 59,273	$ 62,851
Non-current assets	207,761	219,950
Total assets	267,034	282,801
Current liabilities	36,720	38,741
Non-current liabilities	4,816	2,584
Equity	$ 225,498	$ 241,476
Net sales	$ 255,946	$ 284,964
Expenses	201,392	222,130
Earnings	$ 54,554	$ 62,834
Cash flows from:		
Operating activities	$ 83,690	$ 94,783
Financing activities	$ 123	$ 2,650
Investing activities	$ (14,474)	$ (15,194)

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.

6. INVENTORIES

	2001	2000
Logs and wood chips	$ 95,153	$ 117,198
Manufactured products	161,914	165,619
Processing materials and supplies	48,483	52,027
	$ 305,550	$ 334,844

7. OTHER ASSETS

	2001	2000
Power purchase agreements	$ 36,730	$ 38,737
Investments	41,169	32,638
Advances for timber and timber deposits	6,871	5,030
Non-interest bearing loans to employees	1,720	2,186
	$ 86,490	$ 78,591

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

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 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 $38,737 is being amortized over the life of the underlying agreements. The electricity acquired under the agreements meet the requirements of the company's Alberta operations.

8. CAPITAL ASSETS

			2001
	Cost	Accumulated amortization	Net
Manufacturing plant and equipment	**$ 2,173,951**	**$ 1,180,894**	**$ 993,057**
Timber rights, timberlands and roads	**424,304**	**162,216**	**262,088**
Other properties	**41,982**	**6,414**	**35,568**
	$ 2,640,237	**$ 1,349,524**	**$ 1,290,713**

			2000
	Cost	Accumulated amortization	Net
Manufacturing plant and equipment	$ 2,076,528	$ 1,081,199	$ 995,329
Timber rights, timberlands and roads	389,589	146,848	242,741
Other properties	41,479	6,983	34,496
	$ 2,507,596	$ 1,235,030	$ 1,272,566

9. DEFERRED CHARGES

	2001	2000
Deferred foreign exchange loss	**$ 32,995**	$ 21,424
Deferred pension costs (note 14)	**14,780**	12,891
Deferred financing fees	**1,573**	2,118
	$ 49,348	$ 36,433

(figures are in thousands of Canadian dollars except where indicated) 51

10. LONG-TERM DEBT AND BANK INDEBTEDNESS

Long-term debt

	2001	2000
US$125,000 term notes due 2002; interest at 7.25%	**$ 199,031**	$ 187,339
US$125,000 term notes due 2005; interest at 7.50%	**198,956**	187,229
Cdn$125,000 term notes due 2007; interest at 6.80%	**124,864**	124,840
US$47,500 (2000–US$72,500) notes due 2001 to 2004; interest at 8.44%	**75,658**	108,713
	598,509	608,121
Less: Current portion	**238,920**	37,488
	$ 359,589	$ 570,633

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

Principal repayments required are as follows:

2002	$ 238,920
2003	19,910
2004	15,928
2005	198,956
2006	—
Thereafter	124,795
	$ 598,509

Bank indebtedness

The company has approximately $385,000 in demand or revolving lines of credit available, none of which was utilized as at December 31, 2001 (2000–$95,633).

11. OTHER LIABILITIES

	2001	2000
Pension liability (note 14)	**$ 11,501**	$ 8,700
Reforestation obligation – long-term	**64,138**	63,678
Lumber duties payable (note 21)	**25,010**	—
	$ 100,649	$ 72,378

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

12. 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

		2001		2000
	Number of shares	Amount	Number of shares	Amount
Common	**24,531,020**	**$ 324,204**	24,515,504	$ 323,718
Class B common	**5,829,068**	**585**	5,829,068	585
Total common	**30,360,088**	**$ 324,789**	30,344,572	$ 324,303

Share capital transactions during 2001

The company issued 15,516 common shares for $486.

Share capital transactions during 2000

The company issued 13,443 common shares for $394; 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 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, 2001 amounted to $4,250 (2000–$4,248) 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 are in thousands of Canadian dollars except where indicated)

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

	2001 Shares	2001 Weighted average exercise price (dollars)	2000 Shares	2000 Weighted average exercise price (dollars)
Outstanding – Beginning of year	**1,000,322**	**$ 35.46**	669,979	$ 35.18
Granted	**350,000**	**25.50**	334,000	36.00
Exercised	**(10,250)**	**31.58**	—	—
Expired	**(6,407)**	**38.42**	(3,657)	33.78
Outstanding – End of year	**1,333,665**	**$ 32.86**	1,000,322	$ 35.46
Exercisable – End of year	**581,915**		413,872	

The following table summarizes information about the stock options outstanding at December 31, 2001:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (dollars)	Number of exercisable options	Weighted average exercise price (dollars)
\$20 – \$30	**463,500**	**8**	**$ 26.39**	**133,500**	**$ 28.58**
\$30 – \$40	**732,665**	**6**	**$ 35.05**	**336,215**	**$ 34.55**
\$40 – \$50	**137,500**	**5**	**$ 43.00**	**112,200**	**$ 43.00**
	1,333,665			**581,915**	

13. COMMITMENTS

a) Operating leases

The company is committed to payments under certain operating leases for equipment, land, buildings and office space. The payments required under these leases over the next five years amount to $4,955.

b) Preferred share purchase

Under the terms of a 1999 preferred share repurchase, the company was required to pay an excess dividend entitlement dependent upon the common share dividends paid. During 2001, an excess dividend entitlement of $1,794 was paid, of which $650 was charged to contributed surplus and $1,144 was charged to retained earnings.

The obligation was terminated in 2002.

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

14. 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 and medical and extended health benefits to certain employee groups. Under its non-pension post-retirement benefit plans, the projected benefit obligations were $6,932 at December 31, 2001 (2000–$6,444).

The total pension expense for the company's defined contribution pension plans is $1,686 (2000–$1,530).

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%

The status of the company's defined benefit pension plans at December 31, 2001 and 2000 was as follows:

	2001	2000
Pension expense		
Current service cost	**$ 8,230**	$ 7,496
Interest cost	**13,702**	11,810
Expected plan return	**(13,288)**	(12,072)
Amortization of transition amount and experience gains (losses)	**349**	(134)
Net expense	**$ 8,993**	$ 7,100
Accrued benefit obligation		
Projected benefit obligations – opening	**$ 177,768**	$ 163,764
Liability assumed	**9,039**	—
Current service cost	**8,230**	7,496
Interest cost	**13,702**	11,810
Benefits paid	**(7,328)**	(5,741)
Actuarial gains	**7,182**	127
Other	**—**	312
Projected benefit obligations – ending	**$ 208,593**	$ 177,768

(figures are in thousands of Canadian dollars except where indicated) 55

		2001		2000
Plan assets				
Fair value – opening	**$**	**183,486**	$	171,707
Assets acquired		**8,700**		—
Actual return		**3,286**		10,404
Contributions		**8,082**		7,255
Benefits paid		**(7,328)**		(5,880)
Fair value – ending	**$**	**196,226**	$	183,486
Funded status of the plan				
Plan surplus (deficit)	**$**	**(12,367)**	$	5,718
Unamortized net actuarial losses		**18,680**		1,955
Unamortized past service costs		**602**		300
Unamortized net transitional amount		**(3,636)**		(3,782)
Net accrued benefit asset	**$**	**3,279**	$	4,191
Represented by				
Deferred pension costs	**$**	**14,780**	$	12,891
Pension liability		**(11,501)**		(8,700)
	$	**3,279**	$	4,191

15. 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 at December 31, 2001 was $633,678 based on rates currently available to the company for long-term debt with similar terms and remaining maturities.

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.

16. FINANCING EXPENSE

		2001		2000
Long-term interest	**$**	**45,530**	$	47,277
Current interest – net		**(1,941)**		(1,203)
Amortization of deferred foreign exchange loss		**15,048**		8,696
Attributed to discontinued operations		**(10,062)**		(19,606)
	$	**48,575**	$	35,164

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

17. OTHER INCOME (EXPENSE)

	2001	2000
Earnings (loss) from equity investments	**$ (282)**	$ 916
Gain (loss) on sale of capital assets – net	**(71)**	4,132
Foreign exchange	**1,459**	454
Other – net	**3,599**	754
	$ 4,705	$ 6,256

18. INCOME TAXES

The company's effective tax rate is as follows:

	2001 Amount	2001 %	2000 Amount	2000 %
Income taxes at statutory rate	**$ 63,686**	**44.4**	$ 90,535	46.6
Manufacturing and processing allowances	**(6,835)**	**(4.8)**	(10,862)	(5.6)
Large corporations tax	**1,069**	**0.8**	3,000	1.5
Non-deductible amounts	**2,360**	**1.7**	1,527	0.8
Rate differentials between jurisdictions	**(10,502)**	**(7.3)**	(2,523)	(1.3)
Reduction in statutory income tax rates	**(17,000)**	**(11.9)**	(6,297)	(3.2)
Other	**1,741**	**1.2**	(2,830)	(1.5)
	$ 34,519	**24.1**	$ 72,550	37.3

The components of the future income tax liability at December 31, 2001 are as follows:

Future income tax liabilities	
Capital assets	**$ (257,374)**
Other assets	**(5,064)**
	(262,438)
Future income tax assets	
Reforestation accrual	**33,004**
Other liabilities	**16,263**
	49,267
	$ (213,171)

(figures are in thousands of Canadian dollars except where indicated) 57

19. EARNINGS PER SHARE

Basic earnings per 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 settlement of the convertible obligation for common shares, if dilutive, and the exercise of options using the treasury stock method.

	2001		2000	
	From continuing	After discontinued	From continuing	After discontinued
Earnings				
Earnings	**$ 108,840**	**$ 126,488**	$ 121,849	$ 131,458
Preferred share payments	**(1,794)**	**(1,794)**	(752)	(752)
Convertible obligation accretion	**—**	**(12,564)**	—	(2,280)
Available to shareholders – basic	**107,046**	**112,130**	121,097	128,426
Convertible obligation accretion (if dilutive)	**—**	**—**	—	2,280
Available to shareholders – diluted	**$ 107,046**	**$ 112,130**	$ 121,097	$ 130,706
Weighted average shares				
Weighted average shares – basic	**30,356,104**	**30,356,104**	30,336,703	30,336,703
Dilutive shares – convertible obligation	**—**	**—**	—	1,199,999
Stock options – treasury stock method	**95,881**	**95,881**	—	—
Weighted average shares – diluted	**30,451,985**	**30,451,985**	30,336,703	31,536,702
Earnings per share (dollars)				
Basic earnings per share	**$ 3.53**	**$ 3.69**	$ 3.99	$ 4.23
Diluted earnings per share	**$ 3.52**	**$ 3.68**	$ 3.99	$ 4.14

20. 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	– 14 sawmills, which includes the company's interest in joint ventures, producing lumber and by-product wood chips
Panels	– 2 MDF, 1 plywood plant and 1 veneer plant
Pulp and paper	– 4 mills, which includes the company's interest in joint ventures, producing linerboard, kraft paper, BCTMP and newsprint

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

(figures are in millions of Canadian dollars)

2001

	Lumber	Panels	Pulp & paper	Corporate and other	Consolidated
Net sales at market prices					
To external customers	$ 851.8	$ 214.0	$ 496.5	$ —	$ 1,562.3
To other segments	30.9	—	—	—	
	$ 882.7	$ 214.0	$ 496.5	$ —	
EBITDA	$ 152.5	$ 62.3	$ 103.8	$ (8.1)	$ 310.5
Amortization of capital assets	48.1	23.1	51.8	0.3	123.3
Operating earnings (loss)	104.4	39.2	52.0	(8.4)	187.2
Financing expense	16.0	6.9	20.1	5.6	48.6
Other	0.5	(0.1)	—	(5.1)	(4.7)
Earnings from continuing operations before income taxes	$ 87.9	$ 32.4	$ 31.9	$ (8.9)	$ 143.3
Capital employed (*)					
Continuing operations	$ 799.8	$ 368.1	$ 629.6	$ 165.2	$ 1,962.7
Capital employed					
Discontinued operations	—	—	—	—	157.6
Total capital employed	$ 799.8	$ 368.1	$ 629.6	$ 165.2	$ 2,120.3
Identifiable assets					
Continuing operations	$ 865.7	$ 413.5	$ 694.7	$ 205.7	$ 2,179.6
Identifiable assets					
Discontinued operations	—	—	—	—	173.0
Total identifiable assets	$ 865.7	$ 413.5	$ 694.7	$ 205.7	$ 2,352.6
Capital asset additions, including acquisitions					
Continuing operations	$ 104.3	$ 8.6	$ 29.0	$ 0.9	$ 142.8
Sales by geographic area					
Net sales to external customers					
USA	$ 567.1	$ 75.2	$ 190.1	$ —	$ 832.4
Canada	240.4	129.7	48.8	—	418.9
Europe	—	—	63.7	—	63.7
Far East	44.3	9.1	141.1	—	194.5
Other	—	—	52.8	—	52.8
	$ 851.8	$ 214.0	$ 496.5	$ —	$ 1,562.3

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

(figures are in millions of Canadian dollars) 59

2000

	Lumber	Panels	Pulp & paper	Corporate and other	Consolidated
Net sales at market prices					
To external customers	$ 724.3	$ 198.5	$ 582.0	$ —	$ 1,504.8
To other segments	64.4	—	—	—	
	$ 788.7	$ 198.5	$ 582.0	$ —	
EBITDA	$ 150.8	$ 47.8	$ 173.7	$ (5.2)	$ 367.1
Amortization of capital assets	49.0	22.9	52.0	0.1	124.0
Operating earnings (loss)	101.8	24.9	121.7	(5.3)	243.1
Financing expense	10.5	7.1	20.5	(2.9)	35.2
Other	14.2	—	(1.8)	1.2	13.6
Earnings from continuing operations before income taxes	$ 77.1	$ 17.8	$ 103.0	$ (3.6)	$ 194.3
Capital employed (*)					
Continuing operations	$ 615.6	$ 253.6	$ 717.4	$ 88.4	$ 1,675.0
Capital employed					
Discontinued operations	—	—	—	—	477.0
Total capital employed	$ 615.6	$ 253.6	$ 717.4	$ 88.4	$ 2,152.0
Identifiable assets					
Continuing operations	$ 711.1	$ 274.1	$ 774.8	$ 151.4	$ 1,911.4
Identifiable assets					
Discontinued operations	—	—	—	—	542.1
Total identifiable assets	$ 711.1	$ 274.1	$ 774.8	$ 151.4	$ 2,453.5
Capital asset additions, including acquisitions					
Continuing operations	$ 148.6	$ 7.2	$ 16.2	$ 4.0	$ 176.0
Sales by geographic area					
Net sales to external customers					
USA	$ 363.1	$ 55.3	$ 156.8	$ —	$ 575.2
Canada	276.5	127.4	56.2	—	460.1
Europe	—	—	103.8	—	103.8
Far East	84.7	15.8	186.9	—	287.4
Other	—	—	78.3	—	78.3
	$ 724.3	$ 198.5	$ 582.0	$ —	$ 1,504.8

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

21. CONTINGENCY

On April 2, 2001, petitions for the imposition of antidumping and countervailing duties on softwood lumber from Canada were filed with the U.S. Department of Commerce (USDOC) and the U.S. International Trade Commission (USITC) by certain U.S. industry and trade groups (the Petitioners).

On August 9, 2001, the USDOC issued its preliminary determination in the countervailing duty investigation and imposed a preliminary duty rate of 19.31% to be posted by cash deposits or bonds on the exports from Canada of softwood lumber to the U.S. on or after August 17, 2001. The USDOC also made a preliminary determination that certain circumstances may have existed which should result in the application of duties on exports from Canada of softwood lumber retroactively to May 19, 2001 (Critical Circumstances). In accordance with the U.S. law, the preliminary duty rate of 19.31% was suspended on December 15, 2001, 120 days after the preliminary determination.

On October 31, 2001, the USDOC issued its preliminary determination in the antidumping duty investigation and imposed a company specific preliminary duty rate of 5.94% on the company. The antidumping duty rate applies to all exports of softwood lumber from Canada on or after November 6, 2001.

The company has accrued $20,946 as a reduction of sales for the period from August 17, 2001 to December 15, 2001 representing the preliminary countervailing duty rate determined by the USDOC of 19.31%. The company has not accrued any duty for the period from May 19, 2001 to August 16, 2001 (estimated to be $20,300) as management believes that the likelihood of Critical Circumstances in the countervailing case is not determinable at this time.

The company has accrued $4,064 as a reduction of sales for the period from November 6, 2001 to December 31, 2001 representing the preliminary antidumping duty rate determined by the USDOC of 5.94%.

Any adjustments resulting from a change in the final countervailing and antidumping duty rates or Critical Circumstances determination in the countervailing case will be made prospectively.

The company and other Canadian forest product companies, the federal government and Canadian provincial governments (Canadian Interests) categorically deny the U.S. allegations and disagree with the preliminary countervailing and dumping determinations made by the USITC and USDOC. Canadian Interests continue to defend the Canadian industry in this U.S. trade dispute. Depending on the outcome of the final phase of the investigation, Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO. Notwithstanding the preliminary rates established in the investigations, the final liability for the assessment of countervailing and dumping duties will not be determined until each annual administrative review process is complete.