Management's Discussion & Analysis

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED IN THIS ANNUAL REPORT.

LUMBER

Several of West Fraser's lumber operations established production records again in 2001, in spite of downtime taken to control inventory levels. The Chasm sawmill rebuild began in the summer, and the Williams Lake sawmill was upgraded in the third quarter. The Canada-U.S. lumber trade dispute was a dominant issue during the year and caused significant disruption.

Operating earnings for the year were $104 million (2000–$102 million) on sales of $852 million (2000–$724 million). EBITDA was $153 million, representing a margin of 18% of total sales (2000–$151 million and 21%).

The 2001 earnings are net of a pre-tax provision of approximately $25 million for countervailing and antidumping duties that might be collected by the U.S. government on lumber sold into the United States from West Fraser's Canadian mills, which represented approximately 67% of shipments. Prices for lumber sold in Canada reflected a discount approximating the potential duties.

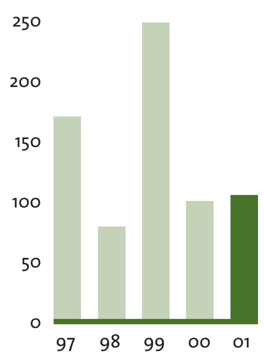
West Fraser's two sawmills in the southern United States reported losses in their first full year of operation. Severely depressed prices for southern yellow pine, the lowest in nine years, and lower than expected production efficiencies due to ongoing capital projects were the primary contributors to poor results.

Four of West Fraser's sawmills reached new production levels and four achieved records in lumber recovery. Manufacturing costs other than wood costs continued to decrease, a trend that has been maintained for six years in spite of the rising costs for wages and operating supplies. Total production was 2,012 MMfbm (2000–1,713 MMfbm) and shipments were 2,007 MMfbm (2000–1,637 MMfbm).

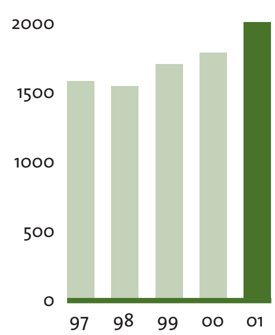
A pine beetle infestation in the British Columbia central interior continues to spread in epidemic proportions. It is expected that the volume of timber affected could reach 70 million m³ in 2002. The volume of infested logs that must be harvested is beyond the ability of the surrounding sawmills to process in a single year and there must also be taken into account the sales constraints caused by the current lumber trade dispute. However, government and industry are working closely

Lumber

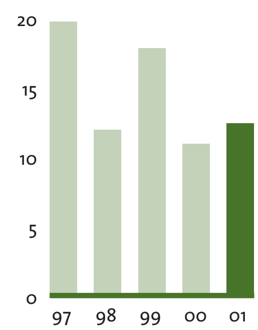
OPERATING EARNINGS
($ millions)



PRODUCTION
(MMfbm)



SAFETY
(injuries per million hours worked)



together to deal with this issue to maximize harvest in infested stands.

In 2001, West Fraser completed its review of the long-term viability of the custom-cut sawmill in Prince Rupert and determined that the mill's reliance on Asian markets and the limited availability of suitable high-grade logs in the region made closure necessary. The mill was permanently closed down in October 2001.

Continuing its successful history of technological investment in operations throughout the economic cycle, West Fraser invested approximately $74 million on capital projects in 2001.

The main project was the total rebuild of the Chasm sawmill, which was acquired in April. The mill was shut down in early June and totally dismantled. On completion of this capital project, costing $46 million, the mill will produce approximately 200 MMfbm of dimension lumber per year. It previously had a capacity of 170 MMfbm of stud lumber. Production is expected to begin in March 2002.

Another significant capital project was carried out at the Williams Lake sawmill where the canter and log infeed processes were modernized at a cost of $13 million.

While the main capital projects at the Huttig and Joyce mills in the U.S. were deferred due to permitting delays, several other improvement projects were carried out at these mills at a combined cost of approximately $18 million. Once all these projects are completed and the mills are fully operational, each should match West Fraser's other high-efficiency sawmills by utilizing the most technologically advanced lumber processing equipment available.

Smaller projects were completed throughout the lumber operations – most with paybacks of less than two years.

A slowing economy in 2001 and uncertainties created by the trade dispute led to soft lumber markets. This, and the exposure to trade penalties, forced West Fraser to curtail production in its Canadian mills for 20 days, the longest ever in its history.

The benchmark Western SPF 2x4 lumber prices began the year at US$186 per Mfbm, the low point for the year, and rose to a high of US$376 in the second quarter. (2000–US$180 and US$344 respectively). The average for the year was US$250 compared to US$257 in 2000. Southern yellow pine prices were similarly volatile throughout the year.

In 2001, eight of West Fraser's nine woodlands operations were certified for ISO 14001, the international standard for environmental management systems. The ISO standard ensures that there is rigorous, independent proof that a company's management system carefully considers the environmental impact of its activities, takes measures to minimize or eliminate that impact and strives to make continual improvement in its performance. West Fraser's remaining uncertified woodlands operation at Chasm was certified in January 2002.

The lumber trade dispute and yet undefined forest policy changes being considered for British Columbia create uncertainty for the lumber business. However, the overall demand for lumber is expected to continue at reasonable levels in 2002. West Fraser's proven ability to produce lumber efficiently and at low cost should allow its lumber operations to remain profitable.

PANELS

In 2001 West Fraser's panelboard operations established new records in production, sales and operating earnings.

Operating earnings were $39 million (2000–$25 million) on sales of $214 million (2000–$199 million). EBITDA was $62 million, representing a margin of 29% of sales (2000–$48 million and 24%).

MDF

Through continual process improvements and the efforts of highly focused operating personnel, production at each of the two MDF plants significantly exceeded the plant's original capacity.

Ranger Board's production in 2001 was 136 MMsf (2000–135 MMsf) while shipments were 137 MMsf (2000–132 MMsf). Other than a five-day maintenance shutdown to improve fire protection and plant safety, Ranger Board operated on a full production schedule. High natural gas prices during the early part of the year were more than offset by process improvements and energy optimization, resulting in an overall 5% reduction in unit manufacturing costs from the previous year.

WestPine's production was 114 MMsf (2000–105 MMsf) and its shipments were 112 MMsf (2000–103 MMsf). The development of specialty grades and increased sales of thin-board contributed to a turnaround in profitability. Production enhancements allowed the plant to run at full operating efficiency. With the exception of resin, all elements of cost per unit of production decreased in 2001.

Sales records were also established for mouldings, which are custom-manufactured from off-cuts of regular production and are used as decorative products for the North American market.

While markets for MDF slowed in the third quarter due to reduced consumer spending, it is anticipated that demand will return during the latter half of 2002. However, the anticipated continued strong sales of WestPine's thin-board as well as operational improvements should ensure that this business remains profitable.

Plywood

Plywood production in 2001 was 248 MMsf (2000–246 MMsf) and shipments were 252 MMsf (2000–241 MMsf).

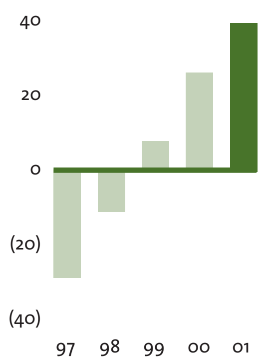
Capital improvements and a continued emphasis on process efficiencies allowed the veneer plant at Slave Lake and the plywood plant at Edmonton to achieve records in recovery and productivity. The increase at Slave Lake has made external veneer purchases unnecessary.

A benchmarking study in 2000 again established the Alberta Plywood operation as the lowest-cost producer of softwood plywood in Canada.

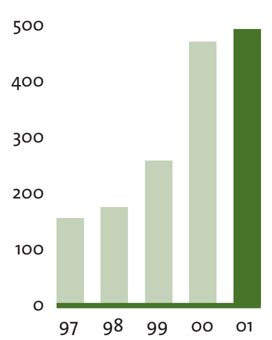
Plywood prices in 2001 declined as a result of excess panel capacity in Canada and increasing competition from North American Oriented Strand

Panels

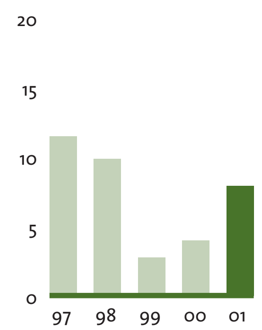
OPERATING EARNINGS
($ millions)



PRODUCTION
(MMsf)



SAFETY
(injuries per million hours worked)



Board. Some price recovery began late in the year as inventories in the supply chain came into line. Prices are expected to soften with the additional panel capacity that will come on line in 2002.

Alberta Plywood's output, which constitutes about 12% of Canadian softwood plywood production, is sold primarily to wholesale distributors in Canada, but it continues to expand its markets in the U.S. Midwest.

PULP AND PAPER

Total production of BCTMP, linerboard, kraft paper and newsprint amounted to 886,832 tonnes, a 3% decrease from the record annual production of 915,937 tonnes established in 2000. Shipments totaled 890,298 tonnes, almost the same as 2000's total of 889,033 tonnes. The decrease in production was primarily attributable to power-related curtailments at the Alberta operations, Alberta Newsprint's upgrade project and the production shortfall at the Kitimat mill.

Operating earnings were $52 million (2000–$122 million) on sales of $497 million (2000–$582 million). EBITDA was $104 million, representing a margin of 21% of sales (2000–$174 million and 30%). The decrease in earnings resulted from the significant decline in product prices as well as from lower overall production.

Pulp

BCTMP production was 360,631 tonnes (2000–363,310 tonnes), about half hardwood and half softwood. The decline in production occurred mostly in the first half of the year when Slave Lake Pulp curtailed production to avoid consuming high-priced electricity. This was partly offset by a record production of 175,829 tonnes at QRP.

In late 2000 and early 2001 pulp prices fell dramatically from the peak reached in 2000, due to high levels of supply in a slowing economic environment. List prices for NBSK declined from a high of US$710 per tonne in 2000 to a low of US$480 per tonne in 2001. Spot prices in several markets were lower. BCTMP pricing behaved similarly. Prices rebounded modestly in the latter part of the year as producers constrained supply. However, these production curtailments were matched by reduced demand from paper producers, leading to lower prices through the balance of the year. In spite of the weak demand and low prices, West Fraser's BCTMP sales exceeded production and the low cost structure allowed pulp operations to remain profitable.

With the existing idle capacity in the industry and soft demand in the paper markets, it is expected that prices will remain low though most of 2002, with some improvement near the end of the year.

The QRP operation benefited from lower fibre costs, which reflect the selling price of NBSK. Hardwood fibre costs at Slave Lake Pulp were largely unchanged. In 2001 approximately $4 million was spent ($2 million in 2000) in the two pulp mills on various improvement projects.

Linerboard and Kraft Paper

Total production of the Kitimat mill was 406,580 tonnes (2000–429,173 tonnes), of which 304,309 tonnes was linerboard (2000–318,454 tonnes) and 102,271 tonnes was kraft paper (2000–110,719 tonnes). The decline in annual production was due mostly to unsatisfactory mill operating rates and to downtime incurred in replacing equipment.

Linerboard shipments were 308,658 tonnes in 2001 (2000–298,780 tonnes) and kraft paper shipments were 99,841 tonnes (2000–107,091 tonnes). Linerboard mill net realizations were about 12% lower in 2001 than in 2000 and would have been even lower but for the weakening of the Canadian dollar. Kraft paper mill nets were slightly up for the year.

In 2001 approximately 30% (2000–15%) of the linerboard was sold in North America. The increased emphasis on the North American market provided some respite from the even greater price declines experienced in Europe and Asia.

It is expected that for the next twelve months linerboard and kraft paper prices will remain at the levels experienced in the latter half of 2001.

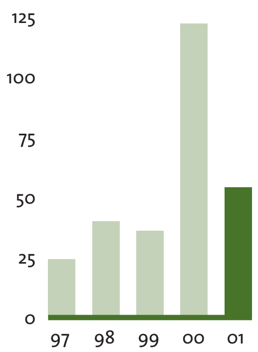
The Kitimat mill underwent significant staffing changes in 2001. The mill management has also undertaken a fundamental review of the operation, which has identified a number of operating issues that need to be addressed to make the mill a viable entity in the highly competitive worldwide packaging business.

As fibre costs for the Kitimat mill are largely dictated by the price for kraft pulp, there was an approximately 16% reduction in these costs compared to 2000. However, this was not sufficient to offset the effects of lower production as well as increases in other costs such as for natural gas.

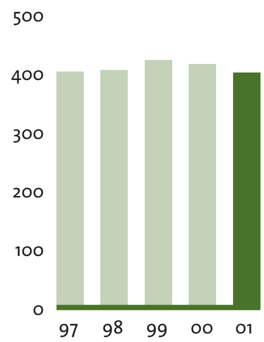
Approximately $15 million was spent in 2001 ($12 million in 2000) on various capital improvement and replacement projects.

Pulp and Paper

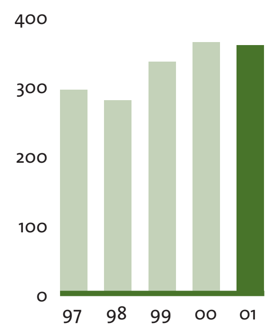
Operating earnings
($ millions)



Linerboard and Kraft Paper Production
(thousands of tonnes)



BCTMP Production
(thousands of tonnes)



Newsprint

Newsprint prices fell in the second half of the year in response to a slowing economy and a resulting decline in consumption in North America. The average price in 2001 was approximately US$20 per tonne higher than in the previous year, although prices at the end of the year were lower by about US$100 per tonne from the end of 2000.

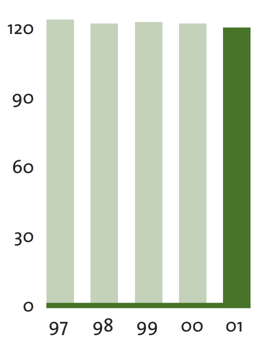
West Fraser's 50% share of production at Alberta Newsprint was 119,621 tonnes (2000 – 123,454 tonnes). The decline was due mostly to two weeks of downtime for a paper machine upgrade undertaken in mid-year to increase capacity and improve product quality. The expected improvements have already been realized and will allow Alberta Newsprint to further enhance its established position as the high quality, low cost newsprint producer in North America. The mill's strict quality and customer service standards were recognized again in 2001 as it was named *"Supplier of the Year"* by Gannett Co. Inc.

It is not expected that newsprint demand and supply will come into a balance before the end of 2002. Such a balance is necessary for any meaningful price increase.

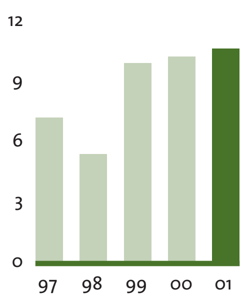
The ANC operation was able to minimize the consequences of fluctuating energy prices in Alberta by shifting pulp production to periods when electricity costs are lower. In addition, ANC is able to take advantage of higher electricity prices by reselling electricity that it acquires under its power purchase arrangements.

West Fraser's share of Alberta Newsprint's capital expenditures in 2001 was $10 million ($3 million in 2000), most being for the paper machine upgrade.

Newsprint Production
(thousands of tonnes)



Safety
(injuries per million hours worked)



EARNINGS AND REVENUE COMPARISON

During 2001, substantially all of West Fraser's home improvement operations were sold and they are now classified for accounting purposes as discontinued operations. The 2000 financial statements have been restated accordingly.

Total net sales for the year were $1,562 million (2000–$1,505 million).

NET SALES BY PRODUCT *(change from 2000)*		
LUMBER	Increase	18%
PANELS	Increase	8%
PULP & PAPER	Decrease	15%

EBITDA for the year was $311 million (2000–$367 million).

EBITDA BY PRODUCT *(change from 2000)*		
LUMBER	Increase	1%
PANELS	Increase	30%
PULP & PAPER	Decrease	40%

The increase in net sales of lumber was attributable to the expansion of lumber operations into the southern United States. This was partially offset by lower lumber prices, which included the effects of duties accrued, resulting in only modest overall EBITDA improvement.

Plywood net sales increased as a result of incremental improvements in quality and production. Increased production of higher-quality panel product resulted in significant improvements in EBITDA.

The decline in pulp and paper net sales and EBITDA is attributable to continued weakening of prices, as shipments remained similar to 2000 levels.

The increase in financing expense to $48.6 million in 2001 from $35.2 million in 2000 was due in part to a $6.4 million increase in amortization of deferred foreign exchange loss. In addition, a greater proportion of this expense was allocated to discontinued operations for 2000 ($19.6 million) than in 2001 ($10.1 million) since there was only a partial year of operations in 2001.

No material writedowns of capital assets were required in 2001. The writedown of capital assets in 2000 of $19.8 million related to the Prince Rupert sawmill, which was shut down in 2001.

Selected consolidated financial information for the last eight quarters is as follows:

SELECTED QUARTERLY INFORMATION *($ millions, except earnings per share (EPS) amounts)*

	2001				2000			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
NET SALES FROM CONTINUING OPERATIONS	$ 363.7	$ 407.4	$ 416.1	$ 375.1	$ 367.8	$ 340.8	$ 402.3	$ 393.9
EARNINGS FROM CONTINUING OPERATIONS	$ 3.2	$ 46.0	$ 41.8	$ 17.9	$ 19.3	$ 20.1	$ 36.6	$ 45.9
EARNINGS AFTER DISCONTINUED OPERATIONS	$ 9.3	$ 46.0	$ 55.0	$ 16.2	$ 22.4	$ 24.3	$ 42.8	$ 42.0
BASIC EPS FROM CONTINUING OPERATIONS	$ 0.09	$ 1.50	$ 1.36	$ 0.58	$ 0.62	$ 0.65	$ 1.21	$ 1.52
BASIC EPS AFTER DISCONTINUED OPERATIONS	$ 0.29	$ 1.50	$ 1.40	$ 0.50	$ 0.70	$ 0.77	$ 1.39	$ 1.37
DILUTED EPS FROM CONTINUING OPERATIONS	$ 0.09	$ 1.50	$ 1.36	$ 0.58	$ 0.62	$ 0.65	$ 1.21	$ 1.52
DILUTED EPS AFTER DISCONTINUED OPERATIONS	$ 0.29	$ 1.50	$ 1.40	$ 0.50	$ 0.69	$ 0.76	$ 1.37	$ 1.34

The other income of $4.7 million (2000–$6.3 million) related to a variety of items including capital asset sales and gains arising from foreign exchange translations.

The earnings from discontinued operations of $17.6 million were comprised of a gain of $33.3 million on the sale of timber plantations offset by the estimated loss from selling the home improvement operations and related real estate. The 2000 earnings from discontinued operations of $9.6 million results from the home improvement operations which have been reclassified from continuing operations. Additional information is in note 3 of the Company's audited financial statements.

Total taxes and tax-like levies and charges were as follows:

Payments to Government ($ millions)	2001	2000
Income tax	$ 63.4	$ 70.5
Corporation Capital Tax	1.1	3.0
Provincial Capital Tax	2.1	3.4
Canada Pension Plan	5.5	4.2
Employment Insurance	4.2	3.7
Property Tax	14.0	12.7
Social Service Tax	12.3	11.7
Stumpage & Royalties	77.4	111.0
Workers' Compensation	4.1	5.6
Total	$184.1	$225.8

With the exception of income tax, most of these payments do not vary directly with profitability.

The 2001 provision for income taxes of $34.5 million was 24% of earnings before income taxes (2000–$72.6 million or 37%). The difference in effective tax rates is primarily attributable to the revaluation of future income taxes to give effect to a reduction in British Columbia corporate tax rates.

Diluted earnings per share from continuing operations was $3.52 in 2001 (2000–$3.99) and diluted earnings per share including discontinued operations was $3.68 in 2001 (2000–$4.14).

CAPITAL STRUCTURE

The number of common shares outstanding increased to 30,360,088 at December 31, 2001 (2000–30,344,572).

All of West Fraser's debt, other than current borrowings for ANC, is unsecured and rank equally in right of payment. On December 31, 2001, the ratio of West Fraser's total debt, less cash, to total capitalization was 0.21 (2000–0.38). The lower ratio is due mainly to cash provided from discontinued operations of $305 million.

West Fraser's fixed-interest term debt is rated as investment grade by leading rating agencies. In January 2001 Standard & Poor's upgraded its credit rating on West Fraser debt to BBB from BBB-. In August 2001, Moody's similarly increased its rating on West Fraser to BAA2 from BAA3. Current ratings are as follows:

Agency	Rating
Dominion Bond Rating Service	BBB
Moody's	BAA2
Standard & Poor's	BBB

ACQUISITIONS AND DISPOSITIONS

In April 2001 the Company acquired from Ainsworth Lumber Co. Ltd. a sawmill in British Columbia, associated timber rights and working capital for $29.9 million cash and the assumption of long-term silviculture liabilities estimated at $11.4 million. The sawmill had a capacity of 170 MMfbm per year of stud lumber and is being rebuilt by West Fraser at an estimated cost of $46 million to produce 200 MMfbm of dimension lumber per year. The rebuilt mill is expected to begin production in March 2002.

In June 2001, West Fraser sold its timber plantations located in Uruguay to a group consisting of Weyerhaeuser Company and other investors for $72.2 million. The plantations comprised approximately 30,000 hectares planted in pine and eucalyptus. The decision to sell the plantations was driven by changes in the economics of growing timber in the area and the requirement of substantial additional investments to achieve the necessary scale.

In July 2001 West Fraser sold all but five of its home improvement stores to Rona Inc. for $185 million. The five store operations retained have since been sold or closed. The sale to Rona did not include any of the real estate occupied by the stores sold, which was instead made the subject of long-term leases. Some of this real estate has been sold and a substantial portion is currently being marketed for sale. Sale proceeds from these unsold properties are estimated to amount to approximately $160 million.

In 2000 West Fraser purchased two sawmills in the southern United States for $111.9 million.

CHANGE IN ACCOUNTING POLICY

Effective January 1, 2002, the Company changed its method of accounting for foreign exchange gains and losses on long-term debt, as recommended by the Canadian Institute of Chartered Accountants. Before 2002, the gain or loss on translation of long-term debt denominated in foreign currency was deferred and amortized over the life of the debt. Under the new method, the entire gain or loss must be recognized in the current period. The change, which must be applied retroactively, will result in a reduction of opening retained earnings in 2002 of $33.0 million (2001–$21.4 million).

CAPITAL REQUIREMENTS AND LIQUIDITY

West Fraser's annual cash requirements, other than for operating purposes, include interest, repayment of debt, capital asset additions, acquisitions and payment of dividends. In years without a major acquisition, cash provided by operations has been sufficient to meet these requirements.

In 2001, capital asset additions, together with acquisitions, amounted to $143 million (2000–$176 million). Proceeds from capital asset disposals other than discontinued operations were $2 million (2000–$2 million).

West Fraser's scheduled repayment of long-term debt in 2002 is $238.9 million.

On December 31, 2001, West Fraser had unused credit facilities of approximately $385 million and short-term cash investments of $270 million. West Fraser intends to meet all of its cash requirements in 2002 for planned capital additions, debt repayments, interest and dividends with funds generated from operations and from cash on hand.

CAPITAL ASSET ADDITIONS & ACQUISITIONS *($ millions)*

	2001	2000
Lumber	**$104.3**	$148.6
Panels	**8.6**	7.2
Pulp & Paper	**29.0**	16.2
Corporate & Other	**0.9**	4.0
Total	**$142.8**	$176.0

RISK AND UNCERTAINTIES

Foreign Exchange

Most of West Fraser's net sales are to customers at prices which, although denominated in a variety of currencies, are generally based on prevailing U.S. dollar prices. This results in significant sensitivity to changes in the U.S.-Canadian dollar exchange rate.

Payment for export sales may occur in the local currency of the purchaser, with exchange rate fluctuations between the time of purchase and payment, which may be up to 120 days, resulting in additional exchange rate sensitivity to a broader range of major foreign currencies. There were no obligations under forward-exchange contracts outstanding at year-end.

During 2001 the U.S. dollar traded between Cdn$1.61 and Cdn$1.49 with an average of Cdn$1.55 (2000 – between Cdn$1.56 and Cdn$1.43 with an average of Cdn$1.49)

U.S. Trade Dispute

On March 31, 2001 the Softwood Lumber Agreement between the United States and Canada expired. On April 2, 2001 certain U.S. industry and trade groups filed petitions seeking the implementation of countervailing duties ("CVD") and antidumping duties ("ADD") on Canadian lumber.

A preliminary determination by the U.S. Department of Commerce ("DOC") established a CVD rate of 19.31% for all provinces, except the Maritimes, for lumber shipments from August 17, 2001. That duty was suspended on December 15, 2001. The DOC also determined that circumstances may have existed whereby CVD would apply retroactively from May 19, 2001.

West Fraser recorded an expense provision of $20.9 million on account of possible CVD liabilities relating to its lumber shipments to the United States from August 17 to December 15, 2001. If the International Trade Commission ("ITC") rules that the CVD applies retroactively to May 19, 2001, additional duty of approximately $20 million would have to be accrued.

On October 31, 2001 the DOC issued its preliminary determination in the antidumping investigation. It had selected West Fraser and five other major lumber producers in Canada to investigate. On the basis of these investigations, the DOC determined a preliminary ADD rate for each company and assessed all other lumber exporters the weighted average ADD rate of the six companies investigated. West Fraser's rate was the lowest at 5.94% and the average rate was 12.58%.

West Fraser recorded an expense provision of $4.1 million on account of possible ADD liabilities relating to lumber exports to the United States from November 6 to December 31, 2001.

As U.S. law does not permit the DOC to charge duties if a final determination is more than 120 days after its preliminary determination, no CVD can be assessed before the final determinations expected in March 2002. The final ADD determination by the DOC is also expected in March.

In May 2002, the ITC is expected to make its final determination regarding the time period in which the duties apply. The ITC may determine that both duties apply from May 2002 forward or from August 2001 in respect of CVD and from November 2001 in respect of ADD. If the ITC finds that certain circumstances exist it could require the CVD to apply to shipments starting May 2001.

In 2001 the Company posted bonds as security for the payment of possible CVD and ADD liabilities and after the final determinations, expected in May, 2002 by the ITC, exporters of lumber to the United States may be required to post cash deposits. These deposits would be held pending completion of an administrative review in 2003. If the final CVD and ADD rates are similar to the preliminary rates, the cash deposits West Fraser would be required to make would amount to approximately US$75 million in a year, assuming current levels of shipments and prices. While such deposits would present a significant additional cost, West Fraser's financial resources and its imbedded low cost structure would enable it to fulfil these obligations, should they arise.

West Fraser and other Canadian forest products companies, together with the Canadian federal and provincial governments, continue to defend the Canadian position in this trade dispute. If an acceptable solution cannot be found, the Canadian governments may appeal the final determinations under NAFTA and to the World Trade Organization. Neither the final outcome nor the time required to reach a binding decision can be determined at this time.

A settlement of the softwood lumber dispute could result in changes to Canadian provincial timber tenure regimes, but it is not possible to predict the effect of such changes on West Fraser.

Land Claims

Native land claims continue to create uncertainty for the forest industry in British Columbia. Although some land claims are under negotiation with the federal and provincial governments, in 2001 the B.C. provincial government announced its intention to make treaty negotiations the subject of a referendum, expected to be conducted in 2002.

Pine Beetle Infestation

The B.C. central interior region is experiencing a pine beetle infestation. The volume of timber damaged by this infestation is expected to reach 70 million m^3 in 2002. The infestation is being addressed in part by an accelerated harvesting program. At this time West Fraser cannot determine whether the infestation will have a material effect on its long-term harvesting volume.

Sensitivity to Key Variables

Factor	Variation	Change in Earnings
Lumber Price	US$50 change per Mfbm	$ 64 million
Plywood Price	US$50 change per Msf	$ 12 million
MDF Price	US$50 change per Msf	$ 12 million
BCTMP Price	US$50 change per tonne	$ 18 million
Linerboard Price	US$50 change per tonne	$ 15 million
Kraft Paper Price	US$50 change per tonne	$ 5 million
Newsprint Price	US$50 change per tonne	$ 6 million
U.S.-Canadian $ Exchange Rate	US$0.01 change per Cdn$	$ 10 million
Log Cost	$10 change per m^3	$ 55 million

Environment

The "Environmental Report" which appears on page 61 is incorporated herein by reference.

Earnings Sensitivity

West Fraser's earnings are sensitive to changes in world economic conditions, primarily those in North America, Europe and the Far East. Most of its revenues are from sales of commodities for which prices are sensitive to variations in supply and demand. Since most of these sales are in foreign currencies, mainly U.S. dollars, currency exchange fluctuations are a major factor.

West Fraser's principal raw material is timber. Stumpage charges on logs harvested from its timber tenures are indexed to the market price of lumber, both in British Columbia and in Alberta, although each province follows a different market index and a different policy to make changes to stumpage. The prices paid for logs obtained on the open market are the result of competitive bidding between mills seeking incremental volumes. In West Fraser's new operations in the United States, approximately 65% of the required log volumes is obtained under a long-term contract and the balance through market purchases.

Interest rates, particularly in the United States, have a significant effect on house construction activity, which in turn influences the demand for and price of lumber.

BUSINESS OUTLOOK – 2002

West Fraser's financial performance is largely dependent on commodity prices, the value of the Canadian dollar in relation to the U.S. dollar, government policies affecting timber harvesting, the outcome of the Canada-U.S. lumber trade dispute and the cost structure of its manufacturing units.

Most of these factors indicate that 2002 will be a challenging year for West Fraser, although a modest economic recovery by year end is widely anticipated. As interest rates are unlikely to drop further to stimulate home-building activity, it may be difficult for the United States to maintain the high level of housing starts of 2001. In addition, the softwood lumber trade dispute may result in changes to Canada's forest policies with significantly increased timber pricing, further duties on exports of Canadian lumber, or both. The biggest single factor affecting short-term profitability of the Canadian forest products industry is the value of the Canadian dollar in relation to the U.S. dollar. Canada's currency has gradually weakened, providing an artificial advantage for all exports to the U.S. If the Canadian dollar strengthens rapidly, this advantage could evaporate, reducing profits of the Canadian industry until commodity prices rise in response.

The rebuilt sawmill at Chasm is expected to start up in March and should contribute to earnings by the end of the year. The two sawmills in the U.S. South will continue with their capital improvements, which should bring their manufacturing costs in line with those of the Canadian operations.

West Fraser's panel operations have continued to lower their operating costs while capturing high-value markets for their products. It is expected that expansions in North American MDF capacity will be limited to two new production lines commissioned in 2001, and production increases by plants that curtailed operations during the year. This latent capacity will probably hold back price improvements until the second half of 2002. The Company's panel facilities should continue to operate profitably even if new home construction and remodeling decline.

Pulp pricing is not expected to see improvement until late 2002 or early 2003. However, West Fraser's two BCTMP mills have increased their production efficiencies sufficiently to allow them to operate profitably even at depressed pricing levels.

Prices for linerboard and kraft paper are expected to show modest improvement with a global economic recovery and as major producers continue to exercise production discipline.

Newsprint prices are not expected to show significant improvement before the U.S. economic recovery results in increased newspaper advertising. However, the low cost structure and overall efficiency of ANC should allow it to maintain its strong profitability.

ANC and the government of Saskatchewan have agreed to study the feasibility of building a greenfield newsprint mill in that province. Attractive fibre and power costs and a satisfactory financial structure will need to be ensured in order for the participants to proceed with such a project.

Power pricing volatility diminished in the last half of 2001. In Alberta, however, occasional spikes in electricity prices should present West Fraser's operations with power management opportunities.

Real estate sales associated with West Fraser's former Revy retail home improvement business are proceeding. Most of the large "box" store properties are expected to be sold by the end of 2002 and smaller store properties will be sold as opportunities arise in the next few years.

West Fraser's sound balance sheet provides a strong buffer against the challenges of the coming year. Debt repayment totalling $239 million due in 2002 can be made out of funds on hand. Similarly, any cash deposits that may be required on account of U.S. trade duties can be met without compromising West Fraser's financial integrity. The balance sheet also provides West Fraser with the financial flexibility to consider growth opportunities as they present themselves.