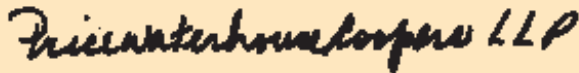


**To the Shareholders of
West Fraser Timber Co. Ltd.**

We have audited the consolidated balance sheets of West Fraser Timber Co. Ltd. as at December 31, 2002 and 2001 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, 2002 and 2001 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 the accounting policy described in note 2 to the consolidated financial statements, on a consistent basis.



PricewaterhouseCoopers LLP Chartered Accountants
Vancouver, B.C.

January 31, 2003

As at December 31 (in thousands of Canadian dollars)

ASSETS

Current assets

Cash and short-term investments	\$ 192,916	\$ 270,057
Accounts receivable	173,983	169,635
Inventories (note 6)	319,443	305,550
Prepaid expenses	7,009	7,789
Discontinued operations – current assets (note 3)	—	5,984

Other assets (note 7)

Property, plant and equipment (note 8)

Deferred charges (note 9)

Discontinued operations – long-term assets (note 3)

	693,351	759,015
	85,214	86,490
	1,316,889	1,331,126
	20,217	16,353
	—	126,607
	\$ 2,115,671	\$ 2,319,591

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	\$ 163,041	\$ 188,799
Current portion of reforestation obligation	29,464	28,135
Current portion of long-term debt (note 10)	19,720	238,920
Discontinued operations - current liabilities (note 3)	—	15,370

Long-term debt (note 10)

Other liabilities (note 11)

Future income taxes (note 18)

Discontinued operations - long-term liabilities (note 3)

	212,225	471,224
	337,745	359,589
	72,214	100,649
	201,725	213,171
	—	4,543
	823,909	1,149,176

SHAREHOLDERS' EQUITY

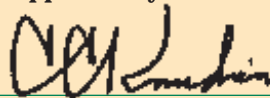
Share capital (note 12)

Retained earnings

	327,524	324,789
	964,238	845,626
	1,291,762	1,170,415
	\$ 2,115,671	\$ 2,319,591

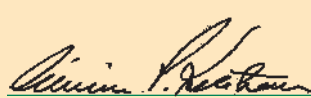
Contingency (note 21)

Approved by the Board of Directors



C. Calvert Knudsen

Director



William P. Ketcham

Director

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

EARNINGS

	2002	2001
Net sales	\$ 1,632,239	\$ 1,562,306
Costs and expenses		
Cost of products sold	1,243,765	1,181,304
Amortization of property, plant and equipment	135,434	123,279
Selling, general and administrative	69,181	70,494
Recovery of prior year export duties <i>(note 21)</i>	(25,010)	—
	1,423,370	1,375,077
Operating earnings	208,869	187,229
Other		
Financing expense <i>(note 16)</i>	(27,064)	(60,146)
Other income <i>(note 17)</i>	3,442	4,705
Earnings from continuing operations before income taxes	185,247	131,788
Provision for (recovery of) income taxes <i>(note 18)</i>		
Current	60,852	66,590
Future	(4,644)	(32,071)
	56,208	34,519
Earnings from continuing operations	129,039	97,269
Earnings from discontinued operations <i>(note 3)</i>	8,521	17,648
Earnings	\$ 137,560	\$ 114,917
Earnings per share <i>(note 19)</i>		
From continuing operations — Basic	\$ 3.85	\$ 2.86
— Diluted	\$ 3.82	\$ 2.85
After discontinued operations — Basic	\$ 4.11	\$ 3.01
— Diluted	\$ 4.07	\$ 3.00

RETAINED EARNINGS

	2002	2001
Balance — beginning of year	\$ 845,626	\$ 782,842
Change in accounting for foreign currency translation <i>(note 2)</i>	—	(21,424)
	845,626	761,418
Earnings	137,560	114,917
	983,186	876,335
Common share dividends	(18,742)	(17,001)
Discontinued operations - convertible obligation <i>(note 3)</i>	—	(12,564)
Preferred share payment <i>(note 13(b))</i>	(206)	(1,144)
Balance — end of year	\$ 964,238	\$ 845,626

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

CASH FLOWS FROM OPERATING ACTIVITIES

Earnings from continuing operations

Items not affecting cash

	2002	2001
Earnings from continuing operations	\$ 129,039	\$ 97,269
Items not affecting cash		
Amortization of property, plant and equipment	135,434	123,279
Exchange (gain) loss on long-term debt	(5,495)	26,619
Change in reforestation obligation	(6,000)	(12,682)
Change in other long-term liabilities	(22,094)	27,811
Future income taxes	(9,762)	(32,071)
Other	(4,181)	(871)
	216,941	229,354
Net change in non-cash working capital items	(47,158)	30,358
	169,783	259,712

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from long-term debt	—	76,446
Repayment of long-term debt	(235,668)	(112,796)
Dividends	(18,742)	(17,001)
Other	2,529	(1,308)
	(251,881)	(54,659)

CASH FLOWS FROM INVESTING ACTIVITIES

Property, plant and equipment additions	(123,109)	(112,910)
Proceeds from disposal of property, plant and equipment	6,333	1,548
Acquisitions (note 4)	(304)	(29,929)
Decrease (increase) in other assets	6,784	(3,124)
	(110,296)	(144,415)

Change in cash from continuing operations

Change in cash from discontinued operations (note 3)

Net cash - beginning of year

Net cash - end of year

Net cash consists of

Cash and short-term investments

Interest paid

Income taxes paid

	(192,394)	60,638
	115,253	305,052
	270,057	(95,633)
Net cash - end of year	\$ 192,916	\$ 270,057
Net cash consists of		
Cash and short-term investments	\$ 192,916	\$ 270,057
<i>Interest paid</i>	\$ 42,393	\$ 46,665
<i>Income taxes paid</i>	\$ 72,293	\$ 93,403

(Figures are in thousands of Canadian dollars except where indicated.)

1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and its subsidiaries. Principal direct and indirect operating subsidiaries are West Fraser Mills Ltd., Blue Ridge Lumber Inc., Alberta Plywood Ltd., West Fraser (South), Inc., West Fraser Newsprint Ltd., West Fraser Real Estate Holdings Ltd. and West Fraser Home Centres Inc.

Investments in and operations of the company's principal joint ventures are accounted for by the proportionate consolidation method (note 5).

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.

REVENUE RECOGNITION

Revenues are derived from product sales and recognized when significant risks and rewards of ownership are transferred, which is generally at the time of shipment.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated 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.

The company's foreign operations are considered to be integrated. Accordingly, 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. Revenues and expenses 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 historical exchange rate as the asset 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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, which for major manufacturing assets under construction includes capitalized interest and preproduction and start-up costs. Expenditures for additions, improvements and renewals are capitalized. Expenditures for maintenance and repairs are charged to earnings. Upon

(Figures are in thousands of Canadian dollars except where indicated.)

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 property, plant and equipment is charged against earnings in the period the impairment is determined.

AMORTIZATION

Property, plant and equipment is principally amortized on a straight-line basis over its estimated useful life and 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 not to exceed 60 years.

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

Capitalized preproduction and start-up costs are amortized over a period not to exceed five years.

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 between estimated and actual costs of reforestation are credited or charged to earnings when realized.

POST-RETIREMENT BENEFITS

The cost of pension and other retirement benefits is actuarially determined using the projected benefit method pro-rated for years of service and using management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Plan obligations are discounted using current market interest rates and plan assets are presented at fair value.

2. CHANGE IN ACCOUNTING POLICY

FOREIGN CURRENCY TRANSLATION

Effective January 1, 2002, the company retroactively changed its method of accounting for foreign currency translation gains and losses on long-term debt, as recommended by the Canadian Institute of Chartered Accountants. Before 2002, exchange gains and losses were deferred and amortized over the life of the debt. Under the new method, gains and losses are recognized in the current period. The effect of adopting the new method on the prior period financial statements is to reduce earnings by \$11,572 and opening retained earnings by \$21,424.

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.

Results from discontinued operations are based on management's estimates. These include the proceeds 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. Changes to these estimates resulted in the recognition of earnings of \$8,521 from discontinued operations in 2002.

Effective December 31, 2002, the remaining unsold real estate totalling \$40,413 was reclassified to property, plant and equipment for the periods presented. Future gains and losses will be recorded as other income (expense).

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. Available capital losses eliminated taxes on the sale.

DISCONTINUED OPERATIONS

The results of discontinued operations are as follows:

	2002	2001
Retail operations		
Loss to Measurement Date (net of tax recovery of \$799)	\$ —	\$ (886)
Gain (loss) on disposal - net of tax expense of \$3,600 (2001 - tax recovery of \$3,100)	8,521	(14,758)
Earnings (loss) from discontinued retail operations	8,521	(15,644)
Timber plantations		
Earnings from discontinued operations	\$ 8,521	\$ 33,292
	\$ 8,521	\$ 17,648

Cash flows from discontinued operations are as follows:

	2002	2001
Cash from operating activities	\$ 1,268	\$ 50,741
Cash used in financing activities	(4,800)	(32,100)
Cash from investing activities	118,785	286,411
Increase in cash	\$ 115,253	\$ 305,052



(Figures are in thousands of Canadian dollars except where indicated.)

4. ACQUISITIONS

2002

Effective November 1, 2002, the company increased its ownership in the Quesnel River Pulp Company joint venture to 100% by acquiring the other venturer's 50% interest. 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 for cash	\$ 304
------------------------------	--------

2001

Effective April 24, 2001, the company acquired a sawmill and associated 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:

Non-cash working capital	\$ 7,295
Property, plant and equipment	34,061
Reforestation obligation assumed	(11,427)
Cash consideration	\$ 29,929

5. INVESTMENTS IN JOINT VENTURES

The company's principal joint ventures consist of Alberta Newsprint Company (50%), Quesnel River Pulp Company (50% to November 1, 2002, see note 4), Houston Forest Products Company (50%), Babine Forest Products Company (31.58%) and Seehta Forest Products (50%). The company's proportionate share of the joint ventures is as follows:

	2002	2001
Current assets	\$ 48,154	\$ 59,273
Non-current assets	150,966	207,761
Total assets	199,120	267,034
Current liabilities	24,289	36,720
Non-current liabilities	9,068	4,816
Equity	\$ 165,763	\$ 225,498
Net sales	\$ 251,616	\$ 255,946
Expenses	217,225	201,392
Earnings	\$ 34,391	\$ 54,554
Cash from operating activities	\$ 49,935	\$ 83,690
Cash from financing activities	\$ 149	\$ 123
Cash used in investing activities	\$ (6,457)	\$ (14,474)

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

6. INVENTORIES

	2002	2001
Logs and wood chips	\$ 94,970	\$ 95,153
Manufactured products	174,721	161,914
Processing materials and supplies	49,752	48,483
	\$ 319,443	\$ 305,550

7. OTHER ASSETS

	2002	2001
Investments	\$ 39,839	\$ 41,169
Power purchase agreements	34,711	36,730
Advances for timber and timber deposits	9,453	6,871
Non-interest bearing loans to employees	1,211	1,720
	\$ 85,214	\$ 86,490

Power purchase agreements

The company entered into agreements to acquire a portion of the electricity to be generated from two power plants in Alberta, beginning January 1, 2001, at substantially predetermined prices. The company's share is expected to be 150 megawatts per year to 2013 and 120 megawatts per year to 2020. The company also has entered into agreements to resell the electricity at prevailing market prices. At the same time, the company's Alberta operations purchase electricity at prevailing market prices. 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 meets the requirements of the company's Alberta operations.

8. PROPERTY, PLANT AND EQUIPMENT

	2002		
	Cost	Accumulated amortization	Net
Manufacturing plant and equipment	\$ 2,278,841	\$ 1,292,955	\$ 985,886
Timber rights, timberlands and roads	419,958	165,441	254,517
Rental properties	64,328	9,086	55,242
Other	23,757	2,513	21,244
	\$ 2,786,884	\$ 1,469,995	\$ 1,316,889

	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
Rental properties	71,072	10,052	61,020
Other	16,683	1,722	14,961
	\$ 2,686,010	\$ 1,354,884	\$ 1,331,126



(Figures are in thousands of Canadian dollars except where indicated.)

9. DEFERRED CHARGES

	2002	2001
Deferred pension (note 14)	\$ 19,140	\$ 14,780
Deferred financing fees	1,077	1,573
	\$ 20,217	\$ 16,353

10. LONG-TERM DEBT AND BANK INDEBTEDNESS

Long-term debt

	2002	2001
US \$125,000 term notes due 2002; interest at 7.25%	\$ —	\$ 199,031
US \$125,000 term notes due 2005; interest at 7.50%	197,082	198,956
Cdn \$125,000 term notes due 2007; interest at 6.80%	124,887	124,864
US \$22,500 (2001 - US \$47,500) notes due 2001 to 2004; interest at 8.44%	35,496	75,658
	357,465	598,509
Less: Current portion	19,720	238,920
	\$ 337,745	\$ 359,589

Principal repayments required are as follows:

2003	\$ 19,720
2004	15,776
2005	197,082
2006	—
2007	124,887
	\$ 357,465

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, 2002.

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

11. OTHER LIABILITIES

	2002	2001
Pension liability (note 14)	\$ 14,417	\$ 11,501
Reforestation obligation - long-term	57,797	64,138
Long-term lumber duties payable (note 21)	—	25,010
	\$ 72,214	\$ 100,649

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	2002		2001	
	Number of shares	Amount	Number of shares	Amount
Common	27,848,023	\$ 326,958	24,531,020	\$ 324,204
Class B common	5,635,206	566	5,829,068	585
Total Common	33,483,229	\$ 327,524	30,360,088	\$ 324,789

Share capital transactions during 2002

The company issued 3,038,698 Common shares pursuant to a 10% stock dividend; 84,443 Common shares were issued for \$2,735; 193,862 Class B shares were exchanged for Common shares.

Share capital transactions during 2001

The company issued 15,516 Common shares for \$486.

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, 2002 amounted to \$4,687 (2001 - \$4,250) 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 grant up to 3,200,000 share options. No expense is recognized for share options granted under this plan. The exercise price of a share option is equal to the closing price of the company's common shares on the day preceding the grant date. The options vest at 20% per year from the grant date and expire after 10 years. The weighted average contractual life of the options outstanding is seven years.

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

	2002		2001	
	Options	Weighted average exercise price (dollars)	Options	Weighted average exercise price (dollars)
Outstanding — Beginning of year	1,467,032	\$ 29.87	1,100,354	\$ 32.24
Granted	297,000	36.82	385,000	23.18
Exercised	(75,290)	30.60	(11,275)	28.71
Expired	—	—	(7,047)	34.93
Outstanding — End of year	1,688,742	\$ 31.06	1,467,032	\$ 29.87
Exercisable — End of year	824,417	\$ 31.25	640,106	\$ 31.65

The figures in the above table reflect the effects of the 10% stock dividend issued in 2002, as if the options had been outstanding from January 1, 2001.



(Figures are in thousands of Canadian dollars except where indicated.)

The following table summarizes information about the stock options outstanding at December 31, 2002:

Range of exercise prices (dollars)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (dollars)	Number of exercisable options	Weighted average exercise price (dollars)
\$20 – \$30	489,500	7	\$ 23.96	207,460	\$ 25.01
\$30 – \$40	1,199,242	6	\$ 33.96	616,957	\$ 33.35
	<u>1,688,742</u>			<u>824,417</u>	

Stock-based compensation

During 2002, the company granted 297,000 stock options to directors and officers at \$36.82 per share. No compensation expense has been recognized for these options. Had compensation expense for these stock options been determined based on the fair value at the grant date, consistent with the fair value based method of accounting for stock-based compensation, the company's earnings would have been reduced by \$790, or \$0.02 per share. The total fair value of the options granted during 2002 was \$4,738. The company has not calculated the fair value of the stock options granted before January 1, 2002.

The fair value of the stock options granted in 2002 was estimated on the grant date using a Black-Scholes option pricing method. The significant assumptions are as follows:

Expected option life	8 years
Expected share price volatility	36%
Dividend yield	1.5%
Risk-free interest rate	5.7%

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 \$4,387 (2001 — \$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, with a final payment of \$206 which was charged to retained earnings.

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 either length of service or earnings and length of service. The company has unfunded supplemental defined benefit pension plans for certain salaried employees. 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 \$6,419 at December 31, 2002 (2001 – \$6,932).

The total pension expense for the company's defined contribution pension plans is \$1,735 (2001 - \$1,686).

The status of the company's defined benefit pension plans at December 31, 2002 and 2001 was as follows:

	2002	2001
Pension expense		
Current service cost	\$ 9,491	\$ 8,230
Interest cost	15,094	13,702
Expected plan return	(14,302)	(13,288)
Amortization of transition amount and experience gains	500	349
Net expense	\$ 10,783	\$ 8,993
Accrued benefit obligation		
Projected benefit obligations - opening	\$ 208,593	\$ 177,768
Liability assumed	13,933	9,039
Current service cost	9,491	8,230
Interest cost	15,094	13,702
Benefits paid	(8,501)	(7,328)
Actuarial loss	10,000	7,182
Projected benefit obligations - ending	\$ 248,610	\$ 208,593
Plan assets		
Fair value - opening	\$ 196,226	\$ 183,486
Assets acquired	12,448	8,700
Actual return	7,126	3,286
Contributions	10,843	8,082
Benefits paid	(8,501)	(7,328)
Fair value — ending	\$ 218,142	\$ 196,226
Funded status of the plans		
Plan surplus (deficit) — funded plans	\$ (8,141)	\$ 9,892
— supplemental plan	(22,327)	(22,259)
Unamortized net actuarial losses	36,994	18,680
Unamortized past service costs	769	602
Unamortized net transitional amount	(2,572)	(3,636)
Net accrued benefit asset	\$ 4,723	\$ 3,279
Represented by		
Deferred pension	\$ 19,140	\$ 14,780
Pension liability	(14,417)	(11,501)
	\$ 4,723	\$ 3,279



(Figures are in thousands of Canadian dollars except where indicated.)

The significant actuarial assumptions at December 31 are as follows:

	2002	2001
Discount rate	6.5%	7.0%
Expected rate of return on plan assets	7.0%	7.0%
Compensation increase	4.0%	5.0%

15. FINANCIAL INSTRUMENTS

a) Fair values

The recorded amounts for cash and short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair values, based on their short-term maturities.

The fair value of the company's long-term debt at December 31, 2002 was \$378,524, 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, therefore, is exposed to credit risk. The company has adopted policies and procedures designed to limit this risk.

16. FINANCING EXPENSE

	2002	2001
Long-term interest	\$ 38,699	\$ 45,530
Current interest income - net	(6,140)	(1,941)
Exchange (gain) loss on long-term debt	(5,495)	26,619
Attributed to discontinued operations	—	(10,062)
	\$ 27,064	\$ 60,146

17. OTHER INCOME

	2002	2001
Rental income - net	\$ 1,552	\$ 910
Earnings (loss) from equity investments	227	(282)
Foreign exchange gain (loss)	(871)	1,459
Other - net	2,534	2,618
	\$ 3,442	\$ 4,705

18. INCOME TAXES

The company's effective tax rate is as follows:

	2002		2001	
	Amount	%	Amount	%
Income taxes at statutory rate	\$ 77,525	41.9	\$ 58,439	44.3
Manufacturing and processing allowances	(11,409)	(6.2)	(6,022)	(4.6)
Large corporations tax	219	0.1	1,069	0.8
Non-deductible (taxable) amounts	(1,957)	(1.6)	6,794	5.2
Rate differentials between jurisdictions	(6,714)	(3.6)	(10,502)	(7.9)
Reduction in statutory income tax rates	(2,013)	(1.1)	(17,000)	(12.9)
Other	557	0.8	1,741	1.3
	\$ 56,208	30.3	\$ 34,519	26.2

The components of the future income tax liability are as follows:

	2002	2001
Future income tax liabilities		
Property, plant and equipment	\$ (242,734)	\$ (257,374)
Other assets	(6,165)	(5,064)
	\$ (248,899)	\$ (262,438)
Future income tax assets		
Reforestation accrual	\$ 28,863	\$ 33,004
Other	18,311	16,263
	\$ 47,174	\$ 49,267
	\$ (201,725)	\$ (213,171)

In addition, the company has a capital loss carryforward of \$60,000 (2001 - \$45,000) which may be used to reduce future capital gains.

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.

Earnings per share figures reflect the 10% stock dividend as if the shares had been outstanding from the beginning of the years presented.



(Figures are in thousands of Canadian dollars except where indicated.)

	From continuing operations	2002 After discontinued operations	From continuing operations	2001 After discontinued operations
Earnings	\$ 129,039	\$ 137,560	\$ 97,269	\$ 114,917
Preferred share payments	(206)	(206)	(1,794)	(1,794)
Convertible obligation accretion	—	—	—	(12,564)
Available to shareholders	\$ 128,833	\$ 137,354	\$ 95,475	\$ 100,559
Weighted average shares				
Weighted average shares – basic	33,457,154	33,457,154	33,391,715	33,391,715
Stock options - treasury stock method	297,792	297,792	105,330	105,330
Weighted average shares – diluted	33,754,946	33,754,946	33,497,045	33,497,045
Earnings per share (dollars)				
Basic earnings per share	\$ 3.85	\$ 4.11	\$ 2.86	\$ 3.01
Diluted earnings per share	\$ 3.82	\$ 4.07	\$ 2.85	\$ 3.00

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

2002 (Figures are in millions of Canadian dollars)	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
Net sales at market prices					
To external customers	\$ 930.8	\$ 216.7	\$ 484.7	\$ —	\$ 1,632.2
To other segments	28.2	—	—	—	
	\$ 959.0	\$ 216.7	\$ 484.7	\$ —	
EBITDA ⁽¹⁾	\$ 193.6	\$ 70.4	\$ 87.0	\$ (6.7)	\$ 344.3
Amortization of property, plant and equipment	55.1	23.5	55.0	1.8	135.4
Operating earnings (loss)	138.5	46.9	32.0	(8.5)	208.9
Interest expense (income)	16.1	6.2	14.3	(4.0)	32.6
Exchange gain on long-term debt	—	—	—	(5.5)	(5.5)
Other	(1.3)	—	(0.4)	(1.7)	(3.4)
Earnings from continuing operations before income taxes	\$ 123.7	\$ 40.7	\$ 18.1	\$ 2.7	\$ 185.2
Total capital employed ⁽²⁾	\$ 716.9	\$ 221.5	\$ 677.6	\$ 307.2	\$ 1,923.2
Identifiable assets	\$ 811.8	\$ 245.8	\$ 740.8	\$ 317.3	\$ 2,115.7
Capital expenditures and acquisitions	\$ 84.1	\$ 12.2	\$ 20.1	\$ 7.0	\$ 123.4
Sales by geographic area					
Net sales to external customers					
USA	\$ 686.7	\$ 137.7	\$ 170.7	\$ —	\$ 995.1
Canada	189.6	64.2	45.3	—	299.1
Europe	—	—	51.9	—	51.9
Far East	54.5	14.8	156.2	—	225.5
Other	—	—	60.6	—	60.6
	\$ 930.8	\$ 216.7	\$ 484.7	\$ —	\$ 1,632.2

(1) EBITDA is defined as operating earnings plus amortization.

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

2001 <i>(Figures are in millions of Canadian dollars)</i>	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
Net sales at market prices					
To external customers	\$ 851.8	\$ 214.0	\$ 496.5	\$ —	\$ 1,562.3
To other segments	30.9	—	—	—	
	<u>\$ 882.7</u>	<u>\$ 214.0</u>	<u>\$ 496.5</u>	<u>\$ —</u>	
EBITDA ⁽¹⁾	\$ 152.5	\$ 62.3	\$ 103.8	\$ (8.1)	\$ 310.5
Amortization of property, plant and equipment	48.1	23.1	51.8	0.3	123.3
Operating earnings (loss)	104.4	39.2	52.0	(8.4)	187.2
Interest expense (income)	16.0	6.9	20.1	(9.5)	33.5
Exchange loss on long-term debt	—	—	—	26.6	26.6
Other	0.5	(0.1)	—	(5.1)	(4.7)
Earnings from continuing operations before income taxes	\$ 87.9	\$ 32.4	\$ 31.9	\$ (20.4)	\$ 131.8
Total capital employed ⁽²⁾	\$ 741.6	\$ 233.6	\$ 700.2	\$ 411.9	\$ 2,087.3
Identifiable assets	\$ 807.3	\$ 257.4	\$ 765.3	\$ 489.6	\$ 2,319.6
Capital expenditures and acquisitions	\$ 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
	<u>\$ 851.8</u>	<u>\$ 214.0</u>	<u>\$ 496.5</u>	<u>\$ —</u>	<u>\$ 1,562.3</u>

(1) EBITDA is defined as operating earnings plus amortization.

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

21. CONTINGENCY

On April 25, 2002, the U.S. Department of Commerce (USDOC) issued its final determination in the countervailing and antidumping investigations. The USDOC's final determination in the investigation resulted in a countervailing duty rate of 18.79% and an antidumping rate specific to the company of 2.18%, both to be posted by cash deposits.

On May 16, 2002, the United States International Trade Commission (USITC) published its final determination on injury stating that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, cash deposits have been required for shipments at the rates determined by the USDOC effective from May 22, 2002. All bonds posted before May 22, 2002 have been returned and cancelled. The company has reversed \$25.0 million related to preliminary duties charged in 2001.



The company has incurred countervailing and antidumping duties of \$67.4 million, accounted for as a reduction of sales, for the period from May 22, 2002 to December 31, 2002.

The company and other Canadian forest product companies, the Federal Government and Canadian provincial governments (Canadian Interests) categorically deny the U.S. allegations and strongly disagree with the final countervailing and dumping determinations made by the USITC and USDOC. Canadian Interests continue to aggressively defend the Canadian industry in this trade dispute. Canadian Interests have appealed these decisions to NAFTA panels and the WTO. The final amount of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on the results of these appeals. Notwithstanding the cash deposit rates established in the investigations, the final liability for the assessment of countervailing and antidumping duties will not be determined until each annual administrative review process is complete.

An administrative review is currently expected to begin sometime after May 31, 2003 and will be completed by approximately November 2004. The completion could extend beyond 2004 with the finalization of any appeals.

ENVIRONMENTAL POLICY

West Fraser Timber Co. Ltd. is committed to responsible stewardship of the environment. A philosophy of continual improvement of our forest practices and manufacturing procedures has been adopted to optimize the use of resources and minimize or eliminate the impact of our operations on the environment.

West Fraser recognizes that environmental excellence is an integral aspect of long-term business success. Our Company and its employees are committed to the following:

- Complying with all applicable environmental laws and regulations, and with other requirements to which the organization subscribes.
- Preventing pollution and continuing to improve our environmental performance by setting and reviewing environmental objectives and targets.
- Conducting periodic environmental audits.
- Providing training for employees and contractors to ensure environmentally responsible work practices.
- Communicating our environmental performance to employees, customers, shareholders, local communities and other stakeholders.
- Reviewing, on a regular basis, this policy to ensure that it reflects the Company's ongoing commitment to environmental stewardship.

INTERNAL AUDITS

West Fraser has programs for internal environmental audits of its woodland and manufacturing operations.

During 2002, forest practices audits were conducted at the woodland operations of Alberta Plywood and the Smithers and Chasm sawmills. Environmental audits were conducted at the manufacturing operations of Quesnel River Pulp, Slave Lake Pulp, Ranger Board and the sawmills at Chasm, Blue Ridge, Williams Lake and Quesnel. No significant issues were identified.

CERTIFICATION

There is increasing demand in the marketplace for forest companies to obtain independent verification that their manufacturing and forest practices meet an acceptable standard of environmental performance. This has resulted in the development of a number of certification standards. West Fraser has achieved certification under several different environmental standards at its various mills and woodlands.

In 2002, West Fraser consolidated the separate ISO 14001 registrations of its B.C. and Alberta woodlands operations into a single registration. As part of this process, all woodlands operations were successfully audited by KPMG Quality Registrar Inc. The ISO standard ensures that there is rigorous, independent assurance that a company's management systems carefully consider and take measures to minimize or eliminate the environmental impact of its activities and that the company continually strives to improve its performance.

The Quesnel River Pulp mill also maintained an ISO 14001 registration for its manufacturing operations.

The timberlands supplying most of the logs to West Fraser's sawmills at Joyce and Huttig have been independently verified to meet the requirements of the Sustainable Forestry Initiative ("SFI") of the American Forest & Paper Association. The SFI is a comprehensive set of performance measures that integrates the perpetual growing and harvesting of trees with the protection of wildlife and plants and soil and water quality.

Teachers' Tour



West Fraser appreciates the opportunity to share information and demonstrate how its practices in the field are being conducted. (Pictured: The Smithers sawmill and the Northern Forest Products Association host a woods tour for the teachers of the Bulkley Valley.)



FORESTCARE certification was maintained at Blue Ridge Lumber, Ranger Board, Slave Lake Pulp, Alberta Newsprint Company and Alberta Plywood and their associated woodlands. The Alberta Forest Products Association, along with community stakeholder groups, created FORESTCARE as a forest industry stewardship program. This certification ensures that industry continually improves environmental performance and maintains a cooperative relationship with community stakeholders.

The Ranger Board and WestPine manufacturing operations maintained the Green Cross certification of Scientific Certification Systems in 2002. The certification verifies that their medium density fibreboard products are made from 100% recycled wood fibre with at least 50% post-industrial recycled content. In addition, in 2002, Ranger Board achieved Environmentally Preferred Product certification from the Composite Panel Association, which is similar to the Green Cross certification.

EFFLUENT QUALITY

The Kitimat mill continues to work with federal and provincial regulators and local stakeholders to address issues related to the effect of its effluent on the taste of the eulachon fish that use the Kitimat River estuary for spawning during a brief period each year.

AIR QUALITY INITIATIVES

The mills in Quesnel and Williams Lake continue to participate in the local community airshed management program.

The Smithers sawmill is considering alternative solutions that would enable it to discontinue using its beehive burner, including transporting wood waste to various energy systems in the northwest. Initiatives completed through to 2002 have resulted in a 50% reduction in burner operating time.

NON-COMPLIANCES, CHARGES AND SPILLS

Slave Lake Pulp received a \$7,500 administrative penalty from Alberta's Ministry of Environment with respect to a toxicity test failure in December 2001. The test failure resulted from elevated biochemical oxygen demand within the effluent treatment system. Studies indicated that there was no environmental impact on the Slave River.

Slave Lake Pulp was charged with three offences regarding the interpretation of bioassay test results. At issue was a mill practice of conducting tests on duplicate samples but not reporting and taking subsequent action when one test result passed and the other indicated a failure. Procedures at Slave Lake have been changed and the charges are being defended.

In December 2002, the Kitimat mill experienced an overflow of a chemical pulp residual into a nearby stream. The mill's ability to retain the material that overflowed was affected by heavy rainfall. The incident is under investigation by regulatory agencies.

The Huttig sawmill log yard pond discharge had a total suspended solids exceedance due to the formation of silt within the lagoon through the action of wind-generated waves. Measures have been taken to address the erosion of the pond berm.

When the Huttig operations were purchased in 2000 the sewage lagoon discharge was identified as an issue because it had exceeded permit levels on several previous occasions. The former owner agreed to correct the problem by installing a filtration system to treat the discharge. The filtration system became operational in January 2002 but further permit violations occurred. The former owner continues to be responsible to rectify the problem.

Tree Planting



Large photo: In 2002, the Smithers sawmill woods department invited 60 Beavers, Cubs, Scouts, Ventures and cadets from the Christian Reformed Cadet Group to plant 3,120 pine, spruce and balsam seedlings near Smithers.

Left to right: Lee Bouvier and Brett Roulston

Inset photo: Bare root stock nursery