

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto included in this Annual Report.

U.S. Lumber Duties (\$ millions)

Table A

	2002				
	Q1	Q2	Q3	Q4	Total
Reversal - 2001	\$ 2.0	\$ 23.0	\$ —	\$ —	\$ 25.0
(Accrual) Reversal – Jan. 1 to May 21, 2002	(3.7)	3.7	—	—	—
(Accrual) — May 22 to Dec. 31, 2002	—	(13.9)	(28.9)	(24.6)	(67.4)
Effect on earnings before taxes	\$ (1.7)	\$ 12.8	\$ (28.9)	\$ (24.6)	\$ (42.4)

LUMBER

West Fraser's total lumber production in 2002 was 2,347 MMfbm (2001 – 2,012 MMfbm), with production records at most of its sawmills. Incremental improvements in lumber recoveries were a major factor in achieving these records. The rebuilt Chasm sawmill started up in March and reached design production levels by the end of the year. Shipments were 2,297 MMfbm (2001 – 2,007 MMfbm).

West Fraser produced approximately 1.0 million oven-dried tonnes of residual softwood chips, approximately the same volume it consumes, and 325,000 green tons of southern yellow pine ("SYP") chips. Prices for softwood chips, based primarily on the price of market pulp, decreased from 2001 levels. Prices for SYP chips, based on the market for

pulpwood in the region where they are produced, were comparable to those in 2001.

Operating earnings for the year were \$139 million (2001 – \$104 million) on external sales of \$931 million (2001 – \$852 million). EBITDA was \$194 million, representing a margin of 20% on sales (2001 – \$153 million and 17%).

The U.S. softwood lumber dispute remains the most important issue facing the Canadian industry. Cash deposits to pay countervailing and antidumping duties have been required for shipments to the U.S. from May 22, 2002. All liabilities accrued before that date have been reversed. Table A shows the effect of the duties on 2002 earnings. For further detail on this matter see "Risks and Uncertainties – U.S. Trade Dispute."

West Fraser continued to invest in capital projects for its lumber operations, expending \$84 million in 2002 (2001 – \$74 million). The main project was the Chasm sawmill rebuild, completed early in the year at a total cost of \$49 million, most of which was incurred in 2001. The mill produces dimension lumber and has a two-shift annual capacity of 200 MMfbm. The other significant project was the installation of a new planer complex at the Fraser Lake sawmill which enables the mill to process more lumber and provides more sorting capacity. Smaller projects were completed throughout

Chetwynd Sawmill



Scale yard and log yard crew:
(From left to right):
Brian Rondeau,
Richard Harris, Jim Gayse, Dave Winland

Lumber Shipment



First shipment of lumber from West Fraser's newest sawmill at Chasm, B.C.

U.S. South Operations



Shipping Crew from Joyce, LA sawmill: (From left to right:) William Lafollette, Isaih Jackson, Pat Carter, Jerry Griffin and Mark Smith



Shipping Crew from Huttig, AR sawmill: (From left to right:) Sandy Matthews, Alvin Roach, Dennis Jones, Shannon Little, Lee Autry Williams

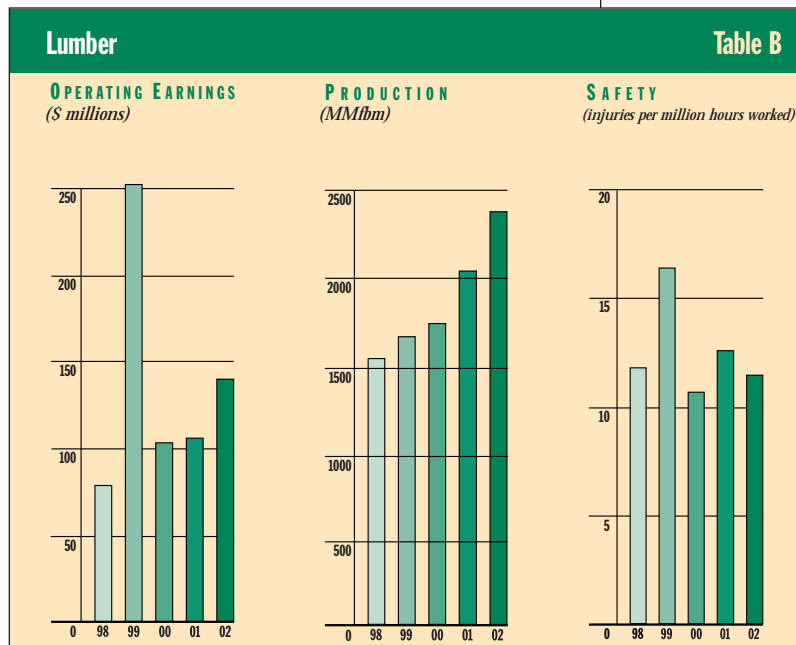
the Canadian operations, most with an expected payback of less than two years.

Projects at the two U.S. mills totaling \$15 million were carried out in the year. The rebuild of the Huttig, Arkansas mill, which was deferred from 2002 because of permitting delays, will begin in the spring of 2003. On completion, both U.S. South mills will be as technologically efficient as most of West Fraser's other sawmills.

During the year there was significant fluctuation in the weekly average benchmark western SPF 2x4 lumber price, which reached a high of US \$300 per Mfbm in March and fell to a low of US \$183 in November. The average for the year was

US \$237 compared to US \$250 in 2001. The benchmark SYP 2x4 lumber price was also volatile, with a high of US \$340 per Mfbm and a low of US \$275. The average for the year was US \$302 compared to US \$327 in 2001.

During 2002, the government of British Columbia introduced a new results-based *Forest and Range Practices Act* to replace the highly prescriptive and rigid *Forest Practices Code*. West Fraser expects that the new legislation, which is to be phased in over several years, will allow more flexible and efficient forest management without sacrificing existing high environmental standards. However, immediate cost savings are not expected.



The pine beetle infestation in central British Columbia and unsettled claims of First Nations groups are other issues that may affect West Fraser. These issues are discussed separately under "Risks and Uncertainties – Pine Beetle Infestation" and "Risks and Uncertainties – First Nations Claims."

PANELS

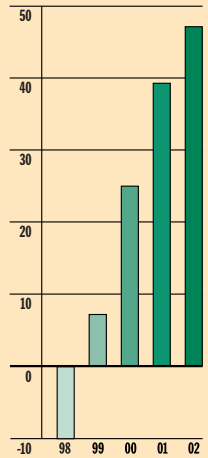
Operating earnings for the year were \$47 million (2001 - \$39 million) on sales of \$217 million (2001 - \$214 million). EBITDA



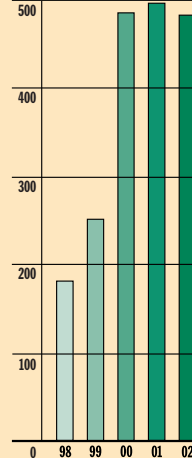
Panels

Table C

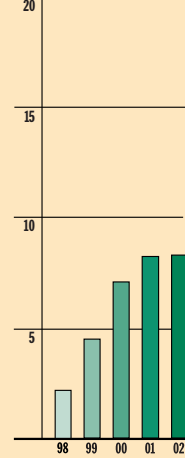
OPERATING EARNINGS
(\$ millions)



PRODUCTION
(MMsf)



SAFETY
(injuries per million hours worked)



was \$70 million, representing a margin of 32% of sales (2001 - \$62 million and 29%).

MDF

Total MDF production in 2002 was 249 MMsf (2001 - 250 MMsf) and shipments in 2002 were 249 MMsf (2001 - 249 MMsf). Ranger Board set an annual production record of 138 MMsf in 2002 (2001 - 136 MMsf) and WestPine's production was 111 MMsf (2001 - 114 MMsf), despite a press fire that caused 10 days of downtime for repairs.

Continuing efforts to optimize product mix and manufacturing processes at both plants

resulted in a 4% overall reduction in unit manufacturing costs in 2002.

Total capital expenditures for 2002 were \$3 million (2001 - \$6 million). The projects allow Ranger Board to continue incremental production increases and WestPine to improve workplace air quality.

Markets for MDF were strong for most of the year, reflecting continued strength in the housing sector. However, during the latter part of 2002 North American demand softened and a higher proportion of production was sold overseas, with both factors contributing to lower mill net realizations. The industry expects prices for MDF to improve in the first half of 2003 and remain stable for the rest of the year.

Markets are growing for specific grades of thinboard. Efforts are being made to establish a wider customer base for this product, which would allow more efficient production runs.

PLYWOOD

Plywood production in 2002 was 235 MMsf (2001 - 248 MMsf) and shipments were 235 MMsf (2001 - 252 MMsf). The reductions were attributable entirely to plant downtime required for projects at the plywood plant that improved dryer efficiency and air quality and increased capacity by 20 MMsf. Total capital expenditures in the plywood and the veneer operations were \$9 million (2001 - \$3 million).

Westpine MDF

Shipping and lab staff receive congratulations for achieving a five-year accident-free period (May 2002)

Back row: (left to right): Janice Schutz, Brad Misera, Bob Blois, Mike Mahil

Front row: (left to right): Graham Abercrombie, Hardeep Hhun-Hhun, Coreen Follack, Trevor Fourmeaux (*General Manager*), Tanya Peever, Michelle Klapatiuk, Lora-Lee Wasyliw

In 2002, the veneer mill increased its productivity, allowing it to reduce shifts and still meet the requirements of the plywood plant.

On average, plywood prices increased 12% over 2001, driven by a robust Canadian housing sector. West Fraser's plywood output represents approximately 12% of Canadian softwood plywood production.

PULP & PAPER

West Fraser's share of total production of pulp, linerboard, kraft paper and newsprint was 935,547 tonnes (2001 - 886,832 tonnes). The increase of 5% over the previous year resulted from fewer power-related curtailments and less downtime related to major capital projects at the Alberta operations, higher production at the Kitimat mill and the acquisition of the other 50% interest in QRP. West Fraser's combined annual capacity in pulp and paper increased to 1,120,000 tonnes by the end of 2002. Shipments in the year were 912,644 tonnes (2001 - 890,298 tonnes).

Operating earnings for the year were \$32 million (2001 - \$52 million) on sales of \$485 million (2001 - \$497 million). EBITDA was \$87 million, a margin of 18% of sales (2001 - \$104 million and 21%).

The decrease in earnings was largely the result of lower prices, partially offset by higher production and shipments and lower fibre costs. Combined

capital expenditures for pulp and paper were \$20 million (2001 - \$29 million).

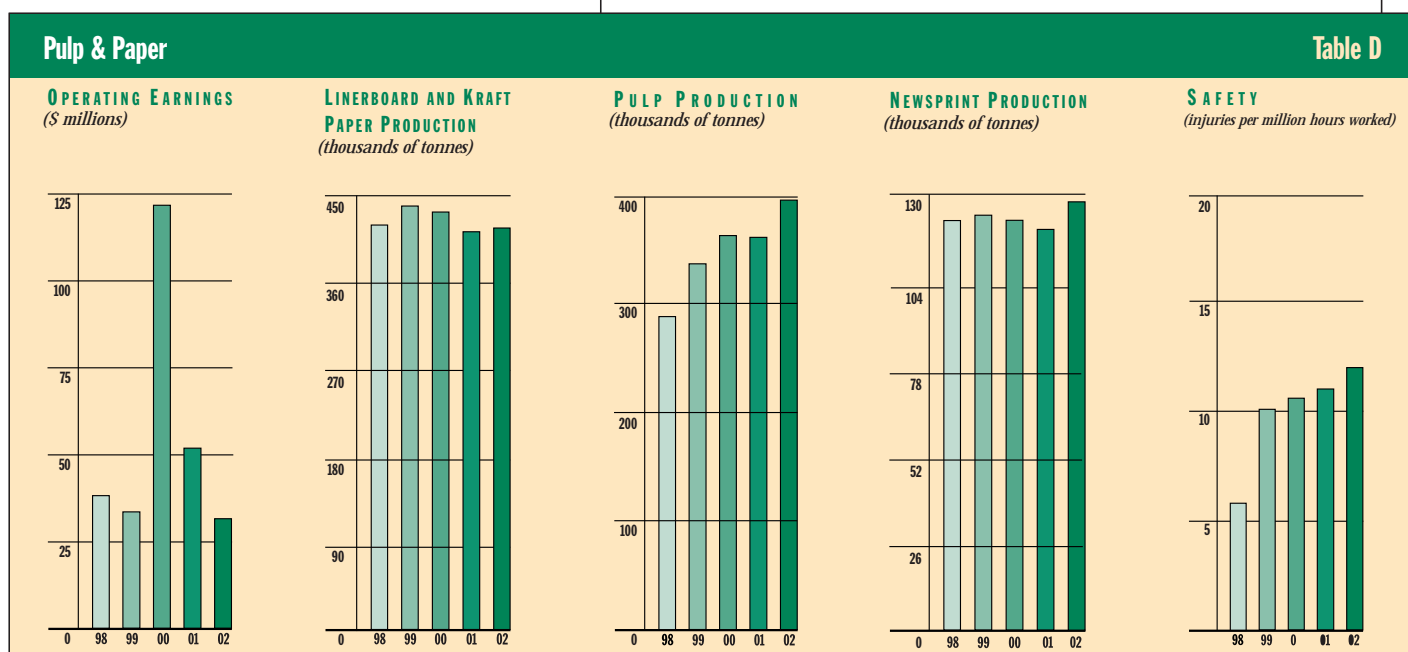
West Fraser's Alberta operations actively manage their electricity costs by shifting some of their production to lower-cost off-peak periods when warranted. Also, the long-term electricity purchase agreements have stabilized power costs. A capital project at Slave Lake Pulp, completed during the year, increased refining and interim storage capacity, which will enhance its ability to manage electricity costs.

PULP

West Fraser's share of total pulp production increased to 396,957 tonnes (2001 - 360,631 tonnes).

Slave Lake Pulp established an annual production record of 207,040 tonnes, realizing the benefits of several capital projects completed in recent years. In addition, curtailments due to high electricity prices were taken less often in 2002 than in 2001.

West Fraser's share of production at QRP of 189,917 was 14,088 tonnes greater than in 2001, mainly as a result of the purchase of the other joint venture interest. The acquisition increased West Fraser's annual capacity in pulp by approximately 150,000 tonnes to 540,000 tonnes, and will allow the mill to take advantage of operating efficiencies not possible under the previous structure. The transaction included a commitment by the seller to buy certain quantities of pulp.





Eurocan Pulp & Paper



Products from the Kitimat mill are shipped to about 45 countries worldwide. (Pictured: Linerboard rolls being loaded at West Fraser's deep-sea terminal at Kitimat).

Production costs at Slave Lake Pulp increased by 7%, due to higher electricity prices. A rebate given by the Alberta government in 2001 to offset the high electricity costs was not repeated in 2002. Production costs at QRP declined by 9%, primarily due to reductions in fibre and natural gas costs. Capital expenditures on various projects at the two mills were \$10 million (2001 - \$4 million).

Pulp markets were generally poor during the year, with the benchmark NBSK price declining to a low of US\$460 per tonne at the end of the first quarter. Industry production curtailments during the fourth quarter of 2001 and the first quarter of 2002 supported some price improvement in the second and third quarters of 2002. However, the NBSK price receded to the US\$480 level by year end. Overall, price levels for most grades were about 10% lower than in 2001. The one exception was the price for hardwood BCTMP, which generally remained the same as in 2001. The market for hardwood BCTMP improved significantly during the last few years in response to growth in demand.

Industry analysts expect prices to improve during the first quarter of 2003, but this will be sustained only if there is a fundamental improvement in paper demand.

LINERBOARD AND KRAFT PAPER

Operations at the Kitimat mill improved modestly over the previous year. Linerboard and kraft paper production were 305,566 tonnes and 104,630 tonnes respectively (2001 - 304,309 tonnes of linerboard, 102,271 tonnes of kraft paper). The increase came

mostly in the fourth quarter after the annual maintenance shutdown in September addressed a number of outstanding issues. Although several key issues still need to be addressed, the modest successes in the latter part of the year indicate the mill can succeed in the highly competitive worldwide packaging business.

In 2002, the mill achieved a 5% decline in unit production costs, primarily as a result of lower costs for fibre. Capital spending was \$8 million (2001 - \$15 million).

2002 was another year of soft demand for linerboard, resulting in a 6% decline in mill net realizations. The strong U.S. dollar over the past three years has contributed to a reduction in U.S. production of manufactured goods, lowering the demand for corrugated boxes and, therefore, for linerboard. In offshore markets, demand for imported linerboard continues to decline due to growth in local capacity. However, Kitimat's share of North American exports to these markets has increased.

Kraft paper markets in North America were essentially flat in 2002. Prices in offshore markets declined during the first half of the year, but improved in the second half. Overall, kraft paper mill net returns were up 2%.

Much of the significant linerboard capacity in North America that is currently idled may start up if markets improve, causing downward pressure on prices. Accordingly, unless there is a meaningful increase in box demand, prices for linerboard in 2003 are expected to remain at levels similar to those of 2002. For kraft paper, an increase in pricing is anticipated by the industry if the Euro continues to strengthen and the U.S. economy improves.

NEWSPRINT

West Fraser's share of newsprint production at ANC was 128,394 tonnes (2001 - 119,621 tonnes). The increase is largely the result of the paper machine upgrade that required two weeks of downtime in 2001. In addition to the production increase, product quality has been improved, allowing ANC to retain its position as the benchmark for newsprint quality in North America. ANC continues to be ranked as the #1 supplier by the majority of its customers, with 92% giving it the top ranking in 2002.

Newsprint prices continued to slide in the first half of 2002, but reversed direction in the second half. The average for the year was approximately US \$120 per tonne lower than in 2001. Prices are generally expected to improve in 2003 because of higher consumption of newsprint and significant capacity closures by major North American newsprint producers

West Fraser's share of capital expenditures in the year totaled \$2 million (2001 - \$10 million).

In 2002, ANC and the government of Saskatchewan completed a pre-feasibility study to determine whether a greenfield newsprint mill could be established in that province. It was concluded that the project could not proceed due to a lack of sawmilling capacity and of available economically priced chips.

In November 2002, West Fraser announced its intention to sell its interest in ANC to a publicly traded income fund. However, the market for income fund products weakened in December and the sale was deferred.

EARNINGS AND REVENUE COMPARISON

Total net sales for the year were \$1,632 million (2001 - \$1,562 million)

Net Sales by Product	Change from 2001	\$ millions	Table E
Lumber	Increase	\$ 79.0	9%
Panels	Increase	\$ 2.7	1%
Pulp & Paper	Decrease	\$ (11.8)	(2%)

EBITDA for the year was \$344 million (2001 - \$311 million)

EBITDA by Product	Change from 2001	\$ millions	Table F
Lumber	Increase	\$ 41.1	27%
Panels	Increase	\$ 8.1	13%
Pulp & Paper	Decrease	\$ (16.8)	(16%)

The increase in net sales was due primarily to lumber operations, where a 14% increase in shipments more than offset the effect of the lumber duties. The decline in sales of pulp and paper was due to lower prices for linerboard and newsprint, partially offset by higher prices for kraft paper and hardwood BCTMP and increased shipments of newsprint.

Alberta Newsprint



(Left to right) Jim McCammon, Brenda Preyma, Jeff Brooks, Jason Kennedy, Pauline Fluet, Dave Hughes and Conway Elkins

ANC targets replanting 90% of its logged areas in the year following the logging activity. 2002 was another successful season.

The EBITDA increase was primarily from increased sales and lower production costs for lumber. The lower production costs were due to a number of factors, including reductions to market-based stumpage rates caused by weak lumber markets. The panel operations also contributed to the higher EBITDA through lower unit production costs at the MDF operations and higher plywood prices. The pulp and paper operations had decreased EBITDA due to the sales decline and overall higher production costs at the Alberta operations. Production costs were abnormally low in 2001 due to one-time rebates of electricity costs available in that year. Notwithstanding that there were no electricity rebates in 2002, unit production costs at all pulp and paper operations declined due primarily to lower furnish and natural gas costs.

The decrease in financing expense to \$27.1 million in 2002 from \$60.1 million in 2001 was attributable mainly to the foreign exchange translation of long-term debt, which resulted in a gain of \$5.5 million in 2002 compared to a loss of \$26.6 million in 2001.

The other income of \$3.4 million (2001 - \$4.7 million) relates to a variety of items, including foreign exchange and net rental revenue.

The earnings from discontinued operations of \$8.5 million were mostly from gains on property sales, higher rental income and lower than expected closure costs. The 2001 discontinued operations earnings 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. Additional information can be found in Note 3 to the Company's audited financial statements.

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

Tax and Tax-like Levies (\$ millions)		Table G
	2002	2001
Income Tax	\$ 60.8	\$ 63.4
Capital Tax	1.2	3.2
Canada Pension Plan	6.4	5.5
Employment Insurance	4.2	4.2
Property Tax	13.9	14.0
Social Service Tax	9.6	12.3
Stumpage & Royalties	86.8	77.4
Workers' Compensation	4.1	4.1
Other	1.9	—
Total	\$ 188.9	\$ 184.1

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

The 2002 provision for income taxes of \$56.2 million was 30% of earnings before income taxes (2001 - \$34.5 million or 26%).

Diluted earnings per share from continuing operations were \$3.82 (2001 - \$2.85) and diluted earnings per share after discontinued operations were \$4.07 (2001 - \$3.00).

SIGNIFICANT MANAGEMENT JUDGMENTS AFFECTING FINANCIAL RESULTS

The preparation of financial statements requires management to make estimates and assumptions and to select accounting policies that affect the amounts reported in the financial statements. In doing so management attempts to be conservative, considering the industry and current business environment. The significant accounting policies followed by West Fraser are disclosed in note 1 to the audited financial statements. The following are the areas of judgment considered most significant:

AMORTIZATION

West Fraser believes that the frequency of technological changes in its manufacturing processes needs to be reflected in amortization periods. Accordingly, West Fraser amortizes its manufacturing equipment and machinery over 10 to 20 years, with sawmill machinery and equipment averaging 10 years. Purchased timber rights are amortized over periods not exceeding 60 years.

REFORESTATION OBLIGATION

West Fraser's Canadian operations are required by provincial laws to carry out reforestation to ensure re-establishment of the forest after harvesting. Reforested areas must be tended until they reach a free-to-grow standard, verified by survey. Although the time to meet legal requirements depends on a variety of factors, in West Fraser's operating areas it usually

Selected Quarterly Information (\$ millions, except earnings per share (EPS) amounts)		Table H							
	2002				2001 ¹				
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	
Continuing Operations	\$	\$	\$	\$	\$	\$	\$	\$	
Net Sales	404.8	427.8	420.2	379.4	363.7	407.4	416.1	375.1	
Earnings	27.1	4.3	71.0	26.6	4.4	30.9	64.8	(2.8)	
Basic EPS	0.81	0.13	2.12	0.79	0.12	0.91	1.93	(0.10)	
Diluted EPS	0.81	0.13	2.10	0.78	0.12	0.91	1.92	(0.10)	
After Discontinued Operations									
Earnings	35.6	4.3	71.0	26.6	10.5	30.9	78.0	(4.5)	
Basic EPS	1.06	0.13	2.12	0.79	0.30	0.91	1.97	(0.17)	
Diluted EPS	1.06	0.13	2.10	0.78	0.30	0.91	1.97	(0.17)	

1. 2001 restated for stock dividend and change in accounting policy for foreign exchange translation on long-term debt.

takes 12 to 15 years. West Fraser accrues the estimated total cost of reforestation as logging takes place, including tending until the free-to-grow standard is reached. These estimates are reviewed annually and adjusted if required. At December 31, 2002 the accrued reforestation obligation was \$87 million, comprised of a current portion of \$29 million, expected to be spent in 2003, and a long-term portion of \$58 million.

STOCK-BASED COMPENSATION

In common with most publicly traded companies, West Fraser grants stock options to certain directors, officers and senior employees, as disclosed in note 12 to the audited financial statements. The Company does not recognize any compensation expense related to these options because there is no option valuation model that has been widely accepted as giving meaningful results. However, a number of accounting standards organizations are considering mandating the recognition of and the method of determining the amount of compensation expense on the granting of stock options. If compensation expense had been recognized on the options granted in 2002, reported income before taxes would have been reduced by \$0.8 million.

PENSION ASSUMPTIONS

As disclosed in note 14 to the audited financial statements, West Fraser maintains defined benefit pension plans. Future funding requirements and the expense for accounting purposes depend on assumptions selected by management as well as actual returns experienced on plan assets. Management selects assumptions it believes to be conservative when benchmarked against industry comparatives. Table I shows the significant assumptions adopted by West Fraser for December 31, 2002.

Pension Assumptions		Table I
Discount rate	6.5%	
Expected rate of return	7.0%	
Compensation increase	4.0%	

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, a gain or loss on translation of long-term debt denominated in a foreign currency was deferred and amortized over the life of the debt. Under the new method the entire gain or loss is recognized in the current period. The change, which was applied retroactively, resulted in a reduction of opening retained earnings in 2002 of \$33.0 million (2001 - \$21.4 million)

CAPITAL STRUCTURE

The combined number of Common and Class B Common shares outstanding increased to 33,483,229 at December 31, 2002 (2001 - 30,360,088). Most of the increase was due to the issuance of a 10% share dividend effective March 15, 2002, paid entirely in Common shares.

All of West Fraser's debt, other than current borrowings for ANC, is unsecured and ranks equally in right of payment. On December 31, 2002, the ratio of West Fraser's total debt, less cash and short-term investments, to total capitalization was 0.11 (December 31, 2001 - 0.22).

West Fraser's fixed-interest term debt is rated as investment grade by leading rating agencies. The ratings remained stable during 2002 and are currently as shown in Table J.

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

ACQUISITIONS AND DISPOSITIONS

In 2002, West Fraser continued to dispose of real estate related to its retail home improvement operations sold in 2001. In November 2002, West Fraser purchased the other 50% joint venture interest in QRP for \$0.3 million.

In April 2001, West Fraser acquired 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.

In June 2001, West Fraser sold its timber plantations in Uruguay for \$72.2 million. The plantations comprised 28,500 hectares planted in pine and eucalyptus.

Also in June 2001, West Fraser sold its retail home improvement operations for \$185 million. The sale did not include any of the real estate occupied by the stores sold, which was instead made the subject of long-term leases.

CAPITAL REQUIREMENTS AND LIQUIDITY

West Fraser's cash requirements, other than for operating purposes, are primarily for interest, repayment of debt, property, plant and equipment additions, acquisitions and payment of dividends. In years without a major acquisition, cash on hand and funds provided by operations have normally been sufficient to meet these requirements.

In 2002, property, plant and equipment additions and acquisitions amounted to \$123 million (2001 - \$143 million). Proceeds from property, plant and equipment disposals other than in discontinued operations were \$6 million (2001 - \$2 million). Cash provided from discontinued operations was \$115 million (2001 - \$305 million).

Repayment of West Fraser's long-term debt in 2002 was \$236 million, paid from cash on hand, and scheduled repayment in 2003 is \$20 million.

On December 31, 2002, West Fraser had unused credit facilities of approximately \$385 million and short-term investments of \$193 million. It expects that cash on hand and funds provided by operations will meet all its cash requirements in 2003 for planned property, plant and equipment additions, debt repayment, interest and dividends.

Property, Plant & Equipment Additions & Acquisitions (\$ millions) Table K		
	2002	2001
Lumber	\$ 84.1	\$ 104.3
Panels	12.2	8.6
Pulp & Paper	20.1	29.0
Corporate & Other	7.0	0.9
Total	\$ 123.4	\$ 142.8

RISKS AND UNCERTAINTIES

FOREIGN EXCHANGE

Most of West Fraser's sales are at prices that, 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 in the period between purchase and payment, which may be up to 120 days, resulting in additional exchange rate sensitivity.

During 2002, the U.S. dollar traded between Cdn\$1.61 and Cdn\$1.50, with an average of Cdn\$1.57 (2001 - between Cdn\$1.61 and Cdn\$1.49 with an average of Cdn\$1.55).

U.S. TRADE DISPUTE

In April and May 2002, U.S. trade agencies (Department of Commerce and International Trade Commission) issued final determinations concerning Canadian shipments of softwood lumber to the United States, resulting in the imposition of duties effective May 22, 2002. Preliminary duty liabilities that had accrued during the period of investigation were canceled and all bonds deposited during the period were returned. In the first half of the year, West Fraser reversed \$25 million that had been accrued for duties during the preliminary period.

The determination in the countervail investigation resulted in a duty deposit rate of 18.79% for shipments from all regions of Canada except the Maritime provinces. The dumping investigation reviewed shipments from West Fraser and five other major lumber producers with each being assigned a specific rate, ranging from 2.18% to 12.44% and all other producers being assigned 8.43%, the average of the six company-specific rates. West Fraser's antidumping duty rate was lowest, at 2.18%, which resulted in a combined rate of 20.97% compared to an industry average of 27.22%. Duties must be paid in cash to the U.S. Treasury as shipments cross the border. Final duties are determined through an administrative review process that will investigate actual shipments for each

12-month period following the effective date. This annual process, with appeals, could take 18 to 24 months before duties are finalized.

The federal and provincial governments of Canada and the companies investigated all categorically deny the U.S. allegations of subsidy and dumping, and have initiated appeals under NAFTA and to the WTO. The WTO has already issued a preliminary decision in the countervail case, finding the U.S. methodology for calculating the subsidy complaint to be in violation of international agreements. Final determinations from the WTO and under NAFTA are expected in 2003. While West Fraser believes the Canadian arguments are sound, the outcome of any litigation is uncertain and is subject to appeal and further delay regardless of the result.

A negotiated settlement is an option to resolve this trade dispute. Such a solution could result in changes to provincial timber tenure policies and pricing regimes and may include a temporary export tax. It is not possible to predict how such changes might affect West Fraser and other companies operating in British Columbia or elsewhere in Canada. Neither the final outcome nor the time required to resolve the dispute can be determined at this time.

FIRST NATIONS CLAIMS

Recent decisions of British Columbia courts have identified a duty of the provincial government to consult with potentially affected First Nations groups whenever the province deals with public rights. The duty had not previously been recognized by the province, and its nature, extent and implications are uncertain. West Fraser has historically had good relations with First Nations groups in its operating areas, and expects that as a result of the province's duty to consult, discharging this duty will result in increased dealings with them in connection with its operations.

PINE BEETLE INFESTATION

The pine beetle infestation continues to spread in central British Columbia. The epidemic is estimated to have infested some 108 million m³ of lodgepole pine covering more than nine million hectares. In 2001, the volume was estimated at 70 million m³. Current warm winter patterns are unlikely to eliminate or slow the spread. AAC levels have been increased in response to this issue, and over the next several years there will be an over-supply of timber throughout much of the interior of British Columbia. In the longer term, timber supply is expected to be only slightly below pre-infestation cut levels.

Woodframe Housing



Wood frame construction is the preferred building method of the North American homebuyer. About 88% of all new residential homes are built with wood.

(Source: Wood Markets publication)



Earnings Sensitivity to Key Variables		Table L
Factor	Variation	Change in Earnings
Lumber price	US\$50 change per Mfbm	\$89 million
Plywood price	US\$50 change per Msf	\$13 million
MDF price	US\$50 change per Msf	\$13 million
BCTMP price	US\$50 change per tonne	\$26 million
Linerboard price	US\$50 change per tonne	\$16 million
Kraft paper price	US\$50 change per tonne	\$ 6 million
Newsprint price	US\$50 change per tonne	\$ 7 million
U.S.-Canadian \$ exchange rate	US\$0.01 change per Cdn\$	\$12 million
Log cost	\$10 change per m ³	\$58 million

ENVIRONMENT

The section of this Annual Report entitled “West Fraser Environmental Report” 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 operations in the United States, approximately 60% of the required log volume is obtained at market prices 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 – 2003

West Fraser’s financial performance is largely dependent on commodity prices and the value of the Canadian dollar in relation to the U.S. dollar. Several other factors could also significantly affect its financial results in 2003. These include the outcome of the Canada – U.S. softwood lumber dispute, changes in government policies affecting timber harvesting, the cost structure of West Fraser’s various manufacturing units, and acquisitions and divestitures it might undertake.

With a threat of a war in the Middle East and other political and economic uncertainties, it is prudent to assume only slow growth for the U.S. economy in 2003. At the same time, in the absence of any major geopolitical event, the recent economic performance of Canada may result in a stronger Canadian dollar.

The outcome of the trade dispute and potential timber policy changes in British Columbia could significantly affect the profitability of West Fraser’s lumber business. In addition, the accelerated harvest of trees affected by the pine beetle infestation in

Forest Fires in Alberta



Each spring brings a new fire season to Alberta forests. From 1992 – 2001, Alberta experienced, on average, 923 forest fires per year caused by lightning (59%) or humans (41%). (Source: Alberta Sustainable Resource Development)

After a forest fire, the rate of regeneration depends on the type of trees burned and on whether the burned wood is salvaged. The forest type in West Fraser's Slave Lake area is mainly spruce and aspen, with some lodgepole pine. In the natural system, aspen usually takes over from spruce after a fire. Left alone, it could take generations before spruce reappears as a significant part of the regrown forest, but where salvage occurs, spruce is usually manually replanted. In the Blue Ridge area, the forests contain more lodgepole pine, which regenerates naturally after a fire. The heat melts the resinous material that holds the cones' scales together and seeds are released. Young seedlings are produced immediately and the forest is effectively regenerated within 3 to 4 years.

Large photo: Near West Fraser's Seehta operations (2002)

Inset photo: Near West Fraser's Slave Lake operations (2001)

British Columbia should cause the lumber supply to remain at higher levels than otherwise, thereby depressing lumber prices.

The rebuilt sawmill at Chasm will contribute to operating earnings, but the two sawmills in the U.S. South require completion of planned capital expenditures and improved market pricing before they can achieve expected levels of profitability.

For most pulp and paper products, industry analysts are expecting gradual but modest improvement over 2002 prices. Pulp and newsprint appear to have the best potential for price increases.

West Fraser will benefit from the acquisition of QRP. It is expected that the additional pulp production not sold to the former owner will be sold

to new and existing customers, allowing the mill to operate at or near capacity and thereby making the acquisition immediately accretive to earnings.

The Kitimat linerboard and kraft paper mill will re-negotiate its labour agreements in the spring of 2003. For the long-term success of the mill it is essential that the new contracts support co-operative efforts to improve operating efficiencies.

Management will continue to assess the desirability of selling West Fraser's 50% interest in ANC. The decision will depend on the expected sale price and on the need for additional funds for growth.

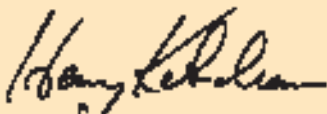
West Fraser's strong financial position will allow it to consider growth opportunities as they may arise.

The management of West Fraser Timber Co. Ltd. is responsible for the preparation, integrity and objectivity of the 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 principals 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 transactions are executed in accordance with management's authorization.

Independent accountants were engaged to perform an independent audit of the consolidated financial statements. In determining the nature and extent of their auditing procedures, they have evaluated the Company's accounting policies and procedures and the effectiveness of the related internal control system. Their report appears on the next page.

The Board of Directors provides oversight to the financial reporting process through its Audit Committee, comprised of five Directors, none of whom is an officer or employee of the Company. The Audit Committee meets regularly with management and the Company's auditors to review the 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 M. Ketcham
Chairman of the Board,
President & Chief Executive Officer



Martti Solin
Vice-President, Finance
& Chief Financial Officer

January 31, 2003