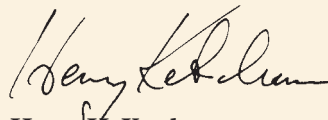


The management of West Fraser Timber Co. Ltd. is responsible for the preparation, integrity and objectivity of the consolidated financial statements and all related financial data contained in the annual report. The consolidated financial statements have been prepared by management in accordance with accounting principals generally accepted in Canada and necessarily include amounts that represent the best estimates and judgments of management.

Management maintains a system of internal controls over financial reporting that encompasses policies, procedures and controls to provide reasonable assurance that assets are safeguarded against loss or unauthorized use, transactions are executed and recorded in accordance with management's authorization and financial records are accurate and reliable.

The Company's independent auditors, who are appointed by the shareholders, conduct an audit in accordance with Canadian generally accepted auditing standards to allow them to express an opinion on the financial statements.

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



Martti Solin
Vice-President, Finance
& Chief Financial Officer

January 30, 2004



**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, 2003 and 2002 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, 2003 and 2002 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 on a consistent basis.

PriceWaterhouseCoopers LLP

**Chartered Accountants
Vancouver, B.C.**

January 30, 2004



West Fraser Consolidated Balance Sheets

<i>As at December 31 (in thousands of Canadian dollars)</i>	2003	2002
ASSETS		
Current assets		
Cash and short-term investments	\$ 265,860	\$ 192,916
Accounts receivable	158,055	173,983
Inventories (note 5)	324,236	319,443
Prepaid expenses	9,166	7,009
	757,317	693,351
Other assets (note 6)	64,318	84,003
Property, plant and equipment (note 7)	1,244,794	1,316,889
Deferred charges (note 8)	21,301	20,217
	\$ 2,087,730	\$ 2,114,460
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 186,193	\$ 163,041
Current portion of reforestation obligation	30,769	29,464
Current portion of long-term debt (note 9)	12,965	19,720
	229,927	212,225
Long-term debt (note 9)	286,974	337,745
Other liabilities (note 10)	70,198	72,214
Future income taxes (note 17)	186,485	201,725
	773,584	823,909
Shareholders' equity (note 11)	1,314,146	1,290,551
	\$ 2,087,730	\$ 2,114,460
Commitments (note 12)		
Contingencies (note 20)		

Approved by the Board of Directors

William P. Ketcham

Director

J. Duncan Gibson

Director

<i>For the years ended December 31 (in thousands of Canadian dollars)</i>	2003	2002
EARNINGS		
Net sales (note 20)	\$ 1,508,147	\$ 1,632,239
Costs and expenses		
Cost of products sold	1,287,743	1,243,765
Amortization of property, plant and equipment	142,284	135,434
Selling, general and administrative (note 11)	69,102	69,181
Recovery of prior year export duties (note 20)	—	(25,010)
	1,499,129	1,423,370
Operating earnings	9,018	208,869
Other		
Interest expense – net (note 15)	(16,895)	(32,559)
Exchange gain on long-term debt	40,825	5,495
Other income (note 16)	3,295	3,442
Earnings from continuing operations before income taxes	36,243	185,247
Provision for (recovery of) income taxes (note 17)		
Current	8,362	60,852
Future	(15,240)	(4,644)
	(6,878)	56,208
Earnings from continuing operations	43,121	129,039
Earnings from discontinued operations (note 2)	—	8,521
Earnings	\$ 43,121	\$ 137,560
Earnings per share (note 18)		
From continuing operations — Basic	\$ 1.17	\$ 3.50
— Diluted	\$ 1.16	\$ 3.47
After discontinued operations — Basic	\$ 1.17	\$ 3.74
— Diluted	\$ 1.16	\$ 3.70

<i>For the years ended December 31 (in thousands of Canadian dollars)</i>	2003	2002
RETAINED EARNINGS		
Balance — beginning of year	\$ 964,238	\$ 845,626
Earnings	43,121	137,560
	1,007,359	983,186
Common share dividends	(20,639)	(18,742)
Preferred share payment (note 12(b))	—	(206)
Balance — end of year	\$ 986,720	\$ 964,238

<i>For the years ended December 31 (in thousands of Canadian dollars)</i>	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Earnings	\$ 43,121	\$ 137,560
Items not affecting cash		
Amortization of property, plant and equipment	142,284	135,434
Exchange gain on long-term debt	(40,825)	(5,495)
Change in reforestation obligation	6,018	(6,000)
Change in other long-term liabilities	(7,169)	(22,094)
Future income taxes	(15,240)	(9,762)
(Gain) loss on asset sales	(12,478)	252
Other	3,858	(4,433)
	119,569	225,462
Net change in non-cash working capital items	32,131	(47,158)
	151,700	178,304
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(16,844)	(235,668)
Dividends	(20,639)	(18,742)
Other	781	2,529
	(36,702)	(251,881)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment additions	(79,322)	(123,109)
Proceeds from disposal of property, plant and equipment	17,546	6,333
Acquisitions <i>(note 3)</i>	(6,158)	(304)
Increase (decrease) in other assets	(4,975)	6,784
Proceeds from disposal of other assets	30,855	—
	(42,054)	(110,296)
Change in cash from continuing operations	72,944	(183,873)
Change in cash from discontinued operations <i>(note 2)</i>	—	106,732
Cash and short-term investments - beginning of year	192,916	270,057
Cash and short-term investments - end of year	\$ 265,860	\$ 192,916
<i>Interest paid</i>	\$ 24,089	\$ 42,393
<i>Income taxes paid</i>	\$ 57,314	\$ 72,293

(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. and Slave Lake Pulp Holdings Ltd.

Investments in and operations of the company's principal joint ventures are accounted for by the proportionate consolidation method (note 4).

REVENUE RECOGNITION

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

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities 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 and short-term interest-bearing securities with maturities at their 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 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. The company reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows

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

the long-lived assets are expected to generate. The company's estimates of future cash flows are subject to risks and uncertainties. It is possible that changes could occur which could affect the recoverability of long-lived assets.

AMORTIZATION

Property, plant and equipment are principally amortized on a straight-line basis over their estimated useful lives 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 over a period not exceeding 60 years.

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

Power purchase agreements are amortized over the life of the underlying agreements, being 17 and 20 years.

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

SHARE-BASED COMPENSATION

The company has a share option plan as described in note 11. Effective July 2003, the share option plan was amended to give share option holders the right to elect to receive a cash payment in lieu of receiving common shares. Effective from the amendment, the company records an expense or a gain for options, based on the quoted market value of the company's common shares.

Before the amendment, the company disclosed pro forma earnings attributable to common shareholders as if share options had been recognized as compensation expense estimated on the date of grant using an option-pricing model.

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

INCOME TAXES

Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets, liabilities and certain carry forward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that they will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.



2. DISCONTINUED OPERATIONS

Effective June 6, 2001, the company sold substantially all of its retail home improvement operations. Changes to estimated proceeds and costs 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 and the operating results from that date have been included in continuing operations.

Cash flows from discontinued operations are as follows:

	2003	2002
Cash from operating activities	\$ —	\$ 1,268
Cash used in financing activities	—	(4,800)
Cash from investing activities	—	110,264
Increase in cash	\$ —	\$ 106,732

3. ACQUISITIONS

2003

Effective May 30, 2003, the company acquired certain timber rights and a related non-operating sawmill. 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:

Property, plant and equipment	\$ 6,597
Reforestation obligation assumed	(439)
Cash consideration	\$ 6,158

2002

Effective November 1, 2002, the company increased its ownership in the Quesnel River Pulp Company joint venture to 100%. 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
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(Figures are in thousands of Canadian dollars except where indicated.)

4. INVESTMENTS IN JOINT VENTURES

The company's principal joint ventures are Alberta Newsprint Company (50%), Quesnel River Pulp Company (50% to November 1, 2002, see note 3), 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:

	2003	2002
Current assets	\$ 47,740	\$ 48,154
Non-current assets	142,690	150,966
Total assets	190,430	199,120
Current liabilities	25,292	24,289
Non-current liabilities	12,245	9,068
Equity	\$ 152,893	\$ 165,763
Net sales	\$ 167,192	\$ 251,616
Expenses	155,812	217,225
Earnings	\$ 11,380	\$ 34,391
Cash from operating activities	\$ 35,903	\$ 49,935
Cash from financing activities	\$ 5,493	\$ 149
Cash used in investing activities	\$ (10,768)	\$ (6,457)

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.

5. INVENTORIES

	2003	2002
Logs and wood chips	\$ 109,814	\$ 94,970
Manufactured products	164,677	174,721
Processing materials and supplies	49,745	49,752
	\$ 324,236	\$ 319,443

6. OTHER ASSETS

	2003	2002
Investments	\$ 19,775	\$ 39,839
Power purchase agreements – net	32,698	34,711
Advances for timber and timber deposits	11,845	9,453
	\$ 64,318	\$ 84,003

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 electricity acquired under the agreements meets the requirements of the company's Alberta operations.



7. PROPERTY, PLANT AND EQUIPMENT

	2003		
	Cost	Accumulated amortization	Net
Manufacturing plant and equipment	\$ 2,309,560	\$ 1,376,067	\$ 933,493
Timber rights, timberlands and roads	417,118	170,839	246,279
Rental properties	53,466	8,675	44,791
Other	21,886	1,655	20,231
	<u>\$ 2,802,030</u>	<u>\$ 1,557,236</u>	<u>\$ 1,244,794</u>

	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
	<u>\$ 2,786,884</u>	<u>\$ 1,469,995</u>	<u>\$ 1,316,889</u>

8. DEFERRED CHARGES

	2003	2002
Deferred pension (note 13)	\$ 20,720	\$ 19,140
Deferred financing fees – net	581	1,077
	<u>\$ 21,301</u>	<u>\$ 20,217</u>

9. LONG-TERM DEBT AND BANK INDEBTEDNESS

Long-term debt

	2003	2002
US \$125,000 term notes due 2005; interest at 7.50%	\$ 162,063	\$ 197,082
Cdn \$125,000 term notes due 2007; interest at 6.80%	124,911	124,887
US \$10,000 (2002 - US \$22,500) notes due 2004; interest at 8.44%	12,965	35,496
	<u>299,939</u>	<u>357,465</u>
Less: Current portion	12,965	19,720
	<u>\$ 286,974</u>	<u>\$ 337,745</u>

Principal repayments required are as follows:

2004	\$ 12,965
2005	162,063
2006	—
2007	124,911
	<u>\$ 299,939</u>

Bank indebtedness

The company has approximately \$275,000 (2002 – \$385,000) in demand or revolving lines of credit available, none of which was utilized as at December 31, 2003.

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

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

10. OTHER LIABILITIES

	2003	2002
Pension liability (note 13)	\$ 7,249	\$ 14,417
Reforestation obligation - long-term	62,949	57,797
	\$ 70,198	\$ 72,214

11. SHAREHOLDERS' EQUITY

Authorized share capital

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

	2003		2002	
	Number of shares issued	Amount	Number of shares issued	Amount
Common	31,471,508	\$ 327,764	27,848,023	\$ 326,958
Class B common	5,385,206	541	5,635,206	566
Total Common	<u>36,856,714</u>	<u>328,305</u>	<u>33,483,229</u>	<u>327,524</u>
Retained earnings		986,720		964,238
Share purchase loans		(879)		(1,211)
		<u>\$ 1,314,146</u>		<u>\$ 1,290,551</u>

Share capital transactions during 2003

The company issued 3,349,452 Common shares for one dollar pursuant to a 10% stock dividend; 24,033 Common shares were issued for \$781; 250,000 Class B common shares in the amount of \$25 were exchanged for Common shares.

Share capital transactions during 2002

The company issued 3,038,698 Common shares for one dollar pursuant to a 10% stock dividend; 84,443 Common shares were issued for \$2,735; 193,862 Class B common shares in the amount of \$19 were exchanged for Common shares.

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, 2003 amounted to \$5,160 (2002 - \$4,687) and are included in accounts payable and accrued liabilities.

Share purchase loans

Share purchase loans receivable of \$879 (2002 - \$1,211) under the company's management share purchase plan are included as a reduction of shareholders' equity. The loans are non-interest bearing, mature in 2004 through 2008 and are secured by a pledge of 34,813 (2002 - 47,007) common shares.



Share option plan

The company has a fixed share option plan for its directors, officers and employees, under which it may grant up to 3,505,506 share options. 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 six years.

Effective July 2003, the share option plan was amended to give share option holders the right to elect to receive a cash payment in lieu of receiving common shares. The cash payment is equal to the difference between the exercise price of the share option and the market price of the company's common shares on the date of exercise.

The modification to the share option plan was accounted for prospectively and for the year ended December 31, 2003, the company recorded a selling, general and administrative expense of \$8,898 related to options outstanding.

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

	2003		2002	
	Options	Weighted average exercise price (dollars)	Options	Weighted average exercise price (dollars)
Outstanding — beginning of year	1,857,594	\$ 28.24	1,613,580	\$ 27.16
Granted	336,050	33.41	326,700	33.47
Exercised	(41,440)	28.72	(82,686)	27.86
Expired	(77,682)	26.78	—	—
Outstanding — end of year	2,074,522	\$ 29.02	1,857,594	\$ 28.24
Exercisable — end of year	1,131,970	\$ 28.29	906,838	\$ 28.41

The figures in the above table reflect the effects of the 10% stock dividend issued in 2003 and 2002, as if the options had been outstanding from January 1, 2002.

The following table summarizes information about the stock options outstanding at December 31, 2003:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (dollars)	Number of exercisable options	Weighted average exercise price (dollars)
\$21.08 – \$24.07	516,751	5.9	\$ 21.81	300,716	\$ 22.33
\$27.61 – \$29.75	784,309	4.9	\$ 29.01	616,483	\$ 28.88
\$33.41 – \$35.54	773,462	7.6	\$ 33.85	214,771	\$ 34.94
	2,074,522			1,131,970	

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

12. 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 \$2,761 (2002– \$4,387).

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.

The obligation was terminated in 2002, with a final payment of \$206 which was charged to retained earnings.

c) Loan guarantee

West Fraser has guaranteed a bank loan in the amount of \$6,400 (2002 - \$5,575) of a 50% owned joint venture.

13. 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 a partially funded supplemental defined benefit pension plan for certain salaried employees. The company also provides group life insurance, medical and extended health benefits to certain employee groups.

The total pension expense for the company's defined contribution pension plans is \$1,726 (2002 – \$1,735).

During the year ended December 31, 2003, the company prospectively adopted an accounting measurement date of October 31, from December 31, for its pension and non-pension benefit plans.

The status of the company's defined benefit pension plans and other benefit plans, in aggregate, is as follows:

	Pension Plans		Other Benefit Plans	
	2003	2002	2003	2002
Expense				
Current service cost	\$ 11,177	\$ 9,491	\$ 128	\$ 105
Interest cost on earned benefit obligations	16,673	15,094	608	401
Expected return on plan assets	(14,790)	(14,302)	—	—
Amortization of experience losses (gains)	1,317	302	105	(54)
Amortization of transition amount and other	17	198	460	460
Net expense	\$ 14,394	\$ 10,783	\$ 1,301	\$ 912



	Pension Plans		Other Benefit Plans	
	2003	2002	2003	2002
Accrued benefit obligation				
Projected benefit obligations – opening	\$ 248,610	\$ 208,593	\$ 6,419	\$ 6,932
Liability assumed	—	13,933	—	—
Current service cost	9,596	9,491	106	105
Interest cost	14,081	15,094	507	401
Benefits paid	(7,863)	(8,501)	(213)	(158)
Actuarial losses (gains) and other	13,835	10,000	3,373	(861)
Projected benefit obligations – ending	\$ 278,259	\$ 248,610	\$ 10,192	\$ 6,419
Plan assets				
Fair value – opening	\$ 218,142	\$ 196,226	\$ —	\$ —
Assets acquired	—	12,448	—	—
Actual return on plan assets	29,903	7,126	—	—
Contributions	20,869	10,843	213	158
Benefits paid	(7,863)	(8,501)	(213)	(158)
Other	(1,308)	—	—	—
Fair value – ending	\$ 259,743	\$ 218,142	\$ —	\$ —
Funded status of the plans				
Plan deficit – registered plans	\$ (5,048)	\$ (8,141)	\$ (10,192)	\$ (6,419)
– supplemental plan	(13,468)	(22,327)	—	—
	(18,516)	(30,468)	(10,192)	(6,419)
Unamortized net actuarial losses (gains)	31,025	36,994	2,339	(807)
Unamortized past service costs	1,107	769	—	—
Unamortized net transitional amount	(2,510)	(2,572)	4,144	4,604
Contributions after measurement date	2,365	—	—	—
Net accrued benefit asset (liability)	\$ 13,471	\$ 4,723	\$ (3,709)	\$ (2,622)
Represented by				
Deferred pension	\$ 20,720	\$ 19,140	\$ —	\$ —
Pension and other benefit liability	(7,249)	(14,417)	(3,709)	(2,622)
	\$ 13,471	\$ 4,723	\$ (3,709)	\$ (2,622)

The significant actuarial assumptions used are as follows:

	2003	2002
Discount rate at measurement date	6.25%	6.50%
Expected rate of return on plan assets	7.00%	7.00%
Compensation increase	4.00%	4.00%

The company funds health care benefit costs, shown under Other Benefit Plans, on a pay-as-you-go basis. The actuarial assumptions are 3.0% per year for medical services plan increases, and extended health care cost increases of 12.0% for 10 years and 6.0% thereafter.

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

14. 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, 2003 was \$323,500 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.

15. INTEREST EXPENSE

	2003	2002
Long-term interest	\$ (23,743)	\$ (38,699)
Current interest income – net	6,848	6,140
	\$ (16,895)	\$ (32,559)

16. OTHER INCOME

	2003	2002
Gain (loss) on assets sales	\$ 12,478	\$ (252)
Rental income – net	2,642	1,552
Foreign exchange loss	(5,799)	(871)
Other – net	(6,026)	3,013
	\$ 3,295	\$ 3,442

17. INCOME TAXES

The company's effective tax rate is as follows:

	2003		2002	
	Amount	%	Amount	%
Income taxes at statutory rate	\$ 15,472	42.7	\$ 77,525	41.9
Manufacturing and processing allowances	(2,571)	(7.0)	(11,409)	(6.2)
Large corporations tax	2,137	5.9	219	0.1
Non-taxable amounts	(12,208)	(33.7)	(1,957)	(1.6)
Rate differentials between jurisdictions	(4,587)	(12.7)	(6,714)	(3.6)
Reduction in statutory income tax rates	(1,873)	(5.2)	(2,013)	(1.1)
Rate differentials on loss carry backs	(1,972)	(5.4)	—	—
Other	(1,276)	(3.5)	557	0.8
	\$ (6,878)	(18.9)	\$ 56,208	30.3



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

	2003	2002
Future income tax liabilities		
Property, plant and equipment	\$ (229,311)	\$ (242,734)
Other assets	(7,485)	(6,165)
	(236,796)	(248,899)
Future income tax assets		
Reforestation accrual	30,556	28,863
Other	19,755	18,311
	50,311	47,174
	\$ (186,485)	\$ (201,725)

In addition, the company has an estimated capital loss carry-forward of \$58,000 (2002 - \$60,000) which may be used to reduce the tax liability on future capital gains.

18. 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 exercise of options using the treasury stock method.

Earnings per share figures reflect the 10% stock dividend issued in 2002 and 2003, as if the shares had been outstanding from the beginning of the years presented.

	2003		2002	
	From continuing operations	After discontinued operations	From continuing operations	After discontinued operations
Earnings	\$ 43,121	\$ 43,121	\$ 129,039	\$ 137,560
Preferred share payments	—	—	(206)	(206)
Available to shareholders	\$ 43,121	\$ 43,121	\$ 128,833	\$ 137,354
Weighted average shares				
Weighted average shares – basic	36,814,494	36,814,494	36,755,862	36,755,862
Share options – treasury stock method	287,727	287,727	327,571	327,571
Weighted average shares – diluted	37,102,221	37,102,221	37,083,433	37,083,433
Earnings per share (dollars)				
Basic earnings per share	\$ 1.17	\$ 1.17	\$ 3.50	\$ 3.74
Diluted earnings per share	\$ 1.16	\$ 1.16	\$ 3.47	\$ 3.70

(Figures are in millions of Canadian dollars.)

19. 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.

	2003				
	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
Net sales at market prices					
To external customers	\$ 860.7	\$ 198.8	\$ 448.6	\$ —	\$ 1,508.1
To other segments	35.6	—	—	—	
	<u>\$ 896.3</u>	<u>\$ 198.8</u>	<u>\$ 448.6</u>	<u>\$ —</u>	
EBITDA ⁽¹⁾	\$ 98.9	\$ 36.9	\$ 26.9	\$ (11.4)	\$ 151.3
Amortization of property, plant and equipment	59.4	24.3	56.8	1.8	142.3
Operating earnings (loss)	39.5	12.6	(29.9)	(13.2)	9.0
Interest expense	(8.4)	(1.9)	(6.2)	(0.4)	(16.9)
Exchange gain on long-term debt	—	—	—	40.8	40.8
Other income (expense)	7.3	0.1	0.1	(4.2)	3.3
Earnings from continuing operations before income taxes	<u>\$ 38.4</u>	<u>\$ 10.8</u>	<u>\$ (36.0)</u>	<u>\$ 23.0</u>	<u>\$ 36.2</u>
Total capital employed ⁽¹⁾	<u>\$ 689.3</u>	<u>\$ 207.6</u>	<u>\$ 621.1</u>	<u>\$ 352.8</u>	<u>\$ 1,870.8</u>
Identifiable assets	<u>\$ 809.4</u>	<u>\$ 230.0</u>	<u>\$ 674.0</u>	<u>\$ 374.3</u>	<u>\$ 2,087.7</u>
Capital expenditures and acquisitions	<u>\$ 62.2</u>	<u>\$ 4.9</u>	<u>\$ 16.9</u>	<u>\$ 1.4</u>	<u>\$ 85.4</u>
Sales by geographic area					
Net sales to external customers					
USA	\$ 649.5	\$ 47.6	\$ 122.8	\$ —	\$ 819.9
Canada	164.8	133.5	53.4	—	351.7
Europe	—	—	41.9	—	41.9
Far East	46.4	17.5	178.5	—	242.4
Other	—	0.2	52.0	—	52.2
	<u>\$ 860.7</u>	<u>\$ 198.8</u>	<u>\$ 448.6</u>	<u>\$ —</u>	<u>\$ 1,508.1</u>
Property, plant and equipment by geographic area					
Canada					\$ 1,137.1
USA					107.7
					<u>\$ 1,244.8</u>

(1) **Non GAAP measures:**

a) EBITDA is defined as operating earnings plus amortization of property, plant and equipment.

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



(Figures are in millions of Canadian dollars)

	Lumber	Panels	Pulp & paper	Corporate & other	2002 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 income (expense)	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 ⁽¹⁾	\$ 716.9	\$ 221.5	\$ 677.6	\$ 306.0	\$ 1,922.0
Identifiable assets	\$ 811.8	\$ 245.8	\$ 740.8	\$ 316.1	\$ 2,114.5
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	\$ 64.2	\$ 170.7	\$ —	\$ 921.6
Canada	189.6	137.7	45.3	—	372.6
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
Property, plant and equipment by geographic area					
Canada					\$ 1,218.8
USA					98.1
					\$ 1,316.9

(1) Non GAAP measures:

- a) EBITDA is defined as operating earnings plus amortization of property, plant and equipment.
- b) Capital employed is defined as identifiable assets less current non-interest-bearing liabilities.

20. CONTINGENCY

a) Countervailing and Antidumping Duties

On April 25, 2002, the U.S. Department of Commerce (USDOC) issued its final determination in the countervailing and antidumping investigations, which 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. In 2002, the company reversed \$25.0 million related to preliminary duties charged in 2001.

In 2003, the company has incurred countervailing and antidumping duties of \$112.0 million (2002 - \$67.4 million), accounted for as a reduction of sales.

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 underway and is expected to be completed by November 2004 and may extend beyond that date if appealed.

b) The Forestry Revitalization Plan

In March 2003, the Government of B.C. (Crown) enacted the Forestry Revitalization Plan (the Plan) that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include: the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including the company, will be required to return 20% of their replaceable tenures to the Crown. The Crown has acknowledged that licensees will be fairly compensated for the return of tenures and related costs such as for roads and bridges. The effect of the timber take-back is a reduction of approximately 832,000 m³ of the company's existing allowable annual cut on replaceable tenures. The effect of the Plan on the company's financial position and results of operations cannot be determined at this time. The company will record the effects of the Plan when the amounts can be estimated.