

# **West Fraser Timber Co. Ltd.**

*First Quarter 2001*



# Report to Shareholders

West Fraser earned \$16 million or \$0.50 per share, on a diluted basis, in the first quarter of 2001. This compares to earnings of \$42 million or \$1.34 in the first quarter of 2000. Sales during the period were \$530 million compared to \$551 million in 2000.

EBITDA was \$75 million for the quarter compared to \$119 million in the first quarter of 2000 and \$92 million in the last quarter. Other income of \$6 million (pretax) for the quarter included a gain of \$4.7 million from asset sales and \$1.3 million related to several minor items.

Safety continues to be a high priority at West Fraser, with continuing safety audits at all facilities. There were fewer lost time injuries in the first quarter of 2001 than in the same period of 2000, with many of our facilities having no lost time accidents. All manufacturing operations are performing better than industry averages.

The lumber business generated EBITDA of \$29 million compared to \$69 million in the first quarter of 2000 and \$20 million in the last quarter. The decline from the first quarter of last year was due primarily to lower lumber prices. The average western SPF 2x4 price fell to US \$194 for the first quarter of 2001 compared to US \$331 for the first quarter of 2000 and US \$200 for the last quarter. The inclusion of the two southern US sawmills purchased in December enabled a production record of 548 MMfbm to be set in the quarter.

The panel business generated EBITDA of \$11 million compared to \$16 million in the first quarter of 2000 and \$10 million in the last quarter. There continues to be significant improvement in MDF production and shipments on a year-over-year basis. Plywood price declines of approximately 15% from the first quarter of 2000 combined with increases in the price of natural gas were the main factors causing the EBITDA decline.

EBITDA from our pulp & paper operations was \$33 million for the quarter compared to \$35 million in the first quarter of 2000 and \$50 million for the last quarter. Weaker pulp and paper demand in the quarter compared to the first quarter of 2000 led to shipment declines of 10,335 tonnes of BCTMP and 16,504 tonnes of liner-board and kraft paper. Pulp prices have been in decline since the third quarter of last year and further erosion of prices is expected in the near term. Newsprint price increases—up an average 30% from the first quarter of 2000—partially offset the decline in EBITDA caused by the decline in prices in the pulp market. Manufacturing costs were affected by natural gas price increases at all facilities. The power purchase agreements entered into in 2000 have protected our Alberta operations from volatile power prices in that province.

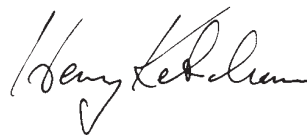
West Fraser's retail home improvement business had EBITDA of \$3 million compared to EBITDA of \$2 million for the year earlier period and \$11 million last quarter. These results are consistent with expectations, as the first quarter of the year is typically slow.

On April 24 the previously announced acquisition of a sawmill located at Chasm, British Columbia, including 695,000 m<sup>3</sup> of annual timber harvesting rights, was completed at a net purchase price of \$22 million plus working capital. The planned conversion of the mill to a random length mill with an annual capacity exceeding 200 MMfbm will begin as planned, this summer.

In April West Fraser welcomed the approval of the long awaited Kalum Land and Resource Development Plan, which covers approximately 2.23 million hectares of land in northwest BC. This vast region includes the 317,000 hectare Kitlope watershed in which West Fraser had sole harvesting rights which were voluntarily surrendered to allow for the preservation of the area. The Kitlope has been designated as the largest intact coastal temperate rainforest on earth. As a result, West Fraser has made the most significant contribution to the protection of coastal temperate rainforest of any forest company in Canada.

Recent interest rate decreases in North America should help to improve consumer confidence and allow housing starts to remain strong. However, the effect of the softwood lumber trade dispute on lumber markets will cause continued uncertainty for the remainder of the year. Markets for both MDF and plywood strengthened gradually towards the end of the quarter and into the first part of April and we are optimistic they will continue to improve. Pulp and paper markets are expected to be difficult in the near term but should show some improvement later in the year.

On behalf of the Board of Directors



Henry H. Ketcham  
Chairman of the Board,  
President and Chief Executive Officer  
April 25, 2001

# Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the interim financial statements included in this quarterly report.

## LUMBER

West Fraser's lumber operations achieved record quarterly production of 548 MMfbm in the first quarter of 2001 compared to production of 454 MMfbm in the first quarter of 2000. The production increase was primarily due to the addition of two sawmills in the southern United States on December 15, 2000 which contributed 69 MMfbm in production.

EBITDA was \$29.1 million, representing a margin of 14% of sales (1st quarter 2000-\$68.5 million and 31% of sales). The decrease in EBITDA is mainly attributable to a significant drop in lumber prices in the first quarter of 2001 compared to the first quarter of 2000. The average price of western SPF 2X4 was US \$194 for the first quarter compared to US \$331 for the first quarter of 2000. The sales price decline was partially offset by the effect of the weakening Canadian dollar and a decline in unit production costs from the first quarter 2000.

## PANELS

West Fraser's panel operations operated well for the quarter with MDF production of 61 MMsf in the quarter compared to 55 MMsf in the 1st quarter of 2000. Plywood production of 64 MMsf was similar to the 1st quarter of 2000.

EBITDA was \$11.4 million, representing a margin of 22% of sales (1st quarter 2000-\$16.3 million and 29% of sales). Higher natural gas prices compared to 2000 largely offset increases in selling prices for MDF. Plywood prices declined 15% from prices in the first quarter 2000 and was the main contributor to the decline in EBITDA and margin in the panel operations.

## PULP AND PAPER

West Fraser produced 232,886 tonnes of pulp and paper for the quarter compared to 232,976 tonnes for the 1st quarter of 2000. Production at the two BCTMP mills increased by 6,245 tonnes while production at the Kitimat mill was 5,661 tonnes lower and newsprint production was similar to the same period in the prior year. The Quesnel BCTMP mill set a quarterly production record. At the Slave Lake BCTMP mill, lower product prices and high electricity prices provided the incentive to curtail production by approximately 4,400 tonnes.

The pulp and paper business generated EBITDA of \$32.7 million, representing a margin of 26% of sales (1st quarter 2000-\$34.6 million and 26% of sales). Although EBITDA was similar quarter to quarter, there were significant offsetting factors affecting the results. Factors decreasing EBITDA were: weakening pulp and paper demand led to a decline in shipments of 10,335 tonnes of BCTMP and 16,504 tonnes of linerboard and kraft paper. Although list NBSK prices were

similar quarter to quarter, actual transaction prices in 2001 were lower than 2000. Manufacturing costs were negatively affected by natural gas price increases at all facilities. Factors increasing EBITDA were: Newsprint prices increased an average of 30% quarter to quarter. The impact of West Fraser's power purchase agreements contributed to profitability by fixing the price of power at our Slave Lake and Alberta Newsprint mills. These mills have some flexibility to reduce power consumption during peak pricing periods allowing the mills to further reduce their power costs.

## RETAIL HOME IMPROVEMENT

The retail division had EBITDA of \$3.4 million, representing a margin of 2% of sales (1st quarter 2000-\$1.5 million and 1% of sales). Sales were relatively flat quarter to quarter despite a sharp decline in building material prices from the 1st quarter of 2000 to the first quarter of 2001. Pre-opening costs of \$0.9 million were included in cost of sales in the first quarter of 2000. The 1st quarter is traditionally a weak quarter for the home improvement business and accordingly results are expected to improve for the balance of the year.

## EARNINGS AND REVENUE COMPARISON

Consolidated net sales for the quarter were \$530 million (2000-\$551 million).

CONSOLIDATED NET SALES (change from 1st quarter 2000)	
Lumber	DECREASE 4%
Panels	DECREASE 5%
Pulp & Paper	DECREASE 7%
Retail	DECREASE 2%

EBITDA for the quarter was \$75 million (2000-\$119 million).

EBITDA (change from 1st quarter 2000)	
Lumber	DECREASE 58%
Panels	DECREASE 30%
Pulp & Paper	DECREASE 5%
Retail	INCREASE 127%

Operating earnings for the quarter were \$40 million (2000-\$84 million).

OPERATING EARNINGS (change from 1st quarter 2000)	
Lumber	DECREASE 72%
Panels	DECREASE 49%
Pulp & Paper	DECREASE 7%
Retail	INCREASE N/A

# Management's Discussion and Analysis

The decrease in net sales was the result of the reduced prices for building materials and pulp & paper as well as shipment declines in pulp & paper offset somewhat by stronger pricing for newsprint and increased shipments of lumber.

The lumber division's EBITDA decrease of \$39 million quarter to quarter was the main component of the overall \$44 million decrease.

Financing expense was \$19.5 million for the quarter compared to \$12.1 million for the 1st quarter of 2000. The increase in expense was mainly due to the weaker Canadian dollar compared to the US dollar which increased the amortization of deferred foreign exchange loss by \$3.4 million and interest expense by approximately \$4.0 million.

Other income in the quarter of \$6.2 million was comprised of \$4.7 million gain related to asset sales, \$2.0 million gain related to foreign exchange and \$0.5 million loss related to a variety of items.

## OTHER

The power purchase agreements which the company entered into in 2000 and which became effective January 1, 2001 have provided the company's Alberta operations with competitive electricity prices. West Fraser's Alberta operations were further able to mitigate volatile prices by shifting load to reduce the use of electricity during the highest cost periods.

On April 24 the previously announced acquisition of a sawmill located at Chasm, British Columbia, including 695,000 M3 of annual timber harvesting rights, closed for a net purchase price of \$22 million plus working capital. The planned conversion of the mill to a random length mill with a capacity exceeding 200 MMfbm will commence this summer.

A significant portion of West Fraser's net sales are to customers at prices which, although denominated in a variety of currencies, are generally based on prevailing U.S. dollar prices. This results in significant sensitivity to changes in the U.S.-Canadian dollar exchange rate. During the first quarter of 2001 the U.S. dollar traded between Cdn\$1.58 and Cdn\$1.49 with an average of Cdn\$1.53 (1st quarter 2000—between Cdn\$1.48 and Cdn\$1.43 with an average of Cdn\$1.45).

# Consolidated Statements of Earnings, Retained Earnings and Cash Flows

January 1 to March 31, 2001 and 2000 (in millions of Canadian dollars—unaudited)

## CONSOLIDATED EARNINGS

### NET SALES

Cost of products sold  
Retail store operating  
Amortization of capital assets  
Selling, general and administrative

### Operating Earnings

Financing expense  
Other income (expense)

### Earnings before income taxes

Income taxes

### Net Earnings

### Net Earnings Per Share (in dollars)

Basic  
Fully Diluted

## RETAINED EARNINGS

### Balance—beginning of period

### Change in accounting for future income taxes

Net earnings

Convertible obligation  
Cancellation of shares  
Dividends

### Balance—end of period

## CONSOLIDATED CASH FLOWS

### Cash provided from Operating Activities

Net earnings  
Amortization of capital assets  
Amortization deferred foreign exchange loss  
Future income taxes  
Change in reforestation obligation  
Other

Net change in non-cash working capital items

### Total Operating Activities

### Cash Flows from Financing Activities

Proceeds from term debt  
Dividends  
Other

### Total Financing Activities

### Cash Flows from Investing Activities

Capital assets additions  
Proceeds from disposal of capital assets  
Decrease (increase) in other assets

### Total Investing Activities

### Increase (decrease) in cash

### Net Cash—beginning of period

### Net Cash—end of period

### Interest Paid

### Income Taxes Paid

	2001	2000
<b>NET SALES</b>	<b>529.5</b>	551.3
Cost of products sold	395.7	374.9
Retail store operating	42.2	42.3
Amortization of capital assets	35.8	35.3
Selling, general and administrative	16.3	15.2
<b>Operating Earnings</b>	<b>39.5</b>	83.6
Financing expense	(19.5)	(12.1)
Other income (expense)	6.2	(1.3)
<b>Earnings before income taxes</b>	<b>26.2</b>	70.2
Income taxes	10.0	28.2
<b>Net Earnings</b>	<b>16.2</b>	42.0
<b>Net Earnings Per Share (in dollars)</b>		
Basic	0.50	1.37
Fully Diluted	0.50	1.34
<b>RETAINED EARNINGS</b>		
<b>Balance—beginning of period</b>	<b>782.8</b>	681.5
<b>Change in accounting for future income taxes</b>	<b>—</b>	(13.1)
	<b>782.8</b>	668.4
Net earnings	16.2	42.0
	<b>799.0</b>	710.4
Convertible obligation	(0.6)	(0.6)
Cancellation of shares	—	2.2
Dividends	(4.2)	(4.2)
<b>Balance—end of period</b>	<b>794.2</b>	707.8
<b>CONSOLIDATED CASH FLOWS</b>		
<b>Cash provided from Operating Activities</b>		
Net earnings	16.2	42.0
Amortization of capital assets	35.7	35.3
Amortization deferred foreign exchange loss	4.1	0.7
Future income taxes	1.6	0.5
Change in reforestation obligation	13.2	10.5
Other	(0.7)	0.1
	<b>70.1</b>	89.1
Net change in non-cash working capital items	(114.1)	(205.0)
<b>Total Operating Activities</b>	<b>(44.0)</b>	(115.9)
<b>Cash Flows from Financing Activities</b>		
Proceeds from term debt	31.4	—
Dividends	(4.2)	(4.2)
Other	(0.2)	—
<b>Total Financing Activities</b>	<b>27.0</b>	(4.2)
<b>Cash Flows from Investing Activities</b>		
Capital assets additions	(9.8)	(22.5)
Proceeds from disposal of capital assets	2.7	0.6
Decrease (increase) in other assets	1.2	(0.7)
<b>Total Investing Activities</b>	<b>(5.9)</b>	(22.6)
<b>Increase (decrease) in cash</b>	<b>(22.9)</b>	(142.7)
<b>Net Cash—beginning of period</b>	<b>(95.6)</b>	55.3
<b>Net Cash—end of period</b>	<b>(118.5)</b>	(87.4)
<b>Interest Paid</b>	<b>15.4</b>	13.7
<b>Income Taxes Paid</b>	<b>21.3</b>	92.3

# Consolidated Balance Sheets

(in millions of Canadian dollars—unaudited)

## ASSETS

Accounts receivable  
Inventories  
Prepaid expenses

Other assets  
Capital assets  
Deferred charges

## LIABILITIES

Bank indebtedness  
Accounts payable  
Current portion of long-term debt

Long-term debt  
Reforestation obligation  
Future income taxes

## SHAREHOLDERS' EQUITY

Convertible obligation  
Share capital  
Contributed surplus  
Retained earnings

	As at Mar. 31, 2001	As at Dec. 31, 2000
	227.5	224.6
	620.9	523.5
	13.9	9.6
	<u>862.3</u>	<u>757.7</u>
	100.5	96.9
	1,530.0	1,562.5
	57.0	36.4
	<u>2,549.8</u>	<u>2,453.5</u>
	118.5	95.6
	300.8	310.2
	39.4	37.5
	<u>458.7</u>	<u>443.3</u>
	625.0	570.6
	76.9	63.8
	250.1	248.5
	20.2	19.5
	324.5	324.3
	0.2	0.7
	794.2	782.8
	<u>2,549.8</u>	<u>2,453.5</u>

## Quarterly Comparisons

January 1 to December 31 (in millions of Canadian dollars—unaudited)

### Sales

First  
Second  
Third  
Fourth

### Net Earnings

First  
Second  
Third  
Fourth

### Diluted Earnings Per Share (in dollars)

First  
Second  
Third  
Fourth  
Annual

	2001	2000
	529.5	551.3
	—	634.1
	—	568.5
	—	555.5
	<u>—</u>	<u>2,309.4</u>
	16.2	42.0
	—	42.8
	—	24.3
	—	22.4
	<u>—</u>	<u>131.5</u>
	0.50	1.34
	—	1.36
	—	0.76
	—	0.68
	—	4.14

Number of common shares outstanding at March 31, 2001 was 30,352,095

# First Quarter Segmented Information

January 1 to March 31, 2001 and 2000 (in millions of Canadian dollars—unaudited)

	Lumber	Pulp & Panels	Paper	Corporate Retail	& Other	Consolidated
<b>January 1, 2001 to March 31, 2001</b>						
Net sales at market prices						
To external customers	197.0	53.0	125.1	154.4		529.5
To other segments	16.2					
	<u>213.2</u>	<u>53.0</u>	<u>125.1</u>	<u>154.4</u>		
EBITDA	29.1	11.4	32.7	3.4	(1.3)	75.3
Amortization of capital assets	13.7	6.2	12.7	3.2	—	35.8
Operating income (loss)	15.4	5.2	20.0	0.2	(1.3)	39.5
Financing expense	4.5	1.9	4.9	4.5	3.7	19.5
Other	0.3	(0.1)	(2.6)	(1.1)	(2.7)	(6.2)
Earnings (loss) before income taxes	<u>10.6</u>	<u>3.4</u>	<u>17.7</u>	<u>(3.2)</u>	<u>(2.3)</u>	<u>26.2</u>
<b>January 1, 2000 to March 31, 2000</b>						
Net sales at market prices						
To external customers	203.7	55.6	134.6	157.4		551.3
To other segments	17.5					
	<u>221.2</u>	<u>55.6</u>	<u>134.6</u>	<u>157.4</u>		
EBITDA	68.5	16.3	34.6	1.5	(2.0)	118.9
Amortization of capital assets	12.8	6.2	13.0	3.3	—	35.3
Operating income (loss)	55.7	10.1	21.6	(1.8)	(2.0)	83.6
Financing expense	3.3	2.1	5.9	4.5	(3.7)	12.1
Other	(0.1)	—	0.2	1.2	—	1.3
Earnings (loss) before income taxes	<u>52.5</u>	<u>8.0</u>	<u>15.5</u>	<u>(7.5)</u>	<u>1.7</u>	<u>70.2</u>

## Notes To Interim Financial Statements

January 1 to March 31, 2001 and 2000

### 1. BASIS OF PRESENTATION

These interim consolidated financial statements follow the same accounting policies and methods of their application as the December 31 consolidated annual financial statements.

### 2. SUBSEQUENT EVENT

On April 2, 2001 petitions for the imposition of antidumping and countervailing duties on Softwood Lumber from Canada were filed with the U.S. Department of Commerce and the U.S. International Trade Commission by the Coalition for Fair Lumber Imports Executive Committee, the United Brotherhood of Carpenters and Joiners of America, and the Paper, Allied-Industrial, Chemical and Energy Works International Union. Petitioners allege antidumping duties ranging between 22.5% and 72.9%, and countervailing duties of at least 39.9% should be imposed on imports of certain softwood lumber from Canada. In response to the petitions, the International Trade Commission has instituted a preliminary injury investigation and the Department of Commerce initiated antidumping and countervailing duty investigations on April 23, 2001. The amount of antidumping and/or countervailing duties, if any, that may be assessed on imports of softwood lumber from Canadian exporters, including the Company, cannot be determined at this time and will depend on factual and legal determinations yet to be made by the Department of Commerce and the International Trade Commission and any reviewing courts, NAFTA panels or WTO panels to which those determinations are appealed.

# First Quarter Operating Highlights

January 1 to March 31, 2001 and 2000 (in millions of Canadian dollars—unaudited)

		2001	2000
Lumber	Production (Mfbm)	<b>547,573</b>	453,930
	Shipments (Mfbm)	<b>498,641</b>	392,499
MDF	Production (Msf)	<b>61,243</b>	55,170
	Shipments (Msf)	<b>66,110</b>	59,283
Plywood	Production (Msf)	<b>64,189</b>	64,487
	Shipments (Msf)	<b>61,641</b>	64,325
<b>Pulp &amp; Paper</b>			
Linerboard and Kraft Paper	Production (Tonnes)	<b>107,899</b>	113,560
	Shipments (Tonnes)	<b>93,925</b>	110,429
BCTMP	Production (Tonnes)	<b>94,237</b>	87,992
	Shipments (Tonnes)	<b>75,573</b>	85,908
Newsprint	Production (Tonnes)	<b>30,750</b>	31,424
	Shipments (Tonnes)	<b>29,474</b>	31,198



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