



West Fraser Timber Co. Ltd.

S E C O N D Q U A R T E R

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West Fraser earned \$67 million or \$1.79 per share on sales of \$607 million in the second quarter of 2004 compared to a loss of \$5 million or \$0.14 per share on sales of \$484 million in the second quarter of 2003. For the first half of 2004, earnings were \$93 million or \$2.50 per share, on sales of \$1,148 million. This compares to earnings of \$6 million or \$0.15 per share, on sales of \$970 million for the first half of 2003.

EBITDA¹ was \$146 million or 24% of sales for the quarter compared to break even EBITDA in the second quarter of 2003. For the first half of 2004 EBITDA was \$224 million or 20% of sales compared to \$41 million or 4% of sales for the first half of 2003.

OPERATIONAL RESULTS

EBITDA in the lumber division for the quarter, after accounting for duties, was \$107 million or 28% of sales compared to negative \$4 million in the second quarter of 2003. Lumber duties in the quarter were \$42 million (2003 – \$26 million). Lumber prices for the second quarter strengthened further from the levels experienced during the first quarter. Benchmark SPF 2X4 lumber prices averaged US \$437 per Mfbm in the current quarter compared to the previous quarter's average of US \$367 per Mfbm and the second quarter 2003 average of US \$247 per Mfbm. Benchmark SYP 2X4 prices averaged US \$394 per Mfbm for the quarter compared to US \$356 for last quarter and US \$290 for the second quarter of 2003.

Record lumber production was not fully reflected in earnings as not all production could be shipped in the quarter due to continuing rail car and truck shortages. The expected improvement in the availability of rail cars for the quarter failed to materialize due mostly to continued strong growth in the North American economy that is increasing the demand for transportation services. To offset the shortage of surface transport, West Fraser has begun to use ships to deliver lumber to the US east coast. This program will move lumber closer to our customers and we therefore expect to see improved sales volumes through the balance of the year.

The Huttig, Arkansas sawmill rebuild was completed during the quarter and the first lumber was produced April 12. Start-up of this facility is progressing and improved production, recoveries and costs are expected in the future.

Panel operations generated EBITDA of \$25 million or 32% of sales in the quarter compared to \$5 million or 9% of sales in the comparable quarter of 2003. Quarterly production records for plywood and MDF were established. The benchmark plywood price rose to an average of \$590 per Msf for the quarter. This compares to an average of \$356 per Msf in the second quarter of 2003. MDF mill net realizations improved during the quarter from both the first quarter of 2004 and the second quarter of 2003.

West Fraser's pulp and paper operations recorded EBITDA of \$24 million or 14% of sales for the quarter compared to negative \$1 million in the same quarter of last year. West Fraser's pulp mills continued to perform well during the quarter and price increases resulted in improved earnings. The Kitimat linerboard and kraft paper mill completed its annual maintenance shutdown in the second quarter. This mill is showing steady improvements in all areas of operation. Alberta Newsprint continued its solid contribution to earnings and established a quarterly production record. Market prices for pulp, newsprint and linerboard have all improved from the second quarter of 2003.

Notable corporate items affecting earnings for the quarter are the share option expense of \$6 million of which there was none in the comparative quarter of 2003 and the exchange loss on long-term debt of \$3 million compared to a gain of \$18 million in the comparative quarter of 2003.

LUMBER TRADE DISPUTE

The US Department of Commerce (DOC) remand response issued April 21, 2004 reduced West Fraser's antidumping duty (ADD) rate to 1.79%, below the threshold level of 2% required in order for the ADD order to apply to West Fraser. However, DOC also found that this determination would not be retroactive, with the result that West Fraser, despite being exempt from the anti-dumping order, would not be entitled to a refund of deposits already paid. West Fraser has appealed this part of the determination to the NAFTA Panel. Until the appeal is finalized and all cash deposits are refunded, West Fraser continues to participate in the administrative reviews of the antidumping order.

The Canadian positions have been supported by significant decisions of NAFTA and WTO panels. West Fraser is disappointed in the American response to these decisions and we continue to believe that the Canadian and West Fraser positions will be upheld through appeals.

OUTLOOK

Building product prices are expected to decline from current high levels in the near term, but should remain strong due to continuing strength in U.S. housing starts and continuing transportation delays. The recent improvements in pulp and paper prices are also expected to be maintained with some further upward potential later in the year. As at June 30, 2004 West Fraser had cash and short term investments on hand in excess of debt.

ACQUISITION

On July 21, 2004, the company reached a definitive agreement to acquire Weldwood of Canada Limited from International Paper Company for Cdn\$1,260 million, subject to certain closing adjustments.

This transaction will combine two of Canada's leading integrated forest products companies and make the company the 3rd largest lumber producer in North America, the largest plywood producer in Canada, and the 8th largest market pulp producer in North America.

FORWARD LOOKING STATEMENTS

Some information contained in this quarterly report is prospective and may be affected by known or unknown risks and uncertainties, which are mostly outside the control of West Fraser. The results or events mentioned in such prospective information may differ substantially from actual results or events.

On behalf of the Board of Directors

Henry H. Ketcham
Chairman of the Board,
President and Chief Executive Officer
July 19, 2004

¹Non GAAP measure – EBITDA is defined as operating earnings plus amortization of property, plant and equipment.

The following discussion and analysis should be read in conjunction with the interim financial statements included in this quarterly report and Management's Discussion & Analysis included in the Company's 2003 annual report.

The financial data contained within this interim report has been prepared in accordance with Canadian generally accepted accounting principles. Throughout this report, reference is made to EBITDA (defined as operating earnings plus amortization of property, plant and equipment), which West Fraser considers to be a key performance indicator. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to earnings or cash flows as determined in accordance with Canadian generally accepted accounting principles. As there is no standardized method of calculating EBITDA, the Company's use of the term may not be directly comparable with similarly titled measures used by other companies.

LUMBER

	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
Production – SPF – MMfbm	636	575	1,263	1,151
Production – SYP – MMfbm	76	81	151	154
Shipments – SPF – MMfbm	539	609	1,079	1,113
Shipments – SYP – MMfbm	73	80	144	148
Sales – \$ millions	377	291	706	563
EBITDA – \$ millions	107	(4)	176	21
EBITDA margin	28%	(1%)	25%	4%
Operating Earnings – \$ millions	93	(16)	147	(9)
Benchmark Price – SPF #2 & Better 2 x 4 – (per Mfbm) ¹	US\$437	US\$247	US\$402	US\$246
– SYP #2 West 2 x 4 – (per Mfbm) ¹	US\$394	US\$290	US\$375	US\$291

¹Source: Random Lengths-price before duties

Lumber sales and EBITDA for the second quarter and first half of the year were significantly higher than the second quarter and first half of 2003 due primarily to higher lumber prices. Second quarter benchmark SPF 2x4 prices increased by 77% over the second quarter of 2003 and the first half of 2004 benchmark SPF 2x4 prices increased by 63% over the first half of 2003 prices. The higher prices are attributable to stronger U.S. housing starts. A quarterly production record was set at 711,668 Mfbm.

Railcar and truck shortages continue from the first quarter of the year, leading to a decline of 78 MMfbm in lumber shipments compared to the second quarter of 2003 and a decline of 38 MMfbm compared to the first six months of 2003. If all lumber production could have been shipped the estimated improvement in EBITDA that would have resulted is \$18 million for the quarter and \$28 million for the first half of the year. Improved rail car supply in the second half of the year is anticipated, and that, combined with other initiatives will improve shipment volume. The company continues to work with customers and suppliers on transportation initiatives.

The Huttig, Arkansas sawmill rebuild was completed during the quarter and the first lumber was produced on April 12. Improved production, recoveries and costs are expected in the future as the mill progresses through start-up.

The U.S. softwood lumber duties, as shown in the table below, continue to impact West Fraser's financial results. The company continues to accrue duties at the combined deposit rate of 20.97%. For further detail on this matter see "U.S. Trade Dispute".

Export Duties (\$ millions)	Q1	Q2	Q3	Q4	Total
2004 Export Duties	31	42	–	–	73
2003 Export Duties	23	26	31	32	112
2002 Export Duties	4	10	29	24	67

PANELS

	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
Production – MDF – Mmsf – 3/4" basis	71	58	140	123
Shipments – MDF – Mmsf – 3/4" basis	72	60	148	129
Production – Plywood – Mmsf – 3/8" basis	67	64	127	122
Shipments – Plywood – Mmsf – 3/8" basis	71	70	134	119
Sales – \$ millions	78	54	146	112
EBITDA – \$ millions	25	5	39	14
EBITDA margin	32%	9%	27%	12%
Operating Earnings – \$ millions	19	(1)	27	1
Benchmark Price – MDF (3/4" basis per Msf) ¹	US\$410	US\$380	US\$390	US\$385
– Plywood (3/8" basis per Msf) ²	Cdn\$590	Cdn\$356	Cdn\$557	Cdn\$377

¹Source: RISI and West Fraser database

²Source: Crow's

Sales and EBITDA increased in the second quarter of 2004 versus 2003 and in the first half of 2004 versus 2003. The primary reasons for the increase are higher plywood prices and to a lesser degree, higher MDF prices combined with increased shipment volumes.

MDF

MDF had record production this quarter at 71,163 Msf. MDF earnings improved on both a quarter-to-quarter and a year-to-date basis due primarily to increased market prices and a change in product mix. Further improvement in MDF prices is expected in the near term.

PLYWOOD

Plywood had record production and shipments in the second quarter of 2004. Continuing strong housing starts have resulted in increased demand for structural panels and resulted in price improvements over the comparative period in the prior year.

PULP & PAPER

	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
Sales – \$ millions	164	146	320	309
EBITDA – \$ millions	24	(1)	33	9
EBITDA margin	14%	–	10%	3%
Operating Earnings – \$ millions	10	(15)	3	(19)

EBITDA increased by \$25 million in the second quarter of 2004 versus 2003 and by \$24 million for the first half of 2004 versus 2003. The comparative sales figures increased by 12% and 4%, respectively.

PULP

	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
Production – Mtonnes	131	129	261	258
Shipments – Mtonnes	128	139	257	263

Earnings increased in the second quarter and the first half of 2004 compared to the comparative periods in 2003 largely due to increased prices and despite lower shipments.

Softwood BCTMP prices increased throughout the first half of the year compared to 2003 levels while prices for hardwood BCTMP fell slightly from levels reached in the first half of 2003.

LINERBOARD AND KRAFT PAPER

	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
Production – Mtonnes	105	57	210	156
Shipments – Mtonnes	95	79	201	187
Benchmark Price – linerboard (per sh. ton) ¹	US\$412	US\$375	US\$387	US\$368

¹Source: Pulp & Paper Weekly – Unbleached Linerboard Kraft, East

Production increased in the quarter and the first half of the year compared to the 2003 periods due to productivity improvements at the Kitimat mill, the impact of the labour strike in the second quarter of 2003 and the longer maintenance shut down in the second quarter of 2003.

Markets and prices for linerboard are improving, the most significant improvement being in the North American market. The company anticipates continued price improvements through the remainder of the year. Kraft paper markets remain poor and have yet to show any significant improvement. As a result of the poor kraft paper markets, some single ply linerboard was produced on the kraft paper machine in the second quarter of 2004.

NEWSPRINT

West Fraser's share	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
Production – Mtonnes	34	34	68	63
Shipments – Mtonnes	34	34	67	62
Benchmark Price – per tonne ¹	US\$552	US\$503	US\$541	US\$490

¹Pulp & Paper Weekly – U.S. West Coast Price

Newsprint shipment and production levels remained largely unchanged on a quarter-to-quarter basis and have marginally improved on a year-to-year comparison due to the 12 days of downtime that occurred in the first quarter of 2003. Sales prices are higher in 2004 compared to 2003, although part of the price increase has been negated by the stronger Canadian dollar.

SALES AND EBITDA COMPARISON

Millions of dollars	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
Sales by Product				
– Lumber	365	284	682	549
– Panels	78	54	146	112
– Pulp & Paper	164	146	320	309
	\$607	\$484	\$1,148	\$970
EBITDA by Product				
– Lumber	107	(4)	176	21
– Panels	25	5	39	14
– Pulp & Paper	24	(1)	33	9
– Corporate & Other	(10)	–	(24)	(3)
	\$146	\$ –	\$ 224	\$ 41

Sales and EBITDA have increased from prior periods due primarily to increased product prices, as discussed previously in this report. The impact of the price increases was partially off-set by a stronger Canadian dollar. For the first half of 2004 the Canadian dollar averaged U.S. \$0.747 compared to U.S. \$0.688 in the first half of 2003, which resulted in a \$48 million after tax decrease in earnings. The same comparison for the second quarter resulted in an estimated \$8 million after tax decrease in earnings.

The share option expense increased by \$6 million in the quarter, bringing the year-to-date expense to \$16 million. Under the terms of West Fraser's share option plan, option holders can elect to receive cash in lieu of purchasing shares. The cash payment equals the difference between the exercise price of the option and the market price of Common shares on the date of exercise. The share option expense for each period is based on the number of options outstanding, the remaining period until vesting occurs and the difference between market value and the option price.

The translation of U.S. denominated long-term debt resulted in a second quarter exchange loss of \$3 million compared to the second quarter 2003 gain of \$18 million. For the first six months the exchange loss was \$5 million compared to 2003's six month exchange gain of \$34 million.

CHANGE IN ACCOUNTING POLICY AND PRESENTATION

ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2004, West Fraser adopted new accounting requirements for asset retirement obligations, as recommended by the Canadian Institute of Chartered Accountants. Under the new requirements the Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset. This statement changed the Company's accounting for landfill closure costs and reforestation liabilities.

Accordingly, the Company retroactively adjusted the carrying value of liabilities, previously reported on a non-discounted basis, for reforestation and certain landfill closure costs and recorded liabilities and the associated asset for landfill closure costs not previously accrued. The net increase to property, plant and equipment at January 1, 2004 was \$0.9 million, the net decrease to liabilities was \$11.3 million, the decrease to inventory was \$1.9 million and the impact on January 1, 2003 opening retained earnings (net of tax of \$3.2 million) was \$7.1 million. The cumulative effect of adopting these accounting requirements was not material to the Company's results of operations and the impact was included in costs and expenses in the first quarter of 2004.

PRESENTATION OF SALES

West Fraser has presented freight and other distribution costs and countervailing and antidumping duties as part of costs and expenses in the statement of earnings and reclassified the prior period's presentation accordingly. Previously these expenses were presented as a reduction of gross sales to determine net sales in accordance with industry practice.

CAPITAL REQUIREMENTS AND LIQUIDITY

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

In the second quarter of 2004, additions to property, plant and equipment amounted to \$37 million (2003 – \$21 million) and for the first half of the year they amounted to \$59 million (2003 – \$38 million). Proceeds from disposal of property, plant and equipment were \$3 million in the second quarter and the first half of 2004 and were \$5 million and \$10 million in the second quarter of 2003 and first half of 2003. Debt repayments were \$13 million and \$17 million in the second quarter of 2004 and 2003, respectively.

Cash and short-term investments on hand at June 30, 2004 were \$313 million compared to \$123 million at June 30, 2003 and \$266 million at December 31, 2003.

It is expected that cash on hand and funds provided by operations will meet all West Fraser's cash requirements in 2004 for planned additions to property, plant and equipment, debt repayment, interest and dividends.

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 earnings sensitivity to changes in the U.S.-Canadian dollar exchange rate. Also, payment terms for offshore sales may be up to 180 days and exchange rate fluctuations in the period between purchase and payment may expose West Fraser to additional currency risk. Currently, West Fraser is not hedging its foreign exchange exposure with financial forward or option contracts.

During the second quarter of 2004 the U.S. dollar traded between Cdn \$1.3037 and Cdn \$1.4003 with an average of Cdn \$1.3589 (second quarter 2003 – between \$1.3323 and \$1.4924 with an average of \$1.3974). On a year-to-date basis the rates fluctuated between Cdn \$1.2683 and Cdn \$1.4003 with an average of Cdn \$1.3383 (year-to-date 2003 – between Cdn \$1.3323 and Cdn \$1.5777 with an average of Cdn \$1.4533).

U.S. TRADE DISPUTE

Canadian and West Fraser positions continued to receive support from NAFTA and WTO panels during the quarter.

The US Department of Commerce (DOC) remand response issued April 21, 2004 reduced West Fraser's antidumping duty (ADD) rate to 1.79%, below the threshold level of 2% required in order for the ADD order to apply to West Fraser. However, DOC also found that this determination would not be retroactive, with the result that West Fraser, despite being exempt from the antidumping order, would not be entitled to a refund of deposits already paid. West Fraser has appealed this part of the determination to the NAFTA Panel. This appeal will delay the implementation of the *de minimis* determination and, as a result, West Fraser will continue to pay deposits (at the original 2.18%) until the appeal is finalized. West Fraser is confident that ADD deposits will terminate and that all deposits will be refunded. ADD deposits made to June 30, 2004 from the inception of the case total US \$16 million. Until the appeal is finalized and all cash deposits are refunded, West Fraser continues to participate in the administrative reviews of the antidumping order. West Fraser's preliminary margin in the first administrative review is 1.08%.

On April 19, 2004, a separate NAFTA Panel issued its second decision remanding all major aspects of the United States International Trade Commission (ITC) determination back for review, stating that the record did not support the ITC finding of threat of injury. The ITC responded on June 10, 2004, again finding threat of injury on the basis of the same record. It is anticipated that the NAFTA Panel will respond later this summer with a positive result for Canada. If the NAFTA decision is upheld through the various appeals, including a likely Extraordinary Challenge, then both the countervailing duty (CVD) and ADD cases will be withdrawn, giving rise to a potential refund of all duty deposits, which total US \$178 million to June 30, 2004.

On June 14, 2004, the DOC published its Preliminary Determination in the first CVD Administrative Review, covering the period from May 22, 2002 to March 31, 2003. The DOC again changed its method of calculating subsidy, resulting in a country wide CVD rate of 9.24%. Hearings will be conducted in the fall, with a Final Determination due in December 2004. Although the December determination likely will be appealed, it will set the deposit rate going forward.

Neither the final outcome nor the time required to resolve the dispute can be determined at this time.

SUBSEQUENT EVENT

On July 21, 2004, the company reached a definitive agreement to acquire Weldwood of Canada Limited ("Weldwood") from International Paper Company ("IP") for Cdn\$1,260 million, subject to certain closing adjustments. As part of the agreement, IP will be entitled to the after-tax proceeds on the return of any softwood lumber duty deposits made by Weldwood prior to the closing date, if any. The agreement also provides for future payments to be paid to IP if the market price of NBSK pulp exceeds the greater of US\$710 or Cdn\$950 per tonne during a quarter. These payments are not to exceed US\$50 million in aggregate, will be based on production, and will expire on June 30, 2007. Concurrent with the signing of the agreement, IP has agreed to enter into a long-term pulp purchase contract under which IP will purchase 200,000 tonnes of NBSK pulp per year for 10 years.

The transaction is subject to compliance with Canadian and U.S. competition law and Canadian forestry laws and other customary approvals. The agreement contains certain due diligence, financing and other conditions in favour of the company, which would allow it to terminate the transaction without penalty in certain circumstances. The transaction is expected to close in the fourth quarter of 2004.

<i>(in millions of Canadian dollars – unaudited)</i>	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
EARNINGS				
Sales <i>(note 1)</i>	\$ 606.5	\$ 483.7	\$1,147.6	\$ 969.8
Costs and expenses				
Cost of products sold	316.2	363.9	637.6	690.7
Freight and other distribution costs	77.4	78.4	160.0	155.8
Countervailing and antidumping duties	41.9	26.3	73.2	49.6
Amortization of property, plant and equipment	34.6	33.0	71.0	71.9
Selling, general and administrative	19.1	15.1	36.7	32.6
Share option expense <i>(note 3)</i>	6.3	–	16.2	–
	495.5	516.7	994.7	1,000.6
Operating earnings	111.0	(33.0)	152.9	(30.8)
Other				
Interest expense – net	(4.0)	(3.8)	(8.3)	(8.6)
Exchange gain (loss) on long-term debt	(3.0)	17.7	(5.0)	33.9
Other income (expense)	1.0	1.1	1.5	(4.1)
Earnings before income taxes	105.0	(18.0)	141.1	(9.6)
Income tax recovery (expense)	(38.1)	12.8	(47.7)	15.3
Earnings	\$ 66.9	\$ (5.2)	\$ 93.4	\$ 5.7
Earnings per share <i>(note 4)</i>				
Basic	\$ 1.82	\$ (0.14)	\$ 2.54	\$ 0.15
Diluted	\$ 1.79	\$ (0.14)	\$ 2.50	\$ 0.15
RETAINED EARNINGS				
Balance – beginning of period as previously reported	\$1,015.1	\$ 977.0	\$ 986.7	\$ 964.2
Cumulative effect of change in accounting policy <i>(note 2)</i>	–	–	7.1	7.1
Balance – beginning of period as restated	1,015.1	977.0	993.8	971.3
Earnings	66.9	(5.2)	93.4	5.7
	1,082.0	971.8	1,087.2	977.0
Common share dividends	(5.1)	(5.1)	(10.3)	(10.3)
Balance – end of period	\$1,076.9	\$ 966.7	\$1,076.9	\$ 966.7

<i>(in millions of Canadian dollars – unaudited)</i>	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES				
Earnings	\$ 66.9	\$ (5.2)	\$ 93.4	\$ 5.7
Items not affecting cash				
Amortization of property, plant and equipment	34.6	33.0	71.0	71.9
Exchange (gain) loss on long-term debt	3.0	(17.7)	5.0	(33.9)
Future income taxes	(3.0)	(3.1)	(9.4)	(8.0)
Change in other long-term liabilities	0.2	0.4	(0.8)	–
Change in reforestation obligation	(7.7)	(3.8)	1.9	9.9
Gain on asset sales	(0.7)	(1.5)	(0.3)	(1.7)
Other	0.3	0.6	0.8	1.2
	93.6	2.7	161.6	45.1
Net change in non-cash working capital items	53.1	47.9	(22.7)	(47.1)
	146.7	50.6	138.9	(2.0)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	(13.3)	(16.8)	(13.3)	(16.8)
Dividends	(5.1)	(5.1)	(10.3)	(10.3)
Other	0.1	–	0.6	0.5
	(18.3)	(21.9)	(23.0)	(26.6)
CASH FLOWS FROM INVESTING ACTIVITIES				
Property, plant and equipment additions	(36.6)	(20.7)	(59.2)	(38.4)
Proceeds from disposal of property, plant & equipment	3.3	5.1	3.4	9.7
Acquisition	–	(6.2)	–	(6.2)
Change in other assets	(3.4)	(2.3)	(12.7)	(6.6)
	(36.7)	(24.1)	(68.5)	(41.5)
Change in cash	91.7	4.6	47.4	(70.1)
Net cash – beginning of period	221.6	118.2	265.9	192.9
Net cash – end of period	\$ 313.3	\$ 122.8	\$ 313.3	\$ 122.8
<i>Interest paid</i>	\$ 4.8	\$ 5.6	\$ 11.1	\$ 12.6
<i>Income taxes paid</i>	\$ 8.1	\$ 9.2	\$ 17.0	\$ 38.5

<i>(in millions of Canadian dollars – unaudited)</i>	As at June 30, 2004	As at December 31, 2003
ASSETS		
Current assets		
Cash and short-term investments	\$ 313.3	\$ 265.9
Accounts receivable	179.1	158.0
Inventories	352.2	322.3
Prepaid expenses	25.6	9.2
	870.2	755.4
Other assets	76.0	64.3
Property, plant and equipment	1,233.9	1,245.7
Deferred charges	21.7	21.3
	\$2,201.8	\$2,086.7
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 230.3	\$ 186.2
Current portion of reforestation obligation	31.0	30.8
Current portion of long-term debt	–	13.0
	261.3	230.0
Long-term debt	291.6	287.0
Reforestation obligation	52.3	50.7
Other liabilities	11.4	8.1
Future income taxes	180.3	189.7
	796.9	765.5
Shareholders' equity (note 3)	1,404.9	1,321.2
	\$2,201.8	\$2,086.7

Number of Common shares outstanding at July 19, 2004 was 36,871,205

<i>(in millions of Canadian dollars – unaudited)</i>	Lumber	Panels	Pulp & Paper	Corporate & Other	Consolidated
April 1, 2004 to June 30, 2004					
Sales					
To external customers	\$364.5	\$ 77.6	\$164.4		\$ 606.5
To other segments	12.6				
	<u>\$377.1</u>	<u>\$ 77.6</u>	<u>\$164.4</u>	<u>-</u>	
EBITDA ¹	\$107.4	\$ 25.0	\$ 23.8	\$(10.6)	\$ 145.6
Amortization of property, plant and equipment	14.1	5.8	14.3	0.4	34.6
Operating earnings (loss)	93.3	19.2	9.5	(11.0)	111.0
Interest expense	(2.4)	(0.3)	(1.3)	-	(4.0)
Exchange loss on long-term debt	-	-	-	(3.0)	(3.0)
Other income (expense)	(0.9)	-	(0.4)	2.3	1.0
Earnings (loss) before income taxes	<u>\$ 90.0</u>	<u>\$ 18.9</u>	<u>\$ 7.8</u>	<u>\$(11.7)</u>	<u>\$ 105.0</u>
April 1, 2003 to June 30, 2003					
Sales					
To external customers	\$283.7	\$ 54.0	\$146.0		\$ 483.7
To other segments	7.1				
	<u>\$290.8</u>	<u>\$ 54.0</u>	<u>\$146.0</u>	<u>-</u>	
EBITDA ¹	\$(3.5)	\$ 4.6	\$(0.7)	\$(0.4)	\$ -
Amortization of property, plant and equipment	12.3	5.9	14.2	0.6	33.0
Operating loss	(15.8)	(1.3)	(14.9)	(1.0)	(33.0)
Interest income (expense)	0.5	0.3	1.2	(5.8)	(3.8)
Exchange gain on long-term debt	-	-	-	17.7	17.7
Other income (expense)	4.0	-	-	(2.9)	1.1
Earnings (loss) before income taxes	<u>\$(11.3)</u>	<u>\$ (1.0)</u>	<u>\$(13.7)</u>	<u>\$ 8.0</u>	<u>\$ (18.0)</u>

Six Month Segmented Information

<i>(in millions of Canadian dollars – unaudited)</i>	Lumber	Panels	Pulp & Paper	Corporate & Other	Consolidated
January 1, 2004 to June 30, 2004					
Sales					
To external customers	\$681.7	\$146.0	\$319.9		\$1,147.6
To other segments	24.6				
	<u>\$706.3</u>	<u>\$146.0</u>	<u>\$319.9</u>	<u>-</u>	
EBITDA ¹	\$176.2	\$ 39.0	\$ 32.5	\$(23.8)	\$ 223.9
Amortization of property, plant and equipment	28.8	12.2	29.1	0.9	71.0
Operating earnings (loss)	147.4	26.8	3.4	(24.7)	152.9
Interest expense	(4.7)	(0.6)	(2.6)	(0.4)	(8.3)
Exchange loss on long-term debt	-	-	-	(5.0)	(5.0)
Other income (expense)	(1.4)	-	(0.8)	3.7	1.5
Earnings (loss) before income taxes	<u>\$141.3</u>	<u>\$ 26.2</u>	<u>\$ -</u>	<u>\$(26.4)</u>	<u>\$ 141.1</u>
January 1, 2003 to June 30, 2003					
Sales					
To external customers	\$549.1	\$112.0	\$308.7		\$ 969.8
To other segments	14.1				
	<u>\$563.2</u>	<u>\$112.0</u>	<u>\$308.7</u>	<u>-</u>	
EBITDA ¹	\$ 21.2	\$ 13.5	\$ 9.0	\$(2.6)	\$ 41.1
Amortization of property, plant and equipment	30.5	12.3	27.9	1.2	71.9
Operating earnings (loss)	(9.3)	1.2	(18.9)	(3.8)	(30.8)
Interest income (expense)	(4.8)	(1.0)	(3.3)	0.5	(8.6)
Exchange gain on long-term debt	-	-	-	33.9	33.9
Other income (expense)	6.5	-	-	(10.6)	(4.1)
Earnings (loss) before income taxes	<u>\$ (7.6)</u>	<u>\$ 0.2</u>	<u>\$(22.2)</u>	<u>\$ 20.0</u>	<u>\$ (9.6)</u>

¹Non GAAP measure:

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

(figures are in millions of dollars except where indicated)

1. BASIS OF PRESENTATION

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the company's annual report for the year ended December 31, 2003.

The company has presented freight and other distribution costs and countervailing and antidumping duties as part of costs and expenses in the statement of earnings and reclassified the prior period's presentation accordingly. Previously these expenses were presented as a reduction of gross sales to determine net sales in accordance with industry practice.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the December 31 consolidated annual financial statements except as disclosed in note 2.

2. CHANGE IN ACCOUNTING POLICY

Asset Retirement Obligations

Effective January 1, 2004, the company adopted new accounting requirements for asset retirement obligations, as recommended by the Canadian Institute of Chartered Accountants. Under the new requirements the company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset. This statement changed the company's accounting for landfill closure costs and reforestation liabilities.

Accordingly, the company retroactively adjusted the carrying value of liabilities, previously reported on a non-discounted basis, for reforestation and certain landfill closure costs and recorded liabilities and the associated asset for landfill closure costs not previously accrued. The net increase to property, plant and equipment at January 1, 2004 was \$0.9, the net decrease to liabilities was \$11.3, the decrease to inventory was \$1.9 and the impact on January 1, 2003 opening retained earnings (net of tax of \$3.2) was \$7.1. The cumulative effect of adopting these accounting requirements was not material to the Company's results of operations and the impact was included in costs and expenses in the first quarter of 2004.

3. SHAREHOLDERS' EQUITY

	June 30, 2004		December 31, 2003	
	Number of Shares Issued	Amount	Number of Shares Issued	Amount
Common	31,485,269	\$ 328.3	31,471,508	\$327.8
Class B common	5,385,206	0.5	5,385,206	0.5
Total Common	36,870,475	328.8	36,856,714	328.3
Retained Earnings		1,076.9		986.7
Change in Accounting for Asset Retirement Obligations		-		7.1
Share Purchase Loans		(0.8)		(0.9)
Shareholders' Equity		\$ 1,404.9		\$1,321.2

During the three months ended June 30, 2004 the company issued 2,615 common shares for cash of \$0.1 (six months ended June 30, 2004 – issued 13,761 common shares for cash of \$0.5).

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.

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.

For the three months ended June 30, 2004, the company recorded a share option expense of \$6.3 related to the options outstanding (six months ended June 30, 2004 – \$16.2).

(figures are in millions of dollars except where indicated)

4. EARNINGS PER SHARE

Basic earnings per share are calculated based on 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 March 2003 as if the shares had been outstanding from the beginning of the periods presented.

	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
Earnings available to shareholders	\$ 66.9	\$ (5.2)	\$ 93.4	\$ 5.7
Weighted average shares (thousands)				
Weighted average shares – basic	36,834	36,847	36,831	36,846
Share options – treasury stock method	523	271	483	331
Weighted average shares – diluted	37,357	37,118	37,314	37,177
Earnings per share (dollars)				
Basic earnings per share	\$ 1.82	\$ (0.14)	\$ 2.54	\$ 0.15
Diluted earnings per share	\$ 1.79	\$ (0.14)	\$ 2.50	\$ 0.15

5. 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 tenure to the Crown. The Crown has acknowledged that licensees will be fairly compensated for the return of tenures and related costs such as 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.

6. 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.

The company has incurred the following countervailing and antidumping duties:

	April 1 to June 30		January 1 to June 30	
	2004	2003	2004	2003
Countervailing and antidumping duties	\$41.9	\$26.3	\$73.2	\$49.6

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 December 2004 and may extend beyond that date if appealed.

(figures are in millions of dollars except where indicated)

7. SUBSEQUENT EVENT

On July 21, 2004, the company reached a definitive agreement to acquire Weldwood of Canada Limited ("Weldwood") from International Paper Company ("IP") for Cdn\$1,260, subject to certain closing adjustments. The Company has agreed to finance the transaction with cash on hand and a fully underwritten bridge debt commitment for the balance of the purchase price. As part of the agreement, IP will be entitled to the after-tax proceeds on the return of any softwood lumber duty deposits made by Weldwood prior to the closing date, if any. The agreement also provides for future payments to be paid to IP if the market price of NBSK pulp exceeds the greater of US\$710 or Cdn\$950 per tonne during a quarter. These payments are not to exceed US\$50 in aggregate, will be based on production, and will expire on June 30, 2007. Concurrent with the signing of the agreement, IP has agreed to enter into a long-term pulp purchase contract under which IP will purchase 200,000 tonnes of NBSK pulp per year for 10 years.

The closing of the transaction is subject to compliance with Canadian and U.S. competition law, Canadian forestry laws and other regulatory approvals. The transaction is expected to close in the fourth quarter of 2004.

Quarterly Comparisons

January 1 to December 31

(in millions of Canadian dollars – unaudited)

	2004	2003
Sales		
First	\$ 541.1	\$ 486.1
Second	606.5	483.7
Third		483.9
Fourth		466.9
		\$1,920.6
Earnings		
First	\$ 26.5	\$ 10.9
Second	66.9	(5.2)
Third		3.1
Fourth		34.3
		\$ 43.1
Diluted Earnings Per Share (in dollars)		
First	\$ 0.71	\$ 0.29
Second	\$ 1.79	\$ (0.14)
Third		\$ 0.09
Fourth		\$ 0.92
Annual		\$ 1.16

		April 1 to June 30		January 1 to June 30	
		2004	2003	2004	2003
Lumber	Production (Mfbm)	711,668	655,836	1,413,905	1,305,317
	Shipments (Mfbm)	611,521	689,520	1,223,119	1,261,239
Panels					
MDF	Production (Msf – 3/4")	71,163	58,045	139,624	123,244
	Shipments (Msf – 3/4")	72,267	60,274	147,875	129,457
Plywood	Production (Msf – 3/8")	66,580	63,881	127,128	122,124
	Shipments (Msf – 3/8")	71,064	69,559	134,195	119,236
Pulp & Paper (tonnes)					
Linerboard and Kraft paper	Production	104,714	56,730	210,008	156,302
	Shipments	95,322	78,849	201,260	187,462
Pulp	Production	130,682	128,522	261,422	258,433
	Shipments	127,634	138,814	256,543	263,302
Newsprint	Production	34,287	34,009	68,355	62,504
	Shipments	33,777	33,764	67,146	61,699



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