



West Fraser Timber Co. Ltd.

SECOND QUARTER

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West Fraser recorded a loss of \$5 million or \$0.14 per share on sales of \$379 million in the second quarter of 2003 compared to earnings of \$71 million or \$1.91 per share on sales of \$420 million in the second quarter of 2002. For the first half of 2003, earnings were \$6 million or \$0.15 per share, on sales of \$764 million. This compares to earnings of \$98 million or \$2.62 per share, on sales of \$800 million for the first half of 2002.

The Company's poor results are mainly attributable to a rapidly strengthening Canadian dollar, some deterioration in product prices and significant production disruptions at the Company's Kitimat linerboard and kraft paper operation.

No EBITDA¹ was generated for the quarter compared to \$117 million or 28% of sales for the second quarter of 2002. For the first half of 2003 EBITDA was \$41 million or 5% of sales compared to \$203 million or 25% of sales for the first half of 2002.

OPERATIONAL RESULTS

EBITDA in the lumber division for the quarter, after accounting for duties, was negative \$4 million compared to \$87 million or 34% of sales in the second quarter of 2002. Lumber duties reduced EBITDA in the quarter by \$26 million. Lumber prices decreased by US \$50 per Mfbm as the second quarter 2003 benchmark price for SPF 2x4 averaged US \$238 per Mfbm compared to the second quarter 2002 average of US \$288 per Mfbm. The availability of rail cars improved during the quarter allowing shipments to partially catch up with year-to-date production. The lumber division's results were also negatively affected this quarter by a strike at the Company's Kitimat linerboard and kraft paper mill which resulted in a reduction in chip revenues and the closure of the Terrace sawmill. All sawmills operated well during the quarter and established an overall production record despite the Terrace closure.

Panel operations generated EBITDA of \$5 million or 10% of sales in the quarter compared to \$19 million or 34% of sales in the comparable quarter of 2002. The benchmark plywood price dropped \$51 from the second quarter of 2002, while MDF mill net realizations continued to be weak due to soft markets and a less attractive product mix relative to the second quarter of 2002.

West Fraser's pulp and paper operations recorded negative EBITDA of \$1 million for the quarter compared to \$12 million or 11% of sales in the same quarter of last year. Results were affected by the Kitimat disruptions discussed below. West Fraser's pulp mills continued to perform well during the quarter. Price increases were sufficient to offset the effect of the strengthening Canadian dollar. Alberta Newsprint continued its solid contribution to earnings and established a quarterly production record.

The rising Canadian dollar reduced overall quarterly operating earnings by approximately \$24 million from the first quarter of 2003 and \$33 million from the second quarter of 2002. The stronger dollar also led to a non-cash foreign exchange gain of \$18 million on U.S. dollar denominated debt during the quarter.

LUMBER TRADE DISPUTE

Canadian and American government representatives have recently resumed discussions to determine if there is an opportunity for a negotiated resolution to the softwood lumber trade dispute. This round of discussions is focused on an interim agreement that would limit the volume of shipments from Canada to the U.S.

West Fraser is opposed to any settlement that would re-introduce quotas for Canadian lumber shipments to the United States. Quotas would perpetuate, not solve, the key issues underlying the present dispute. We continue to urge our federal and provincial government representatives to negotiate an export tax solution to this dispute.

Canadian appeals under NAFTA and through the WTO continue with decisions from both the NAFTA anti-dumping and countervailing duty panels expected soon. We expect these decisions will be supportive of the Canadian positions, and are hopeful they will help to close the gap that exists between U.S. and Canadian interests.

KITIMAT LINERBOARD AND KRAFT PAPER MILL

We suffered significant downtime at our Kitimat linerboard and kraft paper mill during the quarter. The annual maintenance shutdown extended from March 24 to April 11. When full operations resumed, the mill operated well and was on pace to set a monthly production record in May. On May 28 members of one of the two union locals at the mill rejected the Company's final offer which was based on the pattern settlement for the pulp and paper sector in British Columbia. Following rejection, the mill was shutdown by a strike, which continues. The estimated monthly impact of the strike on the Company's earnings is \$5 million. While this is significant, it must be measured against the alternative of accepting an uncompetitive labour agreement which would unreasonably burden this operation's future prospects.

This strike has greatly affected our employees at our Terrace sawmill and the Kitimat papermill employees at Kitimat. We regret the inconvenience and hardship that this strike is having on our employees, contractors, customers and communities.

OUTLOOK

Lumber prices rallied in the latter part of the quarter buoyed by lumber production curtailment announcements and continued strong demand in the United States. If these higher prices can be maintained they will positively impact third quarter results. The pulp market showed signs of weakness near the end of the quarter, which could produce downward pressure on pulp prices. Near term results are uncertain due to the lumber dispute with the U.S. and the labour dispute at the Kitimat operations. However, West Fraser continues to be well positioned, with a strong balance sheet and efficient manufacturing operations, to take advantage of opportunities and to face adverse market conditions should they continue.

On behalf of the Board of Directors



Henry H. Ketcham

Chairman of the Board,
President and Chief Executive Officer
July 17, 2003

¹EBITDA is defined as operating earnings plus amortization

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 division set shipment and production records for the quarter. Quarterly production was 656 MMfbm compared to 614 MMfbm in 2002. Year-to-date production was 1,305 MMfbm compared to 1,146 MMfbm for the same period in 2002. Shipments for the second quarter were 690 MMfbm compared to 568 MMfbm in the second quarter of 2002. Shipments for the first half of the year were 1,261 MMfbm compared to 1,046 MMfbm for the first half of 2002. Much of the production and shipment increases were due to the start-up of the Chasm sawmill in March of 2002.

EBITDA for the quarter was negative \$3.5 million compared to \$86.9 million (34% of sales) for the second quarter of 2002. EBITDA for the first half of the year was \$21.2 million (5% of sales) compared to \$141.2 million (29% of sales) for the first half of 2002. The quarter and year-to-date decrease in EBITDA was due primarily to a \$60.7 million increase in duty charges year-to-date (\$39.1 million quarter-to-quarter), lower lumber prices and the strengthening Canadian dollar compared to the U.S. dollar.

The second quarter average benchmark price for western SPF 2x4 was US \$238/Mfbm compared to US \$288/Mfbm for the second quarter of 2002 (first half of 2003 at \$238/Mfbm compared to the first half of 2002 at \$290/Mfbm). The southern yellow pine average benchmark 2x4 price was US \$290/Mfbm for the quarter compared to US \$315/Mfbm in the second quarter of 2002 (first half of 2003 at \$291/Mfbm compared to the first half of 2002 at \$322/Mfbm).

PANELS

MDF production for the second quarter of 2003 was 58 MMsf versus 62 MMsf for the comparative period last year and shipments were 60 MMsf compared to 67 MMsf in the second quarter of 2002. Production for the first half of the year was 123 MMsf compared to 120 MMsf for the first half of 2002 and shipments were 129 MMsf compared to 130 MMsf for the same period of last year.

Plywood production was 64 MMsf in the second quarter of 2003 compared to 61 MMsf in the second quarter of 2002 and shipments were 70 MMsf compared to 55 MMsf in the second quarter of 2002. Plywood production for the year was 122 MMsf compared to 121 MMsf for 2002 and shipments were 119 MMsf compared to 114 MMsf for 2002.

EBITDA for the quarter was \$4.6 million (10% of sales) compared to \$19.1 million (34% of sales) for the second quarter of 2002. Year-to-date EBITDA was \$13.5 million (14% of sales) compared to \$36.3 million (32% of sales) for the comparative period of 2002. The decrease for the quarter and the first half of the year was primarily due to lower product prices combined with the strengthening Canadian dollar compared to the U.S. dollar and higher natural gas costs.

PULP & PAPER

West Fraser produced 219,261 tonnes of pulp and paper for the quarter compared to 229,196 tonnes for the second quarter of 2002. Production for the first half of the year was 477,239 tonnes compared to 457,892 tonnes for 2002. Shipments for the quarter were 251,427 tonnes in 2003 compared to 229,011 tonnes in 2002. Year-to-date shipments were 512,463 tonnes compared to 443,740 tonnes for the same period of 2002. Production and shipments for the second quarter of 2003 were adversely affected by a strike at the Company's Kitimat linerboard and kraft paper mill that commenced on May 28, 2003. The decrease was partially offset by the increase in production and shipments from the November 2002 acquisition of the additional 50% of Quesnel River Pulp. The Quesnel River Pulp addition was also the primary factor for the year-to-date increase in production and shipments, which occurred despite the loss of production from a maintenance shutdown and subsequent strike at the Kitimat plant.

EBITDA for the quarter was negative \$0.7 million compared to \$12.2 million (11% of sales) for the second quarter of 2002. EBITDA for the first half of the year was \$9.0 million (4% of sales) compared to \$28.6 million (13% of sales) for the first half of 2002. The strike has an impact on monthly operating earnings of approximately \$8 million. Other factors contributing to the second quarter and first half of the year EBITDA decrease were higher natural gas costs and the strengthening Canadian dollar. The decrease was partially offset by increased pulp and paper prices on a quarter and year-to-date basis.

EARNINGS AND REVENUE COMPARISON

Consolidated net sales for the second quarter were \$379.0 million (2002 - \$420.2 million) and for the first half were \$764.4 million (2002 - \$799.6 million).

NET SALES (change from - \$ Millions)

		Quarter Two 2002	
Lumber	Decrease	\$38.7	15%
Panels	Decrease	\$ 9.4	17%
Pulp & Paper	Increase	\$ 6.9	6%
		First Half 2002	
Lumber	Decrease	\$47.7	10%
Panels	Decrease	\$16.1	14%
Pulp & Paper	Increase	\$28.6	13%

EBITDA for the second quarter was zero (2002 - \$116.9 million) and for the first half was \$41.1 million (2002 - \$202.9 million).

EBITDA (change from - \$ Millions)

		Quarter Two 2002	
Lumber	Decrease	\$ 90.4	104%
Panels	Decrease	\$ 14.5	76%
Pulp & Paper	Decrease	\$ 12.9	106%
		First Half 2002	
Lumber	Decrease	\$120.0	85%
Panels	Decrease	\$ 22.8	63%
Pulp & Paper	Decrease	\$ 19.6	69%

The main factors affecting divisional sales and EBITDA changes have been explained previously in this report. The strengthening Canadian dollar and higher natural gas prices negatively impacted earnings of all divisions. The estimated impact on second quarter EBITDA of the strengthening Canadian dollar is a decrease of \$33 million from the second quarter of 2002 and the estimated impact for the first half of 2003 compared to the first half of 2002 is a decrease of \$49 million. Higher natural gas prices reduced EBITDA by an estimated \$3 million from the second quarter of 2002 and by \$9 million from the first half of 2002.

The translation of long-term debt resulted in an exchange gain of \$17.7 million for the quarter and \$33.9 for the year, compared to a quarterly gain of \$23.2 million and a year-to-date gain of \$22.8 million in 2002. Interest decreased for the quarter and the first half of the year due primarily to long-term debt repayments totaling \$16.8 million in 2003 and \$235.7 million in 2002.

Other income for the quarter of \$1.1 million relates primarily to a gain on the sale of real estate. The year-to-date other expense of \$4.1 million is due primarily to a foreign exchange loss on non-operating items and the write-off of costs related to the potential sale of the Company's interest in Alberta Newsprint Company to an income trust, which were partially off-set by a gain on real estate sales.

CAPITAL REQUIREMENTS AND LIQUIDITY

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

Cash provided from operations for the quarter was \$50.6 million compared to \$98.5 million in the second quarter of 2002. Year-to-date cash used in operations was \$2.0 million compared to cash provided from operations of \$47.9 million in 2002. Cash was used for the repayment of long-term debt of \$16.8 million, dividends of \$10.3 million and capital expenditures of \$38.4 million in the first half of 2003. The comparative expenditures for 2002 were \$37.9 million for long-term debt, \$9.3 million for dividends and \$52.8 million for capital expenditures. The cash position at June 30, 2003 was \$122.8 million compared to \$267.9 million at June 30, 2002.

FOREST POLICY CHANGES IN BRITISH COLUMBIA

In March 2003, B.C.'s provincial government introduced the Forestry Revitalization Plan (the "Plan") that provides for significant changes to its forest policy and to the existing allocation of public timber tenures to licensees. As part of the Plan the government intends to significantly change the timber pricing system and to take back 20% of licensees' replaceable timber harvesting rights. The take-back is expected to result in a reduction of approximately 832,000 M³ of the Company's existing allowable annual cut under its replaceable tenures. The government has acknowledged that licensees will be fairly compensated for the return of the tenures and related costs such as roads and bridges. The effect of the Plan on the company's financial position and results of operations cannot be determined at this time.

U.S. TRADE DISPUTE

Reference is made to note 7 to the June 30, 2003 financial statements for background information on the dispute.

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

The following table shows the impact of the current U.S. duties on West Fraser's financial results:

Export Duties (\$ millions)			
	Q1 2003	Q2 2003	First Half 2003
(Accrual) – May 22, 2002 to Jun. 30, 2003	(23.3)	(26.3)	(49.6)
(Accrual) reversal – Jan. 1 to May 21, 2002	—	—	—
Reversal – 2001	—	—	—
Total	\$(23.3)	\$(26.3)	\$(49.6)
	Q1 2002	Q2 2002	First Half 2002
(Accrual) – May 22, 2002 to Jun. 30, 2003	—	(13.9)	(13.9)
(Accrual) reversal – Jan. 1 to May 21, 2002	(3.7)	3.7	—
Reversal – 2001	2.0	23.0	25.0
Total	\$(1.7)	\$12.8	\$11.1

FOREIGN EXCHANGE

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 sensitivity to changes in the U.S.-Canadian dollar exchange rates. During the second quarter of 2003 the U.S. dollar traded between Cdn \$1.33 and Cdn \$1.49 with an average of Cdn \$1.40 (second quarter 2002 – between Cdn \$1.50 and Cdn \$1.60 with an average of Cdn \$1.55). On a year-to-date basis the rates fluctuated between Cdn \$1.34 and Cdn \$1.57 with an average of Cdn \$1.45 (year-to-date 2002 – between Cdn \$1.50 and Cdn \$1.62 with an average of Cdn \$1.57).

<i>(in millions of Canadian dollars – unaudited)</i>	April 1 to June 30		January 1 to June 30	
	2003	2002	2003	2002
EARNINGS				
Net Sales	\$379.0	\$420.2	\$764.4	\$799.6
Costs and expenses				
Cost of products sold	363.9	308.7	690.7	585.9
Amortization of property, plant and equipment	33.0	31.4	71.9	66.3
Selling, general and administrative	15.1	17.6	32.6	35.8
Recovery of prior year export duties	—	(23.0)	—	(25.0)
	412.0	334.7	795.2	663.0
Operating earnings	(33.0)	85.5	(30.8)	136.6
Other				
Interest expense	(3.8)	(9.0)	(8.6)	(18.7)
Exchange gain on long-term debt	17.7	23.2	33.9	22.8
Other income (expense)	1.1	(2.7)	(4.1)	(2.8)
Earnings before income taxes	(18.0)	97.0	(9.6)	137.9
Income tax expense (recovery)	(12.8)	26.0	(15.3)	40.3
Earnings	\$ (5.2)	\$ 71.0	\$ 5.7	\$ 97.6
Earnings per share (note 4)				
Basic	\$ (0.14)	\$ 1.93	\$ 0.15	\$ 2.65
Diluted	\$ (0.14)	\$ 1.91	\$ 0.15	\$ 2.62
RETAINED EARNINGS				
Balance – beginning of period	\$969.9	\$867.4	\$964.2	\$845.6
Earnings	(5.2)	71.0	5.7	97.6
	964.7	938.4	969.9	943.2
Preferred share payment	—	—	—	(0.2)
Common share dividends	(5.1)	(4.7)	(10.3)	(9.3)
Balance – end of period	\$959.6	\$933.7	\$959.6	\$933.7

<i>(in millions of Canadian dollars – unaudited)</i>	April 1 to June 30		January 1 to June 30	
	2003	2002	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Earnings	\$ (5.2)	\$ 71.0	\$ 5.7	\$ 97.6
Items not affecting cash				
Amortization of property, plant and equipment	33.0	31.4	71.9	66.3
Exchange gain on long-term debt	(17.7)	(23.2)	(33.9)	(22.8)
Future income taxes	(3.1)	—	(8.0)	(0.1)
Change in other long-term liabilities	0.4	(23.2)	—	(21.5)
Change in reforestation obligation	(3.8)	(3.9)	9.9	5.1
Other	(0.9)	(0.9)	(0.5)	(1.0)
	2.7	51.2	45.1	123.6
Net change in non-cash working capital items	47.9	47.3	(47.1)	(75.7)
	50.6	98.5	(2.0)	47.9
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	(16.8)	(37.9)	(16.8)	(37.9)
Dividends	(5.1)	(4.7)	(10.3)	(9.3)
Other	—	0.9	0.5	2.1
	(21.9)	(41.7)	(26.6)	(45.1)
CASH FLOWS FROM INVESTING ACTIVITIES				
Property, plant and equipment additions	(20.7)	(31.0)	(38.4)	(52.8)
Proceeds from disposal of property, plant and equipment	5.1	3.4	9.7	3.9
Acquisition <i>(note 2)</i>	(6.2)	—	(6.2)	—
Change in other assets	(2.3)	1.2	(6.6)	(2.9)
	(24.1)	(26.4)	(41.5)	(51.8)
Change in cash from continuing operations	4.6	30.4	(70.1)	(49.0)
Change in cash from discontinued operations	—	20.6	—	46.8
Net cash – beginning of period	118.2	216.9	192.9	270.1
Net cash – end of period	\$122.8	\$267.9	\$122.8	\$267.9
<i>Interest paid</i>	\$ 5.6	\$ 7.4	\$ 12.6	\$ 22.2
<i>Income taxes paid</i>	\$ 9.2	\$ 5.9	\$ 38.5	\$ 52.1

<i>(in millions of Canadian dollars – unaudited)</i>	As at June 30, 2003	As at December 31, 2002
ASSETS		
Current assets		
Cash and short-term investments	\$ 122.8	\$ 192.9
Accounts receivable	199.0	174.0
Inventories	290.4	319.4
Prepaid expenses	27.5	7.0
	639.7	693.3
Other assets		
Property, plant and equipment	93.4	85.2
Deferred charges	1,280.3	1,316.9
	20.0	20.2
	\$2,033.4	\$2,115.6
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 132.4	\$ 163.1
Current portion of reforestation obligation	31.8	29.5
Current portion of long-term debt	13.4	19.7
	177.6	212.3
Long-term debt		
Reforestation obligation	293.3	337.7
Other liabilities	66.7	57.8
Future income taxes	14.4	14.4
	193.7	201.7
	745.7	823.9
SHAREHOLDERS' EQUITY		
Share capital	328.1	327.5
Retained earnings	959.6	964.2
	1,287.7	1,291.7
	\$2,033.4	\$2,115.6

Number of common shares outstanding at June 30, 2003 was 36,848,750

<i>(in millions of Canadian dollars – unaudited)</i>	Lumber	Panels	Pulp & Paper	Corporate & Other	Consolidated
April 1, 2003 to June 30, 2003					
Net sales at market prices					
To external customers	\$212.9	\$46.7	\$119.4		\$379.0
To other segments	7.1				
	<u>\$220.0</u>	<u>\$46.7</u>	<u>\$119.4</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 expense (income)	(0.5)	(0.3)	(1.2)	5.8	3.8
Exchange gain on long-term debt	—	—	—	(17.7)	(17.7)
Other	(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>
April 1, 2002 to June 30, 2002					
Net sales at market prices					
To external customers	\$251.6	\$56.1	\$112.5		\$420.2
To other segments	7.8				
	<u>\$259.4</u>	<u>\$56.1</u>	<u>\$112.5</u>	<u>—</u>	
EBITDA ¹	\$ 86.9	\$19.1	\$ 12.2	\$ (1.3)	\$116.9
Amortization of property, plant and equipment	11.8	5.6	13.7	0.3	31.4
Operating earnings (loss)	75.1	13.5	(1.5)	(1.6)	85.5
Interest expense (income)	5.8	2.3	4.7	(3.8)	9.0
Exchange gain on long-term debt	—	—	—	(23.2)	(23.2)
Other	(0.1)	—	(0.1)	2.9	2.7
Earnings (loss) before income taxes	<u>\$ 69.4</u>	<u>\$11.2</u>	<u>\$ (6.1)</u>	<u>\$ 22.5</u>	<u>\$ 97.0</u>

First Half Segmented Information

<i>(in millions of Canadian dollars – unaudited)</i>	Lumber	Panels	Pulp & Paper	Corporate & Other	Consolidated
January 1, 2003 to June 30, 2003					
Net sales at market prices					
To external customers	\$416.5	\$ 96.9	\$251.0		\$764.4
To other segments	14.1				
	<u>\$430.6</u>	<u>\$ 96.9</u>	<u>\$251.0</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 expense (income)	4.8	1.0	3.3	(0.5)	8.6
Exchange gain on long-term debt	—	—	—	(33.9)	(33.9)
Other	(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>
January 1, 2002 to June 30, 2002					
Net sales at market prices					
To external customers	\$464.2	\$113.0	\$222.4		\$799.6
To other segments	15.5				
	<u>\$479.7</u>	<u>\$113.0</u>	<u>\$222.4</u>	<u>—</u>	
EBITDA ¹	\$141.2	\$ 36.3	\$ 28.6	\$ (3.2)	\$202.9
Amortization of property, plant and equipment	26.2	12.0	27.4	0.7	66.3
Operating earnings (loss)	115.0	24.3	1.2	(3.9)	136.6
Interest expense (income)	9.9	4.0	8.9	(4.1)	18.7
Exchange gain on long-term debt	—	—	—	(22.8)	(22.8)
Other	—	—	(0.1)	2.9	2.8
Earnings (loss) before income taxes	<u>\$105.1</u>	<u>\$ 20.3</u>	<u>\$ (7.6)</u>	<u>\$20.1</u>	<u>\$137.9</u>

¹EBITDA is defined as operating earnings plus amortization

January 1 to June 30, 2003 and 2002

(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, 2002.

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

2. ACQUISITION

Effective May 30, 2003, the company acquired timber rights and a non-operating sawmill in Smithers, British Columbia. 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	\$ 7,408
Reforestation obligation assumed	(1,250)
Cash consideration	\$ 6,158

3. SHARE CAPITAL

The following table summarizes the number of common shares issued during the period:

	April 1 to June 30		January 1 to June 30	
	2003	2002	2003	2002
Pursuant to 10% stock dividend	—	—	3,349,542	3,038,698
Pursuant to cash payments	3,525	28,611	15,979	73,245
Total issued	3,525	28,611	3,365,521	3,111,943

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 as if the shares had been outstanding from the beginning of the periods presented.

	April 1 to June 30		January 1 to June 30	
	2003	2002	2003	2002
Earnings				
Preferred share payments	—	—	—	(0.2)
Available to shareholders	\$ (5.2)	\$71.0	\$ 5.7	\$97.6
Weighted average shares (thousands)				
Weighted average shares – basic	36,847	36,811	36,846	36,785
Share options – treasury stock method	271	455	331	414
Weighted average shares – diluted	37,118	37,266	37,177	37,199
Earnings per share (dollars)				
Basic earnings per share	\$(0.14)	\$1.93	\$0.15	\$2.65
Diluted earnings per share	\$(0.14)	\$1.91	\$0.15	\$2.62

5. STOCK-BASED COMPENSATION

The company has a fixed share option plan for its directors, officers and employees, under which it may grant up to 3,520,000 share options. No expense is recognized for share options granted under this plan. The following table summarizes information about share options granted subsequent to December 31, 2001:

Year	Number of Options Granted	Exercise Price (Dollars)	Fair Value
2002	284,350	\$33.471	\$4.7
2003	336,050	\$33.409	\$4.6

Had compensation expense for the above share options been determined based on the fair value at the grant date, consistent with the fair value based method of accounting for stock-based compensation, the company's earnings would have been reduced as follows:

	April 1 to June 30		January 1 to June 30	
	2003	2002	2003	2002
Effect on earnings	\$0.4	\$0.1	\$0.8	\$0.3

The company has not calculated the fair value of share options granted before January 1, 2002.

6. THE FORESTRY REVITALIZATION PLAN

In March 2003, the Government of B.C. ("Crown") introduced 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 Plan states that approximately half of this volume will be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half will be available for public auction. 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 expected to result in 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 at the time the amounts to be recorded are estimable.

7. CONTINGENT LIABILITY

On April 25, 2002, the U.S. Department of Commerce ("USDOC") issued its final determination in the countervailing and antidumping investigations. The USDOC's final determination in the countervailing investigation resulted in a 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.

The company has incurred countervailing and antidumping duties, accounted for as a reduction of sales, as follows:

	April 1 to June 30		January 1 to June 30	
	2003	2002	2003	2002
Countervailing and antidumping duties	\$26.3	\$13.9	\$49.6	\$13.9

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 anti-dumping duties will not be determined until each annual administrative review process is complete.

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

		April 1 to June 30		January 1 to June 30	
		2003	2002	2003	2002
Lumber	Production (Mfbm)	655,836	614,078	1,305,317	1,145,899
	Shipments (Mfbm)	689,520	568,242	1,261,239	1,046,172
Panels					
MDF	Production (Msf – 3/4")	58,045	62,187	123,244	119,726
	Shipments (Msf – 3/4")	60,274	66,934	129,457	129,881
Plywood	Production (Msf – 3/8")	63,881	61,034	122,124	121,207
	Shipments (Msf – 3/8")	69,559	54,823	119,236	113,570
Pulp & Paper (tonnes)					
Linerboard and Kraft paper	Production	56,730	105,159	156,302	208,248
	Shipments	78,849	98,411	187,462	187,012
Pulp	Production	128,522	92,357	258,433	186,924
	Shipments	138,814	96,753	263,302	192,049
Newsprint	Production	34,009	31,680	62,504	62,720
	Shipments	33,764	33,847	61,699	64,679

Quarterly Comparisons

January 1 to December 31

(in millions of Canadian dollars – unaudited)

	2003	2002
Sales		
First	\$385.4	\$ 379.4
Second	379.0	420.2
Third		427.8
Fourth		404.8
		\$1,632.2
Earnings		
First	\$ 10.9	\$ 26.6
Second	(5.2)	71.0
Third		4.3
Fourth		27.1
		\$ 129.0
Diluted Earnings Per Share (in dollars)		
First	\$ 0.29	\$ 0.71
Second	\$(0.14)	\$ 1.90
Third		\$ 0.12
Fourth		\$ 0.74
Annual		\$ 3.47



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West Fraser is an integrated forest products company with manufacturing operations in British Columbia, Alberta and the southern United States producing lumber, wood chips, MDF, plywood, pulp, linerboard, kraft paper and newsprint.