Matters Affecting Comparisons

This MD&A includes certain comparisons of the annual results as at December 31, 2007 to the annual results as at December 31, 2006 and 2005, and the results from the fourth quarter of 2007 to those of the prior quarter and same quarter of 2006. The following material developments should be taken into consideration when considering these comparisons.

U.S. Acquisition

On March 31, 2007, the Company acquired 13 sawmills in the southern United States (the "U.S. Acquisition"). West Fraser's second, third and fourth quarter 2007 results include the results of those operations but they are not reflected in earlier reporting periods.

Lumber Export Tax

The Softwood Lumber Agreement (the "SLA 2006") came into force on October 12, 2006. Since the implementation of the SLA 2006, shipments to the United States from British Columbia and Alberta have been subject to a 15% export tax. Up to October 12, 2006, West Fraser's shipments of lumber to the United States were subject to countervailing and antidumping duties.

1. This discussion and analysis by West Fraser's management ("MD&A") should be read in conjunction with the 2007 annual audited consolidated financial statements and accompanying notes. Dollar amounts are expressed in Canadian currency, unless otherwise indicated. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

   This MD&A contains historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results. The latter, which are forward-looking statements, are presented to provide reasonable guidance to the reader but their accuracy depends on a number of assumptions and is subject to various risks and uncertainties. Actual outcomes and results will depend on a number of factors that could affect the ability of the Company to execute its business plans, including those matters described under "Risks and Uncertainties", and may differ materially from those anticipated or projected. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances.

   Throughout this MD&A, reference is made to EBITDA (defined as operating earnings plus amortization and restructuring charge). Management of the Company believes that, in addition to earnings, EBITDA is a useful performance indicator and is a useful complementary measure of cash available prior to debt service, capital expenditures and income taxes. However, EBITDA is not a generally accepted earnings measure under Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by Canadian GAAP. Investors are cautioned that EBITDA should not be considered as an alternative to earnings or cash flow as determined in accordance with Canadian GAAP as an indicator of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. As there is no standardized method of calculating EBITDA, the Company's method of calculating EBITDA may differ from the methods used by other entities and, accordingly, the Company's use of that term may not be directly comparable to similarly titled measures used by other entities.

   The information in this MD&A is as at February 20, 2008, unless otherwise indicated.

Annual Results

Revenue and Earnings Comparison ($ millions, except as stated) **Table A**

Year ended December 31	**2007**	2006	2005
Sales by segment			
Lumber	**1,802**	1,756	2,021
Panels	**475**	475	511
Pulp & Paper	**1,039**	1,095	1,045
Total	**3,316**	3,326	3,577
EBITDA	**103**	682	447
Amortization	**(265)**	(252)	(255)
Restructuring charge	**—**	(38)	—
Operating earnings (loss)	**(162)**	392	192
Operating earnings (loss) by segment			
Lumber	**(204)**	400	206
Panels	**18**	13	27
Pulp & Paper	**7**	(6)	(30)
Corporate & Other	**17**	(15)	(11)
Total	**(162)**	392	192
Less certain unusual items:			
Duty refund	**—**	(387)	—
Restructuring charge	**—**	38	—
Adjusted operating earnings (loss)[1]	**(162)**	43	192
Earnings (loss)	**(34)**	398	108
Basic EPS[2] **— $**	**(0.80)**	9.31	2.52
Diluted EPS[2] **— $**	**(0.80)**	9.23	2.49
Cash dividends per share — $	**0.56**	0.56	0.56
Total assets	**3,566**	4,026	3,634
Long-term debt	**547**	624	628
Cdn $1.00 converted to U.S. — average	**0.930**	0.882	0.825

1. Adjusted operating earnings refers to total operating earnings less certain unusual items. Adjusted operating earnings is not a generally accepted earnings measure and should not be considered as an alternative to operating earnings as determined in accordance with Canadian GAAP. The Company's use of this term may not be directly comparable with similarly titled measures used by other companies.
2. Earnings per share ("EPS").

In 2007, adjusted operating earnings declined by $205 million from 2006 largely due to lower lumber prices and the increased size of West Fraser's lumber business in the United States, which was unprofitable as a result of weak lumber markets. The stronger Canadian dollar and export taxes for the full year on shipments of Canadian lumber to the United States also significantly reduced earnings.

Adjusted operating earnings declined by $354 million from the 2005 adjusted operating earnings mostly due to the significant reduction in lumber prices, the stronger Canadian dollar and the increased losses from the expanded U.S. lumber business.

Net interest expense declined to $30 million in 2007 compared to $38 million in 2006 due to interest earned in 2007 following the receipt of duty refunds. Net interest expense in 2005 of $48 million reflected increased debt levels and the expensing of some deferred financing charges related to the acquisition of Weldwood of Canada Limited ("Weldwood").

The change in value of the Canadian dollar relative to the U.S. dollar during 2007 resulted in an exchange gain of $52 million on U.S. denominated long-term debt compared to a loss of less than $1 million in 2006 and a gain of $14 million in 2005. The translation of other foreign currency denominated items, including U.S. operations until March 31, 2007 when they became self-sustaining, is included in other income (expense). For 2007, these items resulted in a $30 million translation loss compared to a $12 million translation gain in 2006 and a $15 million translation loss in 2005.

In 2007 the following significant one-time item was included in earnings:

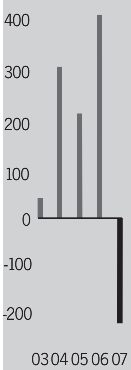
— A gain of $10 million resulting from the termination of certain pulp supply contracts in connection with the U.S. Acquisition is included in other income.

In 2006 the following significant one-time items were included in earnings:

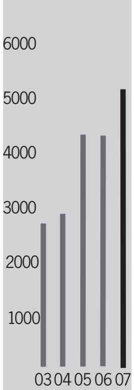
— A restructuring of operations at the Hinton pulp mill resulted in a charge of $38 million.
— The SLA 2006 resulted in West Fraser recording duty refund income of $387 million and interest income of $50 million.
— The sale of a power purchase agreement resulted in a gain of $62 million.
— The sale of West Fraser's interest in the Burns Lake and Decker Lake sawmills and the related timber harvesting rights resulted in a gain of $22 million.
— The receipt of compensation for timber harvesting rights expropriated by the Province of British Columbia under the government's Forestry Revitalization Plan resulted in a gain of $14 million.

The 2007 and 2006 effective tax rate applicable to the Company was different than the statutory rate because of reductions in 2007 and 2006 in federal tax rates and the reduction in 2006 in the Alberta tax rate. The 2007 provision for income tax was a recovery of $110 million compared to a 2006 expense of $124 million and a 2005 expense of $42 million. Note 23 to the accompanying consolidated financial statements provides a reconciliation of the statutory income tax rate to the effective income tax rate.

Operating Earnings
($ millions)



Production
(MMfbm)



Annual Results by Product Segment

Lumber Segment

Table B

	2007	2006
Production – MMfbm		
SPF	**3,530**	3,797
SYP	**1,516**	389
Shipments – MMfbm		
SPF	**3,546**	3,889
SYP	**1,599**	386
Wood chip production		
SPF (MODTs)	**1,812**	1,908
SYP (M green tons)	**2,255**	437
Sales — $ millions	**1,802**	1,756
EBITDA — $ millions	**(82)**	518
EBITDA margin — %	**n/a**	28
Operating earnings (loss) — $ millions	**(204)**	400
Less duty refund — $ millions	**—**	(387)
Adjusted operating earnings (loss)[1] — $ millions	**(204)**	13
Capital expenditures — $ millions	**52**	123
Benchmark prices (US $ per Mfbm) — SPF #2 & Better 2 x 4[2]	**250**	296
— SYP #2 West 2 x 4[3]	**279**	330

1. Adjusted operating earnings refers to total operating earnings less certain unusual items. Adjusted operating earnings is not a generally accepted earnings measure and should not be considered as an alternative to operating earnings as determined in accordance with Canadian GAAP. The Company's use of this term may not be directly comparable with similarly titled measures used by other companies.
2. Source: Random Lengths – 2 x 4, #2 & Better – Net FOB mill.
3. Source: Random Lengths – 2 x 4 – Net FOB mill Westside.

Adjusted operating earnings declined by $217 million from 2006, reflecting lower U.S. dollar lumber prices and the rapid strengthening of the Canadian dollar. The U.S. Acquisition increased West Fraser's exposure to the lumber business which contributed to the poor results. In addition, the Canadian lumber operations incurred export taxes which were $67 million higher in 2007 than 2006 due to the SLA 2006 coming into force October 12, 2006.

Production of SPF lumber decreased by 267 MMfbm from 2006 levels, reflecting the sale of the Burns Lake and Decker Lake sawmills in October, 2006 and production curtailments implemented during 2007. The new sawmill in Quesnel commenced operations towards the end of 2006 and in January 2007 began operating on a three-shift basis. The mill had not reached its full annual design capacity of 600 MMfbm by year-end. However, continued improvement is expected in 2008. Production of SYP increased by 1,127 MMfbm in 2007, reflecting production from the acquired U.S. sawmills.

Capital expenditures for the year were $52 million compared to $123 million for 2006. Major 2007 projects included expanding planer capacity for the Quesnel sawmill, establishing energy systems to reduce natural gas consumption and various productivity improvement projects.

2008 is expected to be a challenging year for West Fraser's lumber operations. The combination of low prices, a strong Canadian dollar, an export tax and high prevailing log prices both in Canada and the southern United States will make profitability difficult to achieve.

In reaction to poor lumber markets, West Fraser has temporarily curtailed shifts at a number of operations. These curtailments represent in total, as at February 20, 2008, approximately 425 MMfbm of Canadian production on an annualized basis. In addition, the Company has announced additional curtailments to be implemented in certain sawmills in the U.S. operations totaling approximately 350 MMfbm on an annualized basis.

U.S. Acquisition

The U.S. Acquisition was completed on March 31, 2007. The purchase price after taking into account transaction expenses and the termination of two long-term pulp supply contracts was $391 million. The transaction included the assignment of multi-year market-price log supply agreements which are expected to provide, in aggregate, approximately 15% of the acquired mills' current log requirements. West Fraser also entered into agreements to sell residual wood chips at market prices. The transaction resulted in the termination of two pulp supply contracts for 170,000 tonnes per year, which had been entered into as part of West Fraser's 2004 acquisition of Weldwood.

Financing and Synergies

The U.S. Acquisition was financed with cash on hand, utilizing available lines of credit and a $100 million term loan which is payable on March 31, 2010 or earlier at the Company's option.

Upon acquisition, West Fraser established US $23 million in annual pre-tax synergies as a target to be realized by the end of the third year after the completion of the acquisition. On a run-rate basis the Company estimates that the synergy target was reached by the end of 2007 through the implementation of best practices and by centralizing U.S. sales and administrative offices.

Stumpage

In 2006, B.C. changed its stumpage formula from a product-price calculation to one substantially based on the results of certain publicly-auctioned timber harvesting rights. Since this system is updated annually, based on historic timber auction data, the full effect of the current unprecedented lumber market downturn is not fully factored into current stumpage prices. Stumpage in Alberta is product-price specific and varies with the sales price of the product into which the logs will be converted.

Mountain Pine Beetle

In the B.C. Interior ("Interior") the mountain pine beetle ("MPB") infestation has been spreading since 1994. The most current information indicates that approximately 40% of the mature lodgepole pine in the provincial timber harvesting land base has been affected. The Ministry of Forests estimates that by 2015 about 80% of all of the lodgepole pine in the Interior will have been killed by the beetle. Although most of the Interior areas of the province are now affected, the Quesnel, Prince George, Williams Lake, 100 Mile House, Lakes and Morice Timber Supply Areas ("TSA") continue to be the most heavily impacted by the MPB. These are all areas in which West Fraser has operations. The Dawson Creek TSA, where the Company also operates, currently has a moderate level of infestation.

The Province of British Columbia has increased the AAC of timber tenures by approximately 17 million m^3 in the northern and central areas of B.C. from pre-infestation levels. West Fraser estimates that approximately 85% of the timber currently supplied to its B.C. Interior operations is from beetle-affected stands.

As lodgepole pine accounts for approximately 40% of the volume of merchantable timber in the B.C. Interior, it is inevitable that harvest levels will be reduced. However, the long-term effect of the MPB infestation on West Fraser's operations is not clear. Preliminary analyses by the province indicate that the AAC in the B.C. Interior may be reduced by 20% to 25% below pre-beetle AAC levels beyond 2015 or by as much as 50% from current elevated harvest levels. It is also expected that the grade and volume of lumber that can be recovered from the beetle-affected logs will continue to diminish with time. However, the timing and extent of these reductions on West Fraser's timber supply, and the effect on lumber recovery and grade depends on a variety of factors and cannot be reasonably determined at this time.

The Alberta government and industry participants continue to aggressively address the MPB epidemic in that province. All of the Company's Alberta lumber operations continue to focus harvest activities in susceptible pine stands.

Lumber Export Tax

The SLA 2006 came into force on October 12, 2006. Under the SLA 2006, each Canadian province that is subject to its provisions was required to choose between two export tax options with respect to lumber shipments to the United States. One option would require companies to pay to the Canadian government an export tax on the selling price of lumber. The rate would vary depending on a reference lumber price. The second option would require companies to pay a lower variable export tax and accept a quota on total shipments. British Columbia and Alberta chose the tax-only option, which results in West Fraser's Canadian lumber exports to the United States being subject to the following taxes:

Lumber Export Tax Rates **Table C**

Prevailing price[1]	Export Tax (%)
Over US $355	Nil
US $336 — $355	5
US $316 — $335	10
US $315 or under	15

1. Based on Random Lengths Framing Lumber Composite Price (the "Reference Price").

If monthly shipments from specified regions in B.C. or from Alberta, as export tax only regions, exceed a certain trigger volume as defined in the SLA 2006, the applicable export tax rate for that month will be increased 50%. Since the implementation of the SLA 2006, shipments to the United States from British Columbia and Alberta have been subject to a 15% export tax.

Panels Segment **Table D**

	2007	2006
Plywood		
Production – MMsf – 3/8" basis	**768**	728
Shipments – MMsf – 3/8" basis	**748**	721
MDF		
Production – MMsf – 3/4" basis	**276**	288
Shipments – MMsf – 3/4" basis	**284**	281
LVL		
Production – Mcf	**2,291**	3,000
Shipments – Mcf	**2,179**	2,710
Sales — $ millions	**475**	475
EBITDA — $ millions	**59**	53
EBITDA margin — %	**12**	11
Operating earnings — $ millions	**18**	13
Capital expenditures — $ millions	**8**	20
Benchmark price — Plywood (per Msf 3/8" basis)[1] Cdn $	**376**	366
— MDF (per Msf 3/4" basis)[2] US $	**461**	445

1. Source: Crow's Market Report – Delivered Toronto.
2. Source: Resource Information Systems, Inc. – MDF Western U.S. – Net FOB mill.

Operating earnings were $18 million for the year compared to $13 million for 2006 reflecting improved plywood earnings partially offset by lower earnings from MDF and LVL operations which were adversely affected by the decline in U.S. housing starts.

Plywood

Production and shipments were up from 2006, reflecting increased productivity after an upgrade of one of the mills and improved operating efficiency at all mills.

In 2007, plywood prices increased reflecting strong demand in Canada. While West Fraser's plywood sales and operations have benefited from strong Canadian housing activity, there is a concern that the slowdown in the U.S. could affect Canadian plywood demand and prices in 2008.

MDF

Although the U.S. dollar benchmark sales price was higher on average in 2007 than in 2006, the stronger Canadian dollar lowered mill nets achieved. Manufacturing costs increased in 2007 from 2006 reflecting increased resin prices.

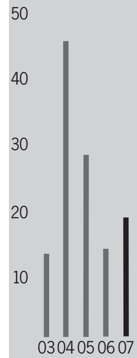
In response to the reduced North American demand for MDF, on December 31, 2007 West Fraser reduced production by approximately 30% from one of its plants. Improvement in pricing and demand is expected to occur when the U.S. housing market recovers.

LVL

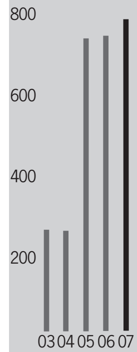
Both production and shipments were down substantially in 2007 from 2006, due to production curtailments taken in response to the reduced demand for housing related building components such as LVL.

Sales volumes and prices are not expected to increase until the U.S. housing market improves.

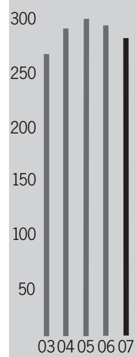
Operating Earnings
($ millions)



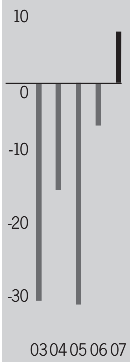
Production: Plywood
(MMsf)



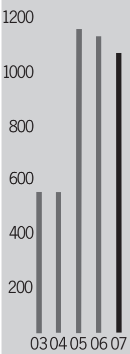
Production: MDF
(MMsf)



Operating Earnings
($ millions)



Production: Pulp
(Mtonnes)



Pulp & Paper Segment		**Table E**
	2007	2006
Sales — $ millions	**1,038**	1,095
EBITDA — $ millions	**106**	123
EBITDA margin — %	**10**	11
Operating earnings (loss) — $ millions	**7**	(6)
Less restructuring charge — $ millions	**—**	38
Adjusted operating earnings[1] — $ millions	**7**	32
Capital expenditures — $ millions	**45**	67

1. Adjusted operating earnings refers to total operating earnings less certain unusual items. Adjusted operating earnings is not a generally accepted earnings measure and should not be considered as an alternative to operating earnings as determined in accordance with Canadian GAAP. The Company's use of this term may not be directly comparable with similarly titled measures used by other companies.

In 2007, adjusted operating earnings declined by $25 million from 2006. The reduction was due primarily to production problems at the Kitimat mill early in the year and unplanned downtime at the Kitimat mill after a failure of an effluent line. In addition, the Hinton mill had reduced production following the closure of the #1 pulp machine and the upgrade of the #2 pulp machine, which was completed during the second quarter.

Capital spending in the pulp & paper segment totalled $45 million in the year (2006 — $67 million). The upgrade of the pulp machine at Hinton and various projects at the QRP mill were the key projects completed in 2007.

Pulp[1]		**Table F**
	2007	2006
Production – NBSK – Mtonnes	**466**	543
Shipments – NBSK – Mtonnes	**448**	565
Production – BCTMP – Mtonnes	**577**	561
Shipments – BCTMP – Mtonnes	**585**	572
Benchmark price – NBSK (per tonne)[2] US $	**824**	721

1. For Cariboo Pulp & Paper Company, includes West Fraser's share.
2. Source: Resource Information Systems, Inc. – U.S. list price delivered U.S.

The combined production at the two NBSK mills was approximately 14% lower in 2007 than in 2006, due to the closure of the #1 pulp machine at the Hinton mill. The upgrade to the #2 pulp machine was completed in the second quarter, with production increasing to near target levels by the end of the year. The #1 pulp machine ran intermittently in the first half of the year. The annual capacity of the Hinton mill was reduced from 420,000 tonnes to its current level of 350,000 tonnes as a result of the restructuring.

The BCTMP mills achieved record production in 2007 due mainly to productivity improvements at the QRP mill completed in 2007. Production for the year at the Slave Lake mill was near the 2006 record level.

NBSK production costs were higher in 2007 compared to 2006 mainly as a result of the start-up of the upgraded pulp machine at the Hinton mill and higher fibre costs at both mills. Fibre costs were approximately 17% higher in 2007 than 2006 as the price of residual chips increased to reflect higher pulp prices in 2007. In addition, the Hinton mill consumed a volume of whole log chips to offset a decline in residual chip supply. Production costs at the BCTMP mills were well controlled during the year, although fibre costs increased in 2007.

North American NBSK pulp prices expressed in U.S. dollars increased by 14% in 2007 from 2006 due to strong market fundamentals. The stronger Canadian dollar offset approximately half of the price increase. Demand for both softwood and hardwood BCTMP also strengthened throughout the year, resulting in higher prices. West Fraser expects that markets for both NBSK and BCTMP will remain stable throughout 2008.

Linerboard and Kraft Paper **Table G**

	2007	2006
Production – Mtonnes	**427**	459
Shipments – Mtonnes	**420**	467
Benchmark price – Linerboard (per tonne)[1] US $	**586**	554

1. Source: Pulp & Paper Week – Unbleached linerboard kraft, East.

2007 production at the linerboard and kraft paper mill at Kitimat was lower than 2006. In the first quarter of 2007, during the start-up of the turbo-generator, the mill experienced a variety of production upsets that resulted in lower production. Late in the second quarter, a failure of the effluent pipe resulted in approximately 12 days of unplanned downtime while repairs to the pipe were made. These unexpected production issues were significant set-backs to the improved productivity established over the last three years. Apart from these unrelated issues, the mill operated efficiently in 2007.

Production costs rose significantly from the prior year as a result of increased fibre costs and higher maintenance and other costs associated with the production difficulties.

Although the average U.S. dollar benchmark price for linerboard increased approximately 6% in 2007 compared to 2006, the strengthening of the Canadian dollar largely offset the increase. Canadian dollar prices for kraft paper increased approximately 15% in 2007 compared to 2006, resulting in improved mill nets. Markets for both linerboard and kraft paper were strong in 2007 and West Fraser expects that there will be continued strength in these markets in 2008.

Newsprint (West Fraser's share) **Table H**

	2007	2006
Production – Mtonnes	**125**	125
Shipments – Mtonnes	**123**	123
Benchmark price – (per tonne)[1] US $	**585**	655

1. Source: Resource Information Systems, Inc. – delivered 48.8 gram newsprint.

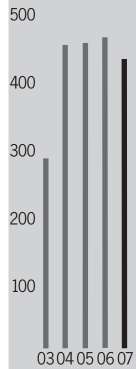
Newsprint demand continued to decline in 2007. Consumption by U.S. daily newspapers fell by approximately 11% from 2006 and overall demand in North America declined by a similar proportion resulting in lower prices.

Near the end of 2007 prices started to move higher as production curtailments took effect. With further capacity reductions anticipated, it is expected that newsprint prices will increase.

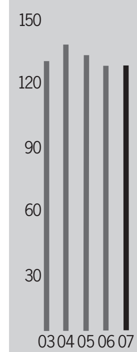
Corporate and Other Segment

The operating earnings improvement from corporate and other is primarily due to a reduction in incentive compensation in 2007 compared to 2006 and a 2007 share option recovery of $7 million compared to a recovery of $1 million in 2006.

Linerboard & Kraft Paper
(Mtonnes)



Production: Newsprint
(Mtonnes)



4th Quarter Results

Table I

	Q4 – 2007	Q3 – 2007	Q4 – 2006
Production			
Lumber – MMfbm			
SPF	**844**	881	821
SYP	**433**	500	89
	1,277	1,381	910
Plywood – MMsf (3/8" basis)	**192**	193	172
MDF – MMsf (3/4" basis)	**71**	68	67
LVL – Mcf	**392**	520	655
BCTMP – Mtonnes	**147**	148	138
NBSK – Mtonnes	**130**	120	141
Linerboard and Kraft Paper – Mtonnes	**123**	110	117
Newsprint – Mtonnes	**32**	31	31
Shipments			
Lumber – MMfbm			
SPF	**873**	836	912
SYP	**456**	511	88
	1,329	1,347	1,000
Plywood – MMsf (3/8" basis)	**179**	185	163
MDF – MMsf (3/4" basis)	**69**	63	55
LVL – Mcf	**404**	507	526
BCTMP – Mtonnes	**145**	132	108
NBSK – Mtonnes	**125**	107	136
Linerboard and Kraft Paper – Mtonnes	**123**	90	114
Newsprint – Mtonnes	**31**	31	29
Sales — $ millions			
Lumber	**402**	481	358
Panels	**110**	113	102
Pulp & Paper	**270**	233	267
Total	**782**	827	727
Operating earnings (loss) — $ millions			
Lumber	**(79)**	(60)	354
Panels	**2**	9	(5)
Pulp & Paper	**11**	1	19
Corporate & Other	**2**	10	(10)
Total	**(64)**	(40)	358
Less duty refund	**—**	—	(387)
Adjusted operating loss[1]	**(64)**	(40)	(29)

Table I (continued)

	Q4 – 2007	Q3 – 2007	Q4 – 2006
EBITDA — $ millions	**7**	27	427
Amortization — $ millions	**(71)**	(67)	(69)
Operating earnings (loss) — $ millions	**(64)**	(40)	358
Interest income (expense) — $ millions	**(9)**	(8)	43
Exchange gain (loss) on long-term debt — $ millions	**1**	21	(14)
Other income (expense) — $ millions	**2**	(3)	46
Recovery of (provision for) income taxes — $ millions	**67**	18	(137)
Earnings (loss)	**(3)**	(12)	296
Cdn. $1.00 converted to U.S. – average	**1.019**	0.957	0.878

1. Adjusted operating earnings refers to total operating earnings less certain unusual items. Adjusted operating earnings is not a generally accepted earnings measure and should not be considered as an alternative to operating earnings as determined in accordance with Canadian GAAP. The Company's use of this term may not be directly comparable with similarly titled measures used by other companies.

Table J shows selected average benchmark prices during the fourth quarter of 2007 compared to the previous quarter and the fourth quarter of 2006 for products of the type produced by West Fraser, although these prices do not necessarily reflect the prices obtained by it.

Average Benchmark Prices (in US $, except plywood) **Table J**

	Q4 – 2007	Q3 – 2007	Q4 – 2006
SPF 2 x 4 random length (per Mfbm)[1]	**230**	260	245
SYP #2 West 2 x 4 (per Mfbm)[2]	**289**	280	267
Plywood (per Msf 3/8" basis)[3] Cdn $	**376**	394	367
MDF (per Msf 3/4" basis)[4]	**465**	464	462
Newsprint (per tonne)[5]	**569**	572	654
NBSK (per tonne)[6]	**858**	837	770
Linerboard (per tonne)[7]	**612**	597	568

Sources:
1. Random Lengths – 2 x 4, #2 & Better – Net FOB mill.
2. Random Lengths – 2 x 4 – Net FOB mill Westside.
3. Crow's Market Report – Delivered Toronto.
4. Resource Information Systems, Inc. – MDF western U.S. – Net FOB mill.
5. Resource Information Systems, Inc. – U.S. delivered 48.8 gram newsprint.
6. Resource Information Systems, Inc. – U.S. list price, delivered U.S.
7. Pulp & Paper Week – Unbleached linerboard kraft, East.

Selected Quarterly Information ($ millions, except EPS amounts which are in $) **Table K**

	Q4-07	**Q3-07**	**Q2-07**	**Q1-07**	Q4-06	Q3-06	Q2-06	Q1-06
Sales	**782**	**827**	**948**	**759**	727	809	888	902
Earnings	**(3)**	**(12)**	**(14)**	**(5)**	296	(8)	104	6
Basic EPS	**(0.07)**	**(0.28)**	**(0.33)**	**(0.12)**	6.93	(0.19)	2.43	0.14
Diluted EPS	**(0.07)**	**(0.28)**	**(0.33)**	**(0.12)**	6.87	(0.19)	2.41	0.14

The adjusted operating loss for the fourth quarter of 2007 was $64 million compared to $40 million for the previous quarter and $29 million for the corresponding quarter of 2006. Lower lumber prices and the stronger Canadian dollar were the main reasons for this increased operating loss.

Interest expense for the quarter was $9 million compared to $8 million for the previous quarter and $7 million, excluding softwood duty lumber refund interest of $50 million, for the fourth quarter of 2006.

The change in value of the U.S. dollar relative to the Canadian dollar in the quarter resulted in an exchange gain of $1 million on the Company's U.S. denominated long-term debt compared to an exchange gain of $21 million in the previous quarter and an exchange loss of $14 million for the fourth quarter of 2006. Other income was $2 million for the quarter, arising mostly from gains on asset sales. Other expense of $3 million in the previous quarter included a $10 million loss on the translation of U.S. denominated receivables, a $4 million gain on asset sales and various other items. Other income of $46 million for the fourth quarter of 2006 included a $19 million gain on the translation of U.S. dollar denominated trade receivables and the translation of U.S. operations and a $22 million gain on the sale of the Burns Lake and Decker Lake sawmills.

The effective tax rate applicable to the Company for the fourth quarter of 2007 was different than the statutory rate primarily due to reductions in federal tax rates that were substantively enacted in the quarter.

The lower price of lumber and the stronger Canadian dollar were the main contributors to the increased operating loss for the lumber segment from the previous quarter and the same quarter last year. Although, the SYP benchmark price was higher for the current quarter, actual mill nets realized by the Company's U.S. operations were down from the previous quarter as a result of lower prices for wider dimension lumber. Production from the U.S. operations declined from the prior quarter due largely to fewer operating days in the fourth quarter.

Operating earnings of the panel segment were $2 million for the quarter. This represents a decrease of $7 million from the previous quarter and an increase of $7 million from the same quarter of last year. The decrease from the previous quarter is due to a decline in plywood prices and lower MDF mill net realizations as a result of increased overseas exports. The higher operating earnings, when compared to the same quarter last year, is due to a combination of higher plywood prices and higher plywood production and shipments in the fourth quarter of 2007.

Operating earnings for the pulp & paper segment were $10 million higher than in the previous quarter due to improved mill operations, higher pulp shipments and pulp prices partially offset by the stronger Canadian dollar. Operating earnings declined $8 million over the same period of 2006 due to lower mill net realizations resulting from the stronger Canadian dollar, and higher fibre costs.

Significant Management Judgments Affecting Financial Results

The preparation of financial statements requires management to make estimates and assumptions, and to select accounting policies that affect the amounts reported in the financial statements. The significant accounting policies followed by West Fraser are disclosed in Note 1 to its audited consolidated financial statements. The following items are the judgments considered most significant.

Asset Valuation

West Fraser believes that the frequency of technological changes in its manufacturing processes should be reflected in its choice of amortization periods. Accordingly, West Fraser amortizes its manufacturing equipment and machinery over periods ranging from 10 to 20 years, with sawmill machinery and equipment averaging 10 to 15 years. Timber rights are amortized over periods of up to 60 years. In addition to the appropriateness of the amortization periods, West Fraser periodically reviews estimated future cash flows from its assets as part of its consideration of whether the carrying values are appropriate.

Reforestation Obligation and Other Asset Retirement Obligations

West Fraser's Canadian operations are required by provincial regulations to carry out reforestation to ensure re-establishment of the forest after harvesting. Reforested areas must be tended for a period sufficient to ensure that they are well-established. The time to meet regulatory requirements depends on a variety of factors. In West Fraser's operating areas, the time usually spans 12 to 15 years. The estimated total cost of reforestation is accrued as harvesting takes place. These estimates are reviewed by the Company at least annually, and adjusted if appropriate. West Fraser records the estimated fair value of a liability for other asset retirement obligations, such as landfill closures, in the period when a reasonable estimate of fair value can be made.

Defined Benefit Plan Assumptions

West Fraser maintains defined benefit pension plans for many of its employees. The provision of future funding requirements and the expense for accounting purposes for such plans depends on assumptions made by the Company, as well as on actual returns experienced on the pension fund assets. The Company makes assumptions it believes to be conservative over the long term.

Defined Benefit Pension Plan Obligation Assumptions **Table L**

	2007	2006
Discount rate	**5.75%**	5.25%
Expected rate of return on plan assets	**7.00%**	7.00%
Rate of increase in future compensation	**3.50%**	3.25%

Changes in Accounting

Foreign Currency Translation

The Company has determined that its foreign operations became self-sustaining upon the acquisition of 13 sawmills in the United States. Accordingly, on March 31, 2007 the Company changed its translation method from the temporal method to the current rate method.

The result of this change was an adjustment of $18 million to accumulated other comprehensive loss included in shareholders' equity as at March 31, 2007. Subsequent unrealized gains or losses on the translation of foreign operations are included in other comprehensive earnings from the date of the change.

Financial Instruments

Effective January 1, 2007, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (the "CICA") for financial instruments, hedges and comprehensive earnings. These standards require the Company to account for derivatives and financial assets held for trading or available for sale at fair value. Loans, receivables and investments held to maturity are measured at amortized cost using the effective interest rate method. Other financial liabilities are measured at fair value or at amortized cost using the effective interest rate method.

Revenues, expenses, gains and losses on financial assets are included in other comprehensive earnings to the extent that they are not required to be included in earnings. Gains and losses on the translation of self-sustaining foreign operations are included in other comprehensive earnings. Comprehensive earnings are the sum of earnings for the period plus other comprehensive earnings.

The adoption of these standards did not materially affect the Company's financial statements.

Share-based Compensation

Effective December 31, 2006, the Company adopted a new provision of the Emerging Issues Committee pronouncement No. 162 for share-based compensation for directors, officers and employees eligible to retire before the vesting date. Compensation expense is now recognized over the shorter of the normal vesting period and the period from the grant date to the date the employee becomes eligible to retire. Pursuant to the transition provision, the Company recorded an adjustment of $2 million to opening 2006 retained earnings for the cumulative effect on prior years arising from this change. The effect on the fiscal 2006 statement of earnings of adopting this provision was an increase in earnings of $2 million.

New Accounting Pronouncements

Effective January 1, 2008 the Company will adopt new CICA standards 1535, 3031 and 3862 and effective January 1, 2009, CICA standard 3064. The Company is presently considering the effect these standards may have on the Company's financial statements.

Section 1535 – Capital Disclosures

This section requires the Company to disclose its objectives, policies and processes for managing capital.

Section 3031 — Inventories

This section prescribes the accounting treatment for inventories and provides guidance on the determination of cost and subsequent recognition as an expense, including any write-down to net realizable value.

Section 3862 – Financial Instruments

This section enhances the disclosure requirements on the nature and extent of risks arising from financial instruments and how the Company manages those risks.

Section 3064 – Goodwill and Intangible Assets

This section replaces CICA 3062 "Goodwill and Intangible Assets" and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred.

Capital Structure and Debt Ratings

The combined number of Common shares and Class B common shares outstanding was 42,805,086 as at December 31, 2007 (2006 — 42,771,937). The increase reflects the issuance of 33,149 Common shares pursuant to the Employee Share Purchase Plan and the exercise of outstanding share purchase options.

All of West Fraser's debt, other than current borrowings incurred from time to time for its joint venture newsprint mill, is unsecured and ranks equally in right of payment. West Fraser's public debt is rated as investment grade by leading rating agencies. In February 2007, Moody's changed its rating from Baa2 with a negative outlook to Baa3 with a Stable outlook, reflecting in part its near-term view of uncertainty in the lumber market along with increasing capacity for pulp in the southern hemisphere. On October 23, 2007, Standard & Poor's Rating Services lowered its corporate and senior unsecured debt ratings of West Fraser to BBB– from BBB, with a continuing negative outlook reflecting concern regarding the depressed U.S. housing market and a strong Canadian dollar. All of West Fraser's credit ratings remain investment grade.

Debt Ratings **Table M**

Agency	Rating	Outlook
Dominion Bond Rating Service	**BBB**	**Stable**
Moody's	**Baa3**	**Stable**
Standard & Poor's	**BBB–**	**Negative**

Capital Requirements and Liquidity

Summary of Financial Position ($ millions, except as otherwise indicated) **Table N**

As at December 31	2007	2006
Cash[1]	**(4)**	606
Current assets	**877**	1,451
Current liabilities	**502**	830
Ratio of current assets to current liabilities	**1.7**	1.7
Net debt	**696**	19
Shareholders' equity	**2,089**	2,239
Net debt to capitalization[2] — %	**25**	1

1. Cash consists of cash and short-term investments less outstanding cheques in excess of funds on deposit.
2. Net debt (total debt less net cash) divided by net debt plus shareholders' equity.

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

Selected Cash Flow Items ($ millions)		**Table O**
For the year ended December 31	**2007**	2006
Operating Activities		
Cash provided before working capital changes	**78**	522
Non-cash working capital change	**(317)**	358
Cash provided by (used in) operating activities	**(239)**	880
Financing Activities		
Debt and operating loans	**123**	(166)
Dividends and other	**(22)**	(23)
Cash provided by (used in) financing activities	**101**	(189)
Investing Activities		
Acquisition	**(380)**	–
Additions to property, plant, equipment & timber	**(107)**	(212)
Other – net	**16**	108
Cash used in investing activities	**(471)**	(104)
Change in cash	**(609)**	587

On March 30, 2007, West Fraser extended its $500 million committed revolving credit facility from June 2010 to March 2012 and entered into a five-year $100 million committed revolving facility for its U.S. operations. West Fraser also entered into a $100 million three-year term facility to partially fund the U.S. Acquisition. The revolving and term facilities are at floating interest rates. Debentures in the principal amount of $125 million were repaid in November 2007 with funds drawn under the committed revolving credit facility.

Contractual Obligations at December 31, 2007 ($ millions)[1] — **Table P**

	2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt	2	150	100	—	—	300[2]	552
Operating leases	6	4	3	2	1	—	16
Asset purchase commitment	6	—	—	—	—	—	6
Total	14	154	103	2	1	300	574

1. Contractual obligations means an agreement related to debt, leases and enforceable agreements to purchase goods or services on specified terms, but does not include reforestation obligations, energy purchases under various agreements, accounts payable in the ordinary course of business or contingent amounts payable.
2. Represents U.S. denominated debt of $300 million.

Disclosure Controls and Internal Controls Over Financial Reporting

As required by Multilateral Instrument 52-109, West Fraser's management evaluated the effectiveness of its disclosure controls and procedures as at December 31, 2007. Based on that evaluation, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have certified that such disclosure controls and procedures are effective.

The CEO and CFO have also acknowledged responsibility for the design of internal control over financial reporting ("ICFR") as at December 31, 2007 and have confirmed that in the quarter ended December 31, 2007 there were no changes in these controls which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Risks and Uncertainties

Fluctuations in Price and Demand for Products

West Fraser's financial performance is principally dependent on the demand for and selling prices of its products. Both are subject to significant fluctuations. The markets for lumber, panels, pulp, paper, wood chips and other wood products are highly volatile and are affected by factors such as global economic conditions including the strength of the U.S. housing market, changes in industry production capacity, changes in world inventory levels and other factors beyond West Fraser's control. In addition, interest rates have a significant effect on residential construction and renovation activity, which in turn influences the demand for and price of building materials such as lumber and panel products.

West Fraser cannot predict future market conditions, product demand or pricing due to factors outside its control. Prolonged or severe weakness in the market for any of its principal products would adversely affect West Fraser's financial condition.

Currency Risk

Most of West Fraser's products are sold at prices denominated in U.S. dollars or based on prevailing U.S. dollar prices, but a significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the U.S. dollar reduces the revenue in Canadian dollar terms realized by West Fraser from sales made in U.S. dollars, which reduces operating margin and the cash flow available to fund operations. West Fraser is also exposed to the risk of exchange rate fluctuations in the period between sale and payment. This results in significant earnings sensitivity to changes in the Canadian / U.S. dollar exchange rate.

Although West Fraser does not currently hedge its foreign exchange exposure with financial forward or option contracts, U.S. dollar-denominated debt and operations in the U.S. provide a partial offset to exchange exposure. The Canadian / U.S. dollar exchange rate is affected by a broad range of factors which makes future rates difficult to predict.

Softwood Lumber Agreement

The Company cannot predict with any certainty the export tax rate applicable to its future lumber shipments or the potential application or timing of the Surge Tax. The SLA 2006 has a term of seven years, and may be extended for another two years by agreement. However, at any time after April 12, 2008 either party may terminate the SLA 2006 by providing not less than six months notice to the other. West Fraser cannot predict if the SLA 2006 will be terminated before the expiration of its term, or what actions might be taken by the United States or Canada following such expiration or termination.

Potential Surge Tax

Under the SLA 2006, if monthly shipments from the B.C. Interior region or from Alberta (as export tax-only regions) exceed a certain volume prescribed by the SLA 2006, the applicable export tax rate for that month is increased by 50%. This would currently mean an increase from 15% to 22.5%. This calculation is based on estimated trailing U.S. lumber consumption.

The U.S. government has asserted that for the purposes of the Surge Tax, future estimated consumption levels should be adjusted based on differences between current and trailing estimated consumption while the Canadian government believes the U.S. interpretation is contrary to the SLA 2006. This issue is now the subject of arbitration under the SLA 2006 with a decision expected in the first half of 2008. The Company believes the Canadian position should prevail. However, if the Surge Tax applies as asserted by the United States, the Company estimates it would incur additional export taxes of approximately $14 million related to 2007.

Availability of Fibre and Changes in Stumpage Fees

Substantially all of West Fraser's Canadian log requirements are harvested from Crown lands. Provincial governments prescribe the methodologies that determine the amounts of stumpage fees that are charged in respect of harvesting on Crown lands and changes to the methodologies or rates may adversely affect the Company's results.

West Fraser relies on log supply agreements in the United States which are subject to log availability and based on market prices. Currently, approximately 20% of the aggregate log requirements for West Fraser's 15 sawmills are supplied under long-term agreements with the balance purchased on the open market. Changes in market conditions for these logs may adversely affect West Fraser's results.

Competition

Markets for West Fraser's products are highly competitive. Its ability to maintain or improve the cost of producing and delivering products to those markets is crucial. Factors such as cost and availability of raw materials, energy and labour, the ability to maintain high operating rates and low per-unit manufacturing costs, and the quality of its final products and its customer service all affect West Fraser's earnings.

Operational Curtailments and Transportation Limitations

From time to time, West Fraser suspends operations at one or more of its facilities or logging operations in response to market conditions, environmental risks, workplace safety concerns or other operational issues, including power failures, equipment breakdowns, dry forest conditions, adverse weather conditions, labour disruptions and fire hazards. These unscheduled operational suspensions could have a material adverse effect on West Fraser's financial condition. If wood chip production is reduced because of sawmill production curtailments, improved lumber manufacturing efficiencies or any other reason, pulp and paper operations may incur additional costs to acquire additional wood chips or reduce production. Conversely, pulp and paper mill production curtailments may require sawmills to find other ways to dispose of residual wood fibre and may result in curtailment or suspension of lumber production.

West Fraser relies primarily on third parties for the delivery of raw materials and the transportation of its products. From time to time, West Fraser must also respond to rail car and truck shortages that limit raw material deliveries to it and product deliveries to its customers, which may have a material adverse effect on West Fraser's business.

Labour Relations

West Fraser employs a unionized workforce in a number of its operations. Walkouts or strikes by employees could result in lost production and sales, higher costs and supply constraints that could have a material adverse impact on West Fraser's business. Also, West Fraser depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes experienced by these third parties could lead to disruptions at Company facilities.

Natural Disasters

West Fraser's operations are subject to adverse natural events such as forest fires, severe weather conditions, disease, and earthquake activity. These events could damage or destroy West Fraser's physical facilities or its timber supply and similar events could also affect the facilities of its suppliers or customers. Any such damage or destruction could adversely affect West Fraser's financial results. Although West Fraser believes it has reasonable insurance arrangements in place to cover certain of such incidents, there can be no assurance that these arrangements will be sufficient to fully protect the Company against such losses. As is common in the industry, West Fraser does not insure loss of standing timber for any cause.

Mountain Pine Beetle

The long-term effect of the MPB infestation on West Fraser's Canadian operations is uncertain. The potential effects include a reduction in future AAC levels to below current and pre-beetle AAC levels, a diminished grade and volume of lumber recoverable from beetle-killed logs, decreased quality of wood chips produced from such logs, and increased production costs. The timing and extent of the effect on West Fraser's timber supply, lumber grade and recovery, wood chip quality and production costs will depend on a variety of factors and at this time cannot be reasonably determined.

Environment

West Fraser's operations are subject to regulation by federal, provincial, state and local environmental authorities, including industry specific environmental regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid waste, landfill operations, forestry practices, site remediation and the protection of endangered species and critical habitat. West Fraser has incurred, and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on West Fraser's business, operations, financial condition and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from West Fraser's available cash flow. West Fraser may discover currently unknown environmental problems, contamination, or conditions relating to its past or present operations. This may require site or other remediation costs to maintain compliance or correct violations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on West Fraser's business, financial condition and operational results.

West Fraser has in place internal programs under which all its forestry and manufacturing operations are audited for compliance with laws and accepted standards and with its management systems. West Fraser's woodlands operations in Canada, and the harvesting operations of its key U.S. suppliers, are third-party certified to internationally-recognized sustainable forest management standards. West Fraser's operations and its ability to sell its products could be adversely affected if those operations did not, or were perceived by the public as failing to, comply with applicable laws and standards, including responsible environmental and sustainable forestry standards.

First Nations Claims

Failure of the government of British Columbia to adequately discharge its obligations to First Nations groups may affect the validity of its actions in dealing with public rights, including the granting of Crown timber harvesting rights. West Fraser cannot assure that First Nations claims will not in the future have a material adverse effect on its timber harvesting rights or its ability to exercise or renew them or secure other timber harvesting rights.

Regulatory Risks

West Fraser's operations are subject to extensive general and industry-specific federal, provincial, state, municipal and other local laws and regulations, including those governing forestry, exports, taxes, employees, labour standards, occupational health and safety, waste disposal, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. West Fraser is required to obtain approvals, permits and licences for its operations, which may impose conditions that must be complied with. If it is unable to extend or renew, or is delayed in extending or renewing, a material approval, permit or licence, West Fraser's operations or financial condition could be adversely affected. There is no assurance that these laws, regulations or government policy, or the administrative interpretation or enforcement of existing laws and regulations, will not change in the future in a manner that may require West Fraser to incur significant capital expenditures or could adversely affect its operations or financial condition. Failure to comply with applicable laws or regulations, including approvals, permits and licences, could result in fines, penalties or enforcement actions, including orders suspending or curtailing its operations or requiring corrective measures or remedial actions.

U.S. Sawmill Acquisition

West Fraser's acquisition of 13 U.S. sawmills was completed March 31, 2007. The anticipated benefits of this acquisition are subject to uncertainties that could cause actual results to differ materially from those anticipated. These include, but are not limited to, liabilities, such as environmental liabilities, or required capital expenditures that West Fraser failed to discover or underestimated, significant demands being placed on West Fraser's managerial, operational and financial personnel and systems, the successful implementation of its business plan for these acquired sawmills and the achievement of anticipated results of such plan.

Business Outlook

Unsold homes and increasing foreclosures are severely restricting new U.S. home construction. Therefore 2008 is expected to be a very challenging year for West Fraser's lumber operations. Until there is sufficient improvement in the U.S. housing market, widespread capacity reductions are likely to take place in the industry to reduce the still prevailing oversupply of lumber. West Fraser will continue to review its operating economics and will initiate partial or total mill shutdowns when necessary.

Inelasticity of timber prices, particularly in B.C. and the U.S South, will keep manufacturing costs high relative to lumber prices. Also, in B.C. the quality of MPB affected logs is expected to continue to deteriorate, affecting both lumber grade, lumber recovery and mill operating efficiencies.

For the panel segment, any slowdown in the Canadian economy could lead to lower housing starts and lower repair and renovation activity which would affect plywood markets. MDF and LVL prices are not expected to show improvement until the U.S. housing market improves.

While the short-term outlook for pulp and packaging grades is positive, there is a possibility that a further economic slowdown may affect both demand and product pricing. The possible occurrence and timing of such a slowdown is uncertain.

West Fraser's low cost operating philosophy and the financial flexibility provided by its $600 million committed revolving credit facility should permit West Fraser to continue to strengthen its operations and to fully participate in the benefits of the eventual U.S. housing recovery.

Key uncertainties facing West Fraser in 2008 include potential commodity price movements and changes in the value of the U.S. dollar compared with the Canadian dollar. Table Q outlines West Fraser's earnings sensitivity to key variables.

Earning Sensitivity to Key Variables – based on year-end capacities[1] ($ millions) **Table Q**

Factor	**Variation**		**Change in Earnings**
Lumber price[2,3]	US $50	Change per Mfbm	202
Plywood price[2,3]	US $50	Change per Msf	28
MDF price[3]	US $50	Change per Msf	9
NBSK price[3]	US $50	Change per tonne	17
BCTMP price[3]	US $50	Change per tonne	19
Linerboard and kraft price[3]	US $50	Change per tonne	16
Newsprint price	US $50	Change per tonne	4
U.S. – Canadian $ exchange rate[4]	US $0.01	Change per Cdn $	14
Sawlog cost	Cdn $10	Change per m^3	137

1. Assumes exchange rate of Cdn $1.00 per US $1.00.
2. Change does not include any potential change in log costs.
3. Change does not include any potential change in wood chip prices.
4. Excludes exchange impact on translation of U.S. denominated debt and other monetary items.