

Hank Ketcham
West Fraser AGM Speech
April 27, 2010

Good morning and welcome to the 2010 West Fraser Annual General Meeting. I especially want to welcome our many employees, former employees, friends and shareholders who have been so loyal and supportive of our Company over the past many years. Your support has been particularly valued during the three-year economic crisis from which we are just emerging. We hope that your confidence in West Fraser will be rewarded in the coming years as investors once again see that West Fraser has weathered a brutal financial meltdown much better than our competitors and is better positioned to capitalize on the recovery than any other company in our industry.

Since the inception of our Company in 1955, we have weathered six significant economic downturns. Of course the most recent one, from late 2006 to early 2010, was the longest and most severe since the Great Depression. But while many companies emerge from these downturns as weaker entities, West Fraser has always emerged as a stronger, growing and more confident company with the financial muscle to seize opportunities. In fact, as difficult as this current crisis has been, economic downturns have typically been the “sweet spot” for our Company—a time when higher cost competitors get weeded out while we’re able to continue modernizing our facilities and looking for growth opportunities.

One of our strategic advantages is that we’ve never lost sight of our roots. We started here in Quesnel in 1955 with twelve employees. Today we have almost 1,400 employees here in town and many more contractors and suppliers. Many of our key decision makers live and work here. As a result, our employees are not only more connected to our business, but they are more sensitive to the impact each decision we make has on our communities. Over the years, West Fraser’s success has been directly linked to the growth and prosperity of the City of Quesnel. We are appreciative of the support we receive from this community and are proud to call Quesnel our home.

At our annual meeting last year, we were in the depths of the economic crisis. Only six months earlier, the global financial system was on the verge of collapse. Over the ensuing months the housing market continued its collapse, unemployment spiked upwards and credit markets froze up. It was a scary time to be in business—particularly the forest products business. As the year progressed, business fundamentals deteriorated even more

than our most pessimistic projections. U.S. housing starts fell to a post-depression low level of 479,000 units in April of 2009. Consequently, lumber demand continued its free fall from 75 billion board feet in 2005 to 42 billion board feet by the end of 2009. Lumber production was not withdrawn from the market fast enough to stop the precipitous drop in prices. By March of 2009 lumber prices had dropped to levels not seen in thirty years. Our LVL business suffered the same pricing deterioration while our MDF, plywood and treating businesses performed somewhat better.

Pulp and paper demand and pricing also deteriorated significantly during the first half of 2009. Fortunately, China has bounced back from the crisis much more strongly than North America and Europe and, as a result, increasing demand for market pulp from the growing Chinese paper industry improved the supply demand fundamentals for this business in the second half of the year. This resulted in much stronger pricing. This was not the case for our joint venture newsprint business, however, which continued to suffer from over-capacity due to a 50% decline in demand over the last five years. Nor was it the case for Eurocan where prices fell over \$200 per tonne in 2009.

The value of the Canadian dollar versus the U.S. greenback averaged 6 cents lower in 2009 versus 2008 which helped to moderate the decline in product pricing. However, since its low point in 2009, the Canadian dollar has surged by 23 cents and is currently trading near par. Each one cent change in the Canadian/U.S. dollar exchange rate has a 12 million dollar per year effect on our revenue.

Due to the depth of the depression our industry faced in 2009 and the uncertain timing of the recovery, we took several steps to protect our balance sheet during the course of the year. We closed or curtailed several plants that were bleeding cash. We reduced our dividend by 75%. We hedged the price of pulp on a portion of our production at a price and exchange rate that guaranteed a positive cash contribution to the Company. And finally, we renegotiated the terms of our 600 million dollar credit facility to ensure that we could withstand the economic crisis no matter how long it lasted. As circumstances have unfolded, the pulp hedge and the refinancing of our credit facility have turned out to be unnecessary and costly. But in the context of the economic environment in the summer of 2009, when we made these decisions, it was the prudent thing to do to ensure, under any conceivable circumstance, the health and well being of our Company.

As I mentioned earlier, we view economic downturns as the sweet spot for our Company. Over the years we have never strayed from our singular commitment to controlling costs, continually modernizing and upgrading our facilities and maintaining a prudent and conservative balance sheet. Employees throughout our Company

understand that this is part of our corporate culture and it is through the strength of our great employee group and the culture they live and breathe every day that West Fraser can outperform our competitors in good times and bad.

That is why I'm pleased to report that West Fraser turned in another industry-leading performance in 2009 despite the unprecedented economic environment in which we operated.

In 2009, West Fraser recorded a loss of \$341 million on sales of \$2.6 billion. This loss included several non-recurring items including:

- Costs associated with the permanent closure of Eurocan Pulp & Paper totalling \$132 million.
- Costs associated with the indefinite closure of five lumber mills totalling \$15 million.
- And the write-off of a future income tax recovery account relating to our U.S. sawmill division totalling \$114 million.

Excluding these items, our loss for 2009 totalled \$80 million.

By any measure, this is still a substantial loss but it is important to note that in the worst year in recent history for our industry, West Fraser produced positive cash flow from operations of \$106 million. This is a strong performance in the context of the economic environment and relative to our peers. In the last two years we have earned \$285 million of cash which has allowed us to pay down nearly \$200 million of debt while maintaining a modest dividend and investing in required capital expenditures. West Fraser continues to be one of only two forest companies in Canada to pay a dividend. We are the only Canadian forest company to have paid dividends consistently since our initial public offering in 1986. As a result of our relatively strong cash flow, we ended the year with a very strong net debt to capital ratio of 24%. So as you can see, we will emerge as a stronger and more competitive company as this recovery unfolds.

As noted, 2009 was a disaster for the North American lumber business. Throughout most of the year we, and our competitors, were selling lumber below our cash costs. As a result, the industry had to downsize significantly to match supply with demand. In our case, we ran our Canadian mills at about 70% of capacity during most of the year while the rest of the industry ran at about 60%. By years end, we were up to almost full

capacity while the rest of the Canadian industry was still significantly curtailed. This is a direct reflection of our industry-leading cost structure and the commitment and dedication of our employees.

Our U.S. sawmill division ran at 65% of capacity during the year which was about the average running rate for U.S. mills. We are now in a position to begin investing capital in these mills to move them down the cost curve and enable them to be more competitive in bad markets.

In 2009 we completed a major transformation of our pulp and paper business. The investments we have made in our mechanical pulp division have positioned it as an industry leader. Despite significant market curtailment in the first half of 2009, both mills were positive contributors.

The major capital improvement projects that we carried out at our Hinton kraft pulp mill over the past couple of years began to bear fruit. We can now confidently say that our two kraft pulp mills are very competitive in the context of our North American peers. Although we saw good progress in 2009, we believe that there is still significant opportunity to improve the cost structure of our pulp business.

And finally, we announced the permanent closure of our Eurocan linerboard and kraft paper mill in October.

As our employees and shareholders know all too well, our Eurocan division never achieved its true potential and lost money consistently for many years. The strengthening Canadian dollar, declining wood supply and consistently low productivity led us to the difficult decision to finally close the facility. We're sorry about the effect this decision has on the lives of our Eurocan employees and the residents of Kitimat and Terrace.

But it was a necessary step in order to position our pulp & paper business for improved profitability in the future. With the closure of Eurocan, we now have a pulp division that is capable of competing with the best mills in North America. In addition, we are joint venture partners in the most modern and lowest cost newsprint mill on the continent.

While our kraft pulp division is now well positioned in the context of our North American competitors, we suffer from a significant disadvantage on a global basis in that our mills are older and much smaller than the big new mills in South America and Asia. In addition, there is a significant productivity gap between our Canadian mills and our U.S. and global peers. To ensure the long-term survival of the Canadian kraft pulp industry, we will have to address this productivity gap sooner rather than later. This will require honest and open dialogue between the industry and its unions and a willingness to approach the business in new ways.

In 2009 the Canadian government established the Green Transformation Fund to help offset the effects of massive green energy subsidies being offered to the U.S. pulp industry. West Fraser received \$88 million of green transformation funds which we will spend over the next two years on energy production and conservation projects in our pulp division. Our people have worked hard over the past year to develop these green energy projects. When they are completed in 2012, we will have significantly reduced our manufacturing costs and our carbon footprint.

The devastating effects of the Mountain Pine Beetle epidemic are increasingly affecting the results of our British Columbia operations. We are experiencing significant declines in Lumber Recovery, Grade Outturn and Productivity. In the coming years, the interior industry will have to be downsized to adjust to the substantial reduction in the annual harvest. We must work closely with our provincial and municipal governments to ensure that this adjustment is done in a way that minimizes the impact on our employees and our communities. There is no question that this will be a painful adjustment. But I believe West Fraser is well positioned to thrive and prosper through this transition period.

Unfortunately, we are now experiencing a significant outbreak of the pine beetle in some of our operating areas in Alberta. We are working with the Alberta government to try to prevent the same kind of catastrophic epidemic that occurred in B.C. Without the help of a traditionally cold winter in Alberta next year, we will see the continued progression of the beetle in that province—and possibly beyond. It's imperative that the Alberta government address this issue as though it were an environmental and economic crisis. Without that kind of focus, we could lose the battle.

Our safety performance continued to improve in 2009. We cannot consider ourselves to be the best company in the industry if we don't also have the best safety culture and safety performance. Through the hard work and continued commitment from all our employees, we are now an industry-leading performer in safety. We continue to improve in key areas such as Medical Incident Rates, Lost Time Accidents and Severity of Incidents. Our safety program is considered among the best in the industry. But that's not good enough for a great company like ours. Among the best doesn't cut it here. Our goal is to be the best so that our employees and their families are assured of the safest work environment in the industry. I want to thank our management group for the leadership they've provided in fundamentally transforming the safety culture and performance at West Fraser over the past few years.

Continued improvement in environmental performance is also a necessary hallmark of a great company. Here again, we're making great progress in leading our industry to a greener future. Over the past decade, despite impressive productivity gains, we have significantly reduced our consumption of fossil fuels, electricity and water and have reduced greenhouse gas emissions by approximately 25%--an amount equivalent to removing 40,000 passenger vehicles from the road.

All of our forest operations are sustainably managed and certified to the independent Sustainable Forestry Initiative standard. We continue to work progressively with ENGO's, First Nations and governments to manage and protect the many diverse values in the forests. Under the leadership of our senior forestry group, West Fraser and certain other industry participants have been working closely with a group of ENGO's to find a new paradigm for our relationship and hopefully, reduce the conflict that has characterized our relationship for many years.

At our meeting last year the economy was so bad that we really couldn't see the light at the end of the tunnel for our industry.

We said that half the industry must shut down to balance supply with demand. And we said we were confident that our modern, efficient, low-cost facilities would run at significantly higher rates than our competitors. That is exactly what has happened. Our business model and our strong corporate culture have once again been validated by this punishing recession. Our employees should be proud of what, together, we've accomplished.

It's still too early to proclaim the end to the recession in our industry. The U.S. housing market is still struggling under the weight of high existing home inventories, massive foreclosures and high unemployment. But I believe we can say that the worst is behind us. The recovery may be slow and painful but our Company is well positioned to outperform as markets gradually improve.

Underlying our tremendous optimism about the future is the certainty that the underlying demand for housing is strong and getting stronger. Excess housing supply is being worked off and we will see a surge in new home construction at some point in the not too distant future.

Today I would say that as the world's largest lumber producer the future looks great. Our facilities are modern and efficient, our focus on cost control is strong, our balance sheet is in great shape and we have more wood to offer the market than any other company in the world.

Our most important asset, our people, is what has brought us to this point. It is through their efforts, their commitment, their loyalty and their drive to be the best that West Fraser has, for fifty-five years, been a profitable and growing company. And it is through their efforts that we will meet the many challenges in front of us. I would like to extend the gratitude of our Board of Directors to all West Fraser employees for their efforts during the year.

At our meeting today, you will be asked to vote on a new slate of directors for the coming year. Will Ketcham, who has served diligently on our Board for eight years, will step down at this meeting. I would like to thank Will for the commitment, loyalty and friendship he has shown to me, the Board and our many West Fraser employees. We will miss his valuable input and guidance.

Finally, I'd like to thank our Board of Directors for the advice and support they have given our management team during this most difficult year. Our Board continues to challenge us to build on our strengths, prudently manage risk and focus on creating more value for our shareholders.

Your management team knows that at the end of the day, value creation for our shareholders is our primary job. We believe we have the right business model, the right assets and the right people to positively differentiate West Fraser from our competitors. And we believe that over time the market will reward us for superior performance.

This is a great company, made up of great people with a great heritage. And that's why we feel so positive about our future.

Thank you for your attention and support.