



West Fraser Timber Co. Ltd.



First Quarter 2007

For the first quarter of 2007, West Fraser reported a first quarter loss of \$5 million or \$0.12 per share on sales of \$759 million compared to earnings of \$296 million or \$6.87 per share (earnings of \$7 million or \$0.17 per share prior to softwood lumber duty refunds) on sales of \$727 million in the fourth quarter of 2006 and earnings of \$6 million or \$0.14 per share on sales of \$902 million in the first quarter of last year.

EBITDA¹ was \$41 million or 5% of sales for the quarter compared to EBITDA of \$115 million or 13% of sales for the comparable period last year. For the fourth quarter of 2006, EBITDA, excluding the duty refund, would have been \$40 million or 6% of sales.

First quarter 2007 earnings reflect the following after-tax items:

- A gain of \$3 million or \$0.06 per share related to the translation of U.S. dollar denominated debt; and
- A gain of \$7 million or \$0.16 per share related to the termination of two pulp supply contracts.

First Quarter 2006 earnings reflect the following after-tax items:

- An expense of \$25 million or \$0.58 per share related to a restructuring charge resulting from the announced closure of the #1 pulp machine and the woodroom at the Company's NBSK pulp mill in Hinton, Alberta; and
- An expense of \$2 million or \$0.04 per share related to the translation of U.S. dollar denominated debt.

OPERATIONAL RESULTS

Lumber EBITDA for the quarter was negative \$13 million compared to \$1 million in the fourth quarter of 2006, excluding duty refunds. First quarter 2007 results reflect log inventory writedowns amounting to \$18 million.

Prices for SPF lumber strengthened marginally compared to the fourth quarter of 2006, averaging US \$253 per Mfbm compared to US \$245 per Mfbm. Prices for SYP averaged US \$263 per Mfbm compared to US \$267 per Mfbm in the fourth quarter of 2006. Continuing low lumber prices are mainly the result of weak housing starts in the U.S. and excess supply.

Lumber production for the quarter was 994 MMfbm, an improvement of 84 MMfbm from the previous quarter, reflecting strong operating performance.

Panel operations generated EBITDA of \$15 million or 13% of sales compared to \$5 million or 5% of sales in the previous quarter. The improvement was primarily due to higher plywood prices, lower plywood production costs and increased LVL and MDF shipment volumes. The improvement was partially offset by lower LVL prices and decreased plywood shipment volumes.

EBITDA for the pulp and paper operations was \$35 million or 12% of sales, compared to \$42 million or 16% of sales in the fourth quarter of 2006. These results reflect improved prices for pulp, linerboard and kraft paper. This improvement was offset by higher transportation costs as a result of the Canadian National Railway Company ("CN") strike and lower production volumes at Hinton and Kitimat, resulting in higher manufacturing costs.

Production problems relating to the start-up of the turbo-generator at the Kitimat linerboard and kraft paper mill resulted in lower production in the quarter. By the end of the first quarter, the turbo-generator was running at approximately 75 percent of target.

Annual maintenance shutdowns scheduled at the Kitimat, Hinton and Cariboo mills in the second quarter are expected to reduce normal production by approximately 50,000 tonnes in aggregate.

U.S. SAWMILL ACQUISITION

On March 31, 2007, West Fraser completed the acquisition of 13 sawmills in the southern United States from International Paper Company. The preliminary price, after taking into account estimated transaction expenses, the termination of two long-term pulp supply contracts, and working capital is \$390 million (US \$337 million). Further adjustments to the purchase price may be made in 2007. The 13 sawmills have a combined annual production capacity of approximately 1.8 billion board feet of SYP lumber and employ approximately 2,200 people. With its two existing sawmills in the southern United States, the Company now has total production capacity in the United States of approximately 2.2 billion board feet. When combined with the SPF lumber capacity from its Canadian operations, West Fraser is the second largest lumber producer in North America with an annual production capacity of approximately 6.2 billion board feet.

TRANSPORTATION ISSUES

West Fraser welcomed the intervention of the Canadian government to end the labour disruption at CN Rail. The labour dispute, which started on February 10, 2007, adversely affected shipments and costs in the first quarter. With both the labour disruption and winter conditions substantially over, West Fraser expects rail service to return to more acceptable levels.

On behalf of the Board of Directors,



Henry H. Ketcham

Chairman of the Board,
President & Chief Executive Officer
April 23, 2007

¹Throughout this report, reference is made to EBITDA (defined as operating earnings plus amortization and restructuring charges), which the Company considers to be a key performance indicator. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to earnings or cash flows as determined in accordance with Canadian generally accepted accounting principles. As there is no standardized method of calculating EBITDA, the Company's use of the term may not be directly comparable with similarly titled measures used by other companies.

The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements included in this quarterly report and Management's Discussion & Analysis included in the Company's 2006 annual report. The figures are expressed in Canadian dollars, 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 report of management's discussion and analysis contains historical information, descriptions of current circumstances and statements about potential future developments. The latter, which are forward-looking statements, are presented to provide reasonable guidance to the reader but the accuracy of these statements depends on a number of assumptions and is subject to various risks and uncertainties. These include, but are not limited to, uncertainties associated with the effect of general economic conditions on demand for the Company's products, foreign exchange rate fluctuations, trade sanctions, the availability of fibre and changes in stumpage fees, competition, operational curtailments and transportation limitations, natural disasters, insect infestation, the effects of forestry, land use, environmental and other government laws and regulations, First Nations claims and the ability of the Company to execute its business plans. These statements are not guaranteed by the Company and actual outcomes and results may differ materially from those anticipated or projected. Accordingly, readers should exercise caution in relying upon forward-looking statements. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

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

The information in this report is as at April 23, 2007, unless otherwise indicated.

U.S. SAWMILL ACQUISITION

On March 31, 2007, the Company acquired 13 sawmills from International Paper Company and became the second largest lumber producer in North America with an annual capacity of approximately 6.2 billion board feet. The 13 mills, which are located in North and South Carolina, Georgia, Florida, Alabama, Arkansas and Texas, employ approximately 2,200 people and have a combined annual production capacity of approximately 1.8 billion board feet of southern yellow pine ("SYP") lumber.

Operating activities of the acquired sawmills prior to March 31, 2007 were managed by and for the benefit of the previous owner and are not reflected in the financial results covered by this report.

Transaction Terms

The preliminary purchase price after taking into account estimated transaction expenses and the termination of two long-term pulp supply contracts is \$390 million (US \$337 million). Further adjustments to the purchase price may be made pursuant to the agreement of purchase and sale.

The transaction includes 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 long-term agreements to sell residual wood chips at market prices. The transaction resulted in the termination of two supply contracts for 170,000 tonnes of NBSK pulp per year, which were entered into as part of West Fraser's 2004 acquisition of Weldwood of Canada Limited ("Weldwood"). The termination of these contracts is not expected to have a material impact on West Fraser's pulp operations.

Financing, Synergies and Current Operations

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

West Fraser has 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. Synergies are expected to be achieved by implementing best practices and by centralizing U.S. sales and administrative offices.

SOFTWOOD LUMBER AGREEMENT

The Softwood Lumber Agreement (the "SLA 2006") came into force on October 12, 2006. Under the SLA 2006, the Canadian provinces were required to choose one of two options with respect to lumber shipments to the U.S.: to pay to the Canadian government either a variable export tax based on price or a lower variable export tax but subject to a quota on total shipments. B.C. and Alberta elected the export tax only option, which results in West Fraser's Canadian lumber operations being subject to the following export taxes:

<u>Prevailing price¹</u>	<u>Export Tax (%)</u>
Over US \$355	Nil
US \$336 — \$355	5
US \$316 — \$335	10
<u>US \$315 or under</u>	<u>15</u>

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

The export tax rate is set monthly based on a four-week average Reference Price that is published 21 days prior to the start of any given month. Shipments to the U.S. from B.C. and Alberta during the first quarter of 2007 resulted in a 15% export tax being incurred.

Also, if monthly shipments from the B.C. Interior region or from Alberta (as export tax-only regions) exceed a certain trigger volume as defined in the SLA 2006, a surge mechanism (the "Surge") will result in a 50% increase in the applicable export tax rate for that month. The Surge is calculated monthly based on trailing estimated U.S. lumber consumption. For the first quarter of 2007 the Canadian government determined that the Surge did not apply.

The United States government has asserted that, for the purposes of the Surge calculation, lumber consumption levels should be based on actual rather than estimated consumption and that this adjustment mechanism should also apply to export tax-only regions. If this position prevailed, the B.C. Interior region could be subject to the Surge adjustment. This issue is now the subject of consultations between the two governments and could be referred to arbitration under the SLA 2006. We believe the Canadian position will prevail, however, if the Surge adjustment applies the Company would incur additional export taxes of approximately \$3 million for each month of Surge.

Revenue & Earnings Comparison

	Q1-2007	Q4 - 2006	Q1 - 2006
Production			
Lumber — MMfbm	994	910	1,136
MDF — MMsf (3/4" basis)	68	67	71
Plywood — MMsf (3/8" basis)	186	172	184
LVL — Mcf	750	655	781
BCTMP — Mtonnes	139	138	140
NBSK — Mtonnes	118	141	141
Linerboard and Kraft Paper — Mtonnes	105	117	120
Newsprint — Mtonnes	32	31	32
Shipments			
Lumber — MMfbm	956	1,000	1,098
MDF — MMsf (3/4" basis)	75	55	78
Plywood — MMsf (3/8" basis)	157	163	175
LVL — Mcf	707	526	751
BCTMP — Mtonnes	139	108	163
NBSK — Mtonnes	119	136	145
Linerboard and Kraft Paper — Mtonnes	110	114	124
Newsprint — Mtonnes	30	29	32
Financial Highlights (\$ millions)			
Sales	759	727	902
EBITDA	41	427	115
Amortization	(62)	(69)	(62)
Restructuring charge	—	—	(38)
Operating earnings	(21)	358	15
Interest income on duty refund	—	50	—
Interest expense — net	(2)	(7)	(10)
Exchange gain (loss) on long-term debt	3	(14)	(1)
Other income	12	46	6
Recovery (provision) for income taxes	3	(137)	(4)
Earnings	(5)	296	6
\$CDN/\$US — average	1.17	1.14	1.16

SELECTED QUARTERLY INFORMATION (\$ millions, except earnings per share ("EPS") amounts which are in \$)

	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05
Sales	759	727	809	888	902	832	890	953
Earnings	(5)	296	(8)	104	6	9	18	38
Basic EPS — \$	(0.12)	6.93	(0.19)	2.43	0.14	0.20	0.42	0.89
Diluted EPS — \$	(0.12)	6.87	(0.19)	2.41	0.14	0.20	0.42	0.88

Operating earnings in the quarter improved by \$8 million from the fourth quarter of 2006, ignoring the effect of the \$387 million duty refund received in that quarter, primarily due to higher SPF, plywood, pulp, linerboard and kraft paper prices. The increase was partially offset by a log inventory write-down of \$18 million and lower production volumes at the Hinton and Kitimat mills which resulted in higher costs per tonne.

Operating earnings in the quarter declined by \$36 million from the first quarter of 2006 reflecting lower lumber prices and the log inventory writedown as well as higher costs at the Kitimat mill. This earnings reduction was partially offset by improved pricing for pulp, linerboard and kraft paper. The Company's results for the first quarter of 2006 also included a \$38 million Hinton pulp restructuring charge.

Administration expense of \$21 million was \$12 million lower than the fourth quarter of 2006 and \$9 million lower than the first quarter of 2006 due primarily to an \$8 million adjustment to incentive compensation accrued at December 31, 2006. Administration expense for the quarter includes a share option expense of \$2 million compared to a \$5 million expense in the fourth quarter of 2006 and a \$1 million expense in the first quarter of 2006.

Interest expense of \$2 million was \$5 million lower than the fourth quarter of 2006 and \$8 million lower than in the first quarter of 2006 due to lower debt levels and interest earned on cash held on deposit. Results for the fourth quarter of 2006 also included interest income of \$50 million related to the return of softwood lumber duties.

The change in value of the Canadian dollar relative to the U.S. dollar resulted in an exchange gain of \$3 million in the quarter on the Company's U.S. denominated long-term debt compared to an exchange loss of \$14 million in the fourth quarter of 2006 and an exchange loss of \$2 million in the first quarter of 2006.

Other income included a \$4 million loss on the translation of U.S. dollar cash, receivables and foreign operations, compared to a \$19 million translation gain in the fourth quarter of 2006 and a \$4 million translation gain in the first quarter of 2006. Other income for the quarter also included a \$10 million gain resulting from the termination of pulp supply contracts related to the U.S. sawmill acquisition (see note 3 to the unaudited interim consolidated financial statements), gains on the sale of property, plant, equipment and timber and other items for all quarters.

LUMBER

	Q1-07	Q4-06	Q1-06
Sales — \$ millions	361	358	505
EBITDA — \$ millions	(13)	388	91
EBITDA margin — %	—	102	17
Operating earnings — \$ millions	(40)	354	64
Benchmark Price			
SPF #2 & Better 2 x 4 (per Mfbm) ¹ US \$	253	245	343
SYP #2 West 2 x 4 (per Mfbm) ² US \$	263	267	409

1. Source: Random Lengths - 2 x 4, #2 & Better - Net FOB mill.

2. Source: Random Lengths - 2 x 4 - Net FOB mill Westside.

Operating earnings declined by \$7 million from the fourth quarter of 2006, ignoring the \$387 million duty refund received that quarter. Log inventories were written down by \$18 million in the quarter and export tax was charged during the entire quarter instead of a partial quarter. These factors were partially offset by higher SPF and chip prices in the first quarter of 2007. Shipment volumes were down due to the Canadian National Railway Company ("CN") strike and the sale of Burns Lake and Decker Lake sawmills on October 31, 2006.

Operating earnings declined by \$104 million from the first quarter of 2006 reflecting lower lumber prices which also resulted in an \$18 million log inventory writedown in the quarter. Production volumes decreased compared to the first quarter of 2006 primarily due to the sale of the Burns Lake and Decker Lake sawmills. This sale and the CN strike during the quarter resulted in lower shipment volumes over the comparative period in 2006.

West Fraser, along with others in the industry, is working closely with the British Columbia government to address the economic impact of the continuing mountain pine beetle ("MPB") infestation on operations. This includes ensuring that the most current information related to the impact on operations is factored into stumpage determinations and that the log grades introduced in 2006 accurately reflect the potential of MPB-affected logs to yield merchantable lumber. The Company is also working with the B.C. government to develop the most appropriate policies to deal with non-sawlog material left in harvested areas.

The Alberta government is taking proactive action to control the spread of the MPB and to reduce the area of stands at risk for attack. An advisory group made up of representatives from the provincial and local governments, industry, aboriginal groups, academia and environmental organizations is advising the Alberta government on strategies to contain and prevent further spread of the infestation. Although the hardest hit areas in Alberta are to the north and west of West Fraser's operating areas, all of the Company's Alberta operations are shifting harvest activities into pine stands which have been identified as being at high risk of infestation.

The Company experienced railcar shortages in the first quarter of 2007 and of 2006 due to winter operating conditions. During the first quarter of 2007, service was further reduced by the CN strike which resulted in partial service for 15 days. The result was an increase in inventory levels and increased transportation and loading costs as product was shipped by other more costly methods. Inconsistent rail service remains a significant issue.

The new sawmill in Quesnel operated on a three shift basis during the quarter and its startup is progressing largely as expected. Additional planer capacity will be added to the Quesnel operations to handle the increased volume of lumber to be produced.

SPF lumber prices strengthened marginally compared to the fourth quarter of 2006, averaging US \$253 per Mfbm compared to US \$245 per Mfbm, both of which are significantly down from the average price during the first quarter of 2006 of US \$343 per Mfbm. SYP lumber prices averaged US \$263 per Mfbm during the quarter compared to US \$267 per Mfbm in the fourth quarter of 2006 and US \$409 per Mfbm in the first quarter of 2006. The pricing fluctuations are due primarily to significantly reduced U.S. housing starts resulting in excess lumber supply. Annualized U.S. housing starts are forecast to average 1.5 million for 2007 compared to an annualized average of just over 1.8 million for 2006.

Lumber supply is expected to decrease further in the second quarter of 2007 due to production curtailments but the market is likely to remain oversupplied resulting in a depressed lumber pricing environment for the balance of the year.

PANELS	Q1-07	Q4-06	Q1-06
Sales — \$ millions	119	102	124
EBITDA — \$ millions	15	5	16
EBITDA margin — %	13	5	13
Operating earnings (loss) — \$ millions	5	(5)	7
Benchmark price			
Plywood (per Msf 3/8" basis) ¹ Cdn \$	379	367	375
MDF (per Msf 3/4" basis) ² US \$	451	462	414

1. Source: Crow's Market Report – Delivered Toronto.

2. Source: Resource Information Systems, Inc. – MDF Western U.S. – Net FOB mill.

Operating earnings for the quarter increased by \$10 million from the fourth quarter of 2006 primarily due to higher plywood prices, improved plywood production costs and higher LVL and MDF shipment volumes. The increase was partially offset by lower LVL prices and plywood shipment volumes.

Operating earnings declined by \$2 million from the first quarter of 2006 primarily due to lower LVL prices, lower plywood and LVL shipment volumes and higher LVL unit production costs. The decline was partially offset by higher MDF and chip prices.

Permanent plywood plant closures have removed approximately 10% of Canadian plywood production from the market leading to improved product pricing. The reduced supply combined with relatively strong forecast housing demand in Canada for 2007 should lead to a stable pricing environment for the balance of 2007.

MDF markets for the first quarter of 2007 were strong and price levels are expected to improve in the second quarter.

PULP & PAPER	Q1-07	Q4-06	Q1-06
Sales — \$ millions	279	267	273
EBITDA — \$ millions	35	42	13
EBITDA margin — %	12	16	5
Operating earnings (loss) — \$ millions	10	19	(48)
Benchmark price			
NBSK (US \$ per tonne) ¹	790	770	653
Linerboard (US \$ per tonne) ²	568	568	513
Newsprint (US \$ per tonne) ³	614	654	644

1. Source: Resource Information Systems, Inc. – U.S. list price delivered U.S.

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

3. Source: Resource Information Systems, Inc. – U.S. delivered 48.8 gram newsprint.

Operating earnings were \$9 million lower than the fourth quarter of 2006 primarily due to lower production and shipment volumes at the Hinton and Kitimat mills, higher fibre and unit manufacturing costs at most of the Company's pulp and paper mills and higher transportation costs relating to the CN labour disruption. The higher costs were partially offset by improved prices for pulp, linerboard and kraft paper.

Operating earnings were \$10 million compared to an operating loss of \$48 million in the first quarter of 2006 primarily due to improved prices for pulp, linerboard and kraft paper and the \$38 million restructuring charge for the Hinton pulp mill recorded in the first quarter of 2006. The improvement in prices was partially offset by higher fibre costs at most mills, lower production at the Kitimat and NBSK mills resulting in higher unit production costs, higher transportation costs as a result of the CN labour disruption, lower newsprint prices and lower shipment volumes for all the pulp and paper products.

Annual maintenance shutdowns are scheduled at the Hinton and Cariboo pulp mills and the Kitimat linerboard and kraft paper mill in the second quarter of 2007. The annual shutdowns are expected to reduce normal production by approximately 50,000 tonnes.

Pulp

The Company's BCTMP mills ran well in the quarter producing 139,000 tonnes compared to 138,000 tonnes in the fourth quarter of 2006 and 140,000 tonnes in the first quarter of 2006. Combined production at the two NBSK mills was 118,000 tonnes compared to 141,000 tonnes in the fourth quarter of 2006 and the first quarter of 2006. The lower production was primarily due to the closure of the woodroom and the #1 pulp machine at the Hinton pulp mill at the end of 2006 and various production issues at both NBSK mills during the quarter. Fibre costs were higher during the quarter due to rising woodchip prices and, in the case of Hinton pulp, the purchase of higher priced whole log chips.

The woodroom at the Hinton mill was closed at the end of 2006 as part of the previously announced restructuring, although the #1 pulp machine ran on a limited basis in the quarter because of current high pulp prices.

The \$20 million upgrade of the remaining Hinton pulp machine, expected to be completed by the end of the second quarter of 2007, is expected to result in improved operations and lower production costs at the mill. After completion of the upgrade, the annual capacity of the mill will be 350,000 tonnes reflecting a net reduction of approximately 70,000 tonnes. In the first quarter of 2006, a \$35 million writedown of property, plant, equipment and timber and a charge of \$3 million for other costs related to the restructuring plan was recorded.

Although paper demand was flat in the first quarter, NBSK pulp markets demonstrated continued strength. The NBSK pulp capacity reductions that took place in 2006 as well as tight chip supplies in Canada and Europe continue to support improved pricing. The benchmark NBSK pulp price in North America increased \$20 per tonne in January of 2007 and there was a further \$20 per tonne in April to US \$810 per tonne. Current market indicators suggest that NBSK pulp markets should remain strong through the third quarter of 2007. However weak paper markets and growth in southern hemisphere capacity may impact pulp markets in the latter part of the year.

Market conditions for other pulp grades, including BCTMP, were weaker in the quarter due to new southern hemisphere hardwood kraft capacity ramping up.

Linerboard and Kraft Paper

Production at the Kitimat linerboard and kraft paper mill in the quarter was significantly below expectations as a result of production problems relating to the start-up of the turbo-generator as well as several other operational issues. During the quarter, the turbo-generator commenced operations and by the end of the quarter was running at approximately 75 percent of the target run rate.

The production shortfall of approximately 15,000 tonnes compared to the first quarter of 2006 resulted in higher unit production costs. In addition, higher fibre costs and higher natural gas consumption further reduced profitability for linerboard and kraft paper.

During the quarter, overseas linerboard markets continued to strengthen, driven by positive demand and higher fibre costs. North American markets were flat due to lower box shipments and, as a result, the announced first quarter price increase was not achieved.

Kraft paper markets continued to strengthen with price levels increasing by 10-15% in the last year. Improved markets were the result of capacity reductions and improving demand in offshore markets. Markets are expected to remain strong for the remainder of the year.

Newsprint

The Alberta Newsprint mill operated well in the quarter with production volumes and costs similar to the first quarter of 2006.

Newsprint prices declined in the first quarter of 2007 compared to the fourth quarter of 2006 and the first quarter of 2006 as newsprint demand continued to decline. This price trend may continue for the remainder of the year.

CHANGE IN ACCOUNTING POLICIES

Financial Instruments

The Canadian Institute of Chartered Accountants issued new accounting rules on financial instruments, hedges and comprehensive earnings that will 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 will be measured at amortized cost using the effective interest rate method. Other financial liabilities will be measured at fair value or at amortized cost using the effective interest rate method. The effective interest rate method establishes the discount rate which equates the estimated future cash flows with the net carrying amount of the financial asset or liability.

Other comprehensive earnings is the method used to record revenues, expenses, gains and losses on net financial assets that are not required to be included in earnings. Foreign currency translation gains and losses on self-sustaining foreign operations will be included in other comprehensive earnings. Comprehensive earnings are the sum of earnings for the period plus other comprehensive earnings.

The new rules do not have a significant impact on the Company's financial statements.

Translation of Foreign Operations

The Company has determined that the Company's foreign operations became self-sustaining upon the acquisition of 13 sawmills in the United States (see note 3 to the unaudited interim consolidated financial statements). Accordingly, on March 31, 2007, the Company changed its translation method from the temporal method to the current rate method.

Under the current rate method all assets and liabilities are translated at the exchange rate in effect at the balance sheet date and the resulting unrealized gains or losses are included in accumulated other comprehensive earnings. Under the temporal method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date while non-monetary items are translated at historical exchange rates.

The result of this change in accounting policy was a reduction of \$18.2 million in accumulated other comprehensive earnings included in shareholders' equity. Unrealized gains or losses in translation are included in other comprehensive earnings from the date of the change.

CAPITAL STRUCTURE

The number of Common shares and Class B common shares outstanding was 42,774,689 as at March 31, 2007. The increase reflects the issuance of 2,752 Common shares pursuant to the Employee Share Purchase Plan. On February 15, 2007, 2,000,000 Class B common shares were converted to Common shares.

	March 31, 2007	December 31, 2006
Common	39,889,483	37,886,731
Class B common	2,885,206	4,885,206
Total	42,774,689	42,771,937

CAPITAL REQUIREMENTS AND LIQUIDITY

Summary of Financial Position (\$ millions, except as otherwise indicated)

	Q1-07	Q4-06	Q1-06
Net cash ¹	12	606	22
Current assets	1,076	1,451	1,130
Current liabilities	636	830	713
Ratio of current assets to current liabilities	1.7	1.7	1.6
Net debt	756	19	847
Shareholders' equity	2,210	2,239	1,866
Net debt to capitalization ² — %	25	1	31

1. Net cash consists of cash and short-term investments less outstanding cheques in excess of funds on deposit.

2. Net debt (total debt less cash and short-term investments) 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)

	Q1-07	Q4-06	Q1-06
Operating Activities			
Cash provided before working capital changes	52	364	102
Non-cash working capital change	(384)	260	(117)
Cash provided by (used in) operating activities	(332)	624	(15)
Financing Activities			
Debt and operating loans	150	(66)	75
Dividends and other	(6)	(6)	(6)
Cash provided by (used in) financing activities	144	(72)	69
Investing Activities			
Acquisition	(379)	—	—
Additions to property, plant, equipment & timber	(27)	(46)	(55)
Other — net	1	89	5
Cash provided by (used in) investing activities	(405)	43	(50)
Change in cash	(593)	595	4
Ending cash	12	606	22

Non-cash working capital items in the quarter included a \$167 million decrease in income taxes payable primarily due to income tax payments of \$165 million, and a \$131 million decrease in accounts payable primarily due to the \$122 million payment of the special charge related to the SLA 2006 on the prior year duty refunds. First quarter non-cash working capital items also include the seasonal build up of log inventory.

Investing activities include \$379 million for the purchase of 13 sawmills in the southern United States and \$27 million in property, plant and equipment additions.

On March 30, 2007, West Fraser extended its current \$500 million committed revolving credit facility from June 2010 to March 2012 and entered into a 5-year \$100 million committed revolving facility for its U.S. operations. Also, West Fraser entered into a \$100 million 3-year term facility to fund part of the U.S. acquisition. The revolving and term facilities are at floating interest rates.

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars — unaudited)

	As at March 31, 2007	As at Dec.31, 2006
ASSETS		
Current assets		
Cash and short-term investments	\$ 42.6	\$ 605.6
Accounts receivable	332.8	300.9
Inventories	684.4	531.9
Prepaid expenses	16.3	12.9
	1,076.1	1,451.3
Property, plant, equipment and timber	2,394.9	2,133.9
Deferred charges	35.6	38.1
Goodwill	263.7	263.7
Other assets (note 4)	128.2	127.7
	\$ 3,898.5	\$ 4,014.7
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Cheques issued in excess of funds on deposit	\$ 30.3	\$ —
Operating loans (note 5)	45.9	—
Accounts payable and accrued liabilities	365.4	468.4
Income taxes payable	11.5	178.9
Current portion of reforestation obligations	54.2	54.2
Current portion of long-term debt (note 5)	128.2	128.2
	635.5	829.7
Long-term debt (note 5)	594.5	496.0
Other liabilities (note 6)	150.1	137.5
Future income taxes	308.4	312.4
	1,688.5	1,775.6
Shareholders' equity (note 7)	2,210.0	2,239.1
	\$ 3,898.5	\$ 4,014.7

Number of Common shares outstanding at April 23, 2007 was 42,797,376

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions of Canadian dollars — unaudited)

	January 1 to March 31	
	2007	2006
Sales	\$ 758.6	\$ 902.0
Costs and expenses		
Cost of products sold	547.1	589.7
Freight and other distribution costs	126.1	145.4
Export taxes	23.5	—
Amortization	62.1	61.8
Selling, general and administration	21.0	29.5
Restructuring charge (note 8)	—	37.6
Duty expense	—	22.4
	779.8	886.4
Operating earnings (loss)	(21.2)	15.6
Other		
Interest expense — net	(2.2)	(10.0)
Exchange gain (loss) on long-term debt	3.2	(1.5)
Other income	11.8	6.2
Earnings (loss) before income taxes and non-controlling interest	(8.4)	10.3
Recovery of (provision for) income taxes (note 9)	3.3	(3.8)
Earnings (loss) before non-controlling interest	(5.1)	6.5
Non-controlling interest	—	(0.4)
Earnings (loss)	\$ (5.1)	\$ 6.1
Earnings (loss) per share (note 11)		
Basic	\$ (0.12)	\$ 0.14
Diluted	\$ (0.12)	\$ 0.14

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE EARNINGS

(in millions of Canadian dollars — unaudited)

	January 1 to March 31	
	2007	2006
RETAINED EARNINGS		
Balance — beginning of period	\$ 1,641.3	\$ 1,268.8
Earnings (loss)	(5.1)	6.1
	1,636.2	1,274.9
Common share dividends	(6.0)	(6.0)
Balance — end of period	\$ 1,630.2	\$ 1,268.9
ACCUMULATED OTHER COMPREHENSIVE EARNINGS		
Balance — beginning of period	\$ —	\$ —
Cumulative translation adjustment on self sustaining foreign operations (note 2)	(18.2)	—
Balance — end of period	\$ (18.2)	\$ —

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars — unaudited)

	January 1 to March 31	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Earnings (loss)	\$ (5.1)	\$ 6.1
Items not affecting cash		
Amortization	62.1	61.8
Write down of pulp assets (note 8)	—	34.8
Exchange (gain) loss on long-term debt	(3.2)	1.5
Change in reforestation obligations	11.5	12.4
Future income taxes	(4.0)	(15.4)
Other	(9.8)	0.9
	51.5	102.1
Net change in non-cash working capital items	(384.1)	(116.8)
	(332.6)	(14.7)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(0.3)	(0.3)
Proceeds from long-term debt	102.8	—
Net proceeds from operating loans	47.9	74.9
Common share dividends	(6.0)	(6.0)
Other	0.1	0.1
	144.5	68.7
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition (note 3)	(379.2)	—
Additions to property, plant, equipment and timber	(26.6)	(54.7)
Proceeds from disposal of property, plant, equipment and timber	3.0	3.2
(Increase) decrease in other assets	(2.4)	1.4
	(405.2)	(50.1)
(Decrease) increase in net cash *	(593.3)	3.9
Net cash — beginning of period	605.6	18.3
Net cash — end of period	\$ 12.3	\$ 22.2
*Net cash consists of cash and short-term investments less cheques issued in excess of funds on deposit.		
Supplemental information:		
Interest paid	\$ 0.4	\$ 2.7
Income taxes paid	\$ 164.5	\$ 35.5
Non cash investing activity:		
Pulp supply contracts terminated on acquisition (note 3)	\$ (10.4)	\$ —

FIRST QUARTER SEGMENTED INFORMATION

(in millions of Canadian dollars — unaudited)

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
January 1, 2007 to March 31, 2007					
Sales					
To external customers	\$ 361.1	\$ 118.8	\$ 278.7	\$ —	\$ 758.6
To other segments	25.0	2.7	—	—	
	\$ 386.1	\$ 121.5	\$ 278.7	\$ —	
EBITDA¹	\$ (13.4)	\$ 15.4	\$ 34.7	\$ 4.2	\$ 40.9
Amortization	26.2	10.8	24.3	0.8	62.1
Operating earnings (loss)	(39.6)	4.6	10.4	3.4	(21.2)
Interest expense — net	(2.8)	(0.8)	(0.3)	1.7	(2.2)
Exchange gain on long-term debt	—	—	—	3.2	3.2
Other income	1.2	—	9.9	0.7	11.8
Earnings (loss) before income taxes and non-controlling interest	\$ (41.2)	\$ 3.8	\$ 20.0	\$ 9.0	\$ (8.4)

January 1, 2006 to March 31, 2006

Sales					
To external customers	\$ 505.2	\$ 123.8	\$ 273.0	\$ —	\$ 902.0
To other segments	21.0	2.6	—	—	
	\$ 526.2	\$ 126.4	\$ 273.0	\$ —	
EBITDA¹	\$ 91.4	\$ 16.4	\$ 12.5	\$ (5.3)	\$ 115.0
Amortization	27.9	9.8	23.2	0.9	61.8
Restructuring charge	—	—	37.6	—	37.6
Operating earnings (loss)	63.5	6.6	(48.3)	(6.2)	15.6
Interest expense — net	(5.2)	(1.8)	(2.9)	(0.1)	(10.0)
Exchange loss on long-term debt	—	—	—	(1.5)	(1.5)
Other income	2.0	0.2	1.3	2.7	6.2
Earnings (loss) before income taxes and non-controlling interest	\$ 60.3	\$ 5.0	\$ (49.9)	\$ (5.1)	\$ 10.3

¹ **Non GAAP measure:**

EBITDA is defined as operating earnings plus amortization and restructuring charge.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(figures are in millions of dollars except where indicated — unaudited)

1. BASIS OF PRESENTATION

These interim consolidated financial statements should be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2006.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the December 31, 2006 consolidated annual financial statements except as disclosed in note 2.

Certain comparative figures have been reclassified to conform to the current period's presentation.

2. CHANGES IN ACCOUNTING AND ESTIMATES

Foreign currency translation

The Company has determined that the Company's foreign operations became self sustaining upon the acquisition of 13 sawmills in the United States (note 3). Accordingly, on March 31, 2007, the Company changed its translation method from the temporal method to the current rate method.

Under the current rate method all assets and liabilities are translated at the exchange rate in effect at the balance sheet date and the resulting unrealized gains or losses are included in accumulated other comprehensive earnings. Under the temporal method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date while non-monetary items are translated at historical exchange rates.

The result of this change in accounting policy was a reduction of \$18.2 million in accumulated other comprehensive earnings included in shareholders' equity. Unrealized gains or losses on translation are included in other comprehensive earnings from the date of the change.

Financial instruments

Effective January 1, 2007, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants for financial instruments, hedges and comprehensive earnings. The recommendations 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 will be measured at fair value or at amortized cost using the effective interest rate method. The effective interest rate method establishes the discount rate which equates the estimated future cash flows with the net carrying amount of the financial asset or liability.

Other comprehensive earnings is the method used to record revenues, expenses, gains and losses on net financial assets that are not required to be included in earnings. Foreign currency translation gains and losses on self-sustaining foreign operations will be included in other comprehensive earnings. Comprehensive earnings are the sum of earnings (loss) for the period plus other comprehensive earnings (loss).

The adoption of the new recommendations did not materially impact the Company's financial statements.

Change in estimates

The December 31, 2006 estimate of accrued incentive compensation was reduced by \$8.0 million in the quarter resulting in a reduction to selling, general and administration expenses.

3. ACQUISITION

On March 31, 2007 the Company acquired 13 sawmills from International Paper Company ("IP") for \$389.6 million. The 13 mills are located in the southern United States.

The transaction resulted in the termination of supply contracts under which IP agreed to purchase 170,000 tonnes of NBSK pulp annually. The terminated pulp supply contracts were entered into as part of the Company's 2004 acquisition of Weldwood of Canada Limited and had a remaining term of less than eight years. These pulp supply contracts were valued at \$10.4 million based on an analysis of market conditions at the time of termination and a settlement gain of \$10.4 million is recorded in other income.

The acquisition has been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase. The Company has not yet finalized the allocation of the purchase cost for the acquisition. The preliminary allocation of the purchase cost is based on management's best estimates and information available at the time of preparing these consolidated financial statements and any changes may be material.

The preliminary purchase price allocation is as follows:

Current assets	\$	102.2
Current liabilities		(28.1)
Property, plant and equipment		315.5
Consideration		389.6
Consideration attributed to termination of pulp supply contracts		(10.4)
Net cash consideration	\$	379.2

The allocation above includes estimated costs related to the acquisition of \$6.2 million. Actual amounts incurred may differ from this estimate and any such difference will be factored into the final allocation.

4. OTHER ASSETS

	March 31, 2007	December 31, 2006
Power purchase agreements — net	\$ 100.6	\$ 102.4
Investments	9.7	10.7
Advances for timber and timber deposits	17.9	14.6
	\$ 128.2	\$ 127.7

5. LONG-TERM DEBT AND OPERATING LOANS

	March 31, 2007	December 31, 2006
Cdn \$125 debentures due 2007; interest at 6.8%	\$ 125.0	\$ 125.0
Cdn \$150 debentures due 2009; interest at 4.94%	150.0	150.0
Cdn \$100 term note due 2010; interest at floating rates ⁽¹⁾	100.0	—
US \$300 senior notes due 2014; interest at 5.2%	346.4	349.6
Cdn \$3 term note; interest at floating rates ⁽¹⁾	3.0	3.3
Cdn \$4 note payable due 2020; interest at 5.5%	2.8	—
Deferred financing costs	(4.5)	(3.7)
	722.7	624.2
Less: Current portion of long-term debt	(128.2)	(128.2)
	\$ 594.5	\$ 496.0

⁽¹⁾ Floating rates are based on Prime, US base, Banker's Acceptances or LIBOR at the Company's option.

The Company has approximately \$605.0 million in revolving lines of credit available, of which \$47.9 million was drawn as at March 31, 2007. Deferred financing costs of \$2.0 million are offset against operating loans for presentation purposes. Interest is payable at floating rates based on Prime, US base, Bankers' Acceptances or LIBOR at the Company's option. The Company has also issued \$17.1 million under various letters of credit.

6. OTHER LIABILITIES

	March 31, 2007	December 31, 2006
Post-retirement obligations	\$ 54.3	\$ 54.0
Timber damage deposits	15.2	14.6
Reforestation obligations — long-term	71.6	60.1
Other asset retirement obligations	9.0	8.8
	\$ 150.1	\$ 137.5

7. SHAREHOLDERS' EQUITY

	March 31, 2007		Dec.31, 2006	
	Number of Shares Issued	Amount	Number of Shares Issued	Amount
Common	39,889,483	\$ 597.9	37,886,731	\$ 597.6
Class B common	2,885,206	0.3	4,885,206	0.5
Total Common	42,774,689	598.2	42,771,937	598.1
Retained earnings		1,630.2		1,641.3
Accumulated other comprehensive earnings		(18.2)		—
Share purchase loans		(0.2)		(0.3)
Shareholders' equity		\$ 2,210.0		\$ 2,239.1

Common shares

For the three months ended March 31, 2007, the Company issued 2,752 Common shares for cash of \$0.1 million and 2,000,000 Class B common shares in the amount of \$0.2 million were exchanged for Common shares (for the three months ended March, 2006 the Company issued 3,422 Common shares for cash of \$0.1 million).

8. RESTRUCTURING CHARGE

In the first quarter of 2006, the Company expensed \$37.6 million related to a restructuring of the pulp mill in Hinton, Alberta. Of this amount, \$34.8 million was for the writedown of property, plant, equipment and timber with the balance for other restructuring costs.

9. INCOME TAXES

The Company's effective tax rate is as follows:

	January 1 to March 31, 2007		January 1 to March 31, 2006	
	Amount	%	Amount	%
Income taxes at statutory rates	\$ 2.8	34.1	\$ (3.5)	(34.1)
Large corporations tax	—	—	(0.7)	(6.7)
Non - taxable amounts	0.4	4.7	(0.7)	(6.7)
Rate differentials between jurisdictions and on specified activities	0.9	9.9	1.9	18.4
Other	(0.8)	(9.4)	(0.8)	(7.8)
Income tax recovery (expense)	\$ 3.3	39.3	\$ (3.8)	(36.9)

10. EMPLOYEE FUTURE BENEFITS

The total benefit cost of the Company's defined benefit pension plans was \$5.6 million for the three months ended March 31, 2007 (three months ended March 31, 2006 — \$5.7 million).

11. EARNINGS PER SHARE

Basic earnings per share is 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 share options using the treasury stock method.

	January 1 to March 31	
	2007	2006
Earnings (loss)	\$ (5.1)	\$ 6.1
Weighted average number of shares (thousands)		
Weighted average shares — basic	42,761	42,740
Share options — treasury stock method	473	375
Weighted average shares — diluted	43,234	43,115
Earnings per share (dollars)		
Basic	\$ (0.12)	\$ 0.14
Diluted	\$ (0.12)	\$ 0.14



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West Fraser is an integrated forest products company producing lumber, LVL, MDF, plywood, linerboard, kraft paper and newsprint. The Company has 9,200 employees and operations in British Columbia, ALberta and the southern United States.