



**West Fraser Timber Co. Ltd**

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**NEWS RELEASE  
WEST FRASER TIMBER CO. LTD.  
("WFT")**

**Wednesday, February 20, 2008**

Attention: Business & Financial Editors  
Financial Analysts

**West Fraser Announces Fourth Quarter and Annual Results**

Vancouver, BC – **West Fraser Timber Co. Ltd.** today reported a loss of \$3 million or \$0.07 per share on sales of \$782 million in the fourth quarter of 2007 and a loss of \$34 million or \$0.80 per share, on sales of \$3,316 million for 2007. The fourth quarter loss reflected the benefit of a \$67 million income tax recovery which includes \$30 million related to a statutory tax rate reduction.

These results compare with previous periods as follows:

	2007			2006	
	YTD	Q4	Q3	YTD	Q4
Sales	3,316	782	827	3,326	727
EBITDA <sup>1</sup>	103	7	27	682	427
Operating earnings (loss)	(162)	(64)	(40)	392	358
Earnings (loss)	(34)	(3)	(12)	398	296
Diluted EPS	(0.80)	(0.07)	(0.28)	9.23	6.87

Hank Ketcham, West Fraser's Chair, President and CEO stated: "We are obviously experiencing a very severe down cycle with a combination of the collapse of the U.S. housing market and a very strong Canadian dollar. While our results are disappointing, our people continue to work very hard to ensure that we come out of this downturn in a position to continue to create value for our shareholders."

**Operational Results**

The Company's lumber operations produced EBITDA for the quarter of negative \$45 million, compared to EBITDA of negative \$27 million for the third quarter of 2007, reflecting a decline

<sup>1</sup> Throughout this News Release, 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.

in the price of lumber. The average benchmark price of SPF lumber declined by \$30 per Mfbm from the previous quarter. A reduction in the price of lumber at the end of the quarter resulted in lumber and log inventory write-downs totaling \$10 million. The U.S. sawmills suffered operating losses as prices for southern yellow pine wider dimension lumber were depressed. To date, West Fraser has implemented or announced several lumber production curtailments in Canada in response to declining markets totaling approximately 425 MMfbm on an annualized basis. In addition, the Company today announced additional curtailments to be implemented in certain sawmills in the U.S. operations totaling approximately 350 MMfbm on an annualized basis.

Rail service reliability continued to be a significant problem for the Company.

Panel operations generated EBITDA for the quarter of \$13 million compared to \$19 million in the previous quarter with the Canadian plywood market remaining strong while MDF and LVL markets weakened.

Pulp and paper operations generated EBITDA of \$37 million compared to \$26 million in the previous quarter reflecting, in part, increased shipments. U.S. dollar pulp prices strengthened during the fourth quarter but were largely offset by the strong Canadian dollar.

## **Outlook**

North American lumber markets continue to be extremely weak and will not improve until additional production curtailments occur or the U.S. housing market recovers. Most analysts believe that such recovery is unlikely to occur in 2008. Pulp markets are expected to remain strong in the near term.

“There is very little we can do about the U.S. housing crisis or the strong Canadian dollar. What we can do, and are doing, is focusing on reducing unnecessary costs and improving efficiencies.” said Mr. Ketcham.

## **Timber Tenure Acquisition**

On February 18, 2008 West Fraser announced that it had entered into an agreement to acquire certain timber tenures from Weyerhaeuser. The tenures have a total annual allowable cut of approximately 400,000 m<sup>3</sup> and are located in the Kamloops TSA. The acquisition is seen as an important strategic step which will contribute to the long-term viability of the Company's Chasm and 100 Mile House sawmills and Williams Lake plywood mill as harvest levels decline as a result of the mountain pine beetle infestation.

## **Dividends Declared**

The Board of Directors of the Company has declared a quarterly dividend of \$0.14 per share on the Common shares and the Class B common shares in the capital of the Company, payable on April 4, 2008 to shareholders of record on March 20, 2008.

## **Annual Financial Statements and Management's Discussion & Analysis ("MD&A")**

The Company's consolidated financial statements for the year ended December 31, 2007 and related MD&A can be obtained on the Company's web site: [www.westfraser.com](http://www.westfraser.com) and on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) under the Company's profile.

### **The Company**

West Fraser is an integrated wood products company producing lumber, wood chips, LVL, MDF, plywood, pulp, linerboard, kraft paper and newsprint. The Company has approximately 9,000 employees and operations in western Canada and the southern United States.

### **Forward-Looking Statements**

This news release 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 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, actual and potential trade sanctions and the outcome of trade disputes, the availability of fibre and changes in stumpage fees, competition, operational curtailments, 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 in, suggested or projected by, these statements. 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, except as required by applicable law.

### **Conference Call**

Investors are invited to listen to the quarterly conference call on Thursday, February 21, 2008 at 8:30 a.m. Pacific Time (11:30 a.m. Eastern Time) by dialing 1-800-952-4972 (toll-free North America). The call may also be accessed through West Fraser's website at [www.westfraser.com](http://www.westfraser.com). A replay will be available one hour following the call until March 21, 2008 by dialing 1-800-408-3053. The pass code is 3249660.



**West Fraser Timber Co. Ltd.**  
**CONSOLIDATED BALANCE SHEETS**  
*(in millions of Canadian dollars - unaudited)*

	As at December 31, 2007	As at December 31, 2006
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 17.2	\$ 605.6
Accounts receivable	278.6	300.9
Income taxes receivable	50.6	-
Inventories	517.4	531.9
Prepaid expenses	13.0	12.9
	<b>876.8</b>	<b>1,451.3</b>
<b>Property, plant, equipment and timber</b>	<b>2,215.0</b>	<b>2,133.9</b>
<b>Deferred charges</b>	<b>54.3</b>	<b>38.1</b>
<b>Goodwill</b>	<b>263.7</b>	<b>263.7</b>
<b>Other assets</b>	<b>115.7</b>	<b>127.7</b>
<b>Future income taxes</b>	<b>40.4</b>	<b>10.8</b>
	<b>\$ 3,565.9</b>	<b>\$ 4,025.5</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Cheques issued in excess of funds on deposit	\$ 20.9	\$ -
Operating loans <i>(note 6)</i>	145.3	-
Accounts payable and accrued liabilities	282.2	468.4
Income taxes payable	-	178.9
Current portion of reforestation obligations	50.7	54.2
Current portion of long-term debt <i>(note 6)</i>	2.4	128.2
	<b>501.5</b>	<b>829.7</b>
<b>Long-term debt <i>(note 6)</i></b>	<b>544.9</b>	<b>496.0</b>
<b>Other liabilities <i>(note 7)</i></b>	<b>136.7</b>	<b>137.5</b>
<b>Future income taxes</b>	<b>293.7</b>	<b>323.2</b>
	<b>1,476.8</b>	<b>1,786.4</b>
<b>Shareholders' equity</b>		
Share capital <i>(note 8)</i>	599.3	597.8
Accumulated other comprehensive loss <i>(note 9)</i>	(93.2)	-
Retained earnings	1,583.0	1,641.3
	<b>2,089.1</b>	<b>2,239.1</b>
	<b>\$ 3,565.9</b>	<b>\$ 4,025.5</b>

Contingency *(note 17)*

Number of Common shares outstanding at February 20, 2008 was 42,805,086



**West Fraser Timber Co. Ltd.**

**CONSOLIDATED STATEMENTS OF EARNINGS**

(in millions of Canadian dollars - unaudited)

	October 1 to December 31		January 1 to December 31	
	2007	2006	2007	2006
<b>Sales</b>	\$ <b>782.2</b>	\$ 727.2	\$ <b>3,315.7</b>	\$ 3,325.8
<b>Costs and expenses</b>				
Cost of products sold	<b>611.3</b>	516.8	<b>2,531.1</b>	2,296.1
Freight and other distribution	<b>119.2</b>	120.8	<b>495.6</b>	543.7
Export taxes	<b>15.8</b>	16.8	<b>83.8</b>	16.8
Amortization	<b>71.1</b>	68.6	<b>265.2</b>	251.9
Selling, general and administration	<b>28.7</b>	32.6	<b>102.4</b>	112.6
Restructuring charge (note 11)	-	-	-	37.6
Duty refund	-	(386.5)	-	(325.4)
	<b>846.1</b>	369.1	<b>3,478.1</b>	2,933.3
<b>Operating earnings (loss)</b>	<b>(63.9)</b>	358.1	<b>(162.4)</b>	392.5
<b>Other</b>				
Interest income on duty refund (note 12)	-	50.0	-	50.0
Interest expense - net	<b>(9.5)</b>	(6.9)	<b>(29.6)</b>	(37.6)
Exchange gain (loss) on long-term debt	<b>1.0</b>	(14.3)	<b>52.2</b>	(0.7)
Gain on sale of power purchase agreement (note 5)	-	-	-	61.8
Gain on assets held for sale (note 13)	-	21.5	-	21.7
Gain on timber take-back (note 14)	-	-	-	13.6
Other (expense) income	<b>2.1</b>	25.0	<b>(4.6)</b>	21.0
<b>Earnings (loss) before income taxes and non-controlling interest</b>	<b>(70.3)</b>	433.4	<b>(144.4)</b>	522.3
Recovery of (provision for) income taxes (note 15)	<b>67.4</b>	(137.3)	<b>110.1</b>	(123.9)
<b>Earnings (loss) before non-controlling interest</b>	<b>(2.9)</b>	296.1	<b>(34.3)</b>	398.4
Non-controlling interest	-	0.1	-	(0.4)
<b>Earnings (loss)</b>	\$ <b>(2.9)</b>	\$ 296.2	\$ <b>(34.3)</b>	\$ 398.0
<b>Earnings (loss) per share (dollars) (note 16)</b>				
Basic	\$ <b>(0.07)</b>	\$ 6.93	\$ <b>(0.80)</b>	\$ 9.31
Diluted	\$ <b>(0.07)</b>	\$ 6.87	\$ <b>(0.80)</b>	\$ 9.23



**West Fraser Timber Co. Ltd.**

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND  
COMPREHENSIVE EARNINGS**

*(in millions of Canadian dollars - unaudited)*

	October 1 to December 31		January 1 to December 31	
	2007	2006	2007	2006
<b>RETAINED EARNINGS</b>				
<b>Balance - beginning of period</b>	\$ 1,592.0	\$ 1,352.7	\$ 1,641.3	\$ 1,268.8
Change in accounting	-	(1.5)	-	(1.5)
Earnings (loss)	(2.9)	296.2	(34.3)	398.0
	<b>1,589.1</b>	<b>1,647.4</b>	<b>1,607.0</b>	<b>1,665.3</b>
Common share dividends	(6.1)	(6.1)	(24.0)	(24.0)
<b>Balance - end of period</b>	<b>\$ 1,583.0</b>	<b>\$ 1,641.3</b>	<b>\$ 1,583.0</b>	<b>\$ 1,641.3</b>
<b>COMPREHENSIVE EARNINGS</b>				
<b>Earnings (loss)</b>	\$ (2.9)	\$ -	\$ (34.3)	\$ -
<b>Other comprehensive loss</b>				
Unrealized foreign exchange translation loss on investment in self-sustaining foreign operations	(3.2)	-	(93.2)	-
<b>Comprehensive loss</b>	<b>\$ (6.1)</b>	<b>\$ -</b>	<b>\$ (127.5)</b>	<b>\$ -</b>



**West Fraser Timber Co. Ltd.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions of Canadian dollars - unaudited)

	October 1 to December 31		January 1 to December 31	
	2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>Earnings (loss)</b>	\$ (2.9)	\$ 296.2	\$ (34.3)	\$ 398.0
Items not affecting cash				
Amortization	71.1	68.6	265.2	251.9
Write-down of pulp assets	-	-	-	34.8
Exchange (gain) loss on long-term debt	(1.0)	14.3	(52.2)	0.7
Gain on asset sales	(1.8)	(23.0)	(17.4)	(98.3)
Change in reforestation obligations	2.0	5.7	(8.2)	(6.3)
Change in other long-term liabilities	1.5	4.0	3.5	12.0
Change in deferred charges	(17.7)	(4.9)	(18.7)	(14.6)
Future income taxes	(48.1)	3.9	(61.0)	(59.0)
Other	(1.1)	(0.8)	0.7	2.8
	2.0	364.0	77.6	522.0
Net change in non-cash working capital items	(19.1)	259.8	(316.5)	358.2
	(17.1)	623.8	(238.9)	880.2
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of long-term debt	(125.3)	(0.6)	(126.2)	(1.2)
Proceeds from long-term debt	-	-	102.9	-
Proceeds from (repayment of) operating loans	130.4	(65.3)	146.3	(165.1)
Common share dividends	(6.1)	(6.1)	(24.0)	(24.0)
Other	0.2	0.2	1.5	0.7
	(0.8)	(71.8)	100.5	(189.6)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition (note 4)	(0.9)	-	(380.1)	-
Additions to property, plant, equipment and timber	(15.3)	(45.8)	(107.3)	(211.6)
Proceeds from disposals of property, plant, equipment and timber	3.1	4.2	13.6	37.0
Net proceeds from assets held for sale (note 13)	-	80.8	-	81.4
Addition to power purchase agreement	-	-	-	(17.5)
Decrease in other assets	3.8	3.6	2.9	7.4
	(9.3)	42.8	(470.9)	(103.3)
<b>(Decrease) increase in net cash *</b>	<b>(27.2)</b>	<b>594.8</b>	<b>(609.3)</b>	<b>587.3</b>
<b>Cash - beginning of period</b>	<b>23.5</b>	<b>10.8</b>	<b>605.6</b>	<b>18.3</b>
<b>Cash - end of period</b>	<b>\$ (3.7)</b>	<b>\$ 605.6</b>	<b>\$ (3.7)</b>	<b>\$ 605.6</b>
*Cash consists of cash and short-term investments less cheques issued in excess of funds on deposit.				
<b>Supplemental information:</b>				
<i>Interest paid</i>	\$ 18.5	\$ 17.5	\$ 39.5	\$ 40.8
<i>Income taxes paid</i>	\$ -	\$ 7.2	\$ 189.7	\$ 73.3
<b>Non - cash investing activity:</b>				
<i>Contracts terminated on acquisition (note 3)</i>	\$ -	\$ -	\$ (10.4)	\$ -



**West Fraser Timber Co. Ltd.**

**FOURTH QUARTER SEGMENTED INFORMATION**

*(in millions of Canadian dollars - unaudited)*

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
<b>October 1, 2007 to December 31, 2007</b>					
Sales at market prices					
To external customers	\$ 401.8	\$ 110.6	\$ 269.8	\$ -	\$ 782.2
To other segments	29.0	2.4	-	-	
	<u>\$ 430.8</u>	<u>\$ 113.0</u>	<u>\$ 269.8</u>	<u>\$ -</u>	
EBITDA <sup>1</sup>	\$ (45.3)	\$ 12.9	\$ 36.7	\$ 2.9	\$ 7.2
Amortization	33.4	11.4	25.5	0.8	71.1
Operating earnings (loss)	(78.7)	1.5	11.2	2.1	(63.9)
Interest expense - net	(4.9)	(1.0)	(2.2)	(1.4)	(9.5)
Exchange gain on long-term debt	-	-	-	1.0	1.0
Other income (expense)	3.4	-	(0.3)	(1.0)	2.1
Earnings (loss) before income taxes and non-controlling interest	<u>\$ (80.2)</u>	<u>\$ 0.5</u>	<u>\$ 8.7</u>	<u>\$ 0.7</u>	<u>\$ (70.3)</u>
<b>October 1, 2006 to December 31, 2006</b>					
Sales at market prices					
To external customers	\$ 358.4	\$ 102.1	\$ 266.7	\$ -	\$ 727.2
To other segments	21.4	1.8	-	-	
	<u>\$ 379.8</u>	<u>\$ 103.9</u>	<u>\$ 266.7</u>	<u>\$ -</u>	
EBITDA <sup>1</sup>	\$ 388.4	\$ 5.3	\$ 41.5	\$ (8.5)	\$ 426.7
Amortization	34.6	10.4	22.6	1.0	68.6
Operating earnings (loss)	353.8	(5.1)	18.9	(9.5)	358.1
Interest income (expense) - net	46.3	(1.3)	(2.1)	0.2	43.1
Exchange loss on long-term debt	-	-	-	(14.3)	(14.3)
Gain (loss) on sale of power purchase agreement	2.2	8.4	(10.6)	-	-
Gain on sale of assets held for sale	21.5	-	-	-	21.5
Other income	9.3	0.2	0.1	15.4	25.0
Earnings (loss) before income taxes and non-controlling interest	<u>\$ 433.1</u>	<u>\$ 2.2</u>	<u>\$ 6.3</u>	<u>\$ (8.2)</u>	<u>\$ 433.4</u>

**1 Non GAAP measure:**

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



**West Fraser Timber Co. Ltd.**

**TWELVE MONTHS SEGMENTED INFORMATION**

(in millions of Canadian dollars - unaudited)

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
<b>January 1, 2007 to December 31, 2007</b>					
Sales at market prices					
To external customers	\$ 1,802.1	\$ 475.3	\$ 1,038.3	\$ -	\$ 3,315.7
To other segments	111.4	11.7	-	-	
	\$ 1,913.5	\$ 487.0	\$ 1,038.3	\$ -	
EBITDA <sup>1</sup>	\$ (82.1)	\$ 59.0	\$ 105.7	\$ 20.2	\$ 102.8
Amortization	122.0	41.3	98.7	3.2	265.2
Operating earnings (loss)	(204.1)	17.7	7.0	17.0	(162.4)
Interest (expense) income - net	(19.1)	(4.0)	(6.6)	0.1	(29.6)
Exchange gain on long-term debt	-	-	-	52.2	52.2
Other income (expense)	2.7	(0.7)	6.6	(13.2)	(4.6)
Earnings (loss) before income taxes and non-controlling interest	\$ (220.5)	\$ 13.0	\$ 7.0	\$ 56.1	\$ (144.4)
<b>January 1, 2006 to December 31, 2006</b>					
Sales at market prices					
To external customers	\$ 1,755.6	\$ 475.1	\$ 1,095.1	\$ -	\$ 3,325.8
To other segments	83.4	7.6	-	-	
	\$ 1,839.0	\$ 482.7	\$ 1,095.1	\$ -	
EBITDA <sup>1</sup>	\$ 518.0	\$ 52.8	\$ 122.8	\$ (11.6)	\$ 682.0
Amortization	117.6	39.7	91.0	3.6	251.9
Restructuring charge	-	-	37.6	-	37.6
Operating earnings (loss)	400.4	13.1	(5.8)	(15.2)	392.5
Interest income (expense) - net	29.5	(6.3)	(11.0)	0.2	12.4
Exchange loss on long-term debt	-	-	-	(0.7)	(0.7)
Gain on sale of power purchase agreement	2.2	8.4	51.2	-	61.8
Gain on sale of assets held for sale	21.7	-	-	-	21.7
Gain on timber take-back	13.6	-	-	-	13.6
Other income (expense)	13.8	0.4	(0.2)	7.0	21.0
Earnings (loss) before income taxes and non-controlling interest	\$ 481.2	\$ 15.6	\$ 34.2	\$ (8.7)	\$ 522.3

**1 Non GAAP measure:**

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

**West Fraser Timber Co. Ltd.**

Notes to Consolidated Financial Statements

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

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**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, 2007.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the December 31, 2007 consolidated annual financial statements.

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

**2. 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 (note 4). 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 \$18.2 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 the 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 impact the Company's financial statements.

**Share-based compensation**

Effective December 31, 2006, the Company adopted the 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 \$1.5 million (net of tax of \$0.8 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 \$1.6 million (net of tax of \$0.8 million).

### **Change in estimates**

The December 31, 2006 estimate of accrued incentive compensation was reduced by \$10.3 million in 2007 resulting in a reduction of selling, general and administrative expense.

### **3. New accounting pronouncements**

Effective January 1, 2008, the Company will adopt new CICA standards 1535, 3031, 3862 and effective January 1, 2009, 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 costs and subsequent recognition as an expense, including any write-down to net realizable value.

#### **Section 3862 - Financial instruments - disclosures**

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.

### **4. Acquisition**

On March 31, 2007, the Company acquired 13 sawmills located in the southern United States for \$390.5 million.

The transaction resulted in the termination of certain NBSK pulp supply contracts previously entered into with the vendor of the sawmills. These pulp supply contracts were valued at \$10.4

million based on 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 is allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase.

The purchase price allocation is as follows:

Current assets	<b>\$103.8</b>
Current liabilities	<b>(22.6)</b>
Property, plant and equipment	<b>308.3</b>
Other assets	<b>1.0</b>
Consideration	<b>390.5</b>
Consideration attributed to termination of pulp supply contracts	<b>(10.4)</b>
Net cash consideration	<b>\$380.1</b>

The allocation above includes costs related to the acquisition of \$7.3 million.

#### 5. Other Assets

	<b>December 31, 2007</b>	December 31, 2006
Power purchase agreements – net	<b>\$ 95.1</b>	\$ 102.4
Investments	<b>4.5</b>	10.7
Advances for timber and timber deposits	<b>16.1</b>	14.6
	<b>\$ 115.7</b>	\$ 127.7

#### Power purchase agreements

Effective January 1, 2001, the Company entered into two power purchase agreements to acquire a portion of the electricity generated from two power plants in Alberta at substantially predetermined prices. Effective May 1, 2006, the Company sold its interest in one of the agreements for proceeds of \$68.2 million while concurrently acquiring a greater interest in the remaining agreement for \$85.7 million. The transactions were accounted for as a sale and purchase, resulting in a gain of \$61.8 million. Following the transactions, the Company's share of electricity capacity to 2020 is expected to be approximately 115 megawatts. The Company sells the electricity acquired at prevailing market prices. At the same time, the Company's Alberta operations purchase electricity at prevailing market prices. The power purchase agreement is amortized over its life.

6. **Long-term debt and operating loans**

	December 31, 2007	December 31, 2006
Debentures due 2007; interest at 6.8%	\$ -	\$ 125.0
Debentures due 2009; interest at 4.94%	150.0	150.0
Term note due 2010; interest at floating rates <sup>(1)</sup>	100.0	-
US \$300 senior notes due 2014; interest at 5.2%	297.4	349.6
Term note due on demand; interest at floating rates <sup>(1)</sup>	2.1	3.3
Note payable due in instalments to 2020; interest at 5.5%	2.9	-
	<b>552.4</b>	627.9
Less: Current portion of long-term debt	(2.4)	(128.2)
Deferred financing costs	(5.1)	(3.7)
	<b>\$ 544.9</b>	\$ 496.0

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

The Company has \$605.0 million in revolving lines of credit available, of which \$145.3 million (net of deferred financing costs of \$1.0 million) was drawn as at December 31, 2007. 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 letters of credit in the amount \$20.4 million. The revolving lines of credit include a \$600 million committed facility maturing in 2012.

7. **Other liabilities**

	December 31, 2007	December 31, 2006
Post-retirement obligations	\$ 58.4	\$ 54.0
Timber damage deposits	13.9	14.6
Reforestation obligations - long-term	55.4	60.1
Other asset retirement obligations	9.0	8.8
	<b>\$ 136.7</b>	\$ 137.5

8. **Share capital**

	December 31, 2007		December 31, 2006	
	Number	Amount	Number	Amount
Common	39,919,880	\$ 599.1	37,886,731	\$ 597.6
Class B common	2,885,206	0.3	4,885,206	0.5
Total Common	42,805,086	599.4	42,771,937	598.1
Share purchase loans		(0.1)		(0.3)
Share capital		<b>\$ 599.3</b>		\$ 597.8

**Common shares**

For the three months ended December 31, 2007, the Company issued 2,569 Common shares for cash of \$0.1 million (for the year ended December 31, 2007 the Company issued 33,149

Common shares for cash of \$1.3 million and 2,000,000 Class B shares in the amount of \$0.2 million were exchanged for Common shares).

9. **Accumulated other comprehensive loss**

	<b>December 31, 2007</b>
Adjustment on change in translation method (note 2)	<b>\$ 18.2</b>
Unrealized foreign exchange translation loss on investments in self-sustaining foreign operations	<b>75.0</b>
<b>Accumulated other comprehensive loss</b>	<b>\$ 93.2</b>

10. **Employee future benefits**

The total benefit cost of the Company's defined benefit pension plans was \$8.8 million for the three months ended December 31, 2007 (three months ended December 31, 2006 - \$10.6 million) and \$27.7 million for the year ended December 31, 2007 (year ended December 31, 2006 - \$28.4 million).

11. **Restructuring charge and impairment charges**

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

12. **Countervailing and antidumping duties**

On October 12, 2006, the Softwood Lumber Agreement ("SLA 2006") between the Canadian and U.S. governments came into effect. The terms include replacing the then existing countervailing and antidumping duties with a Canadian-imposed export tax, or a combination of a lower tax and quota, both of which may vary based on the price of lumber and the volume of shipments to the United States. The SLA 2006 required both parties to withdraw all litigation and the U.S. industry to waive their rights to file another case, while the SLA 2006 is in effect. It also required the U.S. government to refund with interest all duties collected while the Canadian government agreed to return US\$1 billion to the U.S. government. The Company's share of the US \$1 billion paid to the U.S. government under the SLA 2006 was funded by a special charge of 18.06% on duties and interest up to October 12, 2006. The following amounts have been recorded in the financial statements related to duties and the SLA 2006:

	2006
Duties and interest included in accounts receivable	\$ 2.7
Special charge included in accounts payable	\$ 122.4
Duties expensed prior to the SLA 2006 coming into effect	\$ 61.4
Duty refund recorded in income - net of related special charge	\$(386.8)
Duty refund	\$(325.4)
Interest income	\$ (50.0)

**13. Assets held for sale**

In the fourth quarter of 2006, the Company sold its interest in two sawmills and the related timber harvesting rights for net proceeds of \$79.2 million, resulting in a gain of \$21.5 million. The Company also sold certain road maintenance and logging operations for proceeds of \$2.2 million, resulting in a gain of \$0.2 million.

The results of operations from these assets to the sale dates are included in earnings. Effective January 1, 2006, amortization was discontinued on the assets held for sale.

**14. The Forestry Revitalization Plan (“FRP”)**

In 2003, the B.C. Government (“Crown”) enacted the FRP which provided for changes to Crown forest policy and to the allocation of Crown timber tenures to licensees. The harvesting rights associated with replaceable tenures in excess of certain annual volumes were reduced by 20% and assets, such as roads and bridges in the affected areas, were also expropriated. The effect of the timber take-back was a reduction of approximately 1,275,000 m<sup>3</sup> of the Company’s existing allowable annual cut on replaceable tenures. In 2006, the Company received \$30.7 million for the tenure reduction and certain related assets resulting in a gain of \$13.6 million.

**15. Income taxes**

The Company’s effective tax rate is as follows:

	<b>October 1 to December 31</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Income taxes at statutory rates	\$ 24.0	34.1	\$ (147.8)	(34.1)
Non-taxable amounts	1.7	2.4	7.5	1.7
Rate differentials between jurisdictions and on specified activities	4.8	6.8	4.5	1.0
Rate differentials on loss carrybacks	1.4	2.0	-	-
Reduction in statutory income tax rates	30.3	43.1	-	-
Benefit of losses not previously recognized	-	-	3.1	0.7
Other	5.2	7.4	(4.6)	(1.0)
<b>Income tax recovery</b>	<b>\$ 67.4</b>	<b>95.8</b>	<b>\$ (137.3)</b>	<b>(31.7)</b>

	<b>January 1 to December 31</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Income taxes at statutory rates	<b>\$ 49.3</b>	<b>34.1</b>	\$ (178.1)	(34.1)
Non-taxable amounts	<b>11.2</b>	<b>7.8</b>	20.6	4.0
Rate differentials between jurisdictions and on specified activities	<b>9.5</b>	<b>6.6</b>	8.8	1.6
Rate differentials on loss carrybacks	<b>3.5</b>	<b>2.4</b>	-	-
Reduction in statutory income tax rates	<b>33.0</b>	<b>22.8</b>	33.1	6.4
Other	<b>3.6</b>	<b>2.5</b>	(8.3)	(1.6)
<b>Income tax recovery</b>	<b>\$ 110.1</b>	<b>76.2</b>	\$ 123.9	(23.7)

#### 16. Earnings per share

Basic earnings per share are calculated based on earnings available to Common shareholders, as set out below, using the weighted average number of Common shares and Class B common shares outstanding. Diluted earnings per share assume the exercise of share options using the treasury stock method.

	<b>October 1 to December 31</b>		<b>January 1 to December 31</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Earnings (loss) available to shareholders	<b>\$ (2.9)</b>	\$ 296.2	<b>\$ (34.3)</b>	\$ 398.0
Weighted average number of shares (thousands)				
Weighted average shares – basic	<b>42,798</b>	42,757	<b>42,788</b>	42,751
Share options – treasury stock method	<b>341</b>	356	<b>294</b>	376
Weighted average shares - diluted	<b>43,139</b>	43,113	<b>43,082</b>	43,127
Earnings (loss) per share (dollars)				
Basic	<b>\$ (0.07)</b>	\$ 6.93	<b>\$ (0.80)</b>	\$ 9.31
Diluted	<b>\$ (0.07)</b>	\$ 6.87	<b>\$ (0.80)</b>	\$ 9.23

#### 17. Contingency

Under the SLA 2006, if monthly shipments of softwood lumber from the B.C. Interior region or from Alberta exceed certain volumes prescribed by the SLA 2006, the applicable export tax rate for that month is increased by 50% (the “Surge Tax”). 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 this interpretation is contrary to the SLA 2006. This issue is now the subject of an arbitration under the SLA 2006. 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 \$14.0 million related to 2007 shipments.

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West Fraser shares trade on the Toronto Stock Exchange under the symbol: “WFT”

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