WEST FRASER TIMBER CO. LTD.
THIRD QUARTER 2006

REPORT TO SHAREHOLDERS

For the third quarter of 2006, West Fraser reported a loss of $8 million or $0.19 per share on sales of $809 million compared to earnings of $104 million or $2.41 per share on sales of $888 million in the second quarter of 2006 and earnings of $18 million or $0.42 per share on sales of $890 million in the third quarter of 2005. For the first nine months of 2006, earnings were $102 million or $2.36 per share, on sales of $2,599 million. This compares to earnings of $99 million or $2.29 per share, on sales of $2,745 million for the first nine months of 2005.

EBITDA[1] was $53 million or 7% of sales for the quarter compared to EBITDA of $87 million or 10% of sales for the second quarter of 2006 and $73 million or 8% of sales for the third quarter of 2005. For the first nine months of 2006, EBITDA was $255 million or 10% of sales compared to $352 million or 13% of sales for the first nine months of 2005.

Third quarter 2006 earnings reflect the following after-tax items:

- Recovery of $2 million or $0.03 per share related to share option expense; and
- Loss of $0.3 million or $0.01 per share related to the translation of U.S. dollar denominated debt.

Third quarter 2005 earnings reflected the following after-tax items:

- Expense of $5 million or $0.12 per share related to the write down of assets for a jointly-owned sawmill shut down in Red Earth, Alberta;
- Recovery of $3 million or $0.06 per share related to share option expense;
- Gain of $24 million or $0.55 per share related to the translation of U.S. denominated debt; and
- Gain of $10 million or $0.22 per share related to the reduction of the B.C. statutory income tax rate.

OPERATIONAL RESULTS

Lumber EBITDA for the quarter was negative $10 million. This compares to EBITDA of $49 million or 10% of sales for the second quarter of 2006. The decline in EBITDA resulted primarily from lower lumber prices which resulted in a write down of lumber and log inventories. The inventory write downs are included in cost of products sold in the third quarter financial statements. Benchmark SPF 2X4 lumber prices averaged US$278 per Mfbm during the quarter compared to US$316 per Mfbm during the second quarter of 2006. All sawmills operated well during the quarter and shipments to customers were approximately equal to production.

West Fraser expensed $17 million in lumber duty payments in the quarter compared to $22 million in the second quarter of 2006[2].

Panel operations generated EBITDA for the quarter of $16 million or 13% of sales compared to $16 million or 12% of sales in the second quarter of 2006.

The pulp and paper operations generated EBITDA of $51 million or 18% of sales compared to EBITDA of $18 million or 6% of sales in the second quarter of 2006. This EBITDA improvement was mostly due to the return to normal operations of the Company's NBSK pulp mills and its linerboard and kraft paper mill after taking planned annual maintenance shutdowns in the second quarter of 2006.

Pulp and newsprint prices improved in the quarter compared to the second quarter of the year resulting in higher mill net returns for NBSK pulp, BCTMP and newsprint while linerboard prices were similar to second quarter levels. The outlook for the balance of the year is for stable prices for West Fraser's pulp and paper products.

LUMBER TRADE DISPUTE

On October 12, 2006, the Softwood Lumber Agreement ("SLA 2006") came into force with the result that the Company began paying an export tax of 15% to the Canadian government on shipments from that date. SLA 2006 is still subject to the passage of legislation by the Canadian parliament which is expected to occur in the fourth quarter. Refunds of approximately US $343 million before tax (81% of US $424 million), plus interest, are expected to be received, although the timing of receipt is still uncertain.

OUTLOOK

For the balance of the year the prices for lumber and plywood are expected to be depressed although some improvement may be seen in lumber prices due to announced shutdowns of sawmills by third parties and the resolution of the lumber trade dispute. Pulp and paper operations should continue to be profitable in the fourth quarter.

On behalf of the Board of Directors,

Henry H. Ketcham
Chairman of the Board,
President & Chief Executive Officer
October 25, 2006

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[1] Throughout this report, reference is made to EBITDA (defined as operating earnings plus amortization of property, plant, equipment and timber, plus restructuring charge), 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.

[2] As at September 30, 2006, the total amount on deposit related to duties is approximately US$424 million, excluding amounts deposited by Weldwood of Canada Limited prior to its acquisition by West Fraser, refunds of which are for the account of the previous owner.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion and analysis should be read in conjunction with the unaudited consolidated interim financial statements included in this quarterly report and Management's Discussion & Analysis included in the Company's 2005 Annual Report. Additional information relating to the Company, including the Company's Annual Information Form is available on SEDAR at www.sedar.com.

The information contained in this report includes forward-looking statements, the accuracy of which depends on a number of assumptions and is subject to 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. Accordingly, actual results, performance and achievements of the Company may differ materially from those projected. 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 of property, plant, equipment and timber, plus 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 October 25, 2006.

REVENUE AND EARNINGS COMPARISON

	2006			2005	
	Q3	Q2	**YTD**	Q3	YTD
FINANCIAL HIGHLIGHTS (millions of $, except as noted)					
Sales	**809**	888	**2,599**	890	2,745
Operating earnings	**(8)**	27	**34**	4	161
Amortization of property, plant, equipment & timber	**61**	60	**183**	69	191
Restructuring charge	**–**	–	**38**	–	–
EBITDA	**53**	87	**255**	73	352
EBITDA margin (%)	**7**	10	**10**	8	13
Gain on sale of power purchase agreement	**–**	62	**62**	–	–
Gain on timber take-back	**–**	14	**14**	–	–
Earnings	**(8)**	104	**102**	18	99
Diluted earnings per share ($)	**(0.19)**	2.41	**2.36**	0.42	2.29
$CDN / $US – average	**1.122**	1.121	**1.133**	1.201	1.224
OPERATING HIGHLIGHTS					
Lumber (MMfbm)					
Production	**1,060**	1,080	**3,276**	1,038	3,201
Shipments	**1,046**	1,131	**3,275**	1,135	3,185
Panels					
Plywood (MMsf – 3/8")					
Production	**183**	190	**557**	183	546
Shipments	**192**	190	**558**	203	551
LVL (Mcf)					
Production	**767**	797	**2,345**	809	2,442
Shipments	**623**	811	**2,184**	784	2,400
MDF (MMsf – 3/4")					
Production	**74**	76	**221**	74	220
Shipments	**70**	78	**226**	70	216
Pulp & Paper (Mtonnes)					
Linerboard & Kraft Paper					
Production	**119**	102	**342**	116	336
Shipments	**109**	120	**353**	109	338
NBSK					
Production	**149**	112	**402**	147	427
Shipments	**145**	139	**429**	147	421
BCTMP					
Production	**140**	144	**424**	148	416
Shipments	**137**	164	**464**	112	385
Newsprint					
Production	**30**	32	**94**	34	101
Shipments	**31**	31	**94**	33	99

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

	Q3-06	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05	Q1-05	Q4-04
Sales	**809**	888	902	832	890	953	902	552
Earnings	**(8)**	104	6	9	18	38	43	41
Basic EPS	**(0.19)**	2.43	0.14	0.20	0.42	0.89	1.00	1.10
Diluted EPS	**(0.19)**	2.41	0.14	0.20	0.42	0.88	0.99	0.94

The decrease in operating earnings for the quarter compared to the second quarter of 2006 and third quarter of 2005 was due primarily to lower lumber prices. The decline in lumber prices reduced revenue and also led to a write down of approximately $36 million of the value of the Company's log and lumber inventories to reflect their lower net realizable value in the quarter. Higher product prices for pulp and paper during the quarter compared to the previous quarter and the third quarter of 2005 partially offset the decline in lumber earnings.

The combination of lower lumber prices, the log and lumber inventory write down, a stronger Canadian dollar and the $38 million Hinton Pulp restructuring charge contributed to lower operating earnings in the first nine months of 2006 compared to the first nine months of 2005.

Interest expense was $31 million for the first nine months of 2006 compared to $38 million for the same period of 2005. The decrease in interest expense from last year was due mainly to lower debt levels, interest earned on cash held on deposit in 2006 and deferred charges of $3 million expensed in the second quarter of 2005 related to a debt prepayment.

The change in value of the Canadian dollar relative to the U.S. dollar resulted in an exchange loss in the third quarter of less than $1 million on the Company's U.S. denominated long-term debt. This compares to an exchange gain of $16 million in the second quarter of 2006 and an exchange gain of $24 million in the third quarter of 2005. In each of the first nine months of 2006 and of 2005 there was an exchange gain of $14 million. The change in exchange rate also resulted in a gain on the translation of receivables and other items, included in other income, of $1 million in the third quarter compared to a $13 million translation loss in the third quarter of 2005. For the first nine months of 2006 the translation loss was $7 million compared to an $11 million translation loss in the first nine months of 2005. Other income also includes gains on the sale of property, plant, equipment and timber.

Effective May 1, 2006 the Company sold its interests in one of two power purchase agreements to which it was a party for proceeds of $68 million while concurrently acquiring a greater interest in the remaining agreement for $86 million. These transactions were accounted for as a sale and purchase respectively, resulting in a gain of $62 million. See note 3 to the unaudited interim consolidated financial statements. The reinvestment of the proceeds of $68 million combined with the additional investment of $18 million in the remaining agreement provides the Company with an increased interest in the power purchase agreement related to a newer and lower cost power plant providing a more consistent energy hedge and substantially protecting its energy position through 2020.

During the second quarter, West Fraser reached an agreement with the Province of British Columbia for compensation for timber rights expropriated by the Province under the government's Forestry Revitalization Plan. The Company received approximately $29 million from the Province in compensation for the loss of approximately 1,275,000 m^3 of annual allowable cut from its replaceable forest tenures and received an additional $2 million for certain related assets. A gain of $14 million is included in earnings.

The effective tax rate for the first nine months of 2006 and 2005 was lower than the statutory rate primarily due to reductions during 2006 in federal and Alberta tax rates and the reduction during 2005 in the British Columbia tax rate. Note 9 to the unaudited interim consolidated financial statements provides a reconciliation from the statutory income tax rate to the effective income tax rate.

LUMBER

	2006			2005	
	Q3	Q2	**YTD**	Q3	YTD
Sales – $ millions	**433**	500	**1,459**	539	1,642
EBITDA – $ millions	**(10)**	49	**130**	52	262
EBITDA margin – %	**–**	10	**9**	10	16
Operating earnings – $ millions	**(39)**	21	**47**	16	171
Benchmark price					
SPF #2 & Better 2 x 4 (US$ per Mfbm)[1]	**278**	316	**312**	328	361
SYP #2 West 2 x 4 (US$ per Mfbm)[2]	**286**	351	**349**	443	423

[1] Source: Random Lengths – 2x4, #2 & Better – Net FOB mill.
[2] Source: Random Lengths – 2x4 – Net FOB mill westside.

Despite lower export duties, operating earnings declined in the third quarter and first nine months of 2006 compared to the same periods of 2005 due primarily to lower lumber prices, the strong Canadian dollar and a $36 million log and lumber inventory write down to net realizable value in the third quarter of 2006. Lower chip prices also affected operating earnings in the first nine months of 2006 compared to the same period of 2005.

In the third quarter of 2006, West Fraser expensed lumber duty deposits of $17 million compared to $39 million in the third quarter of 2005, reflecting reduced duty rates and lumber prices. West Fraser's duties on deposit, excluding interest thereon, total approximately US $424 million as at September 30, 2006, excluding amounts deposited by Weldwood of Canada Limited ("Weldwood") prior to its acquisition by the Company, refunds of which are for the account of the previous owner. The following table presents duties expensed in the periods indicated.

EXPORT DUTIES ($ millions)	Q1	Q2	Q3	Q4	Total
2006	**22**	**22**	**17**	**–**	**61**
2005	40	43	39	29	151
2004	31	42	52	31	156
2003	23	26	31	32	112
2002[1]	2	(13)	29	24	42

[1] After 2001 duty reversals.

The Company has entered into an agreement to sell its approximate 90% interest in the Burns Lake and Decker Lake sawmills and, subject to the receipt of customary regulatory and other third party consents and approvals, and the satisfaction of certain conditions, expects to complete this sale on October 31, 2006. The mills have an annual capacity of approximately 365 MMfbm and timber tenures with an AAC of 450,000 m^3. These divestitures were required in accordance with an agreement made between the Company and the Canadian Competition Commissioner in connection with the acquisition of Weldwood.

The new Quesnel sawmill is expected to commence operations in October 2006. The sawmill will have an annual production capacity of 500 MMfbm operating on a two shift basis, an increase from the original mill's capacity of 380 MMfbm operating on a three shift basis. The existing sawmill will run in tandem with the new sawmill for the start-up period minimizing lost production.

Annualized September 2006 U.S. housing starts were 1.8 million units which compares to September 2005 annualized housing starts of 2.2 million units. The reduction in housing starts has led to reduced demand for lumber and lower prices and has resulted in some sawmill shutdowns in both the United States and Canada. It is anticipated that a reduction in supply may help alleviate the downward pressure on lumber prices resulting from the decline in U.S. housing starts. The benchmark SPF 2x4 lumber price ended the third quarter of 2006 at US $248 per Mfbm.

PANELS

	2006			2005	
	Q3	Q2	**YTD**	Q3	YTD
Sales – $ millions	**124**	129	**379**	129	397
EBITDA – $ millions	**16**	16	**48**	14	53
EBITDA margin – %	**13**	12	**13**	11	13
Operating earnings – $ millions	**6**	5	**18**	5	26
Benchmark price					
MDF (US$ per MSF 3/4″ basis)[1]	**471**	431	**439**	413	416
Plywood (Cdn$ per MSF 3/8″ basis)[2]	**363**	360	**366**	359	386

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

Operating earnings for the quarter were similar to the prior quarter and third quarter of 2005 as the price improvement for MDF was offset by increased unit production costs in the LVL division due in part to lower production. Operating earnings were lower for the first nine months of 2006 compared to the first nine months of 2005 due primarily to lower plywood prices. The stronger Canadian dollar offset the price increases realized for MDF over the first nine months of 2006 compared to the first nine months of 2005.

PULP & PAPER

	2006			2005	
	Q3	Q2	**YTD**	Q3	YTD
Sales – $ millions	**275**	281	**828**	243	776
EBITDA – $ millions	**51**	18	**81**	8	52
EBITDA margin – %	**18**	6	**10**	3	7
Operating earnings – $ millions	**28**	(5)	**(25)**	(16)	(19)
Benchmark price					
NBSK (US$ per tonne)[1]	**757**	705	**705**	623	649
Linerboard (US$ per tonne)[2]	**568**	568	**549**	439	473
Newsprint (US$ per tonne)[3]	**663**	658	**655**	612	591

[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 improved in the third quarter of 2006 compared to the second quarter of 2006 mainly as the result of the return to normalized production volumes and costs at the Hinton and Cariboo pulp mills and the linerboard and kraft paper mill at Kitimat after completion of the annual maintenance shut downs in the second quarter of 2006. Operating earnings improved in the third quarter of 2006 compared to the third quarter of 2005 due primarily to higher product prices offset partially by the stronger Canadian dollar.

Operating earnings were lower in the first nine months of 2006 compared to the same period of 2005 due mainly to the $38 million restructuring charge in 2006 relating to Hinton Pulp. Higher product prices and lower chip and natural gas costs partially offset the effect of the one-time restructuring charge. The stronger Canadian dollar offset a large part of the increase in product prices which are denominated in U.S. dollars.

Both BCTMP mills operated well in the quarter and during the first nine months of the year resulting in increased production volumes at both mills relative to the first nine months of 2005. As a result of high electricity prices in Alberta, production at the Slave Lake pulp mill was at times curtailed, resulting in approximately 2,900 tonnes of lost production in the third quarter of 2006 and a total of 3,100 tonnes for the first nine months of 2006.

NBSK pulp production was higher in the third quarter of 2006 compared to the second quarter of 2006 as the annual maintenance shut downs at both NBSK pulp mills were completed in the second quarter. Production at the Cariboo pulp mill was also affected in the second quarter by additional downtime related to the failure of a bleach plant tank. Total NBSK pulp production in the first nine months of 2006 was lower compared to the same period in 2005 because of extended maintenance shutdowns in 2006 compared to 2005. In addition, production in 2006 at the Hinton mill has been adversely affected by a series of unrelated operating issues.

Production at the linerboard and kraft paper mill in Kitimat continues at record levels. The higher production has contributed to improved efficiencies and lower costs of production in the third quarter and in the first nine months of 2006 compared to the second quarter of 2006 and the comparative periods in 2005.

During the quarter, the Company pleaded guilty to two environmental charges relating to an incident that occurred in 2002 at the Kitimat facility resulting in a $0.1 million penalty. Improvements to environmental operating procedures and equipment have been made to reduce the risk of similar incidents occurring in the future.

In March 2006, the Company announced the permanent closure of Hinton Pulp's # 1 pulp machine and wood room and a $20 million upgrade of the remaining pulp machine. Upon completion of these changes, expected by the second quarter of 2007, the mill will have an annual capacity of 350,000 tonnes. In the first quarter of 2006 the Company recorded charges of $35 million against property, plant, equipment and timber and $3 million for other restructuring costs.

Pulp prices were higher in the quarter compared to the second quarter of 2006 and the third quarter of 2005 resulting in improved mill net returns for both NBSK and BCTMP. The stronger Canadian dollar in the third quarter of 2006 compared to the third quarter of 2005 reduced the effect of the pulp price increase. Mill nets were only marginally higher in the first nine months of 2006 compared to the first nine months of 2005 as the stronger Canadian dollar in 2006 significantly reduced the benefit of higher pulp prices. Pulp prices are expected to remain at current levels through the remainder of 2006.

During the third quarter, U.S. dollar linerboard prices remained much the same as in the second quarter of 2006. Mill nets were up approximately 10% from the third quarter of 2005 despite the stronger Canadian dollar. The outlook for linerboard is for continued strength in both demand and prices through to the end of the year.

Production at the Alberta Newsprint mill was lower compared to the same periods of 2005 due in part to an increase in production of lower basis weight newsprint as well as power-related curtailments during periods of high electricity prices. These curtailments resulted in 1,425 tonnes of lost production in the third quarter of 2006 and 1,567 tonnes for the first nine months of 2006. Newsprint prices increased in the third quarter and the short-term outlook is for prices to remain stable.

CAPITAL STRUCTURE

The Company issued 3,226 Common shares pursuant to the Employee Share Purchase Plan during the three months ended September 30, 2006 (first nine months of 2006 – 9,939 Common shares). The shares issued and outstanding at September 30, 2006 and at December 31, 2005 are presented in the table below.

	September 30, 2006	December 31, 2005
Common	**37,881,725**	37,871,786
Class B common	**4,885,206**	4,885,206
Total Common	**42,766,931**	42,756,992

Common shares and Class B common shares are equal in all respects except that each Class B common share may be exchanged for one Common share.

CAPITAL REQUIREMENTS AND LIQUIDITY

SUMMARY OF FINANCIAL POSITION

	September 30, 2006	December 31, 2005
Net cash[1] – $ millions	**11**	18
Current assets – $ millions	**834**	988
Current liabilities – $ millions	**469**	617
Ratio of current assets to current liabilities	**1.8**	1.6
Net debt[2] – $ millions	**669**	775
Shareholders' equity – $ millions	**1,950**	1,866
Net debt to capitalization –%[2]	**26**	29

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

2 Net debt (total debt less cash and short-term investments) divided by net debt plus shareholders' equity.

The Company'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 common share dividends. In years without a major acquisition or significant debt repayment, cash on hand and cash provided by operations have normally been sufficient to meet these requirements.

SELECTED CASH FLOW ITEMS ($ millions)

	2006			2005	
	Q3	Q2	**YTD**	Q3	YTD
Cash provided from (used in):					
Operating activities					
Cash provided before working capital changes	**30**	26	**158**	33	237
Non-cash working capital items	**98**	118	**98**	39	(191)
Total operating activities	**128**	144	**256**	72	46
Financing activities					
Debt and operating loans	**(101)**	(74)	**(101)**	(48)	(215)
Dividends & other	**(6)**	(6)	**(17)**	(6)	(18)
Total financing activities	**(107)**	(80)	**(118)**	(54)	(233)
Investing activities					
Additions to property, plant, equipment & timber	**(48)**	(63)	**(166)**	(59)	(161)
Other	**30**	(15)	**20**	22	24
Total investing activities	**(18)**	(78)	**(146)**	(37)	(137)
Change in cash	**3**	(14)	**(8)**	(19)	(324)

Lower accounts receivable, inventories and prepaid expenses partially offset by lower accounts payable contributed to the $98 million cash flow from non-cash working capital in the third quarter of 2006. Non-cash working capital items for the first nine months of 2005 included cash tax payments of $243 million.

Additions to property, plant, equipment and timber of $48 million in the quarter include $14 million related to the new Quesnel sawmill. Proceeds from disposal of property, plant, equipment and timber for the quarter were $30 million, most of which related to the timber take-back.

At September 30, 2006, the Company had unused committed credit facilities of approximately $465 million.

STUMPAGE

On July 1, 2006, the Province of British Columbia enacted a new timber pricing system for the B.C. Interior. The change to market based timber pricing has been anticipated for some time since it was announced as part of the Province's Forestry Revitalization Plan in 2003. Under the new pricing system, stumpage will be based on timber sales data derived from publicly auctioned timber rather than on the Statistics Canada lumber and chip price indices. The impact of this change on the Company's stumpage costs is not expected to be material for the balance of the year.

SOFTWOOD LUMBER DISPUTE UPDATE

On July 1, 2006, Canadian and U.S. government representatives agreed to the terms of a Softwood Lumber Agreement ("SLA 2006"). The basic terms include a termination of the existing duty deposit requirements and the imposition of 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 level of shipments to the United States. In addition, out of the existing duty deposits of approximately US $5.3 billion, a payment of approximately US $1 billion will be made to U.S. interests with half of that being paid to members of the U.S. coalition who initiated proceedings which resulted in the duty deposit requirements. The balance, including interest, will be returned to the Canadian companies. SLA 2006 requires both sides to withdraw all litigation and the U.S. industry petitioners to execute letters waiving their right to file another case while SLA 2006 is in effect. SLA 2006 requires legislation to be passed by the Canadian parliament, which is expected to occur late this year.

On October 12, 2006 SLA 2006 came into force, with BC and Alberta electing to be governed by the "export tax only" option under SLA 2006 which will result in the following export taxes:

Prevailing Monthly Price (based on Random Lengths Framing Lumber Composite Price)	**Export Tax (%)**
Over US $355	Nil
US $336 – $355	5
US $316 – $335	10
US $315 or under	15

As at October 12, 2006, the Random Lengths Framing Lumber Composite Price was under US $315 per Mfbm and accordingly, shipments to the U.S. after that date will incur a 15% export tax payable to the Canadian government. The export tax will be re-determined monthly based on the then current composite price. If the monthly volume of exports from a region selecting the export tax only option exceeds a certain "Trigger Volume" as defined in the SLA 2006 a Surge Mechanism will increase the tax rate for that month by 50%.

The Company has not recorded a reversal of previously expensed duties at this time due to uncertainty related to both the timing of receipt of refunds and the approval of related legislation by the Canadian parliament. It is expected that the conditions necessary to record the return of the lumber duties plus interest in income may be present prior to the end of the fourth quarter.

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars – unaudited)

	As at September 30, 2006	As at December 31, 2005
ASSETS		
Current assets		
Cash and short-term investments	$ 45.3	$ 62.2
Accounts receivable	268.8	308.5
Inventories	467.2	572.0
Prepaid expenses	27.9	14.1
Current assets held for sale (note 2)	25.2	30.7
	834.4	987.5
Property, plant, equipment & timber	2,158.5	2,230.1
Deferred charges	36.7	27.1
Goodwill	263.7	263.7
Other assets (note 3)	133.1	61.6
Long-term assets held for sale (note 2)	63.1	63.7
	$ 3,489.5	$ 3,633.7
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities		
Cheques issued in excess of funds on deposit	$ 34.5	$ 43.9
Operating loans (note 4)	65.3	165.1
Accounts payable and accrued liabilities	295.9	333.1
Income tax payable	11.3	4.6
Current portion of reforestation obligation	52.2	52.3
Current portion of long-term debt	3.9	4.5
Current liabilities held for sale (note 2)	6.2	13.6
	469.3	617.1
Long-term debt	610.3	623.9
Other liabilities (note 5)	129.2	133.0
Future income taxes	309.6	377.6
Long-term liabilities held for sale (note 2)	20.8	16.2
	1,539.2	1,767.8
Shareholders' equity (note 6)	1,950.3	1,865.9
	$ 3,489.5	$ 3,633.7

Number of Common shares outstanding at October 24, 2006 was 42,767,964.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(in millions of Canadian dollars – unaudited)

	July 1 to September 30		January 1 to September 30	
	2006	2005	**2006**	2005
Sales	**$ 808.7**	$ 889.5	**$ 2,598.6**	$ 2,744.7
Costs and expenses				
Cost of products sold	**580.0**	613.5	**1,779.3**	1,774.8
Freight and other distribution costs	**131.4**	137.6	**422.9**	401.5
Countervailing and antidumping duties	**17.0**	38.9	**61.1**	122.5
Amortization	**61.5**	68.4	**183.3**	191.0
Selling, general and administration	**29.1**	31.2	**86.6**	95.2
Share option recovery	**(2.2)**	(4.2)	**(6.6)**	(1.1)
Restructuring charge (note 7)	**–**	–	**37.6**	–
	816.8	885.4	**2,564.2**	2,583.9
Operating earnings (loss)	**(8.1)**	4.1	**34.4**	160.8
Other				
Interest expense – net	**(10.0)**	(10.4)	**(30.7)**	(38.3)
Exchange gain (loss) on long-term debt	**(0.4)**	23.8	**13.6**	13.9
Gain on sale of power purchase agreement (note 3)	**–**	–	**61.8**	–
Gain on timber take-back (note 8)	**–**	–	**13.6**	3.3
Other income (expense)	**1.8**	(10.2)	**(3.8)**	(4.9)
Earnings (loss) before income taxes and non-controlling interest	**(16.7)**	7.3	**88.9**	134.8
Income tax recovery (expense) (note 9)	**8.3**	11.0	**13.4**	(34.4)
Earnings (loss) before non-controlling interest	**(8.4)**	18.3	**102.3**	100.4
Non-controlling interest	**0.3**	(0.2)	**(0.5)**	(1.4)
Earnings (loss)	**$ (8.1)**	$ 18.1	**$ 101.8**	$ 99.0
Earnings per share (note 11)				
Basic	**$ (0.19)**	$ 0.42	**$ 2.38**	$ 2.32
Diluted	**$ (0.19)**	$ 0.42	**$ 2.36**	$ 2.29

RETAINED EARNINGS

Balance – beginning of period	**$ 1,366.7**	$ 1,254.0	**$ 1,268.8**	$ 1,185.1
Earnings (loss)	**(8.1)**	18.1	**101.8**	99.0
	1,358.6	1,272.1	**1,370.6**	1,284.1
Common share dividends	**(5.9)**	(5.9)	**(17.9)**	(17.9)
Balance – end of period	**$ 1,352.7**	$ 1,266.2	**$ 1,352.7**	$ 1,266.2

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars – unaudited)

	July 1 to September 30		January 1 to September 30	
	2006	2005	**2006**	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Earnings (loss)	**$ (8.1)**	$ 18.1	**$ 101.8**	$ 99.0
Items not affecting cash				
Amortization of property, plant, equipment & timber	**61.5**	68.4	**183.3**	191.0
Write down of pulp assets (note 7)	**–**	–	**34.8**	–
Exchange (gain) loss on long-term debt	**0.4**	(23.8)	**(13.6)**	(13.9)
Change in reforestation obligation	**(13.1)**	(11.3)	**(12.0)**	(5.6)
Change in other long-term liabilities	**0.6**	0.1	**8.0**	1.3
Change in deferred charges	**(4.8)**	(3.5)	**(9.7)**	(1.3)
Future income taxes	**(8.1)**	(13.9)	**(62.9)**	(31.5)
Gain on asset sales	**(0.5)**	(1.9)	**(75.3)**	(5.4)
Other	**2.0**	0.8	**3.6**	3.2
	29.9	33.0	**158.0**	236.8
Net change in non-cash working capital items	**97.5**	38.5	**98.4**	(191.1)
	127.4	71.5	**256.4**	45.7
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	**–**	(148.4)	**(0.6)**	(249.0)
Net proceeds from (repayment of) operating loans	**(101.2)**	100.0	**(99.8)**	34.0
Common share dividends	**(5.9)**	(5.9)	**(17.9)**	(17.9)
Issuance of Common shares	**0.2**	0.2	**0.5**	0.4
	(106.9)	(54.1)	**(117.8)**	(232.5)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant, equipment & timber	**(48.0)**	(58.6)	**(165.8)**	(160.9)
Proceeds from disposal of property, plant, equipment & timber	**30.1**	16.7	**33.4**	23.4
Decrease (increase) in other assets	**0.2**	5.5	**(13.7)**	0.1
	(17.7)	(36.4)	**(146.1)**	(137.4)
Increase (decrease) in net cash *	**2.8**	(19.0)	**(7.5)**	(324.2)
Net cash – beginning of period	**8.0**	44.4	**18.3**	349.6
Net cash – end of period	**$ 10.8**	$ 25.4	**$ 10.8**	$ 25.4

*Net cash consists of cash and short term investments, and cheques issued in excess of funds on deposit.

Supplemental information:

Interest paid	**$ 1.6**	$ 5.9	**$ 23.3**	$ 31.3
Income taxes paid	**$ 12.5**	$ 17.4	**$ 66.1**	$ 242.8

THIRD QUARTER SEGMENTED INFORMATION

(in millions of Canadian dollars – unaudited)

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
July 1, 2006 to September 30, 2006					
Sales					
To external customers	**$ 411.8**	**$ 122.0**	**$ 274.9**	**$ –**	**$ 808.7**
To other segments	**20.8**	**1.8**	**–**	**–**	
	$ 432.6	**$ 123.8**	**$ 274.9**	**$ –**	
EBITDA [1]	**$ (10.3)**	**$ 15.5**	**$ 50.7**	**$ (2.5)**	**$ 53.4**
Amortization of property, plant, equipment & timber	**28.3**	**9.7**	**22.5**	**1.0**	**61.5**
Operating earnings (loss)	**(38.6)**	**5.8**	**28.2**	**(3.5)**	**(8.1)**
Interest expense – net	**(5.4)**	**(1.6)**	**(3.2)**	**0.2**	**(10.0)**
Exchange loss on long-term debt	**–**	**–**	**–**	**(0.4)**	**(0.4)**
Other income (expense)	**2.3**	**(0.1)**	**0.1**	**(0.5)**	**1.8**
Earnings (loss) before income taxes and non-controlling interest	**$ (41.7)**	**$ 4.1**	**$ 25.1**	**$ (4.2)**	**$ (16.7)**
July 1, 2005 to September 30, 2005					
Sales					
To external customers	$ 519.8	$ 126.8	$ 242.9	$ –	$ 889.5
To other segments	19.6	1.9	–	–	
	$ 539.4	$ 128.7	$ 242.9	$ –	
EBITDA [1]	$ 51.8	$ 13.7	$ 7.8	$ (0.8)	$ 72.5
Amortization of property, plant, equipment & timber	35.6	8.9	23.5	0.4	68.4
Operating earnings (loss)	16.2	4.8	(15.7)	(1.2)	4.1
Interest expense – net	(7.9)	(3.1)	(1.7)	2.3	(10.4)
Exchange gain on long-term debt	–	–	–	23.8	23.8
Other income (expense)	2.0	(0.4)	(0.6)	(11.2)	(10.2)
Earnings (loss) before income taxes and non-controlling interest	$ 10.3	$ 1.3	$ (18.0)	$ 13.7	$ 7.3

[1] Non GAAP measure:
EBITDA is defined as operating earnings plus amortization of property, plant, equipment and timber plus restructuring charge.

FIRST NINE MONTHS SEGMENTED INFORMATION

(in millions of Canadian dollars – unaudited)

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
January 1, 2006 to September 30, 2006					
Sales					
To external customers	**$ 1,397.2**	**$ 373.0**	**$ 828.4**	**$ –**	**$ 2,598.6**
To other segments	**62.0**	**5.8**	**–**	**–**	
	$ 1,459.2	**$ 378.8**	**$ 828.4**	**$ –**	
EBITDA [1]	**$ 129.6**	**$ 47.5**	**$ 81.3**	**$ (3.1)**	**$ 255.3**
Amortization of property, plant, equipment & timber	**83.0**	**29.3**	**68.4**	**2.6**	**183.3**
Restructuring charge	**–**	**–**	**37.6**	**–**	**37.6**
Operating earnings (loss)	**46.6**	**18.2**	**(24.7)**	**(5.7)**	**34.4**
Interest expense – net	**(16.8)**	**(5.0)**	**(8.9)**	**–**	**(30.7)**
Exchange gain on long-term debt	**–**	**–**	**–**	**13.6**	**13.6**
Gain on sale of power purchase agreement	**–**	**–**	**61.8**	**–**	**61.8**
Gain on timber take-back	**13.6**	**–**	**–**	**–**	**13.6**
Other income (expense)	**4.7**	**0.2**	**(0.3)**	**(8.4)**	**(3.8)**
Earnings (loss) before income taxes and non-controlling interest	**$ 48.1**	**$ 13.4**	**$ 27.9**	**$ (0.5)**	**$ 88.9**
January 1, 2005 to September 30, 2005					
Sales					
To external customers	$ 1,577.8	$ 391.0	$ 775.9	$ –	$ 2,744.7
To other segments	64.3	5.6	–	–	
	$ 1,642.1	$ 396.6	$ 775.9	$ –	
EBITDA [1]	$ 262.1	$ 52.6	$ 51.9	$ (14.8)	$ 351.8
Amortization of property, plant, equipment & timber	91.2	27.1	70.7	2.0	191.0
Operating earnings (loss)	170.9	25.5	(18.8)	(16.8)	160.8
Interest expense – net	(23.9)	(9.4)	(7.6)	2.6	(38.3)
Exchange gain on long-term debt	–	–	–	13.9	13.9
Other income (expense)	6.4	(0.3)	0.4	(8.1)	(1.6)
Earnings (loss) before income taxes and non-controlling interest	$ 153.4	$ 15.8	$ (26.0)	$ (8.4)	$ 134.8

[1] Non GAAP measure:
EBITDA is defined as operating earnings plus amortization of property, plant, equipment and timber plus 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 and notes included in the Company's annual report for the year ended December 31, 2005.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the December 31, 2005 consolidated annual financial statements.

2. ASSETS HELD FOR SALE

The Company has entered into an agreement for the sale of its approximate 90% interest in two sawmills and their related timber harvesting rights with a closing expected to occur on October 31, 2006, subject to the receipt of customary regulatory and other third party consents and approvals and the satisfaction of certain conditions. These divestitures were required in accordance with an agreement with the Canadian Competition Commissioner upon the Company acquiring Weldwood of Canada Limited. The non-controlling interest that relates to these operations is included in long-term liabilities held for sale.

In the third quarter of 2006, the Company sold a road maintenance business located in Alberta that was previously included in assets held for sale for proceeds of $0.7 million. The resulting gain of $0.3 million is included in other income. In addition, one of two Alberta logging operations held for sale was sold on October 12, 2006 for proceeds of $0.5 million, resulting in a gain of $0.1 million.

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

3. OTHER ASSETS

	September 30, 2006	December 31, 2005
Power purchase agreements – net	**$ 104.3**	$ 28.7
Investments	**12.6**	16.3
Advances for timber & timber deposits	**16.2**	16.6
	$ 133.1	$ 61.6

Power purchase agreements

The Company entered into two power purchase agreements to acquire a portion of the electricity generated from two power plants in Alberta beginning January 1, 2001, 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 respectively, resulting in a gain of $61.8 million.

The Company sells the electricity acquired under the power purchase agreements at prevailing market prices. At the same time, the Company's Alberta operations purchase electricity at prevailing market prices. Prior to the transactions described above, the Company's share of electricity generated from power plants subject to the agreements was expected to be 130 megawatts per year to and including 2013 and 100 megawatts per year for the period 2014 to 2020. Following the transactions, the Company's share of electricity generated is expected to be 120 megawatts for 2006 and 115 megawatts per year for the period 2007 to 2020. The power purchase agreements are amortized over the life of the underlying agreements.

4. OPERATING LOANS

The Company has approximately $530.0 million in revolving lines of credit, $65.3 million of which was drawn as at September 30, 2006. Interest is payable at floating rates based on Prime, US base, Bankers' Acceptances or LIBOR at the Company's option. Various letters of credit totalling $15.6 million have been issued on behalf of the Company.

All long-term debt and bank lines of credit are unsecured except for a $5.0 million joint-venture line of credit which is secured by its working capital.

5. OTHER LIABILITIES

	September 30, 2006	December 31, 2005
Post-retirement obligations	**$ 52.9**	$ 44.2
Timber damage deposits	**10.8**	10.9
Reforestation obligation – long-term	**56.2**	68.2
Other asset retirement obligations	**9.3**	9.7
	$ 129.2	$ 133.0

6. SHAREHOLDERS' EQUITY

	September 30, 2006		December 31, 2005	
	Number of Shares Issued	Amount	Number of Shares Issued	Amount
Common	**37,881,725**	**$ 597.5**	37,871,786	$ 597.0
Class B common	**4,885,206**	**0.5**	4,885,206	0.5
Total Common	**42,766,931**	**598.0**	42,756,992	597.5
Retained earnings		**1,352.7**		1,268.8
Share purchase loans		**(0.4)**		(0.4)
Shareholders' equity		**$ 1,950.3**		$ 1,865.9

Common Shares

For the three months ended September 30, 2006, the Company issued 3,226 Common shares for cash of $0.2 million (for the nine months ended September 30, 2006 the Company issued 9,939 Common shares for cash of $0.5 million).

7. 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 write down of property, plant, equipment and timber with the balance for other restructuring costs.

8. THE FORESTRY REVITALIZATION PLAN ("FRP")

In 2003, the Government of B.C. ("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^3 of the Company's existing allowable annual cut on replaceable tenures. The Company has received $30.7 million for the tenure reduction and certain related assets resulting in a gain of $13.6 million.

9. INCOME TAXES

The Company's effective tax rate is as follows:

	July 1 to September 30, 2006		July 1 to September 30, 2005	
	Amount	%	Amount	%
Income taxes at statutory rates	**$ 5.7**	**34.6**	$ (2.5)	(34.7)
Non-taxable amounts	**0.7**	**4.3**	5.6	77.7
Rate differentials between jurisdictions and on specified activities	**2.4**	**14.6**	0.4	5.6
Reductions in statutory income tax rates	**–**	**–**	9.5	131.8
Other	**(0.5)**	**(3.0)**	(2.0)	(27.7)
Income tax recovery (expense)	**$ 8.3**	**50.5**	$ 11.0	152.7

	January 1 to September 30, 2006		January 1 to September 30, 2005	
	Amount	**%**	Amount	%
Income taxes at statutory rates	**$ (30.1)**	**(34.1)**	$ (46.6)	(34.9)
Non-taxable amounts	**13.8**	**15.6**	1.9	1.4
Rate differentials between jurisdictions and on specified activities	**4.2**	**4.7**	5.4	4.0
Reductions in statutory income tax rates	**33.1**	**37.4**	9.5	7.1
Other	**(7.6)**	**(8.4)**	(4.6)	(3.4)
Income tax recovery (expense)	**$ 13.4**	**15.2**	$ (34.4)	(25.8)

10. EMPLOYEE FUTURE BENEFITS

The total benefit cost of the Company's defined benefit pension plans was $5.4 million for the three months ended September 30, 2006 (three months ended September 30,2005 – $8.1 million) and $17.8 million for the nine months ended September 30, 2006 (nine months ended September 30, 2005 – $22.9 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.

	July 1 to September 30		January 1 to September 30	
	2006	2005	**2006**	2005
Earnings (loss)	**$ (8.1)**	$ 18.1	**$ 101.8**	$ 99.0
Weighted average number of shares (thousands)				
Weighted average shares – basic	**42,753**	42,732	**42,750**	42,729
Share options – treasury stock method	**306**	532	**374**	561
Weighted average shares – diluted	**43,059**	43,264	**43,124**	43,290
Earnings per share (dollars)				
Basic	**$ (0.19)**	$ 0.42	**$ 2.38**	$ 2.32
Diluted	**$ (0.19)**	$ 0.42	**$ 2.36**	$ 2.29

12. COUNTERVAILING AND ANTIDUMPING DUTIES

In 2002, the U.S. Department of Commerce ("USDOC") issued its final determination in the countervailing and antidumping investigations, which resulted in a countervailing duty ("CVD") rate of 18.79% and an antidumping duty ("ADD") rate specific to the Company of 2.18%, both to be posted by cash deposits effective from May 22, 2002.

On April 21, 2004, the USDOC issued a response to an earlier North American Free Trade Agreement ("NAFTA") ruling regarding specific challenges made to the ADD rate calculation. The USDOC concluded that West Fraser's ADD rate would be reduced from 2.18% to 1.79% representing de minimis level, with the result that West Fraser would be exempted from the ADD order. In response to a July 11, 2005 USDOC remand determination which did not revoke the antidumping order against the Company, on July 21, 2005, a NAFTA panel affirmed its prior instruction that the anti-dumping order against West Fraser must be revoked.

On September 10, 2004, the U.S. International Trade Commission ("ITC") issued, in response to a NAFTA remand decision, a determination finding that the U.S. lumber industry was not threatened with material injury by reason of lumber imports from Canada. On November 24, 2004, the U.S. government launched an Extraordinary Challenge of the legality of the decision of the NAFTA panel. On August 10, 2005, a NAFTA Extraordinary Challenge Committee upheld a NAFTA panel ruling that evidence relied upon by the U.S. did not support its finding that Canadian imports threatened to injure the U.S. industry and further confirmed the panel's specific instruction that the U.S. find no threat of injury. This ruling was expected to result in the U.S. withdrawal of the CVD and ADD cases, and the refund of cash deposits with interest. The U.S. has so far refused to comply with the ruling.

Effective December 20, 2004 the Company's CVD and ADD deposit rates were reduced to 17.18% and 0.92%, respectively, as a result of the final determination in the first Administrative Review. These deposits were further reduced due to a ministerial error and recalculated to 16.37% for CVD on February 24, 2005 and to 0.91% for ADD on January 17, 2005.

Effective December 12, 2005, the Company's CVD and ADD deposit rates were reduced to 8.70% and 0.51% respectively, as a result of the final determination in the second Administrative Review.

The Company has recorded an expense for CVD and ADD equal to the amount paid as cash deposits throughout applicable periods. A refund of deposits will be recorded as income when receipt is reasonably certain. As at September 30, 2006, the total amount on deposit from May 22, 2002 related to CVD and ADD was US $384.7 million and US $39.5 million respectively. These amounts do not include the amounts on deposit from Weldwood prior to the acquisition by the Company on December 31, 2004, as the previous owner is entitled to any refunds on these amounts.

On July 1, 2006, Canadian and U.S. government representatives agreed to the terms of a softwood lumber agreement. The basic terms include replacing the existing duty deposits 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 level of shipments to the United States. In addition, out of the existing duty deposits of approximately US $5.3 billion, the U.S. will retain approximately US $1 billion with the balance returned to the Canadian companies with interest. The agreement requires both sides to withdraw all litigation, the U.S. industry petitioners to execute letters waiving their right to file another case while the agreement is in effect and substantially all of the Canadian industry to consent to the distribution of duty deposits. The agreement requires legislation to be passed by the Canadian parliament.

On October 12, 2006, the Softwood Lumber Agreement ("SLA 2006") came into force with the result that the Company began paying an export tax of 15% to the Canadian government on shipments from that date. SLA 2006 is still subject to the passage of legislation by the Canadian parliament. Refunds of approximately US $343 million before tax (81% of US $424 million), plus interest, may be received, although the timing of receipt is still uncertain.

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West Fraser is an integrated forest products company producing lumber, LVL, MDF, plywood, pulp, linerboard, kraft paper and newsprint. The Company has 6,900 employees and operations in British Columbia, Alberta and the southern United States.