



West Fraser Timber Co. Ltd

**858 Beatty Street
Suite 501
Vancouver, B.C.
V6B 1C1**

**NEWS RELEASE
WEST FRASER TIMBER CO. LTD.
("WFT")
Thursday, July 27, 2006**

Attention: Business & Financial Editors
Financial Analysts

West Fraser Announces Second Quarter Results

Vancouver, B.C – **West Fraser Timber Co. Ltd.** today reported earnings of \$104 million or \$2.41 per share on sales of \$888 million in the second quarter of 2006 compared to earnings of \$6 million or \$0.14 per share on sales of \$902 million in the first quarter of 2006 and earnings of \$38 million or \$0.88 per share on sales of \$953 million in the second quarter of 2005. For the first half of 2006, earnings were \$110 million or \$2.55 per share, on sales of \$1,790 million. This compares to earnings of \$81 million or \$1.87 per share, on sales of \$1,855 million for the first half of 2005.

EBITDA¹ was \$87 million or 10% of sales for the quarter compared to EBITDA of \$115 million or 13% of sales for the first quarter of 2005 and \$137 million or 14% of sales for the second quarter of 2005. For the first half of 2006 EBITDA was \$202 million or 11% of sales compared to \$279 million or 15% of sales for the first half of 2005.

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

- Recovery of \$4 million or \$0.08 per share related to share option expense;
- Gain of \$13 million or \$0.30 per share related to the translation of U.S. dollar denominated debt;
- Gain of \$51 million or \$1.18 per share related to sale of an interest in a power purchase agreement;
- Gain of \$9 million or \$0.21 per share related to the B.C. timber take-back compensation; and
- Recovery of \$33 million or \$0.77 per share related to statutory income tax rate reductions enacted in the quarter.

"A number of non-recurring items contributed to second quarter earnings" says Hank Ketcham, Chairman, President & Chief Executive Officer. "Price declines in lumber and plywood from the first quarter and the planned maintenance shutdowns at our two NBSK mills and at our linerboard and kraft paper mill contributed to lower operating earnings compared to the first quarter of the year."

¹Throughout this news release, 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.

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

- Recovery of \$3 million or \$0.07 per share related to share option expense; and
- Expense of \$7 million or \$0.15 per share related to the translation of U.S. denominated debt.

Operational Results

Lumber EBITDA for the quarter was \$49 million or 10% of sales compared to \$91 million or 17% of sales in the first quarter of 2006. The decline in EBITDA resulted primarily from lower lumber prices combined with the stronger Canadian dollar during the quarter. Benchmark SPF 2X4 lumber prices averaged US \$316 per Mfbm for the quarter compared to US \$343 per Mfbm in the first quarter of 2006. The Canadian dollar averaged US \$0.89 in the second quarter compared to US \$0.87 in the first quarter of 2006.

Softwood lumber duties continued to affect the Company's financial results. West Fraser expensed \$22 million in lumber duty payments in each of the first and second quarters of 2006².

All sawmills operated at or near capacity during the quarter. Fewer operating days in the quarter resulted in a production decline from the previous quarter. The Quesnel, B.C. sawmill rebuild remains on schedule with production to commence in the fourth quarter of this year.

On June 30, 2006 the Company reached an agreement with the Province of B.C. for compensation of \$29 million for 1,275,000 cubic metres of timber rights expropriated under the government's Forestry Revitalization Plan. An additional \$2 million was received in the quarter for certain related assets. A gain of \$14 million (\$9 million after-tax) is included in the second quarter results.

Panel operations generated EBITDA for the quarter of \$16 million or 12% of sales compared to \$16 million or 13% of sales in the first quarter of 2006. MDF quarterly records were achieved for both production and shipments.

The pulp and paper operations generated EBITDA of \$18 million or 6% of sales compared to EBITDA of \$13 million or 5% of sales in the first quarter of 2006. The EBITDA improvement compared to the first quarter was primarily due to improved product prices partially offset by the impact of the maintenance shutdowns and the stronger Canadian dollar.

West Fraser's two NBSK pulp mills and the Kitimat linerboard and kraft paper mill completed their regularly scheduled annual maintenance shutdowns in the second quarter of 2006. Various factors caused the maintenance shutdowns to be extended beyond the planned outages resulting in a reduction from normal operating production of approximately 60,000 tonnes compared to an anticipated reduction of 45,000 tonnes.

²As at June 30, 2006, the total amount on deposit related to duties is US \$409 million, excluding amounts deposited by Weldwood prior to its acquisition by West Fraser, refunds of which are for the account of the previous owner.

Power Purchase Agreements

Effective May 31, 2006 the Company sold its interests in a power purchase agreement related to the power generated by an Alberta power plant for proceeds of \$68 million while concurrently acquiring an additional interest in an agreement related to the power generated by a different power plant in Alberta. A gain of \$62 million (after-tax \$51 million) was recorded in the quarter related to the sale. As a result of the transactions, West Fraser's percentage entitlement to the output generated by the power plant is constant through 2020, providing a more consistent energy hedge and substantially protecting its Alberta energy position.

Lumber Trade Dispute

On July 1, 2006, Canadian and U.S. government representatives agreed to the terms of a softwood lumber agreement. In order to be implemented, the agreement requires legislation to be passed by the Canadian parliament and the withdrawal of litigation by Canadian and U.S. parties, amongst other conditions. Many concerns have been raised by Canadian interests and it is not clear if the agreement will be implemented in its present form.

On July 21, 2006, the U.S. Court of International Trade ruled in a unanimous decision that there is no valid legal basis for the imposition of antidumping and countervailing duties against Canadian softwood lumber. The court said that duties collected since November 4, 2004 should be returned to Canada, plus interest, and the court has requested additional briefing on the issue of refund of deposits prior to November 4, 2004. This is the first U.S. court ruling related to the current dispute, and it has resulted in clear support of the Canadian position.

In the absence of a negotiated settlement, West Fraser believes that given the series of legal decisions that have decisively favoured the Canadian position, a revocation of the orders and refund of deposits should eventually occur.

Forward-Looking Statements

Some information contained in this release is prospective and may be affected by known or unknown risks and uncertainties, which are mostly outside the control of West Fraser. The results or events mentioned in such prospective information may differ substantially from actual results or events.

Conference Call

Investors are invited to listen to the quarterly conference call on Friday, July 28 at 8:00 a.m. Pacific Daylight Time (11:00 a.m. Eastern Daylight Time) by dialing 1-888-575-8232 (toll-free North America). The call may also be accessed through West Fraser's web site at www.westfraser.com.

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.

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 the 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 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.

Throughout this report, reference is made to EBITDA (defined as operating earnings plus amortization of property, plant, equipment and timber, plus restructuring charge), which West Fraser 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 July 27, 2006.

REVENUE AND EARNINGS COMPARISON

	Q2	2006 Q1	YTD	2005 Q2	YTD
Financial Highlights					
(Millions of \$, except as noted)					
Sales	888	902	1,790	953	1,855
Operating earnings	27	15	42	77	157
Amortization of property, plant, equipment & timber	60	62	122	60	122
Restructuring charge	-	38	38	-	-
EBITDA	87	115	202	137	279
EBITDA margin (%)	10	13	11	14	15
Gain on sale of power purchase agreement	62	-	62	-	-
Gain on timber take-back	14	-	14	3	3
Earnings	104	6	110	38	81
Diluted earnings per share (\$)	2.41	0.14	2.55	0.88	1.87
\$CDN / \$US - average	1.121	1.155	1.138	1.244	1.235
Operating Highlights					
Lumber (MMfbm)					
Production	1,080	1,136	2,216	1,105	2,163
Shipments	1,131	1,098	2,229	1,123	2,050
Panels					
Plywood (MMsf – 3/8")					
Production	190	184	374	185	363
Shipments	190	176	366	194	348
LVL (Mcf)					
Production	797	781	1,578	819	1,633
Shipments	811	750	1,561	795	1,616
MDF (MMsf – 3/4")					
Production	76	71	147	75	146
Shipments	78	78	156	75	146
Pulp & Paper (Mtonnes)					
Linerboard & Kraft Paper					
Production	102	121	223	101	220
Shipments	120	124	244	126	229

	Q2	2006 Q1	YTD	2005 Q2	YTD
NBSK					
Production	112	141	253	129	280
Shipments	139	145	284	126	274
BCTMP					
Production	144	140	284	138	268
Shipments	164	163	327	125	273
Newsprint					
Production	32	32	64	34	67
Shipments	31	32	63	33	66

SELECTED QUARTERLY INFORMATION

(\$ millions, except earnings per share amounts which are in \$)

	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05	Q1-05	Q4-04	Q3-04
Sales	888	902	832	890	953	902	552	700
Earnings	104	6	9	18	38	43	41	78
Basic EPS	2.43	0.14	0.20	0.42	0.89	1.00	1.10	2.12
Diluted EPS	2.41	0.14	0.20	0.42	0.88	0.99	0.94	1.95

Lower lumber prices combined with the strengthening Canadian dollar continued to adversely affect the Company's earnings in the second quarter of 2006. If not for the effect of a non-recurring restructuring charge of \$38 million recorded in the first quarter of 2006, second quarter operating earnings would have declined from the prior quarter. Quarterly earnings also reflect the adverse impact of the regularly scheduled maintenance shutdowns at the kraft pulp and paper operations which was offset partially by higher shipment volumes for most products.

The combination of lower lumber prices, a stronger Canadian dollar and the \$38 million restructuring charge contributed to lower operating earnings in the quarter and first half of the year compared to the same periods of 2005. The operating earnings reduction was offset in part by higher production and shipment volumes in most products and by lower duty payments.

Interest expense was \$11 million for the quarter (first half 2006 - \$21 million) compared to \$16 million in the second quarter of 2005 (first half 2005 - \$28 million). The decrease in interest from last year was due mainly to interest earned on cash held on deposit in 2006 and deferred charges of \$3 million expensed in the second quarter of 2005 related to debt that was prepaid.

The change in value of the Canadian dollar against the U.S. dollar resulted in an exchange gain of \$16 million on the Company's U.S. denominated long-term debt in the second quarter. This compares to an exchange loss of \$2 million in the first quarter of 2006 and \$7 million in the second quarter of 2005. In the first half of 2006 there was a gain of \$14 million compared to an exchange loss of \$10 million in the first half of 2005. The currency change also resulted in a loss on translation of U.S. denominated receivables and foreign operations of \$12 million in the second quarter compared to a \$3 million gain in the second quarter of 2005. For the first half of 2006 the exchange loss was \$8 million compared to a \$2 million gain in the first half 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 is a party for proceeds of \$68 million while concurrently acquiring a greater interest in the remaining agreement for \$86 million. The transactions were accounted for as a sale and purchase respectively, resulting in a gain of \$62 million. See note 3 to the consolidated financial statements.

The Company entered into the sales transaction as the price obtained provided a higher return than management's estimate of the value of the future cash flows to be generated from the agreement. The Company also agreed to the sales transaction in order to accommodate the sale to a third party of the entire interest in the sold agreement. The opportunity to increase the Company's share in the remaining agreement was provided as an inducement to participate in the sale. 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. An additional benefit of the transactions is that the Company's percentage entitlement to the output of the power plant remains constant through 2020, providing a more consistent energy hedge and substantially protecting its energy position.

During the quarter, the Company 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 will receive approximately \$29 million from the Province in compensation for the loss of approximately 1,275,000 cubic metres of its replaceable forest tenures and received an additional \$2 million in the quarter for certain related assets. A gain of \$14 million is included in second quarter earnings.

The effective tax rate for the quarter differed significantly from the statutory rate primarily due to reductions in federal and Alberta tax rates that were enacted in the second quarter and the exchange gain on U.S. denominated long-term debt and gain on sale of power purchase agreement both of which are taxed at capital gains rates. Note 9 to the consolidated financial statements provides a reconciliation to the effective tax rate.

LUMBER

	2006			2005	
	Q2	Q1	YTD	Q2	YTD
Sales - \$ millions	480	505	985	560	1,058
EBITDA - \$ millions	49	91	140	108	210
EBITDA margin - %	10	17	14	18	19
Operating Earnings - \$ millions	21	64	85	81	155
Benchmark Price					
SPF #2 & Better 2 x 4 (US\$ per Mfbm) ¹	316	343	329	361	379
SYP #2 West 2 x 4 (US\$ per Mfbm) ²	351	409	380	433	413

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

2. Source: Random Lengths – 2x4 - Net FOB mill westside

The decline in operating earnings in the second quarter of 2006 compared to the prior quarter was due primarily to lower lumber prices partially offset by higher shipment volumes. The main contributing factors to the decline in operating earnings in the second quarter and in the first half of 2006 compared to the same periods in 2005 were lower lumber and chip prices and the stronger Canadian dollar partially offset by lower export duties and higher shipment volumes.

Lumber production was lower in the second quarter of 2006 compared to the first quarter of 2006 and the second quarter of 2005 as there were fewer operating days this quarter. Year-to-

date production is higher than the comparative period of 2005 due primarily to third shifts being added at two sawmills and improved lumber recovery at a number of operations.

The U.S. softwood lumber duties continued to affect the Company's financial results. In the second quarter of 2006, West Fraser expensed lumber duty deposits of \$22 million compared to \$43 million in the second quarter of 2005 reflecting reduced duty rates and lumber prices. West Fraser's duties on deposit, excluding interest thereon, total US \$409 million or Cdn \$457 million as at June 30, 2006. The following table presents duties expensed in the periods indicated.

Export Duties

(\$ millions)

	Q1	Q2	Q3	Q4	Total
2006	22	22	-	-	44
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 reversals.

The Company has commenced the process of selling its approximate 90% interests in the Burns Lake and Decker Lake sawmills. The mills have an annual capacity of approximately 365 MMfbm and AAC of 450,000 m³ of timber tenures. These divestitures are required in accordance with an agreement made by West Fraser with the Canadian Competition Commissioner upon acquiring Weldwood.

Although housing starts have remained strong in the first half of the year, many analysts predict that U.S. housing starts will weaken over the second half of 2006 which may have a negative impact on demand for building products and which could result in lower prices. Lumber prices have declined during the quarter with the benchmark SPF 2x4 price ending the second quarter of 2006 at US \$300 per Mfbm.

PANELS

	2006			2005	
	Q2	Q1	YTD	Q2	YTD
Sales - \$ millions	127	124	251	134	264
EBITDA - \$ millions	16	16	32	17	39
EBITDA margin - %	12	13	13	13	15
Operating Earnings - \$ millions	5	7	12	9	21
Benchmark Price					
MDF (US\$ per MSF 3/4" basis) ¹	431	414	423	418	418
Plywood (Cdn\$ per MSF 3/8" basis) ²	360	375	367	358	398

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

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

Lower plywood prices reduced panel operating earnings during the quarter, although the effect was partially offset by increased MDF prices. The operating earnings decline in the first half of 2006 compared to the first half of 2005 was due primarily to lower plywood and Canadian dollar MDF prices partially offset by higher shipment volumes. The lower plywood prices are consistent with the decline in other building product prices. LVL continues to be a solid contributor to operating earnings with steady pricing and production levels.

PULP & PAPER

	2006			2005	
	Q2	Q1	YTD	Q2	YTD
Sales - \$ millions	281	273	554	258	533
EBITDA - \$ millions	18	13	31	15	44
EBITDA margin - %	6	5	6	6	8
Operating Earnings - \$ millions	(5)	(48)	(53)	(9)	(3)
Benchmark Price					
NBSK (US\$ per tonne) ¹	705	653	679	653	662
Linerboard (US\$ per tonne) ²	568	513	527	484	490
Newsprint (US\$ per tonne) ³	658	644	651	589	580

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

The operating earnings improvement in the second quarter of 2006 compared to the first quarter of 2006 was primarily due to the first quarter \$38 million restructuring charge and improved product pricing. This was partially offset by the stronger Canadian dollar and higher NBSK unit production costs mainly due to lower production resulting from the maintenance shutdowns. The operating earnings improvements in the second quarter of 2006 compared to the second quarter of 2005 is the result of lower furnish costs and higher prices and shipment volumes partially offset by the stronger Canadian dollar and higher unit production costs at the NBSK mills. Operating earnings in the first half of 2006 were lower than the first half of 2005 due primarily to the \$38 million restructuring charge, the impact of the stronger Canadian dollar and higher NBSK unit production costs as a result of the lower production volumes.

The scheduled annual maintenance shutdowns at the Hinton and Cariboo pulp mills and the Kitimat linerboard and kraft paper mill were completed in the second quarter of 2006. Each shutdown was extended beyond the planned schedules, mostly as a result of additional and unexpected maintenance work.

The Cariboo Pulp joint venture mill shutdown and startup was complicated by a failure of a tank in the bleach plant. This event idled the bleach plant for approximately 20 days. During this time approximately 15,000 tonnes of unbleached kraft pulp were produced. The unbleached pulp, of which 50% is to West Fraser's account, has been sold. The production of unbleached pulp reduced the costs associated with the additional 20 days of downtime in the bleach plant.

West Fraser's production loss associated with the annual maintenance shutdowns at the Hinton, Cariboo and Kitimat mills was approximately 60,000 tonnes compared to the planned production loss of approximately 45,000 tonnes. The production losses associated with the extended shutdowns resulted in increased unit production costs, especially at the NBSK mills. All of the planned maintenance shutdowns are now complete and each mill has resumed normal operation and production levels.

Both BCTMP mills ran very well in the quarter and the first half of the year with increased production relative to the comparative periods of 2005.

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. These closures will occur during the fourth quarter of 2006 and the upgrade is expected to be completed in the second quarter of 2007. After completion of the closures and upgrade the annual capacity of the mill will be reduced by approximately 70,000 tonnes to 350,000 tonnes.

In the first quarter of 2006 the Company recorded a charge of \$35 million against property, plant, equipment and timber and a charge of \$3 million for other restructuring costs.

Pulp price increases in the second quarter compared to the first quarter of 2006 more than offset the stronger Canadian dollar, translating into improved mill nets for both NSBK and BCTMP. However, compared to the second quarter of 2005, mill nets were lower in the current quarter as the stronger Canadian dollar more than offset the benefit of higher pulp prices. Pulp markets are expected to remain strong through the remainder of 2006 and should result in a positive pricing environment for the balance of the year.

Second quarter U.S. dollar denominated linerboard prices were higher than both the first quarter of 2006 and the second quarter of 2005. The increase in prices resulted in higher mill nets for the second quarter compared to the first quarter. However, the stronger Canadian dollar more than offset the higher prices compared to the second quarter of 2005. The outlook for linerboard is for continued strength in both demand and pricing through to the end of the year.

The Alberta Newsprint mill benefited from efficient operations and continued pricing strength in the North American newsprint market.

CAPITAL STRUCTURE

The Company issued 3,291 Common shares pursuant to the Employee Share Purchase Plan during the three months ended June 30, 2006 (first half of 2006 - 6,713 Common shares). The shares issued and outstanding at June 30, 2006 are presented in the table below.

	June 30, 2006	December 31, 2005
Common	37,878,499	37,871,786
Class B common	4,885,206	4,885,206
Total Common	42,763,705	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

	June 30, 2006	December 31, 2005
Net Cash ¹ - \$ millions	8	18
Current Assets - \$ millions	940	988
Current Liabilities - \$ millions	552	617
Ratio of current assets to current liabilities	1.7	1.6
Net Debt ² - \$ millions	772	775
Shareholders' Equity - \$ millions	1,964	1,866
Net Debt to Capitalization - %²	28	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.

West Fraser's cash requirements, other than for operating purposes, are primarily for interest, 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	
	Q2	Q1	YTD	Q2	YTD
Cash provided from (used in):					
Operating Activities					
Cash provided before working capital changes	26	102	128	91	204
Non-cash working capital items	118	(117)	1	70	(230)
Total operating activities	144	(15)	129	161	(26)
Financing Activities					
Debt and operating loans	(74)	75	1	(101)	(166)
Dividends & other	(6)	(6)	(12)	(6)	(12)
Total financing activities	(80)	69	(11)	(107)	(178)
Investing Activities					
Additions to property, plant, equipment & timber	(63)	(55)	(118)	(67)	(102)
Other	(15)	5	(10)	4	1
Total investing activities	(78)	(50)	(128)	(63)	(101)
Change in cash	(14)	4	(10)	(9)	(305)

Lower finished product and log inventories partially offset by lower accounts payable contributed to the \$118 million cash flow from non-cash working capital in the second quarter of 2006. Reduced log inventories and the related payables is a normal occurrence in the second quarter due to the cessation of logging activities for the spring breakup in the Company's logging areas. Year-to-date 2005 non-cash working capital items include cash tax payments of \$225 million.

Additions to property, plant, equipment and timber of \$63 million in the quarter include \$21 million related to the Quesnel sawmill rebuild.

At June 30, 2006, the Company had unused committed credit facilities of approximately \$363 million.

STUMPAGE

On April 1, 2006, the Province of British Columbia changed the way logs are graded and the way stumpage is calculated for beetle-infested trees. The changes were designed to be revenue neutral to the Province but will change the distribution of stumpage across the Interior Region of B.C. Generally, timber stands that are heavily damaged by mountain pine beetle will incur higher stumpage with a corresponding reduction in stumpage in less severely damaged or unaffected stands.

The Ministry of Forests has calculated an adjustment to stumpage for every cutting permit in the B.C. Interior, effective April 1, 2006. Licensees will have the option to accept the adjustment or to reassess the level of damage in the timber stands and follow new appraisal procedures to calculate a new stumpage rate. The new stumpage rates are expected to increase West Fraser's costs by two to three dollars per cubic metre harvested from West Fraser's affected B.C. tenures.

On July 1, 2006, the B.C. government enacted a new timber pricing system for the B.C. Interior. A 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 this 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 proposed change on West Fraser'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. 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 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 which is expected in September of this year.

A significant portion of the Canadian forest industry and some Provinces have identified deficiencies in the agreement and in the meantime litigation relating to the duty deposit orders continues. As a result, there is uncertainty as to whether the agreement will be implemented.

On July 21, 2006, the U.S. Court of International Trade ruled in a unanimous decision that there is no valid legal basis for the imposition of antidumping and countervailing duties against Canadian softwood lumber. The court said that duties collected since November 4, 2004 should be returned to Canada, plus interest, and the court has requested additional briefing on the issue of refund of deposits prior to November 4, 2004.

West Fraser believes that recording a reversal of previously expensed duty deposits is not appropriate at this time due to the continuing uncertainty related to the timing and amount of potential refunds. Refunds will be reflected in the Company's earnings when receipt is reasonably certain.



CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars - unaudited)

	As at June 30, 2006	As at December 31, 2005
ASSETS		
Current assets		
Cash and short-term investments	\$ 41.2	\$ 62.2
Accounts receivable	324.8	308.5
Inventories	498.0	572.0
Prepaid expenses	45.1	14.1
Current assets held for sale (note 2)	30.5	30.7
	939.6	987.5
Property, plant, equipment & timber	2,172.1	2,230.1
Deferred charges	32.0	27.1
Goodwill	263.7	263.7
Other assets (note 3)	135.3	61.6
Long-term assets held for sale (note 2)	63.3	63.7
	\$ 3,606.0	\$ 3,633.7
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities		
Cheques issued in excess of funds on deposit	\$ 33.2	\$ 43.9
Operating loans (note 4)	166.5	165.1
Accounts payable and accrued liabilities	279.3	333.1
Income tax payable	12.9	4.6
Current portion of reforestation obligation	52.3	52.3
Current portion of long-term debt	3.9	4.5
Current liabilities held for sale (note 2)	3.7	13.6
	551.8	617.1
Long-term debt	609.8	623.9
Other liabilities (note 5)	141.7	133.0
Future income taxes	314.8	377.6
Long-term liabilities held for sale (note 2)	23.8	16.2
	1,641.9	1,767.8
Shareholders' equity (note 6)	1,964.1	1,865.9
	\$ 3,606.0	\$ 3,633.7

Number of Common shares outstanding at July 26, 2006 was 42,764,718.



CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(in millions of Canadian dollars - unaudited)

	April 1 to June 30		January 1 to June 30	
	2006	2005	2006	2005
Sales	\$ 887.9	\$ 952.8	\$ 1,789.9	\$ 1,855.2
Costs and expenses				
Cost of products sold	609.6	606.3	1,199.3	1,161.3
Freight and other distribution costs	146.1	137.0	291.5	263.9
Countervailing and antidumping duties	21.7	42.8	44.1	83.6
Amortization	60.0	59.9	121.8	122.6
Selling, general and administration	28.9	34.0	57.5	64.0
Share option (recovery) expense	(5.3)	(4.5)	(4.4)	3.1
Restructuring charge (note 7)	-	-	37.6	-
	861.0	875.5	1,747.4	1,698.5
Operating earnings	26.9	77.3	42.5	156.7
Other				
Interest expense - net	(10.7)	(15.5)	(20.7)	(27.9)
Exchange gain (loss) on long-term debt	15.5	(6.7)	14.0	(9.9)
Gain on sale of power purchase agreement (note 3)	61.8	-	61.8	-
Gain on timber take-back (note 8)	13.6	3.3	13.6	3.3
Other income (expense)	(11.8)	1.8	(5.6)	5.3
Earnings before income taxes and non-controlling interest	95.3	60.2	105.6	127.5
Income tax recovery (expense) (note 9)	8.9	(21.5)	5.1	(45.4)
Earnings before non-controlling interest	104.2	38.7	110.7	82.1
Non-controlling interest	(0.4)	(0.7)	(0.8)	(1.2)
Earnings	\$ 103.8	\$ 38.0	\$ 109.9	\$ 80.9
Earnings per share (note 11)				
Basic	\$ 2.43	\$ 0.89	\$ 2.57	\$ 1.89
Diluted	\$ 2.41	\$ 0.88	\$ 2.55	\$ 1.87
RETAINED EARNINGS				
Balance - beginning of period	\$ 1,268.9	\$ 1,222.0	\$ 1,268.8	\$ 1,185.1
Earnings	103.8	38.0	109.9	80.9
	1,372.7	1,260.0	1,378.7	1,266.0
Common share dividends	(6.0)	(6.0)	(12.0)	(12.0)
Balance - end of period	\$ 1,366.7	\$ 1,254.0	\$ 1,366.7	\$ 1,254.0



CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars - unaudited)

	April 1 to June 30		January 1 June 30	
	2006	2005	2006	2005
Cash Flows From Operating Activities				
Earnings	\$ 103.8	\$ 38.0	\$ 109.9	\$ 80.9
Items not affecting cash				
Amortization of property, plant, equipment & timber	60.0	59.9	121.8	122.6
Write down of pulp assets (note 7)	-	-	34.8	-
Exchange (gain) loss on long-term debt	(15.5)	6.7	(14.0)	9.9
Change in reforestation obligation	(11.3)	(6.6)	1.1	5.7
Change in other long-term liabilities	0.9	0.3	7.4	1.2
Change in deferred charges	(0.4)	(0.1)	(4.9)	2.2
Future income taxes	(39.4)	(5.5)	(54.8)	(17.6)
Gain on asset sales	(73.9)	(2.9)	(74.8)	(3.5)
Other	1.8	1.2	1.6	2.4
	26.0	91.0	128.1	203.8
Net change in non-cash working capital items	117.7	70.1	0.9	(229.6)
	143.7	161.1	129.0	(25.8)
Cash Flows From Financing Activities				
Repayment of long-term debt	(0.3)	(100.6)	(0.6)	(100.6)
Net proceeds from (repayment of) operating loans	(73.5)	-	1.4	(66.0)
Common share dividends	(6.0)	(6.0)	(12.0)	(12.0)
Issuance of Common shares	0.2	0.1	0.3	0.2
	(79.6)	(106.5)	(10.9)	(178.4)
Cash Flows From Investing Activities				
Additions to property, plant, equipment & timber	(63.1)	(67.1)	(117.8)	(102.3)
Proceeds from disposal of property, plant, equipment & timber	0.1	4.9	3.3	6.7
Increase in other assets	(15.3)	(1.0)	(13.9)	(5.4)
	(78.3)	(63.2)	(128.4)	(101.0)
Decrease in net cash *	(14.2)	(8.6)	(10.3)	(305.2)
Net cash - beginning of period	22.2	53.0	18.3	349.6
Net cash - end of period	\$ 8.0	\$ 44.4	\$ 8.0	\$ 44.4
*Net cash consists of cash and short term investments, and cheques issued in excess of funds on deposit.				
Supplemental information:				
Interest paid	\$ 19.0	\$ 18.1	\$ 21.7	\$ 25.4
Income taxes paid	\$ 18.1	\$ 54.8	\$ 53.6	\$ 225.4



SECOND QUARTER SEGMENTED INFORMATION

(in millions of Canadian dollars - unaudited)

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
April 1, 2006 to June 30, 2006					
Sales					
To external customers	\$ 480.2	\$ 127.2	\$ 280.5	\$ -	\$ 887.9
To other segments	20.2	1.4	-	-	
	<u>\$ 500.4</u>	<u>\$ 128.6</u>	<u>\$ 280.5</u>	<u>\$ -</u>	
EBITDA¹					
	\$ 48.5	\$ 15.6	\$ 18.1	\$ 4.7	\$ 86.9
Amortization of property, plant, equipment & timber	26.8	9.8	22.7	0.7	60.0
Operating earnings (loss)	21.7	5.8	(4.6)	4.0	26.9
Interest expense - net	(6.2)	(1.6)	(2.8)	(0.1)	(10.7)
Exchange gain on long-term debt	-	-	-	15.5	15.5
Gain on sale of power purchase agreement	-	-	61.8	-	61.8
Gain on timber take-back	13.6	-	-	-	13.6
Other income (expense)	0.4	0.1	(1.7)	(10.6)	(11.8)
Earnings before income taxes and non-controlling interest	<u>\$ 29.5</u>	<u>\$ 4.3</u>	<u>\$ 52.7</u>	<u>\$ 8.8</u>	<u>\$ 95.3</u>

April 1, 2005 to June 30, 2005

Sales					
To external customers	\$ 560.3	\$ 134.2	\$ 258.3	\$ -	\$ 952.8
To other segments	25.5	2.7	-	-	
	<u>\$ 585.8</u>	<u>\$ 136.9</u>	<u>\$ 258.3</u>	<u>\$ -</u>	
EBITDA¹					
	\$ 107.6	\$ 17.4	\$ 14.6	\$ (2.4)	\$ 137.2
Amortization of property, plant, equipment & timber	26.8	8.9	23.4	0.8	59.9
Operating earnings (loss)	80.8	8.5	(8.8)	(3.2)	77.3
Interest expense - net	(9.2)	(3.1)	(2.2)	(1.0)	(15.5)
Exchange loss on long-term debt	-	-	-	(6.7)	(6.7)
Other income (expense)	2.7	(0.6)	0.5	2.5	5.1
Earnings (loss) before income taxes and non-controlling interest	<u>\$ 74.3</u>	<u>\$ 4.8</u>	<u>\$ (10.5)</u>	<u>\$ (8.4)</u>	<u>\$ 60.2</u>

1 Non GAAP measure:

EBITDA is defined as operating earnings plus amortization of property, plant, equipment and timber plus restructuring charge.



SECOND HALF SEGMENTED INFORMATION
(in millions of Canadian dollars - unaudited)

	Lumber	Panels	Pulp & Paper	Corporate & Other	Consolidated
January 1, 2006 to June 30, 2006					
Sales					
To external customers	\$ 985.4	\$ 251.0	\$ 553.5	\$ -	\$ 1,789.9
To other segments	41.2	4.0	-	-	
	<u>\$ 1,026.6</u>	<u>\$ 255.0</u>	<u>\$ 553.5</u>	<u>\$ -</u>	
EBITDA¹					
Amortization of property, plant, equipment & timber	\$ 139.9	\$ 32.0	\$ 30.6	\$ (0.6)	\$ 201.9
Restructuring charge	54.7	19.6	45.9	1.6	121.8
Operating earnings (loss)	-	-	37.6	-	37.6
Interest expense - net	85.2	12.4	(52.9)	(2.2)	42.5
Exchange gain on long-term debt	(11.4)	(3.4)	(5.7)	(0.2)	(20.7)
Gain on sale of power purchase agreement	-	-	-	14.0	14.0
Gain on timber take-back	-	-	61.8	-	61.8
Other income (expense)	13.6	-	-	-	13.6
	2.4	0.3	(0.4)	(7.9)	(5.6)
Earnings before income taxes and non-controlling interest	<u>\$ 89.8</u>	<u>\$ 9.3</u>	<u>\$ 2.8</u>	<u>\$ 3.7</u>	<u>\$ 105.6</u>

January 1, 2005 to June 30, 2005

Sales					
To external customers	\$ 1,058.0	\$ 264.2	\$ 533.0	\$ -	\$ 1,855.2
To other segments	44.7	3.7	-	-	
	<u>\$ 1,102.7</u>	<u>\$ 267.9</u>	<u>\$ 533.0</u>	<u>\$ -</u>	
EBITDA¹					
Amortization of property, plant, equipment & timber	\$ 210.3	\$ 38.9	\$ 44.1	\$ (14.0)	\$ 279.3
Operating earnings (loss)	55.6	18.2	47.2	1.6	122.6
Interest expense - net	154.7	20.7	(3.1)	(15.6)	156.7
Exchange loss on long-term debt	(16.0)	(6.3)	(5.9)	0.3	(27.9)
Other income (expense)	-	-	-	(9.9)	(9.9)
Earnings (loss) before income taxes and non-controlling interest	4.4	0.1	1.0	3.1	8.6
	<u>\$ 143.1</u>	<u>\$ 14.5</u>	<u>\$ (8.0)</u>	<u>\$ (22.1)</u>	<u>\$ 127.5</u>

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 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 commenced activities to sell its approximate 90% interest in two sawmills and their related timber harvesting rights. The non-controlling interest that relates to these operations is included in long-term liabilities held for sale.

In addition, the Company is selling a harvesting and road maintenance business and related equipment located in Alberta.

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

3. Other assets

	June 30, 2006	December 31, 2005
Power purchase agreements	\$ 106.1	\$ 28.7
Investments	13.5	16.3
Advances for timber & timber deposits	15.7	16.6
	<u>\$ 135.3</u>	<u>\$ 61.6</u>

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 available, \$ 166.5 million of which was drawn as at June 30, 2006. The Company has also issued \$15.4 million under various letters of credit. All lines of credit are unsecured except for a \$5.0 million joint-venture line of credit, and bear interest at floating rates based on Prime, US base, Bankers' Acceptances or LIBOR at the Company's option.

5. Other liabilities

	June 30, 2006	December 31, 2005
Post-retirement obligations	\$ 51.7	\$ 44.2
Timber damage deposits	11.2	10.9
Reforestation obligation – long-term	69.4	68.2
Other asset retirement obligations	9.4	9.7
	\$ 141.7	\$ 133.0

6. Shareholders' equity

	June 30, 2006		December 31, 2005	
	Number of Shares Issued	Amount	Number of Shares Issued	Amount
Common	37,878,499	\$ 597.3	37,871,786	\$ 597.0
Class B common	4,885,206	0.5	4,885,206	0.5
Total Common	42,763,705	597.8	42,756,992	597.5
Retained earnings		1,366.7		1,268.8
Share purchase loans		(0.4)		(0.4)
Shareholders' equity		\$ 1,964.1		\$ 1,865.9

Common shares

For the three months ended June 30, 2006, the Company issued 3,291 Common shares for cash of \$0.2 million (for the six months ended June 30, 2006 the Company issued 6,713 Common shares for cash of \$0.3 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 that provides for changes to Crown forest policy and to the existing 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 cubic meters of the Company’s existing allowable annual cut on replaceable tenures. During the quarter, the Company agreed to compensation of \$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:

	April 1 to June 30, 2006		April 1 to June 30, 2005	
	Amount	%	Amount	%
Income taxes at statutory rates	\$ (32.4)	(34.1)	\$ (20.7)	(34.9)
Non – taxable amounts	13.4	14.1	(2.4)	(4.1)
Rate differentials between jurisdictions and on specified activities	0.4	0.1	3.1	5.2
Reductions in income tax rates	33.1	34.9	-	-
Other	(5.6)	(5.7)	(1.5)	(2.2)
Income tax recovery (expense)	\$ 8.9	9.3	\$ (21.5)	(36.0)

	January 1 to June 30, 2006		January 1 to June 30, 2005	
	Amount	%	Amount	%
Income taxes at statutory rates	\$ (35.8)	(34.1)	\$ (44.1)	(34.9)
Non – taxable amounts	13.1	12.5	(3.7)	(2.9)
Rate differentials between jurisdictions and on specified activities	1.8	1.7	5.0	3.9
Reductions in statutory income tax rates	33.1	31.6	-	-
Other	(7.1)	(6.9)	(2.6)	(2.0)
Income tax recovery (expense)	\$ 5.1	4.8	\$ (45.4)	(35.9)

10. Employee future benefits

The total benefit cost of the Company’s defined benefit pension plans was \$6.7 million for the three months ended June 30, 2006 (three months ended June 30, 2005 - \$6.8 million) and \$12.4 million for the six months ended June 30, 2006 (six months ended June 30, 2005 - \$14.8 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.

	April 1 to June 30		January 1 to June 30	
	2006	2005	2006	2005
Earnings	\$103.8	\$38.0	\$ 109.9	\$ 80.9
Weighted average number of shares (thousands)				
Weighted average shares – basic	42,744	42,723	42,742	42,722
Share options – treasury stock method	384	538	385	587
Weighted average shares - diluted	43,128	43,261	43,127	43,309
Earnings per share (dollars)				
Basic	\$ 2.43	\$ 0.89	\$ 2.57	\$ 1.89
Diluted	\$ 2.41	\$ 0.88	\$ 2.55	\$ 1.87

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.

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 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. At this time, it is not possible to determine if the agreement will be successfully implemented.

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 June 30, 2006, the total amount on deposit from May 22, 2002 related to CVD and ADD was US\$370.4 million and US\$38.7 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.

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

For more information:

Mr. Martti Solin, Executive Vice-President, Finance and Chief Financial Officer

Mr. Rodger Hutchinson, Vice-President, Corporate Controller

(604) 895-2700

www.westfraser.com