



West Fraser Timber Co. Ltd.

Third Quarter

2010

For the period, July 1 to September 30, 2010





Vancouver, B.C. – **West Fraser Timber Co. Ltd.** reported earnings after discontinued operations of \$45 million or \$1.04 per share on sales of \$707 million in the third quarter of 2010 and earnings after discontinued operations of \$128 million or \$2.95 per share, on sales of \$2.2 billion for the first nine months of 2010.

“Although we are experiencing a slow recovery in some of our key markets, we are generally very pleased with our results. Our improved cash flows allow us the opportunity to reinvest in our operations which will better position us to take advantage of the eventual economic recovery,” said Hank Ketcham, the Company’s Chairman, President and CEO.

These results compare with previous periods as follows:

(\$ million except earnings per share (“EPS”))	2010			2009	
	YTD	Q3	Q2	YTD	Q3
Sales	2,167	707	772	1,782	612
EBITDA <sup>1</sup>	363	109	151	25	41
Operating earnings from continuing operations	219	63	103	(179)	(40)
Earnings from continuing operations	143	46	62	(202)	(100)
Earnings after discontinued operations	128	45	63	(321)	(199)
Diluted EPS after discontinued operations (\$)	2.95	1.04	1.46	(7.49)	(4.64)

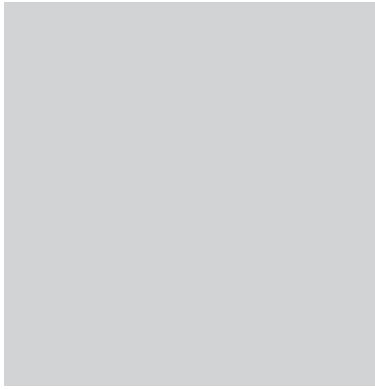
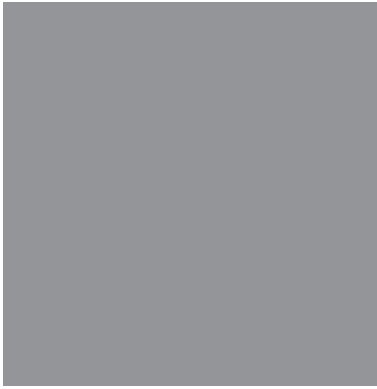
### Operational Results

In the quarter the lumber segment generated operating earnings of \$22 million and EBITDA of \$49 million. After a period of higher lumber prices in the second quarter of 2010, prices weakened in the third quarter reflecting a continuing weak U.S. housing market. SYP lumber prices were particularly hard hit. Shipments to China continued to increase in the quarter, supporting lumber prices.

The panel segment, which includes plywood, LVL and MDF, generated operating earnings in the quarter of \$14 million and EBITDA of \$20 million. Plywood prices came under pressure in the quarter with the average benchmark price declining 13% from the previous quarter as U.S.-produced plywood was sold into the Canadian market. The impact of this decline on panel segment results was largely offset by stronger MDF prices.

Pulp and paper operations generated operating earnings of \$41 million and EBITDA of \$55 million. Pulp prices increased in the quarter with the average NBSK benchmark price for the quarter increasing to US\$1,000 per tonne compared to US\$993 in the previous quarter. Record pulp production of over 300,000 tonnes for the quarter contributed to the strong segment results.

<sup>1</sup> Throughout this Report, reference is made to EBITDA (defined as operating earnings plus amortization and asset impairments). Management of the Company believes that, in addition to earnings, EBITDA is a useful performance indicator and is a useful complementary measure of cash available prior to debt service, capital expenditures and income taxes. However, EBITDA is not a generally accepted earnings measure under Canadian generally accepted accounting principles (“GAAP”) and does not have a standardized meaning prescribed by Canadian GAAP. Investors are cautioned that EBITDA should not be considered as an alternative to earnings or cash flow as determined in accordance with Canadian GAAP. As there is no standardized method of calculating EBITDA, the Company’s method of calculating EBITDA may differ from the methods used by other entities and, accordingly, the Company’s use of that term may not be directly comparable to similarly titled measures used by other entities.



## Outlook

The economic uncertainty in the U.S. continues to delay a recovery in U.S. new home construction, which is a key market for the Company's lumber, MDF and LVL. The Company expects pulp prices to be reasonable over the near term as a result of the improving global economy.

Mr. Ketcham concluded "Despite the uncertain recovery, we are confident that our well capitalized mills, our strong balance sheet and our low cost culture will allow us to maintain our leadership position in our industry."

## The Company

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

## Forward-Looking Statements

This Report contains historical information, descriptions of current circumstances and statements about potential future developments. The latter, which are forward-looking statements are included under the heading "Outlook", and are presented to provide reasonable guidance to the reader but their accuracy depends on a number of assumptions and is subject to various risks and uncertainties which are also described under this heading. Actual outcomes and results will depend on a number of factors. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by applicable securities laws.

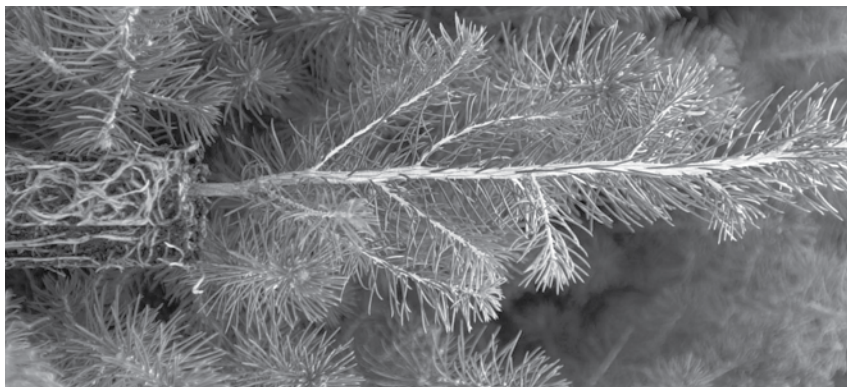
On behalf of the Board of Directors,

**Henry H. Ketcham**

Chairman, President and Chief Executive Officer

October 25, 2010

## Management's Discussion & Analysis



This discussion and analysis by West Fraser's management ("MD&A") of the Company's financial performance during the third quarter of 2010 (the "current quarter") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes included in this quarterly report and the 2009 annual MD&A included in the Company's 2009 Annual Report. Dollar amounts are expressed in Canadian currency, unless otherwise indicated.

This MD&A contains historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results. The latter, which are forward-looking statements, are presented to provide reasonable guidance to the reader but their accuracy depends on a number of assumptions and is subject to various risks and uncertainties. Forward-looking statements are included under the headings "Discontinued Operations" (comment concerning expected sale of Eurocan inventory), "Business Outlook" and "New Accounting Pronouncements". Actual outcomes and results will depend on a number of factors that could affect the ability of the Company to execute its business plans, including those matters described under "Risks and Uncertainties" in the 2009 annual MD&A, and may differ materially from those anticipated or projected. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by applicable securities laws.

Throughout this MD&A reference is made to EBITDA (defined as operating earnings plus amortization and asset impairments). Management believes that, in addition to earnings, EBITDA is a useful performance indicator and is a useful complementary measure of cash available prior to debt service, capital expenditures and income taxes. EBITDA is not a generally accepted earnings measure under Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by Canadian GAAP. Investors are cautioned that EBITDA should not be considered as an alternative to earnings or cash flow, as determined in accordance with Canadian GAAP. As there is no standardized method of calculating EBITDA, the Company's method of calculating EBITDA may differ from the methods used by other entities and, accordingly, the Company's use of that term may not be directly comparable to similarly titled measures used by other entities.

This MD&A includes references to benchmark prices over selected periods for products of the type produced by West Fraser. These benchmark prices do not necessarily reflect the prices obtained by West Fraser for those products during such period. The information in this interim MD&A is as at October 25, 2010 unless otherwise indicated.

## Production, Shipments and Financial Comparisons

	Q3-10	Q2-10	YTD-10	Q3-09	YTD-09
<b>Production</b>					
Lumber – MMfbm					
SPF	827	860	2,514	726	2,141
SYP	373	363	1,010	336	986
	1,200	1,223	3,524	1,062	3,127
Plywood – MMsf (3/8" basis)	203	207	601	193	562
MDF – MMsf (3/4" basis)	52	47	147	52	149
LVL – Mcf	362	594	1,536	447	1,177
BCTMP – Mtonnes	160	139	455	156	343
NBSK – Mtonnes	143	116	384	134	390
Newsprint – Mtonnes	34	31	98	20	78
Linerboard and Kraft Paper – Mtonnes	—	—	29	120	303
<b>Shipments</b>					
Lumber – MMfbm					
SPF	837	842	2,509	773	2,300
SYP	382	346	998	337	1,034
	1,219	1,188	3,507	1,110	3,334
Plywood – MMsf (3/8" basis)	218	192	591	178	563
MDF – MMsf (3/4" basis)	46	49	146	49	161
LVL – Mcf	363	580	1,507	456	1,201
BCTMP – Mtonnes	131	170	443	152	416
NBSK – Mtonnes	120	118	370	130	394
Newsprint – Mtonnes	33	36	104	28	70
Linerboard and Kraft Paper – Mtonnes	8	22	120	110	270
<b>Financial Comparisons – \$ millions</b>					
Sales	707	772	2,167	612	1,782
EBITDA	109	151	363	41	25
Amortization	(46)	(48)	(144)	(64)	(187)
Operating earnings before asset impairments	63	103	219	(23)	(162)
Asset impairments	—	—	—	(17)	(17)
Operating earnings	63	103	219	(40)	(179)
Interest expense – net	(6)	(7)	(21)	(6)	(22)
Exchange gain (loss) on long-term debt	10	(15)	7	28	44
Other income (expense)	1	2	(5)	(8)	(5)
Provision for income taxes	(22)	(21)	(57)	(74)	(40)
<b>Earnings from continuing operations</b>	<b>46</b>	<b>62</b>	<b>143</b>	<b>(100)</b>	<b>(202)</b>
<b>Loss from discontinued operations</b>	<b>(1)</b>	<b>1</b>	<b>(15)</b>	<b>(99)</b>	<b>(119)</b>
<b>Earnings</b>	<b>45</b>	<b>63</b>	<b>128</b>	<b>(199)</b>	<b>(321)</b>
<b>Cdn. \$1.00 converted to U.S.–average</b>	<b>0.962</b>	<b>0.972</b>	<b>0.965</b>	<b>0.911</b>	<b>0.855</b>

### Selected Quarterly Information

(\$ millions, except earnings per share ("EPS") amounts which are in \$)	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08
Sales <sup>1</sup>	707	772	688	570	612	612	558	662
Earnings <sup>1</sup>	46	62	35	8	(100)	(23)	(80)	(75)
Earnings after discontinued operations	45	63	20	(20)	(199)	(39)	(83)	(70)
Basic EPS <sup>1</sup>	1.08	1.46	0.80	0.18	(2.34)	(0.53)	(1.86)	(1.76)
Diluted EPS <sup>1</sup>	1.07	1.44	0.79	0.18	(2.34)	(0.53)	(1.86)	(1.76)
Basic EPS after discontinued operations	1.05	1.48	0.45	(0.47)	(4.64)	(0.91)	(1.94)	(1.62)
Diluted EPS after discontinued operations	1.04	1.46	0.45	(0.47)	(4.64)	(0.91)	(1.94)	(1.62)

1. From continuing operations.

## Management's Discussion & Analysis (continued)

### Discussion & Analysis

Earnings for the current quarter were very positive although moderately weaker than the previous quarter's strong results. The decline in earnings was the result of weakening lumber prices, including sharply weaker SYP lumber prices, during the quarter as well as a modest decline in pulp prices in the latter part of the current quarter.

The current quarter selling, general and administrative expenses include \$8 million related to equity-based compensation. Equity-based compensation varies based on the period-ending closing price of the Company's Common shares and had resulted in a recovery of \$10 million in the previous quarter. The current quarter's results also include a gain on the translation of U.S. dollar-denominated debt of \$10 million (after-tax \$9 million or \$0.21 per share), reflecting a strengthening of the Canadian dollar against its U.S. counterpart.

The Company's 2010 results represent a significant improvement over earnings for comparable periods of 2009, which have been restated to present results of the Eurocan linerboard and kraft paper business ("Eurocan") as a discontinued operation. Comparing third quarter results, the \$146 million improvement in earnings from continuing operations reflects higher lumber and pulp prices as well as increased shipments of lumber as some previously-curtailed capacity was brought back into production. On a year-to-date basis, 2010 earnings from continuing operations improved by \$345 million compared to the same period of 2009 as both SPF lumber and pulp prices improved dramatically and shipments of SPF lumber reached near capacity levels.

Cash flows from operations continued to be very positive as reflected in the net debt to total capitalization ratio of 6% at the end of the current quarter compared to 12% at the end of the previous quarter. Many of the Company's operations are benefiting from the combination of a lower cost structure and high operating rates in a very difficult market. In light of the Company's continued strong performance, during the quarter West Fraser's Board approved an increase of its quarterly dividend from \$0.03 to \$0.06 as well as a new \$125 million capital expenditure program.

The change in value of the Canadian dollar relative to the U.S. dollar during the periods presented resulted in the following foreign exchange gains and losses from continuing operations:

	Q3-10	Q2-10	YTD-10	Q3-09	YTD-09
Included in other income					
Translation of current monetary items	(3)	3	(4)	(9)	(11)
Gain (loss) on foreign currency contracts	—	(1)	—	3	3
Gain (loss) on U.S. dollar-denominated long-term debt	10	(15)	7	28	44
Translation gain (loss) on investment in self-sustaining foreign operations	(9)	14	(4)	(34)	(49)

### Discussion & Analysis by Product Segment

#### Lumber Segment

	Q3-10	Q2-10	YTD-10	Q3-09	YTD-09
Sales – \$ millions	398	440	1,225	336	984
EBITDA – \$ millions	49	75	190	3	(43)
EBITDA margin – %	12	16	15	—	—
Operating earnings before asset impairments – \$ millions	22	47	105	(36)	(151)
Asset impairments	—	—	—	(17)	(17)
Operating earnings – \$ millions	22	47	105	(53)	(168)
Benchmark prices (US\$ per Mfbm)					
SPF #2 & Better 2 x 4 <sup>1</sup>	222	264	251	192	174
SYP #2 West 2 x 4 <sup>2</sup>	248	377	315	234	241

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

The current U.S. housing collapse, which began in 2006 and was worsened by the global financial crisis which began in 2008, resulted in a sharp and extended decline in demand for lumber and other building products, including those manufactured by the Company. 2009 marked what many analysts consider a low point in the current lumber downcycle as production greatly exceeded demand and benchmark prices weakened sharply. In response, lumber producers, including the Company, curtailed higher-cost production and by early 2010 lumber prices had recovered to levels reflecting an improved, although fragile, balance between supply and demand. In the first half of 2010 benchmark prices for both SPF and SYP lumber spiked sharply higher, due in large part to constrained supply. In the case of SPF lumber, production curtailments and reduced log inventories during the spring breakup played a key role in constraining supply while in the case of SYP lumber, extreme weather conditions in many areas of the U.S. South caused the reduction or suspension of logging activities which resulted in production curtailments. By the end of the second quarter of 2010 these supply constraints had been substantially alleviated and benchmark prices weakened as a result. In the case of SYP lumber benchmark prices, the decline was significant.

Operating earnings for the lumber segment followed the same pattern as the Company's overall operating earnings, reflecting a moderate weakening in the current quarter compared to the previous quarter but a substantial improvement compared to the same quarter of 2009. Year-to-date 2010 operating earnings were \$273 million higher than in the same period of 2009.

Lumber shipments were substantially the same as in the previous quarter but were 10% higher than in the third quarter of 2009. On a year-to-date basis, shipments were 5% higher in 2010 than in 2009. While U.S. demand continued to reflect the depressed housing market, lumber demand showed continued growth in China. Strong demand for all grades has allowed Canadian lumber to gain greater market share and geographic penetration in China.

The Company's Canadian mills continued to operate near capacity in the current quarter. SPF lumber production was slightly lower in the current quarter compared to the previous quarter but was 14% greater compared to the third quarter of 2009.

SYP production was slightly higher in the current quarter compared to the previous quarter and 11% higher compared to the third quarter of 2009. However, many of the Company's U.S. sawmills continued to operate on reduced shifts due to uncertain markets, achieving an overall operating rate of approximately 75% in the current quarter.

Amortization in the period was lower compared to the third quarter of 2009 largely due to asset impairment charges relating to certain sawmill assets recorded in the earlier period.

During the current quarter the benchmark lumber composite price decreased which resulted in the reinstatement of export taxes on certain Canadian softwood lumber exports to the United States under the 2006 Softwood Lumber Agreement (the "S.L.A."). During the months of May, June and July, 2010 the Company's Canadian lumber exports were subject to a 10%, 0% and 10% base tax rate, respectively. For the remaining months of 2010 and for all of 2009 West Fraser's lumber exports were subject to a 15% base tax rate. For any month where shipments from B.C. or Alberta exceed the provincial surge limit, the base tax rate will be increased by one-half. For several months in 2009 and 2010, lumber shipments from the province of Alberta exceeded the prescribed surge volumes which caused shipments in those months to be subject to a higher export tax.

As allowed under the S.L.A., in early October 2010 the U.S. government requested consultations with Canada, which is an initial step in the dispute resolution mechanism under that agreement. A dispute has arisen between the two countries which relates to the prices charged to harvest pine-beetle killed timber on public lands located in the interior region of B.C. and therefore could have implications for several of West Fraser's operations. If the dispute is not resolved through consultation, either party may require that the issue in dispute be referred to arbitration for determination. Representatives of the B.C. government, which sets prices for Crown timber harvested from public lands, have indicated that they believe that the U.S. complaint is without merit. West Fraser is currently unable, based on available information, to reasonably estimate the likelihood or effect of an adverse determination of this dispute.

In October 2010, the Company concluded collective bargaining in six of its B.C. solid wood operations and the agreements are expected to be ratified by early November.

## Management's Discussion & Analysis (continued)

### Panels Segment

	Q3-10	Q2-10	YTD-10	Q3-09	YTD-09
Sales – \$ millions	105	106	309	102	298
EBITDA – \$ millions	20	20	51	19	31
EBITDA margin – %	18	19	16	19	10
Operating earnings – \$ millions	14	15	35	12	6
Benchmark price					
Plywood (per Msf 3/8" basis) <sup>1</sup> Cdn\$	327	377	345	379	332
MDF (per Msf 3/4" basis) <sup>2</sup> US\$	550	536	520	480	493

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

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

The Company's panels segment is comprised of its plywood, MDF and LVL operations.

Operating earnings were comparable in the current and previous quarters as weakening plywood prices in the current quarter were substantially offset by lower plywood production costs and improved MDF prices. Operating earnings in the current quarter were slightly higher than in the third quarter of 2009 as MDF prices improved and amortization for the plywood segment declined as certain assets became fully depreciated.

Benchmark plywood prices were 13% lower in the current quarter compared to the previous quarter and the third quarter of 2009. As the Canadian dollar began its strengthening trend against the U.S. dollar in 2009, more U.S.-produced plywood began entering the Canadian market, putting downward pressure on plywood prices. MDF prices improved in the current quarter compared to the previous quarter and the third quarter of 2009, reflecting a reduction of overall supply in the North American market.

The Company's two MDF plants operated in the quarter at approximately 70% of capacity. In the previous quarter a press fire at the Quesnel MDF plant reduced production by approximately 8,300 Msf. The Company's LVL plant was reduced to running at 45% of capacity during the quarter as a result of weakened demand

### Pulp & Paper Segment

	Q3-10	Q2-10	YTD-10	Q3-09	YTD-09
Sales – \$ millions	204	226	633	175	500
EBITDA – \$ millions	55	49	143	18	30
EBITDA margin – %	27	22	23	10	6
Operating earnings – \$ millions	41	36	102	2	(21)
Benchmark price					
NBSK (US\$ per tonne) <sup>1</sup>	1,000	993	958	733	684
Newsprint (US\$ per tonne) <sup>2</sup>	635	598	595	445	579

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

2. Source: Resource Information Systems, Inc. – delivered 48.8 gram newsprint.

The pulp & paper segment includes operations that produce NBSK, BCTMP and newsprint. Results from the Eurocan business are included in discontinued operations.

While the average benchmark NBSK prices increased compared to the previous quarter, the effect was somewhat offset by a decline in BCTMP prices and reduced BCTMP sales volumes. Benchmark NBSK prices reached a peak of US\$1,020 per tonne in June as worldwide pulp inventories hit a cyclical low during the second quarter 2010. The restart of Chilean pulp capacity, new capacity startups in China and a slowdown in Asian pulp demand contributed to an increase in inventories during the current quarter and a subsequent NBSK price decline to US\$990 per tonne. BCTMP pricing declined by a wider margin during the quarter given that the majority of the demand for this product is in the Asian market. Towards the end of the quarter demand for BCTMP improved as Asian demand picked up.

The significant improvement in earnings in 2010 compared to 2009 reflect the substantial improvement in both NBSK and BCTMP prices.

A pulp production record was achieved in the current quarter as all plants operated well. Production was 19% higher than in the previous quarter as planned maintenance shutdowns occurred in the second quarter at both NBSK mills and the Quesnel BCTMP mill. Production in the current quarter was 5% higher than in the corresponding quarter in 2009 reflecting improved operating rates in each of the pulp mills.

Average unit pulp production costs were 10% lower in the current quarter than in the previous quarter, in spite of increased fibre costs, as energy, chemical and other conversion costs declined. In addition, \$4 million of investment tax credits were applied to reduce production costs. Compared to the corresponding quarter in 2009, average unit production costs were 6% higher largely due to higher fibre and maintenance costs.

Newsprint prices have shown some improvement, increasing by 6% from the previous quarter and 43% from the third quarter of 2009. Newsprint production was 10% higher in the current quarter compared to the previous quarter as production was curtailed in the previous quarter due to high electricity costs. Production was substantially greater than in the corresponding quarter of 2009 due to downtime taken in the earlier period to permit modifications to the paper machine.

Average unit production costs for newsprint were higher in the current quarter compared to the previous quarter as higher electricity sales revenues generated in the previous quarter under the Company's power purchase agreement reduced average production costs. Unit production costs for the quarter were lower compared to the third quarter of 2009 due to the downtime taken during the earlier period.

### Discontinued Operations

The Eurocan mill ceased operations in the first quarter of 2010 and by the end of the third quarter most of the finished product inventory had been sold or committed to specific customers. All remaining inventory should be sold by the end of the year. The mill recorded an after-tax loss of \$1 million in the current quarter compared to after-tax earnings of \$1 million in the previous quarter and an after-tax loss of \$99 million in the corresponding quarter of 2009. The current quarter results include a small amount from the sale of product inventory as well as site security and other costs.

West Fraser has initiated the sale of various fixed assets associated with the Eurocan mill and completed the sale of one of two paper machines in October 2010. Further asset sales are expected to be completed over the next 12 months.

As at September 30, 2010 the assets and liabilities associated with the Eurocan business are as follows:

(\$ millions)	
Current assets	11
Non-current assets	1
<b>Total assets</b>	<b>12</b>
Current liabilities	(18)
Non-current liabilities	(16)
<b>Total liabilities</b>	<b>(34)</b>

The summarized results for the discontinued Eurocan business are as follows:

(\$ millions)	Q3-10	Q2-10	YTD-10	Q3-09	YTD-09
Sales	6	14	71	67	182
Operating loss	(1)	(1)	(23)	(144)	(170)
Gain on foreign currency contracts	—	—	—	7	10
Other income (expense)	—	2	1	(4)	(11)
Loss before income tax	(1)	1	(22)	(141)	(171)
Income tax recovery	—	—	6	42	52
Loss	(1)	1	(16)	(99)	(119)
Cash flows from operating and investing activities	6	25	23	(2)	(16)

## Management's Discussion & Analysis (continued)

### Business Outlook

For a description of West Fraser's business outlook for 2010 see its 2009 annual MD&A under "Business Outlook" which is included in the Company's Annual Report.

A recovery of U.S. new home construction, which is a key market for the Company's lumber, MDF and LVL, continues to be hampered by economic uncertainty in the U.S., including high levels of unemployment and lack of consumer confidence. This uncertainty is expected to continue at least over the next several quarters. Although Canadian solid wood product prices reflect a degree of balance between supply and demand, current weak SYP lumber prices reflect a continuing oversupply of that U.S. product.

The strength of the Canadian dollar and a weak U.S. housing market is likely to continue to result in the import of U.S.-produced plywood into Canada which will continue to put downward pressure on plywood prices. This trend is likely to be reversed either by a decline in the value of the Canadian dollar against the U.S. dollar or a recovery of the U.S. housing market.

Although there may be a short-term weakening of certain key pulp markets, the general recovery of the global economy and limited sources of new production should support reasonable price levels over the next few years. However, as new supply does come onto the market, pulp prices may face downward pressure.

### Capital Requirements and Liquidity

West Fraser's cash requirements, other than for operating purposes, are primarily for interest payments, repayment of debt, additions to property, plant, equipment and timber, acquisitions and payment of dividends. In normal business cycles and in years without a major acquisition or debt repayment, cash on hand and cash provided by operations have normally been sufficient to meet these requirements.

As at September 30, 2010 the Company had cash and short-term investments, less cheques issued in excess of funds on deposit, of \$213 million. Its net debt (total debt less cash) as a proportion of its net debt plus shareholders equity was 6% compared to 24% as at December 31, 2009 and 12% as at June 30, 2010.

The Company has \$605 million in revolving lines of credit as at September 30, 2010, of which \$16 million (net of deferred financing cost of \$4 million) was drawn and \$38 million was allocated to issued letters of credit supported by these facilities.

Selected Cash Flow Items (\$ millions)	Q3-10	Q2-10	YTD-10	Q3-09	YTD-09
<b>Operating Activities</b>					
Cash provided before working capital changes	79	130	298	15	6
Non-cash working capital change	37	83	112	67	137
Cash provided from operating activities	116	213	410	82	143
<b>Financing Activities</b>					
Debt and operating loans	7	(123)	(161)	(10)	(45)
Dividends and other	(3)	(1)	(8)	(1)	(8)
Cash provided from (used in) financing activities	4	(124)	(169)	(11)	(53)
<b>Investing Activities</b>					
Additions to property, plant, equipment & timber	(10)	(6)	(44)	(1)	(11)
Other – net	3	1	3	1	4
Cash used in investing activities	(7)	(5)	(41)	—	(7)
<b>Change in cash from continuing operations</b>	<b>113</b>	<b>84</b>	<b>200</b>	<b>71</b>	<b>83</b>
<b>Change in cash from discontinued operations</b>	<b>6</b>	<b>25</b>	<b>23</b>	<b>(2)</b>	<b>(16)</b>
<b>Change in cash</b>	<b>119</b>	<b>109</b>	<b>223</b>	<b>69</b>	<b>67</b>

## Capital Structure and Debt Ratings

At September 30, 2010 the Common share equity of the Company consisted of 40,019,484 Common shares and 2,806,478 Class B Common shares for a total of 42,825,962 shares issued and outstanding.

All of West Fraser's debt is secured and, with the exception of current borrowings incurred by its joint venture newsprint mill, ranks equally in right of payment.

The Company has historically maintained an investment grade rating by each of its three rating agencies. In 2009, as a result of the significant and prolonged downturn in the U.S. housing industry, each of these agencies downgraded its rating of the Company. However, during the current quarter, Standard & Poor's raised its rating from BB to BB+ while maintaining the stable outlook. West Fraser believes that the upgrade reflects positively on its current low leverage and operating performance. The Company's current rating by each of these agencies is as follows:

### Debt Ratings

Agency	Rating	Outlook
Dominion Bond Rating Service	BB(high)	Negative
Moody's	Ba1	Negative
Standard & Poor's	BB+	Stable

### Risks and Uncertainties

For a review of the risks and uncertainties to which the Company is subject, see the 2009 annual MD&A which is included in the Company's 2009 Annual Report.

### New Accounting Pronouncements

#### International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canada's current GAAP for publicly accountable profit-oriented enterprises effective January 1, 2011. IFRS requires that in the year of implementation the comparative financial statements be restated to conform to the standards.

#### Update on IFRS Conversion Plan

West Fraser has commenced the process to transition from GAAP to IFRS. The Company has established a project team and a project plan has been developed and is being implemented. Regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation project has been instituted.

The project plan consists of three major phases, which at times will run concurrently:

- Assessment phase – This phase involves identifying the differences between GAAP and IFRS. These differences are then analysed to determine the possible effect on the Company including changes required to existing accounting policies and information systems, together with analysis of policy choices under IFRS.
- Design phase – During this phase additional specialist personnel will be identified to assist as necessary on system and process changes. Training requirements for staff will be assessed and appropriate training programs will be completed. In addition, optional exemptions for first time adopters of IFRS and accounting policy choices under IFRS will be evaluated.
- Implementation phase – This phase includes execution of changes to information systems and business processes, obtaining authorization for recommended exemptions for first time adopters and for accounting policy choices. During this phase draft IFRS-compliant financial statements will be completed for discussion and approval by senior management and the Audit Committee. Additional training will be provided to financial and other staff as necessary.

The assessment and design phases have been completed and the Company is now in the implementation phase of the project plan. All financial staff in key control positions have been provided with initial IFRS training with additional training being provided to members of the project team.

## Management's Discussion & Analysis (continued)

Implementation of changes to ensure that information systems are capable of dual reporting of GAAP and IFRS information for 2010 has been completed. In addition, changes to the Company's fixed asset system to account for impairment accounting under IFRS are scheduled to be implemented in the fourth quarter of the year.

The expected effect of accounting policy choices and system changes on disclosure controls and internal controls over financial reporting is being monitored and appropriate control changes will be made prior to implementation of IFRS.

### Differences between IFRS and GAAP

The standard-setting body of IFRS has significant ongoing projects that could affect the ultimate differences between GAAP and IFRS and these changes may have a material effect on the Company's financial statements. As a result, the final effect on the Company's consolidated financial statements will only be measurable once all of the applicable IFRS standards as at the date of the final changeover are known.

There are a number of differences between GAAP and IFRS that have been identified. Many of the differences identified are not expected to have a material effect on the reported results or the financial position of West Fraser. However, there may be significant changes resulting from the initial adoption of IFRS and accounting policy choices for certain areas. The adoption of IFRS is not expected to materially affect cash flows or debt covenant calculations as current covenants contemplate that they will continue to be calculated based on current GAAP.

While the qualitative effects of IFRS on future financial statements have not yet been determined, the Company has identified a number of key areas which are likely to be significantly affected, including property, plant, equipment and timber, impairment of assets, employee future benefits, asset retirement obligations (including reforestation obligations) and presentation of financial statements.

The IFRS 1 (First-Time Adoption of International Financial Reporting Standards) exemptions being considered by the Company that could have a material effect on the opening balance sheet are as follows:

Exemption	Application of Exemption
Business combinations	The Company expects to apply this exemption and will not restate any business combinations that took place before January 1, 2010.
Employee future benefits	The Company expects to apply this exemption which will allow it to recognize cumulative actuarial gains and losses at January 1, 2010 as an adjustment to retained earnings.
Cumulative translation differences	The Company expects to apply this exemption which will allow it to transfer the January 1, 2010 cumulative translation account to retained earnings.

The key areas which are likely to be significantly affected by the adoption of IFRS are as follows:

Standards	Difference from GAAP	Potential Impact
Presentation and disclosure	IFRS requires significantly more disclosure than Canadian GAAP for certain standards.	The increased disclosure requirements will cause the Company to change financial reporting processes to ensure the appropriate data is collected.
Impairment of assets	<p>IFRS requires the assessment of asset impairment to be based on discounted cash flows while GAAP only requires discounting if the carrying value of assets exceeds the undiscounted cash flows.</p> <p>IFRS also requires the reversal of any previous asset impairments, excluding goodwill, where circumstances have changed. GAAP prohibits the reversal of impairment losses.</p>	The differences in methodology may result in asset impairments upon transition to IFRS. In addition, the potential for asset impairments will increase in the future.
Share-based compensation	IFRS requires the measurement of the Company's share option plan to be based on a valuation model while GAAP applies the intrinsic rate method.	The differences in methodology will result in an increase to the share option liability.
Asset retirement obligations	IFRS requires asset retirement obligations to be adjusted to the discount rate in effect at each balance sheet date while GAAP retains the historical discount rate.	The differences in methodology will result in an adjustment to retained earnings upon transition to IFRS and will increase earnings volatility in future periods.
Employee future benefits	IFRS provides an accounting policy choice to adjust actuarial gains and losses to equity or to apply the corridor approach as recommended by GAAP.	The Company may elect to adjust actuarial gains and losses to equity.

### Disclosure Controls and Procedures and Internal Control Over Financial Reporting

West Fraser's management, including the Chairman, President and Chief Executive Officer and the Executive Vice-President, Finance and Chief Financial Officer acknowledge responsibility for the design of disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) as those terms are defined in NI52-109.

There were no changes in internal controls over financial reporting that occurred during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, West Fraser's internal control over financial reporting.

### Additional Information

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Consolidated Balance Sheets

(In millions of Canadian dollars – unaudited)	As at September 30, 2010	As at December 31, 2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 221.5	\$ 12.0
Accounts receivable	201.0	200.6
Income taxes receivable	—	67.6
Inventories (note 3)	344.2	407.7
Prepaid expenses	29.6	15.8
	796.3	703.7
<b>Property, plant, equipment and timber</b>	1,531.0	1,624.1
<b>Deferred pension costs</b>	122.8	132.7
<b>Goodwill</b>	263.7	263.7
<b>Other assets (note 4)</b>	84.1	88.9
	\$ 2,797.9	\$ 2,813.1
<b>Liabilities</b>		
<b>Current liabilities</b>		
Cheques issued in excess of funds on deposit	\$ 8.6	\$ 21.8
Operating loans (note 6)	15.7	78.7
Accounts payable and accrued liabilities	254.9	252.6
Income taxes payable	54.2	—
Current portion of asset retirement obligations	39.6	41.5
Current portion of long-term debt (note 6)	0.3	100.3
	373.3	494.9
<b>Long-term debt (note 6)</b>	309.5	315.9
<b>Other liabilities (note 7)</b>	174.2	166.9
<b>Future income taxes</b>	204.0	217.2
	1,061.0	1,194.9
<b>Shareholders' equity</b>		
Share capital	600.1	599.7
Accumulated other comprehensive earnings	(63.9)	(59.8)
Retained earnings	1,200.7	1,078.3
	1,736.9	1,618.2
	\$ 2,797.9	\$ 2,813.1

Number of Common shares and Class B Common shares outstanding at October 22, 2010 was 42,827,042.

## Consolidated Statements of Earnings and Comprehensive Earnings

(In millions of Canadian dollars – unaudited)	July 1 to September 30		January 1 to September 30	
	2010	2009	2010	2009
<b>Sales</b>	\$ 706.8	\$ 612.3	\$ 2,166.8	\$ 1,782.3
<b>Costs and expenses</b>				
Cost of products sold	441.6	432.7	1,338.8	1,351.2
Freight and other distribution costs	104.9	101.2	328.9	301.9
Export taxes	13.0	13.8	43.0	34.0
Amortization	46.5	63.6	144.1	186.7
Selling, general and administration	38.1	23.7	93.5	70.7
Asset impairments	—	16.9	—	16.9
	644.1	651.9	1,948.3	1,961.4
<b>Operating earnings</b>	62.7	(39.6)	218.5	(179.1)
<b>Other</b>				
Interest expense – net	(6.3)	(6.6)	(20.8)	(21.7)
Exchange gain on long-term debt	10.7	27.7	6.6	44.2
Other income (expense)	0.8	(7.6)	(4.6)	(5.2)
<b>Earnings from continuing operations before income taxes</b>	67.9	(26.1)	199.7	(161.8)
Provision for income taxes (note 10)	(21.5)	(73.8)	(56.5)	(40.4)
<b>Earnings from continuing operations</b>	46.4	(99.9)	143.2	(202.2)
<b>Earnings from discontinued operations</b> (note 2)	(1.6)	(98.6)	(15.7)	(118.5)
<b>Earnings</b>	\$ 44.8	\$ (198.5)	\$ 127.5	\$ (320.7)
<b>Earnings per share</b> (dollars) (note 11)				
Basic from continuing operations	\$ 1.08	\$ (2.34)	\$ 3.34	\$ (4.72)
Diluted from continuing operations	\$ 1.07	\$ (2.34)	\$ 3.31	\$ (4.72)
Basic after discontinued operations	\$ 1.05	\$ (4.64)	\$ 2.98	\$ (7.49)
Diluted after discontinued operations	\$ 1.04	\$ (4.64)	\$ 2.95	\$ (7.49)
<b>Comprehensive earnings</b>				
<b>Earnings</b>	\$ 44.8	\$ (198.5)	\$ 127.5	\$ (320.7)
<b>Other comprehensive earnings:</b>				
Foreign exchange translation on investment in self-sustaining foreign operations	(9.1)	(33.9)	(4.1)	(49.0)
<b>Comprehensive earnings</b>	\$ 35.7	\$ (232.4)	\$ 123.4	\$ (369.7)

## Consolidated Statements of Changes in Equity

(In millions of Canadian dollars – unaudited)	Issued capital		Translation of foreign operations	Retained earnings	Total equity
	Number of shares	Amount			
<b>Balance — January 1, 2009</b>	42,805,086	\$ 599.4	\$ 1.7	\$ 1,428.9	\$ 2,030.0
<b>Changes in equity for 2009</b>					
Foreign exchange translation loss on investment in self-sustaining foreign operations	—	—	(61.5)	—	(61.5)
Issuance of Common shares	10,723	0.3	—	—	0.3
Earnings for the year	—	—	—	(340.8)	(340.8)
Dividends	—	—	—	(9.8)	(9.8)
<b>Balance — December 31, 2009</b>	<b>42,815,809</b>	<b>599.7</b>	<b>(59.8)</b>	<b>1,078.3</b>	<b>1,618.2</b>
<b>Changes in equity for 2010</b>					
Foreign exchange translation loss on investment in self-sustaining foreign operations	—	—	(4.1)	—	(4.1)
Issuance of Common shares	10,153	0.4	—	—	0.4
Earnings for the period	—	—	—	127.5	127.5
Dividends	—	—	—	(5.1)	(5.1)
<b>Balance — September 30, 2010</b>	<b>42,825,962</b>	<b>\$ 600.1</b>	<b>\$ (63.9)</b>	<b>\$ 1,200.7</b>	<b>\$ 1,736.9</b>

## Consolidated Statements of Cash Flows

(In millions of Canadian dollars – unaudited)	July 1 to September 30		January 1 to September 30	
	2010	2009	2010	2009
<b>Cash flows from operating activities</b>				
<b>Earnings from continuing operations</b>	\$ 46.4	\$ (99.9)	\$ 143.2	\$ (202.2)
Items not affecting cash				
Amortization	46.5	63.6	144.1	186.7
Asset impairments	—	16.9	—	16.9
Change in deferred maintenance	4.5	12.4	10.7	6.1
Change in deferred charges	3.2	(16.6)	12.2	(18.1)
Exchange gain on long-term debt	(10.7)	(27.7)	(6.6)	(44.2)
Change in reforestation obligations	(6.9)	(12.1)	0.2	(9.0)
Change in other long-term liabilities	(1.0)	0.8	5.8	1.6
Future income taxes	(0.5)	76.8	(10.9)	64.4
(Gain) loss on asset sales	(2.7)	0.3	(2.7)	(1.7)
Other	(0.3)	0.7	1.8	5.7
	78.5	15.2	297.8	6.2
Net change in non-cash working capital items	37.5	66.4	112.0	136.7
	116.0	81.6	409.8	142.9
<b>Cash flows from financing activities</b>				
Repayment of long-term debt	—	(0.2)	(100.3)	(17.4)
Repayment of operating loans	6.5	(9.6)	(60.2)	(27.2)
Dividends	(2.5)	(1.3)	(5.1)	(8.6)
Other	—	0.2	(3.3)	0.2
	4.0	(10.9)	(168.9)	(53.0)
<b>Cash flows from investing activities</b>				
Additions to property, plant, equipment and timber	(10.1)	(0.6)	(43.6)	(11.3)
Proceeds from disposals of property, plant, equipment and timber	2.8	—	2.8	2.0
Change in other assets	0.1	1.1	(0.3)	1.9
	(7.2)	0.5	(41.1)	(7.4)
<b>Change in cash from continuing operations</b>	112.8	71.2	199.8	82.5
<b>Change in cash from discontinued operations</b> (note 2)	6.4	(2.1)	22.9	(15.8)
<b>Cash – beginning of period</b>	93.7	1.3	(9.8)	3.7
<b>Cash – end of period</b>	\$ 212.9	\$ 70.4	\$ 212.9	\$ 70.4
<b>Cash consists of</b>				
Cash and short-term investments	\$ 221.5	\$ 70.4	\$ 221.5	\$ 70.4
Cheques issued in excess of funds on deposit	(8.6)	—	(8.6)	—
	\$ 212.9	\$ 70.4	\$ 212.9	\$ 70.4
<b>Supplemental information:</b>				
Interest paid	\$ 9.6	\$ 1.1	\$ 16.2	\$ 16.4
Income taxes received (paid) – net	\$ (2.0)	\$ (1.7)	\$ 67.6	\$ 22.2

## Notes to Consolidated Financial Statements

(Figures are in millions of dollars except where indicated – unaudited)

### 1. Basis of presentation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements and do not contain all of the information that is required for annual financial statements. Accordingly, they should be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2009.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the December 31, 2009 consolidated annual financial statements.

### 2. Discontinued operation

In October 2009, the Company announced its decision to permanently close the Kitimat linerboard and kraft paper mill. In January 2010, the mill ceased operations. Accordingly, current and prior period results for this operation have been reclassified to discontinued operations.

The results of the discontinued operation is as follows:

	July 1 to September 30		January 1 to September 30	
	2010	2009	2010	2009
Sales	\$ 5.7	\$ 66.6	\$ 70.5	\$ 182.4
Operating loss	(1.8)	(144.3)	(22.6)	(170.0)
Gain on foreign currency contracts	—	2.4	—	9.8
Other income (expense)	0.1	0.7	1.2	(10.5)
Loss before income tax	(1.7)	(141.2)	(21.4)	(170.7)
Income tax recovery	0.1	42.6	5.7	52.2
Loss	\$ (1.6)	\$ (98.6)	\$ (15.7)	\$ (118.5)
Cash flows from operating activities	\$ 6.4	\$ (1.8)	\$ 22.8	\$ (14.7)
Cash flows from investing activities	—	(0.3)	0.1	(1.1)
Increase (decrease) in cash	\$ 6.4	\$ (2.1)	\$ 22.9	\$ (15.8)

### 3. Inventories

Inventories at September 30, 2010 were written down by \$8.5 million (June 30, 2010 – \$6.7 million; December 31, 2009 – \$16.0 million) to reflect net realizable value being lower than cost.

### 4. Other assets

	September 30, 2010	December 31, 2009
Power purchase agreement – net	\$ 75.0	\$ 80.5
Advances for timber and timber deposits	4.0	5.7
Investments and other	5.1	2.7
	\$ 84.1	\$ 88.9

### 5. Restructuring charges

Restructuring charges relate to the closure of the Kitimat linerboard and kraft paper mill and certain indefinitely idled sawmills. A reconciliation of restructuring charges included in accounts payable and accrued liabilities is as follows:

	July 1 to September 30, 2010	January 1 to September 30, 2010
Accrued liability – beginning of period	\$ 14.2	\$ 34.1
Paid during the period	(2.3)	(28.6)
Change in accrual	(0.5)	5.9
Accrued liability – end of period	\$ 11.4	\$ 11.4

## 6. Long-term debt and operating loans

### Long-term debt

	September 30, 2010	December 31, 2009
Term note due March 2010; interest at floating rates	\$ —	\$ 100.0
US\$300 million senior notes due October 2014; interest at 5.2%	308.7	315.3
Note payable due in instalments to 2020; interest at 5.5%	2.5	2.7
	311.2	418.0
Less:		
Current portion	(0.3)	(100.3)
Deferred financing costs	(1.4)	(1.8)
	\$ 309.5	\$ 315.9

### Operating loans

The Company has \$605.0 million in revolving lines of credit, of which \$15.7 million (net of deferred financing costs of \$3.9 million) was drawn as at September 30, 2010. Interest is payable at floating rates based on Prime, U.S. base, Bankers' Acceptances or LIBOR at the Company's option. The Company has also issued letters of credit in the amount of \$37.6 million which are supported by these facilities. The revolving lines of credit include a \$600.0 million committed facility maturing in March 2012.

The \$600.0 million committed facility and the US\$300 million senior notes are secured by the Company's assets.

## 7. Other liabilities

	September 30, 2010	December 31, 2009
Post-retirement obligations	\$ 69.6	\$ 65.7
Timber damage deposits	17.6	15.6
Reforestation obligations – long-term	57.4	51.9
Other asset retirement obligations	22.3	26.0
Other long-term obligations	7.3	7.7
	\$ 174.2	\$ 166.9

## 8. Long-term incentive plan

In the first quarter of 2010, the Company introduced a phantom share unit plan as part of its long-term incentive compensation. Units issued under this plan will provide for future cash payments to certain officers and employees based on criteria such as employment vesting period, changes in the Company's share price between the grant date and the vesting period, and in some cases relative financial performance compared to a peer group of forest products companies.

The Company recorded equity-based compensation expense of \$0.8 million for the three months ended September 30, 2010 and an expense of \$5.3 million for the nine months ended September 30, 2010 with respect to this plan, which was recorded in selling, general and administration expense.

## 9. Employee future benefits

The total benefit cost of the Company's defined benefit pension plans was \$7.2 million for the three months ended September 30, 2010 (three months ended September 30, 2009 – \$9.5 million) and \$23.3 million for the nine months ended September 30, 2010 (nine months ended September 30, 2009 – \$28.8 million).

## Notes to Consolidated Financial Statements (continued)

### 10. Income taxes

The Company's effective tax rate on earnings from continuing operations is as follows:

	July 1 to September 30			
	2010		2009	
	Amount	%	Amount	%
Income taxes at statutory rates	\$ (19.3)	(28.5)	\$ 7.8	30.0
Non-taxable amounts	1.8	2.7	4.6	17.5
Rate differentials between jurisdictions and on specified activities	1.0	1.4	1.4	5.2
Rate differential on loss carry backs	—	—	0.5	2.1
Change in valuation allowance	(4.5)	(6.5)	(84.7)	(323.6)
Other	(0.5)	(0.8)	(3.4)	(13.2)
<b>Income tax provision</b>	<b>\$ (21.5)</b>	<b>(31.7)</b>	<b>\$ (73.8)</b>	<b>(281.9)</b>

	January 1 to September 30			
	2010		2009	
	Amount	%	Amount	%
Income taxes at statutory rates	\$ (56.9)	(28.5)	\$ 48.5	30.0
Non-taxable amounts	1.2	0.6	7.3	4.5
Rate differentials between jurisdictions and on specified activities	3.1	1.6	9.3	5.7
Rate differential on loss carry backs	—	—	3.7	2.3
Reduction in statutory income tax rates	—	—	4.7	2.9
Change in valuation allowance	(0.8)	(0.4)	(110.5)	(68.3)
Other	(3.1)	(1.6)	(3.4)	(2.1)
<b>Income tax provision</b>	<b>\$ (56.5)</b>	<b>(28.3)</b>	<b>\$ (40.4)</b>	<b>(25.0)</b>

### 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 and Class B Common shares outstanding. Diluted earnings per share assume the exercise of share options using the treasury stock method.

	July 1 to September 30			
	2010		2009	
	From continuing operations	After discontinued operations	From continuing operations	After discontinued operations
<b>Earnings available to shareholders</b>	<b>\$ 46.4</b>	<b>\$ 44.8</b>	<b>\$ (99.9)</b>	<b>\$ (198.5)</b>
<b>Weighted average number of shares</b>				
Basic	42,824,410	42,824,410	42,808,194	42,808,194
Share options	320,841	320,841	—	—
<b>Diluted</b>	<b>43,145,251</b>	<b>43,145,251</b>	<b>42,808,194</b>	<b>42,808,194</b>
<b>Earnings per share (dollars)</b>				
Basic	\$ 1.08	\$ 1.05	\$ (2.34)	\$ (4.64)
Diluted	\$ 1.07	\$ 1.04	\$ (2.34)	\$ (4.64)

	January 1 to September 30			
	2010		2009	
	From continuing operations	After discontinued operations	From continuing operations	After discontinued operations
<b>Earnings available to shareholders</b>	<b>\$ 143.2</b>	<b>\$ 127.5</b>	<b>\$ (202.2)</b>	<b>\$ (320.7)</b>
<b>Weighted average number of shares</b>				
Basic	42,821,098	42,821,098	42,806,122	42,806,122
Share options	394,961	394,961	—	—
<b>Diluted</b>	<b>43,216,059</b>	<b>43,216,059</b>	<b>42,806,122</b>	<b>42,806,122</b>
<b>Earnings per share (dollars)</b>				
Basic	\$ 3.34	\$ 2.98	\$ (4.72)	\$ (7.49)
Diluted	\$ 3.31	\$ 2.95	\$ (4.72)	\$ (7.49)

## 12. Derivative financial instruments

From time to time, the Company uses derivatives to manage its exposure to U.S. dollar exchange fluctuations and commodity prices. The Company does not utilize derivative financial instruments for trading or speculative purposes and it does not apply hedge accounting.

The foreign currency contracts outstanding at September 30, 2010 were as follows:

Term	US\$	Average rate Cdn\$/US\$
0 to 2 months US dollar forwards	0.1	1.070

## 13. Segmented information

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
<b>July 1, 2010 to September 30, 2010</b>					
Sales at market prices					
To external customers	\$ 397.9	\$ 105.2	\$ 203.7	\$ —	\$ 706.8
To other segments	25.3	2.1	—	—	
	<u>\$ 423.2</u>	<u>\$ 107.3</u>	<u>\$ 203.7</u>	<u>\$ —</u>	
EBITDA <sup>1</sup>	\$ 48.6	\$ 19.6	\$ 54.6	\$ (13.6)	\$ 109.2
Amortization	27.0	5.2	13.6	0.7	46.5
Operating earnings	21.6	14.4	41.0	(14.3)	62.7
Interest expense – net	(3.8)	(0.6)	(1.8)	(0.1)	(6.3)
Exchange gain on long-term debt	—	—	—	10.7	10.7
Other income (expense)	2.3	(0.3)	(2.3)	1.1	0.8
Earnings from continuing operations before income taxes	<u>\$ 20.1</u>	<u>\$ 13.5</u>	<u>\$ 36.9</u>	<u>\$ (2.6)</u>	<u>\$ 67.9</u>
<b>July 1, 2009 to September 30, 2009</b>					
Sales at market prices					
To external customers	\$ 335.8	\$ 102.0	\$ 174.5	\$ —	\$ 612.3
To other segments	25.8	1.7	—	—	
	<u>\$ 361.6</u>	<u>\$ 103.7</u>	<u>\$ 174.5</u>	<u>\$ —</u>	
EBITDA <sup>1</sup>	\$ 3.1	\$ 19.0	\$ 18.1	\$ 0.7	\$ 40.9
Amortization	38.8	7.5	16.4	0.9	63.6
Asset impairments	16.9	—	—	—	16.9
Operating earnings	(52.6)	11.5	1.7	(0.2)	(39.6)
Interest expense — net	(3.9)	(0.5)	(1.7)	(0.5)	(6.6)
Exchange gain on long-term debt	—	—	—	27.7	27.7
Other expense	(1.0)	(0.7)	(5.0)	(0.9)	(7.6)
Earnings from continuing operations before income taxes	<u>\$ (57.5)</u>	<u>\$ 10.3</u>	<u>\$ (5.0)</u>	<u>\$ 26.1</u>	<u>\$ (26.1)</u>

<sup>1</sup> Non GAAP measure:

EBITDA is defined as operating earnings plus amortization and asset impairments.

**Notes to Consolidated Financial Statements** (continued)

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
<b>January 1, 2010 to September 30, 2010</b>					
Sales at market prices					
To external customers	\$ 1,224.6	\$ 309.2	\$ 633.0	\$ —	\$ 2,166.8
To other segments	72.0	5.9	—	—	
	<u>\$ 1,296.6</u>	<u>\$ 315.1</u>	<u>\$ 633.0</u>	<u>\$ —</u>	
EBITDA <sup>1</sup>	\$ 189.5	\$ 50.8	\$ 143.3	\$ (21.0)	\$ 362.6
Amortization	84.6	16.1	41.1	2.3	144.1
Operating earnings	104.9	34.7	102.2	(23.3)	218.5
Interest expense — net	(12.9)	(2.4)	(5.5)	—	(20.8)
Exchange gain on long-term debt	—	—	—	6.6	6.6
Other income (expense)	0.2	(0.7)	(5.1)	1.0	(4.6)
Earnings from continuing operations before income taxes	<u>\$ 92.2</u>	<u>\$ 31.6</u>	<u>\$ 91.6</u>	<u>\$ (15.7)</u>	<u>\$ 199.7</u>
<b>January 1, 2009 to September 30, 2009</b>					
Sales at market prices					
To external customers	\$ 984.2	\$ 298.4	\$ 499.7	\$ —	\$ 1,782.3
To other segments	72.2	5.1	—	—	
	<u>\$ 1,056.4</u>	<u>\$ 303.5</u>	<u>\$ 499.7</u>	<u>\$ —</u>	
EBITDA <sup>1</sup>	\$ (42.6)	\$ 31.4	\$ 29.7	\$ 6.0	\$ 24.5
Amortization	108.5	25.1	50.5	2.6	186.7
Asset impairments	16.9	—	—	—	16.9
Operating earnings	(168.0)	6.3	(20.8)	3.4	(179.1)
Interest expense — net	(14.2)	(2.4)	(4.7)	(0.4)	(21.7)
Exchange gain on long-term debt	—	—	—	44.2	44.2
Other income (expense)	(2.0)	(1.1)	(6.4)	4.3	(5.2)
Earnings from continuing operations before income taxes	<u>\$ (184.2)</u>	<u>\$ 2.8</u>	<u>\$ (31.9)</u>	<u>\$ 51.5</u>	<u>\$ (161.8)</u>

<sup>1</sup> **Non GAAP measure:**

EBITDA is defined as operating earnings plus amortization and asset impairments.





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