West Fraser Timber Co. Ltd.

# First Quarter **2008**

West Fraser Timber Co. Ltd. reported a loss of $69 million or $1.60 per share on sales of $772 million in the first quarter of 2008. These results compare with previous periods as follows:

| ($ million excecept Diluted earnings per share ("EPS")) | **Q1 – 08** | Q4 – 07 | Q1 – 07 |
|---|---|---|---|
| Sales | **772** | 782 | 759 |
| EBITDA[1] | **(31)** | 7 | 41 |
| Operating loss | **(103)** | (64) | (21) |
| Earnings (loss) | **(69)** | (3) | (5) |
| Diluted EPS ($) | **(1.60)** | (0.07) | (0.12) |

Our business continues to suffer from the effects of the collapse of the U.S. housing market and the strong Canadian dollar. The length of this downturn is unclear but it is very severe. Our people continue to work hard to lower our cost base and to position our Company to deliver significant value to our shareholders when the lumber market recovers.

## Operational Results

The Company's lumber operations produced EBITDA for the quarter of negative $72 million, compared to EBITDA of negative $45 million for the fourth quarter of 2007, reflecting a decline in the price of lumber which reduced sales revenues and resulted in a significant quarter-ending inventory write-down. The average benchmark price of SPF lumber declined by $27 per Mfbm from the previous quarter. Although the average benchmark price of SYP lumber improved during the quarter compared to the previous quarter, the average price for SYP lumber sold by the Company's U.S. operations declined as prices for wider dimension lumber weakened significantly. Log and lumber inventory write-downs resulted in a net decrease of operating earnings of $28 million.

Panel operations generated EBITDA for the quarter of $6 million compared to $13 million in the previous quarter. Canadian plywood prices fell while MDF prices strengthened.

Pulp and paper operations generated EBITDA of $32 million compared to $37 million in the previous quarter as operational problems at the Company's Kitimat and Hinton facilities partially offset good production at the remaining facilities. Product prices for the segment remained strong during the quarter.

## Outlook

North American lumber markets continue to be extremely weak as the industry struggles to bring production into line with falling demand. Prospects for any meaningful recovery of the U.S. housing market remain unlikely for at least the balance of 2008. Pulp markets are expected to remain strong in the near term although second quarter results will be affected by scheduled maintenance downtime at West Fraser's Kitimat and Cariboo facilities.

Despite our poor results we are seeing some encouraging signs as lumber producers, including West Fraser, are implementing meaningful curtailments which should result in some price improvements over the balance of the year. We are also seeing some reductions in log costs which is a long-awaited but important trend.

## Forward Looking Statements

This report 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. 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 in the 2007 annual Management's Discussion & Analysis under "Risk and Uncertainties" 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.

On behalf of the Board of Directors,

**Henry H. Ketcham**
Chair of the Board
President & Chief Executive Officer
April 25, 2008

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

This discussion and analysis by West Fraser's management ("MD&A") of West Fraser's financial performance during the first quarter of 2008 should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes included in this quarterly report and the 2007 annual MD&A included in the Company's 2007 Annual Report. Dollar amounts are expressed in Canadian currency, unless otherwise indicated.

This interim 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. 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 in the 2007 annual MD&A under "Risks and Uncertainties", 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.

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

The information in this interim MD&A is as at April 25, 2008, unless otherwise indicated.

## Matters Affecting Comparisons

This interim MD&A for the first quarter of 2008 (the "current quarter") includes certain comparisons to the fourth quarter of 2007 (the "previous quarter") and to the first quarter of 2007. The following material development should be taken into consideration when considering these comparisons.

## U.S. Acquisition

On March 31, 2007, the Company acquired 13 sawmills in the southern United States (the "U.S. Acquisition"). West Fraser's first quarter 2007 earnings do not include the results of those operations although they are reflected in later reporting periods.

## Production, Shipments and Financial Comparisons

| | **Q1 – 08** | Q4 – 07 | Q1 – 07 |
|---|---|---|---|
| **Production** | | | |
| Lumber – MMfbm | | | |
| SPF | **861** | 844 | 902 |
| SYP | **456** | 433 | 92 |
| | **1,317** | 1,277 | 994 |
| Plywood – MMsf (3/8" basis) | **198** | 192 | 186 |
| MDF – MMsf (3/4" basis) | **61** | 71 | 68 |
| LVL – Mcf | **326** | 392 | 750 |
| BCTMP – Mtonnes | **150** | 147 | 139 |
| NBSK – Mtonnes | **121** | 130 | 118 |
| Linerboard and Kraft Paper – Mtonnes | **116** | 123 | 105 |
| Newsprint – Mtonnes | **32** | 32 | 32 |
| **Shipments** | | | |
| Lumber – MMfbm | | | |
| SPF | **844** | 873 | 865 |
| SYP | **435** | 456 | 91 |
| | **1,279** | 1,329 | 956 |
| Plywood – MMsf (3/8" basis) | **193** | 179 | 157 |
| MDF – MMsf (3/4" basis) | **61** | 69 | 75 |
| LVL – Mcf | **344** | 404 | 707 |
| BCTMP – Mtonnes | **158** | 145 | 139 |
| NBSK – Mtonnes | **111** | 125 | 119 |
| Linerboard and Kraft Paper – Mtonnes | **118** | 123 | 110 |
| Newsprint – Mtonnes | **32** | 31 | 30 |
| **Financial Comparisons** ($ millions) | | | |
| Sales | **772** | 782 | 759 |
| EBITDA | **(31)** | 7 | 41 |
| Amortization | **(72)** | (71) | (62) |
| Operating loss | **(103)** | (64) | (21) |
| Interest expense – net | **(10)** | (9) | (2) |
| Exchange gain (loss) on long-term debt | **(11)** | 1 | 3 |
| Other income | **8** | 2 | 12 |
| Recovery of income taxes | **47** | 67 | 3 |
| **Earnings (loss)** | **(69)** | (3) | (5) |
| **Cdn. $1.00 converted to U.S. – average** | **0.996** | 1.019 | 0.853 |

**Selected Quarterly Information** ($ millions, except earnings per share ("EPS") amounts which are in $)

| | **Q1 – 08** | Q4 – 07 | Q3 – 07 | Q2 – 07 | Q1 – 07 | Q4 – 06 | Q3 – 06 | Q2 – 06 |
|---|---|---|---|---|---|---|---|---|
| Sales | **772** | 782 | 827 | 948 | 759 | 727 | 809 | 888 |
| Earnings (loss) | **(69)** | (3) | (12) | (14) | (5) | 296 | (8) | 104 |
| Basic EPS | **(1.60)** | (0.07) | (0.28) | (0.33) | (0.12) | 6.93 | (0.19) | 2.43 |
| Diluted EPS | **(1.60)** | (0.07) | (0.28) | (0.33) | (0.12) | 6.87 | (0.19) | 2.41 |

## Quarterly Discussion & Analysis

The Company's financial performance continues to be heavily influenced by the poor results of its lumber segment. A continuing deterioration of SPF lumber prices resulted in increased losses for the quarter compared to the previous quarter and also resulted in significant quarter-end log and lumber inventory write-downs. U.S. lumber operations also contributed to the losses as prices for wider dimension SYP lumber remained weak despite an increase of the benchmark SYP price.

Overall results from the panel segment reflected a modest loss while the pulp and paper segment continued to produce positive earnings in the quarter despite some operational issues. This contribution only partially offset the substantial lumber segment losses.

Operating earnings in the quarter were reduced by $88 million due to period end inventory write-downs to net realizable value. However, during the quarter, the Company's cost of products sold benefited by $55 million from inventory write-downs recorded in the previous quarter. As the opening inventory was processed and sold during the quarter, the current quarter cost of products sold was lower than it otherwise would be due to the write-down in the previous quarter. The net impact of the current and previous quarter write-downs on operating earnings in the current quarter was a reduction of $33 million.

### *Compared to the Previous Quarter*

The previous quarter's results were characterized by lumber segment losses partially mitigated by earnings generated from the panel and pulp and paper segments. The major difference between the results of these two quarters was the size of the inventory write-down in the current quarter although there were also changes in some product prices and the Canadian dollar weakened slightly. In Canada, transportation difficulties were experienced in the current quarter which affected the timing of shipments.

### *Compared to First Quarter of 2007*

Operating earnings for the current quarter were much lower than in the same quarter of 2007, reflecting a sharp increase in the value of the Canadian dollar against the U.S. dollar, lower lumber and plywood prices, larger log and lumber inventory write-downs as well as the addition, at the end of the first quarter of 2007, of 13 U.S. sawmills which suffered losses during the current quarter.

### *Other Particulars*

The increase in net interest expense for periods after the first quarter of 2007 reflect increased debt levels as a result of the U.S. Acquisition. Net debt levels immediately before the U.S. Acquisition were low as a result of softwood duty refunds received in late 2006.

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:

| | **Q1 – 08** | Q4 – 07 | Q1 – 07 |
|---|---|---|---|
| Exchange gain (loss) on long-term debt | **(11)** | 1 | 3 |
| Other[1] | **5** | – | (4) |
| Foreign exchange translation gain (loss) on investments in self-sustaining foreign operations[2] | **15** | (3) | (18) |

1. Represents the translation of other foreign currency-denominated items including U.S. operations until March 31, 2007 (included in other income).
2. Included in other comprehensive earnings from March 31, 2007.

Results of the first quarter of 2007 included a $10 million one-time gain (included in "Other income") relating to the termination of certain pulp supply contracts in connection with the U.S. Acquisition.

The results of the current quarter include a $47 million provision for recovery of income taxes compared to $67 million for the preceding quarter and $3 million for the first quarter of 2007. The current quarter's tax recovery includes $6 million related to substantially enacted tax rate reductions compared to $30 million in the previous quarter and nil for the first quarter of 2007. Note 11 to the accompanying interim consolidated financial statements provides a reconciliation of the statutory income tax rate to the effective income tax rate.

## Discussion & Analysis by Product Segment

### Lumber Segment

| | **Q1 – 08** | Q4 – 07 | Q1 – 07 |
|---|---|---|---|
| Sales – $ millions | **379** | 402 | 361 |
| EBITDA – $ millions | **(72)** | (45) | (13) |
| EBITDA margin – % | – | – | – |
| Operating loss – $ millions | **(108)** | (79) | (40) |
| Benchmark price (US$ per Mfbm) | | | |
| SPF #2 & Better 2 x 4[1] | **203** | 230 | 253 |
| SYP #2 West 2 x 4[2] | **295** | 289 | 263 |

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

The lumber segment continues to suffer significant losses as the collapse of the U.S. housing market has severely weakened demand for lumber. To date, industry production curtailments have been insufficient to revive lumber prices. SPF benchmark prices continued to fall during the current quarter and prices for wider dimension SYP lumber continued to be under pressure despite an increase in the SYP benchmark price.

*Inventory Write-downs*

A key characteristic of the Company's first quarter operations is the significant log inventory build up for its Canadian operations. Spring conditions in western Canada make log harvesting difficult, inefficient and, in some cases, impossible during most of the second quarter. In order to address this, log harvesting and deliveries are accelerated during the first quarter in order to accumulate a log inventory that will permit lumber manufacturing through the second quarter without material additional log deliveries. The log inventory is valued as at the end of the quarter at the lower of cost and net realizable value which is based on lumber prices prevailing at the end of the quarter. In the current circumstances of low lumber prices, significant write-downs from cost are the result.

The net effect of the log and lumber quarter-ending inventory write-down in the current quarter, after taking into account the effect of the previous quarter's comparable write-down, was a charge against earnings in the current quarter of $28 million. The comparable charge was $2 million in the previous quarter and $19 million in the first quarter of 2007.

### *Quarterly Comparisons*

Lower SPF lumber prices as well as the substantial log and lumber inventory write-downs in the current quarter resulted in a widening operating loss compared to the previous quarter. A moderately weaker Canadian dollar and some improvement in delivered log costs helped to partially offset the reduction in sales revenues attributable to lower SPF prices.

The operating loss widened even more compared to the same quarter of 2007. Although the decline of SPF lumber prices and the resulting larger log and lumber inventory write-downs contributed to this decline, the substantial strengthening of the Canadian dollar and the increased exposure to the lumber business resulting from the U.S. Acquisition also influenced the current quarter's poor results. An improvement in delivered log costs compared to the first quarter of 2007 had a positive effect on the current quarter's results.

### *Log Costs and Quality*

The significant log inventory write-down in the current quarter highlights an important issue for the lumber segment—the cost of stumpage and purchased logs. These costs, which are set by regulation in the case of stumpage and by contract formulae or negotiation in the case of purchased logs, have been slow to respond to the significant decline of lumber prices over the past two years. Recently, the Company has curtailed certain Canadian and U.S. lumber production in part because of the absence of a supply of logs at prices that reflected current economic conditions. In the first quarter of 2008 there were some indications that stumpage and log prices were adjusting to the current downturn, including announced B.C. stumpage rates which reflect declines from comparable periods in 2007. The Company continues to explore all reasonable alternatives to reduce log costs.

In British Columbia, processing of mountain pine beetle ("MPB")-killed logs continues to increase operating costs and reduce the grade of lumber produced as the logs deteriorate. The Company and other industry representatives continue to work with the B.C. government in an effort to ensure that stumpage charges for MPB-killed logs accurately reflect the potential of those logs to yield merchantable lumber. This issue will become increasingly important as the quality of these logs continues to deteriorate.

### *Production*

In response to poor lumber markets and prevailing log costs, West Fraser has temporarily curtailed production at a number of its operations. As at April 25, 2008, these curtailments represented, on an annualized basis, approximately 435 MMfbm of Canadian lumber production and 400 MMfbm of U.S. lumber production. Because there is a lag time between the implementation of a curtailment and the actual reduction in lumber shipments, the current quarter's results do not reflect the full extent of announced curtailments.

### *Shipments*

Canadian rail service continued to be unreliable as winter conditions and other service issues reduced shipments early in the quarter. Improvements occurred late in the quarter which helped bring shipments in line with production. Shipments during the first quarter of 2007 were also affected by a 15-day rail strike.

### *Softwood Lumber Agreement*

On March 4, 2008, an arbitration panel convened under the Softwood Lumber Agreement determined that an additional "surge" tax did not apply to certain lumber exports by the Company in 2007. This determination had no effect on the Company's financial results but does clarify a disputed interpretation of a provision of the Agreement.

## Panels Segment

| | **Q1 – 08** | Q4 – 07 | Q1 – 07 |
|---|---|---|---|
| Sales – $ millions | **107** | 110 | 119 |
| EBITDA – $ millions | **6** | 13 | 15 |
| EBITDA margin – % | **6** | 12 | 13 |
| Operating earnings (loss) – $ millions | **(3)** | 2 | 5 |
| Benchmark price | | | |
| Plywood (per Msf 3/8" basis)[1] Cdn$ | **344** | 376 | 379 |
| MDF (per Msf 3/4" basis)[2] US$ | **512** | 465 | 451 |

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. Most of the Company's plywood production is sold in Canada which has generally experienced robust building activity which has helped maintain acceptable price levels until a weakening during the current quarter. MDF and LVL demand is affected by U.S. housing starts and so these operations have suffered in the current downturn.

Plywood production and shipments improved from the previous quarter during which statutory holidays reduced the number of production days, and from the first quarter of 2007 because of improved productivity. Severe winter conditions in Canada have delayed the start of the 2008 building season which resulted in plywood price declines in the current quarter. There is some concern that economic conditions in the U.S. could affect Canadian economic activity, including new home construction, which could reduce plywood demand and prices in the future.

MDF prices have shown improvement as a result of increased resin costs being passed along to purchasers and some producers implementing curtailments. The Company's production and shipments declined from the previous quarter and the same quarter of 2007 as a result of production curtailments at one of its MDF plants. Per unit manufacturing costs increased from comparative periods because of lower production and increased resin costs. The Company further curtailed LVL production in the current quarter and this production is not expected to be reinstituted until the U.S. housing market improves.

Weakening plywood and LVL prices resulted in a $2 million reduction of operating earnings in the current quarter, representing the net effect of inventory write-downs.

## Pulp & Paper Segment

| | **Q1 – 08** | Q4 – 07 | Q1 – 07 |
|---|---|---|---|
| Sales – $ millions | **286** | 270 | 279 |
| EBITDA – $ millions | **32** | 37 | 35 |
| EBITDA margin – % | **11** | 14 | 12 |
| Operating earnings – $ millions | **7** | 11 | 10 |
| Benchmark price | | | |
| NBSK (US$ per tonne)[1] | **880** | 858 | 790 |
| Linerboard (US$ per tonne)[2] | **612** | 612 | 568 |
| Newsprint (US$ per tonne)[3] | **615** | 569 | 614 |

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. – delivered 48.8 gram newsprint.

In contrast to the lumber and panel segments, product prices for the pulp & paper segment have generally been strong throughout the comparative periods. The key issue for this segment is operational reliability. The Quesnel River Pulp mill set a production record for the quarter while the Slave Lake and Cariboo pulp mills and the Alberta Newsprint mill also ran well. Unfortunately, the Hinton pulp mill and the Kitimat linerboard and kraft paper mill experienced manufacturing problems which resulted in reduced production and shipments compared to the previous quarter.

The decline in operating earnings from the previous quarter is largely attributable to lost production at Hinton and Kitimat and higher maintenance costs. Partially offsetting this decline were the improved results from the BCTMP mills and a weakening of the Canadian dollar.

Operating earnings also declined from the same quarter in 2007. The effect of a significant increase in the benchmark prices for NBSK and linerboard was more than offset by the significant strengthening of the Canadian dollar. BCTMP results for the current quarter also represented an improvement from the same quarter in 2007.

The segment has experienced a modest increase in its fibre costs as sawmill curtailments have resulted in increased consumption of higher-priced whole log chips at some facilities.

The annual maintenance shutdown at Kitimat is scheduled for May 2008 which is expected to reduce normal production by approximately 11,000 tonnes. The Cariboo pulp mill is scheduled to undergo its annual maintenance in June 2008 with the shutdown anticipated to reduce West Fraser's share of normal production by 10,000 tonnes. The annual maintenance shutdown of the Hinton pulp mill is scheduled for the third quarter of 2008.

## Business Outlook

For a detailed description of West Fraser's business outlook see its 2007 annual MD&A under "Business Outlook", which is included in the Company's 2007 Annual Report.

The timing of a turnaround in U.S. new home construction remains highly uncertain. Oversupply and declining values in many segments of the U.S. new home market, coupled with the current turmoil in credit markets, have led many observers to predict a slow recovery. The Company's lumber, MDF and LVL operations depend heavily on U.S. residential construction and renovation. The Company's solid wood operating strategy will depend on the availability of logs at prices that reflect the current weak lumber markets. The Company's pulp & paper segment has experienced an increase in the cost of fibre and this trend is expected to continue as more western Canadian solid wood production is curtailed over the balance of the year.

On February 18, 2008 West Fraser entered into an agreement to purchase certain timber harvesting rights in the southern Interior of B.C. This transaction, which is subject to the satisfaction of certain conditions, is part of West Fraser's strategy to provide additional fibre to its low-cost operations in order to counteract the anticipated decline in overall fibre availability resulting from the MPB infestation.

In general, West Fraser anticipates that there will be further modest reductions in delivered log costs in both Canada and the U.S. which, together with anticipated seasonal lumber price improvements, should improve the results of the lumber segment. However, the Company does not expect a material improvement until U.S. housing starts return to more normal levels and current circumstances make it extremely difficult to predict when that will occur.

## Capital Requirements and Liquidity

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

| | **Q1 – 08** | Q4 – 07 | Q1 – 07 |
|---|---|---|---|
| Cash[1] | **(7)** | (4) | 12 |
| Current assets | **952** | 877 | 1,076 |
| Current liabilities | **585** | 502 | 636 |
| Ratio of current assets to current liabilities | **1.6** | 1.7 | 1.7 |
| Net debt | **771** | 696 | 756 |
| Shareholders' equity | **2,039** | 2,089 | 2,210 |
| Net debt to capitalization[2] – % | **27** | 25 | 25 |

1. Cash consists of cash and short-term investments less cheques issued in excess of funds on deposit.
2. Net debt (total debt less net cash) divided by net debt plus shareholders' equity.

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

### Selected Cash Flow Items ($ millions)

| | **Q1 – 08** | Q4 – 07 | Q1 – 07 |
|---|---|---|---|
| **Operating Activities** | | | |
| Cash provided (used) before working capital changes | **(3)** | 2 | 52 |
| Non-cash working capital change | **(43)** | (19) | (384) |
| Cash used in operating activities | **(46)** | (17) | (332) |
| **Financing Activities** | | | |
| Debt and operating loans | **60** | 5 | 150 |
| Dividends and other | **(6)** | (6) | (6) |
| Cash provided by (used in) financing activities | **54** | (1) | 144 |
| **Investing Activities** | | | |
| Acquisition | **–** | (1) | (379) |
| Additions to property, plant, equipment & timber | **(14)** | (15) | (27) |
| Other – net | **3** | 7 | 1 |
| Cash used in investing activities | **(11)** | (9) | (405) |
| **Change in cash** | **(3)** | (27) | (593) |

## Capital Structure and Debt Ratings

At March 31, 2008 the combined number of Common shares and Class B common shares outstanding was 42,805,086 representing 39,919,880 of Common shares and 2,885,206 of Class B common shares.

All of West Fraser's debt, other than current borrowings incurred from time to time for its joint-venture newsprint mill, is unsecured and ranks equally in right of payment. West Fraser's public debt is rated as investment grade by leading rating agencies. In March 2008, Dominion Bond Rating Service downgraded the Company's rating to BBB- from BBB but maintained its stable outlook and, in April 2008, Moody's changed its outlook to Negative from Stable.

## Debt Ratings

| Agency | Rating | Outlook |
|---|---|---|
| Dominion Bond Rating Service | **BBB-** | **Stable** |
| Moody's | **Baa3** | **Negative** |
| Standard & Poor's | **BBB-** | **Negative** |

## Risks and Uncertainties

For a review of the risks and uncertainties to which the Company is subject, see the 2007 annual MD&A which is included in the Company's 2007 Annual Report.

## Changes in Accounting

Effective January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (the "CICA") as follows:

### *Section 3031 – Inventories*

This section, among other things, requires that certain inventories be measured at the lower of cost and net realizable value. This has resulted in the Company changing its method for valuing chip and pulp log inventories which were previously valued at the lower of cost and replacement cost. In addition, the Company began amortizing certain deferred major maintenance expenditures over the period to the next major maintenance outage as opposed to amortizing them on a calendar year basis, and began expensing certain storage and handling costs that were previously included in inventory.

The Company adopted the new standard on a retroactive basis without restatement of prior periods. As a result, the Company recorded an increase of $10 million to opening retained earnings, an increase in future income tax liability of $4 million, an increase of $18 million to prepaid expenses and a decrease of $4 million to inventories for the cumulative effect on prior years from the adoption of this standard.

### *Section 1535 – Capital Disclosures*

This section requires the Company to disclose its objectives, policies and processes for managing capital.

### *Section 3862 – Financial Instruments Disclosures*

This section enhances the disclosure requirements on the nature and extent of risks arising from financial instruments and how the Company manages those risks.

## New Accounting Pronouncements

### *Section 3064 – Goodwill and Intangible Assets*

Effective January 1, 2009, the Company will adopt new CICA standard 3064 "Goodwill and Intangible Assets" which establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-operating Period", will be withdrawn. This will result in a change to the Company's accounting for pre-production and start-up costs, as these costs will no longer be capitalized as an asset. The impact of adopting this standard on the Company's financial statements is not expected to be significant.

*International Financial Reporting Standards*

On February 13, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises for interim and annual financial statements effective January 1, 2011. The Company is presently considering the effect these standards will have on its financial statements.

## Disclosure Controls and Internal Controls Over Financial Reporting

As required by Multilateral Instrument 52-109, West Fraser's management evaluated the effectiveness of its disclosure controls and procedures as at March 31, 2008. Based on that evaluation, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have certified that such disclosure controls and procedures are effective.

The CEO and CFO have also acknowledged responsibility for the design of internal control over financial reporting ("ICFR") as at March 31, 2008 and have confirmed that in the quarter ended March 31, 2008 there were no changes in these controls which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## Additional Information

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

# CONSOLIDATED BALANCE SHEETS
(in millions of Canadian dollars–unaudited)

| | | As at March 31, 2008 | | As at December 31, 2007 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and short-term investments | **$** | **21.0** | $ | 17.2 |
| Accounts receivable | | **298.0** | | 278.6 |
| Income taxes receivable | | **7.2** | | 50.6 |
| Inventories | | **598.4** | | 517.4 |
| Prepaid expenses | | **27.0** | | 13.0 |
| | | **951.6** | | 876.8 |
| **Property, plant, equipment and timber** | | **2,169.1** | | 2,215.0 |
| **Deferred charges** | | **55.5** | | 54.3 |
| **Goodwill** | | **263.7** | | 263.7 |
| **Other assets** (note 4) | | **111.4** | | 115.7 |
| **Future income taxes** | | **50.1** | | 40.4 |
| | **$** | **3,601.4** | $ | 3,565.9 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Cheques issued in excess of funds on deposit | **$** | **27.8** | $ | 20.9 |
| Operating loans (note 5) | | **206.5** | | 145.3 |
| Accounts payable and accrued liabilities | | **297.6** | | 282.2 |
| Current portion of reforestation obligations | | **50.7** | | 50.7 |
| Current portion of long-term debt | | **2.1** | | 2.4 |
| | | **584.7** | | 501.5 |
| **Long-term debt** | | **555.6** | | 544.9 |
| **Other liabilities** (note 6) | | **149.7** | | 136.7 |
| **Future income taxes** | | **272.7** | | 293.7 |
| | | **1,562.7** | | 1,476.8 |
| **Shareholders' equity** | | | | |
| Share capital | | **599.3** | | 599.3 |
| Accumulated other comprehensive earnings (note 8) | | **(78.6)** | | (93.2) |
| Retained earnings | | **1,518.0** | | 1,583.0 |
| | | **2,038.7** | | 2,089.1 |
| | **$** | **3,601.4** | $ | 3,565.9 |

Number of Common shares outstanding at April 24, 2008 was 42,805,086.

# CONSOLIDATED STATEMENTS OF EARNINGS
(in millions of Canadian dollars–unaudited)

| | January 1 to March 31 | | | |
|---|---|---|---|---|
| | | **2008** | | 2007 |
| **Sales** | **$** | **771.8** | $ | 758.6 |
| **Costs and expenses** | | | | |
| Cost of products sold | | **633.6** | | 547.1 |
| Freight and other distribution costs | | **126.2** | | 126.1 |
| Export taxes | | **14.7** | | 23.5 |
| Amortization | | **71.8** | | 62.1 |
| Selling, general and administration | | **28.4** | | 21.0 |
| | | **874.7** | | 779.8 |
| **Operating loss** | | **(102.9)** | | (21.2) |
| **Other** | | | | |
| Interest expense – net | | **(10.1)** | | (2.2) |
| Exchange gain (loss) on long-term debt | | **(10.6)** | | 3.2 |
| Other income | | **8.0** | | 11.8 |
| **Earnings before income taxes** | | **(115.6)** | | (8.4) |
| Recovery of income taxes (note 11) | | **47.0** | | 3.3 |
| **Earnings** | **$** | **(68.6)** | $ | (5.1) |
| **Earnings per share** (dollars) (note 12) | | | | |
| Basic | **$** | **(1.60)** | $ | (0.12) |
| Diluted | **$** | **(1.60)** | $ | (0.12) |

# CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND COMPREHENSIVE EARNINGS

(in millions of Canadian dollars–unaudited)

| | January 1 to March 31 | |
|---|---|---|
| | **2008** | 2007 |
| **Retained Earnings** | | |
| **Balance - beginning of period** | **$ 1,583.0** | $ 1,641.3 |
| Change in accounting (note 2) | **9.6** | – |
| Earnings | **(68.6)** | (5.1) |
| | **1,524.0** | 1,636.2 |
| Common share dividends | **(6.0)** | (6.0) |
| **Balance - end of period** | **$ 1,518.0** | $ 1,630.2 |
| | | |
| **Comprehensive Earnings** | | |
| **Earnings** | **$ (68.6)** | $ (5.1) |
| **Other comprehensive earnings** | | |
| Unrealized foreign exchange translation gain (loss) on investments in self-sustaining foreign operations | **14.6** | (18.2) |
| **Comprehensive earnings** | **$ (54.0)** | $ (23.3) |

# CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions of Canadian dollars–unaudited)



| | | January 1 to March 31 | | |
|---|---|---|---|---|
| | | **2008** | | 2007 |
| **Cash flows from operating activities** | | | | |
| **Earnings** | **$** | **(68.6)** | $ | (5.1) |
| Items not affecting cash | | | | |
| Amortization | | **71.8** | | 62.1 |
| Exchange loss (gain) on long-term debt | | **10.6** | | (3.2) |
| Loss (gain) on asset sales | | **0.1** | | (10.7) |
| Change in reforestation obligations | | **12.7** | | 11.5 |
| Future income taxes | | **(28.9)** | | (4.0) |
| Other | | **(0.3)** | | 0.9 |
| | | **(2.6)** | | 51.5 |
| Net change in non-cash working capital items | | **(42.9)** | | (384.1) |
| | | **(45.5)** | | (332.6) |
| **Cash flows from financing activities** | | | | |
| Repayment of long-term debt | | **(0.6)** | | (0.3) |
| Proceeds from long-term debt | | **–** | | 102.8 |
| Proceeds from operating loans | | **60.2** | | 47.9 |
| Common share dividends | | **(6.0)** | | (6.0) |
| Other | | **–** | | 0.1 |
| | | **53.6** | | 144.5 |
| **Cash flows from investing activities** | | | | |
| Acquisition | | **–** | | (379.2) |
| Additions to property, plant, equipment and timber | | **(14.3)** | | (26.6) |
| Proceeds from disposals of property, plant, equipment and timber | | **0.6** | | 3.0 |
| Decrease (increase) in other assets | | **2.5** | | (2.4) |
| | | **(11.2)** | | (405.2) |
| **Decrease in cash*** | | **(3.1)** | | (593.3) |
| **Cash – beginning of period** | | **(3.7)** | | 605.6 |
| **Cash – end of period** | **$** | **(6.8)** | $ | 12.3 |

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

| | | | | |
|---|---|---|---|---|
| **Supplemental information:** | | | | |
| ***Interest paid*** | **$** | **2.9** | $ | 0.4 |
| ***Income taxes paid*** | **$** | **3.6** | $ | 164.5 |
| | | | | |
| **Non-cash investing activity** | | | | |
| ***Contracts terminated on acquisition*** | **$** | **–** | $ | (10.4) |

## 1. Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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, 2007.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the December 31, 2007 consolidated annual financial statements except as disclosed in note 2.

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

## 2. Changes in Accounting

Effective January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants (the "CICA") as follows:

**Section 3031 – Inventories**

This section, among other things, requires that certain inventories be measured at the lower of cost and net realizable value. This has resulted in the Company changing its method for valuing chip and pulp log inventories which were previously valued at the lower of cost and replacement cost. In addition, the Company began amortizing certain deferred major maintenance expenditures over the period to the next major maintenance outage as opposed to amortizing them on a calendar year basis, and began expensing certain storage and handling costs that were previously included in inventory.

The Company adopted the new standard on a retroactive basis without restatement of prior periods. As a result, the Company recorded an increase of $9.6 million to opening retained earnings, an increase in future income tax liability of $4.7 million, an increase of $18.4 million to prepaid expenses and a decrease of $4.1 million to inventories, for the cumulative effect on prior years from the adoption of this standard.

Period end inventories were written down by $87.6 million to reflect net realizable value being lower than cost for certain inventories.

**Section 1535 – Capital Disclosures**

This section requires the Company to disclose its objectives, policies and processes for managing capital.

**Section 3862 – Financial Instruments Disclosures**

This section enhances the disclosure requirements on the nature and extent of risks arising from financial instruments and how the Company manages those risks.

## 3. New Accounting Pronouncements

**Section 3064 – Goodwill and Intangible Assets**

Effective January 1, 2009, the Company will adopt new CICA standard 3064 "Goodwill and Intangible Assets" which establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-operating Period", will be withdrawn. This will result in a change to the Company's accounting for pre-production and start-up costs, as these costs will no longer be capitalized as an asset. The impact of adopting this standard on the Company's financial statements is not expected to be significant.

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

**International Financial Reporting Standards**

In February, 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises effective January 1, 2011. The Company is presently considering the effect these standards will have on its financial statements.

## 4. Other Assets

| | **March 31, 2008** | December 31, 2007 |
|---|---|---|
| Power purchase agreements – net | **$ 93.3** | $ 95.1 |
| Investments | **4.4** | 4.5 |
| Advances for timber and timber deposits | **13.7** | 16.1 |
| | **$ 111.4** | $ 115.7 |

## 5. Operating Loans

The Company has $605.0 million in revolving lines of credit available, of which $206.5 million (net of deferred financing costs of $1.0 million) was drawn as at March 31, 2008. Interest is payable at floating rates based on, at the Company's option, Prime, US base, Bankers' Acceptances or LIBOR. The Company has also arranged for the issuance of letters of credit in the amount $20.2 million. The revolving lines of credit include a $600 million committed facility maturing in 2012.

## 6. Other Liabilities

| | **March 31, 2008** | December 31, 2007 |
|---|---|---|
| Post-retirement obligations | **$ 58.5** | $ 58.4 |
| Timber damage deposits | **14.0** | 13.9 |
| Reforestation obligations – long-term | **68.1** | 55.4 |
| Other asset retirement obligations | **9.1** | 9.0 |
| | **$ 149.7** | $ 136.7 |

## 7. Capital Disclosures

The Company's business is cyclical and it experiences significant changes in cash flow over the business cycle. In addition, the Company's financial performance can be materially influenced by changes in the relative value of the Canadian and US dollar. The Company's fundamental objective in managing capital is to ensure adequate liquidity and financial flexibility at all times, but particularly at the bottom of the business cycle and in a strong Canadian dollar environment.

The Company's main policy relating to capital management is to maintain a strong balance sheet and otherwise meet financial tests that are commonly applied by rating agencies for investment grade issuers of public debt. The Company believes that the maintenance of an investment grade rating is an appropriately conservative approach in the context of the Company's cyclical business.

The Company constantly monitors and assesses its financial performance in order to ensure that its net debt levels are prudent taking into account the anticipated direction of the business cycle. The Company continuously monitors the public and private debt markets and the public equity markets in order to assure that its capital structure is appropriately balanced. When financing acquisitions, the Company combines debt and equity financing in a proportion that is intended to maintain an investment grade rating throughout the cycle. The Company arranges its long-term debt repayments on a staggered basis that takes into account the uneven nature of the Company's anticipated cash flows. The Company has also established a committed revolving line of credit that provides liquidity and flexibility when capital markets are restricted.

## 8. Accumulated Other Comprehensive Earnings

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Balance – beginning of period | **$ (93.2)** | $ – |
| Adjustment on change in translation method | **–** | (18.2) |
| Unrealized foreign exchange translation gain (loss) on investments in self-sustaining foreign operations | **14.6** | (75.0) |
| Balance – end of period | **$ (78.6)** | $ (93.2) |

## 9. Employee Future Benefits

The total benefit cost of the Company's defined benefit pension plans was $5.7 million for the three months ended March 31, 2008 (three months ended March 31, 2007 - $5.6 million).

## 10. Financial Instruments

### Financial risk management

The Company's activities result in exposure to a variety of financial risks, including risks related to commodity prices, currency fluctuation, credit, liquidity and interest rates. Table Q on page 43 of the Company's 2007 Annual Report is an integral part of these interim consolidated financial statements and provides the earnings sensitivity to key financial risks.

### Commodity prices

The Company's financial performance is principally dependent on the demand for and selling prices of its products. Both are subject to significant fluctuations. The markets for lumber, panels, pulp, paper, wood chips and other wood products are highly volatile and are affected by factors such as global economic conditions including the strength of the US housing market, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control. At this time the Company has elected not to actively manage its exposure to commodity price risk.

### Currency fluctuation

Most of the Company's products are sold at prices denominated in US dollars or based on prevailing US dollar prices, and a significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the revenue in Canadian dollar terms realized by the Company from sales made in US dollars, which reduces operating margin and the cash flow available to fund operations. The Company also has investments in US self-sustaining operations, whose net assets are exposed to foreign currency translation risk.

Although the Company does not currently hedge its foreign exchange exposure with financial forward or option contracts, US dollar-denominated debt provides a partial offset to exchange exposure.

### Credit

The Company sells its products to a variety of customers under various payment terms and therefore is exposed to credit risks. The Company has adopted policies and procedures designed to limit these risks. The maximum exposure to credit risk at the reporting date is the carrying value of receivables.

### Liquidity

The Company manages liquidity by maintaining adequate cash and short-term investment balances, and by having appropriate lines of credit available. In addition, the Company continuously monitors and reviews both actual and forecasted cash flows. Refinancing risks are minimized by ensuring long-term debt has a balanced maturity schedule.

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

**Interest rates**

The Company's interest rate risk mainly arises from the interest rate impact on cash and short-term investments and floating rate debt. The general practice of the Company is to fund its long-term capital with debt at fixed rates and various maturities. In addition, the Company has revolving lines of credit available with interest at floating rates.

As at March 31, 2008, a 1% change in interest rates would have an insignificant impact on net earnings.

## 11. Income Taxes

The Company's effective tax rate is as follows:

| | **January 1 to March 31, 2008** | | January 1 to March 31, 2007 | |
|---|---|---|---|---|
| | **Amount** | **%** | Amount | % |
| Income taxes at statutory rates | **$ 35.9** | **31.0** | $ 2.8 | 34.1 |
| Non-taxable amounts | **(1.7)** | **(1.4)** | 0.4 | 4.7 |
| Rate differentials between jurisdictions and on specified activities | **5.1** | **4.4** | 0.9 | 9.9 |
| Rate differential on loss carry backs | **1.3** | **1.1** | 0.2 | 2.8 |
| Reduction in statutory income tax rates | **6.4** | **5.5** | – | – |
| Other | **–** | **–** | (1.0) | (12.2) |
| Income tax recovery | **$ 47.0** | **40.6** | $ 3.3 | 39.3 |

## 12. Earning 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.

| | **January 1 to March 31, 2008** | January 1 to March 31, 2007 |
|---|---|---|
| Earnings available to shareholders | **$ (68.6)** | $ (5.1) |
| **Weighted average number of shares** (thousands) | | |
| Weighted average shares – basic | **42,799** | 42,761 |
| Share options – treasury stock method | **122** | 473 |
| Weighted average shares – diluted | **42,921** | 43,234 |
| **Earnings per share** (dollars) | | |
| Basic | **$ (1.60)** | $ (0.12) |
| Diluted | **$ (1.60)** | $ (0.12) |

## 13. Segmented Information

| | Lumber | Panels | Pulp & paper | Corporate & other | Consolidated |
|---|---|---|---|---|---|
| **January 1, 2008 to March 31, 2008** | | | | | |
| Sales at market prices | | | | | |
| To external customers | **$ 379.0** | **$ 107.3** | **$ 285.5** | **$ –** | **$ 771.8** |
| To other segments | **34.2** | **2.1** | **–** | **–** | |
| | **$ 413.2** | **$ 109.4** | **$ 285.5** | **$ –** | |
| EBITDA[1] | **$ (72.2)** | **$ 6.3** | **$ 32.0** | **$ 2.8** | **$ (31.1)** |
| Amortization | **36.2** | **9.5** | **25.2** | **0.9** | **71.8** |
| Operating earnings (loss) | **(108.4)** | **(3.2)** | **6.8** | **1.9** | **(102.9)** |
| Interest expense – net | **(5.7)** | **(1.3)** | **(2.7)** | **(0.4)** | **(10.1)** |
| Exchange loss on long-term debt | **–** | **–** | **–** | **(10.6)** | **(10.6)** |
| Other income | **1.4** | **0.1** | **0.1** | **6.4** | **8.0** |
| Earnings before income taxes | **$ (112.7)** | **$ (4.4)** | **$ 4.2** | **$ (2.7)** | **$ (115.6)** |
| **January 1, 2007 to March 31, 2007** | | | | | |
| Sales at market prices | | | | | |
| To external customers | $ 361.1 | $ 118.8 | $ 278.7 | $ – | $ 758.6 |
| To other segments | 25.0 | 2.7 | – | – | |
| | $ 386.1 | $ 121.5 | $ 278.7 | $ – | |
| EBITDA[1] | $ (13.4) | $ 15.4 | $ 34.7 | $ 4.2 | $ 40.9 |
| Amortization | 26.2 | 10.8 | 24.3 | 0.8 | 62.1 |
| Operating earnings (loss) | (39.6) | 4.6 | 10.4 | 3.4 | (21.2) |
| Interest income (expense) – net | (2.8) | (0.8) | (0.3) | 1.7 | (2.2) |
| Exchange gain on long-term debt | – | – | – | 3.2 | 3.2 |
| Other income | 1.2 | – | 9.9 | 0.7 | 11.8 |
| Earnings before income taxes | $ (41.2) | $ 3.8 | $ 20.0 | $ 9.0 | $ (8.4) |

[1]**Non GAAP measure:**
EBITDA is defined as operating earnings plus amortization.

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