West Fraser Timber Co. Ltd

2009 MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis by West Fraser's management ("MD&A") should be read in conjunction with the 2009 annual audited consolidated financial statements and accompanying notes. 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 "Annual Results by Product Segment" (description of anticipated harvesting rate adjustments) and "Business Outlook" (U.S. housing market expectations and consequences, projected demand for various wood products and Eurocan closure matters). As well, Table L ("Earnings Sensitivity to Key Variables") and descriptions of announced but not implemented actions such as pending acquisitions, should be considered as forward-looking statements. Actual outcomes and results of these statements will depend on a number of factors which are noted in this 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 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. 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 MD&A is as at February 12, 2010, unless otherwise indicated.

Matters Affecting Comparisons

This MD&A includes certain comparisons of the results for the year ended December 31, 2009 to the results for the years ended December 31, 2008 and 2007, and the results for the fourth quarter of 2009 (the "current quarter") to those of the third quarter of 2009 (the "previous quarter") and fourth quarter of 2008.

On March 31, 2007 the Company acquired 13 sawmills in the southern United States (the "U.S. Acquisition"). West Fraser's second, third and fourth quarter 2007 results include the results of those operations but they are not reflected in the first quarter of 2007. This, and various significant one-time items described under "Annual Results", should be considered in these comparisons.

Annual Results

Sales and Earnings Comparison ($ millions, except as stated) **Table A**

Year ended December 31	**2009**	2008	2007
Sales by Segment			
Lumber	**1,285**	1,645	1,802
Panels	**391**	428	475
Pulp & Paper	**936**	1,116	1,039
Total	**2,612**	3,189	3,316
EBITDA	**30**	128	100
Amortization	**(265)**	(281)	(265)
Asset impairments	**(157)**	-	-
Operating earnings	**(392)**	(153)	(165)
Operating Earnings by Segment			
Lumber	**(190)**	(191)	(207)
Panels	**14**	(9)	18
Pulp & Paper	**(216)**	43	7
Corporate & Other	**-**	4	17
Total	**(392)**	(153)	(165)
Less certain unusual items:			
Restructuring charge	**47**	-	-
Asset impairments	**157**	-	-
Adjusted operating earnings[1]	**(188)**	(153)	(165)
Earnings	**(341)**	(137)	(36)
Basic earnings per share - $	**(7.96)**	(3.20)	(0.85)
Cash dividends per share - $	**0.23**	0.56	0.56
Total assets	**2,813**	3,412	3,562
Long-term debt	**416**	616	547
Cdn$1.00 converted to US$ – average	**0.876**	0.938	0.930

1. Adjusted operating earnings refers to total operating earnings less certain unusual items. Adjusted operating earnings is not a generally accepted earnings measure and should not be considered as an alternative to earnings as determined in accordance with GAAP. The Company's use of this term may not be directly comparable with similarly titled measures used by other companies.

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

	Q4-09	**Q3-09**	**Q2-09**	**Q1-09**	Q4-08	Q3-08	Q2-08	Q1-08
Sales	**647**	**679**	**667**	**619**	746	848	823	772
Earnings	**(20)**	**(199)**	**(39)**	**(83)**	(70)	(2)	3	(68)
EPS[1]	**(0.47)**	**(4.64)**	**(0.91)**	**(1.94)**	(1.62)	(0.05)	0.08	(1.60)

1. Basic and diluted.

The deep global economic recession that continued in 2009 had a significant effect on the Company's 2009 results. U.S. housing was particularly hard hit as annualized housing starts reached historic lows. The recession also had a serious adverse effect on housing prices and lending practices, which caused foreclosure rates and unsold home inventories to increase dramatically. These and other recessionary factors put severe pressure on demand for all building products. Pulp and paper demand in the first half of the year was also adversely affected by the global recession. As a result, average prices for all products were lower in 2009 compared to 2008 and 2007. However, on average, the Canadian dollar compared to the U.S. dollar weakened in 2009 compared to 2008 and 2007 which partially mitigated the effect of the price declines.

In response to poor demand and low prices the Company took market-related production curtailments at many of its facilities in order to reduce losses and manage inventory levels.

In the fourth quarter of 2009 the Company announced its Kitimat linerboard and kraft paper ("Eurocan") mill would be permanently closed effective in January 2010. As a result, the Company recorded asset impairment and restructuring charges relating to the Eurocan mill of $182 million in the year. Additional asset impairment and restructuring charges of $22 million were also recorded in the year relating to certain indefinitely idled sawmills.

From time to time the Company uses derivative financial instruments to manage its exposure to foreign exchange and product price fluctuations. In 2009 these financial instruments created income (recorded as other income) of $9 million compared to $2 million in 2008 and nil in 2007.

Long-term debt includes US$300 million of senior notes. These notes are translated into Canadian dollars at the end of each reporting period by applying the prevailing exchange rate. In 2009 this resulted in an exchange gain of $50 million compared to a loss of $68 million in 2008 and a gain of $52 million in 2007. Gains and losses from the translation of other foreign currency-denominated items, including U.S. operations until March 31, 2007 when they became self-sustaining, are included in other income. For 2009 these items resulted in a $16 million translation loss compared to a $24 million translation gain in 2008 and a $30 million translation loss in 2007.

In 2009 the following significant one-time items were included in earnings:

- Asset impairment charges of $157 million (after tax $114 million or $2.66 per share) primarily related to Eurocan;

- Restructuring charges of $47 million (after tax $33 million or $0.77 per share) related primarily to the closure of Eurocan;

- A valuation allowance which resulted in a reduction to the tax recovery of $114 million ($2.66 per share).

In 2007 the following significant one-time items were included in earnings:

- A gain of $10 million (after tax $7 million or $0.16 per share) resulting from the termination of certain pulp supply contracts in connection with the U.S. Acquisition is included in other income.

In February 2008 the Company announced an agreement to acquire certain tenures located in the Kamloops region from Weyerhaeuser Company. This acquisition has been the subject of a lengthy regulatory review and a restructuring of the transaction. The parties are continuing to work towards completion of the transaction which is expected to occur in 2010.

An income tax recovery of $32 million, after taking into account a valuation allowance of $114 million, was recorded in 2009 compared to a 2008 recovery of $83 million. Note 14 to the accompanying consolidated financial statements provides a reconciliation of the statutory income tax rate to the effective income tax rate.

Annual Results by Product Segment

Lumber Segment

Table C

	2009	2008
Production (MMfbm)		
SPF	**2,883**	3,389
SYP	**1,269**	1,570
Shipments (MMfbm)		
SPF	**3,042**	3,432
SYP	**1,307**	1,583
Wood chip production		
SPF (M ODTs)	**1,549**	1,764
SYP (M green tons)	**1,732**	2,246
Sales ($ millions)	**1,285**	1,645
EBITDA ($ millions)	**(31)**	(51)
EBITDA margin (%)	**n/a**	n/a
Operating earnings ($ millions)	**(190)**	(191)
Less certain unusual items:		
Restructuring charge	**5**	-
Asset impairments	**17**	-
Adjusted operating earnings ($ millions)[1]	**(168)**	(191)
Capital expenditures ($ millions)	**10**	27
Benchmark price (US$ per Mfbm)		
SPF #2 & Better 2x4[2]	**182**	221
SYP #2 West 2x4[3]	**242**	297

1. Adjusted operating earnings refers to total operating earnings less certain unusual items. Adjusted operating earnings is not a generally accepted earnings measure and should not be considered as an alternative to earnings as determined in accordance with GAAP. The Company's use of this term may not be directly comparable with similarly titled measures used by other companies.
2. Source: Random Lengths – 2x4, #2 & Better – Net FOB mill.
3. Source: Random Lengths – 2x4 – Net FOB mill Westside.

In both 2009 and 2008 the Company sustained significant operating losses in its lumber segment attributable to the continuing severe downturn in residential construction in the United States and to the global economic recession. The adjusted operating loss of $168 million recorded in 2009 was similar to the operating loss of $191 million in 2008 despite significantly lower log and production costs. As in 2008, several of the lumber operations operated below capacity, as production curtailments were expanded to control inventories and reduce losses.

In 2009 the Company recorded an asset impairment charge of $17 million related to certain sawmill assets that were indefinitely curtailed. The asset impairment charge resulted from management's determination that estimated future cash flows from the operations were not sufficient to recover the carrying value of the assets over the expected useful lives of the assets. In addition, the Company recorded a restructuring charge related to certain sawmill assets which have been indefinitely curtailed. This charge of $5 million is included in operating earnings. The 2008 results did not include a restructuring charge.

Based on a review of its expected future operations, the Company revised its annual SPF lumber capacity down from 4.0 billion fbm to 3.5 billion fbm at December 31, 2009. The annual production capacity of its SYP mills remains unchanged at 2.0 billion fbm.

Average U.S.-dollar benchmark prices for both SPF and SYP lumber declined in 2009 compared to 2008 reflecting weaker demand. Benchmark SPF lumber prices averaged US$182/mfbm compared to an average in 2008 of US$221/mfbm. However, the decline was partially offset by a lower average Canadian dollar, resulting in a 12% decline in prices expressed in Canadian dollars compared to an 18% decline in prices expressed in U.S. dollars. U.S.-dollar benchmark SYP lumber prices averaged approximately 19% lower in 2009 compared to 2008. As with SPF lumber, low U.S. housing starts and poor demand for lumber in general were the major reasons for the price decline.

In response to the ongoing decline in demand, the Company curtailed lumber production further in 2009, reducing SPF lumber production by approximately 15% from 2008 levels. On average the Canadian mills operated at approximately 72% of the 2009 Canadian capacity of 4.0 billion fbm. Reductions were in the form of indefinite mill closures, indefinitely curtailed production shifts and reduced shift schedules. In the U.S., SYP lumber production was approximately 19% lower than in the prior year. On average, the SYP lumber mills operated at approximately 63% of capacity reflecting indefinite curtailments at three of the U.S. mills and reduced shift schedules in several other operations.

Shipments for both SPF and SYP lumber were lower in 2009 compared to 2008, as demand weakened for both products. Despite the lower shipment volumes, both SPF and SYP lumber inventories were significantly reduced in the year.

Improved productivity during 2009 and curtailments at higher cost operations in both Canada and the U.S. resulted in lower conversion costs on a per unit basis compared to 2008. The Canadian sawmills benefited from lower log costs and lower freight costs, the result of lower fuel surcharges and proportionately higher shipments to Canadian customers in 2009. The U.S. sawmills also benefited from lower log costs in 2009 compared to 2008 and lower freight costs. In addition, several of the U.S. mills achieved increases in productivity and yield.

Log and lumber inventory valuation adjustments reduced cost of products sold in 2009 by approximately $49 million from the previous year compared with an increase in cost of products sold of approximately $15 million in 2008. In addition, an adjustment to the reforestation accrual of $16 million reduced cost of products sold in 2009.

The total export tax expensed on lumber shipped to the U.S. from the Company's Canadian lumber operations declined by approximately 13% from 2008 due to lower shipment volumes into the U.S. and lower prices. However, in 2009 lumber shipments from Alberta into the U.S. exceeded the prescribed level under the softwood lumber agreement for seven months which resulted in a 22.5% export tax for those shipments. The export tax rate applied to shipments of lumber from British Columbia as well as shipments from Alberta in the other five months to the

U.S. remained at 15%. In 2008 a portion of the lumber export tax paid in 2007 and in the first quarter of 2008 was refunded to the Company reducing the total export tax paid in 2008 by approximately $9 million.

The Company continued to process a large portion of poorer quality mountain pine beetle-killed logs in its British Columbia mills and, to a lesser extent, its Alberta mills. Through concentrated management focus on improving the manufacturing process in response to the deteriorating wood quality, the potentially adverse effect on lumber grades produced has been substantially mitigated.

The current mountain pine beetle infestation in the B.C. interior reached a peak in terms of the annual timber mortality rate in 2004. To date, an estimated 620 million m^3 of pine, representing approximately 46% of the total merchantable pine on the timber harvesting land base, has been attacked and killed and it is projected that a total of 940 million m^3, or approximately 70% of the merchantable pine on the timber harvesting land base, will be killed by the time the infestation ultimately runs its course over the next 10 years. The forests within West Fraser's B.C. operating areas are comprised of a mix of tree species, including pine. Much of the mature pine inventory has now been killed.

In 2009, after a two-year decline in the mountain pine beetle spread, north central Alberta experienced a major in-flight of beetles from the Peace River region of B.C. and Alberta. At this time surveys of the damage are underway to determine the full extent of the damage. Industry participants, including West Fraser, have shifted harvesting operations into areas of heaviest infestation and the provincial government is aggressively mapping the infestation and conducting single tree control treatments.

The Company continues to focus on the salvage and processing of dead pine in order to utilize as much of the resource as possible and to ensure that affected sites are promptly reforested. Once the dead pine stands are salvaged or are no longer economic to manufacture into lumber, it is anticipated that the Annual Allowable Cut will be adjusted downward to reflect lower mature inventories in the B.C. interior.

The Province of B.C. is expected to start the process of re-setting allowable cuts in the central interior in 2010 and will continue this process throughout the interior over the next several years. At this time, it is not possible to determine how potential changes to future allowable cut levels will impact future operations.

Capital spending in the lumber operations was managed aggressively and totalled $10 million compared to $27 million in 2008.

Panels Segment

Table D

	2009	2008
Plywood (MMsf 3/8" basis)		
Production	**745**	814
Shipments	**757**	815
MDF (MMsf 3/4" basis)		
Production	**195**	224
Shipments	**205**	221
LVL (Mcf)		
Production	**1,643**	1,264
Shipments	**1,644**	1,614
Sales ($ millions)	**390**	428
EBITDA ($ millions)	**48**	29
EBITDA margin (%)	**12**	7
Operating earnings ($ millions)	**14**	(9)
Capital expenditures ($ millions)	**1**	1
Benchmark price		
Plywood (per Msf 3/8" basis)[1] Cdn$	**329**	337
MDF (per Msf 3/4" basis)[2] US$	**490**	530

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

The Company's plywood, LVL and MDF operations comprise the panels segment. Each of these products is affected, although by differing degrees, by home construction in Canada as well as in the U.S. The increased operating earnings in 2009 compared to 2008 is mainly attributable to lower log and conversion costs which were only partially offset by lower product prices.

Average plywood prices in Canada were marginally lower in 2009 compared to 2008. A significant majority of the Company's plywood production is sold to customers in the eastern Canadian market where home construction was relatively strong compared to the U.S. Production in 2009 was approximately 8% lower than in 2008 as two of the plywood operations were temporarily curtailed in the first half of the current year. However, lower log and production costs contributed to increased earnings for the operations in 2009 compared to 2008.

LVL production of 1.6 million cu. ft. was 30% higher in 2009 compared to 2008 but remained well below capacity of 3.2 million cu. ft. as the result of continued curtailments. Shipments were similar to 2008 levels at 1.6 million cu. ft. However, lower fibre costs and energy prices contributed to the increased return for the mill compared to 2008.

MDF production was approximately 13% lower in 2009 compared to 2008 as both MDF plants operated on a curtailed schedule. Despite operating at a lower rate, unit production costs were lower due to lower resin and natural gas costs, offset in part by higher fibre costs. Freight costs were also lower in 2009 compared to 2008 as a result of lower fuel costs and lesser volumes shipped to overseas customers. Benchmark MDF prices in 2009 were US$40/msf lower than in 2008. The weaker average value of the Canadian dollar and improved sales mix more than offset the lower benchmark price.

Pulp & Paper Segment

Table E

	2009	2008
Sales ($ millions)	**936**	1,116
EBITDA ($ millions)	**10**	143
EBITDA margin (%)	**1**	13
Operating earnings ($ millions)	**(216)**	43
Less certain unusual items:		
Restructuring charge	**42**	-
Asset impairments	**140**	-
Adjusted operating earnings ($ millions)[1]	**(34)**	43
Capital expenditures ($ millions)	**7**	17

1. Adjusted operating earnings refers to total operating earnings less certain unusual items. Adjusted operating earnings is not a generally accepted earnings measure and should not be considered as an alternative to earnings as determined in accordance with GAAP. The Company's use of this term may not be directly comparable with similarly titled measures used by other companies.

The pulp & paper segment recorded a significant operating loss mainly as a result of the decision in the fourth quarter of 2009 to permanently close the Company's Eurocan mill. Excluding the Eurocan results, the operating loss for the segment for 2009 was $5 million compared to operating earnings of $56 million in 2008. EBITDA, excluding the Eurocan results, was $61 million compared to $129 million in 2008.

In 2009 the Government of Canada confirmed an allocation of credits totalling $88 million to West Fraser under the Pulp and Paper Green Transformation Program. The Program provides funding for approved capital projects to improve the energy efficiency and environmental performance of Canadian pulp and paper mills. In early 2010 the Company began the application process for approval of several projects. Under the Program these credits must be used by March 31, 2012.

In October 2009 the Company announced its decision to permanently close Eurocan effective in January 2010. This decision was the result of a significant weakening in the demand and prices for the mill's products, excess linerboard capacity in North America, the significant strengthening of the Canadian dollar in the latter part of the year and increasing fibre and production costs. Accordingly, the Company recorded an asset impairment charge of $140 million and restructuring costs of $42 million. In addition to these charges, the Company expects to incur further costs of approximately $20 million in 2010 related to the permanent closure of this facility.

At December 31, 2009 the assets and liabilities associated with the Eurocan business are summarized as follows:

($ millions)	Table F
As at December 31	**2009**
Current assets	**98**
Non-current assets	**1**
Total assets	**99**
Current liabilities	**(60)**
Non-current liabilities	**(13)**
Total liabilities	**(73)**

Below is a summary of the results of the Eurocan business included in the pulp & paper segment results and in the consolidated earnings and cash flows for the periods shown:

($ millions)			Table G
Year ended December 31	**2009**	2008	2007
Sales	**259**	326	293
EBITDA	**(51)**	14	(6)
Amortization	**(20)**	(27)	(26)
Asset impairments	**(140)**	-	-
Operating loss	**(211)**	(13)	(32)
Allocated interest expense	**(2)**	(2)	(2)
Allocated gain on foreign currency contracts	**10**	2	-
Other income (expense)	**(8)**	1	(1)
Loss before income taxes	**(211)**	(12)	(35)
Cash flows from operating and investing activities	**9**	(14)	(27)

As a result of the closure of the mill in early 2010, the assets and liabilities and operating results from the Eurocan business will be segregated and disclosed as a discontinued operation from the first quarter of 2010.

Pulp[1]

		Table H
	2009	2008
Production – NBSK (Mtonnes)	**523**	483
Shipments – NBSK (Mtonnes)	**514**	480
Production – BCTMP (Mtonnes)	**501**	559
Shipments – BCTMP (Mtonnes)	**544**	522
Benchmark price – NBSK (per tonne)[2] US$	**718**	856

1. For Cariboo Pulp & Paper Company, includes West Fraser's 50% share.
2. Source: Resource Information Systems, Inc. – U.S. list price, delivered U.S.

Total pulp production in the year was lower than 2008 by approximately 2%.

NBSK production was higher than in 2008 largely due to the significantly improved operation of the Hinton mill. The Hinton mill was extensively modified in 2007 with the decommissioning of the older and smaller of the two pulp machines and the rebuilding of the remaining pulp machine. In addition, the periodic maintenance shutdown schedule for the mill was altered from an annual to an 18-month shutdown schedule resulting in the mill taking only limited maintenance downtime in 2009. NBSK production at the Cariboo mill was also higher in 2009 compared to 2008.

BCTMP production was approximately 10% lower in 2009 compared to 2008 as a result of market-related downtime taken at both the Quesnel and Slave Lake mills in the first half of the year. In the second half of the year, both BCTMP mills operated at capacity.

NBSK prices fell during the first half of the year and then rebounded markedly in the latter half of the year, although the average benchmark price for NBSK declined approximately 16% from the average in 2008. The decline was only partially offset by the weaker average value of the Canadian dollar. NBSK shipments in 2009 increased approximately 7% from the previous year.

BCTMP markets sharply declined in late 2008 and did not recover until the second quarter of 2009. Shipments for 2009 were approximately 4% higher than in 2008. BCTMP prices generally trend with NBSK prices and were lower, on average, in 2009 compared to 2008. As with NBSK, the weaker Canadian dollar helped partially mitigate the lower prices.

Unit production costs for NBSK declined 12% in 2009 compared to 2008 as a result of improved productivity and lower fibre, natural gas costs and maintenance costs. Unit production costs for BCTMP were also lower in 2009 than 2008 as a result of lower natural gas and fibre costs. Overall unit pulp production costs were approximately 8% lower in 2009 compared to 2008. In addition, freight costs were lower as a result of lower fuel costs.

Linerboard and Kraft Paper

Linerboard and kraft paper production declined by 4% compared to 2008 mainly due to market related downtime taken in the second quarter of 2009.

Linerboard and kraft paper prices declined in the year. On average, the benchmark U.S. dollar linerboard price was 6% lower in 2009 compared to 2008, although the decline was partially offset by the lower average value of the Canadian dollar in the year. However, as 2009 progressed, the combined strengthening Canadian dollar and the declining linerboard price resulted in a year-end mill net return, expressed in Canadian dollars, nearly 40% lower compared to the return at the start of 2009.

Unit cash production costs declined approximately 12% in the year compared to the previous year. Much of the decline was attributable to reduced maintenance and supplies expenditures in the fourth quarter as a result of the Eurocan mill closure announcement. Significantly lower natural gas prices also contributed to the lower costs.

Newsprint[1]

Table I		
	2009	2008
Production (Mtonnes)	**111**	125
Shipments (Mtonnes)	**104**	125
Benchmark price – (per tonne)[2] US$	**560**	695

1. Represents West Fraser's 50% share of ANC.
2. Source: Resource Information Systems, Inc. – delivered U.S. 48.8 gram.

Reduced newsprint production resulted from downtime taken in the third quarter to install press modifications to the newsprint machine. The modifications increased the capacity of the paper machine and provided quality improvements to the end product.

Newsprint prices fell significantly in the year in response to continuing poor demand fundamentals. The decline in the benchmark price compared to 2008 was partially offset by the lower average value of the Canadian dollar.

Newsprint unit production costs increased as a result of lower production, offset partially by lower natural gas prices.

Corporate and Other

Selling, general and administration costs in 2009 included an expense of $3 million related to the change in value of outstanding share purchase options ("Options"). In 2008 selling, general and administration costs were reduced by $2 million related to the change in the value of Options. The change in the value of Options is calculated by reference to the market value of the Company's common shares on the Toronto Stock Exchange. Excluding the share option expenses, selling, general and administration costs were 5% lower in 2009 compared to 2008.

Interest expense in 2009 was lower than 2008 as average borrowings and borrowing costs declined.

Other income included a $16 million loss compared to a $24 million gain in 2008 related to the translation of foreign currency-denominated items, other than foreign currency-denominated long-term debt. Also included in other income in 2009 was income of $9 million on derivative financial instruments compared to income of $2 million in 2008.

4th Quarter Results

Table J

	Q4 – 2009	Q3 – 2009	Q4 – 2008
Production			
Lumber (MMfbm)			
SPF	**742**	726	794
SYP	**284**	336	321
	1,026	1,062	1,115
Plywood (MMsf 3/8” basis)	**183**	193	202
MDF (MMsf 3/4” basis)	**46**	52	45
LVL (Mcf)	**466**	447	424
BCTMP (Mtonnes)	**158**	156	104
NBSK (Mtonnes)	**133**	134	135
Linerboard and Kraft Paper (Mtonnes)	**120**	120	110
Newsprint (Mtonnes)	**33**	20	31
Shipments			
Lumber (MMfbm)			
SPF	**742**	773	852
SYP	**273**	337	316
	1,015	1,110	1,168
Plywood (MMsf 3/8” basis)	**194**	178	201
MDF (MMsf 3/4” basis)	**44**	49	46
LVL (Mcf)	**442**	456	501
BCTMP (Mtonnes)	**128**	152	93
NBSK (Mtonnes)	**120**	130	117
Linerboard and Kraft Paper (Mtonnes)	**130**	110	101
Newsprint (Mtonnes)	**34**	28	31
Sales and Earnings Comparison ($ millions, except as stated)			
Sales by Segment			
Lumber	**301**	336	385
Panels	**92**	102	104
Pulp & Paper	**254**	241	257
Total	**647**	679	746

	Q4 – 2009	Q3 – 2009	Q4 – 2008
Operating Earnings by Segment			
Lumber	**(22)**	(53)	(86)
Panels	**8**	12	1
Pulp & Paper	**(25)**	(143)	17
Corporate & Other	**(4)**	-	4
Total	**(43)**	(184)	(64)
Less certain unusual items:			
Asset impairments	**2**	155	-
Restructuring charge	**47**	-	-
Adjusted operating earnings[1]	**6**	(29)	(64)
Operating earnings	**(43)**	(184)	(64)
Interest expense	**(5)**	(7)	(9)
Exchange gain (loss) on long-term debt	**6**	28	(46)
Other income (expense)	**2**	(4)	16
Recovery of (provision for) income taxes	**20**	(31)	33
Earnings	**(20)**	(198)	(70)
Cdn$1.00 converted to US$ – average	**0.946**	0.911	0.825

1. Adjusted operating earnings refers to total operating earnings less certain unusual items. Adjusted operating earnings is not a generally accepted earnings measure and should not be considered as an alternative to operating earnings as determined in accordance with Canadian GAAP. The Company's use of this term may not be directly comparable with similarly titled measures used by other companies.

Table K shows selected average benchmark prices during the current quarter compared to the previous quarter and the fourth quarter of 2008 for products of the type produced by West Fraser, although these prices do not necessarily reflect the prices obtained by it.

Table K

Average Benchmark Prices (in US$, except plywood)	**Q4 – 2009**	Q3 – 2009	Q4 – 2008
SPF 2x4 random length (per Mfbm)[1]	**206**	192	185
SYP #2 West 2x4 (per Mfbm)[2]	**246**	234	277
Plywood (per Msf 3/8" basis)[3] Cdn$	**322**	379	335
MDF (per Msf 3/4" basis)[4]	**481**	480	524
Newsprint (per tonne)[5]	**505**	445	765
NBSK (per tonne)[6]	**820**	733	785
Linerboard (per tonne)[7]	**584**	592	668

Sources:
1. Random Lengths – 2x4, #2 & Better – Net FOB mill.
2. Random Lengths – 2x4 – Net FOB mill Westside.
3. Crow's Market Report – Delivered Toronto.
4. Resource Information Systems, Inc. – MDF Western U.S. – Net FOB mill.
5. Resource Information Systems, Inc. – U.S. delivered 48.8 gram.
6. Resource Information Systems, Inc. – U.S. list price, delivered U.S.
7. Pulp & Paper Week – Unbleached linerboard kraft, East.

Although U.S.-dollar prices for SPF lumber, NBSK and BCTMP were higher in the current quarter compared to the previous quarter and fourth quarter in 2008, the stronger Canadian dollar reduced Canadian mill net returns.

Other income is similar to that of the previous quarter. In the fourth quarter of 2008 other income included a $15 million gain on the translation of U.S. accounts receivable. The exchange gain on long-term debt in the fourth quarter of 2009 of $6 million results from the stronger Canadian dollar. This compares to an exchange gain of $28 million in the previous quarter and an exchange loss of $46 million in the fourth quarter of 2008 due to the difference in the opening and closing exchange rates.

Operating earnings in the lumber segment improved compared to the previous quarter and the corresponding quarter in 2008 despite lower revenues.

Lumber production was down slightly from the previous quarter and approximately 8% lower than in the fourth quarter of 2008. Poor weather conditions in the fourth quarter in the southern U.S. as well as continuing production curtailments in both Canadian and U.S. mills contributed to the lower production volumes.

Shipments for both SPF and SYP lumber were also lower in the current quarter compared to the previous quarter and the corresponding quarter in the previous year, reflecting the lower production levels.

SPF lumber benchmark prices improved marginally in the fourth quarter compared to the third quarter, but the stronger Canadian dollar offset most of that increase. Compared to the fourth quarter of 2008, the benchmark SPF lumber price was 11% higher, but the Canadian dollar increased by 15%, more than offsetting the increase in lumber prices. SYP lumber benchmark prices were up slightly compared to the corresponding price in the previous quarter and lower compared to the SYP lumber benchmark price in the fourth quarter of 2008.

Lower log costs in the Canadian lumber operations in the fourth quarter compared to the previous quarter and the fourth quarter of 2008 contributed to the improved operating earnings in the lumber segment in the quarter. A positive accrual adjustment for future reforestation obligations and positive log and lumber inventory valuation adjustments further contributed to the improved earnings. However, restructuring costs of $5 million related to certain indefinitely idled sawmills were recorded in the quarter partially offsetting the improved results. In the third quarter, asset impairment charges of $17 million related to the idled sawmills were recorded. SYP lumber unit production costs in the fourth quarter of 2009 were similar to the previous quarter despite lower production. However, they were lower compared to the fourth quarter of 2008 due mostly to lower log costs, improved productivity, a positive lumber inventory revaluation in the fourth quarter of 2009 versus a negative one in the fourth quarter of 2008 and lower freight costs.

Operating earnings in the panels segment declined slightly compared to the previous quarter as plywood prices weakened. Compared to the fourth quarter of the previous year, operating earnings were improved as lower log, resin and freight costs more than offset the effect of plywood and MDF price declines.

The pulp & paper segment operating loss was $25 million in the current quarter compared to $143 million in the previous quarter and operating earnings of $17 million in the fourth quarter of 2008. The previous quarter included a charge of $138 million and the current quarter includes a charge of $44 million related to the Eurocan asset impairment and restructuring costs. In October 2009 the Company announced the permanent closure of its Eurocan mill. Excluding the results for the Eurocan business, operating earnings would be $16 million in the current quarter compared to $2 million in the previous quarter and $10 million in the fourth quarter of 2008. Higher pulp prices in the current quarter contributed to the improved earnings compared to the previous quarter. Lower unit production costs in the fourth quarter of 2009 compared to the same quarter of 2008 contributed to improved results over that quarter.

Business Outlook

U.S. housing starts are a key factor in the demand for lumber and other building products. They are expected to improve from the depressed levels of 2009 although the level of starts will likely remain at low levels. If new home construction in the U.S. continues at relatively low levels markets for lumber will continue to be depressed unless production curtailments continue throughout the North American industry. West Fraser will continue to evaluate the economics of its lumber operations, both in Canada and the U.S., and will establish operating rates in accordance with this evaluation.

Markets for lumber remained relatively strong in Canada and continued to expand in Asia. These markets can provide some long-term diversification from the U.S. housing market. Lumber shipments to Asia have recently increased and West Fraser is well situated to take advantage of growth in these important markets in the future.

The majority of West Fraser's plywood is sold to customers in Canada. Building activity in Canada, while somewhat slow, has not been subjected to the prolonged slowdown in residential construction experienced in the U.S. The Company expects that the prices for plywood and its other panel products will not significantly improve in 2010.

The demand for NBSK and BCTMP is largely driven by economic growth in the large consuming economies such as North America and China. Many producers of market pulp have curtailed operations and if current prices are maintained, supply may increase and put pressure on prices.

The newsprint market continues to contract, despite industry curtailments, resulting in oversupply and unsustainably low prices. Prices for newsprint will likely not increase materially until there is a better balance in the market.

The closure of the Eurocan mill will be fully implemented in early 2010. With the closure, the Company expects that the liquidation of working capital and other assets will fully fund any remaining liabilities relating to this business.

Earnings Sensitivity to Key Variables

(based on year-end capacities[1] - $ millions except where otherwise stated) **Table L**

Factor	Variation	Change in Earnings
Lumber price[2,3]	US$10 (per Mfbm)	39
Plywood price[2,3]	Cdn$50 (per Msf)	29
MDF price[3]	US$50 (per Msf)	11
NBSK price[3]	US$50 (per tonne)	19
BCTMP price[3]	US$50 (per tonne)	20
Newsprint price	US$50 (per tonne)	5
U.S. – Canadian $ exchange rate[4]	US$0.01 (per Cdn $)	10
Sawlog cost	Cdn$1 (per m^3)	16

1. Assumes exchange rate of Cdn$1.00 per US$1.00 and an income tax rate of 30%.
2. Change does not include any potential change in log costs.
3. Change does not include any potential change in wood chip prices.
4. Excludes exchange impact on translation of U.S. dollar denominated debt and other monetary items; assumes no change in commodity prices.

Capital Structure and Liquidity

The capital structure of the Company consists of Common share equity and long-term debt. In addition, the Company maintains a committed revolving credit facility that is available to meet additional funding requirements.

The Common share equity consists of 40,009,331 Common shares and 2,806,478 Class B Common shares for a total of 42,815,809 shares issued and outstanding as at December 31, 2009 (2008 - 42,805,086).

Class B Common shares are equal in all respects to Common shares and are exchangeable on a one-for-one basis for Common shares. Common shares are listed for trading on the Toronto Stock Exchange while Class B Common shares are not.

West Fraser's long-term debt at December 31 2009 consists of various notes denominated in both Canadian and U.S. dollars, as follows:

$100 million floating rate term note due in March 2010
US$300 million 5.2% senior notes due in October 2014
$2.7 million 5.5% note due in annual instalments to 2020

In 2009 West Fraser made a scheduled repayment of $150 million of its long-term debt. In January 2010, the term note was repaid with proceeds from the Company's revolving line of credit.

West Fraser maintains a $600 million revolving credit facility which is committed until March 31, 2012. In 2008 the Company and participating banks amended this credit facility to allow for additional borrowings of up to $100 million, subject to sourcing new lenders for this additional amount. To date the Company has not sought to access this additional facility.

In the third quarter of 2009, an amendment to the facility was requested by the Company to eliminate the requirement for the Company to maintain a specified interest coverage, except in the circumstance where the debt to total capitalization ratio exceeds 42.5%, rather than the previous 37.5% limit and to exclude certain subordinated debt from the minimum calculation of the debt to capitalization ratio. In return the Company agreed to issue general floating security on its assets in favour of its lenders and, where required under applicable U.S. laws, mortgages on certain real properties in the U.S. The amendment was finalized in January 2010. As a result, all of West Fraser's debt is secured and ranks equally in right of payment other than current borrowings incurred from time to time for its joint venture newsprint mill. The security will remain in place for as long as the Company's credit ratings by Standard & Poor's and Moody's remain below BBB- and Baa3 respectively. The amendment provides the Company with significant flexibility in managing its capital requirements through the term of the credit facility. As shown in Table M, the Company's debt to total capitalization as at the end of 2009 was well below the threshold percentage of 42.5%. Copies of the credit agreement and the 2009 amendment are available at www.sedar.com.

On December 31, 2009 the balance owing under the revolving credit facility, net of deferred financing costs, was $79 million (2008 - $30 million) and letters of credit in the amount of $33 million were supported by this facility. After deducting these amounts the Company had $488 million available under this committed credit facility. The Company believes that this is sufficient to meet its requirements for operations, capital spending, dividends and the long-term debt repayments required in the next year.

Summary of Financial Position ($ millions, except as otherwise indicated) **Table M**

As at December 31	**2009**	2008
Cash[1]	**(10)**	4
Current assets	**704**	841
Current liabilities	**495**	482
Ratio of current assets to current liabilities	**1.4**	1.7
Net debt	**505**	642
Shareholders' equity	**1,618**	2,030
Net debt to capitalization[2] - %	**24**	24

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

As shown in Table N, West Fraser is rated by three leading rating agencies. In 2009 the Company's ratings were downgraded by each of the rating agencies. In addition to the lower ratings, each of the agencies has a negative outlook, reflecting the continued depressed U.S. housing market and the slow pace of U.S. economic recovery.

Debt Ratings **Table N**

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

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 been sufficient to meet these requirements.

Selected Cash Flow Items ($ millions) **Table O**

For the year ended December 31	**2009**	2008
Operating Activities		
Cash provided before working capital change	**18**	165
Non-cash working capital change	**88**	14
Cash provided by operating activities	**106**	179
Financing Activities		
Debt and operating loans	**(98)**	(122)
Dividends and other	**(10)**	(24)
Cash used in financing activities	**(108)**	(146)
Investing Activities		
Additions to property, plant, equipment & timber	**(19)**	(47)
Other	**7**	21
Cash used in investing activities	**(12)**	(26)
Change in cash	**(14)**	7

In 2009 the Company continued to take actions to maintain liquidity and reduce spending. This included further production curtailments, reduced capital spending, a reduction of the dividend, working capital reductions and further operating expense reductions. With these actions, in 2009 the Company was able to generate cash from operations of $106 million and reduce its total borrowings by $98 million.

Contractual Obligations as at December 31, 2009 ($ millions)[1] **Table P**

	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt	100	-	-	-	316	2	418
Operating leases	4	2	1	-	-	-	7
Asset purchase commitments	30	-	-	-	-	-	30
Total	134	2	1	-	316	2	455

1. Contractual obligations means an agreement related to debt, leases and enforceable agreements to purchase goods or services on specified terms, but does not include asset retirement obligations, energy purchases under various agreements, accounts payable in the ordinary course of business or contingent amounts payable.
2. Represents U.S. dollar denominated debt of US$300 million.

Significant Management Judgments Affecting Financial Results

The preparation of financial statements requires management to make estimates and assumptions, and to select accounting policies, that affect the amounts reported in the financial statements. The significant accounting policies followed by West Fraser are disclosed in Note 1 to its audited consolidated financial statements. The following items are the judgments considered most significant.

Asset Valuation

As required by GAAP, West Fraser assesses the carrying value of an asset when an impairment to the value of the asset is indicated. The assessment compares the estimated future cash flows of the asset to the carrying value of the asset. If the carrying value of the asset exceeds the estimated future cash flows relating to the asset, the carrying value is written down to fair value. In 2009 asset impairment charges of $140 million related to the Eurocan mill and $17 million related to certain sawmill assets were recorded.

West Fraser reviews the amortization periods for its manufacturing equipment and machinery to ensure that the periods appropriately reflect anticipated obsolescence and technological change. Current amortization periods for manufacturing equipment range from 10 to 20 years with sawmill equipment amortized over a maximum of 15 years. Timber rights are amortized over periods of up to 60 years.

Goodwill is not amortized. West Fraser compares the carrying value of goodwill and related assets, at least once a year, to the estimated discounted cash flows from the assets to which the goodwill relates. If it is determined that the carrying value is more than the estimated discounted cash flows, the carrying value of goodwill will be adjusted accordingly. West Fraser tested its goodwill for impairment in 2009 and concluded that the carrying value of the goodwill is not impaired. The testing of goodwill impairment involves significant estimates including future production and sales volumes, product selling prices, foreign currency exchange rates, operating costs, capital expenditures and the appropriate discount rate to apply. In all cases, West Fraser has used its best estimates of these projected amounts and values. Given the current global economic uncertainty and the volatility of the markets for West Fraser's products, it is possible that the Company's estimates will be adjusted in the future and that these adjusted estimates could result in the future impairment of goodwill.

West Fraser also reviews the carrying value of future income tax assets at least annually to ensure that the carrying value is appropriate. The key factors considered are the Company’s prior history of profitability, future expectations of profitability and the timing of expiry of tax loss carryforwards. In 2009 a valuation allowance was recorded which resulted in a reduction of the tax recovery by $114 million.

Reforestation Obligation and Other Asset Retirement Obligations

In Canada, provincial regulations require timber quota holders to carry out reforestation to ensure re-establishment of the forest after harvesting. Reforested areas must be tended for a period sufficient to ensure that they are well-established. The time to meet regulatory requirements depends on a variety of factors.

In West Fraser’s operating areas, the time to meet reforestation standards usually spans 12 to 15 years from the time of harvest. In the year that harvesting takes place, the Company records a liability for the estimated total cost of the future reforestation activities. This liability is reviewed, at least annually, and adjusted to management’s current estimate of the total cost to complete the remainder of the reforestation activities. In 2009 the review of the reforestation obligation resulted in a decrease of $16 million (2008 – increase of $1 million).

West Fraser records the estimated fair value of a liability for other asset retirement obligations, such as landfill closures, in the period when a reasonable estimate of fair value can be made. These estimates are reviewed by the Company at least annually, and adjusted as appropriate. In 2009 an additional $13 million was recognized as an other asset retirement obligation as a result of the closure of the Eurocan mill. Changes in estimates for existing obligations for 2009 were $1 million compared to $6 million in 2008.

Defined Benefit Plan Assumptions

West Fraser maintains several defined benefit pension plans for many of its employees. The annual funding requirements and pension expenses are based on various assumptions determined by the Company, with the advice of its actuaries, as well as on actual investment returns on the pension fund assets and changes to the employee groups in the pension plans. The Company takes a long-term, conservative view in making assumptions with respect to the funding of the pension plans.

Defined Benefit Pension Plan Obligation Assumptions **Table Q**

	2009	2008
Discount rate	**6.50%**	7.25%
Expected rate of return on plan assets	**7.00%**	7.00%
Rate of increase in future compensation	**3.50%**	3.50%

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 phase has been completed and the Company is now in the design and 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.

Differences between IFRS and GAAP

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

There are a number of differences that have been identified between GAAP and IFRS. Many of the differences identified are not expected to have a material affect on the reported results or financial position. 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 will continue to be calculated based on current GAAP.

While the qualitative effects of IFRS on future financial statements has 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 exemptions being considered by the Company that could result in material impacts to the opening balance sheet are as follows:

Table R

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 all 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 following table identifies key areas which are likely to be significantly affected by the adoption of IFRS.

Table S

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	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. IFRS also requires the reversal of any previous asset impairments, excluding goodwill, where circumstances have changed. GAAP prohibits the reversal of impairment losses.	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.

Asset retirement obligations	IFRS requires asset retirement obligations to be adjusted to the discount rate in affect 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.

Risks and Uncertainties

Product Demand and Price Fluctuations

West Fraser's financial results are primarily dependent on the demand for, and selling prices of, its products, which are subject to significant fluctuations. The demand and prices 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 U.S. housing market, changes in industry production capacity, changes in world inventory levels and other factors beyond West Fraser's control. In addition, unemployment levels, interest rates and the rate of mortgage foreclosures have a significant effect on residential construction and renovation activity, which in turn influences the demand for, and price of, building materials such as lumber and panel products.

West Fraser cannot predict future market conditions, demand or pricing for any of its products due to factors outside its control. Prolonged or severe weakness in the market for any of its principal products would adversely affect West Fraser's financial condition. West Fraser's earnings sensitivity to changes in certain product prices is set out in Table L.

Foreign Currency Exchange Rates

West Fraser sells the majority of its products at prices denominated in U.S. dollars or based on prevailing U.S. dollar prices. 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 U.S. dollar reduces the revenue in Canadian dollar terms realized by West Fraser from sales made in U.S. dollars, which reduces operating margin and the cash flow available to fund operations. West Fraser is also exposed to the risk of exchange rate fluctuations in the period between sale and payment. West Fraser also has a substantial amount of long-term debt repayable in U.S. dollars which is valued in Canadian dollars at the end of each reporting period applying the prevailing exchange rate. Exchange rate fluctuations result in exchange gains or losses. This results in significant earnings sensitivity to changes in the Canadian/U.S. dollar exchange rate as disclosed in Table L. The Canadian/U.S. dollar exchange rate is affected by a broad range of factors which makes future rates difficult to accurately predict.

Operations

Availability of Fibre and Changes in Stumpage Fees

Substantially all of West Fraser's Canadian log requirements are harvested from Crown lands. Provincial governments prescribe the methodologies that determine the amounts of stumpage fees that are charged in respect of harvesting on Crown lands and changes to the methodologies or rates may adversely affect the Company's results.

West Fraser relies on log supply agreements in the United States which are subject to log availability and based on market prices. Based on year-end capacity, approximately 25% of the aggregate log requirements for West Fraser's U.S. sawmills are supplied under long-term agreements with the balance purchased on the open market. Changes in market conditions for these logs may adversely affect West Fraser's results.

Operational Curtailments and Transportation Limitations

From time to time, West Fraser suspends operations at one or more of its facilities or logging operations in response to market conditions, environmental risks, or other operational issues, including, but not limited to, power failures, equipment breakdowns, adverse weather conditions, labour disruptions and fire hazards. These unscheduled operational suspensions could have a material adverse effect on West Fraser's financial condition. If wood chip production is reduced because of sawmill production curtailments, improved lumber manufacturing efficiencies or any other reason, pulp and paper operations may incur additional costs to acquire additional wood chips or be forced to reduce production. Conversely, pulp and paper mill production curtailments may require sawmills to find other ways to dispose of residual wood fibre and may result in curtailment or suspension of lumber production.

West Fraser relies primarily on third parties for the delivery of raw materials and the transportation of its products. From time to time, West Fraser must also respond to rail car and truck shortages that limit raw material deliveries to it and product deliveries to its customers, which may have a material adverse effect on West Fraser's business.

Labour Relations

West Fraser employs a unionized workforce in a number of its operations. Walkouts or strikes by employees could result in lost production and sales, higher costs and supply constraints that could have a material adverse impact on West Fraser's business. Also, West Fraser depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes experienced by these third parties could lead to disruptions at Company facilities.

Environment

West Fraser’s operations are subject to regulation by federal, provincial, state and local environmental authorities, including industry-specific environmental regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid waste, landfill operations, forestry practices, site remediation and the protection of endangered species and critical habitat. West Fraser has incurred, and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on West Fraser's business, operations, financial condition and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from West Fraser’s available cash flow. West Fraser may discover currently unknown environmental problems, contamination, or conditions relating to its past or present operations. This may require site or other remediation costs to maintain compliance or correct violations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on West Fraser’s business, financial condition and operational results.

West Fraser has in place internal programs under which all its forestry and manufacturing operations are audited for compliance with laws and accepted standards and with its management systems. West Fraser’s woodlands operations in Canada, and the harvesting operations of its key U.S. suppliers, are third-party certified to internationally-recognized sustainable forest management standards. West Fraser’s operations and its ability to sell its products could be adversely affected if those operations did not, or were perceived by the public as failing to, comply with applicable laws and standards, including responsible environmental and sustainable forestry standards.

Natural Disasters

West Fraser’s operations are subject to adverse natural events such as forest fires, severe weather conditions, timber disease and insect infestation, and earthquake activity. These events could damage or destroy West Fraser’s physical facilities or its timber supply and similar events could also affect the facilities of its suppliers or customers. Any such damage or destruction could adversely affect West Fraser’s financial results. Although West Fraser believes it has reasonable insurance arrangements in place to cover certain of such incidents, there can be no assurance that these arrangements will be sufficient to fully protect the Company against such losses. As is common in the industry, West Fraser does not insure loss of standing timber for any cause.

Mountain Pine Beetle

The long-term effect of the mountain pine beetle infestation on West Fraser's Canadian operations is uncertain. The potential effects include a reduction of future AAC levels to below current and pre-infestation AAC levels, a diminished grade and volume of lumber recoverable from beetle-killed logs, decreased quality of wood chips produced from such logs, and increased production costs. The timing and extent of the future effect on West Fraser's timber supply, lumber grade and recovery, wood chip quality and production costs will depend on a variety of factors and at this time cannot be reasonably determined.

First Nations Claims

The Company relies on provincial governments to adequately discharge obligations to First Nations groups in order to preserve the validity of actions dealing with public rights, including the granting of Crown timber harvesting rights. West Fraser cannot assure that First Nations claims will not in the future have a material adverse effect on its timber harvesting rights or its ability to exercise or renew them or secure other timber harvesting rights.

Regulatory

West Fraser's operations are subject to extensive general and industry-specific federal, provincial, state, municipal and other local laws and regulations, including those governing forestry, exports, taxes, employees, labour standards, occupational health and safety, waste disposal, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. West Fraser is required to obtain approvals, permits and licences for its operations, which may impose conditions that must be complied with. If it is unable to extend or renew, or is delayed in extending or renewing, a material approval, permit or licence, West Fraser's operations or financial condition could be adversely affected. There is no assurance that these laws, regulations or government policy, or the administrative interpretation or enforcement of existing laws and regulations, will not change in the future in a manner that may require West Fraser to incur significant capital expenditures or could adversely affect its operations or financial condition. Failure to comply with applicable laws or regulations, including approvals, permits and licences, could result in fines, penalties or enforcement actions, including orders suspending or curtailing its operations or requiring corrective measures or remedial actions.

Competition

Markets for West Fraser's products are highly competitive. Its ability to maintain or improve the cost of producing and delivering products to those markets is crucial. Factors such as cost and availability of raw materials, energy and labour, the ability to maintain high operating rates and low per-unit manufacturing costs, and the quality of its final products and its customer service all affect West Fraser's earnings.

Trade Restrictions

A substantial portion of the Company's products that are manufactured in Canada are exported for sale. The Company's financial results are dependent on continued access to the export markets and tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company. West Fraser's Canadian softwood lumber exports to the United States are currently subject to export duties imposed under the Softwood Lumber Agreement of 2006. National economic protectionist measures more commonly arise during periods of broad economic downturn and so current global economic conditions could result in the adoption of additional trade barriers.

Financial

The Company relies on long-term borrowings and access to revolving credit in order to finance its ongoing operations. The recent credit crisis disrupted the availability of new credit to a significant segment of corporate borrowers. Although the Company has no immediate needs for new credit, in the future the Company may need access to public or private debt markets to issue new debt to replace or partially replace current borrowings.

Disclosure Controls and Internal Controls Over Financial Reporting

Controls and Procedures

In accordance with the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, the Company's management, including the Chief Executive Officer and Chief Financial Officer, acknowledges responsibility for the design and operation of disclosure controls and procedures and internal controls over financial reporting, and the requirement to evaluate the effectiveness of these controls on an annual basis.

Management evaluated the effectiveness of these controls at the end of the reporting period and based on this evaluation concluded that the Company's internal controls over financial reporting and the disclosure controls and procedures were effective as at December 31, 2009.

Changes in Internal Control Over Financial Reporting

There has been no change in West Fraser's internal control over financial reporting during the year ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Glossary of Selected Industry Terms

AAC Annual Allowable Cut- The volume of timber that may be harvested annually from a specific timber tenure.

BCTMP - Bleached Chemithermomechanical Pulp

Green tons - A unit of measure for wood chips representing one undried ton. **M Green tons** means one thousand green tons.

LVL Laminated Veneer Lumber - Large sheets of veneer bonded together with resin, then cut to lumber equivalent sizes.

m^3 - A solid cubic metre, a unit of measure for timber, equal to approximately 35 cubic feet.

Mcf - One thousand cubic feet. A unit of measure for laminated veneer lumber.

MDF Medium Density Fibreboard - A composite product made from wood fibre.

Mfbm - One thousand board feet (equivalent to one thousand square feet of lumber, one inch thick). **MMfbm** means one million board feet. **fbm** means one board foot.

Msf - A unit of measure for MDF and plywood equal to one thousand square feet on a 3/4 inch basis for MDF and on a 3/8 inch basis for plywood. **MMsf** means one million square feet.

NBSK - Northern Bleached Softwood Kraft pulp

ODT Oven Dried Tonne - A unit of measure for wood chips representing one oven dried metric tonne. **M ODT** means one thousand oven dried tonnes.

SPF - Lumber produced from spruce/pine/balsam fir species.

SYP - Lumber produced from southern yellow pine species.

Tonne - A unit of weight in the metric system equal to one thousand kilograms or approximately 2,204 Pounds. **Mtonne** means one thousand tonnes.