2010 Management's Discussion & Analysis

This discussion and analysis by West Fraser's management ("MD&A") should be read in conjunction with the 2010 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 and projected demand for various products). As well, Table L ("Earnings Sensitivity to Key Variables") and descriptions of announced but not implemented actions such as projected capital expenditures 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 ("CGAAP") and does not have a standardized meaning prescribed by CGAAP. Investors are cautioned that EBITDA should not be considered as an alternative to earnings or cash flow, as determined in accordance with CGAAP. 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.

For definitions of various abbreviations and technical terms used in this MD&A please see the Glossary of Industry Terms found in our Annual Report.

The information in this MD&A is as at February 17, 2011, unless otherwise indicated.

MATTERS AFFECTING COMPARISONS

This MD&A includes certain comparisons of the results for the year ended December 31, 2010 to the results for the years ended December 31, 2009 and 2008, and the results for the fourth quarter of 2010 (the "current quarter") compared to those of the third quarter of 2010 (the "previous quarter") and the fourth quarter of 2009.

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

ANNUAL RESULTS

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

Year ended December 31	2010	2009	2008
Sales by Segment			
Lumber	**1,622**	1,285	1,645
Panels	**401**	391	428
Pulp & Paper	**863**	677	790
Total	**2,886**	2,353	2,863
EBITDA	**438**	80	114
Amortization	**(181)**	(245)	(254)
Asset impairments	**–**	(17)	–
Operating earnings	**257**	(182)	(140)
Operating Earnings by Segment			
Lumber	**125**	(190)	(191)
Panels	**37**	14	(9)
Pulp & Paper	**132**	(5)	56
Corporate and Other	**(37)**	–	4
Total	**257**	(181)	(140)
Less certain unusual items:			
Restructuring charges	**–**	5	–
Asset impairments	**–**	17	–
Adjusted operating earnings[1]	**257**	(159)	(140)
Earnings – continuing operations	**170**	(194)	(134)
Earnings – after discontinued operations	**166**	(341)	(137)
Diluted earnings per share – continuing operations – $	**3.93**	(4.54)	(3.12)
Diluted earnings per share – after discontinued operations – $	**3.84**	(7.96)	(3.20)
Cash dividends per share – $	**0.18**	0.23	0.56
Total assets	**2,815**	2,813	3,412
Long-term debt	**300**	416	616
Cdn$1.00 converted to US$ – average	**0.971**	0.876	0.938

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 CGAAP. 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**

	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09
Sales[1]	**719**	**707**	**772**	**688**	570	612	612	558
Earnings[1]	**27**	**46**	**62**	**35**	8	(100)	(23)	(80)
Earnings after discontinued operations	**39**	**45**	**63**	**20**	(20)	(199)	(39)	(83)
Basic EPS[1]	**0.62**	**1.08**	**1.46**	**0.80**	0.18	(2.34)	(0.53)	(1.86)
Diluted EPS[1]	**0.61**	**1.07**	**1.44**	**0.79**	0.18	(2.34)	(0.53)	(1.86)
Basic EPS after discontinued operations	**0.90**	**1.05**	**1.48**	**0.45**	(0.47)	(4.64)	(0.91)	(1.94)
Diluted EPS after discontinued operations	**0.89**	**1.04**	**1.46**	**0.45**	(0.47)	(4.64)	(0.91)	(1.94)

1. From continuing operations.

The early stages of the economic recovery in the U.S., Canada, Asia and other regions of the world had a positive effect on the Company's 2010 results. Housing in the U.S. continues to be plagued by high inventories of unsold homes, high foreclosure rates and low prices. These factors, combined with high unemployment, continued to depress new home construction and demand for building products in the U.S. The relative strength of the Canadian housing market and increased demand for lumber in China, combined with supply curtailments, helped support the SPF lumber market. Pulp markets strengthened significantly from late 2009 through to the middle of 2010 when demand slowed somewhat. Supply constraints resulting from an earthquake in Chile in the early part of the year helped bolster prices for all pulp grades. In the second quarter new pulp production started up which created downward pressure on prices especially for hardwood kraft and BCTMP. Average benchmark prices for all products were higher in 2010 compared to 2009. Partially offsetting increases in U.S. dollar-denominated prices was the effect of the rising value of the Canadian dollar, which averaged US$0.97 compared to US$0.88 in 2009.

In 2009, as a result of weak lumber and pulp markets, the Company took significant market-related downtime in its lumber, MDF and LVL operations and, to a lesser extent, in its plywood and pulp operations. With the improvement in prices in 2010 the Company's Canadian sawmills and the plywood and pulp mills operated at or near capacity. The Company's MDF, LVL plants and several of its U.S. sawmills continued to operate on a curtailed basis.

In January 2010 the Company closed its linerboard and kraft paper mill at Kitimat, B.C. As a result of the closure, the mill's employees were either relocated or received severance payments and selected assets and inventories have been sold. Further asset sales and closure activities will continue into 2011.

In 2010 the Company reinstated its capital expenditure program which had been substantially suspended in 2008 and 2009 due to the poor economic conditions. Expenditures under the program are expected to total $230 million with approximately two-thirds to be spent in 2011. The program is focused on projects, mainly in the Company's lumber operations, that are intended to significantly improve efficiency and profitability. In addition, the Company has allocated the majority of the $88 million of credits earned by it in 2009 under the Canadian Pulp and Paper Green Transformation Program (the "Green Transformation Program"). In 2010 the Company also completed a previously-announced purchase of a long-term timber quota in the Kamloops region. This acquisition is expected to benefit the Company's operations in 100 Mile House, Chasm and Williams Lake.

In 2010 the Company renegotiated and extended its revolving credit facility. The replacement $500 million facility is committed until December 2014 and is arranged with a syndicate of nine Canadian and U.S. banks.

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 2010 this resulted in an exchange gain of $17 million compared to a gain of $50 million in 2009 and a loss of $68 million in 2008. Gains and losses from the translation of other foreign currency-denominated items are included in other income. For 2010 these items resulted in a $7 million translation loss compared to a $9 million translation loss in 2009 and a $24 million translation gain in 2008.

In the fourth quarter of 2010 the Company recorded an increased income tax provision of $10 million ($0.22 per share) relating to a change in Canadian tax legislation that denies a deduction for certain payments related to share options.

In 2009 the Company recorded a valuation allowance which resulted in a reduction to the tax recovery of $114 million ($2.66 per share) as well as asset impairment and restructuring charges of $22 million ($0.37 per share) related to certain indefinitely idled sawmills.

In 2010 the Company's Board of Directors increased the dividend, which is typically paid quarterly, from an annualized rate of $0.12 per share to $0.24 per share.

On February 17, 2011 the Company's Board of Directors further increased the quarterly dividend to $0.14 per share ($0.56 on an annualized basis).

ANNUAL RESULTS BY PRODUCT SEGMENT

Lumber Segment **Table C**

	2010	2009
Production (MMfbm)		
SPF	**3,318**	2,883
SYP	**1,365**	1,269
Shipments (MMfbm)		
SPF	**3,341**	3,042
SYP	**1,352**	1,307
Wood chip production		
SPF (M ODTs)	**1,736**	1,549
SYP (M green tons)	**1,782**	1,732
Sales ($ millions)	**1,622**	1,285
EBITDA ($ millions)	**228**	(31)
EBITDA margin (%)	**13**	n/a
Operating earnings ($ millions)	**125**	(190)
Less certain unusual items:		
Restructuring charge	**–**	5
Asset impairments	**–**	17
Adjusted operating earnings ($ millions)[1]	**125**	(168)
Capital expenditures ($ millions)	**47**	10
Benchmark price (US$ per Mfbm)		
SPF #2 & Better 2x4[2]	**256**	182
SYP #2 West 2x4[3]	**303**	242

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 CGAAP. 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.

Operating earnings in the Company's lumber segment improved markedly, compared to the losses sustained in the prior year due to higher prices for both SPF and SYP lumber and higher operating rates and shipping volumes.

The severe downturn in new home construction in the U.S. that began in 2006 extended through 2010 and this was reflected in continued low demand for lumber from U.S. sources. Housing starts in the U.S. improved only slightly to 587,600 in 2010 from 554,000 starts reported for 2009, and mortgage foreclosures and delinquencies remained high. Lumber demand in Canada remained fairly strong on average for the year although demand declined in the second half as housing starts, particularly in eastern Canada, fell. Canadian exports of SPF lumber moved higher in 2010 compared to the prior year as a result of a substantial increase in purchases of lumber by buyers in China. Overall the demand for both SPF and SYP lumber remained low compared to historic levels.

Despite this continued low level of demand, average prices for both SPF and SYP lumber increased substantially in 2010 compared to the previous year, as the combination of continuing production curtailments, inventory restocking for both SPF and SYP lumber, and the increasing demand for SPF lumber in China brought the market more into balance. Benchmark prices for SPF lumber averaged US$256/mfbm in 2010, 41% higher than the average of US$182 in 2009. Similarly the benchmark price for SYP lumber increased 25% in 2010 averaging US$303/mfbm compared to an average of US$242 in 2009.

SPF lumber producers in Canada operated at an average rate of approximately 75% of capacity in 2010. In the first quarter many North American distributors began to restock lumber inventories in anticipation of an improved spring building season. Also, very poor weather conditions in the southern U.S. caused significant SYP lumber production curtailments which temporarily tightened supply. The increased demand, coupled with the constrained supply both in Canada and the U.S., caused SPF prices to increase dramatically through April, reaching a peak of US$320/mfbm. Midway through the second quarter, SPF prices declined to below US$250/mfbm as production increased and inventory restocking subsided. SPF prices remained soft through late in the fourth quarter when they again moved higher. Throughout the year, however, growing demand from China helped provide support for higher SPF prices.

Canadian dollar mill net realizations were adversely affected during 2010 by a stronger Canadian dollar which averaged US$0.97 in the year compared to US$0.88 in 2009.

The SYP lumber benchmark price increased significantly early in 2010 as extensive rains across the southern U.S. caused widespread logging suspensions and SYP lumber production curtailments. In addition, inventory restocking by many SYP distributors and retailers put upward pressure on prices, which peaked at US$448/mfbm in April. However, prices began to fall later in the second quarter as SYP lumber production became more balanced with demand.

Total lumber shipments increased approximately 8% from 2009 levels. Of the Company's total SPF shipments, approximately 16% by volume was delivered to customers outside of North America compared to 12% in 2009. In the two largest of these export markets, China and Japan, shipments increased from 2009 levels by 80% and 12% respectively. Shipments of SYP lumber increased only modestly in 2010, approximately 3%, reflecting continued poor demand in the U.S. Inventories of both SPF and SYP lumber were well controlled in the year.

SPF lumber production increased approximately 15% from 2009 levels as the Canadian sawmills operated near capacity for most of the year. Average unit cash costs for SPF lumber declined slightly from 2009 levels as lower cash conversion costs offset increased variable compensation costs. SYP lumber production increased approximately 8% from 2009 levels. The U.S. sawmills operated at approximately 68% of capacity, a slight increase from 2009 operating rates. Average unit cash costs increased slightly, reflecting higher log costs.

Amortization costs were lower in 2010 compared to 2009 reflecting lower amortization rates on selected assets and certain assets becoming fully amortized.

In 2009 asset impairment charges of $17 million and restructuring charges of $5 million were recorded relating to certain sawmills that were indefinitely curtailed. No such charges were recorded in 2010.

Total export taxes on SPF lumber shipped to the U.S. increased approximately 26% as a result of higher SPF lumber prices and higher shipments. In the second quarter the composite lumber price on which the export tax rate is determined under the SLA increased to a level that triggered lower export tax rates in May and July and no export tax in June. In all other months the base export tax rate of 15% applied to shipments of SPF lumber to the U.S. In months where shipments from B.C. or Alberta exceed a prescribed surge volume the applicable export tax rate is increased by 50% for all shipments to the U.S. from that province for that month. For several months in 2010 and 2009 shipments from the province of Alberta exceeded the surge volume limits and were subject to the higher export tax rate.

The Company continued to process a large portion of poorer quality mountain pine beetle-killed logs in its B.C. mills and, to a lesser extent, in its Alberta mills. It has been able to reduce an anticipated substantial decline in lumber recovery and poorer grade mix attributable to the low quality beetle-killed logs through a concentrated management focus on improving the manufacturing process, including significant capital expenditures and technological innovations.

Capital spending in 2010 in the lumber segment totalled $47 million compared to $10 million in 2009, reflecting a continuing focus on cash preservation. A significant portion of the total invested in 2010 related to the acquisition of a long-term timber quota in the interior of B.C. This acquisition will improve the long-term timber supply for certain of the Company's sawmills in the area. The balance of the capital expenditures were for selected plant and equipment upgrades. In the later part of 2010 the Company announced the approval of a $230 million capital expenditure program, the majority of which is to be invested in high-return projects in the Company's Canadian and U.S. lumber operations.

Panels Segment **Table D**

	2010	2009
Plywood (MMsf 3/8" basis)		
Production	**791**	745
Shipments	**800**	757
MDF (MMsf 3/4" basis)		
Production	**192**	195
Shipments	**188**	205
LVL (Mcf)		
Production	**1,918**	1,643
Shipments	**1,894**	1,644
Sales ($ millions)	**401**	391
EBITDA ($ millions)	**57**	48
EBITDA margin (%)	**14**	12
Operating earnings ($ millions)	**37**	14
Capital expenditures ($ millions)	**2**	1
Benchmark price		
Plywood (per Msf 3/8" basis)[1] Cdn$	**334**	329
MDF (per Msf 3/4" basis)[2] US$	**536**	489

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, MDF and LVL operations comprise the panels segment. The demand and price for each of these products is influenced, although by differing degrees, by new home construction in the U.S. and Canada.

Operating earnings increased as a result of higher prices and shipments for both plywood and LVL, partially offset by lower MDF shipments compared to 2009. Lower amortization in 2010 also contributed $15 million to improved operating earnings as certain assets became fully amortized and certain amortization rates declined.

The Company's plywood is primarily sold in Canada with eastern Canada being a significant market. The Canadian housing market remained relatively strong through most of 2010, supporting demand and prices. Although average benchmark prices rose only 1% to $334/msf compared to $329 in 2009, plywood prices rallied to a high of $401 in the second quarter. As the Canadian dollar strengthened close to par with the U.S. dollar, U.S. produced plywood entered the Canadian market, resulting in increased supply and causing prices to decline. In addition, housing starts in Canada declined in the second half of the year, putting further pressure on prices.

Plywood production increased 6% compared to 2009, reflecting improved productivity and an absence of market curtailments. Weak markets in 2009 resulted in short market curtailments at two of the Company's three plywood mills.

The Company's LVL plant continues to operate at curtailed levels due to ongoing poor demand for LVL although production in 2010 increased 17% over the previous year to 1.9 million cu. ft. This represents approximately 60% of capacity. Average unit cash costs were substantially unchanged from 2009 levels.

The market for LVL is largely dependant on new home construction in Canada and the U.S. With continuing low housing starts in the U.S., demand was not sufficient to operate this plant at full capacity.

The increase in the 2010 benchmark MDF price of nearly 10%, to US$536/msf, was more than offset by the higher value of the Canadian dollar. However, lower average unit cash costs in 2010 resulted in improved results.

The Company's two MDF plants operated at approximately 65% of capacity in the year, in response to the continuing poor demand for MDF.

Pulp & Paper Segment		**Table E**
(From continuing operations)	**2010**	2009
Sales ($ millions)	**863**	677
EBITDA ($ millions)	**187**	60
EBITDA margin (%)	**22**	9
Operating earnings ($ millions)	**132**	(5)
Capital expenditures ($ millions)	**7**	6

In 2010 the Company's Eurocan mill, a linerboard and kraft paper mill located at Kitimat, B.C. was permanently closed. As such, the current and comparative results from this business are no longer included in the results of the pulp & paper segment but rather in discontinued operations.

Operating earnings in the pulp & paper segment improved significantly in 2010 compared to 2009 as a result of higher prices for NBSK and BCTMP pulp and newsprint as well as higher operating rates and increased shipments for pulp and newsprint.

In 2009 the Government of Canada confirmed an allocation of credits totalling $88 million to West Fraser under the 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 and as of December 31, 2010 projects having a total value of $76 million have been formally approved. Under the Program these credits must be used by March 31, 2012.

In 2010 capital spending, excluding any spending under the Green Transformation Program, was $7 million, similar to the previous year.

Pulp[1]

		Table F
	2010	2009
Production – NBSK (Mtonnes)	**525**	523
Shipments – NBSK (Mtonnes)	**504**	514
Production – BCTMP (Mtonnes)	**616**	501
Shipments – BCTMP (Mtonnes)	**623**	544
Benchmark price – NBSK (per tonne)[2] US$	**960**	718

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

The average benchmark price for NBSK pulp in 2010 increased to US$960 compared to US$718 in 2009, although approximately one-third of this increase was effectively offset by the strengthening of the Canadian dollar in 2010.

Pulp markets were very strong in 2010 with benchmark NBSK pulp prices reaching US$1,020 per tonne in June and July of 2010. The rapid increase in price in the first half of the year was related in part to supply constraints resulting from the Chilean earthquake that occurred early in the year. In the third quarter supply reached normal levels and prices began to decline. BCTMP prices increased in proportion to NBSK pulp prices through the first half of the year. However, near the end of the second quarter, BCTMP volumes exported to China declined considerably on lower demand and new capacity startups up in China. Prices realized for BCTMP declined substantially in response. BCTMP exports to China increased to more normal levels later in the year as demand strengthened and the new capacity was absorbed into the market.

Total pulp production in 2010 was 1,141 Mtonnes, an annual record for the Company.

NBSK pulp production was similar to 2009 levels despite the planned maintenance shutdowns in 2010 at the Hinton and Cariboo NBSK mills. In 2009 only the Cariboo mill took a planned maintenance shutdown as maintenance shutdowns are on an 18-month rotation at the Hinton mill. Both mills operated well and the Cariboo mill established a new annual production record.

BCTMP production was substantially higher in 2010 than in 2009 and annual production records were established at both the Quesnel and Slave Lake mills. Production at the Quesnel BCTMP mill was interrupted in the second quarter for scheduled maintenance downtime, resulting in approximately 18,000 tonnes of lost production. In 2009 both mills took market-related downtime, reducing production by approximately 80,000 tonnes. In past years the Slave Lake mill has reduced production because of very high electricity prices in Alberta. In 2010 the lost production as a result of these electricity price-related curtailments amounted to approximately 9,000 tonnes compared to approximately 17,000 tonnes in 2009.

Average unit cash costs were marginally lower in 2010 compared to 2009 as increases in fibre, electricity and packaging costs were offset by lower chemical and natural gas costs. Fixed costs were also lower on a per-unit basis due to higher production in 2010.

Newsprint[1]

Table G

	2010	2009
Production (Mtonnes)	**131**	111
Shipments (Mtonnes)	**137**	104
Benchmark price – (per tonne)[2] US$	**607**	560

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

Although average benchmark newsprint prices increased approximately 8% from 2009 levels, the strengthening Canadian dollar more than offset the benefit of the increase. Expressed in Canadian dollar terms, the average benchmark price was 2% lower in 2010 compared to 2009. Both newsprint demand and capacity in North America remained at low levels in 2010 as in 2009.

Production increased in 2010 to normal levels compared to 2009 when significant downtime was taken to complete press modifications to the newsprint machine. Unit cash costs were approximately 9% lower in 2010 compared to 2009 as a result of lower chemical, natural gas, and maintenance cost as well as the higher production volumes, offset in part by higher fibre and electricity costs.

Discontinued Operations

The Eurocan linerboard and kraft paper mill ceased operations in the first quarter of 2010. Since the closure all finished inventory was sold or committed to specific customers. In the fourth quarter the Company sold both paper machines and related assets to two unrelated parties. Further asset sales are currently being considered.

The operating loss for 2010 includes the results from operations of the mill up to the date of closure, the costs of closing the mill including severance, contract cancellations and other related closure costs, as well as the sale of linerboard and kraft paper inventories during the year. Other income in the year includes the gain on the sale of the two paper machines and related equipment.

The operating loss for 2009 includes a loss of approximately $29 million related to the manufacture and sale of linerboard and kraft paper. The remainder of the operating loss relates to asset impairment and restructuring charges that were recorded as a result of the closure of the mill.

As at December 31, 2010 the assets and liabilities associated with the Eurocan business are as follows:

Table H

($ millions)	December 31, 2010
Current assets	**4**
Non-current assets	**1**
Total assets	**5**
Current liabilities	**(8)**
Non-current liabilities	**(8)**
Total liabilities	**(16)**

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

Table I

($ millions)	2010	2009
Sales	**71**	259
Operating loss	**(20)**	(211)
Other income	**15**	–
Loss before income tax	**(5)**	(211)
Income tax recovery	**1**	65
Loss	**(4)**	(146)
Cash flows from operating and investing activities	**31**	9
Production (Mtonnes)	**29**	422
Shipments (Mtonnes)	**121**	401

Production and shipments declined in 2010 compared to 2009 as a result of the permanent closure of the mill in January 2010. In 2009 Eurocan ran near capacity with the exception of market-related downtime in the second quarter.

Corporate and Other

Selling, general and administration expense includes an expense of $34 million related to equity-based compensation plans compared to $3 million in 2009. This expense varies directly with changes in the market price of the Company's Common shares during the reporting period. The Company maintains various equity-based compensation plans, including stock options and phantom share units, the value of which are based, in whole or in part, on the market price of the Company's Common shares.

Excluding the expense related to equity-based compensation, selling, general and administrative expense increased approximately 12% compared to 2009 reflecting increased variable compensation and employee benefit costs.

Other income included a $7 million loss compared to a $9 million loss in 2009 related to the translation of foreign currency-denominated items other than foreign currency-denominated long-term debt. Also included in other income in 2010 was a loss of $5 million on derivative financial instruments compared to a loss of $1 million in 2009.

4TH QUARTER RESULTS

Table J

	Q4 – 2010	Q3 – 2010	Q4 – 2009
Production			
Lumber (MMfbm)			
SPF	**804**	827	742
SYP	**355**	373	284
	1,159	1,200	1,026
Plywood (MMsf 3/8" basis)	**190**	203	183
MDF (MMsf 3/4" basis)	**44**	52	46
LVL (Mcf)	**382**	362	466
BCTMP (Mtonnes)	**161**	160	158
NBSK (Mtonnes)	**142**	143	133
Newsprint (Mtonnes)	**33**	34	33
Linerboard and Kraft Paper (Mtonnes)	**—**	—	120
Shipments			
Lumber (MMfbm)			
SPF	**832**	837	742
SYP	**355**	382	273
	1,187	1,219	1,015
Plywood (MMsf 3/8" basis)	**208**	218	194
MDF (MMsf 3/4" basis)	**42**	46	44
LVL (Mcf)	**387**	363	442
BCTMP (Mtonnes)	**181**	131	128
NBSK (Mtonnes)	**134**	120	120
Newsprint (Mtonnes)	**34**	33	34
Linerboard and Kraft Paper (Mtonnes)	**—**	8	130
Sales and Earnings Comparison ($ millions, except as stated)			
Sales by Segment			
Lumber	**397**	398	301
Panels	**92**	105	92
Pulp & Paper	**230**	204	177
Total	**719**	707	570
Operating Earnings by Segment			
Lumber	**20**	22	(22)
Panels	**2**	14	8
Pulp & Paper	**30**	41	16
Corporate & Other	**(14)**	(14)	(4)
Operating Earnings	**38**	63	(2)
Interest expense	**(6)**	(6)	(5)
Exchange gain on long-term debt	**10**	10	6
Other income (expense)	**(3)**	1	2
Recovery of (provision for) income taxes	**(12)**	(22)	7
Earnings from continuing operations	**27**	46	8
Earnings from discontinued operations	**12**	(1)	(28)
Earnings	**39**	45	(20)
Cdn$1.00 converted to US$ – average	**0.987**	0.962	0.946

Table K shows selected average benchmark prices during the current quarter compared to the previous quarter and the fourth quarter of 2009 for products of the type produced by West Fraser, although these prices do not necessarily reflect the prices obtained by it.

Average Benchmark Prices (in US$, except plywood) **Table K**

	Q4 – 2010	Q3 – 2010	Q4 – 2009
SPF 2x4 random length (per Mfbm)[1]	**269**	222	206
SYP #2 West 2x4 (per Mfbm)[2]	**270**	248	246
Plywood (per Msf 3/8" basis)[3] Cdn$	**301**	327	322
MDF (per Msf 3/4" basis)[4]	**547**	563	480
Newsprint (per tonne)[5]	**640**	635	505
NBSK (per tonne)[6]	**967**	1,000	820

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.

Operating earnings for the quarter declined compared to the previous quarter mainly due to lower pulp and panel earnings as a result of lower prices for pulp, plywood and MDF. Earnings were also affected by the value of the Canadian dollar which strengthened slightly against the U.S. dollar in the current quarter to average US$0.987. Corporate and other costs were similar in total to the prior quarter. The equity-based compensation expense in the fourth quarter was $20 million compared to $8 million in the previous quarter but this difference was substantially offset by variable employee compensation charges of earlier quarters being reallocated to the operating segments.

Compared to the fourth quarter of 2009 operating earnings were $40 million higher largely due to improved pricing for all products except plywood. The benefit of higher U.S. dollar-denominated prices for lumber, MDF, pulp and newsprint were partially offset by the increase in the value of the Canadian dollar which averaged US$0.987 compared to US$0.946 in the comparable quarter last year. Corporate and other costs were higher in the current quarter compared to the fourth quarter of 2009 reflecting an increase in equity-based compensation expense as the market value of the Company's Common shares increased.

The current quarter's results include an exchange gain on long-term debt of $10 million as a result of the increase in the value of the Canadian dollar at quarter-end compared to the previous quarter-end value. Other expense for the quarter was $3 million compared to other income of $1 million in the previous quarter which included a gain on the sale of certain assets.

Although average U.S. dollar-denominated benchmark prices for both SPF and SYP lumber were higher in the current quarter than in the previous quarter, operating earnings for the lumber segment were slightly lower. Mill net returns for SPF lumber did not fully reflect the increase in the benchmark price due to sales mix and timing of sales and lumber shipments. Mill net returns for SYP lumber were similar in the current quarter compared to the previous quarter as the prices for wider dimensions did not improve as the benchmark price strengthened. Average benchmark prices and mill nets for both SPF and SYP were higher in the quarter than in the fourth quarter of 2009, reflecting improved markets in the U.S. and China.

Lumber production and shipments were down slightly in the current quarter compared to the previous quarter as there were fewer operating days in the current quarter. Production was higher in the current quarter compared to the comparable quarter in the previous year as the SPF mills in Canada operated near capacity in the current quarter and were somewhat curtailed in the fourth quarter of 2009. Also, the SYP mills in the U.S. operated at higher rates in the current quarter than in the comparable quarter last year. Shipments were up for both SPF and SYP compared to the fourth quarter of 2009 as lumber demand was somewhat stronger in the current quarter and, in the case of SPF lumber, export shipments to China and Japan were higher in the current quarter than in the fourth quarter of 2009.

Operating earnings for the lumber segment were similar to the previous quarter but substantially higher than in the comparable period in 2009, a reflection of improved markets and increased production in 2010. Operating earnings in the current quarter included reduced amortization relating to fully depreciated assets and changes in amortization rates but this was offset by an allocation of administrative charges that had been previously recorded in the corporate segment.

Operating earnings for panels were down from the previous quarter, largely as a result of lower plywood and MDF prices as well as lower production and shipment volumes in the current quarter. Operating earnings in the current quarter were reduced by an allocation of administrative charges that had been previously recorded in the corporate segment. This was offset by lower amortization charges.

Compared to the same quarter in 2009 panel operating earnings were lower due to lower prices for plywood, which were only partially offset by higher MDF prices and higher plywood shipments in the current quarter. Current quarter operating earnings were also affected by the allocation of administrative charges that had been previously recorded in the corporate segment, offset by lower amortization charges.

Pulp and paper operating earnings were lower in the current quarter compared to the previous quarter due to lower sales prices. Production in the current quarter was similar to the previous quarter but pulp shipments were significantly higher than in the third quarter. The higher shipments offset in part the effect of the lower pulp prices. Average unit pulp cash costs were largely unchanged from the prior quarter.

Compared to the same quarter in 2009 operating earnings were higher as a result of higher prices and higher production and shipments. Average unit pulp cash costs were similar to the comparable quarter in 2009 as higher fibre costs were offset by lower chemical, natural gas and other costs.

BUSINESS OUTLOOK

The Company's lumber operations benefited in 2010 from improved prices supported by continuing constrained supply and increased Chinese demand for SPF lumber. The Company expects conditions in 2011 to remain generally similar to 2010 as a slow U.S. housing recovery is expected to continue to impede the start-up of a significant amount of currently-idled production capacity. Key risks to a continued recovery of lumber markets include increased lumber production without a balancing increase in demand, possible disruptions to the U.S. housing recovery including the effect of foreclosures and other factors that would increase an already significant oversupply of housing inventory, a contraction of mortgage credit, or a reduction of offshore demand, including from China. In the absence of such disruptions, the Company's lumber operations are well positioned to achieve results comparable to 2010.

On January 18, 2011, the U.S. filed a request for arbitration under the SLA 2006, claiming that B.C. has not applied the timber pricing system grandfathered in the agreement. Canada is preparing a defence to the claim but it is not possible at this time to predict the outcome, the value of the claim or the timing of the resolution.

Plywood represents the most significant portion of the Company's panels segment, and its results in 2011 will depend on the strength of the Canadian housing market, particularly in eastern Canada which is the Company's traditional plywood market, as well as whether U.S. manufactured plywood will continue to be sold into Canada. U.S. plywood producers are expected to continue shipping to Canada as long as U.S. housing starts remain low and the Canadian dollar remains strong. Analysts are generally predicting a slow but gradual recovery of U.S. housing but the Canadian dollar is not expected to significantly weaken in the short term. As a result, the Company will carefully monitor the Canadian plywood market and be ready to adjust production levels if necessary.

Demand for NBSK and BCTMP pulp continued to be strong through most of 2010 and, although some volatility may occur, the Company expects demand and supply to be reasonably well balanced throughout 2011. The most significant risks to this segment's earnings are a slow down or disruption of demand from China, a major market, or the restarting of significant portions of currently-curtailed production. Capital improvements supported by the Green Transformation Program are expected to be substantially completed during 2011 although the production, efficiency and earnings benefits related to these projects will not be experienced until after 2011.

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)	40
Plywood price[2,3]	Cdn$50 (per Msf)	31
MDF price[3]	US$50 (per Msf)	11
NBSK price[3]	US$50 (per tonne)	19
BCTMP price[3]	US$50 (per tonne)	23
Newsprint price	US$50 (per tonne)	5
U.S. – Canadian $ exchange rate[4]	US$0.01 (per Cdn $)	12
Sawlog cost	Cdn$1 (per m^3)	15

1. Assumes exchange rate of Cdn$1.00 per US$1.00 and an income tax rate of 26.5%.
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 40,054,242 Common shares and 2,781,478 Class B Common shares for a total of 42,835,720 shares issued and outstanding as at February 8, 2011.

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.

In addition, as of February 8, 2011 there were 2,181,372 share purchase options outstanding with exercise prices ranging from $24.71 to $51.56 per Common share.

West Fraser maintains a $500 million revolving credit facility which is committed until December 2014. In December 2010 the Company and participating banks amended this facility to extend its maturity, reduce total allowed borrowings from $600 million and to allow for additional borrowings of up to $150 million, subject to sourcing new lenders for this additional amount. To date the Company has not sought to access this additional facility. Security pledged to the banks and other lenders in early 2010 remains in place for as long as the Company's credit ratings by Standard & Poor's and Moody's remain below BBB- and Baa3 respectively. Copies of the credit agreement and the December 2010 amendment are available at www.sedar.com.

On December 31, 2010 the balance owing under the credit facility, net of deferred financing costs, was $9 million (2009 – $79 million) and letters of credit in the amount of $35 million were also supported by this facility, leaving approximately $450 million available for further use.

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.

During the year, the Company was able to reduce its net debt by $357 million, including a scheduled $100 million repayment of its long-term debt.

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

As at December 31	2010	2009
Cash[1]	**161**	(10)
Current assets	**800**	704
Current liabilities	**375**	495
Ratio of current assets to current liabilities	**2.1**	1.4
Net debt	**148**	505
Shareholders' equity	**1,765**	1,618
Net debt to capitalization[2] - %	**8**	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 2010 the Company's ratings were upgraded by Standard & Poor's from BB to BB+ and its Outlook was changed from Negative to Stable based on the Company's low leverage and good operating performance. Dominion Bond Rating Service also changed its outlook to Stable, a reflection of the Company's much-improved financial profile despite the U.S. housing market remaining depressed. Moody's rating and outlook remained unchanged from 2009.

Debt Ratings **Table N**

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

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

For the year ended December 31	2010	2009
Operating Activities		
Cash provided before working capital change	**321**	31
Non-cash working capital change	**49**	65
Cash provided by operating activities	**370**	96
Financing Activities		
Debt and operating loans	**(165)**	(98)
Dividends and other	**(13)**	(10)
Cash used in financing activities	**(178)**	(108)
Investing Activities		
Additions to property, plant, equipment & timber	**(56)**	(18)
Other	**3**	7
Cash used in investing activities	**(53)**	(11)
Change in cash from continuing operations	**139**	(23)
Change in cash from discontinued operations	**31**	9
Change in cash	**170**	(14)

Contractual Obligations as at December 31, 2010 ($ millions)[1] **Table P**

	2011	2012	2013	2014	2015	Thereafter	Total
Long-term debt	—	1	—	299[2]	—	1	301
Operating leases	2	2	—	—	—	—	4
Asset purchase commitments	29[3]	—	—	—	—	—	29
Total	31	3	—	299	—	1	334

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.
3. $28 million of this total is expected to be refunded by the Government of Canada as part of the Green Transformation Program.

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 judgments are considered the most significant.

Asset Valuation

As required by CGAAP, West Fraser assesses the carrying value of an asset when there are indicators of impairment. 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 2010 there were no asset impairment charges recorded. In 2009 asset impairment charges of $140 million related to the Eurocan mill and $17 million related to certain sawmill assets were recorded. The 2009 charges related to the Eurocan mill are included in "Loss from discontinued operations".

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 40 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 2010 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 2010 a valuation allowance was recorded which resulted in an increase to the tax provision of $6 million (2009 – $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 2010 the review of the reforestation obligation resulted in a decrease of $1 million (2009 – decrease of $16 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 2010 the review resulted in a reduction of the liability of $5 million (2009 – increase to the liability of $1 million).

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**

	2010	2009
Discount rate	**5.50%**	6.50%
Expected rate of return on plan assets	**6.50%**	7.00%
Rate of increase in future compensation	**3.50%**	3.50%

Impact of a 0.5% Change in Key Assumptions ($ millions) — **Table R**

	Pension Plans	
	Obligation	**Expense**
Discount rate		
Decrease in assumption	73	4
Increase in assumption	(62)	(3)
Expected rate of return on plan assets		
Decrease in assumption	n/a	4
Increase in assumption	n/a	(4)
Rate of increase in future compensation		
Decrease in assumption	(15)	(1)
Increase in assumption	15	1

NEW ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace CGAAP 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

The Company has substantially completed its IFRS conversion plan and has adopted IFRS effective January 1, 2011. Regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation project has taken place.

The project plan consisted of three major phases:

- Assessment phase – This phase involved identifying the differences between CGAAP and IFRS. These differences were 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 were identified to assist as necessary on system and process changes. Training requirements for staff were completed. In addition, optional exemptions for first time adopters of IFRS and accounting policy choices under IFRS were evaluated.
- Implementation phase – This phase included execution of changes to information systems and business processes, obtaining authorization for recommended exemptions for first time adopters and for accounting policy choices.

Implementation of changes to ensure that information systems are capable of dual reporting of CGAAP and IFRS information for 2010 has been completed.

The expected effect of accounting policy choices and system changes on disclosure controls and internal controls over financial reporting is being monitored and control changes have been made where necessary.

The adoption of IFRS is not expected to materially affect debt covenant calculations or affect cash flows.

The Company's financial statements for the quarter ending March 31, 2011 will be the first quarterly financial statements that comply with IFRS. The Company's transition date is January 1, 2010 (the "Transition Date") and the Company has prepared its opening IFRS balance sheet as at that date. The Company will ultimately prepare its opening balance sheet and financial statements for 2010 and 2011 by applying the existing IFRS with an effective date of December 31, 2011 or earlier. The standard-setting body of IFRS has significant ongoing projects that could affect the ultimate differences between CGAAP and IFRS and these changes could have a material effect on the Company's financial statements. Accordingly, the opening balance sheet and reconciliations may differ from those presented in this MD&A.

Estimated adjustments to earnings on adoption of IFRS

For the year ended December 31, 2010 **Table S**

$ millions (unaudited)	Notes	Continuing operations	Discontinued operations	Earnings after discontinued operations
Earnings reported under CGAAP		**$ 169.8**	**$ (3.6)**	**$ 166.2**
Adjustments to earnings				
PPE[1] amortization	2	13.6	–	13.6
Employee future benefits	3	1.0	3.5	4.5
Asset retirement obligations	4	(1.6)	1.9	0.3
Share option expense	5	3.7	–	3.7
Restructuring charges	6	–	6.0	6.0
Deferred tax on above items	7	(4.7)	(3.2)	(7.9)
Adjustments to earnings		**12.0**	**8.2**	**20.2**
Earnings reported under IFRS		**$ 181.8**	**$ 4.6**	**$ 186.4**

1. PPE – property, plant, and equipment (and timber under CGAAP)

Estimated adjustments to Shareholders' equity on adoption of IFRS **Table T**

$ millions (unaudited)	Notes	As at December 31, 2010	As at January 1, 2010 (Transition Date)
Equity reported under CGAAP		**$ 1,765.2**	**$ 1,618.2**
Opening balance sheet adjustments		**(195.2)**	–
PPE – impairment	2		(94.8)
PPE – asset retirement obligation	4		1.8
Employee future benefits	3		(106.8)
Asset retirement obligations	4		(15.2)
Share option liability	5		(16.6)
Restructuring liability	6		(6.0)
Deferred tax on above items	7		42.4
Adjustments to earnings (Table S)		**20.2**	–
		(175.0)	**(195.2)**
Cumulative translation adjustment	8	**2.7**	–
Employee future benefits – actuarial losses (net of tax)	3	**(59.1)**	–
Accumulated other comprehensive earnings		**(56.4)**	**–**
Equity reported under IFRS		**$ 1,533.8**	**$ 1,423.0**

Estimated adjustments to the balance sheet on adoption of IFRS

As at January 1, 2010 (Transition Date) **Table U**

$ millions (unaudited)	Notes	CGAAP	Adjustments	IFRS
ASSETS				
Current assets				
Cash and short-term investments		$ 12.0	$ –	$ 12.0
Accounts receivable		200.6	–	200.6
Income taxes receivable		67.6	–	67.6
Inventories		407.7	–	407.7
Prepaid expenses	9	15.8	(4.6)	11.2
		703.7	(4.6)	699.1
Property, plant, and equipment	2,4,9	1,624.1	(591.7)	1,032.4
Timber	9	–	499.7	499.7
Goodwill		263.7	–	263.7
Other intangible assets	9	–	89.8	89.8
Deferred pension costs	3	132.7	(106.3)	26.4
Other assets	9	88.9	(86.2)	2.7
		$ 2,813.1	$ (199.3)	$ 2,613.8
LIABILITIES				
Current liabilities				
Cheques issued in excess of funds on deposit		21.8	–	21.8
Operating loans		78.7	–	78.7
Accounts payable and accrued liabilities	5,6	252.6	22.6	275.2
Current portion of asset retirement obligations	4	41.5	(3.2)	38.3
Current portion of long-term debt		100.3	–	100.3
		494.9	19.4	514.3
Long-term debt		315.9	–	315.9
Other liabilities	3, 4	166.9	18.9	185.8
Deferred income taxes	7	217.2	(42.4)	174.8
		1,194.9	(4.1)	1,190.8
SHAREHOLDERS' EQUITY				
Share capital		599.7	–	599.7
Accumulated other comprehensive earnings	8	(59.8)	59.8	–
Retained earnings		1,078.3	(255.0)	823.3
		1,618.2	(195.2)	1,423.0
		$ 2,813.1	$ (199.3)	$ 2,613.8

Notes to Tables R, S and T

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

1. IFRS 1 – Elected exemptions

In accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), the Company has elected to apply the following exemptions from full retrospective application of IFRS.

i. Business combinations

The Company has elected to apply the business combination exemption in IFRS 1 to business combinations that occurred before January 1, 2010. Accordingly, the CGAAP purchase cost accounting values carry forward under IFRS.

ii. Fair value as deemed cost

The Company has elected to apply the fair value as deemed cost exemption to items of property, plant, equipment and timber that were impaired under IFRS at the transition date. The result is that the asset cost base is restated to fair value for the items on which the exemption was applied.

iii. Employee future benefits

The Company has elected to recognize the January 1, 2010 cumulative unamortized actuarial gains and losses in opening retained earnings for the Company's employee benefit plans.

iv. Cumulative translation differences

The Company has elected to set the cumulative translation balance, which was included in accumulated other comprehensive earnings, to zero at January 1, 2010 by absorbing it into opening retained earnings.

v. Decommissioning liabilities

The Company has elected to apply the IFRS 1 exemption to its decommissioning liabilities included in the cost of property, plant and equipment.

2. Property, plant, equipment and timber impairment

IFRS requires the assessment of asset impairment to be based on discounted cash flows while CGAAP only requires discounting if the carrying value of assets exceeds the undiscounted cash flows.

The differences in methodology resulted in $94.8 million of asset impairment charges through Transition Date retained earnings. Depreciation expense for the year ended December 31, 2010 will be reduced by $13.6 million under IFRS due to the impairments.

3. Employee future benefits

The significant differences between CGAAP and IFRS are as follows:

i. The Company elected to recognize the January 1, 2010 cumulative deferred actuarial gains and losses in opening retained earnings for the Company's defined benefit pension plans under IFRS 1.

ii. Under CGAAP the Company used an October 31st measurement date, while IFRS requires a December 31st measurement date.

iii. The Company has chosen to adjust actuarial gains and losses after the Transition Date to other comprehensive earnings. Under CGAAP these amounts are deferred and amortized over the average remaining service period of the affected employees within certain limits.

The differences in methodology resulted in a reduction of deferred pension costs of $106.3 million and an increase in post retirement obligations of $0.5 million on the Transition Date. The employee future benefit expense for the year ended December 31, 2010 was reduced by $4.5 million under IFRS. A charge to accumulated other comprehensive earnings of $59.1 million for actuarial gains and losses related to the year ended December 31, 2010 was recorded.

4. Asset retirement obligations

Under CGAAP asset retirement obligations are discounted at the rate in effect at the time the liability was recorded. IFRS requires asset retirement obligations to be discounted at each balance sheet date based on the discount rate in effect at that date.

The differences in methodology resulted in an increase to asset retirement obligations of $15.2 million and an increase in property, plant and equipment of $1.8 million on the Transition Date. The asset retirement obligation adjustment for the year ended December 31, 2010 resulted in a $0.3 million decrease in expenses.

5. Share option liability

The determination of fair value of the Company's share option liability under CGAAP is based on the intrinsic value method which uses the balance sheet date share price to calculate the liability. IFRS requires the use of a share option valuation model to fair value the share option liability.

The differences in methodology resulted in an increase to the liability of $16.6 million on the Transition Date. The share option adjustment for the year ended December 31, 2010 resulted in a $3.7 million decrease in share option expense.

6. Restructuring charges

Under CGAAP the company was required to record certain restructuring charges related to discontinued operations in the first quarter of 2010. IFRS required these charges to be recorded in the fourth quarter of 2009 upon the announcement of the mill closure.

The difference in methodology resulted in an increase to accounts payable and accrued liabilities of $6.0 million on the Transition Date. The restructuring charge adjustment for the year ended December 31, 2010 resulted in a $6.0 million decrease in expenses.

7. Deferred income taxes

The deferred income tax adjustments reflect the change in temporary differences resulting from the effect of the IFRS adjustments described in these notes. The Transition Date adjustments resulted in a decrease in deferred taxes of $42.4 million. The deferred tax adjustment for the year ended December 31, 2010 resulted in a $7.9 million increase in tax expense.

8. Cumulative translation adjustment

The Company has elected to set the cumulative translation balance, which was included in accumulated other comprehensive earnings, to zero at January 1, 2010 by absorbing the $59.8 million into opening retained earnings. The cumulative translation adjustment for the year ended December 31, 2010 resulted in a $2.7 million increase in accumulated other comprehensive earnings as a result of foreign currency translations of IFRS adjustments to the Company's U.S. operations.

9. Reclassifications

The following balance sheet items were reclassified to comply with the listed IFRS standards:

Table V

From	To	Description		Amount	Applicable IFRS Standard
Prepaid Expenses	PPE	Shutdown accruals	$	4.6	IAS 16 *Property, Plant and Equipment*
PPE	Intangibles	Timber	$	499.7	IAS 38 *Intangible Assets*
PPE	Intangibles	Software	$	3.9	IAS 38 *Intangible Assets*
Other Assets	PPE	Other assets	$	0.3	IAS 16 *Property, Plant and Equipment*
Other Assets	Intangibles	Power purchase agreement	$	80.5	IAS 38 *Intangible Assets*
Other Assets	Intangibles	Timber deposits	$	5.4	IAS 38 *Intangible Assets*

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, the growing importance of the Asian 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 U.S. 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 U.S. 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. Any change in availability of credit in the market, as would happen during an economic downturn, could affect the Company's ability to access markets. Although the Company has no immediate needs for new credit, in the future the Company may need to get into 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, 2010.

Changes in Internal Controls Over Financial Reporting

There has been no change in West Fraser's internal controls over financial reporting during the year ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.