Report to Shareholders

For five consecutive years the North American wood products business has operated in a depression-like environment. This has been the longest and deepest trough in U.S. homebuilding since World War II. Since 2006, North American lumber production has declined by approximately 30%. To match supply with demand, the equivalent of 110 large sawmills have had to close down. A similar scenario has played out in the structural and non-structural panel business. Not only has the wood products industry significantly downsized but many of the remaining players have not had strong enough cash flows or balance sheets to continually modernize their operations.

Fortunately, at West Fraser our Canadian sawmilling assets were industry leaders in cost and efficiency going into this downturn and, due to our relatively strong cash flow and very strong balance sheet, we have been able to continue to invest in new equipment and technology to further enhance our operating advantage.

Twenty-nine percent of our revenues are derived from our pulp and paper business and during this prolonged downturn we have benefited from strong pulp prices which have helped to offset the historically low lumber prices. As a fully integrated company in Canada we process 100% of our timber resource into products ranging from lumber and plywood to MDF and LVL to pulp, paper and energy. This strategy has paid off handsomely for us as lumber and pulp prices are generally countercyclical and, therefore, our overall results are less exposed to depressed prices in each of the commodities.

Nonetheless, 2011 was another very difficult year in the forest products business. Lumber prices declined from moderately profitable levels earlier in the year to unsustainably low levels by year end. Prices for Southern Yellow Pine (SYP) lumber produced at our U.S. operations also declined significantly to the point that the traditional premium enjoyed by SYP over Canadian SPF lumber narrowed dramatically during the year. Plywood prices in Canada also sank to unprofitable levels as the strong Canadian dollar encouraged U.S. plywood producers to export more volume to Canada thereby destroying the tenuous balance of supply and demand in our home market.

Finally, the historically high pulp prices we enjoyed early in 2011 encouraged higher cost producers to start up idled capacity which, combined with weak economic conditions in the western world, caused prices to decline by 14% by the end of the year.

Fortunately our Asian markets have stayed relatively strong and are helping to offset the lack of demand for our products in North America. Since 2004 Canadian SPF shipments to China have grown from virtually nothing to approximately 3 billion board feet. This is a result of a concerted effort by our industry, with the help of our federal and provincial governments, to develop new markets for our lumber in order to reduce our exposure to our traditional U.S. market. In 2011 West Fraser shipped directly and through wholesalers roughly 30% of our SPF lumber to Japan, China and other Asian countries versus 6% five years ago. We anticipate further growth in these markets in the future.

Our pulp business has also benefited from the growth in our Asian markets as more than 60% of our pulp is shipped there.

With the emergence of China as the second largest economy in the world, West Fraser is well positioned to benefit from its growing demand for our lumber and pulp.

While markets for our wood products were depressed during the year, our Canadian lumber and plywood operations continued to perform well on an operating basis. Our Canadian mills are generally large, efficient and technologically advanced versus most of our Canadian peers. As a result, we have a good cost structure that allows us to withstand difficult market conditions. Our U.S. mills, most of which were acquired in 2007, are generally not yet up to the same standards of efficiency, costs and technology as our Canadian mills. We embarked on an aggressive capital improvement program at our U.S. division in 2011 and will begin to see the results of this program in the second half of 2012. We will continue to apply significant capital to these mills in the future in order to position each of them at the lower end of the cost curve.

In Canada we have embarked on an ambitious capital program at both our sawmill and pulp divisions. During the year we expanded and modernized our three sawmills in Alberta. When these projects are complete, we will have increased our production capacity in Alberta by almost 20% while significantly lowering our unit costs.

In 2009 West Fraser was awarded $88 million of Green Transformation Funds from the federal government. These funds are provided by the government to promote energy efficiency and green energy production in the Canadian pulp and paper industry. We have fully utilized these funds on high payback projects at our four pulp mills. When these projects are completed in the second half of 2012, we will have increased energy efficiency at all of our pulp mills, expanded production at our Hinton, Alberta pulp mill and increased our production of green electricity at our Cariboo pulp mill. These projects will help position our pulp division as a very competitive North American producer.

In addition to the green energy projects mentioned above, our Company continues to investigate profitable opportunities in the energy and bioproducts sector. In the latter half of 2011 we were awarded two projects through the B.C. Hydro Biomass Call for Power. We will spend $90 million on these projects which, when complete, will produce over 20 megawatts of wood-fired electricity at two of our B.C. sawmills. These are strong payback projects which will improve wood supply to the mills while allowing us to sell the green electricity on a long-term fixed contract basis. These projects, combined with the projects funded under the Green Transformation Program, will result in almost 45 megawatts of new power production, a 5% improvement in purchased energy efficiency and an 8% reduction in greenhouse gas emissions. When these projects are complete, we will have reduced our overall GHG emissions by 35% over the last ten years. We have many more opportunities to improve our energy efficiency and we will continue to pursue them vigorously.

In 2011 West Fraser personnel participated in extensive negotiations with our partners in the Canadian Boreal Accord. We are working hard to put specific plans in place to meet the broad principles which have been agreed to by the signatories to the Accord.

We also continue to make progress in other aspects of environmental performance including water usage and quality, forest stewardship and reduced reliance on fossil fuels. We remain committed to continually reducing our environmental footprint.

The devastating effects of the Mountain Pine Beetle in the B.C. Interior are becoming more obvious as timber quality and availability declines. At some of our B.C. mills lumber quality, lumber recovery and overall productivity has declined. We have invested heavily in these mills to help offset the effects of the pine beetle killed timber. Over the past several years the B.C. Interior industry has been harvesting at increased levels in order to salvage as much beetle killed timber as possible before it loses its saw-log value. In the coming years, the dead pine will reach the end of its economic shelf life and the harvest levels in the Central Interior will be significantly reduced. This will result in reduced milling capacity and lumber production in the Province. On a positive note, reduced production from B.C. in the future will tighten the supply/demand fundamentals in the lumber market which should result in increased prices for our products.

In the 1990's West Fraser embarked on a strategy to expand our Company beyond the borders of British Columbia. In the intervening years we have aggressively grown our manufacturing capabilities in Alberta and the southern United States. Today we are the largest lumber manufacturer in Alberta and one of the largest in the U.S. South. By pursuing this strategy we have significantly reduced our risks associated with the Mountain Pine Beetle, the ongoing softwood lumber dispute between Canada and the U.S. and the impact of U.S./Canadian dollar currency fluctuations. At the same time we have created new platforms for growth in areas with stable or increasing timber supplies. We believe we will be generously rewarded for this strategy as the lumber market recovers.

In early 2011, the U.S. Department of Commerce filed a Request for Arbitration under the Canada/U.S. Softwood Lumber Agreement. The U.S. claims that British Columbia has violated certain aspects of the Agreement relating to timber pricing in the B.C. Interior. We believe we have a very strong defence and the Government of Canada is vigorously defending our position. We expect a decision to be rendered by the Tribunal in the third or fourth quarter of 2012.

West Fraser strives to be the most efficient, productive and cost conscious company in our industry. We also strive to be the safest. We have worked very hard over the past few years to improve and enhance all aspects of our safety programs. While our Company must provide the best leadership and safest working conditions we can, we must also continually reinforce a safety culture which encourages personal responsibility and accountability for safe work practices and behaviour. We continue to make great strides in reducing risk in the Company but the job is never finished. Our commitment to our employees and our stakeholders is to continuously improve our safety culture and performance so that serious and debilitating injuries become a thing of the past at West Fraser.

In July Gerry Miller, our Executive Vice-President of Finance and CFO retired after 25 years of service with the Company and in March 2012 Wayne Clogg, our Senior Vice-President of Woodlands retired after a 32 year career with the Company. Gerry and Wayne were key members of our management team throughout their careers and were instrumental in building West Fraser into the company it is today.

Brian MacNeill, who has been a director of the Company since 2000 will not be standing for re-election at this year's annual general meeting. Brian, who has had a distinguished career as a CEO and corporate director, has been an active director and a valued source of solid advice during his term on our Board.

Finally Bill Ketcham, one of the original founders of the Company in 1955, has decided not to stand for re-election at this year's annual meeting. Bill has been actively involved in the Company since he and his two brothers bought a small planing mill in Quesnel, British Columbia in the mid 50's. He has participated in every major decision involving the growth and development of the Company over the years and has encouraged and supported management to constantly strive to build a bigger and stronger company while staying true to our culture of cost control, prudent financial management and truly caring for our employees. Bill has been a source of sound advice for successive management teams throughout our history and a friend to many of the employees he has worked with over the years. While we will miss his regular participation at our Board meetings, Bill will continue as a valued adviser and friend to our Board and our management team and as an active participant in Company affairs.

Given the economic environment we were working in, 2011 was another successful year for our Company. We believe that when the housing market begins to recover we will be extremely well positioned to take advantage of the scale and efficiency we have built into our Company.

At West Fraser, our employees continue to be our key competitive advantage. They contribute to a strong, competitive cost conscious culture which is what has driven our success over the years. Through their continued support and commitment we will build a stronger and more profitable company in the future.

Henry H. Ketcham
Chairman, President and Chief Executive Officer