2011 Management's DIscussion & Analysis

This discussion and analysis by West Fraser's management ("MD&A") of West Fraser's financial performance during 2011 and the fourth quarter of 2011 should be read in conjunction with the 2011 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 "Discussion & Analysis by Product Segment – Lumber Segment" concerning recovery of U.S. new home construction, the Phase II biomass projects and expectations concerning SYP lumber design specifications and "Pulp & Paper Segment" concerning expected utilization of GT Program credits and "Business Outlook". As well, the table titled "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 we undertake 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). We believe that, in addition to earnings, EBITDA is a useful performance indicator and is a useful measure of cash available prior to debt service, capital expenditures and income taxes. Reference is also made to Adjusted earnings (loss) from continuing operations and Adjusted basic EPS calculated as set out in the table titled "Annual Earnings Adjustments for Certain Non-operational Items" (collectively, with EBITDA, "these measures"). None of these measures is a generally accepted earnings measure under International Financial Reporting Standards ("IFRS") and none has a standardized meaning prescribed by IFRS. Investors are cautioned that none of these measures should be considered as an alternative to earnings, earnings per share or cash flow, as determined in accordance with IFRS. As there is no standardized method of calculating any of these measures, our method of calculating each of them may differ from the methods used by other entities and, accordingly, our use of any of these measures 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 16, 2012, unless otherwise indicated.

ANNUAL RESULTS

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

Year ended December 31	2011	2010	2009[1]
Sales by Segment			
Lumber	**1,579**	1,622	1,285
Panels	**370**	401	391
Pulp & Paper	**813**	863	677
Total	**2,762**	2,886	2,353
EBITDA	**226**	460	80
Amortization	**(168)**	(185)	(245)
Asset impairments	**—**	—	(17)
Operating earnings	**58**	275	(182)
Operating Earnings by Segment			
Lumber	**(20)**	138	(190)
Panels	**(8)**	40	14
Pulp & Paper	**83**	133	(5)
Corporate and Other	**3**	(36)	(1)
Total	**58**	275	(182)
Earnings – continuing operations	**27**	182	(194)
Earnings – after discontinued operations[2]	**73**	186	(341)
Diluted earnings per share – continuing operations ($)	**0.41**	4.24	(4.54)
Diluted earnings per share – after discontinued operations[2] ($)	**1.47**	4.35	(7.96)
Cash dividends per share ($)	**0.56**	0.18	0.23
Total assets	**2,537**	2,610	2,813
Long-term debt	**307**	300	416
Cdn$1.00 converted to US$ – average	**1.012**	0.971	0.876

1. Amounts for 2009 have not been restated under IFRS and are prepared under previous Canadian generally accepted accounting principles.
2. For a description of discontinued operations see "Discussion & Analysis by Product Segment – Discontinued Operations".

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

	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10
Sales[1]	**650**	**705**	**720**	**687**	719	707	772	688
Earnings (loss)[1]	**(11)**	**6**	**11**	**20**	28	49	67	38
Earnings after discontinued operations	**6**	**37**	**10**	**19**	43	48	67	29
Basic EPS[1]	**(0.25)**	**0.14**	**0.27**	**0.46**	0.65	1.15	1.56	0.89
Diluted EPS[1]	**(0.25)**	**(0.29)**	**(0.07)**	**0.46**	0.65	1.15	1.28	0.89
Basic EPS after discontinued operations	**0.14**	**0.87**	**0.24**	**0.44**	1.00	1.12	1.56	0.67
Diluted EPS after discontinued operations	**0.14**	**0.44**	**(0.09)**	**0.44**	1.00	1.12	1.27	0.67

1. From continuing operations.

ANNUAL EARNINGS ADJUSTMENTS FOR CERTAIN NON-OPERATIONAL ITEMS

($ millions except EPS amounts which are in $)	2011	2010
Earnings from continuing operations	**27**	182
Adjustments to earnings from continuing operations		
Equity-based compensation	**(3)**	31
U.S. dollar-denominated long-term debt	**7**	(17)
Sale of Terrace sawmill	**(8)**	–
Derivative contracts	**–**	4
Net tax effect on the above adjustments	**–**	(1)
Net effect of above items	**(4)**	17
Adjusted earnings from continuing operations	**23**	199
Adjusted basic EPS from continuing operations	**0.54**	4.65

DISCUSSION & ANALYSIS OF NON-OPERATIONAL ITEMS

In 2011 we generated earnings from continuing operations of $27 million compared to $182 million in 2010. For a description of operational results see “Discussion & Analysis by Product Segment” which follows this section. Our results include several significant non-operational items which are identified as adjustments in the table immediately above this section. After taking into account these adjustments, we generated adjusted earnings from continuing operations of $23 million compared to $199 million in 2010.

In 2011 a recovery of $3 million was recorded related to long-term equity-based compensation compared to an expense of $31 million in 2010. An expense is recorded on the issuance of share options or phantom or directors’ deferred share units and an additional expense or recovery is recorded each quarter based primarily on valuation models that consider various factors relating to outstanding options and units. The most significant of these factors is the change in the market value of our shares from the beginning to the end of the particular period. In 2011 the market value of the Company’s shares decreased from $46.84 per share at the end of 2010 to $41.40 per share at the end of 2011. The expense or recovery does not necessarily represent the actual amount which will ultimately be paid by the Company in respect of options and units.

The change in the value of the Canadian dollar relative to the value of the U.S. dollar results in the revaluation of certain U.S. dollar-denominated liabilities and assets. A $7 million loss on U.S. dollar-denominated long-term debt for 2011 reflects a modest weakening of the Canadian dollar at the close of 2011 compared to 2010. The $17 million gain in 2010 reflected a significant strengthening of the Canadian dollar during that year. Included in other income is a translation gain on current monetary items of $3 million, compared to a loss of $7 million in 2010.

In the third quarter of 2011 we completed the sale of the Terrace sawmill and related Crown timber tenures and recorded an $8 million gain which is included in other income.

During the same quarter the deep-sea terminal and certain related assets that had been part of our linerboard and kraft paper mill located in Kitimat, B.C. were sold and near the end of 2011 we sold the only remaining Kitimat asset, the industrial site. The gain on these asset sales of $49 million is included in discontinued operations.

The decline in interest expense from 2010 reflects higher net borrowings and borrowing rates in the earlier period.

The difference between our statutory income tax rate and our effective rate is explained in note 18 to the accompanying annual consolidated financial statements. The largest difference results from unrecognized tax assets which reduced the tax recovery by $12 million.

The funded position of our defined benefit pension plans and other post-retirement plans, whether surplus or deficit, is estimated at the end of each quarter. The funded position, as shown in note 13 to the accompanying annual consolidated financial statements, is determined by subtracting plan assets from plan obligations. The decrease in the discount rate from the beginning of the year, combined with asset returns being lower than those anticipated during the year, resulted in actuarial losses that increased net liabilities accrued on our balance sheet at December 31, 2011 by $138 million. The actuarial losses for the year, net of taxes of $34 million, were charged to other comprehensive earnings.

DISCUSSION & ANALYSIS BY PRODUCT SEGMENT

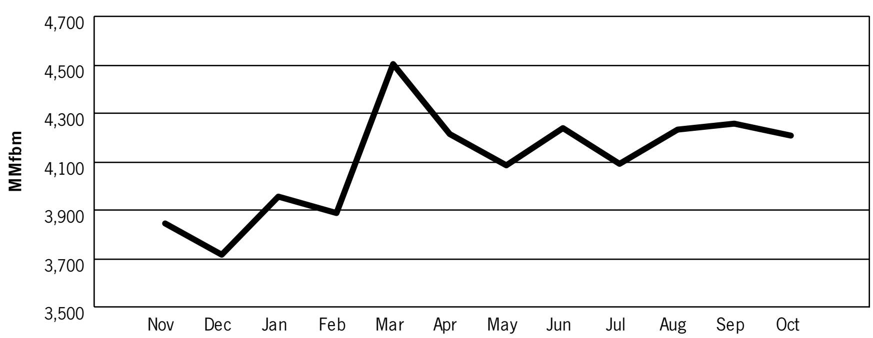
Lumber Segment

	2011	2010
Production (MMfbm)		
SPF	**3,408**	3,318
SYP	**1,503**	1,365
Shipments (MMfbm)		
SPF	**3,389**	3,341
SYP	**1,471**	1,352
Wood chip production		
SPF (M ODTs)	**1,676**	1,736
SYP (M green tons)	**1,939**	1,782
Sales ($ millions)	**1,670**	1,715
EBITDA ($ millions)	**65**	232
EBITDA margin (%)	**4**	14
Operating earnings ($ millions)	**(20)**	138
Capital expenditures ($ millions)	**108**	47
Benchmark prices (per Mfbm)		
SPF #2 & Better 2x4[1] - $US	**255**	256
SYP #2 West 2x4[2] - $US	**279**	304
SPF #2 & Better 2x4 - $Cdn[3]	**253**	264
SYP #2 West 2x4 - $Cdn[3]	**276**	313

1. Source: Random Lengths – 2x4, #2 & Better – Net FOB mill.
2. Source: Random Lengths – 2x4 – Net FOB mill Westside.
3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

The operating loss generated by our lumber segment in 2011 reflected continuing weak demand, particularly in North America. In the early part of the year severe weather conditions impaired deliveries of SPF lumber and the benchmark price reached a high of US$321 in the first quarter of 2011. Near the end of the quarter lumber production increased dramatically and lumber prices fell sharply.

North American Lumber Production (November 2010 to October 2011)



Source: Western Wood Products Association and Statistics Canada

The annualized rate of U.S. housing starts averaged 607,000 in 2011, an increase from 2010's 585,000 starts, but well below pre-2006 levels (Source: U.S. Census Bureau). The absence of a recovery of new home construction in the U.S. to more normal levels is the main impediment to a recovery of North American lumber markets. The annualized rate of Canadian housing starts averaged 193,000 in 2011 which was similar to the 2010 rate (Source: Canadian Housing and Mortgage Corporation). Demand from Asia, particularly from China, for Canadian SPF lumber continued to grow during 2011 compared to 2010, although the rate of growth slowed in the fourth quarter.

In the second half of 2011 a series of events including the U.S. debt-ceiling deadlock and credit-rating downgrade and the European sovereign debt crisis created increased global economic uncertainty. This generally coincided with a weakening in demand for SPF lumber from China and certain dimensions of SYP lumber in the U.S. which resulted in temporary oversupply and downward pricing pressure. Benchmark lumber prices remained weak during the second half, rallying somewhat late in the year.

The lumber segment's earnings were also adversely affected by the continuing strength of the Canadian dollar against the U.S. dollar. The Canadian dollar averaged above par over the first three quarters of the year before weakening to average below par in the final quarter.

The increase in lumber shipments compared to 2010 reflects an increase in operating rates in our U.S. South facilities to 75% (2010 – 68%).

SPF lumber production increased slightly compared to 2010 as our Canadian sawmills continued to operate at or near capacity. Average unit log costs in Canada increased by 13% compared to 2010 and average unit manufacturing costs also rose. SYP lumber production increased over 2010 levels by 10% reflecting higher operating rates despite some market-related curtailments in the second half of the year. Unit cash costs at our U.S. sawmills were below 2010 levels reflecting increased production and lower log costs.

Amortization costs declined in 2011 as some assets became fully amortized.

Total export taxes on SPF lumber shipped to the U.S. declined slightly from 2010 reflecting lower shipments and SPF lumber prices only partially offset by lower export tax rates during three months of 2010. Shipments from Alberta attracted a "surge" duty (150% of the basic rate) in five months during 2011 compared to ten months in 2010.

As previously noted, the sale of our Terrace sawmill and related Crown timber tenures was completed in the third quarter of 2011 resulting in an $8 million gain.

In the third quarter of 2011 two of our green energy projects were selected by B.C. Hydro as part of its Phase II biomass call. The projects involve facilities to be constructed adjacent to each of our sawmills located in Fraser Lake and Chetwynd, B.C. The projects are expected to generate a total of approximately 180 GWh of electricity from wood biomass. This electricity will be sold to B.C. Hydro under 20-year contracts at pre-determined prices.

In early 2011 the United States initiated an arbitration with Canada under the Softwood Lumber Agreement (the "SLA") over its concern that British Columbia has misapplied or altered its timber pricing rules. The formal statement of case was filed by the United States in August 2011 and the parties have exchanged pleadings during the fourth quarter. The arbitration hearing is scheduled for late February of 2012.

In January 2012 Canada and the United States announced a two year extension of the SLA. We support this extension as it provides longer-term certainty of access to the U.S. market.

On January 11, 2012 the American Lumber Standard Committee (the "ALSC") approved a reduction in some strength-related design values for visually-graded SYP 2x4s, with a recommended effective date of June 1, 2012. The ALSC also recommended that the agency responsible for recommending design values undertake and complete testing for other grades and sizes of SYP lumber in order to determine if any other design value changes should be made. We do not expect that the approved reduction will have a material effect on our SYP lumber business and we will continue to monitor possible future adjustments and consider any changes to our production and grading processes that may be appropriate.

Panels Segment

	2011	2010
Plywood (MMsf 3/8" basis)		
Production	**780**	791
Shipments	**778**	800
MDF (MMsf 3/4" basis)		
Production	**186**	192
Shipments	**192**	188
LVL (Mcf)		
Production	**1,634**	1,918
Shipments	**1,596**	1,894
Sales ($ millions)	**378**	409
EBITDA ($ millions)	**8**	58
EBITDA margin (%)	**2**	14
Operating earnings ($ millions)	**(8)**	40
Capital expenditures ($ millions)	**5**	2
Benchmark prices		
Plywood (per Msf 3/8" basis)[1] Cdn$	**308**	334
MDF (per Msf 3/4" basis)[2] US$	**546**	536
MDF (per Msf 3/4" basis) Cdn$[3]	**540**	552

1. Source: Crow's Market Report – Delivered Toronto.
2. Source: Resource Information Systems, Inc. – MDF Western U.S. – Net FOB mill.
3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

The panels segment is comprised of our plywood, MDF and LVL operations.

Virtually all plywood that we produce is sold to customers in Canada. A significant decline in the average benchmark plywood price began in the second half of 2010 reflecting an oversupply condition resulting from increased shipments of U.S. plywood entering the Canadian market in 2010 and 2011. The strong Canadian dollar combined with the continuing weakness of the U.S. housing market has resulted in the flow of U.S. plywood into Canada and since Canadian demand has remained relatively stable Canadian plywood prices have weakened as a result. The panel segment's results were also adversely affected by rising log costs and a stronger Canadian dollar. The Slave Lake fire in May 2011 contributed to increased manufacturing costs for the plywood segment as a result of veneer supply disruptions from our Slave Lake veneer mill.

The demand for, and price of, MDF and LVL are influenced by new home construction. The MDF plants and the LVL plant operated on a curtailed basis throughout 2011 at approximately 60% and 50% respectively to more closely match supply with demand. LVL earnings were also adversely affected by increasing log costs in 2011.

Pulp & Paper Segment

(From continuing operations)	**2011**	2010
Sales ($ millions)	**813**	863
EBITDA ($ millions)	**148**	203
EBITDA margin (%)	**18**	24
Operating earnings ($ millions)	**83**	133
Capital expenditures[1] ($ millions)	**99**	39

1. Includes reimbursable expenditures under the Pulp and Paper Green Transformation Program.

The pulp & paper segment is comprised of our NBSK, BCTMP and newsprint businesses.

Pulp[1]

	2011	2010
Production – NBSK (Mtonnes)	**509**	525
Shipments – NBSK (Mtonnes)	**489**	504
Production – BCTMP (Mtonnes)	**623**	616
Shipments – BCTMP (Mtonnes)	**642**	623
Benchmark price – NBSK (per tonne)[2] US$	**977**	960
Benchmark price – NBSK (per tonne) Cdn$[3]	**966**	989

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.
3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

NBSK markets were strong during the first half of 2011 with the benchmark price reaching a peak of US$1,035 per tonne during the second quarter. The strong Canadian dollar partially offset the benefit of this high U.S.-dollar price level. However, by the end of the second quarter the restarting of previously-idled NBSK capacity resulted in an oversupply condition with increased worldwide NBSK inventories and the benchmark price declined over the balance of 2011. The average U.S.-dollar benchmark price for 2011 was slightly higher than in 2010 while the average Canadian-dollar benchmark fell by $23.

BCTMP prices declined near the beginning of the year due to the start-up of new capacity in China, and these pricing levels carried through the balance of the year. The relative strength of the Canadian dollar also reduced BCTMP earnings.

Operating earnings for the segment declined sharply from 2010 mainly as a weakening of NBSK and BCTMP markets and the stronger Canadian dollar resulted in lower returns. Production and shipments of NBSK declined from 2010 levels mainly as a result of the planned maintenance shutdown at our Hinton pulp mill. The shutdown, which was extended from a planned 18 days to 28 days due to the start-up of a major pulp machine upgrade and various operational disruptions which occurred after the mill restarted, resulted in lower production of approximately 38,000 tonnes. There was no major maintenance shutdown in 2010.

Both our Cariboo and Quesnel River Pulp mills achieved annual production records in 2011.

In 2009 we were allocated $88 million of credits under the Canadian federal government's Pulp and Paper Green Transformation Program (the "GT Program"). We have received approval for seven projects under the GT Program which are expected to significantly reduce future energy consumption. We expect to fully utilize our allocation under the GT Program and as at the end of 2011 our expenditures under the GT Program totalled $79 million.

Newsprint[1]

	2011	2010
Production (Mtonnes)	**122**	131
Shipments (Mtonnes)	**122**	137
Benchmark price – (per tonne)[2] US$	**640**	607
Benchmark price – (per tonne) Cdn$[3]	**633**	625

1. Represents West Fraser's 50% share of ANC.
2. Source: Resource Information Systems, Inc. – delivered U.S. 48.8 gram.
3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

Production and shipments of newsprint declined compared to 2010 as operations were curtailed from time to time to reduce consumption of higher-priced electricity. Gains achieved from selling electricity during these periods more than offset the effects of lower production. The significant improvement in the U.S.-dollar benchmark price was also partially offset by the stronger Canadian dollar.

Discontinued Operations

The linerboard and kraft paper mill located in Kitimat, B.C. ceased operations in the first quarter of 2010. Since the closure all finished inventory has been sold and accounts receivable collected. In 2010 we sold both paper machines and related assets to two unrelated parties and in 2011 we sold the remaining assets, a deep-sea wharf and the industrial site, to two other unrelated parties. These sales are included in discontinued operations.

In October of 2009, when the closure of the Kitimat facility was announced, we estimated that closing costs would be approximately $70 million. After taking into account the proceeds of the asset sales described above, we estimate that the actual closure costs were a recovery of approximately $30 million.

4TH QUARTER RESULTS

	Q4 – 2011	Q3 – 2011	Q4 – 2010
Production			
Lumber (MMfbm)			
SPF	**802**	848	804
SYP	**359**	371	355
	1,161	1,219	1,159
Plywood (MMsf 3/8" basis)	**191**	199	190
MDF (MMsf 3/4" basis)	**42**	47	44
LVL (Mcf)	**426**	388	382
BCTMP (Mtonnes)	**155**	157	161
NBSK (Mtonnes)	**100**	136	142
Newsprint (Mtonnes)	**29**	30	33
Shipments			
Lumber (MMfbm)			
SPF	**829**	880	832
SYP	**339**	388	355
	1,168	1,268	1,187
Plywood (MMsf 3/8" basis)	**198**	206	208
MDF (MMsf 3/4" basis)	**42**	45	42
LVL (Mcf)	**366**	436	387
BCTMP (Mtonnes)	**160**	154	181
NBSK (Mtonnes)	**103**	129	134
Newsprint (Mtonnes)	**29**	31	34
Sales and Earnings Comparison ($ millions, except as stated)			
Sales by Segment			
Lumber	**371**	405	397
Panels	**92**	94	92
Pulp & Paper	**187**	206	230
Total	**650**	705	719
Operating Earnings by Segment			
Lumber	**(30)**	(15)	25
Panels	**–**	(2)	3
Pulp & Paper	**13**	19	30
Corporate & Other	**(5)**	21	(15)
Operating earnings	**(22)**	23	43
Interest expense	**(5)**	(5)	(6)
Exchange gain (loss) on long-term debt	**9**	(25)	10
Other income (expense)	**1**	17	(3)
Recovery of (provision for) income taxes	**6**	(4)	(16)
Earnings (loss) from continuing operations	**(11)**	6	28
Earnings from discontinued operations	**17**	31	15
Earnings	**6**	37	43
Cdn$1.00 converted to US$ – average	**0.978**	1.020	0.987

QUARTERLY EARNINGS ADJUSTMENTS FOR CERTAIN NON-OPERATIONAL ITEMS

($ millions except EPS amounts which are in $)	Q4 – 2011	Q3 – 2011	Q4 – 2010
Earnings (loss) from continuing operations	**(11)**	6	28
Adjustments to earnings from continuing operations			
Equity-based compensation	**4**	(20)	19
U.S. dollar-denominated long-term debt	**(9)**	25	(10)
Sale of Terrace sawmill	**—**	(8)	–
Net tax effect on the above adjustments	**1**	(1)	–
Net effect of above items	**(4)**	(4)	9
Adjusted earnings (loss) from continuing operations	**(15)**	2	37
Adjusted basic EPS from continuing operations	**(0.35)**	0.05	0.86

DISCUSSION & ANALYSIS OF QUARTERLY NON-OPERATIONAL ITEMS

In the fourth quarter of 2011 we generated a loss from continuing operations of $11 million compared to earnings of $6 million in the previous quarter and $28 million in the fourth quarter of 2010. For a description of our operational results see "Discussion & Analysis by Product Segment" which follows this section. Our results include several significant non-operational items which are identified as adjustments in the table immediately above this section. After taking into account the adjustments, we generated an adjusted loss from continuing operations of $15 million in the current quarter compared to adjusted earnings of $2 million in the previous quarter and $37 million in the fourth quarter of 2010. For a description of the key adjustments, see the corresponding section under "Annual Results" in this MD&A.

DISCUSSION & ANALYSIS BY PRODUCT SEGMENT

Lumber Segment

	Q4 – 2011	Q3 – 2011	Q4 – 2010
Sales ($ millions)	**392**	429	418
EBITDA ($ millions)	**(8)**	6	41
EBITDA margin (%)	**—**	1	10
Operating earnings ($ millions)	**(30)**	(15)	25
Benchmark prices (per Mfbm)			
SPF #2 & Better 2x4[1] — $US	**238**	246	269
SYP #2 West 2x4[2] — $US	**282**	262	270
SPF #2 & Better 2x4 — $Cdn[3]	**243**	241	273
SYP #2 West 2x4 — $Cdn[3]	**288**	257	274

1. Source: Random Lengths – 2x4, #2 & Better – Net FOB mill.
2. Source: Random Lengths – 2x4 – Net FOB mill Westside.
3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

In the fourth quarter SPF lumber markets deteriorated as Asian demand slowed, creating downward pressure on prices. Although the average SPF lumber benchmark price for the quarter was comparable to the previous quarter's benchmark, largely as a result of a late-quarter rally, prices for lower grades were much weaker compared to the previous quarter. Although the benchmark SYP lumber price also rallied late in the quarter, the benefits were largely offset by continuing weakness in prices for wide-dimension lumber. In addition, production and shipments declined in the current quarter compared to the previous quarter as a result of the effect of certain ongoing major construction projects in Canada and reduced operating hours in the U.S. Operating earnings declined compared to the previous quarter as a result of the erosion of lower-grade SPF, and wider-dimension SYP, lumber prices and reduced shipments.

Current quarter results were substantially lower than results from the fourth quarter of 2010. This largely resulted from a combination of lower SPF lumber prices, higher Canadian log costs as well as increased freight costs and depreciation.

Panels Segment

	Q4 – 2011	Q3 – 2011	Q4 – 2010
Sales ($ millions)	**94**	97	94
EBITDA ($ millions)	**4**	2	6
EBITDA margin (%)	**4**	2	6
Operating earnings ($ millions)	**—**	(2)	3
Benchmark prices			
Plywood (Cdn$ per Msf 3/8" basis)[1]	**314**	310	301
MDF (US$ per Msf 3/4" basis)[2]	**549**	551	547
MDF (Cdn$ per Msf 3/4" basis)[3]	**562**	540	554

1. Source: Crow's Market Report – Delivered Toronto.
2. Source: Resource Information Systems, Inc. – MDF Western U.S. – Net FOB mill.
3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

Operating earnings for panels were marginally higher compared to the previous quarter as plywood and Canadian dollar MDF prices improved and log costs for plywood and LVL were slightly better, partially offset by reduced shipments for all three panel products.

Operating earnings were below those of the fourth quarter of 2010 reflecting higher log costs, in the case of plywood and LVL, and higher additive and power costs for MDF.

Pulp & Paper Segment

	Q4 – 2011	Q3 – 2011	Q4 – 2010
Sales ($ millions)	**187**	206	230
EBITDA ($ millions)	**27**	36	49
EBITDA margin (%)	**14**	18	21
Operating earnings ($ millions)	**13**	19	30
Benchmark prices			
NBSK (US$ per tonne)[1]	**920**	993	967
Newsprint (US$ per tonne)[2]	**640**	640	640
NBSK (Cdn$ per tonne)[3]	**941**	974	980
Newsprint (Cdn$ per tonne)[3]	**655**	627	648

1. Source: Resource Information Systems, Inc. – U.S. list price delivered U.S.
2. Source: Resource Information Systems, Inc. – delivered 48.8 gram newsprint.
3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. benchmark price.

Lower operating earnings for the current quarter compared to the previous quarter and the fourth quarter of 2010 reflect the continuing decline of Canadian-dollar NBSK prices. In the current quarter we experienced a sharp decline in both NBSK production and shipments as our Hinton Pulp mill lost approximately 38,000 tonnes of production due to its planned maintenance shutdown in October, 2011 which was extended from 18 to 28 days due to the start-up of a major pulp machine upgrade and various operational disruptions which occurred after the mill restarted.

BUSINESS OUTLOOK

We are approaching 2012 with conservatism and caution in light of the continuing economic uncertainty in our key markets and the continuing potential volatility of the Canadian dollar. We intend to preserve our strong balance sheet and carefully balance significant expenditures against cash flows. Our primary focus over the next year will continue to be on internal improvement through a combination of strategic capital investment in, and management of, our existing businesses.

Our solid wood and pulp & paper businesses have a high degree of exposure to North American and Asian markets, particularly the U.S. and China. In the shorter term, such as over the next 12 months, we are unable to predict with any level of comfort how the economies of the U.S. and China will perform. As a result, we maintain a guarded outlook for 2012.

On a longer-term basis, we believe that the U.S. housing market will recover which will in turn support a recovery of the broader U.S. economy as a whole. We expect that a recovery of U.S. housing will benefit our solid wood operations while a strong U.S. economy should result in increased demand for our pulp. We also believe that, on a similar long-term basis, Asia, led by China, will generate strong demand for our SPF lumber and our pulp.

Near the end of 2010 we announced a $230 million capital expenditure program for 2011 and 2012, focused mainly on high-return projects in our Canadian and U.S. solid wood operations. During 2011 our capital spending in the lumber and panels segments totalled approximately $113 million and we expect to substantially complete the balance of the announced program in 2012. Projects being undertaken include major reconstruction at selected mills, the introduction at several mills of scanning technology for lumber production optimization and grading, as well as a variety of other cost-reduction measures. Major reconstruction projects are focused on reducing per unit manufacturing costs and, in some cases, increasing lumber production.

By the end of the first quarter of 2012 we will have completed the seven projects that were approved under the Pulp and Paper Green Transformation Program.

In 2012 we expect to complete the design stage and order the manufacture of equipment for two biomass energy projects, one at each of our Fraser Lake and Chetwynd, B.C. sawmills. The projects are intended to be commissioned in 2014 to supply electricity to B.C. Hydro under long-term contracts awarded in the third quarter of 2011. The specific design and final cost estimates of these projects are currently under review.

Proceedings under the current Softwood Lumber Agreement (the "SLA 2006") arbitration relating to B.C. timber pricing policies and practices are expected to be completed by the end of the first quarter of 2012 and a decision is expected before the end of 2012. If Canada prevails in the arbitration, no remedy will be required. If the U.S. prevails, in whole or in part, previous SLA 2006 arbitrations indicate that the remedy likely to be imposed will be an increase in the export duty paid by B.C. interior lumber producers until an amount equal to the remedy has been remitted. We do not expect a finding in favour of the U.S. to have a materially adverse effect on West Fraser.

EARNINGS SENSITIVITY TO KEY VARIABLES

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

Factor	Variation	Change in Earnings
Lumber price[2,3]	US$10 (per Mfbm)	48
Plywood price[2,3]	Cdn$50 (per Msf)	31
MDF price[3]	US$50 (per Msf)	11
NBSK price[3]	US$50 (per tonne)	22
BCTMP price[3]	US$50 (per tonne)	24
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 25.0%.
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 outstanding Common share equity consists of 40,066,539 Common shares and 2,781,478 Class B Common shares for a total of 42,848,017 shares issued and outstanding as at February 16, 2012.

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 16, 2012 there were 1,948,817 share purchase options outstanding with exercise prices ranging from $24.71 to $51.56 per Common share.

In June and September 2011, West Fraser amended its $500 million committed revolving credit facility to, among other things, extend its maturity date to September 2016. The facility allows 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. In May 2011, West Fraser entered into an uncommitted $25 million line of credit for the purpose of establishing letters of credit. Security was also pledged to the lending bank of this facility on equal terms to the committed revolving facility. Copies of the committed facility and the June and September 2011 amendments are available at www.sedar.com.

On December 31, 2011 there was no balance owing under the credit facilities (2010 — $9 million net of deferred financing costs). Letters of credit in the amount of $35 million were supported by both facilities, leaving approximately $490 million of credit 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 reduced its operating loan by $15 million.

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

As at December 31	2011	2010
Cash[1]	**68**	161
Current assets	**745**	789
Current liabilities	**315**	389
Ratio of current assets to current liabilities	**2.4**	2.0
Net debt[2]	**233**	148
Shareholders' equity	**1,483**	1,534
Net debt to capitalization[3]	**14%**	9%

1. Cash consists of cash and short-term investments less cheques issued in excess of funds on deposit.
2. Total debt less deferred financing costs less cash.
3. Net debt divided by net debt plus shareholders' equity.

As shown in the table below, West Fraser is rated by three leading rating agencies. There were no rating changes during 2011 but Standard & Poor's changed its Outlook from Stable to Positive and Moody's changed its Outlook from Negative to Positive in April 2011 based on the Company's low leverage and good operating performance.

Debt Ratings

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

Selected Cash Flow Items ($ millions)

For the year ended December 31	2011	2010
Operating Activities		
Earnings from continuing operations	**27**	182
Amortization	**168**	185
Change in income taxes	**(57)**	140
Contributions to benefit plans in excess of expense	**(58)**	(37)
Other	**5**	(49)
Cash provided by operating activities	**85**	421
Financing Activities		
Debt and operating loans	**(15)**	(165)
Interest paid	**(20)**	(24)
Dividends and other	**(24)**	(13)
Cash used in financing activities	**(59)**	(202)
Investing Activities		
Additions to capital assets	**(213)**	(89)
Other	**49**	(6)
Cash used in investing activities	**(164)**	(83)
Change in cash from continuing operations	**(138)**	136
Change in cash from discontinued operations	**45**	34
Change in cash	**(93)**	170

Contractual Obligations as at December 31, 2011 ($ millions)[1]

	2012	2013	2014	2015	2016	Thereafter	Total
Long-term debt	–	1	305[2]	1	–	1	308
Operating leases	2	1	–	–	–	–	3
Asset purchase commitments	14	–	–	–	–	–	14
Total	16	2	305	1	–	1	325

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. The significant accounting policies followed by our Company are disclosed in note 3 to the audited consolidated financial statements. The following judgments are considered the most significant.

Recoverability of Long-lived Assets

As required by IFRS, we assess the carrying value of an asset when there are indicators of impairment. The assessment compares the estimated discounted future cash flows of the asset to the carrying value of the asset. If the carrying value of the asset exceeds the estimated discounted future cash flows relating to the asset, the carrying value is written down to the higher of fair value less costs to sell and value in use. On transition to IFRS on January 1, 2010, there were asset impairments of $95 million recorded to opening retained earnings due to a difference in measurement criteria between the previous Canadian generally accepted accounting principles and IFRS. Please refer to note 1 and Appendix A in our annual consolidated financial statements for additional information. There have been no additional impairments recorded.

We review the amortization periods for our manufacturing equipment and machinery to ensure that the periods appropriately reflect anticipated obsolescence and technological change. Current amortization periods for manufacturing equipment range from 6 to 20 years with sawmill equipment amortized over a maximum of 12 years. Timber rights are amortized over 40 years.

Goodwill is not amortized. We compare the carrying value of goodwill and related assets, at least once a year, to the estimated discounted cash flows that the assets are expected to generate. If it is determined that the carrying value is more than the estimated discounted cash flows, then a goodwill impairment will be recorded. We tested goodwill for impairment in 2011 and concluded that the carrying value of goodwill is not impaired. The testing of goodwill for 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, we have used our best estimates of these projected amounts and values. Given the current global economic uncertainty and the volatility of the markets for our products, it is possible that our estimates will be adjusted in the future and that these adjusted estimates could result in the future impairment of goodwill.

We also review the carrying value of deferred income tax assets 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 carry-forwards.

Reforestation and Decommissioning 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 our operating areas, the time to meet reforestation standards usually spans 12 to 15 years from the time of harvest. We record a liability for the estimated cost of the future reforestation activities when the harvesting takes place. This liability is reviewed, at least annually, and adjusted to our current estimate of the costs to complete the remainder of the reforestation activities. In 2011 the review of the reforestation obligation resulted in an increase to the obligation of $3 million (2010 – decrease of $1 million).

We record the estimated fair value of a liability for decommissioning obligations, such as landfill closures, in the period when a reasonable estimate of fair value can be made. We review these estimates at least annually, and adjust the obligations as appropriate. In 2011 the review resulted in a reduction to the obligation of $11 million (2010 – reduction of $6 million).

Defined Benefit Plan Assumptions

We maintain several defined benefit pension plans for many of our employees. The annual funding requirements and pension expenses are based on various assumptions determined by us, with consultation with our actuaries, as well as on actual investment returns on the pension fund assets and changes to the employee groups in the pension plans.

Defined Benefit Pension Plan Obligation Assumptions

	2011	2010
Discount rate	**5.0%**	5.5%
Expected rate of return on plan assets	**6.5%**	7.0%
Rate of increase in future compensation	**3.5%**	3.5%

Impact of a 0.5% Change in Key Assumptions ($ millions)

	Pension Plans	
	Obligation	**Expense**
Discount rate		
Decrease in assumption	82	4
Increase in assumption	(76)	(4)
Expected rate of return on plan assets		
Decrease in assumption	n/a	4
Increase in assumption	n/a	(3)
Rate of increase in future compensation		
Decrease in assumption	(16)	(1)
Increase in assumption	17	1

NEW ACCOUNTING PRONOUNCEMENTS

Conversion to International Financial Reporting Standards

We adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS we prepared our financial statements in accordance with Canada's previous generally accepted accounting principles for publicly accountable profit-oriented enterprises. For additional conversion information, refer to Appendix A of the accompanying annual audited consolidated financial statements.

New Accounting Pronouncements Issued but not yet Applied

The International Accounting Standards Board periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those that the Company considers most significant. They are not intended to be a complete list of new pronouncements that may affect the financial statements.

IFRS 9, Financial Instruments

In November 2009 IFRS 9 was issued and in October 2010 was further amended. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive earnings. In December 2009 IFRS 9 was deferred and is now effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company does not expect this standard to have a significant effect on its financial statements.

IFRS 10, Consolidated Financial Statements

In May 2011 IFRS 10 was issued which provides a single model to be applied in the control analysis for all investees and supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company does not expect this standard to have a significant effect on its financial statements.

IFRS 11, Joint Arrangements

In May 2011 IFRS 11 was issued which provides guidance for determining if a joint arrangement is a joint venture or joint operation. The standard requires that joint ventures be accounted for by the equity method as opposed to the choice, presently available under IAS 31, of applying the equity method or proportionate consolidation. Joint operations are required to be accounted for using the proportionate consolidation method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company does not expect this standard to have a significant effect on its financial statements.

IFRS 12, Disclosure of Interests in Other Entities

In May 2011 IFRS 12 was issued which sets out the required disclosures for companies that have adopted IFRS 10 and 11 described above. It requires disclosure of information that helps users to evaluate the nature, risks and financial effects associated with a company's interests in subsidiaries, associates and joint arrangements. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company does not expect this standard to have a significant effect on its financial statements.

IFRS 13, Fair Value Measurement

In May 2011 IFRS 13 was issued which defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. Prior to the introduction of the standard there was no single source of guidance on fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company does not expect this standard to have a significant effect on its financial statements.

IAS 19 Amendment, Employee Benefits

In June 2011 IAS 19 was amended. The amendment will result in significant changes to the recognition and measurement of defined benefit pension expense and termination benefits the most significant being the replacement of interest cost and expected plan return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined liability (asset). The amendment is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Company has not assessed the impact of the amendment.

RISKS AND UNCERTAINTIES

Product Demand and Price Fluctuations

Our financial results are primarily dependent on the demand for, and selling prices of, our products, which are subject to significant fluctuations. The demand and prices for lumber, panels, pulp, newsprint, 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 Asian markets, particularly China, changes in industry production capacity, changes in world inventory levels and other factors beyond our 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.

We cannot predict future market conditions, demand or pricing for any of our products due to factors outside our control. Prolonged or severe weakness in the market for any of our principal products would adversely affect our financial condition. Our earnings sensitivity to changes in certain product prices is set out in the table titled "Earnings Sensitivity to Key Variables" (the "Earnings Sensitivity Table").

Foreign Currency Exchange Rates

We sell the majority of our products at prices denominated in U.S. dollars or based on prevailing U.S. dollar prices. A significant portion of our 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 us from sales made in U.S. dollars, which reduces operating margin and the cash flow available to fund operations. We are also exposed to the risk of exchange rate fluctuations in the period between sale and payment. We also have 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 by 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 the Earnings Sensitivity Table. 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 our 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 our results.

We rely 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 24% of the aggregate log requirements for our 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 our results.

Operational Curtailments and Transportation Limitations

From time to time, we suspend operations at one or more of our facilities 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 our 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 or produce 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.

We rely primarily on third parties for the delivery of raw materials and the transportation of our products. From time to time, we must also respond to rail car and truck shortages that limit raw material deliveries to us and product deliveries to our customers, which may have a material adverse effect on our business.

Labour and Services

Our operations rely on both skilled and unskilled workers as well as third party services such as logging and transportation. Because our operations are generally located away from major urban centres, we often face strong competition for workers, particularly skilled workers, and services from our competitors and other industries such as oil and gas production and mining. Shortages of workers or key services could impair our operations by reducing production or increasing costs.

We employ a unionized workforce in a number of our operations. Walkouts or strikes by employees could result in lost production and sales, higher costs and supply constraints that could have a material adverse effect on our business. Also, we depend on a variety of third parties that employ unionized workers to provide critical services to us. Labour disputes experienced by these third parties could lead to disruptions at our facilities.

Environment

Our 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. We have 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 our 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 our available cash flow. We may discover currently unknown environmental problems, contamination, or conditions relating to our 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 our business, financial condition and operational results.

We have in place internal programs under which all our forestry and manufacturing operations are audited for compliance with laws and accepted standards and with our management systems. Our woodlands operations in Canada, and the harvesting operations of many of our key U.S. suppliers, are third-party certified to internationally-recognized sustainable forest management standards. Our operations and our ability to sell our 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

Our 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 our physical facilities or our timber supply and similar events could also affect the facilities of our suppliers or customers. Any such damage or destruction could adversely affect our financial results. Although we believe we have 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 us against such losses. As is common in the industry, we do not insure loss of standing timber for any cause.

Mountain Pine Beetle

The long-term effect of the mountain pine beetle infestation on our Canadian operations is uncertain. The potential effects include a reduction of future AAC levels to below current and pre-infestation AAC levels. Many of our B.C. operations are experiencing a diminished grade and volume of lumber recovered from beetle-killed logs, decreased quality of wood chips produced from such logs and increased production costs and these effects could spread to our Alberta operations as the mountain pine beetle infestation spreads. The timing and extent of the future effect on our 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

Issues relating to First Nations groups have the potential for a significant adverse effect on Canadian forest products companies including West Fraser. The main First Nations' issues that are relevant to West Fraser relate to aboriginal rights and title, and consultation. We participate as requested by government in the consultation process, but rely 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 or transfer of Crown timber harvesting rights. As the jurisprudence and government policies respecting aboriginal rights and title and the consultation process continue to evolve, we cannot assure that First Nations claims will not in the future have a material adverse effect on our timber harvesting rights or our ability to exercise or renew them or secure other timber harvesting rights.

Regulatory

Our 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. We are required to obtain approvals, permits and licences for our operations, which may impose conditions that must be complied with. If we are unable to extend or renew, or are delayed in extending or renewing, a material approval, permit or licence, our 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 us to incur significant capital expenditures, pay higher taxes or otherwise could adversely affect our 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 our operations or requiring corrective measures or remedial actions.

Competition

Markets for our products are highly competitive. Our 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 our final products and our customer service all affect our earnings.

Trade Restrictions

A substantial portion of our products that are manufactured in Canada are exported for sale. Our 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 us. Our Canadian softwood lumber exports to the U.S. are currently subject to export duties imposed under the Softwood Lumber Agreement of 2006, the term of which was recently extended to October 2015. 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

We rely on long-term borrowings and access to revolving credit in order to finance our ongoing operations. Any change in availability of credit in the market, as would happen during an economic downturn, could affect our ability to access credit markets on commercially reasonable terms. Although we have no immediate needs for new credit, in the future we may need to access public or private debt markets to issue new debt to replace or partially replace current borrowings.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

West Fraser's management, including the Chairman, President and Chief Executive Officer and the Vice-President, Finance and Chief Financial Officer, acknowledge 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 our internal controls over financial reporting and the disclosure controls and procedures were effective as at December 31, 2011.

Changes in Internal Controls Over Financial Reporting

There has been no change in our internal controls over financial reporting during the year ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.