



REPORT TO SHAREHOLDERS



After a five year depression in the U.S. housing market, the fundamentals for a sustained improvement in that sector appear to be taking hold. Since the beginning of 2012, U.S. housing starts have increased by 37% driven by continuing low interest rates, rising home prices and a declining inventory of new and existing homes for sale. The

upswing in the housing market, combined with continuing strong demand from Japan and China, has driven a steady increase in lumber and panel markets throughout the year. Lumber and plywood prices have strengthened by 46% and 37% respectively since the beginning of the year.

Pulp prices, on the other hand, declined by 10% from the previous year's level due to continued weak paper demand in North America, Europe and Japan as well as the addition of significant new pulp capacity in South America. Newsprint prices were flat during the year.

Our Lumber and panels businesses accounted for 74% of our annual sales in 2012 so the strong rebound in pricing for these products more than offset the weaker results in our pulp & paper business resulting in adjusted earnings¹ for the year of \$138 million compared to \$23 million in 2011. After capital spending, acquisitions and dividend expenditures of over \$200 million, we ended the year with a debt to capital ratio of 12% and one of the strongest balance sheets in the industry.

During the year, we continued our aggressive capital spending program. We substantially completed major modernization projects at several of our sawmills in Canada and the U.S. In addition, we invested heavily in energy reduction, environmental improvement and safety and dust control projects.

We are encouraged by the improvement in safety metrics in the Company as a result of the continued strengthening of the safety culture throughout the organization. We remain focused on our goal of eliminating serious and debilitating injuries at West Fraser.

Expenditures on environmental and energy projects during the year resulted in an overall improvement in our environmental footprint by increasing our production of bio-energy and reducing our reliance on fossil fuels. Today, 60% of our energy needs are internally generated from biomass.

We continue to focus our efforts on environmental performance both in our mills and in the forests we manage. We have a strong group of people dedicated to energy conservation and to bio-energy and bio-products development and innovation throughout our organization. In addition, all of our woodlands operations are certified to the independent Sustainable Forestry Initiative standard and West Fraser continues to play a leading role in working collaboratively with many environmental organizations on the Canadian Boreal Accord initiative.

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¹ Refer to the table titled "Annual Earnings Adjustments for Certain Non-operational Items" in Management's Discussion and Analysis of our 2012 results for details of adjustments.

The devastating effects of the mountain pine beetle continue to affect production and profitability at many of our British Columbia sawmills. Productivity, lumber recovery and grade outturn are all negatively affected by the declining quality of timber we are harvesting from the beetle-infested forests. We have made significant investments in many of our mills but these modifications and improvements do not fully offset the effects of the deteriorating timber quality. Over the next few years lumber capacity throughout the interior of British Columbia may be reduced by up to 35% due to the reduced availability of economically accessible timber. West Fraser will continue to work diligently to mitigate the impact of reduced harvests on our operations and our communities.

In West Fraser's case, the declining harvest levels in British Columbia will be partially offset by our growing capacity in Alberta and the United States. While the mountain pine beetle is also an issue in some parts of Alberta, we are hopeful that existing efforts by government and industry to control its spread will prove more successful than in British Columbia.

In October 2012, West Fraser acquired a sawmill and related timber rights from Sundance Forest Industries in Edson, Alberta. This is a very strategic acquisition for West Fraser as Sundance has a strong timber position that will integrate well with our existing operations. Following an extensive renovation of the mill this year, we expect our new Edson mill will be a highly efficient and low-cost facility that will be a positive addition to our asset base in Alberta.

We continue to invest in our U.S. sawmills to bring them, as a group, into the lower cost quartiles in the south. By the end of 2013 we will be about half way through our major modernization program which we expect to be substantially complete within three years. Our U.S. division contributed significantly to our profits in 2012 and we expect improving results in the future as we work through our capital upgrade program.

In 2012 West Fraser was North America's largest lumber producer with half of our production coming from our mills in Alberta and the U.S. Over the past decade we have substantially expanded our geographic base outside of British Columbia which has reduced our concentration risk and greatly improved our access to new timber baskets. A further benefit of this growth has been the many new and talented employees who have joined us and who will help us continue to improve and build on our solid manufacturing base. This is particularly important to our future development given the fact that 35% of our employees are over the age of fifty and 20% of our employees are currently eligible to retire. These are typical demographics for the North American manufacturing sector and point to the crucial need for us to attract, develop and retain talented young workers who will build their careers with us.

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REPORT TO SHAREHOLDERS (CONTINUED)

Skills training and management development are key areas of focus for our Company today. Over the past couple of years we have invested a significant amount of resources in all facets of training throughout the Company. We will be even more intensely focused on identifying and developing future leaders for our Company in the years ahead as we are intent on maintaining and increasing the competitive advantage our talented and committed work force has given us over the years.

Today we look to the future with a great deal of optimism. We have emerged from the worst industry downturn in 70 years as a larger and stronger company. We're in the early stages of a housing rebound which should support rising prices for our lumber and panel products. In addition, following three years of significant capital investment, we believe we have positioned our pulp & paper business as a low-cost producer in North America. This business should now be profitable throughout the cycle.

Most importantly, the forest industry in North America is increasingly being recognized as a "green" industry where sustainably managed and independently certified forests are providing building products and bio-products that are better for the environment than available alternatives. This is a fundamental change that will make our industry a more relevant and sought-after career destination for our next generation of leaders. West Fraser is proud of the leadership role we have played in enhancing the environmental reputation of our industry.

On March 1, 2013 Ted Seraphim was appointed our new President and CEO. Ted had been our President and Chief Operating Officer for the past year. At the same time I assumed the role of Executive Chairman and will work closely with Ted and his very capable management team as we continue to build West Fraser into one of North America's premier forest companies.

West Fraser is fortunate to have an experienced, active and engaged Board of Directors. Their advice and guidance have been an invaluable element in our continuing growth and development. I want to thank them and our Director Emeritus, Bill Ketcham, for their ongoing support.

In 2012, West Fraser achieved a total shareholder return of 71%. This is one of the best returns in the industry and is a reflection not only on the strengthening markets for our products but also on our many great employees who work hard every day to keep West Fraser at the forefront of our industry. I thank them for their continuing support and dedication to our Company.

Henry H. Ketcham

Executive Chairman

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