West Fraser Timber Co. Ltd.

Third Quarter 2007

For the third quarter of 2007, West Fraser Timber Co. Ltd. reported a loss of $12 million or $0.28 per share on sales of $827 million in the third quarter of 2007. For the first nine months of 2007, the Company suffered a loss of $31 million or $0.73 per share, on sales of $2,534 million.

Third quarter 2007 earnings include an after-tax gain of $18 million or $0.41 per share related to the translation of U.S. denominated debt.

These results compare with previous periods as follows:

		2007		2006	
	Q3	Q2	**Q1 – Q3**	Q3	Q1 – Q3
Earnings (loss) ($ - millions)	(12)	(14)	(31)	(8)	102
Per share ($)	(0.28)	(0.33)	(0.73)	(0.19)	2.36
Sales ($ - millions)	827	948	2,534	809	2,599
EBITDA ($ - millions)	27	28	96	53	255
EBITDA as % of sales	3%	3%	4%	7%	10%

OPERATIONAL RESULTS

The Company's lumber operations produced EBITDA[1] for the quarter of negative $27 million, compared to EBITDA of $4 million for the second quarter of 2007, reflecting a sharp decline in the value of the U.S. dollar against the Canadian dollar during the quarter. At the beginning of the quarter the Canadian to U.S. dollar exchange rate was 1.07 while at the end of the quarter it was .99. A significant reduction in the price of lumber at the end of the quarter together with the currency exchange fluctuation resulted in lumber and log inventory writedowns totaling $33 million.

Pulp and paper operations generated EBITDA of $26 million compared to $9 million in the previous quarter when maintenance shutdowns affected production. U.S. dollar pulp prices strengthened during the third quarter but were also offset by the weakening of the U.S. dollar.

Panel operations generated EBITDA for the quarter of $19 million compared to $12 million in the previous quarter with the plywood market remaining strong while MDF and LVL markets weakened.

Outlook

The current state of North American lumber markets will not improve until material production curtailments occur or the U.S. housing market recovers. Many analysts believe that such recovery is at least a year away. Pulp markets are expected to remain strong in the near term. However, much of the Canadian wood products industry is unprofitable under current circumstances, particularly given the current level of the Canadian dollar.

On behalf of the Board of Directors,

Henry H. Ketcham
Chairman of the Board
President & Chief Executive Officer
October 29, 2007

[1] Throughout this report, reference is made to EBITDA (defined as operating earnings plus amortization and restructuring charge). 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. However, EBITDA is not a generally accepted earnings measure under Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by Canadian GAAP. Investors are cautioned that EBITDA should not be considered as an alternative to earnings or cash flow as determined in accordance with Canadian GAAP as an indicator of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. 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 discussion and analysis by West Fraser's management ("Q3 MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the third quarter of 2007 and Management's Discussion & Analysis included in the Company's 2006 Annual Report. Dollar amounts are expressed in Canadian currency, unless otherwise indicated. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

This Q3 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 the accuracy of these statements depends on a number of assumptions and is subject to various risks and uncertainties. These include, but are not limited to, uncertainties associated with the effect of general economic conditions on demand for the Company's products, foreign exchange rate fluctuations, actual and potential trade sanctions and the outcome of trade disputes, the availability of fibre and changes in stumpage fees, competition, operational curtailments, transportation limitations, natural disasters, insect infestation, the effects of forestry, land use, environmental and other government laws and regulations, First Nations claims and the ability of the Company to execute its business plans. These statements are not guaranteed by the Company and actual outcomes and results may differ materially from those anticipated in, suggested or projected by, these statements. Accordingly, readers should exercise caution in relying upon forward-looking statements. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances, except as required by applicable law.

Throughout this Q3 MD&A, reference is made to EBITDA (defined as operating earnings plus amortization and restructuring charge). 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. However, EBITDA is not a generally accepted earnings measure under Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by Canadian GAAP. Investors are cautioned that EBITDA should not be considered as an alternative to earnings or cash flow as determined in accordance with Canadian GAAP as an indicator of performance, or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. 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.

The information in this Q3 MD&A is as at October 29, 2007, unless otherwise indicated.

MATTERS AFFECTING COMPARISONS

This Q3 MD&A includes certain comparisons of results from, and circumstances as at the end of, the third quarter of 2007 with those of the immediately previous quarter, the same quarter of 2006 and the last published annual results as at December 31, 2006 as well as the nine-month periods ended September 30, 2007 and 2006. The following material developments should be taken into consideration when considering these comparisons.

U.S. ACQUISITION

On March 31, 2007, the Company acquired 13 sawmills in the southern United States. West Fraser's second and third quarter 2007 results include the results of those operations but they are not reflected in earlier reporting periods.

LUMBER EXPORT TAX

The Softwood Lumber Agreement (the "SLA 2006") came into force on October 12, 2006. Under the SLA 2006, each Canadian province that is subject to its provisions was required to choose between two export tax options with respect to lumber shipments to the United States. One option would require companies to pay to the Canadian government an export tax on the selling price of lumber. The rate would vary depending on a reference lumber price. The second option would require companies to pay a lower variable export tax and accept a quota on total shipments. British Columbia and Alberta chose the tax-only option, which results in West Fraser's Canadian lumber exports to the United States being subject to the following taxes:

Prevailing price[1]	Export Tax (%)
Over US $355	Nil
US $336 — $355	5
US $316 — $335	10
US $315 or under	15

1. Based on Random Lengths Framing Lumber Composite Price (the "Reference Price").

Since the implementation of the SLA 2006, shipments to the United States from British Columbia and Alberta have been subject to the 15% export tax. In the third quarter of 2006 and up to October 12, 2006, West Fraser's shipments of lumber to the United States were subject to countervailing and anti-dumping duties.

PRODUCTION, SHIPMENTS AND FINANCIAL COMPARISONS

		2007		2006	
	Q3	Q2	**YTD**	Q3	YTD
Production					
Lumber – MMfbm					
SPF	**881**	902	**2,686**	964	2,977
SYP	**500**	491	**1,083**	96	299
MDF – MMsf (3/4" basis)	**68**	69	**206**	74	221
Plywood – MMsf (3/8" basis)	**193**	197	**576**	183	557
LVL – Mcf	**520**	629	**1,899**	767	2,345
BCTMP – Mtonnes	**148**	143	**429**	140	424
NBSK – Mtonnes	**120**	97	**335**	149	402
Linerboard and Kraft Paper – Mtonnes	**110**	89	**304**	119	342
Newsprint – Mtonnes	**31**	31	**93**	30	94
Shipments					
Lumber – MMfbm					
SPF	**836**	971	**2,672**	952	2,977
SYP	**511**	541	**1,143**	94	298
MDF – MMsf (3/4" basis)	**63**	77	**214**	70	226
Plywood – MMsf (3/8" basis)	**185**	227	**570**	192	558
LVL – Mcf	**507**	561	**1,775**	623	2,184
BCTMP – Mtonnes	**132**	169	**440**	137	464
NBSK – Mtonnes	**107**	97	**323**	145	429
Linerboard and Kraft Paper – Mtonnes	**90**	97	**297**	109	353
Newsprint – Mtonnes	**31**	30	**91**	30	94
Financial Highlights ($ millions)					
Sales	**827**	948	**2,534**	809	2,599
EBITDA	**27**	28	**96**	53	255
Amortization	**(67)**	(65)	**(194)**	(61)	(183)
Restructuring charge	**—**	—	**—**	—	(38)
Operating earnings (loss)	**(40)**	(37)	**(98)**	(8)	34
Interest expense	**(8)**	(10)	**(20)**	(10)	(31)
Exchange gain on long-term debt	**21**	27	**51**	—	14
Gain on sale of power purchase agreement	**—**	—	**—**	—	62
Gain on timber take-back	**—**	—	**—**	—	14
Other income (expense)	**(3)**	(15)	**(7)**	2	(4)
Recovery of income taxes	**18**	21	**43**	8	13
Earnings (Loss)	**(12)**	(14)	**(31)**	(8)	102
$CDN/$US – average	**1.04**	1.10	**1.10**	1.12	1.13

SELECTED QUARTERLY INFORMATION

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

	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05
Sales	**827**	948	759	727	809	888	902	832
Earnings (loss)	**(12)**	(14)	(5)	296	(8)	104	6	9
Basic EPS	**(0.28)**	(0.33)	(0.12)	6.93	(0.19)	2.43	0.14	0.20
Diluted EPS	**(0.28)**	(0.33)	(0.12)	6.87	(0.19)	2.41	0.14	0.20

The Company's operating earnings continued to be affected by the strong Canadian dollar.

Losses in the lumber business were only partially offset by improving results in the panels and pulp and paper segments.

Selling, general and administration expense was $21 million for the quarter and includes a $5 million reduction to incentive compensation and a share option expense recovery of $4 million.

The net interest expense for the first three quarters of 2007 was $20 million, compared to $31 million for the first three quarters of 2006 as the Company earned interest on cash held on deposit in the first quarter of 2007 following the receipt of softwood duty refunds.

The change in value of the Canadian dollar relative to the U.S. dollar resulted in an exchange gain of $21 million in the quarter on the Company's U.S. denominated long-term debt (first three quarters 2007 – gain of $51 million). The weakening of the U.S. dollar also resulted in an approximate $10 million loss on working capital items for the quarter which was included in other expense.

Other expense also includes a $10 million gain recorded in the first quarter of 2007 resulting from the termination of certain pulp supply contracts in connection with the U.S. sawmills acquisition and net gains on property disposals.

Since the end of the third quarter lumber prices have continued to weaken with benchmark SPF prices at US $221 per Mfbm as at October 26, 2007 and the Canadian dollar has continued to strengthen with the Canadian dollar to U.S. dollar exchange rate being .96 at October 26, 2007.[1]

[1] Bank of Canada noon rate.

LUMBER

		2007		2006	
	Q3	Q2	**YTD**	Q3	YTD
Sales — $ millions	**481**	558	**1,400**	412	1,397
EBITDA — $ millions	**(27)**	4	**(37)**	(10)	130
EBITDA margin — %	**—**	1	**—**	—	9
Operating earnings (loss) — $ millions	**(60)**	(26)	**(125)**	(39)	47
Benchmark Price					
SPF #2 & Better 2 x 4 (per Mfbm)[1] US $	**260**	259	**257**	278	313
SYP #2 West 2 x 4 (per Mfbm)[2] US $	**280**	283	**275**	286	350

1. Source: Random Lengths – 2 x 4, #2 & Better – Net FOB mill.
2. Source: Random Lengths – 2 x 4 – Net FOB mill Westside.

The Company's lumber business suffered a significant operating loss resulting from a continuing weakening in the U.S. housing market and a rapidly appreciated Canadian dollar. Average SPF lumber prices in U.S. dollars remained approximately the same as during the second quarter but were lower than in the same quarter of 2006. However, a sharp appreciation of the Canadian dollar resulted in lower Canadian dollar prices and lower earnings for the lumber business. Low lumber prices resulted in quarter-end lumber and log inventories being written down by approximately $14 million and $19 million respectively.

Operations at the newly-acquired mills in the U.S. South improved, but low lumber prices and high log costs combined to make this business unprofitable.

Production of SPF lumber was approximately the same as in the second quarter but shipments were down due to the weakening U.S. market and transportation issues. Production in the third quarter and on a year-to-date basis was lower compared to 2006, reflecting the completion of the sale of the Babine and Decker Lake sawmills on October 31, 2006 and the shutdown of the Terrace sawmill July 20, 2007 due to a strike. Production and shipments of SYP lumber were higher compared to 2006 reflecting the acquisition of the U.S. mills. The new Quesnel mill continues to make progress in its start up although slower than originally expected.

Processing of mountain pine beetle ("MPB")-affected logs continues to increase operating costs and reduce the grade of lumber produced as the logs deteriorate. The Company is continuing to work with the B.C. government in an effort to ensure that the price of MPB-affected logs accurately reflects the potential of those logs to yield merchantable lumber. This issue will become increasingly important as the deterioration of log quality accelerates.

The Alberta government continues to take proactive steps to control the spread of the MPB and all of the Company's Alberta operations are shifting harvest activities into pine stands which have been identified as being at high risk of infestation.

On July 20, the union representing certain B.C. coastal logging and sawmilling companies initiated a strike that shut down the B.C. coastal industry, including the Company's Terrace sawmill. An agreement to end the strike became effective October 23, 2007. However, the Company elected not to resume full operation of the Terrace sawmill until market conditions improve.

Lumber prices are not expected to recover in any material way without significant production curtailments or a turnaround in the U.S. housing market. Curtailments implemented to date have not been enough to bring supply in line with current demand. The Company continues to assess markets to determine its appropriate operating strategy going forward.

PANELS

	2007			2006	
	Q3	Q2	**YTD**	Q3	YTD
Sales — $ millions	**112**	133	**365**	122	373
EBITDA — $ millions	**19**	12	**46**	16	48
EBITDA margin — %	**17**	9	**13**	13	13
Operating earnings — $ millions	**9**	3	**16**	6	18
Benchmark price					
MDF (per Msf 3/4" basis)[1] US $	**464**	463	**459**	471	439
Plywood (per Msf 3/8" basis)[2] Cdn $	**394**	357	**377**	363	366

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

Most of the Company's plywood production is sold in Canada where robust building activity has helped support prices. Plywood shipments declined in the quarter due to rail car supply problems but the increase in prices more than offset the reduced shipments. The plywood mills continue to operate efficiently, resulting in production increases in the quarter and year-to-date compared to the same periods last year.

MDF production was impacted by operational issues, and voluntary curtailments related to high Alberta electricity prices. LVL production and shipments declined both in the quarter and year-to-date reflecting a weakening North American market.

PULP & PAPER

	2007 Q3	2007 Q2	2007 YTD	2006 Q3	2006 YTD
Sales — $ millions	**233**	257	**769**	275	828
EBITDA — $ millions	**26**	9	**69**	51	81
EBITDA margin — %	**11**	3	**9**	18	10
Operating earnings (loss) — $ millions	**1**	(16)	**(4)**	28	(25)
Benchmark price					
NBSK (US $ per tonne)[1]	**837**	810	**812**	757	705
Linerboard (US $ per tonne)[2]	**597**	568	**578**	568	549
Newsprint (US $ per tonne)[3]	**572**	598	**595**	663	655

1. Source: Resource Information Systems, Inc. — U.S. list price delivered U.S.
2. Source: Pulp & Paper Week — Unbleached linerboard kraft, East.
3. Source: Resource Information Systems, Inc. — U.S. delivered 48.8 gram newsprint.

The improved operating earnings in the quarter compared to the previous one were the result of the mills running well in the quarter and the impact of the second quarter maintenance shutdowns. The poorer results for the quarter and year-to-date compared to the corresponding periods in 2006, despite pulp price improvements, were mostly due to lower production and shipments combined with higher maintenance and fibre costs. The operating loss for 2006 year-to-date also included a $38 million restructuring charge.

Pulp

The BCTMP mills continue to operate efficiently, with the Quesnel mill setting a production record in the quarter. The upgrade of the remaining #2 pulp machine at Hinton was completed during the second quarter and the #1 line was shut down during the third quarter.

While U.S. dollar pulp prices increased from last quarter, the stronger Canadian dollar more than offset the increase. The benchmark pulp price increases in the third quarter and the first nine months of 2007 over the corresponding periods of 2006 were partially offset by the stronger Canadian dollar.

Pulp markets are expected to remain strong in the near term with further price increases anticipated before year end. However, the strength of the Canadian dollar, if maintained, could offset the benefits of such price increases.

Linerboard and Kraft Paper

Reduced production in the quarter was the result of the extension of the maintenance shutdown due to a failure in the main effluent pipe at the Kitimat mill. The failure extended the shutdown by 12 days, nine of which were in the third quarter, and reduced operating earnings by approximately $8 million in the quarter. Since start-up, production levels have returned to normal levels. Linerboard and kraft paper markets remained good but the mill net realizations reflected the impact of the strong Canadian dollar.

Newsprint

The Alberta Newsprint mill continues to run well with production and shipments being similar to prior periods although high Alberta electricity prices result in operating curtailments from time to time. North American newsprint prices continued to decline along with consumption. There is little reason to expect significant pricing improvement in the near future.

CHANGE IN ACCOUNTING POLICIES

Financial Instruments

The Canadian Institute of Chartered Accountants issued new accounting rules on financial instruments, hedges and comprehensive earnings that will require the Company to account for derivatives and financial assets held for trading or available for sale at fair value. Loans, receivables and investments held to maturity will be measured at amortized cost using the effective interest rate method. Other financial liabilities will be measured at fair value or at amortized cost using the effective interest rate method. The effective interest rate method establishes the discount rate which equates the estimated future cash flows with the net carrying amount of the financial asset or liability.

Revenues, expenses, gains and losses on net financial assets are included in other comprehensive earnings to the extent that they are not required to be included in earnings. Foreign currency translation gains and losses on self-sustaining foreign operations are included in other comprehensive earnings. Comprehensive earnings are the sum of earnings for the period plus other comprehensive earnings.

The new rules, which became effective January 1, 2007, did not have a significant impact on the Company.

Translation of Foreign Operations

The Company has determined that its foreign operations became self-sustaining upon the acquisition of 13 sawmills in the United States (see note 3 to the unaudited interim consolidated financial statements). Accordingly, on March 31, 2007, the Company changed its translation method from the temporal method to the current rate method.

Under the current rate method all assets and liabilities of the Company's foreign operations are translated at the exchange rate in effect at the balance sheet date and the resulting unrealized gains or losses are included in accumulated other comprehensive earnings. Under the temporal method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date while non-monetary items are translated at historical exchange rates.

The result of this change in accounting policy was an increase of $18.2 million in accumulated other comprehensive loss included in shareholders' equity. Unrealized gains or losses in translation are included in other comprehensive earnings (loss) from the date of the change.

CAPITAL STRUCTURE

The number of Common shares and Class B common shares outstanding was 42,802,517 as at September 30, 2007. The Company issued 3,083 Common shares pursuant to the Employee Share Purchase Plan during the three months ended September 30, 2007, (first three quarters of 2007 – 30,580 Common shares).

	September 30, 2007	December 31, 2006
Common	**39,917,311**	37,886,731
Class B common	**2,885,206**	4,885,206
Total	**42,802,517**	42,771,937

CAPITAL REQUIREMENTS AND LIQUIDITY

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

	September 30, 2007	December 31, 2006
Net cash[1]	**24**	606
Current assets	**902**	1,451
Current liabilities	**522**	830
Ratio of current assets to current liabilities	**1.7**	1.7
Net debt	**665**	19
Shareholders' equity	**2,101**	2,239
Net debt to capitalization[2] - %	**24**	1

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

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 years without a major acquisition or debt repayment, cash on hand and cash provided by operations have normally been sufficient to meet these requirements.

Selected Cash Flow Items ($ millions)

	2007 Q3	2007 Q2	2007 YTD	2006 Q3	2006 YTD
Operating Activities					
Cash provided before working capital changes	**16**	8	**76**	30	158
Non-cash working capital change	**17**	70	**(298)**	98	98
Cash provided by (used in) operating activities	**33**	78	**(222)**	128	256
Financing Activities					
Debt and operating loans	**(7)**	(25)	**118**	(101)	(101)
Dividends and other	**(6)**	(5)	**(17)**	(6)	(17)
Cash provided by (used in) financing activities	**(13)**	(30)	**101**	(107)	(118)
Investing Activities					
Acquisition	**—**	—	**(379)**	—	—
Additions to property, plant, equipment & timber	**(24)**	(41)	**(92)**	(48)	(166)
Other – net	**9**	—	**10**	30	20
Cash provided by (used in) investing activities	**(15)**	(41)	**(461)**	(18)	(146)
Change in cash	**5**	7	**(582)**	3	(8)

On March 30, 2007, West Fraser extended its current $500 million committed revolving credit facility from June 2010 to March 2012 and entered into a five-year $100 million committed revolving facility for its U.S. operations. West Fraser also entered into a $100 million three-year term facility to fund part of the U.S. acquisition. The revolving and term facilities are at floating interest rates. Debentures in the principal amount of $125 million are due November 19, 2007.

On October 23, 2007, Standard and Poor's Rating Services lowered its corporate and senior unsecured debt ratings of West Fraser to BBB- from BBB, with a continuing negative outlook reflecting concern regarding the depressed U.S. housing market and a strong Canadian dollar. All of West Fraser's credit ratings remain investment grade.

RISKS AND UNCERTAINTIES

A comprehensive discussion of Risks and Uncertainties was included in the Company's 2006 Annual Report.

Potential Surge Tax

Under the SLA 2006, if monthly shipments from the B.C. Interior region or from Alberta (as export tax-only regions) exceed a certain volume prescribed by the SLA 2006, the applicable export tax rate for that month is increased by 50%. This calculation is based on estimated trailing U.S. lumber consumption. For the first nine months of 2007 the Canadian government determined that this tax increase (the "Surge Tax") did not apply to Canadian lumber exports to the United States.

The U.S. government has asserted that for the purposes of the Surge Tax, future estimated consumption levels should be adjusted based on differences between current and trailing estimated consumption. This issue is now the subject of an arbitration under the SLA 2006. The Company believes the Canadian position should prevail. However, if the Surge Tax applies as asserted by the United States, the Company estimates it would incur additional export taxes of approximately $15 million related to the first nine months of 2007, although the data required to calculate the actual Surge Tax is not yet available.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2007, there were no changes in the Company's internal controls over financial reporting that materially affected or would be reasonably likely to materially affect such controls.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars — unaudited)

	As at September 30, 2007	As at December 31, 2006
ASSETS		
Current assets		
Cash and short-term investments	**$ 38.9**	$ 605.6
Accounts receivable	**302.5**	300.9
Income taxes receivable	**39.2**	—
Inventories	**492.8**	531.9
Prepaid expenses	**28.4**	12.9
	901.8	1,451.3
Property, plant, equipment and timber	**2,277.6**	2,133.9
Deferred charges	**37.0**	38.1
Goodwill	**263.7**	263.7
Other assets (note 4)	**119.7**	127.7
Future income taxes	**24.4**	10.8
	$ 3,624.2	$ 4,025.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Cheques issued in excess of funds on deposit	**$ 15.4**	$ —
Operating loans (note 5)	**15.3**	—
Accounts payable and accrued liabilities	**309.4**	468.4
Income taxes payable	**—**	178.9
Current portion of reforestation obligations	**54.2**	54.2
Current portion of long-term debt (note 5)	**127.6**	128.2
	521.9	829.7
Long-term debt (note 5)	**546.0**	496.0
Other liabilities (note 6)	**129.6**	137.5
Future income taxes	**325.5**	323.2
	1,523.0	1,786.4
Shareholders' equity		
Share capital (note 7)	**599.2**	597.8
Accumulated other comprehensive loss (note 8)	**(90.0)**	—
Retained earnings	**1,592.0**	1,641.3
	2,101.2	2,239.1
	$ 3,624.2	$ 4,025.5

Contingency (note 12)

Number of Common shares outstanding at October 29, 2007 was 42,803,617

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions of Canadian dollars — unaudited)

	July 1 to September 30		January 1 to September 30	
	2007	2006	**2007**	2006
Sales	**$ 826.8**	$ 808.7	**$ 2,533.5**	$ 2,598.6
Costs and expenses				
Cost of products sold	**643.9**	580.0	**1,919.8**	1,779.3
Freight and other distribution	**114.0**	131.4	**376.4**	422.9
Export taxes	**20.8**	—	**68.0**	—
Amortization	**67.2**	61.5	**194.1**	183.3
Selling, general and administration	**21.1**	26.9	**73.7**	80.0
Restructuring charge	**—**	—	**—**	37.6
Duty	**—**	17.0	**—**	61.1
	867.0	816.8	**2,632.0**	2,564.2
Operating earnings (loss)	**(40.2)**	(8.1)	**(98.5)**	34.4
Other				
Interest expense	**(7.8)**	(10.0)	**(20.1)**	(30.7)
Exchange gain (loss) on long-term debt	**21.2**	(0.4)	**51.2**	13.6
Gain on sale of power purchase agreement	**—**	—	**—**	61.8
Gain on timber take-back	**—**	—	**—**	13.6
Other income (expense)	**(3.6)**	1.8	**(6.7)**	(3.8)
Earnings (loss) before income taxes and non-controlling interest	**(30.4)**	(16.7)	**(74.1)**	88.9
Recovery of income taxes (note 9)	**18.3**	8.3	**42.7**	13.4
Earnings (loss) before non-controlling interest	**(12.1)**	(8.4)	**(31.4)**	102.3
Non-controlling interest	**—**	0.3	**—**	(0.5)
Earnings (loss)	**$ (12.1)**	$ (8.1)	**$ (31.4)**	$ 101.8
Earnings (loss) per share (dollars) (note 11)				
Basic	**$ (0.28)**	$ (0.19)	**$ (0.73)**	$ 2.38
Diluted	**$ (0.28)**	$ (0.19)	**$ (0.73)**	$ 2.36

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND COMPREHENSIVE EARNINGS

(in millions of Canadian dollars — unaudited)

	July 1 to September 30		January 1 to September 30	
	2007	2006	**2007**	2006
RETAINED EARNINGS				
Balance — beginning of period	**$ 1,610.0**	$ 1,366.7	**$ 1,641.3**	$ 1,268.8
Earnings (loss)	**(12.1)**	(8.1)	**(31.4)**	101.8
	1,597.9	1,358.6	**1,609.9**	1,370.6
Common share dividends	**(5.9)**	(5.9)	**(17.9)**	(17.9)
Balance — end of period	**$ 1,592.0**	$ 1,352.7	**$ 1,592.0**	$ 1,352.7
COMPREHENSIVE EARNINGS				
Earnings (loss)	**$ (12.1)**		**$ (31.4)**	
Other comprehensive loss	**(31.3)**		**(90.0)**	
Comprehensive loss	**$ (43.4)**		**$ (121.4)**	

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of Canadian dollars — unaudited)

	July 1 to September 30 **2007**	2006	January 1 to September 30 **2007**	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Earnings (loss)	**$ (12.1)**	$ (8.1)	**$ (31.4)**	$ 101.8
Items not affecting cash				
Amortization	**67.2**	61.5	**194.1**	183.3
Write down of pulp assets	**—**	—	**—**	34.8
Exchange (gain) loss on long-term debt	**(21.2)**	0.4	**(51.2)**	(13.6)
Change in reforestation obligations	**(9.4)**	(13.1)	**(10.2)**	(12.0)
Future income taxes	**(4.8)**	(8.1)	**(12.9)**	(62.9)
Gain on asset sales	**(4.5)**	(0.5)	**(5.2)**	(75.3)
Other	**0.8**	(2.2)	**(7.6)**	1.9
	16.0	29.9	**75.6**	158.0
Net change in non-cash working capital items	**16.7**	97.5	**(297.4)**	98.4
	32.7	127.4	**(221.8)**	256.4
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	**(0.3)**	—	**(0.9)**	(0.6)
Proceeds from long-term debt	**0.1**	—	**102.9**	—
Proceeds from (repayment of) operating loans	**(6.9)**	(101.2)	**15.9**	(99.8)
Common share dividends	**(5.9)**	(5.9)	**(17.9)**	(17.9)
Other	**—**	0.2	**1.3**	0.5
	(13.0)	(106.9)	**101.3**	(117.8)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition (note 3)	**—**	—	**(379.2)**	—
Additions to property, plant, equipment and timber	**(24.0)**	(48.0)	**(92.0)**	(165.8)
Proceeds from disposals of property, plant, equipment and timber	**5.5**	30.1	**10.5**	33.4
Decrease (increase) in other assets	**3.2**	0.2	**(0.9)**	(13.7)
	(15.3)	(17.7)	**(461.6)**	(146.1)
Increase (decrease) in net cash*	**4.4**	2.8	**(582.1)**	(7.5)
Net cash — beginning of period	**19.1**	8.0	**605.6**	18.3
Net cash — end of period	**$ 23.5**	$ 10.8	**$ 23.5**	$ 10.8

*Net cash consists of cash and short-term investments less cheques issued in excess of funds on deposit.

Supplemental information:				
Interest paid	**$ 2.6**	$ 1.6	**$ 21.0**	$ 23.3
Income taxes paid	**$ 1.9**	$ 12.5	**$ 189.8**	$ 66.1
Non-cash investing activity:				
Contracts terminated on acquisition (note 3)	**$ —**	$ —	**$ (10.4)**	$ —

THIRD QUARTER SEGMENTED INFORMATION

(in millions of Canadian dollars — unaudited)

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
July 1, 2007 to September 30, 2007					
Sales					
To external customers	**$ 481.3**	**$ 112.4**	**$ 233.1**	**$ —**	**$ 826.8**
To other segments	**29.1**	**4.0**	**—**	**—**	
	$ 510.4	**$ 116.4**	**$ 233.1**	**$ —**	
EBITDA[1]	**$ (27.3)**	**$ 18.6**	**$ 25.5**	**$ 10.2**	**$ 27.0**
Amortization	**32.2**	**9.5**	**24.6**	**0.9**	**67.2**
Operating earnings (loss)	**(59.5)**	**9.1**	**0.9**	**9.3**	**(40.2)**
Interest income (expense)	**(5.6)**	**(1.0)**	**(2.0)**	**0.8**	**(7.8)**
Exchange gain on long-term debt	**—**	**—**	**—**	**21.2**	**21.2**
Other expense	**(0.3)**	**(0.3)**	**(0.9)**	**(2.1)**	**(3.6)**
Earnings (loss) before income taxes and non-controlling interest	**$ (65.4)**	**$ 7.8**	**$ (2.0)**	**$ 29.2**	**$ (30.4)**
July 1, 2006 to September 30, 2006					
Sales					
To external customers	$ 411.8	$ 122.0	$ 274.9	$ —	$ 808.7
To other segments	20.8	1.8	—	—	
	$ 432.6	$ 123.8	$ 274.9	$ —	
EBITDA[1]	$ (10.3)	$ 15.5	$ 50.7	$ (2.5)	$ 53.4
Amortization	28.3	9.7	22.5	1.0	61.5
Operating earnings (loss)	(38.6)	5.8	28.2	(3.5)	(8.1)
Interest income (expense)	(5.4)	(1.6)	(3.2)	0.2	(10.0)
Exchange loss on long-term debt	—	—	—	(0.4)	(0.4)
Other income (expense)	2.3	(0.1)	0.1	(0.5)	1.8
Earnings before income taxes and non-controlling interest	$ (41.7)	$ 4.1	$ 25.1	$ (4.2)	$ (16.7)

[1] **Non GAAP measure:**
EBITDA is defined as operating earnings plus amortization and restructuring charge.

FIRST NINE MONTHS SEGMENTED INFORMATION

(in millions of Canadian dollars — unaudited)

	Lumber	Panels	Pulp & paper	Corporate & other	Consolidated
January 1, 2007 to September 30, 2007					
Sales					
To external customers	**$ 1,400.3**	**$ 364.7**	**$ 768.5**	**$ —**	**$ 2,533.5**
To other segments	**82.4**	**9.3**	**—**	**—**	
	$ 1,482.7	**$ 374.0**	**$ 768.5**	**$ —**	
EBITDA[1]	**$ (36.8)**	**$ 46.1**	**$ 69.0**	**$ 17.3**	**$ 95.6**
Amortization	**88.6**	**29.9**	**73.2**	**2.4**	**194.1**
Operating earnings (loss)	**(125.4)**	**16.2**	**(4.2)**	**14.9**	**(98.5)**
Interest income (expense)	**(14.2)**	**(3.0)**	**(4.4)**	**1.5**	**(20.1)**
Exchange gain on long-term debt	**—**	**—**	**—**	**51.2**	**51.2**
Other income (expense)	**(0.7)**	**(0.7)**	**6.9**	**(12.2)**	**(6.7)**
Earnings (loss) before income taxes and non-controlling interest	**$ (140.3)**	**$ 12.5**	**$ (1.7)**	**$ 55.4**	**$ (74.1)**
January 1, 2006 to September 30, 2006					
Sales					
To external customers	$ 1,397.2	$ 373.0	$ 828.4	$ —	$ 2,598.6
To other segments	62.0	5.8	—	—	
	$ 1,459.2	$ 378.8	$ 828.4	$ —	
EBITDA[1]	$ 129.6	$ 47.5	$ 81.3	$ (3.1)	$ 255.3
Amortization	83.0	29.3	68.4	2.6	183.3
Restructuring charge	—	—	37.6	—	37.6
Operating earnings (loss)	46.6	18.2	(24.7)	(5.7)	34.4
Interest expense	(16.8)	(5.0)	(8.9)	—	(30.7)
Exchange gain on long-term debt	—	—	—	13.6	13.6
Gain on sale of power purchase agreement	—	—	61.8	—	61.8
Gain on timber take-back	13.6	—	—	—	13.6
Other income (expense)	4.7	0.2	(0.3)	(8.4)	(3.8)
Earnings before income taxes and non-controlling interest	$ 48.1	$ 13.4	$ 27.9	$ (0.5)	$ 88.9

[1] **Non GAAP measure:**
EBITDA is defined as operating earnings plus amortization and restructuring charge.

1. BASIS OF PRESENTATION

These interim consolidated financial statements should be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2006.

These interim consolidated financial statements follow the same accounting policies and methods of their application as the December 31, 2006 consolidated annual financial statements except as disclosed in note 2.

Certain comparative figures have been reclassified to conform to the current period's presentation.

2. CHANGES IN ACCOUNTING AND ESTIMATES

Foreign currency translation

The Company has determined that its foreign operations became self sustaining upon the acquisition of 13 sawmills in the United States (note 3). Accordingly, on March 31, 2007, the Company changed its translation method from the temporal method to the current rate method.

Under the current rate method all assets and liabilities of the Company's foreign operations are translated at the exchange rate in effect at the balance sheet date and the resulting unrealized gains or losses are included in accumulated other comprehensive earnings (loss). Under the temporal method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date while non-monetary items are translated at historical exchange rates.

The result of this change in accounting policy was an adjustment of $18.2 million to accumulated other comprehensive loss included in shareholders' equity as at March 31, 2007. Unrealized gains or losses on translation are included in other comprehensive earnings (loss) from the date of the change.

Financial instruments

Effective January 1, 2007, the Company adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants for financial instruments, hedges and comprehensive earnings. The recommendations require the Company to account for derivatives and financial assets held for trading or available for sale at fair value. Loans, receivables and investments held to maturity are measured at amortized cost using the effective interest rate method. Other financial liabilities are measured at fair value or at amortized cost using the effective interest rate method. The effective interest rate method establishes the discount rate which equates the estimated future cash flows with the carrying amount of the financial asset or liability.

Revenues, expenses, gains and losses on financial assets are included in other comprehensive earnings to the extent that they are not required to be included in earnings. Foreign currency translation gains and losses on self-sustaining foreign operations are included in other comprehensive earnings. Comprehensive earnings are the sum of earnings for the period plus other comprehensive earnings.

The adoption of the new recommendations did not materially impact the Company's financial statements.

Change in estimates

Accrued incentive compensation was reduced by $4.8 million for the three months ended September 30, 2007 and $10.3 million for the nine months ended September 30, 2007 resulting in a reduction of selling, general and administration expenses.

3. ACQUISITION

On March 31, 2007 the Company acquired 13 sawmills located in the southern United States for $389.6 million.

The transaction resulted in the termination of NBSK pulp supply contracts entered into as part of the Company's 2004 acquisition of Weldwood of Canada Limited having a remaining term of less than eight years. These pulp supply contracts were valued at $10.4 million based on market conditions at the time of termination and a settlement gain of $10.4 million is recorded in other income.

The acquisition has been accounted for using the purchase method, whereby the purchase consideration is allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase. The Company has not yet finalized the allocation of the purchase cost for the acquisition. The preliminary allocation of the purchase cost is based on management's best estimates and information available at the time of preparing these consolidated financial statements and any changes may be material.

The preliminary purchase price allocation is as follows:

Current assets	$	102.2
Current liabilities		(28.1)
Property, plant and equipment		315.5
Consideration		389.6
Consideration attributed to termination of pulp supply contracts		(10.4)
Net cash consideration	$	379.2

The allocation above includes estimated costs related to the acquisition of $6.2 million. Actual amounts incurred may differ from this estimate and any such difference will be included in the final allocation.

4. OTHER ASSETS		**September 30, 2007**		December 31, 2006
Power purchase agreements — net	**$**	**97.0**	$	102.4
Investments		**6.3**		10.7
Advances for timber and timber deposits		**16.4**		14.6
	$	**119.7**	$	127.7

5. LONG-TERM DEBT AND OPERATING LOANS		**September 30, 2007**		December 31, 2006
Debentures due 2007; interest at 6.8%	**$**	**125.0**	$	125.0
Debentures due 2009; interest at 4.94%		**150.0**		150.0
Term note due 2010; interest at floating rates(1)		**100.0**		—
US $300 senior notes due 2014; interest at 5.2%		**298.4**		349.6
Term note due on demand; interest at floating rates(1)		**2.4**		3.3
Note payable due in installments to 2020; interest at 5.5%		**2.9**		—
Deferred financing costs		**(5.1)**		(3.7)
		673.6		624.2
Less: Current portion of long-term debt		**(127.6)**		(128.2)
	$	**546.0**	$	496.0

(1) Floating rates are based on Prime, US base, Banker's Acceptances or LIBOR at the Company's option.

The Company has approximately $605.0 million in revolving lines of credit available, of which $15.3 million (net of deferred financing costs of $0.6 million) was drawn as at September 30, 2007. Interest is payable at floating rates based on Prime, US base, Banker's Acceptances or LIBOR at the Company's option. The Company has also issued $20.4 million under various letters of credit.

6. OTHER LIABILITIES		**September 30, 2007**		December 31, 2006
Post-retirement obligations	**$**	**55.5**	$	54.0
Timber damage deposits		**15.0**		14.6
Reforestation obligations — long-term		**49.9**		60.1
Other asset retirement obligations		**9.2**		8.8
	$	**129.6**	$	137.5

7. SHARE CAPITAL	**September 30, 2007**			December 31, 2006		
	Number of Shares Issued		**Amount**	Number of Shares Issued		Amount
Common	**39,917,311**	**$**	**599.0**	37,886,731	$	597.6
Class B common	**2,885,206**		**0.3**	4,885,206		0.5
Total Common	**42,802,517**		**599.3**	42,771,937		598.1
Share purchase loans			**(0.1)**			(0.3)
Share capital		**$**	**599.2**		$	597.8

Common shares

For the three months ended September 30, 2007, the Company issued 3,083 Common shares for cash of $0.1 million (for the nine months ended September 30, 2007 the Company issued 30,580 Common shares for cash of $1.2 million and 2,000,000 Class B shares in the amount of $0.2 million were exchanged for Common shares).

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

	September 30, 2007
Adjustment on change in translation method (note 2)	$ 18.2
Unrealized foreign exchange loss on translation of self-sustaining foreign operations	71.8
Accumulated other comprehensive loss	$ 90.0

9. INCOME TAXES

The Company's effective tax rate is as follows:

	July 1 to September 30, 2007		July 1 to September 30, 2006	
	Amount	%	Amount	%
Income taxes at statutory rates	$ 10.4	34.1	$ 5.7	34.6
Non-taxable amounts	4.5	15.0	0.7	4.3
Rate differentials between jurisdictions and on specified activities	2.6	8.5	2.4	14.6
Other	0.8	2.6	(0.5)	(3.0)
Income tax recovery	$ 18.3	60.2	$ 8.3	50.5

	January 1 to September 30, 2007		January 1 to September 30, 2006	
	Amount	%	Amount	%
Income taxes at statutory rates	$ 25.3	34.1	$ (30.1)	(34.1)
Non-taxable amounts	9.5	13.0	13.8	15.6
Rate differentials between jurisdictions and on specified activities	4.7	6.3	4.2	4.7
Reductions in income tax rates	2.7	3.6	33.1	37.4
Other	0.5	0.6	(7.6)	(8.4)
Income tax recovery	$ 42.7	57.6	$ 13.4	15.2

10. EMPLOYEE FUTURE BENEFITS

The total benefit cost of the Company's defined benefit pension plans was $6.7 million for the three months ended September 30, 2007 (three months ended September 30, 2006 — $5.4 million) and $18.9 million for the nine months ended September 30, 2007 (nine months ended September 30, 2006 — $17.8 million).

11. EARNINGS PER SHARE

Basic earnings per share is calculated based on earnings available to Common shareholders, as set out below, using the weighted average number of Common shares outstanding. Diluted earnings per share assume the exercise of share options using the treasury stock method.

	July 1 to September 30		January 1 to September 30	
	2007	2006	2007	2006
Earnings (loss)	$ (12.1)	$ (8.1)	$ (31.4)	$ 101.8
Weighted average number of shares (thousands)				
Weighted average shares – basic	42,793	42,753	42,780	42,750
Share options – treasury stock method	443	306	434	374
Weighted average shares – diluted	43,236	43,059	43,214	43,124
Earnings (loss) per share (dollars)				
Basic	$ (0.28)	$ (0.19)	$ (0.73)	$ 2.38
Diluted	$ (0.28)	$ (0.19)	$ (0.73)	$ 2.36

12. CONTINGENCY

Under the Softwood Lumber Agreement (the "SLA 2006"), if monthly shipments from the B.C. Interior region or from Alberta exceed a certain volume prescribed by the SLA 2006, the applicable export tax rate for that month is increased by 50%. This calculation is based on estimated trailing U.S. lumber consumption. For the first nine months of 2007 the Canadian government determined that this tax increase (the "Surge Tax") did not apply to Canadian lumber exports to the United States.

The U.S. government has asserted that for the purposes of the Surge Tax, future estimated consumption levels should be adjusted based on differences between current and trailing estimated consumption. This issue is now the subject of an arbitration under the SLA 2006. The Company believes the Canadian position should prevail. However, if the Surge Tax applies as asserted by the United States, the Company estimates it would incur additional export taxes of approximately $15 million related to the first nine months of 2007, although the data required to calculate the actual Surge Tax is not yet available.

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West Fraser is an integrated forest products company producing lumber, LVL, MDF, plywood, linerboard, kraft paper and newsprint. The Company has 9,200 employees and operations in British Columbia, Alberta and the southern United States.

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