West Fraser Timber Co. Ltd.

Consolidated Financial Statements
December 31, 2009 and 2008
(in millions of Canadian dollars)

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Auditors' Report

To the Shareholders of
West Fraser Timber Co. Ltd.

We have audited the consolidated balance sheets of **West Fraser Timber Co. Ltd.** as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive earnings, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
February 12, 2010

West Fraser Timber Co. Ltd.

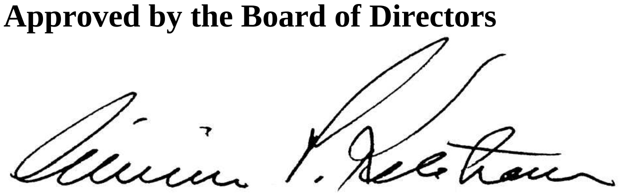
Consolidated Balance Sheets

As at December 31, 2009 and 2008

(in millions of Canadian dollars)

	2009	2008
Assets		
Current assets		
Cash and short-term investments	$ 12.0	$ 20.2
Accounts receivable (note 17)	200.6	253.0
Income taxes receivable	67.6	26.8
Inventories (note 3)	407.7	511.6
Prepaid expenses	15.8	29.0
	703.7	840.6
Property, plant, equipment and timber (note 4)	1,624.1	2,040.8
Deferred pension costs (note 11)	132.7	78.1
Goodwill	263.7	263.7
Other assets (note 5)	88.9	101.2
Future income taxes (note 14)	-	87.2
	$ 2,813.1	$ 3,411.6
Liabilities		
Current liabilities		
Cheques issued in excess of funds on deposit	$ 21.8	$ 16.5
Operating loans (note 6)	78.7	29.7
Accounts payable and accrued liabilities	252.6	241.4
Current portion of asset retirement obligations (note 7)	41.5	44.1
Current portion of long-term debt (note 6)	100.3	150.3
	494.9	482.0
Long-term debt (note 6)	315.9	465.3
Other liabilities (note 7)	166.9	167.5
Future income taxes (note 14)	217.2	266.8
	1,194.9	1,381.6
Shareholders' Equity		
Share capital (note 8)	599.7	599.4
Accumulated other comprehensive earnings	(59.8)	1.7
Retained earnings	1,078.3	1,428.9
	1,618.2	2,030.0
	$ 2,813.1	$ 3,411.6

Approved by the Board of Directors



Director

Director

West Fraser Timber Co. Ltd.

Consolidated Statements of Earnings and Comprehensive Earnings

For the years ended December 31, 2009 and 2008

(in millions of Canadian dollars, except earnings per share)

	2009	2008
Sales	$ 2,611.8	$ 3,188.5
Costs and expenses		
Cost of products sold	1,930.9	2,363.3
Freight and other distribution costs	449.1	534.4
Export taxes	47.3	54.3
Amortization	265.2	281.2
Selling, general and administration	107.8	108.5
Asset impairments (note 9)	156.9	-
Restructuring charges (note 10)	46.9	-
	3,004.1	3,341.7
Operating earnings	(392.3)	(153.2)
Other		
Interest expense - net (note 12)	(28.9)	(36.1)
Exchange gain (loss) on long-term debt	50.1	(68.0)
Other income (expense) (note 13)	(1.4)	36.9
Earnings before income taxes	(372.5)	(220.4)
Recovery of (provision for) income taxes (note 14)		
Current	57.7	18.8
Future	(26.0)	64.5
	31.7	83.3
Earnings	$ (340.8)	$ (137.1)
Earnings per share (note 15)		
Basic and diluted	$ (7.96)	$ (3.20)
Comprehensive earnings		
Earnings	$ (340.8)	$ (137.1)
Other comprehensive earnings		
Foreign exchange translation gain (loss) on investment in self-sustaining foreign operations	(61.5)	94.9
Comprehensive earnings	$ (402.3)	$ (42.2)

West Fraser Timber Co. Ltd.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2009 and 2008

(in millions of Canadian dollars)

	Issued capital		Translation		
	Number of shares	Amount	of foreign operations	Retained earnings	Total equity
Balance - January 1, 2008	42,805,086	$ 599.3	$ (93.2)	$ 1,590.0	$ 2,096.1
Changes in equity for 2008					
Foreign exchange translation gain on investment in self-sustaining foreign operations	-	-	94.9	-	94.9
Share purchase loans received	-	0.1	-	-	0.1
Earnings for the year	-	-	-	(137.1)	(137.1)
Dividends	-	-	-	(24.0)	(24.0)
Balance - December 31, 2008	42,805,086	599.4	1.7	1,428.9	2,030.0
Changes in equity for 2009					
Foreign exchange translation loss on investment in self-sustaining foreign operations	-	-	(61.5)	-	(61.5)
Issuance of Common shares	10,723	0.3	-	-	0.3
Earnings for the year	-	-	-	(340.8)	(340.8)
Dividends	-	-	-	(9.8)	(9.8)
Balance - December 31, 2009	42,815,809	$ 599.7	$ (59.8)	$ 1,078.3	$ 1,618.2

West Fraser Timber Co. Ltd.

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008

(in millions of Canadian dollars)

	2009	2008
Cash flows from operating activities		
Earnings	$ (340.8)	$ (137.1)
Items not affecting cash		
Amortization	265.2	281.2
Asset impairments	156.9	-
Gain on asset sales	(1.9)	(7.6)
Deferred maintenance amortization	22.4	25.4
Change in deferred charges	(52.5)	(23.7)
Exchange loss (gain) on long-term debt	(50.1)	68.0
Change in reforestation obligations	(18.3)	1.9
Change in other long-term liabilities	14.2	15.6
Future income taxes	26.0	(64.5)
Other	(2.7)	5.9
	18.4	165.1
Net change in non-cash working capital items	87.5	14.0
	105.9	179.1
Cash flows from financing activities		
Repayment of long-term debt	(150.1)	(2.4)
Proceeds from (repayment of) operating loans	52.0	(119.3)
Dividends	(9.8)	(24.0)
Other	0.3	0.1
	(107.6)	(145.6)
Cash flows from investing activities		
Additions to property, plant, equipment and timber	(18.9)	(46.8)
Proceeds from disposal of property, plant, equipment and timber	2.2	13.1
Decrease in other assets	4.9	7.6
	(11.8)	(26.1)
Increase (decrease) in cash	(13.5)	7.4
Cash - beginning of year	3.7	(3.7)
Cash - end of year	$ (9.8)	$ 3.7
Cash consists of		
Cash and short-term investments	$ 12.0	$ 20.2
Cheques issued in excess of funds on deposit	(21.8)	(16.5)
	$ (9.8)	$ 3.7
Supplemental information		
Interest paid	$ 29.4	$ 33.4
Income taxes received - *net*	$ 18.8	$ 53.0

(figures are in millions of Canadian dollars, except where indicated)

1 Nature of operations and significant accounting policies

Nature of operations

The Company is an integrated wood products company producing lumber, wood chips, panels and pulp and paper products.

Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. Certain comparative figures have been reclassified to conform to the current year's presentation.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany transactions and balances.

Investments in and operations of joint ventures are accounted for by the proportionate consolidation method.

Financial instruments

Cash and short-term investments and derivatives are classified as held for trading and are measured at fair value at each balance sheet date with changes reflected in other income (expense).

Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.

Long-term investments are classified as available for sale and are measured at fair value if there is an active market or carried at cost if there is no active market. Changes in fair value are recognized through other comprehensive earnings. When the asset is sold or impaired the impact is recognized immediately in earnings and recycled from accumulated other comprehensive earnings.

Cheques issued in excess of funds on deposit, operating loans, accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Financing charges are netted against debt and are amortized over the life of the debt.

(figures are in millions of Canadian dollars, except where indicated)

Use of estimates

The preparation of financial statements requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant areas requiring estimates are asset valuations, reforestation obligations, other asset retirement obligations, income taxes and employee future benefits. Actual amounts could differ materially from those estimates.

Revenue recognition

Revenues are derived from product sales and are recognized upon the transfer of significant risks and rewards of ownership, provided collectibility is reasonably assured.

Foreign currency translation

Self-sustaining foreign operations

The Company's foreign subsidiaries use the current rate method of translation. Under this method, all assets and liabilities of the foreign operations are translated into Canadian dollars at the period-end exchange rate and revenues and expenses are translated at average exchange rates during the reporting period. The resulting unrealized gains or losses are included in other comprehensive earnings.

Translation of other foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies, including long-term debt, are translated into Canadian dollars at the period-end exchange rate. Income and expense items are translated at average exchange rates during the reporting period. The resulting gains or losses are included in earnings.

Cash and short-term investments

Cash and short-term investments consist of cash on deposit and short-term interest-bearing securities maturing within three months of the date of purchase.

Inventories

Inventories of logs, other raw materials and manufactured products are valued at the lower of average cost and net realizable value. Processing materials and supplies are valued at the lower of average cost and replacement cost.

(figures are in millions of Canadian dollars, except where indicated)

Property, plant, equipment and timber

Property, plant, equipment and timber are stated at cost less accumulated amortization. Major manufacturing assets under construction include capitalized interest, where applicable. Expenditures for additions and improvements are capitalized. Government grants received that pertain to the construction of manufacturing assets are applied to reduce their cost. Expenditures for maintenance and repairs are charged to earnings. Upon retirement, disposal or destruction of an asset, the cost and related amortization are removed from the accounts and any gain or loss is reflected in earnings.

Property, plant and equipment are principally amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	10 - 30 years
Manufacturing equipment and machinery	10 - 20 years
Fixtures and other equipment	3 - 10 years

Timber rights and roads are amortized over periods not exceeding 60 years.

Impairment of long-lived assets

The Company reviews property, plant, equipment and timber for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Recoverability is assessed by comparing the carrying amount to the estimated future net cash flows the assets are expected to generate. If the carrying amount exceeds the estimated future cash flows, the asset is written down to fair value.

Fair value is determined based on the discounted estimated net future cash flows expected to be generated over the useful lives of the assets. Estimated net future cash flows are based on several estimates including the future selling price of products, future US/Canadian dollar exchange rates, future production rates, future input costs and future capital requirements. The estimated net future cash flows are discounted at rates that reflect the Company’s cost of capital.

Goodwill

Goodwill represents the excess of the purchase price paid for an acquisition over the fair value of the net assets acquired. Goodwill is not amortized, but is subject to an impairment test annually or more frequently if events or circumstances indicate that it may be impaired.

Goodwill impairment is assessed by comparing the fair value of a reporting unit to the underlying carrying amount of the reporting unit’s net assets, including goodwill. When the carrying amount of the unit exceeds its fair value, the fair value of the unit’s goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

(figures are in millions of Canadian dollars, except where indicated)

Asset retirement obligations

The Company harvests timber under various timber rights that require the Company to conduct reforestation. Estimated future reforestation obligations are measured at fair value and accrued and charged to earnings when timber is harvested. The reforestation obligation is reviewed periodically and changes to estimates are credited or charged to earnings.

The Company records the estimated fair value of a liability for other asset retirement obligations in the period a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through periodic charges to earnings and is reduced by actual costs of settlement.

Share-based compensation

The share option plan gives share option holders the right to elect to receive a cash payment in lieu of exercising an option to purchase Common shares. The Company records an expense or recovery in selling, general and administration expense for share options, based on the quoted market value of Common shares. If an option holder elects to purchase Common shares, both the exercise price and the accrued liability are credited to shareholders' equity.

The directors' deferred share unit plan (the "Plan") allows for settlement in cash or Common shares at the holder's option and, therefore, is accounted for as a liability. Fluctuations in the market price of the Common shares cause changes in the Company's obligations under the Plan, the offset of which is recorded in selling, general and administration expense.

Employee future benefits

The Company accrues for its obligations under employee benefit plans and the related costs net of plan assets.

The Company has adopted the following policies:

- The measurement date used for accounting purposes is October 31;
- The cost of pensions earned by employees is actuarially determined using the projected benefit method pro-rated for estimated service periods and management's estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating expected return, plan assets are valued at fair value;

(figures are in millions of Canadian dollars, except where indicated)

- Past service costs arising from plan amendments and transitional obligations are amortized on a straight-line basis over the estimated average remaining service period of affected employees active at the date of the amendments; and

- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees.

For defined contribution plans, pension expense is the amount of contributions the Company is required to make in respect of services rendered by employees.

Income taxes

Future income taxes are provided for using the liability method. Under this method, future income taxes are recognized for temporary differences between the tax and financial statement bases of assets, liabilities and certain carry-forward items.

Future income tax assets are recognized only to the extent that it is more likely than not that they will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment.

2 Investment in joint ventures

The Company's joint ventures are Alberta Newsprint Company (50%) and Cariboo Pulp and Paper Company (50%). The combined proportionate share of the joint ventures is as follows:

	2009	2008
Current assets	$ 61.9	$ 73.1
Non-current assets	116.3	134.1
Total assets	178.2	207.2
Current liabilities	(21.1)	(23.6)
Non-current liabilities	(17.7)	(21.2)
Equity	$ 139.4	$ 162.4
Sales	$ 177.0	$ 208.4
Costs and expenses	(186.6)	(176.1)
Earnings before income taxes	$ (9.6)	$ 32.3
Cash flows from operating activities	$ 10.3	$ 47.0
Cash flows from investing activities	$ (4.9)	$ (5.5)

The Company has business transactions with certain of its joint venture participants and entities related to them. All transactions are at market prices and on normal business terms.

(figures are in millions of Canadian dollars, except where indicated)

3 Inventories

	2009	2008
Logs and other raw materials	$ 76.5	$ 95.0
Manufactured products	241.0	301.2
Processing materials and supplies	90.2	115.4
	$ 407.7	$ 511.6

Inventories at December 31, 2009 were written down by $16.0 million (2008 - $79.3 million) to reflect net realizable value.

4 Property, plant, equipment and timber

			2009
	Cost	Accumulated amortization	Net
Manufacturing plant, equipment and machinery	$ 2,821.4	$ 1,765.1	$ 1,056.3
Construction-in-progress	2.6	-	2.6
Timber rights and roads	767.6	233.5	534.1
Other	36.2	5.1	31.1
	$ 3,627.8	$ 2,003.7	$ 1,624.1

			2008
	Cost	Accumulated amortization	Net
Manufacturing plant, equipment and machinery	$ 3,624.0	$ 2,178.7	$ 1,445.3
Construction-in-progress	5.4	-	5.4
Timber rights and roads	803.0	245.4	557.6
Other	37.0	4.5	32.5
	$ 4,469.4	$ 2,428.6	$ 2,040.8

5 Other assets

	2009	2008
Power purchase agreement - net	$ 80.5	$ 87.8
Advances for timber and timber deposits	5.7	9.0
Investments	2.7	4.4
	$ 88.9	$ 101.2

(figures are in millions of Canadian dollars, except where indicated)

Power purchase agreement

The Company has entered into a power purchase agreement to acquire a portion of the electricity generated from a power plant in Alberta at substantially predetermined prices. The Company's share of electricity capacity to 2020 is expected to be approximately 115 megawatts per year. The Company sells the electricity acquired at prevailing market prices. At the same time, the Company's Alberta operations purchase electricity at prevailing market prices. The power purchase agreement is amortized over its life.

6 Long-term debt and operating loans

Long-term debt

	2009	2008
Debentures due October 2009; interest at 4.94%	$ -	$ 150.0
Term note due March 2010; interest at floating rates [1]	100.0	100.0
US$300 million senior notes due October 2014; interest at 5.2%	315.3	365.4
Note payable due in instalments to 2020; interest at 5.5%	2.7	2.8
	418.0	618.2
Less:		
Current portion	(100.3)	(150.3)
Deferred financing costs	(1.8)	(2.6)
	$ 315.9	$ 465.3

(1) Floating rates are based on Prime, US base, Bankers' Acceptances or LIBOR at the Company's option. In January 2010, the term note was repaid with proceeds from the Company's revolving line of credit.

Required principal repayments are disclosed in note 17.

Operating loans

The Company has $605.0 million (2008 - $605.0 million) in revolving lines of credit available, of which $78.7 million (net of deferred financing costs of $2.2 million) was drawn as at December 31, 2009 (2008 - $29.7 million - net of deferred financing costs of $3.5 million). Interest is payable at floating rates based on Prime, US base, Bankers' Acceptances or LIBOR at the Company's option. The Company has also issued letters of credit in the amount of $33.4 million (2008 - $29.8 million) that were supported by this facility. The revolving lines of credit include a $600.0 million committed facility maturing in March 2012.

Subsequent to year-end, the Company amended its $600.0 million committed facility to increase its flexibility with respect to certain covenants. In return, the Company granted security on its assets in favour of its lenders and the holders of its senior notes.

(figures are in millions of Canadian dollars, except where indicated)

7 Other liabilities

	2009	2008
Post-retirement obligations (note 11)	$ 65.7	$ 68.6
Timber damage deposits	15.6	14.0
Reforestation obligations - long-term	51.9	63.9
Other asset retirement obligations - long-term	26.0	14.8
Other long-term liabilities	7.7	6.2
	$ 166.9	$ 167.5

Asset retirement obligations

The Company's asset retirement obligations relate to its responsibility for reforestation under various timber rights, landfill closure and other site remediation costs.

Changes in asset retirement obligations are as follows:

	Reforestation		Other	
	2009	2008	2009	2008
Asset retirement obligations - opening	$ 108.0	$ 106.1	$ 14.8	$ 9.0
Liabilities recognized	31.0	38.2	12.8	-
Liabilities settled	(37.1)	(41.1)	(0.1)	(0.3)
Accretion expense	4.0	3.9	0.8	0.5
Change in estimates	(16.2)	0.9	1.4	5.6
Asset retirement obligations - ending	89.7	108.0	29.7	14.8
Less: Current portion	(37.8)	(44.1)	(3.7)	-
	$ 51.9	$ 63.9	$ 26.0	$ 14.8

The total undiscounted amount of the estimated cash flows required to satisfy these obligations is $150.8 million (2008 - $147.6 million). The cash flows have been discounted using inflation and credit-adjusted rates ranging from 3.25% to 5.65% to determine fair value.

The timing of the reforestation payments is based on the estimated period required to attain free to grow status in a given area, which is generally between 12 to 15 years. Payments relating to landfill closures and site remediation are expected to occur over periods ranging up to 23 years.

(figures are in millions of Canadian dollars, except where indicated)

8 Share capital

Authorized
200,000,000 Common shares, without par value
20,000,000 Class B Common shares, without par value
10,000,000 Preferred shares, issuable in series, without par value

Issued

	2009			2008		
	Number		**Amount**	**Number**		**Amount**
Common	40,009,331	$	599.4	39,998,608	$	599.1
Class B Common	2,806,478		0.3	2,806,478		0.3
Total Common	42,815,809	$	599.7	42,805,086	$	599.4

Share capital transactions during 2009

The Company issued 10,723 Common shares for $0.3 million.

Share capital transactions during 2008

78,728 Class B Common shares were exchanged for Common shares.

Rights and restrictions of Common shares

Common shares and Class B Common shares are equal in all respects except that each Class B Common share may at any time be exchanged for one Common share.

Dividends payable

Dividends declared and unpaid at December 31, 2009 amounted to $1.3 million (2008 - $6.0 million) and are included in accounts payable and accrued liabilities.

(figures are in millions of Canadian dollars, except where indicated)

Share option plan

The Company has a share option plan for its directors, officers and employees under which it may grant options to purchase up to 5,005,506 Common shares. The exercise price of a share option is the closing price of a Common share on the trading day immediately preceding the grant date. Options vest at the earlier of the date of retirement or death and 20% per year from the grant date, and expire after 10 years. The Company has recorded an expense of $3.4 million (2008 - recovery of $2.3 million) in selling, general and administration expense related to the share option plan.

A summary of the activity in the share option plan is presented below:

	2009			2008		
	Number of options		Weighted average exercise price (dollars)	Number of options		Weighted average exercise price (dollars)
Outstanding - beginning of year	2,852,028	$	36.63	2,388,089	$	37.12
Granted	452,500	$	24.71	552,100	$	33.30
Exercised	(56,870)	$	26.41	(85,161)	$	28.54
Expired/cancelled	(65,704)	$	33.40	(3,000)	$	38.90
Outstanding - end of year	3,181,954	$	35.19	2,852,028	$	36.63
Exercisable - end of year	2,076,313	$	36.21	1,616,024	$	34.43

The following table summarizes information about the share options outstanding at December 31, 2009:

Range of exercise prices (dollars)	Number outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price (dollars)	Number of exercisable options		Weighted average exercise price (dollars)
$21.08 - $29.75	942,824	4.7	$	24.94	494,324	$	25.15
$33.30 - $33.47	1,029,400	5.3	$	33.37	714,196	$	33.40
$37.65 - $41.19	497,200	5.6	$	40.30	389,560	$	40.19
$42.30 - $45.20	414,500	7.1	$	45.06	220,280	$	45.09
$51.56	298,030	5.1	$	51.56	257,953	$	51.56
	3,181,954	5.4	$	35.19	2,076,313	$	36.21

(figures are in millions of Canadian dollars, except where indicated)

Directors' deferred share unit plan

Under the Plan, each non-employee director of the Company may elect to receive all or a portion of his or her fee in the form of deferred share units that vest immediately. Units are redeemable, in cash or for Common shares, only following resignation or retirement (including failure to be re-elected as a director) and must be redeemed by December 15 of the following year or in certain cases a shorter time period. As at December 31, 2009, 46,113 (2008 - 36,614) units were outstanding.

9 Asset impairments

		2009
Assets related to Kitimat linerboard and kraft paper mill	$	140.0
Sawmill assets		16.9
	$	156.9

The Company recorded non-cash impairment charges of $140.0 million related to the Kitimat linerboard and kraft paper mill, of which $121.2 million related to property, plant and equipment, $12.3 million related to parts and supplies inventory and $6.5 million related to deferred maintenance expenditures. On October 28, 2009, the Company announced that the mill would be permanently closed, and in January 2010 the mill ceased operations. In addition, the Company recorded an impairment charge of $16.9 million related to certain sawmill assets due to continued weak market conditions.

10 Restructuring charges

Restructuring charges relate to the closure of the Kitimat linerboard and kraft paper mill and certain indefinitely idled sawmills and consist of the following amounts:

		2009
Termination benefits	$	32.3
Change in asset retirement obligations		12.8
Other costs		1.8
	$	46.9

As at December 31, 2009, accounts payable and accrued liabilities include termination benefits and other costs totalling $34.1 million. Additional restructuring costs will be accrued upon the closure of the Kitimat mill and as incurred.

(figures are in millions of Canadian dollars, except where indicated)

11 Employee future benefits

The Company maintains defined benefit and defined contribution pension plans covering a majority of its employees. The defined benefit plans provide pension benefits based either on length of service or on earnings and length of service. The total pension expense for the defined benefit plans is $33.4 million (2008 - $24.1 million) with total funding contributions of $92.6 million (2008 - $40.6 million). The Company's total funding contributions required for 2010 are expected to be approximately $22.0 million. The Company also provides group life insurance, medical and extended health benefits to certain employee groups for which it contributed $2.1 million (2008 - $1.7 million).

The total pension expense and funding contributions for the defined contribution pension plans is $1.8 million (2008 - $1.7 million).

The status of the defined benefit pension plans and other benefit plans, in aggregate, is as follows:

	Pension plans		Other benefit plans	
	2009	**2008**	**2009**	**2008**
Expense				
Current service cost	$ 22.5	$ 32.6	$ 0.6	$ 1.1
Interest cost on earned benefit obligations	49.6	46.8	3.3	3.1
Actual (gain) loss on plan assets	(87.3)	206.5	-	-
Actual actuarial loss (gain) on benefit obligations	53.6	(133.3)	17.3	(11.8)
Other	(0.3)	1.1	-	-
Expense before adjustments	38.1	153.7	21.2	(7.6)
Difference between expected return and actual return on plan assets	44.2	(263.0)	-	-
Difference between net actuarial gain or loss recognized and actual gain or loss on benefit obligations	(49.2)	133.1	(17.9)	11.8
Difference in other	0.3	0.3	0.5	0.5
Net expense	$ 33.4	$ 24.1	$ 3.8	$ 4.7
Accrued benefit obligations				
Projected benefit obligations - opening	$ 701.2	$ 792.4	$ 44.2	$ 53.5
Current service cost	22.5	32.6	0.6	1.1
Interest cost	49.6	46.8	3.3	3.1
Benefits paid	(43.0)	(41.7)	(2.1)	(1.7)
Actuarial loss (gain)	53.6	(133.3)	17.3	(11.8)
Plan transfers, improvements and other	(1.0)	4.4	(21.1)	-
Projected benefit obligations - ending	$ 782.9	$ 701.2	$ 42.2	$ 44.2
Plan assets				
Fair value - opening	$ 643.1	$ 844.5	$ -	$ -
Actual gain (loss) on plan assets	87.3	(206.5)	-	-
Contributions	59.6	45.1	2.1	1.7
Benefits paid	(43.0)	(41.7)	(2.1)	(1.7)
Plan transfers, improvements and other	(0.4)	1.7	-	-
Fair value - ending	$ 746.6	$ 643.1	$ -	$ -

(figures are in millions of Canadian dollars, except where indicated)

	Pension plans		Other benefit plans	
	2009	**2008**	**2009**	**2008**
Funded status of the plans				
Surplus (deficit) - registered plans	$ (45.6)	$ (63.9)	$ (42.2)	$ (44.2)
- supplemental plans	9.3	5.8	-	-
	(36.3)	(58.1)	(42.2)	(44.2)
Contributions after measurement date	39.5	6.4	-	-
	3.2	(51.7)	(42.2)	(44.2)
Unamortized net actuarial loss (gain)	115.5	110.6	6.5	(11.4)
Unamortized past service costs	5.7	6.4	(21.1)	-
Unamortized net transitional amount	(2.0)	(2.1)	1.4	1.9
Net accrued benefit asset (liability)	$ 122.4	$ 63.2	$ (55.4)	$ (53.7)
Represented by				
Deferred pension costs	$ 132.7	$ 78.1	$ -	$ -
Post-retirement obligations (note 7)	(10.3)	(14.9)	(55.4)	(53.7)
	$ 122.4	$ 63.2	$ (55.4)	$ (53.7)

The significant actuarial assumptions used are as follows:

	Pension plans		Other benefit plans	
	2009	**2008**	**2009**	**2008**
To determine benefit obligations at end of year				
Discount rate	6.50%	7.25%	6.50%	7.25%
Expected rate of return on plan assets	7.00%	7.00%	n/a	n/a
Rate of increase in future compensation	3.50%	3.50%	n/a	n/a
To determine benefit expense for the year				
Discount rate	7.25%	5.75%	7.25%	5.75%
Expected rate of return on plan assets	7.00%	7.00%	n/a	n/a
Rate of increase in future compensation	3.50%	3.50%	n/a	n/a

The Company funds health care benefit costs, shown under other benefit plans, on a pay-as-you-go basis. The actuarial assumptions are for extended health care cost increases of 10% per year for five years, grading down to 4.5% per year thereafter, with no increase in the medical services plan.

A 1% increase or decrease in the assumed health care cost trend rates would have the following effects for 2009:

	Increase	**Decrease**
Total of service and interest cost	$ 0.1	$ 0.1
Accrued benefit obligations	$ 1.6	$ 1.5

(figures are in millions of Canadian dollars, except where indicated)

Assets

The weighted average asset allocations of the defined benefit plans at the measurement date, by asset category, are as follows:

	2009	2008
Equity investments	53%	51%
Fixed income investments	47%	48%
Other investments	-	1%
	100%	100%

Actuarial valuations

Actuarial valuations of the pension plans are generally required every three years. The most recent valuations and the next scheduled valuations for principal defined benefit plans are as follows:

Last actuarial valuation date	Scheduled valuation date	Benefit obligations	Fair value of assets
December 31, 2006	December 31, 2009	3%	3%
December 31, 2007	December 31, 2010	47%	46%
December 31, 2008	December 31, 2009	2%	2%
December 31, 2008	December 31, 2011	45%	45%
December 1, 2009	December 1, 2010	3%	4%
		100%	100%

12 Interest expense

	2009	2008
Long-term interest expense	$ (26.2)	$ (29.9)
Current interest expense - net	(2.7)	(6.2)
	$ (28.9)	$ (36.1)

(figures are in millions of Canadian dollars, except where indicated)

13 Other income (expense)

	2009	2008
Foreign exchange gain (loss) - net	$ (16.4)	$ 24.1
Gain on asset sales	1.9	7.6
Dividend income	0.5	2.6
Gain on derivative financial instruments	9.2	2.0
Other - net	3.4	0.6
	$ (1.4)	$ 36.9

14 Income taxes

The effective tax rate is different from the statutory tax rates as follows:

	2009		2008	
	Amount	**%**	**Amount**	**%**
Income tax recovery at statutory rates	$ 111.7	30.0	$ 68.3	31.0
Non-taxable amounts	8.1	2.2	(8.7)	(3.9)
Rate differentials between jurisdictions and on specified activities	11.7	3.2	12.9	5.9
Rate differential on loss carry-backs	8.2	2.2	3.7	1.7
Reduction in statutory income tax rates	4.7	1.2	6.4	2.9
Valuation allowance	(113.8)	(30.6)	-	-
Other	1.1	0.3	0.7	0.2
	$ 31.7	8.5	$ 83.3	37.8

The components of future income taxes are as follows:

	2009	2008
Property, plant, equipment and timber	$ (234.7)	$ (331.2)
Asset retirement obligations	27.6	28.7
Post-retirement obligations	19.4	19.9
Loss carry-forwards	1.6	116.4
Other	(31.1)	(13.4)
	$ (217.2)	$ (179.6)
Presented as follows:		
Future income tax asset	$ -	$ 87.2
Future income tax liability	(217.2)	(266.8)
	$ (217.2)	$ (179.6)

(figures are in millions of Canadian dollars, except where indicated)

The Company has loss carryforwards not recognized for accounting purposes which expire in various amounts in the years 2021 to 2029.

15 Earnings per share

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

When there is a net loss, the exercise of stock options would result in a calculated diluted earnings per share that is anti-dilutive. Accordingly, these shares have not been included in the total weighted average shares for the purpose of calculating diluted earnings per share.

	2009	**2008**
Earnings available to shareholders	$ (340.8)	$ (137.1)
Weighted average number of shares		
Basic and diluted	42,807,980	42,805,086
Earnings per share (dollars)		
Basic and diluted	$ (7.96)	$ (3.20)

16 Commitments

a) **Operating leases**

The Company is committed to make payments under certain operating leases for equipment, land, buildings and office space. The payments required under these leases are as follows:

2010	$ 3.8
2011	2.4
2012	1.2
	$ 7.4

b) **Product purchase and sale commitments**

The Company has long-term purchase and sale contracts with minimum annual volume commitments. All contracts are at market prices and on normal business terms.

c) **Capital expenditures**

Capital commitments at December 31, 2009 amounted to $30.0 million.

(figures are in millions of Canadian dollars, except where indicated)

17 Financial instruments

a) Carrying and fair value of financial instruments by category

2009

	Held for trading	Loans & receivables	Other financial liabilities	Carrying value	Fair value
Financial assets					
Cash and short-term investments	$ 12.0	$ -	$ -	$ 12.0	$ 12.0
Accounts receivable					
Trade and other	-	194.4	-	194.4	194.4
Derivatives	6.2	-	-	6.2	6.2
	6.2	194.4	-	200.6	200.6
	$ 18.2	$ 194.4	$ -	$ 212.6	$ 212.6
Financial liabilities					
Cheques issued in excess of funds on deposit	$ -	$ -	$ 21.8	$ 21.8	$ 21.8
Operating loans	-	-	78.7	78.7	78.7
Accounts payable and accrued liabilities	-	-			
Trade and other	-	-	249.1	249.1	249.1
Derivatives	3.5	-	-	3.5	3.5
Long-term debt (note 6) (1)	-	-	418.0	418.0	383.9
	$ 3.5	$ -	$ 767.6	$ 771.1	$ 737.0

2008

	Held for trading	Loans & receivables	Other financial liabilities	Carrying value	Fair value
Financial assets					
Cash and short-term investments	$ 20.2	$ -	$ -	$ 20.2	$ 20.2
Accounts receivable					
Trade and other	-	250.9	-	250.9	250.9
Derivatives	2.1	-	-	2.1	2.1
	2.1	250.9	-	253.0	253.0
	$ 22.3	$ 250.9	$ -	$ 273.2	$ 273.2
Financial liabilities					
Cheques issued in excess of funds on deposit	$ -	$ -	$ 16.5	$ 16.5	$ 16.5
Operating loans	-	-	29.7	29.7	29.7
Accounts payable and accrued liabilities	-	-	241.4	241.4	241.4
Long-term debt (note 6) (1)	-	-	618.2	618.2	508.4
	$ -	$ -	$ 905.8	$ 905.8	$ 796.0

(1) The fair value of the long-term debt is based on rates currently available to the Company for long-term debt with similar terms and remaining maturities.

(figures are in millions of Canadian dollars, except where indicated)

b) **Financial risk management**

The Company's activities result in exposure to a variety of financial risks including risks related to commodity prices, currency fluctuation, credit, liquidity and interest rates.

Commodity prices

The Company's financial performance is principally dependent on the demand for and selling prices of its products. Both are subject to significant fluctuations. The markets for lumber, panels, pulp, paper, wood chips and other wood products are highly volatile and are affected by factors such as global economic conditions including the strength of the US housing market, changes in industry production capacity, changes in world inventory levels and other factors beyond the Company's control.

Currency fluctuation

Most of the Company's products are sold at prices denominated in US dollars or based on prevailing US dollar prices, and a significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the revenue in Canadian dollar terms realized by the Company from sales made in US dollars, which reduces operating margin and the cash flow available to fund operations. US dollar-denominated debt and operations in the US provide a partial offset to exchange exposure.

From time to time, the Company uses derivatives to manage its exposure to US dollar exchange fluctuations and commodity prices. The Company does not utilize derivative financial instruments for trading or speculative purposes and it does not apply hedge accounting.

Impact of US dollar currency fluctuation on financial instruments

The US dollar balance sheet exposure, excluding self-sustaining foreign operations, at December 31, 2009 was as follows:

		2009
Net working capital	US$	103.7
Long-term debt		(300.0)
	US$	(196.3)

The foreign currency contracts outstanding at December 31, 2009 were as follows:

Term	**US$**	**Average rate Cdn$/US$**
0 to 2 months		
US dollar collars	40.0	1.150 - 1.377
0 to 9 months		
US dollar forwards	40.5	1.104

(figures are in millions of Canadian dollars, except where indicated)

NBSK floating to fixed swap contracts outstanding at December 31, 2009 were as follows:

Term	**Tonnes**	**Average fixed price**
1 to 7 months	35,000	US$710

Based on the US dollar balance sheet exposure and the outstanding foreign currency contracts at December 31, 2009, with other variables unchanged, a $0.01 increase in US dollars compared to Canadian dollars would have resulted in a $2.1 million increase in earnings. A $0.01 decrease in US dollars compared to Canadian dollars would have resulted in a $3.0 million decrease in earnings.

Credit

Credit risk arises from the non-performance by counterparties of contractual financial obligations. Investments of cash and short-term investments and derivative contracts are primarily made using major banks and only made with counterparties meeting certain credit worthiness criteria. Credit risk for trade and other accounts receivable is managed through established credit monitoring activities. Customer credit limits are established and monitored and ongoing evaluations of key customer financial condition is performed. In certain market areas, the Company has undertaken additional measures to reduce credit risk, including credit insurance, letters of credit and prepayments. At December 31, 2009 approximately 57% of trade accounts receivable were covered under these additional measures. Bad debt expense of $1.6 million (2008 - $1.0 million) was recorded for the year. The ageing analysis of trade accounts receivable is presented below:

	2009	**2008**
Trade accounts receivable - gross		
Current	$ 133.0	$ 161.5
Past due 1 to 30 days	40.7	42.1
Past due 31 to 60 days	1.0	8.3
Past due over 60 days	0.3	6.0
	175.0	217.9
Allowance for doubtful accounts	(0.5)	(1.0)
Trade accounts receivable - net	174.5	216.9
Other receivables	26.1	36.1
Accounts receivable	$ 200.6	$ 253.0

(figures are in millions of Canadian dollars, except where indicated)

Liquidity

The Company manages liquidity by maintaining adequate cash and short-term investment balances and by having appropriate lines of credit available. In addition, the Company regularly monitors and reviews both actual and forecasted cash flows. Refinancing risks are managed by ensuring long-term debt has a balanced maturity schedule.

The following table summarizes the aggregate amount of contractual future cash outflows for long-term debt:

	Total	2010	2011	2012	2013	2014	Thereafter
Long-term debt (note 6)	$ 418.0	$ 100.3	$ 0.3	$ 0.3	$ 0.3	$ 315.6	$ 1.2
Interest on debt [1]	79.9	17.1	16.5	16.5	16.5	13.0	0.3
	$ 497.9	$ 117.4	$ 16.8	$ 16.8	$ 16.8	$ 328.6	$ 1.5

(1) Assumes debt level, foreign exchange rate and floating interest rates remain at balance sheet date levels and rates.

Interest rates

Interest rate risk relates mainly to cash and short-term investments and floating rate debt. The general practice of the Company is to fund its long-term capital with debt at fixed rates and various maturities. In addition, the Company has revolving lines of credit available that bear interest at floating rates on amounts drawn.

At December 31, 2009, with other variables unchanged, a 1% change in interest rates would not have a significant impact on earnings or other comprehensive earnings.

18 Capital disclosures

The Company’s business is cyclical and is subject to significant changes in cash flow over the business cycle. In addition, financial performance can be materially influenced by changes in product prices and the relative values of the Canadian and US dollar. The Company’s objective in managing capital is to ensure adequate liquidity and financial flexibility at all times, particularly at the bottom of the business cycle and in a strong Canadian dollar environment.

The Company’s main policy relating to capital management is to maintain a strong balance sheet and otherwise meet financial tests that are commonly applied by rating agencies for investment grade issuers of public debt. The Company’s debt is currently rated at below investment grade by major rating agencies primarily due to the poor economic fundamentals of the North American forestry industry. The Company believes that the goal of returning to an investment grade rating is an appropriately conservative approach in the context of the Company’s cyclical business.

(figures are in millions of Canadian dollars, except where indicated)

The Company monitors and assesses its financial performance in order to ensure that its net debt levels are prudent taking into account the anticipated direction of the business cycle. When financing acquisitions, the Company combines debt and equity financing in a proportion that is intended to maintain an investment grade rating for debt throughout the cycle. Long-term debt repayments are arranged on a staggered basis that takes into account the uneven nature of anticipated cash flows. The Company has also established committed revolving lines of credit that provide liquidity and flexibility when capital markets are restricted.

One key measurement used by the Company to monitor its capital position is net debt to total capital, calculated as follows at December 31:

	2009	**2008**
Net debt		
Cash and short-term investments	$ (12.0)	$ (20.2)
Cheques issued in excess of funds on deposit	21.8	16.5
Operating loans	78.7	29.7
Current portion of long-term debt	100.3	150.3
Long-term debt	315.9	465.3
	504.7	641.6
Shareholders' equity	1,618.2	2,030.0
Total capital	$ 2,122.9	$ 2,671.6
Net debt to total capital	24%	24%

(figures are in millions of Canadian dollars, except where indicated)

19 Segmented information

The segmentation of manufacturing operations into lumber, panels and pulp and paper is based on a number of factors, including similarities in products, production processes and economic characteristics. Transactions between segments are at market prices and on normal business terms. The accounting policies of each segment are those described in note 1.

2009

	Lumber	Panels	Pulp & paper	Corporate and other	Consolidated
Sales at market prices					
To external customers	$ 1,285.0	$ 390.4	$ 936.4	$ -	$ 2,611.8
To other segments	95.3	6.7	-	-	
	$ 1,380.3	$ 397.1	$ 936.4	$ -	
EBITDA[1]	$ (31.3)	$ 48.3	$ 9.7	$ 3.1	$ 29.8
Amortization	141.3	34.6	85.8	3.5	265.2
Asset impairments	16.9	-	140.0	-	156.9
Operating earnings	(189.5)	13.7	(216.1)	(0.4)	(392.3)
Interest income (expense) - net	(18.1)	(3.0)	(8.8)	1.0	(28.9)
Exchange gain on long-term debt	-	-	-	50.1	50.1
Other income (expense)	3.5	(0.9)	(3.1)	(0.9)	(1.4)
Earnings before income taxes	$ (204.1)	$ 9.8	$ (228.0)	$ 49.8	$ (372.5)
Total capital employed[1]	$ 1,383.2	$ 306.8	$ 631.4	$ 175.8	$ 2,497.2
Identifiable assets before goodwill	$ 1,291.2	$ 288.9	$ 720.3	$ 249.0	$ 2,549.4
Goodwill	217.6	46.1	-	-	263.7
Total identifiable assets	$ 1,508.8	$ 335.0	$ 720.3	$ 249.0	$ 2,813.1
Capital expenditures	$ 9.7	$ 1.1	$ 7.3	$ 0.8	$ 18.9
Sales by geographic area					
Sales to external customers					
USA	$ 888.6	$ 80.4	$ 230.8	$ -	$ 1,199.8
Canada	262.7	303.4	44.2	-	610.3
Europe	-	0.1	94.6	-	94.7
Far East	128.3	3.3	370.0	-	501.6
Other	5.4	3.2	196.8	-	205.4
	$ 1,285.0	$ 390.4	$ 936.4	$ -	$ 2,611.8
Property, plant, equipment, timber and goodwill by geographic area					
Canada					$ 1,657.1
USA					230.7
					$ 1,887.8

[1] **Non-GAAP measures**:

a) EBITDA is defined as operating earnings plus amortization and asset impairments.

b) Capital employed is defined as identifiable assets less current non-interest bearing liabilities at year-end.

(figures are in millions of Canadian dollars, except where indicated)

2008

	Lumber	Panels	Pulp & paper	Corporate and other	Consolidated
Sales at market prices					
To external customers	$ 1,644.9	$ 428.1	$ 1,115.5	$ -	$ 3,188.5
To other segments	134.1	9.5	-	-	
	$ 1,779.0	$ 437.6	$ 1,115.5	$ -	
EBITDA[1]	$ (51.4)	$ 29.0	$ 142.6	$ 7.8	$ 128.0
Amortization	139.8	38.0	99.9	3.5	281.2
Operating earnings	(191.2)	(9.0)	42.7	4.3	(153.2)
Interest expense - net	(22.0)	(4.5)	(9.6)	-	(36.1)
Exchange loss on long-term debt	-	-	-	(68.0)	(68.0)
Other income	12.8	2.8	19.6	1.7	36.9
Earnings before income taxes	$ (200.4)	$ (10.7)	$ 52.7	$ (62.0)	$ (220.4)
Total capital employed[1]	$ 1,743.3	$ 359.5	$ 903.7	$ 103.1	$ 3,109.6
Identifiable assets before goodwill	$ 1,661.9	$ 346.1	$ 992.8	$ 147.1	$ 3,147.9
Goodwill	217.6	46.1	-	-	263.7
Total identifiable assets	$ 1,879.5	$ 392.2	$ 992.8	$ 147.1	$ 3,411.6
Capital expenditures	$ 26.5	$ 1.3	$ 16.9	$ 2.1	$ 46.8
Sales by geographic area					
Sales to external customers					
USA	$ 1,201.1	$ 102.5	$ 292.7	$ -	$ 1,596.3
Canada	294.2	315.0	52.4	-	661.6
Europe	-	0.2	101.9	-	102.1
Far East	144.5	9.3	402.1	-	555.9
Other	5.1	1.1	266.4	-	272.6
	$ 1,644.9	$ 428.1	$ 1,115.5	$ -	$ 3,188.5
Property, plant, equipment, timber and goodwill by geographic area					
Canada					$ 1,982.1
USA					322.4
					$ 2,304.5

(1) **Non-GAAP measures**:

a) EBITDA is defined as operating earnings plus amortization and asset impairments.

b) Capital employed is defined as identifiable assets less current non-interest bearing liabilities at year-end.