

Report to Shareholders



2009 was the most challenging year in our Company's history. U.S. housing starts declined to levels not seen since the 1940's. As a result, lumber prices continued a precipitous decline that started in the second half of 2006. In inflation-adjusted dollars, lumber prices dropped to post-Depression low levels. The continued strengthening of the Canadian dollar during the year further depressed both our solid wood and our pulp and paper results. By any measure, this was the toughest year in memory for the North American forest products industry.

When we started the year, our strategy was to continue to drive costs out of our system, close or curtail mills that were draining cash from the Company and take all measures to produce strong positive cash flow and maintain a healthy and flexible balance sheet. I'm glad to say that we accomplished those goals.

In 2009, West Fraser recorded a loss of \$341 million. This loss included non-cash write-offs of several non-performing assets totalling \$157 million. At the same time, we produced positive EBITDA of \$30 million and positive operating cash flow from operations of \$106 million.

We accomplished this by continually reducing our costs, substantially reducing our working capital, significantly limiting our capital expenditures and reducing our dividend. These efforts enabled us to pay down \$150 million of debt that came due during the year, carry out required maintenance capital spending, maintain a modest dividend and end the year with a very healthy debt to capital ratio of 24%.

I believe this is an outstanding accomplishment given the current operating environment. A great deal of credit goes to our employee group who, despite the tremendous uncertainty posed by these extraordinarily difficult times, maintained a high degree of morale and commitment while achieving among the best results in the industry.

In 2009, the North American lumber industry operated at about 55% of capacity reflecting the historically low level of home building in the U.S. Due to our generally modern, efficient and low-cost Canadian mills, West Fraser operated at about 70% of capacity in Canada. Our U.S. mills operated at about 60% of capacity due to the fact that we have not yet spent the capital in many of those facilities to move them down the cost curve. This will be a priority when we begin to generate more cash. During the year, we indefinitely idled three of our fifteen U.S. mills. In Canada, we operated significantly above the industry average but still had to deal with the negative effects that the Mountain Pine Beetle epidemic continues to have on lumber recovery, grade outturn and productivity at many of our operations. The beetle epidemic has pretty much run its course in central British Columbia. Over the next five to ten years the B.C. industry will contract due to reduced timber availability caused by this epidemic.

Over the past three or four years, Alberta's forests have also been attacked by the Mountain Pine Beetle. We are hopeful that continued aggressive action by both the Alberta government and the forest industry will help to retard the spread of the beetle in Alberta.

In any event, we believe that lumber capacity in Canada is in the process of being permanently reduced. This should set the stage for stronger lumber prices and better financial results when the housing markets begin to recover.

Our panel division performed relatively well during the year due to the fact that most of our plywood is sold into the Canadian market. The new housing and the repair and remodelling markets in Canada performed significantly better than comparable U.S. markets because we did not experience the same speculative housing bubble on this side of the border.



Prices for pulp, linerboard and newsprint dropped sharply during the first half of the year. The rising Canadian dollar further contributed to the negative results of this division. However, we have made significant strides in improving the cost structure of our Hinton pulp mill and we also completed a major capital improvement project at our joint venture Alberta Newsprint mill which lowered our costs and improved the quality of the product.

In October, we made the very difficult decision to permanently close our Eurocan linerboard and kraft paper mill in Kitimat, B.C. We determined that this mill could not be globally competitive in the future due to rising costs, the strong Canadian dollar and competition from newer and more efficient operations.

In late 2008, the U.S. pulp and paper industry took advantage of a loophole in a federal green energy subsidy program that resulted in huge and unintended payments flowing to kraft pulp mills which burned black liquor in the production process. This subsidy had the effect of encouraging maximum production from even the most uneconomic facilities in the U.S., thereby depressing prices and providing an unfair advantage in the global market place. While this particular program expired at the end of 2009, it substantially altered the competitive landscape in that business. We are hopeful that further government efforts to encourage bioenergy production on either side of the border will not be at the expense of the low-cost, productive industry participants.

On balance, we are pleased with the progress we made during the year to position our pulp and paper business at the low end of the North American cost curve. With the closure of the Eurocan mill and the benefit of the recent capital we have invested in our pulp and newsprint businesses, we believe this division will be a good contributor to our overall results in the future.

In January 2009, a valued employee at our Slave Lake veneer division lost his life in an industrial accident at the plant. We were deeply saddened by this loss. Employees throughout the Company continue to work hard to improve our overall safety performance. We have made great strides over the past few years in embedding a strong safety culture throughout the Company. Our results speak for themselves. Medical incident and accident severity rates continue to decline. However, the pursuit of safety in the workplace is a never-ending job and we remain committed to our goal of eliminating all serious and debilitating injuries at West Fraser.

As one of the major timber tenure holders in Canada, West Fraser is committed to operating to the highest standards of sustainable forestry. All of our timber tenures are certified to both ISO 14001 and the Sustainable Forestry Initiative® standard. In addition, we continue to work with provincial governments and other interested parties to ensure the appropriate protection of special areas and threatened species in our operating areas.

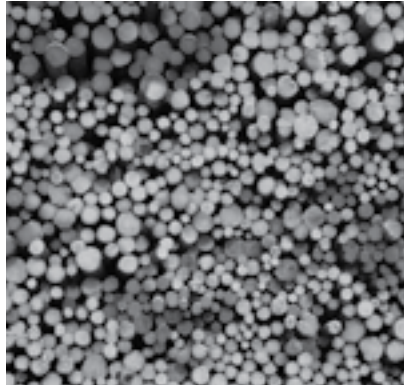
A major focus for our Company in recent years has been to reduce our reliance on fossil fuels and thereby minimize our carbon footprint. We continue to make good progress in this regard.

We believe that consumers will soon begin to understand and appreciate the environmental benefits that wood-based products have over the major alternative products such as steel and concrete. Life cycle assessments confirm that wood has a significantly lower carbon footprint than its main competitors. This should give wood from sustainably-managed forests a significant advantage in the market place in the future.

In addition, we believe that emerging bioenergy policies and technologies will create opportunities to add value to our existing operations – particularly in Canada. We are working hard to identify projects that will both improve our bottom line and reduce our environmental impact.

For almost four years the North American lumber industry has suffered through a previously unimaginable economic crisis caused by the collapse of the housing bubble in the U.S. followed by an unprecedented financial crisis. Many of our competitors have not survived. Those that have survived have been badly bruised – including West Fraser. But through the hard work and commitment of our outstanding employees, West Fraser continues to be a positive outlier in terms of operating and financial performance.

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Our plants are generally modern and efficient; we're at the low end of the cost curve in our Canadian lumber, panel and pulp and paper businesses; we're generating cash and our balance sheet is strong. This is the recipe for significant upside potential when the U.S. housing market begins to recover.

At West Fraser, we're very optimistic about the future. We see opportunities for the North American lumber business to expand market share both at home and abroad. We see opportunities to significantly improve the competitive position of our pulp business through transformative energy projects. And we see opportunities to create new lines of business in the emerging bioenergy field.

And, finally, we see a world in which consumers will increasingly choose wood products over competing products due to the environmental attributes that they provide.

At West Fraser, it is our responsibility to turn these opportunities into reality. I'm glad to say that we have the people to do this. Our employees have really shown their stuff during the depths of this recession. They have been loyal and resilient and have continued to find ways to reduce our costs and maintain a healthy balance sheet. That's why I have no doubt that we will seize the opportunities that the future holds for West Fraser.

In closing, I want to thank all West Fraser employees for the dedication they have shown to our Company during the most stressful period in our history. I want to particularly acknowledge those employees and their families whose lives have been disrupted by plant curtailments or closures. Finally, I want to thank our Board of Directors for their guidance through this most difficult period. Their advice and encouragement continues to inspire our management team to build a bigger and stronger Company for the future.

Henry H. Ketcham

Chairman, President & Chief Executive Officer