WEST FRASER

ANNUAL REPORT 2016

Including Annual Information Form

Dated: February 16, 2017

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WEST FRASER
ANNUAL REPORT 2016

LUMBER
Canada
1. Quesnel
2. Williams Lake
3. Smithers
4. Chetwynd
5. Fraser Lake
6. Chasm
7. 100 Mile House
8. Blue Ridge
9. Hinton
10. Edson
11. Sundre
12. High Prairie
13. Manning

PULP & PAPER
29. Hinton
30. Quesnel (2)
31. Slave Lake
32. Whitecourt

PLYWOOD
33. Edmonton
34. Quesnel
35. Williams Lake

MDF
36. Blue Ridge
37. Quesnel

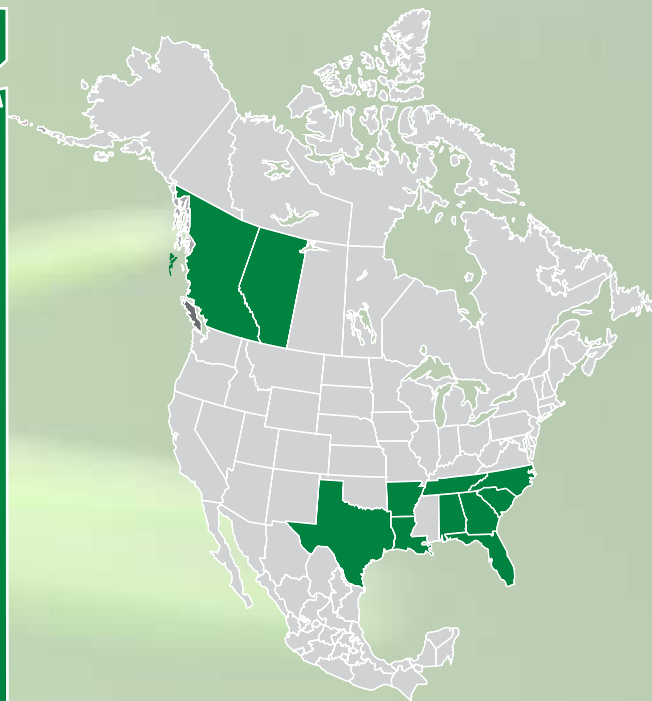
VENEER & LVL
38. Rocky Mountain House
39. Slave Lake

LUMBER
U.S.
14. Joyce
15. Huttig
16. Henderson
17. New Boston
18. Leola
19. Mansfield
20. Russellville
21. Maplesville
22. Opelika
23. McDavid
24. Whitehouse
25. Augusta
26. Newberry
27. Armour
28. Seaboard

OPERATIONS

West Fraser is a North American wood products company. Its main product is lumber (spruce/pine/fir ("SPF") and southern yellow pine ("SYP")), and it also produces panels (plywood, MDF and LVL), pulp (NBSK and BCTMP), newsprint, wood chips and energy. The operations located in western Canada manufacture all of the products described above except SYP lumber.

The sawmills located in the southern United States produce SYP lumber and wood chips.



Financial and Operating Highlights

	2016	2015
Earnings ($millions)		
Sales	**4,450**	4,100
Adjusted EBITDA[1]	**674**	417
Operating earnings	**482**	249
Earnings	**326**	104
Cash flow from operating activities	**689**	301
Common Share Data (in dollars per share, except shares outstanding)		
Shares outstanding (thousands)		
– Weighted average (basic)	**80,236**	83,104
– Year-end	**78,163**	82,457
Earnings per share		
– Basic	**4.06**	1.25
– Diluted	**3.90**	0.89
Cash dividends per share	**0.28**	0.28
Common shareholders' equity	**28.67**	26.04
Price range		
– High (2016 – Jun 27; 2015 – Feb 12)	**54.18**	78.55
– Low (2016 – Mar 30; 2015 – Oct 2)	**35.35**	40.56
– Close	**48.01**	52.53
Financial Position ($millions)		
Working capital	**479**	365
Total assets	**3,600**	3,635
Long-term debt (includes current portion)	**413**	423
Shareholders' equity	**2,241**	2,147
Analytical Data		
Current ratio	**2.0**	1.6
Capital expenditures ($millions)	**273**	220
Net debt to capitalization (%)	**14**	22
Return on common shareholders' equity (%)	**15**	5

		2016	2015
Lumber			
Sales ($millions)[2]		**3,145**	2,764
Operating earnings ($millions)		**362**	105
SPF (MMfbm)	Production	**3,796**	3,599
	Shipments	**3,878**	3,614
SYP (MMfbm)	Production	**2,139**	2,008
	Shipments	**2,126**	2,014
Panels			
Sales ($millions)[2]		**529**	554
Operating earnings ($millions)		**77**	82
Plywood (3/8” MMsf)	Production	**826**	797
	Shipments	**826**	803
MDF (3/4” MMsf)	Production	**160**	220
	Shipments	**167**	212
LVL (Mcf)	Production	**2,215**	1,627
	Shipments	**2,226**	1,728
Pulp & Paper			
Sales ($millions)		**887**	900
Operating earnings ($millions)		**42**	41
NBSK (Mtonnes)	Production	**527**	497
	Shipments	**526**	499
BCTMP (Mtonnes)	Production	**665**	645
	Shipments	**653**	673
Newsprint (Mtonnes)	Production	**128**	133
	Shipments	**129**	136

1. Adjusted EBITDA is described in the section titled “Non-IFRS Measures” of our 2016 Management’s Discussion & Analysis.
2. Includes intracompany fibre sales.

Message from our President and Chief Executive Officer

For more than 60 years, West Fraser's business strategy has been straight-forward and consistently focused on three key drivers: to be the low-cost, high-margin producer in each of our product lines and geographic regions; maintaining a conservative balance sheet to manage for the inherent cyclicality of our industry; and reinvesting in our business assets. We believe these three pillars are the cornerstones to our success. Through the efforts of our 7,800 employees, we have made significant progress on all three fronts in 2016.

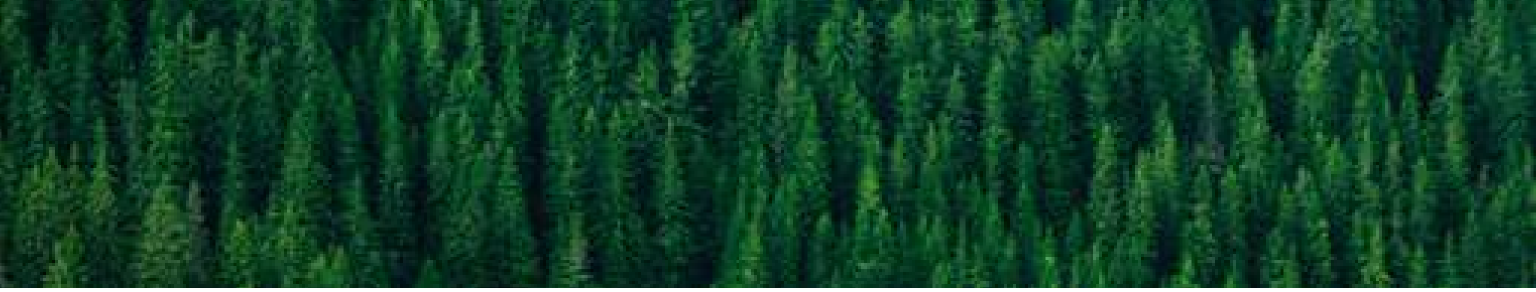
Improving lumber markets in 2016 helped us to achieve stronger financial performance. We delivered industry-leading margins in our core lumber segment this year and improved operational performance in all segments of the business. We strengthened our financial position, reducing our debt to capital ratio from 22% (2015) to 14% (2016) in the same year that we invested $190 million in purchasing our Common shares, a three-year total of $361 million in Common share purchases. Since 2011, we have reinvested in excess of $1.6 billion across the Company to equip our facilities to be the most efficient, modern mills in the industry. Within our comprehensive capital program, we have completed 10 major sawmill rebuilds, upgraded 12 planers, added 28 continuous kilns and built 6 major energy and bio-product projects.

Despite U.S. housing construction at relatively modest levels and continuing log cost escalation in the B.C. Interior, our capital program combined with our dedicated and competitive group of employees achieved a record Adjusted EBITDA in 2016 of $674 million. Although we were challenged by difficult weather conditions in the fourth quarter, lumber shipments were 376 million feet higher in 2016 compared to 2015. Markets for our plywood, laminated veneer lumber (LVL) and medium density fibreboard (MDF) products were relatively stable compared to 2015 and our panel business continues to be a meaningful and positive contributor to our overall financial results. We also improved production at our Hinton pulp mill in 2016. However, as we have previously indicated, pulp markets are expected to be challenged by increases in global pulp capacity over the next few years.

With our most significant capital spending behind us, we see an opportunity within our 40 mills to materially improve our operating results in 2017. We aim to increase lumber production by a further 250 million feet and are optimistic about continued cost and margin improvement in all three of our business segments.

What we achieve is important. How we achieve these results is just as critical to sustain and build on our Company culture and our values, and how our people define our success. Employee safety and a safe work environment are priorities at every one of our locations. Our health and safety goal is nothing less than eliminating serious incidents and injuries in our operations with zero tolerance for unsafe behaviour. We are working to improve safety behaviors and activities through continuous attention to education and training to better our performance, risk identification and safety awareness. We are making progress towards our objective and we will continue to pursue safety performance improvement in 2017.

We grew dramatically in 2005 with the acquisition of Weldwood and again in 2007 with the purchase of U.S. sawmills from International Paper. Beyond capital investment, it was equally important to knit together a strong, cohesive organization that demonstrates the West Fraser values and our long-standing culture of competitiveness, teamwork, frugality and humility. Recruiting and developing our



people is a major area of focus for us and an area where we are being acknowledged for our efforts. 2017 marks the fourth time we have been recognized as one of *Canada's Top 100 Employers* and the first time as one of *Canada's Top Employers for Young People*. We will continue to focus on operational excellence in all facets of the Company and match it with an equal commitment to the development of people who are critical to our long-term success.

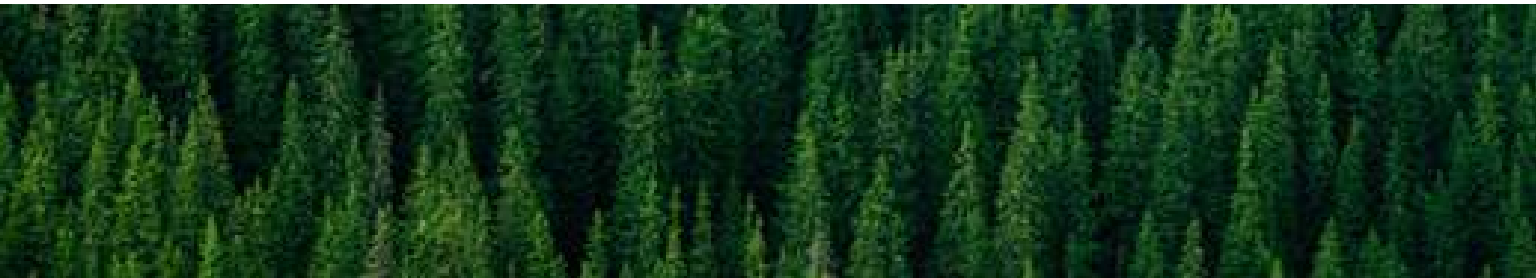
I am proud to be a part of a high-technology industry that produces sustainable products from renewable resources. We are innovating in our facilities and have embraced initiatives across the organization to reduce our energy consumption, to choose more energy efficient equipment and, where possible, shift our fuel sources towards carbon-neutral biomass. Today, 85% of our mills generate energy from residual woody materials that are by-products of wood processing. We operate five bioenergy generation facilities, including an organic biogas waste-to-energy plant at Slave Lake Pulp that uses the mill's effluent and biological organisms to generate the power to operate 4,300 homes for a year. We also initiated production at Canada's first commercial lignin recovery plant in 2016, capturing this adaptable material from our pulp process. Lignin has potential as a natural, renewable green alternative for fossil fuel-based compounds and for innovations in renewable chemicals. We are excited to be exploring a wide range of opportunities for this flexible product.

Our commitments to certified, sustainable forest management and fibre sourcing practices are entrenched in our operating actions. Strong environmental practices are foundational to our ability to profitably and responsibly manufacture our products, to be a sought after and stable employer, and to support healthy forest systems for current and future generations. I believe that we are only beginning to realize the opportunities where wood products can help to address some of the opportunities in green construction because of their environmental benefits over other materials like concrete or composites. West Fraser's lumber products were part of the construction of one of the world's tallest mass timber hybrid structures, an 18-storey student residence at the University of British Columbia. Projects like these are demonstrating that wood is not only the smart choice for single-family homes, but increasingly can be the right fit for multi-dwelling buildings and high-rise towers.

Overall, 2016 was a year of investment, improving financial performance, and preparation in anticipation of what may lie ahead in 2017. The expiration of the Canada-U.S. Softwood Lumber Agreement, the addition of significant global pulp capacity, the ongoing mountain pine beetle infestation in western Canada, and continued volatility in global markets will be challenging. However, I am confident that our consistent business approach, diversified operating footprint and the successful capital investments carried out by our high-performing employees put us in a strong position to favourably compete in our sector and product markets.

With the support, dedication and the efforts of all of our employees, their families, our Board of Directors, our customers and our communities, I am optimistic about the opportunities for our business to thrive in 2017. Our commitment to efficient, modern mill operations, supported by a low-cost culture and strong financial position sets us up well to compete in the years ahead.

Ted Seraphim
President and Chief Executive Officer



West Fraser Timber Co. Ltd.

West Fraser Mills Ltd.

LUMBER

Canada
- Quesnel
- Williams Lake
- Smithers
- Chetwynd
- Fraser Lake
- Chasm
- 100 Mile House
- Blue Ridge[1]
- Hinton
- Edson
- Sundre[2]
- High Prairie
- Manning[3]

U.S.
- Joyce[4]
- Huttig[4]
- Henderson[5]
- New Boston[5]
- Leola[4]
- Mansfield[4]
- Russellville[4]
- Maplesville[4]
- Opelika[4]
- McDavid[4]
- Whitehouse[4]
- Augusta[4]
- Newberry[4]
- Armour[4]
- Seaboard[4]

PANELS

Plywood
- Edmonton
- Quesnel
- Williams Lake

MDF
- Blue Ridge
- Quesnel

Veneer & LVL
- Rocky Mountain House[2]
- Slave Lake

PULP & PAPER

Pulp
- Hinton
- Quesnel
- Quesnel (50%)[6]
- Slave Lake

Newsprint
- Whitecourt (50%)[7]

1. Owned through Blue Ridge Lumber Inc., a wholly-owned subsidiary.
2. Owned through Sundre Forest Products Inc., a wholly-owned subsidiary.
3. Owned through Manning Forest Products Ltd., a wholly-owned subsidiary.
4. Owned through West Fraser, Inc., a wholly-owned subsidiary.
5. Owned through West Fraser Wood Products Inc., a wholly-owned subsidiary.
6. 50% interest in Cariboo Pulp & Paper Company.
7. 50% interest in Alberta Newsprint Company owned through West Fraser Newsprint Ltd., a wholly-owned subsidiary.

Date

This Annual Information Form of West Fraser Timber Co. Ltd. ("West Fraser", "we", "us", "our" or the "Company") is dated as of February 16, 2017. Except as otherwise indicated, the information contained in it is as of December 31, 2016.

Forward-looking Statements

This Annual Information Form, and the Annual Report of which it forms a part, contain historical information, descriptions of current circumstances and statements about potential future developments. The latter, which are forward-looking statements, are presented to provide reasonable guidance to the reader but their accuracy depends on a number of assumptions and is subject to various risks and uncertainties. Forward-looking statements are included under the headings "Fibre Supply – Mountain Pine Beetle (the projected outcome of the infestation) and Aboriginal Matters (the potential effect of aboriginal title or rights)" and "Capital Structure – Cash dividends" and "Risks and Uncertainties" in the 2016 Management's Discussion & Analysis incorporated herein. Actual outcomes and results will depend on a number of factors that could affect the ability of the Company to execute its business plans, including the matters described in these sections and under "Risk Factors", and may differ materially from those anticipated or projected. Accordingly, readers should exercise caution in relying upon forward-looking statements which reflect management's estimates, projections and views only as of the date hereof. The Company undertakes no obligation to publicly revise these statements to reflect subsequent events or changes in circumstances except as required by applicable securities laws.

Business Overview

We are a North American diversified wood products company which produces lumber (SPF and SYP), panels (plywood, MDF and LVL), pulp (NBSK and BCTMP), newsprint, wood chips and energy. We hold rights to timber resources that are sufficient to supply a significant amount of the fibre required by our Canadian operations and have long-term agreements for the supply of a considerable amount of the fibre required by our United States operations. We carry on our operations through subsidiaries and joint operations in British Columbia, Alberta and the southern United States. Our operations located in western Canada manufacture all of the products described above except SYP lumber. Our sawmills located in the southern U.S. produce SYP lumber and wood chips.

The annual production capacities of our wholly-owned facilities and our share of the capacities of our 50%-owned operations are as follows:

Lumber (MMfbm)	
SPF	4,100
SYP	2,400
Total	6,500
Panels	
Plywood (MMsf 3/8")	850
MDF (MMsf 3/4")	250
LVL (Mcf)	3,200
Pulp (Mtonnes)	
BCTMP	680
NBSK	570
Newsprint (Mtonnes)	135

Corporate Strategy

Our goal at West Fraser is to generate strong financial results through the business cycle, relying on our committed work force, the quality of our assets and our well-established corporate culture. This culture emphasizes cost control in all aspects of the business and internal and external competitiveness. In our approach to employee relations, we emphasize employee involvement and favour internal promotions whenever possible.

We are a diversified producer of wood products with access to extensive timber resources. Our Canadian lumber, plywood, LVL and veneer operations are directly or indirectly the primary source of raw material for our pulp & paper and MDF operations.

Acquisitions and expansions are considered with a view to extending our existing business lines, particularly in lumber operations, and to product and geographic diversification. Our earnings over the business cycle have enabled us to make significant and ongoing capital investments in our facilities with the goal of achieving, maintaining or improving an overall low-cost position.

We are committed to operating in a financially conservative and prudent manner. The North American wood products industry is cyclical and periodically faces very difficult market conditions and serious challenges. During such cyclical downturns, we focus on financial discipline, including reduction or deferral of non-essential capital expenditures. As market conditions improve we will typically undertake an expanded capital investment program in order to catch up on expenditures reduced or deferred during the downturn. We believe that maintaining a strong balance sheet provides the ability to react to growth opportunities and is a key tool in managing our operations through a business cycle.

Corporate Structure

The chart on page 6 shows the relationship of West Fraser to the principal direct and indirect subsidiaries and the joint operations in which we participate and, where less than 100%, the percentage of our direct or indirect ownership.

West Fraser assumed its present form in 1966 by the amalgamation of a group of companies under the laws of B.C. The principal operating subsidiary, West Fraser Mills Ltd., assumed its present form on January 1, 2005 by amalgamation under those laws. West Fraser, Inc. and West Fraser Wood Products Inc. are Delaware corporations, while Blue Ridge Lumber Inc., Manning Forest Products Ltd. and Sundre Forest Products Inc. are Alberta corporations. West Fraser Newsprint Ltd. subsists under the laws of Canada. Alberta Newsprint Company ("ANC") and Cariboo Pulp & Paper Company are unincorporated 50%-owned operations governed, respectively, by the laws of Alberta and B.C.

Our executive office is located at 858 Beatty Street, Suite 501, Vancouver, B.C., Canada, V6B 1C1 and our registered office is located at 1500 – 1055 West Georgia Street, Vancouver, B.C., Canada, V6E 4N7.

History and Development of Business

West Fraser originated in 1955 when three brothers, Pete, Bill and Sam Ketcham, acquired a lumber planing mill located in Quesnel, B.C. ("Quesnel"). From 1955 through 2016 the business expanded through the acquisition of a number of sawmills and related timber harvesting rights and the acquisition or development of lumber, panel and pulp & paper businesses.

Major developments for West Fraser during the last five years include the following:

2012
- Acquired a sawmill at Edson, Alberta.
- Completed a biomass electricity turbogeneration project at our 50%-owned Cariboo pulp mill with excess electricity sold under a long-term contract.

2014
- Acquired two sawmills in Arkansas and one in High Prairie, Alberta.
- Permanently closed our Houston, B.C., Slave Lake, Alberta and Folkston, Georgia sawmills.
- Capital investment sets new annual record at $410 million.

2015
- Acquired a sawmill in Manning, Alberta.
- Completed co-generation projects at two of our sawmills to generate electricity from wood waste to be sold under long-term contracts.
- Completed biogas-electricity generation project at our Slave Lake, Alberta pulp mill. First electricity generated January 2016.

2016
- Terminated power purchase agreements that had provided us with a portion of the electricity generated from two power plants in Alberta at substantially predetermined rates.
- MDF facility in Quesnel was closed for repairs following a fire on March 9, 2016. Plant commissioning is expected to commence in the second quarter of 2017.

Sales Revenue ($ millions)

Year ended December 31	**2016**	2015	2014	2013	2012
Lumber	**3,145**	2,764	2,622	2,315	1,855
Panels	**529**	554	526	467	448
Pulp & Paper	**887**	900	812	780	775
Intracompany fibre sales	**(111)**	(118)	(104)	(88)	(78)
Total	**4,450**	4,100	3,856	3,474	3,000

Fibre Supply

Our operations are dependent on the consistent supply of substantial quantities of wood fibre in various forms. The primary manufacturing facilities, which produce lumber, plywood and LVL, consume whole logs while the pulp & paper and MDF facilities mostly consume wood by-products in the form of wood chips, shavings and sawdust resulting from the production of lumber, plywood or LVL. Many facilities also consume hog fuel and wood waste in energy systems.

In B.C. and Alberta substantially all timberlands are publicly owned and the right to harvest timber is acquired through provincially-granted licences. Licences grant the holder the right to harvest up to a specified quantity of timber annually and either have a term of 15 to 25 years and are replaceable or renewable or have a shorter term but are not replaceable or renewable. Government objectives in granting licenses include responsible management of timber, soils, wildlife, water and fish resources and the preservation of biodiversity and the protection of cultural values. The objectives also include achieving the fullest possible economic utilization of the forest resources and employment in local communities.

We do not own or manage any timberlands in the U.S.

Timber tenures in B.C. and Alberta require the payment of a fee, commonly known as stumpage, for timber harvested pursuant to its terms. Currently, stumpage in Alberta is product-price specific and varies with the sales price of the product into which the logs will be converted. Stumpage in B.C. is substantially based on the results of certain publicly-auctioned timber harvesting rights.

Timber tenures in B.C. and Alberta require the holder to carry out reforestation to ensure re-establishment of the forest after harvesting. Reforestation projects are planned and supervised by our woodlands staff and are subject to approval by relevant government authorities. Our timber harvesting operations are carried out by independent contractors under the supervision of our woodlands staff.

The following table summarizes the timber tenures, as at December 31, 2016, which supply the Canadian mills that we own or in which we have an interest, as well as our AAC for such tenures.

Timber Tenures (thousand m^3)

Location	Tenure[1]	Expiry	AAC
B.C.	Coniferous Long-term	2022 – 2035	5,621
	Coniferous Short-term	2017	518
Alberta	Coniferous Long-term	2017 – 2033	7,165
	Deciduous Long-term	2019 – 2033	1,222

1. Long-term tenures include TFLs, FMAs, timber quotas and forest licences, which are renewable timber tenures. Short-term tenures include non-replaceable forest licences.

Log Supply

Annual log requirements for our Canadian sawmills, plywood facilities and LVL plant, all operating at the capacities described herein, would total approximately 16 million m^3. Approximately 80% of these requirements can be obtained from the tenures described in the above table and the balance is typically acquired from third parties holding short or long-term timber harvesting rights, including independent logging contractors, aboriginal groups, communities and woodlot owners. We do not necessarily consume the maximum permitted volume of logs that may be harvested from our tenures annually but will adjust between tenure and purchase logs depending on circumstances including the availability of purchase logs.

Our U.S. operations, which produce SYP lumber, would consume approximately 10 million tons of logs per year if operating at the capacity described herein. Our U.S. operations as a whole have access to approximately 15% of their log requirements under certain long-term supply contracts, and the balance is purchased on the open market.

Mountain Pine Beetle

The current mountain pine beetle infestation in the B.C. interior reached a peak a number of years ago in terms of the annual timber mortality rate according to information published by B.C.'s Ministry of Forests, Lands and Natural Resource Operations. To date, the Ministry estimates that 740 million m^3 of pine has been attacked and killed and that approximately 55% of the mature pine within the province's timber harvesting land base ("THLB") will be killed by 2021. Approximately 40% of B.C.'s standing timber inventory is within the THLB and approximately 29% of this is pine. When only considering the THLB of B.C.'s interior, approximately 37% is pine. The damage to the mature pine forests within our operating areas is significant.

We continue to focus on the salvage and processing of dead pine in order to utilize as much of the resource as possible and to ensure that affected sites are promptly reforested. The Province of B.C. increased the AAC on dead pine stands and limited the harvest of non-pine species until the salvage of dead pine stands comes to a conclusion. The AAC will be reduced to reflect lower mature inventories as dead pine stands are harvested or when they are no longer economic to harvest. The Province has reduced the AAC in the central Interior by approximately 21% in the past five years and we expect this process to continue over the next several years. To date, B.C.'s Chief Forester has announced reductions of the AAC in six of our operating areas in the Interior. Additional reductions in two of our interior operating areas are expected in 2017. As the timing of future reductions and the effect on our AACs will depend on a variety of factors, including the amount of non-pine species available for harvest, the full effect on our operations cannot reasonably be determined at this time.

In Alberta, the Minister and the forest industry continue to implement aggressive programs of early detection, single tree control and focused harvesting activity. The mountain pine beetle infestation has declined significantly in the southern part of the Province but a significant population remains in the northwest and west-central areas, including some pockets within our tenures. Of particular concern is the growing infestation of mountain pine beetle in Jasper National Park, immediately west of our Hinton FMA. We, along with the Alberta government, are encouraging Parks Canada to develop effective control mechanisms. There is also still a risk of further in-flight of insects from northeastern B.C. We continue to work aggressively to reduce the number of susceptible pine stands and conduct spread control activities across the region in concert with other forest industry participants and the Province of Alberta.

Forestry Certification

We obtain external certification from a number of accredited standard-setting certification bodies which offer independent verification of the measures that we take to mitigate the effects of our activities on the environment.

All of the Canadian woodlands operations directly managed by us are independently certified by the Sustainable Forestry Initiative ("SFI"), an internationally-recognized sustainable forest management certification program. The woodlands are also certified to the International Organization for Standardization (ISO) 14001 Environmental Management System standard.

We also subscribe to the chain-of-custody certification Programme for Endorsement of Forest Certification ("PEFC") standard for our Canadian-produced forest products. PEFC chain-of-custody assures customers that the fibre in the supply chain comes from sources that comply with applicable laws, regulations and sustainable resource standards. The standard also demonstrates avoidance of sourcing fibre from controversial sources.

PEFC is a global organization that provides a mutual recognition framework for national certification systems. PEFC recognizes more than 25 national certification systems, including SFI, and assures customers that differing systems provide a consistent level of sustainable forest management.

Our pulp operations and MDF mills are registered to the Forest Stewardship Council's ("FSC") Standard for Chain-of-Custody Certification and the Standard for Company Evaluation of FSC Controlled Wood. This standard independently verifies that these operations do not source fibre from wood harvested (i) illegally, (ii) in violation of traditional and civil rights, (iii) in forests where high conservation values are threatened by management activities, (iv) in forests being converted to plantations or non-forest use, (v) from forests in which genetically modified trees are planted, or (vi) in violation of any of the ILO Core Conventions, as defined in the ILO Declaration on Fundamental Principles and Rights at Work, 1988.

We do not own or manage any forestlands in the United States. However, our U.S. sawmills procure wood from a variety of sources normally within an approximate 70-mile radius of each mill and are certified under the SFI Fiber Sourcing Standard.

For more information concerning our sustainable and environmentally sound forest practices see our *Responsibility Report* at www.westfraser.com.

Aboriginal Matters

Our continued access to the forest resource in Canada could be adversely affected by right and title (or claims thereto) and treaties involving various aboriginal groups, including First Nations, Métis and others. The obligations of Canadian provincial governments to consult and accommodate aboriginal groups regarding asserted and established rights, as well as their obligations under existing treaties and ongoing treaty negotiations, could affect the issuance, validity, renewal and exercise and terms and conditions of Crown timber rights and authorizations to harvest, or the timeliness of obtaining such rights. If aboriginal title is proven over any of the lands where we have interests or rights, it could result in aboriginal ownership of the resources on title lands.

To date there has been only one court case finding aboriginal title in B.C. where aboriginal title was found to be held by the Tsilhqot'in Nation in respect of an area that is less than 0.2% of B.C., but where we do not hold cutting permits.

As the jurisprudence and government policies respecting aboriginal title and rights and the consultation process continue to evolve, we cannot at this time predict whether aboriginal claims will have a material adverse effect on our timber harvesting rights or on our ability to exercise, renew or transfer them, or secure other timber harvesting rights.

Residual Fibre Supply

In Canada substantially all our requirements for wood chips, shavings and sawdust and hog fuel are supplied from our own operations, either directly or indirectly through trades. This reduces our exposure to risks associated with price fluctuations and supply shortages of these products.

Our B.C. sawmills and plywood plants produce substantially all of the fibre requirements of our B.C. pulp operations and MDF plant. The Alberta MDF plant obtains its fibre from the adjacent Blue Ridge sawmill and other sawmills in the area. The Hinton pulp mill obtains its fibre from the adjacent Hinton sawmill and other sawmills in the area owned by us. At times we produce whole log chips at the Hinton facility to supplement the supply of residual chips from our various sawmills. The fibre requirements of our newsprint mill are obtained from local sawmills, including our sawmill in Blue Ridge and the Slave Lake veneer operation, through chip purchase agreements and log-for-chip trades using logs harvested from the newsprint mill's tenures. The Slave Lake deciduous FMA provides most of the fibre requirements of the Slave Lake pulp mill, with the balance being obtained from logs purchased from local suppliers.

The majority of the wood chips produced by our U.S. operations are sold to pulp mills at market prices pursuant to long-term contracts.

Capital Expenditures and Acquisitions

We regularly invest in upgrading and expanding our facilities and operations. However, during periods when earnings are weak, we will reduce capital and other expenditures in order to preserve liquidity. The following table shows the capital expenditures and acquisitions during the past five years.

Capital Expenditures and Acquisitions ($ millions)

Year ended December 31	**2016**	2015	2014	2013	2012
Lumber	**195**	172	326	281	114
Panels	**25**	5	7	5	5
Pulp & Paper	**42**	32	71	71	38
Corporate & Other	**11**	11	6	1	2
	273	220	410	358	159
Acquisitions	**–**	76	208	–	30
Total	**273**	296	618	358	189

Human Resources

At December 31, 2016, we employed approximately 7,800 individuals, including our share of those in 50%-owned operations. Of these, approximately 5,300 are employed in our lumber segment, 1,320 in our panels segment, 850 in our pulp & paper segment and 330 in our corporate segment. Approximately 33% of our employees are covered by collective agreements. In 2017, collective agreements covering approximately 390 employees will expire.

We provide ongoing safety training for our employees to minimize potential risks inherent in forestry-related manufacturing industries. Our Health and Safety Policy and a description of external safety certifications obtained by us are described in our *Responsibility Report* on our website at www.westfraser.com.

Markets

The markets for our products are highly competitive. Our products are sold in markets open to a number of companies with similar products and we compete with global producers. Our competitive position is affected by factors such as cost and availability of raw materials, energy and labour, the ability to maintain high operating rates and low per-unit manufacturing costs, and the quality of our final products. Some of our products may also compete with non-fibre based alternatives or with alternative products in certain market segments. Purchasing decisions by customers are generally based on price, quality and service. However, because commodity products such as ours have few distinguishing properties from producer to producer, competition for these products is based primarily on price. Prices and sales volumes are influenced by general economic conditions. The following table shows selected average benchmark prices for the past five years for products of the type we produced, although these prices do not necessarily reflect the prices we obtained.

Average Benchmark Prices (In US$ except plywood)

	2016	2015	2014	2013	2012
SPF #2 & Better 2x4 (per Mfbm)[1]	**305**	278	349	356	299
SPF #3 Utility 2x4 (per Mfbm)[1]	**240**	209	302	295	250
SYP #2 West 2x4 (per Mfbm)[2]	**409**	376	427	414	348
Plywood (per Msf 3/8" basis)[3] Cdn$	**432**	430	429	392	382
NBSK (per tonne)[4]	**978**	972	1,025	941	872
NBSK – China (per tonne)[5]	**599**	644	732	700	667
Newsprint (per tonne)[6]	**560**	538	604	608	640
US$/$Cdn[7]	**0.755**	0.782	0.905	0.971	1.000

Sources: (refer to our 2016 Management's Discussion & Analysis for Canadian dollar equivalent prices of the products described herein)

1. Random Lengths – Net FOB mill.
2. Random Lengths – Net FOB mill Westside.
3. Crow's Market Report – Delivered Toronto.
4. Resource Information Systems, Inc. – U.S. list price, delivered U.S.
5. Resource Information Systems, Inc. – China list price, delivered China.
6. Resource Information Systems, Inc. – U.S. delivered 48.8 gram newsprint.
7. Bank of Canada.

Research and Development

We support industry research and development organizations, and conduct research and development at several plants to improve processes, maximize resource utilization and develop new products and environmental applications. In addition, in the previous five years we have focused on projects in bio-energy generation and bio-products, including alternative uses for lignin recovered during the pulping process.

Lumber

Capacity and Production (both MMfbm)

	2016	2015	2014	2013	2012
Capacity (year-end)					
B.C.	**2,465**	2,400	2,480	2,470	2,600
Alberta	**1,635**	1,600	1,420	1,330	1,200
U.S. South	**2,400**	2,300	2,300	2,000	2,000
Total Capacity	**6,500**	6,300	6,200	5,800	5,800
Production					
B.C.	**2,303**	2,225	2,282	2,477	2,461
Alberta	**1,493**	1,374	1,194	1,094	1,005
U.S. South	**2,139**	2,008	1,817	1,582	1,488
Total Production	**5,935**	5,607	5,293	5,153	4,954

Lumber capacity is generally based on our sawmills running on a five-day, two-shift basis with certain exceptions where logs may be available to run a third shift.

Operations

We operate 28 sawmills and a wood-treating facility at the Sundre sawmill.

Sales

Lumber produced at our Canadian sawmills and sold to North American customers is marketed and sold from our sales office in Quesnel, while sales to offshore markets are made from our export sales office in Vancouver, B.C. Offshore sales activities are complemented by a customer service office in Japan. Lumber produced at our U.S. sawmills is marketed by our sales group in Memphis, Tennessee. From time to time, we purchase lumber for resale in order to meet requirements of customers.

In 2016, sales of lumber from our Canadian and U.S. operations were made to customers in the U.S. and Canada and to customers offshore, predominantly in China and Japan. Most lumber shipments to North American customers by our Canadian operations were made by rail and the balance by truck. Most lumber shipments to North American customers by our U.S. operations were delivered by truck and the balance by rail. Offshore shipments from both Canada and the U.S. were made through various public terminals in bulk or container vessels.

Panels

Capacity and Production

	2016	2015	2014	2013	2012
Plywood (MMsf 3/8" basis)					
Capacity (year-end)	**850**	830	830	830	830
Production	**826**	797	771	781	793
MDF (MMsf 3/4" basis)					
Capacity (year-end)	**250**	250	300	300	300
Production	**160**	220	206	204	195
LVL (Mcf)					
Capacity (year-end)	**3,200**	3,200	3,200	3,200	3,200
Production	**2,215**	1,627	1,796	1,848	1,964

Operations

Our panel operations include three plywood mills that primarily produce standard softwood sheathing plywood, two MDF mills, each with the flexibility to manufacture varying thicknesses and sizes, an LVL mill, and a veneer mill that produces veneer for use in the Edmonton plywood mill. A fire at our MDF plant in Quesnel on March 9, 2016 resulted in the closure of the plant for the balance of the year while repairs and reconstruction took place. This reduced 2016 MDF production compared to prior years.

Sales

Plywood, LVL and MDF are marketed from our sales office in Quesnel to retail outlets, wholesale distributors, remanufacturers and treating businesses. MDF is marketed under the names "Ranger"™, "WestPine"™, "Eco-Gold"™ and "Ecopremium"™ both from our sales office and through distributors under the direction of our sales personnel.

In 2016 the majority of our sales of plywood were made to customers in Canada and sales of MDF and LVL were to customers in the U.S. and Canada. Shipments were by rail or truck.

Pulp & Paper

Pulp

Capacity and Production (Mtonnes)

	2016	2015	2014	2013	2012
BCTMP					
Capacity (year-end)	**680**	650	650	650	650
Production	**665**	645	631	603	620
NBSK					
Capacity (year-end)	**570**	570	570	590	590
Production[1]	**527**	497	455	496	529

1. Reflects West Fraser's 50% ownership of the Cariboo pulp mill.

Operations

BCTMP is produced at our Slave Lake pulp mill, primarily from hardwood aspen, and is also produced at our QRP mill, primarily from softwood species. These pulps are used by paper manufacturers to produce paperboard products, printing and writing papers and a variety of other paper grades. NBSK is produced at our Hinton and Cariboo pulp mills and is used by paper manufacturers to produce a variety of paper products, including tissues and printing and writing papers.

Sales

Pulp is marketed out of our pulp sales office in Vancouver. In 2016, sales of both NBSK and BCTMP were to customers in North America, Asia (predominantly China) and to other offshore customers. Shipments within North America were primarily by rail and those to offshore customers were by rail and truck to Vancouver and then by bulk or container vessels.

Newsprint

Capacity and Production[1] (Mtonnes)

	2016	2015	2014	2013	2012
Capacity (year-end)	**135**	135	135	135	135
Production	**128**	133	132	119	128

1. Reflects West Fraser's 50% ownership.

Operations

Our 50%-owned newsprint mill at Whitecourt, Alberta produces standard newsprint in four basis weights: 40, 43, 45 and 48.8 grams per square metre.

Sales

Newsprint is sold to various publishers and printers in North America and delivered by rail and truck.

External Factors Affecting West Fraser's Business in 2016

Economic Conditions

Our earnings are sensitive to changes in world economic conditions, primarily those in North America, Europe and Asia and particularly to the U.S. housing market. Most of our revenues are from sales of commodities for which prices are sensitive to variations in supply and demand. Since most of these sales are in U.S. dollars, exchange fluctuations of the U.S. dollar against the Canadian dollar is a major source of earnings volatility for us.

Softwood Lumber Dispute

The Canada – U.S. Softwood Lumber Agreement ("SLA") expired in October 2015 and on the expiry of that agreement a one year moratorium on trade sanctions by the U.S. came into place. The Government of Canada and the U.S. Trade Representative have been unable to reach agreement on a new managed trade agreement.

In November of 2016 a coalition of U.S. lumber producers petitioned the U.S. Department of Commerce and the U.S. International Trade Commission to investigate alleged subsidies to Canadian producers and levy countervailing and anti-dumping duties against Canadian imports. The U.S. Department of Commerce has initiated its investigation and is expected to make a preliminary determination regarding countervailing duties in April 2017, and in June 2017 for anti-dumping duties.

A substantial portion of our products that are manufactured in Canada are exported for sale. Our financial results are dependent on continued access to the export markets and tariffs and other trade barriers that restrict or prevent access represent a continuing risk to us. The SLA had provided our Canadian lumber operations with continued access to the U.S. market and the imposition of future trade barriers could impair that access.

Energy

Our pulp, paper and MDF operations consume substantial amounts of electricity. We have completed several projects to reduce our purchased energy dependence by utilizing woodwaste to produce heat and steam to dry our wood products or to utilize woodwaste or pulp mill by-products or effluent to generate electricity. Such projects include those at our Hinton and Cariboo pulp mills, which have generating facilities which produce electricity to satisfy most of their energy requirements and can contribute to earnings by selling any excess electricity. In addition, our Slave Lake pulp mill produces electricity for its own use from bio-gas.

Co-generation projects at our Fraser Lake and Chetwynd, B.C. sawmills produce electricity from woodwaste. The electricity is sold under long-term contracts.

In B.C., electricity is purchased from the provincial utility at regulated prices based largely on generation costs. In Alberta, electricity is purchased at market prices through the Alberta power pool.

In Alberta, we operate a natural gas-fired peaking power price plant at our 50%-owned newsprint mill which provides a partial hedge for that mill against high prices of electricity and transmission costs. Our exposure to energy costs includes the cost to purchase electricity, natural gas, gasoline, diesel fuels, carbon taxes and fuel surcharges on purchased transportation.

Environment

Our manufacturing operations are subject to environmental protection laws and regulations. We have developed and apply internal programs and policies to help ensure that our operations are in compliance with applicable laws and standards and to address any instances of non-compliance. We are committed to responsible stewardship of the environment and to the continual improvement of our forest practices and manufacturing procedures so we can optimize the use of resources and minimize the impact of our operations on the environment.

We have incurred, and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations, which are not expected to have material financial or operational effects on us or our competitive position. We are required to carry out remediation activities, including site decommissioning, under applicable environmental protection laws and regulations. In addition, we are required to carry out reforestation activities under our various timber licenses. We maintain accruals in our financial statements for certain environmental, reforestation and decommissioning obligations.

We have adopted and follow an Environmental Policy, a copy of which is available on our website at www.westfraser.com. Additional information is available in our *Responsibility Report*, also available on our website at www.westfraser.com.

Risk Factors

A detailed discussion of risk factors is included in "Management's Discussion & Analysis – Risks and Uncertainties", which is incorporated herein by reference. Our Management's Discussion & Analysis is available on SEDAR at www.sedar.com.

Capital Structure

Share Capital

Our authorized share capital consists of 430,000,000 shares divided into:

(a) 400,000,000 Common shares,

(b) 20,000,000 Class B Common shares, and

(c) 10,000,000 Preferred shares, issuable in series.

The Common shares and Class B Common shares are equal in all respects, including the right to dividends and the right to vote, except that each Class B Common share may at any time be exchanged for one Common share. The Common shares are listed and traded on the Toronto Stock Exchange under the symbol WFT while our Class B Common shares are not. Certain circumstances or corporate transactions may require the approval of the holders of our Common shares and Class B Common shares on a separate class by class basis.

As at December 31, 2016, the issued share capital consisted of 75,881,090 Common shares and 2,281,478 Class B Common shares for a total of 78,162,568 shares (as at December 31, 2015 – 82,456,557 shares).

Credit Ratings

As shown in the table below, West Fraser is rated by three rating agencies. West Fraser pays annual fees to maintain its debt and corporate ratings. The ratings are assigned both on a corporate level and specifically to our US$300 million notes maturing October 2024. The ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by each rating agency.

Ratings

Agency	**Rating**	**Outlook**
DBRS[1]	BBB(low)	Stable
Moody's[2]	Baa3	Stable
Standard & Poor's[3]	BBB-	Stable

1. DBRS credit ratings for long-term obligations range from AAA to D. A rating of BBB is described by DBRS as "adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. May be vulnerable to future events". Additional information on the rating is available on DBRS's website.
2. Moody's credit ratings for long-term obligations range from Aaa to C. Moody's describes obligations rated Baa as "subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics". Additional information on the rating is available on Moody's website.
3. S&P credit ratings for long-term obligations range from AAA to D. A rating of BBB- is described by S&P as "considered lowest investment grade by market participants". Additional information on the rating is available on S&P's website.

Market Prices

The following table sets forth adjusted market prices and trading volumes of our Common shares on the Toronto Stock Exchange for each month of 2016 and 2015.

	2016				2015	
	High ($)	**Low ($)**	**Close ($)**	**Volume (000's)**	Close ($)	Volume (000's)
January	**52.18**	**39.54**	**48.15**	**4,555**	72.98	5,867
February	**48.31**	**38.08**	**41.83**	**4,355**	68.06	12,831
March	**54.18**	**41.46**	**52.11**	**6,941**	64.80	6,156
April	**53.42**	**39.86**	**41.34**	**5,977**	62.08	6,399
May	**45.65**	**38.45**	**44.80**	**6,067**	68.58	3,948
June	**45.71**	**35.35**	**37.77**	**7,231**	68.63	4,368
July	**46.30**	**35.92**	**44.86**	**7,754**	57.55	5,658
August	**46.41**	**40.45**	**44.15**	**5,816**	51.23	6,083
September	**45.80**	**39.44**	**40.43**	**5,428**	42.40	5,754
October	**46.84**	**38.18**	**45.92**	**6,165**	46.27	6,836
November	**49.57**	**43.01**	**47.89**	**7,517**	54.82	3,924
December	**52.45**	**47.26**	**48.01**	**4,468**	52.53	3,663
Total				**72,274**		71,487

Source: http://tradingdata.tsx.com

Cash dividends

The declaration and payment of cash dividends is within the discretion of our Board of Directors. Historically, cash dividends have been declared on a quarterly basis payable after the end of each quarter. On an annual basis, dividends of $0.28 per share were paid in 2016, 2015 and 2014. There can be no assurance that cash dividends will continue to be declared and paid by us in the future, as the discretion of the Board of Directors will be exercised from time to time taking into account our current circumstances.

Transfer Agent

Our transfer agent and registrar is CST Trust Company, with registers of transfers in Vancouver and Toronto.

Experts

Our auditors are PricewaterhouseCoopers LLP ("PwC"), who prepared the Auditor's Report included with our annual Consolidated Financial Statements for the year ended December 31, 2016. PwC has confirmed that it is independent with respect to us, within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of B.C., as of February 16, 2017.

Directors and Officers

Directors

The names and municipalities of residence of the directors of the Company, their principal occupations during the past five years and the periods during which they have been directors of the Company are as follows:

Name and Municipality of Residence	Principal Occupation	Director Since
Henry H. Ketcham Vancouver, B.C.	Chairman	September 16, 1985
Clark S. Binkley[1, 3 & 4] Portland, Oregon	Chief Investment Officer, GreenWood Resources, Inc. (a timberland investment management organization)	February 1, 1992
Reid E. Carter[1, 3 & 4] West Vancouver, B.C.	President, Brookfield Timberlands Management LP.	April 19, 2016
John N. Floren[2,3 & 4] Eastham, Massachusetts	President and Chief Executive Officer, Methanex Corporation	April 19, 2016
J. Duncan Gibson[1 & 4] Toronto, Ontario	Investor	April 29, 1997
John K. Ketcham[3 & 4] Santa Monica, California	Real Estate Developer	April 28, 2015
Harald H. Ludwig[2 & 4] West Vancouver, B.C.	President, Macluan Capital Corporation (diversified private equity investment company)	May 2, 1995
Gerald J. Miller[1, 3 & 4] Lake Country, B.C.	Corporate Director	April 19, 2012
Robert L. Phillips[2, 4 & 5] West Vancouver, B.C.	Corporate Director	April 28, 2005
Janice G. Rennie[1, 2 & 4] Edmonton, Alberta	Corporate Director	April 28, 2004
Ted Seraphim North Vancouver, B.C.	President and Chief Executive Officer	April 30, 2013

1. Member of the Audit Committee.
2. Member of the Compensation Committee.
3. Member of the Safety & Environment Committee.
4. Member of the Governance & Nominating Committee.
5. Lead Director.

Each director has held the same or a similar principal occupation with the organization indicated or a predecessor thereof for the last five years except for Henry H. Ketcham who before April 19, 2016 was our Executive Chairman, before March 1, 2013 was our Chairman and Chief Executive Officer and before April 19, 2012 was also our President; Clark Binkley who before July 31, 2012 was Managing Director of International Forestry Investment Advisors LLC; John Floren who before January 2013 was Senior Vice-President, Global Marketing and Logistics of Methanex Corporation; and Ted Seraphim who before March 1, 2013 was President and Chief Operating Officer, before April 19, 2012 was Executive Vice-President and Chief Operating Officer. The term of office of each director will expire at the conclusion of the Company's next annual general meeting.

Officers

Name and Municipality of Residence	Office Held
Ted Seraphim North Vancouver, B.C.	President and Chief Executive Officer
Raymond W. Ferris Quesnel, B.C.	Executive Vice-President and Chief Operating Officer
Brian A. Balkwill Quesnel, B.C.	Vice-President, Canadian Lumber
Keith D. Carter Quesnel, B.C.	Vice-President, Pulp and Energy Operations
Larry E. Gardner Quesnel, B.C.	Vice-President, Canadian Woodlands
James W. Gorman Victoria, B.C.	Vice-President, Corporate and Government Relations
Larry S. Hughes Vancouver, B.C.	Vice-President, Finance, Chief Financial Officer and Secretary
Rodger M. Hutchinson West Vancouver, B.C.	Vice-President, Corporate Controller and Investor Relations
Christopher D. McIver Quesnel, B.C.	Vice-President, Sales and Marketing
Sean P. McLaren Collierville, Tennessee	Vice-President, U.S. Lumber
Tom V. Theodorakis Vancouver, B.C.	Assistant Secretary Partner, McMillan LLP (lawyers)
Chuck H. Watkins Memphis, Tennessee	Vice-President, U.S. Lumber Manufacturing

Each officer has held the same or a similar office with the organization indicated or a predecessor thereof for the last five years except for Ted Seraphim (see disclosure under "Directors"); Raymond W. Ferris, who before February 15, 2016 was our Vice-President, Wood Products; Brian A. Balkwill, who before February 15, 2016 was our General Manager, Canadian Lumber, before December 1, 2014 was our General Manager, Engineered Wood and before April 1, 2012 was our General Manager, Sundre sawmill; Keith D. Carter, who before February 15, 2016 was our General Manager, Pulp Operations, before September 1, 2014 was our Operations Manager, Mechanical Pulp and before February 1, 2014 was our General Manager, Quesnel River Pulp; Larry E. Gardner, who before February 16, 2016 was our General Manager, Canadian Woodlands and before December 1, 2014 was our Chief Forester, British Columbia; James W. Gorman, who before May 19, 2015 was President and Chief Executive Officer of the Council of Forest Industries and before September 16, 2013 served in a number of senior leadership roles with the Government of British Columbia; Rodger M. Hutchinson, who before February 13, 2014 was our Vice-President, Corporate Controller; Christopher D. McIver, who before February 16, 2016 was our Vice-President, Lumber Sales and Corporate Development; Sean P. McLaren, who before February 15, 2016 was our Vice-President, U.S. Lumber Operations; and Chuck H. Watkins, who before February 15, 2016 was our General Manager, U.S. Lumber Manufacturing, before August 18, 2015 was our Regional Manager, U.S. Lumber, before December 6, 2013 was our Engineering and Technical Manager, U.S. Lumber and before September 24, 2012 was Director of Operations at Rex Lumber Corporation.

Shareholdings of Directors and Officers

The directors and officers of the Company as a group, beneficially owned or controlled or directed, directly or indirectly, the following shares of the Company:

	December 31, 2016	December 31, 2015
Common shares	**1,461,762**	1,427,164
% of total Common shares	**2%**	2%
Class B Common shares	**78,728**	78,728
% of total Class B Common shares	**3%**	3%
% of all shares outstanding	**2%**	2%

Governance

Corporate governance is guided by our Corporate Governance Policy, a copy of which may be viewed on our website: www.westfraser.com. The Board of Directors has established a Governance & Nominating Committee comprised of all non-management directors. The Committee provides support for the stewardship and governance role of the Board in reviewing and making recommendations on the composition of the Board, the functioning of the Board and its committees, succession planning and all other corporate governance matters and practices. On the occasion of each regularly-scheduled meeting of the Board in 2016, the Committee met without management representatives present and reviewed these and other issues.

The Corporate Governance Policy includes a Code of Conduct which sets out our policies and requirements relating to, among other categories, legal compliance, safety, environmental stewardship, human rights, anti-corruption and whistleblowing. Additional information is available on our website www.westfraser.com under Corporate Governance.

Audit Committee

The Audit Committee of our Board of Directors assists the Board in fulfilling its responsibility to oversee our financial reporting and audit process. The full text of the Audit Committee's Charter is attached as Schedule 1.

Members

The following identifies each current member of the Audit Committee, and the education and experience of each member that is relevant to the performance of the member's responsibilities as an Audit Committee member. All members of the Audit Committee are considered "independent" and "financially literate" within the meaning of NI 52-110.

Clark S. Binkley

Dr. Binkley holds a Bachelor of Arts in Applied Mathematics and a PhD in Forestry and Environmental Studies. He is the Chief Investment Officer of a large private equity timberland investment firm. He has served as a director of public and private forest products companies.

Reid E. Carter

Mr. Carter holds a combined undergraduate degree in Forestry and Biology and a master's degree in Forest Services. He is president of a large timberlands investment firm and has been involved with that firm and related firms in various senior roles for the last 13 years. Prior to that he served as National Bank Financial's Paper and Forest Products Analyst.

J. Duncan Gibson

Mr. Gibson holds a Bachelor of Commerce and a Masters of Business Administration. His career spanned 27 years with the Toronto-Dominion Bank, including nine years in the Corporate Banking, U.S. Division, and as Vice Chairman with responsibility for the Commercial Banking Division.

Gerald J. Miller

Mr. Miller, who holds a Bachelor of Commerce, is a Chartered Professional Accountant, Chartered Accountant. He spent 25 years in various roles at West Fraser until his retirement in 2011. While at West Fraser he served in a number of executive positions including Vice-President Finance and Chief Financial Officer.

Janice G. Rennie

Mrs. Rennie, who holds a Bachelor of Commerce, is a Chartered Professional Accountant, Chartered Accountant. She was elected as Fellow of the Chartered Accountants in 1998. Mrs. Rennie has chaired or been a member of several audit committees of public companies in the past and currently is a member of the audit committees of Methanex Corporation, Major Drilling Group International Inc. and Westjet Airlines Ltd.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy that sets out the pre-approval requirements related to services to be performed by our independent auditors. The policy provides that the Committee will annually review proposed audit, audit-related, tax and other services (to be submitted by the Chief Financial Officer and the independent auditor), and will provide general approval of described services, usually including specific maximum fee amounts.

Unless a service has received general pre-approval, it will require specific pre-approval by the Committee. The Committee is permitted to delegate pre-approval authority to any of its members. The Committee reports on the pre-approval process to the full Board of Directors from time to time.

Fees Paid to Auditors ($ thousands)

	2016	2015
Audit Fees[1]	**799**	847
Audit-Related Fees[2]	**160**	164
Tax Fees	**326**	300
Other	**85**	60

1. Represents actual and estimated fees related to fiscal year ends.
2. For assurance and related services that are reasonably related to the performance of the audit but are not reported as "Audit Fees".

Material Contracts

On October 15, 2014, we issued US$300 million of fixed-rate senior unsecured notes due October 15, 2024 pursuant to a private placement in the U.S. The notes bear interest of 4.35% with semi-annual payments commencing on April 15, 2015 and are redeemable, in whole or in part, at our option at any time. In the event of a change in control in respect of the Company which is followed within 60 days by ratings downgrades to below investment grade in certain circumstances, unless we have exercised the right to redeem all of the notes, each holder will have the right to require us to repurchase all or any part of such holder's notes at a purchase price in cash equal to 101% of the principal amount of the notes plus any accrued and unpaid interest.

Additional Information

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, will be contained in the Information Circular for the annual general meeting of the Company to be held on April 19, 2017. Additional financial information is provided in our annual consolidated financial statements and Management's Discussion & Analysis for the year ended December 31, 2016.

Copies of our Annual Report, which will include this Annual Information Form and the documents incorporated by reference herein, our annual consolidated financial statements (including the auditor's report) for the year ended December 31, 2016 and our Information Circular may be obtained at any time upon request from us once these documents have been published, but we may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

This Annual Information Form, our Annual Report (once published) and additional information concerning the Company may also be obtained on our website www.westfraser.com and on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Schedule 1

The Audit Committee Charter, which is set out below, was approved by the Board on December 8, 2010.

General Mandate

To assist the Board in fulfilling its responsibility to oversee the Company's financial reporting and audit processes, its system of internal controls and its process for monitoring compliance with applicable financial reporting and disclosure laws and its own policies.

Responsibilities

The Committee will carry out the following responsibilities:

Financial Statements

- Review significant accounting and financial reporting issues, including complex or unusual transactions, significant contingencies and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the Company's financial statements
- Review interim financial reports (including financial statements, management's discussion and analysis and related news releases) with management and the auditors, consider whether they are complete and consistent with the information known to Committee members and provide a recommendation to the Board with respect to the approval of the interim financial reports
- Understand how management develops interim financial information, and the nature and extent of auditor involvement
- Review with management and the auditors the results of the audit, including any difficulties encountered
- Review the annual financial statements, the annual management discussion and analysis and related news releases, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles, and provide a recommendation to the Board with respect to the approval of the statements, the management discussion and analysis and the news release
- Review with management and the auditors all matters required to be communicated to the Committee under generally accepted auditing standards
- Approve, if so delegated by the Board, the interim financial reports and annual financial statements and the filing of the same together with all required documents and information with regulators

Internal Control

- Require management of the Company to implement and maintain appropriate internal control procedures over annual and interim financial reporting
- Review with management and auditors the adequacy and effectiveness of the Company's internal control over annual and interim financial reporting, including information technology security and control and controls related to the prevention and detection of fraud and improper or illegal transactions or payments, the status of the remediation of any identified control deficiencies, and elicit recommendations for improvements
- Understand the scope of the auditors' review of internal control over financial reporting, and obtain and review reports on significant findings and recommendations, including respecting the Company's accounting principles or changes to such principles or their application and the treatment of financial information discussed with management, together with management's responses

Audit

- Review the auditors' proposed audit scope and approach
- Review the performance of the auditors, and provide a recommendation to the Board with respect to the nomination of the auditors for appointment and remuneration
- Review and confirm the independence of the auditors by obtaining statements from the auditors on relationships between the auditors and the Company, including non-audit services, and discussing the relationships with the auditors
- Periodically evaluate the need for the establishment of an internal audit function and make appropriate recommendations to the Board

Compliance

- Review the effectiveness of the system for monitoring compliance with financial reporting and disclosure laws and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance
- Review the findings of any examinations by regulatory agencies, and any auditor observations
- Obtain regular updates from management and Company legal counsel regarding compliance matters

Reporting Requirements

- Regularly report to the Board about Committee activities, issues and related recommendations
- Provide an open avenue of communication between the auditors and the Board
- Review any reports the Company issues that relate to Committee responsibilities

Other Responsibilities

- Institute and oversee special investigations as needed
- Develop and implement a policy for the approval of the provision of non-audit services by the auditors and assessing the independence of the auditors in the context of these engagements
- Establish procedures for: (a) the receipt, retention and treatment of complaints received regarding non-compliance with the Company's Code of Conduct, violations of laws or regulations, or concerns regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by officers or employees of the Company or by other persons of concerns regarding questionable accounting, auditing or financial reporting and disclosure matters or non-compliance with the Company's Code of Conduct or other matters that are of a sensitive or "whistleblower" nature
- Perform other activities related to this charter as requested by the Board
- Review and assess the adequacy of this charter annually, requesting Board approval for proposed changes
- Review terms of any Code of Conduct established by the Board and respond to any related compliance issues
- Confirm annually to the Board that all responsibilities outlined in this charter have been carried out

Qualifications and Procedures

- The composition of the Committee will comply with applicable laws including requirements for independence, unrelated to management, financial literacy and audit experience
- The Committee will meet at least four times annually, and more frequently as circumstances dictate, and the CFO and a representative of the auditors should be available on request to attend all meetings
- The Committee should meet privately in executive session with representatives of each of management and of the auditors to discuss any matters of concern to the Committee or such members, including any post-audit management letter
- Minutes of each meeting should be prepared, approved by the Committee and circulated to the full Board

Introduction and Interpretation

This discussion and analysis by West Fraser's management ("MD&A") of West Fraser's financial performance during 2016 and the fourth quarter of 2016 should be read in conjunction with the 2016 annual audited consolidated financial statements and accompanying notes (the "Financial Statements"). Dollar amounts are expressed in Canadian currency, unless otherwise indicated.

The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A contains historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results. The latter, which are forward-looking statements, are presented to provide reasonable guidance to the reader but their accuracy depends on a number of assumptions and is subject to various risks and uncertainties. Forward-looking statements are included under the heading "Capital Expenditures" (expected completion of sawmill rebuild at our Newberry, South Carolina location) and "Business Outlook". Actual outcomes and results of these statements will depend on a number of factors including those matters described under "Risks and Uncertainties", and may differ materially from those anticipated or projected. Accordingly, readers should exercise caution in relying upon forward-looking statements and we undertake no obligation to publicly revise them to reflect subsequent events or circumstances except as required by applicable securities laws.

Throughout this MD&A reference is made to Adjusted EBITDA, Adjusted earnings and Adjusted earnings per share and net debt to total capital ratio (collectively "these measures"), calculated as shown under the heading "Non-IFRS Measures". We believe that, in addition to earnings, these measures are useful performance indicators. None of these measures is a generally accepted earnings measure under IFRS and none has a standardized meaning prescribed by IFRS. Investors are cautioned that none of these measures should be considered as an alternative to earnings, earnings per share ("EPS") or cash flow, as determined in accordance with IFRS. As there is no standardized method of calculating any of these measures, our method of calculating each of them may differ from the methods used by other entities and, accordingly, our use of any of these measures may not be directly comparable to similarly titled measures used by other entities.

This MD&A includes references to benchmark prices over selected periods for products of the type produced by West Fraser. These benchmark prices do not necessarily reflect the prices obtained by West Fraser for those products during such period. The information in this MD&A is as at February 16, 2017 unless otherwise indicated.

For definitions of various abbreviations and technical terms used in this MD&A please see the Glossary of Industry Terms found in our most recent Annual Report.

Summary Information – Annual Results

Financial Comparisons ($millions, except as otherwise indicated)

Year ended December 31	**2016**	2015	2014
Sales by segment			
Lumber	**3,145**	2,764	2,622
Panels	**529**	554	526
Pulp & Paper	**887**	900	812
Intracompany fibre sales	**(111)**	(118)	(104)
Total	**4,450**	4,100	3,856
Adjusted EBITDA	**674**	417	621
Amortization	**(197)**	(191)	(170)
Equity-based compensation	**5**	23	(45)
Operating earnings	**482**	249	406
Operating earnings by segment			
Lumber	**362**	105	351
Panels	**77**	82	64
Pulp & Paper	**42**	41	42
Corporate & Other	**1**	21	(51)
Total	**482**	249	406
Earnings	**326**	104	259
Basic earnings per share ($)	**4.06**	1.25	3.06
Diluted earnings per share ($)	**3.90**	0.89	3.06
Cash dividends per share ($)	**0.28**	0.28	0.28
Total assets	**3,600**	3,635	3,397
Long-term debt[1]	**413**	423	354
Cdn$1.00 converted to US$ – average	**0.755**	0.782	0.905

1. Includes current portion of long-term debt.

Selected Quarterly Information

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

	Q4-16	**Q3-16**	**Q2-16**	**Q1-16**	Q4-15	Q3-15	Q2-15	Q1-15
Sales	**1,107**	**1,155**	**1,111**	**1,077**	1,013	1,044	1,029	1,014
Earnings	**79**	**107**	**98**	**42**	(15)	56	14	49
Basic EPS	**1.01**	**1.35**	**1.22**	**0.51**	(0.18)	0.67	0.17	0.58
Diluted EPS	**1.01**	**1.35**	**0.86**	**0.50**	(0.18)	0.05	0.17	0.53

Adjusted Earnings and Adjusted Basic Earnings Per Share

($millions, except EPS amounts which are in $)

	2016	2015
Earnings	**326**	104
Add:		
Equity-based compensation	**(5)**	(23)
Exchange loss (gain) on long-term financing	**(4)**	58
Loss on power agreements	**27**	32
Insurance gain on disposal of equipment	**(8)**	—
Write-down of investment	**—**	7
Net tax effect on the above adjustments	**(6)**	(9)
Increase in Alberta provincial tax rate	**—**	7
Adjusted earnings	**330**	176
Adjusted basic EPS[1]	**4.11**	2.12

1. Adjusted basic EPS is calculated by dividing Adjusted earnings by the basic weighted average shares outstanding.

Earnings in 2016 increased compared to results for 2015. Our results include several significant non-operational items that are identified as adjustments in the above table. After taking into account these adjustments, we generated Adjusted earnings of $330 million compared to $176 million in 2015. For a description of operational results see "Discussion & Analysis by Product Segment" which follows this section.

In 2016 a recovery of $5 million was recorded related to equity-based compensation compared to a recovery of $23 million in 2015. An expense is recorded on the issuance of share options or phantom or directors' deferred share units and an additional expense or recovery is recorded each quarter based primarily on valuation models that consider various factors relating to outstanding options and units. The most significant of these factors is the change in the market value of our shares from the beginning to the end of the particular period. The market value of the Company's shares decreased by 9%, from $52.53 per share at the end of 2015 to $48.01 per share at the end of 2016. The expense or recovery does not necessarily represent the actual amount that will ultimately be paid by the Company in respect of options and units.

Any change in the value of the Canadian dollar relative to the value of the U.S. dollar results in the revaluation of our U.S. dollar-denominated assets and liabilities. The result of these revaluations is included in other income. The Canadian dollar was stronger against the U.S. dollar at the close of 2016 compared to the close of 2015 resulting in a foreign exchange gain of $4 million on long-term financing and a $4 million loss on working capital (2015 – $58 million loss and $28 million gain, respectively). The Canadian dollar strengthened by 3% from the beginning of 2016 compared to the end 2016. For 2015 the Canadian dollar weakened by 16% at the end of the year compared to the beginning of the year.

In March 2016 we negotiated the termination of our three-year power strip agreement and Capital Power Corporation gave notice of its intent to terminate its role as buyer of the Sundance C Power Arrangement ("Sundance"). As a result of this termination, our role as a party to the Power Syndicate Agreement also terminated. These agreements had provided us with a portion of the electricity generated from two power plants in Alberta at substantially predetermined prices. In the first quarter of the year we recorded a loss related to the power agreements of $19 million. In the fourth quarter Capital Power settled a dispute with the Government of Alberta related to the termination of Sundance and as a result we recorded an additional loss of $8 million related to our share of the settlement. In 2015 a charge of $32 million was recorded through earnings reflecting the change in the fair value of the agreements.

Our WestPine MDF facility experienced a fire during the first quarter of the year resulting in production being suspended until repairs can be completed. Estimated insurance proceeds of $8 million related to replacement of equipment resulted in a gain on disposal being recorded in other income. In addition, business interruption insurance proceeds related to lost operational profit is recorded as a reduction of cost of products sold. The gain on disposal of $8 million is included in adjusted earnings in the above table.

A write-down of our $7 million investment in a company developing alternative uses for by-products of the lumber manufacturing process was included in other income in 2015.

Note 18 to the Financial Statements includes a reconciliation of income taxes calculated at the statutory rate to the income tax provision.

The funded position of our defined benefit pension plans and other retirement benefit plans, whether surplus or deficit, is estimated at the end of each quarter. The funded position, as shown in Note 13 to the Financial Statements, is determined by subtracting plan assets from plan obligations. The after-tax actuarial loss of $7 million included in other comprehensive earnings is due to a decrease in the discount rate of 0.25% at December 31, 2016 compared to December 31, 2015 (decrease to 3.75% compared to 4.00%), substantially offset by investment returns in excess of the actuarially expected returns.

Discussion & Analysis by Product Segment

Lumber Segment

	2016	2015
SPF (MMfbm)		
Production	**3,796**	3,599
Shipments	**3,878**	3,614
SYP (MMfbm)		
Production	**2,139**	2,008
Shipments	**2,126**	2,014
Wood chip production		
SPF (M ODTs)	**1,895**	1,753
SYP (M green tons)	**2,669**	2,557
Sales ($millions)		
Lumber	**2,731**	2,369
Wood chips and other residuals	**319**	298
Logs and other	**95**	97
	3,145	2,764
Adjusted EBITDA ($millions)	**508**	243
Amortization ($millions)	**(146)**	(138)
Operating earnings ($millions)	**362**	105
Adjusted EBITDA margin (%)	**16**	9
Capital expenditures ($millions)	**195**	172
Acquisition ($millions)	**—**	76
Benchmark prices (per Mfbm)		
SPF #2 & Better 2x4[1] – US$	**305**	278
SPF #3 Utility 2x4[1] – US$	**240**	209
SYP #2 West 2x4[2] – US$	**409**	376
SPF #2 & Better 2x4 – Cdn$[3]	**404**	355
SPF #3 Utility 2x4 – Cdn$[3]	**318**	267
SYP #2 West 2x4 – Cdn$[3]	**542**	480

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

Production of SPF and SYP lumber increased a combined 328 MMfbm in 2016 over 2015 levels. Through the third quarter of the year we were on target for achieving our goal of increasing production by 400 MMfbm but unusually cold weather in the fourth quarter resulted in reduced production, particularly at some of our U.S. mills. The improved annual production was the result of the completion and start-up of several capital projects in both Canada and the U.S. and the additional output from our Manning, Alberta sawmill which we acquired in the fourth quarter of 2015. Increased wood chip production was the result of the increased lumber production.

Our SPF sales continue to be primarily to North American markets with the U.S. market being the most significant destination. The percentage of SPF sales by volume to the U.S. remained similar to 2015 levels although absolute volume has increased slightly as a result of our increased production. New housing in the U.S. continues to increase slowly with single family starts improving in 2016. Single family starts are particularly important to lumber consumption as each start uses approximately three times the lumber as a multi-family start. The percentage of single family starts, at 67% of total starts in 2016, is still low by historical standards but has shown some improvement in 2016. SPF sales to offshore markets decreased slightly from 2015 levels due in part to improving demand in North America. Russia continues to hold the dominant market position in China due in part to the weakening of the Russian ruble in 2014. The table below sets out the proportion of our Canadian lumber by volume sold by destination in each of 2016 and 2015.

SPF Sales by Destination

	2016		2015	
	MMfbm	**%**	MMfbm	%
U.S.	**2,258**	**58**	2,072	57
Canada	**917**	**24**	780	22
China	**466**	**12**	530	15
Other	**237**	**6**	232	6
Total	**3,878**		3,614	

Operating earnings from our lumber segment were significantly higher than 2015. Improved lumber pricing and a weaker Canadian dollar combined with higher shipments drove much of the improved results. In addition, there were no softwood lumber duties applicable in 2016 compared to $29 million in 2015 and cash conversion costs were slightly lower in 2016. Canadian log costs were higher in 2016 but much of the impact on profitability was offset by lower log costs in our U.S. operations. Purchased log costs continued to increase in B.C., reflecting the gradual decrease of available logs in pine beetle-affected areas.

Panels Segment

	2016	2015
Plywood (MMsf 3/8" basis)		
Production	**826**	797
Shipments	**826**	803
MDF (MMsf 3/4" basis)		
Production	**160**	220
Shipments	**167**	212
LVL (Mcf)		
Production	**2,215**	1,627
Shipments	**2,226**	1,728
Sales ($millions)		
Finished products	**505**	529
Wood chips and other residuals	**18**	18
Logs and other	**6**	7
	529	554
Adjusted EBITDA ($millions)	**89**	95
Amortization ($millions)	**(12)**	(13)
Operating earnings ($millions)	**77**	82
Adjusted EBITDA margin (%)	**17**	17
Capital expenditures ($millions)	**25**	5
Benchmark prices		
Plywood (per Msf 3/8" basis)[1] Cdn$	**432**	430

1. Source: Crow's Market Report – Delivered Toronto.

The panels segment is comprised of our three plywood operations, two MDF operations and one LVL operation. All are located in western Canada.

Plywood production was slightly higher than 2015 reflecting strong operational performance. MDF production was reduced due to a fire-related closure of our WestPine mill during March 2016 while LVL production increased as a result of improving market demand. Despite strengthening demand our LVL mill continues to operate on a partially-curtailed basis.

Operating earnings from our panels segment decreased slightly compared to 2015 levels. Despite this decline the segment achieved the same adjusted EBITDA margin as in 2015 of 17% as a result of the WestPine business interruption insurance proceeds of $17 million being recorded as a reduction of costs of production with no related sales impact.

Operating earnings from our plywood operations decreased slightly from 2015 levels due to the increased cost of peeler logs. The increased log costs were partially offset by higher production and shipments which resulted in lower unit conversion costs. Most of the plywood we produce is sold to customers in Canada where both the new home and renovation and repair markets remained relatively constant through 2016 and 2015.

Operating earnings from our MDF and LVL operations were similar to 2015. MDF demand is significantly affected by new home construction which continues to gradually strengthen in the U.S. LVL is used predominantly in single-family home construction which continues to lag construction of multi-family housing units.

Pulp & Paper Segment

	2016	2015
BCTMP (Mtonnes)		
Production	**665**	645
Shipments	**653**	673
NBSK (Mtonnes)		
Production	**527**	497
Shipments	**526**	499
Newsprint (Mtonnes)		
Production	**128**	133
Shipments	**129**	136
Sales ($millions)	**887**	900
Adjusted EBITDA ($millions)	**79**	80
Amortization ($millions)	**(37)**	(39)
Operating earnings ($millions)	**42**	41
Adjusted EBITDA margin (%)	**9**	9
Capital expenditures ($millions)	**42**	32
Benchmark prices (per tonne)		
NBSK U.S. – US$[1,3]	**978**	972
NBSK China – US$[2,3]	**599**	644
Newsprint – US$[4]	**560**	538
NBSK U.S. – Cdn$[5]	**1,295**	1,242
NBSK China – Cdn$[5]	**793**	823
Newsprint – Cdn$[5]	**742**	688

1. Source: Resource Information Systems, Inc. – U.S. list price, delivered U.S.
2. Source: Resource Information Systems, Inc. – China list price, delivered China.
3. The differences between the U.S. and China NBSK list prices are largely attributable to the customary sales practice of applying material discounts from the U.S. list price for North American sales compared to relatively small discounts from the China list price for sales into China.
4. Source: Resource Information Systems, Inc. – U.S. delivered 48.8 gram newsprint.
5. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

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

BCTMP and NBSK pulp production increased in 2016 compared to 2015. BCTMP production increased by 3% from 2015, reflecting a new annual production record at our Slave Lake Pulp mill. NBSK production increased by 6% compared to 2015. Despite some operational issues at our Hinton pulp mill in the fourth quarter, the mill achieved an annual production record in 2016. Major maintenance shutdowns are planned for our Hinton and our jointly owned Cariboo NBSK mills in 2017 of 14 days in the third quarter and 12 days in the second quarter, respectively. Newsprint production was slightly lower in the year compared to 2015.

During 2016 and 2015 Alberta power prices were relatively lower and less volatile compared to previous periods resulting in no significant production curtailments at our Slave Lake pulp mill and jointly owned newsprint mill.

Operating earnings for the segment were similar to the previous year with improvements in BCTMP and newsprint earnings offset by a decline in NBSK earnings. Pulp prices were lower in 2016 compared to 2015, particularly for NBSK, while there was a significant improvement in newsprint prices. BCTMP unit conversion costs were lower in 2016 compared to 2015 due mainly to lower power costs in Alberta and lower depreciation costs due to assets becoming fully depreciated. NBSK unit conversion costs also were lower in 2016 due to lower furnish and natural gas costs and lower chemical usage.

4th Quarter Results

Sales and Earnings Comparison

($millions, except as otherwise indicated)	Q4-16	Q3-16	Q4-15
Sales by Segment			
Lumber	**778**	814	684
Panels	**124**	139	139
Pulp & Paper	**231**	230	220
Intracompany fibre sales	**(26)**	(28)	(30)
Total	**1,107**	1,155	1,013
Operating Earnings by Segment			
Lumber	**107**	114	17
Panels	**17**	30	16
Pulp & Paper	**20**	22	8
Corporate & Other	**(17)**	(10)	(23)
Operating earnings	**127**	156	18
Finance expense	**(7)**	(7)	(6)
Other	**(1)**	1	(16)
Tax provision	**(40)**	(43)	(11)
Earnings	**79**	107	(15)
Cdn$1.00 converted to US$ – average	**0.749**	0.767	0.749

Adjusted Earnings and Adjusted Basic Earnings Per Share

($millions except EPS amounts which are in $)	Q4-16	Q3-16	Q4-15
Earnings	**79**	107	(15)
Add:			
Equity-based compensation	**16**	7	22
Exchange loss on long-term financing	**4**	2	14
Loss on power agreements	**8**	—	3
Insurance gain on disposal of equipment	**(3)**	—	—
Write-down of investment	**—**	—	7
Net tax effect on the above adjustments	**(3)**	(1)	(1)
Adjusted earnings	**101**	115	30
Adjusted basic EPS	**1.28**	1.45	0.38

Discussion & Analysis of Quarterly Non-operational Items

For a description of our quarterly operational results see "Discussion & Analysis by Product Segment" which follows this section.

Our results include several significant non-operational items that are identified as adjustments in the table immediately above this section. After taking into account the adjustments, we generated Adjusted earnings of $100 million in the current quarter compared to Adjusted earnings of $115 million in the previous quarter and Adjusted earnings of $30 million in the fourth quarter of 2015.

In the fourth quarter of 2016 an expense of $16 million was recorded related to equity-based compensation compared to an expense of $7 million last quarter and an expense of $22 million in the fourth quarter of 2015. An expense is recorded on the issuance of share options or phantom or directors' deferred share units and an additional expense or recovery is recorded each quarter based primarily on valuation models that consider various factors relating to outstanding options and units. The most significant of these factors is the change in the market value of our shares from the beginning to the end of the particular period. The market value of the Company's shares increased by 19% in the fourth quarter, from $40.43 per share at the end of the third quarter to $48.01 per share at the end of 2016. In November we entered into a derivative contract that effectively hedges the impact from changes in value related to 1,000,000 equity units. For the quarter the hedge reduced the expense by $2 million compared to what it otherwise would have been. This contract will reduce volatility going forward. The expense or recovery does not necessarily represent the actual amount that will ultimately be paid by the Company in respect of options and units.

For a description of the other key adjustments, see the corresponding section under "Annual Results" in this MD&A.

Discussion & Analysis by Product Segment

Lumber Segment

	Q4-16	Q3-16	Q4-15
SPF (MMfbm)			
Production	**897**	954	896
Shipments	**944**	986	946
SYP (MMfbm)			
Production	**499**	541	502
Shipments	**489**	546	502
Sales ($millions)			
Lumber	**680**	709	578
Wood chips and other residuals	**74**	81	77
Logs and other	**24**	24	29
	778	814	684
Adjusted EBITDA ($millions)	**144**	151	55
Amortization ($millions)	**(37)**	(37)	(38)
Operating earnings ($millions)	**107**	114	17
Adjusted EBITDA margin (%)	**19**	19	8
Benchmark prices (per Mfbm)			
SPF #2 & Better 2x4[1] – US$	**315**	322	263
SPF #3 Utility 2x4[1] – US$	**261**	245	189
SYP #2 West 2x4[2] – US$	**432**	410	395
SPF #2 & Better 2x4 – Cdn$[3]	**420**	420	351
SPF #3 Utility 2x4 – Cdn$[3]	**348**	320	252
SYP #2 West 2x4 – Cdn$[3]	**576**	535	527

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

Operating earnings decreased slightly in the quarter compared to the previous quarter. Production and shipments both declined from the previous quarter due to cold weather in many of our operating areas late in the quarter as well as fewer operating days. The negative effect of lower production and shipments was partially offset by higher Canadian-dollar lumber prices. Log costs in our Canadian operations were higher than in the previous quarter which also contributed to the lower operating earnings.

Operating earnings were significantly higher in the quarter compared to the fourth quarter of 2015 mainly due to higher lumber prices, particularly for SPF lumber. Production and shipments for the quarter were similar to the fourth quarter of 2015. Higher Canadian log costs in the quarter partially offset the positive effect of higher lumber prices.

Panels Segment

	Q4-16	Q3-16	Q4-15
Plywood (MMsf 3/8" basis)			
Production	**207**	212	197
Shipments	**207**	212	203
MDF (MMsf 3/4" basis)			
Production	**35**	36	56
Shipments	**34**	35	53
LVL (Mcf)			
Production	**584**	548	456
Shipments	**556**	611	485
Sales ($millions)			
Finished products	**119**	132	131
Wood chips and other residuals	**4**	5	5
Logs and other	**1**	2	3
	124	139	139
Adjusted EBITDA ($millions)	**20**	33	19
Amortization ($millions)	**(3)**	(3)	(3)
Operating earnings ($millions)	**17**	30	16
Adjusted EBITDA margin (%)	**16**	24	14
Benchmark prices			
Plywood (per Msf 3/8" basis)[1] Cdn$	**421**	471	410

1. Source: Crow's Market Report – Delivered Toronto.

The decline in operating earnings for our panels segment compared to the previous quarter was primarily the result of lower plywood prices reflecting a seasonal slowdown of the Canadian building industry. Lower log costs in the fourth quarter provided a partial positive offset to the effect of lower prices. Results from our MDF business were also lower in the current quarter due to lower business interruption insurance booked compared to the third quarter of 2016. LVL operating earnings were little changed quarter to quarter.

Operating earnings for the current quarter compared to the same quarter of 2015 were also little changed. Plywood earnings were higher in the current quarter due to the combination of higher sales prices, higher shipments and slightly lower unit manufacturing costs. MDF and LVL results were both slightly lower than in the fourth quarter of 2015, offsetting much of the increase in operating earnings provided by the plywood operations.

Pulp & Paper Segment

	Q4-16	Q3-16	Q4-15
BCTMP (Mtonnes)			
Production	**172**	169	165
Shipments	**149**	181	169
NBSK (Mtonnes)			
Production	**133**	137	128
Shipments	**139**	127	125
Newsprint (Mtonnes)			
Production	**33**	31	33
Shipments	**32**	31	38
Sales ($millions)	**231**	230	220
Adjusted EBITDA ($millions)	**30**	31	17
Amortization ($millions)	**(10)**	(9)	(9)
Operating earnings ($millions)	**20**	22	8
Adjusted EBITDA margin (%)	**13**	13	8
Benchmark prices (per tonne)			
NBSK U.S. – US$[1,3]	**992**	998	945
NBSK China – US$[2,3]	**595**	595	600
Newsprint – US$[4]	**575**	575	505
NBSK U.S. – Cdn$[5]	**1,324**	1,302	1,262
NBSK China – Cdn$[5]	**794**	776	801
Newsprint – Cdn$[5]	**767**	750	674

1. Source: Resource Information Systems, Inc. – U.S. list price delivered U.S.
2. Source: Resource Information Systems, Inc. – China list price, delivered China.
3. The differences between the U.S. and China NBSK list prices are largely attributable to the customary sales practice of applying material discounts from the U.S. list price for North American sales compared to relatively small discounts from the China list price for sales into China.
4. Source: Resource Information Systems, Inc. – U.S. delivered 48.8 gram newsprint.
5. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. benchmark price.

Operating earnings from our pulp & paper operations decreased slightly from the previous quarter. Our NBSK operations were negatively affected by cold weather in December which resulted in higher chemical, natural gas and maintenance costs. These higher costs were only partially offset by the effect of higher shipments compared to the previous quarter. BCTMP realized sales prices increased significantly from the previous quarter due to substantially improved demand from China. The improved prices coupled with some improvement in conversion costs more than offset the negative effect of reduced BCTMP shipments in the quarter. Shipments were lower in the quarter due to transportation delays, mainly as port congestion caused a delay in planned shipments. Operating earnings from our newsprint operations were similar to the last quarter.

Operating earnings for the segment were higher than in the fourth quarter of 2015 due to improved BCTMP and newsprint results partially offset by lower NBSK results. The BCTMP and newsprint improvement in operating earnings was substantially due to significantly higher product prices. The higher prices together with some reduction in unit conversion costs more than offset the effect of lower shipments in the quarter compared to the fourth quarter of 2015.

Our NBSK business realized lower product prices and higher conversion costs, mainly due to higher maintenance costs, in the quarter compared to the fourth quarter of 2015.

Capital Expenditures

During the year our capital expenditures totaled $273 million as set out in the following table.

($millions of dollars)

Segment	Profit Improvement	Maintenance of Business	Total
Lumber	127	68	195
Panels	2	23	25
Pulp & Paper	16	26	42
Corporate & Other	—	11	11
Total	145	128	273

Capital expenditures of $273 million reflect our philosophy of continual reinvestment in our mills with significant investments made in both our Canadian and U.S. operations. In our lumber operations we invested in several continuous kilns and a number of smaller projects to improve grade recovery and output. The single largest project is a sawmill rebuild at our Newberry, South Carolina operation which is expected to be completed in the first quarter of 2017.

Maintenance of business expenditures are primarily for safety upgrades, roads, bridges, mobile equipment and major maintenance shutdowns.

Business Outlook

Operations

We expect continuing improved productivity from our lumber segment resulting in an increase in overall lumber production of approximately 250 MMfbm compared to 2016. The increase reflects the completion of several major capital projects and start-ups in the segment through 2016 although production gains will be partially offset by reductions resulting from anticipated capital projects in the segment to be undertaken during 2017. Anticipated production gains assume improving demand and normal access to logs and could be adversely affected by abnormally severe weather conditions in any of our operating areas and faster than anticipated log quality deterioration in the B.C. interior. We expect continuing log cost escalation in the B.C. interior as mountain pine beetle-killed timber reaches the end of commercial viability and overall log supply decreases.

In our panels segment our plywood and LVL operations should perform generally consistently with 2016 operations. Our WestPine MDF plant experienced a fire in March, 2016 resulting in its closure for the balance of the year for repairs and reconstruction. Plant commissioning is expected to commence in the second quarter with return to normal operations in the third quarter.

Because two of our plywood operations are in the B.C. interior, we expect log costs for those operations to continue to increase in 2017.

Both of our NBSK mills will undergo major maintenance shutdowns in 2017 (our jointly owned Cariboo mill in the second quarter and Hinton in the third quarter). Improved productivity at these mills continues to be a key focus for 2017. Our BCTMP mills and our jointly owned newsprint mill continued to operate well in 2016 and we expect generally similar operations in 2017, assuming adequate markets.

Markets

Our lumber segment's most important market is the U.S. and particularly residential construction, repair and maintenance. Canadian softwood lumber exports to the U.S. have been the subject of trade disputes and managed trade arrangements for the last several decades. During the period from October 2006 through October 2015 these exports were subject to a trade agreement between the U.S. and Canada and on the expiry of that agreement a one-year moratorium on trade sanctions by the U.S. came into place. That moratorium has expired and a coalition of U.S. lumber producers has petitioned the U.S. Department of Commerce and the U.S. International Trade Commission to impose trade sanctions against Canadian softwood lumber exports to the U.S. It appears likely that some form of protectionist sanctions such as duties will be imposed on Canadian softwood lumber exports to the U.S. until and unless some form of trade agreement can be reached between the U.S. and Canada or a final, binding determination is made as a result of litigation. Unless the additional costs imposed by duties can be passed along to lumber consumers, the duties will increase costs for Canadian producers and, in certain cases, could result in some Canadian production becoming unprofitable. Whether and to what extent duties can be passed along to consumers will largely depend on the strength of demand for softwood lumber, which is significantly influenced by the levels of new residential construction in the U.S. which has been gradually improving over the past several years. If duties can be passed through to consumers in whole or in part the price of Canadian softwood lumber will increase (although the increase will not necessarily be for the benefit of Canadian producers) which in turn could cause the price of SYP lumber, which would not be subject to the duty, to increase as well.

U.S. trade laws permit, under certain circumstances, the imposition of duties retroactively for a period of up to 90 days. If this were to occur there would be no ability for Canadian producers to pass along any portion of such duties and they would become entirely an increased cost to the Canadian producer. It is difficult to predict whether such retroactive duties will be imposed.

We are anticipating continued improvement in U.S. new residential construction and steady demand from China and Japan for Canadian softwood lumber, but it is currently very difficult to predict how and to what extent duties will be imposed, as well as how such duties will affect lumber prices and the cost structure of our Canadian lumber business.

The major component of our panels segment is plywood which is sold mainly in Canada. Although demand for Canadian plywood has been strong over the past several years, we anticipate some downward pressure on plywood prices in 2017 as the pace of Canadian housing construction slows. MDF and LVL demand is heavily influenced by North American new home construction and we are expecting continuing improvement in U.S. residential construction which should help maintain good price levels for these products.

We are anticipating that pulp markets will generally be flat to slightly weaker as the market adjusts to announced new production. Pulp demand will be heavily influenced by the pace of Chinese economic activity which may face headwinds as a result of anticipated U.S. protectionist actions although the timing and nature of such actions is uncertain

Cash flows

We are anticipating levels of cash flows, even taking into account the potential imposition of duties on Canadian softwood lumber exports to the U.S., to support approximately $300 million of capital spending in 2017 as well as to continue to support the current dividend. We have paid a dividend in every quarter since we became a public company in 1986. We expect to maintain our investment grade rating and intend to preserve sufficient liquidity to be able to take advantage of strategic growth opportunities that may arise, although we believe that uncertainty concerning potential future trade sanctions with respect to Canadian lumber exports to the U.S. could inhibit growth activities. We are authorized under our Normal Course Issuer Bid, which expires in September of 2017, to purchase up to 5% of our outstanding shares and we will continue to consider share purchases with excess cash if we are satisfied that this will enhance shareholder value.

Estimated Earnings Sensitivity to Key Variables[1]

(based on 2016 production – $millions)

Factor	Variation	Change in pre-tax earnings
Lumber price	US$10 (per Mfbm)	80
Plywood price	Cdn$10 (per Msf)	8
NBSK price	US$10 (per tonne)	7
BCTMP price	US$10 (per tonne)	9
U.S. – Canadian $ exchange rate[2]	US$0.01 (per Cdn $)	30

1. Each sensitivity has been calculated on the basis that all other variables remain constant and assumes year-end foreign exchange rates.
2. Excludes exchange impact of translation of U.S. dollar-denominated debt and other monetary items. Reflects the amount of the initial US$0.01 change; additional changes are substantially, but not exactly, linear.

Capital Structure and Liquidity

The capital structure of the Company consists of Common share equity and long-term debt. In addition, the Company maintains a committed revolving credit facility and lines of credit dedicated to letters of credit.

In September 2016 we announced approval for renewal of our normal course issuer bid expiring that month. The renewal allows us to acquire up to 3,834,226 Common shares for cancellation until expiry of the bid on September 18, 2017. From September 19, 2016 to December 31, 2016, under this bid, we repurchased 391,853 Common shares for cancellation at an average price of $50.70. In 2016 we repurchased a total of 4,306,159 Common shares for cancellation at an average price of $44.06 (2015 – 1,078,856 Common shares at an average price of $55.57).

Our outstanding Common share equity consists of 75,882,056 Common shares and 2,281,478 Class B Common shares for a total of 78,163,534 shares issued and outstanding as at February 16, 2017.

Our Class B Common shares are equal in all respects to our Common shares and are exchangeable on a one-for-one basis for Common shares. Our Common shares are listed for trading on the Toronto Stock Exchange while our Class B Common shares are not. Certain circumstances or corporate transactions may require the approval of the holders of our Common shares and Class B Common shares on a separate class by class basis.

As of February 16, 2017 there were 2,119,886 share purchase options outstanding with exercise prices ranging from $12.36 to $73.99 per Common share.

In October 2014, we issued US$300 million of fixed-rate senior unsecured notes, bearing interest at 4.35% and due October 2024, pursuant to a private placement in the U.S. The notes are redeemable, in whole or in part, at our option at any time. Our revolving lines of credit consist of a $500 million committed revolving credit facility, a US$25 million demand line to support our U.S. operations, demand lines of credit totalling $59 million (includes US$7 million) dedicated to letters of credit, and an $8 million demand line of credit dedicated to our jointly owned newsprint operation. The revolving credit facility matures on September 30, 2020.

At December 31, 2016 there were no amounts outstanding under our revolving credit facility. Letters of credit in the amount of $48 million were supported by our facilities, leaving approximately $553 million of credit available for further use.

Our cash requirements, other than for operating purposes, are primarily for interest payments, repayment of debt, additions to property, plant, equipment and timber, acquisitions and payment of dividends. In normal business cycles and in years without a major acquisition or debt repayment, cash on hand and cash provided by operations have been sufficient to meet these requirements.

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

As at December 31	2016	2015
Cash[1]	**50**	13
Current assets	**938**	971
Current liabilities	**459**	606
Ratio of current assets to current liabilities	**2.0**	1.6
Net debt[2]	**376**	617
Shareholders' equity	**2,241**	2,147
Net debt to total capital[3]	**14%**	22%

1. Cash consists of cash and short-term investments.
2. Total debt less deferred financing costs less cash plus cheques issued in excess of funds on deposit.
3. Non-IFRS measure. See "Non-IFRS Measures" below.

As shown in the table below, we are rated by three rating agencies. All three agencies maintained our investment grade ratings with a Stable Outlook.

Debt Ratings

Agency	Rating	Outlook
DBRS	BBB(low)	Stable
Moody's	Baa3	Stable
Standard & Poor's	BBB-	Stable

These ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating agencies.

Selected Cash Flow Items ($millions)

For the year ended December 31	2016	2015
Operating Activities		
Earnings	**326**	104
Amortization	**197**	191
Foreign exchange loss (gain) on long-term financing	**(4)**	58
Change in income taxes	**111**	(15)
Changes in non-cash working capital	**90**	(79)
Other	**(31)**	42
Cash provided by operating activities	**689**	301
Financing Activities		
Proceeds from (repayment of) operating loan	**(181)**	68
Finance expense paid	**(23)**	(22)
Dividends	**(22)**	(23)
Common share repurchases	**(190)**	(60)
Other	**2**	(1)
Cash used in financing activities	**(414)**	(38)
Investing Activities		
Acquisition	**—**	(76)
Additions to capital assets	**(273)**	(220)
Other	**10**	8
Cash used in investing activities	**(263)**	(288)
Increase (decrease) in cash	**12**	(25)

Operating Activities

Cash provided by operating activities increased by $388 million from the previous year. The table above shows the main components of cash generation for the year compared to 2015. Increased earnings accounted for $222 million of the increase with income taxes and working capital changes being the other significant factors. The cash generated from income taxes relates to current tax expense being higher than instalment payments in 2016 and the impact of the change in deferred income tax balances. The main component of the working capital change relates to a decrease in inventories as we were able to reduce both our finished product inventories and log inventories from the levels present at the beginning of the year.

Financing Activities

During the year we repaid $181 million outstanding from our operating lines and acquired 4,306,159 of our Common shares for a total purchase price of $190 million.

Investing Activities

The cash used for investing activities was related to additions to capital assets of $273 million. Cash used in 2015 included $220 million related to capital additions and an acquisition of a sawmill in Alberta for $76 million.

Contractual Obligations as at December 31, 2016 ($millions)[1]

	2017	2018	2019	2020	Thereafter	Total
Long-term debt[2]	—	—	—	—	417	417
Operating leases	4	3	2	2	3	14
Asset purchase commitments	33	—	—	—	—	33
Total	37	3	2	2	420	464

1. Contractual obligations means an agreement related to debt, leases and enforceable agreements to purchase goods or services on specified terms, but does not include reforestation and decommissioning obligations, energy purchases under various agreements, pension contributions payable, accounts payable in the ordinary course of business or contingent amounts payable.
2. Includes U.S. dollar-denominated debt of US$300 million.

Significant Management Judgments Affecting Financial Results

The preparation of financial statements requires management to make estimates and assumptions, and to select accounting policies, that affect the amounts reported. The significant accounting policies followed by our Company are disclosed in our Financial Statements. The following judgments are considered the most significant:

Fair value of Derivative Contracts

Prior to March 24, 2016 we had power contracts in place to reduce financial risk from increasing Alberta power prices. These contracts were adjusted to fair value at each balance sheet date and the change in fair value was recorded through earnings. To assess fair value, we discounted expected cash flows over the life of the agreements. Determining expected future cash flows involves significant estimates including future power prices, and electricity generation and costs of producing electricity from power plants that our contracts were tied to.

Recoverability of Long-lived Assets

We assess the carrying value of an asset when there are indicators of impairment. The assessment compares the estimated discounted future cash flows of the asset to the carrying value of the asset. If the carrying value of the asset exceeds the estimated discounted future cash flows relating to the asset, the carrying value is written down to the higher of fair value less costs to sell and value-in-use.

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

Goodwill is not amortized. We compare the carrying value of goodwill and related assets, at least once a year, to the estimated discounted cash flows that the assets are expected to generate. If it is determined that the carrying value is more than the estimated discounted cash flows, then a goodwill impairment will be recorded. We tested goodwill for impairment in 2016 and concluded that its carrying value is not impaired. The testing of goodwill for impairment involves significant estimates including future production and sales volumes, product selling prices, foreign currency exchange rates, operating costs, capital expenditures and the appropriate discount rate to apply. In all cases, we have used our best estimates of these projected amounts and values. Given the current global economic uncertainty and the volatility of the markets for our products, it is possible that our estimates will be adjusted in the future and that these adjusted estimates could result in the future impairment of goodwill.

We also review the carrying value of deferred income tax assets to ensure that the carrying value is appropriate. The key factors considered are the Company's history of profitability, future expectations of profitability and the timing of expiry of tax loss carry-forwards.

Reforestation and Decommissioning Obligations

In Canada, provincial regulations require timber quota holders to carry out reforestation to ensure re-establishment of the forest after harvesting. Reforested areas must be tended for a period sufficient to ensure that they are well-established. The time needed to meet regulatory requirements depends on a variety of factors.

In our operating areas, the time to meet reforestation standards usually spans 12 to 15 years from the time of harvest. We record a liability for the estimated cost of the future reforestation activities when the harvesting takes place. This liability is reviewed, at least annually, and adjusted to our current estimate of the costs to complete the remainder of the reforestation activities. In 2016 the review of the reforestation obligation resulted in a decrease to the obligation of $10 million (2015 – increase of $4 million).

We record the estimated fair value of a liability for decommissioning obligations, such as landfill closures, in the period when a reasonable estimate of fair value can be made. We review these estimates at least annually, and adjust the obligations as appropriate. In 2016 the review resulted in a decrease to the obligation by $4 million (2015 – increase of $6 million).

Defined Benefit Pension Plan ("D.B. Plan") Assumptions

We maintain several D.B. Plans for many of our employees. The annual funding requirements and pension expenses are based on (i) various assumptions that we determine in consultation with our actuaries, (ii) actual investment returns on the pension fund assets, and (iii) changes to the employee groups in the pension plans. Note 13 to the Financial Statements provides the sensitivity of a change in key assumptions to our post-retirement obligations.

Accounting Standards Issued But Not Yet Applied

The International Accounting Standards Board periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are ones we consider to be most significant.

IFRS 9 – Financial Instruments

In November 2009, IFRS 9 was issued and in October 2010 was further amended. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in International Accounting Standards ("IAS") 39 - *Financial Instruments: Recognition and Measurement* for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive earnings. This standard is effective for annual periods beginning on or after January 1, 2018. We do not expect this standard to have a significant effect on our consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued. This standard addresses revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to control its use and obtain the benefits from the good or service. The standard replaces IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

IFRS 16 – Leases

In January 2016 IFRS 16 was issued. This standard requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. The standard is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

Non-IFRS Measures

The following summarizes the non-IFRS measures we use in this MD&A. None of these measures is a generally accepted measure under IFRS and none has a standardized meaning prescribed by IFRS. Investors are cautioned that none of these measures should be considered as an alternative to earnings, earnings per share or cash flow, as determined in accordance with IFRS. As there is no standardized method of calculating any of these measures, our method of calculating each of them may differ from the methods used by other entities and, accordingly, our use of any of these measures may not be directly comparable to similarly titled measures used by other entities.

Adjusted EBITDA

($millions)	**Q4-16**	Q3-16	**2016**	Q4-15	2015
Earnings	**79**	107	**326**	(15)	104
Add:					
Amortization	**50**	50	**197**	50	191
Finance expense	**7**	7	**29**	6	29
Tax provision	**40**	43	**118**	11	52
EBITDA	**176**	207	**670**	52	376
Add:					
Equity-based compensation	**16**	7	**(5)**	22	(23)
Other	**1**	(1)	**9**	16	64
Adjusted EBITDA	**193**	213	**674**	90	417

Adjusted EBITDA by Segment

($millions)	**Q4-16**	Q3-16	**2016**	Q4-15	2015
Lumber					
Earnings before tax	**104**	111	**344**	8	87
Add:					
Amortization	**37**	37	**146**	38	138
Finance expense	**5**	4	**18**	4	18
EBITDA	**146**	152	**508**	50	243
Add:					
Other	**(2)**	(1)	**—**	5	—
Adjusted EBITDA	**144**	151	**508**	55	243
Panels					
Earnings before tax	**19**	29	**79**	15	76
Add:					
Amortization	**3**	3	**12**	3	13
Finance expense	**—**	1	**3**	—	3
EBITDA	**22**	33	**94**	18	92
Add:					
Other	**(2)**	—	**(5)**	1	3
Adjusted EBITDA	**20**	33	**89**	19	95
Pulp & Paper					
Earnings before tax	**16**	21	**11**	8	28
Add:					
Amortization	**10**	9	**37**	9	39
Finance expense	**2**	2	**8**	2	8
EBITDA	**28**	32	**56**	19	75
Add:					
Other	**2**	(1)	**23**	(2)	5
Adjusted EBITDA	**30**	31	**79**	17	80
Corporate & Other					
Earnings before tax	**(20)**	(11)	**10**	(35)	(35)
Add:					
Amortization	**—**	1	**2**	—	1
EBITDA	**(20)**	(10)	**12**	(35)	(34)
Add:					
Equity-based compensation	**16**	7	**(5)**	22	(23)
Other	**3**	1	**(9)**	12	56
Adjusted EBITDA	**(1)**	(2)	**(2)**	(1)	(1)
Total Adjusted EBITDA	**193**	213	**674**	90	417

Adjusted Earnings and Adjusted Basic Earnings Per Share

($millions except EPS amounts which are in $)	**Q4-16**	Q3-16	**2016**	Q4-15	2015
Earnings	**79**	107	**326**	(15)	104
Add:					
Equity-based compensation	**16**	7	**(5)**	22	(23)
Exchange loss (gain) on long-term financing	**4**	2	**(4)**	14	58
Loss on power agreements	**8**	—	**27**	3	32
Insurance gain on disposal of equipment	**(3)**	—	**(8)**	—	—
Write-down of investment	**—**	—	**—**	7	7
Net tax effect on the above adjustments	**(3)**	(1)	**(6)**	(1)	(9)
Increase in Alberta provincial tax rate	**—**	—	**—**	—	7
Adjusted earnings	**101**	115	**330**	30	176
Adjusted basic EPS[1]	**1.28**	1.45	**4.11**	0.38	2.12

1. Adjusted basic EPS is calculated by dividing Adjusted earnings by the basic weighted average shares outstanding.

Net Debt to Total Capital Ratio

($millions except where indicated)	**December 31, 2016**	December 31, 2015
Net debt		
Cash and short-term investments	**(50)**	(13)
Deferred financing costs[1]	**(6)**	(7)
Cheques issued in excess of funds on deposit	**15**	29
Operating loan	**—**	181
Long-term debt	**417**	427
	376	617
Shareholders' equity	**2,241**	2,147
Total capital	**2,617**	2,764
Net debt to total capital	**14%**	22%

1. For our balance sheet presentation, these costs are applied to reduce the associated debt or, in instances when the operating loan is undrawn, these costs associated with the operating loan are included in other assets.

Risks and Uncertainties

Product Demand and Price Fluctuations

Our revenues and financial results are primarily dependent on the demand for, and selling prices of, our products, which are subject to significant fluctuations. The demand and prices for lumber, panels, pulp, newsprint, wood chips and other wood products are highly volatile and are affected by factors such as global economic conditions including the strength of the U.S. housing market and of Asian markets, particularly China and Japan, changes in industry production capacity, changes in world inventory levels, increased competition from other sources of supply of logs and lumber, particularly from Russia, and other factors beyond our control. In addition, unemployment levels, interest rates and the rate of mortgage foreclosures have a significant effect on residential construction and renovation activity, which in turn influences the demand for, and price of, building materials such as lumber and panel products. Declines in demand, and corresponding reductions in prices, for our products may adversely affect our financial condition and results of operations.

We cannot predict with any reasonable accuracy future market conditions, demand or pricing for any of our products due to factors outside our control. Prolonged or severe weakness in the market for any of our principal products would adversely affect our financial condition.

Availability of Fibre and Changes in Stumpage Fees

Substantially all of our Canadian log requirements are harvested from lands owned by a provincial government (the "Crown"). Provincial governments control the volumes that can be harvested under provincially-granted tenures and otherwise regulate the availability of Crown timber for harvest. Determinations by provincial governments to reduce the volume of timber or the areas that may be harvested under timber tenures, including to protect the environment or endangered species and critical habitat, may reduce our ability to secure log supply and may increase our log purchase costs.

In addition, provincial governments prescribe the methodologies that determine the amounts of stumpage fees that are charged in respect of harvesting on Crown lands. Determinations by provincial governments to change stumpage fee methodologies or rates could increase our log costs.

We rely on third-party independent contractors to harvest timber in areas over which we hold timber tenures. Increases in rates charged by these independent contractors or the limited availability of these independent contractors may increase our timber harvesting costs.

We also rely on the purchase of logs and increased competition for, or shortages of, logs may result in increases in our log purchase costs.

We rely on log supply agreements in the United States which are subject to log availability and based on market prices. Approximately 15% of the aggregate log requirements for our U.S. sawmills may be supplied under long-term agreements with the balance purchased on the open market. Changes in the U.S. log market may reduce the supply of logs available to us and may increase the costs of log purchases, each of which could adversely affect our results.

Trade Restrictions

A substantial portion of our products that are manufactured in Canada are exported for sale. Our financial results are dependent on continued access to the export markets and tariffs and other trade barriers that restrict or prevent access represent a continuing risk to us. Canadian softwood lumber exports to the U.S. have been the subject of trade disputes and managed trade arrangements for the last several decades. During the period from October 2006 through October 2015 these exports were subject to a trade agreement between the U.S. and Canada and on the expiry of that agreement a one-year moratorium on trade sanctions by the U.S. came into place. That moratorium has expired and a group of U.S. lumber producers has petitioned the U.S. Department of Commerce and the U.S. International Trade Commission to impose trade sanctions against Canadian softwood lumber exports to the U.S. It appears likely that some form of protectionist sanctions such as duties will be imposed on Canadian softwood lumber exports to the U.S. until and unless some form of trade agreement can be reached between the U.S. and Canada or a final, binding determination is made as a result of litigation. Unless the additional costs imposed by duties can be passed along to lumber consumers, the duties will increase costs for Canadian producers and, in certain cases, could result in some Canadian production becoming unprofitable. Whether and to what extent duties can be passed along to consumers will largely depend on the strength of demand for softwood lumber, which is significantly influenced by the levels of new residential construction in the U.S. which has been gradually improving over the past several years. If duties can be passed through to consumers in whole or in part the price of Canadian softwood lumber will increase (although the increase will not necessarily be for the benefit of Canadian producers) which in turn could cause the price of SYP lumber, which would not be subject to the duty, to increase as well.

The application of U.S. trade laws could, in certain circumstances, create significant burdens on us. We are a mandatory respondent in current investigations being conducted by the U.S. Department of Commerce into alleged subsidies and dumping. If the Department determines that we have failed to fully cooperate with either investigation the Department may apply adverse facts which could result in a higher duty being imposed on our softwood lumber exports to the U.S. In addition, under certain circumstances duties can be charged retroactively on a company by company basis which could adversely affect our competitiveness with other Canadian softwood lumber producers.

Natural and Man-Made Disasters

Our operations are subject to adverse natural or man-made events such as forest fires, severe weather conditions, climate change, timber diseases and insect infestations including those that may be associated with warmer climate conditions, and earthquake activity. These events could damage or destroy or adversely affect the operations at our physical facilities or our timber supply or our access to timber, and similar events could also affect the facilities of our suppliers or customers. Any such damage or destruction could adversely affect our financial results as a result of decreased production output or increased operating costs. Although we believe we have reasonable insurance arrangements in place to cover certain of such incidents related to damage or destruction, there can be no assurance that these arrangements will be sufficient to fully protect us against such losses. As is common in the industry, we do not insure loss of standing timber for any cause.

Mountain Pine Beetle

The long-term effect of the mountain pine beetle infestation on our Canadian operations is uncertain. The potential effects include a reduction of future AAC levels to below current and pre-infestation AAC levels. Many of our British Columbia operations are experiencing a diminished grade and volume of lumber recovered from beetle-killed logs and increased production costs, and these effects could spread to our Alberta operations as the mountain pine beetle infestation expands. The timing and extent of the future effect on our timber supply, lumber grade and recovery, and production costs will depend on a variety of factors and at this time cannot be reasonably determined. The effects of the deterioration of beetle-killed logs could include increased costs, reduced operating rates due to shortages of commercially merchantable timber and mill closures.

Wood Dust

Our operations generate wood dust which has been recognized for many years as a potential health and safety hazard. The potential risks associated with wood dust have been increased in those of our British Columbia and Alberta facilities that have been processing mountain pine beetle-killed logs as the wood dust generated from these logs tends to be drier, lighter and finer than wood dust typically generated. We have adopted a variety of measures to reduce or eliminate the risks posed by the presence of wood dust in our facilities and we continue to work with industry and regulators to develop and adopt best mitigation practices. Adoption of measures to reduce or eliminate risks associated with wood dust as a result of new government regulations and best practices may require additional capital expenditures and increase our operating costs. Any explosion or similar event at any of our facilities or any third-party facility could result in significant loss, increases in expenses and disruption of operations, each of which would have a material adverse effect on our business.

Financial

Our capital plans will include, from time to time, expansion, productivity improvement, technology upgrades, operating efficiency optimization and repair or replacement of our existing facilities and equipment. In addition, we may undertake the acquisition of facilities or the rebuilding or modernization of existing facilities. If the capital expenditures associated with these capital projects are greater than we have projected or if construction timelines are longer than anticipated, our financial condition, results of operations and cash flows may be adversely affected. In addition, our ability to expand production and improve operational efficiencies will be contingent on our ability to execute on our capital plans. Our capital plans may be adversely affected by availability of, and competition for, qualified workers and contractors, changes in government regulations, unexpected delays and increases in costs of completing capital projects.

We believe our capital resources will be adequate to meet our current projected operating needs, capital expenditures and other cash requirements. Factors that could adversely affect our capital resources include prolonged and sustained declines in the demand and prices for our products, unanticipated significant increases in our operating expenses and unanticipated capital expenditures. If for any reason we are unable to provide for our operating needs, capital expenditures and other cash requirements on commercially reasonable terms, we could experience a material adverse effect to our business, financial condition, results of operations and cash flows.

We rely on long-term borrowings and access to revolving credit in order to finance our ongoing operations. Any change in availability of credit in the market, as could happen during an economic downturn, could affect our ability to access credit markets on commercially reasonable terms. In the future we may need to access public or private debt markets to issue new debt. Deteriorations or volatility in the credit markets could also adversely affect:

- our ability to secure financing to proceed with capital expenditures for the repair, replacement or expansion of our existing facilities and equipment;
- our ability to comply with covenants under our existing credit or debt agreements;
- the ability of our customers to purchase our products; and
- our ability to take advantage of growth, expansion or acquisition opportunities.

In addition, deteriorations or volatility in the credit market could result in increases in the interest rates that we pay on our outstanding non-fixed rate debt, which would increase our costs of borrowing and adversely affect our operating results.

Credit rating agencies rate our debt securities based on factors that include our operating results, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the rating agencies can include maintaining, upgrading or downgrading the current rating or placing us on a watch list for possible future downgrading. Downgrading the credit rating of our debt securities or placing us on a watch list for possible future downgrading could limit our access to the credit markets, increase our cost of financing and have an adverse effect on our financial condition.

We rely heavily on certain raw materials, including logs, wood chips and chemicals, and energy sources, including natural gas and electricity, in our manufacturing processes. Increases in the costs of these raw materials and energy sources will increase our operating costs and will reduce our operating margins. There is no assurance that we will be able to fully offset the effects of higher raw material or energy costs through hedging arrangements, price increases, productivity improvements or cost-reduction programs.

Operational Curtailments and Transportation Requirements

From time to time, we suspend or curtail operations at one or more of our facilities in response to market conditions, environmental risks, or other operational issues, including, but not limited to scheduled and unscheduled maintenance, temporary periods of high electricity prices, power failures, equipment breakdowns, adverse weather conditions, labour disruptions and fire hazards.

In addition, our ability to operate at full capacity may be affected by ongoing capital projects. As a result, our facilities may from time to time operate at less than full capacity. These operational suspensions could have a material adverse effect on our financial condition as a result of decreased revenues and lower operating margins.

In Canada, a substantial portion of the wood chip requirements of our Canadian pulp and paper operations are provided by our Canadian sawmills and plywood and LVL plants. If wood chip production is reduced because of production curtailments, improved manufacturing efficiencies or any other reason, our pulp and paper operations may incur additional costs to acquire or produce additional wood chips or be forced to reduce production. Conversely, pulp and paper mill production curtailments may require our sawmills and panel mills to find other ways to dispose of residual wood fibre and may result in curtailment or suspension of lumber, plywood or LVL production and increased costs.

Our business depends on our ability to transport a high volume of products from our production facilities to both domestic and international markets. We rely primarily on third-party transportation providers for both the delivery of raw materials to our production facilities and the transportation of our products to market. These third-party transportation providers include truckers, bulk and container shippers and railways. Our ability to obtain transportation services from these transportation service providers is subject to risks which include, without limitation, unavailability due to competition and disruptions due to weather, natural disasters and labour disputes. Transportation costs are also subject to risks that include, without limitation, increased rates due to competition and increased fuel costs. Increases in transportation costs will increase our operating costs. If we are unable to obtain transportation services or if our transportation costs increase, our revenues may decrease due to our inability to deliver products to market and our operating expenses may increase, each of which would adversely affect our results of operations.

Labour and Services

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

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

Environment

We are subject to regulation by federal, provincial, state, municipal and local environmental authorities, including, among other matters, environmental regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid and hazardous waste, landfill operations, forestry practices, permitting obligations, site remediation and the protection of threatened or endangered species and critical habitat. We have incurred, and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations, including the U.S. Environmental Protection Agency's Boiler MACT (maximum achievable control technology) regulations. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on our business, operations, financial condition and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from our available cash flow. We may discover currently unknown environmental problems, contamination, or conditions relating to our past or present operations. This or any failure to comply with environmental laws and regulations may require site or other remediation costs or result in governmental or private claims for damage to person, property, natural resources or the environment or governmental sanctions, including fines or the curtailment or suspension of our operations, which could have a material adverse effect on our business, financial condition and operational results.

We are currently involved in investigation and remediation activities and maintain accruals for certain environmental matters or obligations, as set out in the notes to our Financial Statements for the year ended December 31, 2016. There can be no assurance that any costs associated with such obligations or other environmental matters will not exceed our accruals.

Our Canadian woodland operations, and the harvesting operations of our many key U.S. suppliers, in addition to being subject to various environmental protection laws, are subject to third-party certification as to compliance with internationally recognized, sustainable forest management standards. Demand for our products may be reduced if we are unable to achieve compliance, or are perceived by the public as failing to comply, with these applicable environmental protection laws and sustainable forest management standards, or if our customers require compliance with alternate forest management standards for which our operations are not certified. In addition, changes in sustainable forest management standards or our determination to seek certification for compliance with alternate sustainable forest management standards may increase our costs of operations.

Aboriginal Groups

Issues relating to aboriginal groups, including First Nations, Métis and others, have the potential for a significant adverse effect on resource companies operating in Canada including West Fraser. Risks include potential delays or effects of governmental decisions relating to Canadian Crown timber harvesting rights (including their grant, renewal or transfer or authorization to harvest) in light of the government's duty to consult and accommodate aboriginal groups in respect of aboriginal rights or treaty rights, related terms and conditions of authorizations and potential findings of aboriginal title over land.

We participate, as requested by government, in the consultation process in support of the government fulfilling its duty to consult. We also seek to develop and maintain good relationships with aboriginal groups that may be affected by our business activities. However, as the jurisprudence and government policies respecting aboriginal rights and title and the consultation process continue to evolve, and as treaty negotiations continue, we cannot assure that aboriginal claims will not in the future have a material adverse effect on our timber harvesting rights or our ability to exercise or renew them or secure other timber harvesting rights.

On June 26, 2014 the Supreme Court of Canada (the "SCC") released its reasons for judgment in *Tsilhqot'in Nation v. British Columbia*. The SCC declared that the Tsilhqot'in Nation had established aboriginal title over an area of British Columbia comprising approximately 1,750 square kilometres. The SCC also held that the provisions of the *Forest Act* (British Columbia) dealing with the disposition or harvest of Crown timber, as presently drafted, no longer applied to timber located on those lands, by virtue of the definition of "Crown Timber" in the *Forest Act*. But the SCC also confirmed that provincial laws can apply on aboriginal title lands but only if the legislature so intends, and if the government can justify any infringement of aboriginal title (according to tests set out in the case law). It also confirmed that the existing *Forest Act* continues to apply to lands unless and until title is established.

We do not have any cutting permits in the area that was the subject of the Tsilhqot'in case. However, claims of aboriginal title have been asserted by many aboriginal groups throughout British Columbia (including lands in which we have interests or rights) and there is a risk that other aboriginal groups may pursue further rights or title claims through litigation, or treaty negotiations with governments. It is difficult to predict how quickly other claims will be litigated or negotiated and in what manner our Crown timber harvesting rights and log supply arrangements will be affected.

Regulatory

Our operations are subject to extensive general and industry-specific federal, provincial, state, municipal and other local laws and regulations and other requirements, including those governing forestry, exports, taxes, employees, labour standards, occupational health and safety, waste disposal, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. We are required to obtain approvals, permits and licences for our operations, which may require advance consultation with potentially affected stakeholders including aboriginal groups and impose conditions that must be complied with. If we are unable to obtain, maintain, extend or renew, or are delayed in extending or renewing, a material approval, permit or licence, our operations or financial condition could be adversely affected. There is no assurance that these laws, regulations or government requirements, or the administrative interpretation or enforcement of existing laws and regulations, will not change in the future in a manner that may require us to incur significant capital expenditures, pay higher taxes or otherwise could adversely affect our operations or financial condition. Failure to comply with applicable laws or regulations, including approvals, permits and licences, could result in fines, penalties or enforcement actions, including orders suspending or curtailing our operations or requiring corrective measures or remedial actions.

Foreign Currency Exchange Rates

We sell the majority of our products at prices denominated in U.S. dollars or based on prevailing U.S. dollar prices. A significant portion of our operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the U.S. dollar reduces the revenue in Canadian dollar terms realized by us from sales made in U.S. dollars, which reduces operating margin and the cash flow available to fund operations. We are also exposed to the risk of exchange rate fluctuations in the period between sale and payment. We also have a substantial amount of long-term debt repayable in U.S. dollars which is valued in Canadian dollars at the end of each reporting period by applying the prevailing exchange rate. Exchange rate fluctuations result in exchange gains or losses. This results in significant earnings sensitivity to changes in the Canadian/U.S. dollar exchange rate. The Canadian/U.S. dollar exchange rate is affected by a broad range of factors which makes future rates difficult to accurately predict.

Competition

We compete with global producers, some of which may have greater financial resources and lower production costs than we do. Currency devaluations, such as occurred in respect of the Russian ruble in the past few years, can have the effect of reducing our competitors' costs and making our products less competitive in certain markets. In addition, European lumber producers and South American panel producers may enter the North American market during periods of peak prices. Markets for our products are highly competitive. Our ability to maintain or improve the cost of producing and delivering products to those markets is crucial. Factors such as cost and availability of raw materials, energy and labour, the ability to maintain high operating rates and low per-unit manufacturing costs, and the quality of our final products and our customer service all affect our earnings. Some of our products are also particularly sensitive to other factors including innovation, quality and service, with varying emphasis on these factors depending on the product. To the extent that one or more of our competitors become more successful with respect to any key competitive factor, our ability to attract and retain customers could be materially adversely affected. If we are unable to compete effectively, such failure could have a material adverse effect on our business, financial condition and results of operations.

Our products may compete with non-fibre based alternatives or with alternative products in certain market segments. For example, plastic, wood/plastic or composite materials may be used by builders as alternatives to the products produced by our wood products businesses such as lumber, veneer, plywood and MDF products. Changes in prices for oil, chemicals and wood-based fibre can change the competitive position of our products relative to available alternatives and could increase substitution of those products for our products. As the use of these alternatives grows, demand for our products may further decline.

Because commodity products have few distinguishing properties from producer to producer, competition for these products is based primarily on price, which is determined by supply relative to demand and competition from substitute products. Prices for our products are affected by many factors outside of our control, and we have no influence over the timing and extent of price changes, which often are volatile. Accordingly, our revenues may be negatively affected by pricing decisions made by our competitors and by decisions of our customers to purchase products from our competitors.

Pension Plan Funding

We are the sponsor of several defined benefit pension plans which exposes us to market risks related to plan assets. Funding requirements for these plans are based on actuarial assumptions concerning expected return on plan assets, future salary increases, life expectancy and interest rates. If any of these assumptions differs from actual outcomes such that a funding deficiency occurs or increases, we would be required to increase cash funding contributions which would in turn reduce the availability of capital for other purposes.

Disclosure Controls and Internal Controls Over Financial Reporting

West Fraser's management, including our President and Chief Executive Officer and our Vice-President, Finance and Chief Financial Officer, acknowledge responsibility for the design and operation of disclosure controls and procedures and internal controls over financial reporting, and the requirement to evaluate the effectiveness of these controls on an annual basis.

Management evaluated the effectiveness of these controls at the end of the reporting period and based on this evaluation concluded that our internal controls over financial reporting and the disclosure controls and procedures were effective as at December 31, 2016.

No Changes in Internal Controls Over Financial Reporting

There has been no change in our internal controls over financial reporting during the year ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Responsibility of Management

The management of West Fraser Timber Co. Ltd. ("West Fraser", "we", "us" or "our") is responsible for the preparation, integrity, objectivity and reliability of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts that represent the best estimates and judgments of management.

We maintain a system of internal controls over financial reporting that encompasses policies, procedures and controls to provide reasonable assurance that assets are safeguarded against loss or unauthorized use, transactions are executed and recorded with appropriate authorization and financial records are accurate and reliable.

Our independent auditor, which is appointed by the shareholders upon the recommendation of the Audit Committee and the Board of Directors, has completed its audit of the consolidated financial statements in accordance with generally accepted auditing standards in Canada and its report follows.

The Board of Directors provides oversight to the financial reporting process through its Audit Committee, which is comprised of five Directors, none of whom is an officer or employee of West Fraser. The Audit Committee meets regularly with representatives of management and of the auditor to review the consolidated financial statements and matters relating to the audit. The auditor has full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders.

Ted Seraphim
President and
Chief Executive Officer

Larry Hughes
Vice-President, Finance
and Chief Financial Officer

February 16, 2017

Independent Auditor's Report

To the Shareholders of West Fraser Timber Co. Ltd.

We have audited the accompanying consolidated financial statements of West Fraser Timber Co. Ltd., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of earnings and comprehensive earnings, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of West Fraser Timber Co. Ltd. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Vancouver, British Columbia

February 16, 2017

Consolidated Balance Sheets

As at December 31, 2016 and 2015

(In millions of Canadian dollars, except where indicated)

	2016	2015
Assets		
Current assets		
Cash and short-term investments	**$ 50**	$ 13
Receivables (note 23)	**297**	298
Income taxes receivable	**—**	11
Inventories (note 5)	**581**	631
Prepaid expenses	**10**	18
	938	971
Property, plant and equipment (note 6)	**1,685**	1,609
Timber licences (note 7)	**551**	570
Goodwill and other intangibles (note 8)	**371**	369
Other assets (note 9)	**20**	36
Deferred income tax assets (note 18)	**35**	80
	$ 3,600	$ 3,635
Liabilities		
Current liabilities		
Cheques issued in excess of funds on deposit	**$ 15**	$ 29
Operating loans (note 12)	**—**	178
Payables and accrued liabilities (note 10)	**379**	351
Income taxes payable	**21**	—
Reforestation and decommissioning obligations (note 11)	**44**	48
	459	606
Long-term debt (note 12)	**413**	423
Other liabilities (note 11)	**272**	269
Deferred income tax liabilities (note 18)	**215**	190
	1,359	1,488
Shareholders' Equity		
Share capital (note 14)	**549**	579
Accumulated other comprehensive earnings	**150**	164
Retained earnings	**1,542**	1,404
	2,241	2,147
	$ 3,600	$ 3,635

Approved by the Board of Directors

Janice G. Rennie
Director

J. Duncan Gibson
Director

Consolidated Statements of Earnings and Comprehensive Earnings

For the years ended December 31, 2016 and 2015

(In millions of Canadian dollars, except where indicated)

	2016	2015
Sales	**$ 4,450**	$ 4,100
Costs and expenses		
Cost of products sold	**2,971**	2,874
Freight and other distribution costs	**629**	627
Export taxes	**—**	29
Amortization	**197**	191
Selling, general and administration	**176**	153
Equity-based compensation (note 15)	**(5)**	(23)
	3,968	3,851
Operating earnings	**482**	249
Finance expense (note 16)	**(29)**	(29)
Other (note 17)	**(9)**	(64)
Earnings before tax	**444**	156
Tax provision (note 18)	**(118)**	(52)
Earnings	**$ 326**	$ 104
Earnings per share (dollars) (note 20)		
Basic	**$ 4.06**	$ 1.25
Diluted	**$ 3.90**	$ 0.89
Cash dividends per share (dollars)	**$ 0.28**	$ 0.28
Comprehensive earnings		
Earnings	**$ 326**	$ 104
Other comprehensive earnings		
Translation gain (loss) on foreign operations[1]	**(14)**	109
Actuarial loss on post-retirement benefits[2]	**(7)**	(12)
Comprehensive earnings	**$ 305**	$ 201

1. Recycled through earnings in the event of a disposal in net investment in foreign operations.
2. Adjusted through retained earnings. Net of tax recovery of $3 million (2015 – $5 million).

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2016 and 2015

(In millions of Canadian dollars, except where indicated)

	Share capital		Translation		
	Number of shares	Amount	of foreign operations	Retained earnings	Total equity
Balance – December 31, 2014	83,527,135	$ 587	$ 55	$ 1,387	$ 2,029
Changes in Shareholders' Equity for 2015					
Translation gain on foreign operations	—	—	109	—	109
Actuarial loss on post-retirement benefits	—	—	—	(12)	(12)
Issuance of Common shares	8,278	—	—	—	—
Common share repurchases	(1,078,856)	(8)	—	(52)	(60)
Earnings for the year	—	—	—	104	104
Dividends	—	—	—	(23)	(23)
Balance – December 31, 2015	82,456,557	579	164	1,404	2,147
Changes in Shareholders' Equity for 2016					
Translation loss on foreign operations	**—**	**—**	**(14)**	**—**	**(14)**
Actuarial loss on post-retirement benefits	**—**	**—**	**—**	**(7)**	**(7)**
Issuance of Common shares	**12,170**	**1**	**—**	**—**	**1**
Common share repurchases	**(4,306,159)**	**(31)**	**—**	**(159)**	**(190)**
Earnings for the year	**—**	**—**	**—**	**326**	**326**
Dividends	**—**	**—**	**—**	**(22)**	**(22)**
Balance – December 31, 2016	**78,162,568**	**$ 549**	**$ 150**	**$ 1,542**	**$ 2,241**

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(In millions of Canadian dollars, except where indicated)

	2016	2015
Cash provided by operations		
Earnings	$ 326	$ 104
Adjustments		
Amortization	197	191
Finance expense	29	29
Foreign exchange loss (gain) on long-term financing	(4)	58
Loss on power agreements, net of settlement costs	11	32
Post-retirement expense	71	71
Contributions to post-retirement benefit plans	(66)	(78)
Tax provision	118	52
Income taxes paid	(7)	(67)
Change in reforestation and decommissioning obligations	(11)	12
Gain on disposal of capital assets	(9)	(2)
Other	(56)	(22)
Changes in non-cash working capital		
Receivables	4	1
Inventories	50	(16)
Prepaid expenses	7	(4)
Payables and accrued liabilities	29	(60)
	689	301
Cash used for financing		
Proceeds from (repayment of) operating loans	(181)	68
Finance expense paid	(23)	(22)
Dividends	(22)	(23)
Common share repurchases	(190)	(60)
Other	2	(1)
	(414)	(38)
Cash used for investing		
Acquisition (note 4)	—	(76)
Additions to capital assets	(273)	(220)
Government assistance (note 22)	8	4
Other	2	4
	(263)	(288)
Change in cash	12	(25)
Foreign exchange effect on cash	39	24
Cash – beginning of year	(16)	(15)
Cash – end of year	$ 35	$ (16)
Cash consists of		
Cash and short-term investments	$ 50	$ 13
Cheques issued in excess of funds on deposit	(15)	(29)
	$ 35	$ (16)

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For the years ended December 31, 2016 and 2015

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1. Nature of operations

West Fraser Timber Co. Ltd. ("West Fraser", "we", "us" or "our") is a diversified wood products company producing lumber, LVL, MDF, plywood, pulp, newsprint, wood chips and energy with facilities in western Canada and the southern United States. Our executive office is located at 858 Beatty Street, Suite 501, Vancouver, British Columbia. West Fraser was formed by articles of amalgamation under the *Business Corporations Act* (British Columbia) and is registered in British Columbia, Canada. Our Common shares are listed for trading on the Toronto Stock Exchange under the symbol WFT.

2. Basis of presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by our Board of Directors on February 16, 2017.

Our consolidated financial statements have been prepared under the historical cost basis, except for certain items not carried at historical cost as discussed in the applicable accounting policies.

Accounting policies that relate to the consolidated financial statements as a whole are incorporated in this note. Where an accounting policy is applicable to a specific note disclosure, the policy is described within that note.

Accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of West Fraser and its wholly-owned subsidiaries after the elimination of intercompany transactions and balances. Principal operating subsidiaries are West Fraser Mills Ltd., West Fraser, Inc., West Fraser Wood Products Inc., Blue Ridge Lumber Inc., Sundre Forest Products Inc., Manning Forest Products Ltd. and West Fraser Newsprint Ltd.

Our 50% owned joint operations, Alberta Newsprint Company and Cariboo Pulp & Paper Company, are accounted for by the proportionate consolidation method.

Use of estimates and judgements

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. It also requires management to exercise judgement in the process of applying accounting policies. Significant areas requiring estimates include recoverability of long-lived assets and goodwill, fair value of derivatives, reforestation and decommissioning obligations, employee future benefits, equity-based compensation, income taxes and litigation. Actual amounts could differ materially from these and other estimates, the impact of which would be recorded in future periods. Management uses judgements and assumptions in assessing potential indicators of impairment, determining the appropriate cash generating unit level used in impairment testing and determining the accounting treatment for certain investments where the company owns less than 100% of the entity.

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

Our functional and presentation currency is Canadian dollars.

U.S. operations

Assets and liabilities of our U.S. operations have a functional currency of U.S. dollars and are translated at the period-end exchange rate. Revenues and expenses are translated at average exchange rates during the reporting period. The resulting unrealized translation gains or losses are included in other comprehensive earnings.

Translation of other foreign currency balances and transactions

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

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.

Impairment of long-lived assets

We review property, plant, equipment, timber licences, goodwill and other intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Goodwill impairment testing is done at least once a year. For the purpose of impairment testing, assets are separated into cash generating units ("CGUs"). We have identified each of our mills as a CGU for impairment testing of property, plant, equipment and other intangibles unless there is economic interdependence of CGUs, in which case they are grouped for impairment testing. Timber licences and goodwill are tested for impairment by combining CGUs within the economic area of the related assets.

Recoverability is assessed by comparing the carrying amount of the CGU or grouped CGUs to the discounted estimated net future cash flows the assets are expected to generate. If the carrying amount exceeds the discounted estimated net future cash flows, the assets are written down to the higher of fair value less costs to sell and value-in-use (being the present value of the estimated net future cash flows of the relevant asset or CGU).

Goodwill impairment is assessed by comparing the fair value of its CGU to the underlying carrying amount of the CGU's net assets, including goodwill. When the carrying amount of the CGU exceeds its fair value, the fair value of the CGU's goodwill is compared with its carrying amount. An impairment loss is recognized for any excess of the carrying value of goodwill over its fair value.

Estimated net future cash flows are based on several assumptions concerning future circumstances including selling prices of products, U.S./Canadian dollar exchange rates, production rates, input costs and capital requirements. The estimated net future cash flows are discounted at rates reflective of market risk.

Where an impairment loss for long-lived assets other than goodwill subsequently reverses, the carrying amount of the asset or CGU is increased to the lesser of the revised estimate of its recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs. Our fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value.

The three levels of the fair value hierarchy are:

Level 1

Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2

Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3

Values based on prices or valuation techniques that require inputs which are both unobservable and significant to the overall fair value measurement.

3. Accounting standards issued but not yet applied

IFRS 9 – Financial Instruments

In November 2009, IFRS 9 was issued and in October 2010 was further amended. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in International Accounting Standards ("IAS") 39 - *Financial Instruments: Recognition and Measurement* for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive earnings. This standard is effective for annual periods beginning on or after January 1, 2018. We do not expect this standard to have a significant effect on our consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued. This standard addresses revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to control its use and obtain the benefits from the good or service. The standard replaces IAS 18 – *Revenue, IAS 11 – Construction Contracts* and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

IFRS 16 – Leases

In January 2016, IFRS 16 was issued. This standard requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. The standard is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

There are no other standards or amendments or interpretations to existing standards issued but not yet effective which are expected to have a material impact on our consolidated financial statements.

4. Acquisition

During 2015 we made the following acquisition:

Location	Business acquired	Date	Consideration
Manning, Alberta	Lumber manufacturing facility and related timber tenures	October 29, 2015	**$ 76**

We accounted for this transaction as an acquisition of a business and have allocated the purchase price based on the estimated fair value of the assets acquired and the liabilities assumed. The purchase price allocation is as follows:

	2015
Current assets	$ 10
Current liabilities	(1)
Property, plant and equipment	28
Timber licences	59
Reforestation obligations	(2)
Deferred income tax liabilities	(18)
Consideration	$ 76

5. Inventories

Accounting policies

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.

Supporting information

	2016	2015
Logs and other raw materials	**$ 155**	$ 215
Manufactured products	**293**	290
Processing materials and supplies	**133**	126
	$ 581	$ 631

Inventories at December 31, 2016 were written down by $5 million (December 31, 2015 – $21 million) to reflect net realizable value being lower than cost.

The carrying amount of inventory recorded at net realizable value was $26 million at December 31, 2016 (December 31, 2015 – $55 million), with the remaining inventory recorded at cost.

6. Property, plant and equipment

Accounting policies

Property, plant and equipment are stated at historical cost, less accumulated amortization and impairment losses. Expenditures for additions and improvements are capitalized. Borrowing costs are capitalized when the asset construction period exceeds 12 months and the borrowing costs are directly attributable to the asset. 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 included in earnings.

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

Buildings	10 – 30 years
Manufacturing equipment and machinery	6 – 20 years
Fixtures, mobile and other equipment	3 – 10 years
Roads and bridges	Not exceeding 40 years
Major maintenance shutdowns	12 to 36 months

Supporting information

	Manufacturing plant, equipment & machinery	Construction -in-progress	Roads and bridges	Other	Total
As at December 31, 2014	$ 1,146	$ 256	$ 34	$ 33	$ 1,469
Additions	144	45	17	2	208
Amortization[1]	(156)	—	(15)	—	(171)
Acquisition	28	—	—	—	28
Foreign exchange	73	2	—	2	77
Transfers	244	(248)	2	—	(2)
As at December 31, 2015	$ 1,479	$ 55	$ 38	$ 37	$ 1,609
As at December 31, 2015					
Cost	$ 3,673	$ 55	$ 121	$ 44	$ 3,893
Accumulated amortization	(2,194)	—	(83)	(7)	(2,284)
Net	$ 1,479	$ 55	$ 38	$ 37	$ 1,609
As at December 31, 2015	$ 1,479	$ 55	$ 38	$ 37	$ 1,609
Additions	**111**	**137**	**14**	**3**	**265**
Amortization[1]	**(164)**	**—**	**(11)**	**—**	**(175)**
Foreign exchange	**(14)**	**1**	**—**	**—**	**(13)**
Disposals	**(1)**	**—**	**—**	**—**	**(1)**
Transfers	**33**	**(33)**	**—**	**—**	**—**
As at December 31, 2016	**$ 1,444**	**$ 160**	**$ 41**	**$ 40**	**$ 1,685**
As at December 31, 2016					
Cost	**$ 3,772**	**$ 160**	**$ 128**	**$ 47**	**$ 4,107**
Accumulated amortization	**(2,328)**	**—**	**(87)**	**(7)**	**(2,422)**
Net	**$ 1,444**	**$ 160**	**$ 41**	**$ 40**	**$ 1,685**

1. Amortization of $173 million relates to cost of products sold and $2 million relates to selling, general and administration expense (2015 – $169 million and $2 million, respectively).

7. Timber licences

Accounting policies

Timber licences, which are renewable or replaceable, are stated at historical cost, less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over their estimated useful lives of 40 years.

Supporting information

		Timber licences
As at December 31, 2014	$	530
Amortization[1]		(19)
Acquisitions		59
As at December 31, 2015	$	570
As at December 31, 2015		
Cost	$	798
Accumulated amortization		(228)
Net	$	570
As at December 31, 2015	$	570
Amortization[1]		**(20)**
Additions		**1**
As at December 31, 2016	**$**	**551**
As at December 31, 2016		
Cost	**$**	**799**
Accumulated amortization		**(248)**
Net	**$**	**551**

1. Amortization relates to cost of products sold.

8. Goodwill and other intangibles

Accounting policies

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.

Other intangibles are stated at historical cost less accumulated amortization and impairments. Other intangibles include software which is amortized over periods of up to five years and non-replaceable finite term timber rights which are amortized as the related timber is logged.

Supporting information

	Goodwill	Other	Total
As at December 31, 2014	$ 344	$ 6	$ 350
Additions	—	3	3
Amortization[1]	—	(1)	(1)
Transfers	—	2	2
Foreign exchange	15	—	15
As at December 31, 2015	$ 359	$ 10	$ 369
As at December 31, 2015			
Cost	$ 359	$ 32	$ 391
Accumulated amortization	—	(22)	(22)
Net	$ 359	$ 10	$ 369
As at December 31, 2015	$ 359	$ 10	$ 369
Additions	**—**	**7**	**7**
Amortization[1]	**—**	**(2)**	**(2)**
Foreign exchange	**(3)**	**—**	**(3)**
As at December 31, 2016	**$ 356**	**$ 15**	**$ 371**
As at December 31, 2016			
Cost	**$ 356**	**$ 38**	**$ 394**
Accumulated amortization	**—**	**(23)**	**(23)**
Net	**$ 356**	**$ 15**	**$ 371**

1. Amortization of $1 million relates to cost of products sold and $1 million relates to selling, general and administration expense (2015 – $1 million relates to selling, general and administration expense).

Goodwill

We have attributed $218 million of goodwill to a CGU made up of our Canadian lumber operations, $92 million of goodwill to a CGU made up of our U.S. lumber operations and $46 million of goodwill to a CGU made up of our plywood and LVL operations.

For the purpose of the 2016 impairment test of goodwill, the fair value of CGUs has been determined based on value-in-use calculations using a discount rate of 8.5%. These calculations use cash flow projections based on the 2017 operating plan, a forecast of 2018 and 2019 and trend level earnings for subsequent years, all approved by management. Assumptions were developed by management based on industry sources, including Forest Economic Advisors, LLC and other industry analysts, taking into account management's best estimates.

9. Other assets

	2016	2015
Post-retirement (note 13)	**$ 8**	$ 8
Deferred financing costs on lines of credit (note 12)	**2**	—
Power agreements (note 17)	**—**	16
Other	**10**	12
	$ 20	$ 36

10. Payables and accrued liabilities

	2016	2015
Trade accounts	**$ 211**	$ 189
Equity-based compensation	**65**	77
Compensation	**68**	51
Dividends	**5**	6
Interest	**4**	4
Other	**26**	24
	$ 379	$ 351

11. Other liabilities

	2016	2015
Post-retirement (note 13)	**$ 162**	$ 142
Reforestation	**69**	76
Decommissioning	**25**	29
Other	**16**	22
	$ 272	$ 269

Reforestation and decommissioning obligations

Reforestation and decommissioning obligations relate to our responsibility for reforestation under various timber licences and our obligations related to landfill closures and other site remediation costs.

Accounting policies

Future reforestation obligations are measured at the present value of the expenditures expected to be required to settle the obligations and are 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.

We record the present value of a liability for decommissioning obligations in the period that a reasonable estimate can be made. The present value of the liability is added to the carrying amount of the associated asset and amortized over its useful life or, if there is no associated asset, it is expensed. Decommissioning obligations are reviewed annually and changes to estimates result in an adjustment of the carrying amount of the associated asset or, where there is no asset, they are credited or charged to earnings.

Reforestation and decommissioning obligations are discounted at the risk-free rate at the balance sheet date and accreted over time through periodic charges to earnings. The liabilities are reduced by actual costs of settlement.

Supporting information

	Reforestation		Decommissioning	
	2016	2015	2016	2015
Beginning of year	**$ 124**	$ 111	**$ 29**	$ 23
Liabilities recognized	**46**	50	**—**	—
Liabilities settled	**(47)**	(43)	**—**	—
Acquired obligation	**—**	2	**—**	—
Change in estimates	**(10)**	4	**(4)**	6
End of year	**113**	124	**25**	29
Less: current portion	**(44)**	(48)	**—**	—
	$ 69	$ 76	**$ 25**	$ 29

The total undiscounted amount of the estimated cash flows required to satisfy these obligations is $148 million (2015 – $159 million). The cash flows have been discounted using interest rates ranging from 0.74% to 1.11% (2015 – 0.48% to 0.73%).

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 30 years.

12. Long-term debt and operating loans

Accounting policies

Transaction costs related to debt refinancing are deferred and amortized over the life of the associated debt. When our operating loan is undrawn, the related deferred financing costs are recorded in other assets.

Supporting information

Long-term debt

		2016		2015
US$300 million senior notes due October 2024; interest at 4.35%	**$**	**405**	$	415
US$8 million note payable due October 2020; interest at 2%		**10**		10
Notes payable		**2**		2
		417		427
Deferred financing costs		**(4)**		(4)
	$	**413**	$	423

Required principal repayments are disclosed in note 23.

Operating loans

Our revolving lines of credit consist of a $500 million committed revolving credit facility which matures September 30, 2020, a $34 million (US$25 million) demand line of credit dedicated to our U.S. operations and an $8 million demand line of credit dedicated to our jointly owned newsprint operation. In addition, we have demand lines of credit totalling $59 million dedicated to letters of credit, of which US$7 million is dedicated to our U.S. operations.

At December 31, 2016 there were no amounts outstanding under our revolving credit facility, as a result, the associated deferred financing costs of $2 million is reported in other assets. Letters of credit in the amount of $48 million were also supported by our facilities, leaving $553 million of credit available for further use. At December 31, 2015, our revolving credit facility was drawn by $181 million, deferred financing costs were $3 million and our outstanding letters of credit were $54 million.

Interest on the facilities is payable at floating rates based on Prime, U.S. base, Bankers' Acceptances or LIBOR at our option.

All debt is unsecured except the $8 million joint operation demand line of credit, which is secured by that joint operation's current assets.

13. Post-retirement benefits

We maintain defined benefit and defined contribution pension plans covering a majority of our employees. The defined benefit plans generally do not require employee contributions and provide a guaranteed level of pension payable for life based either on length of service or on earnings and length of service, and in most cases do not increase after commencement of retirement.

The defined benefit pension plans are operated in Canada and the U.S. under broadly similar regulatory frameworks. The majority are funded arrangements where benefit payments are made from plan assets which are held in trust. Responsibility for the governance of the plans, including investment and contribution decisions, resides with our pension committee which reports to the Board of Directors. For the registered defined benefit pension plans, regulations set minimum requirements for contributions for benefit accruals and the funding of deficits.

Accounting policies

We record a post-retirement asset or liability for our employee defined benefit pension and other retirement benefit plans by netting our plan assets with our plan obligations, on a plan-by-plan basis.

The cost of defined benefit pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields from high quality Canadian corporate bonds with cash flows that approximate expected benefit payments at the balance sheet date. Plan assets are valued at fair value at each balance sheet date.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive earnings in the period in which they arise.

Past service costs arising from plan amendments are recognized immediately.

The finance amount on net post-retirement balances is classified as finance expense.

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

Supporting information

The actual return on plan assets for 2016 is a gain of $112 million (2015 – $42 million).

The total pension expense for the defined benefit plans is $61 million (2015 – $59 million). In 2016, we made contributions of $50 million (2015 – $61 million). We expect to contribute approximately $66 million to our defined benefit pension plans during 2017. We also provide group life insurance, medical and extended health benefits to certain employee groups, for which we contributed $3 million (2015 – $3 million).

The total pension expense and funding contributions for the defined contribution pension plans is $13 million (2015 - $14 million).

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

	Defined benefit pension plans		Other retirement benefit plans	
	2016	2015	**2016**	2015
Accrued benefit obligations				
Benefit obligations – opening	**$ 1,482**	$ 1,411	**$ 50**	$ 53
Current service cost	**57**	56	**1**	1
Finance cost on obligation	**60**	57	**2**	2
Benefits paid	**(62)**	(56)	**(3)**	(3)
Actuarial loss (gain) due to change in discount rate	**62**	(3)	**—**	—
Actuarial loss (gain) due to demography/experience	**2**	6	**1**	(3)
Other	**(3)**	11	**—**	—
Benefit obligations – ending	**$ 1,598**	$ 1,482	**$ 51**	$ 50
Plan assets				
Fair value – opening	**$ 1,409**	$ 1,354	**$ —**	$ —
Finance income on plan assets	**56**	54	**—**	—
Actuarial gain (loss) due to returns on plan assets being higher or lower than finance income	**56**	(12)	**—**	—
Employer contributions	**50**	61	**3**	3
Benefits paid	**(62)**	(56)	**(3)**	(3)
Other	**(2)**	8	**—**	—
Fair value – ending	**$ 1,507**	$ 1,409	**$ —**	$ —
Funded status[1]				
Post-retirement assets	**$ 21**	$ 19	**$ —**	$ —
Impact of minimum funding requirement[2]	**(13)**	(11)	**—**	—
Post-retirement assets (note 9)	**8**	8	**—**	—
Post-retirement liabilities (note 11)	**(111)**	(92)	**(51)**	(50)
	$ (103)	$ (84)	**$ (51)**	$ (50)

1. Plans in a surplus position are classified as assets and plans in a deficit position are shown as liabilities on the consolidated balance sheet. Other retirement benefit plans continue to be unfunded.
2. Some of our plans have a surplus that is not recognized on the basis that future economic benefits may not be available to us in the form of a reduction in future contributions or a cash refund.

	Defined benefit pension plans		Other retirement benefit plans	
	2016	2015	**2016**	2015
Expense				
Current service cost	**$ 57**	$ 56	**$ 1**	$ 1
Net finance expense	**4**	3	**2**	2
	$ 61	$ 59	**$ 3**	$ 3

Assumptions and sensitivities

The weighted average duration of the defined benefit pension obligations is 17 years. The expected maturity analysis of the undiscounted defined benefit pension plans at December 31, 2016 is as follows:

	2017	2018	2019 to 2021	Thereafter	Total
Defined benefit pension plans	$ 62	$ 62	$ 189	$ 2,523	$ 2,836

The estimation of post-retirement benefit obligations involves a high degree of judgment for matters such as discount rate, employee service periods, compensation escalation rates, expected retirement ages of employees, mortality rates, expected health-care costs and other variable factors. These estimates are reviewed annually with independent actuaries. The significant actuarial assumptions used to determine our balance sheet date post-retirement assets and liabilities and our post-retirement benefit plan expenses are as follows:

	Defined benefit pension plans		Other retirement benefit plans	
	2016	2015	**2016**	2015
Benefit obligations:				
Discount rate	**3.75%**	4.00%	**3.75%**	4.00%
Future compensation rate increase	**3.50%**	3.50%	**n/a**	n/a
Benefit expense:				
Discount rate – beginning of year	**4.00%**	4.00%	**4.00%**	4.00%
Future compensation rate increase	**3.50%**	3.50%	**n/a**	n/a

Health-care benefit costs, shown under other retirement benefit plans, are funded on a pay-as-you-go basis. The actuarial assumptions for extended health-care costs are estimated to increase 9.0% per year for one year, grading down 0.5% per year for years two to eight, to 5.0% per year thereafter. The actuarial assumptions for medical service plan costs are estimated to increase by 4.0% per year.

The impact of a change in these assumptions on our post-retirement obligations is as follows:

	Obligations
Discount rate	
Decrease in assumption from 3.75% to 3.25%	$ 134
Increase in assumption from 3.75% to 4.25%	$ (118)
Rate of increase in future compensation	
Decrease in assumption from 3.50% to 3.00%	$ (24)
Increase in assumption from 3.50% to 4.00%	$ 25
Health-care cost trend rates	
Increase in assumption by 1.00%	$ 4
Decrease in assumption by 1.00%	$ (5)

The sensitivities have been calculated on the basis that all other variables remain constant. When calculating the sensitivity of the defined benefit obligation, the same methodology is applied as was used to generate the financial statement asset/liability.

Assets

The weighted average asset allocations of the defined benefit plans at December 31, by asset category, are as follows:

	Target Range[1]	2016	2015
Canadian equities	9% – 25%	**18%**	18%
Foreign equities	12% – 34%	**25%**	26%
Fixed income investments	36% – 60%	**47%**	50%
Other investments	3% – 31%	**10%**	6%
		100%	100%

1. The target range applies to our open plans comprising the majority of our pension assets. Our closed plans target a more conservative asset mix with a greater percentage of fixed income investments.

Risk management practices

The defined benefit pension plans' investments are exposed to various risks. These risks include market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The pension committee manages these risks in accordance with a Statement of Investment Policies and Procedures for each of the Pension Plans Master Investment Trusts. Separate Master Investment Trusts have been established to invest for longer duration liabilities (Open Plans) and for shorter duration liabilities (Closed Plans). The following are some specific risk management practices employed:

- Retaining and monitoring professional advisors including an outsourced chief investment officer ("OCIO");
- Monitoring our OCIO's adherence to asset allocation guidelines and permitted categories of investments; and
- Monitoring investment decisions and performance of the OCIO and asset performance against benchmarks using third-party performance measurement professionals.

14. Share capital

Authorized

400,000,000 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

	2016			2015		
	Number		**Amount**	Number		Amount
Common	**75,881,090**	**$**	**549**	80,175,079	$	579
Class B Common	**2,281,478**		**—**	2,281,478		—
Total Common	**78,162,568**	**$**	**549**	82,456,557	$	579

In 2016, we repurchased 4,306,159 Common shares for $190 million and in 2015, we repurchased 1,078,856 Common shares for $60 million.

On September 8, 2016, our Board of Directors authorized the renewal of our normal course issuer bid ("NCIB") program to repurchase for cancellation up to 3,834,226 Common shares or approximately 5% of our issued and outstanding Common shares. The NCIB will expire on September 18, 2017.

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. Certain circumstances or corporate transactions may require the approval of the holders of our Common shares and Class B Common shares on a separate class-by-class basis.

15. Equity-based compensation

We have share option, phantom share unit ("PSU") and directors' deferred share unit ("DSU") plans, all of which have been partially hedged by an equity derivative contract. The equity-based compensation included in earnings was a recovery of $5 million (2015 – recovery of $23 million).

Accounting policies

We estimate the fair value of outstanding share options using the Black-Scholes valuation model and the fair value of our PSU plan and directors' DSU plan using an intrinsic valuation model at each balance sheet date and record the resulting expense or recovery, over the related vesting period, through a charge to earnings.

From time to time, we enter into equity derivative contracts to provide a partial offset to our exposure to fluctuations in equity-based compensation from our stock option, PSU and DSU plans. These derivatives are fair valued at each balance sheet date using an intrinsic valuation model and the resulting expense or recovery is offset against the related equity-based compensation.

If a share option holder elects to acquire Common shares, both the exercise price and the accrued liability are credited to shareholders' equity.

Supporting information

Share option plan

Under our share option plan, officers and employees may be granted options to purchase up to 7,295,940 Common shares, of which 776,546 remain available for issuance. The exercise price of a share option is the closing price of a Common share on the trading day immediately preceding the grant date. Our 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. 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. We have recorded a recovery of $6 million (2015 – recovery of $26 million) related to the share option plan.

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

	2016		2015	
	Number	**Weighted average price** (dollars)	Number	Weighted average price (dollars)
Outstanding – beginning of year	**2,211,951**	**$ 27.03**	2,240,798	$ 23.66
Granted	**246,285**	**$ 40.97**	139,420	$ 73.99
Exercised	**(338,350)**	**$ 19.63**	(168,267)	$ 20.95
Outstanding – end of year	**2,119,886**	**$ 29.83**	2,211,951	$ 27.03
Exercisable – end of year	**1,643,900**	**$ 24.57**	1,664,481	$ 20.51

The following table summarizes information about the share options outstanding at December 31, 2016:

Exercise price range (dollars)	**Number of outstanding options** (number)	**Weighted average remaining contractual life** (years)	**Weighted average exercise price** (dollars)	**Number of exercisable options** (number)	**Weighted average exercise price** (dollars)
$12.36	388,000	2.1	$ 12.36	388,000	$ 12.36
$16.65 – $19.50	335,180	1.1	$ 16.91	335,180	$ 16.91
$20.59 – $25.78	658,492	3.7	$ 24.13	623,768	$ 24.15
$40.82 – $53.96	598,794	7.6	$ 44.39	248,256	$ 45.37
$73.99	139,420	8.1	$ 73.99	48,696	$ 73.99
	2,119,886	4.4	$ 29.83	1,643,900	$ 24.57

The weighted average share price at the date of exercise for share options exercised during the year was $43.13 per share (2015 – $63.89 per share).

The accrued liability related to the share option plan is $52 million at December 31, 2016 (December 31, 2015 – $63 million). The weighted average fair value of the options used in the calculation was $23.27 per option at December 31, 2016 (December 31, 2015 – $28.63 per option).

The inputs to the option model are as follows:

	2016	2015
Share price on balance sheet date	**$47.95**	$52.12
Weighted average exercise price	**$29.83**	$27.03
Expected dividend	**$0.28**	$0.28
Expected volatility	**33.17%**	32.71%
Weighted average interest rate	**0.88%**	0.55%
Weighted average expected remaining life in years	**2.8**	2.9

The expected dividend on our shares was based on the annualized dividend rate at each period-end. Expected volatility was based on five years of historical data. The interest rate for the life of the options was based on the implied yield available on government bonds with an equivalent remaining term at each period-end. Historical data was used to estimate the expected life of the options and forfeiture rates.

The intrinsic value of options issued under the share option plan at December 31, 2016 was $43 million (December 31, 2015 – $59 million). The intrinsic value is determined based on the difference between the period-end share price and the exercise price, multiplied by the sum of the related vested options plus unvested options for those holders eligible to retire.

Phantom share unit plan

Our PSU plan is intended to supplement or, in whole or in part, replace the granting of share options as long-term incentives for officers and employees. The plan provides for two types of units which vest on the third anniversary of the grant date. A restricted share unit pays out based on the Common share price over the 20 trading days immediately preceding its vesting date (the “vesting date value”). A performance share unit pays out at a value between 0% and 200% of its vesting date value contingent upon our performance relative to a peer group of companies over the three-year performance period. Officers and employees granted units under the plan are also entitled to additional units to reflect cash dividends paid on Common shares from the applicable grant date until payout.

We have recorded an expense of $3 million (2015 – $3 million) related to the PSU plan. The number of units outstanding as at December 31, 2016 was 182,770 (December 31, 2015 – 173,312), including performance share units totalling 77,674 (December 31, 2015 – 66,210).

Directors' deferred share unit plan

We have a DSU plan which provides a structure for non-employee directors to accumulate an equity-like holding in West Fraser. The DSU plan allows directors to participate in the growth of West Fraser by providing a deferred payment based on the value of a Common share at the time of redemption. Each director receives deferred share units ("Units") in payment of an annual equity retainer until a minimum equity holding is reached and may elect to receive Units in payment of up to 100% of other fees earned. After a minimum equity holding is reached, directors may elect to receive the equity retainer in Units or cash. The Units are issued based on our Common share price at the time of issue. Additional Units are issued to take into account the value of dividends paid on Common shares from the date of issue to the date of redemption. Units are redeemable only after a director retires, resigns or otherwise leaves the board. The redemption value is equal to the Common share price at the date of redemption. A holder of Units may elect to redeem Units in cash or receive Common shares having an equivalent value. The number of Units outstanding as at December 31, 2016 was 155,593 (December 31, 2015 – 139,479).

Equity-based compensation hedge

During the year, we entered into an equity derivative contract to hedge 1,000,000 units at a $46.02 share price. A recovery of $2 million is included in equity-based compensation related to the contract.

16. Finance expense

		2016		2015
Interest expense	**$**	**(24)**	$	(24)
Finance expense on employee future benefits		**(7)**		(6)
Accretion on long-term liabilities		**2**		1
	$	**(29)**	$	(29)

17. Other

		2016		2015
Foreign exchange gain (loss) on working capital	**$**	**(4)**	$	28
Foreign exchange gain (loss) on intercompany financing[1]		**(8)**		9
Foreign exchange gain (loss) on long-term debt		**12**		(67)
Loss on power agreements		**(27)**		(32)
Gain on disposal of WestPine equipment		**8**		—
Write-down of investment		**—**		(7)
Other		**10**		5
	$	**(9)**	$	(64)

1. Relates to US$200 million of financing provided to our U.S. operations. IAS 21 requires that the exchange gain or loss be recognized through earnings as the financing is not considered part of our permanent investment in our U.S. subsidiaries. The balance sheet amounts and related financing expense are eliminated in these consolidated financial statements.

Power agreements

In March 2016, the termination of our three-year power strip agreement was negotiated. In addition, Capital Power Corporation gave notice of its intent to terminate its role as buyer of the Sundance C Power Arrangement ("Sundance") effective March 24, 2016. As a result of this termination, our role as a party to the Power Syndicate Agreement also terminated. These agreements had provided us with a portion of the electricity generated from two power plants in Alberta at substantially predetermined prices.

Prior to the termination, we recorded the agreements at fair value with the resulting gains or losses being recorded through other income. In the fourth quarter of 2016, Capital Power Corporation settled a dispute with the Government of Alberta related to the termination of Sundance. As a result, we recorded in other income an additional $8 million loss related to our share of the settlement.

Insurance proceeds

Our WestPine MDF mill, located in Quesnel, British Columbia, was closed due to a fire on March 9, 2016 and will remain closed until repairs are complete. The mill is insured for property damage and business interruption. The impact on pre-tax earnings is as follows:

		2016
Business interruption, less policy deductible	**$**	**17**
Gain on disposal of equipment		**8**
	$	**25**

Estimated business interruption insurance is recorded as a reduction of cost of products sold. Estimated insurance proceeds to be spent to replace equipment are accounted for as proceeds of disposition, and the resulting gain has been included in other income.

The final amount of the insurance claim will be determined after the mill reconstruction is complete and the mill returns to expected production rates.

18. Tax provision

Accounting policies

The tax expense for the period is comprised of current and deferred tax. Tax is recognized in the consolidated statement of earnings, except to the extent that it relates to items recognized in other comprehensive earnings in which case it is recognized in other comprehensive earnings.

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

Deferred tax assets are recognized only to the extent that it is probable that they will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment.

Supporting information

The major components of income tax included in comprehensive earnings are as follows:

		2016		2015
Earnings				
Current tax	**$**	**(47)**	$	(37)
Deferred tax		**(71)**		(15)
Tax provision on earnings	**$**	**(118)**	$	(52)
Other comprehensive earnings				
Current tax on post-retirement actuarial gains and losses	**$**	**—**	$	1
Deferred tax on post-retirement actuarial gains and losses		**3**		4
Tax recovery on other comprehensive earnings	**$**	**3**	$	5
Tax provision on comprehensive earnings	**$**	**(115)**	$	(47)

The tax provision differs from the amount that would have resulted from applying the Canadian statutory income tax rates to earnings before tax as follows:

		2016		2015
Income tax expense at statutory rate of 26%	**$**	**(115)**	$	(40)
Non-taxable amounts		**6**		(1)
Rate differentials between jurisdictions and on specified activities		**(8)**		5
Unrecognized capital losses		**1**		(9)
Increase in Alberta statutory tax rate		**—**		(7)
Other		**(2)**		—
Tax provision	**$**	**(118)**	$	(52)

Deferred income taxes are made up of the following components:

		2016		2015
Property, plant, equipment and intangibles	**$**	**351**	$	324
Reforestation and decommissioning obligations		**(30)**		(33)
Post-retirement benefits		**(39)**		(36)
Tax loss carry-forwards		**(89)**		(124)
Other		**(13)**		(21)
	$	**180**	$	110
Represented by:				
Deferred income tax assets	**$**	**(35)**	$	(80)
Deferred income tax liabilities		**215**		190
	$	**180**	$	110

19. Employee compensation

Our employee compensation expense includes salaries and wages, employee future benefits, termination costs and bonuses. Total compensation expense is $808 million (2015 – $756 million).

Key management includes directors and officers. Their compensation expense (recovery) and balance sheet date payables are as follows:

	2016	2015
Expense		
Salary and short-term employee benefits	**$ 9**	$ 5
Post-retirement benefits	**2**	2
Equity-based compensation[1]	**(3)**	(24)
	$ 8	$ (17)
Payables and accrued liabilities		
Compensation	**$ 4**	$ —
Equity-based compensation[1]	**53**	64
	$ 57	$ 64

1. The expense or recovery does not necessarily represent the actual value which will ultimately be received.

20. 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 and Class B Common shares outstanding.

Diluted earnings per share is calculated based on earnings available to Common shareholders adjusted to remove the actual share option (recovery) expense charged to earnings and after deducting a notional charge for share option expense assuming the use of the equity settled method, as set out below. The diluted weighted average number of shares is calculated using the treasury stock method. When earnings available to Common shareholders for diluted earnings per share are greater than earnings available to Common shareholders for basic earnings per share, the calculation is anti-dilutive and diluted earnings per share are deemed to be the same as basic earnings per share.

	2016	2015
Earnings		
Basic	**$ 326**	$ 104
Share option recovery	**(6)**	(26)
Equity settled share option adjustment	**(4)**	(3)
Diluted	**$ 316**	$ 75
Weighted average number of shares (thousands)		
Basic	**80,236**	83,104
Share options	**860**	1,295
Diluted	**81,096**	84,399
Earnings per share (dollars)		
Basic	**$ 4.06**	$ 1.25
Diluted	**$ 3.90**	$ 0.89

21. Commitments

Operating leases

We are committed to make payments under certain operating leases for equipment, land, buildings and office space. Operating lease costs expensed during the year were $7 million (2015 – $7 million). The future payments required under operating leases are as follows:

2017	$ 4
2018	3
2019	2
2020	2
Thereafter	3
	$ 14

Product purchase and sale commitments

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

Capital commitments

Capital commitments at December 31, 2016 are $33 million.

22. Government assistance

Accounting policies

Government assistance received that relates to the construction of manufacturing assets is applied to reduce the cost of those assets. Government assistance received that relates to operational expenses is applied to reduce the amount charged to earnings for the operating item.

Supporting information

Government assistance of $8 million (2015 – $4 million) was received for capital projects and recorded as a reduction to property, plant and equipment.

Government assistance of $6 million (2015 – $14 million) was recorded as a reduction to cost of products sold. The government assistance related primarily to bioenergy producer credits, research and development and apprentice tax credits.

23. Financial instruments

Accounting policies

Our financial assets are categorized as loans and receivables, our financial liabilities as other financial liabilities, and our derivatives as held for trading. All financial assets and liabilities, except for derivatives, are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method. Derivatives are measured at fair value through earnings.

Supporting information

The following tables provide the carrying and fair values of our financial instruments by category, as well as the associated fair value hierarchy levels as defined in note 2 under *"Fair value measurements"*:

2016	**Level**	**Loans & receivables**	**Held for trading**	**Other financial liabilities**	**Carrying value**	**Fair value**
Financial assets						
Cash & short-term investments	1	**$ 50**	**$ —**	**$ —**	**$ 50**	**$ 50**
Receivables	3	**297**	**—**	**—**	**297**	**297**
		$ 347	**$ —**	**$ —**	**$ 347**	**$ 347**
Financial liabilities						
Cheques issued in excess of funds on deposit	1	**$ —**	**$ —**	**$ 15**	**$ 15**	**$ 15**
Payables and accrued liabilities[1]	2	**—**	**2**	**377**	**379**	**379**
Long-term debt (note 12)[2]	2	**—**	**—**	**417**	**417**	**391**
		$ —	**$ 2**	**$ 809**	**$ 811**	**$ 785**

1. Payables and accrued liabilities include our equity derivative payable of $2 million.
2. The fair value of the long-term debt is based on rates available to us at December 31, 2016 for long-term debt with similar terms and remaining maturities.

2015	Level	Loans & receivables	Held for trading	Other financial liabilities	Carrying value	Fair value
Financial assets						
Cash & short-term investments	1	$ 13	$ —	$ —	$ 13	$ 13
Receivables	3	298	—	—	298	298
Power agreement (note 9)	3	—	16	—	16	16
		$ 311	$ 16	$ —	$ 327	$ 327
Financial liabilities						
Cheques issued in excess of funds on deposit	1	$ —	$ —	$ 29	$ 29	$ 29
Operating loans (note 12)	1	—	—	181	181	181
Payables and accrued liabilities	2	—	—	351	351	351
Power agreement	3	—	5	—	5	5
Long-term debt (note 12)[1]	2	—	—	427	427	406
		$ —	$ 5	$ 988	$ 993	$ 972

1. The fair value of the long-term debt is based on rates available to us at December 31, 2015 for long-term debt with similar terms and remaining maturities.

Financial risk management

Our activities result in exposure to a variety of financial risks including risks related to derivative contracts, currency fluctuation, credit, liquidity and interest rates.

The sensitivities provided give the effect of possible changes in the relevant prices and rates on earnings. The sensitivities are hypothetical and should not be considered to be predictive of future performance or earnings. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear.

Derivative contracts

From time to time, we use derivatives to manage our exposure to U.S. dollar exchange fluctuations, commodity prices and equity-based compensation. Commodity contracts used by West Fraser include lumber futures and agreements related to Alberta electricity rates.

The fair value of our equity derivatives at December 31, 2016 is $2 million. Based on the equity contract as at December 31, 2016 and holding all other variables constant, a $1.00 change in our share price would change its fair value by $1 million, which would partially offset the movement in our equity-based compensation.

There were no energy related derivatives outstanding at December 31, 2016. The fair value adjustments and settlement costs recognized in 2016 totalled a loss of $27 million (2015 – loss of $32 million).

There were no material lumber futures or foreign exchange contracts outstanding at December 31, 2016 or 2015.

Currency fluctuation

Most of our products are sold at prices denominated in U.S. dollars or based on prevailing U.S. dollar prices, and significant portions of operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the U.S. dollar reduces the revenue in Canadian dollar terms realized by us from sales made in U.S. dollars, which reduces operating margin and the cash flow available to fund operations.

Impact of U.S. dollar currency fluctuation

The U.S. dollar foreign currency balance sheet exposure at December 31, 2016 is as follows:

Canadian operations		**2016**
Net working capital	**US$**	**104**
Intercompany financing[1]		**200**
Long-term debt		**(300)**
	US$	**4**
U.S. operations		
Net investment	**US$**	**614**

1. IAS 21 requires that the exchange gain or loss be recognized through earnings as the financing is not considered part of our permanent investment in our U.S. subsidiaries. The balance sheet amounts and related financing expense are eliminated in these consolidated financial statements.

Based on these balances, with other variables unchanged, a $0.01 increase (decrease) in the exchange rate for one U.S. dollar into Canadian currency would result in an immaterial change in earnings and an increase (decrease) of $11 million in the translation gain on foreign operations.

Credit

Credit risk arises from the non-performance by counterparties of contractual financial obligations. Investments in cash and short-term investments are primarily made using major banks and only made with counterparties meeting certain credit-worthiness criteria. Credit risk for trade and other receivables is managed through established credit monitoring activities. Customer credit limits are established and monitored. Ongoing evaluations of key customer financial conditions are performed. In certain market areas, we have undertaken additional measures to reduce credit risk including credit insurance, letters of credit and prepayments. At December 31, 2016, approximately 40% of trade accounts receivable was covered by at least some of these additional measures. We have historically experienced minimal customer defaults and, as a result, consider the credit quality of the trade accounts receivable at December 31, 2016 to be high. There were no bad debts in 2016 or 2015. The aging analysis of trade accounts receivable is presented below:

	2016	2015
Trade accounts receivable – gross		
Current	$ 236	$ 239
Past due 1 to 30 days	5	9
Past due 31 to 60 days	3	3
Past due over 60 days	1	1
	245	252
Allowance for doubtful accounts	—	—
Trade accounts receivable – net	245	252
Insurance receivable	26	—
Other	26	46
Receivables	$ 297	$ 298

Liquidity

We manage liquidity by maintaining adequate cash and short-term investment balances and by having appropriate lines of credit available. In addition, we regularly monitor and review both actual and forecasted cash flows. Refinancing risks are managed by ensuring debt has a balanced maturity schedule where possible.

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

	2017	2018	2019	2020	Thereafter	Total
Long-term debt (note 12)	$ —	$ —	$ —	$ —	$ 417	$ 417
Interest on long-term debt[1,2]	18	18	18	18	67	139
	$ 18	$ 18	$ 18	$ 18	$ 484	$ 556

1. Assumes debt level, foreign exchange rate and interest rates remain at December 31, 2016 levels and rates.
2. At December 31, 2016, our revolving credit facility was undrawn.

Interest rates

Interest rate risk relates mainly to cash and short-term investments and floating rate debt. Our general practice is to fund long-term capital with debt at fixed rates. In addition, we have revolving lines of credit available that bear interest at floating rates on amounts drawn.

At December 31, 2016, with other variables unchanged, a 1% change in interest rates would not have a significant impact on earnings or other comprehensive earnings.

24. Capital disclosures

Our 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 U.S. dollars. Our objective in managing capital is to ensure adequate liquidity and financial flexibility at all times, particularly at the bottom of the business cycle.

Our 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. Our debt is currently rated as investment grade by three major rating agencies.

We monitor and assess our financial performance in order to ensure that net debt levels are prudent taking into account the anticipated direction of the business cycle. When financing acquisitions, we combine debt and equity financing in a proportion that is intended to maintain an investment grade rating for debt throughout the cycle. Debt repayments are arranged, where possible, on a staggered basis that takes into account the uneven nature of anticipated cash flows. We have established committed revolving lines of credit that provide liquidity and flexibility when capital markets are restricted.

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

	2016	2015
Net debt		
Cash and short-term investments	$ (50)	$ (13)
Deferred financing costs[1]	(6)	(7)
Cheques issued in excess of funds on deposit	15	29
Operating loans	—	181
Long-term debt	417	427
	376	617
Shareholders' equity	2,241	2,147
Total capital	$ 2,617	$ 2,764
Net debt to total capital	14%	22%

1. For our balance sheet presentation, these costs are applied to reduce the associated debt or, in instances when the operating loan is undrawn, these costs are included in other assets.

25. Segment and geographical 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 segments follow the accounting policies as described in these consolidated financial statement notes, where applicable.

	Lumber	Panels	Pulp & Paper	Corporate & Other	Total
2016					
Sales					
To external customers	**$ 3,042**	**$ 521**	**$ 887**	**$ —**	**$ 4,450**
To other segments	**103**	**8**	**—**	**—**	
	$ 3,145	**$ 529**	**$ 887**	**$ —**	
Operating earnings before amortization	**$ 508**	**$ 89**	**$ 79**	**$ 3**	**$ 679**
Amortization	**(146)**	**(12)**	**(37)**	**(2)**	**(197)**
Operating earnings	**362**	**77**	**42**	**1**	**482**
Finance expense	**(18)**	**(3)**	**(8)**	**—**	**(29)**
Other	**—**	**5**	**(23)**	**9**	**(9)**
Earnings before tax	**$ 344**	**$ 79**	**$ 11**	**$ 10**	**$ 444**
Total assets	**$ 2,662**	**$ 286**	**$ 583**	**$ 69**	**$ 3,600**
Total liabilities	**$ 393**	**$ 53**	**$ 110**	**$ 803**	**$ 1,359**
Capital expenditures	**$ 195**	**$ 25**	**$ 42**	**$ 11**	**$ 273**
2015					
Sales					
To external customers	$ 2,654	$ 546	$ 900	$ —	$ 4,100
To other segments	110	8	—	—	
	$ 2,764	$ 554	$ 900	$ —	
Operating earnings before amortization	$ 243	$ 95	$ 80	$ 22	$ 440
Amortization	(138)	(13)	(39)	(1)	(191)
Operating earnings	105	82	41	21	249
Finance expense	(18)	(3)	(8)	—	(29)
Other	—	(3)	(5)	(56)	(64)
Earnings before tax	$ 87	$ 76	$ 28	$ (35)	$ 156
Total assets	$ 2,668	$ 261	$ 622	$ 84	$ 3,635
Total liabilities	$ 363	$ 51	$ 121	$ 953	$ 1,488
Capital expenditures	$ 172	$ 5	$ 32	$ 11	$ 220
Acquisition	$ 76	$ —	$ —	$ —	$ 76

The geographic distribution of non-current assets and external sales is as follows:

	Non-current assets		Sales by geographic area[1]	
	2016	2015	**2016**	2015
Canada	**$ 1,987**	$ 1,990	**$ 994**	$ 898
United States	**675**	674	**2,583**	2,249
China	**—**	—	**486**	580
Other Asia	**—**	—	**317**	299
Other	**—**	—	**70**	74
	$ 2,662	$ 2,664	**$ 4,450**	$ 4,100

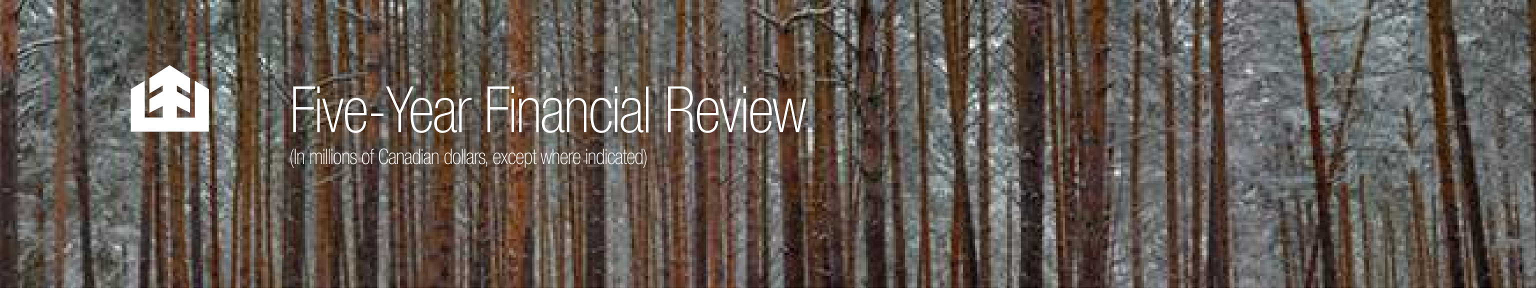
1. Sales distribution is based on the location of product delivery.

26. Softwood lumber dispute

The Canada – U.S. Softwood Lumber Agreement ("SLA") expired in October 2015 and on the expiry of that agreement a one year moratorium on trade sanctions by the U.S. came into place. The Government of Canada and the U.S. Trade Representative have been unable to reach agreement on a new managed trade agreement.

On November 25, 2016 a coalition of U.S. lumber producers petitioned the U.S. Department of Commerce and the U.S. International Trade Commission to investigate alleged subsidies to Canadian producers and levy countervailing and anti-dumping duties against Canadian imports. The U.S. Department of Commerce has initiated its investigation and is expected to make a preliminary determination regarding countervailing duties in April 2017, and in June 2017 for anti-dumping duties. If the U.S. Department of Commerce determines that "critical circumstances" apply, duties could be applied retroactively up to 90 days prior to the preliminary determinations. We have been chosen by the U.S. Department of Commerce as a "mandatory respondent" to both the countervailing and anti-dumping investigations and as a result will receive unique company specific rates.

We categorically deny the U.S. allegations of subsidies and dumping and will vigorously defend ourselves and the Canadian industry against the unfounded allegations.



Five-Year Financial Review

(In millions of Canadian dollars, except where indicated)

(In millions of Canadian dollars, except where indicated)	2016	2015	2014	2013	2012
Earnings					
Sales	**4,450**	4,100	3,856	3,474	3,000
Cost of product sold	**2,971**	2,874	2,538	2,260	2,024
Freight and other distribution costs	**629**	627	548	491	477
Export taxes	**—**	29	—	9	48
Amortization	**197**	191	170	160	152
Selling, general and administration	**176**	153	149	131	115
Equity-based compensation	**(5)**	(23)	45	54	61
Restructuring charges	**—**	—	—	24	—
Operating earnings	**482**	249	406	345	123
Finance expense	**(29)**	(29)	(26)	(29)	(28)
Other	**(9)**	(64)	(5)	1	7
Tax recovery (provision)	**(118)**	(52)	(116)	32	(25)
Earnings	**326**	104	259	349	77
Cash flows from operating activities	**689**	301	475	419	204
Capital expenditures & acquisitions	**273**	296	618	358	189
Financial position					
Current assets	**938**	971	907	971	823
PPE & timber licences	**2,236**	2,179	1,999	1,633	1,455
Goodwill & other intangibles	**371**	369	350	321	330
Other assets	**20**	36	79	83	24
Deferred income tax assets	**35**	80	62	96	—
Total assets	**3,600**	3,635	3,397	3,104	2,632
Current liabilities	**459**	606	616	454	385
Long-term debt (including current portion)	**413**	423	354	328	300
Other liabilities	**272**	269	244	197	327
Deferred income tax liabilities	**215**	190	154	178	128
Shareholders' equity	**2,241**	2,147	2,029	1,947	1,492
Total liabilities & equity	**3,600**	3,635	3,397	3,104	2,632
Per common share (dollars)[1]					
Basic EPS	**4.06**	1.25	3.06	4.07	0.90
Price range – high	**54.18**	78.55	66.80	52.67	37.62
– low	**35.35**	40.56	45.05	36.25	20.08
– close	**48.01**	52.53	66.47	51.80	35.03
Cash dividends per share	**0.28**	0.28	0.28	0.28	0.28
Shares outstanding at year-end ('000s)	**78,163**	82,457	83,527	85,672	85,726
Ratios (before unusual items)					
Adjusted EBITDA margin[2]	**15%**	10%	16%	17%	11%
Return on capital employed	**11%**	4%	10%	15%	4%
Return on common shareholders' equity	**15%**	5%	13%	21%	5%
Net debt to capitalization	**14%**	22%	19%	8%	12%
Number of employees at year-end	**7,800**	7,900	7,560	7,300	7,200
Production					
Lumber (MMfbm)	**5,935**	5,607	5,293	5,153	4,954
Pulp (Mtonnes)	**1,192**	1,142	1,086	1,099	1,149
Newsprint (Mtonnes)	**128**	133	132	119	128
Plywood (3/8" MMsf)	**826**	797	771	781	793
MDF (3/4" MMsf)[3]	**160**	220	206	204	195
LVL (Mcf)	**2,215**	1,627	1,796	1,848	1,964

1. Per share amounts prior to 2014 have been adjusted to take into account the 2014 stock dividend which had the same effect as a two-for-one stock split.
2. Adjusted EBITDA is described in the section titled "Non-IFRS Measures" of our 2016 Management's Discussion & Analysis.
3. A fire at our MDF plant in Quesnel on March 9, 2016 resulted in the closure of the plant for the balance of the year.

Corporate Information

Effective February 16, 2017

DIRECTORS

	Principal Occupation
Henry H. Ketcham	Chairman of the Board
Clark S. Binkley	Chief Investment Officer, GreenWood Resources, Inc. (a timberland investment management organization)
Reid E. Carter	President, Brookfield Timberlands Management LP
John N. Floren	President and Chief Executive Officer, Methanex Corporation
J. Duncan Gibson	Investor
John K. Ketcham	Real Estate Developer
Harald H. Ludwig	President, Macluan Capital Corporation (diversified private equity investment company)
Gerald J. Miller	Corporate Director
Robert L. Phillips	Corporate Director
Janice G. Rennie	Corporate Director
Ted Seraphim	President and Chief Executive Officer

OFFICERS

	Office Held
Ted Seraphim	President and Chief Executive Officer
Raymond W. Ferris	Executive Vice-President and Chief Operating Officer
Brian A Balkwill	Vice-President, Canadian Lumber
Keith D. Carter	Vice-President, Pulp and Energy Operations
Larry E. Gardner	Vice-President, Canadian Woodlands
James W. Gorman	Vice-President, Corporate and Government Relations
Larry S. Hughes	Vice-President, Finance, Chief Financial Officer and Secretary
Rodger M. Hutchinson	Vice-President, Corporate Controller and Investor Relations
Christopher D. McIver	Vice-President, Sales and Marketing
Sean P. McLaren	Vice-President, U.S. Lumber
Chuck H. Watkins	Vice-President, U.S. Lumber Manufacturing
Tom V. Theodorakis	Assistant Secretary Partner, McMillan LLP (lawyers)

Corporate Information

Effective February 16, 2017

ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of the Company will be held on April 19, 2017 at 11:30 a.m. at Quesnel, British Columbia, Canada.

AUDITORS

PricewaterhouseCoopers LLP
Vancouver, British Columbia, Canada

LEGAL COUNSEL

McMillan LLP
Vancouver, British Columbia, Canada

TRANSFER AGENT

CST Trust Company
Vancouver, Calgary, Toronto and Montreal, Canada

FILINGS

www.sedar.com

Shares are listed on the
Toronto Stock Exchange under the symbol: **WFT**

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Fax: (250) 992-9233

US Operations
1900 Exeter Road, Suite 105,
Germantown, Tennessee,
USA, 38138
Tel: (901) 620-4200
Fax: (901) 620-4204

MDF

WestPine
300 Carradice Road,
Quesnel, British Columbia,
Canada, V2J 5Z7
Tel: (250) 991-7100
Fax: (250) 991-7115

Ranger Board
P.O. Box 6,
Blue Ridge, Alberta,
Canada, T0E 0B0
Tel: (780) 648-6333
Fax: (780) 648-6397

PULP & PAPER

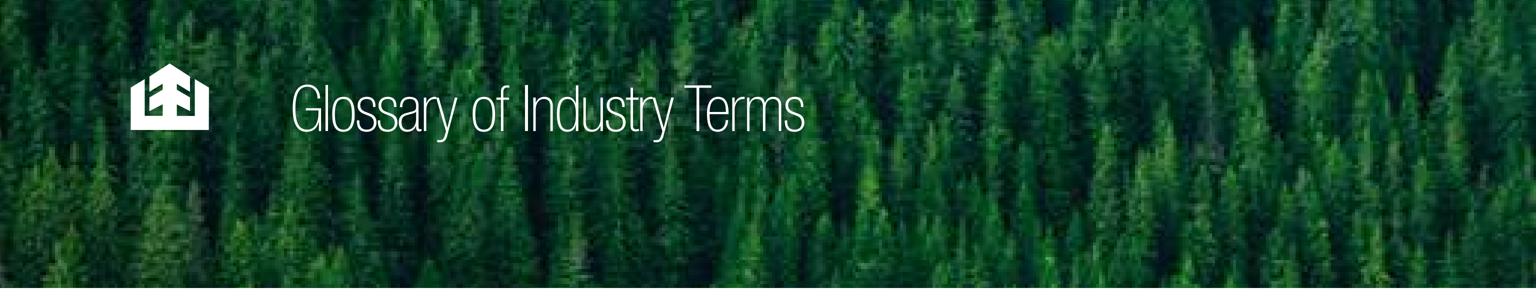
Cariboo Pulp & Paper
P.O. Box 7500,
50 North Star Road,
Quesnel, British Columbia,
Canada, V2J 3J6
Tel: (250) 992-0200
Fax: (250) 992-2164

Quesnel River Pulp
1000 Finning Road,
Quesnel, British Columbia,
Canada, V2J 6A1
Tel: (250) 992-8919
Fax: (250) 992-2612

Hinton Pulp
760 Switzer Drive,
Hinton, Alberta,
Canada, T7V 1V7
Tel: (780) 865-2251
Fax: (780) 865-6666

Slave Lake Pulp
P.O. Box 1790,
Slave Lake, Alberta,
Canada, T0G 2A0
Tel: (780) 849-7777
Fax: (780) 849-7725

Alberta Newsprint Company
Postal Bag 9000,
Whitecourt, Alberta,
Canada, T7S 1P9
Tel: (780) 778-7000
Fax: (780) 778-7070



Glossary of Industry Terms

AAC Annual Allowable Cut
The volume of timber that may be harvested annually from a specific timber tenure.

BCTMP Bleached Chemi-thermomechanical Pulp

Dimension Lumber Standard commodity lumber ranging in sizes from 1 x 3's to 4 x 12's, in various lengths.

FMA Forest Management Agreement
An FMA is granted by the Alberta government and entitles the holder to establish, grow and harvest timber on specified lands.

LVL Laminated Veneer Lumber
Large sheets of veneer bonded together with resin then cut to lumber equivalent sizes.

m^3 A solid cubic metre, a unit of measure for timber, equal to approximately 35 cubic feet.

Mcf One thousand cubic feet. A unit of measure for laminated veneer lumber.

MDF Medium Density Fibreboard
A composite product made from wood fibre.

Mfbm One thousand board feet (equivalent to one thousand square feet of lumber, one inch thick). **MMfbm** means one million board feet.

Msf A unit of measure for MDF and plywood equal to one thousand square feet on a 3/4 inch basis for MDF and on a 3/8 inch basis for plywood. **MMsf** means one million square feet.

NBSK Northern Bleached Softwood Kraft Pulp

Return on Capital Employed
Earnings before after-tax financing expense divided by average assets less average current non-interest-bearing liabilities.

Return on Common Shareholders' Equity
Earnings available to common shareholders divided by average shareholders' equity.

SPF Dimension lumber produced from spruce/pine/balsam fir species.

SYP Dimension lumber produced from southern yellow pine species.

Ton A unit of weight equal to 2,000 pounds, generally known as a U.S. ton

Tonne A unit of weight in the metric system equal to one thousand kilograms or approximately 2,204 pounds. **Mtonne** means one thousand tonnes.

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