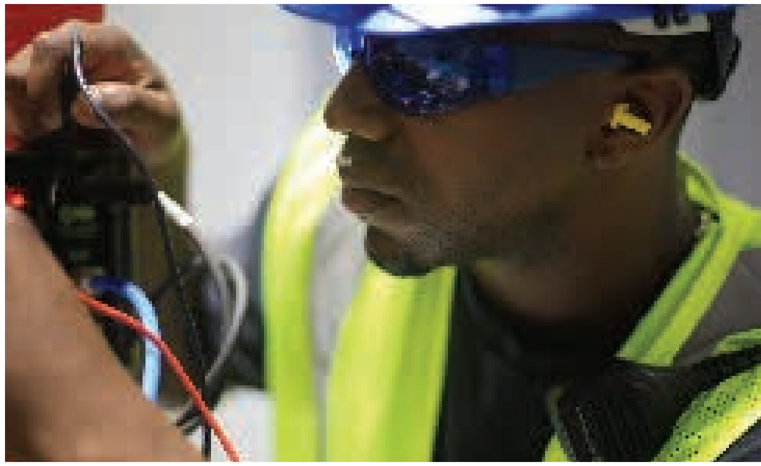
WEST FRASER

ANNUAL REPORT 2018



Including Annual Information Form

Dated: February 12, 2019

WEST FRASER

ANNUAL REPORT 2018

OPERATIONS West Fraser is a North American wood products company. Its main product is lumber (spruce/pine/fir (“SPF”) and southern yellow pine (“SYP”)). 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.

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

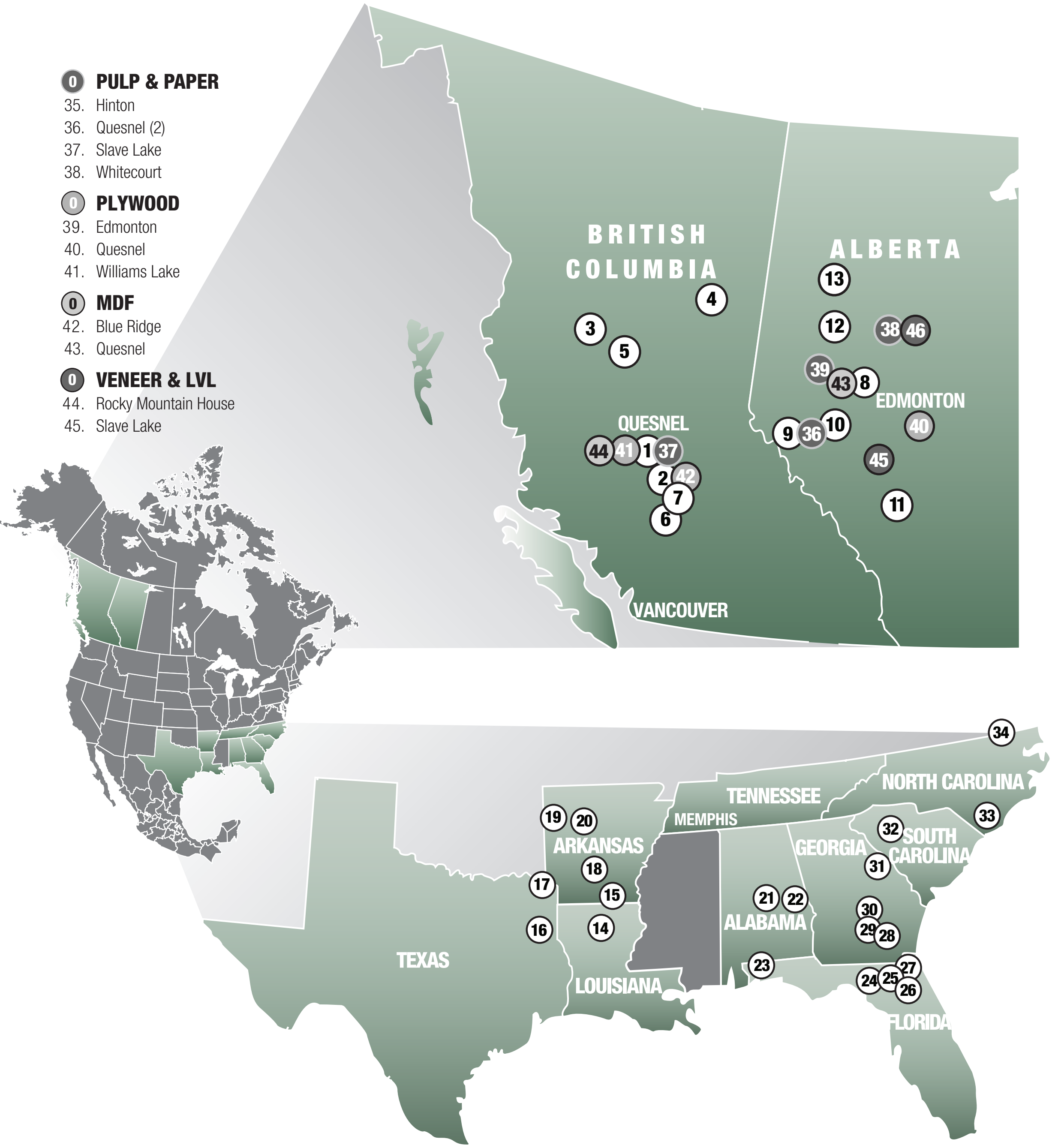
LUMBER
U.S.
14. Joyce
15. Huttig
16. Henderson
17. New Boston
18. Leola
19. Mansfield
20. Russellville
21. Maplesville
22. Opelika
23. McDavid
24. Perry
25. Lake Butler
26. Maxville
27. Whitehouse
28. Blackshear
29. Fitzgerald
30. Dudley
31. Augusta
32. Newberry
33. Armour
34. Seaboard

PULP & PAPER
35. Hinton
36. Quesnel (2)
37. Slave Lake
38. Whitecourt

PLYWOOD
39. Edmonton
40. Quesnel
41. Williams Lake

MDF
42. Blue Ridge
43. Quesnel

VENEER & LVL
44. Rocky Mountain House
45. Slave Lake



Thank you to our employees on the front cover of this report, from clockwise from left to right: Sarah (Quality Control), **Zach** (Electrician), **Brandon** (Sawfiler) **and Dakota** (Canter Operator).

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REPORT TO SHAREHOLDERS

Message from our Chief Executive Officer

For more than 60 years, West Fraser has been guided by a straight forward business strategy, to be the low-cost, high margin producer in each of our product lines and geographic regions, maintain a conservative financial position to manage cyclical markets and continuously reinvest in the business. We maintain our conviction in this strategy as the cornerstone to our success.

The economic factors that drive demand for our solid wood products continue to indicate favorable supply and demand fundamentals. Employment and wage growth trends are positive for housing, yet housing starts remain at historically low levels in the U.S. Spending on repairs, renovation and remodeling activities has continued to grow steadily and now represents a larger portion of lumber consumption than new home construction. Offshore lumber markets that have been developed by western Canadian lumber producers remain important to West Fraser. With the exception of the U.S. South, growth in most of the key lumber producing regions in North America may be constrained due to declining timber availability. Due to higher steel and other construction costs, sawmill capacity additions have become costlier and, in many cases, delayed. Pulp markets were particularly strong in recent years. We expect that new pulp capacity will have an impact on the global supply-demand balance, but we continue to be positive about the long-term growth prospects from China and other Asian markets.

In 2018 we experienced significant volatility in our business, most notably in our lumber markets. Transportation challenges early in the year, coupled with adverse weather conditions in our operating areas in the U.S. led to a significant backlog of inventory at our mills and a surge in product pricing. We managed to work through the inventory backlog through the middle half of the year and restore more normal inventory levels. However, the variability in shipments, coupled with a slight softening of housing construction markets led to a significant decline in lumber prices in the second half of the year. Coupled with high log prices and fibre availability challenges in British Columbia from mountain pine beetle and record hectares of forests burned in 2017 and 2018, we made the difficult decision to permanently reduce production at two of our mills in the B.C. interior.

We continued to invest in our operating platform with the completion of projects across all our segments. We added new continuous dry kilns in western Canada, modernized our sawmill in High Prairie, Alberta and completed major infrastructure upgrades at two of our pulp mills. Notably, we invested significantly in the construction of a new sawmill on the site of our existing Opelika, Alabama facility. This new facility incorporates the latest safety and technology available and includes significant advancements in operator ergonomics designed to address challenges in labour availability and retention that exist in the U.S. South. As we start 2019, just over 45% of our production capacity is now based in the U.S. South and we expect it to grow as we continue to invest in our mills.

I am proud of the achievements we have made with our focus on people as a cornerstone of our organization and what I believe sets us apart. Our progress on improving safety fell short of expectations as our safety performance plateaued in 2018, after a number of years of significant improvement. We remain focused on further improvements in 2019 through investments in our facilities along with training and development activities. At West Fraser we work hard to create a positive work environment in all our facilities and have been recognized again in 2018 with several awards, being named as one of Canada's Top 100 Employers, one of BC's Top Employers, and one of Canada's Top Employers for Young People. In addition, West Fraser was recognized once again for having one of Canada's Most Admired Corporate Cultures.

We focus our charitable efforts to enhance the communities where we operate. The majority of our operations in Canada and the U.S. are in rural communities and in many of these places, we are the largest employer. Over the last several years our operations and corporate charitable gifts have added up to more than four million dollars across 39 communities. We offer a number of scholarships, donate wood products and contribute to hundreds of charitable, sport, education and service organizations in the communities where we have facilities.

Despite a second year of record results, we recognize we still have much work to do. In 2019 we will be focused on bringing our new Opelika mill to full operating rate and on realizing the benefits of the capital we ha0ve spent over the past several years modernizing our operating platform. We have an ambitious capital plan for 2019. Most importantly we need to continue our relentless focus on operational excellence, improving safety and developing our people.

We recorded the highest Adjusted EBITDA in Company history, growing Adjusted EBITDA by $378 million and 33% over 2017. Our teams continued to execute well on significant capital projects that will benefit us in 2019 and years to come. We raised our dividend which is now $0.80 per share on an annual basis and over the past five years have repurchased $1.1 billion of shares. We ended the year in a strong financial position with net debt to capital of 17% and total available liquidity of $491 million.

While 2018 was a record year for the Company in Adjusted EBITDA, we remain convinced of the untapped potential for further improvement in all our operations. Our consistent business approach, geographically diversified operating footprint, focus on reinvesting in our business and development of high-performance teams puts us in a strong position to compete in our sector and product markets.

With the support, dedication and effort of all our employees, their families, our Board of Directors, our customers and communities, I am optimistic about the opportunities for continued success in 2019. Our strong financial position backs our commitment to safe, modern, efficient operations driven by a low-cost culture which positions us well for the years ahead.

On July 1, Ray Ferris will succeed me as Chief Executive Officer. I know that I speak for our directors, management and our employees when I say how delighted we are that Ray will lead the Company going forward.

Ted Seraphim
Chief Executive Officer

ANNUAL INFORMATION FORM

Date

This Annual Information Form of West Fraser Timber Co. Ltd. ("West Fraser", "we", "us", "our" or the "Company") is dated as of February 12, 2019. Except as otherwise indicated, the information contained in it is as of December 31, 2018.

All financial information in this Annual Information Form is presented in Canadian dollars, unless otherwise indicated.

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 are subject to various risks and uncertainties. Forward-looking statements are included herein under the headings "Fibre Supply – Mountain Pine Beetle and B.C. Wildfires" (the timing of AAC reductions and the effect on our AACs), "Fibre Supply – Caribou Recovery Planning" (impact on our access to timber supply), "Fibre Supply – Aboriginal Matters" (the potential effect of aboriginal title or rights) and "Capital Structure – Cash dividends", and are included in our 2018 Management's Discussion & Analysis incorporated herein under the heading "Risks and Uncertainties" and "Introduction and Interpretation". 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 other residuals 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 portion of the fibre required by our United States operations. We carry on our operations through subsidiaries and joint operations in British Columbia ("B.C."), 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, wood chips and other residuals.

The annual production capacities of our wholly-owned facilities and our share of the capacities of our 50%-owned operations, after giving effect to the announced production curtailments at Fraser Lake and Quesnel, British Columbia, are as follows:

Lumber (MMfbm)	
SPF	3,870
SYP	3,200
Total	7,070
Panels	
Plywood (MMsf 3/8”)	860
MDF (MMsf 3/4")	250
LVL (Mcf)	2,600
Pulp (Mtonnes)	
BCTMP	690
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 people and operating 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, MDF and energy operations.

We are committed to operating in a financially conservative and prudent manner. The North American wood products industry is cyclical and periodically faces difficult market conditions and serious challenges. Maintaining a strong balance sheet and liquidity profile, along with our investment grade debt rating enables us to execute a balanced capital allocation strategy. Our goal is to continually reinvest in our operations, across all market cycles to maintain a leading cost position and prudently return capital to shareholders. We believe that maintaining a strong balance sheet also provides the financial flexibility to capitalize on growth opportunities and is a key tool in managing our business over the long term.

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.

Corporate Structure

West Fraser is organized under the *Business Corporations Act* (British Columbia) and assumed its present form in 1966 by the amalgamation of a group of companies under the laws of B.C. West Fraser owns West Fraser Mills Ltd., who in turn owns directly or indirectly, wholly or partially, our operating facilities, subsidiaries and jointly-owned operations. West Fraser Mills Ltd. assumed its present form on January 1, 2005 by amalgamation under those laws. West Fraser, Inc., West Fraser Wood Products Inc. and West Fraser Southeast, 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.

The following chart 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 Timber Co. Ltd.

West Fraser Mills Ltd.

LUMBER			PANELS	PULP & PAPER
Canada	*U.S.*		*Plywood*	*Pulp*
Quesnel	Joyce[4]	Lake Butler[6]	Edmonton	Hinton
Williams Lake	Huttig[4]	Whitehouse	Quesnel	Quesnel
Smithers	Henderson[5]	Maxville[6]	Williams Lake	Quesnel (50%)[7]
Chetwynd	New Boston[5]	Blackshear[6]		Slave Lake
Fraser Lake	Leola[4]	Fitzgerald[6]	*MDF*	
Chasm	Mansfield[4]	Dudley[6]	Blue Ridge	*Newsprint*
100 Mile House	Russellville[4]	Augusta[4]	Quesnel	Whitecourt (50%)[8]
Blue Ridge[1]	Maplesville[4]	Newberry[4]		
Hinton	Opelika[4]	Armour[4]	*Veneer & LVL*	
Edson	McDavid[4]	Seaboard[4]	Rocky Mountain House[2]	
Sundre[2]	Perry[6]		Slave Lake	
High Prairie				
Manning[3]	**SPECIALTY LUMBER PRODUCTS**			
	Sundre[2]			

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. Owned through West Fraser Southeast, Inc., a wholly-owned subsidiary.
7. 50% interest in Cariboo Pulp & Paper Company.
8. 50% interest in Alberta Newsprint Company owned through West Fraser Newsprint Ltd., a wholly-owned subsidiary.

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. From 1955 through 2018 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:

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.
- Completed six continuous kilns, two planer projects and four major sawmill upgrades.
- Completed a low consistency refiner project at our BCTMP mill in Quesnel.

2015
- Acquired a sawmill in Manning, Alberta.
- Completed co-generation projects at two of our B.C. 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.
- Completed three continuous kilns, two planer projects and one major sawmill upgrade.

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.
- A coalition of U.S. lumber producers petitioned the U.S. Department of Commerce (“USDOC”) and the U.S. International Trade Commission (“USITC”) to investigate alleged subsidies to Canadian lumber producers and levy duties against Canadian imports.
- Completed three continuous kilns.

2017
- MDF facility in Quesnel damaged by fire in 2016 was repaired and began producing board on April 29.
- Acquired six sawmills and a finger-joint (specialty lumber) mill in Florida and Georgia as well as an administrative office in St. Marys, Georgia (the “Gilman Acquisition”).
- On December 4 the USDOC determined final duty rates for West Fraser of 23.56%.
- Completed four continuous kilns and two major sawmill upgrades.

2018
- Rebuild of sawmill in High Prairie, Alberta.
- Commissioned an entirely new sawmill in Opelika, Alabama on the site of the existing sawmill.
- Completed five continuous kilns across Western Canada.
- Completed planer mill upgrades at facilities in Fraser Lake, B.C. Smithers, B.C. and Sundre, Alberta.
- Implemented upgraded refining technology at our Quesnel River Pulp mill and installed an additional concentrator at our Cariboo Pulp mill.

Sales Revenue
($ millions)

Year ended December 31	**2018**	2017	2016	2015	2014
Lumber	**4,456**	3,671	3,145	2,764	2,622
Panels	**676**	600	529	554	526
Pulp & Paper	**1,163**	988	887	900	812
Intracompany fibre sales	**(177)**	(125)	(111)	(118)	(104)
	6,118	5,134	4,450	4,100	3,856

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 (including from whole-log chipping operations), 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 have a shorter term but are not replaceable. 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.

Timber tenures in B.C. and Alberta require the payment of a fee, commonly known as stumpage, for timber harvested pursuant to its terms. 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, 2018, 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	5,604
	Coniferous Short-term	2019	200
Alberta	Coniferous Long-term	2019 - 2033	6,380
	Deciduous Long-term	2019 - 2033	1,319

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.

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

Log Supply

Annual log requirements for our Canadian sawmills, plywood facilities and LVL plant, all operating at the capacities described herein, would total approximately 15 million m^3. Recently, we have been accessing approximately 65% of these requirements from the quota-based 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 and our ability to secure approvals to harvest in economically viable stands.

Our U.S. operations, which produce SYP lumber, would consume approximately 14 million tons of logs per year if operating at the capacity described herein. Our U.S. operations as a whole have access to approximately 18% of their log requirements under certain long-term supply contracts, and the balance is purchased on the open market. Open market purchases come from timber real estate investment trusts, timberland investment management organizations and private land owners.

Mountain Pine Beetle and B.C. Wildfires

The mountain pine beetle infestation in the B.C. interior reached a peak, in terms of the annual timber mortality rate, more than 13 years ago. The damage to the mature pine forests within our operating areas is significant.

We continue to salvage and process 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. previously increased the AAC on dead pine stands and limited the harvest of non-pine species until the salvage of dead pine stands concludes. The AAC has been or 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 B.C.'s central interior by approximately 36% 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.

Wildfires in B.C. burned over two million hectares of forest land in 2017 and 2018. Our Cariboo region operating areas were significantly impacted. Salvage of fire damaged trees has begun and is expected to continue for 2-4 years.

As the timing of future AAC reductions and the effect on our AACs will depend on a variety of factors, including the impact of wildfires and 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 mountain pine beetle detection, single tree control and focussed harvesting activity. The mountain pine beetle infestation significantly expanded from Jasper National Park into our Hinton forest management area ("FMA") in 2017 and again in 2018. 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.

Caribou Recovery Planning

Draft woodland caribou recovery plans were released by the Alberta government in December 2017. We have been working with the Province to develop strategies that support caribou recovery while maintaining our access to the forest resource. The AAC impact from these plans will depend on the final location of potential conservation areas and the forest harvest regimes that are implemented. We anticipate this work will continue in 2019.

B.C. continues to engage with Canada on the development of a conservation agreement for all Southern Mountain Caribou ranges in the Province. The current focus is on the Central Group, which is comprised of three herds in the South Peace area. We understand the conservation agreement will have multiple annexes, including linked partnership agreements with indigenous communities. Initial indications from the draft partnership agreement for the Central Group are a potential for new protected areas and increased conservation. We expect this will have some impact on our access to timber supply, but we are unable to predict or quantify the impact at this draft stage in the conservation agreement process.

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.

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. All of our U.S. mills except those purchased with the Gilman Acquisition are certified under the SFI Fiber Sourcing Standard.

For more information concerning our sustainable and environmentally sound forest practices see below under the heading "External Factors Affecting West Fraser's Business in 2018 – Environment" and 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, 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 may 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	**2018**	2017	2016	2015	2014
Lumber	**284**	247	195	172	326
Panels	**16**	22	25	5	7
Pulp & Paper	**60**	58	42	32	71
Corporate & Other	**10**	9	11	11	6
	370	336	273	220	410
Acquisitions	**-**	526	-	76	208
	370	862	273	296	618

Human Resources

At December 31, 2018, we employed approximately 8,570 individuals, including our share of those in 50%-owned operations. Of these, approximately 6,030 are employed in our lumber segment, 1,300 in our panels segment, 850 in our pulp & paper segment and 390 in our corporate segment. Approximately 37% of our employees are covered by collective agreements. In 2019, collective agreements covering approximately 242 employees will expire. Contracts covering approximately 1,340 of our employees expired in 2018 and have not yet been renewed as negotiations remain ongoing.

The safety of our employees is a core value and business priority and our safety goal is to eliminate serious incidents and injuries. We provide ongoing safety training for our employees to minimize potential risks inherent in forestry-related manufacturing industries. Our Health and Safety Policy and objectives 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 the primary products of the type we produced, although these prices do not necessarily reflect the prices we obtained.

Average Benchmark Prices
(In US$ except plywood)

	2018	2017	2016	2015	2014
SPF #2 & Better 2x4 (per Mfbm)[1]	**480**	401	305	278	349
SPF #3 Utility 2x4 (per Mfbm)[1]	**372**	323	240	209	302
SYP #2 West 2x4 (per Mfbm)[2]	**501**	433	409	376	427
Plywood (per Msf 3/8" basis)[3] Cdn$	**548**	509	432	430	429
NBSK – U.S. (per tonne)[4]	**1,337**	1,105	978	972	1,025
NBSK – China (per tonne)[5]	**878**	712	599	644	732
Newsprint (per tonne)[6]	**692**	584	560	538	604
US$/CAD$[7]	**0.772**	0.771	0.755	0.782	0.905

Sources: refer to our 2018 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 annual average exchange rate.

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
(MMfbm)

	2018	2017	2016	2015	2014
Capacity (year-end)					
B.C.	**2,170**	2,460	2,465	2,400	2,480
Alberta	**1,700**	1,690	1,635	1,600	1,420
U.S. South	**3,200**	3,050	2,400	2,300	2,300
	7,070	7,200	6,500	6,300	6,200
Production					
B.C.	**2,236**	2,257	2,303	2,225	2,282
Alberta	**1,556**	1,552	1,493	1,374	1,194
U.S. South	**2,817**	2,424	2,139	2,008	1,817
	6,609	6,233	5,935	5,607	5,293

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. The capacity figures above for 2018 give effect to the announced permanent shift reductions at our Fraser Lake and Quesnel, B.C. sawmills that take will affect in the first quarter of 2019.

Operations

We operate 34 sawmills and a wood treating facility at the Sundre sawmill. Our Canadian sawmills, of which 7 are in B.C. and 6 are in Alberta, produce spruce, pine, fir lumber of various grades and dimensions. Our 21 U.S. sawmills produce southern yellow pine lumber of various grades and dimensions.

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 and sold by our sales group in Memphis, Tennessee and St. Marys, Georgia. From time to time, we purchase lumber for resale in order to meet requirements of customers.

In 2018, 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.

Sales of our lumber products can be impacted by seasonal influences. Shipments from our Western Canadian mills can be affected by winter weather that affects rail and other transportation services. In the summer months, during fire season, logging, manufacturing and transportation can all be affected by wildfire activity or by evacuation alerts or orders in regions where we operate. U.S. new home construction activity, which significantly influences the demand for our lumber products, has historically been higher in the first half of the year and experiences a seasonal slow down late in the third quarter. A significant portion of our SYP products are used in treated wood applications and demand for these products is often highest in anticipation of spring and summer construction activity.

Panels

Capacity and Production

	2018	2017	2016	2015	2014
Plywood (MMsf 3/8” basis)					
Capacity (year-end)	**860**	860	850	830	830
Production	**833**	838	826	797	771
MDF (MMsf 3/4” basis)					
Capacity (year-end)	**250**	250	250	250	300
Production	**224**	191	160	220	206
LVL (Mcf)					
Capacity (year-end)	**2,600**	3,200	3,200	3,200	3,200
Production	**2,251**	2,676	2,215	1,627	1,796

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 our Edmonton plywood mill. A fire at our MDF plant in Quesnel on March 9, 2016 resulted in the closure of the plant while repairs and reconstruction took place. The rebuilt plant began producing board on April 29, 2017 and returned to normal production levels by the end of 2017. This reduced 2016 and 2017 MDF production compared to prior years. In September 2018, we reduced the operating schedule at our LVL mill to more closely match market conditions which resulted in reduced capacity.

Sales

Plywood, LVL and MDF are marketed and sold 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.

In 2018 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. Plywood sales is also seasonal, with the strongest demand being centred in September and October in Canada.

Pulp & Paper

Pulp

Capacity and Production
(Mtonnes)

	2018	2017	2016	2015	2014
BCTMP					
Capacity (year-end)	**690**	690	680	650	650
Production	**652**	674	665	645	631
NBSK					
Capacity (year-end)	**570**	570	570	570	570
Production[1]	**499**	498	527	497	455

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 our Quesnel River Pulp 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 and sold out of our pulp sales office in Vancouver. In 2018, 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)

	2018	2017	2016	2015	2014
Capacity (year-end)	**135**	135	135	135	135
Production	**119**	122	128	133	132

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 2018

Economic Conditions

Our earnings are sensitive to changes in world economic conditions, primarily those in North America, Asia and Europe and particularly to the U.S. housing market for both new construction and repair and renovation spending. 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 USDOC and the USITC to investigate alleged subsidies to Canadian producers and levy countervailing and antidumping duties against Canadian imports. The USDOC made its preliminary determination regarding countervailing duties in April 2017, and in June 2017 for antidumping duties. In December of 2017 final countervailing and antidumping rates for West Fraser of 17.99% and 5.57% respectively were confirmed by the USITC.

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 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 sawmill residuals, waste biomass and pulp mill effluent streams to produce heat and steam to dry our wood products as well as 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 in some cases sell excess electricity to the provincial utility. In addition, our Slave Lake pulp mill produces electricity for its own use from bio-gas reclaimed from effluent treatment.

Co-generation projects at our Fraser Lake and Chetwynd, B.C. sawmills produce electricity from residuals and waste biomass. 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 power plant at our 50%-owned newsprint mill which provides a partial hedge 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

West Fraser is committed to utilizing resources responsibly and taking meaningful ongoing steps to reduce its impact on the environment. This includes reducing greenhouse gas emissions and chemicals, monitoring energy and material consumption, recycling oil products and other materials as well as sustainable, responsible forest management. We are proud of our excellent reforestation record, and we continue explore new ways improve our reforestation and silviculture practices. Our goal is to move beyond mere regulatory compliance to focus on conducting our business in an environmentally, socially and economically responsible manner.

Regulatory Requirements

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 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.

Responsible Management of Energy, Woodlands, and Natural Resources

We are committed to consciously managing our energy use, reducing our consumption and developing sustainable energy solutions. Currently two-thirds (over 60%) of our energy needs are generated with renewable, carbon-neutral biomass fuel sources co-located with our mills. From 2000 to 2017, our energy initiatives have resulted in a decrease in the intensity of purchased energy by approximately 41% for our sawmill and panel operations and approximately 19% for our pulp and newsprint operations. Additional information on our energy initiatives is included herein under the heading "External Factors Affecting West Fraser's Business in 2018 – Energy" and in our *Responsibility Report* on our website at www.westfraser.com.

Most of Canada's forest land (93%) is publicly owned and the right to harvest timber is only allowed through government granted licenses. West Fraser follows strict forest management requirements to be able to maintain and renew government-granted harvesting rights in Canada. We engage in sustainable forest management and our harvesting practices are designed to harvest timber safely and efficiently while minimizing environmental impacts. We replant the trees we harvest and, since 1955, West Fraser has planted more than 1.7 billion trees to ensure the forests where we operate are constantly renewed. In addition, all of our Canadian woodlands operations directly managed by West Fraser are independently certified by SFI and we subscribe to the PEFC chain-of-custody standard. Our pulp and MDF mills are registered to the FSC Standard for Chain of Custody Certification and the Standard for Company Evaluation of FSC Controlled Wood. Forest certification is a voluntary tool that demonstrates West Fraser's wood products are sourced from sustainably managed forests. Third party independent auditors verify that we have met high standards for a number of key criteria, including the sustainable growing and harvesting of trees with the protection of habitat, wildlife, plants, water and soil quality, and a wide range of other conservation goals. Additional information on our sustainable timber harvesting operations and certifications is included herein under the heading "Fibre Supply" and in our *Responsibility Report* on our website at www.westfraser.com.

Over the last decade, West Fraser has made significant investments in upgrading our operations to improve the air quality coming from our operations and significantly reduce greenhouse gas emissions. Fossil fuels are one of the largest contributors to greenhouse gas emissions. Since 2000, West Fraser has significantly reduced our greenhouse gas emissions (GHG) by more than 181,000 tonnes annually. In 2016, we signed on to the "30 by 30" Climate Change Challenge, pledging to contribute to an industry-wide effort to help Canada move to a low-carbon economy by removing 30 megatonnes (MT) of CO_2 per year by 2030 — more than 13% of the Canadian government's emissions target.

We treat water as an important and protected resource throughout our operations. We specifically address, manage and monitor stream and watercourse protection as part of our sustainable forest management activities. Our pulp operations use and treat large volumes of water and we have invested considerably in improvements to water systems aimed at improving the effluent, including an overall downward trend in key effluent measurements such as total suspended solids (TSS) and biochemical oxygen demand (BOD).

Community and Stakeholder Engagement

Stakeholder engagement and consultation is a crucial part of our success as a business. Stakeholder engagement and consultation is embedded in our forest management planning process through our sustainable forest management and fibre sourcing certifications. Identification and consultation with stakeholders is also required by Canadian law to meet the standards and provincial regulations governing the permitting and approval of harvesting and forest management planning on public lands.

Our mills and forest operations often work in partnership with Indigenous Peoples in the regions where we operate. Through our Aboriginal Community Engagement Framework, we seek to build respectful, long-term, mutually beneficial working relationships with the Indigenous communities located near the areas in which we operate. In

Canada within our forest planning, engagement and consultation processes as well as separate outreach, we work with more than 100 Indigenous communities and organizations in the regions where we harvest timber and manage public forest land under government licences.

Oversight and Further Information

Our Board, particularly the Environmental, Health & Safety Committee, together with our executive and our senior leadership teams, set the policy and practice of our environmental, social and governance activities within our business and are responsible for monitoring our safety and environmental performance.

We are committed to providing comprehensive and transparent information regarding our environmental, social and governance (ESG) matters, and have available on the Responsibility part of our website (at www.westfraser.com) additional information including our *Responsibility Report* prepared under the Global Reporting Initiative (GRI), a global standard for reporting on a range of economic, environmental and social impacts.

Risk Factors

A detailed discussion of risk factors is included under the heading "Risks and Uncertainties" in Management's Discussion & Analysis for the year ended December 31, 2018, which is incorporated herein by reference. Our Management's Discussion & Analysis is available on SEDAR at www.sedar.com and on our website at www.westfraser.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, rights upon dissolution or winding up 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, 2018, the issued share capital consisted of 67,537,360 Common shares and 2,281,478 Class B Common shares for a total of 69,818,838 shares (as at December 31, 2017 –77,946,036 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)	Positive
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 2018 and 2017.

	2018				2017	
	High ($)	**Low ($)**	**Close ($)**	**Volume (000's)**	Close ($)	Volume (000's)
January	**88.98**	**76.57**	**86.06**	**5,048**	44.44	4,907
February	**94.64**	**78.52**	**89.38**	**5,966**	55.13	6,456
March	**92.69**	**81.44**	**85.61**	**7,030**	55.62	7,633
April	**95.10**	**82.00**	**86.97**	**5,334**	61.34	7,656
May	**96.03**	**85.88**	**94.23**	**9,196**	58.81	5,411
June	**97.99**	**82.83**	**90.49**	**10,283**	61.38	4,309
July	**95.85**	**76.81**	**80.80**	**12,100**	66.25	5,294
August	**93.13**	**79.77**	**86.57**	**11,056**	64.79	5,152
September	**89.52**	**72.31**	**73.51**	**10,576**	72.00	7,500
October	**75.30**	**60.44**	**66.14**	**20,129**	78.47	5,904
November	**75.90**	**63.51**	**69.35**	**10,141**	81.54	5,276
December	**73.45**	**61.59**	**67.44**	**8,130**	77.57	4,469
Total				**114,989**		69,967

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 $0.70 per share were declared in 2018, $0.36 per share were declared in 2017 and $0.28 per share were declared in 2016 and 2015. There can be no assurance that 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 AST Trust Company (Canada), 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, 2018. 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 12, 2019.

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
Reid E. Carter[1 & 4] West Vancouver, B.C.	Corporate Director	April 19, 2016
John N. Floren[2, 3 & 4] Eastham, Massachusetts	President and Chief Executive Officer, Methanex Corporation	April 19, 2016
Brian G. Kenning[2 & 4] Vancouver, B.C.	Corporate Director	April 19, 2017
John K. Ketcham[3 & 4] Santa Monica, California	Real Estate Developer	April 28, 2015
Gerald J. Miller[1, 3 & 4] Kelowna, 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.	Chief Executive Officer	April 30, 2013
Gillian D. Winckler[1, 3 & 4] Vancouver, B.C.	Corporate Director	April 19, 2017

1. Member of the Audit Committee.
2. Member of the Human Resources & Compensation Committee.
3. Member of the Health, 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, and before March 1, 2013 was our Chairman and Chief Executive Officer; John Floren who before January 2013 was Senior Vice President, Global Marketing and Logistics of Methanex Corporation; Ted Seraphim who before April 19, 2018 was President and Chief Executive Officer, and before March 1, 2013 was President and Chief Operating Officer; Gillian Winckler who before June 2015 was Chief Executive Officer and President, as well as Chief Financial Officer for a brief period of Coalspur Limited; Reid Carter who before December 31, 2018 was President, Brookfield Timberlands Management LP. 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.	Chief Executive Officer
Raymond W. Ferris Vancouver, B.C.	President and Chief Operating Officer
Brian A. Balkwill Quesnel, B.C.	Vice-President, Canadian Wood Products
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
Christopher D. McIver North Vancouver, B.C.	Vice-President, Sales and Marketing
Sean P. McLaren Collierville, Tennessee	Vice-President, U.S. Lumber
Tom V. Theodorakis Vancouver, B.C.	Secretary Partner, McMillan LLP (lawyers)
Christopher A. Virostek North Vancouver, B.C.	Vice-President, Finance and Chief Financial Officer
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 April 19, 2018 was our Executive Vice-President and Chief Operating Officer and before February 15, 2016 was our Vice-President, Wood Products; Brian A. Balkwill, who before July 1, 2018 was our Vice-President, Canadian Lumber, before February 15, 2016 was our General Manager, Canadian Lumber, and before December 1, 2014 was our General Manager, Engineered Wood; 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, B.C.; 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 B.C.; 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; Christopher A. Virostek, who before April 1, 2017 was the Senior Vice-President of Strategy and Corporate Development of Masonite International Corporation; 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 and before December 6, 2013 was our Engineering and Technical Manager, U.S. Lumber.

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, 2018	December 31, 2017
Common shares	**1,414,601**	1,395,821
% 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%

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Christopher Virostek, our Vice President, Finance and Chief Financial Officer, was a director of Masonite (Africa) Limited ("MAL"), a majority owned subsidiary of Masonite International Corporation ("Masonite"), when MAL commenced voluntary business rescue proceedings in South Africa in December 2015. Mr. Virostek served as a director of MAL in connection with his duties as an employee of Masonite. The business rescue plan of MAL was substantially implemented as provided under its terms and the business rescue proceedings ended in August 2016, at which time Mr. Virostek resigned as a director.

Governance

Corporate governance is guided by our Corporate Governance Policy, a copy of which may be viewed on our web site: 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 2018, 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.

Reid E. Carter

Mr. Carter holds a combined undergraduate degree in Forestry and Biology and a master's degree in Forest Soils. He was president of a large timberlands investment firm and has been involved with that firm and related firms in various senior roles for the last 14 years. Prior to that he served as National Bank Financial's Paper and Forest Products Analyst.

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. Mr. Miller is currently the Chair of the audit committee of Granite Real Estate Investment Trust.

Janice G. Rennie

Ms. 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. Ms. Rennie has chaired or been a member of several audit committees of public companies in the past and currently is the Chairman of EPCOR Utilities Inc. and a member of the audit committees of Methanex Corporation, Major Drilling Group International Inc. and WestJet Airlines Ltd.

Gillian D. Winckler

Ms. Winckler, who holds a Bachelor of Science and Bachelor of Commerce obtained in South Africa, is a Chartered Accountant (South Africa). Ms. Winckler worked in the audit profession for five years, in corporate finance for five years, and in a number of executive positions with Coalspur Limited and BHP Billiton. Ms. Winckler is currently a member of the audit committee of Pan American Silver Corporation.

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 Vice-President, Finance and 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)

	2018	2017
Audit Fees[1]	**878**	854
Audit-Related Fees[2]	**96**	162
Tax Fees	**323**	548
All Other Fees[3]	**80**	50

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."
3. Includes fees in connection with financial and tax due diligence assignments and various other compliance reporting matters.

Material Contracts

1. 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.

2. On August 25, 2017, we replaced our existing 2007 Credit Agreement with a new 2017 Credit Agreement. The new credit agreement is comprised of a CDN$500 million committed revolving credit facility and a US$200 million

five-year non-revolving term acquisition facility which expires on August 25, 2022. The committed revolving credit facility provides for floating rates of interest based on Prime, Base Rate Advances, Bankers' Acceptances or LIBOR Advances at our option. The five-year non-revolving term facility provides for floating rates of interest based on Base Rate Advances or LIBOR Advances at our option. On August 28, 2017 we borrowed US$200 million under the non-revolving term facility to fund part of the Gilman Acquisition. These borrowings are repayable at any time, in whole or in part, at our option and without penalty but cannot be redrawn after payment.

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 23, 2019. Additional financial information is provided in our annual audited consolidated financial statements and Management's Discussion & Analysis for the year ended December 31, 2018, both of which may be found on our website at www.westfraser.com and on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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, 2018 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 SEDAR at www.sedar.com.

Schedule 1 – Audit Committee Charter

The Audit Committee Charter, which is set out below, was approved by the Board on September 12, 2017.

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 the 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 either provide a recommendation to the Board with respect to the approval of the interim financial reports or, if so delegated by the Board, approve the interim financial reports and the filing of the same together with all required documents and information with regulators.

- 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.

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 with management the adequacy and effectiveness of the Company's systems for monitoring compliance with financial reporting and disclosure laws, including the Company's disclosure controls and procedures, 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.

- Assist the Board with its responsibility to, with the advice of management, identify the principal financial and audit risks of the Company and establish systems and procedures to ensure these principal financial and audit risks are monitored, and to make recommendations to the Board.

- Annually review the expenses of the Chief Executive Officer.

- 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 Chair of the Committee will be designated by the Board.

- 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.

- The Committee may retain any outside advisor at the expense of the Company, without the Board's approval, at any time and has the authority to determine any such advisor's fees and other retention terms.

- Minutes of each meeting should be prepared, approved by the Committee and circulated to the full Board.

MANAGEMENT'S DISCUSSION & ANALYSIS

Introduction and Interpretation

This discussion and analysis by West Fraser's management ("MD&A") of West Fraser's financial performance for the year and three months ending December 31, 2018 should be read in conjunction with our 2018 annual audited consolidated financial statements and accompanying notes (the "Financial Statements") and our unaudited condensed consolidated interim financial statements and accompanying notes. Dollar amounts are expressed in Canadian currency, unless otherwise indicated and references to US$ are to the United States.

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 headings "Recent Developments – Production Curtailments" (production curtailment estimate); "Adjusted Earnings and Adjusted Basic Earnings Per Share" (administrative review commencement and adjustment of export duty rates); "Discussion & Analysis of Annual Results by Product Segment - Lumber Segment - Softwood Lumber Dispute" (administrative review commencement and adjustment of export duty rates); "Discussion & Analysis of Annual Results by Product Segment – Pulp & Paper Segment – Operating Earnings" (refund of collected duty deposits); "Business Outlook;" "Estimated Earnings Sensitivity to Key Variables;" "Selected Cash Flow Items – Operating Activities" (estimated tax payments for February 2019); "Significant Management Judgments Affecting Financial Results – Softwood Lumber Dispute" (administrative review commencement and adjustment of export duty rates); and "Contractual Obligations". By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. 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. This list of important factors affecting forward-looking statements is not exhaustive and reference should be made to the other factors discussed in public filings with securities regulatory authorities. Accordingly, readers should exercise caution in relying upon forward-looking- statements and we undertake no obligation to publicly update or revise any forward-looking statements, whether written or oral, to reflect subsequent events or circumstances except as required by applicable securities laws.

Throughout this MD&A reference is made to Adjusted EBITDA, Adjusted EBITDA margin, 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. These measures are not generally accepted earnings measures under IFRS and do not have standardized meanings 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 are for specific products, dimensions or grades and do not necessarily reflect the prices obtained by West Fraser during those periods as we produce and sell a wide offering of dimensions, grades and species. The information in this MD&A is as at February 12, 2019 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.

Recent Developments

Production Curtailments

On November 13, 2018, we announced the permanent curtailment of approximately 300 million board feet of combined annual lumber production at our Fraser Lake and Quesnel sawmills. The curtailment will be realized through the elimination of the third shift at each mill over the next six months. This decision was made as a result of log supply constraints and high log costs due to impacts from the mountain pine beetle infestation and forest fires in British Columbia.

On November 30, 2018, we announced a temporary production curtailment of approximately 25 million board feet over the holiday period. On January 14, 2019, we announced additional temporary curtailments of approximately three weeks of production throughout the first quarter of 2019 at each of three British Columbia sawmills: Chasm, 100 Mile and Chetwynd. The decision to temporarily reduce production at Chasm, 100 Mile and Chetwynd sawmills was a result of price declines in markets, high log costs and log supply constraints. In addition, the Williams Lake sawmill will be shut down for approximately one week to complete certain capital upgrades.

Canadian Tax Reform

In November 2018, the Canadian government announced and then tabled the Notice of Ways and Means Motion to amend the Canadian Income Tax Act and the Income Tax Regulations. The proposal introduced an Accelerated Investment Incentive to allow businesses in Canada to accelerate the tax depreciation deduction of eligible capital property acquired after November 20, 2018. This includes a full expensing provision for manufacturing and processing machinery equipment in the year of purchase. The proposal includes a phase-out period over the years 2023 to 2028.

The proposal has not been substantively enacted as of February 12, 2019, therefore no adjustment has been made to our deferred taxes or current tax provision at December 31, 2018.

Annual Results

Summary Information - Annual Results
($ millions, except as otherwise indicated)

	2018	2017	2016
Sales	**6,118**	5,134	4,450
Adjusted EBITDA	**1,538**	1,160	674
Export duties	**(202)**	(48)	-
Equity-based compensation	**(7)**	(32)	5
Amortization	**(257)**	(210)	(197)
Operating earnings	**1,072**	870	482
Finance expense	**(37)**	(31)	(29)
Other	**37**	7	(9)
Tax provision	**(262)**	(250)	(118)
Earnings	**810**	596	326
Basic earnings per share ($)	**10.88**	7.63	4.06
Diluted earnings per share ($)	**10.62**	7.63	3.90
Cash dividends declared per share ($)	**0.70**	0.36	0.28
Total assets	**4,791**	4,517	3,600
Long-term debt	**692**	636	413
Cdn$1.00 converted to US$ – average	**0.772**	0.771	0.755

Selected Quarterly Information

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

	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Sales	**1,274**	1,646	1,834	1,364	1,376	1,247	1,322	1,189
Earnings	**29**	238	346	197	207	120	146	123
Basic EPS	**0.42**	3.25	4.52	2.53	2.66	1.53	1.86	1.58
Diluted EPS	**0.29**	2.99	4.52	2.53	2.66	1.53	1.86	1.58

Discussion & Analysis of Annual Non-Operational Items

Adjusted Earnings and Adjusted Basic Earnings Per Share

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

	2018	2017
Earnings	**810**	596
Add (deduct):		
Export duties	**202**	48
Interest recognized on export duty deposits receivable	**(2)**	-
Equity-based compensation	**7**	32
Exchange gain on long-term financing	**(10)**	(10)
Exchange gain on export duty deposits receivable	**(5)**	(1)
Insurance gain on disposal of equipment	**-**	(7)
Net tax effect on the above adjustments	**(57)**	(5)
Re-measurement of deferred income tax assets and liabilities	**-**	6
Adjusted earnings	**945**	659
Adjusted basic EPS[1]	**12.70**	8.44

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

Export duties of $202 million were expensed in 2018 related to SPF lumber compared to $48 million in 2017. 2018 also includes interest income of $2 million related to the duty deposit receivable based on interest rates posted by the U.S. government. We were required to pay duties for all of 2018 as compared to 2017 when duties were in effect for only part of the year. Duties were also impacted in 2018 by the relatively higher product prices through much of 2018 as compared to 2017. The administrative review of duties for the first period of review is expected to commence in 2019 and continue into 2020 and likely 2021. In the absence of a softwood lumber agreement with the U.S., it is difficult to anticipate when any duties may be returned to us. We believe that the U.S. allegations related to softwood lumber subsidies and dumping are unwarranted and that the rates applied will be adjusted upon review. See "Softwood Lumber Dispute" under the heading "Lumber Segment" and "Significant Management Judgments Affecting Financial Results" in this MD&A for further information.

Our equity-based compensation includes our share purchase option, phantom share unit, and directors' deferred share unit plans (collectively, the "Plans"), all of which have been partially hedged by an equity derivative contract. The Plans and equity derivative contract are fair valued each quarter and the resulting expense or recovery is recorded over the vesting period. Our fair valuation models consider various factors with the most significant being the change in the market value of our shares from the beginning to the end of the relevant period. The expense or recovery does not necessarily represent the actual value which will ultimately be received by the holders 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 revaluation of our Canadian operation's U.S. dollar balances is included in other income in earnings while the revaluation of our U.S. operation's assets and liabilities is included in other comprehensive earnings. The values in the table above incorporate the exchange gains recorded on our U.S. dollar denominated long-term financing and our long-term duty deposit receivable during the periods presented. Exchange gains or losses realized on the working capital balances of our Canadian operations are identified under "Other Non-Operational Items" below.

An insurance gain of $7 million related to involuntary disposal of equipment was recorded in 2017 related to equipment at our jointly-owned NBSK plant in Quesnel.

U.S. Tax Reform legislation and an increase in the province of British Columbia tax rate from 11% to 12% were substantively enacted in 2017 resulting in a one-time increase to deferred income tax expense of $6 million associated with the re-measurement of deferred income tax assets and liabilities.

Other Non-Operational Items

Other income includes an exchange gain on working capital of $13 million in 2018 compared to a loss of $11 million in 2017.

The results of the current year include a provision for income tax of $262 million compared to $250 million in 2017. The effective tax rate was 24% in the current year compared to 30% in 2017. The 2018 effective tax rate is lower than the rate in 2017 primarily due to the U.S. federal income tax rate reduction from 34% to 21%. Note 19 to the Financial Statements provides a reconciliation of income taxes calculated at the British Columbia statutory rate to the income tax expense.

The funded position of our defined benefit pension plans and other retirement benefit plans is estimated at the end of each period. The funded position, as shown in Note 14 to our Financial Statements, is determined by subtracting the value of the plan assets from the plan obligations. In 2018, we recorded in other comprehensive earnings an after-tax actuarial gain of $24 million, compared to an after-tax loss of $26 million in 2017. The current year gain reflected an increase in the discount rate used to calculate plan liabilities, partially offset by an actual rate of return on assets that was lower than the expected return.

Discussion & Analysis of Annual Results by Product Segment

Lumber Segment

	2018	2017
SPF (MMfbm)		
Production	**3,792**	3,809
Shipments	**3,790**	3,714
SYP (MMfbm)		
Production	**2,817**	2,424
Shipments	**2,792**	2,387
Wood chip production		
SPF (M ODTs)	**1,784**	1,765
SYP (M green tons)	**3,785**	3,113
Sales ($ millions)		
Lumber	**3,888**	3,219
Wood chips and other residuals	**456**	344
Logs and other	**112**	108
	4,456	3,671
Adjusted EBITDA ($ millions)	**1,156**	884
Export duties ($ millions)	**(202)**	(48)
Amortization ($ millions)	**(196)**	(155)
Operating earnings ($ millions)	**758**	681
Adjusted EBITDA margin (%)	**26**	24
Capital expenditures ($ millions)	**284**	247
Acquisition ($ millions)	**-**	526
Benchmark prices (per Mfbm)		
SPF #2 & Better 2x4[1] – US$	**480**	401
SPF #3 Utility 2x4[1] – US$	**372**	323
SYP #2 West 2x4[2] – US$	**501**	433
SPF #2 & Better 2x4 – Cdn$[3]	**622**	521
SPF #3 Utility 2x4 – Cdn$[3]	**482**	419
SYP #2 West 2x4 – Cdn$[3]	**649**	562

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.

Gilman Acquisition

On August 31, 2017, we completed the acquisition of six sawmills and a finger-joint mill (the "Gilman Acquisition"). A full year of production, shipments and operating results of the Gilman Acquisition is included in our 2018 results compared to four months post-acquisition in 2017. In comparison to our other SYP mills, the Gilman Acquisition mills generally purchase smaller logs, produce proportionately more SYP 2x4, and operate with a lower lumber recovery which has led to an increase in our wood chip production.

In December 2018, we ceased operations at the finger-joint mill that was acquired as part of the Gilman Acquisition.

Operating Earnings

Operating earnings were higher compared to last year due to higher lumber and chip prices and the inclusion of the results of the mills from the Gilman Acquisition for a full year compared to four months in 2017. Canadian lumber also recognized $4 million of insurance claim proceeds in 2018 as final settlement for the 2017 temporary suspension of the 100 Mile, Chasm and Williams Lake operations due to British Columbia forest fires. These positive factors were partially offset by higher export duties, increased freight costs and higher Canadian log costs.

The sale price for lumber was very volatile in 2018 with the benchmark SPF #2 & Better 2x4 price hitting a high of US$655 per MFBM in June and a low of US$298 per MFBM in October. SYP followed a similar trend to SPF and in addition, there was significant volatility in the price differential between narrow and wide dimensions of SYP within the year. We believe the high prices in the first half of 2018 were due to an industry SPF supply shortfall which arose in the first quarter as a result of Canadian transportation issues as discussed under “Shipments” below. The prices declined in the second half of 2018 as industry inventory backlogs were cleared and there was a slight softening of U.S. housing markets.

Export duties were in effect for all of 2018 and were applicable on 2018’s higher SPF lumber prices. Export duties for 2017 were applicable intermittently in 2017 as discussed under “Softwood Lumber Dispute” below.

Our Canadian log costs were higher by approximately 20% in 2018 compared to 2017 as a result of increased market-based stumpage rates in British Columbia and Alberta as well as higher prices for purchased logs in British Columbia due to increased competition for a shrinking timber supply. U.S. log costs remained stable in most of our operating areas compared to 2017.

Production

SPF production was slightly lower than 2017 as multiple factors impacted our operations. Our High Prairie, Alberta mill was in start-up after a significant capital rebuild and we took market related curtailments in the fourth quarter of 2018 in several British Columbia sawmills. We were not able to fully recapture the 55 MMfbm of production that was lost in 2017 due to wildfire related curtailments as wildfires in 2018 once again impacted operations albeit less significantly than in 2017.

SYP production increased by 393 MMfbm due primarily to the Gilman Acquisition, partially offset by temporary shutdowns at a number of mills due to hurricanes, and log supply constraints as a result of wet weather in some operating areas in the last four months of 2018. In addition, production was affected by the start-up of the new Opelika sawmill on August 2, 2018. The old Opelika sawmill ran until July 27, 2018 and is in the process of being dismantled.

Shipments

It was a volatile shipping year for SPF in 2018, even though on an annual basis we were able to ship production. First quarter 2018 shipments were negatively impacted by weather related shortages of truck and rail resources resulting in an inventory build of 112 MMfbm. Canadian transportation services recovered in the second quarter of 2018 allowing us to catch up on shipments in the second and third quarter.

Increased shipments of SYP lumber and chip production were primarily the result of the Gilman Acquisition.

Our SPF sales are 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 2017 levels. Housing related demand in the U.S. from both new housing and repair and renovation continues to slowly increase, with single family starts annual average improving by 4% in 2018 compared to 2017. SPF sales by volume to offshore markets also remained similar to 2017 levels. The table below sets out the proportion of our Canadian lumber by volume sold by destination in each of 2018 and 2017.

SPF Sales by Destination

	2018		2017	
	MMfbm	**%**	MMfbm	%
U.S.	**2,249**	**59**	2,161	58
Canada	**871**	**23**	895	24
China	**473**	**13**	457	12
Other	**197**	**5**	201	6
Total	**3,790**		3,714	

Softwood Lumber Dispute

On November 25, 2016, a coalition of U.S. lumber producers petitioned the U.S. Department of Commerce ("USDOC") and the U.S. International Trade Commission ("USITC") to investigate alleged subsidies to Canadian softwood lumber producers and levy countervailing and antidumping duties against Canadian softwood lumber imports. We were chosen by the USDOC as a "mandatory respondent" to both the countervailing and antidumping investigations and as a result, we have received unique company specific rates.

On April 24, 2017, the USDOC issued its preliminary determination in the countervailing duty ("CVD") investigation and imposed a company specific preliminary rate of 24.12% to be posted by cash deposits on the exports from Canada of softwood lumber to the U.S. on or after April 28, 2017. On June 26, 2017, the USDOC issued its preliminary determination in the antidumping duty ("ADD") investigation and imposed a company specific preliminary rate of 6.76% to be posted by cash deposits on the exports from Canada of softwood lumber to the U.S. on or after June 30, 2017. The requirement that we deposit CVD was suspended on August 24, 2017 until final determination was published by the USITC. On December 4, 2017, the USDOC amended our CVD rate to 17.99% and our ADD rate to 5.57%. Effective December 28, 2017, we began posting cash deposits for CVD and effective December 4, 2017, we began posting cash deposits for ADD at the revised rates. The CVD and ADD rates are subject to further adjustment through administrative reviews to be completed by the USDOC. The administrative reviews for each of CVD and ADD are expected to commence in the spring of 2019 and cover the periods from April 28, 2017 to December 31, 2018 for CVD and June 30, 2017 to December 31, 2018 for ADD. The reviews may not be finalized until mid-2020 and the results are subject to appeals.

Duties of $202 million have been expensed for 2018 compared to $48 million in 2017. We have posted cash deposits for CVD at 17.99% and for ADD at a 5.57% rate. We have recalculated the ADD rate for the current period of review using our reported results and the calculation methodology prescribed by the USDOC. Based on our current data, we determined that the expected ADD rate will be 1.46 % which is lower than the current ADD deposit rate of 5.57%. We have recorded a long-term duty deposit receivable related to the CVD and ADD of $75 million ($38 million from 2018 and $37 million from 2017). Details can be found in Note 27 to our Financial Statements.

We, together with other Canadian forest product companies and the Canadian federal and provincial governments (the "Canadian Interests") categorically deny the allegations by the coalition of U.S. lumber producers and disagree with the countervailing and antidumping determinations by the USDOC and the USITC. The Canadian Interests continue to aggressively defend the Canadian industry in this trade dispute and have appealed the decisions to North America Free Trade Agreement panels and the World Trade Organization.

The duty rates are subject to change based on administrative reviews and appeals available to us. Notwithstanding the deposit rates assigned under the investigations, our final liability for the assessment of CVD and ADD will not be determined until each annual administrative review process is complete and related appeal processes are concluded.

Panels Segment

	2018	2017
Plywood (MMsf 3/8" basis)		
Production	**833**	838
Shipments	**837**	826
MDF (MMsf 3/4" basis)		
Production	**224**	191
Shipments	**224**	182
LVL (Mcf)		
Production	**2,251**	2,676
Shipments	**2,155**	2,601
Sales ($ millions)		
Finished products	**648**	575
Wood chips and other residuals	**22**	17
Logs and other	**6**	8
	676	600
Adjusted EBITDA ($ millions)	**127**	113
Amortization ($ millions)	**(15)**	(13)
Operating earnings ($ millions)	**112**	100
Adjusted EBITDA margin (%)	**19**	19
Capital expenditures ($ millions)	**16**	22
Benchmark prices		
Plywood (per Msf 3/8" basis)[1] Cdn$	**548**	509

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

The panels segment is comprised of our plywood, MDF and LVL operations.

Operating earnings

Operating earnings increased compared to 2017 due primarily to higher plywood and chip prices. This was partially offset by higher log and residual costs, and higher MDF freight costs. MDF freight costs increased as we were required to use higher cost alternative transportation methods to mitigate the first quarter transportation issues. Lastly, the panel segment recognized $3 million of insurance claim proceeds in 2018 as final settlement for the 2017 temporary suspension of the Williams Lake plywood operation due to British Columbia forest fires.

The sale price for plywood was volatile in 2018 with the benchmark price hitting a high of $670 per Msf in June and a low of $432 per Msf in October. The increase in price, year-over-year, was due to the combination of first quarter transportation issues, tariffs implemented by the Canadian government on plywood imports from the U.S. in June of 2018, and a strong new housing market in Canada.

Production

Plywood production was consistent with the prior year. In 2017, 15 MSF of production was lost due to wildfire related curtailments. MDF production increased as WestPine ran for the full year in 2018 compared to 8 months in 2017 as it recommenced production April 29, 2017 after a thirteen-month fire-related closure. LVL production was curtailed in September 2018 to match product demand.

Shipments

Shipments for plywood and MDF were consistent with production despite the first quarter transportation disruptions. LVL shipments were lower compared to 2017 due to reduced production. Demand for our plywood products is influenced by Canadian new home construction while MDF and LVL demand is influenced by both Canada and U.S. new home construction.

Pulp & Paper Segment

	2018	2017
BCTMP (Mtonnes)		
Production	**652**	674
Shipments	**642**	670
NBSK (Mtonnes)		
Production	**499**	498
Shipments	**496**	497
Newsprint (Mtonnes)		
Production	**119**	122
Shipments	**117**	123
Sales ($ millions)	**1,163**	988
Adjusted EBITDA ($ millions)	**258**	172
Amortization ($ millions)	**(44)**	(40)
Operating earnings ($ millions)	**214**	132
Adjusted EBITDA margin (%)	**22**	17
Capital expenditures ($ millions)	**60**	58
Benchmark prices (per tonne)		
NBSK U.S. - US$[1,3]	**1,337**	1,105
NBSK China - US$[2,3]	**878**	712
Newsprint - US$[4]	**692**	584
NBSK U.S. - Cdn$[5]	**1,732**	1,433
NBSK China - Cdn$[5]	**1,138**	923
Newsprint - Cdn$[5]	**897**	757

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. – delivered U.S. 48.8 gram.
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 operations.

Operating Earnings

Operating earnings were higher compared to 2017 primarily due to higher pulp and newsprint prices. This was partially offset by increased chip costs, higher power costs at our Alberta operations, and higher maintenance costs at our Hinton NBSK pulp and Quesnel BCTMP pulp mills.

Pulp prices increased throughout the first half of 2018 due to strong demand fundamentals combined with several pulp supply shocks. Supply shocks included, but were not limited to, unplanned downtime at two Western Canadian pulp mills, a fibre shortage in Europe due to wet winter weather and a trucking strike in Brazil. Trade tensions between China and the U.S., including tariffs imposed on Chinese imports, began to impact pulp demand in the second half of 2018 leading to increased inventory levels and lower prices. Pulp products are frequently used in the packaging for products shipped to the U.S.

During the first quarter of 2018, the USDOC and USITC completed a preliminary investigation and assigned our jointly-owned newsprint mill a CVD rate of 6.53% and an ADD rate of 22.16%. In September 2018, the USITC reversed the USDOC decision to charge Canadian newsprint producers CVD and ADD on the basis that U.S. producers were not materially injured or threatened with material injury. It is expected that the full amount of duty deposits collected will be refunded. As a result, a $5 million receivable was recorded on our balance sheets.

Production

The Hinton pulp mill continued to have intermittent reliability issues in 2018 which negatively affected production. Despite no major maintenance shutdowns in 2018 we were not able to generate any additional production volume for NBSK.

Our Quesnel BCTMP pulp mill's production was lower compared to 2017 due to 2018 having planned and unplanned maintenance and capital shutdowns, outages due to a natural gas supply disruption and various operational issues. This resulted in lower BCTMP production compared to 2017.

Shipments

NBSK and newsprint shipment volumes were in-line with production volumes in 2018 while BCTMP shipments were negatively affected by a missed vessel sailing whereby 16,000 tonnes of pulp sales were delayed into January 2019.

Fourth Quarter Results

Summary Information – Quarterly Results
($ millions, except as otherwise indicated)

	Q4-18	Q3-18	Q4-17
Sales	**1,274**	1,646	1,376
Adjusted EBITDA	**120**	446	341
Export duties	**(37)**	(54)	17
Equity-based compensation	**1**	-	(6)
Amortization	**(69)**	(64)	(59)
Operating earnings	**15**	328	293
Finance expense	**(9)**	(10)	(8)
Other	**22**	(4)	10
Tax recovery (provision)	**1**	(76)	(88)
Earnings	**29**	238	207
Cdn$1.00 converted to US$ – average	**0.758**	0.765	0.787

Discussion & Analysis of Fourth Quarter Non-Operational Items

Adjusted Earnings and Adjusted Basic Earnings Per Share
($ millions except EPS amounts which are in $)

	Q4-18	Q3-18	Q4-17
Earnings	**29**	238	207
Add (deduct):			
Export duties	**37**	54	(17)
Interest recognized on export duty deposits receivable	**(1)**	(1)	-
Equity-based compensation	**(1)**	-	6
Exchange loss (gain) on long-term financing	**(6)**	2	(1)
Exchange loss (gain) on export duty deposits receivable	**(4)**	1	(1)
Insurance gain on disposal of equipment	**-**	-	(7)
Net tax effect on the above adjustments	**(11)**	(19)	7
Re-measurement of deferred income tax assets and liabilities	**-**	-	6
Adjusted earnings	**43**	275	200
Adjusted basic EPS	**0.63**	3.77	2.57

Export duties of $37 million were expensed in the quarter related to SPF lumber compared to $54 million in the previous quarter and a recovery of $17 million in the fourth quarter of 2017. During the fourth quarter of 2017 duty deposits of $20 million were made on account of CVD and ADD and a long-term export duty deposit receivable of $37 million was recorded. The receivable reflects the reduction in the CVD rate from the preliminary rate of 24.12% to a final rate of 17.99% and an adjustment to reflect ADD at our estimated rate based on applying the USDOC methodology to our actual financial results. The combination of the receivable less the deposits resulted in a recovery of $17 million being recorded through income in the fourth quarter of 2017. In the fourth quarter of 2018, lower prices resulted in a slightly higher expected ADD rate. See "Softwood Lumber Dispute" under the section "Discussion & Analysis of Annual Results by Product Segment – Lumber Segment" and "Significant Management Judgments Affecting Financial Results" in this MD&A for further information.

The current quarter also includes interest income of $1 million compared to $1 million in the previous quarter related to the duty deposit receivable. In addition, we recorded a $4 million exchange gain on export duty deposits receivable compared to a loss of $1 million in the previous quarter and a gain of $1 million in the fourth quarter of 2017.

For a description of the other adjustments in the above table, see the corresponding section under "Discussion & Analysis of Annual Non-Operational Items" in this MD&A.

Other Non-Operational Items

Other income includes an exchange gain on working capital of $9 million compared to loss of $5 million in the previous quarter and a gain of $1 million in the fourth quarter of 2017. Amid financial market volatility, the Canadian dollar weakened from 0.773 to 0.733 from the end of the third quarter 2018 to the end of the fourth quarter.

The results of the current quarter include an income tax recovery of $1 million compared to a provision for income tax of $76 million in the previous quarter and a provision of $88 million in the fourth quarter of 2017. Note 6 to the fourth quarter unaudited condensed consolidated interim financial statements provides a reconciliation of income taxes calculated at the British Columbia statutory rate to the income tax expense.

The funded position of our defined benefit pension plans and other retirement benefit plans is estimated at the end of each period. The funded position is determined by subtracting the value of plan assets from the value of plan obligations. We recorded in other comprehensive earnings an after-tax actuarial loss of $28 million in the fourth quarter of 2018 compared to a gain of $45 million in the previous quarter and a loss of $32 million in the fourth quarter of 2017. The current quarter loss was due to the actual rate of return on assets being lower than the expected return.

Discussion & Analysis of Fourth Quarter Results by Product Segment

Lumber Segment

	Q4-18	Q3-18	Q4-17
SPF (MMfbm)			
Production	**907**	948	903
Shipments	**943**	1,027	904
SYP (MMfbm)			
Production	**652**	694	707
Shipments	**626**	722	694
Sales ($ millions)			
Lumber	**757**	1,068	876
Wood chips and other residuals	**111**	116	97
Logs and other	**30**	27	27
	898	1,211	1,000
Adjusted EBITDA ($ millions)	**68**	339	258
Export duties ($ millions)	**(37)**	(58)	17
Amortization ($ millions)	**(53)**	(48)	(43)
Operating earnings ($ millions)	**(22)**	233	232
Adjusted EBITDA margin (%)	**8**	28	26
Benchmark prices (per Mfbm)			
SPF #2 & Better 2x4[1] – US$	**327**	482	462
SPF #3 Utility 2x4[1] – US$	**268**	388	346
SYP #2 West 2x4[2] – US$	**419**	469	438
SPF #2 & Better 2x4 – Cdn$[3]	**432**	630	587
SPF #3 Utility 2x4 – Cdn$[3]	**354**	507	440
SYP #2 West 2x4 – Cdn$[3]	**553**	613	557

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

Operating earnings were significantly lower compared to the previous quarter and the fourth quarter of 2017 primarily due to the decline in lumber prices and lower combined lumber production and shipment volumes. This was further exacerbated in the U.S. market where the selling price for SYP 2x6 through 2x12 declined more significantly than the SYP 2x4 price over the same comparative periods. Our SYP mills produce the full complement of narrow and wide products. Log and lumber inventory write-downs to market value also affected operating earnings in the quarter. Inventory write-downs were $3 million higher than the third quarter of 2018 and $12 million higher than the fourth quarter of 2017 because of the sales price declines and high log costs.

Compared to the fourth quarter of 2017, operating earnings were also negatively impacted by higher Canadian log costs and export duties. Our Canadian log costs increased by approximately 20% as a result of higher market-based stumpage rates in British Columbia and Alberta as well as higher prices for purchased logs in British Columbia resulting from increased competition for a shrinking timber supply. Export duties increased by $54 million as the fourth quarter of 2017 included an adjustment related to updating the CVD rate to the final rate and the ADD rate to the estimated rate, resulting in a recovery of $17 million. This is discussed in detail under the section "Discussion & Analysis of Annual Results by Product Segment – Lumber Segment – Softwood Lumber Dispute" above.

Production

SPF production was reduced by 25 MMfbm in December of 2018 as we temporarily curtailed four mills in British Columbia. This decision was made in response to log supply constraints, high log costs and the decline in SPF prices.

SYP production was lower compared to the previous quarter due to fewer operating days, the Opelika start-up, weather-related log shortages and downtime for scheduled maintenance. Similar issues affected production as compared to the fourth quarter of 2017.

Shipments

SPF shipments in the second and third quarter of 2018 continued to clear the inventory backlog created by the first quarter 2018 weather related transportation delays and were more in-line with production in the fourth quarter of 2018. SYP shipments declined compared to the previous quarter and fourth quarter of 2017 due in part to lower production but mostly due to lower demand as persistently wet weather in the fourth quarter of 2018 affected the pace of construction.

Panels Segment

	Q4-18	Q3-18	Q4-17
Plywood (MMsf 3/8" basis)			
Production	**205**	204	209
Shipments	**212**	206	209
MDF (MMsf 3/4" basis)			
Production	**55**	58	55
Shipments	**52**	56	51
LVL (Mcf)			
Production	**430**	558	657
Shipments	**482**	497	626
Sales ($ millions)			
Finished products	**144**	163	147
Wood chips and other residuals	**5**	6	4
Logs and other	**2**	1	4
	151	170	155
Adjusted EBITDA ($ millions)	**9**	34	24
Amortization ($ millions)	**(5)**	(3)	(4)
Operating earnings ($ millions)	**4**	31	20
Adjusted EBITDA margin (%)	**6**	20	15
Benchmark prices			
Plywood (per Msf 3/8" basis)[1] Cdn$	**465**	528	474

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

Operating Earnings

Operating earnings declined compared to the previous quarter and the fourth quarter of 2017 primarily due to lower plywood prices, partially offset by higher MDF prices. Plywood prices typically decline in November and December of each year reflecting softer winter demand in the Canadian building industry.

Compared to the fourth quarter of 2017, operating earnings were also negatively impacted by higher Canadian log and residual costs as was discussed under the lumber segment above.

Production and Shipments

Plywood production and shipments were similar to both the previous quarter and fourth quarter of 2017. One shift of LVL production was curtailed in September 2018 to match expected demand which affected LVL shipment volumes.

Pulp & Paper Segment

	Q4-18	Q3-18	Q4-17
BCTMP(Mtonnes)			
Production	**157**	171	171
Shipments	**139**	176	167
NBSK (Mtonnes)			
Production	**121**	139	122
Shipments	**118**	128	107
Newsprint (Mtonnes)			
Production	**32**	30	30
Shipments	**30**	29	31
Sales ($ millions)	**268**	312	253
Adjusted EBITDA ($ millions)	**47**	73	60
Export duties	**-**	4	-
Amortization ($ millions)	**(11)**	(12)	(12)
Operating earnings ($ millions)	**36**	65	48
Adjusted EBITDA margin (%)	**18**	23	24
Benchmark prices (per tonne)			
NBSK U.S. – US$[1,3]	**1,428**	1,377	1,183
NBSK China – US$[2,3]	**805**	887	863
Newsprint – US$[4]	**715**	715	610
NBSK U.S. – Cdn$[5]	**1,886**	1,800	1,503
NBSK China – Cdn$[5]	**1,063**	1,159	1,097
Newsprint – Cdn$[5]	**944**	935	775

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. – 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

Operating earnings declined compared to the previous quarter primarily due to operational issues at our Hinton NBSK pulp mill and a planned shutdown at our Quesnel BCTMP pulp mill all of which resulted in higher manufacturing costs per unit. Lower shipment volumes also negatively affected operating earnings.

Operating earnings declined compared to the fourth quarter of 2017 despite the increased sale prices for most of our products due to higher chip costs and higher maintenance costs at our Hinton NBSK and Quesnel BCTMP pulp mills.

Production

BCTMP production was lower compared to the previous quarter and fourth quarter of 2017 due to our Quesnel pulp mill which had a planned maintenance and capital shutdown and a two-day unplanned outage caused by the natural gas pipeline supply disruption and various operating issues. All of these disruptions reduced the current quarter's production by approximately 19,000 tonnes.

NBSK production was similar to the fourth quarter of 2017 but lower than the previous quarter primarily due to intermittent reliability at our Hinton pulp mill.

Shipments

Shipments of NBSK reflect the changes in production volumes. BCTMP, on the other hand, was negatively affected by a missed vessel sailing whereby 16,000 tonnes of pulp sales were delayed into January 2019.

Capital Expenditures
($ millions)

Segment	Profit Improvement	Maintenance of Business	Safety	Total
Lumber	**204**	**69**	**11**	**284**
Panels	**3**	**9**	**4**	**16**
Pulp & Paper	**29**	**29**	**2**	**60**
Corporate	**-**	**10**	**-**	**10**
Total	**236**	**117**	**17**	**370**

Capital expenditures of $370 million reflect our philosophy of continual reinvestment in our mills with significant investments made in both our Canadian and U.S. operations. The two largest projects are the completion of the Opelika, Alabama and High Prairie, Alberta sawmills. Our lumber segment also invested in five continuous kilns, three planer upgrades and a number of other projects to improve grade, recovery and output. In our pulp and paper segment, our Quesnel BCTMP mill upgraded their refining technology and at our jointly-owned Cariboo NBSK mill we installed a second concentrator.

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

Business Outlook

Operations

We expect production in 2019 to be slightly below 2018 levels, comprised of a 300 million board foot reduction in SPF production and a 200 million board foot increase in SYP production. We anticipate the impact of reduced shifts at our Fraser Lake and Quesnel sawmills will be partially offset by High Prairie sawmill completing ramp up to capacity and minor productivity improvements across our mill network coinciding with capital projects that are fully operationalized. Anticipated production gains assume improving demand, normal access to logs and transportation resources, no further temporary curtailments and a resolution of outstanding labor contracts. Results could be adversely affected by delays in accessing salvage timber from the fire affected regions, adverse weather conditions in any of our operating areas and continuing intense competition for logs 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 the loss of timber from fires in 2017 and 2018 both negatively affect overall log supply. We expect log cost inflation in the U.S. South to be limited.

In our panels segment, our plywood operations are expected to continue to operate at full capacity. Two of our plywood operations are in the B.C. interior, and we expect log costs for those operations to continue to increase in 2019.

We did not have any major maintenance shutdowns at either of our NBSK mills in 2018. In 2019, we will undertake maintenance shutdowns at our Hinton pulp mill and at our jointly-owned Cariboo mill in March and May respectively. Improved productivity at these mills continues to be a key focus for us. Our BCTMP production is expected to grow by approximately 25 thousand tonnes over 2018.

Markets

Our lumber segment's most important market is the U.S., particularly residential construction and repair and remodelling. Canadian softwood lumber exports to the U.S. have been the subject of trade disputes and managed trade arrangements for the last several decades. Countervailing and antidumping duties have been in place since April of 2017 and we were required to make deposits in respect of these duties. Whether and to what extent we can realize a selling price to fully recover the impact of duties payable 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. While residential construction has been gradually improving over the past several years, the pace of improvement slowed in the second half of 2018. 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. Regardless of the commodity price, export duties on SPF shipments to the U.S. remain a cost to our Company.

We are anticipating 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 affect lumber prices and the cost structure of our Canadian lumber business over the long term.

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 measures implemented by various governments across Canada to moderate housing markets may dampen demand. MDF and LVL demand is heavily influenced by North American new home construction and we are expecting modest improvement in U.S. residential construction which should help maintain price levels for these products.

We are anticipating that pulp markets will generally be flat to slightly weaker, influenced by trade tensions, a slowing Chinese economy and growing channel inventory levels.

Cash Flows

We are anticipating levels of cash flows, taking into account duties on Canadian softwood lumber exports to the U.S., to support between $350 and $450 million of capital spending in 2019 as well as to continue to support dividend payments. 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. We are authorized under our normal course issuer bid, which expires in September of 2019, to purchase up to 10% of the public float of our Common shares and we will continue to consider share repurchases with excess cash if we are satisfied that this will enhance shareholder value and does not compromise our financial flexibility.

Estimated Earnings Sensitivity to Key Variables[1]
(based on 2019 production - $ millions)

Factor	Variation	Change in pre-tax earnings
Lumber price	US$10 (per Mfbm)	90
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 $)	29

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

Our capital structure consists of Common share equity and long-term debt. In addition, we maintain a committed revolving credit facility and lines of credit dedicated to letters of credit.

Our operating facilities include a $500 million committed revolving credit facility, 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 $70 million dedicated to letters of credit of which US$15 million is committed to our U.S. operations. These facilities are available to meet our funding requirements.

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

At December 31, 2018 $63 million was outstanding under our revolving credit facility and letters of credit in the amount of $58 million were supported by our facilities, leaving approximately $491 million of credit available for further use.

On September 17, 2018 we renewed our NCIB with the new NCIB bid allowing us to acquire an additional 5,524,048 Common shares for cancellation until the expiry of the bid on September 18, 2019. The following table shows our purchases under various NCIB programs, including a summary of all purchases since the program was started in 2013.

Share Buybacks
(number of common shares and price per share)

NCIB period	Common Shares	Average Price
September 17, 2017 to September 18, 2018		
September 19 to December 31, 2017	85,094	$68.52
January 1 to September 18, 2018	5,905,360	$88.06
September 19, 2018 to September 18, 2019		
September 19 to December 31, 2018	2,230,436	$70.05
January 1 to February 11, 2019	434,500	$73.16
September 17, 2013 to February 11, 2019	16,482,964	$66.08

Our outstanding Common share equity consists of 67,103,683 Common shares and 2,281,478 Class B Common shares for a total of 69,385,161 shares issued and outstanding as at February 11, 2019.

Our Class B Common shares are equal in all respects to our Common shares, including the right to dividends and the right to vote, 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 11, 2019 there were 1,202,448 share purchase options outstanding with exercise prices ranging from $12.36 to $85.40 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.

In August 2017, we were advanced a US$200 million 5-year term loan that matures on August 25, 2022 to fund the Gilman Acquisition. Interest is payable at floating rates based on Base Rate Advances or LIBOR Advances at our option. This loan is repayable at any time, in whole or in part, at our option and without penalty but cannot be redrawn after payment.

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 normally been sufficient to meet these requirements.

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

As at December 31	**2018**	2017
Cash[1]	**160**	258
Current assets	**1,345**	1,291
Current liabilities	**595**	583
Ratio of current assets to current liabilities	**2.3**	2.2
Net debt[2]	**606**	376
Shareholders' equity	**2,896**	2,726
Net debt to total capital[3]	**17%**	12%

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.

We are rated by three rating agencies and their ratings as of December 31, 2018 are shown in the table below. All three ratings are considered investment grade. On July 10, 2018, Dominion Bond Rating Service ("DBRS") changed our outlook from stable to positive.

Debt Ratings

Agency	Rating	Outlook
DBRS	BBB (low)	Positive
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 – cash provided by (used in))

For the year ended December 31	**2018**	2017
Operating Activities		
Earnings	**810**	596
Amortization	**257**	210
Export duty deposits	**(31)**	(36)
Post-retirement expense	**84**	82
Contributions to post-retirement plans	**(103)**	(69)
Tax Provision	**262**	250
Income taxes paid	**(316)**	(73)
Changes in non-cash working capital	**(74)**	(62)
Other	**20**	4
	909	902
Financing Activities		
Proceeds from long-term debt	**-**	250
Proceeds from operating loan	**63**	-
Finance expense paid	**(32)**	(23)
Dividends	**(37)**	(28)
Repurchases of Common shares	**(675)**	(17)
Other	**-**	(1)
	(681)	181
Investing Activities		
Acquisition	**-**	(526)
Additions to capital assets	**(370)**	(336)
Other	**16**	8
	(354)	(854)
Increase (decrease) in cash	**(126)**	229

Operating Activities

Cash provided by operating activities in 2018 was $909 million. The table above shows the main components of cash flow from operations for 2018 compared to 2017. The significant factors affecting the comparison were increased earnings offset by higher ending log inventory balances, income tax payments and contributions to post-retirement benefit plans.

Inventory increased $105 million primarily due to higher Canadian log volumes and log costs at December 31, 2018 compared to December 31, 2017. Log inventory volumes on hand at the end of 2017 were below targeted levels due to a number of factors in particular, the 2017 wildfire season.

We made tax payments of $316 million during the year compared to $73 million in 2017. Cash payments in 2018 included the final Canadian income tax payment of approximately $104 million on account of 2017 income. We estimate that we have approximately $34 million due in February of 2019 on account of fiscal 2018. U.S. income tax instalments were paid quarterly based on forecasted taxable earnings.

Certain defined benefit pension plan contributions in the amount of $17 million that ordinarily would have been made in 2017 were deferred into 2018 as a result of regulatory reform initiatives in B.C. and Alberta.

In 2018, we entered into annuity purchase agreements to settle approximately $480 million of our defined benefit pension obligations by purchasing annuities using our plan assets. These agreements transferred the pension obligations of retired employees under certain pension plans to financial institutions. As part of the annuity purchase, we contributed an additional $5 million to these plans which was included in the $103 million contributions to post-retirement plans disclosed on the cash flow statement.

Financing Activities

We continue to purchase Common shares under our NCIB program. In 2018, we repurchased 8,135,796 Common shares for $675 million (2017 - $17 million). In addition, we increased our dividend from $0.11 to $0.15 in the first quarter and then again to $0.20 per share in the third quarter resulting in an annual dividend declared of $0.70 per share compared to $0.36 per share in 2017. The dividend declared on December 11, 2018 was not paid until January 10, 2019, resulting in a difference between cash dividends paid per our condensed consolidated statement of cash flows and cash dividends declared per our condensed consolidated statement of changes in shareholders' equity.

During 2017 we borrowed $250 million (US$200 million) to partially finance the Gilman Acquisition. This contributed to the increase in finance expense paid in 2018 compared to 2017.

Investing Activities

2018 additions to capital assets include $284 million for the lumber segment, $16 million for the panels segment, $60 million for the pulp & paper segment and $10 million for our corporate segment. Additional details are found under the section "Capital Expenditures" above.

The 2017 acquisition of $526 million was the Gilman Acquisition.

Contractual Obligations[1]
(at December 31, 2018 in $ millions)

	2019	2020	2021	2022	Thereafter	Total
Long-term debt[2]	-	10	-	273	413	696
Interest on long-term debt	31	30	30	26	32	149
Operating loan	63	-	-	-	-	63
Operating leases	5	4	4	3	3	19
Contributions to defined benefit pension plans[3]	69	64	65	-	-	198
Asset purchase commitments	108	-	-	-	-	108
Total	276	108	99	302	448	1,233

1. Contractual obligations mean an agreement related to debt, leases and enforceable agreements to purchase goods or services on specified terms, but does not include payroll obligations, reforestation and decommissioning obligations, energy purchases under various agreements, non-defined benefit post-retirement contributions payable, equity-based compensation including equity hedges, accounts payable in the ordinary course of business or contingent amounts payable.
2. Includes U.S. dollar-denominated debt of US$508 million.
3. Contributions to the defined benefit pension plans are based on the most recent actuarial valuation. Future contributions will be determined at the next actuarial valuation date.

Financial Instruments

Details of our financial instruments can be found in note 24 to our Financial Statements.

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:

Softwood Lumber Dispute

The current softwood lumber dispute is the fifth such dispute since 1982. In the case of previous disputes, the preliminary duties were reduced in the periods following the initial application.

On April 24, 2017, the USDOC issued its preliminary determination in the CVD investigation and imposed a Company specific rate of 24.12% to be posted by cash deposits on the exports from Canada of softwood lumber to the U.S. on or after April 28, 2017. The requirement that we deposit CVD was suspended on August 24, 2017. On December 4, 2017, the USDOC amended our CVD rate to 17.99% and effective December 28, 2017 we began posting cash deposits at the new rate. In the absence of additional information, we have expensed CVD deposits at the 17.99% final rate. The difference between deposits paid at 24.12% and the 17.99% final rate has been recorded as a long-term asset. The administrative review for CVD by the USDOC, covering the period April 28, 2017 to December 31, 2018, is expected to be completed sometime between spring of 2019 and mid-2020.

On June 26, 2017, the USDOC issued its preliminary determination in the ADD investigation and imposed a company specific rate of 6.76% to be posted by cash deposits on the exports from Canada of softwood lumber to the U.S. on or after June 30, 2017. On December 4, 2017 the USDOC amended our ADD rate to 5.57% and we began posting cash deposits at the new rate. The ADD rate determined by the USDOC was based on their preliminary investigation covering the period October 1, 2015 to September 30, 2016. This preliminary rate is expected to remain in place until our actual data under the review period covering June 30, 2017 to December 31, 2018 is examined by the USDOC. We have prepared an estimate of our ADD rate for the review period using our actual data and the methodology expected to be used by the USDOC and determined our best estimate of our rate to be 1.46%. In the absence of additional information, we have expensed ADD deposits at our estimated 1.46% rate. The difference between deposits paid at 5.57% and our estimated 1.46% rate has been recorded as a long-term asset. The administrative review by the USDOC, covering the period June 30, 2017 to December 31, 2018, is expected to be completed sometime between spring of 2019 and mid-2020.

The duty rates are subject to change based on administrative reviews and appeals available to us. In addition, we will update our ADD rate at each reporting date considering our actual results for each period of review. Changes to estimated rates may be material and any changes will be reflected through current results in the period of the change.

Recoverability of Long-lived Assets

We assess the carrying value of an asset when there are indicators of impairment. The assessment compares the asset's estimated discounted future cash flows to the carrying value of the asset. If the carrying value of the asset exceeds the asset's estimated discounted future cash flows, 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 2018 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, U.S. dollar 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 our history of profitability, future expectations of profitability, the expected reversal of temporary differences and the timing of expiry of tax loss carry-forwards and limitations on their use.

Reforestation and Decommissioning Obligations

In Canada, provincial regulations require timber quota holders to carry out reforestation to ensure reestablishment 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 is updated to our current estimate of the costs to complete the remainder of the reforestation activities. In 2018, the review of the reforestation obligation resulted in an increase to the obligation of $7 million (2017 – decrease of $7 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 2018 the review resulted in an increase to the obligation of $4 million (2017 – no change).

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 14 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 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. We will apply the modified retrospective transition method upon application of the new standard on January 1, 2019. We do not expect this standard to have a significant effect on our consolidated financial statements.

New Accounting Pronouncements Adopted

IFRS 9 – Financial Instruments

We have adopted IFRS 9 effective January 1, 2018 using the full retrospective method. The new standard for financial instruments, IFRS 9, replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. IFRS 9 also contains new requirements on the application of hedge accounting.

The adoption of this standard had no significant impact on our consolidated financial statements and no retrospective adjustments were necessary.

IFRS 15 – Revenue from Contracts with Customers

We have adopted IFRS 15 effective January 1, 2018 using the full retrospective method. The new revenue standard, IFRS 15, replaces IAS 18 – Revenue, IAS 11 – Construction Contracts and the related interpretations. This standard addressed 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. IFRS 15 requires that revenue is recognised at the 'transaction price' when certain contractual obligations are met but with any 'variable consideration' elements of the price recognised when it is 'highly probable' that there will be no reversal of that revenue.

The adoption of this standard had no significant impact on our consolidated financial statements and no retrospective adjustments were necessary.

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)

	Q4-18	Q3-18	**2018**	Q4-17	2017
Earnings	**29**	238	**810**	207	596
Add:					
Amortization	**69**	64	**257**	59	210
Finance expense	**9**	10	**37**	8	31
Tax provision (recovery)	**(1)**	76	**262**	88	250
EBITDA	**106**	388	**1,366**	362	1,087
Add:					
Equity-based compensation	**(1)**	-	**7**	6	32
Export duties	**37**	54	**202**	(17)	48
Other	**(22)**	4	**(37)**	(10)	(7)
Adjusted EBITDA	**120**	446	**1,538**	341	1,160

Adjusted EBITDA by Segment
($ millions)

	Q4-18	Q3-18	**2018**	Q4-17	2017
Lumber					
Earnings before tax	**(18)**	228	**753**	228	660
Add:					
Amortization	**53**	48	**196**	43	155
Finance expense	**6**	7	**25**	6	20
EBITDA	**41**	283	**974**	277	835
Add:					
Export duties	**37**	58	**202**	(17)	48
Other	**(10)**	(2)	**(20)**	(2)	1
Adjusted EBITDA	**68**	339	**1,156**	258	884
Panels					
Earnings before tax	**4**	30	**110**	20	97
Add:					
Amortization	**5**	3	**15**	4	13
Finance expense	**-**	1	**2**	-	3
EBITDA	**9**	34	**127**	24	113
Add:					
Other	**-**	-	**-**	-	-
Adjusted EBITDA	**9**	34	**127**	24	113
Pulp & Paper					
Earnings before tax	**40**	61	**215**	53	126
Add:					
Amortization	**11**	12	**44**	12	40
Finance expense	**3**	3	**10**	2	8
EBITDA	**54**	76	**269**	67	174
Add:					
Export duties	**-**	(4)	**-**	-	-
Other	**(7)**	1	**(11)**	(7)	(2)
Adjusted EBITDA	**47**	73	**258**	60	172
Corporate and Other					
Earnings before tax	**2**	(5)	**(6)**	(6)	(37)
Add:					
Amortization	**-**	1	**2**	-	2
Finance expense	**-**	(1)	**-**	-	-
EBITDA	**2**	(5)	**(4)**	(6)	(35)
Add:					
Equity-based compensation	**(1)**	-	**7**	6	32
Other	**(5)**	5	**(6)**	(1)	(6)
Adjusted EBITDA	**(4)**	-	**(3)**	(1)	(9)
Total Adjusted EBITDA	**120**	446	**1,538**	341	1,160

Adjusted Earnings and Adjusted Basic Earnings Per Share
($ millions except EPS amounts which are in $)

	Q4-18	Q3-18	**2018**	Q4-17	2017
Earnings	**29**	238	**810**	207	596
Add:					
Export duties	**37**	54	**202**	(17)	48
Interest recognized on export duty deposits receivable	**(1)**	(1)	**(2)**	-	-
Equity-based compensation	**(1)**	-	**7**	6	32
Exchange (gain) loss on long-term financing	**(6)**	2	**(10)**	(1)	(10)
Exchange (gain) loss on export duty deposits receivable	**(4)**	1	**(5)**	(1)	(1)
Insurance gain on disposal of equipment	**-**	-	**-**	(7)	(7)
Net tax effect on the above adjustments	**(11)**	(19)	**(57)**	7	(5)
Re-measurement of deferred income tax assets and liabilities	**-**	-	**-**	6	6
Adjusted earnings	**43**	275	**945**	200	659
Adjusted basic EPS[1]	**0.63**	3.77	**12.70**	2.57	8.44

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, 2018	December 31, 2017
Net debt		
Cash and short-term investments	**(160)**	(258)
Deferred financing costs[1]	**(6)**	(7)
Cheques issued in excess of funds on deposit	**13**	-
Operating loans	**63**	-
Long-term debt	**696**	641
	606	376
Shareholders' equity	**2,896**	2,726
Total capital	**3,502**	3,102
Net debt to total capital	**17%**	12%

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

Our business is subject to a number of risks and uncertainties that can significantly affect our operations, financial condition and future performance. We have a comprehensive process to identify, manage, and mitigate risk, wherever possible. The risks and uncertainties described below are not necessarily the only risks we face. Additional risks and uncertainties that are presently unknown to us or deemed immaterial by us may adversely affect our business.

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: (1) global economic conditions including the strength of the U.S., Canadian, Chinese, Japanese and other international economies, particularly U.S. and Canadian housing markets and their the mix of single and multifamily construction, repair, renovation and remodeling spending; (2) alternative products to lumber; (3) changes in industry production capacity; (4) changes in world inventory levels; (5) increased competition from other consumers of logs and producers of lumber; and (6) other factors beyond our control. In addition, unemployment levels, interest rates, the availability of mortgage credit 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, the areas that may be harvested under timber tenures or to regulate the processing of timber or use of harvesting contractors, including to protect the environment or endangered species and critical habitat or as a result of forest fires or in response to jurisprudence or government policies respecting aboriginal rights and title or to restrict log processing to local or appurtenant saw mills or to mandate amounts of work to be provided or rates to be paid to harvesting contractors, 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 or new regulations on the work to be provided and rates to be paid to these contractors may increase our timber harvesting costs.

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

We rely on log supply agreements in the U.S. which are subject to log availability and based on market prices. Approximately 18% 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. Open market purchases come from timber real estate investment trusts, timberland investment management organizations and private land owners. Changes in the log markets in which we operate 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 in November 2016 a group of U.S. lumber producers petitioned the USDOC and the USITC to impose trade sanctions against Canadian softwood lumber exports to the U.S. In 2017 duties were imposed on Canadian softwood lumber exports to the U.S. The duties are likely to remain in place 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 USDOC into alleged subsidies and dumping of Canadian softwood lumber. In addition, the current trade dispute between the U.S. and China could negatively impact either or both the U.S. and Chinese economies which could have an adverse effect on the demand for our products and could adversely affect our financial results.

Natural and Man-Made Disasters and Climate Change

Our operations are subject to adverse natural or man-made events such as forest fires, flooding, hurricanes and other severe weather conditions, climate change, timber diseases and insect infestations including those that may be associated with warmer climate conditions, and earthquake activity. Over the past several years, changing weather patterns and climatic conditions due to natural and man-made causes have added to the unpredictability and frequency of natural events such as severe weather, hurricanes, flooding, hailstorms, wildfires, snow, ice storms, and the spread of disease and insect infestations. These events could damage or destroy or adversely affect the operations at our physical facilities or our timber supply or our access to or availability of 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 the reduced availability of timber, decreased production output, increased operating costs or the reduced availability of transportation. 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 and British Columbia Wildfires

The long-term effect of the mountain pine beetle infestation and the 2017 and 2018 wildfire outbreaks in British Columbia on our Canadian operations is uncertain. The potential effects include a reduction of future Annual Allowable Cut (“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 and fire damaged logs as well as increased production costs. These effects are also present in some of our Alberta operations where the mountain pine beetle infestation has expanded. 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 and fire damaged 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 and operational issue. 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 and fire damaged 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 and operational challenges 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. 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

Capital Plans

Our capital plans will include, from time to time, expansion, productivity improvement, technology upgrades, operating efficiency optimization and maintenance, 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, or if we fail to achieve the intended efficiencies, 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 and our ability to execute on such plans may be adversely affected by availability of, and competition for, qualified workers and contractors, machinery and equipment lead times, changes in government regulations, unexpected delays and increases in costs of completing capital projects including due to increased materials, machinery and equipment costs resulting from trade disputes and increased tariffs and duties.

Capital Resources

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.

Availability of Credit

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 results.

Credit Ratings

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.

Costs of Materials and Energy

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

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, fire hazards, and the availability or cost of raw materials including logs and wood chips.

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.

Transportation Requirements

Our business depends on our ability to transport a high volume of products and raw materials to and from our production facilities and on 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, availability of equipment and operators, disruptions due to weather, natural disasters and labour disputes. Transportation services may also be impacted by seasonal factors, which could impact the timely delivery of raw materials and distribution of products to customers. As a result of rail capacity constraints, access to adequate transportation capacity has at times been strained and could affect our ability to transport lumber and pulp to markets and could result in increased product inventories. 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 and services for our capital projects. Because our operations are generally located away from major urban centres, we often face strong competition from our industry and others such as oil and gas production and mining for labour and services, particularly skilled trades. Shortages of key services or shortages of labour, including those caused by a failure to attract and retain a sufficient number of qualified employees and other personnel or high employee turnover could impair our operations by reducing production or increasing costs or the ability to execute on our capital projects including timing and 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. In addition, changes in the regulatory environment respecting climate change have and may lead governments and regulatory bodies to enact additional or more stringent laws and regulations and impose operational restrictions or incremental levies and taxes applicable to our Company.

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, 2018. 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. log 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, Metis 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. The requirement to consult with aboriginal groups has also increased in recent years.

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.

In addition, the Canadian federal government and the provincial governments in Alberta and British Columbia have made commitments to renew their relationships with aboriginal groups and have expressed their support for the

United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP") and their intent to adopt and implement UNDRIP. At this time, it is unclear whether or how UNDRIP will be adopted into Canadian law and its impact on the Crown's duty to consult with and accommodate aboriginal groups. At this time, we are unable to assess the effect, if any, that the adoption and implementation of UNDRIP by federal and provincial governments may have on land claims or consultation requirements or on our business, but the impact may be material.

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 (including, but not limited to, income, sales and carbon 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

Our Canadian operations sell the majority of its products at prices denominated in U.S. dollars or based on prevailing U.S. dollar prices. A significant portion of its operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the U.S. dollar reduces the revenue in Canadian dollar terms realized by our Canadian operations from sales made in U.S. dollars, which reduces operating margin and the cash flow available to fund operations. Canadian operations are also exposed to the risk of exchange rate fluctuations in the period between sale and payment. To mitigate the exposure of Canadian operations to currency fluctuations, we have 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. The translation gains or losses for our Canadian operations are reported in earnings in the Financial Statements.

Our U.S. operations transact and report in U.S. dollars, but their results are translated into Canadian dollars for Financial Statement purposes with the resulting translation gains or losses being reported in other comprehensive earnings.

Exchange rate fluctuations result in exchange gains or losses and changes in other comprehensive earnings. 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 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, steel, engineered wood products, 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, 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. We are also subject to regulatory changes regarding these plans which may increase the funding requirements which would in turn reduce the availability of capital for other purposes.

Information Technology

We are reliant on our information and operations technology systems to operate our manufacturing facilities, access fibre, communicate internally and with suppliers and customers, to sell our products and to process payments and payroll as well as for other corporate purposes and financial reporting. An interruption or failure or unsuccessful implementation and integration of our information and operations technology systems could result in a material adverse effect on our operations, business, financial condition and results of operations.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, proprietary business and confidential financial information and identifiable personal information of our employees. We rely on industry accepted security measures and technology to protect our information systems and confidential and proprietary information.

However, our information and operations technology systems, including process control systems, are still subject to cyber security risks and are vulnerable to natural disasters, fires, power outages, vandalism, attacks by hackers or others or breaches due to employee error or other disruptions. Any such attack on or breach of our systems including through exposure to potential computer viruses or malware could compromise our systems and stored information may be accessed, publicly disclosed, lost or compromised, which could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruptions to our operations, decreased performance and production, increased costs, and damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations. As cyber security threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities. However, our exposure to these risks cannot be fully mitigated due to the nature of these threats.

Controls and Procedures

Disclosure Controls and Procedures

West Fraser's management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to West Fraser is gathered and reported to senior management, including the Chief Executive Officer and the Vice-President, Finance and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal Control over Financial Reporting

West Fraser's management is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS.

There has been no change in the design of West Fraser's internal control over financial reporting during the year ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Effectiveness of Internal Controls

As required by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), West Fraser's management, under the supervision of the Chief Executive Officer and the Vice-President, Finance and Chief Financial Officer, has caused the effectiveness of the disclosure controls and procedures and internal control over financial reporting to be evaluated as of December 31, 2018. Based on that evaluation, the Chief Executive Officer and the Vice-President, Finance and Chief Financial Officer have concluded that West Fraser's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2018.

Additional Information

Additional information relating to West Fraser, including our Annual Information Form, can be found on SEDAR at www.sedar.com.

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 four 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
Chief Executive Officer

Chris Virostek
Vice-President, Finance
and Chief Financial Officer

February 12, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of West Fraser Timber Co. Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of West Fraser Timber Co. Ltd. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of earnings and comprehensive earnings for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is John Bunting.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Vancouver, British Columbia
February 12, 2019

West Fraser Timber Co. Ltd.
Consolidated Balance Sheets
As at December 31, 2018 and 2017
(in millions of Canadian dollars, except where indicated)

	2018	2017
Assets		
Current assets		
Cash and short-term investments	**$ 160**	$ 258
Receivables (note 24)	**332**	352
Income taxes receivable	**48**	-
Inventories (note 6)	**791**	670
Prepaid expenses	**14**	11
	1,345	1,291
Property, plant and equipment (note 7)	**2,056**	1,892
Timber licences (note 8)	**513**	533
Goodwill and other intangibles (note 9)	**767**	731
Export duty deposits (note 27)	**75**	37
Other assets (note 10)	**32**	27
Deferred income tax assets (note 19)	**3**	6
	$ 4,791	$ 4,517
Liabilities		
Current liabilities		
Cheques issued in excess of funds on deposit	**$ 13**	$ -
Operating loans (note 13)	**61**	-
Payables and accrued liabilities (note 11)	**448**	441
Income taxes payable	**34**	104
Reforestation and decommissioning obligations (note 12)	**39**	38
	595	583
Long-term debt (note 13)	**692**	636
Other liabilities (note 12)	**316**	347
Deferred income tax liabilities (note 19)	**292**	225
	1,895	1,791
Shareholders' Equity		
Share capital (note 15)	**491**	549
Accumulated other comprehensive earnings	**170**	108
Retained earnings	**2,235**	2,069
	2,896	2,726
	$ 4,791	$ 4,517

Approved by the Board of Directors

Reid Carter
Director

Robert L. Phillips
Lead Director

West Fraser Timber Co. Ltd.
Consolidated Statements of Earnings and Comprehensive Earnings
For the years ended December 31, 2018 and 2017
(in millions of Canadian dollars, except where indicated)

		2018		2017
Sales	**$**	**6,118**	$	5,134
Costs and expenses				
Cost of products sold		**3,617**		3,124
Freight and other distribution costs		**732**		633
Export duties (note 27)		**202**		48
Amortization		**257**		210
Selling, general and administration		**231**		217
Equity-based compensation (note 16)		**7**		32
		5,046		4,264
Operating earnings		**1,072**		870
Finance expense (note 17)		**(37)**		(31)
Other (note 18)		**37**		7
Earnings before tax		**1,072**		846
Tax provision (note 19)		**(262)**		(250)
Earnings	**$**	**810**	$	596
Earnings per share (dollars) (note 21)				
Basic	**$**	**10.88**	$	7.63
Diluted	**$**	**10.62**	$	7.63
Comprehensive earnings				
Earnings	**$**	**810**	$	596
Other comprehensive earnings				
Translation gain (loss) on foreign operations[1]		**62**		(42)
Actuarial gain (loss) on post-retirement benefits[2]		**24**		(26)
Comprehensive earnings	**$**	**896**	$	528

1. Recycled through earnings in the event of a disposal in net investment in foreign operations.
2. Adjusted through retained earnings. Net of tax provision of $9 million (2017 - $7 million recovery).

West Fraser Timber Co. Ltd.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2018 and 2017
(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, 2016	78,162,568	$ 549	$ 150	$ 1,542	$ 2,241
Changes in Shareholders' Equity for 2017					
Translation loss on foreign operations	-	-	(42)	-	(42)
Actuarial loss on post-retirement benefits	-	-	-	(26)	(26)
Issuance of Common shares	29,113	2	-	-	2
Repurchase of Common shares	(245,645)	(2)	-	(15)	(17)
Earnings for the year	-	-	-	596	596
Dividends[1]	-	-	-	(28)	(28)
Balance - December 31, 2017	77,946,036	$ 549	$ 108	$ 2,069	$ 2,726
Changes in Shareholders' Equity for 2018					
Translation gain on foreign operations	**-**	**-**	**62**	**-**	**62**
Actuarial gain on post-retirement benefits	**-**	**-**	**-**	**24**	**24**
Issuance of Common shares	**8,598**	**1**	**-**	**-**	**1**
Repurchase of Common shares	**(8,135,796)**	**(59)**	**-**	**(617)**	**(676)**
Earnings for the year	**-**	**-**	**-**	**810**	**810**
Dividends[1]	**-**	**-**	**-**	**(51)**	**(51)**
Balance - December 31, 2018	**69,818,838**	**$ 491**	**$ 170**	**$ 2,235**	**$ 2,896**

1. Represents dividends declared of $0.70 per share for 2018 and $0.36 per share for 2017.

West Fraser Timber Co. Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(in millions of Canadian dollars, except where indicated)

	2018	2017
Cash provided by operations		
Earnings	**$ 810**	$ 596
Adjustments		
Amortization	**257**	210
Finance expense	**37**	31
Foreign exchange gain on long-term financing	**(10)**	(10)
Foreign exchange gain on long-term duty deposits	**(5)**	(1)
Export duty deposits (note 27)	**(31)**	(36)
Post-retirement expense	**84**	82
Contributions to post-retirement benefit plans	**(103)**	(69)
Tax provision	**262**	250
Income taxes paid	**(316)**	(73)
Other	**(2)**	(16)
Changes in non-cash working capital		
Receivables	**39**	(34)
Inventories	**(105)**	(64)
Prepaid expenses	**(3)**	(1)
Payables and accrued liabilities	**(5)**	37
	909	902
Cash provided by (used for) financing		
Proceeds from long-term debt	**-**	250
Proceeds from operating loans	**63**	-
Finance expense paid	**(32)**	(23)
Dividends	**(37)**	(28)
Repurchase of Common shares	**(675)**	(17)
Other	**-**	(1)
	(681)	181
Cash used for investing		
Acquisition (note 5)	**-**	(526)
Additions to capital assets	**(370)**	(336)
Government assistance (note 23)	**6**	3
Other	**10**	5
	(354)	(854)
Change in cash	**(126)**	229
Foreign exchange effect on cash	**15**	(6)
Cash - beginning of year	**258**	35
Cash - end of year	**$ 147**	$ 258
Cash consists of		
Cash and short-term investments	**$ 160**	$ 258
Cheques issued in excess of funds on deposit	**(13)**	-
	$ 147	$ 258

West Fraser Timber Co. Ltd.
Notes to Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(figures are in millions of Canadian dollars, except where indicated)

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 12, 2019.

Our consolidated financial statements have been prepared under the historical cost basis, except for certain items 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 the respective note.

We have reclassified certain prior-year amounts to conform to current-year's presentation.

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., West Fraser Southeast, 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 judgments

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 judgment in the process of applying accounting policies. Significant areas requiring estimates include recoverability of long-lived assets and goodwill, duty deposits related to the softwood lumber dispute, 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 judgments 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 we own less than 100% of the entity.

Revenue recognition

Revenue is derived primarily from product sales and is recognized when a customer obtains control over the goods. For most of our sales, control is obtained when the product is loaded on a common carrier at our mill. Some of our revenue is recognized when the product is delivered to the customer or when it is loaded on an ocean carrier. The amount of revenue recognized is net of our estimate for early payment discounts and volume rebates.

Revenue includes charges for freight, handling, countervailing and antidumping duties. The costs related to these revenues are recorded in freight and other distribution costs and export duties.

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 financing, 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. 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. We perform an annual test for goodwill impairment.

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. Goodwill impairment losses cannot be reversed.

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. **Changes in accounting standards**

IFRS 9 - Financial Instruments

We have adopted IFRS 9 effective January 1, 2018 using the full retrospective method. The new standard for financial instruments, IFRS 9, replaces IAS 39 - Financial Instruments: Recognition and Measurement. It makes changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets. IFRS 9 also contains new requirements on the application of hedge accounting.

The adoption of this standard had no significant impact on our consolidated financial statements and no retrospective adjustments were necessary.

IFRS 15 - Revenue from Contracts with Customers

We have adopted IFRS 15 effective January 1, 2018 using the full retrospective method. The new revenue standard, IFRS 15, replaces IAS 18 - Revenue, IAS 11 - Construction Contracts and the related interpretations. 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. IFRS 15 requires that revenue is recognized at the 'transaction price' when certain contractual obligations are met but with any 'variable consideration' elements of the price recognized when it is 'highly probable' that there will be no reversal of that revenue.

The adoption of this standard had no significant impact on our consolidated financial statements and no retrospective adjustments were necessary.

4. **Accounting standards, amendments and interpretations issued but not yet applied**

IFRS 16 - Leases

IFRS 16 was issued in January 2016. This standard is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. The new standard replaces IAS 17 - Leases and the related interpretations.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. This standard establishes a single, on-balance sheet accounting model for all leases which will result in the recognition of a right-of-use asset and a lease obligation. The nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense, currently reported under cost of products sold on our consolidated statements of earnings, with a depreciation charge for the right-of-use asset and an interest expense on the lease liability which will be reported under finance expense. Although the depreciation charge is typically even, the interest expense reduces over the life of the lease as lease payments are made. This results in a reducing total expense as an individual lease matures.

IFRS 16 allows two exemptions for short-term and low-value leases for which the payments will be recognized as an expense, typically on a straight-line basis over the lease term.

We will apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Under this method, the right-of-use asset is recognized at the date of the initial application at an amount equal to the lease liability, using the company's incremental borrowing rate. Comparative figures are not restated.

We completed the assessment for the potential impact on our consolidated financial statements and anticipate that IFRS 16 will not have a significant impact our consolidated financial statements. The most significant impact identified is that we will recognize approximatively $17 million in right-of-use assets under property, plant and equipment on our consolidated balance sheets and approximatively $17 million long-term liabilities for the leases related to some of our office spaces and vehicles with minimal impact on our consolidated statements of earnings.

IAS 19 - Amendments, Employee Benefits

In February 2018, IAS 19 was amended. The amendments specify how companies should calculate pension expenses when changes to a defined benefit pension plan occur. The standard requires updated actuarial assumptions after a plan amendment, curtailment or settlement. The amendments also require a company to recognize through earnings any reduction in a surplus, even if that surplus was not previously recognized due to an asset ceiling limitation.

The amendments to IAS 19 must be applied prospectively to plan amendments, curtailments or settlements occurring on or after January 1, 2019. We do not expect these amendments 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.

5. Acquisition

On August 31, 2017, we completed the acquisition of six sawmills that produce southern yellow pine lumber and a finger-joint mill in Florida and Georgia as well as an administrative office in Georgia (the "Gilman Acquisition"). The consideration paid, net of cash acquired, was $526 million (US$419 million) and the transaction was an acquisition of shares. The acquisition was financed with cash on hand, borrowings on our revolving credit facility and a $250 million (US$200 million) term loan. In December 2018, we ceased operations at the finger-joint mill.

The transaction has been accounted for as an acquisition of a business and the purchase price has been allocated over the estimated fair value of the assets purchased and liabilities assumed. We have allocated the purchase price as follows:

		December 31, 2017
Net assets acquired	$	607
Less: cash acquired		(81)
Net non-cash assets acquired		526
Allocation:		
Current assets		58
Current liabilities		(12)
Property, plant and equipment		91
Goodwill		355
Employee future benefits		(11)
Deferred income tax asset, net		45
	$	526

Factors contributing to goodwill include the Gilman workforce, assets that are geographically complementary to our existing facilities and offer close access to large markets, the available timber basket and multiple markets for residuals. This transaction strengthens our core lumber business and gives us increased scale and geographic diversification. This was a rare opportunity to acquire a U.S. lumber producer with meaningful capacity, high quality facilities and a culture similar to our own. The goodwill of $355 million is not deductible for tax purposes.

6. Inventories

Accounting policies

Inventories of manufactured products, logs and other raw materials 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

		2018		2017
Manufactured products	**$**	**421**	$	358
Logs and other raw materials		**218**		167
Processing materials and supplies		**152**		145
	$	**791**	$	670

Inventories at December 31, 2018 were written down by $30 million (December 31, 2017 - $9 million) to reflect net realizable value being lower than cost.

The carrying amount of inventory recorded at net realizable value was $149 million at December 31, 2018 (December 31, 2017 - $33 million), with the remaining inventory recorded at cost.

7. 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 & bridges	Other	Total
As at December 31, 2016	$ 1,444	$ 160	$ 41	$ 40	$ 1,685
Additions	164	165	17	1	347
Acquisition	85	3	-	3	91
Amortization[1]	(175)	-	(14)	-	(189)
Foreign exchange	(35)	(2)	-	(2)	(39)
Disposals	(1)	-	-	-	(1)
Transfers	128	(131)	1	-	(2)
As at December 31, 2017	$ 1,610	$ 195	$ 45	$ 42	$ 1,892
As at December 31, 2017					
Cost	$ 4,047	$ 195	$ 138	$ 49	$ 4,429
Accumulated amortization	(2,437)	-	(93)	(7)	(2,537)
Net	$ 1,610	$ 195	$ 45	$ 42	$ 1,892
As at December 31, 2017	$ 1,610	$ 195	$ 45	$ 42	$ 1,892
Additions	**168**	**151**	**17**	**1**	**337**
Amortization[1]	**(218)**	**-**	**(15)**	**-**	**(233)**
Foreign exchange	**54**	**10**	**-**	**1**	**65**
Disposals	**(5)**	**-**	**-**	**-**	**(5)**
Transfers	**169**	**(169)**	**-**	**-**	**-**
As at December 31, 2018	**$ 1,778**	**$ 187**	**$ 47**	**$ 44**	**$ 2,056**
As at December 31, 2018					
Cost	**$ 4,444**	**$ 187**	**$ 148**	**$ 51**	**$ 4,830**
Accumulated amortization	**(2,666)**	**-**	**(101)**	**(7)**	**(2,774)**
Net	**$ 1,778**	**$ 187**	**$ 47**	**$ 44**	**$ 2,056**

1. Amortization of $230 million relates to cost of products sold and $3 million relates to selling, general and administration expense (2017 - $186 million and $3 million, respectively).

8. 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, 2016	$	551
Amortization[1]		(19)
Acquisition		1
As at December 31, 2017	$	533
As at December 31, 2017		
Cost	$	800
Accumulated amortization		(267)
Net	$	533
As at December 31, 2017	$	533
Amortization[1]		**(20)**
As at December 31, 2018	**$**	**513**
As at December 31, 2018		
Cost	**$**	**800**
Accumulated amortization		**(287)**
Net	**$**	**513**

1. Amortization relates to cost of products sold.

9. 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 annual impairment test. An additional impairment test is conducted if events or circumstances indicate that goodwill 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 10 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, 2016	$ 356	$ 15	$ 371
Additions	-	11	11
Acquisition	355	-	355
Transfers	-	2	2
Amortization[1]	-	(2)	(2)
Foreign exchange	(6)	-	(6)
As at December 31, 2017	$ 705	$ 26	$ 731
As at December 31, 2017			
Cost	$ 705	$ 47	$ 752
Accumulated amortization	-	(21)	(21)
Net	$ 705	$ 26	$ 731
As at December 31, 2017	$ 705	$ 26	$ 731
Additions	**-**	**6**	**6**
Amortization[1]	**-**	**(4)**	**(4)**
Foreign exchange	**38**	**-**	**38**
Disposals	**-**	**(4)**	**(4)**
As at December 31, 2018	**$ 743**	**$ 24**	**$ 767**
As at December 31, 2018			
Cost	**$ 743**	**$ 48**	**$ 791**
Accumulated amortization	**-**	**(24)**	**(24)**
Net	**$ 743**	**$ 24**	**$ 767**

1. Amortization of $2 million relates to cost of products sold and $2 million relates to selling, general and administration expense (2017 - $1 million and $1 million, respectively).

Goodwill

We have attributed $218 million of goodwill to a CGU made up of our Canadian lumber operations, $479 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 2018 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 are approved by management and use cash flow projections based on the 2019 operating plan, a forecast of 2020 and 2021 and trend level earnings for subsequent years. Assumptions were developed by management based on industry sources after taking into account management's best estimates. No impairment on goodwill has been recognized.

10. Other assets

	2018	2017
Post-retirement (note 14)	**$ 12**	$ 13
Deferred financing costs on lines of credit (note 13)	**-**	2
Other	**20**	12
	$ 32	$ 27

11. Payables and accrued liabilities

		2018		2017
Trade accounts	**$**	**260**	$	244
Equity-based compensation		**51**		79
Compensation		**78**		74
Export duties		**17**		8
Dividends		**14**		8
Interest		**5**		5
Other		**23**		23
	$	**448**	$	441

12. Other liabilities

		2018		2017
Post-retirement (note 14)	**$**	**189**	$	231
Reforestation		**76**		70
Decommissioning		**29**		25
Other		**22**		21
	$	**316**	$	347

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

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			
		2018		2017		2018		2017
Beginning of year	**$**	**108**	$	113	**$**	**25**	$	25
Liabilities recognized		**46**		47		**-**		-
Liabilities settled		**(46)**		(45)		**-**		-
Change in estimates		**7**		(7)		**4**		-
End of year		**115**		108		**29**		25
Less: current portion		**(39)**		(38)		**-**		-
	$	**76**	$	70	**$**	**29**	$	25

The total undiscounted amount of the estimated cash flows required to satisfy these obligations is $158 million (2017 - $147 million). The cash flows have been discounted using interest rates ranging from 1.86% to 1.88% (2017 - 1.68% to 1.86%).

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 47 years.

13. Long-term debt and operating loans

Accounting policies

Transaction costs related to debt financing or 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

		2018		2017
US$300 million senior notes due October 2024; interest at 4.35%	**$**	**409**	$	376
US$200 million term loan due August 2022; floating interest rate		**273**		251
US$8 million note payable due October 2020; interest at 2%		**10**		10
Notes payable		**4**		4
		696		641
Deferred financing costs		**(4)**		(5)
	$	**692**	$	636

Required principal repayments are disclosed in note 24.

Operating loans

Our revolving lines of credit consist of a $500 million committed revolving credit facility which matures August 25, 2022, 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 $70 million dedicated to letters of credit, of which US$15 million is dedicated to our U.S. operations.

At December 31, 2018, $61 million (net of deferred financing costs of $2 million) was drawn under our revolving credit facility. Letters of credit in the amount of $58 million were also supported by our facilities, leaving $491 million of credit available for further use. At December 31, 2017, our revolving credit facility was undrawn, deferred financing costs of $2 million were recorded in other assets and our outstanding letters of credit were $47 million.

Interest on the facilities is payable at floating rates based on Prime, Base Rate Advances, Bankers’ Acceptances or LIBOR Advances 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.

14. 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 Retirement Committees which report to the Human Resources & Compensation Committee of 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 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 2018 is a loss of $4 million (2017 - $123 million gain). The total pension expense for the defined benefit plans is $73 million (2017 - $72 million). In 2018, we made contributions of $86 million (2017 - $52 million). We expect to contribute approximately $69 million to our defined benefit pension plans during 2019 based on the most recent valuation report for each pension plan. We also provide group life insurance, medical and extended health benefits to certain employee groups, for which we contributed $2 million in 2018 (2017 - $3 million).

The total pension expense and funding contributions for the defined contribution pension plans is $15 million (2017 - $14 million).

In 2018, we entered into annuity purchase agreements to settle approximately $480 million of our defined benefit obligations by purchasing annuities using our plan assets. These agreements transferred the pension obligations of retired employees under certain pension plans to financial institutions. The difference between the cost of the annuity purchase and the liabilities held for these pension plans is reflected as a settlement cost. As part of the annuity purchase, we contributed $5 million to these plans.

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	
	2018	2017	**2018**	2017
Accrued benefit obligations				
Benefit obligations – opening	**$ 1,821**	$ 1,598	**$ 43**	$ 51
Acquisition	**-**	68	**-**	-
Service cost	**66**	67	**3**	1
Finance cost on obligation	**61**	61	**2**	2
Benefits paid	**(66)**	(66)	**(2)**	(3)
Actuarial loss (gain) due to change in financial assumptions	**(83)**	73	**(5)**	(8)
Actuarial loss (gain) due to demography/experience	**16**	36	**(7)**	-
Settlement	**(480)**	(10)	**-**	-
Other	**12**	(6)	**-**	-
Benefit obligations - ending	**$ 1,347**	$ 1,821	**$ 34**	$ 43
Plan assets				
Fair value - opening	**$ 1,658**	$ 1,507	**$ -**	$ -
Acquisition	**-**	57	**-**	-
Finance income on plan assets	**54**	56	**-**	-
Actuarial gain (loss) on plan assets	**(58)**	67	**-**	-
Employer contributions	**86**	52	**2**	3
Benefits paid	**(66)**	(66)	**(2)**	(3)
Settlement	**(479)**	(11)	**-**	-
Other	**9**	(4)	**-**	-
Fair value - ending	**$ 1,204**	$ 1,658	**$ -**	$ -
Funded status[1]				
Post-retirement assets	**$ 12**	$ 25	**$ -**	$ -
Impact of minimum funding requirement [2]	**-**	(12)	**-**	-
Post-retirement assets (note 10)	**12**	13	**-**	-
Post-retirement liabilities (note 12)	**(155)**	(188)	**(34)**	(43)
	$ (143)	$ (175)	**$ (34)**	$ (43)

1. Plans in a surplus position are classified as assets and plans in a deficit position are shown as liabilities on the consolidated balance sheets. 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	
	2018	2017	**2018**	2017
Expense				
Service cost	**$ 66**	$ 67	**$ 3**	$ 1
Net finance expense	**7**	5	**2**	2
	$ 73	$ 72	**$ 5**	$ 3

Assumptions and sensitivities

The weighted average duration of the defined benefit pension obligations is 19 years, which increased by approximatively two years compared to 2017. The projected future benefit payments for the defined benefit pension plans at December 31, 2018 are as follows:

	2019	2020	2021 to 2023	Thereafter	Total
Defined benefit pension plans	$ 34	$ 38	$ 139	$ 2,457	$ 2,668

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**	
	2018	2017	**2018**	2017
Benefit obligations:				
Discount rate	**3.75%**	3.50%	**3.75%**	3.50%
Future compensation rate increase	**3.50%**	3.50%	**n/a**	n/a
Benefit expense:				
Discount rate - beginning of year	**3.50%**	3.75%	**3.50%**	3.75%
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 7.0% in year one, grading down 0.25% per year for years two to ten, to 4.5% per year thereafter.

The impact of a change in these assumptions on our post-retirement obligations as at December 31, 2018 is as follows:

	Obligations
Discount rate	
Decrease in assumption from 3.75% to 3.25%	$ 125
Increase in assumption from 3.75% to 4.25%	$ (106)
Rate of increase in future compensation	
Decrease in assumption from 3.50% to 3.00%	$ (20)
Increase in assumption from 3.50% to 4.00%	$ 20
Health-care cost trend rates	
Increase in assumption by 1.00%	$ 1
Decrease in assumption by 1.00%	$ (2)

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 assets of the pension plans are invested predominantly in a diversified range of equities and bonds. The weighted average asset allocations of the defined benefit plans at December 31, by asset category, are as follows:

	Target range[1]	2018	2017
Canadian equities	**9% - 25%**	**10%**	14%
Foreign equities	**12% - 52%**	**24%**	27%
Fixed income investments	**35% - 45%**	**44%**	48%
Other investments	**5% - 32%**	**22%**	11%
		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

We are exposed to various risks related to our defined benefit pension and other post-retirement benefit plans:

- Uncertainty in benefit payments: The value of the liability for post-retirement benefits will ultimately depend on the amount of benefits paid and this in turn will depend on the level of future compensation increase and how long individuals live.

- Volatility in asset value: We are exposed to changes in the market value of pension plan investments which are required to fund future benefit payments.

- Uncertainty in cash funding: Movement in the value of the assets and obligations may result in increased levels of cash funding, although changes in the level of cash funding required can be spread over a number of years. We are also exposed to changes in pension regulation and legislation.

Our retirement committees manage these risks in accordance with a Statement of Investment Policies and Procedures for each pension plan or group of plans administered under master trust agreements. 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.

15. 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

	2018			2017		
	Number		**Amount**	Number		Amount
Common	**67,537,360**	**$**	**491**	75,664,558	$	549
Class B Common	**2,281,478**		**-**	2,281,478		-
Total Common	**69,818,838**	**$**	**491**	77,946,036	$	549

In 2018 we repurchased 8,135,796 Common shares for $676 million and in 2017 we repurchased 245,645 Common shares for $17 million.

On September 17, 2018, our Board of Directors authorized the renewal of our normal course issuer bid ("NCIB") program to repurchase for cancellation up to 5,524,048 Common shares or approximately 10% of the public float as at September 11, 2018. The NCIB will expire on September 18, 2019 and our previous NCIB expired on September 18, 2018.

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.

16. Equity-based compensation

We have share option, phantom share unit ("PSU") and directors' deferred share unit ("DSU") plans. We have partially hedged our exposure under these plans with an equity derivative contract. The equity-based compensation expense included in the consolidated statement of earnings is $7 million (2017 - $32 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. We 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 483,705 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 $9 million (2017 - expense of $52 million) related to the share option plan.

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

	2018			2017		
	Number		**Weighted average price (dollars)**	Number		Weighted average price (dollars)
Outstanding - beginning of year	**1,435,938**	**$**	**37.19**	2,119,886	$	29.83
Granted	**112,715**	**$**	**85.40**	192,255	$	53.11
Exercised	**(335,306)**	**$**	**25.16**	(872,973)	$	22.77
Expired / Cancelled	**(8,899)**	**$**	**51.88**	(3,230)	$	55.13
Outstanding - end of year	**1,204,448**	**$**	**44.94**	1,435,938	$	37.19
Exercisable - end of year	**809,740**	**$**	**37.37**	978,341	$	30.68

The following table summarizes information about the share options outstanding and exercisable at December 31, 2018:

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	128,500	0.1	$	12.36	128,500	$	12.36
$23.65 - $25.75	235,466	2.7	$	24.62	235,466	$	24.62
$40.82 - $55.62	615,128	6.4	$	46.79	360,413	$	45.74
$73.99 - $85.40	225,354	7.6	$	79.66	85,361	$	74.82
	1,204,448	5.2	$	44.94	809,740	$	37.37

The weighted average share price at the date of exercise for share options exercised during the year was $83.43 per share (2017 - $67.80 per share).

The accrued liability related to the share option plan based on a Black-Scholes valuation model is $36 million at December 31, 2018 (December 31, 2017 - $63 million). The weighted average fair value of the options used in the calculation was $30.15 per option at December 31, 2018 (December 31, 2017 - $43.79 per option).

The inputs to the option model are as follows:

	2018	2017
Share price on balance sheet date	**$67.30**	$77.33
Weighted average exercise price	**$44.93**	$37.19
Expected dividend	**$0.80**	$0.44
Expected volatility	**35.19%**	33.34%
Weighted average interest rate	**1.87%**	1.76%
Weighted average expected remaining life in years	**3.4**	3.5

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, 2018 was $29 million (December 31, 2017 - $56 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, in whole or in part, or 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 $5 million (2017 - $6 million) related to the PSU plan. The number of units outstanding as at December 31, 2018 was 155,595 (December 31, 2017 - 109,414), including performance share units totalling 84,966 (December 31, 2017 - 48,268).

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.

We have recorded an expense of nil (2017 - $4 million) related to the DSU plan. The number of Units outstanding as at December 31, 2018 was 52,930 (December 31, 2017 - 102,757).

Equity-based compensation hedge

During this year, we terminated our equity derivative contract under which we hedged 1,000,000 Common share equivalent units at a $46.02 share price. The contract was closed at a $66.46 per share. At the same time, a new equity derivative contract to hedge 1,000,000 Common share equivalent units at a $66.46 per share was initiated. An expense of $10 million (2017 - recovery of $30 million) is included in equity-based compensation related to these contracts.

17. **Finance expense, net**

		2018		2017
Interest expense	**$**	**(34)**	$	(25)
Interest income on short-term investments		**5**		1
Interest income on long-term duty deposits receivable (note 27)		**2**		-
Finance expense on employee future benefits		**(9)**		(7)
Accretion on long-term liabilities		**(1)**		-
	$	**(37)**	$	(31)

18. **Other**

		2018		2017
Foreign exchange gain (loss) on working capital	**$**	**13**	$	(11)
Foreign exchange gain (loss) on intercompany financing[1]		**65**		(15)
Foreign exchange gain (loss) on long-term debt (note 27)		**(55)**		25
Insurance gain on disposal of equipment[2]		**-**		7
Foreign exchange gain on export duty deposits receivable (note 27)		**5**		1
Other[3]		**9**		-
	$	**37**	$	7

1. Relates to US$600 million from January to mid-December and US$550 million thereafter (2017 - US$600 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.
2. Represents the insurance gain of $7 million recognized in 2017 related to equipment damaged at our jointly-owned NBSK plant in Quesnel. Estimated insurance proceeds for equipment replacement are accounted for as proceeds on disposition, and the resulting gain is included in other income.
3. Other includes gain on disposal of intangible assets and gain on sale of lumber futures.

19. **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:

		2018		2017[1]
Earnings				
Current tax	**$**	**(207)**	$	(158)
Deferred tax		**(55)**		(92)
Tax provision on earnings	**$**	**(262)**	$	(250)
Other comprehensive earnings				
Deferred tax (expense) recovery on post-retirement actuarial losses	**$**	**(9)**	$	7
Tax provision on comprehensive earnings	**$**	**(271)**	$	(243)

1. Includes the impact of the 2017 statutory changes for British Columbia and the United States.

The tax provision differs from the amount that would have resulted from applying the British Columbia statutory income tax rate to earnings before tax is as follows:

		2018		2017
Income tax expense at statutory rate of 27% (2017 - 26%)	**$**	**(289)**	$	(220)
Non-taxable amounts		**2**		(6)
Rate differentials between jurisdictions and on specified activities		**20**		(20)
Unrecognized capital losses		**1**		1
Impact of statutory tax changes[1]		**-**		(6)
Other		**4**		1
Tax provision	**$**	**(262)**	$	(250)

1. Represents the re-measurement of deferred income tax assets and liabilities for the British Columbia tax rate change from 11% to 12% and the impact of United States tax reform, both of which were substantively enacted as at December 31, 2017.

Deferred income taxes are made up of the following components:

		2018		2017
Property, plant, equipment and intangibles	**$**	**402**	$	371
Reforestation and decommissioning obligations		**(33)**		(30)
Employee future benefits		**(50)**		(61)
Tax loss carry-forwards[1]		**(38)**		(58)
Other		**8**		(3)
	$	**289**	$	219
Represented by:				
Deferred income tax assets	**$**	**(3)**	$	(6)
Deferred income tax liabilities		**292**		225
	$	**289**	$	219

1. Includes federal net operating loss (“NOL”) carry-forwards of $116 million expiring from 2025 to 2030. A portion of these NOL’s are subject to restrictions on use.

20. Employee compensation

Our employee compensation expense includes salaries and wages, employee future benefits, termination costs and bonuses. Total compensation expense is $933 million (2017 - $872 million).

Key management includes directors and officers and their compensation expense and balance sheet date payables are as follows:

		2018		2017
Expense				
Salary and short-term employee benefits	**$**	**10**	$	10
Post-retirement benefits		**1**		1
Equity-based compensation[1]		**(3)**		48
	$	**8**	$	59
Payables and accrued liabilities				
Compensation	**$**	**4**	$	4
Equity-based compensation[1]		**42**		64
	$	**46**	$	68

1. Amounts do not necessarily represent the actual value which will ultimately be paid.

21. 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.

		2018		2017
Earnings				
Basic	**$**	**810**	$	596
Share option expense (recovery)		**(9)**		52
Equity settled share option adjustment		**(3)**		(4)
Diluted	**$**	**798**	$	644
Weighted average number of shares (thousands)				
Basic		**74,451**		78,097
Share options		**652**		858
Diluted		**75,103**		78,955
Earnings per share (dollars)				
Basic	**$**	**10.88**	$	7.63
Diluted	**$**	**10.62**	$	7.63

22. Commitments

Operating leases

We are committed to make payments under certain operating leases for equipment, land, building and office space. Operating lease costs expensed during the year were $6 million (2017 - $6 million). The future payments required under operating leases are as follows:

2019	$	5
2020		4
2021		4
2022		3
Thereafter		3
	$	19

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, 2018 are $108 million.

23. 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 $16 million (2017 - $3 million) was recorded as a reduction to property, plant and equipment. The majority of this relates to a grant for an energy reduction project.

Government assistance of $5 million (2017 - $14 million) was recorded as a reduction to cost of products sold. The government assistance related primarily to research and development and apprentice tax credits

24. Financial instruments

Accounting policies

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 profit or loss (“FVTPL”).

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"*:

2018	**Level**	**Amortized cost**	**FVTPL**	**Other financial liabilities**	**Carrying value**	**Fair value**
Financial assets						
Cash and short-term investments	1	**$ 160**	**$ -**	**$ -**	**$ 160**	**$ 160**
Receivables[1]	3	**331**	**1**	**-**	**332**	**332**
Export duty deposits (note 27)	3	**75**	**-**	**-**	**75**	**75**
		$ 566	**$ 1**	**$ -**	**$ 567**	**$ 567**
Financial liabilities						
Cheques issued in excess of funds on deposit	1	**$ -**	**$ -**	**$ 13**	**$ 13**	**$ 13**
Operating loans (note 13)	1	**-**	**-**	**63**	**63**	**63**
Payables and accrued liabilities	2	**-**	**-**	**448**	**448**	**448**
Long-term debt (note 13)[2]	2	**-**	**-**	**696**	**696**	**689**
		$ -	**$ -**	**$ 1,220**	**$ 1,220**	**$ 1,213**

1. Receivables include our equity derivative receivable of $1 million.
2. The fair value of the long-term debt is based on rates available to us at December 31, 2018 for long-term debt with similar terms and remaining maturities.

2017	Level	Amortized cost	FVTPL	Other financial liabilities	Carrying value	Fair value
Financial assets						
Cash and short-term investments	1	$ 258	$ -	$ -	$ 258	$ 258
Receivables[1]	3	351	1	-	352	352
Export duty deposits (note 27)	3	37	-	-	37	37
		$ 646	$ 1	$ -	$ 647	$ 647
Financial liabilities						
Payables and accrued liabilities	2	$ -	$ -	$ 441	$ 441	$ 441
Long-term debt (note 13)[2]	2	-	-	641	641	634
		$ -	$ -	$ 1,082	$ 1,082	$ 1,075

1. Receivables include our equity derivative receivable of $1 million.
2. The fair value of the long-term debt is based on rates available to us at December 31, 2017 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 energy related agreements.

Based on the equity contract as at December 31, 2018 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.

No energy related derivatives were outstanding at December 31, 2018 or 2017.

No material lumber futures or foreign exchange contracts were outstanding at December 31, 2018 or 2017.

Currency fluctuation

Our Canadian operations sell most of their products at prices denominated in U.S. dollars or based on prevailing U.S. dollar prices. A significant portion of their 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 our Canadian operations from sales made in U.S. dollars, which reduces operating margin and the cash flow available to fund operations.

Our U.S. operations transact and report in U.S. dollars, but their results are translated into Canadian dollars for financial statement purposes with the resulting translation gains or losses being reported in other comprehensive earnings.

Impact of U.S. dollar currency fluctuation

The U.S. dollar foreign currency balance sheet exposure at December 31, 2018 is as follows:

Canadian operations		**2018**
Net working capital	**US$**	**83**
Export duty deposits		**55**
Intercompany financing[1]		**550**
Long-term debt		**(500)**
	US$	**188**

U.S. operations		**2018**
Net investment	**US$**	**1,164**

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 a $3 million decrease (increase) in earnings and an increase (decrease) of $21 million in the translation gain on foreign operations included in other comprehensive earnings.

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 such as:

- Customer credit limits are established and monitored;
- Ongoing evaluations of key customer financial conditions are performed; and
- In certain market areas, we have undertaken additional measures to reduce credit risk including credit insurance, letters of credit and prepayments. At December 31, 2018, approximately 45% of trade accounts receivable was covered by at least some of these additional measures.

Given our credit monitoring activities, the low percentage of overdue accounts and our low customer defaults with no bad debts in 2018 or 2017, we have recorded minimal expected credit losses. We consider the credit quality of the trade accounts receivable at December 31, 2018 to be high. The aging analysis of trade accounts receivable is presented below:

	2018	2017
Trade accounts receivable – gross		
Current	**$ 260**	$ 290
Past due 1 to 30 days	**7**	3
Past due 31 to 60 days	**1**	2
Past due over 60 days	**-**	1
	268	296
Allowance for doubtful accounts	**-**	-
Trade accounts receivable – net	**268**	296
Insurance receivable	**14**	20
Government assistance	**10**	-
Other	**40**	36
Receivables	**$ 332**	$ 352

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:

	2019	2020	2021	2022	Thereafter	Total
Long-term debt (note 13)	$ -	$ 10	$ -	$ 273	$ 413	$ 696
Interest on long-debt[1,2]	31	30	30	26	32	149
	$ 31	$ 40	$ 30	$ 299	$ 445	$ 845

1. Assumes debt level, foreign exchange rate and interest rates remain at December 31, 2018 levels and rates.
2. At December 31, 2018, we had drawn $63 million under our revolving credit facility. The potential interest payable on this loan has not been included in the above table.

Interest rates

Interest rate risk relates mainly to floating rate debt.

At December 31, 2018, a 100 basis point increase (decrease) in interest rates on floating rate debt would result in a $2 million decrease (increase) in earnings. This analysis assumes that all other variables remain constant.

25. 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:

		2018		2017
Net debt				
Cash and short-term investments	**$**	**(160)**	$	(258)
Deferred financing costs[1]		**(6)**		(7)
Cheques issued in excess of funds on deposit		**13**		-
Operating loans		**63**		-
Long-term debt		**696**		641
		606		376
Shareholders’ equity		**2,896**		2,726
Total capital	**$**	**3,502**	$	3,102
Net debt to total capital		**17%**		12%

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.

26. 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
2018									
Sales									
To external customers	**$**	**4,291**	**$**	**664**	**$**	**1,163**	**$**	**-**	**$ 6,118**
To other segments		**165**		**12**		**-**		**-**	
	$	**4,456**	**$**	**676**	**$**	**1,163**	**$**	**-**	
Operating earnings before amortization	**$**	**954**	**$**	**127**	**$**	**258**	**$**	**(10)**	**$ 1,329**
Amortization		**(196)**		**(15)**		**(44)**		**(2)**	**(257)**
Operating earnings		**758**		**112**		**214**		**(12)**	**1,072**
Finance expense		**(25)**		**(2)**		**(10)**		**-**	**(37)**
Other		**20**		**-**		**11**		**6**	**37**
Earnings before tax	**$**	**753**	**$**	**110**	**$**	**215**	**$**	**(6)**	**$ 1,072**
Total assets	**$**	**3,739**	**$**	**320**	**$**	**659**	**$**	**73**	**$ 4,791**
Total liabilities	**$**	**701**	**$**	**62**	**$**	**156**	**$**	**976**	**$ 1,895**
Capital expenditures	**$**	**284**	**$**	**16**	**$**	**60**	**$**	**10**	**$ 370**

	Lumber		Panels		Pulp & Paper		Corporate & Other		Total
2017									
Sales									
To external customers	$	3,554	$	592	$	988	$	-	$ 5,134
To other segments		117		8		-		-	
	$	3,671	$	600	$	988	$	-	
Operating earnings before amortization	$	836	$	113	$	172	$	(41)	$ 1,080
Amortization		(155)		(13)		(40)		(2)	(210)
Operating earnings		681		100		132		(43)	870
Finance expense		(20)		(3)		(8)		-	(31)
Other		(1)		-		2		6	7
Earnings before tax	$	660	$	97	$	126	$	(37)	$ 846
Total assets	$	3,404	$	314	$	627	$	172	$ 4,517
Total liabilities	$	467	$	57	$	156	$	1,111	$ 1,791
Capital expenditures	$	247	$	22	$	58	$	9	$ 336
Acquisition	$	526	$	-	$	-	$	-	$ 526

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

	Non-current assets		Sales by geographic area[1]	
	2018	2017	**2018**	2017
Canada	**$ 2,121**	$ 2,096	**$ 1,239**	$ 1,129
United States	**1,325**	1,130	**3,661**	2,973
China	**-**	-	**734**	627
Other Asia	**-**	-	**442**	357
Other	**-**	-	**42**	48
	$ 3,446	$ 3,226	**$ 6,118**	$ 5,134

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

27. Countervailing ("CVD") and antidumping ("ADD") duty dispute

On November 25, 2016, a coalition of U.S. lumber producers petitioned the U.S. Department of Commerce ("USDOC") and the U.S. International Trade Commission ("USITC") to investigate alleged subsidies to Canadian softwood lumber producers and levy countervailing and antidumping duties against Canadian softwood lumber imports. We were chosen by the USDOC as a "mandatory respondent" to both the countervailing and antidumping investigations and as a result have received unique company specific rates.

On April 24, 2017, the USDOC issued its preliminary determination in the countervailing duty ("CVD") investigation and imposed a company specific preliminary rate of 24.12% to be posted by cash deposits on the exports from Canada of softwood lumber to the U.S. on or after April 28, 2017. On June 26, 2017, the USDOC issued its preliminary determination in the antidumping duty ("ADD") investigation and imposed a company specific preliminary rate of 6.76% to be posted by cash deposits on the exports from Canada of softwood lumber to the U.S. on or after June 30, 2017. The requirement that we deposit CVD was suspended on August 24, 2017 until final determination was published by the USITC. On December 4, 2017, the USDOC amended our CVD rate to 17.99% and our ADD rate to 5.57%. Effective December 28, 2017, we began posting cash deposits for CVD and effective December 4, 2017, we began posting cash deposits for ADD at the revised rates. The CVD and ADD rates are subject to further adjustment through administrative reviews to be completed by the USDOC. The administrative reviews for each of CVD and ADD are expected to commence in the spring of 2019 and cover the periods from April 28, 2017 to December 31, 2018 for CVD and June 30, 2017 to December 31, 2018 for ADD. The reviews may not be finalized until mid-2020 and the results are subject to appeals.

During the year ended December 31, 2018, our lumber segment posted cash deposits for CVD at a 17.99% rate and for ADD at a 5.57% rate. We recalculate the ADD rate for the current period of review using our reported results and the same calculation methodology as the USDOC. Based on our current data, we determined that the expected ADD rate will be 1.46% which is lower than the ADD deposit rate of 5.57%.

For the year ended December 31, 2018 we incurred duty deposits of $178 million related to CVD (2017 - $52 million) and $55 million related to ADD (2017 - $32 million) as follows:

Export duties incurred in the period	**2018**	2017
Export duties recognized as expense in consolidated statements of earnings	**$ 202**	$ 48
Export duties recognized as long-term duty deposits receivable in consolidated balance sheets	**31**	36
Total	**$ 233**	$ 84

We have recorded long-term duty deposits receivable related to CVD of $11 million representing the excess of deposits made at the preliminary rate of 24.12% compared to the final rate of 17.99%. In addition, we have recorded long-term duty deposits receivable related to ADD of $62 million for the difference between the 5.57%

deposit rate and our 1.46% estimated rate. Lastly, we have recognized interest of $2 million on the long-term duty deposits receivable related to both CVD and ADD. The details are as follows:

Export duty deposits receivable		**2018**		2017
Beginning of year	**$**	**37**	$	-
Export duties recognized as long-term duty deposits receivable in consolidated balance sheets		**31**		36
Interest recognized on the long-term duty deposits receivable		**2**		-
Foreign exchange on the long-term duty deposits		**5**		1
End of year	**$**	**75**	$	37

As at December 31, 2018, duties paid and payable that are on deposit with the USDOC total US$244 million.

The duty rates are subject to change based on administrative reviews and appeals available to us. In addition, we will update our ADD rate at each reporting date considering our actual results for each period of review. Changes to estimated rates may be material and any changes will be reflected through earnings in the period of the change. Notwithstanding the deposit rates assigned under the investigations, our final liability for the assessment of CVD and ADD will not be determined until each annual administrative review process is complete and related appeal processes are concluded.

FIVE YEAR FINANCIAL REVIEW
(in millions of Canadian dollars, except where indicated)

	2018	2017 [1]	2016 [1]	2015 [1]	2014 [1]
Earnings					
Sales	**6,118**	5,134	4,450	4,100	3,856
Cost of product sold	**3,617**	3,124	2,971	2,874	2,538
Freight and other distribution costs [1]	**732**	633	629	627	548
Export duties or taxes	**202**	48	-	29	-
Amortization	**257**	210	197	191	170
Selling, general and administration [1]	**231**	217	176	153	149
Equity-based compensation	**7**	32	(5)	(23)	45
Restructuring charges	**-**	-	-	-	-
Operating earnings	**1,072**	870	482	249	406
Finance expense	**(37)**	(31)	(29)	(29)	(26)
Other	**37**	7	(9)	(64)	(5)
Tax provision	**(262)**	(250)	(118)	(52)	(116)
Earnings	**810**	596	326	104	259
Cash flows from operating activities	**909**	902	689	301	475
Capital expenditures & acquisitions	**370**	862	273	296	618
Financial position					
Current assets	**1,345**	1,291	938	971	907
PPE & timber licenses	**2,569**	2,425	2,236	2,179	1,999
Goodwill & other intangibles	**767**	731	371	369	350
Export duty deposits	**75**	37	-	-	-
Other assets	**32**	27	20	36	79
Deferred income tax assets	**3**	6	35	80	62
Total assets	**4,791**	4,517	3,600	3,635	3,397
Current liabilities	**595**	583	459	606	616
Long-term debt (including current portion)	**692**	636	413	423	354
Other liabilities	**316**	347	272	269	244
Deferred income tax liabilities	**292**	225	215	190	154
Shareholders' equity	**2,896**	2,726	2,241	2,147	2,029
Total liabilities & equity	**4,791**	4,517	3,600	3,635	3,397

	2018	2017 [1]	2016 [1]	2015 [1]	2014 [1]
Per common share (dollars)					
Basic EPS	**10.88**	7.63	4.06	1.25	3.06
Price range:					
High	**60.44**	83.50	54.18	78.55	66.80
Low	**97.99**	42.98	35.35	40.56	45.05
Close	**67.44**	77.57	48.01	52.53	66.47
Dividends declared per share	**0.70**	0.36	0.28	0.28	0.28
Shares outstanding at year-end ('000s)	**69,819**	77,946	78,163	82,457	83,527
Ratios					
Adjusted EBITDA margin [2]	**25%**	23%	15%	10%	16%
Return on capital employed	**20%**	17%	11%	4%	10%
Return on common shareholders' equity	**28%**	24%	15%	5%	13%
Net debt to capitalization	**17%**	12%	14%	22%	19%
Number of employees at year-end	**8,570**	8,600	7,800	7,900	7,560
Production					
Lumber (MMfbm)	**6,609**	6,233	5,935	5,607	5,293
Pulp (Mtonnes)	**1,151**	1,172	1,192	1,142	1,086
Newsprint (Mtonnes)	**119**	122	128	133	132
Plywood (3/8" MMsf)	**833**	838	826	797	771
MDF (3/4" MMsf) [3]	**224**	191	160	220	206
LVL (Mcf)	**2,251**	2,676	2,215	1,627	1,796

1. For 2017, we have reclassified approximately $20 million from freight and other distribution costs to selling, general and administration to conform to 2018 presentation. Figures prior to 2017 have not been restated for this reclassification.
2. Adjusted EBITDA is described in the section titled “Non IFRS Measures” of our 2018 Management’s Discussion & Analysis.
3. A fire at our MDF plant in Quesnel on March 9, 2016 resulted in the closure of the plant until April 29, 2017.

DIRECTORS AND OFFICERS
Effective February 12, 2019

Directors

	Principal Occupation
Henry H. Ketcham	Chairman of the Board
Reid E. Carter	Corporate Director
John N. Floren	President and Chief Executive Officer, Methanex Corporation
Brian G. Kenning	Corporate Director
John K. Ketcham	Real Estate Developer
Gerald J. Miller	Corporate Director
Robert L. Phillips	Corporate Director
Janice G. Rennie	Corporate Director
Ted Seraphim	Chief Executive Officer
Gillian D. Winckler	Corporate Director

Officers

	Office Held
Ted Seraphim	Chief Executive Officer
Raymond W. Ferris	President and Chief Operating Officer
Brian A. Balkwill	Vice-President, Canadian Wood Products
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
Christopher D. McIver	Vice-President, Sales and Marketing
Sean P. McLaren	Vice-President, U.S. Lumber
Tom V. Theodorakis	Secretary Partner, McMillan LLP (lawyers)
Christopher A. Virostek	Vice-President, Finance and Chief Financial Officer
Chuck H. Watkins	Vice-President, U.S. Lumber Manufacturing

CORPORATE INFORMATION
Effective February 12, 2019

ANNUAL GENERAL MEETING
The Annual General Meeting of the shareholders of the Company will be held on April 23, 2019 at 11:30 a.m. in Quesnel, British Columbia, Canada.

AUDITORS
PricewaterhouseCoopers LLP
Vancouver, British Columbia, Canada

LEGAL COUNSEL
McMillan LLP
Vancouver, British Columbia, Canada

TRANSFER AGENT
AST Trust Company (Canada)
Vancouver, Calgary, Toronto, and Montreal, Canada

FILINGS
www.sedar.com

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

INVESTOR CONTACT
Chris Virostek
Vice-President, Finance and Chief Financial Officer

Tel: (604) 895-2700
Fax: (604) 681-6061

E-mail Address
shareholder@westfraser.com

WEBSITE
www.westfraser.com

CORPORATE OFFICE
858 Beatty Street, Suite 501
Vancouver, British Columbia
Canada V6B 1C1

Tel: (604) 895-2700
Fax: (604) 681-6061

SALES OFFICES

SPF Lumber, Plywood, MDF, LVL
1250 Brownmiller Road
Quesnel, British Columbia
Canada V2J 6P5

Tel: (250) 992-9254
Fax: (250) 992-3034

SPF Export Lumber
858 Beatty Street, Suite 501
Vancouver, British Columbia
Canada V6B 1C1

Tel: (604) 895-2700
Fax: (604) 895-2976

SYP Lumber
1900 Exeter Road, Suite 105
Germantown, Tennessee
USA 38138

Tel: (901) 620-4200
Fax: (901) 620-4204

2500 Saint Marys Road
St. Marys, Georgia
USA 31558

Tel: (912) 576-0300
Fax: (912) 576-0322

Pulp
858 Beatty Street, Suite 501
Vancouver, British Columbia
Canada V6B 1C1

Tel: (604) 895-2700
E: pulpsales@westfraser.com

Newsprint
2900-650 W Georgia Street
Vancouver, British Columbia
Canada V6B 4N8

Tel: (604) 681-8817

OPERATIONS

Lumber, Plywood and LVL Canadian Operations
1250 Brownmiller Road
Quesnel, British Columbia
Canada V2J 6P5

Tel: (250) 992-9244
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 MDF
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 Chemithermomechanical 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.

West Fraser Timber Co. Ltd.
Tel: 604.895.2700
Fax: 604.681.6061
www.westfraser.com