Introduction and Interpretation

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

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

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

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

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

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

Summary Information – Annual Results

Financial Comparisons ($millions, except as otherwise indicated)

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

1. Includes current portion of long-term debt.

Selected Quarterly Information

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

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

Adjusted Earnings and Adjusted Basic Earnings Per Share

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

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

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

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

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

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

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

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

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

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

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

Discussion & Analysis by Product Segment

Lumber Segment

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

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

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

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

SPF Sales by Destination

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

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

Panels Segment

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

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

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

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

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

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

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

Pulp & Paper Segment

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

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

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

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

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

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

4th Quarter Results

Sales and Earnings Comparison

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

Adjusted Earnings and Adjusted Basic Earnings Per Share

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

Discussion & Analysis of Quarterly Non-operational Items

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

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

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

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

Discussion & Analysis by Product Segment

Lumber Segment

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

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

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

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

Panels Segment

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

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

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

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

Pulp & Paper Segment

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

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

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

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

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

Capital Expenditures

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

($millions of dollars)

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

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

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

Business Outlook

Operations

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

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

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

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

Markets

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

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

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

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

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

Cash flows

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

Estimated Earnings Sensitivity to Key Variables[1]

(based on 2016 production – $millions)

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

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

Capital Structure and Liquidity

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

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

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

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

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

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

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

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

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

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

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

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

Debt Ratings

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

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

Selected Cash Flow Items ($millions)

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

Operating Activities

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

Financing Activities

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

Investing Activities

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

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

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

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

Significant Management Judgments Affecting Financial Results

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

Fair value of Derivative Contracts

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

Recoverability of Long-lived Assets

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

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

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

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

Reforestation and Decommissioning Obligations

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

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

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

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

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

Accounting Standards Issued But Not Yet Applied

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

IFRS 9 – Financial Instruments

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

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 16 – Leases

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

Non-IFRS Measures

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

Adjusted EBITDA

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

Adjusted EBITDA by Segment

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

Adjusted Earnings and Adjusted Basic Earnings Per Share

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

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

Net Debt to Total Capital Ratio

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

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

Risks and Uncertainties

Product Demand and Price Fluctuations

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

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

Availability of Fibre and Changes in Stumpage Fees

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

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

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

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

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

Trade Restrictions

A substantial portion of our products that are manufactured in Canada are exported for sale. Our financial results are dependent on continued access to the export markets and tariffs and other trade barriers that restrict or prevent access represent a continuing risk to us. Canadian softwood lumber exports to the U.S. have been the subject of trade disputes and managed trade arrangements for the last several decades. During the period from October 2006 through October 2015 these exports were subject to a trade agreement between the U.S. and Canada and on the expiry of that agreement a one-year moratorium on trade sanctions by the U.S. came into place. That moratorium has expired and a group of U.S. lumber producers has petitioned the U.S. Department of Commerce and the U.S. International Trade Commission to impose trade sanctions against Canadian softwood lumber exports to the U.S. It appears likely that some form of protectionist sanctions such as duties will be imposed on Canadian softwood lumber exports to the U.S. until and unless some form of

trade agreement can be reached between the U.S. and Canada or a final, binding determination is made as a result of litigation. Unless the additional costs imposed by duties can be passed along to lumber consumers, the duties will increase costs for Canadian producers and, in certain cases, could result in some Canadian production becoming unprofitable. Whether and to what extent duties can be passed along to consumers will largely depend on the strength of demand for softwood lumber, which is significantly influenced by the levels of new residential construction in the U.S. which has been gradually improving over the past several years. If duties can be passed through to consumers in whole or in part the price of Canadian softwood lumber will increase (although the increase will not necessarily be for the benefit of Canadian producers) which in turn could cause the price of SYP lumber, which would not be subject to the duty, to increase as well.

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

Natural and Man-Made Disasters

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

Mountain Pine Beetle

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

Wood Dust

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

Financial

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

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

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

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

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

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

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

Operational Curtailments and Transportation Requirements

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

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

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

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

Labour and Services

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

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

Environment

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

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

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

Aboriginal Groups

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

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

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

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

Regulatory

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

Foreign Currency Exchange Rates

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

Competition

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

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

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

Pension Plan Funding

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

Disclosure Controls and Internal Controls Over Financial Reporting

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

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

No Changes in Internal Controls Over Financial Reporting

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