WEST FRASER

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

RESPONSIBILITY OF MANAGEMENT

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

Management maintains 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 in accordance with management's authorization and financial records are accurate and reliable.

West Fraser's independent auditors, who are appointed by the shareholders upon the recommendation of the Audit Committee and the Board of Directors, have completed their audit of the consolidated financial statements in accordance with approved auditing standards in Canada and their report follows.

The Board of Directors provides oversight to the financial reporting process through its Audit Committee, comprised of three Directors, none of whom is an officer or employee of West Fraser. The Audit Committee meets regularly with management and the auditors to review the consolidated financial statements and matters relating to the audit. The auditors have 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.

Henry H. Ketcham
Chairman and
Chief Executive Officer

Larry Hughes
Vice-President, Finance
and Chief Financial Officer

February 14, 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of West Fraser Timber Co. Ltd.

We have audited the accompanying consolidated financial statements of West Fraser Timber Co. Ltd., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of earnings and comprehensive earnings, changes in shareholders' equity and cash flows for the years ended December 31, 2012 and December 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of West Fraser Timber Co. Ltd. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

February 14, 2013

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2012 AND 2011

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT WHERE INDICATED)

	2012	2011
ASSETS		
Current assets		
Cash and short-term investments	**$ 102**	$ 68
Receivables (note 25)	**251**	266
Income taxes receivable	**—**	4
Inventories (note 7)	**459**	398
Prepaid expenses	**11**	9
	823	745
Property, plant and equipment (note 8)	**959**	936
Timber licences (note 9)	**496**	490
Goodwill and other intangibles (note 10)	**330**	336
Other assets	**10**	11
	$ 2,618	$ 2,518
LIABILITIES		
Current liabilities		
Payables and accrued liabilities (note 11)	**$ 322**	$ 274
Income taxes payable	**20**	—
Reforestation and decommissioning obligations (note 13)	**43**	41
	385	315
Long-term debt (note 12)	**300**	306
Other liabilities (note 13)	**313**	270
Deferred income taxes (note 19)	**128**	144
	1,126	1,035
SHAREHOLDERS' EQUITY		
Share capital (note 15)	**602**	601
Accumulated other comprehensive earnings	**(9)**	(6)
Retained earnings	**899**	888
	1,492	1,483
	$ 2,618	$ 2,518

Approved by the Board of Directors

Janice G. Rennie
Director

J. Duncan Gibson
Director

CONSOLIDATED STATEMENTS OF EARNINGS & COMPREHENSIVE EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT WHERE INDICATED)

	2012	2011
Sales	**$ 3,000**	$ 2,762
Costs and expenses		
Cost of products sold	**2,020**	1,917
Freight and other distribution costs	**477**	460
Export taxes	**48**	58
Amortization	**152**	168
Selling, general and administration	**115**	104
Equity-based compensation	**61**	(3)
	2,873	2,704
Operating earnings	**127**	58
Finance expense (note 17)	**(19)**	(20)
Exchange gain (loss) on long-term debt	**7**	(7)
Other income (note 18)	**—**	14
Earnings from continuing operations before tax provision	**115**	45
Tax provision (note 19)	**(28)**	(18)
Earnings from continuing operations	**87**	27
Earnings from discontinued operations (note 21)	**—**	46
Earnings	**$ 87**	$ 73
Earnings per share (dollars) (note 22)		
Basic from continuing operations	**$ 2.02**	$ 0.63
Diluted from continuing operations	**$ 2.02**	$ 0.41
Basic after discontinued operations	**$ 2.02**	$ 1.70
Diluted after discontinued operations	**$ 2.02**	$ 1.47
Cash dividends per share	**$ 0.56**	$ 0.56
Comprehensive earnings		
Earnings	**$ 87**	$ 73
Other comprehensive earnings		
Translation gain (loss) on foreign operations[1]	**(3)**	4
Actuarial loss on employee future benefits[2]	**(52)**	(104)
Comprehensive earnings	**$ 32**	$ (27)

1. Recycled through earnings in the event of a reduction in net investment in foreign operations.
2. Adjusted through retained earnings. Net of income tax recovery of $17 million (2011 — $34 million).

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(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, 2010	42,834,912	$ 601	$ (10)	$ 943	$ 1,534
Changes in equity for 2011					
Translation gain on foreign operations	—	—	4	—	4
Actuarial loss on employee future benefits	—	—	—	(104)	(104)
Issuance of Common shares	11,201	—	—	—	—
Earnings for the year	—	—	—	73	73
Dividends	—	—	—	(24)	(24)
Balance – December 31, 2011	42,846,113	601	(6)	888	1,483
Changes in equity for 2012					
Translation loss on foreign operations	**—**	**—**	**(3)**	**—**	**(3)**
Actuarial loss on employee future benefits	**—**	**—**	**—**	**(52)**	**(52)**
Issuance of Common shares	**16,607**	**1**	**—**	**—**	**1**
Earnings for the year	**—**	**—**	**—**	**87**	**87**
Dividends	**—**	**—**	**—**	**(24)**	**(24)**
Balance – December 31, 2012	**42,862,720**	**$ 602**	**$ (9)**	**$ 899**	**$ 1,492**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT WHERE INDICATED)

	2012	2011
Operating activities		
Earnings from continuing operations	**$ 87**	$ 27
Adjustments		
Amortization	**152**	168
Finance expense	**19**	20
Exchange loss (gain) on long-term debt	**(7)**	7
Tax provision	**28**	18
Income taxes received (paid)	**2**	(75)
Reforestation and decommissioning obligations	**(2)**	6
Employee future benefits expense	**38**	35
Contributions to employee future benefit plans	**(64)**	(93)
Other	**(8)**	(9)
Changes in non-cash working capital		
Receivables	**(22)**	8
Inventories	**(58)**	(24)
Prepaid expenses	**(2)**	(1)
Payables and accrued liabilities	**32**	(2)
Cash flows from operating activities	195	85
Financing activities		
Repayment of operating loans	**—**	(15)
Finance expense paid	**(18)**	(20)
Dividends	**(24)**	(24)
Cash flows from financing activities	(42)	(59)
Investing activities		
Acquisition (note 5)	**(30)**	—
Additions to capital assets	**(150)**	(213)
Proceeds from Green Transformation Program (note 24)	**49**	37
Proceeds from disposal of capital assets	**9**	10
Other	**3**	2
Cash flows from investing activities	(119)	(164)
Change in cash from continuing operations	**34**	(138)
Change in cash from discontinued operations (note 21)	**—**	45
Cash — beginning of year	68	161
Cash — end of year	$ 102	$ 68

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(IN MILLIONS OF CANADIAN DOLLARS, EXCEPT WHERE INDICATED)

1. NATURE OF OPERATIONS

West Fraser Timber Co. Ltd. ("West Fraser", "we", "us" or "our") is an integrated wood products company producing lumber, wood chips, LVL, MDF, plywood, pulp and newsprint 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. We are listed on the Toronto Stock Exchange under the symbol WFT.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and were authorized for publication by our Board of Directors on February 14, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

Our consolidated financial statements have been prepared on the historical cost basis, except for the following significant items:

- Derivative financial instruments which are measured at fair value;
- Share option liability which is measured using the Black-Scholes valuation model;
- Reforestation and decommissioning obligations which are measured at the present value of expected future cash flows; and
- Post-retirement liabilities which are actuarially determined with the plan assets measured at fair value and the accrued benefit obligations measured using the projected unit credit method.

Basis of consolidation

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

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

Financial instruments

Our financial assets are categorized as Loans and Receivables and our financial liabilities are categorized as Other Financial Liabilities. All financial assets and liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method except for derivatives. Derivatives are measured at fair value through earnings with changes reflected in other income. A list of our financial assets and liabilities is included in note 25.

Debt is shown net of deferred financing charges which are amortized over the life of the debt.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant areas requiring estimates include recoverability of long-lived assets and goodwill, 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.

Revenue recognition

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

Foreign currency translation

West Fraser's 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 gains or losses are included in other comprehensive earnings.

Translation of other foreign currency balances and transactions

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

Inventories

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

Property, plant and equipment

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	Not exceeding 40 years
Major maintenance shutdowns	12 to 36 months

Timber licences and other intangibles

Timber licences and other intangible assets are stated at historical cost, less accumulated amortization and impairment losses, and are amortized on a straight-line basis over their estimated useful lives as follows:

Timber licences	40 years
Power purchase agreement	Over the life of the agreement
Software	3 – 5 years
Non-replaceable timber rights	As timber is logged

Impairment of property, plant, equipment, timber licences and other intangibles

We review property, plant, equipment, timber licences and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. For the purpose of impairment testing, property, plant, equipment, timber licences and other intangible assets are separated into cash generating units ("CGU"). We have identified each of our mills as a CGU for impairment testing of property, plant, equipment and other intangibles. Timber licences are tested for impairment by combining CGUs within the economic area of the related licence.

Recoverability is assessed by comparing the CGU carrying amount 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 of the CGU 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).

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 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

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

Goodwill impairment is assessed by comparing the fair value of 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 to measure the amount of impairment loss, if any.

Reforestation and decommissioning obligations

Timber is harvested under various timber licences that require us to conduct reforestation. Future reforestation obligations are measured at the present value of the expenditures expected to be required to settle the obligations and are accrued and charged to earnings when timber is harvested. The reforestation obligation is reviewed periodically and changes to estimates are credited or charged to earnings.

We record the present value of a liability for decommissioning obligations in the period that a reasonable estimate of present value 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.

Government assistance

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.

Equity-based compensation

West Fraser's 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. We estimate the fair value of outstanding options using a Black-Scholes option pricing model at each balance sheet date and record the resulting expense or recovery, over the vesting period, through a charge to earnings. The vesting period over which the expense or recovery is charged is the lesser of five years from the date the option was granted and the time period until the option holder reaches the holder's eligible retirement age. If the option holder is eligible to retire, the expense or recovery is charged to earnings immediately.

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

Employee future benefits

We accrue for our obligations under employee pension and non-pension benefit plans and the related costs net of plan assets.

The following policies have been adopted:

- The measurement date used for accounting purposes is December 31.
- The cost of pensions and other retirement benefits earned by employees is determined using the projected unit credit method, pro-rated for estimated service periods where appropriate, and management's estimate of expected plan investment performance, discount rate, salary escalation, retirement ages of employees, expected heath-care costs and other relevant factors.
- For the purpose of calculating the expected return, plan assets are valued at fair value.
- Past service costs arising from plan amendments are recognized immediately to the extent the benefits are vested, and otherwise are amortized on a straight-line basis over the average period until the benefits become vested.
- Actuarial gains or losses arise from the difference between the actual rate of return on plan assets for a period and the expected rate of return on plan assets for that period, or from changes in actuarial assumptions used to determine the accrued benefit obligation. Net actuarial gains or losses are reported as part of other comprehensive earnings in the period incurred.

Pension and other post-retirement benefit expense includes management's best estimate of the cost of benefits provided, finance cost of projected benefits and expected return on plan assets.

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

Income taxes

The tax expense for the period is comprised of current and deferred tax. Tax is recognized in the 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. Current and deferred income taxes relating to items recognized directly in equity are also recognized directly in equity. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

The IASB periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those that we consider most significant. They are not intended to be a complete list of new pronouncements that may affect the consolidated financial statements.

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. In December 2009 IFRS 9 was deferred and is now effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

IFRS 10 – Consolidated Financial Statements

In May 2011 IFRS 10 was issued which provides a single model to be applied in the control analysis for all investees and supersedes IAS 27 – *Consolidated and Separate Financial Statements* and Standing Interpretations Committee – 12 *Consolidation – Special Purpose Entities*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

IFRS 11 – Joint Arrangements

In May 2011 IFRS 11 was issued which provides guidance for determining if a joint arrangement is a joint venture or joint operation. The standard requires that joint ventures be accounted for by the equity method as opposed to the choice, presently available under IAS 31 – *Interests in Joint Ventures*, of applying the equity method or proportionate consolidation. Joint operations are required to be accounted for using the proportionate consolidation method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities

In May 2011 IFRS 12 was issued which sets out the required disclosures for companies that have adopted IFRS 10 and 11 described above. It requires disclosure of information that helps users to evaluate the nature, risks and financial effects associated with a company's interests in subsidiaries, associates and joint arrangements. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

IFRS 13 – Fair Value Measurement

In May 2011 IFRS 13 was issued which defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. Prior to the introduction of the standard there was no single source of guidance on fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

IAS 19 - Amendment, Employee Benefits

In June 2011 IAS 19 was amended. The amendment will result in significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, the most significant being the replacement of finance cost and expected plan return on plan assets with a net finance amount that is calculated by applying the discount rate to the net liability (asset). Under the standard, the net finance amount can be classified with finance expense or pension and benefit expense. The amendment is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. In applying this standard it is our intent to classify the net finance amount related to pension and other benefit plans as finance expense with a corresponding reduction to pension and benefit expense currently included in cost of products sold and selling, general and administrative expense.

The effect of adopting of this amended standard on January 1, 2013 on our consolidated financial statements for the year ended December 31, 2012 will be as follows:

Pension and benefit expense increase	$	4
Finance expense increase		9
Tax provision decrease		(3)
Decrease in earnings	$	10
Decrease in actuarial loss on employee future benefits	$	(10)

There is no impact on balance sheet amounts or cash flows resulting from the amended standard.

5. ACQUISITION

On October 31, 2012 West Fraser acquired a sawmill and the associated timber licenses located in Alberta for $30 million. We accounted for the transaction as an acquisition of a business and have allocated the purchase price based on the estimated fair value of the assets acquired and the liabilities assumed. No goodwill arose on this transaction. The purchase price allocation is as follows:

Current assets	$ 8
Current liabilities	(4)
Property, plant and equipment	8
Timber licences	22
Long-term liabilities	(4)
Cash consideration	$ 30

6. INVESTMENTS IN JOINT VENTURES

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

	2012	2011
Current assets	$ 73	$ 74
Non-current assets	98	98
Current liabilities	(24)	(23)
Non-current liabilities	(31)	(25)
Equity	$ 116	$ 124
Sales	$ 203	$ 214
Costs and expenses	(178)	(174)
Earnings before income taxes	$ 25	$ 40
Cash flows from operating activities	$ 36	$ 48
Cash flows from investing activities	$ (10)	$ (15)

7. INVENTORIES

	2012	2011
Logs and other raw materials	$ 131	$ 105
Manufactured products	235	203
Processing materials and supplies	93	90
	$ 459	$ 398

Inventories at December 31, 2012 were written down by $3 million (December 31, 2011 – $15 million) to reflect net realizable value being lower than cost.

The carrying amount of inventory recorded at net realizable value was $22 million at December 31, 2012 (December 31, 2011 – $65 million), with the remaining inventory recorded at cost.

8. PROPERTY, PLANT AND EQUIPMENT

	MANUFACTURING PLANT, EQUIPMENT & MACHINERY	CONSTRUCTION-IN-PROGRESS	ROADS AND BRIDGES	OTHER	TOTAL
As at December 31, 2010					
Cost	$ 2,525	$ 13	$ 126	$ 36	$ 2,700
Accumulated amortization	(1,678)	—	(91)	(6)	(1,775)
Net	$ 847	$ 13	$ 35	$ 30	$ 925
As at December 31, 2010	$ 847	$ 13	$ 35	$ 30	$ 925
Additions	101	44	8	—	153
Disposals	—	—	—	(2)	(2)
Amortization[1]	(134)	—	(8)	—	(142)
Foreign exchange	2	—	—	—	2
Transfers	11	(12)	—	1	—
As at December 31, 2011	$ 827	$ 45	$ 35	$ 29	$ 936
As at December 31, 2011					
Cost	$ 2,582	$ 45	$ 89	$ 35	$ 2,751
Accumulated amortization	(1,755)	—	(54)	(6)	(1,815)
Net	$ 827	$ 45	$ 35	$ 29	$ 936
As at December 31, 2011	$ 827	$ 45	$ 35	$ 29	$ 936
Additions	**79**	**60**	**11**	**—**	**150**
Acquisition	**8**	**—**	**—**	**—**	**8**
Disposals	**—**	**—**	**—**	**(4)**	**(4)**
Amortization[1]	**(119)**	**—**	**(8)**	**(1)**	**(128)**
Foreign exchange	**(3)**	**—**	**—**	**—**	**(3)**
Transfers	**44**	**(44)**	**—**	**—**	**—**
As at December 31, 2012	**$ 836**	**$ 61**	**$ 38**	**$ 24**	**$ 959**
As at December 31, 2012					
Cost	**$ 2,679**	**$ 61**	**$ 97**	**$ 31**	**$ 2,868**
Accumulated amortization	**(1,843)**	**—**	**(59)**	**(7)**	**(1,909)**
Net	**$ 836**	**$ 61**	**$ 38**	**$ 24**	**$ 959**

1. Amortization of $126 million is included in cost of products sold and $2 million is included in selling, general and administration expense (2011 – $140 million and $2 million, respectively).

9. TIMBER LICENCES

	TIMBER LICENCES
As at December 31, 2010	
Cost	$ 662
Accumulated amortization	(152)
Net	$ 510
As at December 31, 2010	$ 510
Amortization[1]	(17)
Adjustment	(3)
As at December 31, 2011	$ 490
As at December 31, 2011	
Cost	$ 651
Accumulated amortization	(161)
Net	$ 490
As at December 31, 2011	$ 490
Acquisition	**22**
Amortization[1]	**(16)**
As at December 31, 2012	**$ 496**
As at December 31, 2012	
Cost	**$ 673**
Accumulated amortization	**(177)**
Net	**$ 496**

1. Amortization is included in cost of products sold.

10. GOODWILL AND OTHER INTANGIBLES

	GOODWILL	POWER PURCHASE AGREEMENT	OTHER	TOTAL
As at December 31,2010				
Cost	$ 264	$ 115	$ 23	$ 402
Accumulated amortization	—	(42)	(15)	(57)
Net	$ 264	$ 73	$ 8	$ 345
As at December 31, 2010	$ 264	$ 73	$ 8	$ 345
Amortization[1]	—	(7)	(2)	(9)
As at December 31, 2011	$ 264	$ 66	$ 6	$ 336
As at December 31, 2011				
Cost	$ 264	$ 115	$ 23	$ 402
Accumulated amortization	—	(49)	(17)	(66)
Net	$ 264	$ 66	$ 6	$ 336
As at December 31, 2011	$ 264	$ 66	$ 6	$ 336
Additions	**—**	**—**	**2**	**2**
Amortization[1]	**—**	**(7)**	**(1)**	**(8)**
As at December 31, 2012	**$ 264**	**$ 59**	**$ 7**	**$ 330**
As at December 31, 2012				
Cost	**$ 264**	**$ 115**	**$ 25**	**$ 404**
Accumulated amortization	**—**	**(56)**	**(18)**	**(74)**
Net	**$ 264**	**$ 59**	**$ 7**	**$ 330**

1. Amortization of $7 million is included in cost of products sold and $1 million is included in selling, general and administration expense (2011 – $7 million and $2 million, respectively).

Goodwill

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

For the purpose of the annual impairment test of goodwill, the fair value of CGUs has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the 2013 operating plan, a forecast of 2014 and 2015 and trend level earnings for subsequent years, all approved by management. Assumptions were developed by management based on industry sources, including Forest Economic Advisors, LLC, Resource Information Systems, Inc., and other industry analysts, taking into account management's best estimates.

Power purchase agreement

West Fraser has an interest in a power purchase agreement to acquire a portion of the electricity generated from a power plant in Alberta at substantially predetermined prices. Our share of electricity capacity to 2020 is expected to be approximately 115 megawatts per year. We sell the electricity acquired at prevailing market prices at the same time as our Alberta operations purchase electricity at prevailing market prices. The cost of the power purchase agreement is amortized over its term.

11. PAYABLES AND ACCRUED LIABILITIES

		2012		2011
Trade accounts	$	**163**	$	167
Accrued compensation		**47**		38
Accrued equity-based compensation		**80**		36
Dividends		**—**		6
Interest		**4**		4
Other		**28**		23
	$	**322**	$	274

12. LONG-TERM DEBT AND OPERATING LOANS

Long-term debt

		2012		2011
US$300 million senior notes due October 2014; interest at 5.2%	$	**299**	$	305
Note payable due in instalments to 2020; interest at 5.5%		**2**		2
		301		307
Deferred financing costs		**(1)**		(1)
	$	**300**	$	306

Required principal repayments are disclosed in note 25.

Operating loans

We have $530 million in revolving lines of credit which were undrawn as at December 31, 2012 (December 31, 2011 - undrawn). Deferred financing costs of $4 million are included in other assets at December 31, 2012 (December 31, 2011 – $6 million).

Our revolving lines of credit include a $500 million revolving credit facility which matures September 30, 2016, a $25 million demand line of credit dedicated to letters of credit and a $5 million demand line of credit dedicated to a jointly owned newsprint operation. Interest on the three facilities is payable at floating rates based on Prime, U.S. base, Bankers' Acceptances or LIBOR at our option. As at December 31, 2012, letters of credit in the amount of $45 million have been issued under these facilities.

The $500 million revolving credit facility, the $25 million demand line of credit and the US$300 million senior notes are secured by West Fraser's assets.

13. OTHER LIABILITIES

		2012		2011
Post-retirement (note 14)	$	**201**	$	159
Reforestation		**69**		70
Decommissioning		**16**		15
Other		**27**		26
	$	**313**	$	270

Reforestation and decommissioning obligations

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

Changes in reforestation and decommissioning obligations are as follows:

	Reforestation				Decommissioning			
		2012		2011		2012		2011
Beginning of year	$	**111**	$	106	$	**15**	$	26
Liabilities recognized		**42**		41		**—**		—
Liabilities settled		**(46)**		(39)		**—**		—
Acquired obligation		**4**		—		**—**		—
Accretion expense		**—**		1		**—**		—
Change in estimates		**1**		2		**1**		(11)
End of year	$	**112**	$	111	$	**16**	$	15
Less: current portion		**(43)**		(41)		**—**		—
	$	**69**	$	70	$	**16**	$	15

The total undiscounted amount of the estimated cash flows required to satisfy these obligations is $136 million (2011 – $132 million). The cash flows have been discounted using interest rates ranging from 1.14% to 1.38% (2011 – 0.95% to 1.27%).

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 35 years.

14. EMPLOYEE FUTURE BENEFITS

We maintain defined benefit and defined contribution pension plans covering a majority of our employees. The defined benefit plans provide pension benefits based either on length of service or on earnings and length of service. The total pension expense for the defined benefit plans is $33 million (2011 – $30 million) with total funding contributions of $59 million (2011 – $89 million). We also provide group life insurance, medical and extended health benefits to certain employee groups for which we contributed $3 million (2011 – $3 million).

The total pension expense and funding contributions for the defined contribution pension plans is $2 million (2011 – $2 million).

Approximately $94 million is expected to be contributed by West Fraser to pension and other benefit plans during 2013.

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

	Pension plans		Other benefit plans	
	2012	2011	**2012**	2011
Accrued benefit obligations				
Projected benefit obligations – opening	**$ 1,049**	$ 937	**$ 49**	$ 46
Current service cost	**38**	34	**1**	1
Finance cost	**53**	52	**2**	2
Benefits paid	**(52)**	(45)	**(3)**	(3)
Actuarial loss	**80**	70	**2**	3
Other	**—**	1	**—**	—
Projected benefit obligations – ending	**$ 1,168**	$ 1,049	**$ 51**	$ 49
Plan assets				
Fair value – opening	**$ 939**	$ 904	**$ —**	$ —
Expected return on plan assets	**58**	56	**—**	—
Actuarial investment gain (loss)	**13**	(66)	**—**	—
Employer contributions	**59**	89	**3**	3
Benefits paid	**(52)**	(45)	**(3)**	(3)
Other	**1**	1	**—**	—
Fair value – ending	**$ 1,018**	$ 939	**$ —**	$ —
Unfunded obligation				
Post-retirement liabilities (note 13)	**$ 150**	$ 110	**$ 51**	$ 49

	Pension plans		Other benefit plans	
	2012	2011	**2012**	2011
Expense				
Current service cost	**$ 38**	$ 34	**$ 1**	$ 1
Finance cost	**53**	52	**2**	2
Expected return on plan assets[1]	**(58)**	(56)	**—**	—
	$ 33	$ 30	**$ 3**	$ 3

1. The actual return on plan assets is a gain of $71 million for the year ended December 31, 2012 (2011 – loss of $10 million).

The cumulative actuarial losses recognized in other comprehensive earnings are as follows:

	2012	2011
Cumulative actuarial losses	$ 284	$ 215

The significant actuarial assumptions used to determine the period-ending benefit obligation and the annual benefit plan expense are as follows:

	Pension plans		Other benefit plans	
	2012	2011	2012	2011
Benefit obligations:				
Discount rate	4.5%	5.0%	4.5%	5.0%
Future compensation rate increase	3.5%	3.5%	n/a	n/a
Benefit expense:				
Discount rate – beginning of year	5.0%	5.5%	5.0%	5.5%
Expected rate of return on plan assets	6.5%	6.5%	n/a	n/a
Future compensation rate increase	3.5%	3.5%	n/a	n/a

The discount rate assumption used in determining the obligations for pension and other benefit plans reflects the market yields from high quality Canadian corporate bonds with cash flows that approximate expected benefit payments at the balance sheet date.

The expected rate of return on plan assets is reviewed annually by management, in conjunction with our actuaries. The assumption is based on expected returns for the various asset classes, weighted by the portfolio allocation.

Health care benefit costs, shown under other benefit plans, are funded on a pay-as-you-go basis. The actuarial assumptions for extended health care costs are estimated to increase 10% per year for three years, grading down 0.5% per year for years four to thirteen, to 5% per year thereafter. The actuarial assumptions for medical service plan costs are estimated to increase by 4% per year.

A 1% increase or decrease in the assumed health care cost trend rates would have the following effects for 2012:

	Increase	Decrease
Total of service and interest cost	$ —	$ —
Accrued benefit obligations	$ 3	$ (3)

Assets

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

	2012	2011
Equity investments	60%	57%
Fixed income investments	40%	42%
Other investments	—	1%
	100%	100%

15. SHARE CAPITAL

Authorized

200,000,000 Common shares, without par value

20,000,000 Class B Common shares, without par value

10,000,000 Preferred shares, issuable in series, without par value

Issued

	2012		2011	
	Number	Amount	Number	Amount
Common	40,281,242	$ 602	40,064,635	$ 601
Class B Common	2,581,478	—	2,781,478	—
Total Common	42,862,720	$ 602	42,846,113	$ 601

During 2012, 200,000 Class B Common shares were exchanged for Common shares.

Rights and restrictions of Common shares

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

West Fraser has a share option plan, a phantom share unit plan and a directors' deferred share unit plan which are described below. The compensation cost included in earnings for these plans in 2012 was a charge of $61 million (2011 – recovery of $3 million).

Share option plan

West Fraser has a share option plan for its directors, officers and employees under which options may be granted to purchase up to 5,005,506 Common shares of which 387,023 remain available for issuance. Directors ceased to participate under the share option plan in 2004. The exercise price of a share option is the closing price of a Common share on the trading day immediately preceding the grant date. Options vest at the earlier of the date of retirement or death and 20% per year from the grant date, and expire after 10 years. We have recorded an expense of $45 million (2011 – recovery of $6 million) related to the share option plan.

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

	2012		2011	
	Number	**Amount**	Number	Amount
Outstanding – beginning of year	**1,956,967**	**$ 37.92**	2,319,372	$ 37.49
Granted	**168,470**	**47.35**	163,450	51.50
Exercised	**(628,285)**	**37.20**	(522,855)	40.15
Expired/cancelled	**—**	**—**	(3,000)	51.56
Outstanding – end of year	**1,497,152**	**$ 39.29**	1,956,967	$ 37.92
Exercisable – end of year	**1,051,286**	**$ 38.64**	1,423,336	$ 38.62

The following table summarizes information about the share options outstanding at December 31, 2012:

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)
$24.71	324,500	6.1	$ 24.71	207,500	$ 24.71
$33.30 – $33.47	291,552	5.0	$ 33.30	240,428	$ 33.30
$37.65 – $41.19	188,900	2.9	$ 40.14	188,900	$ 40.14
$45.20 – $47.35	398,570	6.2	$ 46.11	230,100	$ 45.20
$51.50 – $51.56	293,630	5.5	$ 51.53	184,358	$ 51.54
	1,497,152	5.4	$ 39.29	1,051,286	$ 38.64

The weighted average share price at the date of exercise for share options exercised during the year was $64.93 per share (2011 – $53.41 per share).

The accrued liability related to the share option plan, determined by applying the Black-Scholes valuation model, is $51 million at December 31, 2012 (December 31, 2011 – $23 million). The weighted average fair value of the options using the Black-Scholes valuation model was $33.90 per option at December 31, 2012 (December 31, 2011 – $11.69 per option).

The inputs to the model are as follows:

	2012	2011
Share price on balance sheet date	**$ 70.58**	$ 41.66
Weighted average exercise price	**$ 39.29**	$ 37.92
Expected dividend	**$ 0.56**	$ 0.56
Expected volatility	**38.22%**	37.91%
Weighted average interest rate	**1.24%**	1.06%
Expected life of options in years	**3.7**	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, 2012 was $46 million (December 31, 2011 – $12 million). The intrinsic value is determined based on the difference between the period-end share price and the exercise price (for options in the money), multiplied by the sum of the related vested options plus unvested options for those holders eligible to retire.

Phantom share unit plan

Our phantom share unit plan is intended to supplement or, in whole or in part, replace the granting of share options as long-term incentives for officers and employees. The plan provides for two types of units which vest on the third anniversary of the grant date. A restricted share unit pays out based on the Common share price over the 20 trading days immediately preceding its vesting date (the "vesting date value"). A performance share unit pays out at a value between 0% and 200% of its vesting date value contingent upon West Fraser's 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 record an expense or recovery through earnings over the vesting period based on the quoted market price of our Common shares at each balance sheet date. The period over which the expense or recovery is charged is the lesser of three years from the issuance date and the time period until the unit holder reaches eligible retirement age. If the unit holder is eligible to retire, the expense or recovery is charged to earnings immediately. We have recorded an expense of $14 million (2011 – $4 million) related to the phantom share unit plan. The number of units outstanding as at December 31, 2012 was 337,765 (December 31, 2011 – 266,965), including performance share units totalling 72,390 (December 31, 2011 – 61,190).

Directors' deferred share unit plan

We have a deferred share unit plan ("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 and may elect to receive Units in payment of up to 100% of other fees earned. The Units are issued based on our Common share price at the time of issue. Additional Units are issued to take into account the value of dividends paid on Common shares from the date of issue to the date of redemption. Units are redeemable only after a director retires, resigns or otherwise leaves the board. The redemption value is equal to the Common share price at the date of redemption. A holder of Units may elect to redeem Units in cash or receive Common shares having an equivalent value. The number of Units outstanding as at December 31, 2012 was 71,156 (December 31, 2011 – 59,224).

17. FINANCE EXPENSE

	2012	2011
Interest expense	**$ (20)**	$ (21)
Interest income	**1**	2
Accretion on long-term liabilities	**—**	(1)
	$ (19)	$ (20)

18. OTHER INCOME

	2012	2011
Foreign exchange gain (loss) – net	**$ (5)**	$ 3
Gain on asset sales	**4**	9
Other – net	**1**	2
	$ —	$ 14

19. TAX PROVISION

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

	2012	2011
Current tax for the year	$ (27)	$ (8)
Current tax for previous periods	—	(2)
Deferred tax for the year	—	(8)
Deferred tax for previous periods	(1)	—
Tax provision on continuing operations	**(28)**	(18)
Current tax on discontinued operations	—	(3)
Deferred tax on discontinued operations	—	(8)
Tax provision on discontinued operations	**—**	(11)
Deferred tax on employee future benefits included in other comprehensive earnings	**17**	34
Tax recovery (provision) on comprehensive earnings	**$ (11)**	$ 5

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

	2012	2011
Income tax expense at statutory rate of 25% (2011 – 26.5%)[1]	$ (29)	$ (12)
Non-taxable amounts	(9)	2
Rate differentials between jurisdictions and on specified activities	(1)	6
Recognized (unrecognized) tax assets	11	(12)
Other	—	(2)
Tax provision	$ (28)	$ (18)

1. The statutory tax rate decreased by 1.5% from December 31, 2011 due to a federal corporate tax rate reduction.

Changes in the deferred income tax components are adjusted through deferred tax expense except for $17 million (2011 – $34 million) for employee future benefits which is adjusted through other comprehensive earnings. Of the following components of deferred income taxes payable, $12 million of the deferred tax assets and $15 million of the deferred tax liabilities are expected to be recovered within 12 months:

	2012	2011
Property, plant, equipment and intangibles	$ 210	$ 217
Reforestation and decommissioning obligations	(28)	(28)
Employee future benefits	(55)	(48)
Other	1	3
	$ 128	$ 144

We have loss carry-forwards of $335 million not recognized for accounting purposes that expire in various amounts in the years 2023 to 2031.

20. EMPLOYEE COMPENSATION

Our employee compensation expense includes salaries and wages, employee future benefits, termination costs and bonuses, where applicable. Total compensation expense is $595 million (2011 – $570 million).

Salaries, benefits and incentive compensation expense for key management (directors and officers) is $6 million (2011 – $5 million). In addition, various equity-based compensation plans are offered to key management. See note 16 for additional details.

21. DISCONTINUED OPERATIONS

We permanently closed our linerboard and kraft paper mill, located in Kitimat, B.C. in January 2010. The results of the discontinued operation are as follows:

	2011
Earnings before tax provision	$ 57
Tax provision	(11)
Earnings	$ 46
Cash flows from operating activities	$ (5)
Cash flows from investing activities	50
Increase in cash	$ 45

During 2011, the remaining assets associated with the Kitimat mill were sold for proceeds of $50 million resulting in a gain of $49 million.

22. 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 expense (recovery) 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.

	2012		2011	
	From continuing operations	**After discontinued operations**	From continuing operations	After discontinued operations
Earnings				
Basic	**$ 87**	**$ 87**	$ 27	$ 73
Share option expense (recovery)	**45**	**45**	(6)	(6)
Equity settled share option adjustment	**(3)**	**(3)**	(3)	(3)
Diluted	**$ 129**	**$ 129**	$ 18	$ 64
Weighted average number of shares (thousands)				
Basic	**42,857**	**42,857**	42,840	42,840
Share options	**555**	**555**	434	434
Diluted	**43,412**	**43,412**	43,274	43,274
Earnings per share (dollars)				
Basic	**$ 2.02**	**$ 2.02**	$ 0.63	$ 1.70
Diluted	**$ 2.02**	**$ 2.02**	$ 0.41	$ 1.47

23. COMMITMENTS

Operating leases

We are committed to make payments under certain operating leases for equipment, land, buildings and office space. Operating lease costs expensed during the year were $4 million (2011 – $3 million). The future payments required under operating leases are as follows:

2013	$ 2
2014	2
2015	2
2016	1
2017	1
Thereafter	5
	$ 13

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 expenditures

Capital commitments at December 31, 2012 are $90 million.

24. GOVERNMENT ASSISTANCE

Construction of manufacturing assets

In 2009 the Government of Canada confirmed an allocation of credits totalling $88 million to West Fraser under the Pulp and Paper Green Transformation Program (the “GT Program”). The GT Program provides funding for capital projects that improve the energy efficiency or environmental performance of Canadian pulp and paper mills. As at December 31, 2012, we have fully utilized the granted credits.

Operational expenses

Government assistance of $14 million (2011 – $9 million) was recorded as a reduction to cost of products sold. The government assistance related primarily to research and development, bioenergy producer credits and apprentice tax credits.

25. FINANCIAL INSTRUMENTS

a) Carrying and fair value of financial instruments by category

2012	Loans & receivables	Other financial liabilities	Carrying value	Fair value
Financial assets				
Cash and short-term investments	$ 102	$ —	$ 102	$ 102
Receivables	251	—	251	251
	$ 353	$ —	$ 353	$ 353
Financial liabilities				
Payables and accrued liabilities	$ —	$ 322	$ 322	$ 322
Long-term debt (note 12)[1]	—	301	301	313
	$ —	$ 623	$ 623	$ 635

1. The fair value of the long-term debt is based on rates available to us at December 31, 2012 for long-term debt with similar terms and remaining maturities.

2011	Loans & receivables	Other financial liabilities	Carrying value	Fair value
Financial assets				
Cash and short-term investments	$ 68	$ —	$ 68	$ 68
Receivables	266	—	266	266
	$ 334	$ —	$ 334	$ 334
Financial liabilities				
Payables and accrued liabilities	$ —	$ 274	$ 274	$ 274
Long-term debt (note 12)[1]	—	307	307	308
	$ —	$ 581	$ 581	$ 582

1. The fair value of the long-term debt is based on rates available to us at December 31, 2011 for long-term debt with similar terms and remaining maturities.

b) Financial risk management

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

Commodity prices

Our financial performance is principally dependent on the demand for, and selling prices of, our products. Both are subject to significant fluctuations. The markets for lumber, wood chips, LVL, MDF, plywood, pulp and newsprint are highly volatile and are affected by factors such as global economic conditions including the strength of the U.S. housing market, changes in industry production capacity, changes in world inventory levels and other factors beyond our control.

Currency fluctuation

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

From time to time, we use derivatives to manage our exposure to U.S. dollar exchange fluctuations and commodity prices. We do not utilize derivative financial instruments for trading or speculative purposes.

Impact of U.S. dollar currency fluctuation on financial instruments

The U.S. dollar balance sheet exposure at December 31, 2012 was as follows:

Canadian operations		**2012**
Net working capital	**US$**	**200**
Long-term debt		**(300)**
	US$	**(100)**
U.S. operations		
Net investment	**US$**	**266**

Based on these balances, with other variables unchanged, a $0.01 increase in the exchange rate for one U.S. dollar into Canadian currency would have resulted in a $1 million increase in earnings and an increase of $3 million in the translation loss on foreign operations. A $0.01 decrease in this rate would have resulted in a $1 million decrease in earnings and a decrease of $3 million in the translation loss on foreign operations.

Credit

Credit risk arises from the non-performance by counterparties of contractual financial obligations. Investments in cash and short-term investments and derivative contracts are primarily made using major banks and only made with counterparties meeting certain credit worthiness criteria. Credit risk for trade and other receivables is managed through established credit monitoring activities. Customer credit limits are established and monitored. Ongoing evaluations of key customer financial conditions are performed. In certain market areas we have undertaken additional measures to reduce credit risk including credit insurance, letters of credit and prepayments. At December 31, 2012 approximately 62% of trade accounts receivable were covered by at least some of these additional measures. We have historically experienced minimal customer defaults and, as a result, consider the credit quality of the trade accounts receivable at December 31, 2012 to be high. Bad debt expense of $2 million (2011 – $nil) was recorded for the year. The aging analysis of trade accounts receivable is presented below:

		2012		2011
Trade accounts receivable – gross				
Current	**$**	**171**	$	149
Past due 1 to 30 days		**31**		38
Past due 31 to 60 days		**1**		2
Past due over 60 days		**—**		4
		203		193
Allowance for doubtful accounts		**(1)**		(1)
Trade accounts receivable – net		**202**		192
Green Transformation Program		**1**		40
Other		**48**		34
Receivables	**$**	**251**	$	266

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 long-term debt has a balanced maturity schedule where possible.

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

	2013	2014	2015	2016	2017	Thereafter	Total
Long-term debt (note 12)	$ —	$ 299	$ —	$ —	$ —	$ 2	$ 301
Interest on debt [1]	16	12	—	—	—	—	28
	$ 16	$ 311	$ —	$ —	$ —	$ 2	$ 329

1. Assumes debt level, foreign exchange rate and floating interest rates remain at December 31, 2012 levels and rates.

Interest rates

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

At December 31, 2012, with other variables unchanged, a 1% change in interest rates would not have a significant impact on earnings or other comprehensive earnings.

26. 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. dollar. Our objective in managing capital is to ensure adequate liquidity and financial flexibility at all times, particularly at the bottom of the business cycle and in a strong Canadian dollar environment.

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 at below investment grade by major rating agencies primarily due to the poor economic fundamentals of the North American forest products industry over the last few years. We believe that the goal of returning to an investment grade rating is an appropriately conservative approach in the context of the cyclical nature of our business.

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. Long-term debt repayments are arranged, where possible, on a staggered basis that takes into account the uneven nature of anticipated cash flows. We have also 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:

	2012	2011
Net debt		
Cash and short-term investments	**$ (102)**	$ (68)
Deferred financing fees	**(4)**	(6)
Long-term debt [1]	**300**	306
	194	232
Shareholders' equity	**1,492**	1,483
Total capital	**$ 1,686**	$ 1,715
Net debt to total capital	**12%**	14%

1. Balance sheet presentation is net of deferred financing fees, where applicable.

27. 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 accounting policies of each segment are those described in note 3.

2012	Lumber	Panels	Pulp & Paper	Corporate & Other	Total
Sales at market prices					
To external customers	$ 1,783	$ 442	$ 775	$ —	$ 3,000
To other segments	72	6	—	—	
	$ 1,855	$ 448	$ 775	$ —	
EBITDA[1]	$ 180	$ 55	$ 109	$ (65)	$ 279
Amortization	(86)	(16)	(48)	(2)	(152)
Operating earnings	94	39	61	(67)	127
Finance expense	(10)	(3)	(6)	—	(19)
Exchange gain on long-term debt	—	—	—	7	7
Other income (expense)	(4)	—	1	3	—
Earnings from continuing operations before tax provision	$ 80	$ 36	$ 56	$ (57)	$ 115
Capital employed[1]	$ 1,572	$ 270	$ 520	$ (86)	$ 2,276
Total liabilities	$ 279	$ 46	$ 110	$ 691	$ 1,126
Assets before goodwill	$ 1,473	$ 247	$ 584	$ 50	$ 2,354
Goodwill	218	46	—	—	264
Total assets	$ 1,691	$ 293	$ 584	$ 50	$ 2,618
Capital expenditures	$ 109	$ 4	$ 35	$ 2	$ 150
Acquisition	$ 30	$ —	$ —	$ —	$ 30

1. Non-IFRS measures:
a) EBITDA is defined as operating earnings plus amortization.
b) Capital employed is defined as total assets less current non-interest bearing liabilities at year-end.

2011	Lumber	Panels	Pulp & Paper	Corporate & Other	Total
Sales at market prices					
To external customers	$ 1,579	$ 370	$ 813	$ —	$ 2,762
To other segments	91	8	—	—	
	$ 1,670	$ 378	$ 813	$ —	
EBITDA[1]	$ 65	$ 8	$ 148	$ 5	$ 226
Amortization	(85)	(15)	(65)	(3)	(168)
Operating earnings	(20)	(7)	83	2	58
Finance expense	(11)	(3)	(6)	—	(20)
Exchange loss on long-term debt	—	—	—	(7)	(7)
Other income	10	—	3	1	14
Earnings from continuing operations before tax provision	$ (21)	$ (10)	$ 80	$ (4)	$ 45
Capital employed[1]	$ 1,400	$ 277	$ 576	$ (9)	$ 2,244
Total liabilities	$ 271	$ 47	$ 112	$ 605	$ 1,035
Assets before goodwill	$ 1,302	$ 252	$ 648	$ 52	$ 2,254
Goodwill	218	46	—	—	264
Total assets	$ 1,520	$ 298	$ 648	$ 52	$ 2,518
Capital expenditures	$ 108	$ 5	$ 99	$ 1	$ 213

1. Non-IFRS measures:
a) EBITDA is defined as operating earnings plus amortization.
b) Capital employed is defined as total assets less current non-interest bearing liabilities at year-end.

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

	Non-current assets		Sales by geographic area[1]	
	2012	2011	**2012**	2011
Canada	**$ 1,633**	$ 1,627	**$ 747**	$ 652
United States	**162**	146	**1,435**	1,303
China	**—**	—	**513**	456
Other Asia	**—**	—	**201**	229
Other	**—**	—	**104**	122
	$ 1,795	$ 1,773	**$ 3,000**	$ 2,762

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

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