2018 MANAGEMENT'S DISCUSSION & ANALYSIS

Introduction and Interpretation

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

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

This MD&A contains historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results. The latter, which are forward-looking statements, are presented to provide reasonable guidance to the reader but their accuracy depends on a number of assumptions and is subject to various risks and uncertainties. Forward-looking statements are included under the headings "Recent Developments – Production Curtailments" (production curtailment estimate); "Adjusted Earnings and Adjusted Basic Earnings Per Share" (administrative review commencement and adjustment of export duty rates); "Discussion & Analysis of Annual Results by Product Segment - Lumber Segment - Softwood Lumber Dispute" (administrative review commencement and adjustment of export duty rates); "Discussion & Analysis of Annual Results by Product Segment – Pulp & Paper Segment – Operating Earnings" (refund of collected duty deposits); "Business Outlook;" "Estimated Earnings Sensitivity to Key Variables;" "Selected Cash Flow Items – Operating Activities" (estimated tax payments for February 2019); "Significant Management Judgments Affecting Financial Results – Softwood Lumber Dispute" (administrative review commencement and adjustment of export duty rates); and "Contractual Obligations". By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. Actual outcomes and results of these statements will depend on a number of factors including those matters described under "Risks and Uncertainties" and may differ materially from those anticipated or projected. This list of important factors affecting forward-looking statements is not exhaustive and reference should be made to the other factors discussed in public filings with securities regulatory authorities. Accordingly, readers should exercise caution in relying upon forward-looking- statements and we undertake no obligation to publicly update or revise any forward-looking statements, whether written or oral, to reflect subsequent events or circumstances except as required by applicable securities laws.

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

This MD&A includes references to benchmark prices over selected periods for products of the type produced by West Fraser. These benchmark prices are for specific products, dimensions or grades and do not necessarily reflect the prices obtained by West Fraser during those periods as we produce and sell a wide offering of dimensions, grades and species. The information in this MD&A is as at February 12, 2019 unless otherwise indicated.

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

Recent Developments

Production Curtailments

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

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

Canadian Tax Reform

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

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

Annual Results

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

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

Selected Quarterly Information
($ millions, except earnings per share (“EPS”) amounts which are in $)

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

Discussion & Analysis of Annual Non-Operational Items

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

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

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

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

Our equity-based compensation includes our share purchase option, phantom share unit, and directors’ deferred share unit plans (collectively, the “Plans”), all of which have been partially hedged by an equity derivative contract. The Plans and equity derivative contract are fair valued each quarter and the resulting expense or recovery is recorded over the vesting period. Our fair valuation models consider various factors with the most significant being the change in the market value of our shares from the beginning to the end of the relevant period. The expense or recovery does not necessarily represent the actual value which will ultimately be received by the holders of options and units.

Any change in the value of the Canadian dollar relative to the value of the U.S. dollar results in the revaluation of our U.S. dollar denominated assets and liabilities. The revaluation of our Canadian operation’s U.S. dollar balances is included in other income in earnings while the revaluation of our U.S. operation’s assets and liabilities is included in other comprehensive earnings. The values in the table above incorporate the exchange gains recorded on our U.S. dollar denominated long-term financing and our long-term duty deposit receivable during the periods presented. Exchange gains or losses realized on the working capital balances of our Canadian operations are identified under “Other Non-Operational Items” below.

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

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

Other Non-Operational Items

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

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

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

Discussion & Analysis of Annual Results by Product Segment

Lumber Segment

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

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

Gilman Acquisition

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

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

Operating Earnings

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

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

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

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

Production

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

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

Shipments

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

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

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

SPF Sales by Destination

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

Softwood Lumber Dispute

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

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

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

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

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

Panels Segment

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

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

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

Operating earnings

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

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

Production

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

Shipments

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

Pulp & Paper Segment

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

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

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

Operating Earnings

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

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

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

Production

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

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

Shipments

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

Fourth Quarter Results

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

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

Discussion & Analysis of Fourth Quarter Non-Operational Items

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

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

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

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

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

Other Non-Operational Items

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

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

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

Discussion & Analysis of Fourth Quarter Results by Product Segment

Lumber Segment

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

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

Operating Earnings

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

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

Production

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

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

Shipments

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

Panels Segment

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

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

Operating Earnings

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

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

Production and Shipments

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

Pulp & Paper Segment

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

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

Operating Earnings

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

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

Production

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

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

Shipments

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

Capital Expenditures
($ millions)

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

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

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

Business Outlook

Operations

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

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

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

Markets

Our lumber segment's most important market is the U.S., particularly residential construction and repair and remodelling. Canadian softwood lumber exports to the U.S. have been the subject of trade disputes and managed trade arrangements for the last several decades. Countervailing and antidumping duties have been in place since April of 2017 and we were required to make deposits in respect of these duties. Whether and to what extent we can realize a selling price to fully recover the impact of duties payable will largely depend on the strength of demand for softwood lumber, which is significantly influenced by the levels of new residential construction in the U.S. While residential construction has been gradually improving over the past several years, the pace of improvement slowed in the second half of 2018. If duties can be passed through to consumers in whole or in part the price of Canadian softwood lumber will increase (although the increase will not necessarily be for the benefit of Canadian producers) which in turn could cause the price of SYP lumber, which would not be subject to the duty, to increase as well. Regardless of the commodity price, export duties on SPF shipments to the U.S. remain a cost to our Company.

We are anticipating steady demand from China and Japan for Canadian softwood lumber, but it is currently very difficult to predict how and to what extent duties will affect lumber prices and the cost structure of our Canadian lumber business over the long term.

The major component of our panels segment is plywood which is sold mainly in Canada. Although demand for Canadian plywood has been strong over the past several years, we anticipate measures implemented by various governments across Canada to moderate housing markets may dampen demand. MDF and LVL demand is heavily influenced by North American new home construction and we are expecting modest improvement in U.S. residential construction which should help maintain price levels for these products.

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

Cash Flows

We are anticipating levels of cash flows, taking into account duties on Canadian softwood lumber exports to the U.S., to support between $350 and $450 million of capital spending in 2019 as well as to continue to support dividend payments. We have paid a dividend in every quarter since we became a public company in 1986. We expect to maintain our investment grade rating and intend to preserve sufficient liquidity to be able to take advantage of strategic growth opportunities that may arise. We are authorized under our normal course issuer bid, which expires in September of 2019, to purchase up to 10% of the public float of our Common shares and we will continue to consider share repurchases with excess cash if we are satisfied that this will enhance shareholder value and does not compromise our financial flexibility.

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

Factor	Variation	Change in pre-tax earnings
Lumber price	US$10 (per Mfbm)	90
Plywood price	Cdn$10 (per Msf)	8
NBSK price	US$10 (per tonne)	7
BCTMP price	US$10 (per tonne)	9
U.S. – Canadian $ exchange rate[2]	US$0.01 (per Cdn $)	29

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

Capital Structure and Liquidity

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

Our operating facilities include a $500 million committed revolving credit facility, a $34 million (US$25 million) demand line of credit dedicated to our U.S. operations and an $8 million demand line of credit dedicated to our jointly-owned newsprint operation. In addition, we have demand lines of credit totalling $70 million dedicated to letters of credit of which US$15 million is committed to our U.S. operations. These facilities are available to meet our funding requirements.

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

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

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

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

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

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

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

As of February 11, 2019 there were 1,202,448 share purchase options outstanding with exercise prices ranging from $12.36 to $85.40 per Common share.

In October 2014, we issued US$300 million of fixed-rate senior unsecured notes, bearing interest at 4.35% and due October 2024, pursuant to a private placement in the U.S. The notes are redeemable, in whole or in part, at our option at any time.

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

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

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

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

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

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

Debt Ratings

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

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

Selected Cash Flow Items
($ millions – cash provided by (used in))

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

Operating Activities

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

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

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

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

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

Financing Activities

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

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

Investing Activities

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

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

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

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

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

Financial Instruments

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

Significant Management Judgments Affecting Financial Results

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

Softwood Lumber Dispute

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

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

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

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

Recoverability of Long-lived Assets

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

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

Goodwill is not amortized. We compare the carrying value of goodwill and related assets, at least once a year, to the estimated discounted cash flows that the assets are expected to generate. If it is determined that the carrying value is more than the estimated discounted cash flows, then a goodwill impairment will be recorded. We tested goodwill for impairment in 2018 and concluded that its carrying value is not impaired. The testing of goodwill for impairment involves significant estimates including future production and sales volumes, product selling prices, U.S. dollar exchange rates, operating costs, capital expenditures and the appropriate discount rate to apply. In all cases, we have used our best estimates of these projected amounts and values. Given the current global economic uncertainty and the volatility of the markets for our products, it is possible that our estimates will be adjusted in the future and that these adjusted estimates could result in the future impairment of goodwill.

We also review the carrying value of deferred income tax assets to ensure that the carrying value is appropriate. The key factors considered are our history of profitability, future expectations of profitability, the expected reversal of temporary differences and the timing of expiry of tax loss carry-forwards and limitations on their use.

Reforestation and Decommissioning Obligations

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

In our operating areas, the time to meet reforestation standards usually spans 12 to 15 years from the time of harvest. We record a liability for the estimated cost of the future reforestation activities when the harvesting takes place. This liability is reviewed, at least annually, and is updated to our current estimate of the costs to complete the remainder of the reforestation activities. In 2018, the review of the reforestation obligation resulted in an increase to the obligation of $7 million (2017 - decrease of $7 million).

We record the estimated fair value of a liability for decommissioning obligations, such as landfill closures, in the period when a reasonable estimate of fair value can be made. We review these estimates at least annually and adjust the obligations as appropriate. In 2018 the review resulted in an increase to the obligation of $4 million (2017 – no change).

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

We maintain several D.B. Plans for many of our employees. The annual funding requirements and pension expenses are based on (i) various assumptions that we determine in consultation with our actuaries, (ii) actual investment returns on the pension fund assets, and (iii) changes to the employee groups in the pension plans. Note 14 to the Financial Statements provides the sensitivity of a change in key assumptions to our post-retirement obligations.

Accounting Standards Issued but Not Yet Applied

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

IFRS 16 - Leases

In January 2016 IFRS 16 was issued. This standard requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. We will apply the modified retrospective transition method upon application of the new standard on January 1, 2019. We do not expect this standard to have a significant effect on our consolidated financial statements.

New Accounting Pronouncements Adopted

IFRS 9 - Financial Instruments

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

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

IFRS 15 - Revenue from Contracts with Customers

We have adopted IFRS 15 effective January 1, 2018 using the full retrospective method. The new revenue standard, IFRS 15, replaces IAS 18 - Revenue, IAS 11 - Construction Contracts and the related interpretations. This standard addressed revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 requires that revenue is recognised at the 'transaction price' when certain contractual obligations are met but with any 'variable consideration' elements of the price recognised when it is 'highly probable' that there will be no reversal of that revenue.

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

Non-IFRS Measures

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

Adjusted EBITDA
($ millions)

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

Adjusted EBITDA by Segment
($ millions)

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

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

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

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

Net Debt to Total Capital Ratio
($ millions except where indicated)

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

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

Risks and Uncertainties

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

Product Demand and Price Fluctuations

Our revenues and financial results are primarily dependent on the demand for, and selling prices of, our products, which are subject to significant fluctuations. The demand and prices for lumber, panels, pulp, newsprint, wood chips and other wood products are highly volatile and are affected by factors such as: (1) global economic conditions including the strength of the U.S., Canadian, Chinese, Japanese and other international economies, particularly U.S. and Canadian housing markets and their the mix of single and multifamily construction, repair, renovation and remodeling spending; (2) alternative products to lumber; (3) changes in industry production capacity; (4) changes in world inventory levels; (5) increased competition from other consumers of logs and producers of lumber; and (6) other factors beyond our control. In addition, unemployment levels, interest rates, the availability of mortgage credit and the rate of mortgage foreclosures have a significant effect on residential construction and renovation activity, which in turn influences the demand for, and price of, building materials such as lumber and panel products. Declines in demand, and corresponding reductions in prices, for our products may adversely affect our financial condition and results of operations.

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

Availability of Fibre and Changes in Stumpage Fees

Substantially all of our Canadian log requirements are harvested from lands owned by a provincial government (the “Crown”). Provincial governments control the volumes that can be harvested under provincially-granted tenures and otherwise regulate the availability of Crown timber for harvest. Determinations by provincial governments to reduce the volume of timber, the areas that may be harvested under timber tenures or to regulate the processing of timber or use of harvesting contractors, including to protect the environment or endangered species and critical habitat or as a result of forest fires or in response to jurisprudence or government policies respecting aboriginal rights and title or to restrict log processing to local or appurtenant saw mills or to mandate amounts of work to be provided or rates to be paid to harvesting contractors, may reduce our ability to secure log supply and may increase our log purchase costs.

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

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

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

We rely on log supply agreements in the U.S. which are subject to log availability and based on market prices. Approximately 18% of the aggregate log requirements for our U.S. sawmills may be supplied under long-term agreements with the balance purchased on the open market. Open market purchases come from timber real estate investment trusts, timberland investment management organizations and private land owners. Changes in the log markets in which we operate may reduce the supply of logs available to us and may increase the costs of log purchases, each of which could adversely affect our results.

Trade Restrictions

A substantial portion of our products that are manufactured in Canada are exported for sale. Our financial results are dependent on continued access to the export markets and tariffs and other trade barriers that restrict or prevent access represent a continuing risk to us. Canadian softwood lumber exports to the U.S. have been the subject of trade disputes and managed trade arrangements for the last several decades. During the period from October 2006 through October 2015 these exports were subject to a trade agreement between the U.S. and

Canada and on the expiry of that agreement, a one-year moratorium on trade sanctions by the U.S. came into place. That moratorium has expired and in November 2016 a group of U.S. lumber producers petitioned the USDOC and the USITC to impose trade sanctions against Canadian softwood lumber exports to the U.S. In 2017 duties were imposed on Canadian softwood lumber exports to the U.S. The duties are likely to remain in place until and unless some form of trade agreement can be reached between the U.S. and Canada or a final, binding determination is made as a result of litigation. Unless the additional costs imposed by duties can be passed along to lumber consumers, the duties will increase costs for Canadian producers and, in certain cases, could result in some Canadian production becoming unprofitable. Whether and to what extent duties can be passed along to consumers will largely depend on the strength of demand for softwood lumber, which is significantly influenced by the levels of new residential construction in the U.S. which has been gradually improving over the past several years. If duties can be passed through to consumers in whole or in part the price of Canadian softwood lumber will increase (although the increase will not necessarily be for the benefit of Canadian producers) which in turn could cause the price of SYP lumber, which would not be subject to the duty, to increase as well.

The application of U.S. trade laws could, in certain circumstances, create significant burdens on us. We are a mandatory respondent in current investigations being conducted by the USDOC into alleged subsidies and dumping of Canadian softwood lumber. In addition, the current trade dispute between the U.S. and China could negatively impact either or both the U.S. and Chinese economies which could have an adverse effect on the demand for our products and could adversely affect our financial results.

Natural and Man-Made Disasters and Climate Change

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

Mountain Pine Beetle and British Columbia Wildfires

The long-term effect of the mountain pine beetle infestation and the 2017 and 2018 wildfire outbreaks in British Columbia on our Canadian operations is uncertain. The potential effects include a reduction of future Annual Allowable Cut (“AAC”) levels to below current and pre-infestation AAC levels. Many of our British Columbia operations are experiencing a diminished grade and volume of lumber recovered from beetle-killed and fire damaged logs as well as increased production costs. These effects are also present in some of our Alberta operations where the mountain pine beetle infestation has expanded. The timing and extent of the future effect on our timber supply, lumber grade and recovery, and production costs will depend on a variety of factors and at this time cannot be reasonably determined. The effects of the deterioration of beetle-killed and fire damaged logs could include increased costs, reduced operating rates due to shortages of commercially merchantable timber and mill closures.

Wood Dust

Our operations generate wood dust which has been recognized for many years as a potential health and safety hazard and operational issue. The potential risks associated with wood dust have been increased in those of our

British Columbia and Alberta facilities that have been processing mountain pine beetle-killed logs and fire damaged logs as the wood dust generated from these logs tends to be drier, lighter and finer than wood dust typically generated. We have adopted a variety of measures to reduce or eliminate the risks and operational challenges posed by the presence of wood dust in our facilities and we continue to work with industry and regulators to develop and adopt best mitigation practices. Any explosion or similar event at any of our facilities or any third-party facility could result in significant loss, increases in expenses and disruption of operations, each of which would have a material adverse effect on our business.

Financial

Capital Plans

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

Capital Resources

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

Availability of Credit

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

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

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

Credit Ratings

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

Costs of Materials and Energy

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

Operational Curtailments

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

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

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

Transportation Requirements

Our business depends on our ability to transport a high volume of products and raw materials to and from our production facilities and on to both domestic and international markets. We rely primarily on third-party transportation providers for both the delivery of raw materials to our production facilities and the transportation of our products to market. These third-party transportation providers include truckers, bulk and container shippers and railways. Our ability to obtain transportation services from these transportation service providers is subject to risks which include, without limitation, availability of equipment and operators, disruptions due to weather, natural disasters and labour disputes. Transportation services may also be impacted by seasonal factors, which could impact the timely delivery of raw materials and distribution of products to customers. As a result of rail capacity constraints, access to adequate transportation capacity has at times been strained and could affect our ability to transport lumber and pulp to markets and could result in increased product inventories. Transportation costs are also subject to risks that include, without limitation, increased rates due to competition and increased fuel costs. Increases in transportation costs will increase our operating costs. If we are unable to obtain transportation services or if our transportation costs increase, our revenues may decrease due to our inability to deliver products to market and our operating expenses may increase, each of which would adversely affect our results of operations.

Labour and Services

Our operations rely on both skilled and unskilled workers as well as third party services such as logging and transportation and services for our capital projects. Because our operations are generally located away from major urban centres, we often face strong competition from our industry and others such as oil and gas production and mining for labour and services, particularly skilled trades. Shortages of key services or shortages of labour, including those caused by a failure to attract and retain a sufficient number of qualified employees and other personnel or high employee turnover could impair our operations by reducing production or increasing costs or the ability to execute on our capital projects including timing and costs.

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

Environment

We are subject to regulation by federal, provincial, state, municipal and local environmental authorities, including, among other matters, environmental regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid and hazardous waste, landfill operations, forestry practices, permitting obligations, site remediation and the protection of threatened or endangered species and critical habitat. We have incurred, and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations, including the U.S. Environmental Protection Agency's Boiler MACT (maximum achievable control technology) regulations. In addition, changes in the regulatory environment respecting climate change have and may lead governments and regulatory bodies to enact additional or more stringent laws and regulations and impose operational restrictions or incremental levies and taxes applicable to our Company.

No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on our business, operations, financial condition and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from our available cash flow.

We may discover currently unknown environmental problems, contamination, or conditions relating to our past or present operations. This or any failure to comply with environmental laws and regulations may require site or other remediation costs or result in governmental or private claims for damage to person, property, natural resources or the environment or governmental sanctions, including fines or the curtailment or suspension of our operations, which could have a material adverse effect on our business, financial condition and operational results.

We are currently involved in investigation and remediation activities and maintain accruals for certain environmental matters or obligations, as set out in the notes to our Financial Statements for the year ended December 31, 2018. There can be no assurance that any costs associated with such obligations or other environmental matters will not exceed our accruals.

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

Aboriginal Groups

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

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

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

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

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

Regulatory

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

Foreign Currency Exchange Rates

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

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

Exchange rate fluctuations result in exchange gains or losses and changes in other comprehensive earnings. This results in significant earnings sensitivity to changes in the Canadian/U.S. dollar exchange rate. The Canadian/U.S. dollar exchange rate is affected by a broad range of factors which makes future rates difficult to accurately predict.

Competition

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

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

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

Pension Plan Funding

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

Information Technology

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

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

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

Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

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

Evaluation of Effectiveness of Internal Controls

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

Additional Information

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