2014 MANAGEMENT'S DISCUSSION & ANALYSIS

This discussion and analysis by West Fraser's management ("MD&A") of West Fraser's financial performance during 2014 and the fourth quarter of 2014 should be read in conjunction with the 2014 annual audited consolidated financial statements and accompanying notes. Dollar amounts are expressed in Canadian currency, unless otherwise indicated.

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

All references within this MD&A to the number of West Fraser shares, share prices, earnings per share, options, and other equity-based incentives reflect the payment and adjustments resulting from a stock dividend, declared on December 10, 2013 and paid on January 13, 2014, applied retroactively to all comparative periods. See the "Capital Structure and Liquidity" section of this MD&A and Note 17 to the accompanying annual consolidated financial statements for additional information on the stock dividend.

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 "Discussion by Product Segment – Lumber Segment" (concerning the expected continued improvement in U.S. housing recovery and the scheduled expiry of the Softwood Lumber Agreement); "Capital Expenditures" (concerning the completion of our two biomass energy projects) and "Business Outlook". Actual outcomes and results of these statements will depend on a number of factors including those matters described under "Risks and Uncertainties", and may differ materially from those anticipated or projected. Accordingly, readers should exercise caution in relying upon forward-looking statements and we undertake no obligation to publicly revise them to reflect subsequent events or circumstances except as required by applicable securities laws.

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

This MD&A includes references to benchmark prices over selected periods for products of the type produced by West Fraser. These benchmark prices do not necessarily reflect the prices obtained by West Fraser for those products during such period. The information in this MD&A is as at February 19, 2015 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.

Annual Results

Financial Comparisons ($millions, except as otherwise indicated)

Year ended December 31	2014	2013	2012
Sales by segment			
Lumber	**2,622**	2,315	1,855
Panels	**526**	467	448
Pulp & Paper	**812**	780	775
Intracompany fibre sales	**(104)**	(88)	(78)
Total	**3,856**	3,474	3,000
Adjusted EBITDA	**621**	583	336
Amortization	**(170)**	(160)	(152)
Equity-based compensation	**(45)**	(54)	(61)
Restructuring charges	**—**	(24)	—
Operating earnings	**406**	345	123
Operating earnings by segment			
Lumber	**351**	314	90
Panels	**64**	28	38
Pulp & Paper	**42**	58	62
Corporate and Other	**(51)**	(55)	(67)
Total	**406**	345	123
Earnings	**259**	349	77
Diluted earnings per share ($)	**3.06**	4.07	0.90
Cash dividends per share ($)	**0.28**	0.28	0.28
Total assets	**3,397**	3,104	2,632
Long-term debt[1]	**354**	328	300
Cdn$1.00 converted to US$ – average	**0.905**	0.971	1.000

1. Includes current portion of long-term debt.

Selected Quarterly Information

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

	Q4-14	Q3-14	Q2-14	Q1-14	Q4-13	Q3-13	Q2-13	Q1-13
Sales	**964**	**1,030**	**1,053**	**809**	833	878	900	863
Earnings	**43**	**70**	**74**	**72**	118	55	109	67
Basic EPS	**0.51**	**0.83**	**0.87**	**0.84**	1.37	0.64	1.27	0.79
Diluted EPS	**0.51**	**0.83**	**0.87**	**0.79**	1.37	0.64	1.12	0.79

Annual Earnings Adjustments for Certain Non-operational Items

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

	2014	2013
Earnings	**259**	349
Adjustments to earnings		
Equity-based compensation	**45**	54
Loss on translation of U.S. dollar-denominated long-term debt	**29**	21
Restructuring charges	**—**	24
Gain on sale of tenure	**—**	(10)
Net tax effect on the above adjustments	**(6)**	(9)
Recognition of deferred income tax asset related to loss carryforwards	**—**	(101)
Net effect of above items	**68**	(21)
Adjusted earnings	**327**	328
Adjusted basic EPS	**3.86**	3.82

Discussion & Analysis of Annual Non-operational Items

Earnings in 2014 decreased compared to results for 2013. Although operating earnings improved in the year, we recorded a tax provision of $116 million for 2014 compared to a tax recovery of $32 million for 2013. Our results include several significant non-operational items that are identified as adjustments in the table immediately above this section. After taking into account these adjustments, we generated Adjusted earnings of $327 million compared to $328 million in 2013. For a description of operational results see "Discussion & Analysis by Product Segment" which follows this section.

In 2014 an expense of $45 million was recorded related to equity-based compensation compared to an expense of $54 million in 2013. An expense is recorded on the issuance of share options or phantom or directors' deferred share units and an additional expense or recovery is recorded each quarter based primarily on valuation models that consider various factors relating to outstanding options and units. The most significant of these factors is the change in the market value of our shares from the beginning to the end of the particular period. The market value of the Company's shares increased over 28% from $51.80 per share at the end of 2013 to $66.47 per share at the end of 2014. The expense or recovery does not necessarily represent the actual amount that will ultimately be paid by the Company in respect of options and units.

Any change in the value of the Canadian dollar relative to the value of the U.S. dollar results in the revaluation of certain of our U.S. dollar-denominated liabilities and assets. A loss of $29 million on U.S. dollar-denominated long-term debt for 2014 reflects a weakening of the Canadian dollar at the close of 2014 compared to the close of 2013. Included in other income is a translation gain on current monetary items of $18 million, compared to a gain of $10 million in 2013.

Restructuring charges of $24 million relating to the closure and resulting impairment of our Houston, B.C. sawmill were expensed in 2013. The mill was closed in the second quarter of 2014.

The gain on tenure sale of $10 million in 2013 relates to an exchange of certain timber harvesting rights.

Note 22 to the accompanying annual consolidated financial statements provides a reconciliation of income taxes calculated at the statutory rate to the income tax recovery (provision). In 2013 we recognized a benefit of $101 million for tax loss carryforwards not previously recognized.

The funded position of our defined benefit pension plans and other post-retirement plans, whether surplus or deficit, is estimated at the end of each quarter. The funded position, as shown in Note 16 to the accompanying annual consolidated financial statements, is determined by subtracting plan assets from plan obligations. A combination of a decrease in the discount rate used to calculate plan liabilities from the beginning of the year and the rate of return on assets held that was higher than the discount rate and a change in mortality assumptions resulted in a net actuarial loss of $87 million after-tax which was included in other comprehensive earnings.

Discussion & Analysis by Product Segment

Lumber Segment

	2014	2013
SPF (MMfbm)		
Production	**3,476**	3,571
Shipments	**3,541**	3,588
SYP (MMfbm)		
Production	**1,817**	1,582
Shipments	**1,785**	1,567
Wood chip production		
SPF (M ODTs)	**1,677**	1,786
SYP (M green tons)	**2,269**	1,961
Sales ($millions)		
Lumber	**2,291**	2,047
Wood chips and other residuals	**236**	197
Logs and other	**95**	71
	2,622	2,315
Adjusted EBITDA ($millions)	**465**	437
Amortization ($millions)	**(114)**	(99)
Restructuring charges ($millions)	**—**	(24)
Operating earnings ($millions)	**351**	314
Adjusted EBITDA margin (%)	**18**	19
Capital expenditures ($millions)	**326**	281
Acquisitions ($millions)	**208**	—
Benchmark prices (per Mfbm)		
SPF #2 & Better 2x4[1] – US$	**349**	356
SPF #3 Utility[1] – US$	**302**	295
SYP #2 West 2x4[2] – US$	**427**	414
SPF #2 & Better 2x4 – Cdn$[3]	**386**	367
SPF #3 Utility - Cdn$[3]	**334**	304
SYP #2 West 2x4 – Cdn$[3]	**472**	426

1. Source: Random Lengths – 2x4, #2 & Better – Net FOB mill.
2. Source: Random Lengths – 2x4 – 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 from our lumber segment, before restructuring charges recorded in 2013 relating to the closure of our Houston, B.C. sawmill, were slightly higher in 2014 compared to the previous year. Sales revenue increased more significantly. These improvements were mostly attributable to a weaker Canadian dollar which declined on average by almost US$0.07 against the U.S. dollar and to the addition of three sawmills acquired in early 2014 which added a combined $123 million of sales revenues. SPF prices in U.S. dollars were similar to the previous year and SYP prices were slightly higher than in 2013, reflecting a continuing gradual U.S. housing recovery.

Although China experienced an economic slowdown during 2014, a combination of customer diversification and expansion of our markets inland, away from the well-served coastal area, resulted in an increase in sales. The table below, which represents the proportion of our Canadian lumber by volume sold by destination in each of 2014 and 2013, reflects the moderate increase in sales to China year over year.

SPF Sales by Destination

	2014		2013	
	MMfbm	**%**	MMfbm	%
U.S.	**1,762**	**50**	1,803	50
Canada	**794**	**22**	850	24
China	**768**	**22**	729	20
Other	**217**	**6**	206	6
Total	**3,541**		3,588	

Composite lumber benchmark prices strengthened sufficiently to eliminate any duties under the Softwood Lumber Agreement ("SLA") for all of 2014 compared to duties payable for three months of 2013. Under the agreement, the duties are eliminated when a prescribed composite lumber price reaches levels above US$355 per mfbm. The SLA is scheduled to expire in October 2015 and we are not aware of any negotiations that are currently underway to extend or modify it. The SLA provides that no trade sanctions may be imposed with respect to the importation of softwood lumber from Canada for the twelve month period following expiry of the SLA.

Sales volumes and revenues from our U.S. mills increased in the year, reflecting the acquisition of two sawmills in the U.S. in the first half of 2014 and the operation of our McDavid, Florida sawmill for the full year. Revenue from chip sales from our Canadian sawmills increased in the year, reflecting higher Canadian dollar NBSK prices on which chip prices are based.

The improved sales revenue was substantially offset by increased log and freight costs in both Canada and the U.S. Log costs in Canada include stumpage costs, purchased log costs and timber and harvesting contracting costs, all of which increased in the year. In particular, purchased log costs continued to increase in B.C., reflecting the gradual decrease of available logs in pine beetle-affected areas. Increased competition for contractors resulted in increased timber and harvesting contracting costs. Log costs in certain areas of the U.S. South also increased, primarily the result of greater competition as the U.S. housing market continued to gradually improve. Increased freight costs in Canada reflect higher freight rates and fuel surcharges, a weaker Canadian dollar and additional costs incurred during a truckers' strike in Vancouver in February 2014. Increased freight costs in the U.S. mainly reflect greater demand for trucking services and the translation of these costs into the weaker Canadian dollar.

Production was reduced in the year at our Canadian sawmills despite the acquisition of a mill at High Prairie, Alberta in the second quarter of 2014 and improved production at a number of our mills after the completion of various capital projects. The added production was more than offset by the closure of our sawmill at Houston, B.C., also in the second quarter, and reduced production at our 100 Mile House, B.C. sawmill due to curtailed operations during a major capital upgrade. The closure of our Houston sawmill was in response to the ongoing reduction of available merchantable timber caused by the mountain pine beetle infestation. Production was increased in our U.S. operations, reflecting the acquisition of two sawmills in Arkansas in the first half of the year and the full-year operation of our McDavid, Florida mill, which was restarted late in 2013 after a lengthy curtailment. During 2014, we permanently closed our sawmill at Folkston, Georgia after an indefinite curtailment which began in 2009.

Panels Segment

	2014	2013
Plywood (MMsf 3/8" basis)		
Production	**771**	781
Shipments	**797**	774
MDF (MMsf 3/4" basis)		
Production	**206**	204
Shipments	**213**	199
LVL (Mcf)		
Production	**1,796**	1,848
Shipments	**1,712**	1,773
Sales ($millions)		
Finished products	**504**	448
Wood chips and other residuals	**14**	12
Logs and other	**8**	7
	526	467
Adjusted EBITDA ($millions)	**78**	43
Amortization ($millions)	**(14)**	(15)
Operating earnings ($millions)	**64**	28
Adjusted EBITDA margin (%)	**15**	9
Capital expenditures ($millions)	**7**	5
Benchmark prices		
Plywood (per Msf 3/8" basis)[1] Cdn$	**429**	392

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

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

Most of the plywood we produce is sold to customers in Canada. Both the new home and renovation and repair markets remained relatively consistent in Canada through 2013 and 2014. Although we sell small amounts of plywood into the U.S., increased Canadian exports to the U.S. by other Canadian plywood suppliers and fewer U.S. plywood imports into Canada had a positive effect on Canadian prices. Improved plywood prices were partly offset by increased log costs.

Operating earnings from our MDF operations improved, the result of increased prices and a weaker Canadian dollar. MDF demand is significantly affected by new home construction which has been gradually strengthening in the U.S. Our LVL operation continues to operate on a partially-curtailed basis. LVL is used predominantly in single-family home construction which continues to lag construction of multi-family housing units.

Pulp & Paper Segment

	2014	2013
BCTMP (Mtonnes)		
Production	**631**	603
Shipments	**597**	600
NBSK (Mtonnes)		
Production	**455**	496
Shipments	**444**	510
Newsprint (Mtonnes)		
Production	**132**	119
Shipments	**125**	119
Sales ($millions)	**812**	780
Adjusted EBITDA ($millions)	**83**	103
Amortization ($millions)	**(41)**	(45)
Operating earnings ($millions)	**42**	58
Adjusted EBITDA margin (%)	**10**	13
Capital expenditures ($millions)	**71**	71
Benchmark prices (per tonne)		
NBSK – US$[1]	**1,025**	941
Newsprint – US$[2]	**604**	608
NBSK – Cdn$[3]	**1,132**	969
Newsprint – Cdn$[3]	**667**	626

1. Source: Resource Information Systems, Inc. – U.S. list price, delivered U.S.
2. Source: Resource Information Systems, Inc. – delivered U.S. 48.8 gram.
3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

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

Operating earnings declined in the year, substantially the result of poor operating performance at our Hinton pulp mill. The effect of the reduced NBSK sales volumes and increased expenses directly related to the performance issues was partly offset by increased U.S.-dollar prices for both BCTMP and NBSK and a weaker Canadian dollar. U.S.-dollar newsprint prices declined marginally from the previous year but increased in comparison after translation into Canadian dollars. Although global market pulp capacity increased during the year, markets remained relatively steady in China and North America. Demand for newsprint declined over the year, reflecting the continuing secular decline of newsprint consumption.

Our two BCTMP mills ran well during the year. Increased production at the Slave Lake pulp mill was mainly attributable to fewer high price power-related curtailments during 2014. Production was also increased at the Quesnel River pulp mill reflecting fewer hours of maintenance downtime. The benefit of the higher production was partially offset by increased chip and freight costs and, at the Slave Lake pulp mill, a net increase in energy costs reflecting decreased electricity sales revenues under our power purchase agreement ("PPA"). The weaker Canadian dollar and increasing freight rates were major contributors to higher freight costs and additional freight-related costs were incurred as a result of the February 2014 truckers' strike at the port of Vancouver.

Although our Cariboo joint-venture NBSK mill continued to experience some reliability issues during the year, production improved from the previous year. Operational performance at our Hinton mill worsened, particularly following a 15-day scheduled maintenance shutdown during September 2014. On restart, and for the following two months, the mill experienced a sequence of operational upsets. Production for the year was reduced by approximately 17,000 tonnes due to the maintenance shutdown and another 65,000 tonnes due to the post-shutdown operational upsets. In 2013 production was reduced by approximately 42,000 tonnes due to operational upsets and 8,000 tonnes as a result of a shorter maintenance shutdown.

The operational difficulties at the Hinton mill resulted in increased overall natural gas and chemical usage at the mill and an increase in electricity purchases. During normal operating periods, Hinton is energy self-sufficient with excess electricity being sold to the Alberta power grid. Chip costs were higher at both NBSK mills, reflecting increased Canadian-dollar NBSK prices which are a factor in determining chip prices. Freight costs were also higher, the result of a weaker Canadian dollar, increased rail rates and increased transportation and storage costs incurred during the Vancouver truckers' strike.

In recent years production at our Hinton pulp mill has been significantly interrupted by a series of often unrelated operational upsets. Each interruption received a focused response and several specific maintenance issues have been addressed over that period. However, in response to the most recent series of interruptions, we have expanded management oversight of the mill as a whole and added internal and external expertise to focus on increasing the mill's reliability.

Newsprint production increased in the year compared to 2013 as less volatile electricity prices resulted in fewer production curtailments. Contract chip costs declined in 2014 but the resulting savings were more than offset by reduced electricity sale revenues under our PPA.

During periods of high electricity prices in Alberta we may curtail production at both our Slave Lake pulp mill and our newsprint mill in order to avoid power consumption at times of price peaks. In addition, the revenue we receive from selling electricity to the power grid under our PPA helps mitigate our ongoing energy costs. During periods of stable or relatively low electricity prices, the combination of fewer or no power-related curtailments and declining PPA sale revenues will result in increased net energy costs for these mills.

During 2014, construction of a natural gas-fired peaking power plant at the newsprint mill was completed. The plant was fully commissioned in the third quarter of the year and is expected to operate during periods of peak electricity prices to produce electricity both for the mill's consumption and for sales to the Alberta power grid. This may result in fewer curtailments of the mill compared to previous periods.

During 2014, the newsprint mill acquired additional rights to a portion of the electricity generated from a power plant in Alberta at substantially predetermined prices. These rights, which will expire in 2017, along with the rights to obtain electricity generated under our PPA will be recorded at fair value for accounting purposes, as described in Note 12 to the accompanying annual consolidated financial statements.

4th Quarter Results

Sales and Earnings Comparison

($millions, except as otherwise indicated)	Q4–14	Q3–14	Q4–13
Sales by Segment			
Lumber	**663**	713	541
Panels	**134**	145	110
Pulp & Paper	**192**	199	203
Intracompany fibre sales	**(25)**	(27)	(21)
Total	**964**	1,030	833
Operating Earnings by Segment			
Lumber	**90**	101	32
Panels	**22**	25	2
Pulp & Paper	**3**	(2)	13
Corporate & Other	**(32)**	(13)	(17)
Operating earnings	**83**	111	30
Finance expense	**(6)**	(6)	(8)
Exchange loss on long-term debt	**(12)**	(16)	(10)
Other income	**5**	13	18
Tax recovery (provision)	**(27)**	(32)	88
Earnings	**43**	70	118
Cdn$1.00 converted to US$ – average	**0.880**	0.918	0.953

Quarterly Earnings Adjustments for Certain Non-operational Items

($millions except EPS amounts which are in $)	Q4-14	Q3–14	Q4–13
Earnings	**43**	70	118
Adjustments to earnings			
Equity-based compensation	**31**	11	15
Loss on translation of U.S. dollar-denominated long-term debt	**12**	16	10
Restructuring charges	**—**	—	24
Gain on sale of tenure	**—**	—	(10)
Net tax effect on the above adjustments	**(2)**	(3)	(6)
Recognition of deferred income tax asset related to loss carryforwards	**—**	—	(101)
Net effect of above items	**41**	24	(68)
Adjusted earnings	**84**	94	50
Adjusted basic EPS	**1.00**	1.12	0.58

Discussion & Analysis of Quarterly Non-operational Items

For a description of our quarterly operational results see “Discussion & Analysis by Product Segment” which follows this section. Our results include several significant non-operational items that are identified as adjustments in the table immediately above this section. After taking into account the adjustments, we generated adjusted earnings of $84 million in the current quarter compared to adjusted earnings of $94 million in the previous quarter and adjusted earnings of $50 million in the fourth quarter of 2013. For a description of the key adjustments, see the corresponding section under “Annual Results” in this MD&A.

Discussion & Analysis by Product Segment

Lumber Segment

	Q4-14	Q3-14	Q4-13
SPF (MMfbm)			
Production	**815**	865	847
Shipments	**852**	979	833
SYP (MMfbm)			
Production	**472**	492	375
Shipments	**478**	503	368
Sales ($millions)			
Lumber	**579**	628	474
Wood chips and other residuals	**59**	61	48
Logs and other	**25**	24	19
	663	713	541
Adjusted EBITDA ($millions)	**121**	131	83
Amortization ($millions)	**(31)**	(30)	(27)
Restructuring charges ($millions)	**—**	—	(24)
Operating earnings ($millions)	**90**	101	32
Adjusted EBITDA margin (%)	**18**	18	15
Benchmark prices (per Mfbm)			
SPF #2 & Better 2x4[1] – US$	**340**	357	370
SPF #3 Utility[1] – US$	**289**	283	303
SYP #2 West 2x4[2] – US$	**429**	461	423
SPF #2 & Better 2x4 – Cdn$[3]	**386**	389	388
SPF #3 Utility – Cdn$[3]	**328**	308	318
SYP #2 West 2x4 – Cdn$[3]	**487**	502	444

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 declined in the quarter compared to the previous quarter, mainly the result of reduced production and shipments. Although the U.S. housing market continued to gradually improve in the quarter, U.S.-dollar prices for some lumber grades and dimensions declined. Prices for most of the SYP dimensions, including the 2x4 width, decreased in the quarter but prices for the 2x6 width, which represents a material part of our U.S. production, increased.

Compared to the previous quarter, fourth quarter results were adversely affected by reduced production by our 100 Mile House, B.C. mill where we completed a major capital project and fewer operating days. Costs for purchased logs and timber harvesting services increased slightly in B.C. Purchased log costs for our U.S. operations also increased. Freight costs for our Canadian lumber operations were higher as U.S.-dollar costs were translated to a weaker Canadian dollar.

Operating earnings (before restructuring charges) increased in the quarter compared to the fourth quarter of 2013. This was attributable to general U.S.-dollar price improvements for SYP, a weaker Canadian dollar and increased chip prices in Canada. No export tax was applied during the current quarter while a tax was applied in one month of the comparable 2013 period. Production and shipments from the U.S. sawmills increased, reflecting the acquisition of two sawmills in Arkansas in 2014 and the restart of our McDavid, Florida sawmill late in 2013. Production declined in Canada, reflecting the closure of our Houston, B.C. sawmill and capital project-related interruptions at our 100 Mile House, B.C. sawmill. This was partially offset by the restart of our Edson, Alberta sawmill and the acquisition of our High Prairie, Alberta sawmill. Overall, significant production improvements were experienced by a number of our sawmills in Canada and the U.S. after the completion of various capital projects.

Panels Segment

	Q4-14	Q3-14	Q4-13
Plywood (MMsf 3/8" basis)			
Production	**194**	198	190
Shipments	**197**	212	180
MDF (MMsf 3/4" basis)			
Production	**49**	50	52
Shipments	**52**	53	48
LVL (Mcf)			
Production	**375**	544	490
Shipments	**398**	484	441
Sales ($millions)			
Finished products	**130**	139	105
Wood chips and other residuals	**3**	4	3
Logs and other	**1**	2	2
	134	145	110
Adjusted EBITDA ($millions)	**25**	29	6
Amortization ($millions)	**(3)**	(4)	(4)
Operating earnings ($millions)	**22**	25	2
Adjusted EBITDA margin (%)	**19**	20	5
Benchmark prices			
Plywood (per Msf 3/8" basis)[1] Cdn$	**453**	472	386

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

The decline in operating earnings for our panels segment compared to the previous quarter resulted from decreased plywood prices and reduced plywood production and shipments. Reduced prices reflected the seasonal slowdown of the Canadian building industry and reduced production was the result of temporary operational disruptions at two of our plywood plants.

Operating earnings for MDF improved in the current quarter compared to the previous quarter. Canadian dollar equivalent prices, net of freight costs, and shipments were very similar in both quarters. Maintenance costs declined as high maintenance costs were experienced in the previous quarter as a refiner at our WestPine mill was being rebuilt.

We reduced production at our LVL mill in the quarter because of continuing weak markets.

The main contributors to the increase in operating earnings for the current quarter compared to the same quarter of 2013 were improved plywood prices and increased plywood production and shipments. Canadian equivalent MDF prices and shipments also increased but these benefits were partially offset by reduced MDF production. Fibre costs were slightly increased for our plywood and MDF operations but freight costs were down due to product destination changes.

Pulp & Paper Segment

	Q4-14	Q3-14	Q4-13
BCTMP (Mtonnes)			
Production	**156**	155	150
Shipments	**147**	144	150
NBSK (Mtonnes)			
Production	**110**	96	119
Shipments	**105**	107	129
Newsprint (Mtonnes)			
Production	**33**	34	29
Shipments	**30**	31	29
Sales ($millions)	**192**	199	203
Adjusted EBITDA ($millions)	**12**	9	24
Amortization ($millions)	**(9)**	(11)	(11)
Operating earnings ($millions)	**3**	(2)	13
Adjusted EBITDA margin (%)	**6**	5	12
Benchmark prices (per tonne)			
NBSK – US$[1]	**1,025**	1,030	983
Newsprint – US$[2]	**600**	605	605
NBSK – Cdn$[3]	**1,164**	1,122	1,032
Newsprint – Cdn$[3]	**682**	659	635

1. Source: Resource Information Systems, Inc. – U.S. list price delivered U.S.
2. Source: Resource Information Systems, Inc. – delivered 48.8 gram newsprint.
3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. benchmark price.

Operating earnings from our pulp & paper operations increased from the previous quarter. Lower U.S.-dollar prices for both NBSK and BCTMP were mostly offset by a weaker Canadian dollar. Costs declined but we experienced high maintenance shutdown costs at our Hinton pulp mill in the previous quarter. Chip costs increased at both our NBSK and BCTMP mills, driven by higher Canadian dollar NBSK-based pricing.

Production at our BCTMP mills was essentially the same as in the previous quarter. Production at our Hinton pulp mill improved in the quarter following its extended maintenance shutdown in the previous quarter but remained significantly below targeted production until late in the year.

Markets remained steady but both BCTMP and NBSK shipments were lower than production due to the reduction of available shipping containers caused by a labour disruption at a number of U.S. west coast ports.

Operating earnings for our newsprint mill were lower compared to the previous quarter despite similar production and shipments. U.S.-dollar newsprint prices declined slightly in the current quarter but this was offset by a weaker Canadian dollar. Chip costs increased, as did energy costs, reflecting decreased electricity sale revenues under our PPA.

Operating earnings for the segment were lower than in the fourth quarter of 2013 despite increased U.S.-dollar NBSK prices and a substantially weaker Canadian dollar. The improved sales prices were offset by a greater number of production interruptions at our NBSK pulp mills and increased energy costs, partly reflecting reduced revenue from electricity sale revenues under the PPA.

Capital Expenditures

During the year our capital expenditures totaled $410 million as set out in the following table.

($millions)

Segment	Profit Improvement	Energy	Timber Tenures	Maintenance of Business	Total
Lumber	199	66	15	46	326
Panels	2	—	—	5	7
Pulp & Paper	17	24	—	30	71
Corporate	—	—	—	6	6
Total	218	90	15	87	410

Profit improvement projects in our Canadian lumber operations included a major upgrade of our 100 Mile House, B.C. sawmill and the completion of the rebuild of our Edson, Alberta sawmill which began in 2013. In our U.S. operations continuous dry kilns were installed at a number of our sawmills and we completed several major planer upgrade projects.

Our expenditures on energy relate primarily to the biomass projects at Chetwynd and Fraser Lake, a biomethanation plant at our Slave Lake pulp mill and a natural gas peaking power plant at our jointly-owned newsprint mill. The two biomass projects are expected to be completed in the second quarter of 2015 while the biomethanation plant is currently being commissioned. The gas peaking plant was commissioned in the third quarter of 2014.

Maintenance of business expenditures are primarily for roads, bridges and mobile equipment and costs related to the major maintenance shutdown of the Hinton pulp mill.

Business Outlook

We expect 2015 to be a better year than 2014 from an operational perspective. We anticipate fewer production disruptions as our capital investment program focuses more on sawmill upgrade projects and we expect improved production reliability at our NBSK pulp mills which have been a focus of our attention in 2014.

We are anticipating improved demand for lumber which will be the result of continuing economic recovery in the U.S., specifically in new home construction, as well as stable demand from China and Japan. We believe that the U.S. housing sector will continue its slow improvement in 2015 although we believe that the recovery in 2015 will not be sufficient to generate sustainably high lumber prices.

In 2014 less plywood was imported into Canada from the U.S., reflecting a combination of improved plywood demand in the U.S. and a weakening Canadian dollar. We expect this trend to continue. The key risk to continuing strong financial performance of our plywood operations is the level of housing construction in Canada. Several analysts are predicting a slowing of this activity, particularly in areas which are dependent on energy-related revenues, but a weaker Canadian dollar and lower energy costs should have a positive effect on Canadian economic activity which we believe should support continued housing construction.

If U.S. housing continues to recover and Canadian and Asian demand for lumber and panels remains steady, we expect continuing competitive pressure on key costs, particularly log costs. The results of our B.C. lumber operations are likely to continue to be affected by decreasing log availability resulting from the continuing deterioration of the pine forest as the mountain pine beetle infestation moves to its late stages.

We expect downward pressure on pulp prices in the first half of 2015 in response to lower demand in the European and Asian markets although this weakening may be offset by stronger demand from the U.S. if its economy continues to improve. Additional Brazilian hardwood pulp capacity is scheduled to come online in the second quarter which will likely dampen hardwood pulp prices in the second half of the year. A key risk for global pulp prices continues to be the strength of the Chinese economy given the significance of Chinese demand for pulp.

The recent sharp decline of world oil prices is expected to reduce overall freight costs in all modes of transport in 2015 as fuel surcharges that were added in recent years should be reduced or eliminated. Fuel surcharges also form part of timber and harvesting costs and if we experience an extended period of low oil prices, we expect there may be some relief in those costs in 2015 as well.

In 2014 we continued to focus on upgrading our operations and we expect to continue our expanded capital investment program in 2015. However, because a number of our energy projects are nearing completion, we expect capital spending in 2015 to be less than in each of the past two years, although still above our historical normal levels.

Estimated Earnings Sensitivity to Key Variables[1]

(based on 2014 production – $millions)

Factor	Variation	Change in pre-tax earnings
Lumber price	US$10 (per Mfbm)	61
Plywood price	Cdn$10 (per Msf)	8
NBSK price	US$10 (per tonne)	5
BCTMP price	US$10 (per tonne)	7
U.S. – Canadian $ exchange rate[2]	US$0.01 (per Cdn $)	24

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

Capital Structure and Liquidity

The capital structure of the Company consists of Common share equity and long-term debt. In addition, the Company maintains a committed revolving credit facility that is available to meet additional funding requirements.

In September 2014 we announced approval for renewal of our normal course issuer bid expiring that month. The renewal will allow us to acquire up to 4,000,000 Common shares for cancellation until expiry of the bid in September 2015. In 2014 we repurchased 2,152,900 Common shares at a total cost of approximately $111 million.

In December 2013 we announced that a one Common share dividend would be paid in respect of each Common share and Class B Common share outstanding as at December 31, 2013, payable on January 13, 2014. This had substantially the same effect of a two-for-one share subdivision effective on January 13, 2014.

Our outstanding Common share equity consists of 81,246,212 Common shares and 2,281,478 Class B Common shares for a total of 83,527,690 shares issued and outstanding as at February 19, 2015.

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

As of February 19, 2015 there were 2,240,798 share purchase options outstanding with exercise prices ranging from $12.36 to $53.96 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. The proceeds were used to repay the US$300 million notes that matured in October. Also in October 2014, we increased our demand operating facility for our jointly-owned newsprint mill to $8 million from $5 million. In May 2014, we entered into a $50 million uncommitted line of credit for the purposes of establishing letters of credit. In December 2013, we amended our $500 million committed revolving credit facility to, among other things, extend its maturity date to September 2018. The facility allows for additional borrowings of up to $150 million, subject to sourcing new lenders for this additional amount. To date we have not sought to access this additional facility. In May 2011, we entered into an uncommitted $25 million line of credit for the purpose of establishing letters of credit. Copies of material documents relating to our senior notes, committed facility and the December 2013 amendment are available at www.sedar.com.

On December 31, 2014 there was $106 million owing under our credit facilities (2013 – nil). Letters of credit in the amount of $53 million were supported by our facilities, leaving approximately $424 million of credit available for further use.

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

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

As at December 31	2014	2013
Cash[1]	**21**	162
Current assets	**907**	971
Current liabilities[2]	**616**	773
Ratio of current assets to current liabilities	**1.5**	1.3
Net debt[3]	**472**	162
Shareholders' equity	**2,029**	1,947
Net debt to total capital[4]	**19%**	8%

1. Cash consists of cash and short-term investments less cheques issued in excess of funds on deposit.
2. 2013 includes US$300 million of long-term debt refinanced in October 2014.
3. Total debt less deferred financing costs less cash.
4. Non-IFRS measure. See "Non-IFRS Measures" below.

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

Debt Ratings

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

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

Selected Cash Flow Items ($millions)

For the year ended December 31	2014	2013
Operating Activities		
Earnings	**259**	349
Amortization	**170**	160
Change in income taxes	**48**	(68)
Contributions to benefit plans in excess of expense	**(15)**	(52)
Other	**13**	30
Cash provided by operating activities	**475**	419
Financing Activities		
Repayment of long-term debt	**(339)**	—
Proceeds from long-term debt	**339**	8
Proceeds from operating loan	**106**	—
Finance expense paid	**(22)**	(18)
Dividends paid	**(24)**	(24)
Common share repurchases	**(111)**	(3)
Other	**(4)**	(2)
Cash used in financing activities	**(55)**	(39)
Investing Activities		
Acquisition	**(208)**	—
Additions to capital assets	**(410)**	(338)
Other	**8**	12
Cash used in investing activities	**(610)**	(326)
Increase (decrease) in cash	**(190)**	54

Operating Activities

Cash provided by operating activities increased by $56 million from the previous year. Although net earnings were reduced by $90 million, a change from a tax recovery in 2013 to a tax provision in 2014 and reduced required contributions to post-retirement obligations resulted in the increase. Net changes to non-cash working capital were similar in both 2014 and 2013.

Financing Activities

During the year we acquired 2,152,900 of our Common shares for a total purchase price of $111 million. In October 2014, we refinanced our maturing long-term debt in the amount of US$300 million.

Investing Activities

Cash used for investing activities increased by $284 million from the previous year. Additions to capital assets included $326 million for the lumber segment, $7 million for the panels segment and $71 million for the pulp & paper segment. The acquisition of three sawmills in the year used $208 million.

Contractual Obligations as at December 31, 2014 ($millions)[1]

	2015	2016	2017	2018	Thereafter	Total
Long-term debt[2]	—	—	—	—	359	359
Operating leases	3	2	2	2	5	14
Asset purchase commitments	41	—	—	—	—	41
Total	44	2	2	2	364	414

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

Significant Management Judgments Affecting Financial Results

The preparation of financial statements requires management to make estimates and assumptions, and to select accounting policies, that affect the amounts reported. The significant accounting policies followed by our Company are disclosed in Note 3 to the audited consolidated financial statements. The following judgments are considered the most significant:

Fair Value of Derivative Contracts

We have power contracts in place to reduce financial risk from increasing Alberta power prices. IFRS requires that we account for these contracts at fair value at each balance sheet date and record the change in fair value through earnings. To assess fair value, we discount expected cash flows over the life of the agreements. Determining expected future cash flows involves significant estimates including future power prices, and electricity generation and costs of producing electricity from power plants that our contracts are tied to.

Recoverability of Long-lived Assets

As required by IFRS, we assess the carrying value of an asset when there are indicators of impairment. The assessment compares the estimated discounted future cash flows of the asset to the carrying value of the asset. If the carrying value of the asset exceeds the estimated discounted future cash flows relating to the asset, the carrying value is written down to the higher of fair value less costs to sell and value-in-use. During 2013 an impairment charge of $13 million was recorded related to the planned closure of our Houston, B.C. sawmill.

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 2014 and concluded that its carrying value is not impaired. The testing of goodwill for impairment involves significant estimates including future production and sales volumes, product selling prices, foreign currency exchange rates, operating costs, capital expenditures and the appropriate discount rate to apply. In all cases, we have used our best estimates of these projected amounts and values. Given the current global economic uncertainty and the volatility of the markets for our products, it is possible that our estimates will be adjusted in the future and that these adjusted estimates could result in the future impairment of goodwill.

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

Reforestation and Decommissioning Obligations

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

In our operating areas, the time to meet reforestation standards usually spans 12 to 15 years from the time of harvest. We record a liability for the estimated cost of the future reforestation activities when the harvesting takes place. This liability is reviewed, at least annually, and adjusted to our current estimate of the costs to complete the remainder of the reforestation activities. In 2014 the review of the reforestation obligation resulted in an increase to the obligation of $5 million (2013 – increase of $2 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 2014 the review resulted in an increase of the obligation by $1 million (2013 – increase of $6 million).

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

We maintain several D.B. Plans for many of our employees. The annual funding requirements and pension expenses are based on (i) various assumptions that we determine in consultation with our actuaries, (ii) actual investment returns on the pension fund assets, and (iii) changes to the employee groups in the pension plans. Note 16 to the accompanying annual consolidated financial statements provides the sensitivity of a change in key assumptions to our post-retirement obligations.

Accounting Standards Issued But Not Yet Applied

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

IFRS 9 - Financial Instruments

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

IFRS 15 - Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued. This standard addresses revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to control its use and obtain the benefits from the good or service. The standard replaces IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 with earlier application permitted. We have not assessed the impact of the new standard.

New Accounting Pronouncements Adopted

On January 1, 2014 we adopted new and revised accounting standards as disclosed in Note 4 to the annual consolidated financial statements.

Non-IFRS Measures

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

Adjusted EBITDA

	For the 3 months ended			For the year ended December 31		
($millions)	**Q4-14**	Q3-14	Q4-13	**2014**	2013	2012
Earnings	**43**	70	118	**259**	349	77
Add:						
Amortization	**43**	45	43	**170**	160	152
Finance expense	**6**	6	8	**26**	29	28
Tax provision	**27**	32	(88)	**116**	(32)	25
EBITDA	**119**	153	81	**571**	506	282
Add:						
Equity-based compensation	**31**	11	15	**45**	54	61
Restructuring charges	**—**	—	24	**—**	24	—
Exchange (gain) loss on long-term debt	**12**	16	10	**29**	21	(7)
Other income	**(5)**	(13)	(18)	**(24)**	(22)	—
Adjusted EBITDA	**157**	167	112	**621**	583	336

Adjusted EBITDA by Segment

	For the 3 months ended			For the year ended December 31		
($millions)	**Q4-14**	Q3-14	Q4-13	**2014**	2013	2012
Lumber						
Earnings before tax	**90**	103	40	**350**	315	73
Add:						
Amortization	**31**	30	27	**114**	99	86
Finance expense	**4**	4	4	**16**	15	13
EBITDA	**125**	137	71	**480**	429	172
Add:						
Restructuring charges	**—**	—	24	**—**	24	—
Other income	**(4)**	(6)	(12)	**(15)**	(16)	4
Adjusted EBITDA	**121**	131	83	**465**	437	176
Panels						
Earnings before tax	**21**	26	1	**62**	24	34
Add:						
Amortization	**3**	4	4	**14**	15	16
Finance expense	**1**	—	2	**3**	5	4
EBITDA	**25**	30	7	**79**	44	54
Add:						
Other income	**—**	(1)	(1)	**(1)**	(1)	—
Adjusted EBITDA	**25**	29	6	**78**	43	54
Pulp & Paper						
Earnings before tax	**3**	2	15	**43**	57	54
Add:						
Amortization	**9**	11	11	**41**	45	47
Finance expense	**1**	2	2	**7**	9	9
EBITDA	**13**	15	28	**91**	111	110
Add:						
Other income	**(1)**	(6)	(4)	**(8)**	(8)	(1)
Adjusted EBITDA	**12**	9	24	**83**	103	109
Corporate and Other						
Earnings before tax	**(44)**	(29)	(26)	**(80)**	(79)	(59)
Add:						
Amortization	**—**	—	1	**1**	1	3
Finance expense	**—**	—	—	**—**	—	2
EBITDA	**(44)**	(29)	(25)	**(79)**	(78)	(54)
Add:						
Equity-based compensation	**31**	11	15	**45**	54	61
Exchange (gain) loss on long-term debt	**12**	16	10	**29**	21	(7)
Other income	**—**	—	(1)	**—**	3	(3)
Adjusted EBITDA	**(1)**	(2)	(1)	**(5)**	—	(3)
Total Adjusted EBITDA	**157**	167	112	**621**	583	336

Adjusted Earnings and Adjusted Basic Earnings Per Share

($millions except EPS amounts which are in $)	For the 3 months ended Q4-14	Q3-14	Q4-13	For the year ended December 31 2014	2013	2012
Earnings	**43**	70	118	**259**	349	77
Add:						
Equity-based compensation	**31**	11	15	**45**	54	61
Loss (gain) on translation of U.S. dollar-denominated long-term debt	**12**	16	10	**29**	21	(7)
Restructuring charges	**—**	—	24	**—**	24	—
Gain on sale of tenure	**—**	—	(10)	**—**	(10)	—
Net tax effect on the above adjustments	**(2)**	(3)	(6)	**(6)**	(9)	(3)
Recognition of deferred income tax asset related to loss carryforward	**—**	—	(101)	**—**	(101)	—
Adjusted earnings	**84**	94	50	**327**	328	128
Adjusted basic EPS[1]	**1.00**	1.12	0.58	**3.86**	3.82	1.50

1. Adjusted basic EPS is calculated by dividing Adjusted earnings by the basic weighted average shares outstanding with comparative periods restated to reflect the Stock Dividend.

Net Debt to Total Capital Ratio

($millions except where indicated)

	For the year ended December 31 2014	2013	2012
Net debt			
Cash and short-term investments	**(21)**	(162)	(102)
Deferred financing costs[1]	**(8)**	(5)	(5)
Cheques issued in excess of funds on deposit	**36**	—	—
Operating loan	**106**	—	—
Long-term debt	**359**	329	301
	472	162	194
Shareholders' equity	**2,029**	1,947	1,492
Total capital	**2,501**	2,109	1,686
Net debt to total capital	**19%**	8%	12%

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

Risks and Uncertainties

Product Demand and Price Fluctuations

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

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

Availability of Fibre and Changes in Stumpage Fees

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

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

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

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

We rely on log supply agreements in the United States which are subject to log availability and based on market prices. Approximately 20% of the aggregate log requirements for our U.S. sawmills may be supplied under long-term agreements with the balance purchased on the open market. Changes in the U.S. log market may reduce the supply of logs available to us and may increase the costs of log purchases, each of which could adversely affect our results.

Trade Restrictions

A substantial portion of our products that are manufactured in Canada are exported for sale. Our financial results are dependent on continued access to the export markets and tariffs and other trade barriers that restrict or prevent access represent a continuing risk to us. Our Canadian softwood lumber exports to the United States are currently subject to export duties that may be imposed under the Softwood Lumber Agreement between Canada and the United States (the "SLA") which is currently scheduled to expire in October 2015. National economic protectionist measures more commonly arise during periods of broad economic downturn and so a deterioration of global economic conditions could result in the adoption of additional trade barriers. There is no assurance that the SLA will be renewed or, if renewed, that export duties will not be increased from current ranges or that other thresholds in the SLA, such as differential trigger prices, surge limits, and quotas, will not change in a manner that adversely affects us. Further, the expiry of the SLA without its renewal or any new agreement could result in the imposition of export duties or other protective measures, such as anti-dumping duties or countervailing duties, that are in excess of the range of export duties that currently may be imposed under the SLA. The SLA provides that no trade sanctions may be imposed with respect to the importation of softwood lumber from Canada for the twelve month period following expiry of the SLA.

Natural and Man-Made Disasters

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

Mountain Pine Beetle

The long-term effect of the mountain pine beetle infestation on our Canadian operations is uncertain. The potential effects include a reduction of future AAC levels to below current and pre-infestation AAC levels. Many of our British Columbia operations are experiencing a diminished grade and volume of lumber recovered from beetle-killed logs and increased production costs, and these effects could spread to our Alberta operations as the mountain pine beetle infestation expands. The timing and extent of the future effect on our timber supply, lumber grade and recovery, and production costs will depend on a variety of factors and at this time cannot be reasonably determined. The effects of the deterioration of beetle-killed logs could include increased costs, reduced operating rates due to shortages of commercially merchantable timber and mill closures. We ceased operations at our Houston, British Columbia sawmill in 2014 to address some of the effects of pine beetle infestation in the interior of British Columbia.

Wood Dust

Our operations generate wood dust which has been recognized for many years as a potential health and safety hazard. The potential risks associated with wood dust have been increased in those of our British Columbia and Alberta facilities that have been processing mountain pine beetle-killed logs as the wood dust generated from these logs tends to be drier, lighter and finer than wood dust typically generated. Two sawmill explosions which occurred in British Columbia in 2012 which may have been at least partially attributable to the presence of dry wood dust have resulted in a greater industry focus on this risk. We have adopted a variety of measures to reduce or eliminate the risks posed by the presence of wood dust in our facilities and we continue to work with industry and regulators to develop and adopt best mitigation practices. Adoption of measures to reduce or eliminate risks associated with wood dust as a result of new government regulations and best practices may require additional capital expenditures and increase our operating costs. Any explosion or similar event at any of our facilities or any third-party facility could result in significant loss, increases in expenses and disruption of operations, each of which would have a material adverse effect on our business.

Financial

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

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

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

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

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

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

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

Operational Curtailments and Transportation Requirements

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

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

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

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

Labour and Services

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

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

Environment

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

We are currently involved in investigation and remediation activities and maintain accruals for certain environmental matters or obligations, as set out in the notes to our audited consolidated financial statements for the year ended December 31, 2014. There can be no assurance that any costs associated with such obligations or other environmental matters will not exceed our accruals.

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

First Nations

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

We participate, as requested by government, in the consultation process in support of the government fulfilling its duty to consult. We also seek to develop and maintain good relationships with the First Nations 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 First Nations claims will not in the future have a material adverse effect on our timber harvesting rights or our ability to exercise or renew them or secure other timber harvesting rights.

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

We do not have any Crown-granted timber harvesting rights 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 First Nations 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.

It is also not known at this time how the provincial government will respond to the Tsilhqot'in decision and whether it will result in any changes to provincial laws or policies.

Regulatory

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

Foreign Currency Exchange Rates

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

Competition

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

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

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

Pension Plan Funding

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

Disclosure Controls and Internal Controls Over Financial Reporting

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

Management evaluated the effectiveness of these controls at the end of the reporting period and based on this evaluation concluded that our internal controls over financial reporting and the disclosure controls and procedures were effective as at December 31, 2014.

No Changes in Internal Controls Over Financial Reporting

There has been no change in our internal controls over financial reporting during the year ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.