Responsibility of Management

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

We maintain a system of internal controls over financial reporting that encompasses policies, procedures and controls to provide reasonable assurance that assets are safeguarded against loss or unauthorized use, transactions are executed and recorded in accordance with the appropriate authorization and financial records are accurate and reliable.

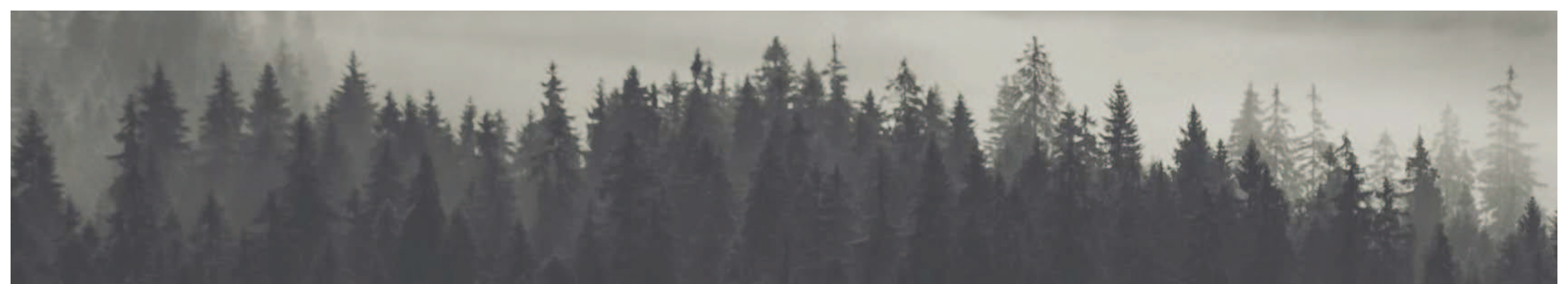
Our independent auditor, which is appointed by the shareholders upon the recommendation of the Audit Committee and the Board of Directors, has completed its audit of the consolidated financial statements in accordance with generally accepted auditing standards in Canada and its report follows.

The Board of Directors provides oversight to the financial reporting process through its Audit Committee, which is comprised of three Directors, none of whom is an officer or employee of West Fraser. The Audit Committee meets regularly with representatives of management and of the auditor to review the consolidated financial statements and matters relating to the audit. The auditor has full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders.

Ted Seraphim
President and
Chief Executive Officer

Larry Hughes
Vice-President, Finance
and Chief Financial Officer

February 11, 2016



Independent Auditor's Report

To the Shareholders of West Fraser Timber Co. Ltd.

We have audited the accompanying consolidated financial statements of West Fraser Timber Co. Ltd., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of earnings and comprehensive earnings, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

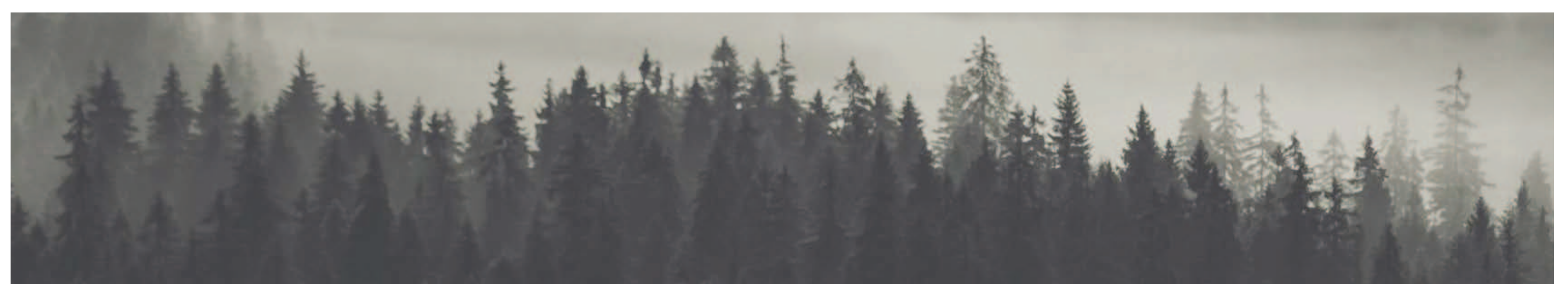
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of West Fraser Timber Co. Ltd. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia

February 11, 2016



Consolidated Balance Sheets

As at December 31, 2015 and 2014

(In millions of Canadian dollars, except where indicated)

	2015	2014
Assets		
Current assets		
Cash and short-term investments	**$ 13**	$ 21
Receivables (note 23)	**298**	288
Income taxes receivable	**11**	—
Inventories (note 5)	**631**	586
Prepaid expenses	**18**	12
	971	907
Property, plant and equipment (note 6)	**1,609**	1,469
Timber licences (note 7)	**570**	530
Goodwill and other intangibles (note 8)	**369**	350
Other assets (note 9)	**36**	79
Deferred income tax assets (note 18)	**80**	62
	$ 3,635	$ 3,397
Liabilities		
Current liabilities		
Cheques issued in excess of funds on deposit	**$ 29**	$ 36
Operating loans (note 12)	**178**	103
Payables and accrued liabilities (note 10)	**351**	411
Income taxes payable	**—**	26
Reforestation and decommissioning obligations (note 11)	**48**	40
	606	616
Long-term debt (note 12)	**423**	354
Other liabilities (note 11)	**269**	244
Deferred income tax liabilities (note 18)	**190**	154
	1,488	1,368
Shareholders' Equity		
Share capital (note 14)	**579**	587
Accumulated other comprehensive earnings	**164**	55
Retained earnings	**1,404**	1,387
	2,147	2,029
	$ 3,635	$ 3,397

Approved by the Board of Directors

Janice G. Rennie
Director

J. Duncan Gibson
Director

Consolidated Statements of Earnings and Comprehensive Earnings

For the years ended December 31, 2015 and 2014

(In millions of Canadian dollars, except where indicated)

		2015		2014
Sales	**$**	**4,100**	$	3,856
Costs and expenses				
Cost of products sold		**2,874**		2,538
Freight and other distribution costs		**627**		548
Export taxes		**29**		—
Amortization		**191**		170
Selling, general and administration		**153**		149
Equity-based compensation (note 15)		**(23)**		45
		3,851		3,450
Operating earnings		**249**		406
Finance expense (note 16)		**(29)**		(26)
Other (note 17)		**(64)**		(5)
Earnings before tax		**156**		375
Tax provision (note 18)		**(52)**		(116)
Earnings	**$**	**104**	$	259
Earnings per share (dollars) (note 20)				
Basic	**$**	**1.25**	$	3.06
Diluted	**$**	**0.89**	$	3.06
Cash dividends per share	**$**	**0.28**	$	0.28
Comprehensive earnings				
Earnings	**$**	**104**	$	259
Other comprehensive earnings				
Translation gain on foreign operations[1]		**109**		45
Actuarial loss on post-retirement benefits[2]		**(12)**		(87)
Comprehensive earnings	**$**	**201**	$	217

1. Recycled through earnings in the event of a disposal in net investment in foreign operations.
2. Adjusted through retained earnings. Net of tax recovery of $5 million (2014 – $31 million).

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2015 and 2014

(In millions of Canadian dollars, except where indicated)

	Share capital		Translation		
	Number of shares	Amount	of foreign operations	Retained earnings	Total equity
Balance – December 31, 2013	85,671,504	$ 602	$ 10	$ 1,335	$ 1,947
Changes in Shareholders' Equity for 2014					
Translation gain on foreign operations	—	—	45	—	45
Actuarial loss on post-retirement benefits	—	—	—	(87)	(87)
Issuance of Common shares	8,531	—	—	—	—
Common share repurchases	(2,152,900)	(15)	—	(96)	(111)
Earnings for the year	—	—	—	259	259
Dividends	—	—	—	(24)	(24)
Balance – December 31, 2014	83,527,135	587	55	1,387	2,029
Changes in Shareholders' Equity for 2015					
Translation gain on foreign operations	**—**	**—**	**109**	**—**	**109**
Actuarial loss on post-retirement benefits	**—**	**—**	**—**	**(12)**	**(12)**
Issuance of Common shares	**8,278**	**—**	**—**	**—**	**—**
Common share repurchases	**(1,078,856)**	**(8)**	**—**	**(52)**	**(60)**
Earnings for the year	**—**	**—**	**—**	**104**	**104**
Dividends	**—**	**—**	**—**	**(23)**	**(23)**
Balance – December 31, 2015	**82,456,557**	**$ 579**	**$ 164**	**$ 1,404**	**$ 2,147**

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(In millions of Canadian dollars, except where indicated)

	2015	2014
Operating activities		
Earnings	**$ 104**	$ 259
Adjustments		
Amortization	**191**	170
Finance expense	**29**	26
Exchange loss on long-term debt	**67**	29
Fair value adjustment to power agreements	**32**	2
Tax provision	**52**	116
Income taxes paid	**(67)**	(68)
Post-retirement expense	**71**	54
Contributions to post-retirement benefit plans	**(78)**	(69)
Other	**(21)**	(29)
Changes in non-cash working capital		
Receivables	**1**	3
Inventories	**(16)**	(28)
Prepaid expenses	**(4)**	—
Payables and accrued liabilities	**(60)**	10
Cash flows from operating activities	**301**	475
Financing activities		
Repayment of long-term debt	**—**	(339)
Proceeds from long-term debt	**—**	339
Proceeds from operating loans	**68**	106
Financing fees paid	**(1)**	(4)
Finance expense paid	**(22)**	(22)
Dividends	**(23)**	(24)
Common share repurchases	**(60)**	(111)
Cash flows from financing activities	**(38)**	(55)
Investing activities		
Acquisitions (note 4)	**(76)**	(208)
Additions to capital assets	**(220)**	(410)
Government assistance (note 22)	**4**	17
Other	**4**	(9)
Cash flows from investing activities	**(288)**	(610)
Change in cash	**(25)**	(190)
Foreign exchange effect on cash	**24**	13
Cash – beginning of year	**(15)**	162
Cash – end of year	**$ (16)**	$ (15)
Cash consists of		
Cash and short-term investments	**$ 13**	$ 21
Cheques issued in excess of funds on deposit	**(29)**	(36)
	$ (16)	$ (15)

Index of Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

	Description	Page
1	Nature of operations	50
2	Basis of presentation	50
3	Accounting standards issued but not yet applied	51
4	Acquisitions	52
5	Inventories	52
6	Property, plant and equipment	52
7	Timber licences	54
8	Goodwill and other intangibles	54
9	Other assets	55
10	Payables and accrued liabilities	56
11	Other liabilities	56
12	Long-term debt and operating loans	57
13	Post-retirement benefits	57
14	Share capital	60
15	Equity-based compensation	60
16	Finance expense	62
17	Other	62
18	Tax provision	62
19	Employee compensation	63
20	Earnings per share	63
21	Commitments	64
22	Government assistance	64
23	Financial instruments	64
24	Capital disclosures	67
25	Segment and geographic information	68

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(In millions of Canadian dollars, except where indicated)

1. Nature of operations

West Fraser Timber Co. Ltd. ("West Fraser", "we", "us" or "our") is a diversified wood products company producing lumber, LVL, MDF, plywood, pulp, newsprint, wood chips and energy with facilities in western Canada and the southern United States. Our executive office is located at 858 Beatty Street, Suite 501, Vancouver, British Columbia. West Fraser was formed by articles of amalgamation under the *Business Corporations Act* (British Columbia) and is registered in British Columbia, Canada. Our Common shares are listed for trading on the Toronto Stock Exchange under the symbol WFT.

2. Basis of presentation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by our Board of Directors on February 11, 2016.

Our consolidated financial statements have been prepared under the historical cost basis, except for certain items not carried at historical cost as discussed in the applicable accounting policies.

Accounting policies that relate to the consolidated financial statements as a whole are incorporated in this note. Where an accounting policy is applicable to a specific note to the accounts, the policy is described within that note.

Accounting policies

Basis of consolidation

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

Our 50%-owned joint operations, Alberta Newsprint Company and Cariboo Pulp & Paper Company, are accounted for by the proportionate consolidation method.

Use of estimates and judgements

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. It also requires management to exercise judgement in the process of applying accounting policies. Significant areas requiring estimates include recoverability of long-lived assets and goodwill, fair value of derivatives, reforestation and decommissioning obligations, employee future benefits, equity-based compensation, income taxes and litigation. Actual amounts could differ materially from these and other estimates, the impact of which would be recorded in future periods. Management uses judgements and assumptions in assessing potential indicators of impairment, the determination of the appropriate cash generating unit level used in impairment testing and determining the accounting treatment for certain investments where the company owns less than 100% of the entity.

Revenue recognition

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

Foreign currency translation

Our functional and presentation currency is Canadian dollars.

U.S. operations

Assets and liabilities of our U.S. operations have a functional currency of U.S. dollars and are translated at the period-end exchange rate. Revenues and expenses are translated at average exchange rates during the reporting period. The resulting unrealized translation gains or losses are included in other comprehensive earnings.

Translation of other foreign currency balances and transactions

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

Cash and short-term investments

Cash and short-term investments consist of cash on deposit and short-term interest-bearing securities maturing within three months of the date of purchase.

Impairment of long-lived assets

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

Recoverability is assessed by comparing the CGU carrying amount to the discounted estimated net future cash flows the assets are expected to generate. If the carrying amount exceeds the discounted estimated net future cash flows, the assets of the CGU are written down to the higher of fair value less costs to sell and value-in-use (being the present value of the estimated net future cash flows of the relevant asset or CGU).

Goodwill impairment is assessed by comparing the fair value of its CGU to the underlying carrying amount of the CGU's net assets, including goodwill. When the carrying amount of the CGU exceeds its fair value, the fair value of the CGU's goodwill is compared with its carrying amount. An impairment loss is recognized for any excess of the carrying value of goodwill over its fair value.

Estimated net future cash flows are based on several assumptions concerning future circumstances including selling prices of products, U.S./Canadian dollar exchange rates, production rates, input costs and capital requirements. The estimated net future cash flows are discounted at rates reflective of market risk.

Where an impairment loss for long-lived assets other than goodwill subsequently reverses, the carrying amount of the asset or CGU is increased to the lesser of the revised estimate of its recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs. The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value.

The three levels of the fair value hierarchy are:

Level 1

Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2

Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3

Values based on prices or valuation techniques that require inputs which are both unobservable and significant to the overall fair value measurement.

3. Accounting standards issued but not yet applied

IFRS 9 – Financial Instruments

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

IFRS 15 – Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued. This standard addresses revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to control its use and obtain the benefits from the good or service. The standard replaces IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. We are in the process of assessing the impact of the new standard.

IFRS 16 – Leases

On January 13, 2016, IFRS 16 – *Leases* was issued which requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. The standard is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. We have not assessed the impact of the new standard.

There are no other standards or amendments or interpretations to existing standards issued but not yet effective which are expected to have a material impact on our consolidated financial statements.

4. Acquisitions

During the current and prior reporting period, we made the following acquisitions:

Location	Business acquired	Date	Consideration
2015			
Manning, Alberta	Lumber manufacturing facility and related timber tenures	October 29	**$ 76**
2014			
Mansfield, Arkansas	Lumber manufacturing facility	March 7	$ 61
High Prairie, Alberta	Lumber manufacturing facility and related timber tenures	April 3	$ 68
Russellville, Arkansas	Lumber manufacturing facility	April 25	$ 79

We accounted for each of these transactions as an acquisition of a business and have allocated the purchase price based on the estimated fair value of the assets acquired and the liabilities assumed. The purchase price allocation is as follows:

	2015	2014
Current assets	**$ 10**	$ 40
Current liabilities	**(1)**	(6)
Property, plant and equipment	**28**	57
Timber licences	**59**	43
Goodwill	**—**	76
Reforestation obligations	**(2)**	(2)
Deferred income tax liabilities	**(18)**	—
Consideration	**$ 76**	$ 208

The goodwill recorded in 2014 of $76 million is part of the lumber segment and is deductible for tax purposes over 15 years.

The Manning mill has generated sales of $5 million and a loss of $1 million since the date of the acquisition. If the acquisition had occurred on January 1, 2015, management estimates that Manning would have generated sales of $33 million and earnings of $1 million after applying the acquisition fair value adjustments.

5. Inventories

Accounting policies

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

Supporting information

	2015	2014
Logs and other raw materials	**$ 215**	$ 178
Manufactured products	**290**	296
Processing materials and supplies	**126**	112
	$ 631	$ 586

Inventories at December 31, 2015 were written down by $21 million (December 31, 2014 – $5 million) to reflect net realizable value being lower than cost.

The carrying amount of inventory recorded at net realizable value was $55 million at December 31, 2015 (December 31, 2014 – $23 million), with the remaining inventory recorded at cost.

6. Property, plant and equipment

Accounting policies

Property, plant and equipment are stated at historical cost, less accumulated amortization and impairment losses. Expenditures for additions and improvements are capitalized. Borrowing costs are capitalized when the asset construction period exceeds 12 months and the borrowing costs are directly attributable to the asset. Expenditures for maintenance and repairs are charged to earnings. Upon retirement, disposal or destruction of an asset, the cost and related amortization are removed from the accounts and any gain or loss is included in earnings.

Property, plant and equipment are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	10 – 30 years
Manufacturing equipment and machinery	6 – 20 years
Fixtures, mobile and other equipment	3 – 10 years
Roads and bridges	Not exceeding 40 years
Major maintenance shutdowns	12 to 36 months

Supporting information

	Manufacturing plant, equipment & machinery	Construction -in-progress	Roads and bridges	Other	Total
As at December 31, 2013	$ 887	$ 198	$ 35	$ 24	$ 1,144
Additions	211	163	11	1	386
Amortization[1]	(133)	—	(13)	—	(146)
Acquisitions	49	—	1	7	57
Foreign exchange	24	3	—	1	28
Transfers	108	(108)	—	—	—
As at December 31, 2014	$ 1,146	$ 256	$ 34	$ 33	$ 1,469
As at December 31, 2014					
Cost	$ 3,160	$ 256	$ 112	$ 40	$ 3,568
Accumulated amortization	(2,014)	—	(78)	(7)	(2,099)
Net	$ 1,146	$ 256	$ 34	$ 33	$ 1,469
As at December 31, 2014	$ 1,146	$ 256	$ 34	$ 33	$ 1,469
Additions	**144**	**45**	**17**	**2**	**208**
Amortization[1]	**(156)**	**—**	**(15)**	**—**	**(171)**
Acquisition	**28**	**—**	**—**	**—**	**28**
Foreign exchange	**73**	**2**	**—**	**2**	**77**
Transfers	**244**	**(248)**	**2**	**—**	**(2)**
As at December 31, 2015	**$ 1,479**	**$ 55**	**$ 38**	**$ 37**	**$ 1,609**
As at December 31, 2015					
Cost	**$ 3,673**	**$ 55**	**$ 121**	**$ 44**	**$ 3,893**
Accumulated amortization	**(2,194)**	**—**	**(83)**	**(7)**	**(2,284)**
Net	**$ 1,479**	**$ 55**	**$ 38**	**$ 37**	**$ 1,609**

1. Amortization of $169 million relates to cost of products sold and $2 million relates to selling, general and administration expense (2014 – $144 million and $2 million, respectively).

7. Timber licences

Accounting policies

Timber licences, which are renewable or replaceable, are stated at historical cost, less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over their estimated useful lives of 40 years.

Supporting information

		Timber licences
As at December 31, 2013	$	489
Additions		15
Amortization[1]		(17)
Acquisitions		43
As at December 31, 2014	$	530
As at December 31, 2014		
Cost	$	739
Accumulated amortization		(209)
Net	$	530
As at December 31, 2014	$	530
Amortization[1]		**(19)**
Acquisitions		**59**
As at December 31, 2015	**$**	**570**
As at December 31, 2015		
Cost	**$**	**798**
Accumulated amortization		**(228)**
Net	**$**	**570**

1. Amortization relates to cost of products sold.

8. Goodwill and other intangibles

Accounting policies

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

Other intangibles are stated at historical cost less accumulated amortization and impairments. Other intangibles include software which is amortized over periods up to five years and non-replaceable finite term timber rights which are amortized as the related timber is logged.

Supporting information

	Goodwill	Power purchase agreement	Other	Total
As at December 31, 2013	$ 264	$ 52	$ 5	$ 321
Additions	—	—	2	2
Amortization[1]	—	(6)	(1)	(7)
Acquisitions	76	—	—	76
Transfer to other assets (note 9)	—	(46)	—	(46)
Foreign exchange	4	—	—	4
As at December 31, 2014	$ 344	$ —	$ 6	$ 350
As at December 31, 2014				
Cost	$ 344	$ —	$ 27	$ 371
Accumulated amortization	—	—	(21)	(21)
Net	$ 344	$ —	$ 6	$ 350
As at December 31, 2014	$ 344	$ —	$ 6	$ 350
Additions	**—**	**—**	**3**	**3**
Amortization[1]	**—**	**—**	**(1)**	**(1)**
Transfers	**—**	**—**	**2**	**2**
Foreign exchange	**15**	**—**	**—**	**15**
As at December 31, 2015	**$ 359**	**$ —**	**$ 10**	**$ 369**
As at December 31, 2015				
Cost	**$ 359**	**$ —**	**$ 32**	**$ 391**
Accumulated amortization	**—**	**—**	**(22)**	**(22)**
Net	**$ 359**	**$ —**	**$ 10**	**$ 369**

1. Amortization of $1 million relates to selling, general and administration expense (2014 - $6 million relates to cost of products sold and $1 million relates to selling, general and administration expense).

Goodwill

We have attributed $218 million of goodwill to a CGU made up of our Canadian lumber operations, $95 million of goodwill to a CGU made up of our U.S. lumber operations and $46 million of goodwill to a CGU made up of our plywood and LVL operations.

For the purpose of the 2015 impairment test of goodwill, the fair value of CGUs has been determined based on value-in-use calculations using a discount rate of 8%. These calculations use cash flow projections based on the 2016 operating plan, a forecast of 2017 and 2018 and trend level earnings for subsequent years, all approved by management. Assumptions were developed by management based on industry sources, including Forest Economic Advisors, LLC and other industry analysts, taking into account management's best estimates.

9. Other assets

	2015	2014
Post-retirement (note 13)	**$ 8**	$ 14
Power agreements	**16**	44
Other	**12**	21
	$ 36	$ 79

Power agreements

Effective October 1, 2014, we entered into a power strip agreement which, combined with our existing power purchase agreement, provides us with a portion of the electricity generated from two power plants in Alberta at substantially predetermined prices. The electricity generated is then sold into the Alberta grid at prevailing market prices. Our share of electricity capacity acquired under these agreements to October 2017 is expected to be approximately 160 megawatts per year and from November 2017 to December 2020 is expected to be approximately 115 megawatts per year.

Our share of the electricity expected to be generated under these agreements and the electricity expected to be produced by our Alberta operations is estimated to be in excess of the electricity demands of our Alberta operations. As such, on October 1, 2014 we no longer qualified for the "own-use" exemption under IAS 39 – *Financial Instruments*. This results in these power agreements being accounted for as derivative financial instruments from that date. The cost of our existing power purchase agreement was amortized over its term up to October 1, 2014 as an intangible asset and from that date forward has been and will be accounted for at fair value at each balance sheet date, with the change recorded in other income.

For the purpose of determining the fair value of these agreements, we discount expected cash flows to be received over the remaining life of the agreements. Estimates for revenues are based on forward pricing estimates as published by Natural Gas Exchange ("NGX") and estimates for operating costs are based on historical data with adjustments for inflation and expected cost increases. The fair value adjustment for 2015 resulted in a loss of $32 million (2014 – $2 million) being recognized through earnings.

10. Payables and accrued liabilities

	2015	2014
Trade accounts	$ 189	$ 202
Equity-based compensation	77	119
Compensation	51	58
Dividends	6	6
Interest	4	4
Other	24	22
	$ 351	$ 411

11. Other liabilities

	2015	2014
Post-retirement (note 13)	$ 142	$ 129
Reforestation	76	71
Decommissioning	29	23
Other	22	21
	$ 269	$ 244

Reforestation and decommissioning obligations

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

Accounting policies

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

We record the present value of a liability for decommissioning obligations in the period that a reasonable estimate can be made. The present value of the liability is added to the carrying amount of the associated asset and amortized over its useful life or, if there is no associated asset, it is expensed. Decommissioning obligations are reviewed annually and changes to estimates result in an adjustment of the carrying amount of the associated asset or, where there is no asset, they are credited or charged to earnings.

Reforestation and decommissioning obligations are discounted at the risk-free rate at the balance sheet date and accreted over time through periodic charges to earnings. The liabilities are reduced by actual costs of settlement.

Supporting information

	Reforestation		Decommissioning	
	2015	2014	2015	2014
Beginning of year	$ 111	$ 105	$ 23	$ 22
Liabilities recognized	50	44	—	—
Liabilities settled	(43)	(47)	—	—
Acquired obligation	2	4	—	—
Change in estimates	4	5	6	1
End of year	124	111	29	23
Less: current portion	(48)	(40)	—	—
	$ 76	$ 71	$ 29	$ 23

The total undiscounted amount of the estimated cash flows required to satisfy these obligations is $159 million (2014 – $143 million). The cash flows have been discounted using interest rates ranging from 0.48% to 0.73% (2014 – 1.01% to 1.34%).

The timing of the reforestation payments is based on the estimated period required to attain free to grow status in a given area, which is generally between 12 to 15 years. Payments relating to landfill closures and site remediation are expected to occur over periods ranging up to 31 years.

12. Long-term debt and operating loans

Accounting policies

Transaction costs related to debt refinancing are deferred and amortized over the life of the associated debt. When our operating loan is undrawn, the related deferred financing costs are recorded in other assets.

Supporting information

Long-term debt

	2015	2014
US$300 million senior notes due October 2024; interest at 4.35%	**$ 415**	$ 348
US$8 million note payable due October 2020; interest at 2%	**10**	9
Note payable due in instalments to 2020; interest at 5.5%	**2**	2
	427	359
Deferred financing costs	**(4)**	(5)
	$ 423	$ 354

Required principal repayments are disclosed in note 23.

Operating loans

We have $583 million in revolving lines of credit, of which $178 million, net of deferred financing costs of $3 million, was drawn as at December 31, 2015 (December 31, 2014 – $103 million, net of deferred financing costs of $3 million).

Our revolving lines of credit consist of a $500 million revolving credit facility, two demand lines of credit totalling $75 million dedicated to letters of credit, and an $8 million demand line of credit dedicated to our jointly owned newsprint operation. The revolving credit facility matures on September 30, 2020.

Interest on these facilities is payable at floating rates based on Prime, U.S. base, Bankers' Acceptances or LIBOR at our option. As at December 31, 2015, letters of credit in the amount of $54 million have been issued under these facilities.

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

13. Post-retirement benefits

We maintain defined benefit and defined contribution pension plans covering a majority of our employees. The defined benefit plans generally do not require employee contributions and provide a guaranteed level of pension payable for life based either on length of service or on earnings and length of service, and in most cases do not increase after commencement of retirement.

The defined benefit pension plans are operated in Canada and the U.S. under broadly similar regulatory frameworks. The majority are funded arrangements where benefit payments are made from plan assets which are held in trust. Responsibility for the governance of the plans, including investment and contribution decisions, resides with our pension committee which reports to the Board of Directors. For the registered defined benefit pension plans, regulations set minimum requirements for contributions for benefit accruals and the funding of deficits.

Accounting policies

We record a post-retirement asset or liability for our employee defined benefit pension and other retirement benefit plans by netting our plan assets with our plan obligations, on a plan-by-plan basis.

The cost of defined benefit pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields from high quality Canadian corporate bonds with cash flows that approximate expected benefit payments at the balance sheet date. Plan assets are valued at fair value at each balance sheet date.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive earnings in the period in which they arise.

Past service costs arising from plan amendments are recognized immediately.

The finance amount on net post-retirement balances is classified as finance expense.

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

Supporting information

The actual return on plan assets for 2015 is a gain of $42 million (2014 – $146 million).

The total pension expense for the defined benefit plans is $59 million (2014 – $41 million). In 2015, we made contributions of $61 million (2014 – $54 million). We expect to contribute approximately $51 million to our defined benefit pension plans during 2016. We also provide group life insurance, medical and extended health benefits to certain employee groups, for which we contributed $3 million (2014 – $3 million).

The total pension expense and funding contributions for the defined contribution pension plans is $14 million (2014 – $12 million).

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

	Defined benefit pension plans		Other retirement benefit plans	
	2015	2014	**2015**	2014
Accrued benefit obligations				
Benefit obligations – opening	**$ 1,411**	$ 1,164	**$ 53**	$ 48
Current service cost	**56**	42	**1**	1
Finance cost on obligation	**57**	56	**2**	2
Benefits paid	**(56)**	(57)	**(3)**	(3)
Actuarial loss (gain) due to change in discount rate	**(3)**	154	**—**	4
Actuarial loss (gain) due to demography/experience	**6**	49	**(3)**	1
Other	**11**	3	**—**	—
Benefit obligations – ending	**$ 1,482**	$ 1,411	**$ 50**	$ 53
Plan assets				
Fair value – opening	**$ 1,354**	$ 1,207	**$ —**	$ —
Finance income on plan assets	**54**	57	**—**	—
Actuarial (loss) gain due to returns on plan assets being higher than finance income	**(12)**	89	**—**	—
Employer contributions	**61**	54	**3**	3
Benefits paid	**(56)**	(57)	**(3)**	(3)
Other	**8**	4	**—**	—
Fair value – ending	**$ 1,409**	$ 1,354	**$ —**	$ —
Funded status[1]				
Post-retirement assets	**$ 19**	$ 19	**$ —**	$ —
Actuarial loss due to impact of minimum funding requirement[2]	**(11)**	(5)	**—**	—
Post-retirement assets (note 9)	**8**	14	**—**	—
Post-retirement liabilities (note 11)	**(92)**	(76)	**(50)**	(53)
	$ (84)	$ (62)	**$ (50)**	$ (53)

1. Plans in a surplus position are classified as assets and plans in a deficit position are shown as liabilities on the consolidated balance sheet. Other retirement benefit plans continue to be unfunded.
2. Some of our plans have a surplus that is not recognized on the basis that future economic benefits may not be available to us in the form of a reduction in future contributions or a cash refund.

	Defined benefit pension plans		Other retirement benefit plans	
	2015	2014	**2015**	2014
Expense				
Current service cost	**$ 56**	$ 42	**$ 1**	$ 1
Net finance expense	**3**	(1)	**2**	2
	$ 59	$ 41	**$ 3**	$ 3

Assumptions and sensitivities

The weighted average duration of the defined benefit pension obligations is 16 years. The expected maturity analysis of the undiscounted defined benefit pension plans at December 31, 2015 is as follows:

	2016	2017	2018 to 2020	Thereafter	Total
Defined benefit pension plans	$ 56	$ 58	$ 181	$ 2,731	$ 3,026

The estimation of post-retirement benefit obligations involves a high degree of judgment for matters such as discount rate, employee service periods, compensation escalation rates, expected retirement ages of employees, mortality rates, expected health-care costs and other variable factors. These estimates are reviewed annually with independent actuaries. The significant actuarial assumptions used to determine our balance sheet date post-retirement assets and liabilities and our post-retirement benefit plan expenses are as follows:

	Defined benefit pension plans		Other retirement benefit plans	
	2015	2014	**2015**	2014
Benefit obligations:				
Discount rate	**4.00%**	4.00%	**4.00%**	4.00%
Future compensation rate increase	**3.50%**	3.50%	**n/a**	n/a
Benefit expense:				
Discount rate – beginning of year	**4.00%**	4.75%	**4.00%**	4.75%
Future compensation rate increase	**3.50%**	3.50%	**n/a**	n/a

Health-care benefit costs, shown under other retirement benefit plans, are funded on a pay-as-you-go basis. The actuarial assumptions for extended health-care costs are estimated to increase 9.5% per year for one year, grading down 0.5% per year for years two to nine, to 5% per year thereafter. The actuarial assumptions for medical service plan costs are estimated to increase by 4% per year.

The impact of a change in these assumptions on our post-retirement obligations is as follows:

	Obligations
Discount rate	
Decrease in assumption from 4.00% to 3.50%	$ 119
Increase in assumption from 4.00% to 4.50%	$ (110)
Rate of increase in future compensation	
Decrease in assumption from 3.50% to 3.00%	$ (23)
Increase in assumption from 3.50% to 4.00%	$ 23
Health-care cost trend rates	
Increase in assumption by 1.00%	$ 4
Decrease in assumption by 1.00%	$ (5)

The sensitivities have been calculated on the basis that all other variables remain constant. When calculating the sensitivity of the defined benefit obligation, the same methodology is applied as was used to generate the financial statement asset/liability.

Assets

The weighted average asset allocations of the defined benefit plans at December 31, by asset category, are as follows:

	Target Range[1]	**2015**	2014
Canadian equities	9% – 25 %	**18%**	31%
Foreign equities	12% – 34%	**26%**	33%
Fixed income investments	36% – 60%	**50%**	35%
Other investments	3% – 31%	**6%**	1%
		100%	100%

1. The target range applies to our open plans comprising the majority of our pension assets. Our closed plans target a more conservative asset mix with a greater percentage of fixed income investments.

Risk management practices

The defined benefit pension plans' investments are exposed to various risks. These risks include market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The pension committee manages these risks in accordance with a Statement of Investment Policies and Procedures for each of the Pension Plans Master Investment Trusts. Separate Master Investment Trusts have been established to invest for longer duration liabilities (Open Plans) and for shorter duration liabilities (Closed Plans). The following are some specific risk management practices employed:

- Retaining and monitoring professional advisors including an outsourced chief investment officer ("OCIO");
- Monitoring our OCIO's adherence to asset allocation guidelines and permitted categories of investments; and
- Monitoring investment decisions and performance of the OCIO and asset performance against benchmarks using third-party performance measurement professionals.

14. Share capital

Authorized

400,000,000 Common shares, without par value
20,000,000 Class B Common shares, without par value
10,000,000 Preferred shares, issuable in series, without par value

Issued

	2015		2014	
	Number	**Amount**	Number	Amount
Common	**80,175,079**	**$ 579**	81,245,657	$ 587
Class B Common	**2,281,478**	**—**	2,281,478	—
Total Common	**82,456,557**	**$ 579**	83,527,135	$ 587

In 2015 we repurchased 1,078,856 Common shares for $60 million and in 2014 we repurchased 2,152,900 Common shares for $111 million.

On September 15, 2015, our Board of Directors authorized the renewal of our normal course issuer bid ("NCIB") program to repurchase for cancellation up to 4,000,000 Common shares or approximately 5% of our issued and outstanding Common shares. The NCIB will expire on September 16, 2016. There have been no purchases under the current outstanding NCIB from inception to February 11, 2016.

Rights and restrictions of Common shares

Common shares and Class B Common shares are equal in all respects except that each Class B Common share may at any time be exchanged for one Common share. Certain circumstances or corporate transactions may require the approval of the holders of our Common shares and Class B Common shares on a separate class-by-class basis.

15. Equity-based compensation

We have a share option plan, a phantom share unit plan and a directors' deferred share unit plan which are described below. The compensation amount included in earnings for these plans in 2015 was a recovery of $23 million (2014 – expense of $45 million).

Accounting policies

We estimate the fair value of outstanding share options using the Black-Scholes valuation model and the fair value of our phantom share unit plan and directors' deferred share unit plan using an intrinsic valuation model at each balance sheet date and record the resulting expense or recovery, over the related vesting period, through a charge to earnings.

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

Supporting information

Share option plan

Under our share option plan, officers and employees may be granted options to purchase up to 6,545,940 Common shares, of which 272,831 remain available for issuance. The exercise price of a share option is the closing price of a Common share on the trading day immediately preceding the grant date. West Fraser's share option plan gives share option holders the right to elect to receive a cash payment in lieu of exercising an option to purchase Common shares. Options vest at the earlier of the date of retirement or death and 20% per year from the grant date, and expire after 10 years. We have recorded a recovery of $26 million (2014 – expense of $36 million) related to the share option plan.

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

	2015		2014	
	Number	Weighed average price (dollars)	Number	Weighted average price (dollars)
Outstanding – beginning of year	**2,240,798**	**$ 23.66**	2,516,772	$ 21.13
Granted	**139,420**	**$ 73.99**	161,845	$ 53.96
Exercised	**(168,267)**	**$ 20.95**	(437,819)	$ 20.42
Outstanding – end of year	**2,211,951**	**$ 27.03**	2,240,798	$ 23.66
Exercisable – end of year	**1,664,481**	**$ 20.51**	1,623,455	$ 18.88

The following table summarizes information about the share options outstanding at December 31, 2015:

Exercise price range (dollars)	**Number of outstanding options** (number)	**Weighted average remaining contractual life** (years)	**Weighted average exercise price** (dollars)	**Number of exercisable options** (number)	**Weighted average exercise price** (dollars)
$12.36	450,000	3.1	$ 12.36	450,000	$ 12.36
$16.65 – $19.50	388,946	2.1	$ 16.87	388,946	$ 16.87
$20.59 – $25.78	880,756	3.8	$ 23.68	705,560	$ 23.53
$40.82 – $53.96	352,829	7.6	$ 46.77	119,195	$ 44.88
$73.99	139,420	9.1	$ 73.99	780	$ 73.99
	2,211,951	4.3	$ 27.03	1,664,481	$ 20.51

The weighted average share price at the date of exercise for share options exercised during the year was $63.89 per share (2014 – $62.65 per share).

The accrued liability related to the share option plan is $63 million at December 31, 2015 (December 31, 2014 – $97 million). The weighted average fair value of the options used in the calculation was $28.63 per option at December 31, 2015 (December 31, 2014 – $42.83 per option).

The inputs to the option model are as follows:

	2015	2014
Share price on balance sheet date	**$52.12**	$66.25
Weighted average exercise price	**$27.03**	$23.66
Expected dividend	**$0.28**	$0.28
Expected volatility	**32.71%**	31.80%
Weighted average interest rate	**0.55%**	1.05%
Weighted average expected remaining life in years	**2.9**	2.4

The expected dividend on our shares was based on the annualized dividend rate at each period-end. Expected volatility was based on five years of historical data. The interest rate for the life of the options was based on the implied yield available on government bonds with an equivalent remaining term at each period-end. Historical data was used to estimate the expected life of the options and forfeiture rates.

The intrinsic value of options issued under the share option plan at December 31, 2015 was $59 million (December 31, 2014 – $93 million). The intrinsic value is determined based on the difference between the period-end share price and the exercise price, multiplied by the sum of the related vested options plus unvested options for those holders eligible to retire.

Phantom share unit plan

Our phantom share unit plan is intended to supplement or, in whole or in part, replace the granting of share options as long-term incentives for officers and employees. The plan provides for two types of units which vest on the third anniversary of the grant date. A restricted share unit pays out based on the Common share price over the 20 trading days immediately preceding its vesting date (the "vesting date value"). A performance share unit pays out at a value between 0% and 200% of its vesting date value contingent upon West Fraser's performance relative to a peer group of companies over the three-year performance period. Officers and employees granted units under the plan are also entitled to additional units to reflect cash dividends paid on Common shares from the applicable grant date until payout.

We have recorded an expense of $3 million (2014 – $7 million) related to the phantom share unit plan. The number of units outstanding as at December 31, 2015 was 180,280 (December 31, 2014 – 272,495), including performance share units totalling 66,990 (December 31, 2014 – 71,590).

Directors' deferred share unit plan

We have a deferred share unit plan ("DSU Plan") which provides a structure for non-employee directors to accumulate an equity-like holding in West Fraser. The DSU Plan allows directors to participate in the growth of West Fraser by providing a deferred payment based on the value of a Common share at the time of redemption. Each director receives deferred share units ("Units") in payment of an annual equity retainer until a minimum equity holding is reached and may elect to receive Units in payment of up to 100% of other fees earned. After a minimum equity holding is reached, directors may elect to receive the equity retainer in Units or cash. The Units are issued based on our Common share price at the time of issue. Additional Units are issued to take into account the value of dividends paid on Common shares from the date of issue to the date of redemption. Units are redeemable only after a director retires, resigns or otherwise leaves the board. The redemption value is equal to the Common share price at the date of redemption. A holder of Units may elect to redeem Units in cash or receive Common shares having an equivalent value. The number of Units outstanding as at December 31, 2015 was 139,479 (December 31, 2014 – 134,626).

16. Finance expense

		2015		2014
Interest expense	**$**	**(23)**	$	(23)
Finance expense on employee future benefits		**(5)**		(2)
Accretion on long-term liabilities		**(1)**		(1)
	$	**(29)**	$	(26)

17. Other

		2015		2014
Foreign exchange gain on working capital	**$**	**28**	$	13
Foreign exchange gain on intercompany financing[1]		**9**		5
Foreign exchange loss on long-term debt		**(67)**		(29)
Writedown of investment		**(7)**		—
Fair value adjustment to power agreements		**(32)**		(2)
Gain on asset sales		**2**		3
Other		**3**		5
	$	**(64)**	$	(5)

1. Relates to US$200 million of financing provided and outstanding to our U.S. operations. IAS 21 requires that the exchange gain or loss be recognized through earnings as the financing is not considered part of our permanent investment in our U.S. subsidiaries. The balance sheet amounts and related financing expense are eliminated in these consolidated financial statements.

18. Tax provision

Accounting policies

The tax expense for the period is comprised of current and deferred tax. Tax is recognized in the consolidated statement of earnings, except to the extent that it relates to items recognized in other comprehensive earnings in which case it is recognized in other comprehensive earnings.

Deferred taxes are provided for using the liability method. Under this method, deferred taxes are recognized for temporary differences between the tax and financial statement basis of assets, liabilities and certain carry-forward items.

Deferred tax assets are recognized only to the extent that it is probable that they will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment.

Supporting information

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

		2015		2014
Earnings				
Current tax	**$**	**(37)**	$	(72)
Deferred tax		**(15)**		(44)
Tax provision on earnings	**$**	**(52)**	$	(116)
Other comprehensive earnings				
Current tax on post-retirement actuarial gains and losses	**$**	**1**	$	3
Deferred tax on post-retirement actuarial gains and losses		**4**		28
Tax recovery on other comprehensive earnings	**$**	**5**	$	31
Tax provision on comprehensive earnings	**$**	**(47)**	$	(85)

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

		2015		2014
Income tax expense at statutory rate of 26%	$	(40)	$	(98)
Non-taxable amounts		(1)		(11)
Rate differentials between jurisdictions and on specified activities		5		(8)
Unrecognized capital losses		(9)		—
Increase in Alberta statutory tax rate		(7)		—
Other		—		1
Tax provision	$	(52)	$	(116)

Deferred income taxes are made up of the following components:

		2015		2014
Property, plant, equipment and intangibles	$	324	$	256
Reforestation and decommissioning obligations		(33)		(30)
Post-retirement benefits		(36)		(32)
Tax loss carry-forwards		(124)		(86)
Other		(21)		(16)
	$	110	$	92
Represented by:				
Deferred income tax assets	$	(80)	$	(62)
Deferred income tax liabilities		190		154
	$	110	$	92

19. Employee compensation

Our employee compensation expense includes salaries and wages, employee future benefits, termination costs and bonuses. Total compensation expense is $756 million (2014 – $689 million).

Key management includes directors and officers. Their compensation expense (recovery) and balance sheet date payables are as follows:

		2015		2014
Expense	$		$	
Salary and short-term employee benefits		5		8
Post-retirement benefits		2		1
Equity-based compensation[1]		(24)		24
	$	(17)	$	33
Payables and accrued liabilities				
Compensation	$	—	$	4
Equity-based compensation[1]		64		97
	$	64	$	101

1. The expense or recovery does not necessarily represent the actual value which will ultimately be received.

20. Earnings per share

Basic earnings per share is calculated based on earnings available to Common shareholders, as set out below, using the weighted average number of Common shares and Class B Common shares outstanding.

Diluted earnings per share is calculated based on earnings available to Common shareholders adjusted to remove the actual share option (recovery) expense charged to earnings and after deducting a notional charge for share option expense assuming the use of the equity settled method, as set out below. The diluted weighted average number of shares is calculated using the treasury stock method. When earnings available to Common shareholders for diluted earnings per share are greater than earnings available to Common shareholders for basic earnings per share, the calculation is anti dilutive and diluted earnings per share are deemed to be the same as basic earnings per share.

	2015	2014
Earnings		
Basic	**$ 104**	$ 259
Share option (recovery) expense	**(26)**	36
Equity settled share option adjustment	**(3)**	(3)
Diluted	**$ 75**	$ 292
Weighted average number of shares (thousands)		
Basic	**83,104**	84,742
Share options	**1,295**	1,430
Diluted	**84,399**	86,172
Earnings per share (dollars)		
Basic	**$ 1.25**	$ 3.06
Diluted	**$ 0.89**	$ 3.06

21. Commitments

Operating leases

We are committed to make payments under certain operating leases for equipment, land, buildings and office space. Operating lease costs expensed during the year were $7 million (2014 – $5 million). The future payments required under operating leases are as follows:

2016	$ 4
2017	4
2018	3
2019	2
Thereafter	3
	$ 16

Product purchase and sale commitments

We have long-term purchase and sale contracts with minimum annual volume commitments. All contracts are at market prices and on normal business terms.

Capital commitments

Capital commitments at December 31, 2015 are $34 million.

22. Government assistance

Accounting policies

Government assistance received that relates to the construction of manufacturing assets is applied to reduce the cost of those assets. Government assistance received that relates to operational expenses is applied to reduce the amount charged to earnings for the operating item.

Supporting information

Government assistance of $4 million (2014 – $17 million) was received for capital projects and recorded as a reduction to property, plant and equipment.

Government assistance of $14 million (2014 – $11 million) was recorded as a reduction to cost of products sold. The government assistance related primarily to research and development, bioenergy producer credits and apprentice tax credits.

23. Financial instruments

Accounting policies

Our financial assets are categorized as loans and receivables, our financial liabilities as other financial liabilities, and our derivatives as held for trading. All financial assets and liabilities, except for derivatives, are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method. Derivatives are measured at fair value through earnings.

Supporting information

The following tables provide the carrying and fair values of our financial instruments by category, as well as the associated fair value hierarchy levels as defined in note 2 under "*Fair value measurements*":

2015	Level	Loans & receivables	Held for trading	Other financial liabilities	Carrying value	Fair value
Financial assets						
Cash & short-term investments	1	$ 13	$ —	$ —	$ 13	$ 13
Receivables	3	298	—	—	298	298
Power agreement (note 9)	3	—	16	—	16	16
		$ 311	$ 16	$ —	$ 327	$ 327
Financial liabilities						
Cheques issued in excess of funds on deposit	1	$ —	$ —	$ 29	$ 29	$ 29
Operating loans (note 12)	1	—	—	181	181	181
Payables and accrued liabilities	2	—	—	351	351	351
Power agreement	3	—	5	—	5	5
Long-term debt (note 12)[1]	2	—	—	427	427	406
		$ —	$ 5	$ 988	$ 993	$ 972

1. The fair value of the long-term debt is based on rates available to us at December 31, 2015 for long-term debt with similar terms and remaining maturities.

2014	Level	Loans & receivables	Held for trading	Other financial liabilities	Carrying value	Fair value
Financial assets						
Cash & short-term investments	1	$ 21	$ —	$ —	$ 21	$ 21
Receivables	3	288	—	—	288	288
Power agreements (note 9)	3	—	44	—	44	44
		$ 309	$ 44	$ —	$ 353	$ 353
Financial liabilities						
Cheques issued in excess of funds on deposit	1	$ —	$ —	$ 36	$ 36	$ 36
Operating loans (note 12)	1	—	—	106	106	106
Payables and accrued liabilities	2	—	—	411	411	411
Long-term debt (note 12)[1]	2	—	—	359	359	354
		$ —	$ —	$ 912	$ 912	$ 907

1. The fair value of the long-term debt is based on rates available to us at December 31, 2014 for long-term debt with similar terms and remaining maturities.

Financial risk management

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

The sensitivities provided give the effect of possible changes in the relevant prices and rates on earnings. The sensitivities are hypothetical and should not be considered to be predictive of future performance or earnings. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear.

Derivative contracts

From time to time, we use derivatives to manage our exposure to U.S. dollar exchange fluctuations and commodity prices. Commodity contracts used by West Fraser include lumber futures and agreements related to Alberta electricity rates.

The fair value of our energy related derivatives at December 31, 2015 is $11 million. Based on the energy contracts as at December 31, 2015 and holding all other variables constant, a 1% change in the projected Alberta electricity price would change the fair value by $1 million and a 1% change in the projected operating costs of the underlying power facilities would change the fair value by $1 million.

There were no material lumber futures or foreign exchange contracts outstanding at December 31, 2015 or 2014.

Currency fluctuation

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

Impact of U.S. dollar currency fluctuation

The U.S. dollar foreign currency balance sheet exposure at December 31, 2015 is as follows:

Canadian operations		**2015**
Net working capital	**US$**	**96**
Intercompany financing[1]		**200**
Long-term debt		**(300)**
	US$	**4**
U.S. operations		
Net investment	**US$**	**558**

1 IAS 21 requires that the exchange gain or loss be recognized through earnings as the financing is not considered part of our permanent investment in our U.S. subsidiaries. The balance sheet amounts and related financing expense are eliminated in these consolidated financial statements.

Based on these balances, with other variables unchanged, a $0.01 increase (decrease) in the exchange rate for one U.S. dollar into Canadian currency would result in an immaterial change in earnings and an increase (decrease) of $11 million in the translation gain on foreign operations.

Credit

Credit risk arises from the non-performance by counterparties of contractual financial obligations. Investments in cash and short-term investments are primarily made using major banks and only made with counterparties meeting certain credit-worthiness criteria. Credit risk for trade and other receivables is managed through established credit monitoring activities. Customer credit limits are established and monitored. Ongoing evaluations of key customer financial conditions are performed. In certain market areas, we have undertaken additional measures to reduce credit risk including credit insurance, letters of credit and prepayments. At December 31, 2015, approximately 50% of trade accounts receivable were covered by at least some of these additional measures. We have historically experienced minimal customer defaults and, as a result, consider the credit quality of the trade accounts receivable at December 31, 2015 to be high. There were no bad debts in 2015 or 2014. The aging analysis of trade accounts receivable is presented below:

		2015		2014
Trade accounts receivable - gross				
Current	**$**	**239**	$	226
Past due 1 to 30 days		**9**		7
Past due 31 to 60 days		**3**		1
Past due over 60 days		**1**		1
		252		235
Allowance for doubtful accounts		**—**		—
Trade accounts receivable – net		**252**		235
Other		**46**		53
Receivables	**$**	**298**	$	288

Liquidity

We manage liquidity by maintaining adequate cash and short-term investment balances and by having appropriate lines of credit available. In addition, we regularly monitor and review both actual and forecasted cash flows. Refinancing risks are managed by ensuring debt has a balanced maturity schedule where possible.

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

		2016		2017		2018		2019		Thereafter		Total
Long-term debt (note 12)	$	—	$	—	$	—	$	—	$	427	$	427
Interest on long-debt[1,2]		18		18		18		18		88		160
	$	18	$	18	$	18	$	18	$	515	$	587

1. Assumes debt level, foreign exchange rate and interest rates remain at December 31, 2015 levels and rates.
2. At December 31, 2015, we had drawn $181 million under our revolving credit facility. The potential interest payable on this loan has not been included in the above table.

Interest rates

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

At December 31, 2015, with other variables unchanged, a 1% change in interest rates would not have a significant impact on earnings or other comprehensive earnings.

24. Capital disclosures

Our business is cyclical and is subject to significant changes in cash flow over the business cycle. In addition, financial performance can be materially influenced by changes in product prices and the relative values of the Canadian and U.S. dollars. Our objective in managing capital is to ensure adequate liquidity and financial flexibility at all times, particularly at the bottom of the business cycle.

Our main policy relating to capital management is to maintain a strong balance sheet and otherwise meet financial tests that are commonly applied by rating agencies for investment grade issuers of public debt. Our debt is currently rated as investment grade by three major rating agencies.

We monitor and assess our financial performance in order to ensure that net debt levels are prudent taking into account the anticipated direction of the business cycle. When financing acquisitions, we combine debt and equity financing in a proportion that is intended to maintain an investment grade rating for debt throughout the cycle. Debt repayments are arranged, where possible, on a staggered basis that takes into account the uneven nature of anticipated cash flows. We have established committed revolving lines of credit that provide liquidity and flexibility when capital markets are restricted.

One key measurement used to monitor our capital position is net debt to total capital, calculated as follows at December 31:

	2015	2014
Net debt		
Cash and short-term investments	**$ (13)**	$ (21)
Deferred financing charges[1]	**(7)**	(8)
Cheques issued in excess of funds on deposit	**29**	36
Operating loans	**181**	106
Long-term debt	**427**	359
	617	472
Shareholders' equity	**2,147**	2,029
Total capital	**$ 2,764**	$ 2,501
Net debt to total capital	**22%**	19%

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.

25. Segment and geographical information

The segmentation of manufacturing operations into lumber, panels and pulp and paper is based on a number of factors, including similarities in products, production processes and economic characteristics. Transactions between segments are at market prices and on normal business terms. The segments follow the accounting policies as described in these financial statement notes, where applicable.

	Lumber	Panels	Pulp & Paper	Corporate & Other	Total
2015					
Sales					
To external customers	**$ 2,654**	**$ 546**	**$ 900**	**$ —**	**$ 4,100**
To other segments	**110**	**8**	**—**	**—**	
	$ 2,764	**$ 554**	**$ 900**	**$ —**	
Operating earnings before amortization	**$ 243**	**$ 95**	**$ 80**	**$ 22**	**$ 440**
Amortization	**(138)**	**(13)**	**(39)**	**(1)**	**(191)**
Operating earnings	**105**	**82**	**41**	**21**	**249**
Finance expense	**(18)**	**(3)**	**(8)**	**—**	**(29)**
Other	**9**	**(3)**	**(5)**	**(65)**	**(64)**
Earnings before tax	**$ 96**	**$ 76**	**$ 28**	**$ (44)**	**$ 156**
Total assets	**$ 2,668**	**$ 261**	**$ 622**	**$ 84**	**$ 3,635**
Total liabilities	**$ 363**	**$ 51**	**$ 121**	**$ 953**	**$ 1,488**
Capital expenditures	**$ 172**	**$ 5**	**$ 32**	**$ 11**	**$ 220**
Acquisition	**$ 76**	**$ —**	**$ —**	**$ —**	**$ 76**
2014					
Sales					
To external customers	$ 2,526	$ 518	$ 812	$ —	$ 3,856
To other segments	96	8	—	—	
	$ 2,622	$ 526	$ 812	$ —	
Operating earnings before amortization	$ 465	$ 78	$ 83	$ (50)	$ 576
Amortization	(114)	(14)	(41)	(1)	(170)
Operating earnings	351	64	42	(51)	406
Finance expense	(16)	(3)	(7)	—	(26)
Other	15	1	8	(29)	(5)
Earnings before tax	$ 350	$ 62	$ 43	$ (80)	$ 375
Total assets	$ 2,391	$ 286	$ 651	$ 69	$ 3,397
Total liabilities	$ 344	$ 49	$ 116	$ 859	$ 1,368
Capital expenditures	$ 326	$ 7	$ 71	$ 6	$ 410
Acquisitions	$ 208	$ —	$ —	$ —	$ 208

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

	Non-current assets		Sales by geographic area[1]	
	2015	2014	**2015**	2014
Canada	**$ 1,990**	$ 1,941	**$ 898**	$ 894
United States	**674**	549	**2,249**	1,997
China	**—**	—	**580**	598
Other Asia	**—**	—	**299**	274
Other	**—**	—	**74**	93
	$ 2,664	$ 2,490	**$ 4,100**	$ 3,856

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