2015 Management's Discussion & Analysis

Introduction and Interpretation

This discussion and analysis by West Fraser's management ("MD&A") of West Fraser's financial performance during 2015 and the fourth quarter of 2015 should be read in conjunction with the 2015 annual audited consolidated financial statements and accompanying notes (the "Financial Statements"). Dollar amounts are expressed in Canadian currency, unless otherwise indicated.

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

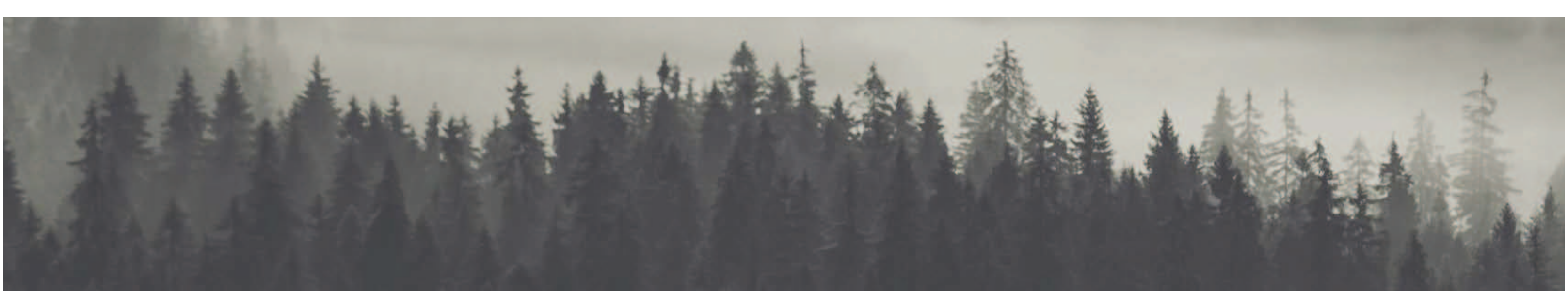
All references within this MD&A to the number of West Fraser shares, share prices, earnings per share, options, and other equity-based incentives reflect the payment and adjustments resulting from a stock dividend, declared on December 10, 2013 and paid on January 13, 2014, applied retroactively to all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

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

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

This MD&A includes references to benchmark prices over selected periods for products of the type produced by West Fraser. These benchmark prices do not necessarily reflect the prices obtained by West Fraser for those products during such period. The information in this MD&A is as at February 11, 2016 unless otherwise indicated.

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



Summary Information – Annual Results

Financial Comparisons ($millions, except as otherwise indicated)

Year ended December 31	2015	2014	2013
Sales by segment			
Lumber	**2,764**	2,622	2,315
Panels	**554**	526	467
Pulp & Paper	**900**	812	780
Intracompany fibre sales	**(118)**	(104)	(88)
Total	**4,100**	3,856	3,474
Adjusted EBITDA	**417**	621	583
Amortization	**(191)**	(170)	(160)
Equity-based compensation	**23**	(45)	(54)
Restructuring charges	**—**	—	(24)
Operating earnings	**249**	406	345
Operating earnings by segment			
Lumber	**105**	351	314
Panels	**82**	64	28
Pulp & Paper	**41**	42	58
Corporate and Other	**21**	(51)	(55)
Total	**249**	406	345
Earnings	**104**	259	349
Basic earnings per share ($)	**1.25**	3.06	4.07
Diluted earnings per share ($)	**0.89**	3.06	4.07
Cash dividends per share ($)	**0.28**	0.28	0.28
Total assets	**3,635**	3,397	3,104
Long-term debt[1]	**423**	354	328
Cdn$1.00 converted to US$ – average	**0.782**	0.905	0.971

1. Includes current portion of long-term debt.

Selected Quarterly Information

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

	Q4-15	Q3-15	Q2-15	Q1-15	Q4-14	Q3-14	Q2-14	Q1-14
Sales	**1,013**	**1,044**	**1,029**	**1,014**	964	1,030	1,053	809
Earnings	**(15)**	**56**	**14**	**49**	43	70	74	72
Basic EPS	**(0.18)**	**0.67**	**0.17**	**0.58**	0.51	0.83	0.87	0.84
Diluted EPS	**(0.18)**	**0.05**	**0.17**	**0.53**	0.51	0.83	0.87	0.79

Adjusted Earnings and Adjusted Basic Earnings Per Share

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

	2015	2014
Earnings	**104**	259
Adjustments to earnings		
Equity-based compensation	**(23)**	45
Exchange loss on long-term debt	**67**	29
Exchange gain on intercompany financing	**(9)**	(5)
Fair value adjustment to Power Agreements	**32**	2
Writedown of investment	**7**	—
Net tax effect on the above adjustments	**(9)**	(3)
Increase in Alberta provincial tax rate	**7**	—
Adjusted earnings	**176**	327
Adjusted basic EPS[1]	**2.12**	3.86

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

Earnings in 2015 decreased compared to results for 2014. 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 $176 million compared to $327 million in 2014. For a description of operational results see "Discussion & Analysis by Product Segment" which follows this section.

In 2015 a recovery of $23 million was recorded related to equity-based compensation compared to an expense of $45 million in 2014. An expense is recorded on the issuance of share options or phantom or directors' deferred share units and an additional expense or recovery is recorded each quarter based primarily on valuation models that consider various factors relating to outstanding options and units. The most significant of these factors is the change in the market value of our shares from the beginning to the end of the particular period. The market value of the Company's shares decreased by 21% from $66.47 per share at the end of 2014 to $52.53 per share at the end of 2015. The expense or recovery does not necessarily represent the actual amount that will ultimately be paid by the Company in respect of options and units.

Any change in the value of the Canadian dollar relative to the value of the U.S. dollar results in the revaluation of our U.S. dollar-denominated assets and liabilities. The result of these revaluations is included in other income. The Canadian dollar was weaker against the U.S. dollar at the close of 2015 compared to the close of 2014 resulting in a foreign exchange gain of $28 million on working capital, a $9 million gain on intercompany financing (see Note 17 to the Financial Statements) and a $67 million loss on long-term debt (2014 – $13 million gain, $5 million gain and $29 million loss, respectively).

Also included in other income is a write-down of our $7 million investment in a company developing alternative uses for by-products of the lumber manufacturing process and a $32 million fair value adjustment on our power agreements (see Note 9 to the Financial Statements for a description of the power agreements).

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

The funded position of our defined benefit pension plans and other retirement benefit plans, whether surplus or deficit, is estimated at the end of each quarter. The funded position, as shown in Note 13 to the Financial Statements, is determined by subtracting plan assets from plan obligations. The after-tax actuarial loss of $12 million included in other comprehensive earnings was mostly due to the rate of return on the plan assets being lower than the discount rate.

Discussion & Analysis by Product Segment

Lumber Segment

	2015	2014
SPF (MMfbm)		
Production	**3,599**	3,476
Shipments	**3,614**	3,541
SYP (MMfbm)		
Production	**2,008**	1,817
Shipments	**2,014**	1,785
Wood chip production		
SPF (M ODTs)	**1,753**	1,677
SYP (M green tons)	**2,557**	2,269
Sales ($millions)		
Lumber	**2,369**	2,291
Wood chips and other residuals	**298**	246
Logs and other	**97**	85
	2,764	2,622
Adjusted EBITDA ($millions)	**243**	465
Amortization ($millions)	**(138)**	(114)
Operating earnings ($millions)	**105**	351
Adjusted EBITDA margin (%)	**9**	18
Capital expenditures ($millions)	**172**	326
Acquisitions ($millions)	**76**	208
Benchmark prices (per Mfbm)		
SPF #2 & Better 2x4[1] – US$	**278**	349
SPF #3 Utility 2x4[1] – US$	**209**	302
SYP #2 West 2x4[2] – US$	**376**	427
SPF #2 & Better 2x4 – Cdn$[3]	**355**	386
SPF #3 Utility 2x4 – Cdn$[3]	**267**	334
SYP #2 West 2x4 – Cdn$[3]	**480**	472

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 from our lumber segment were substantially lower in 2015 compared to the previous year. Sales revenue increased slightly, the result of increased sales volumes, but U.S.-dollar prices for lumber declined significantly in the year. However, the US$0.12 decline in the average value of the Canadian dollar against the U.S. dollar provided a considerable offset to the market price declines.

The economic slowdown China began to experience during 2014 continued in 2015. This, combined with increased competition from log and lumber imports from Russia into China following a weakening of the Russian ruble, continued to destabilize lumber markets. Although we expanded our sales into China's inland areas, away from the well-served coastal region, our sales volumes to China decreased compared to 2014. The U.S. housing market continued its slow improvement but oversupply kept downward pressure on prices throughout the year. The table below sets out the proportion of our Canadian lumber by volume sold by destination in each of 2015 and 2014.

SPF Sales by Destination

	2015		2014	
	MMfbm	**%**	MMfbm	%
U.S.	**2,072**	**57**	1,762	50
Canada	**780**	**22**	794	22
China	**530**	**15**	768	22
Other	**232**	**6**	217	6
Total	**3,614**		3,541	

Composite lumber benchmark prices decreased sufficiently in 2015 to attract duties under the Softwood Lumber Agreement ("SLA") from April 1 until the SLA's expiry on October 12, 2015. No duties were paid during 2014. A "standstill period" is in effect for a period of one year from the date of expiry of the SLA during which the U.S. government and industry have committed to refrain from bringing trade action against Canada. A new federal Government was elected in Canada on October 19, 2015 and the new Government has consulted with Canadian industry with a view to engaging the U.S. Trade Representative in discussions about a new agreement early in 2016. We are supportive of these discussions.

Sales volumes from our Canadian mills increased in the year reflecting increased production and acquisitions in 2014 and 2015. Output from our Edson, Alberta sawmill was more than double that of the previous year following a capital expansion completed during 2014. Production was also increased at our 100 Mile House, B.C. and Hinton, Alberta sawmills following the completion of their capital projects in 2014. We also acquired two Canadian sawmills, one at High Prairie, Alberta on April 3, 2014 and one at Manning, Alberta on October 29, 2015. The additional production was partially offset by the closure of our Houston, B.C. sawmill during the second quarter of 2014. Revenue from chip sales from our Canadian sawmills increased in the year, reflecting higher Canadian dollar NBSK prices on which chip prices are based.

Sales volumes from our U.S. mills increased in the year, also primarily the result of increased production following the completion of several capital projects in 2014. In addition, a full year of production from two sawmills acquired in Arkansas in the first half of 2014 along with the continued ramp up of our McDavid, Florida mill contributed to the higher volume.

The benefit of higher sales volumes was offset by increased log costs in both Canada and the U.S. and increased freight costs in Canada. Purchased log costs continued to increase in B.C., reflecting the gradual decrease of available logs in pine beetle-affected areas. Log cost increases in certain areas of the U.S. South were primarily the result of greater competition as the U.S. housing market continued to gradually improve. Increased freight costs in Canada substantially reflect the much weaker Canadian dollar as these are priced in U.S. dollars.

Panels Segment

	2015	2014
Plywood (MMsf 3/8" basis)		
Production	**797**	771
Shipments	**803**	797
MDF (MMsf 3/4" basis)		
Production	**220**	206
Shipments	**212**	213
LVL (Mcf)		
Production	**1,627**	1,796
Shipments	**1,728**	1,712
Sales ($millions)		
Finished products	**529**	504
Wood chips and other residuals	**18**	14
Logs and other	**7**	8
	554	526
Adjusted EBITDA ($millions)	**95**	78
Amortization ($millions)	**(13)**	(14)
Operating earnings ($millions)	**82**	64
Adjusted EBITDA margin (%)	**17**	15
Capital expenditures ($millions)	**5**	7
Benchmark prices		
Plywood (per Msf 3/8" basis)[1] Cdn$	**430**	429

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.

Operating earnings from our plywood operations improved on slightly increased sales volumes and market prices. Most of the plywood we produce is sold to customers in Canada where both the new home and renovation and repair markets remained relatively consistent through 2014 and 2015. The increased sales revenue was partly offset by increased log costs.

Operating earnings from our MDF operations improved, substantially the result of a weaker Canadian dollar. MDF demand is significantly affected by new home construction which continues to gradually strengthen in the U.S. Our LVL mill 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

	2015	2014
BCTMP (Mtonnes)		
Production	**645**	631
Shipments	**673**	597
NBSK (Mtonnes)		
Production	**497**	455
Shipments	**499**	444
Newsprint (Mtonnes)		
Production	**133**	132
Shipments	**136**	125
Sales ($millions)	**900**	812
Adjusted EBITDA ($millions)	**80**	83
Amortization ($millions)	**(39)**	(41)
Operating earnings ($millions)	**41**	42
Adjusted EBITDA margin (%)	**9**	10
Capital expenditures ($millions)	**32**	71
Benchmark prices (per tonne)		
NBSK U.S. – US$[1,3]	**972**	1,025
NBSK China – US$[2,3]	**644**	732
Newsprint – US$[4]	**538**	604
NBSK U.S. – Cdn$[5]	**1,242**	1,132
NBSK China – Cdn$[5]	**823**	809
Newsprint – Cdn$[5]	**688**	667

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

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

Operating earnings were similar to the previous year. Increased revenue resulted from improved sales volumes for all of our products while the significantly weaker Canadian dollar mostly offset the decline of the U.S.-dollar NBSK, BCTMP and newsprint prices. Global pulp markets, particularly in China, were negatively affected by the ongoing economic slowdown in China. Global pulp capacity increased in the third quarter of 2015, providing further downward pressure on prices. Demand for newsprint continued to decline over 2015, reflecting the continuing secular decline of newsprint consumption.

BCTMP production increased due to fewer power-related curtailments at our Slave Lake pulp mill. The benefit of the higher production was partially offset by increased chip and freight costs.

Although our Hinton pulp mill continued to experience reliability issues during the year, production improved from the previous year by approximately 50,000 tonnes. Approximately 17,000 tonnes of the difference were due to Hinton's scheduled major maintenance shutdown in 2014. The mill's next scheduled maintenance shutdown will be minor and is planned for the first quarter of 2016. Our ongoing focus remains on continuing to better the mill's reliability. Our Cariboo joint-venture NBSK mill produced slightly fewer tonnes compared to the previous year. Its next scheduled maintenance shutdown, also a minor one, is planned for the second quarter of 2016.

Natural gas prices declined during the year. Chip costs were higher overall, 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. Chemical costs increased due to a change in grade mix in BCTMP and kiln reliability issues at our NBSK mills.

Newsprint production was similar in the year compared to 2014, as less volatile electricity prices continued to limit opportunities for power-related production curtailments. Contract chip costs increased in 2015 and electricity costs were higher as there were fewer 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, 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 are recorded at fair value for accounting purposes, as described in Note 9 to the Financial Statements.

4th Quarter Results

Sales and Earnings Comparison

($millions, except as otherwise indicated)	Q4–15	Q3–15	Q4–14
Sales by Segment			
Lumber	**684**	697	663
Panels	**139**	148	134
Pulp & Paper	**220**	230	192
Intracompany fibre sales	**(30)**	(31)	(25)
Total	**1,013**	1,044	964
Operating Earnings by Segment			
Lumber	**17**	(9)	90
Panels	**16**	26	22
Pulp & Paper	**8**	14	3
Corporate & Other	**(23)**	57	(32)
Operating earnings	**18**	88	83
Finance expense	**(6)**	(8)	(6)
Other	**(16)**	(22)	(7)
Tax provision	**(11)**	(2)	(27)
Earnings	**(15)**	56	43
Cdn$1.00 converted to US$ – average	**0.749**	0.764	0.880

Adjusted Earnings and Adjusted Basic Earnings Per Share

($millions except EPS amounts which are in $)	Q4-15	Q3–15	Q4–14
Earnings	**(15)**	56	43
Adjustments to earnings			
Equity-based compensation	**22**	(55)	31
Exchange loss on long-term debt	**15**	25	12
Exchange gain on intercompany financing	**(1)**	(4)	(2)
Fair value adjustment to power agreements	**3**	17	2
Write down of investment	**7**	—	—
Net tax effect on the above adjustments	**(1)**	(3)	(2)
Adjusted earnings	**30**	36	84
Adjusted basic EPS	**0.38**	0.42	1.00

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. Selling, general and administrative expenses for our operations on a combined basis increased by $20 million from the previous quarter and by $9 million from the fourth quarter of 2014, primarily due to changes in our accrued incentive compensation.

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 $30 million in the current quarter compared to adjusted earnings of $36 million in the previous quarter and adjusted earnings of $84 million in the fourth quarter of 2014. 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

	Q4-15	Q3-15	Q4-14
SPF (MMfbm)			
Production	**896**	891	815
Shipments	**946**	895	852
SYP (MMfbm)			
Production	**502**	518	472
Shipments	**502**	549	478
Sales ($millions)			
Lumber	**578**	590	579
Wood chips and other residuals	**77**	76	62
Logs and other	**29**	31	22
	684	697	663
Adjusted EBITDA ($millions)	**55**	26	121
Amortization ($millions)	**(38)**	(35)	(31)
Operating earnings ($millions)	**17**	(9)	90
Adjusted EBITDA margin (%)	**8**	4	18
Benchmark prices (per Mfbm)			
SPF #2 & Better 2x4[1] – US$	**263**	269	340
SPF #3 Utility 2x4[1] – US$	**189**	176	289
SYP #2 West 2x4[2] – US$	**395**	321	429
SPF #2 & Better 2x4 – Cdn$[3]	**351**	352	386
SPF #3 Utility 2x4 – Cdn$[3]	**252**	230	328
SYP #2 West 2x4 – Cdn$[3]	**527**	420	487

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 increased in the quarter compared to the previous quarter. Utility grade SPF and SYP U.S.-dollar pricing improved, the Canadian dollar weakened by approximately $0.02 and duties payable under the SLA were paid over a 12-day period in the current quarter compared to over the full 3 months of the previous quarter. Production at our Canadian sawmills was slightly higher compared to the previous quarter. Increased production resulting from the acquisition of our sawmill in Manning, Alberta late in October, 2015 was offset by the effect of fewer operating days. Production declined at our U.S. mills, primarily due to fewer operating days.

Log costs for both our Canadian and the U.S. operations were similar to the previous quarter. Freight costs were similar over both quarters, slightly higher due to exchange on the weaker Canadian dollar but reduced by lower freight resulting from a change in delivery locations.

Operating earnings decreased substantially in the quarter compared to the fourth quarter of 2014, mainly attributable to steep U.S.-dollar price declines, particularly for SPF, and increases in purchased log costs in both Canada and the U.S. However, the effect of the lower Canadian dollar, weaker by US$0.13 in the current quarter, partially offset the decrease. Export tax was applied for 12 days during the current quarter while no tax was payable in the comparable 2014 period. Production and shipments from the U.S. sawmills increased, reflecting the completion of a number of capital projects in 2014 and a greater number of operating days in the current quarter. Production and shipments also increased from our Canadian sawmills, reflecting the acquisition of our Manning, Alberta sawmill late in October 2015 and increased production at our Edson, Alberta and 100 Mile House, B.C. sawmills.

Panels Segment

	Q4-15	Q3-15	Q4-14
Plywood (MMsf 3/8" basis)			
Production	**197**	203	194
Shipments	**203**	202	197
MDF (MMsf 3/4" basis)			
Production	**56**	57	49
Shipments	**53**	55	52
LVL (Mcf)			
Production	**456**	426	375
Shipments	**485**	462	398
Sales ($millions)			
Finished products	**131**	140	130
Wood chips and other residuals	**5**	6	3
Logs and other	**3**	2	1
	139	148	134
Adjusted EBITDA ($millions)	**19**	29	25
Amortization ($millions)	**(3)**	(3)	(3)
Operating earnings ($millions)	**16**	26	22
Adjusted EBITDA margin (%)	**14**	20	19
Benchmark prices			
Plywood (per Msf 3/8" basis)[1] Cdn$	**410**	445	453

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

The decline in operating earnings for our panels segment compared to the previous quarter was primarily the result of lower plywood prices due in large part to the seasonal slowdown of the Canadian building industry. Although plywood shipments were similar in the quarters, production declined, the result of fewer operating hours.

Operating earnings for MDF declined in the current quarter compared to the previous quarter as prices weakened during the seasonal slowdown in both Canada and the U.S. The effect of the lower sales prices was partly offset by reduced resin prices and by lower maintenance costs.

Production and sales at our LVL mill increased in the quarter although we continue to run at reduced rates due to weak markets.

The decrease in operating earnings for the current quarter compared to the same quarter of 2014 was mainly attributable to lower plywood prices and increased log costs. Improved Canadian-dollar equivalent MDF prices partially offset the decrease.

Pulp & Paper Segment

	Q4-15	Q3-15	Q4-14
BCTMP (Mtonnes)			
Production	**165**	168	156
Shipments	**169**	173	147
NBSK (Mtonnes)			
Production	**128**	128	110
Shipments	**125**	129	105
Newsprint (Mtonnes)			
Production	**33**	34	33
Shipments	**38**	33	30
Sales ($millions)	**220**	230	192
Adjusted EBITDA ($millions)	**17**	25	12
Amortization ($millions)	**(9)**	(11)	(9)
Operating earnings ($millions)	**8**	14	3
Adjusted EBITDA margin (%)	**8**	11	6
Benchmark prices (per tonne)			
NBSK U.S. – US$[1,3]	**945**	967	1,025
NBSK China – US$[2,3]	**600**	638	715
Newsprint – US$[4]	**505**	518	600
NBSK U.S. – Cdn$[5]	**1,262**	1,266	1,164
NBSK China – Cdn$[5]	**801**	835	812
Newsprint – Cdn$[5]	**674**	678	682

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

Operating earnings from our pulp & paper operations decreased somewhat, the result of slightly lower pulp shipments and reduced U.S.-dollar prices for all of our products. However, the weaker Canadian dollar partially offset the price declines. Freight costs were similar compared to the previous quarter despite the weaker Canadian dollar as ocean freight rates declined due to reduced global demand for marine transportation. Maintenance costs at our Quesnel BCTMP mill and our Hinton mill were lower, reflecting improved reliability. Despite the improved reliability, production at our Quesnel BCTMP mill decreased, the result of curtailments taken under a new electricity load curtailment program with B.C. Hydro. In return for participation in this program, a monthly cash payment is received, a benefit that will offset the effect of lower production.

Operating earnings for our newsprint mill increased compared to the previous quarter, primarily due to higher shipments. U.S.-dollar newsprint prices declined but the effect was essentially offset by a weaker Canadian dollar. Chip costs increased, reflecting higher contract prices compared to the previous quarter. Lower market electricity costs were offset by fewer power-related sales under our PPA.

Operating earnings for the segment were slightly higher than in the fourth quarter of 2014, substantially the result of improved shipments for all of our products. In addition, although U.S.-dollar NBSK prices declined, the weaker Canadian dollar more than offset the price reduction. Production at our Hinton mill increased in the quarter, reflecting improved mill reliability.

Capital Expenditures

During the year our capital expenditures totaled $220 million as set out in the following table.

($millions of dollars)

Segment	Profit Improvement	Energy	Maintenance of Business	Total
Lumber	73	27	72	172
Panels	2	—	3	5
Pulp & Paper	8	4	20	32
Corporate	—	—	11	11
Total	83	31	106	220

The majority of our profit improvement expenditures for our lumber segment occurred at our U.S. operations, primarily the result of further installations of continuous kilns and planer upgrades. Profit improvement expenditures for our pulp & paper segment represent the installation of a lignin recovery system at our Hinton pulp mill. Expenditures for energy primarily reflect the completion of biomass plants at our Fraser Lake and Chetwynd, B.C. sawmills and the completion of our biomethanation plant at our Slave Lake pulp mill.

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

Business Outlook

Operations

We expect improved productivity from our lumber segment resulting in an increase in overall lumber production of approximately 400 MMfbm compared to 2015. The increase reflects the completion of several major capital projects and start-ups in the segment as well as the acquisition of our Manning sawmill at the end of October 2015. Anticipated production gains assume improving demand and normal access to logs and will be adversely affected by abnormally severe weather conditions in any of our operating areas and faster than anticipated log quality deterioration in the B.C. interior. We expect continuing log cost escalation in the B.C. interior as mountain pine beetle-killed pine reaches the end of commercial viability and overall log supply decreases.

Our panels segment should operate generally consistently with 2015 operations, which reflected continuing good demand for plywood and some improvement for MDF. Because two of our plywood operations are in the B.C. interior, we expect log costs for those operations to increase in 2016.

We are expecting improved productivity from our NBSK mills despite minor maintenance shutdowns at each mill in the first half of 2016. Improved productivity at these mills is a key focus for 2016. Our BCTMP and our jointly-owned newsprint mills operated well in 2015 and we expect generally similar operations in 2016, assuming adequate markets.

Markets

Currency exchange rates played a significant role in several of our product markets in 2015 and we expect similar influences in 2016. The decline of global oil prices, which began in 2014, accelerated in 2015, resulting in material weakening of many oil-producing nations' currencies, including Canada and Russia. The weak Russian ruble resulted in greater demand from China for Russian logs and lumber at the expense of North American logs and lumber, which put downward pressure on North American log and lumber prices. That downward pressure was exacerbated by the weaker Canadian dollar and average U.S.-dollar benchmark lumber prices experienced material declines in 2015 compared to 2014. We are not expecting material improvement in global oil prices in the short and perhaps mid-term, absent some form of major supply disruption, and so we do not expect that Chinese demand for North American logs and lumber will improve materially in 2016, although we do not expect further erosion of demand as was seen in 2015. Gradually improving U.S. new home construction combined with some production curtailments helped benchmark lumber prices, particularly SYP, improve in the second half of 2015. We expect that trend to continue in 2016 as many analysts are predicting U.S. economic growth to continue in 2016. We expect gradually improving lumber prices but caution that there will be continuing volatility at least until overall demand reaches more normal levels.

Canadian plywood prices could come under downward pressure as Canadian construction activity, particularly in Western Canada, slows in the wake of an energy-related decline in industrial activity. However, Canadian plywood prices have shown resilience over an extended term and with little expectation of significant U.S. imports, we do not expect a major price erosion in 2016.

Pulp markets will continue to be heavily influenced by Chinese demand and there is some uncertainty concerning China's short-term growth prospects given some of the economic disruptions experienced by China in 2015. However, our Canadian pulp mills are likely to continue to benefit from most costs being in Canadian dollars which, without a significant improvement in global oil prices, are expected to remain weak compared to the U.S. dollar.

Cash flows

We are anticipating levels of cash flows to support approximately $300 million of capital spending in 2016 as well as to continue to support the current dividend. We have paid a dividend in every quarter since we became a public company in 1986. We expect to maintain our investment grade rating and intend to preserve sufficient liquidity to be able to take advantage of strategic growth opportunities that may arise, although we believe that continuing currency and lumber price volatility and uncertainty concerning potential future trade sanctions with respect to Canadian lumber exports to the U.S. could inhibit growth activities. We are authorized under our Normal Course Issuer Bid, which expires in September of 2016, to repurchase up to 5% of our outstanding shares and we will continue to consider share repurchases with excess cash if we are satisfied that it will enhance shareholder value.

Estimated Earnings Sensitivity to Key Variables[1]

(based on 2015 production – $millions)

Factor	Variation	Change in pre-tax earnings
Lumber price	US$10 (per Mfbm)	78
Plywood price	Cdn$10 (per Msf)	8
NBSK price	US$10 (per tonne)	7
BCTMP price	US$10 (per tonne)	9
U.S. – Canadian $ exchange rate[2]	US$0.01 (per Cdn $)	28

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 allowed us to acquire up to 4,000,000 Common shares for cancellation until expiry of the bid September 16, 2015. From September 17, 2014 to September 16, 2015, under this bid the Company repurchased 1,389,756 Common shares for cancellation at an average price of $56.18. On September 15, 2015 the Company announced the renewal of its normal course issuer bid to acquire up to 4,000,000 Common shares for cancellation until expiry of the bid on September 16, 2016. To date, no Common shares have been acquired under this bid.

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 80,175,955 Common shares and 2,281,478 Class B Common shares for a total of 82,457,433 shares issued and outstanding as at February 11, 2016.

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 11, 2016 there were 2,160,351 share purchase options outstanding with exercise prices ranging from $12.36 to $73.99 per Common share.

In October 2015, we amended our $500 million committed revolving credit facility to extend its maturity date to September 2020. 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 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 2014. Also in October 2014, the available credit under the demand operating facility for our jointly-owned newsprint mill was increased, increasing our share 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 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 U.S. senior unsecured notes, committed revolving facility and the October 2015 amendment are available at www.sedar.com.

On December 31, 2015 there was $181 million owing under our credit facilities. Letters of credit in the amount of $54 million were supported by our facilities, leaving approximately $348 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	2015	2014
Cash[1]	**13**	21
Current assets	**971**	907
Current liabilities	**606**	616
Ratio of current assets to current liabilities	**1.6**	1.5
Net debt[2]	**617**	472
Shareholders' equity	**2,147**	2,029
Net debt to total capital[3]	**22%**	19%

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

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

Debt Ratings

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

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	2015	2014
Operating Activities		
Earnings	**104**	259
Amortization	**191**	170
Change in income taxes	**(15)**	48
Contributions to benefit plans in excess of expense	**(7)**	(15)
Other	**28**	13
Cash provided by operating activities	**301**	475
Financing Activities		
Repayment of long-term debt	**—**	(339)
Proceeds from long-term debt	**—**	339
Proceeds from operating loan	**68**	106
Finance expense paid	**(22)**	(22)
Dividends paid	**(23)**	(24)
Common share repurchases	**(60)**	(111)
Other	**(1)**	(4)
Cash used in financing activities	**(38)**	(55)
Investing Activities		
Acquisition	**(76)**	(208)
Additions to capital assets	**(220)**	(410)
Other	**8**	8
Cash used in investing activities	**(288)**	(610)
Decrease in cash	**(25)**	(190)

Operating Activities

Cash provided by operating activities decreased by $174 million from the previous year, mostly attributable to decreased earnings. Depreciation increased, primarily the result of the completion of several capital projects.

Financing Activities

During the year we acquired 1,078,856 of our Common shares for a total purchase price of approximately $60 million.

Investing Activities

Cash used for investing activities decreased by $322 million from the previous year. Additions to capital assets included $172 million for the lumber segment, $5 million for the panels segment and $32 million for the pulp & paper segment and $11 million for corporate. The acquisition of one sawmill and the related timber tenures in the year used $76 million.

Contractual Obligations as at December 31, 2015 ($millions)[1]

	2016	2017	2018	2019	Thereafter	Total
Long-term debt[2]	—	—	—	—	427	427
Operating leases	4	4	3	2	3	16
Asset purchase commitments	34	—	—	—	—	34
Total	38	4	3	2	430	477

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

Significant Management Judgments Affecting Financial Results

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

Fair value of Derivative Contracts

We have power contracts in place to reduce financial risk from increasing Alberta power prices. 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

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

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

Goodwill is not amortized. We compare the carrying value of goodwill and related assets, at least once a year, to the estimated discounted cash flows that the assets are expected to generate. If it is determined that the carrying value is more than the estimated discounted cash flows, then a goodwill impairment will be recorded. We tested goodwill for impairment in 2015 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 2015 the review of the reforestation obligation resulted in an increase to the obligation of $4 million (2014 – increase of $5 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 2015 the review resulted in an increase of the obligation by $6 million (2014 – increase of $1 million).

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

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

Accounting Standards Issued But Not Yet Applied

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

IFRS 9 – Financial Instruments

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

IFRS 15 – Revenue from Contracts with Customers

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

Non-IFRS Measures

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

Adjusted EBITDA

($millions)	**Q4-15**	Q3-15	**2015**	Q4-14	2014
Earnings	**(15)**	56	**104**	43	259
Add:					
Amortization	**50**	49	**191**	43	170
Finance expense	**6**	8	**29**	6	26
Tax provision	**11**	2	**52**	27	116
EBITDA	**52**	115	**376**	119	571
Add:					
Equity-based compensation	**22**	(55)	**(23)**	31	45
Other	**16**	22	**64**	7	5
Adjusted EBITDA	**90**	82	**417**	157	621

Adjusted EBITDA by Segment

($millions)	**Q4-15**	Q3-15	**2015**	Q4-14	2014
Lumber					
Earnings before tax	**9**	(7)	**96**	90	350
Add:					
Amortization	**38**	35	**138**	31	114
Finance expense	**4**	5	**18**	4	16
EBITDA	**51**	33	**252**	125	480
Add:					
Other	**4**	(7)	**(9)**	(4)	(15)
Adjusted EBITDA	**55**	26	**243**	121	465
Panels					
Earnings before tax	**15**	25	**76**	21	62
Add:					
Amortization	**3**	3	**13**	3	14
Finance expense	**—**	1	**3**	1	3
EBITDA	**18**	29	**92**	25	79
Add:					
Other	**1**	—	**3**	—	(1)
Adjusted EBITDA	**19**	29	**95**	25	78
Pulp & Paper					
Earnings before tax	**8**	8	**28**	3	43
Add:					
Amortization	**9**	11	**39**	9	41
Finance expense	**2**	2	**8**	1	7
EBITDA	**19**	21	**75**	13	91
Add:					
Other	**(2)**	4	**5**	(1)	(8)
Adjusted EBITDA	**17**	25	**80**	12	83
Corporate and Other					
Earnings before tax	**(36)**	32	**(44)**	(44)	(80)
Add:					
Amortization	**—**	—	**1**	—	1
EBITDA	**(36)**	32	**(43)**	(44)	(79)
Add:					
Equity-based compensation	**22**	(55)	**(23)**	31	45
Other	**13**	25	**65**	12	29
Adjusted EBITDA	**(1)**	2	**(1)**	(1)	(5)
Total Adjusted EBITDA	**90**	82	**417**	157	621

Adjusted Earnings and Adjusted Basic Earnings Per Share

($millions except EPS amounts which are in $)	**Q4-15**	Q3-15	**2015**	Q4-14	2014
Earnings	**(15)**	56	**104**	43	259
Add:					
Equity-based compensation	**22**	(55)	**(23)**	31	45
Exchange loss on long-term debt	**15**	25	**67**	12	29
Exchange gain on intercompany financing	**(1)**	(4)	**(9)**	(2)	(5)
Fair value adjustment to power agreements	**3**	17	**32**	2	2
Writedown of investment	**7**	—	**7**	—	—
Net tax effect on the above adjustments	**(1)**	(3)	**(9)**	(2)	(3)
Increase in Alberta provincial tax rate	**—**	—	**7**	—	—
Adjusted earnings	**30**	36	**176**	84	327
Adjusted basic EPS[1]	**0.38**	0.42	**2.12**	1.00	3.86

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

Net Debt to Total Capital Ratio

($millions except where indicated)	**December 31, 2015**	December 31, 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 loan	**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.

Risks and Uncertainties

Product Demand and Price Fluctuations

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

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

Availability of Fibre and Changes in Stumpage Fees

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

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

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

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

We rely on log supply agreements in the United States which are subject to log availability and based on market prices. Approximately 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 were subject to export duties that were imposed under the Softwood Lumber Agreement between Canada and the United States (the "SLA") which expired 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 replaced by a similar agreement or, if replaced, that export duties will not be increased from previous 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, we could experience 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 previously were imposed under the SLA. The SLA provided 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 diseases and insect infestations including those that may be associated with warmer climate conditions, and earthquake activity. These events could damage or destroy or adversely affect the operations at our physical facilities or our timber supply or our access to timber, and similar events could also affect the facilities of our suppliers or customers. Any such damage or destruction could adversely affect our financial results as a result of decreased production output or increased operating costs. Although we believe we have reasonable insurance arrangements in place to cover certain of such incidents related to damage or destruction, there can be no assurance that these arrangements will be sufficient to fully protect us against such losses. As is common in the industry, we do not insure loss of standing timber for any cause.

Mountain Pine Beetle

The long-term effect of the mountain pine beetle infestation on our Canadian operations is uncertain. The potential effects include a reduction of future AAC levels to below current and pre-infestation AAC levels. Many of our British Columbia operations are experiencing a diminished grade and volume of lumber recovered from beetle-killed logs and increased production costs, and these effects could spread to our Alberta operations as the mountain pine beetle infestation expands. The timing and extent of the future effect on our timber supply, lumber grade and recovery, and production costs will depend on a variety of factors and at this time cannot be reasonably determined. The effects of the deterioration of beetle-killed logs could include increased costs, reduced operating rates due to shortages of commercially merchantable timber and mill closures. 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 Financial Statements for the year ended December 31, 2015. There can be no assurance that any costs associated with such obligations or other environmental matters will not exceed our accruals.

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

Aboriginal Groups

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

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

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

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

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

Foreign Currency Exchange Rates

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

Competition

We compete with global producers, some of which may have greater financial resources and lower production costs than we do. 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, 2015.

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, 2015 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.