

# **West Fraser Timber Co. Ltd.**

Consolidated Financial Statements  
*December 31, 2017 and 2016*

## 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 with 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 four 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**



**Chris Virostek**  
**Vice-President, Finance**  
**and Chief Financial Officer**

February 14, 2018

## **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, 2017 and December 31, 2016 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, 2017 and December 31, 2016 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 14, 2018

**West Fraser Timber Co. Ltd.**  
Consolidated Balance Sheets  
As at December 31, 2017 and 2016  
*(in millions of Canadian dollars, except where indicated)*

	2017	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 258	\$ 50
Receivables (note 23)	352	297
Inventories (note 5)	670	581
Prepaid expenses	11	10
	<b>1,291</b>	938
<b>Property, plant and equipment</b> (note 6)	<b>1,892</b>	1,685
<b>Timber licences</b> (note 7)	<b>533</b>	551
<b>Goodwill and other intangibles</b> (note 8)	<b>731</b>	371
<b>Export duty deposits</b> (note 26)	<b>37</b>	-
<b>Other assets</b> (note 9)	<b>27</b>	20
<b>Deferred income tax assets</b> (note 18)	<b>6</b>	35
	<b>\$ 4,517</b>	<b>\$ 3,600</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Cheques issued in excess of funds on deposit	\$ -	\$ 15
Payables and accrued liabilities (note 10)	441	379
Income taxes payable	104	21
Reforestation and decommissioning obligations (note 11)	38	44
	<b>583</b>	459
<b>Long-term debt</b> (note 12)	<b>636</b>	413
<b>Other liabilities</b> (note 11)	<b>347</b>	272
<b>Deferred income tax liabilities</b> (note 18)	<b>225</b>	215
	<b>1,791</b>	1,359
<b>Shareholders' Equity</b>		
Share capital (note 14)	549	549
Accumulated other comprehensive earnings	108	150
Retained earnings	2,069	1,542
	<b>2,726</b>	2,241
	<b>\$ 4,517</b>	<b>\$ 3,600</b>

Approved by the Board of Directors



**Janice G. Rennie**  
Director



**Robert L. Phillips**  
Lead Director

**West Fraser Timber Co. Ltd.**

## Consolidated Statements of Earnings and Comprehensive Earnings

For the years ended December 31, 2017 and 2016

*(in millions of Canadian dollars, except where indicated)*

	<b>2017</b>	2016
<b>Sales</b>	<b>\$ 5,134</b>	\$ 4,450
<b>Costs and expenses</b>		
Cost of products sold	<b>3,124</b>	2,971
Freight and other distribution costs	<b>653</b>	629
Export duties (note 26)	<b>48</b>	-
Amortization	<b>210</b>	197
Selling, general and administration	<b>197</b>	176
Equity-based compensation (note 15)	<b>32</b>	(5)
	<b>4,264</b>	3,968
<b>Operating earnings</b>	<b>870</b>	482
Finance expense (note 16)	<b>(31)</b>	(29)
Other (note 17)	<b>7</b>	(9)
<b>Earnings before tax</b>	<b>846</b>	444
Tax provision (note 18)	<b>(250)</b>	(118)
<b>Earnings</b>	<b>\$ 596</b>	\$ 326
<b>Earnings per share (dollars) (note 20)</b>		
Basic	<b>\$ 7.63</b>	\$ 4.06
Diluted	<b>\$ 7.63</b>	\$ 3.90
<b>Comprehensive earnings</b>		
Earnings	<b>\$ 596</b>	\$ 326
<b>Other comprehensive earnings</b>		
Translation loss on foreign operations <sup>1</sup>	<b>(42)</b>	(14)
Actuarial loss on post-retirement benefits <sup>2</sup>	<b>(26)</b>	(7)
<b>Comprehensive earnings</b>	<b>\$ 528</b>	\$ 305

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 \$7 million (2016 - \$3 million).

**West Fraser Timber Co. Ltd.**

## Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2017 and 2016

*(in millions of Canadian dollars, except where indicated)*

	Share capital		Translation of foreign operations	Retained earnings	Total equity
	Number of shares	Amount			
<b>Balance - December 31, 2015</b>	82,456,557	\$ 579	\$ 164	\$ 1,404	\$ 2,147
<b>Changes in Shareholders' Equity for 2016</b>					
Translation loss on foreign operations	-	-	(14)	-	(14)
Actuarial loss on post-retirement benefits	-	-	-	(7)	(7)
Issuance of Common shares	12,170	1	-	-	1
Common share repurchases	(4,306,159)	(31)	-	(159)	(190)
Earnings for the year	-	-	-	326	326
Dividends <sup>1</sup>	-	-	-	(22)	(22)
<b>Balance - December 31, 2016</b>	<b>78,162,568</b>	<b>\$ 549</b>	<b>\$ 150</b>	<b>\$ 1,542</b>	<b>\$ 2,241</b>
<b>Changes in Shareholders' Equity for 2017</b>					
Translation loss on foreign operations	-	-	(42)	-	(42)
Actuarial loss on post-retirement benefits	-	-	-	(26)	(26)
Issuance of Common shares	<b>29,113</b>	<b>2</b>	-	-	<b>2</b>
Common share repurchases	<b>(245,645)</b>	<b>(2)</b>	-	<b>(15)</b>	<b>(17)</b>
Earnings for the year	-	-	-	<b>596</b>	<b>596</b>
Dividends <sup>1</sup>	-	-	-	<b>(28)</b>	<b>(28)</b>
<b>Balance - December 31, 2017</b>	<b>77,946,036</b>	<b>\$ 549</b>	<b>\$ 108</b>	<b>\$ 2,069</b>	<b>\$ 2,726</b>

1. Represents dividends of \$0.36 per share for 2017 and \$0.28 per share for 2016.

**West Fraser Timber Co. Ltd.**

## Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

*(in millions of Canadian dollars, except where indicated)*

	2017	2016
<b>Cash provided by operations</b>		
Earnings	\$ 596	\$ 326
Adjustments		
Amortization	210	197
Finance expense	31	29
Foreign exchange gain on long-term financing	(10)	(4)
Export duty deposits (note 26)	(37)	-
Post-retirement expense	82	71
Contributions to post-retirement benefit plans	(69)	(66)
Tax provision	250	118
Income taxes paid	(73)	(7)
Other	(16)	(65)
Changes in non-cash working capital		
Receivables	(34)	4
Inventories	(64)	50
Prepaid expenses	(1)	7
Payables and accrued liabilities	37	29
	<b>902</b>	<b>689</b>
<b>Cash provided by (used for) financing</b>		
Proceeds from long-term debt	250	-
Repayment of operating loans	-	(181)
Finance expense paid	(23)	(23)
Dividends	(28)	(22)
Common share repurchases	(17)	(190)
Other	(1)	2
	<b>181</b>	<b>(414)</b>
<b>Cash used for investing</b>		
Acquisition (note 4)	(526)	-
Additions to capital assets	(336)	(273)
Government assistance (note 22)	3	8
Other	5	2
	<b>(854)</b>	<b>(263)</b>
<b>Change in cash</b>	<b>229</b>	<b>12</b>
<b>Foreign exchange effect on cash</b>	<b>(6)</b>	<b>39</b>
<b>Cash - beginning of year</b>	<b>35</b>	<b>(16)</b>
<b>Cash - end of year</b>	<b>\$ 258</b>	<b>\$ 35</b>
<b>Cash consists of</b>		
Cash and short-term investments	\$ 258	\$ 50
Cheques issued in excess of funds on deposit	-	(15)
	<b>\$ 258</b>	<b>\$ 35</b>

## **West Fraser Timber Co. Ltd.**

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

*(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 14, 2018.

Our consolidated financial statements have been prepared under the historical cost basis, except for certain items 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 disclosure, the policy is described within the respective 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., West Fraser Southeast, 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 judgments***

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, duty deposits related to the softwood lumber dispute, 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 judgments and assumptions in assessing potential indicators of impairment, determining the appropriate cash generating unit level used in impairment testing and determining the accounting treatment for certain investments where we own 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 collectability 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 financing, 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 unless there is economic interdependence of CGUs, in which case they are grouped for impairment testing. 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 carrying amount of the CGU or grouped CGUs 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 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. Goodwill impairment is never reversed.

### ***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. Our 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. We do not expect this standard to have a significant effect on our consolidated financial statements.

#### *IFRS 16 - Leases*

In January 2016, IFRS 16 was issued. This standard requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. The standard is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted. We do not expect this standard to have a significant effect on our consolidated financial statements.

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. Acquisition**

On August 31, 2017, we completed the acquisition of six sawmills that produce southern yellow pine lumber and a finger-joint mill in Florida and Georgia as well as an administrative office in Georgia (the "Gilman Acquisition"). The consideration paid, net of cash acquired, was \$526 million (US\$419 million) and the transaction was an acquisition of shares. The acquisition was financed with cash on hand, borrowings on our revolving credit facility and a \$250 million (US\$200 million) term loan.

The transaction has been accounted for as an acquisition of a business. We have allocated the purchase price based on our preliminary estimated fair value of the assets acquired and the liabilities assumed as follows:

	<b>Preliminary December 31, 2017</b>
Net assets acquired	\$ 607
Less: cash acquired	(81)
Net non-cash assets acquired	526
Allocation:	
Current assets	58
Current liabilities	(12)
Property, plant and equipment	91
Goodwill	355
Employee future benefits	(11)
Deferred income tax asset, net	45
	\$ 526

Factors contributing to goodwill include the Gilman workforce, assets that are geographically complementary to our existing facilities and offer close access to large markets, the available timber basket and multiple markets for residuals. This transaction strengthens our core lumber business and gives us increased scale and geographic diversification. This was a rare opportunity to acquire a U.S. lumber producer with meaningful capacity, high quality facilities and a culture similar to our own. The goodwill of \$355 million is not deductible for tax purposes.

The deferred income tax asset estimate of \$45 million includes an asset of \$56 million related to the estimated value of net operating losses acquired, partially offset by a liability of \$11 million related to temporary differences on other assets and liabilities. On December 21, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act (“U.S. Tax Reform”), which among other things reduced the federal corporate income tax rate. The result was a \$16 million reduction in the Gilman deferred tax asset and an increase in our deferred income tax expense in 2017.

The following table shows the results of the operations of the Gilman Acquisition since the acquisition date and the estimated pro-forma West Fraser consolidated results as if we had completed the Gilman Acquisition January 1, 2017:

	<b>Gilman September 1 to December 31, 2017</b>	<b>West Fraser Pro-forma January 1 to December 31, 2017</b>
Sales	\$ 131	\$ 5,385
Earnings before tax	15	866
Income tax	(6)	(255)
Impact of U.S. Tax Reform	(16)	(3)
Earnings (loss)	\$ (7)	\$ 608

Balances that required significant fair value adjustments for purchase price accounting included inventory, property, plant and equipment, goodwill and deferred income tax assets.

Acquisition costs of \$1 million have been expensed in selling, general and administration.

## 5. Inventories

### Accounting policies

Inventories of manufactured products, logs and other raw materials 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

	2017	2016
Manufactured products	\$ 358	\$ 283
Logs and other raw materials	167	165
Processing materials and supplies	145	133
	\$ 670	\$ 581

Inventories at December 31, 2017 were written down by \$9 million (December 31, 2016 - \$5 million) to reflect net realizable value being lower than cost.

The carrying amount of inventory recorded at net realizable value was \$33 million at December 31, 2017 (December 31, 2016 - \$26 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 & bridges	Other	Total
<b>As at December 31, 2015</b>	\$	1,479	\$ 55	\$ 38	\$ 37	\$ 1,609
Additions		111	137	14	3	265
Amortization <sup>1</sup>		(164)	-	(11)	-	(175)
Foreign exchange		(14)	1	-	-	(13)
Disposals		(1)	-	-	-	(1)
Transfers		33	(33)	-	-	-
<b>As at December 31, 2016</b>	\$	1,444	\$ 160	\$ 41	\$ 40	\$ 1,685
<b>As at December 31, 2016</b>						
Cost	\$	3,772	\$ 160	\$ 128	\$ 47	\$ 4,107
Accumulated amortization		(2,328)	-	(87)	(7)	(2,422)
Net	\$	1,444	\$ 160	\$ 41	\$ 40	\$ 1,685
<b>As at December 31, 2016</b>						
As at December 31, 2016	\$	1,444	\$ 160	\$ 41	\$ 40	\$ 1,685
Additions		164	165	17	1	347
Acquisition		85	3	-	3	91
Amortization <sup>1</sup>		(175)	-	(14)	-	(189)
Foreign exchange		(35)	(2)	-	(2)	(39)
Disposals		(1)	-	-	-	(1)
Transfers		128	(131)	1	-	(2)
<b>As at December 31, 2017</b>	\$	1,610	\$ 195	\$ 45	\$ 42	\$ 1,892
<b>As at December 31, 2017</b>						
Cost	\$	4,047	\$ 195	\$ 138	\$ 49	\$ 4,429
Accumulated amortization		(2,437)	-	(93)	(7)	(2,537)
Net	\$	1,610	\$ 195	\$ 45	\$ 42	\$ 1,892

1. Amortization of \$186 million relates to cost of products sold and \$3 million relates to selling, general and administration expense (2016 - \$173 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

	<b>Timber licences</b>
<b>As at December 31, 2015</b>	\$ 570
Amortization <sup>1</sup>	(20)
Acquisitions	1
<b>As at December 31, 2016</b>	<b>\$ 551</b>
<b>As at December 31, 2016</b>	
Cost	\$ 799
Accumulated amortization	(248)
<b>Net</b>	<b>\$ 551</b>
<b>As at December 31, 2016</b>	\$ 551
Amortization <sup>1</sup>	(19)
Additions	1
<b>As at December 31, 2017</b>	<b>\$ 533</b>
<b>As at December 31, 2017</b>	
Cost	\$ 800
Accumulated amortization	(267)
<b>Net</b>	<b>\$ 533</b>

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 annual impairment test. An additional impairment test is conducted if events or circumstances indicate that goodwill may be impaired.

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

## Supporting information

	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
<b>As at December 31, 2015</b>	\$ 359	\$ 10	\$ 369
Additions	-	7	7
Amortization <sup>1</sup>	-	(2)	(2)
Foreign exchange	(3)	-	(3)
As at December 31, 2016	\$ 356	\$ 15	\$ 371
<b>As at December 31, 2016</b>			
Cost	\$ 356	\$ 38	\$ 394
Accumulated amortization	-	(23)	(23)
Net	\$ 356	\$ 15	\$ 371
<b>As at December 31, 2016</b>	\$ 356	\$ 15	\$ 371
Additions	-	11	11
Acquisition	355	-	355
Transfers	-	2	2
Amortization <sup>1</sup>	-	(2)	(2)
Foreign exchange	(6)	-	(6)
As at December 31, 2017	\$ 705	\$ 26	\$ 731
<b>As at December 31, 2017</b>			
Cost	\$ 705	\$ 47	\$ 752
Accumulated amortization	-	(21)	(21)
Net	\$ 705	\$ 26	\$ 731

1. Amortization of \$1 million relates to cost of products sold and \$1 million relates to selling, general and administration expense (2016 - \$1 million and \$1 million, respectively).

### **Goodwill**

We have attributed \$218 million of goodwill to a CGU made up of our Canadian lumber operations, \$441 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 2017 impairment test of goodwill, the fair value of CGUs has been determined based on value-in-use calculations using a discount rate of 8.5%. These calculations use cash flow projections based on the 2018 operating plan, a forecast of 2019 and 2020 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. No impairment on goodwill has been recognized.



## 9. Other assets

	2017	2016
Post-retirement (note 13)	\$ 13	\$ 7
Deferred financing costs on lines of credit (note 12)	2	2
Other	12	11
	\$ 27	\$ 20

## 10. Payables and accrued liabilities

	2017	2016
Trade accounts	\$ 244	\$ 211
Equity-based compensation	79	65
Compensation	74	68
Export duties	8	-
Dividends	8	5
Interest	5	4
Other	23	26
	\$ 441	\$ 379

## 11. Other liabilities

	2017	2016
Post-retirement (note 13)	\$ 231	\$ 162
Reforestation	70	69
Decommissioning	25	25
Other	21	16
	\$ 347	\$ 272

### 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	
	2017	2016	2017	2016
Beginning of year	\$ 113	\$ 124	\$ 25	\$ 29
Liabilities recognized	47	46	-	-
Liabilities settled	(45)	(47)	-	-
Change in estimates	(7)	(10)	-	(4)
End of year	108	113	25	25
Less: current portion	(38)	(44)	-	-
	\$ 70	\$ 69	\$ 25	\$ 25

The total undiscounted amount of the estimated cash flows required to satisfy these obligations is \$147 million (2016 - \$148 million). The cash flows have been discounted using interest rates ranging from 1.68% to 1.86% (2016 - 0.74% to 1.11%).

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 48 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*

	2017	2016
US\$300 million senior notes due October 2024; interest at 4.35%	\$ 376	\$ 403
US\$200 million term loan due August 2022; floating interest rate	251	-
US\$8 million note payable due October 2020; interest at 2%	10	10
Notes payable	4	4
	641	417
Deferred financing costs	(5)	(4)
	\$ 636	\$ 413

On August 28, 2017, we were advanced a \$250 million (US\$200 million) five-year non-revolving term loan due on August 25, 2022. This loan was used to fund the Gilman Acquisition. Interest is payable at floating rates based on Base Rate Advances or LIBOR Advances at our option. The loan

is repayable at any time, in whole or in part, at our option and without penalty but cannot be redrawn after payment.

Required principal repayments are disclosed in note 23.

### ***Operating loans***

In August 2017, we extended our \$500 million committed revolving credit facility to August 25, 2022. Our operating loans consist of a \$500 million committed revolving credit facility, a \$31 million (US\$25 million) demand line of credit dedicated to our U.S. operations and an \$8 million demand line of credit dedicated to our jointly-owned newsprint operation. In addition, we have demand lines of credit totalling \$59 million dedicated to letters of credit, of which US\$7 million is committed to our U.S. operations.

At December 31, 2017, there were no amounts outstanding under our revolving credit facility. As a result, the associated deferred financing costs of \$2 million are recorded in other assets. Letters of credit in the amount of \$47 million were also supported by our facilities, leaving \$551 million of credit available for further use. At December 31, 2016, our revolving credit facility was undrawn, deferred financing costs of \$2 million were recorded in other assets and our outstanding letters of credit were \$48 million.

Interest on the facilities is payable at floating rates based on Prime, Base Rate Advances, Bankers' Acceptances or LIBOR Advances at our option.

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 Retirement Committees which report to the Human Resources and Compensation Committee of 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 2017 is a gain of \$123 million (2016 - \$112 million).

The total pension expense for the defined benefit plans is \$72 million (2016 - \$61 million). In 2017, we made contributions of \$52 million (2016 - \$50 million). We expect to contribute approximately \$75 million to our defined benefit pension plans during 2018. We also provide group life insurance, medical and extended health benefits to certain employee groups, for which we contributed \$3 million (2016 - \$3 million).

The total pension expense and funding contributions for the defined contribution pension plans is \$14 million (2016 - \$13 million).

In 2017, we settled the defined benefit obligation for two of our pension plans by purchasing annuities for the remaining defined benefit members of these plans. The difference between the cost of the annuity purchase and the liabilities held for these plans is reflected as a settlement cost.

Subsequent to year-end, we settled approximately \$143 million of our defined benefit obligation by purchasing annuities using plan assets.

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	
	2017	2016	2017	2016
<b>Accrued benefit obligations</b>				
Benefit obligations – opening	\$ 1,598	\$ 1,482	\$ 51	\$ 50
Acquisition (note 4)	68	-	-	-
Current service cost	67	57	1	1
Finance cost on obligation	61	60	2	2
Benefits paid	(66)	(62)	(3)	(3)
Actuarial loss (gain) due to change in financial assumptions	73	62	(8)	-
Actuarial loss due to demography/experience	36	2	-	1
Settlement cost	(10)	-	-	-
Other	(6)	(3)	-	-
<b>Benefit obligations – ending</b>	<b>\$ 1,821</b>	<b>\$ 1,598</b>	<b>\$ 43</b>	<b>\$ 51</b>
<b>Plan assets</b>				
Fair value – opening	\$ 1,507	\$ 1,409	\$ -	\$ -
Acquisition (note 4)	57	-	-	-
Finance income on plan assets	56	56	-	-
Actuarial gain due to returns on plan assets being higher than finance income	67	56	-	-
Employer contributions	52	50	3	3
Benefits paid	(66)	(62)	(3)	(3)
Settlement cost	(11)	-	-	-
Other	(4)	(2)	-	-
<b>Fair value – ending</b>	<b>\$ 1,658</b>	<b>\$ 1,507</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Funded status<sup>1</sup></b>				
Post-retirement assets	\$ 25	\$ 20	\$ -	\$ -
Impact of minimum funding requirement <sup>2</sup>	(12)	(13)	-	-
Post-retirement assets (note 9)	13	7	-	-
Post-retirement liabilities (note 11)	(188)	(111)	(43)	(51)
	<b>\$ (175)</b>	<b>\$ (104)</b>	<b>\$ (43)</b>	<b>\$ (51)</b>

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	
	2017	2016	2017	2016
<b>Expense</b>				
Current service cost	\$ 67	\$ 57	\$ 1	\$ 1
Net finance expense	5	4	2	2
	<b>\$ 72</b>	<b>\$ 61</b>	<b>\$ 3</b>	<b>\$ 3</b>

### *Assumptions and sensitivities*

The weighted average duration of the defined benefit pension obligations is 17 years. The projected future benefit payments for the defined benefit pension plans at December 31, 2017 are as follows:

	2018	2019	2020 to 2022	Thereafter	Total
Defined benefit pension plans	\$ 65	\$ 69	\$ 227	\$ 2,984	\$ 3,345

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	
	2017	2016	2017	2016
Benefit obligations:				
Discount rate	<b>3.50%</b>	3.75%	<b>3.50%</b>	3.75%
Future compensation rate increase	<b>3.50%</b>	3.50%	<b>n/a</b>	n/a
Benefit expense:				
Discount rate - beginning of year	<b>3.75%</b>	4.00%	<b>3.75%</b>	4.00%
Future compensation rate increase	<b>3.50%</b>	3.50%	<b>n/a</b>	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 8.5% in year one, grading down 0.5% per year for years two to seven, to 5.0% per year thereafter. The estimated liability for the medical service plan costs was decreased as at December 31, 2017 for the B.C. government rate reduction. It was assumed there would be no future rate increases.

The impact of a change in these assumptions on our post-retirement obligations as at December 31, 2017 is as follows:

	<b>Obligations</b>
Discount rate	
Decrease in assumption from 3.50% to 3.00%	\$ 155
Increase in assumption from 3.50% to 4.00%	\$ (137)
Rate of increase in future compensation	
Decrease in assumption from 3.50% to 3.00%	\$ (21)
Increase in assumption from 3.50% to 4.00%	\$ 22
Health-care cost trend rates	
Increase in assumption by 1.00%	\$ 2
Decrease in assumption by 1.00%	\$ (4)

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 assets of the pension plans are invested predominantly in a diversified range of equities and bonds. The weighted average asset allocations of the defined benefit plans at December 31, by asset category, are as follows:

	Target range <sup>1</sup>	<b>2017</b>	2016
Canadian equities	9% - 25%	<b>14%</b>	18%
Foreign equities	12% - 34%	<b>27%</b>	25%
Fixed income investments	36% - 60%	<b>48%</b>	47%
Other investments	3% - 31%	<b>11%</b>	10%
		<b>100%</b>	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*

We are exposed to various risks related to our defined benefit pension and other post-retirement benefit plans:

- **Uncertainty in benefit payments:** The value of the liability for post-retirement benefits will ultimately depend on the amount of benefits paid and this in turn will depend on the level of future compensation increase and how long individuals live.
- **Volatility in asset value:** We are exposed to changes in the market value of pension plan investments which are required to fund future benefit payments.
- **Uncertainty in cash funding:** Movement in the value of the assets and obligations may result in increased levels of cash funding; although changes in the level of cash funding required can

be spread over a number of years. We are also exposed to changes in pension regulation and legislation.

The Retirement Committee manages these risks in accordance with a Statement of Investment Policies and Procedures for each Pension Plan Master Investment Trust. 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.

#### 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

	2017		2016	
	Number	Amount	Number	Amount
Common	75,664,558	\$ 549	75,881,090	\$ 549
Class B Common	2,281,478	-	2,281,478	-
Total Common	77,946,036	\$ 549	78,162,568	\$ 549

In 2017 we repurchased 245,645 Common shares for \$17 million and in 2016 we repurchased 4,306,159 Common shares for \$190 million.

On September 12, 2017, our Board of Directors authorized the renewal of our normal course issuer bid (“NCIB”) program to repurchase for cancellation up to 3,794,375 Common shares or approximately 5% of our issued and outstanding Common shares. The NCIB will expire on September 18, 2018. Our previous NCIB expired on September 18, 2017.

##### 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 share option, phantom share unit (“PSU”) and directors’ deferred share unit (“DSU”) plans. We have partially hedged our exposure under these plans with an equity derivative contract. The equity-based compensation expense included in earnings is \$32 million (2016 - recovery of \$5 million).

### Accounting policies

We estimate the fair value of outstanding share options using the Black-Scholes valuation model and the fair value of our PSU plan and directors’ DSU 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.

From time to time, we enter into equity derivative contracts to provide a partial offset to our exposure to fluctuations in equity-based compensation from our stock option, PSU and DSU plans. These derivatives are fair valued at each balance sheet date using an intrinsic valuation model and the resulting expense or recovery is offset against the related equity-based compensation.

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 7,295,940 Common shares, of which 587,521 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. Our 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 an expense of \$52 million (2016 - recovery of \$6 million) related to the share option plan.

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

	2017		2016	
	Number	Weighted average price (dollars)	Number	Weighted average price (dollars)
Outstanding - beginning of year	2,119,886	\$ 29.83	2,211,951	\$ 27.03
Granted	192,255	\$ 53.11	246,285	\$ 40.97
Exercised	(872,973)	\$ 22.77	(338,350)	\$ 19.63
Expired	(3,230)	\$ 55.13	-	\$ -
Outstanding - end of year	1,435,938	\$ 37.19	2,119,886	\$ 29.83
Exercisable - end of year	978,341	\$ 30.68	1,643,900	\$ 24.57

The following table summarizes information about the share options outstanding and exercisable at December 31, 2017:

<b>Exercise price range</b> (dollars)	<b>Number of outstanding options</b> (number)	<b>Weighted average remaining contractual life</b> (years)	<b>Weighted average exercise price</b> (dollars)	<b>Number of exercisable options</b> (number)	<b>Weighted average exercise price</b> (dollars)
\$12.36 - \$16.50	313,000	1.1	\$ 12.47	313,000	\$ 12.47
\$23.65 - \$25.75	291,706	3.7	\$ 24.57	291,706	\$ 24.57
\$40.82 - \$55.62	702,951	7.4	\$ 46.72	304,151	\$ 45.41
\$73.99	128,281	7.1	\$ 73.99	69,484	\$ 73.99
	1,435,938	5.2	\$ 37.19	978,341	\$ 30.68

The weighted average share price at the date of exercise for share options exercised during the year was \$67.80 per share (2016 - \$43.13 per share).

The accrued liability related to the share option plan based on a Black-Scholes valuation model is \$63 million at December 31, 2017 (December 31, 2016 - \$52 million). The weighted average fair value of the options used in the calculation was \$43.79 per option at December 31, 2017 (December 31, 2016 - \$23.27 per option).

The inputs to the option model are as follows:

	<b>2017</b>	2016
Share price on balance sheet date	<b>\$77.33</b>	\$47.95
Weighted average exercise price	<b>\$37.19</b>	\$29.83
Expected dividend	<b>\$0.44</b>	\$0.28
Expected volatility	<b>33.34%</b>	33.17%
Weighted average interest rate	<b>1.76%</b>	0.88%
Weighted average expected remaining life in years	<b>3.5</b>	2.8

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, 2017 was \$56 million (December 31, 2016 - \$43 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 PSU 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 our 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 \$6 million (2016 - \$3 million) related to the PSU plan. The number of units outstanding as at December 31, 2017 was 109,414 (December 31, 2016 - 182,770), including performance share units totalling 48,268 (December 31, 2016 - 77,674).

***Directors’ deferred share unit plan***

We have a 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.

We have recorded an expense of \$4 million (2016 - nil) related to the DSU plan. The number of Units outstanding as at December 31, 2017 was 102,757 (December 31, 2016 - 155,593).

***Equity-based compensation hedge***

We have an equity derivative contract to hedge 1,000,000 units at a \$46.02 share price. A recovery of \$30 million (2016 - \$2 million) is included in equity-based compensation related to the contract.

**16. Finance expense**

	<b>2017</b>	2016
Interest expense	\$ (24)	\$ (24)
Finance expense on employee future benefits	(7)	(7)
Accretion on long-term liabilities	-	2
	<b>\$ (31)</b>	<b>\$ (29)</b>

## 17. Other

	2017	2016
Foreign exchange loss on working capital	\$ (10)	\$ (4)
Foreign exchange loss on intercompany financing <sup>1</sup>	(15)	(8)
Foreign exchange gain on long-term debt	25	12
Loss on power agreements	-	(27)
Insurance gain on disposal of equipment	7	8
Other	-	10
	\$ 7	\$ (9)

1. Relates to US\$600 million (2016 - US\$200 million) of financing provided to our U.S. operations. An additional US\$400 million of financing was provided to our U.S. operations at the end of August 2017 to fund the Gilman Acquisition. 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.

### Insurance proceeds

The insurance gain of \$7 million recognized in 2017 and \$8 million in 2016 relates to involuntary disposals of equipment. The 2017 gain relates to equipment damaged at our jointly-owned NBSK plant in Quesnel and the 2016 gain related to the fire at our WestPine MDF facility. Our WestPine MDF mill also has an insurance claim for business interruption.

The impact on pre-tax earnings is as follows:

	2017	2016
Business interruption insurance proceeds	-	\$ 17
Gain on disposal of equipment	7	8
	7	\$ 25

Estimated business interruption insurance is recorded as a reduction of cost of products sold. Estimated insurance proceeds for equipment replacement are accounted for as proceeds on disposition, and the resulting gain has been included in other income.

The final amount of insurance claims will be adjusted once the claims have been settled.

## 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 following tables include the impact of the statutory changes for British Columbia and the United States. The major components of income tax included in comprehensive earnings are as follows:

	2017	2016
<b>Earnings</b>		
Current tax	\$ (158)	\$ (47)
Deferred tax	(92)	(71)
<b>Tax provision on earnings</b>	<b>\$ (250)</b>	<b>\$ (118)</b>
<b>Other comprehensive earnings</b>		
Deferred tax recovery on post-retirement actuarial losses	\$ 7	\$ 3
<b>Tax provision on comprehensive earnings</b>	<b>\$ (243)</b>	<b>\$ (115)</b>

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

	2017	2016
Income tax expense at statutory rate of 26%	\$ (220)	\$ (115)
Non-taxable amounts	(6)	6
Rate differentials between jurisdictions and on specified activities	(20)	(8)
Unrecognized capital losses	1	1
Impact of statutory tax changes <sup>1</sup>	(6)	-
Other	1	(2)
<b>Tax provision</b>	<b>\$ (250)</b>	<b>\$ (118)</b>

1. Represents the re-measurement of deferred income tax assets and liabilities for the British Columbia tax rate change from 11% to 12% and the impact of United States Tax Reform, both of which were substantively enacted as at December 31, 2017.

Deferred income taxes are made up of the following components:

	2017	2016
Property, plant, equipment and intangibles	\$ 371	\$ 351
Reforestation and decommissioning obligations	(30)	(30)
Employee future benefits	(61)	(39)
Tax loss carry-forwards <sup>1</sup>	(58)	(89)
Other	(3)	(13)
	\$ 219	\$ 180

*Represented by:*

Deferred income tax assets	\$ (6)	\$ (35)
Deferred income tax liabilities	225	215
	\$ 219	\$ 180

1. Includes federal net operating loss ("NOL") carry-forwards of \$233 million expiring from 2022 to 2031. A portion of these NOL's are subject to restrictions on use.

## 19. Employee compensation

Our employee compensation expense includes salaries and wages, employee future benefits, termination costs and bonuses. Total compensation expense is \$872 million (2016 - \$808 million).

Key management includes directors and officers for which compensation expense and balance sheet date payables are as follows:

	2017	2016
<b>Expense</b>		
Salary and short-term employee benefits	\$ 10	\$ 9
Post-retirement benefits	1	2
Equity-based compensation <sup>1</sup>	22	(3)
	\$ 33	\$ 8
<b>Payables and accrued liabilities</b>		
Compensation	\$ 4	\$ 4
Equity-based compensation <sup>1</sup>	64	53
	\$ 68	\$ 57

1. Amounts do not necessarily represent the actual value which will ultimately be paid.

## 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.

	2017	2016
<b>Earnings</b>		
Basic	\$ 596	\$ 326
Share option expense (recovery)	52	(6)
Equity settled share option adjustment	(4)	(4)
Diluted	\$ 644	\$ 316
<b>Weighted average number of shares (thousands)</b>		
Basic	78,097	80,236
Share options	858	860
Diluted	78,955	81,096
<b>Earnings per share (dollars)</b>		
Basic	\$ 7.63	\$ 4.06
Diluted	\$ 7.63	\$ 3.90

## 21. Commitments

### Operating leases

We are committed to make payments under certain operating leases for equipment, land, building and office space. Operating lease costs expensed during the year were \$6 million (2016 - \$7 million). The future payments required under operating leases are as follows:

2018	\$	4
2019		3
2020		3
2021		3
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, 2017 are \$53 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 \$3 million (2016 - \$8 million) was received for capital projects and recorded as a reduction to property, plant and equipment.

Government assistance of \$14 million (2016 - \$6 million) was recorded as a reduction to cost of products sold. The government assistance related primarily to bioenergy producer credits, research and development 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”:

		Loans & Level receivables	Held for trading	Other financial liabilities	Carrying value	Fair value
<b>2017</b>						
<b>Financial assets</b>						
Cash & short-term investments	1	\$ 258	\$ -	\$ -	\$ 258	\$ 258
Receivables <sup>1</sup>	3	351	1	-	352	352
Export duty deposits (note 26)	3	37	-	-	37	37
		\$ 646	\$ 1	\$ -	\$ 647	\$ 647
<b>Financial liabilities</b>						
Payables and accrued liabilities	2	\$ -	\$ -	\$ 441	\$ 441	\$ 441
Long-term debt (note 12) <sup>2</sup>	2	-	-	641	641	634
		\$ -	\$ -	\$ 1,082	\$ 1,082	\$ 1,075

1. Receivables include our equity derivative receivable of \$1 million.

2. The fair value of the long-term debt is based on rates available to us at December 31, 2017 for long-term debt with similar terms and remaining maturities.



2016	Level	Loans & receivables	Held for trading	Other financial liabilities	Carrying value	Fair value
<b>Financial assets</b>						
Cash & short-term investments	1	\$ 50	\$ -	\$ -	\$ 50	\$ 50
Receivables	3	297	-	-	297	297
		\$ 347	\$ -	\$ -	\$ 347	\$ 347
<b>Financial liabilities</b>						
Cheques issued in excess of funds on deposit	1	\$ -	\$ -	\$ 15	\$ 15	\$ 15
Payables and accrued liabilities <sup>1</sup>	2	-	2	377	379	379
Long-term debt (note 12) <sup>2</sup>	2	-	-	417	417	391
		\$ -	\$ 2	\$ 809	\$ 811	\$ 785

1. Payables and accrued liabilities include our equity derivative payable of \$2 million.

2. The fair value of the long-term debt is based on rates available to us at December 31, 2016 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, commodity prices and equity-based compensation. Commodity contracts used by West Fraser include lumber futures and agreements related to Alberta electricity rates.

Based on the equity contract as at December 31, 2017 and holding all other variables constant, a \$1.00 change in our share price would change its fair value by \$1 million, which would partially offset the movement in our equity-based compensation.

No energy related derivatives were outstanding at December 31, 2017 or 2016.

No material lumber futures or foreign exchange contracts were outstanding at December 31, 2017 or 2016.

### *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, 2017 is as follows:

<b>Canadian operations</b>		<b>2017</b>
Net working capital	US\$	<b>163</b>
Export duty deposits		<b>29</b>
Intercompany financing <sup>1</sup>		<b>600</b>
Long-term debt		<b>(500)</b>
	US\$	<b>292</b>

  

<b>U.S. operations</b>		<b>2017</b>
Net investment	US\$	<b>1,127</b>

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 a \$4 million decrease (increase) in earnings and an increase (decrease) of \$18 million in the translation loss on foreign operations.

### *Credit*

Credit risk arises from the non-performance by counterparties of contractual financial obligations. Investments in cash and short-term investments 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, 2017, approximately 41% of trade accounts receivable was 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, 2017 to be high. There were no bad debts in 2017 or 2016. The aging analysis of trade accounts receivable is presented below:

	2017	2016
Trade accounts receivable – gross		
Current	\$ 290	\$ 236
Past due 1 to 30 days	3	5
Past due 31 to 60 days	2	3
Past due over 60 days	1	1
	<b>296</b>	245
Allowance for doubtful accounts	-	-
Trade accounts receivable – net	<b>296</b>	245
Insurance receivable	<b>20</b>	26
Other	<b>36</b>	26
Receivables	<b>\$ 352</b>	\$ 297

### *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:

	2018	2019	2020	2021	Thereafter	Total
Long-term debt (note 12)	\$ -	\$ -	\$ 10	\$ -	\$ 631	\$ 641
Interest on long-debt <sup>1,2</sup>	25	25	25	25	52	152
	<b>\$ 25</b>	<b>\$ 25</b>	<b>\$ 35</b>	<b>\$ 25</b>	<b>\$ 683</b>	<b>\$ 793</b>

1. Assumes debt level, foreign exchange rate and interest rates remain at December 31, 2017 levels and rates.
2. At December 31, 2017, our revolving credit facility was undrawn.

### *Interest rates*

Interest rate risk relates mainly to floating rate debt.

At December 31, 2017, a 100 basis point increase (decrease) in interest rates on floating rate debt would result in a \$2 million decrease (increase) in earnings. This analysis assumes that all other variables remain constant.

## **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:

	<b>2017</b>	2016
Net debt		
Cash and short-term investments	\$ (258)	\$ (50)
Deferred financing costs <sup>1</sup>	(7)	(6)
Cheques issued in excess of funds on deposit	-	15
Long-term debt	<b>641</b>	417
	<b>376</b>	376
Shareholders' equity	<b>2,726</b>	2,241
Total capital	<b>\$ 3,102</b>	\$ 2,617
Net debt to total capital	<b>12%</b>	14%

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 consolidated financial statement notes, where applicable.

	<b>Lumber</b>	<b>Panels</b>	<b>Pulp &amp; Paper</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
<b>2017</b>					
Sales					
To external customers	\$ 3,554	\$ 592	\$ 988	\$ -	\$ 5,134
To other segments	117	8	-	-	
	\$ 3,671	\$ 600	\$ 988	\$ -	
Operating earnings					
before amortization	\$ 836	\$ 113	\$ 172	\$ (41)	\$ 1,080
Amortization	(155)	(13)	(40)	(2)	(210)
Operating earnings	681	100	132	(43)	870
Finance expense	(20)	(3)	(8)	-	(31)
Other	(1)	-	2	6	7
Earnings before tax	\$ 660	\$ 97	\$ 126	\$ (37)	\$ 846
Total assets					
	\$ 3,404	\$ 314	\$ 627	\$ 172	\$ 4,517
Total liabilities					
	\$ 467	\$ 57	\$ 156	\$ 1,111	\$ 1,791
Capital expenditures					
	\$ 247	\$ 22	\$ 58	\$ 9	\$ 336
Acquisition					
	\$ 526	\$ -	\$ -	\$ -	\$ 526
	<b>Lumber</b>	<b>Panels</b>	<b>Pulp &amp; Paper</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
<b>2016</b>					
Sales					
To external customers	\$ 3,042	\$ 521	\$ 887	\$ -	\$ 4,450
To other segments	103	8	-	-	
	\$ 3,145	\$ 529	\$ 887	\$ -	
Operating earnings					
before amortization	\$ 508	\$ 89	\$ 79	\$ 3	\$ 679
Amortization	(146)	(12)	(37)	(2)	(197)
Operating earnings	362	77	42	1	482
Finance expense	(18)	(3)	(8)	-	(29)
Other	-	5	(23)	9	(9)
Earnings before tax	\$ 344	\$ 79	\$ 11	\$ 10	\$ 444
Total assets					
	\$ 2,662	\$ 286	\$ 583	\$ 69	\$ 3,600
Total liabilities					
	\$ 393	\$ 53	\$ 110	\$ 803	\$ 1,359
Capital expenditures					
	\$ 195	\$ 25	\$ 42	\$ 11	\$ 273

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

	Non-current assets		Sales by geographic area <sup>1</sup>	
	2017	2016	2017	2016
Canada	<b>2,096</b>	1,987	<b>1,129</b>	994
United States	<b>1,130</b>	675	<b>2,973</b>	2,583
China	-	-	<b>627</b>	486
Other Asia	-	-	<b>357</b>	317
Other	-	-	<b>48</b>	70
	<b>3,226</b>	2,662	<b>5,134</b>	4,450

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

## 26. Softwood lumber dispute

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

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

In 2017 we incurred deposits of \$53 million related to CVD. We have recorded a long-term duty deposit receivable related to CVD of \$11 million representing the excess of deposits made at the preliminary rate of 24.12% compared to the final rate of 17.99% as we believe this will be the maximum rate determined in the administrative review.

In 2017 we incurred deposits of \$32 million related to ADD. We have performed a calculation of potential ADD based on the actual information that will be submitted for the administrative review using the same calculation methodology as the USDOC and determined that the expected ADD rate will be substantially lower than the rate estimated by the USDOC. We have recorded a long-term duty deposit receivable for the difference between the deposit rate and our estimated rate in the amount of \$26 million.

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

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