

## West Fraser Announces Third Quarter Results

VANCOUVER, Oct. 22, 2018 /CNW/ - **West Fraser Timber Co. Ltd.** reports third quarter 2018 results:

### Third Quarter Highlights

- Strong operating cash flow and earnings despite lower lumber and panel prices
- Continued progress on finished goods inventory reduction
- Repurchased 3.5 million shares for \$301 million at an average price of \$85.96
- Start up of new Opelika sawmill

### Nine Month Highlights

- The addition of six Gilman sawmills in September of 2017 as well as strong product pricing in first half 2018 contributes to 29% increase in sales and 73% increase in Adjusted EBITDA
- Cash flow from operations of \$897 million year to date
- Two dividend increases representing an increase of 82% in the annual payout
- Quarter ending net debt to capital ratio of 11% and available liquidity of \$838 million

### Results Compared to Previous Periods

(\$ millions except earnings per share  
("EPS"))

|                                      | <b>Q3-18</b> | <b>Q2-18</b> | <b>YTD-18</b> | <b>Q3-17</b> | <b>YTD-17</b> |
|--------------------------------------|--------------|--------------|---------------|--------------|---------------|
| Sales                                | <b>1,646</b> | 1,834        | 4,844         | 1,247        | 3,758         |
| Adjusted EBITDA <sup>1</sup>         | <b>446</b>   | 593          | 1,418         | 269          | 819           |
| Operating earnings                   | <b>328</b>   | 464          | 1,057         | 177          | 577           |
| Earnings                             | <b>238</b>   | 346          | 781           | 120          | 389           |
| Basic EPS (\$)                       | <b>3.25</b>  | 4.52         | 10.30         | 1.53         | 4.97          |
| Adjusted Earnings <sup>1</sup>       | <b>275</b>   | 397          | 903           | 150          | 458           |
| Adjusted basic EPS (\$) <sup>1</sup> | <b>3.76</b>  | 5.19         | 11.91         | 1.93         | 5.87          |

In this News Release, reference is made to Adjusted EBITDA, Adjusted earnings and Adjusted basic EPS (collectively "these 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 International Financial Reporting Standards ("IFRS") and none has a standardized meaning prescribed by IFRS. Investors are cautioned that these measures should not be considered as an alternative to earnings, 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. Refer to the tables in the section titled "Non-IFRS Measures" in our third quarter 2018 Management's Discussion & Analysis for details of these adjustments.

### Recent Developments

Despite lower third quarter SPF and plywood prices, we produced results that, while off the record pace of the second quarter, were still significantly ahead of the third quarter of 2017. We continued to make progress on the reduction of finished goods inventories. We shipped 107 million board feet of lumber in excess of production during the quarter. We estimate that as of the end of the third quarter, we had approximately 40 million board feet of excess finished SPF inventory remaining to ship.

The wildfire season in BC in 2018 set a new record in terms of hectares of land that were burned. Unlike 2017, it was not necessary for us to curtail any manufacturing operations due to the fires. However, logging and hauling operations were restricted which has impacted log inventory at a number of our mills. Log and contractor availability is expected to remain constrained which we expect to influence the trend of log price escalation in B.C.

We continued our share buyback program in 2018. Since we commenced repurchasing shares in 2013 to return capital to shareholders, we have repurchased 15 million shares through October 19, 2018 at an average price of \$65.78 representing 17% of the outstanding shares at the time we started purchasing under our NCIB.

### Operational Results

Our lumber segment generated operating earnings of \$233 million (Q2-18 - \$358 million) and Adjusted EBITDA of \$339 million (Q2-18 - \$468 million). The retreat from the second quarter's pricing and slightly lower shipment volumes in the current quarter were largely responsible for the reduction in earnings. Countervailing and antidumping duties charged in the quarter were \$68 million, of which \$58 million was recorded as export duties expense in the statement of earnings and \$10 million was recorded as a long-term duty receivable on the balance sheet. On August 2, 2018 we started operations at our modernized Opelika sawmill. The new sawmill was completed in just under twelve months and was on time and on budget. We are now ramping up production and expect to realize approximately 100 Mmfbm of incremental production along with improvements in grade and recovery. Full operational run rates are expected to be realized by the third quarter of 2019. Ted Seraphim, CEO of West Fraser stated "We are extremely pleased with the progress at Opelika. The project allowed us to leverage existing timber supply, residual offtake arrangements, workforce in place at the mill and expertise of our employees in the design and construction of the new sawmill. We see this project serving as a blueprint for success on future large-scale modernization projects in the US South."

Our panels segment generated operating earnings in the quarter of \$31 million (Q2-18 - \$52 million) and Adjusted EBITDA of \$34 million (Q2-18 - \$56 million). Moderation of plywood pricing and a reduction in shipments from clearing the backlog in the previous quarter impacted panel results.

Our pulp & paper segment generated operating earnings of \$65 million (Q2-18 - \$56 million) and Adjusted EBITDA of \$73 million (Q2-18 - \$68 million). Production was higher in the quarter as we did not have any planned maintenance shut downs and our operational performance improved.

## Management's Discussion & Analysis ("MD&A")

The Company's MD&A is available on the Company's website: [www.westfraser.com](http://www.westfraser.com) and on the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com) under the Company's profile.

## The Company

West Fraser 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.

## Forward-Looking Statements

This Report contains historical information, descriptions of current circumstances and statements about potential future developments. 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 "Recent Developments" (relating to log and contractor availability). Actual outcomes and results will depend on a number of factors that could affect the ability of the Company to execute its business plans, including those matters described in the 2017 annual Management's Discussion & Analysis 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 the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by applicable securities laws.

## Conference Call

Investors are invited to listen to the quarterly conference call on Tuesday, October 23, 2018 at 8:30 a.m. Pacific Time (11:30 a.m. Eastern Time) by dialing 1-888-390-0546 (toll-free North America). The call may also be accessed through West Fraser's website at [www.westfraser.com](http://www.westfraser.com).

West Fraser shares trade on the Toronto Stock Exchange under the symbol: "WFT".

## West Fraser Timber Co. Ltd.

Condensed Consolidated Balance Sheets

(in millions of Canadian dollars, except where indicated - unaudited)

|                                 | September 30<br>2018 | December 31<br>2017 |
|---------------------------------|----------------------|---------------------|
| <b>Assets</b>                   |                      |                     |
| <b>Current assets</b>           |                      |                     |
| Cash and short-term investments | \$ 282               | \$ 258              |
| Receivables                     | 389                  | 352                 |
| Inventories (note 6)            | 704                  | 670                 |
| Prepaid expenses                | 20                   | 11                  |
|                                 | <b>1,395</b>         | <b>1,291</b>        |

|                                |                 |                 |
|--------------------------------|-----------------|-----------------|
| Property, plant and equipment  | 2,009           | 1,892           |
| Timber licences                | 518             | 533             |
| Goodwill and other intangibles | 747             | 731             |
| Export duty deposits           | 70              | 37              |
| Other assets                   | 34              | 27              |
| Deferred income tax assets     | 27              | 6               |
|                                | <b>\$ 4,800</b> | <b>\$ 4,517</b> |

#### Liabilities

##### Current liabilities

|                                               |               |               |
|-----------------------------------------------|---------------|---------------|
| Payables and accrued liabilities              | <b>\$ 497</b> | <b>\$ 441</b> |
| Income taxes payable                          | <b>54</b>     | <b>104</b>    |
| Reforestation and decommissioning obligations | <b>38</b>     | <b>38</b>     |
|                                               | <b>589</b>    | <b>583</b>    |
| Long-term debt (note 7)                       | <b>657</b>    | <b>636</b>    |
| Other liabilities (note 8)                    | <b>265</b>    | <b>347</b>    |
| Deferred income tax liabilities               | <b>303</b>    | <b>225</b>    |
|                                               | <b>1,814</b>  | <b>1,791</b>  |

##### Shareholders' Equity

|                                          |                 |                 |
|------------------------------------------|-----------------|-----------------|
| Share capital                            | <b>503</b>      | <b>549</b>      |
| Accumulated other comprehensive earnings | <b>129</b>      | <b>108</b>      |
| Retained earnings                        | <b>2,354</b>    | <b>2,069</b>    |
|                                          | <b>2,986</b>    | <b>2,726</b>    |
|                                          | <b>\$ 4,800</b> | <b>\$ 4,517</b> |

Number of Common shares and Class B Common shares outstanding at October 19, 2018 was 70,754,104.

#### West Fraser Timber Co. Ltd.

##### Condensed Consolidated Statements of Changes in Shareholders' Equity

(in millions of Canadian dollars, except where indicated - unaudited)

|                                                 | July 1 to September<br>30 |                 | January 1 to September<br>30 |                 |
|-------------------------------------------------|---------------------------|-----------------|------------------------------|-----------------|
|                                                 | 2018                      | 2017            | 2018                         | 2017            |
| <b>Share capital</b>                            |                           |                 |                              |                 |
| Balance - beginning of period                   | <b>\$ 528</b>             | <b>\$ 549</b>   | <b>\$ 549</b>                | <b>\$ 549</b>   |
| Common share repurchases                        | <b>(25)</b>               | <b>(2)</b>      | <b>(46)</b>                  | <b>(2)</b>      |
| Balance - end of period                         | <b>\$ 503</b>             | <b>\$ 547</b>   | <b>\$ 503</b>                | <b>\$ 547</b>   |
| <b>Accumulated other comprehensive earnings</b> |                           |                 |                              |                 |
| Balance - beginning of period                   | <b>\$ 145</b>             | <b>\$ 129</b>   | <b>\$ 108</b>                | <b>\$ 150</b>   |
| Translation gain (loss) on foreign operations   | <b>(16)</b>               | <b>(24)</b>     | <b>21</b>                    | <b>(45)</b>     |
| Balance - end of period                         | <b>\$ 129</b>             | <b>\$ 105</b>   | <b>\$ 129</b>                | <b>\$ 105</b>   |
| <b>Retained earnings</b>                        |                           |                 |                              |                 |
| Balance - beginning of period                   | <b>\$ 2,361</b>           | <b>\$ 1,767</b> | <b>\$ 2,069</b>              | <b>\$ 1,542</b> |
| Actuarial gain on post-retirement benefits      | <b>45</b>                 | <b>39</b>       | <b>52</b>                    | <b>6</b>        |
| Common share repurchases                        | <b>(276)</b>              | <b>(15)</b>     | <b>(511)</b>                 | <b>(15)</b>     |
| Earnings for the period                         | <b>238</b>                | <b>120</b>      | <b>781</b>                   | <b>389</b>      |
| Dividends                                       | <b>(14)</b>               | <b>(9)</b>      | <b>(37)</b>                  | <b>(20)</b>     |
| Balance - end of period                         | <b>\$ 2,354</b>           | <b>\$ 1,902</b> | <b>\$ 2,354</b>              | <b>\$ 1,902</b> |
| <b>Shareholders' Equity</b>                     | <b>\$ 2,986</b>           | <b>\$ 2,554</b> | <b>\$ 2,986</b>              | <b>\$ 2,554</b> |

# Condensed Consolidated Statements of Earnings and Comprehensive Earnings

(in millions of Canadian dollars, except where indicated - unaudited)

|                                               | July 1 to September<br>30 |                 | January 1 to September<br>30 |                 |
|-----------------------------------------------|---------------------------|-----------------|------------------------------|-----------------|
|                                               | 2018                      | 2017            | 2018                         | 2017            |
| <b>Sales</b>                                  | <b>\$ 1,646</b>           | <b>\$ 1,247</b> | <b>\$ 4,844</b>              | <b>\$ 3,758</b> |
| <b>Costs and expenses</b>                     |                           |                 |                              |                 |
| Cost of products sold                         | 943                       | 775             | 2,700                        | 2,313           |
| Freight and other distribution costs          | 201                       | 149             | 558                          | 470             |
| Export duties                                 | 54                        | 31              | 165                          | 65              |
| Amortization                                  | 64                        | 51              | 188                          | 151             |
| Selling, general and administration           | 56                        | 54              | 168                          | 156             |
| Equity-based compensation                     | -                         | 10              | 8                            | 26              |
|                                               | <b>1,318</b>              | <b>1,070</b>    | <b>3,787</b>                 | <b>3,181</b>    |
| <b>Operating earnings</b>                     | <b>328</b>                | <b>177</b>      | <b>1,057</b>                 | <b>577</b>      |
| Finance expense                               | (10)                      | (8)             | (28)                         | (23)            |
| Other (note 11)                               | (4)                       | (2)             | 15                           | (3)             |
| <b>Earnings before tax</b>                    | <b>314</b>                | <b>167</b>      | <b>1,044</b>                 | <b>551</b>      |
| Tax provision (note 12)                       | (76)                      | (47)            | (263)                        | (162)           |
| <b>Earnings</b>                               | <b>\$ 238</b>             | <b>\$ 120</b>   | <b>\$ 781</b>                | <b>\$ 389</b>   |
| <b>Earnings per share (dollars) (note 13)</b> |                           |                 |                              |                 |
| Basic                                         | <b>\$ 3.25</b>            | <b>\$ 1.53</b>  | <b>\$ 10.30</b>              | <b>\$ 4.97</b>  |
| Diluted                                       | <b>\$ 2.99</b>            | <b>\$ 1.53</b>  | <b>\$ 10.16</b>              | <b>\$ 4.97</b>  |
| <b>Comprehensive earnings</b>                 |                           |                 |                              |                 |
| Earnings                                      | <b>\$ 238</b>             | <b>\$ 120</b>   | <b>\$ 781</b>                | <b>\$ 389</b>   |
| <b>Other comprehensive earnings</b>           |                           |                 |                              |                 |
| Translation gain (loss) on foreign operations | (16)                      | (24)            | 21                           | (45)            |
| Actuarial gain on post-retirement benefits    | 45                        | 39              | 52                           | 6               |
| <b>Comprehensive earnings</b>                 | <b>\$ 267</b>             | <b>\$ 135</b>   | <b>\$ 854</b>                | <b>\$ 350</b>   |

## West Fraser Timber Co. Ltd.

### Condensed Consolidated Statements of Cash Flows

(in millions of Canadian dollars, except where indicated - unaudited)

|                                                     | July 1 to September<br>30 |               | January 1 to September<br>30 |               |
|-----------------------------------------------------|---------------------------|---------------|------------------------------|---------------|
|                                                     | 2018                      | 2017          | 2018                         | 2017          |
| <b>Cash provided by operations</b>                  |                           |               |                              |               |
| Earnings                                            | <b>\$ 238</b>             | <b>\$ 120</b> | <b>\$ 781</b>                | <b>\$ 389</b> |
| Adjustments                                         |                           |               |                              |               |
| Amortization                                        | 64                        | 51            | 188                          | 151           |
| Finance expense                                     | 10                        | 8             | 28                           | 23            |
| Foreign exchange loss (gain) on long-term financing | 2                         | (5)           | (4)                          | (10)          |
| Export duty deposits                                | (13)                      | -             | (32)                         | -             |
| Post-retirement expense                             | 20                        | 19            | 60                           | 57            |
| Contributions to post-retirement benefit plans      | (28)                      | (17)          | (79)                         | (48)          |
| Tax provision                                       | 76                        | 47            | 263                          | 162           |
| Income taxes paid                                   | (65)                      | (7)           | (275)                        | (59)          |
| Other                                               | (12)                      | (20)          | (5)                          | (12)          |
| Changes in non-cash working capital                 |                           |               |                              |               |
| Receivables                                         | 89                        | 29            | (33)                         | (56)          |
| Inventories                                         | 15                        | 25            | (28)                         | 19            |
| Prepaid expenses                                    | 10                        | 12            | (10)                         | (6)           |
| Payables and accrued liabilities                    | (7)                       | 33            | 43                           | 37            |

|                                              |        |        |        |        |
|----------------------------------------------|--------|--------|--------|--------|
|                                              | 399    | 295    | 897    | 647    |
| <b>Cash provided by (used for) financing</b> |        |        |        |        |
| Proceeds from long-term debt                 | -      | 250    | -      | 250    |
| Financing fees paid                          | -      | (2)    | -      | (2)    |
| Finance expense paid                         | (5)    | (1)    | (20)   | (12)   |
| Common share repurchases                     | (301)  | (17)   | (557)  | (17)   |
| Dividends                                    | -      | (9)    | (23)   | (20)   |
|                                              | (306)  | 221    | (600)  | 199    |
| <b>Cash used for investing</b>               |        |        |        |        |
| Acquisition                                  | -      | (525)  | -      | (525)  |
| Additions to capital assets                  | (111)  | (90)   | (284)  | (224)  |
| Government assistance                        | 4      | 1      | 5      | 2      |
| Other                                        | (2)    | 1      | 1      | 4      |
|                                              | (109)  | (613)  | (278)  | (743)  |
| <b>Change in cash</b>                        | (16)   | (97)   | 19     | 103    |
| <b>Foreign exchange effect on cash</b>       | (4)    | (2)    | 5      | (6)    |
| <b>Cash - beginning of period</b>            | 302    | 231    | 258    | 35     |
| <b>Cash - end of period</b>                  | \$ 282 | \$ 132 | \$ 282 | \$ 132 |
| <b>Cash consists of</b>                      |        |        |        |        |
| Cash and short-term investments              |        |        | \$ 282 | \$ 132 |
| Cheques issued in excess of funds on deposit |        |        | -      | -      |
|                                              |        |        | \$ 282 | \$ 132 |

## West Fraser Timber Co. Ltd.

Notes to Condensed Consolidated Interim Financial Statements

(figures are in millions of dollars, except where indicated - unaudited)

### 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 and statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board and using the same accounting policies and methods of their application as the December 31, 2017 annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with our 2017 annual consolidated financial statements.

We have reclassified certain prior-year amounts to conform to current-year's presentation.

### 3. Changes in accounting standards

#### IFRS 9 - Financial Instruments

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

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

#### IFRS 15 - Revenue from Contracts with Customers

We have adopted IFRS 15 effective January 1, 2018 using the full retrospective method. The new revenue standard, IFRS 15,

replaces IAS 18 - Revenue, IAS 11 - Construction Contracts and the related interpretations. This standard 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. IFRS 15 requires that revenue is recognised at the 'transaction price' when certain contractual obligations are met but with any 'variable consideration' elements of the price recognized when it is 'highly probable' that there will be no reversal of that revenue.

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

#### 4. Accounting standards issued but not yet applied

##### *IFRS 16 - Leases*

IFRS 16 was issued in January 2016. This standard is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The new standard replaces IAS 17 – Leases and the related interpretations.

IFRS 16 eliminates the classification of operating leases for a lessee. This standard establishes a single, on-balance sheet accounting model for lessees which will result in the recognition of a right-of-use asset and a lease liability. The nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense, currently reported under cost of products sold on our consolidated statements of earnings, with a depreciation charge for the right-of-use asset and a declining balance interest expense on the lease liability.

IFRS 16 allows two exemptions for short-term and low-value leases for which the payments will be recognized as an expense, typically on a straight-line basis over the lease term.

We will apply IFRS 16 using the modified retrospective approach. Under this method, the right-of-use asset is recognized at the date of the initial application at an amount equal to the lease liability, using West Fraser's incremental borrowing rate at January 1, 2019. Comparative figures are not restated.

We completed an initial assessment for the potential impact on our consolidated financial statements and anticipate that IFRS 16 will not have a significant impact on our consolidated financial statements.

#### 5. Seasonality of operations

Our operating results are subject to seasonal fluctuations that impact quarter-to-quarter operating results. Log availability has a direct impact on our operations. We build up log inventory in Canada during the winter to sustain our lumber and plywood production during the second quarter when logging is curtailed due to wet land conditions. Wildfires in Western Canada and hurricanes in the U.S. South may periodically affect operations including logging, manufacturing and transportation.

#### 6. Inventories

Inventories at September 30, 2018 were written down by \$14 million (June 30, 2018 - \$1 million; December 31, 2017 - \$9 million; September 30, 2017 - \$4 million) to reflect net realizable value being lower than cost.

|                                   | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-----------------------------------|-------------------------------|------------------------------|
| Manufactured products             | <b>\$393</b>                  | \$358                        |
| Logs and other raw materials      | <b>160</b>                    | 167                          |
| Processing materials and supplies | <b>151</b>                    | 145                          |
|                                   | <b>\$704</b>                  | \$670                        |

#### 7. Long-term debt and operating loans

##### *Long-term debt*

|                                                                   | <b>September 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-------------------------------------------------------------------|-------------------------------|------------------------------|
| US\$300 million senior notes due October 2024; interest at 4.35%  | <b>\$388</b>                  | \$376                        |
| US\$200 million term loan due August 2022; floating interest rate | <b>259</b>                    | 251                          |
| US\$8 million note payable due October 2020; interest at 2%       | <b>10</b>                     | 10                           |
| Notes payable                                                     | <b>4</b>                      | 4                            |

|                          |              |              |
|--------------------------|--------------|--------------|
|                          | 661          | 641          |
| Deferred financing costs | (4)          | (5)          |
|                          | <b>\$657</b> | <b>\$636</b> |

The fair value of the long-term debt at September 30, 2018 was \$651 million (December 31, 2017 - \$634 million) based on rates available to us at the balance sheet date for long-term debt with similar terms and remaining maturities.

### **Operating loans**

Our revolving lines of credit consist of a \$500 million committed revolving credit facility which matures August 25, 2022, a \$32 million (US\$25 million) demand line of credit dedicated to our U.S. operations and an \$8 million demand line of credit dedicated to our jointly owned newsprint operation. In addition, we have demand lines of credit totalling \$70 million dedicated to letters of credit, of which US\$15 million is dedicated to our U.S. operations.

At September 30, 2018, 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 \$54 million were also supported by our facilities, leaving \$556 million of credit available for further use. At December 31, 2017, our revolving credit facility was undrawn, deferred financing costs were \$2 million and our outstanding letters of credit were \$47 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.

### **8. Other liabilities**

|                          | <b>September 30,<br/>2018</b> | December 31,<br>2017 |
|--------------------------|-------------------------------|----------------------|
| Post-retirement (note 9) | <b>\$152</b>                  | \$231                |
| Reforestation            | <b>66</b>                     | 70                   |
| Decommissioning          | <b>27</b>                     | 25                   |
| Other                    | <b>20</b>                     | 21                   |
|                          | <b>\$265</b>                  | <b>\$347</b>         |

### **9. 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. We also provide group life insurance, medical and extended health benefits to certain employee groups.

In October 2018, we entered into an annuity purchase agreement to settle approximately \$335 million of our defined benefit obligations by purchasing annuities using our plan assets. This agreement will transfer the pension obligations of retired employees under certain pension plans to an insurance carrier. As part of the annuity purchase, we will contribute an additional \$5 million to these plans in the fourth quarter. This is in addition to the first quarter of 2018 settlement of approximately \$145 million of our defined benefit obligations by also purchasing annuities using our plan assets.

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

|                                       | <b>September 30,<br/>2018</b> | December 31,<br>2017 |
|---------------------------------------|-------------------------------|----------------------|
| Projected benefit obligations         | <b>\$(1,703)</b>              | \$(1,864)            |
| Fair value of plan assets             | <b>1,567</b>                  | 1,658                |
| Impact of minimum funding requirement | -                             | (12)                 |
|                                       | <b>\$(136)</b>                | \$(218)              |
| <b>Represented by</b>                 |                               |                      |
| Post-retirement assets                | <b>\$16</b>                   | \$13                 |

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Post-retirement liabilities (note 8) | (152)          | (231)          |
|                                      | <b>\$(136)</b> | <b>\$(218)</b> |

The significant actuarial assumptions used to determine our balance sheet date post-retirement assets and liabilities are as follows:

|                                   | <b>September 30,<br/>2018</b> | June 30,<br>2018 | December 31,<br>2017 |
|-----------------------------------|-------------------------------|------------------|----------------------|
| Discount rate                     | <b>3.75%</b>                  | 3.50%            | 3.50%                |
| Future compensation rate increase | <b>3.50%</b>                  | 3.50%            | 3.50%                |

The change in the discount rate on obligations and the difference between the actual rate of return and the discount rate on plan assets generated an actuarial gain on post-retirement benefits, included in other comprehensive earnings, as follows:

|                | July 1 to September<br>30 |       | January 1 to September<br>30 |      |
|----------------|---------------------------|-------|------------------------------|------|
|                | <b>2018</b>               | 2017  | <b>2018</b>                  | 2017 |
| Actuarial gain | <b>\$ 62</b>              | \$ 53 | <b>\$ 72</b>                 | \$ 8 |
| Tax provision  | <b>(17)</b>               | (14)  | <b>(20)</b>                  | (2)  |
|                | <b>\$ 45</b>              | \$ 39 | <b>\$ 52</b>                 | \$ 6 |

## 10. Share Capital

On September 17, 2018 our Board of Directors authorized the renewal of our normal course issuer bid ("NCIB") program to repurchase for cancellation up to 5,524,048 Common shares representing approximately 10% of the public float as at September 11, 2018. On September 11, 2018, the Company had a total of 70,219,385 Common shares outstanding. The NCIB will expire on September 18, 2019. Our previous NCIB expired on September 18, 2018.

During 2018 we repurchased 6,385,360 Common shares under both of our NCIB programs at an average price of \$87.30 per share for a cost of \$557 million.

## 11. Other

|                                                                     | July 1 to September<br>30 |        | January 1 to September<br>30 |         |
|---------------------------------------------------------------------|---------------------------|--------|------------------------------|---------|
|                                                                     | <b>2018</b>               | 2017   | <b>2018</b>                  | 2017    |
| Foreign exchange gain (loss) on working capital                     | <b>\$ (6)</b>             | \$ (7) | <b>\$ 5</b>                  | \$ (12) |
| Foreign exchange gain (loss) on intercompany financing <sup>1</sup> | <b>(13)</b>               | (10)   | <b>24</b>                    | (19)    |
| Foreign exchange gain (loss) on long-term debt                      | <b>11</b>                 | 15     | <b>(20)</b>                  | 29      |
| Other                                                               | <b>4</b>                  | -      | <b>6</b>                     | (1)     |
|                                                                     | <b>\$ (4)</b>             | \$ (2) | <b>\$ 15</b>                 | \$ (3)  |

1. Relates to US\$600 million (first half of 2017 the balance was US\$200 million) of financing provided to our U.S. operations. IAS 21 requires that the exchange gain or loss be recognized through earnings as the financing is not considered part of our permanent investment in our U.S. subsidiaries. The balance sheet amounts and related financing expense are eliminated in these consolidated financial statements.

## 12. Tax provision

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:

|                                                                      | July 1 to September 30 |         | January 1 to September 30 |          |
|----------------------------------------------------------------------|------------------------|---------|---------------------------|----------|
|                                                                      | 2018                   | 2017    | 2018                      | 2017     |
| Income tax expense at statutory rate of 27% (2017 – 26%)             | \$ (85)                | \$ (43) | \$ (282)                  | \$ (143) |
| Non-taxable amounts                                                  | 4                      | (2)     | -                         | (7)      |
| Rate differentials between jurisdictions and on specified activities | 6                      | (2)     | 18                        | (13)     |
| Unrecognized capital losses                                          | -                      | -       | 1                         | 1        |
| Other                                                                | (1)                    | -       | -                         | -        |
| Tax provision                                                        | \$ (76)                | \$ (47) | \$ (263)                  | \$ (162) |

### 13. 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 expense (recovery) 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.

|                                                         | July 1 to September 30 |         | January 1 to September 30 |         |
|---------------------------------------------------------|------------------------|---------|---------------------------|---------|
|                                                         | 2018                   | 2017    | 2018                      | 2017    |
| <b>Earnings</b>                                         |                        |         |                           |         |
| Basic                                                   | \$ 238                 | \$ 120  | \$ 781                    | \$ 389  |
| Share option expense (recovery)                         | (17)                   | 17      | -                         | 43      |
| Equity-settled share option adjustment                  | -                      | -       | (3)                       | (3)     |
| Diluted                                                 | \$ 221                 | \$ 137  | \$ 778                    | \$ 429  |
| <b>Weighted average number of shares</b><br>(thousands) |                        |         |                           |         |
| Basic                                                   | 73,080                 | 78,128  | 75,820                    | 78,153  |
| Share options                                           | 653                    | 869     | 723                       | 860     |
| Diluted                                                 | 73,733                 | 78,997  | 76,543                    | 79,013  |
| <b>Earnings per share (dollars)</b>                     |                        |         |                           |         |
| Basic                                                   | \$ 3.25                | \$ 1.53 | \$ 10.30                  | \$ 4.97 |
| Diluted                                                 | \$ 2.99                | \$ 1.53 | \$ 10.16                  | \$ 4.97 |

### 14. Segmented information

|                                           | Pulp & Corporate |        |               |        |
|-------------------------------------------|------------------|--------|---------------|--------|
|                                           | Lumber           | Panels | paper & other | Total  |
| <b>July 1, 2018 to September 30, 2018</b> |                  |        |               |        |
| Sales                                     |                  |        |               |        |
| To external customers                     | \$1,167          | \$ 167 | \$ 312        | \$ -   |
| To other segments                         | 44               | 3      | -             | -      |
|                                           | \$1,211          | \$ 170 | \$ 312        | \$ -   |
| Operating earnings before amortization    | \$281            | \$ 34  | \$ 77         | \$ -   |
| Amortization                              | (48)             | (3)    | (12)          | (1)    |
| Operating earnings                        | 233              | 31     | 65            | (1)    |
| Finance expense                           | (7)              | (1)    | (3)           | 1      |
| Other                                     | 2                | -      | (1)           | (5)    |
| Earnings before tax                       | \$228            | \$ 30  | \$ 61         | \$ (5) |

#### July 1, 2017 to September 30, 2017

|                                        |       |        |        |         |         |
|----------------------------------------|-------|--------|--------|---------|---------|
| Sales                                  |       |        |        |         |         |
| To external customers                  | \$860 | \$ 166 | \$ 221 | \$ -    | \$1,247 |
| To other segments                      | 29    | 2      | -      | -       |         |
|                                        | \$889 | \$ 168 | \$ 221 | \$ -    |         |
| Operating earnings before amortization | \$164 | \$ 48  | \$ 30  | \$ (14) | \$228   |
| Amortization                           | (38)  | (3)    | (9)    | (1)     | (51)    |
| Operating earnings                     | 126   | 45     | 21     | (15)    | 177     |
| Finance expense                        | (5)   | (1)    | (2)    | -       | (8)     |
| Other                                  | (3)   | -      | (3)    | 4       | (2)     |
| Earnings before tax                    | \$118 | \$ 44  | \$ 16  | \$ (11) | \$167   |

|                                              | <b>Pulp &amp; Corporate</b> |               |                          |               |                |
|----------------------------------------------|-----------------------------|---------------|--------------------------|---------------|----------------|
|                                              | <b>Lumber</b>               | <b>Panels</b> | <b>paper &amp; other</b> | <b>Total</b>  |                |
| <b>January 1, 2018 to September 30, 2018</b> |                             |               |                          |               |                |
| Sales                                        |                             |               |                          |               |                |
| To external customers                        | <b>\$3,433</b>              | <b>\$ 516</b> | <b>\$ 895</b>            | <b>\$ -</b>   | <b>\$4,844</b> |
| To other segments                            | <b>125</b>                  | <b>9</b>      | <b>-</b>                 | <b>-</b>      |                |
|                                              | <b>\$3,558</b>              | <b>\$ 525</b> | <b>\$ 895</b>            | <b>\$ -</b>   |                |
| Operating earnings before amortization       | <b>\$923</b>                | <b>\$ 118</b> | <b>\$ 211</b>            | <b>\$ (7)</b> | <b>\$1,245</b> |
| Amortization                                 | <b>(143)</b>                | <b>(10)</b>   | <b>(33)</b>              | <b>(2)</b>    | <b>(188)</b>   |
| Operating earnings                           | <b>780</b>                  | <b>108</b>    | <b>178</b>               | <b>(9)</b>    | <b>1,057</b>   |
| Finance expense                              | <b>(19)</b>                 | <b>(2)</b>    | <b>(7)</b>               | <b>-</b>      | <b>(28)</b>    |
| Other                                        | <b>10</b>                   | <b>-</b>      | <b>4</b>                 | <b>1</b>      | <b>15</b>      |
| Earnings before tax                          | <b>\$771</b>                | <b>\$ 106</b> | <b>\$ 175</b>            | <b>\$ (8)</b> | <b>\$1,044</b> |

**January 1, 2017 to September 30, 2017**

|                                        |         |        |        |         |         |
|----------------------------------------|---------|--------|--------|---------|---------|
| Sales                                  |         |        |        |         |         |
| To external customers                  | \$2,584 | \$ 439 | \$ 735 | \$ -    | \$3,758 |
| To other segments                      | 87      | 6      | -      | -       |         |
|                                        | \$2,671 | \$ 445 | \$ 735 | \$ -    |         |
| Operating earnings before amortization | \$561   | \$ 89  | \$ 112 | \$ (34) | \$728   |
| Amortization                           | (112)   | (9)    | (28)   | (2)     | (151)   |
| Operating earnings                     | 449     | 80     | 84     | (36)    | 577     |
| Finance expense                        | (14)    | (3)    | (6)    | -       | (23)    |
| Other                                  | (3)     | -      | (5)    | 5       | (3)     |
| Earnings before tax                    | \$432   | \$ 77  | \$ 73  | \$ (31) | \$551   |

The geographic distribution of external sales is as follows<sup>1</sup>:

|               | July 1 to September 30 |                 | January 1 to September 30 |                 |
|---------------|------------------------|-----------------|---------------------------|-----------------|
|               | <b>2018</b>            | 2017            | <b>2018</b>               | 2017            |
| Canada        | \$ 305                 | \$ 312          | \$ 970                    | \$ 860          |
| United States | 1,005                  | 701             | 2,938                     | 2,126           |
| China         | 204                    | 148             | 542                       | 464             |
| Other Asia    | 121                    | 73              | 360                       | 270             |
| Other         | 11                     | 13              | 34                        | 38              |
|               | <b>\$ 1,646</b>        | <b>\$ 1,247</b> | <b>\$ 4,844</b>           | <b>\$ 3,758</b> |

<sup>1</sup> Sales distribution is based on the location of product delivery.

**15. Countervailing ("CVD") and antidumping ("ADD") duty dispute**

In November 2016, a coalition of U.S. lumber producers filed a CVD/ADD petition against Canadian softwood lumber producers who import lumber into the United States. The petition alleged that Canadian lumber producers are subsidized. CVD and ADD duties have been imposed against Canadian softwood lumber imports beginning in 2017. See Note 26 "Softwood lumber dispute" of our 2017 annual consolidated financial statements included in the Company's 2017 Annual Report for additional information.

We were chosen by the U.S. Department of Commerce ("USDOC") as a "mandatory respondent" to both the countervailing and antidumping investigations and as a result have received unique company specific rates.

For the lumber segment, during the nine months ended September 30, 2018 we posted cash deposits for CVD at a 17.99% rate and cash deposits for ADD at a 5.57% rate. We continue to recalculate the ADD rate for the current period of review using our reported results and the same calculation methodology as the USDOC. Based on our current data, we determined that the expected ADD rate will be lower than the current ADD deposit rate and as such, we have recorded a long-term duty deposit receivable related to ADD for the difference. Our estimated ADD rate for the nine months ended September 30, 2018 was 1.38%.

In September 2018, the U.S. International Trade Commission reversed the U.S. Department of Commerce decision to charge Canadian newsprint producers CVD and ADD on the basis that U.S. producers were not materially injured or threatened with material injury. It is expected that the full amount of duty deposits collected will be refunded. As a result, in the quarter we have reversed \$4 million of previously expensed export duties and recorded a \$5 million long-term duty deposit receivable for our jointly owned newsprint mill.

|                                                                                               | July 1 to September 30 |       | January 1 to September 30 |       |
|-----------------------------------------------------------------------------------------------|------------------------|-------|---------------------------|-------|
|                                                                                               | 2018                   | 2017  | 2018                      | 2017  |
| Export duties recognized as expense in Consolidated Statement of Earnings                     | \$ 58                  | \$ 31 | \$ 165                    | \$ 65 |
| Export duties recovery recognized in Consolidated Statement of Earnings                       | (4)                    | -     | -                         | -     |
| Export duties recognized as long-term duty deposits receivable in Consolidated Balance Sheets | 15                     | -     | 33                        | -     |
| Foreign exchange on long-term duty deposits receivable                                        | 1                      | -     | (1)                       | -     |
| Total export duties charged in the period                                                     | \$ 70                  | \$ 31 | \$ 197                    | \$ 65 |

For the nine months ended September 30, 2018 we incurred duty deposits of \$147 million related to CVD and \$51 million related to ADD. As at September 30, 2018 the total amount of duties paid and payable that are on deposit with the USDOC is US\$221 million.

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

SOURCE West Fraser Timber Co. Ltd.

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<https://westfraser.mediaroom.com/2018-10-22-West-Fraser-Announces-Third-Quarter-Results>