



Management's Discussion and Analysis

Introduction and Interpretation

This discussion and analysis by West Fraser's management ("MD&A") of the Company's financial performance during the third quarter of 2018 should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes ("Financial Statements") included in this quarterly report and the 2017 annual MD&A included in the Company's 2017 Annual Report. Dollar amounts are expressed in Canadian currency, unless otherwise indicated.

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

This MD&A contains historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results. The latter, which are forward-looking statements, are presented to provide reasonable guidance to the reader but their accuracy depends on a number of assumptions and are subject to various risks and uncertainties. Forward-looking statements are included under the headings "Recent Developments" (concerning the impact of forest fires in British Columbia on lumber operations and log costs, impacts on production from a natural gas pipeline interruption and the impact of availability of transportation services on inventories), "Discussion & Analysis of Non-Operational Items" (concerning adjustments to duty rates), "Discussion & Analysis by Product Segment" (concerning refunds of newsprint duties), "Business Outlook" (concerning our operations, markets and cash flows), "Operating Activities" (concerning reduction of inventories and future tax payments) and "Accounting Standards Issued but Not Yet Applied" (concerning impact on consolidated Financial Statements). Actual outcomes and results of these statements will depend on a number of factors including those matters described under "Risks and Uncertainties" in the 2017 annual MD&A, and may differ materially from those anticipated or projected. Accordingly, readers should exercise caution in relying upon forward-looking statements and we undertake no obligation to publicly revise them to reflect subsequent events or circumstances except as required by applicable securities laws.

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

This MD&A uses the following terms that are defined in the Company's 2017 Annual Report: "SPF" (spruce-pine-fir lumber), "SYP" (southern yellow pine lumber), "MDF" (medium density fibreboard), "LVL" (laminated veneer lumber), "BCTMP" (bleached chemithermomechanical pulp) and "NBSK" (northern bleached softwood kraft pulp).

This MD&A includes references to benchmark prices over selected periods for products of the type produced by West Fraser. These benchmark prices are for specific products, dimensions or grades and do not necessarily reflect the prices obtained by West Fraser during those periods. This MD&A is dated October 22, 2018 and the information provided herein is provided as of such date unless otherwise indicated.

Recent Developments

Forest Fires in British Columbia

The summer of 2018 was another year with significant outbreaks of wildfire in British Columbia. Although the wildfires did not significantly affect any of our facilities, we experienced some reductions in production due to evacuation alerts and logging activities were restricted in several areas. In addition, wet September weather has hampered logging activities and has resulted in lower than normal log inventory levels for this time of year.

The Government of British Columbia continues to review the impact of the extensive wildfires of 2017 and 2018 on annual allowable harvest levels. It is still too early to gauge the long-term impact on our lumber operations in British Columbia. However, we expect that the timber losses from the forest fires will cause additional pressure on British Columbia log availability.

Hurricanes in the U.S. South

Our sawmill facility in Riegelwood, North Carolina was closed for two weeks due to Hurricane Florence resulting in 8 MMfbm of lost SYP lumber production. In October 2018, as a result of Hurricane Michael, it was necessary to reduce some shifts and undertake temporary mill shutdowns at a number of our facilities, resulting in 4 MMfbm of lost SYP lumber production. Both storms also affected log deliveries due to wet weather conditions which impacted logging and hauling operations.

We did not sustain any significant damage to our facilities from these storms.

Natural Gas Pipeline Interruption

On October 9, 2018, a natural gas pipeline near Prince George, British Columbia ruptured which interrupted the supply of natural gas within the province and temporarily affected some of our operations. Until full supply is returned there is some risk of further interruptions.

Transportation Update

Transportation services were stable during the quarter resulting in consistent shipment volumes for most of our products compared to the previous quarter. Canadian lumber finished goods inventory continues to be above target levels and, subject to the continued availability of sufficient transportation services, we expect inventories to be in-line with target levels by year-end.

Pension plan annuity purchase

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.

Summary Information
(\$ millions except otherwise indicated)

	Q3-18	Q2-18	YTD-18	Q3-17	YTD-17
Sales	1,646	1,834	4,844	1,247	3,758
Adjusted EBITDA	446	593	1,418	269	819
Export duties	(54)	(68)	(165)	(31)	(65)
Equity-based compensation	-	(3)	(8)	(10)	(26)
Amortization	(64)	(58)	(188)	(51)	(151)
Operating earnings	328	464	1,057	177	577
Finance expense	(10)	(9)	(28)	(8)	(23)
Other	(4)	10	15	(2)	(3)
Tax provision	(76)	(119)	(263)	(47)	(162)
Earnings	238	346	781	120	389
CAD\$1.00 converted to US\$ – average	0.765	0.775	0.777	0.798	0.766

Selected Quarterly Information

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

	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16
Sales	1,646	1,834	1,364	1,376	1,247	1,322	1,189	1,107
Earnings	238	346	197	207	120	146	123	79
Basic EPS	3.25	4.52	2.53	2.66	1.53	1.86	1.58	1.01
Diluted EPS	2.99	4.52	2.53	2.66	1.53	1.86	1.58	1.01

Discussion & Analysis of Non-Operational Items

Adjusted Earnings and Adjusted Basic Earnings Per Share

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

	Q3-18	Q2-18	YTD-18	Q3-17	YTD-17
Earnings	238	346	781	120	389
Adjustments:					
Export duties	54	68	165	31	65
Equity-based compensation	-	3	8	10	26
Exchange (gain) loss on long-term financing	2	(2)	(4)	(5)	(10)
Net tax effect on the above adjustments	(19)	(18)	(47)	(6)	(12)
Adjusted earnings	275	397	903	150	458
Adjusted basic EPS ¹	3.76	5.19	11.91	1.93	5.87

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

We expensed \$58 million of export duties related to SPF lumber in the quarter. This was offset by a \$4 million export duty recovery for our jointly-owned newsprint operation as the U.S. International Trade Commission reversed the U.S. Department of Commerce decision to charge Canadian newsprint producers countervailing (“CVD”) and anti-dumping (“ADD”) duties on the basis that U.S. producers were not materially injured or threatened with material injury. We believe that the U.S. allegations related to softwood lumber subsidies and dumping are unwarranted and that the rates applied will be adjusted upon review. See “Softwood lumber dispute” under the heading “Recent Developments” and “Significant Management Judgments Affecting Financial Results” in the 2017 annual MD&A included in the Company’s 2017 Annual Report for further information.

Our equity-based compensation includes our share purchase option, phantom share unit, and directors’ deferred share unit plans (collectively, the “Plans”), all of which have been partially hedged by an equity derivative contract. The Plans and equity derivative contract are fair valued each quarter and the resulting expense or recovery is

recorded over the vesting period. Our fair valuation models consider various factors with the most significant being the change in the market value of our shares from the beginning to the end of the relevant period. The expense or recovery does not necessarily represent the actual value which will ultimately be received by the holders of options and units.

Any change in the value of the Canadian dollar relative to the value of the U.S. dollar results in the revaluation of our U.S. dollar denominated assets and liabilities. The result of these revaluations is included in other income in our earnings statement. The table above lists the exchange gains recorded on long-term financing during the periods presented. Exchange gains or losses realized on working capital are identified under "Other Non-Operational Items" below.

Other Non-Operational Items

Other income includes an exchange loss on working capital of \$6 million compared to a gain of \$5 million in the previous quarter and an exchange loss of \$7 million in the third quarter of 2017.

The results of the current quarter include a provision for income tax of \$76 million compared to \$119 million in the previous quarter and \$47 million for the third quarter of 2017. The effective tax rate was 24% in the current quarter, 26% in previous quarter and 28% in the third quarter of 2017. The 2018 effective tax rate is lower than the rate in 2017 primarily due to the U.S. federal income tax rate reduction from 34% to 21%. Note 12 to the Financial Statements provides a reconciliation of income taxes calculated at the British Columbia statutory rate to the income tax provision.

The funded position of our defined benefit pension plans and other retirement benefit plans is estimated at the end of each quarter. The funded position, as shown in Note 9 to the Financial Statements, is determined by subtracting the value of plan assets from the value of plan obligations. During the quarter, we recorded in other comprehensive earnings an after tax actuarial gain of \$45 million compared to \$10 million in the previous quarter and \$39 million in the third quarter of 2017. The current quarter gain reflected an increase in the discount rate from 3.50% in the previous quarter to 3.75% in the current quarter, partially offset by the actual rate of return on assets being lower than the annual discount rate.

Discussion & Analysis by Product Segment

Lumber Segment

	Q3-18	Q2-18	YTD-18	Q3-17	YTD-17
SPF (MMfbm)					
Production	948	1,012	2,885	924	2,906
Shipments	1,027	1,083	2,847	934	2,810
SYP (MMfbm)					
Production	694	746	2,165	602	1,718
Shipments	722	757	2,166	621	1,694
Sales (\$ millions)					
Lumber	1,068	1,234	3,131	782	2,343
Wood chips and other residuals	116	123	345	84	247
Logs and other	27	24	82	23	81
	1,211	1,381	3,558	889	2,671
Adjusted EBITDA (\$ millions)	339	467	1,088	195	626
Export duties	(58)	(66)	(165)	(31)	(65)
Amortization (\$ millions)	(48)	(43)	(143)	(38)	(112)
Operating earnings (\$ millions)	233	358	780	126	449
Adjusted EBITDA margin (%)	28	34	31	22	23
Benchmark prices (per Mfbm)					
SPF #2 & Better 2x4 ¹ - US\$	482	598	531	406	380
SPF #3 Utility ¹ - US\$	388	459	407	326	315
SYP #2 West 2x4 ² - US\$	469	574	528	382	431
SPF #2 & Better 2x4 - CAD\$ ³	630	772	684	509	497
SPF #3 Utility - CAD\$ ³	507	593	524	408	412
SYP #2 West 2x4 - CAD\$ ³	613	741	680	479	563

1. Source: Random Lengths –Net FOB mill.

2. Source: Random Lengths –Net FOB mill Westside.

3. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

Our operating earnings declined by \$125 million from the previous quarter due primarily to lower lumber prices and lower shipments. Canadian shipment volumes were slightly below the previous quarter but ahead of current quarter production as we continue to progress toward reaching target lumber inventory levels. U.S. shipment volumes declined compared to the previous quarter in relation to reduced production.

SPF production was lower compared to the previous quarter due primarily to wet weather and British Columbia fire related log shortages. U.S. production was also affected by weather related log shortages, lost production due to the hurricane related closure of our Riegelwood, North Carolina sawmill, as well as by the start up of the new Opelika sawmill on August 2, 2018. The old Opelika sawmill ran until July 27, 2018 and is currently being decommissioned.

Operating earnings for the current quarter and first nine months of 2018 were higher than the comparative periods of 2017 primarily due to higher lumber prices. Also contributing to the increase were higher chip prices and the addition of operating earnings from the six Gilman sawmills that were acquired on August 31, 2017. Offsetting these positive factors were increased freight and Canadian log costs, the latter which were higher due to increased market-based stumpage rates in British Columbia and Alberta as well as higher prices for purchased logs in British Columbia. In addition, more export duties were expensed in the current year as export duty charges under the current softwood lumber dispute did not go into effect until April 28, 2017.

Panels Segment

	Q3-18	Q2-18	YTD-18	Q3-17	YTD-17
Plywood (MMsf 3/8" basis)					
Production	204	216	628	205	629
Shipments	206	232	625	195	618
MDF (MMsf 3/4" basis)					
Production	66	55	177	55	135
Shipments	56	59	172	53	131
LVL (Mcf)					
Production	558	600	1,821	616	2,019
Shipments	497	594	1,673	653	1,975
Sales (\$ millions)					
Finished products	163	193	504	163	428
Wood chips and other residuals	6	6	17	4	13
Logs and other	1	2	4	1	4
	170	201	525	168	445
Adjusted EBITDA (\$ millions)	34	56	118	48	89
Amortization (\$ millions)	(3)	(4)	(10)	(3)	(9)
Operating earnings (\$ millions)	31	52	108	45	80
Adjusted EBITDA margin (%)	20	26	22	29	20
Benchmark price					
Plywood (per Msf 3/8" basis) ¹ - CAD\$	528	630	576	640	520

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

Our panels segment is comprised of our plywood, MDF and LVL operations.

Operating earnings decreased in the quarter compared to the previous quarter due primarily to lower plywood prices and decreased shipment volumes for all products after overcoming the inventory backlog in the second quarter. In addition, the second quarter results included \$3 million of insurance claim proceeds recorded as final settlement on business interruption claims relating to the 2017 British Columbia forest fires.

Operating earnings decreased compared to the third quarter of 2017 primarily due to lower plywood prices and higher log costs.

Operating earnings for the first nine months of 2018 were higher than the comparative period of 2017 due to improved plywood and MDF pricing but this was offset partially by increased log costs.

LVL production was partially curtailed mid-September to match product demand. LVL is primarily used in new single-family home construction.

Pulp & Paper Segment

	Q3-18	Q2-18	YTD-18	Q3-17	YTD-17
BCTMP (Mtonnes)					
Production	171	159	495	167	502
Shipments	176	169	503	139	502
NBSK (Mtonnes)					
Production	139	113	378	117	376
Shipments	128	123	378	121	390
Newsprint (Mtonnes)					
Production	30	30	87	31	92
Shipments	29	30	87	32	92
Sales (\$ millions)	312	299	895	221	735
Adjusted EBITDA (\$ millions)	73	68	211	30	112
Export duties	4	(2)	-	-	-
Amortization (\$ millions)	(12)	(10)	(33)	(9)	(28)
Operating earnings (\$ millions)	65	56	178	21	84
Adjusted EBITDA margin (%)	23	22	24	14	15
Benchmark price (per tonne)					
NBSK U.S. – US\$ ^{1,3}	1,377	1,310	1,307	1,110	1,079
NBSK China – US\$ ^{2,3}	887	910	902	670	662
Newsprint - US\$ ⁴	715	695	684	575	575
NBSK U.S. - CAD\$ ⁵	1,800	1,691	1,683	1,391	1,411
NBSK China – CAD\$ ⁵	1,159	1,175	1,161	839	865
Newsprint - CAD\$ ⁵	935	897	881	720	752

1. Source: Resource Information Systems, Inc. – U.S. list price delivered U.S.

2. Source: Resource Information Systems, Inc. – China list price delivered China.

3. The differences between the U.S. and China NBSK list prices are largely attributable to the customary sales practice of applying material discounts from the U.S. list price for North American sales compared to relatively small discounts from the China list price for sales into China.

4. Source: Resource Information Systems, Inc. – delivered 48.8 gram newsprint.

5. Calculated by applying the average Canadian/U.S. dollar exchange rate for the period to the U.S. dollar benchmark price.

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

Operating earnings increased compared to the previous quarter due to higher pulp prices, improved NBSK production and a reversal of newsprint export duties. Increased chip costs partially offset the production gains. NBSK production improved over the prior quarter due to improved reliability and no planned or unplanned shutdowns during the current quarter.

Operating earnings increased in the quarter compared to the third quarter of 2017 due primarily to improved product prices. Hinton pulp mill's major maintenance shutdown occurred in the third quarter of 2017. This coupled with higher NBSK production in the current quarter, resulted in lower per unit manufacturing costs compared to the third quarter of 2017. This improvement was partially offset by increased chip costs.

Operating earnings also increased in the first nine months of the year compared to the same period in the previous year reflecting improved pulp and newsprint prices partially offset by higher chip costs.

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 newsprint export duties.

Business Outlook

Markets

Our expectation is that annual demand for lumber in North America will continue to gradually increase. The incremental demand is expected to come from a continued slow improvement in rates of new home construction and growth in repair and renovation spending to maintain an aging U.S. housing stock. Demand from offshore markets remains stable and we expect the impact of tariffs on log and lumber exports to China to have limited effect on our results. Supply of lumber may be interrupted periodically by fires, weather events, transportation or other factors which can result in periods of lumber price volatility which can be significant.

The major component of our panels segment is plywood which is sold mainly in Canada. Although demand for Canadian plywood has been strong over the past several years, various governments across Canada have taken steps to attempt to moderate housing markets which could dampen plywood demand. Recently there has been some softening in Canadian housing markets. MDF and LVL demand is heavily influenced by North American new home construction and we are expecting continuing moderate improvement in U.S. residential construction which should help maintain demand for these products.

We are anticipating that pulp demand will continue to grow by approximately 2% into 2019 supporting a balanced scenario for supply and demand. Pulp demand will be heavily influenced by the pace of Chinese economic activity. Our pulp operations are based in Canada and should not be affected by tariffs on pulp exports to China.

Operations

Extreme weather along with transportation related curtailments have all impacted our ability to realize on our planned production volume increase. Anticipated production gains assume adequate demand and normal access to logs and transportation resources. The reduction of excess finished lumber inventory accumulated during the first quarter is expected to continue into the fourth quarter provided there continues to be available sufficient transportation services and no other issues are encountered.

We expect continuing log cost escalation in the B.C. interior as increased lumber prices result in higher market-based stumpage fees and purchase wood costs increase due to the shortage of quality logs in certain timber basins. In addition, as the availability of timber becomes more constrained due to reductions in the Annual Allowable Cut from mountain pine beetle, and timber lost due to record fire seasons in 2017 and 2018, competition for an increasingly scarce timber resource is becoming more significant. In the near term, we expect to continue to see limited log cost inflation in the U.S. South.

Availability of logging and transportation contractors continues to be a challenge in both Canada and the U.S. South. This coupled with wet weather has resulted in log shortages at some of our sites. In particular, our Canadian log inventory is lower than we would normally anticipate at this time of year, as we typically build log inventory to sustain us during the spring breakup.

Our Quesnel BCTMP mill is scheduled to be shut down for approximately 10 days for a capital upgrade which is expected to reduce energy consumption. We do not have any major maintenance shutdowns scheduled at either of our NBSK mills for the balance of 2018. Improving mill reliability at these mills continues to be a key focus, particularly at our Hinton NBSK mill.

Cash Flows

We are anticipating levels of cash flows, taking into account duties on Canadian softwood lumber exports to the U.S., to support approximately \$350 million of capital spending in 2018 as well as to continue to support dividend payments and share repurchases. We have paid a dividend in every quarter since we became a public company in 1986 and have increased the dividend three times since June of 2017. We expect to maintain our investment grade rating and intend to preserve sufficient liquidity to be able to take advantage of strategic growth

opportunities that may arise. We are authorized under our normal course issuer bid (“NCIB”), which was renewed in September of 2018, to purchase up to 10% of the public float of Common shares and we will continue to consider share purchases with excess cash if we are satisfied that this will enhance shareholder value over the long term.

Capital Structure and Liquidity

Our capital structure consists of Common share equity and long-term debt. Our operating facilities include a \$500 million committed revolving credit facility, 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 committed to our U.S. operations. These facilities are available to meet our funding requirements.

On September 30, 2018, there were no funds drawn under our credit facilities. Letters of credit in the amount of \$54 million were supported by our credit facilities, leaving \$556 million of credit available for further use.

Our outstanding Common share equity consists of 68,472,626 Common shares and 2,281,478 Class B Common shares for a total of 70,754,104 shares issued and outstanding as at October 19, 2018.

On September 17, 2018 we renewed our NCIB allowing us to acquire an additional 5,524,048 Common shares for cancellation until the expiry of the bid on September 18, 2019. The following table shows our purchases under various NCIB programs, including a summary of all purchases since we began repurchasing under the program in 2013.

Share Buybacks

(number of common shares and price per share)

NCIB period	Common Shares	Average Price
September 17, 2017 to September 18, 2018		
September 19 to December 31, 2017	85,094	\$68.52
January 1 to September 18, 2018	5,905,360	\$88.06
September 19, 2018 to September 18, 2019		
September 19 to September 30, 2018	480,000	\$77.92
October 1 to 19, 2018	812,526	\$68.52
September 17, 2013 to October 19, 2018	15,110,564	\$65.78

Each Class B Common share may be, at any time, exchanged for one Common share. The rights attached to the Common shares and Class B Common shares are equal in all other respects, including the right to dividends and the right to vote. The Common shares are listed and traded on the Toronto Stock Exchange under the symbol WFT while our Class B Common shares are not. Certain circumstances or corporate transactions may require the approval of the holders of our Common shares and Class B Common shares on a separate class by class basis.

As of October 19, 2018, there were 1,323,953 share purchase options outstanding with exercise prices ranging from \$12.36 to \$85.40 per Common share.

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

Summary of Financial Position

(\$ millions, except as otherwise indicated)

	Q3-18	Q4-17	Q3-17
Cash ¹	282	258	132
Current assets	1,395	1,291	1,108
Current liabilities	589	583	562
Ratio of current assets to current liabilities	2.4	2.2	2.0
Net debt ²	373	376	497
Shareholders' equity	2,986	2,726	2,554
Net debt to total capital ³	11%	12%	16%

1. Cash consists of cash and short-term investments.

2. Total debt less deferred financing costs less cash plus cheques issued in excess of funds on deposit.

3. Non-IFRS measure. See "Non-IFRS Measures" in this MD&A.

Debt Ratings

We are rated by three leading rating agencies and their ratings as of September 30, 2018 are shown in the table below. All three ratings are considered investment grade. On July 10, 2018, Dominion Bond Rating Service changed our outlook from stable to positive.

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

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

Selected Cash Flow Items

(\$ millions - cash provided by (used in))

	Q3-18	Q2-18	YTD-18	Q3-17	YTD-17
Operating Activities					
Earnings	238	346	781	120	389
Amortization	64	58	188	51	151
Contributions to post-retirement plans, net of expense	(8)	(2)	(19)	2	9
Tax payments, net of expense	11	41	(12)	40	103
Change in inventories	15	185	(28)	25	19
Change in receivables	89	(64)	(33)	29	(56)
Other	(10)	(9)	20	28	32
	399	555	897	295	647
Financing Activities					
Debt and operating loans	-	(83)	-	250	250
Finance expense paid	(5)	(12)	(20)	(1)	(12)
Common share repurchases	(301)	(210)	(557)	(17)	(17)
Dividends	-	(11)	(23)	(11)	(22)
	(306)	(316)	(600)	221	199
Investing Activities					
Acquisition	-	-	-	(525)	(525)
Additions to capital assets	(111)	(69)	(284)	(90)	(224)
Other	2	2	6	2	6
	(109)	(67)	(278)	(613)	(743)
Increase (decrease) in cash	(16)	172	19	(97)	103

Operating Activities

We reduced lumber inventory during the quarter as we shipped more than we produced, but this was partially offset by the commencement of our Canadian winter log inventory build and escalating log costs in western Canada. The previous quarter's inventory reduction was due in part to the reduction of finished goods inventory and to the seasonal log inventory reduction that occurs because logging is curtailed in the spring due to wet ground conditions. Receivables decreased during the quarter primarily due to lower product pricing and lower shipment volumes for most products.

We made tax payments of \$65 million during the quarter compared to \$78 million in the previous quarter. 2018 income tax instalments for our Canadian operations are based on our 2017 taxable earnings and as a result we may have a large payment due in February of 2019 as 2018 taxable earnings are on pace to be significantly higher than 2017. U.S. income tax instalments are due quarterly based on forecasted taxable earnings.

Financing Activities

We continue to purchase Common shares under our NCIB program returning an additional \$301 million during the quarter (first nine months \$557 million) to our shareholders. In addition, we increased our dividend from \$0.15 per share to \$0.20 per share during the quarter. This dividend was declared on September 6, 2018 but was not paid until October 9, 2018, resulting in a difference between cash dividends paid per our condensed consolidated statement of cash flows and cash dividends declared per our condensed consolidated statement of changes in shareholders' equity.

Investing Activities

Additions to capital assets in the quarter include \$86 million for the lumber segment, \$4 million for the panels segment, \$18 million for the pulp & paper segment and \$3 million for our corporate segment.

Non-IFRS Measures

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

Adjusted EBITDA

(\$ millions)

	Q3-18	Q2-18	YTD-18	Q3-17	YTD-17
Earnings	238	346	781	120	389
Add:					
Amortization	64	58	188	51	151
Finance expense	10	9	28	8	23
Tax provision	76	119	263	47	162
EBITDA	388	532	1,260	226	725
Add:					
Equity-based compensation	-	3	8	10	26
Export duties	54	68	165	31	65
Other	4	(10)	(15)	2	3
Adjusted EBITDA	446	593	1,418	269	819

Adjusted EBITDA by Segment

(\$ millions)

	Q3-18	Q2-18	YTD-18	Q3-17	YTD-17
Lumber					
Earnings before tax	228	357	771	118	432
Add:					
Amortization	48	43	143	38	112
Finance expense	7	6	19	5	14
EBITDA	283	406	933	161	558
Add:					
Export duties	58	66	165	31	65
Other	(2)	(5)	(10)	3	3
Adjusted EBITDA	339	467	1,088	195	626
Panels					
Earnings before tax	30	52	106	44	77
Add:					
Amortization	3	4	10	3	9
Finance expense	1	-	2	1	3
EBITDA	34	56	118	48	89
Add:					
Other	-	-	-	-	-
Adjusted EBITDA	34	56	118	48	89
Pulp & Paper					
Earnings before tax	61	56	175	16	73
Add:					
Amortization	12	10	33	9	28
Finance expense	3	2	7	2	6
EBITDA	76	68	215	27	107
Add:					
Export duties	(4)	2	-	-	-
Other	1	(2)	(4)	3	5
Adjusted EBITDA	73	68	211	30	112
Corporate and Other					
Earnings before tax	(5)	-	(8)	(11)	(31)
Add:					
Amortization	1	1	2	1	2
Finance expense	(1)	1	-	-	-
EBITDA	(5)	2	(6)	(10)	(29)
Add:					
Equity-based compensation	-	3	8	10	26
Other	5	(3)	(1)	(4)	(5)
Adjusted EBITDA	-	2	1	(4)	(8)
Total Adjusted EBITDA	446	593	1,418	269	819

Adjusted Earnings and Adjusted Basic Earnings Per Share

(\$ millions, except EPS)

	Q3-18	Q2-18	YTD-18	Q3-17	YTD-17
Earnings	238	346	781	120	389
Adjustments:					
Export duties	54	68	165	31	65
Equity-based compensation	-	3	8	10	26
Exchange loss (gain) on long-term financing	2	(2)	(4)	(5)	(10)
Net tax effect on the above adjustments	(19)	(18)	(47)	(6)	(12)
Adjusted earnings	275	397	903	150	458
Adjusted basic EPS ¹	3.76	5.19	11.91	1.93	5.87

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

Net Debt to Total Capital Ratio

(\$ millions except where indicated)

	Q3-18	Q4-17	Q3-17
Net debt			
Cash and short-term investments	(282)	(258)	(132)
Deferred financing costs ¹	(6)	(7)	(8)
Long-term debt	661	641	637
	373	376	497
Shareholders' equity	2,986	2,726	2,554
Total capital	3,359	3,102	3,051
Net debt to total capital	11%	12%	16%

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.

New Accounting Pronouncements Adopted

On January 1, 2018, we adopted IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments*. Neither of these standards had a significant effect on our consolidated financial statements. Please see Note 3 of our Financial Statements for additional information.

Accounting Standards Issued but Not Yet Applied

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and 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 statement of earnings, with a depreciation charge for the right-of-use asset and a declining balance interest expense on the lease liability.

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.

Significant Management Judgments Affecting Financial Results

For a review of significant management judgments affecting financial results and critical accounting estimates, see the 2017 annual MD&A which is included in our 2017 Annual Report.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and our Vice-President, Finance and Chief Financial Officer, acknowledge responsibility for the design of disclosure controls and procedures and internal controls over financial reporting.

There has been no change in our internal controls over financial reporting during the three months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Risks and Uncertainties

For a review of the risks and uncertainties to which our Company is subject, see the 2017 annual MD&A which is included in our 2017 Annual Report.

Additional Information

Additional information relating to our Company, including our Company's Annual Information Form, is available on SEDAR at www.sedar.com.