



West Fraser Timber Co. Ltd.

Condensed Consolidated Balance Sheets

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

	June 30		December 31	
	2018		2017	
Assets				
Current assets				
Cash and short-term investments	\$	302	\$	258
Receivables		481		352
Inventories (note 4)		723		670
Prepaid expenses		31		11
		1,537		1,291
Property, plant and equipment		1,987		1,892
Timber licences		523		533
Goodwill and other intangibles		754		731
Export duty deposits		56		37
Other assets		31		27
Deferred income tax assets		2		6
	\$	4,890	\$	4,517
Liabilities				
Current liabilities				
Payables and accrued liabilities	\$	504	\$	441
Income taxes payable		62		104
Reforestation and decommissioning obligations		38		38
		604		583
Long-term debt (note 5)		668		636
Other liabilities (note 6)		341		347
Deferred income tax liabilities		243		225
		1,856		1,791
Shareholders' Equity				
Share capital		528		549
Accumulated other comprehensive earnings		145		108
Retained earnings		2,361		2,069
		3,034		2,726
	\$	4,890	\$	4,517

Number of Common shares and Class B Common shares outstanding at July 18, 2018 was 74,597,241 .



West Fraser Timber Co. Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity
(in millions of Canadian dollars, except where indicated - unaudited)

	April 1 to June 30		January 1 to June 30	
	2018	2017	2018	2017
Share capital				
Balance - beginning of period	\$ 545	\$ 549	\$ 549	\$ 549
Common share repurchases	(17)	-	(21)	-
Balance - end of period	\$ 528	\$ 549	\$ 528	\$ 549
Accumulated other comprehensive earnings				
Balance - beginning of period	\$ 127	\$ 145	\$ 108	\$ 150
Translation gain (loss) on foreign operations	18	(16)	37	(21)
Balance - end of period	\$ 145	\$ 129	\$ 145	\$ 129
Retained earnings				
Balance - beginning of period	\$ 2,209	\$ 1,671	\$ 2,069	\$ 1,542
Actuarial gain (loss) on post-retirement benefits	10	(44)	7	(33)
Common share repurchases	(193)	-	(235)	-
Earnings for the period	346	146	543	269
Dividends	(11)	(6)	(23)	(11)
Balance - end of period	\$ 2,361	\$ 1,767	\$ 2,361	\$ 1,767
Shareholders' Equity	\$ 3,034	\$ 2,445	\$ 3,034	\$ 2,445



West Fraser Timber Co. Ltd.

Condensed Consolidated Statements of Earnings and Comprehensive Earnings
(in millions of Canadian dollars, except where indicated - unaudited)

	April 1 to June 30		January 1 to June 30	
	2018	2017	2018	2017
Sales	\$ 1,834	\$ 1,322	\$ 3,198	\$ 2,511
Costs and expenses				
Cost of products sold	979	798	1,757	1,538
Freight and other distribution costs	205	166	357	321
Export duties	68	34	111	34
Amortization	58	49	124	100
Selling, general and administration	57	53	112	102
Equity-based compensation	3	5	8	16
	1,370	1,105	2,469	2,111
Operating earnings	464	217	729	400
Finance expense	(9)	(8)	(18)	(15)
Other (note 9)	10	(1)	19	(1)
Earnings before tax	465	208	730	384
Tax provision (note 10)	(119)	(62)	(187)	(115)
Earnings	\$ 346	\$ 146	\$ 543	\$ 269
Earnings per share (dollars) (note 11)				
Basic and diluted	\$ 4.52	\$ 1.86	\$ 7.03	\$ 3.44
Comprehensive earnings				
Earnings	\$ 346	\$ 146	\$ 543	\$ 269
Other comprehensive earnings				
Translation gain (loss) on foreign operations	18	(16)	37	(21)
Actuarial gain (loss) on post-retirement benefits	10	(44)	7	(33)
Comprehensive earnings	\$ 374	\$ 86	\$ 587	\$ 215



West Fraser Timber Co. Ltd.

Condensed Consolidated Statements of Cash Flows

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

	April 1 to June 30		January 1 to June 30	
	2018	2017	2018	2017
Cash provided by operations				
Earnings	\$ 346	\$ 146	\$ 543	\$ 269
Adjustments				
Amortization	58	49	124	100
Finance expense	9	8	18	15
Foreign exchange gain on long-term financing	(2)	(4)	(6)	(5)
Export duty deposits	(14)	-	(19)	-
Post-retirement expense	20	19	40	38
Contributions to post-retirement benefit plans	(22)	(17)	(51)	(31)
Tax provision	119	62	187	115
Income taxes paid	(78)	(16)	(210)	(52)
Other	(7)	(13)	7	8
Changes in non-cash working capital				
Receivables	(64)	12	(122)	(85)
Inventories	185	158	(43)	(6)
Prepaid expenses	(7)	(11)	(20)	(18)
Payables and accrued liabilities	12	(7)	50	4
	555	386	498	352
Cash used for financing				
Repayment of operating loans	(83)	(110)	-	-
Finance expense paid	(12)	(10)	(15)	(11)
Common share repurchases	(210)	-	(256)	-
Dividends	(11)	(6)	(23)	(11)
	(316)	(126)	(294)	(22)
Cash used for investing				
Additions to capital assets	(69)	(78)	(173)	(134)
Other	2	3	4	4
	(67)	(75)	(169)	(130)
Change in cash	172	185	35	200
Foreign exchange effect on cash	5	(4)	9	(4)
Cash - beginning of period	125	50	258	35
Cash - end of period	\$ 302	\$ 231	\$ 302	\$ 231
Cash consists of				
Cash and short-term investments			\$ 302	\$ 231
Cheques issued in excess of funds on deposit			-	-
			\$ 302	\$ 231

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 recognized 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. Inventories

Inventories at June 30, 2018 were written down by \$1 million (March 31, 2018 - \$7 million; December 31, 2017 - \$9 million; June 30, 2017 - \$6 million) to reflect net realizable value being lower than cost.

	June 30, 2018		December 31, 2017	
Manufactured products	\$	420	\$	358
Logs and other raw materials		153		167
Processing materials and supplies		150		145
	\$	723	\$	670

5. Long-term debt and operating loans

Long-term debt

	June 30, 2018		December 31, 2017	
US\$300 million senior notes due October 2024; interest at 4.35%	\$	395	\$	376
US\$200 million term loan due August 2022; floating interest rate		263		251
US\$8 million note payable due October 2020; interest at 2%		10		10
Notes payable		4		4
		672		641
Deferred financing costs		(4)		(5)
	\$	668	\$	636

The fair value of the long-term debt at June 30, 2018 was \$668 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 \$33 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. During the quarter, we have increased our available letters of credit dedicated to our U.S. operations from US\$7 million to US\$15 million.

At June 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 \$49 million were also supported by our facilities, leaving \$562 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.

6. **Other liabilities**

	June 30, 2018		December 31, 2017	
Post-retirement (note 7)	\$	219	\$	231
Reforestation		77		70
Decommissioning		24		25
Other		21		21
	\$	341	\$	347

7. **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.

During the first quarter of 2018, we settled approximately \$145 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:

	June 30, 2018		December 31, 2017	
Projected benefit obligations	\$	(1,753)	\$	(1,864)
Fair value of plan assets		1,558		1,658
Impact of minimum funding requirement		(8)		(12)
	\$	(203)	\$	(218)
Represented by				
Post-retirement assets	\$	16	\$	13
Post-retirement liabilities (note 6)		(219)		(231)
	\$	(203)	\$	(218)

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

	June 30, 2018	March 31, 2018	December 31, 2017	
Discount rate	3.50%	3.50%	3.50%	3.50%
Future compensation rate increase	3.50%	3.50%	3.50%	3.50%

For the three and six months ended June 30, 2018, the return on plan assets was higher than the discount rate that was established at the beginning of the year resulting in an actuarial gain being recorded in other comprehensive earnings.

The actuarial gain (loss) on post-retirement benefits included in other comprehensive earnings is as follows:

	April 1 to June 30		January 1 to June 30	
	2018	2017	2018	2017
Actuarial gain (loss)	\$	14	\$	(60)
Tax recovery (provision)		(4)		16
	\$	10	\$	(45)
		(44)		12
	\$	10	\$	(33)

8. Share Capital

During 2018 we repurchased 2,878,450 Common shares under our normal course issuer bid (“NCIB”) at an average price of \$88.94 per share for a cost of \$256 million. Effective June 11, 2018 we amended our existing NCIB to increase the number of Common shares that we may repurchase for cancellation from 3,794,375 Common shares to 5,990,454 Common shares.

9. Other

	April 1 to June 30		January 1 to June 30	
	2018	2017	2018	2017
Foreign exchange gain (loss) on working capital	\$ 5	\$ (4)	\$ 11	\$ (5)
Foreign exchange gain (loss) on intercompany financing ¹	16	(6)	37	(9)
Foreign exchange gain (loss) on long-term debt	(14)	10	(31)	14
Other	3	(1)	2	(1)
	\$ 10	\$ (1)	\$ 19	\$ (1)

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.

10. 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:

	April 1 to June 30		January 1 to June 30	
	2018	2017	2018	2017
Income tax expense at statutory rate of 27% (2017 – 26%)	\$ (126)	\$ (54)	\$ (197)	\$ (100)
Non-taxable amounts	(2)	(2)	(4)	(5)
Rate differentials between jurisdictions and on specified activities	8	(6)	12	(11)
Unrecognized capital losses	1	1	1	1
Other	-	(1)	1	-
Tax provision	\$ (119)	\$ (62)	\$ (187)	\$ (115)

11. 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.

	April 1 to June 30			January 1 to June 30	
	2018	2017		2018	2017
Earnings					
Basic	\$ 346	\$ 146	\$	\$ 543	\$ 269
Share option expense (recovery)	6	9		17	26
Equity-settled share option adjustment	-	-		(3)	(3)
Diluted	\$ 352	\$ 155	\$	\$ 557	\$ 292
Weighted average number of shares (thousands)					
Basic	76,555	78,166		77,190	78,165
Share options	724	819		745	848
Diluted	77,279	78,985		77,935	79,013
Earnings per share (dollars)					
Basic and diluted	\$ 4.52	\$ 1.86	\$	\$ 7.03	\$ 3.44

12. **Segmented information**

	Lumber	Panels	Pulp & paper	Corporate & other	Total
April 1, 2018 to June 30, 2018					
Sales					
To external customers	\$ 1,337	\$ 198	\$ 299	\$ -	\$ 1,834
To other segments	44	3	-	-	-
	\$ 1,381	\$ 201	\$ 299	\$ -	
Operating earnings before amortization	\$ 401	\$ 56	\$ 66	\$ (1)	\$ 522
Amortization	(43)	(4)	(10)	(1)	(58)
Operating earnings	358	52	56	(2)	464
Finance expense	(6)	-	(2)	(1)	(9)
Other	5	-	2	3	10
Earnings before tax	\$ 357	\$ 52	\$ 56	\$ -	\$ 465
April 1, 2017 to June 30, 2017					
Sales					
To external customers	\$ 914	\$ 147	\$ 261	\$ -	\$ 1,322
To other segments	32	2	-	-	-
	\$ 946	\$ 149	\$ 261	\$ -	
Operating earnings before amortization	\$ 206	\$ 26	\$ 42	\$ (8)	\$ 266
Amortization	(35)	(3)	(10)	(1)	(49)
Operating earnings	171	23	32	(9)	217
Finance expense	(5)	(1)	(2)	-	(8)
Other	-	-	(3)	2	(1)
Earnings before tax	\$ 166	\$ 22	\$ 27	\$ (7)	\$ 208

	Lumber	Panels	Pulp & paper	Corporate & other	Total
January 1, 2018 to June 30, 2018					
Sales					
To external customers	\$ 2,266	\$ 349	\$ 583	\$ -	\$ 3,198
To other segments	81	6	-	-	-
	\$ 2,347	\$ 355	\$ 583	\$ -	
Operating earnings before amortization	\$ 642	\$ 84	\$ 134	\$ (7)	\$ 853
Amortization	(95)	(7)	(21)	(1)	(124)
Operating earnings	547	77	113	(8)	729
Finance expense	(12)	(1)	(4)	(1)	(18)
Other	8	-	5	6	19
Earnings before tax	\$ 543	\$ 76	\$ 114	\$ (3)	\$ 730

January 1, 2017 to June 30, 2017

Sales					
To external customers	\$ 1,724	\$ 273	\$ 514	\$ -	\$ 2,511
To other segments	58	4	-	-	-
	\$ 1,782	\$ 277	\$ 514	\$ -	
Operating earnings before amortization	\$ 397	\$ 41	\$ 82	\$ (20)	\$ 500
Amortization	(74)	(6)	(19)	(1)	(100)
Operating earnings	323	35	63	(21)	400
Finance expense	(9)	(2)	(4)	-	(15)
Other	-	-	(2)	1	(1)
Earnings before tax	\$ 314	\$ 33	\$ 57	\$ (20)	\$ 384

The geographic distribution of external sales is as follows¹:

	April 1 to June 30		January 1 to June 30	
	2018	2017	2018	2017
Canada	\$ 379	\$ 294	\$ 665	\$ 548
United States	1,131	750	1,933	1,425
China	183	168	338	316
Other Asia	130	96	239	197
Other	11	14	23	25
	\$ 1,834	\$ 1,322	\$ 3,198	\$ 2,511

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

13. 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 six months ended June 30, 2018 we posted cash deposits for CVD at a 17.99% rate and 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 six months ended June 30, 2018 was 1.38%.

During the first quarter of 2018, our jointly-owned newsprint mill was assigned a CVD rate of 6.53% and an ADD rate of 22.16%. This is reflected by a \$4 million expense recorded in our pulp & paper segment.

	April 1 to June 30		January 1 to June 30	
	2018	2017	2018	2017
Export duties recognized as expense in Consolidated Statement of Earnings	\$ 68	\$ 34	\$ 111	\$ 34
Export duties recognized as long-term duty deposits receivable in Consolidated Balance Sheets	14	-	18	-
Foreign exchange on long-term duty deposits receivable	(1)	-	(2)	-
Total export duties charged in the period	\$ 81	\$ 34	\$ 127	\$ 34

For the six months ended June 30, 2018 we incurred duty deposits of \$94 million related to CVD and \$35 million related to ADD. As at June 30, 2018 the total amount of duties paid and payable that are on deposit with the USDOC is US\$171 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.