

# West Fraser Announces Second Quarter Results

VANCOUVER, July 19, 2018 /CNW/ - **West Fraser Timber Co. Ltd.** reports second quarter 2018 results:

## Second Quarter Highlights

- Record sales and operating earnings for the quarter
- Earnings up 76% from previous quarter and 137% from the second quarter of 2017
- Strong product pricing across all operating segments
- Repurchased 2.878 million shares for \$256 million at an average price of \$88.94
- Quarter ending net debt to capital ratio of 11% and available liquidity of \$864 million

## Results Compared to Previous Periods

(\$ millions except earnings per share ("EPS"))	Q2-18	Q1-18	YTD-18	Q2-17	YTD-17
Sales	1,834	1,364	3,198	1,322	2,511
Adjusted EBITDA <sup>1</sup>	593	379	972	305	550
Operating earnings	464	265	729	217	400
Earnings	346	197	543	146	269
Basic EPS (\$)	4.52	2.53	7.03	1.86	3.44
Adjusted earnings <sup>1</sup>	397	231	628	174	308
Adjusted basic EPS (\$) <sup>1</sup>	5.19	2.98	8.14	2.23	3.94

1. 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 second quarter 2018 Management's Discussion & Analysis for details of these adjustments.

## Recent Developments

We were able to partially overcome the transportation challenges from the previous quarter and begin the process of normalizing our inventory levels. Specifically related to lumber, we shipped 82 million board feet more than our production during the quarter, partially reducing the accumulation of 226 million board feet from the first quarter of 2018. There remains a backlog of lumber inventory to be reduced over the balance of the year.

Commissioning of our newly rebuilt sawmill in High Prairie, Alberta is proceeding according to schedule and is on track to realize the expected cost reductions from the upgrades. We expect to start production at our new sawmill in Opelika, Alabama in the third quarter which when fully ramped up in early 2019 will increase site capacity by 110 million board feet.

In the quarter, we received approximately \$7 million of insurance proceeds as final settlement of business interruption claims stemming from the fires last summer that resulted in curtailed production at a number of our mills in the BC interior.

## Operational Results

Our lumber segment generated operating earnings of \$358 million (Q1-18 - \$189 million) and Adjusted EBITDA of \$467 million (Q1-18 - \$282 million). Improved product pricing and increased shipments of 416 million board feet were largely responsible for the improved results. Countervailing

and antidumping duties charged in the quarter were \$81 million, of which \$68 million was recorded as export duties expense in the earnings statement and \$13 was recorded as a long-term duty receivable on the balance sheet.

Our panels segment generated operating earnings in the quarter of \$52 million (Q1-18 - \$25 million) and Adjusted EBITDA of \$56 million (Q1-18 - \$28 million). Improved plywood pricing and higher shipments boosted results.

Our pulp & paper segment generated operating earnings of \$56 million (Q1-18 - \$57 million) and Adjusted EBITDA of \$68 million (Q1-18 - \$70 million). Higher pulp prices were offset by lost production from a planned maintenance shutdown at our Cariboo NBSK mill, transportation related production curtailments at our Quesnel BCTMP mill, and a series of operational challenges at our Hinton NBSK mill.

## 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 inventory reductions and mill start-up activities). 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 Friday, July 20, 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)

	June 30 2018	December 31 2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 302	\$ 258
Receivables	481	352
Inventories (note 4)	723	670

Prepaid expenses	31	11
	1,537	1,291
<b>Property, plant and equipment</b>	<b>1,987</b>	<b>1,892</b>
<b>Timber licences</b>	<b>523</b>	<b>533</b>
<b>Goodwill and other intangibles</b>	<b>754</b>	<b>731</b>
<b>Export duty deposits</b>	<b>56</b>	<b>37</b>
<b>Other assets</b>	<b>31</b>	<b>27</b>
<b>Deferred income tax assets</b>	<b>2</b>	<b>6</b>
	<b>\$ 4,890</b>	<b>\$ 4,517</b>

#### Liabilities

<b>Current liabilities</b>		
Payables and accrued liabilities	\$ 504	\$ 441
Income taxes payable	62	104
Reforestation and decommissioning obligations	38	38
	604	583
<b>Long-term debt</b> (note 5)	<b>668</b>	<b>636</b>
<b>Other liabilities</b> (note 6)	<b>341</b>	<b>347</b>
<b>Deferred income tax liabilities</b>	<b>243</b>	<b>225</b>
	<b>1,856</b>	<b>1,791</b>

#### Shareholders' Equity

Share capital	528	549
Accumulated other comprehensive earnings	145	108
Retained earnings	2,361	2,069
	3,034	2,726
	<b>\$ 4,890</b>	<b>\$ 4,517</b>

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
<b>Share capital</b>				
Balance - beginning of period	\$ 545	\$ 549	\$ 549	\$ 549
Common share repurchases	(17)	-	(21)	-
Balance - end of period	\$ 528	\$ 549	\$ 528	\$ 549
<b>Accumulated other comprehensive earnings</b>				
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
<b>Retained earnings</b>				
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
<b>Shareholders' Equity</b>	<b>\$ 3,034</b>	<b>\$ 2,445</b>	<b>\$ 3,034</b>	<b>\$ 2,445</b>

#### 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
<b>Sales</b>	<b>\$ 1,834</b>	<b>\$ 1,322</b>	<b>\$ 3,198</b>	<b>\$ 2,511</b>
<b>Costs and expenses</b>				
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
<b>Operating earnings</b>	<b>464</b>	<b>217</b>	<b>729</b>	<b>400</b>

Finance expense	(9)	(8)	(18)	(15)
Other (note 9)	10	(1)	19	(1)
<b>Earnings before tax</b>	<b>465</b>	<b>208</b>	<b>730</b>	<b>384</b>
Tax provision (note 10)	(119)	(62)	(187)	(115)
<b>Earnings</b>	<b>\$ 346</b>	<b>\$ 146</b>	<b>\$ 543</b>	<b>\$ 269</b>

<b>Earnings per share (dollars) (note 11)</b>				
Basic and diluted	\$ 4.52	\$ 1.86	\$ 7.03	\$ 3.44

<b>Comprehensive earnings</b>				
Earnings	\$ 346	\$ 146	\$ 543	\$ 269
<b>Other comprehensive earnings</b>				
Translation gain (loss) on foreign operations	18	(16)	37	(21)
Actuarial gain (loss) on post-retirement benefits	10	(44)	7	(33)
<b>Comprehensive earnings</b>	<b>\$ 374</b>	<b>\$ 86</b>	<b>\$ 587</b>	<b>\$ 215</b>

#### 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
<b>Cash provided by operations</b>				
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
	<b>555</b>	<b>386</b>	<b>498</b>	<b>352</b>
<b>Cash used for financing</b>				
Repayment of operating loans	(83)	(110)	-	-
Finance expense paid	(12)	(10)	(15)	(11)
Common share repurchases	(210)	-	(256)	-
Dividends	(11)	(6)	(23)	(11)
	<b>(316)</b>	<b>(126)</b>	<b>(294)</b>	<b>(22)</b>
<b>Cash used for investing</b>				
Additions to capital assets	(69)	(78)	(173)	(134)
Other	2	3	4	4
	<b>(67)</b>	<b>(75)</b>	<b>(169)</b>	<b>(130)</b>
<b>Change in cash</b>	<b>172</b>	<b>185</b>	<b>35</b>	<b>200</b>
Foreign exchange effect on cash	5	(4)	9	(4)
<b>Cash - beginning of period</b>	<b>125</b>	<b>50</b>	<b>258</b>	<b>35</b>
<b>Cash - end of period</b>	<b>\$ 302</b>	<b>\$ 231</b>	<b>\$ 302</b>	<b>\$ 231</b>
<b>Cash consists of</b>				
Cash and short-term investments			\$ 302	\$ 231
Cheques issued in excess of funds on deposit			-	-
			<b>\$ 302</b>	<b>\$ 231</b>

#### 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.

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)
<b>Represented by</b>				
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%
Future compensation rate increase	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)	\$ 10	\$ (45)
Tax recovery (provision)	(4)	16	(3)	12
	\$ 10	\$ (44)	\$ 7	\$ (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 <sup>1</sup>	16	(6)	37	(9)
Foreign exchange gain (loss) on long-term debt	(14)	10	(31)	14
Other	3	(1)	2	(1)
	<b>\$ 10</b>	<b>\$ (1)</b>	<b>\$ 19</b>	<b>\$ (1)</b>

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	<b>\$ (119)</b>	<b>\$ (62)</b>	<b>\$ (187)</b>	<b>\$ (115)</b>

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

## 12. Segmented information

	Lumber	Panels	Pulp & paper	Corporate & other	Total
<b>April 1, 2018 to June 30, 2018</b>					
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
<b>January 1, 2018 to June 30, 2018</b>					
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 follows<sup>1</sup>:

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
	<b>\$ 1,834</b>	<b>\$ 1,322</b>	<b>\$ 3,198</b>	<b>\$ 2,511</b>

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)	-
<b>Total export duties charged in the period</b>	<b>\$ 81</b>	<b>\$ 34</b>	<b>\$ 127</b>	<b>\$ 34</b>

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.

SOURCE West Fraser Timber Co. Ltd.

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