



## Management's Discussion and Analysis

### Introduction and Interpretation

This discussion and analysis ("MD&A") by the management of West Fraser Timber Co. Ltd.'s ("West Fraser", the "Company", "we", "us" or "our") financial performance during the third quarter of 2019 should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes ("Financial Statements") included in this quarterly report as well as the 2018 annual MD&A and annual audited consolidated financial statements included in the Company's 2018 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 softwood lumber dispute), "Discussion & Analysis of Non-Operational Items" (concerning adjustments to duty rates and estimates related to closure of our Chasm lumber mill and tax adjustment related to the Alberta tax rate reduction), "Discussion & Analysis by Product Segment" (concerning estimate of expected antidumping rate, lighter weight newsprint production, and future NBSK maintenance shutdowns), "Business Outlook" (concerning pulp market expectations, lumber production, log availability, log costs, potential curtailments, cash flows related to capital spending, and maintaining our credit ratings) and "Cash Flow - Operating Activities" (concerning future tax payments). Actual outcomes and results of these statements will depend on a number of factors including those matters described under "Risks and Uncertainties" in the 2018 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.

Where this MD&A includes information from third-parties we believe that such information (including industry and general publications and surveys) is generally reliable, however, we have not independently verified any such third-party information and cannot assure you of its accuracy or completeness.

This MD&A uses the following terms that are defined in the Company's 2018 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 one product, dimension or grade and do not necessarily reflect the prices obtained by West Fraser during those periods as we produce and sell a wide offering of dimensions, grades

and species. This MD&A is dated October 21, 2019 and the information provided herein is provided as of such date unless otherwise indicated.

## Recent Developments

### Curtailments

Lumber prices showed little improvement in the third quarter of 2019 and we continued to face elevated log costs in British Columbia (“B.C.”). In addition, Alberta experienced unusually wet weather throughout the summer resulting in log shortages as we were unable to haul logs from the land base to the mills. All these factors contributed to additional temporary production curtailments for both SPF lumber and plywood during the quarter.

On a year-to-date basis, SPF production was lower by 137 MMfbm as a result of temporary curtailments and by 250 MMfbm as a result of permanent curtailments. Plywood production was also affected by minor temporary curtailments. There were no significant SPF or plywood curtailments in the comparative periods of 2018.

### Softwood Lumber Dispute Update

On September 4, 2019, the North American Free Trade Agreement (“NAFTA”) panel issued its first determination on injury related to the Canada-U.S. softwood lumber dispute. The NAFTA panel directed the U.S. International Trade Commission (“USITC”) to further review and reconsider key evidentiary points used to determine injury. This first remand is expected to take 90 days, after which time the USITC will issue its revised injury determination. Based on history, the NAFTA-USITC ruling and remand process may be iterative. We do not expect the softwood lumber dispute to be resolved in the near term.

## Summary Information

(\$ millions except otherwise indicated)

	Q3-19	Q2-19	YTD-19	Q3-18	YTD-18
Sales	1,190	1,317	3,748	1,646	4,844
Adjusted EBITDA	55	56	221	446	1,418
Export duties	(44)	(51)	(127)	(54)	(165)
Equity-based compensation	(1)	-	(4)	-	(8)
Amortization	(65)	(63)	(193)	(64)	(188)
Restructuring and impairment charges	1	(26)	(25)	-	-
Operating earnings	(54)	(84)	(128)	328	1,057
Finance expense	(12)	(13)	(36)	(10)	(28)
Other	2	(6)	(9)	(4)	15
Tax (provision) recovery	19	45	65	(76)	(263)
Earnings	(45)	(58)	(108)	238	781
<b>CAD\$1.00 converted to US\$ – average</b>	<b>0.757</b>	0.748	0.752	0.765	0.777

## Selected Quarterly Information

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

	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17
Sales	1,190	1,317	1,241	1,274	1,646	1,834	1,364	1,376
Earnings	(45)	(58)	(5)	29	238	346	197	207
Basic EPS	(0.65)	(0.85)	(0.07)	0.42	3.25	4.52	2.53	2.66
Diluted EPS	(0.73)	(0.92)	(0.12)	0.29	2.99	4.52	2.53	2.66

## Discussion & Analysis of Non-Operational Items

### Adjusted Earnings and Adjusted Basic Earnings Per Share

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

	Q3-19	Q2-19	YTD-19	Q3-18	YTD-18
Earnings	(45)	(58)	(108)	238	781
Adjustments:					
Export duties	44	51	127	54	165
Interest recognized on export duty deposits receivable	-	(1)	(2)	(1)	(2)
Equity-based compensation	1	-	4	-	8
Exchange (gain) loss on long-term financing	(1)	2	2	2	(4)
Exchange (gain) loss on export duty deposits receivable	(1)	1	2	1	(1)
Restructuring and impairment charges	(1)	26	25	-	-
Remeasurement of deferred tax assets and liabilities for Alberta tax rate reduction	-	(17)	(17)	-	-
Net tax effect on the above adjustments	(12)	(21)	(43)	(19)	(46)
Adjusted earnings	(15)	(17)	(10)	275	901
Adjusted basic EPS <sup>1</sup>	(0.22)	(0.25)	(0.15)	3.76	11.88

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

Export duties of \$44 million were expensed in the quarter compared to \$51 million in the previous quarter and \$54 million in the third quarter of 2018. Additional discussion related to the duty expense can be found below under “Lumber Segment – Operating Earnings.” We have also recorded interest income and foreign exchange on the estimated export duty deposits receivable as noted in the above table and disclosed in Note 15 of our Financial Statements. The administrative review of our duty rates for the first investigation period has commenced and is expected to continue into 2021. We believe that the U.S. allegations of subsidy and dumping are unwarranted and that the rates applied will be adjusted upon review. See “Softwood Lumber Dispute” under the heading “Lumber Segment” and “Significant Management Judgments Affecting Financial Results” in the 2018 annual MD&A included in the Company’s 2018 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 at each quarter-end and the resulting expense or recovery is recorded over the vesting period. Our fair value 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 share purchase options and units.

Restructuring and impairment charges of \$25 million represent our estimate related to the permanent closure of our Chasm, B.C. lumber mill announced on June 17, 2019.

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 revaluation of these assets and liabilities for our Canadian operations is included in other income, while the revaluation related to our U.S. operations is included in other comprehensive earnings. The table above reports our Canadian operation exchange gains or losses on U.S. dollar denominated long-term financing and export duty deposits receivable during the periods presented. Exchange gains or losses realized on the working capital balances of our Canadian operations are identified under “Other Non-Operational Items & General Overview” below.

***Other Non-Operational Items and General Overview***

Selling, general and administration expense declined relative to all comparative periods primarily due to lower employee compensation costs. Compensation costs include salaries and wages, employee future benefits, termination costs and bonuses. Lower variable compensation was the primary driver of the decline, with the lumber and corporate and other segments being the most affected.

Finance expense was \$12 million in the quarter compared to \$13 million in the previous quarter and \$10 million in the third quarter of 2018. Finance expense is higher in 2019 due to higher average borrowings during the period on our committed revolving credit facility primarily due to lower cash flows from operations and higher capital spending.

Other income includes an exchange gain on working capital of \$1 million compared to a loss of \$2 million in the previous quarter and a loss of \$5 million in the third quarter of 2018.

The results of the current quarter include an income tax recovery of \$19 million compared to a recovery of \$45 million in the previous quarter and a provision of \$76 million in the third quarter of 2018. The effective tax rate was 30% for the current quarter compared to 44% in the previous quarter and 24% in the third quarter of 2018. The second quarter of 2019 tax recovery includes a \$17 million benefit for the reduction in the Alberta general corporate tax rate from 12% to 8% over the next four years. Note 12 to the Financial Statements provides a reconciliation of income taxes calculated at the B.C. statutory rate to the income tax expense.

## Discussion & Analysis by Product Segment

### Lumber Segment

	Q3-19	Q2-19	YTD-19	Q3-18	YTD-18
<b>SPF (MMfbm)</b>					
Production	793	880	2,487	948	2,885
Shipments	855	1,013	2,661	1,027	2,847
<b>SYP (MMfbm)</b>					
Production	700	656	2,004	694	2,165
Shipments	686	673	2,009	722	2,166
Sales (\$ millions)					
Lumber	728	828	2,280	1,068	3,131
Wood chips and other residuals	93	104	298	116	345
Logs and other	27	20	79	27	82
	<b>848</b>	952	2,657	1,211	3,558
Adjusted EBITDA (\$ millions)	39	39	162	339	1,088
Export duties (\$ millions)	(44)	(51)	(127)	(58)	(165)
Amortization (\$ millions)	(49)	(48)	(147)	(48)	(143)
Restructuring and impairment charges (\$ millions)	1	(26)	(25)	-	-
Operating earnings (\$ millions)	<b>(53)</b>	(86)	(137)	233	780
Adjusted EBITDA margin (%)	5	4	6	28	31
Benchmark prices (per Mfbm)					
SPF #2 & Better 2x4 <sup>1</sup> - US\$	356	333	354	482	531
SPF #3 Utility <sup>1</sup> - US\$	277	284	295	388	407
SYP #2 West 2x4 <sup>2</sup> - US\$	376	371	383	469	528
SPF #2 & Better 2x4 - CAD\$ <sup>3</sup>	470	445	471	630	684
SPF #3 Utility - CAD\$ <sup>3</sup>	366	380	392	507	524
SYP #2 West 2x4 - CAD\$ <sup>3</sup>	496	496	509	613	680

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.

### Shipments

SPF shipments for the current quarter and first nine months of 2019 were lower than the previous quarter, the third quarter of 2018 and the first nine months of 2018. We shipped lumber during some of our curtailment periods resulting in a reduction in SPF inventory levels. Inventories have been largely aligned with the new SPF production and shift structure we have implemented at a number of our B.C. mills. We have completed the shipment of all lumber inventory from our lumber mill in Chasm, B.C.

SYP production and shipments were uneven earlier in 2019 due to scheduled downtime for capital projects and unusually wet weather in the U.S. South which caused log delivery and lumber production disruptions. Shipments for the first nine months of 2019 are now in line with production.

### Production

SPF production for 2019 was reduced compared to 2018 due to temporary and permanent curtailments. Our B.C. sawmill curtailments were related to low lumber pricing and elevated log costs. Our Alberta sawmill temporary curtailments were related to low log inventory due to June forest fires and severe wet weather in the summer. On a year-to-date basis, SPF production was lower by 137 MMfbm due to temporary curtailments and by 250 MMfbm

due to permanent curtailments. There were no significant SPF production curtailments in the comparative periods of 2018.

SYP production improved compared to the previous quarter and was comparable to the third quarter of 2018. SYP production for the first nine months of 2019 was down 7% compared to the same period of 2018 as the first half of 2019 experienced extended periods of rain, which resulted in log shortages and production curtailments. This combined with a planned reduction of operating hours for capital project installation and commissioning and integration activities at our more recently acquired southeast region sawmills resulted in lower year-to-date production.

### *Operating Earnings*

Operating earnings for the current quarter and first nine months of 2019 were lower than each of the comparative periods of 2018 but were higher than the second quarter of 2019. Realized lumber price changes, net of freight, other distribution costs and export duties, reduced operating earnings by approximately \$26 million compared to the previous quarter. While certain 2x4 benchmark prices increased in the quarter, the spread between the benchmark price and lower SPF grades and wider SYP widths expanded in the quarter which resulted in an overall reduction in realized price per thousand board feet. Lumber pricing also had a negative impact of \$203 million compared to the third quarter of 2018 and \$618 million compared to the first nine months of 2018.

Lower SPF production and higher B.C. log costs also negatively affected the third quarter and year to date results relative to comparative periods of 2018. B.C. had higher log costs for purchased wood as competition remained high. U.S. South SYP log costs were higher in the first nine months of 2019 compared to 2018 due to weather-related log shortages which temporarily increased costs earlier in the year.

On a positive note, the disruptive impacts of capital projects in the U.S. South started to reduce during the quarter and the benefits from the investments began to be realized. Some of the more significant projects were: Joyce, Louisiana where we replaced our log merchandiser; McDavid, Florida where we took a month of downtime for the installation of new primary breakdown equipment; Perry, Florida where we installed continuous dry kilns; and Augusta, Georgia where we replaced a planer.

Our new sawmill in Opelika, Alabama which started production in the third quarter of 2018, is continuing to ramp up and we realized a nearly 20% improvement in manufacturing costs quarter over quarter at that mill. A project to replace the planer mill is also underway.

Selling, general and administration expense declined for the lumber segment relative to all comparative periods, principally due to lower variable compensation costs.

We recalculated our antidumping duty ("ADD") rate for the first nine months of 2019, which is our current period of review, using our reported results and the same calculation methodology as the U.S. Department of Commerce. Based on our current data, we determined that the expected ADD rate will be 5.05% which is lower than the ADD deposit rate of 5.57% but is higher than the first nine months of 2018 estimated ADD rate of 1.38%. The rate difference combined with lower SPF sale prices affected the duty expense comparability between periods.

A restructuring and impairment charge of \$25 million was recognized in 2019 related to the permanent closure of our Chasm, B.C. lumber mill (details are included in Note 10 of our Financial Statements). In addition, log and lumber inventory write-downs to market value resulted in an additional expense of nil in the current quarter compared to \$16 million in the previous quarter.

During the second quarter of 2018, the lumber segment recognized \$4 million of insurance claim proceeds as final settlement for the temporary suspension of operations at our 100 Mile House, Chasm and Williams Lake mills due to forest fires in 2017.

**Panels Segment**

	Q3-19	Q2-19	YTD-19	Q3-18	YTD-18
<b>Plywood</b> (MMsf 3/8" basis)					
Production	192	211	614	204	628
Shipments	196	215	609	206	625
<b>MDF</b> (MMsf 3/4" basis)					
Production	57	58	168	66	177
Shipments	58	58	171	56	172
<b>LVL</b> (Mcf)					
Production	526	503	1,526	558	1,821
Shipments	555	550	1,636	497	1,673
Sales (\$ millions)					
Finished products	143	152	444	163	504
Wood chips and other residuals	4	5	14	6	17
Logs and other	2	2	5	1	4
	149	159	463	170	525
Adjusted EBITDA (\$ millions)	13	10	38	34	118
Amortization (\$ millions)	(4)	(3)	(11)	(3)	(10)
Operating earnings (\$ millions)	9	7	27	31	108
Adjusted EBITDA margin (%)	9	6	8	20	22
Benchmark price					
Plywood (per Msf 3/8" basis) <sup>1</sup> - CAD\$	452	454	472	528	576

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

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

*Production and shipments*

Plywood production and shipments for the first nine months were lower than the comparative period of 2018 due primarily to temporary curtailments due to high British Columbia log costs and fire and weather-related log shortages in Alberta.

*Operating earnings*

Operating earnings for the current quarter and first nine months of the year were lower than the comparative periods of 2018 primarily due to lower plywood pricing and higher purchase log costs in B.C. related to increased competition for a shrinking timber supply. Prior year results included \$3 million of insurance claim proceeds as final settlement for the temporary suspension of our Williams Lake plywood operations due to forest fires in 2017.

**Pulp & Paper Segment**

	Q3-19	Q2-19	YTD-19	Q3-18	YTD-18
<b>BCTMP (Mtonnes)</b>					
Production	172	165	501	171	495
Shipments	169	175	522	176	503
<b>NBSK (Mtonnes)</b>					
Production	126	111	336	139	378
Shipments	122	101	341	128	378
<b>Newsprint (Mtonnes)</b>					
Production	31	28	88	30	87
Shipments	32	29	83	29	87
Sales (\$ millions)	224	242	734	312	895
Adjusted EBITDA (\$ millions)	3	7	21	73	211
Export duties	-	-	-	4	-
Amortization (\$ millions)	(11)	(11)	(32)	(12)	(33)
Operating earnings (\$ millions)	(8)	(4)	(11)	65	178
Adjusted EBITDA margin (%)	1	3	3	23	24
Benchmark price (per tonne)					
NBSK U.S. – US\$ <sup>1,3</sup>	1,170	1,292	1,281	1,377	1,307
NBSK China – US\$ <sup>2,3</sup>	585	653	649	887	902
Newsprint - US\$ <sup>4</sup>	731	736	743	766	732
NBSK U.S. - CAD\$ <sup>5</sup>	1,545	1,728	1,703	1,800	1,683
NBSK China – CAD\$ <sup>5</sup>	772	874	863	1,159	1,161
Newsprint - CAD\$ <sup>5</sup>	965	985	988	1,001	943

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. - Newsprint 27.7-lb East, delivered.

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 businesses.

**Shipments**

BCTMP shipment volumes were slightly less than the previous quarter and third quarter of 2018. Shipments for the first nine months of 2019 were higher than production as a vessel that was meant to sail in the fourth quarter of 2018 was delayed into January 2019.

NBSK shipment volumes were higher than the previous quarter as the second quarter started with low inventory volumes following the first quarter maintenance shutdown at our Hinton pulp mill. Shipments for the first nine months of 2019 were lower than the comparative period of 2018 due to lower production as a result of the 2019 planned major maintenance shutdowns at both our NBSK mills.

Newsprint shipments are down slightly in the first nine months of 2019 compared to same period in 2018 due to decreased demand. Our newsprint operation is adjusting to a new lighter weight product to respond to changing demands.

### *Production*

NBSK production is higher than the previous quarter as a result of the Cariboo NBSK mill planned major maintenance shutdown in the second quarter of 2019. NBSK production was down compared to the third quarter of 2018 which was our highest level of quarterly NBSK production since the first quarter of 2017. NBSK production was lower for the first nine months of 2019 compared to 2018 as both NBSK mills had their planned major maintenance shutdowns in the first half of 2019.

BCTMP and newsprint production has been relatively stable over the comparative periods presented.

### *Operating Earnings*

Operating earnings declined compared to the second quarter of 2019 due primarily to lower pulp and newsprint pricing. This was partially offset by lower maintenance costs as the Cariboo NBSK shutdown occurred in the previous quarter and Hinton NBSK post shutdown startup extended into the second quarter.

Operating earnings for the third quarter and first nine months of the year were significantly lower than the comparative periods in 2018 due primarily to lower realized pulp and newsprint prices and lower NBSK production and shipment volumes. In addition, on a year-to-date comparative basis, NBSK maintenance costs were higher in 2019 related to the Cariboo pulp mill and Hinton pulp mill planned major maintenance shutdowns.

During the first quarter of 2018, the U.S. Department of Commerce and USITC completed a preliminary investigation and assigned our jointly-owned newsprint mill a countervailing duty (“CVD”) rate of 6.53% and an ADD rate of 22.16%. This decision was reversed in September of 2018, therefore the \$4 million expensed in the first two quarters of 2018 was reversed in the third quarter of 2018.

Execution of major maintenance at our NBSK mills and improved reliability at our Hinton pulp mill continues to be a management focus. As such, our Hinton facility will no longer have major shutdowns on 36-month intervals, instead they will be in line with our Cariboo pulp mill shutdown cycle which alternates between a minor and major outage every other year.

## **Business Outlook**

### ***Markets***

Despite reasonably favorable economic factors that affect lumber demand, such as mortgage rates, wages, and job growth, demand for lumber has remained tempered throughout 2019. At the same time, there have been several lumber supply reductions announced in B.C. and elsewhere. These capacity reductions take time to be reflected in available supply as existing inventory is sold. Changes in both demand and supply should lead to a more balanced situation.

The major component of our panels segment is plywood, which is sold mainly in Canada. Recent trends in the Canadian housing market have been stable.

We are anticipating that pulp markets will generally be flat to slightly weaker as global inventories remain elevated, particularly in hardwood grades. Pulp demand will be heavily influenced by the pace of economic activity in China.

### ***Operations***

Given the temporary and permanent production curtailment announcements we have made to date, we expect a decrease in our 2019 lumber production of at least 650 MMfbm compared to 2018. Anticipated production assumes adequate demand and normal access to logs and transportation resources and the impact of our previously announced curtailments and variable operating schedules. Stumpage on B.C. logs increased on July 1,

2019 and log costs in B.C. will remain elevated in the near term. We expect to continue to see limited log cost inflation in the U.S. South. Log inventories at several of our Alberta mills are at low levels for this time of year. Wildfire related logging curtailments followed by persistent wet weather has limited access to the land base and has resulted in a significant drawdown of our log inventories and has elevated the risk of additional production interruptions in Alberta.

As noted, our Alberta plywood operation has recently been affected by log shortages and this situation may continue until weather conditions enable a rebuilding of log inventories.

Both of our NBSK mills completed major maintenance shutdowns in the first half of 2019. Improving reliability at these mills continues to be a key management focus, particularly at our Hinton NBSK mill. We expect our NBSK production to be approximately 50,000 tonnes lower than 2018 due to the shutdowns and other operational issues while we expect our BCTMP production to be approximately 15,000 tonnes higher than 2018. Production estimates assume no further unexpected production interruptions, adequate access to fibre and limited further electricity related curtailments in Alberta.

### ***Cash Flows***

We are anticipating between \$400 and \$450 million of capital spending in 2019. 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 have paid a dividend in every quarter since we became a public company in 1986. On September 17, 2019, we renewed our Normal Course Issuer Bid (“NCIB”), which expires in September 2020, to purchase up to approximately 5% of our issued and outstanding Common shares and consider share purchases with excess cash when we are satisfied that this will enhance shareholder value.

### **Capital Structure and Liquidity**

Our capital structure consists of Common share equity and long-term debt and our liquidity includes our operating facilities.

#### ***Operating borrowing facilities***

On July 18, 2019, we completed an amendment to our revolving lines of credit to extend the maturity date to August 28, 2024, and to increase the size of our Canadian and U.S. syndicated committed revolving credit facilities from \$500 million to \$850 million. At the same time, we also amended the terms of the US\$200 million term loan to extend the maturity date from August 25, 2022 to August 28, 2024 and terminated the uncommitted \$100 million credit facility. All other material terms of the revolving lines of credit and the term loan remain unchanged.

On September 30, 2019, our operating facilities consisted of a \$850 million committed revolving credit facility, 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 \$90 million dedicated to letters of credits of which US\$15 million is committed to our U.S. operations.

On September 30, 2019, \$315 million was outstanding under our revolving credit facility. In addition, letters of credit in the amount of \$62 million were supported by our facilities.

Available liquidity at September 30, 2019 was \$580 million. Available liquidity includes cash and short-term investments, cheques issued in excess of funds on deposit and amounts available on our operating loans excluding the \$8 million operating loan dedicated to our jointly-owned newsprint operation.

### ***Equity***

Our outstanding Common share equity consists of 66,377,825 Common shares and 2,281,478 Class B Common shares for a total of 68,659,303 shares issued and outstanding as at October 21, 2019.

Our Class B Common shares are equal in all respects to our Common shares, including the right to dividends and the right to vote, and are exchangeable on a one-for-one basis for Common shares. Our Common shares are listed for trading on the Toronto Stock Exchange 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.

On September 17, 2019, we renewed our NCIB allowing us to acquire an additional 3,318,823 Common shares for cancellation until the expiry of the bid on September 19, 2020. The following table shows our purchases under various NCIB programs, including a summary of all purchases since the program was started 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 17 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 December 31, 2018	2,230,436	\$70.05
January 1 to September 30, 2019	1,178,400	\$68.30
September 19, 2019 to September 19, 2020	-	-
September 17, 2013 to October 21, 2019	17,226,864	\$66.05

As of October 21, 2019, there were 1,211,137 share purchase options outstanding with exercise prices ranging from \$23.68 to \$85.40 per Common share.

### Defined Benefit Pension Plans

The funded position of our defined benefit pension plans and other post-retirement benefit plans is estimated at the end of each quarter. The funded position, as shown in Note 8 to the Financial Statements, is determined by subtracting the value of plan assets from the value of plan obligations. The discount rate used to calculate our projected obligations at September 30, 2019 remained unchanged from June 30, 2019. However, the rate of return on the pension plan assets was higher than the discount rate and this resulted in an after-tax actuarial gain of \$10 million recorded in other comprehensive earnings. This compares to a loss of \$36 million recorded in the previous quarter and a gain of \$45 million recorded in the third quarter of 2018.

### Summary of Financial Position

(\$ millions, except as otherwise indicated)

	Q3-19	Q4-18	Q3-18
Cash <sup>1</sup>	17	160	282
Current assets	1,130	1,345	1,395
Current liabilities	750	595	589
Ratio of current assets to current liabilities	1.5	2.3	2.4
Net debt <sup>2</sup>	983	606	373
Shareholders' equity	2,581	2,896	2,986
Net debt to total capital <sup>3</sup>	28%	17%	11%

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

As shown in the table below, we are rated by three leading rating agencies. All three ratings are considered investment grade.

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.

### Cash Flow

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.

#### Selected Cash Flow Items

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

	Q3-19	Q2-19	YTD-19	Q3-18	YTD-18
<b>Operating Activities</b>					
Earnings	(45)	(58)	(108)	238	781
Amortization	65	63	193	64	188
Restructuring and impairment charges	(1)	26	25	-	-
Restructuring charges paid	(6)	-	(6)	-	-
Post-retirement expense	19	20	60	20	60
Contributions to post-retirement plans	(23)	(21)	(61)	(28)	(79)
Income taxes received (paid)	10	(18)	(85)	(65)	(275)
Tax provision (recovery)	(19)	(45)	(65)	76	263
Change in inventories	67	240	127	15	(28)
Change in receivables	55	26	32	89	(33)
Other	(6)	(46)	(37)	(10)	20
	<b>116</b>	<b>187</b>	<b>75</b>	<b>399</b>	<b>897</b>
<b>Financing Activities</b>					
Debt and operating loans	68	(81)	253	-	-
Finance expense paid	(6)	(16)	(27)	(5)	(20)
Common share repurchases	-	(31)	(81)	(301)	(557)
Dividends and other	(17)	(15)	(46)	-	(23)
	<b>45</b>	<b>(143)</b>	<b>99</b>	<b>(306)</b>	<b>(600)</b>
<b>Investing Activities</b>					
Additions to capital assets	(133)	(82)	(323)	(111)	(284)
Other	6	13	19	2	6
	<b>(127)</b>	<b>(69)</b>	<b>(304)</b>	<b>(109)</b>	<b>(278)</b>
<b>Increase (decrease) in cash</b>	<b>34</b>	<b>(25)</b>	<b>(130)</b>	<b>(16)</b>	<b>19</b>

#### Operating Activities

The table above shows the main components of cash flows used for or provided by operating activities for each comparative period. The significant factors affecting the comparison were lower earnings, inventory changes and income tax payments.

The current quarter inventory reduction was primarily due to Canadian logs and SPF lumber which are lower as a direct result of the temporary and permanent curtailments. The inventory reduction for the second quarter is related to SPF curtailments but is also due to the seasonal log inventory drawdown. During the first quarter of each year, Canadian log inventory is stockpiled to sustain sawmill and plywood operations during the second

quarter when logging is curtailed due to wet conditions. This log inventory is typically consumed by operations in the second quarter.

During the third quarter of 2019, we received an income tax refund of \$10 million compared to a payment of \$18 million in the previous quarter and a payment of \$65 million in the third quarter of 2018. Tax installments for 2019 have been reduced to reflect lower earnings in both Canada and the U.S. Cash payments in the first quarter of 2019 included the final Canadian income tax payment of approximately \$36 million on account of 2018 income.

### ***Financing Activities***

We borrowed an additional \$68 million from our operating loan during the quarter compared to a repayment of \$81 million in the previous quarter. We also returned \$14 million to our shareholders, compared to \$45 million in the previous quarter and \$301 million in the third quarter of 2018 (first nine months of 2019 - \$122 million; 2018 - \$580 million), through dividend payments and Common share repurchases under our NCIB program.

### ***Investing Activities***

Cash flows used for investing activities in the quarter related to capital assets additions. Expenditures for the first nine months of 2019 were \$265 million for our lumber segment, \$16 million for our panels segment, \$35 million for our pulp & paper segment and \$7 million for our corporate segment.

### **Contractual Obligations**

On March 15, 2019, we entered into an interest rate swap agreement, maturing in August 2022, with a US\$100 million notional amount to limit our exposure to fluctuations in interest rates and fix interest rates on a portion of our long-term debt. Under this agreement, we pay a fixed interest rate of 2.47% and receive a floating interest rate equal to 3-month LIBOR. The agreement is accounted for as a derivative.

On April 24, 2019, we expanded our letters of credit facility by an additional \$20 million. On July 18, 2019, we completed an amendment to our revolving lines of credit to extend the maturity date to August 28, 2024, and to increase the size of our Canadian and U.S. syndicated committed revolving credit facilities from \$500 million to \$850 million. At the same time, we also amended the terms of the US\$200 million term loan to extend the maturity date to August 28, 2024 and terminated the uncommitted \$100 million credit facility that was temporarily established on April 24, 2019. All other material terms of the revolving lines of credit and the term loan remain unchanged.

At September 30, 2019, asset purchase commitments related to capital projects were \$212 million.

### **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)

	<b>Q3-19</b>	<b>Q2-19</b>	<b>YTD-19</b>	<b>Q3-18</b>	<b>YTD-18</b>
Earnings	<b>(45)</b>	<b>(58)</b>	<b>(108)</b>	<b>238</b>	<b>781</b>
Add:					
Amortization	<b>65</b>	<b>63</b>	<b>193</b>	<b>64</b>	<b>188</b>
Finance expense	<b>12</b>	<b>13</b>	<b>36</b>	<b>10</b>	<b>28</b>
Tax provision (recovery)	<b>(19)</b>	<b>(45)</b>	<b>(65)</b>	<b>76</b>	<b>263</b>
EBITDA	<b>13</b>	<b>(27)</b>	<b>56</b>	<b>388</b>	<b>1,260</b>
Add:					
Equity-based compensation	<b>1</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>8</b>
Export duties	<b>44</b>	<b>51</b>	<b>127</b>	<b>54</b>	<b>165</b>
Restructuring and impairment charges	<b>(1)</b>	<b>26</b>	<b>25</b>	<b>-</b>	<b>-</b>
Other	<b>(2)</b>	<b>6</b>	<b>9</b>	<b>4</b>	<b>(15)</b>
Adjusted EBITDA	<b>55</b>	<b>56</b>	<b>221</b>	<b>446</b>	<b>1,418</b>

**Adjusted EBITDA by Segment**

(\$ millions)

	Q3-19	Q2-19	YTD-19	Q3-18	YTD-18
<b>Lumber</b>					
Earnings before tax	(59)	(98)	(165)	228	771
Add:					
Amortization	49	48	147	48	143
Finance expense	9	9	25	7	19
EBITDA	(1)	(41)	7	283	933
Add:					
Export duties	44	51	127	58	165
Restructuring and impairment charges	(1)	26	25	-	-
Other	(3)	3	3	(2)	(10)
Adjusted EBITDA	39	39	162	339	1,088
<b>Panels</b>					
Earnings before tax	9	5	24	30	106
Add:					
Amortization	4	3	11	3	10
Finance expense	-	2	3	1	2
EBITDA	13	10	38	34	118
Add:					
Other	-	-	-	-	-
Adjusted EBITDA	13	10	38	34	118
<b>Pulp &amp; Paper</b>					
Earnings before tax	(9)	(6)	(17)	61	175
Add:					
Amortization	11	11	32	12	33
Finance expense	2	2	7	3	7
EBITDA	4	7	22	76	215
Add:					
Export duties	-	-	-	(4)	-
Other	(1)	-	(1)	1	(4)
Adjusted EBITDA	3	7	21	73	211
<b>Corporate and Other</b>					
Earnings before tax	(5)	(4)	(15)	(5)	(8)
Add:					
Amortization	1	1	3	1	2
Finance expense	1	-	1	(1)	-
EBITDA	(3)	(3)	(11)	(5)	(6)
Add:					
Equity-based compensation	1	-	4	-	8
Other	2	3	7	5	(1)
Adjusted EBITDA	-	-	-	-	1
<b>Total Adjusted EBITDA</b>	<b>55</b>	<b>56</b>	<b>221</b>	<b>446</b>	<b>1,418</b>

**Adjusted Earnings and Adjusted Basic Earnings Per Share**

(\$ millions, except EPS)

	Q3-19	Q2-19	YTD-19	Q3-18	YTD-18
Earnings	(45)	(58)	(108)	238	781
Adjustments:					
Export duties	44	51	127	54	165
Interest recognized on export duty deposits receivable	-	(1)	(2)	(1)	(2)
Equity-based compensation	1	-	4	-	8
Exchange (gain) loss on long-term financing	(1)	2	2	2	(4)
Exchange (gain) loss on export duty deposits receivable	(1)	1	2	1	(1)
Restructuring and impairment charges	(1)	26	25	-	-
Remeasurement of deferred tax assets and liabilities for Alberta tax rate reduction	-	(17)	(17)	-	-
Net tax effect on the above adjustments	(12)	(21)	(43)	(19)	(46)
Adjusted earnings	(15)	(17)	(10)	275	901
Adjusted basic EPS <sup>1</sup>	(0.22)	(0.25)	(0.15)	3.76	11.88

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)

	Q3-19	Q4-18	Q3-18
Net debt			
Cash and short-term investments	(17)	(160)	(282)
Deferred financing costs <sup>1</sup>	(6)	(6)	(6)
Cheques issued in excess of funds on deposit	4	13	-
Operating loans	315	63	-
Current and long-term lease obligation	12	-	-
Long-term debt	675	696	661
	983	606	373
Shareholders' equity	2,581	2,896	2,986
Total capital	3,564	3,502	3,359
Net debt to total capital	28%	17%	11%

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, 2019, we adopted IFRS 16 – *Leases* as a replacement of the old IAS 17 lease standard and the related interpretations. The new standard requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as financing leases. On January 1, 2019, we have recorded a \$14 million right-of-use asset and a \$14 million lease obligation on our balance sheet. Please see Note 3 of our Financial Statements for additional information.

**Significant Management Judgments Affecting Financial Results**

For a review of significant management judgments affecting financial results and critical accounting estimates, see the 2018 annual MD&A which is included in our 2018 Annual Report.

### **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to our company is gathered and reported to senior management, including the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Our management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS.

There has been no change in the design of our internal controls over financial reporting during the three months ended September 30, 2019 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 2018 annual MD&A which is included in our 2018 Annual Report.

### **Additional Information**

Additional information relating to our Company, including our Company's Annual Information Form, is available on our company website at [www.westfraser.com](http://www.westfraser.com) and SEDAR at [www.sedar.com](http://www.sedar.com).