



Management's Discussion and Analysis

Introduction and Interpretation

This discussion and analysis ("MD&A") by West Fraser's management of West Fraser Timber Co. Ltd.'s ("West Fraser", the "Company", "we", "us" or "our") financial performance during the second 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 amount and timing of the reductions in our lumber and plywood production and impact on operations at the end of the moratorium), "Discussion & Analysis of Non-Operational Items" (concerning adjustments to duty rates), "Business Outlook" (concerning our operations included related to production, log availability and prices and potential curtailments, market expectations and cash flows including expectations regarding capital spending, dividends and 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 July 18, 2019 and the information provided herein is provided as of such date unless otherwise indicated.

Recent Developments

Curtailments

The lumber industry continued to experience weak pricing during the quarter. British Columbia producers also faced high log costs due to fibre constraints and as such, we announced additional production curtailments at all our British Columbia SPF mills during the quarter.

On June 17, 2019, we announced the permanent closure of our Chasm lumber mill and the elimination of the third shift at our 100 Mile House lumber mill. This will reduce our annual production capacity by approximately 314 MMfbm and will take effect in the third quarter of 2019. This permanent closure combined with the elimination of the third shift at our Quesnel and Fraser Lake lumber mills announced in the fourth quarter of 2018, will remove 614 MMfbm of SPF production from our annual capacity. In connection with the closure of our Chasm lumber mill we recorded restructuring and asset impairment charges of \$26 million.

The temporary and permanent curtailments resulted in 250 MMfbm of reduced production for the first six months of 2019. There were no significant SPF curtailments in the comparative periods of 2018.

On June 28, 2019, we curtailed our veneer plant in Slave Lake, Alberta, the plywood mill located in Edmonton, Alberta and our High Prairie, Alberta sawmill due to wet weather and fire-related log shortages. This is expected to reduce our plywood production by approximately 13 Msf and have minimal impact on lumber production.

Caribou Protection Plan Interim Moratorium

On June 20, 2019, the Government of British Columbia announced a two-year moratorium on industrial activity in two caribou recovery zones in the northeastern part of the province. The interim moratorium provides an opportunity for recovery planning to take place in consultation with communities, governments, First Nations and industry. Permitted activity already underway in the moratorium zones will continue, though no new permits in these areas will be issued. Provided the moratorium is removed at the cessation of the two-year period, the timber supply impact on our Chetwynd operations are expected to be manageable.

Senior Leadership Transition

As part of our senior leadership transition plan, on July 1, 2019 Ray Ferris replaced Ted Seraphim as our Chief Executive Officer on Mr. Seraphim's retirement from that role.

Summary Information

(\$ millions except otherwise indicated)

	Q2-19	Q1-19	YTD-19	Q2-18	YTD-18
Sales	1,317	1,241	2,558	1,834	3,198
Adjusted EBITDA	56	110	166	593	972
Export duties	(51)	(32)	(83)	(68)	(111)
Equity-based compensation	-	(3)	(3)	(3)	(8)
Amortization	(63)	(65)	(128)	(58)	(124)
Restructuring and impairment charges	(26)	-	(26)	-	-
Operating earnings	(84)	10	(74)	464	729
Finance expense	(13)	(11)	(24)	(9)	(18)
Other	(6)	(5)	(11)	10	19
Tax (provision) recovery	45	1	46	(119)	(187)
Earnings	(58)	(5)	(63)	346	543
CAD\$1.00 converted to US\$ – average	0.748	0.752	0.750	0.775	0.783

Selected Quarterly Information

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

	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17
Sales	1,317	1,241	1,274	1,646	1,834	1,364	1,376	1,247
Earnings	(58)	(5)	29	238	346	197	207	120
Basic EPS	(0.85)	(0.07)	0.42	3.25	4.52	2.53	2.66	1.53
Diluted EPS	(0.92)	(0.12)	0.29	2.99	4.52	2.53	2.66	1.53

Discussion & Analysis of Non-Operational Items

Adjusted Earnings and Adjusted Basic Earnings Per Share

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

	Q2-19	Q1-19	YTD-19	Q2-18	YTD-18
Earnings	(58)	(5)	(63)	346	543
Adjustments:					
Export duties	51	32	83	68	111
Interest recognized on export duty deposits receivable	(1)	(1)	(2)	-	(1)
Equity-based compensation	-	3	3	3	8
Exchange (gain) loss on long-term financing	2	1	3	(2)	(6)
Exchange (gain) loss on export duty deposits receivable	1	2	3	(1)	(2)
Restructuring and impairment charges	26	-	26	-	-
Remeasurement of deferred tax assets and liabilities for Alberta tax rate reduction	(17)	-	(17)	-	-
Net tax effect on the above adjustments	(21)	(10)	(31)	(17)	(27)
Adjusted earnings	(17)	22	5	397	626
Adjusted basic EPS ¹	(0.25)	0.32	0.08	5.19	8.11

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

Export duties of \$51 million were expensed in the quarter compared to \$32 million in the previous quarter and \$68 million in the second 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 \$26 million represents our preliminary estimate related to the closure of our Chasm, British Columbia 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” below.

Other Non-Operational Items

Other income includes an exchange loss on working capital of \$2 million compared to a loss of \$3 million in the previous quarter and a gain of \$4 million in the second quarter of 2018.

Finance expense was \$13 million in the quarter compared to \$11 million in the previous quarter and \$9 million in the second 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.

The results of the current quarter include an income tax recovery of \$45 million compared to a recovery of \$1 million in the previous quarter and a provision of \$119 million for the second quarter of 2018. The effective tax rate was 44% for the current quarter compared to 17% in the previous quarter and 26% in the second quarter of 2018. The current quarter 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 British Columbia statutory rate to the income tax expense.

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. During the quarter, we recorded in other comprehensive earnings an after-tax actuarial loss of \$36 million compared to a loss of \$36 million in the previous quarter and a gain of \$10 million in the second quarter of 2018. The current quarter loss reflects a decrease in the discount rate from 3.25% in the previous quarter to 3.00% in the current quarter which increased our projected obligations.

Discussion & Analysis by Product Segment

Lumber Segment

	Q2-19	Q1-19	YTD-19	Q2-18	YTD-18
SPF (MMfbm)					
Production	880	814	1,694	1,012	1,937
Shipments	1,013	794	1,807	1,083	1,820
SYP (MMfbm)					
Production	656	648	1,304	746	1,471
Shipments	673	650	1,323	757	1,444
Sales (\$ millions)					
Lumber	828	724	1,552	1,234	2,063
Wood chips and other residuals	104	101	205	123	229
Logs and other	20	32	52	24	55
	952	857	1,809	1,381	2,347
Adjusted EBITDA (\$ millions)	39	84	123	467	749
Export duties	(51)	(32)	(83)	(66)	(107)
Amortization (\$ millions)	(48)	(50)	(98)	(43)	(95)
Restructuring and impairment charges (\$ millions)	(26)	-	(26)	-	-
Operating earnings (\$ millions)	(86)	2	(84)	358	547
Adjusted EBITDA margin (%)	4	10	7	34	32
Benchmark prices (per Mfbm)					
SPF #2 & Better 2x4 ¹ - US\$	333	372	353	598	556
SPF #3 Utility ¹ - US\$	284	323	303	459	416
SYP #2 West 2x4 ² - US\$	371	402	387	574	557
SPF #2 & Better 2x4 - CAD\$ ³	445	495	471	772	711
SPF #3 Utility - CAD\$ ³	380	429	404	593	532
SYP #2 West 2x4 - CAD\$ ³	496	534	516	741	712

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 were higher than the previous quarter as inventories were drawn down in connection with the elimination of shifts and temporary curtailments. SPF shipments for the first six months of 2019 were comparable to the same period of 2018 as we continued to ship during most of our curtailment periods.

SYP shipments were higher than the previous quarter as we continued to clear inventory that built up during the fourth quarter of 2018. Shipments were lower than the second quarter and first six months of 2018 due to lower production.

Production

SPF production for 2019 was negatively affected by the previously announced temporary and permanent curtailments at our British Columbia sawmills located in Williams Lake, Chasm, 100 Mile, Chetwynd, Quesnel, Fraser Lake and Smithers. These curtailments resulted in 125 MMfbm of reduced production in the current quarter and another 125 MMfbm in the previous quarter. Previous quarter's production was also negatively affected by a colder and longer than normal winter. There were no significant SPF production curtailments in the comparative periods of 2018.

SYP production improved compared to the previous quarter but was lower compared to the second quarter of 2018 as the wet weather that affected the first quarter of 2019 continued into the second quarter, in particular at our mills in Arkansas and Texas. The extended periods of rainfall 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 11% lower production for the first six months of 2019 compared to 2018.

Operating Earnings

Operating earnings for the current quarter and first half of the year were lower than each of the comparative periods. The most significant contributor to this decline was lower lumber pricing.

2019 operating earnings were also negatively affected by lower production and shipment volumes and higher log costs in British Columbia and the U.S. South. British Columbia had higher log costs for purchased wood as competition increased for a shrinking timber supply. U.S. South log costs increased due to weather-related log shortages and competition for the temporarily limited resource.

We recalculated our antidumping duty (“ADD”) rate for the first six 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 4.20% which is lower than the ADD deposit rate of 5.57% but is higher than the first six months of 2018 estimated ADD rate of 1.38%. The rate difference combined with lower SPF sales prices affected the duty expense comparability between periods.

A preliminary restructuring and impairment charge of \$26 million was recognized during the quarter related to the permanent closure of our Chasm, British Columbia 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 \$16 million in the current quarter compared to nil 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 the 100 Mile House, Chasm and Williams Lake operations due to forest fires in 2017.

Panels Segment

	Q2-19	Q1-19	YTD-19	Q2-18	YTD-18
Plywood (MMsf 3/8" basis)					
Production	211	211	422	216	424
Shipments	215	198	413	232	419
MDF (MMsf 3/4" basis)					
Production	58	53	111	55	111
Shipments	58	54	112	59	116
LVL (Mcf)					
Production	503	496	999	600	1,263
Shipments	550	531	1,081	594	1,176
Sales (\$ millions)					
Finished products	152	149	301	193	341
Wood chips and other residuals	5	5	10	6	11
Logs and other	2	1	3	2	3
	159	155	314	201	355
Adjusted EBITDA (\$ millions)	10	15	25	56	84
Amortization (\$ millions)	(3)	(4)	(7)	(4)	(7)
Operating earnings (\$ millions)	7	11	18	52	77
Adjusted EBITDA margin (%)	6	10	8	26	24
Benchmark price					
Plywood (per Msf 3/8" basis) ¹ - CAD\$	454	509	481	630	600

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

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

Operating earnings for the current quarter and first half of the year were lower than the first quarter of 2019, the second quarter of 2018 and the first half of 2018, respectively, primarily due to lower plywood pricing.

2019 operating earnings were also negatively affected by higher purchase log costs in British Columbia related to increased competition for a shrinking timber supply and 2018's 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

	Q2-19	Q1-19	YTD-19	Q2-18	YTD-18
BCTMP (Mtonnes)					
Production	165	164	329	159	324
Shipments	175	178	353	169	327
NBSK (Mtonnes)					
Production	111	99	210	113	239
Shipments	101	118	219	123	250
Newsprint (Mtonnes)					
Production	28	29	57	30	57
Shipments	29	22	51	30	58
Sales (\$ millions)	242	268	510	299	583
Adjusted EBITDA (\$ millions)	7	11	18	68	138
Export duties	-	-	-	(2)	(4)
Amortization (\$ millions)	(11)	(10)	(21)	(10)	(21)
Operating earnings (\$ millions)	(4)	1	(3)	56	113
Adjusted EBITDA margin (%)	3	4	4	22	24
Benchmark price (per tonne)					
NBSK U.S. – US\$ ^{1,3}	1,292	1,380	1,336	1,310	1,272
NBSK China – US\$ ^{2,3}	653	710	682	910	910
Newsprint - US\$ ⁴	736	761	749	744	715
NBSK U.S. - CAD\$ ⁵	1,728	1,835	1,782	1,691	1,626
NBSK China – CAD\$ ⁵	874	944	910	1,175	1,163
Newsprint - CAD\$ ⁵	985	1,012	999	961	914

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 similar to the previous quarter and second quarter of 2018. Shipments for the first half 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 lower than the previous quarter as we entered the quarter with low NBSK inventories following the planned maintenance shutdown at our Hinton pulp mill. Shipments were lower than the second quarter and first six months of 2018 due to lower production as a result of the two planned major maintenance shutdowns.

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

Production

NBSK production was negatively affected by the planned major maintenance shutdowns at our Cariboo NBSK mill in the current quarter and our Hinton NBSK mill in the previous quarter. Hinton pulp made gradual improvements over the quarter resulting in slightly higher NBSK production volumes quarter over quarter.

NBSK production for the second quarter and first half of the year is lower than the comparative periods of 2018 mostly due to the timing of the planned major maintenance shutdowns at our NBSK mills.

Operating Earnings

Operating earnings declined compared to the first quarter of 2019 due primarily to lower pulp and newsprint pricing and higher maintenance costs. This was offset partially by lower power costs. NBSK maintenance costs were higher during the quarter as both NBSK mills worked through the restart following the maintenance shutdowns, with Hinton pulp's startup period extending into the second quarter.

Operating earnings for the second quarter and first half of the year were significantly lower than the comparative periods in 2018 primarily due to lower realized NBSK and BCTMP pulp prices, lower NBSK production and shipment volumes and higher NBSK maintenance costs related to the Cariboo pulp mill and Hinton pulp mill major maintenance shutdowns of 2019.

During the first quarter of 2018, the Department of Commerce and International Trade Commission 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, nevertheless, an expense of \$4 million was recorded in the first half of 2018 and duties were accrued until the third quarter of 2018, at which point they were reversed.

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

U.S. economic factors that affect lumber demand such as mortgage rates, wages, and job growth appear to be improving. At the same time, there have been several announced lumber supply reductions in British Columbia and elsewhere. Changes in both factors should lead to a more balanced supply and demand.

The major component of our panels segment is plywood which is sold mainly in Canada. Demand for Canadian plywood has been steady over the past several years. Attempts by various governments across Canada to moderate housing markets could dampen plywood demand.

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 overall lumber production of at least 600 MMfbm compared to 2018. Anticipated production assumes adequate demand and normal access to logs and transportation resources and no further temporary curtailments. Stumpage on British Columbia logs increased on July 1, 2019 and log costs in British Columbia will remain high 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 very 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 some limited production disruption.

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 focus for us, particularly at our Hinton NBSK mill. We expect our NBSK production to be approximately 30,000 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 levels of cash flows, taking into account duties on Canadian softwood lumber exports to the U.S., to support between \$400 and \$450 million of capital spending in 2019 as well as to continue to support dividend payments. We have paid a dividend in every quarter since we became a public company in 1986. We expect to maintain our investment grade rating and intend to preserve sufficient liquidity to be able to take advantage of strategic growth opportunities that may arise. We are authorized under our Normal Course Issuer Bid ("NCIB"), which expires in September 2019, to purchase up to approximately 10% of the public float of our Common shares and consider share purchases with excess cash when we are satisfied that this will enhance shareholder value. On July 18, 2019, we completed an amendment of our credit facilities extending the maturity date to August 28, 2024 and increased the size of our revolving credit facility to \$850 million.

Capital Structure and Liquidity

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

Operating facilities

On April 24, 2019, we entered into an agreement for a new \$100 million uncommitted operating credit facility and expanded our letters of credit facility by an additional \$20 million. On June 30, 2019, our operating facilities including these new agreements consist of a \$500 million committed revolving credit facility, a \$100 million uncommitted operating 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 June 30, 2019, \$248 million was outstanding under our revolving credit facility. In addition, letters of credit in the amount of \$61 million were supported by our facilities.

Available liquidity at June 30, 2019 was \$365 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 66,374,061 Common shares and 2,281,478 Class B Common shares for a total of 68,655,539 shares issued and outstanding as at July 18, 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.

We have the NCIB in effect which allows us to acquire up to 5,524,048 Common shares for cancellation until the expiry of the bid on September 18, 2019. The following table shows our purchases under various NCIB programs, including a summary of all purchases since 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 19 to December 31, 2017	85,094	\$68.52
January 1 to September 18, 2018	5,905,360	\$88.06
September 19, 2018 to September 18, 2019		
September 19 to December 31, 2018	2,230,436	\$70.05
January 1 to June 30, 2019	1,178,400	\$68.30
September 17, 2013 to June 30, 2019	17,226,864	\$66.05

As of July 18, 2019, there were 1,211,137 share purchase options outstanding with exercise prices ranging from \$23.68 to \$85.40 per Common share.

Summary of Financial Position

(\$ millions, except as otherwise indicated)

	Q2-19	Q4-18	Q2-18
Cash ¹	16	160	302
Current assets	1,246	1,345	1,537
Current liabilities	733	595	604
Ratio of current assets to current liabilities	1.7	2.3	2.5
Net debt ²	930	606	364
Shareholders' equity	2,621	2,896	3,034
Net debt to total capital ³	26%	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))

	Q2-19	Q1-19	YTD-19	Q2-18	YTD-18
Operating Activities					
Earnings	(58)	(5)	(63)	346	543
Amortization	63	65	128	58	124
Restructuring and impairment charges	26	-	26	-	-
Post-retirement expense	20	21	41	20	40
Contributions to post-retirement plans	(21)	(17)	(38)	(22)	(51)
Income taxes paid	(18)	(77)	(95)	(78)	(210)
Tax payment provision (recovery)	(45)	(1)	(46)	119	187
Change in inventories	240	(180)	60	185	(43)
Change in receivables	26	(49)	(23)	(64)	(122)
Other	(46)	15	(31)	(9)	30
	187	(228)	(41)	555	498
Financing Activities					
Debt and operating loans	(81)	266	185	(83)	-
Finance expense paid	(16)	(5)	(21)	(12)	(15)
Common share repurchases	(31)	(50)	(81)	(210)	(256)
Dividends and other	(15)	(14)	(29)	(11)	(23)
	(143)	197	54	(316)	(294)
Investing Activities					
Additions to capital assets	(82)	(108)	(190)	(69)	(173)
Other	13	-	13	2	4
	(69)	(108)	(177)	(67)	(169)
Increase (decrease) in cash	(25)	(139)	(164)	172	35

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 change was due primarily to the consumption of logs that occurs in the second quarter of each year but also due to a decrease in lumber inventory volumes. 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. Lumber inventory declined as shipments outpaced production in the quarter.

During the second quarter of 2019, we made income tax payments of \$18 million compared to \$77 million in the previous quarter and \$78 million in the second 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 repaid \$81 million of our operating loan during the quarter compared to an advance of \$266 million in the previous quarter. Funds became available to paydown the operating loan during the second quarter as, among other things, the log inventory accumulated in the previous quarter was consumed by operations. We also returned \$45 million (first six months - \$109 million) to our shareholders 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 six months of 2019 were \$146 million for our lumber segment, \$11 million for our panels segment, \$29 million for our pulp & paper segment and \$4 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 entered into an uncommitted \$100 million credit facility that is available for general corporate purposes. We also 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. All other material terms of the revolving lines of credit and the term loan remain unchanged.

At June 30, 2019, asset purchase commitments related to capital projects were \$269 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)

	Q2-19	Q1-19	YTD-19	Q2-18	YTD-18
Earnings	(58)	(5)	(63)	346	543
Add:					
Amortization	63	65	128	58	124
Finance expense	13	11	24	9	18
Tax provision	(45)	(1)	(46)	119	187
EBITDA	(27)	70	43	532	872
Add:					
Equity-based compensation	-	3	3	3	8
Export duties	51	32	83	68	111
Restructuring and impairment charges	26	-	26	-	-
Other	6	5	11	(10)	(19)
Adjusted EBITDA	56	110	166	593	972

Adjusted EBITDA by Segment

(\$ millions)

	Q2-19	Q1-19	YTD-19	Q2-18	YTD-18
Lumber					
Earnings before tax	(98)	(8)	(106)	357	543
Add:					
Amortization	48	50	98	43	95
Finance expense	9	7	16	6	12
EBITDA	(41)	49	8	406	650
Add:					
Export duties	51	32	83	66	107
Restructuring and impairment charges	26	-	26	-	-
Other	3	3	6	(5)	(8)
Adjusted EBITDA	39	84	123	467	749
Panels					
Earnings before tax	5	10	15	52	76
Add:					
Amortization	3	4	7	4	7
Finance expense	2	1	3	-	1
EBITDA	10	15	25	56	84
Add:					
Other	-	-	-	-	-
Adjusted EBITDA	10	15	25	56	84
Pulp & Paper					
Earnings before tax	(6)	(2)	(8)	56	114
Add:					
Amortization	11	10	21	10	21
Finance expense	2	3	5	2	4
EBITDA	7	11	18	68	139
Add:					
Export duties	-	-	-	2	4
Other	-	-	-	(2)	(5)
Adjusted EBITDA	7	11	18	68	138
Corporate and Other					
Earnings before tax	(4)	(6)	(10)	-	(3)
Add:					
Amortization	1	1	2	1	1
Finance expense	-	-	-	1	1
EBITDA	(3)	(5)	(8)	2	(1)
Add:					
Equity-based compensation	-	3	3	3	8
Other	3	2	5	(3)	(6)
Adjusted EBITDA	-	-	-	2	1
Total Adjusted EBITDA	56	110	166	593	972

Adjusted Earnings and Adjusted Basic Earnings Per Share

(\$ millions, except EPS)

	Q2-19	Q1-19	YTD-19	Q2-18	YTD-18
Earnings	(58)	(5)	(63)	346	543
Adjustments:					
Export duties	51	32	83	68	111
Interest recognized on export duty deposits receivable	(1)	(1)	(2)	-	(1)
Equity-based compensation	-	3	3	3	8
Exchange (gain) loss on long-term financing	2	1	3	(2)	(6)
Exchange (gain) loss on export duty deposits receivable	1	2	3	(1)	(2)
Restructuring and impairment charges	26	-	26	-	-
Remeasurement of deferred tax assets and liabilities for Alberta tax rate reduction	(17)	-	(17)	-	-
Net tax effect on the above adjustments	(21)	(10)	(31)	(17)	(27)
Adjusted earnings	(17)	22	5	397	626
Adjusted basic EPS ¹	(0.25)	0.32	0.08	5.19	8.11

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)

	Q2-19	Q4-18	Q2-18
Net debt			
Cash and short-term investments	(16)	(160)	(302)
Deferred financing costs ¹	(6)	(6)	(6)
Cheques issued in excess of funds on deposit	36	13	-
Operating loans	248	63	-
Long-term debt	668	696	672
	930	606	364
Shareholders' equity	2,621	2,896	3,034
Total capital	3,551	3,502	3,398
Net debt to total capital	26%	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 June 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 and SEDAR at www.sedar.com.