

# West Fraser Announces Second Quarter Results

VANCOUVER, July 18, 2019 /CNW/ - **West Fraser Timber Co. Ltd.** reports second quarter 2019 results:

## Second Quarter Highlights

- Softer commodity pricing in all segments reduces operating earnings relative to comparative periods.
- Cash flow from operations of \$187 million for the quarter.
- Permanent closure of Chasm, British Columbia lumber mill announced in June along with shift reduction at 100 Mile House lumber mill.
- Lumber inventories reduced by approximately 150 million board feet.
- Quarter ending net debt to capital ratio of 26% and available liquidity of \$365 million.
- On July 18, 2019, available credit under our syndicated committed revolving credit facilities was increased by \$350 million to \$850 million and maturity date of these facilities and US\$200 million syndicated term loan extended to August 28, 2024. Proforma for this increase, available liquidity totaled \$715 million.
- As part of our senior leadership transition plan, Ray Ferris replaced Ted Seraphim as our CEO.

## Results Compared to Previous Periods

| (\$ millions except earnings per share ("EPS")) | Q2-19  | Q1-19  | YTD-19 | Q2-18 | YTD-18 |
|---|--------|--------|--------|-------|--------|
| Sales   | 1,317  | 1,241  | 2,558  | 1,834 | 3,198  |
| Adjusted EBITDA <sup>1</sup>                    | 56     | 110    | 166    | 593   | 972    |
| Operating earnings                              | (84)   | 10     | (74)   | 464   | 729    |
| Earnings  | (58)   | (5)    | (63)   | 346   | 543    |
| Basic EPS (\$)                                  | (0.85) | (0.07) | (0.92) | 4.52  | 7.03   |
| Adjusted earnings <sup>1</sup>                  | (17)   | 22     | 5      | 397   | 626    |
| Adjusted basic EPS (\$) <sup>1</sup>            | (0.25) | 0.32   | 0.08   | 5.19  | 8.11   |

<sup>1</sup> 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 2019 Management's Discussion & Analysis for details of these adjustments

## Recent Developments

Continuing difficult lumber market conditions and high log costs necessitated additional temporary curtailments in the quarter and the permanent closure of the Chasm, British Columbia lumber facility along with the elimination of the third shift of production at our 100 Mile House lumber mill.

Permanent and temporary curtailments resulted in 250 MMfbm of reduced lumber production during the first half of 2019. Permanent curtailments are expected to reduce annual production capacity by 614 MMfbm.

Subsequent to quarter end, we increased the available credit under our syndicated committed revolving credit facilities to \$850 million and extended the maturity date of these facilities and our US\$200 million syndicated term loan to August 28, 2024. As a result, we have no significant debt maturities prior to August of 2024 and financial flexibility to navigate the current market conditions and continue to invest in our business.

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.

## Operational Results

Lumber production was up 5% over the first quarter even with the curtailments that were undertaken in both quarters as productivity increased from the first quarter. Lumber shipments exceeded production by approximately 150 MMfbm resulting in reduced inventories. Adjusted EBITDA for the lumber segment was \$39 million compared to \$84 million in the previous quarter as lower lumber prices prevailed in the quarter.

Panel production and shipments were relatively consistent with comparative periods. Lower plywood pricing reduced Adjusted EBITDA in the panels segment to \$10 million from \$15 million in the prior quarter.

We completed the second of our two major maintenance shut downs at our NBSK mills in the quarter and resumed normal production schedules. NBSK production was 12% better than the prior quarter as both of our NBSK mills recovered from their shutdowns. Softer pulp pricing and higher maintenance costs reduced Adjusted EBITDA for the pulp and paper segment to \$7 million from \$11 million for the quarter.

## Outlook

As a result of the temporary and permanent curtailments of production announced to date, we expect our 2019 lumber production to be at least 600 million board feet lower than 2018. We have completed our two major maintenance shutdowns at our NBSK mills and have resumed normal production schedules. We expect that industry production reductions will have a more significant impact on lumber supply in the second half of 2019 as permanent closures are implemented and shipments are reduced as mill inventories are eliminated.

Forest fires followed by wet weather has resulted in low log inventories at some of our Alberta mills. The risk exists that we may need to take more downtime due to a shortage of logs at some of our Alberta mills in addition to the downtime we have already announced at our plywood facility.

## 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, other residuals 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" and "Outlook". 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 2018 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 19, 2019 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 and an earnings presentation 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         | December 31     |
|---|-----------------|-----------------|
|   | 2019            | 2018            |
| <b>Assets</b>                                 |                 |                 |
| <b>Current assets</b>                         |                 |                 |
| Cash and short-term investments               | \$ 16           | \$ 160          |
| Receivables                                   | 348             | 332             |
| Income taxes receivable                       | 130             | 48              |
| Inventories (note 5)                          | 722             | 791             |
| Prepaid expenses                              | 30              | 14              |
|   | 1,246           | 1,345           |
| <b>Property, plant and equipment</b>          | <b>2,097</b>    | <b>2,056</b>    |
| <b>Timber licences</b>                        | <b>503</b>      | <b>513</b>      |
| <b>Goodwill and other intangibles</b>         | <b>741</b>      | <b>767</b>      |
| <b>Export duty deposits (note 15)</b>         | <b>78</b>       | <b>75</b>       |
| <b>Other assets</b>                           | <b>31</b>       | <b>32</b>       |
| <b>Deferred income tax assets</b>             | <b>3</b>        | <b>3</b>        |
|   | <b>\$ 4,699</b> | <b>\$ 4,791</b> |
| <b>Liabilities</b>                            |                 |                 |
| <b>Current liabilities</b>                    |                 |                 |
| Cheques issued in excess of funds on deposit  | \$ 36           | \$ 13           |
| Operating loans (note 6)                      | 246             | 61              |
| Payables and accrued liabilities              | 411             | 448             |
| Income taxes payable                          | -               | 34              |
| Reforestation and decommissioning obligations | 40              | 39              |
|   | 733             | 595             |
| <b>Long-term debt (note 6)</b>                | <b>664</b>      | <b>692</b>      |
| <b>Other liabilities (note 7)</b>             | <b>437</b>      | <b>316</b>      |
| <b>Deferred income tax liabilities</b>        | <b>244</b>      | <b>292</b>      |
|   | <b>2,078</b>    | <b>1,895</b>    |
| <b>Shareholders' Equity</b>                   |                 |                 |
| Share capital                                 | 483             | 491             |
| Accumulated other comprehensive earnings      | 137             | 170             |
| Retained earnings                             | 2,001           | 2,235           |
|   | 2,621           | 2,896           |
|   | <b>\$ 4,699</b> | <b>\$ 4,791</b> |

Number of Common shares and Class B Common shares outstanding at July 18, 2019 was 68,655,539

### 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 |               |
|---|--------------------|---------------|----------------------|---------------|
|   | 2019               | 2018          | 2019                 | 2018          |
| <b>Share capital</b>                            |                    |               |                      |               |
| Balance - beginning of period                   | \$ 487             | \$ 545        | \$ 491               | \$ 549        |
| Issuance of Common shares                       | -                  | -             | 1                    | -             |
| Repurchase of Common shares                     | (4)                | (17)          | (9)                  | (21)          |
| Balance - end of period                         | <b>\$ 483</b>      | <b>\$ 528</b> | <b>\$ 483</b>        | <b>\$ 528</b> |
| <b>Accumulated other comprehensive earnings</b> |                    |               |                      |               |
| Balance - beginning of period                   | \$ 153             | \$ 127        | \$ 170               | \$ 108        |
| Translation gain (loss) on foreign operations   | (16)               | 18            | (33)                 | 37            |
| Balance - end of period                         | <b>\$ 137</b>      | <b>\$ 145</b> | <b>\$ 137</b>        | <b>\$ 145</b> |

|   |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
| <b>Retained earnings</b>                          |                 |                 |                 |                 |
| Balance - beginning of period                     | \$ 2,135        | \$ 2,209        | \$ 2,235        | \$ 2,069        |
| Actuarial gain (loss) on post-retirement benefits | (36)            | 10              | (72)            | 7               |
| Repurchase of Common shares                       | (27)            | (193)           | (72)            | (235)           |
| Earnings for the period                           | (58)            | 346             | (63)            | 543             |
| Dividends   | (13)            | (11)            | (27)            | (23)            |
| Balance - end of period                           | \$ 2,001        | \$ 2,361        | \$ 2,001        | \$ 2,361        |
| <b>Shareholders' Equity</b>                       | <b>\$ 2,621</b> | <b>\$ 3,034</b> | <b>\$ 2,621</b> | <b>\$ 3,034</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 |          |
|--|--------------------|----------|----------------------|----------|
|  | 2019               | 2018     | 2019                 | 2018     |
| <b>Sales</b>                                   | \$ 1,317           | \$ 1,834 | \$ 2,558             | \$ 3,198 |
| <b>Costs and expenses</b>                      |                    |          |                      |          |
| Cost of products sold                          | 1,013              | 979      | 1,916                | 1,757    |
| Freight and other distribution costs           | 196                | 205      | 366                  | 357      |
| Export duties (note 15)                        | 51                 | 68       | 83                   | 111      |
| Amortization                                   | 63                 | 58       | 128                  | 124      |
| Selling, general and administration            | 52                 | 57       | 110                  | 112      |
| Equity-based compensation                      | -                  | 3        | 3                    | 8        |
| Restructuring and impairment charges (note 10) | 26                 | -        | 26                   | -        |
|  | 1,401              | 1,370    | 2,632                | 2,469    |
| <b>Operating earnings</b>                      | (84)               | 464      | (74)                 | 729      |
| Finance expense                                | (13)               | (9)      | (24)                 | (18)     |
| Other (note 11)                                | (6)                | 10       | (11)                 | 19       |
| <b>Earnings before tax</b>                     | (103)              | 465      | (109)                | 730      |
| Tax recovery (provision) (note 12)             | 45                 | (119)    | 46                   | (187)    |
| <b>Earnings</b>                                | \$ (58)            | \$ 346   | \$ (63)              | \$ 543   |
| <b>Earnings per share (dollars) (note 13)</b>  |                    |          |                      |          |
| Basic  | \$ (0.85)          | \$ 4.52  | \$ (0.92)            | \$ 7.03  |
| Diluted  | \$ (0.92)          | \$ 4.52  | \$ (1.04)            | \$ 7.03  |

|  |          |        |          |        |
|--|----------|--------|----------|--------|
| <b>Comprehensive earnings</b>                              |          |        |          |        |
| Earnings   | \$ (58)  | \$ 346 | \$ (63)  | \$ 543 |
| <b>Other comprehensive earnings</b>                        |          |        |          |        |
| Translation gain (loss) on foreign operations              | (16)     | 18     | (33)     | 37     |
| Actuarial gain (loss) on post-retirement benefits (note 8) | (36)     | 10     | (72)     | 7      |
| <b>Comprehensive earnings</b>                              | \$ (110) | \$ 374 | \$ (168) | \$ 587 |

#### 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 |        |
|--|--------------------|--------|----------------------|--------|
|  | 2019               | 2018   | 2019                 | 2018   |
| <b>Cash provided by (used in)</b>                    |                    |        |                      |        |
| <b>Operating activities</b>                          |                    |        |                      |        |
| Earnings   | \$ (58)            | \$ 346 | \$ (63)              | \$ 543 |
| Adjustments  |                    |        |                      |        |
| Amortization   | 63                 | 58     | 128                  | 124    |
| Restructuring and impairment charges                 | 26                 | -      | 26                   | -      |
| Finance expense                                      | 13                 | 9      | 24                   | 18     |
| Foreign exchange loss (gain) on long-term financing  | 2                  | (2)    | 3                    | (6)    |
| Foreign exchange loss (gain) on export duty deposits | 1                  | (1)    | 3                    | (2)    |
| Export duty deposits                                 | 1                  | (13)   | (4)                  | (17)   |
| Post-retirement expense                              | 20                 | 20     | 41                   | 40     |
| Contributions to post-retirement benefit plans       | (21)               | (22)   | (38)                 | (51)   |
| Tax provision (recovery)                             | (45)               | 119    | (46)                 | 187    |
| Income taxes paid                                    | (18)               | (78)   | (95)                 | (210)  |
| Other  | (7)                | (7)    | 12                   | 7      |
| Changes in non-cash working capital                  |                    |        |                      |        |
| Receivables  | 26                 | (64)   | (23)                 | (122)  |
| Inventories  | 240                | 185    | 60                   | (43)   |
| Prepaid expenses                                     | (12)               | (7)    | (16)                 | (20)   |
| Payables and accrued liabilities                     | (44)               | 12     | (53)                 | 50     |
|  | 187                | 555    | (41)                 | 498    |
| <b>Financing activities</b>                          |                    |        |                      |        |
| Proceeds from (repayment of) operating loans         | (81)               | (83)   | 185                  | -      |

|  |         |         |         |        |
|--|---------|---------|---------|--------|
| Finance expense paid                         | (16)    | (12)    | (21)    | (15)   |
| Repurchase of Common shares                  | (31)    | (210)   | (81)    | (256)  |
| Dividends and other                          | (15)    | (11)    | (29)    | (23)   |
|  | (143)   | (316)   | 54      | (294)  |
| <b>Investing activities</b>                  |         |         |         |        |
| Additions to capital assets                  | (82)    | (69)    | (190)   | (173)  |
| Government assistance                        | 5       | -       | 5       | -      |
| Proceeds from disposal of capital assets     | 7       | 1       | 7       | 1      |
| Other  | 1       | 1       | 1       | 3      |
|  | (69)    | (67)    | (177)   | (169)  |
| <b>Change in cash</b>                        | (25)    | 172     | (164)   | 35     |
| Foreign exchange effect on cash              | 1       | 5       | (3)     | 9      |
| <b>Cash - beginning of period</b>            | 4       | 125     | 147     | 258    |
| <b>Cash - end of period</b>                  | \$ (20) | \$ 302  | \$ (20) | \$ 302 |
| <b>Cash consists of</b>                      |         |         |         |        |
| Cash and short-term investments              |         | \$ 16   | \$ 302  |        |
| Cheques issued in excess of funds on deposit |         | (36)    | -       |        |
|  |         | \$ (20) | \$ 302  |        |

## 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, other residuals 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 use the same accounting policies and methods of their application as the December 31, 2018 annual audited consolidated financial statements. These condensed consolidated interim financial statements should be read in conjunction with our 2018 annual audited consolidated financial statements.

#### 3. Changes in accounting standards

##### **IFRS 16 – Leases**

We have adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach, accordingly the information presented for 2018 has not been restated. The new standard replaces IAS 17 - *Leases* and the related interpretations. IFRS 16 provides a single lessee accounting model and requires lessees to recognize assets and liabilities for all major leases.

On initial application, we elected to record right-of-use assets equal to the corresponding present value of the remaining lease liability. Right-of-use assets and lease obligations of \$14 million were recorded as of January 1, 2019 for leases related to some of our office spaces and mobile equipment.

During the six months ended June 30, 2019, we recorded a \$2 million amortization expense on the

right-of-use assets and we made a \$2 million payment on the lease obligations.

#### 4. Seasonality of operations

Our operating results are subject to seasonal fluctuations that impact quarter-to-quarter operating results. Log availability has a direct impact on our operations. We build up log inventory in Canada during the winter to sustain our lumber and plywood production during the second quarter when logging is curtailed due to wet land conditions. Extreme weather conditions, wildfires in Western Canada and hurricanes in the U.S. South may periodically affect operations including logging, manufacturing and transportation. Consequently, interim operating results may not proportionately reflect operating results for a full year.

#### 5. Inventories

Inventories at June 30, 2019 were written down by \$47 million (March 31, 2019 - \$30 million; December 31, 2018 - \$30 million; June 30, 2018 - \$1 million) to reflect net realizable value being lower than cost.

|                                   | June 30, 2019 | December 31, 2018 |
|-----------------------------------|---------------|-------------------|
| Manufactured products             | \$ 348        | \$ 421            |
| Logs and other raw materials      | 216           | 218               |
| Processing materials and supplies | 158           | 152               |
|                                   | \$ 722        | \$ 791            |

#### 6. Operating loans and long-term debt

##### Operating loans

Our revolving lines of credit consist of a \$500 million committed revolving credit facility which matures August 25, 2022, a \$100 million uncommitted operating credit facility and a \$33 million (US\$25 million) demand line of credit dedicated to our U.S. operations. We also have 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 credit, of which US\$15 million is dedicated to our U.S. operations.

At June 30, 2019, \$246 million (net of deferred financing costs of \$2 million) was drawn under our revolving credit facility. Letters of credit in the amount of \$61 million were also supported by our facilities.

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.

##### Long-term debt

|   | June 30, 2019 | December 31, 2018 |
|---|---------------|-------------------|
| US\$300 million senior notes due October 2024; interest at 4.35%  | \$ 393        | \$ 409            |
| US\$200 million term loan due August 2022; floating interest rate | 262           | 273               |
| US\$8 million note payable due October 2020; interest at 2%       | 10            | 10                |
| Notes payable   | 3             | 4                 |
|   | 668           | 696               |
| Deferred financing costs  | (4)           | (4)               |

On March 15, 2019, we entered into a US\$100 million floating to fixed interest rate swap agreement. The agreement is accounted for as a derivative. The gains or losses related to changes in the fair value are included in other income on our consolidated statements of earnings. For the six months ended June 30, 2019, a \$3 million loss associated with the agreement was recorded in other income.

The fair value of the long-term debt at June 30, 2019 was \$679 million (December 31, 2018 - \$689 million) based on rates available to us at the balance sheet date for long-term debt with similar terms and remaining maturities.

## 7. Other liabilities

|                           | June 30, 2019 | December 31, 2018 |
|---------------------------|---------------|-------------------|
| Post-retirement (note 8)  | \$ 286        | \$ 189            |
| Reforestation             | 82            | 76                |
| Decommissioning (note 10) | 32            | 29                |
| Lease (note 3)            | 10            | -                 |
| Other                     | 27            | 22                |
|                           | <b>\$ 437</b> | <b>\$ 316</b>     |

## 8. 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.

On June 17, 2019, we announced our intention to permanently close our Chasm, British Columbia lumber mill. This resulted in the curtailment of the defined benefit pension plan for the Chasm hourly employees. Included in restructuring and impairment charges is a \$4 million curtailment gain related to the reduction in the post-retirement obligation.

The status of the defined benefit pension plans and other retirement benefit plans, in aggregate, is as follows:

|                                      | June 30, 2019   | December 31, 2018 |
|--------------------------------------|-----------------|-------------------|
| Projected benefit obligations        | \$ (1,595)      | \$ (1,381)        |
| Fair value of plan assets            | 1,321           | 1,204             |
|                                      | <b>\$ (274)</b> | <b>\$ (177)</b>   |
| <b>Represented by</b>                |                 |                   |
| Post-retirement assets               | \$ 12           | \$ 12             |
| Post-retirement liabilities (note 7) | (286)           | (189)             |
|                                      | <b>\$ (274)</b> | <b>\$ (177)</b>   |

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

|                                   |              |       |       |
|-----------------------------------|--------------|-------|-------|
| Discount rate                     | <b>3.00%</b> | 3.25% | 3.75% |
| Future compensation rate increase | <b>3.50%</b> | 3.50% | 3.50% |

For the six months ended June 30, 2019, we recognized in other comprehensive earnings a \$95 million loss (before tax) to reflect the changes in the valuation of the post-retirement benefit plans. The loss reflects the decrease in the discount rate used to calculate plan liabilities from the beginning of the year, partially offset by the return on plan assets.

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 |       |
|--------------------------|--------------------|-------|----------------------|-------|
|                          | 2019               | 2018  | 2019                 | 2018  |
| Actuarial gain (loss)    | \$ (46)            | \$ 14 | \$ (95)              | \$ 10 |
| Tax recovery (provision) | 10                 | (4)   | 23                   | (3)   |
|                          | \$ (36)            | \$ 10 | \$ (72)              | \$ 7  |

## 9. Share Capital

During the six months ended June 30, 2019, we repurchased 1,178,400 Common shares under our normal course issuer bid at an average price of \$68.30 per share for a cost of approximately \$81 million.

## 10. Restructuring and impairment charges

On June 17, 2019, we announced the permanent closure of our Chasm, British Columbia lumber mill. The closure is expected to be completed in the third quarter of 2019. We recognized preliminary charges of \$26 million for the estimated restructuring and impairment costs as follows:

|  | June 30, 2019 |
|--|---------------|
| Severance                                      | \$ 9          |
| Lease obligation and other commitments         | 3             |
| Decommissioning obligation                     | 2             |
| Restructuring charges                          | \$ 14         |
| Asset impairment                               | 16            |
| Curtailment gain on post-retirement obligation | (4)           |
| Total restructuring and impairment charges     | \$ 26         |

## 11. Other

|   | April 1 to June 30 |       | January 1 to June 30 |       |
|---|--------------------|-------|----------------------|-------|
|   | 2019               | 2018  | 2019                 | 2018  |
| Foreign exchange gain (loss) on working capital                     | \$ (2)             | \$ 4  | \$ (5)               | \$ 9  |
| Foreign exchange gain (loss) on intercompany financing <sup>1</sup> | (16)               | 16    | (31)                 | 37    |
| Foreign exchange gain (loss) on long-term debt                      | 14                 | (14)  | 28                   | (31)  |
| Foreign exchange gain (loss) on export duty deposits receivable     | (1)                | 1     | (3)                  | 2     |
| Other   | (1)                | 3     | -                    | 2     |
|   | \$ (6)             | \$ 10 | \$ 11                | \$ 19 |

<sup>1</sup> Relates to US\$550 million (2018 - US\$600 million from January to mid - December and US\$550 million thereafter) 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

## 12. 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 |                 |
|--|--------------------|-----------------|----------------------|-----------------|
|  | 2019               | 2018            | 2019                 | 2018            |
| Income tax recovery (expense) at statutory rate of 27%               | \$ 28              | \$ (126)        | \$ 30                | \$ (197)        |
| Non-taxable amounts  | 1                  | (2)             | 1                    | (4)             |
| Rate differentials between jurisdictions and on specified activities | (1)                | 8               | (2)                  | 12              |
| Decrease in Alberta provincial tax rate <sup>1</sup>                 | 17                 | -               | 17                   | -               |
| Other  | -                  | 1               | -                    | 2               |
| <b>Tax recovery (provision)</b>                                      | <b>\$ 45</b>       | <b>\$ (119)</b> | <b>\$ 46</b>         | <b>\$ (187)</b> |

<sup>1</sup> Effective May 28, 2019, the government of Alberta enacted a change in the provincial tax rate from 12% to 8% over the next four years. This new tax rate increased our tax recovery by \$17 million in the quarter

## 13. 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 |                |
|--|--------------------|----------------|----------------------|----------------|
|  | 2019               | 2018           | 2019                 | 2018           |
| <b>Earnings</b>                                      |                    |                |                      |                |
| Basic  | \$ (58)            | \$ 346         | \$ (63)              | \$ 543         |
| Share option expense (recovery)                      | (5)                | 6              | (6)                  | 17             |
| Equity-settled share option adjustment               | -                  | -              | (3)                  | (3)            |
| <b>Diluted</b>                                       | <b>\$ (63)</b>     | <b>\$ 352</b>  | <b>\$ (72)</b>       | <b>\$ 557</b>  |
| <b>Weighted average number of shares (thousands)</b> |                    |                |                      |                |
| Basic  | 68,779             | 76,555         | 69,106               | 77,190         |
| Share options  | 314                | 724            | 350                  | 745            |
| <b>Diluted</b>                                       | <b>69,093</b>      | <b>77,279</b>  | <b>69,456</b>        | <b>77,935</b>  |
| <b>Earnings per share (dollars)</b>                  |                    |                |                      |                |
| Basic  | \$ (0.85)          | \$ 4.52        | \$ (0.92)            | \$ 7.03        |
| <b>Diluted</b>                                       | <b>\$ (0.92)</b>   | <b>\$ 4.52</b> | <b>\$ (1.04)</b>     | <b>\$ 7.03</b> |

## 14. Segmented information

|                                       | Lumber | Panels | Pulp & paper | Corporate & other | Total    |
|---------------------------------------|--------|--------|--------------|-------------------|----------|
| <b>April 1, 2019 to June 30, 2019</b> |        |        |              |                   |          |
| Sales                                 |        |        |              |                   |          |
| To external customers                 | \$ 919 | \$ 156 | \$ 242       | \$ -              | \$ 1,317 |
| To other segments                     | 33     | 3      | -            | -                 | -        |
|                                       | \$ 952 | \$ 159 | \$ 242       | \$ -              | -        |

|  |         |       |        |        |          |
|--|---------|-------|--------|--------|----------|
| Operating earnings before amortization, restructuring and impairment charges | \$ (12) | \$ 10 | \$ 7   | \$ -   | \$ 5     |
| Amortization   | (48)    | (3)   | (11)   | (1)    | (63)     |
| Restructuring and impairment charges   | (26)    | -     | -      | -      | (26)     |
| Operating earnings   | (86)    | 7     | (4)    | (1)    | (84)     |
| Finance expense  | (9)     | (2)   | (2)    | -      | (13)     |
| Other  | (3)     | -     | -      | (3)    | (6)      |
| Earnings before tax  | \$ (98) | \$ 5  | \$ (6) | \$ (4) | \$ (103) |

#### April 1, 2018 to June 30, 2018

|                       |          |        |        |      |          |
|-----------------------|----------|--------|--------|------|----------|
| Sales                 |          |        |        |      |          |
| To external customers | \$ 1,337 | \$ 198 | \$ 299 | \$ - | \$ 1,834 |
| To other segments     | 44       | 3      | -      | -    |          |
|                       | \$ 1,381 | \$ 201 | \$ 299 | \$ - |          |

|  |        |       |       |        |        |
|--|--------|-------|-------|--------|--------|
| Operating earnings before amortization | \$ 401 | \$ 56 | \$ 66 | \$ (1) | \$ 522 |
| Amortization                           | (43)   | (4)   | (10)  | (1)    | (58)   |
| Operating earnings                     | 358    | 52    | 56    | (2)    | 464    |
| Finance expense                        | (6)    | -     | (2)   | (1)    | (9)    |
| Other                                  | 5      | -     | 2     | 3      | 10     |
| Earnings before tax                    | \$ 357 | \$ 52 | \$ 56 | \$ -   | \$ 465 |

|   | Lumber   | Panels | Pulp & paper | Corporate & other | Total    |
|---|----------|--------|--------------|-------------------|----------|
| <b>January 1, 2019 to June 30, 2019</b> |          |        |              |                   |          |
| Sales                                   |          |        |              |                   |          |
| To external customers                   | \$ 1,740 | \$ 308 | \$ 510       | \$ -              | \$ 2,558 |
| To other segments                       | 69       | 6      | -            | -                 |          |
|   | \$ 1,809 | \$ 314 | \$ 510       | \$ -              |          |

|  |          |       |        |         |          |
|--|----------|-------|--------|---------|----------|
| Operating earnings before amortization, restructuring and impairment charges | \$ 40    | \$ 25 | \$ 18  | \$ (3)  | \$ 80    |
| Amortization   | (98)     | (7)   | (21)   | (2)     | (128)    |
| Restructuring and impairment charges   | (26)     | -     | -      | -       | (26)     |
| Operating earnings   | (84)     | 18    | (3)    | (5)     | (74)     |
| Finance expense  | (16)     | (3)   | (5)    | -       | (24)     |
| Other  | (6)      | -     | -      | (5)     | (11)     |
| Earnings before tax  | \$ (106) | \$ 15 | \$ (8) | \$ (10) | \$ (109) |

#### January 1, 2018 to June 30, 2018

|                       |          |        |        |      |          |
|-----------------------|----------|--------|--------|------|----------|
| Sales                 |          |        |        |      |          |
| To external customers | \$ 2,266 | \$ 349 | \$ 583 | \$ - | \$ 3,198 |
| To other segments     | 81       | 6      | -      | -    |          |
|                       | \$ 2,347 | \$ 355 | \$ 583 | \$ - |          |

|  |        |       |        |        |        |
|--|--------|-------|--------|--------|--------|
| Operating earnings before amortization | \$ 642 | \$ 84 | \$ 134 | \$ (7) | \$ 853 |
| Amortization                           | (95)   | (7)   | (21)   | (1)    | (124)  |
| Operating earnings                     | 547    | 77    | 113    | (8)    | 729    |
| Finance expense                        | (12)   | (1)   | (4)    | (1)    | (18)   |
| Other                                  | 8      | -     | 5      | 6      | 19     |
| Earnings before tax                    | \$ 543 | \$ 76 | \$ 114 | \$ (3) | \$ 730 |

The geographic distribution of external sales is as follows<sup>1</sup>:

|               | April 1 to June 30 |          | January 1 to June 30 |          |
|---------------|--------------------|----------|----------------------|----------|
|               | 2019               | 2018     | 2019                 | 2018     |
| Canada        | \$ 270             | \$ 379   | \$ 531               | \$ 665   |
| United States | 785                | 1,131    | 1,486                | 1,933    |
| China         | 173                | 183      | 342                  | 338      |
| Other Asia    | 78                 | 130      | 176                  | 239      |
| Other         | 11                 | 11       | 23                   | 23       |
|               | \$ 1,317           | \$ 1,834 | \$ 2,558             | \$ 3,198 |

<sup>1</sup> Sales distribution is based on the location of product delivery

## 15. 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 27 "Countervailing ("CVD") and antidumping ("ADD") duty dispute" of our 2018 annual audited consolidated financial statements.

During the six months ended June 30, 2019, our lumber segment posted cash deposits for CVD at a 17.99% rate and for ADD at a 5.57% rate. Starting January 1, 2019, we moved into a new period of review that ends December 31, 2019. Our estimate of the ADD rate for the 2019 review period, using our actual sales and cost data and the same calculation methodology as the USDOC, is 4.20% which is lower than the ADD deposit rate of 5.57% but higher than the first quarter rate of 2.03%. The estimated 2019 ADD rate will continue to change over the remainder of the 2019 review period.

For the lumber segment, during the six months ended June 30, 2019 we incurred duty deposits of \$67 million related to CVD (June 30, 2018 - \$93 million) and \$20 million related to ADD (June 30, 2018 - \$30 million) which were recorded as follows:

|  | April 1 to June 30 |              | January 1 to June 30 |               |
|--|--------------------|--------------|----------------------|---------------|
|  | 2019               | 2018         | 2019                 | 2018          |
| Export duties recognized as expense in consolidated statements of earnings                 | \$ 51              | \$ 66        | \$ 83                | \$ 107        |
| Export duties recognized as export duty deposits receivable in consolidated balance sheets | (1)                | 12           | 4                    | 16            |
| <b>Total</b>   | <b>\$ 50</b>       | <b>\$ 78</b> | <b>\$ 87</b>         | <b>\$ 123</b> |

Export duty deposits receivable included on our consolidated balance sheets is as follows:

|  | June 30, 2019 | December 31, 2018 |
|--|---------------|-------------------|
| Beginning balance  | \$ 75         | \$ 37             |
| Export duties recognized as export duty deposits receivable in consolidated balance sheets | 4             | 31                |
| Interest recognized on the export duty deposits receivable                                 | 2             | 2                 |
| Foreign exchange gain (loss) on the export duty deposits                                   | (3)           | 5                 |
| <b>Ending balance</b>  | <b>\$ 78</b>  | <b>\$ 75</b>      |

As at June 30, 2019, export duties paid and payable on deposit with the USDOC are US\$229 million for CVD and US\$83 million for ADD for a total of US\$312 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 earnings 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.

## 16. Subsequent event

On July 18, 2019, we completed an agreement which amends and extends our committed revolving credit facility. The agreement includes an extension of the maturity date from August 25, 2022 to August 28, 2024 and an increase in the revolving credit borrowing capacity from \$500 million to \$850 million. At the same time, we terminated the \$100 million uncommitted operating credit facility and extended the maturity date of the US\$200 million term loan from August 25, 2022 to August 28, 2024.

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CNW 17:01e 18-JUL-19