



Management's Discussion and Analysis

Introduction and Interpretation

This discussion and analysis by West Fraser's management ("MD&A") of the Company's financial performance during the first 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 dollars, 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.

Unless otherwise indicated, the Company's significant accounting policies and estimates, contractual obligations, commitments, contingencies, and business risks and uncertainties, as described in its 2018 annual MD&A and annual audited consolidated financial statements, are substantially unchanged.

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 World Trade Organization ruling and British Columbia government forest policy initiative), "Discussion & Analysis of Non-Operational Items" (concerning adjustments to duty rates), "Pulp and Paper Segment – Production" (concerning planned maintenance shutdowns), "Selected Cash Flow Items – Operating Activities" (concerning second quarter log inventory volumes), and "Business Outlook" (concerning our operations, markets and cash flows). 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.

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. The information in this MD&A is as at April 25, 2019 unless otherwise indicated.

Recent Developments

Softwood Lumber Dispute Update

On April 9, 2019, a World Trade Organization (“WTO”) Panel ruled on certain matters relating to the application of softwood lumber antidumping duties (“ADD”). Canada will appeal the WTO Panel’s decision to allow the United States to use “zeroing” to calculate lumber antidumping tariffs. Zeroing calculates tariffs based on whether the domestic price of a product exceeds its U.S. import price after it is adjusted for transportation and handling costs. The final determination of ADD is subject to additional appeals from both the U.S. and Canada and consequently, our view on the outcome of the antidumping case has not changed as a result of the WTO ruling.

B.C. Government Forestry Policies

The British Columbia (“B.C.”) government has launched policy initiatives that will affect the B.C. forest sector.

In the northeast, the B.C. government is consulting with communities on a draft Caribou Protection Plan and proposed Partnership Agreement with area First Nations. The provincial government has indicated that this plan and agreement has the potential to remove at least 300,000 m³ from the available timber supply in the area creating a shortfall in the available timber supply compared to existing production capacity in the region.

On April 11, 2019, the B.C. government introduced Bill 22, Forest Amendment Act, 2019 (the “Act”). If passed, the new legislation will require forest companies to receive Ministerial approval before they dispose or transfer a tenure agreement to another party. The Act will enable the Minister to refuse to approve a disposition or transfer if it is deemed not to be in the public interest or detrimental to competition in the buying or selling of timber or residuals, or to place conditions on the approval.

The B.C. government has also initiated an “Interior Revitalization” process consisting of two parts. The first is to encourage industry participants, First Nations, local governments, and other stakeholders to engage in collaborative planning across Timber Supply Areas. The B.C. government expects these processes to arrive at a vision for industry competitiveness and community economic stability that will incorporate First Nations’ interests and address the economic, cultural, recreational, social, and other uses of the land base. Second, the B.C. government has signaled it intends to move ahead with new policy that will modernize land-use planning, maximize efficiency in the use of the land base, accommodate local land use interests, and support a transition to higher value products.

At this time, it is not possible to determine the impact these policy initiatives will have on our B.C. operations.

Summary Information

(\$ millions except as otherwise indicated)

	Q1-19	Q4-18	Q1-18
Sales	1,241	1,274	1,364
Adjusted EBITDA	110	120	379
Export duties	(32)	(37)	(43)
Equity-based compensation	(3)	1	(5)
Amortization	(65)	(69)	(66)
Operating earnings	10	15	265
Finance expense	(11)	(9)	(9)
Other	(5)	22	9
Tax recovery (provision)	1	1	(68)
Earnings	(5)	29	197
CAD\$1.00 converted to US\$ – average	0.752	0.758	0.790

Selected Quarterly Information

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

	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17
Sales	1,241	1,274	1,646	1,834	1,364	1,376	1,247	1,322
Earnings	(5)	29	238	346	197	207	120	146
Basic EPS	(0.07)	0.42	3.25	4.52	2.53	2.66	1.53	1.86
Diluted EPS	(0.12)	0.29	2.99	4.52	2.53	2.66	1.53	1.86

Discussion & Analysis of Non-Operational Items

Adjusted Earnings and Adjusted Basic EPS

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

	Q1-19	Q4-18	Q1-18
Earnings	(5)	29	197
Add (deduct):			
Export duties	32	37	43
Interest recognized on export duty deposits receivable	(1)	(1)	(1)
Equity-based compensation	3	(1)	5
Exchange (gain) loss on long-term financing	1	(6)	(4)
Exchange (gain) loss on export duty deposits receivable	2	(4)	(1)
Net tax effect on the above adjustments	(10)	(11)	(10)
Adjusted earnings	22	43	229
Adjusted basic EPS ¹	0.32	0.63	2.96

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

Export duties of \$32 million were expensed in the quarter compared \$37 million in the previous quarter and \$43 million in the first quarter of 2018. 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 14 of our Financial Statements. The administrative review of our duty rates for the first investigation period is expected to commence in 2019 and 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.

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 the exchange gains or losses recorded on our 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 \$3 million compared to a gain of \$9 million in the previous quarter and a gain of \$5 million in the first quarter of 2018.

The results of the current and previous quarter each recorded an income tax recovery of \$1 million compared to a tax provision of \$68 million in the first quarter of 2018. The effective tax rate was 17% in the current quarter compared to 4% in the previous quarter and 26% in the first quarter of 2018. Note 11 to the Financial Statements provides a reconciliation of income taxes calculated at the statutory rate to the income tax expense.

The funded position of our defined benefit pension plans and other 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. The loss reflects a decrease in the discount rate from 3.75% in the previous quarter to 3.25% in the current quarter, which increased our projected obligations. This was partially offset by the actual rate of return on plan assets being higher than the annual discount rate.

Discussion & Analysis by Product Segment

Lumber Segment

	Q1-19	Q4-18	Q1-18
SPF (Mmfbm)			
Production	814	907	925
Shipments	794	943	737
SYP (Mmfbm)			
Production	648	652	725
Shipments	650	626	687
Sales (\$ millions)			
Lumber	724	757	829
Wood chips and other residuals	101	111	106
Logs and other	32	30	31
	857	898	966
Adjusted EBITDA (\$ millions)	84	68	282
Export duties (\$ millions)	(32)	(37)	(41)
Amortization (\$ millions)	(50)	(53)	(52)
Operating earnings (\$ millions)	2	(22)	189
Adjusted EBITDA margin (%)	10	8	29
Benchmark prices (per Mfbm)			
SPF #2 & Better 2x4 ¹ – US\$	372	327	513
SPF #3 Utility ¹ - US\$	323	268	372
SYP #2 West 2x4 ² – US\$	402	419	540
SPF #2 & Better 2x4 – CAD\$ ³	495	432	649
SPF #3 Utility - CAD\$ ³	429	354	470
SYP #2 West 2x4 – CAD\$ ³	534	553	683

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 lower than the previous quarter primarily due to lower market demand. A cold and wet winter delayed U.S. home construction and wholesalers and retailers appeared to be reluctant to take on inventories given a tempered outlook on housing and the volatility experienced in 2018, all of which resulted in lower than expected demand. SPF shipments were higher than the first quarter of 2018 as last year was affected by transportation shortages resulting in low shipments and a significant build in SPF inventory.

SYP shipments were higher than the previous quarter as we were able to ship the inventory that built in the fourth quarter of 2018. Shipments were lower than the first quarter of 2018 relative to lower production.

Production

SPF production for the quarter was affected by the previously announced temporary curtailments at our Williams Lake, Chasm, 100 Mile and Chetwynd sawmills and the permanent curtailment of the third-shift at our Quesnel and Fraser Lake sawmills resulting in 125 MMfbm of lower production. In addition, a colder and longer than normal winter negatively affected production as frozen logs and lumber created production flow issues. The fourth quarter of 2018 also included temporary curtailments at Williams Lake, Chasm, 100 Mile and Chetwynd sawmills which resulted in 25 MMfbm of lower production.

Our first quarter 2019 temporary curtailments represented 9% of our B.C. capacity for the period. The permanent curtailments at Quesnel and Fraser Lake represented 12% of our B.C. capacity at that time.

SYP production for the quarter was affected by extremely wet weather resulting in temporary curtailments due to log shortages in several operating areas. The first quarter of 2018 was also affected by wet weather, but the rainfall was heavier and more prolonged in the first quarter of 2019. Production in the current quarter was also negatively affected by a planned reduction of operating hours, a capital project at our Blackshear mill and continuing integration activities at the Gilman sawmills.

Operating Earnings

Operating earnings increased compared to the previous quarter due primarily to higher SPF pricing, higher SYP shipments, and lower Canadian stumpage cost related to quota logs. British Columbia purchase log costs continued to escalate in the quarter due to heavy competition for a shrinking timber supply and U.S. South log costs increased due to the weather-related log shortages. The impact on operating earnings of log and lumber inventory write-downs to market value were nil in the current quarter compared to \$17 million in the fourth quarter of 2018. . Lastly, operating earnings were negatively impacted by lower SPF production and shipments, although lower shipment volumes meant lower overall Canadian lumber freight expense.

Operating earnings were lower compared to the first quarter of 2018 primarily due to significantly lower lumber prices and production volume and to higher Canadian and U.S. log costs. The effect of lower SYP shipment volumes was offset by higher SPF shipment volumes, the latter which resulted in higher Canadian lumber freight expense.

Panels Segment

	Q1-19	Q4-18	Q1-18
Plywood (MMsf 3/8" basis)			
Production	211	205	208
Shipments	198	212	187
MDF (MMsf 3/4" basis)			
Production	53	55	56
Shipments	54	52	57
LVL (Mcf)			
Production	496	430	663
Shipments	531	482	582
Sales (\$ millions)			
Finished products	149	144	148
Wood chips and other residuals	5	5	5
Logs and other	1	2	1
	155	151	154
Adjusted EBITDA (\$ millions)	15	9	28
Amortization (\$ millions)	(4)	(5)	(3)
Operating earnings (\$ millions)	11	4	25
Adjusted EBITDA margin (%)	10	6	18
Benchmark prices			
Plywood (per Msf 3/8" basis) ¹ CAD\$	509	465	569

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

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

Operating earnings increased compared to the previous quarter due primarily to higher plywood prices.

Operating earnings decreased compared to the first quarter of 2018 due to lower plywood prices, higher log costs and lower MDF and LVL production volumes. This was partially offset by higher MDF and LVL prices.

Pulp & Paper Segment

	Q1-19	Q4-18	Q1-18
BCTMP (Mtonnes)			
Production	164	157	165
Shipments	178	139	158
NBSK (Mtonnes)			
Production	99	121	126
Shipments	118	118	127
Newsprint (Mtonnes)			
Production	29	32	27
Shipments	22	30	28
Sales (\$ millions)	268	268	284
Adjusted EBITDA (\$ millions)	11	47	70
Export duties (\$ millions)	-	-	(2)
Amortization (\$ millions)	(10)	(11)	(11)
Operating earnings (\$ millions)	1	36	57
Adjusted EBITDA margin (%)	4	18	25
Benchmark price (per tonne)			
NBSK U.S. – US\$ ^{1,3}	1,380	1,428	1,233
NBSK China – US\$ ^{2,3}	710	805	910
Newsprint – US\$ ⁴	710	715	642
NBSK U.S. – CAD\$ ⁵	1,835	1,886	1,559
NBSK China – CAD\$ ⁵	944	1,063	1,151
Newsprint – CAD\$ ⁵	944	944	812

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. – delivered 48.8 gram newsprint.

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 higher than the previous quarter due in part to higher production and to 16,000 tonnes of BCTMP shipments being carried over from fourth quarter 2018 as a result of delayed vessel sailings.

NBSK shipments were similar to the previous quarter as inventory at our Hinton pulp mill was exhausted during the delayed restart period.

Production

BCTMP production improved over the fourth quarter 2018 due to planned maintenance and capital upgrade shutdowns at our Quesnel River pulp mill, which combined with the two-day natural gas line disruption removed 19,000 tonnes from fourth quarter production.

NBSK production was down significantly compared to the previous quarter and the first quarter of 2018 mostly due to our Hinton pulp mill. The Hinton mill had an unplanned outage in January and a planned major maintenance shutdown in March of this year. The January outage was caused by an unexpected loss of power and data connections which led to the immediate shutdown of the mill and a complicated and time-consuming restart.

In efforts to continue to improve reliability at our Hinton pulp mill, we are shortening the interval between planned shutdowns. Previously our shutdowns were on an 18-month interval alternating between minor and major shutdowns. Going forward, our shutdowns will be performed annually.

Operating Earnings

Operating earnings declined compared to the previous quarter due primarily to lower pulp pricing and higher manufacturing costs related to planned and unplanned shutdowns at our Hinton pulp mill. Hinton pulp's costs increased due to higher maintenance costs and higher usage rates related to chemicals, labor and natural gas. Operating earnings were positively affected by lower fibre costs, higher BCTMP shipment volumes, and lower manufacturing costs at our Quesnel River pulp mill after their planned maintenance and capital upgrade shutdowns in the fourth quarter of 2018.

Operating earnings decreased compared to the first quarter of 2018 due primarily to lower realized pulp prices, lower NBSK and newsprint shipment volumes, higher fibre and power costs, and higher manufacturing costs related to planned and unplanned shutdowns at our Hinton pulp mill. Hinton pulp's costs were higher in the current quarter due to the reasons discussed above. Operating earnings were positively affected by higher newsprint pricing.

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 \$2 million was recorded in the first quarter of 2018 and duties were accrued until the third quarter of 2018, at which point they were reversed.

Business Outlook

Operations

We expect lumber production for 2019 may be lower by at least 200 million board feet compared to 2018 given the difficult start to 2019, the temporary and permanent curtailments that affected the first quarter and what appears to be continuing difficult market conditions. Anticipated production assumes adequate demand and normal availability of logs and transportation services and no further curtailments.

Our panels segment continues to see attractive levels of plywood pricing. Two of our plywood operations are in the B.C. interior, and we expect log costs for those operations to continue to increase in 2019.

In the second quarter of 2019 we have a major maintenance shut down at our jointly-owned NBSK mill in Quesnel. Given the production challenges at our Hinton pulp mill in the first quarter of 2019, we expect that our NBSK production for 2019 will be lower than 2018. As part of our reliability improvement strategy, Hinton pulp mill will be returning to an annual major maintenance shutdown plan which is consistent with the shutdown strategy used by our jointly-owned NBSK mill. We expect to grow our BCTMP production by 25 thousand tonnes over the prior year.

Markets

New residential construction in North America experienced a slow start in 2019 which we believe was influenced in part by the cold and wet weather conditions across many of our market areas. Repair and renovation activities are not believed to be experiencing the same extent of challenges and demand in that sector appears to have held up.

We are anticipating that, with a positive turn in a number of the economic fundamentals that contribute to housing demand, we will see a moderate resumption in housing construction growth heading into the second half of 2019. Demand from offshore markets has been reasonably consistent with prior years. We continue to be subject to CVD and ADD and it is difficult to predict to what extent duties will affect lumber prices and the cost structure of our Canadian lumber business over the long term

The major component of our panels segment is plywood which is sold mainly in Canada. Although demand for Canadian plywood has been strong over the past several years, various governments across Canada have taken steps to attempt to moderate Canadian housing prices which could dampen plywood demand. MDF and LVL demand is heavily influenced by North American new home construction and we are expecting continuing improvement in U.S. residential construction which should help maintain demand for these products.

We are anticipating that pulp markets will generally be flat to slightly weaker and will be heavily influenced by the pace of economic activity in China.

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 \$350 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 of 2019, to purchase up to approximately 10% of the public float of our Common shares and we will continue to consider share purchases with excess cash if 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. Our operating facilities include a \$500 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 \$70 million dedicated to letters of credits of which US\$15 million is committed to our U.S. operations.

Considering our capital investment plans for 2019, seasonal log inventory build, escalated log costs in B.C. and our balanced capital allocation strategy we decided to increase our financial flexibility. On April 24, 2019, we entered into an agreement for a new \$100 million uncommitted operating credit facility. We also expanded our letters of credit facility by an additional \$20 million. These new facilities were undrawn on execution.

On March 31, 2019, \$329 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 March 31, 2019 was \$208 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. 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 April 24, 2019	972,700	\$69.61
September 17, 2013 to April 24, 2019	17,021,164	\$66.10

The outstanding Common share equity consists of 66,576,655 Common shares and 2,281,478. Class B Common shares for a total of 68,858,133 shares issued and outstanding as at April 24, 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.

As of April 24, 2019 there were 1,216,233 share purchase options outstanding with exercise prices ranging from \$23.68 to \$85.40 per Common share.

Our cash requirements, other than for operating purposes, are primarily for interest payments, repayment of debt, additions to property, plant, equipment and timber, acquisitions, pension funding 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.

Summary of Financial Position

(\$ millions, except as otherwise indicated)

	Q1-19	Q4-18	Q1-18
Cash ¹	34	160	125
Current assets	1,485	1,345	1,468
Current liabilities	844	595	624
Ratio of current assets to current liabilities	1.8	2.3	2.4
Net debt ²	1,001	606	610
Shareholders' equity	2,775	2,896	2,881
Net debt to total capital ³	27%	17%	17%

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".

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.

Selected Cash Flow Items

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

	Q1-19	Q4-18	Q1-18
Operating Activities			
Earnings	(5)	29	197
Amortization	65	69	66
Post-retirement expense	21	24	20
Contributions to post-retirement plans	(17)	(24)	(29)
Income taxes paid	(77)	(41)	(132)
Income tax provision (recovery)	(1)	(1)	68
Change in inventories	(180)	(77)	(228)
Other	(34)	33	(19)
	(228)	12	(57)
Financing Activities			
Debt and operating loans	266	63	83
Financing expense paid	(5)	(12)	(3)
Common share repurchases	(50)	(118)	(46)
Dividends and other	(14)	(14)	(12)
	197	(81)	22
Investing Activities			
Additions to capital assets	(108)	(86)	(104)
Other	-	10	2
	(108)	(76)	(102)
Decrease in cash	(139)	(145)	(137)

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.

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 and muddy land conditions. This log inventory is typically consumed by operations in the second quarter. A colder than normal February and dryer than normal March allowed for a longer 2019 logging season resulting in higher log inventory volumes compared to the first quarter of 2018. Also affecting the comparison to the first quarter of 2018 was higher than normal finished good inventory in 2018 which occurred because of first quarter 2018 transportation issues.

During the first quarter of 2019, we made income tax payments of \$77 million compared to \$132 million in the first quarter of 2018. Cash payments in the first quarter of 2019 included the final Canadian income tax payment of approximately \$36 million on account of 2018 income and the first quarter of 2018 included approximately \$113 million on account of 2017 income.

Financing Activities

Our Canadian operations drew on our operating loan during the quarter primarily to cover the seasonal log inventory build and income tax payments. We also returned \$64 million to our shareholders through Common share repurchases under our NCIB program and dividend payments.

Investing Activities

Cash flows used for investing activities in the quarter related to capital assets additions. Expenditures were \$91 million for our lumber segment, \$8 million for our panels segment, \$8 million for our pulp & paper segment and \$1 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.

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 these measures, our method of calculating each of them may differ from the methods used by other entities and, accordingly, our use of these measures may not be directly comparable to similarly titled measures used by other entities.

Adjusted EBITDA

(\$ millions)

	Q1-19	Q4-18	Q1-18
Earnings	(5)	29	197
Add:			
Amortization	65	69	66
Finance expense	11	9	9
Tax provision (recovery)	(1)	(1)	68
EBITDA	70	106	340
Add:			
Equity-based compensation	3	(1)	5
Export duties	32	37	43
Other	5	(22)	(9)
Adjusted EBITDA	110	120	379

Adjusted EBITDA by Segment

(\$ millions)

	Q1-19	Q4-18	Q1-18
Lumber			
Earnings before tax	(8)	(18)	186
Add:			
Amortization	50	53	52
Finance expense	7	6	6
EBITDA	49	41	244
Add:			
Export duties	32	37	41
Other	3	(10)	(3)
Adjusted EBITDA	84	68	282
Panels			
Earnings before tax	10	4	24
Add:			
Amortization	4	5	3
Finance expense	1	-	1
EBITDA	15	9	28
Add:			
Other	-	-	-
Adjusted EBITDA	15	9	28
Pulp & Paper			
Earnings before tax	(2)	40	58
Add:			
Amortization	10	11	11
Finance expense	3	3	2
EBITDA	11	54	71
Add:			
Export duties	-	-	2
Other	-	(7)	(3)
Adjusted EBITDA	11	47	70
Corporate and Other			
Earnings before tax	(6)	2	(3)
Add:			
Amortization	1	-	-
EBITDA	(5)	2	(3)
Add:			
Equity-based compensation	3	(1)	5
Other	2	(5)	(3)
Adjusted EBITDA	-	(4)	(1)
Total Adjusted EBITDA	110	120	379

Adjusted Earnings and Adjusted Basic Earnings per Share

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

	Q1-19	Q4-18	Q1-18
Earnings	(5)	29	197
Add:			
Export duties	32	37	43
Interest recognized on export duty deposits receivable	(1)	(1)	(1)
Equity-based compensation	3	(1)	5
Exchange (gain) loss on long-term financing	1	(6)	(4)
Exchange (gain) loss on export duty deposits receivable	2	(4)	(1)
Net tax effect on the above adjustments	(10)	(11)	(10)
Adjusted earnings	22	43	229
Adjusted basic EPS ¹	0.32	0.63	2.96

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)

	Q1-19	Q4-18	Q1-18
Net debt			
Cash and short-term investments	(34)	(160)	(125)
Deferred financing costs ¹	(6)	(6)	(7)
Cheques issued in excess of funds on deposit	30	13	-
Operating loans	329	63	83
Long-term debt	682	696	659
	1,001	606	610
Shareholders' equity	2,775	2,896	2,881
Total capital	3,776	3,502	3,491
Net debt to total capital	27%	17%	17%

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 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 March 31, 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.