

WESTERN FOREST PRODUCTS INC.



Annual Information Form – March 3, 2010

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS AND INFORMATION.....	3
THE COMPANY.....	4
SUBSIDIARIES.....	4
DEVELOPMENT OF THE BUSINESS.....	5
Company Profile and Strategy.....	5
Summary History.....	5
Significant Developments Since January 2007.....	6
Changes Expected for 2010.....	7
BUSINESS OF THE COMPANY.....	8
Overview.....	8
Forest Products Industry.....	8
Forest Resources.....	8
Manufacturing Facilities.....	12
Sales, Marketing and Distribution.....	14
Competition.....	16
Softwood Lumber Agreement.....	16
Environment, Health & Safety.....	16
First Nations Relations.....	18
Capital Expenditures.....	19
Human Resources.....	19
Research and Development.....	19
RISK FACTORS.....	19
DIVIDENDS.....	20
CAPITAL STRUCTURE.....	20
Share Capital.....	20
Class C Warrants.....	21
MARKET FOR SECURITIES.....	22
Trading Price and Volume.....	22
Prior Sales.....	22
DIRECTORS AND OFFICERS.....	22
AUDIT COMMITTEE.....	25
Composition of and Education and Experience of Members of the Audit Committee.....	25
Relevant Education and Experience.....	25
Pre-Approval Policies and Procedures of Non-Audit Services.....	26
External Auditor Service Fees.....	26
LEGAL PROCEEDINGS.....	26
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	27
TRANSFER AGENTS AND REGISTRARS.....	28
MATERIAL CONTRACTS.....	28
INTEREST OF EXPERTS.....	28
ADDITIONAL INFORMATION.....	28
GLOSSARY OF CERTAIN TERMS.....	29
APPENDIX.....	31

FORWARD-LOOKING STATEMENTS AND INFORMATION

This Annual Information Form contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. Those statements and information appear in a number of places in this document and include statements and information regarding our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives and strategies. Such statements and information as included in "Development of the Business – Changes Expected for 2010" and as may be indicated by words such as "estimate", "expect", "anticipate", "plan", "intend", "believe", "should", "may" and similar words and phrases. Readers are cautioned that it would be unreasonable to rely on any such forward-looking statements and information as creating any legal rights, and that the statements and information are not guarantees and may involve known and unknown risks and uncertainties, and that actual results and objectives and strategies may differ or change from those expressed or implied in the forward-looking statements or information as a result of various factors. Such risks and uncertainties include, among others: general economic conditions, competition and selling prices, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, regulations or public policy, misjudgments in the course of preparing forward-looking statements or information, changes in opportunities and other factors. The information contained in this Annual Information Form, including, without limitation, the information set forth under the heading "Business of the Company" and the information contained in our consolidated financial statements and accompanying management's discussion and analysis for the year ended December 31, 2009, identifies important factors that could cause such differences. All written and oral forward-looking statements or information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, Western Forest Products Inc. does not expect to update forward-looking statements or information as conditions change.

THE COMPANY

In this Annual Information Form, unless the context otherwise requires, “Western”, “Company”, “we”, “us”, “our” and similar terms refer to Western Forest Products Inc. and its subsidiaries.

Western’s business is timber harvesting and lumber manufacturing for worldwide markets. Western’s operations are located in the Coastal region of British Columbia. Western’s head office is located at Suite 510 – 700 West Georgia, TD Tower PO Box 10032, Pacific Centre, Vancouver, British Columbia, V7Y 1A1 and the registered office is located at Suite 3000, 1055 West Georgia Street, Vancouver, British Columbia, V6E 3R3.

The Company was incorporated as 4204247 Canada Inc. under the Canada Business Corporations Act on April 27, 2004 and changed its name to Western Forest Products Inc. on June 21, 2004. On July 27, 2004, Western acquired the solid wood assets and certain pulp assets of Doman Industries Limited (“Doman”) and certain related companies. Western commenced business on July 28, 2004 and on August 3, 2004, the Common Shares began trading on the Toronto Stock Exchange and trade under the symbol “WEF”. In June 2006, Western’s articles were amended to create non-voting shares.

As at March 3, 2010 Brookfield Special Situations Management Limited (“BSS2”) (formerly Tricap Management Limited), an indirect wholly-owned subsidiary of Brookfield Asset Management (“BAM”) owns 63,026,544 (49%) of the Company’s Common Shares and 338,945,860 (100%) of the Non-Voting Shares.

Certain other terms used in this Annual Information Form are defined under “*Glossary of Certain Terms*”, which can be found at the end of this document, starting at page 29. All information in this Annual Information Form is as of March 3, 2010, unless otherwise indicated. All dollar amounts are expressed in Canadian dollars, unless otherwise indicated.

SUBSIDIARIES

On May 1, 2006, Western acquired all of the issued and outstanding shares of Cascadia Forest Products Ltd. (“Cascadia”). Immediately after the acquisition, Western and Cascadia amalgamated with two of Western’s subsidiaries, WFP Western Lumber Ltd. and Mid-Island Reman Inc. The amalgamated company continued as Western Forest Products Inc. On March 1, 2007, Western amalgamated with its wholly-owned subsidiary, Western Pulp Limited. The amalgamated company continues to be called Western Forest Products Inc.

The principal subsidiaries of the Company are:

Name	Jurisdiction of Incorporation	Percentage owned
MacMillan Bloedel Kabushiki Kaisha	Japan	100%
Western Lumber Sales Limited	Canada	100%
WFP Quatsino Navigation Limited	Canada	100%

MacMillan Bloedel Kabushiki Kaisha has offices in Tokyo and Osaka and sells Western’s lumber products to Japanese wholesale and manufacturing customers. Western Lumber Sales Limited sells the Company’s lumber products to customers in the United States. WFP Quatsino Navigation Limited is the beneficial owner of a number of the Company’s non-core assets.

The Company’s other 100% owned subsidiaries are Cascadia Fibre Supply Ltd. and Western Forest Products Pty. Ltd. The Company also had a 50% equity interest in Strathcona Helicopters Ltd. and Timber Crest Estates Limited. Strathcona Helicopters Ltd. ceased operations in May 2008 and was wound up in November 2009 following the liquidation of its remaining assets and liabilities.

WFP Forest Products Ltd. is a jointly owned entity of the Company and Brookfield Properties Limited (see the Section entitled “DEVELOPMENT OF BUSINESS - Significant Developments Since January 2007” for more information).

DEVELOPMENT OF THE BUSINESS

Company Profile and Strategy

Western is a major integrated softwood forest products company operating in the coastal region of British Columbia. The Company's long-term business objective is to create superior value for shareholders by building a margin-focused lumber business of sufficient size and scale to compete successfully in global softwood lumber markets. To achieve this, our strategy is to own the tenure to harvest high quality Crown-owned coastal timberlands, to operate efficient, low-cost converting facilities and to produce and sell high-value softwood lumber in demand by global markets. We seek to manage our business with a focus on operating cash flow and maximizing the value of our fibre resource through the production cycle, from the planning of our logging operations to the production, marketing and sale of our lumber products.

Western's business includes the harvesting of timber, reforestation, forest management, the manufacture and sale of lumber and wood chips, and the sale of logs not consumed in the manufacturing process. Western's lumber products are currently sold in over 25 countries worldwide. The sawmills process high-quality logs, including hemlock, Douglas fir and western red cedar, into primarily long-length, wide-width and higher-grade lumber, commodity grades of lumber and residual wood chips that are sold externally and used for pulp production. The value-added lumber remanufacturing plants dry, saw and trim lumber for use in producing higher-value products such as mouldings, frames and paneling.

Our business comprises eight sawmills with an annual lumber capacity in excess of 1.5 billion board feet, four value-added remanufacturing plants and timberland operations with approximately 7.4 million cubic metres of allowable annual cut ("AAC"), before temporary AAC reductions, from high-quality replaceable Crown-owned tenures on Vancouver Island, the British Columbia mainland coast and the Haida Gwaii / Queen Charlotte Islands. Approximately 0.3 million cubic metres of additional potential harvest is available from our adjacent privately owned timberlands and non-replaceable Crown tenures.

Summary History

Following incorporation and the initial acquisition of the assets of Doman Industries Limited in 2004, the Company undertook a series of restructuring activities including the closure of its Silvertree sawmill in 2005, the exit from the pulp business in early 2006 and ceasing operations at the log merchandiser, which was used primarily to supply whole log wood chips to the Company's Squamish pulp mill. These properties, other than the site of the former pulp mill at Squamish, have since been sold.

Western subsequently expanded its forest operations through two acquisitions. On March 17, 2006, the Company purchased the Englewood Logging Division, consisting of Tree Farm Licence 37 on Vancouver Island and certain related assets for \$45.0 million plus the value of certain log inventories. On May 1, 2006, Western acquired all of the issued and outstanding shares of Cascadia Forest Products Ltd. from Trilon Bancorp Inc. a wholly-owned subsidiary of BAM, for final cash consideration of \$202.2 million. Cascadia was a coastal British Columbia integrated lumber producer that harvested timber and produced high-value, high-quality wood products for customers worldwide. Cascadia was, at the time, the largest Crown tenure holder in coastal British Columbia, with an AAC of approximately 3.6 million cubic metres and one of the largest lumber producers on the British Columbia coast, owning and operating four specialized sawmills with an aggregate annual production capacity of approximately 570 million board feet of lumber, a "custom cut" division and four remanufacturing facilities.

With the closing of the Cascadia and Englewood acquisitions and completion of the restructuring activities, the Company focused on the integration of its ongoing business operations. Western made organizational changes that reduced management staff by approximately 110 positions. The corporate and administration groups were consolidated at Duncan on Vancouver Island, the logging operations centralized in Campbell River, also on Vancouver Island, and the sales organizations were brought together in one office in Vancouver. Integration provided the opportunity for the consolidation of timberlands operations to increase productivity, reduce fixed costs per unit logged and optimize log flows from the timberlands to sawmills, taking advantage of shorter barging and towing distances available with the new timber tenure and mill configuration. Western closed the New Westminster sawmill in February 2007 and sold the property in March 2008.

Since the restructuring mentioned above, the Company has focused primarily on operational improvements, thereby reducing costs. The costs of harvesting have been reduced through the rationalization of logging

operations. Recovery rates of lumber produced from logs have been increased with the benefit of previous capital investments and refined sawmilling techniques. In addition, systems and processes have been improved, reducing costs across the organization. Further restructuring took place in late 2008 and 2009 to address the continuing weak worldwide lumber markets resulting in further organizational changes, plant down time, headcount reductions and the relocation of the Company's corporate office to Vancouver.

Significant Developments Since January 2007

Since mid-2007, the Company has experienced very difficult market conditions for its products. U.S. dimension lumber markets remain extraordinarily weak and the Japanese housing market has also slowed, bringing greater competition as many wood producers look for alternate markets. As a result, during 2008 and 2009, the Company operated at less than two-thirds of normal operating levels due to harvesting and sawmilling curtailments. Western's weaker operating results and liquidity position during this period reflect these depressed market conditions, lower sales due to a stronger Canadian dollar and the impact of a lengthy strike during the summer of 2007.

On October 13, 2009, the Company announced that it had sold certain higher-and-better-use properties in central and northern Vancouver Island (the "HBU Properties") to WFP Forest Products Ltd. ("WFPFPL"), a jointly owned entity of the Company and Brookfield Properties Limited ("BPL"), a wholly-owned subsidiary of Brookfield Properties Corporation, which is in turn related to BAM. The HBU Properties were formerly part of the group of properties included in the Company's non-core asset sales program. In connection with the reorganization of WFPFPL as a jointly-owned entity and the sale of those HBU Properties, Western received total cash proceeds of \$12.4 million. As part of the arrangements, WFPFPL has a right of first offer to purchase for possible future development approximately 255 hectares (630 acres) of additional higher-and-better-use properties of the Company in central and northern Vancouver Island. These properties also represent non-core assets of the Company. Western holds less than 5% of the equity of WFPFPL and has a right to sell its interest in that entity to BPL for its fair market value at any time on or after January 1, 2011. BPL is the manager of WFPFPL, which also owns Carma Developers LP, a limited partnership that carries on a land development business across Western Canada.

On July 27, 2009, the Company's Class C Warrants expired with all but 23 of the 2,847,262 outstanding Warrants being unexercised.

Effective July 3, 2009, the Company amended a long-term fibre supply agreement to address the shortfall in the Company's minimum required wood chip deliveries during the three year period ended December 31, 2008. The amendments provide for, amongst other things, a waiver of any default resulting from the 2008 chip shortfall, an increase in the annual minimum chip supply obligations in each of the years 2010 to 2012, a change to a related agreement to provide for a possible extension of the date by which the first charge security over the Company's Englewood Logging Division could otherwise be released and a potential extension of the annual and three year minimum chip supply obligations.

On June 16, 2009, an agreement was reached with the Company's lenders to extend the maturity date of the non-revolving term facility from September 9, 2009 to September 9, 2010. At the discretion of the Company, interest on the facilities was originally based either on the Canadian prime rate or the banker's acceptance rate plus a margin of 1.75% or 2.75%, respectively. However, concurrent with the aforementioned extension of the maturity date on the non-revolving debt, the Company's maximum debt-to-capitalization financial covenant was increased from 40% to 45%, and the applicable interest rate margins increased 3%. The interest rates for the revolving and non-revolving term facilities became, at the Company's option, either Canadian prime rate plus 5% or bankers' acceptance rate plus 6%. In addition, commencing December 31, 2009, the interest rate margin increased by 0.25%, and will increase by a further 0.25% at the end of each subsequent calendar quarter that the non-revolving term loan remains outstanding.

On March 31, 2009, the Company entered into an agreement with BAM to provide a foreign exchange facility ("Facility") to the Company. The Facility, which is for a notional amount of up to US\$80.0 million, matures on March 31, 2010, and allows for forward transactions with a maximum term for each transaction of up to one year. The maturity date is subject to automatic annual renewal subject to BAM notifying the Company of its intention to cancel the facility at least 30 days prior to the anniversary date and to certain change of control provisions being invoked. The Facility is unsecured and is subject to a fee of 0.10% of the notional amount per annum.

On January 22, 2009, the Company closed a rights offering of 8,783,241 Common Shares and 254,374,654 Non-Voting Shares that raised net proceeds of \$49.6 million. The Company used the net proceeds of the rights offering to reduce indebtedness under its revolving line of credit, thereby providing additional liquidity. The amounts repaid under this facility will be available to be redrawn for general corporate purposes. Under the terms of the rights offering, common and non-voting shareholders received one right for each Common Share or Non-Voting Share that enabled them to subscribe for 1.28737 Common Shares of the Company at a price of \$0.19 per Common Share.

On March 20, 2008 Western closed the sale of the site of its former New Westminster sawmill, a non-core asset, for cash sale proceeds of \$39.8 million.

On March 14, 2008, the Company closed a new financing providing \$175.0 million in term facilities. The proceeds retired the Brookfield Bridge Lending Fund Inc. ("BBLF") facilities which amounted to \$72.5 (US\$73.5 million) and \$101.8 million at that time. The new financing agreement provided for two secured term facilities: a \$75.0 million revolving term facility and a \$100.0 million non-revolving term facility. The revolving term facility is due on or before March 13, 2011 and the non-revolving term debt was due on or before September 9, 2009, and has now been adjusted, as described above. During 2008 the Company repaid \$46.3 million of the non-revolving portion of the debt from the proceeds of non-core asset sales, and a further \$6.4 million was repaid in 2009.

In the second quarter of 2007, the site of the former Duke Point log merchandiser was sold for proceeds of \$8.2 million. The proceeds were applied to reduce the Company's term debt at that time. The log merchandiser ceased operating in July 2006 and had previously been used primarily to supply whole log wood chips to the Company's former Squamish pulp mill.

In February 2007, Western permanently closed the New Westminster sawmill and re-opened the Saltair sawmill whose operations had been indefinitely suspended in October, 2005.

Early in 2007, the Company commenced an initiative to market specific non-core assets. These include the following non-core assets which primarily remain unsold at this time: the higher and better use lands situated in the south of Vancouver Island, the gravel holdings in the Port McNeill area of Vancouver Island, the site of the former pulp mill at Squamish, and the higher and better use lands in northern and central Vancouver Island (certain of which have been incorporated in the HBU Properties sale described above). In addition, during 2008 the Company engaged professional advisors to assess the marketability of approximately 26,500 hectares of private forestry lands located in various regions throughout Vancouver Island. There can be no assurance that any further sales of these properties will be completed or when any sales may ultimately occur.

On January 31, 2007, the British Columbia Minister of Forests and Range (the "Minister of Forests and Range") agreed to the withdrawal of approximately 28,300 hectares of the Company's private land from tree farm licences ("TFLs") 6, 19 and 25.

Changes Expected for 2010

For additional information regarding changes expected to the Company's business in 2010 see Western's "2009 Management's Discussion and Analysis", in particular "Outlook", which is incorporated by reference herein and which is available on SEDAR at www.sedar.com.

BUSINESS OF THE COMPANY

Overview

Western's business is the harvesting of timber and the manufacture and sale of lumber for worldwide markets. The sawmills process high-quality logs, including hemlock, Douglas fir and western red cedar, into primarily long-length, wide-width and higher-grade lumber, commodity grades of lumber and residual wood chips that are sold externally and used for pulp production. The value-added lumber remanufacturing plants dry, saw and trim lumber for use in producing higher-value products such as moldings, frames and panelling.

We believe that the efficient utilization of our timber resources is essential. The timberlands operations seek to supply the Company's sawmills with a low-cost supply of high-quality fibre of the appropriate species and log characteristics to enable the efficient manufacture of lumber to meet customers' needs. In addition to supplying Western's sawmills with logs harvested from its timber tenures, the Company also buys, sells and trades logs on the open market to ensure sufficient fibre supply to meet the cutting profile of its sawmills.

Operating results have been and continue to be affected by a number of factors, including economic conditions in the United States, Japan and Canada, which are the leading markets for the Company's lumber products. Changes in the demand for our products in these markets and in the value of the Canadian dollar relative to the US dollar and, to a lesser degree, the Japanese Yen and the Euro can have a significant impact on our financial results. In all of these markets, our competition is of a global nature as we increasingly face competing products from various regions.

Forest Products Industry

British Columbia is one of the world's leading forest products regions, with annual lumber shipments in 2008 amounting to approximately 11.9 billion board feet per year and pulp and paper shipments of approximately six million tonnes per year, supported by a current annual allowable timber harvest available from Crown-owned and private timberlands of approximately 84 million cubic metres. Catastrophic wildfires in the southern interior of the Province in 2003 and 2004 as well as the mountain pine beetle epidemic in the central and northern interior in the past four years have led to temporary increases in the AAC in these areas in order to salvage dead and dying timber.

British Columbia has two major forest regions, coastal and interior, which are differentiated by climate, terrain and forest type and have given rise to two distinct segments of the forest industry. Historically, just less than one-third of British Columbia's timber harvest has originated from the coastal region. In contrast to the interior forests, the British Columbia coastal forests are distinguished by a wet maritime climate, rugged topography and a variety of high-value coastal forest species with highly productive growing sites. Over the past decade, the coastal timber harvest has declined as a result of the establishment of new parks and protected areas and AAC reductions to conform harvest levels to long-term sustainable yields.

The forest products industry categorizes lumber into either hardwoods or softwoods. Softwoods such as hemlock, spruce, pine and fir are used primarily in construction due to their strength, light weight and ease of nailing. Cedar is a softwood used where appearance and decay resistance are valued such as for decks, panelling, fencing, fascia, siding and doors. The forest industry grades lumber into classifications according to quality. The two broad categories within which all grades generally fall are based upon its strength or its appearance and are called upper or appearance-grade lumber and commodity-grade lumber.

Forest Resources

Fibre Supply

The Company's fibre requirements are primarily met with logs harvested from Western's timber tenures and private lands, supplemented by logs purchased on the open market, and log trading activities. The Company's fibre supply department ensures an adequate supply of suitable logs for our manufacturing plants. Western engages in log trading activities to correct imbalances in the supply and demand in terms of the size, grade and species of logs.

All of Western's timber harvesting operations are located in the coastal region of British Columbia. In a normal operating year approximately 95% of the Company's logging is conducted on government timberlands allocated to us under our TFLs and, to a lesser extent, under our forest licences ("FLs") and timber licences ("TLs"). Approximately 5% of Western's logging takes place on our private lands.

Western's timber tenures contain a substantial amount of presently harvestable mature timber stands located in areas that have never been commercially harvested. We believe that these stands are particularly valuable, as the substantial size of the trees should allow production of a high volume of upper-grade lumber. Upper-grade lumber is sold based upon appearance for use in the manufacture of doors, window frames, panelling, mouldings and siding.

The long-term species distribution of our mature timber resources is approximately 58% hemlock and balsam, 24% cedar, 11% Douglas fir, 5% cypress and 2% spruce and other minor species. Production in 2009 was approximately 62% hemlock and balsam, 20% cedar, 13% Douglas fir, 4% cypress, 1% spruce and other minor species.

The available cut, including the AAC of TFLs and FLs, actual cut, log supply and log usage for each of the last three years are set out in the following table:

	Actual Cut ⁽¹⁾			Available Cut ⁽²⁾ as at December 31		
	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	2009	2008	2007
<i>(thousands of cubic metres)</i>						
TFLs	2,574	3,719	4,457	6,521	6,543	6,555
FL	161	466	482	578	578	578
Other lands ⁽³⁾	421	423	360	324	324	324
Total log production	3,156	4,608	5,299	7,423	7,445	7,457
Total logs purchased	441	673	967	-	-	-
Total logs consumed	2,466	3,420	3,452	-	-	-
Total logs sold	1,594	2,077	2,369	-	-	-

- (1) The actual cut represents total log production with tenure assignment using the Harvest Billing System. Residue volume and market logging volumes, which contribute to the total AAC, are not included in the total amounts reported. Volumes harvested by market loggers amounted to 127,000 m³ in 2009.
- (2) The available cut for the TFLs and FLs is the AAC determined by the British Columbia's Chief Forester as of December 31 and is not the average for the year. These AACs incorporate any temporary reductions put in place by the Provincial Chief Forester, and do not include volumes of timber available to third parties.
- (3) 223,700 m³ of available cut is attributed to private managed forest lands outside of TFLs and 100,000 m³ to TLs outside of TFLs following Forestry Revitalization Act (British Columbia) (the "FR Act") reductions.

In 2009, Western restructured into eight forest operations managing active logging and forestry operations. These are located on Vancouver Island, the South, Central and North Coast Mainland and the Haida Gwaii / Queen Charlotte Islands. Approximately 87% of the 2009 log production originated from Vancouver Island. For historical and legal reasons, logging is conducted by a combination of Company and contractor operations. Western plans the majority and co-ordinates substantially all of the timber production from the various operating sites.

Saw logs are sorted according to species, size and grade and directed to sawmills or, if the logs are not suitable for our manufacturing programs, sold on the open market. The pulp log volume produced from Western's timber tenures and private lands, and all residual chips produced from sawmilling operations, are fully committed under long-term fibre supply agreements. These agreements commonly require the delivery of minimum periodic chip volumes. In addition, Western has a number of long-term commitments for the sale, purchase or trade of saw logs and pulp logs to third parties. Some of the Company's saw log trade agreements involve the exchange of our saw logs for residual chips.

Logs are largely transported by water, using contracted towing and barging service, to Western's manufacturing plants and to external customers.

Timber Tenures

Approximately 95% of all forest resources in British Columbia are owned by the Province and administered by the Ministry of Forests. Subject to provincial legislation and related regulations and Constitutional obligations to Aboriginal peoples (see "*Risk Factors – First Nations Land Claims*"), rights to harvest timber on such land may be granted on behalf of the Province by the Ministry of Forests and Range in the form of timber tenures. Western's timber tenures comprise TFLs, FLs and TLs.

A TFL is a replaceable timber tenure that requires the licensee to manage a specified area of timberland on a sustained yield basis. TFLs are granted for 25-year terms and, subject to satisfactory performance of obligations under the TFL agreement by the licensee, are replaced by the Minister of Forests and Range every five to 10 years with a new TFL with a 25-year term, subject to satisfactory performance by the TFL holder of its legal and licence obligations. Approximately 92% of the Company's replaceable AAC comes from six TFLs. Replacement licences for TFL 25 and TFL 44 were received in 2009 and replacement offers for TFL 6 and TFL 37 were also accepted but will not come into force until early 2010. Provincial consultation with potentially affected First Nations is a key part of the replacement process (See "*First Nations Relations*").

Other parts of the Province's timberlands not designated as TFLs are organized into timber supply areas ("TSAs"). FLs are issued within each TSA with the AAC being determined at the TSA level and the overall harvest for the TSA being allocated and managed by the Ministry of Forests and Range on a sustained-yield basis. FLs are volume-based tenures which authorize a specified volume of timber to be cut within a specific TSA. FLs generally have a term of 15 years and are replaceable every five to 10 years with a new FL with a term of 15 years, subject to satisfactory performance by the licensee of its legal and licence obligations. While we hold, in whole or in part, 11 FLs as a result of the Forestry Revitalization Plan ("FR Plan") volume take-backs under the FR Act, only six had allowable annual cuts in 2009. The FR Plan take-backs reduced the AAC on five licences to zero by the end of 2005, but left Western with the licences and certain associated liabilities. All of Western's six active FLs were replaced in 2007 and 2008 for 15-year terms.

TLs are area-based tenures with various fixed terms. TLs within a TFL are managed on an integrated basis with other timberlands within the same TFL and the land remains part of the TFL when the TL expires. Harvesting from TLs external to TFLs is subject to the practice guidelines of the Ministry of Forests and Range, but timing is at our discretion within the term. Sixteen TL's are scheduled to expire in 2010. The Company has requested extensions for ten of these licences, while six which hold no remaining value will be allowed to expire, and this will have no material impact on the Company's operations.

In November 2004, Western applied to the Minister of Forests and Range to have approximately 28,300 hectares of the Company's private land withdrawn from TFLs 6, 19 and 25 and on January 31, 2007 these private lands were withdrawn from these TFLs. The AACs of the three TFLs were reduced by 202,100 cubic metres as of the withdrawal date to reflect the contribution that these private lands had made to the timber inventory and long-term sustainable productivity of these TFLs. The majority of these private lands will continue to be regulated under the *Private Managed Forest Land Act* (British Columbia) as well as other provincial and federal statutes. Consistent with our focus on harvesting Crown-owned coastal timberlands, Western continues to review opportunities to realize greater value from these lands. Included in the private timberlands in various locations on Vancouver Island is approximately 2,500 hectares of higher and better use lands currently intended for sale. In October, 2009, approximately 590 hectares of these higher-and- better-use properties were sold to a joint venture entity that also has a right of first offer to purchase for possible future development approximately 256 acres of additional higher-and-better-use lands of the Company in central and northern Vancouver Island. See "DEVELOPMENT OF THE BUSINESS – Significant Developments Since January 2007". Separate parcels totaling approximately 417 hectares of higher-and- better-use properties were also sold in 2009.

The Company will also continue to review the private land best suited for ongoing timberlands operations to determine their highest-value contribution.

Timber Available For Harvest

The AACs for TFLs and TSAs are determined by the Chief Forester of the Province and are intended to reflect timber conditions, regional and local economic and social interests, and environmental considerations.

Legislation requires the Chief Forester for British Columbia to review sustainable timber harvesting levels in each TSA and TFL in the Province at least every 10 years and to issue a “determination” relating to the same, which may recommend reductions or increases in the AAC of the TSA or TFL.

Under Part 13 of the *Forest Act* (British Columbia) (the “Forest Act”), if the Minister of Forests and Range determines that it is in the public interest, the Province can “designate” areas of Crown land for up to 10 years and then suspend or vary permits, licences and plans in force within the area. At the same time, the Provincial Chief Forester can temporarily reduce the AAC of a timber tenure by an amount attributable to the designated Part 13 area. Part 13 is generally applied in support of land use planning or environmental reserves.

On December 12, 2007, the Province of British Columbia and the Council of the Haida Nation entered into a Strategic Land Use Agreement (“SLUA”) regarding land use objectives and new Part 13 protected areas on the Haida Gwaii/Queen Charlotte Islands. Western had, until the end of 2009, an AAC available to it on the Haida Gwaii/Queen Charlotte Islands under its TFL 39 of approximately 509,000 cubic metres, not including the volume temporarily reduced under Part 13. Late in 2009 the Province of British Columbia announced a draft legal order to establish new land use objectives for Haida Gwaii/Queen Charlotte Islands intended to implement the 2007 SLUA. Western is currently reviewing the draft order. If implemented as currently drafted, the land use order would require significant changes in planning and in how forest practices are conducted on the portion of our TFL 39 on the Haida Gwaii/Queen Charlotte Islands. If significant changes are not made to the draft order a substantial portion of Western’s remaining harvesting rights on the Haida Gwaii/Queen Charlotte Islands could be adversely affected.

The legal orders for the Province’s Central and North Coast of British Columbia land use plans were also amended in 2009. These changes were anticipated and so will not have a material effect on Western’s immediate plans in the affected areas.

Stumpage Charges

Stumpage is the fee that the Province charges forest companies for timber harvested from Crown land in British Columbia. Since February 29, 2004, stumpage for the Coastal region has been set using the Market Pricing System (“MPS”), which uses the results from British Columbia Timber Sales (“BCTS”) auctions to predict the value of Crown timber harvested under long-term tenures. Effective January 15, 2009, the Ministry of Forests and Range updated MPS and appraised all active cutting authorities under the new version of the system. The MPS equation was updated to more accurately reflect the current standing timber auction market for Crown timber, as well as major licensee Crown forest tenure cost obligations (i.e. for services that BCTS provides for its timber sale holders) such as forest planning, administration, engineering and reforestation. As well, BCTS forest planning, administration and engineering costs were included with major licensee costs for the first time. The 2009 Coastal MPS update was compliant with the Canada/U.S. Softwood Lumber Agreement.

The following table illustrates the relationship of stumpage expenses relative to the total log production for each of the last three years. In 2009, stumpage rates dropped to the lowest that they had been since the early 1980s:

	Year Ended December 31,		
	2009	2008	2007
Log production (<i>thousand's of cubic metres</i>)	3,156	4,608	5,299
Stumpage (<i>\$ millions</i>)	\$8.4	\$85.9	\$85.4

Forest Management

Western manages its Crown-land forest tenures and its privately-owned forest lands according to sustainable forest management principles, which include a commitment to meeting government standards. As part of the rights and responsibilities that accompany Western's Crown tenures, staff carry out or supervise pre-harvest planning, road-building and harvesting operations and follow-up silviculture treatments to establish free-growing second-growth stands of trees.

Pre-harvest planning includes a wide spectrum of activities from the collection of inventory and assessment data to the development of higher-level Management Plans for TFLs and Forest Stewardship Plans for specific planning areas within TFLs or FLs. These plans take a broad range of timber and non-timber factors into account, including but not limited to: wildlife, fisheries, water quality, soil sensitivity, terrain stability, visual quality, biodiversity, archaeological sites and cultural features, cave and karst features, timber species distribution and value. These higher-level plans provide direction for the development of site-specific plans and lead to the applications for specific road-building and harvesting permits.

Following harvest, we ensure all disturbed areas are reforested and conduct follow-up surveys and silvicultural treatments to ensure that these harvested areas meet free-growing requirements within specified timelines. Should a developing stand be damaged prior to being declared free growing we are responsible for taking the necessary corrective actions to meet free growing requirements. Substantially all of these basic silviculture requirements are carried out at our expense. Once free-growing, young stands are left to develop without further attention into second-growth forests ready for subsequent harvest.

Our tenures are managed by a staff of registered professional foresters and engineers who are involved in planning and inventory, road and bridge development, harvesting, silviculture and forest health and protection programs. We operate the Saanich Forestry Centre, which includes a three million-seedling nursery and a tree seed orchard that produces select seed for reforestation.

The forests on our timber tenures are at risk of damage from natural and human caused forest fires. To deal with this hazard we have equipment and trained personnel ready to handle initial attack and fire suppression. We are also required to pay a fire preparedness levy to the Ministry of Forests and Range each year. Should a fire start as a result of our activities, and we did not willfully cause or contribute to the fire by our act or omission, payment of this fee means that we will not be charged for any Ministry initial attack costs or the fire suppression costs associated with the wildfire once the Ministry has assumed fire control. Further, Western will not be charged for damages to Crown resources if the Company has been duly diligent. We remain responsible for fire-fighting on our private lands, whether inside or outside of TFLs, regardless of origin or cause. Western has entered into a cost-sharing agreement with the Crown for our private lands which will reduce individual incident costs of mobilizing helicopters and aerial water tankers.

Manufacturing Facilities

We own eight operating sawmills and four operating value-added remanufacturing facilities. Our high-quality timber supply (western red cedar, hemlock, balsam, Douglas fir, yellow cedar and spruce) and the particular design of our sawmills enable us to produce appearance-grade products (those used in decks, panelling, fencing, fascia, siding and doors, for example), and specialty structural products for markets around the world. The species and products produced typically command premium prices compared to commodity construction grades, such as SPF 2x4 lumber. Much of the softwood timber in North America is not capable of producing substantial quantities of these specialty products.

All of our operating sawmills are located on Vancouver Island on land we own, other than the Nanaimo sawmill, which is located on a 7.0-hectare site that includes 1.3 hectares owned by the Company and 5.7 hectares that are leased. All of Western's sawmills have adjacent water lots which are leased from the Province of British Columbia or a public Port Authority and some have barge and dock loading facilities to handle water-borne shipments of sawmill products. Our sawmill configuration provides significant flexibility, enabling us to change cut programs and log flows between different sawmills.

- The Nanaimo sawmill, which is capable of processing logs in the 12- to 60-inch diameter range, produces a range of high-value specialty lumber products, along with material for the Japanese traditional home segment. The mill primarily cuts hemlock.

- The Duke Point mill, also in the Nanaimo municipality, is capable of processing 12- to 60-inch diameter logs, and is grade and species flexible, cutting high value cedar through to hemlock dimension lumber as markets and log supply require.
- The Ladysmith and Saltair sawmills are located adjacent to each other in Ladysmith. The Ladysmith sawmill is capable of processing logs in the 4- to 25-inch diameter range. It primarily cuts hemlock for the U.S. structural dimension lumber market. The Saltair sawmill, which re-opened on February 12, 2007, is capable of processing logs in the 6- to 30-inch diameter range. The mill primarily cuts cedar for the Canadian and U.S. markets and fir and hemlock for the Japanese, European and Australian markets.
- The Alberni Pacific sawmill, which is located in Port Alberni, is capable of processing logs in the 12- to 60-inch diameter range and currently produces a range of products, for the Japanese traditional home segment and North American lumber treating market. The mill primarily cuts hemlock.
- The Somass sawmill, located in Port Alberni, is capable of processing logs in the 15- to 108-inch diameter range and cuts high-value cedar for world markets.
- The Chemainus sawmill is capable of processing logs in the 10- to 60-inch range. The mill cuts high-value fir for the Japanese market, and cedar for the North American market.
- The Cowichan Bay sawmill, which is located close to Duncan, processes logs in the 5- to 30-inch range. The sawmill primarily produces hemlock for the North American treated lumber segment and commodity lumber markets worldwide.

The Saltair, Nanaimo and Alberni Pacific sawmills have received authorization to stamp their lumber as having met the quality control requirements of the Japanese Agricultural Standard ("JAS"), indicating that the lumber meets rigorous Japanese structural grading rules.

Our remanufacturing facilities are also located on Vancouver Island on land we own. Our Chemainus Mid Island and South Island remanufacturing plants dry and process hemlock and Douglas fir appearance-grade lumber used in the manufacture of doors, windows and moldings and structural lumber for the Japanese market. Our Somass remanufacturing plant in Port Alberni processes cedar lumber into bevel-siding, board and panels for world markets. We have a total of 50 kilns located at our remanufacturing plants and sawmills with an annual lumber drying capacity of about 250 million board feet per year. As part of our sales and marketing strategy, we continue to review the requirement to invest in future new kiln capacity.

In addition to lumber manufacturing and re-manufacturing at its own facilities, Western also operates a division known as "Custom Cut". The Custom Cut division focuses on converting logs to lumber on a custom basis to customer specifications. Unlike traditional lumber purchases, in which a customer will specify the volume of selected lumber products they wish to purchase, Western's Custom Cut customers typically acquire all the lumber products which are cut from a defined volume of logs. Custom Cuts may be conducted at third-party manufacturing facilities in the Lower Mainland of British Columbia using logs either harvested by Western or acquired on the open market. Alternatively, Custom Cuts may be conducted at Western's own sawmill facilities in situations where the customer specifications are compatible with mill capacities. Custom Cuts are routinely performed on Western's major species and are the primary method of manufacture for our yellow cedar and Sitka spruce logs.

The current annual lumber production capacity and actual lumber production for each of our sawmills for each of the last three years are set out in the following table:

Sawmills	Capacity ⁽¹⁾ (MMfbm)	Year Ended December 31,		
		2009	2008	2007
Alberni Pacific	225	123	114	94
Chemainus	115	105	107	85
Cowichan Bay	270	121	139	96
Duke Point ⁽⁵⁾	190	7	51	82
Ladysmith ⁽⁴⁾	170	0	12	109
Nanaimo ⁽⁵⁾	213	0	72	83
New Westminster ⁽²⁾	n/a	0	0	7
Saltair ⁽³⁾	225	119	98	59
Somass	110	13	62	70
	1,518	488	655	685
Custom Cut	n/a	77	113	120
Total ⁽⁶⁾	1,518	565	768	805

(1) Based on three shifts and 250 operating days.

(2) Operations at New Westminster were closed on February 7, 2007.

(3) Sawmilling operations at Saltair were indefinitely suspended on October 28, 2005 and resumed on February 12, 2007.

(4) Operations at Ladysmith were indefinitely suspended in May, 2008.

(5) Operations at Nanaimo and Duke Point were suspended at the end of December 2008. There was limited production at Duke Point in the summer of 2009.

(6) The production in 2007 includes the impact of a three-month strike.

Our sawmills have a total annual production capacity of approximately one million volumetric units of wood chips. Residual chips from our manufacturing operations are being sold under long-term fibre supply agreements. We also trade log volumes with third parties to secure preferred logs and chips or for cost benefit. Wood residue produced by the sawmills, principally sawdust and bark, may either be used as a fibre supply for pulp operations (some of the sawdust) or as hog fuel, which is sold to pulp mills.

The wood chip supply and usage for each of the last three years from our operations are set out in the following table :

	Year Ended December 31,		
	2009	2008	2007
<i>(thousands of volumetric units)</i>			
Wood chips produced ⁽¹⁾⁽²⁾	346	451	455
Wood chips purchased.....	321	319	285
Total wood chips sold.....	667	770	740

(1) Production in 2007 includes the impact of a three-month strike.

(2) Production in 2009 and 2008 includes chips produced from whole-log chipping.

Sales, Marketing and Distribution

Western's lumber products are marketed by our sales and marketing division, which is based in Vancouver and has offices in Japan, China and Australia. Lumber sales into the United States are primarily made directly to lumber distributors or major manufacturers. Our sales into the Japanese market are serviced both from our Vancouver sales office, where we sell directly to Japanese trading houses, and also through our Japanese sales offices, which sell to wholesale and manufacturing customers. Our European lumber sales are made through sales agencies.

In addition, the sales and marketing division liaises directly with the consumers of our lumber products. This allows us to react quickly to changes in market conditions and customer requirements and to achieve lower

selling costs. Western adjusts sawmill processing programs in order to customize products to meet the specific requirements of our customers or changes in market conditions.

An increasing volume of our lumber products are sold kiln-dried, although a significant portion of our structural products are still sold green (neither kiln-dried nor air-dried). Sales to the U.S. market consist of a wide range of products from structural dimension lumber to high-grade western red cedar and hemlock that is used for more consumer-oriented products. We offer a comprehensive line of traditional components for the Japanese market and provide hemlock products with high structural values for this market which have been approved by Japanese government agencies. Our focus in Europe is kiln-dried, high-grade specialty products used predominantly in Germany, Italy and the United Kingdom. Western's business to China is focused on customers that produce components and finished wood products for re-export to Japan, Europe and the United States, as well as commodity lumber for its growing domestic market.

The distribution of the Company's sales by geographic area and by product line for each of the last three years is set out in the following table:

	Year Ended December 31,		
	2009	2008	2007
<i>(millions of dollars)</i>			
<i>Sales by geographic area</i>			
Canada	\$236.9	\$322.8	\$392.7
U.S.	79.2	178.3	219.2
Asia	217.2	220.2	199.5
Europe	34.5	65.8	56.7
Other	12.7	27.7	22.4
	<u>\$580.5</u>	<u>\$814.8</u>	<u>\$890.5</u>
<i>Sales by product line</i>			
Lumber	\$438.3	\$623.9	\$650.1
Logs	99.6	133.6	184.6
Sawmill by-products	42.6	57.3	55.8
	<u>\$580.5</u>	<u>\$814.8</u>	<u>\$890.5</u>
<i>Sales by product line by geographic area</i>			
<i>Lumber</i>			
Canada	\$100.2	\$134.3	\$152.3
U.S.	78.9	177.0	219.2
Asia	212.0	220.2	199.5
Europe	34.5	65.8	56.7
Other	12.7	26.6	22.4
	<u>438.3</u>	<u>623.9</u>	<u>650.1</u>
<i>Logs</i>			
Canada	94.0	131.2	184.6
U.S.	0.3	1.3	-
Other	5.3	1.1	-
	<u>99.6</u>	<u>133.6</u>	<u>184.6</u>
<i>Sawmill by-products</i>			
Canada	42.6	57.3	55.8
	<u>42.6</u>	<u>57.3</u>	<u>55.8</u>
Total Sales	<u>\$580.5</u>	<u>\$814.8</u>	<u>\$890.5</u>

Lumber is delivered to customers by various means, including at times ocean-going vessel, barge, rail or truck. Western's location on the coast of British Columbia helps us compete in terms of ease of access to overseas markets.

In a normal operating year, there is some seasonality to our operations, with higher lumber sales activity in the second and third quarters as construction activity, particularly in the United States, has historically tended to be higher. Other export markets for the solid wood segment do not have such a pronounced seasonal pattern. Weather conditions such as storms, snow and ice in the winter and the threat of forest fires in the summer may cause logging activity, and consequently sales levels, to vary.

Competition

To a great extent, lumber is a commodity and the market is cyclical. We compete on both a domestic and international level with a large number of forest products firms, ranging from very large integrated firms to smaller specialty companies. Western also competes indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. The market for lumber is highly competitive and sensitive to cyclical changes in industry capacity and the economy, both domestically and internationally. Changes in the level of competition, industry capacity, foreign exchange rates and the global economy have a significant impact on our selling prices and overall profitability.

Our competitive position is influenced by the availability, quality and cost of fibre, energy and labour, and our plant efficiencies and productivity in relation to our competitors. Western is the largest timber tenure holder and producer of lumber from the British Columbia coastal region. The diversity of species and high quality of wood enables the Company to produce products for a wide variety of end uses, from dimension lumber for home construction to high grade lumber used for millwork such as door and window frames, along with timbers for various applications. Western is also the world's largest producer of western red cedar. To a certain extent, the Company can use the flexibility of the variety of species and products to shift markets according to global market conditions, limiting or growing exposure to various markets and products within the constraints of the long-term balance of the various species in our timber supply.

Softwood Lumber Agreement

Effective October 12, 2006, the Canadian and United States Governments implemented a softwood lumber agreement ("SLA") that replaced the United States imposed anti-dumping duty ("ADD") and countervailing duty ("CVD") regime with an export tax, payable to the Canadian Government. The SLA has a term of seven years and provides for an extension of two years and for early termination by either Government after two years. British Columbia's coastal region, the area in which the Company operates, elected to be subject to the new export tax only and not the quota alternative. The export tax rate varies according to the price of lumber based on the "Random Lengths Framing Lumber Composite Index" ("Index") and ranges from zero percent, when the Index is above US\$355 per thousand board feet, to 15%, when the Index is under US\$315 per thousand board feet. The export tax only applies to the first US\$500 per thousand board feet for any product sales. In addition, if the monthly volume of exports from the British Columbia coastal region exceeds a certain "Trigger Volume" as defined in the SLA, a "surge" mechanism will apply to retroactively increase the rate of the export tax for that month by 50% (for example, the 15% export tax rate would become 22.5% for that month). The export tax expensed by the Company was \$6.0 million for 2009, compared to \$8.9 million in 2008.

Environment, Health & Safety

Safety

Since 2005, the Company's overall Medical Incident Rate ("MIR") has declined 69% to a level of 3.41 recordable injuries per 100 employees per year at the end of 2009. Western's 2009 MIR for its logging operations was 4.12 and for sawmilling operations was 3.20 recordable injuries per 100 employees. These levels compare to the estimated British Columbia averages of 3.12 and 3.01, respectively. Western has developed and adopted a corporate safety policy which reflects its values and expectations to ensure we meet all of our regulatory requirements under WorkSafeBC.

The Company performs or develops training, safety plans, follow-up on incidents, clear expectations for all employees, audits/inspections and contractor controls all of which are a key to our success. Western's Environment, Health and Safety representatives are also active in working with unions, WorkSafeBC and the BC Forest Safety Council to help shape programs, activities and regulations to ensure a safer workplace for all.

Other than Western's own timberlands employees, approximately 200 contractor companies are utilized in timberlands operations to achieve the Company's overall harvest targets. Western expects these contractors to work to the same standards as Western's own operations. To this end, various programs have been developed to help support the contractors in their efforts to improve safety and performance; program development, training, inspection and access to Company safety materials and expertise. Western had also requested that all contractors obtain the British Columbia Forest Safety Council's "Safe Company" certification. This target was achieved. Due to a logging fatality in 2008, the Company's own Certificate of Recognition (COR) certification was withdrawn by WorkSafeBC. In response, in 2009, each of the Company's timberlands operations successfully underwent the audit process required for certification. In addition, the audit program

was expanded to include Western's manufacturing sites, each of which successfully passed a third party audit. The Company now expects to re-certify during 2010.

Environmental Policy

We are committed to the protection of the environment and work with government, local communities, First Nations, environmental groups and other interested stakeholders to identify and address issues of environmental concern in all aspects of our business. Our operations are subject to a wide array of federal, provincial and local environmental legislation regulating water, land and air discharges and solid and hazardous waste management, disposal, transportation and remediation. To oversee and co-ordinate company-wide efforts for compliance with such legislation, we have established an Environmental, Health and Safety Committee of the Board of Directors and implemented a reporting system that is designed to monitor environmental compliance with regulatory requirements, identify environmental issues and communicate them to all levels of management and operations. In conducting our operations, we attempt to minimize environmental impact through sound forestry and environmental management practices that meet or exceed government standards and adhere to an environmental policy based on the following:

- assessing and evaluating environmental risk on an ongoing basis in order to maintain meaningful environmental objectives and targets and effective operational controls;
- allocating sufficient resources to ensure continuing compliance with environmental responsibilities;
- meeting or surpassing all applicable legal requirements;
- establishing auditing and reporting procedures to monitor environmental performance, continually improve environmental practices and prevent pollution; and
- communicating this policy and our environmental performance to the public as well as our staff, employees and contractors.

Environmental Management

During 2009, Western's timberlands operations were in substantial compliance with environmental requirements, except for incidents which have not had, or are not expected to have, a material impact on the Company or its operations. Four of our sawmills are ISO 14001 certified and the manufacturing and processing side of the business employs a rigorous environmental management system which ensures ongoing regulatory compliance. We have a single Environmental Management System and two Sustainable Forest Management Systems for our timberlands as follows:

ISO 14001: All of our timberlands operations continue to be registered under a single certificate to the International Organization for Standardization ("ISO") 14001 Environmental Management Systems standard. Through third party audits by the Quality Management Institute, as well as internal audits we confirm that we remain in conformance with the ISO 14001 standard. These audits provide important feedback to senior management to ensure that staff, employees and contractors conduct their activities in compliance with the legislation and regulations relevant to the forest products industry. Environmental Management Programs are another tool used to achieve adherence to our environmental policies.

CSA Z809: Six of our timberlands operations remain certified to the Canadian Standards Association ("CSA") Z809 Sustainable Forest Management standard. These operations have certified Program for the Endorsement of Forest Certification ("PEFC") Chain of Custody systems in place to ensure that certified material can flow to our mills to produce certified product.

FSC: In late 2009 Western's two Forest Licences in the in the Mid-Coast Timber Supply Area were certified to the Forest Stewardship Council ("FSC") BC standard under the umbrella of the Coast Forest Conservation Initiative Society.

Western also maintains Chain of Custody (CoC) certifications from processing facilities and through the sales operations. CoC establishes procedures to track the flow of fiber from certified forest operations through transportation and manufacturing to a certified end-product that is delivered to a customer. As of July 2009

Western has added the Forest Stewardship Council Chain of Custody Standard and Controlled Wood Standard Program to the long standing Program for the Endorsement of Forest Certification Annex 4 Chain of Custody that is maintained.

Positioning our operations to address customer needs will drive future certification initiatives.

During 2009, Western embarked on a successful program, in partnership with BC Hydro, to reduce power consumption in its manufacturing operations. Upon commencement of the program, power consumption was reduced by an estimated 8 GWh, which equates to an annual savings in energy costs of \$0.4 million. Given the success of the program, BC Hydro is prepared to provide additional support for similar projects that will reduce power consumption and the partnership will continue through 2010. Western has expanded the program to include timberlands operations, and has identified additional projects targeted to begin in 2010 that have been submitted to BC Hydro for funding consideration.

See “*Risk Factors – Environmental Regulation*” for additional information. This can be found in the 2009 “Management’s Discussion & Analysis – Risks and Uncertainties” which is incorporated herein by reference and available under the Company’s profile on SEDAR found at www.sedar.com.

First Nations Relations

Western is aware of over 50 First Nations or First Nation associations that claim to have interests in areas within our timber tenures. We have developed and will continue to develop working relationships with many First Nations through timber harvesting, silviculture, planning and other capacity-building arrangements.

First Nations groups have made claims of rights and title to substantial portions of land in British Columbia, including areas where our timber tenures and operations are situated, creating uncertainty as to the status of competing property rights. Current Provincial Government policy requires that forest management and operating plans take into account and not unjustifiably infringe on aboriginal rights and title, proven or unproven, and provide for consultation with First Nations. This policy is reflected in the terms of our timber tenures, which provide that the Ministry of Forests and Range may refuse to issue cutting permits in respect of a timber tenure if it is determined that the forestry operation would unjustifiably interfere with aboriginal rights and title. First Nations have, at times, sought to restrict the Provincial Government from granting or renewing forest tenures and other operating authorizations without full consultation or their consent if these decisions could affect lands claimed by them.

In addition, since 2003 the Provincial Government has negotiated more than 100 Forest and Range Agreements with certain First Nations, some whose traditional territories overlap with some of the Company’s operating areas. These agreements were intended to provide partial interim accommodation of the economic component of aboriginal interests that may be impacted by certain forestry decisions until such time as those interests are settled through the treaty process. The term of a number of these agreements has expired and have since been amended or replaced. The Province is currently reviewing their Forest and Range Agreement program. Until such time as this review is complete, it is not possible to estimate the potential impact of the review of this program on the Company’s tenures or operations.

In April 2009, the five Maa-nulth First Nations signed a final agreement which is expected to lead to the Maa-nulth Treaty coming into force by April, 2011. Western is working with the Province and those Maa-nulth nations with Treaty Lands within Western’s TFL 44 to effect a smooth transition from TFL management to First Nation hands. The impact of the Maa-nulth Treaty on the TFL 44 AAC has not been quantified but is anticipated to be in the range of 100,000 m³/year.

On December 10, 2009, the Province of British Columbia and First Nations from the Central and North coast signed a Coastal Reconciliation Protocol that amongst other elements included a new shared decision making process. Once the details of the implementation of the protocol are available to us, Western will then assess the impact that this new process may have on our tenures in the area.

On December 11, 2009, the Province of British Columbia and the Haida Nation signed a similar protocol that also commits to a new shared decision making process on the Haida Gwaii/Queen Charlotte Islands. This protocol includes a commitment from the Province to provide Haida Nation with funding to acquire forest tenure on the Haida Gwaii/Queen Charlotte Islands. This protocol followed the announcement of a draft legal order to implement land use agreed to by the Province and the Haida Nation in 2007(see “BUSINESS OF THE COMPANY – Forest Resources – *Timber Available For Harvest*”).

Through 2009, the Crown was also engaged with the Namgis First Nation in treaty discussions that included an exchange of treaty land positions. Western was not brought into these discussions until after initial offers and counteroffers had been exchanged. The potential treaty land removal for a Namgis First Nation Treaty would result in a significant reduction in the AAC of TFL 37. It is too early at this point to determine the potential impact that such a reduction may have on the Company.

Capital Expenditures

The following table summarizes capital expenditures for each of the last three years:

	Year Ended December 31		
	2009	2008	2007
<i>(millions of dollars)</i>			
Capital expenditures	\$8.9 ⁽¹⁾	\$12.5 ⁽¹⁾	\$26.5 ⁽²⁾

(1) Capital expenditures in 2009 and 2008 reflect Company actions to reduce capital programs in response to the economic downturn.

(2) Capital expenditures on roads in 2007 were impacted by a three-month strike, which lowered harvesting activities.

Human Resources

As of December 31, 2009, Western employed 2,140 employees (of which 1,735 are unionized employees). The majority of hourly paid workers are represented by the United Steelworkers of America (“USW”) Union currently covered by a three-year collective agreement, expiring June 14, 2010. The Pulp, Paper and Woodworkers of Canada (“PPWC”) Union represents the remainder of the hourly workers and their collective agreement, which was under a one year rollover, expired on June 14, 2009. Western is no longer a member of Forest Industrial Relations Limited (“FIR”) and, as such, will be undertaking all collective bargaining responsibilities directly with the two unions representing the Company’s unionized employees. Contract negotiations are ongoing with the PPWC at the Company’s Value Added Remanufacturing Operations. Due to the indefinite curtailment at the Ladysmith Sawmill, now well into its second year, no contract talks have taken place with the PPWC in respect of the Ladysmith sawmill operation.

Currently, in our logging operations approximately 45-50% of the harvesting is performed by contractors. The majority of the contractors have replaceable contracts under the Timber Harvesting Contract and Subcontract Regulation (British Columbia). A substantial number of the employees who work for the contractors harvesting our tenures are represented by the USW.

Research and Development

Silviculture and tree improvement research is conducted primarily by our employees at our Saanich Forestry Centre on Vancouver Island and from the Company’s timberlands office in Campbell River. The Centre has seed orchards and a seedling nursery that supplies our requirements for most species of seedlings and provides us with the ability to select and breed trees with superior growth and form that should improve the quality and quantity of timber produced over time.

The Company’s logging and sawmilling operations also assess new equipment and methods for the potential to improve our operational efficiency. We are a member of the Forest Engineering Research Institute of Canada now a division of FPInnovations, which conducts research into activities related to the harvesting and transportation of wood and the growing of trees. We are also members of Forintek, now also a division of FPInnovations, which conducts research into lumber manufacturing activities including lumber drying technology and a variety of lumber recovery improvement technologies, and provides support for marketing for new products such as treated lumber.

RISK FACTORS

A detailed discussion of risks and uncertainties that may have a material adverse effect on our operations is included in “Management’s Discussion & Analysis – Risks and Uncertainties” which is incorporated herein by reference and available under the Company’s profile on SEDAR found at www.sedar.com. These risks should

be considered in the context of our business, which is described under “DEVELOPMENT OF THE BUSINESS” and “BUSINESS OF THE COMPANY”.

DIVIDENDS

The payment of dividends on the Company’s Common Shares and Non-Voting Shares is at the discretion of the Board and depends on our financial condition, the need to finance capital expenditures, financial covenants in credit agreements and other factors the Board of Directors may wish to consider. No dividends have been paid by the Company on the Common Shares or the Non-Voting Shares.

Financing facilities currently in place contain covenants restricting certain payments, including the payment of dividends on Common Shares and Non-Voting Shares. The facilities provide, among other things, that any subsidiary may declare or pay dividends or otherwise make distributions in cash to the parent company or a guarantor existing under the facilities.

CAPITAL STRUCTURE

Share Capital

Western’s authorized capital consists of an unlimited number of Common Shares, an unlimited number of Non-Voting Shares, and an unlimited number of Preferred Shares. As of the date hereof, 128,625,623 Common Shares, 338,945,860 Non-Voting Shares and no Preferred Shares are issued and outstanding.

Common and Non-Voting Shares

The Common Shares entitle the holders thereof to one vote per share. The Non-Voting Shares do not entitle the holders thereof to any votes at meetings of our shareholders (or to receive notice of or attend such meetings), subject to the condition that the Non-Voting Shares will entitle the holders thereof to one vote per share on any vote relating to our liquidation, dissolution or winding-up, or the sale, lease or exchange of all or substantially all of our property and as otherwise provided by law or any amendment that would add, change or remove attributes of the Non-Voting Shares or of any class of share adversely affecting the Non-Voting Shares either separately or in relation to the Common Shares.

The holders of Common Shares and Non-Voting Shares participate equally with each other in respect of the payment of dividends, including the amount per share of the dividend.

The Common Shares and Non-Voting Shares rank equally with each other in respect of the return of capital in the event of the liquidation, dissolution or other distribution of our assets for the purpose of winding up our affairs.

If either the Common Shares or Non-Voting Shares are subdivided, consolidated, reclassified or otherwise changed, appropriate adjustments would be made at the same time to the rights attaching to the shares of the other class to ensure the preservation of the rights of each class in relation to those of the other.

Western may convert the Non-Voting Shares into Common Shares on a one-for-one basis, in whole or in part, at any time in our sole discretion, provided that our Board of Directors is at that time of the opinion that to do so would not have a material adverse effect on the Company’s business, financial condition or business prospects. The Board has the right to select the Non-Voting Shares to be converted on a *pro rata* basis, by lot or in such other manner as it considers appropriate.

The Non-Voting Shares and Common Shares shall be treated identically by us in the event of an issuer bid by the Company. In the event that a take-over bid is made for our Common Shares that is not made on the same economic terms on a per-share basis to holders of Non-Voting Shares, Western will convert the outstanding Non-Voting Shares into Common Shares in order to enable them to participate in the take-over bid on the same terms as if the Non-Voting Shares had been converted into Common Shares before the take-over bid for the Common Shares was made.

Except as described above, the Common Shares and the Non-Voting Shares have the same rights, are equal in all respects and will be treated by us as if they were shares of one class only.

Western has entered into a registration rights agreement (the "Registration Rights Agreement") with BSS2 dated March 20, 2007 providing holders of the Non-Voting Shares with "demand" and "piggy-back" registration rights, which will enable the holders to require us to file a prospectus (in respect of a "demand" registration) or enable the holders to participate in an offering made by us (in the case of a "piggy-back" registration) and otherwise assist with a public offering of Non-Voting Shares or, subject to the Exchange Limitation, Common Shares for which the Non-Voting Shares may be exchanged, subject to certain limitations. These registration rights became exercisable on May 1, 2009. The registration rights will only be exercisable in circumstances where, if the Non-Voting Shares that have been requested to be registered were exchanged for Common Shares, the Exchange Limitation would not apply, and our Board has not caused those Non-Voting Shares to be exchanged for Common Shares. Western has agreed to use best efforts to cause the shares subject to a registration request to be listed on the TSX, provided that, for greater certainty, we will not be required to issue additional Non-Voting Shares in order to secure such a listing. In the event of a "piggy-back" registration, our financing requirements would take priority. Any expenses of such a "demand" or "piggy-back" registration shall be borne by us (other than underwriting fees or other selling expenses, which shall be borne proportionately between us and the selling holders on the basis of the proportional shares of the aggregate proceeds of the offering).

Preferred Shares

The Preferred Shares may, at any time or from time to time, be issued in one or more series, and the directors may, by resolution, fix the number of Preferred Shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series. Before issuing Preferred Shares of a series, the directors must file articles of amendment with the Director of the Canada Business Corporations Act ("CBCA"). Preferred Shares of each series rank on a parity with the Preferred Shares of every other series with respect to priority in the payment of dividends and in the distribution of our assets in the event of our liquidation, dissolution or winding-up or any other distribution of our assets among shareholders for the purpose of winding-up our affairs.

If Preferred Shares were outstanding, the holders of such shares would be entitled to priority over the Common Shares and the Non-Voting Shares with respect to the payment of dividends and the distribution of our assets on a liquidation, dissolution or winding-up or other distribution of our assets for the purpose of winding-up our affairs. The Preferred Shares of each series may be given such other preferences not inconsistent with the above over the Common Shares and the Non-Voting Shares as may be determined in the case of each series authorized to be issued.

Except as otherwise required by law, the holders of the Preferred Shares are not entitled to receive notice of or to attend or to vote at any meeting of shareholders of Western.

Class C Warrants

Western had outstanding 569,373 Tranche 1 Class C Warrants, 854,146 Tranche 2 Class C Warrants and 1,423,743 Tranche 3 Class C Warrants, issued as of July 28, 2004 and exercisable to purchase Common Shares at specified prices. In accordance with the terms of the Class C Warrant Indenture, on July 27, 2009, the Class C Warrants all expired with all except 23 of the warrants being unexercised.

MARKET FOR SECURITIES

Trading Price and Volume

As of the date hereof the Common Shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "WEF". The following sets out the price range and volumes traded on the Toronto Stock Exchange on a monthly basis for each month of the most recently completed financial year:

Month	High	Low	Volume
January 2009	\$0.28	\$0.15	751,400
February 2009	\$0.19	\$0.135	1,101,800
March 2009	\$0.19	\$0.135	949,200
April 2009	\$0.19	\$0.15	315,800
May 2009	\$0.33	\$0.18	734,100
June 2009	\$0.295	\$0.21	266,400
July 2009	\$0.25	\$0.20	285,500
August 2009	\$0.24	\$0.18	1,313,400
September 2009	\$0.26	\$0.22	824,300
October 2009	\$0.26	\$0.19	925,800
November 2009	\$0.22	\$0.16	2,133,200
December 2009	\$0.20	\$0.18	2,366,100

Prior Sales

On January 22, 2009, pursuant to a final prospectus dated December 10, 2008, the Company issued 8,783,241 Common Shares and 254,374,654 Non-Voting shares at a price of \$0.19 per share.

DIRECTORS AND OFFICERS

Western's articles provide that the Board is to consist of a minimum of three directors and a maximum of 15 directors. Western currently has seven directors.

At each annual meeting of shareholders of Western, the entire Board of Directors retires and directors are elected for the next term. Each director serves until the close of the next annual meeting or until his successor is elected or appointed, unless his office is earlier vacated in accordance with our articles or with the provisions of the CBCA. Not less than 25% of the members of our Board of Directors are required to be resident Canadians, in accordance with the CBCA. Western's officers serve at the discretion of the Board.

Directors

The table below sets forth the names, provinces of residence and positions with Western of the directors of Western as of the date hereof, and the principal occupation of each of them during the past five years.

<u>Name and Province and Country of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>
JAMES ARTHURS ⁽¹⁾⁽²⁾⁽³⁾ B.C., Canada	Mr. Arthurs is a Managing Partner with i3 Transition Partners, a Vancouver-based management consulting firm. Previously, Mr. Arthurs was Senior Vice President, North American Operations, Integrated Paving Concepts Inc., a manufacturer of equipment, tooling and high technology coatings for the decorative asphalt industry from 2004 to 2009. From 2002 through 2004, he was Managing Director, Operations, for The Jim Pattison Group, and from January 2002 to May 2002, Senior Vice President and Chief Information Officer for Alderwoods Group, Inc. (emergent company of the former Loewen Group) and from May 2000 to January 2002, he was with the Loewen Group. The Loewen Group was the subject of CCAA proceedings in Canada and Chapter 11 proceedings in the U.S. from June 1, 1999 to December 31, 2001.	July 27, 2004
LEE DONEY ⁽¹⁾⁽²⁾⁽³⁾ B.C., Canada	Vice Chairman of the Board since November 4, 2008. Independent consultant. Director on the Community Living Board of the British Columbia government and the Chairman of the Board of Columbia Power Corporation.	July 27, 2004
STEPHEN FRASHER B.C., Canada	President and Chief Executive Officer of Western from June 15, 2009. President and Chief Executive Officer of Washington Marine Group from 2004 to 2009.	June 15, 2009
DOMINIC GAMMIERO ⁽²⁾ Ontario, Canada	President and Chief Executive Officer of Western from November 4, 2008 to June 15, 2009. Chairman of Fraser Papers Inc. since 2007. From 2004 until 2006, President and Chief Executive Officer of Fraser Papers Inc. On June 18, 2009, Fraser Papers and its subsidiaries initiated a court-supervised restructuring under the CCAA and ancillary proceedings in the U.S. under Chapter 15 of the U.S. Bankruptcy Code. On December 10, 2009, Fraser Papers announced that it received approval from the Ontario Superior Court to proceed with its CCAA Restructuring Proposal and was granted a further extension on the CCAA initial order through February 26, 2010.	June 16, 2006
CYRUS MADON, CA ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada	Senior Managing Partner of Brookfield Asset Management Inc.	June 16, 2006
PIERRE MCNEIL ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada	Senior Vice President, BSS1 (Formerly Tricap Partners Ltd.) and the President and CEO of Concert Industries Corp. From July 2004 to December 2006, Senior Vice President with Fraser Papers Inc.	December 20, 2007
JOHN B. NEWMAN ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada	Chairman and CEO of Multibanc Financial Holdings Limited, a private investment vehicle located in Toronto. Chairman of Dale-Parizeau LM Inc., Morris & Mackenzie Inc. and the AGF Family of Mutual Funds Trusts and Corporations. Chairman of Simmons Canada Inc. until its sale on November 30, 2006, and of Multi-Fund Management Inc. until its sale on June 30, 2006. Director or member of the Independent Review Committee of certain closed-end funds administered by Scotia Capital Inc., TD Securities Inc. and BMO Nesbitt Burns Inc. Independent director of FT Capital Inc. until his resignation on December 17, 2002. FT Capital Inc. was operating under an agreed moratorium on its principal and interest payments on its subordinated debentures prior to Mr. Newman becoming one of its independent directors. Prior to Mr. Newman's resignation, FT Capital Inc. was subject to a number of cease trade orders issued in 2001 and 2002 by various securities regulatory authorities in Canada for failure to file financial statements while its principal shareholder B.C. Pacific Capital Corporation considered restructuring options with Brascan Financial Corporation. Those cease trade orders were subsequently terminated after FT Capital Inc. filed the requisite financial statements.	July 27, 2004

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- (1) Member of the Audit Committee.
 - (2) Member of the Environmental, Health and Safety Committee.
 - (3) Member of the Nominating and Corporate Governance Committee.

- (4) Member of the Management Resources and Compensation Committee.

Messrs. Gammiero, Madon and McNeil (collectively, the “BSS2 Directors”) are officers and/or directors of Brookfield and/or its subsidiaries or related entities. Mr. Gammiero is also the Chairman of Western. Brookfield has a number of relationships with the Corporation as described under “The Company” and “Interest of Management and Others in Material Transactions.” The Board considers that these relationships with Brookfield affiliates are not an interest or a business or other relationship that could, or could reasonably be perceived to, interfere materially with the BSS2 Directors’ ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. The Board also considers that three director nominees (which constitutes 50% of the seven directors) fairly reflects the relative investment of Brookfield (through BSS2) and other shareholders in the Corporation.

The transactions with Brookfield described herein were approved, as required by the Canada Business Corporations Act and applicable securities laws, by the independent directors who are not BSS2 Directors.

Executive Officers

The table below set forth the names, provinces of residence and positions with Western of the executive officers of Western as of the date hereof, and the principal occupation of each of them during the past five years (other than the CEO, whose information is set forth above).

Name and Province and

Country of Residence

Position with Western and Principal Occupation

BRIAN CAIRO B.C., Canada	Senior Vice President, Finance and Corporate Secretary since March of 2009. Previously, Vice President, Corporate Controller and Assistant Corporate Secretary of Western from August, 2008 to March, 2009 and before that Corporate Controller from March, 2006. From April 2003 to March 2006, Mr. Cairo was Director of Finance and Planning and Administration of the Canadian Forestlands unit of Weyerhaeuser Canada Ltd. Mr. Cairo is a Certified General Accountant and holds a Masters of Business Administration from Athabasca University and a Bachelor of Commerce from University of Manitoba.
DON DEMENS B.C., Canada	Senior Vice President, Sales and Manufacturing since August, 2009, and previous to this was Senior Vice President, Western Red Cedar and Custom Cut from April, 2009. Prior to this, Mr. Demens was General Manager for Andersen Pacific Products from January 2008 until December 2008, and prior to that was a Forest Industry Consultant from November 2006 until January 2008. From July 2004 until July 2006 Mr. Demens was General Manager, Whitewood for International Forest Products Ltd. Mr. Demens holds a Bachelor of Commerce degree from the University of British Columbia.
NORM FACEY B.C., Canada	Senior Vice President, Timberlands since April of 2009. Previously, Vice President manufacturing of the Company from August, 2007 and before that Vice President of Operations at Catalyst Paper since July 2001. Mr. Facey holds a Bachelor of Applied Science from the University of British Columbia and is a Registered Professional Engineer.
STEPHEN FRASHER B.C., Canada	President, Chief Executive Officer and Director (see table above in <i>Director</i> section)
BOB MARSH B.C., Canada	Senior Vice President, Safety, Environment and Employee Relations since August 2009. From August 2008 to August 2009, Mr. Marsh was Vice President of Health, Safety and the Environment at Washington Marine Group. Prior to this, for the period from February 2007 until August 2008, he was an independent consultant specializing in safety, environment and human resources systems improvements. From 2005 to 2007 Mr. Marsh was Corporate Director of Human Resources for the Vancouver Island Health Authority. Mr. Marsh holds both graduate and post-graduate degrees from the University of Victoria.
NEIL STEVENS B.C., Canada	Vice President, Fibre Optimization since June 2006. From 1994 to 2006, he held various positions with Weyerhaeuser in Softwood Lumber and in Canadian Forestlands, conducting work primarily in Alberta, Saskatchewan and Ontario. Prior to this, Mr. Stevens was employed in forestry consulting in Alberta, as Manager and Senior Consultant. Mr. Stevens has a Bachelor and a Master of Science degree in Forestry from the University of Alberta.

Shareholdings of Directors and Executive Officers

As at the date hereof, except as described herein, none of our Common Shares are beneficially owned, directly or indirectly, and no direction or control over any of our shares is exercised by any of the directors and executive officers of Western. As of the date hereof, BSS1 (as manager for BSS2) has the right to control or direct 63,026,544 Common Shares (49% of the issued and outstanding Common Shares) and 338,945,860 Non-Voting Shares (100% of the issued and outstanding Non-Voting Shares). Mr. Arthurs and Mr. Doney beneficially own 52,436 and 5,000 Common Shares, respectively. Together, these 57,436 shares represent less than one percent of the Company's outstanding Common Shares.

AUDIT COMMITTEE

The Audit Committee was established to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the accuracy and completeness of our financial statements;
- (b) our internal control and financial reporting systems;
- (c) the selection and activities of our external auditor;
- (d) risk management; and
- (e) our compliance with legal and regulatory requirements.

The committee is responsible for the oversight of financial reporting and disclosure, annual and quarterly review of financial statements, and the related management's discussion and analysis and earnings release, and oversight of internal controls and disclosure procedures. The committee also recommends the appointment of our external auditors, reviews the annual audit plan and auditor compensation, approves non-audit services provided by the external auditor, reviews hiring policies regarding former staff and auditors and reviews the adequacy of our risk management policies and procedures. The Committee is also responsible for establishing procedures for handling complaints and employee concerns regarding accounting and auditing matters.

The Audit Committee has adopted a charter that reflects these and other responsibilities. The charter as most recently approved by the Board of Directors is attached as an appendix to this Annual Information Form.

Composition of and Education and Experience of Members of the Audit Committee

The Audit Committee is comprised of three directors being, as of March 3, 2010, James Arthurs – Chairman, Lee Doney and John B. Newman. The Board of Directors has determined that all three members of the Audit Committee are independent and financially literate under the standards established by Canadian securities regulatory authorities in National Instrument 52-110-Audit Committees. During 2009, the Audit Committee met 9 times.

Relevant Education and Experience

James Arthurs – Chairman – Mr. Arthurs is a Managing Partner with i3 Transition Partners, a Vancouver-based management consulting firm. Prior to this, from 2004 until 2009, he was Senior Vice President, North American Operations, Integrated Paving Concepts Inc., a manufacturer of equipment, tooling and high technology coatings for the decorative asphalt industry. Previously he has held several other positions requiring a high degree of financial acumen including Managing Director, Operations, for The Jim Pattison Group and Senior Vice President and Chief Information Officer for the Alderwoods Group, Inc. Mr. Arthurs holds a Bachelor of Science Degree in Computer Science from the University of Calgary.

Lee Doney – Mr. Doney has extensive financial experience. He is an independent consultant and currently the Chairman of the Board of Columbia Power Corporation. Prior to his retirement in April 2004 he held numerous senior positions with the British Columbia government, most recently as Deputy Minister of Skills and Development and Labour.

John B. Newman – Mr. Newman has extensive financial and audit committee experience. He is currently the Chairman and CEO of Multibanc Financial Holdings Limited, a private investment vehicle located in Toronto. He is also Chairman of Dale-Parizeau LM Inc., Morris & Mackenzie Inc. and the AGF Family of Mutual Funds Trusts and Corporations and was formerly the Chairman of Simmons Canada Inc., First Place Tower Inc. and Multi-Fund Management Inc. Until his retirement in 1990 Mr. Newman was the Deputy Chairman of Prudential Securities (Canada).

Pre-Approval Policies and Procedures of Non-Audit Services

The Audit Committee has adopted a policy that requires, in accordance with applicable law, its pre-approval of all non-audit services to be provided by the Company's auditors. The Audit Committee has adopted the following pre-approval policies:

- (a) Annually, the Audit Committee will review a list of audit, audit-related, tax and other non-audit services and recommend pre-approval of these services.
- (b) All additional requests to engage our auditor for other services will be addressed on a case-by-case specific engagement basis. Except as otherwise permitted by applicable law, the engagement may only commence upon approval by the Audit Committee.

External Auditor Service Fees

The aggregate fees billed for professional services rendered by our auditors, KPMG LLP to us for the years ended December 31, 2009 and 2008 are as follows:

	Fees Paid	
	2009	2008
Audit services	\$625,000	\$745,000
Audit-related services	109,455	202,000
Taxation services	174,203	134,000
Total for all services	\$908,658	\$1,081,000

Description of Services:

Audit services include the audit of the annual financial statements of the Corporation and its subsidiaries and the review of the Corporation's unaudited interim financial statements.

Audit-related services include audits of the Corporation's pension plans, accounting consultations relating to new or complex accounting standards, supplemental audit and review procedures conducted during the course of the year and the auditor's involvement with offering and continuous disclosure documents.

Taxation services consist of tax compliance services and tax planning and structuring.

LEGAL PROCEEDINGS

In addition to the legal proceedings referred to elsewhere in this Annual Information Form, including in the "Risks and Uncertainties" described in our Management Discussion and Analysis for the fiscal year ended December 31, 2009 incorporated by reference in this Annual Information Form and available under the Company's profile on SEDAR found at www.sedar.com, in the normal course of business, Western is subject to a number of claims and legal actions that may be made by customers, suppliers, logging contractors and others in respect of which either provision has been made or for which no material liability is expected. Where we are not able to determine the outcome of these disputes, no amounts have been accrued in our financial statements.

Other than as disclosed elsewhere herein, we are not aware of any material legal proceedings to which we are a party or to which our property is subject, nor are we aware that any such proceedings are contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed herein, we are not aware of any material interest, direct or indirect, of any director or executive officer of the Company, any person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the voting rights attached to the Common Shares, or any associate or affiliate of any of the foregoing, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect us. The transactions comprise:

- The Company has certain arrangements with entities related to BAM to provide financing, acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire services including insurance, all in the normal course and at market rates or at cost. During the year ended December 31, 2009 the Company incurred costs of \$13.9 million (2008 - \$28.8 million; 2007 - \$42.8 million) and charged entities related to BAM \$0.7 million (2008 - \$0.8 million; 2007 - \$6.8 million) in connection with these arrangements.
- On October 13, 2009, the Company announced that it had sold certain higher-and-better-use properties in central and northern Vancouver Island ("HBU Properties") to WFPFPL, a jointly-owned entity of the Company and Brookfield Properties Limited, a wholly-owned subsidiary of Brookfield Properties Corporation which is in turn related to BAM. The Company appointed a special committee of independent directors (the "Special Committee") to review both the reorganization of WFPFPL as a jointly-owned entity and the sale of the HBU Properties. The Special Committee unanimously recommended that the Board of Directors approve this related party transaction, which the Board of Directors subsequently approved. See *"Development of the Business - Significant Developments Since January 2007"*
- On March 31, 2009, the Company entered into an agreement with BAM to provide a US\$80.0 million foreign exchange facility to the Company. See *"Development of the Business - Significant Developments Since January 2007"*.
- On January 22, 2009, the Company closed a Rights Offering pursuant to a final prospectus dated December 10, 2008 to all shareholders raising \$50.0 million before issue expenses. See *"Development of the Business - Significant Developments Since January 2007"*.
- In December, 2008 BAM agreed to provide credit support to the Corporation by way of a letter of credit for \$15.0 million (the "Letter of Credit") in favour of one of the Corporation's lenders. Western will reimburse BAM in connection with the provision of the Letter of Credit for BAM's costs with an incremental return component. The letter of credit was withdrawn following the closing of the Rights Offering.
- On March 14, 2008, the Company closed a new financing providing \$175.0 million in term facilities. The proceeds retired the Brookfield Bridge Lending Fund Inc. ("BBLF") facilities which amounted to \$72.5 (US\$73.5 million) and \$101.8 million at that time. See *"Development of the Business - Significant Developments Since January 2007"*.

TRANSFER AGENTS AND REGISTRARS

The registrar and transfer agent for our Common Shares is Computershare Investor Services Inc. at its principal office in Vancouver located at 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 and 11th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business or as otherwise disclosed herein, Western has not entered into any other material contracts within the most recently completed financial year or before the most recently completed financial year (but after January 1, 2002) and still in effect.

The material contracts disclosed herein are:

On March 17, 2006, Western executed a 40-year fibre supply agreement with a partnership of Canadian Forest Products Ltd. and Oji Paper Canada Ltd. ("Partnership"). As consideration for entering into this long-term fibre supply agreement, the Company received the chip price premium of \$80 million, of which a non-refundable \$35 million was paid to Western in cash on March 17, 2006. The balance of \$45 million of the chip price premium will be set off against the consideration due on the acquisition of the Englewood Logging Division consisting of TFL 37 on Vancouver Island and certain related assets formerly owned by Canfor. Western granted a security interest in TFL 37 and related assets to the Partnership that may be discharged by Western after the tenth anniversary of the agreement, except in certain circumstances. Enforcement of that security may be commenced in certain circumstances of default, including a failure to supply a minimum of 200,000 volumetric units of wood chips in any year and a minimum of 900,000 volumetric units over any three-year period, or certain other defaults specified in the Fibre Supply Agreement. Effective July 3, 2009, the Company amended the long-term fibre supply agreement and associated agreements to address the shortfall in the Company's minimum required wood chip deliveries during the three year period ended December 31, 2008. See "*Development of the Business - Significant Developments Since January 2007*".

INTEREST OF EXPERTS

Our auditors, KPMG LLP, have prepared the audit report attached to our audited financial statements for our most recent year-end. KPMG LLP has confirmed that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as of February 17, 2010.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities, and securities authorized for issuance under equity compensation plans, will be contained in our management information circular for our annual meeting of shareholders expected to be held in May 2010. Additional financial information is provided in our audited financial statements and accompanying management's discussion and analysis for our most recent year-end. Additional information relating to Western is available on SEDAR at www.sedar.com under the Company name.

GLOSSARY OF CERTAIN TERMS

Certain terms used herein are defined below.

“AAC”	Allowable annual cut — the volume of timber which the holder of a tree farm licence or forest licence may harvest under the licence in any given year as determined by the Ministry of Forests and Range.
“annual cut”	The volume of timber which the holder of a timber licence expects to harvest annually from that timber licence.
“BAM”	Brookfield Asset Management Inc.
“BBLF”	Brookfield Bridge Lending Fund Inc.
“BBLF Facilities”	The US Facility and the Canadian Facility, collectively, described under “Capital and Debt Structure – Senior Secured Facilities”.
“BPL”	Brookfield Properties Limited
“BSS1”	Brookfield Special Situations Partners Ltd. (formerly Tricap Partners Ltd.)
“BSS2”	Brookfield Special Situations Management Limited (formerly Tricap Management Limited.)
“board feet”	The plural of board foot; a board foot is calculated by multiplying 1” x 12” x 12” = 1 foot board measure gross count. Lumber is then finished (planed/sanded) to a smaller size and sold based on the original gross count. The difference between gross size and net size is approximately 7%.
“Canadian GAAP”	Canadian generally accepted accounting principles.
“CBCA”	<i>Canada Business Corporations Act</i> , as amended.
“CIBC Prime”	Canadian Imperial Bank of Commerce prime lending rate
“CIT”	CIT Business Credit Canada Inc.
“Exchange Limitation”	Means the requirement that no holder or group of holders should beneficially own, or exercise control or direction over, 50% or more of the Common Shares,.
“forest licence” or “FL”	A licence granted by the Ministry of Forests and Range which entitles the holder to cut a specific volume of timber on government lands.
“FR Act”	<i>Forestry Revitalization Act</i> (British Columbia).
“green”	A term used to describe lumber that is not kiln-dried or air-dried.
“hectare”	An area 100 metres by 100 metres, equal to 2.47 acres.
“hog fuel”	Wood residue produced by a sawmill or a log merchandiser.
“ISO”	International Standards Organization.
“m ³ ”	A cubic metre.
“Ministry of Forests and Range”	The Ministry of Forests and Range of British Columbia.

“MMfbm”	One million board feet measure (see “board feet”).
“Part 13”	Part 13 of the Forest Act, under which the Province of B.C. may suspend cutting authorities or plans in identified areas in the public interest for a period of time specified in regulations. Also known as “Designated” or “Protected” areas.
“replaceable contract”	Replaceable contract under the Forest Act. An “evergreen” timber harvesting contract that is entered into between a holder of a replaceable licence and a contractor, whereby the contractor is obligated to perform one or more defined phases of timber harvesting within the licence and, if satisfactorily performed, the licence holder is obligated, prior to the expiry of the term of the contract, to offer the contractor a replacement contract on substantially the same terms and conditions as the contract being replaced.
“SPF 2x4 lumber”	2” x 4” kiln-dried random lengths of spruce, pine and fir lumber, which is a North American commodity grade of standard and better dimensional lumber.
“sustained yield”	The yield that a forest can produce continuously (i.e. in perpetuity) at a given intensity of management without impairment of the land’s productivity, with the intent that there will be a balance between timber growth and harvesting on a sustainable basis.
“timber licence” or “TL”	A licence granted by the Ministry of Forests and Range which entitles the holder to harvest the area over a specified period.
“timber supply areas” or “TSA”	The areas of Provincial Government timberland which are not designated as TFLs.
“tonne”	A metric tonne — 1,000 kilograms or 2,204.6 pounds.
“tree farm licence” or “TFL”	A TFL is a replaceable timber tenure that requires the licensee to manage a specified area of timberland on a sustained yield basis. TFLs are granted for 25-year terms and, subject to satisfactory performance of its obligations under the TFL agreement by the licensee, are replaced by the Minister of Forests and Range every five to 10 years with a new TFL with a 25-year term.
“TSX”	Toronto Stock Exchange
“volumetric unit”	Equals 200 cubic feet of wood chips, hog fuel or sawdust.
“wood chips”	Small pieces of wood used to make pulp. The wood chips are produced either from wood-waste in a sawmill or a log merchandiser or from pulp wood cut specifically for this purpose. Wood chips are generally uniform in size and are larger and coarser than sawdust.

APPENDIX

WESTERN FOREST PRODUCTS INC.

AUDIT COMMITTEE CHARTER

1. Purpose

The Board of Directors (the "Board") of Western Forest Products Inc. (the "Corporation") has established an Audit Committee (the "Committee") to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the accuracy and completeness of the Corporation's financial statements;
- (b) the internal control and financial reporting systems of the Corporation;
- (c) the selection and activities of the Corporation's external auditor;
- (d) risk management;
- (e) the Corporation's compliance with legal and regulatory requirements, and
- (f) any additional duties set out in this Charter or otherwise delegated to the Committee by the Board.

2. Members

Committee members, including the Committee Chair, shall be appointed annually by the Board based on recommendations of the Nominating and Corporate Governance Committee and shall consist of at least three members of the Board who meet the independence requirements of Multilateral Instrument 52-110 - Audit Committees.

All members of the Committee shall be financially literate. While the Board shall determine the definition of and criteria for financial literacy, this shall, at a minimum, include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

3. Duties

The Committee shall have the following duties:

- (a) Financial Reporting and Disclosure
 - (i) *Audited Annual Financial Statements*: Review the audited annual financial statements as prepared by management in conjunction with the external auditors, related management discussion and analysis ("MD&A") and earnings press releases for submission to Board for approval.
 - (ii) *Quarterly Review*: Review the unaudited quarterly financial statements, the related MD&A and earnings press releases for submission to the Board for approval.
 - (iii) *Significant Accounting Practices and Disclosure Issues*: Review with management and the external auditor, significant accounting practices employed by the Corporation and disclosure issues, including complex or unusual transactions, judgmental areas such reserves or estimates, significant changes to accounting principles, and alternative treatments under Canadian GAAP for material transactions. This review process shall be undertaken in order to have reasonable assurance that the financial statements are complete, do not contain any misrepresentations, and present fairly the Corporation's financial position and the results of its operations in accordance with Canadian GAAP.

- (iv) *Compliance*: Confirm through discussions with management and auditors whether Canadian GAAP and all applicable laws or regulations related to financial reporting and disclosure have been considered and obtain confirmations from management that Canadian GAAP and all such applicable laws have been complied with.
 - (v) *Legal Events*: Review any actual or anticipated litigation or other events, including tax assessments, which could have a material current or future affect on the Corporation's financial statements, and the manner in which these have been disclosed in the financial statements.
 - (vi) *Off-Balance Sheet Transactions*: Discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future affect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components or revenues and expenses.
 - (vii) *Disclosure Procedures*: Satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted from the Corporation's financial statements and periodically assess the adequacy of those procedures.
- (b) Oversight of Internal Controls
- (i) *Review and Assessment*: Review the adequacy and effectiveness of the Corporation's system of internal control and management information systems through discussions with management and the external auditor.
 - (ii) *Oversight*: Oversee system of internal control, by:
 - Consulting with the external auditor regarding the adequacy of the Corporation's internal controls;
 - Monitoring policies and procedures for internal accounting, financial control and management information, electronic data control and computer security;
 - Obtaining from management adequate assurances that all statutory payments and withholdings have been made; and
 - Taking other actions as considered necessary.
 - (iii) *Fraud*: Oversee investigations of alleged fraud and illegality relating to the Corporation's finances and any resulting actions.
 - (iv) *Complaint*: Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and for the protection from retaliation of those who report such complaints in good faith.
- (c) External Audit
- (i) *Appointment or Replacement*: Recommend the appointment or replacement of the external auditor to the Board, who will consider the recommendation prior to submitting the nomination to the shareholders for their approval.
 - (ii) *Compensation*: Review with management, and make recommendations to the Board, regarding the compensation of the external auditor. In making a recommendation with respect to compensation, the Committee shall consider the number and nature of reports issued by the external auditor, the quality of internal controls, the size, complexity and financial condition of the Corporation, and the extent of other support provided by the Corporation to the external auditor.

- (iii) *Reporting Relationships*: The external auditor will report directly to the Committee.
- (iv) *Performance*: Review with management the terms of the external auditor's engagement, accountability, experience, qualifications and performance. Evaluate the performance of the external auditor.
- (v) *Transition*: Review management's plans for an orderly transition to a new external auditor, if required.
- (vi) *Audit Plan*: Review the audit plan and scope of the external audit with the external auditor and management, and consider the nature and scope of the planned audit procedures.
- (vii) *Audit Plan Changes*: Discuss with the external auditor any significant changes required in the approach or scope of their audit plan, management's handling of any proposed adjustments identified by the external auditor, and any actions or inactions by management that limited or restricted the scope of their work.
- (viii) *Review of Results*: Review, independently from management and without management present, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the external auditor the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment, and any other material communications with management.
- (ix) *Disagreements with Management*: Resolve any disagreements between management and the external auditor regarding financial reporting.
- (x) *Material Written Communications*: Review all other material written communications between the external auditor and management, including the post-audit management letter containing the recommendations of the external auditor, management's response and, subsequently, follow up identified weaknesses.
- (xi) *Interim Financial Statements*: Engage the external auditor to review all internal financial statements and review the results of the auditor's review of the interim financial statements and the auditor's review of the related MD&A independent of and without management present.
- (xii) *Other Audit Matters*: Review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards or that relate to the external auditor.
- (xiii) *Meeting with External Auditor*: Meet with the external auditor independently from management and without management present (1) at least annually to discuss and review specific issues; and (2) as appropriate with respect to any significant matters that the auditor may wish to bring to the Committee for its consideration.
- (xiv) *Correspondence*: Review with management and the external auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies.
- (xv) *Independence*: At least annually, and before the external auditor issues its report on the annual financial statements, review and confirm the independence of the external auditor through discussions with the auditor on their relationship with the Corporation, including details of all non-audit services provided. Consider the safeguards implemented by the external auditor to minimize any threats to their independence, and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the external auditor. Consider the number of years the lead audit partner has been assigned to the Corporation, and consider whether it is appropriate to

recommend to the Board a policy of rotating the lead audit partner more frequently than every five years, as is required under the rules of the Canadian Public Accountability Board.

- (xvi) *Non-Audit/Audit Services*: Pre-approve, in accordance with applicable law, any non-audit services to be provided to the Corporation by the external auditor, with reference to compatibility of the service with the external auditor's independence.
- (xvii) *Hiring Policies*: Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor.

(d) Risk Management

Review and assess the adequacy of the Corporation's risk management policies and procedures with respect to the Corporation's principal business risks. Review and assess the adequacy of the implementation of appropriate systems to mitigate and manage the risks, and report regularly to the Board. Review the Corporation's insurance program.

(e) Regulatory Compliance

Review with management the Corporation's relationship with regulators and the timeliness and accuracy of Corporation filings with regulatory authorities.

(f) Related Party Transactions

Review with management all related party transactions and the development of policies and procedures related to those transactions.

(g) Board Relationship and Reporting

- (i) *Adequacy of Charter*: Review and assess the adequacy of the Committee Charter annually and submit such amendments as the Committee proposes to the Board.
- (ii) *Disclosure*: Oversee appropriate disclosure of the Committee's Charter, and other information required to be disclosed by applicable legislation, in the Corporation's Annual Information Form and all other applicable disclosure documents, including any management information circular distributed in connection with the solicitation of proxies from the Corporation's security holders.
- (iii) *Reporting*: Report regularly to the Board on Committee activities, issues and related recommendations.

4. **Chair**

The Board will in each year appoint the Chair of the Committee. The Chair shall be financially literate. In the Chair's absence, or if the position is vacant, the Committee may select another member as Chair. The Chair will have the right to exercise all powers of the Committee between meetings but will attempt to involve all other members as appropriate prior to the exercise of any powers and will, in any event, advise all other members of any decisions made or powers exercised.

5. **Meetings**

The Committee shall meet at the request of its Chair, but in any event it will meet at least four times a year. Notices calling meetings shall be sent to all Committee members. The external auditor or any member of the Committee may call a meeting of the Committee. The Chair of the Committee shall develop and set the Committee's agenda, in consultation with the other members of the Committee. Each member of the Committee is free to suggest the inclusion of items on the agenda. The agenda and information concerning the business to be conducted at each Committee meeting shall be distributed to the members of the Committee in advance of each meeting to permit meaningful review.

6. **Quorum**

A majority of members of the Committee, present in person, by teleconference, or by videoconference will constitute a quorum.

7. **Removal and Vacancy**

A member may resign from the Committee, and may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to be a director. The Board will fill vacancies in the Committee by appointment from among the directors of the Board in accordance with Section 2 of this Charter. Subject to quorum requirements, if a vacancy exists on the Committee, the remaining members will exercise all its powers.

8. **Experts and Advisors**

In order to carry out its duties, the Committee may retain or appoint, at the Corporation's expense, such independent counsel and other experts and advisors as it deems necessary. The Committee shall provide notice to the Nominating and Corporate Governance Committee of its actions in this regard.

9. **Access**

The Committee may have access to and direct contact with any employee, contractor, supplier, customer or other person that is engaged in any business relationship with the Corporation to confirm information or to investigate any matter within the mandate of the Committee.

10. **Secretary and Minutes**

The Chair of the Committee shall appoint a secretary for each meeting to keep minutes of such meeting. The minutes of the Committee will be in writing and duly entered into the books of the Corporation. The minutes of the Committee will be circulated to all members of the Board.

Dated as of May 6, 2005