

**Western Forest Products Inc.**

**CIRCULAR**

**Notice of  
Annual Meeting of Shareholders  
and  
Management Information Circular**

**March 28, 2012**



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March 28, 2012

Dear Shareholder:

On behalf of the Board of Directors, I would like to invite you to attend the Western Forest Products Inc. Annual Meeting of Shareholders at Suite 2800, 666 Burrard Street, Vancouver, British Columbia on May 9, 2012 at 9:00 a.m. Pacific Daylight Time. At the Meeting, we will review the business and affairs of the Corporation and ask you to elect directors and appoint auditors for the coming year.

Following the Meeting, you will have an opportunity to meet the directors and executives who will be pleased to answer your questions.

Along with the Notice of Meeting and Management Information Circular we also enclose the Form of Proxy for registered shareholders.

I hope you can attend the Meeting and vote in person. However, if you are unable to attend in person, I encourage you to vote as soon as possible, either by mail, telephone, internet, proxy or by instructing your financial advisor or institution.

Yours truly,

A handwritten signature in black ink, appearing to read 'D. Gammiero', written in a cursive style.

Dominic Gammiero  
Chairman and Chief Executive Officer

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN** that the Annual Meeting of Shareholders of Western Forest Products Inc. (the "Corporation") will be held at Suite 2800, 666 Burrard Street, Vancouver, British Columbia, Canada on **May 9, 2012 at 9:00 a.m.**, Pacific Daylight Time, for the following purposes:

- 1) to receive the annual report to shareholders, including the consolidated financial statements of the Corporation, together with the auditors' report thereon, and Management's Discussion and Analysis for the fiscal year ended December 31, 2011;
- 2) to elect directors for the ensuing year;
- 3) to appoint auditors for the ensuing year and authorize the directors to fix the remuneration to be paid to the auditors; and
- 4) to transact such other business as may properly come before the Meeting or any adjournment thereof.

The Management Information Circular accompanying this Notice provides additional information relating to the matters to be dealt with at the Meeting.

**Registered shareholders who are unable to attend the Meeting in person or who wish to vote in advance of the Meeting, are invited to vote by signing and returning the enclosed form of proxy in the envelope provided for that purpose. A proxy will not be valid unless it is deposited at the office of Computershare Investor Services Inc., 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1, Attention: Proxy Department, on or before 9:00 a.m. Pacific Daylight Time (12:00 p.m. Eastern Daylight Time) on May 7, 2012. Instructions for voting by telephone or via the Internet are located on the enclosed form of proxy.**

**Non-registered shareholders will be provided with voting instructions by the intermediaries who hold the shares on their behalf.**

**BY ORDER OF THE BOARD OF DIRECTORS**



Dominic Gammiero  
Chairman and Chief Executive Officer  
Western Forest Products Inc.

*Vancouver, B.C., Canada  
March 28, 2012*

# MANAGEMENT INFORMATION CIRCULAR

## PART ONE – VOTING INFORMATION

### SOLICITATION OF PROXIES

This Management Information Circular (the “Circular”) is furnished in connection with the solicitation by management of Western Forest Products Inc. (“Western”, the “Corporation”, “us”, “we”, or “our”) of proxies from owners of common shares (“Common Shares”) of the Corporation for use at the Annual Meeting of Shareholders of the Corporation (the “Meeting”) referred to in the accompanying Notice of Meeting (the “Notice”) to be held at the time and place and for the purposes set forth in the Notice. The solicitation of proxies will be primarily by mail but proxies may be solicited personally or by telephone by directors, officers or employees of the Corporation. The cost of solicitation will be borne by the Corporation. Unless otherwise specified, all information provided in this Circular is as at March 28, 2012 and all dollar amounts in this Circular are in Canadian currency.

### APPOINTMENT OF PROXIES

The persons named in the enclosed form of proxy are management representatives and are directors and/or officers of the Corporation.

**Each shareholder has the right to appoint any person or company, who need not be a shareholder of the Corporation, other than the persons named in the enclosed form of proxy to represent such shareholder at the Meeting or any adjournment thereof. This right may be exercised by inserting such person’s name in the blank space provided in the form of proxy.**

The completed form of proxy must be deposited with our registrar and transfer agent, Computershare Investor Services Inc. 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1, Attention: Proxy Department, not later than 9:00 a.m. Pacific Daylight Time (12:00 p.m. Eastern Daylight Time) on May 7, 2012. Instructions for voting by telephone or via the Internet are located on the enclosed form of proxy.

### NON-REGISTERED HOLDERS

Only registered holders of our Common Shares, or the persons they appoint as their proxies, are permitted to attend and vote at the Meeting. However, in many cases, Common Shares beneficially owned by a holder (a “Non-Registered Holder”) are registered either:

- a) in the name of an intermediary (an “Intermediary”) that the Non-Registered Holder deals with in respect of the Common Shares, such as, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or
- b) in the name of a depository, such as CDS Clearing and Depository Services Inc., (the “Depository”) of which the Intermediary is a participant.

In accordance with the Canada Business Corporations Act (“CBCA”) and Canadian securities law, the Corporation has distributed copies of the accompanying Notice, this Circular, and the 2011 Annual Report (collectively, the “Meeting Materials”) to Intermediaries for onward distribution to Non-Registered Holders who have not waived their right to receive them.

Non-Registered Holders who have not waived the right to receive the Meeting Materials will receive either a voting instruction form or, less frequently, a form of proxy. The purpose of these forms is to permit Non-Registered Holders to direct the voting of the Common Shares they beneficially own. Non-Registered Holders should follow the procedures set out below, depending on which type of form they receive.

- a) **Voting Instruction Form.** In most cases, a Non-Registered Holder will receive, as part of the Meeting Materials, a voting instruction form. If the Non-Registered Holder does not wish to attend and vote at the Meeting in person (or have another person attend and vote on his or her behalf), the voting instruction form can be completed, signed and returned in accordance with the directions on the form. Voting instruction forms can be completed by telephone or through the Internet. If a Non-Registered Holder wishes to attend and vote at the Meeting in person (or have another person attend and vote on his or her behalf), the Non-Registered Holder must complete,

sign and return the voting instruction form in accordance with the directions provided. A form of proxy giving the right to attend and vote will be forwarded to the Non-Registered Holder upon receipt of the voting instruction form.

- b) **Form of Proxy.** Less frequently, a Non-Registered Holder will receive, as part of the Meeting Materials, a form of proxy that has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of Common Shares beneficially owned by the Non-Registered Holder but which is otherwise incomplete. If the Non-Registered Holder does not wish to attend and vote at the Meeting in person (or have another person attend and vote on his or her behalf), the Non-Registered Holder can complete the form of proxy and deposit it in accordance with the instructions set out in the section titled "Appointment of Proxies", above. If a Non-Registered Holder wishes to attend and vote at the Meeting in person (or have another person attend and vote on his or her behalf), the Non-Registered Holder must strike out the names of the persons named in the proxy and insert the Non-Registered Holder's (or such other person's) name in the blank space provided. To be valid, the completed form of proxy must be deposited with our registrar and transfer agent, Computershare Investor Services Inc., 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1, Attention: Proxy Department, not later than 9:00 a.m. Pacific Daylight Time (12:00 p.m. Eastern Daylight Time) on May 7, 2011.

**Non-Registered Holders should follow the instructions on the forms they receive and contact their Intermediaries promptly if they need assistance.**

#### **REVOCAION OF PROXIES**

A shareholder who has given a proxy has the power to revoke it as to any matter on which a vote has not already been cast pursuant to the authority conferred by the proxy and may do so: (1) by delivering another properly executed form of proxy bearing a later date and depositing it as described above; (2) by depositing an instrument in writing revoking the proxy executed by the shareholder or by the shareholder's attorney authorized in writing (a) at the Corporation's registered office, c/o Davis LLP, Suite 2800, 666 Burrard Street, Vancouver, BC, V6C 2Z7, Attention: Stuart Morrow, at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used, or (b) as to any matter in respect of which a vote shall not already have been cast pursuant to such proxy, with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof; or (3) by any other manner permitted by law.

A Non-Registered Holder may revoke a voting instruction form or a waiver of the right to receive Meeting Materials and to vote that was given to an Intermediary at any time by written notice to the Intermediary, except that an Intermediary is not required to act on a revocation of a voting instruction form or of a waiver of the right to receive materials and to vote that is not received by the Intermediary at least seven days prior to the Meeting.

#### **VOTING OF COMMON SHARES REPRESENTED BY MANAGEMENT PROXIES**

The management representatives designated in the enclosed form of proxy will vote or withhold from voting the Common Shares in respect of which they are the appointed proxy on any ballot that may be called for in accordance with the instructions of the shareholder as indicated on the proxy and, if the shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares will be voted accordingly.

**In respect of each matter identified or referred to for which no instruction is given, the management representatives will vote the Common Shares represented thereby in accordance with management's recommendation contained in this Circular.**

The enclosed form of proxy confers discretionary authority with respect to amendments to or variations of matters identified in the Notice and with respect to other matters which may properly come before the Meeting. At the date of this Circular, the management of the Corporation knows of no such amendments, variations or other matters expected to come before the Meeting.

## VOTING SHARES

As at March 28, 2012, the Corporation had outstanding 129,105,623 fully paid and non-assessable Common Shares. Each registered holder of Common Shares of record at the close of business on March 28, 2012 the record date (the "Record Date") established for the purposes of determining shareholders entitled to receive notice of and to vote at the Meeting, will be entitled to one vote for each Common Share held on all matters to come before the Meeting or any adjournment thereof either in person, or by proxy. For a description of the procedures to be followed by Non-Registered Holders to direct the voting of Common Shares beneficially owned (see the section above entitled "Non-Registered Holders").

As at March 28, 2012, the Corporation had outstanding 338,945,860 non-voting shares (the "Non-Voting Shares"). 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 the Corporation's liquidation, dissolution or winding-up, or the sale, lease or exchange of all or substantially all of the Corporation's 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 Non-Voting Shares and Common Shares shall be treated identically by the Corporation in the event of an issuer bid by the Corporation. In the event that a take-over bid is made for the 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.

## PRINCIPAL HOLDERS OF VOTING SHARES

To the knowledge of our directors and executive officers, the following parties beneficially own, or exercise control or direction over, directly or indirectly, 10% or more of the outstanding Common Shares:

<b>Name and Municipality of Residence of Shareholder</b>	<b>Number of Common Shares</b>	<b>Percentage of Issued Common Shares</b>
Brookfield Special Situations Management Limited ("BSSML") (formerly Tricap Management Limited) <sup>(1)</sup> Toronto, Ontario	63,026,544	49%

- (1) As of March 28, 2012, BSSML (as manager for and on behalf of the Brookfield Special Situations Fund I ("BSSI") (formerly the Tricap Restructuring Fund), controls 63,026,544 Common Shares (representing 49% of the outstanding Common Shares) and 338,945,860 Non-Voting Shares (representing 100% of the outstanding Non-Voting Shares). BSSML is an indirectly and wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM"). On December 14, 2011, a wholly-owned subsidiary of BAM sold 7,500,000 Common Shares and 225,938,515 Non-Voting Shares to Brookfield Investments Corporation.



## PART TWO – BUSINESS OF THE MEETING

### Annual Report and Financial Statements

The Annual Financial Statements of the Corporation and Management's Discussion and Analysis for the fiscal year ended December 31, 2011, which are included in the Corporation's 2011 Annual Report, will be placed before the shareholders at the Meeting. The Corporation's 2011 Annual Report is being mailed with this Circular to all registered holders of Common Shares, except to those who have elected not to receive it, and to Non-Registered Holders who have so requested. Additional copies of the 2011 Annual Report will be available at the Meeting. Alternatively, the 2011 Annual Report can be requested from the Corporation or accessed through the Corporation's web site at [www.westernforest.com](http://www.westernforest.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### Election of Directors

Six nominees are proposed for election to the Board of Directors of the Corporation (the "Board") at this Meeting. ***The management representatives designated in the enclosed form of proxy intend, unless otherwise directed, to vote for the election of a Board composed of the six nominees listed below to serve until the next Annual Meeting of Shareholders of the Corporation or until their successors are duly elected or appointed.*** Management has received consents from the proposed nominees to serve as directors, but if, for any reason prior to the Meeting any of the proposed nominees is unable to serve as a director, the management representatives designated in the enclosed form of proxy, unless directed to withhold from voting in the election of directors, reserve the right to vote for other nominees at their discretion.

### Nominees for Directors

The following pages set out the names and place of residence of the six persons proposed to be nominated for election as directors by the holders of Common Shares, each to hold office until the next Annual Meeting or until a successor is elected or appointed, along with the principal occupation or employment of each person, major positions with the Corporation, the year in which each person was first elected a director of the Corporation and the number of Common Shares beneficially owned, or controlled or directed, options and deferred share units held by each person as at March 28, 2012.

The Corporation has an Audit Committee, Environment, Health and Safety Committee, Management Resources and Compensation Committee and Nominating and Corporate Governance Committee. The members of these committees are indicated below.

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#### **James Arthurs**

James Arthurs, 53, has served as a director of Western since July 2004. A resident of North Vancouver, British Columbia, Mr. Arthurs is President of Cummins Westport Inc., a supplier of natural gas engines for commercial transportation applications such as trucks and buses. Previously, Mr. Arthurs was Vice President, Cryogenic Systems for Westport Innovations Inc. from 2011 to 2012, Managing Partner with i3 Transition Partners, a Vancouver-based management consulting firm, from 2009 to 2011 and Senior Vice President, North American Operations for Integrated Paving Concepts Inc., a manufacturer of equipment, tooling and high technology coatings for the decorative asphalt industry from 2004 to 2009. Prior to joining Integrated Paving Concepts, Mr. Arthurs was Managing Director, Operations, for The Jim Pattison Group, one of Canada's largest privately-held companies, from 2002 through 2004. Mr. Arthurs holds a Bachelor of Science degree in Computer Science from the University of Calgary.

*Independent Director*

*Chairman of the Audit Committee and member of the Environment, Health and Safety, and Nominating and Corporate Governance Committees*

*52,436 Common Shares*

*13,265 Options*

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**Lee Doney**

Lee Doney, 62, has served as a director of Western since July 2004. A resident of Victoria, British Columbia, Mr. Doney is the Vice-Chairman of the Corporation and an independent consultant through his company, RLD Strategies. He is the Chairman of Coast Forest Products Association, a director on the Community Living Board of the Provincial Government and the Chairman of the Board of Columbia Power Corporation. Mr. Doney was a Deputy Minister in the British Columbia Government for over 15 years and served in a number of other posts in the government. Most recently, he was Deputy Minister of Skills and Development and Labour from June 2001 until his retirement in April 2004. Mr. Doney's previous responsibilities include: Deputy Minister of Forests; Chief Executive Officer of Forest Renewal British Columbia; Interim Chairman, Industry Training and Apprenticeship Commission; Chief Executive Officer of the British Columbia Labour Force Development Board; Chairman of the Workers Compensation Board of Governors; Executive Director to the Provincial Round Table on the Environment and the Economy; and Executive Director for the BC Treaty Commission. He holds a Masters degree in Economics from Queen's University.

*Non-Independent Director*

*Vice Chairman of the Board*

*Chairman of the Environment,  
Health and Safety Committee*

*13,265 Options*

*495,982 Deferred Share Units*

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**Dominic Gammiero**

Dominic Gammiero, 63, has served as a director of Western since June 2006. A resident of Mississauga, Ontario, Mr. Gammiero is the Chairman of the Corporation and, effective October 9, 2010, Chief Executive Officer of the Corporation. He is also a director of Norbord Inc. and a director of Coast Forest Products Association. Previously, Mr. Gammiero was a director of Fraser Papers Inc. ("Fraser Papers") from 2004 to 2011 and Chief Executive Officer from 2004 to 2007; and President and Chief Executive Officer of Norbord Inc. from 1999 to 2004. On June 18, 2009, Fraser Papers and its subsidiaries initiated a court-supervised restructuring under the *Companies' Creditors Arrangement Act* (Canada) (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 of Justice to proceed with its CCAA restructuring proposal which was implemented on February 15, 2011 by way of a consolidated plan of arrangement and compromise in its cross-border proceeding. Fraser Papers was subsequently dissolved on June 23, 2011. Mr. Gammiero has more than 30 years' experience in the forest products industry in North America and Europe. He holds a Masters degree in Business Administration from the University of Detroit.

*Non-Independent Director*

*Chairman of the Board*

*Member of the Environment,  
Health and Safety Committee*

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**J. Peter Gordon**

Peter Gordon, 51, has served as a director of Western since July, 2010 and is a resident of Toronto, Ontario. Mr. Gordon is a Managing Partner of Brookfield Asset Management Inc. ("BAM"). He is also currently a director of Ainsworth Lumber Co. Ltd. and MAAX Bath Inc. Mr. Gordon was a director of Fraser Papers from 2007 to 2011, Chief Executive Officer from 2007 until 2010 and Chief Financial Officer from 2006 to 2007. (Please refer to the comments noted above with respect to the restructuring of Fraser Papers under the CCAA and *U.S. Bankruptcy Code*). For the five years prior to this Mr. Gordon was co-manager of Brookfield Special Situations Fund I. Mr. Gordon was previously a director of Western for the period July 2004 until June 2006. He holds an engineering degree from Queen's University and a Masters degree in Business Administration from the University of British Columbia.

*Independent Director*

*Chairman of the Management  
Resources and Compensation  
Committee and member of the  
Environment, Health and Safety  
Committee, the Nominating and  
Corporate Governance  
Committee and the Audit  
Committee*

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**Pierre McNeil**

Pierre McNeil, 49, has served as a director of Western since December 2007. A resident of Toronto, Ontario, Mr. McNeil is a Senior Vice President of BAM. He is also currently a director of Ainsworth Lumber Co. Ltd. and MAAX Bath Inc. and is the former President and Chief Executive Officer of Concert Industries Corp. He brings to the Board a diverse operational and human resource management experience from the forest industry and has played a leadership role in strategic projects across Canada, the United States and the United Kingdom. From July 2004, he served as a Senior Vice President with Fraser Papers prior to joining BAM in December 2006. Mr. McNeil holds a Bachelor of Arts degree from the University of Ottawa.

*Independent Director*

*Member of the Environment, Health and Safety, Management Resources and Compensation and Nominating and Corporate Governance Committees*

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**John B. Newman**

John Newman, 77, has served as a director of Western since July 2004 and is a resident of Toronto, Ontario. Since his retirement in 1990 as Deputy Chairman of Prudential Securities (Canada), Mr. Newman has served as Chairman and Chief Executive Officer of Multibanc Financial Holdings Limited, a private investment vehicle located in Toronto. Mr. Newman also served as Chairman and Chief Executive Officer of First Place Tower Inc., the owner of a 2.6 million-square foot, 72-storey office and retail complex located in Toronto, from its emergence from bankruptcy in 1995 until its sale in 1999. He is currently a director of a number of public and private Canadian corporations and trusts engaged in real estate, insurance, investment, manufacturing, mining and financing. Mr. Newman is the Chairman of Dale Parizeau Morris Mackenzie Inc. and the AGF Family of Mutual Fund Trusts and Corporations, and was the 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. He is also a 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. Mr. Newman was also an 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.

*Independent Director*

*Chairman of the Nominating and Corporate Governance Committee, and a member of the Audit and Management Resources and Compensation and the Environment, Health and Safety Committees*

*13,265 Options*

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**Director Attendance Report for Meetings Held in 2011**

It is the Board's expectation that each member of the Board should attend each meeting of the Board and the committees of which they are a member. However, in circumstances where individual directors are unable to attend a meeting, the Chairman of the Board ("Chairman") or senior management will meet with the absent director at a convenient time after the meeting to brief them on the events of the meeting. Directors are invited to attend all committee meetings.

During 2011 the Board held seven meetings and its four standing committees held 16 meetings. These included four regularly scheduled meetings of the Board and three meetings of the Board that were called to deal with a specific item of business. Committee meetings included eight meetings of the Audit Committee, four meetings of the Environment Health and Safety Committee, two meetings of the Management Resources and Compensation Committee ("MRCC") and two meetings of the Nominating and Corporate Governance Committee.

The following table summarizes directors' attendance at the Corporation's Board and committee meetings during 2011.

Director	Board Meetings	Audit Committee Meetings	Environment, Health and Safety Committee Meetings	Nominating and Corporate Governance Committee Meetings	Management Resources and Compensation Committee Meetings
James Arthurs	6 of 7	8 of 8	4 of 4	2 of 2	N/A
Lee Doney	7 of 7	N/A	4 of 4	N/A	N/A
Dominic Gammiero	6 of 7	N/A	4 of 4	N/A	N/A
Peter Gordon	6 of 7	8 of 8	4 of 4	2 of 2	2 of 2
Pierre McNeil	7 of 7	N/A	4 of 4	2 of 2	2 of 2
John B. Newman	7 of 7	8 of 8	4 of 4	2 of 2	2 of 2

In addition to the above meetings, the directors who are independent of management also meet in camera as a matter of course at regularly scheduled Board of Director meetings.

### Appointment of Auditors

At the Board meeting held on February 22, 2012, the Audit Committee recommended the nomination of KPMG LLP for reappointment as external auditors of the Corporation, subject to shareholder approval. KPMG LLP were first appointed as our auditors effective from our incorporation on April 27, 2004 and have served as our auditors since then. KPMG LLP were the auditors of the Corporation's predecessor, Doman Industries Limited (including certain of its subsidiaries), from 1999 to 2004. The resolution to appoint KPMG LLP as auditors must be passed by a simple majority of the votes at the meeting cast either in person or by proxy.

***Unless the shareholder has specified in the enclosed form of proxy that the Common Shares represented by such proxy are to be withheld from voting in the appointment of auditors, on any ballot that may be called for on the appointment of auditors, the management representatives designated in the enclosed form of proxy intend to vote such Common Shares in favour of reappointing KPMG LLP, Chartered Accountants, as auditors of the Corporation to hold office until the next Annual Meeting of Shareholders, and authorizing the directors to fix the remuneration to be paid to the auditors.***

### Audit Firm Fees

Aggregate fees billed to the Corporation for the fiscal year ended December 31, 2011 by KPMG LLP amounted to \$873,519. The Audit Committee has adopted a policy regarding the provision of non-audit services by the Corporation's external auditors. This policy requires Audit Committee pre-approval of permitted audit, audit-related and non-audit services.

The following table sets forth further information on the fees billed by KPMG LLP to the Corporation for the past two years:

	Fees Paid	
	2011	2010
Audit services	\$535,000	\$575,000
Audit-related services	\$228,875	176,390
Taxation services	\$109,644	140,523
Other non-audit services	-	-
<b>Total for all services</b>	<b>\$873,519</b>	<b>\$891,913</b>

#### 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, including International Financial Reporting Standard assistance and review work, 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.

KPMG LLP has advised the Audit Committee that it considers itself to be independent of the Corporation and the Audit Committee has confirmed that it considers KPMG LLP to be independent.

### **PART THREE – EXECUTIVE COMPENSATION REPORT**

The following information is provided pursuant to the executive compensation disclosure requirements contained in National Instrument 51-102 – Continuous Disclosure Obligations.

#### **COMPOSITION AND MANDATE OF THE MANAGEMENT RESOURCE AND COMPENSATION COMMITTEE**

In accordance with its terms of reference, all members of the MRCC of the Board are independent directors under the standards established by Canadian securities regulatory authorities in National Instrument 58-101 – Disclosure of Corporate Governance Practices (“NI 58-101”). The independent directors hold *in camera* sessions without management present as a matter of practice at each regularly scheduled Committee meeting.

The Corporation's executive compensation program is administered by the MRCC. As part of its mandate, the MRCC makes recommendations to the Board with respect to the compensation of the Chief Executive Officer and reviews and approves the compensation of all other executive officers including the Chief Financial Officer and the next three most highly compensated executive officers included in the Summary Compensation Table on page 15 (collectively, the “Named Executive Officers”). The MRCC is also responsible for reviewing the design and general competitiveness of the Corporation's compensation and benefit programs and recommending any changes to the Board.

As at the date of this Circular, the MRCC is comprised of Peter Gordon (Chairman), Pierre McNeil and John Newman. None of the members of the MRCC is an officer, employee or former officer of the Corporation or is eligible to participate in the Corporation's executive compensation programs. The MRCC members have diverse professional backgrounds including executive compensation experience as discussed in their respective biographies provided at pages 4 to 6.

The MRCC, in accordance with its terms of reference, will meet as required to monitor and review management compensation policies, management succession planning and to review the overall composition and quality of the Corporation's management resources. In addition, the MRCC oversees the funding, investment management and administration of Western's employee retirement plans. The MRCC met twice during 2011.

The Chief Executive Officer of the Corporation is not a member of the MRCC but does make recommendations to the MRCC with respect to executive compensation policy and with respect to the compensation paid to senior officers of the Corporation, other than his own. No compensation consultant or advisor was retained in 2011.

#### **COMPENSATION DISCUSSION AND ANALYSIS**

##### **Compensation Philosophy**

The Corporation believes that executive compensation should be driven primarily by performance relative to the established plans and strategy of the business. The Corporation's compensation philosophy provides that the executive pay program will be performance-driven with a strong focus on variable pay. The Corporation focuses on rewarding performance, and not on entitlement or seniority.

The Corporation uses a compensation approach for its executives that is designed to achieve key objectives, including:

- ◆ supporting the Corporation's ability to attract, develop, motivate and retain high performing executives;
- ◆ providing compensation that varies depending on individual and corporate performance;
- ◆ supporting business growth and financial results by focusing decision-making and behaviour on goals that are consistent with the business strategy; and
- ◆ aligning the interests of executives and shareholders by rewarding management based on increases in the value of our Common Shares.

### **Total Compensation**

To provide a competitive overall compensation and benefits package that is tied to creating shareholder value and supports the Corporation's business strategies, the compensation arrangements for executive officers are comprised of several components, including:

- ◆ base salary;
- ◆ annual incentive awards;
- ◆ long-term incentives (consisting of stock options and deferred share units); and
- ◆ retirement and other benefits.

Each of these components of total compensation is discussed at pages 10 to 14.

Together, the executive compensation arrangements form a package that is intended to be competitive within the marketplace and to align the executive officers' interests with those of the Corporation's shareholders. In determining the amount of each element of compensation, as well as the total compensation and benefit package, the MRCC:

- ◆ ensures that total compensation levels are appropriate by reviewing the compensation practices of competitors and other Canadian companies of similar size and composition to the Corporation;
- ◆ considers whether the total compensation packages are internally consistent with each executive officer's relative scope of responsibility and accountability for overall performance;
- ◆ recognizes that the annual incentive plan requires superior individual and corporate performance in order to achieve target compensation awards;
- ◆ exercises its business judgment and discretion in setting the level of compensation within pre-established ranges; and
- ◆ reviews total compensation design to assure that compensation ranges remain appropriately competitive and continue to meet the objectives described above.

Many features of the compensation program demonstrate the commitment to the Corporation's long-term performance driven focus. These include the encouragement of long-term stock ownership by executive officers and the vesting of stock option grants generally over a five-year period which ensures a long-term focus on results.

### **Competitive Market Assessments**

The MRCC periodically reviews market compensation levels amongst the Corporation's comparative group (as described below) to determine whether total compensation for its executive officers remains in the targeted median pay range (as described below) and makes adjustments when necessary. This review includes assessment of base salary, annual incentives and long-term incentives.

The Corporation's compensation policy is to set target levels near or consistent with the median level in the group of five comparable forest product companies, that is, British Columbia-based, large, publicly-held, integrated forest product companies. In addition to the current pay practices of this group, from time to time, the MRCC reviews various pay surveys, including surveys of pay practices of forest products companies and comparably-sized manufacturing companies, and general industry data for similar size companies. This information, when available, is considered by the MRCC in determining the total compensation to be paid to each executive officer. A review of the Corporation's executive compensation

was undertaken by the MRCC in 2011 (the “Compensation Review”). As part of the Compensation Review, the following comparator group was used: Canfor Corporation; International Forest Products Limited; Timberwest Forest Corp.; Ainsworth Engineering Canada LP and Norbord Ltd.

## **Risk Management**

The MRCC has considered the implications of the risks associated with the Corporation’s compensation policies and practices. The MRCC considered the balance between long-term objectives and short-term financial goals incorporated into the Corporation’s executive compensation program and whether or not Named Executive Officers are potentially encouraged to expose the Corporation to inappropriate or excessive risks. Risks, if any, may be identified and mitigated through regular meetings of the MRCC and the Board. No risks have been identified arising from the Corporation’s compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation.

## **Hedging**

The Corporation currently does not have a policy that restricts Named Executive Officers and directors from purchasing financial instruments, including prepaid variable forward contracts, equity swaps, collars or units of exchange funds that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the Named Executive Officer or director.

## **Key Elements of Total Compensation**

### **Base Salaries**

Base salaries of the Corporation’s executives are reviewed by the MRCC and approved by the Board annually to ensure that they reflect the contribution of each executive officer. Base salaries for executive officers are established with reference to market data and internal job classification as it relates to the contribution to the strategic and financial results of the Corporation. Several factors are considered when setting base salaries, including each executive officer’s individual performance rating, level of responsibility, prior experience, and the relationship between base salaries paid to all employees of the Corporation. In addition, the Corporation believes that base salaries should be based on the median level of salaries paid to similar positions at comparable companies in the forest products and other industries, adjusted for size based on sales volumes. Base salaries were increased in 2011 as a result of the review undertaken by the MRCC in 2011 as a result of the Compensation Review.

### **Annual Incentive Plan**

The Corporation provides annual incentive compensation to executive officers, including the Named Executive Officers, through its short-term incentive plan. Redesigned and renamed the “Annual Incentive Plan” in 2011, the Annual Incentive Plan was expanded to include all salaried employees. The Annual Incentive Plan is based on a Corporate financial target, return on capital employed (“ROCE”), and individual performance.<sup>1</sup> The Annual Incentive Plan is designed to foster an environment of continuous improvement based on key performance indicators of the business and recognize collective and individual performance directly related to financial and the strategic goals of the Company. Amounts paid are based on the following formula:

$$\text{Annual Salary x Target Award}^{(2)} \% \times \left[ \left( \frac{2}{3} \times \text{Company Factor} \right) + \left( \frac{1}{3} \times \text{Individual Factor} \right) \right]^{(1)}$$

- (1) The Company Factor will be zero if ROCE is 4% or less and will cap out at 2.0 with a ROCE of 30% or above. The Individual factor will be zero if performance is less than 0.5 (below expectations) and will cap out 2.0 (exceptional). For an employee to be eligible for an award, both the corporate and individual factors must achieve to at least the minimum level of performance. (defined as a ROCE level of 5% which equates to a Company Factor of 0.06 and an individual performance factor of 0.5). The MRCC reviews the financial performance of the Corporation as part of the award setting process.
- (2) Target awards, expressed as a percentage of base salary, have been established for all salaried employees Target awards reflect competitive practices in the market for similar positions. Targets for executive officers range from 30% to 40% of base pay. For all other salaried employees the target award ranges from 5% to 20%, depending on pay grade.

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<sup>1</sup> ROCE is a non-IFRS measure. See “Performance and Non-IFRS Measures” on page 29 which includes a definition of ROCE.

The target awards for Executive Officers, as a percentage of base salary, are as follows:

<i>Named Executive Officer</i>	<i>Target Award</i>	<i>Maximum Bonus Opportunity</i>
Dominic Gammiero <sup>(1)</sup>	-	
Brian Cairo	40%	80%
Don Demens	40%	80%
Norm Facey	40%	80%
Neil Stevens	30%	60%
Tony Sudar	30%	60%

(1) Mr. Gammiero does not participate in the Corporation's compensation program – see "Summary Compensation Table", below.

### **Long-Term Incentive Plan**

The Corporation believes it is important that the interests of senior management be aligned with the interests of shareholders. The Corporation's Long-Term Incentive Plan is intended to reward management based on increases in the value of our Common Shares. The purpose of this arrangement is to achieve an alignment of interest between shareholders and management and to motivate executives to improve the Corporation's financial success, measured in terms of enhanced shareholder value over the long-term. The Long-Term Incentive Plan consists of a Stock Option Plan and a Deferred Share Unit Plan:

#### **Stock Option Plan**

The Corporation's Stock Option Plan (the "Option Plan") was adopted in 2004 and is administered by the Board with the assistance of the MRCC in accordance with the Corporation's compensation policies and the policies of the Toronto Stock Exchange ("TSX").

The purpose of the Option Plan is to advance the interests of the Corporation in the following ways:

- ◆ aligning the interests of executives and shareholders in the success of the Corporation through increases in the value of our Common Shares;
- ◆ providing an additional incentive in lieu of cash remuneration and encouraging retention of executives as a result of the vesting provisions; and
- ◆ attracting new executives by remaining competitive in terms of total compensation arrangements.

A limited number of executive officers are eligible to receive stock options ("Options"). To determine the size of grants, the Corporation takes into consideration competitive market practices among Canadian forest industry firms, including the comparator group used as part of the Compensation Review, as discussed on Page 10, and a wider grouping of industrial companies. The exercise price for Options granted pursuant to the Option Plan will be determined on the date of the grant, which price may not be less than the market value.

The Option Plan permits the granting of Options up to a maximum of 10,000,000 Common Shares (representing approximately 7.8% of the issued and outstanding Common Shares as of the date hereof). All Option grants are approved by the Board on the recommendation of the MRCC. Stock Option awards encourage long-term stock ownership and align management's interests with those of the Corporation's shareholders through the following features:

- ◆ Options are issued "at the money" such that the strike price of the Option is equal to the market value of our Common Shares at the time of issuance, to ensure the executives will receive a benefit only when the stock price increases; and
- ◆ Options are subject to vesting requirements. Under the current terms of the Option Plan, outstanding Options may be exercised for up to 10 years, subject to vesting at the annual rate of 20% per year beginning on the first anniversary of the date of grant. Unless otherwise determined by the Board, an Option will expire immediately in the event of resignation or termination of employment for cause, and within six months after the death of an option-holder.



In February 2011, Options to purchase a total of 1,700,000 Common Shares were granted to the executive group (Mr. Cairo, 500,000; Mr. Facey, 400,000; Mr. Demens, 500,000; and Mr. Stevens, 300,000) at a price of \$0.77, which was the market price of our Common Shares on the date of grant. These Options are exercisable only if the share price at the time of exercise is in excess of \$0.70 per Common Share for 60 consecutive days on a volume weighted average price basis.

#### Deferred Share Unit Plan

A Deferred Share Unit Plan (“DSUP”) for independent directors and executive officers designated by the MRCC has been in place since 2007. The DSUP is designed to focus the executive officers and directors on the long-term interests of the Corporation and growth in shareholder value. Designated executives are encouraged to elect to receive all or a portion of their Long-Term Incentive Plan compensation in the form of deferred share units (“DSUs”). DSUs are intended to align management with shareholder interests and enhance the retention and commitment of participants to increasing long-term shareholder value by allowing executive officers and directors an opportunity to invest in the Corporation and allow them to benefit from increases in the price of our Common Shares. Executives must make an irrevocable election to take part in the DSUP prior to the end of each fiscal year to which the Long-Term Incentive Plan compensation applies.

The DSUP is administered by the MRCC. One DSU has a value equal to one Common Share. The number of DSUs allotted is determined by dividing the dollar value of the portion of the Long-Term Incentive Plan compensation that the executive previously elected to take in DSUs by the weighted average share price of our Common Shares over the five trading days on the TSX preceding the notification date. At the discretion of the MRCC, the number of DSUs to be allotted to the executive may be increased by a factor of up to two. Unless otherwise determined by the Board vesting of the DSU is immediately upon allotment. Named Executive Officers were allotted 90,910 DSUs for 2011 (see “Summary Compensation Table” on Page 15).

DSUs can only be redeemed for cash after cessation of employment with the Corporation. Participants are eligible to redeem all vested DSUs. The value of the DSUs on redemption is based on the closing price of our Common Shares, on the date the notice of redemption is received from the executive, or if no notice of redemption is received, on November 30<sup>th</sup> in the year following the year of the termination of employment and if that is not a trading day on the TSX, the next trading day.

One director elected to take half of his director’s fees in DSUs for 2011 (see the section titled “Deferred Share Unit Plan for Non-Management Directors” on page 19 for further information).

#### **Retirement and Other Benefits**

##### Retirement Benefits

The Corporation has several funded and unfunded defined benefit pension plans, a funded defined contribution pension plan and a voluntary group RRSP savings plan, all of which provide pension benefits to substantially all salaried employees and certain hourly employees. In addition, the Corporation provides other unfunded retirement and post-employment benefits to certain former salaried and hourly employees. The funded defined benefit pension plans (“DB Plans I & II”) were closed effective December 31, 2010, with no further contributions for current or credited service being made to the DB Plans I & II by the Corporation. However, as the former members of DB Plan’s I & II have a future pension benefit entitlement from the DB Plans I & II, the Corporation is responsible for ensuring that the DB Plans I & II investments are monitored and that any funding shortfalls are addressed. With the closure of DB Plans I & II, the former members became eligible to join the Corporation’s existing defined contribution pension plan. As of January 1, 2011, substantially all existing salaried employees, including named Executive Officers are members of the Corporation’s funded defined contribution pension plan (the “DC Plan”) and all new salaried employees will be given the opportunity to join the DC Plan. The Corporation also provides salaried employees the ability to voluntarily “opt out” of the DC Plan and have their contributions directed to their personal registered retirement savings plan.

For executive officers who participate in the Western Forest Products Inc. Retirement Plan for Salaried Employees (Plan III) (the “WFP Plan III”), a defined contribution pension plan, the Corporation contributes 7% of each participant’s pensionable earnings, up to the maximum contribution allowed under the *Income Tax Act* (Canada) (the “ITA Limit”).

Some Executive Officers have a pension entitlement from the Western Forest Products Defined Benefit Pension Plan (DB Plan) which was closed on December 31, 2010. After December 31, 2010, members of the DB Plan will no longer be credited service towards benefits from the DB Plan. Pension benefits derived from the DB Plan are based on final average earning at the time the executive leaves the Company and credited service up to December 31, 2010. Under the DB Plan the normal retirement age is 65, but a member may retire up to 10 years prior to the age of 65. If a member retires before the age of 65 and receives a pension, his or her pension will be reduced. If a member retires before the age of 65, he or she will receive a bridging benefit for service before July 1, 2006. Apart from the bridging benefit, which terminates at age 65, pensions are paid for life with a guarantee of at least five years' payment should the retired executive die within five years following retirement. Benefits payable under the DB Plan are limited to the ITA Limit.

The Corporation also maintains the Western Forest Products Inc. Supplementary Retirement Plan (the "WFP Supplementary Executive Retirement Plan"). The WFP Supplementary Executive Retirement Plan provides a pension supplement to executive officers who are members of WFP Plan I or II, and designated as participants by the Board in order to provide pension benefits to the level that members would receive if no ITA Limit was in place. Pensionable earnings and benefits under the WFP Plan, as supplemented by the WFP Supplementary Executive Retirement Plan, are calculated upon the same basis as benefits and earnings under the WFP Plan alone, with the exception that the ITA Limit does not apply. The WFP Supplementary Executive Retirement Plan is funded from our general operations.

#### Other Benefits

All salaried employees, including executive officers, are eligible to participate in various other benefits including: health and dental coverage, life insurance, disability insurance, paid time off and paid holidays. These benefits are designed to be competitive with market practices.

### **INCENTIVE AND EQUITY-BASED COMPENSATION EMPLOYMENT POLICIES AND GUIDELINES**

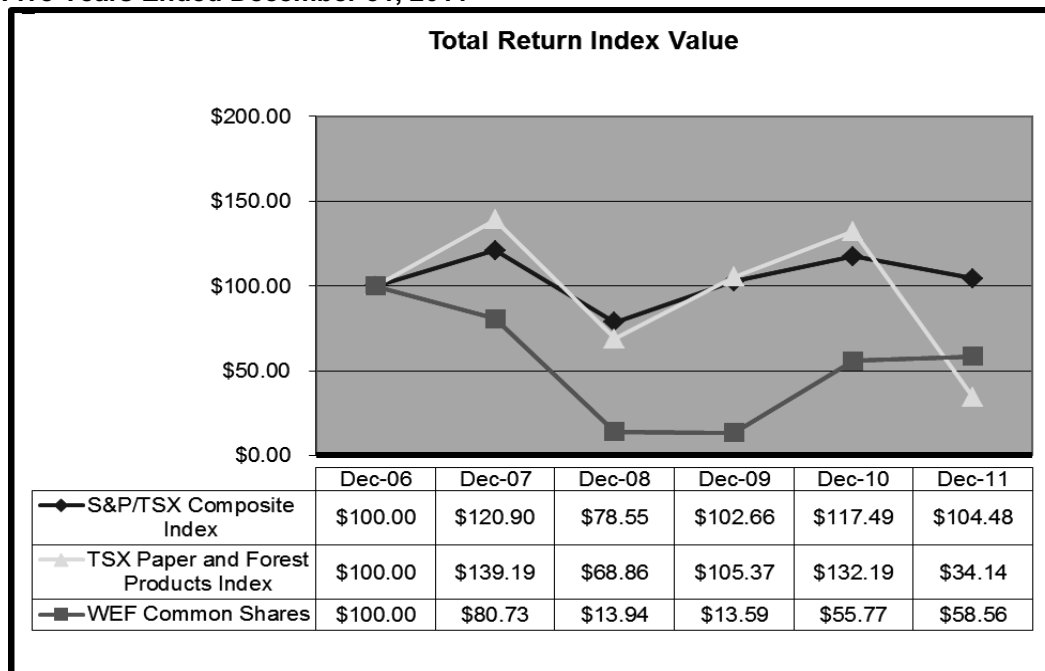
#### **Share Ownership – Disclosure**

All executive officers are prohibited from trading in the securities of the Corporation or entering into transactions through participation in the Option Plan unless such transactions are executed and disclosed in full compliance with the Corporation's Code of Business Conduct and Ethics, Communication Policy and Insider Trading Policy and all relevant securities regulations and laws. An executive who violates these policies may face disciplinary action including possible termination of employment with the Corporation. The violation of these policies may also violate certain securities laws. If the Corporation discovers that an executive has violated any securities laws, the matter may be referred to the appropriate regulatory authorities, which could lead to penalties and fines.

## Performance Graph

The graph below compares our total shareholder return over the last 5 years ending December 31, 2011 to the performance of the S&P/TSX Composite Index and the TSX Paper and Forest Products Index. The graph assumes that \$100 was invested on December 31, 2006 in our Common Shares, the TSX Paper and Forest Products Total Return Index and the S&P/TSX Composite Total Return Index respectively. The computations assume that all dividends are reinvested.

### Cumulative Total Return on \$100 Investment Five Years Ended December 31, 2011



Note: The steep decline in the TSX Paper and Forest Products Index reflects the fact that Sino Forest Corporation, which constituted a significant part of the index, was removed from the index prior to the end of 2011.

The performance of the Corporation's share price relative to the S&P/TSX Composite Total Return Index and the TSX Paper and Forest Products Total Return Index has improved over the last two years. Worldwide markets for the Corporation's products improved, but remain challenging. Cash compensation paid to the Named Executive Officers increased in 2011 reflecting improvements in the Company's performance as well as the general strengthening in the overall market. Base salaries for Named Executive Officers increased in 2011, following no increases in 2010. Bonus awards also recommenced in 2010.

## Summary Compensation Table

The following table sets forth all compensation paid or payable from Western or its subsidiaries in respect of each of the Named Executive Officers for services rendered during the three most recently completed financial years ended December 31, 2011.

Name and Principal Position	Year	Salary <sup>(1)</sup>	Share-Based Awards <sup>(2)</sup>	Option-Based Awards <sup>(3)</sup>	Non-equity Incentive Plan Compensation		Pension value <sup>(4)</sup>	All Other Compensation <sup>(5)</sup>	Total Compensation
					Annual Incentive Plan	Long-term Incentive Plan			
<b>Dominic Gammiero</b> <sup>(6)</sup> Chief Executive Officer	2011	-	-	-	-	-	-	\$180,000	\$180,000
	2010	-	-	-	-	-	-	\$62,000	\$62,000
	2009	-	-	-	-	-	-	\$48,500	\$48,500
<b>Brian Cairo</b> <sup>(7) (8)</sup> Senior Vice President, Finance, Chief Financial Officer and Corporate Secretary	2011	\$236,461	\$30,000	\$225,000	\$70,000	-	\$66,552	\$2,727	\$630,740
	2010	\$184,154	\$45,000	\$108,000	\$20,000	-	\$20,000	\$2,387	\$379,541
	2009	\$177,650	-	-	-	-	\$14,000	\$2,096	\$193,746
<b>Don Demens</b> <sup>(8) (9)</sup> Chief Operating Officer	2011	\$250,192	\$30,000	\$225,000	\$80,000	-	\$17,513	\$1,730	\$604,435
	2010	\$192,923	\$45,000	\$108,000	\$20,000	-	\$15,400	\$1,501	\$382,824
	2009	\$186,462	-	-	-	-	\$10,128	\$876	\$197,466
<b>Neil Stevens</b> <sup>(10)</sup> Vice President, Fibre Optimization	2011	\$183,475	\$15,000	\$135,000	\$40,000	-	\$12,843	\$2,119	\$388,437
	2010	\$164,296	\$20,000	\$54,000	\$15,000	-	\$12,278	\$1,982	\$267,556
	2009	\$164,970	-	-	-	-	\$12,275	\$1,817	\$179,062
<b>Norm Facey</b> <sup>(8)</sup> Senior Vice President, Timberlands	2011	\$223,869	\$15,000	\$180,000	\$40,000	-	\$15,671	\$2,586	\$477,126
	2010	\$191,169	\$45,000	\$108,000	\$20,000	-	\$15,260	\$2,478	\$381,907
	2009	\$192,846	-	-	-	-	\$15,260	\$2,263	\$210,369

- (1) The amount in this column for each Named Executive Officer reflects the dollar amount of base salary earned in financial year 2011, including salary increases, if any.
- (2) The Share-Based Awards issued in 2011 relate to DSUs allotted for the year to Named Executive Officers. The Named Executive Officers may elect to take a portion of their annual incentive bonus in the form of DSUs. The number of DSUs allotted is determined by dividing the dollar portion of the bonus that the Named executive Officer elected to take in DSUs by the weighted average price of the Company's common shares for the five business days prior to the issue notification date [Messrs. Cairo and Demens were each issued 30,303 DSUs and Messrs. Facey and Stevens were issued 15,152 DSUs at a price of \$0.99 per DSU].
- (3) Options are granted at fair market value. For options granted in 2010 and 2011 a Hull-White Option pricing model was used to estimate the grant date fair value of the Option awards. For 2011 the model assumed: (i) expected volatility rates ranging between 59.7% and 67.1%; (ii) an exercise price equal to the closing price of our Common Shares on the grant date; (iii) an expected Option term of 10 years, representing the period of time that the Options are expected to be outstanding; and (iv) risk free interest rate ranging between 2.89% and 3.32%. The Options are only exercisable when the share price exceeds \$0.70 for 60 consecutive days on a volume weighted average price basis.
- (4) Includes all compensation relating to defined benefit or defined contribution pension plans.
- (5) The amounts shown in this column represent the premiums for executive life insurance payable by the Corporation, with the exception of Mr. Gammiero (see Note 6). Other amounts paid have not been disclosed as they fall below the disclosure threshold requirements.
- (6) Mr. Gammiero was appointed Chief Executive Officer of Western on October 9, 2010. Mr. Gammiero received no compensation from Western in connection with his role as Chief Executive Officer during 2011 and 2010. Since July 1, 2011, Western has been charged by BSSML for Mr. Gammiero's services. The amounts included in "All Other Compensation" represent payments made to BSSML on account of Mr. Gammiero's services as a director of the Corporation during 2010 and 2011, and also an amount equal to \$120,000 for his services as Chief Executive Officer since July 1, 2011.
- (7) Brian Cairo was appointed as Senior Vice President, Finance and Corporate Secretary, effective March, 2009. Effective April, 2010, Mr. Cairo was appointed Chief Financial Officer and Corporate Secretary.
- (8) 2010 and 2009 salaries reflect the impact of a 20% pay reduction for the period from June 1, 2009 to August 8, 2010.

(9) Don Demens was appointed Chief Operating Officer of the Company on June 23, 2011. Prior to this, Mr. Demens was the Senior Vice President, Sales and Manufacturing since May 1, 2009. Mr. Demens' employment arrangement prior to this appointment was on a monthly contract basis. His earnings in this contract capacity are included with his salary compensation above.

(10) 2010 and 2009 salaries reflect the impact of a 10% pay reduction for the period from June 1, 2009 to August 8, 2010.

### Incentive Plan Awards

The following table sets forth awards of Options outstanding as at December 31, 2011 for each of the Named Executive Officers.

Name	Option-based Awards				Share-based Awards <sup>(4)</sup>
	Number of Securities Under Options Unexercised <sup>(1)</sup>	Option Exercise Price (\$/Share)	Option Expiration Date	Value of unexercised in-the-money Options	Market or payout value of vested share-based awards not paid out or distributed
Dominic Gammiero <sup>(2)</sup>	0	N/A	N/A	[N/A]	N/A
Brian Cairo	80,000 80,000 1,000,000 500,000	\$1.75 \$2.20 \$0.22 \$0.77	June 14, 2016 August 27, 2017 March 2, 2020 <sup>(3)</sup> February 22, 2021 <sup>(3)</sup>	\$nil \$nil \$124,000 \$nil	\$49,100
Neil Stevens	100,000 90,000 146,000 500,000 300,000	\$1.75 \$2.20 \$1.20 \$0.22 \$0.77	June 14, 2016 August 27, 2017 May 12, 2018 March 2, 2020 <sup>(3)</sup> February 22, 2021 <sup>(3)</sup>	\$nil \$nil \$nil \$62,000 \$nil	\$21,800
Don Demens	1,000,000 500,000	\$0.22 \$0.77	March 2, 2020 February 22, 2021 <sup>(3)</sup>	\$124,000 \$nil	\$49,100
Norm Facey	100,000 125,000 1,000,000 400,000	\$2.20 \$1.20 \$0.22 \$0.77	August 27, 2017 May 12, 2018 March 2, 2020 <sup>(3)</sup> February 22, 2021 <sup>(3)</sup>	\$nil \$nil \$124,000 \$nil	\$49,100

- (1) All Options were granted under the Option Plan and entitle each Named Executive Officer to purchase Common Shares.  
(2) Mr. Gammiero does not participate in the Corporation's compensation program – see "Summary Compensation Table", above.  
(3) The options issued with an expiry date of March 2, 2020 and February 22, 2021 are exercisable only when the share price exceeds \$0.70 for a period of 60 consecutive days on a volume weighted average price basis.  
(4) The share-based awards amounts is the aggregate market value for each NEO for vested DSUs that were outstanding as at December 31, 2011.

The following table sets forth details of the value vested or earned by the Named Executive Officers under Western's Incentive Plans during the year ended December 31, 2011 on an aggregate basis.

Name	Stock Options – Value Vested During the Year <sup>(1)</sup>	Share-based Awards – Value Vested During the Year <sup>(4)</sup>	Non-Equity Incentive Plan Compensation – Value Earned During the Year <sup>(3)</sup>
Dominic Gammiero <sup>(2)</sup>	N/A	N/A	N/A
Brian Cairo	\$104,000	\$30,000	\$70,000
Norm Facey	\$104,000	\$15,000	\$40,000
Don Demens	\$104,000	\$30,000	\$80,000
Neil Stevens	\$52,000	\$15,000	\$15,000

- (1) Represents the aggregate dollar value that would have been realized if the Options vesting during the year were exercised on the vesting date.
- (2) Mr. Gammiero does not participate in the Corporation's compensation program – see "Summary Compensation Table", above.
- (3) Relates to cash bonuses issued for 2011 under the Annual Incentive Plan – see "Summary Compensation Table", above.
- (4) Relates to DSUs that vested immediately upon allotment - see Note 2 to the "Summary Compensation Table" above.

For further discussion, see the sections titled "Annual Incentive Plan" and "Long-Term Incentive Plan" noted above on pages 10 through 12.

### Pension Plan Benefits

As at December 31, 2011, Mr. Cairo was an active member of the WFP Plan and the WFP Supplementary Executive Retirement Plan, both defined benefit pension plans which closed for credited service at December 31, 2010. Messrs. Cairo, Demens, Stevens, and Facey are members of the Corporation's defined contribution plan, the WFP Plan III (see the section titled "Retirement and Other Benefits" on page 12 for further information).

The following table provides information on the change in the accrued liability and the estimated annual benefit payable at the normal retirement date for each of the Named Executive Officers participating in the WFP Plan and the WFP Supplementary Executive Retirement Plan.

### Defined Benefit Plan Table

Name	Number of Years of Credited Service	Annual Benefits Payable <sup>(1)</sup>		Opening present value of defined benefit obligation at January 1, 2011	Compensatory Change <sup>(2)</sup>	Non-Compensatory Change	Closing present value of defined benefit obligation at December 31, 2011
		At December 31, 2011	At age 65				
Brian Cairo	4.83	\$17,300	\$17,300	\$147,000	\$50,000	\$20,000	\$217,000

- (1) Annual benefits payable are based on final average earnings and years of service as at December 31, 2010. Effective December 31, 2010 no further benefits accrue under this plan.
- (2) Compensatory change represents the actuarially determined employer service cost for 2011 less differences in actual compared to expected salaries.

For additional information with respect to the valuation method and significant assumptions used in determining the actuarial liability at December 31, 2011, see Note 17 - "Employee Future Benefits" to the Corporation's Consolidated Financial Statements for the year ended December 31, 2011, which note is incorporated herein by reference; the statements can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Corporation's web site at [www.westernforest.com](http://www.westernforest.com).

The following table provides information on the change in the accumulated value for each of the Named Executive Officers participating in the WFP Plan III.

### Defined Contribution Plan Table

Name	Accumulated Value at January 1, 2011	Compensatory change <sup>(1)</sup>	Accumulated Value at December 31, 2011
Norm Facey	\$74,342	\$15,671	\$68,859
Don Demens	\$25,701	\$17,513	\$43,684
Neil Stevens	\$61,328	\$12,843	\$75,694
Brian Cairo	\$nil	\$16,552	\$16,113

- (1) Compensatory change represents the Corporation's contributions on behalf of the Named Executive Officer.

## **TERMINATION AND CHANGE OF CONTROL BENEFITS**

Western entered into employment agreements with Messrs. Demens, Cairo and Facey. These employment agreements contain severance provisions providing that in the event of a material change in control of Western, defined as a person other than the current principal shareholder (and/or its affiliates) acquiring control over greater than 50% of the Common Shares, and are not offered employment on substantially the same terms and conditions resulting in at least the same compensation as defined in their employment agreements, will be entitled for a period of six months thereafter (90 days in the case of Mr. Facey), to resign their employment and receive a lump sum payment. These payments are, in the case of Messrs. Demens and Cairo equal to 14 months' base salary. In the case of Mr. Facey the amount is equal to 12 months' base salary and the average bonus paid over the previous two years, or if the change of control occurs prior to a bonus being issued, then the bonus will be equal to 30% of base salary. Under all three agreements, any issued stock options vest on a change of control and may only be exercised within 90 days after leaving the Corporation. As of December 31, 2011, in the event of a material change of control as defined, Messrs. Demens, Cairo and Facey would be entitled to base salary payments of \$320,833, \$291,667 and \$225,000, respectively, with a further bonus component of \$45,838, \$41,080 and \$39,222, respectively.

See the discussion under the table "Securities Authorized for Issuance Under Equity Compensation Plans as at December 31, 2011" for further information with respect to the treatment of Options under different scenarios on ceasing employment with the Corporation.

## DIRECTOR COMPENSATION

### Director Compensation Table

The following table sets forth all compensation paid or payable to the directors with respect to the financial year ended December 31, 2011.

<i>Name</i>	<i>Fees Earned</i>	<i>Share-Based Awards<sup>(2)</sup></i>	<i>All Other Compensation<sup>(2)</sup></i>	<i>Total</i>
James Arthurs	\$50,000	-		\$50,000
Lee Doney	\$20,500	\$40,500	\$255,000	\$316,000
J. Peter Gordon <sup>(1)</sup>	\$51,000	-		\$51,000
Pierre McNeil <sup>(1)</sup>	\$40,000	-		\$40,000
John B. Newman	\$53,000	-		\$53,000

- (1) Directors' fees payable in respect of Messrs. McNeil and Gordon were paid to BSSML.
- (2) Mr. Doney provides certain management consultancy services to the Corporation pursuant to a consultancy arrangement effective January 1, 2011 with RLD Strategies Ltd., an entity controlled by Mr. Doney. The agreement is for a period of two years at a fixed monthly fee. RLD Strategies Ltd. was paid \$175,000 for these services during 2011. In addition, Mr. Doney was awarded a separate bonus of \$100,000 for his services during 2011. Mr. Doney elected to take \$20,000 of his bonus in the form of DSUs, which is included in the Share-Based Awards column. The number of DSUs allotted is determined by dividing the dollar portion of the bonus that Mr. Doney elected to take in DSUs by the weighted average price of the Company's common shares for the five business days prior to the issue notification date. Mr. Doney was issued 20,202 DSUs at a price of \$0.99 per DSU.

### Compensation Arrangements

Directors of the Corporation who are not officers or employees are compensated for their services as directors through a combination of retainer fees and meeting-attendance fees. Our Board has approved an annual retainer fee to be paid to such non-management directors (other than the Chairman of the Board) of \$25,000 and an annual retainer fee to be paid to the Chairman of \$50,000. In addition, our Board has approved the payment of an additional fee of \$5,000 per annum to the Chairman of any standing committee of the Board and the payment to non-management directors of a fee of \$1,000 for each Board and standing committee meeting attended.

Fees for participation on any special committees established by the Board are determined by the Board at the time the work of the special committee is completed.

Directors are reimbursed for travel and other out-of-pocket expenses incurred in attending Board or committee meetings.

### Deferred Share Unit Plan for Non-Management Directors

Independent directors of the Corporation (the "non-management directors") may elect to take a portion of their directors' fees in the form of DSUs. The number of DSUs allotted is determined by dividing the dollar value of the portion of the fees that the director previously elected to take in DSUs by the closing price of our Common Shares on the fifth day following the quarter end with respect to which the directors fees are payable, and if that is not a trading day on the TSX, the next trading day. At the discretion of the MRCC, the number of DSUs to be allotted to the director may be increased by a factor of up to two. Following termination of Board service by a director, DSUs are redeemed for cash based on the fair market value of our Common Shares as described under the DSUP noted above.

The following table sets forth details of the value vested for each director who elected to take all or a portion of their directors fees in DSUs during the financial year ended December 31, 2011 on an aggregate basis.



Name	Deferred Share Units – Value Vested During the Year <sup>(1)</sup>
Lee Doney	\$20,500

- (1) Represents the aggregate dollar value of DSUs earned during the year and includes, 5,588 DSUs that were earned for the quarter ended December 31, 2011 that were determined based on a January 5, 2012 closing market price for Western's Common Shares of \$0.85 per share, as required by the terms of the DSUP. DSUs can only be redeemed for cash after termination of Board service by a director. The total number of DSUs issued and outstanding held by Mr. Doney at December 31, 2011 is 475,780 with a market value of \$399,655.

### Securities Authorized for Issuance Under Equity Compensation Plans as at December 31, 2011

	Number of Securities to be issued upon exercise of outstanding Options, warrants and rights	Weighted-average exercise price of outstanding Options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Plan Category	(a)	(b)	(c)
Equity compensation plans approved by shareholders	6,441,795	\$0.70	3,558,205
Equity compensation plans not approved by shareholders	-	-	-
Total	6,441,795	\$0.70	3,558,205

The Corporation's Option Plan, was adopted in 2004, and amended on May 10, 2007 and on May 8, 2008. The Option Plan is administered by the Board with the assistance of the MRCC in accordance with the Corporation's compensation policies and the policies of the TSX.

The Option Plan permits the granting of Options in accordance with the terms of the Option Plan to eligible participants to purchase up to a maximum of 10,000,000 Common Shares (representing approximately 7.8% of the issued and outstanding Common Shares as of the date hereof). As of the date hereof, Options to purchase 7,761,795 Common Shares (representing approximately 6.1% of the issued and outstanding Common Shares) have been granted to eligible participants and are outstanding, 480,000 Common Shares have been issued pursuant to the exercise of Options, and a total of 1,758,205 Common Shares remain available under the Option Plan. Options which have expired, were cancelled or otherwise terminated without having been exercised are available for subsequent grants under the Option Plan.

The Option Plan provides that the Board may from time to time grant Options to acquire Common Shares to any participant who is an employee, officer or director of Western or its affiliates or a consultant to the Corporation or its affiliates. The Options are non-assignable and non-transferable otherwise than by will or by laws governing the devolution of property in the event of death. Each Option entitles the holder to acquire one Common Share, subject to certain adjustments. The exercise price for Options granted pursuant to the Option Plan will be determined by the Board on the date of the grant, which price may not be less than the market value. Market value is defined under the Option Plan as the closing price of our Common Shares on the TSX on the trading day immediately preceding the grant day and if there is no closing price, the last sale prior thereto. The term of the Options granted is determined by the Board, which term may not exceed a maximum of ten years from the date of the grant. Pursuant to the Option Plan, additional terms and conditions, including vesting requirements, may be imposed by the Board on Options granted. The Option Plan does not contemplate that the Corporation will provide financial assistance to any optionee in connection with the exercise of the Option.

The total number of Common Shares that may be reserved for issuance to any one participant pursuant to Options granted under the Option Plan may not exceed 5% of the Common Shares outstanding (on a non-diluted basis) on the grant date of the Options. The maximum number of Common Shares that may be issued to the Corporation's insiders and their associates pursuant to Options granted under the Option Plan within any one-year period, when taken together with the number of Common Shares issued to such insiders and their associates under our other previously established or proposed share compensation

arrangements, may not exceed 10% of the issued and outstanding Common Shares on a non-diluted basis at the end of such period and, in the case of any one insider and his associates, may not exceed 5% of such issued and outstanding Common Shares. The maximum number of Common Shares that may be reserved for issuance under Options granted to insiders and their associates under the Option Plan together with the number of Common Shares reserved for issuance to such insiders and their associates under other previously established or proposed share compensation arrangements may not exceed 10% of the issued and outstanding Common Shares on a non-diluted basis at the grant date of the Options.

Unless otherwise determined by the Board, if the holder of the Option ceases to be an eligible participant under the Option Plan:

- (a) for any reason other than death, retirement, early retirement, sickness or disability, the Options held by the participant terminate;
- (b) as a result of retirement (other than early retirement), Options that are held by the participant that have vested continue in force;
- (c) by reason only of early retirement as permitted under the provisions of our pension plan, Options that are held by the participant that have vested continue in force; and
- (d) as a result of death, the legal representatives of the participant may exercise the Options that are held by the participant within six months after the date of the participant's death to the extent such Options were by their terms vested and exercisable as of the date of the participant's death or within the period of six months following the participant's death.

The Option Plan also provides that if an option expires:

- (a) within a self-imposed black-out period, the expiry date will be a date which is ten business days after expiry of the black-out period; or
- (b) within nine business days after the end of a self-imposed black-out period, the expiry date will be a date which is ten business days after expiry of the black-out period less the number of business days between the date of expiry of the option and the date on which the black-out period ends.

The expiry dates for black-out periods are fixed under the Option Plan and are not subject to the discretion of the board of directors.

The Board may, subject where required to securities regulators' and/or TSX and security holder approval, from time to time amend, suspend or terminate the Option Plan in whole or in part. The directors also have the right, in their absolute discretion, to amend the Option Plan or any Option without shareholder approval to make the following changes:

- (a) amending the time or times that the Common Shares subject to each Option will become purchasable by an optionee, including accelerating the vesting terms, if any, applicable to an Option;
- (b) amending the process by which an optionee who wishes to exercise his or her Option can do so, including the required form of payment for the Common Shares being purchased, the form of exercise notice and the place where such payments and notices must be delivered;
- (c) reducing the exercise price or extending the term of an Option, other than an Option held by an insider of the Corporation;
- (d) amending the terms of the Option Plan relating to the effect of termination, cessation or death of an optionee on the right to exercise Options (including Options held by an insider of the Corporation);
- (e) making any amendments of a typographical, grammatical or clerical nature; and
- (f) making any amendments necessary to bring the Option Plan into compliance with applicable securities and corporate laws and the rules and policies of the TSX.

Amendments which reduce the exercise price or extend the term of an Option held by an insider or which increase the fixed maximum number of Common shares issuable under the Option Plan will require disinterested shareholder approval.

The Option Plan is available at [www.sedar.com](http://www.sedar.com) under the Corporation's name and a copy may also be obtained by any shareholder by request to our Corporate Secretary at 250-748-3711.

## **PART FOUR – STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

This section provides information about our corporate governance practices as required by the policies and rules of the Canadian Securities Administrators ("CSA").

Corporate governance relates to the activities of the members of the Board who are elected by and are accountable to the shareholders, and takes into account the role of management who are appointed by the Board and who are charged with the ongoing management of the Corporation. The Board encourages sound corporate governance practices designed to promote the well-being and ongoing development of the Corporation, having always as its ultimate objective the best long-term interests of the Corporation and the enhancement of value for all shareholders. The Board also believes that sound corporate governance benefits the Corporation's employees and the communities in which Western operates.

The Board is of the view that the Corporation's corporate governance policies and practices, outlined below, are comprehensive and consistent with the corporate governance guidelines outlined in National Policy 58-201 – Corporate Governance Guidelines.

### **BOARD OF DIRECTORS**

#### **Mandate of the Board**

The Board oversees the management of the Corporation's affairs either directly or through its standing committees as described below. In doing so, the Board acts at all times with a view to the best interests of the Corporation and its shareholders. The responsibilities of the Board and each committee of the Board are set out in written charters. A copy of the Board's charter is attached as Appendix A to the Information Circular.

In fulfilling its mandate, the Board is responsible, among other matters, for the following: reviewing the Corporation's overall long-term business strategies and its annual business plan; reviewing the principal risks of the Corporation's business to assess whether these risks are within acceptable limits and the appropriate systems are in place to manage these risks; reviewing major strategic initiatives to determine whether the Corporation's proposed actions accord with long-term shareholder objectives; appointing the Chief Executive Officer and other members of senior management and reviewing succession planning; assessing management's performance against approved business plans; reviewing and approving the reports issued to shareholders, including annual and interim financial statements; promoting the effectiveness of the board of directors; and safeguarding shareholders' interests.

#### **Meetings of the Board**

The Board meets at least once each quarter, with additional meetings held when appropriate. During 2011 there were four regularly scheduled meetings and three meetings to review specific matters. Four regular meetings are scheduled for 2012. Meeting frequency and agenda items may change depending on the opportunities or risks faced by the Corporation. The agenda for regularly scheduled Board meetings is prepared by the Chairman.

#### **Size, Composition and Independence of the Board**

The Board currently consists of six directors, all of whom will be standing for re-election at the Corporation's Annual Meeting, which is within the minimum and maximum number range set out in the articles of the Corporation, and which the Corporation considers to be appropriate at this time. A majority of the directors are independent as defined in NI 58-101, including Messrs. Arthurs, Gordon, McNeil and Newman. Messrs. Doney and Gammiero are non-independent directors.

The Board reviewed the relationships between each of its director nominees and the Corporation and has determined that the proposed list of director nominees fairly represents the share ownership interests in

the Corporation and the requirements for director independence under Canadian securities legislation. Messrs. Gammiero, Gordon and McNeil (collectively, the “BSS Directors”) are officers and/or directors of BAM and/or its subsidiaries or related entities. BAM has a number of relationships with the Corporation as described under the sections titled “Common Shares and Principal Holders Thereof” and “Interest of Management and Others in Material Transactions”. The Board considers that these relationships with BAM affiliates are not an interest or a business or other relationship that could, or could reasonably be perceived to, interfere materially with the BSS Directors’ ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. Accordingly, Messrs. Gordon and McNeil are considered to be independent as defined in NI 58-101. Mr. Gammiero, as the Chief Executive Officer of the Corporation is not considered to be independent. The Board also considers that three director nominees (which constitutes 50% of the six directors) fairly reflects the relative investment of BAM and its related entities (controlled through BSSML) and other shareholders in the Corporation. Where required by the CBCA and applicable securities laws, the transactions with BAM and its related entities described herein were approved by the independent directors who are not BSS Directors.

Effective January 1, 2011, Mr. Doney, who had since November 2008 acted in a non-executive capacity as Vice Chairman of the Board, began providing certain management services to the Corporation under a consultancy arrangement; accordingly he is no longer considered an independent director. The remaining director nominees, Messrs. Arthurs and Newman have, in the view of the Board, no material relationships or interests that could interfere with their independence as directors, and thus are considered to be independent as defined in NI 58-101.

It is the policy of the Board that all Board meetings and committee meetings include a session without the presence of management and related directors. In the case of the Audit Committee, each meeting includes a session with only the external auditors and the committee members.

#### **Directors Sitting on the Boards of Other Reporting Issuers**

Certain of our directors serve as directors on boards of other reporting issuers in Canada or a foreign jurisdiction as set out below.

<i>Director</i>	<i>Reporting Issuer</i>
Dominic Gammiero	Norbord Inc.
J. Peter Gordon	Ainsworth Lumber Co. Ltd.
Pierre McNeil	Ainsworth Lumber Co. Ltd.
John B. Newman	Utility Corp. QGX Ltd. Certain closed-end funds administered by Scotia Capital Inc., TD Securities Inc. and the AGF Family of Mutual Fund Trusts and Corporations

The following table lists the directors who served together as directors on the boards of other corporations during the financial year ended December 31, 2011.

<i>Director</i>	<i>Name of Corporation</i>
J. Peter Gordon Pierre McNeil	MAAX Bath Inc.
J. Peter Gordon Pierre McNeil	Ainsworth Lumber Co. Ltd.

#### **Nomination of Directors**

Each year, the Nominating and Corporate Governance Committee reviews the composition of the Board, assesses Board performance and the contributions of individual directors and, if appropriate, identifies new candidates and makes recommendations to the Board for nominees for election as directors. In that regard, the committee considers: the competencies and skills that are considered to be necessary for the Board, as a whole, to possess; the competencies and skills that each existing director possesses; the competencies and skills each new nominee will bring to the boardroom and whether the nominees can devote sufficient time to the Corporation and the Board; and the performance of existing directors.

## **Director Orientation and Continuing Education**

The Board has established an orientation and continuing education program for directors to ensure they are equipped to fulfill their roles. New directors are provided with comprehensive information about the Corporation prior to their appointment that includes annual reports, management information circulars and strategic and operating plans. Shortly after becoming a director, new directors are invited to tour the Corporation's operations and spend time at the head office for personal briefings by senior management on the Corporation's strategic plan, major risks and other key business matters.

Informative updates by appropriate senior management and consultants on the Corporation's business, operations and products are regularly scheduled for presentation to directors to help them understand the Corporation's business environment, strategies and operations. In addition, all directors have the opportunity to meet and participate in work sessions with management to obtain further insight into the operations and business of the Corporation. Directors also receive and review materials on industry trends and regulatory updates from management and other sources on a regular basis.

Periodically, directors are invited to visit the operations of the Corporation at various locations to tour the facilities and to meet with employees and local dignitaries.

Directors are free to consult with members of management, whenever they so require, and to engage outside advisors at the expense of the Corporation subject to approval of the Chairman or a majority of the independent Board members. Directors may participate in outside professional development programs approved by the Chairman at the expense of the Corporation. Each committee is also authorized to engage outside advisers at the Corporation's expense.

## **Committees of the Board**

Board committees assist in the effective functioning of the Board. All Board standing committees are comprised primarily of independent directors (except for Mr. Doney following execution of the consultancy agreement with the Corporation, and Mr. Gammiero), which ensures that the views of independent directors are effectively represented. The Board currently has four standing committees: the Audit Committee, the Nominating and Corporate Governance Committee, the Environment, Health and Safety Committee, and the MRCC. The Corporation has also established a Disclosure Committee, which is composed of the Chairman of the Board, the Chairman of the Audit Committee and the Chief Financial Officer (who is not a director of the Corporation). Special committees may be formed from time to time as required to review particular matters or transactions. All Board members have an open invitation to attend any committee meeting.

### *Audit Committee*

The Audit Committee assists the Board in meeting its fiduciary responsibilities relating to corporate accounting and reporting practices. The Audit Committee is responsible for reviewing the Corporation's quarterly and annual financial statements and management's discussion and analysis prior to their approval by the Board and release to the public. The Audit Committee is also responsible for appointing the Corporation's external auditors, subject to the approval of the Board and shareholders, and for pre-approving the fees associated with any non-audit work to be performed by the external auditors. Each meeting of the Audit Committee includes a session with only the external auditors and the committee members. The Board reviews the terms of reference of the Audit Committee on a regular basis and updates such terms of reference as legislation governing audit committees changes and best practices are established. At March 28, 2012, the Audit Committee was comprised of Messrs. Arthurs (Chairman), Gordon and Newman. The Board considers all three members of the Audit Committee to be independent and financially literate under the standards established by Canadian securities regulatory authorities in National Instrument 52-110 - Audit Committees. Additional information on the Audit Committee, including the Audit Committee's charter can be found in the Corporation's Annual Information Form, under the heading "Audit Committee", which is posted on the Corporation's web site at [www.westernforest.com](http://www.westernforest.com) or can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is responsible for assisting the Board in the development and monitoring of the Corporation's corporate governance practices. Its duties include the identification and recommendation of potential nominees or appointees to the Board, and the assessment of the effectiveness of the Board, its size and composition, its structure and the individual performance of its directors. The Nominating and Corporate Governance Committee also has responsibility for the review of the Corporation's Disclosure Policy and its Code of Business Conduct. At March 28, 2012, the Nominating and Corporate Governance Committee was comprised of Messrs. Newman (Chairman), Arthurs, Gordon and McNeil. All of the members of this committee are independent. A copy of the Nominating and Corporate Governance Committee charter can be found on the Corporation's web site at [www.westernforest.com](http://www.westernforest.com).

### Environment, Health and Safety Committee

The mandate of the Environment, Health and Safety Committee is to assist the Board in carrying out its responsibilities with respect to environmental, health and safety issues. The Environment, Health and Safety Committee reviews compliance with relevant Board resolutions and with the Corporation's environmental, health and safety policies, and assesses the effectiveness of the Corporation's environmental management processes and health and safety programs including the review of internal audits of these processes and programs. At March 28, 2012, the Environment, Health and Safety Committee was comprised of all members of the Board, with Mr. Doney acting as Chairman. A copy of the Environment, Health and Safety Committee charter can be found on the Corporation's web site at [www.westernforest.com](http://www.westernforest.com).

### Management Resources and Compensation Committee ("MRCC")

The MRCC assists the Board with respect to the Corporation's compensation and benefits policies and practices. In particular, the MRCC: recommends to the Board persons to be appointed as executive officers of the Corporation; assesses the performance of the Chief Executive Officer against agreed-upon targets and recommends his compensation to the Board; approves the compensation levels for other executive officers; reviews overall compensation plans for executive officers and recommends changes thereto to the Board; and oversees the funding, investment management and administration of the Corporation's employee retirement plans, as delegated to the Corporation's Pension Committee. At March 28, 2012, the MRCC was comprised of Messrs. Gordon (Chairman), McNeil and Newman. All of the members of this committee are independent. A copy of the Management Resources and Compensation Committee charter can be found on the Corporation's web site at [www.westernforest.com](http://www.westernforest.com).

### Disclosure Committee

The Disclosure Committee is responsible for overseeing the establishment, maintenance and implementation of the Corporation's disclosure controls and procedures and supervising and participating in the evaluation of the Corporation's disclosure controls and procedures. At March 28, 2012, the Disclosure Committee was comprised of Messrs. Gammiero (Chairman), Arthurs and Cairo (who is CFO but not a director). A copy of the Disclosure Committee charter can be found on the Corporation's web site at [www.westernforest.com](http://www.westernforest.com).

### **Board Evaluation**

The Board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. The assessment considers: (a) compliance with the Board's mandate; (b) the charter of each committee of the Board; and (c) the competencies and skills that the individual director brings to the Board.

### **BOARD AND MANAGEMENT RESPONSIBILITIES**

The positions of Chairman of the Board and Chief Executive Officer are held by Dominic Gammiero. Mr. Gammiero is therefore not an independent director. Mr. Gordon has been designated by the Board as independent lead director. Additionally, the independent directors meet without management in attendance as they see necessary. Standing board committees are comprised primarily of independent directors (with the exception of Messrs. Gammiero and Doney). The Board has developed written position descriptions for the Chairman of the Board and the Chairman of each Board committee. In addition, the Board and Chief Executive Officer have developed a written position description for the Chief Executive Officer. The duties and responsibilities of the Chairman and Chief Executive Officer are set out in the

Board's mandate attached as Appendix A to this Circular. Our Board has also developed and approved the corporate goals and objectives that the Chief Executive Officer is responsible for meeting.

The Chairman is generally responsible for managing the affairs of the Board and ensures that the functions identified in its mandate are being carried out effectively. In addition the Chairman is responsible for: preparing the agenda for each Board meeting in consultation with the Chief Financial Officer; ensuring that all directors receive the information required for the proper performance of their duties; presiding over all meetings of the Board and ensuring that there is adequate time for discussion of relevant issues and for members of the Board to meet without the presence of management; ensuring that the appropriate committee structure is in place and assisting the Nominating and Corporate Governance Committee in recommending appointments to such committees; together with the Nominating and Corporate Governance Committee, leading the annual review of director, Board committees and Board performance and making recommendations for changes when appropriate; and monitoring progress on corporate governance, corporate performance and to represent the Corporation to external stakeholders.

The Chief Executive Officer provides leadership for the Corporation and is generally responsible for managing the operation, organization and administration of the Corporation, subject to approved policies and direction by the Board. The responsibilities of the Chief Executive Officer include: providing vision and leadership for the Corporation; presenting a strategic plan together with the business and financial plans for the Corporation to the Board for approval; managing the business operations in accordance with the strategic and operational policies as approved by the Board; acting as the primary spokesperson for the Corporation to all its stakeholders; presenting to the Board for annual approval an assessment of the Corporation's management resources together with recommendations on appropriate rewards and incentives; developing and implementing the systems and processes to support the policies established by the Board and reporting non-compliance to the Board on a timely basis; and fostering a corporate culture that promotes ethical practices and encourages individual integrity and social responsibility.

Additionally, on November 4, 2008, the Board established the office of Vice Chairman and appointed Lee Doney, to the position. The role of the Vice Chairman is to assist the Chief Executive Officer on strategic issues and other such roles and responsibilities as the Chairman shall determine from time to time.

### **Management's Relationship to the Board**

The primary responsibility of management is to safeguard the Corporation's assets and to create wealth for its shareholders. In the event that management's performance is found to be inadequate, the Board has the responsibility to bring about change to enable the Corporation to perform satisfactorily.

The Corporation's senior management reports to and is accountable to the Board. At its meetings, the Board regularly engages in a private session with the Chief Executive Officer without other members of management present. The Board (excluding Messrs. Gammiero and Doney) also meets independently of management at every meeting.

### **Management Accountability**

The Board believes in the importance of developing strategic plans to ensure the compatibility of shareholder, Board and management views on the Corporation's strategic direction and performance targets, and the effective utilization of shareholder capital. Each year, the Board reviews the strategic initiatives and annual strategic plan submitted by senior management. The Board's approval of the annual strategic plan provides a mandate for senior management to conduct the affairs of the Corporation within the terms of the plan, knowing it has the support of the Board. Material deviations from the plan are reported to and considered by the Board.

### **Board and Committee Information**

The information provided by the Corporation's management to the Board is critical to the Board's effectiveness. In addition to reports presented to the Board and its committees at regular meetings, the Board is also informed on a timely basis by management of corporate developments and key decisions taken by management in pursuing Western's strategic plan and objectives. The Board periodically assesses the quality, completeness and timeliness of information provided by management to the Board.

## **CODES OF BUSINESS CONDUCT**

The Board has adopted two written codes of conduct (the “Codes”), an Employee Code of Conduct for employees and a Code of Business Conduct and Ethics for directors and officers, prescribing the minimum moral and ethical standards of conduct required of all directors, officers and employees of the Corporation and its subsidiaries.

These Codes address the following matters:

- (a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;
- (b) protection and proper use of corporate assets and opportunities;
- (c) confidentiality of corporate information;
- (d) fair dealing with our security holders, customers, suppliers, competitors and employees;
- (e) compliance with laws, rules and regulations; and
- (f) reporting of any illegal or unethical behaviour.

A copy of the Codes can be found on the Corporation’s website at [www.westernforest.com](http://www.westernforest.com) or can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The Corporation provides, on an annual basis, a copy of the Employee Code of Conduct to all salaried employees who are required to sign an acknowledgment that they have received, read and understand the contents of the Employee Code of Conduct and agree to adherence to its principles. All violations of law or of the Employee Code of Conduct must be reported. As part of the Employee Code of Conduct, the Corporation has implemented a Compliance and Code of Conduct Hotline, allowing directors, officers, employees, customers and suppliers to report, in confidence, a violation of law, the Employee Code of Conduct, or any other ethical concerns through an independent third-party ethics reporting system, Global Compliance. Contact information can be found on the Corporation’s website at [www.westernforest.com](http://www.westernforest.com).

The Nominating and Corporate Governance Committee oversees compliance with each of the Codes and policies, authorizes any waivers and confirms with management the appropriate disclosure of any waiver. Where appropriate, the Committee will also cause an investigation of any reported violation of the Code of Business Conduct and Ethics and oversee an appropriate response to any violation. The Chief Executive Officer promotes compliance with the Employee Code of Conduct, causes an investigation of any reported violations to be undertaken and determines an appropriate response to any violation.

Certain directors are directors or officers of other corporations and, to the extent that such other corporations may participate in transactions or other ventures in which we may participate, the directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The Board requires that directors provide disclosure to it of all boards and committees that they are members of, and all offices held at, other issuers. Western also requires conflicts of interest to be disclosed to our Code of Business Conduct and Ethics contact person and reported to the Nominating and Corporate Governance Committee. In the event that a conflict of interest arises, a director who has such a conflict is required under the CBCA to disclose the conflict and (except in limited circumstances permitted by the CBCA) to abstain from voting for or against the approval of the matter. In addition, in considering transactions and agreements in respect of which a director has a material interest, our Board will require that the interested person absent himself from portions of Board or committee meetings so as to allow independent discussion of points in issue and the exercise of independent judgment. In appropriate cases, we may also establish a special committee of independent directors to review a matter in respect of which directors or management may have a conflict.



## **COMMUNICATION POLICY**

The Corporation has adopted a Communication Policy that summarizes its policies and practices regarding disclosure of material information to investors, analysts and the media. The purpose of this policy is to ensure that the Corporation's communications with the investment community are timely, consistent and in compliance with all applicable securities legislation. The Communication Policy is reviewed annually and is posted on the Corporation's web site at [www.westernforest.com](http://www.westernforest.com).

The Corporation endeavours to keep its shareholders informed of its progress through a comprehensive annual report, quarterly interim reports and periodic press releases. It also maintains a web site that provides summary information on the Corporation and ready access to its published reports, press releases, statutory filings and supplementary information provided to analysts and investors. Directors and management meet with the Corporation's shareholders at the Annual Meeting. Senior management is available to answer questions either directly or via e-mail. Shareholders who wish to contact the Chairman or other Board members can do so directly or through the Corporate Secretary of the Corporation.

The Corporation maintains an investor relations program to respond to inquiries in a timely manner. Management meets on a regular basis with investment analysts and financial advisors to ensure that accurate information is available to investors on the Corporation's financial results. The Corporation also endeavours to ensure that the media are kept informed of developments as they occur, and have an opportunity to meet and discuss these developments with the Corporation's designated spokespersons.

## **PART FIVE – OTHER INFORMATION**

### **INDEBTEDNESS OF DIRECTORS, EXECUTIVES AND SENIOR OFFICERS**

As at the date hereof, there was no indebtedness in respect of the purchase of securities and other indebtedness owed to us or any of our subsidiaries (other than routine indebtedness) or to another entity where the indebtedness was the subject of a guarantee, support agreement, letter of credit or similar arrangement provided by us or any of our subsidiaries, by present and former executive officers, directors and employees of the Corporation or any of our subsidiaries.

As at the date hereof and since the beginning of our most recently completed financial year, there was no indebtedness in respect of the purchase of securities and no other indebtedness owed to us or any of our subsidiaries (other than routine indebtedness) or to any other entity where the indebtedness was the subject of a guarantee, support agreement, letter of credit or similar arrangement provided by us or any of our subsidiaries, by any individual who is or was since the beginning of the recently completed financial year end a present or former executive officer or director of the Corporation, a proposed nominee for election as a director of the Corporation or an associate of any of the foregoing.

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

Western has entered into indemnification agreements with certain of its directors, directors of its subsidiaries, and officers. There was no indemnification payable during the most recent financial year to any of Western's directors or officers.

Western maintains liability insurance for directors and officers in the aggregate amount of \$35 million, subject to a deductible of \$100,000. The premium, in the amount of \$224,000, was paid with respect to the period from November 1, 2011 to November 1, 2012. Under this insurance coverage, the Corporation is reimbursed for indemnity payments made to directors or officers as required or permitted by law or under provisions of its by-laws. Such payments could be made to directors or officers to indemnify for losses, including legal costs, arising from acts, errors or omissions committed by directors and officers during the course of their duties as such. This insurance also provides coverage to individual directors and officers if they are not indemnified by the Corporation. The insurance coverage for directors and officers has certain exclusions including, but not limited to, those acts determined to be deliberately fraudulent or dishonest or have resulted in personal profit or advantage.

### **INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON**

Other than as set forth in this Circular, none of our directors or executive officers, nor any person who has held such a position since the beginning of our last completed financial year, nor any of our proposed

nominees for election as a director of the Board, nor any of their respective associates or affiliates, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting (excluding the election of directors and the appointment of auditors).

#### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as set forth in this Circular, we are not aware of any material interest, direct or indirect, of any shareholder who holds more than 10% of the voting rights attached to our Common Shares, any of our proposed nominees for election as a director of the Board, any of our or our subsidiaries' directors or executive officers or any director or executive officer of any shareholder who holds more than 10% of the voting rights attached to our Common Shares or any associate or affiliate of any of the foregoing, in any transaction which has been entered into since the commencement of our most recent completed financial year or in any proposed transaction which, in either case, has materially affected or will materially affect us or any of our subsidiaries.

On October 13, 2009, the Corporation 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 Corporation 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 Corporation'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, of which \$3.0 million was received in October, 2009 with the balance of \$9.4 million being received on January 4, 2010. As part of the arrangements, WFPFPL had 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 Corporation in central and northern Vancouver Island. These properties represented non-core assets of the Corporation that were being held for sale. Western held less than 5% of the equity of WFPFPL and had 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 holds Brookfield Residential Properties Inc. (formerly Carma Developers LP, a limited partnership) that carries on a land development business across Western Canada. The Corporation 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. On January 4, 2011, the Corporation exercised the option to sell its equity interest in WFPFPL to BPL for \$2.4 million, and the aforementioned right of first offer was extinguished.

On March 31, 2009, the Corporation entered into an agreement with BAM to provide a US\$80.0 million foreign exchange facility to the Corporation. This facility is subject to a fee of 0.1% of the notional amount per annum, and was used in 2011.

The Corporation has certain arrangements with entities related to BAM to 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, 2011, the Corporation incurred costs of \$18.2 million and charged entities related to BAM \$5.4 million in connection with these arrangements.

#### **PERFORMANCE AND NON-IFRS MEASURES**

We use a number of non-IFRS measures to measure overall performance and to assess each of our business. Non-IFRS measures are not defined terms under IFRS and, therefore, are unlikely to be comparable to similar terms used by other issuers. Therefore, they should not be considered in isolation or as a substitute for any other financial information prepared in accordance with IFRS.

A non-IFRS measure referenced in this Circular is ROCE. ROCE is defined as the earnings of Western before interest charges, taxes, depreciation and amortization ("EBITDA"), divided by capital employed (defined as net working capital, property, plant and equipment, intangible assets, biological assets and other assets).

For a discussion of EBITDA and how it relates to Western's reported net income, see our most recent Management's Discussion and Analysis which is available on the Company's website at [www.westernforest.com](http://www.westernforest.com).

#### **SHAREHOLDER PROPOSALS FOR NEXT YEAR'S ANNUAL MEETING**

The CBCA permits certain eligible shareholders of the Corporation to submit shareholder proposals to the Corporation, which proposals may be included in a management information circular relating to an Annual Meeting of Shareholders. Any notice of a shareholder proposal intended to be raised at next year's annual meeting of our shareholders must be submitted to us at our registered office, to the attention of the Corporate Secretary, on or before December 3, 2012, to be considered for inclusion in the management information circular for the annual meeting of our shareholders in 2012.

#### **AVAILABILITY OF DISCLOSURE DOCUMENTS**

Financial information relating to the Corporation is provided in the Corporation's comparative annual financial statements and management's discussion and analysis of financial condition and results of operations for the financial year ended December 31, 2011.

The Corporation will provide any person or company, upon request to the Corporate Secretary of the Corporation, with a copy of this Circular and: (i) the most recent Annual Information Form of the Corporation, together with a copy of any document, or pertinent pages of any document, incorporated therein by reference; (ii) the comparative financial statements of the Corporation for the fiscal year ended December 31, 2011, together with the report of the auditors thereon; (iii) the most recent annual report of the Corporation, which includes management's discussion and analysis of financial condition and results of operations; and (iv) the interim financial statements of the Corporation for the periods subsequent to the end of its fiscal year. This information, along with other information relating to the Corporation, is also available on the Corporation's web site at [www.westernforest.com](http://www.westernforest.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **DIRECTORS' APPROVAL**

The contents and sending of the Circular have been approved by the directors of the Corporation.

**BY ORDER OF THE BOARD OF DIRECTORS**



Dominic Gammiero  
Chairman and Chief Executive Officer  
Western Forest Products Inc.

## Appendix A

### MANDATE OF THE BOARD OF DIRECTORS OF WESTERN FOREST PRODUCTS INC.

#### 1. General

The Board of Directors (the "Board") of Western Forest Products Inc. (the "Corporation") is responsible for the overall stewardship of the Corporation and is elected by the shareholders to represent and serve the interests of all shareholders of the Corporation.

The Board will appoint a competent executive management team to run the day-to-day operations of the Corporation and will oversee and supervise the management of the business of the Corporation by that team. The Board will also review the Corporation's systems of corporate governance and financial reporting and controls with the objective that the Corporation reports accurate and complete financial information to shareholders and engages in ethical and legal corporate conduct. The Board will carry out its mandate directly and through the following committees of the Board (and such other committees as it may appoint from time to time): the Audit Committee, the Management Resources and Compensation Committee, the Nominating and Corporate Governance Committee and the Environment, Health and Safety Committee.

#### 2. Appointment, Supervision and Compensation of Management

To carry out its responsibilities, the Board will:

- Appoint the Chief Executive Officer ("CEO") and confirm the appointment of other senior officers comprising the senior management team ("SMT") and provide them with advice and counsel.
- Monitor the performance of the CEO and SMT against a set of mutually agreed corporate objectives directed at maximizing shareholder value.
- To the extent feasible, satisfy itself as to the integrity of the CEO and other senior officers and encourage the CEO and other senior officers to create a culture of integrity throughout the organization.
- Approve CEO compensation.
- Establish a process to provide for management succession.
- Establish boundaries between the Board and management responsibilities and establish limits of authority delegated to management.
- Review and consider for approval:
  - corporate strategy and operating plans;
  - capital and operating budgets; and
  - matters of policy;and any material amendments thereto or departures therefrom proposed by management.

#### 3. Strategic Planning and Risk Management

The Board will:

- Adopt a strategic planning process and review and approve annually a corporate strategic plan which takes into account, among other things, the opportunities and risks of the business on a long-term and short-term basis.
- Review for consistency with the corporate strategy and approve annually management's operational plans.
- Monitor management's performance against both short-term and long-term strategic plans and annual performance objectives.
- Confirm that a management system is in place to identify the principal risks to the Corporation and its business and that appropriate procedures are in place to monitor and mitigate those risks.

- Confirm that processes are in place to comply with the Corporation's by-laws, Codes of Conduct and all other significant policies and procedures.

#### **4. Financial Reporting, Regulatory Compliance and Controls**

The Board will:

- Approve the Corporation's financial statements and oversee the Corporation's compliance with applicable audit, accounting and financial reporting requirements.
- Review and approve annual operating and capital budgets.
- Review and assess the adequacy and effectiveness of the Corporation's internal control and management information systems.
- Review operating and financial performance results relative to established strategy, budgets and objectives.
- Review and assess the adequacy of the Audit Committee Charter periodically.
- Confirm that management processes are in place to address and comply with applicable regulatory, corporate, securities and other compliance matters.

#### **5. Shareholder Communication and Disclosure**

The Board will:

- Confirm that management has established a system for effective corporate communications including processes for consistent, transparent regular and timely public disclosure.
- Approve the adoption of a disclosure policy relating to, among other matters, the confidentiality of the Corporation's business information (the "Communications Policy") and monitor compliance with such policy;
- Report annually to shareholders on the Board's stewardship for the previous year.
- Determine appropriate criteria against which to evaluate corporate performance against shareholder expectations and confirm that the Corporation has a system in place to receive feedback from shareholders.
- Review and assess the adequacy of the Communications Policy and Insider Trading Policy periodically.

#### **6. Corporate Governance**

The Board will:

- Establish an appropriate system of corporate governance including practices to permit the Board to function independently of management.
- Adopt, from time to time, criteria for selection of Board members.
- Approve the nomination of directors. Prior to approving such nominations, the Board should first consider what competencies and skills the Board, as a whole, should possess. It should then assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the Board. Instead, the Board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director as these may ultimately determine the boardroom dynamic. The Board should then consider the competencies and skills each new nominee will bring and whether he or she can devote sufficient time to the Board.
- Establish committees, initially an Audit Committee, an Environment, Health and Safety Committee, a Nominating and Corporate Governance Committee and a Management Resources and Compensation Committee and approve their respective charters, the limits of authority delegated to each committee and position descriptions for the Chair of the Committee.
- The Board should regularly assess its own effectiveness, as well as effectiveness and contribution of each Board Committee and each individual director. An assessment should consider (a)

compliance with this Board mandate, (b) the Charter of each Board Committee, and (c) the competencies and skills each individual director is expected to bring to the Board.

- Review on an annual basis the independence of each Board member and whether the composition of the Board needs to be changed due to independence concerns.
- Review the adequacy and form of directors' compensation.
- Arrange for non-management directors to meet regularly, and with the objective of not less frequently than quarterly, without management present.
- Establish a minimum attendance expectation for Board members in respect of Board and committee meetings, keeping in mind the principle that the Board believes that all directors should attend and participate in all meetings of the Board and each committee on which he or she sits.

## **7. Codes of Conduct**

The Board will:

- Adopt a Code of Business Conduct and Ethics and an Employee Code of Conduct (collectively, the "Codes of Conduct") and monitor compliance with those codes.
- Approve any waivers and require disclosure of any waivers of the Codes of Conduct in the Corporation's annual report or management information circular.

## **8. The Chair of the Board**

The Chair of the Board reports to the shareholders and provides leadership to the Board in matters relating to the effective execution of all Board responsibilities and works with the CEO and SMT to address the organization's responsibilities to stakeholders including shareholders, employees, customers, governments and the public. The Chair of the Board will:

- Provide effective leadership so that the Board can function independently of management by requiring that the Board meets regularly without management and that the Board and Board members may engage outside advisors subject to the approval of the Chair or the majority of independent Board members.
- Establish procedures to govern the Board's work including:
  - scheduling meetings of the Board and its committees;
  - chairing all meetings of the Board;
  - encouraging full participation, stimulating debate and facilitating consensus and clarity regarding decision-making;
- developing the agenda for Board meetings with input from other Board members and management;
- requiring that proper and timely information is delivered to the Board;
- requiring that the Board has appropriate administrative support; and
- addressing complaints, questions and concerns regarding Board matters.
- Require that the Board fully exercises its responsibilities and duties and complies with applicable governance and other policies.
- Meet or communicate regularly with the CEO regarding corporate governance matters, corporate performance and feedback from Board members.
- Act as a liaison between the Board and management.
- Serve as advisor to the CEO and other officers.
- Together with the Nominating and Corporate Governance Committee, establish appropriate committee structures, including the assignment of Board members and the appointment of committee chairs.
- Establish, together with the Nominating and Corporate Governance Committee, an adequate orientation and ongoing training programs for Board members.
- Together with the Board's Nominating and Corporate Governance Committee, establish performance criteria for the Board and for individual Board members and coordinate the evaluation of performance and reporting against these criteria.
- Establish performance criteria for the CEO to facilitate the evaluation of the CEO's performance.

- Work with the Nominating and Corporate Governance Committee to establish and manage a succession program for the CEO's position.
- Oversee matters relating to shareholder relations and chair meetings of the shareholders.
- Work with the CEO to represent the Corporation to external stakeholders including shareholders, the investment community, governments and communities. The Chair of the Board's performance will be measured by the Board, with the recommendations of the Nominating and Corporate Governance Committee, against the following key metrics:
- The effectiveness with which the Board functions, including satisfaction of Board members regarding the functioning of the Board.
- The extent to which the Corporation carries out its responsibilities to shareholders, employees, customers, governments, and the public.
- The quality of communications between the Board and management, including satisfaction of members of management and Board members regarding this communication.

## 9. The Chief Executive Officer

The CEO is accountable to the Board for achieving corporate objectives within specified limitations and in accordance with the CEO's performance objectives determined annually by the Board.

The CEO will:

- Provide vision and leadership for the Corporation.
- Develop and recommend corporate strategies, and business and financial plans for the approval of the Board.
- Execute the corporate strategy with a goal of achieving profitable growth and maximizing shareholder value for the Corporation's shareholders.
- Manage the business operations in accordance with the strategic direction approved by the Board and within operational policies as determined by the Board.
- Challenge management to set and achieve viable annual and long-term strategic and financial goals.
- Monitor the performance of management against a set of initially agreed corporate objectives directed at maximizing shareholder value.
- Recommend appropriate rewards and incentives for management.
- Report information from management to the Board in a manner and time so that the Board may effectively monitor and evaluate corporate (operational and financial) performance against stated objectives and within executive limitations.
- Report to the Board on relevant trends, anticipated media and analyst coverage, material external or internal changes, and any changes in the assumptions upon which any Board decision or approval has previously been made.
- Advise the Board if, in the CEO's opinion, the Board is not in compliance with its own policies, or legal and/or regulatory requirements.
- Provide the Board with all information and access that the Board may require in order to make fully-informed decisions.
- Report in a timely manner any actual or anticipated non-compliance with any Board approved policy or decision.
- Promote compliance with the Employee Code of Conduct, cause an investigation of any reported violations to be undertaken and cause an appropriate response to be taken to any violation of the Employee Code of Conduct.

Dated as of February 23, 2011

