Western Forest Products Inc.

2012 First Quarter Report

May 8, 2012

To our Shareholders,

Western has produced a tenth successful quarter with a positive EBITDA, increased production, and our highest lumber revenue since 2007. Achieving this in challenging markets shows Western is positioned to be more resilient to these conditions and that we can operate successfully through them. At Western, we continue to put our positive earnings back into the company to build on this strength. This quarter we saw the start of the first step in our capital plan with the commencement of our $16 million investment in the Saltair Sawmill with further investment anticipated. We look forward to the next evolution for Western as we refine our focus on margin. As always, we do this with safety our most significant priority.

Q1 2012 financial highlights are as follows:

- EBITDA of $9.3 million
- Sales revenues increased 24% over the same quarter last year
- Sales volumes of all our major product segments increased over last year
- Liquidity of $114.9 million compared to $95.2 million a year ago
- Net debt to capitalization remains at 13%
- Operating cash flow generated $8.6 million in the quarter

As a result of our continued strategic focus, the quarter saw several achievements, including:

- Safety results are trending positively
- Log production increasing by 48% compared to Q1 2011
- Mill productivity levels increasing by 8% over Q1 2011
- Initiating the first of many projects in our strategic capital plan

We continue to have positive financials, despite current market conditions, due to our vigilant focus on productivity and margin. Western generated EBITDA of $9.3 million during the first quarter of 2012 and we grew revenue to $223.4 million compared to $180.8 million one year ago. Included in this quarter's revenue were lumber sales totaling $157.2 million, which is the highest quarterly amount since the second quarter of 2007.

Despite the EBITDA result being in line with last quarter, we were disappointed with the increase in costs, particularly the log cost of goods sold. Although such cost increases were consistent with our annual plan, log margins were under pressure in the first quarter 2012. The first quarter of the year tends to have higher log costs due to seasonality impacts, predominantly weather.

Consistent with our business plan, production continues to increase as we restart capacity and increase sales. Despite poor weather conditions, our Timberlands group still increased production. With a strong log supply to the mills, our manufacturing facilities increased production by 20%. In these tough market conditions we will continue to match production to market demand and manage inventories to support these positive increases. Our workforce has been instrumental in these initiatives and is engaged in our drive for continuous improvement.

Markets are as we forecasted and are not expected to significantly improve in the first half of 2012.

- Western Red Cedar: The market in Q1 2012 was undersupplied. The tight log supply has supported increased pricing and our ability to supply the product has led to increased market share for Western. Our Q2 outlook is for a continuation of the tight supply that prevailed in Q1.

- Japan: Our outlook from Japan is improving as customers are feeling more confident. The weak Yen and increased foreign supply to the market are likely to make price gains difficult as the market improves.

- Niche: The North American market for higher grade Douglas Fir and Hemlock products used in appearance products remains soft and our growth is coming from increases in our timber business. Off-shore opportunities, especially Europe, remain challenging in the face of uncertain economic conditions.

- Commodity: The demand for lumber and logs in China has slowed due to the slowdown in housing. Inventories of logs and lumber remain high which has led to price pressure. We have diverted volume once directed at China to other programs and products which offer better returns. We are optimistic the excess inventory will be consumed through Q2 2012 and a more regular pattern of buying will develop.

A $16 million investment in the Saltair Sawmill will lower the mill's per unit cost of production providing a competitive platform for the future. An upgrade to the Saltair Sawmill's edgers, stacker, and sorter, will increase production by 15%, increasing competitiveness. The improvements will also enhance safety with a better material flow. Purchasing of equipment and preparation for the retrofit has begun with deliveries of equipment expected in the latter half of the year. Improvements are planned to occur with a minimal amount of production interruption, maintaining mill output. We anticipate another investment in this mill later in the year.

Our Margin Improvement Program is already showing results that will continue to strengthen our earnings quarter after quarter. The focus on margin continues through all of the business units, starting with raising awareness about the costs and opportunities to increase sales revenue, and improving our margins. These efforts are intended to instill a "margin based" culture in our company.

We continue our safety focus throughout the company. In light of recent tragic events in two interior sawmills, and as we increase production, we must continue our drive to improve safety. Our safety team is meeting with key operations and contractors to determine action plans that reinforce accountability for safety in the workplace at all levels.

On behalf of Western, I would like to thank our shareholders for their continued support, and our employees, contractors, suppliers and communities for their engagement in Western's strategy toward building a competitive and sustainable Coastal business.

Dominic Gammiero
Chairman and CEO

Lee Doney
Vice Chairman

Management's Discussion & Analysis

The following discussion and analysis reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three months ended March 31, 2012 to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and management's discussion and analysis ("MD&A") for the year ended December 31, 2011 (the "2011 Annual Report"), all of which can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR"), at http://www.sedar.com.

The Company has prepared unaudited condensed consolidated interim financial statements for the three months ended March 31, 2012 in accordance with IAS 34, *Interim Financial Reporting*, and these do not include all of the information required for full annual financial statements.

Reference is made in this MD&A to EBITDA[1]. EBITDA is defined as operating income prior to operating restructuring items and other expenses, plus amortization of property, plant, equipment, and intangible assets, impairment adjustments, and changes in fair value of biological assets. Western uses EBITDA as a benchmark measurement of our own operating results and as a benchmark relative to our competitors. We consider EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe EBITDA is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

EBITDA does not represent cash generated from operations as defined by IFRSs and it is not necessarily indicative of cash available to fund cash needs. Furthermore, EBITDA does not reflect the impact of a number of items that affect our net income (loss). EBITDA is not a measure of financial performance under IFRSs, and should not be considered as an alternative to measures of performance under IFRSs. Moreover, because all companies do not calculate EBITDA in the same manner, EBITDA as calculated by Western may differ from EBITDA as calculated by other companies. A reconciliation between the Company's net income as reported in accordance with IFRSs and EBITDA is included in Appendix A to this report.

This MD&A contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. Those statements and information appear in a number of places in this document and include statements and information regarding our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives and strategies. Such statements and information may be indicated by words such as "estimate", "expect", "anticipate", "plan", "intend", "believe", "should", "may" and similar words and phrases. Readers are cautioned that it would be unreasonable to rely on any such forward-looking statements and information as creating any legal rights, and that the statements and information are not guarantees and may involve known and unknown risks and uncertainties, and that actual results and objectives and strategies may differ or change from those expressed or implied in the forward-looking statements or information as a result of various factors. Such risks and uncertainties include, among others: general economic conditions, competition and selling prices, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, regulations or public policy, misjudgments in the course of preparing forward-looking statements or information, changes in opportunities and other factors referenced under the "Risk Factors" section in our MD&A in this annual report. All written and oral forward-looking statements or information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, Western does not expect to update forward-looking statements or information as conditions change.

[1] Earnings Before Interest, Tax, Depreciation and Amortization

Unless otherwise noted, the information in this discussion and analysis is updated to May 8, 2012. Certain prior period comparative figures may have been reclassified to conform to the current period's presentation. All financial references are in millions of Canadian dollars unless otherwise noted.

Summary of Selected Quarterly Results[1]

(millions of dollars except per share amount)	Three months ended March 31, 2012	Three months ended March 31, 2011 Restated[(2)]
Revenue	$ 223.4	$ 180.8
EBITDA	9.3	13.0
EBITDA as % of revenue	4.2%	7.2%
Operating income prior to restructuring items and other expenses	2.4	6.8
Net income from continuing operations	2.1	4.1
Net income for the period	1.9	3.8
Basic and diluted earnings per share (in dollars)	$ -	$ 0.01

(1) Included in Appendix A is a table of selected results for the last eight quarters.

(2) Restated to reflect accounting policy change as described on Page 9.

Overview

First quarter 2012

The first quarter EBITDA result of $9.3 million marks the tenth consecutive quarter of positive EBITDA earnings. During the quarter the Company grew revenues to $223.4 million, including lumber sales of $157.2 million which was our highest quarterly lumber sales revenue since the second quarter of 2007. The increase in lumber revenue over the first quarter 2011 is mainly a function of higher shipment volumes, as prices of lumber were not significantly different over the two periods. Log sales revenues were also strong this quarter, driven primarily by an increased domestic pulp mill and export log demand. To support the increased product sale levels, production of logs, lumber and by-products all increased over the same quarter in 2011, while lumber conversion costs were reduced by 7% from the same quarter one year ago.

These positive elements were achieved in what continues to be challenging market conditions. Lumber markets in the United States ("US") remain below trend levels and while there are positive signs in the US economy, a meaningful recovery of the US housing market is still not on the horizon. Chinese demand for lumber has recently softened, and markets in Japan were weaker than anticipated.

Despite the EBITDA result being in line with management's seasonal expectations, EBITDA margins have decreased by 3% from the previous year. The lower EBITDA margin was largely a result of higher costs in our timberlands operations, higher cost of goods sold for lumber, increased log and lumber inventory provisions and the timing of certain selling and administration expenses.

The EBITDA result for the three months ended March 31, 2011 was restated to $13.0 million, an increase of $4.8 million, due to the adoption of a new inventory accounting policy on January 1, 2012. The annual impact of the policy on 2011 EBITDA results amounted to an increase of $0.2 million. There was minimal impact of the policy change on 2012 first quarter results.

Net income for the first quarter of 2012 was $1.9 million, a decrease of $1.9 million from net income of $3.8 million reported a year earlier, and is also a decline from the net income of $3.3 million reported in the previous quarter. The decline in net income is principally because of lower EBITDA generated in the current quarter.

Our liquidity position at March 31, 2012 increased to $114.9 million from $112.1 million at the end of the previous quarter, and from $95.2 million at March 31, 2011.

As part of the Company's strategic capital plan, on February 13, 2012, Western announced a $16 million investment in the Saltair sawmill. This mill, built in 1972, converts coastal mid-size logs into high value specialized lumber products in Hemlock, Douglas fir and western Red Cedar. This capital project will make Saltair the largest single line sawmill on the coast of British Columbia and will provide upgrades to the edgers, stackers and sorters. The upgrades will increase production by approximately 15%, lower unit cost of production, and increase our ability to provide a greater variety of products to our customers.

The previously announced agreement to sell Tree Farm Licence 60 ("TFL 60") and related assets on Haida Gwaii to Taan Forest Limited Partnership ("Taan"), a partnership of the Council of the Haida Nation and Haida Enterprise Corporation, the business arm of the Haida Nation is now expected to close in the second quarter of 2012. Proceeds from the sale will be used to pay down the Company's revolving term debt. The associated assets and liabilities included in the sale are currently presented as "assets held for sale" in the statement of financial position at March 31, 2012. Subsequent to the quarter end, Taan has paid additional deposits with respect to the transaction which now total $4.5 million. Of this amount, $3.9 million is non-refundable, with $2.6 million being paid to the Company and the balance of the non-refundable amount of $1.3 million is held in trust.

Operating Results

Revenues

	Three months ended March 31,	
(millions of dollars)	2012	2011
Lumber	$ 157.2	$ 129.0
Logs	51.9	36.3
By-products	14.3	15.5
Total revenues	$ 223.4	$ 180.8

Lumber sales revenues increased by 22% when compared to the first quarter of 2011 primarily due to higher shipment volumes. Global economic conditions remain uncertain, but market demand for the majority of our lumber products has improved in the current quarter. Lumber shipment volumes increased by 20% to 220 million board feet in the first quarter of 2012 from 183 million board feet in the first quarter of 2011. The geographic destination of the lumber changed this quarter with relatively less lumber being shipped to China and a corresponding increase in the percentage of product sold in the domestic Canadian market. In the current quarter 39% of our sales were to the Canadian market, 23% to China, 20% to Japan, and 13% to the US.

In the first quarter of 2012, our overall average lumber price realized was approximately 2% higher at $716 per thousand board feet, compared to $705 in the same quarter of 2011. In general, lumber prices did not change significantly over the two quarters, with the exception of Western Red Cedar prices, which were approximately 4% higher in the current quarter. Our sales mix in the current quarter changed only marginally with approximately 2% more Western Red Cedar sales and 2% less Douglas fir sales this quarter compared to the first quarter of 2011. The improvement also reflects the beneficial effects of the weaker Canadian dollar on both US dollar and Japanese Yen denominated revenues.

Log sales revenues in the first quarter of 2012 increased by 43% compared to the same quarter last year. The increase is due to a 39% increase in the volume of logs sold and average log prices realized in the first quarter of 2012 being 6%, or $4 per cubic metre, higher than a year ago. Overall log demand in our domestic market for the quarter was strong, relative to a year ago. Demand for logs in our export markets remains stable but prices have decreased compared to the same quarter a year ago. Increases in volumes sold were achieved in our pulp log, fir sawlogs and cedar shingle log sales in North American markets as well as export sales to Korea, Japan and China. The quarter over quarter price increase is mostly reflective of a change in the mix of log sold, with relatively fewer of the less expensive pulp logs and more of the higher priced hembal export logs sold in the current quarter. Cedar shingle log prices increased by over 30% in the current quarter over last year's level as a result of higher demand for roofing materials.

By-product revenues decreased by $1.2 million, or 8%, in the current quarter compared to the first quarter of 2011. While chip volumes sold in this quarter were 10% higher than the first quarter last year, prices received for the chips were on average 20% lower this year which more than offset the impact of the favourable volume increase. Prices realized for our chips sold under fibre agreements with certain of our customers are based on a chip pricing formula which is a function of pulp prices and the mix of chips sold. Pulp prices were lower in the current quarter by an average of approximately 20% compared to the same quarter in 2011 and this resulted in the lower chip prices.

EBITDA

EBITDA of $9.3 million reported for the first quarter of 2012, compares to EBITDA reported in the same quarter last year of $13.0 million and to $11.6 million earned in the fourth quarter of 2011. As previously mentioned, the Company changed its inventory accounting policy for logs and lumber on January 1, 2012. As a result of this policy change, EBITDA for the first quarter of 2011 was restated from $8.2 million to $13.0 million. There was minimal impact of the policy change on 2012 first quarter results.

The EBITDA result for the first quarter of 2012 reflects increased operating levels, higher sales volumes for most products and improvements in mill productivity levels compared to the first quarter of 2011. However, these positive variances were more than offset by the negative impacts of higher logging costs, higher per unit cost of lumber drawn from opening inventory, increased log and lumber inventory provisions, and higher selling and administrative expenses in the current quarter.

Our operations increased production levels to meet increased demand for our products. In the case of our timberlands operations, logging operations have extended into areas with higher cost implications reflecting both location and terrain, when compared to the first quarter of 2011. This required greater use of higher cost road building and harvesting methods, including the use of more heli-logging. Logging costs were also higher in the quarter due to working in poor winter weather conditions in this and the preceding quarter. Despite the increase in logging costs, the operating results for the first quarter of 2012 incorporated lower shutdown costs by $2.4 million than those incurred in 2011.

Lumber production was 20% higher in the first quarter of 2012 compared to the first quarter of 2011, and our sawmills operated at 91% of capacity (on a shifts available basis) in the first quarter of 2012 compared to 78% of capacity in the same quarter of 2011. The majority of this increase in operating capacity relates to the Duke Point and Ladysmith mills, which ran closer to capacity for the first quarter of 2012 compared to last year. In addition, our Cowichan Bay, Somass and Alberni Pacific sawmills took downtime in 2011 whereas they ran fully in the current quarter. Our mills, on average, increased productivity, as measured on a production volume per shift basis, by 8% in the current quarter compared to the same quarter in 2011, largely driven by improvements at the Saltair and Somass mills. In addition, conversion costs of lumber produced in the first quarter of 2012 decreased by 8% from the same period a year ago. These productivity improvements and reduced conversion costs reflect a number of initiatives undertaken as part of the companywide margin improvement program initiated in 2011, as well as some natural synergies that result from being able to operate at higher rates.

During this quarter we did not benefit fully from these operating improvements at our sawmills as we continued to draw down lumber from inventory which carried higher costs incurred in the fourth quarter of 2011. Much of these costs were absorbed into our 2012 first quarter results and will not impact results in future quarters, particularly as the current production conversion costs are reduced.

An increase in inventory provisions for logs and lumber during the first quarter of 2012 also reduced EBITDA compared to the same period last year. The log inventory provision increased by $1.0 million in the first quarter of 2012 compared to a decrease of $3.5 million in 2011. The 2012 increase was due to an increase in volume of pulplogs and hemlock compared to last year and a general increase in log costs described above. The lumber inventory provision increased by $1.5 million in the first quarter of 2012, compared to an increase of only $0.1 million last year. The higher lumber provision this year is attributable to an increase in hemlock lumber volume remaining in inventory compared to a decrease of hemlock volume during the same period last year.

Our operating results were positively impacted by an approximate 2% weakening in the value of the Canadian dollar relative to the US dollar from the first quarter of 2011, which increased our Canadian dollar proceeds received on US dollar denominated sales (the major share of our lumber sales are denominated in US dollars, including those to China). Western mitigates its foreign exchange risk associated with sales transactions denominated in US dollars and Japanese Yen by utilizing forward currency transactions available to it under a facility provided by Brookfield Asset Management Inc. (“BAM”). As at March 31, 2012, Western had obligations to sell an aggregate Yen 3,600 million at average rate of 79.73 yen per C$. The Yen exchange rate weakened against the Canadian dollar over the course of the first quarter of 2012 (from a rate of 75.70 Yen per C$, to 82.51). As a result, net realized and unrealized gains of $3.8 million were recorded in the quarter (2011: $2.8 million).

Total freight costs were $23.1 million in the first quarter of 2012, which compared to the first quarter of 2011 costs of $21.1 million. The increase is because of higher shipment volumes of lumber this year, and this is partially offset by the impact of proportionately more of our shipments this quarter being in the Canadian market and less to the China market, which incurs significantly higher unit freight costs. On a per unit basis, freight costs decreased by 4% compared to the same period in 2011, despite rising oil prices led to surcharges on bunker fuel in this quarter compared to last year.

Selling and administration costs increased by $1.2 million to $7.8 million in the current quarter compared to $6.6 million in the same quarter of 2011, mainly because of increased salary costs, higher information technology costs and contractor costs in the current quarter.

Non-operating income and costs

Finance costs decreased from $1.9 million in the first quarter of 2011 to $1.3 million in the current quarter. This decrease is primarily attributable to a reduction in the outstanding debt amount over the respective periods, resulting from the proceeds of non-core asset sales being used to pay down debt subsequent to March 31, 2011. Also contributing to this reduction is the benefit of lower interest rates on the revolving term loan.

Other income of $1.0 million for the first quarter of 2012 compares to net expenses of $0.5 million in the first quarter of 2011. The current quarter includes net gains on asset disposals of $1.1 million. The net expense of $0.5 million in the first quarter of 2011 includes a number of significant non-operating transactions, including a gain on the sale of an equity interest in certain real estate properties of $2.4 million, an expense of $2.5 million to amend the terms of certain contractual arrangements, and other minor expenses totaling $0.4 million.

Financial Position and Liquidity

	Three months ended March 31,	
(millions of dollars except where noted)	2012	2011
Cash provided by operating activities	$ 8.6	$ 35.1
Cash provided by (used in) investing activities	(3.6)	22.4
Cash used in financing activities	(9.9)	(33.6)
Cash used to construct capitalized logging roads	(1.7)	(1.0)
Cash used to acquire property, plant and equipment	(1.9)	(1.9)

	March 31, 2012	December 31, 2011
Total liquidity[1]	$ 114.9	$ 112.1
Net debt [2]	48.4	52.1
Financial ratios:		
Current assets to current liabilities	2.36	2.30
Net debt to capitalization[3]	0.13	0.13

(1) Total liquidity comprises cash and cash equivalents and available credit under the Company's revolving credit facility and revolving term loan.

(2) Net debt is defined as the sum of long-term debt, current portion of long-term debt, revolving credit facility, less cash and cash equivalents.

(3) Capitalization comprises net debt and shareholders equity

Cash provided by operating activities in the first quarter of 2012 amounted to $8.6 million compared to cash provided of $35.1 million in the same period last year. Our investment in inventories and receivables was higher at the end of the current quarter compared to March 2011, which was a result of increased sales activity in the current quarter compared to the same quarter of 2011. In the current quarter, changes in total working capital were negligible whereas in the first quarter of 2011 investment in working capital was reduced by $20.3

million. The majority of the change in working capital in the respective quarters was caused by the relative movement in funds tied up in accounts receivable over the two quarters. The timing of sales in 2012 occurred proportionately more in the latter part of the quarter causing the accounts receivable balance to increase in the first quarter of 2012, whereas it decreased in the first quarter of 2011.

Cash used for additions to property, plant and equipment in the first quarter of 2012 was $3.6 million compared to $2.9 million in the first quarter of 2011. In the current quarter, additions comprised $1.7 million of additions to logging roads and bridges and $1.9 million of other property and equipment, which primarily related to equipment replacements and upgrades. In the first quarter of 2011, the Company received proceeds of $25.3 million from the sale of assets, the most significant being the sale to TimberWest Forest Corp. of 7,678 hectares of land located in the southern part of Vancouver Island for gross proceeds of $21.9 million.

In the first quarter of 2012, the Company repaid $8.9 million that was drawn on its revolving credit facility from cash generated from operations. In the first quarter of 2011 Company paid down its non-revolving term loan by $31.2 million as a result of cash generated from the sales of non-core assets of $25.3 million, with the balance primarily being paid from $5.2 million cash received as reimbursement by the Province of British Columbia for costs incurred by Western with respect to the Forestry Revitalization Plan timber take-back areas.

At March 31, 2012, Western's total liquidity increased to $114.9 million from $112.1 million at the end of 2011 and from $95.2 million at March 31, 2011. At March 31, 2012, liquidity was comprised of cash of $10.2 million and availability under the revolving credit facility and revolving term loan of $88.8 million and $15.9 million, respectively. The increase in liquidity compared to March 31, 2011 was primarily due to an increase in borrowing base assets, specifically, eligible accounts receivable and inventory, and a corresponding increase in availability under the revolving credit facility.

Accounting Policies

(a) Change in accounting policy

Inventories

On January 1, 2012, the Company changed its accounting policy with respect to the costing of log inventories from the distributed cost method to the average cost of production method. Under the new policy, the costs of logs produced will carry an average cost of production based on the operation where the logs are produced, determined by actual log production costs divided by production volumes. This compares to the former policy which allocated costs based on the estimated fair value of the logs produced. Management believes that this change in accounting policy provides more relevant information about the financial performance of the Company to the users of the financial statements, as it aligns the costing methods of the Company's log and lumber inventories, is more consistent with industry accounting practices and also results in a more conservative carrying value relative to the previous method used.

This change in accounting policy was applied retrospectively with prior periods being restated accordingly. The change resulted in a $10.1 million reduction to the carrying value of inventory and a corresponding increase to the deficit as at December 31, 2011 (December 31, 2010 – $9.9 million). For the quarter ended March 31, 2011 the policy change resulted in a decrease to cost of goods sold and an increase to earnings of $4.8 million.

(b) Adoption of new accounting policies

A number of new International Accounting Standards, and amendments to standards and interpretations, are not yet effective, and have not yet been applied in preparing these interim financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9, *Financial Instruments* which becomes mandatory for the Company's 2013 consolidated financial statements and is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109 issued by the Canadian Securities Administrators, Western carried out an evaluation of the design and effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as of December 31, 2011. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the interim filings are being prepared.

There were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting during the first quarter of 2012.

Outlook and Strategy

Western remains focused on improving product margins to take us through today's difficult market conditions. With the possible exception of cedar lumber, product pricing has been relatively flat, so an emphasis has been placed on ensuring the highest margin end use is achieved for our fibre resource. With our improved balance sheet, lower cost structure, and margin focus, we will continue to operate at higher rates and further grow the business. Management will continue to expand our four key lumber market segments: Western Red Cedar, Commodity, Japan, and Niche.

The US housing market, while still at low historical start levels, appears to have started a slow but fragile recovery. However, given that the housing construction market has only improved marginally, and with only slightly improved unemployment statistics, we expect the return to trend housing construction levels is still a few years off.

With a modest recovery underway in both the housing and renovations sectors in the US, we are forecasting an increase in Western Red Cedar sales for 2012 compared to 2011. Pricing remains a challenge with the high Canadian dollar; however we are starting to see some pricing gains in the items that are in the highest demand. A tight log supply has supported increased pricing and our ability to supply the product has led to an increased market share for Western. We anticipate that cedar lumber prices will remain higher through the summer months.

In the commodity markets, China has not yet recovered from the slowdown in housing starts. Inventories of logs and lumber remain high, leading to lower prices. We still believe that this slowdown is short term in nature and anticipate significant long term opportunities in the Chinese market. In 2011, we began a process of identifying opportunities to diversify our commodity sales base away from China, and into higher margin opportunities in the local Canadian market. We have been successful in developing some specialty industrial use commodity products in domestic markets and will continue to grow these business lines. However, our diversion strategy may not be sufficient to replace the weaker demand from China and production curtailments may become necessary in the future to ensure we do not build excess inventory.

Japanese market demand in the early part of 2012 was slower than anticipated, as rebuilding associated with last year's tsunami is not having a significant impact on demand so far. However the outlook is improving and customers are showing more signs of confidence, which should translate into higher sales volumes for the remainder of the year. However, with increased competition in the market, resulting from softness in the China market, Japan could prove to be a challenging market.

The North American market for Niche appearance lumber remains soft, with our timbers business line representing our best growth prospect. Markets for higher grade Douglas fir and hemlock products used in appearance applications remains muted with only marginal recovery in the US housing market expected in 2012, as described above. Europe, a high value niche market, appears to be moving deeper into recession.

Despite less than robust lumber markets, the combination of our strong balance sheet and management's confidence that it's business strategy will continue to generate sufficient cash from operations, we have commenced the implementation of our strategic capital plan. As announced in the first quarter of 2012, the Saltair sawmill phase I upgrade is the first investment in this plan. The Saltair upgrades will increase production volumes by approximately 15%, lowering the per-unit cost of production, and improving competitiveness with global producers. Increased efficiencies with the upgrade will reduce mill bottlenecks, not only a benefit to productivity, but also to the safety of the work environment. Our ability to provide a variety of products to a diverse customer base will ensure they are able to operate through varying market conditions. Upgraded edgers will facilitate onsite production of finished products for the ever growing Asian market; a critical part of Western's customer profile which also includes Europe, Australia, and North America. All major equipment for the first phase of the Saltair mill strategic capital investment program has been ordered (stacker, sorter and edger), and is expected to arrive late in the third quarter of 2012. Installation is expected to commence before the end of the year.

In addition to our strategic capital investments, management is focused on improving product margins and has adopted a formalized, non-capital, margin improvement program. This program is targeted to deliver an additional $25 million of margin improvement over the next three years, through a variety of cost reduction and productivity initiatives. These programs are underway and are starting to generate tangible improvements which we will provide some detail on in our next report.

As already mentioned, the closing date for the sale of TFL 60 has been extended and the transaction is now expected to be completed by the end of the second quarter of 2012. The net proceeds from the sale of $11.6 million will be used to pay down the Company's debt in accordance with its lending agreements. Subsequent to the quarter end, the Company received additional non-refundable deposits of $2.6 million from Taan, which together with previous non-refundable deposits amounts to $3.9 million with respect to the transaction.

We will continue to pursue further opportunities that may arise to sell non-core or other land assets as appropriate. Proceeds from such sales will first be directed to reduce or eliminate long-term debt with any surplus being used to provide additional liquidity.

In April 2012, the US Lumber Coalition ("Coalition") has claimed that the BC government has been undercharging the coastal forestry industry for timber harvested on crown lands and is questioning the accuracy of BC's market pricing system (MPS). The Coalition has taken the issue to the office of the US Trade Representative, which has in turn written to the Ministry of Forests to enquire as to the status of the update of the Coast MPS. The Coast MPS was introduced in 2004 and updated in 2007 and 2009. There is no time requirement in the SLA as to when updates occur. The Ministry has not responded to the US Trade Representative and technical work is ongoing. Due to the preliminary nature of this situation there is no evidence of the existence of any potential liability, and so no amount has been provided for it in the March 31, 2012 financial statements.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2011 Annual Report which can be found on SEDAR, at http://www.sedar.com. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business.

Outstanding Share Data

As of May 8, 2012, there were 129,105,623 Common Shares and 338,945,860 Non-Voting Shares issued and outstanding. Brookfield Special Situations Management Limited ("BSSML") controls and directs 48.82% of the Company's Common Shares and 100% of the Non-Voting Shares. The Company may convert the Non-Voting Shares into Common Shares on a one-for-one basis, in whole or in part, at any time in its sole discretion, provided that the Board of Directors is at that time of the opinion that to do so would not have a material adverse effect on the Company's business, financial condition or business prospects.

Western has reserved 10,000,000 Common Shares for issuance upon the exercise of options granted under the incentive stock option plan. On February 22, 2012, 1,800,000 options were granted under the plan. As of May 8, 2012, 6,771,795 options were outstanding under the Company's incentive stock option plan.

Related Parties

By virtue of the BAM voting arrangements with BSSML, BAM is related to the Company. Western 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 other services including insurance, the provision of a foreign exchange facility, and the services of the Chief Executive Officer all in the normal course and at market rates or at cost. During the first quarter of 2012, the Company paid entities related to BAM $3.3 million, and received income from related entities of $1.3 million in connection with these arrangements.

Public Securities Filings

Readers may access other information about the Company, including the Annual Information Form and additional disclosure documents, reports, statements and other information that are filed with the Canadian securities regulatory authorities, on SEDAR at www.sedar.com.

On behalf of the Board of Directors

Dominic Gammiero	Lee Doney
Chairman	Vice-Chairman

Vancouver, BC,

May 8, 2012

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters (Unaudited)

(millions of dollars except per share amounts and where noted)	2012	2011				2010		
	1st	4th	3rd	2nd	1st	4th	3rd	2nd
Average Exchange Rate – Cdn $ to purchase one US $	1.001	1.023	0.980	0.968	0.986	1.013	1.039	1.029
Revenues								
Lumber	157.2	147.4	141.2	143.5	129.0	118.1	123.7	131.1
Logs	51.9	60.2	77.3	57.8	36.3	38.8	39.1	36.6
By-products	14.3	13.1	15.0	17.4	15.5	15.7	12.7	13.8
Total revenues	223.4	220.7	233.5	218.7	180.8	172.6	175.5	181.5
Lumber								
Shipments – millions of board feet	220	209	209	210	183	168	165	189
Price – per thousand board feet	716	705	676	684	705	703	750	694
Logs								
Shipments – thousands of cubic metres	699	853	1,078	755	504	646	642	640
Price – per cubic metre(1)	72	69	68	72	68	60	61	57
Selling and administration	7.8	6.9	6.4	6.7	6.6	7.6	5.8	5.8
EBITDA(2)	9.3	11.6	15.8	21.2	13.0	2.8	12.3	20.8
Amortization	(6.8)	(5.7)	(6.0)	(6.7)	(5.6)	(5.2)	(5.5)	(6.9)
Changes in fair value of biological assets	(0.1)	(0.9)	(0.6)	(0.5)	(0.6)	(0.8)	0.6	(0.6)
Reversal of impairment	-	-	-	-	-	18.5	-	-
Operating restructuring items	-	0.2	(0.3)	(0.3)	(0.3)	(0.1)	(0.6)	(0.9)
Finance costs	(1.3)	(1.4)	(1.5)	(1.8)	(1.9)	(2.8)	(3.5)	(3.4)
Other income (expenses)	1.0	(0.3)	(1.9)	(0.1)	(0.5)	6.3	(0.3)	0.3
Income taxes recovery (expense)	-	0.1	0.1	(0.2)	-	0.6	(0.1)	(0.3)
Net income from continuing operations	2.1	3.6	5.6	11.6	4.1	19.3	2.9	9.0
Net loss from discontinued operations	(0.2)	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Net income	1.9	3.3	5.3	11.4	3.8	19.0	2.6	8.7
EBITDA as % of revenues	4.2%	5.3%	6.8%	9.7%	7.2%	1.6%	7.0%	11.5%
Earnings per share:								
Net income, basic and diluted	-	0.01	0.01	0.02	0.01	0.04	0.01	0.02
Net income from continuing operations, basic and diluted	-	0.01	0.01	0.02	0.01	0.04	0.01	0.02

(1) The log revenue used to determine average price per cubic metre has been reduced by the associated shipping costs arranged in the respective periods to enable comparability of unit prices.

(2) EBITDA has been restated to reflect the accounting policy change as described on Page 9 of the MD&A

In a normal operating year there is some seasonality to the Company's operations with higher lumber sales in the second and third quarters when construction activity, particularly in North American markets, has historically tended to be higher. Logging activity may also vary depending on weather conditions such as rain, snow and ice in the winter and the threat of forest fires in the summer.

The category of "Other income (expenses)" comprises gains on the sale of various non-core assets and other receipts which can be unpredictable in their timing. More material transactions of this nature occurred in the third quarter of 2011 and the fourth quarters of 2010.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2012 and 2011

Western Forest Products Inc.

Condensed Consolidated Statements of Financial Position

(Expressed in millions of Canadian dollars) (unaudited)

	March 31, 2012	December 31, 2011 [Restated - Note 3(a)]	December 31, 2010 [Restated - Note 3(a)]
Assets			
Current assets:			
Cash and cash equivalents	$ 10.2	$ 15.3	$ 5.1
Trade and other receivables	81.0	64.4	58.7
Inventory (Notes 7 and 3(a))	125.5	132.6	119.7
Prepaid expenses and other assets	5.8	6.5	4.8
	222.5	218.8	188.3
Non-current assets:			
Property, plant and equipment (Note 8)	187.3	190.3	205.4
Intangible assets (Note 8)	115.7	116.6	132.8
Biological assets (Note 9)	61.1	59.4	77.7
Assets classified as held for sale (Note 21)	11.4	11.5	-
Other assets	11.8	11.7	13.8
	$ 609.8	$ 608.3	$ 618.0
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 75.6	$ 66.7	$ 61.6
Revolving credit facility (Note 10)	-	8.9	-
Silviculture provision (Note 12)	12.3	13.3	11.5
Discontinued operations (Note 5)	6.3	6.2	6.2
	94.2	95.1	79.3
Non-current liabilities:			
Long-term debt (Note 11)	58.6	58.5	104.9
Silviculture provision (Note 12)	17.9	16.2	15.8
Liabilities classified as held for sale (Notes 12 and 21)	1.4	1.4	-
Other liabilities (Note 13)	32.9	31.6	23.3
Deferred revenue	67.9	68.4	70.4
	272.9	271.2	293.7
Shareholders' equity:			
Share capital - voting shares (Note 15)	412.5	412.3	412.3
Share capital - non-voting shares (Note 15)	187.5	187.5	187.5
Contributed surplus	3.5	3.4	3.0
Revaluation reserve	23.9	23.9	23.9
Deficit (Note 3(a))	(290.5)	(290.0)	(302.4)
	336.9	337.1	324.3
	$ 609.8	$ 608.3	$ 618.0

Commitments and Contingencies (Note 16) and Subsequent Events (Notes 21 and 22)

See accompanying notes to these unaudited condensed consolidated interim financial statements

Approved on behalf of the Board:

"Dominic Gammiero"
Chairman

"Lee Doney"
Vice Chairman

Western Forest Products Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Expressed in millions of Canadian dollars except for share and per share amounts) (unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011 [Restated - Note 3(a)]
Revenue	$ 223.4	$ 180.8
Cost and expenses:		
Cost of goods sold (Note 3(a))	188.1	144.9
Export tax	2.0	1.4
Freight	23.1	21.1
Selling and adminstration	7.8	6.6
	221.0	174.0
Operating income prior to restructuring items and other expenses	2.4	6.8
Operating restructuring items	-	(0.3)
Other income (expenses) (Note 18)	1.0	(0.5)
Operating income	3.4	6.0
Finance costs	(1.3)	(1.9)
Net income from continuing operations	2.1	4.1
Net loss from discontinued operations (Note 5)	(0.2)	(0.3)
Net income for the period	1.9	3.8
Other comprehensive income (loss)		
Defined benefit plan actuarial gains (losses)	(2.4)	2.3
Total comprehensive income (loss) for the period	$ (0.5)	$ 6.1
Net income per share (in dollars):		
Basic and diluted earnings per share	$ -	$ 0.01
Basic and diluted earnings per share - continuing operations	$ -	$ 0.01
Weighted average number of shares outstanding (thousands)		
Basic	467,624	467,571
Diluted	474,765	472,899

See accompanying notes to these unaudited condensed consolidated interim financial statements

Western Forest Products Inc.

Condensed Consolidated Statements of Cash Flows

(Expressed in millions of Canadian dollars) (unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
Cash provided by (used in):		
Operating activities:		
Net income from continuing operations	$ 2.1	$ 4.1
Items not involving cash:		
Amortization of property, plant and equipment (Note 8)	5.9	4.7
Amortization of intangible assets (Note 8)	0.9	0.9
(Gain) loss on disposal of assets	(2.4)	0.8
Change in fair value of biological assets (Note 9)	1.3	0.6
Finance costs	1.3	1.9
Other	0.4	1.8
	9.5	14.8
Changes in non-cash working capital items:		
Trade and other receivables	(16.6)	6.4
Inventory	7.1	12.4
Prepaid expenses and other assets	0.7	(1.0)
Silviculture provision	(1.0)	1.0
Accounts payable and accrued liabilities	8.9	1.5
	(0.9)	20.3
	8.6	35.1
Investing activities:		
Additions to property, plant and equipment	(3.6)	(2.9)
Proceeds on disposals of assets	-	25.3
	(3.6)	22.4
Financing activities:		
Changes in revolving credit facility	(8.9)	-
Interest paid	(1.2)	(2.3)
Repayment of long-term debt	-	(31.2)
Refinancing fees	-	(0.1)
Proceeds from exercise of stock options	0.2	-
	(9.9)	(33.6)
Cash provided by (used in) continuing operations	(4.9)	23.9
Cash used in discontinued operations	(0.2)	(0.3)
Increase (decrease) in cash and cash equivalents	(5.1)	23.6
Cash and cash equivalents, beginning of period	15.3	5.1
Cash and cash equivalents, end of period	$ 10.2	$ 28.7

See accompanying notes to these unaudited condensed consolidated interim financial statements

Western Forest Products Inc.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(Expressed in millions of Canadian dollars) (unaudited)

	Share Capital	Contributed Surplus	Revaluation Reserve	Deficit	**Total equity**
Balance at January 1, 2011, as previously reported	$ 599.8	$ 3.0	$ 23.9	$ (292.5)	$ 334.2
Change in accounting policy (Note 3(a))	-	-	-	(9.9)	(9.9)
Balance, January 1, 2011, as restated	599.8	3.0	23.9	(302.4)	324.3
Net income for the period	-	-	-	3.8	3.8
Other comprehensive income:					
Defined benefit plan actuarial gains recognized	-	-	-	2.3	2.3
Total comprehensive income for the period	-	-	-	6.1	6.1
Share-based payment transactions recognized in equity	-	0.1	-	-	0.1
Total transactions with owners, recorded directly in equity	-	0.1	-	-	0.1
Balance at March 31, 2011, as restated (Note 3(a))	$ 599.8	$ 3.1	$ 23.9	$ (296.3)	$ 330.5

	Share Capital	Contributed Surplus	Revaluation Reserve	Deficit	**Total equity**
Balance at January 1, 2012, as previously reported	$ 599.8	$ 3.4	$ 23.9	$ (279.9)	$ 347.2
Change in accounting policy (Note 3(a))	-	-	-	(10.1)	(10.1)
Balance, January 1, 2012, as restated	599.8	3.4	23.9	(290.0)	337.1
Net income for the period	-	-	-	1.9	1.9
Other comprehensive loss:					
Defined benefit plan actuarial losses recognized	-	-	-	(2.4)	(2.4)
Total comprehensive loss for the period	-	-	-	(0.5)	(0.5)
Share-based payment transactions recognized in equity	-	0.2	-	-	0.2
Exercise of stock options	0.2	(0.1)	-	-	0.1
Total transactions with owners, recorded directly in equity	0.2	0.1	-	-	0.3
Balance at March 31, 2012	$ 600.0	$ 3.5	$ 23.9	$ (290.5)	$ 336.9

See accompanying notes to these unaudited condensed consolidated interim financial statements

1. Reporting Entity

Western Forest Products Inc. ("Western" or the "Company") is a major integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia. The address of the Company's registered office is Suite 510 – 700 West Georgia Street, Vancouver, British Columbia, Canada. These unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2012 and 2011 comprise the Company and its subsidiaries. The Company's primary business includes timber harvesting, reforestation, forest management, sawmilling logs into lumber, wood chips, and value-added lumber remanufacturing. Western's lumber products are currently sold in over 30 countries worldwide. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of Presentation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") are for the three months ended March 31, 2012. They have been prepared in accordance with IAS 34, *Interim Financial Reporting,* and do not include all of the information required for full annual financial statements.

These interim financial statements were approved by the Board of Directors on May 8, 2012.

(b) Basis of measurement

The interim financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Biological assets are measured at fair value less costs to sell;
- Land within property, plant and equipment is measured at fair value;
- Liabilities for cash-settled share-based payment transactions are measured at fair value at each reporting period. Equity-settled share-based payment transactions are measured at fair value at grant date;
- Long-term debt is initially recognized at fair value, then at amortized cost;
- Derivative financial instruments are measured at fair value; and
- The defined benefit liability is recognized as the net total of the plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

(c) Use of estimates and judgements

The preparation of interim financial statements in accordance with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the interim financial statements, are disclosed in the Company's consolidated financial statements as at and for the year ended December 31, 2011.

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2011.

(a) Changes in accounting policies

Inventories

On January 1, 2012, the Company changed its accounting policy with respect to the costing of log inventories from the distributed cost method to the average cost of production method. Under the new policy, the costs of logs produced will carry an average cost of production based on the operation where the logs are produced, determined by actual log production costs divided by production volumes. This compares to the former policy which allocated costs based on the estimated fair value of the logs produced. Management believes that this change in accounting policy provides more relevant information about the financial performance of the Company to the users of the financial statements, as it aligns the costing methods of the Company's log and lumber inventories, and is more consistent with industry accounting practices and also results in a more conservative carrying value relative to the previous method used.

This change in accounting policy was applied retrospectively with prior periods being restated accordingly. The change resulted in a $10.1 million reduction to the carrying value of inventory and a corresponding increase to the deficit as at December 31, 2011 (December 31, 2010 – $9.9 million). For the quarter ended March 31, 2011 the policy change resulted in a decrease to cost of goods sold and an increase to earnings of $4.8 million.

(b) Adoption of new accounting policies

A number of new standards, and amendments to standards and interpretations, are not yet effective, and have not yet been applied in preparing these interim financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9, *Financial Instruments* which becomes mandatory for the Company's 2013 consolidated financial statements and is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined.

4. Seasonality of Operations

In a normal operating year, there is some seasonality to the Company's operations with higher lumber sales in the second and third quarters when construction activity in certain key markets has historically tended to be higher. Logging activity may also vary depending on weather conditions such as rain, snow and ice in the winter and the threat of forest fires in the summer.

5. Discontinued Operations

In March 2006, the Company closed its Squamish pulp mill located on 213 acres on the mainland coast of British Columbia and exited the pulp business. Subsequent to the closure, the Company sold substantially all of the manufacturing assets of the mill. Ongoing costs including supervision, security and property taxes continue to be expensed as incurred. The real property is one of the Company's portfolio of non-core assets and while site remediation is ongoing, the Company has listed the property for sale.

The following table provides additional information with respect to the discontinued operations:

	Three months ended March 31	
	2012	2011
Net loss from discontinued operations	$ (0.2)	$ (0.3)
Cash used in discontinued operations	$ (0.2)	$ (0.3)
	March 31, 2012	December 31, 2011
Assets of discontinued operations	$ 2.3	$ 2.3
Liabilities of discontinued operations	$ 6.3	$ 6.2

The assets of discontinued operations are included in “Other assets” on the statement of financial position.

6. Related Parties

Brookfield Special Situations Management Limited (“BSSML”) controls and directs 48.82% of the Company's Common Shares and 100% of the Non-Voting Shares. BSSML is a wholly owned subsidiary of Brookfield Asset Management (“BAM”).

In addition to the related party transactions identified elsewhere in these interim financial statements, the Company has certain arrangements with entities related to BSSML and BAM to provide financing, acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire services including insurance, all in the normal course and at market rates or at cost. The following table summarizes these transactions for the three months ended March 31:

	Three months ended March 31	
	2012	2011
Costs incurred for:		
Log purchases	$ 2.1	$ 1.8
Other	1.2	1.1
	$ 3.3	$ 2.9
Income received for:		
Log sales	$ 1.3	$ 0.5
Other	-	2.4
	$ 1.3	$ 2.9

7. Inventory

The following table summarizes the value of inventory on hand:

	March 31, 2012	December 31, 2011
Logs	$ 80.9	$ 88.3
Lumber	50.2	46.9
Supplies and other inventories	10.9	11.3
Provision for write downs	(16.5)	(13.9)
Total value of inventories	$ 125.5	$ 132.6
Inventory carried at net realizable value	$ 49.2	$ 43.1

The inventory is pledged as security against the revolving credit line.

During the first quarter of 2012, $188.1 million (2011: $144.9 million) of inventory was charged to cost of sales which included an increase to the provision for write-down to net realizable value of $2.6 million (2011: a reduction of $3.4 million).

8. Property, Plant and Equipment and Intangible Assets

at December 31, 2011	Buildings & equipment	Logging roads	Land	**Total property, plant and equipment**	**Intangible assets**
Cost of capital assets at December 31, 2011	$ 128.2	$ 113.1	$ 110.7	$ 352.0	$ 172.7
Accumulated amortization and impairment at December 31, 2011	(80.2)	(81.5)	-	(161.7)	(56.1)
Net book value at December 31, 2011	48.0	31.6	110.7	190.3	116.6
at March, 2012					
Net book value at December 31, 2011	48.0	31.6	110.7	190.3	116.6
Additions	1.9	1.7	0.5	4.1	-
Disposals	-	(0.2)	(1.0)	(1.2)	-
Amortization	(2.6)	(3.3)	-	(5.9)	(0.9)
Net book value at March 31, 2012	$ 47.3	$ 29.8	$ 110.2	$ 187.3	$ 115.7

If land was stated on an historical cost basis, the carrying value would be as follows:

	March 31, 2012	December 31, 2011
Cost	$ $81.7	$ $81.6

9. Biological Assets

	Three months ended March 31, 2012	2011
Carrying value at beginning of period	$ 59.4	$ 77.7
Acquisition of biological assets in the period	5.6	-
Disposition of biological assets in the period	(2.6)	(15.6)
Change in fair value less costs to sell	(1.2)	-
Change in fair value resulting from growth and pricing	0.5	0.4
Harvested timber transferred to inventory during the period	(0.6)	(1.0)
Carrying value at end of period	$ 61.1	$ 61.5

Under IAS 41, *Agriculture*, the Company's private timberlands are classified as a growing forest, with the standing timber recorded as a biological asset at fair value less costs to sell at each reporting date, and the underlying land considered a component of property, plant and equipment, which the Company has elected to record at fair value at each reporting date (Note 8).

At March 31, 2012, standing timber comprised approximately 25,445 hectares (December 31, 2011: 25,484 hectares), which range from newly planted cut-blocks to old-growth forests. During the first quarter of 2012 the Company harvested and scaled approximately 84,535m^3 of logs from its private timberlands, which had a fair value less costs to sell of $6.1 million at the date of harvest (three months ended March 31, 2011: 111,844m^3 and $8.2 million, respectively).

The financial risks associated with standing timber are mitigated by the geographical diversification of the asset and management strategies including fire management strategies and regular inspection for pest infestation.

The acquisition and disposition of biological assets in the first quarter of 2012 relates to an exchange with the Province of British Columbia (the "Province") of a parcel of the Company's private timberlands on Northern Vancouver Island for Crown timberlands in the same area. The purpose of the exchange was to preserve the significant recreational and biological value of the land given to the Province. The disposition reflected in the first quarter of 2011 primarily related to the sale of properties to TimberWest Forest Corp.

10. Revolving Credit Facility

The Company's revolving credit facility provides for a maximum borrowing amount of $125.0 million, subject to a borrowing base which is primarily based on eligible accounts receivable and inventory balances. The facility bears interest at Canadian Prime plus 0.5% (if availability exceeds $40.0 million) or 0.75% (if availability is less than $40.0 million) or at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus 2.25% or 2.50%, dependent on the same availability criteria. The revolving credit facility matures on December 14, 2015 subject to any future refinancing requirements of its revolving term loan. During the first quarter of 2012, $8.9 million was repaid on the facility and at March 31, 2012 the facility was unused (December 31, 2011: $8.9 million). At March 31, 2012, $88.8 million of the facility was available to the Company. The interest rate for the revolving credit facility was 3.50% at March 31, 2012 (December 31, 2011: 3.50%).

11. Long-Term Debt

At March 31, 2012, $59.1 million was outstanding on the Company's $75.0 million revolving term loan, which matures June 14, 2013. The loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate, and (ii) the 30 day Banker's Acceptance rate plus 1.35%, plus the applicable index rate margin, or at the Company's election, the applicable Banker's Acceptance rate, plus the applicable BA rate margin. The applicable index rate margins range from 2.75% to 5.00% and the applicable BA rate margins range from 3.75% to 6.00%. The applicable margin is grid-based, determined quarterly, based on a leverage ratio calculated as the ratio of total debt to EBITDA for the trailing twelve months ending on the date of determination. The interest rate for the revolving term loan was 5.75% at March 31, 2012 (December 31, 2011: 5.75%).

The Company was in compliance with its financial covenants at March 31, 2012.

	March 31, 2012	December 31, 2011
Canadian dollar debt		
Revolving term loan	$ 59.1	$ 59.1
Less transaction costs	(0.5)	(0.6)
	58.6	58.5
Less current portion	-	-
	$ 58.6	$ 58.5

12. Silviculture Provision

The Company has a responsibility to reforest timber harvested under various timber rights. Changes in the silviculture provision are as follows:

	Three months ended March 31	
	2012	2011
Silviculture provision, beginning of period	$ 30.9	$ 27.3
Silviculture provision charged	2.4	2.1
Silviculture work payments	(1.8)	(0.8)
Disposition of intangible assets	-	(0.4)
Unwind of discount	0.1	0.1
Silviculture provision, end of period	31.6	28.3
Less current portion	12.3	12.0
Less portion held for sale (Note 21)	1.4	-
	$ 17.9	$ 16.3

13. Other Liabilities

	March 31, 2011	December 31, 2011
Employee post-retirement benefits obligation (Note 14)	$ 30.3	$ 28.8
Environmental accruals	1.5	1.5
Other	1.1	1.3
	$ 32.9	$ 31.6

14. Employee Post-Retirement Benefits

Employee post-retirement benefit expense for both the defined benefit salaried pension and non-pension plans recognized in cost of goods sold is as follows:

	Three months ended March 31	
	2012	2011
Current service costs	$ 0.1	$ 0.1
Interest costs	1.5	1.6
Expected return on plan assets	(1.4)	(1.6)
Cost of defined benefit plans	0.2	0.1
Cost of defined contribution plans	2.3	2.1
Total cost of employee post-retirement benefits	$ 2.5	$ 2.2

The amounts recognized in the statement of financial position for the Company's employee post-retirement benefit obligations, consisting of both the defined benefit salaried pension and other non-pension benefits are as follows:

	March 31, 2012	December 31, 2011
Present value of funded obligations	$ (130.5)	$ (125.8)
Fair value of plan assets	100.2	97.0
Liability recognized in the balance sheet	$ (30.3)	$ (28.8)

The change in the liability recognized in the statement of financial position at March 31, 2012 was based on the actuarial gains or losses resulting from estimated changes in the discount rate used to value the defined benefit obligations and estimated differences in actual compared to expected returns on plan assets for the quarter. The change in discount rates in the first quarter of 2012 was a decrease of 0.4% from the rate used at December 31, 2011 of 5.0%, and the estimated actual return on assets in the quarter was 4.0% which was calculated using on the actual returns for January and February, and an estimate for March based on the index returns for the target asset mix of the related plans.

15. Share Capital

Issued and outstanding Common and Non-Voting Shares are as follows:

	Number of Common Shares	Amount	Number of Non-Voting shares	Amount
Balance at March 31, 2012	129,105,623	$412.5	338,945,860	$187.5
Balance at December 31, 2011	128,625,623	$412.3	338,945,860	$187.5

Share-based payment transactions

The Company has an incentive stock option plan (the "Option Plan"), which permits the granting of options to eligible participants to purchase up to an aggregate of 10,000,000 Common Shares.

Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one Common Share, subject to adjustments, at a price of not less than the closing price of the Common Shares on the Toronto Stock Exchange ("TSX") on the day immediately preceding the grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant.

In the first quarter of 2012, the Company granted 1,800,000 options with a fair value of $1.0 million as determined by the Hull-White option pricing model using the assumptions of a weighted average exercise price $0.95, risk free interest rates within a range of 1.48% to 2.05%, volatility rates of between 59.4% to 63.5% and an expected life of between 6 and 10 years. These options are only exercisable when the share price exceeds $0.70 for 60 consecutive days on a volume weighted average price basis. All options outstanding that were granted prior to 2010 do not contain the minimum price requirement and continue to be valued under the Black-Scholes model.

Also, during the first quarter of 2012, 480,000 options were exercised. At March 31, 2012, 7,761,795 options were outstanding under the Company's Option Plan with a weighted average exercise price of $0.79 per Common Share. During the three months ended March 31, 2012 the Company recorded compensation expense of $0.2 million (2011: $0.1 million).

The Company also has a Deferred Share Unit ("DSU") Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs and executives 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 executive 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. During the first quarter of 2012, designated executive officers were allotted 116,163 DSUs at a price of $0.99 per DSU and a further 25,202 DSUs were granted to a director at a weighted average price of $0.98 per DSU. The cumulative number of DSUs outstanding at March 31, 2012 was 964,596 (December 31, 2011: 823,231). During the first quarter of 2012, the Company recorded compensation expense for these DSUs of $0.2 million (2011: $0.5 million), with a corresponding increase to accounts payable and accrued liabilities.

16. Commitments and Contingencies

(a) Long-term fibre supply agreements

Certain of the Company's long term fibre supply agreements with third parties have minimum volume requirements and may, in the case of a failure to produce the minimum volume, require the Company to conduct whole log chipping, source the deficiency from third parties at additional cost to the Company or pay the party to the fibre supply agreement a penalty calculated based on the provisions contained in the relevant agreement. Should Western take significant market related curtailments in its sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet its contractual obligations.

The Company had met all fibre commitments as at December 31, 2011 and based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2012.

(b) Lumber duties

On January 18, 2011 the United States initiated arbitration proceedings with Canada under the Softwood Lumber Agreement ("SLA") over its concern that the province of British Columbia ("BC") has misapplied or altered its timber pricing rules and as a result has charged too low a price for certain timber harvested on public lands in the BC interior. In August, 2011 the United States filed a detailed statement of claim with the arbitration panel. Canada delivered its initial response to the United States claim in November 2011. A hearing before the arbitration panel took place in February 2012 with a final decision expected in the second half of 2012.

It is not possible to predict the outcome of the claims, or whether they would potentially have any impact on Western since they are specifically directed at practices in the interior of British Columbia, and Western operates predominantly on the coast of British Columbia.

17. Financial Instruments

Certain of the Company's sales transactions are denominated in foreign currencies, principally, the US dollar and Japanese Yen ("JPY"), and accordingly the Company is exposed to currency risk associated with changes in foreign exchange rates. To mitigate this foreign exchange risk, the Company entered into an agreement dated March 31, 2009 with BAM to provide a foreign exchange facility ("Facility") to the Company. The Facility provides for a notional amount of up to US $80.0 million, matures on March 31, 2013, and allows for forward transactions with a maximum term for each transaction of one year. The Facility automatically extends for one year on each anniversary date, provided that BAM has not notified the Company of its intention to cancel the facility at least 30 days prior to the anniversary date and subject to certain change of control provisions. The Facility is unsecured and is subject to an annual fee of 0.10% of the maximum notional amount. The Company does not consider the counter party credit risk associated with this Facility to be significant.

As at March 31, 2012, the Company had outstanding obligations to sell an aggregate JPY 3,600 million at an average rate of JPY 79.73 per CAD with maturities through December 31, 2012, and an aggregate US $24.0 million at an average rate of US $1.0004 per CAD with maturities through May 31, 2012. All foreign currency gains or losses to March 31, 2012 have been recognized in revenue for the period and the fair value of these instruments at March 31, 2012 was a net asset of $1.3 million, which is included in accounts receivable on the statement of financial position (December 31, 2011: net liability of $2.8 million included in accounts payable and accrued liabilities). A net loss of $0.3 million was recognized on contracts which were settled in the three months ended March 31, 2012 (2011: net gain of $1.1 million), which was included in revenue for the period.

18. Other Income (Expenses)

Other income of $1.0 million in the first quarter of 2012 (2011: other expenses of $0.5 million) relates primarily to net gains on asset sales of $1.1 million.

In the first quarter of 2011, other expenses of $0.5 million included net losses on non-core asset sales of $0.8 million, a gain on the sale of an equity interest in certain real estate properties of $2.4 million, an expense incurred of $2.5 million to secure amendments to the terms of certain contractual arrangements, and other items totaling income of $0.4 million.

19. Expenses by Function

	Three months ended March 31,	
	2012	2011
Administration	$ 5.3	$ 4.3
Distribution expenses	27.6	24.8
Cost of goods sold	188.1	144.9
	$ 221.0	$ 174.0

Distribution expenses comprise selling expenses, freight costs and export taxes.

20. Other Expense Information

The Company recorded total employee compensation costs for the three months ended March 31, 2012 of $48.5 million (2011: $42.9 million). This increase is largely reflective of higher operating levels in all areas of our business.

Total amortization expense for the three months ended March 31, 2012 was $6.8 million (2011: $5.6 million).

21. Assets Held For Sale

The assets and liabilities related to Tree Farm License 60 ("TFL 60") are presented as a disposal group held for sale following the Company reaching an agreement on October 11, 2011 to sell TFL 60 to Taan Forest Limited Partnership ("Taan"). Taan is a partnership of the Council of the Haida Nation and Haida Enterprise Corporation, the business arm of the Haida Nation. Under the terms of the sale, Western is to receive net proceeds of approximately $11.6 million and certain ongoing rights to cedar logs harvested by Taan. Taan will assume substantially all of the obligations of Western on Haida Gwaii. The major classes of assets and liabilities classified as held for sale comprise property plant and equipment ($1.8 million), intangible assets ($9.6 million), and silviculture liabilities ($1.4 million). Subsequent to the quarter end, Taan has paid additional deposits with respect to the transaction which now total $4.5 million. Of this amount, $3.9 million is non-refundable, with $2.6 million being paid to the Company and the balance of the non-refundable amount of $1.3 million is held in trust. The sale is now expected to close before the end of the second quarter of 2012.

22. Subsequent event

In April 2012, the US Lumber Coalition ("Coalition") has claimed that the BC government has been undercharging the coastal forestry industry for timber harvested on crown lands and is questioning the accuracy of BC's market pricing system ("MPS"). The Coalition has taken the issue to the office of the US Trade Representative, which has in turn written to the Ministry of Forests to enquire as to the status of the update of the Coast MPS. The Coast MPS was introduced in 2004 and updated in 2007 and 2009. There is no time requirement in the SLA as to when updates occur. The Ministry has not responded to the US Trade Representative and technical work is ongoing. Due to the preliminary nature of this situation there is no evidence of the existence of any potential liability, and so no amount has been provided for it in the March 31, 2012 financial statements.

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