Western Forest Products Inc.

2012 Second Quarter Report

July 31, 2012

To our Shareholders,

Operationally the second quarter was executed well. Sales volumes, production, and productivity all improved. Despite weather impacts, we maximized margin available by expediting the delivery of logs to our sawmills, producing the mix of lumber products demanded by our customers. Prices in the export log, pulp log, and sawmill by-product markets were significantly lower than last year and demand from Japan was slightly weaker. Despite these challenges, our focus on margin delivered our eleventh straight quarter of positive EBITDA.

Q2 2012 financial highlights are as follows:

- Q2 sales revenue of $253.1 million; highest total since Q2 2007
- Q2 2012 EBITDA of $20.4 million; cash provided by operations was $19.2 million
- Completed $12.2 million sale of TFL 60
- Net debt reduced to $29.9 million at the end of the quarter
- Increased term debt facility to $110.0 million, extended to June 2016 at favourable rates
- Liquidity increased to $175.5 million from $112.1 million at the end of 2011

As a result of our continued operational focus, the quarter resulted in several achievements including:

- Log production increased by 9% over last year to 1.8 million m3
- Lumber sales volume increased by 12% over Q2 2011
- Mill productivity levels increased by 6% over the second quarter of 2011 (conversion costs decreased by 3%)
- Announced a $6.7 million investment in auto grading technology for our Alberni Pacific sawmill

We are pleased to announce the appointment of Don Demens as President of the Company. Don has been instrumental in the turnaround of Western. Under his leadership we have seen a change in business culture with a strong focus on margin. This appointment positions Western with a strong succession framework to build the future of the company.

We performed well despite little improvement in some of our markets. The EBITDA result of $20.4 million is an improvement over our first quarter result of $9.3 million and marginally lower than the second quarter a year ago. This reflects increased operating levels, higher sales volumes, improvements in mill productivity levels, and exchange rates. However, margins were pressured as we experienced the negative impacts of reduced selling prices for pulplogs, export logs and by products, and higher logging costs compared to last year. If prices for these products had been at the same levels as 2011, we would have generated an additional $15 million in EBITDA.

Markets remain soft and are not expected to improve significantly through the back half of the year. While we are encouraged by recent activity in the US housing market we believe it will take some time for demand to improve enough to have a material impact on the markets we service. We are, however, seeing improved demand in China for our lumber products compared to earlier in the year. Aligning production with demand remains key to maintaining product pricing and sales volumes.

We continued with our strategic plan, including $23 million in investments announced so far this year. Ordering of equipment has begun, which will position Western to be more competitive in the global marketplace. More announcements of capital investments can be expected throughout the year. In particular, our management team and Board of Directors are turning their attention to projects such as a second phase at Saltair sawmill, which will result in an additional $22 million in investment.

Western's safety results continue to trend in a positive direction but tragically, one of our contractors operating the Gold River area sustained a fatality since our last report. We continued to take proactive steps with our contractors in the past year; reviewing areas of concern and implementing programs to directly improve results.

This terrible incident reinforces the need for us to drive our safety message through all parts of our business, and that of our independent contractors.

We are pleased to see the results of our strategic business plan and the continued focus on margin are showing positive results in all parts of the company. Markets continue to remain challenging. Our performance management program and strategic capital investment continue to improve our position during these tough markets and will position us for strong results when log and lumber markets return.

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 and six months ended June 30, 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 and six months ended June 30, 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 International Financial Reporting Standards ("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.

Unless otherwise noted, the information in this discussion and analysis is updated to July 31, 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.

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

Summary of Selected Quarterly Results[1]

(millions of dollars except per share amount)	Three months ended June 30		Six months ended June 30	
	2012	2011 Restated[(2)]	2012	2011 Restated[(2)]
Revenue	$ 253.1	$ 218.7	$ 476.5	$ 399.5
EBITDA	20.4	21.2	29.7	34.2
EBITDA as % of revenue	8.1%	9.7%	6.2%	8.6%
Operating income prior to restructuring items and other expenses	13.1	14.0	15.5	20.8
Net income from continuing operations	12.7	11.6	14.8	15.7
Net income for the period	12.3	11.4	14.2	15.2
Basic and diluted earnings per share (in dollars)	$ 0.03	$ 0.02	$ 0.03	$ 0.03

(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 10.

Overview

Second quarter 2012

During the second quarter of 2012, the Company grew total revenue to $253.1 million, our highest quarterly figure since the second quarter of 2007. A $22.0 million increase in lumber revenue over the second quarter 2011 is mainly a function of higher shipment volumes, and a 3% increase in the average realized selling price of lumber in the current quarter. Log revenue was also strong, driven primarily by increased domestic and export log demand. To support the increased product sales levels, production of logs, lumber and by-products all increased over the same quarter in 2011, including lumber productivity per shift increasing by 6% from the same quarter one year ago.

This sales growth was achieved in what continues to be challenging market conditions. Despite some positive economic news in the US recently, only modest growth in the US housing market is expected for the remainder of 2012. The economic outlook for China has softened somewhat from the previous year, while markets in Japan are just starting to show signs of a recovery.

The second quarter EBITDA result of $20.4 million is an improvement over our first quarter result of $9.3 million and marginally lower than the $21.2 million reported in the second quarter a year ago. The second quarter of 2012 saw both production and productivity increase from the same quarter a year ago, while product inventories finished lower. We were able to maximize margin in the quarter by focusing on the cedar market, expediting the delivery of logs though our sawmills, and improving net selling prices in our commodity business.

However, EBITDA margins for the second quarter of 2012 have decreased by 1.6% from the second quarter 2011 level. The lower EBITDA margin was largely a result of reduced pricing on export and pulp logs, higher costs in our timberlands operations, lower by-product pricing and increased selling and administration expenses. Partially offsetting this was the benefit of higher average lumber selling prices and lower conversion costs in our manufacturing facilities.

The EBITDA for the three months ended June 30, 2011 was restated to $21.2 million, a decrease of $0.7 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.

Net income for the second quarter of 2012 was $12.3 million, an increase of $0.9 million over the net income of $11.4 million a year earlier, and an increase of $10.4 million over the net income in the previous quarter. The increase in net income in the second quarter of 2012 compared to the same quarter a year ago is principally due to the inclusion of gains on asset sales this quarter of $1.6 million, together with slightly lower finance costs compared to the second quarter last year.

Year to date, June 30, 2012

Net income for the first six months of 2012 was $14.2 million, which compares to net income in the first six months of 2011 of $15.2 million. EBITDA for the current six months is $4.5 million less than for the first six months of 2011. Partially offsetting this decrease in EBITDA is an increase in other income of $3.2 million (mainly as a result of gains on property sales in the current period), and lower finance costs in the six months to June 30, 2012.

On June 28, 2012, Western closed the previously announced sale of 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. Under the terms of the sale, Western received net proceeds of approximately $12.2 million. Cash of $10.2 million has now been received, and the remaining $2.0 million is in the form of a promissory note, payable within 24 months of closing. Western also retains a right of first refusal on a certain quantity of cedar logs harvested by Taan over the next 24 months. Taan will assume substantially all of the obligations of Western on Haida Gwaii.

On June 29, 2012, Western announced an agreement to refinance its existing revolving term loan facility with improved terms. Under the terms of the refinanced revolving term loan agreement, availability on Western's existing $75.0 million revolving term loan has been increased to $110.0 million. In addition, pricing for the revolving term loan has improved, and maturity of the facility is now June 29, 2016.

As part of the Company's strategic capital plan, Western announced a $16.0 million investment in the Saltair sawmill in February, 2012. This project will make Saltair the largest single line sawmill operating on the coast of British Columbia and will provide upgrades to the edgers, stackers and sorters. The upgrades will increase production by approximately 15%, improve lumber recovery, lower our unit cost of production, and increase our ability to provide a greater variety of products to our customers. To the end of the second quarter 2012, $2.3 million had been spent on the project and a further $9.8 million has been committed. We expect the work to be completed on this phase by the second quarter of 2013.

In July 2012, Western announced an investment of $6.7 million for the installation of automated lumber grading technology into the Alberni Pacific Division planer mill in Port Alberni, BC. The equipment is expected to deliver a significant increase in operating speeds, improve lumber grades, and increase lumber recoveries. This project is expected to be complete by the end of the first quarter of 2013.

Our liquidity position at June 30, 2012 increased to $175.5 million from $114.9 million at the end of the previous quarter, and from $112.1 million at December 31, 2011. The increase at June 30, 2012 is primarily because of the aforementioned refinancing, increased cash generated from operations, and the cash proceeds received from the sale of TFL 60.

Operating Results

Revenues

	Three months ended June 30		Six months ended June 30	
(millions of dollars)	2012	2011	2012	2011
Lumber	$ 165.5	$ 143.5	$ 322.7	$ 272.5
Logs	73.0	57.8	124.9	94.1
By-products	14.6	17.4	28.9	32.9
Total revenues	$ 253.1	$ 218.7	$ 476.5	$ 399.5

Second quarter 2012

Lumber revenue for the second quarter of 2012 increased by 15% compared to the second quarter of 2011, primarily due to higher shipment volumes. Lumber shipment volumes increased by 11% to 234 million board feet in the second quarter of 2012 from 210 million board feet in the second quarter of 2011. The geographic destination of the lumber changed this quarter with relatively less lumber being shipped to Japan and China and a corresponding increase in the percentage of product sold in the US and domestic Canadian markets. In the current quarter, 38% of our sales were to the Canadian market, 22% to China, 20% to Japan, and 16% to the US. This shift in volume reflects both a weaker Japanese market and highlights our ability to redirect volume into the domestic market for treating and industrial oil-patch uses to generate higher margins.

In the second quarter of 2012, our overall average lumber price realized was approximately 3% higher at $707 per thousand board feet, compared to $684 per thousand board feet 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 and cypress prices, which were approximately 6% and 12% higher, respectively, in the current quarter. Our lumber sales mix in the current quarter changed marginally with approximately 1% more hemlock and western red cedar sales and 2% less douglas fir sales this quarter compared to the second quarter of 2011. The improvement in realized prices also reflects the beneficial effects of the weaker Canadian dollar on both US dollar and Japanese Yen denominated sales.

Log revenue in the second quarter of 2012 increased by 26% compared to the same quarter last year. The increase is due to a 35% increase in the volume of logs sold, but was partly offset by the average log prices realized in the second quarter of 2012 being 4%, or $3 per cubic metre, lower than a year ago. Overall log demand in our external markets for the quarter was higher relative to a year ago, with all categories showing increases. Although market conditions in China have softened from 2011, we continue to sell at higher volumes than 2011, but at modestly lower prices. Domestic pulplog sale volumes are approximately 19% higher than the second quarter last year, but prices are 14% lower this year. Prices for pulplogs last year were higher because of log shortages and relatively high pulp prices. Cedar shingle log prices were again higher this quarter compared to 2011 as a result of higher demand for roofing materials. Prices of cedar shingles were approximately 50% higher at the start of the second quarter this year compared to last year.

By-product revenues decreased by $2.8 million, or 16%, in the current quarter compared to the second quarter of 2011. While chip volumes sold in this quarter were 2% higher than the second quarter last year, prices received for the chips were on average 18% lower this quarter 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 compared to the same quarter in 2011 which resulted in the lower chip prices.

EBITDA

EBITDA of $20.4 million for the second quarter of 2012 compares closely to EBITDA in the same quarter last year of $21.2 million and to $9.3 million in the first quarter of 2012. The EBITDA for the second quarter of 2012 reflects increased operating levels, higher sales volumes for most products and improvements in mill productivity levels compared to the second quarter of 2011. In addition, the second quarter 2012 results benefited from the relative weakening of the Canadian dollar against both the US dollar and the Japanese Yen, compared to the same quarter last year. However, these positive variances were offset by the negative impacts in the current quarter of lower log sale margins, lower chip prices, and higher selling and administrative expenses. Lower log sales margins are reflective of lower selling prices for both domestic and export logs, and an increase in logging costs over the same period last year.

Our operations increased production levels to meet increased demand for our products. In the case of our timberlands operations, logging operations increased harvested production by 9% in the current quarter compared to the same quarter in 2011. This required extending operations into areas with higher cost implications reflecting both location and terrain, greater use of higher cost road building and increased heli-logging. Logging costs were also higher in the quarter due to working in poor winter weather conditions in the preceding quarter which flowed through inventory into the second quarter results. The operating results for the second quarter of 2012 included lower shutdown costs by $1.1 million compared to those incurred in the second quarter of 2011.

Lumber production was 8% higher in the second quarter of 2012 compared to the second quarter of 2011. Our sawmills operated at 88% of capacity, on a shifts available basis, in the second quarter of 2012 compared to 86% of capacity in the same quarter of 2011. The majority of this increase in operating capacity relates to the Duke Point mill which ran for part of the quarter in 2012 but did not run during the second quarter 2011. Our mills, on average, increased productivity, as measured on a production volume per shift basis, by 6% in the current quarter compared to the same quarter in 2011, with the majority of mills contributing to this increase. In addition, conversion costs of lumber produced by our primary sawmills in the second quarter of 2012 decreased by 3% 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. This improvement was tempered by the effects of downtime taken at our Alberni Pacific mill due to poor market conditions in Japan.

Our operating results for the second quarter of 2012 were positively impacted by a weakening of the average value of the Canadian dollar relative to both the US dollar and Japanese Yen compared to the second quarter of 2011, by 4% and 7%, respectively. This increased our Canadian dollar proceeds received on US dollar denominated sales (a high percentage of our lumber sales are denominated in US dollars, including those to China), and also on Yen denominated sales. Western mitigates its foreign exchange risk associated with sales transactions denominated in US dollars and Japanese Yen by utilizing forward currency transactions. As at June 30, 2012, Western had obligations to sell an aggregate Yen 2,700 million and $US 20.0 million. As a result of the exchange rate movements over the quarter, net realized and unrealized losses of $0.9 million were recorded on these foreign currency contracts (2011: $0.5 million).

Total freight costs were $25.1 million in the second quarter of 2012, which compared to the second quarter of 2011 costs of $24.1 million. Our lumber shipment volumes have increased by 11% in the current quarter compared to the second quarter of 2011, but freight charges were increased by only 4%. This is mainly because of a change in the geographic distribution of our sales, and lower rates negotiated for shipments to China.

Selling and administration costs increased by $0.7 million to $7.4 million in the current quarter compared to $6.7 million in the same quarter of 2011, mainly because of increased salary costs and higher consulting costs, primarily associated with projects to enhance the quality of our management and sales information in the current quarter.

Year to date, June 30, 2012

Total revenues for the first six months of 2012 were $476.5 million, an increase of 19% over the revenues for the same period in 2011. The increase is the result of higher demand for all our products with volume increases for the current six month period for lumber, logs and chips being 41%, 36% and 9%, respectively.

EBITDA for the first six months of 2012 was $29.7 million compared to $34.2 million earned in the first six months of 2011. EBITDA margins fell from 8.6% to 6.2% as a result. The primary reason for the contraction of the margins has been the decreased log margins due to reduced selling prices of export and most domestic logs, along with increases in our log costs over the respective periods. The cost of our logs in the first six months of 2012 was high as we drew down inventories that carried higher costs incurred in the fourth quarter of 2011.

Non-operating income and costs

Finance costs decreased from $1.8 million in the second quarter of 2011 to $1.6 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 the second quarter of 2011. Also contributing to the reduction is the benefit of lower interest rates on the revolving term loan. Partially offsetting these reductions to finance costs is the inclusion in the current quarter of an expense of $0.4 million relating to the previously deferred financing costs attributable to the pre-June 29, 2012 debt facility. For similar reasons, finance costs for the first six months of 2012 of $2.9 million were lower than the $3.7 million incurred for the first six months a year ago.

Other income of $1.6 million for the second quarter of 2012 compares to a net expense of $0.1 million in the second quarter of 2011. The current quarter income includes gains on asset disposals, primarily $1.5 million associated with the sale of TFL 60.

Financial Position and Liquidity

(millions of dollars except where noted)	Three months ended June 30 2012	Three months ended June 30 2011	Six months ended June 30 2012	Six months ended June 30 2011
Cash provided by (used in) operating activities	$ 19.2	$ (9.6)	$ 27.8	$ 25.5
Cash provided by (used in) investing activities	1.1	(0.9)	(2.5)	21.5
Cash used in financing activities	(1.1)	(13.7)	(11.0)	(47.3)
Cash used to construct capitalized logging roads	(3.4)	(2.1)	(5.1)	(3.1)
Cash used to acquire property, plant and equipment	(5.9)	(1.5)	(7.8)	(3.4)

	June 30, 2012	December 31, 2011
Total liquidity[(1)]	$ 175.5	$ 112.1
Net debt [(2)]	29.9	52.1
Financial ratios:		
Current assets to current liabilities	2.42	2.30
Net debt to capitalization[(3)]	0.08	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 second quarter of 2012 amounted to $19.2 million compared to cash used of $9.6 million in the same period last year. The positive swing of $28.8 million is largely driven by the relative movements on investment in working capital in the two quarters. The significant change was caused by the difference in the net working capital at the end of the first quarter of the respective years, mostly relating to the low receivables balance at the end of March 2011. Despite higher sales revenue, our net investment in inventories, receivables and payables at the end of the second quarter of 2012 was consistent with that at the end of the second quarter of 2011.We have particularly improved our log scheduling, allowing us to increase the turns of our log inventory.

Cash used for additions to property, plant and equipment in the second quarter of 2012 was $9.3 million compared to $3.6 million in the second quarter of 2011. In the current quarter, additions comprised $3.4 million of additions to logging roads and bridges, $3.0 million on maintenance capital (primarily mobile equipment replacements/upgrades), and $2.9 million was invested in strategic capital projects. The strategic spend mainly relates to the Saltair sawmill stacker and sorter project.

The Company received net proceeds of $10.4 million from the sale of assets in the second quarter of 2012, of which $10.2 million relates to the sale of TFL 60 as previously discussed in the Overview section. 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 June 30, 2012, Western's total liquidity increased to $175.5 million from $112.1 million at the end of 2011 and from $111.7 million at June 30, 2011. At June 30, 2012, liquidity was comprised of cash of $29.0 million and availability under the revolving credit facility and revolving term loan of $96.5 million and $50.0 million, respectively. The increase in liquidity compared to June 30, 2011 was primarily due to the additional $35.0 million now available under the recently revised financing agreement, and the cash received from the sale of

TFL 60. In addition, an increase in borrowing base assets, specifically, eligible accounts receivable and inventory, resulted in an 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. For the quarter ended June 30, 2011 the policy change resulted in a decrease to cost of goods sold and an increase to earnings of $0.7 million (decrease to cost of goods sold and increase to earnings of $4.1 million year-to-date).

(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 second quarter of 2012.

Outlook and Strategy

Western's strategy of focusing on products that drive the highest margin end use of our fibre resource continued to generate positive financial results in the second quarter of 2012. Despite challenging product markets, Western has maintained a disciplined approach to improving product margins, allowing us to generate positive EBITDA and grow our revenue. The second quarter is typically our highest lumber sales quarter as demand peaks during the building season, followed by some slowdown in the third quarter as construction activity winds up and the threat of forest fires in our Timberlands operations potentially reduces log supply. Looking ahead to the third quarter, management remains focused on the four key lumber segments: Western Red Cedar, Commodity (which includes China), Japan, and Niche.

During the first half of the year, a tight cedar log supply supported increased pricing and our ability to supply the product has led to an increased market share for Western. Our third quarter outlook is for the current market tightness to ease somewhat, as the coastal harvest increased during the second quarter of 2012, and cedar demand seasonally falls in the third quarter. We anticipate prices to hold into the third quarter until supply catches up with demand.

In the commodity markets, lumber demand in China has improved from the early part of 2012. Although the economic outlook for China appears less robust in 2012 compared to recent years, our lumber volumes are basically flat year over year. Spruce, pine, fir (SPF) prices peaked at the beginning of June, and this has improved our ability to push prices locally and in China. We are seeing opportunities in domestic markets for our commodity products in higher margin specialty industrial uses, which allows for better diversification of our commodity products.

The US housing market, while still at low historical start levels, appears to have started a slow and 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 to still be a few years off.

Japanese market demand has been soft for the first half of the year, and is historically weak from March through August. We would expect a modest upturn in demand to materialize by September, and are starting to see signs of a recovery as indicated by an increase in customer inquiries. However, with increased competition in the market resulting from softness in demand in China, Japan could prove to be a challenging market.

The North American market for Niche appearance lumber remains soft, with year over year volumes flat. We do not foresee a significant change in North American niche sales in the third quarter as our customer base appears to have sufficient inventories to restrict demand. We will continue to reposition some of our shop and better production to other geographical areas to generate improved margins.

Despite the current uncertainty in lumber product markets heading into the third quarter, management is anticipating an eventual long term global market recovery which will lead to a higher demand for our products. To prepare for this recovery, Western is continuing to implement its strategic capital plan which will position the company to be more competitive in the global marketplace. With a strong balance sheet, and the belief that the strategic capital program can be funded by cash generated from operations, we have commenced work on this program as discussed earlier. These projects are expected to further enhance our margins through improved efficiencies and product grades.

In addition to our strategic capital investments, management continues to work 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, of which approximately $5 million has been achieved to date.

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 July 31, 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 an independent committee of the Board of Directors has determined that to do so would not have a material adverse effect on the Company's business, financial condition or business prospects at such time.

Western has reserved 9,520,000 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 July 31, 2012, 6,616,795 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 second quarter of 2012, the Company paid entities related to BAM $1.8 million ($5.1 million year-to-date), and received income from related entities of $2.0 million ($3.3 million year-to-date) 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,

July 31, 2012

Management's Discussion and Analysis – Appendix A

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

	2012		2011				2010	
(millions of dollars except per share amounts and where noted)	2nd	1st	4th	3rd	2nd	1st	4th	3rd
Average Exchange Rate – Cdn $ to purchase one US $	1.010	1.001	1.023	0.980	0.968	0.986	1.013	1.039
Revenues								
Lumber	165.5	157.2	147.4	141.2	143.5	129.0	118.1	123.7
Logs	73.0	51.9	60.2	77.3	57.8	36.3	38.8	39.1
By-products	14.6	14.3	13.1	15.0	17.4	15.5	15.7	12.7
Total revenues	253.1	223.4	220.7	233.5	218.7	180.8	172.6	175.5
Lumber								
Shipments – millions of board feet	234	220	209	209	210	183	168	165
Price – per thousand board feet	707	716	705	676	684	705	703	750
Logs								
Shipments – thousands of cubic metres	1,020	699	853	1,078	755	504	646	642
Price – per cubic metre(1)	69	72	69	68	72	68	60	61
Selling and administration	7.4	7.8	6.9	6.4	6.7	6.6	7.6	5.8
EBITDA(2)	20.4	9.3	11.6	15.8	21.2	13.0	2.8	12.3
Amortization	(6.9)	(6.8)	(5.7)	(6.0)	(6.7)	(5.6)	(5.2)	(5.5)
Changes in fair value of biological assets	(0.4)	(0.1)	(0.9)	(0.6)	(0.5)	(0.6)	(0.8)	0.6
Reversal of impairment	-	-	-	-	-	-	18.5	-
Operating restructuring items	(0.4)	-	0.2	(0.3)	(0.3)	(0.3)	(0.1)	(0.6)
Finance costs	(1.6)	(1.3)	(1.4)	(1.5)	(1.8)	(1.9)	(2.8)	(3.5)
Other income (expenses)	1.6	1.0	(0.3)	(1.9)	(0.1)	(0.5)	6.3	(0.3)
Income taxes recovery (expense)	-	-	0.1	0.1	(0.2)	-	0.6	(0.1)
Net income from continuing operations	12.7	2.1	3.6	5.6	11.6	4.1	19.3	2.9
Net loss from discontinued operations	(0.4)	(0.2)	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
Net income	12.3	1.9	3.3	5.3	11.4	3.8	19.0	2.6
EBITDA as % of revenues	8.1%	4.2%	5.3%	6.8%	9.7%	7.2%	1.6%	7.0%
Earnings per share:								
Net income, basic and diluted	0.03	-	0.01	0.01	0.02	0.01	0.04	0.01
Net income from continuing operations, basic and diluted	0.03	-	0.01	0.01	0.02	0.01	0.04	0.01

(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 10 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 second quarter of 2012, third quarter of 2011 and the fourth quarter of 2010.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2012 and 2011

Western Forest Products Inc.

Condensed Consolidated Statements of Financial Position

(Expressed in millions of Canadian dollars) (unaudited)

	June 30, 2012	December 31, 2011 [Restated - Note 3(a)]
Assets		
Current assets:		
Cash and cash equivalents	$ 29.0	$ 15.3
Trade and other receivables	84.0	64.4
Inventory (Notes 7 and 3(a))	127.0	132.6
Prepaid expenses and other assets	7.5	6.5
	247.5	218.8
Non-current assets:		
Property, plant and equipment (Note 8)	190.4	190.3
Intangible assets (Note 8)	114.9	116.6
Biological assets (Note 9)	60.7	59.4
Assets classified as held for sale (Note 21)	-	11.5
Other assets	13.7	11.7
	$ 627.2	$ 608.3
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 83.0	$ 66.7
Revolving credit facility (Note 10)	-	8.9
Silviculture provision (Note 12)	12.9	13.3
Discontinued operations (Note 5)	6.3	6.2
	102.2	95.1
Non-current liabilities:		
Long-term debt (Note 11)	58.9	58.5
Silviculture provision (Note 12)	17.7	16.2
Liabilities classified as held for sale (Note 21)	-	1.4
Other liabilities (Note 13)	36.5	31.6
Deferred revenue	67.4	68.4
	282.7	271.2
Shareholders' equity:		
Share capital - voting shares (Note 15)	412.5	412.3
Share capital - non-voting shares (Note 15)	187.5	187.5
Contributed surplus	3.5	3.4
Revaluation reserve	23.9	23.9
Deficit (Note 3(a))	(282.9)	(290.0)
	344.5	337.1
	$ 627.2	$ 608.3

Commitments and Contingencies (Note 16)

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

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

	Three months ended June 30		Six months ended June 30	
	2012	2011 [Restated - Note 3(a)]	2012	2011 [Restated - Note 3(a)]
Revenue	$ 253.1	$ 218.7	$ 476.5	$ 399.5
Cost and expenses:				
Cost of goods sold (Note 3(a))	205.4	172.0	393.5	316.9
Export tax	2.1	1.9	4.1	3.3
Freight	25.1	24.1	48.2	45.2
Selling and adminstration	7.4	6.7	15.2	13.3
	240.0	204.7	461.0	378.7
Operating income prior to restructuring items and other expenses	13.1	14.0	15.5	20.8
Operating restructuring items	(0.4)	(0.3)	(0.4)	(0.6)
Other income (expenses) (Note 18)	1.6	(0.1)	2.6	(0.6)
Operating income	14.3	13.6	17.7	19.6
Finance costs	(1.6)	(1.8)	(2.9)	(3.7)
Income before income taxes	12.7	11.8	14.8	15.9
Income tax expense	-	(0.2)	-	(0.2)
Net income from continuing operations	12.7	11.6	14.8	15.7
Net loss from discontinued operations (Note 5)	(0.4)	(0.2)	(0.6)	(0.5)
Net income for the period	12.3	11.4	14.2	15.2
Other comprehensive income (loss)				
Defined benefit plan actuarial losses	(4.7)	(3.9)	(7.1)	(1.6)
Total comprehensive income for the period	$ 7.6	$ 7.5	$ 7.1	$ 13.6
Net income per share (in dollars):				
Basic and diluted earnings per share	$ 0.03	$ 0.02	$ 0.03	$ 0.03
Basic and diluted earnings per share - continuing operations	$ 0.03	$ 0.02	$ 0.03	$ 0.03
Weighted average number of shares outstanding				
Basic	468,051	467,571	467,838	467,571
Diluted	475,150	474,013	474,957	473,459

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 June 30		Six months ended June 30,	
	2012	2011 [Restated - Note 3(a)]	2012	2011 [Restated - Note 3(a)]
Cash provided by (used in):				
Operating activities:				
Net income from continuing operations	$ 12.7	$ 11.6	$ 14.8	$ 15.7
Items not involving cash:				
Amortization of property, plant and equipment (Note 8)	6.1	5.8	12.0	10.5
Amortization of intangible assets (Note 8)	0.8	0.9	1.7	1.8
(Gain) loss on disposal of assets	(0.8)	0.3	(3.2)	1.1
Change in fair value of biological assets (Note 9)	0.4	0.5	1.7	1.1
Finance costs	1.6	1.8	2.9	3.7
Other	(3.5)	0.4	(3.1)	2.2
	17.3	21.3	26.8	36.1
Changes in non-cash working capital items:				
Trade and other receivables	(3.0)	(26.6)	(19.6)	(20.2)
Inventory	(1.4)	(16.1)	5.7	(3.7)
Prepaid expenses and other assets	(1.7)	(3.0)	(1.0)	(4.0)
Silviculture provision	0.6	1.1	(0.4)	2.1
Accounts payable and accrued liabilities	7.4	13.7	16.3	15.2
	1.9	(30.9)	1.0	(10.6)
	19.2	(9.6)	27.8	25.5
Investing activities:				
Additions to property, plant and equipment	(9.3)	(3.6)	(12.9)	(6.5)
Proceeds on disposals of assets	10.4	2.7	10.4	28.0
	1.1	(0.9)	(2.5)	21.5
Financing activities:				
Changes in revolving credit facility	-	-	(8.9)	-
Interest paid	(1.0)	(1.1)	(2.2)	(3.4)
Draw down (repayment) of long-term debt	0.9	(12.6)	0.9	(43.8)
Refinancing fees	(1.0)	-	(1.0)	(0.1)
Proceeds from exercise of stock options	-	-	0.2	-
	(1.1)	(13.7)	(11.0)	(47.3)
Cash provided by (used in) continuing operations	19.2	(24.2)	14.3	(0.3)
Cash used in discontinued operations	(0.4)	(0.2)	(0.6)	(0.5)
Increase (decrease) in cash and cash equivalents	18.8	(24.4)	13.7	(0.8)
Cash and cash equivalents, beginning of period	10.2	28.7	15.3	5.1
Cash and cash equivalents, end of period	$ 29.0	$ 4.3	$ 29.0	$ 4.3

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	-	-	-	15.2	15.2
Other comprehensive income:					
Defined benefit plan actuarial losses recognized	-	-	-	(1.6)	(1.6)
Total comprehensive income for the period	-	-	-	13.6	13.6
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 June 30, 2011, as restated (Note 3(a))	$ 599.8	$ 3.1	$ 23.9	$ (288.8)	$ 338.0
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	-	-	-	14.2	14.2
Other comprehensive loss:					
Defined benefit plan actuarial losses recognized	-	-	-	(7.1)	(7.1)
Total comprehensive loss for the period	-	-	-	7.1	7.1
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 June 30, 2012	$ 600.0	$ 3.5	$ 23.9	$ (282.9)	$ 344.5

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 June 30, 2012 and for the three and six months ended June 30, 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 and six months ended June 30, 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 July 31, 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 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.

(Tabular amounts expressed in millions of Canadian dollars)

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. For the quarter ended June 30, 2011 the policy change resulted in an increase to cost of goods sold and a decrease to earnings of $0.7 million (decrease to cost of goods sold and increase to earnings of $4.1 million for the six months ended June 30, 2011).

(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 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 2015 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 June 30		Six months ended June 30	
	2012	2011	2012	2011
Net loss from discontinued operations	$ (0.4)	$ (0.2)	$ (0.6)	$ (0.5)
Cash used in discontinued operations	$ (0.4)	$ (0.2)	$ (0.6)	$ (0.5)
			June 30, 2012	December 31, 2011
Assets of discontinued operations			$ 2.2	$ 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 and six months ended June 30:

(Tabular amounts expressed in millions of Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Costs incurred for:				
Log purchases	$ 0.9	$ 2.7	$ 3.0	$ 4.5
Other	0.9	1.1	2.1	2.2
	$ 1.8	$ 3.8	$ 5.1	$ 6.7
Income received for:				
Log sales	$ 2.0	$ 1.5	$ 3.3	$ 2.0
Other	-	-	-	2.4
	$ 2.0	$ 1.5	$ 3.3	$ 4.4

7. Inventory

The following table summarizes the value of inventory on hand:

	June 30, 2012	December 31, 2011
Logs	$ 84.2	$ 88.3
Lumber	43.4	46.9
Supplies and other inventories	10.9	11.3
Provision for write downs	(11.5)	(13.9)
Total value of inventories	$ 127.0	$ 132.6
Inventory carried at net realizable value	$ 42.9	$ 43.1

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

During the second quarter of 2012, $205.4 million (2011: $172.0 million) of inventory was charged to cost of sales which included an reduction to the provision for write-down to net realizable value of $5.0 million (2011: an increase of $0.1 million).

(Tabular amounts expressed in millions of Canadian dollars)

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 June 30, 2012					
Net book value at December 31, 2011	48.0	31.6	110.7	190.3	116.6
Additions	7.8	5.1	0.5	13.4	-
Disposals	(0.1)	(0.2)	(1.0)	(1.3)	-
Amortization	(5.3)	(6.7)	-	(12.0)	(1.7)
Net book value at June 30, 2012	$ 50.4	$ 29.8	$ 110.2	$ 190.4	$ 114.9

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

	June 30, 2012	December 31, 2011
Cost	$ $81.9	$ $81.6

9. Biological Assets

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Carrying value at beginning of period	$ 61.1	$ 61.5	$ 59.4	$ 77.7
Acquisition of biological assets in the period	-	-	5.6	-
Disposition of biological assets in the period	-	-	(2.6)	(15.7)
Change in fair value less costs to sell	-	-	(1.2)	-
Change in fair value resulting from growth and pricing	0.2	0.5	0.7	0.9
Harvested timber transferred to inventory during the period	(0.6)	(1.0)	(1.2)	(1.9)
Carrying value at end of period	$ 60.7	$ 61.0	$ 60.7	$ 61.0

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 June 30, 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 second quarter of 2012 the Company harvested and scaled approximately 59,200m^3 of logs from its private timberlands, which had a fair value less costs to sell of $4.6 million at the date of harvest (three months ended June 30, 2011: 106,859m^3 and $7.1 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 six months 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 transferred to the

(Tabular amounts expressed in millions of Canadian dollars)

Province. The disposition reflected in the first half 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 June 30, 2012 the facility was unused (December 31, 2011: $8.9 million). At June 30, 2012, $96.5 million of the facility was available to the Company. The interest rate for the revolving credit facility was 3.50% at June 30, 2012 (December 31, 2011: 3.50%).

11. Long-Term Debt

On June 29, 2012 the Company completed the refinancing of its existing revolving term loan facility. Under the terms of the new arrangement, availability under the existing $75.0 million revolving term loan has been increased to $110.0 million. The revised facility has a maturity date of June 29, 2016.

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 which ranges from 1.75% to 3.25%, or at the Company's election, the applicable Banker's Acceptance rate, plus the applicable BA rate margin which ranges from 2.75% to 4.25%. 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 4.75% at June 30, 2012 (December 31, 2011: 5.75%).

	June 30, 2012	December 31, 2011
Canadian dollar debt		
Revolving term loan	$ 60.0	$ 59.1
Less transaction costs	(1.1)	(0.6)
	58.9	58.5
Less current portion	-	-
	$ 58.9	$ 58.5

The $1.1 million of transaction costs relate to the new financing arrangements. These costs are deferred and being amortized to finance costs over the term of the loan using the effective interest rate method. Deferred transaction costs associated with the previous facility have been fully expensed.

The Company was in compliance with its financial covenants at June 30, 2012.

(Tabular amounts expressed in millions of Canadian dollars)

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 June 30		Six months ended June 30	
	2012	2011	2012	2011
Silviculture provision, beginning of period	$ 31.6	$ 28.3	$ 30.9	$ 27.3
Silviculture provision charged	4.1	4.4	6.5	6.5
Silviculture work payments	(3.8)	(3.4)	(5.6)	(4.2)
Disposition of intangible assets	(1.4)	-	(1.4)	(0.4)
Unwind of discount	0.1	0.1	0.2	0.2
Silviculture provision, end of period	30.6	29.4	30.6	29.4
Less current portion	12.9	11.5	12.9	11.5
	$ 17.7	$ 17.9	$ 17.7	$ 17.9

13. Other Liabilities

	June 30, 2012	December 31, 2011
Employee post-retirement benefits obligation (Note 14)	$ 34.1	$ 28.8
Environmental accruals	1.5	1.5
Other	0.9	1.3
	$ 36.5	$ 31.6

14. Employee Post-Retirement Benefits

Employee post-retirement benefit expense for the defined benefit salaried pension, non-pension plans, and defined contribution pension plan are recognized in cost and expenses is as follows:

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Current service costs	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Interest costs	1.5	1.6	3.0	3.2
Expected return on plan assets	(1.4)	(1.6)	(2.8)	(3.2)
Cost of defined benefit plans	0.2	0.1	0.4	0.2
Cost of defined contribution plan	2.5	2.5	4.8	4.6
Total cost of employee post-retirement benefits	$ 2.7	$ 2.6	$ 5.2	$ 4.8

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:

	June 30, 2012	December 31, 2011
Present value of funded obligations	$ (132.1)	$ (125.8)
Fair value of plan assets	98.0	97.0
Liability recognized in the balance sheet	$ (34.1)	$ (28.8)

The change in the liability recognized in the statement of financial position at June 30, 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 second quarter of 2012 was a decrease of 0.6% from the rate used at December 31, 2011 of 5.0%, and the actual return on assets in the quarter was (1.2)%.

(Tabular amounts expressed in millions of Canadian dollars)

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 June 30, 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

Brookfield Special Situations Management Limited 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 an independent committee of the Board of Directors has determined that to do so would not have a material adverse effect on the Company's business, financial condition or business prospects at such time.

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 of $0.95 per Common Share, 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.

During the first quarter of 2012, 480,000 options were exercised, and in the second quarter of 2012 990,000 options were forfeited. At June 30, 2012, 6,771,795 options were outstanding under the Company's Option Plan with a weighted average exercise price of $0.83 per Common Share. During the three and six month periods ended June 30, 2012 the Company recorded compensation expense of $ nil and $0.2 million respectively (2011: $ nil and $0.1 million, respectively).

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 second quarter of 2012 a director was granted 5,623 DSU's at a price of $0.87 per DSU. In 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 June 30, 2012 was 970,219 (December 31, 2011: 823,231). During the three and six month periods ended June 30, 2012, the Company recorded compensation recovery for these DSUs of $0.1 million and an expense of $0.1 million, respectively (2011: compensation recovery of $0.4 million; expense of $0.1 million, respectively), with a corresponding adjustment 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 ("US") initiated proceedings against Canada with the London Court of Arbitration 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 US filed a detailed statement of claim with the arbitration panel. Canada delivered its initial response to the US claim in November 2011. On July 18, 2012 the arbitration panel dismissed in their entirety the claims of the United States that Canada and BC had misapplied its timber pricing practices and so circumvented the SLA.

The US Lumber Coalition (the "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 Coast market pricing system (MPS). The Coalition has taken the issue to the office of the US Trade Representative ("USTR"), 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, however, on July 1, 2012 the Coast MPS was updated and, consistent with the Softwood Lumber Agreement, the USTR has been informed. 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 in the June 30, 2012 financial statements.

17. Financial Instruments

As at June 30, 2012, the Company had outstanding obligations to sell an aggregate JPY 2,700 million at an average rate of JPY 79.97 per CAD with maturities through December 31, 2012, and an aggregate US $20.0 million at an average rate of US $1.0125 per CAD with maturities through August 31, 2012. All foreign currency gains or losses related to currency forward contracts to June 30, 2012 have been recognized in revenue for the period and the fair value of these instruments at June 30, 2012 was a net asset of $0.8 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 $0.8 million was recognized on contracts which were settled in the six months ended June 30, 2012 (2011: net gain of $1.9 million), which was included in revenue for the period.

18. Other Income (Expenses)

Other income of $1.6 million in the second quarter of 2012 (2011: other expenses of $0.1 million) relates primarily to net gains on asset sales, with the most significant being the sale of 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 received net proceeds of approximately $12.2 million, of which $2.6 million had previously been received in the first quarter of 2012, and certain ongoing rights to cedar logs harvested by Taan. Taan assumed substantially all of the obligations of Western on Haida Gwaii. The assets and liabilities associated with this sale were previously presented on the consolidated statements of financial position as held for sale.

(Tabular amounts expressed in millions of Canadian dollars)

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 June 30		Six months ended June 30	
	2012	2011	2012	2011
Administration	$ 7.4	$ 4.4	$ 10.5	$ 8.7
Distribution expenses	27.2	28.3	57.0	53.1
Cost of goods sold	205.4	172.0	393.5	316.9
	$ 240.0	$ 204.7	$ 461.0	$ 378.7

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

20. Other Expense Information

The Company recorded total employee compensation costs for the six months ended June 30, 2012 of $99.0 million (2011: $92.8 million).

Total amortization expense for the three and six months ended June 30, 2012 was $6.9 million and $13.7 million, respectively (2011: $6.7 million and $12.3 million, respectively).

21. Assets Held for Sale

The assets and liabilities related to Tree Farm License 60 (“TFL 60”) were presented in the December 31, 2011 and March 31, 2012 statements of financial position 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”). During the second quarter of 2012 this sale was completed (see Note 18).

Western Forest Products Inc.

Suite 510
700 West Georgia Street
T D Tower, PO Box 10032
Vancouver, British Columbia
Canada V7Y 1A1
Telephone: 604 665 6200

www.westernforest.com
info@westernforest.com

Trading on the TSX as "WEF"