Western Forest Products Inc.

2013 First Quarter Report

May 7, 2013

To our Shareholders,

Dear Shareholders,

Western capitalized on strong lumber and log markets to deliver the highest quarterly EBITDA in Company history.

In the first quarter of 2013, Western Forest Products delivered a record $31.9 million of operating EBITDA. Improved log and lumber markets supported by good execution from our team overcame the challenges of a tight coastal log market and led to these record results. We ended the quarter in a sound financial position: zero net debt and available liquidity of $207 million. With our solid balance sheet and improving markets for our products we are more capable than ever to consider other capital allocation alternatives to drive long-term shareholder value while continuing to strategically reinvest in our business.

First quarter 2013 financial highlights are as follows:

- EBITDA for the quarter was $31.9 million, an increase of $22.5 million over the first quarter of 2012.
- Zero net debt.
- Liquidity as of March 31, 2013 improved to $207 million.

We achieved the following operational successes:

- Capitalized on improved markets by focusing production on higher margin segments.
- Margin improvement program delivered an additional $5 million in the quarter.
- Mill productivity levels increased 5% over the first quarter of 2012.

The US housing recovery is accelerating, driving the demand for lumber. Demand for our commodity and Cedar products is expected to be strong in the second quarter of 2013 as we move into the prime building season in North America.

Japanese lumber demand has improved as well, with housing starts up 4% in the quarter, supported by government initiatives and the beginning of the Tsunami reconstruction. As expected, the increased demand for wood products within the US has resulted in fewer log and lumber shipments moving from the US to Japan. This has created an opportunity for Western to expand our market share in Japan.

Demand for log and lumber products in China was strong in the first quarter of 2013. We remain positive about the Chinese market as China is competing for global log and lumber supply, which is providing solid margin opportunities for Western's products.

Western's business plan for 2013 is focused on increasing production to meet rising demand. Improved demand for lumber products will allow us to fully utilize our flexible manufacturing platform to refine our product and market mix to maximize margins.

Investing in our manufacturing base. Implementation of our strategic capital plan continues to progress well. To date we have invested $11.3 million of the projected total cost of $38 million for the Saltair mill upgrade. The first phase of the project will be completed in the third quarter of 2013 and will deliver benefits immediately. The total project will be completed in the first quarter of 2014. The upgrades will increase production, reduce unit costs and enhance our ability to provide a greater variety of finished products for our customers.

In addition to our Saltair project, we have been collaborating with a leading equipment provider over the last year to develop auto grading technology for coastal species. The first auto grader will be installed at our Alberni Pacific operation late in the third quarter and we expect to roll out additional installations of this breakthrough technology.

We are pleased to announce the appointment of John Mann as Vice President of Timberlands. John has extensive leadership experience in timberlands at senior levels on the BC Coast. His immediate priorities will include delivering improved safety results in our timberlands and contract operations as well as driving operational efficiencies with a focus on margin.

We are also pleased to announce the promotion of Tony Peiffer to Vice President, Log Sales and Marketing. Since joining Western in 2012 Tony has demonstrated a solid ability to drive positive financial results and advance our business strategy. In his new leadership role, he will be responsible for working with our timberlands group to maximize the margin from every log we process.

Safety and training. We are committed to providing the resources and training necessary to identify and manage hazards in the workplace. Our relentless focus on education and awareness is yielding positive results and we are seeing the benefits of our safety programs and initiatives reflected in a reduction in workplace incidents. We will continue to work diligently to foster a culture of safety in order to achieve our goal of making Western a zero incident workplace.

Our commitment to continuous improvement is netting some exciting results and enabling us to build upon the hard-earned momentum we have created in the marketplace. I would like to take this opportunity to thank our employees, shareholders and the communities in which we operate for their continued support of our business.

Don Demens
President and CEO

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, 2013 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 unaudited condensed consolidated financial statements for the three months ended March 31, 2013 and the audited annual consolidated financial statements and management's discussion and analysis ("MD&A") for the year ended December 31, 2012 (the "2012 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, 2013 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.

Unless otherwise noted, the information in this discussion and analysis is updated to May 7, 2013. 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.

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

Summary of Selected Quarterly Results[1]

(millions of dollars except per share amount)	Three months ended March 31, 2013		Three months ended March 31, 2012 Restated[2]	
Revenue	$	233.8	$	223.4
EBITDA[2]		31.9		9.4
EBITDA as % of revenue		13.6%		4.2%
Operating income prior to restructuring items and other income (expense)		24.6		2.5
Net income from continuing operations		23.1		1.9
Net income for the period		22.8		1.7
Basic and diluted earnings per share (in dollars)	$	0.05	$	-

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

(2) Restated to reflect implementation of revised IAS 19 *Employee Benefits* as described on page 8.

Overview

First quarter 2013

Our first quarter 2013 EBITDA of $31.9 million represents a $22.5 million improvement over the same period last year, and a $17.6 million increase from the previous quarter. Our EBITDA margins increased to 13.6% from 4.2% a year ago, and from 6.2% in the fourth quarter of 2012. The improvement in financial results was largely driven by lumber and log price increases, and solid execution on the part of our operations.

The United States ("US") housing recovery continues to gain momentum, increasing the demand and price for lumber products. Benchmark KD SPF 2x4 commodity lumber prices for the first quarter of 2013 increased by 47% over the same quarter last year and by 17% over the fourth quarter 2012. Housing starts in the US in March 2013 climbed 7% to a 1.04 million annual rate, the most since June 2008, but still below historical levels. These improvements in the US lumber market are having a positive impact on offshore lumber prices in markets where we ship our product. Demand for lumber in both China and Japan has strengthened in the first quarter of 2013.

Log markets have also shown increased demand, with prices for logs with certain qualities increasing over the same period last year. In particular, prices for domestic peeler and shingle logs and also export logs have been stronger compared to the first quarter of 2012. In anticipation of stronger log markets, our operations group executed well on their plans to move volume quickly through our supply chain, delivering a higher value log mix to external markets, and at the same time supplying logs to our mills to maintain production levels.

During the quarter, revenues were $233.8 million, an increase of 5% over the first quarter of 2012. Net income for the first quarter of 2013 was $22.8 million, an increase of $21.1 million from net income of $1.7 million reported for the first quarter of 2012, and also an increase from our net income of $14.3 million reported in the previous quarter. The increase in net income is principally because of the higher EBITDA generated in the current quarter.

Our liquidity position at March 31, 2013 increased to $207.0 million from $185.1 million at the end of the previous quarter, and from $114.9 million at March 31, 2012.

Our strategic capital plan continues to progress well. To date we have spent $11.3 million of the projected total cost of $38.0 million for the Saltair mill upgrade project, which is expected to be approximately 60% complete in the third quarter of 2013. This capital project will make Saltair the largest, most efficient single line sawmill on the coast of British Columbia. The upgrades will increase production by approximately 15%, reduce the unit cost of production, and will increase our ability to provide a greater variety of finished products to our customers.

Our second project is the development and subsequent installation of automated coastal species lumber grading technology. We expect this project to be ready in the third quarter and the initial installation will be in our Alberni Pacific sawmill, which will yield benefits later in 2013. The technology will allow us to better tailor lumber grades to our customer needs and generally improve processing efficiency. We believe this will be the first application of this technology, now in common use in the British Columbia interior mills, on the more challenging coastal species.

On January 28, 2013, we announced that we had entered into a conditional agreement for the sale of our former Woodfibre Pulp Mill site located near Squamish, British Columbia for the gross purchase price of $25.5 million. Closing is subject to certain conditions, and Western will be responsible for satisfactorily remediating the property to applicable environmental standards prior to closing the sale. After incurring the estimated required remediation costs, Western anticipates receiving net proceeds from the sale and remediation of approximately $17 million. Work is currently in progress by our environmental engineers to prepare a detailed assessment of the remediation costs associated with the site. We expect to have the results of this assessment in the third quarter of 2013. We will continue to pursue further opportunities that may arise to sell non-core or other land assets as appropriate.

Operating Results

Revenues

	Three months ended March 31,	
(millions of dollars)	2013	2012
Lumber	$ 157.0	$ 157.2
Logs	63.2	51.9
By-products	13.6	14.3
Total revenues	$ 233.8	$ 223.4

Lumber sales revenues in the first quarter of 2013 were the same as in the first quarter of 2012. However, we sold 214 million board feet, or approximately 3% less volume this quarter, but achieved 3% higher average prices on the volume sold. Prices increased in the current quarter with commodity lumber and western red cedar (“WRC”), in particular, showing improvements compared to the first quarter of 2012.

Log sales revenues in the first quarter of 2013 increased by 22% compared to the same quarter last year. The increase is due to a combination of both favourable log selling prices and the mix of logs that we sold. Our overall average log price was 24% higher than in the first quarter of 2012 as prices for domestic peeler and shingle logs and export logs were all higher in the current quarter compared to the same quarter in 2012, and also because we sold proportionately more of the higher priced peeler and shingle logs.

By-product revenues decreased by $0.7 million in the current quarter compared to the first quarter of 2012. The decrease is primarily the result of a 6% decline in chip volumes sold quarter over quarter, as overall prices received for chips sold were close to those in the first quarter of 2012. Our mills produced more chips in the current quarter compared to the first quarter of 2012 as they were operating at higher rates, but we both purchased and custom chipped lower volumes of chips this quarter, leading to the lower sales volumes.

EBITDA

EBITDA of $31.9 million reported for the first quarter of 2013, compares to EBITDA reported in the same quarter last year of $9.4 million and to $14.3 million in the fourth quarter of 2012. The significantly improved EBITDA result for the first quarter of 2013 primarily reflects improved market conditions and the resulting higher prices for our products, combined with reduced costs in our timberland operations compared to the first quarter of 2012. Also contributing to the improved EBITDA in the current quarter were lower freight costs and reduced export taxes. Partially offsetting these positives has been the relative impact of foreign exchange, particularly the weakening of the Japanese yen, and higher selling and administration costs.

Log production levels in the first quarter of 2013 were close to those in the same quarter a year ago, and marginally less than in the fourth quarter 2012. Logging costs improved in the current quarter compared to the first quarter of 2012 by approximately $3 per cubic metre harvested as a result of operating proportionately less in higher cost logging areas. In addition, we benefited from the effects of more temperate weather this year, and incurred lower spur road construction and maintenance costs.

Lumber primary mill production was 190.3 million board feet in the first quarter of 2013, marginally less than the production in the first quarter of 2012. We continue to face the challenge of a very tight fibre supply situation on the coast and addressed it in the quarter by running a broadened mix of species and quality of logs through our primary mills. As a result, the primary mills ran at capacity (on a shifts available basis) in the first quarter of this year. Productivity, as measured on a production volume per shift basis, was 5% higher in the current quarter compared to the same quarter in 2012. While we increased production volumes compared to the first quarter of 2012, our recoveries were lower as a result of the mix of fibre processed.

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 2012, 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). However, the Japanese Yen weakened significantly against the Canadian dollar in the current quarter, falling by almost 15% compared to the first quarter of 2012, and had a negative effect on our results. Western mitigates its foreign exchange risk associated with sales transactions denominated in US dollars and Japanese Yen by utilizing forward currency transactions. At the end of the first quarter of 2012 we had significantly more Yen forward contracts outstanding compared to March 31, 2013.

No export taxes were incurred in the first quarter of 2013 compared to taxes of $2.0 million expensed in the same quarter in 2012. This change is a reflection of the increase in lumber prices this year. Under the Softwood Lumber Agreement with the US, the export tax rate is zero when the random lengths framing lumber composite index exceeds US$ 355 per thousand board feet.

Total freight costs were $19.4 million in the first quarter of 2013, compared to the first quarter of 2012 costs of $23.1 million. The reduction is because of reduced freight rates (a more favourable service agreement that combines both China and Japan shipments was introduced), a lower percentage of shipments to overseas customers (40% compared to 47% in 2012) and slightly lower shipment volumes.

Selling and administration costs increased from $7.7 million in the first quarter of 2012 to $8.0 million in the first quarter of 2013 primarily as a result of increases in stock option costs, legal fees and pension costs.

Non-operating Income and Costs

Finance costs decreased from $1.6 million in the first quarter of 2012 to $1.2 million in the current quarter. This decrease is primarily attributable to a reduction in the outstanding debt amount over the respective periods. In the twelve months to March 31, 2013 we have reduced debt by $53.3 million primarily from cash generated from operations.

Other income of $0.1 million for the first quarter of 2013 compares to other income of $1.0 million in the first quarter of 2012. Other income from the first quarter 2012 includes net gains on asset disposals of $1.1 million.

Financial Position and Liquidity

(millions of dollars except where noted)	Three months ended March 31, 2013	2012
Cash provided by operating activities	$ 32.1	$ 8.6
Cash used in investing activities	(11.0)	(3.6)
Cash used in financing activities	(29.7)	(9.9)
Cash used to construct capitalized logging roads	(2.4)	(1.7)
Cash used to acquire property, plant and equipment	(8.6)	(1.9)

	March 31, 2013	December 31, 2012
Total liquidity[(1)]	$ 207.0	$ 185.1
Net debt [(2)]	-	15.0
Financial ratios:		
Current assets to current liabilities	2.10	2.30
Net debt to capitalization[(3)]	-	0.04

(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 2013 amounted to $32.1 million compared to cash provided of $8.6 million in the same period last year. Virtually all of the increase was the result of higher operating income generated in the current quarter compared to the first quarter of 2012, as our overall net investment in working capital changed minimally over the respective quarters.

Cash used for additions to property, plant and equipment in the first quarter of 2013 was $11.0 million compared to $3.6 million in the first quarter of 2012. In the current quarter, additions were comprised of strategic capital expenditures of $3.8 million, maintenance capital spend of $4.8 million and a further $2.4 million on capital roads and bridges. The strategic capital spend relates to the Saltair sawmill upgrade project which is progressing well. In contrast, during the first quarter of 2012 the Company spent $3.6 million on capital items.

In the first quarter of 2013, the Company repaid $29.0 million on its revolving term loan from surplus cash generated from operations, leaving a balance of $5.8 million outstanding at March 31, 2013. In the first quarter of 2012 Company repaid $8.9 million that was drawn on its revolving credit facility.

At March 31, 2013, Western's total liquidity increased to $207.0 million from $185.1 million at the end of 2012 and from $114.9 million at March 31, 2012. At March 31, 2013, liquidity was comprised of cash of $9.7 million and availability under the revolving credit facility and revolving term loan of $93.1 million and $104.2 million, respectively. The increase in liquidity compared to March 31, 2012 was due to: increasing the revolving term facility from $75.0 million to $110.0 million in June 2012; paying off debt from surplus cash generated from operations; the proceeds of asset sales; and 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

Adoption of new accounting policies

The accounting policies applied by the Company in the first quarter of 2013 are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2012, except for the adoption of new standards and interpretations effective as of January 1, 2013. The nature and effect of these changes are disclosed below.

IFRS 13 *Fair Value Measurement*

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 establishes a framework for measuring fair value when fair value is required or permitted. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company.

The standard also sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. Some of these disclosures are specifically required for financial instruments by IAS 34, thereby affecting the interim financial statements. The Company provides these disclosures in Notes 3 and 17 in its First Quarter 2013 Financial Statements.

IAS 19 *Employee Benefits* (revised 2011) (IAS 19R)

IAS 19R comprises a number of amendments to the accounting for defined benefit plans, including a change to the basis for determining the income or expense related to defined benefit plans.

As a result of the change, the Company now determines the net interest expense (income) for the period on the net defined benefit obligation by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at the beginning of the annual period. It takes into account any changes in the net defined benefit liability during the period as a result of contributions and benefits payments. Consequently, the net interest on the net defined benefit liability now comprises:

- interest cost on the defined benefit obligation; and
- interest income on plan assets.

Previously, the Company determined interest income on plan assets based on their long-term rate of expected return on plan assets. The effect of adoption on the first quarter 2012 was a reduction to net income of $0.2 million. This comprised an increase to finance charges of $0.3 million and a decrease to selling and administration costs of $0.1 million. There was a corresponding reduction in the defined benefit plan actuarial losses recognized in other comprehensive income of $0.2 million for the quarter ending March 31, 2012. The revision had no impact on net assets at March 31, 2012 or December 31, 2012. The impact on earnings per share for the quarter ending March 31, 2012 was not material. The impact of adopting IAS 19R is more fully explained in Notes 3 and 14 in its First Quarter 2013 Financial Statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Company or the interim financial statements of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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, 2012. 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 2013.

Outlook and Strategy

During the first quarter of 2013, Western continued to improve its product margins by directing our fibre resource towards the highest margin end use and maximizing the utilization of manufacturing assets. Coupled with strong log and lumber markets, the Company expects to generate strong free cash flow over the next several quarters. As of the date of this report we have no debt, and so are now well positioned to reinvest in the business and consider other capital allocation alternatives to enhance long term value for our shareholders. Our business strategy continues to focus on growing our four key lumber market segments: WRC, Japan, Niche and Commodity.

Demand for WRC continues to grow with improving US new home construction and increasing levels of US home renovations. Higher cedar log prices and good harvesting weather in the first quarter of 2013 has increased log supply, but continued strength of cedar prices suggest that supply growth hasn't exceeded demand growth. As we enter the peak season for WRC demand we anticipate prices to continue to improve from first quarter 2013 levels.

As forecast in our year-end report, lumber demand is increasing in Japan. February 2013 year-to-date housing starts are up 4% compared to 2012. As expected, the increased demand for wood products within the US has resulted in fewer log and lumber exports being available from the US to Japan and, as a result, lumber imports to Japan from the US declined 5% and log imports fell 3% in the first quarter of 2013 compared to a year ago. As a result we expect to see increased demand for our log and lumber products in Japan over the balance of the year.

Sales in the Niche market segment have been relatively stable so far in 2013. However our product and market mix is beginning to change to reflect market conditions. The North American market for higher grade Douglas fir and hemlock products used in appearance applications has not seen the same recovery as in the general US housing market. As a result, we have converted some of these logs into other products and markets at higher margins. We are seeing increased demand for Industrial products like timbers, rail ties and cross arms which is translating into higher pricing. The outlook for Europe, a high value market for Western, appears to be little changed from 2012, with recession concerns still an issue there.

The strengthening of North American Commodity pricing in the last quarter of 2012 and into the first quarter of 2013 has positively impacted all commodity pricing, regardless of market destination. Western continues to use its market flexibility to increase its exposure to the improving North American market. The US housing market has clearly regained its footing, although housing starts are still well below trend levels. Forecasters continue to adjust their housing start projections for 2013 upwards and, on average, are now predicting more than one million starts in 2013. Demand in the first quarter 2013 from China was strong for Western, reflected by increasing price levels. Recent concerns have surfaced that log inventories in China may be growing, suggesting a possible adjustment to lumber prices. We will continue to maintain our focus on margin for commodities, by shifting product and market mix to maximize margin.

In support of our growth strategy, we continue to position ourselves for the improving housing market by investing in capital projects to further enhance our margins through improved efficiencies and product grades ensuring our continued competitiveness in the global lumber markets. We expect that the strategic capital program will be funded by cash generated from operations.

To the end of the first quarter of 2013 our non-capital margin improvement program has contributed $13.5 million in margin enhancements since the inception of the program. We are targeting a total of $25 million in such enhancements over a three year period. To date the majority of the benefits derived relate to manufacturing throughput improvements, and timberlands, logistics, and procurement initiatives.

Pursuant to the conditional agreement for sale of our former Woodfibre Pulp Mill site located near Squamish, British Columbia, work is currently in progress by our environmental engineers to prepare a detailed assessment of the remediation costs associated with the site. We expect to have the results of this assessment in the third quarter of 2013. We will continue to pursue other opportunities that may arise to sell non-core or other land assets as appropriate.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2012 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 7, 2013, there were 251,218,424 Common Shares and 216,833,059 Non-Voting Shares issued and outstanding. Brookfield Special Situations Management Limited ("BSSML"), an indirectly and wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM"), 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.

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. On February 21, 2013 the Board of Directors approved an amendment to the Option Plan whereby the maximum number of options granted under the Plan be increased to 20,000,000 Common Shares. This increase is subject to approval by the shareholders of the Corporation at the Annual General Meeting to be held on May 8, 2013. In the first quarter of 2013, subject to the shareholder approval described above, the Company granted 3,500,000 options under the plan, and, as of May 7, 2013, 13,016,795 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 all in the normal course and at market rates or at cost. During the first quarter of 2013, the Company paid entities related to BAM $6.0 million, and received income from related entities of $4.7 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
Chairman

Don Demens
President and CEO

Vancouver, BC,
May 7, 2013

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)	2013	2012				2011		
	1st	4th	3rd	2nd	1st	4th (3)	3rd (3)	2nd (3)
Average Exchange Rate – Cdn $ to purchase one US $	1.008	0.991	0.996	1.010	1.001	1.023	0.980	0.968
Revenues								
Lumber	157.0	156.1	147.3	163.8	157.2	147.4	141.2	143.5
Logs	63.2	62.9	58.5	73.0	51.9	60.2	77.3	57.8
By-products	13.6	12.2	13.6	14.6	14.3	13.1	15.0	17.4
Total revenues	233.8	231.2	219.4	251.4	223.4	220.7	233.5	218.7
Lumber								
Shipments – millions of board feet	214	222	218	234	220	209	209	210
Price – per thousand board feet	733	703	676	700	716	705	676	684
Logs								
Shipments – thousands of cubic metres	692	835	876	1,020	699	853	1,078	755
Price – per cubic metre(1)	89	73	65	69	72	69	68	72
Selling and administration (2)	8.0	6.8	6.8	7.3	7.7	6.9	6.4	6.7
EBITDA (2)	31.9	14.3	8.5	18.8	9.4	11.6	15.8	21.2
Amortization	(6.8)	(5.9)	(6.2)	(6.9)	(6.8)	(5.7)	(6.0)	(6.7)
Changes in fair value of biological assets	(0.5)	(0.3)	0.4	(0.4)	(0.1)	(0.9)	(0.6)	(0.5)
Reversal of impairment	-	12.9	-	-	-	-	-	-
Operating restructuring items	(0.2)	(4.2)	(0.2)	(0.4)	-	0.2	(0.3)	(0.3)
Finance costs (2)	(1.2)	(1.4)	(1.4)	(1.9)	(1.6)	(1.4)	(1.5)	(1.8)
Other income (expenses)	0.1	(0.9)	1.1	1.6	1.0	(0.3)	(1.9)	(0.1)
Income taxes recovery (expense)	(0.2)	-	(0.1)	-	-	0.1	0.1	(0.2)
Net income from continuing operations	23.1	14.5	2.1	10.8	1.9	3.6	5.6	11.6
Net loss from discontinued operations	(0.3)	(0.2)	(0.3)	(0.4)	(0.2)	(0.3)	(0.3)	(0.2)
Net income	22.8	14.3	1.8	10.4	1.7	3.3	5.3	11.4
EBITDA as % of revenues	13.6%	6.2%	3.9%	7.5%	4.2%	5.3%	6.8%	9.7%
Earnings per share:								
Net income, basic and diluted	0.05	0.03	-	0.02	-	0.01	0.01	0.02
Net income from continuing operations, basic and diluted	0.05	0.03	-	0.02	-	0.01	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, Selling and administration expenses and Finance costs have been restated to reflect the adoption of changes to *IAS 19 - Employee Benefits* as described on Page 8 of the MD&A.

(3) Not restated under IFRS for the amended *IAS 19 - Employee Benefits* .

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. The fourth quarter of 2012 includes a $12.9 million reversal of an impairment previously taken on the Company's timber licenses (intangible assets) which was an unusual adjustment. The fourth quarter of 2012 included a more significant charge for restructuring as a result of Western incurring a cost of $4.0 million to reorganize harvesting operations in TFL 44 in order to improve operating performance in the future.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2013 and 2012

Western Forest Products Inc.

Condensed Consolidated Statements of Financial Position

(Expressed in millions of Canadian dollars) (unaudited)

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 9.7	$ 18.8
Trade and other receivables	77.1	69.5
Inventory (Note 7)	115.3	116.6
Prepaid expenses and other assets	7.0	7.6
	209.1	212.5
Non-current assets:		
Property, plant and equipment (Note 8)	199.2	194.2
Intangible assets (Note 8)	125.3	126.1
Biological assets (Note 9)	60.3	60.8
Other assets	13.0	12.7
	$ 606.9	$ 606.3
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 82.0	$ 74.0
Silviculture provision (Note 12)	12.4	13.4
Discontinued operations (Note 5)	5.4	5.1
	99.8	92.5
Non-current liabilities:		
Long-term debt (Note 11)	4.9	33.8
Silviculture provision (Note 12)	18.5	17.6
Other liabilities (Note 13)	36.0	35.6
Deferred revenue	65.9	66.4
Discontinued operations (Note 5)	2.1	2.7
	227.2	248.6
Shareholders' equity:		
Share capital - voting shares (Note 15)	479.7	479.7
Share capital - non-voting shares (Note 15)	120.3	120.3
Contributed surplus	4.6	4.2
Revaluation reserve	22.3	22.3
Deficit	(247.2)	(268.8)
	379.7	357.7
	$ 606.9	$ 606.3

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

"Don Demens"
President and CEO

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, 2013	Three months ended March 31, 2012 [Restated - Note 14]
Revenue	$ 233.8	$ 223.4
Cost and expenses:		
Cost of goods sold	181.8	188.1
Export tax	-	2.0
Freight	19.4	23.1
Selling and administration	8.0	7.7
	209.2	220.9
Operating income prior to restructuring items and other income	24.6	2.5
Operating restructuring items	(0.2)	-
Other income (Note 18)	0.1	1.0
Operating income	24.5	3.5
Finance costs	(1.2)	(1.6)
Income before income taxes	23.3	1.9
Income tax expense	(0.2)	-
Net income from continuing operations	23.1	1.9
Net loss from discontinued operations (Note 5)	(0.3)	(0.2)
Net income for the period	22.8	1.7
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial losses	(1.2)	(2.2)
Total comprehensive income (loss) for the period	$ 21.6	$ (0.5)
Net income per share (in dollars):		
Basic and diluted earnings per share	$ 0.05	$ -
Basic and diluted earnings per share - continuing operations	$ 0.05	$ -
Weighted average number of shares outstanding (thousands)		
Basic	468,051	467,624
Diluted	479,046	474,765

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, 2013	Three months ended March 31, 2012 [Restated - Note 14]
Cash provided by (used in):		
Operating activities:		
Net income from continuing operations	$ 23.1	$ 1.9
Items not involving cash:		
Amortization of property, plant and equipment (Note 8)	6.0	5.9
Amortization of intangible assets (Note 8)	0.8	0.9
Gain on disposal of assets	-	(2.4)
Change in fair value of biological assets (Note 9)	0.5	1.3
Finance costs	1.2	1.6
Other	(0.8)	0.3
	30.8	9.5
Changes in non-cash working capital items:		
Trade and other receivables	(7.6)	(16.6)
Inventory	1.3	7.1
Prepaid expenses and other assets	0.6	0.7
Silviculture provision	(1.0)	(1.0)
Accounts payable and accrued liabilities	8.0	8.9
	1.3	(0.9)
	32.1	8.6
Investing activities:		
Additions to property, plant and equipment (Note 8)	(11.0)	(3.6)
	(11.0)	(3.6)
Financing activities:		
Changes in revolving credit facility	-	(8.9)
Interest paid	(0.7)	(1.2)
Repayment of long-term debt	(29.0)	-
Proceeds from exercise of stock options	-	0.2
	(29.7)	(9.9)
Cash used in continuing operations	(8.6)	(4.9)
Cash used in discontinued operations (Note 5)	(0.5)	(0.2)
Decrease in cash and cash equivalents	(9.1)	(5.1)
Cash and cash equivalents, beginning of period	18.8	15.3
Cash and cash equivalents, end of period	$ 9.7	$ 10.2

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 [Restated - Note 14]	**Total equity**
Balance at December 31, 2011	$ 599.8	$ 3.4	$ 23.9	$ (290.0)	$ 337.1
Net income for the period	-	-	-	1.7	1.7
Other comprehensive loss:					
Defined benefit plan actuarial losses recognized	-	-	-	(2.2)	(2.2)
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	0.2	0.1	-	-	0.3
Balance at March 31, 2012	$ 600.0	$ 3.5	$ 23.9	$ (290.5)	$ 336.9

	Share Capital	Contributed Surplus	Revaluation Reserve	Deficit [Restated - Note 14]	**Total equity**
Balance at December 31, 2012	$ 600.0	$ 4.2	$ 22.3	$ (268.8)	$ 357.7
Net income for the period	-	-	-	22.8	22.8
Other comprehensive loss:					
Defined benefit plan actuarial losses recognized	-	-	-	(1.2)	(1.2)
Total comprehensive income for the period	-	-	-	21.6	21.6
Share-based payment transactions recognized in equity	-	0.4	-	-	0.4
Total transactions with owners, recorded directly	-	0.4	-	-	0.4
Balance at March 31, 2013	$ 600.0	$ 4.6	$ 22.3	$ (247.2)	$ 379.7

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, 2013 and 2012 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") have been prepared in accordance with IAS 34, *Interim Financial Reporting.* Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year ended December 31, 2012. These interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

These interim financial statements were approved by the Board of Directors on May 7, 2013.

(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 pension 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, 2012.

3. Significant Accounting Policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2012, except for the adoption of new standards and interpretations effective as of January 1, 2013. As required by IAS 34, the nature and effect of these changes are disclosed below.

IFRS 13 *Fair Value Measurement*

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 establishes a framework for measuring fair value when fair value is required or permitted. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company.

The standard also sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. Some of these disclosures are specifically required for financial instruments by IAS 34, thereby affecting the interim financial statements. The Company provides these disclosures in Note 19.

IAS 19 *Employee Benefits* (revised 2011) (IAS 19R)

IAS 19R comprises a number of amendments to the accounting for defined benefit plans, including a change to the basis for determining the income or expense related to defined benefit plans.

As a result of the change, the Company now determines the net interest expense (income) for the period on the net defined benefit obligation by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at the beginning of the annual period. It takes into account any changes in the net defined benefit liability during the period as a result of contributions and benefits payments. Consequently, the net interest on the net defined benefit liability, now recognized in finance costs, comprises:

- interest cost on the defined benefit obligation; and
- interest income on plan assets.

Previously, the Company determined interest income on plan assets based on their long-term rate of expected return, and recognized the net interest cost in net income through selling and administration expenses. The effect of adoption of IAS 19R is explained in Note 14.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Company or the interim financial statements of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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. On January 28, 2013, Western announced that it had entered into a conditional agreement for the sale of the property for the gross purchase price of $25.5 million. Closing is subject to certain conditions, and Western will be responsible for satisfactorily remediating the property to applicable environmental standards prior to closing the sale. After incurring the estimated required remediation costs, Western anticipates receiving net proceeds from the sale and remediation of approximately $17 million.

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Net loss from discontinued operations	$ (0.3)	$ (0.2)
Cash used in discontinued operations	$ (0.5)	$ (0.2)
	March 31, 2013	December 31, 2012
Assets of discontinued operations	$ 2.5	$ 2.2
Liabilities of discontinued operations	$ 7.5	$ 7.8

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, 2013	Three months ended March 31, 2012
Costs incurred for:		
Log purchases	$ 3.6	$ 2.1
Other	2.4	1.2
	$ 6.0	$ 3.3
Income received for:		
Log sales	$ 4.7	$ 1.3

7. Inventory

The following table summarizes the value of inventory on hand:

	March 31, 2013	December 31, 2012
Logs	$ 70.5	$ 78.9
Lumber	42.5	38.0
Supplies and other inventories	11.0	10.5
Provision for write downs	(8.7)	(10.8)
Total value of inventories	$ 115.3	$ 116.6
Inventory carried at net realizable value	$ 33.0	$ 34.6

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

During the first quarter of 2013, $181.8 million (2012: $188.1 million) of inventory was charged to cost of sales which included a decrease to the provision for write-down to net realizable value of $2.1 million (2012: an increase of $2.6 million).

8. Property, Plant and Equipment and Intangible Assets

Cost	Buildings & equipment	Logging roads	Land	Total property, plant & equipment	Intangible assets
Balance at December 31, 2011	$ 128.1	$ 111.5	$ 110.7	$ 350.3	$ 171.1
Additions	20.9	11.1	0.6	32.6	-
Disposals	(0.8)	(0.2)	(6.1)	(7.1)	-
Balance at December 31, 2012	$ 148.2	$ 122.4	$ 105.2	$ 375.8	$ 171.1
Additions	8.6	2.4	-	11.0	-
Balance at March 31, 2013	$ 156.8	$ 124.8	$ 105.2	$ 386.8	$ 171.1
Accumulated amortization and impairments					
Balance at December 31, 2011	$ 80.1	$ 79.9	$ -	$ 160.0	$ 54.5
Amortization	10.5	11.9	-	22.4	3.4
Disposals	(0.7)	(0.1)	-	(0.8)	-
Reversal of impairments	-	-	-	-	(12.9)
Balance at December 31, 2012	$ 89.9	$ 91.7	$ -	$ 181.6	$ 45.0
Amortization	2.7	3.3	-	6.0	0.8
Balance at March 31, 2013	$ 92.6	$ 95.0	$ -	$ 187.6	$ 45.8
Carrying amounts					
At December 31, 2012	$ 58.3	$ 30.7	$ 105.2	$ 194.2	$ 126.1
At March 31, 2013	$ 64.2	$ 29.8	$ 105.2	$ 199.2	$ 125.3

The fair value of the Company's land is measured using a combination of independent third party valuations, recent comparable land sales, and discounted cash flow analysis, as well as considering other publicly available information such as recent market transactions on arm's length terms between willing buyers and sellers, and British Columbia property assessments.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value. The Company reviewed the underlying assumptions impacting its land holdings as at March 31, 2013 and noted no indication that a full re-assessment of fair value was warranted at that date.

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

	March 31, 2013	December 31, 2012
Cost	$ 80.2	$ 80.2

9. Biological Assets

	Three months ended March 31, 2013	
	2013	2012
Carrying value, beginning of period	$ 60.8	$ 59.4
Acquisition of biological assets in the period	-	5.6
Disposition of biological assets in the period	-	(2.6)
Change in fair value less costs to sell	-	(1.2)
Change in fair value resulting from growth and pricing	0.7	0.5
Harvested timber transferred to inventory during the period	(1.2)	(0.6)
Carrying value, end of period	$ 60.3	$ 61.1

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, 2013, standing timber comprised approximately 23,314 hectares (December 31, 2012: 23,493 hectares), which range from newly planted cut-blocks to old-growth forests. During the first quarter of 2013 the Company harvested and scaled approximately 83,489m^3 of logs from its private timberlands, which had a fair value less costs to sell of $7.1 million at the date of harvest (three months ended March 31, 2012: 84,535m^3 and $6.1 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 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.

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 the Company's revolving and non-revolving term loans. During the first quarter of 2012, $8.9 million was repaid on the facility. At March 31, 2013 the facility was unused (December 31, 2012: $nil). At March 31, 2013, $93.1 million of the facility was available to the Company. The interest rate for the revolving credit facility was 3.50% at March 31, 2013 (December 31, 2012: 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 was increased to $110.0 million. The revised facility has a maturity date of June 29, 2016. At March 31, 2013, $104.2 million of the revolving term loan is undrawn and available to the Company.

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 ("BA") 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 BA rate, plus the applicable BA rate margin which ranges from 2.75% to 4.25%. The applicable margin is grid-based, determined quarterly, and 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 loan is secured by a first lien interest over all of the Company's properties and assets (except the Englewood Logging Division, over which it has a second lien interest), and excluding all accounts receivable and inventory. The loan agreement also includes financial covenants. The interest rate for the revolving term loan was 4.75% at March 31, 2013 (December 31, 2012: 4.75%).

The Company was in compliance with its financial covenants at March 31, 2013.

	March 31, 2013	December 31, 2012
Canadian dollar debt		
Revolving term loan	$ 5.8	$ 34.8
Less transaction costs	(0.9)	(1.0)
	$ 4.9	$ 33.8

The transaction costs as at March 31, 2013 and December 31, 2012 relate to the financing arrangements completed in the second quarter of 2012. 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 were fully expensed in 2012.

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, 2013	Three months ended March 31, 2012
Silviculture provision, beginning of period	$ 31.0	$ 30.9
Silviculture provision charged	3.0	2.4
Silviculture work payments	(3.2)	(1.8)
Unwind of discount	0.1	0.1
Silviculture provision, end of period	30.9	31.6
Less current portion	12.4	12.3
Less portion held for sale	-	1.4
	$ 18.5	$ 17.9

13. Other Liabilities

	March 31, 2013	December 31, 2012
Employee post-retirement benefits obligation (Note 14)	$ 33.8	$ 33.2
Environmental accruals	1.5	1.5
Other	0.7	0.9
	$ 36.0	$ 35.6

14. Employee Post-Retirement Benefits

Impact of adoption of IAS 19R

The Company adopted IAS 19R on January 1, 2013 as described in Note 3. As required by the standard, the new policy was adopted retrospectively. The effect of adoption on the first quarter 2012 was a reduction to net income of $0.2 million. This comprised an increase to finance costs of $0.3 million and a decrease to selling and administration costs of $0.1 million. There was a corresponding reduction in the defined benefit plan actuarial losses recognized in other comprehensive income of $0.2 million for the quarter ending March 31, 2012. The revision had no impact on net assets at March 31, 2012 or December 31, 2012. The impact on earnings per share for the quarter ending March 31, 2012 was not material.

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Current service costs	$ 0.1	$ 0.1
Net interest	0.3	0.3
Cost of defined benefit plans	0.4	0.4
Cost of defined contribution plans	0.7	0.6
Total cost of employee post-retirement benefits	$ 1.1	$ 1.0

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, 2013		December 31, 2012
Present value of obligations	$	(137.9)	$	(134.8)
Fair value of plan assets		104.1		101.6
Liability recognized in the balance sheet	$	(33.8)	$	(33.2)

The change in the liability recognized in the statement of financial position at March 31, 2013 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 2013 was a decrease of 0.3% from the rate used at December 31, 2012 of 4.2%, and the return on assets in the quarter was 3.6% which was calculated using the actual returns for January, February and March.

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 December 31, 2012	251,218,424	$	479.7	216,833,059	$	120.3
Balance at March 31, 2013	251,218,424	$	479.7	216,833,059	$	120.3

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. On February 21, 2013 the Board of Directors approved an amendment to the Option Plan whereby the maximum number of options granted under the Plan be increased to 20,000,000 Common Shares. This increase is subject to approval by the shareholders of the Corporation at the Annual General Meeting to be held on May 8, 2013.

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 2013, subject to the shareholder approval described above, the Company granted 3,500,000 options with a fair value of $3.1 million as determined by the Hull-White option pricing model using the assumptions of an exercise price of $1.27, risk free interest rate of 3.4%, volatility rate of 60.0% and an expected life of 10 years. These options are only exercisable when the share price has been equal to or greater than $0.70 for the 60 consecutive days preceding the date of exercise, 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.

At March 31, 2013, 13,016,795 options were outstanding under the Company's Option Plan with a weighted average exercise price of $0.97 per Common Share. During the three months ended March 31, 2013 the Company recorded compensation expense of $0.4 million (2012: $0.2 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 2013, designated executive officers were allotted 112,404 DSUs at a price of $1.31 per DSU, 42,722 DSUs were granted to a director at a weighted average price of $1.31 per DSU, and 146,151 DSUs were redeemed. The cumulative number of DSUs outstanding at March 31, 2012 was 989,166 (December 31, 2012: 980,191). During the first quarter of 2013, the Company recorded compensation expense for these DSUs of $0.1 million (2012: $0.2 million), with a corresponding increase to accounts payable and accrued liabilities.

16. Commitments and Contingencies

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, 2012 and based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2013.

17. Financial Instruments

As at March 31, 2013, the Company had outstanding obligations to sell an aggregate JPY 600 million at an average rate of JPY 90.92 per CAD with maturities through June 30, 2013, and an aggregate US $23.0 million at an average rate of US $1.01 per CAD with maturities through July 10, 2013. All foreign currency gains or losses related to currency forward contracts to March 31, 2013 have been recognized in revenue for the period and the fair value of these instruments at March 31, 2013 was a net liability of $0.1 million, which is included in accounts payable and accrued liabilities on the statement of financial position (December 31, 2012: $0.1 million). A net loss of $0.6 million was recognized on contracts which were settled in the three months ended March 31, 2013 (2012: $0.8 million), which was included in revenue for the period.

18. Other Income (Expenses)

Other income was $0.1 million in the first quarter of 2013 (2012: $1.0 million). Other income of $1.0 million in 2012 relates primarily to net gains on asset sales of $1.1 million.

19. Determination of Fair Value

(a) Fair value hierarchy

The following table provides information about recurring assets and liabilities measured at fair value in the statement of financial position. The Company categorizes its financial assets and liabilities measured at fair value by level according to the significance of the inputs used in making the measurements. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability

	Level 1	Level 2	Level 3	Total
Financial assets				
Investments	$ -	$ 4.8	$ -	$ 4.8
Financial liabilities				
Foreign currency forward contracts	$ -	$ 0.1	$ -	$ 0.1

The Company's policy is to recognize transfers out of Level 3 as of the date of the event or change in circumstances that caused the transfer.

(b) Fair Value versus carrying value

The carrying value of trade and other receivables and accounts payable and accrued liabilities included in the consolidated statements of financial position approximate their fair value due to the short term to maturity of these instruments.

The carrying value of the long-term debt included in the consolidated statements of financial position approximates its fair value as the debt bears floating interest rates that approximate market rates. Furthermore, the Company has not experienced a significant change in its credit risk since initial recognition of the debt.

20. Expenses by Function

	Three months ended March 31,	
	2013	2012 [Restated - Note 14]
Administration	$ 5.7	$ 5.2
Distribution expenses	21.7	27.6
Cost of goods sold	181.8	188.1
	$ 209.2	$ 220.9

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

21. Other Expense Information

The Company recorded total employee compensation costs for the three months ended March 31, 2013 of $52.6 million (2012: $48.7 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, 2013 was $6.8 million (2012: $6.8 million).

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