Western Forest Products Inc.

2013 Second Quarter Report

July 31, 2013

Letter to Shareholders

Dear Shareholders,

Western capitalized on strong global lumber and log markets to deliver EBITDA of $44.9 million.

We continue to make progress in our business. Strong operational performance, supported by increased demand for our lumber and log products, allowed us to produce $44.9 million of EBITDA in the second quarter of 2013. We achieved milestones in safety across our company and contractor operations, delivering our lowest safety incident rate ever. We successfully operated our mills at current capacity even though British Columbia log supply remained tight. Our lumber prices rose, thanks to our diversified product mix, while benchmark commodity lumber prices declined. We ended the second quarter in a sound financial position with liquidity of $232 million and no net debt. Supported by our strong financial position and free cash flow projections, we commenced the next phase of our capital allocation strategy. We announced our plan to repurchase up to $100 million of our outstanding voting common shares and non-voting shares, as well as initiate a regular quarterly dividend. As we implement this next phase of our capital allocation process, we will continue to proceed with our strategic capital investment plans.

Second quarter 2013 financial highlights included:

- EBITDA for the quarter was $44.9 million, an increase of $26.1 million over the second quarter of 2012.
- Announcement of a $100 million share buy-back and amendment to our debt financing.
- Initiated a regular quarterly dividend of $0.02 per share, payable on September 20, 2013 to shareholders of record on August 30, 2013, yielding 5% at today's share price.
- Zero net debt.
- Improved liquidity to $232 million.

We achieved the following operational successes:

- Medical incident rate in our company operations of less than 1.
- Capitalized on market opportunities by continuing to focus on higher margin segments.
- Mill productivity levels increased 2% over the second quarter of 2012.
- Margin improvement program delivered an additional $2.8 million in the second quarter.
- Installation of new equipment at Saltair sawmill on schedule.

U.S. commodity lumber pricing continues to be volatile at this stage in the housing recovery. Poor weather delayed many U.S. building projects early in the quarter which, coupled with seasonal peak lumber production, caused lumber inventories to build and pricing for commodity lumber to decline. This short term, weather-related issue has not impacted our longer-term view that lumber demand will continue to increase. In contrast, prices achieved for our commodity lumber products sold during the second quarter did not decline, due to the strong order files which we booked in advance of the quarter and our ability to direct product to the highest margin alternatives. Additionally, demand and pricing for our Western Red Cedar products remained strong through the second quarter.

In Japan, lumber demand continued to improve through the quarter, as the pace of housing starts surpassed 1 million. We anticipate demand for lumber in Japan to remain strong in the third quarter.

Our sales of log and lumber products to China remained stable. Balanced Chinese log inventories, coupled with our ability to change lumber product mix and ship to various regions, allowed us to maintain pricing throughout the quarter. We expect demand to remain steady through the third quarter.

Log markets remain steady. Looking forward, strong demand in both the domestic and export markets is expected to continue into the third quarter, with the exception of pulp log markets, which will remain challenging.

Third quarter operating conditions on the coast of B.C. are always a challenge. Hot, dry summer weather often limits our timber harvesting due to fire closure, which in turn reduces log production. Any significant downtime related to the weather will further tighten log supply on the coast of B.C.

We continue to invest in our manufacturing base. Implementation of our strategic capital is progressing according to plan. To date, we have invested $22 million of the projected total cost of $38 million for the Saltair mill upgrade. With phase one complete, we successfully re-started operations on time at the end of July. This first phase is projected to deliver 75% of the total benefits. The entire project will be completed by the second quarter of 2014. Overall, it will increase production, reduce unit costs and enhance our ability to provide a greater variety of finished products for our customers.

Our first auto-grader is currently being built for the Alberni Pacific sawmill, with installation planned in early October. We expect to see benefits from this new technology commencing in the fourth quarter of 2013, following which we plan to implement the same technology in other sawmills. This technology will allow us to better match lumber grades to customer needs and improve processing efficiency. We believe this will be the first application of this technology for coastal species.

We are pleased to announce the appointment of Shannon Janzen as our Chief Forester. Shannon is a Registered Professional Forester with extensive experience in developing and implementing cooperative and sustainable land use policies and practices. Shannon has been instrumental in establishing our strategic relationships and partnerships with First Nations, environmental groups and various levels of government.

To conclude, I am very pleased to report our positive second quarter performance. We have once again improved our financial results, while simultaneously delivering our best safety performance ever. We also continue to implement our strategic capital plan, while increasing our returns to you, our shareholders. Our team continues to operate at a high level, delivering logs and lumber products to an improving market. I would like to thank our employees and contract partners for their commitment to continuous improvement and to operating safely and efficiently, while sustainably producing high quality products for our worldwide customers.

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 and six months ended June 30, 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 and six months ended June 30, 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 SEDAR at www.sedar.com.

The Company has prepared unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 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 income, 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. 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, 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.

[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, 2013	Three months ended June 30, 2012 Restated[2]	Six months ended June 30, 2013	Six months ended June 30, 2012 Restated[2]
Revenue	$ 262.3	$ 251.4	$ 496.1	$ 474.8
EBITDA[2]	44.9	18.8	76.8	28.2
EBITDA as % of revenue	17.1%	7.5%	15.5%	5.9%
Operating income prior to restructuring items and other income (expense)	36.2	11.5	60.8	14.0
Net income from continuing operations	35.7	10.8	58.8	12.7
Net income for the period	35.5	10.4	58.3	12.1
Basic earnings per share (in dollars)	$ 0.08	$ 0.02	$ 0.12	$ 0.03
Diluted earnings per share (in dollars)	$ 0.07	$ 0.02	$ 0.12	$ 0.03

(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 9.

Overview

Second quarter 2013

Our second quarter 2013 EBITDA of $44.9 million is a $26.1 million improvement over the same period last year, and a $13.0 million increase over the previous quarter. EBITDA margins increased to 17.1% in the second quarter of 2013 from 7.5% a year ago, and from 13.6% in the first quarter of 2013. The improvement in our financial results was largely driven by improved lumber and log prices, and the continuation of benefits derived from log sort changes that we have implemented, which have resulted in a broader mix of logs being available to our mills at a faster rate, and other operational improvements.

Lumber and log market conditions have improved from last year. By June, United States ("US") housing permits were up 16% over the same period a year ago, which is a prime driver of lumber demand. Benchmark Kiln Dried WSPF 2x4 prices were up 14% in the second quarter of 2013 compared to the same period last year, while our average realized lumber and log prices were up 12% and 22% respectively over this period. In particular, Western Red Cedar ("WRC"), whitewood specialty lumber and commodity lumber prices were all significantly higher in the current quarter compared to a year ago. Log markets continue to reflect strong demand. Prices for both domestic and export logs have been stronger compared to the second quarter of 2012. Our strategy of moving volume quickly through our supply chain, creating a higher value log mix through better matching our log sorts to changing market demand, and at the same time supplying logs to our mills to maintain production levels has been executed well in the quarter.

During the second quarter of 2013, revenues were $262.3 million, an increase of 4% over the second quarter of 2012. Net income for the second quarter of 2013 was $35.5 million, an increase of $25.1 million from net income of $10.4 million reported for the second quarter of 2012, and also an increase over our net income of $22.8 million reported in the previous quarter. The increase in net income is principally due to the higher EBITDA generated in the current quarter.

Our liquidity position at June 30, 2013 increased to $231.7 million from $207.0 million at the end of the previous quarter, and up from $175.5 million at June 30, 2012.

The Saltair mill upgrade project continues to progress well, and is on schedule and expected to be on budget. To date we have spent $22.0 million of the projected total cost of $38.0 million. The first phase of the project is complete and all equipment is installed. The initial ramp up is in progress and, so far, performance is above expectations. The upgrades will increase production capacity 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. This project will make Saltair the largest single line sawmill on the coast of British Columbia.

Our second project is the development and subsequent installation of automated coastal species lumber grading technology. The autograder is currently being built for our Alberni Pacific sawmill, with installation expected for early October. This technology will allow us to better match lumber grades to our customer needs and improve processing efficiency. We believe that this will be the first application of this technology, now in common use in the British Columbia interior mills, for coastal species.

On June 28, 2013, the Company extended the maturity date of its existing $110.0 million revolving term loan facility from June 28, 2016 to June 29, 2017. Under the terms of the new arrangement, certain financial covenants have been amended to allow Western to make distributions to its shareholders, not to exceed

$150.0 million in aggregate, until June 30, 2014. At June 30, 2013, $100.0 million was drawn on the revolving term loan facility.

On July 2, 2013, we announced a substantial issuer bid (the "Issuer Bid") to repurchase up to $100.0 million of our outstanding voting common and non-voting shares ("Shares"), and the commencement of a regular quarterly dividend of, initially, $0.02 per Share. The Issuer Bid is an all-cash offer made by way of a modified "Dutch Auction" and the range of prices will be from $1.30 to $1.50 per Share. The maximum purchase price under the Issuer Bid represents a premium of approximately 15% over the daily volume weighted average trading price of the Company's common shares on the TSX for the 30 trading days preceding the date of the Issuer Bid announcement. The Issuer Bid will remain open for acceptance until Monday, August 12, 2013, unless withdrawn or extended by the Company. We expect to fund purchases of Shares pursuant to the Issuer Bid from cash drawn on the Company's revolving term loan facility. We expect the regular quarterly dividend to commence in the Company's third fiscal quarter of 2013 and to be funded from operating cash flow.

Operating Results

(millions of dollars)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues				
Lumber	$ 180.4	$ 163.8	$ 337.4	$ 321.0
Logs	67.0	73.0	130.2	124.9
By-products	14.9	14.6	28.5	28.9
Total revenues	262.3	251.4	496.1	474.8
EBITDA	44.9	18.8	76.8	28.2
EBITDA as % of revenues	17.1%	7.5%	15.5%	5.9%

Second quarter 2013

Our EBITDA for the second quarter of 2013 of $44.9 million compares to EBITDA in the same quarter last year of $18.8 million and to $31.9 million in the first quarter of 2013. The improved EBITDA result for the second quarter of 2013 primarily reflects improved market conditions and the resulting higher prices for our products. Also contributing to the improved EBITDA in the current quarter were lower freight costs and reduced export taxes, operating efficiencies and the beneficial impact of a weakening Canadian dollar against the US dollar. Partially offsetting these positive improvements to EBITDA were lower shipment volumes of logs, higher per unit log costs, and the negative impact of a weakening Japanese yen against the Canadian dollar.

Lumber sales revenues in the second quarter of 2013 were 10% higher than in the second quarter of 2012. This increase was driven by increased pricing as overall sales volumes were very similar in the respective quarters. We shipped 231 million board feet in the current quarter compared to 234 million board feet in the same quarter of 2012. The average price realized on the volume sold was 12% higher in the second quarter of 2013 compared to 2012, and 7% higher than those in the first quarter of 2013. WRC, whitewood specialty lumber and commodity lumber prices were all significantly higher in second quarter of 2013 compared to the second quarter of 2012. WRC improved in the second quarter with increased consumption during the prime building season, and relatively tight supply. Japanese lumber market demand has strengthened because of increased home building activity, allowing for price increases. We were also able to use our flexible manufacturing base to change our commodity lumber product mix to sell into higher margin opportunities. Our niche lumber products, which serve a variety of specialty lumber demand, also benefited from the rising global demand for wood products.

Log sales revenues in the second quarter of 2013 were lower than the second quarter 2012 by 8%. This reduction was primarily driven by lower sales volumes, partially offset by higher pricing. Log sales volumes were lower by 25%, or 255,000 cubic metres, in the second quarter of 2013 compared to the second quarter of 2012. This reduction is partially explained by the fact that we harvested fewer logs in the current period, and were able to process more logs through our own mills rather than sell them. The majority of our logs available to sell, external to our needs, experienced price increases, with domestic log prices for shingle and peeler logs being particularly high. This was largely driven by a tight log supply in these markets. Our average price per cubic metre sold in the current quarter increased by $15, or 22%, over the second quarter of 2012.

By-product revenues increased in the current quarter to $14.9 million, marginally higher than the same quarter in 2012. Chip prices and sales volumes have remained relatively consistent over the two quarters. Our mills produced more chips in the current quarter compared to the first quarter of 2012, and we purchased correspondingly fewer units from outside sources to meet commitments with our pulp mill customers.

Total log production in the second quarter of 2013 was 1,495,000 cubic metres, which was 17% less than in the same quarter a year ago, and 9% more than in the first quarter of 2013. The decline from the second quarter 2012 level reflects increased harvesting undertaken in 2012 in order to catch up on previous year's undercut volumes. Harvesting costs were higher by approximately $2 per cubic metre harvested in the current quarter compared to the second quarter of 2012. Costs per unit were higher in the current quarter due to lower harvest volume, higher equipment maintenance, and increased road construction. Primary lumber mill production was 202 million board feet in the second quarter of 2013, which was 5% more than the production in the second quarter of 2012. We continue to face the challenge of a very tight log supply situation on the coast and, as in the first quarter of 2013, we addressed it by running a broadened mix of species and quality of logs through our primary mills. As a result, the primary mills again ran at close to current capacity in the second quarter of this year. Productivity, as measured on a production volume per shift basis, was 2% higher in the current quarter compared to the same quarter in 2012. Lumber recoveries were consistent with those in the second quarter last year, but were improved from the previous quarter.

Our operating results were positively impacted by an approximate 1% weakening in the average value of the Canadian dollar relative to the US dollar from the second quarter of 2012. At the end of the current quarter, the Canadian dollar had weakened to a rate of 1.0512 Canadian dollars to a US dollar, approximately 3% lower than at June 30, 2012. However, the Japanese Yen weakened significantly against the Canadian dollar in the current quarter, falling by almost 17% compared to the second 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 to match future commitments.

Minimal export taxes were incurred in the second quarter of 2013 compared to taxes of $2.1 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. However, lumber prices have fallen towards the end of the second quarter of 2013 and we will see a return to paying export taxes in August and possibly in September.

Total freight costs were $21.7 million in the second quarter of 2013, compared to the second quarter of 2012 costs of $25.1 million. The reduction is because of a lower percentage of direct shipment volumes to overseas customers (40% compared to 46% in 2012), favourable impact of exchange rates, and slightly lower overall shipment volumes.

Selling and administration costs in the current quarter were $8.0 million, which is the same as the first quarter of 2013, but $0.7 million higher than those in the second quarter of 2012. The increase of $0.7 million is primarily the result of increases in employee compensation costs associated with our improved financial performance, compared to the second quarter of 2012.

Year to date, June 30, 2013

EBITDA for the first six months of 2013 was $76.8 million, ahead of the $28.2 million we reported for the six months to June 30, 2012. The improved margins are driven primarily by increased prices for both lumber and logs, although partially offsetting this was the impact of lower sales volumes.

Total revenues for the six months to June 30, 2013 were $496.1 million, which was 4% higher than the same period in 2012. Revenues for lumber and logs were up by 5% and 4% respectively, while by-product revenues were relatively flat. Shipment volumes for lumber and logs were down for the first six months of 2013 compared to 2012 by 2% and 15% respectively, but revenues were higher primarily due to stronger prices this year compared to the first six months of 2012. Average prices realized for lumber and logs for the six months ended June 30, 2013 were higher than the first six months of 2012 by 7% and 23%, respectively. The reasons for these changes year on year are similar to those discussed in the second quarter summary above, and largely reflect improved markets for our products, combined with continued efforts by management to maximize margins by channeling some of our products into higher priced markets.

Also contributing to the increased EBITDA in the first half of 2013 over 2012 were lower freight costs and less export taxes incurred in 2013. Freight costs were $7.1 million less for the first six months of this year, primarily because of shipping proportionately less product overseas compared to 2012. Export taxes were $4.0 million lower for the first six months of this year because higher lumber prices in 2013 exceeded the threshold for triggering export taxes.

To the end of the second quarter of 2013, our non-capital margin improvement program has contributed $16.3 million in annualized margin enhancements since the inception of the program at the beginning of 2012. We are targeting a total of $25.0 million in such enhancements over a three year period. The majority of the benefits derived to date relate to manufacturing throughput improvements, and also timberlands, logistics and procurement initiatives.

Non-operating Income and Costs

Finance costs decreased from $1.9 million in the second quarter of 2012 to $0.8 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 June 30, 2013, we have repaid $60.0 million in debt, of which $54.8 million was from cash generated from operations and $5.2 million from the sale of non-core assets. The finance costs for 2012 also included an amount of $0.4 million for previously deferred finance charges that were fully expensed following the refinancing that occurred in June 2012. Finance costs of $2.0 million incurred in the first six months of 2013 were $1.5 million lower than the same period in 2012. The reduction is largely because of lower average debt outstanding over the respective six month periods.

Other income of $0.7 million for the second quarter of 2013 compares to other income of $1.6 million in the second quarter of 2012. The higher income in the second quarter 2012 reflects larger gains on asset sales last year, which included the sale of TFL 60. The current quarter's amount is net of demolition costs of $0.7 million incurred at our Saltair mill in the period.

Financial Position and Liquidity

	Three months ended June 30,		Six months ended June 30,	
(millions of dollars except where noted)	2013	2012	2013	2012
Cash provided by operating activities	$ 34.6	$ 19.2	$ 66.7	$ 27.8
Cash provided by (used in) investing activities	(17.8)	1.1	(28.8)	(2.5)
Cash provided by (used in) financing activities	93.2	(1.1)	63.5	(11.0)
Cash used to construct capitalized logging roads	(4.2)	(3.4)	(6.6)	(5.1)
Cash used to acquire property, plant and equipment	(16.5)	(5.9)	(25.1)	(7.8)

	June 30, 2013	December 31, 2012
Total liquidity[1]	$ 231.7	$ 185.1
Net debt [2]	-	15.0
Financial ratios:		
Current assets to current liabilities	3.15	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 (show as nil if net cash).

[3] Capitalization comprises net debt and shareholders equity

Cash provided by operating activities in the second quarter of 2013 was $34.6 million compared to cash provided of $19.2 million in the same period last year. Most of the increase was the result of higher operating income generated in the current quarter compared to the first quarter of 2012, but partially offsetting this was an increase in inventories during the current quarter compared to the same quarter last year.

Cash used for additions to property, plant and equipment in the second quarter of 2013 was $20.7 million compared to $9.3 million in the second quarter of 2012. In the current quarter, additions were comprised of strategic capital expenditures of $9.9 million, maintenance capital spend of $6.6 million and a further $4.2 million on capital roads and bridges. The strategic capital spend primarily relates to the Saltair sawmill upgrade project which is progressing well.

In the second quarter of 2013, the Company repaid $5.8 million on its revolving term loan from surplus cash generated from operations. On June 28, 2013, the Company extended the existing $110.0 million revolving term loan facility for an additional one year to a maturity date of June 29, 2017. Under the terms of the new arrangement, certain financial covenants have been amended to allow for distributions to shareholders, not to exceed $150.0 million, available until June 30, 2014. As of June 30, 2013, $100.0 million was drawn on the facility.

At June 30, 2013, Western's total liquidity increased to $231.7 million from $185.1 million at the end of 2012 and from $175.5 million at June 30, 2012. At June 30, 2013, liquidity was comprised of cash of $119.0 million and availability under the revolving credit facility and revolving term loan facility of $102.7 million and $10.0 million, respectively. The increase in liquidity compared to June 30, 2012 was primarily due to paying off debt from surplus cash generated from operations; an increase in borrowing base assets, specifically, eligible accounts receivable and inventory, with a corresponding increase in availability under the revolving credit facility; and the proceeds of asset sales.

Accounting Policies

Adoption of new accounting policies

The accounting policies applied by the Company in the second 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 19 in its Second 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 expected long-term rate of return. The adoption of IAS 19R required the restatement of prior period figures and the impact on the three and six months to June 30, 2012 was a reduction to net income of $0.2 million and $0.4 million, respectively. This comprised an increase to finance charges for these periods of $0.3 million and $0.6 million, respectively, and a decrease to selling and administration costs of $0.1 million and $0.2 million, respectively. There was a corresponding reduction in the defined benefit plan actuarial losses recognized in other comprehensive income of $0.2 million and $0.4 million for the three and six months to June 30, 2012, respectively. The revision had no impact on net assets at June 30, 2012 or December 31, 2012. The impact on earnings per share for the quarter ending June 30, 2012 was not material. The impact of adopting IAS 19R is more fully explained in Notes 3 and 14 in our Second Quarter 2013 Financial Statements.

Several other new standards and amendments apply for the first time effective January 1, 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 or second quarters of 2013.

Outlook and Strategy

During the second quarter of 2013, we capitalized on strong market demand and pricing for our products, while continuing to benefit from the operational changes we have made to the business. Despite recent softening of some product markets heading into the third quarter of 2013, the Company expects to continue to generate adequate free cash flow over the next several quarters. Coupled with the strength of our balance sheet and liquidity position, we have commenced a one-time $100 million share repurchase program, and initiated a quarterly dividend starting in the third quarter 2013. We will also continue our strategic plan to invest in upgrading our manufacturing facilities. Our business strategy continues to focus on growing our lumber business around our four key lumber market segments: Western Red Cedar, Japan, Niche, and Commodity.

Overall demand for WRC continues to grow with improving US new home construction and increasing levels of US home renovations. As we exit the peak season for WRC demand, we anticipate prices to seasonally decline from second quarter 2013 levels. Export taxes will be applicable for the first time in 2013 by August, which will have a negative impact in the third quarter.

Demand for lumber in Japan is expected to remain strong, supported by new home construction. May housing starts in Japan, on a seasonally adjusted basis, exceeded one million for the first time since October 2008. Although weakness in US commodity prices may increase short-term lumber supply to Japan from the US, our outlook for Japan remains strong. However, our lumber realizations could be negatively impacted by any further weakening of the yen and reduced demand for yellow cedar.

Sales volumes in the Niche market segment have fallen slightly in 2013 due to tight Douglas fir and Hemlock log markets on the coast. As a result, we have undertaken less custom milling of our logs with third parties. These reduced sales volumes have meant that we are able to choose the markets and products that return the highest margins to the logs available. We continue to see increased demand for industrial products such as timbers, rail ties and cross arms which should translate into higher pricing for these products.

The weakening of the North American benchmark WSPF 2x4 commodity price through the second quarter of 2013 appears to have found a bottom, after falling 28% from the beginning of the quarter. Although supported by a combination of increased demand from China and mill curtailments, we expect third quarter 2013 prices to be lower than those in the previous quarter by 5 to 10%. We continue to use our market flexibility to manage our commodity pricing by shifting products between markets.

Strong demand in both export and domestic log markets is expected to continue through the third quarter, but we consider further price improvement to be unlikely at this time. Volumes of export and domestic log sales will decrease as we move our harvest to higher elevations of timber. Market fundamentals for pulp logs have deteriorated, and we will continue to maximize sawlog production from pulp log sorts.

As of the date of this report the first phase of our Saltair project has been completed and benefits are expected to be achieved immediately. Our first autograder is currently being built for the Alberni Pacific sawmill, with installation expected for early October. We expect to see benefits from this new technology in the fourth quarter, and we plan to implement the same technology in other sawmills.

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. The work is almost complete and 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 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 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, 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 46.83% 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.

As of July 31, 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 second quarter of 2013, the Company paid entities related to BAM $5.4 million, and received income from related entities of $4.0 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	Don Demens
Chairman	President and CEO

Vancouver, BC,

July 31, 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	
	2nd	1st	4th	3rd	2nd	1st	4th (3)	3rd (3)
Average Exchange Rate – Cdn $ to purchase one US $	1.023	1.008	0.991	0.996	1.010	1.001	1.023	0.980
Revenues								
Lumber	180.4	157.0	156.1	147.3	163.8	157.2	147.4	141.2
Logs	67.0	63.2	62.9	58.5	73.0	51.9	60.2	77.3
By-products	14.9	13.6	12.2	13.6	14.6	14.3	13.1	15.0
Total revenues	262.3	233.8	231.2	219.4	251.4	223.4	220.7	233.5
Lumber								
Shipments – millions of board feet	231	214	222	218	234	220	209	209
Price – per thousand board feet	782	733	703	676	700	716	705	676
Logs								
Shipments – thousands of cubic metres	765	692	835	876	1,020	699	853	1,078
Price – per cubic metre (1)	84	89	73	65	69	72	69	68
Selling and administration (2)	8.0	8.0	6.8	6.8	7.3	7.7	6.9	6.4
EBITDA (2)	44.9	31.9	14.3	8.5	18.8	9.4	11.6	15.8
Amortization	(7.9)	(6.8)	(5.9)	(6.2)	(6.9)	(6.8)	(5.7)	(6.0)
Changes in fair value of biological assets	(0.8)	(0.5)	(0.3)	0.4	(0.4)	(0.1)	(0.9)	(0.6)
Reversal of impairment	-	-	12.9	-	-	-	-	-
Operating restructuring items	(0.1)	(0.2)	(4.2)	(0.2)	(0.4)	-	0.2	(0.3)
Finance costs (2)	(0.8)	(1.2)	(1.4)	(1.4)	(1.9)	(1.6)	(1.4)	(1.5)
Other income (expenses)	0.7	0.1	(0.9)	1.1	1.6	1.0	(0.3)	(1.9)
Income taxes recovery (expense)	(0.3)	(0.2)	-	(0.1)	-	-	0.1	0.1
Net income from continuing operations (2)	35.7	23.1	14.5	2.1	10.8	1.9	3.6	5.6
Net loss from discontinued operations	(0.2)	(0.3)	(0.2)	(0.3)	(0.4)	(0.2)	(0.3)	(0.3)
Net income (2)	35.5	22.8	14.3	1.8	10.4	1.7	3.3	5.3
EBITDA as % of revenues	17.1%	13.6%	6.2%	3.9%	7.5%	4.2%	5.3%	6.8%
Earnings per share:								
Net income, basic	0.08	0.05	0.03	-	0.02	-	0.01	0.01
Net income, diluted	0.07	0.05	0.03	-	0.02	-	0.01	0.01
Net income from continuing operations, basic	0.08	0.05	0.03	-	0.02	-	0.01	0.01
Net income from continuing operations, diluted	0.07	0.05	0.03	-	0.02	-	0.01	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, Selling and administration expenses, Finance costs, Net income from continuing operations and Net income have been restated to reflect the adoption of changes to *IAS 19 - Employee Benefits* as described commencing on Page 9 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 and six months ended June 30, 2013 and 2012

Western Forest Products Inc.

Condensed Consolidated Statements of Financial Position

(Expressed in millions of Canadian dollars) (unaudited)

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 119.0	$ 18.8
Trade and other receivables	78.8	69.5
Inventory (Note 7)	126.5	116.6
Prepaid expenses and other assets	9.9	7.6
	334.2	212.5
Non-current assets:		
Property, plant and equipment (Note 8)	211.5	194.2
Intangible assets (Note 8)	124.4	126.1
Biological assets (Note 9)	59.5	60.8
Other assets	11.0	12.7
	$ 740.6	$ 606.3
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 88.7	$ 74.0
Silviculture provision (Note 12)	12.8	13.4
Discontinued operations (Note 5)	4.5	5.1
	106.0	92.5
Non-current liabilities:		
Long-term debt (Note 11)	98.6	33.8
Silviculture provision (Note 12)	16.8	17.6
Other liabilities (Note 13)	31.4	35.6
Deferred revenue	65.4	66.4
Discontinued operations (Note 5)	2.6	2.7
	320.8	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	5.3	4.2
Revaluation reserve	22.3	22.3
Deficit	(207.8)	(268.8)
	419.8	357.7
	$ 740.6	$ 606.3

Commitments and Contingencies (Note 16) and Subsequent Event (Note 22)

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 June 30, 2013	Three months ended June 30, 2012 [Restated - Note 14]	Six months ended June 30, 2013	Six months ended June 30, 2012 [Restated - Note 14]
Revenue	$ 262.3	$ 251.4	$ 496.1	$ 474.8
Cost and expenses:				
Cost of goods sold	196.3	205.4	378.1	393.5
Export tax	0.1	2.1	0.1	4.1
Freight	21.7	25.1	41.1	48.2
Selling and administration	8.0	7.3	16.0	15.0
	226.1	239.9	435.3	460.8
Operating income prior to restructuring items and other income	36.2	11.5	60.8	14.0
Operating restructuring items	(0.1)	(0.4)	(0.3)	(0.4)
Other income (Note 18)	0.7	1.6	0.8	2.6
Operating income	36.8	12.7	61.3	16.2
Finance costs	(0.8)	(1.9)	(2.0)	(3.5)
Income before income taxes	36.0	10.8	59.3	12.7
Income tax expense	(0.3)	-	(0.5)	-
Net income from continuing operations	35.7	10.8	58.8	12.7
Net loss from discontinued operations (Note 5)	(0.2)	(0.4)	(0.5)	(0.6)
Net income for the period	35.5	10.4	58.3	12.1
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss)	3.9	(4.5)	2.7	(6.7)
Total comprehensive income (loss) for the period	$ 39.4	$ 5.9	$ 61.0	$ 5.4
Net income per share (in dollars):				
Basic earnings per share	$ 0.08	$ 0.02	$ 0.12	$ 0.03
Diluted earnings per share	$ 0.07	$ 0.02	$ 0.12	$ 0.03
Basic earnings per share - continuing operations	$ 0.08	$ 0.02	$ 0.13	$ 0.03
Diluted earnings per share - continuing operations	$ 0.07	$ 0.02	$ 0.12	$ 0.03
Weighted average number of shares outstanding (thousands)				
Basic	468,051	467,838	468,051	467,838
Diluted	480,063	475,289	480,063	475,289

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, 2013	Three months ended June 30, 2012 [Restated - Note 14]	Six months ended June 30, 2013	Six months ended June 30, 2012 [Restated - Note 14]
Cash provided by (used in):				
Operating activities:				
Net income from continuing operations	$ 35.7	$ 10.8	$ 58.8	$ 12.7
Items not involving cash:				
Amortization of property, plant and equipment (Note 8)	7.0	6.1	13.0	12.0
Amortization of intangible assets (Note 8)	0.9	0.8	1.7	1.7
Gain on disposal of assets	(1.4)	(0.8)	(1.4)	(3.2)
Change in fair value of biological assets (Note 9)	0.8	0.4	1.3	1.7
Finance costs	0.8	1.9	2.0	3.5
Other	(0.5)	(3.6)	(1.3)	(3.3)
	43.3	15.6	74.1	25.1
Changes in non-cash working capital items:				
Trade and other receivables	(1.7)	(2.1)	(9.3)	(18.7)
Inventory	(11.2)	(1.4)	(9.9)	5.7
Prepaid expenses and other assets	(2.9)	(1.7)	(2.3)	(1.0)
Silviculture provision	0.4	0.6	(0.6)	(0.4)
Accounts payable and accrued liabilities	6.7	8.2	14.7	17.1
	(8.7)	3.6	(7.4)	2.7
	34.6	19.2	66.7	27.8
Investing activities:				
Additions to property, plant and equipment (Note 8)	(20.7)	(9.3)	(31.7)	(12.9)
Proceeds on disposals of assets	2.9	10.4	2.9	10.4
	(17.8)	1.1	(28.8)	(2.5)
Financing activities:				
Changes in revolving credit facility	-	-	-	(8.9)
Interest paid	(0.4)	(1.0)	(1.1)	(2.2)
Repayment of long-term debt	(5.8)	(2.8)	(34.8)	(2.8)
Draw down of long-term debt	100.0	3.7	100.0	3.7
Refinancing fees	(0.6)	(1.0)	(0.6)	(1.0)
Proceeds from exercise of stock options	-	-	-	0.2
	93.2	(1.1)	63.5	(11.0)
Cash provided by continuing operations	110.0	19.2	101.4	14.3
Cash used in discontinued operations (Note 5)	(0.7)	(0.4)	(1.2)	(0.6)
Increase in cash and cash equivalents	109.3	18.8	100.2	13.7
Cash and cash equivalents, beginning of period	9.7	10.2	18.8	15.3
Cash and cash equivalents, end of period	$ 119.0	$ 29.0	$ 119.0	$ 29.0

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	-	-	-	12.1	12.1
Other comprehensive loss:					
Defined benefit plan actuarial loss recognized	-	-	-	(6.7)	(6.7)
Total comprehensive income for the period	-	-	-	5.4	5.4
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	$ (284.6)	$ 342.8

Balance at December 31, 2012	$ 600.0	$ 4.2	$ 22.3	$ (268.8)	$ 357.7
Net income for the period	-	-	-	58.3	58.3
Other comprehensive income:					
Defined benefit plan actuarial gain recognized	-	-	-	2.7	2.7
Total comprehensive income for the period	-	-	-	61.0	61.0
Share-based payment transactions recognized in equity	-	1.1	-	-	1.1
Total transactions with owners, recorded directly in equity	-	1.1	-	-	1.1
Balance at June 30, 2013	$ 600.0	$ 5.3	$ 22.3	$ (207.8)	$ 419.8

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 and six months ended June 30, 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 July 31, 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;
- Derivative financial instruments are measured at fair value; and
- The defined benefit pension liability is recognized as the net total of the plan assets, 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.

(Tabular amounts expressed in millions of Canadian dollars except number of shares)

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

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net loss from discontinued operations	$ (0.2)	$ (0.4)	$ (0.5)	$ (0.6)
Cash used in discontinued operations	$ (0.7)	$ (0.4)	$ (1.2)	$ (0.6)

	June 30, 2013	December 31, 2012
Assets of discontinued operations	$ 2.6	$ 2.2
Liabilities of discontinued operations	$ 7.1	$ 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 48.02% 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:

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Costs incurred for:				
Log purchases	$ 3.4	$ 0.9	$ 7.0	$ 3.0
Other	2.0	0.9	4.4	2.1
	$ 5.4	$ 1.8	$ 11.4	$ 5.1
Income received for:				
Log sales	$ 4.0	$ 2.0	$ 8.7	$ 3.3
Other	-	-	-	-
	$ 4.0	$ 2.0	$ 8.7	$ 3.3

(Tabular amounts expressed in millions of Canadian dollars except number of shares)

7. Inventory

The following table summarizes the value of inventory on hand:

	June 30, 2013	December 31, 2012
Logs	$ 84.0	$ 78.9
Lumber	40.3	38.0
Supplies and other inventories	11.4	10.5
Provision for write downs	(9.2)	(10.8)
Total value of inventories	$ 126.5	$ 116.6
Inventory carried at net realizable value	$ 36.4	$ 34.6

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

During the second quarter of 2013, $196.3 million (2012: $205.4 million) of inventory was charged to cost of sales which included an increase to the provision for write-down to net realizable value of $0.5 million (2012: a decrease of $5.0 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)	-
Assets transferred to held for sale	-	-	-	-	-
Balance at December 31, 2012	$ 148.2	$ 122.4	$ 105.2	$ 375.8	$ 171.1
Additions	25.1	6.6	-	31.7	-
Disposals	(0.2)	-	(1.4)	(1.6)	(0.1)
Balance at June 30, 2013	$ 173.1	$ 129.0	$ 103.8	$ 405.9	$ 171.0
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	5.6	7.4	-	13.0	1.7
Disposals	(0.2)	-	-	(0.2)	(0.1)
Balance at June 30, 2013	$ 95.3	$ 99.1	$ -	$ 194.4	$ 46.6
Carrying amounts					
At December 31, 2012	$ 58.3	$ 30.7	$ 105.2	$ 194.2	$ 126.1
At June 30, 2013	$ 77.8	$ 29.9	$ 103.8	$ 211.5	$ 124.4

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 June 30, 2013 and noted no indication that a full re-assessment of fair value was warranted at that date.

(Tabular amounts expressed in millions of Canadian dollars except number of shares)

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

	June 30, 2013	December 31, 2012
Cost	$ 79.7	$ 80.2

9. Biological Assets

	Three months ended June 30, 2013		Six months ended June 30, 2013	
	2013	2012	2013	2012
Carrying value, beginning of period	$ 60.3	$ 61.1	$ 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	0.6	0.2	1.3	0.7
Harvested timber transferred to inventory during the period	(1.4)	(0.6)	(2.6)	(1.2)
Carrying value, end of period	$ 59.5	$ 60.7	$ 59.5	$ 60.7

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, 2013, standing timber covered an area of approximately 23,314 hectares (December 31, 2012: 23,493 hectares), which range from newly planted cut-blocks to old-growth forests. During the second quarter of 2013 the Company harvested and scaled approximately 64,699m^3 of logs from its private timberlands, which had a fair value less costs to sell of $5.6 million at the date of harvest (three months ended June 30, 2012: 59,200m^3 and $4.6 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 ("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 Facility matures on December 14, 2015 subject to any future refinancing requirements of its revolving term loan. At June 30, 2013, the Facility was unused (December 31, 2012: nil) and $102.7 million of the facility was available to the Company. The interest rate for the Facility was 3.50% at June 30, 2013 (December 31, 2012: 3.50%).

11. Long-Term Debt

On June 28, 2013 the Company extended the maturity date of its existing $110.0 million revolving term loan facility ("Term Loan") from June 28, 2016 to June 29, 2017. Under the terms of the new arrangement, certain financial covenants have been amended to allow the Company to make distributions to its shareholders, not to exceed $150.0 million in aggregate, available until June 30, 2014 (see Note 22). At June 30, 2013, $100.0 million was drawn on the Term Loan.

(Tabular amounts expressed in millions of Canadian dollars except number of shares)

Interest rate terms remain unchanged as a result of the amendment to the Term Loan in June 2013. The loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate, and (ii) the 30 day Banker's Acceptance ("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, 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 Term 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 Term Loan agreement also includes financial covenants. The interest rate for the Term Loan was 3.97% at June 30, 2013 (December 31, 2012: 4.75%).

The Company was in compliance with its financial covenants at June 30, 2013.

	June 30, 2013	December 31, 2012
Canadian dollar debt		
Revolving term loan	$ 100.0	$ 34.8
Less transaction costs	(1.4)	(1.0)
	$ 98.6	$ 33.8

The transaction costs as at June 30, 2013 and December 31, 2012 relate to the financing arrangements completed in the second quarter of 2012 and the amendment to this agreement on June 28, 2013. These costs are deferred and being amortized to finance costs over the term of the amended revolving term loan facility, using the effective interest rate method.

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,	
	2013	2012	2013	2012
Silviculture provision, beginning of period	$ 30.9	$ 31.6	$ 31.0	$ 30.9
Silviculture provision charged	2.6	4.1	5.6	6.5
Silviculture work payments	(4.0)	(3.8)	(7.2)	(5.6)
Disposition of intangible assets	-	(1.4)	-	(1.4)
Unwind of discount	0.1	0.1	0.2	0.2
Silviculture provision, end of period	29.6	30.6	29.6	30.6
Less current portion	12.8	12.9	12.8	12.9
	$ 16.8	$ 17.7	$ 16.8	$ 17.7

13. Other Liabilities

	June 30, 2013	December 31, 2012
Employee post-retirement benefits obligation (Note 14)	$ 29.4	$ 33.2
Environmental accruals, excluding non-continuing operations	1.5	1.5
Other	0.5	0.9
	$ 31.4	$ 35.6

(Tabular amounts expressed in millions of Canadian dollars except number of shares)

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 three and six months to June 30, 2012 was a reduction to net income of $0.2 million and $0.4 million, respectively. This comprised an increase to finance costs for the three and six months to June 30, 2012 of $0.3 million and $0.6 million, respectively, and a decrease to selling and administration costs of $0.1 million and $0.2 million, respectively. There was a corresponding reduction in the defined benefit plan actuarial losses recognized in other comprehensive income for the three and six months ended June 30, 2012 of $0.2 million and $0.4 million, respectively. The revision had no impact on net assets at June 30, 2012 or December 31, 2012. The impact on earnings per share for the three and six months ending June 30, 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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Current service costs	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Net interest	0.3	0.3	0.6	0.6
Cost of defined benefit plans	0.4	0.4	0.8	0.8
Cost of defined contribution plans	0.6	0.6	1.3	1.2
Total cost of employee post-retirement benefits	$ 1.0	$ 1.0	$ 2.1	$ 2.0

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:

	June 30, 2013	December 31, 2012
Present value of obligations	$ (131.3)	$ (134.8)
Fair value of plan assets	101.9	101.6
Liability recognized in the statement of financial position	$ (29.4)	$ (33.2)

The change in the liability recognized in the statement of financial position at June 30, 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 in actual compared to expected returns on plan assets for the quarter. The change in discount rates in the second quarter of 2013 was an increase of 0.2% from the rate used at December 31, 2012 of 4.2%, and the return on assets over the six months to June 30, 2013 was 2.5%.

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 June 30, 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 20,000,000 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 2013, 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 per Common Share, 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 June 30, 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 and six months ended June 30, 2013 the Company recorded compensation expense of $0.6 million and $1.0 million respectively (2012: nil and $0.2 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 2013, a director was granted 6,063 DSU's at a price of $1.34 per DSU and 73,594 DSUs were redeemed. In 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 June 30, 2013 was 921,635 (December 31, 2012: 980,191). During the three and six months ended June 30, 2013, the Company recorded compensation recovery for these DSUs of $0.2 million and $.01 million, respectively (2012: compensation recovery of $0.1 million and expense of $0.1 million, respectively), with corresponding adjustments 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 June 30, 2013, the Company had outstanding obligations to sell an aggregate JPY 1,200 million at an average rate of JPY 98.03 per CAD with maturities through August 30, 2013, and an aggregate US $29.0 million at an average rate of US $1.0323 per CAD with maturities through October 31, 2013. All foreign currency gains or losses related to currency forward contracts to June 30, 2013 have been recognized in revenue for the period and the fair value of these instruments at June 30, 2013 was a net liability of $1.1 million, which is included in accounts payable and accrued liabilities on the statement of financial position (December 31, 2012: net liability of $0.1 million). A net loss of $0.4 million was recognized on contracts which were settled in the six months ended June 30, 2013 (2012: $0.8 million), which was included in revenue for the period.

(Tabular amounts expressed in millions of Canadian dollars except number of shares)

18. Other Income

Other income was $0.7 million in the second quarter of 2013 (2012: $1.6 million). Other income in both years relates primarily to net gains on asset sales, and in the second quarter of 2013 also includes building demolition costs.

19. Determination of Fair Value

(a) Fair value hierarchy

The following table provides information about recurring financial 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	$ -	$ 4.9	$ -	**$ 4.9**
Financial liabilities				
Foreign currency forward contracts	$ -	$ 1.1	$ -	**$ 1.1**

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 June 30,		Six months ended June 30,	
	2013	2012 [Restated - Note 14]	2013	2012 [Restated - Note 14]
Administration	$ 5.8	$ 5.1	$ 11.5	$ 10.3
Distribution expenses	24.0	29.4	45.7	57.0
Cost of goods sold	196.3	205.4	378.1	393.5
	$ 226.1	$ 239.9	$ 435.3	$ 460.8

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

21. Other Expense Information

The Company recorded total employee compensation costs for the three and six months ended June 30, 2013 of $55.5 million and $108.1 million respectively (2012: $48.7 million and $99.6 million, respectively).

Total amortization expense for the three and six months ended June 30, 2013 was $7.9 million and $14.7 million, respectively (2012: $6.9 million and $13.7 million, respectively).

22. Subsequent Event

On July 2, 2013, the Company announced a substantial issuer bid (the “Issuer Bid”) to repurchase up to $100.0 million of its outstanding Common and Non-Voting shares (“Shares”), and the commencement of a regular quarterly dividend of, initially, $0.02 per Share, subject to Board of Directors’ approval each quarter.

The Issuer Bid is an all-cash offer made by way of a modified “Dutch Auction” and the range of bid prices will be from $1.30 to $1.50 per Share. The Issuer Bid will remain open for acceptance until Monday, August 12, 2013, unless withdrawn or extended by the Company. The Company expects to fund purchases of Shares pursuant to the Issuer Bid from cash drawn on its revolving term loan facility.

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