Western Forest Products Inc.

2015 Second Quarter Report

Western Forest Products Inc.

Letter to Shareholders

To Our Shareholders,

Western delivered consistent quarterly EBITDA despite significant declines in commodity and Japanese lumber markets and export log pricing.

In the second quarter we successfully levered our flexible operating platform and well-positioned log inventory to maximize Western Red Cedar ("WRC") lumber sales, improving our lumber sales mix and allowing us to offset the declines in commodity and Japanese lumber markets and export log pricing**.** We delivered $29.2 million EBITDA compared to $29.6 million in the preceding quarter while the United States dollar ("USD") denominated SPF commodity lumber index declined by 12% from the first quarter of 2015.

Second quarter 2015 financial highlights:

- Realized a record quarterly average lumber price of $879 per thousand board feet
- Continued to demonstrate a balanced approach to capital allocation by returning $7.9 million to shareholders through the Company's quarterly dividend program
- Maintained a strong balance sheet to facilitate the execution of our strategic plan

Second quarter 2015 operational successes:

- Achieved our highest quarterly WRC lumber sales volume since 2008 at 73 million mfbm
- Completed the successful restart of the second production line at the Duke Point sawmill
- Demonstrated the success of our operational optimization strategy as we achieved similar year over year production levels with one less sawmill
- Increased log purchases by 6% and sustainably grew log inventory by 8% compared to same period last year

The gradual recovery in the United States ("U.S.") new home segment is continuing. In the longer term we believe that increased demand from the U.S. recovery and continued demand from China will combine with a reduction in lumber supply from traditional Canadian sources to deliver a stronger pricing environment. In the near term we expect pricing in the commodity markets to remain volatile as improved demand from the U.S. is offset by market weakness in China.

Continued strength in the North American repair and renovation segment will support strong demand and stable pricing for our WRC and Niche lumber products in the third quarter of 2015.

The Japanese housing sector is recovering from the impacts of the increase in the consumption tax. Increased housing activity should support increased demand for our lumber products. The pricing environment will remain challenging as suppliers, who have benefited from changes in exchange rates, compete for market share.

We expect the log market to remain mixed in the third quarter of 2015. Domestically, reduced supply due to the impacts of an unprecedented stretch of hot, dry weather which has necessitated harvest curtailments will support sawlog pricing while pulp mill curtailments will put pulp log pricing under pressure. Export markets are expected to remain challenging as suppliers that have benefited from currency adjustments are competing for market share in China.

In anticipation of improved long term market fundamentals we will continue with our capital investment program which is designed to deliver the lowest cost manufacturing platform on the coast of British Columbia. Once that investment program is complete, Western will have the only manufacturing platform on the coast capable of competitively optimizing the complete coastal log profile. A comprehensive and competitive manufacturing platform is critical to support sustainable harvesting activities. During the third quarter we will complete the last component of the $38 million upgrade of our Saltair sawmill with the installation of a new log merchandiser. Equipment tie in will require three weeks of downtime in September. We anticipate the ramp-up of the new merchandiser to occur throughout the fourth quarter. In addition to the project at Saltair, we will continue the modernization of our Duke Point sawmill with additional investments in mill infrastructure.

I am pleased to report the appointment of Ms. Jane Bird to our Board of Directors effective August 4th, 2015. Ms. Bird was the former Chief Executive Officer of Columbia Power Corporation and of Canada Line Rapid Transit Inc., and is currently a member of the Board of Directors at Global Container Terminals Inc., B.C. Ferries Services Inc. and IBI Group Inc. Furthermore, in our drive to continually improve and enhance our corporate governance best practices, Mr. Daniel Nocente, who has served as a valued member of the Western Board of Directors since 2014, has been appointed independent Lead Director.

Tragically, in late July we experienced a fatality in our northern Vancouver Island timberlands contract operations. We extend our deepest sympathy and condolences to the family and friends of the contractor faller who lost his life. While the investigation to determine cause is still underway, we pledge to learn all we can from this tragic event and share this information across our Company. Personal safety is a core value and the leading operational priority at Western.

I would like to thank our shareholders, customers, employees and the communities where we work for your continued support of Western Forest Products.

Sincerely,

Don Demens
President and CEO

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") 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, 2015 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, 2015 and the audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2014 (the "2014 Annual Report"), all of which can be found on SEDAR at www.sedar.com.

The Company has prepared the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2015 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 adjusted EBITDA[1] and adjusted EBITDA margin[2]. Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expenses), plus amortization of property, plant, and equipment and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted EBITDA as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted 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 adjusted EBITDA and adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

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

Also in this MD&A, management uses key performance indicators such as net debt, net debt to capitalization and current assets to current liabilities. Net debt is defined as long-term debt less cash and cash equivalents. Net debt to capitalization is a ratio defined as net debt divided by capitalization, with capitalization being the sum of net debt and shareholder's equity. Current assets to current liabilities is defined as total current assets divided by total current liabilities. These key performance indicators are non-GAAP financial measures that do not have a standardized meaning and may not be comparable to similar measures used by other issuers. They are not recognized by IFRS; however, they are meaningful in that they indicate the Company's ability to meet their obligations on an ongoing basis, and indicate whether the Company is more or less leveraged than the prior periods.

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 the 2014 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 August 4, 2015. Certain prior period comparative figures 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

[2] Adjusted EBITDA as a proportion of Revenue

Summary of Selected Quarterly Results[1]

(millions of dollars except per share amount)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenue	$ 289.2	$ 296.2	$ 537.8	$ 542.2
Adjusted EBITDA	29.2	40.9	58.8	73.7
Adjusted EBITDA margin	10.1%	13.8%	10.9%	13.6%
Operating income prior to restructuring items and other income	21.0	31.3	41.1	56.2
Net income from continuing operations	19.1	29.2	37.6	52.8
Net income for the period	19.1	29.2	46.7	52.8
Basic and diluted earnings per share (in dollars) - continuing operations	$ 0.05	$ 0.07	$ 0.10	$ 0.13
Basic and diluted earnings per share (in dollars) - discontinued operations	$ -	$ -	$ 0.02	$ -

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

Overview

Western reported adjusted EBITDA of $29.2 million in the second quarter of 2015. Financial results were supported by our flexible operating platform, which enabled us to increase shipments of Western Red Cedar (“WRC”) lumber and reduce our exposure to the significant downturn in commodity and Japan lumber markets. The steep decline in commodity lumber pricing compared to a year ago led to the imposition of Softwood Lumber Agreement (“SLA”) export duties for the first time in 17 months, which negatively impacted results. Second quarter 2015 adjusted EBITDA declined $11.7 million compared to the second quarter of 2014 due to lower commodity and Japan lumber pricing and the imposition of lumber duties into the U.S., as well as lower prices for export logs.

Second quarter lumber revenue of $200.0 million declined 4% from the same period last year as we delivered an 8% increase in average realized lumber prices while the SPF commodity index, presented in Canadian dollar (“CAD”), fell 8% period over period. Lumber shipment volumes were down 11% in the second quarter of 2015 as compared to the same period last year due to weak commodity and Japan lumber markets. Lumber pricing was supported by a 13% increase in WRC lumber sales volumes and a weaker CAD. WRC lumber sales volumes increased to 32% of total lumber sold in the second quarter of 2015 as compared to 26% in the same period last year.

Log revenue of $71.0 million in the second quarter of 2015 was similar to the same period last year as higher sales volumes of sawlogs and higher prices for pulp logs were offset by lower pulp log volumes and a decline in export log pricing. Overall log shipment volumes declined by 3% in the second quarter of 2015 compared to the same period last year due to a 29% reduction in pulp log sales, as pulp mill downtime delayed deliveries. Domestic log sales remained strong due to continued demand for our specialty log offerings.

In the second quarter of 2015, our flexible operating platform allowed us to implement changes to our planned production to address poor commodity and Japan lumber market conditions by increasing WRC production and sales volumes. Lumber production volumes in the second quarter of 2015 mirrored those of the same quarter last year, and increased by 13% from the first quarter of 2015 as a result of the continued ramp-up of production at our Duke Point sawmill.

Unseasonably dry weather conditions in the second quarter of 2015 led to reduced log production as compared to the same period last year. As a result of our strategy to maximize logging activities in the first quarter, we were able to continue to load and haul logs while harvesting was curtailed, supplying our mills and log customers from a robust log inventory that increased by approximately 100,000 cubic metres at June 30, 2015 as compared to the same period last year. Log production costs increased in the second quarter over last year due to the change in the mix of harvest locations, higher helicopter logging volumes and increased labour costs.

Net income for the second quarter of 2015 was $19.1 million, or $0.05 per common share, as compared to net income of $29.2 million, or $0.07 per common share, for the same period in 2014. Net income decreased due to challenging conditions in commodity and Japan lumber markets and through the imposition of export tax on lumber sales to the U.S.

Total liquidity as of June 30, 2015 was $160.9 million compared to $134.4 million at the end of 2014. The increased liquidity in 2015 was the result of cash generated by operations and the sale of non-core assets. In the second quarter of 2015, we continued to provide returns to our shareholders through our dividend program, returning $7.9 million, or $0.02 per common share, to shareholders on June 20, 2015.

Operating Results

(millions of dollars)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenue				
Lumber	$ 200.0	$ 207.9	$ 371.8	$ 381.8
Logs	71.0	71.8	$ 132.2	127.0
By-products	18.2	16.5	$ 33.8	33.4
Total revenue	289.2	296.2	537.8	542.2
Adjusted EBITDA	29.2	40.9	58.8	73.7
Adjusted EBITDA margin	10.1%	13.8%	10.9%	13.6%

Second quarter 2015

In the second quarter of 2015, we generated $289.2 million of revenue and $29.2 million of adjusted EBITDA compared to $296.2 million of revenue and $40.9 million of adjusted EBITDA in the same quarter last year. Our ability to access additional log volume on the open market in combination with our flexible operating platform allowed us to focus our production on higher value specialty products. This strategy limited the impact of the significant decline in the commodity and Japan lumber markets.

Lumber revenue in the second quarter of 2015 was $200.0 million, a decrease of 4% from the same period of 2014. Second quarter average realized lumber pricing of $879 per thousand board feet ("mfbm") was a record for the company, having increased $64 per mfbm in the second quarter of 2015 compared to the same period last year. Improved pricing was driven by a 13% increase in WRC sales volumes and a weaker CAD. The additional sales of WRC and the weaker CAD partly offset an 11% reduction in sales volumes and pricing weakness in commodity and Japan lumber markets.

Second quarter log revenue of $71.0 million in 2015 was relatively unchanged from the same period in 2014. Continued weakness in export log pricing was offset by the weaker CAD and a 5% increase in export log shipments in the second quarter of 2015 as compared to the same period last year. Domestic saw log shipments increased by 4% while domestic log pricing decreased slightly due to a lower value sales mix. Realized pulp log pricing increased moderately over the second quarter of 2015, while pulp log shipment volumes were down 29% as pulp mill curtailments temporarily delayed deliveries.

By-products revenue was $18.2 million in the second quarter of 2015, an increase of 10% from the same period in 2014. Increased revenues were driven by higher realized chip prices. Chip prices are tied to the USD-denominated market price of pulp and as the CAD weakened our realized chip prices improved.

Improved production from the Duke Point sawmill in the second quarter of 2015 as a result of our ongoing modernization project offset the impact of the November 2014 permanent closure of our Nanaimo sawmill, and drove lumber production to 236 million board feet in the second quarter of 2015. While this production was flat as compared to the same quarter of 2014, we increased lumber production by 13% as compared to the first quarter of 2015.

Log harvest volumes in the second quarter of 2015 reached 1.4 million cubic meters, a reduction of 0.1 million cubic metres from the same quarter of 2014, despite the impact of hot, dry weather which limited some harvest operations. To supplement log inventories to our mills, we grew second quarter sawlog purchases to over 0.3 million cubic metres, an increase of 6% as compared to the same period last year.

Log production costs and average log value both increased by 4% in the second quarter of 2015 as compared to the same period last year, primarily due to a change in mix of harvest locations and an increase in helicopter logging. Also contributing to a year over year cost increase was higher labour costs as a result of a five-year labour agreement ratified by the United Steelworkers Union ("USW") in July 2014.

Our focus on specialty lumber production in the second quarter of 2015 resulted in a 16% increase in WRC lumber production as compared to the same quarter last year and led to the highest quarterly WRC lumber sales volume since 2008. By utilizing our flexible operating platform we replaced higher production commodity volumes with higher margin WRC production in our mills. The additional WRC volumes led to an increase in production costs and a 4% decrease in lumber recovery as compared to the same period last year.

With the drop in the commodity benchmark lumber pricing index, export taxes under the Softwood Lumber Agreement became payable in the second quarter of 2015 for the first time since the fourth quarter of 2013. Export tax rates applied to shipments of lumber to the U.S. were 5% for April and May and 10% for June. In the second quarter of 2015 we incurred $1.8 million in export tax expense.

Freight costs were $23.1 million in the second quarter of 2015, a decrease of $2.0 million compared to the same period of 2014. This decrease was due largely to the geographic mix of lumber shipments, and a reduction in fuel surcharges similar to that realized in the first quarter of 2015.

Selling and administration expense decreased 6% from the second quarter of 2014 to $7.6 million in the second quarter of 2015. Contributing to lower administration expense was reduced selling expense and performance-based compensation costs.

Second quarter net income was $19.1 million in 2015, as compared to $29.2 million in the same period in 2014. The reduction in net income in the second quarter of 2015 reflects those circumstances presented above.

Year to date, June 30, 2015

Adjusted EBITDA for the first six months of 2015 was $58.8 million. Our flexible operating platform enabled us to meet increased demand for WRC and Niche lumber and reduce our exposure to a significant downturn in commodity and Japan lumber markets. Resilient WRC and Niche lumber markets, the weaker CAD, and an increase in log shipments partially offset the impact of poor commodity and Japan lumber pricing in the first half of 2015. With an increase in production costs and the imposition of export tax, these factors reduced adjusted EBITDA by $14.9 million from the first half of 2014, and resulted in an adjusted EBITDA margin of 10.9% as compared to 13.9% in the same period last year.

Lumber revenue in the first half of 2015 declined by 3% as compared to the first half of 2014. A $59 per mfbm increase in average realized lumber pricing due to an improved product mix was offset by a 9% decrease in lumber shipments. As compared to the first half of 2014, WRC and Niche shipments grew by 10% and 9%, respectively, which increased our average realized lumber price and limited the impact of weaker commodity and Japanese lumber markets. WRC lumber sales volumes increased to 30% of total lumber sold in the first half of 2015 as compared to 25% in the same period last year.

First half log revenue increased by 4% in 2015 to $132.2 million on the strength of 10% increases in both export and domestic sales volumes, and a reduction in pulp log sales volumes as compared to the first half of 2014. Our average realized log pricing remained flat as rising domestic log pricing and the weaker CAD offset the impact of challenging log market conditions in China.

Improved production from our Duke Point sawmill offset the impact of the November 2014 closure of our Nanaimo sawmill on first half 2015 lumber production, which was 6% lower than in the first half of 2014. The lumber production decrease was primarily the result of the internalization of custom cut volumes to match production volumes to market demand.

Total log production increased to 2.9 million cubic metres in the first half of 2015 from 2.8 million cubic metres produced in the same period last year. The increased harvest combined with a greater log purchase volume in the first half of 2015 led to our highest mid-year log inventory volume since 2008. As a result, entering the second half of 2015 our log inventory was well-positioned to supply our mills and log customers and mitigate some of the risk of potential weather-related harvest curtailments.

Log production costs were higher in the first half of 2015 primarily due to a mix in harvest operations, increased helicopter logging volumes and increased labour costs. Labour costs have increased following the aforementioned labour agreement with the USW. Additionally, we expensed $2.2 million more spur road construction in the first half of 2015 as compared to the same period last year as we increased our access to standing timber in preparation for future harvesting.

Selling and administration expense in the first half of 2015 was $14.1 million, a decrease of $3.8 million from the same period last year. The reduction in selling and administration expense was due to reduced selling expense and performance-based compensation costs. As a percentage of revenue, selling and administration expense has decreased from 3.3% in the first half of last year to 2.6% in the same period of 2015.

Finance costs

Finance costs in the second quarter of 2015 were $1.3 million, a decrease of $0.2 million compared to the same quarter of 2014. This decrease was commensurate with a reduction in lower average outstanding debt on our revolving term loan facility and a reduction in interest rate from the comparative period. The average debt balance outstanding in the second quarter of 2015 was $73.8 million as compared to $87.8 million in the same quarter of 2014.

Discontinued Operations

The sale of Western's former Squamish pulp mill site was completed February 6, 2015 for cash proceeds of $21.8 million. Consequently, the Company recognized $9.1 million in net income from discontinued operations in the first quarter of 2015 resulting from a gain on disposal of property, plant and equipment; revenue from the sale of hydro-electric power generated at the site partly offset by site operating costs incurred up to the sale completion date; and a gain on reversal of a liability.

As part of our corporate strategy, we will continue to pursue opportunities to sell non-core assets in order to optimize our business.

Financial Position and Liquidity

(millions of dollars except where noted)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Cash provided by operating activities, excluding non-cash working capital	$ 26.1	$ 40.8	$ 54.9	$ 73.4
Cash provided by operating activities	$ 20.6	$ 30.4	28.8	50.8
Cash used in investing activities	(15.6)	(7.9)	(25.7)	(16.1)
Cash used in financing activities	(6.1)	(14.7)	(20.9)	(22.8)
Cash used in capital logging roads	(3.7)	(3.3)	(6.2)	(6.7)
Cash used to acquire property, plant and equipment	(11.9)	(4.6)	(19.5)	(9.4)

	June 30, 2015	December 31, 2014
Total liquidity (1)	$ 160.9	$ 134.4
Net debt (2)	70.7	77.9
Financial ratios:		
Current assets to current liabilities	2.34	2.29
Net debt to capitalization (3)	0.14	0.16

(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.

Second quarter cash provided by operating activities in 2015 was $20.6 million as compared to $30.4 million in the same quarter of 2014, primarily due to reduced revenue from operations, the timing of accounts receivable collection, and an increase in log and lumber inventory. The Company took advantage of favourable weather in the spring to advance our harvest plans in the first half of 2015 in anticipation of a dry, hot summer. Partly offsetting the increase in non-cash working capital requirements was an increase in accounts payable and other short-term liabilities due to timing of payments.

Cash used in investing activities was $15.6 million in the second quarter of 2015, as compared to cash used in investing activities of $7.9 million in the same quarter of 2014. These results are consistent with an increased focus on accelerating the implementation of previously announced strategic capital investments and include early stage costs realized as part of the additional $30.0 million investment in strategic capital announced in May 2014.

Capital investments in the second quarter of 2015 were comprised of strategic capital investments of $4.6 million, discretionary spending on capital roads of $3.7 million, and other discretionary maintenance capital projects of $7.3 million. The strategic capital invested in the second quarter of 2015 primarily related to preparation for the log merchandiser installation project at Saltair, which is scheduled to become operational in the third quarter of 2015, and progress made on the Duke Point modernization project through upgrades to that facility's planer mill. Our strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

In the second quarter of 2015, financing activities used cash of $6.1 million compared to the $14.7 million utilized in the same quarter of 2014. We returned $7.9 million, or $0.02 per common share, to shareholders on June 20, 2015 via a quarterly dividend payment, and made drawings of $2.5 million under our revolving credit facility during the second quarter of 2015. The Company elected to draw funds from its credit facility to fund an increase in log inventory and other working capital.

Total liquidity was $160.9 million at June 30, 2015, compared to $134.4 million at the end of 2014. The increase in liquidity was due to cash generated by operations, proceeds from the sale of non-core assets, and an increased borrowing base under the revolving credit facility. At June 30, 2015, liquidity was comprised of cash of $4.9 million, unused availability under the secured revolving credit line of $120.0 million, and $36.0 million available under the revolving term loan facility.

Strategy and Outlook

Western's strategy, which is designed to maximize product margins while increasing our sales volume, remained a focus in the first half of 2015.

Key operational priorities in support of our strategy include:

- Increasing log availability through improved log utilization
- Accessing additional log volume on the open market to increase lumber production
- Improving productivity through increased equipment utilization
- Focusing our lumber marketing programs by mill to drive higher margins

Market Outlook

The gradual recovery in the U.S. new home construction market continues. It is our belief that increased demand from the recovery in the U.S. new home segment and continued demand from China, combined with a reduction in supply from traditional Canadian sources, will lead to a stronger pricing environment. In the near term, we expect commodity lumber pricing to remain volatile as increased lumber consumption in the U.S. is expected to be offset by continued weakness in China.

Lower U.S. commodity prices led to the imposition of export taxes under the SLA in the second quarter. The export tax on lumber shipments to the U.S. was 15% in July and will decline to 5% in August. We expect the export tax to remain in place until either the commodity lumber index price recovers or the current SLA expires in October 2015.

Continued strength in the repair and renovation market in North America will support strong demand for our WRC and Niche product lines. We anticipate WRC lumber pricing to hold at current levels for the remainder of the third quarter as weather-related market inventories are reduced. Our Niche lumber sales pricing is expected to remain strong while volume should increase in the third quarter.

We anticipate pricing pressures to continue in the Japanese and Chinese lumber markets in the third quarter of 2015. Our focus for these markets continues to be the refinement of sales channels and management of near-term market conditions by utilizing our flexible operating platform and directing production to the highest margin markets and products.

Export log market conditions are expected to remain challenging in the third quarter while domestic log markets should benefit from a combination of constrained supply and our specialty product mix. Pulp log markets will remain challenging due to reduced demand resulting from pulp mill curtailments.

Continued hot, dry weather has the potential to impact future log harvesting activities and could lead to reduced log supply to our mills. In anticipation of potential operational curtailments, we grew our third quarter opening log inventory volume to the highest level at that time of year since 2008.

Strategic Capital Plan Update

In the second quarter of 2015, we announced additional planned strategic capital investments of $30.0 million and continued to make steady progress with our ongoing strategic capital projects.

In May 2015 we advanced our Duke Point sawmill modernization plan by installing a new log haul and restarting the second production line. The ongoing ramp-up in production at that mill has positively impacted our productivity and production costs, and allowed the internalization of additional custom cut production that will lead to improved lumber margins and chip revenue. Our upgrades at Duke Point allow us to increase our large log utilization and support our strategy of harvesting the profile of the coastal forest.

Additionally, in the second quarter of 2015 we continued the engineering associated with our recently announced capital projects and finalized preparation for the installation of a log merchandiser at our Saltair sawmill. That installation will take place late in the third quarter of 2015 and will result in three weeks of production downtime at that operation. Also in the third quarter, we will continue with the Phase III modernization at Duke Point and begin upgrades to the timber deck at our Chemainus sawmill.

The upcoming capital investments in our operations are expected to increase productivity, reduce production costs, increase margins, and support the continued sustainable harvesting of our complete forest profile. Upon completing the strategic capital program, we expect to have improved our competitiveness and gained access to new markets.

New accounting policies

New standards and interpretations not yet adopted

The following new and amended IFRS standards are not effective for the year ended December 31, 2015 and have not been applied in preparing these consolidated financial statements:

- IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

  IFRS 15 is effective for years commencing on or after January 1, 2018, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue related interpretations. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments, and lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

- IFRS 9, *Financial Instruments ("IFRS 9")*

  IFRS 9 is effective for years commencing on or after January 1, 2018, and will replace IAS 39, Financial Instruments: Recognition and Measurement. Under IFRS 9, financial assets will be classified and measured based on the business model in which they are held and the characteristics of the associated contractual cash flows. IFRS 9 also includes a new general hedge accounting standard which will better align hedge accounting with risk management. The Company intends to adopt IFRS 9 in its consolidated financial statements for the year commencing January 1, 2018; the extent of the impact of adoption of the amendments has not yet been determined.

- *Annual improvements to IFRS*

  The IASB issued narrow-scope amendments to various standards as part of its annual improvements process in December 2014. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments apply prospectively for annual periods beginning on or after January 1, 2016; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Amendments were made to clarify the following in their respective standards:

  - Definition of "continuing involvement" in IFRS 7, Financial instruments: Disclosures;
  - Discount rates for post-employment benefit obligations in IAS 19, Employee Benefits; and,
  - Disclosure requirements in IAS 34, Interim financial reporting.

  The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

The following revised IFRSs became effective on or after January 1, 2015. However, they do not have a material impact on the annual consolidated financial statements of the Company:

- IFRS 8, *Operating segments*
- IAS 24, *Related party transactions*

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2014 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.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109 issued by the Canadian Securities Administrators, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and internal controls over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2014. 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 were 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 were 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.

The CEO and CFO confirm that there were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the second quarter of 2015.

Outstanding Share Data

As of August 4, 2015, there were 395,065,407 common shares issued and outstanding.

Western has reserved 20,000,000 common shares for issuance upon the exercise of options granted under the Company's incentive stock option plan. During the six months ended June 30, 2015, 266,000 previously granted options were exercised, and 1,491,667 options were granted. On August 4, 2015, 11,656,667 options were outstanding under the Company's incentive stock option plan.

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of dollars except per share amounts and where noted)	2015		2014				2013	
	2nd	1st	4th	3rd	2nd	1st	4th	3rd
Average Exchange Rate – Cdn $ to purchase one US $	1.229	1.241	1.136	1.089	1.091	1.103	1.049	1.039
Revenue								
Lumber	200.0	171.8	166.8	180.4	207.9	173.9	168.1	171.7
Logs	71.0	61.2	51.2	66.0	71.8	55.2	59.7	53.9
By-products	18.2	15.6	14.6	15.7	16.5	16.9	14.2	13.8
Total revenue	289.2	248.6	232.6	262.1	296.2	246.0	242.0	239.4
Lumber								
Production – millions of board feet	236	209	202	231	237	237	213	223
Shipments – millions of board feet	228	202	215	220	255	218	222	228
Price – per thousand board feet	879	849	775	820	815	798	758	752
Logs								
Production – thousands of cubic metres	1,402	1,472	1,281	1,009	1,544	1,293	1,314	1,233
Shipments – thousands of cubic metres	749	700	571	707	773	581	697	615
Price – per cubic metre (1)	90	83	90	86	90	95	84	83
Selling and administration	7.6	6.5	6.0	8.3	8.1	9.8	8.8	8.2
Adjusted EBITDA	29.2	29.6	14.8	20.0	40.9	32.8	24.4	27.6
Amortization	(7.6)	(7.8)	(6.7)	(7.0)	(8.2)	(7.7)	(7.0)	(7.5)
Changes in fair value of biological assets	(0.6)	(1.7)	0.5	(0.4)	(1.4)	(0.2)	(0.7)	(0.3)
Reversal of impairment	-	-	2.9	-	-	-	8.2	-
Operating restructuring items	(0.4)	(0.3)	(1.2)	(8.3)	(1.2)	(0.1)	(0.1)	(0.3)
Finance costs	(1.3)	(1.3)	(1.2)	(1.4)	(1.5)	(1.6)	(1.7)	(1.7)
Other income (expenses)	(0.1)	0.1	0.6	-	0.6	0.2	(0.1)	(0.4)
Deferred income tax recovery (expense)	(0.1)	0.1	3.2	-	-	0.2	26.5	-
Current income tax recovery (expense)	-	(0.2)	(0.0)	(0.2)	-	-	0.4	(0.2)
Net income from continuing operations	19.1	18.5	12.9	2.7	29.2	23.6	49.9	17.2
Net income from discontinued operations	-	9.1	-	-	-	-	-	-
Net income	19.1	27.6	12.9	2.7	29.2	23.6	49.9	17.2
Adjusted EBITDA margin	10.1%	11.9%	6.4%	7.6%	13.8%	13.3%	10.1%	11.5%
Earnings per share:								
Net income, basic	0.05	0.07	0.03	0.01	0.07	0.06	0.13	0.04
Net income, diluted	0.05	0.07	0.03	0.01	0.07	0.06	0.13	0.04

(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.

In a normal operating year there is seasonality to the Company's operations with higher lumber sales in the first half through to early in the third quarter when construction activity, particularly in the U.S., 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.

Certain categories of transactions are presented separately above due to their unpredictable timing and to allow for greater comparability of our operating results between periods. In the first quarter of 2015, the Company recognized $9.1 million net income from discontinued operations relating to its former Squamish pulp mill site that was sold on February 6, 2015. The third quarter of 2014 included an $8.1 million restructuring provision related to the consolidation of its Nanaimo sawmill operations. The fourth quarters of 2014 and 2013 include impairment reversals of $2.9 million and $8.2 million, respectively, that had been taken on the Company's timber licenses (intangible assets). In the fourth quarters of 2014 and 2013, the Company recognized deferred income tax assets of $3.2 million and $26.5 million, respectively, with respect to unutilized operating tax losses.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2015 and 2014

Western Forest Products Inc.
Condensed Consolidated Statements of Financial Position
(Expressed in millions of Canadian dollars) (unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 4.9	$ 1.8
Trade and other receivables	89.5	65.6
Inventory (Note 5)	164.3	139.4
Prepaid expenses and other assets	11.0	8.8
	269.7	215.6
Non-current assets:		
Property, plant and equipment (Note 6)	248.6	249.3
Intangible assets (Note 6)	127.3	129.3
Biological assets (Note 7)	54.6	56.9
Other assets	10.4	13.2
Deferred income tax assets	29.9	29.9
	$ 740.5	$ 694.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 101.4	$ 76.6
Revolving credit facility (Note 8)	2.5	6.7
Silviculture provision (Note 10)	11.3	10.7
Discontinued operations (Note 16)	-	0.3
	115.2	94.3
Non-current liabilities:		
Long-term debt (Note 9)	73.1	73.0
Silviculture provision (Note 10)	18.8	19.0
Other liabilities (Note 11)	33.0	32.9
Deferred revenue	61.4	62.4
Discontinued operations (Note 16)	-	4.5
	301.5	286.1
Shareholders' equity:		
Share capital - voting shares (Note 12)	505.2	504.4
Contributed surplus	7.7	7.0
Deficit	(73.9)	(103.3)
	439.0	408.1
	$ 740.5	$ 694.2

Commitments and Contingencies (Note 13)

See accompanying notes to these unaudited condensed consolidated interim financial statements

Approved on behalf of the Board:

"Lee Doney"
Chairman

"Don Demens"
President and CEO

Western Forest Products Inc.
Condensed Consolidated Statements of Comprehensive Income
(Expressed in millions of Canadian dollars except for share and per share amounts) (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenue	$ 289.2	$ 296.2	$ 537.8	$ 542.2
Cost and expenses:				
Cost of goods sold	$ 235.7	231.7	436.9	424.3
Export tax	1.8	-	1.8	-
Freight	23.1	25.1	43.9	43.8
Selling and administration	7.6	8.1	14.1	17.9
	268.2	264.9	496.7	486.0
Operating income prior to restructuring items and other income	21.0	31.3	41.1	56.2
Operating restructuring items (Note 17)	(0.4)	(1.2)	(0.7)	(1.3)
Other income (expenses)	(0.1)	0.6	-	0.8
Operating income	20.5	30.7	40.4	55.7
Finance costs	(1.3)	(1.5)	(2.6)	(3.1)
Income before income taxes	19.2	29.2	37.8	52.6
Current income tax expense	-	-	(0.2)	-
Deferred income tax recovery (expense)	(0.1)	-	-	0.2
Net income from continuing operations	19.1	29.2	37.6	52.8
Net income from discontinued operations (Note 16)	-	-	9.1	-
Net income	19.1	29.2	46.7	52.8
Other comprehensive loss				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss)	1.4	(3.0)	(1.5)	(5.4)
Total comprehensive income	$ 20.5	$ 26.2	$ 45.2	$ 47.4
Net income per share (in dollars):				
Basic and diluted earnings per share	$ 0.05	$ 0.07	$ 0.12	$ 0.13
Basic and diluted earnings per share - continuing operations	$ 0.05	$ 0.07	$ 0.10	$ 0.13
Basic and diluted earnings per share - discontinued operations	$ -	$ -	$ 0.02	$ -
Weighted average number of common shares outstanding (thousands)				
Basic	395,065	391,961	395,016	391,661
Diluted	399,176	398,857	399,365	398,654

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	Deficit	**Total Equity**
Balance at December 31, 2013	$ 499.7	$ 6.5	$ (123.8)	$ 382.4
Net income	-	-	52.8	52.8
Other comprehensive loss:				
Defined benefit plan actuarial loss recognized	-	-	(5.4)	(5.4)
Total comprehensive income	-	-	47.4	47.4
Share-based payment transactions recognized in equity	-	1.2	-	1.2
Exercise of stock options	1.4	(0.4)	-	1.0
Dividends	-	-	(15.7)	(15.7)
Total transactions with owners, recorded directly in equity	1.4	0.8	(15.7)	(13.5)
Balance at June 30, 2014	$ 501.1	$ 7.3	$ (92.1)	$ 416.3
Balance at December 31, 2014	$ 504.4	$ 7.0	$ (103.3)	$ 408.1
Net income	-	-	46.7	46.7
Other comprehensive loss:				
Defined benefit plan actuarial loss recognized	-	-	(1.5)	(1.5)
Total comprehensive income	-	-	45.2	45.2
Share-based payment transactions recognized in equity	-	0.9	-	0.9
Exercise of stock options	0.8	(0.2)	-	0.6
Dividends	-	-	(15.8)	(15.8)
Total transactions with owners, recorded directly in equity	0.8	0.7	(15.8)	(14.3)
Balance at June 30, 2015	$ 505.2	$ 7.7	$ (73.9)	$ 439.0

See accompanying notes to these unaudited condensed consolidated interim financial statements

Western Forest Products Inc.
Condensed Consolidated Statements of Cash Flows
(Expressed in millions of Canadian dollars) (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Cash provided by (used in):				
Operating activities:				
Net income from continuing operations	$ 19.1	$ 29.2	$ 37.6	$ 52.8
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	6.6	7.3	13.4	14.0
Amortization of intangible assets (Note 6)	1.0	0.9	2.0	1.9
Change in fair value of biological assets (Note 7)	0.6	1.4	2.3	1.6
Net finance costs	1.3	1.5	2.6	3.1
Deferred income tax expense (recovery)	0.1	-	-	(0.2)
Other	(2.6)	0.5	(3.0)	0.2
	26.1	40.8	54.9	73.4
Changes in non-cash working capital items:				
Trade and other receivables	(6.4)	(16.9)	(23.9)	(26.4)
Inventory	(4.0)	(0.5)	(24.9)	(14.4)
Prepaid expenses and other assets	1.0	(3.3)	(2.2)	(5.5)
Silviculture provision	1.5	(0.8)	0.6	(1.8)
Accounts payable and accrued liabilities	2.4	11.1	24.3	25.5
	(5.5)	(10.4)	(26.1)	(22.6)
	20.6	30.4	28.8	50.8
Investing activities:				
Additions to property, plant and equipment (Note 6)	(15.6)	(7.9)	(25.7)	(16.1)
	(15.6)	(7.9)	(25.7)	(16.1)
Financing activities:				
Interest paid	(0.7)	(1.4)	(1.5)	(2.2)
Drawings under revolving credit facility	2.5	-	2.5	-
Repayment of revolving credit facility	-	(5.8)	(6.7)	(5.8)
Dividends	(7.9)	(7.9)	(15.8)	(15.7)
Proceeds from exercise of stock options	-	0.4	0.6	0.9
	(6.1)	(14.7)	(20.9)	(22.8)
Cash provided by (used in) continuing operations	(1.1)	7.8	(17.8)	11.9
Proceeds on disposal of assets	-	-	21.8	-
Other	-	(0.1)	(0.9)	(0.1)
Cash provided by (used in) discontinued operations (Note 16)	-	(0.1)	20.9	(0.1)
Increase (decrease) in cash and cash equivalents	(1.1)	7.7	3.1	11.8
Cash and cash equivalents, beginning of period	6.0	9.7	1.8	5.6
Cash and cash equivalents, end of period	$ 4.9	$ 17.4	$ 4.9	$ 17.4

See accompanying notes to these unaudited condensed consolidated interim financial statements

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an 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. The unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2015 and 2014 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 25 countries worldwide. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of preparation

(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* ("IAS 34"). 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, 2014. These interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

These interim financial statements were approved by the Board of Directors on August 4, 2015.

(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;
- Liabilities for cash-settled share-based payment transactions are measured at fair value at each reporting period;
- Equity-settled share-based payments are measured at fair value at grant date;
- Derivative financial instruments are measured at fair value at each reporting date;
- The defined benefit pension liability is recognized as the net total of the fair value of the plan assets, less the present value of the defined benefit obligation; and
- Reforestation obligations are measured at the discounted value of expected future cash flows.

(c) Functional and presentation currency

These interim financial statements are presented in the Canadian dollar which is the Company's functional currency. All amounts are presented in millions of Canadian dollars, unless otherwise indicated.

(d) Use of estimates and judgements

The preparation of interim consolidated financial statements in accordance with IAS 34 requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

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 annual consolidated financial statements as at and for the year ended December 31, 2014.

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, 2014, except for the adoption of revised standards as described below:

(a) Changes in accounting policies

Effective January 1, 2015, the Company has applied the following revised standards and interpretive guidance:

IFRS 8, *Operating segments*

This standard was amended to require disclosure of judgements made by management in aggregating segments, and a reconciliation of segment assets to the entity's assets when segment assets are reported. The application of this revised standard has not materially impacted the interim financial statements.

IAS 24, *Related party transactions*

This standard was amended to revise the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and to clarify related disclosure requirements. The application of this revised standard has not materially impacted the interim financial statements.

(b) Standards and interpretations not yet effective

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 is effective for years commencing on or after January 1, 2018, and will replace IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and a number of revenue related interpretations. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments, and lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 is effective for years commencing on or after January 1, 2018, and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. Under IFRS 9, financial assets will be classified and measured based on the business model in which they are held and the characteristics of the associated contractual cash flows. IFRS 9 also includes a new general hedge accounting standard which will better align hedge accounting with risk management. The Company intends to adopt IFRS 9 in its consolidated financial statements for the year commencing January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

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

3. Significant accounting policies (continued)

(b) Standards and interpretations not yet effective (continued)

Annual improvements to IFRS

The International Accounting Standards Board ("IASB") issued narrow-scope amendments to various standards as part of its annual improvement process in December 2014. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments apply prospectively for annual periods beginning on or after January 1, 2016; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Amendments were made to clarify the following in their respective standards:

- Definition of "continuing involvement" in IFRS 7, *Financial instruments: Disclosures*;
- Discount rates for post-employment benefit obligations in IAS 19, *Employee Benefits*; and,
- Disclosure requirements in IAS 34, *Interim financial reporting*.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of these amendments has not yet been determined.

4. Seasonality of operations

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

5. Inventory

	June 30, 2015	December 31, 2014
Logs	$ 118.7	$ 101.3
Lumber	51.0	38.9
Supplies and other inventory	11.9	11.4
Provision for write downs	(17.3)	(12.2)
Total value of inventory	$ 164.3	$ 139.4
Inventory carried at net realizable value	$ 74.0	$ 39.8

The Company's logs and lumber inventory is pledged as security against the revolving credit facility.

During the three and six months ended June 30, 2015, $235.7 million and $436.9 million, respectively (2014: $231.7 million and $424.3 million, respectively) of inventory was charged to cost of goods sold. This includes an increase to the provision for write-down to net realizable value of $3.8 million and $5.1 million for the three and six months ended June 30, 2015, respectively (2014: decrease of $0.3 and $0.8 million, respectively).

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

6. Property, plant and equipment and intangible assets

Cost	Buildings & equipment	Logging roads	Land	Total property, plant & equipment	Intangible assets
Balance at January 1, 2014	$ 190.5	$ 137.8	$ 103.8	$ 432.1	$ 170.9
Additions	36.4	13.5	-	49.9	-
Disposals	(1.9)	-	(0.1)	(2.0)	(0.2)
Impairments	(10.6)	-	-	(10.6)	-
Balance at December 31, 2014	$ 214.4	$ 151.3	$ 103.7	$ 469.4	$ 170.7
Additions	19.5	6.2	-	25.7	-
Disposals	(0.9)	-	(12.8)	(13.7)	-
Balance at June 30, 2015	$ 233.0	$ 157.5	$ 90.9	$ 481.4	$ 170.7
Accumulated amortization and impairments					
Balance at January 1, 2014	$ 100.6	$ 105.5	$ -	$ 206.1	$ 40.4
Amortization	12.4	13.3	-	25.7	3.9
Disposals	(1.6)	-	-	(1.6)	-
Impairments	(10.1)	-	-	(10.1)	-
Reversal of impairments	-	-	-	-	(2.9)
Balance at December 31, 2014	$ 101.3	$ 118.8	$ -	$ 220.1	$ 41.4
Amortization	6.7	6.7	-	13.4	2.0
Disposals	(0.7)	-	-	(0.7)	-
Balance at June 30, 2015	$ 107.3	$ 125.5	$ -	$ 232.8	$ 43.4
Carrying amounts					
At December 31, 2014	$ 113.1	$ 32.5	$ 103.7	$ 249.3	$ 129.3
At June 30, 2015	$ 125.7	$ 32.0	$ 90.9	$ 248.6	$ 127.3

Total amortization expense for the three and six months ended June 30, 2015 was $7.6 million and $15.4 million, respectively (2014: $8.2 million and $15.9 million, respectively).

7. Biological assets

(a) Reconciliation of carrying amount

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Carrying value, beginning of period	$ 55.2	$ 58.2	$ 56.9	$ 58.4
Change in fair value resulting from growth and pricing	0.8	0.8	1.6	1.6
Harvested timber transferred to inventory in the period	(1.4)	(2.2)	(3.9)	(3.2)
Carrying value, end of period	$ 54.6	$ 56.8	$ 54.6	$ 56.8

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. The land underlying the standing timber is considered a component of property, plant and equipment, and is recorded at cost less accumulated impairment.

At June 30, 2015, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2014: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to old-growth forests. During the three and six months ended June 30, 2015, the Company harvested and scaled approximately 66,202 cubic metres and 177,820 cubic metres, respectively (2014: 96,400 cubic metres and 175,502 cubic metres, respectively), of logs from its private timberlands, which had a fair value less costs to sell of $6.6 million and $17.7 million, respectively, at the date of harvest (2014: $9.4 million and $17.3 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.

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

7. Biological assets (continued)

(b) Measurement of fair values

The fair value measurements for the Company's standing timber of $54.6 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used (December 31, 2014: Level 3 fair value). The valuation technique used is discounted cash flows combined with market comparison.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at June 30, 2015 and noted no indication that a full re-assessment of fair value less costs to sell or the significant unobservable inputs was warranted at that date.

The change in fair value resulting from price and growth is reflected in cost of goods sold.

8. Revolving credit facility

The Company's revolving credit facility (the "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 0.50% (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 interest rate for the Facility was 3.50% at June 30, 2015 (December 31, 2014: 3.50%).

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants. At June 30, 2015, $2.5 million of the Facility was used (December 31, 2014: $6.7 million) and $120.0 million of the facility was available to the Company. The Facility matures on December 14, 2015, subject to any future refinancing requirements of its revolving term loan.

The Company was in compliance with its financial covenants at June 30, 2015.

9. Long-term debt

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of $110.0 million and has a maturity date of June 29, 2019. The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate plus 0.15%, and (ii) the 30 day Banker's Acceptance rate plus 1.65%. The interest rate for the Term Loan was 2.69% at June 30, 2015 (December 31, 2014: 2.92%).

The Term Loan is secured by a first lien interest over all of the Company's properties and assets, excluding those of the Englewood Logging Division and all accounts receivable and inventory, over which it has second lien interests, and includes financial covenants.

The Company was in compliance with its financial covenants at June 30, 2015.

	June 30, 2015	December 31, 2014
Long-term debt	$ 74.0	$ 74.0
Less transaction costs	(0.9)	(1.0)
	$ 73.1	$ 73.0

Transaction costs are deferred and amortized to finance costs over the term of the Term Loan using the effective interest rate method.

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

10. 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, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Silviculture provision, beginning of period	$ 29.8	$ 30.3	$ 29.7	$ 30.0
Silviculture provision charged	3.2	3.6	6.3	6.2
Silviculture work payments	(3.0)	(4.0)	(6.0)	(6.4)
Unwind of discount	0.1	0.1	0.1	0.2
Silviculture provision, end of period	30.1	30.0	30.1	30.0
Less current portion	11.3	10.5	11.3	10.5
	$ 18.8	$ 19.5	$ 18.8	$ 19.5

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.47% to 1.68%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at June 30, 2015 is $31.1 million (December 31, 2014: $30.9 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the year.

11. Other liabilities

	June 30, 2015	December 31, 2014
Employee future benefits obligation (Note 14)	$ 30.8	$ 30.9
Environmental accruals	1.6	1.5
Other	0.6	0.5
	$ 33.0	$ 32.9

12. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares	Amount
Balance at December 31, 2014	394,799,407	$ 504.4
Exercise of stock options	266,000	0.8
Balance at June 30, 2015	395,065,407	$ 505.2

There were no Non-Voting shares outstanding at June 30, 2015.

(b) 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 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.

During the first quarter of 2015, the Company granted 1,491,667 options with a fair value of $0.6 million as determined by the Black-Scholes option pricing model using the assumptions of a weighted average exercise price of $2.20 per share, risk free interest rate of 0.97%, a volatility rate of 41.1%, and an expected life of seven years. These options are only exercisable when the share price has been equal to or exceeds $0.70 for the 60 consecutive days preceeding the date of exercise on a volume weighted average price basis. There were no stock option grants, exercises or expirations during the second quarter of 2015.

12. Share capital (continued)

At June 30, 2015, 11,656,667 options were outstanding under the Company's Option Plan, with a weighted average exercise price of $1.45 per share.

(c) Deferred share unit plan

The Company 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. All DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received if they held their DSUs as shares. For directors, the number of DSUs allotted is determined by dividing the dollar portion of the quarterly fees a director elects to take in DSUs by the share price value on the fifth day following each quarter end. For executive officers, the number of DSUs allotted is determined by dividing the dollar portion of the bonus that an executive elects 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. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the average share price for the five days leading up to the dividend date of record.

During the first quarter of 2015, 16,756 DSUs were issued at a price of $1.85 per DSU to certain directors who have elected to take a portion of their directors' fees in the form of DSUs. In addition, 2,449 DSUs and 4,297 DSUs were issued to designated executive officers and a director, respectively, at a price of $2.19 per DSU to reflect the cash dividend declared on Common Shares during the quarter. Furthermore, 43,262 DSUs were redeemed for cash by an executive. During the second quarter of 2015, 12,244 DSUs were issued at a price of $2.20 per DSU to certain directors who have elected to take a portion of their directors' fees in the form of DSUs. In addition, 2,396 DSUs and 5,642 DSUs were issued to designated executive officers and directors, respectively, at a price of $2.26 per DSU to reflect the cash dividend declared on Common Shares during the quarter.

The cumulative number of DSUs outstanding at June 30, 2015 was 927,211 (December 31, 2014: 926,689). During the three and six months ended June 30, 2015, the Company recorded a compensation expense for these DSUs of $0.3 million and $0.9 million, respectively (2014: compensation recovery of $0.2 million and compensation expense of $0.4 million, respectively), with corresponding adjustments to accounts payable and accrued liabilities.

13. 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 annual 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, if it is not possible to secure replacement chips on the open market during that period.

The Company had met all fibre commitments as at December 31, 2014 and based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2015.

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

14. Employee future benefits

The Company's salaried pension and non-pension benefits expense is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Current service costs	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Net interest	0.2	0.2	0.4	0.4
Cost of defined benefit plans	0.3	0.3	0.6	0.6
Cost of defined contribution plans	0.9	0.6	1.4	1.4
Total cost of employee post-retirement benefits	$ 1.2	$ 0.9	$ 2.0	$ 2.0

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

	June 30, 2015	December 31, 2014
Present value of obligations	$ (139.9)	$ (140.9)
Fair value of plan assets	109.1	110.0
Liability recognized in the statement of financial position (Note 11)	$ (30.8)	$ (30.9)

The change in the liability recognized in the statement of financial position at June 30, 2015 was due primarily to the decreased actuarial losses resulting from estimated changes in the discount rate used to value the defined benefit obligations. The discount rate used as at June 30, 2015 was 3.78% per annum, a decrease of 0.05% per annum from the rate used at December 31, 2014 of 3.83% per annum, and the return on assets over the six months to June 30, 2015 was 1.3% per annum.

The Company expects to make funding contributions to its defined benefit plans of $3.7 million during 2015.

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

15. Financial instruments – fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2014.

	Carrying Amount					Fair Value			
June 30, 2015	Held to maturity	Designated at fair value	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Investments	$ 5.1	$ -	$ -	$ -	$ 5.1	-	5.1	-	$5.1
	$ 5.1	$ -	$ -	$ -	$ 5.1				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 4.9	$ -	$ 4.9				
Trade and other receivables	-	-	89.5	-	89.5				
	$ -	$ -	$ 94.4	$ -	$ 94.4				
Financial liabilities measured at fair value									
Foreign currency forward contracts	$ -	$ 0.4	$ -	$ -	$ 0.4	-	0.4	-	$0.4
	$ -	$ 0.4	$ -	$ -	$ 0.4				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 101.0	$ 101.0				
Long-term debt (Note 9)	-	-	-	73.1	73.1				
	$ -	$ -	$ -	$ 174.1	$ 174.1				
December 31, 2014									
Financial assets measured at fair value									
Investments	$ 5.0	$ -	$ -	$ -	$ 5.0	-	5.0	-	$5.0
	$ 5.0	$ -	$ -	$ -	$ 5.0				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 1.8	$ -	$ 1.8				
Trade and other receivables	-	-	65.6	-	65.6				
	$ -	$ -	$ 67.4	$ -	$ 67.4				
Financial liabilities measured at fair value									
Foreign currency forward contracts	$ -	$ 0.3	$ -	$ -	$ 0.3	-	0.3	-	$0.3
	$ -	$ 0.3	$ -	$ -	$ 0.3				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 76.3	$ 76.3				
Long-term debt (Note 9)	-	-	-	73.0	73.0				
	$ -	$ -	$ -	$ 149.3	$ 149.3				

As at June 30, 2015, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 250 million at an average rate of JPY 98.93 per CAD with maturities through July 31, 2015, and an aggregate US$28.0 million at an average rate of CAD$1.2373 per US with maturities through July 31, 2015. All foreign currency gains or losses related to currency forward contracts to June 30, 2015 have been recognized in revenue for the period and the fair value of these instruments at June 30, 2015 was a net liability of $0.4 million, which is included in accounts payable and accrued liabilities on the statement of financial position (December 31, 2014: net liability of $0.3 million). A net loss of $4.0 million was recognized on contracts which were settled in the six months ended June 30, 2015 (2014: net loss of $1.0 million), which was included in revenue for the period.

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

16. Discontinued operations

In March 2006, the Company closed its Squamish pulp mill located on 212 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 were expensed as incurred.

In January 2013, Western announced that it had entered into a conditional agreement for the sale of its former Squamish pulp mill site. Closing was subject to certain conditions and Western was responsible for the satisfactory remediation of the property to applicable environmental standards prior to closing the sale. In 2014, the Company completed its remediation plan in accordance with the terms of the agreement.

On February 6, 2015, the Company completed the sale of its former Squamish pulp mill site for proceeds of $21.8 million and recognized a gain on disposition of $5.4 million during the first quarter of 2015.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income from discontinued operations	$ -	$ -	$ 9.1	$ -
Cash provided by discontinued operations	$ -	$ (0.1)	$ 20.9	$ (0.1)

	June 30, 2015	December 31, 2014
Assets of discontinued operations, excluding land	$ -	$ 2.8
Liabilities of discontinued operations	$ -	$ 4.8

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