

# **WESTERN FOREST PRODUCTS INC.**



**Annual Information Form – February 21, 2013**

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## **FORWARD-LOOKING STATEMENTS AND INFORMATION**

*This Annual Information Form 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 as included in "Development of the Business – Changes Expected for 2013" and "Business of the Company" may be indicated by words such as "estimate", "expect", "anticipate", "plan", "intend", "believe", "should", "may", "can", "will" 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. The information contained in this Annual Information Form, including, without limitation, the information set forth under the heading "Business of the Company" and the information contained in our consolidated financial statements and accompanying management's discussion and analysis for the year ended December 31, 2012, identifies important factors that could cause such differences. 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 Forest Products Inc. does not expect to update forward-looking statements or information as conditions change.*

## THE COMPANY

In this Annual Information Form, unless the context otherwise requires, “Western”, “Company”, “we”, “us”, “our” and similar terms refer to Western Forest Products Inc. and its subsidiaries.

Western’s business is timber harvesting and lumber manufacturing for worldwide markets. Western’s operations are located in the coastal region of British Columbia. Western’s head office is located at Suite 510 – 700 West Georgia, TD Tower PO Box 10032, Pacific Centre, Vancouver, British Columbia, V7Y 1A1 and the registered office is located at Suite 2800, 666 Burrard Street, Vancouver, BC, V6C 2Z7.

The Company was incorporated as 4204247 Canada Inc. under the Canada Business Corporations Act on April 27, 2004 and changed its name to Western Forest Products Inc. on June 21, 2004. On July 27, 2004, Western acquired the solid wood assets and certain pulp assets of Doman Industries Limited (“Doman”) and certain related companies. Western commenced business on July 28, 2004 and on August 3, 2004, the Common Shares began trading on the Toronto Stock Exchange under the symbol “WEF”. In June 2006, Western’s articles were amended to create Non-Voting Shares.

As at February 21, 2013, Brookfield Special Situations Management Limited (“BSSML”) (formerly Tricap Management Limited), an indirect wholly-owned subsidiary of Brookfield Asset Management Inc. (“BAM”), owns 122,639,345 (48.82%) of the Company’s Common Shares and 216,833,059 (100%) of the Non-Voting Shares. BSSML acts as manager for and on behalf of Brookfield Capital Partners Fund I (“BCPI”) (formerly the Brookfield Special Situations Fund I).

Certain other terms used in this Annual Information Form are defined under “*Glossary of Certain Terms*”, which can be found at the end of this document, starting at page 31. All information in this Annual Information Form is as of February 21, 2013, unless otherwise indicated. All dollar amounts are expressed in Canadian dollars, unless otherwise indicated.

## SUBSIDIARIES

On May 1, 2006, Western acquired all of the issued and outstanding shares of Cascadia Forest Products Ltd. (“Cascadia”). Immediately after the acquisition, Western and Cascadia amalgamated with two of Western’s subsidiaries, WFP Western Lumber Ltd. and Mid-Island Reman Inc. The amalgamated company continued as Western Forest Products Inc. On March 1, 2007, Western amalgamated with its wholly-owned subsidiary, Western Pulp Limited. The amalgamated company continues to be called Western Forest Products Inc.

The principal subsidiaries of the Company are:

<b>Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Percentage owned</b>
Western Forest Products Japan Limited	Japan	100%
Western Lumber Sales Limited	Canada	100%
WFP Quatsino Navigation Limited	Canada	100%

Western Forest Products Japan Limited has offices in Tokyo and Osaka and sells Western’s lumber products to Japanese wholesale and manufacturing customers. Western Lumber Sales Limited sells the Company’s lumber products to customers in the United States. WFP Quatsino Navigation Limited holds a number of the Company’s non-core assets.

The Company’s other 100%-owned subsidiary is Cascadia Fibre Supply Ltd., which is inactive. Western’s wholly-owned subsidiary Western Forest Products Pty. Ltd. was wound up in 2010.

## DEVELOPMENT OF THE BUSINESS

### Company Profile and Strategy

Western is a major integrated softwood forest products company operating in the coastal region of British Columbia. The Company's long-term business objective is to create superior value for shareholders by building a margin-focused lumber and log business of sufficient size and scale to compete successfully in global softwood lumber markets. To achieve this, our strategy is to own the tenure to harvest high quality Crown-owned coastal timberlands, to operate efficient, low-cost converting facilities and to produce and sell high-value softwood lumber and logs in demand by global markets. We seek to manage our business with a focus on operating cash flow and maximizing the value of our fibre resource through the production cycle, from the planning of our logging operations to the production, marketing and sale of our lumber products.

Western's business includes the harvesting of timber, reforestation, forest management, the manufacture and sale of lumber and wood chips, and the sale of logs. Western's lumber products are currently sold in over 25 countries worldwide. Our sawmills process hemlock, Douglas fir and western red cedar, into long-length, wide-width and higher-grade lumber, commodity grades of lumber and residual wood chips that are sold externally and used for pulp production. The value-added lumber remanufacturing plants dry, saw and trim lumber for use in producing higher-value products such as mouldings, frames and paneling.

Our business comprises eight sawmills with an annual lumber capacity in excess of 1.1 billion board feet, two value-added remanufacturing plants and timberland operations with approximately 6.2 million cubic metres of annual allowable cut ("AAC"), from high-quality "evergreen" tenures (that are renewable within the tenure term) on Crown-owned land on Vancouver Island and the British Columbia mainland coast. Approximately 0.2 million cubic metres of additional potential harvest is available from our privately-owned timberlands and non-replaceable Crown tenures.

### Summary History

Following its initial acquisition of the assets of Doman in 2004, the Company undertook a series of restructuring activities including the closure of its Silvertree sawmill in 2005, the exit from the pulp business in early 2006 and ceasing operations at the Duke Point log merchandiser, which was used primarily to supply whole log wood chips to the Company's former Squamish pulp mill. These properties have since been sold or are in the process of being sold (see "Significant Developments Since January 2010" below on the conditional sale of the Squamish site).

Western subsequently expanded its forest operations through two acquisitions. On March 17, 2006, the Company purchased the Englewood Logging Division ("Englewood"), consisting of Tree Farm Licence ("TFL") 37 on Vancouver Island and certain related assets for \$45.0 million plus the value of certain log inventories. On May 1, 2006, Western acquired all of the issued and outstanding shares of Cascadia from Trilon Bancorp Inc., a wholly-owned subsidiary of BAM, for cash consideration of \$202.2 million. Cascadia was a coastal British Columbia integrated lumber producer that harvested timber and produced high-value, high-quality wood products for customers worldwide. Cascadia was, at the time, the largest Crown tenure holder in coastal British Columbia, with an AAC of approximately 3.6 million cubic metres, and one of the largest lumber producers on the British Columbia coast, owning or operating four specialized sawmills with an aggregate annual production capacity of approximately 570 million board feet of lumber, a "custom cut" division and four remanufacturing facilities.

With the closing of the Cascadia and Englewood acquisitions and completion of the restructuring activities, the Company focused on the integration of its ongoing business operations. Western made organizational changes that reduced management staff by approximately 110 positions. The corporate and administration groups were originally consolidated at Duncan on Vancouver Island, the logging operations were centralized in Campbell River, also on Vancouver Island, and the sales organizations were brought together in one office in Vancouver. Integration provided the opportunity for the consolidation of timberlands operations to increase productivity, reduce fixed costs per unit logged and optimize log flows from the timberlands to sawmills, taking advantage of shorter barging and towing distances available with the new timber tenure and mill configuration. Western closed its New Westminster sawmill in February 2007 and sold the property in March 2008.

Since the restructuring activities described above, the Company has focused primarily on operational improvements, thereby reducing costs. The costs of harvesting have been reduced through the rationalization

of logging operations. Recovery rates of lumber produced from logs have been increased with the benefit of previous capital investments and refined sawmilling techniques. In addition, systems and processes have been improved, reducing costs across the organization. Further restructuring took place in 2009 and into 2010 to address the continuing weak worldwide lumber markets, resulting in further organizational changes, plant down-time, headcount reductions and the relocation of the Company's corporate office to Vancouver. In 2011, the Company sold its administrative office building in Duncan, British Columbia, and relocated the functions of that office to Nanaimo, British Columbia. The Company has sold off a number of non-core assets since 2008, with the proceeds being used to pay down long-term debt.

### **Significant Developments Since January 2010**

Since mid-2007, the Company has experienced very difficult market conditions for its products. US dimension lumber markets have been extremely weak and the Japanese housing market has also slowed, resulting in greater competition as many wood producers looked for alternate markets. As a result, the Company operated at less than capacity due to harvesting and sawmilling curtailments. Western reported weak operating results and liquidity position during 2008 and 2009 reflecting these depressed market conditions, including the negative effect on returns due to a stronger Canadian dollar. However, Western's results improved significantly during 2010 and through to 2012 as a result of its cost-cutting and restructuring efforts combined with marginally better market conditions and strengthening product demand. The increased demand, largely a result of China's increased activity in the lumber market, has warranted the re-opening of the Company's Somass, Ladysmith and Nanaimo sawmills in 2010, and the Duke Point sawmill in 2011. The much anticipated improvement in the US lumber markets finally started in 2012, which has further increased demand for many lumber products.

In January 2013, Western announced that it has entered into a conditional agreement for the sale of its former Woodfibre Pulp Mill site for the gross purchase price of \$25.5 million. The site, consisting of 212 acres of industrial waterfront land, is located at the head of Howe Sound, southwest of Squamish, British Columbia. Closing is subject to certain conditions, and Western will be responsible for the satisfactory remediation of 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.

In December 2012, Western received a payment of approximately \$0.9 million from the Province of British Columbia for certain assets associated with the deletion of a portion of TFL 39 Block 1 for a forest tenure opportunity for the Sliammon First Nation. In August 2012, the Company received a final compensation payment of \$1.1 million from the Province of British Columbia for outstanding protected area impacts which had resulted from areas being deleted from forest tenures for new protected areas and conservancies.

In July 2012, Western announced an investment in the development of automated lumber grading technology for coastal species. We have committed to an initial investment of \$0.5 million for the installation of automated grading technology into the Alberni Pacific Division planer mill in Port Alberni, BC. The equipment is expected to deliver significant increases in operating speeds, improve lumber grades, and increase lumber recoveries. This project is expected to be complete by the end of the third quarter of 2013.

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

Also in June 2012, Western completed the sale of TFL 60 and related assets on Haida Gwaii to Taan Forest Limited Partnership ("Taan"), a partnership of the Council of the Haida Nation and Haida Enterprise Corporation, the business arm of the Haida Nation. Under the terms of the sale, Western received net proceeds of approximately \$12.2 million. Cash of \$10.2 million has now been received, and the remaining \$2.0 million is in the form of a promissory note, payable within 24 months of closing. Western also retains a right of first refusal on a certain quantity of cedar logs harvested by Taan over the 24 months following closing. Taan has assumed substantially all of the obligations of Western on Haida Gwaii. As the average timber harvest from TFL 60 by Western over the past five years has been modest, the sale of this tenure will have minimal impact on the long-term operating rates at our eight lumber mills. Proceeds received from the sale were used to pay down the Company's revolving term debt.

As part of the Company's strategic capital plan, Western announced a \$38.0 million investment in the Saltair sawmill in February, 2012. This project will increase lumber production by approximately 15%, improve lumber recovery, and lower our unit cost of production while improving our ability to meet our customer needs. The first phase of this project, which will be complete by the end of the second quarter of 2013, will see the replacement of the board edgers, trimmer, stacker, and a rebuild of the sorter.

In the first quarter of 2011, the Company amended one of its long-term fibre supply agreements. The amendments modified Western's minimum chip volume commitments and eliminated a shortfall that had existed in respect of the annual commitment for 2010.

On March 16, 2011, the Company sold TFL 61 to Pacheedaht Andersen Timber Holdings for \$2.7 million.

In February 2011, the Company completed the sale of certain non-core properties to TimberWest Forest Corp. for \$21.9 million. The sale includes properties located in the southern portion of Vancouver Island, near Jordan River. These properties, which encompass approximately 7,678 hectares, are situated in the land districts of Renfrew and Malahat. The net proceeds from the sale were used to pay down the Company's debt in accordance with its lending agreements.

In December 2010, the Company amended its term loans, extending the maturity date of its \$75.0 million revolving term loan and \$31.2 million non-revolving term loan to June 14, 2013 and December 14, 2012, respectively. Pricing for the term loans was also improved. All other terms and conditions of the term loans remained substantially unchanged. On December 14, 2010, the Company also extended the maturity date on its revolving credit facility to December 14, 2015.

In December 2010, the Company received a compensation payment of \$5.2 million from the Province of British Columbia for outstanding Bill 28 (Forestry Revitalization Act), or "FRA" impacts, which had resulted from area being deleted from forest tenures. This amount was compensation for improvements, engineering and strategic inventory information associated with FRA withdrawals of external Timber Licenses, Forest License A19244 operating areas and portions of TFL 60 (formerly TFL 39 Block 6) and TFL 44. A smaller amount of FRA compensation remains to be dealt with in respect of TFLs 37, 39 and 44. See "BUSINESS OF THE COMPANY".

The Nanaimo sawmill was re-started in November 2010, after remaining idle since December 2008 due to poor market conditions. The mill now employs 30 workers on a one-shift basis. Also in November 2010, the Mid-Island Remanufacturing Division was closed. It had been idle since January 2009.

In September 2010, the Ladysmith sawmill was re-started after remaining idle since April 2008 due to poor market conditions. The operation now employs approximately 30 workers operating on a one-shift basis. In conjunction with the Ladysmith start-up, Western also announced the ratification of a new labour agreement with Local 8 of the Pulp, Paper and Woodworkers of Canada Union ("PPWC"), which represents the hourly employees at the Ladysmith sawmill.

In August 2010, the Company announced the ratification of an agreement with the United Steelworkers Union ("USW"), which at the time represented approximately 1,600 of Western's 1,700 hourly employees. Key provisions of the agreement include a four-year term expiring on June 15, 2014, with annual wage increases of 0%, 0%, 2% and 2%, respectively.

In August 2010, the Company completed the sale of certain non-core properties to the Capital Regional District of Victoria, British Columbia ("CRD") at a sale price of \$14.3 million. In addition, the Company agreed to sell a further two parcels of land for proceeds of \$4.5 million, which required, as a condition of sale, the Company to secure a Certificate of Compliance on an environmental remediation project on the property. The sale agreement includes properties located in the southern portion of Vancouver Island, encompassing approximately 2,350 hectares within the Company's Jordan River, Sooke Potholes, and Weeks Lake property holdings. The required Certificate of Compliance was received in December 2012 and the full proceeds of \$18.8 million have now been received. The net proceeds from the sale received to date were used to pay down the Company's debt in accordance with its lending agreements.

Since 2010, the Company has repaid \$87.6 million of debt from the proceeds of non-core asset sales and cash generated from operations.

### **Changes Expected for 2013**

For additional information regarding changes expected to the Company's business in 2013, see Western's Management's Discussion and Analysis for the year ended December 31, 2012; and in particular the "Outlook" section, which is incorporated by reference herein and which is available on SEDAR at [www.sedar.com](http://www.sedar.com)



## **BUSINESS OF THE COMPANY**

### **Overview**

Western's business is the harvesting of timber and the manufacture and sale of lumber and logs for worldwide markets. The sawmills process high-quality logs, including hemlock, Douglas fir and western red cedar, into long-length, wide-width and higher-grade lumber, commodity grades of lumber and residual wood chips that are sold externally and used for pulp production. The value-added lumber remanufacturing plants dry, saw and trim lumber for use in producing higher-value products such as mouldings, frames and panelling.

We believe that extracting the maximum value from our timber resources is essential. The timberlands operations seek to supply the Company's sawmills with an efficiently harvested supply of high-quality fibre of the appropriate species and log characteristics to enable the cost-effective manufacture of lumber to meet customers' needs. In addition to supplying Western's sawmills with logs harvested from its timber tenures, the Company also buys, sells and trades logs on the open market to ensure sufficient fibre supply to meet the cutting profile of its sawmills. The Company expanded its log export program, with increased shipments to Asia and the United States over the past three years.

Operating results have been and continue to be affected by a number of factors, including economic conditions in the United States, Japan, China, Europe and Canada, which are the leading markets for the Company's lumber products. Changes in the demand for our products in these markets and in the value of the Canadian dollar relative to the US dollar and, to a lesser degree, the Japanese Yen and the Euro can have a significant impact on our financial results. In all of these markets, our competition is of a global nature as we increasingly face competing products from various regions.

### **Forest Products Industry**

British Columbia is one of the world's leading forest products regions, with annual lumber shipments in 2011 amounting to approximately 12.3 billion board feet and pulp and paper shipments of approximately 6 million tonnes, supported by a current AAC available from Crown-owned and private timberlands of approximately 88 million cubic metres. Catastrophic wildfires in the southern interior of the Province in 2003 and 2004, as well as the mountain pine beetle epidemic in the central and northern interior in the past five years have led to temporary increases in the AAC in these areas in order to salvage dead and dying timber.

British Columbia has two major forest regions, coastal and interior, which are differentiated by climate, terrain and forest type and have given rise to two distinct segments of the forest industry. Historically, just less than one-third of British Columbia's timber harvest has originated from the coastal region. In contrast to the interior forests, the British Columbia coastal forests are distinguished by a wet maritime climate, rugged topography and a variety of high-value coastal forest species with highly productive growing sites. Over the past decade, the coastal timber harvest has declined as a result of the establishment of new parks and protected areas and AAC reductions to conform harvest levels to long-term sustainable yields.

Softwoods such as hemlock, spruce, pine and fir are used primarily in construction due to their strength, light weight and ease of nailing. Cedar is a softwood used where appearance and decay resistance are valued such as for decks, paneling, fencing, fascia, siding and doors. The forest industry grades lumber into classifications according to quality. The two broad categories within which all grades generally fall are based upon its strength or its appearance and are called upper or appearance-grade lumber and commodity-grade lumber.

### **Forest Resources**

#### ***Fibre Supply***

The Company's fibre requirements are primarily met with logs harvested from Western's timber tenures and private lands, supplemented by logs purchased on the open market, and log trading activities. The Company's fibre supply department ensures an adequate supply of suitable logs for our manufacturing plants and markets logs not used for Western's lumber production. Western engages in log trading activities to correct imbalances in the supply and demand in terms of the size, grade and species of logs.

All of Western's timber harvesting operations are located in the coastal region of British Columbia. In a normal operating year, approximately 95% of the Company's logging is conducted on government timberlands

allocated to us under our TFLs and, to a lesser extent, under our Forest Licences (“FLs”) and Timber Licences (“TLs”). Approximately 5% of Western’s logging takes place on our private lands.

Western’s timber tenures contain a substantial amount of presently harvestable mature timber stands located in areas that have never been commercially harvested. We believe that these stands are particularly valuable, as the substantial size of the trees should allow production of a high volume of upper-grade lumber. Upper-grade lumber is sold based upon appearance for use in the manufacture of doors, window frames, panelling, mouldings and siding.

At the end of 2012, the long-term species distribution of our timber resources was approximately 64% hemlock and balsam, 16% cedar, 10% Douglas fir, 7% cypress and 3% spruce and other minor species. Western’s average production for the past five years was very close to this profile being approximately 60% hemlock and balsam, 19% cedar, 15% Douglas fir, 5% cypress, 1% spruce and other minor species.

The available cut, including the AAC of TFLs and FLs, actual cut, log supply and log usage for each of the last three years are set out in the following table:

	Actual Cut <sup>(1)</sup>			Available Cut <sup>(2)</sup> as at December 31		
	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010	2012	2011	2010
<i>(thousands of cubic metres)</i>						
TFLs	5,791	5,173	4,214	5,576	6,476	6,630
FLs	130	235	165	598	598	598
Other lands <sup>(3)</sup>	197	365	254	194	194	250
<b>Total log production</b>	<b>6,118</b>	<b>5,773</b>	<b>4,633</b>			
<b>Total available cut</b>				<b>6,368</b>	<b>7,268</b>	<b>7,478</b>
Total logs purchased	887	895	839			
Total logs consumed	3,771	3,514	2,926			
Total logs sold	3,430	3,189	2,342			

- (1) The actual cut represents total log production with tenure assignment based on the Harvest Billing System. Residue volume, market logging, joint venture volumes and other volumes resulting from external logging agreements which contribute to the total AAC, are not included in the total amounts reported. Forest License volume includes third party license volume which Western has harvested as own production. Volumes harvested by market loggers amounted to 46,000m<sup>3</sup> in 2012. Volumes harvested by joint ventures amounted to 27,000m<sup>3</sup> from Company tenures. Also, 286,000m<sup>3</sup> was harvested pursuant to a Forest License Utilization agreement.
- (2) The available cut for the TFLs and FLs is the AAC determined by British Columbia’s Chief Forester as of December 31 and is not the average for the year. These AACs incorporate any temporary reductions put in place by the Provincial Chief Forester, and do not include volumes of timber available to third parties. The sale of TFL 60 reduced the TFL AAC by 802,868m<sup>3</sup>.
- (3) At December 31, 2012, 143,880 m<sup>3</sup> of available cut is attributed to private managed forest lands outside of TFLs and 50,000m<sup>3</sup> to TLs outside of TFLs following FRA reductions.

In 2009, Western restructured into eight active logging and forestry operations that are separately managed. These are located on Vancouver Island and the South, Central and North Coast Mainland. Approximately 88% of the 2012 log production originated from Vancouver Island. For historical and legal reasons, logging is conducted by a combination of Company and contractor operations. Western plans the majority and co-ordinates substantially all of the timber production from the various operating sites.

Logs are sorted according to species, size and grade and directed to our sawmills, custom cutting operations and log markets to maximize the return. The pulp log volume produced from Western’s timber tenures and private lands, and all residual chips produced from sawmilling operations, are committed under long-term fibre supply agreements. These agreements commonly require the delivery of minimum periodic chip volumes. In addition, Western has a number of long-term commitments for the sale, purchase or trade of saw logs and pulp

logs to third parties. Some of the Company's log trade agreements involve the exchange of our logs for residual chips.

Logs are largely transported by water, using contracted towing and barging services, to Western's manufacturing plants and to external customers.

### ***Timber Tenures***

Approximately 95% of all forest resources in British Columbia are owned by the Province and administered by the Ministry of Forests, Lands and Natural Resource Operations ("MFLNRO"). Subject to provincial legislation and related regulations and Constitutional obligations to Aboriginal peoples (see our Management's Discussion and Analysis "*Risk Factors – First Nations Land Claims*"), rights to harvest timber on such land may be granted on behalf of the Province by the MFLNRO in the form of timber tenures. Western's timber tenures comprise TFLs, FLs and TLs.

A TFL is a replaceable timber tenure that requires the licensee to manage a specified area of timberland on a sustained yield basis. TFLs are granted for 25-year terms and are replaced by the MFLNRO every five to 10 years with a new TFL with a 25-year term, subject to satisfactory performance by the TFL holder of its legal and licence obligations. Approximately 92% of the Company's replaceable AAC comes from eight TFLs.

TFLs 25 and 44 were replaced in 2009; TFLs 6, 37 and 39 were replaced in 2010 and TFL 19 was replaced in 2011. TFLs 60 and 61 were created in 2010 as subdivisions of TFL 39 and TFL 25, respectively. On March 16, 2011, TFL 61 was sold to Pacheedaht Andersen Timber Holdings, and TFL 60 was sold to Taan on June 28, 2012.

Other parts of the Province's timberlands not designated as TFLs are organized into timber supply areas ("TSAs"). FLs are issued within each TSA with the AAC being determined at the TSA level and the overall harvest for the TSA being allocated and managed by the MFLNRO on a sustained-yield basis. FLs are volume-based tenures which authorize a specified volume of timber to be cut within a specific TSA. FLs generally have a term of 15 years and are replaceable every five to 10 years with a new FL with a term of 15 years, subject to satisfactory performance by the licensee of its legal and licence obligations. While we hold 11 FLs, in whole or in part, as a result of the volume take-backs under the FRA only six had allowable annual cuts in 2011. All of Western's six active FLs were replaced in 2007 and 2008.

TLs are area-based tenures with various fixed terms. TLs within a TFL are managed on an integrated basis with other timberlands within the same TFL and the land remains part of the TFL when the TL is harvested. Harvesting from TLs external to TFLs is subject to the practice guidelines of the MFLNRO, but timing is at our discretion within the term of each licence. At the end of 2012, the Company had 23 active TLs, and one which was technically expired but for which an extension has been requested.

On January 31, 2007, approximately 28,300 hectares of the Company's private lands were withdrawn from TFLs 6, 19 and 25. The AACs of the three TFLs were reduced by 202,100 cubic metres as of the withdrawal date to reflect the contribution that these private lands had made to the timber inventory and long-term sustainable productivity of these TFLs. The majority of these private lands continued to be regulated under the *Private Managed Forest Land Act* (British Columbia) as well as other provincial and federal statutes. Consistent with our focus on harvesting Crown-owned coastal timberlands, Western continues to review opportunities to realize greater value from these lands. Included in the private timberlands in various locations on Vancouver Island was approximately 2,500 hectares of higher and better use lands currently intended for sale. In October 2009, approximately 590 hectares of these higher and better use properties were sold to a jointly owned entity that also has a right of first offer to purchase for possible future development approximately 255 hectares of additional higher and better use lands of the Company in central and northern Vancouver Island. See "DEVELOPMENT OF THE BUSINESS – Significant Developments Since January 2010". Separate parcels totaling approximately 798 hectares of higher-and- better-use properties were also sold in 2010 (417 hectares were sold in 2009).

The Company will also continue to review the private lands best suited for ongoing timberland operations to determine their highest-value contribution.

### **Timber Available For Harvest**

The AACs for TFLs and TSAs are determined by the Chief Forester of the Province (“Chief Forester”) and are intended to reflect timber conditions, regional and local economic and social interests, and environmental considerations. Legislation requires the Chief Forester to review sustainable timber harvesting levels in each TSA and TFL in the Province at least every 10 years and to issue a “determination” relating to the same, which may recommend reductions or increases in the AAC of the TSA or TFL. The Chief Forester can also make permanent AAC reductions as a result of land use changes to the land base.

Only one AAC adjustment affecting Western occurred in 2012. The AAC attributable to Western from TFL 6 was adjusted from 1,243,958m<sup>3</sup> to 1,148,422m<sup>3</sup> on February 10, 2012 by the Chief Forester. As noted earlier, the sale of TFL 60 to Taan was also completed which reduced the Western AAC by 802,868m<sup>3</sup>. The Province also reduced the gross AAC of TFL 39 by 22,000m<sup>3</sup>, but this was not TFL AAC available to Western so did not affect our TFL rights.

Under Part 13 of the *Forest Act* (British Columbia) (the “Forest Act”), if the Minister of Forests, Mines, Lands and Natural Resource Operations determines that it is in the public interest, the Province can “designate” areas of Crown land for up to 10 years and then suspend or vary permits, licences and plans in force within the designated area. At the same time, the Chief Forester can temporarily reduce the AAC of a timber tenure by an amount attributable to the designated Part 13 area. Part 13 is generally applied in support of land use planning or environmental reserves. There were no Part 13 designations in place on Western tenures in 2012.

### **Stumpage Charges**

Stumpage is the fee that the Province charges forest companies for timber harvested from Crown land in British Columbia. More than 95% of the timber we harvest is from Crown land. In January 2004, the Provincial Government adopted a more open and competitive market pricing system for timber and logs for the coastal region. Previously, the amount of stumpage paid for each cubic metre of wood harvested from the coastal region was based on a target rate set by the Province. Since February 29, 2004, stumpage for the coastal region is being set using the Coast version of the Market Pricing System (“MPS”), which uses the results from British Columbia Timber Sales (“BCTS”) auctions of standing timber to establish the value of Crown timber harvested under long-term tenures. Coastal MPS is updated on a routine basis to reflect current market conditions (including log prices, timber sale bids for example) and costs. The most recent update occurred on July 1, 2012.

The following table illustrates the relationship of Western’s stumpage expenses relative to the total log production from Crown lands for each of the last three years:

	Year Ended December 31,		
	2012	2011	2010
Log production ( <i>thousands of cubic metres</i> )	6,118	5,773	4,633
Stumpage ( <i>\$ millions</i> )	\$8.4	\$11.0	\$10.0

## **Forest Management**

Western manages its Crown-land forest tenures and its privately-owned forest lands according to sustainable forest management principles, which include a commitment to meeting government standards. As part of the rights and responsibilities that accompany Western's Crown tenures, staff carry out or supervise pre-harvest planning, road-building and harvesting operations and follow-up silviculture treatments to establish free-growing second-growth stands of trees.

Pre-harvest planning includes a wide spectrum of activities from the collection of inventory and assessment data to the development of higher-level Management Plans for TFLs and Forest Stewardship Plans for specific planning results and strategies for operations within TFLs, FLs and TLs. These plans take a broad range of timber and non-timber factors into account, including but not limited to: wildlife, fisheries, water quality, soil sensitivity, terrain stability, visual quality, biodiversity, archaeological sites and cultural features, cave and karst features, timber species distribution and value. These higher-level plans provide direction for the development of site-specific plans and lead to the applications for specific road-building and harvesting permits.

Following harvest, we ensure all disturbed areas are reforested and conduct follow-up surveys and silviculture treatments to ensure that these harvested areas meet free-growing requirements within specified timelines. Should a developing stand be damaged prior to being declared free growing we are responsible for taking the necessary corrective actions to meet free growing requirements. Substantially all of these basic silviculture requirements are carried out at our expense. Once young stands reach the free-growing stage, they are left to develop without further attention into second-growth forests ready for subsequent harvest.

Our tenures are managed by a staff of registered forest professionals who are involved in planning and inventory, road and bridge development, harvesting, silviculture and forest health and protection programs. We operate the Saanich Forestry Centre, which includes a three million-seedling nursery and a tree seed orchard that produces select seed for reforestation.

The forests on our timber tenures are at risk of damage from natural and human-caused forest fires. To deal with this hazard, we have equipment and trained personnel ready to handle initial attack and fire suppression. We are also required to pay a fire preparedness levy to the MFLNRO each year. Should a fire start as a result of our activities, and we did not willfully cause or contribute to the start of the spread of the fire by our act or omission, payment of this fee means that we will not be charged for any Ministry initial attack costs or the fire suppression costs associated with the wildfire once the Ministry has assumed fire control. Further, Western will not be charged for damages to Crown resources if the Company has been duly diligent. We remain responsible for fire-fighting on our private lands, whether inside or outside of TFLs, regardless of origin or cause. Western has entered into a cost-sharing agreement with the Crown for our private lands that will reduce individual incident costs of mobilizing helicopters and aerial water tankers.

## **Manufacturing Facilities**

We own eight sawmills, all of which are currently operating, and two value-added remanufacturing facilities. Our high-quality timber supply (western red cedar, hemlock, balsam, Douglas fir, yellow cedar and spruce) and the particular design of our sawmills enable us to produce appearance-grade products (those used in decks, panelling, fencing, fascia, siding and doors, for example), and specialty structural products for markets around the world. The species and products produced typically command premium prices compared to commodity construction grades, such as SPF 2x4 lumber. Much of the softwood timber in North America is not capable of producing substantial quantities of these specialty products.

All of our operating sawmills are located on Vancouver Island on land we own, other than the Nanaimo sawmill, which is located on a 8.5-hectare site that is leased. All of Western's sawmills have adjacent water lots that are leased from the Province of British Columbia or a public Port Authority and some have barge and dock loading facilities to handle water-borne shipments of sawmill products. Our sawmill configuration provides significant flexibility, enabling us to change cut programs and log flows between different sawmills.

- The Nanaimo sawmill, which is capable of processing logs in the 12- to 60-inch diameter range, produces a range of high-value specialty lumber products, along with material for the Japanese traditional home segment. The mill primarily cuts hemlock.
- The Duke Point mill, also in the Nanaimo municipality, is capable of processing 12- to 60-inch diameter logs, and is grade and species flexible, cutting high value cedar through to hemlock dimension lumber as markets and log supply require. On-site whole log chipping restarted in late-

2010 to support chip supply contract obligations and limited production of products for China commenced in 2011.

- The Ladysmith and Saltair sawmills are located adjacent to each other in Ladysmith. The Ladysmith sawmill is capable of processing logs in the 4- to 24-inch diameter range. It primarily cuts hemlock for the Chinese lumber market. The Saltair sawmill, which re-opened on February 12, 2007, is capable of processing logs in the 6- to 28-inch diameter range. The mill primarily cuts cedar for the Canadian and US markets and fir and hemlock for the Japanese, European and Australian markets.
- The Alberni Pacific sawmill, which is located in Port Alberni, is capable of processing logs in the 12- to 60-inch diameter range and currently produces a range of products for the Japanese traditional home segment and North American lumber treating market. The mill primarily cuts hemlock.
- The Somass sawmill, located in Port Alberni, is capable of processing logs in the 15- to 108-inch diameter range and cuts high-value cedar for world markets.
- The Chemainus sawmill is capable of processing logs in the 12- to 60-inch range. The mill cuts high-value fir and hemlock for the Japanese market, and cedar for the North American market.
- The Cowichan Bay sawmill, which is located close to Duncan, British Columbia, processes logs in the 6- to 30-inch range. The sawmill primarily produces hemlock for Chinese and North American commodity lumber markets.

The Saltair, Nanaimo and Alberni Pacific sawmills have received authorization to stamp their lumber as having met the quality control requirements of the Japanese Agricultural Standard ("JAS"), indicating that the lumber meets rigorous Japanese structural grading rules.

Our remanufacturing facilities are also located on Vancouver Island on land we own. Our Chemainus South Island remanufacturing plant dries and processes hemlock and Douglas fir appearance-grade lumber used in the manufacture of doors, windows and moldings and structural lumber for the Japanese market. We have a total of 50 kilns located at our remanufacturing plants and sawmills with an annual lumber drying capacity of about 250 million board feet per year. Our "Value Added Division", also located in Chemainus, specializes in remanufacturing all species for value and provides additional kiln-drying and planer capacity for our primary sawmills. As part of our sales and marketing strategy, we continue to review the requirement to invest in future new kiln capacity.

In addition to lumber manufacturing and re-manufacturing at its own facilities, Western also operates a division known as "Custom Cut". The Custom Cut division focuses on converting logs to lumber on a custom basis to customer specifications. Unlike traditional lumber purchases, in which a customer will specify the volume of selected lumber products they wish to purchase, Western's Custom Cut customers typically acquire all the lumber products which are cut from a defined volume of logs. Custom Cuts may be conducted at third-party manufacturing facilities in the Lower Mainland of British Columbia using logs either harvested by Western or acquired on the open market. Alternatively, Custom Cuts may be conducted at Western's own sawmill facilities in situations where the customer specifications are compatible with mill capacities. Custom Cuts are routinely performed on Western's major species and are the primary method of manufacture for our yellow cedar and Sitka spruce logs.

The current annual lumber production capacity and actual lumber production for each of our sawmills for each of the last three years are set out in the following table:

Sawmills	Capacity <sup>(1)</sup> (MMfbm)	Year Ended December 31,		
		2012	2011	2010
Alberni Pacific	175	137	134	132
Chemainus	130	114	113	116
Cowichan Bay	210	163	154	156
Duke Point <sup>(3)</sup>	90	3	1	-
Ladysmith <sup>(2)</sup>	130	67	45	9
Nanaimo <sup>(3)</sup>	110	53	45	3
Saltair	185	166	152	147
Somass	90	36	37	32
	1,120	739	681	595
Custom Cut	n/a	139	132	98
<b>Total</b>	<b>1,120</b>	<b>878</b>	<b>813</b>	<b>693</b>

(1) Based on two shifts and 250 operating days, except Chemainus at three shifts.

(2) Operations at Ladysmith were suspended in May, 2008, and recommenced in October 2010.

(3) Operations at Nanaimo and Duke Point were suspended at the end of December 2008. There was limited production at Duke Point in the summer of 2009 and it recommenced operations in October 2011. The Nanaimo mill recommenced operations in November 2010.

Our sawmills have a total annual production capacity of approximately 750,000 volumetric units of wood chips. Residual chips and wood residue from our manufacturing operations are being sold under long-term fibre supply agreements. We also trade log volumes with third parties to secure preferred logs and chips or for cost benefit.

The wood chip supply and usage for each of the last three years from our operations are set out in the following table:

	Year Ended December 31,		
	2012	2011	2010
<i>(thousands of volumetric units)</i>			
Wood chips produced <sup>(1)</sup> .....	490	423	366
Wood chips purchased.....	327	329	295
<b>Total wood chips sold.....</b>	<b>817</b>	<b>752</b>	<b>661</b>

(1) Production includes chips produced from whole-log chipping.

### Sales, Marketing and Distribution

Western's lumber products are marketed by our sales and marketing division, which is based in Vancouver and has an office in Japan. Lumber sales into the United States are primarily made directly to lumber distributors or major manufacturers. Our sales into the Japanese market are serviced both from our Vancouver sales office, where we sell directly to Japanese trading houses, and also through our marketing organization located in Japan, which sells to wholesale and manufacturing customers. Our European lumber sales are made through sales agencies.

In addition, the sales and marketing division liaises directly with the consumers of our lumber products. This allows us to react quickly to changes in market conditions and customer requirements and to achieve lower selling costs. Western adjusts sawmill processing programs in order to customize products to meet the specific requirements of our customers or changes in market conditions.

An increasing volume of our lumber products are sold kiln-dried, although a significant portion of our structural products are still sold green (neither kiln-dried nor air-dried). Sales to the US market consist of a wide range of

products from structural dimension lumber to high-grade western red cedar and hemlock that is used for more consumer-oriented products. We offer a comprehensive line of traditional components for the Japanese market and provide hemlock products with high structural values for this market which have been approved by Japanese government agencies. Our focus in Europe is kiln-dried, high-grade specialty products used predominantly in Germany, Italy, Belgium and the United Kingdom. Western's business to China is focused on customers that produce components and finished wood products for re-export to Japan, Europe and the United States, as well as commodity lumber for its growing domestic market.

The distribution of the Company's sales by geographic area and by product line for each of the last three years is set out in the following table:

	Year Ended December 31,		
	2012	2011	2010
<i>(millions of dollars)</i>			
<i>Sales by geographic area</i>			
Canada.....	\$402.9	\$369.1	\$281.1
U.S. ....	116.4	92.1	70.9
Asia .....	357.8	341.0	269.4
Europe.....	35.6	38.1	32.1
Other .....	12.7	13.4	14.4
	<u>\$925.4</u>	<u>\$853.7</u>	<u>\$667.9</u>
<i>Sales by product line</i>			
Lumber .....	\$624.4	\$561.1	\$475.1
Logs .....	246.3	231.6	139.0
Sawmill by-products.....	54.7	61.0	53.8
	<u>\$925.4</u>	<u>\$853.7</u>	<u>\$667.9</u>
<i>Sales by product line by geographic area</i>			
<i>Lumber</i>			
Canada.....	\$185.2	\$149.7	\$114.9
U.S. ....	112.7	91.5	69.7
Asia .....	278.2	268.4	244.0
Europe.....	35.6	38.1	32.1
Other .....	12.7	13.4	14.4
	<u>624.4</u>	<u>561.1</u>	<u>475.1</u>
<i>Logs</i>			
Canada.....	163.0	158.3	112.4
Asia .....	79.6	72.7	25.4
U.S. ....	3.7	0.6	1.2
	<u>246.3</u>	<u>231.6</u>	<u>139.0</u>
<i>Sawmill by-products</i>			
Canada.....	54.7	61.0	53.8
	<u>54.7</u>	<u>61.0</u>	<u>53.8</u>
<b>Total Sales .....</b>	<u><b>\$925.4</b></u>	<u><b>\$853.7</b></u>	<u><b>\$667.9</b></u>

Lumber is delivered to customers by various means, including ocean-going vessel, barge, rail or truck. Western's location on the coast of British Columbia helps us compete in terms of ease of access to overseas markets.

There is some seasonality to our operations, with higher lumber sales activity in the second and third quarters as construction activity, particularly in the United States, has historically tended to be higher in those periods. Other export markets for the solid wood segment do not have such a pronounced seasonal pattern. Weather conditions such as storms, snow and ice in the winter and the threat of forest fires in the summer months may cause logging activity, and consequently sales levels, to vary.



## **Competition**

To a great extent, lumber is a commodity and the market is cyclical. We compete on both a domestic and international level with a large number of forest products firms, ranging from very large integrated firms to smaller specialty companies. Western also competes indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. The market for lumber is highly competitive and sensitive to cyclical changes in industry capacity and the economy, both domestically and internationally. Changes in the level of competition, industry capacity, foreign exchange rates and the global economy have a significant impact on our selling prices and overall profitability.

Our competitive position is influenced by the availability, quality and cost of fibre, energy and labour, and our plant efficiencies and productivity in relation to our competitors. Western is the largest timber tenure holder and producer of lumber from the British Columbia coastal region. The diversity of species and high quality of wood enables the Company to produce products for a wide variety of end uses, from dimension lumber for home construction to high grade lumber used for millwork such as door and window frames, along with timbers for various applications. Western is also one of the world's largest producers of western red cedar. To a certain extent, the Company can use the flexibility of the variety of species and products to shift markets according to global market conditions, limiting or growing exposure to various markets and products within the constraints of the long-term balance of the various species in our timber supply.

## **Softwood Lumber Agreement**

Effective October 12, 2006, the Canadian and United States Governments implemented a softwood lumber agreement ("SLA") that replaced the United States imposed anti-dumping duty ("ADD") and countervailing duty ("CVD") regime with an export tax, payable to the Canadian Government. The SLA has a term of seven years and provides for an extension of two years and for early termination by either Government after two years. On January 24, 2012 Canada and the United States announced the SLA would be extended for 2 years until October 2015. British Columbia's coastal region, the area in which the Company operates, elected to be subject to the new export tax only and not the quota alternative. The export tax rate varies according to the price of lumber based on the Random Lengths Framing Lumber Composite Index ("Index") and ranges from zero percent, when the Index is above US\$355 per thousand board feet, to 15%, when the Index is under US\$315 per thousand board feet. The export tax only applies to the first US\$500 per thousand board feet for any product sales. In addition, if the monthly volume of exports from the British Columbia coastal region exceeds a certain "Trigger Volume" as defined in the SLA, a "surge" mechanism will apply to retroactively increase the rate of the export tax for that month by 50% (for example, the 15% export tax rate would become 22.5% for that month). The export tax expensed by the Company for 2012 was \$6.0 million (\$6.5 million for 2011, and \$3.9 million for 2010).

On January 18, 2011, the US initiated proceedings against Canada with the London Court of Arbitration under the Softwood Lumber Agreement ("SLA") over its concern that the Province has misapplied or altered its timber pricing rules and as a result has charged too low a price for certain timber harvested on public lands in the BC interior. In August 2011, the US filed a detailed statement of claim with the arbitration panel. Canada delivered its initial response to the US claim in November 2011. On July 18, 2012, the arbitration panel dismissed in their entirety the claims of the United States that Canada and BC had misapplied its timber pricing practices and so circumvented the SLA.

## **Environment, Health & Safety**

### **Safety**

The Company's overall Medical Incident Rate ("MIR") was 1.98 recordable injuries per 100 employees per year at the end of 2012, a reduction of 0.24 over our 2011 experience. When broken out by business unit, in 2012 our timberlands operations saw their MIR increase to 2.53 from 2.04 in 2011, while our manufacturing operations MIR decrease to 1.65 from 2.61 in the previous year.

The Company's Safety Policy reflects Western's values and commitment to providing a healthy and safe workplace for its people, while at the same time ensuring compliance with our regulatory requirements under WorkSafeBC ("WSBC").

The Company's comprehensive Safety Program is designed to set clear expectations for all employees and contractors employed by the Company. Safety initiatives, training programs, safety plans, incident investigations, audits/inspections and contractor specific controls are all part of our safety program and are a

key to our success. Western's Environment, Health and Safety representatives continue to be active in working with Unions, WSBC, the British Columbia Forest Safety Council ("BCFSC") and the Manufacturing Advisory Group ("MAG") to help shape programs, activities and regulations to ensure a safe workplace for all. In 2012, Western was once again certified by the BCFSC as a SAFE Company.

Western's timberlands operations employ approximately 250 contractor companies who in turn employ approximately 1000 workers to assist in achieving the Company's overall timber harvesting targets. Western expects these contractors to work to the same standards established for its own operations. To this end, contractor specific programs have been developed to help support the contractors in their efforts to improve safety and performance. Assistance provided to contractor firms includes: safety program development; training; inspection; access to Company safety materials; and support from Western's Environment, Health and Safety ("EHS") group personnel. Western also requires all timberland contractors to obtain the BCFSC's "SAFE Company" certification and remain in good standing with the BCFSC.

In 2008, the Company experienced a fatality at its Gold River Forest Operation. In August 2010, WSBC wrote orders against the Company and levied a monetary penalty stemming from the 2008 fatality. Since 2010, the Company has gone through a number of appeal processes and has made progress by having some orders dropped and the monetary penalty reduced, however, the Company feels strongly that WSBC has erred and as such continues with its position that all orders be dropped and by extension, the monetary penalty withdrawn. In November 2012 the Company submitted its final appeal and is now awaiting a decision from the Workers' Compensation Appeal Tribunal ("WCAT").

On July 17, 2012, a workplace fatality occurred at a Company timberlands contractor operations. This contractor has been identified as a "focus operation" and Western's EHS group continues to monitor the contractor's procedures to ensure compliance with Western's safety policies and standards.

Also in 2012, two sawmill explosions in northern BC brought significant attention to the industry and resulted in Province-wide inspections of sawmills by WSBC for the specific purpose of assessing wood dust levels. The inspections resulted in wood dust clean-up orders across the Province and changes to standards for dust extraction and permissible dust accumulation levels. As a member of the MAG, Western played a significant role in shaping the new WSBC standards for wood dust control.

### ***Environment***

The Company's overall environmental performance in 2012 was successful, with no events of a significant nature occurring in either our timberlands or our manufacturing operations.

The Company's Environmental Policy reflects its values and commitment to the protection of the environment, the prevention of pollution and the sustainability of the resources in its care. The Company works with its employees, contractors, First Nations, government agencies, customers and other stakeholders to identify and address issues of environmental concern in all aspects of our forest management and solid wood operations.

Our operations are subject to a wide array of federal, provincial and local environmental legislation regulating water, land and air discharges and solid and hazardous waste management, disposal, transportation and remediation. To oversee and co-ordinate company-wide efforts for compliance with such legislation, we have established an Environmental, Health and Safety Committee of the Board of Directors and implemented a reporting system that is designed to monitor environmental compliance with regulatory requirements, identify environmental issues and communicate them to all levels of management and operations. In conducting our operations, we attempt to minimize environmental impact through sound forestry and environmental management practices that meet or exceed government standards and adhere to an environmental policy based on the following:

- assessing and evaluating environmental risk on an ongoing basis in order to maintain meaningful environmental objectives and targets and effective operational controls;
- allocating sufficient resources to ensure continuing compliance with environmental responsibilities;
- meeting or surpassing all applicable legal requirements;
- establishing auditing and reporting procedures to monitor environmental performance, continually improve environmental practices and prevent pollution; and

- communicating this policy and our environmental performance to the public as well as our staff, employees and contractors.

### ***Environmental Management***

During 2012, Western's timberlands operations were in substantial compliance with environmental requirements, except for incidents which have not had, or are not expected to have, a material impact on the Company or its operations. Four of our sawmills are ISO 14001 certified and the manufacturing and processing side of the business employs a rigorous environmental management system which ensures ongoing regulatory compliance. We have a single Environmental Management System and two Sustainable Forest Management Systems for our timberlands as follows:

*ISO 14001:* All of our timberlands operations continue to be registered under a single certificate to the International Organization for Standardization ("ISO") 14001 Environmental Management Systems standard. Through third party audits by the Quality Management Institute, as well as internal audits we confirm that we remain in conformance with the ISO 14001 standard. These audits provide important feedback to senior management to ensure that staff, employees and contractors conduct their activities in compliance with the legislation and regulations relevant to the forest products industry. Environmental Management Programs are another tool used to achieve adherence to our environmental policies.

*CSA Z809:* Six of our timberlands operations are currently certified to the Canadian Standards Association ("CSA") Z809 2008 Sustainable Forest Management standard. In 2011 all six were brought under a single certification umbrella registration. These operations have certified Program for the Endorsement of Forest Certification ("PEFC") Chain of Custody systems in place to ensure that certified material can flow to our mills to produce certified product.

*FSC BC Standard:* Western's two Central Coast Forest Licences (A16845 and A16847) were certified to the Forest Stewardship Councils' ("FSC") BC Standard in 2009. In 2011 they received their second surveillance audit under the umbrella of the Coast Forest Conservation ("CFC") Initiative Society. As one of the Corrective Action Requests ("CARs") resulted from this audit was not completed within the timeframe required by the FSC certification process, the group FSC certification was suspended as of November 31, 2012. Once this single CAR has been addressed, we are anticipating a continuation of our group certification.

Western also maintains Chain of Custody ("CoC") certifications from processing facilities and through the sales operations. CoC establishes procedures to track the flow of fiber from certified forest operations through transportation and manufacturing to a certified end-product that is delivered to a customer. In 2009, Western added the FSC Chain of Custody Standard and Controlled Wood Standard Program to the long standing Program for the Endorsement of Forest Certification Annex 4 Chain of Custody that is maintained. Positioning our operations to address customer needs will drive future certification initiatives.

In 2008, Western embarked on a partnership with BC Hydro to develop a sustainable energy management program. BC Hydro is sponsoring the energy management program by providing incentive funding to execute our energy management strategy. This sponsorship takes the form of funding a portion of the cost of energy efficient projects that we implement. One of the initial key aims was for Western to reduce power consumption in its manufacturing operations by identifying and repairing compressed air leaks and inefficient lighting. Since commencement of the program, power consumption in our manufacturing operations was reduced by an estimated 20 GWh, which equates to an annual energy costs savings in excess of \$1.0 million. An additional 5 GWh of potential electrical savings have been identified that, if implemented, could result in further cost savings of approximately \$0.25 million per year. BC Hydro has provided over \$0.8 million of cash incentives to replace some of our lighting and compressors at our sites in the last 2 years. Given the success of the program, Western and BC Hydro have extended the partnership for another two years, until 2015, to provide additional support for implementation of an energy management strategy. Western expanded the program to include timberlands operations, and will identify further energy efficiency projects for 2013.

See "*Risk Factors – Environmental Regulation*" for additional information. This can be found in our Management's Discussion and Analysis for the year ended December 31, 2012 under the heading "*Risks and Uncertainties*", which is incorporated herein by reference and available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## First Nations Relations

Western is aware of over 45 First Nations groups that have asserted rights and claims within our timber tenures. We have developed and will continue to develop working relationships with many First Nations through timber harvesting, silviculture, planning and other mutually beneficial arrangements.

First Nations groups have made claims of rights and title to substantial portions of land in British Columbia, including areas where our timber tenures and operations are situated, creating uncertainty as to the status of competing property rights. Current Provincial Government policy requires that forest management and operating plans take into account and not unjustifiably infringe on aboriginal rights and title, proven or unproven, and provide for consultation with First Nations. This policy is reflected in the terms of our timber tenures, which provide that the Province may refuse to issue cutting permits in respect of a timber tenure if it is determined that the forestry operation would unjustifiably interfere with aboriginal rights and title. First Nations have, at times, sought to restrict the Provincial Government from granting or renewing forest tenures and other operating authorizations without full consultation or their consent if these decisions could affect lands claimed by them.

In addition, since 2003, as part of the First Nations Forest Strategy, the Provincial Government negotiated 168 Forest and Range Agreements and shared \$288 million of forest revenue with various First Nations, some whose traditional territories overlap with some of the Company's operating areas. These agreements were intended to provide partial interim accommodation of the economic component of aboriginal interests that may be impacted by certain forestry decisions until such time as those interests are settled through the treaty process.

By 2014 all of these agreements will have expired and we understand government's current intention is to replace them with a combination of new Forestry Consultation and Revenue Sharing Agreements ("FCRSAs") and Forest Tenure Opportunity Agreements ("TOAs"). The FCRSAs are intended to direct a share of all stumpage, waste and forest tenure rents to First Nations. The TOAs are intended to encourage greater participation in the forest sector by First Nations. Over half of the First Nations with overlapping asserted traditional territories are currently listed on the Government of British Columbia's website as having signed a FCRSA. Until such time as all new agreements are finalized and delivered, it is not possible to estimate the potential impact on the Company's tenures or operations.

On April 1, 2011, the first modern-day treaty directly impacting one of Western's timber tenures was brought into force. The Maa'nulth First Nations Final Agreement Act extinguished Western's tenure and permit rights on a portion of TFL 44. The creation of Treaty Settlement Lands and an associated protected area tied to the Treaty resulted in the AAC of the TFL being permanently reduced by 104,000 m<sup>3</sup>. Western staff are engaged with the Province in discussions on how the Treaty has impacted WFP and how those impacts will be compensated and/or mitigated by the Crown.

On December 9, 2009, the Province of British Columbia and First Nations from the southern Central Coast (Nanwakolas First Nations) signed a Strategic Engagement Agreement that improved the ability of those affiliated First Nations to manage referrals on resource projects proposed within their traditional territories. Western was supportive of streamlining the referral process and had engaged proactively with the Province and Nanwakolas on this initiative. On December 10, 2012, this agreement was renewed for another three years. In July 2011, a follow-up Reconciliation Protocol between the Nanwakolas Nations and the province was announced with signing of additional amendments in November 2011. The Amended Protocol includes a forest tenures chapter which awards the Nanwakolas Nations volume within Western's tenures on the Central Coast and Vancouver Island. In 2012, Western staff came to agreement with the Nanwakolas Nations on how they plan to exercise the awards.

On December 10, 2009, the Province of British Columbia and First Nations from the Central and North coast (the "Coastal First Nations") signed a Coastal Reconciliation Protocol that amongst other elements included a new shared decision-making process and awarded replaceable and non-replaceable forest tenure. Implementation in 2011 focused on identifying areas for the new tenure opportunities and on testing the new decision making process. Once tenure areas are identified and we are able to see how the decision making process functions, Western will be able to assess the impact on our tenures in the area.

On December 11, 2009, the Province of British Columbia and the Haida Nation signed a Reconciliation Protocol that also committed the Province to a new shared decision-making process on Haida Gwaii. This protocol included a commitment from the Province to provide the Haida Nation with funding to acquire forest

tenure on Haida Gwaii. This protocol followed the announcement of a draft legal order to implement land use agreed to by the Province and the Haida Nation in 2007 (see “BUSINESS OF THE COMPANY – Forest Resources – *Timber Available for Harvest*”). In 2010, via the Haida Gwaii Reconciliation Act the Province empowered a Provincial/Haida Management Council to take over various Provincial responsibilities regarding the setting and approval of forest practice objectives, determining an AAC for Haida Gwaii, approving Protected Area Management Plans and establishing heritage site policies and standards. The legal order was put into force in December 2010 with a six-month transition period to bring all plans into compliance. Members were appointed to the Management Council in 2011.

Through 2012, the Province of British Columbia continued its Treaty engagement with a number of First Nations. With respect to the ‘Namgis First Nation, an Agreement-in-Principle (“AIP”) was initialed by treaty negotiators and is currently being considered by the ‘Namgis community. Western has continued to build on its relationship with the ‘Namgis outside of those treaty discussions. As the treaty settlement lands offered by the Province to the ‘Namgis would result in a significant reduction in the AAC of TFL 37 and impact TFL 39, Western has also continued to work with both the Province and the Nation on opportunities to access volume within the offered Treaty Settlement Lands between AIP and final Treaty and on application of the “change of landlord” model. While we remain hopeful, it is too early to determine the success of either of these initiatives or the timing of potential impacts on the Company.

Canada, the Province of British Columbia and the Tla'amin (formerly Sliammon) First Nation also completed treaty negotiations in 2011 and initialed a Final Agreement which was approved by the Nation's members in 2012. The treaty currently awaits ratification by the BC Legislature and Federal parliament. The impacts of a treaty on TFL 39 Block 1 are not expected to be significant. Western cooperated in the deletion of a portion of TFL 39 Block 1 for a Treaty related tenure for the Tla'amin First Nation and received payment for the sale of certain hard and soft assets.

Treaty negotiations are also ongoing with the Ditidaht and First Nations which would affect TFL 44 and with the Wuikinuxv First Nation which could affect Western's two Mid-Coast Forest Licences. It is too early in those negotiations to determine the potential impacts on the company. Western is exploring options with the Province and Nations.

The Province of British Columbia and the K'omox First Nation also reached a critical stage in their treaty negotiations in 2011 with the community voting in favour of their AIP. An issue that remains to be negotiated appears to be the K'omox First Nation's desire for significant forest tenure within their traditional territory. Until those negotiations are complete, it is not possible to determine if there will be any impact on Western or our tenures.

Western continues to work to build long-term business relationships with First Nations communities. In 2010, Western established a logging joint venture with the Quatsino First Nation. We view this successful relationship as a model for future First Nation joint ventures. In 2012, Western and the Quatsino First Nation formed a Limited Partnership called Quatern Forest Products. Harvesting activities will transition from the Joint Venture Agreement to the Limited Partnership structure in 2013.

## Capital Expenditures

The following table summarizes capital expenditures for each of the last three years:

	Year Ended December 31		
	2012	2011	2010
<i>(millions of dollars)</i>			
Capital expenditures	\$32.0	\$19.4	\$11.6

The increasing level of capital expenditures in each of the past three years reflects the Company's improved financial position. In 2010, the spending reflected a focus on essential maintenance and safety activities. Expenditures in 2011 reflected an increasing emphasis on some low-capital, high-return projects which increased further into 2012 as Western commenced expenditures as part of its strategic capital plan.

## **Human Resources**

As of December 31, 2012, Western had 2,004 employees (of whom 1,562 are unionized employees). The majority of the unionized employees are represented by the USW, which holds three collective agreements with the Company. Most of the employees represented by the USW are covered by a four-year collective agreement which will expire on June 14, 2014. The two remaining agreements for South Island Remanufacturing (35 employees) and clerical employees (five employees) expire on May 22, 2017 and December 31, 2013, respectively. The PPWC represents the remaining unionized employees. Their collective agreements, also renegotiated in 2010, will expire on December 31, 2014 for the Ladysmith sawmill and October 14, 2016 for the value-added remanufacturing operations.

In our logging operations, approximately 70% of harvesting activities are performed by contractors. The majority of the contractors have replaceable contracts under the Timber Harvesting Contract and Subcontract Regulation (British Columbia). A substantial number of the employees who work for the contractors harvesting our tenures are represented by the USW.

## **Research and Development**

Silviculture and tree improvement research is conducted primarily by our employees at our Saanich Forestry Centre on Vancouver Island and from the Company's timberlands office in Campbell River. The Centre has seed orchards and a seedling nursery that supplies between a third and a half, depending on the year, of our requirements for most species of seedlings and provides us with the ability to select and breed trees with superior growth and form that should improve the quality and quantity of timber produced over time.

The Company's logging and sawmilling operations also assess new equipment and methods for the potential to improve our operational efficiency. We are a member of the Forest Engineering Research Institute of Canada, now a division of FPInnovations, which conducts research into activities related to the harvesting and transportation of wood and the growing of trees. We are also members of Forintek, now also a division of FPInnovations, which conducts research into lumber manufacturing activities including lumber drying technology and a variety of lumber recovery improvement technologies, and provides support for marketing for new products.

## **RISK FACTORS**

A detailed discussion of risks and uncertainties that may have a material adverse effect on our operations is included in our Management's Discussion & Analysis for the year ended December 31, 2012 under the heading "Risks and Uncertainties". That material is incorporated herein by reference and available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). These risks should be considered in the context of our business, which is described under "DEVELOPMENT OF THE BUSINESS" and "BUSINESS OF THE COMPANY".

## **DIVIDENDS**

The payment of dividends on the Company's Common Shares and Non-Voting Shares is at the discretion of the Board and depends on our financial condition, the need to finance capital expenditures, financial covenants in credit agreements and other factors the Board of Directors may wish to consider. No dividends have been paid by the Company on the Common Shares or the Non-Voting Shares.

Financing facilities currently in place contain covenants restricting certain payments, including the payment of dividends on Common Shares and Non-Voting Shares. The facilities provide, among other things, that any subsidiary may declare or pay dividends or otherwise make distributions in cash to the parent company or a guarantor existing under the facilities.

## CAPITAL STRUCTURE

### Share Capital

Western's authorized capital consists of an unlimited number of Common Shares, an unlimited number of Non-Voting Shares and an unlimited number of Preferred Shares. As of the date hereof, 251,218,424 Common Shares, 216,833,059 Non-Voting Shares and no Preferred Shares are issued and outstanding.

### ***Common and Non-Voting Shares***

The Common Shares entitle the holders thereof to one vote per share. The Non-Voting Shares do not entitle the holders thereof to any votes at meetings of our shareholders (or to receive notice of or attend such meetings), subject to the condition that the Non-Voting Shares will entitle the holders thereof to one vote per share on any vote relating to our liquidation, dissolution or winding-up, or the sale, lease or exchange of all or substantially all of our property and as otherwise provided by law or with respect to any amendment that would add, change or remove attributes of the Non-Voting Shares or of any class of share adversely affecting the Non-Voting Shares either separately or in relation to the Common Shares.

The holders of Common Shares and Non-Voting Shares participate equally with each other in respect of the payment of dividends, including the amount per share of the dividend.

The Common Shares and Non-Voting Shares rank equally with each other in respect of the return of capital in the event of the liquidation, dissolution or other distribution of our assets for the purpose of winding up our affairs.

If either the Common Shares or Non-Voting Shares are subdivided, consolidated, reclassified or otherwise changed, appropriate adjustments would be made at the same time to the rights attaching to the shares of the other class to ensure the preservation of the rights of each class in relation to those of the other.

Western may convert the Non-Voting Shares into Common Shares on a one-for-one basis, in whole or in part, at any time in our discretion, provided that an independent committee of our Board of Directors has at that time determined that to do so would not have a material adverse effect on the Company's business, financial condition or business prospects. The Board has the right to select the Non-Voting Shares to be converted on a *pro rata* basis, by lot or in such other manner as it considers appropriate.

The Non-Voting Shares and Common Shares shall be treated identically by us in the event of an issuer bid by the Company. In the event that a take-over bid is made for our Common Shares that is not made on the same economic terms on a per-share basis to holders of Non-Voting Shares, Western will convert the outstanding Non-Voting Shares into Common Shares in order to enable them to participate in the take-over bid on the same terms as if the Non-Voting Shares had been converted into Common Shares before the take-over bid for the Common Shares was made.

Except as described above, the Common Shares and the Non-Voting Shares have the same rights, are equal in all respects and will be treated by us as if they were shares of one class only.

### ***Preferred Shares***

The Preferred Shares may, at any time or from time to time, be issued in one or more series, and the directors may, by resolution, fix the number of Preferred Shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series. Before issuing Preferred Shares of a series, the directors must file articles of amendment with the Director appointed under the Canada Business Corporations Act ("CBCA"). Preferred Shares of each series rank on a parity with the Preferred Shares of every other series with respect to priority in the payment of dividends and in the distribution of our assets in the event of our liquidation, dissolution or winding-up or any other distribution of our assets among shareholders for the purpose of winding-up our affairs.

If Preferred Shares were outstanding, the holders of such shares would be entitled to priority over the Common Shares and the Non-Voting Shares with respect to the payment of dividends and the distribution of our assets on a liquidation, dissolution or winding-up or other distribution of our assets for the purpose of winding-up our affairs. The Preferred Shares of each series may be given such other preferences not inconsistent with the

above over the Common Shares and the Non-Voting Shares as may be determined in the case of each series authorized to be issued.

Except as otherwise required by law, the holders of the Preferred Shares are not entitled to receive notice of or to attend or to vote at any meeting of shareholders of Western. There are currently no Preferred Shares outstanding.

## MARKET FOR SECURITIES

### Trading Price and Volume

As of the date hereof, the Common Shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "WEF". The following sets out the price range and volumes traded on the Toronto Stock Exchange on a monthly basis for each month of the most recently completed financial year:

Month	High	Low	Monthly Volume
January 2012	\$0.93	\$0.78	3,952,856
February 2012	\$1.05	\$0.86	3,927,094
March 2012	\$1.15	\$0.90	4,679,417
April 2012	\$0.98	\$0.86	3,192,216
May 2012	\$0.93	\$0.76	3,031,028
June 2012	\$0.88	\$0.78	1,863,677
July 2012	\$1.03	\$0.80	3,231,719
August 2012	\$1.15	\$0.94	6,668,216
September 2012	\$1.13	\$1.01	8,408,767
October 2012	\$1.39	\$1.01	8,427,355
November 2012	\$1.40	\$1.06	12,518,358
December 2012	\$1.36	\$1.09	24,472,000

## DIRECTORS AND OFFICERS

Western's articles provide that the Board is to consist of a minimum of three directors and a maximum of 15 directors. Western currently has six directors.

At each annual meeting of shareholders of Western, the entire Board of Directors retires and directors are elected for the next term. Each director serves until the close of the next annual meeting or until his successor is elected or appointed, unless his office is earlier vacated in accordance with our articles or with the provisions of the CBCA. Not less than 25% of the members of our Board of Directors are required to be resident Canadians, in accordance with the CBCA. Western's officers serve at the discretion of the Board.

### Directors

The table below sets forth the names, provinces of residence and positions with Western of the directors of Western as of the date hereof, and the principal occupation of each of them during the past five years.

#### Name and Province and Country of Residence

#### Principal Occupation

#### Director Since

JAMES ARTHURS <sup>(1)(2)(3)</sup> ..... B.C., Canada	Mr. Arthurs is President of Cummins Westport Inc., a supplier of natural gas engines for commercial transportation applications such as trucks and buses. Previously Mr. Arthurs was Vice President Cryogenic systems for Westport Innovations Inc. from 2011 to 2012. Previously, he was a Managing Partner with i3 Transition Partners, a Vancouver-based management consulting firm. Prior to this, Mr. Arthurs was Senior Vice President, North American Operations, Integrated Paving Concepts Inc., a manufacturer of equipment, tooling and high technology coatings for the decorative asphalt industry from 2004 to 2009. From 2002 through 2004, he was Managing Director, Operations, for The Jim Pattison Group.	July 27, 2004
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<u>Name and Province and Country of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>
LEE DONEY <sup>(2)</sup> ..... B.C., Canada	Vice Chairman of the Board since November, 2008. Independent consultant. He is currently the Chief Executive Officer of the Public Sector Employees Council, Chairman of Coast Forest Products Association, and the Chairman of the Board of Columbia Power Corporation.	July 27, 2004
DOMINIC GAMMIERO <sup>(2)</sup> ..... Ontario, Canada	Chairman of Western since October 2010. Mr. Gammiero was also Chief Executive Officer from October 2010 until February 2013. Prior to this he was also Chairman and Chief Executive Officer from November 2008 to June 2009. Chairman of Fraser Papers Inc. since 2007. From 2004 until 2006, President and Chief Executive Officer of Fraser Papers Inc. On June 18, 2009, Fraser Papers and its subsidiaries initiated a court-supervised restructuring under the CCAA and ancillary proceedings in the US under Chapter 15 of the US Bankruptcy Code. On December 10, 2009, Fraser Papers announced that it received approval from the Ontario Superior Court of Justice to proceed with its CCAA restructuring proposal which was implemented on February 15, 2011 by way of a consolidated plan of arrangement and compromise in its cross-border proceeding. Fraser Papers was subsequently dissolved on June 23, 2011	June 16, 2006
J. PETER GORDON <sup>(1)(2)(3)(4)</sup> ..... Ontario, Canada	Managing Partner of Brookfield Asset Management Inc. He is also currently a director of Ainsworth Lumber Co. Ltd. and MAAAX Bath Inc. Mr. Gordon was a director of Fraser Papers Inc. from 2007 to 2010, Chief Executive Officer from 2007 until 2011 and Chief Financial Officer from 2006 to 2007. (Please refer to the comments noted above with respect to the restructuring of Fraser Papers under the CCAA and US Bankruptcy Code). Mr. Gordon was previously a director of Western for the period July 2004 until June 2006. For the five years prior to 2006 Mr. Gordon was co-manager of Brookfield Capital Partners Fund 1 (formerly Brookfield Special Situations Fund I).	June 11, 2010
PIERRE MCNEIL <sup>(2)(3)(4)</sup> ..... Ontario, Canada	Senior Vice President of Brookfield Asset Management Inc. He is also currently a director of Ainsworth Lumber Co. Ltd. and MAAAX Bath Inc. and was formerly the President and CEO of Concert Industries Corp. From July 2004 to December 2006, Senior Vice President with Fraser Papers Inc.	December 20, 2007
JOHN B. NEWMAN <sup>(1)(2)(3)(4)</sup> ..... Ontario, Canada	Chairman and CEO of Multibanc Financial Holdings Limited, a private investment vehicle located in Toronto. Chairman of Dale Parizeau Morris Mackenzie Inc. and the AGF Family of Mutual Funds Trusts and Corporations. Chairman of Simmons Canada Inc. until its sale on November 30, 2006, and of Multi-Fund Management Inc. until its sale on June 30, 2006. Director or member of the Independent Review Committee of certain closed-end funds administered by Scotia Capital Inc., TD Securities Inc. and BMO Nesbitt Burns Inc.	July 27, 2004

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- (1) Member of the Audit Committee.
  - (2) Member of the Environmental, Health and Safety Committee.
  - (3) Member of the Nominating and Corporate Governance Committee.
  - (4) Member of the Management Resources and Compensation Committee.

Messrs. Gammiero, Gordon and McNeil (collectively, the “BSSML Directors”) are officers and/or directors of BSSML and/or its subsidiaries or related entities. Mr. Gammiero is also the Chairman and CEO of Western. BSSML and BAM have a number of relationships with Western as described under “The Company” and “Interest of Management and Others in Material Transactions.” The Board considers that these relationships with BSSML and BAM and their affiliates are not an interest or a business or other relationship that could, or could reasonably be perceived to, interfere materially with the BSSML Directors’ ability to act with a view to the best interests of the Company, other than interests and relationships arising from shareholding. The Board also considers that three director nominees (which constitutes 50% of the six directors) fairly reflects the relative investment of BAM (through BSSML) and other shareholders in the Company.

The transactions with BSSML and BAM and their affiliates described herein were approved, as required by the CBCA and applicable securities laws, by the independent directors who are not BSSML Directors.

### **Executive Officers**

The table below sets forth the names, provinces of residence and positions with Western of the executive officers of Western as of the date hereof, and the principal occupation of each of them during the past five years (other than the CEO, whose information is set forth above).

#### **Name and Province and**

#### **Country of Residence**

#### **Position with Western and Principal Occupation**

BRIAN CAIRO B.C., Canada	<b>Chief Financial Officer and Corporate Secretary</b> since March 2010, and previous to this Senior Vice President of Finance and Corporate Secretary from March 2009. Prior to this he was Vice President, Corporate Controller and Assistant Corporate Secretary of Western from August 2008 to March 2009 and before that Corporate Controller from March, 2006. From April 2003 to March 2006, Mr. Cairo was Director of Finance and Planning and Administration of the Canadian Forestlands unit of Weyerhaeuser Canada Ltd. Mr. Cairo is a Certified General Accountant and holds a Masters of Business Administration from Athabasca University and a Bachelor of Commerce from the University of Manitoba.
MIKE CASS B.C., Canada	<b>Vice President, Human Resources</b> since October 2011. Prior to this Mr. Cass was Director of Human Resources with Island Timberlands since 2005. Prior to that, Mr. Cass was Regional Human Resources Manager for the BC Coastal Group of Weyerhaeuser from 2000 to 2005. Mr. Cass has a Bachelor's Degree in Liberal Studies from Simon Fraser University, a Masters of Business Administration from Royal Roads and a Masters' Certificate in Project Management from the University of Victoria and Schulich School of Business (York University).
DON DEMENS B.C., Canada	<b>Chief Executive Officer</b> effective February 21, 2013, and prior to that President since July 2012. Before this, Mr. Demens was Chief Operating Officer since 2011, and before that he was Senior Vice President, Sales and Manufacturing since August 2009, and Senior Vice President, Western Red Cedar and Custom Cut from April 2009. He was General Manager for Andersen Pacific Products from January 2008 until December 2008, and prior to that was a Forest Industry Consultant from November 2006 until January 2008. From July 2004 until July 2006, Mr. Demens was General Manager, Whitewood for International Forest Products Ltd. Mr. Demens holds a Bachelor of Commerce degree from the University of British Columbia.
BRUCE ST. JOHN B.C., Canada	<b>Vice President, Lumber Sales and Marketing</b> since August 2012. Since joining Western in 1996, Mr. St. John has held a number of positions in the Company's Custom Cut and Sales & Marketing Departments, including General Manager, Sales from October 2006 to August 2012. He holds a Bachelor of Arts Degree, with a double major in History and Sociology from the University of Victoria.
NEIL STEVENS B.C., Canada	<b>Vice President, Fibre Optimization</b> since June 2006. From 1994 to 2006, he held various positions with Weyerhaeuser in Softwood Lumber and in Canadian Forestlands, conducting work primarily in Alberta, Saskatchewan and Ontario. Prior to this, Mr. Stevens was employed in forestry consulting in Alberta, as Manager and Senior Consultant. Mr. Stevens has a Bachelor and a Master of Science degree in Forestry from the University of Alberta.
TONY SUDAR B.C., Canada	<b>Vice President, Manufacturing</b> since August 2010. Prior to this Mr. Sudar was General Manager of Manufacturing with Western since May 2006. From 1992 to 2006, he held various Manager and General Manager positions with MacMillan Bloedel, Weyerhaeuser and Cascadia Forest Products. Mr. Sudar holds a Bachelor's degree in Economic Geography from the University of Victoria.

### **Shareholdings of Directors and Executive Officers**

As at the date hereof, except as described herein, none of our Common Shares are beneficially owned, directly or indirectly, and no direction or control over any of our shares is exercised, by any of the directors and executive officers of Western. As of the date hereof, BSSML has the right to control or direct 122,639,345 Common Shares (48.82% of the issued and outstanding Common Shares) and 216,833,059 Non-Voting Shares (100% of the issued and outstanding Non-Voting Shares). Mr. Arthurs owns 52,436 Common Shares. These shares represent less than one percent of the Company's outstanding Common Shares.

## AUDIT COMMITTEE

The Audit Committee was established to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the accuracy and completeness of our financial statements;
- (b) our internal control and financial reporting systems;
- (c) the selection and activities of our external auditor;
- (d) risk management; and
- (e) our compliance with legal and regulatory requirements.

The Committee is responsible for the oversight of financial reporting and disclosure, annual and quarterly review of financial statements, and the related management's discussion and analysis and earnings release, and oversight of internal controls and disclosure procedures. The Committee also recommends the appointment of our external auditors, reviews the annual audit plan and auditor compensation, approves non-audit services provided by the external auditor, reviews hiring policies regarding former staff and auditors and reviews the adequacy of our risk management policies and procedures. The Committee is also responsible for establishing procedures for handling complaints and employee concerns regarding accounting and auditing matters.

The Audit Committee has adopted a charter that reflects these and other responsibilities. The charter as most recently approved by the Board of Directors is attached as an appendix to this Annual Information Form.

### Composition of and Education and Experience of Members of the Audit Committee

The Audit Committee is composed of three directors, being, as of February 21, 2013, James Arthurs – Chairman, Peter Gordon and John B. Newman. The Board of Directors has determined that all three members of the Audit Committee are independent and financially literate under the standards established by Canadian securities regulatory authorities in National Instrument 52-110-Audit Committees. During 2012, the Audit Committee met eight times.

### Relevant Education and Experience

**James Arthurs – Chairman** – Mr. Arthurs is President of Cummins Westport Inc., a supplier of natural gas engines for commercial transportation applications such as trucks and buses. Previously, he was Vice President Cryogenic Systems for Westport Innovations Inc., a supplier of natural gas fuel systems for vehicles. Previously, he was a Managing Partner with i3 Transition Partners, a Vancouver-based management consulting firm. Prior to this, from 2004 until 2009, he was Senior Vice President, North American Operations, Integrated Paving Concepts Inc., a manufacturer of equipment, tooling and high technology coatings for the decorative asphalt industry. Previously he has held several other positions requiring a high degree of financial acumen including Managing Director, Operations, for The Jim Pattison Group and Senior Vice President and Chief Information Officer for the Alderwoods Group, Inc. Mr. Arthurs holds a Bachelor of Science Degree in Computer Science from the University of Calgary.

**Peter Gordon** – Mr. Gordon is a Managing Partner at Brookfield Asset Management. He started his career and worked for 15 years at two of BAM's mining subsidiaries in both operating and finance roles. In 1998, he joined BAM's merchant banking group in Toronto and was a co-founding partner in the launch of BAM's first restructuring fund in 2002. He holds an engineering degree from Queen's University and an MBA from the University of British Columbia. Mr. Gordon is currently on the boards of two public companies (Western Forest Products Inc. and Ainsworth Lumber Co. Ltd.) and one private company, MAAX Bath Inc., which is owned by a fund managed by Brookfield.

**John B. Newman** – Mr. Newman has extensive financial and audit committee experience. He is currently the Chairman and CEO of Multibanc Financial Holdings Limited, a private investment vehicle located in Toronto. He is also Chairman of Dale Parizeau Morris Mackenzie Inc. and the AGF Family of Mutual Funds Trusts and Corporations and was formerly the Chairman of Simmons Canada Inc., First Place Tower Inc. and Multi-Fund Management Inc. Until his retirement in 1990 Mr. Newman was the Deputy Chairman of Prudential Securities (Canada).

### Pre-Approval Policies and Procedures of Non-Audit Services

The Audit Committee has adopted a policy that requires, in accordance with applicable law, its pre-approval of all non-audit services to be provided by the Company's auditors. The Audit Committee has adopted the following pre-approval policies:

- (a) Annually, the Audit Committee will review a list of audit, audit-related, tax and other non-audit services and recommend pre-approval of these services.
- (b) All additional requests to engage our auditor for other services will be addressed on a case-by-case specific engagement basis. Except as otherwise permitted by applicable law, the engagement may commence only upon approval by the Audit Committee.

### External Auditor Service Fees

The aggregate fees billed for professional services rendered by our auditors, KPMG LLP, to us for the years ended December 31, 2012 and 2011 are as follows:

	Fees Paid	
	2012	2011
Audit services	\$535,000	\$535,000
Audit-related services	220,050	228,875
Taxation services	105,553	109,644
<b>Total for all services</b>	<b>\$860,603</b>	<b>\$873,519</b>

#### Description of Services:

Audit services include the audit of the annual financial statements of the Corporation and its subsidiaries and the review of the Company's unaudited interim financial statements.

Audit-related services include audits of the Company's pension plans, accounting consultations relating to new or complex accounting standards including assistance and review work associated with implementing International Financial Reporting Standards, supplemental audit and review procedures conducted during the course of the year and the auditors involvement with offering and continuous disclosure documents.

Taxation services consist of tax compliance services and tax planning and structuring.

### LEGAL PROCEEDINGS

In addition to the legal proceedings referred to elsewhere in this Annual Information Form, including in the "Risks and Uncertainties" section in our Management's Discussion and Analysis for the fiscal year ended December 31, 2012 incorporated by reference in this Annual Information Form and available under the Company's profile on SEDAR found at [www.sedar.com](http://www.sedar.com), in the normal course of business, Western is subject to a number of claims and legal actions that may be made by customers, suppliers, logging contractors and others in respect of which either provision has been made or no material liability is expected. Where we are not able to determine the outcome of these disputes, no amounts have been accrued in our financial statements.

Other than as disclosed elsewhere herein, we are not aware of any material legal proceedings to which we are a party or to which our property is subject, nor are we aware that any such proceedings are contemplated.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed below, we are not aware of any material interest, direct or indirect, of any director or executive officer of the Company, any person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, directly or indirectly, more than 10% of the voting rights attached to the Common Shares, or any associate or affiliate of any of the foregoing, in any transaction within

the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect us:

- The Company has certain arrangements with entities related to 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. During the year ended December 31, 2012, the Company incurred costs of \$18.0 million (2011 - \$18.2 million; 2010 - \$12.9 million) and charged entities related to BAM \$7.9 million (2011 - \$7.8 million; 2010 - \$12.7 million) in connection with these arrangements.
- On March 31, 2009, the Company entered into an agreement with BAM to provide a foreign exchange facility (the "Facility") to the Company. The Facility, which is for a notional amount of up to US\$80.0 million, matured on March 31, 2012, and allows for forward transactions with a maximum term for each transaction of up to one year. The maturity date is subject to automatic annual renewal, subject to BAM notifying the Company of its intention to cancel the Facility at least 30 days prior to the anniversary date and to certain change of control provisions being invoked. The Facility is unsecured and is subject to a fee of 0.10% of the notional amount per annum.
- On December 4, 2012, the Company and BSSML closed a bought deal secondary offering (the "Offering") through which BSSML sold 62,500,000 Non-Voting Shares of Western at an offering price of \$1.20 per share for aggregate gross proceeds to BSSML of \$75.0 million. On closing of the Offering, the shares were converted, on a one-for-one basis, into Common Shares of Western, representing approximately 33% of the then issued and outstanding Common Shares of Western on a non-diluted basis after giving effect to the Offering. Immediately following completion of the Offering, 59,612,801 of the then remaining Non-Voting Shares held by BSSML were converted into Common Shares on a one-for-one basis. As at December 31, 2012, BSSML beneficially held 122,639,345 Common Shares, or 48.82% of the Company's 251,218,424 Common Shares, and 100% of the 216,833,059 Non-Voting Shares issued and outstanding. This represents the same percentages of Common Shares and Non-Voting Shares that BSSML held prior to the Offering.

#### **TRANSFER AGENT AND REGISTRAR**

The registrar and transfer agent for our Common Shares is Computershare Investor Services Inc. at its principal offices in Vancouver and Toronto located at 3<sup>rd</sup> Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 and 11<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1, respectively.

#### **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business or as otherwise disclosed herein, Western has not entered into any other material contracts within the most recently completed financial year or before the most recently completed financial year (but after January 1, 2002) and still in effect.

On March 17, 2006, Western executed a 40-year fibre supply agreement with the owners of Howe Sound Pulp and Paper Mill ("HSPP"). As consideration for entering into this long-term fibre supply agreement, the Company received the chip price premium of \$80.0 million, of which a non-refundable \$35.0 million was paid to Western in cash on March 17, 2006. The balance of \$45 million of the chip price premium was set off against the consideration due on the acquisition of the Englewood Logging Division consisting of TFL 37 on Vancouver Island and certain related assets formerly owned by Canfor Corporation. Western granted a security interest in TFL 37 and related assets to the owners of HSPP that may be discharged by Western on the later of the tenth anniversary of the agreement and the date when 3,000,000 volumetric units of wood chips have been delivered, except in certain circumstances. The Company and the owners of HSPP amended the long-term fibre supply agreement and associated agreements in 2009, and in 2011 with changes effective December 31, 2010. The Company delivered the required minimum volumes of pulp logs and chips in 2012.

See "Development of the Business - Significant Developments Since January 2010".

### **INTEREST OF EXPERTS**

Our auditors, KPMG LLP, have prepared the audit report attached to our audited financial statements for our most recent fiscal year. KPMG LLP has confirmed that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia as of February 21, 2013.

### **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, is contained in our management information circular in respect of our most recent annual meeting of shareholders held on May 9, 2012. Additional financial information is provided in our audited financial statements and accompanying Management's Discussion and Analysis for our most recent fiscal year. Additional information relating to Western is available on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company's name.

## GLOSSARY OF CERTAIN TERMS

Certain terms used herein are defined below.

“AAC” .....	Annual allowable cut — the volume of timber which the holder of a tree farm licence or forest licence may harvest under the licence in any given year as determined by the Ministry of Forests, Lands and Natural Resource Operations.
“annual cut” .....	The volume of timber which the holder of a timber licence expects to harvest annually from that timber licence.
“BAM” .....	Brookfield Asset Management Inc.
“BPL” .....	Brookfield Properties Limited.
“BSSI” .....	Brookfield Special Situations Fund I (formerly Tricap Restructuring Fund)
“BSSML” .....	Brookfield Special Situations Management Limited (formerly Tricap Management Limited.)
“board feet” .....	The plural of board foot; a board foot is calculated by multiplying 1” x 12” x 12” = 1 foot board measure gross count. Lumber is then finished (planed/sanded) to a smaller size and sold based on the original gross count. The difference between gross size and net size is approximately 7%.
“IFRSs” .....	International Financial Reporting Standards
“CBCA” .....	<i>Canada Business Corporations Act</i> , as amended.
“CIBC Prime”	Canadian Imperial Bank of Commerce prime lending rate.
“CIT” .....	CIT Business Credit Canada Inc.
“Exchange Limitation” .....	Means the requirement that no holder or group of holders should beneficially own, or exercise control or direction over, 50% or more of the Common Shares.
“forest licence” or “FL” .....	A licence granted by the Ministry of Forests, Lands and Natural Resource Operations which entitles the holder to cut up to a specific volume of timber on government lands.
“FRA” .....	<i>Forestry Revitalization Act</i> (British Columbia).
“green” .....	A term used to describe lumber that is not kiln-dried or air-dried.
“hectare” .....	An area 100 metres by 100 metres, equal to 2.47 acres.
“hog fuel” .....	Wood residue produced by a sawmill or a log merchandiser.
“ISO” .....	International Standards Organization.
“m <sup>3</sup> ” .....	A cubic metre.
“Ministry of Forests, Lands and Natural Resource Operations” .....	The Ministry of Forests, Lands and Natural Resource Operations of British Columbia.
“MMfbm” .....	One million board feet measure (see “board feet”).

“Part 13” .....	Part 13 of the Forest Act, under which the Province of B.C. may suspend cutting authorities or plans in identified areas in the public interest for a period of time specified in regulations. Also known as “Designated” or “Protected” areas.
“replaceable contract” .....	Replaceable contract under the Forest Act. An “evergreen” timber harvesting contract that is entered into between a holder of a replaceable licence and a contractor, whereby the contractor is obligated to perform one or more defined phases of timber harvesting within the licence and, if satisfactorily performed, the licence holder is obligated, prior to the expiry of the term of the contract, to offer the contractor a replacement contract on substantially the same terms and conditions as the contract being replaced.
“SPF 2x4 lumber” .....	2” x 4” kiln-dried random lengths of spruce, pine and fir lumber, which is a North American commodity grade of standard and better dimensional lumber.
“sustained yield” .....	The yield that a forest can produce continuously (i.e. in perpetuity) at a given intensity of management without impairment of the land’s productivity, with the intent that there will be a balance between timber growth and harvesting on a sustainable basis.
“timber licence” or “TL” .....	A licence granted by the Ministry of Forests, Lands and Natural Resource Operations which entitles the holder to harvest the area over a specified period.
“timber supply areas” or “TSA” .....	The areas of Provincial Government timberland which are not designated as TFLs.
“tonne” .....	A metric tonne — 1,000 kilograms or 2,204.6 pounds.
“tree farm licence” or “TFL” .....	A TFL is a replaceable timber tenure that requires the licensee to manage a specified area of timberland on a sustained yield basis. TFLs are granted for 25-year terms and, subject to satisfactory performance of its obligations under the TFL agreement by the licensee, are replaced by the Minister of Forests, Lands and Natural Resource Operations every five to 10 years with a new TFL with a 25-year term.
“volumetric unit” .....	Equals 200 cubic feet of wood chips, hog fuel or sawdust.
“wood chips” .....	Small pieces of wood used to make pulp. The wood chips are produced either from wood-waste in a sawmill or a log merchandiser or from pulp wood cut specifically for this purpose. Wood chips are generally uniform in size and are larger and coarser than sawdust.



**APPENDIX**  
**WESTERN FOREST PRODUCTS INC.**  
**AUDIT COMMITTEE CHARTER**

**1. Purpose**

The Board of Directors (the "Board") of Western Forest Products Inc. (the "Corporation") has established an Audit Committee (the "Committee") to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the accuracy and completeness of the Corporation's financial statements;
- (b) the internal control and financial reporting systems of the Corporation;
- (c) the selection and activities of the Corporation's external auditor;
- (d) risk management;
- (e) the Corporation's compliance with legal and regulatory requirements, and
- (f) any additional duties set out in this Charter or otherwise delegated to the Committee by the Board.

**2. Members**

Committee members, including the Committee Chair, shall be appointed annually by the Board based on recommendations of the Nominating and Corporate Governance Committee and shall consist of at least three members of the Board who meet the independence requirements of Multilateral Instrument 52-110 - Audit Committees.

All members of the Committee shall be financially literate. While the Board shall determine the definition of and criteria for financial literacy, this shall, at a minimum, include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

**3. Duties**

The Committee shall have the following duties:

- (a) Financial Reporting and Disclosure
  - (i) *Audited Annual Financial Statements*: Review the audited annual financial statements as prepared by management in conjunction with the external auditors, related management discussion and analysis ("MD&A") and earnings press releases for submission to Board for approval.
  - (ii) *Quarterly Review*: Review the unaudited quarterly financial statements, the related MD&A and earnings press releases for submission to the Board for approval.
  - (iii) *Significant Accounting Practices and Disclosure Issues*: Review with management and the external auditor, significant accounting practices employed by the Corporation and disclosure issues, including complex or unusual transactions, judgmental areas such reserves or estimates, significant changes to accounting principles, and alternative treatments under Canadian GAAP for material transactions. This review process shall be undertaken in order to have reasonable assurance that the financial statements are complete, do not contain any misrepresentations, and present fairly the Corporation's financial position and the results of its operations in accordance with Canadian GAAP.

- (iv) *Compliance*: Confirm through discussions with management and auditors whether Canadian GAAP and all applicable laws or regulations related to financial reporting and disclosure have been considered and obtain confirmations from management that Canadian GAAP and all such applicable laws have been complied with.
  - (v) *Legal Events*: Review any actual or anticipated litigation or other events, including tax assessments, which could have a material current or future effect on the Corporation's financial statements, and the manner in which these have been disclosed in the financial statements.
  - (vi) *Off-Balance Sheet Transactions*: Discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components or revenues and expenses.
  - (vii) *Disclosure Procedures*: Satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted from the Corporation's financial statements and periodically assess the adequacy of those procedures.
- (b) Oversight of Internal Controls
- (i) *Review and Assessment*: Review the adequacy and effectiveness of the Corporation's system of internal control and management information systems through discussions with management and the external auditor.
  - (ii) *Oversight*: Oversee system of internal control, by:
    - Consulting with the external auditor regarding the adequacy of the Corporation's internal controls;
    - Monitoring policies and procedures for internal accounting, financial control and management information, electronic data control and computer security;
    - Obtaining from management adequate assurances that all statutory payments and withholdings have been made; and
    - Taking other actions as considered necessary.
  - (iii) *Fraud*: Oversee investigations of alleged fraud and illegality relating to the Corporation's finances and any resulting actions.
  - (iv) *Complaint*: Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and for the protection from retaliation of those who report such complaints in good faith.
- (c) External Audit
- (i) *Appointment or Replacement*: Recommend the appointment or replacement of the external auditor to the Board, who will consider the recommendation prior to submitting the nomination to the shareholders for their approval.
  - (ii) *Compensation*: Review with management, and make recommendations to the Board, regarding the compensation of the external auditor. In making a recommendation with respect to compensation, the Committee shall consider the number and nature of reports issued by the external auditor, the quality of internal controls, the size, complexity and financial condition of the Corporation, and the extent of other support provided by the Corporation to the external auditor.

- (iii) *Reporting Relationships*: The external auditor will report directly to the Committee.
- (iv) *Performance*: Review with management the terms of the external auditor's engagement, accountability, experience, qualifications and performance. Evaluate the performance of the external auditor.
- (v) *Transition*: Review management's plans for an orderly transition to a new external auditor, if required.
- (vi) *Audit Plan*: Review the audit plan and scope of the external audit with the external auditor and management, and consider the nature and scope of the planned audit procedures.
- (vii) *Audit Plan Changes*: Discuss with the external auditor any significant changes required in the approach or scope of their audit plan, management's handling of any proposed adjustments identified by the external auditor, and any actions or inactions by management that limited or restricted the scope of their work.
- (viii) *Review of Results*: Review, independently from management and without management present, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the external auditor the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment, and any other material communications with management.
- (ix) *Disagreements with Management*: Resolve any disagreements between management and the external auditor regarding financial reporting.
- (x) *Material Written Communications*: Review all other material written communications between the external auditor and management, including the post-audit management letter containing the recommendations of the external auditor, management's response and, subsequently, follow up identified weaknesses.
- (xi) *Interim Financial Statements*: Engage the external auditor to review all internal financial statements and review the results of the auditor's review of the interim financial statements and the auditor's review of the related MD&A independent of and without management present.
- (xii) *Other Audit Matters*: Review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards or that relate to the external auditor.
- (xiii) *Meeting with External Auditor*: Meet with the external auditor independently from management and without management present (1) at least annually to discuss and review specific issues; and (2) as appropriate with respect to any significant matters that the auditor may wish to bring to the Committee for its consideration.
- (xiv) *Correspondence*: Review with management and the external auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies.
- (xv) *Independence*: At least annually, and before the external auditor issues its report on the annual financial statements, review and confirm the independence of the external auditor through discussions with the auditor on their relationship with the Corporation, including details of all non-audit services provided. Consider the safeguards implemented by the external auditor to minimize any threats to their independence, and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the external auditor. Consider the number of years the lead audit partner has been assigned to the Corporation, and consider whether it is appropriate to

recommend to the Board a policy of rotating the lead audit partner more frequently than every five years, as is required under the rules of the Canadian Public Accountability Board.

- (xvi) *Non-Audit/Audit Services*: Pre-approve, in accordance with applicable law, any non-audit services to be provided to the Corporation by the external auditor, with reference to compatibility of the service with the external auditor's independence.
- (xvii) *Hiring Policies*: Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor.

(d) Risk Management

Review and assess the adequacy of the Corporation's risk management policies and procedures with respect to the Corporation's principal business risks. Review and assess the adequacy of the implementation of appropriate systems to mitigate and manage the risks, and report regularly to the Board. Review the Corporation's insurance program.

(e) Regulatory Compliance

Review with management the Corporation's relationship with regulators and the timeliness and accuracy of Corporation filings with regulatory authorities.

(f) Related Party Transactions

Review with management all related party transactions and the development of policies and procedures related to those transactions.

(g) Board Relationship and Reporting

- (i) *Adequacy of Charter*: Review and assess the adequacy of the Committee Charter annually and submit such amendments as the Committee proposes to the Board.
- (ii) *Disclosure*: Oversee appropriate disclosure of the Committee's Charter, and other information required to be disclosed by applicable legislation, in the Corporation's Annual Information Form and all other applicable disclosure documents, including any management information circular distributed in connection with the solicitation of proxies from the Corporation's security holders.
- (iii) *Reporting*: Report regularly to the Board on Committee activities, issues and related recommendations.

4. **Chair**

The Board will in each year appoint the Chair of the Committee. The Chair shall be financially literate. In the Chair's absence, or if the position is vacant, the Committee may select another member as Chair. The Chair will have the right to exercise all powers of the Committee between meetings but will attempt to involve all other members as appropriate prior to the exercise of any powers and will, in any event, advise all other members of any decisions made or powers exercised.

5. **Meetings**

The Committee shall meet at the request of its Chair, but in any event it will meet at least four times a year. Notices calling meetings shall be sent to all Committee members. The external auditor or any member of the Committee may call a meeting of the Committee. The Chair of the Committee shall develop and set the Committee's agenda, in consultation with the other members of the Committee. Each member of the Committee is free to suggest the inclusion of items on the agenda. The agenda and information concerning the business to be conducted at each Committee meeting shall be distributed to the members of the Committee in advance of each meeting to permit meaningful review.

6. **Quorum**

A majority of members of the Committee, present in person, by teleconference, or by videoconference will constitute a quorum.

7. **Removal and Vacancy**

A member may resign from the Committee, and may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to be a director. The Board will fill vacancies in the Committee by appointment from among the directors of the Board in accordance with Section 2 of this Charter. Subject to quorum requirements, if a vacancy exists on the Committee, the remaining members will exercise all its powers.

8. **Experts and Advisors**

In order to carry out its duties, the Committee may retain or appoint, at the Corporation's expense, such independent counsel and other experts and advisors as it deems necessary. The Committee shall provide notice to the Nominating and Corporate Governance Committee of its actions in this regard.

9. **Access**

The Committee may have access to and direct contact with any employee, contractor, supplier, customer or other person that is engaged in any business relationship with the Corporation to confirm information or to investigate any matter within the mandate of the Committee.

10. **Secretary and Minutes**

The Chair of the Committee shall appoint a secretary for each meeting to keep minutes of such meeting. The minutes of the Committee will be in writing and duly entered into the books of the Corporation. The minutes of the Committee will be circulated to all members of the Board.

Dated as of May 6, 2005