Western Forest Products Inc.

2015 Annual Report

Financial Highlights

(millions of Canadian dollars except ratios, per share and share amounts)	Year ended December 31, 2015	2014
Revenue	1,081.9	1,036.9
Net income	73.7	68.4
Cash flow from operating activities	99.1	87.4
Basic net income per share	$ 0.19	$ 0.17
Diluted net income per share	$ 0.18	$ 0.17
Adjusted EBITDA [1]	117.1	108.5
Adjusted EBITDA margin	10.8%	10.5%
Weighted average shares outstanding - Basic ('000's)	395,066	392,267
Weighted average shares outstanding - Diluted ('000's)	398,740	396,892
Working capital	141.8	121.3
Total assets	743.4	694.2
Net debt [2]	53.8	77.9
Net debt to capitalization [3]	0.11	0.16
Total liquidity [4]	177.9	134.4

(1) See page 5 for definition of adjusted EBITDA. A quantitative reconciliation between net income and adjusted EBITDA can be found in Appendix A to the Management's Discussion and Analysis.

(2) Net debt is defined as the sum of long-term debt, current portion of long-term debt, revolving credit facility, less cash and cash equivalents.

(3) Capitalization comprises net debt and shareholders' equity.

(4) Total liquidity comprises cash and cash equivalents and available credit under the Company's revolving credit facility and revolving term loan.

Letter to Shareholders

To Our Shareholders,

Our focus on producing specialty products delivered growth in revenue and annual adjusted EBTIDA, and limited the impact of a significant decline in commodity lumber markets.

In 2015, Western leveraged our flexible operating platform to capitalize on sustained demand for our specialty products and grew annual adjusted EBITDA by 8% compared to last year. We successfully focused on specialty lumber production, leading to an improved sales mix and allowing us to overcome a 20% decline in commodity lumber pricing[1]. Concentrating our sales into demand driven markets allowed us to capture the benefits of a weakening Canadian dollar ("CAD") and enabled us to surpass $1 billion in revenue for the second consecutive year. On the strength of operating cash flows, we continued our balanced approach to capital allocation in 2015, distributing $31.6 million in dividends to our shareholders, reinvesting $62.1 million in our asset base and reducing net debt by $24.1 million.

Western's 2015 financial highlights:

- Growing annual revenue to more than $1 billion, a 4% increase from the year prior
- Increasing adjusted EBITDA by 8% to $117.1 million
- Achieving a record average annual lumber sales price of $872 per thousand board feet

In addition, Western realized several operational achievements in 2015 including:

- Investing an additional $29.7 million in strategic capital projects
- Advancing relationships with coastal First Nations through joint interest in sustainably harvesting timber
- Maintaining lumber production with one less sawmill and operational downtime for capital implementation

Market Outlook

We remain confident in our view that over the mid to long term, the recovery of the new home construction market in the United States ("US"), combined with growing demand from China and reduced lumber supply from the British Columbia ("BC") interior, will deliver an improved pricing environment for commodity lumber products. In the near term, we expect commodity lumber pricing will continue to be volatile until US home construction returns to more normal levels. We will continue to utilize our flexible operating platform to target our lumber production to the products and markets that offer the highest margin.

We anticipate demand for our Western Red Cedar ("WRC") products to grow through the first half of 2016, as distributors position their inventories for the spring and summer building seasons. Improved demand and limited supply due to lower harvest levels on the coast of BC should provide a favourable pricing environment for our products.

Recent improvement in lumber demand in Japan is expected to continue in the first half of 2016, supported by new home construction. Pricing is expected to remain competitive as global suppliers compete for market share.

[1] Based on performance of the United States dollar ("USD") denominated 2x4 SPF lumber Index in 2015.

We anticipate that demand for lumber in China will continue to improve through the first quarter of 2016, supported by what appears to be an improving housing market. Our commodity business will also benefit from improved demand from North America as we enter the spring building season.

Our saw log markets are expected to remain firm in the first half of 2016. Reduced supply due to lower harvest levels on the coast will support our domestic log sales while the weaker CAD will support price realizations from competitive Asian export log markets. The pulp log market is expected to remain depressed as high pulp log inventories at BC coastal pulp mills will keep the market oversupplied.

In 2015 we accelerated the implementation of our strategic capital plan that is expected to position our mills as the most cost competitive facilities on the coast of BC. Key milestones included the successful restart of the 2nd production line at our Duke Point sawmill and the completion of the $40 million Saltair sawmill upgrade, the benefits of which should positively impact our 2016 results. In addition, we continued the modernization of our Duke Point sawmill and planer, installed a new timber deck at our Chemainus sawmill, and began the conversion of our Ladysmith sawmill to a single production line. We are pleased with the early performance of these capital investments that are designed to improve productivity, lower costs and increase product flexibility.

We are pleased to announce that the Board has approved an investment in the application of LiDAR technology in our Timberlands operations. This $3 million investment will utilize proven technology that will generate more detailed information on our forest inventory and should lead to more efficient planning, engineering and harvest practices. With this latest announcement, we have implemented or announced $97 million of our $125 million capital investment plan, with all of the associated projects in commissioning or installation phases. We continue to evaluate and refine additional strategic capital project plans that will position Western as the only company on the coast of BC capable of competitively optimizing the complete profile of the coastal forest.

Western continues to expand our relationship with coastal First Nations through a joint interest in sustainably harvesting timber. In October 2015, the Government of BC and the ‘Namgis First Nation announced a formal forestry funding agreement. This agreement led to further discussions between the ‘Namgis First Nation and Western which resulted in the creation of the Danyas Limited Partnership. Through this entity, we will jointly harvest timber in an area of Tree Farm License (“TFL”) 37 that was previously unavailable due to treaty negotiations. This relationship is expected to deliver economic benefits to the ‘Namgis, provide greater timber access for Western and improve our future operating certainty. The operating model is similar to the Quatern Limited Partnership between Western and the Quatsino First Nation. Quatern has been in operation for five years and in 2015, was awarded the Business of the Year award at the 2015 BC Aboriginal Business Awards.

We made significant strides this year to reposition the business to capitalize on existing opportunities and prepare the business for future growth. In addition to continuing to consolidate our operating platform, optimizing our operations and investing in systems in 2015, we also completed the revitalization of our executive group. I am pleased to announce the appointment of two new leaders to our senior leardership team. Jennifer Foster joined Western as Vice President, Human Resources in December 2015 following the promotion of Mike Cass to Vice President, Timberlands. Jennifer has 18 years of experience in human resources, including the last ten years as Vice President, Human Resources for a global automotive parts manufacturing company. Frank Turnbull joined Western in December 2015 as Vice-President, Lumber Sales, filling the remaining senior leadership team vacancy. Frank has extensive experience in sales in the BC forest sector and has a proven track record of developing and leading high-performing sales and marketing teams that deliver strong results.

In safety we closed the year with a Company record quarterly MIR of 0.78. Western continues to implement strategies designed to further improve safety awareness amongst our employees, including accurately assessing risk and placing safety at the heart of the decision-making process. Safety remains a key operating priority for our company.

On February 1, 2016, the Government of BC and First Nations announced the Great Bear Rainforest ("GBR") Land Use Order. This historic agreement will conserve one of the largest intact temperate rainforests in the world. Using ecosystem-based management, 15% of the GBR will remain available for sustainable harvest in old and second growth forests. We are pleased with the collaborative process with stakeholders that led to a conflict-free resolution concerning this significant area. Contributing to this outcome were Western's professional foresters and management – the same group that leads our sustainable forest management practices across all our tenures on BC's coast.

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

Sincerely,

Don Demens
President and CEO

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three months and year ended December 31, 2015 to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our audited annual consolidated financial statements and notes thereto for the years ended December 31, 2015 and 2014, which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our audited annual consolidated financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

Reference is made in this MD&A to adjusted EBITDA[1] and adjusted EBITDA margin[2]. Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expenses), plus amortization of property, plant, and equipment and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted EBITDA as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe adjusted EBITDA and adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

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

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

This MD&A contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. Those statements and information appear in a number of places in this document and include statements and information regarding our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives and strategies. Such statements and information may be indicated by words such as "estimate", "expect", "anticipate", "plan", "intend", "believe", "should", "may" and similar words and phrases. Readers are cautioned that it would be unreasonable to rely on any such forward-looking statements and information as creating any legal rights, and that the statements and information are not guarantees and may involve known and unknown risks and uncertainties, and that actual results and objectives and strategies may differ or change from those expressed or implied in the forward-looking statements or information as a result of various factors. Such risks and uncertainties include, among others: general economic conditions, competition and selling prices, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, regulations or public policy, misjudgments in the course of preparing forward-looking statements or information, changes in opportunities and other factors referenced under the "Risk Factors" section herein. All written and oral forward-looking statements or information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, Western does not expect to update forward-looking statements or information as conditions change.

Unless otherwise noted, the information in this discussion and analysis is updated to February 17, 2016.

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

[2] Adjusted EBITDA as a proportion of Revenue

Selected Annual Information [1]

(millions of dollars except per share amount)	Year ended December 31, 2015	2014	2013
Revenue	$ 1,081.9	$ 1,036.9	$ 977.5
Adjusted EBITDA	117.1	108.5	128.8
Adjusted EBITDA margin	10.8%	10.5%	13.2%
Operating income prior to restructuring items and other income	83.0	80.3	105.5
Net income from continuing operations	64.6	68.4	125.9
Net income for the period	73.7	68.4	125.4
Basic earnings per share (in dollars)	$ 0.19	$ 0.17	$ 0.29
Diluted earnings per share (in dollars)	$ 0.18	$ 0.17	$ 0.28
Basic and diluted earnings per share (in dollars) - discontinued operations	$ 0.02	$ -	$ -
Total Assets	$ 743.4	$ 694.2	$ 670.5
Net Debt [2]	$ 53.8	$ 77.9	$ 82.9

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

(2) Net debt is defined as the sum of long-term debt, current portion of long-term debt, revolving credit facility, less cash and cash equivalents.

Overview

Western achieved adjusted EBITDA of $117.1 million in 2015, an 8% improvement over 2014. Our flexible operating platform allowed us to capitalize on sustained demand for our specialty products and reduce our exposure to weak commodity log and lumber markets.

In 2015, revenue grew 4% to a record $1,081.9 million compared to $1,036.9 million realized in 2014. An improved lumber sales mix and the benefit of a weaker CAD relative to the USD overcame reduced demand for logs and lumber in China and a significant decline in North American commodity lumber pricing. Commodity lumber pricing in North America, as measured by the average USD 2x4 SPF Index, declined by 20% year over year. An 11% increase in WRC sales volumes drove overall specialty lumber shipments to 56% of total sales volumes, an increase of 4% as compared to 2014.

Throughout 2015 we leveraged our flexible operating platform by modifying planned production to address changing market conditions and improve our lumber sales mix. The margin benefits of an increase in high-value, specialty lumber production and shipments were partly offset by reduced lumber recovery and higher conversion costs associated with specialty lumber production.

Log production remained flat as compared to 2014, at 5.1 million cubic metres, while overall 2015 timber harvest decreased by 8% on the coast of BC, according to the Province of BC's Harvest Billing system. We overcame a constrained domestic market supply and maintained the delivery of logs to our sawmills by internalizing certain log inventories that would have previously been sold. This strategy also enabled us to limit our exposure to weak export log markets.

We continued to focus on the Company's cost structure during 2015, including completing the consolidation of our North Vancouver Island timberlands, and beginning a consolidation of our Central Vancouver Island timberlands. We expect these and similar initiatives undertaken in 2014 will lead to reduced future operating costs.

Net income of $73.7 million in 2015 increased from $68.4 million in 2014, primarily due to an increase in adjusted EBITDA. Also included in 2015 net income is a reduction in restructuring charges, the realization of deferred tax expense, and $9.1 million in incremental net income from the sale of the Company's former Squamish pulp mill site. Strong financial results in 2015 allowed us to return $31.6 million in dividends to our shareholders and reduce our net debt by $24.1 million.

In November 2015, we amended certain terms and conditions of our revolving credit facility including the removal of certain covenants and a reduction in applicable interest rates. The maturity date of this facility was also extended by one year to December 14, 2016. At the same time, we amended certain terms and conditions of the revolving term loan facility, including the removal of certain covenants.

Our liquidity position at December 31, 2015 has improved to $177.9 million, compared to $134.4 million at the end of 2014. The increased liquidity in 2015 has primarily resulted from cash generated by operations and proceeds from the sale of the Company's former Squamish pulp mill site. We continue to pursue opportunities to monetize our non-core assets.

Annual Operating Results

(millions of dollars)	Year ended December 31, 2015	Year ended December 31, 2014
Revenue		
Lumber	$ 770.0	$ 729.0
Logs	$ 243.1	244.2
By-products	$ 68.8	63.7
Total revenue	1,081.9	1,036.9
Adjusted EBITDA	117.1	108.5
Adjusted EBITDA margin	10.8%	10.5%

In 2015 Western delivered adjusted EBITDA of $117.1 million on annual revenue of $1,081.9 million, as compared to $108.5 million adjusted EBITDA on revenue of $1,036.9 million in 2014. The increase in adjusted EBITDA was achieved by utilizing our flexible operating platform to capitalize on continued strength in specialty lumber markets. In addition, the value of the CAD relative to the USD was, on average, 16% lower in 2015 as compared to the prior year, supporting our average realized pricing.

In 2015, lumber revenue was $770.0 million, 6% higher than in 2014 despite a 3% year over year decline in lumber sales volume to 883 million board feet. Improved sales mix and the positive impact of foreign exchange supported an increase in our average realized lumber price by $70 to a record $872 per thousand board feet in 2015. Our improved sales mix was led by an 11% increase in WRC shipments, on continued growth in demand from a strong North American repair and renovation market. Conversely, commodity lumber shipments declined by 11% as we proactively utilized our flexible operating platform to reduce our exposure to an oversupplied commodity segment. Japan and Niche lumber shipments were consistent year-over-year.

Log revenue of $243.1 million in 2015 remained flat in comparison to the prior year. The revenue impact of decreases in export and pulp log shipments was offset by the benefit of a weak CAD and a 7% increase in domestic sawlog shipments in 2015. We overcame a challenging China log market by increasing external domestic specialty log shipments, the supply of which was constrained due to significantly reduced coastal BC timber harvest. Additionally, exposure to weak export log markets in 2015 was reduced by redirecting a greater proportion of certain export log inventories internally to our mills.

Sales of by-products in 2015 were $68.8 million, or $5.1 million higher than in 2014, primarily due a 3% increase in average realized chip prices and a 3% increase in the volume of chips sold in 2015. Contributing to the chip sales volume increase was greater purchase and resale volumes of third party chips.

In 2015, lumber production decreased by 2% to 891 million board feet, as compared to 2014. This was achieved despite the temporary shutdown of multiple sawmills in 2015 for strategic capital projects, and the permanent closure of the Nanaimo sawmill in late 2014. We limited our exposure to the weak commodity lumber market in 2015 by leveraging our flexible operating platform to proportionately increase specialty lumber production, including our high-value WRC products. This was further facilitated by internalizing a broader range of our small WRC log harvest, including converting WRC shingle logs into lumber. Production gains at certain sawmills, including Duke Point, were offset by reduced lumber recovery and higher conversion costs associated with the consumption of smaller diameter WRC logs to increase specialty lumber production.

Net log production in 2015 was consistent with 2014 at 5.1 million cubic metres, as we continued our sustainable harvest of the coastal forest profile. Comparatively, the coastal BC harvest volume decreased 8% in 2015 according to the Province of BC's Harvest Billing system. Further contributing to 2015 harvest results were our management of logging programs to limit seasonal weather impacts and harvesting to annual allowable cut limits in many operations in the year.

Sawlog purchase volume decreased 0.1 million cubic metres in 2015 as compared to 2014, as we focused away from commodity sawlog purchases in alignment with our targeted production. Additionally, the reduced coastal BC harvest in 2015 was a constraint to sawlog market availability.

Our log costs increased marginally from the prior year due to a 60,000 cubic metre increase in the use of heli-logging and an increase in stumpage costs. In addition, we realized a full years' impact of the United Steel Workers labour agreement, which was ratified in mid-2014.

The consolidation of our Northern Vancouver Island timberland operations and a similar initiative in our Central Vancouver Island timberland operations are expected to reduce future operating costs once fully implemented. We continue to assess other opportunities for divisional consolidation as a means of improving productivity and optimizing utilization of equipment, staffing and overhead in our timberlands.

Freight costs, which are predominantly denominated in USD, increased $1.6 million in 2015 to $88.4 million. Higher freight costs in 2015 were the result of a weakening CAD, offset by a 3% decrease in lumber shipments and a higher proportion of domestic rail volumes, as we directed sales away from volatile Chinese commodity markets.

In 2015, selling and administration expenses were $26.1 million as compared to $29.6 million in the prior year. The reduction was largely attributable to lower share-based compensation expense, and reduced payroll costs arising from the consolidation of certain operations and sales offices. In 2015, we realized an increase in performance related employee compensation costs, as well as greater legal costs incurred in relation to the expired Softwood Lumber Agreement. As a percentage of revenues our selling and administration costs were 2.4% for 2015, a decrease from the 2.9% reported in 2014.

Reversal of Impairments

There were no reversals of previously recognized impairments recorded during 2015. In 2014, Western recorded a reversal of previously recognized impairments of $2.9 million on our Crown timber tenures, which fully reversed all impairments previously recorded on our Crown timber tenures.

Operating Restructuring Items

In 2015, Western recorded restructuring expenses of $4.3 million. The expense is primarily attributable to severance and associated expenses arising from the consolidation of the company's Central Island timberlands operations, and the termination of certain sales agent agreements. The Company also recognized an incremental $0.8 million relating to the permanent closure of its Nanaimo sawmill. This compares to restructuring expenses of $10.8 million in 2014 of which $8.1 million was recognized in severance and other costs associated with the consolidation of the Company's Nanaimo-area sawmill operations. A further $2.7 million in restructuring expense was incurred in 2014 as the result of the fourth quarter restructuring of the Company's Japan division, in which we closed our Osaka office; an arbitration settlement related to market-related mill curtailments occurring in 2009 and 2010, and other severance costs that arose in 2014.

Finance Costs

Finance costs decreased $0.7 million from $5.7 million incurred in 2014 to $5.0 million in 2015. Net debt was reduced by $24.1 million, resulting in an average outstanding debt on the Company's credit facilities that was $12.3 million lower than during the prior comparative year. These changes were realized in lower interest expense year-over-year, and partially offset by an increase in other finance costs related to the Company's legacy defined benefit plans in 2015.

Other Income (Expense)

Other expense of $1.1 million was reported in 2015 as a result of asset impairments and remediation provisions, offset by net gains on non-core property dispositions in the year. In 2014, other income of $1.4 million was reported and reflects net gains on non-core property sales in the year.

Income Taxes

At December 31, 2015, the Company and its subsidiaries had unused non-capital tax losses carried forward totaling approximately $200.8 million, which expire between 2027 and 2035, and can be used to reduce taxable income. In addition, the Company has unused capital losses of approximately $102.5 million, which are available indefinitely, but can only be utilized to offset future tax based capital gains.

The Company has recognized deferred income tax assets of $31.3 million at December 31, 2015, with respect to its remaining unrecognized non-capital tax losses and tax reserves associated with its legacy defined benefit pension plans, as management has concluded that it is probable that future taxable profits will be available against which these tax assets can be utilized. This represents a slight increase in deferred income tax assets from the $29.9 million recognized at December 31, 2014. In 2015, the Company recognized deferred income tax expense of $7.8 million through net income from continuing operations and deferred income tax recovery of $9.1 million recognized through other comprehensive income.

Net Income from Continuing Operations

Net income from continuing operations in 2015 was $64.6 million, a decrease from the prior year figure of $68.4 million. This decrease was due to the nature of deferred income tax assets recognized during the year, as noted above, largely offset by increased operating income and a $6.5 million decrease in severance and related expenses in 2015.

Discontinued Operations

Operations on the site of the former Squamish pulp mill were discontinued in 2006. Since that date, the Company has expensed costs for supervision, security, property taxes and environmental remediation. On February 6, 2015, the Company announced the completion of the sale of the former pulp mill site and related assets for cash proceeds of $21.8 million, which were used to pay down outstanding debt and to further its strategic capital programs.

In 2015, the Company reported net income from discontinued operations of $9.1 million (2014: nil). This income was the result of gains on the disposal of property, plant and equipment; a gain on reversal of an associated liability; and revenue from the sale of hydro-electric power generated at the site partly offset by site operating costs incurred up to the sale completion date.

As economic and other circumstances allow, Western will continue to pursue opportunities to sell non-core assets.

Financial Position and Liquidity

(millions of dollars except where noted)	Year ended December 31, 2015	Year ended December 31, 2014
Cash provided by operating activities, excluding non-cash working capital	$ 105.5	$ 94.4
Cash provided by operating activities	99.1	87.4
Cash used in investing activities	(62.0)	(49.5)
Cash used in financing activities	(50.4)	(41.4)
Cash used in capital logging roads	(13.6)	(13.5)
Cash used to acquire property, plant and equipment	(48.5)	(36.4)

	December 31, 2015	December 31, 2014
Total liquidity [1]	$ 177.9	$ 134.4
Net debt [2]	53.8	77.9
Financial ratios:		
Current assets to current liabilities	2.30	2.29
Net debt to capitalization [3]	0.11	0.16

[1] Total liquidity comprises cash and cash equivalents, and available credit under the Company's revolving credit facility and revolving term loan.

[2] Net debt is defined as the sum of long-term debt, current portion of long-term debt, revolving credit facility, less cash and cash equivalents.

[3] Capitalization comprises net debt and shareholders equity.

Cash provided by operating activities in 2015 amounted to $99.1 million compared to $87.4 million provided in 2014, with the increase primarily attributable to adjusted EBITDA generated from operations.

Cash of $62.0 million was used in investing activities in 2015, compared to $49.5 million invested in 2014. The increase was largely driven by an $11.7 million increase in our strategic capital expenditures in 2015 compared to 2014, as we continue to successfully implement projects under our strategic capital program. The strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

Financing activities in 2015 used cash of $50.4 million compared to $41.4 million in 2014. Cash used in financing activities increased in 2015 as strong cash flows from operations enabled net repayments of debt that were $7.6 million higher than in 2014. This was partially offset by a decrease in interest paid, from $4.0 million in 2014 to $2.9 million in 2015, as we reduced our average outstanding debt over 2015 as compared to 2014.

At December 31, 2015, we had total liquidity of $177.9 million, compared to $134.4 million at the end of 2014. The increase in liquidity was due to cash generated by operations, proceeds from the sale of non-core assets, and an increased borrowing base under the revolving credit facility. Liquidity is comprised of cash and cash equivalents of $9.4 million, unused availability under the secured revolving credit facility of $122.5 million, and $46.0 million available under the revolving term loan facility. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2016.

Fourth Quarter Results

(millions of dollars except per share amount)	Three months ended December 31, 2015	2014
Revenue	$ 265.6	$ 232.6
Adjusted EBITDA	29.6	14.8
Adjusted EBITDA margin	11.1%	6.4%
Operating income prior to restructuring items and other income	20.5	11.5
Net income from continuing operations	9.9	12.9
Net income for the period	9.9	12.9
Basic earnings per share (in dollars)	$ 0.03	$ 0.03
Diluted earnings per share (in dollars)	$ 0.02	$ 0.03
Basic and diluted earnings per share (in dollars) - discontinued operations	$ -	$ -

In the fourth quarter of 2015 we generated adjusted EBITDA of $29.6 million, an increase of 100% from adjusted EBITDA of $14.8 million in the same quarter last year. Growing demand for specialty lumber products and increased WRC lumber production drove an improved sales mix and overcame the impact of historical fourth quarter seasonal declines in shipments. In addition, the benefit of a weak CAD drove a significant increase in our fourth quarter 2015 average price realizations.

Lumber revenue in the fourth quarter of 2015 was $194.4 million, a 17% increase from the same quarter of 2014. Our revenue growth was led by a 12% increase in average lumber price realizations and a 5% increase in shipments as compared to the fourth quarter of 2014. Increased price realizations were the result of an improved sales mix and an 18% decline in the average CAD relative to the USD, as compared to the fourth quarter of 2014. A focus on specialty lumber production drove shipments of those products to 54% of total sales volumes, as compared to 48% in the fourth quarter of 2014. Increased specialty lumber sales were primarily attributable to increased Japan and WRC lumber shipments of 17% and 18%, respectively, as compared to the same quarter of 2014.

Log revenue was $53.6 million, an increase of $2.4 million from the same period in 2014. The benefit of strong domestic sawlog demand, proportionately greater specialty logs sales, and a weaker CAD drove increased average log price realizations in the quarter. These gains more than offset a 6% reduction in sales volumes quarter over quarter, as a result of internalizing certain export logs for sawmill consumption and a decline in pulp log shipments. The pulp log market continues to be impacted by pulp mill curtailments on the BC coast.

By-products revenue was $17.6 million in the fourth quarter of 2015, as compared to $14.6 million in the same period in 2014. Increased by-products revenue was primarily due to a significant increase in lumber production in the fourth quarter of 2015 as compared to the same period last year.

Fourth quarter lumber production was 234 million board feet, an increase of 16% from the same period of 2014. We achieved significant productivity increases from our Duke Point and Saltair sawmills as we began to realize the benefits of recently completed strategic capital projects and ongoing ramp-up in operations. Custom cut production increased to address incremental demand for specialty lumber, and our Ladysmith sawmill contributed to increased volumes as it was temporarily curtailed in the comparative period.

Strong year-to-date performance in timberlands harvest led to certain operations completing their harvest programs earlier in the fourth quarter than in prior years. As a result, our timberlands harvest volume for the fourth quarter was 1.1 million cubic metres, a decrease of 16% from the same quarter of 2014. We sustained the supply of logs to our sawmills through a well-positioned fourth quarter opening log inventory and by purchasing an additional 20,000 cubic metres of sawlogs as compared to the fourth quarter of 2014. We also increased the consumption of small WRC sawlogs in our mills. Average log cost increased by 3% in comparison to 2014 fourth quarter, driven primarily by stumpage costs and reduced harvest productivity due to the timing of harvest program completion.

Fourth quarter freight costs were $21.6 million in 2015, an increase of 11% compared to the same period of 2014. Increased freight costs were primarily the result of a weaker CAD on USD-denominated freight, and a 5% increase in lumber shipments as compared to the same period of last year. Countering these factors were an 11% decline in export log sales and the impact of a greater proportion of lumber shipments destined for North America, reducing vessel transportation costs.

Selling and administration expenses in the fourth quarter of 2015 were $7.8 million, an increase of $1.8 million from the fourth quarter of 2014. This increase was primarily attributable to greater performance related compensation costs and higher non-recurring legal costs.

Fourth quarter net income of $9.9 million in 2015 decreased from $12.9 million reported for the same quarter of 2014. The decrease was largely the result of the recognition of $7.8 million in deferred tax expense.

Other expenses were $0.9 million in the fourth quarter of 2015 compared to other income of $0.6 million in the same quarter of 2014. Other expenses in the fourth quarter of 2015 included asset impairments.

Fourth quarter finance costs were $1.1 million in 2015, $0.1 million lower than the same quarter of 2014. This decrease was primarily the result of lower interest expense as average outstanding debt in the fourth quarter was reduced from $75.6 million in 2014 to $67.5 million in 2015.

Strategy and Outlook

In 2015 we continued to implement our strategy of optimizing our operations and investing in our mills to improve margins and grow our business through increased production.

Key operational priorities in support of our strategy include:

1) Implementing strategic capital to position our mills as the most competitive in the region;
2) Increasing log availability through accessing additional log volume on the open market to increase lumber production; and,
3) Improving productivity through increased equipment utilization.

Market Outlook

We remain confident in our view that over the mid to long term the recovery in US new home construction combined with growing demand from China and reduced lumber supply from the BC interior will deliver an improved pricing environment for commodity lumber products. In the near-term we expect commodity lumber pricing will continue to be volatile until US new home construction returns to more normalized levels.

In contrast to the supply driven characteristics that persist in the commodity lumber market, we expect that continued strength in the North American repair and renovation segment will support demand and higher pricing for our specialty products. We will continue to utilize our flexible operating platform to target our lumber production to the products and markets that offer the highest margin.

We anticipate demand for our WRC products to grow through the first half of 2016, as distributors position their inventories for the spring and summer building seasons. Improved demand and limited supply due to lower harvest levels on the coast of BC should provide a favourable pricing environment for our products. Mill realizations will be supported by the weak CAD. We expect demand for our Niche products in North America to continue to be supported by the strong repair and renovation segment. Niche production will be moderately impacted by three weeks of downtime at our Duke Point sawmill for a capital project in the first quarter of 2016.

Recent improvement in lumber demand in Japan is expected to continue in the first half of 2016 supported by new home construction. Pricing is expected to remain competitive as global suppliers compete for market share. We anticipate shipments to Japan to be similar to last year, while pricing should benefit from a weaker CAD.

Through the fourth quarter of 2015, lumber demand in China improved and our shipment volumes and pricing increased from the late third quarter lows. We anticipate demand for lumber in China will continue to improve through the first quarter of 2016, supported by low inventory levels and what appears to be an improving housing market. Our ability to produce multiple sizes to service various regional markets will assist us in improving our pricing. Our commodity business will also benefit from improved demand from North America as we enter the spring building season.

Our saw log markets are expected to remain firm in the first half of 2016. Reduced supply due to lower harvest levels on the coast of BC will support our domestic pricing while the weaker CAD will support price realizations from competitive Asian export log markets. We expect log shipments will be lower in the first quarter as we direct more logs to internal consumption. The pulp log market is expected to remain depressed as reduced consumption levels from coastal BC pulp mills will keep the market oversupplied.

Strategic Capital Program Update

We continue to implement our strategic capital program, which is designed to position Western as the only company on the coast of BC capable of consuming the complete profile of the coastal forest and competitively manufacturing a diverse product mix. Our strategic capital program is focused on the installation of proven technology that will deliver top quartile performance and improve our ability to manufacture the products that yield the best margin. In addition to investments in our manufacturing assets, we will also invest capital into strategic, high-return projects involving our information systems, timberland assets and forest inventories.

To date, we have implemented or announced $94 million dollars of manufacturing investments, most of which are in the commissioning or installation phase. In the fourth quarter of 2015, we commissioned our $40 million Saltair sawmill upgrade; continued the modernization of our Duke Point sawmill and planer; and installed a new timber deck at our Chemainus sawmill. The Ladysmith sawmill conversion to a single line began late in the fourth quarter and was completed early in 2016. In total, our fourth quarter strategic capital investment was $10.9 million.

In the first half of 2016, we will continue the commissioning of our recent investments at Saltair, Chemainus, Ladysmith and at the Duke Point planer. We will take downtime at the Duke Point sawmill as we continue Phase III of our capital project at the mill. During the scheduled downtime we will install a new stacking and packaging line as well as optimization equipment on both head rigs.

Also in the first quarter of 2016, we will begin a newly approved $3 million capital project that will create a more robust and detailed forest inventory, bringing our total to $97 million implemented or announced under our strategic capital program. This project involves the use of LiDAR technology and will allow us to streamline our engineering and planning process and ultimately reduce delivered log cost. We expect the return on this project to be in excess of 30%.

Non-Core Assets Update

On February 6, 2015, Western announced the completion of the sale of its former pulp mill site and related assets in Squamish, BC at a purchase price of $21.8 million. The Company used the proceeds of sale to pay down outstanding debt and to further its strategic capital programs. We will continue to pursue the sale of additional non-core assets as appropriate.

Summary of Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2015 and our payments due for each of the next five years and thereafter, including estimated interest payments:

(millions of Canadian dollars)	Total	2016	2017	2018	2019	2020	Thereafter
Accounts payable and accrued liabilities	$ 97.7	$ 97.7	$ -	$ -	$ -	$ -	$ -
Long-term debt	71.2	2.0	2.0	2.1	65.1	-	-
Operating leases	10.9	2.5	1.8	1.7	1.6	0.9	2.4
Silviculture provision	31.7	11.2	5.5	3.4	2.3	1.7	7.6
Defined benefit pension plan funding obligation	22.5	2.3	2.2	2.2	1.9	1.9	12.0
	$ 234.0	$ 115.7	$ 11.5	$ 9.4	$ 70.9	$ 4.5	$ 22.0

Critical Accounting Estimates

Silviculture Provision

Under BC law, we are responsible for reforesting areas that we log. These obligations are referred to as silviculture liabilities. We accrue our silviculture liabilities based on estimates of future costs at the time the timber is harvested. The estimate of future silviculture costs is based on a detailed analysis for all areas that have been logged and includes estimates for the extent of planting seedlings versus natural regeneration, the cost of planting including the cost of seedlings, the extent and cost of site preparation, brushing, weeding, thinning and replanting and the cost of conducting silviculture surveys. Our registered professional foresters conduct the analysis that is used to estimate these costs. However, these costs are difficult to estimate and can be affected by weather patterns, forest fires and wildlife issues that could impact the actual future costs incurred and thus result in material adjustments.

Valuation of Inventory

We value our log and lumber inventories at the lower of cost and net realizable value. We estimate net realizable value by reviewing current market prices for the specific inventory items based on recent sales prices and current sales orders. If the net realizable value is less than the cost amount, we will record a write-down. The determination of net realizable value at a point in time is generally both objective and verifiable. However, changes in product prices can occur suddenly, which could result in a material write-down in inventories in future periods.

Valuation of Accounts Receivable

We record an allowance for the collection of doubtful accounts receivable based on our best estimate of potentially uncollectible amounts. The best estimate considers past experience with our customer base and a review of current economic conditions and specific customer issues. The Company's general practice is to insure substantially all North American lumber receivables for 90% of value with the Export Development Corporation or Coface Canada, while all export sales are sold on either a cash basis or with secured instruments, which reduces the Company's exposure to bad debts.

Pension and Other Post Retirement Benefits

Western has various defined benefit and defined contribution plans, and a group RRSP that provide retirement benefits to most of its salaried employees. A group RRSP is provided to certain hourly employees not covered by forest industry union plans. The Company also provides other post-retirement benefits and pension bridging benefits to eligible retired employees. While our defined benefit plans were closed to new entrants effective June 30, 2006 and no further years of service accrue under the plans effective December 31, 2010, we retain independent actuarial consultants to perform actuarial valuations of plan obligations and asset values, and advise on the amounts to be recorded in the financial statements. Actuarial valuations include certain assumptions that directly affect the fair value of the assets and obligations and expenses recorded in the financial statements. These assumptions include the discount rate used to determine the net present value of obligations, the return on plan assets used to estimate the increase in the plan assets available to fund obligations, and the increase in future compensation amounts and medical and health care costs used to estimate obligations. Actual experience can vary materially from the estimates and impact the cost of our pension and post-retirement medical and health plans and future cash flow requirements.

Environmental Provisions

We disclose environmental obligations when known and accrue costs associated with the obligations when they are known and can be reasonably estimated. The Company owns a number of manufacturing sites that have been in existence for significant periods of time and, as a result, we may have unknown environmental obligations. However, until the sites are decommissioned and the plant and equipment are removed, a complete environmental review cannot be undertaken.

Contingencies

Provisions for liabilities relating to legal actions and claims require judgments using management's best estimates regarding projected outcomes and the range of loss, based on such factors as historical experience and recommendations of legal counsel. Actual results may vary from estimates and the differences are recorded when known.

Valuation of Biological Assets

The Company values its biological assets at fair value less costs to sell. An annual valuation is performed by an independent third party based on recent comparatives of standing timber sales, direct and indirect costs of sustainable forest management, net present value of future cash flows for standing timber and log pricing assumptions. Significant assumptions are used in the preparation of the valuation and actual results may vary materially from estimates.

Impairments

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized in net income for the period for the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment analysis requires the use of significant assumptions, including management and independent third party input.

Deferred Income Taxes

The recognition of deferred income tax assets requires an assessment of the availability of future taxable profit against which carry forward tax losses can be used. We estimate future income based on forecasts which includes a number of variables that can be unpredictable and cyclical in nature. Changes in product prices, in particular, can occur quite suddenly.

New accounting policies

Changes in accounting policies

Western has adopted the following new standards and amendments to standards, including any consequential amendments to other standards with a date of initial application of January 1, 2015:

- IFRS 8, *Operating Segments*

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

- IAS 24, *Related Party Transactions*

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

New standards and interpretations not yet adopted

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

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

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

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

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

- IFRS 16, *Leases* ("IFRS 16")

  IFRS 16 is effective for years commencing on or after January 1, 2019, and will replace IAS 17, *Leases* ("IAS 17"). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value, while lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. The Company intends to adopt IFRS 16 in its consolidated financial statements for the year commencing January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

- IAS 1, *Presentation of Financial Statements* ("IAS 1")

  Amendments to IAS 1 are effective for years commencing on or after January 1, 2016. IAS 1 is amended to improve presentation and disclosure in financial reports. The Company intends to adopt these amendments in its financial statements for the year commencing January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

- IAS 16, *Property, Plant and Equipment* ("IAS 16"), and IAS 38, *Intangible Assets* ("IAS 38")

  Amendments to IAS 16 and IAS 38 are effective for years commencing on or after January 1, 2016. IAS 16 is amended to explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. IAS 38 is amended to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the year commencing on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

- *Annual Improvements to IFRS, (2012-2014) cycle*

  Amendments were made to clarify the following in their respective standards:

  - IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations;
  - IFRS 7 – Financial Instruments: Disclosures;
  - IAS 19 – Employee Benefits; and
  - IAS 34 – Interim Financial Reporting

  The Company intends to adopt these amendments in its financial statements for the year commencing January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Financial Instruments

Western has a program in place to reduce the impact of volatile foreign exchange rates on its net income. The Company utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange risk. Therefore, Western may purchase foreign exchange forward contracts or similar instruments to hedge anticipated sales to customers in the US and Japan. The Company does not utilize derivative financial instruments for trading or speculative purposes. Western will consider whether to apply hedge accounting on a case by case basis and if the instrument is not designated as a hedge, the instrument is adjusted to fair value and marked to market each accounting period, with changes recorded in net income

During 2015, the Company entered into foreign exchange futures contracts to sell forward USD and Japanese Yen ("JPY") in order to partially mitigate its foreign currency risk. At December 31, 2015, the Company had forward contracts in place to sell USD 20.0 million and JPY 775.0 million (2014: USD 32.0 million; JPY 950 million). A net loss of $7.1 million was recognized on contracts which matured in the year (2014: $1.5 million), which is included in sales in the consolidated statement of comprehensive income. Other financial instruments, which for Western consist primarily of debt instruments, are discussed elsewhere in this discussion and analysis.

Off-Balance Sheet Arrangements

Other than operating leases for vehicles, equipment and machinery, the Company does not have any off-balance sheet arrangements as at December 31, 2015.

Related Party Transactions

During 2014, the Company had certain arrangements with entities related to Brookfield Asset Management Ltd. to acquire and sell logs, lease certain facilities, provide access to roads and other areas, provide financing, and acquire services including insurance, all in the normal course and at market rates or at cost.

Concurrent with the sale of all remaining Common Shares in the Company by Brookfield Special Situations Management Limited through a secondary offering completed on September 10, 2014, Brookfield Asset Management Ltd. is no longer a related party to the Company.

The following table summarizes purchases made and revenues received relating to these transactions:

	Year ended December 31,	
	2015	2014
Costs incurred for:		
Log purchases	$ -	$ 9.6
Other	-	9.2
	$ -	$ 18.8
Income received for:		
Log sales	$ -	$ 12.4
	$ -	$ 12.4

Key personnel of the Company include the executive management team and members of the Board of Directors. The compensation paid or payable to key personnel is shown below:

	Year ended December 31,	
	2015	2014
Salaries and directors' fees	$ 6.5	$ 6.5
Post-employment benefits	0.2	0.3
Share-based payments	2.1	2.2
	$ 8.8	$ 9.0

Risks and Uncertainties

The following risks and uncertainties may have a material adverse effect on our operations or our financial condition:

Variable Operating Performance, Product Pricing and Demand Levels

A key factor affecting Western's operating and financial performance is the price received for lumber, logs and other products. Prices for these products are highly cyclical and have fluctuated significantly in the past and may fluctuate significantly in the future. The markets for our products are also highly cyclical and are characterized by periods of excess product supply due to many factors, including:

- Additions/curtailments to industry capacity and production;
- Periods of insufficient demand due to weak general economic activity or other causes including weather factors;
- Customers experiencing reduced access to credit; and
- Inventory de-stocking by customers.

Product demand is influenced to a significant degree by economic activity at the global level. Additionally, although costs may increase, customers may not accept related price increases for those products. We are not able to predict with certainty market conditions and prices for our products. Western's results of operations depend upon the prices we receive for lumber, logs and chips, and deterioration in prices of, or demand for, these products could have a material adverse effect on our financial condition or results of operations. We cannot provide any assurance or prediction as to the timing and extent of any price changes. On an annualized basis and based on current operating metrics, we estimate that operating earnings would increase or decrease by approximately $9 million for each incremental price increase or decrease, respectively, of $10 per thousand board feet of lumber.

Western's financial performance is also dependent on the rate at which production capacity is utilized. In times of challenging conditions in any of our major markets the Company maintains inventory control by aligning log supply and lumber production with anticipated sales volumes. When capacity utilization is reduced in response to weak demand for products, the cost per unit of production may increase and profitability decrease.

From time to time and in accordance with market influences, the Company will reduce production with temporary logging and/or sawmilling curtailments. In extreme cases, such curtailments may become permanent closures. When Western undertakes significant market-related curtailments of sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet minimum contractual obligations under long-term chip supply agreements without incurring additional cost.

International Business and Risks of Exchange Rate Fluctuations

Western's products are sold in international markets. Economic conditions in those markets, the strength of the housing markets in the US and Japan, the rate of development in China, fluctuations in foreign exchange rates and international sensitivity to interest rates, can all have a significant effect on our financial condition and results of operations. In general, our sales are subject to the risks of international business, including:

- fluctuations in foreign currencies;
- changes in the economic strength of the countries in which we conduct business;
- trade disputes;
- changes in regulatory requirements;
- tariffs and other barriers;
- quotas, duties, taxes and other charges or restrictions upon exports or imports;
- transportation costs and the availability of carriers of any kind including those by land or sea; and
- strikes or labour disputes in the transportation industry or related dock or container service industries.

Depending on product mix, destination and exchange rates, between 40% and 50% of our total product sales are denominated in USD and between 5% and 15% in JPY, while most operating costs and expenses are incurred in CAD, with small portions in USD and JPY. The Company's functional currency is the CAD and financial results are reported in CAD. Significant variations in relative currency values, particularly significant changes in the value of the CAD relative to the USD, have had, and in the future could have, a material impact on our operating earnings and cash flows. We estimate that an increase or decrease of 1% in the value of the CAD compared to the USD and JPY would decrease or increase annual operating earnings by approximately $4.3 million, and $0.7 million, respectively.

The Softwood Lumber Agreement with the US expired October 12, 2015, eliminating export tax measures applicable under the agreement subsequent to this date. A standstill provision within the Softwood Lumber Agreement provides that no action may be taken with respect to the imposition of softwood lumber duties from Canada for the twelve-month period following its expiry. We are unable to predict whether the agreement will be renewed or in what form a renewal may take place, should it occur.

Employees and Labour Relations

Hourly paid employees at our manufacturing facilities, timber harvesting operations and a small group of clerical employees are unionized. The majority of the unionized employees are represented by the United Steel Workers ("USW"), which holds three collective agreements with the Company. Approximately 1,600 Western employees represented by the USW are covered by a five-year collective agreement, expiring June 15, 2019. The agreement for South Island Remanufacturing (18 employees) expires on May 22, 2017. An agreement with the office clerical employees (3 employees) expires on December 31, 2016. The Pulp, Paper & Woodworkers of Canada ("PPWC") represents the remaining unionized employees. The PPWC collective agreement for the Ladysmith Sawmill (67 employees), expires on December 31, 2019. The collective agreement for the Value-Added Remanufacturing Operation (71 employees) expires on October 14, 2016. The Company also has one employee represented by the Canadian Merchant Service Guild. This collective agreement expired on September 30, 2015 and is under negotiation.

Should the Company be unable to negotiate an acceptable contract after any of these collective agreements expire with any of the unions, a strike or lockout could occur. A strike or lockout could involve significant disruption of operations and/or an adverse material impact on our financial condition. Furthermore, a negotiated settlement could result in unplanned increases in wages or benefits payable to unionized employees. In addition, the Company relies on certain third parties, such as logging contractors, stevedores, trucking companies and railways, whose workforces are unionized, to provide the Company with services necessary to operate the business. If those workers/employers engage in a strike or lockout, our operations could be disrupted.

Long-Term Competition

The markets for our products are highly competitive on a domestic and international level, with a large number of major companies competing in each market, some of which have substantially greater financial resources than Western. We also compete indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. While the principal basis for competition is price, we also compete to a lesser extent on the basis of quality and customer service. In addition, market acceptance of the environmental sustainability of our products as compared with substitutes could be a challenge in the future. Changes in the level of competition, industry capacity and the global economy have had, and are expected to continue to have, a significant impact on the selling prices of the Company's products and the overall profitability of the Company. Our competitive position will be influenced by factors including the availability, quality and cost of fibre, energy and labour, and plant efficiencies and productivity in relation to our competitors. Our competitive position could be affected by fluctuations in the value of the CAD relative to the USD and/or the JPY, and by changes in the treatment of softwood lumber shipments to the US subsequent to the expiry of the SLA.

Forest Resource Risk and Natural Catastrophes

Our timber tenures are subject to the risks associated with standing forests, in particular, forest fires, wind storms, insect infestations and disease. Procedures and controls are in place to try and mitigate such risk through prevention and early detection. Most of the timber that we harvest comes from Crown tenures and insurance coverage is maintained only for loss of logs following harvesting due to fire and other occurrences. However, this coverage does not extend to standing timber, and there is no assurance that this coverage would be adequate to provide protection against all eventualities, including natural catastrophes. Western has entered into a cost-sharing agreement with the Crown for our private timberlands to reduce individual incident costs of mobilizing helicopters and aerial water tankers in the event of a fire on those lands.

In addition, our operations may be adversely affected by severe weather including wind, snow and rain that may result in our operations being unable to harvest or transport logs to our manufacturing facilities for extended periods of time. Although we anticipate and factor in a certain period of down-time due to weather, extended periods of severe or unusual weather may adversely impact our financial results due to higher costs and missed sales opportunities arising from fibre shortages or the deterioration of logs remaining on the ground or in the water for extended periods of time.

Other than the sales office in Japan, all of our business operations are located on the BC coast, which is geologically active and considered to be at risk from earthquakes.

Climate change over time is predicted to lead to changes in the frequency of storm events as well as their severity. We also expect to see changes in the occurrence of wildfires and forest pest outbreaks. Long-term climatic models are predicting that the optimum ranges of many species, including those of our major tree species, will shift over time. We are unable to predict the impact of all of these factors on our tenures or on forest practices.

While the Company maintains insurance coverage to the extent deemed prudent by us, we cannot guarantee that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks.

Impact of Mountain Pine Beetle Infestation

The north-central interior forests of BC and western parts of Alberta have been, and continue to be, seriously damaged by North America's largest recorded mountain pine beetle infestation. Western does not operate in the affected area and lodgepole pine, the species most at risk from the infestation, is not a key source of timber in the coastal forests. This natural disaster is causing widespread mortality of lodgepole pine. There is growing evidence that, as the dead trees decay, they become more difficult and costly to manufacture into lumber and that the quality of the residual wood chips may diminish. There may also be access issues over time as developing second growth forests grow to a size that precludes efficient entry into remote pine beetle damaged stands.

The mountain pine beetle has crossed into Alberta, and timber harvesting of lodgepole and jackpine in Alberta may see an increase in Allowable Annual Cut ("AAC") to promote salvage before decay, potentially adding to downward price pressures as the lumber supply may increase. The Company is unable to predict when or if the mountain pine beetle infestation will be halted or its impact on future lumber, chip and log prices.

Pulp and Paper Market Variability

The selling price in CAD of our residual wood chips is tied by formula to published indices that reflect the USD selling price of NBSK pulp. Fluctuations in pulp prices and foreign currencies will accordingly impact the selling price of our residual wood chips. The price and demand for the pulp logs and other logs sold to pulp and paper companies is also dependent on the market conditions for pulp and paper. If there is a contraction in the coastal pulp and paper industry, we may need to find alternative customers for the pulp logs and residual chips from our sawmills.

Dependency on Fibre Obtained from Government Timber Tenures

Currently, substantially all of the timberlands in which we operate are owned by the Province and are currently administered by the Ministry of Forests, Lands and Natural Resource Operations (the "MFLNRO"). The *Forest Act* (British Columbia) (the "Forest Act") empowers the MFLNRO to grant timber tenures, including Tree Farm Licences ("TFLs"), Forest Licences ("FLs") and Timber Licences ("TLs"), to producers, although no new TLs can be issued and the availability of extensions to expiring TLs is not assured. The Provincial Chief Forester must conduct a review of the AAC for each Timber Supply Area and each TFL in the Province on a periodic basis, at least once every ten years. This review is then used to determine the AAC for licences issued by the Province under the Forest Act. Many factors affect the AAC such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes. Such assessments have in the past resulted and may in the future result in reductions or increases to the AAC attributable to licences held by BC forest companies (without compensation), including the licences that we hold. In addition, our AAC can be temporarily reduced (without compensation for the first four years) in areas where logging has been suspended under Part 13 of the Forest Act pending further consideration in land use planning. Land use planning, including critical habitat designations as well as new harvesting regulations, can constrain access to timber and new parks can permanently remove land from the timber harvesting land base. There can be no assurance that the amounts of such future reductions on our licences, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Forest Policy Changes in British Columbia

There have been significant legislative reforms in the BC Forest Industry over the last 40 years. One of the more significant examples of this was seen in 2003 when the Province took back approximately 20% of the AAC from major license holders, including Western, and provided monetary compensation in return. There can be no assurance that the Province will not implement further policy changes, or that such changes will not have a material adverse effect on our operations or our financial position.

First Nations Land Claims

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 and of legislation and Crown decisions that adversely affect such asserted rights and title. The Supreme Court of Canada has held that aboriginal groups may have a spectrum of constitutionally recognized and affirmed aboriginal rights and title in lands that have been traditionally used or occupied by their ancestors; however, such rights or title are not absolute and may be infringed by government in furtherance of a valid legislative objective, including forestry, subject to meeting a justification test. The effect on any particular lands will not be determinable until the nature of historical use, occupancy and rights in any particular piece of property have been clarified. The Supreme Court of Canada has also held that even before claims of rights and title are proven, the Crown has a legal duty to consult with First Nations, which can become a duty to seek possible accommodations, when the Crown has knowledge, real or constructive, of the potential existence of an aboriginal right or title and contemplates conduct that might adversely impact it. During the period before asserted claims are proven, the Crown is required to consult in good faith with the intention of substantially addressing First Nation concerns, but First Nations agreement is not required in these consultations.

First Nations are seeking compensation from governments (and in some instances from forest tenure holders) with respect to these claims, and the effect of these claims on timber tenure rights, including our timber tenures, cannot be estimated at this time. The Federal and Provincial Governments have been seeking to negotiate treaty settlements with aboriginal groups in British Columbia in order to resolve these claims.

On April 1, 2011, the first modern treaty affecting the Company’s tenures was brought into force. The Maa’nulth Treaty extinguished the Company’s tenure rights on Maa’nulth Treaty Settlement lands within TFL 44 and permanently reduced the tenure’s AAC by 95,200 cubic metres. A treaty measure which created a new Protected Area inside of TFL 44 permanently reduced the AAC by another 8,800 cubic metres. The Company is in discussions with the Province on the magnitude of the treaty impacts on AAC, improvements, soft cost investments and downstream business. As these discussions are ongoing, any settlement or the amounts of compensation that we would receive for this or future reductions of our tenures as a result of this process cannot be estimated at this time and none has been recorded as a receivable. Other treaty processes involving the ‘Nam’gis, Ditidaht, Snuneymuxw, Heiltsuk, Hupacasath, Tlowitsis, K’omox and Wuikinuxv First Nations are also well advanced and may lead to agreements impacting Western in 2015. It is expected that through these and other treaty-related processes the Provincial Government will want to remove areas out of the Company’s various forest tenures.

In June 2014, the Supreme Court of Canada (the “Court”) released its decision on the aboriginal title claim by the Tsilqot’in First Nation of British Columbia, regarding land outside their traditional reserve area. The Court recognized Tsilqot’in title to the area in dispute, including rights to decide how the land will be used, occupancy, and economic benefits. The court ruling held that while the provincial government had the constitutional authority to regulate forest activity on aboriginal title lands, it had not adequately consulted with the Tsilqot’in. While the decision does not directly impact Western’s business as we do not have tenure in this dispute area, we do operate on Crown tenures elsewhere that are subject to claims of aboriginal title. The potential impact on Western's tenure holdings is not ascertainable at this time.

Current Provincial Government policy requires that forest management and operating plans take into account and not unreasonably 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 MFLNRO may vary or refuse to issue cutting permits in respect of a timber tenure if it is determined by a court that the forestry operation would unreasonably interfere with aboriginal rights or title. First Nations have, at times, sought to restrict the Provincial Government from granting or replacing forest tenures and other operating authorizations or from approving forest management plans on Crown lands without full consultation and accommodation or their consent if these decisions could affect lands claimed by them. There can be no assurance that denial of required approvals for, or changes to the terms of our timber tenures, other operating authorizations or forest management plans as a consequence of such consultation or action will not have an adverse effect on our financial condition or results of operations.

An unfavourable result in any of the First Nations litigation in which the Company is a party or which involves assets of the Company could have a material adverse effect on our financial condition or results of operations. See also "*Legal Proceedings*".

Stumpage Fees

Stumpage is the fee that the Province charges forest companies for timber harvested from Crown land in British Columbia. Approximately 95% of the timber we harvest is from Crown land. In response to US Softwood Lumber dispute, the Provincial Government adopted a more open and competitive market pricing system for timber from the Coastal region. Since February 29, 2004, stumpage has been set using the Coast version of the Market Pricing System ("MPS"). MPS uses the winning bids and stand characteristics of timber sold through British Columbia Timber Sales ("BCTS") auctions to develop regression equations that predict the market (i.e. auction) value of Crown timber harvested under long-term tenures. The auction value is then adjusted to reflect costs that tenure holders incur that BCTS expends on behalf of bidders. These costs, like forest planning and administration and silviculture, are referred to as 'Tenure Obligation Adjustments'. Coastal MPS has been updated every two to three years to reflect recent sale data and costs. The most recent update occurred on January 1, 2014. Stumpage rates are also adjusted quarterly to reflect changes in log prices.

There can be no assurance that future changes to the stumpage system or the Province's administrative policy will not have a material impact on the stumpage fees payable by us and consequently affect our financial condition and results of operations.

Long-term Fibre Supply Agreements

The Company has a number of long-term commitments to supply chip fibre, saw logs and pulp logs to third parties. Certain of these fibre supply agreements have minimum volume requirements. A failure to supply the minimum volumes may result in additional costs or deferred obligations. In one case the failure to supply the minimum volume could result in the loss of a TFL, but with a concurrent reduction in the future fibre supply commitment under that agreement.

Safety

The Company's safety policy reflects its 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. Workplace safety laws and regulations change over time and may involve new methodologies and additional costs necessary to bring the Company into compliance.

Environmental Regulation

We are subject to extensive federal and provincial environmental laws and regulations. These laws and regulations impose stringent standards on our operations and impose liability to remedy problems for which we are legally responsible regarding, among other things:

- air emissions;
- land and water discharges;
- operations or activities affecting watercourses or the natural environment;
- operations or activities affecting species at risk;
- use and handling of hazardous materials;
- use, handling, and disposal of waste; and
- remediation of environmental contamination.

We may incur substantial costs to comply with current or future requirements, to respond to orders or directions made, to remedy or to compensate others for the cost to remedy problems for which we are legally responsible or to comply with new environmental laws that may be adopted from time to time. In addition, we may discover currently unknown environmental problems or conditions affecting our operations or activities or for which we are otherwise legally responsible. Western has closed certain operations and although we have engaged specialists to advise us of environmental problems and conditions, normal site clean-up may identify additional problems or conditions. Any such event could have a material adverse effect on our financial condition and results of operations.

Western is one of five founding members of the Coast Forest Conservation Initiative (the “CFCI”). CFCI is a collaborative effort amongst forest companies working in BC's Central and North Coast. Its purpose is to define and support the development of an ecosystem-based management (“EBM”) as part of 2003 Land and Resource Management Plan recommendations. In March 2006, interim legal objectives for EBM were enacted. These objectives were further amended in March 2009 with final implementation deferred for 5 years while the concept, intended to be unique to this region, was fully defined. The CFCI Companies, along with major environmental groups have delivered a suite of recommendations for consideration by the Province and the 27 First Nations who live in the region. How final resolution of EBM will impact Western’s timber supply is not known at this time. Further amendment of legal objectives were ongoing in 2015 and expected to be completed in early 2016.

Regulatory Risks

Our forestry and sawmill operations are subject to extensive federal, provincial, municipal and other local laws and regulations, including those governing forestry, exports, taxes, labour standards, occupational health, safety, waste disposal, building structures/systems, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. Under certain laws and regulations, we are also required to obtain permits, licences and other authorizations to conduct our operations, which permits, licences and authorizations may impose additional conditions that must be satisfied. Although we budget for expenditures to maintain compliance with such laws and permits, there can be no assurance that these laws and regulations or government policy will not change in the future in a manner that could have an adverse effect on our financial condition or results of operations or the manner in which we operate. Nor can there be any assurance that administrative interpretation of existing laws and regulation will not change or more stringent enforcement of existing laws will not occur, in response to changes in the political or social environment in which we operate or otherwise, in a manner that could have an adverse effect on our financial condition or results of operations or the manner in which we operate.

Log exports from our timber operations are subject to federal and provincial regulations. An export permit from the Canadian Federal government must be obtained to export any logs harvested in BC and generally the logs must be surplus to the supply required for domestic manufacturers. Logs from private timberlands which were granted by the Crown prior to March 12, 1906 are subject to the Federal surplus test and logs from private land granted after that date are subject to the Provincial surplus test. Logs harvested from Crown land in BC are subject to the Provincial surplus test. The regulations also restrict the species and grade permitted for export.

Under both the federal and provincial surplus tests, the logs must be advertised for local consumption. Logs are declared surplus and may be exported if there are no offers on the advertised logs by domestic manufacturers. In practice, domestic offers on export volume can satisfied with replacement volume to minimize operational impacts. However, a substantial increase in domestic demand may adversely impact timber operations as export pricing is generally at a premium to domestic pricing.

In July 2013, the Ehattesaht First Nation filed a petition with the BC Supreme Court against the Province of British Columbia regarding a decision of the Crown on the amount of un-harvested volume in TFL 19 from the 2007 to 2011 cut control period, which may subsequently be directly awarded to the Ehattesaht. The Ehattesaht claim the Crown did not adequately consult them about the decision and that additional volume must be made available to them based upon their asserted territory, rights, and economic interests. In 2014, the court ruled in favor of the Ehattesaht requiring further consultation on un-harvested volume but made no decision on the outcome of that consultation. It is too early to determine what the impacts of this decision may have on WFP tenures.

In January 2008, the Ditidaht First Nation commenced litigation in the BC Supreme Court against the Province of British Columbia, Canada, certain other First Nations and two forestry companies, including Western, seeking amongst other things declarations of aboriginal title and rights in areas of Vancouver Island that include areas covered by timber tenures held by the Company and declarations that provincial forestry legislation and the Company's timber tenures are of no force or effect on the claimed aboriginal title lands. In March 2013, the Ditidaht and BC Government entered an Interim Treaty Agreement (the “ITA”) which included Ditidaht agreement not to initiate or proceed with litigation against the Crown for land dispositions and land use authorizations during the term of the ITA. Consequently, unless the ITA is terminated in accordance with the provisions for termination in the ITA, this litigation will not be pursued further by Ditidaht.

In April 2008, the Kwakiutl First Nation commenced litigation in the BC Supreme Court against the Province of British Columbia, Western and the federal government seeking, amongst other things, orders to set aside the Province’s decision to remove Western’s private lands from a TFL and the Province’s approval of the Company’s Forest Stewardship Plan (“FSP”) on the Crown lands within their area of interest, based on alleged infringements of their treaty rights and extinguished aboriginal title and rights. This case was decided in June 2013, with the court upholding the Private Land withdrawal from TFL 6 and also the decision to extend the term of our FSP. The Crown was found to have an ongoing duty to consult the Kwakiult in good faith and to seek accommodations regarding their claim of extinguished Aboriginal rights, titles and interests in respect of the Kwakiutl traditional territory. The Crown has subsequently filed an appeal of the decision pertaining to their ongoing duty to consult with the Kwakiutl.

In 2005, the Hupacasath First Nation obtained an order of the BC Supreme Court requiring the Province of BC to consult with them regarding certain Crown decisions, including a 2004 decision of the Minister of Forests, Mines and Lands to remove private lands from TFL 44, a TFL subsequently acquired by the Company. In 2008, the Court ordered that a mediator be appointed to address appropriate accommodation for the effects of the Minister’s 2004 private land decision upon the asserted aboriginal rights of the Hupacasath First Nation on their claimed territory, both with respect to the private lands that are now outside the TFL and the Crown lands that remain within the Company’s TFL. In July 2012, the Hupacasath and BC Government executed a mediated agreement which included the following accommodations within TFL 44 as a result of the 2004 decision to remove private land from TFL 44: a Government Action Regulation Order for protection of a spiritual area at Thunder Mountain, 400 hectares of new Old Growth Management Areas around Great Central Lake, a 20,000 cubic metre non replaceable forest licence in the vicinity of Great Central Lake and a First Nations Woodland Licence also at Great Central Lake as per the previous *Forestry Revitalization Act* timber volume allocation to the Hupacasath.

The Company is currently unable to predict the outcome of these First Nation legal proceedings on Western’s ongoing operations or on any sale of its non-core assets and private forestry lands.

In addition, Western is subject to routine litigation incidental to our business, the outcome of which we do not anticipate will have a materially adverse effect on our financial condition and results of operations.

Reliance on Directors, Management and Other Key Personnel

Western relies upon the experience and expertise of our personnel. No assurance can be given that we will be able to retain our current personnel and attract additional personnel as necessary for the development and operation of our business. Loss of or failure to attract and retain key personnel could have a material adverse effect on Western’s business.

Continuation of the Dividend Program

We declared and paid total quarterly cash dividends of $0.08 per outstanding common share during the four quarters ended December 31, 2015. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after taking into account our operating results, financial condition, cash requirements, financing agreement restrictions and other factors our Board may deem relevant. We may be unable or may elect not to continue to declare and pay dividends, even if necessary financial conditions are met and sufficient cash is available for distribution.

Evaluation of Disclosure Controls and Procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and the system of internal control over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2015. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the annual filings are being prepared.

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

Outstanding Share Data

As of February 17, 2016, there were 395,245,407 Common Shares issued and outstanding.

Western has reserved 20,000,000 Common Shares for issuance upon the exercise of options granted under the Company's incentive stock option plan. During 2015, 446,000 previously granted options were exercised, 1,607,667 options were granted, and 1,434,000 options were forfeited. As of February 17, 2016, 10,158,667 options were outstanding under the Company's incentive stock option plan.

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of dollars except per share amounts and where noted)	2015					2014				
	Year	4th	3rd	2nd	1st	Year	4th	3rd	2nd	1st
Average Exchange Rate – CAD $ to purchase one US $	1.279	1.335	1.309	1.229	1.241	1.104	1.136	1.089	1.091	1.103
Revenue										
Lumber	770.0	194.4	203.8	200.0	171.8	729.0	166.8	180.4	207.9	173.9
Logs	243.1	53.6	57.3	71.0	61.2	244.2	51.2	66.0	71.8	55.2
By-products	68.8	17.6	17.4	18.2	15.6	63.7	14.6	15.7	16.5	16.9
Total revenue	1,081.9	265.6	278.5	289.2	248.6	1,036.9	232.6	262.1	296.2	246.0
Lumber										
Production – millions of board feet	891	234	212	236	209	908	202	231	237	237
Shipments – millions of board feet	883	226	227	228	202	909	216	220	255	218
Price – per thousand board feet	872	862	899	879	849	802	772	820	815	798
Logs										
Net Production - thousands of cubic metres (1)	5,135	1,081	1,180	1,402	1,472	5,127	1,281	1,009	1,544	1,293
Shipments – thousands of cubic metres	2,599	540	610	749	700	2,633	571	707	773	581
Price – per cubic metre (2)	89	95	89	90	83	93	90	86	90	95
Selling and administration	26.1	7.8	5.5	7.0	5.8	29.6	6.0	7.4	7.2	9.0
Adjusted EBITDA	117.1	29.6	28.7	29.2	29.6	108.5	14.8	20.0	40.9	32.8
Amortization	(30.9)	(8.2)	(7.3)	(7.6)	(7.8)	(29.6)	(6.7)	(7.0)	(8.2)	(7.7)
Changes in fair value of biological assets	(3.2)	(0.9)	-	(0.6)	(1.7)	(1.5)	0.5	(0.4)	(1.4)	(0.2)
Reversal of impairment	-	-	-	-	-	2.9	2.9	-	-	-
Operating restructuring items	(4.3)	(0.7)	(2.9)	(0.4)	(0.3)	(10.8)	(1.2)	(8.3)	(1.2)	(0.1)
Finance costs	(5.0)	(1.1)	(1.3)	(1.3)	(1.3)	(5.7)	(1.2)	(1.4)	(1.5)	(1.6)
Other income (expenses)	(1.1)	(0.9)	(0.2)	(0.1)	0.1	1.4	0.6	-	0.6	0.2
Deferred income tax recovery (expense)	(7.8)	(7.9)	0.1	(0.1)	0.1	3.4	3.2	-	-	0.2
Current income tax recovery (expense)	(0.2)	-	-	-	(0.2)	(0.2)	-	(0.2)	-	-
Net income from continuing operations	64.6	9.9	17.1	19.1	18.5	68.4	12.9	2.7	29.2	23.6
Net income from discontinued operations	9.1	-	-	-	9.1	-	-	-	-	-
Net income	73.7	9.9	17.1	19.1	27.6	68.4	12.9	2.7	29.2	23.6
Adjusted EBITDA margin	10.8%	11.1%	10.3%	10.1%	11.9%	10.5%	6.4%	7.6%	13.8%	13.3%
Earnings per share:										
Net income, basic	0.19	0.03	0.04	0.05	0.07	0.17	0.03	0.01	0.07	0.06
Net income, diluted	0.18	0.02	0.04	0.05	0.07	0.17	0.03	0.01	0.07	0.06

(1) Net Production is sorted log production, net of residuals and w aste.

(2) The log revenue used to determine average price per cubic metre has been reduced by the associated shipping costs arranged in the respective periods to enable comparability of unit prices.

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

Certain categories of transactions are presented separately above due to their unpredictable timing and to allow for greater comparability of our operating results between periods. In the first quarter of 2015, the Company recognized $9.1 million of net income from discontinued operations relating to its former Squamish pulp mill site that was sold on February 6, 2015. The third quarter of 2014 included an $8.1 million restructuring provision related to the consolidation of its Nanaimo sawmill operations. The fourth quarter of 2014 includes an impairment reversal of $2.9 million that had been taken on the Company's timber licenses (intangible assets). In the fourth quarters of 2015, the Company recognized changes in deferred tax balances with respect to unutilized operating tax losses and actuarial gains and losses on its defined benefit plans, resulting in a $7.8 million deferred income tax expense through net Income, and a deferred income tax recovery of $9.1 million through other comprehensive Income. In the fourth quarter of 2014, the Company recognized incremental deferred income tax assets of $3.2 million with respect to unutilized operating tax losses through net income. The third quarter of 2015 included a $2.9 million restructuring charge primarily related to the consolidation of the Company's Central Island timberlands operations.

Western Forest Products Inc.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Western Forest Products Inc. ("Western" or the "Company") is responsible for the accompanying Consolidated Financial Statements and all other information in the Management's Discussion and Analysis. The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, reflect Management's best estimates and judgements at this time. The financial information presented throughout the Management's Discussion and Analysis dated February 17, 2016 is consistent with that contained in the Consolidated Financial Statements.

Western maintains systems of internal accounting controls, policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of its assets. Management meets the objectives of internal accounting control on a cost-effective basis through the prudent selection and training of personnel, adoption and communication of appropriate policies, and employment of an internal audit program.

The Board of Directors reviews through oversight of Management's responsibilities with respect to the Consolidated Financial Statements primarily through the activities of its Audit Committee, which is composed solely of independent directors of the Company. This Committee meets with Management and the Company's independent auditors, KPMG LLP, to review the Consolidated Financial Statements and recommend their approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment, remuneration and the terms of engagement of the Company's auditors. The Audit Committee also meets with the auditors, without the presence of Management, to discuss the results of the audit, related findings and their suggestions.

The Consolidated Financial Statements have been audited by KPMG LLP, who were appointed by the shareholders at the annual shareholders' meeting. The auditors' report follows.

Don Demens
President & Chief Executive Officer

Stephen Williams
Senior Vice President & Chief Financial Officer

February 17, 2016

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Western Forest Products Inc.

We have audited the accompanying consolidated financial statements of Western Forest Products Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Western Forest Products Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

February 17, 2016
Vancouver, Canada

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

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 9.4	$ 1.8
Trade and other receivables	75.0	65.6
Inventory (Note 4)	148.5	139.4
Prepaid expenses and other assets	17.8	8.8
	250.7	215.6
Non-current assets:		
Property, plant and equipment (Note 5)	271.3	249.3
Intangible assets (Note 6)	125.2	129.3
Biological assets (Note 7)	53.7	56.9
Other assets (Note 8)	11.2	13.2
Deferred income tax assets (Note 11)	31.3	29.9
	$ 743.4	$ 694.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 97.7	$ 76.6
Revolving credit facility (Note 9)	-	6.7
Silviculture provision (Note 13)	11.2	10.7
Discontinued operations (Note 24)	-	0.3
	108.9	94.3
Non-current liabilities:		
Long-term debt (Note 10)	63.2	73.0
Silviculture provision (Note 13)	19.6	19.0
Other liabilities (Note 12)	35.4	32.9
Deferred revenue	60.4	62.4
Discontinued operations (Note 24)	-	4.5
	287.5	286.1
Shareholders' equity:		
Share capital (Note 14)	505.5	504.4
Contributed surplus	7.6	7.0
Deficit	(57.2)	(103.3)
	455.9	408.1
	$ 743.4	$ 694.2

Commitments and Contingencies (Note 18)

See accompanying notes to these consolidated financial statements

Approved on behalf of the Board:

Lee Doney, Chairman

James Arthurs, Director

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

	Year ended December 31, 2015	Year ended December 31, 2014
Revenue	$ 1,081.9	$ 1,036.9
Cost and expenses:		
Cost of goods sold	880.8	843.1
Export tax	3.6	-
Freight	88.4	86.8
Selling and administration	26.1	29.6
Reversal of impairments (Note 6)	-	(2.9)
	998.9	956.6
Operating income prior to restructuring items and other income	83.0	80.3
Operating restructuring items (Note 23)	(4.3)	(10.8)
Other income (expenses)	(1.1)	1.4
Operating income	77.6	70.9
Finance costs (Note 22)	(5.0)	(5.7)
Income before income taxes	72.6	65.2
Current income tax expense (Note 11)	(0.2)	(0.2)
Deferred income tax recovery (expense) (Note 11)	(7.8)	3.4
Net income from continuing operations	64.6	68.4
Net income from discontinued operations	9.1	-
Net income	73.7	68.4
Other comprehensive loss		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial loss (Note 20)	(5.1)	(16.5)
Income tax on other comprehensive income (Note 11)	9.1	-
Total items that will not be reclassified to profit or loss	4.0	(16.5)
Other comprehensive income (loss) for the period	4.0	(16.5)
Total comprehensive income	$ 77.7	$ 51.9
Net income per share (in dollars) (Note 16)		
Basic earnings per share	$ 0.19	$ 0.17
Diluted earnings per share	$ 0.18	$ 0.17
Basic earnings per share - continuing operations	$ 0.17	$ 0.17
Diluted earnings per share - continuing operations	$ 0.16	$ 0.17
Basic and diluted earnings per share - discontinued operations	$ 0.02	$ -
Weighted average number of common shares outstanding (thousands)		
Basic	395,066	392,267
Diluted	398,740	396,892

See accompanying notes to these consolidated financial statements

Western Forest Products Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in millions of Canadian dollars)

	Share Capital	Contributed Surplus	Deficit	**Total Equity**
Balance at December 31, 2013	$ 499.7	$ 6.5	$ (123.8)	$ 382.4
Net income	-	-	68.4	68.4
Other comprehensive loss:				
Defined benefit plan actuarial loss recognized	-	-	(16.5)	(16.5)
Total comprehensive income	-	-	51.9	51.9
Share-based payment transactions recognized in equity	-	2.2	-	2.2
Exercise of stock options	4.7	(1.7)	-	3.0
Dividends	-	-	(31.4)	(31.4)
Total transactions with owners, recorded directly in equity	4.7	0.5	(31.4)	(26.2)
Balance at December 31, 2014	$ 504.4	$ 7.0	$ (103.3)	$ 408.1

	Share Capital	Contributed Surplus	Deficit	**Total Equity**
Balance at December 31, 2014	$ 504.4	$ 7.0	$ (103.3)	$ 408.1
Net income	-	-	73.7	73.7
Other comprehensive loss:				
Defined benefit plan actuarial loss recognized (Note 20)	-	-	(5.1)	(5.1)
Income tax on other comprehensive income (Note 11)	-	-	9.1	9.1
Total comprehensive income	-	-	77.7	77.7
Share-based payment transactions recognized in equity	-	0.9	-	0.9
Exercise of stock options	1.1	(0.3)	-	0.8
Dividends	-	-	(31.6)	(31.6)
Total transactions with owners, recorded directly in equity	1.1	0.6	(31.6)	(29.9)
Balance at December 31, 2015	$ 505.5	$ 7.6	$ (57.2)	$ 455.9

See accompanying notes to these consolidated financial statements

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

	Year ended December 31, 2015	2014
Cash provided by (used in):		
Operating activities:		
Net income from continuing operations	$ 64.6	$ 68.4
Items not involving cash:		
Amortization of property, plant and equipment (Note 5)	26.8	25.7
Amortization of intangible assets (Note 6)	4.1	3.9
Gain on disposal of assets	-	(0.2)
Change in fair value of biological assets (Note 7)	3.2	1.5
Net finance costs	5.0	5.7
Reversal of impairments on intangible assets (Note 6)	-	(2.9)
Deferred income tax expense (recovery)	7.8	(3.4)
Other	(6.0)	(4.3)
	105.5	94.4
Changes in non-cash working capital items:		
Trade and other receivables	(9.4)	3.4
Inventory	(9.1)	(6.9)
Prepaid expenses and other assets	(9.0)	1.3
Silviculture provision	0.5	(1.6)
Accounts payable and accrued liabilities	20.6	(3.2)
	(6.4)	(7.0)
	99.1	87.4
Investing activities:		
Additions to property, plant and equipment (Note 5)	(62.1)	(49.9)
Proceeds on disposal of assets	0.1	0.4
	(62.0)	(49.5)
Financing activities:		
Interest paid	(2.9)	(4.0)
Drawings under revolving credit facility	2.5	6.7
Repayment of revolving credit facility	(9.2)	-
Repayment of long-term debt	(10.0)	(15.8)
Dividends	(31.6)	(31.4)
Proceeds from exercise of stock options	0.8	3.1
	(50.4)	(41.4)
Cash used in continuing operations	(13.3)	(3.5)
Proceeds on disposal of assets	21.8	-
Other	(0.9)	(0.3)
Cash provided by (used in) discontinued operations (Note 24)	20.9	(0.3)
Increase (decrease) in cash and cash equivalents	7.6	(3.8)
Cash and cash equivalents, beginning of year	1.8	5.6
Cash and cash equivalents, end of year	$ 9.4	$ 1.8

See accompanying notes to these consolidated financial statements

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is a major integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia. The address of the Company's head office is Suite 510 – 700 West Georgia Street, Vancouver, British Columbia, Canada. The Company's primary business includes timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and value-added lumber remanufacturing. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board.

The presentation of financial statement note disclosure has been modified to include certain significant accounting policies within their related note disclosure, where applicable. Certain accounting policies remain in Notes 2 and 3 as they relate to multiple financial statement line items. Additionally, certain comparative figures have been reclassified to conform with the current year's presentation.

The consolidated financial statements were authorized for issue by the Board of Directors on February 17, 2016.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

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

(c) Functional and presentation currency

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

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Western. Western controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which it ceases.

The principal wholly-owned operating subsidiaries of the Company at December 31, 2015 are Western Lumber Sales Limited (which sells into the United States ("US")), Western Forest Products Japan Ltd. (which sells into Japan), and WFP Quatsino Navigation Limited (the beneficial owner of a number of the Company's non-core assets). During 2015, the Company's Board of Directors approved the wind-up of WFP Quatsino Navigation Limited. The wind-up was substantially completed December 31, 2015.

2. Basis of preparation (continued)

(d) Basis of consolidation (continued)

(ii) Interests in equity-accounted investees

Western's interests in equity-accounted investees comprise interests in joint ventures. A joint venture is an arrangement in which Western has joint control, whereby it has the rights to the net assets of the arrangement, rather than rights to all of its assets and obligations for all of its liabilities.

Interests in the joint venture are accounted for using the equity method. They are recognized initially at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include Western's share of the profit and loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

(iii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of Western's interest in the investee. Unrealized losses are eliminated in the same way, except to the extent that there is evidence of impairment.

(e) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income for the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Canadian dollars at foreign exchange rates at the date the fair value was determined.

(f) Use of estimates and judgements

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

(i) Judgements

The determination of appropriate cash generating units as described in Note 3(c) is a judgement made in applying accounting policy that has a significant effect on the amounts recognized in the consolidated financial statements.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Note 4	Measurement of net realizable value of inventories
Note 7	Measurement of fair value less costs to sell of standing timber
Note 11	Recognition of deferred income tax assets: availability of future taxable profit against which carry forward tax losses can be used
Note 13	Measurement of the present value of silviculture provisions: key assumptions about the likelihood and magnitude of an outflow of resources
Note 15	Measurement of share-based payment transactions
Note 18	Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources
Note 20	Measurement of defined benefit obligations, key actuarial assumptions, recognition of termination benefits

2. Basis of preparation (continued)

(f) Use of estimates and judgements (continued)

(ii) Assumptions and estimation uncertainties (continued)

Measurement of fair values – a number of Western's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. An established framework is in place with respect to the measurement of fair values, including Level 3 fair values, on which significant unobservable inputs and valuation adjustments are reviewed regularly. If third party information is used to measure fair values, Management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations would be classified. Refer to Note 21 for more details.

When measuring the fair value of an asset or liability, Western uses market observable data as far as is possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities*
- *Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly*
- *Level 3: inputs for the asset or liability that are not based on observable market data*

If the inputs to measure the fair value of the asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the period in which the change occurred.

(g) New accounting policies

(i) Changes in accounting policies

Western has adopted the following new standards and amendments to standards, including any consequential amendments to other standards with a date of initial application of January 1, 2015:

IFRS 8, Operating segments

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

IAS 24, Related party transactions

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

(ii) New standards and interpretations not yet adopted

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

IFRS 9, Financial Instruments ("IFRS 9")

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

2. Basis of presentation (continued)

(g) New accounting policies (continued)

(ii) New standards and interpretations not yet adopted (continued)

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

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

IFRS 16, Leases ("IFRS 16")

IFRS 16 is effective for years commencing on or after January 1, 2019, and will replace IAS 17, *Leases* ("IAS 17"). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value, while lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. The Company intends to adopt IFRS 16 in its consolidated financial statements for the year commencing January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

IAS 1, Presentation of Financial Statements

Amendments to IAS 1 are effective for years commencing on or after January 1, 2016. IAS 1 is amended to improve presentation and disclosure in financial reports. The Company intends to adopt these amendments in its financial statements for the year commencing January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets

Amendments to IAS 16 and IAS 38 are effective for years commencing on or after January 1, 2016. IAS 16 is amended to explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. IAS 38 is amended to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The Company intends to adopt the amendments to IAS 16 and IAS 38 in its financial statements for the year commencing on January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

Annual Improvements to IFRS (2012-2014) cycle

Amendments were made to clarify the following in their respective standards:

- *IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations;*
- *IFRS 7 – Financial Instruments: Disclosures;*
- *IAS 19 – Employee Benefits; and*
- *IAS 34 – Interim Financial Reporting*

The Company intends to adopt these amendments in its financial statements for the year commencing January 1, 2016. The Company does not expect the amendments to have a material impact on the financial statements.

3. Significant accounting policies

Significant accounting policies not described elsewhere in these consolidated financial statements include:

(a) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of 90 days or less from the date of acquisition, and are carried at fair value.

3. Significant accounting policies (continued)

(b) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of rebates and discounts, and after eliminating intercompany sales. Revenue is recognized as soon as the substantial risks and rewards of ownership transfer from the Company to the customer. The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. Lumber and by-product sales are recorded at the time product is shipped and the collection of the amount is reasonably assured. Consistent with industry practice, log sales are recorded when the customer's order is firm, the logs have been delivered to the transfer location and the collectability of the amount is reasonably assured.

Amounts charged to customers for shipping and handling are recognized as revenue and shipping and handling costs, lumber duties, and export taxes incurred by the Company are recorded in costs and expenses.

(c) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, inventories, and deferred income tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses are recognized in net income. They are allocated first to reduce the carrying amount of goodwill (if any) to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4. Inventory

Accounting policy

Inventory, other than supplies which are valued at specific cost, are valued at the lower of cost and net realizable value ("NRV") as described below:

(i) Lumber by species (hemlock and balsam, douglas fir, and yellow and western red cedar) and facility;

(ii) Logs by sort by end use (saw logs and pulp logs).

The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

The costs of lumber produced carry an average cost of production based on the species and facility where they were produced. The cost of logs produced carry an average cost of production based on the operation where the logs are produced, determined by actual log production costs divided by production volumes.

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The NRV for logs designated for lumber production is determined on the basis of the logs being converted to lumber, and for the remaining logs it is based on market log prices.

The cost of logs transferred from biological assets (standing timber) is its fair value less costs to sell at the date of harvest.

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

4. Inventory (continued)

Supporting information

	December 31, 2015	December 31, 2014
Logs	$ 102.0	$ 101.3
Lumber	50.7	38.9
Supplies and other inventory	12.0	11.4
Provision for write downs	(16.2)	(12.2)
Total value of inventory	$ 148.5	$ 139.4

The carrying amount of inventory recorded at net realizable value was $49.2 million at December 31, 2015 (2014: $39.8 million), with the remaining inventory recorded at cost.

During 2015, $880.8 million (2014: $843.1 million) of inventory was charged to cost of sales which includes a $4.0 million increase (2014: $3.3 million increase) to the provision relating to inventory value write-downs.

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

5. Property, plant and equipment

Accounting policy

All items of property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Depreciation is based on the depreciable amount of an item of property, plant and equipment, which is the cost of an item, less its estimated residual value. Depreciation is calculated using the straight-line method and is recognized in net income over the estimated useful life of each component of an item of property, plant and equipment. Land is measured at cost and is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

- Buildings and equipment 5 - 20 years
- Logging roads 9 - 20 years

Residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds from disposal with the carrying amount of the item of property, plant and equipment and are recognized in net income for the period in which the disposal occurs.

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

5. Property, plant and equipment (continued)

Supporting information

Cost	Buildings & equipment	Logging roads	Land	Total property, plant & equipment
Balance at January 1, 2014	$ 190.5	$ 137.8	$ 103.8	$ 432.1
Additions	36.4	13.5	-	49.9
Disposals	(1.9)	-	(0.1)	(2.0)
Impairments	(10.6)	-	-	(10.6)
Balance at December 31, 2014	214.4	151.3	103.7	469.4
Additions	48.5	13.6	-	62.1
Disposals	(1.3)	-	(13.1)	(14.4)
Balance at December 31, 2015	$ 261.6	$ 164.9	$ 90.6	$ 517.1
Accumulated amortization and impairments				
Balance at January 1, 2014	$ 100.6	$ 105.5	$ -	$ 206.1
Amortization	12.4	13.3	-	25.7
Disposals	(1.6)	-	-	(1.6)
Impairments	(10.1)	-	-	(10.1)
Balance at December 31, 2014	101.3	118.8	-	220.1
Amortization	13.9	12.9	-	26.8
Disposals	(1.1)	-	-	(1.1)
Balance at December 31, 2015	$ 114.1	$ 131.7	$ -	$ 245.8
Carrying amounts				
At December 31, 2014	$ 113.1	$ 32.5	$ 103.7	$ 249.3
At December 31, 2015	$ 147.5	$ 33.2	$ 90.6	$ 271.3

6. Intangible assets

Accounting policy

Crown timber tenures are the contractual arrangements between the Company and the Provincial Government whereby the Company gains the right to harvest timber. All of the Company's timber licenses are accounted for as acquired finite lived intangible assets. Accordingly, these are valued at their acquired cost less accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over 40 years, the estimated useful life of these crown timber tenures. Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

Supporting information

	Year ended December 31,	
Cost	**2015**	**2014**
Balance, beginning of year	170.7	$ 170.9
Disposals	-	(0.2)
Balance, end of year	$ 170.7	$ 170.7
Accumulated amortization and impairments		
Balance, beginning of year	41.4	$ 40.4
Amortization	4.1	3.9
Reversal of impairments	-	(2.9)
Balance, end of year	$ 45.5	$ 41.4
Carrying amount, end of year	$ 125.2	$ 129.3

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

6. Intangible assets (continued)

As a result of continued losses by the Company prior to 2010, the Company recorded an impairment loss of \$51.2 million as at January 1, 2010, in respect of its Crown timber tenures. In subsequent periods, as a result of improvements in log and lumber markets, the Company reassessed its previous estimates and has reversed a total of \$42.5 million of the initially recognized impairment, of which \$2.9 million was reversed during the year ended December 31, 2014. The final reversal of the impairment in 2014 allowed the Company to reflect unimpaired carrying values of the Crown timber tenures at December 31, 2014.

There were no indicators of impairment identified in the year ended December 31, 2015, and accordingly, no impairment adjustments were required during the year ended December 31, 2015.

7. Biological assets

Accounting policy

Standing timber on privately held forest land that is managed for timber production is characterized as a biological asset. Accordingly, at each reporting date, the biological asset is valued at its fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net income for the period. Costs to sell include all costs that would be necessary to sell the assets. Land under the standing timber is measured at cost and included in property, plant and equipment.

Supporting information

(a) Reconciliation of carrying amount

	Year ended December 31, 2015		2014	
Carrying value, beginning of year	$	56.9	$	58.4
Change in fair value resulting from growth and pricing		3.2		3.2
Harvested timber transferred to inventory in the year		(6.4)		(4.7)
Carrying value, end of year	$	53.7	$	56.9

At December 31, 2015, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2014: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to old-growth forests. During the year ended December 31, 2015, the Company harvested and scaled approximately 288,052 cubic metres ("m^3") of logs from its private timberlands, which had a fair value less costs to sell of \$98 per m^3 at the date of harvest (2014: 357,720 m^3 and \$79 per m^3, respectively).

(b) Measurement of fair values

The table above reconciles the opening balances to the closing balances for Level 3 fair values. The change in fair value resulting from price and growth is reflected in cost of goods sold. The fair value measurements for the Company's standing timber of \$53.7 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used as discussed below.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows*:* The valuation model considers the present value of the net cash flows expected to be generated by the individual private timberlands utilizing a harvest optimization approach. The cash flow projections include specific estimates for 25 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Estimated future log prices per m^3 (\$68 - \$137, weighted average \$90). • Estimated harvest costs per m^3 (\$59 - \$81, weighted average \$62). • Estimated harvest annual volume (12,000 - 99,000 m^3, weighted average 79,000 m^3). • Risk-adjusted discount rate (2015: 7.0 - 7.5%, weighted average 7.1%; 2014: 7.5%).	The estimated fair value would increase (decrease) if: • The estimated log prices per m^3 were higher (lower); • The estimated harvest costs per m^3 were lower (higher); • The estimated harvest volumes were higher (lower); or • The risk-adjusted discount rates were lower (higher).

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

7. Biological assets (continued)

(c) Risk management strategies related to biological assets

Western is exposed to the following risks relating to its private timberlands:

- The Company is exposed to risks arising from fluctuations in log prices and sales volumes. When possible, Western aligns its harvest volumes to market supply and demand, and performs regular industry trend analyses for projected harvest volumes and pricing in order to manage this risk.
- The standing timber is exposed to risk of damage as a result of severe weather conditions, forest fires, insect infestation and disease. Western has processes and procedures in place to monitor and mitigate these risks, including fire management strategies and regular inspection for pest infestation.

8. Other assets

	December 31, 2015	December 31, 2014
Investments	$ 11.1	$ 9.7
Discontinued operations (equipment) (Note 24)	-	2.8
Other	0.1	0.7
	$ 11.2	$ 13.2

9. Revolving credit facility

The Company's revolving credit facility (the "Facility") provides for a maximum borrowing amount of $125.0 million, subject to a borrowing base, which is primarily based on eligible accounts receivable and inventory balances. The Facility bears interest at Canadian Prime (if availability exceeds $40.0 million) or 0.25% (if availability is less than $40.0 million) or at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus 1.25% or 1.50%, dependent on the same availability criteria. The interest rate for the Facility was 2.70% at December 31, 2015 (December 31, 2014: 3.50%).

On November 2, 2015, certain terms and conditions of the Facility were amended, as disclosed above, including the removal of certain covenants and a reduction in applicable interest rates. The maturity date of the Facility was also extended by one year to December 14, 2016.

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants (see Note 17). At December 31, 2015, the Facility was unutilized (December 31, 2014: $6.7 million utilized) and $122.5 million of the facility was available to the Company (December 31, 2014: $96.6 million). The Company was in compliance with its financial covenants at December 31, 2015.

10. Long-term debt

Accounting policy

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Long-term debt is subsequently carried at amortized cost; any difference between the proceeds and the redemption value is recognized in net income over the term of the long-term debt using the effective interest method.

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

Supporting information

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of $110.0 million. The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate plus 0.15%, and (ii) the 30 day Banker's Acceptance ("BA") rate plus 1.65%, or at the election of the Company, the applicable BA rate plus 1.65%. The interest rate for the Term Loan was 2.57% at December 31, 2015 (December 31, 2014: 2.92%).

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

10. Long-term debt (continued)

The Term Loan is secured by a first lien interest over all of the Company's properties and assets, excluding those of the Englewood Logging Division and accounts receivable and inventory, over which it has second lien interests, and includes financial covenants (see Note 17).

On November 2, 2015, certain terms and conditions of the Term Loan were amended including the removal of certain covenants. The maturity date of June 29, 2019 remains unchanged.

The Company was in compliance with its financial covenants at December 31, 2015.

	December 31, 2015	December 31, 2014
Long-term debt	$ 64.0	$ 74.0
Less transaction costs	(0.8)	(1.0)
	$ 63.2	$ 73.0

11. Income taxes

Accounting policy

Income tax expense comprises current and deferred income tax. It is recognized in net income for the period except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or equity, respectively.

(a) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of the previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current income tax assets and liabilities are offset only if certain criteria are met.

(b) Deferred income tax

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not recognized if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting profit nor taxable profit.

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred income tax assets are reviewed at each reporting date and are recognized to the extent that it is probable that the related tax benefit will be realized. Unrecognized deferred income tax assets are reassessed at each reporting date and recognized to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred income tax is measured at the rates that are expected to be applied to temporary differences when they reverse, using rates enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are offset only if certain criteria are met.

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

11. Income taxes (continued)

Supporting information

	Year ended December 31, 2015	Year ended December 31, 2014
Current tax expense		
Current period	$ 0.2	$ 0.2
	$ 0.2	$ 0.2
Deferred income tax expense		
Origination and reversal of temporary differences	$ 36.2	$ 40.3
Recognition of previously unrecognized tax losses	(9.9)	(29.9)
Change in unrecognized deductible temporary differences	(18.5)	(13.8)
	$ 7.8	$ (3.4)
Total income tax expense (recovery)	$ 8.0	$ (3.2)

Income tax expense (recovery) differs from the amount that would be computed by applying the Company's combined Federal and Provincial statutory rate as follows:

	Year ended December 31, 2015		Year ended December 31, 2014	
Income before income taxes, continuing operations		$ 72.6		$ 65.2
Tax using the Company's domestic tax rate	26.00%	18.9	26.00%	17.0
Difference in tax rates	0.41%	0.3	0.77%	0.5
Over (under) provided for in prior periods	(0.69%)	(0.5)	0.15%	0.1
Other permanent differences	0.00%	-	(5.67%)	(3.7)
Temporary differences recorded to OCI	10.74%	7.8	0.00%	-
Recognition of previously unrecognized tax losses	(13.64%)	(9.9)	(45.86%)	(29.9)
Change in unrecognized deductible temporary differences	(11.85%)	(8.6)	19.63%	12.8
	11.01%	$ 8.0	(4.98%)	$ (3.2)

The components of recognized deferred income tax assets and liabilities are as follows:

	Opening Balance	Recognized in Profit or Loss	Recognized in OCI	Ending Balance
For the Year ended December 31, 2015				
Deferred income tax assets				
Tax loss carry-forwards	$ 53.8	$ (0.8)	$ -	$ 53.0
Employee future benefits obligation	-	(0.6)	9.1	8.5
Provisions	13.9	(1.9)	-	12.1
	67.7	(3.3)	9.1	73.6
Deferred income tax liabilities				
Intangible assets	(31.7)	0.7	-	(31.0)
Biological assets	(7.8)	0.5	-	(7.3)
Property, plant and equipment	1.7	(5.7)	-	(4.0)
	(37.8)	(4.5)	-	(42.3)
Total	$ 29.9	$ (7.8)	$ 9.1	$ 31.3
For the Year ended December 31, 2014				
Deferred income tax assets				
Tax loss carry-forwards	$ 49.8	$ 4.0	$ -	$ 53.8
Provisions	9.8	4.1	-	13.9
Property, plant and equipment	6.5	(4.8)	-	1.7
	66.1	3.3	-	69.4
Deferred income tax liabilities				
Intangible assets	(31.7)	-	-	(31.7)
Biological assets	(7.9)	0.1	-	(7.8)
	(39.6)	0.1	-	(39.5)
Total	$ 26.5	$ 3.4	$ -	$ 29.9

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

11. Income taxes (continued)

The Company has recognized deferred income tax assets in relation to unused tax losses that are available to carry forward against future taxable income. At December 31, 2015, the Company and its subsidiaries have unused non-capital tax losses carried forward of approximately $200.8 million (2014: $245.6 million), which expire between 2027 and 2035, available to reduce taxable income, and capital losses of approximately $102.5 million (2014: $121.3 million) available to be utilized against capital gains.

As at December 31, 2015, the Company recognized deferred income tax assets on non-capital losses, unused tax credits and other deductible temporary differences that are probable to be utilized, net of taxable temporary differences. Deferred income tax assets have not been recognized in respect of the following loss carry-forwards and other deductible temporary differences:

	December 31, 2015	December 31, 2014
Non-capital loss carry forwards	$ -	$ 38.2
Temporary deductible differences	18.1	1.4
Capital loss carry forwards	102.5	121.3
Employee future benefits obligation	-	31.0
	$ 120.6	$ 191.9

12. Other liabilities

	December 31, 2015	December 31, 2014
Employee future benefits obligation (Note 20)	$ 32.7	$ 30.9
Environmental accruals	2.0	1.5
Other	0.7	0.5
	$ 35.4	$ 32.9

13. Silviculture provision

Accounting policy

The Company's provision for silviculture relates to the obligation for reforestation on Crown land and arises as timber is harvested. Reforestation on private timberlands is expensed as incurred. The Company recognizes a provision for silviculture at fair value in the period in which the legal obligation is incurred, with the fair value of the liability at the reporting date determined with reference to the present value of estimated future cash flows. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The actual discount rate used reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates.

In periods subsequent to the initial measurement, changes in the liability resulting from revisions to estimated future cost are recognized in cost of sales within net income for the period as they occur. The unwinding of the discount associated with the provision to reflect the passage of time is included in finance costs within net income for the period.

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

13. Silviculture provision (continued)

Supporting information

Changes in the silviculture provision are as follows:

	Year ended December 31, 2015	2014
Silviculture provision, beginning of year	$ 29.7	$ 30.0
Silviculture provision charged	9.9	9.1
Silviculture work payments	(9.0)	(9.7)
Unwind of discount	0.2	0.3
Silviculture provision, end of year	30.8	29.7
Less current portion	11.2	10.7
	$ 19.6	$ 19.0

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.48% to 1.39% (2014: 0.99% to 1.79%). The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at December 31, 2015 is $31.7 million (December 31, 2014: $30.9 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the year.

14. Share capital

Accounting policy

The Company's authorized capital consists of an unlimited number of common shares ("the Common Shares") and an unlimited number of preferred shares. Common Shares and preferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of any tax effects.

Supporting information

The Company has no outstanding Non-Voting and preferred shares. The Common Shares entitle the holders thereof to one vote per share. The Non-Voting Shares do not entitle the holders to any votes at meetings of the Company's shareholders except that they will be entitled to one vote per share relating to certain matters including liquidation, dissolution and winding-up. The Common Shares and Non-Voting Shares rank equally as to participation in a distribution of the assets of the Company on a liquidation, dissolution or winding-up of the Company and as to the entitlement to dividends.

The holders of the Non-Voting Shares have certain registration rights that enable them to require the Company to assist them with a public offering of the Non-Voting Shares or Common Shares for which the Non-Voting Shares may be exchanged, subject to certain limitations.

Issued and outstanding Common and Non-Voting Shares are as follows:

	Number of Common Shares	Amount	Number of Non-Voting Shares	Amount
Balance at January 1, 2014	352,077,810	$ 486.6	39,050,597	$ 13.1
Exercise of stock options	3,671,000	4.7	-	-
Conversion of non-voting shares to common shares	39,050,597	13.1	(39,050,597)	(13.1)
Balance at December 31, 2014	394,799,407	$ 504.4	-	$ -
Exercise of stock options	446,000	1.1	-	-
Balance at December 31, 2015	395,245,407	$ 505.5	-	$ -

During the year ended December 31, 2015, cash dividends of $0.02 per Common Share were paid for each of the quarters ended March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015. An aggregate of $31.6 million in dividends was paid to shareholders in 2015.

15. Share-based compensation plan

Accounting policy

Stock options

The Company has established an incentive stock option plan (the "Option Plan") for eligible directors, officers and employees and accounts for these plans using the fair value method. The grant-date fair value of options is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the individual becomes unconditionally entitled to the awards. When stock options are exercised, the cash consideration received from employees is credited to share capital, as is the previously calculated fair value included in contributed surplus.

Determining the fair value of share-based compensation awards at the grant date requires judgement. The fair value of the options is determined using either the Black-Scholes or the Hull-White option pricing models which take into account, as of the grant date, the exercise price, the expected life of the options, the current price of the underlying stock and its expected volatility, expected dividends on the shares, and the risk-free interest rate over the expected life of the option. The Company bases its estimates of volatility on historical share prices of the Company itself as well as those of comparable companies with longer trading histories.

In the case of options issued since 2009, the options are only exercisable when the share price exceeds a barrier price of $0.70 for 60 consecutive days on a volume weighted average price basis. With this additional requirement for the share price to exceed a minimum level before the options become exercisable, it is necessary to utilize the Hull-White model as this model takes into account the barrier price factor. All options which were granted prior to 2009 and do not contain the minimum price requirement continue to be valued using the Black-Scholes model.

Deferred share units and performance share units

The grant-date fair value of the amount payable to eligible directors, officers and employees in respect of Deferred Share Units ("DSUs"), which are cash-settled, is recognized as an employee expense with a corresponding increase in liabilities, over the period that the individuals become unconditionally entitled to payment.

The grant-date fair value of the amount payable to eligible officers and employees in respect of Performance Share Units ("PSUs"), which are cash-settled, is recognized as an employee expense with a corresponding increase in liabilities, over a three year performance period.

The liabilities under the DSU and PSU Plans are re-measured at fair value at each reporting date and at settlement date. For the PSU Plan, this includes re-measurement as the Company's performance tracks against the performance vesting targets. Any changes in the fair value of the liabilities are recognized in employee expenses in net income for the period.

Supporting information

(a) Stock-option plan

The Option Plan permits the granting of options to eligible participants to purchase up to an aggregate of 20,000,000 Common Shares. During 2015, the Company recorded compensation expense of $0.9 million (2014: $2.2 million) which has been credited to contributed surplus. Each option is exercisable, subject to vesting terms of 20% at the end of each of the first five years after grant and immediately upon a change in control of the Company, into one Common Share, subject to adjustments, at a price of not less than the closing price of the Common Shares on the TSX on the day immediately preceding grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant.

During the year ended December 31, 2015, the Company granted 1,607,667 options with a fair value of $0.7 million. Weighted average assumptions applied in the option pricing model included exercise price of $2.20, risk-free interest rate of 0.99% volatility rates of 38% and an expected life of seven years.

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

15. Share-based compensation plan (continued)

(a) Stock-option plan (continued)

The following table summarizes the change in the options outstanding during the years ending December 31, 2015 and 2014:

	Year ended December 31, 2015		Year ended December 31, 2014	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	10,431,000	$ 1.35	13,016,795	$ 0.97
Granted	1,607,667	$ 2.20	2,600,000	$ 2.58
Exercised	(446,000)	$ 1.65	(3,671,000)	$ 0.35
Expired	-	$ -	(24,795)	$ 12.10
Forfeited	(1,434,000)	$ 1.57	(1,490,000)	$ 1.25
Outstanding, end of year	10,158,667	$ 1.44	10,431,000	$ 1.35

Details of options outstanding under the Option Plan at December 31, 2015 are as follows:

Exercise price	Number outstanding December 31, 2015	Weighted average remaining option life (years)	Weighted average exercise price	Number exercisable December 31, 2015	Weighted average exercise price
$ 0.22	1,000,000	4.2	$ 0.22	1,000,000	$ 0.22
$ 0.77	500,000	5.2	$ 0.77	400,000	$ 0.77
$ 0.95	1,030,000	6.2	$ 0.95	618,000	$ 0.95
$ 0.96	2,000,000	6.6	$ 0.96	1,200,000	$ 0.96
$ 1.27	2,040,000	7.1	$ 1.27	816,000	$ 1.27
$ 1.75	95,000	0.5	$ 1.75	95,000	$ 1.75
$ 2.17	116,000	9.9	$ 2.17	-	$ -
$ 2.20	80,000	1.7	$ 2.20	80,000	$ 2.20
$ 2.20	1,371,667	9.2	$ 2.20	-	$ -
$ 2.34	300,000	8.8	$ 2.34	60,000	$ 2.34
$ 2.61	1,626,000	8.1	$ 2.61	325,200	$ 2.61
	10,158,667	7.0	$ 1.44	4,594,200	$ 1.01

(b) Deferred share unit plan

The Company has a DSU Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs and executive officers may elect to take a portion of their annual incentive bonus in the form of DSUs. All DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received if they held their DSUs as common shares. For directors, the number of DSUs allotted is determined by dividing the dollar portion of the quarterly fees a director elects to take in DSUs by the share price value on the fifth day following each quarter end. For executive officers, the number of DSUs allotted is determined by dividing the dollar portion of the bonus that an executive elects to take in DSUs by the weighted average price of the Company's Common Shares for the five business days prior to the issue notification date. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the closing share price on the dividend payment date (2014: by the average share price for the five days leading up to the dividend date of record).

Effective January 1, 2015, DSUs are only granted to non-executive directors per the amended DSU Plan.

During 2015, designated executive officers were allotted 11,266 DSUs at a weighted average price of $1.95 per DSU. A further 86,802 DSUs were issued to a director at a weighted average price of $1.99 per DSU, and 43,262 DSUs were redeemed at a weighted average price of $2.57 per DSU. The cumulative number of DSUs outstanding at December 31, 2015 was 981,495 (December 31, 2014: 926,689). In 2015, the Company recorded compensation recovery for these DSUs of $0.3 million (2014: expense of $1.0 million), with a corresponding decrease to accounts payable and accrued liabilities.

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

15. Share-based compensation plan (continued)

(c) Performance share unit plan

During 2015, the Company established a PSU Plan for designated officers and employees of the Company. Under the terms of the PSU Plan, participants are granted a number of PSUs based on a target award divided by the value of the Company's Common Shares at the effective date of grant. All PSU holders are entitled to PSU dividends, equivalent to the dividend they would have received if they held their PSUs as common shares.

Performance targets are set by the Management Resource & Compensation Committee of the Company's Board of Directors. The number of PSUs which will ultimately vest will be the original number of PSUs granted plus PSUs equal to the value of accrued notional dividends over the performance period. For dividends, the number of PSUs allotted is determined by dividing the total dollar value of the dividend each PSU holder would have received, by the closing share price on the trading day immediately after the dividend date of record. The redemption value of vested PSUs will be in a range from 0% to 200% based on return on capital employed over a three year performance period.

	Year ended December 31,	
	2015	2014
Outstanding, beginning of year	-	-
Granted	434,115	-
Outstanding, end of year	434,115	-

In 2015, the Company recorded PSU expense of $0.4 million (2014: nil), with a corresponding increase to accounts payable and accrued liabilities.

16. Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its Common Shares and other Non-Voting Shares. Basic EPS is calculated by dividing the net income attributable to Common and Non-Voting shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the net income attributable to the shareholders and the weighted average number of shares outstanding, for the effects of all dilutive potential shares, which comprise share options granted to employees and directors.

17. Capital requirements

The Company's strategy for managing capital is to maintain a capital position that provides financial flexibility and achieves growth with the objective of maximizing long-term shareholder value. Western's capital requirements typically include major new investments designed to increase net income and disbursements for other new equipment and ongoing enhancements, efficiency improvements, safety, and protection or extension of the life of equipment. Significant expenditures are also required to fund new capital roads allowing access to timber stands for harvesting purposes. During 2015, capital expenditures continued to be monitored closely because of the changing economic climate, but spending on planned strategic capital projects has continued because of Western's stronger financial position and continued confidence in the lumber markets.

The Company seeks to achieve a balance between the higher returns that may arise with higher levels of borrowing and the advantages and security provided by a sound capital position. The Company monitors the ratio of net debt to capitalization. Under the current market conditions the Company has decreased its debt position and has a net capitalization to debt ratio of 11% as at December 31, 2015 (December 31, 2014: 16%). Net debt is defined as long-term debt plus amounts drawn on the revolving credit facility, less cash and cash equivalents. Capitalization comprises net debt and shareholders' equity.

Changes to the capital structure may be made as strategic opportunities arise. In order to maintain or adjust the capital structure, the Company may buy back shares, issue new shares, source new debt, or sell assets to reduce debt. The Company has internal controls to ensure changes to the capital structure are properly reviewed and approved.

Beginning in 2013, the Company initiated a quarterly dividend program which is being paid from operating cash flows, and is at the discretion of the Company's Board of Directors.

17. Capital requirements (continued)

Under the current financing agreements, the Company is subject to financial covenants. The Facility has a minimum fixed charge coverage ratio of 1.1:1.0 should availability fall below 12.5% of the borrowing base or in the event of default. The Term Loan contains a maximum loan to value ratio financial covenant of 45%. Loans for this covenant are defined as the total term loans outstanding and value is defined as the appraised value of our Crown tenures and private timberlands; this financial covenant is measured on the last day of each fiscal year and at the time of consummation of a sale or disposition of assets, with certain exceptions.

As at December 31, 2015, the Company is in compliance with all financial covenants, and expects to be in compliance for the next 12 months.

The Company is not subject to any statutory capital requirements. Under the Company's share-based compensation plan, commitments exist to issue common shares.

There were no changes to the Company's approach to managing capital during the year.

18. Commitments and contingencies

(a) Lumber duties and export tax

Under the softwood lumber agreement ("SLA") between Canada and the United States ("US"), the Company's exports to the US were assessed an export tax by the Canadian Government. The SLA expired on October 12, 2015, eliminating export tax measures applicable under this agreement subsequent to this date. A standstill provision within the SLA precludes the US from bringing trade action against Canadian softwood lumber producers for twelve months after the expiration.

The export tax rate varied according to the price of lumber based on the "Random Lengths Framing Lumber Composite Index" ("Index") and ranges from zero percent when the Index was above $355 per thousand board feet US dollars ("USD") to 15% when the Index was under USD$315 per thousand board feet.

The export tax only applied to the first USD$500 per thousand board feet for any product sales. In addition, if the monthly volume of exports from the British Columbia coastal region exceeded a certain "Trigger Volume" as defined in the SLA, a "surge" mechanism was applicable to 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). During 2015, the Company recorded export tax expense of $3.6 million (2014: nil).

(b) Litigation and claims

In the normal course of its business activities, the Company may be subject to a number of claims and legal actions that may be made by customers, unions, suppliers and others in respect of which either provision has been made or for which no material liability is expected. The Company has claims filed against it from logging contractors and unions with respect to various operating issues. Certain of the claims are pending mediation or arbitration, while others have not yet reached this formal stage. Where the Company is not able to determine the outcome of these disputes no amounts have been accrued in these financial statements.

(c) Long-term fibre supply agreements

Accounting policy

Deferred revenue is the result of the contractual obligations incurred upon the acquisition of the Englewood Logging Operation in March 2006, and calls for Western to deliver a specified volume of fibre (chips and pulp logs) over the term of the contract. Accordingly, the deferred revenue is amortized into net income for the period on a straight-line basis over 40 years, being the term of the related fibre supply contract.

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

18. Commitments and contingencies (continued)

(c) Long-term fibre supply agreements (continued)

Supporting information

The Company has a number of long-term commitments to supply fibre to third parties including a 40 year agreement, entered into on March 17, 2006 ("40 Year Agreement"). As consideration for entering into the 40 Year Agreement, the Company received a price premium of $80.0 million that will be earned as wood chips are delivered under the agreement. Upon execution, a non-refundable prepayment of the price premium of $35.0 million was received with the balance of $45.0 million set-off against the consideration due by the Company on its acquisition of the Englewood Logging Division from the same party to the fibre supply agreement. The Company recorded the price premium as deferred revenue and has granted a first charge over the acquired assets (including a tree farm license with an allowable annual cut of 844,000 cubic metres, 4,771 hectares of private timberlands and other capital improvements and equipment) to secure certain of these obligations.

In addition, certain of the Company's long term fibre supply agreements with third parties have minimum volume requirements and may, in the case of a failure to produce the minimum volume, require the Company to conduct whole log chipping, source the deficiency from third parties at additional cost to the Company or pay the party to the fibre supply agreement a penalty calculated based on the provisions contained in the relevant agreement. Should Western take significant market related curtailments in its sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet its contractual obligations.

The Company has satisfied its annual fibre commitments for 2015.

(d) Operating leases

Accounting policy

Leases of property, plant and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Supporting information

Future minimum lease payments at December 31, 2015 under operating leases were as follows:

2016	$	2.5
2017		1.8
2018		1.7
2019		1.6
2020		0.9
Thereafter		2.4
	$	10.9

(e) Pension funding commitments

The Company is committed to making estimated annual special payments in relation to its salaried pension plans of $2.9 million a year for 2016 and approximately $1.7 million per year on average for 2017 to 2028, or until such time as a new funding valuation may lead to a change in the amount of payments required.

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

19. Segmented information

Accounting policy

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company is an integrated Canadian forest products company operating in one business segment comprised of timber harvesting, log sales and lumber manufacturing and sales in world-wide markets.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. Western's log and lumber products are currently sold in over 25 countries worldwide, with sales to customers in Canada, the US, Asia and Europe representing over 97% of the Company's sales. Substantially all of Western's property, plant and equipment, biological assets and intangible assets are located in British Columbia, Canada. The Company manages its business as a single operating segment. The Company purchases and harvests logs which are then manufactured into lumber products at the Company's sawmills, or sold.

Supporting information

The Company's sales, based on the known origin of the customer, were as follows:

	Year ended December 31,	
	2015	2014
Canada	$ 473.0	$ 441.8
United States	231.7	189.3
Japan	161.3	163.8
China	126.5	162.9
Other	51.8	42.9
Europe	37.6	36.2
	$ 1,081.9	$ 1,036.9

20. Employee benefits

Accounting policy

(a) *Termination benefits*

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within twelve months of the reporting date, then they are discounted.

(b) *Short-term employee benefits*

Short-term employee benefit obligations, including bonus plans, are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(c) *Employee future benefits*

The Company has various defined benefit and defined contribution plans that provide pension or other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. The Company also provides other post-employment benefits and pension bridging benefits to eligible retired employees.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Company's net obligation in respect of its defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of the plan assets is deducted in arriving at the obligation. The calculation is performed annually by a qualified actuary using the actuarial cost projected unit credit method.

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

20. Employee benefits (continued)

When the calculation results in a potential asset to the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the defined benefit plan or reductions in future contributions to the defined benefit plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any defined benefit plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in net income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in net income. The Company recognizes gains and losses on settlement of a defined benefit plan when the settlement occurs. A defined contribution plan is a retirement plan under which the Company pays fixed contributions into a separate entity. For Western's defined contribution plan, the Company makes contributions (currently, 7% of employee earnings) to privately administered investment funds on behalf of the plan members. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense in net income for the period during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

For hourly employees covered by forest industry union defined benefit pension plans, the Company's contributions as required under the collective agreements are charged to net income for the period.

Supporting information

Information about the Company's defined benefit salaried pension plans and other non-pension benefits, in aggregate, is as follows:

	December 31, 2015		December 31, 2014	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Plan assets:				
Fair value, beginning of year	$ 110.0	$ -	$ 105.9	$ -
Company contributions	4.3	0.4	4.3	0.4
Benefits and administrative expenses paid	(8.5)	(0.4)	(8.7)	(0.4)
Actual return on assets	0.8	-	8.5	-
Fair value, end of year	$ 106.6	$ -	$ 110.0	$ -
Accrued benefit obligation:				
Balance, beginning of year	$ 134.8	$ 6.1	$ 118.7	$ 5.5
Current service costs and administrative expenses	0.3	-	0.2	-
Benefits and administrative expenses paid	(8.5)	(0.4)	(8.7)	(0.4)
Interest cost	5.0	0.2	5.2	0.3
Actuarial loss	1.8	-	19.4	0.7
Balance, end of year	$ 133.4	$ 5.9	$ 134.8	$ 6.1
Deficit recognized in Statement of Financial Position (Note 12)	$ (26.8)	$ (5.9)	$ (24.8)	$ (6.1)
Cumulative actuarial gains (losses), beginning of year	$ (30.5)	$ 0.4	$ (14.7)	$ 1.1
Actuarial losses recognized directly in OCI	(5.1)	-	(15.8)	(0.7)
Cumulative actuarial gains (losses), end of year	$ (35.6)	$ 0.4	$ (30.5)	$ 0.4

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

20. Employee benefits (continued)

	December 31, 2015		December 31, 2014	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Experience gains (losses):				
Experience gains (losses) on plan assets:				
Amount	$ (3.4)	n/a	$ 3.7	n/a
Percentage of plan assets	(3.18)%	n/a	3.34%	n/a
Experience gains (losses) on plan liabilities:				
Amount	$ -	$ -	$ (3.6)	$ -
Percentage of plan assets	(0.02)%	0.00%	2.68%	0.00%

The Company has several funded and unfunded defined benefit plans, a defined contribution pension plan and a group RRSP that provide retirement benefits to substantially all salaried employees and certain hourly employees. In addition, the Company provides other unfunded post-employment benefits to certain former salaried and hourly employees. The funded and unfunded defined benefit pension plans were closed to new entrants effective June 30, 2006, and effective December 31, 2010, no further benefits accrue under these plans as members became eligible to participate in the defined contribution plan. All new salaried employees are now provided with pension benefits through a defined contribution plan. The defined benefit plans are based on years of service to December 31, 2010, and final average earnings. The Company's other post-employment benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for the year ended December 31, 2015 were $18.1 million (December 31, 2014: $16.6 million), consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to the forest industry union defined benefit plans. In relation to defined benefit plans, the Company measures the fair value of plan assets and the accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the funded defined benefit pension plans were performed at December 31, 2013. The next actuarial valuation for both the funded and unfunded defined benefit plans and other unfunded post-employment benefit plans will be prepared for December 31, 2016. Included in the accrued benefit obligations and plan assets for salaried pension plans, presented above, are accrued benefit obligations of $126.6 million at December 31, 2015 (December 31, 2014: $128.0 million) in respect of plans that are wholly or partially funded.

The following is a breakdown of the defined benefit pension plan assets into their major investment categories:

	December 31, 2015	December 31, 2014
Equity securities	33%	37%
Debt securities	64%	61%
Other	3%	2%
	100%	100%

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

20. Employee benefits (continued)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations (expressed as weighted averages) are as follows:

	December 31, 2015	December 31, 2014	December 31, 2015 Increase (Decrease) of Accrued Benefit Obligation with Change in Assumption	
			1% Increase	1% Decrease
Discount rate, beginning of year for:				
Pension plans	3.83%	4.56%	n/a	n/a
Non-pension plans	3.65%	4.30%	n/a	n/a
Discount rate, end of year for:				
Pension plans	3.73%	3.83%	14,437,000	(17,637,300)
Non-pension plans	3.60%	3.65%	515,300	(598,400)
Rate of compensation increase for all plans	3.49%	3.49%	(2,175,400)	1,938,300
Health care cost trend rate	5.65% in 2016 grading to 4.35% in 2026	5.90% in 2015 grading to 4.35% in 2026	(406,000)	380,400
Medical cost trend rate	n/a	n/a	(406,000)	380,400
Future mortality	n/a	n/a	315,600	(368,800)

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

	December 31, 2015		December 31, 2014	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Defined benefit plans:				
Current service costs and administrative expenses	$ 0.3	$ -	$ 0.2	$ -
Net interest costs	0.9	0.2	0.5	0.2
Cost of defined benefit plans	1.2	0.2	0.7	0.2
Cost of defined contribution plans	3.0	-	2.8	-
Total cost of employee post-retirement benefits	$ 4.2	$ 0.2	$ 3.5	$ 0.2

The Company expects to make funding contributions to its defined benefit plans of $2.9 million during 2016.

The Company's unionized employees are members of industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. The Company's liability is limited to its contributions. The pension expense for these plans is equal to the Company's contributions and for 2015 amounted to $10.6 million (2014: $9.1 million).

21. Financial instruments – fair values and risk management

Accounting policy

(a) Non-derivative financial assets

The Company classifies its non-derivative financial assets in the following categories: at fair value through profit and loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Financial assets at fair value through profit or loss are

21. Financial instruments – fair values and risk management (continued)

(a) Non-derivative financial assets (continued)

measured at fair value, and changes therein are recognized in net income. Financial assets at fair value through profit or loss are comprised of certain investments and forward exchange contracts.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables. Cash and cash equivalents comprises cash balances and short-term investments with original maturities of 90 days or less.

Held-to-maturity financial assets are debt securities for which the Company has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Held-to-maturity financial assets include certain investments held by the Company.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net income. The Company does not have any financial assets classified as available-for-sale.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The Company considers evidence of impairment for receivables and held-to-maturity financial assets at both a specific asset and collective level. All individually significant receivables and held-to-maturity financial assets are assessed for specific impairment. All individually significant receivables and held-to-maturity financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity financial assets that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity financial assets with similar risk characteristics.

In assessing for impairment at the collective level, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for Management's judgement for current economic and credit conditions.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income for the period and reflected in an allowance against receivables. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to net income. The cumulative loss that is removed from other comprehensive income and recognized in net income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in net income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

21. Financial instruments – fair values and risk management (continued)

(b) Non-derivative financial liabilities

The Company classifies its financial liabilities as other financial liabilities.

The Company initially recognizes debt issued on the date that it is originated. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company's non-derivative financial liabilities consist of long-term debt, the revolving credit facility as well as accounts payable and accrued liabilities. These financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(c) Derivative financial instruments

The Company may enter into derivative financial instruments (foreign currency forward contracts) in order to mitigate its exposure to foreign exchange risk. The Company's policy is not to use derivative financial instruments for trading or speculative purposes. These instruments have not been designated as hedges for accounting purposes, and they are carried on the statement of financial position at fair value with changes in value being recognized as gains or losses within sales in net income for the period.

Embedded derivatives are separated from the host contract and accounted for separately if (i) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (iii) the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in net income.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

21. Financial instruments – fair values and risk management (continued)

Supporting information

(d) *Accounting classifications and fair values*

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying Amount					Fair Value			
December 31, 2015	Held to maturity	Designated at fair value	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Investments	$ 5.1	$ -	$ -	$ -	$ 5.1	-	5.1	-	$ 5.1
	$ 5.1	$ -	$ -	$ -	$ 5.1				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 9.4	$ -	$ 9.4				
Trade and other receivables	-	-	75.0	-	75.0				
	$ -	$ -	$ 84.4	$ -	$ 84.4				
Financial liabilities measured at fair value									
Foreign currency forward contracts	$ -	$ 0.3	$ -	$ -	$ 0.3	-	0.3	-	$ 0.3
	$ -	$ 0.3	$ -	$ -	$ 0.3				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 97.4	$ 97.4				
Long-term debt (Note 10)	-	-	-	63.2	63.2				
	$ -	$ -	$ -	$ 160.6	$ 160.6				
December 31, 2014									
Financial assets measured at fair value									
Investments	$ 5.0	$ -	$ -	$ -	$ 5.0	-	5.0	-	$ 5.0
	$ 5.0	$ -	$ -	$ -	$ 5.0				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 1.8	$ -	$ 1.8				
Trade and other receivables	-	-	65.6	-	65.6				
	$ -	$ -	$ 67.4	$ -	$ 67.4				
Financial liabilities measured at fair value									
Foreign currency forward contracts	$ -	$ 0.3	$ -	$ -	$ 0.3	-	0.3	-	$ 0.3
	$ -	$ 0.3	$ -	$ -	$ 0.3				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 76.3	$ 76.3				
Long-term debt (Note 10)	-	-	-	73.0	73.0				
	$ -	$ -	$ -	$ 149.3	$ 149.3				

(e) *Financial risk management*

The use of financial instruments exposes the Company to credit risk, liquidity risk, and market risk. Other than as described below, Management does not consider the risks to be significant to the Company.

The Board of Directors has oversight responsibility for the Company's risk management framework. The Company identifies, analyzes and actively manages the financial market risks associated with changes in foreign exchange rates, interest rates and commodity prices. Western has established risk management policies and controls to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor risks and adherence to limits. Currently, the Company is only engaged in foreign exchange forward contract activities.

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

21. Financial instruments – fair values and risk management (continued)

(e) Financial risk management (continued)

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet is contractual obligations and arises principally from the Company's receivable from customers, and cash and cash equivalents. The carrying amount of the Company's financial assets represents the maximum credit exposure.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, Management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The Company has determined that there is no concentration of credit risk either geographically or by counterparty.

Sales transactions are made through the extension of credit to customers and are recorded at the point in time the sale is recognized. Accordingly, fluctuations in collectability may affect the carrying value of the underlying accounts receivable. Management balances the credit risk through rigorously and continually reviewing customer credit profiles. The Company has established policies and controls to review the creditworthiness of new customers, including review of credit ratings. The Company's general practice is to insure substantially all North American lumber receivables for 90% of value with the Export Development Corporation or Coface Canada, while substantially all sales outside of North America are sold on either a cash basis or with secured instruments, which reduces the Company's exposure to bad debts.

The Company regularly reviews the collectability of accounts receivable and makes provisions where the collectability is uncertain. Historically the Company's bad debts have been minimal and as at December 31, 2015, the Company had an allowance for doubtful customer accounts of nil (December 31, 2014: $0.1 million).

The aging of trade and other receivables at the reporting date that were not impaired was as follows:

	December 31, 2015		December 31, 2014	
	Gross value	Impairment	Gross value	Impairment
Not past due	$ 71.0	$ -	$ 55.8	$ -
Past due, 0 - 30 days	3.9	-	9.8	-
Past due, 31 - 120 days	0.1	-	0.1	0.1
Past due, 120 - 365 days	-	-	-	-
More than 1 year	-	-	-	-
	$ 75.0	$ -	$ 65.7	$ 0.1

The Company held cash and cash equivalents of $9.4 million at December 31, 2015 (December 31, 2014: $1.8 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held at highly rated financial institutions and as such, the Company does not believe that these are exposed to significant credit risk.

(ii) Interest rate risk

The Company is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. Based on the Company's debt structure at December 31, 2015, a change of 1% in interest rates would have increased or decreased annual net income by approximately $0.8 million (2014: $0.9 million). The Company does not currently use derivative instruments to reduce its exposure to interest rate risk.

(iii) Currency risk

Certain of the Company's sales transactions are denominated in foreign currencies, principally, the USD and Japanese Yen ("JPY"), and accordingly the Company is exposed to currency risk associated with changes in foreign exchange rates. To assist in managing this exchange risk, the Company sells forward contracts with a maximum term for each transaction of up to one year. The Company does not consider the credit risk associated with the counterparty risk to be significant.

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

21. Financial instruments – fair values and risk management (continued)

(e) Financial risk management (continued)

(iii) Currency risk (continued)

During 2015, the Company entered into forward contracts to sell USD and JPY in order to mitigate a portion of the foreign currency risk. At December 31, 2015, the Company had outstanding obligations to sell an aggregate USD$20.0 million at an average exchange rate of CAD$1.38 per USD with maturities through January 22, 2016, and to sell JPY 775.0 million at a rate of JPY 90.02 per CAD with maturities through February 29, 2016.

All foreign currency gains and losses to December 31, 2015 have been recognized in sales in the consolidated statement of comprehensive income and the fair value of these instruments at December 31, 2015 was a net liability of $0.3 million which is included in accounts payable and accrued liabilities on the consolidated statement of financial position (December 31, 2014: $0.3 million). A net loss of $7.1 million (2014: net loss of $1.8 million) was recognized in sales in the consolidated statement of comprehensive income on the change in fair values of the foreign exchange contracts. An increase (decrease) of 1% in the value of the CAD as compared to the JPY would result in a gain (loss) of approximately $0.1 million in relation to the JPY Yen/CAD foreign exchange contracts held at December 31, 2015. An increase (decrease) of 1% in the value of the CAD as compared to the USD would result in a gain (loss) of approximately $0.3 million in relation to the USD foreign exchange contracts held at December 31, 2015.

Certain receivable balances at December 31, 2015 are denominated in foreign currencies, principally, the USD. Accordingly, fluctuations in foreign exchange rates may affect the carrying value of the underlying accounts receivable. As of December 31, 2015, the Company's accounts receivable denominated in USD totaled USD$22.4 million. An increase (decrease) in the value of the Canadian dollar by USD$0.01 would result in a decrease (increase) in USD denominated accounts receivable at year end of approximately $0.4 million. In addition, as at December 31, 2015, the Company had a total of USD$1.1 million in USD denominated cash and cash equivalents. An increase (decrease) in the value of the Canadian dollar by USD$0.01 would result in an immaterial change to USD denominated cash and cash equivalents at year end.

(iv) Commodity price risk

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements and such contracts are not settled net.

(v) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Management mitigates any liquidity risk associated with the subsequent payment of liabilities through the continual monitoring of expenditures and forecasting of liquidity resources. The Company maintains a revolving credit facility that can be drawn down to meet short-term financing and liquidity needs.

As at December 31, 2015, the Company had $168.5 million (December 31, 2014: $132.6 million) available under its credit facility and revolving term loan. The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	2 - 3 years	4 - 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 97.7	$ 97.7	$ 97.7	$ -	$ -	$ -	$ -
Revolving credit facility	-	1.0	0.5	0.5	-	-	-
Revolving term loan	63.2	71.2	1.0	1.0	4.1	65.1	-
	$ 160.9	$ 169.9	$ 99.2	$ 1.5	$ 4.1	$ 65.1	$ -

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

22. Finance Costs

Accounting policy

Finance costs comprise interest expense on long-term debt and the revolving credit facility, amortization of deferred financing costs, unwinding of the discount on the silviculture provision, changes in the fair value of investments recognized immediately through net income and net interest on the net defined benefit plan obligation. All finance costs are recognized in net income during the period using the effective interest method with the exception of the net interest on the net defined benefit obligation, which is recognized as described in Note 20.

Supporting information

	Year ended December 31, 2015	Year ended December 31, 2014
Long-term debt	$ 2.1	$ 3.1
Net interest - defined benefit plan obligation	1.3	0.8
Revolving credit facility	0.9	0.9
Amortization of deferred financing costs	0.4	0.5
Unwind of discount on provisions	0.2	0.3
Other	0.1	0.1
	$ 5.0	$ 5.7

23. Operating restructuring items

Operating restructuring items of $4.3 million in 2015 includes $0.7 million relating to additional ongoing costs associated with the closure of the Nanaimo sawmill in 2014. The remaining operating restructuring costs reflect costs including those expenses resulting from the consolidation of the Central Island forest operations during the year.

Operating restructuring items for 2014 of $10.8 million related to the closure of the Nanaimo sawmill, restructuring the Company's Japan division, the arbitrated settlement of a union grievance issue relating to the 2011 curtailment of the Duke Point and Nanaimo sawmills, and other unrelated severance costs.

24. Discontinued operations

Accounting policy

A discontinued operation is a component of Western's business, the operations and cash flows of which can be clearly distinguished from the rest of Western and which:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

Supporting information

In March 2006, the Company closed its Squamish pulp mill located on 212 acres on the mainland coast of British Columbia and exited the pulp business. Subsequent to the closure, the Company sold substantially all of the manufacturing assets of the mill. Ongoing costs including supervision, security and property taxes have been expensed as incurred.

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

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

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

24. Discontinued operations (continued)

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

	Year ended December 31, 2015	Year ended December 31, 2014
Net income from discontinued operations	$ 9.1	$ -
Cash provided by discontinued operations	$ 20.9	$ (0.3)

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

25. Related parties

Accounting policy

Key management personnel are the Company's directors and executive officers as disclosed in its 2015 and 2014 Annual Reports as applicable.

Supporting information

Compensation of key management personnel

The key management personnel of the Company include the executive management team and members of the Board of Directors. Key management personnel compensation comprised:

	Year ended December 31, 2015	Year ended December 31, 2014
Salaries, directors' fees and short-term benefits	$ 5.8	$ 6.5
Post-employment benefits	0.2	0.3
Share-based payments	2.1	2.2
	$ 8.1	$ 9.0

At December 31, 2015, $4.1 million of key management compensation costs were included in accounts payable and accrued liabilities (December 31, 2014: $3.8 million).

26. Expense categorization

Expenses by function:

	Year ended December 31, 2015	Year ended December 31, 2014
Administration	$ 18.3	$ 23.8
Distribution expenses	99.8	95.2
Cost of goods sold	880.8	840.5
	$ 998.9	$ 959.5

Costs by nature:

	Year ended December 31, 2015	Year ended December 31, 2014
Compensation costs	$ 219.9	$ 214.4
Amortization in cost of goods sold	30.7	29.4
Amortization in selling and administration	0.2	0.2
	$ 250.8	$ 244.0

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