Western Forest Products Inc.

2014 First Quarter Report

Western Forest Products Inc.

Letter to Shareholders

To Our Shareholders,

The safety and security of our employees has always been, and will continue to be, our highest priority. Safety has taken on a different meaning for us following the tragedy that occurred at our Nanaimo sawmill on April 30, 2014. As reported in the news, four Western employees were shot, two fatally, at the sawmill. A suspect has been arrested and is now facing criminal charges. Western is caring for the families impacted by this tragedy and providing counselling services to help our employees and their families cope during this extremely difficult time.

We are now working closely with our colleagues in the United Steel Workers Union to review the security of our workplaces with a plan to make changes where necessary. The loss of two colleagues has been devastating; however, the tremendous support we have received from our customers, business partners and the communities on Vancouver Island has reaffirmed for everyone at Western that we are a strong and resilient Company.

Turning to our financial results, Western achieved a successful first quarter of 2014. Our adjusted EBITDA of $32.8 million is a first quarter record for our Company and our safety performance was the best quarterly result ever. Our positive results were supported by the implementation of key components of our 2014 business plan, including increasing log purchases which delivered additional lumber production, and further refining of our product lines.

First quarter 2014 financial highlights:

- Adjusted EBITDA of $32.8 million, 34% higher than the last quarter and 3% better than last year.
- Revenue of $246 million, a 5% improvement from the same period last year.
- Liquidity grew to $144 million from $126 million at the end of 2013.

First quarter 2014 operational successes compared against the same period last year:

- Increased sawlog purchase volume by 54%.
- Increased lumber production by 18 Mmfbm (or 8%) to 237 Mmfbm.
- Increased mill productivity by 5%.
- Delivered an additional $4.4 million in margin improvement.

In addition to delivering robust financial and operation results, Western completed the remaining steps to establish a single class of common shares, with the successful closing of the third secondary offering by Brookfield Special Situations. Our public float now comprises 65% of the ownership of the Company, and the average daily trading volume of our shares has more than tripled in the last year. We also maintained our balanced capital approach by continuing our quarterly dividend of $0.02 per share.

Market update:

Our long-term global market outlook remains very positive. In spite of short-term turbulence in the global lumber market, prices generally remain above trend.

- The gradual recovery in the U.S. new home construction market is expected to continue. Despite a slow start to 2014, due to the prolonged winter and the lingering impact of supply chain disruptions, we look for the market to continue to deliver year over year gains.

- The Japanese market should continue to be supported by government initiatives to expand domestic demand. Seasonal weakness, higher inventories and the impact of the increase in the consumption tax are forecast to give way to improved demand as we move through the year.
- Demand for lumber in China appears strong, supported by government investments in infrastructure and urban housing. The current market is being impacted by higher log inventories and the effects of the Port of Vancouver dock strike, which disrupted lumber deliveries. We anticipate current inventory and supply chain issues to be resolved by the end of the third quarter.

Business strategy:

Western continues to make strategic capital investments in our operating platform. I am pleased to report that our Board of Directors has approved an additional $6.7 million investment in our Duke Point sawmill, which will allow us to improve productivity and enable us to consolidate the production of specialty product lines. By year-end, our investments at Duke Point will amount to more than $8 million and will be completely operational. We also continue to make progress implementing sector-leading auto-grading technology at Alberni Pacific, where more than 75% of our planer product lines are now being graded with the auto-grader. In the third quarter of 2014, we plan to install new auto-log rotation equipment at our Cowichan Bay sawmill and begin installation of the new log in-feed system at our Saltair sawmill, both of which will deliver improved mill productivity.

Western continues to be a safety leader in our industry. Our positive results are enabling us to gain greater traction in developing mutually beneficial safety solutions for our timberlands contractors in our timberlands operations. In our manufacturing operations, we remain committed to working with the industry and WorkSafeBC on the management of sawmill dust. Previously implemented procedures and standards are working well, as are our engineered solutions. Throughout this process, the safety of our employees will remain our highest concern.

I want to thank our shareholders for your ongoing support and the confidence you continue to demonstrate in the future growth and ongoing success of Western Forest Products.

Sincerely,

*"Don Demens"*________________

Don Demens
President and CEO
Western Forest Products

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 ended March 31, 2014 to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements for the three months ended March 31, 2014 and the audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2013 (the "2013 Annual Report"), all of which can be found on SEDAR at www.sedar.com.

The Company has prepared the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2014 in accordance with IAS 34, *Interim Financial Reporting*, and these do not include all of the information required for full annual financial statements.

Reference is made in this MD&A to adjusted EBITDA[1]. Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expenses), plus amortization of property, plant, equipment and intangible assets, impairment adjustments, and changes in fair value of biological assets. Western uses adjusted EBITDA as a benchmark measurement of our own operating results and as a benchmark 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 is 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 IFRSs 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 is not a measure of financial performance under IFRSs, and should not be considered as an alternative to measures of performance under IFRSs. Moreover, because all companies do not calculate adjusted EBITDA in the same manner, adjusted EBITDA as calculated by Western may differ from adjusted EBITDA as 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 IFRSs; however, they are meaningful in that they indicate the Company's ability to meet their obligations on an ongoing basis, and indicate whether the Company is more or less leveraged than the prior periods.

This MD&A contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. Those statements and information appear in a number of places in this document and include statements and information regarding our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives and strategies. Such statements and information may be indicated by words such as "estimate", "expect", "anticipate", "plan", "intend", "believe", "should", "may" and similar words and phrases. Readers are cautioned that it would be unreasonable to rely on any such forward-looking statements and information as creating any legal rights, and that the statements and information are not guarantees and may involve known and unknown risks and uncertainties, and that actual results and objectives and strategies may differ or change from those expressed or implied in the forward-looking statements or information as a result of various factors. Such risks and uncertainties include, among others: general economic conditions, competition and selling prices, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, regulations or public policy, misjudgments in the course of preparing forward-looking statements or information, changes in opportunities and other factors referenced under the "Risk Factors" section in our MD&A in the 2013 Annual Report. All written and oral forward-looking statements or information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, Western does not expect to update forward-looking statements or information as conditions change.

Unless otherwise noted, the information in this discussion and analysis is updated to May 7, 2014. Certain prior period comparative figures have been reclassified to conform to the current period's presentation. All financial references are in millions of Canadian dollars unless otherwise noted.

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

Summary of Selected Quarterly Results[1]

(millions of dollars except per share amount)	Three months ended March 31, 2014		Three months ended March 31, 2013	
Revenue	$	246.0	$	233.8
Adjusted EBITDA		32.8		31.9
Adjusted EBITDA as % of revenue		13.3%		13.6%
Operating income prior to restructuring items and other income (expense)		24.9		24.6
Net income from continuing operations		23.6		23.1
Net income for the period		23.6		22.8
Basic and diluted earnings per share (in dollars)	$	0.06	$	0.05

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

Overview

Western reported adjusted EBITDA of $32.8 million for the first quarter of 2014, a 3% improvement over the same period last year, but a 34% improvement over the previous quarter and a record first quarter result for the Company. Improved product prices, increased lumber production and a weaker Canadian dollar (”CAD”) contributed to our improved performance. These record results were achieved despite challenging winter logging conditions and a disruption to our supply chain caused by the Port of Vancouver dock strike which negatively impacted lumber shipments.

First quarter 2014 average realized prices for our lumber products were 9% better than the first quarter a year ago. Our lumber pricing was supported by shifting production to higher margin products and by a favourable exchange rate. In contrast, the commodity benchmark Western Spruce/Pine/Fir Kiln Dried 2x4 #2&Btr (“SPF”) price in CAD terms was 3% higher in the first quarter of 2014 compared to the same period last year. To take advantage of strong lumber markets we increased log purchases by 54% from the same quarter a year earlier, allowing us to increase lumber production.

Prices for logs that we sold improved 7% in the first quarter of 2014 compared to the first quarter last year, as demand for both domestic and export markets improved. We reduced the percentage of pulp log sales from 24% of our total log sales in the first quarter of 2013 to 14% in the first quarter of 2014, which contributed to us achieving increased average log prices in the current quarter.

Strong production results from our sawmills helped increase our total revenue to $246.0 million for the first quarter of 2014, an increase of $12.2 million, or 5%, over the first quarter of 2013. Primary sawmill production was 10% higher than in the same period last year. Production improvements were achieved by a 5% increase in our mill productivity level, as measured on a production per shift basis, and by operating 4% more shifts this quarter compared to the first quarter last year. Logging costs in the first quarter of 2014 increased over those in the same period last year as a result of increased stumpage rates, the mix impact of harvesting more costly areas, and an increase in logging contractor rates.

Net income for the first quarter of 2014 was $23.6 million, or $0.06 per share, slightly ahead of the net income of $22.8 million, or $0.05 per share, a year earlier, and a decrease of $26.3 million from the net income in the previous quarter. The fourth quarter 2013 results included the recognition of a $26.5 million deferred tax asset associated with our available tax losses.

Our liquidity position remains strong. At March 31, 2014, we had total liquidity of $144.3 million, compared to $125.9 million at the end of 2013. The increased liquidity in the first quarter of 2014 primarily resulted from cash generated by operations.

Our strategic capital plan continues to progress in accordance with expectations. The final phase of our Saltair sawmill project, which involves the installation of a new log in-feed, will commence during the third quarter of 2014 and is expected to be complete by the end of the year. The Cowichan Bay log quad auto-rotation project is expected to be installed and completed early in the third quarter of 2014, and we expect full benefits from the project to commence by the end of the third quarter. The first phase of the Duke Point sawmill retrofit has commenced and is scheduled to be complete by the end of the second quarter of 2014, and our Board recently approved an additional $6.7 million investment at the mill to increase productivity and consolidate production with a focus on improved margin. The Alberni Pacific sawmill autograder is installed and operating above expectations. We are currently evaluating other mills for similar autograder installations.

During the first quarter of 2014, our margin improvement plan program contributed a further $4.4 million in annualized margin enhancements. These benefits mainly relate to improvements in product mix to create higher margins at our sawmills, along with timberlands, logistics, procurement and certain other corporate initiatives.

On January 31, 2014, the remaining 39,050,597 Non-Voting Shares of the Company were converted, on a one-for-one basis, into Common Shares of the Company, leaving Western with a single class of common shares. Brookfield Special Situations Management Limited ("BSSML"), held 138,442,610 Common Shares as at March 31, 2014, representing 35.3% of the total issued and outstanding Common Shares of Western.

In the first quarter of 2014 we continued our dividend program, paying $0.02 per share to shareholders on March 21, 2014.

Operating Results

(millions of dollars)	Three months ended March 31, 2014	Three months ended March 31, 2013
Revenues		
Lumber	$ 173.9	$ 157.0
Logs	55.2	63.2
By-products	16.9	13.6
Total revenues	246.0	233.8
Adjusted EBITDA	32.8	31.9
Adjusted EBITDA as % of revenues	13.3%	13.6%

Adjusted EBITDA of $32.8 million for the first quarter of 2014 compares to $31.9 million reported in the same quarter last year and to $24.4 million in the fourth quarter of 2013. The increase in adjusted EBITDA compared to the same quarter a year ago primarily reflects increased lumber production, improved prices for our products and the beneficial impact on our revenues of the weakening of the CAD against the US dollar ("USD"). Partially offsetting these gains were increased logging costs and an unfavourable lumber sales mix compared to the first quarter 2013. The CAD was, on average, 9% weaker relative to the USD during the first quarter of 2014 compared to the first quarter of last year, which had a beneficial impact on our revenue, as approximately 50% of our sales are denominated in USD.

Lumber revenue in the first quarter of 2014 was $173.9 million, 11% higher than in the first quarter of 2013. This increase was driven principally by higher realized prices combined with a 2% increase in shipment volume. Our average realized price for lumber during the first quarter of 2014 was $65 per thousand board feet, or 9%, higher than in the first quarter of 2013. This reflects actual price increases for our Western Red Cedar ("WRC"), Douglas fir and hemlock/fir, and the benefit of exchange on USD denominated sales, partially offset by a lower value mix of our sales as we sold proportionately more volume of lower value commodity product in the first quarter this year compared to 2013. Benchmark SPF prices were, on average, 6% lower in the first quarter of 2014 compared to a year ago in USD terms, but when the impact of exchange is included, our realized price of SPF in CAD terms shows an increase of 3%.

Log revenue in the first quarter of 2014 was $55.2 million, a decline of $8.0 million, or 13%, from the first quarter of 2013. The benefits of increased log pricing in the first quarter of 2014 over the same quarter a year ago were more than offset by the impact of a decline in the volume of log shipments this quarter, as well as an adverse product mix change over the respective quarters. Log sale volumes declined by 111,000 cubic metres, or 16%, in the first quarter of this year compared to the same quarter last year. The reduction in our volumes sold is mainly the result of lower harvest levels and increased internal consumption over the respective quarters. Log market demand remained strong in the first quarter of 2014 and log supply on the Coast continued to be tight, leading to higher prices compared to the first quarter of 2013. The overall average price of logs sold in this quarter was $6 per cubic metre, or 7%, higher than last year. This price was negatively impacted by an unfavourable change in the mix of our log sales. While we sold proportionately fewer pulplogs as a result of our strategy to upgrade pulp logs into sawlogs, we also sold less export and peeler logs, and more utility and hemlock logs in the current quarter compared to the same quarter in 2013.

By-products revenue in the first quarter of 2014 was $16.9 million, or $3.3 million higher than in the same period in 2013. This increase was the result of 21% higher average realized chip prices this quarter, combined with a 6% increase in the volume of chips sold compared to the first quarter of 2013. In general, chip prices are tied by a formula to the market price of pulp, and for the first quarter of 2014 pulp prices were 21% higher than for the first quarter of 2013 which positively impacted chip pricing. The increase in chip volume available for sale is attributable to higher production levels in our sawmills, and the redirection of fibre previously sold or consumed in contract facilities, from which we receive no chips.

Freight costs in the first quarter of 2014 were $18.7 million, which was $0.7 million less than those incurred in the first quarter of 2013. The reduction reflects lower log shipment costs, partially offset by higher lumber freight costs. Log shipment costs were $1.4 million lower as fewer shipments were made during the first quarter of 2014 with terms under which Western was responsible for the freight costs, compared to the same quarter in 2013. Our freight costs for lumber increased because of the detrimental impact of the strengthening USD relative to the CAD, as the majority of our freight costs are denominated in USD. Partially offsetting this was the beneficial effect of a favourable change in the geographic mix of our shipments, since we shipped relatively less lumber overseas compared to domestic North American markets in the current quarter.

Primary sawmill production for the first quarter of 2014 was 209 mmfbm, 10% higher than during the first quarter of 2013. The increased production level was achieved by operating 4% more shifts this year combined with a 5% increase in our mill productivity level, as measured on a production per shift basis. The increased production was mainly achieved at our Saltair and Cowichan Bay sawmills, with Saltair increasing because of productivity improvements following the capital program completed in 2013, and additional shifts being run at Cowichan Bay due to increased log supply availability.

The total log harvest for the current quarter was 1.3 million cubic metres, which was 6% lower than the harvest in the first quarter of 2013. This reduction is primarily the result of adverse weather conditions experienced in February, 2014, whereas during the first quarter of 2013 we experienced exceptionally good weather throughout. This volume reduction contributed to an increase in our fixed per unit costs of harvest production. Our overall harvest costs were higher in the first quarter of 2014 compared to the first quarter last year as a result of increased heli-logging activity, construction of more spur roads, increased logging in higher cost harvesting blocks and operations, and higher stumpage rates. Our helicopter logging in the current quarter was almost three times as high as the first quarter in 2013, but associated margins increased as higher value logs are accessed. We invested $2.0 million more on spur road construction in the current quarter compared to the same quarter in the prior year as more roads were built.

Selling and administration expenses in the first quarter of 2014 were $9.8 million, $1.8 million higher than the same quarter in 2013. The increase is largely because of higher performance related compensation. As a percentage of revenues our selling and administration costs were 4.0% for the first quarter of 2014, an increase from the 3.4% reported in first quarter of 2013.

Finance costs

Finance costs in the first quarter of 2014 were $1.6 million, which was $0.4 million higher than the same quarter of 2013. This increase was primarily the result of higher outstanding debt levels on our revolving term loan facility during the current quarter, which averaged $89.8 million, compared to $16.8 million during the first quarter of 2013. Partially offsetting this increase was the impact of lower interest rates and lower finance costs associated with our defined benefit pension plan in the first quarter of this year compared to the same quarter last year.

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.

For the first quarter of 2014, we incurred no net expense for the site as revenue from selling hydro-electric power generated at the site offset our costs.

Closing of the previously announced sale of this site is progressing satisfactorily, with required remediation work on schedule, and we anticipate receiving net proceeds from the sale and remediation of approximately $18.0 million.

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

Financial Position and Liquidity

	Three months ended March 31,	
(millions of dollars except where noted)	2014	2013
Cash provided by operating activities	$ 20.4	$ 32.1
Cash used in investing activities	(8.2)	(11.0)
Cash used in financing activities	(8.1)	(29.7)
Cash used to construct capitalized logging roads	(3.4)	(2.4)
Cash used to acquire property, plant and equipment	(4.8)	(8.6)

	March 31, 2014	December 31, 2013
Total liquidity [(1)]	$ 144.3	$ 125.9
Net debt [(2)]	78.9	82.9
Financial ratios:		
Current assets to current liabilities	2.33	2.34
Net debt to capitalization [(3)]	0.17	0.18

(1) Total liquidity comprises cash and cash equivalents and available credit under the Company's revolving credit facility and revolving term loan.
(2) Net debt is defined as the sum of long-term debt, current portion of long-term debt, revolving credit facility, less cash and cash equivalents (show as nil if net cash).
(3) Capitalization comprises net debt and shareholders equity

Cash provided by operating activities in the first quarter of 2014 amounted to $20.4 million, compared to $32.1 million provided in the first quarter of 2013. The decline resulted largely from an increase in the funds used in working capital this quarter, particularly the relative movement in inventory levels over the respective quarters. Inventories increased by $13.9 million during the first quarter of 2014 compared to a reduction by $1.3 million in the first quarter of 2013. Most of this increase is due to higher lumber inventory volumes over the same quarter in 2013. Lumber inventories were negatively impacted by supply chain disruptions which trapped a significant volume of high value lumber shipments in containers at various Vancouver area docks.

Cash of $8.2 million was used in investing activities in the first quarter of 2014, compared to $11.0 million invested in the same quarter a year ago. Investing activities in the first quarter of 2014 comprised of strategic capital investments of $0.9 million, and maintenance spending on capital roads of $3.4 million and other maintenance projects of $3.9 million. The strategic capital invested related to our Alberni Pacific sawmill auto-grading project. Our strategic capital program is discussed more fully in the "Strategy and Outlook" section.

Financing activities in the first quarter of 2014 used cash of $8.1 million compared to $29.7 million in 2013. During the first quarter of 2014, Western paid a dividend to shareholders of $0.02 per share, totaling $7.8 million. In the first quarter of 2013, $29.0 million was repaid on the revolving term loan facility, but a dividend was not paid in that quarter, as the program commenced in the third quarter of 2013.

At March 31, 2014, we had total liquidity of $144.3 million, compared to $125.9 million at the end of 2013. The increased liquidity in the first quarter of 2014 was primarily from surplus cash generated by operations. Liquidity is comprised of cash of $9.7 million, unused availability under the secured revolving credit line of $114.4 million, and $20.2 million under the revolving term loan.

Strategy and Outlook

Western's business plan for 2014 continues to be based on growing product margins. The strategy, which is designed to maximize product margins while prudently increasing our sales volume, continued to progress during the first quarter of 2014. Key operational priorities for the strategy in 2014 include:

- Increasing log availability through improved utilization and accessing more volume on the open market
- Improving productivity through increased machine utilization efficiencies
- Rationalizing our lumber marketing programs by mill to drive higher margins

As log and lumber markets continue to improve, we will look to further increase margins as we utilize our flexible manufacturing base to refine our product mix.

Market Outlook

The pace of new home construction in the US during the first quarter of 2014 has been slower than expected. The severe winter left the pace of US home construction flat quarter over quarter, reducing lumber demand across North America. Poor weather, coupled with supply chain disruptions, including the Vancouver port trucker strike and the lack of railcar availability, has negatively impacted shipment volumes across the industry. In the medium term, we expect growth in the US new home construction segment and continued growth in demand for forest products in China. In the longer-term, constrained supply due to BC's mountain pine beetle infestation and reduced allowable cut levels from eastern Canada, along with an increase in worldwide demand for lumber, are expected to lead to improved pricing for logs and lumber.

Higher sawmill lumber inventories due to the above mentioned supply chain disruptions and a slow start to the US home building season have resulted in the commodity benchmark SPF price declining by 7% from the beginning of the year, in USD terms. We are optimistic that the normal seasonal increase in lumber consumption will occur later this spring, absorbing current excess mill inventories built during the first quarter of 2014. Our realized pricing for commodity lumber in the first quarter of 2014 increased year-over-year, but general softness in commodity lumber prices will limit our ability to improve pricing in the second quarter of 2014.

Demand in China is expected to remain strong due to additional government infrastructure and urban housing investments over the medium term. However, current market inventories of both logs and lumber in China are relatively high and it will take some time to clear the backlog.

Our first quarter WRC lumber sales results appear to confirm that the demand for cedar products has increased over 2013 levels, and the cedar market remains undersupplied heading into the prime building season. As weather improves in the US, the combination of increased seasonal demand and tight inventories supports our view that WRC prices will continue to improve. Despite the softening benchmark SPF pricing, we do not anticipate having to pay export duties in the second quarter.

As expected, the Japanese market is being impacted by a combination of seasonal weakness and reduced demand due to the increase in the consumption tax. Housing construction, which accelerated in 2013, driven by government stimulus and the pending introduction of the new consumption tax, has slowed. Inventory levels have increased, causing buyers to slow purchasing, putting downward pressure on prices. We expect that this uncertainty will last through the second quarter of 2014 until inventories come into balance by mid-year, after which prices are expected to firm up for the balance of 2014.

Niche lumber markets continue to improve heading into the second quarter of 2014, with our sales volumes expected to exceed 2013 levels. Our moulding and millwork business is strengthening, as demand from the US renovation market continues to rebound and as we develop new markets in China. Our specialty timber business in North America is also expected to improve as the civil construction market moves into its prime consumption season.

Demand remained strong in both export and domestic log markets during the first quarter of 2014. We anticipate export prices to weaken by up to 5% due to higher inventories in China. Strong demand continues to support domestic log values particularly in cedar sawlogs and shingle logs, while the pulplog market remains static. Market fundamentals for pulplogs are expected to improve marginally over the second half of 2014, and we continue to maximize sawlog production from pulp log sorts to increase our margins.

Strategic Capital Plan Update

The final phase of our Saltair sawmill project, which involves the installation of a new log in-feed, will commence during the third quarter of 2014 and is expected to be complete by the end of the year. The Cowichan Bay log quad auto-rotation project is expected to be installed and completed early in the third quarter of 2014, and we expect full benefits from the project to commence by the end of the third quarter. The first phase of the Duke Point sawmill retrofit has commenced and is scheduled to be complete by the end of the second quarter of 2014. The second phase, which comprises a $6.7 million investment to improve productivity and consolidate production with a focus on improved margin, has now been approved. The Alberni Pacific sawmill autograder is installed and operating above expectations. We are currently analysing certain other mills for similar autograder installations.

New accounting policies

New standards and interpretations not yet adopted

The following amended IFRS standards are not yet effective for the year ended December 31, 2013 and have not been applied in preparing these consolidated financial statements:

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

  IFRS 9 is tentatively 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.

- *Annual improvements to IFRS*

  The IASB issued narrow-scope amendments to various standards as part of its annual improvements process in December 2013. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Amendments were made to clarify the following in their respective standards:

  - Definition of "vesting condition" in IFRS 2, *Share-based payment*;
  - Disclosures on the aggregation of operating segments in IFRS 8, *Operating segments*;
  - Measurement of short-term receivables and payables, and scope of portfolio exception in IFRS 13, *Fair Value Measurement*;
  - Restatement of accumulated depreciation (amortization) on revaluation in IAS 16, Property, Plant and Equipment and IAS 38, *Intangible Assets*; and,
  - Definition of "related party" in IAS 24, *Related Party Disclosures*.

  The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

The following new IFRSs became effective on January 1, 2014. However, they do not have a material impact on the annual consolidated financial statements of the Company:

- IAS 32, *Offsetting Financial Assets and Liabilities*
- IFRIC 21, *Levies*

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2013 Annual Report which can be found on SEDAR, at www.sedar.com. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business.

Related Parties

By virtue of the Brookfield Asset Management Inc. ("BAM") voting arrangements with BSSML, BAM is related to the Company. Western has certain arrangements with entities related to BAM to acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire other services including insurance, the provision of a foreign exchange facility all in the normal course and at market rates or at cost. During the first quarter of 2014, the Company paid entities related to BAM $6.3 million, and received income from related entities of $5.1 million in connection with these arrangements.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109 issued by the Canadian Securities Administrators, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and internal controls over financial reporting based on the 1992 framework: "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, 2013. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the interim filings are being prepared.

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 first quarter of 2014.

Outstanding Share Data

As of May 7, 2014, there were 391,848,407 Common Shares issued and outstanding. BSSML controls and directs 35.3% of the Company's Common Shares. If the remaining unexercised Warrants are exercised prior to expiry on July 31, 2014, BSSML ownership will decline to 29.1%. There were no Non-Voting Shares issued and outstanding at May 7, 2014.

Western has reserved 20,000,000 Common Shares for issuance upon the exercise of options granted under the Company's incentive stock option plan. During the first quarter of 2014, 2,300,000 options were granted and 720,000 options were exercised. As of May 7, 2014, 14,596,795 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)	2014	2013				2012		
	1st	4th	3rd	2nd	1st	4th	3rd	2nd
Average Exchange Rate – Cdn $ to purchase one US $	1.103	1.049	1.039	1.023	1.008	0.991	0.996	1.010
Revenues								
Lumber	173.9	168.1	171.7	180.4	157.0	156.1	147.3	163.8
Logs	55.2	59.7	53.9	67.0	63.2	62.9	58.5	73.0
By-products	16.9	14.2	13.8	14.9	13.6	12.2	13.6	14.6
Total revenues	246.0	242.0	239.4	262.3	233.8	231.2	219.4	251.4
Lumber								
Shipments – millions of board feet	218	222	228	231	214	222	218	234
Price – per thousand board feet	798	758	752	782	733	703	676	700
Logs								
Shipments – thousands of cubic metres	581	697	615	765	692	835	876	1,020
Price – per cubic metre (1)	95	84	83	84	89	73	65	69
Selling and administration	9.8	8.8	8.2	8.0	8.0	6.8	6.8	7.3
Adjusted EBITDA	32.8	24.4	27.6	44.9	31.9	14.3	8.5	18.8
Amortization	(7.7)	(7.0)	(7.5)	(7.9)	(6.8)	(5.9)	(6.2)	(6.9)
Changes in fair value of biological assets	(0.2)	(0.7)	(0.3)	(0.8)	(0.5)	(0.3)	0.4	(0.4)
Reversal of impairment	-	8.2	-	-	-	12.9	-	-
Operating restructuring items	(0.1)	(0.1)	(0.3)	(0.1)	(0.2)	(4.2)	(0.2)	(0.4)
Finance costs	(1.6)	(1.7)	(1.7)	(0.8)	(1.2)	(1.4)	(1.4)	(1.9)
Other income (expenses)	0.2	(0.1)	(0.4)	0.7	0.1	(0.9)	1.1	1.6
Deferred income tax recovery	0.2	26.5	-	-	-	-	-	-
Current income tax recovery (expense)	-	0.4	(0.2)	(0.3)	(0.2)	-	(0.1)	-
Net income from continuing operations	23.6	49.9	17.2	35.7	23.1	14.5	2.1	10.8
Net loss from discontinued operations	-	-	-	(0.2)	(0.3)	(0.2)	(0.3)	(0.4)
Net income	23.6	49.9	17.2	35.5	22.8	14.3	1.8	10.4
Adjusted EBITDA as % of revenues	13.3%	10.1%	11.5%	17.1%	13.6%	6.2%	3.9%	7.5%
Earnings per share:								
Net income, basic	0.06	0.13	0.04	0.08	0.05	0.03	-	0.02
Net income, diluted	0.06	0.13	0.04	0.07	0.05	0.03	-	0.02
Net income from continuing operations, basic	0.06	0.13	0.04	0.08	0.05	0.03	-	0.02
Net income from continuing operations, diluted	0.06	0.13	0.04	0.07	0.05	0.03	-	0.02

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

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.

The category of "Other income (expenses)" comprises net gains on the sale of various assets and other receipts which can be unpredictable in their timing. The fourth quarters of 2013 and 2012 include reversals of an impairment of $8.2 million and $12.9 million, respectively that had previously been taken on the Company's timber licenses (intangible assets) which were unusual adjustments. The fourth quarter of 2012 included a more significant charge for restructuring as a result of Western incurring a cost of $4.0 million to reorganize harvesting operations in TFL 44 in order to improve operating performance in the future. In the fourth quarter of 2013 Western recognized a deferred income tax asset of $26.5 million with respect to unutilized operating tax losses.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and 2013

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

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 9.7	$ 5.6
Trade and other receivables	78.5	69.0
Inventory (Note 5)	146.4	132.5
Prepaid expenses and other assets	12.3	10.1
	246.9	217.2
Non-current assets:		
Property, plant and equipment (Note 6)	227.4	226.0
Intangible assets (Note 6)	129.5	130.5
Biological assets (Note 7)	58.2	58.4
Other assets	12.2	11.9
Deferred income tax assets	26.7	26.5
	$ 700.9	$ 670.5
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 94.2	$ 79.8
Silviculture provision (Note 11)	11.3	12.3
Discontinued operations (Note 16)	0.5	0.6
	106.0	92.7
Non-current liabilities:		
Long-term debt (Note 9)	88.6	88.5
Silviculture provision (Note 11)	19.0	17.7
Other liabilities (Note 10)	22.0	20.3
Deferred revenue	63.9	64.4
Discontinued operations (Note 16)	4.6	4.5
	304.1	288.1
Shareholders' equity:		
Share capital - voting shares (Note 12)	500.4	486.6
Share capital - non-voting shares (Note 12)	-	13.1
Contributed surplus	6.8	6.5
Revaluation reserve	22.3	22.3
Deficit	(132.7)	(146.1)
	396.8	382.4
	$ 700.9	$ 670.5

Commitments and Contingencies (Note 13)

See accompanying notes to these unaudited condensed consolidated interim financial statements

Approved on behalf of the Board:

"Lee Doney"
Chairman

"Don Demens"
President and CEO

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Revenue	$ 246.0	$ 233.8
Cost and expenses:		
Cost of goods sold	192.6	181.8
Freight	18.7	19.4
Selling and administration	9.8	8.0
	221.1	209.2
Operating income prior to restructuring items and other income	24.9	24.6
Operating restructuring items	(0.1)	(0.2)
Other income	0.2	0.1
Operating income	25.0	24.5
Finance costs	(1.6)	(1.2)
Income before income taxes	23.4	23.3
Deferred income tax recovery	0.2	-
Current income tax expense	-	(0.2)
Net income from continuing operations	23.6	23.1
Net loss from discontinued operations (Note 16)	-	(0.3)
Net income for the period	23.6	22.8
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial loss	(2.4)	(1.2)
Total comprehensive income for the period	$ 21.2	$ 21.6
Net income per share (in dollars):		
Basic and diluted earnings per share	$ 0.06	$ 0.05
Basic and diluted earnings per share - continuing operations	$ 0.06	$ 0.05
Weighted average number of shares outstanding (thousands)		
Basic	391,358	468,051
Diluted	399,150	472,292

See accompanying notes to these unaudited condensed consolidated interim financial statements

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

	Share Capital	Contributed Surplus	Revaluation Reserve	Deficit	**Total equity**
Balance at December 31, 2012	$ 600.0	$ 4.2	$ 22.3	$ (268.8)	$ 357.7
Net income	-	-	-	22.8	22.8
Other comprehensive loss:					
Defined benefit plan actuarial loss recognized	-	-	-	(1.2)	(1.2)
Total comprehensive income	-	-	-	21.6	21.6
Share-based payment transactions recognized in equity	-	0.4	-	-	0.4
Total transactions with owners, recorded directly in equity	-	0.4	-	-	0.4
Balance at March 31, 2013	$ 600.0	$ 4.6	$ 22.3	$ (247.2)	$ 379.7
Balance at December 31, 2013	$ 499.7	$ 6.5	$ 22.3	$ (146.1)	$ 382.4
Net income	-	-	-	23.6	23.6
Other comprehensive income:					
Defined benefit plan actuarial loss recognized	-	-	-	(2.4)	(2.4)
Total comprehensive income	-	-	-	21.2	21.2
Share-based payment transactions recognized in equity	-	0.5	-	-	0.5
Exercise of stock options	0.7	(0.2)	-	-	0.5
Dividends	-	-	-	(7.8)	(7.8)
Total transactions with owners, recorded directly in equity	0.7	0.3	-	(7.8)	(6.8)
Balance at March 31, 2014	$ 500.4	$ 6.8	$ 22.3	$ (132.7)	$ 396.8

See accompanying notes to these unaudited condensed consolidated interim financial statements

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Cash provided by (used in):		
Operating activities:		
Net income from continuing operations	$ 23.6	$ 23.1
Items not involving cash:		
Amortization of property, plant and equipment (Note 6)	6.7	6.0
Amortization of intangible assets (Note 6)	1.0	0.8
Change in fair value of biological assets (Note 7)	0.2	0.5
Net finance costs	1.6	1.2
Deferred income tax recovery	(0.2)	-
Other	(0.3)	(0.8)
	32.6	30.8
Changes in non-cash working capital items:		
Trade and other receivables	(9.5)	(7.6)
Inventory	(13.9)	1.3
Prepaid expenses and other assets	(2.2)	0.6
Silviculture provision	(1.0)	(1.0)
Accounts payable and accrued liabilities	14.4	8.0
	(12.2)	1.3
	20.4	32.1
Investing activities:		
Additions to property, plant and equipment (Note 6)	(8.2)	(11.0)
	(8.2)	(11.0)
Financing activities:		
Interest paid	(0.8)	(0.7)
Repayment of long-term debt	-	(29.0)
Dividends	(7.8)	-
Proceeds from exercise of stock options	0.5	-
	(8.1)	(29.7)
Cash provided by (used in) continuing operations	4.1	(8.6)
Cash used in discontinued operations (Note 16)	-	(0.5)
Increase (decrease) in cash and cash equivalents	4.1	(9.1)
Cash and cash equivalents, beginning of period	5.6	18.8
Cash and cash equivalents, end of period	$ 9.7	$ 9.7

See accompanying notes to these unaudited condensed consolidated interim financial statements

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia. The address of the Company's registered office is Suite 510 – 700 West Georgia Street, Vancouver, British Columbia, Canada. The unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2014 and 2013 comprise the Company and its subsidiaries. The Company's primary business includes timber harvesting, reforestation, forest management, sawmilling logs into lumber, wood chips, and value-added lumber remanufacturing. Western's lumber products are currently sold in over 30 countries worldwide. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of preparation

(a) *Statement of compliance*

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

These interim financial statements were approved by the Board of Directors on May 7, 2014.

(b) *Basis of measurement*

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

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

(c) *Functional and presentation currency*

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

(d) *Use of estimates and judgements*

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

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the interim financial statements, are disclosed in the Company's annual consolidated financial statements as at and for the year ended December 31, 2013.

3. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2013, except for the adoption of new standards and interpretations effective as of January 1, 2014. As required by IAS 34, the nature and effect of these changes are disclosed below.

(a) Changes in accounting policies

IAS 32, *Offsetting Financial Assets and Liabilities* ("IAS 32")

The amendments to IAS 32 clarify the guidance as to when an entity has a legally enforceable right to set off financial assets and financial liabilities, and, clarify when a settlement mechanism provides for net settlement. The application of IAS 32 has not materially impacted the interim financial statements.

IFRIC 21, *Levies* ("IFRIC 21")

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The application of IFRIC 21 has not materially impacted the interim financial statements.

(b) New standards and interpretations not yet adopted

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

IFRS 9 is tentatively 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.

Annual improvements to IFRS

The IASB issued narrow-scope amendments to various standards as part of its annual improvements process in December 2013. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Amendments were made to clarify the following in their respective standards:

- Definition of "vesting condition" in IFRS 2, *Share-based payment*;
- Disclosures on the aggregation of operating segments in IFRS 8, *Operating segments*;
- Measurement of short-term receivables and payables, and scope of portfolio exception in IFRS 13, *Fair Value Measurement*;
- Restatement of accumulated depreciation (amortization) on revaluation in IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*; and,
- Definition of "related party" in IAS 24, *Related Party Disclosures*.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of the amendments has not yet been determined.

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

4. Seasonality of Operations

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

5. Inventory

	March 31, 2014	December 31, 2013
Logs	$ 93.5	$ 95.8
Lumber	49.5	34.0
Supplies and other inventories	11.8	11.6
Provision for write downs	(8.4)	(8.9)
Total value of inventories	$ 146.4	$ 132.5
Inventory carried at net realizable value	$ 33.5	$ 30.5

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

During the three months ended March 31, 2014, $192.6 million (three months ended March 31, 2013: $181.8 million) of inventory was charged to cost of sales which includes a decrease to the provision for write-down to net realizable value of $0.5 million (three months ended March 31, 2013: decrease of $2.1 million).

6. Property, plant and equipment and intangible assets

Cost	Buildings & equipment	Logging roads	Land	**Total property, plant & equipment**	**Intangible assets**
Balance at January 1, 2013	$ 148.2	$ 122.4	$ 105.2	$ 375.8	$ 171.1
Additions	43.6	15.4	-	59.0	-
Disposals	(1.3)	-	(1.4)	(2.7)	(0.2)
Balance at December 31, 2013	$ 190.5	$ 137.8	$ 103.8	$ 432.1	$ 170.9
Additions	4.8	3.4	-	8.2	-
Disposals	(0.3)	-	-	(0.3)	-
Balance at March 31, 2014	$ 195.0	$ 141.2	$ 103.8	$ 440.0	$ 170.9
Accumulated amortization and impairments					
Balance at January 1, 2013	$ 89.9	$ 91.7	$ -	$ 181.6	$ 45.0
Amortization	11.7	13.8	-	25.5	3.7
Disposals	(1.0)	-	-	(1.0)	(0.1)
Reversal of impairments	-	-	-	-	(8.2)
Balance at December 31, 2013	$ 100.6	$ 105.5	$ -	$ 206.1	$ 40.4
Amortization	3.1	3.6	-	6.7	1.0
Disposals	(0.2)	-	-	(0.2)	-
Balance at March 31, 2014	$ 103.5	$ 109.1	$ -	$ 212.6	$ 41.4
Carrying amounts					
At December 31, 2013	$ 89.9	$ 32.3	$ 103.8	$ 226.0	$ 130.5
At March 31, 2014	$ 91.5	$ 32.1	$ 103.8	$ 227.4	$ 129.5

The fair value measurement for the Company's land holdings of $103.8 million has been categorized as a Level 3 fair value based on the inputs to the valuation technique used (December 31, 2013: Level 3 fair value). The assumptions used in the valuation were based on consideration of the market price per hectare of comparable land sales.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value. The Company reviewed the underlying assumptions impacting its land holdings as at March 31, 2014 and noted no indication that a full re-assessment of fair value was warranted at that date.

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

6. Property, plant and equipment and intangible assets (continued)

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

	March 31, 2014	December 31, 2013
Cost	$ 79.6	$ 79.6

7. Biological assets

(a) Reconciliation of carrying amount

	Three months ended March 31, 2014	2013
Carrying value, beginning of period	$ 58.4	$ 60.8
Change in fair value resulting from growth and pricing	0.8	0.7
Harvested timber transferred to inventory in the period	(1.0)	(1.2)
Carrying value, end of period	$ 58.2	$ 60.3

Under IAS 41, *Agriculture*, the Company's private timberlands are classified as a growing forest, with the standing timber recorded as a biological asset at fair value less costs to sell at each reporting date. The land underlying the standing timber is considered a component of property, plant and equipment, which the Company has elected to record at fair value at each reporting date (Note 6).

At March 31, 2014, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2013: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to old-growth forests. During the three months ended March 31, 2014, the Company harvested and scaled approximately 79,102 cubic metres of logs from its private timberlands, which had a fair value less costs to sell of $7.9 million at the date of harvest (three months ended March 31, 2013: 83,489 cubic metres and $7.1 million, respectively).

The financial risks associated with standing timber are mitigated by the geographical diversification of the asset and management strategies including fire management strategies and regular inspection for pest infestation.

(b) Measurement of fair values

The fair value measurements for the Company's standing timber of $58.2 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used (December 31, 2013: Level 3 fair value). The valuation technique used is discounted cash flows combined with market comparison.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at March 31, 2014 and noted no indication that a full re-assessment of fair value less costs to sell or the significant unobservable inputs was warranted at that date.

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

8. Revolving credit facility

The Company's revolving credit facility (the "Facility") provides for a maximum borrowing amount of $125.0 million, subject to a borrowing base, which is primarily based on eligible accounts receivable and inventory balances. The Facility bears interest at Canadian Prime plus 0.50% (if availability exceeds $40.0 million) or 0.75% (if availability is less than $40.0 million) or at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus 2.25% or 2.50%, dependent on the same availability criteria. The interest rate for the Facility was 3.50% at March 31, 2014 (December 31, 2013: 3.50%).

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants. At March 31, 2014, the Facility was unused (December 31, 2013: unused) and $114.4 million of the facility was available to the Company. The Facility matures on December 14, 2015, subject to any future refinancing requirements of its revolving term loan.

The Company was in compliance with its financial covenants at March 31, 2014.

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

9. Long-term debt

On June 28, 2013, the Company extended the maturity date of its existing $110.0 million revolving term loan facility (the "Term Loan") from June 28, 2016 to June 29, 2017. Under the terms of the new arrangement, certain financial covenants have been amended to allow the Company to make distributions to its shareholders, not to exceed $150.0 million in aggregate, available until June 30, 2014. Interest rate terms remain unchanged as a result of the amendment to the Term Loan. The amendment with respect to the Term Loan provides that if Brookfield Corporation or its affiliates cease to own at least 30% of the issued shares, any undrawn portion of the Term Loan will cease to be available and the revolving loan will convert to a term loan amortized over a 10 year period repayable in equal quarterly instalments.

The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate, and (ii) the 30 day Banker's Acceptance ("BA") rate plus 1.35%, plus the applicable index rate margin which ranges from 1.75% to 3.25%, or at the Company's election, the applicable BA rate, plus the applicable BA rate margin which ranges from 2.50% to 4.00%. The applicable margin is grid-based, determined quarterly, and based on a leverage ratio calculated as the ratio of total debt to EBITDA for the trailing twelve months ending on the date of determination. The interest rate for the Term Loan was 3.72% at March 31, 2014 (December 31, 2013: 3.97%).

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

The Company was in compliance with its financial covenants at March 31, 2014.

	March 31, 2014	December 31, 2013
Revolving term loan	$ 89.8	$ 89.8
Less transaction costs	(1.2)	(1.3)
	$ 88.6	$ 88.5

The transaction costs at March 31, 2014 and December 31, 2013 relate to financing arrangements completed in the second quarter of 2012 and the amendment made to the Term Loan on June 28, 2013. These costs are deferred and being amortized to finance costs over the term of the amended revolving Term Loan using the effective interest rate method.

10. Other liabilities

	March 31, 2014	December 31, 2013
Employee future benefits obligation (Note 14)	$ 20.2	$ 18.3
Environmental accruals, excluding non-continuing operations	1.5	1.5
Other	0.3	0.5
	$ 22.0	$ 20.3

11. Silviculture provision

The Company has a responsibility to reforest timber harvested under various timber rights. Changes in the silviculture provision are as follows:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Silviculture provision, beginning of period	$ 30.0	$ 31.0
Silviculture provision charged	2.6	3.0
Silviculture work payments	(2.4)	(3.2)
Unwind of discount	0.1	0.1
Silviculture provision, end of period	30.3	30.9
Less current portion	11.3	12.4
	$ 19.0	$ 18.5

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

11. Silviculture provision (continued)

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.96% to 2.46%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at March 31, 2014 is $31.9 million (December 31, 2013: $31.7 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.

12. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares		Amount	Number of Non-Voting Shares		Amount
Balance at December 31, 2013	352,077,810	$	486.6	39,050,597	$	13.1
Exercise of stock options	720,000		0.7	-		-
Conversion of non-voting shares to common shares	39,050,597		13.1	(39,050,597)		(13.1)
Balance at March 31, 2014	391,848,407	$	500.4	-	$	-

On January 31, 2014, on closing of a secondary offering of the Company's shares by Brookfield Special Situations Management Limited ("BSSML"), the remaining 39,050,597 Non-Voting Shares of the Company were converted, on a one-for-one basis, into Common Shares of the Company. As a result of the secondary offering and further share sales by BSSML since December 31, 2013, BSSML beneficially held 138,442,610 Common Shares of the Company as at March 31, 2014, representing 35.3% of the current issued and outstanding Common Shares of Western.

(b) Share-based payment transactions

The Company has an incentive stock option plan (the "Option Plan"), which permits the granting of options to eligible participants to purchase up to an aggregate of 20,000,000 Common Shares.

Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one Common Share, subject to adjustments, at a price of not less than the closing price of the Common Shares on the TSX on the day immediately preceding the grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant.

During the three months ended March 31, 2014, the Company granted 2,300,000 options with a fair value of $2.9 million as determined by the Hull-White option pricing model using the assumptions of a weighted average exercise price of $2.60, risk free interest rate ranging from 1.62% to 2.44%, a volatility rate of 60.0%, and an expected life of ten years. These options are only exercisable when the share price exceeds $0.70 for 60 consecutive days on a volume weighted average price basis. The requirement for the share price to exceed a certain level before the options become exercisable makes it necessary to utilize the Hull-White model. All outstanding options that were granted prior to 2010 are valued under the Black-Scholes model as they do not contain the minimum price requirement.

At March 31, 2014, 14,596,795 options were outstanding under the Company's Option Plan, with a weighted average exercise price of $1.24 per share.

(c) Deferred share unit plan

The Company has a Deferred Share Unit ("DSU") Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs 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 shares. For directors, the number of DSUs allotted is determined by dividing the dollar portion of the quarterly fees a director elects to take in DSUs by the share price value on the fifth day following each quarter end. For executive officers, the number of DSUs allotted is determined by dividing the dollar portion of the bonus that an executive elects to take in DSUs by the weighted average price of the Company's Common Shares for the five business days prior to the issue notification date. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the average share price for the five days leading up to the dividend date of record.

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

12. Share capital (continued)

During the three months ended March 31, 2014, designated executive officers were allotted 52,858 DSUs at a weighted average price of $2.58 per DSU. A further 6,258 DSUs were issued to a director at a weighted average price of $2.50 per DSU. The cumulative number of DSUs outstanding at March 31, 2014 was 1,010,406 (December 31, 2013: 951,290). In the three months ended March 31, 2014, the Company recorded compensation expense for these DSUs of $0.6 million (three months ended March 31, 2013: $0.1 million), with a corresponding increase to accounts payable and accrued liabilities.

(d) Warrants

On October 9, 2013, the Company issued 46,000,000 warrants in connection with the completion of the secondary offering of 46,000,000 of the Company's shares by BSSML on that date. Each warrant entitles the holder thereof to purchase one Common Share of the Company owned by BSSML at a price of $1.60 until July 31, 2014. Pursuant to an agreement between the Company, BSSML and Computershare Trust Company of Canada, BSSML is required to deliver from its holdings all of the Common Shares issuable upon exercise of the warrants. As a result, no Common Shares will be issued by Western to satisfy the exercise of the warrants and Western will not receive any proceeds on exercise of the warrants. As at March 31, 2014, 24,530,750 warrants were outstanding.

13. Commitments and contingencies

Long-term fibre supply agreements

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

The Company had met all fibre commitments as at December 31, 2013 and based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2014.

14. Employee future benefits

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

	Three months ended March 31, 2014	2013
Current service costs	$ 0.1	$ 0.1
Net interest	0.2	0.3
Cost of defined benefit plans	0.3	0.4
Cost of defined contribution plans	0.8	0.7
Total cost of employee post-retirement benefits	$ 1.1	$ 1.1

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

	March 31, 2014	December 31, 2013
Present value of obligations	$ (128.2)	$ (124.2)
Fair value of plan assets	108.0	105.9
Liability recognized in the statement of financial position	$ (20.2)	$ (18.3)

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

14. Employee future benefits (continued)

The change in the liability recognized in the statement of financial position at March 31, 2014 was due primarily to the actuarial gains or losses resulting from estimated changes in the discount rate used to value the defined benefit obligations and in the actual compared to expected return on plan assets for the quarter. The discount rate used as at March 31, 2014 was 4.25% per annum, a decrease of 0.35% per annum from the rate used at December 31, 2013 of 4.60% per annum, and the return on assets over the three months to March 31, 2014 was 3.40% per annum.

15. Financial instruments – fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2013.

	Carrying Amount					Fair Value			
March 31, 2014	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	$ -	$ -	$ 9.7	$ -	$ 9.7				
Trade and other receivables	-	-	78.5	-	78.5				
	$ -	$ -	$ 88.2	$ -	$ 88.2				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 94.2	$ 94.2				
Long-term debt (Note 9)	-	-	-	88.6	88.6				
	$ -	$ -	$ -	$ 182.8	$ 182.8				
December 31, 2013									
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	$ -	$ -	$ 5.6	$ -	$ 5.6				
Trade and other receivables	-	-	69.0	-	69.0				
	$ -	$ -	$ 74.6	$ -	$ 74.6				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 79.8	$ 79.8				
Long-term debt (Note 9)	-	-	-	88.5	88.5				
	$ -	$ -	$ -	$ 168.3	$ 168.3				

As at March 31, 2014, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 600 million at an average rate of JPY 94.35 per CAD with maturities through May 30, 2014, and an aggregate US$4.0 million at an average rate of CAD$1.1179 per US with maturities through April 21, 2014. All foreign currency gains or losses related to currency forward contracts to March 31, 2014 have been recognized in revenue for the period and the fair value of these instruments at March 31, 2014 was a net liability of $nil, which is included in accounts payables and accrued liabilities on the statement of financial position (December 31, 2013: net liability of $nil). A net loss of $1.1 million was recognized on contracts which were settled in the three months ended March 31, 2014 (three months ended March 31, 2013: net loss of $0.6 million), which was included in revenue for the period.

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

16. Discontinued operations

In March 2006, the Company closed its Squamish pulp mill located on 212 acres on the mainland coast of British Columbia and exited the pulp business. Subsequent to the closure, the Company sold substantially all of the manufacturing assets of the mill. Ongoing costs including supervision, security and property taxes continue to be expensed as incurred. In January 2013, Western announced that it had entered into a conditional agreement for the sale of its former Woodfibre Pulp Mill site for a gross purchase price of $25.5 million. Closing is subject to certain conditions, and Western will be responsible for the satisfactory remediation of the property to applicable environmental standards prior to closing the sale. During 2013, both parties agreed to a specific remediation plan, and a deposit of $5.5 million was placed in trust by the purchaser and is non-refundable provided that Western completes the remediation in accordance with the terms of the sale agreement. After incurring the estimated required remediation costs, Western anticipates receiving net proceeds from the sale and remediation of approximately $18.0 million.

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Net loss from discontinued operations	$ -	$ (0.3)
Cash used in discontinued operations	$ -	$ (0.5)
	March 31, 2014	**December 31, 2013**
Assets of discontinued operation, excluding land	$ 2.8	$ 2.8
Liabilities of discontinued operations	$ 5.1	$ 5.1

17. Related parties

As at March 31, 2014, BSSML controls and directs 35.3% of the Company's Common Shares. BSSML is a wholly owned subsidiary of Brookfield Asset Management ("BAM").

In addition to the related party transactions identified elsewhere in these interim consolidated financial statements, the Company has certain arrangements with entities related to BSSML and BAM to provide financing, acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire services including insurance, all in the normal course and at market rates or at cost.

The following table summarizes these transactions:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Costs incurred for:		
Log purchases	$ 2.2	$ 3.6
Other	4.1	2.4
	$ 6.3	$ 6.0
Income received for:		
Log sales	$ 5.1	$ 4.7
	$ 5.1	$ 4.7

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

18. Expenses by function and other expense information

Expenses by function:

	Three months ended March 31,	
	2014	2013
Administration	$ 7.7	$ 5.7
Distribution expenses	20.8	21.7
Cost of goods sold	192.6	181.8
	$ 221.1	$ 209.2

The Company recorded total employee compensation costs for the three months ended March 31, 2014 of $55.9 million (three months ended March 31, 2013: $52.6 million).

Total amortization expense for the three months ended March 31, 2014 was $7.7 million (three months ended March 31, 2013: $6.8 million).

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