

Western Forest Products Inc.

2011 Second Quarter Report

August 3, 2011

To our Shareholders,

We are pleased with our second quarter 2011 financial results and operating performance considering the ongoing market challenges that persist in our industry. The operating initiatives outlined in our previous report to you are continuing to sustain our profitability in what continues to be a very uncertain business environment.

The following are some key highlights from our second quarter performance:

- EBITDA of \$21.9 million in the quarter which is more than double that achieved in the first quarter of 2011 and the seventh consecutive quarter that we have achieved positive EBITDA
- Net debt is reduced to \$57.3 million and liquidity is \$111.7 million at the end of the quarter
- Increased mill productivity 4% by the end of the second quarter compared to the same period in 2010
- Sales revenues increased 21% over the second quarter last year
- Sales volumes in each of our major product segments increased over last year

Despite a strengthening Canadian dollar, increased log and freight costs, and continued weakness in the United States home building sector, we were able to generate EBITDA of \$21.9 million. This result primarily reflects our ongoing focus on operating cost reductions, streamlining business processes and product lines that have been put in place over the last few years.

In addition, a strong pulp market led to higher chip revenues and higher log prices as pulp companies increased their demand for lower value sawlogs. Export markets for logs were also strong in the quarter. While log exports remain a relatively minor product line for Western, the use of log exports has allowed us to increase our log harvesting which has generated additional logs for our mills, our domestic log customers and additional employment for our employees and contractors.

There has been considerable focus on log exports. We would like to take the opportunity to explain Western's view on log exports as it pertains to our company, and the net benefit they bring to both Western and the communities in which we operate:

- Log exports represent 10% of our total log harvest and purchase volumes, and only 7% of our total sales revenues
- This has allowed us to profitably harvest an additional 1.5 million m³ which we have consumed internally, generating more pulp chips or sold to domestic customers as pulp logs and veneer logs
- Our annual payroll year over year is expected to increase by \$30 million, which equates to an additional 460 jobs in our mill and logging operations
- These are only the direct jobs in Western's operations and do not include spin-off effects of additional contractor jobs, tax revenues and a number of other community benefits.

Lumber shipments for the quarter were supported by seasonal demand in Canada and continued strength for our lumber products in Japan and China which more than offset ongoing weak demand for lumber products in the US. Our flexible operating platform allowed us to take advantage of alternate market opportunities as they became available.

We do, however, anticipate a slowing of business in the Chinese market over the balance of the year. The Chinese government has started to tighten access to credit which has created some uncertainty about lumber demand in China for the balance of the year. Similarly we anticipate a slowdown in the Japanese market in the third quarter but expect demand to rebound through the fourth quarter.

Within our operations we will continue to develop our non-capital margin improvement programs to extract the maximum margin from our existing business. We are confident that such programs will continue to improve our financial results, despite the market weakness that currently exists in our traditional markets.

The priorities for the balance of 2011 that we highlighted in our Q1 report remain:

- Continue to enhance our safety programs to achieve our ultimate objective of a zero medical incident rate
- Increase market share with our key customers in our core product segments
- Increase our logging activity with a plan to harvest 5.8 million cubic metres this year (a 25% increase over 2010)
- Continue to expand lumber production to meet market demand; our current plan is to ship 820 million board feet for the year
- Institutionalize our margin improvement and cost reduction programs; we have identified an additional \$25 million of non-capital margin improvement programs which we expect to capture over the next few years
- The first phase of our \$125 million capital investment program is underway

Our balance sheet remains very strong, further bolstered this quarter as a result of the cash generated from operations. With our balance sheet in order, we continue on our strategic plan that will see us invest approximately \$125 million in asset modernization over the next several years. The capital plan will be focused on reducing costs in our mills and increasing the sales value of our products.

We would like to take this opportunity to announce the appointment of Don Demens as our Chief Operating Officer. Don has been responsible for Western's sales and manufacturing activities for the past two years and has been a key player in our turn-around, changing the business culture and business model. Don will continue to align our Sales and Manufacturing units with our Timberlands and Fibre Optimization operations in our drive to improve companywide results.

While we are pleased to report that our safety record has improved over last year, sadly we have to report two contractor fatalities that occurred on our licenses since our last report. We must learn from these tragic events and ensure that we improve our safety performance both within Western operated areas and within our contractor community.

Dominic Gammiero

Chairman and CEO

Lee Doney

Vice Chairman

Management's Discussion & Analysis

The following discussion and analysis reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three and six months ended June 30, 2011 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 interim financial statements for the first quarter of 2011 and with the audited annual consolidated financial statements and management's discussion and analysis ("MD&A") for the year ended December 31, 2010 (the "2010 Annual Report"), all of which can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR"), at <http://www.sedar.com>.

The Company has prepared the unaudited condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-Time Adoption of IFRS*. For comparative purposes all financial statement amounts related to the three and six month periods ended March 31 and June 30, 2010 and the year ended December 31, 2010 have been restated in accordance with IFRS.

Reference is also made to EBITDA¹. EBITDA is defined as operating income (loss) prior to operating restructuring costs and other income (expenses), plus amortization of property, plant and equipment, amortization of intangible assets, the reversal of impairments of intangible assets, and the change in fair value adjustments to biological assets. Western uses EBITDA as a benchmark measurement of our own operating results and as a benchmark relative to our competitors. We consider EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairments, reversals of impairments 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, operating restructuring costs are not expected to occur on a regular basis and may make comparisons of our operating results between periods more difficult. We also believe EBITDA is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

EBITDA does not represent cash generated from operations as defined by IFRS and it is not necessarily indicative of cash available to fund cash needs. Furthermore, EBITDA does not reflect the impact of a number of items that affect our net income (loss). EBITDA is not a measure of financial performance under IFRS, and should not be considered as an alternative to measures of performance under IFRS. Moreover, because all companies do not calculate EBITDA in the same manner, EBITDA as calculated by Western may differ from EBITDA as calculated by other companies.

This management's discussion and analysis 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 the MD&A in our 2010 annual report, and those referenced in the MD&A in this quarterly 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.

¹ Earnings Before Interest, Tax, Depreciation and Amortization

Unless otherwise noted, the information in this discussion and analysis is updated to August 3, 2011. Certain prior period comparative figures may have been reclassified to conform to the current period's presentation. All financial references are in millions of Canadian dollars unless otherwise noted.

Summary of Selected Quarterly Results¹

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<i>(millions of dollars except per share amount)</i>				
Sales	\$ 218.7	\$ 181.5	\$ 399.5	\$ 319.8
EBITDA	21.9	21.9	30.1	31.2
EBITDA as % of sales	10.0%	12.1%	7.5%	9.8%
Operating income before restructuring items and other income (expenses)	14.7	14.4	16.7	17.1
Net income from continuing operations	12.3	10.1	11.6	19.8
Net income	12.1	9.8	11.1	18.9
Basic and diluted earnings per share (in dollars)	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.04

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

Overview

Second quarter 2011

Western generated a positive EBITDA of \$21.9 million for the quarter, similar to the amount earned in the same quarter last year and more than doubles what we earned in the first quarter of 2011. The Company enjoyed strong seasonal demand for its lumber and log products. Log sales revenues reached the highest levels since the second quarter of 2007, driven by a strong Canadian domestic market. In addition, by-product volumes and prices increased, largely driven by a robust pulp market. However, our EBITDA margin for the quarter was adversely impacted relative to the second quarter of 2010 by the negative impacts of the stronger Canadian dollar, increased freight charges and higher log harvesting costs.

Despite the positive second quarter results, lumber markets in the United States remain well below historical trend levels and a meaningful recovery of the United States housing market does not yet appear to be on the short term horizon. Our operating environment has been further challenged by the continuing increase in the strength in the Canadian dollar relative to the United States dollar as a high proportion of our sales are denominated in United States dollars. The average exchange rate for the second quarter of 2011 was 0.968 (which is the highest quarterly average rate in four years) and is 6% higher than the average of 1.029 in the second quarter of 2010. Our focus continues to be on reducing costs and enhancing the operating efficiencies of all of our activities, while further strengthening our balance sheet.

Net income for the second quarter of 2011 was \$12.1 million, which is an increase of \$2.3 million over net income of \$9.8 million reported a year earlier, and an improvement of \$13.1 million compared to the loss of \$1.0 million reported in the previous quarter. Our second quarter of 2011 net income was an improvement over the same quarter of 2010 primarily because of lower interest costs and reduced restructuring charges, partially offset by lower gains made on non-core asset sales.

In the second quarter of 2011 Western reported EBITDA of \$21.9 million which remained unchanged from the same period a year earlier and compares to \$8.2 million in the first quarter of 2011. Our liquidity position at June 30, 2011 increased to \$111.7 million from \$95.2 million at the end of the first quarter of 2011, and from \$64.1 million a year ago.

Year to date, June 30, 2011

Net income for the first six months of 2011 was \$11.1 million, which compares to net income reported in the same period in 2010 of \$18.9 million. The income in 2010 includes a net one-time gain of \$9.4 million in the first quarter of 2010 due to the reorganization of WFP Forest Products Limited. Excluding the impact of this, the net

income for 2011 was higher than 2010 by \$1.6 million with the majority of the increase explained by lower interest charges that resulted from our lower average debt levels in the current six month period compared to the same period in 2010.

On February 11, 2011, we completed the sale of certain non-core properties to TimberWest Forest Corp. for a purchase price of \$21.9 million. The sale included properties located in the southern portion of Vancouver Island, near Jordan River. These properties, which encompass approximately 7,678 hectares, are situated in the land districts of Renfrew and Malahat. The net proceeds from the sale were used to pay down the Company's long-term debt in accordance with lending agreements. A net loss of \$1.1 million was recognized on its disposal in the first quarter of 2011.

Operating Results

Sales <i>(millions of dollars)</i>	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Lumber	\$ 143.5	\$ 131.1	\$ 272.5	\$ 233.3
Logs	57.8	36.6	94.1	61.1
By-products	17.4	13.8	32.9	25.4
Total sales	<u>\$ 218.7</u>	<u>\$ 181.5</u>	<u>\$ 399.5</u>	<u>\$ 319.8</u>

Second quarter 2011

Lumber sales revenues increased by 9% when compared to the second quarter of 2010 primarily due to higher shipment volumes. Despite the uncertain global economic conditions, market demand for the majority of our lumber products has shown a gradual improvement. Lumber shipments increased by 11% to 210 million board feet in the second quarter of 2011. The geographic destination of the lumber was generally consistent with the prior year, with 34% of lumber volume being shipped within Canada, 24% going to Japan, 23% to China, and 14% to the United States. Lumber sales values in the second quarter of 2011 have seen modest price increases in most major product categories, particularly commodity products, when compared to the same period last year. However, in the second quarter of 2011, the overall average lumber price realized was marginally lower at \$683 per thousand board feet, compared to \$694 in the same quarter of 2010. The decrease is largely attributable to the mix of lumber products sold, particularly lower volumes of high value cypress, rather than lower prices being realized, and also by the impact of the stronger Canadian dollar.

Log sales revenues in the second quarter of 2011 increased by 58% compared to the same period last year. The increase is due to an 18% increase in the volume of logs sold and average log prices realized in the second quarter of 2011 being 26%, or \$15 per cubic metre, higher than a year ago. Overall log demand for the quarter was strong, relative to prior quarters, in both our domestic and export markets. Increases in volumes sold were achieved in our pulp log, peeler and shingle log sales in North American markets as well as export sales to Korea and China. Log prices have increased since the second quarter of 2010 largely because of a strong domestic pulplog market and supply shortages for most log species. Supply shortages have resulted from severe winter weather conditions through the first half of the year, with snow pack restricting harvest levels.

By-product revenues increased by \$3.6 million, or 26%, in the current quarter compared to the second quarter of 2010, mainly because of increased chip production and higher chip prices. Chip production in the second quarter of 2011 increased by 20% over 2010 largely due to increased lumber production at our sawmills. Chip prices were approximately 5% higher, which is a result of higher pulp mill net realizations which drive the chip pricing formula used in our fibre agreements with certain of our customers.

EBITDA of \$21.9 million reported for the second quarter of 2011 was consistent with the EBITDA reported in the same quarter last year, and a \$13.7 million improvement over the \$8.2 million earned in the first quarter of 2011. The EBITDA result for the second quarter of 2011 reflects increased operating levels, higher sales volumes and prices for most products and a more favorable mix of sales compared to the second quarter of 2010. However, these positive variances were offset by a negative impact of foreign exchange, increased cost of sales, higher freight costs and higher selling and administrative expenses in the current quarter.

The operating results for the second quarter of 2011 incorporated temporary shutdown costs that were \$1.2 million less than those incurred in 2010, as production was increased to meet demand. Lumber production was 11% higher in the second quarter of 2011 compared to the second quarter of 2010 and our sawmills operated at 86% of capacity in the second quarter of 2011 compared to 63% of capacity in the same quarter of 2010. The majority of this increase in operating capacity relates to the Nanaimo and Ladysmith mills which ran for the second quarter of 2011, but were idle in the same quarter in 2010. Mill productivity, measured on a volume produced per shift basis, improved 4% by the end of the second quarter of 2011 compared to the same period in 2010. The heavy snowfall at the end of the first quarter of 2011 hampered log harvesting into the early part of the second quarter. Log harvesting costs were higher in the second quarter of 2011 compared to the same quarter last year because of increased spending on spur roads this year and also because a greater percentage of our logging activities were in higher cost locations.

As previously mentioned, our operating results were negatively impacted by an approximate 6% strengthening in the value of the Canadian dollar relative to the United States dollar from the first quarter of 2010, which reduced our Canadian dollar proceeds received on United States dollar denominated sales (the major share of our lumber sales are denominated in United States dollars, including those to China).

Total freight costs were \$24.1 million in the second quarter of 2011, which compared to the second quarter of 2010 cost of \$17.9 million. Shipment volumes of lumber were higher in the current quarter which accounts for the majority of the \$6.2 million increase. The balance of the increase results from an increased proportion of our shipments being made to China in 2011, which incur relatively more costly ocean freight, and also the impact of rising oil prices on general freight rates.

Selling and administration costs increased by \$0.9 million to \$6.7 million in the current quarter compared to \$5.8 million in the same quarter of 2010, primarily because of increased salary costs. The increase in salary costs includes the re-instatement of base salaries in the third quarter of 2010 following the reductions taken in June 2009, and also the inclusion of performance-based bonus accruals expected for this year.

Year to date, June 30, 2011

Total sales revenues for the first six months of 2011 were \$399.5 million, an increase of 25% over the sales revenues for same period in 2010. Lumber, log and by-product sales were higher in the current six months period by 17%, 54% and 30% respectively. Higher shipment volumes for all primary product categories, logs in particular, contributed most of the increase. This increase was a function of stronger market demand for logs and lumber. Our lumber production was 13% higher in the first six months of 2011 compared to 2010, which led to greater chip production levels thus increasing by-product revenues. Increased sales prices of logs and by-products were the other key contributors to the revenue increase. Partially offsetting these was the negative impact on revenues of the stronger Canadian dollar in the current six month period compared to 2010. The Canadian dollar was, on average, 6% stronger relative to the US dollar over the respective periods.

EBITDA for the six months to June 30, 2011 was \$30.1 million which is marginally less than the EBITDA for the same period of 2010 of \$31.2 million. Despite the benefits of the revenue increases achieved for the six months to June 30, 2011 compared to the six months to June 30, 2010, offsetting this were increases to our cost of sales including log costs, increases in freight costs and selling and administration costs over the respective periods.

Non-operating income and costs

Finance costs decreased from \$3.4 million in the second quarter of 2010 to \$1.8 million in the current quarter. This decrease is primarily attributable to a reduction in the outstanding debt amount over the respective periods, resulting from the proceeds of non-core asset sales being used to pay down debt subsequent to March 31, 2010. Also contributing to this reduction is the benefit of lower interest rates negotiated in the amendments to the loan agreements effected in late December 2010.

Other expenses of \$0.1 million for the second quarter of 2011 and other income of \$0.3 million in the second quarter of 2010 relate primarily to net losses and gains respectively on various non-core asset sales. In the first quarter of 2011 other expenses of \$0.5 million related to a gain on the sale of an equity interest in certain real estate properties of \$2.4 million (for further details see *Related Parties* on page 12), an expense incurred of \$2.5 million to amend the terms of certain contractual arrangements, and other items totaling expenses of \$0.4 million. In comparison, the first quarter of 2010 included other income of \$10.4 million, which primarily related to a receipt in January 2010 of \$8.9 million being the balance of the proceeds related to the establishment of a

jointly-owned entity in 2009 with Brookfield Properties Limited (“BPL”), a company related to Brookfield Asset Management Inc. (“BAM”).

Financial Position and Liquidity

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
<i>(millions of dollars except where noted)</i>				
Cash provided by (used in) operating activities	\$ (9.6)	\$ 1.2	\$ 25.5	\$ 13.5
Cash provided by (used in) investing activities	(0.9)	(1.6)	21.5	(2.8)
Cash used in financing activities	(13.7)	(0.4)	(47.3)	(16.2)
Cash used to construct capitalized logging roads	(2.1)	(2.7)	(3.1)	(4.2)
Cash used to acquire property, plant, and equipment	(1.5)	(0.6)	(3.4)	(0.8)
<hr/>				
			June 30	December 31
			2011	2010
Total liquidity ⁽¹⁾			\$ 111.7	\$ 84.6
Net debt ⁽²⁾			57.3	99.8
Financial ratios:				
Current assets to current liabilities			2.29	2.50
Net debt to capitalization ⁽³⁾			0.14	0.23

⁽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 used in operating activities in the second quarter of 2011 amounted to \$9.6 million compared to cash provided of \$1.2 million in the same period last year. Prior to changes in the levels of working capital at the end of the respective quarters, cash from operations was relatively consistent over the two quarters. In the current quarter, however, investment in working capital was \$12.4 million more than the same period in 2010 and reflects higher levels of sales activity in 2011. Inventories increased in both quarters, consistent with the seasonal increase in log inventories.

Cash used for additions to property, plant and equipment and for capitalized logging roads in the second quarter of 2011 was \$3.6 million compared to \$3.3 million in the second quarter of 2010. In the current quarter additions comprised \$2.1 million of additions to logging roads and bridges and \$1.5 million of other property and equipment, which primarily related to lease buy-outs of mobile machinery.

In the second quarter of 2011, the Company paid down its long-term debt by \$12.6 million. \$2.6 million of this was from the proceeds of non-core assets sold in the quarter with the balance being from cash generated from operations earned for the year to date. For the six months to June 30, 2011 the Company has repaid long-term debt by \$43.8 million. Of this amount, \$28.6 million was from the proceeds of non-core assets sold, \$5.2 million from the cash received as reimbursement by the Province of British Columbia (for costs incurred by Western with respect to the Forestry Revitalization Plan timber take-back areas), and the balance of \$10.0 million from cash generated from operations. In the first six months of 2010, the revolving credit facility was paid down by a net \$9.1 million from cash generated by operations, and the non-revolving term facility was paid down by \$2.4 million from asset sales.

At June 30, 2011, Western's total liquidity had increased to \$111.7 million from \$95.2 million at the end of the first quarter and from the \$64.1 million of liquidity available at June 30, 2010. Liquidity is comprised of cash of \$4.3 million and availability under the secured revolving credit facility of \$94.8 million and \$12.6 million under the revolving term loan at June 30, 2011. The increase in the liquidity availability compared to June 30, 2010 is largely a function of the improved availability under the amended financing agreements and the fact that improved cash generated from operations required less to be drawn down on the revolving credit facility.

Any net proceeds realized from the future sale of non-core assets will be used to repay the term loan. Based on its financial position at June 30, 2011 and its current forecasts the Company expects to continue to operate as a going concern for the foreseeable future.

Changes in Accounting Policies

Effective January 1, 2011, Canadian publically listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date for the Company is January 1, 2010. Full disclosure of the Company's accounting policies in accordance with IFRS can be found in Note 2 to the Unaudited Condensed Consolidated Interim Financial statements for the Three and Six Months ended June 30, 2011. The interim financial statements also include reconciliations of the previously disclosed comparative periods financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS as set out in Note 4.

New Standards and Interpretations

In 2011, the IASB has issued the following new or amended IFRSs which are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, with the exception of IFRS 13 which is effective prospectively from January 1, 2013:

IFRS 9 *Financial Instruments*

IFRS 10 *Consolidated Financial Statements*

IFRS 11 *Joint Arrangements*

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 13 *Fair Value Measurement*

Amendments to IAS 19 *Employee Benefits*

Amendments to IAS 28 *Investments in Associates and Joint Ventures*

IFRS 9 *Financial instruments* ("IFRS 9") was issued in November 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 10 *Consolidated Financial Statements* replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27") and SIC-12 *Consolidation – Special Purpose Entities*. IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures* ("IAS 31"). Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. Upon adoption of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented.

IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12") contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* (“IFRS 13”) replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains ‘how’ to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

IAS 19 *Employee Benefits* (“IAS 19”) will modify accounting for pensions and other post-retirement and post-employment benefits and impact corporate financial reporting, including reported net profit. The key impacts of the amendments will include:

- Changes in how a plan's funded status and its variation during a reporting period will affect balance sheet and comprehensive income
- Changes in the reported benefit expense due to the removal of the expected return on assets and amortization items
- Significant changes to the footnote disclosures
- Potential implications for the way that plan sponsors manage defined benefit plan risk

IAS 28 *Investments in Associates and Joint Ventures* (“IAS 28”) will modify the existing standard as issued in 2008 as follows:

- Associates and joint ventures held for sale. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 and IAS 31 specified that the cessation of significant influence or joint control triggered re-measurement of any retained stake in all cases with gain recognition in profit or loss, even if significant influence was succeeded by joint control. IAS 28 will be modified so that in such scenarios the retained interest in the investment is not re-measured.

These new and revised accounting standards have not yet been adopted by Western, and the Company has not yet completed the process of assessing the impact that they will have on its financial statements or whether to early adopt any of the new requirements.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109 issued by the Canadian Securities Administrators, Western carried out an evaluation of the design and effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as of December 31, 2010. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the interim filings are being prepared.

There were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the second quarter of 2011.

Outlook and Strategy

The worldwide economic outlook remains uncertain with ongoing concerns about the potential impact of the European sovereign debt crisis, and continuing weakness in the United States economy, in particular. While some signs point to the fact that global economic conditions have improved, significant concern remains.

With the market weakness in the United States, our commodity lumber program continues to focus on China. China is expected to be our highest volume export lumber market for 2011, with strong demand for both lumber and logs. However, the Chinese government has recently undertaken a number of measures to slow their economy by restricting credit. These restrictions may impact the pace of residential development in China and ultimately lumber demand. We do anticipate some slow-down of sales growth in this market for the balance of 2011, as a result of such restrictions and seasonal demand slow-down.

We expect that the severe infrastructure damage caused by the earthquake and resulting tsunami will continue to slow lumber demand in Japan in the third quarter. As a result, we anticipate taking some market related down-time at certain mills in our system during the third quarter. However, we expect that most of Japan's infrastructure constraints will be resolved during the third quarter and that demand for lumber will start to improve in the fourth quarter. Western has participated in certain co-sponsored government and industry relief projects that will aid in the rebuilding of Japan.

Despite recent increases in new housing starts in the United States, the housing market there continues to have deep structural issues which preclude any significant housing market recovery. Current reports indicate that job growth is slowing in most regions (especially areas with high concentrations of government employees). Existing home sales continue to languish with increasing numbers being distress sales. There are also indications of an increasing trend to rent rather than buy, which means more emphasis on multi-unit home construction rather than new single unit dwellings.

North American demand for specialized commodities such as treated products and timbers is expected to decline for the balance of the year in line with seasonal expectations. We expect to increase our specialized commodity sales to China in the third and fourth quarters to partially offset this trend.

The seasonal upswing in cedar demand peaked in the second quarter. Cedar sales volumes are expected to fall for the balance of the year due to a weak United States housing market and seasonal slowdown in renovations.

Our sales into the niche lumber markets in North America and Europe are expected to be stronger over the second half of the year as we expect to have additional high grade log supply in the third quarter which will help increase our niche product sales. We continue to diversify our customer and product base in this market segment.

As previously announced, we plan on investing \$125 million of strategic capital into Western's operations over the next several years. We continue to work through our strategic plan and evaluate the best opportunities to inject capital into the business. We plan to commence strategic, high return projects totaling over \$3 million in the latter half of 2011. We will also focus on improving our product margins through a number of non-capital initiatives, while at the same time ensuring that we balance our working capital requirements with market demand in the coming months.

Western will continue to pursue opportunities to sell non-core assets. However, our net debt and liquidity situation has significantly improved over the past year. Any proceeds will first be used to reduce the revolving term loan and then any surplus will be used to provide additional liquidity.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2010 Annual Report which can be found on SEDAR, at <http://www.sedar.com>. Any of the risks and uncertainties described in the above-noted document could have a material adverse affect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business.

Outstanding Share Data

As of August 3, 2011 there were 128,625,623 Common Shares and 338,945,860 Non-Voting Shares issued and outstanding. Brookfield Special Situations Management Limited ("BSSML") controls and directs 49% of the Company's Common Shares and 100% of the Non-Voting Shares. The Company may convert the Non-Voting Shares into Common Shares on a one-for-one basis, in whole or in part, at any time in its sole discretion, provided that the Board of Directors is at that time of the opinion that to do so would not have a material adverse effect on the Company's business, financial condition or business prospects.

Western has reserved 10,000,000 Common Shares for issuance upon the exercise of options granted under the Company's incentive stock option plan. On February 23, 2011 a further 1,700,000 options were granted under the plan. As of August 3, 2011, 6,441,795 options were outstanding under the Company's incentive stock option plan.

Related Parties

By virtue of the BAM voting arrangements with BSSML, BAM is related to the Company. Western has certain arrangements with entities related to BAM to acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire other services including insurance and the provision of a foreign exchange facility, all in the normal course and at market rates or at cost. During the second quarter of 2011, the Company paid entities related to BAM \$3.8 million (\$6.7 million year-to-date) in connection with these arrangements.

On January 4, 2011, the Company exercised its option to sell its equity interest in WFP Forest Products Ltd., the jointly-owned entity established in 2009 between the Company and BPL, receiving \$2.4 million as consideration for the sale of its interest, and the right of first offer on certain land was extinguished.

Public Securities Filings

Readers may access other information about the Company, including the Annual Information Form and additional disclosure documents, reports, statements and other information that are filed with the Canadian securities regulatory authorities, on SEDAR at www.sedar.com.

On behalf of the Board of Directors

Dominic Gammiero

Chairman

Vancouver, BC,

August 3, 2011

Lee Doney

Vice-Chairman

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters (Unaudited)

	Financial results prepared under IFRS						Financial results prepared under Canadian GAAP	
	2011		2010				2009	
	2 nd	1 st	4 th	3 rd	2 nd	1 st	4 th	3 rd
<i>(millions of dollars except per share amounts and where noted)</i>								
Average Exchange Rate – Cdn \$ to purchase one US \$	0.968	0.986	1.013	1.039	1.029	1.040	1.056	1.098
Sales								
Lumber	143.5	129.0	118.1	123.7	131.1	102.2	96.3	111.8
Logs	57.8	36.3	38.8	39.1	36.6	24.5	32.5	25.5
By-products	17.4	15.5	15.7	12.7	13.8	11.6	10.5	12.6
Total sales	218.7	180.8	172.6	175.5	181.5	138.3	139.3	149.9
Lumber								
Shipments – millions of board feet	210	183	168	165	189	147	140	157
Price – per thousand board feet	684	705	703	750	694	695	688	712
Logs								
Shipments – thousands of cubic meters	755	504	646	642	640	414	528	413
Price – per cubic metre*	72	68	60	61	57	59	62	62
Selling and administration	6.7	6.6	7.6	5.9	5.7	5.4	5.6	5.8
EBITDA	21.9	8.2	5.8	11.6	21.9	9.3	2.3	(5.2)
Amortization	(6.7)	(5.6)	(5.2)	(5.4)	(6.9)	(5.9)	(7.2)	(7.3)
Changes in fair value of biological assets	(0.5)	(0.6)	(2.7)	0.7	(0.6)	(0.7)	-	-
Reversal of impairment	-	-	18.5	-	-	-	-	-
Operating restructuring items	(0.3)	(0.3)	(0.1)	(0.6)	(0.9)	-	0.3	(2.3)
Finance costs	(1.8)	(1.9)	(2.8)	(3.5)	(3.4)	(3.2)	(3.2)	(2.9)
Other income (expenses)	(0.1)	(0.5)	6.3	(0.3)	0.3	10.4	5.1	1.7
Income taxes	(0.2)	-	0.6	(0.1)	(0.3)	(0.2)	-	(0.1)
Net income (loss) from continuing operations	12.3	(0.7)	20.4	2.4	10.1	9.7	(2.7)	(16.1)
Net loss from discontinued operations	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.6)	(0.4)	(0.5)
Net income (loss)	12.1	(1.0)	20.1	2.1	9.8	9.1	(3.1)	(16.6)
EBITDA as % of sales	10.0%	4.5%	3.4%	6.6%	12.1%	6.7%	1.7%	(3.5)%
Earnings per share:								
Net income (loss), basic and diluted	0.03	-	0.04	-	0.02	0.02	(0.01)	(0.04)
Net income (loss), from continuing operations basic and diluted	0.03	-	0.04	0.01	0.02	0.02	(0.01)	(0.04)

* Note - the log revenue used to determine average price per cubic metre in Q2 and Q1 of 2011 was adjusted to reflect revenues recognized of \$3.4 million and \$2.0 million, respectively, associated with shipping costs arranged in the period to enable comparability of unit prices.

The presentation of the most current six quarters above as required under IFRS reporting rules has not materially impacted the comparability of these quarters with the previous two quarters that were prepared under Canadian GAAP rules, other than the reversal of the impairment of \$18.5 million as indicated in the fourth quarter of 2010.

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

The category of "Other income (expenses)" comprises gains on the sale of various non-core assets and other receipts which can be unpredictable in their timing. More material transactions of this nature occurred in the first and fourth quarters of 2010, and the fourth quarter of 2009. The downturn in the forest products industry that was experienced most significantly in 2008 and 2009 brought associated production curtailments, which are reflected most significantly in the results of the third and fourth quarters of 2009 and the first quarter of 2010.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010

Western Forest Products Inc.

Condensed Consolidated Statements of Financial Position

(Expressed in millions of Canadian dollars) (unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 4.3	\$ 5.1
Trade and other receivables	78.9	58.7
Inventory ^(Note 9)	129.2	129.6
Prepaid expenses and other assets	8.8	4.8
	<u>221.2</u>	<u>198.2</u>
Non-current assets:		
Property, plant and equipment ^(Note 10)	189.4	205.4
Intangible assets ^(Note 10)	129.3	132.8
Biological assets ^(Note 11)	61.0	77.7
Other assets	13.1	13.8
	<u>392.8</u>	<u>430.7</u>
	<u>\$ 614.0</u>	<u>\$ 627.9</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 79.0	\$ 61.6
Silviculture provision ^(Note 14)	11.5	11.5
Discontinued operations ^(Note 7)	6.2	6.2
	<u>96.7</u>	<u>79.3</u>
Non-current liabilities:		
Long-term debt ^(Note 13)	61.6	104.9
Silviculture provision ^(Note 14)	17.9	15.8
Other liabilities ^(Note 15)	24.6	23.3
Deferred revenue	69.4	70.4
	<u>270.2</u>	<u>293.7</u>
Shareholders' equity:		
Share capital - voting shares ^(Note 17)	412.3	412.3
Share capital - non-voting shares ^(Note 17)	187.5	187.5
Contributed surplus	3.1	3.0
Accumulated other comprehensive income	23.9	23.9
Deficit	(283.0)	(292.5)
	<u>343.8</u>	<u>334.2</u>
	<u>\$ 614.0</u>	<u>\$ 627.9</u>

Commitments and Contingencies ^(Note 18)

See accompanying notes to these unaudited condensed consolidated interim financial statements

Approved on behalf of the Board:

"Dominic Gammiero"
Chairman

"Lee Doney"
Vice Chairman

Western Forest Products Inc.

Condensed Consolidated Statements of Comprehensive Income

(Expressed in millions of Canadian dollars except for share and per share amounts) (unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue	\$ 218.7	\$ 181.5	\$ 399.5	\$ 319.8
Cost and expenses:				
Cost of goods sold	171.3	142.5	321.0	258.1
Export tax	1.9	0.9	3.3	1.9
Freight	24.1	17.9	45.2	31.5
Selling and administration	6.7	5.8	13.3	11.2
	<u>204.0</u>	<u>167.1</u>	<u>382.8</u>	<u>302.7</u>
	<u>14.7</u>	<u>14.4</u>	<u>16.7</u>	<u>17.1</u>
Operating restructuring items ^(Note 20)	(0.3)	(0.9)	(0.6)	(0.9)
Other income (expenses) ^(Note 21)	(0.1)	0.3	(0.6)	10.7
Operating income	<u>14.3</u>	<u>13.8</u>	<u>15.5</u>	<u>26.9</u>
Finance costs	(1.8)	(3.4)	(3.7)	(6.6)
Income before income taxes	12.5	10.4	11.8	20.3
Income tax expense	<u>(0.2)</u>	<u>(0.3)</u>	<u>(0.2)</u>	<u>(0.5)</u>
Net income from continuing operations	12.3	10.1	11.6	19.8
Net loss from discontinued operations ^(Note 7)	<u>(0.2)</u>	<u>(0.3)</u>	<u>(0.5)</u>	<u>(0.9)</u>
Net income for the period	<u>12.1</u>	<u>9.8</u>	<u>11.1</u>	<u>18.9</u>
Other comprehensive losses				
Defined benefit plan actuarial losses, net of tax	<u>(3.9)</u>	<u>(8.3)</u>	<u>(1.6)</u>	<u>(15.7)</u>
Total comprehensive income for the period	<u>\$ 8.2</u>	<u>\$ 1.5</u>	<u>\$ 9.5</u>	<u>\$ 3.2</u>
Net income per share (in dollars):				
Basic and diluted earnings per share	0.03	0.02	0.02	0.04
Basic and diluted earnings per share - continuing operations	<u>0.03</u>	<u>0.02</u>	<u>0.02</u>	<u>0.04</u>
Weighted average number of shares outstanding (thousands)				
Basic	467,571	467,571	467,571	467,571
Diluted	474,013	476,313	473,459	474,943

See accompanying notes to these unaudited condensed consolidated interim financial statements

Western Forest Products Inc.

Condensed Consolidated Statements of Cash Flows

(Expressed in millions of Canadian dollars) (unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Cash provided by (used in):				
Operating activities:				
Net income from continuing operations	\$ 12.3	\$ 10.1	\$ 11.6	\$ 19.8
Items not involving cash:				
Amortization of property, plant and equipment	5.8	6.1	10.5	11.2
Amortization of intangible assets	0.9	0.8	1.8	1.6
Loss (gain) on disposal of assets	0.3	(0.2)	1.1	(0.4)
Changes in fair value of biological assets	0.5	0.5	1.1	1.2
Finance costs	1.8	3.4	3.7	6.6
Other	0.4	(0.3)	2.2	(0.1)
	<u>22.0</u>	<u>20.4</u>	<u>32.0</u>	<u>39.9</u>
Changes in non-cash working capital items:				
Trade and other receivables	(26.6)	(18.4)	(20.2)	(23.3)
Inventory	(16.8)	(20.7)	0.4	(29.1)
Prepaid expenses and other assets	(3.0)	(4.7)	(4.0)	(5.5)
Silviculture provision	1.1	1.4	2.1	2.4
Accounts payable and accrued liabilities	13.7	23.2	15.2	29.1
	<u>(31.6)</u>	<u>(19.2)</u>	<u>(6.5)</u>	<u>(26.4)</u>
	<u>(9.6)</u>	<u>1.2</u>	<u>25.5</u>	<u>13.5</u>
Investing activities:				
Additions to property, plant and equipment	(3.6)	(3.3)	(6.5)	(5.0)
Proceeds on disposals of assets	2.7	1.7	28.0	2.2
	<u>(0.9)</u>	<u>(1.6)</u>	<u>21.5</u>	<u>(2.8)</u>
Financing activities:				
Changes in revolving credit facility	-	3.8	-	(9.1)
Interest paid	(1.1)	(2.3)	(3.4)	(4.7)
Repayment of long-term debt	(12.6)	(1.9)	(43.8)	(2.4)
Refinancing fees	-	-	(0.1)	-
	<u>(13.7)</u>	<u>(0.4)</u>	<u>(47.3)</u>	<u>(16.2)</u>
Cash used in continuing operations	(24.2)	(0.8)	(0.3)	(5.5)
Cash used in discontinued operations	(0.2)	(0.4)	(0.5)	(0.9)
Decrease in cash and cash equivalents	(24.4)	(1.2)	(0.8)	(6.4)
Cash and cash equivalents, beginning of period	28.7	2.9	5.1	8.1
Cash and cash equivalents, end of period	<u>\$ 4.3</u>	<u>\$ 1.7</u>	<u>\$ 4.3</u>	<u>\$ 1.7</u>

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 January 1, 2010	\$ 599.8	\$ 2.7	\$ 23.9	\$ (325.5)	\$ 300.9
Net income for the period	-	-	-	18.9	18.9
Other comprehensive loss:					
Defined benefit plan actuarial losses recognized, net of tax	-	-	-	(15.7)	(15.7)
Total comprehensive income for the period	-	-	-	3.2	3.2
Share-based payment transactions recognized in equity	-	0.2	-	-	0.2
Total transactions with owners, recorded directly in equity	-	0.2	-	-	0.2
Balance at June 30, 2010	\$ 599.8	\$ 2.9	\$ 23.9	\$ (322.3)	\$ 304.3
Balance at January 1, 2011	\$ 599.8	\$ 3.0	\$ 23.9	\$ (292.5)	\$ 334.2
Net income for the period	-	-	-	11.1	11.1
Other comprehensive loss:					
Defined benefit plan actuarial losses recognized, net of tax	-	-	-	(1.6)	(1.6)
Total comprehensive income for the period	-	-	-	9.5	9.5
Share-based payment transactions recognized in equity	-	0.1	-	-	0.1
Total transactions with owners, recorded directly in equity	-	0.1	-	-	0.1
Balance at June 30, 2011	\$ 599.8	\$ 3.1	\$ 23.9	\$ (283.0)	\$ 343.8

See accompanying notes to these unaudited condensed consolidated interim financial statements

Western Forest Products Inc.

2011 Second Quarter Report

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Tabular amounts expressed in millions of Canadian dollars)

1. General Information

Western Forest Products Inc. ("Western" or the "Company") is a major integrated softwood forest products company domiciled in Canada, operating in the coastal region of British Columbia. The unaudited condensed consolidated interim financial statements of the Company as at June 30, 2011 and for the three and six months ended June 30, 2011 and 2010 comprises 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.

These unaudited condensed consolidated interim financial statements ("interim financial statements") were approved by the Board of Directors on August 3, 2011.

2. Summary of Significant Accounting Policies

(a) Statement of compliance and basis of presentation

The consolidated financial statements of the Company as at and for the year ended December 31, 2010 which were prepared under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") are available on www.sedar.com.

Effective January 1, 2011, the Company fully adopted International Financial Reporting Standards ("IFRS") as the basis for preparation of financial information and accounting.

These interim financial statements are for the three and six months ended June 30, 2011. Because they are part of the first fiscal year accounted for under IFRS, they have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"), and are covered by IFRS 1, *First-time Adoption of IFRS*. As a result, these interim financial statements may provide additional disclosure not normally expected in interim financial statements. These interim financial statements do not include all of the information required for full annual financial statements.

Reconciliations and descriptions of the effect of the transition to IFRS on the Company's financial position, financial performance and cash flows are provided in Note 4 -Transition to IFRS. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian GAAP, to those reported for those periods and at the date of transition under IFRS. Certain disclosures related to the first time adoption of IFRS, including the equity and comprehensive income reconciliations from Canadian GAAP to IFRS as at December 31, 2010 and for the year then ended, are included in the Company's March 31, 2011 interim financial statements. These interim financial statements should be read in conjunction with the March 31, 2011 interim financial statements.

These interim financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Based on its financial position at June 30, 2011 and its current forecasts, the Company expects it will be able to continue to operate as a going concern for the foreseeable future.

The preparation of interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Company's accounting policies. 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 Note 3 - Critical Accounting Estimates and Judgements. Actual results may differ from these estimates.

The accounting policies set out below have been applied consistently to all periods presented in the interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of transition to IFRS.

Western Forest Products Inc.

2011 Second Quarter Report

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Tabular amounts expressed in millions of Canadian dollars)

(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 and liabilities for equity-settled share-based payment transactions are measured at fair value at grant date;
- Derivative financial instruments are measured at fair value; and
- The defined benefit liability is recognized as the net total of the plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

(c) Consolidation

As part of its transition to IFRS, the Company elected not to restate business combinations that occurred prior to January 1, 2010.

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date on which control ceases.

The principal wholly-owned operating subsidiaries of the Company at June 30, 2011 are Western Lumber Sales Limited (which sells into the United States), Western Forest Products Japan Ltd. (formerly MacMillan Bloedel KK) (which sells into Japan), and WFP Quatsino Navigation Limited (the beneficial owner of a number of the Company's non-core assets).

Inter-company transactions, balances and unrealized gains on inter-company transactions are eliminated in preparing these interim financial statements. Unrealized losses are also eliminated in the same way unless the transaction provides evidence of an impairment of the asset transferred.

(d) Adoption of new accounting policies

The following new or amended IFRSs have been issued which are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, with the exception of IFRS 13 which is effective prospectively from January 1, 2013:

IFRS 9 *Financial Instruments*

IFRS 10 *Consolidated Financial Statements*

IFRS 11 *Joint Arrangements*

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 13 *Fair Value Measurement*

Amendments to IAS 19 *Employee Benefits*

Amendments to IAS 28 *Investments in Associates and Joint Ventures*

IFRS 9 *Financial instruments* ("IFRS 9") was issued in November 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27") and SIC-12 *Consolidation – Special Purpose Entities*.

Western Forest Products Inc.

2011 Second Quarter Report

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(Tabular amounts expressed in millions of Canadian dollars)

IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures* ("IAS 31"). Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. Upon adoption of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented.

IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12") contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* ("IFRS 13") replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

IAS 19 *Employee Benefits* ("IAS 19") will modify accounting for pensions and other post-retirement and post-employment benefits and impact corporate financial reporting, including reported net profit. The key impacts of the amendments will include:

- Changes in how a plan's funded status and its variation during a reporting period will affect balance sheet and comprehensive income
- Changes in the reported benefit expense due to the removal of the expected return on assets and amortization items
- Significant changes to the footnote disclosures
- Potential implications for the way that plan sponsors manage defined benefit plan risk

IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") will modify the existing standard as issued in 2008 as follows:

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- Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 and IAS 31 specified that the cessation of significant influence or joint control triggered re-measurement of any retained stake in all cases with gain recognition in profit or loss, even if significant influence was succeeded by joint control. IAS 28 will be modified so that in such scenarios the retained interest in the investment is not re-measured.

These new and revised accounting standards have not yet been adopted by Western, and the Company has not yet completed the process of assessing the impact that they will have on its financial statements or whether to early adopt any of the new requirements.

(e) Operating segments

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 30 countries worldwide, with sales to customers in Canada, the United States, Asia and Europe representing over 95% 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.

(f) Foreign currency translation

(i) Functional and presentation currency

These interim financial statements are presented in the Canadian dollar which is the Company's and its subsidiaries functional currency. Management believes that the Canadian dollar best reflects the currency of the primary economic environment in which Western operates.

(ii) Transactions and balances

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net income (loss) 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.

(g) Property, plant and equipment

All items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses, except for land, which is measured at fair value at each balance sheet date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. 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. 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. The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the

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future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. All other repairs and maintenance are recognized in net income (loss) for the period as incurred.

Fair value increases in the carrying amount of land are credited to other comprehensive income and included within the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same item of land are recognized in other comprehensive income. All other decreases are recognized immediately in net income (loss) for the period.

Depreciation is based on the depreciable amount of an item of property, plant and equipment, which is the cost of an item, less its residual value. Depreciation is calculated using the straight-line method and is recognized in net income (loss) over the estimated useful life of each component of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for the current and comparable 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 each balance sheet date.

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 (loss) for the period in which the disposal occurs.

(h) Biological assets

Standing timber on privately held forest land that is managed for timber production is characterized as a biological asset. Accordingly, on each balance sheet date, the biological asset is valued at its fair value less costs to sell with any change therein recognized in net income (loss) for the period. Costs to sell include all costs that would be necessary to sell the assets. Standing timber is transferred to inventory at its fair value less costs to sell at the date the logs are removed from the forest. Land under standing timber is measured at fair value at each balance sheet date and included in property, plant and equipment.

(i) Intangible assets

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 balance sheet date.

(j) Impairment of non-financial assets

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognized in net income (loss) for the period for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into cash generating units ("CGU") which are the lowest levels for which there are separately identifiable cash flows.

Impairment losses recognized in prior periods are assessed at each balance sheet date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' adjusted carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

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(k) Inventories

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 and facility (hemlock and balsam, douglas fir and cedar);
- (ii) Logs by end use sort (saw logs and pulp logs).

The cost of inventories includes expenditure 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, determined by actual lumber production costs divided by production volumes.

The costs for logs produced are allocated to logs based on the estimated fair value of the logs produced, except for pulp logs that are carried at market due to the significant difference between the market value of pulp logs compared to production costs.

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 with the NRV for the remaining logs based on market log prices.

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

(l) 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.

(m) Share capital

The Company's authorized capital consists of an unlimited number of common shares ("the Common Shares"), an unlimited number of non-voting shares ("the Non-Voting Shares") and an unlimited number of preferred shares. Common, Non-Voting 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.

(n) Long-term debt

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 (loss) for the period over the term of the long-term debt using the effective interest method.

(o) Employee benefits

- (i) Employee post-retirement 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 retirement 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. A defined contribution plan is a retirement plan under which the Company pays fixed contributions into a separate entity.

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. Any unrecognized past service costs and the fair value of the plan assets are deducted. The

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calculation is performed annually by a qualified actuary using the projected benefit actuarial method.

When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and 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.

Past-service costs are recognized immediately in net income (loss) for the period, unless the changes to the plans are conditional on the employees remaining in service for a specified period of time ("the vesting period"). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income, and reports them in retained earnings.

For hourly employees covered by forest industry union defined benefit pension plans, the net income (loss) for the period is charged with the Company's contribution as required under the collective agreements.

For its 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 (loss) 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.

(ii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits in net income (loss) for the period when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits are payable more than 12 months after the balance sheet date then they are discounted to their present value.

(iii) 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.

(iv) Share-based payment transactions

The Company has established share-based payment plans for eligible directors, officers and employees and accounts for these plans using the fair value method. The grant-date fair value of share-based payment awards (i.e. options) is recognized as an employee expense, with a corresponding increase in equity, over the period that the individual becomes unconditionally entitled to the awards. 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. In the case of options issued in 2010 and 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 the Black-Scholes model used for valuing earlier granted options is no longer applicable. All options which were previously granted and do not contain the minimum price requirement continue to be valued using the Black-Scholes model. Inherent in all option pricing models is the use of highly subjective estimates, including expected volatility of the underlying shares. 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. Cash consideration received from employees

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when they exercise the options is credited to share capital, as is the previously calculated fair value included in contributed surplus.

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 liabilities are re-measured at fair value at each balance sheet date and at settlement date. Any changes in the fair value of the liabilities are recognized in employee expenses in net income (loss) for the period.

(p) Silviculture provision

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 balance sheet 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. 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 (loss) 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 (loss) for the period.

(q) 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 amounts 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.

(r) Deferred revenue

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 (loss) for the period on a straight-line basis over 40 years, being the term of the related fibre supply contract.

(s) Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases and payments made under operating leases are recognized in net income (loss) for the period on a straight line basis over the period of the lease.

(t) Finance costs

Finance costs comprise interest expense on long-term debt and the revolving credit facility, unwinding of the discount on the silviculture provision and changes in the fair value of investments recognized immediately through net income (loss). All finance costs are recognized in net income (loss) during the period using the effective interest method.

(u) Financial Instruments

(i) Non-derivative financial assets

The Company classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables, and held-to-maturity. The classification depends on the purpose

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for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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.

Certain of the Company's investments are classified at fair value through profit and loss. These financial assets are measured at fair value at the balance sheet date with changes therein recognized in net income (loss) for the period.

Loans and receivables comprise trade and other receivables. 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.

Held-to-maturity financial assets include certain investments held by the Company. 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.

Cash and cash equivalents comprise cash balances and short-term investments with original maturities of 90 days or less.

A financial asset not carried at fair value through profit or loss is assessed at each balance sheet 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 investment securities at both a specific asset and collective level. In assessing for impairment, 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 its 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 (loss) for the period and reflected in an allowance against receivables.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt issued on the date that it is originated. 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 plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) 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 balance sheet at fair value with changes in the (realized and unrealized) fair value being recognized as gains or losses within sales in net income (loss) for the period.

(v) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net income (loss) 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.

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Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the interim financial statements. Deferred income tax is not accounted for 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 either accounting or taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Such assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(w) Earnings per share

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

3. Critical Accounting Estimates and Judgements

The Company makes estimates and assumptions concerning its future operations. The resulting accounting estimates will seldom equal the related actual results. 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. In preparing these interim financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within 2011 are included within the following notes:

Note 10 – Property, plant and equipment – measurement of the fair value of land

Note 10 – Property, plant and equipment – key assumptions used in discounted cash flows

Note 10 – Intangible assets – key assumptions used in discounted cash flows

Note 11 – Biological assets – measurement of fair value less costs to sell of standing timber

Note 16 – Employee post-retirement benefits – measurement of defined benefit obligations

Note 17 – Share capital – measurement of share-based payment transactions

Note 19 – Financial Instruments – measurement of foreign exchange forward contract derivatives

4. Transition to IFRS

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that will be prepared in accordance with IFRS. The Company's transition date is January 1, 2010 (the "transition date") and the Company has prepared its opening IFRS balance sheet at that date. The Company will prepare its opening balance sheet and financial statements for 2010 and 2011 by applying existing IFRS with an effective date of December 31, 2011 or prior. Accordingly, the opening balance sheet and financial statements for 2010 and 2011 may differ from these financial statements. The accounting policies as described in Note 2 have been applied consistently for all

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periods presented in these interim financial statements, including the opening IFRS balance sheet as at January 1, 2010.

(a) Application of IFRS 1

In preparing these interim financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Western has elected to apply the following optional exemptions in accordance with IFRS 1:

(i) Business combinations exemption

Western has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the January 1, 2010 transition date.

(ii) Fair value as deemed cost exemption

Western has elected to measure certain items of property, plant and equipment, primarily roads and bridges, at fair value as at January 1, 2010.

(iii) Employee benefits exemption

Western has elected to recognize all cumulative unrecognized actuarial gains and losses that existed as at January 1, 2010 in retained earnings for all its employee benefit plans.

(iv) Share-based payment transactions

Western has elected not to re-measure equity awards granted after November 7, 2002 that vested prior to the date of transition and liabilities for cash-settled awards that were settled prior to the date of transition.

(v) Arrangements containing a lease

Western has elected not to re-assess arrangements existing at the date of transition, based on the facts and circumstances at that date, in accordance with IFRIC 4.

The remaining IFRS 1 voluntary exemptions either have not or do not apply to the Company at the date of transition to IFRS on January 1, 2010.

Western has applied the following mandatory exceptions from retrospective application.

(i) Estimates exception

Estimates under IFRS at January 1, 2010 are consistent with estimates made for the same date under Canadian GAAP.

(ii) Assets held for sale and discontinued operations exception

Management has applied IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, prospectively from January 1, 2010. Any assets held for sale or discontinued operations are recognized in accordance with IFRS 5 only from January 1, 2010. Western did not have any assets that met the held-for-sale criteria during the periods presented. No adjustment at January 1, 2010 was required.

(b) Reconciliations between IFRS and Canadian GAAP

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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Explanation of transition adjustments

(i) Reconciliation of equity:

	Note	January 1, 2010			June 30, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets							
Current assets:							
Cash and cash equivalents		\$ 8.1	\$ -	\$ 8.1	\$ 1.7	\$ -	\$ 1.7
Trade and other receivables		39.7	-	39.7	63.0	-	63.0
Inventory	f	105.2	-	105.2	132.0	2.3	134.3
Prepaid expenses and other assets		3.8	-	3.8	9.3	-	9.3
		<u>156.8</u>	<u>-</u>	<u>156.8</u>	<u>206.0</u>	<u>2.3</u>	<u>208.3</u>
Non-current assets:							
Property, plant and equipment	a,b,c,d,k	405.9	(175.9)	230.0	395.2	(173.1)	222.1
Intangible assets	a,g	-	117.5	117.5	-	115.9	115.9
Biological assets	a,e,k	-	85.7	85.7	-	84.5	84.5
Other assets		10.9	-	10.9	10.1	-	10.1
		<u>\$ 573.6</u>	<u>\$ 27.3</u>	<u>\$ 600.9</u>	<u>\$ 611.3</u>	<u>\$ 29.6</u>	<u>\$ 640.9</u>
Liabilities							
Current liabilities:							
Revolving credit facility		\$ 15.3	\$ -	\$ 15.3	\$ 6.2	\$ -	\$ 6.2
Accounts payable and accrued liabilities	h	55.2	(10.3)	44.9	86.6	(12.6)	74.0
Silviculture provision	h	-	10.3	10.3	-	12.7	12.7
Current portion of long-term debt		45.2	-	45.2	118.9	-	118.9
Discontinued operations		6.1	-	6.1	6.3	-	6.3
		<u>121.8</u>	<u>-</u>	<u>121.8</u>	<u>218.0</u>	<u>0.1</u>	<u>218.1</u>
Non-current liabilities:							
Long-term debt		74.5	-	74.5	-	-	-
Silviculture provision	h	-	15.7	15.7	-	15.7	15.7
Other liabilities	h,i	29.8	(14.2)	15.6	29.8	1.6	31.4
Deferred revenue		72.4	-	72.4	71.4	-	71.4
		<u>298.5</u>	<u>1.5</u>	<u>300.0</u>	<u>319.2</u>	<u>17.4</u>	<u>336.6</u>
Shareholders' equity:							
Share capital		599.8	-	599.8	599.8	-	599.8
Contributed surplus	j	2.5	0.2	2.7	2.7	0.2	2.9
Accumulated other comprehensive income	b	-	23.9	23.9	-	23.9	23.9
Deficit		(327.2)	1.7	(325.5)	(310.4)	(11.9)	(322.3)
		<u>275.1</u>	<u>25.8</u>	<u>300.9</u>	<u>292.1</u>	<u>12.2</u>	<u>304.3</u>
		<u>\$ 573.6</u>	<u>\$ 27.3</u>	<u>\$ 600.9</u>	<u>\$ 611.3</u>	<u>\$ 29.6</u>	<u>\$ 640.9</u>

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(ii) Reconciliation of comprehensive income for the periods:

(Expressed in millions of Canadian dollars) (Unaudited)	Note	Three months ended June 30, 2010			Six months ended June 30, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		\$ 181.5	\$ -	\$ 181.5	\$ 319.8	\$ -	\$ 319.8
Cost and expenses:							
Cost of goods sold							
Cost of sales	h,e,f	136.1	(0.5)	135.6	246.4	(1.1)	245.3
Amortization and depreciation	d,g	8.1	(1.2)	6.9	15.5	(2.7)	12.8
		<u>144.2</u>	<u>(1.7)</u>	<u>142.5</u>	<u>261.9</u>	<u>(3.8)</u>	<u>258.1</u>
Export tax		0.9	-	0.9	1.9	-	1.9
Freight		17.9	-	17.9	31.5	-	31.5
Selling and administration	i	5.7	0.1	5.8	11.1	0.1	11.2
		<u>168.7</u>	<u>(1.6)</u>	<u>167.1</u>	<u>306.4</u>	<u>(3.7)</u>	<u>302.7</u>
		<u>12.8</u>	<u>1.6</u>	<u>14.4</u>	<u>13.4</u>	<u>3.7</u>	<u>17.1</u>
Operating restructuring items		(0.9)	-	(0.9)	(0.9)	-	(0.9)
Other income (expenses)	k	1.5	(1.2)	0.3	12.1	(1.4)	10.7
Operating income		<u>13.4</u>	<u>0.4</u>	<u>13.8</u>	<u>24.6</u>	<u>2.3</u>	<u>26.9</u>
Finance costs	h	(3.3)	(0.1)	(3.4)	(6.4)	(0.2)	(6.6)
Net income before income taxes		10.1	0.3	10.4	18.2	2.1	20.3
Income tax expense		(0.3)	-	(0.3)	(0.5)	-	(0.5)
Net income from continuing operations		9.8	0.3	10.1	17.7	2.1	19.8
Net loss from discontinued operations		(0.3)	-	(0.3)	(0.9)	-	(0.9)
Net income for the period		<u>9.5</u>	<u>0.3</u>	<u>9.8</u>	<u>16.8</u>	<u>2.1</u>	<u>18.9</u>
Other comprehensive income (loss)							
Defined benefit plan actuarial losses, net of taxes	i	-	(8.3)	(8.3)	-	(15.7)	(15.7)
Total comprehensive income (loss) for the period		<u>\$ 9.5</u>	<u>\$ (8.0)</u>	<u>\$ 1.5</u>	<u>\$ 16.8</u>	<u>\$ (13.6)</u>	<u>\$ 3.2</u>

(iii) Reconciliation of Property, Plant and Equipment

		January 1, 2010
Property, plant and equipment, Canadian GAAP		\$ 405.9
Biological and intangible assets - reclassification	a	(184.9)
Land - fair value	b	23.9
Logging roads - deemed cost	c	0.9
Buildings & equipment - deemed cost	c	0.7
Buildings & equipment - impairment	d	(16.5)
Property, plant and equipment, IFRS		<u>\$ 230.0</u>

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(iv) Material adjustments to the Statements of Cash Flows

None of the Company's IFRS transitional adjustments directly impact the cash and cash equivalents balance and result only in adjustments within the cash flow presentation itself. The adjustments required to the Statement of Cash Flows under IFRS arise due to relatively minor income adjustments, primarily a reduction to depreciation and amortization, which resulted in a corresponding non-cash add-back adjustment. There are no other material differences between the Statement of Cash Flows presented under IFRS and the Statement of Cash Flows presented under Canadian GAAP.

Notes:

- a. Under IFRS, the "Property, plant and equipment" line item was reduced by \$16.2 million, as at January 1, 2010, as a result of re-classifying the Company's standing timber on its private timberlands, which is considered to be a biological asset under IFRS, to a separate line item, titled "Biological assets" (Note e). In addition, the Canadian GAAP net book value of crown timber tenures of \$168.7 million as at January 1, 2010 was re-classified from the "Property, plant and equipment" line item to a separate line item, titled "Intangible assets" (Note g).
- b. "Property, plant and equipment" was also impacted by the Company's policy choice of electing to use the revaluation model to fair value its land assets both at transition date and prospectively at each balance sheet date under IFRS, as compared to a historical cost basis of measurement under Canadian GAAP. As at January 1, 2010, the increase that resulted from this election was \$23.9 million with a corresponding credit to the revaluation reserve, a component of accumulated other comprehensive income and shareholders' equity.
- c. Western adopted the transitional optional exemption of valuing certain items of its "Property, plant and equipment", primarily roads and bridges, at fair value at transition date, which is then considered to be the deemed cost of those assets prospectively. The net impact of this was an increase to the Canadian GAAP net book value of these assets by \$1.6 million, as at January 1, 2010.
- d. As a result of applying guidance in IAS 36, the Company's sawmill buildings and equipment, which are categorized within "Property, plant and equipment", recognized an impairment loss on transition date of \$16.5 million. Under Canadian GAAP, the recoverable amount of these assets was calculated on an undiscounted basis. Under IFRSs, the recoverable amount of the CGU was estimated based on its value in use, which requires estimated future cash flows to be discounted. The key assumptions used in this value in use assessment are discussed in Note 10 to the March 31, 2011 interim financial statements. Depreciation expense associated with sawmill buildings and equipment under IFRS was reduced by \$1.9 million when compared to that recognized under Canadian GAAP, for the six months ended June 30, 2010 as a result of the reduced net book value of sawmill buildings and equipment as at January 1 2010.
- e. This adjustment reflects the separation of the Company's standing timber on its private timberlands, which is considered to be a biological asset under IFRS, which was previously included in the line item "Property, plant and equipment" under Canadian GAAP. The net book value of the standing timber reported under Canadian GAAP of \$16.2 million, which was measured at historical cost, was reclassified into "Biological assets", and was subsequently valued at fair value less costs to sell of \$85.7 million on transition to IFRS. The increase of \$69.5 million was credited to "Deficit" in shareholders' equity as at January 1, 2010. The key assumptions used in this valuation are discussed in Note 11 to the March 31, 2011 interim financial statements. The adjustments to "Biological assets" as at June 30, 2010 reflect this initial adjustment on transition plus the effects of any asset sales and any further adjustments to the fair value less costs to sell including those resulting from timber growth and harvest over the six month period. These changes to fair value less costs to sell for the Company's biological assets of \$1.2 million for the six months ended June 30, 2010 have been reflected in "cost of sales" in net income (loss) for the period (three months ended June 30, 2010 - \$0.5 million).
- f. As a result of the Company's standing timber on private timberlands being considered a biological asset in accordance with IAS 41, *Agriculture*, the logs harvested from these private timberlands are considered to be agriculture produce that are measured at fair value less costs to sell at the point of harvest, which becomes the deemed cost for the purpose of subsequent accounting under IAS 2,

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Inventories. As a result, an adjustment was required to be made to log and lumber inventory values as reported under Canadian GAAP at June 30, 2010 of \$2.3 million, to reflect this guidance under IAS 41 for logs in inventory and harvested from private timberlands.

- g. The adjustment to "Intangible assets" of \$117.5 million on transition reflects the re-classification of the Canadian GAAP net book value for the Company's crown timber tenures from "Property, plant and equipment" of \$168.7 million to "Intangible assets", combined with an impairment charge on transition date as a result of applying IAS 36 *Impairments*, of \$51.2 million. Under Canadian GAAP, the recoverable amount of these assets was calculated on an undiscounted basis. Under IFRSs, the recoverable amount of the CGU was estimated based on its value in use, which requires estimated future cash flows to be discounted. The key assumptions used in this value in use assessment are discussed in Note 10 to the March 31, 2011 interim financial statements. Amortization expense associated with the crown timber tenures under IFRS was reduced by \$0.8 million when compared to that recognized under Canadian GAAP, for the six months ended June 30, 2010, as a result of the reduced net book value of crown timber tenures as at January 1 2010 (three months ended June 30, 2010 - \$0.4 million reduction).
- h. Under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, there are measurement differences when compared to Canadian GAAP. For the Company's silviculture provision, these measurement differences under IFRS relate to the cash flows being discounted using a risk free rate rather than the Company's credit adjusted risk free rate as prescribed under Canadian GAAP. As a result of this measurement difference, the short term and long term components of the silviculture provision were increased by \$0.1 million and \$1.3 million, respectively, with a corresponding charge to the "Deficit" line in shareholders' equity as at January 1, 2010. In addition, the silviculture provision has been separately disclosed on the Statement of Financial Position on transition to IFRS, which resulted in \$10.2 million and \$14.4 million reduction in "Accounts payable and accrued liabilities" and "Other liabilities", respectively, as a result of this re-classification, when compared to Canadian GAAP. On the Statements of Comprehensive Income, the unwinding of the discount associated with the silviculture provision under IFRS of \$0.2 million for the six months ended June 30, 2010 has been recognized within finance costs rather than within cost of goods sold as under Canadian GAAP (three months ended June 30, 2010 - \$0.1 million).
- i. An adjustment was made to "Other liabilities" to account for the different methodologies under IFRS compared to Canadian GAAP for calculating the liability associated with employee post retirement benefits. Under IFRS, the Company's accounting policy is to recognize all actuarial gains and losses in other comprehensive income. Under Canadian GAAP, the Company's accounting policy was such that the excess of the net accumulated actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets was amortized over the remaining service period of the active employees. In addition, the Company has elected that at the date of transition all previously unrecognized cumulative actuarial gains and losses were recognized in retained earnings. This change required an additional liability to be recognized on transition date of \$0.2 million with a corresponding charge to the "Deficit" line in shareholders' equity. Similar recalculations were made in the six months ended June 30, 2010 resulting in additional adjustments to the employee post retirement benefits obligation of \$15.7 million (three months ended June 30, 2010 - \$8.3 million). These adjustments are reflected on the Statements of Comprehensive Income in line item "Other comprehensive income."
- j. Under Canadian GAAP, Western recognized the fair value of the share-based payment awards, determined at the time of the grant, on a straight-line basis over the five-year vesting period. Under IFRS 2, *Share-Based Payments*, the fair value of each tranche of the award is considered to be a separate grant based on the vesting period, with the fair value of each tranche determined separately and recognized as compensation expense over the term of its respective vesting period. An adjustment was made to "Contributed surplus" to account for the different calculations to be applied under IFRS compared to Canadian GAAP for calculating the cost of share-based payment awards. This change required an increase to "Contributed surplus" to be recognized on transition date of \$0.2 million with a corresponding charge to the "Deficit" line in shareholders' equity.
- k. The adjustment to "Other income (expenses)" of \$1.4 million for the six months ended June 30, 2010 (three months ended June 30, 2010 - \$1.2 million) relates to the differences between the calculated gains or losses on asset sales under IFRS when compared to Canadian GAAP. These differences

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result from fair value adjustments to the Canadian GAAP net book values for land, biological assets and certain items of property, plant and equipment as a result of Management's accounting policy elections or requirements under IFRS as outlined under Notes b., c. and e. above.

5. 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.

6. Segmented Information

The Company is an integrated Canadian forest products business operating in one industry segment comprised of timber harvesting and lumber production for marketing and distribution to worldwide markets.

7. Discontinued Operations

In March 2006, the Company closed its Squamish pulp mill located on 213 acres on the mainland coast of British Columbia and exited the pulp business. Subsequent to the closure, the Company sold substantially all of the manufacturing assets of the mill. Ongoing costs including supervision, security and property taxes continue to be expensed as incurred. The real property is one of the Company's portfolio of non-core assets and while site remediation is ongoing, the Company has listed the property for sale.

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Net loss from discontinued operations	\$ (0.2)	\$ (0.3)	\$ (0.5)	\$ (0.9)
Cash used in discontinued operations	\$ (0.2)	\$ (0.4)	\$ (0.5)	\$ (0.9)
			June 30, 2011	December 31, 2010
Assets of discontinued operations			\$ 2.3	\$ 2.3
Liabilities of discontinued operations			\$ 6.2	\$ 6.2

The assets of discontinued operations are included in "Other assets" on the Statement of Financial Position.

8. Related Parties

Brookfield Special Situations Management Limited ("BSSML") controls and directs 49% of the Company's Common Shares and 100% of the Non-Voting Shares. BSSML is a wholly owned subsidiary of Brookfield Asset Management ("BAM").

In addition to the related party transactions identified elsewhere in these interim financial statements, the Company has certain arrangements with entities related to BSSML and BAM to provide financing, acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire services including insurance, all in the normal course and at market rates or at cost. The following table summarizes these transactions for the three and six months ended June 30:

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	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Costs incurred for:				
Log purchases	\$ 2.7	\$ 2.0	\$ 4.5	\$ 3.9
Other	1.1	1.2	2.2	2.5
	<u>\$ 3.8</u>	<u>\$ 3.2</u>	<u>\$ 6.7</u>	<u>\$ 6.4</u>
Income received for:				
Log sales	\$ 1.5	\$ 1.3	\$ 2.0	\$ 2.2
Other (see comment below)	-	-	2.4	9.4
	<u>\$ 1.5</u>	<u>\$ 1.3</u>	<u>\$ 4.4</u>	<u>\$ 11.6</u>

In October 2009, the Company sold certain higher-and-better-use properties in central and northern Vancouver Island (the "HBU Properties") to WFP Forest Products Ltd, ("WFPFPL"), a jointly-owned entity of the Company and Brookfield Properties Limited ("BPL"), a wholly-owned subsidiary of Brookfield Properties Corporation (TSX: BPO.TO), which is in turn related to BAM. The HBU Properties were formerly part of the group of properties that were included in the Company's non-core asset sales program. In connection with the reorganization of WFPFPL as a jointly-owned entity and the sale of those HBU Properties, Western received cash proceeds of \$12.4 million, \$3.0 million in October 2009 and the balance of \$9.4 million on January 4, 2010. As part of the arrangements, WFPFPL had a right of first offer to purchase for possible future development approximately 255 hectares (630 acres) of additional higher-and-better-use properties of the Company in central and northern Vancouver Island. These properties also represent non-core assets of the Company. Western held less than 5% of the equity of WFPFPL and had a right to sell its interest in WFPFPL to BPL for its fair market value at any time on or after January 1, 2011. On January 4, 2011, the Company exercised the option to sell its equity interest in WFPFPL. Western received \$2.4 million as consideration for the sale of its interest, and the right of first offer was extinguished. Brookfield is the manager of WFPFPL, which also holds Carma Developers LP, a limited partnership that carries on a land development business across Western Canada. Because BPL is a related party of BSSML, which is Western's largest shareholder, the transaction constituted a related party transaction.

9. Inventory

The following table summarizes the value of inventory on hand:

	June 30, 2011	December 31, 2010
Logs	\$ 75.6	\$ 80.4
Lumber	47.2	43.0
Supplies and other inventories	11.0	10.7
Provision for write downs	(4.6)	(4.5)
Total value of inventories	<u>\$ 129.2</u>	<u>\$ 129.6</u>
Inventory carried at net realisable value	\$ 26.0	\$ 23.7

The inventory is pledged as security against the revolving credit line. During the second quarter of 2011, \$171.3 million (2010 - \$142.5 million) of inventory was charged to cost of sales which included a reduction in the provision for write-down to net realizable value of \$0.9 million (2010 - \$2.3 million).

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10. Property, Plant, and Equipment and Intangible Assets

Capital Assets Continuity

	Buildings & equipment	Logging roads	Land	Total property, plant and equipment	Intangible assets
at January 1, 2010					
Cost of capital assets at December 31, 2009	\$ 144.1	\$ 107.6	\$ 108.2	\$ 359.9	\$ 190.4
Accumulated amortization and impairment at December 31, 2009	(71.9)	(67.0)	-	(138.9)	(21.7)
Adjustments on transition to IFRS	(15.8)	0.9	23.9	9.0	(51.2)
Net book value at January 1, 2010	56.4	41.5	132.1	230.0	117.5
at June 30, 2010					
Net book value at January 1, 2010	56.4	41.5	132.1	230.0	117.5
Additions	0.8	4.2	-	5.0	-
Disposals	-	-	(1.7)	(1.7)	-
Depreciation and amortization	(5.3)	(5.9)	-	(11.2)	(1.6)
Net book value at June 30, 2010	\$ 51.9	\$ 39.8	\$ 130.4	\$ 222.1	\$ 115.9
at December 31, 2010					
Cost of capital assets at December 31, 2010	\$ 117.8	\$ 110.7	\$ 119.0	\$ 347.5	\$ 190.4
Accumulated amortization and impairment at December 31, 2010	(69.4)	(72.7)	-	(142.1)	(57.6)
Net book value at December 31, 2010	48.4	38.0	119.0	205.4	132.8
at June 30, 2011					
Net book value at December 31, 2010	48.4	38.0	119.0	205.4	132.8
Additions	3.4	3.1	-	6.5	-
Disposals	(0.2)	(3.7)	(8.1)	(12.0)	(1.7)
Depreciation and amortization	(5.5)	(5.0)	-	(10.5)	(1.8)
Net book value at June 30, 2011	\$ 46.1	\$ 32.4	\$ 110.9	\$ 189.4	\$ 129.3

As a result of the fair value assessment of the land holdings at June 30, 2011, no fair value adjustments were identified, as the carrying value did not differ materially from the estimated fair value.

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

	June 30, 2011	December 31, 2010	June 30, 2010
Cost	\$81.6	\$98.3	\$107.9

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11. Biological Assets

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Carrying value at beginning of period	\$ 61.5	\$ 85.0	\$ 77.7	\$ 85.7
Disposition of standing timber in the period		-	(15.7)	-
Change in fair value resulting from growth and pricing	0.5	0.8	0.9	1.6
Harvested timber transferred to inventory during the period	(1.0)	(1.3)	(1.9)	(2.8)
Carrying value at end of period	\$ 61.0	\$ 84.5	\$ 61.0	\$ 84.5

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 balance sheet date, and the underlying land considered a component of property, plant and equipment, which the Company has elected to record at fair value at each balance sheet date (Note 10).

At June 30, 2011 standing timber comprised approximately 25,484 hectares (December 31, 2010 - 33,780 hectares), which range from newly planted cut-blocks to old-growth forests. During the second quarter of 2011 the Company harvested and scaled approximately 106,859m³ of logs from its private timberlands, which had a fair value less costs to sell of \$7.1 million at the date of harvest (six months ended June 30, 2010: 91,347m³ - \$5.7 million).

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

The disposition reflected in the first quarter of 2011 primarily relates to the sale of properties to TimberWest Forest Corp. as detailed in Note 21.

12. Revolving Credit Facility

The Company's revolving credit facility, as amended on December 14, 2010, provides for a maximum borrowing amount of \$125.0 million, subject to a borrowing base which is primarily based on eligible accounts receivable and inventory balances. The facility bears interest at Canadian prime plus 0.5% (if availability exceeds \$40.0 million) or 0.75% (if availability is less than \$40.0 million) or at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus 2.25% or 2.50%, dependent on the same availability criteria. The revolving credit facility matures on December 14, 2015 subject to any future refinancing requirements of its revolving and non-revolving term loans. At June 30, 2011 and December 31, 2010 no amount was drawn on this facility. At June 30, 2011, \$94.8 million of the facility was available to the Company.

13. Long-Term Debt

In the first quarter of 2011, the non-revolving term loan of \$31.2 million was fully repaid, largely from the proceeds of non-core asset sales. In the second quarter of 2011, \$12.6 million was repaid on our \$75.0 million revolving term loan. At June 30, 2011 this \$12.6 million was still available to the Company. The revolving term loan matures on June 14, 2013.

The term loans bear interest at an index rate, determined as the higher of (i) the Canadian prime rate, and (ii) the 30 day Bankers Acceptance rate plus 1.35%, plus the applicable index rate margin, or at the Company's election, the applicable Bankers Acceptance rate, plus the applicable BA rate margin. The applicable index rate margins range from 2.75% to 5.00% and the applicable BA rate margins range from 3.75% to 6.00% and each is determined quarterly, based on a leverage ratio, calculated as the ratio of total debt to the sum of EBITDA for the twelve months ending on the date of determination. The interest rate for the revolving and non-revolving term loans was 6.25% at June 30, 2011 (December 31, 2010 – 6.03% and 6.75%, respectively).

The Company was in compliance with its financial covenants at June 30, 2011.

During 2010, the Company incurred \$1.3 million of transaction costs in relation to the new financing arrangements. These costs are deferred and are being amortized into interest expense over the term

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of the term loans using the effective interest rate method. Deferred transaction costs associated with the previous facilities were fully expensed during 2010.

	June 30, 2011	December 31, 2010
Canadian dollar debt		
Revolving term loan	\$ 62.4	\$ 75.0
Non-revolving term loan	-	31.2
	<u>62.4</u>	<u>106.2</u>
Less transaction costs	(0.8)	(1.3)
	<u>\$ 61.6</u>	<u>\$ 104.9</u>

14. Silviculture Provision

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Silviculture provision, beginning of period	\$ 28.3	\$ 27.0	\$ 27.3	\$ 26.0
Silviculture provision charged	4.4	3.5	6.5	5.6
Silviculture work payments	(3.4)	(2.2)	(4.2)	(3.4)
Disposition of intangible assets	-	-	(0.4)	-
Unwind of discount	0.1	0.1	0.2	0.2
Silviculture provision, end of period	<u>29.4</u>	<u>28.4</u>	<u>29.4</u>	<u>28.4</u>
Less current portion	11.5	12.7	11.5	12.7
	<u>\$ 17.9</u>	<u>\$ 15.7</u>	<u>\$ 17.9</u>	<u>\$ 15.7</u>

15. Other Liabilities

	June 30, 2011	December 31, 2010
Employee post retirement benefits obligation ^(Note 16)	\$ 21.0	\$ 21.1
Environmental accruals	1.5	1.5
Other	2.1	0.7
	<u>\$ 24.6</u>	<u>\$ 23.3</u>

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16. Employee Post-Retirement Benefits

Employee post-retirement benefit expense for both the defined benefit salaried pension and non-pension plans recognized in cost of goods sold is as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Current service costs	\$ 0.1	\$ 0.4	\$ 0.2	\$ 0.8
Interest costs	1.6	1.7	3.2	3.4
Expected return on plan assets	(1.6)	(1.6)	(3.2)	(3.2)
Cost of defined benefit plans	0.1	0.5	0.2	1.0
Cost of defined contribution plans	2.5	2.1	4.6	3.8
Total cost of employee post retirement benefits	\$ 2.6	\$ 2.6	\$ 4.8	\$ 4.8

The amounts recognized in the Statement of Financial Position for the Company's employee post-retirement benefit obligations, consisting of both the defined benefit salaried pension and other non-pension benefits are as follows:

	June 30, 2011	December 31, 2010
Present value of funded obligations	\$ (121.5)	\$ (123.2)
Fair value of plan assets	100.5	102.1
Liability recognized in the balance sheet	\$ (21.0)	\$ (21.1)

The change in the liability recognized in the Statement of Financial Position at June 30, 2011 was based on the actuarial gains or losses resulting from estimated changes in the discount rate used to value the defined benefit obligations and estimated differences in actual compared to expected returns on plan assets for the quarter. The change in discount rates in the second quarter of 2011 was a decrease of 0.1% from the rate used at March 31, 2011 of 5.4%, and the estimated actual return on assets in the quarter was a loss of 3.2% which was based on the index returns for the target asset mix of the related plans.

17. Share Capital

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

	Number of Common Shares	Amount	Number of Non-Voting shares	Amount
Balance at June 30, 2011 and December 31, 2010	128,625,623	\$412.3	338,945,860	\$187.5

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 10,000,000 Common Shares.

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

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In the first quarter of 2011, the Company granted 1,700,000 options with a fair value of \$0.7 million as determined by the Hull-White option pricing model using the assumptions of a weighted average exercise price \$0.75, risk free interest rates within a range of 2.89% to 3.32%, volatility rates of between 59.7% to 67.1% and an expected life of between 6 and 10 years. These options are only exercisable when the share price exceeds \$0.70 for 60 consecutive days on a volume weighted average price basis. All options outstanding that were granted prior to 2010 do not contain the minimum price requirement and continue to be valued under the Black-Scholes model.

At June 30, 2011 6,441,795 options were outstanding under the Company's Option Plan with a weighted average exercise price of \$0.70 per Common Share. During the six months ended June 30, 2011 the Company recorded compensation expense of \$0.1 million (2010 - \$0.1 million).

The Company also has a Deferred Share Unit Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs and executives may elect to take a portion of their annual incentive bonus in the form of DSUs. The number of DSUs allotted is determined by dividing the dollar portion of the bonus that the executive elected to take in DSUs by the weighted average price of the Company's Common Shares for the five business days prior to the issue notification date. During the first quarter of 2011 designated executive officers were allotted 201,300 DSUs at a price of \$0.77 per DSU and a further 4,953 DSUs were issue to a director at a price of \$1.06 per DSU, and in the second quarter a further 7,012 DSUs were issued to a director at a price of \$0.82 per DSU. The cumulative number of DSUs outstanding at June 30, 2011 was 810,221 (December 31, 2010 – 596,956). During the second quarter of 2011, the Company recorded compensation recovery for these DSUs of \$0.4 million (2010 - nil), with a corresponding reduction to accounts payable and accrued liabilities.

18. Commitments and Contingencies

(a) 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.

Subsequent to June 30, 2011 the Company amended one of its long-term fibre supply agreement including the modification of minimum chip volume commitments such that a shortfall that existed for the 2010 annual commitments was eliminated. Consequently, Western has no remaining 2010 chip volume commitment shortfalls associated with its long term fibre supply agreements.

Based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2011.

(b) Storm damage

In late September, 2010, heavy rains and strong winds on the northwest of Vancouver Island triggered power outages, mudslides, road washouts and flooding. Certain logging areas were impacted by these severe storms with bridge and culvert damage, logging road washouts and slides in reforested areas. Work has commenced to repair the damage with total expenditures of \$1.2 million to June 30, 2011. There is still some uncertainty over the final estimates of the cost of damages resulting from the event. The current estimate of the insurable damages claim is approximately \$1.8 million which, as at June 30, 2011, has not been recognized in the Statement of Financial Position. It is anticipated there could be further uninsurable damages which have not yet been quantified but preliminary estimates are that they are not expected to exceed \$1.0 million. The impact on capitalized roads and bridges and other infrastructure is not expected to be significant.

(c) Lumber duties

On February 17, 2011, Canada issued a response to the request for arbitration made by the United States Trade Representative to the London Court of International Arbitration. This relates to allegations made by the United States of under-pricing of timber in the British Columbia interior region and

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circumvention of export measures provided for in the softwood lumber agreement (“SLA”) between Canada and the United States. The response by Canada was to refute the allegations, stating that the terms of the SLA had not been violated and that the United States’ claims were based on conjecture and without merit. A ruling from the London Court of International Arbitration is not expected until later in 2012. It is not possible to predict the outcome of the claims, or whether they would potentially have any impact on Western since they are specifically directed at British Columbia interior practices, and Western operates predominantly on the coast of British Columbia.

19. Financial Instruments

Certain of the Company’s sales transactions are denominated in foreign currencies, principally, the US dollar and Japanese Yen (“JPY”), and accordingly the Company is exposed to currency risk associated with changes in foreign exchange rates. To mitigate this foreign exchange risk, the Company entered into an agreement dated March 31, 2009 with BAM to provide a foreign exchange facility (“Facility”) to the Company. The Facility provides for a notional amount of up to US \$80.0 million, matures on March 31, 2012, and allows for forward transactions with a maximum term for each transaction of one year. The Facility automatically extends for one year on each anniversary date, provided that BAM has not notified the Company of its intention to cancel the facility at least 30 days prior to the anniversary date and subject to certain change of control provisions. The Facility is unsecured and is subject to an annual fee of 0.10% of the maximum notional amount. The Company does not consider the counterparty credit risk associated with this Facility to be significant.

As at June 30, 2011, the Company had outstanding obligations to sell an aggregate JPY 3,000 million at an average rate of JPY 80.61 per CAD with maturities through December 30, 2011. All foreign currency gains or losses to June 30, 2011 have been recognized in revenue in net income (loss) for the period and the fair value of these instruments at June 30, 2011 was a net asset of \$1.2 million (December 31, 2010 - \$0.8 million) which is included in trade and other receivables on the Statement of Financial Position. A net gain of \$1.9 million was recognized on contracts which were settled in the six months ended June 30, 2011 (2010 - nil), which was included in revenue in net income (loss) for the period.

20. Operating Restructuring Items

Operating restructuring costs of \$0.6 million in the six months ended June 30, 2011 relate to severance costs associated with restructuring administrative functions.

21. Other Income (Expenses)

Other expenses of \$0.1 million and other income of \$0.3 million for the second quarters of 2011 and 2010 related primarily to net losses and gains on relatively minor non-core asset sales, respectively.

The first quarter of 2011 included net losses on non-core asset sales of \$0.8 million, a gain on the sale of an equity interest in certain real estate properties of \$2.4 million (Note 8), an expense incurred of \$2.5 million to secure amendments to the terms of certain contractual arrangements, and other items totaling income of \$0.4 million. The most significant non-core asset sale in the quarter was the previously announced sale to TimberWest Forest Corp. of 7,678 hectares of land located in the southern portion of Vancouver Island near Jordan River for gross proceeds of \$21.9 million. In addition, during the first quarter the Company exercised the option to sell its equity interest in WFPFPL, the jointly owned entity established in 2009 between the Company and BPL, receiving \$2.4 million as consideration for the sale of its interest, and the right of first offer was extinguished (Note 8). The expense recognized in the first quarter of 2011 of \$2.5 million relating to the securing of amendments to certain existing contractual arrangements is payable in 14 equal quarterly installments commencing March 31, 2011.

The first quarter of 2010 included other income of \$10.4 million. This amount primarily related to a receipt in January 2010 of \$8.9 million being the balance of the proceeds related to the establishment of the jointly-owned entity in 2009 with BPL, a company related to BAM (Note 8). Also included in other income was a re-imburement from the Province of British Columbia of \$0.9 million relating to prior-period stumpage re-assessments, and sundry other items totaling \$0.6 million.

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22. Expenses by Function

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Administration	\$ 4.4	\$ 3.4	\$ 8.7	\$ 6.4
Distribution expenses	28.3	21.2	53.1	38.2
Cost of goods sold	171.3	142.5	321.0	258.1
	<u>\$ 204.0</u>	<u>\$ 167.1</u>	<u>\$ 382.8</u>	<u>\$ 302.7</u>

23. Other Expense Information

The Company recorded total employee compensation costs for the six months ended June 30, 2011 of \$92.8 million (2010 - \$80.6 million). Total amortization expense for the six months ended June 30, 2011 was \$12.3 million (2010 - \$12.8 million).



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