Western Forest Products Inc.

2014 Second Quarter Report

Western Forest Products Inc.

Letter to Shareholders

To Our Shareholders,

In the second quarter of 2014, Western continued to grow our business, achieving our highest quarterly revenue in seven years and delivering strong adjusted EBITDA results. We capitalized on the strong repair and renovation market in the U.S. by increasing sales of our Western Red Cedar and niche products. We continue to improve log mix through our log upgrade strategy which is delivering better margins. Sales volumes and lumber production were up substantially compared to the same quarter last year. Year to date, we have returned a total of $15.7 million to our shareholders while we continue to implement our strategic capital investment plan for the business.

Second quarter 2014 financial highlights:

- Grew revenue to $296 million, a 13% increase from the same period last year
- Delivered adjusted EBITDA of $40.9 million, a 25% increase from the previous quarter
- Improved liquidity by 15% in the quarter to $166 million

Second quarter 2014 operational successes:

- Lumber sales volume increased 11% from the second quarter last year to 255 Mmfbm
- Log harvest volume increased 3% from the second quarter last year to 1,544 m3
- Achieved an industry leading safety performance with a medical incident rate of 0.93
- Increased mill productivity by 4% from prior year second quarter
- Delivered an additional $5.8 million in margin improvement

Market update: We expect to see continued strength in the U.S. repair and renovation segment in North America, which should support demand for our Western Red Cedar products through the traditionally slower third and fourth quarters. Our niche products should also benefit from improving demand in North America for appearance lumber products. Demand for lumber in Japan is expected to continue to be impacted by high inventories through the third quarter. We remain cautiously optimistic that the market will regain its footing as we move into the fourth quarter. We believe that the demand for commodity lumber will be supported by the anticipated gradual recovery in the U.S. and growing demand from China. Pricing is likely to remain volatile until demand in the U.S. returns to trend levels.

Capital improvements: Western continues to make strategic capital investments in our operating platform. During the second half of 2014 we will implement more than $22 million in our Cowichan Bay, Duke Point and Saltair operations. Our $2.5 million Cowichan Bay auto log rotation project was successfully installed and fully operational on July 28, 2014. The first phase of our Duke Point sawmill modernization plan was completed on July 29, 2014 and we anticipate completing our $6.6 million phase II by year-end. The $11 million Saltair sawmill log in-feed system will be operational by the end of the year. We have commenced work on a $2.3 million upgrade to our barge loading facility that will drive cost efficiencies with respect to accessing key markets.

Safety: Western continues to lead our industry in safety. Our timberlands operations continue to perform at a very high level and we are delivering improved results with contractors. In our manufacturing operations, we continue to work with all of our stakeholders to drive improved results in the management of sawmill dust. We maintain our vigilance on health and safety as the safety of our employees remains our highest concern.

Finally, I am pleased to announce that we have reached a tentative agreement with the United Steel Workers on a five-year collective agreement. The agreement is similar to the pattern previously negotiated with interior forest companies. Ratification of this agreement is expected in the next few weeks.

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

Sincerely,

"Don Demens"

Don Demens
President and CEO

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three and six months ended June 30, 2014 to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2014 and the audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2013 (the "2013 Annual Report"), all of which can be found on SEDAR at www.sedar.com.

The Company has prepared the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2014 in accordance with IAS 34, *Interim Financial Reporting*, and these do not include all of the information required for full annual financial statements.

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

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

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

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

Unless otherwise noted, the information in this discussion and analysis is updated to July 30, 2014. Certain prior period comparative figures have been reclassified to conform to the current period's presentation. All financial references are in millions of Canadian dollars unless otherwise noted.

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

[2] Adjusted EBITDA as a proportion of Revenue

Summary of Selected Quarterly Results[1]

(millions of dollars except per share amount)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenue	$ 296.2	$ 262.3	$ 542.2	$ 496.1
Adjusted EBITDA	40.9	44.9	73.7	76.8
Adjusted EBITDA margin	13.8%	17.1%	13.6%	15.5%
Operating income prior to restructuring items and other income	31.3	36.2	56.2	60.8
Net income from continuing operations	29.2	35.7	52.8	58.8
Net income for the period	29.2	35.5	52.8	58.3
Basic earnings per share (in dollars)	$ 0.07	$ 0.08	$ 0.13	$ 0.12
Diluted earnings per share (in dollars)	$ 0.07	$ 0.07	$ 0.13	$ 0.12

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

Overview

Western reported adjusted EBITDA of $40.9 million for the second quarter of 2014, an $8.1 million improvement over the prior quarter and a $4.0 million decline from the second quarter of 2013. Our adjusted EBITDA margin of 13.8% in the second quarter of 2014 was consistent with the prior quarter. Our revenue in the second quarter of 2014 is the highest quarterly revenue reported in seven years, and reflects improved product pricing, increased lumber and log shipments, an improved product mix, and the benefit of a weaker Canadian dollar ("CAD"). Increases in our log harvesting and freight costs contributed to a 3.3% decline in our adjusted EBITDA margin in the second quarter 2014, compared to the same quarter of 2013. Our costs and production levels were also impacted by our decision to close operations at all our manufacturing facilities for at least three business days following the tragic shooting on April 30, 2014, at our Nanaimo sawmill, when two employees were fatally wounded, and two others injured.

Average prices realized in the second quarter of 2014 for our lumber products were 4% better than the second quarter a year ago, supported by a favourable exchange rate in the current quarter, and improved pricing in North American specialty products. Average prices realized for logs sold improved 7% in the second quarter of 2014 compared to the second quarter of 2013. This increase was principally a result of improving the mix of our sales and, to a lesser degree, price increases, most notably for shingle and peeler logs. As in the first quarter of 2014, we continued to reduce the percentage of pulp log sales, from 32% of our total log sales in the second quarter of 2013 to 22% in the second quarter of 2014, while at the same time increasing our domestic and export log sales.

Total lumber production was 3% higher in the second quarter of 2014 compared to the same quarter a year ago, with increased productivity more than offsetting the impact of running fewer operating days. Log costs in the second quarter of 2014 increased as a result of higher stumpage rates and increased harvesting costs. Other cost increases were incurred in the current quarter in the pursuit of a higher value log mix, including a 76% increase in the volume from helicopter logging compared to the second quarter of 2013. In addition, we invested $2.0 million more in road construction during the second quarter of 2014 compared to the same quarter last year.

Net income for the second quarter of 2014 was $29.2 million, or $0.07 per share as compared to net income of $35.5 million, or $0.08 per share, for the same period of 2013, and to $23.6 million, or $0.06 per share, for the previous quarter.

Our liquidity position remains strong. At June 30, 2014, we had total liquidity of $165.6 million, compared to $125.9 million at the end of 2013. The increased liquidity in the first half of 2014 primarily resulted from cash generated by operations.

Our strategic capital plan continues to progress in accordance with expectations and will build on previous investments at the Saltair, Cowichan Bay and Alberni Pacific sawmills. Our Board of Directors recently approved an additional $6.6 million investment at the Duke Point sawmill, giving a committed capital investment of $8.0 million at the facility. In addition, we commenced work on a $2.3 million investment to our barge loading facility, which will reduce the costs of accessing key North American and export markets.

During the second quarter of 2014, our margin improvement plan program contributed a further $5.8 million in annualized margin enhancements. These benefits mainly relate to improvements in timberlands operations, changes in product mix to create higher margins at our sawmills, and other logistics and procurement initiatives.

On July 14, 2014, Western signed a memorandum of agreement with the United Steel Workers on a five-year collective agreement, largely based on a previously negotiated agreement with BC interior forest companies. Ratification of this agreement is expected in the next few weeks.

In the second quarter of 2014, we continued to provide returns to our shareholders through our dividend program, paying $7.9 million or $0.02 per share to shareholders on June 20, 2014. Total dividend payments in the first half of 2014 amounted to $15.7 million, or $0.04 per share.

Operating Results

(millions of dollars)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenues				
Lumber	$ 207.9	$ 180.4	$ 381.8	$ 337.4
Logs	71.8	67.0	127.0	130.2
By-products	16.5	14.9	33.4	28.5
Total revenues	296.2	262.3	542.2	496.1
Adjusted EBITDA	40.9	44.9	73.7	76.8
Adjusted EBITDA margin	13.8%	17.1%	13.6%	15.5%

Second quarter 2014

Lumber revenue in the second quarter of 2014 grew to $207.9 million, 15% higher than in the second quarter of 2013. This increase was driven by an 11% increase in shipment volume combined with higher realized prices. Our average realized price for lumber during the second quarter of 2014 was 4%, or $33 per thousand board feet, higher than in the second quarter of 2013. This reflects both the benefit of a weaker CAD, and actual price increases for our Western Red Cedar (“WRC”). Partially offsetting these benefits was a lower value mix of our sales, as we sold a greater volume of commodity lumber, and proportionately less lumber into the Japanese market, in the second quarter this year compared to 2013.

Log revenue in the second quarter of 2014 was $71.8 million, an increase of $4.8 million, or 7%, over the second quarter of 2013. Our shipment volume in the current quarter was 1% higher than in the same quarter last year. The main driver of the increased log revenues in the current quarter was product mix related. We sold 20% more of higher value export logs and shingle logs, and 31% less of lower value pulp logs. With the exception of higher prices for shingle and peeler logs, prices were generally similar compared to the same period last year.

By-products revenue in the second quarter of 2014 was $16.5 million, $1.6 million higher than the $14.9 million reported for in the same period in 2013. This increase was the result of 11% higher average realized chip prices this quarter, combined with a 2% increase in the volume of chips sold compared to the second quarter of 2013. The increase in chip prices over the two quarters reflects an increase in the market price of pulp, to which prices received are tied by formula.

Adjusted EBITDA of $40.9 million for the second quarter of 2014 compares to $44.9 million reported in the same quarter last year and to $32.8 million in the first quarter of 2014. Results for the second quarter 2014 benefitted from improved sales volumes and prices for our products, and the favourable impact on our revenues of the weakening of the CAD against the US dollar (“USD”). The CAD was, on average, 7% weaker relative to the USD during the second quarter of 2014 compared to the second quarter of last year. The decline in adjusted EBITDA compared to the same quarter a year ago primarily reflects cost increases in our timberlands operations.

Our log harvest volume for the current quarter was 1.5 million cubic metres, which was 3% higher than the volume harvested in the second quarter of 2013. Our overall harvest costs were higher in the second quarter of 2014 compared to the second quarter last year. This increase resulted from a variety of factors including increased stumpage rates, and higher logging costs. Costs were also impacted in the second quarter of 2014 relative the second quarter last year as we increased the level of heli-logging by 76% to achieve a higher value log mix. We also invested more on construction of new logging roads which were expensed in the current quarter.

Total lumber production for the second quarter of 2014 was 237 million board feet, 3% higher than during the second quarter of 2013. The increased volume occurred despite downtime taken at our mills following the tragedy at our Nanaimo sawmill in April. An increase of 4% in mill productivity, as measured on a production per shift basis, compensated for the lower number of shifts operated over the respective quarters. The improved productivity was largely driven by our Saltair sawmill, following its capital program undertaken in 2013.

Freight costs in the second quarter of 2014 were $25.1 million, which was $3.4 million more than those incurred in the second quarter of 2013. This increase is the result of an 11% increase in shipment volumes of lumber in the current quarter as compared to the second quarter of 2013, and the impact of the weaker Canadian dollar in the current quarter. Partially offsetting these increases were lower log freight costs.

Selling and administration expenses in the second quarter of 2014 were $8.1 million, compared to $8.0 million in the same quarter in 2013. As a percentage of revenue, our selling and administration costs were 2.8% for the second quarter of 2014, a reduction from the 3.0% reported in second quarter of 2013.

Year to date, June 30, 2014

Total revenue for the first half of 2014 grew to $542.2 million, which was 9% higher than the first half of 2013. Lumber and by-product revenues were up by 13% and 17%, respectively, while log revenue was down by 3%. Our lumber shipment volumes and average prices realized were both higher by 6%, and by-product prices were 14% higher, driven primarily by higher chip prices in the first half of 2014. Despite realized average log prices being 7% higher during the first half of 2014, overall revenue declined as shipment volumes were lower than for the first half 2013. The reasons for these changes over the respective six month periods are similar to those discussed in the second quarter summary above, and reflect improved markets for our products and the continued efforts by Western to maximize adjusted EBITDA by channeling our products into higher margin markets. The CAD was, on average, 8% weaker relative to the USD during the first six months of 2014 compared to the same period in 2013, which also contributed to the improved prices realized for our products.

Adjusted EBITDA for the first six months of 2014 was $73.7 million, compared to $76.8 million in the first six months of 2013. While total revenues for the first half of 2014 were 9% higher than the same period in 2013, log harvest cost increases led to a reduction in adjusted EBITDA margins from 15.5% in the first half of 2013 to 13.6% in the same period of 2014.

Lumber production for the first half of 2014 was 6% higher than in the first half of 2013. The majority of this increase was in the first quarter of 2014 and was achieved mainly at our Saltair and Cowichan Bay mills. Overall mill productivity for the first half of 2014 was 4% ahead of the same period in 2013, which primarily reflects the beneficial impacts of the capital improvements implemented at the Saltair sawmill during 2013, combined with operating improvements at our mills.

Our total log harvest for the first half of 2014 was 2.8 million cubic metres, marginally lower than the volume in the same period last year. Harvest costs were higher in the first half of 2014 as a result of increased stumpage, increased harvest operating costs, increased use of heli-logging, and the construction of more spur roads. We approximately doubled the level of heli-logging in the first six months of 2014 and invested $4.0 million more in the construction of spur roads compared to the first half of 2013.

Selling and administration costs in the first half of 2014 were $17.9 million, which was $1.9 million more than in the same period last year. Most of the increase relates to performance related compensation. The cost for the six months as a percentage of revenue at 3.3% remains relatively consistent year over year.

Restructuring Costs

In the second quarter of 2014, an expense of $1.2 million was recognized following the arbitrated settlement of a union grievance relating to the 2011 curtailment of the Duke Point and Nanaimo sawmills.

Finance costs

Finance costs in the second quarter of 2014 were $1.5 million, which was $0.7 million higher than the same quarter of 2013. This increase was primarily the result of higher outstanding debt levels on our revolving term loan facility during the current quarter, which averaged $85.9 million, compared to a negligible amount during the second quarter of 2013. Partially offsetting this increase was the impact of lower interest rates and lower finance costs associated with our defined benefit pension plan in the second quarter of this year compared to the same quarter last year.

Discontinued Operations

Operations on the site of the former Squamish pulp mill were discontinued in 2006. Since that date, the Company has expensed costs for supervision, security, property taxes and environmental remediation. For the first quarter of 2014, we incurred no net expense for the site as revenue from selling hydro-electric power generated at the site offset our costs.

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

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

Financial Position and Liquidity

	Three months ended June 30,		Six months ended June 30,	
(millions of dollars except where noted)	2014	2013	2014	2013
Cash provided by operating activities	$ 30.4	$ 34.6	$ 50.8	$ 66.7
Cash used in investing activities	(7.9)	(17.8)	(16.1)	(28.8)
Cash provided by (used in) financing activities	(14.7)	93.2	(22.8)	63.5
Cash used to construct capitalized logging roads	(3.3)	(4.2)	(6.7)	(6.6)
Cash used to acquire property, plant and equipment	(4.6)	(16.5)	(9.4)	(25.1)

	June 30, 2014	December 31, 2013
Total liquidity (1)	$ 165.6	$ 125.9
Net debt (2)	65.5	82.9
Financial ratios:		
Current assets to current liabilities	2.37	2.34
Net debt to capitalization (3)	0.14	0.18

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

Cash provided by operating activities in the second quarter of 2014 amounted to $30.4 million, compared to $34.6 million in the second quarter of 2013. The decline resulted largely from the lower income generated from operations.

Cash used in investing activities was $7.9 million in the second quarter of 2014, compared to $17.8 million in the same quarter of 2013. Investing activities in the second quarter of 2014 were comprised of strategic capital investments of $2.3 million, maintenance spending on capital roads of $3.3 million and other maintenance projects of $2.3 million. The strategic capital invested primarily related to our Cowichan Bay sawmill log auto rotation project, and our Duke Point modernization project. Our strategic capital program is discussed more fully in the "Strategy and Outlook" section.

Financing activities in the second quarter of 2014 used cash of $14.7 million compared to the $93.2 million generated in 2013. During the second quarter of 2014, Western paid a dividend to shareholders of $0.02 per share, totaling $7.9 million, and repaid $5.8 million on its revolving term loan facility. In the second quarter of 2013, $100.0 million was drawn down on the revolving term loan facility, which was used to repurchase outstanding common voting and non-voting shares in the third quarter of 2013. No dividend was paid in the second quarter of 2013, as the program commenced in the third quarter of 2013.

At June 30, 2014, we had total liquidity of $165.6 million, compared to $125.9 million at the end of 2013. The increased liquidity in the first half of 2014 was primarily from surplus cash generated by operations. Liquidity is comprised of cash of $17.4 million, unused availability under the secured revolving credit line of $122.2 million, and $26.0 million under the revolving term loan facility.

Strategy and Outlook

Western's strategy, which is designed to maximize product margins while prudently increasing our sales volume, continued to progress during the first half of 2014. Key operational priorities for the strategy in 2014 include:

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

Market Outlook

During the second quarter of 2014 the rate of new home construction in the US leveled off at a pace of just under 1 million seasonally adjusted starts, an increase of 8% over the second quarter 2013. For the balance of 2014, our outlook for US housing growth is relatively flat. In the medium-term we expect gradual improvement in the US new home construction and the repair and renovation segment, which should drive lumber demand higher. Over the longer-term, constrained supply of Canadian softwood lumber due to BC's mountain pine beetle infestation and reduced allowable cut levels from eastern provinces, along with an increase in worldwide demand for lumber, are expected to lead to improved pricing for logs and lumber.

We benefited from strong demand for our cedar products in the second quarter of 2014, which increased over 2013 levels. Continued robust demand and limited log and lumber inventories are expected to support stable pricing for WRC as we move through the traditionally slower back half of the year.

Demand for lumber in Japan is currently being negatively impacted by a combination of seasonal weakness and reduced housing starts due to the increase in consumption tax introduced in April 2014. In the event that this trend worsens, we will re-evaluate our market options and adjust operating levels accordingly.

Niche lumber markets continue to improve heading into the second half of 2014, driven by the improved US repair and renovation segments.

Our realized prices for commodity lumber in the first half of 2014 increased year-over-year, but softness in SPF commodity lumber demand will limit our ability to improve prices in the second half of 2014.

High log inventories in China have resulted in reduced export log prices. We expect export prices to stabilize over the third quarter and demand to return as inventories come into balance. The domestic log market is expected to remain strong through the third quarter. We anticipate pulp log pricing will improve through the third quarter due to increased competition from pulp companies for open market supply.

Strategic Capital Plan Update

Our strategic capital plan continues to make steady progress:

- The Cowichan Bay log auto-rotation project was successfully installed and fully operational on July 28, 2014.
- The first phase of the Duke Point sawmill modernization was completed on July 29, 2014, and our Board recently approved an additional $6.6 million phase two investment at the mill to increase productivity and consolidate production.
- The final phase of our Saltair sawmill project, which involves the installation of a new log in-feed, will commence during the third quarter of 2014 and is expected to be complete by the end of this year.
- In July 2014, we commenced work on a $2.3 million project to enhance the efficiency at our Duke Point barge loading facility, which will reduce the costs of accessing key North American and export markets.
- Our recently installed Alberni Pacific sawmill autograder continues to exceed operating expectations, and we continue the evaluation of our other mills for similar autograder installations.

New accounting policies

New standards and interpretations not yet adopted

The following new and amended IFRS standards are not effective for the year ended December 31, 2014 and have not been applied in preparing these consolidated financial statements:

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

  IFRS 15 is effective for years commencing on or after January 1, 2017, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue related interpretations. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments, and lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

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

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

- *Annual improvements to IFRS*

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

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

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

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

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

Risks and Uncertainties

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

In June 2014, the Supreme Court of Canada (the "Court") released its decision on the aboriginal title claim by the Ts'ilqot'in First Nation of British Columbia, regarding land outside their traditional reserve area. The Court recognized Ts'ilqot'in title to the area in dispute, including rights to decide how the land will be used, occupancy, and economic benefits. The court ruling held that while the provincial government had the constitutional authority to regulate forest activity on aboriginal title lands, it had not adequately consulted with the Tsilqot'in.

While the decision does not directly impact Western's business as we do not have tenure in this disputed area, we do operate on Crown tenures elsewhere that are subject to claims of aboriginal title. The potential impact on Western's tenure holdings is not ascertainable at this stage.

The Court's direction is consistent with our approach to establish positive working relationships with the majority of the First Nations that have traditional territories which overlap our tenures. We will continue to develop and maintain effective relationships with First Nations, to operate respectfully and responsibly within their traditional territories, and wherever possible to create business opportunities for partnerships, tenures, and employment.

Related Parties

By virtue of the Brookfield Asset Management Inc. ("BAM") voting arrangements with Brookfield Special Situations Management Limited ("BSSML"), BAM is related to the Company. Western has certain arrangements with entities related to BAM to acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire other services including insurance, the provision of a foreign exchange facility all in the normal course and at market rates or at cost. During the second quarter of 2014, the Company paid entities related to BAM $6.8 million, and received income from related entities of $4.9 million in connection with these arrangements.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109 issued by the Canadian Securities Administrators, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and internal controls over financial reporting based on the 1992 framework: “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company’s system of internal control over financial reporting was effective as at December 31, 2013. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”). Based on the evaluation, Western’s CEO and CFO concluded that the Company’s disclosure controls and procedures were effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared. In addition, Western’s CEO and CFO concluded that the Company’s internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the interim filings are being prepared.

The CEO and CFO confirm that there were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting during the second quarter of 2014.

Outstanding Share Data

As of July 30, 2014, there were 392,219,407 Common Shares issued and outstanding. BSSML controls and directs 32.5% of the Company’s Common Shares. If the remaining unexercised Warrants are exercised prior to expiry on July 31, 2014, BSSML ownership will decline to 29.0%.

Western has reserved 20,000,000 Common Shares for issuance upon the exercise of options granted under the Company’s incentive stock option plan. During the first six months of 2014, 1,091,000 previously granted options were exercised, and 2,300,000 options were granted. As of July 30, 2014, 14,225,795 options were outstanding under the Company’s incentive stock option plan.

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of dollars except per share amounts and where noted)	2014 2nd	2014 1st	2013 4th	2013 3rd	2013 2nd	2013 1st	2012 4th	2012 3rd
Average Exchange Rate – Cdn $ to purchase one US $	1.091	1.103	1.049	1.039	1.023	1.008	0.991	0.996
Revenue								
Lumber	207.9	173.9	168.1	171.7	180.4	157.0	156.1	147.3
Logs	71.8	55.2	59.7	53.9	67.0	63.2	62.9	58.5
By-products	16.5	16.9	14.2	13.8	14.9	13.6	12.2	13.6
Total revenue	296.2	246.0	242.0	239.4	262.3	233.8	231.2	219.4
Lumber								
Shipments – millions of board feet	255	218	222	228	231	214	222	218
Price – per thousand board feet	815	798	758	752	782	733	703	676
Logs								
Shipments – thousands of cubic metres	773	581	697	615	765	692	835	876
Price – per cubic metre (1)	90	95	84	83	84	89	73	65
Selling and administration	8.1	9.8	8.8	8.2	8.0	8.0	6.8	6.8
Adjusted EBITDA	40.9	32.8	24.4	27.6	44.9	31.9	14.3	8.5
Amortization	(8.2)	(7.7)	(7.0)	(7.5)	(7.9)	(6.8)	(5.9)	(6.2)
Changes in fair value of biological assets	(1.4)	(0.2)	(0.7)	(0.3)	(0.8)	(0.5)	(0.3)	0.4
Reversal of impairment	-	-	8.2	-	-	-	12.9	-
Operating restructuring items	(1.2)	(0.1)	(0.1)	(0.3)	(0.1)	(0.2)	(4.2)	(0.2)
Finance costs	(1.5)	(1.6)	(1.7)	(1.7)	(0.8)	(1.2)	(1.4)	(1.4)
Other income (expenses)	0.6	0.2	(0.1)	(0.4)	0.7	0.1	(0.9)	1.1
Deferred income tax recovery	-	0.2	26.5	-	-	-	-	-
Current income tax recovery (expense)	-	-	0.4	(0.2)	(0.3)	(0.2)	-	(0.1)
Net income from continuing operations	29.2	23.6	49.9	17.2	35.7	23.1	14.5	2.1
Net loss from discontinued operations	-	-	-	-	(0.2)	(0.3)	(0.2)	(0.3)
Net income	29.2	23.6	49.9	17.2	35.5	22.8	14.3	1.8
Adjusted EBITDA margin	13.8%	13.3%	10.1%	11.5%	17.1%	13.6%	6.2%	3.9%
Earnings per share:								
Net income, basic	0.07	0.06	0.13	0.04	0.08	0.05	0.03	-
Net income, diluted	0.07	0.06	0.13	0.04	0.07	0.05	0.03	-
Net income from continuing operations, basic	0.07	0.06	0.13	0.04	0.08	0.05	0.03	-
Net income from continuing operations, diluted	0.07	0.06	0.13	0.04	0.07	0.05	0.03	-

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

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

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

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2014 and 2013

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

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 17.4	$ 5.6
Trade and other receivables	95.4	69.0
Inventory (Note 5)	146.9	132.5
Prepaid expenses and other assets	15.6	10.1
	275.3	217.2
Non-current assets:		
Property, plant and equipment (Note 6)	228.0	226.0
Intangible assets (Note 6)	128.6	130.5
Biological assets (Note 7)	56.8	58.4
Other assets	11.8	11.9
Deferred income tax assets	26.7	26.5
	$ 727.2	$ 670.5
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 105.3	$ 79.8
Silviculture provision (Note 11)	10.5	12.3
Discontinued operations (Note 16)	0.6	0.6
	116.4	92.7
Non-current liabilities:		
Long-term debt (Note 9)	82.9	88.5
Silviculture provision (Note 11)	19.5	17.7
Other liabilities (Note 10)	24.4	20.3
Deferred revenue	63.4	64.4
Discontinued operations (Note 16)	4.3	4.5
	310.9	288.1
Shareholders' equity:		
Share capital - voting shares (Note 12)	501.1	486.6
Share capital - non-voting shares (Note 12)	-	13.1
Contributed surplus	7.3	6.5
Revaluation reserve	22.3	22.3
Deficit	(114.4)	(146.1)
	416.3	382.4
	$ 727.2	$ 670.5

Commitments and Contingencies (Note 13)

See accompanying notes to these unaudited condensed consolidated interim financial statements

Approved on behalf of the Board:

"Lee Doney"
Chairman

"Don Demens"
President and CEO

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue	$ 296.2	$ 262.3	$ 542.2	$ 496.1
Cost and expenses:				
Cost of goods sold	231.7	196.3	424.3	378.1
Export tax	-	0.1	-	0.1
Freight	25.1	21.7	43.8	41.1
Selling and administration	8.1	8.0	17.9	16.0
	264.9	226.1	486.0	435.3
Operating income prior to restructuring items and other income	31.3	36.2	56.2	60.8
Operating restructuring items (Note 18)	(1.2)	(0.1)	(1.3)	(0.3)
Other income	0.6	0.7	0.8	0.8
Operating income	30.7	36.8	55.7	61.3
Finance costs	(1.5)	(0.8)	(3.1)	(2.0)
Income before income taxes	29.2	36.0	52.6	59.3
Deferred income tax recovery	-	-	0.2	-
Current income tax expense	-	(0.3)	-	(0.5)
Net income from continuing operations	29.2	35.7	52.8	58.8
Net loss from discontinued operations (Note 16)	-	(0.2)	-	(0.5)
Net income for the period	29.2	35.5	52.8	58.3
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss)	(3.0)	3.9	(5.4)	2.7
Total comprehensive income for the period	$ 26.2	$ 39.4	$ 47.4	$ 61.0
Net income per share (in dollars):				
Basic earnings per share	$ 0.07	$ 0.08	$ 0.13	$ 0.12
Diluted earnings per share	$ 0.07	$ 0.07	$ 0.13	$ 0.12
Basic earnings per share - continuing operations	$ 0.07	$ 0.08	$ 0.13	$ 0.13
Diluted earnings per share - continuing operations	$ 0.07	$ 0.07	$ 0.13	$ 0.12
Weighted average number of shares outstanding (thousands)				
Basic	391,961	468,051	391,661	468,051
Diluted	398,857	472,040	398,654	472,165

See accompanying notes to these unaudited condensed consolidated interim financial statements

Western Forest Products Inc.

Condensed Consolidated Statements of Changes in Shareholders' Equity

(Expressed in millions of Canadian dollars) (unaudited)

	Share Capital	Contributed Surplus	Revaluation Reserve	Deficit	**Total equity**
Balance at December 31, 2012	$ 600.0	$ 4.2	$ 22.3	$ (268.8)	$ 357.7
Net income	-	-	-	58.3	58.3
Other comprehensive loss:					
Defined benefit plan actuarial gain recognized	-	-	-	2.7	2.7
Total comprehensive income	-	-	-	61.0	61.0
Share-based payment transactions recognized in equity	-	1.1	-	-	1.1
Total transactions with owners, recorded directly in equity	-	1.1	-	-	1.1
Balance at June 30, 2013	$ 600.0	$ 5.3	$ 22.3	$ (207.8)	$ 419.8

	Share Capital	Contributed Surplus	Revaluation Reserve	Deficit	**Total equity**
Balance at December 31, 2013	$ 499.7	$ 6.5	$ 22.3	$ (146.1)	$ 382.4
Net income	-	-	-	52.8	52.8
Other comprehensive income:					
Defined benefit plan actuarial loss recognized	-	-	-	(5.4)	(5.4)
Total comprehensive income	-	-	-	47.4	47.4
Share-based payment transactions recognized in equity	-	1.2	-	-	1.2
Exercise of stock options	1.4	(0.4)	-	-	1.0
Dividends	-	-	-	(15.7)	(15.7)
Total transactions with owners, recorded directly in equity	1.4	0.8	-	(15.7)	(13.5)
Balance at June 30, 2014	$ 501.1	$ 7.3	$ 22.3	$ (114.4)	$ 416.3

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,	
	2014	2013	2014	2013
Cash provided by (used in):				
Operating activities:				
Net income from continuing operations	$ 29.2	$ 35.7	$ 52.8	$ 58.8
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	7.3	7.0	14.0	13.0
Amortization of intangible assets (Note 6)	0.9	0.9	1.9	1.7
Gain on disposal of assets	-	(1.4)	-	(1.4)
Change in fair value of biological assets (Note 7)	1.4	0.8	1.6	1.3
Net finance costs	1.5	0.8	3.1	2.0
Deferred income tax recovery	-	-	(0.2)	-
Other	0.5	(0.5)	0.2	(1.3)
	40.8	43.3	73.4	74.1
Changes in non-cash working capital items:				
Trade and other receivables	(16.9)	(1.7)	(26.4)	(9.3)
Inventory	(0.5)	(11.2)	(14.4)	(9.9)
Prepaid expenses and other assets	(3.3)	(2.9)	(5.5)	(2.3)
Silviculture provision	(0.8)	0.4	(1.8)	(0.6)
Accounts payable and accrued liabilities	11.1	6.7	25.5	14.7
	(10.4)	(8.7)	(22.6)	(7.4)
	30.4	34.6	50.8	66.7
Investing activities:				
Additions to property, plant and equipment (Note 6)	(7.9)	(20.7)	(16.1)	(31.7)
Proceeds on disposals of assets	-	2.9	-	2.9
	(7.9)	(17.8)	(16.1)	(28.8)
Financing activities:				
Interest paid	(1.4)	(0.4)	(2.2)	(1.1)
Repayment of long-term debt	(5.8)	(5.8)	(5.8)	(34.8)
Draw down of long-term debt	-	100.0	-	100.0
Refinancing fees	-	(0.6)	-	(0.6)
Dividends	(7.9)	-	(15.7)	-
Proceeds from exercise of stock options	0.4	-	0.9	-
	(14.7)	93.2	(22.8)	63.5
Cash provided by continuing operations	7.8	110.0	11.9	101.4
Cash used in discontinued operations (Note 16)	(0.1)	(0.7)	(0.1)	(1.2)
Increase in cash and cash equivalents	7.7	109.3	11.8	100.2
Cash and cash equivalents, beginning of period	9.7	9.7	5.6	18.8
Cash and cash equivalents, end of period	$ 17.4	$ 119.0	$ 17.4	$ 119.0

See accompanying notes to these unaudited condensed consolidated interim financial statements

1. Reporting entity

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

2. Basis of preparation

(a) Statement of compliance

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

These interim financial statements were approved by the Board of Directors on July 30, 2014.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

2. Basis of preparation (continued)

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

3. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2013, except for the adoption of revised standards as described below:

(a) Changes in accounting policies

Effective January 1, 2014, the Company has applied the following revised standard and interpretive guidance:

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

IFRIC 21, *Levies*

The nature and effect of these policy changes is disclosed in the Company's first quarter 2014 interim financial statements and have been applied consistently in preparation of these interim financial statements. Accordingly, refer to the Company's first quarter 2014 interim financial statements for a full description of these policy changes, for which there has been no significant impact.

(b) Standards and interpretations not yet effective

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

IFRS 15 is effective for years commencing on or after January 1, 2017, and will replace IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and a number of revenue related interpretations. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments, and lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

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

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

Annual improvements to IFRS

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

- Definition of "vesting condition" in IFRS 2, *Share-based payment*;

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

3. Significant accounting policies (continued)

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

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

4. Seasonality of Operations

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

5. Inventory

	June 30, 2014	December 31, 2013
Logs	$ 103.5	$ 95.8
Lumber	39.6	34.0
Supplies and other inventories	11.9	11.6
Provision for write downs	(8.1)	(8.9)
Total value of inventories	$ 146.9	$ 132.5
Inventory carried at net realizable value	$ 33.1	$ 30.5

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

During the three and six months ended June 30 2014, $231.7 million and $424.3 million, respectively (2013: $196.3 million and $378.1 million, respectively) of inventory was charged to cost of sales. This includes a decrease to the provision for write-down to net realizable value of $0.3 million and $0.8 million for the three and six months ended June 30, 2014, respectively (2013: increase of $0.5 million and decrease of $1.6 million, respectively).

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

6. Property, plant and equipment and intangible assets

Cost	Buildings & equipment	Logging roads	Land	Total property, plant & equipment	Intangible assets
Balance at January 1, 2013	$ 148.2	$ 122.4	$ 105.2	$ 375.8	$ 171.1
Additions	43.6	15.4	-	59.0	-
Disposals	(1.3)	-	(1.4)	(2.7)	(0.2)
Balance at December 31, 2013	$ 190.5	$ 137.8	$ 103.8	$ 432.1	$ 170.9
Additions	9.5	6.6	-	16.1	-
Disposals	(0.6)	-	-	(0.6)	-
Balance at June 30, 2014	$ 199.4	$ 144.4	$ 103.8	$ 447.6	$ 170.9
Accumulated amortization and impairments					
Balance at January 1, 2013	$ 89.9	$ 91.7	$ -	$ 181.6	$ 45.0
Amortization	11.7	13.8	-	25.5	3.7
Disposals	(1.0)	-	-	(1.0)	(0.1)
Reversal of impairments	-	-	-	-	(8.2)
Balance at December 31, 2013	$ 100.6	$ 105.5	$ -	$ 206.1	$ 40.4
Amortization	6.3	7.7	-	14.0	1.9
Disposals	(0.5)	-	-	(0.5)	-
Balance at June 30, 2014	$ 106.4	$ 113.2	$ -	$ 219.6	$ 42.3
Carrying amounts					
At December 31, 2013	$ 89.9	$ 32.3	$ 103.8	$ 226.0	$ 130.5
At June 30, 2014	$ 93.0	$ 31.2	$ 103.8	$ 228.0	$ 128.6

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

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value. The Company reviewed the underlying assumptions impacting its land holdings as at June 30, 2014 and noted no indication that a full re-assessment of fair value was warranted at that date.

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

	June 30, 2014	December 31, 2013
Cost	$ 79.6	$ 79.6

7. Biological assets

(a) Reconciliation of carrying amount

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Carrying value, beginning of period	$ 58.2	$ 60.3	$ 58.4	$ 60.8
Change in fair value resulting from growth and pricing	0.8	0.6	1.6	1.3
Harvested timber transferred to inventory in the period	(2.2)	(1.4)	(3.2)	(2.6)
Carrying value, end of period	$ 56.8	$ 59.5	$ 56.8	$ 59.5

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 reporting date. The land underlying the standing timber is considered a component of property, plant and equipment, which the Company has elected to record at fair value at each reporting date (Note 6).

At June 30, 2014, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2013: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to old-growth forests. During the three months ended June 30,

7. Biological assets (continued)

2014, the Company harvested and scaled approximately 96,400 cubic metres of logs from its private timberlands, which had a fair value less costs to sell of $9.4 million at the date of harvest (2013: 64,699 cubic metres and $5.6 million, respectively).

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

(b) Measurement of fair values

The fair value measurements for the Company's standing timber of $56.8 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used (December 31, 2013: Level 3 fair value). The valuation technique used is discounted cash flows combined with market comparison.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at June 30, 2014 and noted no indication that a full re-assessment of fair value less costs to sell or the significant unobservable inputs was warranted at that date.

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

8. Revolving credit facility

The Company's revolving credit facility (the "Facility") provides for a maximum borrowing amount of $125.0 million, subject to a borrowing base, which is primarily based on eligible accounts receivable and inventory balances. The Facility bears interest at Canadian Prime plus 0.50% (if availability exceeds $40.0 million) or 0.75% (if availability is less than $40.0 million) or at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus 2.25% or 2.50%, dependent on the same availability criteria. The interest rate for the Facility was 3.50% at June 30, 2014 (December 31, 2013: 3.50%).

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants. At June 30, 2014, the Facility was unused (December 31, 2013: unused) and $122.2 million of the facility was available to the Company. The Facility matures on December 14, 2015, subject to any future refinancing requirements of its revolving term loan.

The Company was in compliance with its financial covenants at June 30, 2014.

9. Long-term debt

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

The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate, and (ii) the 30 day Banker's Acceptance ("BA") rate plus 1.35%, plus the applicable index rate margin which ranges from 1.75% to 3.25%, or at the Company's election, the applicable BA rate, plus the applicable BA rate margin which ranges from 2.50% to 4.00%. The applicable margin is grid-based, determined quarterly, and based on a leverage ratio calculated as the ratio of total debt to EBITDA for the trailing twelve months ending on the date of determination. The interest rate for the Term Loan was 3.74% at June 30, 2014 (December 31, 2013: 3.97%).

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

9. Long-term debt (continued)

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

The Company was in compliance with its financial covenants at June 30, 2014.

	June 30, 2014	December 31, 2013
Revolving term loan	$ 84.0	$ 89.8
Less transaction costs	(1.1)	(1.3)
	$ 82.9	$ 88.5

The transaction costs at June 30, 2014 and December 31, 2013 relate to financing arrangements completed in the second quarter of 2012 and the amendment made to the Term Loan on June 28, 2013. These costs are deferred and being amortized to finance costs over the term of the amended revolving Term Loan using the effective interest rate method.

10. Other liabilities

	June 30, 2014	December 31, 2013
Employee future benefits obligation (Note 14)	$ 22.6	$ 18.3
Environmental accruals, excluding non-continuing operations	1.5	1.5
Other	0.3	0.5
	$ 24.4	$ 20.3

11. Silviculture provision

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Silviculture provision, beginning of period	$ 30.3	$ 30.9	$ 30.0	$ 31.0
Silviculture provision charged	3.6	2.6	6.2	5.6
Silviculture work payments	(4.0)	(4.0)	(6.4)	(7.2)
Unwind of discount	0.1	0.1	0.2	0.2
Silviculture provision, end of period	30.0	29.6	30.0	29.6
Less current portion	10.5	12.8	10.5	12.8
	$ 19.5	$ 16.8	$ 19.5	$ 16.8

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 1.01% to 2.24%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at June 30, 2014 is $31.5 million (December 31, 2013: $31.7 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the year.

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

12. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares	Amount	Number of Non-Voting Shares	Amount
Balance at December 31, 2013	352,077,810	$ 486.6	39,050,597	$ 13.1
Exercise of stock options	1,091,000	1.4	-	-
Conversion of non-voting shares to common shares	39,050,597	13.1	(39,050,597)	(13.1)
Balance at June 30, 2014	392,219,407	$ 501.1	-	$ -

On January 31, 2014, on closing of a secondary offering of the Company's shares by Brookfield Special Situations Management Limited ("BSSML"), the remaining 39,050,597 Non-Voting Shares of the Company were converted, on a one-for-one basis, into Common Shares of the Company. As a result of the secondary offering and further share sales by BSSML since December 31, 2013, BSSML beneficially held 135,910,080 Common Shares of the Company as at June 30, 2014, representing 34.7% of the issued and outstanding Common Shares of Western at that date.

(b) Share-based payment transactions

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

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

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

At June 30, 2014, 14,225,795 options were outstanding under the Company's Option Plan, with a weighted average exercise price of $1.24 per share.

(c) Deferred share unit plan

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

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

12. Share capital (continued)

During the second quarter of 2014, designated executive officers were allotted 3,578 DSUs at a price of $2.34 per DSU. A further 7,976 DSUs were issued to a director at a weighted average price of $2.31 per DSU. During the first quarter of 2014, designated executive officers were allotted 52,858 DSUs at a weighted average price of $2.58 per DSU. A further 6,258 DSUs were issued to a director at a weighted average price of $2.50 per DSU. The cumulative number of DSUs outstanding at June 30, 2014 was 1,021,960 (December 31, 2013: 951,290). During the three and six months ended June 30, 2014, the Company recorded compensation recovery for these DSUs of $0.2 million and compensation expense of $0.4 million, respectively (2013: compensation recovery of $0.2 million and $0.1 million, respectively), with corresponding adjustments to accounts payable and accrued liabilities.

(d) Warrants

On October 9, 2013, the Company issued 46,000,000 warrants in connection with the completion of the secondary offering of 46,000,000 of the Company's shares by BSSML on that date. Each warrant entitles the holder thereof to purchase one Common Share of the Company owned by BSSML at a price of $1.60 until July 31, 2014. Pursuant to an agreement between the Company, BSSML and Computershare Trust Company of Canada, BSSML is required to deliver from its holdings all of the Common Shares issuable upon exercise of the warrants. As a result, no Common Shares will be issued by Western to satisfy the exercise of the warrants and Western will not receive any proceeds on exercise of the warrants. As at June 30, 2014, 21,998,220 warrants were outstanding.

13. Commitments and contingencies

Long-term fibre supply agreements

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

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

14. Employee future benefits

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Current service costs	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Net interest	0.2	0.3	0.4	0.6
Cost of defined benefit plans	0.3	0.4	0.6	0.8
Cost of defined contribution plans	0.6	0.6	1.4	1.3
Total cost of employee post-retirement benefits	$ 0.9	$ 1.0	$ 2.0	$ 2.1

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

	June 30, 2014	December 31, 2013
Present value of obligations	$ (132.3)	$ (124.2)
Fair value of plan assets	109.7	105.9
Liability recognized in the statement of financial position	$ (22.6)	$ (18.3)

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

14. Employee future benefits (continued)

The change in the liability recognized in the statement of financial position at June 30, 2014 was due primarily to the actuarial gains or losses resulting from estimated changes in the discount rate used to value the defined benefit obligations and in the actual compared to expected return on plan assets for the quarter. The discount rate used as at June 30, 2014 was 3.90% per annum, a decrease of 0.70% per annum from the rate used at December 31, 2013 of 4.60% per annum, and the return on assets over the six months to June 30, 2014 was 6.3% per annum.

The Company expects to make funding contributions to its defined benefit plans of $3.7 million during 2014.

15. Financial instruments – fair values

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

	Carrying Amount					Fair Value			
June 30, 2014	Held to maturity	Designated at fair value	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Investments	$ 5.1	$ -	$ -	$ -	$ 5.1	-	5.1	-	$5.1
Foreign currency forward contracts (Note 18(iii))	-	0.1	-	-	0.1	-	0.1	-	$0.1
	$ 5.1	$ 0.1	$ -	$ -	$ 5.2				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 17.4	$ -	$ 17.4				
Trade and other receivables	-	-	95.4	-	95.4				
	$ -	$ -	$ 112.8	$ -	$ 112.8				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 105.3	$ 105.3				
Long-term debt (Note 9)	-	-	-	82.9	82.9				
	$ -	$ -	$ -	$ 188.2	$ 188.2				
December 31, 2013									
Financial assets measured at fair value									
Investments	$ 5.0	$ -	$ -	$ -	$ 5.0	-	5.0	-	$5.0
	$ 5.0	$ -	$ -	$ -	$ 5.0				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 5.6	$ -	$ 5.6				
Trade and other receivables	-	-	69.0	-	69.0				
	$ -	$ -	$ 74.6	$ -	$ 74.6				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 79.8	$ 79.8				
Long-term debt (Note 9)	-	-	-	88.5	88.5				
	$ -	$ -	$ -	$ 168.3	$ 168.3				

As at June 30, 2014, the Company had outstanding obligations to sell an aggregate Japanese Yen (“JPY”) 600 million at an average rate of JPY 93.37 per CAD with maturities through September 16, 2014. All foreign currency gains or losses related to currency forward contracts to June 30, 2014 have been recognized in revenue for the period and the fair value of these instruments at June 30, 2014 was a net asset of $0.1 million, which is included in trade and other receivables on the statement of financial position (December 31, 2013: $nil). A net loss of $1.0 million was recognized on contracts which were settled in the six months ended June 30, 2014 (2013: net loss of $0.4 million), which was included in revenue for the period.

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

16. Discontinued operations

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

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net loss from discontinued operations	$ -	$ (0.2)	$ -	$ (0.5)
Cash used in discontinued operations	$ (0.1)	$ (0.7)	$ (0.1)	$ (1.2)

	June 30, 2014	December 31, 2013
Assets of discontinued operation, excluding land	$ 2.8	$ 2.8
Liabilities of discontinued operations	$ 4.9	$ 5.1

17. Related parties

As at June 30, 2014, BSSML controls and directs 34.7% of the Company's Common Shares. BSSML is a wholly owned subsidiary of Brookfield Asset Management ("BAM").

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

The following table summarizes these transactions:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Costs incurred for:				
Log purchases	$ 4.0	$ 3.4	$ 6.2	$ 7.0
Other	2.8	2.0	6.9	4.4
	$ 6.8	$ 5.4	$ 13.1	$ 11.4
Income received for:				
Log sales	$ 4.9	$ 4.0	$ 10.0	$ 8.7
	$ 4.9	$ 4.0	$ 10.0	$ 8.7

18. Other restructuring items

In the second quarter of 2014, an expense of $1.2 million was recognized following the arbitrated settlement of a union grievance issue relating to the 2011 curtailment of the Duke Point and Nanaimo sawmills.

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

19. Expenses by function and other expense information

Expenses by function:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Administration	$ 5.9	$ 5.8	$ 13.6	$ 11.5
Distribution expenses	27.3	24.0	48.1	45.7
Cost of goods sold	231.7	196.3	424.3	378.1
	$ 264.9	$ 226.1	$ 486.0	$ 435.3

The Company recorded total employee compensation costs for the three months and six months ended June 30, 2014 of $56.4 million and $112.3 million, respectively (2013: $55.5 million and $108.1 million, respectively).

Total amortization expense for the three and six months ended June 30, 2014 was $8.2 million and $15.9 million, respectively (2013: $7.9 million and $14.7 million, respectively).

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