Western Forest Products Inc.

2014 Third Quarter Report

Western Forest Products Inc.

Letter to Shareholders

To Our Shareholders,

In the third quarter of 2014, Western managed a challenging operating environment and weaker export markets to achieve our second-highest third quarter revenue and adjusted EBITDA results.

Western recorded EBITDA of $20 million in the third quarter of this year, the second-highest third quarter EBITDA result in company history. This financial result was achieved despite a number of factors that challenged our business operations, including weak Japanese and Chinese log and lumber markets, and a prolonged fire season that limited log harvest. We offset the impact of the weak markets by increasing log sales volumes and by successfully implementing our log purchasing strategy. Additional log purchases supported increased lumber sales volumes of our high-value Western Red Cedar products. In addition, our flexible operating platform allowed us to grow our Niche volumes as we successfully diverted volume from Japan.

Third quarter 2014 financial highlights:

- Grew revenue to $262 million, a 9% increase from the same period last year
- Facilitated the completion of a $230 million secondary offering by Brookfield Special Situations Management Limited
- Signed a new five-year labour contract with the United Steelworkers Union
- Amended and extended our Term Loan through 2019, and reduced the effective interest rate

Third quarter 2014 operational successes:

- Achieved an industry leading safety performance with a medical incident rate of 1.07
- Increased mill production volume by 4% from the third quarter last year to 231 Mmfbm
- Increased log sales volume by 15% from the third quarter last year to 707 Mm3
- Increased sawlog purchase volume 84% from the third quarter last year

We continue to benefit from the gradual improvement of the North American housing market and, in particular, the repair and renovation segment that is supporting growth in demand for our Western Red Cedar and Niche products. We expect the Japanese lumber market to remain slow through 2014 due to above-normal lumber inventories and weak demand. In the longer term, we expect to grow our market share in Japan as US suppliers refocus their efforts on the recovering US new home construction segment. Demand for lumber in China has been less active due to a slow-down in the housing market; however, over the longer term, we anticipate a recovery in demand from China due to continued urbanization and government initiatives to improve the quality of the existing housing stock.

We remain well positioned to capitalize on improving markets as we move forward with our strategic capital plan. During the third quarter, our $2.5 million Cowichan Bay auto log rotation project was successfully installed, and the first phase of the Duke Point sawmill modernization was completed. Looking forward, the second phase of the Duke Point modernization will be fully operational in the first half of 2015. Our $11 million Saltair sawmill log in-feed modernization project will occur in two phases: the $4 million installation will be completed by the end of the year, and the remaining $7 million merchandiser installation will be completed early in 2015. We continue to work on additional plans that will position Western as a top-quartile producer in our targeted product lines by driving our unit costs lower.

We are pleased to announce the appointment of Stephen (Steve) Williams to Senior Vice President, Chief Financial Officer, and Corporate Secretary. A Chartered Accountant, Steve has more than 20 years of experience in the forest industry, with extensive executive level experience in financings, organizational change, mergers and acquisitions, and in building highly effective teams.

We are also pleased to announce the appointment of Rick Forgaard to Vice President, Manufacturing. Rick has 30 years of experience in the Pacific Northwest forest industry, with extensive expertise in multi-site manufacturing operations and capital programs that have delivered top-quartile performance.

Western continues to lead the industry in safety. Our Timberlands and Manufacturing operations continue to perform at a world-class level, and our Timberland contractors continue to make progress with the best quarterly results ever. Employee safety remains a top priority for Western.

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
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 nine months ended September 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 nine months ended September 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 nine months ended September 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 adjusted EBITDA as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe adjusted EBITDA and adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

Adjusted EBITDA does not represent cash generated from operations as defined by 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 November 13, 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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue	$ 262.1	$ 239.4	$ 804.3	$ 735.5
Adjusted EBITDA	20.0	27.6	93.7	104.4
Adjusted EBITDA margin	7.6%	11.5%	11.6%	14.2%
Operating income prior to restructuring items and other income	12.6	19.8	68.8	80.6
Net income from continuing operations	2.7	17.2	55.5	76.0
Net income for the period	2.7	17.2	55.5	75.5
Basic earnings per share (in dollars)	$ 0.01	$ 0.04	$ 0.14	$ 0.17
Diluted earnings per share (in dollars)	$ 0.01	$ 0.04	$ 0.14	$ 0.16

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

Overview

Western reported adjusted EBITDA of $20.0 million in the third quarter of 2014, our second best third quarter in Company history. Adjusted EBITDA decreased $7.6 million in comparison to the same period in 2013 due to challenging markets in Japan and China and operational curtailments due to an extended fire season.

Revenue grew to $262.1 million in the third quarter of 2014, an improvement of $22.7 million over the same period last year. Increased log shipments, an improved lumber sales mix and pricing, and the benefit of a weaker Canadian dollar (“CAD”) contributed to these results.

Third quarter lumber revenue increased 5%, compared to the same period in 2013, as continued strong demand from the North American repair and renovation sector led to increased volumes and pricing for Western Red Cedar (“WRC”) and our specialty moulding and millwork (“Niche”) lumber products. These results were achieved through a log purchase strategy that increased sawlog purchases to drive higher production of WRC lumber in the quarter, and offset the impact of an extended fire season on the supply of fibre to our mills. In addition, our flexible operating platform made it possible to shift production volumes from Japan lumber to Niche products.

In the third quarter of 2014, log revenue increased 22% on the strength of a 15% increase in log sales volumes as compared to the same period in 2013. We achieved a 4% increase in average realized log prices period over period as we continued to internalize pulp logs, which offset the decrease in export log prices.

Lumber production increased 4% in the third quarter of 2014 compared to the same quarter of last year, due to a log purchase strategy that improved fibre supply to our mills and contributed to increased operating shifts period over period.

Dry weather conditions forced the extended fire season and resulted in a 10% decline in log harvest volumes and an incremental $3.5 million in shut-down costs in the third quarter of 2014, as compared to the same period in 2013. Log costs increased period over period due to an increase in heli-logging, relative to total log production, and higher stumpage rates.

Net income for the third quarter of 2014 was $2.7 million, or $0.01 per share as compared to net income of $17.2 million, or $0.04 per share, for the same period in 2013. Reflected in net income for the third quarter of 2014 is a restructuring charge of $8.1 million, or $0.02 per share, taken for the consolidation of our Nanaimo-area sawmill operations. The closure of the Nanaimo sawmill in the fourth quarter of 2014 is expected to improve our margins without affecting our production capacity, and was made possible through the capital investments at our Duke Point and Saltair sawmills.

Our total liquidity position at September 30, 2014, has improved to $159.2 million, compared to $125.9 million at the end of 2013. The increased liquidity in 2014 has primarily resulted from cash generated by operations.

In the third quarter of 2014, we continued to provide returns to our shareholders through our dividend program, paying $7.8 million or $0.02 per share to shareholders on September 19, 2014. Total dividend payments in the nine months ended September 30, 2014 amounted to $23.5 million, or $0.06 per share.

Operating Results

(millions of dollars)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenues				
Lumber	$ 180.4	$ 171.7	$ 562.2	$ 509.1
Logs	66.0	53.9	193.0	184.1
By-products	15.7	13.8	49.1	42.3
Total revenues	262.1	239.4	804.3	735.5
Adjusted EBITDA	20.0	27.6	93.7	104.4
Adjusted EBITDA margin	7.6%	11.5%	11.6%	14.2%

Third quarter 2014

In the third quarter of 2014, we generated $262.1 million of revenue and $20.0 million of adjusted EBITDA compared to $239.4 million and $27.6 million, respectively, in the same quarter last year. Third quarter net income was $2.7 million in 2014, as compared to $17.2 million in the same period in 2013. Increased revenue was the result of higher log sales volumes and improved lumber prices driven by adjusting our sales mix, and the impact of a weaker CAD dollar. The decline in adjusted EBITDA and net income were primarily due to challenging markets in Japan and China and operational curtailments due to an extended fire season. Net income in the third quarter of 2014 also reflects a restructuring charge of $8.1 million taken for the consolidation of our Nanaimo-area sawmill operations.

Lumber revenue in the third quarter of 2014 grew to $180.4 million, a 5% increase over the third quarter of 2013. Third quarter average realized lumber prices increased $68 per thousand board feet as compared to the third quarter of 2013. Higher pricing was due to a combination of a 21% increase in Niche product shipments and an 8% increase in WRC product shipments period over period, and price improvements for those products which offset a 4% decrease in total lumber shipment volume.

Third quarter log revenue was $66.0 million, an increase of 22% over the same period in 2013. The increased log revenue was due to 15% higher log sales volumes and a 4% increase in average realized log price. The strength of the domestic log market and higher export log sales volumes offset the impact of a 10% decline in export log prices. Log sales mix and average realized log prices were further enhanced by a focus on improving log utilization while maintaining lumber quality standards. Third quarter pulp log sales volumes were reduced by 14% while export log sales volumes increased 10%, relative to total log sales volumes.

By-products revenue was $15.7 million in the third quarter of 2014, an increase of $1.9 million from the same period in 2013. The increase in by-products revenue is due to a 5% rise in chip sales volumes driven by increased lumber production, and as a result of a 10% increase in average realized chip prices primarily due to the positive impact of the weaker CAD.

Third quarter lumber production was 231 million board feet, an increase of 4% compared to the third quarter of 2013, as we operated with increased shifts. These results were achieved through flexible production programs, realizing the benefits of capital improvements, and our log purchase strategy.

Dry weather conditions in the third quarter of 2014 limited log production to 1.1 million cubic metres, a 10% reduction as compared to the third quarter of 2013. The impact of dry weather conditions on lumber production was mitigated by increased sawlog purchases in the third quarter of 2014. In addition, operational curtailments resulted in $3.5 million of incremental shut-down expenses in the third quarter of 2014 as compared to the same period in 2013. Also negatively impacting log costs in the third quarter of 2014 were higher contractor costs, increased stumpage rates, and increased transportation costs.

Freight costs were $23.6 million in the third quarter of 2014, an increase of $3.1 million compared to the same period of 2013. This increase was the result of a 15% increase in log shipment volumes in the current quarter as compared to the third quarter of 2013, and the impact of the weaker CAD in the current quarter, as freight costs are primarily USD denominated.

Selling and administration expenses in the third quarter of 2014 were $8.3 million, compared to $8.2 million in the same quarter in 2013. As a percentage of revenue, our selling and administration costs were 3.2% for the third quarter of 2014, a slight reduction from 3.4% in the third quarter of 2013.

Year to date, September 30, 2014

Adjusted EBITDA for the first nine months of 2014 was $93.7 million, compared to $104.4 million in the same period in 2013, as a result of rising lumber and log prices which were offset by an increase in log costs. Adjusted EBITDA margin decreased from 14.2% to 11.6% year over year.

Revenue for the first nine months of 2014 grew to $804.3 million, an increase of 9% over the same period of 2013. The factors that provided increased year-to-date revenue results are consistent with those discussed in the third quarter summary above, and reflect continued efforts by Western to channel product sales into higher value markets. The CAD was, on average, 8% weaker relative to the USD during the first nine months of 2014 compared to the same period in 2013, which has also contributed to the improved pricing for our products.

Lumber production for the first nine months of 2014 increased 5% from the first nine months of 2013, and overall mill productivity increased 4% over those same periods. These production efficiencies primarily reflect the beneficial impacts of the capital investments implemented at the Saltair sawmill during 2013, combined with operating improvements at our other mills.

Log harvest volumes for the first nine months of 2014 were 3.9 million cubic metres, a decrease in volume of 6% in the same period last year. Harvest costs increased in the first nine months of 2014 as a result of increased harvest operating costs, the construction of more spur roads, and rising stumpage rates. Our plan to increase the amount of accessible timber for harvest has led to an increase in spur road construction which resulted in an additional $2.0 million expense in the first nine months of 2014 compared to the first nine months of 2013.

Selling and administration costs through the first nine months of 2014 were $26.2 million, an increase of $2.0 million compared to the same period of last year. The nine months’ selling and administration costs as a percentage of revenue was 3.3% and has remained relatively consistent year over year.

Finance costs

Finance costs in the third quarter of 2014 were $1.4 million, a decrease of $0.3 million compared to the same quarter of 2013. This decrease was commensurate with lower interest rates and lower outstanding debt levels on our revolving term loan facility during the third quarter of 2014, which averaged $82.3 million.

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. Year-to-date, we have 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. The Company anticipates net proceeds on the sale of approximately $18.0 million, after remediation costs, and cash proceeds from the sale of approximately $21.8 million.

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

Financial Position and Liquidity

(millions of dollars except where noted)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash provided by operating activities	$ 22.1	$ 23.4	$ 72.9	$ 90.1
Cash used in investing activities	(10.5)	(13.0)	(26.6)	(41.8)
Cash used in financing activities	(13.4)	(119.4)	(36.2)	(55.9)
Cash used to construct capitalized logging roads	(2.6)	(5.1)	(9.3)	(11.7)
Cash used to acquire property, plant and equipment	(8.1)	(8.1)	(17.5)	(33.2)

	September 30, 2014	December 31, 2013
Total liquidity [1]	$ 159.2	$ 125.9
Net debt [2]	62.6	82.9
Financial ratios:		
Current assets to current liabilities	2.48	2.34
Net debt to capitalization [3]	0.13	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 third quarter of 2014 amounted to $22.1 million, compared to $23.4 million in the third quarter of 2013, with the decrease primarily attributable to lower income generated from operations.

Cash used in investing activities was $10.5 million in the third quarter of 2014, compared to $13.0 million in the same quarter of 2013. Investing activities in the third quarter of 2014 were primarily comprised of strategic capital investments of $4.7 million, capital maintenance spending on capital roads of $2.8 million and other capital maintenance projects of $3.2 million. The strategic capital invested primarily related to the completion of our Cowichan Bay log auto log rotation project, our Duke Point modernization project and the Duke Point Barge loading facility upgrades. Our strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

Financing activities in the third quarter of 2014 used cash of $13.4 million compared to the $119.4 million utilized in the same quarter of 2013. During the third quarter of 2014, we paid a dividend to shareholders of $0.02 per share, totaling $7.8 million, and repaid $5.0 million on our revolving term loan facility. Cash used in financing activities was significantly greater in the third quarter of 2013, as $100.3 million was used to repurchase outstanding common voting and non-voting shares in the period. In the third quarter of 2013, we also commenced our dividend program by paying $0.02 per share, totaling $7.8 million, and repaid $10.0 million on our revolving term loan facility.

At September 30, 2014, we had total liquidity of $159.2 million, compared to $132.1 million at the end of 2013. The increased liquidity was primarily due to surplus cash generated by operations. Liquidity is comprised of cash of $15.4 million, unused availability under the secured revolving credit line of $112.8 million, and $31.0 million available under the revolving term loan facility.

Strategy and Outlook

Western's strategy, which is designed to maximize product margins while increasing our sales volume, continued to progress through the third quarter of 2014.

Key operational priorities in support of the strategy in 2014 include:

- Increasing log availability through improved utilization
- Accessing additional log volume on the open market to increase lumber production
- Improving productivity through increased equipment utilization
- Focusing our lumber marketing programs by mill to drive higher margins

Market Outlook

The pace of U.S. new home construction continues its gradual improvement. We anticipate that the pace of just under 1 million seasonally adjusted starts will remain relatively unchanged for the balance of 2014. In the medium-term, we anticipate an acceleration in US new home construction and continued strength in the repair and renovation sectors, which should drive lumber demand higher. Over the longer-term, reduced 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.

Our sales performance continues to be spurred by robust demand for our cedar products, which have increased in volume and price over 2013, and represented 38% of lumber revenue in the first nine months of 2014. We anticipate this trend to continue as limited log and lumber inventories are expected to support stable pricing for WRC through the traditionally slower fourth quarter and into 2015.

Demand for lumber in Japan remains flat and we have adjusted our production levels to offset the impact of seasonal weakness in this market. We expect nominal growth in the Japan lumber market through to the first half of 2015 as high inventory levels are slowly depleted.

The North American home repair and renovation sector is expected to continue its moderate growth path and we expect this will continue to drive growth in volume and improved pricing in our Niche lumber products.

Weakening demand in China led to a decline in our commodity lumber prices and we anticipate that market conditions for our commodity lumber will remain challenging through the remainder of 2014.

Export log markets are being negatively impacted by high log inventories in China. Domestic log demand remains strong due to lower supply. We believe that export log inventory will normalize in the near-term, and we anticipate a continuation of a strong domestic log market due to supply constraints.

Strategic Capital Plan Update

Our strategic capital plan continues to make steady progress:

- The Cowichan Bay log auto-rotation project was successfully installed and is fully operational.
- The first phase of the Duke Point sawmill modernization was completed and we have begun our second phase of the modernization, which is anticipated to be fully operational in the first half of 2015.
- The Barge loading facility upgrade project at Duke Point was completed in the third quarter of 2014.
- The final phase of our Saltair sawmill project, which involves the installation of a new log in-feed, has commenced. Installation will occur in two phases beginning at the end of December and the project is expected to be fully operational in the first half of 2015.

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 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 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 or after 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 objective of establishing positive working relationships with the First Nations that have traditional territories which overlap our tenures. We will continue to develop and maintain 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

Prior to the completion of its secondary offering on September 10, 2014, Brookfield Special Situations Management Limited ("BSSML") and, by virtue of its voting arrangements with BSSML, Brookfield Asset Management Inc. ("BAM") were related parties to the Company.

Western has 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. Subsequent to the secondary offering by BSSML, Western transitioned certain arrangements with BAM related entities to other service providers. Where required, the remaining service arrangements are being transitioned to alternatives in the normal course of operations.

During the third quarter of 2014, the Company made payments to related parties of $5.7 million, and received income from related parties of $2.4 million in connection with these arrangements. Payments and income arising from transactions with entities related to BAM, occurring on or after September 10, 2014, are no longer disclosed as related party transactions.

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 “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 third quarter of 2014.

Outstanding Share Data

As of November 13, 2014, there were 392,409,407 common shares issued and outstanding.

Western has reserved 20,000,000 common shares for issuance upon the exercise of options granted under the Company’s incentive stock option plan. During the nine months ended September 30, 2014, 1,281,000 previously granted options were exercised, 24,795 options expired, and 2,300,000 options were granted. On November 13, 2014, 14,011,000 options were outstanding under the Company’s incentive stock option plan.

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of dollars except per share amounts and where noted)	2014			2013				2012
	3rd	2nd	1st	4th	3rd	2nd	1st	4th
Average Exchange Rate – Cdn $ to purchase one US $	1.089	1.091	1.103	1.049	1.039	1.023	1.008	0.991
Revenue								
Lumber	180.4	207.9	173.9	168.1	171.7	180.4	157.0	156.1
Logs	66.0	71.8	55.2	59.7	53.9	67.0	63.2	62.9
By-products	15.7	16.5	16.9	14.2	13.8	14.9	13.6	12.2
Total revenue	262.1	296.2	246.0	242.0	239.4	262.3	233.8	231.2
Lumber								
Shipments – millions of board feet	220	255	218	222	228	231	214	222
Price – per thousand board feet	820	815	798	758	752	782	733	703
Logs								
Shipments – thousands of cubic metres	707	773	581	697	615	765	692	835
Price – per cubic metre (1)	86	90	95	84	83	84	89	73
Selling and administration	8.3	8.1	9.8	8.8	8.2	8.0	8.0	6.8
Adjusted EBITDA	20.0	40.9	32.8	24.4	27.6	44.9	31.9	14.3
Amortization	(7.0)	(8.2)	(7.7)	(7.0)	(7.5)	(7.9)	(6.8)	(5.9)
Changes in fair value of biological assets	(0.4)	(1.4)	(0.2)	(0.7)	(0.3)	(0.8)	(0.5)	(0.3)
Reversal of impairment	-	-	-	8.2	-	-	-	12.9
Operating restructuring items	(8.3)	(1.2)	(0.1)	(0.1)	(0.3)	(0.1)	(0.2)	(4.2)
Finance costs	(1.4)	(1.5)	(1.6)	(1.7)	(1.7)	(0.8)	(1.2)	(1.4)
Other income (expenses)	-	0.6	0.2	(0.1)	(0.4)	0.7	0.1	(0.9)
Deferred income tax recovery	-	-	0.2	26.5	-	-	-	-
Current income tax recovery (expense)	(0.2)	-	-	0.4	(0.2)	(0.3)	(0.2)	-
Net income from continuing operations	2.7	29.2	23.6	49.9	17.2	35.7	23.1	14.5
Net loss from discontinued operations	-	-	-	-	-	(0.2)	(0.3)	(0.2)
Net income	2.7	29.2	23.6	49.9	17.2	35.5	22.8	14.3
Adjusted EBITDA margin	7.6%	13.8%	13.3%	10.1%	11.5%	17.1%	13.6%	6.2%
Earnings per share:								
Net income, basic	0.01	0.07	0.06	0.13	0.04	0.08	0.05	0.03
Net income, diluted	0.01	0.07	0.06	0.13	0.04	0.07	0.05	0.03
Net income from continuing operations, basic	0.01	0.07	0.06	0.13	0.04	0.08	0.05	0.03
Net income from continuing operations, diluted	0.01	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.

Certain categories of transactions are presented separately above due to their unpredictable timing and to allow for greater comparability of our operating results between periods. In the third quarter of 2014, the Company recognized an $8.1 million restructuring provision related to the consolidation of its Nanaimo sawmill operations. The fourth quarters of 2013 and 2012 include reversals of an impairment of $8.2 million and $12.9 million, respectively that had been taken on the Company's timber licenses (intangible assets) which were unusual adjustments. The fourth quarter of 2012 includes a $4.0 million restructuring charge relating to the reorganization of harvesting operations in TFL 44. In the fourth quarter of 2013, the Company 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 nine months ended September 30, 2014 and 2013

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

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 15.4	$ 5.6
Trade and other receivables	81.0	69.0
Inventory (Note 5)	136.0	132.5
Prepaid expenses and other assets	10.6	10.1
	243.0	217.2
Non-current assets:		
Property, plant and equipment (Note 6)	232.2	226.0
Intangible assets (Note 6)	127.4	130.5
Biological assets (Note 7)	56.4	58.4
Other assets	12.5	11.9
Deferred income tax assets	26.7	26.5
	$ 698.2	$ 670.5
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 86.7	$ 79.8
Silviculture provision (Note 11)	10.9	12.3
Discontinued operations (Note 16)	0.3	0.6
	97.9	92.7
Non-current liabilities:		
Long-term debt (Note 9)	78.0	88.5
Silviculture provision (Note 11)	19.0	17.7
Other liabilities (Note 10)	24.8	20.3
Deferred revenue	62.9	64.4
Discontinued operations (Note 16)	4.5	4.5
	287.1	288.1
Shareholders' equity:		
Share capital - voting shares (Note 12)	501.6	486.6
Share capital - non-voting shares (Note 12)	-	13.1
Contributed surplus	7.8	6.5
Revaluation reserve	22.3	22.3
Deficit	(120.6)	(146.1)
	411.1	382.4
	$ 698.2	$ 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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue	$ 262.1	$ 239.4	$ 804.3	$ 735.5
Cost and expenses:				
Cost of goods sold	217.6	190.4	641.9	568.5
Export tax	-	0.5	-	0.6
Freight	23.6	20.5	67.4	61.6
Selling and administration	8.3	8.2	26.2	24.2
	249.5	219.6	735.5	654.9
Operating income prior to restructuring items and other income	12.6	19.8	68.8	80.6
Operating restructuring items (Note 18)	(8.3)	(0.3)	(9.6)	(0.6)
Other income (expense)	-	(0.4)	0.8	0.4
Operating income	4.3	19.1	60.0	80.4
Finance costs	(1.4)	(1.7)	(4.5)	(3.7)
Income before income taxes	2.9	17.4	55.5	76.7
Deferred income tax recovery	-	-	0.2	-
Current income tax expense	(0.2)	(0.2)	(0.2)	(0.7)
Net income from continuing operations	2.7	17.2	55.5	76.0
Net loss from discontinued operations (Note 16)	-	-	-	(0.5)
Net income for the period	2.7	17.2	55.5	75.5
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss)	(1.1)	4.5	(6.5)	7.2
Total comprehensive income for the period	$ 1.6	$ 21.7	$ 49.0	$ 82.7
Net income per share (in dollars):				
Basic earnings per share	$ 0.01	$ 0.04	$ 0.14	$ 0.17
Diluted earnings per share	$ 0.01	$ 0.04	$ 0.14	$ 0.16
Basic earnings per share - continuing operations	$ 0.01	$ 0.04	$ 0.14	$ 0.17
Diluted earnings per share - continuing operations	$ 0.01	$ 0.04	$ 0.14	$ 0.17
Weighted average number of common shares outstanding (thousands)				
Basic	392,306	427,918	391,878	454,527
Diluted	399,347	432,759	398,869	458,899

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	-	-	-	75.5	75.5
Other comprehensive loss:					
Defined benefit plan actuarial gain recognized	-	-	-	7.2	7.2
Total comprehensive income	-	-	-	82.7	82.7
Share-based payment transactions recognized in equity	-	1.7	-	-	1.7
Repurchase of shares (Note 12)	(100.3)	-	-	-	(100.3)
Dividends	-	-	-	(7.8)	(7.8)
Total transactions with owners, recorded directly in equity	(100.3)	1.7	-	(7.8)	(106.4)
Balance at September 30, 2013	$ 499.7	$ 5.9	$ 22.3	$ (193.9)	$ 334.0

	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	-	-	-	55.5	55.5
Other comprehensive income:					
Defined benefit plan actuarial loss recognized	-	-	-	(6.5)	(6.5)
Total comprehensive income	-	-	-	49.0	49.0
Share-based payment transactions recognized in equity	-	1.9	-	-	1.9
Exercise of stock options	1.9	(0.6)	-	-	1.3
Dividends	-	-	-	(23.5)	(23.5)
Total transactions with owners, recorded directly in equity	1.9	1.3	-	(23.5)	(20.3)
Balance at September 30, 2014	$ 501.6	$ 7.8	$ 22.3	$ (120.6)	$ 411.1

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Cash provided by (used in):				
Operating activities:				
Net income from continuing operations	$ 2.7	$ 17.2	$ 55.5	$ 76.0
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	6.0	6.4	20.0	19.4
Amortization of intangible assets (Note 6)	1.0	1.1	2.9	2.8
Loss (gain) on disposal of assets	-	0.1	-	(1.3)
Change in fair value of biological assets (Note 7)	0.4	0.3	2.0	1.6
Net finance costs	1.4	1.7	4.5	3.7
Deferred income tax recovery	-	-	(0.2)	-
Other	(1.5)	(0.4)	(1.3)	(1.7)
	10.0	26.4	83.4	100.5
Changes in non-cash working capital items:				
Trade and other receivables	14.4	3.6	(12.0)	(5.7)
Inventory	10.9	(1.4)	(3.5)	(11.3)
Prepaid expenses and other assets	5.0	3.1	(0.5)	0.8
Silviculture provision	0.4	(1.2)	(1.4)	(1.8)
Accounts payable and accrued liabilities	(18.6)	(7.1)	6.9	7.6
	12.1	(3.0)	(10.5)	(10.4)
	22.1	23.4	72.9	90.1
Investing activities:				
Additions to property, plant and equipment (Note 6)	(10.7)	(13.2)	(26.8)	(44.9)
Proceeds on disposals of assets	0.2	0.2	0.2	3.1
	(10.5)	(13.0)	(26.6)	(41.8)
Financing activities:				
Interest paid	(1.0)	(1.3)	(3.2)	(2.4)
Repayment of long-term debt	(5.0)	(10.0)	(10.8)	(44.8)
Draw down of long-term debt	-	-	-	100.0
Refinancing fees	-	-	-	(0.6)
Repurchase of shares (Note 12)	-	(100.3)	-	(100.3)
Dividends	(7.8)	(7.8)	(23.5)	(7.8)
Proceeds from exercise of stock options	0.4	-	1.3	-
	(13.4)	(119.4)	(36.2)	(55.9)
Cash provided by (used in) continuing operations	(1.8)	(109.0)	10.1	(7.6)
Cash used in discontinued operations (Note 16)	(0.2)	(0.5)	(0.3)	(1.7)
Increase (decrease) in cash and cash equivalents	(2.0)	(109.5)	9.8	(9.3)
Cash and cash equivalents, beginning of period	17.4	119.0	5.6	18.8
Cash and cash equivalents, end of period	$ 15.4	$ 9.5	$ 15.4	$ 9.5

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 nine months ended September 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 November 13, 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)

(d) Use of estimates and judgements (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.

During the quarter ended September 30, 2014, the Company recognized $8.1 million in severance and others costs relating to consolidation of its Nanaimo-area operations (Note 18). This estimate is based on the Company's closure plan and experience with past mill closures. Actual costs may vary from estimates and differences will be recorded when known.

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 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 its 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.

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

3. Significant accounting policies (continued)

(b) Standards and interpretations not yet effective (continued)

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 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.

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

	September 30, 2014	December 31, 2013
Logs	$ 87.6	$ 95.8
Lumber	47.4	34.0
Supplies and other inventories	10.8	11.6
Provision for write downs	(9.8)	(8.9)
Total value of inventories	$ 136.0	$ 132.5
Inventory carried at net realizable value	$ 43.2	$ 30.5

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

During the three and nine months ended September 30 2014, $217.6 million and $641.9 million, respectively (2013: $190.4 million and $568.5 million, respectively) of inventory was charged to cost of sales. This includes an increase to the provision for write-down to net realizable value of $1.7 million and $0.9 million for the three and nine months ended September 30, 2014, respectively (2013: increase of $1.0 million and decrease of $0.6 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	17.5	9.3	-	26.8	-
Disposals	(1.6)	-	-	(1.6)	(0.2)
Impairment (Note 18)	(10.6)	-	-	(10.6)	-
Balance at September 30, 2014	$ 195.8	$ 147.1	$ 103.8	$ 446.7	$ 170.7
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)
Balance at December 31, 2013	$ 100.6	$ 105.5	$ -	$ 206.1	$ 40.4
Amortization	9.3	10.7	-	20.0	2.9
Disposals	(1.5)	-	-	(1.5)	-
Impairment (Note 18)	(10.1)	-	-	(10.1)	-
Balance at September 30, 2014	$ 98.3	$ 116.2	$ -	$ 214.5	$ 43.3
Carrying amounts					
At December 31, 2013	$ 89.9	$ 32.3	$ 103.8	$ 226.0	$ 130.5
At September 30, 2014	$ 97.5	$ 30.9	$ 103.8	$ 232.2	$ 127.4

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 September 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:

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

7. Biological assets

(a) Reconciliation of carrying amount

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Carrying value, beginning of period	$ 56.8	$ 59.5	$ 58.4	$ 60.8
Change in fair value resulting from growth and pricing	0.8	0.7	2.4	2.0
Harvested timber transferred to inventory in the period	(1.2)	(1.0)	(4.4)	(3.6)
Carrying value, end of period	$ 56.4	$ 59.2	$ 56.4	$ 59.2

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).

7. Biological assets (continued)

(a) Reconciliation of carrying amount (continued)

At September 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 September 30, 2014, the Company harvested and scaled approximately 75,444 cubic metres of logs from its private timberlands, which had a fair value less costs to sell of $7.7 million at the date of harvest (2013: 78,938 cubic metres and $7.2 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 $56.4 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 September 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 September 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 September 30, 2014, the Facility was unused (December 31, 2013: unused) and $112.8 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 September 30, 2014.

9. Long-term debt

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of $110.0 million. The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate plus 0.15%, and (ii) the 30 day Banker's Acceptance rate plus 1.65%. The interest rate for the Term Loan was 2.90% at September 30, 2014 (December 31, 2013: 3.97%).

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

On August 28, 2014, the Company extended the maturity date from June 29, 2017 to June 29, 2019, and amended the financial covenants for removal of the clause stipulating that any undrawn portion of the Term Loan would cease to be available and the revolving loan would convert to a term loan amortized over a 10 year period repayable in equal quarterly instalments, if Brookfield Corporation or its affiliates ceased to own at least 30% of the issued shares. In addition, the effective interest rate was reduced and the interest rate calculation was simplified through removal of the applicable interest rate

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

9. Long-term debt (continued)

margin. The amendments did not result in any material changes to the carrying value of the Term Loan.

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

	September 30, 2014	December 31, 2013
Revolving term loan	$ 79.0	$ 89.8
Less transaction costs	(1.0)	(1.3)
	$ 78.0	$ 88.5

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

10. Other liabilities

	September 30, 2014	December 31, 2013
Employee future benefits obligation (Note 14)	$ 23.0	$ 18.3
Environmental accruals, excluding non-continuing operations	1.5	1.5
Other	0.3	0.5
	$ 24.8	$ 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Silviculture provision, beginning of period	$ 30.0	$ 29.6	$ 30.0	$ 31.0
Silviculture provision charged	2.0	3.1	8.2	8.7
Silviculture work payments	(2.2)	(3.4)	(8.6)	(10.6)
Unwind of discount	0.1	-	0.3	0.2
Silviculture provision, end of period	29.9	29.3	29.9	29.3
Less current portion	10.9	11.6	10.9	11.6
	$ 19.0	$ 17.7	$ 19.0	$ 17.7

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 1.00% to 2.15%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at September 30, 2014 is $31.3 million (December 31, 2013: $31.7 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the year.

12. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares	Amount	Number of Non-Voting Shares	Amount
Balance at December 31, 2013	352,077,810	$ 486.6	39,050,597	$ 13.1
Exercise of stock options	1,281,000	1.9	-	-
Conversion of Non-Voting Shares to Common Shares	39,050,597	13.1	(39,050,597)	(13.1)
Balance at September 30, 2014	392,409,407	$ 501.6	-	$ -

12. Share capital (continued)

(a) Issued and outstanding share capital (continued)

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.

On September 10, 2014, BSSML closed a secondary offering to sell its remaining 135,910,080 Common Shares of the Company. As at September 30, 2014, BSSML no longer held Common Shares of the Company.

(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 per share, 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 September 30, 2014, 14,011,000 options were outstanding under the Company's Option Plan, with a weighted average exercise price of $1.21 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.

During the third quarter of 2014, designated executive officers were allotted 3,390 DSUs at a price of $2.49 per DSU. A further 6,359 DSUs were issued to a director at a weighted average price of $2.38 per DSU. The cumulative number of DSUs outstanding at September 30, 2014 was 1,031,709 (December 31, 2013: 951,290).

During the three and nine months ended September 30, 2014, the Company recorded compensation expense for these DSUs of nil and $0.5 million, respectively (2013: compensation expense of $0.2 million and $0.1 million, respectively), with corresponding impacts to accounts payable and accrued liabilities.

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

12. Share capital (continued)

(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 entitled 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 was required to deliver from its holdings all of the Common Shares issuable upon exercise of the warrants. As a result, no Common Shares were issued by Western to satisfy the exercise of the warrants and Western did not receive any proceeds on exercise of the warrants. As at September 30, 2014, no warrants were outstanding as they have expired.

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Current service costs	$ 0.1	$ 0.1	$ 0.3	$ 0.3
Net interest	0.2	0.3	0.6	0.9
Cost of defined benefit plans	0.3	0.4	0.9	1.2
Cost of defined contribution plans	0.8	0.7	2.2	2.0
Total cost of employee post-retirement benefits	$ 1.1	$ 1.1	$ 3.1	$ 3.2

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:

	September 30, 2014	December 31, 2013
Present value of obligations	$ (132.0)	$ (124.2)
Fair value of plan assets	109.0	105.9
Liability recognized in the statement of financial position (Note 10)	$ (23.0)	$ (18.3)

The change in the liability recognized in the statement of financial position at September 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 September 30, 2014 was 3.85% per annum, a decrease of 0.75% per annum from the rate used at December 31, 2013 of 4.60% per annum, and the return on assets over the nine months to September 30, 2014 was 6.9% per annum.

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

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

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			
September 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
	$ 5.1	$ -	$ -	$ -	$ 5.1				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 15.4	$ -	$ 15.4				
Trade and other receivables	-	-	81.0	-	81.0				
	$ -	$ -	$ 96.4	$ -	$ 96.4				
Financial liabilities measured at fair value									
Foreign currency forward contracts	$ -	$ 0.5	$ -	$ -	$ 0.5	-	0.5	-	$0.5
	$ -	$ 0.5	$ -	$ -	$ 0.5				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 86.2	$ 86.2				
Long-term debt (Note 9)	-	-	-	78.0	78.0				
	$ -	$ -	$ -	$ 164.2	$ 164.2				
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 September 30, 2014, the Company had outstanding obligations to sell an aggregate Japanese Yen (“JPY”) 600 million at an average rate of JPY 97.14 per CAD with maturities through November 14, 2014, and an aggregate US$31.0 million at an average rate of CAD$1.1039 per US with maturities through December 9, 2014. All foreign currency gains or losses related to currency forward contracts to September 30, 2014 have been recognized in revenue for the period and the fair value of these instruments at September 30, 2014 was a net liability of $0.5 million, which is included in accounts payable and accrued liabilities 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 nine months ended September 30, 2014 (2013: net loss of $0.5 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. A deposit of $5.5 million has been 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. Western anticipates net proceeds on the sale of approximately $18.0 million, after remediation costs, and cash proceeds from the sale of approximately $21.8 million.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net loss from discontinued operations	$ -	$ -	$ -	$ (0.5)
Cash used in discontinued operations	$ (0.2)	$ (0.5)	$ (0.3)	$ (1.7)

	September 30, 2014	December 31, 2013
Assets of discontinued operation, excluding land	$ 2.8	$ 2.8
Liabilities of discontinued operations	$ 4.8	$ 5.1

17. Related parties

In addition to the related party transactions identified elsewhere in these interim consolidated financial statements, the Company had certain arrangements with entities related to BSSML and Brookfield Asset Management Inc. ("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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Costs incurred for:				
Log purchases	$ 3.4	$ 4.6	$ 9.6	$ 11.6
Other	2.3	2.2	9.2	6.6
	$ 5.7	$ 6.8	$ 18.8	$ 18.2
Income received for:				
Log sales	$ 2.4	$ 2.5	$ 12.4	$ 11.2
	$ 2.4	$ 2.5	$ 12.4	$ 11.2

Concurrent with the sale of all remaining Common Shares in the Company by BSSML through a secondary offering completed on September 10, 2014, BSSML and BAM are no longer related parties to the Company.

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

18. Operating restructuring items

During the quarter ended September 30, 2014, the Board of Directors approved the consolidation of the Company's Nanaimo-area sawmill operations. The consolidation will result in the closure of the Nanaimo sawmill to coincide with increased production at the Duke Point sawmill. The Company anticipates that this closure will occur prior to the end of the year. The financial impact of severance and other costs relating to closure of the Nanaimo sawmill is estimated to be $8.1 million. The Company has recognized an additional $0.2 million in unrelated severance costs in the third quarter of 2014.

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.

19. Expenses by function and other expense information

Expenses by function:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Administration	$ 6.2	$ 6.1	$ 19.8	$ 17.6
Distribution expenses	25.7	23.1	73.8	68.8
Cost of goods sold	217.6	190.4	641.9	568.5
	$ 249.5	$ 219.6	$ 735.5	$ 654.9

The Company recorded total employee compensation costs for the three months and nine months ended September 30, 2014 of $51.2 million and $163.5 million, respectively (2013: $50.7 million and $158.9 million, respectively).

Total amortization expense for the three and nine months ended September 30, 2014 was $7.0 million and $22.9 million, respectively (2013: $7.5 million and $22.2 million, respectively).

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