**Western Forest Products Inc.**

2016 Third Quarter Report

# 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, 2016 to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2016, and our audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2015 (the "2015 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, 2016 in accordance with IAS 34, *Interim Financial Reporting*, and these do not include all of the information required for full annual financial statements. Amounts discussed herein are based on our unaudited condensed interim consolidated financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

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

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

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

This MD&A contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. Those statements and information appear in a number of places in this document and include statements and information regarding our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives and strategies. Such statements and information may be indicated by words such as "estimate", "expect", "anticipate", "plan", "intend", "believe", "should", "may" and similar words and phrases. Readers are cautioned that it would be unreasonable to rely on any such forward-looking statements and information as creating any legal rights, and that the statements and information are not guarantees and may involve known and unknown risks and uncertainties, and that actual results and objectives and strategies may differ or change from those expressed or implied in the forward-looking statements or information as a result of various factors. Such risks and uncertainties include, among others: general economic conditions, competition and selling prices, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, regulations or public policy, misjudgements 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 2015 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 3, 2016.

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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, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Revenue | $ 322.7 | $ 278.5 | $ 894.3 | $ 816.3 |
| Adjusted EBITDA | 35.7 | 28.7 | 114.4 | 87.5 |
| Adjusted EBITDA margin | 11.1% | 10.3% | 12.8% | 10.7% |
| Operating income prior to restructuring items and other income | 26.2 | 21.4 | 86.2 | 62.5 |
| Net income from continuing operations | 16.8 | 17.1 | 57.9 | 54.7 |
| Net income for the period | 16.8 | 17.1 | 57.9 | 63.8 |
| Basic and diluted earnings per share (in dollars) | $ 0.04 | $ 0.04 | $ 0.15 | $ 0.14 |
| Basic and diluted earnings per share (in dollars) - discontinued operations | $ - | $ - | $ - | $ 0.02 |

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

## Overview

Western achieved third quarter adjusted EBITDA of $35.7 million in 2016, a 24% improvement over the same quarter last year. A significant increase in lumber and export log sales volumes, combined with improved pricing and a strengthening commodity lumber market delivered a Company-record third quarter adjusted EBITDA.

Third quarter revenue was $322.7 million, a 16% improvement from the same period of 2015. Growing demand and strong pricing for our products, in particular for commodity lumber, delivered Company-record third quarter revenue.

Lumber production was 248 million board feet, a 17% increase from the same period of 2015 supported in part by our 98% increase in log purchases. Sawmill operating performance improved as we began to realize the benefits of recent strategic capital investments. In addition, operating hours increased as a result of comparatively less operating downtime for capital project implementations.

Third quarter log production of 1.2 million cubic metres was consistent with the same period of 2015. Average log harvest costs were stable quarter-over-quarter, as a 33% reduction in higher-cost helicopter logging volume largely offset increased stumpage costs related to specialty log harvesting. The success of our First Nations joint ventures and limited partnerships contributed to doubling our sawlog purchase volumes, as compared to the same period last year, and supported strong mill log supply through the period.

Operating income prior to restructuring items and other income increased 22% to $26.2 million in the third quarter of 2016, compared to $21.4 million in the same period of 2015. Third quarter net income was $16.8 million ($0.04 per diluted share) in 2016 compared to $17.1 million ($0.04 per diluted share) in 2015. Improved operating income was partly offset by deferred income tax expense.

Strong operating cash flows in the third quarter of 2016 were used to repay the Company's revolving credit facility, fund strategic and maintenance capital, and return capital to shareholders. On September 16, 2016, we returned $7.9 million, or $0.02 per common share, to shareholders through our quarterly dividend program. Our liquidity position at September 30, 2016 improved to $193.7 million, compared to $177.9 million at the end of 2015. In the three months ended September 30, 2016, net debt was reduced by 38% to $39.8 million.

Subsequent to quarter-end, on October 21, 2016, we received compensation of $14.1 million, inclusive of $0.1 million post-judgement interest, from the Province of British Columbia ("BC"). Compensation received represents the value at the time of the tenure extinguishment in April 2011. These funds were received in settlement for the partial tenure extinguishment from the Maa'nulth First Nations Final Agreement Act (the "Treaty"). The creation of Treaty Settlement Lands, and associated protected area tied to the Treaty resulted in the permanent harvesting rights reduction of 104,000 cubic metres in Tree Farm Licence 44. The settlement proceeds will be included in the Company's other income in the fourth quarter ending December 31, 2016, and were used to reduce our drawings on the revolving term loan facility upon receipt.

## Operating Results

| *(millions of dollars)* | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Revenue | | | | |
| Lumber | $ 235.6 | $ 203.8 | $ 662.8 | $ 575.6 |
| Logs | 70.0 | 57.3 | 180.5 | 189.5 |
| By-products | 17.1 | 17.4 | 51.0 | 51.2 |
| Total revenue | 322.7 | 278.5 | 894.3 | 816.3 |
| Adjusted EBITDA | 35.7 | 28.7 | 114.4 | 87.5 |
| Adjusted EBITDA margin | 11.1% | 10.3% | 12.8% | 10.7% |

### *Third quarter 2016*

In the third quarter of 2016 we generated adjusted EBITDA of $35.7 million, an increase of 24% from adjusted EBITDA of $28.7 million in the same quarter last year. We achieved these results by increasing log and lumber shipments and improving the operating performance of our sawmills.

Third quarter lumber revenue increased 16% to $235.6 million, as compared to the same quarter of 2015. Over that same period, we increased lumber shipments by 13% to 257 million board feet and achieved higher price realizations. Strong specialty and improved commodity lumber markets delivered a quarterly average realized lumber price of $917 per thousand board feet. Higher overall shipment volumes were achieved through increases of 15%, 31% and 16% in Western Red Cedar (“WRC”), Niche and Commodity lumber sales, respectively, as compared to the same period last year.

Third quarter log revenue was $70.0 million in 2016, a 22% increase from the same period in 2015. Market log demand drove a 7% increase in sawlog sales volumes and a 14% increase in average realized sawlog pricing. These factors more than offset lower average realized pulp log pricing, which remains depressed due to reduced coastal pulp demand.

By-product revenue was $17.1 million in the third quarter of 2016, a 2% decrease as compared the same period in 2015. By-product revenue declined as the impact of higher sales volumes was more than offset by reduced pricing.

Third quarter lumber production was 248 million board feet, a 17% improvement over the same period of 2015. The benefits of recent strategic capital investments drove increased operating performance from the Company’s seven primary sawmills and delivered our highest quarterly production volume since 2007, when the production mix from operating eight primary sawmills included a higher component of commodity lumber. In addition, overall operating hours increased as a result of comparatively less operating downtime for capital project implementations. A strong opening log inventory and successful sawlog purchase program contributed to increased specialty lumber production as well as an overall production increase from our primary sawmills and third party facilities.

Timberlands production volume in the third quarter was 1.2 million cubic metres, consistent with the third quarter of 2015. Harvest volume decreased from the second quarter of 2016 in line with the historical seasonal third quarter decline in production. The partial resolution to a contractor rate dispute in July 2016 in our TFL 44 located near Port Alberni provided minimal harvest volume to the third quarter. Average log harvest costs were flat as a 33% reduction in higher-cost helicopter logging volumes largely offset increased stumpage costs related to specialty log harvesting.

Third quarter freight costs were $25.5 million in 2016, an increase of 11% compared to the same period of 2015. Increased freight costs were due to increased log and lumber shipments.

Selling and administration expense in the third quarter of 2016 increased to $7.3 million from $5.5 million in the same period of 2015. An increase in the value of the Company’s common share price, period-over-period, and more outstanding share units resulted in a relative increase of $0.8 million in mark-to-market and share-based compensation expenses. The comparative period included an expense recovery of $0.4 million as a result of option forfeitures. Also reflected in the increased selling and administration expense are incremental information technology and other administrative expenses of $0.4 million, incurred partly as a result of ongoing system and process improvement initiatives.

Net income for the third quarter of 2016 was $16.8 million, consistent with the same period of 2015. An increase in operating income of 32% was partly offset by increased tax expense. Deferred income tax expense of $6.1 million was incurred in the third quarter of 2016 as compared to a recovery of $0.1 million in the same period of 2015. In past quarters, the recognition of additional deferred income tax assets largely offset the recognition of deferred tax expense.

The funded position of our defined benefit and other retirement benefit plans is estimated at the end of each quarter. A decrease in the discount rate used to calculate plan liabilities in the third quarter of 2016, partially offset by improved plan asset performance, resulted in a net after-tax actuarial loss of $0.6 million included in other comprehensive income.

*Year to date, September 30, 2016*

Adjusted EBITDA for the first nine months of 2016 was $114.4 million, a 31% improvement over the same period in 2015. Adjusted EBITDA margin improved to 12.8% as compared to 10.7% in the same period in 2015. Improved log and lumber pricing, a 9% increase in lumber sales volumes and an improved domestic log sales mix were the primary drivers for an increased adjusted EBITDA. Our results have also benefitted from a Canadian dollar ("CAD") to US dollar ("USD") exchange rate that was on average 5% weaker as compared to the same period last year.

Lumber revenue grew by 15% to $662.8 million in the first nine months of 2016 as compared to the same period last year. Maintaining our specialty sales mix as we grew sales volumes, realizing improved pricing for our specialty and commodity lumber products, and the benefits of a weaker CAD relative to USD have led to strong lumber revenue performance year-to-date.

Log revenue for the first three quarters of 2016 decreased by 5% to $180.5 million, as significant increases in average realized pricing partially offset a 22% decline in external sales volumes as a result of lower harvest volumes. Pulp log price realizations declined as the pulp market continues to be impacted by high pulp log inventories on the coast of BC. By-product sales remained flat period-over-period.

Lumber production in the first three quarters of 2016 was 701 million board feet, up from 657 million board feet in 2015. Increased lumber production was supported by a 45% increase in sawlog purchases. Recent completed strategic capital investments have driven improved production from our Duke Point, Saltair, and Ladysmith sawmills year-to-date. Conversion costs have increased due to higher secondary processing volumes associated with increased specialty production.

Total timberlands production volume was 3.5 million cubic metres in the first three quarters of 2016, compared to 4.1 million cubic metres in the same period last year. Reduced production volume as compared to the same period last year is largely the result of a contractor rate dispute, for which a partial interim resolution was reached early in the third quarter of 2016. In addition, a more normal winter in our timberlands in the first quarter of 2016 partially delayed first half harvest. An increase in average log costs of 6% in the first three quarters of 2016 reflects comparatively less timberlands production volume, a greater proportion of higher-cost helicopter logging and a coastal stumpage rate increase which became effective March 1, 2016. We supplemented harvest by increasing sawlog purchases by 45% as compared to the first three quarters of 2015.

Selling and administration expenses in the first three quarters of 2016 increased to $23.5 million from $18.3 million in the same period of 2015. Movement in the Company's common share price as well as greater outstanding share unit balances resulted in a relative increase of $1.6 million in mark-to-market and share-based compensation expenses over those periods. Included in the increased selling and administration expense are those expenses identified above and higher performance-based compensation as a result of improved financial performance. Incremental consulting expenses were incurred to facilitate information technology improvements, and address certain legal and professional service requirements.

### *Finance Costs*

Third quarter finance costs were $1.2 million in 2016, $0.1 million lower than the same quarter of last year as a reduction in average outstanding debt was offset by increased utilization of the revolving credit facility in 2016. Average outstanding debt in the third quarter was reduced from $72.8 million in 2015 to $59.0 million in 2016.

*Income Taxes*

During the third quarter of 2016, the Company recognized current income tax of $0.1 million and deferred income tax expense of $6.1 million on net income arising from continuing operations. An offsetting deferred income tax recovery of $0.2 million, related to actuarial losses on the Company's defined benefit plans, was recognized through other comprehensive income.

## Financial Position and Liquidity

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *(millions of dollars except where noted)* | 2016 | 2015 | 2016 | 2015 |
| Cash provided by operating activities, excluding non-cash working capital | $ 33.2 | $ 25.0 | $ 105.9 | $ 79.9 |
| Cash provided by operating activities | 42.2 | 38.4 | 80.0 | 67.2 |
| Cash used in investing activities | (9.2) | (17.2) | (40.5) | (42.9) |
| Cash used in financing activities | (21.8) | (11.2) | (30.3) | (32.1) |
| Cash used in capital logging roads | (4.1) | (4.1) | (9.8) | (10.3) |
| Cash used to acquire property, plant and equipment | (5.3) | (13.1) | (31.0) | (32.6) |

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Total liquidity [1] | $ 193.7 | $ 177.9 |
| Net debt [2] | 39.8 | 53.8 |
| Financial ratios: | | |
| Current assets to current liabilities | 2.48 | 2.30 |
| Net debt to capitalization [3] | 0.08 | 0.11 |

(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, excluding non-cash working capital, increased to $33.2 million in the third quarter of 2016 as compared to $25.0 million provided in the same period last year. The increase was primarily attributable to higher log and lumber shipments and increased average realized pricing.

Third quarter cash provided by operating activities was $42.2 million in 2016, compared to $38.4 million in the same quarter of 2015. Increased lumber production and higher lumber and log shipments reduced inventory working capital requirements over the period. Strong operating results supported by our second and third quarter log inventory strategy delivered a working capital reduction and an increase in cash provided by operating activities.

Investing activities used cash of $9.2 million in the third quarter of 2016, compared to $17.2 million in the same quarter of 2015. The decrease was primarily due to the completion of certain strategic capital projects that were ongoing in the comparative period. We invested $1.6 million in strategic capital in the third quarter of 2016 as we focused on achieving planned benefits of recent investments, as compared to $9.1 million in the same period of 2015. The strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

In the third quarter of 2016, financing activities used cash of $21.8 million compared to $11.2 million used in the same quarter of 2015. Strong operating cash flows in the third quarter facilitated the repayment of our revolving credit facility that had been drawn in the second quarter to facilitate strategic capital initiatives and our log inventory strategy. We also returned $7.9 million, or $0.02 per common share, to shareholders on September 16, 2016 via a quarterly dividend payment.

At September 30, 2016, we had total liquidity of $193.7 million, compared to $177.9 million at the end of 2015. We believe that we have sufficient liquidity to meet our obligations in 2016.

## Strategy and Outlook

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

Key operational priorities in support of our strategy include:

1) Implementing strategic capital to position our mills as the most competitive in the region;
2) Improving productivity and further improving margins through increased capital utilization; and,
3) Utilizing our competitive advantage to access additional log volume on the open market to increase lumber production.

### *Market Outlook*

The gradual improvement in United States ("US") new home construction and strength of the repair and renovation segment continue to drive increased demand for our log and lumber products. Competing demand from China, particularly for our Commodity products, has contributed to stable pricing, while the Japanese market remains competitive.

Commodity lumber markets performed as expected in the third quarter of 2016 as Benchmark 2x4 KD Western SPF prices closed the quarter 19.7% higher than in the same period last year, and 3.5% higher than in the second quarter of 2016. We expect demand trends to continue which should support increased commodity consumption and pricing.

Demand and pricing for WRC and Niche lumber has historically declined in the fourth quarter as distributors reduce inventories ahead of the winter season. Consistent with the fourth quarter last year, we expect seasonally reduced demand for WRC and Niche lumber to be partially offset by continued strength in the repair and renovation market.

The Japanese lumber market remains competitive. We see additional opportunity over the medium term to capture a greater share of North American imports into that market as US producers continue to repatriate volumes to their domestic market.

We anticipate export and domestic sawlog markets will remain strong in the fourth quarter of 2016. Strong demand and limited availability will support the domestic sawlog market. Balanced inventory levels in the Asian log markets are expected to support modest export log price increases through the balance of 2016. Pulp log prices are expected to remain depressed due to a combination of high log inventories and lower consumption levels from coastal BC pulp mills.

The twelve-month standstill period of the Softwood Lumber Agreement, which precluded trade action by the United States, expired October 11, 2016. Discussions regarding a replacement of the Softwood Lumber Agreement continue between Canadian and US government representatives. We are supportive of these efforts but uncertainty remains regarding a solution, creating market volatility. With no new agreement in place, there could be US government trade action against Canadian softwood lumber imports at any time. We intend to maintain our strong balance sheet and diversified product and geographic mix as we await the outcome of the trade discussions.

### *Strategic Capital Program Update*

We continue to implement a strategic capital program that is designed to position Western as the only company on the coast of BC capable of sustainably consuming the complete profile of the coastal forest and competitively manufacturing a diverse product mix for global markets.

Our strategic capital program is focused on the installation of proven technology that will deliver top quartile performance and improve our ability to manufacture the products that yield the best margin. In addition to investments in our manufacturing assets, we also invest capital into strategic, high-return projects involving our information systems, timberlands assets, and forest inventories.

We have announced plans for $97.7 million of our $125.0 million strategic capital program. Through the end of the third quarter of 2016, we have implemented and capitalized $88.1 million under that program. Strategic capital invested in the third quarter of 2016 was $1.6 million.

In the third quarter of 2016, we completed the latest phase of the Duke Point sawmill modernization and we completed 80% of the data collection phase of the timberlands standing inventory mapping initiative. The Duke Point planer modernization is ongoing, early results of the timberlands LiDAR mapping initiative are being evaluated, and we continue to progress through our information technology upgrades. These projects will continue through the end of 2016.

### *New standards and interpretations not yet adopted*

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2016 and have not been applied in preparing these unaudited condensed interim financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect future financial statements:

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 16, *Leases*

Please refer to Note 3 of our unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2016 for further information on these standards.

## Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2015 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.

## Internal Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended September 30, 2016, that have materially affected or are reasonably likely to materially affect, its ICFR.

## Outstanding Share Data

As of November 3, 2016, there were 395,447,663 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, 2016, 215,000 previously granted options were exercised, 1,330,918 options were granted, and 39,000 options were forfeited. As of November 3, 2016, 11,235,585 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 (1)

| *(millions of dollars except per share amounts and where noted)* | 2016 3rd | 2016 2nd | 2016 1st | 2015 4th | 2015 3rd | 2015 2nd | 2015 1st | 2014 4th |
|---|---|---|---|---|---|---|---|---|
| **Average Exchange Rate – USD to CAD** | 1.305 | 1.288 | 1.372 | 1.335 | 1.309 | 1.229 | 1.241 | 1.136 |
| **Revenue** | | | | | | | | |
| Lumber | 235.6 | 221.0 | 206.2 | 194.4 | 203.8 | 200.0 | 171.8 | 166.8 |
| Logs | 70.0 | 64.2 | 46.3 | 53.6 | 57.3 | 71.0 | 61.2 | 51.2 |
| By-products | 17.1 | 16.6 | 17.3 | 17.6 | 17.4 | 18.2 | 15.6 | 14.6 |
| Total revenue | 322.7 | 301.8 | 269.8 | 265.6 | 278.5 | 289.2 | 248.6 | 232.6 |
| **Lumber** | | | | | | | | |
| Production – millions of board feet | 248 | 232 | 221 | 234 | 212 | 236 | 209 | 202 |
| Shipments – millions of board feet | 257 | 234 | 225 | 226 | 227 | 228 | 202 | 216 |
| Price – per thousand board feet | 917 | 944 | 916 | 862 | 899 | 879 | 849 | 772 |
| **Logs** | | | | | | | | |
| Net Production - thousands of cubic metres (2) | 1,153 | 1,321 | 1,027 | 1,081 | 1,180 | 1,402 | 1,472 | 1,281 |
| Saw log purchases – thousands of cubic metres | 415 | 497 | 268 | 299 | 209 | 327 | 280 | 279 |
| Shipments – thousands of cubic metres | 651 | 521 | 438 | 540 | 610 | 749 | 700 | 571 |
| Price – per cubic metre (3) | 100 | 112 | 100 | 95 | 89 | 90 | 83 | 90 |
| **Selling and administration** | 7.3 | 8.4 | 7.8 | 7.8 | 5.5 | 7.0 | 5.8 | 6.0 |
| **Adjusted EBITDA** | 35.7 | 43.0 | 35.7 | 29.6 | 28.7 | 29.2 | 29.6 | 14.8 |
| Amortization | (8.8) | (8.8) | (7.5) | (8.2) | (7.3) | (7.6) | (7.8) | (6.7) |
| Changes in fair value of biological assets | (0.7) | (0.4) | (1.9) | (0.9) | - | (0.6) | (1.7) | 0.5 |
| Reversal of impairment | - | - | - | - | - | - | - | 2.9 |
| Operating restructuring items | (0.6) | (0.8) | (0.7) | (0.7) | (2.9) | (0.4) | (0.3) | (1.2) |
| Finance costs | (1.2) | (1.1) | (1.1) | (1.1) | (1.3) | (1.3) | (1.3) | (1.2) |
| Other income (expenses) | (1.4) | (0.2) | (0.3) | (0.9) | (0.2) | (0.1) | 0.1 | 0.6 |
| Deferred income tax recovery (expense) | (6.1) | (7.8) | (6.8) | (7.9) | 0.1 | (0.1) | 0.1 | 3.2 |
| Current income tax recovery (expense) | (0.1) | - | (0.1) | - | - | - | (0.2) | - |
| **Net income from continuing operations** | 16.8 | 23.8 | 17.3 | 9.9 | 17.1 | 19.1 | 18.5 | 12.9 |
| Net income from discontinued operations | - | - | - | - | - | - | 9.1 | - |
| **Net income** | 16.8 | 23.8 | 17.3 | 9.9 | 17.1 | 19.1 | 27.6 | 12.9 |
| Adjusted EBITDA margin | 11.1% | 14.2% | 13.2% | 11.1% | 10.3% | 10.1% | 11.9% | 6.4% |
| Earnings per share: | | | | | | | | |
| Net income, basic | 0.04 | 0.06 | 0.04 | 0.03 | 0.04 | 0.05 | 0.07 | 0.03 |
| Net income, diluted | 0.04 | 0.06 | 0.04 | 0.02 | 0.04 | 0.05 | 0.07 | 0.03 |

(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.

(2) Net Production is sorted log production, net of residuals and waste.

(3) 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. The third quarter of 2015 included a $2.9 million restructuring charge primarily related to the consolidation of the Company's Central Island timberlands operations. In the first quarter of 2015, the Company recognized $9.1 million of net income from discontinued operations relating to its former Squamish pulp mill site that was sold on February 6, 2015. The fourth quarter of 2014 included an impairment reversal of $2.9 million that had been taken on the Company's timber licenses (intangible assets).

**Western Forest Products Inc.**

Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2016 and 2015

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

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 18.6 | $ 9.4 |
| Trade and other receivables | 96.1 | 75.0 |
| Inventory (Note 5) | 163.9 | 148.5 |
| Prepaid expenses and other assets | 17.5 | 17.8 |
| | 296.1 | 250.7 |
| Non-current assets: | | |
| Property, plant and equipment (Note 6) | 289.6 | 271.3 |
| Intangible assets (Note 7) | 122.2 | 125.2 |
| Biological assets (Note 8) | 50.7 | 53.7 |
| Other assets | 11.7 | 11.2 |
| Deferred income tax assets (Note 11) | 11.7 | 31.3 |
| | $ 782.0 | $ 743.4 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 107.9 | $ 97.7 |
| Silviculture provision (Note 12) | 11.3 | 11.2 |
| | 119.2 | 108.9 |
| Non-current liabilities: | | |
| Long-term debt (Note 10) | 58.4 | 63.2 |
| Silviculture provision (Note 12) | 18.2 | 19.6 |
| Other liabilities (Note 13) | 39.2 | 35.4 |
| Deferred revenue | 58.9 | 60.4 |
| | 293.9 | 287.5 |
| Shareholders' equity: | | |
| Share capital (Note 14) | 506.0 | 505.5 |
| Contributed surplus | 8.3 | 7.6 |
| Deficit | (26.2) | (57.2) |
| | 488.1 | 455.9 |
| | $ 782.0 | $ 743.4 |

Commitments and Contingencies (Note 15)
Subsequent Events (Note 19)

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, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Revenue | $ 322.7 | $ 278.5 | $ 894.3 | $ 816.3 |
| Cost and expenses: | | | | |
| Cost of goods sold | 263.7 | 227.0 | 713.5 | 665.2 |
| Export tax | - | 1.7 | - | 3.5 |
| Freight | 25.5 | 22.9 | 71.1 | 66.8 |
| Selling and administration | 7.3 | 5.5 | 23.5 | 18.3 |
| | 296.5 | 257.1 | 808.1 | 753.8 |
| **Operating income prior to restructuring items and other income** | 26.2 | 21.4 | 86.2 | 62.5 |
| Operating restructuring items | (0.6) | (2.9) | (2.1) | (3.6) |
| Other expense | (1.4) | (0.2) | (1.9) | (0.2) |
| **Operating income** | 24.2 | 18.3 | 82.2 | 58.7 |
| Finance costs | (1.2) | (1.3) | (3.4) | (3.9) |
| **Income before income taxes** (Note 11) | 23.0 | 17.0 | 78.8 | 54.8 |
| Current income tax expense | (0.1) | - | (0.2) | (0.2) |
| Deferred income tax recovery (expense) | (6.1) | 0.1 | (20.7) | 0.1 |
| **Net income from continuing operations** | 16.8 | 17.1 | 57.9 | 54.7 |
| **Net income from discontinued operations** (Note 18) | - | - | - | 9.1 |
| **Net income** | 16.8 | 17.1 | 57.9 | 63.8 |
| **Other comprehensive loss** | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Defined benefit plan actuarial loss (Note 16) | (0.8) | (2.7) | (4.2) | (4.2) |
| Income tax on other comprehensive loss (Note 11) | 0.2 | - | 1.0 | - |
| Total items that will not be reclassified to profit or loss | (0.6) | (2.7) | (3.2) | (4.2) |
| **Other comprehensive loss for the period** | (0.6) | (2.7) | (3.2) | (4.2) |
| **Total comprehensive income** | $ 16.2 | $ 14.4 | $ 54.7 | $ 59.6 |
| Net income per share (in dollars) | | | | |
| Basic and diluted earnings per share | $ 0.04 | $ 0.04 | $ 0.15 | $ 0.16 |
| Basic and diluted earnings per share - continuing operations | $ 0.04 | $ 0.04 | $ 0.15 | $ 0.14 |
| Basic and diluted earnings per share - discontinued operations | $ - | $ - | $ - | $ 0.02 |
| Weighted average number of common shares outstanding (thousands) | | | | |
| Basic | 395,448 | 395,065 | 395,378 | 395,033 |
| Diluted | 399,150 | 398,742 | 399,136 | 399,000 |

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 | Deficit | **Total Equity** |
|---|---|---|---|---|
| **Balance at December 31, 2014** | $ 504.4 | $ 7.0 | $ (103.3) | $ 408.1 |
| Net income | - | - | 63.8 | 63.8 |
| Other comprehensive loss: | | | | |
| Defined benefit plan actuarial loss recognized | - | - | (4.2) | (4.2) |
| **Total comprehensive loss** | - | - | 59.6 | 59.6 |
| Share-based payment transactions recognized in equity | - | 1.0 | - | 1.0 |
| Exercise of stock options | 0.8 | (0.2) | - | 0.6 |
| Dividends | - | - | (23.7) | (23.7) |
| **Total transactions with owners, recorded directly in equity** | 0.8 | 0.8 | (23.7) | (22.1) |
| **Balance at September 30, 2015** | $ 505.2 | $ 7.8 | $ (67.4) | $ 445.6 |

| | Share Capital | Contributed Surplus | Deficit | **Total Equity** |
|---|---|---|---|---|
| **Balance at December 31, 2015** | $ 505.5 | $ 7.6 | $ (57.2) | $ 455.9 |
| Net income | - | - | 57.9 | 57.9 |
| Other comprehensive income (loss): | | | | |
| Defined benefit plan actuarial loss recognized | - | - | (4.2) | (4.2) |
| Income tax recovery on other comprehensive loss | - | - | 1.0 | 1.0 |
| **Total comprehensive income** | - | - | 54.7 | 54.7 |
| Share-based payment transactions recognized in equity | - | 0.9 | - | 0.9 |
| Exercise of stock options | 0.5 | (0.2) | - | 0.3 |
| Dividends | - | - | (23.7) | (23.7) |
| **Total transactions with owners, recorded directly in equity** | 0.5 | 0.7 | (23.7) | (22.5) |
| **Balance at September 30, 2016** | $ 506.0 | $ 8.3 | $ (26.2) | $ 488.1 |

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, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Cash provided by (used in): | | | | |
| Operating activities: | | | | |
| Net income from continuing operations | $ 16.8 | $ 17.1 | $ 57.9 | $ 54.7 |
| Items not involving cash: | | | | |
| Amortization of property, plant and equipment (Note 6) | 7.8 | 6.3 | 22.1 | 19.7 |
| Amortization of intangible assets (Note 7) | 1.0 | 1.0 | 3.0 | 3.0 |
| Gain on disposal of assets | (0.1) | - | - | - |
| Change in fair value of biological assets (Note 8) | 0.7 | - | 3.0 | 2.3 |
| Net finance costs | 1.2 | 1.3 | 3.4 | 3.9 |
| Deferred income tax expense (recovery) (Note 11) | 6.1 | (0.1) | 20.7 | (0.1) |
| Other | (0.3) | (0.6) | (4.2) | (3.6) |
| | 33.2 | 25.0 | 105.9 | 79.9 |
| Changes in non-cash working capital items: | | | | |
| Trade and other receivables | (5.0) | (5.7) | (21.1) | (29.6) |
| Inventory | 18.7 | 15.0 | (15.4) | (9.9) |
| Prepaid expenses and other assets | 4.4 | 1.8 | 0.3 | (0.4) |
| Silviculture provision | 1.1 | 0.3 | 0.2 | 0.9 |
| Accounts payable and accrued liabilities | (10.2) | 2.0 | 10.1 | 26.3 |
| | 9.0 | 13.4 | (25.9) | (12.7) |
| | 42.2 | 38.4 | 80.0 | 67.2 |
| Investing activities: | | | | |
| Additions to property, plant and equipment (Note 6) | (9.4) | (17.2) | (40.8) | (42.9) |
| Proceeds on disposal of assets | 0.2 | - | 0.3 | - |
| | (9.2) | (17.2) | (40.5) | (42.9) |
| Financing activities: | | | | |
| Interest paid | (0.7) | (0.8) | (1.9) | (2.3) |
| Repayments under revolving credit facility, net | (13.2) | (2.5) | - | (6.7) |
| Repayment of long-term debt | - | - | (5.0) | - |
| Dividends | (7.9) | (7.9) | (23.7) | (23.7) |
| Proceeds from exercise of stock options | - | - | 0.3 | 0.6 |
| | (21.8) | (11.2) | (30.3) | (32.1) |
| Cash provided by (used in) continuing operations | 11.2 | 10.0 | 9.2 | (7.8) |
| Proceeds on disposal of assets | - | - | - | 21.8 |
| Other | - | - | - | (0.9) |
| Cash provided by discontinued operations (Note 18) | - | - | - | 20.9 |
| Increase in cash and cash equivalents | 11.2 | 10.0 | 9.2 | 13.1 |
| Cash and cash equivalents, beginning of period | 7.4 | 4.9 | 9.4 | 1.8 |
| Cash and cash equivalents, end of period | $ 18.6 | $ 14.9 | $ 18.6 | $ 14.9 |

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 800 – 1055 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, 2016 and 2015 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. 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, 2015. 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").

The interim financial statements were authorized for issue by the Board of Directors on November 3, 2016.

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

*(c) Functional and presentation currency*

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

*(d) Use of estimates and judgements*

The preparation of these interim 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 estimates are recognized prospectively.

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, 2015.

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

## 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, 2015.

*New standards and interpretations not yet adopted*

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2016 and have not been applied in preparing these consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect future financial statements.

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

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

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

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

## 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, 2016 | December 31, 2015 |
|---|---|---|
| Logs | $ 113.9 | $ 102.0 |
| Lumber | 50.2 | 50.7 |
| Supplies and other inventory | 13.2 | 12.0 |
| Provision for write downs | (13.4) | (16.2) |
| Total value of inventory | $ 163.9 | $ 148.5 |

The carrying amount of inventory recorded at net realizable value was $54.1 million at September 30, 2016 (December 31, 2015: $49.2 million), with the remaining inventory recorded at cost.

During the three and nine months ended September 30, 2016, $263.7 million and $713.5 million of inventory, respectively (2015: $227.0 million and $ 665.2 million, respectively), was charged to cost of goods sold. This includes a decrease to the provision for write-down to net realizable value of $2.2 million and $2.8 million for the three and nine months ended September 30, 2016, respectively (2015: increase of $0.9 million and $6.0 million, respectively).

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

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

## 6. Property, plant and equipment

| Cost | Buildings & equipment | Logging roads | Land | Total property, plant & equipment |
|---|---|---|---|---|
| Balance at January 1, 2015 | $ 214.4 | $ 151.3 | $ 103.7 | $ 469.4 |
| Additions | 48.5 | 13.6 | - | 62.1 |
| Disposals | (1.3) | - | (13.1) | (14.4) |
| **Balance at December 31, 2015** | 261.6 | 164.9 | 90.6 | 517.1 |
| Additions | 31.0 | 9.8 | - | 40.8 |
| Disposals | (1.3) | - | - | (1.3) |
| **Balance at September 30, 2016** | $ 291.3 | $ 174.7 | $ 90.6 | $ 556.6 |
| **Accumulated amortization and impairments** | | | | |
| Balance at January 1, 2015 | $ 101.3 | $ 118.8 | $ - | $ 220.1 |
| Amortization | 13.9 | 12.9 | - | 26.8 |
| Disposals | (1.1) | - | - | (1.1) |
| **Balance at December 31, 2015** | 114.1 | 131.7 | - | 245.8 |
| Amortization | 12.6 | 9.5 | - | 22.1 |
| Disposals | (0.9) | - | - | (0.9) |
| **Balance at September 30, 2016** | $ 125.8 | $ 141.2 | $ - | $ 267.0 |
| **Carrying amounts** | | | | |
| At December 31, 2015 | $ 147.5 | $ 33.2 | $ 90.6 | $ 271.3 |
| At September 30, 2016 | $ 165.5 | $ 33.5 | $ 90.6 | $ 289.6 |

## 7. Intangible assets

| | |
|---|---|
| **Cost** | |
| **Balance at December 31, 2015** | $ 170.7 |
| **Balance at September 30, 2016** | $ 170.7 |
| **Accumulated amortization and impairments** | |
| Balance at January 1, 2015 | $ 41.4 |
| Amortization | 4.1 |
| **Balance at December 31, 2015** | $ 45.5 |
| Amortization | 3.0 |
| **Balance at September 30, 2016** | $ 48.5 |
| **Carrying amounts** | |
| At December 31, 2015 | $ 125.2 |
| At September 30, 2016 | $ 122.2 |

## 8. Biological assets

### *(a) Reconciliation of carrying amount*

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Carrying value, beginning of period | $ 51.4 | $ 54.6 | $ 53.7 | $ 56.9 |
| Change in fair value due to growth and pricing | 1.3 | 0.8 | 2.9 | 2.4 |
| Harvested timber transferred to inventory | (2.0) | (0.8) | (5.9) | (4.7) |
| Carrying value, end of period | $ 50.7 | $ 54.6 | $ 50.7 | $ 54.6 |

At September 30, 2016, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2015: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to forests in excess of 140 years old. During the three and nine months ended September 30, 2016, the Company harvested and scaled approximately 51,777

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

## 8. Biological assets (continued)

### *(a) Reconciliation of carrying amount (continued)*

cubic metres ("$m^3$") and 226,113 $m^3$, respectively (2015: 36,273 $m^3$ and 214,093 $m^3$, respectively), of logs from its private timberlands, which had a fair value less costs to sell of \$111 per $m^3$ and \$109 per $m^3$, respectively, at the date of harvest (2015: \$99 per $m^3$ and \$99 per $m^3$, respectively).

### *(b) Measurement of fair values*

The fair value measurements for the Company's standing timber of \$50.7 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used (December 31, 2015: 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, 2016 and noted no indication that a full re-assessment of fair value less costs to sell, or of the previously applied 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.

## 9. Revolving credit facility

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Available | $ 125.0 | $ 125.0 |
| Outstanding letters of credit | 0.9 | 2.5 |
| Unused portion of Facility | $ 124.1 | $ 122.5 |

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, and has a maturity date of December 14, 2016. The Facility bears interest at the Canadian Prime rate (if availability exceeds 35% of the borrowing base) or at the Canadian Prime rate plus 0.25% (if availability is less than 35% of the borrowing base) or at the Company's option, at rates for Bankers' Acceptances ("BA") or London Interbank Offered Rate ("LIBOR") based loans plus 1.25% or 1.50%, dependent on the same availability criteria. The interest rate for the Facility was 2.70% at September 30, 2016 (December 31, 2015: 2.70%).

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants. The Company was in compliance with its financial covenants at September 30, 2016.

## 10. Long-term debt

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Long-term debt | $ 59.0 | $ 64.0 |
| Less transaction costs | (0.6) | (0.8) |
| | $ 58.4 | $ 63.2 |
| | | |
| Available | $ 110.0 | $ 110.0 |
| Drawings | 59.0 | 64.0 |
| Unused portion of Term Loan | $ 51.0 | $ 46.0 |

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of \$110.0 million and has a maturity date of June 29, 2019. 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 BA rate plus 1.65%. The interest rate for the Term Loan was 2.59% at September 30, 2016 (December 31, 2015: 2.57%).

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

## 10. Long-term debt (continued)

The Term Loan is secured by a first lien interest over all of the Company's properties and assets, excluding those of the Englewood Logging Division and accounts receivable and inventory, over which it has a second lien interest, and includes financial covenants. The Company was in compliance with its financial covenants at September 30, 2016. Transaction costs are deferred and amortized to finance costs over the term of the Term Loan using the effective interest rate method.

## 11. Income taxes

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Current income tax expense | $ (0.1) | $ - | $ (0.2) | $ (0.2) |
| Deferred income tax expense | (6.1) | 0.1 | (20.7) | 0.1 |
| | $ (6.2) | $ 0.1 | $ (20.9) | $ (0.1) |

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

| | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|---|---|---|---|---|---|---|---|---|
| Income before income taxes, continuing operations | | $ 23.0 | | $ 17.0 | | $ 78.8 | | $ 54.8 |
| Tax using the Company's domestic tax rate | 26.00% | (6.0) | 26.00% | (4.4) | 26.00% | (20.5) | 26.00% | (14.2) |
| Permanent differences | 0.96% | (0.2) | (26.48%) | 4.5 | 0.52% | (0.4) | (25.73%) | 14.1 |
| | 26.96% | $ (6.2) | (0.48%) | $ 0.1 | 26.52% | $ (20.9) | 0.27% | $ (0.1) |

In addition to the amounts recorded to net income, a deferred income tax recovery of $0.2 million and $1.0 million was recorded to other comprehensive income for the three and nine month period ended September 30, 2016 (2015: nil and nil) in relation to current period actuarial losses on defined benefit employee future benefit obligations.

## 12. 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, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Silviculture provision, beginning of period | $ 29.9 | $ 30.1 | $ 30.8 | $ 29.7 |
| Silviculture provision charged | 2.5 | 2.7 | 7.3 | 9.0 |
| Silviculture work payments | (2.9) | (1.6) | (8.7) | (7.6) |
| Unwind of discount | - | - | 0.1 | 0.1 |
| Silviculture provision, end of period | 29.5 | 31.2 | 29.5 | 31.2 |
| Less current portion | 11.3 | 11.6 | 11.3 | 11.6 |
| | $ 18.2 | $ 19.6 | $ 18.2 | $ 19.6 |

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.52% to 1.00%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at September 30, 2016 is $30.2 million (December 31, 2015: $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.

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

## 13. Other liabilities

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Employee future benefits obligation (Note 16) | $ 34.7 | $ 32.7 |
| Environmental accruals | 2.4 | 2.0 |
| Other | 2.1 | 0.7 |
| | $ 39.2 | $ 35.4 |

## 14. Share capital

### *(a) Issued and outstanding share capital*

| | Number of Common Shares | Amount |
|---|---|---|
| **Balance at December 31, 2015** | 395,245,407 | $ 505.5 |
| Exercise of stock options | 202,256 | 0.5 |
| **Balance at September 30, 2016** | 395,447,663 | $ 506.0 |

### *(b) Share-based payment transactions*

During the first quarter of 2016, the Company granted 1,330,918 options with a fair value of $0.7 million as determined by the Black-Scholes option pricing model, using the assumptions of an average exercise price of $1.97 per share, risk free interest rate of 0.75%, a volatility rate of 40.9%, and an expected life of seven years. These options are only exercisable when the share price has been equal to or exceeds $0.70 for the 60 consecutive days preceding the date of exercise on a volume weighted average price basis. In addition, 125,000 options were exercised with a weighted average exercise price of $1.29 per share, 5,000 of which were exercised for net cash proceeds where no Common Shares were issued, and 39,000 options were forfeited with a weighted average exercise price of $2.61. During the second quarter of 2016, 90,000 options were exercised with a weighted average exercise price of $1.75 per share, 10,000 of which were exercised on a cashless basis where 2,256 Common Shares were issued. There were no other stock option grants, expiration or forfeitures during the second quarter of 2016. During the third quarter of 2016, there were no stock option grants, exercises or expiration.

At September 30, 2016, 11,235,585 options (December 31, 2015: 10,158,667) were outstanding under the Company's Option Plan, with a weighted average exercise price of $1.50 per share.

### *(c) Deferred share unit ("DSU") plan*

During the first quarter of 2016, 29,562 DSUs were issued at a price of $2.30 per DSU to certain directors who have elected to take a portion of their directors' fees in the form of DSUs. In addition, 2,541 DSUs and 5,707 DSUs were issued to designated executive officers and a director, respectively, at a price of $2.20 per DSU to reflect the cash dividend declared on Common Shares during the quarter. During the second quarter of 2016, 34,108 DSUs were issued at a price of $2.20 per DSU to certain directors who have elected to take a portion of their directors' fees in the form of DSUs. In addition, 2,255 DSUs and 7,394 DSUs were issued to designated executive officers and directors, respectively, at a price of $2.20 per DSU to reflect the cash dividend declared of Common Shares during the quarter and 49,455 DSUs were redeemed with a weighted average issue price of $1.25. During the third quarter of 2016, 28,551 DSUs were issued at a price of $2.13 per DSU to certain directors who have elected to take a portion of their directors' fees in the form of DSUs. In addition, 2,205 DSUs and 7,298 DSUs were issued to designated executive officers and a director, respectively, at a price of $2.13 per DSU to reflect the cash dividend declared of Common Shares during the quarter.

The cumulative number of DSUs outstanding at September 30, 2016 was 1,051,661 (December 31, 2015: 981,495). During the three and nine months ended September 30, 2016, the Company recorded compensation expense for these DSUs of $0.1 million and $nil (2015: compensation recovery of $0.4 million and $0.5 million, respectively), with a corresponding adjustment to accounts payable and accrued liabilities.

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

## 14. Share capital (continued)

### *(d) Performance share unit ("PSU") plan*

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Outstanding, beginning of period | 933,219 | 426,204 | 434,115 | - |
| Granted | 8,839 | 4,299 | 542,866 | 430,503 |
| Forfeited | - | - | (34,923) | - |
| Outstanding, end of period | 942,058 | 430,503 | 942,058 | 430,503 |

## 15. 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 annual 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, 2015 and based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2016.

## 16. Employee benefits

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Current service costs | $ 0.1 | $ 0.1 | $ 0.3 | $ 0.3 |
| Net interest | 0.2 | 0.2 | 0.8 | 0.6 |
| Cost of defined benefit plans | 0.3 | 0.3 | 1.1 | 0.9 |
| Cost of defined contribution plans | 0.8 | 0.8 | 2.4 | 2.2 |
| Total cost of employee post-retirement benefits | $ 1.1 | $ 1.1 | $ 3.5 | $ 3.1 |

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:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Present value of obligations | $ 147.6 | $ 139.3 |
| Fair value of plan assets | (112.9) | (106.6) |
| Liability recognized in the statement of financial position (Note 13) | $ 34.7 | $ 32.7 |

The change in the liability recognized in the statement of financial position at September 30, 2016 was due primarily to the increased actuarial losses resulting from estimated changes in the discount rate used to value the defined benefit obligations, offset by higher than expected returns on plan assets. The discount rate used as at September 30, 2016 was 3.05% per annum, a decrease of 0.70% per annum from the rate used at December 31, 2015 of 3.75% per annum, and the return on assets over the nine months ended September 30, 2016 was 9.8% per annum.

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

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

## 17. 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, 2015.

| | Carrying Amount | | | | | Fair Value | | | |
|---|---|---|---|---|---|---|---|---|---|
| **September 30, 2016** | 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 | $ 4.9 | $ - | $ - | $ - | $ 4.9 | - | 4.9 | - | $ 4.9 |
| | $ 4.9 | $ - | $ - | $ - | $ 4.9 | | | | |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Cash and cash equivalents | $ - | $ - | $ 18.6 | $ - | $ 18.6 | | | | |
| Trade and other receivables | - | - | 96.1 | - | 96.1 | | | | |
| | $ - | $ - | $ 114.7 | $ - | $ 114.7 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Foreign currency forward contracts | $ - | $ 0.2 | $ - | $ - | $ 0.2 | - | 0.2 | - | $ 0.2 |
| | $ - | $ 0.2 | $ - | $ - | $ 0.2 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Accounts payable and accrued liabilities | $ - | $ - | $ - | $ 107.7 | $ 107.7 | | | | |
| Long-term debt (Note 10) | - | - | - | 58.4 | 58.4 | | | | |
| | $ - | $ - | $ - | $ 166.1 | $ 166.1 | | | | |
| **December 31, 2015** | | | | | | | | | |
| **Financial assets measured at fair value** | | | | | | | | | |
| Investments | $ 5.1 | $ - | $ - | $ - | $ 5.1 | - | 5.1 | - | $ 5.1 |
| | $ 5.1 | $ - | $ - | $ - | $ 5.1 | | | | |
| **Financial assets not measured at fair value** | | | | | | | | | |
| Cash and cash equivalents | $ - | $ - | $ 9.4 | $ - | $ 9.4 | | | | |
| Trade and other receivables | - | - | 75.0 | - | 75.0 | | | | |
| | $ - | $ - | $ 84.4 | $ - | $ 84.4 | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | |
| Foreign currency forward contracts | $ - | $ 0.3 | $ - | $ - | $ 0.3 | - | 0.3 | - | $ 0.3 |
| | $ - | $ 0.3 | $ - | $ - | $ 0.3 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | |
| Accounts payable and accrued liabilities | $ - | $ - | $ - | $ 97.4 | $ 97.4 | | | | |
| Long-term debt (Note 10) | - | - | - | 63.2 | 63.2 | | | | |
| | $ - | $ - | $ - | $ 160.6 | $ 160.6 | | | | |

As at September 30, 2016, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 1,350.0 million at an average rate of JPY 77.95 per CAD with maturities through January 18, 2017, and an aggregate USD$31.0 million at an average rate of CAD$1.31 per USD with maturities through October 31, 2016.

All foreign currency gains or losses related to currency forward contracts to September 30, 2016 have been recognized in revenue for the period and the fair value of these instruments at September 30, 2016 was a net liability of $0.2 million, which is included in accounts payable and accrued liabilities on the statement of financial position (December 31, 2015: net liability of $0.3 million). A net loss of $1.0 million was recognized on contracts which were settled in the nine months ended September 30, 2016 (2015: net loss of $6.5 million), which was included in revenue for the period.

## 18. 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 have been expensed as incurred.

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

On February 6, 2015, the Company completed the sale of its former Squamish pulp mill site for proceeds of $21.8 million and recognized a gain on disposition of $5.4 million during the first quarter of 2015. In the first quarter of 2015, the Company recorded net income from discontinued operations of $9.1 and cash provided by discontinued operations of $20.9 million.

## 19. Subsequent events

On October 21, 2016, the Company received compensation of $14.1 million, inclusive of $0.1 million post-judgement interest, from the Province of British Columbia in settlement for the partial tenure extinguishment from the Maa'nulth First Nations Final Agreement Act (the “Treaty”). The creation of Treaty Settlement Lands and associated protected area tied to the Treaty on April 1, 2011 resulted in the permanent harvesting rights reduction of 104,000 cubic metres in Tree Farm Licence 44. The settlement proceeds will be included in the Company's other income in the fourth quarter ending December 31, 2016.

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