Western Forest Products Inc.

2017 First 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 months ended March 31, 2017 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 months ended March 31, 2017, and our audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2016 (the "2016 Annual Report"), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three months ended March 31, 2017 in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our audited annual 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 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 IFRSs, 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 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 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 herein. All written and oral forward-looking statements or information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, Western does not expect to update forward-looking statements or information as conditions change.

Unless otherwise noted, the information in this discussion and analysis is updated to May 3, 2017.

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

[2] Adjusted EBITDA as a proportion of Revenue

As reported previously, there was a rail incident on April 20, 2017, at the Company's TFL 37 Englewood operation near Woss, British Columbia that resulted in the tragic loss of three lives and injuries to two employees. We are caring for the families impacted by this tragedy and providing support to help our employees, their families, and the community cope during this extremely difficult time. The safety of all our employees and members across the communities where we operate and live remains our first priority.

Summary of Selected Quarterly Results [1]

(millions of dollars except per share amount and where otherwise noted)	As at and for the three months ended March 31, 2017	2016
Revenue	$ 287.7	$ 269.8
Net income	16.2	17.3
Adjusted EBITDA	34.0	35.7
Adjusted EBITDA margin	11.8%	13.2%
Operating income prior to restructuring items and other income	23.9	26.3
Basic and diluted earnings per share (in dollars)	$ 0.04	$ 0.04

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

Overview

Western achieved first quarter adjusted EBITDA of $34.0 million in 2017, 5% lower than the same quarter last year due to difficult winter weather conditions which impacted operations and limited log availability. Improved log and lumber pricing, a 2% increase in lumber shipments and a stronger specialty lumber sales mix partially offset the weather-related impacts on our operations.

First quarter revenue grew to $287.7 million in 2017, a 7% improvement as compared to the same period of 2016. Accelerating prices for our targeted products and increased lumber shipments more than offset the impact of reduced log sales volumes. Revenues were negatively affected by a stronger Canadian dollar ("CAD"), which improved 4% against the United States dollar ("USD") as compared to the same quarter of 2016.

We produced 214 million board feet in the first quarter of 2017, a 3% decrease from the same period of 2016 as improved operating performance at our Saltair and Ladysmith operations partially offset log related curtailments at our Somass and Alberni Pacific sawmills.

Timberlands log harvest was 908,000 cubic metres for the first quarter of 2017, compared to 1,027,000 cubic metres for the same quarter last year. Prolonged winter weather conditions, which impacted fourth quarter 2016 harvest, carried on through the first quarter of 2017. Average log harvesting costs increased as compared to the first quarter of 2016 due primarily to weather related operating challenges.

To take advantage of strong lumber markets, we increased the internal consumption of our logs which supported lumber production which further reduced our log sales volumes.

First quarter operating income was $23.2 million compared to $25.3 million in the same period last year. Constrained coastal log supply negatively impacted production and operating costs. Net income for the first quarter of 2017 was $16.2 million, a decrease from $17.3 million for the same period of 2016. Reduced operating income was offset by lower finance costs and reduced tax expense.

Operating cash flows in the first quarter of 2017 were used to repay $35.0 million of debt, fund $9.4 million of strategic and maintenance capital, and return $7.9 million to shareholders in the form of regular, quarterly dividends.

Our liquidity position at March 31, 2017 improved to $268.7 million, compared to $218.1 million at the end of 2016.

Operating Results

(millions of dollars)	Three months ended March 31, 2017	2016
Revenue		
Lumber	$ 225.6	$ 206.2
Logs	45.5	46.3
By-products	16.6	17.3
Total revenue	287.7	269.8
Net income	16.2	17.3
Adjusted EBITDA	34.0	35.7
Adjusted EBITDA margin	11.8%	13.2%

First Quarter 2017

In the first quarter of 2017 we generated adjusted EBITDA of $34.0 million, a 5% decrease from the same quarter in 2016 due to difficult winter weather conditions which impacted operations and limited log availability. Improved log and lumber pricing, a 2% increase in lumber shipments and a stronger specialty lumber sales mix partially offset the weather-related impacts on our operations.

First quarter lumber revenue was $225.6 million in 2017, an increase of 9% from the same quarter of 2016. We realized an average lumber price of $985 per thousand board feet in the first quarter of 2017. Specialty lumber mix increased to 57% from 54% in the same quarter of last year, while we grew lumber shipments by 2% to capitalize on accelerating pricing through the quarter. We realized improved Western Red Cedar ("WRC") pricing notwithstanding cutting a lower quality grade mix of logs.

WRC lumber shipments remained stable despite a 25% reduction in total coastal cedar log harvest, as reported by the Province of BC's Harvest Billing system. We increased volumes to Japan and improved Niche shipments as compared to the same quarter last year. While commodity lumber sales volume declined, we directed volume from the US market to China to meet strong demand and to mitigate potential US-Canada softwood lumber duty exposure.

First quarter log revenue was $45.5 million in 2017, a decrease of $0.8 million from the same period in 2016. Strong price realizations offset a 17% decline in sales volume due to reduced opening log inventories and poor harvest volumes.

By-product revenue was $16.6 million in the first quarter of 2017, as compared to $17.3 million in the same period in 2016. By-product revenue declined commensurate with reduced lumber production.

Lumber production was 214 million board feet, a decrease of 3% from the first quarter of 2016. Stronger operating performance from our Saltair and Ladysmith sawmills largely offset log related downtime at our Somass and Alberni Pacific sawmills. Beginning in early February 2017, the Somass sawmill was fully curtailed and operations at our Alberni Pacific division were reduced to one shift. Operating curtailments and reduced log supply contributed to an increase in manufacturing costs.

Timberlands log harvest decreased by 12% as compared to the same quarter of 2016, as prolonged winter weather limited harvest production. Log supply was supplemented by sawlog purchases of 231,000 cubic metres, a reduction from 268,000 in the same quarter last year due to reduced coastal supply. Harvest costs increased by 6% in the first quarter of 2017 due to the reduced harvest volume and storm damage costs.

Increased China shipments coupled with higher lumber sales volumes resulted in a $5.1 million increase in first quarter freight costs as compared to the same period of 2016.

Selling and administration expense in the first quarter of 2017 increased to $8.4 million from $6.8 million in the same period of 2016. A significant relative increase in the value of the Company's common share price, period-over-period, and more outstanding share units were the primary drivers for a $1.0 million increase in mark-to-market, performance and share-based compensation. The Company's common share price appreciated by 15% in the first quarter of 2017, as compared 2% in the same period last year. In addition, the Company incurred incremental costs as a result of ongoing system and process improvement initiatives.

Net income for the first quarter of 2017 was $16.2 million, compared to $17.3 million for the same period of 2016. A decrease in operating income was partially offset by lower finance costs and reduced tax expense.

Finance Costs

First quarter finance costs were $0.7 million in 2017, a reduction of $0.4 million from the same quarter of 2016. All drawings on the Company's debt facilities were fully repaid in the first quarter of 2017 resulting in lower interest expense.

Income Taxes

During the first quarter of 2017, current income tax expense of $0.2 million and deferred income tax expense of $6.1 million was recognized on net income, primarily relating to operating earnings.

Financial Position and Liquidity

	Three months ended March 31,	
(millions of dollars except where noted)	2017	2016
Cash provided by operating activities, excluding non-cash working capital	$ 30.8	$ 32.7
Cash provided by operating activities	67.9	28.1
Cash used in investing activities	(9.0)	(13.8)
Cash used in financing activities	(43.3)	(13.3)
Cash used in capital logging roads	(3.3)	(2.2)
Cash used to acquire property, plant and equipment	(6.1)	(11.6)
	March 31, 2017	December 31, 2016
Total liquidity [(1)]	$ 268.7	$ 218.1
Net debt [(2)]	-	15.4
Financial ratios:		
Current assets to current liabilities	2.33	2.58
Net debt to capitalization [(3)]	-	0.03

(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.

We have no outstanding debt obligations following the repayment of $35.0 million on our revolving term loan facility in the first quarter of 2017.

Cash provided by operating activities during the first quarter of 2017 grew to $67.9 million, an increase of $39.8 million, led by sustained, strong operating cash flows and reduced working capital. Low opening log and lumber inventories were further reduced in the first quarter as improved lumber shipments exceeded production, and log harvest was negatively impacted by challenging winter operating conditions. Excluding the impacts of non-cash working capital, cash provided by operating activities was consistent with the same quarter of 2016.

Cash used in investing activities was $9.0 million during the first quarter of 2017, as compared to $13.8 million invested during the first quarter of 2016. We continue to focus our efforts on high-return, lower cost capital projects and maximizing returns and performance from recent major capital projects as we await clarity in the softwood lumber trade dispute. These factors contributed to a $6.6 million decrease in strategic capital expenditures from the first quarter of 2016. The strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

Cash used in financing activities increased to $43.3 million during the first quarter of 2017, as compared to $13.3 million during the first quarter of 2016. Strong operating cash flows were used to repay $35.0 million of debt, and we returned $7.9 million to our shareholders by way of regular quarterly dividends.

Total liquidity increased to $268.7 million at March 31, 2017 from $218.1 million at the end of 2016. Drivers for this increase were the repayment of all outstanding debt and a reduction in working capital employed.

Liquidity is comprised of cash and cash equivalents of $34.6 million, unused availability under the secured revolving credit facility of $124.1 million, and $110.0 million available under the revolving term loan facility. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2017.

Strategy and Outlook

Western's long-term business objective is to create superior value for shareholders by building a margin-focused log and lumber business of scale to compete successfully in global softwood markets. We believe this will be achieved by maximizing utilization of our forest tenures, operating efficient, low-cost manufacturing facilities and producing high-value softwood lumber and logs for global markets. We seek to manage our business with a focus on operating cash flow and maximizing the value of our fibre resource through the production cycle, from the planning of our logging operations to the production, marketing and sale of our log and lumber products.

The following strategic initiatives will continue to guide our focus:

Strengthen the Foundation

We have developed a track record for consistently delivering positive operating income and positioning the balance sheet to maximize flexibility in the face of uncertainty.

We have announced or implemented $101.9 million of strategic capital investments to strengthen our operating platform and position Western as the only company on the coast of BC capable of consuming the profile of the coastal forest and competitively manufacturing a diverse product mix. Recent capital investment information is presented below under *Strategic Capital Program Update.*

Recently completed and activated strategic capital investments have facilitated the consolidation of our manufacturing operations. By advancing the recapitalization and consolidation of our coastal operating base, we have improved the financial performance and stability of our business.

We continue to invest in people and systems to create a platform for growth and to facilitate the acceleration of our pursuit of margin-focused growth opportunities.

Grow the Base

We grew annual revenue to $1,187.3 million in 2016, more than double the revenue reported in 2009.

We continue to optimize our operations and invest in our mills and timberlands to reduce costs, improve margins, and grow our business through increased production.

The success of our business relationships with First Nations communities continues to grow incremental log supply and has enabled Western to grow specialty lumber production. We continue to pursue opportunities for long-term, mutually beneficial relationships with coastal First Nations.

We have implemented a non-capital margin improvement program to optimize our supply chain and further consolidate our business.

From a product marketing perspective, we are delivering on a strategy that drives increased market share through the sale of targeted products of scale to selected customers who value our product offerings.

Explore Opportunities

We are evaluating all opportunities to grow market share in targeted products and drive shareholder value.

Our ongoing reinvestment in and consolidation of our coastal operating base, steady improvements in our operating performance and a strong balance sheet have positioned Western to actively pursue external growth opportunities.

Market Outlook

We remain confident that over the mid to long term, growth in the US new home construction and repair and renovation markets, as well as increasing demand from China, combined with reduced supply from the BC Interior as a result of Mountain Pine Beetle, will deliver an improved pricing environment for our products.

In the near-term, we expect US lumber prices to increase as a result of improved market conditions and the application of duties on Canadian lumber. Higher US lumber prices are expected to impact global softwood flows by motivating US lumber and log exporters to redirect supply to their domestic market and by attracting European supply to the US market. We believe these global market dynamics will create opportunities for Western.

A combination of reduced supply and improved demand from an active repair and renovation segment has driven WRC lumber prices higher. As annualized lumber consumption peaks in the second quarter we anticipate that pricing will continue to rise. Demand and pricing for our Niche products should remain stable.

We expect lumber demand in Japan to remain robust as we close out the first half of 2017. We believe strong demand, coupled with rising freight costs for European suppliers, will support pricing for our lumber in the second quarter.

China imported a record amount of softwood logs and lumber in 2016. Demand from China continued to grow in the first quarter and we expect that trend to continue through the second quarter, supporting higher pricing.

Strong demand in export and domestic log markets and constrained supply is expected to deliver further price improvements. The pulp log market is expected to improve modestly as pulp log inventories remain low, also due to reduced coastal harvest.

Update on Softwood Lumber Dispute

In November 2016, a petition was filed by a coalition of US lumber producers to the US Department of Commerce (“DoC”) and International Trade Commission (“ITC”) requesting an investigation into alleged subsidies provided to Canadian lumber producers. The Canadian industry and Canadian governments strongly deny these assertions which have previously been disproven in international courts.

On April 24, 2017, the DoC announced a countervailing duty (“CVD”) of 19.88% for “all other” Canadian lumber producers including Western. The DoC also made a preliminary determination on critical circumstances that resulted in 90-day retroactive application of CVD.

Cash deposits for CVD were required for lumber imports to the US effective April 28, 2017, and we have estimated that the 90-day retroactive duty obligations arising from the DoC’s April 24, 2017 preliminary finding of critical circumstances is USD $8.8 million.

Preliminary findings of the anti-dumping investigation are expected in late June 2017. 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 allocate capital to strategic, high-return projects involving our information systems, timberlands assets, and forest inventories.

In the first quarter of 2017, we continued the strategic investment in our Chemainus sawmill with the commencement of a timber deck expansion project, and advanced the Duke Point planer modernization. The Chemainus sawmill timber deck expansion and Duke Point planer modernization are scheduled for completion in 2017.

We have announced plans for $101.9 million of our $125 million strategic capital program. Through the first quarter of 2017, we have implemented and capitalized $90.0 million under that program. Uncertainty arising from the softwood lumber trade dispute has caused us to defer the commencement of additional potentially significant capital projects plans, however a number of high-return, low-cost strategic capital projects are in the late stages of planning or ready for implementation.

Non-Core Assets Update

On March 29, 2017, we entered into a conditional agreement for the sale of our former South Vancouver Island Remanufacturing operation for $3.2 million. The South Island Remanufacturing plant was indefinitely curtailed in March 2016. Material conditions of this agreement were removed on April 21, 2017 and the completion date is August 19, 2017. Net of closing costs, proceeds are estimated to be $3.0 million and we expect to recognize a gain on disposition in the third quarter of 2017.

We continue to evaluate the timing of sale of non-core assets and expect to accelerate the marketing and disposition of certain non-core assets.

New accounting policies: standards and interpretations not yet adopted

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2017 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 9, *Financial Instruments*
- 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 months ended March 31, 2017 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 2016 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.

Evaluation of Disclosure Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended March 31, 2017, that have materially affected or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of May 3, 2017, 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 three months ended March 31, 2017, 1,560,750 options were granted. As of May 3, 2017, 12,893,462 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)	2017	2016				2015		
	1st	4th	3rd	2nd	1st	4th	3rd	2nd
Average Exchange Rate – USD to CAD	1.323	1.334	1.305	1.288	1.372	1.335	1.309	1.229
Revenue								
Lumber	225.6	220.7	235.6	221.0	206.2	194.4	203.8	200.0
Logs	45.5	55.1	70.0	64.2	46.3	53.6	57.3	71.0
By-products	16.6	17.2	17.1	16.6	17.3	17.6	17.4	18.2
Total revenue	287.7	293.0	322.7	301.8	269.8	265.6	278.5	289.2
Lumber								
Production – millions of board feet	214	242	248	232	221	234	212	236
Shipments – millions of board feet	229	236	257	234	225	226	227	228
Price – per thousand board feet	985	935	917	944	916	862	899	879
Logs								
Net production - thousands of cubic metres (2)	908	919	1,153	1,321	1,027	1,081	1,180	1,402
Saw log purchases – thousands of cubic metres	231	337	415	497	268	299	209	327
Shipments – thousands of cubic metres	364	493	651	521	438	540	610	749
Price – per cubic metre (3)	116	104	100	112	100	95	89	90
Selling and administration	8.4	6.7	6.4	7.6	6.8	6.6	4.7	6.1
Adjusted EBITDA	34.0	33.8	35.7	43.0	35.7	29.6	28.7	29.2
Amortization	(8.6)	(8.7)	(8.8)	(8.8)	(7.5)	(8.2)	(7.3)	(7.6)
Changes in fair value of biological assets, net	(1.5)	6.9	(0.7)	(0.4)	(1.9)	(0.9)	-	(0.6)
Operating restructuring items	(0.5)	(1.3)	(0.6)	(0.8)	(0.7)	(0.7)	(2.9)	(0.4)
Finance costs	(0.7)	(1.0)	(1.2)	(1.1)	(1.1)	(1.1)	(1.3)	(1.3)
Other income (expenses) (4)	(0.2)	18.0	(1.4)	(0.2)	(0.3)	(0.9)	(0.2)	(0.1)
Deferred income tax recovery (expense)	(6.1)	(11.5)	(6.1)	(7.8)	(6.8)	(7.9)	0.1	(0.1)
Current income tax expense	(0.2)	-	(0.1)	-	(0.1)	-	-	-
Net income	16.2	36.2	16.8	23.9	17.3	9.9	17.1	19.1
Adjusted EBITDA margin	11.8%	11.5%	11.1%	14.2%	13.2%	11.1%	10.3%	10.1%
Earnings per share:								
Net income, basic	0.04	0.09	0.04	0.06	0.04	0.03	0.04	0.05
Net income, diluted	0.04	0.09	0.04	0.06	0.04	0.02	0.04	0.05

(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.
(4) Other income (expense), net of fair market value less cost to sell changes in biological assets.

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 fire 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 fourth quarter of 2016, the Company recognized $14.1 million into other income for the 2011 partial tenure extinguishment in TFL 44 from the Maa-nulth First Nations Final Agreement Act. The fourth quarter of 2016 also included an $8.0 million increase in fair value less costs to sell of the Company’s biological assets, and a $3.8 million past service credit as a result of a pension plan amendment to reduce future benefit payments. In the fourth quarter of 2015, the Company recognized changes in deferred tax balances with respect to unutilized operating tax losses and actuarial gains and losses on its defined benefit plans, resulting in a $7.8 million deferred income tax expense through net income, and a deferred income tax recovery of $9.1 million through other comprehensive income. 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.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and 2016

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

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 34.6	$ 19.0
Trade and other receivables	92.3	107.0
Inventory (Note 5)	130.1	149.8
Prepaid expenses and other assets	17.0	14.2
	274.0	290.0
Non-current assets:		
Property, plant and equipment (Note 6)	298.9	297.2
Intangible assets (Note 7)	120.2	121.2
Biological assets (Note 8)	56.1	57.6
Other assets	12.1	11.0
Deferred income tax assets (Note 11)	0.3	0.2
	$ 761.6	$ 777.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 107.7	$ 102.6
Silviculture provision (Note 12)	10.0	9.7
	117.7	112.3
Non-current liabilities:		
Long-term debt (Note 10)	-	34.4
Silviculture provision (Note 12)	19.3	19.2
Deferred income tax liabilities (Note 11)	8.0	2.0
Other liabilities (Note 13)	28.2	28.4
Deferred revenue	57.9	58.4
	231.1	254.7
Shareholders' equity:		
Share capital (Note 14)	506.0	506.0
Contributed surplus	8.8	8.6
Retained earnings	15.7	7.9
	530.5	522.5
	$ 761.6	$ 777.2

Commitments and Contingencies (Note 15)
Subsequent Events (Note 18)
See accompanying notes to these unaudited condensed consolidated interim financial statements

Approved on behalf of the Board:

"Lee Doney"
Chairman

"Don Demens"
President and CEO

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenue	$ 287.7	$ 269.8
Cost and expenses:		
Cost of goods sold	228.3	214.7
Freight	27.1	22.0
Selling and administration	8.4	6.8
	263.8	243.5
Operating income prior to restructuring items and other income	23.9	26.3
Operating restructuring items	(0.5)	(0.7)
Other expense	(0.2)	(0.3)
Operating income	23.2	25.3
Finance costs	(0.7)	(1.1)
Income before income taxes	22.5	24.2
Current income tax expense (Note 11)	(0.2)	(0.1)
Deferred income tax expense (Note 11)	(6.1)	(6.8)
Net income	16.2	17.3
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gain (loss) (Note 16)	(0.7)	1.3
Income tax on other comprehensive gain (loss) (Note 11)	0.2	(0.4)
Total items that will not be reclassified to profit or loss	(0.5)	0.9
Other comprehensive income (loss) for the period	(0.5)	0.9
Total comprehensive income	$ 15.7	$ 18.2
Net income per share (in dollars)		
Basic and diluted earnings per share	$ 0.04	$ 0.04
Weighted average number of common shares outstanding (thousands)		
Basic	395,448	395,257
Diluted	398,972	398,866

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	Retained Earnings (Deficit)	**Total Equity**
Balance at December 31, 2015	$ 505.5	$ 7.6	$ (57.2)	$ 455.9
Net income	-	-	17.3	17.3
Other comprehensive income:				
Defined benefit plan actuarial gain recognized	-	-	1.3	1.3
Income tax expense on other comprehensive income	-	-	(0.4)	(0.4)
Total comprehensive income	-	-	18.2	18.2
Share-based payment transactions recognized in equity	-	0.2	-	0.2
Exercise of stock options	0.3	(0.1)	-	0.2
Dividends	-	-	(7.9)	(7.9)
Total transactions with owners, recorded directly in equity	0.3	0.1	(7.9)	(7.5)
Balance at March 31, 2016	$ 505.8	$ 7.7	$ (46.9)	$ 466.6
Balance at December 31, 2016	$ 506.0	$ 8.6	$ 7.9	$ 522.5
Net income	-	-	16.2	16.2
Other comprehensive loss:				
Defined benefit plan actuarial loss recognized	-	-	(0.7)	(0.7)
Income tax recovery on other comprehensive loss	-	-	0.2	0.2
Total comprehensive income	-	-	15.7	15.7
Share-based payment transactions recognized in equity	-	0.2	-	0.2
Dividends	-	-	(7.9)	(7.9)
Total transactions with owners, recorded directly in equity	-	0.2	(7.9)	(7.7)
Balance at March 31, 2017	$ 506.0	$ 8.8	$ 15.7	$ 530.5

See accompanying notes to these unaudited condensed consolidated interim financial statements

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cash provided by (used in):		
Operating activities:		
Net income	$ 16.2	$ 17.3
Items not involving cash:		
Amortization of property, plant and equipment (Note 6)	7.6	6.5
Amortization of intangible assets (Note 7)	1.0	1.0
Gain on disposal of assets	(0.3)	-
Change in fair value of biological assets (Note 8)	1.5	1.9
Net finance costs	0.7	1.1
Deferred income tax expense (Note 11)	6.1	6.8
Other	(2.0)	(1.9)
	30.8	32.7
Changes in non-cash working capital items:		
Trade and other receivables	14.7	(2.7)
Inventory	19.7	3.0
Prepaid expenses and other assets	(2.8)	(3.2)
Silviculture provision	0.4	0.2
Accounts payable and accrued liabilities	5.1	(1.9)
	37.1	(4.6)
	67.9	28.1
Investing activities:		
Additions to property, plant and equipment (Note 6)	(9.4)	(13.8)
Proceeds on disposal of assets	0.4	-
	(9.0)	(13.8)
Financing activities:		
Interest paid	(0.4)	(0.6)
Repayment of long-term debt	(35.0)	(5.0)
Dividends	(7.9)	(7.9)
Proceeds from exercise of stock options	-	0.2
	(43.3)	(13.3)
Increase in cash and cash equivalents	15.6	1.0
Cash and cash equivalents, beginning of period	19.0	9.4
Cash and cash equivalents, end of period	$ 34.6	$ 10.4

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 head 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 months ended March 31, 2017 and 2016 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, 2016. 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 May 3, 2017.

(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 consolidated 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 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 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, 2016.

(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, 2016.

(a) *Standards and interpretations not yet adopted*

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 standard, based on the Company's preliminary evaluation, is not expected to be material to the 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, based on the Company's preliminary evaluation, is not expected to be material to the financial statements.

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

	March 31, 2017	December 31, 2016
Logs	$ 77.3	$ 93.0
Lumber	49.8	57.2
Supplies and other inventory	13.8	13.6
Provision for write downs	(10.8)	(14.0)
Total value of inventory	$ 130.1	$ 149.8

The carrying amount of inventory recorded at net realizable value was $40.3 million at March 31, 2017 (2016: $41.6 million), with the remaining inventory recorded at cost.

During the three months ended March 31, 2017, $228.3 million (2016: $214.7 million) of inventory was charged to cost of goods sold. This includes a decrease to the provision for write-down to net realizable value of $3.2 million for the three months ended March 31, 2017 (2016: decrease of $4.0 million).

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, 2016	$ 261.6	$ 164.9	$ 90.6	$ 517.1
Additions	43.0	13.1	-	56.1
Disposals	(1.4)	-	-	(1.4)
Balance at December 31, 2016	303.2	178.0	90.6	571.8
Additions	6.1	3.3	-	9.4
Disposals	(0.7)	-	-	(0.7)
Balance at March 31, 2017	$ 308.6	$ 181.3	$ 90.6	$ 580.5
Accumulated amortization and impairments				
Balance at January 1, 2016	$ 114.1	$ 131.7	$ -	$ 245.8
Amortization	17.1	12.7	-	29.8
Disposals	(1.0)	-	-	(1.0)
Balance at December 31, 2016	130.2	144.4	-	274.6
Amortization	4.8	2.8	-	7.6
Disposals	(0.6)	-	-	(0.6)
Balance at March 31, 2017	$ 134.4	$ 147.2	$ -	$ 281.6
Carrying amounts				
At December 31, 2016	$ 173.0	$ 33.6	$ 90.6	$ 297.2
At March 31, 2017	$ 174.2	$ 34.1	$ 90.6	$ 298.9

7. Intangible assets

Cost	
Balance at December 31, 2016	$ 170.7
Balance at March 31, 2017	$ 170.7
Accumulated amortization and impairments	
Balance at January 1, 2016	$ 45.5
Amortization	4.0
Balance at December 31, 2016	$ 49.5
Amortization	1.0
Balance at March 31, 2017	$ 50.5
Carrying amounts	
At December 31, 2016	$ 121.2
At March 31, 2017	$ 120.2

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

8. Biological assets

(a) Reconciliation of carrying amount

	Three months ended March 31,	
	2017	2016
Carrying value, beginning of period	$ 57.6	$ 53.7
Change in fair value due to growth and pricing	1.1	0.8
Harvested timber transferred to inventory	(2.6)	(2.7)
Carrying value, end of period	$ 56.1	$ 51.8

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, and is recorded at cost less accumulated impairment.

At March 31, 2017, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2016: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to old-growth forests. During the three months ended March 31, 2017, the Company harvested and scaled approximately 84,392 cubic metres ("m^3") of logs from its private timberlands, which had a fair value less costs to sell of $111 per m^3 at the date of harvest (2016: 120,238 m^3 and $108 per m^3, 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 $56.1 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used (December 31, 2016: Level 3 fair value). The valuation technique used is discounted cash flows combined with market comparison.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at March 31, 2017 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 growth and pricing is recognized in cost of goods sold.

9. Revolving credit facility

	March 31, 2017	December 31, 2016
Available	$ 125.0	$ 125.0
Borrowing base reductions	-	-
Drawings	-	-
Outstanding letters of credit	0.9	0.9
Unused portion of Facility	$ 124.1	$ 124.1

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 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 March 31, 2017 (December 31, 2016: 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 March 31, 2017.

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

10. Long-term debt

	March 31, 2017	December 31, 2016
Long-term debt	$ -	$ 35.0
Less transaction costs	-	(0.6)
	$ -	$ 34.4
Available	$ 110.0	$ 110.0
Drawings	-	35.0
Unused portion of Term Loan	$ 110.0	$ 75.0

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% or at the election of the Company, the applicable BA rate plus 1.65%. The interest rate for the Term Loan was 2.85% at March 31, 2017 (December 31, 2016: 2.60%).

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 March 31, 2017. Transaction costs are deferred and amortized to finance costs over the term of the Term Loan using the effective interest rate method.

At March 31, 2017, there were no amounts outstanding under the Company's Term Loan and as a result, the associated deferred transaction costs of $0.5 million are included in other assets on the statement of financial position.

11. Income taxes

	Three months ended March 31,	
	2017	2016
Current income tax expense	$ (0.2)	$ (0.1)
Deferred income tax expense	(6.1)	(6.8)
	$ (6.3)	$ (6.9)

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

	Three months ended March 31,			
	2017		2016	
Income before income taxes, continuing operations		$ 22.5		$ 24.2
Tax using the Company's domestic tax rate	26.00%	(5.8)	26.00%	(6.3)
Permanent differences	2.22%	(0.5)	2.48%	(0.6)
	28.22%	$ (6.3)	28.48%	$ (6.9)

In addition to the amounts recorded to net income, a deferred tax recovery of $0.2 million was recorded to other comprehensive income for the three month period ended March 31, 2017 (2016: $0.4 million expense) in relation to current period actuarial losses on defined benefit employee future benefit obligations.

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

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 March 31, 2017	2016
Silviculture provision, beginning of period	$ 28.9	$ 30.8
Silviculture provision charged	1.5	2.2
Silviculture work payments	(1.2)	(2.7)
Unwind of discount	0.1	-
Silviculture provision, end of period	29.3	30.3
Less current portion	10.0	11.4
	$ 19.3	$ 18.9

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.65% to 1.63%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at March 31, 2017 is $30.0 million (December 31, 2016: $29.6 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.

13. Other liabilities

	March 31, 2017	December 31, 2016
Employee future benefits obligation (Note 16)	$ 23.1	$ 23.1
Environmental accruals	2.7	2.5
Performance share unit plan liabilities (Note 14)	1.1	1.5
Other	1.3	1.3
	$ 28.2	$ 28.4

14. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares	Amount
Balance at December 31, 2016	395,447,663	$ 506.0
Exercise of stock options	-	-
Balance at March 31, 2017	395,447,663	$ 506.0

(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 2017, the Company granted 1,560,750 options with a fair value of $0.8 million as determined by the Black-Scholes option pricing model, using the assumptions of an exercise price of $2.09 per share, risk free interest rate of 1.36%, a volatility rate of 35.15%, 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. At March 31, 2017, 12,796,335 options (December 31, 2016: 11,235,585) were outstanding under the Company’s Option Plan, with a weighted average exercise price of $1.57 per share.

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

14. Share capital (continued)

(b) Share-based payment transactions (continued)

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of period	11,235,585	$ 1.50	10,158,667	$ 1.44
Granted	1,560,750	$ 2.09	1,330,918	$ 1.97
Exercised	-	$ -	(125,000)	$ 1.29
Forfeited	-	$ -	(39,000)	$ 2.61
Outstanding, end of period	12,796,335	$ 1.57	11,325,585	$ 1.50

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

The Company has a DSU Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs and prior to January 1, 2015 executive officers could elect to take a portion of their annual incentive bonus in the form of DSUs. 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. All DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received if they held their DSUs as common shares. 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 closing share price on the dividend payment date.

Effective January 1, 2015, DSUs are only granted to non-executive directors per the amended DSU Plan.

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Number of DSU	Weighted average unit value	Number of DSU	Weighted average unit value
Outstanding, beginning of period	1,100,073	$ 0.98	981,495	$ 0.86
Granted	50,502	$ 2.12	37,810	$ 2.28
Outstanding, end of period	1,150,575	$ 1.03	1,019,305	$ 0.91

During the three months ended March 31, 2017, the Company recorded a compensation expense for these DSUs of $0.3 million (2016: compensation recovery of $0.1 million), with a corresponding adjustment to accounts payable and accrued liabilities.

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

The Company has established a PSU Plan for designated officers and employees of the Company. Under the terms of the PSU Plan, participants are granted a number of PSUs based on a target award divided by the value of the Company's Common Shares at the effective date of grant. All PSU holders are entitled to PSU dividends, equivalent to the dividend they would have received if they held their PSUs as common shares.

Performance targets are set by the Management Resource & Compensation Committee of the Company's Board of Directors. The number of PSUs which will ultimately vest will be the original number of PSUs granted plus PSUs equal to the value of accrued notional dividends over the performance period. For dividends, the number of PSUs allotted is determined by dividing the total dollar value of the dividend each PSU holder would have received, by the closing share price on the trading day immediately after the dividend date of record. The redemption value of vested PSUs will be in a range from 0% to 200% based on return on capital employed over a three year performance period.

	Three months ended March 31,	
	2017	2016
Outstanding, beginning of period	952,236	434,115
Granted	557,916	526,022
Forfeited	-	(34,923)
Outstanding, end of period	1,510,152	925,214

(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 (continued)

During the three months ended March 31, 2017, the Company recorded a compensation expense for these PSUs of $0.7 million (2016: compensation expense of $0.3 million), with a corresponding adjustment to accounts payable and accrued liabilities and other liabilities.

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, 2016 and based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2017.

16. Employee benefits

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

	Three months ended March 31,	
	2017	2016
Current service costs	$ 0.1	$ 0.1
Net interest	0.2	0.3
Cost of defined benefit plans	0.3	0.4
Cost of defined contribution plans	0.9	0.9
Total cost of employee post-retirement benefits	$ 1.2	$ 1.3

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

	March 31, 2017	December 31, 2016
Present value of obligations	$ 133.6	$ 132.3
Fair value of plan assets	(110.5)	(109.2)
Liability recognized in the statement of financial position (Note 13)	$ 23.1	$ 23.1

The change in the liability recognized in the statement of financial position at March 31, 2017 was due primarily to the increased actuarial losses resulting from a decrease 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 March 31, 2017 was 3.55% per annum, a decrease of 0.15% per annum from the rate used at December 31, 2016 of 3.70% per annum.

The Company expects to make funding contributions to its defined benefit plans of $2.2 million during 2017.

(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, 2016.

	Carrying Amount					Fair Value			
March 31, 2017	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									
Foreign currency forward contracts	$ -	$ 0.2	$ -	$ -	$ 0.2	-	0.2	-	$ 0.2
Investments	5.0	-	-	-	5.0	-	5.0	-	$ 5.0
	$ 5.0	$ 0.2	$ -	$ -	$ 5.2				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 34.6	$ -	$ 34.6				
Trade and other receivables	-	-	92.1	-	92.1				
	$ -	$ -	$ 126.7	$ -	$ 126.7				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 107.7	$ 107.7				
	$ -	$ -	$ -	$ 107.7	$ 107.7				
December 31, 2016									
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	$ -	$ -	$ 19.0	$ -	$ 19.0				
Trade and other receivables	-	-	107.0	-	107.0				
	$ -	$ -	$ 126.0	$ -	$ 126.0				
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	$ -	$ -	$ -	$ 102.3	$ 102.3				
Long-term debt (Note 10)	-	-	-	34.4	34.4				
	$ -	$ -	$ -	$ 136.7	$ 136.7				

As at March 31, 2017, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 170.0 million at an average rate of JPY 83.92 per CAD with maturities through April 28, 2017, and sell an aggregate USD$43.0 million at an average rate of CAD$1.33 per USD with maturities through May 11, 2017. All foreign currency gains or losses related to currency forward contracts to March 31, 2017 have been recognized in revenue for the period and the fair value of these instruments at March 31, 2017 was a net asset of $0.2 million, which is included in trade and other receivables on the statement of financial position (December 31, 2016: net liability of $0.3 million included in accounts payable and accrued liabilities). A net gain of $0.4 million was recognized on contracts which were settled in the three months ended March 31, 2017 (2016: net gain of $0.7 million), which was included in revenue for the period.

18. Subsequent events

Countervailing Duty on Softwood Lumber Trade

In November 2016, the US Lumber Coalition petitioned the DoC and the ITC to investigate alleged subsidies to Canadian lumber producers for the purpose of initiating CVD and AD duties.

On April 24, 2017, the DoC announced a CVD rate of 19.88% for "all other" Canadian lumber producers including Western. The DoC also made a preliminary determination on critical circumstances that resulted in 90-day retroactive application of CVD.

Cash deposits for CVD were required for lumber imports to the US effective April 28, 2017, and Western's estimate for 90-day retroactive duty arising from the DoC's April 24, 2017 preliminary finding of critical circumstances is USD$8.8 million. As the Company expects the preliminary critical circumstance determination to be reversed, consistent with the result of past softwood lumber disputes, it will recognize the retroactive duties as a deposit upon payment.

The DoC is expected to release its AD investigation findings on June 23, 2017.

Sale of South Island Remanufacturing Assets

On March 29, 2017, Western entered into a conditional agreement for the sale of its former South Vancouver Island Remanufacturing plant for the gross purchase price of $3.2 million. The South Island Remanufacturing plant was indefinitely curtailed in March 2016. Material conditions of this agreement were removed on April 21, 2017 and the completion date is August 19, 2017. Net of closing costs, proceeds are estimated to be $3.0 million. Western anticipates recognizing a gain on disposition in the third quarter ending September 30, 2017.

Western Forest Products Inc.
DEFINING A HIGHER STANDARD™

Suite 800
1055 West Georgia Street
Royal Centre, PO Box 11122
Vancouver, British Columbia
Canada V6E 3P3
Telephone: 604 648 4500

www.westernforest.com
info@westernforest.com

Trading on the TSX as "WEF"