Western Forest Products Inc.

2017 Second 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 six months ended June 30, 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 and six months ended June 30, 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 and six months ended June 30, 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 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 shareholders' 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 its 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 August 2, 2017.

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

[2] Adjusted EBITDA as a proportion of Revenue

Train accident in Woss, B.C.

On April 20, 2017, five Western employees were injured, three fatally, due to a train accident in our Englewood forest operations. Immediately following the accident we shut all timberlands operations for three days out of respect to those affected, and we continue to care for the families, employees and communities impacted by this tragedy.

We are fully cooperating with ongoing regulatory agency investigations. The safety and security of our staff has always been and will continue to be our highest priority.

Summary of Selected Quarterly Results [1]

(millions of dollars except per share amounts and where otherwise noted)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue				
Lumber	$ 212.8	$ 221.0	$ 438.4	$ 427.2
Logs	57.2	64.2	102.7	110.5
By-products	17.4	16.6	34.0	33.9
Total revenue	$ 287.4	$ 301.8	$ 575.1	$ 571.6
Operating income prior to restructuring items and other income	37.7	33.7	61.6	60.0
Net income	25.6	23.8	41.8	41.1
Adjusted EBITDA	$ 47.1	$ 43.0	$ 81.1	$ 78.7
Adjusted EBITDA margin	16.4%	14.2%	14.1%	13.8%
Basic and diluted earnings per share (in dollars)	$ 0.06	$ 0.06	$ 0.10	$ 0.10

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

Operating Results

Second Quarter 2017

We generated $47.1 million of adjusted EBITDA in the second quarter of 2017, a 10% increase from the same quarter of 2016, as we successfully levered our flexible operating platform to mitigate US softwood lumber duties by redirecting lumber production and sales to non-US markets. This strategy enabled Western to capitalize on improved lumber pricing and overcome log supply challenges.

Second quarter operating income prior to restructuring items and other income was $37.7 million compared to $33.7 million in the same period last year. Operating income and adjusted EBITDA were reduced by $9.2 million of export duties expensed in the second quarter of 2017.

Lumber revenue was $212.8 million, a decrease of 4% from the second quarter of 2016. Improved lumber price realizations largely offset a 15% decline in sales volumes. Average realized lumber pricing was $1,069 per thousand board feet, an increase of 13% from the same period in 2016, despite a higher proportion of commodity lumber sales. We directed lumber shipments to a strong China market, and focused our sales in the US market on targeted products where pricing largely offset softwood lumber duties.

Second quarter log revenue was $57.2 million in 2017, a decrease of $7.0 million from the same period in 2016. Improved log pricing offset a 16% decrease in log sales volumes. Lower log shipment volumes were due to reduced harvest volumes, combined with a lower opening log inventory and prioritizing internal log consumption.

By-product revenue was $17.4 million in the second quarter of 2017, as compared to $16.6 million in the same period in 2016. A 16% increase in chip price realizations more than offset reduced sales volumes, resulting from reduced lumber production.

Revenues were positively affected by a weaker Canadian dollar (“CAD”), which was 4% lower on average against the United States dollar (“USD”) as compared to the same quarter of 2016.

Lumber production was 207 million board feet, 11% lower than the second quarter of 2016 as limited coastal log supply impacted lumber production. We more than offset the margin impact of lower total lumber production by further consolidating our operating platform, increasing commodity production and reducing secondary processing. Since the second quarter of 2016, we have closed both the South Island Remanufacturing operation and Saltair planer, consolidating our secondary processing at the modernized Duke Point planer. We have also continued to internalize custom cut production at our modernized Duke Point sawmill. In February 2017, we temporarily curtailed production at the Somass sawmill, our highest cost manufacturing facility, and we have recently announced the indefinite curtailment of that operation.

Timberlands log production was 1,091,000 cubic metres, 17% lower than in the same period last year. Our log harvest was impacted by prolonged snow pack that limited access to higher elevation harvest areas, and the aforementioned train accident. Log harvest costs per cubic metre were comparable to the second quarter of 2016, as reduced helicopter logging and lower silviculture expense offset the impacts of lower production on fixed costs per unit. Log supply was supplemented by saw log purchases of 249,000 cubic metres, a decrease from 497,000 cubic metres in the same quarter last year as reduced coastal supply limited market log availability.

Freight expense increased by $2.8 million as compared to the second quarter of 2016, as we leveraged our flexible operating platform to drive higher lumber shipments to a strong China market. This strategy partly mitigated the impact of export duties on our margins. A weaker CAD period-over-period negatively impacted our shipping rates.

Second quarter selling and administration expense increased to $8.4 million in 2017, from $7.6 million in the same period of 2016. A significant increase in the Company's common share price resulted in an incremental $0.7 million mark-to-market adjustment on outstanding share units. The Company's common share price appreciated by 8%, as compared to depreciating by 12% in the second quarter last year.

Net income for the second quarter of 2017 was $25.6 million, as compared to $23.8 million for the same period of 2016. Improved operating income and lower finance costs were partially offset by increased tax expense.

Year to date, June 30, 2017

Adjusted EBITDA for the first six months of 2017 was $81.1 million, an improvement of 3% from the same period in 2016. Rising log and lumber pricing and stable production costs per unit period-over-period more than offset lower sales volumes and the imposition of export duties in 2017.

Lumber revenue grew by 3% to $438.4 million in the first half of 2017, while shipments declined by 7%. By maintaining our specialty product mix and selling targeted products to selected customers, we more than overcame the challenge of reduced log inventories.

First half log revenue decreased by 7% in 2017 to $102.7 million as reduced harvest volume and lower opening log inventory limited log availability. Sales volumes have also decreased as we have prioritized internal log consumption over external sales. A decline in log sales volumes of 17% was partly offset by significantly higher saw log pricing. Pulp log prices remained flat period-over-period.

Lumber production in the first half of 2017 was 421 million board feet, down from 453 million board feet in 2016, as constrained log supply limited production. Manufacturing costs have decreased due to lower secondary processing volumes and the continued consolidation and modernization of our operations.

Coastal log production was significantly impacted by prolonged winter conditions in the first half of 2017, which limited our timberlands harvest and market log availability. We also experienced a temporary production capacity reduction from the aforementioned train accident. Timberlands log production was 1,999,000 cubic metres, a decrease of 15% from the first half of 2016, while overall coastal log production fell by 14% as reported by the Province of BC's Harvest Billing System. A stumpage rate increase which became effective March 1, 2016, contributed to a 3% increase in log production costs period over period.

Selling and administration expenses in the first six months of 2017 increased to $16.8 million from $14.4 million in the same period of 2016. Appreciation of the Company's common share price as well as a greater outstanding share unit balance resulted in a relative increase of $1.5 million in share-based compensation expenses, including mark-to-market adjustment, over those periods. Also reflected in 2017 are increased legal and related expenses arising from the US softwood lumber trade dispute.

Finance Costs

Second quarter finance costs were $0.7 million in 2017, a decrease from $1.1 million in 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.

Other Income (Expense)

Included in other income of $0.5 million in the first quarter of 2017 was a $1.8 million gain on sale of non-core property in Sarita, BC to the Huu-ay-aht First Nation.

We incurred, and have recognized through other expense, $1.2 million in non-operating expenses, including compassionate pay, security, and other costs, related to the aforementioned train accident.

In June 2017, we closed the planer facility at our Saltair sawmill and recognized $0.2 million in related impairment through other expense. The success of the Duke Point planer modernization has enabled Western to meet its secondary lumber processing requirements without the Saltair planer. All Saltair planer employees affected by this closure have been offered roles as part of increased shifting at the Saltair sawmill.

Other Restructuring Items

On July 27, 2017, the Company announced the indefinite curtailment of its Somass sawmill, located in Port Alberni, BC. The Somass sawmill was temporarily curtailed in February 2017, prior to which it was operating on a single shift basis.

Included in operating restructuring items for the quarter ended June 30, 2017, are Somass curtailment related impairments of $2.0 million to property, plant and equipment and $0.5 million to supplies inventory.

We intend to offer voluntary severance to certain salaried and all hourly employees of the Somass sawmill. The total severance liability is estimated to be $8.0 million, and we will recognize a severance provision in operating restructuring items in the third quarter of 2017.

We are leveraging recently completed and activated strategic capital investments to consolidate our coastal manufacturing platform. We expect to deliver further cost reductions through consolidation.

Income Taxes

During the second quarter of 2017, current income tax recovery of $0.1 million and deferred income tax expense of $8.3 million were recognized in net income, primarily relating to operating earnings.

Financial Position and Liquidity

(millions of dollars except where noted)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash provided by operating activities, excluding non-cash working capital	$ 40.7	$ 38.9	$ 73.5	$ 72.4
Cash provided by operating activities	29.6	9.7	97.5	37.8
Cash used in investing activities	(5.1)	(17.5)	(14.1)	(31.3)
Cash provided by (used in) financing activities	(8.0)	4.8	(51.3)	(8.5)
Cash used in capital logging roads	(3.2)	(3.5)	(6.5)	(5.7)
Cash used to acquire property, plant and equipment	(5.0)	(14.1)	(11.1)	(25.7)

	June 30, 2017	December 31, 2016
Total liquidity [1]	$ 285.1	$ 218.1
Net debt [2]	-	15.4
Financial ratios:		
Current assets to current liabilities	2.65	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.

In the first half of 2017, we eliminated debt obligations following the repayment of $35.0 million on our revolving term loan facility, and increased cash by $32.1 million.

Cash provided by operating activities during the second quarter of 2017 grew to $29.6 million, an increase of $19.9 million. Excluding the impacts of non-cash working capital, cash provided by operating activities increased by 5% as compared to the second quarter of 2016.

Cash used in investing activities was $5.1 million during the second quarter of 2017, as compared to $17.5 million invested during the second quarter of 2016. Reduced investing activity is the result of a focus on maximizing returns and performance from recently completed major capital projects, as we await clarity in the softwood lumber trade dispute. In the interim, we continue to invest in high-return, lower cost capital projects. Our strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

Cash used in financing activities was $8.0 million, as compared to cash provided by financing activities of $4.8 million during the second quarter of 2016. We returned $7.9 million to our shareholders by way of regular, quarterly dividends in the second quarter of 2017. Prior period cash provided by financing activities reflects drawings under Western's revolving credit facility, whereas all outstanding debt has been repaid in 2017.

Total liquidity increased to $285.1 million at June 30, 2017, from $218.1 million at the end of 2016. This increase was due to the repayment of all outstanding debt in the first quarter of 2017, and a reduction in working capital employed in 2017.

Liquidity is comprised of cash and cash equivalents of $51.1 million, unused availability under the secured revolving credit facility of $124.0 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.

On August 2, 2017, we received approval to make a Normal Course Issuer Bid ("NCIB"), permitting us to purchase and cancel up to 19,778,383 common shares or approximately 5% of our common shares issued and outstanding beginning on or after August 8, 2017. Future purchase of shares will be based on market conditions, share price, and other factors, and provides Western another means of driving increased shareholder value.

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 the sustainable utilization of our forest tenures, operating safe, 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.

Market Outlook

We remain encouraged by the ongoing recovery in US lumber consumption, driven by improved US new home construction and growth in the repair and renovation markets. Over the mid- to long-term, we expect that growing demand from both the United States and 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 continued price volatility in the US, as rumours of a softwood lumber agreement and the upcoming countervailing duty gap period combine to increase market uncertainty.

The introduction of countervailing and anti-dumping duties in the US was expected to deliver reduced prices for commodity lumber in China; however, strong demand for softwood lumber in China and reduced supply from the BC Interior have delivered the strongest pricing for our products in that market in three years. Global demand trends should support firm commodity lumber prices for the balance of the year, despite the usual seasonal slowdown in China in the third quarter. Price realizations are likely to be impacted by the recent strength in the Canadian dollar.

Demand for our Western Red Cedar ("WRC") products remains strong despite the uncertainty caused by the US softwood lumber trade dispute. Limited WRC log supply and low inventory in the distribution channel will continue to support WRC prices. We expect WRC lumber supply to remain tight through the remainder of the year. Price realizations are likely to be positively impacted by the countervailing duty gap period and that may be partly mitigated by the recent strength in the Canadian dollar.

Demand for our Niche products remains strong however Niche product shipments may be lower in the second half of 2017 as we divert production capacity to capitalize on other market opportunities.

Improved housing starts has supported lumber demand in Japan and should maintain stable pricing through the remainder of the year.

Export and domestic saw log market demand remains strong which will support pricing through the second half of 2017. We anticipate modest improvements in the pulp log market as pulp log inventories remain low.

Update on Softwood Lumber Dispute

On November 25, 2016, a petition was filed by a coalition of US lumber producers to the US Department of Commerce ("DoC") and the US International Trade Commission ("ITC") requesting an investigation into alleged subsidies provided to Canadian lumber producers. On January 6, 2017, the ITC announced a preliminary determination that there is reasonable indication the US industry is materially injured by imports of softwood lumber products from Canada. The Canadian forest products industry and Canadian Federal and Provincial governments strongly deny these assertions which have previously been disproven in international courts.

On April 24, 2017, the DoC announced a preliminary countervailing duty of 19.88% for "all other" Canadian lumber producers including Western, effective April 28, 2017, and on June 26, 2017, the DoC announced a preliminary "all other" anti-dumping duty rate of 6.87% effective June 30, 2017. Western's results for the second quarter of 2017 include countervailing duty expense of $9.1 million and anti-dumping duty expense of $0.1 million.

The DoC also made preliminary determinations on critical circumstances in April that resulted in 90-day retroactive application of countervailing duty from January 28 to April 27, 2017, and anti-dumping duty from April 1 to June 29, 2017. Western's 90-day retroactive duty obligation is USD $8.8 million of countervailing duty and USD $2.9 million of anti-dumping duty. As we expect the preliminary critical circumstance determination to be reversed, consistent with the results of past softwood lumber disputes, we will recognize the retroactive duties as a deposit only upon payment.

The preliminary countervailing and anti-dumping duties are applicable until August 25, 2017 and December 26, 2017, respectively, after which duties are suspended pending final determinations by the DoC and the ITC. We expect revised duty rates to be applied following final determinations in the second half of 2017.

The final duty determinations may differ from the preliminary determinations and, as such, may change our duty obligations. Adjustments to our duty obligations resulting from changes in applicable rates or the critical circumstances determination will be made prospectively.

We intend to maintain our strong balance sheet and diversified product and geographic sales mix as we await the outcome of the trade discussions.

Strategic Capital Program Update

We are implementing 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 second quarter of 2017, we continued strategic investments at our Chemainus sawmill and Duke Point planer. The Chemainus sawmill timber deck expansion and Duke Point planer modernization are scheduled for completion in 2017. The success of recent strategic capital investments enabled us to continue to consolidate and rationalize our operating platform in the second quarter of 2017.

We have announced plans for $101.9 million of our $125 million strategic capital program. Through the second quarter of 2017, we have implemented and capitalized $91.8 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 May 17, 2017, we completed the sale of three properties, including Western's dry land sort, located in Sarita Bay, BC to the Huu-ay-aht First Nation for a gross purchase price of $3.0 million. The transaction also involved a 99-year lease back of the dry land sort to Western, an agreement to harvest 200,000 cubic metres of timber from Huu-ay-aht lands, and an employment and training agreement. A gain on disposition of $1.8 million was recognized in other income in the second quarter of 2017.

The sale of our former South Island Remanufacturing operation is expected to close on 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 pursue 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 and six months ended June 30, 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 June 30, 2017, that have materially affected or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of August 2, 2017, there were 395,567,663 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 June 30, 2017, 97,127 options were granted, 138,797 previously granted options were exercised and 174,039 options were forfeited. As of August 2, 2017, 12,580,626 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	
	2nd	1st	4th	3rd	2nd	1st	4th	3rd
Average Exchange Rate – USD to CAD	1.345	1.323	1.334	1.305	1.288	1.372	1.335	1.309
Revenue								
Lumber	212.8	225.6	220.7	235.6	221.0	206.2	194.4	203.8
Logs	57.2	45.5	55.1	70.0	64.2	46.3	53.6	57.3
By-products	17.4	16.6	17.2	17.1	16.6	17.3	17.6	17.4
Total revenue	287.4	287.7	293.0	322.7	301.8	269.8	265.6	278.5
Lumber								
Production – millions of board feet	207	214	242	248	232	221	234	212
Shipments – millions of board feet	199	229	236	257	234	225	226	227
Price – per thousand board feet	1,069	985	935	917	944	916	862	899
Logs								
Net production - thousands of cubic metres [2]	1,091	908	919	1,153	1,321	1,027	1,081	1,180
Saw log purchases – thousands of cubic metres	249	231	337	415	497	268	299	209
Shipments – thousands of cubic metres	436	364	493	651	521	438	540	610
Price – per cubic metre [3]	122	116	104	100	112	100	95	89
Selling and administration	8.4	8.4	6.7	6.4	7.6	6.8	6.6	4.7
Adjusted EBITDA	47.1	34.0	33.8	35.7	43.0	35.7	29.6	28.7
Amortization	(9.3)	(8.6)	(8.7)	(8.8)	(8.8)	(7.5)	(8.2)	(7.3)
Changes in fair value of biological assets, net	-	(1.5)	6.9	(0.7)	(0.4)	(1.9)	(0.9)	-
Operating restructuring items	(3.7)	(0.5)	(1.3)	(0.6)	(0.8)	(0.7)	(0.7)	(2.9)
Finance costs	(0.7)	(0.7)	(1.0)	(1.2)	(1.1)	(1.1)	(1.1)	(1.3)
Other income (expense) [4]	0.5	(0.2)	18.0	(1.4)	(0.2)	(0.3)	(0.9)	(0.2)
Deferred income tax recovery (expense)	(8.3)	(6.1)	(11.5)	(6.1)	(7.8)	(6.8)	(7.9)	0.1
Current income tax recovery (expense)	0.1	(0.2)	-	(0.1)	-	(0.1)	-	-
Net income	25.6	16.2	36.2	16.8	23.9	17.3	9.9	17.1
Adjusted EBITDA margin	16.4%	11.8%	11.5%	11.1%	14.2%	13.2%	11.1%	10.3%
Earnings per share:								
Net income, basic	0.06	0.04	0.09	0.04	0.06	0.04	0.03	0.04
Net income, diluted	0.06	0.04	0.09	0.04	0.06	0.04	0.02	0.04

(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 changes in fair market value less cost to sell of 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 second quarter of 2017, the Company recognized a $2.5 million impairment charge related to the indefinite curtailment of its Somass sawmill, a $1.8 million gain on sale of properties to the Huu-ay-aht First Nation and a $3.1 million reduction to cost of goods sold for WorkSafeBC Certification of Recognition insurance premium rebates received for the 2014 and 2016 fiscal years. 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, 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 and six months ended June 30, 2017 and 2016

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

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 51.1	$ 19.0
Trade and other receivables	91.6	107.0
Inventory (Note 5)	135.9	149.8
Prepaid expenses and other assets	13.6	14.2
	292.2	290.0
Non-current assets:		
Property, plant and equipment (Note 6)	295.7	297.2
Intangible assets (Note 7)	119.2	121.2
Biological assets (Note 8)	56.1	57.6
Other assets	13.1	11.0
Deferred income tax assets (Note 11)	0.2	0.2
	$ 776.5	$ 777.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 100.2	$ 102.6
Silviculture provision (Note 12)	10.2	9.7
	110.4	112.3
Non-current liabilities:		
Long-term debt (Note 10)	-	34.4
Silviculture provision (Note 12)	15.7	19.2
Deferred income tax liabilities (Note 11)	16.0	2.0
Other liabilities (Note 13)	29.5	28.4
Deferred revenue	57.4	58.4
	229.0	254.7
Shareholders' equity:		
Share capital (Note 14)	506.2	506.0
Contributed surplus	8.9	8.6
Retained earnings	32.4	7.9
	547.5	522.5
	$ 776.5	$ 777.2

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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue	$ 287.4	$ 301.8	$ 575.1	$ 571.6
Costs and expenses:				
Cost of goods sold	205.7	236.9	434.0	451.6
Export tax (Note 15)	9.2	-	9.2	-
Freight	26.4	23.6	53.5	45.6
Selling and administration	8.4	7.6	16.8	14.4
	249.7	268.1	513.5	511.6
Operating income prior to restructuring items and other income	37.7	33.7	61.6	60.0
Operating restructuring items (Note 19)	(3.7)	(0.8)	(4.2)	(1.5)
Other income (expense) (Note 18)	0.5	(0.2)	0.3	(0.5)
Operating income	34.5	32.7	57.7	58.0
Finance costs	(0.7)	(1.1)	(1.4)	(2.2)
Income before income taxes	33.8	31.6	56.3	55.8
Current income tax recovery (expense) (Note 11)	0.1	-	(0.1)	(0.1)
Deferred income tax expense (Note 11)	(8.3)	(7.8)	(14.4)	(14.6)
Net income	25.6	23.8	41.8	41.1
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial loss (Note 16)	(1.3)	(4.7)	(2.0)	(3.4)
Income tax on other comprehensive loss (Note 11)	0.3	1.2	0.5	0.8
Total items that will not be reclassified to profit or loss	(1.0)	(3.5)	(1.5)	(2.6)
Other comprehensive income (loss) for the period	(1.0)	(3.5)	(1.5)	(2.6)
Total comprehensive income	$ 24.6	$ 20.3	$ 40.3	$ 38.5
Net income per share (in dollars)				
Basic and diluted earnings per share	$ 0.06	$ 0.06	$ 0.10	$ 0.10
Weighted average number of common shares outstanding (thousands)				
Basic	395,478	395,428	395,463	395,342
Diluted	399,326	399,341	399,105	399,101

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	-	-	41.1	41.1
Other comprehensive income:				
Defined benefit plan actuarial loss recognized	-	-	(3.4)	(3.4)
Income tax recovery on other comprehensive loss	-	-	0.8	0.8
Total comprehensive income	-	-	38.5	38.5
Share-based payment transactions recognized in equity	-	0.6	-	0.6
Exercise of stock options	0.5	(0.2)	-	0.3
Dividends	-	-	(15.8)	(15.8)
Total transactions with owners, recorded directly in equity	0.5	0.4	(15.8)	(14.9)
Balance at June 30, 2016	$ 506.0	$ 8.0	$ (34.5)	$ 479.5
Balance at December 31, 2016	$ 506.0	$ 8.6	$ 7.9	$ 522.5
Net income	-	-	41.8	41.8
Other comprehensive income:				
Defined benefit plan actuarial loss recognized	-	-	(2.0)	(2.0)
Income tax recovery on other comprehensive income	-	-	0.5	0.5
Total comprehensive income	-	-	40.3	40.3
Share-based payment transactions recognized in equity	-	0.4	-	0.4
Exercise of stock options	0.2	(0.1)	-	0.1
Dividends	-	-	(15.8)	(15.8)
Total transactions with owners, recorded directly in equity	0.2	0.3	(15.8)	(15.3)
Balance at June 30, 2017	$ 506.2	$ 8.9	$ 32.4	$ 547.5

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 June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash provided by (used in):				
Operating activities:				
Net income	$ 25.6	$ 23.8	$ 41.8	$ 41.1
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	8.3	7.8	15.9	14.3
Amortization of intangible assets (Note 7)	1.0	1.0	2.0	2.0
Loss (gain) on disposal of assets	(2.0)	0.1	(2.3)	0.1
Change in fair value of biological assets (Note 8)	-	0.4	1.5	2.3
Net finance costs	0.7	1.1	1.4	2.2
Impairment of assets (Note 18, 19)	2.7	-	2.7	-
Deferred income tax expense (Note 11)	8.3	7.8	14.4	14.6
Change in silviculture liability (Note 12)	(3.3)	(0.4)	(2.9)	(0.9)
Amortization of deferred revenue	(0.5)	(0.5)	(1.0)	(1.0)
Share-based compensation, including mark-to-market adjustment	1.2	0.2	2.6	1.0
Other	(1.3)	(2.4)	(2.6)	(3.3)
	40.7	38.9	73.5	72.4
Changes in non-cash working capital items:				
Trade and other receivables	0.7	(13.4)	15.4	(16.1)
Inventory	(6.3)	(37.1)	13.4	(34.1)
Prepaid expenses and other assets	3.1	(0.9)	0.3	(4.1)
Accounts payable and accrued liabilities	(8.6)	22.2	(5.1)	19.7
	(11.1)	(29.2)	24.0	(34.6)
	29.6	9.7	97.5	37.8
Investing activities:				
Additions to property, plant and equipment (Note 6)	(8.2)	(17.6)	(17.6)	(31.4)
Proceeds on disposal of assets	3.1	0.1	3.5	0.1
	(5.1)	(17.5)	(14.1)	(31.3)
Financing activities:				
Interest paid	(0.3)	(0.6)	(0.7)	(1.2)
Drawings under revolving credit facility (Note 9)	-	13.2	-	13.2
Repayment of long-term debt (Note 10)	-	-	(35.0)	(5.0)
Dividends	(7.9)	(7.9)	(15.8)	(15.8)
Proceeds from exercise of stock options	0.2	0.1	0.2	0.3
	(8.0)	4.8	(51.3)	(8.5)
Increase (decrease) in cash and cash equivalents	16.5	(3.0)	32.1	(2.0)
Cash and cash equivalents, beginning of period	34.6	10.4	19.0	9.4
Cash and cash equivalents, end of period	$ 51.1	$ 7.4	$ 51.1	$ 7.4

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 and six months ended June 30, 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. Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

The interim financial statements were authorized for issue by the Board of Directors on August 2, 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.

The Company does not include WorkSafeBC Certificate of Recognition ("COR") rebates when estimating its WorkSafeBC insurance premium expense, as the collectability of COR rebates cannot be reasonably assured. During the quarter ended June 30, 2017, the Company recognized a reduction to cost of goods sold of $3.1 million for the receipt of COR rebates arising from fiscal years 2014 and 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

	June 30, 2017	December 31, 2016
Logs	$ 78.3	$ 93.0
Lumber	54.1	57.2
Supplies and other inventory	13.9	13.6
Provision for write downs	(10.4)	(14.0)
Total value of inventory	$ 135.9	$ 149.8

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

5. Inventory (continued)

The carrying amount of inventory recorded at net realizable value was $32.3 million at June 30, 2017 (2016: $53.0 million), with the remaining inventory recorded at cost.

During the three and six months ended June 30, 2017, $205.7 million and $434.0 million, respectively (2016: $236.9 million and $451.6 million, respectively) of inventory was charged to cost of goods sold. This includes a decrease to the provision for write-down to net realizable value of $0.4 million and $3.6 million for the three and six months ended June 30, 2017, respectively (2016: increase of $3.4 million and decrease of $0.6 million, respectively).

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

6. Property, plant and equipment

Cost	Buildings & equipment	Logging roads	Land	**Total property, plant & equipment**
Balance at January 1, 2016	$ 261.2	$ 165.3	$ 90.6	$ 517.1
Additions	43.0	13.1	-	56.1
Disposals	(1.4)	-	-	(1.4)
Balance at December 31, 2016	302.8	178.4	90.6	571.8
Additions	11.1	6.5	-	17.6
Disposals	(1.2)	-	(0.9)	(2.1)
Balance at June 30, 2017	$ 312.7	$ 184.9	$ 89.7	$ 587.3
Accumulated amortization and impairments				
Balance at January 1, 2016	$ 114.0	$ 131.8	$ -	$ 245.8
Amortization	17.1	12.7	-	29.8
Disposals	(1.0)	-	-	(1.0)
Balance at December 31, 2016	130.1	144.5	-	274.6
Amortization	9.6	6.3	-	15.9
Disposals	(1.1)	-	-	(1.1)
Impairments (Note 18, 19)	2.2	-	-	2.2
Balance at June 30, 2017	$ 140.8	$ 150.8	$ -	$ 291.6
Carrying amounts				
At December 31, 2016	$ 172.7	$ 33.9	$ 90.6	$ 297.2
At June 30, 2017	$ 171.9	$ 34.1	$ 89.7	$ 295.7

7. Intangible assets

Cost	
Balance at December 31, 2016	$ 170.7
Balance at June 30, 2017	$ 170.7
Accumulated amortization	
Balance at January 1, 2016	$ 45.5
Amortization	4.0
Balance at December 31, 2016	$ 49.5
Amortization	2.0
Balance at June 30, 2017	$ 51.5
Carrying amounts	
At December 31, 2016	$ 121.2
At June 30, 2017	$ 119.2

(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 June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Carrying value, beginning of period	$ 56.1	$ 51.8	$ 57.6	$ 53.7
Change in fair value due to growth and pricing	1.7	0.8	2.8	1.6
Harvested timber transferred to inventory	(1.7)	(1.2)	(4.3)	(3.9)
Carrying value, end of period	$ 56.1	$ 51.4	$ 56.1	$ 51.4

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. Roads and bridges on the land underlying the standing timber are considered a component of property, plant and equipment and are recorded at cost less accumulated amortization.

At June 30, 2017, private timberlands comprised an area of approximately 23,293 hectares (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 and six months ended June 30, 2017, the Company harvested and scaled approximately 26,072 cubic metres ("m^3") and 110,464 m^3, respectively (2016: 54,098 m^3 and 174,336 m^3, respectively), of logs from its private timberlands, which had a fair value less costs to sell of \$119 per m^3 and \$113 per m^3, respectively at the date of harvest (2016: \$102 per m^3 and \$109 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 measurement 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 (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 June 30, 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 price and growth is reflected in cost of goods sold.

9. Revolving credit facility

	June 30, 2017	December 31, 2016
Available	$ 125.0	$ 125.0
Outstanding letters of credit	1.0	0.9
Unused portion of Facility	$ 124.0	$ 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 June 30, 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 June 30, 2017.

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

10. Long-term debt

	June 30, 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 June 30, 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 June 30, 2017. Transaction costs are deferred and amortized to finance costs over the term of the Term Loan using the effective interest rate method.

At June 30, 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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Current income tax recovery (expense)	$ 0.1	$ -	$ (0.1)	$ (0.1)
Deferred income tax expense	(8.3)	(7.8)	(14.4)	(14.6)
	$ (8.2)	$ (7.8)	$ (14.5)	$ (14.7)

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

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
Income before income taxes		$ 33.8		$ 31.6		$ 56.3		$ 55.8
Income tax expense at statutory rate	26.00%	(8.8)	26.00%	(8.2)	26.00%	(14.6)	26.00%	(14.5)
Permanent differences	(1.78%)	0.6	(1.27%)	0.4	(0.18%)	0.1	0.36%	(0.2)
	24.22%	$ (8.2)	24.73%	$ (7.8)	25.82%	$ (14.5)	26.36%	$ (14.7)

In addition to the amounts recorded to net income, a deferred tax recovery of $0.3 million and $0.5 million was recorded to other comprehensive income for the three and six month periods ended June 30, 2017, respectively (2016: $1.2 million and $0.8 million, respectively) 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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Silviculture provision, beginning of period	$ 29.3	$ 30.3	$ 28.9	$ 30.8
Silviculture provision charged	0.3	2.6	1.8	4.8
Silviculture expenditures	(3.7)	(3.1)	(4.9)	(5.8)
Unwind of discount	-	0.1	0.1	0.1
Silviculture provision, end of period	25.9	29.9	25.9	29.9
Less current portion	10.2	10.2	10.2	10.2
	$ 15.7	$ 19.7	$ 15.7	$ 19.7

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.97% to 1.77%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at June 30, 2017 is $26.7 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 period.

13. Other liabilities

	June 30, 2017	December 31, 2016
Employee future benefits obligation (Note 16)	$ 23.8	$ 23.1
Environmental accruals	2.8	2.5
Performance share unit plan liabilities, non-current (Note 14)	1.6	1.5
Other	1.3	1.3
	$ 29.5	$ 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	120,000	0.2
Balance at June 30, 2017	395,567,663	$ 506.2

(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 average 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. During the second quarter of 2017, the Company granted 97,127 options using the assumptions of an average exercise price of $2.15 per share, risk free interest rate of 1.27%, a volatility rate of 34.56%, and an expected life of seven years. At June 30, 2017, 12,580,626 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)

	Six months ended June 30, 2017		Six months ended June 30, 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	1,657,877	$ 2.09	1,330,918	$ 1.97
Exercised	(138,797)	$ 1.36	(215,000)	$ 1.48
Forfeited	(174,039)	$ 2.04	(39,000)	$ 2.61
Outstanding, end of period	12,580,626	$ 1.57	11,235,585	$ 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.

	Six months ended June 30, 2017		Six months ended June 30, 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	97,346	$ 2.21	81,567	$ 2.16
Redeemed	-	$ -	(49,455)	$ 1.25
Outstanding, end of period	1,197,419	$ 1.08	1,013,607	$ 0.95

During the three and six months ended June 30, 2017, the Company recorded compensation expense for these DSUs of $0.2 million and $0.6 million (2016: compensation recovery of $0.2 million and $0.2 million, respectively), 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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Outstanding, beginning of period	1,510,152	925,214	952,236	434,115
Granted	47,704	8,005	605,620	534,027
Forfeited	-	-	-	(34,923)
Outstanding, end of period	1,557,856	933,219	1,557,856	933,219

(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 and six months ended June 30, 2017, the Company recorded compensation expense for these PSUs of $0.8 million and $1.7 million, respectively (2016: compensation expense of $0.1 million and $0.5 million, respectively), 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 or sell saw logs, which could reduce log availability for our sawmills, 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.

Softwood lumber trade - countervailing and anti-dumping duties

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 countervailing ("CVD") and anti-dumping duties ("AD").

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.

On June 26, 2017, the DoC announced an AD rate of 6.87% 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 AD.

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.

Cash deposits for AD were required for lumber imports to the US effective June 30, 2017, and Western's estimate for 90-day retroactive duty arising from the DoC's June 30, 2017 preliminary finding of critical circumstances is USD$2.9 million.

The Company believes it is more likely than not that the preliminary critical circumstance determinations will be reversed, consistent with the results of past softwood lumber disputes, and as such will recognize the retroactive duties as deposits upon payment. Any adjustments resulting from a change in the final CVD and AD rates or critical circumstances determinations will be made prospectively.

16. Employee benefits

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Current service costs	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Net interest	0.2	0.3	0.4	0.6
Cost of defined benefit plans	0.3	0.4	0.6	0.8
Cost of defined contribution plans	0.8	0.7	2.1	1.6
Total cost of employee post-retirement benefits	$ 1.1	$ 1.1	$ 2.7	$ 2.4

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

16. Employee benefits (continued)

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

	June 30, 2017	December 31, 2016
Present value of obligations	$ 134.5	$ 132.3
Fair value of plan assets	(110.7)	(109.2)
Liability recognized in the statement of financial position (Note 13)	$ 23.8	$ 23.1

The change in the liability recognized in the statement of financial position at June 30, 2017 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 June 30, 2017 was 3.40% per annum, a decrease of 0.30% 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.

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			
June 30, 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	$ -	$ 1.8	$ -	$ -	$ 1.8	$ -	$ 1.8	$ -	$ 1.8
Investments	5.0	-	-	-	5.0	-	5.0	-	$ 5.0
	$ 5.0	$ 1.8	$ -	$ -	$ 6.8				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 51.1	$ -	$ 51.1				
Trade and other receivables	-	-	89.8	-	89.8				
	$ -	$ -	$ 140.9	$ -	$ 140.9				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 100.2	$ 100.2				
	$ -	$ -	$ -	$ 100.2	$ 100.2				
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				

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

17. Financial instruments – fair values (continued)

As at June 30, 2017, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 315.0 million at an average rate of JPY 84.48 per CAD with maturities through July 31, 2017, and an aggregate USD$50 million at an average rate of CAD$1.33 per USD with maturities through August 31, 2017.

All foreign currency gains or losses related to currency forward contracts to June 30, 2017 have been recognized in revenue for the period and the fair value of these instruments at June 30, 2017 was a net asset of $1.8 million, which is included in trade and other receivables on the statement of financial position (December 31, 2016: net liability of $0.3 million). A net gain of $0.1 million was recognized on contracts which were settled in the six months ended June 30, 2017 (2016: net gain of $0.4 million), which was included in revenue for the period.

18. Other income

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Gain (loss) on disposal of assets	$ 2.0	$ 0.1	$ 2.3	$ (0.1)
Non-operating costs	(1.2)	-	(1.2)	-
Other expense	(0.3)	(0.3)	(0.8)	(0.4)
	$ 0.5	$ (0.2)	$ 0.3	$ (0.5)

On May 17, 2017, the Company completed the sale of three properties, including Western's dry land sort, located in Sarita Bay, BC, for a gross purchase price of $3.0 million. The Company has recognized a gain on disposal of assets relating to these properties of $1.8 million in other income for the quarter ended June 30, 2017.

On April 20, 2017, a train accident occurred in the Company's Englewood forest operations. The Company has recognized non-operating costs relating to the incident of $1.2 million in other expense for the quarter ended June 30, 2017.

Included in other expense for the quarter ended June 30, 2017 is impairment of $0.2 million of property, plant and equipment and supplies inventory arising from the closure of the Company's Saltair planer facility.

19. Subsequent events

Indefinite Curtailment of Somass Sawmill

On July 27, 2017, the Company announced the indefinite curtailment of its Somass sawmill, located in Port Alberni, BC. The Somass sawmill was temporarily curtailed in February 2017, prior to which it was operating on a single shift basis.

Included in operating restructuring items for the quarter ended June 30, 2017, are Somass curtailment related impairments of $2.0 million to property, plant and equipment and $0.5 million to supplies inventory.

The Company intends to offer voluntary severance to certain salaried and all hourly employees of the Somass sawmill. The total severance liability is estimated to be $8.0 million, and a severance provision in operating restructuring items will be recognized in the quarter ending September 30, 2017.

Normal Course Issuer Bid

On August 2, 2017, the Company announced that it had received approval to make a Normal Course Issuer Bid. The NCIB permits Western to purchase and cancel up to 19,778,383 common shares or approximately 5% of the common shares issued and outstanding, beginning on or after August 8, 2017.

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