



Western Forest Products Inc.

2016 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, 2016 to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three months ended March 31, 2016, and our audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2015 (the "2015 Annual Report"), all of which can be found on SEDAR at www.sedar.com.

The Company has prepared the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2016 in accordance with IAS 34, *Interim Financial Reporting*, and these do not include all of the information required for full annual financial statements. Amounts discussed herein are based on our unaudited condensed interim consolidated financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

Reference is made in this MD&A to adjusted EBITDA¹ and adjusted EBITDA margin². Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expenses), plus amortization of property, plant, and equipment and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted EBITDA as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe adjusted EBITDA and adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

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

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

This MD&A contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. Those statements and information appear in a number of places in this document and include statements and information regarding our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives and strategies. Such statements and information may be indicated by words such as "estimate", "expect", "anticipate", "plan", "intend", "believe", "should", "may" and similar words and phrases. Readers are cautioned that it would be unreasonable to rely on any such forward-looking statements and information as creating any legal rights, and that the statements and information are not guarantees and may involve known and unknown risks and uncertainties, and that actual results and objectives and strategies may differ or change from those expressed or implied in the forward-looking statements or information as a result of various factors. Such risks and uncertainties include, among others: general economic conditions, competition and selling prices, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, regulations or public policy, misjudgements in the course of preparing forward-looking statements or information, changes in opportunities and other factors referenced under the "Risk Factors" section in our MD&A in the 2015 Annual Report. All written and oral forward-looking statements or information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, Western does not expect to update forward-looking statements or information as conditions change.

Unless otherwise noted, the information in this discussion and analysis is updated to May 5, 2016.

¹ Earnings Before Interest, Tax, Depreciation and Amortization

² Adjusted EBITDA as a proportion of Revenue

Summary of Selected Quarterly Results ⁽¹⁾

(millions of dollars except per share amount)

	Three months ended March 31,	
	2016	2015
Revenue	\$ 269.8	\$ 248.6
Adjusted EBITDA	35.7	29.6
Adjusted EBITDA margin	13.2%	11.9%
Operating income prior to restructuring items and other income	26.3	20.1
Net income from continuing operations	17.3	18.5
Net income for the period	17.3	27.6
Basic and diluted earnings per share (in dollars)	\$ 0.04	\$ 0.07
Basic and diluted earnings per share (in dollars) - discontinued operations	\$ -	\$ 0.02

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

Overview

Western achieved first quarter adjusted EBITDA of \$35.7 million in 2016, a 21% improvement over the same quarter last year. Improved log and lumber pricing, a 6% increase in lumber production and an 11% increase in lumber sales volumes helped deliver these improved results.

First quarter revenue was \$269.8 million, a 9% increase as compared to the same period of 2015. Higher lumber shipment volumes and an improved log and lumber sales mix led to the highest first quarter lumber revenue for the Company in nine years. Improved lumber sales volumes and prices were partially offset by a 24% reduction in log revenue due to lower log production. Also contributing to the revenue increase was a weaker Canadian dollar ("CAD") relative to the United States dollar ("USD").

Lumber production increased to 221 million board feet as a result of the early benefits of recently completed capital projects. We leveraged our flexible operating platform in the first quarter of 2016 to align our lumber sales mix to market demand, and minimize the impact of an aggregate four weeks of production curtailments for strategic capital installations. Lumber production costs increased due to higher Western Red Cedar ("WRC") lumber production and increased secondary processing volume.

First quarter log production of 1.0 million cubic metres was 30% lower than the same period of 2015 when a mild winter on the coast of British Columbia ("BC") contributed to record harvest volumes. In addition to a more normal winter, production was also delayed due to a contractor dispute. Average log harvest costs increased by 8% in comparison to the first quarter of 2015, driven primarily by lower harvest volumes and a proportionate increase in heli-logging and associated costs. Well positioned opening mill log inventories limited the impact of lower harvest on lumber production in the first quarter of 2016.

First quarter operating income prior to restructuring items and other income increased 31% to \$26.3 million in 2016, compared to \$20.1 million in the same period of 2015. Net income of \$17.3 million (\$0.04 per diluted share) was reported for the first quarter of 2016, compared to \$27.6 million (\$0.07 per diluted share) for the first quarter of 2015. Improved operating income was offset by current and deferred income tax expense of \$6.9 million (\$0.02 per diluted share), as compared to a deferred expense of \$0.1 million in the same period of 2015. In past quarters, the recognition of additional deferred income tax assets offset the deferred tax expense resulting in unusually low deferred tax expense. In addition, net income for the first quarter of 2015 included income from discontinued operations of \$9.1 million (\$0.02 per diluted share) arising from the sale of the former Squamish pulp mill site.

Strong operating results in the first quarter of 2016 allowed us to improve liquidity, continue our strategic capital investment, reduce debt and continue to provide returns to our shareholders through our quarterly dividend program, returning \$7.9 million, or \$0.02 per common share, on March 18, 2016. Our liquidity position at March 31, 2016 improved to \$183.9 million, compared to \$177.9 million at the end of 2015. In the three months ended March 31, 2016, net debt was reduced by 11% to \$47.9 million.

Operating Results

(millions of dollars)

	Three months ended March 31,	
	2016	2015
Revenue		
Lumber	\$ 206.2	\$ 171.8
Logs	\$ 46.3	61.2
By-products	\$ 17.3	15.6
Total revenue	269.8	248.6
Adjusted EBITDA	35.7	29.6
Adjusted EBITDA margin	13.2%	11.9%

First quarter 2016

In the first quarter of 2016 we generated adjusted EBITDA of \$35.7 million, an increase of 21% from adjusted EBITDA of \$29.6 million in the same quarter last year. We achieved these results by increasing lumber shipments and maintaining a favourable product mix. A continued focus on high-margin, high-value specialty products drove total revenue growth of 9% as compared to the first quarter of 2015.

Lumber revenue was \$206.2 million in the first quarter of 2016, a 20% increase from the same quarter of 2015. We successfully increased lumber sales volumes by 11% to 225 million board feet, and achieved a record quarterly average realized lumber price of \$916 per thousand board feet. Increased price realizations were the result of a strong sales mix, including a 15% increase in WRC volumes, an improving commodity market and a weaker CAD relative to the USD. The average CAD-USD exchange rate in the period declined by 11%, as compared to the same period of 2015, but the CAD strengthened significantly late in the first quarter of 2016 to close 6% higher than at December 31, 2015.

First quarter log revenue was \$46.3 million, a decrease of \$14.9 million from the same period in 2015. Average log pricing increased by 20% due to an improved sales mix and the influence of a constrained coastal log supply on domestic log prices. Log sales volumes declined by 37% due to a lower first quarter harvest and our strategy to increase log consumption in our sawmills.

By-products revenue was \$17.3 million in the first quarter of 2016, as compared to \$15.6 million in the same period in 2015. By-product revenue growth was driven by increased lumber production and additional chips purchased for resale.

First quarter lumber production was 221 million board feet, an increase of 6% from the same period of 2015. Increased production was achieved despite three weeks of downtime at our Duke Point sawmill and one week of downtime at our Ladysmith sawmill for strategic capital installations. Our Duke Point and Saltair sawmills realized significant productivity improvements as we began to see the benefits of recently completed capital installations. Lumber production costs rose as compared to the first quarter of 2015 due to higher WRC lumber production volumes and increased secondary processing volume.

Timberlands harvest volume for the first quarter was 1.0 million cubic metres, down 30% from the record first quarter harvest in 2015. Harvest was delayed in part due to more typical winter weather in the first quarter of 2016 compared to the mild conditions experienced in the same period last year. In addition, harvest volumes were impacted by an ongoing contractor dispute and permitting consultation. Average log harvest costs increased by 8% in comparison to the first quarter of 2015, driven primarily by lower harvest volume and a proportionate increase in heli-logging and associated costs.

Well positioned opening mill log inventories supported an overall increase in lumber production. Total sawlog purchases declined slightly compared to the first quarter of 2015, as winter conditions constrained coastal sawlog supply, but greater specialty log volume purchases facilitated an increase in the production of certain specialty lumber products.

First quarter freight costs were \$22.0 million in 2016, an increase of 6% compared to the same period of 2015. Increased freight costs were the result of a weaker CAD on USD-denominated freight, and an 11% increase in lumber shipments as compared to the same period of last year. Rising freight costs were offset by a 40% reduction in export log shipments due to a lower log harvest and the redirecting of log volume to our mills to take advantage of improved North American lumber markets.

Selling and administration expenses in the first quarter of 2016 increased to \$7.8 million from \$5.8 million in the same period of 2015. Reflected in this increase were higher legal expenses in the first quarter of 2016 arising from contractor disputes and compensation discussions with the Government of BC, regarding the 2011 tenure take-back in TFL 44 as a result of the Maa'nulth First Nations Final Agreement Act. In addition, a year-over-year 17% increase in the Company's common share price resulted in a net increase of \$0.8 million over that period in the mark-to-market share based compensation expense.

Net income for the first quarter of 2016 was \$17.3 million, a decrease from \$27.6 million for the same period of 2015. An increase in operating income of 27% was offset by increased tax expense. Current and deferred income tax expense of \$6.9 million was incurred in the first quarter of 2016 as compared to an expense of \$0.1 million in the same period of 2015. In past quarters, the recognition of additional deferred income tax assets offset the deferred tax expense resulting in unusually low deferred tax expense. In addition, net income for the first quarter of 2015 included income from discontinued operations of \$9.1 million arising from the sale of the former Squamish pulp mill site.

Finance Costs

First quarter finance costs were \$1.1 million in 2016, \$0.2 million lower than the same quarter of 2015. This decrease was primarily the result of lower interest expense as average first quarter outstanding debt was reduced from \$74.0 million in 2015 to \$60.5 million in 2016.

Income Taxes

During the first quarter of 2016, the Company recognized income tax expense of \$6.9 million through net income arising from continuing operations, and \$0.4 million through other comprehensive income related to actuarial gains on its defined benefit plans.

Financial Position and Liquidity

	Three months ended March 31,	
	2016	2015
<i>(millions of dollars except where noted)</i>		
Cash provided by operating activities, excluding non-cash working capital	\$ 32.7	\$ 28.8
Cash provided by operating activities	28.1	8.2
Cash used in investing activities	(13.8)	(10.1)
Cash used in financing activities	(13.3)	(14.8)
Cash used in capital logging roads	(2.2)	(2.5)
Cash used to acquire property, plant and equipment	(11.6)	(7.6)
	March 31, 2016	December 31, 2015
Total liquidity ⁽¹⁾	\$ 183.9	\$ 177.9
Net debt ⁽²⁾	47.9	53.8
Financial ratios:		
Current assets to current liabilities	2.38	2.30
Net debt to capitalization ⁽³⁾	0.09	0.11

⁽¹⁾ Total liquidity comprises cash and cash equivalents, and available credit under the Company's revolving credit facility and revolving term loan.

⁽²⁾ Net debt is defined as the sum of long-term debt, current portion of long-term debt, revolving credit facility, less cash and cash equivalents.

⁽³⁾ Capitalization comprises net debt and shareholders equity.

Cash provided by operating activities in the first quarter of 2016 amounted to \$28.1 million compared to \$8.2 million in the same quarter of 2015. The increase was attributable to improved operating income and more stable working capital balances in 2016.

Investing activities used cash of \$13.8 million in the first quarter of 2016, compared to \$10.1 million invested in the same quarter of 2015. Increased cash used in investing activities was primarily as a result of successfully accelerating the implementation of our strategic capital program. We invested \$7.5 million in strategic capital in the first quarter of 2016 as compared to \$4.8 million in the same period of 2015. The strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

In the first quarter of 2016, financing activities used cash of \$13.3 million compared to \$14.8 million utilized in the same quarter of 2015. With continued strong operating cash flows, we returned \$7.9 million, or \$0.02 per common share, to shareholders on March 18, 2016 via a quarterly dividend payment, and made a repayment of \$5.0 million under our revolving term loan facility during the first quarter of 2016.

At March 31, 2016, we had total liquidity of \$183.9 million, compared to \$177.9 million at the end of 2015. The increase in liquidity was due to cash generated by operations. Liquidity is comprised of cash and cash equivalents of \$10.4 million, availability under the secured revolving credit facility of \$122.5 million, and \$51.0 million available under the revolving term loan facility. Based on our current forecasts, we believe that we have sufficient liquidity to meet our obligations in 2016.

Strategy and Outlook

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

Key operational priorities in support of our strategy include:

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

Market Outlook

The combination of improved lumber consumption from an active United States (“US”) new home construction market and greater demand from China supported increased pricing for commodity lumber in the first quarter of 2016. Benchmark KD SPF 2X4 prices closed the quarter 7% higher than in the same period last year and 11% higher than at December 31, 2015. Commodity lumber pricing should see further improvements in the near-term as seasonal demand in North America drives increased lumber consumption. Improving price realizations may be mitigated by recent CAD-USD exchange rate volatility. We expect to increase production of commodity lumber in the near term as we increase operating hours at our commodity mills.

Continued growth in North American repair and renovation market spending should benefit our North American specialty business. Recent market consolidation in the WRC segment is anticipated to support increases in our share of the WRC market. We expect pricing to improve for both our WRC and Niche product lines as distributors build inventory ahead of the peak building season. While we expect pricing to improve, price realizations could be negatively impacted by the recent strength in the CAD relative to the USD.

Japan lumber market demand is expected to accelerate ahead of the proposed 2017 consumption tax increase. Improved demand is expected to drive USD price improvements while growth in realized pricing may be limited by the recent CAD appreciation.

We expect sawlog markets to continue to perform well in the second quarter of 2016. In the domestic market, the favourable combination of limited supply and strong demand will support pricing. More balanced inventories in China are expected to keep export log market prices firm. Pulp log prices are expected to remain weak due to increased inventories and lower consumption levels from coastal BC pulp mills.

The twelve-month standstill period of the Softwood Lumber Agreement, which precludes trade action by the US, continues through October 11, 2016. Discussions between Canada and the US regarding a replacement of the Softwood Lumber Agreement are underway. Uncertainty remains regarding a resolution.

On March 1, 2016, the Government of BC updated coastal stumpage rates. We expect the update to lead to an increase in stumpage costs for specialty log grades and species reflecting the current market price for those logs.

Strategic Capital Program Update

We continue to accelerate the implementation of our strategic capital program, which 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.

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 will also invest capital into strategic, high-return projects involving our information systems, timberlands assets, and forest inventories.

We have announced plans for \$97.7 million of our \$125.0 million strategic capital program. Through the end of the first quarter of 2016, we have implemented and capitalized \$82.4 million under that program. In the first quarter of 2016, we had multiple projects in ramp-up including the modernization of our Duke Point sawmill and planer; our new timber deck at our Chemainus sawmill; and the single-line conversion at our Ladysmith sawmill. In total, our first quarter strategic capital investment was \$7.5 million.

The Duke Point sawmill and planer modernization project are the primary focus for the second quarter of 2016, as we commence the installation of a new timber deck at the sawmill and commence planer production of kiln-dried lumber. We will also begin to map our timberlands utilizing LiDAR technology and expect to complete the data gathering phase of this project in 2016.

New accounting policies

New standards and interpretations not yet adopted

The following amended IFRS standards are not yet effective for the year ended December 31, 2016 and have not been applied in preparing these consolidated financial statements:

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

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

- 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 IFRS. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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

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

- IAS 7, *Statement of Cash Flows* ("IAS 7")

Amendments to IAS 7 are effective for years commencing on or after January 1, 2017. IAS 7 will be amended to required disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

- IAS 12, *Income Taxes* ("IAS 12")

Amendments to IAS 12 will be effective for years commencing on or after January 1, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The Company intends to adopt the amendments to IAS 12 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2015 Annual Report which can be found on SEDAR at www.sedar.com. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109 issued by the Canadian Securities Administrators, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and internal control over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2015. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the annual filings are being prepared.

The CEO and CFO confirm that there were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the first quarter of 2016.

Outstanding Share Data

As of May 5, 2016, there were 395,445,407 Common Shares issued and outstanding.

Western has reserved 20,000,000 Common Shares for issuance upon the exercise of options granted under the Company's incentive stock option plan. During the three months ended March 31, 2016, 125,000 previously granted options were exercised, 1,330,918 options were granted, and 39,000 options were forfeited. As of May 5, 2016, 11,245,585 options were outstanding under the Company's incentive stock option plan.

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of dollars except per share amounts and where noted)

Average Exchange Rate – CAD \$ to purchase one US \$

Revenue

	2016	2015				2014		
	1 st	4 th	3 rd	2 nd	1 st	4 th	3 rd	2 nd
Average Exchange Rate – CAD \$ to purchase one US \$	1.372	1.335	1.309	1.229	1.241	1.136	1.089	1.091
Revenue								
Lumber	206.2	194.4	203.8	200.0	171.8	166.8	180.4	207.9
Logs	46.3	53.6	57.3	71.0	61.2	51.2	66.0	71.8
By-products	17.3	17.6	17.4	18.2	15.6	14.6	15.7	16.5
Total revenue	269.8	265.6	278.5	289.2	248.6	232.6	262.1	296.2

Lumber

Production – millions of board feet	221	234	212	236	209	202	231	237
Shipments – millions of board feet	225	226	227	228	202	216	220	255
Price – per thousand board feet	916	862	899	879	849	772	820	815

Logs

Net Production - thousands of cubic metres ⁽¹⁾	1,027	1,081	1,180	1,402	1,472	1,281	1,009	1,544
Shipments – thousands of cubic metres	438	540	610	749	700	571	707	773
Price – per cubic metre ⁽²⁾	100	95	89	90	83	90	86	90

Selling and administration

Adjusted EBITDA

	7.8	7.8	5.5	7.0	5.8	6.0	7.4	7.2
Adjusted EBITDA	35.7	29.6	28.7	29.2	29.6	14.8	20.0	40.9
Amortization	(7.5)	(8.2)	(7.3)	(7.6)	(7.8)	(6.7)	(7.0)	(8.2)
Changes in fair value of biological assets	(1.9)	(0.9)	-	(0.6)	(1.7)	0.5	(0.4)	(1.4)
Reversal of impairment	-	-	-	-	-	2.9	-	-
Operating restructuring items	(0.7)	(0.7)	(2.9)	(0.4)	(0.3)	(1.2)	(8.3)	(1.2)
Finance costs	(1.1)	(1.1)	(1.3)	(1.3)	(1.3)	(1.2)	(1.4)	(1.5)
Other income (expenses)	(0.3)	(0.9)	(0.2)	(0.1)	0.1	0.6	-	0.6
Deferred income tax recovery (expense)	(6.8)	(7.9)	0.1	(0.1)	0.1	3.2	-	-
Current income tax recovery (expense)	(0.1)	-	-	-	(0.2)	-	(0.2)	-

Net income from continuing operations

Net income from continuing operations	17.3	9.9	17.1	19.1	18.5	12.9	2.7	29.2
Net income from discontinued operations	-	-	-	-	9.1	-	-	-

Net income

Net income	17.3	9.9	17.1	19.1	27.6	12.9	2.7	29.2
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Adjusted EBITDA margin

Adjusted EBITDA margin	13.2%	11.1%	10.3%	10.1%	11.9%	6.4%	7.6%	13.8%
Earnings per share:								
Net income, basic	0.04	0.03	0.04	0.05	0.07	0.03	0.01	0.07
Net income, diluted	0.04	0.02	0.04	0.05	0.07	0.03	0.01	0.07

⁽¹⁾ Net Production is sorted log production, net of residuals and waste.

⁽²⁾ The log revenue used to determine average price per cubic metre has been reduced by the associated shipping costs arranged in the respective periods to enable comparability of unit prices.

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

Certain categories of transactions are presented separately above due to their unpredictable timing and to allow for greater comparability of our operating results between periods. The third quarter of 2015 included a \$2.9 million restructuring charge primarily related to the consolidation of the Company's Central Island timberlands operations. In the first quarter of 2015, the Company recognized \$9.1 million of net income from discontinued operations relating to its former Squamish pulp mill site that was sold on February 6, 2015. The fourth quarter of 2014 included an impairment reversal of \$2.9 million that had been taken on the Company's timber licenses (intangible assets). The third quarter of 2014 included an \$8.1 million restructuring provision related to the consolidation of its Nanaimo sawmill operations.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and 2015

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

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 10.4	\$ 9.4
Trade and other receivables	77.7	75.0
Inventory ^(Note 5)	145.5	148.5
Prepaid expenses and other assets	21.0	17.8
	<u>254.6</u>	<u>250.7</u>
Non-current assets:		
Property, plant and equipment ^(Note 6)	278.4	271.3
Intangible assets ^(Note 7)	124.2	125.2
Biological assets ^(Note 8)	51.8	53.7
Other assets	11.7	11.2
Deferred income tax assets ^(Note 11)	24.1	31.3
	<u>\$ 744.8</u>	<u>\$ 743.4</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 95.8	\$ 97.7
Silviculture provision ^(Note 12)	11.4	11.2
	<u>107.2</u>	<u>108.9</u>
Non-current liabilities:		
Long-term debt ^(Note 10)	58.3	63.2
Silviculture provision ^(Note 12)	18.9	19.6
Other liabilities ^(Note 13)	33.9	35.4
Deferred revenue	59.9	60.4
	<u>278.2</u>	<u>287.5</u>
Shareholders' equity:		
Share capital ^(Note 14)	505.8	505.5
Contributed surplus	7.7	7.6
Deficit	(46.9)	(57.2)
	<u>466.6</u>	<u>455.9</u>
	<u>\$ 744.8</u>	<u>\$ 743.4</u>

Commitments and Contingencies ^(Note 15)

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,	
	2016	2015
Revenue	\$ 269.8	\$ 248.6
Cost and expenses:		
Cost of goods sold	213.7	201.9
Freight	22.0	20.8
Selling and administration	7.8	5.8
	243.5	228.5
Operating income prior to restructuring items and other income	26.3	20.1
Operating restructuring items	(0.7)	(0.3)
Other income (expenses)	(0.3)	0.1
Operating income	25.3	19.9
Finance costs	(1.1)	(1.3)
Income before income taxes ^(Note 11)	24.2	18.6
Current income tax expense	(0.1)	(0.2)
Deferred income tax recovery (expense)	(6.8)	0.1
Net income from continuing operations	17.3	18.5
Net income from discontinued operations ^(Note 18)	-	9.1
Net income	17.3	27.6
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gain (loss) ^(Note 16)	1.3	(2.9)
Income tax on other comprehensive income (loss) ^(Note 11)	(0.4)	-
Total items that will not be reclassified to profit or loss	0.9	(2.9)
Other comprehensive income (loss) for the period	0.9	(2.9)
Total comprehensive income	\$ 18.2	\$ 24.7
Net income per share (in dollars)		
Basic and diluted earnings per share	\$ 0.04	\$ 0.07
Basic and diluted earnings per share - continuing operations	\$ 0.04	\$ 0.05
Basic and diluted earnings per share - discontinued operations	\$ -	\$ 0.02
Weighted average number of common shares outstanding (thousands)		
Basic	395,257	394,966
Diluted	398,866	399,615

See accompanying notes to these unaudited condensed consolidated interim financial statements

Western Forest Products Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Expressed in millions of Canadian dollars) (unaudited)

	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at December 31, 2014	\$ 504.4	\$ 7.0	\$ (103.3)	\$ 408.1
Net income	-	-	27.6	27.6
Other comprehensive loss:				
Defined benefit plan actuarial loss recognized	-	-	(2.9)	(2.9)
Total comprehensive loss	-	-	24.7	24.7
Share-based payment transactions recognized in equity	-	0.4	-	0.4
Exercise of stock options	0.8	(0.2)	-	0.6
Dividends	-	-	(7.9)	(7.9)
Total transactions with owners, recorded directly in equity	0.8	0.2	(7.9)	(6.9)
Balance at March 31, 2015	\$ 505.2	\$ 7.2	\$ (86.5)	\$ 425.9
<hr/>				
Balance at December 31, 2015	\$ 505.5	\$ 7.6	\$ (57.2)	\$ 455.9
Net income	-	-	17.3	17.3
Other comprehensive income (loss):				
Defined benefit plan actuarial gain recognized	-	-	1.3	1.3
Income tax on other comprehensive income (loss)	-	-	(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

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,	
	2016	2015
Cash provided by (used in):		
Operating activities:		
Net income from continuing operations	\$ 17.3	\$ 18.5
Items not involving cash:		
Amortization of property, plant and equipment ^(Note 6)	6.5	6.8
Amortization of intangible assets ^(Note 7)	1.0	1.0
Change in fair value of biological assets ^(Note 8)	1.9	1.7
Net finance costs	1.1	1.3
Deferred income tax expense (recovery) ^(Note 11)	6.8	(0.1)
Other	(1.9)	(0.4)
	<u>32.7</u>	<u>28.8</u>
Changes in non-cash working capital items:		
Trade and other receivables	(2.7)	(17.5)
Inventory	3.0	(20.9)
Prepaid expenses and other assets	(3.2)	(3.2)
Silviculture provision	0.2	(0.9)
Accounts payable and accrued liabilities	(1.9)	21.9
	<u>(4.6)</u>	<u>(20.6)</u>
	<u>28.1</u>	<u>8.2</u>
Investing activities:		
Additions to property, plant and equipment ^(Note 6)	(13.8)	(10.1)
	<u>(13.8)</u>	<u>(10.1)</u>
Financing activities:		
Interest paid	(0.6)	(0.8)
Repayment of revolving credit facility	-	(6.7)
Repayment of long-term debt	(5.0)	-
Dividends	(7.9)	(7.9)
Proceeds from exercise of stock options	0.2	0.6
	<u>(13.3)</u>	<u>(14.8)</u>
Cash provided by (used in) continuing operations	<u>1.0</u>	<u>(16.7)</u>
Proceeds on disposal of assets	-	21.8
Other	-	(0.9)
Cash provided by discontinued operations ^(Note 18)	<u>-</u>	<u>20.9</u>
Increase in cash and cash equivalents	1.0	4.2
Cash and cash equivalents, beginning of period	9.4	1.8
Cash and cash equivalents, end of period	<u>\$ 10.4</u>	<u>\$ 6.0</u>

See accompanying notes to these unaudited condensed consolidated interim financial statements

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

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

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia. The address of the Company's registered office is Suite 510 – 700 West Georgia Street, Vancouver, British Columbia, Canada. The unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2016 and 2015 comprise the Company and its subsidiaries. The Company's primary business includes timber harvesting, reforestation, forest management, sawmilling logs into lumber, wood chips, and value-added lumber remanufacturing. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year ended December 31, 2015. These interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial statements were authorized for issue by the Board of Directors on May 5, 2016.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

These 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, 2015.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

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

3. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2015.

(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 has not yet been determined.

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

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

IFRS 16, Leases ("IFRS 16")

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

IAS 7, Statement of Cash Flows ("IAS 7")

Amendments to IAS 7 will be effective for years commencing on or after January 1, 2017. IAS 7 will be amended to require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

IAS 12, Income Taxes ("IAS 12")

Amendments to IAS 12 will be effective for years commencing on or after January 1, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The Company intends to adopt the amendments to IAS 12 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

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.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

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

5. Inventory

	March 31, 2016	December 31, 2015
Logs	\$ 92.3	\$ 102.0
Lumber	52.9	50.7
Supplies and other inventory	12.5	12.0
Provision for write downs	(12.2)	(16.2)
Total value of inventory	<u>\$ 145.5</u>	<u>\$ 148.5</u>

The carrying amount of inventory recorded at net realizable value was \$41.6 million at March 31, 2016 (2015: \$66.8 million), with the remaining inventory recorded at cost.

During the three months ended March 31, 2016, \$213.7 million (2015: \$201.9 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 \$3.7 million for the three months ended March 31, 2016 (2015: increase of \$1.3 million).

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

6. Property, plant and equipment

	Buildings & equipment	Logging roads	Land	Total property, plant & equipment
Cost				
Balance at January 1, 2015	\$ 214.4	\$ 151.3	\$ 103.7	\$ 469.4
Additions	48.5	13.6	-	62.1
Disposals	(1.3)	-	(13.1)	(14.4)
Balance at December 31, 2015	<u>261.6</u>	<u>164.9</u>	<u>90.6</u>	<u>517.1</u>
Additions	11.6	2.2	-	13.8
Disposals	(0.2)	-	-	(0.2)
Balance at March 31, 2016	<u>\$ 273.0</u>	<u>\$ 167.1</u>	<u>\$ 90.6</u>	<u>\$ 530.7</u>
Accumulated amortization and impairments				
Balance at January 1, 2015	\$ 101.3	\$ 118.8	\$ -	\$ 220.1
Amortization	13.9	12.9	-	26.8
Disposals	(1.1)	-	-	(1.1)
Balance at December 31, 2015	<u>114.1</u>	<u>131.7</u>	<u>-</u>	<u>245.8</u>
Amortization	3.8	2.7	-	6.5
Balance at March 31, 2016	<u>\$ 117.9</u>	<u>\$ 134.4</u>	<u>\$ -</u>	<u>\$ 252.3</u>
Carrying amounts				
At December 31, 2015	\$ 147.5	\$ 33.2	\$ 90.6	\$ 271.3
At March 31, 2016	<u>\$ 155.1</u>	<u>\$ 32.7</u>	<u>\$ 90.6</u>	<u>\$ 278.4</u>

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

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

7. Intangible assets

	Total intangible assets
Cost	
Balance at December 31, 2015	\$ 170.7
Balance at March 31, 2016	\$ 170.7
Accumulated amortization and impairments	
Balance at January 1, 2015	\$ 41.4
Amortization	4.1
Balance at December 31, 2015	\$ 45.5
Amortization	1.0
Balance at March 31, 2016	\$ 46.5
Carrying amounts	
At December 31, 2015	\$ 125.2
At March 31, 2016	\$ 124.2

8. Biological assets

(a) Reconciliation of carrying amount

	Three months ended March 31,	
	2016	2015
Carrying value, beginning of period	\$ 53.7	\$ 56.9
Change in fair value resulting from growth and pricing	0.8	0.8
Harvested timber transferred to inventory in the period	(2.7)	(2.5)
Carrying value, end of period	\$ 51.8	\$ 55.2

Under IAS 41, *Agriculture*, the Company's private timberlands are classified as a growing forest, with the standing timber recorded as a biological asset at fair value less costs to sell at each reporting date.

The land underlying the standing timber is considered a component of property, plant and equipment, and is recorded at cost less accumulated impairment.

At March 31, 2016, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2015: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to old-growth forests. During the three months ended March 31, 2016, the Company harvested and scaled approximately 120,238 cubic metres ("m³") of logs from its private timberlands, which had a fair value less costs to sell of \$108 per m³ at the date of harvest (2015: 111,618 m³ and \$99 per m³, 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 \$51.8 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used (December 31, 2015: Level 3 fair value). The valuation technique used is discounted cash flows combined with market comparison.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at March 31, 2016 and noted no indication that a full re-assessment of fair value less costs to sell or of the previously applied significant unobservable inputs was warranted at that date.

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

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

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

9. Revolving credit facility

	March 31, 2016	December 31, 2015
Available	\$ 125.0	\$ 125.0
Borrowing base reductions	-	-
Drawings	-	-
Outstanding letters of credit	2.5	2.5
Unused portion of Facility	<u>\$ 122.5</u>	<u>\$ 122.5</u>

The Company's revolving credit facility (the "Facility") provides for a maximum borrowing amount of \$125.0 million, subject to a borrowing base, which is primarily based on eligible accounts receivable and inventory balances, and has a maturity date of December 14, 2016. The Facility bears interest at the Canadian Prime rate (if availability exceeds 35% of the borrowing base) or at the Canadian Prime rate plus 0.25% (if availability is less than 35% of the borrowing base) or at the Company's option, at rates for Bankers' Acceptances ("BA") or London Interbank Offered Rate ("LIBOR") based loans plus 1.25% or 1.50%, dependent on the same availability criteria. The interest rate for the Facility was 2.70% at March 31, 2016 (December 31, 2015: 2.70%).

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants. The Company was in compliance with its financial covenants at March 31, 2016.

10. Long-term debt

	March 31, 2016	December 31, 2015
Long-term debt	\$ 59.0	\$ 64.0
Less transaction costs	(0.7)	(0.8)
	<u>\$ 58.3</u>	<u>\$ 63.2</u>
Available	\$ 110.0	\$ 110.0
Drawings	59.0	64.0
Unused portion of Term Loan	<u>\$ 51.0</u>	<u>\$ 46.0</u>

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of \$110.0 million and has a maturity date of June 29, 2019. The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate plus 0.15%, and (ii) the 30 day BA rate plus 1.65%. The interest rate for the Term Loan was 2.56% at March 31, 2016 (December 31, 2015: 2.57%).

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, 2016. Transaction costs are deferred and amortized to finance costs over the term of the Term Loan using the effective interest rate method.

11. Income taxes

	Three months ended March 31, 2016	2015
Current income tax expense	\$ (0.1)	\$ (0.2)
Deferred income tax recovery (expense)	(6.8)	0.1
	<u>\$ (6.9)</u>	<u>\$ (0.1)</u>

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

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

11. Income taxes (continued)

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Income before income taxes, continuing operations	24.2	18.6
Tax using the Company's domestic tax rate	26.00% (6.3)	26.00% (4.8)
Other permanent differences	2.48% (0.6)	-25.27% 4.7
	28.48% (6.9)	0.73% (0.1)

In addition to the amounts recorded to net income, a deferred tax expense of \$0.4 million was recorded to other comprehensive income for the three month period ended March 31, 2016 (2015: nil) in relation to current period actuarial gains on defined benefit employee future benefit obligations.

12. Silviculture provision

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Silviculture provision, beginning of period	\$ 30.8	\$ 29.7
Silviculture provision charged	2.2	3.1
Silviculture work payments	(2.7)	(3.0)
Unwind of discount	-	-
Silviculture provision, end of period	30.3	29.8
Less current portion	11.4	9.8
	\$ 18.9	\$ 20.0

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.54% to 1.23%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at March 31, 2016 is \$31.1 million (December 31, 2015: \$31.7 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the year.

13. Other liabilities

	March 31, 2016	December 31, 2015
Employee future benefits obligation ^(Note 16)	\$ 30.7	\$ 32.7
Environmental accruals	2.1	2.0
Other	1.1	0.7
	\$ 33.9	\$ 35.4

14. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares	Amount
Balance at December 31, 2015	395,245,407	\$ 505.5
Exercise of stock options	120,000	0.3
Balance at March 31, 2016	395,365,407	\$ 505.8

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

(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*

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 2016, the Company granted 1,330,918 options with a fair value of \$0.7 million as determined by the Black-Scholes option pricing model, using the assumptions of an average exercise price of \$1.97 per share, risk free interest rate of 0.75%, a volatility rate of 40.9%, and an expected life of seven years. These options are only exercisable when the share price has been equal to or exceeds \$0.70 for the 60 consecutive days preceeding the date of exercise on a volume weighted average price basis. In addition, 125,000 options were exercised with a weighted average exercise price of \$1.29 per share, 5,000 of which were exercised for net cash proceeds where no Common Shares were issued, and 39,000 options were forfeited with a weighted average exercise price of \$2.61. At March 31, 2016, 11,325,585 options (December 31, 2015: 10,158,667) were outstanding under the Company's Option Plan, with a weighted average exercise price of \$1.50 per share.

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

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

During the first quarter of 2016, 29,562 DSUs were issued at a price of \$2.30 per DSU to certain directors who have elected to take a portion of their directors' fees in the form of DSUs. In addition, 2,541 DSUs and 5,707 DSUs were issued to designated executive officers and a director, respectively, at a price of \$2.20 per DSU to reflect the cash dividend declared on Common Shares during the quarter.

The cumulative number of DSUs outstanding at March 31, 2016 was 1,019,305 (December 31, 2015: 981,495). During the three months ended March 31, 2016, the Company recorded a compensation recovery for these DSUs of \$0.1 million (2015: compensation recovery of \$0.6 million), with a corresponding adjustment to accounts payable and accrued liabilities.

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

The Company established a PSU Plan for designated officers and employees of the Company during 2015. 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.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

(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)

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,	
	2016	2015
Outstanding, beginning of period	434,115	-
Granted	526,022	-
Forfeited	(34,923)	-
Outstanding, end of period	925,214	-

15. Commitments and contingencies

Long-term fibre supply agreements

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

The Company had met all fibre commitments as at December 31, 2015 and based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2016.

16. Employee benefits

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

	Three months ended March 31,	
	2016	2015
Current service costs	\$ 0.1	\$ 0.1
Net interest	0.3	0.2
Cost of defined benefit plans	0.4	0.3
Cost of defined contribution plans	0.9	0.5
Total cost of employee post-retirement benefits	\$ 1.3	\$ 0.8

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, 2016	December 31, 2015
Present value of obligations	\$ 139.1	\$ 139.3
Fair value of plan assets	(108.4)	(106.6)
Liability recognized in the statement of financial position (Note 13)	\$ 30.7	\$ 32.7

The change in the liability recognized in the statement of financial position at March 31, 2016 was due primarily to higher than expected returns on plan assets. The return on assets over the three months ended March 31, 2016 was 2.9% per annum.

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

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

17. Financial instruments – fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2015.

	Carrying Amount					Fair Value			
	Held to maturity	Designated at fair value	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
March 31, 2016									
Financial assets measured at fair value									
Foreign currency forward contracts	\$ -	\$ 0.3	\$ -	\$ -	\$ 0.3	-	0.3	-	\$0.3
Investments	4.9	-	-	-	4.9	-	4.9	-	\$4.9
	<u>\$ 4.9</u>	<u>\$ 0.3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5.2</u>				
Financial assets not measured at fair value									
Cash and cash equivalents	\$ -	\$ -	\$ 10.4	\$ -	\$ 10.4				
Trade and other receivables	-	-	77.7	-	77.7				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88.1</u>	<u>\$ -</u>	<u>\$ 88.1</u>				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 95.8	\$ 95.8				
Long-term debt (Note 10)	-	-	-	58.3	58.3				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154.1</u>	<u>\$ 154.1</u>				
December 31, 2015									
Financial assets measured at fair value									
Investments	\$ 5.1	\$ -	\$ -	\$ -	\$ 5.1	-	5.1	-	\$5.1
	<u>\$ 5.1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5.1</u>				
Financial assets not measured at fair value									
Cash and cash equivalents	\$ -	\$ -	\$ 9.4	\$ -	\$ 9.4				
Trade and other receivables	-	-	75.0	-	75.0				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84.4</u>	<u>\$ -</u>	<u>\$ 84.4</u>				
Financial liabilities measured at fair value									
Foreign currency forward contracts	\$ -	\$ 0.3	\$ -	\$ -	\$ 0.3	-	0.3	-	\$0.3
	<u>\$ -</u>	<u>\$ 0.3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.3</u>				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 97.4	\$ 97.4				
Long-term debt (Note 10)	-	-	-	63.2	63.2				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160.6</u>	<u>\$ 160.6</u>				

As at March 31, 2016, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 705.0 million at an average rate of JPY 85.23 per CAD with maturities through June 20, 2016, and an aggregate USD\$25.0 million at an average rate of CAD\$1.31 per USD with maturities through April 29, 2016. All foreign currency gains or losses related to currency forward contracts to March 31, 2016 have been recognized in revenue for the period and the fair value of these instruments at March 31, 2016 was a net asset of \$0.3 million, which is included in trade and other receivables on the statement of financial position (December 31, 2015: net liability of \$0.3 million). A net gain of \$0.7 million was recognized on contracts which were settled in the three months ended March 31, 2016 (2015: net loss of \$4.6 million), which was included in revenue for the period.

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18. Discontinued operations

In March 2006, the Company closed its Squamish pulp mill located on 212 acres on the mainland coast of British Columbia and exited the pulp business. Subsequent to the closure, the Company sold substantially all of the manufacturing assets of the mill. Ongoing costs including supervision, security and property taxes have been expensed as incurred.

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

On February 6, 2015, the Company completed the sale of its former Squamish pulp mill site for proceeds of \$21.8 million and recognized a gain on disposition of \$5.4 million during the first quarter of 2015.

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

	Three months ended March 31,	
	2016	2015
Net income from discontinued operations	\$ -	\$ 9.1
Cash provided by discontinued operations	\$ -	\$ 20.9



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