Western Forest Products Inc.

DEFINING A HIGHER STANDARD™

Western Forest Products Inc.

2019 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, 2019, 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, 2019, and our audited annual consolidated financial statements and the notes thereto and Management's Discussion and Analysis for the year ended December 31, 2018 (the "2018 Annual Report"), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three months ended March 31, 2019, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our unaudited condensed consolidated interim 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. The Company has adopted IFRS 16, *Leases*, with a date of initial application of January 1, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at January 1, 2019, and comparative information has not been restated and continues to be reported under IAS 17, *Leases*.

Reference is made in this MD&A to adjusted EBITDA[1]. 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 under the "*Non-GAAP Measures*" section herein.

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 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 that may constitute forward-looking statements under the applicable securities laws. Readers are cautioned against placing undue reliance on forward-looking statements. All statements herein, other than statements of historical fact, may be forward-looking statements and can be identified by the use of words such as "will", "estimate", "project", "expect", "anticipate", "plan", "intend", "believe", "seek", "should", "may", "likely", "pursue" and similar references to future periods. Forward-looking statements in this MD&A include, but are not limited to, statements relating to: our current intent, belief or expectations with respect to: market and general economic conditions, accounting standards, future costs, available harvest levels and our future operating performance, objectives, capital expenditures and strategies. Although such statements reflect management's current reasonable beliefs, expectations and assumptions as to, amongst other things, the future supply and demand of forest products, global and regional economic activity and the consistency of the regulatory framework within which the Company currently operates, there can be no assurance that forward-looking statements are accurate, and actual results and performance may materially vary. Many factors could cause our actual results or performance to be materially different including: general economic conditions, international demand for lumber, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, the availability of allowable annual cut, changes in regulations or public policy affecting the forest industry, changes in opportunities and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements.

Unless otherwise noted, the information in this discussion and analysis is updated to May 1, 2019.

---

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

Summary of Selected Quarterly Results [(1)]

(millions of dollars except per share amounts and where otherwise noted)		Q1 2019	Q1 2018	Q4 2018
Summary Information				
Revenue				
Lumber		$ 218.9	$ 228.2	$ 230.9
Logs		41.2	41.2	36.2
By-products		15.6	22.2	17.7
Total revenue		$ 275.7	$ 291.6	$ 284.8
Export tax		$ 9.2	$ 9.7	$ 10.1
Stumpage		12.3	10.5	13.8
Adjusted EBITDA		$ 18.1	$ 43.0	$ 18.0
Adjusted EBITDA margin		6.6%	14.7%	6.3%
Operating income prior to restructuring items and other income (expense)		$ 5.7	$ 32.6	$ 7.7
Net income for the period		1.9	21.7	5.3
Basic and diluted earnings per share (in dollars)		$ -	$ 0.05	$ 0.02
Operating Information				
Lumber[(2)]				
Lumber Shipments – millions of board feet[(3)]				
Western Red Cedar		46	54	47
Japan Specialty		30	35	37
Niche		30	23	24
Commodity		97	103	110
Total		203	215	218
Lumber Production – millions of board feet		202	209	200
Lumber Price – per thousand board feet		$ 1,078	$ 1,061	$ 1,059
Logs[(4)]				
Log Shipments – thousands of cubic metres				
Export		11	17	1
Domestic		264	289	222
Pulp		94	55	146
Total		369	361	369
Net production – thousands of cubic metres[(5)]		922	1,029	1,135
Saw log purchases – thousands of cubic metres		208	265	212
Log Price – per cubic metre[(6)]		$ 112	$ 114	$ 98
Illustrative Lumber Average Price Data[(7)]	**Price Basis**			
Grn WRC #2 Clear & Btr 4x6W RL ($C)	c.i.f. dest. N Euro	$ 4,689	$ 5,017	$ 5,133
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	$ 1,364	$ 1,525	$ 1,418
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	$ 2,245	$ 1,963	$ 2,245
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net f.o.b. Mill	$ 1,100	$ 1,180	$ 1,146
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	$ 950	$ 800	$ 1,000
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	$ 1,153	$ 1,108	$ 1,200
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	$ 1,080	$ 1,061	$ 1,080
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	$ 1,321	$ 1,323	$ 1,358
Hemlock Lumber 2x4 (40x90) Metric RG Utility	c.i.f. dest. Shanghai	$ 425	$ 469	$ 440
Average Exchange Rate – CAD to USD		0.752	0.791	0.756
Average Exchange Rate – CAD to JPY		82.92	85.55	85.32

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

(2) Includes Columbia Vista operations, acquired February 1, 2019.

(3) Comparative figures have been reclassified to conform to the current period's presentation, which reflects the reclassification of certain Niche products (Hemlock timbers and US-destined Yellow Cedar) from Commodity and Japan Specialty shipment totals.

(4) British Columbia business only.

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

(6) 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.

(7) Sourced from Random Lengths in USD/Mfbm, except Hemlock Lumber Metric RG Utility that is sourced from China Bulletin.

Summary of First Quarter 2019 Results

Adjusted EBITDA for the first quarter of 2019 was $18.1 million, as compared to $43.0 million from the same period last year. Results were impacted by challenging markets and difficult operating conditions which led to higher operating costs. Shipments declined as we reduced operating hours to align production to market demand. Operating income prior to restructuring items and other income decreased to $5.7 million from $32.6 million in the same period last year.

During the first quarter we continued to successfully advance our strategy as we completed the acquisition of the Columbia Vista operation in Vancouver, Washington, and closed the sale of a 7% interest in our newly formed TFL 44 Limited Partnership to the Huu-ay-aht First Nations.

Sales

Lumber revenue was $218.9 million, which was 4% lower than the same period last year. Shipment volumes decreased 6% due to slowing US housing starts and as extended winter in North America delayed seasonal demand. Average lumber pricing benefited from the successful execution of our sales and marketing strategy and a weaker Canadian dollar.

Specialty lumber revenue was supported by higher production from our Duke Point sawmill which drove a 30% increase in Niche product sales quarter-over-quarter. Sales volumes of Western Red Cedar (“WRC”) declined 15% compared to last year as poor weather impacted market demand. First quarter Japan lumber shipments declined 14%. The addition of Columbia Vista led to an increase in Douglas fir product sales to Japan which was more than offset by weakness in sales of Hemlock and Yellow Cedar. Hemlock market share has been challenged by subsidized Japanese domestic species. We successfully mitigated commodity lumber price declines by increasing our direct sales to China by 56% compared to last year. Specialty lumber represented 52% of first quarter shipments, unchanged from the same period last year but an increase from the 49% we achieved in the fourth quarter of 2018.

First quarter log revenue was $41.2 million, consistent with the first quarter of 2018. A stronger domestic saw log sales mix offset declining log pricing. Log shipments were flat compared to the first quarter of 2018, as increased pulp log sales volumes offset lower export and domestic shipments. Our export log volume in the period originated from a First Nation timber purchase agreement managed by Western.

British Columbia (“BC”) coastal chip pricing declined 17% compared to the same period last year. Declining prices and lower production due to mill curtailments led to a 30% decrease in by-products revenue. By-products revenue in the first quarter of 2018 included $2.6 million related to third-party custom production at our Ladysmith sawmill.

Operations

Lumber production of 202 million board feet was 3% lower than the first quarter of 2018. We grew production at our Duke Point sawmill through increased hours and improved operating performance. Challenging commodity lumber markets led to reduced operations at our commodity-focused sawmills. Our newly acquired Columbia Vista division contributed incremental production of 10 million board feet in the quarter.

First quarter BC coastal manufacturing costs were 20% higher than the same period last year due to challenging operating conditions. Included in higher operating costs was $1.7 million associated with temporary mill curtailments, and higher natural gas costs due to a temporary supply disruption.

Log production from our BC coastal operations was 922,000 cubic metres, 10% lower than the same period last year. Decreased log production was primarily due to curtailed Englewood operations. Our BC coastal log inventory was 5% lower at March 31, 2019, as compared to the same time last year.

Our BC coastal harvest costs increased by 12% from the first quarter of 2018, primarily driven by a 31% increase in per unit stumpage costs and a mix of higher cost operations. Coastal stumpage inflation has resulted from BC Provincial Government stumpage equation updates, the ongoing influence of coastal log exports, and log markets that have been unresponsive to weaker lumber pricing. As a result of the misalignment between the coastal stumpage system and lumber market pricing, we resumed export log sales in the second quarter of 2019.

BC coastal saw log purchases were 208,000 cubic metres, a 22% decrease from the same quarter last year due to lower market log availability. Strong demand from export markets and pulp manufacturers and lower harvest levels, due in part to rising stumpage rates, have limited market log supply to domestic sawmills.

Consistent with our strategy, we increased direct lumber sales to China to mitigate weak North American lumber pricing. Increased direct sales volumes to China combined with the impact of a weaker Canadian dollar ("CAD") on United States dollar ("USD") denominated freight and fuel costs led to a $1.8 million increase in freight expense compared to the first quarter of 2018.

First quarter adjusted EBITDA and operating income included $9.2 million of countervailing duty ("CVD") and anti-dumping duty ("AD"), as compared to $9.7 million in the same quarter last year. Duty expense declined as a result of reduced shipment volume, offset by higher values for US-destined lumber shipments.

Selling and Administration Expense

First quarter selling and administration expense was $8.8 million in 2019, as compared to $8.6 million in the same period last year. Incremental expense arose from sales and marketing initiatives, Board recruitment, and foundational system and process improvements in support of our growth strategy.

Finance Costs

Finance costs were $1.5 million, compared to $0.5 million in the first quarter of 2018, primarily due to higher average outstanding debt of $55.3 million in 2019, compared to none outstanding in 2018. The Company had drawings of $84.0 million on the credit facility as at March 31, 2019.

As a result of adopting IFRS 16, *Leases* on January 1, 2019, we recognized $0.2 million of finance costs on lease payments. In comparative periods, leasing finance costs were recognized in operating income.

Net Income

Net income for the first quarter of 2019 was $1.9 million, as compared to $21.7 million for the same period of 2018. Operating margins and net income were reduced by lower production and shipment volumes and higher operating expenses.

Columbia Vista Asset Acquisition

On February 1, 2019, we completed the asset acquisition of Columbia Vista Corporation and related entities' operations in Vancouver, Washington. This acquisition is consistent with our strategy of pursuing margin-focused business opportunities that complement our position in selected markets. Bringing Western and Columbia Vista together provides us the opportunity to expand our Douglas fir specialty product offerings, particularly in Japan, which will support our BC-based Hemlock programs. The combination of Columbia Vista and Western makes us more meaningful to our selected customers and creates a stronger company for all our employees.

Sale of Ownership Interest in Port Alberni Forest Operations

On March 29, 2019, we completed the sale of a 7% interest in our newly formed TFL 44 Limited Partnership ("TFL 44 LP") to the Huu-ay-aht First Nations for gross proceeds of $7.3 million. TFL 44 LP's assets consist of TFL 44 and certain other associated assets and liabilities of our Port Alberni Forest Operation. We will continue to source fibre from TFL 44 LP to support our BC manufacturing facilities. As part of the agreement, we may sell Huu-ay-aht First Nations an incremental interest in the Limited Partnership subject to further negotiation.

Other Expense and Operating Restructuring Items

Other expense for the first quarter of 2019 includes $0.7 million of transaction costs associated with the Columbia Vista acquisition.

Operating restructuring costs were $2.2 million in the first quarter of 2018, due to severance and related expenses attributable to ongoing business optimization initiatives, the indefinite curtailment of our Somass sawmill and retraining of employees affected by the closure of the Englewood train.

Our Somass sawmill remains indefinitely curtailed as a result of a fibre supply deficit arising from years of tenure takebacks and government land use decisions, and rising costs associated with the United States ("US") Softwood Lumber dispute. We are evaluating options to create a sustainable, long-term solution for the site, and we are considering the input of government, First Nations and other stakeholders.

Income Taxes

Current income tax expense of $0.8 million was recognized in net income in the first quarter of 2019. Total income tax expense decreased by $7.3 million from the first quarter of 2018 as a result of lower operating earnings. As we used the majority of our remaining non-capital loss carryforwards during the second quarter of 2018, cash taxes were payable for the tax year ended December 31, 2018.

In May 2018, the Company received correspondence from the Canada Revenue Agency ("CRA") regarding certain restructuring transactions, occurring in 2004 and 2007 to 2011, and the general anti-avoidance rule. Management believes the CRA's position is without merit. Management is prepared to defend its position if a notice of reassessment is issued, and as such, the Company has not recognized any income tax provision as at March 31, 2019, relating to this matter.

Recent Developments - BC Government Forest Policies

In 2018, the BC Provincial Government (the "Province") introduced a Coastal Revitalization Initiative and further policy initiatives that will affect the BC forest sector.

On April 1, 2019, the Province announced the creation of fibre recovery zones, which are intended to increase the supply of residual fibre from primary harvesting for secondary users.

On April 1, 2019, the Province announced Bill 21, *Forest and Range Practices Amendment Act, 2019*, designed to increase opportunities for public input, improve information sharing on forest planning, strengthen the Minister's ability to manage forest activity, expand the definition of wildlife to help protect at-risk species and improve and streamline range-use planning.

On April 11, 2019, the Province announced Bill 22, *Forest Amendment Act, 2019*. If passed, the new legislation will require approval from the Minister before disposal or transfer of a tenure agreement to a third party. The Act will enable the Minister to refuse to approve a disposition or transfer if it is deemed not to be in the public interest or detrimental to competition in the buying or selling of timber or residuals, or to place conditions on the approval.

The impact that these policy initiatives may have on our operations cannot be determined at this time.

Appointment of New Independent Directors

On March 1, 2019, Western announced the appointment of Laura Cillis and Cheri Phyfer to its Board of Directors (the "Board") in accordance with the Company's planned Board renewal process. These appointments follow the February 12, 2019, appointment of Michael Waites to Chair of the Board.

Financial Position and Liquidity

(millions of dollars except where otherwise noted)	Q1 2019	Q1 2018	Q4 2018
Selected Cash Flow Items			
Operating Activities			
Net income	$ 1.9	$ 21.7	$ 5.3
Amortization	11.3	9.8	9.9
Income taxes paid	(15.1)	-	-
Other	2.2	8.9	2.9
Subtotal	0.3	40.4	18.1
Change in non-cash working capital	(9.5)	5.2	(12.5)
Cash provided by (used in) operating activities	$ (9.2)	$ 45.6	$ 5.6
Investing Activities			
Additions to property, plant and equipment	$ (14.5)	$ (11.0)	$ (27.4)
Additions to capital logging roads	(3.2)	(2.1)	(3.6)
Purchase of Arlington facility	-	(11.6)	-
Purchase of Columbia Vista	(37.7)	-	-
Proceeds from non-controlling interest	7.0	-	-
Other	0.7	0.1	2.0
Cash provided by (used in) investing activities	$ (47.7)	$ (24.6)	$ (29.0)
Financing Activities			
Draw on long-term debt	$ 77.0	$ -	$ -
Dividends	(8.6)	(7.9)	(8.7)
Share repurchases	(7.4)	(1.6)	(9.1)
Other	(1.8)	0.1	6.8
Cash provided by (used in) financing activities	$ 59.2	$ (9.4)	$ (11.0)
Increase (decrease) in cash	$ 2.3	$ 11.6	$ (34.4)
Summary of Financial Position			
Cash and cash equivalents	$ 10.7	$ 46.9	$ 8.4
Current assets	313.1	314.5	297.9
Current liabilities	132.6	126.9	142.7
Total debt, net of deferred financing costs	83.1	-	6.0
Net debt (cash) (1)	72.4	(46.9)	(2.4)
Equity	564.4	574.4	572.9
Total liquidity (2)	175.7	280.9	250.4
Financial ratios:			
Current assets to current liabilities	2.36	2.48	2.09
Net debt to capitalization (3)	0.11	-	-

(1) Net debt (cash) is defined as the sum of long-term debt, less cash and cash equivalents.
(2) Total liquidity comprises cash and cash equivalents, and available credit under the Company's credit facility.
(3) Capitalization comprises net debt and equity.

In the first three months of 2019, we invested $55.4 million in capital assets to maintain and grow our business. We returned $8.6 million to shareholders through our increased quarterly dividends, and repurchased $7.4 million of our common shares for cancellation under our normal course issuer bid.

Cash used in operating activities during the first quarter of 2019 was $9.2 million as compared to cash provided of $45.6 million in 2018. In 2019, we invested in working capital to support key strategic growth initiatives. We invested $11.7 million to grow wholesale inventory lumber, in advance of the spring building season, and grow export log inventory. We made tax installment payments of $15.1 million in the first quarter of 2019.

Cash used in investing activities was $47.7 million during the first quarter of 2019, as compared to $24.6 million invested in 2018. We increased capital investments quarter-over-quarter, including $37.9 million in strategic capital investments ranging from the Columbia Vista acquisition to numerous high-return, low cost capital projects. Our strategic capital program is discussed in more detail under "*Strategy and Outlook*".

Cash provided by financing activities was $59.2 million in the first quarter of 2019, which included drawings on our credit facilities of $77.0 million, as compared to cash used of $9.4 million in 2018.

Total liquidity decreased to $175.7 million at March 31, 2019, from $250.4 million at the end of 2018. Liquidity is comprised of cash and cash equivalents of $10.7 million and unused availability under the credit facility of $165.0 million. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2019.

Capital Allocation

Normal Course Issuer Bid

On August 3, 2018, the Company renewed its Normal Course Issuer Bid ("NCIB") permitting the purchase and cancellation of up to 19,662,439 of the Company's common shares or approximately 5% of the common shares issued and outstanding as of August 3, 2018. In the three months ended March 31, 2019, the Company repurchased 3,887,192 common shares under the NCIB for $7.4 million at an average price of $1.91 per common share.

As at May 1, 2019, we have purchased 14,895,460 common shares for $29.8 million at an average price of $2.00 per common share under the current NCIB. 4,766,979 common shares remain available to be purchased under the current NCIB, which expires on August 7, 2019.

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 augmenting our sales of targeted high-value specialty products for selected global customers with a lumber wholesale program. We seek to manage our business with a focus on operating cash flow and maximizing value through the production and sales cycle. We routinely evaluate our performance using the measure of Return on Capital Employed.

For more detail on our strategic initiatives and actions, refer to "*Strategy and Outlook*" in our Management's Discussion and Analysis for the year ended December 31, 2018.

Sales & Marketing Strategy Update

We are progressing with the execution of our sales and marketing strategy that focuses on the production and sale of targeted, high-margin products of scale to selected customers. We supplement our key product offerings with purchased lumber to deliver the suite of products our customers require. Our Columbia Vista acquisition provides us the opportunity to expand our Douglas fir specialty product offerings, particularly in Japan. In the first quarter of 2019, we accelerated wholesale purchases to 11 million board feet in anticipation of spring building season, and sold 5 million board feet.

Market Outlook

Despite recent lumber pricing volatility and slow seasonal demand due to weather events, our long-term view of market fundamentals remains unchanged. In North America, rising lumber consumption will continue to be driven by increased new home construction, a robust repair and renovation sector and growth in the use of mass timber building technologies. We expect lumber demand in China to continue to grow due to a government commitment to housing and economic stimulus, while in Japan, lumber consumption is expected to remain relatively stable over the next few years.

In North America, prolonged winter weather has delayed the onset of the spring building season, resulting in a supply-demand imbalance and commodity lumber pricing volatility. As weather improves in North America, we expect to see recovery in demand and pricing for commodity lumber. We anticipate any pricing response will be moderated by higher than normal inventories and additional supply, as idled commodity lumber capacity returns. We will continue to monitor prices and make adjustments in our operating plans accordingly.

Improved weather conditions will also create opportunities for our Western Red Cedar products. We anticipate prices to remain stable for WRC timbers and wide-width products. The narrow-width WRC lumber market is expected to remain weak due to competition from low-price, imported lumber and an abundant supply of narrow-width US domestic cedar lumber. We will continue to focus on managing our product mix to mitigate the pricing impacts.

In Japan, we anticipate demand will be relatively stable ahead of the proposed increase in the Japanese consumption tax. We expect Hemlock pricing to remain under pressure from subsidized Japanese domestic product substitution, while pricing for our Douglas fir products may be slightly weaker.

We expect to grow both volumes and price realizations for our Niche products, as we continue to refine the product offerings from our Duke Point sawmill. We intend to leverage the planer rebuild and auto-grader installation to improve recovery and lower costs.

We expect domestic saw log prices to decline in response to weaker lumber markets. Price declines may be mitigated by low saw log supply as coastal log production may decline due to stumpage rates that have become disconnected from the lumber market.

Strategic Capital Program Update

We continue to implement a strategic capital program that is designed to position Western as the only company 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 technology that will deliver top quartile performance and improve our ability to manufacture targeted products that yield the best margin. In addition to investments in our manufacturing assets, we also allocate capital to strategic, high-return projects involving our information systems, timberlands assets, and forest inventories.

In the first quarter of 2019, we completed the acquisition of Columbia Vista Corporation in Vancouver, Washington and invested $3.8 million to substantially complete Arlington infrastructure and equipment upgrades. Commissioning has started and we expect to begin secondary processing at Arlington early in the second quarter. In BC, we took delivery of the first ten forklifts as we begin implementation of our centralized fleet management program, and progressed on a number of small, high-return capital projects focused on debottlenecking our manufacturing operations.

Softwood Lumber Dispute and US Market Update

Western's results for the first quarter of 2019 include $9.2 million of export duty expense, comprised of CVD and AD expense. At March 31, 2019, Western had $71.4 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties.

On April 9, 2019, a World Trade Organization ("WTO") Panel ruled on certain matters relating to the application of softwood lumber anti-dumping duties, concluding that the US violated international trade rules in the way it calculated anti-dumping duties. Included in the ruling, the WTO Panel has allowed the US to use "zeroing" in its calculation of AD, which Canada will appeal. The practice of zeroing had previously been disallowed by the WTO with regard to softwood lumber. The final determination of AD is subject to additional appeals from both the US and Canada.

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. We disagree with the US trade determination and the inclusion of specialty lumber products, particularly Western Red Cedar and Yellow Cedar products in this commodity lumber focused dispute. As duties paid are determined on the value of lumber exported, and as our shipments to the US market are predominantly high-value, appearance grade lumber, we are disproportionately impacted by these duties. We have filed a Chapter 19 North American Free Trade Agreement ("NAFTA") separate-like-product challenge, on which a ruling is not expected until late 2019.

US market sales represent less than 25% of Western's total revenue in 2018. Continued strong demand and a lack of supply has supported improvements in our specialty lumber product pricing, partly offsetting the impact of duties.

Our acquisition of a distribution and processing centre in Arlington, Washington and the assets of Columbia Vista Corporation in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market while increasing US market sales. We intend to leverage our flexible operating platform to continue to overcome any challenges that arise from this trade dispute.

For a more detailed timeline of recent history of the softwood lumber dispute, refer to "*Risks and Uncertainties – Softwood Lumber Dispute*" in our Management's Discussion and Analysis for the year ended December 31, 2018.

Non-GAAP Measures

Reference is made in this MD&A to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, and Net debt to capitalization are used as benchmark measurements of our operating results and as benchmarks relative to our competitors. These non-GAAP measures are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. The following table provides a reconciliation of these non-GAAP measures to figures as reported in our audited annual consolidated financial statements:

(millions of dollars except where otherwise noted)	Q1 2019	Q1 2018	Q4 2018
Adjusted EBITDA			
Net income	$ 1.9	$ 21.7	$ 5.3
Add:			
Amortization	11.3	9.8	9.9
Changes in fair value of biological assets, net	1.0	0.5	0.4
Operating restructuring items	0.6	2.2	(0.4)
Other (income) expense [(1)]	0.9	0.1	0.9
Finance costs	1.5	0.5	0.7
Current income tax expense	0.8	0.1	-
Deferred income tax expense	-	8.0	1.2
Adjusted EBITDA	$ 18.1	$ 43.0	$ 18.0
Adjusted EBITDA margin			
Total revenue	$ 275.7	$ 291.6	$ 284.8
Adjusted EBITDA	18.1	43.0	18.0
Adjusted EBITDA margin	6.6%	14.7%	6.3%
Net debt to capitalization			
Net debt			
Total debt, net of deferred financing costs	$ 83.1	$ -	$ 6.0
Cash and cash equivalents	(10.7)	(46.9)	(8.4)
Net debt (cash)	$ 72.4	$ (46.9)	$ (2.4)
Capitalization			
Net debt (cash)	$ 72.4	$ (46.9)	$ (2.4)
Add: Equity	564.4	574.4	572.9
Capitalization	$ 636.8	$ 527.5	$ 570.5
Net debt to capitalization	11.4%	-	-

Figures in the table above may not equal or sum to figures presented elsewhere due to rounding.

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

Accounting Policies and Standards

Please refer to Note 3 of our unaudited condensed consolidated interim financial statements for the three months ended March 31, 2019, for further information on the new accounting standards referenced below.

New Accounting Standards

The Company has adopted IFRS 16, *Leases* ("IFRS 16"), with a date of initial application of January 1, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at January 1, 2019, and comparative information has not been restated and continues to be reported under IAS 17, *Leases*.

On transition to IFRS 16, the Company elected to apply a practical expedient to grandfather the assessment of which transactions are leases. IFRS 16 only applies to contracts that were previously recognized as leases. Contracts that were not recognized as leases under IAS 17 were not reassessed for whether there is a lease. As such, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

As a result of the adoption of IFRS 16, the Company recorded right of use assets ("ROU assets") and lease liabilities of $17.0 million as at January 1, 2019. During the three months ended March 31, 2019, the Company recognized amortization of $0.8 million in operating income and finance costs of $0.2 million relating to these ROU assets and lease liabilities.

Accounting Standards Not Yet Applied

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2019, and have not been applied in preparing these interim financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2018 Annual Report, which can be found on SEDAR at www.sedar.com. There were no changes to critical accounting estimates during the three months ended March 31, 2019.

Financial Instruments and Other Instruments

We use various financial instruments to reduce the impact of movement in foreign exchange rates on our net income. Please see our Management Discussion and Analysis for the year ended December 31, 2018, for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the three months ended March 31, 2019.

Off-Balance Sheet Arrangements

Other than operating leases for vehicles, equipment and machinery, the Company does not have any off-balance sheet arrangements as at March 31, 2019.

Related Party Transactions

Other than transactions in the normal course of business with the Board of Directors and key management personnel, the Company had no transactions between related parties in the three months ended March 31, 2019.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2018 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. There were no additional risks and uncertainties identified during the three months ended March 31, 2019.

Evaluation of Disclosure Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, its ICFR.

On February 1, 2019, Western completed the acquisition of certain assets of Columbia Vista Corporation and related entities located in Vancouver, Washington. As at March 31, 2019, Western has not fully assessed the relevant ICFR and design and disclosure controls and procedures related thereto, however based on due diligence performed as part of the acquisition, no material changes to the control environment are expected.

Outstanding Share Data

As of May 1, 2019, there were 378,683,327 common shares of the Company issued and outstanding.

We have reserved 30,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the three months ended March 31, 2019, 2,487,950 options were granted and 600,000 previously granted options were exercised and 476,119 options were forfeited. As of May 1, 2019, 13,377,188 options were outstanding under our incentive stock option plan.

Additional Information

Additional information relating to the Company and its operations, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

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)		2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2
Average Exchange Rate – USD to CAD		1.329	1.322	1.307	1.291	1.265	1.271	1.253	1.345
Average Exchange Rate – CAD to USD		0.752	0.756	0.765	0.775	0.791	0.787	0.798	0.744
Financial Performance									
Revenue									
Lumber		$ 218.9	$ 230.9	$ 238.2	$ 255.6	$ 228.2	$ 207.3	$ 212.5	$ 212.8
Logs		41.2	36.2	33.6	49.0	41.2	56.6	55.5	57.2
By-products		15.6	17.7	20.7	23.2	22.2	19.2	17.2	17.4
Total revenue		$ 275.7	$ 284.8	$ 292.5	$ 327.8	$ 291.6	$ 283.1	$ 285.2	$ 287.4
Adjusted EBITDA		$ 18.1	$ 18.0	$ 32.3	$ 50.2	$ 43.0	$ 38.9	$ 32.6	$ 47.1
Adjusted EBITDA margin		6.6%	6.3%	11.0%	15.3%	14.7%	13.7%	11.4%	16.4%
Earnings per share:									
Net income, basic and diluted		$ -	$ 0.02	$ 0.04	$ 0.07	$ 0.05	$ 0.05	$ 0.04	$ 0.06
Operating Statistics									
Lumber(1),(2)									
Production	mmfbm	202	200	221	234	209	184	196	204
Shipments - Total	mmfbm	203	218	212	235	215	201	220	194
Price	$/mfbm	$ 1,078	$ 1,059	$ 1,124	$ 1,088	$ 1,061	$ 1,031	$ 966	$ 1,097
Logs(3)									
Net production	000 m^3	922	1,135	815	1,348	1,029	1,099	910	1,091
Saw log purchases	000 m^3	208	212	197	305	265	343	327	249
Log availability	000 m^3	1,130	1,347	1,012	1,653	1,294	1,442	1,237	1,340
Shipments	000 m^3	369	369	308	471	361	494	369	436
Price(4)	$/$m^3$	$ 112	$ 98	$ 109	$ 104	$ 114	$ 107	$ 134	$ 122
Share Repurchases and Dividends									
Shares repurchased (millions)		3.9	4.9	4.6	1.6	0.6	1.1	-	-
Shares repurchased		$ 7.4	$ 9.1	$ 10.4	$ 4.1	$ 1.6	$ 2.7	$ -	$ -
Dividends paid		$ 8.6	$ 8.7	$ 8.8	$ 8.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9

Figures in the table above may not equal or sum to figures presented elsewhere due to rounding.

(1) Includes Columbia Vista acquired February 1, 2019.
(2) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
(3) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.
(4) 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 fire in the summer.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

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

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 10.7	$ 8.4
Trade and other receivables (Note 16)	88.2	91.3
Inventory (Note 5)	197.1	174.9
Prepaid expenses and other assets	17.1	23.3
	313.1	297.9
Non-current assets:		
Property, plant and equipment (Note 6)	427.9	369.9
Timber licenses	112.1	113.2
Biological assets (Note 7)	57.3	58.3
Other assets	16.8	15.8
Deferred income tax assets	0.7	0.7
	$ 927.9	$ 855.8
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 117.9	$ 132.7
Current portion of lease liability	4.0	-
Reforestation obligation (Note 10)	10.7	10.0
	132.6	142.7
Non-current liabilities:		
Long-term debt (Note 8)	83.1	6.0
Long-term lease liability	14.6	-
Reforestation obligation (Note 10)	15.7	15.7
Deferred income tax liabilities	41.7	40.3
Other liabilities (Note 11)	20.7	23.8
Deferred revenue	53.9	54.4
	362.3	282.9
Equity:		
Share capital (Note 12)	486.3	491.1
Contributed surplus	9.1	9.1
Translation reserve	0.2	-
Retained earnings	68.8	72.7
Total equity attributable to equity shareholders of the Company	564.4	572.9
Non-controlling interest (Note 17)	1.2	-
	565.6	572.9
	$ 927.9	$ 855.8

Commitments and Contingencies (Note 13)
See accompanying notes to these unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board:

"Michael T. Waites"
Chair

"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, 2019	Three months ended March 31, 2018
Revenue (Note 16)	$ 275.7	$ 291.6
Costs and expenses:		
Cost of goods sold	228.9	219.4
Freight	23.1	21.3
Export tax (Note 13)	9.2	9.7
Selling and administration	8.8	8.6
	270.0	259.0
Operating income prior to restructuring items and other expense	5.7	32.6
Operating restructuring items	(0.6)	(2.2)
Other expense	(0.9)	(0.1)
Operating income	4.2	30.3
Finance costs	(1.5)	(0.5)
Income before income taxes	2.7	29.8
Current income tax expense (Note 9)	(0.8)	(0.1)
Deferred income tax expense (Note 9)	-	(8.0)
	(0.8)	(8.1)
Net income	1.9	21.7
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gain (loss) (Note 14)	0.9	(1.4)
Income tax (expense) recovery on other comprehensive gain (loss) (Note 9)	(0.2)	0.4
Total items that will not be reclassified to profit or loss	0.7	(1.0)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation of foreign operations	0.2	-
Income tax expense on foreign exchange translation of foreign operations	-	-
Total items that may be reclassified subsequently to profit or loss:	0.2	-
Other comprehensive income (loss) for the period	0.9	(1.0)
Total comprehensive income	$ 2.8	$ 20.7
Net income per share (in dollars)		
Basic and diluted earnings per share	$ -	$ 0.05
Weighted average number of common shares outstanding (thousands)		
Basic	382,073	394,979
Diluted	384,235	399,388

See accompanying notes to these unaudited condensed consolidated interim financial statements.

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

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Non-controlling Interest	**Total Equity**
Balance at December 31, 2017	$ 505.5	$ 8.7	$ -	$ 48.5	$ -	$ 562.7
Net income	-	-	-	21.7	-	21.7
Other comprehensive loss:						
Defined benefit plan actuarial loss recognized	-	-	-	(1.4)	-	(1.4)
Income tax recovery on other comprehensive loss	-	-	-	0.4	-	0.4
Total comprehensive income	-	-	-	20.7	-	20.7
Share-based payment transactions recognized in equity	-	0.2	-	-	-	0.2
Exercise of stock options	0.6	(0.3)	-	-	-	0.3
Repurchase of shares	(0.8)	-	-	(0.8)	-	(1.6)
Dividends	-	-	-	(7.9)	-	(7.9)
Total transactions with owners, recorded directly in equity	(0.2)	(0.1)	-	(8.7)	-	(9.0)
Balance at March 31, 2018	$ 505.3	$ 8.6	$ -	$ 60.5	$ -	$ 574.4

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Non-controlling Interest	**Total Equity**
Balance at December 31, 2018	$ 491.1	$ 9.1	$ -	$ 72.7	$ -	$ 572.9
Net income	-	-	-	1.9	-	1.9
Other comprehensive loss:						
Defined benefit plan actuarial gain recognized	-	-	-	0.9	-	0.9
Income tax recovery on other comprehensive loss	-	-	-	(0.2)	-	(0.2)
Foreign exchange translation of foreign operations	-	-	0.2	-	-	0.2
Total comprehensive income	-	-	0.2	2.6	-	2.8
Share-based payment transactions recognized in equity (Note 12(a))	-	0.1	-	-	-	0.1
Non-controlling interest (Note 17)	-	-	-	5.0	1.2	6.2
Exercise of stock options	0.1	(0.1)	-	-	-	-
Repurchase of shares (Note 12(a))	(4.9)	-	-	(2.9)	-	(7.8)
Dividends	-	-	-	(8.6)	-	(8.6)
Total transactions with owners, recorded directly in equity	(4.8)	-	-	(6.5)	1.2	(10.1)
Balance at March 31, 2019	$ 486.3	$ 9.1	$ 0.2	$ 68.8	$ 1.2	$ 565.6

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, 2019	Three months ended March 31, 2018
Cash provided by (used in):		
Operating activities:		
Net income	$ 1.9	$ 21.7
Items not involving cash:		
Amortization of property, plant and equipment (Note 6)	10.3	8.8
Amortization of timber licenses	1.0	1.0
Gain (loss) on disposal of assets	0.1	(0.1)
Impairment of assets	-	0.1
Change in fair value of biological assets (Note 7)	1.0	0.5
Change in reforestation obligation (Note 10)	0.7	0.2
Amortization of deferred revenue	(0.5)	(0.5)
Share-based compensation, including mark-to-market adjustment	0.1	1.5
Net finance costs	1.5	0.5
Income tax expense (Note 9)	0.8	8.1
Change in pension liability (Note 14)	(0.8)	(0.8)
Export tax receivable	0.1	-
Other	(0.8)	(0.6)
Income taxes paid	(15.1)	-
	0.3	40.4
Changes in non-cash working capital items:		
Trade and other receivables	3.2	(4.4)
Inventory	(15.6)	(7.6)
Prepaid expenses and other assets	9.7	1.5
Accounts payable and accrued liabilities	(6.8)	15.7
	(9.5)	5.2
	(9.2)	45.6
Investing activities:		
Additions to property, plant and equipment (Note 6)	(17.7)	(13.1)
Purchase of Arlington facility	-	(11.6)
Purchase of Columbia Vista (Note 18)	(37.7)	-
Proceeds on disposal of assets	0.7	0.1
Proceeds from disposition of minority interest in subsidiary, net (Note 17)	7.0	-
	(47.7)	(24.6)
Financing activities:		
Interest paid	(0.6)	(0.3)
Draw on long-term debt (Note 8)	77.0	-
Payment of lease liabilities	(0.8)	-
Repurchase of shares (Note 12(a))	(7.4)	(1.6)
Dividends	(8.6)	(7.9)
Proceeds from exercise of stock options, net (Note 12(b))	(0.4)	0.4
	59.2	(9.4)
Increase in cash and cash equivalents	2.3	11.6
Cash and cash equivalents, beginning of period	8.4	35.3
Cash and cash equivalents, end of period	$ 10.7	$ 46.9

See accompanying notes to these unaudited condensed consolidated interim financial statements.

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia and Washington State. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, British Columbia, Canada. The unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2019 and 2018 comprise the financial results of the Company and its subsidiaries. The Company's primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber 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, 2018. These interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 May 1, 2019.

(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 date;
- 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 estimates, judgements 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, 2018, except for new significant judgments related to the lessee accounting under IFRS 16, *Leases*¸ which are described in Note 3.

3. Significant accounting policies

Except as described as below and in Note 18, 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, 2018.

Changes to significant accounting policies

IFRS 16, Leases ("IFRS 16")

The Company has adopted IFRS 16, *Leases,* with a date of initial application of January 1, 2019. As a result, the Company has changed its accounting policy for lease contracts, as outlined below.

The Company adopted IFRS 16 using a modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized with no adjustment to retained earnings at January 1, 2019. The comparative information presented for 2018 has not been restated and continues to be reported under IAS 17, *Leases,* ("IAS 17") and IFRIC 4, *Determining whether an Arrangement contains a Lease*. The impact of the changes under IFRS 16 are disclosed below.

On transition to IFRS 16, the Company elected to apply a practical expedient to grandfather the assessment of which transactions are leases. IFRS 16 only applies to contracts that were previously recognized as leases. Contracts that were not recognized as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. As such, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

Policy application from January 1, 2019

Lease definition

When a contract is entered into, the Company will assess if a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A contract will convey the right to control the use of an identified asset for a period of time if the Company has the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

Measurement of right of use assets and lease liabilities

The Company recognizes a right of use asset and lease liability at the lease commencement date. At this date, the right of use asset is measured at cost. Cost includes the initial amount of the lease liability, adjusted for lease payments made before this date as well as any initial direct costs incurred. Cost also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset and restoring the site on which it is located, less any lease incentives received. The economic benefits from using an asset include its primary output, by-products and other benefits that could be realized from a commercial transaction with another party.

The right of use asset is depreciated using the straight-line method from the lease commencement date to the earlier of the end of the lease term or the end of the useful life of the right of use asset. The estimated useful lives of right of use assets are determined in the same manner as those of property plant and equipment. Right of use assets are adjusted for impairments and/or re-measurements of the lease liability.

At the lease commencement date, the lease liability is measured at the present value of the future lease payments. The lease payments are discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability consist of:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees; and
- the exercise price of a purchase option that the Company is reasonably certain to exercise, and penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate early.

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

3. Significant accounting policies (continued)

Subsequent to initial measurement, the lease liability is measured at amortized cost using the effective interest method. As such, the lease liability is subsequently increased by the interest costs, and decreased by the lease payments made. The lease liability is re-measured when there is a change in future lease payments due to a change in an index or rate, a change in the Company's estimate of an amount payable under residual value guarantee, or if there is a change in the assessment of whether the Company will exercise a purchase, termination or extension option. When the lease liability is re-measured, a corresponding adjustment is made to the right of use asset, or recognized in the statement of comprehensive income if the carrying amount of the right of use asset has been reduced to zero.

The Company presents right of use assets in property, plant and equipment and lease liabilities separately on the statement of financial position.

The Company elected not to recognize right of use assets and corresponding lease liabilities for leases with a term of 12 months or less and low value leases, including office fixtures, information technology equipment and small manufacturing and storage equipment. The Company recognizes these lease payments as an expense on a straight-line bases over the term of the lease.

The Company has applied judgment in determining the lease term for some lease contracts in which it acts as a lessee that are renewal negotiation and/or include a renewal option. The assessment of whether or not the Company will exercise the renewal option in these contracts impacts the lease term, which directly impacts the amount of the right-of-use assets and lease liabilities recognized.

Under IAS 17 - Policy application before January 1, 2019

In the comparative period, leases of property, plant and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

At adoption

On adoption of IFRS 16, the Company recognised right of use assets (included in "Property, plant & equipment") with a corresponding increase to lease liabilities. For leases that were previously classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. The corresponding right of use assets were measured at an amount equal to the lease liability, adjusted for any prepaid lease payments. The impact on transition is summarized below. To measure lease liabilities for leases that were classified as operating leases under IAS 17, the Company discounted the future lease payments using its incremental borrowing rate at adoption. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 4.5%. The impact on transition is summarized below.

	Buildings & equipment	Land	Total
Balance as at January 1, 2019	$ 7.7	$ 9.3	$ 17.0
Balance as at March 31, 2019	$ 9.8	$ 8.9	$ 18.7

In its annual consolidated financial statements as at and for the year ended December 31, 2018, the Company disclosed $19.7 million of operating lease commitments. These, discounted at the incremental borrowing rate as at January 1, 2019, resulted in an opening lease liability of $17.0 million. In the first quarter of 2019, the Company recognized expense of $0.2 million relating to short term and low value lease payments that were previously treated as rental agreements, and amortization of $0.8 million related to its right of use assets and interest costs of $0.2 million related to its lease liabilities.

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

4. Seasonality of operations

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

5. Inventory

	March 31, 2019	December 31, 2018
Gross value of inventory		
Logs	$ 126.2	$ 125.7
Lumber	71.6	51.7
Supplies and other	14.9	13.1
	$ 212.7	$ 190.5
Provisions		
Logs	$ (7.2)	$ (8.8)
Lumber	(7.9)	(6.3)
Supplies and other	(0.5)	(0.5)
	$ (15.6)	$ (15.6)
Total value of inventory	$ 197.1	$ 174.9

The carrying amount of inventory recorded at net realizable value was $52.9 million at March 31, 2019 (December 31, 2018: $79.4 million), with the remaining inventory recorded at cost.

During the three months ended March 31, 2019, $228.9 million (2018: $219.4 million) of inventory was charged to cost of goods sold, which includes no change to the provision for write-down to net realizable (2018: increase of $0.3 million).

6. Property, plant and equipment

Cost	Buildings & equipment	Logging roads	Land	Right of use assets	**Total**
Balance at January 1, 2018	$ 341.9	$ 191.9	$ 87.8	$ -	$ 621.6
Additions	70.6	12.9	-	-	83.5
Arlington facility	7.9	-	3.7	-	11.6
Disposals	(6.7)	-	(2.3)	-	(9.0)
Balance at December 31, 2018	413.7	204.8	89.2	-	707.7
Adoption of IFRS 16	-	-	-	17.0	17.0
Additions	14.5	3.2	-	2.5	20.2
Columbia Vista assets (Note 18)	21.0	-	10.6	-	31.6
Disposals	(0.4)	-	(0.7)	-	(1.1)
Effect of movements in exchange rates	0.1		0.1		0.2
Balance at March 31, 2019	$ 448.9	$ 208.0	$ 99.2	$ 19.5	$ 775.6
Accumulated amortization and impairments					
Balance at January 1, 2018	$ 150.8	$ 156.8	$ 0.1	$ -	$ 307.7
Amortization	23.0	13.2	-	-	36.2
Disposals	(6.4)	-	-	-	(6.4)
Impairments	0.1	-	0.2	-	0.3
Balance at December 31, 2018	167.5	170.0	0.3	-	337.8
Amortization	6.0	3.5	-	0.8	10.3
Disposals	(0.4)	-	-	-	(0.4)
Impairments	-	-	-	-	-
Effect of movements in exchange rates	-	-	-	-	-
Balance at March 31, 2019	$ 173.1	$ 173.5	$ 0.3	$ 0.8	$ 347.7
Carrying amounts					
At December 31, 2018	$ 246.2	$ 34.8	$ 88.9	$ -	$ 369.9
At March 31, 2019	$ 275.8	$ 34.5	$ 98.9	$ 18.7	$ 427.9

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

7. Biological assets

(a) *Reconciliation of carrying amount*

	Three months ended March 31,	
	2019	2018
Carrying value, beginning of period	$ 58.3	$ 58.2
Change in fair value less costs to sell	-	-
Change in fair value due to growth and pricing	1.4	1.4
Harvested timber transferred to inventory	(2.4)	(1.9)
Carrying value, end of period	$ 57.3	$ 57.7

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 March 31, 2019, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2018: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to mature forest available for harvest. During the three months ended March 31, 2019, the Company harvested and scaled approximately 62,275 cubic metres ("m^3") of logs from its private timberlands, which had a fair value less costs to sell of $114 per m^3 at the date of harvest (2018: 50,858 m^3 and $104 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 Company's standing timber of $57.3 million is measured at fair value less costs to sell. 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, 2019 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.

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

8. Long-term debt

The Company's syndicated Credit Facility (the "Credit Facility") provides for a maximum borrowing amount of $250 million, has a maturity date of August 1, 2022, and includes an accordion feature which allows the Company to increase the aggregate amount available to $350 million, subject to lender approval.

The Credit Facility is available in Canadian dollars by way of Prime Rate Advances, Bankers' Acceptances or Letters of Credit and in US dollars by way of US Base Rate Advances, US Prime Rate Advances, LIBOR Advances or Letters of Credit. Interest on the Credit Facility is indexed to benchmark rates and varies depending on the nature of each draw and a total debt to EBITDA based pricing grid.

The Credit Facility is secured by a general security agreement, excluding specified properties and their related assets, and is subject to certain financial covenants, including maximum debt to total capitalization ratios.

At March 31, 2019, $84.0 million was outstanding under the Company's Credit Facility. The interest rate for the Credit Facility was 4.65% at March 31, 2019 (December 31, 2018: 4.65%). The Company was in compliance with its financial covenants at March 31, 2019.

	March 31, 2019	December 31, 2018
Long-term debt	$ 84.0	$ 7.0
Less transaction costs	(0.9)	(1.0)
	$ 83.1	$ 6.0
Available	$ 250.0	$ 250.0
Drawings	(84.0)	(7.0)
Outstanding letters of credit	(1.0)	(1.0)
Unused portion of Credit Facility	$ 165.0	$ 242.0

9. Income taxes

	Three months ended March 31,	
	2019	2018
Current income tax expense	$ (0.8)	$ (0.1)
Deferred income tax expense	-	(8.0)
	$ (0.8)	$ (8.1)

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

	Three months ended March 31,	
	2019	2018
Income before income taxes	$ 2.7	$ 29.8
Income tax expense at statutory rate of 27% (2018 - 27%)	(0.7)	(8.0)
Permanent differences	(0.1)	(0.1)
	$ (0.8)	$ (8.1)

In addition to the amounts recorded to net income, a deferred income tax expense of $0.2 million was recorded to other comprehensive income for the three month period ended March 31, 2019 (2018: $0.4 million deferred income tax recovery) in relation to current period actuarial gains on defined benefit employee future benefit obligations.

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

10. Reforestation obligation

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
Reforestation obligation, beginning of period	$ 25.7	$ 25.3
Reforestation provision charged	1.6	1.7
Reforestation expenditures	(1.0)	(1.6)
Unwind of discount	0.1	0.1
Reforestation obligation, end of period	26.4	25.5
Less current portion	10.7	9.7
	$ 15.7	$ 15.8

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 1.52% to 1.67%. The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at March 31, 2019 is $27.2 million (December 31, 2018: $26.7 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 period.

11. Other liabilities

	March 31, 2019	December 31, 2018
Employee future benefits obligation (Note 14)	$ 17.4	$ 19.0
Environmental accruals	1.5	1.5
Performance share unit plan liabilities, non-current (Note 12(d))	0.4	1.8
Other	1.4	1.5
	$ 20.7	$ 23.8

12. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares	Amount
Balance at December 31, 2018	383,740,519	$ 491.1
Exercise of stock options	330,000	0.1
Repurchase of shares	(3,887,192)	(4.9)
Balance at March 31, 2019	380,183,327	$ 486.3

(b) Stock option plan

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 30,000,000 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. All outstanding 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 first quarter of 2019, the Company granted 2,487,950 options with a fair value of $0.9 million as determined by the Black-Scholes option pricing model, using the assumptions of an average exercise price of $1.94 per share, risk free interest rate of 1.88%, a volatility rate of 31.86%, and an expected life of seven years. At March 31, 2019, 13,337,189 options (December 31, 2018: 11,965,357) were outstanding under the Company’s Option Plan, with a weighted average exercise price of $1.80 per share.

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

12. Share capital (continued)

(b) Stock option plan (continued)

	Three months ended March 31, 2019		Three months ended March 31, 2018	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of period	11,965,357	$ 1.73	11,718,483	$ 1.56
Granted	2,487,950	$ 1.94	1,235,788	$ 2.74
Exercised	(600,000)	$ 0.22	(660,000)	$ 0.59
Forfeited	(476,118)	$ 2.33	-	$ -
Outstanding, end of period	13,377,189	$ 1.80	12,294,271	$ 1.73

During the three months ended March 31, 2019, 330,000 options were exercised for the issuance of common shares, and 270,000 options were exercised on a cashless basis.

During the three months ended March 31, 2019, the Company recorded a compensation expense for these stock options of $0.2 million (2018: compensation expense of $0.2 million).

(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 closing share price on the fifth day following each quarter end. All DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received if they held their DSUs as common shares. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the closing share price on the dividend payment date.

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

	Three months ended March 31, 2019		Three months ended March 31, 2018	
	Number of DSU	Weighted average unit value	Number of DSU	Weighted average unit value
Outstanding, beginning of period	1,468,754	$ 1.32	1,282,219	$ 1.18
Granted	54,157	$ 1.96	41,281	$ 2.74
Redeemed	(29,183)	$ 2.10	-	$ -
Outstanding, end of period	1,493,728	$ 1.33	1,323,500	$ 1.23

During the three months ended March 31, 2019, the Company recorded a compensation expense for these DSUs of $nil (2018: compensation expense of $0.3 million), with a corresponding adjustment to accounts payable and accrued liabilities.

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

The Company has established a PSU Plan for designated officers and employees of the Company. Under the terms of the PSU Plan, participants are granted a number of PSUs based on a target award divided by the closing 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.

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

12. Share capital (continued)

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

	Three months ended March 31,	
	2019	2018
Outstanding, beginning of period	1,715,332	1,582,285
Granted	733,795	511,870
Redeemed	(577,130)	(429,002)
Outstanding, end of period	1,871,997	1,665,153

During the three months ended March 31, 2019, the Company recorded a compensation recovery for these PSUs of $0.1 million (2018: compensation expense of $1.0 million), with a corresponding adjustment to accounts payable and accrued liabilities and other liabilities.

13. Commitments and contingencies

Long-term fibre supply agreements

Certain of the Company's long term fibre supply agreements with third parties have minimum volume requirements and may, in the case of a failure to produce the minimum 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, 2018 and, based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2019.

Litigations and claims

In the normal course of its business activities, the Company may be subject to a number of claims and legal actions that may be made by customers, unions, suppliers and others in respect of which either provision has been made or for which no material liability is expected. Where the Company is not able to determine the outcome of these disputes no amounts have been accrued in these financial statements.

Key dates in the softwood lumber duty dispute

Under the softwood lumber agreement ("SLA") between Canada and the United States ("US"), the Company's exports to the US were assessed an export tax by the Canadian Government. The SLA expired on October 12, 2015, eliminating export tax measures on Canadian softwood lumber shipments to the US.

Throughout 2016 and 2017 there were several announcements made by US Department of Commerce ("DoC") and the US International Trade Commission ("ITC") outlining rates on Countervailing ("CVD") and Anti-dumping duties ("AD") on Canadian softwood lumber shipments to the US. The Company disclosed these in its audited annual consolidated financial statements for the year ended December 31, 2017.

On January 3, 2018, the DoC published amended final determinations, resulting in reduced, final CVD and AD rates of 14.19% and 6.04% respectively for "all other" Canadian lumber producers including Western.

Lumber duties and export tax

Cash deposits for CVD were required for lumber imports to the US effective April 28, 2017 through August 25, 2017, after which they were not applicable pending the ITC's final CVD determination. Cash deposits for CVD resumed on publication of ITC final affirmative CVD determination in the US Federal Register on December 28, 2017.

Cash deposits for AD were required for lumber imports to the US effective June 30, 2017 until December 26, 2017, and resumed on publication of the ITC final affirmative injury determination on December 28, 2017. The Company recorded an export tax recovery of $3.6 million arising from the difference between export duties paid at preliminary determination rates and the latest final duty rates, in the fourth quarter of 2017.

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

13. Commitments and contingencies (continued)

A corresponding increase was recognized in other assets in the consolidated statement of financial position. Incremental export duty recoveries from any future change in CVD and AD rates will be netted against export tax expense and included in other assets.

As at March 31, 2019, the Company had $71.4 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties (December 31, 2018: $64.2 million).

Tax correspondence

In May 2018, the Company received correspondence from the Canada Revenue Agency ("CRA") regarding certain restructuring transactions, occurring in 2004 and 2007 to 2011, and the general anti-avoidance rule. Management believes the CRA's position is without merit. Management is prepared to defend its position if a notice of reassessment is issued, and as such, the Company has not recognized any income tax provision at March 31, 2019 relating to this matter.

14. Employee future benefits

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, 2019	March 31, 2018
Present value of obligations	$ 129.2	$ 132.3
Fair value of plan assets	(111.8)	(110.2)
Liability recognized in the statement of financial position (Note 11)	$ 17.4	$ 22.1

The change in the liability recognized in the statement of financial position at March 31, 2019 was due primarily to actuarial gains resulting from higher than expected returns on plan assets, offset by a decrease in the discount rate used to value the defined benefit obligations. The discount rate used as at March 31, 2019 was 3.20% per annum (December 31, 2018: 3.60% per annum).

The Company expects to make funding contributions to its defined benefit plans of $3.1 million during 2019.

15. Financial instruments – fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value 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, 2018.

	March 31, 2019			December 31, 2018		
	Mandatory at at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets						
Market-based investments	$ 4.9	$ -	$ 4.9	$ 4.9	$ -	$ 4.9
Cash and cash equivalents	-	10.7	10.7	-	8.4	8.4
Trade and other receivables	-	88.2	88.2	-	91.3	91.3
Total financial assets	$ 4.9	$ 98.9	$ 103.8	$ 4.9	$ 99.7	$ 104.6
	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities						
Foreign currency forward contracts	$ 0.2	$ -	$ 0.2	$ 2.2	$ -	$ 2.2
Accounts payable and accrued liabilities	-	117.8	117.8	-	130.5	130.5
Long term debt (Note 8)	-	84.0	84.0	-	7.0	7.0
Total financial liabilities	$ 0.2	$ 201.8	$ 202.0	$ 2.2	$ 137.5	$ 139.7

As at March 31, 2019, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 50.0 million at an average rate of JPY 83.68 per CAD with maturities through April 5, 2019, and an aggregate US Dollar ("USD") $53.0 million at an average rate of CAD$1.33 per USD with maturities through June 11, 2019.

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

15. Financial instruments – fair values (continued)

All foreign currency gains or losses related to currency forward contracts to March 31, 2019 have been recognized in revenue for the period and the fair value of these instruments at March 31, 2019 was a net liability of $0.2 million, which is included in accounts payable and accrued liabilities on the statement of financial position (December 31, 2018: net liability of $2.2 million). A net gain of $0.1 million was recognized on contracts which were settled in the three months ended March 31, 2019 (2018: net loss of $0.4 million), which was included in revenue for the period.

16. Revenue

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, based on the known origin of the customer, and by major products.

	Three months ended March 31, 2019	Three months ended March 31, 2018
Primary geographical markets		
Canada	$ 106.1	$ 110.1
United States	64.0	70.5
China	51.8	43.0
Japan	31.4	40.9
Other	16.9	23.2
Europe	5.5	3.9
	$ 275.7	$ 291.6
Major Products		
Lumber	$ 218.9	$ 228.2
Logs	41.2	41.2
By-products	15.6	22.2
	$ 275.7	$ 291.6

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	March 31, 2019	December 31, 2018
Trade and other receivables	$ 88.2	$ 91.3
Contract liabilities	53.9	54.4

The contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract, for which revenue is recognized straight-line over the term of the contract. The contract liabilities decreased $0.5 million during the period as the amount was recognized as revenue.

17. Non-controlling interest

On March 29, 2019, the Company completed the sale of a 7% ownership interest in its newly formed TFL 44 Limited Partnership ("TFL 44 LP") to Huumiis Ventures Limited Partnership, a limited partnership beneficially owned by the Huu-ay-aht First Nations. The Company received $7.3 million in exchange for the 7% ownership interest in TFL 44 LP, subject to post-closing adjustments.

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

18. Business combination

On February 1, 2019, the Company completed the acquisition of the assets of Columbia Vista Corporation and certain related entities ("Columbia Vista") located in Vancouver, Washington for consideration of USD$28.4 million (CAD$37.7 million). Included in total consideration was USD$23.8 million (CAD$31.6 million) for the fair value of property, plant & equipment. The acquisition was accounted for as a business combination with Western deemed to be the acquirer.

Columbia Vista is a lumber manufacturer that focuses production on Douglas Fir specialty products for the Japan and US markets. This acquisition aligns with the Company's margin-focused business strategy, and the newly combined Company brings together a complementary mix of products, customer relationships, and employees.

The Company incurred total acquisition-related other expenses of $1.4 million, of which $0.7 million was recognised in the three months ended March 31, 2019, and $0.7 million was recognised in the year-ended December 31, 2018. Following the acquisition on February 1, 2019 Columbia Vista contributed revenue of $9.7 million.

The following table presents the preliminary purchase price allocation to the identifiable assets and liabilities based on their estimated fair values on the acquisition date.

Consideration allocated to:		
Land	$	10.6
Buildings		5.3
Equipment		15.7
Inventory		6.6
Prepaid expenses & other		3.5
Right of use assets		0.8
Lease liabilities		(0.8)
Accounts payable		(4.0)
Total consideration	$	37.7

The fair value of property, plant & equipment was determined considering asset replacement value, net realizable value of the assets acquired and other factors.

The estimated fair values of the assets acquired and liabilities assumed above are based on preliminary information available at the date of preparation of these unaudited consolidated interim financial statements. The Company believes that the preliminary information available provides a reasonable basis for estimating the fair values of the assets acquired and liabilities assumed on the acquisition date. Should the Company obtain new information about facts and circumstances that existed at the acquisition date that would have a material effect on the measurement of the amounts recognized as of the acquisition, the Company will retrospectively adjust the provisional amounts recognized above. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable and cannot exceed one year from the acquisition date.

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

www.westernforest.com
info@westernforest.com

Trading on the TSX as "WEF"