



Western Forest Products Inc.  
DEFINING A HIGHER STANDARD™

**Western Forest Products Inc.**  
Annual Information Form

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February 15, 2018

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## FORWARD-LOOKING STATEMENTS AND INFORMATION

*This Annual Information Form 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 “estimate”, “expect”, “anticipate”, “plan”, “intend”, “believe”, “seek”, “should”, “may”, “likely”, “can”, “will” and similar references to future periods. Forward-looking statements in this Annual Information Form include, but are not limited to, statements relating to: our current intent, belief or expectations with respect to market and general economic conditions, future costs, future expenditures, available harvest levels, environmental and safety certifications, and our future operating performance, objectives 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, 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, 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, changes in opportunities and such factors set out herein and in our management’s discussion and analysis for the year ended December 31, 2017. 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.*

In this Annual Information Form, unless the context otherwise requires, “Western”, “Company”, “we”, “us”, “our” and similar terms refer to Western Forest Products Inc. and its subsidiaries.

Certain terms used in this Annual Information Form are defined under “*Glossary of Certain Terms*”, which can be found at the end of this document, starting at page 29. All information in this Annual Information Form is as of February 15, 2018, unless otherwise indicated. All dollar amounts are expressed in Canadian dollars, unless otherwise indicated.

In this Annual Information Form, we incorporate by reference our Management’s Discussion and Analysis (the “MD&A”) for the year ended December 31, 2017, which contains information required to be included in this Annual Information Form. The MD&A is accessible on SEDAR at [www.sedar.com](http://www.sedar.com).

## THE COMPANY

Western's business is timber harvesting and lumber manufacturing for sale to worldwide markets. Western's operations are located in the coastal region of British Columbia, Canada and Washington, United States.

Western's head office is located at Suite 800 – 1055 West Georgia Street, Royal Centre Building, PO Box 11122, Vancouver, British Columbia, V6E 3P3 and the registered office is located at Suite 2800, 666 Burrard Street, Vancouver, BC, V6C 2Z7.

The Company was incorporated as 4204247 Canada Inc. under the Canada Business Corporations Act (the "CBCA") on April 27, 2004 and changed its name to Western Forest Products Inc. on June 21, 2004. On July 27, 2004, Western acquired certain assets of Doman Industries Limited ("Doman") and certain related companies. Western commenced business on July 28, 2004 and on August 3, 2004, the Company's common shares (the "Common Shares") began trading on the Toronto Stock Exchange under the symbol "WEF".

The principal subsidiaries of the Company are:

<b>Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Percentage owned</b>
Western Forest Products Japan Limited	Japan	100%
Western Lumber Sales Limited	Canada	100%
WFP Partnerships Ltd.	Canada	100%

Western Forest Products Japan Limited has an office in Tokyo and sells Western's lumber products to Japanese wholesale and manufacturing customers. Western Lumber Sales Limited sells the Company's lumber products to customers in the US. WFP Partnerships Ltd. holds assets of our United States ("US") operations through indirect US subsidiaries.

## DEVELOPMENT OF THE BUSINESS

### Company Profile and Strategy

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

Our business comprises seven sawmills with an annual lumber production capacity in excess of 1.1 billion board feet and timberland operations with annual available harvest greater than 6 million cubic metres of timber, of which approximately 5.8 million cubic metres ("m3") of allowable annual cut ("AAC") is from high-quality "evergreen" tenures (renewable within the tenure term) on Crown-owned land on Vancouver Island and the mainland coast of British Columbia. Approximately 0.2 million cubic metres of additional annual harvest is available from our privately-owned timberlands and non-replaceable Crown tenures. In addition, we source additional fibre through log trade transactions and log market purchases, and through our timber harvesting joint ventures and limited partnerships with coastal First Nations. We also participate in auctions for the purchase of standing timber through BC Timber Sales.

**Summary History**

- 2004 — Western Forest Products Inc. incorporates and acquires certain assets from Doman
- 2005 — Silvertree Sawmill acquired as part of Doman asset acquisition is permanently curtailed
- 2006 — Western acquires Englewood Logging Division consisting of Tree Farm Licence (“TFL”) 37  
 — Western acquires Cascadia Forest Products Ltd., consisting of four mills, four remanufacturing plants, a custom cut division and timberlands operations  
 — Amalgamation of Western, Cascadia, WFP Western Lumber Ltd. and Mid-Island Reman Inc.  
 — Operations cease at Squamish Pulp Mill, a former Doman asset
- 2007 — New Westminster Sawmill is permanently curtailed, and subsequently sold in 2008
- 2009 — Focus on rationalization initiatives to improve operating performance through all market conditions
- 2010 — Sale of non-core property assets to Capital Regional District for proceeds of \$18.8 million
- 2011 — Sale of non-core property assets to TimberWest Forest Corp. for \$21.9 million
- 2012 — Sale of TFL 60 on Haida Gwaii to Taan Forest Limited Partnership for \$11.6 million
- 2013 — Western initiates regular quarterly dividend
- 2014 — Brookfield sells its remaining 29% equity holding in Western via secondary offering  
 — Nanaimo Sawmill Division is permanently curtailed, with production consolidated at Saltair and Duke Point sawmills for which modernization capital projects were underway
- 2015 — Initiated consolidation of timberlands operations, and reinvested significant strategic capital in sawmills  
 — Former Squamish Pulp Mill assets are sold for proceeds of \$21.8 million
- 2016 — Focus on the ongoing implementation and activation of recent strategic capital investments  
 — Received compensation of \$14.1 million for the April 2011 partial tenure extinguishment in TFL44
- 2017 — Sarita Dry Land Sort sold for proceeds of \$3.0 million in transaction with Huu-ay-aht First Nation  
 — South Island Remanufacturing plant is permanently curtailed and sold for proceeds of \$3.2 million  
 — Somass Sawmill is indefinitely curtailed and planer facility at Saltair operation closed, with production consolidated at the Western’s other operations including the modernized Duke Point planer  
 — Englewood ceases train logging activity and transitions fully to lower cost truck logging
- 2018 — Western acquires a distribution and processing centre in Arlington, Washington

**Significant Developments since January 2015**

The Company has focused primarily on operational improvements in order to reduce costs, including through the reinvestment in and consolidation of operations. An increased focus on margins has combined with the recovery in US new home construction and growing demand from China, to drive improved financial results for Western over the past three years.

## Capital Projects

Western announced a \$125.0 million strategic capital program in 2011. This program was designed to position Western as the only company on the coast of BC capable of consuming the complete profile of the coastal forest and competitively manufacturing a diverse, margin-focused product mix. These investments are expected to be achieved through reducing costs, increasing recovery, and improving product flexibility across grades and species. To date we have implemented or announced \$101.9 million in strategic capital investments, which are incremental to our annual roads and maintenance capital investments.

The following is a summary of recent strategic capital investment in our operations, with multi-phase projects identified by the '#' symbol:

Year	Project Description	Capital Cost (\$millions)
2013	• Saltair Sawmill #1: installation of new sorter, trimmer, edgers and stacker	24.8
2014	• Cowichan Bay Sawmill: installation of automated log rotation technology	2.4
	• Alberni Pacific Sawmill: installation of automated lumber grading technology	4.2
2015	• Saltair #2: installation of a new log in-feed and log merchandiser	13.5
	• Saltair Sawmill #3: ramp-up of log merchandiser and installation of new dual ring debarker	2.4
	• Duke Point Sawmill #1 & #2: installation of diptank for the production of whitewood lumber, expansion of barge loading facility, infrastructure upgrades and optimization of both head rigs	10.8
	• Duke Point Planer #1: installation of new stacker, strapper and paper-wrap system	5.3
2016	• Chemainus Sawmill: installation of new timber deck	1.5
	• Ladysmith Sawmill: optimization and conversion to single line operation	1.3
	• Duke Point Sawmill #3: installation of an enhanced timber processing system	15.5
	• Timberlands LiDAR mapping initiative	1.0
2017	• Duke Point Planer #2: installation of automated lumber grading	7.7
	• Timberlands LiDAR mapping and data analysis	1.3
	• Chemainus Sawmill: installation of timber saw upgrades	3.2
2018	• <i>Expected completion of Duke Point kilns, trimmer infeed and grading station modifications</i>	
	• <i>Expected completion of Ladysmith and Cowichan Bay Sawmill stackers</i>	
	• <i>Expected completion of Saltair Sawmill circular resaw and trimmer upgrade</i>	
	• <i>Expected completion of North Island logging truck fleet modernization</i>	

The strategic capital investment in our Duke Point sawmill and planer modernization projects is expected to be \$43.6 million upon completion of phase 2 of the planer modernization when the auto-grader is up to full productivity in early 2018. The Duke Point sawmill modernization was completed in late 2016, following which performance has steadily improved, facilitating consolidation of our flexible operating platform during 2017.

Since 2015, the Company has made strategic investments of \$5.5 million in information technology systems and LiDAR mapping to strengthen our operating foundation and create a platform for growth. Leveraging the data from our investment in LiDAR mapping has improved forest tenure planning practices and has contributed to our commitment to sustainably harvesting the profile of the coastal forest.

***Other Developments: Financing***

In November 2015, the Company amended certain terms and conditions of its \$125 million revolving credit facility, including the elimination of certain covenants and a reduction in applicable interest rates. The Company also extended the maturity date of the facility by one year to December 14, 2016.

In December 2016, the Company extended the maturity date of its revolving credit facility by one year to December 14, 2017. No changes were made to the other terms and conditions of the facility.

The Company has further extended the maturity date of its revolving credit facility to December 14, 2018. As part of this extension certain terms have been amended to increase financial flexibility and reduce administrative requirements.

The Company has no outstanding debt obligations.

**Changes Expected for 2018**

For additional information regarding changes expected to the Company's business in 2018, see Western's MD&A for the year ended December 31, 2017, in particular the "Market Outlook" and "Strategic Capital Program Update" sections.

## **BUSINESS OF THE COMPANY**

### **Overview**

Western's primary business includes the harvesting of timber, sawmilling logs into specialty lumber and value-added manufacturing. Our sawmills process hemlock and balsam, Douglas fir, yellow and western red cedar into long-length, wide-width and high-grade appearance lumber, commodity grades of lumber and residual wood chips that are sold externally and used for pulp production. Our value-added lumber remanufacturing operation dries, saws and planes high-quality lumber for appearance and structural applications such as decking, siding, mouldings, doors, windows and paneling.

Our operating strategy involves maximizing the sustainable value from our timber resources. The timberlands operations seek to supply the Company's sawmills with a safe, efficiently-harvested supply of high-quality fibre of the appropriate species and log characteristics to enable the cost-effective manufacture of lumber to meet customers' needs. In addition to supplying Western's sawmills with logs harvested from its timber tenures, the Company also buys and sells logs on the open market to ensure sufficient fibre supply to meet the cutting profile of its sawmills and to maximize log margins. Our strategy is to operate safe, efficient, low-cost manufacturing facilities and to produce high-value softwood lumber for global markets.

Operating results have been and continue to be affected by a number of factors, including economic conditions in Canada, the United States, Japan, China, and Europe, which are the leading markets for the Company's log and lumber products. Changes in the demand for our products in these markets and in the value of the Canadian dollar relative to the US dollar and, to a lesser degree, the Japanese Yen and the Euro can have a significant impact on our financial results. In all of these markets, our competition is of a global nature as we increasingly face competing products from various regions.

### **Forest Products Industry**

British Columbia is one of the world's leading forest products regions. Export revenues from wood product sales in 2017 were approximately \$10 billion, and from pulp and paper related products were approximately \$4 billion. Current estimates of AAC in BC available from Crown-owned and private timberlands are approximately 80 million cubic metres.

British Columbia has two major forest regions, coastal and interior, which are differentiated by climate, terrain and forest type and have given rise to two distinct segments of the forest industry. Historically, just less than one-third of BC's timber harvest has originated from the coastal region. In contrast to the interior forests, the BC coastal forests are distinguished by a wet maritime climate, rugged topography and a variety of high-value coastal forest species with highly productive growing sites. Over the past decade, the coastal timber harvest has declined as a result of the establishment of new parks and protected areas and AAC reductions to conform harvest levels to long-term sustainable yields.

Softwoods such as hemlock, balsam, yellow cedar, spruce, pine and fir, when kiln-dried, are used primarily in construction due to their strength, light weight and ease of nailing. Cedar is a softwood that is used where appearance and decay resistance are valued such as for decks, paneling, fencing, fascia, siding and doors. The forest industry generally grades lumber into two broad categories: (i) "uppers" or "appearance" grade lumber, which is evaluated on its visual attributes; and (ii) "commodity" grade lumber, which is evaluated on attributes such as strength and stiffness.

### **Environment, Health & Safety**

#### **Safety**

The Company's Safety Policy reflects Western's values and commitment to providing a safe and healthy workplace for its people, while at the same time ensuring compliance with our regulatory requirements under WorkSafeBC ("WSBC") and any other applicable regulations.



The Company's comprehensive Safety Program is designed to set clear expectations for all employees and contractors employed by the Company. Safety initiatives, training programs, safety plans, incident investigations, audits/inspections and contractor specific controls are all part of our comprehensive safety program and are a key to our success. Western's Health, Safety and Environment representatives continue to be active in working with WSBC, our unions, the British Columbia Forest Safety Council ("BCFSC"), the Manufacturing Advisory Group ("MAG"), the Coastal Harvesting Advisory Group, the Safety Advisory Foundation for Education and Research, and other industry networks to help shape programs, activities and regulations to ensure a safe workplace for all. In 2017, Western applied for recertification by the BCFSC as a SAFE Company. As of the date of this Annual Information Form, we have received our Timberlands results and scored 87% for OHS and 92% for Ability Management, and are awaiting the results for our Manufacturing operations.

Western's timberlands operations employ approximately 240 contractor companies who in turn employ approximately 1,500 workers to assist in achieving the Company's overall timber harvesting targets. Western expects these contractors and their workers to work to the same safety standards followed by the Company. To this end, we offer contractor specific programs and support to assist our contractors in their efforts to reduce the occurrence of injuries and improve safety and performance, including, but is not limited to: safety program development, safety training, inspection protocols, access to Company safety materials, and support from Western's Health, Safety and Environment employees as appropriate. In order to remain in good standing with the BCFSC, timberlands contractors are required to be certified as a "SAFE Company".

The Company's Medical Incident Rate ("MIR"), defined as the number of recordable injuries per 100 employees per year, for each of the last three years is set out in the following table:

<i>(Medical Incident Rate)</i>	Year ended December 31,		
	2017	2016	2015
Timberlands – Company	1.70	0.99	0.84
Manufacturing – Company	1.70	1.20	2.27
<b>Company Total</b>	<b>1.67</b>	<b>1.04</b>	<b>1.59</b>
Timberlands – Contractor	1.51	3.95	3.73
Manufacturing – Contract	2.82	2.82	2.18
<b>Contractor Total</b>	<b>1.62</b>	<b>3.77</b>	<b>3.91</b>

We continue to ensure that our standards, procedures and equipment mitigate any risk with respect to sawmill dust. We work proactively with WorkSafeBC and the industry to continuously improve standards in the area of dust mitigation for the industry. Since the mill explosions and fires in the interior of BC in 2012, we have established new, more rigorous standards and procedures and, where warranted, are making investments in engineering controls in our mills regarding dust mitigation in order to maintain a safe work environment for our employees. These new protocols include the implementation of five dust-sampling labs to service our manufacturing operations, the results from which have refined our dust mitigation focus, further mitigating risk. We have conducted over 2,750 dust samples since the inception of our sampling labs.

## **Environment**

The Company's Environmental Policy reflects our values and commitment to the protection of the environment, the prevention of pollution and the sustainability of the resources in our care. The Company works with its employees, contractors, First Nations, government agencies, customers, suppliers and other stakeholders to identify and address issues of environmental concern in all aspects of our forest management and solid wood operations.

Our operations are subject to a wide array of federal, provincial and local environmental legislation regulating water, land and air discharges and solid and hazardous waste management, disposal, transportation and remediation. To oversee and co-ordinate company-wide efforts for compliance with such legislation, our Board of Directors (the "Board") has an Environmental, Health and Safety Committee. Our reporting system is designed to monitor environmental compliance with regulatory requirements, identify environmental issues and to communicate them

to all levels of management and operations, including directly to the Chief Executive Officer and the Environmental, Health and Safety Committee of the Board. In conducting our operations, we minimize environmental impact through sound forestry and environmental management practices that meet or exceed government standards and adhere to an environmental policy based on the following:

- assessing and evaluating environmental risk on an ongoing basis in order to maintain meaningful environmental objectives, targets and effective operational controls;
- allocating sufficient resources to ensure continuing compliance with environmental responsibilities;
- meeting or surpassing all applicable legal requirements;
- establishing audit and reporting procedures to monitor environmental performance, continually improve environmental practices and prevent pollution; and
- communicating this policy and our environmental performance to the public as well as our employees, suppliers and contractors.

### ***Environmental Management***

During 2017, Western's timberlands operations were in substantial compliance with environmental requirements and we have not had any incidents that have had, or are expected to have, a material impact on the environment, the Company or its operations. The manufacturing and processing side of the business employs a rigorous environmental management system targeted at ensuring ongoing regulatory compliance. Our timberlands operate in accordance with the following Environmental Management System and Sustainable Forest Management Systems:

- International Organization for Standardization ("ISO") 14001: all of our timberlands operations are registered to the ISO14001-2004 Environmental Management Systems standard under a single multi-site registration.
- CSA Z809: Five Defined Forest Area's ("DFA") within our timberlands operations are certified to the Canadian Standards Association ("CSA") Z809-2008 Sustainable Forest Management standard under a single multi-site registration. The DFAs cover approximately 74% of the allowable annual cut and 48% of the land base.
- SFI Forest Management and Fiber Sourcing: Two areas not covered by our CSA Z809 certification were certified in 2015 to the SFI 2015-2019 Forest Management Standard under a single multi-site registration. Our SFI Forest Management System covers approximately 26% of AAC and 52% of the land base. In addition, our fibre procurement is certified to the SFI 2015-2019 Fiber Sourcing Standard, single site registration.

Through annual third party audits by PwC Risk Assurance Services, as well as internal audits, we confirm that we remain in conformance with our Environmental Management Systems as certified through the ISO 14001, CSA Z809 and SFI standards. These audits provide important feedback to senior management to ensure that staff, employees and contractors conduct their activities in compliance with the legislation and regulations relevant to the forest products industry. Environmental Management Programs are another tool used to achieve adherence to our environmental policies. Western maintains Chain of Custody ("CoC") certification from processing facilities and through the sales operations. CoC establishes procedures to track the flow of fibre from certified forest operations through transportation and manufacturing to a certified end-product that is delivered to a customer. In 2009, Western added the FSC Chain of Custody Standard and Controlled Wood Standard Program to the long standing Program for the Endorsement of Forest Certification Chain of Custody Standard (PEFC ST 2002-2013) that is maintained. Positioning our operations to address customer needs will drive future certification initiatives.

Since 2008, Western has been in a partnership with BC Hydro to develop a sustainable energy management program. BC Hydro sponsors the energy management program by providing incentive funding to execute our energy management strategy. Since commencement of the program, power savings have improved annually. Primarily through the installation of energy efficient equipment, energy savings were further improved by an estimated 2 GWh in 2017 over 2016.

For additional information, see “Risk Factors – Environmental Regulation” in our MD&A for the year ended December 31, 2017 under the heading “Risks and Uncertainties”.

## Forest Resources

### Fibre Supply

The Company’s fibre requirements are primarily met with logs harvested from its timber tenures and private lands, supplemented by logs purchased on the open market, and log trading activities. The Company also participates in auctions for the purchase of standing timber through BC Timber Sales. In addition, we source fibre through timber harvesting joint ventures and limited partnerships with coastal First Nations. The Company’s fibre supply staff are responsible for ensuring an adequate supply of suitable logs for our manufacturing facilities and for trading or selling the logs not used for Western’s lumber production to both domestic and export markets.

All of Western’s timber harvesting operations are located in the coastal region of BC. In a normal operating year, approximately 97% of the Company’s logging is conducted on government timberlands allocated to us under our TFLs and, to a lesser extent, under our Forest Licences (“FLs”) and Timber Licences (“TLs”). Currently, logging of our private lands has accounted for approximately 3% of Western’s harvest.

Western’s timber tenures consist of multi-species, mixed ecology forest. Our investment in LiDAR mapping and technology has enabled more efficient harvest planning and facilitates our sustainably harvesting the complete profile of the coastal forest.

At the end of 2017 the species distribution of our timber resources was approximately 63% hemlock and balsam, 16% cedar, 16% Douglas fir, 4% yellow cedar and 1% spruce and other minor species. Western’s average harvest production for the past five years matches this profile, being approximately 63% hemlock and balsam, 16% cedar, 16% Douglas fir, 4% yellow cedar, 1% spruce and other minor species.

The available cut, including the AAC of TFLs and FLs, actual net harvest, log supply and log usage for each of the last three years are set out in the following table:

<i>(thousands of cubic metres)</i>	Actual Net Harvest <sup>(1)</sup> Year Ended December 31,			Available Cut <sup>(2)</sup> As at December 31,		
	2017	2016	2015	2017	2016	2015
TFLs	3,719	3,917	4,474	5,324	5,323	5,576
FLs	125	108	115	501	598	598
Other lands (3)	164	396	546	194	194	194
<b>Total</b>	<b>4,008</b>	<b>4,421</b>	<b>5,135</b>	<b>6,019</b>	<b>6,115</b>	<b>6,368</b>
Logs purchased	1,308	1,711	1,280			
Logs consumed	3,541	4,131	3,898			
Logs sold	1,663	2,104	2,598			

(1) The actual net harvest represents total log production with tenure assignment based on the Harvest Billing System. Residue volume, market logging, joint venture volumes and other volumes resulting from external logging agreements that contribute to the total AAC, are not included in the total amounts reported. Forest Licence volume includes third party licence volume that Western has harvested as its own production. Volumes harvested by market loggers amounted to 10,000 m<sup>3</sup> in 2017. Net volumes harvested by joint ventures amounted to 123,000 m<sup>3</sup> from Company tenures. Also, 240,000 m<sup>3</sup> was harvested pursuant to a Forest Licence Utilization agreement.

(2) The available cut for the TFLs and FLs is the AAC determined by British Columbia’s Chief Forester as of December 31 and is not the average for the year. These AACs incorporate any temporary reductions put in place by the Provincial Chief Forester, and do not include volumes of timber available to third parties. See “Timber Available for Harvest” section below for more details.

(3) At December 31, 2017, 144,000 m<sup>3</sup> of available cut is attributed to private managed forest lands outside of TFLs and 50,000 m<sup>3</sup> to TLs outside of TFLs following Forest and Range Agreement (“FRA”) reductions.

Approximately 85% of our 2017 log production originated from Vancouver Island. Per our license requirements, logging is conducted by a combination of Company and contractor operations. Western plans the majority and coordinates substantially all timber production from the various operating sites.

Logs are sorted according to species, size and grade and directed to our sawmills, custom cutting operations and log markets to maximize the return. The pulp log volume produced from Western's timber tenures and private lands, and all residual chips produced from sawmilling operations, are committed under long-term fibre supply agreements. These agreements commonly require the delivery of minimum periodic chip volumes. In addition, Western has a number of long-term commitments for the sale, purchase or trade of saw logs and pulp logs to third parties. Some of the Company's log trade agreements involve the exchange of our logs for residual chips.

Logs are largely transported by water, using contracted towing and barging services, to Western's manufacturing plants and to external customers.

### **Timber Tenures**

Approximately 95% of all forest land in BC is owned by the Province and administered by the Ministry of Forests, Lands, Natural Resource Operations & Rural Development ("MFLNRORD"). Subject to provincial legislation and related regulations and Constitutional obligations to Aboriginal peoples (see "*Risk Factors – First Nations Land Claims*" in our MD&A), rights to harvest timber on such land may be granted on behalf of the Province by the MFLNRORD in the form of timber tenures. Western's timber tenures comprise TFLs, FLs and TLs.

A TFL is a replaceable timber tenure that requires the licensee to manage a specified area of timberland on a sustained yield basis. TFLs are granted for 25-year terms and are replaced by the MFLNRORD every five to ten years with a new TFL with a 25-year term, subject to satisfactory performance by the TFL holder of its obligations. Approximately 90% of the Company's replaceable AAC comes from six TFLs.

TFL 37 was replaced in November 2016 and all other TFLs were replaced between 2009 and 2011.

On January 31, 2007, the Company's private lands were withdrawn from TFLs 6, 19 and 25. The AACs of the three TFLs were reduced as of the withdrawal date to reflect the contribution that these private lands had made to the timber inventory and long-term sustainable productivity of these TFLs. The majority of these private lands are regulated under the *Private Managed Forest Land Act* (British Columbia) as well as other provincial and federal statutes. Western continues to evaluate opportunities to realize the highest-value contribution for such private lands.

Other parts of the Province's timberlands not designated as TFLs are organized into timber supply areas ("TSAs"). FLs are issued within each TSA with the AAC being determined at the TSA level and the overall harvest for the TSA being allocated and managed by the MFLNRORD on a sustained-yield basis. FLs are volume-based tenures that authorize a specified volume of timber to be cut within a specific TSA. FLs generally have a term of 15 years and are replaceable every five to 10 years with a new FL with a term of 15 years, subject to satisfactory performance by the licensee of its obligations.

TLs are area-based tenures with various fixed terms. TLs within a TFL are managed on an integrated basis with other timberlands within the same TFL and the land remains part of the TFL when the TL is harvested. Harvesting from TLs external to TFLs is subject to provincial legislation and related regulations and Constitutional obligations to Aboriginal peoples. At the end of 2017 the Company had 19 TLs external to TFLs.

Western is one of five founding members of the Coast Forest Conservation Initiative ("CFCI"). CFCI is a collaborative effort amongst forest companies working in BC's Central and North Coast. Its purpose is to define and support the development of an ecosystem-based management ("EBM") as part of 2003 Land and Resource Management Plan recommendations. Interim legal objectives for EBM were enacted in 2006 and amended in 2009 with final implementation deferred for 5 years while the concept, intended to be unique to this region, known as the Great Bear Rainforest ("GBR"), was fully defined. The CFCI Companies, along with major environmental groups, delivered a suite of recommendations for consideration by the Province and the First Nations who live in the region. On January 28, 2016 the Province enacted, by Order in Council, the GBR Order. On May 19, 2016, the *Great Bear Rainforest (Forest Management) Act* (the "Act") received Royal Assent in the BC legislature and the Act was subsequently brought into force on December 20, 2016 with an Order in Council (number 974). As a result of the

GBR related legislation the Company's AAC in the GBR area was reduced from 522,774 m<sup>3</sup>/year to 427,005 m<sup>3</sup>/year, effective January 1, 2017. Further, Forest Licence A19244 was subdivided by the Province into two forest licences to ensure timber harvest attributed to the GBR area is wholly contained in licences that only include forest operations in the GBR area.

### **Timber Available For Harvest**

The AACs for TFLs and TSAs are determined by the Chief Forester of the Province ("Chief Forester") and are intended to reflect timber conditions, regional and local economic and social interests, and environmental considerations. Legislation requires the Chief Forester to review sustainable timber harvesting levels in each TSA and TFL in the Province at least every 10 years and to issue a "determination" relating to the same, which may recommend reductions or increases in the AAC of the TSA or TFL. By leveraging the comprehensive forest cover inventory developed through our strategic investment in LiDAR, we can better demonstrate our ability to sustainably harvest our AAC in support of this process. The Chief Forester can also make permanent AAC reductions as a result of land use changes to the land base.

In 2014, TFL 39 and TFL 6 License Agreements were amended for the transfer of TFL 39 Block 4 and the transfer of 202,000 m<sup>3</sup> of AAC from TFL 39 to TFL 6. The transfer, effective January 1, 2015, was requested by Western to streamline management and administration of the contiguous areas of TFL 6 and the former TFL 39 Block 4. On August 29, 2016 the Chief Forester re-determined the AAC for the land base remaining in TFL 39, resulting in a reduction of approximately 253,000 m<sup>3</sup> of available harvest for Western. We expect an AAC determination for TFL 37 in early 2018.

Effective January 1, 2017 the Province amended the *Great Bear Rainforest (Forest Management) Regulation*, leading to a reduction in Western's AAC of 95,769 m<sup>3</sup>.

Under Part 13 of the *Forest Act* (British Columbia) (the "Forest Act"), if the Minister of Forests, Lands and Natural Resource Operations determines that it is in the public interest, the Province can "designate" areas of Crown land for up to 10 years and then suspend or vary permits, licences and plans in force within the designated area. At the same time, the Chief Forester can temporarily reduce the AAC of a timber tenure by an amount attributable to the designated Part 13 area. Part 13 is generally applied in support of land use planning or environmental reserves. There was one Part 13 designation in place on Western tenures in 2016, affecting less than 50 hectares of the approximately 360,000 total hectares of TFL 39, for which no temporary AAC reduction was made.

### **Stumpage Expense**

Stumpage is the fee that the Province of BC charges forest companies for timber harvested from Crown land in BC. Approximately 97% of the timber we harvest is from Crown land. Stumpage is set using the coast version of the Market Pricing System ("MPS"). MPS uses data from winning bids, for timber sold through British Columbia Timber Sales ("BCTS") auctions, in regression equations that predict the market (i.e. auction) value of Crown timber harvested under long-term tenures. The auction value is then adjusted to reflect costs that tenure holders incur such as forest planning and administration and silviculture. Coastal MPS has been updated every two to three years to reflect recent sales data and costs, with the most recent update occurring on December 15, 2017. Stumpage rates are also adjusted quarterly to reflect changes in log prices.

The following table illustrates the relationship of Western's stumpage expenses relative to the total log production from Crown land for each of the last three years. Stumpage expense presented reflects the dollar per cubic metre fee paid to the Province of British Columbia (the "Province") for timber harvested from Crown land and related costs for residue and waste.

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net log production from Crown land ( <i>thousands of cubic metres</i> )	3,880	4,138	4,792
Stumpage ( <i>\$ millions</i> )	\$22.2	\$19.1	\$13.4

Net log production is defined as sorted log production, net of harvesting residuals and waste.

## **Forest Management**

Western manages its Crown-land forest tenures and its privately-owned forest lands according to sustainable forest management principles, which include a commitment to meeting government standards. As part of the rights and responsibilities that accompany Western's Crown tenures, staff carry out or supervise pre-harvest planning, road-building and harvesting operations and follow-up silviculture treatments to establish free-growing stands of trees.

Pre-harvest planning includes a wide spectrum of activities from the collection of inventory and assessment data to the development of higher-level Management Plans for TFLs and Forest Stewardship Plans for specific planning results and strategies for operations within TFLs, FLs and TLs. These plans take into account a broad range of timber and non-timber factors, including but not limited to: wildlife, fisheries, water quality, soil sensitivity, terrain stability, visual quality, biodiversity, archaeological sites and cultural features, cave and karst features, timber species distribution and value. These higher-level plans provide direction for the development of site-specific plans and lead to the applications for specific road-building and harvesting permits.

In 2017, the Company harvested timber of 6,943 hectares of land (2016 – 8,374 hectares; 2015 – 9,594 hectares). Following harvest, we ensure all disturbed areas are reforested based on the natural profile of species harvested. We operate the Saanich Forestry Centre, which includes a three million-seedling nursery and a tree seed orchard that produces the select seeds needed to support our reforestation efforts. After reforestation, we conduct follow-up surveys and silviculture treatments to ensure that these harvested areas meet free-growing requirements within specified timelines. Should a developing stand be damaged prior to being declared free-growing, Western is responsible for taking the necessary corrective actions to meet free-growing requirements. Substantially all of these basic silviculture requirements are carried out at our expense. Once young stands reach the free-growing stage, they continue to be monitored for damaging agents such as pests, wind and wildfire, and may be fertilized to ensure that young stands can mature quickly into second-growth forests ready for another harvest.

Our tenures are managed by a staff of registered forest professionals who are involved in cut permit planning, road, bridge and forest inventory development, harvesting, silviculture and forest health and protection programs.

The forests on our timber tenures are at risk of damage from natural and human-caused forest fires. To deal with this hazard, we have equipment and trained personnel ready to handle initial attack and fire suppression. We are also required to pay a fire preparedness levy to the MFLNRORD each year. Should a fire start as a result of our activities, and we did not willfully cause or contribute to the start or the spread of the fire by our act or omission, payment of this fee means that we will not be charged for any MFLNRORD initial attack costs or the fire suppression costs associated with the wildfire once the MFLNRORD has assumed fire control. Further, Western will not be charged for damages to Crown resources if the Company has been duly diligent. We remain responsible for fire-fighting on our private lands, whether inside or outside of TFLs, regardless of origin or cause. Western has entered into a cost-sharing agreement with the Crown for our private lands that will reduce individual incident costs of mobilizing helicopters and aerial water tankers.

## **Manufacturing Facilities**

We own and operate seven sawmills and one remanufacturing facility in BC, and a distribution and processing centre in Arlington, Washington. Our high-quality timber supply and the flexible manufacturing capabilities of our sawmills enable us to produce appearance-grade products (those used in decks, paneling, fencing, fascia, siding and doors, for example), and specialty structural products for markets around the world. The species and products produced typically command premium prices compared to commodity construction grades, such as SPF 2x4 lumber. Much of the softwood timber supply in North America is not capable of producing our specialty products.

Our operating sawmills and remanufacturing facility are all located on Vancouver Island on land we own. All of Western's sawmills have adjacent water lots that are leased from the Province or a public Port Authority and some have barge and dock loading facilities to handle water-borne shipments of sawmill products. Our sawmill configuration provides significant flexibility, enabling us to change cut programs and log flows between different sawmills to maximize margins based on market demand.

Our Value-Added Remanufacturing facility specializes in value-added processes for all species and provides additional kiln-drying and planer capacity for our primary sawmills. We have a total of 37 kilns located at our facilities

with an annual lumber drying capacity of about 240 million board feet per year. As part of our marketing and manufacturing strategy, we continue to review the requirement to invest in additional kiln capacity. The Arlington distribution and processing facility will be used as a centralized specialty products distribution centre. We have commenced capital improvements to the Arlington location processing facilities to increase the percentage of finished products offered by Western in the US market.

In addition to lumber manufacturing and re-manufacturing at our own facilities, Western also operates a division known as "Custom Cut". The Custom Cut division focuses on converting logs to lumber on a custom basis to customer specifications. Western's Custom Cut customers may purchase a specific volume of selected lumber products, or acquire all the lumber products which are cut from a defined volume of logs. Custom Cuts are typically conducted at third-party manufacturing facilities in the Lower Mainland of BC using logs either harvested by Western or acquired on the open market. Alternatively, Custom Cuts may be conducted at Western's own sawmill facilities in situations where the customer specifications are compatible with mill capacities. Custom Cuts are routinely performed on Western's major species and are the primary method of manufacture for our yellow cedar logs.

The current log processing capability, annual lumber production capacity, actual sawmill lumber production for our sawmills in each of the last three years, and mill locations are set out in the following table:

<i>(MMfbm)</i>	<b>Smallest Log Diameter Processing Capability</b>	<b>Capacity<sup>(1)</sup></b>	<b>Production</b>			<b>Location</b>
			<b>Year ended December 31,</b>			
<b>Mill</b>			<b>2017</b>	<b>2016</b>	<b>2015</b>	
Ladysmith	4" diameter log	130	89	95	85	Ladysmith, BC
Cowichan Bay <sup>(2)</sup>	6" diameter log	215	175	182	163	Duncan, BC
Saltair	6" diameter log	240	198	206	183	Ladysmith, BC
Alberni Pacific	15" diameter log	175	85	147	153	Port Alberni, BC
Duke Point <sup>(3)</sup>	15" diameter log	90	91	75	56	Nanaimo, BC
Chemainus	15" diameter log	130	108	118	113	Chemainus, BC
Somass <sup>(4)</sup>	15" diameter log	90	4	40	37	Port Alberni, BC
		<b>1,070</b>	<b>750</b>	<b>863</b>	<b>790</b>	
Custom Cut	varies	n/a	59	80	101	multiple
<b>Total</b>		<b>1,070</b>	<b>809</b>	<b>943</b>	<b>891</b>	

- (1) Based on two shifts and 250 operating days, except Chemainus at three shifts.
- (2) Cowichan Bay capacity previously reported on a nominal basis, updated to reflect a sales count basis to be consistent with Western's other facilities and our peers.
- (3) Production remained low until 2016 as the Company assessed and executed capital plans to modernize the Duke Point sawmill.
- (4) Somass operated on a single shift basis until it was temporarily curtailed in February 2017, effectively reducing operating capacity to approximately 5 MMfbm in 2017. Somass was indefinitely curtailed in July 2017 due to a lack of log supply to operate the mill efficiently.

Our sawmills have a total annual production capacity of approximately 750,000 volumetric units of wood chips. Residual chips and wood residue from our manufacturing operations are sold under long-term fibre supply agreements. We also trade logs with third parties to secure preferred logs and chips or for cost benefit. The wood chip supply and usage for each of the last three years from our operations are set out in the following table:

<i>(thousands of volumetric units)</i>	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Wood chips produced	518	598	550
Wood chips purchased	275	276	292
<b>Total wood chips sold</b>	<b>793</b>	<b>874</b>	<b>842</b>

- (1) Production includes chips produced from whole-log chipping.

## Sales, Marketing and Distribution

Western's lumber products are marketed by our sales and marketing division, which is based in Vancouver, BC, and has one office in Tokyo, Japan, and a representative office in Shanghai, China. Lumber sales into the United States are made directly to select customers, including lumber distributors and major lumber retailers. Our sales into the Japanese market are serviced both from our Vancouver sales office, where we sell directly to large Japanese companies with foreign trade expertise, and also through our marketing organization located in Japan, which sells to wholesale and manufacturing customers. Our China lumber sales are made through a combination of direct sales and local Canadian wholesalers.

In addition, the sales and marketing division liaises directly with the consumers of our lumber products. Western adjusts sawmill processing programs in order to customize products to meet the specific requirements of changing market conditions. Our order file is approximately six weeks on average, which allows us to manage our risk.

While a significant percentage of our logs and lumber are sold in Canada, a majority of these sales are further processed by our customers for sale to global markets. Sales to the US market consist of a wide range of products from high-quality western red cedar and hemlock used for appearance end-uses, to structural dimension lumber. We offer a comprehensive line of high-quality products for the Japanese traditional home segment including a line of hemlock products with high structural values which have been approved by Japanese government agencies. Our focus in Europe is western red cedar and kiln-dried, high-quality specialty products used predominantly in the United Kingdom, Belgium, Germany, France and Italy. Western's business to China is focused on commodity lumber used for construction and further remanufacturing. In addition, products are sold to customers that produce components and finished wood products for export to Japan, Europe and the US. Approximately 20% of our lumber products are currently sold kiln-dried.

Based on the known origin of the customer, the distribution of the Company's sales by geographic area by product line for each of the last three years is set out in the following table:

		Year ended December 31,		
		2017	2016	2015
<i>(millions of dollars)</i>				
<b>Lumber</b>	Canada	164.0	202.9	184.8
	US	284.4	289.6	221.6
	Japan	153.0	168.9	170.2
	China	146.2	123.7	106.9
	Other	79.7	61.5	48.9
	Europe	30.9	37.0	37.6
		858.2	883.5	770.0
<b>Logs, saw</b>	Canada	122.8	132.4	124.6
	China	74.8	72.5	61.7
	Other	2.0	11.8	33.7
<b>Logs, pulp</b>	Canada	15.2	18.2	23.2
	US	-	0.6	-
		214.8	235.6	243.1
<b>By-products</b>	Canada	70.4	68.2	68.8
<b>Total Sales</b>		<b>1,143.4</b>	<b>1,187.3</b>	<b>1,081.9</b>
% of Saw logs Consumed Internally <sup>(1)</sup>		74%	73%	66%

(1) Defined as the volume of saw logs consumed by our sawmills and custom cutting operations, as a percentage of saw logs consumed plus external log sales.



Western's locations on the coast of British Columbia and in Washington allow for efficient, cost-effective access to world markets. Lumber is delivered to customers by various means including ocean-going vessel, barge, rail and truck.

In a normal operating year there is seasonality to the Company's operations with higher lumber sales volumes in the second and third quarters when construction activity in North America is at its peak. 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 which can restrict our ability to harvest.

## **Competition**

To a great extent, lumber is a commodity and the market is cyclical. We compete both domestically and internationally with a large number of forest products firms, ranging from very large integrated firms to smaller specialty companies. Western also competes indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. The market for lumber is highly competitive and sensitive to cyclical changes in industry capacity and the economy, both domestically and internationally. Our selling prices and profitability may be impacted by global economic changes that alter the consumption of lumber.

Our competitive position is influenced by the availability, quality and cost of fibre, labour, and energy, and our plant efficiencies and productivity in relation to our competitors. Western is the largest timber tenure holder and producer of lumber in the BC coastal region. The diversity of species and high quality of wood enables the Company to produce high-quality appearance products as well as specialty structural products for a variety of uses. Western is also a leading producer of western red cedar specialty products. To a certain extent, the Company can use the flexibility of its operating platform and variety of species to shift production to markets according to global market conditions, limiting or growing exposure to various markets and products within the constraints of the long-term balance of the various species in our timber supply.

## **Softwood Lumber Trade**

The last softwood lumber agreement ("SLA"), a managed trade arrangement with the US, came into effect on October 12, 2006 and expired on October 12, 2015. A one year standstill from trade action in softwood lumber with the USA commenced on October 13, 2015 and expired on October 12, 2016. During the standstill no duties were collected and there were no shipment restrictions to the US.

On November 25, 2016, a petition was filed by a coalition of US lumber producers to the US Department of Commerce ("DoC") and the US International Trade Commission ("ITC") requesting an investigation into alleged subsidies provided to Canadian lumber producers.

On January 6, 2017, the ITC announced a preliminary determination that found there was "reasonable indication" the US industry was materially injured by imports of softwood lumber products from Canada. The Canadian forest products industry and Canadian Federal and Provincial governments strongly deny these assertions which have previously been disproved in international courts.

On April 24, 2017, the DoC announced a preliminary countervailing duty ("CVD") of 19.88% for "all other" Canadian lumber producers including Western, effective April 28, 2017, and on June 26, 2017, the DoC announced a preliminary "all other" anti-dumping duty ("AD") rate of 6.87% effective June 30, 2017. The DoC also made preliminary determinations on critical circumstances in April that resulted in 90-day retroactive application of CVD from January 28 to April 27, 2017, and AD from April 1 to June 29, 2017.

The preliminary CVD was applicable from April 28, 2017 through August 25, 2017, after which it was suspended pending final determinations by the DoC and the ITC.

On November 2, 2017, the DoC announced final determinations in its CVD and AD investigations, concluding that critical circumstances did not exist for CVD, but did exist for AD.

On December 7, 2017, the ITC made an affirmative final determination that softwood lumber from Canada materially injured the US lumber industry. The ITC also concluded that critical circumstances did not exist for AD. The final rates communicated by the DoC on November 2, 2017 became effective December 28, 2017.

On January 3, 2018, 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, for a combined rate of 20.23%.

During 2017, the Company recorded export tax expense of \$15.8 million (2016: \$nil), which includes a recovery of \$3.5 million due to the difference in preliminary and final rates for CVD and AD deposits.

## **Stakeholder Engagement**

The Company engages a broad array of stakeholders in all areas of its business, through formal frameworks built into the Provincial and Federal regulation to which it adheres, including but not limited to the *Forest Act* and various First Nations legislation, agreements and treaties.

## **First Nations Relations**

Western operates within the known traditional territories of approximately 45 First Nations on Vancouver Island and the Mainland Coast. Western has developed and will continue to develop positive working relationships with many of these First Nations through timber harvesting, silviculture, planning and other mutually beneficial arrangements.

Current Provincial policy requires forest management and operating plans to consider all assertions of aboriginal rights and title (whether proven or unproven). These considerations take place through a consultation process and while the Province is responsible for such consultation, industry is often involved. While operating in areas subject to First Nations claims, the forestry industry considers potential impacts to Aboriginal rights and title through an information sharing process. The terms of the timber tenures provide that the Province may refuse to issue cutting permits in respect of a timber tenure if it is determined that the forestry operation would unjustifiably interfere with Aboriginal rights and title. If a First Nation is opposed to a forest tenure or other operating authorization, they can slow or restrict the Province from granting the application by citing inadequate consultation. This can be the case where decisions may affect lands claimed in the ongoing treaty process or within their traditional territories.

The Province continues to engage many First Nations for the purposes of entering into formal agreements or, with the federal government, a modern treaty. In an effort to be prepared for the impacts of Provincial government-to-government agreements with First Nations, in 2009 Western developed a Communications Protocol with the Province’s Ministry of Indigenous Relations and Reconciliation. That Protocol remains in effect today.

The potential impacts of both government-to-government agreements with First Nations and treaty negotiations are identified below. In addition, Company efforts in building positive working relationships with First Nations are noted.

### ***Potential Impacts of Government-to-Government Agreements***

As part of the Province’s First Nations Forest Strategy, the Province has negotiated Forest Consultation and Revenue Sharing Agreements with a majority of First Nations, many of whose traditional territories overlap with Western’s operating areas. These agreements provide a process, and some guaranteed base funding, to support forestry-related consultation activities, as well as a revenue stream derived from stumpage collected in a First Nation’s asserted traditional territory.

In December 2009, the Province of British Columbia and several First Nations from the southern Central Coast (Nanwakolas First Nations) signed a Strategic Engagement Agreement (“SEA”) to manage referrals on resource projects proposed within their asserted traditional territories. The SEA has been renewed twice, most recently in July 2016, with five Nanwakolas member First Nations now participating in the SEA. In July 2011, the Province signed a Reconciliation Protocol (“RP”) with the Nanwakolas First Nations to provide direct opportunities for economic development, including forestry. Since entering into the agreement, the RP has been amended five times, the most recent being in May 2016, which included further commitment by the Province with respect to forestry. In 2013, Western came to agreement with the Nanwakolas First Nations to harvest and purchase the timber volume

on Vancouver Island, within TFL 39. A second agreement to harvest and purchase timber volume was concluded in 2017.

The Province has committed to fully adopting the United Nations Declaration on the Rights of Indigenous People (UNDRIP), the Calls to Action of the Truth and Reconciliation Commission, and the Tsilqhot'in decision. At this time, the government is working collaboratively with First Nations to establish a cross-government vision of how these items can be adopted into policies, programs and legislation.

### ***Potential Impacts as a Result of Court Action***

In June 2014, the Supreme Court of Canada (the "Court") released its decision on the aboriginal title claim by the Tsilqhot'in First Nation, regarding land outside their traditional reserve area. The Court recognized Tsilqhot'in title to the area in dispute, including rights to decide how the land will be used, occupancy, and economic benefits. The court ruling held that while the Province had the constitutional authority to regulate forest activity on Aboriginal title lands, it had not adequately consulted with the Tsilqhot'in.

While the decision does not directly impact Western's business as we do not have tenure in this disputed area, we do operate on Crown tenures elsewhere that are subject to claims of Aboriginal title. The potential impact on Western's tenure holdings is not ascertainable at this stage. The Court's direction is consistent with our objective of establishing positive working relationships with the First Nations that have traditional territories which overlap our tenures. We will continue to develop and maintain relationships with First Nations, to operate respectfully and responsibly within their traditional territories, and to create business opportunities for partnerships, tenures, and employment wherever possible.

In January 2017, the Nuchatlaht First Nation ("Nuchatlaht") filed a Notice of Civil Claim against Canada, the Province of British Columbia and Western, seeking a declaration of Aboriginal title to a claim area that encompasses the northern half of Nootka Island. The claim area encompasses Western's Forest Licence A19231 and certain timber licences held by Western. Each of the Province, Canada and Western have filed a response to the Notice of Civil Claim. In the fall of 2017, a case management judge was appointed by the court to oversee the proceedings. In December 2017, Nuchatlaht filed an Amended Notice of Civil Claim that included significant changes to their original claim.

### ***Potential Impacts as a Result of Treaty Negotiations***

On April 1, 2011, the *Maa-nulth First Nations Final Agreement Act* extinguished Western's tenure and permit rights on a portion of TFL 44. The creation of Treaty Settlement Lands and an associated "protected area" included in the treaty resulted in the AAC of the TFL being permanently reduced by 104,000 m<sup>3</sup>. At the end of 2015, Western filed a Notice of Arbitration with the Province to define and establish compensation for the treaty impacts. On October 21, 2016, Western announced that the Province had agreed to compensate Western in the amount of \$14.1 million for the partial tenure extinguishment that resulted from the treaty.

On March 14, 2013 the Province passed the Tla'amin Final Agreement Act, and the treaty with Tla'amin First Nation came into effect on April 5, 2016. The treaty impacted approximately 540 hectares within TFL 39 Block 1, and the AAC was reduced by 3,897 m<sup>3</sup> on the effective date. Western negotiated and received payment in December 2012 for the sale of infrastructure (roads and bridges) and related soft assets in the deleted area.

In 2012, the Province offered treaty settlement lands to the 'Namgis First Nation, the transfer of which would result in a significant AAC reduction for TFL 37. In 2015, Western entered into a Limited Partnership agreement with the 'Namgis to harvest timber from the proposed Treaty Settlement Lands. The 'Namgis community rejected the Agreement-in-Principle ("AIP") in 2015, but government to government discussions are ongoing.

On March 24, 2012, the K'ómoks First Nation Agreement-in-Principle ("AIP") was signed by the K'ómoks Nation ("K'ómoks") and Provincial and Federal governments. The AIP included a commitment for the Province and K'ómoks to explore opportunities for K'ómoks to receive a commercially sustainable volume of timber before a Final Agreement. The AIP land package included approximately 50 hectares of land which overlaps with TFL 39, Block 2. Until a Final Agreement is concluded, it is not possible to determine the full extent of any impact on Western or our tenures.

Treaty negotiations continue with other First Nations whose traditional territories overlap with Western's tenures, and we continue to engage with the Province to stay apprised of any potential impacts.

Western continues to work to build long-term business relationships with First Nations communities. Western has formed limited partnerships with the Quatsino and 'Namgis First Nations for harvesting activities on defined timber volumes. Western has also entered into various harvesting and timber purchase agreements with the Kitasoo-Xai'xais, Heiltsuk, Nuchatlaht, Tseshaht, and Huu-ay-aht First Nations.

## **Human Resources**

As of December 31, 2017, Western had 2,236 employees (of whom 1,680 are unionized employees). The majority of the unionized employees are represented by the United Steel Workers ("USW"), who have two collective agreements with the Company. The USW Master Agreement represents approximately 1,500 Western employees and expires on June 14, 2019. The collective agreement with the office clerical employees (4 employees) expires on December 31, 2019.

The remaining unionized employees are represented by the Public and Private Woodworkers of Canada ("PPWC"). The PPWC collective agreement for the Ladysmith Sawmill (74 employees) will expire on December 31, 2019. The collective agreement for the Value-Added Remanufacturing Operation (67 employees) will expire on October 14, 2021. The Company reached an agreement with the Canadian Merchant Service Guild to eliminate the last Guild position in the Company.

Approximately 70% of our harvesting activities are performed by contractors. The majority of the contractors have replaceable contracts under the *Timber Harvesting Contract and Subcontract Regulation (British Columbia)*. The majority of the employees who work for the contractors harvesting our tenures are represented by the USW.

## **Research and Development**

Silviculture and tree improvement research is conducted primarily by cooperating universities and government agencies with the help of our Saanich Forestry Centre employees (the "Forestry Centre") and from the Company's timberlands office in Campbell River. The Forestry Centre has seed orchards that supply most of our seeds and a seedling nursery that provides a third to a half of our annual seedling requirements. Our participation in Provincial tree breeding programs ensures the selection and breeding of parent trees with superior growth and form that should improve the quality and quantity of our timber over time.

The Company's logging and sawmilling operations also assess new equipment and methods for the potential to improve our operational efficiency and maintain environmental performance. Recent initiatives have included the application of auto-grading technology to the diverse coastal species mix and tethered logging trials to improve both safety and efficiency of our steep-slope coastal logging operations.

## **RISK FACTORS**

A detailed discussion of risks and uncertainties that may have a material adverse effect on our operations is included in our Management's Discussion & Analysis for the year ended December 31, 2017 under the heading "Risks and Uncertainties". That material is incorporated herein by reference and available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). These risks should be considered in the context of our business, which is described in the Annual Information Form under the headings "*Development of the Business*" and "*Business of the Company*".

## CAPITAL STRUCTURE

### **Share Capital**

Western's authorized capital consists of an unlimited number of Common Shares, and an unlimited number of Preferred Shares. As of the date hereof, 395,036,092 Common Shares are issued and outstanding.

There are no Preferred Shares issued and outstanding.

### ***Common Shares***

The Common Shares entitle the holders thereof to one vote per Common Share.

### ***Preferred Shares***

The Preferred Shares are non-voting and may, at any time or from time to time, be issued in one or more series, and the directors may, by resolution, fix the number of Preferred Shares in, and determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series. Before issuing Preferred Shares of a series, the directors must file articles of amendment with the Director appointed under the Canada Business Corporations Act. Preferred Shares of each series rank on a parity with the Preferred Shares of every other series with respect to priority in the payment of dividends and in the distribution of our assets in the event of our liquidation, dissolution or winding-up or any other distribution of our assets among shareholders for the purpose of winding-up our affairs.

If Preferred Shares were outstanding, the holders of such shares would be entitled to priority over the Common Shares with respect to the payment of dividends and the distribution of our assets on a liquidation, dissolution or winding-up or other distribution of our assets for the purpose of winding-up our affairs. The Preferred Shares of each series may be given such other preferences not inconsistent with the above over the Common Shares as may be determined in the case of each series authorized to be issued.

Except as otherwise required by law, the holders of the Preferred Shares are not entitled to receive notice of or to attend or to vote at any meeting of shareholders of Western. There are currently no Preferred Shares outstanding.

### **Dividends**

The payment of dividends on the Company's Common Shares is at the discretion of the Board and depends on the Company's financial condition, the need to finance capital expenditures, financial covenants in credit agreements and other factors the Board may wish to consider. Commencing in the third quarter of 2013, the Company initiated a regular quarterly dividend program. On an annual basis, dividends of \$0.08 per share were paid in each of 2017, 2016 and 2015.

The Company's revolving term facility contains various financial covenants, of which certain distributions, including dividends, are permitted within the agreement but are subject to a fixed charge coverage ratio calculation.

### **Normal Course Issuer Bid**

During 2017, the Company received approval to purchase and cancel up to 19,778,383 common shares, representing approximately 5% of the Common Shares issued and outstanding as at August 1, 2017, through a normal course issuer bid, beginning on or after August 8, 2017 and ending no later than August 7, 2018. During 2017, Western purchased 1,079,000 Common Shares under this bid at an average price of \$2.50 per common share. Shareholders may obtain a copy of the Company's normal course issuer bid notice, without charge, by contacting the Company.

## MARKET FOR SECURITIES

### Trading Price and Volume

The Common Shares are listed on the Toronto Stock Exchange (“TSX”) under the symbol “WEF”. The following table sets out the price range and trading volumes of the Common Shares on the TSX for each month of 2017:

<b>Month</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume</b>
January	1.91	1.79	25,033,900
February	2.21	1.85	28,451,800
March	2.20	2.03	16,849,300
April	2.29	2.04	19,401,000
May	2.24	2.07	14,263,700
June	2.35	2.13	15,132,200
July	2.60	2.30	17,118,800
August	2.70	2.43	17,219,400
September	2.84	2.57	26,701,600
October	2.75	2.57	12,989,600
November	2.72	2.39	14,212,000
December	2.56	2.36	9,025,300

## DIRECTORS AND OFFICERS

Western's articles provide that the Board is to consist of a minimum of three directors and a maximum of 15 directors. Western currently has seven directors.

At each annual meeting of the Company's shareholders, the entire Board retires and directors are elected for the next annual term. Each director serves until the close of the next annual meeting (being May 3, 2018) or until his or her successor is elected or appointed, unless his or her office is earlier vacated in accordance with the Company's articles or the provisions of the CBCA. Not less than 25% of the members of our Board are required to be resident Canadians, in accordance with the CBCA. Western's officers serve at the discretion of the Board.

### **Directors**

The table below sets out Western's directors as of February 15, 2018, their municipalities of residence, principal occupations during the past five years and the period during which they have served as directors.

Name and Municipality of Residence	Principal Occupation	Director Since
<b>JAMES ARTHURS</b> <sup>(1)(2)(3)(4)</sup> North Vancouver, BC, Canada	Executive Vice President, Westport Fuel Systems Inc.	July 27, 2004
<b>JANE BIRD</b> <sup>(3)(4)</sup> Vancouver, BC, Canada	Senior Business Advisor, Bennett Jones	August 4, 2015
<b>DONALD DEMENS</b> Vancouver, BC, Canada	President and Chief Executive Officer, Western	February 21, 2013
<b>LEE DONEY</b> <sup>(2)</sup> Victoria, BC, Canada	Corporate Director	July 27, 2004
<b>DANIEL NOCENTE</b> <sup>(1)(3)(4)</sup> Vancouver, BC, Canada	Corporate Director	May 8, 2014
<b>J. BARRIE SHINETON</b> <sup>(2)(3)</sup> Toronto, ON, Canada	Corporate Director	January 19, 2015
<b>MICHAEL T. WAITES</b> <sup>(1)(2)(4)</sup> Vancouver, BC, Canada	Corporate Director	November 13, 2014

(1) Member of the Audit Committee.

(2) Member of the Environmental, Health and Safety Committee.

(3) Member of the Management Resources and Compensation Committee.

(4) Member of the Nominating and Corporate Governance Committee.

Each director has held the same or similar principal occupation with the organization indicated or a predecessor thereof for the last five years except as follows:

- Jane Bird was an attaché to Canada's Department of Foreign Affairs, International Trade and Development in London, UK, from August 2013 to February 2015 and before that Chief Executive Officer of Columbia Power Corporation
- Donald Demens was President of Western from July 2012 to February 2013, and Chief Operating Officer of Western prior to July 2012
- J. Barrie Shineton was President and Chief Executive Officer of Norbord Inc. prior to January 2014
- Michael T. Waites was President and Chief Executive Officer of Finning International Inc. prior to June 2013

## Officers

The table below sets forth the names, municipalities of residence and positions with Western of the officers of Western as of February 15, 2018, and the principal occupation of each of them during the past five years.

<b>Name and Municipality of Residence</b>	<b>Executive or Other</b>	<b>Position Held With Western</b>
<b>DONALD DEMENS</b> Vancouver, BC, Canada	Executive	President and Chief Executive Officer
<b>RICK FORGAARD</b> Blaine, WA, USA	Executive	Vice President, Manufacturing
<b>JENNIFER FOSTER</b> North Vancouver, BC, Canada	Executive	Vice President, Human Resources
<b>ALYCE HARPER</b> Vancouver, BC, Canada	Other	Senior Director Legal & Corporate Secretary
<b>SHANNON JANZEN</b> Ladysmith, BC, Canada	Executive	Vice President and Chief Forester
<b>BRADLEY KIRKBRIDE</b> Vancouver, BC, Canada	Executive	Vice President, Sales and Marketing
<b>ROBERT REGNER</b> Lantzville, BC, Canada	Executive	Vice President, Timberlands
<b>STEPHEN WILLIAMS</b> North Vancouver, BC, Canada	Executive	Executive Vice President and Chief Financial Officer
<b>DALLYN WILLIS</b> Vancouver, BC, Canada	Other	Senior Director, Finance & Administration

All of the executive officers have held their present positions or other executive positions with the Company during the past five years, except as follows:

<b>Executive Officer</b>	<b>Western Executive Officer Since</b>	<b>Past Position(s)</b>
Rick Forgaard	October 2014	GM, US Operations for Interfor Corporation
Jennifer Foster	December 2015	Vice President, Human Resources for Stackpole International
Shannon Janzen	January 2015	Manager, Strategic Planning for Western until July 2013, and Chief Forester for Western until January 2015
Bradley Kirkbride	May 2017	President, Mary's River Lumber Company (Corvallis, OR)
Robert Regner	October 2017	Region Operations Manager, Northern US & Canada for Halliburton Energy Services ("Haliburton") until January, 2015; Region Operations Manager, Europe & Sub-Saharan Africa for Haliburton until July 2016; Director, Global Operations for Haliburton until September 2017
Stephen Williams	October 2014	Vice President, Finance & Administration for Interfor Corporation

## **Shareholdings of Directors and Executive Officers**

As at February 15 2018, the directors and executive officers as a group owned, directly or indirectly, or exercised control or direction over 626,592 Common Shares, which represented less than one percent of the Company's outstanding Common Shares.



## AUDIT COMMITTEE

The Audit Committee was established to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the accuracy and completeness of our financial statements;
- (b) our internal control and financial reporting systems;
- (c) the selection and activities of our external auditor;
- (d) risk management; and
- (e) our compliance with legal and regulatory requirements.

The Committee is responsible for the oversight of financial reporting and disclosure, annual and quarterly review of financial statements, and the related management's discussion and analysis and earnings release, and oversight of internal controls and disclosure procedures. The Committee also recommends the appointment of our external auditors, reviews the annual audit plan and auditor compensation, approves non-audit services provided by the external auditor, reviews hiring policies regarding former staff and auditors and reviews the adequacy of our risk management policies and procedures. The Committee is also responsible for establishing procedures for handling complaints and employee concerns regarding accounting and auditing matters.

The Audit Committee has adopted a charter that reflects these and other responsibilities. The charter as most recently approved by the Board is attached as an appendix to this Annual Information Form.

### Composition of and Education and Experience of Members of the Audit Committee

The Audit Committee is composed of three directors, being, as of February 15, 2018, James Arthurs (Chairman), Michael T. Waites (Vice-Chairman) and Daniel Nocente. The Board has determined that all three members of the Audit Committee are independent and financially literate under the standards established by Canadian securities regulatory authorities in National Instrument 52-110 *Audit Committees*. During 2017, the Audit Committee met four times.

### Relevant Education and Experience

**James Arthurs – Chairman** – Mr. Arthurs is Executive Vice President, Electronics Group for Westport Fuel Systems Inc., a developer and supplier of natural gas engine technologies and a member of the board of directors of Cummins Westport Inc. Mr. Arthurs was Chairman of Cummins Westport Inc. from 2015 to 2017 and of Cummins Westport Inc. from 2012 to 2013. He was Executive Vice President, Heavy Duty Systems for Westport Innovations Inc. from 2014 to 2017, and Vice President, Cryogenic Systems for Westport Innovations Inc. from 2011 to 2012. Previously, he was a Managing Partner with i3 Transition Partners, a Vancouver-based management consulting firm. Prior to this, Mr. Arthurs was Senior Vice President, North American Operations, Integrated Paving Concepts Inc., a manufacturer of equipment, tooling and high technology coatings for the decorative asphalt industry from 2004 to 2009. He was Managing Director, Operations, for The Jim Pattison Group, one of Canada's largest privately-held companies, from 2002 through 2004. Mr. Arthurs holds a Bachelor of Science degree in Computer Science from the University of Calgary. He is a member of the Institute of Corporate Directors.

**Michael T. Waites – Vice-Chairman** – Mr. Waites served as President and CEO of Finning International Inc. from 2008 through to retirement in 2013. Prior to that, Mr. Waites was Executive Vice President and CFO of Finning. He has also held senior positions with Canadian Pacific Railway and Chevron Canada Resources. Mr. Waites holds a Bachelor of Arts (Honours) in Economics from the University of Calgary, a Master of Business Administration from Saint Mary's College of California, and a Master of Arts, Graduate Studies in Economics from the University of Calgary. He has also completed the Executive Program at the University of Michigan Business School.

**Daniel Nocente** – Mr. Nocente currently sits on the Vancouver Coastal Health Board and is Chairman of its Audit Committee, and is the Chairman of Savary Gold Inc. Previously, Mr. Nocente held positions of: Vice Chairman of Corporate and Investment Banking with National Bank Financial Inc., Vice Chairman and BC Geography Head with RBC Dominion Securities, Director and Audit Committee member of Carmanah Technologies Corporation, Director and Audit Committee Chair with Canada Line Rapid Transit Inc., Chair of St. Paul's Hospital Foundation, Chairman

of the Nature Trust of BC, Vice Chair and Director of Providence Healthcare, Director and Head of the Governance Committee with the Arts Club Theatre Company, and was a member of the YMCA Cabinet. Mr. Nocente holds a Bachelor of Arts degree from the University of British Columbia, a Master's degree in Business Administration from George Washington University in Washington, DC and has completed the Leadership in Professional Services Firms course at the Harvard Business School.

### Pre-Approval Policies and Procedures of Non-Audit Services

The Audit Committee has adopted a policy that requires, in accordance with applicable law, its pre-approval of all non-audit services to be provided by the Company's auditors. The Audit Committee has adopted the following pre-approval policies:

- (a) Annually, the Audit Committee will review a list of audit, audit-related, tax and other non-audit services and recommend pre-approval of these services.
- (b) All additional requests to engage our auditor for other services will be addressed on a case-by-case specific engagement basis. Except as otherwise permitted by applicable law, the engagement may commence only upon approval by the Audit Committee.

### External Auditor Service Fees

The aggregate fees billed for professional services rendered by our auditors, KPMG LLP, to us for the years ended December 31, 2017 and 2016 are as follows:

<i>(\$ thousands)</i>	<b>2017</b>	<b>2016</b>
Audit	545	534
Audit-related	25	24
Taxation	102	252
<b>Total for all services</b>	<b>672</b>	<b>810</b>

#### Description of Services:

- *Audit* includes the audit of the annual financial statements of the Corporation and the review of the Company's unaudited condensed consolidated interim financial statements, prospectus work and accounting consultation.
- *Audit-related* includes audits of the Company's pension plans, supplemental audit and review procedures conducted during the course of the year, and French translation costs.
- *Taxation* consists of tax compliance services and tax planning and structuring.

## LEGAL PROCEEDINGS

In addition to the legal proceedings referred to elsewhere in this Annual Information Form, including in the “*Risks and Uncertainties*” section in our MD&A for the fiscal year ended December 31, 2017, in the normal course of business, Western is subject to a number of claims and legal actions that may be made by customers, suppliers, logging contractors and others in respect of which either provision has been made or no material liability is expected. Where we are not able to determine the outcome of these disputes, no amounts have been accrued in our financial statements.

Other than as disclosed elsewhere herein, we are not aware of any material legal proceedings to which we are a party or to which our property is subject, nor are we aware that any such proceedings are contemplated.

As of the date of this Annual Information Form, no penalties or sanctions material to the Company have been imposed by a court relating to securities legislation or by a securities regulatory authority, a court or regulatory body, and the Company has not entered into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

We are not aware of any material interest, direct or indirect, of any director or executive officer of the Company, any person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, directly or indirectly, more than 10% of the voting rights attached to the Common Shares, or any associate or affiliate of any of the foregoing, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect us.

## **TRANSFER AGENT AND REGISTRAR**

The registrar and transfer agent for our Common Shares is Computershare Investor Services Inc. with registers of transfer offices in Vancouver and Toronto located at 3<sup>rd</sup> Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 and 8<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1, respectively.

## **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business or as otherwise disclosed herein, Western has not entered into any other material contracts within the most recently completed financial year or before the most recently completed financial year (but after January 1, 2002) that are still in effect.

On January 17, 2006, Western executed a 40-year fibre supply agreement with the owners of Howe Sound Pulp and Paper Mill (“HSPP”). As consideration for entering into this long-term fibre supply agreement, the Company received the chip price premium of \$80.0 million, of which a non-refundable \$35.0 million was paid to Western in cash on March 17, 2006. The balance of \$45 million of the chip price premium was set off against the consideration due on the acquisition of the Englewood Logging Division consisting of TFL 37 on Vancouver Island and certain related assets formerly owned by Canfor Corporation. Western granted a security interest in TFL 37 and related assets to the owners of HSPP that may be discharged by Western on the latest of the tenth anniversary of the agreement and the date when 3,000,000 volumetric units of wood chips have been delivered, except in certain circumstances. The Company and the owners of HSPP amended the long-term fibre supply agreement and associated agreements in 2009 and in 2011 with changes effective December 31, 2010. The Company delivered the required minimum volumes of pulp logs and chips in 2017.

## **INTEREST OF EXPERTS**

Our auditors, KPMG LLP, have prepared the audit report attached to our audited financial statements for our most recent fiscal year. KPMG LLP has confirmed that it is independent with respect to the Company within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia as of February 15, 2018.

## **ADDITIONAL INFORMATION**

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, is contained in our management information circular in respect of our most recent annual meeting of shareholders held on May 4, 2017. Additional financial information is provided in our audited financial statements and accompanying Management’s Discussion and Analysis for our most recent fiscal year. Additional information relating to Western is available on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company’s name.

## GLOSSARY OF CERTAIN TERMS

Certain terms used herein are defined below.

“AAC”	Allowable annual cut — the volume of timber which the holder of a tree farm licence or forest licence may harvest under the licence in any given year as determined by the Ministry of Forests, Lands and Natural Resource Operations.
“annual cut”	Timber volume which the holder of a timber licence expects to harvest annually from that licence.
“board feet”	The plural of board foot; a board foot is calculated by multiplying 1” x 12” x 12” = 1 foot board measure gross count. Lumber is then finished (planed/sanded) to a smaller size and sold based on the original gross count. The difference between gross size and net size is approximately 7%.
“forest licence” or “FL”	A licence granted by the Ministry of Forests, Lands, Natural Resource Operations & rural Development which entitles the holder to cut up to a specific volume of timber on government lands.
“ISO”	International Standards Organization.
“m <sup>3</sup> ”	A cubic metre.
“MFLNRORD”	The Ministry of Forests, Lands, Natural Resource Operations & Rural Development of British Columbia.
“MMfbm”	One million board feet measure (see “board feet”).
“Part 13”	Part 13 of the Forest Act, under which the Province of BC may suspend cutting authorities or plans in identified areas in the public interest for a period of time specified in regulations. Also known as “Designated” or “Protected” areas.
“replaceable contract”	Replaceable contract under the Forest Act. An “evergreen” timber harvesting contract that is entered into between a holder of a replaceable licence and a contractor, whereby the contractor is obligated to perform one or more defined phases of timber harvesting within the licence and, if satisfactorily performed, the licence holder is obligated, prior to the expiry of the term of the contract, to offer the contractor a replacement contract on substantially the same terms and conditions as the contract being replaced.
“SPF 2x4 lumber”	2” x 4” kiln-dried random lengths of spruce, pine and fir lumber, which is a North American commodity grade of standard and better dimensional lumber.
“sustained yield”	The yield that a forest can produce continuously (i.e. in perpetuity) at a given intensity of management without impairment of the land’s productivity, with the intent that there will be a balance between timber growth and harvesting on a sustainable basis.
“timber licence” or “TL”	A licence granted by the Ministry of Forests, Lands and Natural Resource Operations entitles the holder to harvest the area over a specified period.
“timber supply areas” or “TSA”	The areas of Province timberland which are not designated as TFLs.
“tree farm licence” or “TFL”	A TFL is a replaceable timber tenure that requires the licensee to manage a specified area of timberland on a sustained yield basis. TFLs are granted for 25-year terms and, subject to satisfactory performance of its obligations under the TFL agreement by the licensee, are replaced by the Minister of Forests, Lands and Natural Resource Operations every five to 10 years with a new TFL with a 25-year term.
“volumetric unit”	Equals 200 cubic feet of wood chips, hog fuel or sawdust.
“wood chips”	Small pieces of wood used to make pulp. The wood chips are produced either from wood-waste in a sawmill or a log merchandiser or from pulp wood cut specifically for this purpose. Wood chips are generally uniform in size and are larger and coarser than sawdust.

## APPENDIX

### WESTERN FOREST PRODUCTS INC. AUDIT COMMITTEE CHARTER

#### 1. Purpose

The Board of Directors (the "Board") of Western Forest Products Inc. (the "Corporation") has established an Audit Committee (the "Committee") to assist the Board in fulfilling its oversight responsibilities regarding:

- (a) the accuracy and completeness of the Corporation's financial statements;
- (b) the internal control and financial reporting systems of the Corporation;
- (c) the selection and activities of the Corporation's internal and external auditors;
- (d) risk management;
- (e) the Corporation's compliance with legal, tax and regulatory requirements; and
- (f) any additional duties set out in this Charter or otherwise delegated to the Committee by the Board.

#### 2. Members

Committee members, including the Committee Chair, shall be appointed annually by the Board based on recommendations of the Nominating and Corporate Governance Committee and shall consist of at least three members of the Board who meet the independence requirements of National Instrument 52-110 - Audit Committees.

All members of the Committee shall be financially literate. While the Board shall determine the definition of and criteria for financial literacy, this shall, at a minimum, include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

#### 3. Duties

The Committee shall have the following duties:

- (a) Financial Reporting and Disclosure
  - (i) *Audited Annual Financial Statements and Annual Information Form*: Review the audited annual financial statements as prepared by management and audited by the external auditors, related management's discussion and analysis ("MD&A") and earnings press releases, and annual information form, for submission to Board for approval.
  - (ii) *Audited Annual Financial Statements for Pension Plans*: Review the audited annual financial statements for the Corporation's pension plans as prepared by management and audited by the external auditors for submission to Board for approval.
  - (iii) *Quarterly Review*: Review the unaudited quarterly financial statements, the related MD&A and earnings press releases for submission to the Board for approval.
  - (iv) *Significant Accounting Practices and Disclosure Issues*: Review with management and the external auditor, significant accounting practices employed by the Corporation and disclosure issues, including complex or unusual transactions, judgmental areas such reserves or estimates, significant changes to accounting principles, and alternative treatments under Canadian GAAP for material transactions. This review process shall be

undertaken in order to have reasonable assurance that the financial statements are complete, do not contain any misrepresentations, and present fairly the Corporation's financial position and the results of its operations in accordance with Canadian GAAP and applicable International Financial Reporting Standards.

- (v) *Compliance*: Confirm through discussions with management and the external and internal auditors whether Canadian GAAP and all applicable laws or regulations related to financial reporting and disclosure have been considered and obtain confirmations from management that Canadian GAAP and all such applicable laws have been complied with.
  - (vi) *Legal Events*: Review any actual or anticipated litigation or other events, including tax assessments, which could have a material current or future effect on the Corporation's financial statements, and the manner in which these have been disclosed in the financial statements.
  - (vii) *Off-Balance Sheet Transactions*: Discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components or revenues and expenses.
  - (viii) *Disclosure Procedures*: Satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted from the Corporation's financial statements and periodically assess the adequacy of those procedures.
- (b) Oversight of Internal Controls
- (i) *Review and Assessment*: Review the adequacy and effectiveness of the Corporation's system of internal control and management information systems through discussions with management and the internal and external auditors.
  - (ii) *Oversight*: Oversee system of internal control, by:
    - Consulting with the internal and external auditors regarding the adequacy of the Corporation's internal controls;
    - Monitoring policies and procedures for internal accounting, financial control and management information, electronic data control and cyber security;
    - Obtaining from management adequate assurances that all statutory payments and withholdings have been made; and
    - Taking other actions as considered necessary.
  - (iii) *Fraud*: Oversee investigations of alleged fraud and illegality relating to the Corporation's finances and any resulting actions.
  - (iv) *Complaint*: Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and for the protection from retaliation of those who report such complaints in good faith.
- (c) External Audit
- (i) *Appointment or Replacement*: Recommend the appointment or replacement of the external auditor to the Board, who will consider the recommendation prior to submitting the nomination to the shareholders for their approval.

- (ii) *Compensation*: Review with management, and make recommendations to the Board, regarding the compensation of the external auditor. In making a recommendation with respect to compensation, the Committee shall consider the number and nature of reports issued by the external auditor, the quality of internal controls, the size, complexity and financial condition of the Corporation, and the extent of other support provided by the Corporation to the external auditor.
- (iii) *Reporting Relationships*: The external auditor will report directly to the Committee.
- (iv) *Performance*: Review with management the terms of the external auditor's engagement, accountability, experience, qualifications and performance. Evaluate the performance of the external auditor.
- (v) *Transition*: Review management's plans for an orderly transition to a new external auditor, if required.
- (vi) *Audit Plan*: Review the audit plan and scope of the external audit with the external auditor and management, and consider the nature and scope of the planned audit procedures.
- (vii) *Audit Plan Changes*: Discuss with the external auditor any significant changes required in the approach or scope of their audit plan, management's handling of any proposed adjustments identified by the external auditor, and any actions or inactions by management that limited or restricted the scope of their work.
- (viii) *Review of Results*: Review, independently from management and without management present, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the external auditor the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment, and any other material communications with management.
- (ix) *Disagreements with Management*: Resolve any disagreements between management and the external auditor regarding financial reporting.
- (x) *Material Written Communications*: Review all other material written communications between the external auditor and management, including the post-audit management letter containing the recommendations of the external auditor, management's response and, subsequently, follow up identified weaknesses.
- (xi) *Interim Financial Statements*: Engage the external auditor to review all internal financial statements and review the results of the auditor's review of the interim financial statements and the auditor's review of the related MD&A independent of and without management present.
- (xii) *Other Audit Matters*: Review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards or that relate to the external auditor.
- (xiii) *Meeting with External Auditor*: Meet with the external auditor independently from management and without management present (1) at least annually to discuss and review specific issues; and (2) as appropriate with respect to any significant matters that the auditor may wish to bring to the Committee for its consideration.
- (xiv) *Correspondence*: Review with management and the external auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies.



- (xv) *Independence*: At least annually, and before the external auditor issues its report on the annual financial statements, review and confirm the independence of the external auditor through discussions with the auditor on their relationship with the Corporation, including details of all non-audit services provided. Consider the safeguards implemented by the external auditor to minimize any threats to their independence, and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the external auditor. Consider the number of years the lead audit partner has been assigned to the Corporation, and consider whether it is appropriate to recommend to the Board a policy of rotating the lead audit partner more frequently than every seven years, as is required under the rules of the Canadian Public Accountability Board.
  - (xvi) *Non-Audit/Audit Services*: Pre-approve, in accordance with applicable law, any non-audit services to be provided to the Corporation by the external auditor, with reference to compatibility of the service with the external auditor's independence.
  - (xvii) *Hiring Policies*: Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor.
- (d) **Risk Management**
- Review and assess the adequacy of the Corporation's risk management policies and procedures with respect to the Corporation's principal business risks and major information technology and cyber-security risk. Review and assess the adequacy of the implementation of appropriate systems, including management information systems, to mitigate and manage such risks, and report regularly to the Board. Review and make recommendations to the Board as necessary regarding the Corporation's insurance program.
- (e) **Tax and Regulatory Compliance**
- Review with management the Corporation's relationship with taxation authorities and regulators, including the timeliness and accuracy of the Corporation's filings with these entities.
- (f) **Related Party Transactions**
- Review with management all related party transactions and the development of policies and procedures related to those transactions.
- (g) **Board Relationship and Reporting**
- (i) *Adequacy of Charter*: Together with the Nominating and Corporate Governance Committee, review and assess the adequacy of the Committee Charter annually and submit such amendments as the Committee proposes to the Board.
  - (ii) *Disclosure*: Oversee appropriate disclosure of the Committee's Charter, and other information required to be disclosed by applicable legislation, in the Corporation's Annual Information Form and all other applicable disclosure documents, including the necessary CEO and CFO certifications relating to annual and interim financial statements, and any management information circular distributed in connection with the solicitation of proxies from the Corporation's security holders.
  - (iii) *Reporting*: Report regularly to the Board on Committee activities, issues and related recommendations.

#### **4. Chair**

The Board will in each year appoint the Chair of the Committee. The Chair shall be financially literate. In the Chair's absence, or if the position is vacant, the Committee may select another member as Chair. In case of an equality of votes on any matter voted on by the Committee, the Chair shall have a second casting vote.

**5. Meetings**

The Committee shall meet at the request of its Chair, but in any event it will meet at least four times a year. Notices calling meetings shall be sent to all Committee members. The external auditor or any member of the Committee may call a meeting of the Committee. The Chair of the Committee shall develop and set the Committee's agenda, in consultation with the other members of the Committee. Each member of the Committee is free to suggest the inclusion of items on the agenda. The agenda and information concerning the business to be conducted at each Committee meeting shall be distributed to the members of the Committee in advance of each meeting to permit meaningful review.

**6. Quorum**

A majority of members of the Committee, present in person, by teleconference, or by videoconference will constitute a quorum.

**7. Removal and Vacancy**

A member may resign from the Committee, and may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to be a director. The Board will fill vacancies in the Committee by appointment from among the directors of the Board in accordance with Section 2 of this Charter. Subject to quorum requirements, if a vacancy exists on the Committee, the remaining members will exercise all its powers.

**8. Experts and Advisors**

In order to carry out its duties, the Committee may retain or appoint, at the Corporation's expense, such independent counsel and other experts and advisors, and on such fee arrangements, as it deems necessary. The Committee shall provide notice to the Nominating and Corporate Governance Committee of its actions in this regard.

**9. Access**

The Committee may have access to and direct contact with any employee, contractor, supplier, customer or other person that is engaged in any business relationship with the Corporation to confirm information or to investigate any matter within the mandate of the Committee.

**10. Secretary and Minutes**

The Chair of the Committee shall appoint a secretary for each meeting to keep minutes of such meeting. The minutes of the Committee will be in writing and duly entered into the books of the Corporation. The minutes of the Committee will be circulated to all members of the Board.

Dated as of May 3, 2017