Western Forest Products Inc.

2017 Third Quarter Report

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three and nine months ended September 30, 2017 to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2017, and our audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2016 (the "2016 Annual Report"), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three and nine months ended September 30, 2017 in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our unaudited condensed consolidated interim financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

Reference is made in this MD&A to adjusted EBITDA[1] and adjusted EBITDA margin[2]. Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expenses), plus amortization of property, plant, and equipment and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted EBITDA as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe adjusted EBITDA and adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

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

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

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

Unless otherwise noted, the information in this discussion and analysis is updated to November 2, 2017.

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

[2] Adjusted EBITDA as a proportion of Revenue

Summary of Selected Quarterly Results [1]

(millions of dollars except per share amounts and where otherwise noted)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Revenue				
Lumber	$ 212.5	$ 235.6	$ 650.9	$ 662.8
Logs	55.5	70.0	158.2	180.5
By-products	17.2	17.1	51.2	51.0
Total revenue	$ 285.2	$ 322.7	$ 860.3	$ 894.3
Operating income prior to restructuring items and other income	25.1	26.2	86.7	86.2
Net income	13.6	16.8	55.4	57.9
Adjusted EBITDA	$ 32.6	$ 35.7	$ 113.7	$ 114.4
Adjusted EBITDA margin	11.4%	11.1%	13.2%	12.8%
Basic and diluted earnings per share (in dollars)	$ 0.04	$ 0.04	$ 0.14	$ 0.15

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

Operating Results

Third Quarter 2017

Record dry conditions on the coast of British Columbia ("BC") disrupted third quarter harvesting operations and limited log availability. We generated $32.6 million of adjusted EBITDA in the third quarter of 2017 despite reduced log availability which impacted log and lumber sales volumes. Our operating income prior to restructuring items and other income was $25.1 million, compared to $26.2 million in the same period last year. Operating income and adjusted EBITDA were reduced by $6.5 million of US duties and a stronger Canadian dollar ("CAD"), which was 4% higher on average against the United States dollar ("USD").

Lumber revenue was $212.5 million, a decrease of 10% from the third quarter of 2016. Price realizations increased 3% from the same period last year as higher market pricing was offset by a weaker sales mix, lower sales volume, the impact of lumber duties and a stronger CAD. Limited log availability, particularly for higher grade cedar logs, negatively impacted our mix of production and reduced our specialty lumber sales mix to 51% from 57% in the third quarter of 2016. We grew shipments to China to capitalize on strong market demand and pricing, and to mitigate the impact of US duties. Overall lumber sales volume decreased by 13%, despite supplementing shipments with a 21 million board foot drawdown of inventory.

Third quarter log revenue was $55.5 million in 2017, a decrease of $14.5 million from the same period last year as higher pricing was more than offset by a 43% reduction in shipments. The reduction in log shipments resulted from lower log availability due to difficult harvest conditions, prioritizing internal consumption, and an opening log inventory that was 41% lower than the comparative period.

By-products revenue was $17.2 million in the third quarter of 2017, as compared to $17.1 million in the same period in 2016. Chip price realizations grew 9% which offset reduced shipments resulting from lower production.

Lumber production was 201 million board feet, down from 248 million board feet in the third quarter of 2016 as log availability limited lumber production. A constrained log supply resulted in downtime or reduced operating hours at our Saltair, Ladysmith and Alberni Pacific sawmills, and our Somass sawmill was indefinitely curtailed.

Third quarter log production was 911,000 cubic metres, 21% lower than the same period last year. Record dry conditions on the coast of BC compounded normal seasonal third quarter harvest challenges. Our helicopter logging production declined by 28% as contractor aircraft, which typically harvest higher value logs, were seconded to the provincial government to assist with forest fires in the BC Interior.

In addition to weather challenges, our log production volume and per unit harvest costs continued to be impacted by reduced operations due to the Englewood train accident, that occurred in April 2017, and a gradual start-up in our Alberni forest operations. Alberni start-up costs incurred in the third quarter included $1.8 million in road construction expenses to access timber for future harvesting.

We supplemented our internal log supply with sawlog purchases of 327,000 cubic metres, a decrease from 415,000 cubic metres purchased in the same quarter last year. Domestic log supply was limited by challenging seasonal harvest conditions.

Freight expense increased by $1.2 million as compared to the third quarter of 2016, due to increased China lumber sales volumes. As previously noted, we continue to capitalize on a growing market and mitigate US duties by increasing lumber sales to China. Lower log sales volume and the positive impacts of a stronger CAD on freight rates largely offset higher costs associated with lumber shipments to China.

Third quarter selling and administration expense increased to $8.6 million in 2017 from $6.5 million in the same period last year. A significant increase in the Company's common share price resulted in an incremental $0.7 million mark-to-market adjustment on the Company's outstanding share units. The Company's common share price appreciated by 14%, as compared to 6% in the same period last year. We incurred incremental costs of $0.6 million in the third quarter relating to Information Technology ("IT") system and related process improvements, including training and other initiatives in support of recently completed implementations of sales, inventory and payroll systems. We have also realized an increase in selling expense from growing our China sales volumes.

Net income for the third quarter of 2017 was $13.6 million, as compared to $16.8 million for the same period of 2016. Improved operating margins and lower finance costs were more than offset by the after-tax impacts of operating restructuring items.

Year to date, September 30, 2017

Adjusted EBITDA was $113.7 million for the first nine months of 2017, as compared to $114.4 million for the same period in 2016. Rising log and lumber pricing period-over-period was largely offset by the effects of constrained log supply and the imposition of US duties in 2017.

Lumber revenue of $650.9 million in the first nine months of 2017 decreased 2% from the same period in 2016, while lumber shipments declined by 9%. Selling targeted products to selected customers has partly mitigated the impacts of a constrained log supply and weaker specialty product mix.

Log revenue decreased by 12% in the first three quarters of 2017 to $158.2 million. Sales volumes have decreased as a result of reduced harvest volume and the continued prioritization of internal log consumption over external sales. A decline in log sales volumes of 27% was partly offset by improved log pricing.

Lumber production in the first nine months of 2017 was 622 million board feet, down from 701 million board feet in the same period of 2016. Constrained log supply impacted production, resulting in downtime and reduced operating hours at several of our operations, and contributed to the indefinite curtailment of our Somass sawmill. We utilized our modernized Duke Point sawmill to reduce our external custom cut production, partly offsetting the impact of limited log availability on our per unit manufacturing cost.

Coastal log production in 2017 has been significantly impacted by poor weather. Prolonged winter conditions in the first half of 2017, followed by hot, dry conditions in the third quarter, limited our timberlands harvest and reduced market log availability. Limited helicopter availability during fire season, the aforementioned train accident, and contractor challenges in our Port Alberni operation have also caused temporary reductions in production. Timberlands log production was 2,909,000 cubic metres for the first nine months of 2017, a decrease of 17% from the same period of 2016, while total coastal log production fell by 13% as reported by the Province of BC's Harvest Billing System. Lower timberlands production volume and a stumpage rate increase which became effective March 1, 2016, contributed to a 5% increase in log production costs period over period.

Selling and administration expenses in the first nine months of 2017 increased to $25.4 million from $20.8 million in the same period of 2016. Appreciation of the Company's common share price as well as a greater outstanding share unit balance resulted in a relative increase of $2.2 million in share-based compensation expenses, including mark-to-market adjustments, over those periods. Also reflected in 2017 are increased IT costs related to significant system infrastructure and related process improvements.

Other Income (Expense)

On August 18, 2017, the Company completed the sale of its South Island Remanufacturing plant for a gross purchase price of $3.2 million and recognized a gain of $1.6 million in other income for the quarter ended September 30, 2017.

Also included in other income for the quarter are $0.4 million in non-operating expenses relating to the train accident in our Englewood forest operations, and other expenses of $0.8 million.

Other Restructuring Items

On July 27, 2017, we announced the indefinite curtailment of our Somass sawmill, located in Port Alberni, BC. The Somass sawmill was temporarily curtailed in February 2017, prior to which it was operating on a single shift basis. Included in operating restructuring items for the quarter ended September 30, 2017, is voluntary severance related to the Somass curtailment of $6.2 million. Also included in operating restructuring items is $0.5 million of Somass site expenses incurred following the indefinite curtailment announcement.

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

Income Taxes

Current income tax expense of $0.1 million and deferred income tax expense of $4.1 million were recognized in net income in the third quarter of 2017, primarily relating to operating earnings.

Financial Position and Liquidity

(millions of dollars except where noted)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Cash provided by operating activities, excluding non-cash working capital	$ 23.1	$ 34.6	$ 96.9	$ 107.2
Cash provided by operating activities	33.4	42.2	130.9	80.0
Cash used in investing activities	(11.6)	(9.2)	(25.7)	(40.5)
Cash provided by (used in) financing activities	(7.7)	(21.8)	(59.0)	(30.3)
Cash used in capital logging roads	(3.7)	(4.1)	(10.2)	(9.8)
Cash used to acquire property, plant and equipment	(11.4)	(5.3)	(22.5)	(31.0)

	September 30, 2017	December 31, 2016
Total liquidity [1]	$ 299.2	$ 218.1
Net debt [2]	-	15.4
Cash and cash equivalents	65.2	19.0
Financial ratios:		
Current assets to current liabilities	2.56	2.58
Net debt to capitalization [3]	-	0.03

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

In the first nine months of 2017, we have repaid all outstanding debt, returned $23.7 million to shareholders through quarterly dividends and increased our cash balance by $46.2 million. Our operating cash flows have been supplemented by a significant reduction in working capital used for inventory as a result of challenging coastal harvest conditions limiting production.

As a result of a constrained log supply, which resulted in limited log sales volumes, cash provided by operating activities during the third quarter of 2017 was $33.4 million as compared to $42.2 million during the third quarter of 2016.

Cash used in investing activities was $11.6 million during the third quarter of 2017, as compared to $9.2 million invested during the same period of 2016. As we await clarity in the softwood lumber trade dispute, we continue to invest in high-return, lower cost capital projects. Our strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

Cash used in financing activities was $7.7 million during the third quarter of 2017, as compared to cash used in financing activities of $21.8 million during the same period of 2016. Prior period cash used in financing activities reflects repayments under Western's revolving credit facility, whereas all outstanding debt has been repaid in 2017.

As a result of our year-to-date earnings and the reduction in our working capital, total liquidity increased to $299.2 million at September 30, 2017, from $218.1 million at the end of 2016.

Liquidity is comprised of cash and cash equivalents of $65.2 million, unused availability under the secured revolving credit facility of $124.0 million, and $110.0 million available under the revolving term loan facility. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2017.

On August 2, 2017, we announced a normal course issuer bid permitting us to purchase and cancel up to 19,778,383 of our common shares or approximately 5% of our common shares issued and outstanding as of August 1, 2017. We did not purchase common shares during the three months ended September 30, 2017 and we continue to regularly review our capital allocation.

Strategy and Outlook

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

Market Outlook

We believe the combination of continued strong demand for lumber from both the US and China, and constrained western North American log and lumber production, due to a prolonged fire season, will support lumber prices through the seasonally weaker fall and early winter period. However, the application of final lumber duties which is expected to occur during the fourth quarter of 2017 could lead to some volatility.

Demand for our Western Red Cedar ("WRC") products remains strong however purchasing behaviour has become somewhat unpredictable due to the application of US lumber duties. In the third quarter purchasers of high-value lumber products, including WRC, curtailed buying in anticipation of lower prices during the CVD gap period. This impacted volumes and limited price increases on US bound shipments. As we approach the application of final duties, sales volumes could again be impacted as buyers wait for clarity in pricing before placing orders. Looking to 2018, the combination of limited WRC log supply, continued strong demand and clarity on US duty rates is expected to support pricing.

In Japan, improved housing starts and continued repatriation of US supply will provide Canadian suppliers the opportunity to increase market share and pricing.

Customer demand remains strong for our Niche products and pricing is expected to improve in the fourth quarter of 2017.

Growing demand coupled with constrained log supply is expected to support export and domestic sawlog pricing in the near term. We expect the log supply shortage to lead to reduced export sales volume as domestic manufacturers purchase more of the available supply. Pulp log pricing is expected to increase as pulp mills seek to rebuild their log inventories.

Update on Softwood Lumber Dispute

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

On April 24, 2017, the DoC announced a preliminary countervailing duty of 19.88% for "all other" Canadian lumber producers including Western, effective April 28, 2017, and on June 26, 2017, the DoC announced a preliminary "all other" anti-dumping duty rate of 6.87% effective June 30, 2017.

The DoC also made preliminary determinations on critical circumstances in April that resulted in 90-day retroactive application of countervailing duty from January 28 to April 27, 2017, and anti-dumping duty from April 1 to June 29, 2017.

The preliminary countervailing duties were applicable until August 25, 2017, after which they were suspended pending final determinations by the DoC and the ITC. Western's results for the third quarter of 2017 include countervailing duty expense of $2.9 million and anti-dumping duty expense of $3.6 million.

On November 2, 2017, the DoC announced final determinations in its countervailing duty and anti-dumping duty investigations, which included lowering the final countervailing duty to 14.25% and lowering the final antidumping rate to 6.58%, for "all other" Canadian lumber producers including Western. The final countervailing duty rate is not applicable until the ITC makes a final injury determination, which is expected to occur in December 2017.

In addition, the DoC concluded that critical circumstances did not exist for countervailing duty, but did exist for anti-dumping duty. On this basis, Western's 90-day retroactive anti-dumping duty obligation is USD $2.9 million. As we expect retroactive duty application to be reversed, consistent with the results of past softwood lumber disputes, we will recognize the retroactive duties as a deposit only upon payment.

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

Strategic Capital Program Update

We are implementing a strategic capital program that is designed to position Western as the only company on the coast of BC capable of sustainably consuming the complete profile of the coastal forest and competitively manufacturing a diverse product mix for global markets.

Our strategic capital program is focused on the installation of proven technology that will deliver leading performance and improve our ability to manufacture products that yield the best margin. In addition to investments in our manufacturing assets, we also allocate capital to strategic, high-return projects involving our information systems, timberlands assets, and forest inventories.

In the third quarter of 2017, we advanced the strategic investments at our Chemainus sawmill and Duke Point planer. We are progressing as planned with the Chemainus sawmill timber handling upgrades and the project is expected to be completed in the fourth quarter of 2017. At our Duke Point planer, we completed installation of the auto grader and began start-up operations shortly after quarter-end. We also acquired new timberlands mobile equipment to support our simplified sort and log flow optimization initiatives. The new equipment is expected to increase operating efficiency and reduce maintenance expense.

We have announced plans for $101.9 million of our $125 million strategic capital program. Through the third quarter of 2017, we have implemented and capitalized $97.9 million under that program. Uncertainty arising from the softwood lumber trade dispute has caused us to defer the commencement of additional potentially significant capital projects, however a number of high-return, low-cost strategic capital projects are in the late stages of planning or ready for implementation.

Non-Core Assets Update

On August 18, 2017, we completed the sale of our former South Island Remanufacturing operation for a gross purchase price of $3.2 million. A gain on disposition of $1.6 million was recognized in other income in the third quarter of 2017.

We have suspended marketing of our Northern Island Private Timberlands. In the third quarter of 2017 we received expressions of interest but they were not at values that would warrant a transaction.

We continue to pursue the marketing and disposition of certain non-core assets.

New accounting policies: standards and interpretations not yet adopted

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2017 and have not been applied in preparing these unaudited condensed interim financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect future financial statements:

- IFRS 9, *Financial Instruments*
- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 16, *Leases*

Please refer to Note 3 of our unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 for further information on these standards.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2016 Annual reporting, which can be found on SEDAR at www.sedar.com.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2016 Annual Report which can be found on SEDAR at www.sedar.com. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business.

Evaluation of Disclosure Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended September 30, 2017, that have materially affected or are reasonably likely to materially affect, its ICFR.

In the three months ended September 30, 2017, we completed the implementation of sales, inventory and payroll systems. The Company's internal controls were maintained or supplemented by controls added during these system implementations and related process improvements.

Outstanding Share Data

As of November 2, 2017, there were 395,855,092 common shares of the Company issued and outstanding.

We have reserved 20,000,000 of our common shares for issuance upon the exercise of options granted under our incentive stock option plan. During the three months ended September 30, 2017, 287,429 previously granted options were exercised and 574,714 options were forfeited. As of November 2, 2017, 11,718,483 options were outstanding under our incentive stock option plan.

Additional Information

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

Summary of Selected Results for the Last Eight Quarters (1)

(millions of dollars except per share amounts and where noted)	2017 3rd	2017 2nd	2017 1st	2016 4th	2016 3rd	2016 2nd	2016 1st	2015 4th
Average Exchange Rate – USD to CAD	1.253	1.345	1.323	1.334	1.305	1.288	1.372	1.335
Revenue								
Lumber	212.5	212.8	225.6	220.7	235.6	221.0	206.2	194.4
Logs	55.5	57.2	45.5	55.1	70.0	64.2	46.3	53.6
By-products	17.2	17.4	16.6	17.2	17.1	16.6	17.3	17.6
Total revenue	285.2	287.4	287.7	293.0	322.7	301.8	269.8	265.6
Lumber								
Production – millions of board feet	201	207	214	242	248	232	221	234
Shipments – millions of board feet	224	199	229	236	257	234	225	226
Price – per thousand board feet	949	1,069	985	935	917	944	916	862
Logs								
Net production – thousands of cubic metres (2)	911	1,091	908	919	1,153	1,321	1,027	1,081
Saw log purchases – thousands of cubic metres	327	249	231	337	415	497	268	299
Shipments – thousands of cubic metres	369	436	364	493	651	521	438	540
Price – per cubic metre (3)	134	122	116	104	100	112	100	95
Selling and administration	8.6	8.4	8.4	6.7	6.4	7.6	6.8	6.6
Adjusted EBITDA	32.6	47.1	34.0	33.8	35.7	43.0	35.7	29.6
Amortization	(9.0)	(9.3)	(8.6)	(8.7)	(8.8)	(8.8)	(7.5)	(8.2)
Changes in fair value of biological assets, net	1.4	-	(1.5)	6.9	(0.7)	(0.4)	(1.9)	(0.9)
Operating restructuring items	(7.1)	(3.7)	(0.5)	(1.3)	(0.6)	(0.8)	(0.7)	(0.7)
Finance costs	(0.6)	(0.7)	(0.7)	(1.0)	(1.2)	(1.1)	(1.1)	(1.1)
Other income (expense) (4)	0.4	0.5	(0.2)	18.0	(1.4)	(0.2)	(0.3)	(0.9)
Deferred income tax recovery (expense)	(4.1)	(8.3)	(6.1)	(11.5)	(6.1)	(7.8)	(6.8)	(7.9)
Current income tax recovery (expense)	(0.1)	0.1	(0.2)	-	(0.1)	-	(0.1)	-
Net income	13.6	25.6	16.2	36.2	16.8	23.9	17.3	9.9
Adjusted EBITDA margin	11.4%	16.4%	11.8%	11.5%	11.1%	14.2%	13.2%	11.1%
Earnings per share:								
Net income, basic	0.04	0.06	0.04	0.09	0.04	0.06	0.04	0.03
Net income, diluted	0.04	0.06	0.04	0.09	0.04	0.06	0.04	0.02

(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
(2) Net Production is sorted log production, net of residuals and waste.
(3) The log revenue used to determine average price per cubic metre has been reduced by the associated shipping costs arranged in the respective periods to enable comparability of unit prices.
(4) Other income (expense), net of changes in fair market value less cost to sell of biological assets.

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

Certain categories of transactions are presented separately above due to their unpredictable timing and to allow for greater comparability of our operating results between periods. In the third quarter of 2017, the Company recognized $6.2 million of severance related to the indefinite curtailment of its Somass sawmill and a $1.6 million gain on sale of its former South Island Remanufacturing operation. In the second quarter of 2017, the Company recognized a $2.5 million impairment charge related to the indefinite curtailment of its Somass sawmill, a $1.8 million gain on sale of properties to the Huu-ay-aht First Nation and a $3.1 million reduction to cost of goods sold for WorkSafeBC Certification of Recognition insurance premium rebates received for the 2014 and 2016 fiscal years. In the fourth quarter of 2016, the Company recognized $14.1 million into other income for the 2011 partial tenure extinguishment in TFL 44 from the Maa-nulth First Nations Final Agreement Act, an $8.0 million increase in fair value less costs to sell of the Company's biological assets and a $3.8 million past service credit as a result of a pension plan amendment to reduce future benefit payments. In the fourth quarter of 2015, the Company recognized changes in deferred tax balances with respect to unutilized operating tax losses and actuarial gains and losses on its defined benefit plans, resulting in a $7.8 million deferred income tax expense through net income and a deferred income tax recovery of $9.1 million through other comprehensive income.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 65.2	$ 19.0
Trade and other receivables	87.3	107.0
Inventory (Note 5)	136.3	149.8
Prepaid expenses and other assets	16.0	14.2
	304.8	290.0
Non-current assets:		
Property, plant and equipment (Note 6)	300.3	297.2
Intangible assets	118.2	121.2
Biological assets (Note 7)	57.5	57.6
Other assets	13.9	11.0
Deferred income tax assets (Note 10)	0.2	0.2
	$ 794.9	$ 777.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 110.0	$ 102.6
Silviculture provision (Note 11)	9.2	9.7
	119.2	112.3
Non-current liabilities:		
Long-term debt (Note 9)	-	34.4
Silviculture provision (Note 11)	15.6	19.2
Deferred income tax liabilities (Note 10)	20.7	2.0
Other liabilities (Note 12)	27.2	28.4
Deferred revenue	56.9	58.4
	239.6	254.7
Shareholders' equity:		
Share capital (Note 13)	506.8	506.0
Contributed surplus	8.5	8.6
Retained earnings	40.0	7.9
	555.3	522.5
	$ 794.9	$ 777.2

Commitments and Contingencies (Note 14)
Subsequent Events (Note 10, 19)
See accompanying notes to these unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board:

"Lee Doney"
Chairman

"Don Demens"
President and CEO

Western Forest Products Inc.
Condensed Consolidated Statements of Comprehensive Income

(Expressed in millions of Canadian dollars except for share and per share amounts) (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue	$ 285.2	$ 322.7	$ 860.3	$ 894.3
Costs and expenses:				
Cost of goods sold	218.3	264.5	652.3	716.2
Export tax (Note 14)	6.5	-	15.7	-
Freight	26.7	25.5	80.2	71.1
Selling and administration	8.6	6.5	25.4	20.8
	260.1	296.5	773.6	808.1
Operating income prior to restructuring items and other income	25.1	26.2	86.7	86.2
Operating restructuring items (Note 17)	(7.1)	(0.6)	(11.3)	(2.1)
Other income (expense) (Note 18)	0.4	(1.4)	0.7	(1.9)
Operating income	18.4	24.2	76.1	82.2
Finance costs	(0.6)	(1.2)	(2.0)	(3.4)
Income before income taxes	17.8	23.0	74.1	78.8
Current income tax expense (Note 10)	(0.1)	(0.1)	(0.2)	(0.2)
Deferred income tax expense (Note 10)	(4.1)	(6.1)	(18.5)	(20.7)
	(4.2)	(6.2)	(18.7)	(20.9)
Net income	13.6	16.8	55.4	57.9
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss) (Note 15)	2.6	(0.8)	0.6	(4.2)
Income tax on other comprehensive gain (loss) (Note 10)	(0.7)	0.2	(0.2)	1.0
Total items that will not be reclassified to profit or loss	1.9	(0.6)	0.4	(3.2)
Other comprehensive income (loss) for the period	1.9	(0.6)	0.4	(3.2)
Total comprehensive income	$ 15.5	$ 16.2	$ 55.8	$ 54.7
Net income per share (in dollars)				
Basic and diluted earnings per share	$ 0.04	$ 0.04	$ 0.14	$ 0.15
Weighted average number of common shares outstanding (thousands)				
Basic	395,721	395,448	395,550	395,378
Diluted	400,403	399,150	399,412	399,136

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

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

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	**Total Equity**
Balance at December 31, 2015	$ 505.5	$ 7.6	$ (57.2)	$ 455.9
Net income	-	-	57.9	57.9
Other comprehensive income:				
Defined benefit plan actuarial loss recognized	-	-	(4.2)	(4.2)
Income tax recovery on other comprehensive loss	-	-	1.0	1.0
Total comprehensive income	-	-	54.7	54.7
Share-based payment transactions recognized in equity	-	0.9	-	0.9
Exercise of stock options	0.5	(0.2)	-	0.3
Dividends	-	-	(23.7)	(23.7)
Total transactions with owners, recorded directly in equity	0.5	0.7	(23.7)	(22.5)
Balance at September 30, 2016	$ 506.0	$ 8.3	$ (26.2)	$ 488.1

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	**Total Equity**
Balance at December 31, 2016	$ 506.0	$ 8.6	$ 7.9	$ 522.5
Net income	-	-	55.4	55.4
Other comprehensive income:				
Defined benefit plan actuarial gain recognized	-	-	0.6	0.6
Income tax expense on other comprehensive income	-	-	(0.2)	(0.2)
Total comprehensive income	-	-	55.8	55.8
Share-based payment transactions recognized in equity	-	0.2	-	0.2
Exercise of stock options	0.8	(0.3)	-	0.5
Dividends	-	-	(23.7)	(23.7)
Total transactions with owners, recorded directly in equity	0.8	(0.1)	(23.7)	(23.0)
Balance at September 30, 2017	$ 506.8	$ 8.5	$ 40.0	$ 555.3

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities:				
Net income	$ 13.6	$ 16.8	$ 55.4	$ 57.9
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	8.0	7.8	23.9	22.1
Amortization of intangible assets	1.0	1.0	3.0	3.0
Gain on disposal of assets	(1.3)	(0.1)	(3.6)	-
Impairment of assets (Note 17)	0.5	-	3.2	-
Change in fair value of biological assets (Note 7)	(1.4)	0.7	0.1	3.0
Change in silviculture liability (Note 11)	(1.2)	(0.6)	(4.1)	(1.5)
Amortization of deferred revenue	(0.5)	(0.5)	(1.5)	(1.5)
Share-based compensation, including mark-to-market adjustment	1.2	0.8	4.1	2.0
Net finance costs	0.6	1.2	2.0	3.4
Deferred income tax expense (Note 10)	4.1	6.1	18.5	20.7
Other	(1.5)	1.4	(4.1)	(1.9)
	23.1	34.6	96.9	107.2
Changes in non-cash working capital items:				
Trade and other receivables	4.3	(5.0)	19.7	(21.1)
Inventory	(0.4)	18.7	13.0	(15.4)
Prepaid expenses and other assets	(2.6)	4.4	(2.3)	0.3
Accounts payable and accrued liabilities	9.0	(10.5)	3.6	9.0
	10.3	7.6	34.0	(27.2)
	33.4	42.2	130.9	80.0
Investing activities:				
Additions to property, plant and equipment (Note 6)	(15.1)	(9.4)	(32.7)	(40.8)
Proceeds on disposal of assets	3.5	0.2	7.0	0.3
	(11.6)	(9.2)	(25.7)	(40.5)
Financing activities:				
Interest paid	(0.2)	(0.7)	(0.9)	(1.9)
Repayments under revolving credit facility, net (Note 8)	-	(13.2)	-	-
Repayment of long-term debt (Note 9)	-	-	(35.0)	(5.0)
Dividends	(7.9)	(7.9)	(23.7)	(23.7)
Proceeds from exercise of stock options	0.4	-	0.6	0.3
	(7.7)	(21.8)	(59.0)	(30.3)
Increase in cash and cash equivalents	14.1	11.2	46.2	9.2
Cash and cash equivalents, beginning of period	51.1	7.4	19.0	9.4
Cash and cash equivalents, end of period	$ 65.2	$ 18.6	$ 65.2	$ 18.6

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

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, British Columbia ("BC"), Canada. The unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2017 and 2016 comprise the financial results of the Company and its subsidiaries. The Company's primary business includes timber harvesting, reforestation, forest management, sawmilling logs into lumber, wood chips, and value-added lumber remanufacturing. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year ended December 31, 2016. These interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

The interim financial statements were authorized for issue by the Board of Directors on November 2, 2017.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is the Company's functional currency. All amounts are presented in millions of Canadian dollars, unless otherwise indicated.

(d) Use of estimates and judgements

The preparation of interim consolidated financial statements in accordance with IAS 34 requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the interim financial statements, are disclosed in the Company's annual consolidated financial statements as at and for the year ended December 31, 2016.

The Company does not include WorkSafeBC Certificate of Recognition ("COR") rebates when estimating its WorkSafeBC insurance premium expense, as the collectability of COR rebates cannot be reasonably assured. During the nine months ended September 30, 2017, the Company recognized a reduction to cost of goods sold of $3.1 million for the receipt of COR rebates arising from fiscal years 2014 and 2016.

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

3. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2016.

(a) *Standards and interpretations not yet adopted*

IFRS 9, Financial Instruments ("IFRS 9")

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

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

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

IFRS 16, Leases ("IFRS 16")

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

4. Seasonality of operations

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

5. Inventory

	September 30, 2017	December 31, 2016
Logs	$ 90.0	$ 93.0
Lumber	43.6	57.2
Supplies and other	13.9	13.6
Provision for write downs	(11.2)	(14.0)
Total value of inventory	$ 136.3	$ 149.8

The carrying amount of inventory recorded at net realizable value was $46.7 million at September 30, 2017 (December 31, 2016: $55.7 million), with the remaining inventory recorded at cost.

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

5. Inventory (continued)

During the three months ended September 30, 2017, $218.3 million (2016: $264.5 million) of inventory was charged to cost of goods sold, which includes an increase to the provision for write-down to net realizable value of $0.8 million (2016: decrease of $2.2 million). During the nine months ended September 30, 2017, $652.3 million (2016: $716.2 million) of inventory was charged to cost of goods sold, which includes a decrease to the provision for write-down to net realizable value of $2.8 million (2016: $2.8 million).

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

6. Property, plant and equipment

Cost	Buildings & equipment	Logging roads	Land	Total property, plant & equipment
Balance at January 1, 2016	$ 261.2	$ 165.3	$ 90.6	$ 517.1
Additions	43.0	13.1	-	56.1
Disposals	(1.4)	-	-	(1.4)
Balance at December 31, 2016	302.8	178.4	90.6	571.8
Additions	22.5	10.2	-	32.7
Disposals	(2.3)	-	(2.4)	(4.7)
Balance at September 30, 2017	$ 323.0	$ 188.6	$ 88.2	$ 599.8
Accumulated amortization and impairments				
Balance at January 1, 2016	$ 114.0	$ 131.8	$ -	$ 245.8
Amortization	17.1	12.7	-	29.8
Disposals	(1.0)	-	-	(1.0)
Balance at December 31, 2016	130.1	144.5	-	274.6
Amortization	14.8	9.1	-	23.9
Disposals	(1.7)	-	-	(1.7)
Impairments (Note 17)	2.6	-	0.1	2.7
Balance at September 30, 2017	$ 145.8	$ 153.6	$ 0.1	$ 299.5
Carrying amounts				
At December 31, 2016	$ 172.7	$ 33.9	$ 90.6	$ 297.2
At September 30, 2017	$ 177.2	$ 35.0	$ 88.1	$ 300.3

7. Biological assets

(a) *Reconciliation of carrying amount*

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Carrying value, beginning of period	$ 56.1	$ 51.4	$ 57.6	$ 53.7
Change in fair value due to growth and pricing	1.4	1.3	4.2	2.9
Harvested timber transferred to inventory	-	(2.0)	(4.3)	(5.9)
Carrying value, end of period	$ 57.5	$ 50.7	$ 57.5	$ 50.7

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

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

At September 30, 2017, private timberlands comprised an area of approximately 23,293 hectares (2016: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to old-growth forests. During the three and nine months ended September 30, 2017, the Company harvested and scaled approximately 1,107 cubic metres ("m^3") and 111,571 m^3, respectively (2016: 51,777 m^3 and 226,113 m^3, respectively), of logs from its private timberlands, which had a fair value less costs to sell of $112 per m^3 and $113 per m^3, respectively at the date of harvest (2016: $111 per m^3 and $109 per m^3, respectively).

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

7. Biological assets (continued)

(a) Reconciliation of carrying amount (continued)

The financial risks associated with standing timber are mitigated by the geographical diversification of the asset and management strategies including fire management strategies and regular inspection for pest infestation.

(b) Measurement of fair values

The fair value measurement for the Company's standing timber of $57.5 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used (2016: Level 3 fair value). The valuation technique used is discounted cash flows combined with market comparison.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at September 30, 2017 and noted no indication that a full re-assessment of fair value less costs to sell, or of the previously applied significant unobservable inputs, was warranted at that date.

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

8. Revolving credit facility

	September 30, 2017	December 31, 2016
Available	$ 125.0	$ 125.0
Outstanding letters of credit	1.0	0.9
Unused portion of Facility	$ 124.0	$ 124.1

The Company's revolving credit facility (the "Facility") provides for a maximum borrowing amount of $125.0 million, subject to a borrowing base, which is primarily based on eligible accounts receivable and inventory balances, and has a maturity date of December 14, 2017. The Facility bears interest at the Canadian Prime rate (if availability exceeds 35% of the borrowing base) or at the Canadian Prime rate plus 0.25% (if availability is less than 35% of the borrowing base) or at the Company's option, at rates for Bankers' Acceptances ("BA") or London Interbank Offered Rate ("LIBOR") based loans plus 1.25% or 1.50%, dependent on the same availability criteria. The interest rate for the Facility was 3.20% at September 30, 2017 (December 31, 2016: 2.70%).

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants. The Company was in compliance with its financial covenants at September 30, 2017.

9. Long-term debt

	September 30, 2017	December 31, 2016
Long-term debt	$ -	$ 35.0
Less transaction costs	-	(0.6)
	$ -	$ 34.4
Available	$ 110.0	$ 110.0
Drawings	-	35.0
Unused portion of Term Loan	$ 110.0	$ 75.0

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of $110.0 million and has a maturity date of June 29, 2019. The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate plus 0.15%, and (ii) the 30 day BA rate plus 1.65% or at the election of the Company, the applicable BA rate plus 1.65%. The interest rate for the Term Loan was 3.35% at September 30, 2017 (December 31, 2016: 2.60%).

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

9. Long-term debt (continued)

The Term Loan is secured by a first lien interest over all of the Company's properties and assets, excluding those of the Englewood Logging Division and accounts receivable and inventory, over which it has a second lien interest, and includes financial covenants. The Company was in compliance with its financial covenants at September 30, 2017. Transaction costs are deferred and amortized to finance costs over the term of the Term Loan using the effective interest rate method.

At September 30, 2017, there were no amounts outstanding under the Company's Term Loan and as a result, the associated deferred transaction costs of $0.4 million are included in other assets on the statement of financial position.

10. Income taxes

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Current income tax expense	$ (0.1)	$ (0.1)	$ (0.2)	$ (0.2)
Deferred income tax expense	(4.1)	(6.1)	(18.5)	(20.7)
	$ (4.2)	$ (6.2)	$ (18.7)	$ (20.9)

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Income before income taxes	$ 17.8	$ 23.0	$ 74.1	$ 78.8
Income tax expense at statutory rate of 26%	(4.6)	(6.0)	(19.3)	(20.5)
Permanent differences	0.4	(0.2)	0.6	(0.4)
	$ (4.2)	$ (6.2)	$ (18.7)	$ (20.9)

In addition to the amounts recorded to net income, a deferred income tax expense of $0.7 million and $0.2 million was recorded to other comprehensive income for the three and nine month periods ended September 30, 2017, respectively (2016: deferred income tax recovery of $0.2 million and $1.0 million, respectively) in relation to current period actuarial gains on defined benefit employee future benefit obligations.

Subsequent to September 30, 2017, the statutory rate increased to 27%.

11. Silviculture provision

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Silviculture provision, beginning of period	$ 25.9	$ 29.9	$ 28.9	$ 30.8
Silviculture provision charged	1.6	2.5	3.4	7.3
Silviculture expenditures	(2.8)	(2.9)	(7.7)	(8.7)
Unwind of discount	0.1	-	0.2	0.1
Silviculture provision, end of period	24.8	29.5	24.8	29.5
Less current portion	9.2	11.3	9.2	11.3
	$ 15.6	$ 18.2	$ 15.6	$ 18.2

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 1.41% to 2.11%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at September 30, 2017 is $25.7 million (December 31, 2016: $29.6 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the period.

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

12. Other liabilities

	September 30, 2017	December 31, 2016
Employee future benefits obligation (Note 15)	$ 20.6	$ 23.1
Environmental accruals	2.9	2.5
Performance share unit plan liabilities, non-current (Note 13)	2.2	1.5
Other	1.5	1.3
	$ 27.2	$ 28.4

13. Share capital

(a) *Issued and outstanding share capital*

	Number of Common Shares	Amount
Balance at December 31, 2016	395,447,663	$ 506.0
Exercise of stock options	407,429	0.8
Balance at September 30, 2017	395,855,092	$ 506.8

(b) *Stock option plan*

The Company has an incentive stock option plan (the "Option Plan"), which permits the granting of options to eligible participants to purchase up to an aggregate of 20,000,000 Common Shares.

Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one Common Share, subject to adjustments, at a price of not less than the closing price of the Common Shares on the TSX on the day immediately preceding the grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant. All outstanding options are only exercisable when the share price has been equal to or exceeds $0.70 for the 60 consecutive days preceding the date of exercise on a volume weighted average price basis.

During the first quarter of 2017, the Company granted 1,560,750 options with a fair value of $0.8 million as determined by the Black-Scholes option pricing model, using the assumptions of an average exercise price of $2.09 per share, risk free interest rate of 1.36%, a volatility rate of 35.15%, and an expected life of seven years. During the second quarter of 2017, the Company granted 97,127 options using the assumptions of an average exercise price of $2.15 per share, risk free interest rate of 1.27%, a volatility rate of 34.56%, and an expected life of seven years. At September 30, 2017, 11,718,483 options (December 31, 2016: 11,235,585) were outstanding under the Company's Option Plan, with a weighted average exercise price of $1.56 per share.

	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of period	11,235,585	$ 1.50	10,158,667	$ 1.44
Granted	1,657,877	$ 2.09	1,330,918	$ 1.97
Exercised	(426,226)	$ 1.40	(215,000)	$ 1.48
Forfeited	(748,753)	$ 1.99	(39,000)	$ 2.61
Outstanding, end of period	11,718,483	$ 1.56	11,235,585	$ 1.50

During the three and nine months ended September 30, 2017, the Company recorded a compensation recovery for these stock options of $0.3 million and expense of $0.2 million, respectively (2016: compensation expense of $0.3 million and $0.8 million, respectively).

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

13. Share capital (continued)

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

The Company has a DSU Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs and prior to January 1, 2015 executive officers could elect to take a portion of their annual incentive bonus in the form of DSUs. For directors, the number of DSUs allotted is determined by dividing the dollar portion of the quarterly fees a director elects to take in DSUs by the share price value on the fifth day following each quarter end. All DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received if they held their DSUs as common shares. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the closing share price on the dividend payment date.

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

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Number of DSU	Weighted average unit value		Number of DSU	Weighted average unit value	
Outstanding, beginning of period	1,100,073	$	0.98	981,495	$	0.86
Granted	138,410	$	2.34	119,621	$	2.14
Redeemed	-	$	-	(49,455)	$	1.25
Outstanding, end of period	1,238,483	$	1.13	1,051,661	$	0.99

During the three and nine months ended September 30, 2017, the Company recorded compensation expense for these DSUs of $0.5 million and $1.2 million (2016: compensation expense of $0.2 million and $0.2 million, respectively), with a corresponding adjustment to accounts payable and accrued liabilities.

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Outstanding, beginning of period	1,557,856	933,219	952,236	434,115
Granted	11,881	8,839	617,501	542,866
Forfeited	-	-	-	(34,923)
Outstanding, end of period	1,569,737	942,058	1,569,737	942,058

During the three months and nine months ended September 30, 2017, the Company recorded compensation expense for these PSUs of $1.0 million and $2.7 million, respectively (2016: compensation expense of $0.3 million and $1.0 million, respectively), with a corresponding adjustment to accounts payable and accrued liabilities and other liabilities.

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

14. Commitments and contingencies

Long-term fibre supply agreements

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

The Company had met all fibre commitments as at December 31, 2016 and, based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2017.

Softwood lumber trade - countervailing and anti-dumping duties

In November 2016, the US Lumber Coalition petitioned the US Department of Commerce ("DoC") and the US International Trade Commission ("ITC") to investigate alleged subsidies to Canadian lumber producers for the purpose of initiating countervailing ("CVD") and anti-dumping duties ("AD").

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

On June 26, 2017, the DoC announced an AD rate of 6.87% for "all other" Canadian lumber producers including Western. The DoC also made a preliminary determination on critical circumstances that resulted in 90-day retroactive application of AD.

On November 2, 2017, the DoC announced final CVD and AD rates of 14.25% and 6.58%, respectively, for "all other" Canadian lumber producers including Western. In addition, the DoC concluded that critical circumstances did not exist for CVD but did exist for AD.

Cash deposits for CVD were required for lumber imports to the US effective April 28, 2017. Cash deposits for CVD have not been applicable since August 26, 2017, and are not applicable again until the ITC makes a final injury determination, which is expected to occur in December 2017.

Cash deposits for AD were required for lumber imports to the US effective June 30, 2017, and Western's estimate for 90-day retroactive duty arising from the DoC's November 2, 2017 final finding of critical circumstances is USD$2.9 million.

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

15. Employee benefits

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Current service costs	$ 0.1	$ 0.1	$ 0.3	$ 0.3
Net interest	0.1	0.2	0.5	0.8
Cost of defined benefit plans	0.2	0.3	0.8	1.1
Cost of defined contribution plans	0.8	0.8	2.9	2.4
Total cost of employee post-retirement benefits	$ 1.0	$ 1.1	$ 3.7	$ 3.5

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

15. Employee benefits (continued)

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

	September 30, 2017	December 31, 2016
Present value of obligations	$ 129.3	$ 132.3
Fair value of plan assets	(108.7)	(109.2)
Liability recognized in the statement of financial position (Note 12)	$ 20.6	$ 23.1

The change in the liability recognized in the statement of financial position at September 30, 2017 was due primarily to actuarial losses resulting from estimated quarterly changes in the discount rate used to value the defined benefit obligations, offset by higher than expected returns on plan assets. The discount rate used as at September 30, 2017 was 3.70% per annum (December 31, 2016 of 3.70% per annum).

The Company expects to make funding contributions to its defined benefit plans of $3.1 million during 2017.

16. Financial instruments – fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2016.

	Carrying Amount					Fair Value			
September 30, 2017	Held to maturity	Designated at fair value	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Investments	$ 4.9	$ -	$ -	$ -	$ 4.9	$ -	$ 4.9	$ -	$ 4.9
	$ 4.9	$ -	$ -	$ -	$ 4.9				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 65.2	$ -	$ 65.2				
Trade and other receivables	-	-	87.3	-	87.3				
	$ -	$ -	$ 152.5	$ -	$ 152.5				
Financial liabilities measured at fair value									
Foreign currency forward contracts	$ -	$ 0.6	$ -	$ -	$ 0.6	$ -	$ 0.6	$ -	$ 0.6
	$ -	$ 0.6	$ -	$ -	$ 0.6				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 109.4	$ 109.4				
	$ -	$ -	$ -	$ 109.4	$ 109.4				
December 31, 2016									
Financial assets measured at fair value									
Investments	$ 4.9	$ -	$ -	$ -	$ 4.9	$ -	$ 4.9	$ -	$ 4.9
	$ 4.9	$ -	$ -	$ -	$ 4.9				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 19.0	$ -	$ 19.0				
Trade and other receivables	-	-	107.0	-	107.0				
	$ -	$ -	$ 126.0	$ -	$ 126.0				
Financial liabilities measured at fair value									
Foreign currency forward contracts	$ -	$ 0.3	$ -	$ -	$ 0.3	$ -	$ 0.3	$ -	$ 0.3
	$ -	$ 0.3	$ -	$ -	$ 0.3				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 102.3	$ 102.3				
Long-term debt (Note 9)	-	-	-	34.4	34.4				
	$ -	$ -	$ -	$ 136.7	$ 136.7				

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

16. Financial instruments – fair values (continued)

As at September 30, 2017, the Company had outstanding obligations to sell an aggregate USD$52.0 million at an average rate of CAD$1.24 per USD with maturities through November 30, 2017.

All foreign currency gains or losses related to currency forward contracts to September 30, 2017 have been recognized in revenue for the period and the fair value of these instruments at September 30, 2017 was a net liability of $0.6 million, which is included in accounts payable and accrued liabilities on the statement of financial position (December 31, 2016: net liability of $0.3 million). A net gain of $4.2 million was recognized on contracts which were settled in the nine months ended September 30, 2017 (2016: net loss of $1.0 million), which was included in revenue for the period.

17. Operating restructuring items

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

The Company offered voluntary severance to certain salaried and all hourly employees of the Somass sawmill. Included in operating restructuring items for the quarter ended September 30, 2017, are $6.2 million of voluntary severance expense and $0.5 million of non-operational costs incurred subsequent to the indefinite curtailment.

18. Other income

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Gain on disposal of assets	$ 1.3	$ -	$ 3.6	$ -
Non-operating costs relating to train derailment	(0.4)	-	(1.6)	-
Other expense	(0.5)	(1.4)	(1.3)	(1.9)
	$ 0.4	$ (1.4)	$ 0.7	$ (1.9)

19. Subsequent events

On November 2, 2017, the US Department of Commerce announced final determinations in its countervailing and anti-dumping investigations. As a result of its findings, the US Department of Commerce lowered the final countervailing and anti-dumping duty rates to 14.25% and 6.58%, respectively, for “all other” Canadian lumber producers including Western. The final countervailing duty rate is not applicable until final determination by the US International Trade Commission, which is expected to occur in December 2017. In addition the US Department of Commerce concluded that critical circumstances did not exist for countervailing duty, but did exist for anti-dumping duty.

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