Western Forest Products Inc.

2018 Second Quarter Report

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three and six months ended June 30, 2018 to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three and six months ended June 30, 2018, and our audited annual consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2017 (the "2017 Annual Report"), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three and six months ended June 30, 2018 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]. 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 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", "project", "expect", "anticipate", "plan", "intend", "believe", "seek", "should", "may", "likely", "pursue" and similar references to future periods. Forward-looking statements in this MD&A include, but are not limited to, statements relating to: our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives, capital expenditures and strategies. Although such statements reflect management's current reasonable beliefs, expectations and assumptions as to, amongst other things, the future supply and demand of forest products, global and regional economic activity and the consistency of the regulatory framework, there can be no assurance that forward-looking statements are accurate, and actual results and performance may materially vary. Many factors could cause our actual results or performance to be materially different including: general economic conditions, international demand for lumber, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, the availability of allowable annual cut, regulations or public policy, changes in opportunities and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements.

Unless otherwise noted, the information in this discussion and analysis is updated to August 2, 2018.

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

Summary of Selected Quarterly Results [1]

(millions of dollars except per share amounts and where otherwise noted)	Price Basis	Q2 2018	Q2 2017	Q1 2018	YTD 2018	YTD 2017
Summary Information						
Revenue						
Lumber		$ 255.6	$ 212.8	$ 228.2	$ 483.8	$ 438.4
Logs		49.0	57.2	41.2	90.2	102.7
By-products		23.2	17.4	22.2	45.4	34.0
Total revenue		$ 327.8	$ 287.4	$ 291.6	$ 619.4	$ 575.1
Export tax		$ 11.7	$ 9.2	$ 9.7	$ 21.4	$ 9.2
Adjusted EBITDA		$ 50.2	$ 47.1	$ 43.0	$ 93.2	$ 81.1
Adjusted EBITDA margin		15.3%	16.4%	14.7%	15.0%	14.1%
Operating income prior to restructuring items and other income		$ 39.7	$ 37.7	$ 32.6	$ 72.3	$ 61.6
Net income for the period		27.1	25.6	21.7	48.8	41.8
Basic and diluted earnings per share (in dollars)		$ 0.07	$ 0.06	$ 0.05	$ 0.12	$ 0.10
Operating Information						
Lumber						
Lumber Shipments – millions of board feet						
Western Red Cedar		53	58	54	107	123
Japan Specialty		35	34	36	71	75
Niche		20	14	18	38	38
Commodity		127	88	107	234	183
Total		235	194	215	450	419
Lumber Production – millions of board feet		234	204	209	443	412
Lumber Price – per thousand board feet		$ 1,088	$ 1,097	$ 1,061	$ 1,075	$ 1,046
Logs						
Log Shipments – thousands of cubic metres						
Export		37	115	17	54	212
Domestic		337	250	289	625	445
Pulp		97	71	55	153	143
Total		471	436	361	832	800
Net production – thousands of cubic metres[2]		1,348	1,091	1,029	2,377	1,999
Saw log purchases – thousands of cubic metres		305	249	257	562	484
Log Price – per cubic metre[3]		$ 104	$ 122	$ 114	$ 109	$ 119
Illustrative Lumber Average Price Data[4]	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	c.i.f. dest. N Euro	$ 5,100	$ 4,608	$ 5,017	$ 5,058	$ 4,493
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	$ 1,524	$ 1,515	$ 1,525	$ 1,525	$ 1,436
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	$ 2,113	$ 1,788	$ 1,963	$ 2,038	$ 1,693
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	$ 995	$ 739	$ 800	$ 898	$ 737
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	$ 1,211	$ 1,023	$ 1,108	$ 1,160	$ 1,004
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	$ 1,078	$ 1,060	$ 1,061	$ 1,070	$ 1,060
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	$ 1,398	$ 940	$ 1,323	$ 1,361	$ 929
Hemlock Lumber 2x4 (40x90) Metric RG Utility[5]	c.i.f. dest. Shanghai	$ 507	$ 450	$ 469	$ 488	$ 431
Average Exchange Rate – CAD to USD		0.775	0.744	0.791	0.783	0.750
Average Exchange Rate – CAD to JPY		84.55	82.65	85.55	85.05	84.20

(1) Included in Appendix A is a table of selected results from the last eight quarters.
(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) Source: Random Lengths. $USD/Mfbm, except where noted.
(5) Source: China Bulletin.

Summary of Second Quarter 2018 Results

Adjusted EBITDA for the second quarter of 2018 was $50.2 million, a 7% increase from the same period of last year. Higher lumber production and improved market pricing helped to offset the impacts of US lumber export duties, rising stumpage costs, and a stronger Canadian dollar. Operating income prior to restructuring items and other income increased to $39.7 million from $37.7 million in the same period last year.

Sales

Lumber revenue was $255.6 million, compared to $212.8 million in the second quarter of 2017, as sales volumes increased by 21%. Average lumber price realizations were similar to the second quarter of last year as improved market pricing offset a weaker sales mix and a stronger Canadian dollar (“CAD”). Commodity lumber volumes increased to 54% of our lumber shipments, from 46% in the same period last year. Furthermore, Western Red Cedar (“WRC”) lumber shipments declined from 30% in the second quarter last year to 23% due to reduced availability of WRC logs on the open market. The CAD was 4% higher on average against the United States dollar (“USD”).

Second quarter log revenue was $49.0 million in 2018, a decrease of $8.2 million from the same period last year. An 8% increase in log shipments was more than offset by the impacts of a weaker domestic log sales mix and the suspension of our export log sales program as we redirected logs to our mills. Our export log shipments in the period originated from a short-term First Nation timber purchase agreement managed by Western.

By-products revenue increased to $23.2 million in the second quarter of 2018, from $17.4 million in the same period in 2017. Improved pulp markets drove a 34% increase in chip sales price realizations over the same period last year.

Operations

Lumber production was 234 million board feet, a 15% increase over the second quarter of 2017 and 12% higher than the first quarter of 2018. Higher opening log inventory, increased sawmill operating hours and a heavier mix of commodity lumber production drove lower manufacturing costs quarter-over-quarter.

Second quarter log production was 1,348,000 cubic metres, 24% higher than the same period last year, as we capitalized on improved operating conditions. In contrast, coastal British Columbia (“BC”) harvest increased 10% as reported by the Province of BC’s Harvest Billing System. We increased closing log inventory by 60% year-over-year, bringing our inventory volume in line with more normalized mid-year levels.

Harvest costs increased by 10% from the second quarter of 2017. The impact of escalating stumpage rates was partly offset by timberlands margin improvement initiatives. Coastal stumpage inflation reflects recent rate equation changes and rising coastal log pricing, which has been influenced by improved lumber pricing and high coastal log export volumes.

Saw log purchases were 305,000 cubic metres, a 23% increase from the same quarter last year. Purchased log costs have increased due to higher market demand.

Freight expense decreased by $3.3 million as compared to the second quarter of 2017. Reduced export log sales and increased North American market shipments limited the impact of higher overall lumber volumes.

Our results for the second quarter of 2018 include $11.7 million of countervailing duty (“CVD”) and anti-dumping duty (“AD”), compared to $9.2 million in the same quarter of 2017.

Selling and Administration Expense

Second quarter selling and administration expense was $9.3 million in 2018 as compared to $8.4 million in the same period last year. Incremental expense was primarily related to foundational system and process improvements in support of our growth strategy.

Net Income

Net income for the second quarter of 2018 was $27.1 million, as compared to $25.6 million for the same period of 2017. Increased revenue and lower operating restructuring items drove an increased net income that was partly offset by higher export lumber duties and income tax expense.

Summary of Year to Date 2018 Results

Adjusted EBITDA for the first six months of 2018 was $93.2 million, a 15% improvement from the same period in 2017. Operating income prior to restructuring items and other income increased to $72.3 million from $61.6 million in the same period last year.

Sales

Lumber revenue increased to $483.8 million, compared to $438.4 million in the first half of 2017 due to higher sales volumes and improved price realizations. Average lumber price realizations were 3% higher period-over-period despite proportionately higher commodity sales and the impact of a 4% stronger average CAD against the USD. Commodity lumber increased to 52% of total lumber shipments in the first half of 2018, from 44% in the same period last year. Conversely, WRC lumber shipments declined from 29% to 24% over those same periods.

Log revenue was $90.2 million in the first half of 2018, a decrease of $12.5 million from the same period of 2017. Log shipments increased by 4% over the same period last year, partly offsetting the impacts of a weaker domestic log sales mix and the suspension of our export log sales program in 2018 to supply our coastal sawmills.

By-products revenue increased to $45.4 million in the first six months of 2018, from $34.0 million in the same period in 2017. Lower shipments were offset by a significant increase in chip price realizations, resulting from improved pulp markets.

Operations

Western's results for the first six months of 2018 include $21.4 million of export duty expense, comprised of CVD and AD, compared to $9.2 million in 2017, when duties were not applied until the second quarter.

Lumber production was 443 million board feet, an 8% increase over the same period of 2017. In addition, we provided 14 million board feet equivalent of custom cut manufacturing services in the first quarter of 2018. Increased sawmill operating hours, a heavier mix of commodity lumber and an improved log inventory position which supported more efficient manufacturing drove lower operating costs year-over-year, partly offset by increased secondary processing volumes.

Log production for the first half of 2018 was 2,377,000 cubic metres, 19% higher than the same period last year, due to improved operating conditions. Escalating stumpage rates and increased production from higher cost operations drove an 8% increase in harvest costs. We partially offset the impact of rising stumpage through our simplified log sort and log flow optimization initiatives, which have led to faster delivery of logs from timberlands to our mills and external customers, reducing operating costs.

We supplemented our internal log supply with saw log purchases of 562,000 cubic metres, a 16% increase from the same period last year. Despite improved coastal harvest and log availability, strong demand and higher coastal export volumes have put significant upward pressure on pricing for purchased logs.

Freight expense decreased by $9.1 million as compared to the first six months of 2017, due primarily to reduced export log shipments.

Selling and Administration Expense

Selling and administration expense for the first half of 2018 was $17.9 million as compared to $16.8 million in the same period last year. Incremental expense was primarily related to foundational system and process improvements in support of our growth strategy.

Net Income

Net income for the first half of 2018 was $48.8 million, as compared to $41.8 million for the same period of 2017. Increased revenue and lower operating restructuring items drove an increased net income that was partly offset by higher export lumber duties and income tax expense.

Operating Restructuring Items

We incurred $1.3 million of operating restructuring items in the second quarter of 2018, with $0.6 million relating to the indefinite curtailment of our Somass sawmill and $0.3 million arising from our Englewood operation. We recognized $3.7 million in operating restructuring items in the second quarter of 2017, including Somass curtailment related impairments of $2.5 million.

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

Income Taxes

We have utilized our remaining non-capital loss carryforwards during the second quarter of 2018, which will result in cash taxes payable related to the tax year ending December 31, 2018. Accordingly, current and deferred income tax expense of $8.0 million and $2.6 million, respectively, were recognized in net income in the second quarter of 2018. Total income tax expense increased by $2.4 million from the same quarter of 2017 driven by higher operating earnings.

In May 2018, the Company received correspondence from the Canada Revenue Agency (“CRA”) regarding certain restructuring transactions, occurring in 2004 and 2007 to 2011, and the general anti-avoidance rule. Management believes the CRA’s position is without merit. Management is prepared to defend its position if a notice of reassessment is issued, and as such, the Company has not recognized any income tax provision at June 30, 2018 relating to this matter.

Financial Position and Liquidity

(millions of dollars except where otherwise noted)	Q2 2018	Q2 2017	Q1 2018	YTD 2018	YTD 2017
Selected Cash Flow Items					
Operating Activities					
Net income	$ 27.1	$ 25.6	$ 21.7	$ 48.8	$ 41.8
Amortization	10.9	9.3	9.8	20.7	17.9
Other	10.6	5.5	8.9	19.5	13.8
Subtotal	48.6	40.4	40.4	89.0	73.5
Change in non-cash working capital	(21.7)	(10.8)	5.2	(16.5)	24.0
Cash provided by (used in) operating activities	$ 26.9	$ 29.6	$ 45.6	$ 72.5	$ 97.5
Investing Activities					
Additions to property, plant and equipment	$ (14.5)	$ (5.0)	$ (11.0)	$ (25.5)	$ (11.1)
Additions to capital logging roads	(4.2)	(3.2)	(2.1)	(6.3)	(6.5)
Purchase of Arlington facility	-	-	(11.6)	(11.6)	-
Other	0.2	3.1	0.1	0.3	3.5
Cash provided by (used in) investing activities	$ (18.5)	$ (5.1)	$ (24.6)	$ (43.1)	$ (14.1)
Financing Activities					
Repayment of debt	$ -	$ -	$ -	$ -	$ (35.0)
Dividends	(8.9)	(7.9)	(7.9)	(16.8)	(15.8)
Share repurchases	(4.1)	-	(1.6)	(5.7)	-
Other	(0.2)	(0.1)	0.1	(0.1)	(0.5)
Cash provided by (used in) financing activities	$ (13.2)	$ (8.0)	$ (9.4)	$ (22.6)	$ (51.3)
Increase (decrease) in cash	$ (4.8)	$ 16.5	$ 11.6	$ 6.8	$ 32.1
Summary of Financial Position					
Cash and cash equivalents	$ 42.1	$ 51.1	$ 46.9		
Current assets	345.4	292.2	314.5		
Current liabilities	148.2	110.4	126.9		
Total debt	-	-	-		
Net debt (cash)(1)	(42.1)	(51.1)	(46.9)		
Shareholders' equity	589.1	547.5	574.4		
Total liquidity (2)	276.1	285.1	280.9		
Financial ratios:					
Current assets to current liabilities	2.33	2.65	2.48		
Net debt to capitalization (3)	-	-	-		

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

In the first six months of 2018, we invested $43.4 million in capital including the acquisition of and investments in our Arlington, Washington distribution and processing facility. We increased our dividend by 12.5%, returned $16.8 million to shareholders through quarterly dividends and repurchased $5.7 million of common shares while increasing our cash balance by $6.8 million.

Cash provided by operating activities during the second quarter of 2018 was $26.9 million, as compared to $29.6 million during the second quarter of 2017. The comparative period result was supplemented by a significant reduction in working capital, including log inventory. In the second quarter of 2018, we capitalized on more normal seasonal operating conditions to build our log inventory volume by 18% during what has historically been our peak harvest period.

Cash used in investing activities was $18.5 million during the second quarter of 2018, as compared to $5.1 million invested during the same period of 2017. We invested $6.1 million in strategic capital in the second quarter, including $2.2 million in building and equipment upgrades at our Arlington operation. Our strategic capital program is discussed in more detail in the "*Strategy and Outlook*" section.

Cash used in financing activities was $13.2 million during the second quarter of 2018, as compared to cash used in financing activities of $8.0 million during the same period of 2017. Incremental cash used in financing activities in the quarter reflects the repurchase of shares for cancellation under our normal course issuer bid and a 12.5% increase in our quarterly dividend amount.

Liquidity

Total liquidity increased to $276.1 million at June 30, 2018, from $269.3 million at the end of 2017. Liquidity is comprised of cash and cash equivalents of $42.1 million, unused availability under the secured revolving credit facility of $124.0 million, and $110.0 million available under the revolving term loan facility. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2018.

Capital Allocation

Normal Course Issuer Bid

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 (“Shares”) or approximately 5% of our Shares issued and outstanding.

During the three months ended June 30, 2018, we repurchased 1,563,870 Shares for cancellation at an average price of $2.59.

We have purchased and cancelled a total of 3,266,305 Shares under the normal course issuer bid at an average price of $2.56 per Share, or $8.4 million in aggregate.

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 and selling high-value specialty products 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, sale and delivery of our log and lumber products. We routinely evaluate our performance using the measure Return on Capital Employed.

For more detail on our strategic initiatives and actions, refer to “*Strategy and Outlook*” in our Management’s Discussion and Analysis for the year ended December 31, 2017.

Market Outlook

Lumber demand remains strong across all our major markets. In North America rising lumber consumption is being driven by increased new home construction and a robust repair and renovation sector. Strong economic growth in China and a government commitment to housing is supporting increased demand for lumber, while in Japan demand for our products remains steady. Higher levels of worldwide lumber consumption has driven higher pricing. As we enter the second half of 2018 pricing in North America could become more volatile due to increased global trade uncertainty and the reduction of inventory that was built up by first half logistics challenges. In Asia we anticipate seasonal pricing weakness in China while pricing in Japan should remain steady.

North American demand for our WRC products remains strong driven by record repair and renovation spending. Recently pricing has become uneven as higher prices, partially the result of the imposition of US duties on Canadian WRC shipments have led to increased competition from non-traditional substitutes. Demand and pricing for our Niche products is expected to remain firm.

Higher second quarter log harvest on the coast of BC increased saw log supply to the domestic log market. Barring any significant seasonal supply impacts, current inventories should support demand and moderate domestic saw log pricing over the remainder of 2018. In contrast we expect to see slightly higher pricing for pulp logs as we move through the year as coastal pulp mills look to increase their log inventories ahead of the winter.

Softwood Lumber Dispute and US Market Update

During the second quarter of 2018, we expensed $8.2 million of CVD and $3.5 million of AD for a total of $11.7 million, as compared to $9.2 million in the second quarter of 2017. As at June 30, 2018, the balance of CVD and AD deposits was $39.6 million.

On January 3, 2018, US Department of Commerce ("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.

In May 2018, we filed a North American Free Trade Agreement ("NAFTA") challenge to contest the US International Trade Commission's ("ITC") finding that goods manufactured from Cedar (including WRC, Yellow Cedar and Redwood species) were not a separate product group from lumber manufactured from other softwood species.

We are seeking ITC recognition that appearance-grade Cedar lumber products and structural commodity lumber differ in end-use application. A successful challenge outcome could result in "separate like product" classification and separate duty rates for Cedar products, which would position Cedar for exclusion from future softwood lumber disputes and determinations.

Rebuttal briefs from the US Lumber Coalition and US International Trade Commission are anticipated in the fourth quarter of 2018. US-bound WRC products account for approximately 85% of our total duty expense since April 2017.

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. We disagree with the US trade determination and the inclusion of specialty lumber products in this commodity lumber focused dispute.

Our shipments to the US market are predominantly high-value, appearance grade lumber, representing less than 25% of Western's total revenue in 2017. Continued strong demand and a lack of supply has supported ongoing improvements in our specialty lumber product pricing, partly offsetting the impact of duties.

Our recent acquisition of a distribution and processing centre in Arlington, Washington is expected to assist in mitigating the damaging effects of duties on our products destined for the US market while increasing US market sales. We intend to preserve our strong balance sheet and leverage our flexible operating platform to continue to overcome any challenges that arise from this trade dispute.

For a more detailed timeline of recent history of the softwood lumber dispute, refer to "*Risks and Uncertainties – Softwood Lumber Dispute*" in our Management's Discussion and Analysis for the year ended December 31, 2017.

Strategic Capital Program Update

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

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

In the second quarter of 2018, we completed the start-up of the timber deck upgrade project at our Chemainus sawmill. Our timber deck investments have resulted in incremental production of high-value, appearance-grade timbers.

In the second half of 2018, we expect to complete the latest phase of the Duke Point planer rebuild and auto-grading addition. In addition, we expect to complete approximately $12.0 million in small, high-return capital projects focused on debottlenecking our manufacturing operations.

Arlington Operation Update

In the second quarter of 2018, we implemented $2.2 million in infrastructure improvements at Arlington and began lumber distribution operations. In the third quarter of 2018, we plan to complete the infrastructure upgrades and begin equipment installation. We expect to launch secondary processing operations on schedule late in the fourth quarter of 2018.

The 18 acre Arlington operation has 170,000 square feet of covered storage with rail access and is ideally situated in close proximity to our major US sales markets.

Non-GAAP Measures

Reference is made in this MD&A to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, and Net debt to capitalization are used by the Company as benchmark measurements of our own operating results and as benchmarks relative to our competitors. 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. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's unaudited interim consolidated financial statements prepared in accordance with IFRS:

(millions of dollars except where otherwise noted)	Q2 2018	Q2 2017	Q1 2018	YTD 2018	YTD 2017
Adjusted EBITDA					
Net income	$ 27.1	$ 25.6	$ 21.7	$ 48.8	$ 41.8
Add:					
Amortization	10.9	9.3	9.8	20.7	17.9
Changes in fair value of biological assets, net	(0.2)	-	0.5	0.3	1.5
Operating restructuring items	1.3	3.7	2.2	3.5	4.2
Other (income) expense [(1)]	0.1	(0.5)	0.1	0.2	(0.3)
Finance costs	0.6	0.7	0.5	1.1	1.4
Current income tax (recovery) expense	8.0	(0.1)	0.1	8.1	0.1
Deferred income tax expense	2.6	8.3	8.0	10.6	14.4
Adjusted EBITDA	$ 50.2	$ 47.1	$ 43.0	$ 93.2	$ 81.1
Adjusted EBITDA margin					
Total revenue	$ 327.8	$ 287.4	$ 291.6	$ 619.4	$ 575.1
Adjusted EBITDA	50.2	47.1	43.0	93.2	81.1
Adjusted EBITDA margin	15.3%	16.4%	14.7%	15.0%	14.1%
Net debt to capitalization					
Net debt					
Total debt	$ -	$ -	$ -		
Cash and cash equivalents	(42.1)	(51.1)	(46.9)		
Net debt (cash)	$ (42.1)	$ (51.1)	$ (46.9)		
Capitalization					
Net debt (cash)	$ (42.1)	$ (51.1)	$ (46.9)		
Add: Shareholders' equity	589.1	547.5	574.4		
Capitalization	$ 547.0	$ 496.4	$ 527.5		
Net debt to capitalization	-	-	-		

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

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

Included in the net income to adjusted EBITDA reconciliation for the second quarter of 2017 was 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.

Accounting Policies and Standards

Please refer to Note 3 of our unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2018 for further information on the new accounting standards referenced below.

New Accounting Standards

The Company has adopted the following standards with a date of initial application of January 1, 2018, which had no significant impact on the Company's interim financial statements:

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

Accounting Standards Not Yet Applied

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2018 and have not been applied in preparing these interim financial statements. IFRS 16 *Leases* is considered by the Company to be the most significant of several pronouncements that may affect future financial statements. 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.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2017 Annual reporting, which can be found on SEDAR at www.sedar.com.

Financial Instruments and Other Instruments

We use various financial instruments to reduce the impact of movement in foreign exchange rates on our net income. Please see our Management Discussion and Analysis for the year ended December 31, 2017 for a further discussion on our use of financial instruments.

Off-Balance Sheet Arrangements

Other than operating leases for vehicles, equipment and machinery, the Company does not have any off-balance sheet arrangements as at June 30, 2018.

Related Party Transactions

Other than transactions in the normal course of business with the Board of Directors and key management personnel, the Company had no transactions between related parties in the first quarter ended June 30, 2018.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2017 Annual Report which can be found on SEDAR at www.sedar.com. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business.

Evaluation of Disclosure Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended June 30, 2018, that have materially affected or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of August 2, 2018, there were 393,248,787 common shares of the Company issued and outstanding.

We have reserved 30,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the six months ended June 30, 2018, 1,235,788 options were granted and 660,000 previously granted options were exercised. As of August 2, 2018, 12,294,271 options were outstanding under our incentive stock option plan.

Additional Information

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

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of dollars except per share amounts and where noted)		2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3
Average Exchange Rate – USD to CAD		1.291	1.265	1.271	1.253	1.345	1.323	1.334	1.305
Average Exchange Rate – CAD to USD		0.775	0.791	0.787	0.798	0.744	0.756	0.749	0.766
Financial Performance									
Revenue									
Lumber		$ 255.6	$ 228.2	$ 207.3	$ 212.5	$ 212.8	$ 225.6	$ 220.7	$ 235.6
Logs		49.0	41.2	56.6	55.5	57.2	45.5	55.1	70.0
By-products		23.2	22.2	19.2	17.2	17.4	16.6	17.2	17.1
Total revenue		$ 327.8	$ 291.6	$ 283.1	$ 285.2	$ 287.4	$ 287.7	$ 293.0	$ 322.7
Adjusted EBITDA		$ 50.2	$ 43.0	$ 38.9	$ 32.6	$ 47.1	$ 34.0	$ 33.8	$ 35.7
Adjusted EBITDA margin		15.3%	14.7%	13.7%	11.4%	16.4%	11.8%	11.5%	11.1%
Earnings per share:									
Net income, basic and diluted		$ 0.07	$ 0.05	$ 0.05	$ 0.04	$ 0.06	$ 0.04	$ 0.09	$ 0.04
Operating Statistics									
Lumber[1]									
Production	mmfbm	234	209	184	196	204	209	237	244
Shipments	mmfbm	235	215	201	220	194	225	231	252
Price	$/mfbm	$ 1,088	$ 1,061	$ 1,031	$ 966	$ 1,097	$ 1,003	$ 955	$ 935
Logs[2]									
Net production	000 m^3	1,348	1,029	1,099	911	1,091	908	919	1,153
Saw log purchases	000 m^3	305	257	343	327	249	231	337	415
Log availability	000 m^3	1,653	1,286	1,442	1,238	1,340	1,139	1,256	1,568
Shipments	000 m^3	471	361	494	369	436	364	493	651
Price[3]	$/$m^3$	$ 104	$ 114	$ 107	$ 134	$ 122	$ 116	$ 104	$ 100
Share Repurchases and Dividends									
Shares repurchased (millions)		1.6	0.6	1.1	-	-	-	-	-
Shares repurchased		$ 4.1	$ 1.6	$ 2.7	$ -	$ -	$ -	$ -	$ -
Dividends paid		$ 8.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9

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

(1) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
(2) Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.
(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.

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

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018 and 2017

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

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 42.1	$ 35.3
Trade and other receivables (Note 18)	94.1	86.2
Inventory (Note 5)	192.2	152.0
Prepaid expenses and other assets	17.0	19.0
	345.4	292.5
Non-current assets:		
Property, plant and equipment (Note 6)	338.4	313.9
Timber licenses	115.1	117.2
Biological assets (Note 7)	57.9	58.2
Other assets	17.6	17.5
Deferred income tax assets (Note 10)	0.2	0.3
	$ 874.6	$ 799.6
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 139.2	$ 98.9
Reforestation obligation (Note 11)	9.0	8.9
	148.2	107.8
Non-current liabilities:		
Reforestation obligation (Note 11)	15.7	16.4
Deferred income tax liabilities (Note 10)	39.1	28.1
Other liabilities (Note 12)	27.1	28.2
Deferred Revenue (Note 18)	55.4	56.4
	285.5	236.9
Shareholders' equity:		
Share capital (Note 13)	503.3	505.5
Contributed surplus	8.8	8.7
Retained earnings	77.0	48.5
	589.1	562.7
	$ 874.6	$ 799.6

Commitments and Contingencies (Note 14)
See accompanying notes to these unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board:

"Lee Doney"
Chairman

"Don Demens"
President and CEO

Western Forest Products Inc.
Condensed Consolidated Statements of Comprehensive Income
(Expressed in millions of Canadian dollars except for share and per share amounts) (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue (Note 18)	$ 327.8	$ 287.4	$ 619.4	$ 575.1
Costs and expenses:				
Cost of goods sold	244.0	205.7	463.4	434.0
Freight	23.1	26.4	44.4	53.5
Export tax (Note 14)	11.7	9.2	21.4	9.2
Selling and administration	9.3	8.4	17.9	16.8
	288.1	249.7	547.1	513.5
Operating income prior to restructuring items and other expense	39.7	37.7	72.3	61.6
Operating restructuring items (Note 17)	(1.3)	(3.7)	(3.5)	(4.2)
Other income (expense)	(0.1)	0.5	(0.2)	0.3
Operating income	38.3	34.5	68.6	57.7
Finance costs	(0.6)	(0.7)	(1.1)	(1.4)
Income before income taxes	37.7	33.8	67.5	56.3
Current income tax (expense) recovery (Note 10)	(8.0)	0.1	(8.1)	(0.1)
Deferred income tax expense (Note 10)	(2.6)	(8.3)	(10.6)	(14.4)
	(10.6)	(8.2)	(18.7)	(14.5)
Net income	27.1	25.6	48.8	41.8
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss) (Note 15)	0.5	(1.3)	(0.9)	(2.0)
Income tax on other comprehensive (loss) gain (Note 10)	(0.2)	0.3	0.2	0.5
Total items that will not be reclassified to profit or loss	0.3	(1.0)	(0.7)	(1.5)
Other comprehensive income (loss) for the period	0.3	(1.0)	(0.7)	(1.5)
Total comprehensive income	$ 27.4	$ 24.6	$ 48.1	$ 40.3
Net income per share (in dollars)				
Basic and diluted earnings per share	$ 0.07	$ 0.06	$ 0.12	$ 0.10
Weighted average number of common shares outstanding (thousands)				
Basic	394,813	395,478	394,896	395,463
Diluted	399,416	399,326	399,399	399,105

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

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	**Total Equity**
Balance at December 31, 2017	$ 505.5	$ 8.7	$ 48.5	$ 562.7
Net income	-	-	48.8	48.8
Other comprehensive loss:				
Defined benefit plan actuarial loss recognized	-	-	(0.9)	(0.9)
Income tax recovery on other comprehensive loss	-	-	0.2	0.2
Total comprehensive income	-	-	48.1	48.1
Share-based payment transactions recognized in equity (Note 13(b))	-	0.4	-	0.4
Exercise of stock options	0.6	(0.3)	-	0.3
Repurchase of shares (Note 13(a))	(2.8)	-	(2.8)	(5.6)
Dividends	-	-	(16.8)	(16.8)
Total transactions with owners, recorded directly in equity	(2.2)	0.1	(19.6)	(21.7)
Balance at June 30, 2018	$ 503.3	$ 8.8	$ 77.0	$ 589.1

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Net income	$ 27.1	$ 25.6	$ 48.8	$ 41.8
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	9.8	8.3	18.6	15.9
Amortization of timber licenses	1.1	1.0	2.1	2.0
Gain on disposal of assets	(0.2)	(2.0)	(0.3)	(2.3)
Impairment of assets	0.2	2.7	0.3	2.7
Change in fair value of biological assets (Note 7)	(0.2)	-	0.3	1.5
Change in reforestation obligation (Note 11)	(0.8)	(3.4)	(0.6)	(2.9)
Amortization of deferred revenue	(0.5)	(0.5)	(1.0)	(1.0)
Share-based compensation, including mark-to-market adjustment	1.2	1.0	2.7	2.6
Net finance costs	0.6	0.7	1.1	1.4
Income tax expense (Note 10)	10.6	8.2	18.7	14.5
Change in pension liability (Note 15)	(0.8)	(0.6)	(1.6)	(1.3)
Other	0.5	(0.6)	(0.1)	(1.4)
	48.6	40.4	89.0	73.5
Changes in non-cash working capital items:				
Trade and other receivables	(3.5)	0.7	(7.9)	15.4
Inventory	(32.6)	(6.3)	(40.2)	13.4
Prepaid expenses and other assets	0.4	3.1	1.9	0.3
Accounts payable and accrued liabilities	14.0	(8.3)	29.7	(5.1)
	(21.7)	(10.8)	(16.5)	24.0
	26.9	29.6	72.5	97.5
Investing activities:				
Additions to property, plant and equipment (Note 6)	(18.7)	(8.2)	(31.8)	(17.6)
Purchase of Arlington facility (Note 6)	-	-	(11.6)	-
Proceeds on disposal of assets	0.2	3.1	0.3	3.5
	(18.5)	(5.1)	(43.1)	(14.1)
Financing activities:				
Interest paid	(0.2)	(0.3)	(0.5)	(0.7)
Repayment of long-term debt (Note 9)	-	-	-	(35.0)
Repurchase of shares (Note 13)(a)	(4.1)	-	(5.7)	-
Dividends	(8.9)	(7.9)	(16.8)	(15.8)
Proceeds from exercise of stock options	-	0.2	0.4	0.2
	(13.2)	(8.0)	(22.6)	(51.3)
Increase (decrease) in cash and cash equivalents	(4.8)	16.5	6.8	32.1
Cash and cash equivalents, beginning of period	46.9	34.6	35.3	19.0
Cash and cash equivalents, end of period	$ 42.1	$ 51.1	$ 42.1	$ 51.1

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

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia and Washington State. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, British Columbia ("BC"), Canada. The unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2018 and 2017 comprise financial results of the Company and its subsidiaries. The Company's primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber and value-added lumber remanufacturing. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year ended December 31, 2017. These interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

The interim financial statements were authorized for issue by the Board of Directors on August 2, 2018.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the interim financial statements, are disclosed in the Company's annual consolidated financial statements as at and for the year ended December 31, 2017.

3. Significant accounting policies

Except as described as below, 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, 2017.

3. Significant accounting policies (continued)

(a) Changes to significant accounting policies

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

The Company has adopted IFRS 15, *Revenue from Contracts with Customers* with a date of initial application of January 1, 2018. The adoption of IFRS 15 does not have a material impact on these interim financial statements, other than in the form of additional disclosures included herein. The Company has updated its accounting policy for revenue recognition to reflect the qualitative changes of the new standard, as set out below.

In the comparative period, revenue was measured at the fair value of consideration received or receivable, net of rebates and discounts. Revenue from sale of goods was recognized when the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods and the amount of revenue could be measured reliably.

Significant accounting policy

Revenue from the sale of goods is measured based on the consideration specified in a contract with a customer, net of rebates and discounts, and after eliminating intercompany sales. Revenue is recognized when control over a product transfers from the Company to the customer. The timing of transfer of control varies depending on the individual term of the contract of sale.

Amounts charged to customers for shipping and handling are recognized as revenue as services are provided, and shipping and handling costs, lumber duties, and export taxes incurred by the Company are recorded in costs and expenses.

Nature of goods and services

The following is a description of principal activities from which the Company generates its revenue.

i. Lumber

Revenue is recognized when control over lumber is transferred to the customer. The timing of transfer of control varies depending on the individual terms of the contract of sale, but is typically at the time lumber is loaded onto the mode of transportation. The amount of revenue recognized is adjusted for discounts related to early payment at the point in time control is transferred, based on historical experience.

ii. Logs

Revenue is recognized when control over logs is transferred to the customer. The timing of transfer of control varies depending on the individual terms of the contract of sale, but is typically at the time logs are loaded onto the vessel or delivered to the transfer point, and payment is secured. No discounts are offered for logs.

iii. By-products

Revenue is recognized when control over by-products is transferred to the customer, the timing of this transfer of control varies depending on the individual terms of the contract of sale, but is typically at the time by-products leave the Company's facilities or are scaled at the pick-up location. Invoices are generated and revenue is recognized at that point in time. No discounts are offered for by-products.

IFRS 9, Financial Instruments ("IFRS 9")

The Company has adopted IFRS 9, *Financial Instruments*, with a date of initial application of January 1, 2018. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities, and certain contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement,* ("IAS 39"). It largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

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

3. Significant accounting policies (continued)

(a) Changes to significant accounting policies (continued)

IFRS 9 eliminates IAS 39 categories for financial assets of held to maturity, loans and receivables, and available for sale. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification of financial assets is set out below.

Classification and measurement of financial assets

Under IFRS 9, on initial recognition, a financial asset is classified as either measured at amortized cost, fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit and loss ("FVTPL"). This classification of a financial asset is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions, and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company does not currently have any debt or equity investments classified as measured at FVOCI.

All financial assets not measured at amortized cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so reduces an accounting mismatch that would otherwise arise.

A financial asset not measured at FVTPL is initially measured at fair value plus transaction costs that are directly attributable to its acquisition. Trade and other receivables without a significant financing component are initially measured at the transaction price.

Financial assets at FVTPL: These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income are recognized in net income.

Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment are recognized in net income. Any gain or loss on derecognition is also recognized in net income.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at January 1, 2018.

	Original Classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Forward exchange contracts	Designated as at fair value	Mandatorily at FVTPL	$0.7	$0.7
Investments	Held to maturity	Mandatorily at FVTPL	5.1	5.1
Cash and cash equivalents	Loans and receivables	Amortized cost	35.3	35.3
Trade and other receivables	Loans and receivables	Amortized cost	85.5	85.5
Total financial assets			**$126.6**	**$126.6**

3. Significant accounting policies (continued)

(a) Changes to significant accounting policies (continued)

Impairment of financial assets

IFRS 9 also replaces the incurred loss model in IAS 39 with an expected credit loss (“ECL”) model. The new impairment model applies to financial assets measured at amortized costs, contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The financial assets held at amortized cost consist of cash and cash equivalents and trade and other receivables.

Under IFRS 9, loss allowances are measured on either of 12 month ECLs where the ECLs result from all possible default events within the 12 months after the reporting date; or lifetime ECLs, where the ECLs result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to 12 month ECLs for cash and cash equivalent balances where credit risk has not increased significantly since initial recognition. The Company has elected to measure loss allowances for trade receivables and any future contract assets at an amount equal to lifetime ECLs

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls and are discounted at the effective interest rate of the financial asset. At each reporting date the Company assesses whether financial assets carried at amortized costs are credit-impaired. A financial asset is considered credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of comprehensive income.

No adjustment to credit losses was required on adoption of IFRS 9.

(b) Standards and interpretations not yet adopted

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.

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

5. Inventory

	June 30, 2018	December 31, 2017
Gross value of inventory		
Logs	$ 139.9	$ 109.5
Lumber	49.7	36.8
Supplies and other	12.6	14.1
	$ 202.2	$ 160.4
Provisions		
Logs	$ (7.2)	$ (5.7)
Lumber	(2.3)	(2.2)
Supplies and other	(0.5)	(0.5)
	$ (10.0)	$ (8.4)
Total value of inventory	$ 192.2	$ 152.0

The carrying amount of inventory recorded at net realizable value was $46.5 million at June 30, 2018 (December 31, 2017: $51.3 million), with the remaining inventory recorded at cost.

During the three and six months ended June 30, 2018, $244.0 million and $463.4 million, respectively (2017: $205.7 million and $434.0 million, respectively) of inventory was charged to cost of goods sold. This includes an increase to the provision for write-down to net realizable value of $1.3 million and $1.6 million for the three and six months ended June 30, 2018, respectively (2017: decrease of $0.4 million and $3.6 million, respectively).

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

6. Property, plant and equipment

Cost	Buildings & equipment	Logging roads	Land	**Total**
Balance at January 1, 2017	$ 302.8	$ 178.4	$ 90.6	$ 571.8
Additions	41.7	13.5	-	55.2
Disposals	(2.6)	-	(2.8)	(5.4)
Balance at December 31, 2017	341.9	191.9	87.8	621.6
Additions	25.5	6.3	-	31.8
Arlington facility	7.9	-	3.7	11.6
Disposals	(1.3)	-	-	(1.3)
Balance at June 30, 2018	$ 374.0	$ 198.2	$ 91.5	$ 663.7
Accumulated amortization and impairments				
Balance at January 1, 2017	$ 130.1	$ 144.5	$ -	$ 274.6
Amortization	20.0	12.3	-	32.3
Disposals	(2.0)	-	-	(2.0)
Impairments	2.7	-	0.1	2.8
Balance at December 31, 2017	150.8	156.8	0.1	307.7
Amortization	11.0	7.6	-	18.6
Disposals	(1.3)	-	-	(1.3)
Impairments	0.1	-	0.2	0.3
Balance at June 30, 2018	$ 160.6	$ 164.4	$ 0.3	$ 325.3
Carrying amounts				
At December 31, 2017	$ 191.1	$ 35.1	$ 87.7	$ 313.9
At June 30, 2018	$ 213.4	$ 33.8	$ 91.2	$ 338.4

On January 17, 2018, the Company completed the acquisition of the assets of a lumber distribution and processing centre in Arlington, Washington for a total purchase price, including related transaction costs, of $11.6 million.

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

7. Biological assets

(a) *Reconciliation of carrying amount*

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Carrying value, beginning of period	$ 57.7	$ 56.1	$ 58.2	$ 57.6
Change in fair value due to growth and pricing	1.4	1.7	2.8	2.8
Harvested timber transferred to inventory	(1.2)	(1.7)	(3.1)	(4.3)
Carrying value, end of period	$ 57.9	$ 56.1	$ 57.9	$ 56.1

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

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

At June 30, 2018, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2017: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to mature forest available for harvest. During the three and six months ended June 30, 2018, the Company harvested and scaled approximately 31,016 cubic metres ("m^3") and 81,874 m^3, respectively (2017: 26,072 m^3 and 110,464 m^3, respectively), of logs from its private timberlands, which had a fair value less costs to sell of $95 per m^3 and $101 per m^3, respectively at the date of harvest (2017: $119 per m^3 and $113 per m^3, respectively).

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

(b) *Measurement of fair values*

The fair value measurement for the Company's standing timber of $57.9 million, is measured at fair value less costs to sell. The valuation technique used is discounted cash flows combined with market comparison.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at June 30, 2018 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

	June 30, 2018	December 31, 2017
Available	$ 125.0	$ 125.0
Outstanding letters of credit	1.0	1.0
Unused portion of Facility	$ 124.0	$ 124.0

The Company's revolving credit facility (the "Facility") provides for a maximum borrowing amount of $125 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, 2018. 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 3.60% at June 30, 2018 (December 31, 2017: 3.20%).

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

8. Revolving credit facility (continued)

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants. The Company was in compliance with its financial covenants at June 30, 2018.

9. Debt

	June 30, 2018	December 31, 2017
Available	$ 110.0	$ 110.0
Drawings	-	-
Unused portion of Term Loan	$ 110.0	$ 110.0

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of $110 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 3.45% at June 30, 2018 (December 31, 2017: 3.35%).

The Term Loan is secured by a first lien interest over all of the Company's properties and assets, excluding accounts receivable and inventory, over which it has a second lien interest, and includes financial covenants. The Company was in compliance with its financial covenants at June 30, 2018. Transaction costs are deferred and amortized to finance costs over the term of the Term Loan using the effective interest rate method.

At June 30, 2018, there were no amounts outstanding under the Company's Term Loan and as a result, the associated deferred transaction costs of $0.2 million are included in other assets on the statement of financial position.

10. Income taxes

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Current income tax (recovery) expense	$ (8.0)	$ 0.1	$ (8.1)	$ (0.1)
Deferred income tax expense	(2.6)	(8.3)	(10.6)	(14.4)
	$ (10.6)	$ (8.2)	$ (18.7)	$ (14.5)

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Income before income taxes	$ 37.7	$ 33.8	$ 67.5	$ 56.3
Income tax expense at statutory rate of 27% (2017 - 26%)	(10.2)	(8.8)	(18.2)	(14.6)
Permanent differences	(0.4)	0.6	(0.5)	0.1
	$ (10.6)	$ (8.2)	$ (18.7)	$ (14.5)

In addition to the amounts recorded to net income, a deferred tax expense of $0.2 million and recovery of $0.2 million was recorded to other comprehensive income for the three and six month periods ended June 30, 2018, respectively (2017: recovery of $0.3 million and $0.5 million, respectively) in relation to current period actuarial gains and losses on defined benefit employee future benefit obligations.

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

11. Reforestation obligation

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Reforestation obligation, beginning of period	$ 25.5	$ 29.3	$ 25.3	$ 28.9
Reforestation provision charged	2.4	0.3	4.1	1.8
Reforestation expenditures	(3.3)	(3.7)	(4.9)	(4.9)
Unwind of discount	0.1	-	0.2	0.1
Reforestation obligation, end of period	24.7	25.9	24.7	25.9
Less current portion	9.0	10.2	9.0	10.2
	$ 15.7	$ 15.7	$ 15.7	$ 15.7

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 1.72% to 2.17%. The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at June 30, 2018 is $26.3 million (December 31, 2017: $26.7 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the period.

12. Other liabilities

	June 30, 2018	December 31, 2017
Employee future benefits obligation (Note 15)	$ 20.8	$ 21.4
Environmental accruals	3.1	3.1
Performance share unit plan liabilities, non-current (Note 13(d))	1.8	2.5
Other	1.4	1.2
	$ 27.1	$ 28.2

13. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares	Amount
Balance at December 31, 2017	394,776,092	$ 505.5
Exercise of stock options	660,000	0.6
Repurchase of shares	(2,187,305)	(2.8)
Balance at June 30, 2018	393,248,787	$ 503.3

(b) Stock option plan

The Company has an incentive stock option plan (the "Option Plan"), which permits the granting of options to eligible participants to purchase up to an aggregate of 30,000,000 Common Shares.

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

During the first quarter of 2018, the Company granted 1,235,788 options with a fair value of $0.9 million as determined by the Black-Scholes option pricing model, using the assumptions of an average exercise price of $2.74 per share, risk free interest rate of 2.28%, a volatility rate of 33.81%, and an expected life of seven years. At June 30, 2018, 12,294,271 options (December 31, 2017: 11,718,483) were outstanding under the Company's Option Plan, with a weighted average exercise price of $1.73 per share.

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

13. Share capital (continued)

(b) Stock option plan (continued)

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Number of Options	Weighted average exercise price		Number of Options	Weighted average exercise price	
Outstanding, beginning of period	11,718,483	$	1.56	11,235,585	$	1.50
Granted	1,235,788	$	2.74	1,657,877	$	2.09
Exercised	(660,000)	$	0.59	(138,797)	$	1.36
Forfeited	-	$	-	(174,039)	$	2.04
Outstanding, end of period	12,294,271	$	1.73	12,580,626	$	1.57

During the three and six months ended June 30, 2018, the Company recorded a compensation expense for these stock options of $0.2 million and $0.4 million, respectively (2017: $0.2 million and $0.4 million, respectively).

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

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

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

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Number of DSU	Weighted average unit value		Number of DSU	Weighted average unit value	
Outstanding, beginning of period	1,282,219	$	1.18	1,100,073	$	0.98
Granted	81,663	$	2.71	97,346	$	2.21
Outstanding, end of period	1,363,882	$	1.27	1,197,419	$	1.08

During the three and six months ended June 30, 2018, the Company recorded compensation expense of $0.1 million and $0.3 million for these DSUs, respectively (2017: $0.2 million and $0.6 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.

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

13. Share capital (continued)

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Outstanding, beginning of period	1,665,153	1,510,152	1,582,285	952,236
Granted	13,369	47,704	525,239	605,620
Redeemed	-	-	(429,002)	-
Outstanding, end of period	1,678,522	1,557,856	1,678,522	1,557,856

During the three months and six months ended June 30, 2018, the Company recorded compensation expense for these PSUs of $0.8 million and $1.8 million, respectively (2017: $0.8 million and $1.7 million, respectively), with a corresponding adjustment to accounts payable and accrued liabilities and other liabilities.

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.

Based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2018.

Litigation and claims

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

Key dates in the softwood lumber duty dispute

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

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

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

Lumber duties and export tax

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

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

14. Commitments and contingencies (continued)

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

Incremental export duty recoveries from any future change in CVD and AD rates will be netted against export tax expense and included in other assets.

Tax correspondence

In May 2018, the Company received correspondence from the Canada Revenue Agency (“CRA”) regarding certain restructuring transactions, occurring in 2004 and 2007 to 2011, and the general anti-avoidance rule. Management believes the CRA’s position is without merit. Management is prepared to defend its position if a notice of reassessment is issued, and as such, the Company has not recognized any income tax provision at June 30, 2018 relating to this matter.

15. Employee future benefits

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

	June 30, 2018	December 31, 2017
Present value of obligations	$ 132.0	$ 133.9
Fair value of plan assets	(111.2)	(112.5)
Liability recognized in the statement of financial position (Note 12)	$ 20.8	$ 21.4

The change in the liability recognized in the statement of financial position at June 30, 2018 was due primarily to contributions, offset by actuarial losses resulted from lower than expected return on plan assets. The discount rate used as at June 30, 2018 was 3.35% per annum (December 31, 2017: 3.35% per annum).

The Company expects to make funding contributions to its defined benefit plans of $3.1 million during 2018.

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. The Company’s investments and foreign currency forward contracts are measured based on Level 2 of the fair value hierarchy. There has been no movement between fair value levels since December 31, 2017.

	June 30, 2018			December 31, 2017		
	Mandatory at at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets						
Investments	$ 5.1	$ -	$ 5.1	$ 5.1	$ -	$ 5.1
Foreign currency forward contracts	-	-	-	0.7	-	0.7
Cash and cash equivalents	-	42.1	42.1	-	35.3	35.3
Trade and other receivables	-	93.9	93.9	-	85.5	85.5
Total financial assets	$ -	$ 136.0	$ 141.1	$ 5.8	$ 120.8	$ 126.6
	Mandatory at FVTPL	**Other Financial Liabilities**	**Total**	**Mandatory at FVTPL**	**Other Financial Liabilities**	**Total**
Financial liabilities						
Foreign currency forward contracts	$ 1.7	$ -	$ 1.7	$ -	$ -	$ -
Revolving credit facility (Note 8)	-	-	-	-	-	-
Accounts payable and accrued liabilities	-	134.7	134.7	-	98.9	98.9
Debt (Note 9)	-	-	-	-	-	-
Total financial liabilities	$ 1.7	$ 134.7	$ 136.4	$ -	$ 98.9	$ 98.9

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

16. Financial instruments – fair values (continued)

As at June 30, 2018, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 200.0 million at an average rate of JPY 82.76 per CAD with maturities through July 23, 2018, and an aggregate USD$77.0 million at an average rate of CAD$1.29 per USD with maturities through September 27, 2018.

All foreign currency gains or losses related to currency forward contracts to June 30, 2018 have been recognized in revenue for the period and the fair value of these instruments at June 30, 2018 was a net liability of $1.7 million, which is included in accounts payable and accrued liabilities on the statement of financial position (December 31, 2017: net asset of $0.7 million). A net loss of $1.7 million was recognized on contracts which were settled in the six months ended June 30, 2018 (2017: net gain of $0.1 million), which was included in revenue for the period.

17. Operating restructuring items

Included in the operating restructuring expense in the second quarter of 2018 is $0.6 million of non-operating costs pertaining to the indefinite curtailment of the Company's Somass sawmill and $0.2 million of costs incurred to retrain employees impacted by the closure of the Englewood train. The Company announced the indefinite curtailment of the Somass sawmill, located in Port Alberni, BC, on July 27, 2017.

18. Revenue

Disaggregation of revenue

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Primary geographical markets				
Canada	$ 127.2	$ 93.9	$ 237.3	$ 179.4
United States	79.1	79.9	149.6	162.0
China	50.7	50.4	93.7	101.9
Japan	41.1	33.6	82.0	72.3
Other	26.2	22.9	49.4	43.9
Europe	3.5	6.7	7.4	15.6
	$ 327.8	$ 287.4	$ 619.4	$ 575.1
Major Products				
Lumber	$ 255.6	$ 212.8	$ 483.8	$ 438.4
Logs	49.0	57.2	90.2	102.7
By-products	23.2	17.4	45.4	34.0
	$ 327.8	$ 287.4	$ 619.4	$ 575.1

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

18. Revenue (continued)

Contract balances

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

	June 30, 2018	June 30, 2017
Receivables, which are included in Trade and other receivables	$ 94.1	$ 91.6
Contract assets	-	-
Contract liabilities	55.4	57.4

The contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract and are recognized as deferred revenue, for which revenue is recognized straight-line over the term of the contract. The contract liabilities decreased $1.0 million during the six months ended June 30, 2018 as the amount was recognized as revenue.

Contract costs

The Company will capitalize costs to obtain contracts and amortize fees when related revenues are recognized, where the amortization period is greater than one year.

Western Forest Products Inc.

DEFINING A HIGHER STANDARD™

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

www.westernforest.com
info@westernforest.com

Trading on the TSX as “WEF”