Western Forest Products Inc.

2018 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, 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 nine months ended September 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 nine months ended September 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 "will", "estimate", "project", "expect", "anticipate", "plan", "intend", "believe", "seek", "should", "may", "likely", "pursue" and similar references to future periods. Forward-looking statements in this MD&A include, but are not limited to, statements relating to: our current intent, belief or expectations with respect to: market and general economic conditions, accounting standards, future costs, 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 within which the Company currently operates, there can be no assurance that forward-looking statements are accurate, and actual results and performance may materially vary. Many factors could cause our actual results or performance to be materially different including: general economic conditions, international demand for lumber, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, the availability of allowable annual cut, changes in regulations or public policy affecting the forest industry, changes in opportunities and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements.

Unless otherwise noted, the information in this discussion and analysis is updated to November 7, 2018.

[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	Q3 2018	Q3 2017	Q2 2018	YTD 2018	YTD 2017
Summary Information						
Revenue						
Lumber		$ 238.2	$ 212.5	$ 255.6	$ 722.0	$ 650.9
Logs		33.6	55.5	49.0	123.8	158.2
By-products		20.7	17.2	23.2	66.1	51.2
Total revenue		$ 292.5	$ 285.2	$ 327.8	$ 911.9	$ 860.3
Export tax		$ 11.5	$ 6.5	$ 11.7	$ 32.9	$ 15.7
Adjusted EBITDA		$ 32.3	$ 32.6	$ 50.2	$ 125.5	$ 113.7
Adjusted EBITDA margin		11.0%	11.4%	15.3%	13.8%	13.2%
Operating income prior to restructuring items and other income		$ 23.4	$ 25.1	$ 39.7	$ 95.7	$ 86.7
Net income for the period		15.1	13.6	27.1	63.9	55.4
Basic and diluted earnings per share (in dollars)		$ 0.04	$ 0.04	$ 0.07	$ 0.16	$ 0.14
Operating Information						
Lumber						
Lumber Shipments – millions of board feet[(2)]						
Western Red Cedar		51	56	53	158	178
Japan Specialty		31	39	35	101	113
Niche		24	21	25	72	65
Commodity		106	104	122	331	282
Total		212	220	235	662	638
Lumber Production – millions of board feet		221	196	234	664	609
Lumber Price – per thousand board feet		$ 1,124	$ 966	$ 1,088	$ 1,091	$ 1,020
Logs						
Log Shipments – thousands of cubic metres						
Export		10	163	37	64	375
Domestic		189	132	337	814	577
Pulp		109	74	97	262	218
Total		308	369	471	1,140	1,170
Net production – thousands of cubic metres[(3)]		815	911	1,348	3,193	2,909
Saw log purchases – thousands of cubic metres		197	327	305	759	811
Log Price – per cubic metre[(4)]		$ 109	$ 134	$ 104	$ 109	$ 124
Illustrative Lumber Average Price Data[(5)]	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	c.i.f. dest. N Euro	$ 5,150	$ 4,629	$ 5,100	$ 5,089	$ 4,538
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	$ 1,503	$ 1,535	$ 1,524	$ 1,517	$ 1,469
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	$ 2,215	$ 1,853	$ 2,113	$ 2,097	$ 1,747
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net f.o.b. Mill	$ 1,180	$ 1,195	$ 1,180	$ 1,180	$ 1,122
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	$ 1,000	$ 790	$ 995	$ 932	$ 755
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	$ 1,235	$ 1,040	$ 1,211	$ 1,185	$ 1,016
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	$ 1,080	$ 1,060	$ 1,078	$ 1,073	$ 1,060
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	$ 1,398	$ 1,074	$ 1,398	$ 1,373	$ 977
Hemlock Lumber 2x4 (40x90) Metric RG Utility[(6)]	c.i.f. dest. Shanghai	$ 527	$ 447	$ 507	$ 501	$ 436
Average Exchange Rate – CAD to USD		0.765	0.798	0.775	0.777	0.765
Average Exchange Rate – CAD to JPY		85.32	88.59	84.55	85.14	85.62

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

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

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

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

(5) Source: Random Lengths. $USD/Mfbm, except where noted.

(6) Source: China Bulletin.

Summary of Third Quarter 2018 Results

Adjusted EBITDA for the third quarter of 2018 was $32.3 million, as compared to $32.6 million from the same period of last year. Stronger specialty market pricing, an improved supply chain, and a weaker Canadian dollar offset the impacts of incremental US lumber export duties, higher stumpage costs, fire-related operating curtailments, and a significant decline in commodity lumber pricing that impacted sales volumes in the quarter. Operating income prior to restructuring items and other income decreased to $23.4 million from $25.1 million in the same period last year.

Sales

Lumber revenue was $238.2 million, an increase from $212.5 million in the third quarter of 2017, as continued strong global demand for specialty lumber delivered a 16% increase in average price realizations, despite a weakening sales mix. Total lumber sales volumes decreased by 4%. Western Red Cedar ("WRC") shipments decreased 9% as the market availability of cedar logs for purchase was significantly reduced due to the severe coastal fire conditions. A lack of Douglas Fir log availability was the primary contributor in a 21% reduction in Japan lumber shipments. Commodity lumber volumes increased to 50% of our lumber shipments from 47% in the same period last year. The Canadian dollar ("CAD") was 4% lower on average against the United States dollar ("USD") which helped to offset a weaker lumber sales mix.

Third quarter log revenue was $33.6 million in 2018, a decrease of $21.9 million from the same period last year. Improved log market pricing was more than offset by a weaker domestic log sales mix. Log shipments decreased by 17% as compared to the third quarter of 2017 as we suspended our export log sales program to direct additional 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 $20.7 million in the third quarter of 2018, from $17.2 million in the same period in 2017. Higher chip pricing was driven by improved pulp markets and a weaker CAD over the same period last year.

Operations

Lumber production was 221 million board feet, a 13% increase over the third quarter of 2017. Well positioned opening log inventory supported increased sawmill operating hours. Third quarter manufacturing costs were lower than the same period last year due to increased production and a heavier mix of commodity lumber. Increased competition for small diameter logs from the pulp manufacturers and the export market led to a one week curtailment at our Ladysmith sawmill in the quarter.

Third quarter log production was 815,000 cubic metres, 11% lower than the same period last year. Coastal fire conditions led to the full curtailment of timberlands operations for August and early September. During the curtailment, we directed personnel and equipment to aid in coastal BC firefighting efforts. Despite the challenging operating conditions, closing log inventory was 15% higher compared to the same quarter of 2017.

Harvest costs increased by 12% from the third quarter of 2017, primarily driven by higher stumpage rates and reduced production. Coastal stumpage inflation is the result of recent Provincial rate equation updates, the ongoing influence of coastal log exports and rising market pricing.

Saw log purchases were 197,000 cubic metres, a 40% decrease from the same quarter last year. The extent and severity of the fire season, combined with increased demand from pulp manufacturers and export markets, reduced log supply to domestic sawmills and drove log prices higher.

Freight expense decreased by $4.9 million as compared to the third quarter of 2017. Significantly reduced export log sales and lower lumber shipments to Japan offset the impact of a weaker CAD on USD-denominated freight charges.

Adjusted EBITDA and operating income results for the third quarter of 2018 include $11.5 million of countervailing duty ("CVD") and anti-dumping duty ("AD"). In the same quarter last year, we recognized $6.5 million of export duties as CVD was not in effect after August 25, 2017.

Selling and Administration Expense

Third quarter selling and administration expense was $6.5 million in 2018, as compared to $8.6 million in the same period last year. A decline in our common share price over the quarter resulted in a $1.7 million mark-to-market recovery related to share-based compensation plans.

Net Income

Net income for the third quarter of 2018 was $15.1 million, as compared to $13.6 million for the same period of 2017. Operating margins were reduced by higher export taxes, partly offsetting lower freight and restructuring items.

Arlington Operation Update

In the third quarter of 2018, we invested $5.9 million in Arlington infrastructure and equipment upgrades and 23% of all third quarter US-bound shipments were distributed through the facility. With infrastructure upgrades substantially complete, we will increase the portion of US-bound shipments distributed through Arlington and continue equipment installation. We expect to begin secondary processing operations early in the first quarter of 2019.

Summary of Year to Date 2018 Results

Adjusted EBITDA for the first nine months of 2018 was $125.5 million, a 10% improvement from the same period in 2017. Operating income prior to restructuring items and other income increased to $95.7 million from $86.7 million in the same period last year.

Sales

Lumber revenue increased to $722.0 million, compared to $650.9 million in the first nine months of 2017 due to higher sales volumes and price realizations. Average lumber price realizations were 7% higher period-over-period despite proportionately higher commodity sales. Commodity lumber increased to 50% of total lumber shipments in the first nine months of 2018, from 44% in the same period last year. Conversely, WRC lumber shipments declined from 28% to 24% over those same periods, due to reduced coastal log supply.

Log revenue was $123.8 million in the first nine months of 2018, a decrease of $34.4 million from the same period of 2017. Lower revenue was the result of the suspension of our export log sales program in 2018 to supply our coastal sawmills, a 2% decrease in overall log shipments and a weaker domestic log sales mix.

By-products revenue increased to $66.1 million in the first nine months of 2018, from $51.2 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 nine months of 2018 include $32.9 million of export duty expense, an increase of $17.2 million compared to the same period in 2017. In addition, stumpage costs have increased approximately $24.7 million in the first nine months of 2018.

Lumber production was 664 million board feet, a 9% increase over the same period of 2017. In addition, we produced 14 million board feet equivalent of custom cut production for a third party in the first quarter of 2018, which are not reflected in our lumber production volume. Higher opening log inventory supported more efficient manufacturing and increased production. Operating costs were driven lower year-over-year through increased sawmill operating hours, a heavier mix of commodity lumber and incremental benefits realized from our strategic capital initiatives.

The recapitalization of our Duke Point sawmill has supported a 25% increase in operating hours compared to the same period last year. We further increased operating hours at Duke Point in the fourth quarter. The ramp-up of our newly rebuilt Duke Point planer operation has supported the reduction of higher-cost, third-party processing volumes, while growing our production of finished lumber products.

The cost benefits of these operating improvements were partly offset by increased production at higher-cost third party custom cut facilities, which we used to optimize cut schedules at our sawmills and grow overall production. Custom cut volumes grew to 10% of total production from 7% in the third quarter of 2017.

Log production for the first nine months of 2018 was 3,193,000 cubic metres, 10% higher than the same period last year, as we capitalized on improved operating conditions in the first half of 2018. Incremental stumpage expense, a greater percentage of grapple yarding and a change in the mix of operations in the first nine months of 2018 contributed to 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 domestic log customers.

We supplemented our internal log supply with saw log purchases of 759,000 cubic metres, a 6% decrease from the same period last year. Severe fire conditions significantly curtailed coastal harvest and limited market log availability in the third quarter. Increased pricing for purchased logs was driven by strong demand, higher coastal export volumes and fire-related supply constraints.

Freight expense decreased by $14.0 million as compared to the first nine months of 2017, due primarily to reduced export log shipments.

Selling and Administration Expense

Selling and administration expense for the first nine months of 2018 was $24.4 million, as compared to $25.4 million in the same period last year. Mark-to-market recovery related to share-based compensation plans more than offset incremental expense related to foundational system and process improvements in support of our growth strategy.

Net Income

Net income for the first nine months of 2018 was $63.9 million, as compared to $55.4 million for the same period of 2017. Improved operating margins and reduced operating restructuring items were partly offset by higher income tax expense.

Operating Restructuring Items

We incurred $1.7 million of operating restructuring items in the third quarter of 2018, as compared to $7.1 million in the third quarter of 2017. Operating restructuring items in the third quarter of 2018 include $0.9 million relating to the remediation of the Nanaimo sawmill site and $0.5 million relating to the indefinite curtailment of our Somass sawmill. We recognized $6.2 million in voluntary severance related to the indefinite curtailment of our Somass sawmill in the third quarter of 2017.

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

Income Taxes

We used our remaining non-capital loss carryforwards during the second quarter of 2018, which will result in cash taxes payable for the tax year ending December 31, 2018. Accordingly, current income tax expense of $6.2 million and deferred income tax recovery of $0.5 million, respectively, were recognized in net income in the third quarter of 2018. Total income tax expense increased by $1.5 million from the third quarter of 2017 as a result of 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 as at September 30, 2018 relating to this matter.

Change to Board of Directors

Ms. Suzanne Blanchet tendered her resignation from the Board of Directors effective November 8, 2018, for personal reasons. The Company intends to fill the director vacancy through its ongoing candidate search.

Financial Position and Liquidity

(millions of dollars except where otherwise noted)	Q3 2018	Q3 2017	Q2 2018	YTD 2018	YTD 2017
Selected Cash Flow Items					
Operating Activities					
Net income	$ 15.1	$ 13.6	$ 27.1	$ 63.9	$ 55.4
Amortization	9.6	9.0	10.9	30.3	26.9
Other	1.2	0.5	10.6	20.7	14.6
Subtotal	25.9	23.1	48.6	114.9	96.9
Change in non-cash working capital	14.2	10.3	(21.7)	(2.3)	34.0
Cash provided by (used in) operating activities	$ 40.1	$ 33.4	$ 26.9	$ 112.6	$ 130.9
Investing Activities					
Additions to property, plant and equipment	$ (17.7)	$ (11.4)	$ (14.5)	$ (43.2)	$ (28.0)
Additions to capital logging roads	(3.0)	(3.7)	(4.2)	(9.3)	(4.7)
Purchase of Arlington facility	-	-	-	(11.6)	-
Other	0.8	3.5	0.2	1.1	7.0
Cash provided by (used in) investing activities	$ (19.9)	$ (11.6)	$ (18.5)	$ (63.0)	$ (25.7)
Financing Activities					
Repayment of debt	$ -	$ -	$ -	$ -	$ (35.0)
Dividends	(8.8)	(7.9)	(8.9)	(25.6)	(23.7)
Share repurchases	(10.4)	-	(4.1)	(16.1)	-
Other	(0.3)	0.2	(0.2)	(0.4)	(0.3)
Cash provided by (used in) financing activities	$ (19.5)	$ (7.7)	$ (13.2)	$ (42.1)	$ (59.0)
Increase (decrease) in cash	$ 0.7	$ 14.1	$ (4.8)	$ 7.5	$ 46.2
Summary of Financial Position					
Cash and cash equivalents	$ 42.8	$ 65.2	$ 42.1		
Current assets	324.6	304.8	345.4		
Current liabilities	146.0	119.2	148.2		
Total debt	-	-	-		
Net debt (cash)(1)	(42.8)	(65.2)	(42.1)		
Shareholders' equity	586.6	555.3	589.1		
Total liquidity (2)	291.8	299.2	276.1		
Financial ratios:					
Current assets to current liabilities	2.22	2.56	2.33		
Net debt to capitalization (3)	-	-	-		

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

In the first nine months of 2018, we invested $64.1 million in capital including $19.7 million for the acquisition of and upgrades to our Arlington, Washington distribution and processing facility. We increased our dividend by 12.5%, returning $25.6 million to shareholders through quarterly dividends, and repurchased $16.1 million of our common shares while increasing our cash balance by $7.5 million.

Cash provided by operating activities during the third quarter of 2018 was $40.1 million, as compared to $33.4 million during the third quarter of 2017. The reduction of working capital in the third quarter of 2018 resulted from the seasonal draw-down of log inventory.

Cash used in investing activities was $19.9 million during the third quarter of 2018, as compared to $11.6 million invested during the same period of 2017. We invested $8.5 million in strategic capital in the third quarter, including $5.9 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 $19.5 million during the third quarter of 2018, as compared to cash used in financing activities of $7.7 million during the same period of 2017. Incremental cash used in financing activities in the quarter reflects $10.4 million used to repurchase common shares for cancellation under our normal course issuer bid and a 12.5% increase in our quarterly dividend amount.

Liquidity

On August 8, 2018, we announced the execution of a new $250 million syndicated credit facility. The facility, which matures on August 1, 2022, includes an accordion feature to access an additional $100 million of debt.

Total liquidity increased to $291.8 million at September 30, 2018, from $269.3 million at the end of 2017. Liquidity is comprised of cash and cash equivalents of $42.8 million and unused availability under the credit facility of $249.0 million. 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 3, 2018, we announced the renewal of our normal course issuer bid permitting us to purchase and cancel up to 19,662,439 of our common shares (“Shares”) or approximately 5% of our Shares issued and outstanding.

We accelerated Share repurchases in the three months ended September 30, 2018. We repurchased 4,592,400 Shares for cancellation at an average price of $2.27, or $10.4 million in aggregate, in that period.

We have purchased and cancelled a total of 7,858,705 Shares under the normal course issuer bid at an average price of $2.39 per Share, or $18.8 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.

Sales & Marketing Strategy Update

We are progressing with the execution of our sales and marketing strategy that focuses on the production and sale of targeted, high-margin products of scale to selected customers. We supplement our key product offerings with purchased lumber to deliver the suite of products our customers require. To accelerate and lead our sales and marketing initiatives, we are pleased to announce the following executive management additions.

Bruce Alexander will join Western in the fourth quarter of 2018 as the Senior Vice President, Sales, Marketing and Manufacturing. Mr. Alexander is an experienced executive and brings over 30 years of sales, manufacturing and management experience in the forest products and manufacturing industries, including on the coast of BC. Mr. Alexander will be responsible for positioning Western as the leading global supplier of specialty building materials. Common leadership of sales, marketing and manufacturing business units will drive alignment between these functions, and is expected to optimize the production of targeted products of scale and grow our selected customer base worldwide.

Don McGregor joined Western as Vice President, Wholesale Lumber in October 2018. Mr. McGregor brings almost 30 years of lumber marketing experience, including more than 20 years as President of Vanport Canada, a leading wholesale lumber company. Mr. McGregor is responsible for leading wholesale lumber operations and, in building relationships with global suppliers, broadening the scope of our specialty product offerings. Through the existing industry-leading product portfolio and complementary supply from new supply relationships, Don will expand product offerings to deliver greater value to our selected customers.

Market Outlook

Despite the recent volatility in commodity lumber, long-term market fundamentals remain unchanged. 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 lumber consumption remains steady.

On a year-to-date basis, we have increased China lumber shipments by 5% while the overall decline in revenue from China is due to temporarily suspending our export log sales program. As noted above, lumber shipments to Japan have declined due to limited Douglas Fir log availability.

Specialty lumber demand has remained relatively strong despite volatile commodity lumber markets. In North America, supply has exceeded demand for commodity lumber as new home construction has been somewhat weaker than expected. In response, buyers in North American and China slowed purchasing in the quarter in anticipation of continued price declines. We expect markets to remain volatile through the seasonally slower fourth quarter.

North American demand for our WRC products remains generally stable however we are experiencing typical fourth quarter seasonal weakness, particularly in the oversupplied narrow-width market. Commodity market uncertainty is expected to have an impact on pricing for our Niche and Japan products.

Declining lumber markets have started to influence domestic saw log pricing. We expect to see lower log prices as we move through the fourth quarter. In contrast we expect improved pulp log pricing due to limited log supply.

Softwood Lumber Dispute and US Market Update

During the third quarter of 2018, we expensed $8.0 million of CVD and $3.5 million of AD for a total of $11.5 million, as compared to $6.5 million in the third quarter of 2017. As at September 30, 2018, the balance of CVD and AD on deposit was $50.3 million.

On January 3, 2018, US Department of Commerce 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 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 outcome could result in “separate like product” classification and separate duty rates for Cedar products and could position Cedar for exclusion from future softwood lumber disputes and determinations.

Rebuttal briefs from the US Lumber Coalition and US International Trade Commission were received in October 2018, and we anticipate filing a response in December 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 third quarter of 2018, we continued to make advancements with the latest phase of the Duke Point planer rebuild and auto-grading addition, and progressed on a number of small, high-return capital projects focused on debottlenecking our manufacturing operations. We expect to complete the latest phase of the Duke Point planer rebuild and auto-grading addition in the fourth quarter of 2018.

Non-GAAP Measures

Reference is made in this MD&A to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, and Net debt to capitalization are used 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)	Q3 2018	Q3 2017	Q2 2018	YTD 2018	YTD 2017
Adjusted EBITDA					
Net income	$ 15.1	$ 13.6	$ 27.1	$ 63.9	$ 55.4
Add:					
Amortization	9.6	9.0	10.9	30.3	26.9
Changes in fair value of biological assets, net	(0.8)	(1.4)	(0.2)	(0.5)	0.1
Operating restructuring items	1.7	7.1	1.3	5.2	11.3
Other (income) expense (1)	-	(0.4)	0.1	0.2	(0.7)
Finance costs	0.9	0.6	0.6	2.0	2.0
Current income tax (recovery) expense	6.2	0.1	8.0	14.3	0.2
Deferred income tax expense	(0.5)	4.1	2.6	10.1	18.5
Adjusted EBITDA	$ 32.3	$ 32.6	$ 50.2	$ 125.5	$ 113.7
Adjusted EBITDA margin					
Total revenue	$ 292.5	$ 285.2	$ 327.8	$ 911.9	$ 860.3
Adjusted EBITDA	32.3	32.6	50.2	125.5	113.7
Adjusted EBITDA margin	11.0%	11.4%	15.3%	13.8%	13.2%
Net debt to capitalization					
Net debt					
Total debt	$ -	$ -	$ -		
Cash and cash equivalents	(42.8)	(65.2)	(42.1)		
Net debt (cash)	$ (42.8)	$ (65.2)	$ (42.1)		
Capitalization					
Net debt (cash)	$ (42.8)	$ (65.2)	$ (42.1)		
Add: Shareholders' equity	586.6	555.3	589.1		
Capitalization	$ 543.8	$ 490.1	$ 547.0		
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 third quarter of 2017 was $6.2 million of severance related to the indefinite curtailment of our Somass sawmill.

Accounting Policies and Standards

Please refer to Note 3 of our unaudited condensed consolidated interim financial statements for the three and nine months ended September 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 Company plans to apply a modified retrospective approach upon adoption of IFRS 16. Under the modified retrospective approach, the Company will calculate the right of use assets and lease liabilities as at January 1, 2019 and will not restate comparative information. Rather, the Company will recognize the cumulative effect of initially applying the standard as an adjustment to equity at the date of application. The Company continues to evaluate the impact of adopting the new standard which will be completed and disclosed in the consolidated financial statements in the first quarter of 2019. The Company anticipates that upon transition, the impact to its consolidated financial statements will be an increase in non-current assets and liabilities of less than 3% of total assets. Following adopting this standard, the consolidated statement of comprehensive income will recognize depreciation in cost of goods sold and finance costs for operating lease payments previously expensed in cost of goods sold.

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 September 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 September 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 September 30, 2018, that have materially affected or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of November 7, 2018, there were 388,656,387 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 nine months ended September 30, 2018, 1,235,788 options were granted and 660,000 previously granted options were exercised. As of November 7, 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 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
Average Exchange Rate – USD to CAD		1.307	1.291	1.265	1.271	1.253	1.345	1.323	1.334
Average Exchange Rate – CAD to USD		0.765	0.775	0.791	0.787	0.798	0.744	0.756	0.749
Financial Performance									
Revenue									
Lumber		$ 238.2	$ 255.6	$ 228.2	$ 207.3	$ 212.5	$ 212.8	$ 225.6	$ 220.7
Logs		33.6	49.0	41.2	56.6	55.5	57.2	45.5	55.1
By-products		20.7	23.2	22.2	19.2	17.2	17.4	16.6	17.2
Total revenue		$ 292.5	$ 327.8	$ 291.6	$ 283.1	$ 285.2	$ 287.4	$ 287.7	$ 293.0
Adjusted EBITDA		$ 32.3	$ 50.2	$ 43.0	$ 38.9	$ 32.6	$ 47.1	$ 34.0	$ 33.8
Adjusted EBITDA margin		11.0%	15.3%	14.7%	13.7%	11.4%	16.4%	11.8%	11.5%
Earnings per share:									
Net income, basic and diluted		$ 0.04	$ 0.07	$ 0.05	$ 0.05	$ 0.04	$ 0.06	$ 0.04	$ 0.09
Operating Statistics									
Lumber(1)									
Production	mmfbm	221	234	209	184	196	204	209	237
Shipments	mmfbm	212	235	215	200	220	194	225	231
Price	$/mfbm	$ 1,124	$ 1,088	$ 1,061	$ 1,037	$ 966	$ 1,097	$ 1,003	$ 955
Logs(2)									
Net production	000 m^3	815	1,348	1,029	1,099	911	1,091	908	919
Saw log purchases	000 m^3	197	305	257	343	327	249	231	337
Log availability	000 m^3	1,012	1,653	1,286	1,442	1,238	1,340	1,139	1,256
Shipments	000 m^3	308	471	361	494	369	436	364	493
Price(3)	$/$m^3$	$ 109	$ 104	$ 114	$ 107	$ 134	$ 122	$ 116	$ 104
Share Repurchases and Dividends									
Shares repurchased (millions)		4.6	1.6	0.6	1.1	-	-	-	-
Shares repurchased		$ 10.4	$ 4.1	$ 1.6	$ 2.7	$ -	$ -	$ -	$ -
Dividends paid		$ 8.8	$ 8.9	$ 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 nine months ended September 30, 2018 and 2017

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

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 42.8	$ 35.3
Trade and other receivables (Note 17)	88.6	86.2
Inventory (Note 5)	178.2	152.0
Prepaid expenses and other assets	15.0	19.0
	324.6	292.5
Non-current assets:		
Property, plant and equipment (Note 6)	349.5	313.9
Timber licenses	114.1	117.2
Biological assets (Note 7)	58.7	58.2
Other assets	16.7	17.5
Deferred income tax assets (Note 9)	0.3	0.3
	$ 863.9	$ 799.6
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 136.1	$ 98.9
Reforestation obligation (Note 10)	9.9	8.9
	146.0	107.8
Non-current liabilities:		
Reforestation obligation (Note 10)	14.5	16.4
Deferred income tax liabilities (Note 9)	39.2	28.1
Other liabilities (Note 11)	22.7	28.2
Deferred revenue (Note 17)	54.9	56.4
	277.3	236.9
Shareholders' equity:		
Share capital (Note 12)	497.4	505.5
Contributed surplus	9.1	8.7
Retained earnings	80.1	48.5
	586.6	562.7
	$ 863.9	$ 799.6

Commitments and Contingencies (Note 13)
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, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenue (Note 17)	$ 292.5	$ 285.2	$ 911.9	$ 860.3
Costs and expenses:				
Cost of goods sold	229.3	218.3	692.7	652.3
Freight	21.8	26.7	66.2	80.2
Export tax (Note 13)	11.5	6.5	32.9	15.7
Selling and administration	6.5	8.6	24.4	25.4
	269.1	260.1	816.2	773.6
Operating income prior to restructuring items and other expense	23.4	25.1	95.7	86.7
Operating restructuring items (Note 16)	(1.7)	(7.1)	(5.2)	(11.3)
Other income (expense)	-	0.4	(0.2)	0.7
Operating income	21.7	18.4	90.3	76.1
Finance costs	(0.9)	(0.6)	(2.0)	(2.0)
Income before income taxes	20.8	17.8	88.3	74.1
Current income tax expense (Note 9)	(6.2)	(0.1)	(14.3)	(0.2)
Deferred income tax recovery (expense) (Note 9)	0.5	(4.1)	(10.1)	(18.5)
	(5.7)	(4.2)	(24.4)	(18.7)
Net income	15.1	13.6	63.9	55.4
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (Note 14)	1.9	2.6	1.0	0.6
Income tax on other comprehensive gain (Note 9)	(0.5)	(0.7)	(0.3)	(0.2)
Total items that will not be reclassified to profit or loss	1.4	1.9	0.7	0.4
Other comprehensive income for the period	1.4	1.9	0.7	0.4
Total comprehensive income	$ 16.5	$ 15.5	$ 64.6	$ 55.8
Net income per share (in dollars)				
Basic and diluted earnings per share	$ 0.04	$ 0.04	$ 0.16	$ 0.14
Weighted average number of common shares outstanding (thousands)				
Basic	392,194	395,721	393,945	395,550
Diluted	395,904	400,403	398,171	399,412

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	**Total Equity**
Balance at December 31, 2016	$ 506.0	$ 8.6	$ 7.9	$ 522.5
Net income	-	-	55.4	55.4
Other comprehensive gain:				
Defined benefit plan actuarial gain recognized	-	-	0.6	0.6
Income tax expense on other comprehensive gain	-	-	(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

	Share Capital	Contributed Surplus	Retained Earnings	**Total Equity**
Balance at December 31, 2017	$ 505.5	$ 8.7	$ 48.5	$ 562.7
Net income	-	-	63.9	63.9
Other comprehensive gain:				
Defined benefit plan actuarial gain recognized	-	-	1.0	1.0
Income tax expense on other comprehensive gain	-	-	(0.3)	(0.3)
Total comprehensive income	-	-	64.6	64.6
Share-based payment transactions recognized in equity (Note 12(b))	-	0.6	-	0.6
Exercise of stock options	0.6	(0.2)	-	0.4
Repurchase of shares (Note 12(a))	(8.7)	-	(7.4)	(16.1)
Dividends	-	-	(25.6)	(25.6)
Total transactions with owners, recorded directly in equity	(8.1)	0.4	(33.0)	(40.7)
Balance at September 30, 2018	$ 497.4	$ 9.1	$ 80.1	$ 586.6

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Net income	$ 15.1	$ 13.6	$ 63.9	$ 55.4
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	8.7	8.0	27.3	23.9
Amortization of timber licenses	0.9	1.0	3.0	3.0
Gain on disposal of assets	-	(1.3)	(0.3)	(3.6)
Impairment of assets	-	0.5	0.3	3.2
Change in fair value of biological assets (Note 7)	(0.8)	(1.4)	(0.5)	0.1
Change in reforestation obligation (Note 10)	(0.3)	(1.2)	(0.9)	(4.1)
Amortization of deferred revenue	(0.5)	(0.5)	(1.5)	(1.5)
Share-based compensation, including mark-to-market adjustment	(1.0)	1.2	1.7	4.1
Net finance costs	0.9	0.6	2.0	2.0
Income tax expense (Note 9)	5.7	4.2	24.4	18.7
Change in pension liability (Note 14)	(0.7)	(0.5)	(2.3)	(1.8)
Other	(2.1)	(1.1)	(2.2)	(2.5)
	25.9	23.1	114.9	96.9
Changes in non-cash working capital items:				
Trade and other receivables	5.5	4.3	(2.4)	19.7
Inventory	14.0	(0.4)	(26.2)	13.0
Prepaid expenses and other assets	2.1	(2.6)	4.0	(2.3)
Accounts payable and accrued liabilities	(7.4)	9.0	22.3	3.6
	14.2	10.3	(2.3)	34.0
	40.1	33.4	112.6	130.9
Investing activities:				
Additions to property, plant and equipment (Note 6)	(20.7)	(15.1)	(52.5)	(32.7)
Purchase of Arlington facility (Note 6)	-	-	(11.6)	-
Proceeds on disposal of assets	0.8	3.5	1.1	7.0
	(19.9)	(11.6)	(63.0)	(25.7)
Financing activities:				
Interest paid	(0.3)	(0.2)	(0.8)	(0.9)
Repayment of long-term debt	-	-	-	(35.0)
Repurchase of shares (Note 12)(a)	(10.4)	-	(16.1)	-
Dividends	(8.8)	(7.9)	(25.6)	(23.7)
Proceeds from exercise of stock options	-	0.4	0.4	0.6
	(19.5)	(7.7)	(42.1)	(59.0)
Increase in cash and cash equivalents	0.7	14.1	7.5	46.2
Cash and cash equivalents, beginning of period	42.1	51.1	35.3	19.0
Cash and cash equivalents, end of period	$ 42.8	$ 65.2	$ 42.8	$ 65.2

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 nine months ended September 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 November 7, 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.

(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.

(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

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.

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 Company plans to apply a modified retrospective approach upon adoption of IFRS 16. Under the modified retrospective approach, the Company will calculate the right of use assets and lease liabilities as at January 1, 2019 and will not restate comparative information. Rather, the Company will recognize the cumulative effect of initially applying the standard as an adjustment to equity at the date of application. The Company continues to evaluate the impact of adopting the new standard which will be completed and disclosed in the consolidated financial statements in the first quarter of 2019. The Company anticipates that upon transition, the impact to its consolidated financial statements will be an increase in non-current assets and liabilities of less than 3% of total assets. Following adopting this standard, the consolidated statement of comprehensive income will recognize depreciation in cost of goods sold and finance costs for operating lease payments previously expensed in cost of goods sold.

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

	September 30, 2018	December 31, 2017
Gross value of inventory		
Logs	$ 118.4	$ 109.5
Lumber	60.6	36.8
Supplies and other	13.0	14.1
	$ 192.0	$ 160.4
Provisions		
Logs	$ (6.7)	$ (5.7)
Lumber	(6.6)	(2.2)
Supplies and other	(0.5)	(0.5)
	$ (13.8)	$ (8.4)
Total value of inventory	$ 178.2	$ 152.0

The carrying amount of inventory recorded at net realizable value was $58.9 million at September 30, 2018 (December 31, 2017: $51.3 million), with the remaining inventory recorded at cost.

During the three months ended September 30, 2018, $229.3 million (2017: $218.3 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 $3.8 million (2017: increase of $0.8 million). During the nine months ended September 30, 2018, $692.7 million (2017: $652.3 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 $5.4 million (2017: decrease of $2.8 million).

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	43.2	9.3	-	52.5
Arlington facility	7.9	-	3.7	11.6
Disposals	(5.9)	-	(0.9)	(6.8)
Balance at September 30, 2018	$ 387.1	$ 201.2	$ 90.6	$ 678.9
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	17.0	10.3	-	27.3
Disposals	(5.9)	-	-	(5.9)
Impairments	0.1	-	0.2	0.3
Balance at September 30, 2018	$ 162.0	$ 167.1	$ 0.3	$ 329.4
Carrying amounts				
At December 31, 2017	$ 191.1	$ 35.1	$ 87.7	$ 313.9
At September 30, 2018	$ 225.1	$ 34.1	$ 90.3	$ 349.5

(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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Carrying value, beginning of period	$ 57.9	$ 56.1	$ 58.2	$ 57.6
Change in fair value due to growth and pricing	1.4	1.4	4.2	4.2
Harvested timber transferred to inventory	(0.6)	-	(3.7)	(4.3)
Carrying value, end of period	$ 58.7	$ 57.5	$ 58.7	$ 57.5

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, 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 nine months ended September 30, 2018, the Company harvested and scaled approximately 13,525 cubic metres ("m^3") and 95,399 m^3, respectively of logs from its private timberlands, (2017: 1,107 m^3 and 111,571 m^3, respectively), which had a fair value less costs to sell of $107 per m^3 and $102 per m^3, respectively at the date of harvest (2017: $112 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 $58.7 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 September 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. Long term debt

	September 30, 2018	December 31, 2017
Available	$ 250.0	$ 110.0
Drawings	-	-
Outstanding letters of credit	1.0	-
Unused portion of Credit Facility	$ 249.0	$ 110.0

On August 8, 2018, the Company entered into a new syndicated Credit Facility (the "Credit Facility"). The Credit Facility provides for a maximum borrowing amount of $250 million, has a maturity date of August 1, 2022, and includes an accordion feature which allows the Company to increase the aggregate amount available to $350 million, subject to lender approval.

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

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

8. Long term debt (continued)

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

At September 30, 2018, there were no amounts outstanding under the Company's Credit Facility and as a result, the associated deferred transaction costs of $1.0 million are included in other assets on the statement of financial position. The Company was in compliance with its financial covenants at September 30, 2018.

9. Income taxes

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Current income tax expense	$ (6.2)	$ (0.1)	$ (14.3)	$ (0.2)
Deferred income tax recovery (expense)	0.5	(4.1)	(10.1)	(18.5)
	$ (5.7)	$ (4.2)	$ (24.4)	$ (18.7)

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Income before income taxes	$ 20.8	$ 17.8	$ 88.3	$ 74.1
Income tax expense at statutory rate of 27% (2017 - 26%)	(5.6)	(4.6)	(23.8)	(19.3)
Permanent differences	(0.1)	0.4	(0.6)	0.6
	$ (5.7)	$ (4.2)	$ (24.4)	$ (18.7)

In addition to the amounts recorded to net income, a deferred tax expense of $0.5 million and $0.3 million were recorded to other comprehensive income for the three and nine month periods ended September 30, 2018, respectively (2017: expense of $0.7 million and $0.2 million, respectively) in relation to current period actuarial gains on defined benefit employee future benefit obligations.

10. Reforestation obligation

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Reforestation obligation, beginning of period	$ 24.7	$ 25.9	$ 25.3	$ 28.9
Reforestation provision charged	1.8	1.6	5.9	3.4
Reforestation expenditures	(2.1)	(2.8)	(7.0)	(7.7)
Unwind of discount	-	0.1	0.2	0.2
Reforestation obligation, end of period	24.4	24.8	24.4	24.8
Less current portion	9.9	9.2	9.9	9.2
	$ 14.5	$ 15.6	$ 14.5	$ 15.6

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 2.04% to 2.43%. The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at September 30, 2018 is $26.0 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.

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

11. Other liabilities

	September 30, 2018	December 31, 2017
Employee future benefits obligation (Note 14)	$ 18.1	$ 21.4
Environmental accruals	1.5	3.1
Performance share unit plan liabilities, non-current (Note 12(d))	1.7	2.5
Other	1.4	1.2
	$ 22.7	$ 28.2

12. 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	(6,779,705)	(8.7)
Balance at September 30, 2018	388,656,387	$ 497.4

(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 September 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.

	Nine months ended September 30, 2018		Nine months ended September 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	(426,226)	$ 1.40
Forfeited	-	$ -	(748,753)	$ 1.99
Outstanding, end of period	12,294,271	$ 1.73	11,718,483	$ 1.56

During the three and nine months ended September 30, 2018, the Company recorded a compensation expense for these stock options of $0.2 million and $0.6 million, respectively (2017: recovery of $0.3 million and expense of $0.2 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 closing share price on the fifth day following each quarter end. All DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received if they held their DSUs as common shares.

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

12. Share capital (continued)

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

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, 2018		Nine months ended September 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	130,534	$ 2.50	138,410	$ 2.34
Outstanding, end of period	1,412,753	$ 1.30	1,238,483	$ 1.13

During the three and nine months ended September 30, 2018, the Company recorded a compensation recovery of $0.7 million and expense of $0.4 million for these DSUs, respectively (2017: expense of $0.5 million and $1.2 million, respectively), with corresponding adjustments to accounts payable and accrued liabilities.

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

The Company has established a PSU Plan for designated officers and employees of the Company. Under the terms of the PSU Plan, participants are granted a number of PSUs based on a target award divided by the closing value of the Company's Common Shares on the trading day immediately preceding the grant date. 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,	
	2018	2017	2018	2017
Outstanding, beginning of period	1,678,522	1,557,856	1,582,285	952,236
Granted	16,850	11,881	542,089	617,501
Redeemed	-	-	(429,002)	-
Outstanding, end of period	1,695,372	1,569,737	1,695,372	1,569,737

During the three months and nine months ended September 30, 2018, the Company recorded a compensation recovery for these PSUs of $0.5 million and expense of $1.2 million, respectively (2017: expense of $1.0 million and $2.7 million, respectively), with corresponding adjustments to accounts payable and accrued liabilities and other liabilities.

13. Commitments and contingencies

Long-term fibre supply agreements

Certain of the Company's long term fibre supply agreements with third parties have minimum volume requirements and may, in the case of a failure to produce the minimum annual volume, require the Company to conduct whole log chipping or sell saw logs, which could reduce log availability for our sawmills, source the deficiency from third parties at additional cost to the Company or pay the party to the fibre supply agreement a penalty calculated based on the provisions contained in the relevant agreement.

13. Commitments and contingencies (continued)

Long-term fibre supply agreements (continued)

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.

Litigations and claims

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

Key dates in the softwood lumber duty dispute

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

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

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

Lumber duties and export tax

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

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

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

As at September 30, 2018, the balance of CVD and AD deposits was $50.3 million.

Tax correspondence

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

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

14. Employee future benefits

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

	September 30, 2018	December 31, 2017
Present value of obligations	$ 127.4	$ 133.9
Fair value of plan assets	(109.3)	(112.5)
Liability recognized in the statement of financial position (Note 11)	$ 18.1	$ 21.4

The change in the liability recognized in the statement of financial position at September 30, 2018 was due primarily to contributions and actuarial gains from which quarterly changes in the discount rate used to value the defined benefit obligation, offset by actuarial losses resulted from lower than expected return on plan assets. The discount rate used as at September 30, 2018 was 3.60% 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.

15. Financial instruments – fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair 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 continue to be measured based on Level 2 of the fair value hierarchy.

	September 30, 2018			December 31, 2017		
	Mandatory at at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets						
Investments	$ 5.0	$ -	$ 5.0	$ 5.1	$ -	$ 5.1
Foreign currency forward contracts	1.0	-	1.0	0.7	-	0.7
Cash and cash equivalents	-	42.8	42.8	-	35.3	35.3
Trade and other receivables	-	87.6	87.6	-	85.5	85.5
Total financial assets	$ 6.0	$ 130.4	$ 136.4	$ 5.8	$ 120.8	$ 126.6
	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities						
Accounts payable and accrued liabilities	$ -	$ 136.1	$ 136.1	$ -	$ 98.9	$ 98.9
Total financial liabilities	$ -	$ 136.1	$ 136.1	$ -	$ 98.9	$ 98.9

As at September 30, 2018, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 100.0 million at an average rate of JPY 87.07 per Canadian Dollar ("CAD") with maturities through October 15, 2018, and an aggregate US Dollar ("USD") $50.0 million at an average rate of CAD$1.31 per USD with maturities through November 29, 2018.

All foreign currency gains or losses related to currency forward contracts to September 30, 2018 have been recognized in revenue for the period. The fair value of these instruments at September 30, 2018 was a net asset of $1.0 million, which is included in trade and other receivables on the statement of financial position (December 31, 2017: net asset of $0.7 million). A net loss of $3.2 million was recognized on contracts which were settled in the nine months ended September 30, 2018 (2017: net gain of $4.2 million), which was included in revenue for the period.

16. Operating restructuring items

Included in the operating restructuring expense in the third quarter of 2018 is $0.9 million of incremental costs associated with the closure of the Company's former Nanaimo sawmill and $0.5 million of non-operating costs pertaining to the indefinite curtailment of the Company's Somass sawmill. The Company announced the indefinite curtailment of the Somass sawmill, located in Port Alberni, BC, on July 27, 2017.

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

17. 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 September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Primary geographical markets				
Canada	$ 105.5	$ 88.4	$ 342.8	$ 267.8
United States	74.6	62.3	224.2	224.3
China	48.1	68.7	141.8	170.6
Japan	33.5	38.7	115.5	111.0
Other	27.2	19.5	76.6	63.4
Europe	3.6	7.6	11.0	23.2
	$ 292.5	$ 285.2	$ 911.9	$ 860.3
Major Products				
Lumber	$ 238.2	$ 212.5	$ 722.0	$ 650.9
Logs	33.6	55.5	123.8	158.2
By-products	20.7	17.2	66.1	51.2
	$ 292.5	$ 285.2	$ 911.9	$ 860.3

Contract balances

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

	September 30, 2018	September 30, 2017
Receivables	$ 88.6	$ 87.3
Contract liabilities	54.9	56.9

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 $1.5 million during the nine months ended September 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.

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