Western Forest Products Inc.

2009 Annual Report

Financial Highlights

(millions of dollars except where noted)	Year ended December 31, 2009	2008	2007
Sales	$ 580.5	$ 814.8	$ 890.5
Net loss and comprehensive loss	$ (75.3)	$ (85.6)	$ (55.8)
Cash flow from continuing operations	$ 63.2	$ (50.7)	$ (52.0)
Weighted average common and non-voting shares outstanding ('000)	452,431	204,414	204,414
Basic and diluted net loss per share (dollars)	$ (0.17)	$ (0.42)	$ (0.27)
EBITDA [(1)]	$ (34.8)	$ (42.4)	$ (13.8)
Working capital	$ 37.4	$ 44.6	$ 82.9
Total assets	$ 576.0	$ 726.0	$ 815.7
Net debt [(2)]	$ 126.9	$ 233.0	$ 214.5
Net debt to capitalization [(3)]	0.31	0.43	0.35
Total liquidity [(4)]	$ 37.3	$ 22.3	$ 67.4

(1) Non-GAAP measure - see page 3 for discussion on EBITDA.

(2) Net debt is defined as the sum of long-term debt, current portion of long-term debt, revolving credit line, less cash and cash equivalents.

(3) Capitalization comprises net debt and shareholders' equity.

(4) Total liquidity comprises cash and cash equivalents and available credit under the Company's revolving credit line and revolving term facility.

Letter to Shareholders

Dear Shareholders,

2009 continued to be a difficult year for the Canadian lumber industry. A high Canadian dollar and persistent low world wide demand for forest products continued from the global recession that began in 2008. By all accounts 2010 will show a modest improvement in housing starts but will still be a difficult year as there is widespread belief that the Canadian dollar will remain strong in the face of a generally weak global economy.

Western has taken a number of steps to mitigate both the effects of the Canadian dollar and weak markets on our financial performance. Inventories of logs and lumber have been reduced to historically low levels and timberland and milling operations have been curtailed to more closely match market demand resulting in a 30% reduction in hourly and salaried employment.

The Company has been re-organized into two business units, Timberlands and Sales/Manufacturing, with each business instituting programs to drive costs out of their business while retaining the quality of the products they produce. While the workforce reductions were difficult, we believe we have retained very capable people across the Company who continue to be engaged in finding ways to improve our financial performance in this very tough market.

The January 29, 2009 rights offering that provided $49.6 million of available equity made an important contribution to the Company's closing liquidity position at the end of 2009. The company enters 2010 with more liquidity than it entered 2009, and is better prepared to meet the challenges that 2010 will clearly present.

We continue to have confidence in the long-term future and business prospects of Western. With an exceptional fibre supply, a focus on high margin products, further market penetration, and a cost structure aligned with the near-term market conditions, Western is preparing itself to be successful as global markets improve.

Not only have these times been difficult for lumber producers in Canada and the United States, but they have been proven to be largely unprecedented as well. That said, we thank our shareholders for your continued support, and our employees, contractors, suppliers, and communities for their encouragement and confidence.

Dominic Gammiero
Chairman

Stephen Frasher
President and Chief Executive Officer

Management's Discussion & Analysis

The following discussion and analysis reports and comments on the financial condition and results of operations of Western Forest Products Inc. ("Company", "Western", "us", "we", or "our"), on a consolidated basis, for the year ended December 31, 2009 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 the audited annual consolidated financial statements and related notes thereto, for the years ended December 31, 2009 and 2008.

The Company has prepared the financial information contained in this discussion and analysis in accordance with Canadian generally accepted accounting principles ("GAAP"). Reference is also made to EBITDA[1]. EBITDA is defined as operating income (loss) plus amortization of property, plant and equipment and the write-down of property, plant and equipment and operating restructuring costs added back. Western uses EBITDA as a benchmark measurement of our own operating results and as a benchmark relative to our competitors. We consider EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense and property write-downs are not 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, operating restructuring costs are not expected to occur on a regular basis and may make comparisons of our operating results between periods more difficult. We also believe EBITDA is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

EBITDA does not represent cash generated from operations as defined by Canadian GAAP and it is not necessarily indicative of cash available to fund cash needs. Furthermore, EBITDA does not reflect the impact of a number of items that affect our net income (loss). EBITDA is not a measure of financial performance under GAAP, and should not be considered as an alternative to measures of performance under GAAP. Moreover, because all companies do not calculate EBITDA in the same manner, EBITDA as calculated by Western may differ from EBITDA as calculated by other companies.

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

Unless otherwise noted, the information in this discussion and analysis is updated to March 3, 2010. Certain prior period comparative figures may have been reclassified to conform to the current period's presentation. All financial references are in millions of Canadian dollars unless otherwise noted.

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

Overview

Our operating results in 2009 were significantly impacted by the severe global recession, which started with the credit crisis in late 2008 and continued through much of 2009. The prolonged economic downturn caused new housing starts in the United States to reach record low levels in the first half of 2009, and is only recently showing signs of recovery. With overall demand for lumber products being weak and the lumber industry slow at reducing overall supply, pricing on lumber products fell to historically low levels in 2009. In addition, the Canadian dollar strengthened significantly during the year, reducing the Company's Canadian dollar revenues from sales made in foreign currencies.

In an effort to match production with weak customer demand, Western significantly reduced its lumber and log inventory through the year by curtailing logging and sawmill operations and selling surplus log inventory. In addition, Western focused on reducing its overall cost structure and increasing the sales of high margin lumber products to core customers. As a result of these actions, and coupled with slightly improving market conditions, Western's EBITDA improved to negative $2.9 million over the last six months of 2009 compared to negative $31.9 million over the first six months of 2009. Despite the improvement in operating results, management believes that the global economic recovery will be a slow and erratic process.

Western's sales in 2009 amounted to $580.5 million, representing a decline of $234.3 million, or 28.8%, from the prior year. Lower sales in 2009 were driven primarily by reduced quantities of lumber, logs, and by-products shipped to customers and lower average prices realized for lumber sold.

The net loss of $75.3 million in 2009 was a reduction of 12.0% from the loss of $85.6 million incurred in 2008. The reduction in loss was primarily attributable to the reduced cost of goods sold for lumber, resulting mostly from lower fibre and conversion costs, which partially offset the impact of the weaker realized prices for the majority of our lumber products. In addition, selling and administration costs and interest charges were both significantly lower in 2009. Higher non-recurring gains were realized on asset sales in 2008 compared to 2009.

Despite the operating losses incurred in 2009, the financial position of the Company improved over the course of the year. Liquidity increased from $22.3 million at the close of 2008 to $37.3 million as at December 31, 2009. This improvement was largely driven by a reduction in working capital, including a $121.2 million reduction in log and lumber inventories at December 2009 compared to the previous year end. In addition, Western closed a Rights Offering in January 2009 which generated net proceeds of $49.6 million. These proceeds, along with the reduction in working capital, enabled the Company to reduce the balance outstanding on its revolving credit line from $108.9 million at December 31, 2008 to $15.3 million at December 31, 2009.

During 2009 the Company completed the sales of a number of non-core assets realizing proceeds of $7.0 million which was primarily used to repay term debt. Fewer land sales were closed in 2009 than had been initially anticipated due, at least partly, to the continuing poor economic conditions. Of the remaining long term debt, $45.2 million is due in September 2010. As economic and other circumstances allow, Western will continue to pursue opportunities to sell non-core land assets or private timberlands at acceptable values. Should any such sales be completed, proceeds will first be directed towards retirement of this debt. Alternatively, should insufficient proceeds from asset sales be realized for that purpose, Western will explore opportunities to refinance remaining long term debt before its due date. However, there is no assurance this alternate plan could be successfully completed, if it becomes necessary.

Selected Annual Information [1]

(millions of dollars except where noted)

	Year ended December 31, 2009	2008	2007
Sales	$ 580.5	$ 814.8	$ 890.5
EBITDA [2]	(34.8)	(42.4)	(13.8)
EBITDA as % of sales	(6.0)%	(5.2)%	(1.5)%
Operating loss	(69.8)	(82.4)	(46.6)
Net loss from continuing operations	(73.3)	(80.4)	(57.1)
Net loss and comprehensive loss	(75.3)	(85.6)	(55.8)
Basic and diluted net loss per share *(dollars)*	$ (0.17)	$ (0.42)	$ (0.27)
Total assets	$ 576.0	$ 726.0	$ 815.7
Net debt [3]	126.9	233.0	214.5

(1) Included in Appendix A is a table of selected results for the last eight quarters and a reconciliation of EBITDA to net income (loss).

(2) Non-GAAP measure - see page 3 for discussion on EBITDA.

(3) Net debt is defined as the sum of long-term debt, current portion of long-term debt and the revolving credit line, less cash and cash equivalents.

Continuing Operations

Net Loss from Continuing Operations

Net loss from continuing operations in 2009 reduced by $7.1 million from the prior year, or 8.8%. Sales totaled $580.5 million, which was a reduction of $234.3 million from 2008, or 28.8%. The reduction in net loss from continuing operations primarily comprised a reduction in the operating loss of $12.6 million and a $8.9 million reduction in net interest expense, partially offset by a decline in other income of $13.9 million.

EBITDA

EBITDA improved by $7.6 million from 2008, primarily due a significant reduction in the cost of lumber sold. Decreased selling and administration costs and a reduction in the amount of pulp logs sold at a loss also positively added to the improved EBITDA result. The reduction in cost of lumber sold was driven by reduced fibre costs, primarily as a result of reduced stumpage, and, to a lesser degree, cost reduction initiatives. Partially offsetting these positive elements was a significant reduction in the average selling price of lumber products year over year, reduced by-products sales, and the fixed cost incurred at curtailed operations.

In January 2009, the provincial government announced changes to the stumpage formulas, which combined with lower log prices and lower volumes harvested, resulted in 2009 stumpage costs being $77.6 million lower compared to the previous year. Stumpage rates are calculated from formulas that consider historic Vancouver log market prices, harvesting costs and log market bidding activity.

Selling and administration expenses in 2009 were lower than in the prior year by $8.1 million. In 2009 the Company saw the beneficial impact of lower employee costs following significant reorganizations and a salary reduction program initiated in mid-2009.

During 2009, the Company took significant downtime in both it's timberlands and manufacturing operations to reduce inventory levels. Total log harvest of 3.1 million cubic meters in 2009 was 68% of 2008 harvest levels, while lumber production was 74% of total lumber produced during the same period in 2008. Unavoidable fixed costs of $32.4 million associated with those curtailed operations were directly expensed to the income statement, which is $12.0 million more than the equivalent costs expensed in 2008.

Operating Loss

In addition to the EBITDA improvements described above, the Company recorded a restructuring expense of $5.5 million, compared to a comparable expense in 2008 of $6.3 million, while amortization of capital assets was reduced by $4.2 million. The process of balancing production output to market demand continued throughout 2009, resulting in the continuance of operational curtailments that had commenced in 2008. The restructuring charges in 2009 primarily relate to Western's timberlands operations. Reduced amortization of capital assets was consistent with lower production levels. When the Company operates at lower production levels including harvesting, less amortization is required, particularly of roads.

Sales

	Year ended December 31,	
(millions of dollars)	2009	2008
Lumber	$ 438.2	$ 623.9
Logs	99.6	133.6
By-products	42.7	57.3
Total sales	$ 580.5	$ 814.8

Lumber sales in 2009 were $185.7 million or 29.8% lower than in the prior year. Western shipped 608 million board feet in 2009, which was down 20.7% from the 767 million board feet sold in 2008, while average prices realized for lumber decreased 11.4%.The average annual Canadian dollar to US dollar exchange rate was 6.8% weaker for 2009 compared to 2008 which only partially helped offset the decline in lumber pricing year over year. However, since the first quarter of 2009, the Canadian dollar average quarterly exchange rate has strengthened by 15.1%.

The majority of the lumber volume decrease was attributable to reduced shipments to the United States, in particular sales to the US east coast dimension lumber market. Demand in this market continues to be depressed, driven largely by the US credit crisis and high levels of existing home inventories. Lumber sales to Canada and Europe also fell during 2009, a direct result of generally weak global economic conditions. Lumber sales to Asia, remained relatively constant in terms of total dollars, a reflection of increased sales to China offsetting lower levels in Japan.

The average price of lumber dropped on the majority of the Company's products from 2009 to 2008, due to weak demand and oversupply. Most lumber producers aggressively reduced their lumber inventories to match substantially reduced demand, and as a result drove down prices.

Total freight and duty costs on a per unit of sold production basis were virtually unchanged from the previous year. Although the shortage of traditional ocean break bulk vessel experienced in 2008 has largely dissipated, there has been some upward pressure on global ocean charter rates from the first quarter to the fourth quarter of 2009. Both truck and rail freight rates remained unchanged for much of 2009, although increased diesel prices have resulted in increased surcharges.

Log sales in 2009 decreased $34.0 million or 25.4% compared to the prior year. The decrease was primarily due to the quantity of logs shipped being 23.3% lower, with average prices realized being 3.1% lower in 2009. Lower levels of log harvesting in 2009 and decreased customer demand were the primary drivers of lower log quantities sold. Log prices fell for most log sorts, generally reflecting weak demand as a result of falling lumber prices.

Sales of by-products in 2009 were $14.6 million, or 25.5% lower than in 2008 which is a result of the reduced availability of by-products given the lower mill production in 2009 compared to 2008. In order to address obligations under long-term chip supply contracts, Western purchased quantities of chips on the open market and undertook whole log chipping programs at certain sawmills and third party chipping facilities. Chip prices decreased by approximately 13% in 2009 compared to 2008, which is a function of the lower pulp prices over the same period.

Net interest expense

The interest expense for 2009 of $10.8 million was $8.9 million less than the expense of $19.7 million incurred in 2008. The reduction was driven primarily by significantly lower average debt levels in 2009 compared to 2008. The non-revolving term facility balance outstanding during 2008 was reduced by $46.3 million, including $40.0 million that was paid down at the end of the first quarter of 2008, and also the net proceeds of $49.6 million received from the rights offering in January, 2009 was used to reduce borrowing levels. In addition, interest expense in the first quarter of 2008 included $3.0 million with respect to the write-off of the balance of the deferred financing costs associated with the previous long-term debt facilities. The decrease is also attributable to the impact of lower interest rates that were negotiated on the refinancing of the Company's long-term debt on March 14, 2008.

Partially offsetting these factors was the increase in interest rates that came into effect following the June 16, 2009, agreement that was reached with the Company's lenders to extend the expiry date of the non-revolving term facility from September 9, 2009 to September 9, 2010. Concurrent with this extension, the Company's debt-to-capitalization covenant increased by 5% from 40% to 45%, and the interest rate margin charged increased by 3%, and became, at the Company's option, either Canadian prime rate plus 5% or bankers' acceptance rate plus 6%. In addition, the interest rate margin will increase by a further 0.25% at the end of each calendar quarter that any portion of the non-revolving term loan remains outstanding, commencing December 31, 2009.

Other income

Other income of $7.4 million in 2009 mainly comprises gains on the disposal of non-core land and compensation payments received from the Province of British Columbia. The non-core land disposal predominantly relates to the sale of higher and better use properties located on the Northern portion of Vancouver Island. The compensation payments from the Province received during the year relate to advances with respect to Bill 28 related timber take-back areas and for infrastructure costs incurred in certain expropriated timber tenures following the creation of new conservancies or protected areas in the Central Coast region.

In 2008, other income of $21.3 million included the gain on the sale of the site of the Company's former New Westminster sawmill of $9.8 million, which was sold for proceeds of $39.8 million. The balance of the amount comprised gains on other property sales and various compensation payments from the Provincial Government received during the year.

Income taxes

Income tax expense incurred was minimal and relates primarily to the Company's Japanese subsidiary.

At December 31, 2009, the Company and its subsidiaries have unused non-capital tax losses carried forward totaling approximately $434.3 million, which expire between 2014 and 2029, and can be used to reduce taxable income. In addition, the Company has capital losses of approximately $4.0 million, which are available indefinitely, but can only be utilized against capital gains. The ability of the Company to utilize the losses carried forward and capital losses is not considered "more likely than not" and therefore, a valuation allowance has been provided against the tax assets.

Discontinued Operations

Operations of the site of the former Squamish pulp mill were discontinued in 2006. Since that date, the Company has expensed costs as incurred for supervision, security, property taxes and environmental remediation and will continue to do so until the site is sold. In 2009, the Company incurred costs of $2.0 million with respect to the site which is less than the $5.2 million expensed in 2008. In an effort to conserve cash, remediation work on the site was slowed during the year. The Company has the property listed for sale and will pursue opportunities for sale as economic and other circumstances allow.

Financial Position and Liquidity

(millions of dollars except where noted)	Year ended December 31, 2009	2008
Cash provided (used) by operations	$ 63.2	$ (50.7)
Cash provided (used) by investing activities	(1.9)	41.4
Cash provided (used) by financing activities	(53.6)	12.2
Cash used to construct capital logging roads	(3.5)	(8.7)
Cash used to acquire other property, plant, and equipment	(5.4)	(3.8)
Total liquidity[1]	37.3	22.3
Net debt [2]	126.9	233.0
Financial ratios:		
Current assets to current liabilities	1.31	1.18
Net debt to capitalization[3]	0.31	0.43

(1) Total liquidity comprises cash and cash equivalents and available credit under the Company's revolving credit line and revolving term facility.

(2) Net debt defined as the sum of long-term debt, current portion of long-term debt, revolving credit line, less cash and cash equivalents.

(3) Capitalization comprises net debt and shareholders' equity

Cash provided by continuing operations in 2009 amounted to $63.2 million, an improvement from the $50.7 million used by our operations during 2008. The key driver behind this change has been reduced working capital levels to meet operating demand, most notably, the $121.2 million in cash generated from lower inventories at December 31, 2009 compared to the same time last year.

Investing activities used cash of $1.9 million, which compares to cash provided by investing activities of $41.4 million in 2008. The difference primarily relates to the cash received from asset sales in 2008 as a result of the proceeds of the New Westminster sawmill sale of $39.8 million being included in that year. Further, additions to property, plant and equipment were $8.9 million in 2009 which is less than the $12.5 million spent in 2008. Capital expenditures continue to be monitored closely and are generally limited to road construction that is essential to our ongoing log harvesting program.

Financing activities in 2009 used cash of $53.6 million compared to cash provided of $12.2 million, in 2008. The Company closed its rights offering to all shareholders in January 2009 and realized net proceeds of $49.6 million. These funds, together with the proceeds from the reduction in working capital, enabled the Company to reduce the balance outstanding on its revolving credit line by $93.6 million to $15.3 million at December 31, 2009. In addition debt repayments of $6.4 million were made during 2009 on the non-revolving term facility from the proceeds of asset sales. Receipts in 2008 included $175.0 million received upon the refinancing of the Company's long term debt completed in March 2008. The proceeds were used immediately to repay a similar amount of long term debt then outstanding. During the remainder of 2008, the Company retired $46.3 million of long term debt using proceeds from dispositions of assets. In 2008, a total of $60.3 million of additional funds was drawn from the revolving credit line, which was required mainly to fund operating activities.

At December 31, 2009, Western's total liquidity had increased to $37.3 million from $22.3 million at the end of 2008. Liquidity is comprised of cash of $8.1 million and availability under the secured revolving credit line of $29.2 million. In 2008 availability under the credit line had included a $15.0 million letter of credit established by Brookfield Asset Management ("BAM"), a company related to Brookfield Special Situations Management Limited ("BSS2"), (formerly Tricap Management Limited), in favour of the lender. This letter of credit was withdrawn subsequent to the receipt of the proceeds from the rights offering in January 2009.

Of the total long-term debt outstanding of $119.7 million at December 31, 2009, the $45.2 million term loan matures September 2010, with the remaining $74.5 million revolving credit facility maturing

March 2011. Any net proceeds realized from the sale of non-core assets will be utilized to repay the term loan. Should sufficient asset sales not materialize, the Company will seek to refinance the term loan or any remaining amount still outstanding. There can be no assurance that the Company will realize any or sufficient proceeds from non-core asset sales or be able to refinance the term debt by the due date should that become necessary.

Based on its current forecasts, which assumes the renewal of the non-revolving facility due in September 2010, the Company expects sufficient liquidity will be available to meet its obligations in 2010. If the Company is unsuccessful in selling further non-core assets, or the non-revolving facility is not renewed, or if there is continued strengthening of the Canadian dollar, further declines in the U.S. housing or other key markets, timber tenure take backs without timely and adequate compensation, or increases in costs including stumpage rates, this would adversely impact the Company's liquidity in the short to mid-term, and may cause the Company to be non-compliant with certain of its financial covenants under its credit facilities. In the event the Company is in violation of certain of its loan covenants, or is unable to repay remaining amounts of long-term debt on their due dates, its debt could become immediately due and payable or it may not be able to access funds under its revolving credit line.

CIT Business Credit Canada Inc. ("CITBCC") is the agent and the lender holding the largest commitment ($100 million) of the Company's $150 million revolving credit line. CITBCC is jointly owned by Canadian Imperial Bank of Commerce ("CIBC") and CIT Group, Inc. ("CIT"). In 2009, CIT experienced financial difficulties and entered and subsequently successfully emerged from U.S. Chapter 11 restructuring proceedings. Western's borrowings have been unaffected by CIT's associated legal and restructuring proceedings.

Fourth Quarter Results

	Three months ended December 31,	
(millions of dollars except where noted)	2009	2008
Sales	$ 139.3	$ 175.3
EBITDA	2.3	(9.7)
EBITDA as % of sales	1.7%	(5.5)%
Net loss from continuing operations	(2.7)	(23.5)
Net loss and comprehensive loss	(3.1)	(24.3)
Basic and diluted net loss per share (dollars)	$ (0.01)	$ (0.12)

The net loss of $3.1 million incurred in the fourth quarter of 2009 was a $21.2 million improvement over the loss incurred in the same quarter of 2008. The improvement was driven by a $12.0 million increase in EBITDA and an improvement of $7.8 million in other non-operating items. The improvement in EBITDA in the fourth quarter was the result of reduced cost of sales, predominantly fibre costs, an increase in the average selling price of logs, and reduced selling and administration costs. The improvement in non-operating items primarily relates to restructuring charges of $6.3 million taken in the fourth quarter of 2008 (following staffing reductions in the salaried workforce), with no comparable charges in the fourth quarter of 2009. In addition, interest charges were $0.8 million less in the fourth quarter of 2009 compared to the same quarter in 2008.

The decrease in fibre costs relates to decreased stumpage costs, the impact of cost reduction initiatives, reduced helicopter logging and the curtailment of certain high cost logging operations. The improvement in average log selling prices in the fourth quarter of 2009 relates to the mix of product sold, as a greater portion of low value pulp logs were sold in the fourth quarter of 2008, while a larger percentage of high value cedar logs were sold in the fourth quarter of 2009. Selling and administration expenses in the fourth quarter of 2009 were $1.2 million less than the same period last year as a result of reduced employee costs and continued emphasis on reduced spending. Partially offsetting these positive variances was a 14% decrease in the average selling price of lumber. Approximately half of the decrease is attributable to generally poorer markets in 2009 for the majority of our lumber products, while the remainder is due to the strengthening of the Canadian dollar relative to that of the US dollar in the comparative quarters.

Outlook and Strategy

Although the Company does expect to see marginally better financial results in 2010, management remains cautious about being overly optimistic on the strength of the global economic recovery, particularly in the United States. Despite signs that the US housing starts will increase in 2010, we continue to be concerned over the high levels of US unemployment and the elevated number of foreclosures occurring there. Given that many of the US government assistance programs run out in mid-to-late 2010, we expect that the recovery of the US housing market will be fragile and unstable. Recovery in other geographic regions such as Asia and Canada appear to show more promise, but any increase in lumber and log demand will be gradual, and still marked with periods of instability.

As a result, the Company will be diligent in matching log and lumber production levels with forecasted demand in an effort to maintain the lowest levels of working capital required, while still allowing us to participate in any recovery. A significant emphasis is being placed on preserving liquidity not only in terms of spending control, but through active working capital management. Although a noteworthy portion of our costs were reduced in 2009, we will continue to look for further cost reduction opportunities. At the same time, we are examining ways to increase our revenue streams by growing our market share of higher value lumber products, developing alternative markets for our logs, and improving the quality of our products.

The Company will continue to pursue opportunities that may arise to sell non-core or other land assets at reasonable values. Any proceeds will first be directed to reduce or eliminate long-term debt with any surplus used to provide additional liquidity. In parallel, Western will monitor liquidity and financial covenants and where considered prudent enter into discussions with lenders and others with a view to providing covenant relief and/or additional liquidity. However, there can be no assurance that in 2010 Western will remain in compliance with lender covenants, be able to refinance the term debt by the due date should that become necessary, or have sufficient liquidity to meet obligations.

Summary of Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2009 and our payments due for each of the next five years and thereafter:

2009

(millions of dollars)	Total	2010	2011	2012	2013	2014	Thereafter
Revolving credit facility	$ 15.3	-	15.3	-	-	-	-
Long-term debt	119.7	45.2	74.5	-	-	-	-
Operating leases	7.4	3.3	1.7	0.9	0.5	0.5	0.5
Reforestation liability	28.2	10.3	4.8	3.0	2.0	1.5	6.6
Total	$ 170.6	58.8	96.3	3.9	2.5	2.0	7.1

Critical Accounting Estimates

Reforestation Liabilities

We accrue our reforestation liabilities based on estimates of future costs at the time the timber is harvested. The estimate of future reforestation costs is based on a detailed analysis for all areas that have been logged and includes estimates for the extent of planting seedlings versus natural regeneration, the cost of planting including the cost of seedlings, the extent and cost of site preparation, brushing, weeding, thinning and replanting and the cost of conducting surveys. Our registered professional foresters conduct the analysis that is used to estimate these costs. However, these costs are difficult to estimate and can be affected by weather patterns, forest fires and wildlife issues that could impact the actual future costs incurred and result in material adjustments.

Valuation of Inventory

We value our log and lumber inventories at the lower of cost and net realizable value. We estimate net realizable value by reviewing current market prices for the specific inventory items based on recent sales prices and current sales orders. If the net realizable value is less than the cost amount, we will record a write-down. The determination of net realizable value at a point in time is generally both objective and verifiable. However, changes in commodity prices can occur suddenly, which could result in a material write-down in inventories in future periods.

Valuation of Accounts Receivable

We record an allowance for the doubtful collection of accounts receivable based on our best estimate of potentially uncollectible amounts. The best estimate considers past experience with our customer base and a review of current economic conditions and specific customer issues. The Company's general practice is to insure all lumber receivables, both domestic and export, for 90% of value with the Export Development Corporation or sell on a cash basis, which significantly reduces the Company's exposure to bad debts.

Pension and Other Post Retirement Benefits

We have defined benefit and defined contribution pension plans and post-retirement medical and health benefit plans for our employees. With respect to the defined benefit plans, we retain independent actuarial consultants to perform actuarial valuations of plan obligations and asset values, and advise on the amounts to be recorded in the financial statements. Actuarial valuations include certain assumptions that directly affect the fair value of the assets and obligations and expenses recorded in the financial statements. These assumptions include the discount rate used to determine the net present value of obligations, the return on plan assets used to estimate the increase in the plan assets available to fund obligations and the increase in future compensation amounts and medical and health care costs used to estimate obligations. Actual experience can vary materially from the estimates and impact the cost of our pension and post retirement medical and health plans and future cash flow requirements.

Environment

We disclose environmental obligations when known and accrue costs associated with the obligations when they are known and can be reasonably estimated. The Company owns a number of manufacturing sites that have been in existence for significant periods of time and, as a result, we may have unknown environmental obligations. However, until the sites are decommissioned and the plant and equipment are removed, a complete environmental review cannot be undertaken.

Contingencies

Provisions for liabilities relating to legal actions and claims require judgments using management's best estimates regarding projected outcomes and the range of loss, based on such factors as historical experience and recommendations of legal counsel. Actual results may vary from estimates and the differences are recorded when known.

Changes in Accounting Policies

Timberlands Shutdown Costs

Effective January 1, 2009 the Company changed its accounting policy with respect to the treatment of its timberlands shutdown costs to directly expense the costs in the period incurred. The Company's previous accounting policy was to defer shutdown costs at the end of each interim period in accordance with CICA Handbook Section 1751, Interim Financial Statements, to account for planned volume or capacity cost variances that were expected to be absorbed by the end of the fiscal year. Under this previous accounting policy, these deferred costs were amortized into the statement of operations using a unit rate, based on budgeted production volume and cost for the fiscal year. In recent quarters, the Company has had to significantly alter its log production schedule from budget, making it difficult to determine if such costs would be fully absorbed by the end of the year using a budgeted rate, as prescribed by the previous policy. As such, the Company believes the new policy eliminates this issue by conservatively expensing such costs in the period incurred. The change in policy has been applied retroactively with restatement of prior periods and resulted in a decrease in inventory and an increase in the net loss and comprehensive loss for the first quarter of 2008 of $5.6 million and a decrease in the net loss and comprehensive loss in the second quarter of 2008, also of $5.6 million, all as compared to amounts as previously reported. As a result, basic and diluted loss per share increased by $0.03 per share in the first quarter of 2008 and decreased by $0.03 per share in the second quarter of 2008. The change in accounting policy did not have an impact on the net loss for the years ended December 31, 2009 or 2008.

Goodwill and Intangible assets

Effective January 1, 2009, the Company adopted the new recommendations of the CICA Handbook Section 3064, Goodwill and Intangible Assets. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard had no material impact on the Company's financial statements.

Derivative financial instruments:

During 2009, the only derivative financial instruments that the Company entered into related to certain futures contracts available to it under a facility to sell US dollars forward. This facility was established following an agreement dated March 31, 2009 with BAM under which BAM provided a foreign exchange facility to the Company for a notional amount of up to US$80.0 million. The agreement matures on March 31, 2010, and allows for forward transactions with a maximum term for each transaction of up to one year. The facility is used by the Company in order to mitigate a portion of its foreign currency risk. The Company's policy is not to use derivative financial instruments for trading or speculative purposes. These instruments have not been designated as hedges for accounting purposes, and they are carried on the balance sheet at fair value with changes in the (realized and unrealized) fair value being recognized as gains or losses in the Company's Consolidated Statement of Operations.

Future Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

International Financial Reporting Standards (IFRS) will replace Canadian generally accepted accounting principles (CGAAP) for publicly accountable enterprises for financial periods beginning on or after January 1, 2011. Accordingly, the conversion from CGAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011 for which current and comparative information will be prepared under IFRS.

IFRS Transition Plan

The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, taxes, and information systems and processes. The new standards continue to be evaluated with a detailed assessment being performed in those areas expected to have a significant impact on the Company's consolidated financial statements. The Company has deployed resources, project management practices and appropriate governance to ensure a timely conversion to IFRS. A brief summary of progress to date follows:

Project Governance:

A steering committee was formed in the third quarter of 2009. Resources have been allocated across the organization as required and outside consulting support has been engaged as necessary. Project status updates are provided to our Audit Committee on a periodic basis.

Financial Statement Preparation:

The significant differences between Canadian and IFRS accounting policies and choices have been identified and preliminary accounting policy choices have been made although these will not be finalized until early in 2011. IFRS 1, *First Time Adoption*, allows certain policy choices on initial adoption and those expected to be made have been identified and preliminary recommendations made. Quantification of the IFRS 1 disclosures is currently in progress. A draft opening balance sheet prepared under IFRS at the date of transition (January 1, 2010) is currently planned to be completed during early 2010.

IFRS Expertise:
Initial training of key finance and operational staff has commenced with in-depth training to follow. Education of management and the Audit Committee members has also commenced with further training being available as and when required.

Information Technology:
An assessment of systems is ongoing and requirements are being developed, but no significant changes to information technology systems or business processes have been identified to date.

Control Environment:
Approval and sign-off on all accounting changes and the CEO/CFO certification process is scheduled for the fourth quarter of 2010. Financial reporting controls will change due to the transition to IFRS. The majority of change surrounds new or modified processes, due to the fact that IFRS requires more judgment with respect to various accounting treatments. Processes and controls will be established to ensure the Company is making the appropriate judgments and is following the IFRS accounting policies selected.

Impact of Adoption of IFRS

IFRS are premised on a conceptual framework which is similar to CGAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. The following paragraphs outline the significant accounting policies, which are required or are currently expected to be applied by the Company upon its adoption of IFRS, which will be significantly different than its current CGAAP accounting policies. As the Company progresses with its evaluation of the impact of adoption on its processes and accounting policies, updated disclosure will be disclosed as appropriate. While the adoption of IFRS is not expected to have a material impact on the reported cash flows of the Company, it is expected to have a material impact on the Company's consolidated balance sheet and statement of operations, comprehensive loss and deficit.

Property, Plant and Equipment
Under International Accounting Standard (IAS) 16, *Property, Plant and Equipment*, an entity is required to choose, for each class of property, plant and equipment, to account for each class using either the cost model or the revaluation model. The cost model is generally consistent with CGAAP where an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Under the revaluation model an item of property, plant and equipment is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. The Company expects to use the cost model to account for all classes of property, plant and equipment, except for land, for which the revaluation method is proposed to be elected.

Impairments
Under CGAAP, assets other than financial assets, are generally tested for impairment using a two-step approach: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. Under IFRS, IAS 36, *Impairment of Assets* a one-step approach is used for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell, and value in use. This may potentially result in more write-downs where carrying values of assets were not previously impaired under CGAAP when compared to undiscounted cash flows, but could be impaired under IFRS when compared to fair value or value in use. However, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. CGAAP prohibits the reversal of impairment losses. The magnitude of any such impairments for the Company are currently being evaluated.

Intangible Assets
Under IFRS, Crown Tenure is expected to be considered an intangible asset with a finite useful life, and hence subject to IAS 38, *Intangible Assets*. The Company expects that the initial measurement of the tenures under IFRS will be at historic cost. Such intangible assets are required to be presented as a separate line item in the balance sheet, and will be amortized over the expected useful life of the asset.

Private Timber

Unlike CGAAP, biological assets are specifically addressed under IFRS (IAS 41 – *Agricultural Assets*). The timber component of the Company's private timberlands will qualify as a biological asset under the scope of IAS 41. This timber would be reclassified and shown as a separate line item on the Company's balance sheet. The fair value of biological assets for Western would be measured by discounting expected cash flows from the sale of standing timber at a current market determined rate. This value would include not only the harvest value but also would include a value for potential future growth. All gains and losses from changes in fair value are recognized in profit and loss. The agricultural produce (logs) from the biological asset are measured at fair value less costs to sell, which becomes the deemed cost for the purpose of subsequent accounting under the IAS 2, *Inventories* standard. Given the relative size of Westerns harvest levels from its private timberlands this change is not expected to have a significant impact on reported results.

Employee Benefits

Under CGAAP, accrued pension benefit obligation in excess of plan assets for defined benefit pension plans is required to be disclosed within the notes to the consolidated financial statements. Under IFRS, IAS 19, *Employee Benefits*, requires the obligation in excess of plan assets to be recorded as a liability on the balance sheet. The adoption of IAS 19 is not expected to have a material impact on the financial results or balance sheet of the Company.

Share-Based Payments

The Company issues stock-based awards in the form of stock options that vest evenly over a five-year period. Under CGAAP, Western recognizes the fair value of the award, determined at the time of the grant, on a straight-line basis over the five-year vesting period. Under IFRS 2, *Share-Based Payments*, the fair value of each tranche of the award is considered to be a separate grant based on the vesting period with the fair value of each tranche determined separately and recognized as compensation expense over the term of its respective vesting period. Accordingly, this will result in a higher amount of each grant being recognized in income at a faster rate than under CGAAP. The adoption of IFRS 2 is not expected to have a material impact on the financial results or balance sheet of the Company.

Financial Instruments, Off-Balance Sheet Arrangements, Foreign Exchange and Related Party Transactions

Consequent to the acquisition of Cascadia Forest Products Ltd. in May 2006, the Company indemnified an entity related to BAM for a guarantee provided by the entity to a third party. As security for performance under this indemnity, the Company issued a debenture in favour of the related entity in the maximum amount of $100 million secured over all of the Company's real property and all of the Company's personal property as at May 2006 and such property acquired thereafter. In the absence of any claims, the guarantee terminates on May 30, 2011 and if there is no liability accruing to the guarantor thereunder at that time, the Company will request that the debenture be discharged.

Except for the debenture discussed above, the Company does not have any financial instruments not recognized in the financial statements. Recognized financial instruments, consisting primarily of debt instruments, are discussed elsewhere in this discussion and analysis.

In the fourth quarter of 2008 the Company commenced a program to reduce the impact of volatile foreign exchange rates on Western's net income. The Company utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange risk. Therefore, Western may purchase foreign exchange forward contracts or similar instruments to hedge anticipated sales to customers in the United States and Japan. The Company will not utilize derivative financial instruments for trading or speculative purposes. In the fourth quarter of 2008, the Company purchased US$30 million of put options, all of which expired before December 31, 2008. None of these options were taken up as the exchange rate moved in Western's favour before their due date, and therefore the options had minimal impact on the Company's financial statements. Western will consider whether to apply hedge accounting on a case by case basis and if the instrument is not designated as a hedge, the instrument will be fair valued and marked to market each accounting period.

To further assist in mitigating this foreign exchange risk, the Company entered into an agreement dated March 31, 2009 with BAM to provide a foreign exchange facility ("Facility") to the Company. The Facility, which is for a notional amount of up to US$80.0 million, matures on March 31, 2010, and allows for forward transactions with a maximum term for each transaction of up to one year. The maturity date is subject to automatic annual renewal subject to BAM notifying the Company of its intention to cancel the facility at least 30 days prior to the anniversary date and to certain change of control provisions being invoked. The Facility is unsecured and is subject to a fee of 0.10% of the notional amount per annum. The Company does not consider the credit risk associated with this Facility to be significant. During 2009, the Company entered into contracts under the Facility to sell U.S. dollars forward in order to mitigate a portion of this foreign currency risk. At December 31, 2009, the Company had no forward contracts in place. A net gain of $3.4 million was recognized on contracts which matured in the year, which is included in sales in the Consolidated Statement of Operations, Comprehensive Loss and Deficit.

Other than the debenture discussed above and the operating leases for vehicles, equipment and machinery, the Company does not have any off-balance sheet financial arrangements as at December 31, 2009.

On October 13, 2009, the Company announced that it had sold certain higher-and-better-use properties in central and northern Vancouver Island (the "HBU Properties") to WFP Forest Products Ltd. ("WFPFPL"), a jointly-owned entity of the Company and Brookfield Properties Limited ("BPL"), a wholly-owned subsidiary of Brookfield Properties Corporation, which is in turn related to BAM. The HBU Properties were formerly part of the group of properties included in the Company's non-core asset sales program. In connection with the reorganization of WFPFPL as a jointly-owned entity and the sale of those HBU Properties, Western received total cash proceeds of $12.4 million, of which $3.0 million was received prior to December 31, 2009 with the balance of $9.4 million being received on January 4, 2010. As part of the arrangements, WFPFPL has a right of first offer to purchase for possible future development approximately 255 hectares (630 acres) of additional higher-and-better-use properties of the Company in central and northern Vancouver Island. These properties also represent non-core assets of the Company. Western holds less than 5% of the equity of WFPFPL and has a right to sell its interest in that entity to BPL for its fair market value at any time on or after January 1, 2011. BPL is the manager of WFPFPL, which also holds Carma Developers LP, a limited partnership that carries on a land development business across Western Canada. Western now accounts for its interest in WFPFPL using the cost method.

Because BPL is a related party of BSS2, which is Western's largest shareholder, the transaction constituted a related party transaction under Multilateral Instrument 61-101.

In addition to the related party transactions identified elsewhere in these consolidated financial statements, the Company has or had certain arrangements with entities related to BAM to provide financing, acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire services including insurance, all in the normal course and at market rates or at cost. The following table summarizes these transactions during the year ended December 31:

	2009	2008
Costs incurred for:		
Log purchases	$ 10.2	$ 18.5
Interest on long-term debt	-	3.2
Other	3.7	7.1
	$ 13.9	$ 28.8
Income received for:		
Log sales	$ 0.4	$ 0.6
Other	0.3	0.2
	$ 0.7	$ 0.8

The Company also had a 50% interest, with an entity related to BAM owning the other 50%, in a company that, until May, 2008, provided helicopter services. The helicopter services company ceased operations in May 2008, sold the majority of its assets and remitted $0.7 million in 2009 ($0.5 million – 2008) by way of a dividend to the Company, and was wound up in November 2009.

Risks and Uncertainties

The following risks and uncertainties may have a material adverse effect on our operations:

Liquidity and Capital Resources

Western has incurred net losses through the ten quarters ended December 31, 2009, which has significantly impacted available liquidity. The business may continue to require substantial expenditures, and we cannot be certain that we will achieve or sustain profitability from operating activities in the future. The Company has forecasted financial results and cash flows for 2010. These forecasts are based on management's best estimates of operating conditions in the context of the current economic climate, today's difficult capital market conditions and the depressed state of the forest products industry. Based on these forecasts, which assume the renewal of the non-revolving debt facility due in September 2010, the Company currently expects sufficient liquidity will be available to meet its obligations in 2010. However, if the Company is unsuccessful in selling non-core assets, or the non-revolving debt facility is not renewed, or if there is any significant strengthening of the Canadian dollar, further declines in prices or in the U.S. housing or other key markets, timber tenure take backs without timely and adequate compensation, or increases in costs including stumpage rates, this would adversely impact the Company's liquidity in the short to mid-term, and may cause the Company to be non-compliant with the debt-to-capitalization covenant. In the event the Company is in violation of certain of its loan covenants, its debt could become immediately due and payable or it may not be able to access funds under its revolving credit line. Under an amendment to the long-term debt agreement, which was signed on June 16, 2009, the debt-to-capitalization requirement was changed in the second quarter to 45% from 40%.

CIT Business Credit Canada Inc. ("CITBCC") is the agent and the lender holding the largest commitment ($100 million) of the Company's $150 million revolving credit line. CITBCC is jointly owned by Canadian Imperial Bank of Commerce ("CIBC") and CIT Group, Inc. ("CIT"). In 2009, CIT experienced financial difficulties and entered and recently successfully emerged from U.S. Chapter 11 restructuring proceedings. Western's borrowings have been unaffected by CIT's associated legal and restructuring proceedings.

Variable Operating Performance, Product Pricing and Demand Levels

A key factor affecting Western's operating and financial performance is the price received for lumber, logs and other products. Prices for these products are highly cyclical and have fluctuated significantly in the past and may fluctuate significantly in the future. The markets for our products are also highly cyclical and are characterized by periods of excess product supply due to many factors, including:

- additions to industry capacity and production;
- periods of insufficient demand due to weak general economic activity or other causes including weather factors;
- customers experiencing reduced access to credit; and
- inventory de-stocking by customers.

Product demand is influenced to a significant degree by economic activity at the global level. Additionally, although costs may increase, customers may not accept related price increases for those products. We are not able to predict with certainty market conditions and prices for these products. Western's results of operations depend upon the prices we receive for lumber, logs and chips, and a deterioration in prices of, or demand for, these products could have a material adverse effect on our financial condition or results of operations. We cannot provide any assurance or prediction as to the timing and extent of any price changes. On an annualized basis and based on current operating metrics, we estimate that operating earnings would increase or decrease by approximately $6 million for each incremental price increase or decrease, respectively, of $10 per thousand board feet of lumber. Each incremental price swing greater than $10 per thousand board feet of lumber is expected to have an impact on operating earnings of slightly less than $6 million per increment due to the likely related change in stumpage fees.

Western's financial performance is also dependent on the rate at which production capacity is utilized. In times of challenging conditions in any of our major markets the Company maintains inventory control by aligning log supply and lumber production with anticipated sales volumes. When capacity utilization is reduced in response to weak demand for products, the cost per unit of production may increase and profitability decrease.

From time to time and in accordance with market influences, the Company will reduce production with temporary logging and/or sawmilling curtailments. In extreme cases, such curtailments may become permanent closures. When Western undertakes significant market related curtailments of sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet minimum contractual obligations under long-term chip supply agreements without incurring additional cost.

International Business and Risks of Exchange Rate Fluctuations

Western's products are sold in international markets. Economic conditions in those markets, especially the United States, Japan and China, the strength of the housing markets in the United States and Japan, fluctuations in foreign exchange rates and international sensitivity to interest rates, can all have a significant effect on our financial condition and results of operations. In general, our sales are subject to the risks of international business, including:

- fluctuations in foreign currencies;
- changes in the economic strength of the countries in which we conduct business;
- trade disputes;
- changes in regulatory requirements;
- tariffs and other barriers;
- quotas, duties, taxes and other charges or restrictions upon exports or imports;
- transportation costs and the availability of carriers of any kind including those by land or sea; and
- strikes or labour disputes in the transportation industry or related dock or container service industries.

Depending on product mix, destination and exchange rates, between 35% and 45% of our total product sales are denominated in US dollars and between 13% and 18% in Japanese Yen, while most operating costs and expenses are incurred in Canadian dollars, with small portions in US dollars and Japanese Yen. The Company's functional currency is the Canadian dollar and results of operations are reported in Canadian dollars. Significant variations in relative currency values, particularly significant changes in the value of the Canadian dollar relative to the US dollar, have had, and in the future could have, a material impact on our operating earnings and cash flows. We estimate that an increase or decrease of 1% in the value of the Canadian dollar compared to the US dollar and Japanese Yen would decrease or increase, respectively, operating earnings by approximately $2.4 million to $3.0 million dollars annually.

The Softwood Lumber Agreement with the United States was implemented on October 12, 2006. The agreement has a term of seven years, extendable for up to two years, and may be terminated after 18 months by either the Canadian or United States government with not less than six months notice. We are unable to predict whether the agreement will be terminated prior to expiration or the consequences upon termination, should it occur. In addition, the agreement provides that if the monthly volume of exports from the British Columbia coastal region exceeds a certain "Trigger Volume" as defined in the agreement, a "surge" mechanism will apply to increase the rate of the export tax for that month by 50% (for example, a 15% export tax rate would become 22.5% for that month). The surge mechanism can be triggered by any or all companies in the region over-shipping, causing total exports to exceed the trigger volume. We are unable to predict if or when the surge mechanism will apply to any of our future lumber shipments into the United States.

Employees and Labour Relations

Hourly paid employees at our manufacturing facilities, timber harvesting operations and a small group of clerical workers are unionized. Currently we negotiate and administer six collective agreements. Our unionized employees are represented by either the United Steel Workers (USW) or the Pulp, Paper and Woodworkers of Canada (PPWC). Of our six collective agreements, three expired in 2009, one will expire on June 14, 2010 and the remaining two will expire in 2012. Of the three expired collective agreements, negotiations are currently underway on renewing two of the agreements. The third expired collective agreement covers employees at the Company's Ladysmith Sawmill Operation which will have been curtailed indefinitely for two years in April 2010. The PPWC, with agreement from the Company, is not actively negotiating a new collective agreement for the Ladysmith sawmill employees at this time. The collective agreement covering the majority of Western's unionized employees (Coast Master Agreement with the USW), expires on June 14, 2010.

Should the Company be unable to negotiate an acceptable contract after any of these collective agreements expire with any of the unions, a strike or work stoppage could occur. Furthermore, a negotiated settlement could result in unplanned increases in wages or benefits payable to union members. Therefore, a strike or other work stoppage could involve significant disruption of operations and/or a material adverse impact on our financial condition or results of operations. In addition, the Company relies on certain third parties, such as logging contractors, stevedores or major railways, whose workforces are unionized, to provide us with services needed to operate our business. If those workers engage in strike or other work stoppages, our operations could be disrupted

Long-Term Competition

The markets for our products are highly competitive on a domestic and international level, with a large number of major companies competing in each market. Many of our competitors have both substantially greater financial resources and less debt than Western. Some of these competitors are not subject to fluctuations in the relative value of the Canadian dollar to the same extent as Western. We also compete indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. While the principal basis for competition is price, we also compete to a lesser extent on the basis of quality and customer service. Changes in the level of competition, industry capacity and the global economy have had, and are expected to continue to have, a significant impact on the selling prices and overall profitability of the Company. Our competitive position will be influenced by factors including the availability, quality and cost of fibre, energy and labour, and plant efficiencies and productivity in relation to our competitors. Our competitive position could be affected by fluctuations in the value of the Canadian dollar relative to the US dollar and/or the Japanese Yen, and by the export tax on softwood lumber shipments to the United States.

Forest Resource Risk and Natural Catastrophes

Our timber tenures are subject to the risks associated with standing forests, in particular, forest fires, wind storms, insect infestations and disease. Procedures and controls are in place to mitigate such risk through prevention and early detection. Most of the timber that we harvest comes from Crown tenures and insurance coverage is maintained only for loss of logs due to fire and other occurrences following harvesting. However, this coverage does not extend to standing timber, and there is no assurance that this coverage would be adequate to provide protection against all eventualities, including natural catastrophes. Western has entered into a cost-sharing agreement with the Crown for our private timberlands to reduce individual incident costs of mobilizing helicopters and aerial water tankers in the event of a fire on those lands. In 2009 the BC Coast experienced unusually dry summer conditions which resulted in over 60 wildfires within our tenures which required action to control. By the end of the fire season some 700 hectares of forest within our tenures had been destroyed. The area impacted would have been much higher but for the aggressive response of WFP and the Ministry of Forests and Range crews.

In addition, our operations may be adversely affected by severe weather including wind, snow and rain that may result in our operations being unable to harvest or transport logs to our manufacturing facilities for extended periods of time. Although we anticipate and factor in a certain period of down-time due to weather, extended periods of severe or unusual weather may adversely impact our financial results due to higher costs and missed sales opportunities arising from fibre shortages or the deterioration of logs remaining on the ground or in the water for extended periods of time. For example, a series of very large storms through the month of November 2009 resulted in frequent rainfall shutdowns to Vancouver Island logging operations which reduced log production.

The majority of our business operations are located on the British Columbia coast, which is geologically active and considered to be at risk from earthquakes.

Climate change over time is predicted to lead to changes in the frequency of storm events as well as their severity. We also expect to see changes in the occurrence of wildfires and forest pest outbreaks. Long-term climatic models are predicting that the optimum ranges of many species, including those of our major tree species, will shift over time. We are unable to predict the impact of all of these factors on our tenures or on forest practices.

While the Company maintains insurance coverage to the extent deemed prudent by us, we cannot predict that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks.

Impact of Mountain Pine Beetle Infestation

The west-central interior of British Columbia has been, and continues to be, seriously damaged by North America's largest recorded mountain pine beetle infestation. Western does not operate in the affected area and the lodgepole pine, the species most at risk from the infestation, is not a key source of timber in the coastal forests. This natural disaster is causing widespread mortality of lodgepole pine. Increases in harvest levels have resulted in higher lumber production volumes and therefore more supply in the marketplace, potentially decreasing prices, primarily in the structural dimension market in the United States. There is growing evidence that, as the dead trees decay, they become more difficult and costly to manufacture into lumber and that the quality of the residual wood chips may diminish. There may also be access issues over time as developing second growth forests grow to a size that precludes entry into pine beetle damaged stands.

The mountain pine beetle has crossed into Alberta, and timber harvesting of lodgepole and jackpine in Alberta will likely see an increase in allowable annual cut ("AAC") to promote salvage before decay, potentially adding to downward price pressures as the lumber supply may increase. The Company is unable to predict when and if the mountain pine beetle infestation will be halted or its impact on future lumber, chip and log prices.

Pulp and Paper Market Variability

The selling price in Canadian dollars of our residual wood chips on some of our fibre contracts is tied by formula to the net pulp realizations in US dollars obtained by our wood chip customers. Fluctuations in pulp prices and foreign currencies will accordingly impact the selling price of our residual wood chips. The price and demand for the pulp logs and other logs sold to pulp and paper companies is also dependent on the market conditions for pulp and paper. If contraction in the coastal pulp and paper industry were to occur, we may need to find alternative customers for the pulp logs and residual chips from our sawmills.

Dependency on Fibre Obtained from Government Timber Tenures

Currently, substantially all of the timberlands in which we operate are owned by the Province of British Columbia and administered by the Ministry of Forests and Range. The *Forest Act* (British Columbia) ("Forest Act") empowers the Ministry of Forests and Range to grant timber tenures, including Tree farm Licences ("TFLs"), Forest Licences ("FLs") and Timber Licences ("TLs"), to producers, although no new TLs can be issued and the availability of extensions to expiring TLs cannot be assured. The Provincial Chief Forester must conduct a review of the AAC for each Timber Supply Area and each TFL in the Province on a periodic basis, which is at least once every ten years. This review is then used to determine the AAC for licences issued by the Province under the Forest Act. Many factors affect the AAC such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes. Such assessments have in the past resulted and may in the future result in reductions or increases to the AAC attributable to licences held by British Columbia forest companies (without compensation), including the licences that we hold. In addition, our AAC can be temporarily reduced (without compensation for the first four years) in areas where logging has been suspended under Part 13 of the Forest Act pending further consideration in land use planning. Land use planning and new harvesting regulations can constrain access to timber and new parks can permanently remove land from the timber harvesting land base. There can be no assurance that the amounts of such future reductions on our licences, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Forest Policy Changes in British Columbia

In 2003 and 2004, the Province implemented the most significant legislative reforms in the British Columbia forest industry in over 40 years. The most controversial aspect of these legislative reforms involved the Province taking back approximately 20% of the AAC from major licence holders, including Western, and providing monetary compensation. There can be no assurance that the Province will not implement further policy changes, or that any such changes will not have a material adverse effect on our operations or our financial condition.

First Nations Land Claims

First Nations groups have made claims of rights and title to substantial portions of land in British Columbia, including areas where our timber tenures and operations are situated, creating uncertainty as to the status of competing property rights and of legislation and Crown decisions that adversely affect such asserted rights and title. The Supreme Court of Canada has held that aboriginal groups may have a spectrum of constitutionally recognized and affirmed aboriginal rights and title in lands that have been traditionally used or occupied by their ancestors; however, such rights or title are not absolute and may be infringed by government in furtherance of a valid legislative objective, including forestry, subject to meeting a justification test. The effect on any particular lands will not be determinable until the nature of historical use, occupancy and rights in any particular piece of property have been clarified. The Supreme Court of Canada has also held that even before claims of rights and title are proven, the Crown has a legal duty to consult with First Nations, which can become a duty to seek possible accommodations, when the Crown has knowledge, real or constructive, of the potential existence of an aboriginal right or title and contemplates conduct that might adversely impact it. During the period before asserted claims are proven, the Crown is required to consult in good faith with the intention of substantially addressing First Nation concerns, but First Nations agreement is not required in these consultations.

First Nations are seeking compensation from governments (and in some instances from forest tenure holders) with respect to these claims, and the effect of these claims on timber tenure rights, including our timber tenures, cannot be estimated at this time. The Federal and Provincial Governments have been seeking to negotiate treaty settlements with aboriginal groups in British Columbia in order to resolve these claims. The effect of such a settlement on our timber tenures or the amounts of compensation that we would receive for any taking from those tenures as a result of this process, if any, cannot be estimated at this time.

Current Provincial Government policy requires that forest management and operating plans take into account and not unreasonably infringe on aboriginal rights and title, proven or unproven, and provide for consultation with First Nations. This policy is reflected in the terms of our timber tenures, which provide that the Ministry of Forests and Range may vary or refuse to issue cutting permits in respect of a timber tenure if it is determined by a court that the forestry operation would unreasonably interfere with aboriginal rights or title. First Nations have, at times, sought to restrict the Provincial Government from granting or replacing forest tenures and other operating authorizations or from approving forest management plans on Crown lands without full consultation and accommodation or their consent if these decisions could affect lands claimed by them. There can be no assurance that denial of required approvals for, or changes to the terms of our timber tenures, other operating authorizations or forest management plans as a consequence of such consultation or action will not have an adverse effect on our financial condition or results of operations.

An unfavourable result in any of the First Nations litigation in which the Company is a party or which involves assets of the Company could have a material adverse effect on our financial condition or results of operations. See also “*Legal Proceedings*”.

Stumpage Fees

Stumpage is the fee that the Province charges forest companies for timber harvested from Crown land in British Columbia. In January 2004, the Provincial Government announced the move to a more open and competitive market pricing system for timber and logs for the coastal region. Previously, the amount of stumpage paid for each cubic metre of wood harvested from the coastal region was based on a target rate set by the Province. Since February 29, 2004, stumpage for the coastal region is being set using the Coast version of the Market Pricing System ("MPS"), which uses the results from British Columbia Timber Sales ("BCTS") auctions to establish the value of Crown timber harvested under long-term tenures. There can be no assurance that future changes to the stumpage system or the Province's administrative policy will not have a material impact on stumpage fees payable and consequently affect our financial condition and results of operations.

Long-term Fibre Supply Agreements

The Company has a number of long-term commitments to supply chip fibre and pulplogs to third parties. Certain of these fibre supply agreements have minimum volume requirements. As Western takes significant market related curtailments in its sawmills or timberlands operations, the volume of wood chips and pulplogs produced is reduced and accordingly there is greater risk that the minimum fibre supply obligations will not be met without additional cost to source other fibre. A failure to supply the minimum volume can result in additional costs or obligations such as an increase of minimum volumes in future periods. In one case the failure to supply the minimum volume could result in the loss of a TFL, but with a concurrent reduction in the future fibre supply commitment under that agreement.

Safety

Western is subject to workplace safety laws and regulations. Failure to comply with these laws and regulations can result in monetary penalties and work stoppages. The laws and regulations change over time and may involve new methodologies and additional costs necessary to bring the Company into compliance.

Environmental Regulation

We are subject to extensive environmental laws and regulations. These laws and regulations impose stringent standards on our operations and impose liability to remedy problems for which we are legally responsible regarding, among other things:

- air emissions;
- land and water discharges;
- operations or activities affecting watercourses or the natural environment;
- operations or activities affecting species at risk;
- use and handling of hazardous materials;
- use, handling, and disposal of waste; and
- remediation of environmental contamination.

We may incur substantial costs to comply with current or future requirements, to respond to orders or directions made, to remedy or to compensate others for the cost to remedy problems for which we are legally responsible or to comply with new environmental laws that may be adopted from time to time. In addition, we may discover currently unknown environmental problems or conditions affecting our operations or activities or for which we are otherwise legally responsible. Western has closed certain operations and although we have engaged specialists to advise us of environmental problems and conditions, normal site clean-up may identify additional problems or conditions. Any such event could have a material adverse effect on our financial condition and results of operations.

Regulatory Risks

Our forestry and sawmill operations are subject to extensive federal, provincial, state, municipal and other local laws and regulations, including those governing forestry, exports, taxes, labour standards, occupational health, safety, waste disposal, building structures/systems, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. Under certain laws and regulations, we are also required to obtain permits, licences and other authorizations to conduct our operations, which permits, licences and authorizations may impose additional conditions that must be satisfied. Although we budget for expenditures to maintain compliance with such laws and permits, there can be no assurance that these laws and regulations or government policy will not change in the future in a manner that could have an adverse effect on our financial condition or results of operations or the manner in which we operate. Nor can there be any assurance that administrative interpretation of existing laws and regulation will not change or more stringent enforcement of existing laws will not occur, in response to changes in the political or social environment in which we operate or otherwise, in a manner that could have an adverse effect on our financial condition or results of operations or the manner in which we operate.

Our timber operations are subject to Federal and Provincial restrictions that may require them to decrease planned export of logs. Currently, in British Columbia logs from most Crown lands are subject to Provincial log export restrictions and logs from most private timberlands are subject to federal export regulations. As a result, all export logs must be advertised for local consumption and may be exported only if there is a surplus of domestic supply as indicated by the absence of fair market value offers (based on current domestic prices) from domestic lumber mills. Accordingly, an increase in domestic demand could result in our timber operations being required to decrease their planned export of logs. The Provincial Government in British Columbia is currently reviewing its log export policy, and may recommend that the federal government impose a policy that may further restrict the export of logs from private lands in British Columbia. As export market pricing is generally at a premium to the domestic market pricing, any reduction in log exports could have an adverse effect on our timber operations.

Legal Proceedings

In January 2008 the Ditidaht First Nation commenced litigation in the B.C. Supreme Court against the Province of British Columbia, Canada, certain other First Nations and two forestry companies, including the Company, seeking amongst other things declarations of aboriginal title and rights in areas of Vancouver Island that include areas covered by timber tenures held by the Company and declarations that provincial forestry legislation and the Company's timber tenures are of no force or effect on the claimed aboriginal title lands. This proceeding is in the early stages and no trial date has been set.

In April 2008 the Kwakiutl First Nation commenced litigation in the B.C. Supreme Court against the Province of British Columbia, Western and the Federal Government of Canada seeking, amongst other things, orders to set aside the Province’s decision to remove Western’s private lands from a TFL and the Province’s approval of the Company’s Forest Stewardship Plan on the Crown lands within their area of interest, based on alleged infringements of their treaty rights and unextinguished aboriginal title and rights. A preliminary application by the Province to restrict the scope of this litigation had been scheduled for January, 2010 but was adjourned at the request of the Kwakiutl First Nation. No new hearing dates have been set for that application and the matter is in abeyance.

In 2005 the Hupacasath First Nation obtained an order of the B.C. Supreme Court requiring the Province of British Columbia to consult with them regarding certain Crown decisions, including a 2004 decision of the Minister of Forests and Range to remove private lands from TFL 44, a TFL subsequently acquired by the Company. In the third quarter of 2008 the Court ordered that a mediator be appointed to address appropriate accommodation for the effects of the Minister’s 2004 private land decision upon the asserted aboriginal rights of the Hupacasath First Nation on their claimed territory, both with respect to the private lands that are now outside the TFL and the Crown lands that remain within the Company’s TFL. The scope of this mediation is to include, among other things, consideration of possible accommodation from resources on the Crown lands remaining in the TFL now held by the Company. No result of this mediation has been announced.

The Company is currently unable to predict the outcome of these First Nation legal proceedings on Western’s ongoing operations or on any sale of its non-core assets and private forestry lands.

In August 2009, the British Columbia Court of Appeal upheld an earlier Forest Appeals Commission decision that had confirmed the Company was entitled to calculate stumpage at one of its operations in a manner that would result in a rebate to the Company of stumpage previously paid. The Province has applied for leave to appeal this decision to the Supreme Court of Canada and a decision on that application is pending from the Court. Should the Company prevail in this stumpage appeal it expects to be entitled to a rebate of stumpage previously paid in this matter and under other pending stumpage appeals that have been held in abeyance pending the outcome of these legal proceedings, the amount of which is not possible to ascertain at this time.

In addition, Western is subject to routine litigation incidental to our business, the outcome of which we do not anticipate will have a material adverse affect on our financial condition and results of operations.

Reliance on Directors, Management and Other Key Personnel

Western relies upon the experience and expertise of our personnel. No assurance can be given that we will be able to retain our current personnel and attract additional personnel as necessary for the development and operation of our business. Loss of or failure to attract and retain key personnel could have a material adverse effect on Western's business.

Change of Control of Western

BSS2 currently holds 49% of the outstanding Common Shares of Western and its additional equity interest in Western through Non-Voting Shares. If a change of control of Western were to occur, there could be significant adverse consequences to Western. If it is determined that there has been an acquisition of control for Canadian tax purposes we may lose the benefit of historical tax losses, which may limit our ability to shelter future operating income from tax. In addition, if BSS2 or any person were to acquire sufficient Common Shares to constitute a change or acquisition of control of Western, and the Minister of Forests and Range were to be satisfied the change or acquisition of control unduly restricted competition in standing timber, log or wood chip markets, the Minister of Forests and Range could make a determination to cancel all or a part of our *Forest Act* (British Columbia) tenures. If this were to occur, we may have to obtain the fibre to run the combined business facilities from external sources, perhaps at a higher cost. A significant increase in our costs could have a material adverse effect on the financial condition and results of operations of the combined business.

Certain Voting Rights of the Non-Voting Shares

The holders of Non-Voting Shares are generally not entitled to vote at meetings of our shareholders. They are, however, entitled to one vote per share on any vote relating to our liquidation, dissolution or winding-up, or the sale, lease or exchange of all or substantially all of our property and as otherwise provided by law or any amendment that would add, change or remove attributes of the Non-Voting Shares or any class of share adversely affecting the Non-Voting Shares either separately or in relation to the Common Shares. As such, holders of Non-Voting Shares will be able to vote on, and potentially affect the outcome of, certain transactions, such as our liquidation or winding-up or the sale of substantially all of our assets.

Evaluation of Disclosure Controls and Procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Western carried out an evaluation of the design and effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as of December 31, 2009. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the annual filings are being prepared.

The CEO and CFO confirm that there were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the last quarter of 2009.

Outstanding Share Data

On January 22, 2009, the Company closed a Rights Offering of 8,783,241 Common Shares and 254,374,654 Non-Voting Shares that raised gross proceeds of $50.0 million. On July 27, 2009 the Company's Class C Warrants expired with all but 23 of the 2,847,262 outstanding warrants being unexercised. As a result, as of March 3, 2010 there were 128,625,623 Common Shares and 338,945,860 Non-Voting Shares issued and outstanding. BSS2 controls and directs 49% of the Company's Common Shares and 100% of the Non-Voting Shares. The Company may convert the Non-Voting Shares into Common Shares on a one-for-one basis, in whole or in part, at any time in its sole discretion, provided that the Board of Directors is at that time of the opinion that to do so would not have a material adverse effect on the Company's business, financial condition or business prospects.

Western has reserved 10,000,000 Common Shares for issuance upon the exercise of options granted under the Company's incentive stock option plan. During 2009, 3,500,000 options were granted, 2,722,265 options were cancelled and no options were exercised. In January 2010, 324,000 options were cancelled. As of March 3, 2010, 4,741,795 options were outstanding under the Company's incentive stock option plan.

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)	2009 Year	2009 4th	2009 3rd	2009 2nd	2009 1st	2008 Year	2008 4th	2008 3rd	2008 2nd	2008 1st
Average Exchange Rate – Cdn $ to purchase one US $	1.140	1.056	1.098	1.167	1.244	1.067	1.211	1.041	1.010	1.005
Sales										
Lumber	438.2	96.3	111.8	101.9	128.2	623.9	136.6	153.3	181.5	152.5
Logs	99.6	32.5	25.5	25.3	16.3	133.6	26.6	29.1	43.4	34.5
By-products	42.7	10.5	12.6	11.5	8.1	57.3	12.1	14.6	14.3	16.3
Total sales	580.5	139.3	149.9	138.7	152.6	814.8	175.3	197.0	239.2	203.3
Lumber										
Shipments – millions of board feet	608	140	157	145	166	767	171	192	216	188
Price – per thousand board feet	721	688	712	703	772	814	799	798	840	811
Logs										
Shipments – thousands of cubic meters	1,594	528	413	406	247	2,077	483	517	622	455
Price – per cubic metre	62	62	62	62	66	64	55	56	70	76
Selling and administration	24.7	5.6	5.8	5.9	7.4	32.8	6.8	8.6	8.5	8.9
EBITDA as previously reported	(34.8)	2.3	(5.2)	(16.0)	(15.9)	(42.4)	(9.7)	(10.0)	(12.4)	(10.3)
Change in accounting policy	-	-	-	-	-	-	-	-	5.6	(5.6)
EBITDA as restated	(34.8)	2.3	(5.2)	(16.0)	(15.9)	(42.4)	(9.7)	(10.0)	(6.8)	(15.9)
Amortization of capital assets	(29.5)	(7.2)	(7.3)	(8.2)	(6.8)	(33.7)	(8.2)	(8.8)	(8.9)	(7.8)
Operating restructuring items	(5.5)	0.3	(2.3)	(3.5)	-	(6.3)	(6.3)	-	-	-
Net interest expense	(10.8)	(3.2)	(2.9)	(2.3)	(2.4)	(19.7)	(4.0)	(3.7)	(3.6)	(8.4)
Foreign exchange gain on debt	-	-	-	-	-	0.6	-	-	-	0.6
Other income (expense)	7.4	5.1	1.7	0.5	0.1	21.3	4.7	(0.1)	6.9	9.8
Income taxes	(0.1)	-	(0.1)	-	-	(0.2)	-	(0.1)	-	(0.1)
Net loss from continuing operations	(73.3)	(2.7)	(16.1)	(29.5)	(25.0)	(80.4)	(23.5)	(22.7)	(12.4)	(21.8)
Net loss from discontinued operations	(2.0)	(0.4)	(0.5)	(0.6)	(0.5)	(5.2)	(0.8)	(2.3)	(1.3)	(0.8)
Net loss	(75.3)	(3.1)	(16.6)	(30.1)	(25.5)	(85.6)	(24.3)	(25.0)	(13.7)	(22.6)
EBITDA as % of sales	(6.0)%	1.7%	(3.5)%	(11.5)%	(10.4)%	(5.2)%	(5.5)%	(5.1)%	(2.8)%	(7.8)%
Earnings per share:										
Net loss basic and diluted	(0.17)	(0.01)	(0.04)	(0.06)	(0.06)	(0.42)	(0.12)	(0.12)	(0.07)	(0.11)
Net loss from continuing operations basic and diluted	(0.16)	(0.01)	(0.04)	(0.06)	(0.06)	(0.39)	(0.11)	(0.11)	(0.06)	(0.11)

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, particularly in the United States, has historically tended to be higher. However, in 2008 and 2009 the unusual economic circumstances have caused this pattern to be overridden. 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.

The category of "Other income (expense)" comprises gains on the sale of various assets and other receipts which can be unpredictable in their timing. More material transactions of this nature occurred in the fourth quarter of 2009 and in the first, second and fourth quarters of 2008. Throughout both 2009 and 2008, results suffered from the significant downturn in the forest products industry, bringing associated production curtailments. The second and third quarters of 2009 and the fourth quarter of 2008 included charges for restructuring.

Western Forest Products Inc.

Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2009 and 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Western Forest Products Inc. ("Western" or the "Company") is responsible for the accompanying Consolidated Financial Statements and all other information in the Management's Discussion and Analysis. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and, where necessary, reflect Management's best estimates and judgments at this time. The financial information presented throughout the Management's Discussion and Analysis and the Company's press release dated March 3, 2010 is consistent with that contained in the Consolidated Financial Statements.

Western maintains systems of internal accounting controls, policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of its assets. Management meets the objectives of internal accounting control on a cost-effective basis through the prudent selection and training of personnel, adoption and communication of appropriate policies, and employment of an internal audit program.

The Board of Directors reviews through oversight Management's responsibilities with respect to the Consolidated Financial Statements primarily through the activities of its Audit Committee, which is composed solely of independent directors of the Company. This Committee meets with Management and the Company's independent auditors KPMG LLP to review the Consolidated Financial Statements and recommend their approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment, remuneration and the terms of engagement of the Company's auditors. The Audit Committee also meets with the auditors, without the presence of Management, to discuss the results of the audit, related findings and their suggestions.

The Consolidated Financial Statements have been audited by KPMG LLP, who were appointed by the shareholders at the annual shareholders' meeting. The auditors' report follows.

Stephen Frasher
President and
Chief Executive Officer

Brian Cairo
Senior Vice President, Finance

February 17, 2010

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Western Forest Products Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 17, 2010

Western Forest Products Inc.

Consolidated Balance Sheets

(Expressed in millions of Canadian dollars)

	As at December 31, 2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 8.1	$ 3.5
Accounts receivable	39.7	45.6
Inventory *(Note 4)*	107.6	228.8
Prepaid expenses and other assets	3.8	8.2
	159.2	286.1
Property, plant and equipment *(Note 5)*	405.9	429.8
Other assets *(Note 6)*	10.9	10.1
	$ 576.0	$ 726.0
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving credit line *(Note 7)*	$ 15.3	$ 108.9
Accounts payable and accrued liabilities	55.2	72.7
Current portion of long-term debt *(Note 8)*	45.2	53.5
Discontinued operations *(Note 21)*	6.1	6.4
	121.8	241.5
Long-term debt *(Note 8)*	74.5	74.1
Other liabilities *(Note 10)*	29.8	33.1
Deferred revenue *(Notes 1(f) and 14(d))*	72.4	74.4
	298.5	423.1
Shareholders' equity:		
Common shares *(Note 12)*	412.3	410.6
Non-voting shares *(Note 12)*	187.5	139.6
Contributed surplus	2.5	2.2
Deficit	(324.8)	(249.5)
	277.5	302.9
Commitments and contingencies *(Note 14)*		
Subsequent event *(Notes 12(c) and 22)*		
	$ 576.0	$ 726.0

See accompanying notes to these consolidated financial statements

Approved on behalf of the Board:

Stephen Frasher, *President and Chief Executive Officer*

Dominic Gammiero, *Chairman*

Western Forest Products Inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

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

	Year ended December 31, 2009	2008
Sales	$ 580.5	$ 814.8
Cost and expenses:		
Cost of goods sold	555.1	774.9
Export tax	6.0	8.9
Freight	59.0	74.3
Selling and administration	24.7	32.8
	644.8	890.9
Operating loss before operating restructuring items	(64.3)	(76.1)
Operating restructuring items *(Note 18)*	(5.5)	(6.3)
Operating loss	(69.8)	(82.4)
Net interest expense *(Note 19)*	(10.8)	(19.7)
Foreign exchange gain on translation of debt	-	0.6
Other income *(Note 20)*	7.4	21.3
Loss before income taxes	(73.2)	(80.2)
Income tax expense *(Note 9)*	(0.1)	(0.2)
Net loss from continuing operations	(73.3)	(80.4)
Net loss from discontinued operations *(Note 21)*	(2.0)	(5.2)
Net loss and comprehensive loss	(75.3)	(85.6)
Deficit, beginning of year	(249.5)	(163.9)
Deficit, end of year	$ (324.8)	$ (249.5)
Loss per share *(in dollars):* *(Note 12(e))*		
Basic and diluted loss per share	$ (0.17)	$ (0.42)
Basic and diluted loss per share from continuing operations	$ (0.16)	$ (0.39)
Weighted average number of shares outstanding (thousands)	452,431	204,414

See accompanying notes to these consolidated financial statements

Western Forest Products Inc.

Consolidated Statements of Cash Flows
(Expressed in millions of Canadian dollars)

	Year ended December 31, 2009	2008
Cash provided by (used in):		
Operating activities:		
Net loss from continuing operations	$ (73.3)	$ (80.4)
Items not involving cash:		
Amortization of capital assets	29.5	33.7
Foreign exchange gain on translation of debt	-	(0.6)
Gain on disposal of property, plant and equipment	(3.5)	(16.3)
Other	(3.5)	(1.1)
	(50.8)	(64.7)
Changes in non-cash working capital items:		
Accounts receivable	5.9	10.3
Inventory	121.2	16.5
Prepaid expenses	4.4	0.2
Accounts payable and accrued liabilities	(17.5)	(13.0)
	63.2	(50.7)
Investing activities:		
Additions to property, plant and equipment	(8.9)	(12.5)
Proceeds from disposal of assets and other receipts	7.0	53.9
	(1.9)	41.4
Financing activities:		
Changes in revolving credit line	(93.6)	60.3
Proceeds from Rights Offering, net of costs	49.6	-
Proceeds from refinancing of debt	-	175.0
Repayment of long-term debt	(6.4)	(46.3)
Refinancing fees	(3.2)	(2.5)
Repayment of pre-existing debt	-	(174.3)
	(53.6)	12.2
Cash provided by continuing operations	7.7	2.9
Cash used in discontinued operations *(Note 21)*	(3.1)	(4.3)
Increase (decrease) in cash and cash equivalents	4.6	(1.4)
Cash and cash equivalents, beginning of year	3.5	4.9
Cash and cash equivalents, end of year	$ 8.1	$ 3.5
Supplementary information:		
Cash interest paid	$ 9.2	$ 15.8
Cash income taxes paid	$ 0.3	$ 0.2

See accompanying notes to these consolidated financial statements

The business of Western Forest Products Inc. (the "Company" or "Western") is timber harvesting and lumber manufacturing for worldwide markets. Western's operations are located in the Coastal region of British Columbia.

1. Significant accounting policies:

The significant accounting policies are summarized below:

(a) Basis of presentation and principles of consolidation:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly owned subsidiaries since their respective acquisition dates. The principal wholly-owned operating subsidiaries of the Company at December 31, 2009 are Western Lumber Sales Limited (which sells into the United States) and MacMillan Bloedel KK (which sells into Japan). All intercompany balances and transactions have been eliminated on consolidation. In addition, certain comparative figures have been re-classified to reflect the current year's presentation.

(b) Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant areas requiring the use of management estimates include inventory valuations, amortization rates, outcome of arbitrations and legal proceedings, restructuring, reforestation liabilities, asset retirement obligations, employee future benefits, and asset impairment provisions. Actual results may differ materially from those estimates.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of 90 days or less from the date of acquisition, and are carried at fair value.

(d) Inventory:

Inventory, other than supplies which are valued at specific cost, are valued at the lower of allocated cost and net realizable value ("NRV") as described below.

(*i*) Lumber by species (hemlock and balsam, Douglas fir and cedar);

(*ii*) Logs by gross sort (saw logs and pulp logs).

Costs of products produced jointly as a result of the same process are allocated according to the value of those products. Log production costs are allocated to logs based on their relative market values, except for pulp logs that are carried at market due to the significant difference between the market value of pulp logs compared to production costs. Similarly, lumber production costs are allocated to production units based on their relative market values. The NRV for logs designated for lumber production is determined on the basis of the logs being converted to lumber with the NRV for the remaining logs based on market log prices.

1. Significant accounting policies (continued):

(e) Property, plant and equipment:

Property, plant and equipment is initially recorded at cost and is subsequently amortized on a straight line basis over the expected useful life of the underlying asset (5 to 20 years). Logging roads are amortized over their expected useful life or over the volume anticipated to be accessed by the road.

The cost of major forest tenures is capitalized and subsequently amortized on a straight-line basis over 40 years. The cost of private timberlands is capitalized and is not amortized.

(f) Deferred revenue:

Deferred revenue is the result of the contractual obligations incurred upon the acquisition of the Englewood Logging Operation and calls for Western to deliver a specified volume of fibre (chips and pulp logs) over the term of the contract. Accordingly, the deferred revenue is amortized into income on a straight-line basis over 40 years, being the term of the related fibre supply contract.

(g) Impairment of property, plant and equipment:

The Company conducts reviews for the impairment of property, plant and equipment, including logging roads, and timberlands, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss would be recognized when estimates of future undiscounted cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount. An impairment loss would be measured based on the difference between the carrying amount and fair value of the impaired assets.

(h) Foreign currency translation:

Transactions denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities have been translated into Canadian dollars at the period-end exchange rates. Non-monetary assets and liabilities are translated at the exchange rates in effect when the assets were acquired or the liabilities incurred. All exchange gains and losses are included directly in income.

(i) Asset retirement obligation:

The Company recognizes asset retirement obligations at fair value in the period in which the legal obligation is incurred, with the fair value of the liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur.

1. Significant accounting policies (continued):

The Company's asset retirement obligations relate to the obligation for reforestation on Crown land and certain environmental remediation. Reforestation obligations arise as timber is harvested with the related expenses recognized in the statement of operations as they occur. Reforestation on private timberlands is expensed as incurred.

(j) Revenue recognition:

Sales are recognized when the significant risks and rewards of ownership are passed to the customer. Lumber and by-product sales are recorded at the time product is shipped and the collection of the amounts is reasonably assured. Consistent with industry practice, log sales are recorded when the customer's order is firm, the logs have been delivered to the transfer location and the collectability of the amount is reasonably assured.

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

(k) Stock-based compensation:

The Company has established a stock-based compensation plan for eligible directors, officers and employees and accounts for it using the fair value method.

Under this method, the fair value of the options is determined using the Black-Scholes option pricing model which takes into account, as of the grant date, the exercise price, the expected life of the options, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option.

Inherent in all option pricing models is the use of highly subjective estimates, including expected volatility of the underlying stock. The Company bases its estimates of volatility on historical stock prices of the Company itself as well as those of comparable companies with longer trading histories.

Cash consideration received from employees when they exercise the options is credited to share capital.

(l) Income taxes:

The Company uses the asset and liability method of accounting for future income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on temporary differences (differences between the accounting bases and the tax bases of existing assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

(m) Employee future benefits:

The Company has various defined benefit and defined contribution plans that provide pension benefits to most of its salaried employees and certain hourly employees not covered by forest industry union

1. Significant accounting policies (continued):

plans. The Company also provides other post retirement benefits and pension bridging benefits to eligible retired employees.

The Company accrues the costs and related obligations of the defined benefit pension and other retirement benefit plans using the projected benefit actuarial method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. For the purpose of calculating the expected return on plan assets, the fair value of plan assets is used. Actuarial gains (losses) arise from the difference between the actual and expected long-term rates of return on plan assets for a period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees, which ranges between 13 and 16 years for both pension and other benefit plans. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan.

For hourly employees covered by forest industry union defined benefit pension plans, income is charged with the Company's contribution as required under the collective agreements.

The Company accrues the costs and related obligations for defined contribution plans based on the required Company contributions in the period.

(n) Impairment of long-lived assets and measurement uncertainty:

The Company reviews the carrying values of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through future operations. As a result of continued losses by the Company and the impact of the global recession on lumber demand and prices in the market, the Company conducted an impairment review of its long-lived assets as at December 31, 2009.

The impairment review was performed by determining whether projected undiscounted future cash flows from operations exceed the net carrying amount of the assets. Key assumptions in performing this review include lumber prices, log and chip prices and the U.S. dollar and Japanese Yen exchange rates. Other significant assumptions include production rates, the useful life of the assets, stumpage rates and the amount of the export tax on lumber shipped to the U.S. In determining the appropriate assumptions the Company has analyzed external data and sought advice from external advisors. Based on the key assumptions used, the projected undiscounted cash flows from operations exceed the carrying value of the Company's long-lived assets.

On the basis of the findings of the impairment review, the Company does not consider that any write-down of its long-lived assets is required at December 31, 2009. Given the judgments and estimates required in carrying out the impairment testing and the sensitivity of results to the key assumptions used, it is possible that changes in future conditions may lead management to use different assumptions in the future, which could result in a material impairment in the carrying values of its long-lived assets.

1. Significant accounting policies (continued):

(o) Derivative financial instruments:

The Company may enter into derivative financial instruments in order to mitigate its exposure to foreign exchange risk. The Company's policy is not to use derivative financial instruments for trading or speculative purposes. These instruments have not been designated as hedges for accounting purposes, and they are carried on the balance sheet at fair value with changes in the (realized and unrealized) fair value being recognized as gains or losses in the Company's Consolidated Statement of Operations (Note 17).

2. Changes to accounting policies

Adopted in 2009

a) Goodwill and intangible assets:

Effective January 1, 2009, the Company adopted the new recommendations of the CICA Handbook Section 3064, Goodwill and Intangible Assets. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard had no impact on the Company's consolidated financial statements.

b) Timberlands shutdown costs:

Effective January 1, 2009, the Company changed its accounting policy with respect to the treatment of its timberlands shutdown costs to directly expense the costs in the period incurred. The Company's previous accounting policy was to defer shutdown costs at the end of each interim period in accordance with CICA Handbook Section 1751, Interim Financial Statements, to account for planned volume or capacity cost variances that were expected to be absorbed by the end of the fiscal year. Under this previous accounting policy, these deferred costs were amortized into the statement of operations using a unit rate, based on budgeted production volume and cost for the fiscal year. In recent quarters, the Company has had to significantly alter its log production schedule from budget, making it difficult to determine if such costs would be fully absorbed by the end of the year using a budgeted rate, as prescribed by the previous policy. As such, the Company believes the new policy eliminates this issue by conservatively expensing such costs in the period incurred. The change in policy has been applied retroactively with restatement of prior periods and resulted in a decrease in inventory and an increase in the net loss and comprehensive loss for the first quarter of 2008 of $5.6 million and a decrease in the net loss and comprehensive loss in the second quarter of 2008, also of $5.6 million, all as compared to amounts previously reported. As a result, basic and diluted loss per share increased by $0.03 per share in the first quarter of 2008 and decreased by $0.03 per share in the second quarter of 2008. The change in accounting policy did not have an impact in any other quarter or for the years ended December 31, 2009 and December 31, 2008.

2. Changes to accounting policies (continued)

c) Financial instruments disclosure

The Company adopted the amendments to CICA 3862, Financial Instruments – Disclosures on January 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value. The hierarchy of inputs to be disclosed is summarized below:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2)
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

Future Changes:

International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles ("Canadian GAAP") will be converged with International Financial Reporting Standards ("IFRS") for fiscal years commencing January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. While the effects of IFRS have not yet been fully determined, the Company has identified a number of key areas which are likely to be impacted by changes in accounting policy, including: property, plant, and equipment; impairment of assets; intangible assets; private timberlands; and employee future benefits.

Western's largest shareholder, Brookfield Special Situations Management Limited ("BSS2") (formerly Tricap Management Limited), which is related to Brookfield Asset Management ("BAM"), adopted IFRS effective January 1, 2010, with a transition date of January 1, 2009. Upon the request of BAM, Western has provided certain financial information in accordance with BAM's accounting policies and decisions to assist BAM with its adoption of IFRS. However, this information may not be consistent with the accounting policies and decisions that will be made by Western at the time of its own adoption of IFRS.

3. Going concern:

The Company has forecasted financial results and cash flows for 2010. These forecasts are based on Management's best estimates of operating conditions in the context of the current economic climate, today's difficult capital market conditions and the depressed state of the forest products industry.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

3. Going Concern (continued):

Based on its current forecasts, which assumes the renewal of the non-revolving facility due in September 2010, the Company expects sufficient liquidity will be available to meet its obligations in 2010. If the Company is unsuccessful in selling further non-core assets, or the non-revolving facility is not renewed, or if there is any significant strengthening of the Canadian dollar, further declines in the U.S. housing or other key markets, timber tenure take backs without timely and adequate compensation, or increases in costs including stumpage rates, this would adversely impact the Company's liquidity in the short to mid-term, and may cause the Company to be non-compliant with its debt-to-capitalization covenant under its banking lines. In the event the Company is in violation of certain of its loan covenants or is unable to repay remaining amounts of long-term debt on their due dates, its debt could become immediately due and payable or it may not be able to access funds under its revolving credit line. As indicated in Note 8, the debt-to-capitalization covenant was changed in the second quarter of 2009 to 45% from 40%.

CIT Business Credit Canada Inc. ("CITBCC") is the agent and the lender holding the largest commitment ($100 million) of the Company's $150 million revolving credit line (Note 7). CITBCC is jointly owned by Canadian Imperial Bank of Commerce ("CIBC") and CIT Group, Inc. ("CIT"). In 2009, CIT experienced financial difficulties and recently has successfully emerged from their Chapter 11 process. Western's borrowings have been unaffected by CIT's associated legal and restructuring proceedings.

These consolidated financial statements have been prepared assuming the Company will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

4. Inventory:

The following table summarizes the value of inventory on hand:

	2009	2008
Log inventory	$ 67.3	$ 138.0
Lumber inventory	31.7	88.0
Supplies and other inventories	10.2	12.1
Provision for write downs	(1.6)	(9.3)
Total inventory	$ 107.6	$ 228.8

The Company's inventory is pledged as security against the revolving credit line and long-term debt. At December 31, 2009 $19.3 million (2008 - $42.5 million) of the $107.6 million (2008 - $228.8 million) of total inventory was carried at net realizable value. During 2009, $555.1 million (2008- $774.9 million) of inventory was charged to cost of sales which includes a reversal of the provision for write-down to net realizable value of $7.7 million.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

5. Property, plant and equipment:

2009	Cost	Accumulated Amortization	Net book value
Land	$ 31.6	$ -	$ 31.6
Timberlands	283.2	21.7	261.5
Logging Roads	107.6	67.0	40.6
Buildings and equipment	144.1	71.9	72.2
	$ 566.5	$ 160.6	$ 405.9

2008	Cost	Accumulated Amortization	Net book value
Land	$ 31.6	$ -	$ 31.6
Timberlands	285.5	16.9	268.6
Logging Roads	104.1	57.3	46.8
Buildings and equipment	139.3	56.5	82.8
	$ 560.5	$ 130.7	$ 429.8

Amortization of property, plant and equipment

	2009	2008
Amortization of buildings and equipment	$ 15.4	$ 15.8
Amortization of timberlands and logging roads	14.1	17.9
	$ 29.5	$ 33.7

6. Other assets:

	2009	2008
Investments	$ 7.1	$ 7.0
Discontinued operations	2.2	2.0
Other	1.6	1.1
	$ 10.9	$ 10.1

7. Revolving credit line:

The revolving credit line provides for a maximum borrowing amount of $150.0 million with provision for an extension up to $200.0 million, subject to lender approval. The interest rate on the line is Canadian prime plus 0.50% and the expiry date is March 13, 2011. At December 31, 2009, $29.2 million of the facility was unused and available to the Company. The borrowing amount available is subject to a borrowing base which is predominantly based on eligible accounts receivable and inventory balances and is secured by these balances. On December 15, 2008, additional security was provided to the lender by way of a letter of credit issued by BAM, a Company related to BSS2, in the amount of $15.0 million. The letter of credit expired on January 22, 2009 following the repayment by the Company of $50.0 million of the revolving credit line balance outstanding at that time from the proceeds of the Rights Offering (Note 12(b)).

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

8. Long-term debt:

	2009	2008
Canadian dollar debt	$ 122.3	$ 128.7
Associated transaction costs	(2.6)	(1.1)
	$ 119.7	$ 127.6
Less current portion	45.2	53.5
	$ 74.5	$ 74.1

On March 14, 2008, the Company closed a financing providing $175.0 million in term facilities. The financing agreement provided for two secured term facilities: a $75.0 million revolving term facility and a $100.0 million non-revolving term facility subsequently paid down by $46.3 million during the remainder of 2008 and a further $6.4 million in 2009. The revolving term facility expires on March 13, 2011 and the non-revolving term debt is due on or before September 9, 2010. The non-revolving debt was originally due on September 9, 2009, but on June 16, 2009, an agreement was reached with the lenders to extend the maturity date of the facility to September 2010. The balance of the non-revolving term debt and associated financing fees as at December 31, 2009 is classified as a current liability.

At the discretion of the Company, interest on the facilities was originally based either on the Canadian prime or the bankers acceptance rate plus a margin of 1.75% or 2.75%, respectively. However, concurrent with the aforementioned extension of the maturity date on the non-revolving debt, the Company's maximum debt-to-capitalization financial covenant was increased from 40% to 45%, and the applicable interest rate margins increased 3%. The interest rates for the revolving and non-revolving term facilities became, at the Company's option, either Canadian prime rate plus 5% or bankers' acceptance rate plus 6%. In addition, commencing December 31, 2009, the margin increased by 0.25%, and will increase by a further 0.25% at the end of each subsequent calendar quarter that the non-revolving term loan remains outstanding. The obligations under the facilities are secured by liens against all of the Company's properties and assets and include customary covenants and repayment requirements from the proceeds of asset sales and other non-operating cash inflows, with certain exceptions.

The Company has paid $3.2 million in transaction costs associated with the above financings in 2009 (2008 – $2.5 million), which have been deferred and are being amortized into interest expense over the term of the facilities using the effective interest rate method.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

9. Income taxes:

Income tax expense differs from the amount that would be computed by applying the Company's combined Federal and Provincial statutory rate as follows:

	2009	Tax rate	2008	Tax rate
Loss before income taxes	$ (73.2)		$ (80.2)	
Expected income tax recovery	$ 22.0	30.0%	$ 24.8	31.0%
Tax effect of:				
Capital gains tax rate	-	-	2.0	2.5%
Change in valuation allowance	142.2	194.3%	(19.5)	(24.3)%
Reorganization of WFP Forest Products Ltd.("WFPFPL")*(Note 22)*	(163.7)	(223.6)%	-	-
Future tax rate changes	(6.7)	(9.2)%	14.0	17.5%
Change in prior year estimated values	2.6	3.6%	(5.5)	(6.9)%
Losses expiring in the year	-	-	(18.8)	(23.4)%
Other permanent differences	3.5	4.8%	2.8	3.4%
Income tax expense per financial statements	$ (0.1)	(0.1)%	$ (0.2)	(0.2)%

	2009	2008
Future tax assets:		
Losses carried forward	$ 109.1	$ 237.6
Property, plant and equipment due to differences in net book value and unamortized cost	15.7	14.9
Reforestation and other accruals not deductible for tax until paid	10.5	16.3
	135.3	268.8
Valuation allowance	(96.8)	(239.0)
	38.5	29.8
Future tax liabilities:		
Property, plant and equipment due to differences in net book value and unamortized capital cost	(38.5)	(29.8)
Net future tax liability	$ -	$ -

At December 31, 2009, the Company and its subsidiaries have unused tax losses carried forward estimated at $434.3 million (2008 - $515.2 million), that expire between 2014 and 2029, available to reduce taxable income and capital losses of $4.0 million (2008 - $796.0 million) available to be utilized against capital gains. The ability of the Company to utilize the losses carried forward and capital losses is not considered "more likely than not" and therefore, a valuation allowance has been provided against the tax assets.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

10. Other liabilities:

	2009	2008
Pension liability *(Note 16)*	$ 13.5	$ 15.1
Environmental accruals	1.5	1.5
Long-term portion of reforestation liability *(Note 11)*	14.4	16.1
Other	0.4	0.4
	$ 29.8	$ 33.1

11. Reforestation liability:

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

	2009	2008
Reforestation liability, beginning of period	$ 26.8	$ 28.6
Reforestation provision charged	7.0	9.0
Reforestation work payments	(9.1)	(10.8)
	$ 24.7	$ 26.8
Consisting of:		
Long-term portion included in other liabilities	$ 14.4	$ 16.1
Current portion included in accounts payable and accrued liabilities	10.3	10.7
	$ 24.7	$ 26.8

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2009 is $28.2 million (2008 - $31.4 million). The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at the Company's credit-adjusted risk-free rates of 5.25% to 8.00% depending on the timing of the cash flows. Reforestation expense incurred on current production and accretion expense are included in production costs for the year.

12. Share capital:

(a) Authorized and issued share capital:

The Company's authorized capital consists of an unlimited number of common shares (the Common Shares), an unlimited number of non-voting shares (the Non-Voting Shares) and an unlimited number of preferred shares. The Common Shares entitle the holders thereof to one vote per share. The Non-

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

12. Share capital (continued):

(a) Authorized and issued share capital (continued):

Voting Shares do not entitle the holders to any votes at meetings of the Company's shareholders except that they will be entitled to one vote per share relating to certain matters including liquidation, dissolution and winding-up. The Common Shares and Non-Voting Shares rank equally as to participation in a distribution of the assets of the Company on a liquidation, dissolution or winding-up of the Company and as to the entitlement to dividends.

The holders of the Non-Voting Shares had certain registration rights, exercisable after May 1, 2009, that would have enabled them to require the Company to assist them with a public offering of the Non-Voting Shares or Common Shares for which the Non-Voting Shares may be exchanged, subject to certain limitations.

Issued and outstanding Common and Non-Voting Shares are as follows:

	Number of Common Shares	Amount	Number of Non-Voting Shares	Amount
December 31, 2009	128,625,623	$ 412.3	338,945,860	$ 187.5
December 31, 2008	119,842,359	$ 410.6	84,571,206	$ 139.6

(b) Rights offering:

On January 22, 2009, the Company raised a total of $50.0 million before expenses through a rights offering to all shareholders pursuant to a final short-form prospectus dated December 10, 2008. Western used the $49.6 million net proceeds of the Rights Offering to reduce indebtedness under its revolving line of credit, thereby providing additional liquidity. The amounts repaid under this facility are available to be redrawn for general corporate purposes. Under the terms of the rights offering, common and non-voting shareholders received one right for each Common Share or Non-Voting Share that enabled them to subscribe for 1.28737 Common Shares of the Company at a price of $0.19 per Common share. The rights were listed for trading on the Toronto Stock Exchange ("TSX") and were exercisable until January 20, 2009.

BSS2 subscribed for Common Shares under both the basic subscription privilege and the additional subscription privilege. In accordance with the terms of a prior agreement, the Company only permitted the exercise of that portion of the rights owned by BSS2 that resulted in BSS2 beneficially owning, or exercising control or direction over, not more than 49% of the Common Shares outstanding. Accordingly, the Company only allowed the conversion of rights for the issuance of 4,303,788 Common Shares to BSS2 with the remaining rights converted into 254,374,654 Non-Voting Shares. As a result, BSS2 holds 63,026,544 Common Shares, or 49% of the Company's 128,625,623 Common Shares and 100% of the 338,945,860 Non-Voting Shares now issued and outstanding.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

12. Share capital (continued):

(c) Stock-based compensation 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 10,000,000 Common Shares. During 2009 the Company recorded compensation expense of $0.3 million (2008 - $0.5 million) which has been credited to contributed surplus

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, generally, a maximum of ten years from the date of the grant

During the year, the Company granted 3,500,000 options with a fair value of $0.5 million as determined by the Black-Scholes option pricing model using the assumptions of a weighted average exercise price of $0.25, risk free interest rate of 3.98%, volatility of 39% and an expected life of 10 years. These options are only exercisable when the share price exceeds $0.70.

The following table summarizes the change in the options outstanding during the years ending December 31, 2009 and 2008:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	4,288,060	$2.10	4,233,060	$2.45
Granted	3,500,000	0.25	2,710,000	1.20
Cancelled	(2,722,265)	2.21	(2,655,000)	1.75
Outstanding, end of year	5,065,795	$0.76	4,288,060	$2.10

Details of options outstanding under the share option plan at December 31, 2009 are as follows:

Exercise price	Number outstanding December 31, 2009	Weighted average remaining option life (years)	Weighted average exercise price	Number exercisable December 31, 2009	Weighted average exercise price
$ 0.25	3,500,000	9.5	$ 0.25	-	$ 0.25
$ 1.20	491,000	8.4	$ 1.20	98,200	$ 1.20
$ 1.75	500,000	6.5	$ 1.75	300,000	$ 1.75
$ 2.18	550,000	7.7	$ 2.18	220,000	$ 2.18
$ 12.10	24,795	4.6	$ 12.10	24,795	$ 12.10
	5,065,795	8.9	$ 0.76	642,995	$ 2.21

12. Share capital (continued):

Subsequent to the year end, 324,000 options with a weighted average exercise price of $1.56 were cancelled.

(d) Class C Warrants:

During 2009 the Company had 2,847,262 Class C non-transferrable Warrants outstanding with exercise prices ranging from $14.11 to $29.32 per warrant. On July 28, 2009 these warrants expired with all but 23 of the 2,847,262 outstanding warrants being unexercised. Due to their contingent nature, the warrants had no value allocated to them for accounting purposes.

(e) Loss per share:

Basic loss per share was calculated by dividing the net loss by the weighted average number of shares issued and outstanding over the period. Diluted net loss per share was calculated by reference to the fully diluted weighted average number of shares outstanding as determined using the treasury stock method and considering the dilutive effect, if any, of employee stock options (Note 12(c)) and Class C Warrants (Note 12(d)). For the years ending December 31, 2009 and 2008, these options and warrants were anti-dilutive.

13. Capital requirements:

The Company's strategy for managing capital is to maintain a capital position that provides financial flexibility and achieves growth with the objective of maximizing long-term shareholder value. Western's capital requirements typically include major new investments designed to increase net income and disbursements for other new equipment and ongoing enhancements, efficiency improvements, safety, and protection or extension of the life of equipment. Finally, significant expenditures are also required to fund new capital roads allowing access to timber stands for harvesting purposes. During 2009, significant capital expenditures have been curtailed because of the current economic climate and expenditures have been limited to essential road and bridge construction.

The Company seeks to achieve a balance between the higher returns that may arise with higher levels of borrowing and the advantages and security provided by a sound capital position. The Company monitors the ratio of net debt to capitalization, targeting a ratio in the range of 30% to 45%. Net debt is defined as long-term debt plus amounts drawn on revolving credit lines, less cash and cash equivalents. Capitalization comprises net debt and shareholders' equity.

Changes to the capital structure may be made as strategic opportunities arise. In order to maintain or adjust the capital structure, the Company may issue new shares, source new debt, or sell assets to reduce debt. The Company has internal controls to ensure changes to the capital structure are properly reviewed and approved.

Since refinancing its term debt facilities in March of 2008 (Note 8), the Company has repaid a total of $52.7 million of the long-term portion of the debt facilities substantially from the cash proceeds of disposition of assets (Note 20). Pursuant to the financing agreement, term debt repayments will continue as asset sales are realized.

13. Capital requirements (continued):

Under the current financing agreement, the Company is subject to financial covenants including maintaining a certain ratio of debt to capitalization. As at December 31, 2009, this ratio was within the limit prescribed in the agreement.

The Company is not subject to any statutory capital requirements. Under the Company's stock-based compensation plan, commitments exist to issue common shares.

There were no changes to the Company's approach to managing capital during the year.

14. Commitments and contingencies:

(a) Lumber duties and export tax:

Under the softwood lumber agreement ("SLA") between Canada and the United States, the Company's exports to the United States are assessed an export tax by the Canadian Government. The SLA, which became effective October 12, 2006, has a term of seven years with provision for an extension of two years and for early termination by either Government after two years. The export tax rate varies according to the price of lumber based on the "Random Lengths Framing Lumber Composite Index" ("Index") and ranges from zero percent when the Index is above US$355 per thousand board feet to 15% when the Index is under US$315 per thousand board feet.

The export tax only applies to the first US$500 per thousand board feet for any product sales. In addition, if the monthly volume of exports from the British Columbia coastal region exceeds a certain "Trigger Volume" as defined in the SLA, a "surge" mechanism will apply to increase the rate of the export tax for that month by 50% (for example the 15% export tax rate would become 22.5% for that month). Throughout the years ended December 31, 2009 and 2008 the export tax was 15% and the Company recorded an expense of $6.0 million (2008 - $8.9 million).

(b) 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. The Company has a number of claims filed against it from logging contractors and unions with respect to various operating issues. Certain of the claims are pending mediation or arbitration, while others have not yet reached this formal stage. Where the Company is not able to determine the outcome of these disputes no amounts have been accrued in these financial statements.

(c) Indemnity agreement:

As a result of the amalgamation of the Company with Cascadia Forest Products Ltd. ("Cascadia"), the Company has assumed Cascadia's obligation to indemnify an entity related to BAM if that entity incurs liabilities under a guarantee (the "Guarantee") provided by it to a third party relating to the obligations of

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

14. Commitments and contingencies (continued):

Cascadia arising out of the purchase by Cascadia of certain of its assets from the third party prior to the acquisition of Cascadia by the Company. The Guarantee is limited to $100.0 million. As security for its performance under this indemnity and as a result of the amalgamation, the Company has issued a debenture in favour of the related entity in the amount of $100.0 million which results in a charge over all of the Company's real property and all of the Company's present and after-acquired personal property. In the absence of any claims, the Guarantee terminates on May 30, 2011 and if there is no liability accruing to the guarantor thereunder at that time, the Company may request that the debenture be discharged.

(d) Long-term fibre supply agreements:

The Company has a number of long-term commitments to supply fibre to third parties including a 40 year agreement, entered into on March 17, 2006 ("40 Year Agreement"). As consideration for entering into the 40 Year Agreement the Company received a price premium of $80.0 million that will be earned as wood chips are delivered under the agreement. Upon execution, a non-refundable prepayment of the price premium of $35.0 million was received with the balance of $45.0 million set-off against the consideration due by the Company on its acquisition of the Englewood Logging Division from the same party to the fibre supply agreement. The Company recorded the price premium as deferred revenue (Note 1(f)) and has granted a first charge over the acquired assets (including a tree farm license with an allowable annual cut of 826,000 cubic metres, 6,800 hectares of private timberlands and other capital improvements and equipment) to secure certain of these obligations.

In addition, certain of the fibre supply agreements have minimum volume requirements and may, in the case of a failure to supply the minimum volume, require the Company to 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. As Western takes 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 contractual obligations without incurring additional cost.

(e) Operating leases:

Future minimum lease payments at December 31, 2009 under operating leases were as follows:

2010	$ 3.3
2011	1.7
2012	0.9
2013	0.5
2014	0.5
Thereafter	0.5
	$ 7.4

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

14. Commitments and contingencies (continued):

(f) Allowable annual cut reductions:

During 2009 a number of the Company's tenures continued to have their allowable annual cut ("AAC") levels temporarily reduced under Part 13 of the Forest Act. The AAC reductions were made to ensure that harvest rates remain at a sustainable level until land use planning is completed in the areas affected by the Part 13 orders. In the Haida Gwaii/Queen Charlotte Islands the Tree Farm Licence ("TFL") 39 AAC remained reduced by 293,000 m3. In the Central Coast the combined AACs of Forest Licences ("FL") A16845 and A16847 remained reduced by 74,546 m3. Similarly, FLs A19231 and A19244, which are both inside and outside of the Central Coast, had their AAC reductions maintained at 3,228 m3. If the Part 13 orders extend for more than four years from the date of issue or the Province's land use planning process results in these reductions becoming permanent, then the Company has the ability to seek compensation from the Province for the reduced cutting rights thereafter.

(g) The Forest Revitalization Plan:

In January 2005, pursuant to terms of a settlement framework agreement negotiated in late 2004, the Company received $16.5 million in compensation for the loss of 685,216 cubic meters of AAC and 827 hectares of timber licences. During 2009, the Company received an additional compensation payment from the Province for improvements not previously reimbursed of $2.7 million (2008 - $4.0 million) (Note 20).

15. Segmented information:

The Company is an integrated Canadian forest products company operating in one industry segment comprised of timber harvesting, log sales and lumber sales and manufacturing for world-wide markets.

The Company's sales, based on the known origin of the customer, were as follows:

	2009	2008
Canada	$ 236.9	$ 322.8
United States	79.2	178.3
Asia	217.2	220.2
Europe	34.5	65.8
Other	12.7	27.7
	$ 580.5	$ 814.8

Substantially all of the Company's property, plant and equipment is located in British Columbia, Canada.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

16. Employee future benefits:

The Company has several funded and unfunded defined benefit plans, a defined contribution pension plan and a group RRSP that provide pension benefits to substantially all salaried employees and certain hourly employees. In addition, the Company provides other unfunded retirement and post employment benefits to certain former salaried and hourly employees. The funded and unfunded defined benefit pension plans were closed to new entrants effective June 30, 2006. All new salaried employees are now provided with pension benefits through a defined contribution plan. The defined benefit plans are based on years of service and final average earnings. The Company's other post-employment benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for the year ended December 31, 2009 were $10.7 million (2008 - $14.2 million), consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to the forest industry union defined benefit plans. In relation to defined benefit plans, the Company measures the fair value of plan assets and the accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the funded defined benefit pension plans were at December 31, 2007. The next actuarial valuation for both funded defined benefit plans will be no later than December 31, 2010.

Information about the Company's defined benefit salaried pension plans and other non-pension benefits, in aggregate, is as follows:

	Year ended December 31, 2009		Year ended December 31, 2008	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Plan assets:				
Fair value, beginning of year	$ 89.8	$ -	$ 106.4	$ -
Company contributions	3.1	0.5	3.8	0.5
Benefits paid	(9.1)	(0.5)	(7.9)	(0.5)
Actual return on assets	14.5	-	(12.5)	-
Fair value, end of year	$ 98.3	$ -	$ 89.8	$ -
Accrued benefit obligation:				
Balance, beginning of year	$ 98.2	$ 6.0	$ 117.5	$ 7.2
Current service cost	1.7	-	2.7	-
Benefits paid	(9.1)	(0.5)	(7.9)	(0.5)
Interest cost	6.8	0.4	6.3	0.4
Curtailment gain	(3.1)	-	(0.3)	-
Actuarial loss (gain)	10.6	1.0	(20.1)	(1.1)
Balance, end of year	$ 105.1	$ 6.9	$ 98.2	$ 6.0
Funded status (end of year):				
Funded status deficit	$ (6.8)	$ (6.9)	$ (8.4)	$ (6.0)
Unamortized past service costs	-	-	0.3	-
Unamortized net actuarial loss (gain)	2.3	(2.1)	2.2	(3.2)
Balance sheet liability	$ (4.5)	$ (9.0)	$ (5.9)	$ (9.2)

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

16. Employee future benefits (continued):

Included in the above accrued benefit obligations and plan assets for salaried pension plans are accrued benefit obligations of $21.7 million (2008 - $98.2 million) and plan assets of $13.9 million (2008 - $89.8 million) in respect of plans with accrued benefit obligations in excess of plan assets.

The following is a breakdown of the pension plan assets into their major investment categories:

	2009	2008
Equity securities	62%	59%
Debt securities	37%	40%
Other	1%	1%
	100%	100%

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2009	2008
Discount rate at beginning of year for:		
Non-pension	7.30%	5.55%
Pension plans	7.40%	5.55%
Discount rate at end of year for:		
Non-pension plans	6.10%	7.30%
Pension plans	6.30%	7.40%
Expected long-term return on assets of pension plans	7.00%	7.00%
Rate of compensation increase for all plans	3.50%	2.90%
Health care cost trend rate	7.4% for 2010 reducing to 4.5% in 2022	7.0% for 2009 reducing to 4.5% in 2016

The following table illustrates the sensitivity of the results for the non-pension plan to a ± 1% change in the assumed health care cost trend rate assumption:

	1% decrease	base cost	1% increase
Company service cost for 2009	$0.0	$0.0	$0.0
Interest cost for 2009	$0.4	$0.4	$0.5
Accrued benefit obligation as at December 31, 2009	$6.3	$7.0	$7.8

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

16. Employee future benefits (continued):

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

	Year ended December 31, 2009		Year ended December 31, 2008	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Defined benefit plans:				
Current service cost	$ 1.7	$ -	$ 2.7	$ -
Interest cost	6.8	0.4	6.3	0.4
Actual return on assets	(14.5)	-	12.5	-
Actuarial (gain) loss	10.6	1.0	(20.1)	(1.1)
Curtailment gain	(3.1)	-	(0.3)	-
Difference between actual and expected return on plan assets:				
Return on plan assets	8.3	-	(19.5)	-
Actuarial loss (gain)	(8.4)	(1.2)	20.1	1.0
Plan amendments	0.3	-	0.2	-
Total for defined benefit plans	1.7	0.2	1.9	0.3
Defined contribution plans	1.7	-	2.5	-
Net periodic pension expense	$ 3.4	$ 0.2	$ 4.4	$ 0.3

During the year ended December 31, 2009, workforce reductions resulted in curtailment accounting for certain of the Company's defined benefit pension plans. The curtailment resulted in a reduction of the accrued benefit obligation of $3.1 million. This reduction in the obligation was partially offset by the recognition of previously unrecognized actuarial losses and past service costs of $2.5 million, resulting in a reduction to net periodic pension expense of $0.6 million.

In addition, unionized employees are members of industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. The pension expense for these plans is equal to the Company's contributions and for 2009 amounted to $5.4 million (2008 - $7.4 million).

17. Financial instruments:

Cash and cash equivalents are designated as held-for-trading and measured at fair value. Accounts receivable are designated as loans and receivables and are measured at amortized cost using the effective interest rate method. The Company's financial liabilities comprise accounts payable and accrued liabilities and long-term debt. All financial instrument liabilities are designated as other financial liabilities and are measured at amortized cost using the effective interest rate method. The Company does not have any financial instruments classified as held for sale or available-for-sale.

The Company utilizes financial instruments in the normal course of business and takes action to mitigate the associated risks. However, Western regularly considers the use of currency hedges and other similar instruments to mitigate foreign currency exposure risk, and should it do so, would consider hedge accounting. Certain of the Company's sales transactions are denominated in foreign currencies, principally, the US dollar, and accordingly the Company is exposed to currency risk associated with changes in foreign currency exchange rates. To assist in mitigating this exchange risk, the Company has entered into an

17. Financial instruments (continued):

agreement dated March 31, 2009 with BAM to provide a foreign exchange facility ("Facility") to the Company. The Facility, which is for a notional amount of up to US$80.0 million, matures on March 31, 2010, and allows for forward transactions with a maximum term for each transaction of up to one year. The maturity date is subject to automatic annual renewal subject to BAM notifying the Company of its intention to cancel the facility at least 30 days prior to the anniversary date and to certain change of control provisions being invoked. The Facility is unsecured and is subject to a fee of 0.10% of the notional amount per annum. The Company does not consider the credit risk associated with this Facility to be significant. During 2009, the Company entered into contracts under the facility to sell US dollars forward in order to mitigate a portion of this foreign currency risk. At December 31, 2009, the Company had no forward contracts in place. A net gain of $3.4 million was recognized on contracts which matured during 2009, which is included in sales in the Consolidated Statement of Operations.

The use of financial instruments exposes the Company to credit risk, liquidity risk, and market risk. Other than as described below, management does not consider the risks to be significant to the Company.

The Board of Directors has oversight responsibility for the Company's risk management framework. The Company identifies, analyzes and actively manages the financial market risks associated with changes in foreign exchange rates, interest rates and commodity prices. Western has established risk management policies and controls to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor risks and adherence to limits.

The Company is exposed to credit risk in connection with its receivables from customers. The carrying amount of the Company's accounts receivable represents the maximum credit exposure. The Company is also exposed to currency risk in connection with its foreign currency denominated receivables from customers, predominantly in US dollars and to a lesser extent in Japanese yen, Australian dollars, and the Euro.

Sales transactions are made through the extension of credit to customers and are recorded at the point in time the sale is recognized. Accordingly, fluctuations in collectability may affect the carrying value of the underlying accounts receivable. Management balances the credit risk through rigorously and continually reviewing customer credit profiles. The Company has established policies and controls to review the creditworthiness of new customers, including review of credit ratings. Most lumber sales are conducted under standard industry terms and conditions and are insured by the Export Development Corporation. The Company regularly reviews the collectability of accounts receivable and makes provisions where the collectability is uncertain. Historically the Company's bad debts have been minimal and as at December 31, 2009, the Company had an allowance for doubtful customer accounts of $0.4 million (2008 - $0.1 million).

As previously disclosed, certain sales transactions are denominated in foreign currencies, principally, the US dollar. Accordingly, fluctuations in foreign exchange rates may affect the carrying value of the underlying accounts receivable. As of December 31, 2009, the Company's accounts receivable denominated in US dollars totaled US$13.4 million. The Company estimates that an increase or decrease of one cent in the value of the Canadian dollar per US$1.00 would decrease or increase, respectively, current operating earnings by approximately $1.8 million to $2.2 million annually, and that an increase or decrease of 1Yen in

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

17. Financial instruments (continued):

the value of the Japanese Yen relative to the Canadian dollar would increase or decrease, respectively, current operating earnings by approximately $0.6 to $0.8 million.

The Company is also exposed to market risk in connection with the pricing for its products. On an annualized basis and in current circumstances, the Company estimates that an increase or decrease of one percent in selling prices for all its products would increase or decrease, respectively, operating earnings by approximately $6.0 million annually. At this time, the Company has elected not to actively manage its exposure to commodity price risk.

Long-term debt is recorded at the principal amount less the net value of the associated financing fees. Financing fees are deferred and amortized over the life of the debt using the effective interest rate method. Accordingly, fluctuations in market interest rates may affect the carrying value of the debt. Management mitigates the interest rate risk associated with the long term debt through the utilization of floating interest rates. Based on the Company's debt structure at December 31, 2009, a change of 1% in interest rates would have increased or decreased annual net income by approximately $1.3 million.

From time to time the Company may recognize liabilities for the settlement of certain obligations. The amount recognized in the financial statements is based on management's best estimate given the facts available at the time the obligation was incurred. Accordingly fluctuations in pricing and interest rates will affect the ultimate cost to settle a given obligation. Management mitigates the associated pricing risk through regularly reviewing the assumptions used in the generation of the estimate.

Liabilities for ongoing operations are recorded in the financial statements at cost accrued to that point in time. Management mitigates any liquidity risk associated with the subsequent payment of these liabilities through the continual monitoring of expenditures and forecasting of liquidity resources.

18. Operating restructuring items:

Operating restructuring items for 2009 and 2008 primarily relate to severance costs associated with the reduction in the number of the Company's salaried employees. In 2009 this primarily relates to severance obligations incurred as a result of restructuring the Company's timberlands operations. In 2008 the restructuring primarily relates to severance costs associated with the reduction in the number of the Company's salaried employees following the indefinite suspension of operations at two of the Company's sawmills and certain logging operations.

19. Net interest expense:

	2009	2008
Revolving credit line	$ 2.0	$ 5.3
Long-term debt	7.1	9.3
Amortization of deferred financing costs	1.7	5.1
	$ 10.8	$ 19.7

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

20. Other income:

Other income of $7.4 million in 2009 mainly comprises gains on the disposal of non-core assets and compensation payments received from the Province of British Columbia. The compensation payments from the Provincial Government received during 2009 relate to advances for the reimbursement of costs incurred by Western with respect to Bill 28 related timber take-back areas and for infrastructure costs incurred in certain expropriated timber tenures following the creation of new Conservancies in the Central Coast region. $6.4 million of the proceeds received from the sales of non-core assets in 2009 was used to pay down long-term debt. The other income of $21.3 million received in 2008 also relates to gains on non-core asset sales, including a gain of $9.8 million made on the sale of the site of the Company's former New Westminster sawmill, as well as compensation received from the Province of British Columbia.

21. Discontinued operations:

In March 2006, the Company closed its Squamish mill located on 213 acres on the mainland coast of British Columbia and exited the pulp business. Subsequent to the closure, the Company sold substantially all of the manufacturing assets of the mill. Ongoing costs including supervision, security and property taxes continue to be expensed as incurred. The real property is one of the Company's portfolio of non-core assets and while site remediation is ongoing, the Company has listed the property for sale.

The following table provides additional information with respect to the discontinued operations:

	2009	2008
Net loss from discontinued operations	$ (2.0)	$ (5.2)
Cash used by discontinued operations	$ (3.1)	$ (4.3)

22. Related party transactions:

In addition to the related party transactions identified elsewhere in these consolidated financial statements, the Company has certain arrangements with entities related to BAM to provide financing, acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire services including insurance, all in the normal course and at market rates or at cost. The following table summarizes these transactions during the year ended December 31, 2009:

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

22. Related party transaction (continued):

		2009		2008
Costs incurred for:				
Log purchases	$	10.2	$	18.5
Interest on long-term debt		-		3.2
Other		3.7		7.1
	$	13.9	$	28.8
Income received for:				
Log sales	$	0.4	$	0.6
Other		0.3		0.2
	$	0.7	$	0.8

The Company also owned a 50% interest in a company that, until May, 2008, provided helicopter services. The operations of the helicopter services company were funded based on usage. For the five months of operations in 2008 the Company paid $0.2 million (2007 – $0.8 million) on account thereof. Since ceasing operations in May 2008 the helicopter services company has sold the majority of its assets and remitted $1.2 million by way of a dividend to the Company, of which $0.7 million was received in 2009 and $0.5 million in 2008. The helicopter services company was wound up in November 2009.

On October 13, 2009 the Company announced that it had sold certain higher-and-better-use properties in central and northern Vancouver Island (the "HBU Properties") to WFPFPL, a jointly-owned entity of the Company and Brookfield Properties Limited ("Brookfield"), a wholly-owned subsidiary of Brookfield Properties Corporation (TSX: BPO.TO), which is in turn related to BAM. The HBU Properties were formerly part of the group of properties that were included in the Company's non-core asset sales program. In connection with the reorganization of WFPFPL as a jointly-owned entity and the sale of those HBU Properties, Western was to receive total cash proceeds of $12.4 million. As of December 31, 2009 the Company had received $3.0 million of these proceeds with the balance of $9.4 million being received on January 4, 2010.

As part of the arrangements, WFPFPL has a right of first offer to purchase for possible future development approximately 255 hectares (630 acres) of additional higher-and-better-use properties of the Company in central and northern Vancouver Island. These properties also represent non-core assets of the Company. Western holds less than 5% of the equity of WFPFPL and has a right to sell its interest in WFPFPL to Brookfield for its fair market value at any time on or after January 1, 2011. Brookfield is the manager of WFPFPL, which also holds Carma Developers LP, a limited partnership that carries on a land development business across Western Canada.

Because Brookfield is a related party of BSS2, which is Western’s largest shareholder, the transaction constituted a related party transaction.

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