Western Forest Products Inc.

2011 Annual Report

Financial Highlights

(millions of dollars except where noted)	Year ended December 31,		
	2011	2010	2009[5]
Sales	$ 853.7	$ 667.9	$ 580.5
Net income (loss)	$ 24.0	$ 41.1	$ (75.3)
Cash flow from operating activities	$ 43.7	$ 38.1	$ 63.2
Basic and diluted net income (loss) per share (dollars)	$ 0.05	$ 0.09	$ (0.17)
EBITDA [1]	$ 61.8	$ 46.9	$ (34.8)
Weighted average common and non-voting shares outstanding ('000)	467,571	467,571	452,431
Working capital	$ 133.8	$ 118.9	$ 37.4
Total assets	$ 618.4	$ 627.9	$ 576.0
Net debt [2]	$ 52.1	$ 99.8	$ 126.9
Net debt to capitalization [3]	0.13	0.23	0.31
Total liquidity [4]	$ 112.1	$ 84.6	$ 37.3

(1) See page 4 for definition of EBITDA. A quantitative reconciliation between net income (loss) and EBITDA can be found in Appendix A to the Management's Discusson and Analysis.

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

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

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

(5) Figures shown for 2009 have been prepared using Canadian Generally Accepted Accounting Principles and so are not directly comparable to 2011 and 2010 which are prepared under International Financial Reporting Standards.

Letter to Shareholders

Dear Shareholders,

Nine consecutive positive EBITDA quarters despite challenging markets

With an EBITDA of $62 million, 2011 was a good year for Western considering the market conditions that transpired. Even though markets for some of our products remain historically weak, our resource management, repositioned cost structure, and solid balance sheet allowed our timberlands and lumber manufacturing businesses to operate at significantly higher rates, producing positive financial results. We will maintain a focus on margin to take us through the markets of 2012, which are not expected to improve from last year. Ongoing improvement of financial results will allow the company to continue with our strategic plans that will position Western for resilience through future business cycles. As always, these improvements will be structured and paired with a vigilant eye on improving our safety performance.

2011 financial highlights are as follows:

- EBITDA of $62 million, a $15 million increase over 2010
- Sales of $854 million were 28% higher than 2010
- Year-end liquidity at $112 million, compared to $85 million at the end of 2010
- Net debt to capitalization reduced to 13% from 23% last year
- Cash flow from operations increased to $44 million

In addition to positive financial results, 2011 saw several achievements including:

- Increased harvest and manufacturing production by 25% and 17%, respectively
- Agreed sale of TFL 60
- Startup of Duke Point Sawmill
- Continued engagement of our unionized work force
- Participation with the BC Premier and federal and provincial ministers on the Japan-China trade mission

Improving balance sheet provides strength to invest. We have continued our strategy of divesting of non-core assets using the proceeds to reduce debt. Net debt was reduced by almost 50% ($48 million) in 2011, ending the year at $52 million. As a result, our net debt to capitalization ratio improved to 13%; our lowest ratio ever. The combination of our strong balance sheet and improved free cash flow will allow us to implement our strategic capital plans, positioning the company for the future.

In Western's business plan all metrics for 2012 are based on an increase in harvest and lumber production. We are prepared for another year without significant improvement in world markets. Our ability to produce a wide range of products from our diverse coastal resource, servicing multiple global markets, will allow us to increase our production in both logging and lumber manufacturing. Market and product diversity create our strategic advantage.

- **Western Red Cedar:** Cedar market conditions are projected to be marginally better than last year. We are optimistic that low harvest levels in the industry will result in supply shortages in the first and early part of the second quarters of 2012, which will lead to improved prices. We expect our 2011 gains in market share will result in increased sales and we are starting to see a rebound in demand from a marginally better US market.
- **Japan**: Sales to Japan are also projected to slowly increase as the rebuild in the Tsunami devastated areas begins.

- **Niche**: The North American market for higher grade Douglas fir and hemlock products used in appearance applications remains muted with no appreciable recovery in the US housing market forecast for 2012.
- **Commodity**: China remains our focus for commodity sales, although we continue to develop products for specific industrial applications in North America to diversify our market base.

Western's globally competitive forest products business will be enhanced through our $200 million capital investment program. Financial results over the last nine quarters have allowed us to make this investment possible. These investments will result in cost reductions and continue our business repositioning. The program will begin this year with a $16 million Phase I upgrade of the Saltair sawmill. As a result of the Saltair investment we are now moving on to look at Saltair Phase II and strategic investments in other facilities. These improvements will ensure our facilities remain globally competitive through varying market conditions.

Investment in our business is not only capital projects. We are also embarking on a Margin Improvement Plan; a variety of cost reduction and productivity initiatives expected to deliver $25 million over the next three years. Improved financial results from margin improvement will allow us to refocus on the commitment to our workforce as well as succession planning and recruitment. Western endeavors to be an employer of choice, ensuring a challenging, progressive, and safe environment to work.

Our business success includes ongoing improvement of safety performance. As we celebrate our continuing financial improvement, we must also maintain a vigilant focus on improving safety. Significant safety incidents which occurred in 2011 were not acceptable and with a renewed work plan we will see improvements in our safety performance.

On behalf of Western, we would like to thank our shareholders for their continued support and our employees, contractors, customers, suppliers and communities for their patience and dedication in building the leading coastal forest products business. Our financial performance will continue to increase and our investment in our business, through capital and non-capital improvements, will position us for the future.

Dominic Gammiero,
CEO & Chairman

Lee Doney,
Vice Chairman

Management's Discussion & Analysis ("MD&A")

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, 2011 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, 2011 and 2010.

The Company has prepared the financial information contained in this discussion and analysis in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board. These are Western's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. For comparative purposes all financial statement amounts related to 2010 have been restated in accordance with IFRS. Any comparative figures for 2009 are presented under Canadian Generally Accepted Accounting Principles, and as such are not directly comparable with the figures prepared under IFRSs for 2011 and 2010.

Reference is made in this MD&A to EBITDA[1]. EBITDA is defined as operating income prior to operating restructuring items and other income (expenses), plus amortization of property, plant, equipment, and intangible assets, impairment adjustments, and changes in fair value of biological assets. 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, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe 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 IFRSs 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 IFRSs, and should not be considered as an alternative to measures of performance under IFRSs. 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. A reconciliation between the Company's net income as reported in accordance with IFRSs and EBITDA is included in Appendix A to this report.

This MD&A contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. Those statements and information appear in a number of places in this document and include statements and information regarding our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives and strategies. Such statements and information may be indicated by words such as "estimate", "expect", "anticipate", "plan", "intend", "believe", "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

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

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 February 22, 2012. 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.

Overview

Western generated EBITDA of $61.8 million in 2011, a 32% improvement from the EBITDA achieved in 2010 of $46.9 million. The increase is primarily due to higher operating rates driven by stronger demand for our logs and lumber, improved log pricing and continued cost reduction initiatives.

Our sawmills operated at 83% of capacity in 2011 as higher demand allowed us to restart our Ladysmith and Nanaimo mills. In response, our logging operations ran at higher levels this year to supply our mills and external customers.

Western's sales in 2011 of $853.7 million represented an increase of $185.8 million, or 28%, from the prior year. The increase in sales in 2011 was the result of higher shipment volumes for lumber, logs and by-products and higher average log prices realized, partially offset by marginally lower average sales prices realized for lumber. US dollar pricing of certain lumber products increased in 2011 but much of the benefit was negated by the Canadian dollar strengthening against the US dollar.

Our net income of $24.0 million in 2011 declined from the 2010 result of $41.1 million, which included a number of one-time items. Following an independent impairment assessment of our timber licenses undertaken at the end of 2010 the Company partially reversed a previously recognized impairment by $18.5 million in the fourth quarter of 2010 (see Note 5 to the 2011 Annual Financial Statements for further details). In addition, the net income in 2010 included two other non-recurring items totaling $14.1 million; a net gain of $8.9 million generated on the establishment of a jointly-owned entity and the receipt of $5.2 million from the Province of British Columbia relating to the reimbursement of costs incurred by Western with respect to Bill 28 timber take-back areas. Excluding these three items, net income in 2011 was actually higher than 2010 by $15.5 million.

Finance costs in 2011 were lower than 2010 by $6.3 million as a result of lower debt levels. Selling and administration costs were higher in 2011 by $2.0 million as a result of increased employee costs and contractor services.

Our improved operating results in 2011 have further strengthened the financial position of the Company. Liquidity increased from $84.6 million at the close of 2010 to $112.1 million as at December 31, 2011. This improvement was caused by a combination of cash flow from operations and increased availability on the revolving credit line due to a higher borrowing base. Proceeds received from non-core asset sales during 2011 facilitated debt repayments of $47.1 million. At December 31, 2011 our term debt was reduced to $58.5 million and the balance drawn on our revolving credit facility was $8.9 million.

On February 11, 2011, we completed the sale of certain non-core properties to TimberWest Forest Corp. for $21.9 million. The sale included properties located in the southern portion of Vancouver Island, near Jordan River, which cover approximately 7,678 hectares. The net proceeds from the sale were used to pay down the Company's long-term debt in accordance with lending agreements. A net loss of $1.1 million was recognized on this disposal in the first quarter of 2011.

On October 11, 2011 Western announced that it had reached an agreement to sell Tree Farm Licence 60 ("TFL 60") and related assets on Haida Gwaii to Taan Forest Limited Partnership ("Taan"), a partnership of the Council of the Haida Nation and Haida Enterprise Corporation, the business arm of the Haida Nation. Under the terms of the sale, Western will receive net proceeds of approximately $11.6 million and retain ongoing rights to cedar logs harvested by Taan. Taan will assume substantially all of the obligations of Western on Haida Gwaii. The sale is expected to close before the end of the first quarter of 2012. However, an impairment of $1.7 million has been recognized on

the book value of the net assets in 2011. As the average timber harvest from TFL 60 by Western over the past five years has been modest, the sale of this tenure will have minimal impact on long term operating rates at our eight lumber mills. Proceeds from the sale will also be used to pay down the Company's revolving term debt.

As economic and other circumstances allow, Western will continue to pursue opportunities to sell non-core assets or private timberlands. Should any such sales be completed, proceeds will initially be directed, as required, towards retirement of the Company's long-term debt.

Selected Annual Information [1]

(millions of dollars except per share amount)	Year ended December 31, 2011	2010	2009[2]
Sales	$ 853.7	$ 667.9	$ 580.5
EBITDA	61.8	46.9	(34.8)
EBITDA as % of sales	7.2%	7.0%	(6.0)%
Operating income (loss) before restructuring items and other income (expenses)	35.2	40.4	(69.8)
Net income (loss) from continuing operations	25.1	42.6	(73.3)
Net income (loss)	24.0	41.1	(75.3)
Basic and diluted earnings (loss) per share	$ 0.05	$ 0.09	$ (0.17)
Total assets	$ 618.4	$ 627.9	$ 576.0
Net debt [3]	$ 52.1	$ 99.8	$ 126.9

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

(2) Figures shown for 2009 have been prepared under Canadian Generally Accepted Accounting Principles and so are not directly comparable to 2011 and 2010 which are prepared under IFRS.

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

Continuing Operations

Sales

(millions of dollars)	Year ended December 31 2011	2010
Lumber	$ 561.1	$ 475.1
Logs	231.6	139.0
By-products	61.0	53.8
Total sales	$ 853.7	$ 667.9

Lumber sales in 2011 were $86.0 million or 18% higher than in the prior year. Western shipped 811 million board feet of lumber ("mmfbm") in 2011, which was up 21% from the 669 mmfbm shipped in 2010. Average prices realized for lumber decreased 3% for 2011 compared to 2010.

Lumber shipment volumes increased to most markets, in particular to Canada, US and China. Despite the European market continuing to be impacted with weak economic conditions, shipment volumes to Europe also modestly increased in 2011.

Existing home inventory levels in the US remain high and new home construction starts continue to be below historical trend levels. However, new home construction in the US grew by 3% in 2011 over 2010 levels, driven by increased multifamily construction. Our lumber shipments to the US were 34% higher this year, as we increased our sales of high value cedar and fir products and, in particular, large timbers for civil construction (bridges etc.) and architectural elements in high value homes.

Canadian sales volumes of lumber in 2011 increased by 37% over 2010 levels to 284.7 mmfbm, with the majority of the increase being driven by higher hemlock sales. Our hemlock sales increased as we developed new applications for oil and gas drilling sites and significantly expanded our hemlock structural timbers business. Overall average prices realized trended down slightly as the proportion of lower value hemlock increased. Sales of western red cedar, which is primarily sold in the North American market, grew by 16% reflecting improved demand in the market, but sales prices realized have not improved.

Lumber shipments to Japan for 2011 increased by 2% over 2010 levels to 176.4 mmfbm, primarily because of increased Douglas fir shipments. Average prices realized on the shipments were marginally lower in 2011, as gains in delivered sales prices were offset by the strong Canadian dollar (approximately 50% of our Japanese sales are made in US dollars). The tsunami which devastated Japan early in March 2011 negatively impacted demand over the balance of 2011.

Lumber shipment volumes to China increased 15% in 2011 to 202.5 mmfbm. Almost 90% of our sales to China are hemlock, but we are having some success in increasing our higher value lumber sales into this market. Higher grade Douglas fir and hemlock sales to China grew by approximately 30% as we are reaching more industrial customers making finished interior home components. Hemlock prices in China increased in 2011 but the effects of the strong Canadian dollar negated most of these increases.

Overall average prices per board foot of lumber sold in 2011 were 3% lower than 2010. This reflects the negative impact on revenues of the stronger Canadian dollar as the majority of sales are denominated in US dollars. It also reflects the higher proportion of relatively lower price lumber produced for the Canadian market in 2011 and the lower proportion of higher priced products sold into the Japanese market this year.

Log sales in 2011 increased by $92.6 million in 2011. Demand and prices were strong in both domestic and export markets, particularly Korea and China. Log prices were higher in 2011, and average prices realized were 17% higher than in 2010. Average prices for pulplogs and export logs increased year on year by 19% and 15%, respectively. Pulplog prices were particularly strong in the first half of 2011 as supply was constrained because of weather conditions and increased harvesting in areas of second growth that naturally contain less pulplog volume. Lower grade hemlock sawlog prices increased significantly as a result of increased pulplog prices.

Sales of by-products in 2011 were $7.2 million, or 13%, higher than in 2010 reflecting higher volumes of by-products being sold based on higher sawmill production. The increased revenue for the year was almost entirely the result of the higher volumes sold as the annual average chip prices in 2011 were close to the level in 2010. Chip prices are tied by a formula to the market price of pulp, and for the first half of 2011 these prices were higher than 2010. This improvement was short-lived following a significant fall in pulp prices in the later part of 2011. Western has various obligations under long-term chip supply contracts which require us to either purchase quantities of chips on the open market or use whole log chipping programs at certain of our sawmills or third party chipping facilities, if insufficient chips are produced from our own mills.

Total freight costs increased by $24.6 million in 2011 over 2010. Of this increase approximately $22.8 million is due to the increased volume of shipments of both lumber and logs. Overall freight rates increased by approximately 8% over 2010 levels, and primarily resulted from rail and trucking fuel surcharges and bunker fuel charges for ocean bound freight. Partially offsetting these was a change in the mix of regions to which sales were made to include less costly locations on average.

EBITDA

EBITDA for 2011 was $61.8 million which is an improvement of $14.9 million over the $46.9 million achieved in 2010. This improvement reflects increased shipment volumes of all our major products, particularly of logs, and the benefits of being able to run our operations at higher production levels, and realizing higher log prices. Our results in 2011 benefitted from lower unit costs as a result of running at higher production levels with the associated efficiencies. In particular, fixed costs incurred at curtailed operations were significantly less than the previous year.

The total log harvest for 2011 was 5.8 million cubic meters which was 25% higher than the 2010 harvest level, while lumber production was 17% higher than during 2010. Our sawmills operated at 83% of total capacity in 2011 compared to 63% of capacity in 2010. This increase primarily reflects the fact that our Nanaimo and Ladysmith sawmills which started up in the latter part of 2010, ran for all of 2011. Unavoidable fixed costs of $8.7 million associated with curtailed operations were directly expensed to the income statement in 2011, which is $16.1 million less than the amount expensed in 2010.

While much of the year over year improvement in Western's EBITDA is the result of higher operating rates at our operations, increased sales volumes, improved log prices and by-product prices also contributed to the increase. The benefits of Western's ongoing cost reduction initiatives and focus on various margin improvement programs, also contributed to reducing our cost of sales.

While our EBITDA increased significantly in 2011 compared to 2010, our EBITDA margin increased only slightly. As previously mentioned, the strength of the US dollar relative to the Canadian dollar in 2011 compared to 2010 had a negative impact on 2011 EBITDA of approximately $8.6 million, which equates approximately to a 1% margin reduction. Our EBITDA margin was also adversely impacted by the fact that the mills that have been restarted in the last year to take advantage of improved market demand are relatively higher cost operations. Our logging costs increased in 2011 compared to 2010 as a result of various factors including higher road construction and associated engineering costs, logging in higher cost areas, higher contract rates and labour costs, and the effects of adverse weather conditions in 2011 compared to 2010. Higher freight costs and selling and administration costs also tempered an improvement in our 2011 EBITDA.

Selling and administration expenses in 2011 were $26.6 million (2010 - $24.6 million). Our expenditures have stabilized following the previous two years of significant reductions, as the Company restructured its organizational needs to adapt to a new operating environment. The $2.0 million increase is largely because of an increase in employee related costs and contractor services. The increase in employee costs is a result of re-instating the 10% pay roll-back part way through 2010, and incentive based awards being re-introduced in recognition of improved performance and results.

Operating restructuring items

In 2011, Western recorded restructuring expenses of $0.7 million, $0.9 million lower than the equivalent expense of $1.6 million in 2010. The restructuring charges in 2011 primarily related to severance costs associated with restructuring of administrative functions. In 2010 the severance costs were for severance obligations incurred as a result of restructuring the Company's Japanese sales organization, the closures of our Mid-Island Remanufacturing operation and Andy's Bay logging facility, and the re-organization of the Ladysmith sawmill.

Finance costs

Finance costs for 2011 of $6.6 million were $6.3 million less than the $12.9 million incurred in 2010. The decrease was primarily caused by lower average debt levels outstanding in 2011 compared to 2010, resulting from the proceeds of non-core asset sales being used to pay down debt in 2011. Also contributing to this reduction is the benefit of lower negotiated interest rates in our loan agreements.

Other income (expenses)

Other expenses of $2.8 million incurred in 2011 was a net change of $19.5 million from the other income of $16.7 million reported in 2010. Other expenses of $2.8 million in 2011 comprise: a gain on the sale of an equity interest in certain real estate properties of $2.4 million; an expense incurred of $2.5 million to secure amendments to the terms of certain contractual arrangements; and losses on non-core asset sales of $2.7 million. The most significant non-core asset sale in the year was the sale to TimberWest Forest Corp. of 7,678 hectares of land located in the southern portion of Vancouver Island near Jordan River for gross proceeds of $21.9 million, which were used to pay down debt. The gain on the sale of the equity interest arose when the Company exercised its option to sell its equity interest in WFP Forest Products Ltd. (see “Financial Instruments, Off-Balance Sheet Arrangements, Foreign Exchange and Related Party Transaction” section for further details), a jointly owned entity between the Company and Brookfield Properties Limited (“BPL”), receiving $2.4 million as consideration for the sale of its interest. The expense of $2.5 million incurred to secure amendments to certain existing contractual arrangements is payable in 14 equal quarterly installments which commenced March 31, 2011.

The other income of $16.7 million in 2010 was comprised of: a gain of $8.9 million (net of costs of $0.5 million) related to the establishment of a jointly-owned entity with BPL in October 2009; a further receipt of $5.2 million from the Province of British Columbia relating to compensation with respect to Bill 28 timber take-back areas; gains on non-core asset disposals of $1.0 million; and other miscellaneous items aggregating to $1.6 million.

The most significant non-core asset sale reported in 2010 was the sale of land located in the southern part of Vancouver Island for proceeds of $14.3 million to the Capital Regional District of Victoria, British Columbia, which closed in August 2010. As part of this transaction the Company also agreed to sell a further two parcels of land for proceeds of $4.5 million which, as a condition of sale, require the Company to secure a Certificate of Compliance on an environmental remediation project under way. The Company expects to receive that certificate by the end of the second quarter of 2012. At December 31, 2011, $13.0 million of the proceeds had been received with a further $5.8 million due on or before August 15, 2012, subject to the receipt of the certificate.

Income taxes

At December 31, 2011, the Company and its subsidiaries have unused non-capital tax losses carried forward totaling approximately $397.8 million, which expire between 2025 and 2031, and can be used to reduce taxable income. In addition, the Company has capital losses of approximately $138.1 million, which are available indefinitely, but can only be utilized against capital gains. Although the Company expects to realize the full benefit of the loss carry forwards and other deferred tax assets, due to economic conditions over the last several years these losses have not been recognized as tax assets.

Net income from continuing operations

Net income from continuing operations in 2011 decreased by $17.5 million from the prior year figure. Sales totaled $853.7 million, which was an increase of $185.8 million over 2010, or 28%. The reduction in net income from continuing operations is primarily comprised of a reduction in operating income prior to restructuring items and other income (expenses) of $5.2 million and a decrease in other income of $19.5 million, partially offset by lower finance costs of $6.3 million.

Discontinued Operations

Operations of the site of the former Squamish pulp mill were discontinued in 2006. Since that date, the Company has expensed costs for supervision, security, property taxes and environmental remediation. In 2011, the Company incurred costs of $1.1 million with respect to the site which is less than the $1.5 million expensed in 2010, reflecting continued efforts to identify opportunities to reduce operating costs of the site. We are pursuing the sale of energy generated from the hydro electrical generating plant at the site, and it is anticipated that this will commence in 2012 when technical requirements should have been met and required agreements are in place. We are in the process of

assessing the opportunity to further develop existing hydro potential, leveraging our infrastructure in place at the site.

Financial Position and Liquidity

(millions of dollars)	Year ended December 31, 2011	Year ended December 31, 2010
Cash provided by operating activities	$ 43.7	$ 38.1
Cash provided by investing activities	11.9	3.7
Cash used in financing activities	(44.3)	(43.3)
Cash used to construct capitalized logging roads	(8.7)	(7.8)
Cash used to acquire property, plant, and equipment	(10.7)	(3.8)

	December 31 2011	December 31 2010
Total liquidity[(1)]	$ 112.1	$ 84.6
Net debt [(2)]	52.1	99.8
Financial ratios:		
Current assets to current liabilities	2.41	2.50
Net debt to capitalization[(3)]	0.13	0.23

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

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

(3) Capitalization comprises net debt and shareholders equity.

Cash provided by operating activities in 2011 amounted to $43.7 million, an increase of $5.6 million over the $38.1 million provided in 2010. Cash generated by operating activities before working capital changes was relatively consistent at $60.6 million compared to $61.3 million for 2010, with the improvement in cash provided from operations being generated by a reduction in the usage of working capital by $6.3 million during 2011 compared to 2010.

Investing activities generated cash of $11.9 million, which compares to $3.7 million generated in 2010. The difference primarily relates to the increased level of cash received from non-core asset sales in 2011, which at $31.3 million was $16.0 million more than was received in 2010, This was partially offset by $7.8 million higher capital expenditures in 2011 compared to 2010. Our capital expenditures in 2011 at $19.4 million were still relatively modest, as such expenditures continued to be monitored closely, and were primarily limited to road construction that was essential to the log harvesting program, maintenance and safety projects, and some smaller high return projects. A more extensive capital program has now commenced and is discussed more fully in the "Outlook" section.

Financing activities in 2011 used cash of $44.3 million compared to $43.3 million in 2010. Western repaid $47.1 million of debt in 2011 compared to $16.1 million in 2010 as a result of greater sales of non-core assets this year. The most significant non-core asset sale reported in 2010 was the sale of land located in the southern part of Vancouver Island, for proceeds of $14.3 million, to the Capital Regional District of Victoria, British Columbia, which closed in August 2010. As part of this transaction the Company also agreed to sell a further two parcels of land for proceeds of $4.5 million which, as a condition of sale, require the Company to secure a Certificate of Compliance before August 12, 2012 on an environmental remediation project under way. This remediation work is expected to be completed before the end of the second quarter of 2012, and the Company will record this element of the sale once the certification is obtained. At December 31, 2011, $13.0 million of the proceeds had been received with a further $5.8 million due on, or before, August 15, 2012, depending on when the aforementioned certification is obtained. At the end of 2011 Western had drawn $8.9 million on the revolving credit facility whereas in 2010 $15.3 million outstanding at the end of 2009 on its revolving

credit facility had been repaid. Finance costs paid in 2011 were $6.3 million less than in 2010 as a result of lower outstanding debt levels in 2011.

At December 31, 2011, Western's total liquidity had increased to $112.1 million from $84.6 million at the end of 2010. Liquidity is comprised of cash of $15.3 million and unused availability under the secured revolving credit line of $80.9 million and $15.9 million under the revolving term loan. The increase is a function of improved cash generated from operations, and a higher borrowing base due to increased balances of eligible inventories and receivables at the end of 2011.

Any net proceeds realized from the sale of non-core assets will be utilized to repay our term loan.

Based on its current forecasts the Company expects sufficient liquidity will be available to meet its obligations in 2012.

Fourth Quarter Results

	Three months ended December 31	
(millions of dollars except per share amount)	2011	2010
Sales	$ 220.7	$ 172.6
EBITDA	13.6	3.9
EBITDA as % of sales	6.2%	2.3%
Operating income	6.9	22.6
Net income from continuing operations	5.6	20.4
Net income	5.3	20.1
Basic and diluted net income per share (in dollars)	0.01	0.04

Our net income of $5.3 million reported in the fourth quarter of 2011 was a $14.8 million decline from the income of $20.1 million reported for the same quarter of 2010. The difference was largely due to the 2010 income including an impairment reversal of $18.5 million on our timber license valuation (as described earlier in this report). Excluding this item, the current quarter income is $3.7 million higher than the fourth quarter of 2010, and operating income is $2.8 million higher this year.

The improvement in EBITDA in the fourth quarter of 2011 was the result of increased shipments in 2011 with lumber and log sales volumes being 24% and 32% higher than the fourth quarter of 2010 respectively. Average log prices realized in the fourth quarter of 2011 were $9 per m^3, or 15%, higher than the same quarter in 2010. The average selling price realised for lumber sales in the current quarter was marginally less than those achieved in the fourth quarter of 2010. In order to meet improved demand our mills operated at 82% of capacity in the fourth quarter of 2011, compared to 76% in the same period of 2010, which resulted in fixed shutdown costs incurred in 2011 being $2.4 million less than those incurred in 2010. Revenue from by-product sales was lower in the current quarter primarily because of lower chip prices received this year because of lower pulp prices.

Selling and administration expenses in the fourth quarter of 2011 were $6.9 million, or $0.7 million less than those in the same quarter of 2010. This reduction is attributable to lower incentive costs and pension costs in the current quarter compared to 2010. Other expenses in the fourth quarter of 2011 of $0.3 million compares to other income of $6.3 million in the fourth quarter of 2010. The fourth quarter of 2010 included a receipt of $5.2 million from the Province of British Columbia for the reimbursement of costs incurred by Western on Bill 28 timber take-back areas. Finance costs in the current quarter were $1.4 million lower than the fourth quarter of 2010 primarily as a result of lower average debt levels in the current quarter.

Outlook and Strategy

During 2011, Western continued to build on its improved financial condition by increasing cash flow from operations, strengthening the balance sheet, and improving liquidity. These results are particularly impressive given the less than favourable market conditions that currently exist in the industry. With improved financial results, particularly the improved liquidity situation, management is

able to focus more on longer term strategic goals. The long term strategic goals of the Company remain:

- Growing market share in traditional and developing export markets;
- Operating all our mills at capacity, realizing full economies of scale;
- Fully utilizing our annual allowable cut and ensuring the highest margin end use for our fibre resource; and
- Generating substantial free cash flow that justifies re-investment.

A key aspect of this strategy continues to be growing our four key lumber market segments: Japan, Western Red Cedar, Commodity, and Niche.

Japan is expected to continue its rebuilding efforts after the devastating tsunami in 2011. Based on feedback from our Japanese customers, management is optimistic the housing market in Japan will continue its recovery in 2012. Sales to this market are expected to grow by 10%, with the majority of the increase coming in yellow cedar custom cutting.

Western is the largest producer of Western Red Cedar in the world, and is working towards expanding its share of the US market. As the United States is the primary market for Western Red Cedar, demand in this market will largely be driven by economic conditions there. Despite recent improvements in renovation indices (a key indicator of cedar demand), we are forecasting demand to be only marginally better than last year. Cedar pricing is expected to remain stable until a material improvement in the US housing market occurs or the Canadian dollar significantly weakens against the US dollar.

Western maintains some flexibility with respect to its commodity market segment, having essentially moved the majority of our commodity business to China from the United States over the past three years. Buying activities in China slowed down over the past quarter, due to tighter credit and higher inventories. Western believes that this slowdown is short term in nature and we still see significant long term opportunities in the Chinese market. Although China is currently Western's main focus for the commodity business, management continues to monitor the US and Canadian markets to maximize margin for its commodity products.

The US housing market remains deeply depressed from historical levels. New housing starts were approximately 588,000 in 2011, well below the peak level of 2.1 million starts in 2005. Conditions in the housing construction market have not improved significantly, with continued high unemployment, restricted credit, and large volumes of foreclosed homes. The situation is not expected to improve dramatically in 2012.

Sales in the Niche market segment are forecast to grow modestly in 2012, as the two main markets for these products, Europe and North America, remain challenging. The North American market for higher grade Douglas fir and hemlock products used in appearance applications remains muted with no appreciable recovery in the US housing market expected in 2012, as described above. The outlook for Europe, a high value market, appears to be moving deeper into recession.

To support our market growth strategy, we have commenced implementation of our recently announced $125 million strategic capital investment program, starting with upgrades to our Saltair sawmill. The initial phase of the Saltair project includes new edgers, stackers, and sorters designed to increase mill productivity by 15%, strengthening our competitiveness in key markets such as Japan and China. The retrofit is expected to take one year to complete and will cost approximately $16 million.

The remaining strategic capital investments, which will occur over the next three years, will be focused on reducing costs by improving operating efficiencies in our operations and improving product flexibility. These improvements will allow us to continue operating through varying market conditions. Such investments are expected to be funded from operating free cash flows. The capital can be broken down into three areas:

- Significant rebuilds in our small log mills implementing state of the art breakdown, edging and sorting equipment to improve operating metrics and drive down costs;

- Installing technology such as automated grading that was not available until recently for our specialty product lines; and
- Replacement and additions of key equipment in our large log mills to improve quality, recovery and product flexibility.

In addition to our strategic capital investments, management is committed to improving product margins through a formalized non-capital Margin Improvement Program. The program is expected to deliver an additional $25 million of margin improvement over the next three years, through a variety of cost reduction and productivity initiatives.

As already mentioned, the Company expects to complete the sale of TFL 60 early in 2012. The net proceeds from the sale of $11.6 million will be used to pay down the Company's debt in accordance with its lending agreements.

We will continue to pursue further opportunities that may arise to sell non-core or other land assets as appropriate. Proceeds from such sales will first be directed to reduce or eliminate long-term debt with any surplus being used to provide additional liquidity.

Summary of Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2011 and our payments due for each of the next five years and thereafter:

(millions of dollars)	Total	2012	2013	2014	2015	2016	Thereafter
Accounts payable and accrued liabilities	$ 66.7	66.7	-	-	-	-	-
Discontinued operations	6.2	6.2	-	-	-	-	-
Revolving term loan	59.1	-	59.1	-	-	-	-
Operating leases	20.3	5.9	2.5	2.4	2.1	1.5	5.9
Silviculture provision	30.9	13.3	4.9	3.1	2.0	1.5	6.1
Defined benefit pensions funding obligations	10.0	3.1	2.3	2.3	2.3	-	-
Total	$ 193.2	95.2	68.8	7.8	6.4	3.0	12.0

Note: the payment above for discontinued operations relates to future estimated environmental costs to be incurred, the timing of which is uncertain, and has been included in 2012 here for conservatism.

Critical Accounting Estimates

Silviculture Provision

We accrue our silviculture liabilities based on estimates of future costs at the time the timber is harvested. The estimate of future silviculture 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 silviculture 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 thus 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 substantially all lumber receivables, both export and domestic, for 90% of value with the Export Development Corporation or Coface Canada, respectively, or sell on a cash basis, which reduces the Company's exposure to bad debts.

Pension and Other Post Retirement Benefits

Western has various defined benefit and defined contribution plans that provide pension benefits to most of its salaried employees and certain hourly paid employees not covered by forest industry union plans. The Company also provides other post-retirement benefits and pension bridging benefits to eligible retired employees. With respect to the defined benefit plans (which were closed to new entrants in June, 2006 and effective December 31, 2010 no further benefits accrue under the 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.

Land Valuations

The Company elected to measure land at fair value at each reporting date. This requires an assessment of the fair value of all land holdings using a combination of independent third party valuations, recent comparable land sales, discounted cash flow analysis as well as considering other publicly available information such as recent market transactions on arm's length terms between willing buyers and sellers, and British Columbia property assessments.

Valuation of Biological Assets

The Company values its biological assets at fair value less costs to sell. An annual valuation is performed by an independent third party based on recent comparatives of standing timber, direct and indirect costs of sustainable forest management, net present value of future cash flows for standing timber and log pricing assumptions. Significant assumptions are used in the preparation of the valuation and actual results may vary materially from estimates.

Impairments

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized in net income for the period for the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment analysis requires the use of significant assumptions, including management and independent third party input. Impairment losses are recognized in net income for the period.

Changes in Accounting Policies

International Financial Reporting Standards ("IFRS")

Effective January 1, 2011, Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date for the Company is January 1, 2010. Full disclosure of the Company's accounting policies in accordance with IFRS can be found in Note 3 to the audited consolidated financial statements for the Year ended December 31, 2011. The financial statements also include reconciliations of the previously disclosed comparative periods' financial statements prepared in accordance with Canadian generally accepted accounting principles ("CGAAP") to IFRSs as set out in Note 26.

Impact of Adoption of IFRS

IFRSs 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 being applied by the Company upon its adoption of IFRS, which will be significantly different than its current CGAAP accounting policies.

These paragraphs also outline the areas materially impacted within the financial statements as a result of these significant accounting policy choices and IFRS 1 *First-time adoption of International Financial Reporting Standards* ("IFRS 1") elections:

Presentation

The balance sheet presentation of assets previously disclosed under CGAAP within the single heading of Property, Plant and Equipment is now required to be shown as three separate balance sheet categories of asset:

a. Intangible assets (crown tenures)
b. Biological assets (the timber component of privately owned timberlands)
c. Property, plant and equipment (all other property, plant and equipment excluding a. and b.)

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 adopted the cost model to account for all classes of property, plant and equipment, except for land, for which the revaluation model was elected. As a result the Company is required to revalue its land asset each period with any gains or losses taken directly to revaluation reserve or profit and loss.

As a result of the election choice to use the revaluation model to value land on transition date, a net increase of $23.9 million to the reported CGAAP net book values is reflected in the asset category of property, plant and equipment, with a corresponding amount reported in the revaluation reserve component of shareholders' equity.

IFRS1 provides first time adopters of IFRS with the option to elect to measure an item of property, plant and equipment at its fair value at the transition date, which is considered to be its deemed cost thereafter. The Company adopted this exemption for certain components of assets within the category property, plant and equipment. The net overall impact of adopting this election was a reduction to the CGAAP net book value of these assets of $14.9 million, with a corresponding charge to retained earnings.

Intangible Assets

Under IFRS, crown tenures are considered an intangible asset with a finite useful life, and hence subject to IAS 38, *Intangible Assets*. The initial measurement of the tenures under IFRS was at historic cost, less accumulated amortization and accumulated impairment charges. Such intangible assets are required to be presented as a separate line item in the statements of financial position, and are being amortized over the expected useful life of the asset.

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* ("IAS 36"), 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.

As a result of applying IAS 36 to its finite-lived intangible assets (the crown tenures) on the transition date, Western recognized an impairment to these assets of $51.2 million, thus reducing intangible assets by this amount with a corresponding charge taken directly to retained earnings.

.

Biological Assets (Standing Timber)

Unlike CGAAP, biological assets are specifically addressed under IFRS in IAS 41 – *Agricultural Assets* ("IAS 41"). The timber component of the Company's private timberlands qualifies as a biological asset under the scope of IAS 41. This timber has been reclassified and shown as a separate line item on the Company's statement of financial position. The fair value of biological assets for Western is measured by discounting expected cash flows from the sale of standing timber at a current market determined rate. This value includes not only the harvest value but also includes 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 IAS 2, *Inventories*.

Western recognized an increase to this asset category of $69.5 million at January 1, 2010 with a corresponding increase taken directly to retained earnings. Subsequent changes in the fair value of these biological assets are recognized in the Company's profit and loss.

Provisions, including asset retirement obligations

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, has a lower recognition threshold for provisions and measurement differences when compared to CGAAP. These measurement differences include the requirement to reflect the risks associated with asset retirement obligations, such as silviculture obligations, in either the cash flows or in the discount rate used. The silviculture asset retirement obligations are discounted using the risk free rate rather than the Company's credit adjusted risk free rate.

As a result, Western increased its silviculture provision at the transition date by approximately $1.4 million with a corresponding reduction to retained earnings.

Inventories

On January 1, 2010, the Company changed its accounting policy for the costing of lumber inventories from the distributed cost method to the average cost of production method. Under the new policy, costs of lumber produced carry an average cost of production based on the species and facility where they are produced, determined by actual lumber production costs divided by production volumes. This compares to the former policy, which allocated costs based on the estimated fair value of the lumber products manufactured. Costs for logs produced continue to be allocated based on the estimated fair value of the logs produced. Management believes that this change in accounting policy provides more reliable and relevant information to the users of the financial statements as it is more consistent with industry accounting practices, aligns with the Company's new profit centre strategy, and also results in a more conservative carrying value relative to the previous method used.

This change in accounting policy, which was implemented effective January 1, 2010 on a retrospective basis without restatement of prior periods, resulted in inventory reducing by $2.4 million to $105.2 million from $107.6 million and the deficit increasing to $327.2 million from $324.8 million as at January 1, 2010. Prior periods have not been restated as the detailed information required to implement the new policy on a retrospective basis is not available.

Future Changes in Accounting Policies

New Standards and Interpretations

In 2011, the IASB has issued the following new or amended IFRSs which are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, with the exception of IFRS 13 which is effective prospectively from January 1, 2013, and IFRS 9 which is effective January 1, 2015 with early adoption permitted:

IFRS 9 *Financial Instruments*

IFRS 10 *Consolidated Financial Statements*

IFRS 11 *Joint Arrangements*

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 13 *Fair Value Measurement*

Amendments to IAS 19 *Employee Benefits*

Amendments to IAS 28 *Investments in Associates and Joint Ventures*

IFRS 9 *Financial instruments* ("IFRS 9") was issued in November 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 10 *Consolidated Financial Statements* replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27") and SIC-12 *Consolidation – Special Purpose Entities*. IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures* ("IAS 31"). Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. Upon adoption of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a

single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented.

IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12") contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* ("IFRS 13") replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

IAS 19 *Employee Benefits* ("IAS 19") will modify accounting for pensions and other post-retirement and post-employment benefits and impact corporate financial reporting, including reported net profit. The key impacts of the amendments will include:

- Changes in how a plan's funded status and its variation during a reporting period will affect balance sheet and comprehensive income
- Changes in the reported benefit expense due to the removal of the expected return on assets and amortization items
- Significant changes to the footnote disclosures
- Potential implications for the way that plan sponsors manage defined benefit plan risk

IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") will modify the existing standard as issued in 2008 as follows:

- Associates and joint ventures held for sale. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 and IAS 31 specified that the cessation of significant influence or joint control triggered re-measurement of any retained stake in all cases with gain recognition in profit or loss, even if significant influence was succeeded by joint control. IAS 28 will be modified so that in such scenarios the retained interest in the investment is not re-measured.

These new and revised accounting standards have not yet been adopted by Western, and the Company has not yet completed the process of assessing the impact that they will have on its financial statements or whether to early adopt any of the new requirements.

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

Financial instruments, consisting primarily of debt instruments, are discussed elsewhere in this discussion and analysis.

Western has a program in place to reduce the impact of volatile foreign exchange rates on its 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 does not utilize derivative financial instruments for trading or speculative purposes. 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 is be fair valued and marked to market each accounting period, with changes recorded in net income.

To further assist in mitigating this foreign exchange risk, the Company entered into an agreement in March 2009 with Brookfield Asset Management Inc. ("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, 2012, 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 2011, the Company entered into contracts under the Facility to sell US dollars and Japanese Yen (JPY) forward in order to mitigate a portion of this foreign currency risk. At December 31, 2011, the Company had forward contracts in place to sell US$2.0 million and JPY 4,050 million (2010 – US$2.1 million; JPY 2,250 million). A net gain of $0.8 million was recognized on contracts which matured in the year (2010 - $1.1 million), which is included in sales in the consolidated statement of comprehensive income.

Other than operating leases for vehicles, equipment and machinery, the Company does not have any off-balance sheet financing arrangements as at December 31, 2011.

In October 2009, the Company 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 BPL. 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 in October, 2009 with the balance of $9.4 million being received on January 4, 2010. As part of the arrangements, WFPFPL had 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 represent non-core assets of the Company that were being held for sale. BPL is the manager of WFPFPL, which also holds Brookfield Residential Properties Inc. (formerly Carma Developers LP), that carries on a land development business across Western Canada. Western's interest in WFPFPL, which was less than 5%, was accounted for using the cost method. Under the terms of the arrangement Western had the option to sell its interest in that entity to BPL for its fair market value at any time on or after January 1, 2011. On January 4, 2011, the Company exercised this option and sold its equity interest in WFPFPL to BPL for $2.4 million, and the aforementioned right of first offer was extinguished. Since BPL is a related party of Brookfield Special Situations Management Limited ("BSSML"), 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 this MD&A, the Company has or had certain arrangements with entities related to BAM to 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:

	Year ended December 31,	
Costs incurred for:	2011	2010
Log purchases	$ 13.5	$ 8.1
Other	4.7	4.8
	$ 18.2	$ 12.9
Income received for:		
Log sales	$ 5.4	$ 3.3
Other	2.4	9.4
	$ 7.8	$ 12.7

Key personnel of the Company include the executive management team and members of the Board of Directors. The compensation paid or payable to key personnel is shown below:

	Year ended December 31,	
	2011	2010
Salaries and directors' fees	$ 2.2	$ 1.6
Post-employment benefits	0.2	0.2
Share-based payments	0.7	0.7
	$ 3.1	$ 2.5

Risks and Uncertainties

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

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/curtailments 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 our products. Western's results of operations depend upon the prices we receive for lumber, logs and chips, and 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 $7 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 $7 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 10% and 15% 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 annual operating earnings by approximately $3.6 million to $4.0 million, and $0.8 million to $1.0 million, respectively.

The Softwood Lumber Agreement (SLA) 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. On January 23, 2012 Canada and the United States agreed on a two year extension of the SLA, which will now terminate in October, 2015. 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.

On October 8, 2010, the United States Trade Representative wrote to Canada's International Trade Minister to request consultations under the SLA with respect to allegations of under-pricing of timber

in the British Columbia interior and circumvention of export measures provided for in the SLA. On January 18, 2011 the United States initiated an arbitration process with Canada under the SLA over its concern that the province of British Columbia has misapplied or altered its timber pricing rules and as a result has charged too low a price for certain timber harvested on public lands in the interior of British Columbia. In August, 2011 the United States filed a detailed statement of claim with the arbitration panel. Canada delivered its initial response to the United States claim in November 2011. On January 29, 2012 the United States issued a revised statement of claim, which Canada has subsequently rebutted. A hearing before the arbitration panel is expected to take place in February 2012 with a final decision expected in late 2012. It is not possible to predict the outcome of the claim, or whether it would potentially have any impact on Western since it is specifically directed at practices in the interior of British Columbia, where the Company has no operations.

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 the United Steel Workers ("USW") or the Pulp, Paper and Woodworkers of Canada ("PPWC") or the Canadian Merchant Service Guild ("Guild"). The collective agreement covering the majority of Western's unionized employees was renewed in 2010 and expires on June 14, 2014. Other collective agreements negotiated in 2010 include employees affiliated with the PPWC at the Company's Ladysmith Sawmill Operation and Value Added Remanufacturing operation, USW Clerical and a Quatsino Dry Land Sort tug boat Captain who is affiliated with the Guild. These agreements expire on December 31, 2014, October 14, 2016, December 31, 2013 and September 30, 2015, respectively. In 2012, the collective agreement at the South Island Remanufacturing operation will expire on May 22. Approximately 32 hourly employees work at this operation.

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 strikes 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 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. In addition, market acceptance of the environmental sustainability of our products as compared with substitutes could be a challenge in the future. 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 of the Company's products and the 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 US.

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 following harvesting due to fire and other occurrences. 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 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.

All 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 guarantee that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks.

Impact of Mountain Pine Beetle Infestation

The north-central interior forests of British Columbia and western parts of Alberta have been, and continue to be, seriously damaged by North America’s largest recorded mountain pine beetle infestation. Western does not operate in the affected area and 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 in the affected areas of the interior of British Columbia 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 efficient entry into remote pine beetle damaged stands.

The mountain pine beetle has crossed into Alberta, and timber harvesting of lodgepole and jackpine in Alberta may 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 or 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 in some of our fibre contracts is tied by formula to the net pulp realizations in US dollars obtained by our wood chip customers, or to published indices that reflect the selling price of NBSK pulp. 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 there is a contraction in the coastal pulp and paper industry, we may need to find alternative customers for the pulp logs and residual chips from our sawmills.

On January 31, 2012, Catalyst Paper Corporation (“Catalyst”) announced that it had obtained an Initial Order from the Supreme Court of British Columbia under the Companies' Creditors Arrangement Act to facilitate an orderly restructuring of its business and operations. The terms and conditions of the restructuring plan have not yet been determined. Catalyst has indicated that the

operations of Catalyst and its subsidiaries are intended to continue as usual, and obligations to suppliers during the restructuring process are expected to be met in the ordinary course. Western has a material agreement to supply fibre to Catalyst. The outcome of Catalyst's financial situation and any potential resulting impact on its agreement with Western is not determinable at this point.

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, until March 14, 2011 were administered by the Ministry of Forests, Mines and Lands as well as the Ministry of Natural Resource Operations. A second restructuring of provincial resource ministries within a year created the new Ministry of Forests, Lands and Natural Resource Operations ("MFLNRO"). The *Forest Act* (British Columbia) ("Forest Act") empowers the MFLNRO 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 is not 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, 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 including critical habitat designations as well as 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

There have been significant legislative reforms in the British Columbia Forest Industry over the last 40 years. One of the more significant examples of this was seen in 2003/4 when the Province took back approximately 20% of the AAC from major license holders, including Western, and provided monetary compensation in return. There can be no assurance that the Province will not implement further policy changes, or that such changes will not have a material adverse effect on our operations or our financial position.

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. On April 1, 2011 the first modern treaty affecting the Company's tenures was brought into force. The Maa'nulth Treaty extinguished the Company's tenure rights on Maa'nulth Treaty Settlement lands within TFL 44 and will permanently reduce the tenure's AAC by 92,500m^3. The Company is in discussions with the Province on the magnitude of the treaty impacts on AAC, improvements, soft cost investments and downstream business. As these discussions are ongoing, any settlement or the amounts of compensation that we would receive for this or future reductions of our tenures as a result of this process cannot be estimated at this time and none has been recorded as a receivable. Other treaty processes involving the Nam'gis, Sliammon and K'omox First Nations are also well advanced and may lead to agreements in 2012. It is expected that through these and other treaty-related processes the Provincial Government will want to remove areas out of the Company's various forest tenures.

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 MFLNRO 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. More than 95% of the timber we harvest is from Crown land. 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 the stumpage fees payable by us 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, sawlogs and pulplogs to third parties. Certain of these fibre supply agreements have minimum volume requirements. A failure to supply the minimum volumes may result in additional costs or deferred obligations. 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

The Company's safety policy reflects its values and commitment to providing a healthy and safe workplace for its people, while at the same time ensuring compliance with our regulatory requirements under WorkSafeBC. Workplace safety 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 federal and provincial 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, 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 of a species and grade permitted for export and 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 currently at a premium to the domestic market pricing, any substantial 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 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. The Company and the governments filed their responses and affidavits in 2011 and the Kwakiutl have filed evidence with more expected to follow. No new hearing dates have been set for that application.

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, Mines and Lands to remove private lands from TFL 44, a TFL subsequently acquired by the Company. In 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's application for leave to appeal this decision to the Supreme Court of Canada was denied on March 11, 2010. As a result, the Company received a rebate of stumpage previously paid in this matter. Other pending stumpage appeals in this matter, held in abeyance pending the Court's decision, were subsequently denied by the British Columbia Forest Appeals Commission. That decision has been appealed to the Supreme Court of British Columbia. *A* potential stumpage rebate 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 materially adverse effect 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

BSSML 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 BSSML or any person were to acquire sufficient Common Shares to constitute a change or acquisition of control of Western, and the Ministry of Forest Lands and Natural Resource Operations were to be satisfied the change or acquisition of control unduly restricted competition in standing timber, log or wood chip markets, the Minister could make a determination to cancel all or a part of our Forest Act 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, 2011. 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 2011.

Outstanding Share Data

As of February 22, 2012 there were 128,625,623 Common Shares and 338,945,860 Non-Voting Shares issued and outstanding. BSSML 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 2011, 1,700,000 options were granted, and no options were either cancelled or exercised. As of February 22, 2012, 4,741,795 options were outstanding under the Company's incentive stock option plan.

Summary of Selected Results for the Last Eight Quarters

(millions of dollars except per share amounts and where noted)	2011					2010				
	Year	4th	3rd	2nd	1st	Year	4th	3rd	2nd	1st
Average Exchange Rate – Cdn $ to purchase one US $	0.989	1.0231	0.980	0.968	0.986	1.030	1.013	1.039	1.029	1.040
Sales										
Lumber	561.1	147.4	141.2	143.5	129.0	475.1	118.1	123.7	131.1	102.2
Logs	231.6	60.2	77.3	57.8	36.3	139.0	38.8	39.1	36.6	24.5
By-products	61.0	13.1	15.0	17.4	15.5	53.8	15.7	12.7	13.8	11.6
Total sales	853.7	220.7	233.5	218.7	180.8	667.9	172.6	175.5	181.5	138.3
Lumber										
Shipments – millions of board feet	811	209	209	210	183	669	168	165	189	147
Price – per thousand board feet	692	705	676	684	705	710	703	750	694	695
Logs										
Shipments – thousands of cubic metres	3,189	853	1,078	755	504	2,342	646	642	640	414
Price – per cubic metre*	69	69	68	72	68	59	60	61	57	59
Selling and administration	26.6	6.9	6.4	6.7	6.6	24.6	7.6	5.8	5.8	5.4
EBITDA	61.8	13.6	18.1	21.9	8.2	46.9	3.9	11.8	21.9	9.3
Amortization	(24.0)	(5.7)	(6.0)	(6.7)	(5.6)	(23.5)	(5.2)	(5.5)	(6.9)	(5.9)
Changes in fair value of biological assets	(2.6)	(0.9)	(0.6)	(0.5)	(0.6)	(1.5)	(0.8)	0.6	(0.6)	(0.7)
Reversal of impairment	-	-	-	-	-	18.5	18.5	-	-	-
Operating restructuring items	(0.7)	0.2	(0.3)	(0.3)	(0.3)	(1.6)	(0.1)	(0.6)	(0.9)	-
Finance costs	(6.6)	(1.4)	(1.5)	(1.8)	(1.9)	(12.9)	(2.8)	(3.5)	(3.4)	(3.2)
Other income (expenses)	(2.8)	(0.3)	(1.9)	(0.1)	(0.5)	16.7	6.3	(0.3)	0.3	10.4
Income taxe recovery (expense)	-	0.1	0.1	(0.2)	-	-	0.6	(0.1)	(0.3)	(0.2)
Net income (loss) from continuing operations	25.1	5.6	7.9	12.3	(0.7)	42.6	20.4	2.4	10.1	9.7
Net loss from discontinued operations	(1.1)	(0.3)	(0.3)	(0.2)	(0.3)	(1.5)	(0.3)	(0.3)	(0.3)	(0.6)
Net income (loss)	24.0	5.3	7.6	12.1	(1.0)	41.1	20.1	2.1	9.8	9.1
EBITDA as % of sales	7.2%	6.2%	7.8%	10.0%	4.5%	7.0%	2.3%	6.7%	12.1%	6.7%
Earnings per share:										
Net income - basic and diluted	0.05	0.01	0.02	0.03	-	0.09	0.04	-	0.02	0.02
Net income from continuing operations - basic and diluted	0.05	0.01	0.02	0.03	-	0.09	0.04	0.01	0.02	0.02

* Note - the log revenue used to determine average price per cubic metre in Q4, Q3, Q2 and Q1 of 2011 was adjusted to reflect revenues recognized of $1.3 million, $3.7 million, $3.4 million and $2.0 million, respectively, associated with shipping costs arranged in the period to enable comparability of unit prices.

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. 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 (expenses)" comprises net 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 first and fourth quarters of 2010.The fourth quarter 2010 includes the reversal of an impairment previously taken on its timber licenses (intangible assets) which was an unusual adjustment. The second and third quarters of 2010 included more significant charges for restructuring, as Western completed adjustments after the reorganization of its business commenced in 2009.

Western Forest Products Inc.

Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2011 and 2010

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS

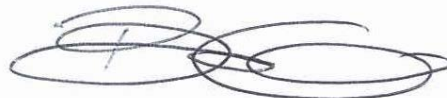
The Management of Western Forest Products Inc. (“Western” or the “Company”) is responsible for the accompanying Consolidated Financial Statements and all other information in the Management’s Discussion and Analysis. The financial statements have been prepared by Management in accordance with International Financial Reporting Standards and, where necessary, reflect Management’s best estimates and judgments at this time. The financial information presented throughout the Management’s Discussion and Analysis dated February 22, 2012 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.

Dominic Gammiero
Chairman & Chief Executive Officer



Brian Cairo
Chief Financial Officer

February 22, 2012

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Western Forest Products Inc.

We have audited the accompanying consolidated financial statements of Western Forest Products Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Western Forest Products Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

KPMG LLP

Chartered Accountants
February 22, 2012
Vancouver, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Western Forest Products Inc.

Consolidated Statements of Financial Position

(Expressed in millions of Canadian dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	$ 15.3	$ 5.1	$ 8.1
Trade and other receivables	64.4	58.7	39.7
Inventory (Note 4)	142.7	129.6	105.2
Prepaid expenses and other assets	6.5	4.8	3.8
	228.9	198.2	156.8
Non-current assets:			
Property, plant and equipment (Note 5)	190.3	205.4	230.0
Intangible assets (Note 5)	116.6	132.8	117.5
Biological assets (Note 6)	59.4	77.7	85.7
Assets classified as held for sale (Note 24)	11.5	-	-
Other assets (Note 7)	11.7	13.8	10.9
	$ 618.4	$ 627.9	$ 600.9
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 66.7	$ 61.6	$ 44.9
Revolving credit facility (Note 8)	8.9	-	15.3
Current portion of long-term debt (Note 9)	-	-	45.2
Silviculture provision (Note 12)	13.3	11.5	10.3
Discontinued operations (Note 22)	6.2	6.2	6.1
	95.1	79.3	121.8
Non-current liabilities:			
Long-term debt (Note 9)	58.5	104.9	74.5
Silviculture provision (Note 12)	16.2	15.8	15.7
Liabilities classified as held for sale (Note 24)	1.4	-	-
Other liabilities (Note 11)	31.6	23.3	15.6
Deferred revenue	68.4	70.4	72.4
	271.2	293.7	300.0
Shareholders' equity:			
Share capital - voting shares (Note 13)	412.3	412.3	412.3
Share capital - non-voting shares (Note 13)	187.5	187.5	187.5
Contributed surplus	3.4	3.0	2.7
Revaluation reserve	23.9	23.9	23.9
Deficit	(279.9)	(292.5)	(325.5)
	347.2	334.2	300.9
	$ 618.4	$ 627.9	$ 600.9

Commitments and Contingencies (Note 15)

Subsequent events (Notes 28 and 15)

See accompanying notes to these consolidated financial statements

Approved on behalf of the Board:

Dominic Gammiero, *Chairman and CEO* Lee Doney, *Vice Chairman*

Western Forest Products Inc.

Consolidated Statements of Comprehensive Income

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

	Year ended December 31, 2011	2010
Revenue	$ 853.7	$ 667.9
Cost and expenses:		
Cost of goods sold	694.6	551.3
Export tax	6.5	3.9
Freight	90.8	66.2
Selling and adminstration	26.6	24.6
Reversal of impairment	-	(18.5)
	818.5	627.5
Operating income prior to restructuring items and other income (expenses)	35.2	40.4
Operating restructuring items (Note 19)	(0.7)	(1.6)
Other income (expenses) (Note 21)	(2.8)	16.7
Operating income	31.7	55.5
Finance costs (Note 20)	(6.6)	(12.9)
Net income from continuing operations	25.1	42.6
Net loss from discontinued operations (Note 22)	(1.1)	(1.5)
Net income	24.0	41.1
Other comprehensive loss		
Defined benefit plan actuarial losses (Note 17)	(11.4)	(8.1)
Total comprehensive income	$ 12.6	$ 33.0
Net income per share (in dollars):		
Basic and diluted earnings per share	0.05	0.09
Basic and diluted earnings per share - continuing operations	0.05	0.09
Weighted average number of shares outstanding (thousands)		
Basic	467,571	467,571
Diluted	473,738	474,778

See accompanying notes to these consolidated financial statements

Western Forest Products Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in millions of Canadian dollars)

	Share Capital	Contributed Surplus	Revaluation Reserve	Deficit	**Total equity**
Balance at January 1, 2010	$ 599.8	$ 2.7	$ 23.9	$ (325.5)	$ 300.9
Net income for the period	-	-	-	41.1	41.1
Other comprehensive loss:					
Defined benefit plan actuarial losses recognized	-	-	-	(8.1)	(8.1)
Total comprehensive income for the period	-	-	-	33.0	33.0
Share-based payment transactions recognized in equity	-	0.3	-	-	0.3
Total transactions with owners, recorded directly in equity	-	0.3	-	-	0.3
Balance at December 31, 2010	$ 599.8	$ 3.0	$ 23.9	$ (292.5)	$ 334.2

	Share Capital	Contributed Surplus	Revaluation Reserve	Deficit	**Total equity**
Balance at January 1, 2011	$ 599.8	$ 3.0	$ 23.9	$ (292.5)	$ 334.2
Net income for the period	-	-	-	24.0	24.0
Other comprehensive loss:					
Defined benefit plan actuarial losses recognized	-	-	-	(11.4)	(11.4)
Total comprehensive income for the period	-	-	-	12.6	12.6
Share-based payment transactions recognized in equity	-	0.4	-	-	0.4
Total transactions with owners, recorded directly in equity	-	0.4	-	-	0.4
Balance at December 31, 2011	$ 599.8	$ 3.4	$ 23.9	$ (279.9)	$ 347.2

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	
	2011	2010
Cash provided by (used in):		
Operating activities:		
Net income from continuing operations	$ 25.1	$ 42.6
Items not involving cash:		
Amortization of property, plant and equipment (Note 5)	20.4	20.3
Amortization of intangible assets (Note 5)	3.6	3.2
Loss on disposal of assets	1.3	0.2
Changes in fair value of biological assets (Note 6)	2.6	1.5
Finance costs	6.6	12.9
Impairments (reversals of impairments), net (Note 5,6)	1.3	(16.3)
Other	(0.3)	(3.1)
	60.6	61.3
Changes in non-cash working capital items:		
Trade and other receivables	(9.0)	(15.7)
Inventory	(13.1)	(24.4)
Prepaid expenses and other assets	(1.7)	(1.0)
Silviculture provision	1.8	1.2
Accounts payable and accrued liabilities	5.1	16.7
	(16.9)	(23.2)
	43.7	38.1
Investing activities:		
Additions to property, plant and equipment (Note 5)	(19.4)	(11.6)
Proceeds on disposals of assets	31.3	15.3
	11.9	3.7
Financing activities:		
Changes in revolving credit facility	8.9	(15.3)
Interest paid	(6.0)	(9.6)
Repayment of long-term debt	(47.1)	(16.1)
Refinancing fees	(0.1)	(2.3)
	(44.3)	(43.3)
Cash provided by (used in) continuing operations	11.3	(1.5)
Cash used in discontinued operations	(1.1)	(1.5)
Increase (decrease) in cash and cash equivalents	10.2	(3.0)
Cash and cash equivalents, beginning of period	5.1	8.1
Cash and cash equivalents, end of period	$ 15.3	$ 5.1

See accompanying notes to these consolidated financial statements

1. Reporting Entity

Western Forest Products Inc. ("Western" or the "Company") is a major integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia. The address of the Company's registered office is Suite 510 – 700 West Georgia Street, Vancouver, British Columbia, Canada. The consolidated financial statements as at and for the years ended December 31, 2011 and 2010 comprise the Company and its subsidiaries. The Company's primary business includes timber harvesting, reforestation, forest management, sawmilling logs into lumber, wood chips, and value-added lumber remanufacturing. Western's lumber products are currently sold in over 30 countries worldwide. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements of the Company as at and for the years ended December 31, 2011 and 2010 have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board. These are the Company's first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. These financial statements are available on www.sedar.com.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 26.

These consolidated financial statements were authorized for issue by the Board of Directors on February 22, 2012.

(b) Basis of measurement

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

- Biological assets are measured at fair value less costs to sell;
- Land within property, plant and equipment is measured at fair value;
- Liabilities for cash-settled share-based payment transactions are measured at fair value at each reporting period. Equity-settled share-based payments are measured at fair value at grant date;
- Long-term debt is recognized at fair value;
- Derivative financial instruments are measured at fair value; and
- The defined benefit liability is recognized as the net total of the plan assets, plus unrecognized past service costs, less the present value of the defined benefit obligation.

(c) Functional and presentation currency

These consolidated financial statements are presented in the Canadian dollar which is the Company's and its subsidiaries' functional currency. Management believes that the Canadian dollar best reflects the currency of the primary economic environment in which Western operates.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included within the following notes:

Note 5 – Property, plant and equipment – measurement of the fair value of land

Note 5 – Property, plant and equipment – key assumptions used in discounted cash flows

Note 5 – Intangible assets – key assumptions used in discounted cash flows

Note 6 – Biological assets – measurement of fair value less costs to sell of standing timber

Note 13 – Share Capital – measurement of share-based payment transactions

Note 17 – Employee post-retirement benefits – measurement of defined benefit obligations

Note 18 – Financial Instruments – measurement of foreign exchange forward contract derivatives

3. Significant Accounting Policies

(a) Basis of consolidation

As part of its transition to IFRSs, the Company elected not to restate business combinations that occurred prior to January 1, 2010.

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date on which control ceases.

The principal wholly-owned operating subsidiaries of the Company at December 31, 2011 are Western Lumber Sales Limited (which sells into the United States), Western Forest Products Japan Ltd. (formerly MacMillan Bloedel KK) (which sells into Japan), and WFP Quatsino Navigation Limited (the beneficial owner of a number of the Company's non-core assets).

Inter-company transactions, balances and unrealized gains on inter-company transactions are eliminated in preparing these consolidated financial statements. Unrealized losses are also eliminated in the same way, unless the transaction provides evidence of an impairment of the asset transferred.

(b) Adoption of new accounting policies

The following new or amended IFRSs have been issued which are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, with the exception of IFRS 13 *Fair Value Measurement* which is effective prospectively from January 1, 2013, and IFRS 9 *Financial Instruments* which is effective for annual periods beginning on or after January 1. 2015:

IFRS 9 *Financial Instruments*

IFRS 10 *Consolidated Financial Statements*

IFRS 11 *Joint Arrangements*

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 13 *Fair Value Measurement*

Amendments to IAS 19 *Employee Benefits*

Amendments to IAS 28 *Investments in Associates and Joint Ventures*

IFRS 9 *Financial instruments* (“IFRS 9”) was issued in November 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 10 *Consolidated Financial Statements* (“IFRS 10”) replaces the guidance in IAS 27 *Consolidated and Separate Financial Statements* (“IAS 27”) and SIC-12 *Consolidation – Special Purpose Entities* (“SIC-12”). IAS 27 (2008) survives as IAS 27 (2011) *Separate Financial Statements*, only to carry forward the existing accounting requirements for separate financial statements. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

IFRS 11 *Joint Arrangements* (“IFRS 11”) replaces the guidance in IAS 31 *Interests in Joint Ventures* (“IAS 31”). Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities those arrangements, which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. Upon adoption of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately

consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented.

IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12") contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvements that expose an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* ("IFRS 13") replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

IAS 19 *Employee Benefits* ("IAS 19") will modify accounting for pensions and other post-retirement and post-employment benefits and impact corporate financial reporting, including reported net profit. The key impacts of the amendments will include:

- Changes in how a plan's funded status and its variation during a reporting period will affect the statement of financial position and comprehensive income;
- Changes in the reported benefit expense due to the removal of the expected return on assets and amortization items;
- Significant changes to the footnote disclosures; and
- Potential implications for the way that plan sponsors manage defined benefit plan risk.

IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28") will modify the existing standard as issued in 2008 as follows:

- Associates and joint ventures held for sale. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.

- Changes in interests held in associates and joint ventures. Previously, IAS 28 and IAS 31 specified that the cessation of significant influence or joint control triggered re-measurement of any retained stake in all cases with gain recognition in profit or loss, even if significant influence was succeeded by joint control. IAS 28 will be modified so that in such scenarios the retained interest in the investment is not re-measured.

These new and revised accounting standards have not yet been adopted by Western, and the Company has not yet completed the process of assessing the impact that they will have on its financial statements or whether to early adopt any of the new requirements.

(c) Operating segments

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company is an integrated Canadian forest products company operating in one business segment comprised of timber harvesting, log sales and lumber manufacturing and sales in world-wide markets.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. Western's log and lumber products are currently sold in over 30 countries worldwide, with sales to customers in Canada, the United States, Asia and Europe representing over 95% of the Company's sales. Substantially all of Western's property, plant and equipment, biological assets and intangible assets are located in British Columbia, Canada.

(d) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income (loss) for the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Canadian dollars at foreign exchange rates at the date the fair value was determined.

(e) Property, plant and equipment

All items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses, except for land, which is measured at fair value at each reporting date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic

benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. All other repairs and maintenance are recognized in net income (loss) for the period as incurred.

Fair value increases in the carrying amount of land are credited to other comprehensive income and included within the revaluation reserve in shareholders' equity. Fair value decreases that offset previous increases of the same item of land are recognized in other comprehensive income. All other decreases are recognized immediately in net income (loss) for the period.

Depreciation is based on the depreciable amount of an item of property, plant and equipment, which is the cost of an item, less its residual value. Depreciation is calculated using the straight-line method and is recognized in net income (loss) over the estimated useful life of each component of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

- Buildings and equipment 5 – 20 years
- Logging roads 9 – 20 years

Residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds from disposal with the carrying amount of the item of property, plant and equipment and are recognized in net income (loss) for the period in which the disposal occurs.

(f) Biological assets

Standing timber on privately held forest land that is managed for timber production is characterized as a biological asset. Accordingly, at each reporting date, the biological asset is valued at its fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net income for the period. Costs to sell include all costs that would be necessary to sell the assets. Standing timber is transferred to inventory at its fair value less costs to sell at the date the logs are removed from the forest. Land under the standing timber is measured at fair value at each balance sheet date and included in property, plant and equipment.

(g) Intangible assets

Crown timber tenures are the contractual arrangements between the Company and the Provincial Government whereby the Company gains the right to harvest timber. All of the Company's timber licenses are accounted for as acquired finite lived intangible assets. Accordingly, these are valued at their acquired cost less accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over 40 years, the estimated useful life of these crown timber tenures. Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

(h) Impairment of non-financial assets

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognized in net income (loss) for the period for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into cash generating units ("CGU") which are the lowest levels for which there are separately identifiable cash flows.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' adjusted carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(i) Inventories

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

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

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

The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

The costs of lumber produced carry an average cost of production based on the species and facility where they were produced.

The costs for logs produced are allocated to logs based on the estimated fair value of the logs produced, except for pulp logs which are carried at market value due to the significant difference between the market value of pulp logs compared to production costs.

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The NRV for logs designated for lumber production is determined on the basis of the logs being converted to lumber, and for the remaining logs it is based on market log prices.

The cost of logs transferred from biological assets (standing timber) is its fair value less costs to sell at the date of harvest.

(j) 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.

(k) 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. Common, Non-Voting and preferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of any tax effects.

(l) Long-term debt

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Long-term debt is subsequently carried at amortized cost; any difference between the proceeds and the redemption value is recognized in net income (loss) for the period over the term of the long-term debt using the effective interest method.

(m) Employee benefits

(i) Employee post-retirement benefits

The Company has various defined benefit and defined contribution plans that provide pension or other retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. The Company also provides other post-retirement benefits and pension bridging benefits to eligible retired employees. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a retirement plan under which the Company pays fixed contributions into a separate entity.

The Company's net obligation in respect of its defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of the plan assets are deducted. The calculation is performed annually by a qualified actuary using the projected benefit actuarial method.

When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the defined benefit plan or reductions in future contributions to the defined benefit plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any defined benefit plan.

Past service costs are recognized immediately in net income (loss) for the period, unless the changes to the plans are conditional on the employees remaining in service for a specified period of time ("the vesting period"). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income, and reports them in retained earnings.

For hourly employees covered by forest industry union defined benefit pension plans, the Company's contributions, as required under the collective agreements, are charged to net income (loss) for the period.

For Western's defined contribution plan, the Company makes contributions (currently, 7% of employee earnings) to privately administered investment funds on behalf of the plan members. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense in net income (loss) for the period during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii)Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits in net income (loss) for the period when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits are payable more than 12 months after the balance sheet date then they are discounted to their present value.

(iii) Short-term employee benefits

Short-term employee benefit obligations, including bonus plans, are measured on an undiscounted basis and are expensed as the related service is provided.

(iv) Share-based payment transactions

The Company has established share-based payment plans for eligible directors, officers and employees and accounts for these plans using the fair value method. The grant-date fair value of share-based payment awards (i.e. options) is recognized as an employee expense, with a corresponding increase in equity, over the period that the individual becomes unconditionally entitled to the awards. The fair value of the options is determined using either the Black-Scholes or the Hull-White option pricing models which take 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 shares, and the risk-free interest rate over the expected life of the option. In the case of options issued in 2010 and 2009, the options are only exercisable when the share price exceeds a barrier price of $0.70 for 60 consecutive days on a volume weighted average price basis. With this additional requirement for the share price to exceed a minimum level before the options become exercisable, it is necessary to utilize the Hull-White model as the Black-Scholes model used for valuing earlier granted options is no longer applicable. All options which were previously granted and do not contain the minimum price requirement continue to be valued using the Black-Scholes model. Inherent in all option pricing models is the use of highly subjective estimates, including expected volatility of the underlying shares. The Company bases its estimates of volatility on historical share 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, as is the previously calculated fair value included in contributed surplus.

The grant-date fair value of the amount payable to eligible directors, officers and employees in respect of deferred share units ("DSUs"), which are cash-settled, is recognized as an employee expense with a corresponding increase in liabilities, over the period that the individuals become unconditionally entitled to payment. The liabilities are re-measured at fair value at each reporting date and at settlement date. Any changes in the fair value of the liabilities are recognized in employee expenses in net income (loss) for the period.

(n) Silviculture provision

The Company's provision for silviculture relates to the obligation for reforestation on Crown land and arises as timber is harvested. Reforestation on private timberlands is expensed as incurred. The Company recognizes a provision for silviculture at fair value in the period in which the legal obligation is incurred, with the fair value of the liability at the reporting date determined with reference to the present value of estimated future cash flows. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The actual discount rate used reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates. In periods subsequent to the initial measurement, changes in the liability resulting from revisions to estimated future cost are recognized in cost of sales within net income (loss) for the period as they occur. The unwinding of the discount associated with the provision to reflect the passage of time is included in finance costs within net income (loss) for the period.

(o) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of rebates and discounts, and after eliminating intercompany sales. Revenue is recognized as soon as the substantial risks and rewards of ownership transfer from the Company to the customer. The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. 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.

(p) Deferred revenue

Deferred revenue is the result of the contractual obligations incurred upon the acquisition of the Englewood Logging Operation in March 2006, 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 net income (loss) for the period on a straight-line basis over 40 years, being the term of the related fibre supply contract.

(q) Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases and payments made under operating leases are recognized in net income (loss) for the period on a straight line basis over the period of the lease.

(r) Finance costs

Finance costs comprise interest expense on long-term debt and the revolving credit facility, unwinding of the discount on the silviculture provision and changes in the fair value of investments recognized immediately through net income (loss). All finance costs are recognized in net income (loss) during the period using the effective interest method.

(s) Financial Instruments

(i) Non-derivative financial assets

The Company classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch, the Company manages such investments or makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy or the financial asset contains one or more embedded derivatives. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income (loss). Financial assets at fair value through profit or loss are comprised of cash and cash equivalents, certain investments and forward exchange contracts. Cash and cash equivalents comprises cash balances and short-term investments with original maturities of 90 days or less.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at

amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Held-to-maturity financial assets are debt securities for which the Company has the positive intent and ability to hold to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Held-to-maturity financial assets include certain investments held by the Company.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net income (loss). The Company does not have any financial assets classified as available-for-sale.

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for receivables and held-to-maturity financial assets at both a specific asset and collective level. All individually significant receivables and held-to-maturity financial assets are assessed for specific impairment. All individually significant receivables and held-to-maturity financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity financial assets that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity financial assets with similar risk characteristics.

In assessing for impairment at the collective level, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for Management's judgement for current economic and credit conditions.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income for the period and reflected in an allowance against receivables. Interest on impaired assets continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income (loss).

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in

unrealized gains/losses on available-for-sale financial assets in equity, to net income (loss). The cumulative loss that is removed from other comprehensive income and recognized in net income (loss) is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in net income (loss). Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(ii) Non-derivative financial liabilities

The Company classifies its financial liabilities as fair value through profit or loss or other financial liabilities.

The Company initially recognizes debt issued on the date that it is originated. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company's non-derivative financial liabilities consist of long-term debt, the revolving credit facility as well as accounts payable and accrued liabilities. These financial liabilities are classified as other financial liabilities and are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Derivative financial instruments

The Company may enter into derivative financial instruments (foreign currency forward contracts) 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 statement of financial position at fair value with changes in value being recognized as gains or losses within sales in net income (loss) for the period.

Embedded derivatives are separated from the host contract and accounted for separately if (a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (c) the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in net income (loss).

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(t) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net income (loss) for the period except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized using the asset and liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting profit nor taxable profit.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Such assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(u) Earnings per share

The Company presents basic and diluted earnings per share (“EPS”) data for its Common Shares and other Non-Voting shares. Basic EPS is calculated by dividing the net income (loss) attributable to Common and Non-Voting shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the net income (loss) attributable to the shareholders and the weighted average number of shares outstanding, for the effects of all dilutive potential shares, which comprise share options granted to employees and directors.

4. Inventory

The following table summarizes the value of inventory on hand:

	December 31, 2011	December 31, 2010	January 1, 2010
Logs	$ 88.1	$ 80.4	$ 67.3
Lumber	49.0	43.0	32.2
Supplies and other inventories	11.3	10.7	10.2
Provision for write downs	(5.7)	(4.5)	(4.5)
Total value of inventories	$ 142.7	$ 129.6	$ 105.2
Inventory carried at net realizable value	$ 22.4	$ 23.7	$ 19.3

The Company’s eligible inventory is pledged as security against the revolving credit facility and long-term debt. During 2011, $694.6 million (2010 - $551.3 million) of inventory was charged to cost of sales which includes an increase to the provision for write-down to net realizable value of $1.2 million.

5. Property, plant and equipment and intangible assets

Continuity Schedule

at January 1, 2010	Buildings & equipment	Logging roads	Land	Total property, plant and equipment	Intangible assets
Cost of capital assets at December 31, 2009	$ 144.1	$ 107.6	$ 108.2	$ 359.9	$ 190.4
Accumulated amortization and impairment at December 31, 2009	(71.9)	(67.0)	-	(138.9)	(21.7)
Adjustments on transition to IFRS	(15.8)	0.9	23.9	9.0	(51.2)
Net book value at January 1, 2010	56.4	41.5	132.1	230.0	117.5
at December 31, 2010					
Net book value at January 1, 2010	56.4	41.5	132.1	230.0	117.5
Additions	3.8	7.8	-	11.6	-
Disposals	(1.6)	(0.8)	(13.1)	(15.5)	-
Amortization	(10.2)	(10.1)	-	(20.3)	(3.2)
(Impairments)/reversals of impairments	-	(0.4)	-	(0.4)	18.5
Net book value at December 31, 2010	$ 48.4	$ 38.0	$ 119.0	$ 205.4	$ 132.8

at December 31, 2010	Buildings & equipment	Logging roads	Land	Total property, plant and equipment	Intangible assets
Cost of capital assets at December 31, 2010	$ 117.8	$ 110.7	$ 119.0	$ 347.5	$ 190.4
Accumulated amortization and impairment at December 31, 2010	(69.4)	(72.7)	-	(142.1)	(57.6)
Net book value at December 31, 2010	48.4	38.0	119.0	205.4	132.8
at December 31, 2011					
Net book value at December 31, 2010	48.4	38.0	119.0	205.4	132.8
Additions	10.7	8.7	-	19.4	-
Disposals	(0.3)	(3.6)	(8.3)	(12.2)	(1.7)
Amortization	(10.8)	(9.6)	-	(20.4)	(3.6)
Impairments	-	-	-	-	(1.3)
Assets transferred to held for sale	-	(1.9)	-	(1.9)	(9.6)
Net book value at December 31, 2011	$ 48.0	$ 31.6	$ 110.7	$ 190.3	$ 116.6

(a) Intangible assets

Intangible assets are comprised entirely of the Company’s crown timber tenures and are considered to be finite lived intangible assets with an estimated useful life of 40 years.

On the transition date of January 1, 2010, as a result of continued losses by the Company and the impact of the global recession on lumber demand and prices in the market, Management determined that indications of possible impairment of the Company’s crown timber tenures existed and as a result, the Company conducted an impairment review of its crown timber tenures at January 1, 2010.

5. Property, plant and equipment and intangible assets (continued)

Due to the continued concern about the global economic situation and the uncertainties with respect to the United States lumber market, the Company conducted further assessments for impairment at December 31, 2010 and December 31, 2011.

Management considers that the aggregate of all its crown timber tenures constitute a CGU and so tested the recoverable amount of the CGU, which was based on value in use, with the assistance of an independent valuator.

Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the CGU. Unless indicated otherwise, value in use in 2011 was determined similarly as in 2010. The calculation of the value in use was determined based on the following key assumptions:

- Cash flows were projected based on historical and forecasted logging activity levels as estimated by Management while working within the constraints of the annual allowable cut levels imposed by the Chief Forester of British Columbia. Management has assumed a 20 year forecast period given the renewability of the licences and the long term nature of the business;
- Log price assumptions used in the projections were based upon consideration of historical actual log prices and long term trend pricing analysis for the Vancouver log market as published by third party analysts and independent valuators. In the December 31, 2011 estimate of value in use, log prices were expected to remain flat in 2012 and then trend upward to historical averages: in the long-term an average inflation price increase of 1.7% was assumed. Similar assumptions were used in the forecasts prepared for December 31, 2010 and January 1, 2010;
- Cash flows for operating costs associated with the crown timber tenures were assumed to be consistent with past experience, actual operating results and are assumed to grow in line with increases in log pricing;
- A pre-tax discount rate of 11.7% (December 31, 2010: 11.7% and January 1, 2010: 11.3%) was used in determining the recoverable amount of the CGU. The discount rate used was estimated based on past experience of a weighted average cost of capital for each of the principal timber tenures of the Company, which was based on possible ranges of debt leveraging of between 15% and 35%, dependent upon the risk assessment attached to each particular timber tenure; and
- A terminal value was determined by assuming a perpetual series of cash flows discounted at the pre-tax discount rate.

As a result of the assessment performed at January 1, 2010, the carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss was recognized at the transition date of $51.2 million directly into retained earnings.

As a result of the value in use assessment performed for the CGU as at December 31, 2010, a reversal of $18.5 million of the impairment loss previously taken was recognized in profit and loss for the year ended December 31, 2010. The reversal was primarily the result of increases to forecast cash flow margins generated from the Crown timber tenures due to lower production and stumpage costs and a favourable change in species composition. Partially offsetting this was the negative impact of using a higher discount

5. Property, plant and equipment and intangible assets (continued)

rate and reduced harvest volumes as a result of lower projected annual allowable cut levels. During 2011, a further impairment of $1.3 million was recognized on assets now classified as held for sale (see Note 24), but no further adjustments were made as a result of the impairment review at December 31, 2011.

(b) Land

As described in Note 3(e), the Company has elected to measure land at fair value at each reporting date. Management performs an assessment of the fair value for all of its land holdings using a combination of independent third party valuations, recent comparable land sales, and discounted cash flow analysis as well as considering other publicly available information such as recent market transactions on arm's length terms between willing buyers and sellers, and British Columbia property assessments.

As at January 1, 2010, the increase that resulted from this election was $23.9 million with a corresponding credit to the revaluation reserve, a component of shareholders' equity.

As a result of the fair value assessment of the land holdings at December 31, 2011, and December 31, 2010, no fair value adjustments were identified, as the carrying value did not differ materially from the estimated fair value.

If land was stated on an historical cost basis, the carrying value would be as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Cost	$81.6	$98.3	$108.2

(c) Other property plant and equipment including sawmills

As disclosed in Note 26, Management adopted the transitional optional exemption of valuing the Company's sawmill buildings and equipment at fair value at transition date, which is then considered to be the deemed cost of these assets prospectively.

An internal valuation model was utilized to estimate the fair value of the sawmill buildings and equipment at January 1, 2010 by determining the future discounted cash flows expected to be generated by these assets. The calculation if the fair value was determined based on the following key assumptions:

- Cash flows were projected for 9 years based on past experience, actual operating results and the respective business plans;
- Revenue was projected based on past experience, considerations as to the business plans and a statistical analysis of long-term market price trends for benchmark lumber product sold by species. The anticipated revenue growth during the forecast period was determined based on Management estimates and third party industry sources, and range from -9% to 7% per year for each major category of lumber species during the forecast period;

5. Property, plant and equipment and intangible assets (continued)

- Log costs were projected based on the assumption that fibre supply would be acquired at market pricing. These were based on past experience, third party industry sources, including historical Vancouver log market pricing, and Management estimates;
- Other costs, including manufacturing, and selling, general and administrative costs were projected to increase at the inflation rate;
- A pre-tax discount rate of 16.5% was applied in the determination of the fair value of the sawmill buildings and equipment. The discount rate was determined based on Management's estimate of the Company's weighted average cost of capital; and
- A terminal value was determined by applying an earnings multiple to the terminal year earnings before interest, taxes, depreciation and amortization.

As a result of the assessment performed at January 1, 2010, the carrying amount of the sawmill buildings and equipment was determined to be higher than its fair value. Management applied the fair value as deemed cost exemption to the Company's sawmill buildings and equipment at January 1, 2010. The net impact of this adjustment was to reduce the Canadian GAAP net book value of the assets at the transition date by $16.5 million with a corresponding charge to retained earnings.

During 2010, an impairment of $0.4 million was recognized on roads and bridges based on an anticipated sale transaction.

For the same reasons listed above in (a) Management considered it necessary conduct an impairment review of its sawmill buildings and equipment at December 31, 2011 and 2010.

Western's sawmills, in aggregate, are considered to be a single CGU for the purposes of assessing the recoverable amount of the CGU. An internal valuation model was utilized to estimate the recoverable amount of the sawmill CGU based on its value in use by determining discounted future cash flows expected to be generated by the sawmills.

The calculation of the value in use as at December 31, 2011 and 2010 was determined similarly to the fair value at transition date, with the exception of the pre-tax discount rate of 16.3% applied at December 31, 2011 (December 31, 2010: 16.7%). As a result of the value in use assessments performed for the sawmill CGU as at December 31, 2011 and 2010, no impairment loss was recognized for the years then ended.

6. Biological assets

	Year ended December 31	
	2011	2010
Carrying value at beginning of period	$ 77.7	$ 85.7
Disposition of standing timber in the period	(15.7)	(4.8)
Impairments of standing timber in the period	-	(1.8)
Change in fair value resulting from growth and pricing	2.3	3.3
Harvested timber transferred to inventory during the period	(4.9)	(4.7)
Carrying value at end of period	$ 59.4	$ 77.7

Under IAS 41, *Agriculture*, the Company's private timberlands are classified as a growing forest, with the standing timber recorded as a biological asset at fair value less costs to sell at each reporting date. The land underlying the standing timber is considered a component of property, plant and equipment, which the Company has elected to record at fair value at each reporting date (Note 5).

At December 31, 2011, standing timber was located on approximately 25,484 hectares (2010: 33,780 hectares) of land owned by the Company, and range from newly planted cut-blocks to old-growth forests. During the year ended December 31, 2011, the Company harvested and scaled approximately 365,000m^3 of logs from its private timberlands, which had a fair value less costs to sell of $19.8 million at the date of harvest (2010: 253,000m^3 - $12.3 million).

The fair value of the Company's standing timber is based on the following:

- Recent comparative sales of standing timber;
- Direct and indirect costs of sustainable forest management;
- Net present value of future cash flows for standing timber; and
- Log pricing assumptions described in Note 5(a).

Accordingly, fair value has been determined using the following significant assumptions:

- Harvestable volumes have been determined as the estimated future volume and current standing volume to be harvested over the sustainable life of the privately held timberlands. The harvestable volume of standing timber is based the net planted area, estimated growth rates, estimated yield per hectare and expected sustainable harvest management practices.
- The costs associated with the land owned by the Company on which standing timber are grown including land taxes and other costs.
- The continuation of existing practices with regard to silviculture and harvesting.
- Discount rates of 6.91%, 7.01% and 6.04% have been applied to the estimated future cash flows in arriving at net present value at December 31, 2011, December 31, 2010

6. Biological assets (continued)

and January 1 2010, respectively. These discount rates have been determined with reference to the Company's market determined discount rate for this asset type, based on advice from an independent expert.

The annual valuation of standing timber was carried out during the fourth quarter of 2009, 2010 and 2011 using a consistent methodology for establishing fair value less costs to sell.

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

The dispositions reflected in 2011 primarily relate to the sale of properties to TimberWest Forest Corp. as detailed in Note 21. The disposition reflected in 2010 related to the sale of properties to the Capital Regional District of Victoria, British Columbia (Note 21).

7. Other assets

	December 31, 2011	December 31, 2010	January 1, 2010
Investments	$ 7.5	$ 7.4	$ 7.1
Discontinued operations (equipment)	2.3	2.3	2.2
Other	1.9	4.1	1.6
	$ 11.7	$ 13.8	$ 10.9

8. Revolving credit facility

The Company's revolving credit facility, as amended on December 14, 2010, provides for a maximum borrowing amount of $125.0 million, subject to a borrowing base which is primarily based on eligible accounts receivable and inventory balances. The facility bears interest at Canadian prime plus 0.5% (if availability exceeds $40.0 million) or 0.75% (if availability is less than $40.0 million) or at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus 2.25% or 2.50%, dependent on the same availability criteria. The revolving credit facility matures on December 14, 2015 subject to any future refinancing requirements of the Company's revolving and non-revolving term loans. At December 31, 2011, $8.9 million was drawn on the facility (2010: nil). At December 31, 2011, $80.9 million of the facility was available to the Company. The interest rate for the revolving credit facility was 3.50% at December 31, 2011 (2010: 3.75%).

9. Long-term debt

In the first quarter of 2011, the non-revolving term loan of $31.2 million was fully repaid, largely from the proceeds of non-core asset sales. In the balance of 2011, $15.9 million was repaid on the $75.0 million revolving term loan. At December 31, 2011, the $15.9 million repaid during the second and third quarters was still available to the Company. The revolving term loan matures on June 14, 2013.

9. Long-term debt (continued)

The term loan bears interest at an index rate, determined as the higher of (i) the Canadian prime rate, and (ii) the 30 day Banker's Acceptance ("BA") rate plus 1.35%, plus the applicable index rate margin, or at the Company's election, the applicable BA rate, plus the applicable BA rate margin. The applicable index rate margins range from 2.75% to 5.00% and the applicable BA rate margins range from 3.75% to 6.00% and each is determined quarterly, based on a leverage ratio, calculated as the ratio of total debt to the sum of EBITDA for the twelve months ending on the date of determination. The interest rate for the revolving term loan was 5.75% at December 31, 2011 (2010: 6.03%).

The Company was in compliance with its financial covenants at December 31, 2011.

During 2010, the Company incurred $2.3 million of transaction costs in relation to the new financing arrangements. These costs are deferred and are being amortized into interest expense over the term of the term loans using the effective interest rate method. Deferred transaction costs associated with the previous facilities were fully expensed during 2010.

	December 30, 2011	December 31, 2010	January 1, 2010
Canadian dollar debt			
Revolving term loan	$ 59.1	$ 75.0	$ 75.0
Non-revolving term loan	-	31.2	47.3
	59.1	106.2	122.3
Less transaction costs	(0.6)	(1.3)	(2.6)
	58.5	104.9	119.7
Less current portion	-	-	45.2
	$ 58.5	$ 104.9	$ 74.5

10. Income Taxes

	2011	2010
Deferred tax expense		
Origination and reversal of temporary differences	$ (11.1)	$ 7.1
Change in unrecognized deductible temporary differences	11.1	(7.1)
	-	-
Total income tax expense	$ -	$ -

10. Income Taxes (continued)

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

	2011	Tax rate	2010	Tax rate
Income before income taxes	$ 24.0	26.5%	$ 41.1	28.5%
Income tax using the Company's domestic tax rate	$ (6.4)		$ (11.7)	
Change in future tax rates	(0.1)		0.6	
Under (over) provided in prior periods	0.6		(1.8)	
Other permanent differences	3.1		5.8	
Change in unrecognized deductible temporary differences	(11.1)		7.1	
Reversal of previously unrecognized temporary differences	13.9		-	
	$ -		$ -	

The components of deferred tax are as follows:

	Opening balance	Recognized in profit or loss	Ending balance
For the year ended December 31, 2011			
Deferred tax assets			
Tax loss carry-forwards	$ 11.2	$ (2.1)	$ 9.1
Provisions	14.1	2.9	17.0
Property, plant and equipment	10.8	(3.6)	7.2
	36.1	(2.8)	33.3
Deferred tax liabilities			
Intangible assets	(26.4)	0.5	(25.9)
Biological assets	(9.7)	2.3	(7.4)
	(36.1)	2.8	(33.3)
Total	$ -	$ -	$ -

	Opening balance	Recognized in profit or loss	Ending balance
For the year ended December 31, 2010			
Deferred tax assets			
Tax loss carry-forwards	$ 5.4	$ 5.8	$ 11.2
Provisions	12.0	2.1	14.1
Property, plant and equipment	14.7	(3.9)	10.8
	32.1	4.0	36.1
Deferred tax liabilities			
Intangible assets	(21.4)	(5.0)	(26.4)
Biological assets	(10.7)	1.0	(9.7)
	(32.1)	(4.0)	(36.1)
Total	$ -	$ -	$ -

10. Income Taxes (continued)

The Company has unrecognized deferred tax assets in relation to certain deductible temporary differences and unused tax losses that are available to carry forward against future taxable income. The Company and its subsidiaries have unused tax losses carried forward estimated at $397.8 million (2010: $420.0 million), that expire between 2025 and 2031, available to reduce taxable income and capital losses of $138.1 million (2010: $22.5 million) available to be utilized against capital gains. The increase in the unused capital tax losses in 2011 that are available to carry forward arose principally as a result of the sale of the Company's shares held in a jointly-owned entity (see Notes 21 and 23 for further details of this transaction).

Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred tax assets, due to the economic conditions over the last several years, the Company has not recognized the benefits of its deferred tax assets in excess of its deferred tax liabilities.

	2011	2010
Unrecognized deferred tax assets		
Tax loss carry-forwards	$ 107.6	$ 96.6

11. Other liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
Employee post-retirement benefits obligation (Note 17)	$ 28.8	$ 21.0	$ 13.7
Environmental accruals	1.5	1.5	1.5
Other	1.3	0.8	0.4
	$ 31.6	$ 23.3	$ 15.6

12. Silviculture provision

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

	Year ended December 31, 2011	2010
Silviculture provision, beginning of year	$ 27.3	$ 26.0
Silviculture provision charged	13.5	10.3
Silviculture work payments	(9.9)	(9.5)
Disposition of intangible assets	(0.4)	-
Unwind of discount	0.4	0.5
Silviculture provision, end of year	**30.9**	**27.3**
Less current portion	13.3	11.5
Less provision transferred to held for sale	1.4	-
Non-current portion	$ 16.2	$ 15.8

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.93% to 1.94%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at December 31, 2011 is $32.1 million (2010: $29.9

12. Silviculture provision (continued)

million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the year.

13. Share capital

(a) Authorized and issued share capital:

The Company's authorized capital consists of an unlimited number of Common Shares, an unlimited number of Non-Voting Shares and an unlimited number of preferred shares. The Common Shares entitle the holders thereof to one vote per share. The Non-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 have certain registration rights that enable 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, 2011 and 2010	128,625,623	$ 412.3	338,945,860	$ 187.5

Brookfield Special Situations Management Limited ("BSSML") 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.

(b) 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 2011, the Company recorded compensation expense of $0.4 million (2010: $0.3 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 1,700,000 options with a fair value of $0.7 million as determined by the Hull-White option pricing model using the assumptions of a weighted average exercise price of $0.75, risk free interest rates within a range of 2.89% and 3.32%, volatility rates of between 59.7% and 67.1%, and an expected life of 10 years. These options are only exercisable when the share price exceeds $0.70 for 60 consecutive days on a volume weighted average price basis. With the additional requirement for the share price to exceed a certain level before the options become exercisable it was

13. Share capital (continued)

necessary to utilize the Hull-White model as the Black-Scholes model used for valuing earlier granted options was no longer applicable. All other options outstanding that were previously granted do not contain the minimum price requirement and continue to be valued under the Black-Scholes model.

The following table summarizes the change in the options outstanding during the years ending December 31, 2011 and 2010:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	4,741,795	$0.68	5,065,795	$0.76
Granted	1,700,000	0.75	4,000,000	0.22
Cancelled	-	-	(4,324,000)	0.34
Outstanding, end of year	6,441,795	$0.70	4,741,795	$0.68

Details of options outstanding under the share option plan at December 31, 2011 are as follows:

Exercise price	Number outstanding December 31, 2011	Weighted average remaining option life (years)	Weighted average exercise price	Number exercisable December 31, 2011	Weighted average exercise price
$ 0.22	3,500,000	8.2	$ 0.22	700,000	$ 0.22
$ 0.75	1,700,000	9.2	$ 0.75	-	$ -
$ 1.20	315,000	6.4	$ 1.20	206,600	$ 1.20
$ 1.75	436,000	4.5	$ 1.75	436,000	$ 1.75
$ 2.18	466,000	5.7	$ 2.18	384,000	$ 2.18
$ 12.10	24,795	2.6	$ 12.10	24,795	$ 12.10
	6,441,795	7.9	$ 0.70	1,751,395	$ 1.31

The Company also has a Deferred Share Unit Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs and executives may elect to take a portion of their annual incentive bonus in the form of DSUs. For directors, the number of DSUs allotted is determined by dividing the dollar portion of their quarterly fee's the director elected to take in DSUs by the share price value on the fifth day following each quarter end. For executive officers, the number of DSUs allotted is determined by dividing the dollar portion of the bonus that the executive elected to take in DSUs by the weighted average price of the Company's Common Shares for the five business days prior to the issue notification date. During 2011, designated executive officers were allotted 201,300 DSUs at a price of $0.77 per DSU and a further 24,975 DSUs were issued to a director at prices ranging from $0.64 to $1.06 per DSU. The cumulative number of DSUs outstanding at December 31, 2011 was 823,231 (2010: 596,956). In 2011, the Company recorded compensation expense for these DSUs of $0.2 million (2010: $0.3 million), with a corresponding increase to accounts payable and accrued liabilities.

13. Share capital (continued)

(c) Income per share**:**

Basic income per share was calculated by dividing the net income by the weighted average number of Common and Non-Voting Shares issued and outstanding over the period. Diluted net income 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 13(b)).

14. 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 2011, capital expenditures continued to be monitored closely because of the economic climate and has mostly consisted of essential road and bridge construction and capital maintenance projects, but increased spending on high-return value-added projects started in the second half of the year.

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. Given the current uncertain market conditions the Company has reduced its debt position and has a net capitalization to debt ratio of 13%. Net debt is defined as long-term debt plus amounts drawn on the revolving credit facility, 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 originally refinancing its term debt in March of 2008, the Company has repaid a total of $115.9 million of the term loans, substantially from the cash proceeds of disposition of non-core assets. Pursuant to the re-financing agreement completed on December 14, 2010 (Note 9), term debt repayments will continue as non-core asset sales are realized.

Under the current financing agreements, the Company is subject to financial covenants. The revolving credit facility contains two financial covenants: minimum consolidated adjusted shareholders' equity of $200.0 million and, should availability fall below $10.0 million or in the event of default, minimum fixed charge coverage ratio of 1.1:1.0. The term loans contains three financial covenants: (i) maximum capital expenditures of $55.0 million, measured each fiscal year, to the extent the total term loans outstanding exceed $75.0 million; (ii) maximum loan to value ratio of 50% (Loans are defined as the total term loans outstanding and value is defined as the appraised value of our crown tenures and private timberlands. This financial covenant is measured on the last day of each fiscal year and at the time of consummation of a sale

14. Capital requirements (continued)

or disposition of assets, with certain exceptions); and (iii) maximum funded debt to capitalization of 0.45 to 1.0, measured on a quarterly basis. As at December 31, 2011, the Company is in compliance with all financial covenants, and expects to be in compliance for the next 12 months.

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.

15. 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. On January 23, 2012 the agreement was extended by two years and now terminates in October, 2015. 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). During 2011, the Company recorded an expense of $6.5 million (2010: $3.9 million) which reflects the fact that shipment volumes were higher in 2011 and throughout 2011 the export tax rate was at the maximum rate, whereas in 2010 the rate was at a reduced level during May, June and July, 2010 as the result of an increase in the price of lumber.

On October 8, 2010, the United States Trade Representative wrote to Canada's International Trade Minister to request consultations under the SLA with respect to allegations of under-pricing of timber in the British Columbia interior and circumvention of export measures provided for in the SLA. On January 18, 2011 the United States initiated an arbitration process with Canada under the SLA over its concern that the province of British Columbia has misapplied or altered its timber pricing rules and as a result has charged too low a price for certain timber harvested on public lands in the British Columbia interior. In August, 2011 the United States filed a detailed statement of claim with the arbitration panel. Canada delivered its initial response to the United States claim in November 2011. On January 29, 2012 the United States issued a revised statement of claim, which Canada has subsequently rebutted. A hearing before the arbitration panel is expected to take place in February 2012 with a final decision expected in late 2012.

15. Commitments and contingencies (continued)

It is not possible to predict the outcome of the claims, or whether they would potentially have any impact on Western since they are specifically directed at practices in the interior of British Columbia, where the Company has no operations.

(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 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) 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 3(p)) and has granted a first charge over the acquired assets (including a tree farm license with an allowable annual cut of 844,000 cubic metres, 4,771 hectares of private timberlands and other capital improvements and equipment) to secure certain of these obligations.

In addition, certain of the Company's long term fibre supply agreements with third parties have minimum volume requirements and may, in the case of a failure to produce the minimum volume, require the Company to conduct whole log chipping, source the deficiency from third parties at additional cost to the Company or pay the party to the fibre supply agreement a penalty calculated based on the provisions contained in the relevant agreement. Should Western take significant market related curtailments in its sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet its contractual obligations.

During 2011, the Company amended one of its long-term fibre supply agreements including the modification of minimum chip volume commitments such that a shortfall that existed for the 2010 annual commitments was eliminated. Consequently, Western has no remaining 2010 chip volume commitment shortfalls associated with its long term fibre supply agreements.

The Company has satisfied its annual fibre commitments for 2011.

15. Commitments and contingencies (continued)

(d) Operating leases

Future minimum lease payments at December 31, 2011 under operating leases were as follows:

2012	$ 5.9
2013	2.5
2014	2.4
2015	2.1
2016	1.5
Thereafter	5.9
	$ 20.3

(e) Allowable annual cut reductions

During 2011 the total allowable annual cut ("AAC") of the Company's Tree Farm Licence 44 was adjusted by the Province of British Columbia ("Province") from 942,248 m^3 to 800,000 m^3 as a result of two events, the Maa'nulth Treaty coming into effect on April 1, 2011 and completion of a periodic timber supply review by the Province's Chief Forester on May 5th, 2011. The Maa'nulth Treaty resulted in a TFL 44 temporary Part 13 AAC reduction of 88,700 m^3 being removed and a permanent reduction of 95,200 m^3 being put into place. This resulted in a net reduction of 6,500 m^3 from the AAC that was in place in 2011 and a reduction of 95,200 m^3 from the pre-Part 13 AAC. The Maa'nulth Treaty also resulted in the creation of a new Protected Area from within TFL 44 which permanently reduced the TFL AAC by another 8,800 m^3. Overall, Maa'nulth and Maa'nulth related changes resulted in the total TFL 44 AAC being reduced from 942,248 m^3 to 838,248 m^3. The subsequent provincial Chief Forester's determination on May 5th further reduced the total AAC by another 38,248 m^3 to 800,000 m^3. Of this total volume, 782,482 m^3 is held by Western and 17,518 m^3 by the Crown. Western intends to pursue mitigation or compensation from the Province for the temporary AAC reductions that have now been made permanent.

(f) 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 from the Province for the loss of 685,216 m^3 cubic meters of AAC and 827 hectares of timber licences. During 2010, the Company received an additional compensation payment from the Province for improvements not previously reimbursed of $5.2 million (2011: nil) (Note 21).

(g) Pension funding commitments

The Company is committed to making estimated annual special payments in relation to its salaried pension plans of $3.1 million for 2012 and $2.3 million for each of the following three years, or until such time as a new funding valuation may lead to a change in the amount of payments required.

16. Segmented information

The Company manages its business as a single operating segment, solid wood. The Company purchases and harvests logs which are then manufactured into lumber products at the Company's sawmills, or sold. Substantially all of the Company's operations are located in British Columbia, Canada.

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

	2011	2010
Canada	$ 369.1	$ 281.1
Japan	182.3	173.0
China	126.0	77.5
United States	92.1	70.9
Europe	38.1	32.1
Other	46.1	33.3
	$ 853.7	$ 667.9

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

17. Employee future benefits

The Company has several funded and unfunded defined benefit plans, a defined contribution pension plan and a group RRSP that provide retirement 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, and effective December 31, 2010 no further benefits accrue under these plans, and members became eligible to participate in the defined contribution plan. 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 to December 31, 2010, 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, 2011 were $13.6 million (2010: $10.5 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, 2010. The next actuarial valuation for both funded defined benefit plans will be prepared for December 31, 2013.

The Company's accounting policy under IFRSs as described in Note 3(m) is to recognize all actuarial gains and losses in other comprehensive income, whereas under Canadian generally accepted accounting principles ("Canadian GAAP"), the Company's accounting policy was such that 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 was amortized over the remaining service period of the active employees. The Company elected that at the date of transition all previously unrecognized cumulative actuarial gains and losses were recognized in retained earnings. This change required an additional liability to be recognized

17. Employee future benefits (continued)

on transition date of $0.2 million with a corresponding charge to the “Deficit” line in shareholders’ equity (this is explained more fully in Note 26 (v) (i)).

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

	Year ended December 31, 2011		Year ended December 31, 2010	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Plan assets:				
Fair value, beginning of year	$ 102.1	$ -	$ 98.3	$ -
Company contributions	3.5	0.4	2.3	0.5
Benefits paid	(8.1)	(0.4)	(8.5)	(0.5)
Actual return on assets	(0.5)	-	10.0	-
Fair value, end of year	$ 97.0	$ -	$ 102.1	$ -
Accrued benefit obligation:				
Balance, beginning of year	$ 115.8	$ 7.3	$ 105.1	$ 6.9
Current service cost	0.3	-	1.4	-
Benefits paid	(8.1)	(0.4)	(8.5)	(0.5)
Interest cost	6.0	0.4	6.4	0.4
Actuarial loss	4.2	0.3	11.4	0.5
Balance, end of year	$ 118.2	$ 7.6	$ 115.8	$ 7.3
Deficit recognized in Statement of Financial Position (Note 11)	$ (21.2)	$ (7.6)	$ (13.7)	$ (7.3)
Actuarial gains/(losses) recognized directly in OCI	$ (11.1)	$ (0.3)	$ (7.6)	$ (0.5)
Cumulative amounts of actuarial losses recognized at start of year	(7.6)	(0.5)	-	-
Cumulative amounts of actuarial losses recognized at end of year	$ (18.7)	$ (0.8)	$ (7.6)	$ (0.5)
Experience gains and (losses):				
Difference between actual and expected return on plan assets :				
- amount	$ (6.9)	n/a	$ 3.8	n/a
- % of plan assets	(7.1)%	n/a	3.7%	n/a
Experience gains on plan liabilities:				
- amount	$ 5.3	$ 0.1	$ -	$ 0.3
- % of plan liabilities	4.5%	0.8%	-	4.2%

Included in the above accrued benefit obligations and plan assets for salaried pension plans are accrued benefit obligations of $110.7 million (2010: $108.5 million) in respect of plans that are wholly or partly funded.

17. Employee future benefits (continued)

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

	December 31, 2011	December 31, 2010	January 1, 2010
Equity securities	59%	62%	62%
Debt securities	40%	37%	37%
Other	1%	1%	1%
	100%	100%	100%

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

	December 30, 2011	December 31, 2010	January 1, 2010
Discount rate at beginning of year for:			
Non-pension plans	5.30%	6.10%	7.30%
Pension plans	5.36%	6.24%	7.40%
Discount rate at end of year for:			
Non-pension plans	4.90%	5.30%	6.10%
Pension plans	4.97%	5.36%	6.24%
Expected long-term return on assets of pension plans	6.40%	6.50%	7.00%
Rate of compensation increase for all plans	3.38%	3.68%	3.50%
Health care cost trend rate	6.7% for 2012 grading to 4.5% in 2024	7.0% for 2011 grading to 4.5% in 2024	7.4% for 2010 grading to 4.5% in 2022

A reduction of 1% in the assumed health care cost trend rate assumption has the effect of reducing the accrued benefit obligation by $0.7 million and increase in the rate by 1% increases it by $0.9 million. The expected rate of return on plan assets is determined by taking into account the expected return on the assets based on the Company’s current investment policy.

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

	Year ended December 31, 2011		Year ended December 31, 2010	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Defined benefit plans:				
Current service cost	$ 0.3	$ -	$ 1.4	$ -
Interest cost	6.0	0.4	6.4	0.4
Expected return on plan assets	(6.3)	-	(6.2)	-
Total for defined benefit plans	-	0.4	1.6	0.4
Defined contribution plans	2.3	-	1.5	-
Net periodic pension expense	$ 2.3	$ 0.4	$ 3.1	$ 0.4

17. Employee future benefits (continued):

The Company expects to make funding contributions to its defined benefit plans of $3.1 million during 2012.

The Company's unionized employees are members of industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. As there is insufficient information available for the Company to account for these plans as defined benefit plans, the plans have been accounted for as defined contribution plans. The Company's liability is limited to its contributions. The pension expense for these plans is equal to the Company's contributions and for 2011 amounted to $7.3 million (2010: $6.2 million).

18. Financial instruments

(a) Accounting classifications and fair values

(i) Fair value hierarchy

The table below provides financial instruments carried at fair value, by valuation method. The levels of the fair value hierarchy are defined as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

	Total	Level 1	Level 2	Level 3
December 31, 2011				
Assets:				
Cash and cash equivalents	$ 15.3	$ 15.3	$ -	$ -
Investments	4.8	4.8	-	-
	$ 20.1	$ 20.1	$ -	$ -
Liabilities:				
Foreign currency forward contracts	$ 2.8	$ -	$ 2.8	$ -
	$ 2.8	$ -	$ 2.8	$ -
December 31, 2010				
Assets:				
Cash and cash equivalents	$ 5.1	$ 5.1	$ -	$ -
Investments	5.0	5.0	-	-
Foreign currency forward contracts	0.8	-	0.8	-
	$ 10.9	$ 10.1	$ 0.8	$ -
January 1, 2010				
Assets:				
Cash and cash equivalents	$ 8.1	$ 8.1	$ -	$ -
Investments	5.0	5.0	-	-
	$ 13.1	$ 13.1	$ -	$ -

18. Financial instruments (continued)

(ii) Fair value versus carrying value

The carrying value of trade and other receivables and accounts payable and accrued liabilities included in the consolidated statements of financial position approximate their fair value due to the short term to maturity of these instruments.

The carrying value of the long-term debt included in the consolidated statements of financial position approximates its fair value as the debt bears floating interest rates that approximate market rates. Furthermore, the Company has not experienced a significant change in its credit risk since initial recognition of the debt.

(b) Financial risk management

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. Currently, the Company is only engaged in foreign exchange forward contract activities.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet is contractual obligations and arises principally from the Company's receivable from customers. The carrying amount of the Company's trade and other receivables represents the maximum credit exposure.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, Management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The Company has determined that there is no concentration of credit risk either geographically or by counterparty.

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 most export sales are insured as to 90% of sales values 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, 2011, the Company had an allowance for doubtful customer accounts of $0.1 million

18. Financial instruments (continued)

(2010: $0.5 million). The aging of trade and other receivables at the reporting date that were not impaired was as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in millions of dollars)	Gross value	Impairment	Gross value	Impairment	Gross value	Impairment
Not past due	$ 50.7	$ -	$ 47.8	$ -	$ 30.8	$ -
Past due 0-30 days	10.1	-	9.7	-	7.2	-
Past due 31-120 days	3.6	-	1.2	-	1.7	-
More than 1 year	0.1	0.1	0.5	0.5	0.4	0.4
	$ 64.5	$ 0.1	$ 59.2	$ 0.5	$ 40.1	$ 0.4

The Company held cash and cash equivalents of $15.3 million at December 31, 2011 (2010: $5.1 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held at highly rated financial institutions and as such, the Company does not believe that these are exposed to significant credit risk.

(ii) Interest rate risk

The Company is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. Based on the Company's debt structure at December 31, 2011, a change of 1% in interest rates would have increased or decreased annual net income by approximately $0.7 million. The Company does not currently use derivative instruments to reduce its exposure to interest rate risk.

(iii) Currency risk

Certain of the Company's sales transactions are denominated in foreign currencies, principally, the US dollar and Japanese Yen ("JPY"), and accordingly the Company is exposed to currency risk associated with changes in foreign exchange rates. To assist in mitigating this exchange risk, the Company has entered into an agreement dated March 31, 2009 with Brookfield Asset Management ("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, 2012, 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 2011, the Company entered into contracts under the facility to sell US dollars and JPY forward in order to mitigate a portion of this foreign currency risk. At December 31, 2011, the Company had outstanding obligations to sell US$2.0 million at an exchange rate of CAD$1.033 per US dollar with a maturity date of January 31, 2012, and to sell an aggregate JPY 4,050 million at an average rate of JPY 79.47 per CAD dollar with maturities through September, 2012.

18. Financial instruments (continued)

All foreign currency gains and losses to December 31, 2011 have been recognized in sales in the consolidated statement of comprehensive income and the fair value of these instruments at December 31, 2011 was a net liability of $2.8 million which is included in accounts payable and accrued liabilities on the consolidated statement of financial position (December 31, 2010: net asset of $0.8 million included in accounts receivable). A net gain of $0.8 million (2010: $1.1 million) was recognized in sales in the consolidated statement of comprehensive income on the change in fair values of the foreign exchange contracts. An increase (decrease) of 1% in the value of the Canadian dollar as compared to the JPY would result in a gain (loss) of approximately $0.5 million in relation to the JPY foreign exchange forward contracts held at year end. An increase (decrease) of 1% in the value of the Canadian dollar as compared to the US dollar would have an immaterial impact on US dollar foreign exchange forward contracts held at year end.

Certain receivable balances at December 31, 2011 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, 2011, the Company's accounts receivable denominated in US dollars totaled $23.4 million. An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a decrease (increase) in US dollar denominated accounts receivable at year end of approximately $0.2 million. In addition, as at December 31, 2011, the Company had a total of $3.6 million in US dollar denominated cash and cash equivalents. An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in an immaterial change to US dollar denominated cash and cash equivalents at year end.

(iv) Commodity price risk

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements and such contracts are not settled net.

(v) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Management mitigates any liquidity risk associated with the subsequent payment of liabilities through the continual monitoring of expenditures and forecasting of liquidity resources. The Company maintains a revolving credit facility that can be drawn down to meet short-term financing and liquidity needs.

As at December 31, 2011, the Company has $96.8 million (2010: $75.5 million) available under its credit facility and revolving term loan. The following are the contractual maturities of financial liabilities, including estimated interest payments:

		Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Accounts payable and accrued liabilities	$	66.7	66.7	66.7	-	-	-	-
Revolving term loan		58.5	63.3	1.7	1.7	60.8	-	-
Revolving credit facility		8.9	10.2	0.1	0.2	0.3	9.5	-
	$	134.1	140.2	68.5	1.9	61.1	9.5	-

19. Operating restructuring items

Operating restructuring items for 2011 of $0.7 million (2010: $1.6 million) primarily relate to severance costs associated with restructuring of administrative functions. In 2010, the restructuring costs related to severance obligations incurred as a result of reorganizing the Company's Japanese sales operation, the closures of our Mid-Island remanufacturing operation and Andy's Bay logging facility and the re-organization of our Ladysmith sawmill.

20. Finance Costs

	Year ended December 31,	
	2011	2010
Revolving credit facility	$ 1.3	$ 0.9
Long-term debt	4.2	8.7
Amortization of deferred financing costs	0.9	2.8
Accretion	0.4	0.5
Other	(0.2)	-
	$ 6.6	$ 12.9

21. Other income (expenses)

Other expenses of $2.8 million in 2011 comprise: a gain on the sale of an equity interest in certain real estate properties of $2.4 million (Note 23); an expense incurred of $2.5 million to secure amendments to the terms of certain contractual arrangements; and losses on non-core asset sales of $2.7 million. The expense of $2.5 million incurred to secure amendments to certain existing contractual arrangements is payable in 14 equal quarterly installments which commenced March 31, 2011. The most significant non-core asset sale in the year was the sale to TimberWest Forest Corp. of 7,678 hectares of land located in the southern portion of Vancouver Island near Jordan River for gross proceeds of $21.9 million.

Other income of $16.7 million received in 2010 included the following significant items: a net gain of $8.9 million related to the establishment of a jointly-owned entity in October 2009, with Brookfield Properties Limited ("BPL"), a company related to BAM (Note 23); and a further receipt of $5.2 million from the Province of British Columbia relating to reimbursement of costs incurred by Western with respect to Bill 28 timber take-back areas (Note 15 (f)).

The most significant non-core asset sale in 2010 was the sale of land located in the southern part of Vancouver Island for proceeds of $14.3 million to the Capital Regional District of Victoria, British Columbia, which closed in August 2010. As part of this transaction the Company also agreed to sell a further two parcels of land for proceeds of $4.5 million which, as a condition of sale, require the Company to secure a Certificate of Compliance on an environmental remediation project under way. The Company has until August 15, 2012 to secure that certificate, and until the certification is obtained this element of the sale will not be recorded. At December 31, 2011, $13.0 million of the proceeds had been received with a further $5.8 million due on, or before, August 15, 2012, depending on when the aforementioned certification is obtained.

22. 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.

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

	For the year ending December 31	
	2011	2010
Net loss from discontinued operations	$ (1.1)	$ (1.5)
Cash used in discontinued operations	$ (1.1)	$ (1.5)

	December 30, 2011	December 31, 2010	January 1, 2010
Assets of discontinued operations	$ 2.3	$ 2.3	$ 2.2
Liabilities of discontinued operations	$ 6.2	$ 6.2	$ 6.1

23. Related parties

(a) Related party transactions

BSSML controls and directs 49% of the Company's Common Shares and 100% of the Non-Voting Shares. BSSML is a wholly owned subsidiary of BAM.

In addition to the related party transactions identified elsewhere in these consolidated financial statements, the Company has certain arrangements with entities related to BSSML and 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:

	Year ended December 31,	
Costs incurred for:	2011	2010
Log purchases	$ 13.5	$ 8.1
Other	4.7	4.8
	$ 18.2	$ 12.9
Income received for:		
Log sales	$ 5.4	$ 3.3
Other	2.4	9.4
	$ 7.8	$ 12.7

In October 2009, the Company 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 ofthe Company and BPL, 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

23. Related parties (continued)

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 cash proceeds of $12.4 million, $3.0 million in October 2009 and the balance of $9.4 million on January 4, 2010. As part of the arrangements, WFPFPL had 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 held less than 5% of the equity of WFPFPL. On January 4, 2011, the Company exercised the option to sell its equity interest in WFPFPL for its fair market value. Western received $2.4 million as consideration for the sale of its interest, and the right of first offer was extinguished. BPL is the manager of WFPFPL, which also holds Brookfield Residential Properties Inc. (formerly known as Carma Developers LP), which carries on a land development business across Western Canada. Because BPL is a related party of BSSML, which is Western's largest shareholder, the transactions constitute related party transactions.

At December 31, 2011, $1.7 million of the costs incurred with related parties for the year then ended were included in accounts payable and accrued liabilities (2010: $0.1 million)

(b) Compensation of key management personnel

The key management personnel of the Company include the executive management team and members of the Board of Directors. Key management personnel compensation comprised:

	Year ended December 31,	
	2011	2010
Salaries and directors' fees	$ 2.2	$ 1.6
Post-employment benefits	0.2	0.2
Share-based payments	0.7	0.7
	$ 3.1	$ 2.5

At December 31, 2011, $0.5 million of the key management compensation costs incurred for the year then ended were included in accounts payable and accrued liabilities (2010: $0.2 million)

24. Non-current assets held for sale

The assets and liabilities related to Tree Farm License 60 ("TFL 60") have been presented as a disposal group held for sale following the Company reaching an agreement on October 11, 2011 to sell TFL 60 to Taan Forest Limited Partnership ("Taan"). Taan is a partnership of the Council of the Haida Nation and Haida Enterprise Corporation, the business arm of the Haida Nation. Under the terms of the sale, Western is to receive net proceeds of approximately $11.6 million and certain ongoing rights to cedar logs harvested by Taan. Taan will assume substantially all of the obligations of Western on Haida Gwaii. An impairment loss of $1.7 million on the re-measurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell has been recognized other income (expenses) in the consolidated statement of comprehensive income (see Note 21). The major classes of assets and liabilities classified as held for sale

24. Non-current assets held for sale (continued)

comprise property plant and equipment ($1.9 million), intangible assets ($9.6 million), and silviculture liabilities ($1.4 million).

25. Expense categorization

Expenses by function:

	Year ended December 31,	
	2011	2010
Administration	$ 16.8	$ 14.8
Distribution expenses	107.1	80.0
Cost of goods sold	694.6	551.3
	$ 818.5	$ 646.0

The following information is required to facilitate a complete “costs by nature” presentation:

	Year ended December 31,	
	2011	2010
Compensation costs	$ 181.7	$ 157.5
Amortization in cost of goods sold	22.7	22.0
Amortization in selling and administration	1.3	1.5
	$ 205.7	$ 181.0

26. Transition to IFRSs

As stated in Note 2(a), these are the Company’s first annual consolidated financial statements prepared in accordance with IFRSs. The accounting policies as described in Note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of the opening IFRS statement of financial position at January 1, 2010 (the Company’s date of transition).

(a) Application of IFRS 1 First-time Adoption of IFRS

In preparing these annual financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRSs.

Western has elected to apply the following optional exemptions in accordance with IFRS 1:

(i) Business combinations exemption

Western has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the January 1, 2010 transition date.

(ii) Fair value as deemed cost exemption

Western has elected to measure certain items of property, plant and equipment at fair value as deemed cost as at January 1, 2010.

26. Transition to IFRSs (continued)

(iii) Employee benefits exemption

Western has elected to recognize all cumulative unrecognized actuarial gains and losses that existed as at January 1, 2010 in retained earnings for all its employee benefit plans.

(iv) Share-based payment transactions

Western has elected not to re-measure equity awards granted after November 7, 2002 that vested prior to the date of transition and liabilities for cash-settled awards that were settled prior to the date of transition.

(v) Arrangements containing a lease

Western has elected not to re-assess arrangements existing at the date of transition, based on the facts and circumstances at that date, in accordance with IFRIC 4.

The remaining IFRS 1 voluntary exemptions either have not or do not apply to the Company at the date of transition to IFRS on January 1, 2010.

Western has applied the following mandatory exceptions from retrospective application.

(i) Estimates exception

Estimates under IFRS at January 1, 2010 are consistent with estimates made for the same date under Canadian GAAP.

(ii) Assets held for sale and discontinued operations exception

Management has applied IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations,* prospectively from January 1, 2010. Any assets held for sale or discontinued operations are recognized in accordance with IFRS 5 only from January 1, 2010. No adjustment at January 1, 2010 was required as Western did not have any assets that met the held-for-sale criteria at the transition date.

(b) Reconciliations between IFRS and Canadian GAAP

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

26. Transition to IFRSs (continued)

Explanation of transition adjustments

(i) Reconciliation of equity:

		January 1, 2010			December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets							
Current assets:							
Cash and cash equivalents		$ 8.1	$ -	$ 8.1	$ 5.1	$ -	$ 5.1
Trade and other receivables		39.7	-	39.7	58.7	-	58.7
Inventory	f	105.2	-	105.2	128.9	0.7	129.6
Prepaid expenses and other assets		3.8	-	3.8	4.8	-	4.8
		156.8	-	156.8	197.5	0.7	198.2
Non-current assets:							
Property, plant and equipment	a,b,c,d,k	405.9	(175.9)	230.0	375.8	(170.4)	205.4
Intangible assets	a,g	-	117.5	117.5	-	132.8	132.8
Biological assets	a,e,k	-	85.7	85.7	-	77.7	77.7
Other assets		10.9	-	10.9	13.8	-	13.8
		$ 573.6	$ 27.3	$ 600.9	$ 587.1	$ 40.8	$ 627.9
Liabilities							
Current liabilities:							
Revolving credit facility		$ 15.3	$ -	$ 15.3	$ -	$ -	$ -
Accounts payable and accrued liabilities	h	55.2	(10.3)	44.9	73.0	(11.4)	61.6
Silviculture provision	h	-	10.3	10.3	-	11.5	11.5
Current portion of long-term debt		45.2	-	45.2	-	-	-
Discontinued operations		6.1	-	6.1	6.2	-	6.2
		121.8	-	121.8	79.2	0.1	79.3
Non-current liabilities:							
Long-term debt		74.5	-	74.5	104.9	-	104.9
Silviculture provision	h	-	15.7	15.7	-	15.8	15.8
Other liabilities	h,i	29.8	(14.2)	15.6	29.5	(6.2)	23.3
Deferred revenue		72.4	-	72.4	70.4	-	70.4
		298.5	1.5	300.0	284.0	9.7	293.7
Shareholders' equity:							
Share capital		599.8	-	599.8	599.8	-	599.8
Contributed surplus	j	2.5	0.2	2.7	2.8	0.2	3.0
Revaluation reserve	b	-	23.9	23.9	-	23.9	23.9
Deficit		(327.2)	1.7	(325.5)	(299.5)	7.0	(292.5)
		275.1	25.8	300.9	303.1	31.1	334.2
		$ 573.6	$ 27.3	$ 600.9	$ 587.1	$ 40.8	$ 627.9

26. Transition to IFRSs (continued)

(ii) Reconciliation of comprehensive income for the periods:

(Expressed in millions of Canadian dollars) (Unaudited)	Note	Year ended December 31, 2010 Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue		$ 667.9	$ -	$ 667.9
Cost and expenses:				
Cost of goods sold				
Cost of sales	e,f,h	525.6	2.3	527.9
Impairments (recoveries)		-	(18.5)	(18.5)
Amortization	d,g	28.8	(5.4)	23.4
		554.4	(21.6)	532.8
Export tax		3.9	-	3.9
Freight		66.2	-	66.2
Selling and adminstration	i	24.5	0.1	24.6
		649.0	(21.5)	627.5
		18.9	21.5	40.4
Operating restructuring items		(1.6)	-	(1.6)
Other income (expenses)	k	24.3	(7.6)	16.7
Operating income		41.6	13.9	55.5
Finance costs	h	(12.4)	(0.5)	(12.9)
Net income before income taxes		29.2	13.4	42.6
Income tax expense		-	-	-
Net income from continuing operations		29.2	13.4	42.6
Net loss from discontinued operations		(1.5)	-	(1.5)
Net income for the period		27.7	13.4	41.1
Other comprehensive income (loss)				
Defined benefit plan actuarial gains (losses)	i	-	(8.1)	(8.1)
Total comprehensive income for the period		$ 27.7	$ 5.3	$ 33.0

(iii) Reconciliation of Property, Plant and Equipment

		January 1, 2010
Property, plant and equipment, Canadian GAAP		$ 405.9
Biological and intangible assets - reclassification	a	(184.9)
Land - fair value	b	23.9
Logging roads - deemed cost	c	0.9
Buildings & equipment - deemed cost	c	0.7
Buildings & equipment - deemed cost	d	(16.5)
Property, plant and equipment, IFRS		$ 230.0

26. Transition to IFRSs (continued)

(iv) Material adjustments to the Statements of Cash Flows

None of the Company's IFRS transitional adjustments directly impact the cash and cash equivalents balance and result only in adjustments within the cash flow presentation itself. The adjustments required to the statement of cash flows under IFRS arise due to relatively minor income adjustments, primarily a reduction to amortization, which resulted in a corresponding non-cash add-back adjustment. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

(v) Notes

a. Under IFRSs, the "Property, plant and equipment" line item was reduced by $16.2 million, as at January 1, 2010, as a result of re-classifying the Company's standing timber on its private timberlands, which is considered to be a biological asset under IFRSs, to a separate line item, titled "Biological assets" (Note e). In addition, the Canadian GAAP net book value of crown timber tenures of $168.7 million as at January 1, 2010 was re-classified from the "Property, plant and equipment" line item to a separate line item, titled "Intangible assets" (Note g).

b. "Property, plant and equipment" was also impacted by the Company's policy choice of electing to use the revaluation model to fair value its land assets both at transition date and prospectively at each reporting date under IFRSs, as compared to a historical cost basis of measurement under Canadian GAAP. As at January 1, 2010, the increase that resulted from this election was $23.9 million with a corresponding credit to the revaluation reserve, a component of shareholders' equity.

c. Western adopted the transitional optional exemption of valuing certain items of its "Property, plant and equipment", primarily roads and bridges, at fair value at transition date, which is then considered to be the deemed cost of those assets prospectively. The net impact of this was an increase to the Canadian GAAP net book value of these assets by $1.6 million, as at January 1, 2010.

d. Western adopted the same transitional option exemption at transition date for its sawmill buildings and equipment, which are categorized within "Property, plant and equipment". The key assumptions used in this fair value calculation are discussed in Note 5(c). as a result of this assessment the fair value of the sawmill buildings and equipment were determined to be $16.5 million less than the Canadian GAAP net book value and this reduced amount was considered to be the deemed cost of these assets prospectively, with a corresponding reduction to retained earnings. Depreciation expense associated with sawmill buildings and equipment under IFRS was reduced by $3.8 million when compared to that recognized under Canadian GAAP for the year ended December 31, 2010, as a result of the reduced net book value of sawmill buildings and equipment as at January 1, 2010.

e. This adjustment reflects the separation of the Company's standing timber on its private timberlands, which is considered to be a biological asset under IFRSs, which was previously included in the line item "Property, plant and equipment" under Canadian GAAP. The net book value of the standing timber reported under Canadian GAAP of $16.2 million, which was measured at historical cost, was reclassified into "Biological assets", and was subsequently valued at fair value less costs to sell of

26. Transition to IFRSs (continued)

$85.7 million on transition to IFRSs. The increase of $69.5 million was credited to “Deficit” in shareholders’ equity as at January 1, 2010. The key assumptions used in this valuation are discussed in Note 6. The adjustments to “Biological assets” as at December 31, 2010 reflect this initial adjustment on transition plus the effects of any asset sales and any further adjustments to the fair value less costs to sell including those resulting from timber growth and harvest over the subsequent twelve month period. These changes to fair value less costs to sell for the Company’s biological assets of $3.3 million (expense) for year ended December 31, 2010 have been reflected in “cost of sales” in net income (loss) for the period.

f. As a result of the Company’s standing timber on private timberlands being considered a biological asset in accordance with IAS 41, *Agriculture*, the logs harvested from these private timberlands are considered to be agriculture produce that are measured at fair value less costs to sell at the point of harvest, which becomes the deemed cost for the purpose of subsequent accounting under IAS 2, *Inventories*. As a result, an adjustment was required to be made to log and lumber inventory values as reported under Canadian GAAP at December 31, 2010 of $0.7 million, to reflect this guidance under IAS 41 for logs in inventory and harvested from private timberlands.

g. The adjustment to "Intangible assets" of $117.5 million on transition reflects the re-classification of the Canadian GAAP net book value for the Company’s crown timber tenures from “Property, plant and equipment” of $168.7 million to “Intangible assets”, combined with an impairment charge on transition date as a result of applying IAS 36 *Impairments*, of $51.2 million. Under Canadian GAAP, the recoverable amount of these assets was calculated on an undiscounted basis. Under IFRSs, the recoverable amount of the CGU was estimated based on its value in use, which requires estimated future cash flows to be discounted. The key assumptions used in this value in use assessment are discussed in Note 5. Amortization expense associated with the crown timber tenures under IFRS was reduced by $1.6 million when compared to that recognized under Canadian GAAP, for the year ended December 31, 2010 as a result of the reduced net book value of crown timber tenures as at January 1 2010.

h. Under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, there are measurement differences when compared to Canadian GAAP. For the Company’s silviculture provision, these measurement differences under IFRSs relate to the cash flows being discounted using a risk free rate rather than the Company’s credit adjusted risk free rate as prescribed under Canadian GAAP. As a result of this measurement difference, the short term and long term components of the silviculture provision were increased by $0.1 million and $1.3 million, respectively, with a corresponding charge to the “Deficit” line in shareholders’ equity as at January 1, 2010. In addition, the silviculture provision has been separately disclosed on the statement of financial position on transition to IFRSs, which resulted in $10.2 million and $14.4 million reduction in “Accounts payable and accrued liabilities” and “Other liabilities”, respectively, as a result of this re-classification, when compared to Canadian GAAP. On the statement of comprehensive income, the unwinding of the discount associated with the silviculture provision under IFRSs of $0.5 million for the year ended December 31, 2010 has been recognized within finance costs rather than within cost of goods sold as under Canadian GAAP.

26. Transition to IFRSs (continued)

i. An adjustment was made to "Other liabilities" to account for the different methodologies under IFRSs compared to Canadian GAAP for calculating the liability associated with employee post-retirement benefits. Under IFRSs, the Company's accounting policy is to recognize all actuarial gains and losses in other comprehensive income. Under Canadian GAAP, the Company's accounting policy was such that 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 was amortized over the remaining service period of the active employees. In addition, the Company has elected that at the date of transition all previously unrecognized cumulative actuarial gains and losses were recognized in retained earnings. This change required an additional liability to be recognized on transition date of $0.2 million with a corresponding charge to the "Deficit" line in shareholders' equity. Similar re-calculations were made in the year ended December 31, 2010 resulting in additional adjustments to the employee post-retirement benefits obligation of $8.1 million. These adjustments are reflected on the statement of comprehensive income in line item "Other comprehensive income."

j. Under Canadian GAAP, Western recognized the fair value of the share-based payment awards, 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. An adjustment was made to "Contributed surplus" to account for the different calculations to be applied under IFRSs compared to Canadian GAAP for calculating the cost of share-based payment awards. This change required an increase to "Contributed surplus" to be recognized on transition date of $0.2 million with a corresponding charge to the "Deficit" line in shareholders' equity.

k. The adjustment to "Other income (expenses)" of $7.6 million for the year ended December 31, 2010 relates to the differences between the calculated gains or losses on asset sales under IFRSs when compared to Canadian GAAP. These differences result from fair value adjustments to the Canadian GAAP net book values for land, biological assets and certain items of property, plant and equipment as a result of Management's accounting policy elections or requirements under IFRSs as outlined under Notes b., c. and e. above.

27. Seasonality of Operating Results

Quarterly trends normally reflect the seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season woods closures. Generally, the Company's B.C. Coastal logging divisions experience higher production levels in the latter half of the first quarter, throughout the second quarter, dependent on fire hazard in the third quarter, and in the first half of the fourth quarter. Sawmill operations are less seasonal than logging operations but are dependent on the availability of logs from logging operations, including those from suppliers. In addition, the market demand for lumber and related products is generally lower in the winter due to reduced construction activity, which increases during the spring, summer and fall.

28. Subsequent event

Western has a material agreement to supply fibre (chips, pulplogs, sawdust and hog fuel) to Catalyst Paper Corporation (“Catalyst”). On January 31, 2012, Catalyst announced that it had obtained an Initial Order from the Supreme Court of British Columbia under the Companies' Creditors Arrangement Act to facilitate an orderly restructuring of its business and operations. The terms and conditions of the restructuring plan have not yet been determined. Catalyst has indicated that the operations of Catalyst and its subsidiaries are intended to continue as usual, and obligations to suppliers during the restructuring process are expected to be met in the ordinary course. The outcome of Catalyst’s financial situation and any potential resulting impact on its agreement with Western is not determinable at this point.

Western Forest Products Inc.

Suite 510-700 West Georgia Street
TD Tower: PO BOX 10032
Vancouver, B.C., Canada
V7Y 1A1
(604) 665–6200

www.westernforest.com
info@westernforest.com

Trading on the TSX as “WEF”