Western Forest Products Inc.

2014 Annual Report

Financial Highlights

(millions of Canadian dollars except ratios, per share and share amounts)	Year ended December 31, 2014	2013	2012
Revenue	1,036.9	977.5	925.4
Net income	68.4	125.4	28.2
Cash flow from operating activities	87.4	110.7	57.7
Basic net income per share	$ 0.17	$ 0.29	$ 0.06
Diluted net income per share	$ 0.17	$ 0.28	$ 0.06
Adjusted EBITDA (1)	108.5	128.8	51.0
Adjusted EBITDA margin	10.5%	13.2%	5.5%
Weighted average shares outstanding - Basic ('000's)	392,267	438,547	467,945
Weighted average shares outstanding - Diluted ('000's)	396,892	443,254	470,459
Working capital	121.3	124.5	120.0
Total assets	694.2	670.5	606.3
Net debt (2)	77.9	82.9	15.0
Net debt to capitalization (3)	0.16	0.18	0.04
Total liquidity (4)	134.4	125.9	185.1

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

Western Forest Products Inc.

Letter to Shareholders

To Our Shareholders,

In 2014, Western achieved record annual revenue and increased lumber production while maintaining our industry-leading safety performance.

Lumber and log sales increased in 2014 as we continued to grow our business to meet market demand and provide value to our shareholders. As the year progressed we were challenged by weaker export markets; however, our flexible operating platform enabled us to successfully shift production to Western Red Cedar and Niche products. Western's ability to adapt to the changing market conditions and deliver high-quality products to our customers generated $108.5 million in adjusted EBITDA in 2014. Sales surpassed $1 billion in 2014 – a first for our Company – and we distributed more than $31 million in dividends to our shareholders, reduced our outstanding debt, and increased our liquidity by 6% year-over-year.

During the year, Western implemented various optimization initiatives including the consolidation of our northern Vancouver Island timberlands operations, our Nanaimo-area manufacturing operations and our Japan sales offices. These measures were taken to drive greater efficiency, reduce the overall cost structure and improve future operating results.

Western's 2014 financial highlights include:

- Growing annual revenue to exceed $1 billion, a 6% increase from the prior year
- Amending and extending our Term Loan through 2019, reducing the effective interest rate
- Investing a further $18 million in strategic capital projects
- Maintaining robust liquidity of $134.4 million

In addition, Western realized several operational achievements in 2014 including:

- Achieving a Medical Incident Rate of 1.26, the lowest in Western's history and the lowest among large B.C. forestry companies
- Increasing lumber production volume by 3% from the prior year to 908 million board feet
- Increasing sawlog purchase volume to 1,230,000 m^3, a 27% increase from the prior year

In other developments, I am pleased to announce the appointment of Michael Waites and Barrie Shineton to Western's Board of Directors. Mr. Waites and Mr. Shineton join Western's Board following the resignation of Pierre McNeil and Peter Gordon, representatives of Brookfield Special Situations Management Limited who resigned in the fourth quarter of 2014 subsequent to Brookfield fully exiting its shareholdings in Western. In addition John Newman, who joined Western's Board in 2004, also resigned from the Board at the end of the fourth quarter of 2014. I thank Mr. McNeil, Mr. Gordon, and Mr. Newman for their outstanding contributions to our Company. Both Mr. Waites and Mr. Shineton are highly respected business leaders with considerable experience serving as senior executives and directors in the resource industry. They will provide Western with valuable guidance and insight as we continue to expand our margin-focused, sustainable and globally competitive company.

Looking forward, strength in the U.S. repair and renovation market, a gradual recovery of U.S. new home construction and continued growth in lumber consumption in China support our positive long-term outlook for lumber prices and sales volumes. In the near term, we expect the normal seasonal increase in lumber demand in North America to support pricing. We anticipate wood product demand in China to remain steady at current levels and as inventories decline we expect to see imports from Canada rebound. In Japan we believe the housing market has stabilized which should support improved demand and pricing in the spring.

The domestic log market is expected to remain strong, driven by tight coastal log supply. Export log prices will remain flat until inventory levels in China are reduced.

We anticipate realizing some of the benefit of the weaker Canadian dollar, relative the U.S. dollar, on our U.S. denominated sales.

We will continue to grow our business through ongoing strategic capital investments. In the second half of 2014, we successfully completed our $2.5 million Cowichan Bay sawmill auto log rotation project. The $6.7 million second phase of our Duke Point sawmill modernization is underway and will be fully operational in the first half of 2015. At our Saltair sawmill, our $11 million log in-feed modernization project will be implemented in two phases. In late 2014, the first $4 million installation was completed, and $4.6 million was incurred towards the merchandiser installation. This second phase will be completed in the third quarter of 2015 to ensure the sawmill is operational through the peak demand period of 2015.

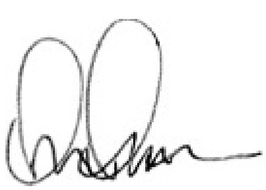
I am also pleased to announce that our Board has approved a further investment in our operations. A $5.1 million upgrade to the planer facility at our Duke Point sawmill is scheduled to be completed in the third quarter of 2015. The planer project is a first step in the modernization of our processing facilities. The Duke Point planer will focus on the production of specialty products and is consistent with our strategy to consolidate production, increase efficiency and deliver lower costs. We continue to work on additional plans that will position Western as a top-quartile producer in our targeted product lines.

Western led the industry in safety again in 2014. Our Timberlands and Manufacturing operations continue to perform at a world-class level, and employee safety will remain a top priority for Western during 2015.

We are committed to delivering strong financial results and long-term shareholder value through the implementation of our strategic plan. A component of this plan is to re-evaluate our assets and to monetize those assets that are non-core to our business. Consistent with this strategy, we successfully completed the sale of our former Squamish pulp mill site for proceeds of $21.8 million, in early February of 2015. This transaction further strengthens our strong balance sheet and enables us to continue to pursue our capital investment strategy, which is designed to improve our cost structure and deliver higher volumes and improved margins.

I would like to take this opportunity to thank our shareholders, customers, employees and the communities where we work for their continued support of Western Forest Products.

Sincerely,



Don Demens
President and CEO

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the year ended December 31, 2014 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 management's discussion and analysis, for the year ended December 31, 2014 (the "2014 Annual Report"), which can be found on SEDAR at www.sedar.com.

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.

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

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

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

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 the 2014 Annual Report. All written and oral forward-looking statements or information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, Western does not expect to update forward-looking statements or information as conditions change.

Unless otherwise noted, the information in this discussion and analysis is updated to February 17, 2015. Certain prior period comparative figures have been reclassified to conform to the current period's presentation. All financial references are in millions of Canadian dollars unless otherwise noted.

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

[2] Adjusted EBITDA as a proportion of Revenue

Overview

Western reported adjusted EBITDA[3] of $108.5 million in 2014, in comparison to $128.8 million in 2013. Annual revenue in 2014 grew 6% to a record $1,036.9 million compared to $977.5 million earned in 2013. Increased lumber sales volumes and positive lumber sales mix, the benefit of a weaker Canadian dollar ("CAD") relative to the US dollar ("USD"), and a strong domestic log market all contributed to this result.

In our operations, our timberlands harvest decreased 5% in 2014 from the previous year due primarily to dry-weather conditions in the third quarter of 2014. Our success in purchasing logs and standing timber in the open market largely offset our reduced harvest volume. This enabled us to achieve a 3% increase in lumber production, as compared to 2013. Lumber production in 2014 was the highest annual lumber production volume for the Company in the last eight years. The increased production in 2014, in part, allowed us to meet the strong demand for our Western Red Cedar ("WRC") lumber products.

Weakening markets in China and Japan in the second half of 2014 impacted pricing for logs and lumber, and led to our reduced 2014 adjusted EBITDA margin, in comparison to 2013. Increased labour costs, as a result of a new labour agreement, higher stumpage, and harvesting in higher cost timberlands operations also contributed to the year-over-year reduction in adjusted EBITDA.

During the year, Western implemented various optimization initiatives including combining our northern Vancouver Island timberlands operations; consolidating our Nanaimo-area manufacturing operations; and downsizing our Japan sales offices, including the closure of our Osaka office. We expect these structural changes will improve our operating results and lead to reduced administrative costs.

Net income of $68.4 million in 2014 decreased from $125.4 million in 2013, primarily due to a deferred income tax recovery of $26.5 million in 2013, lower adjusted EBITDA in 2014 and an incremental $10.1 million in restructuring charges in 2014.

We continued our quarterly dividend program in 2014 and distributed regular cash dividends of $0.02 per common share for each of the quarters ended March 31, 2014, June 30, 2014, September 30, 2014 and December 31, 2014. An aggregate of $31.4 million in dividends was returned to shareholders in 2014.

In August 2014, we amended our revolving term loan facility, which resulted in a reduced effective interest rate and extended the term to maturity through to June 2019. Our liquidity position at December 31, 2014 has improved to $134.4 million, compared to $125.9 million at the end of 2013. The increased liquidity in 2014 has primarily resulted from cash generated by operations.

Subsequent to year-end, on February 6, 2015, we completed the sale of our former pulp mill site and related assets in Squamish, B.C. at a purchase price of $21.8 million. Proceeds of the sale will be used to pay down outstanding debt. We intend to use the resulting increase in liquidity to further our strategic capital plans.

In January 2014 and September 2014, Brookfield Special Situations Management Limited ("BSSML"), our former majority shareholder and indirect wholly owned subsidiary of Brookfield Asset Management Inc. ("BAM"), completed secondary offerings, in which BSSML sold their remaining common shares of Western. Additionally, pursuant to BSSML's October 2013 secondary offering, warrants were issued that expired on July 31, 2014, and up to that date BSSML delivered Western common shares on exercise of these outstanding Western warrants. On completion of these secondary offerings and the exercise of warrants, approximately 49% of our outstanding common shares previously held by BSSML in 2014 changed ownership and Western became a widely held company.

Following the secondary offerings, on November 30, 2014, the remaining Brookfield representatives on our Board of Directors ("Board"), Peter Gordon and Pierre McNeil, resigned their positions. Similarly, on December 30, 2014, long-serving director John Newman resigned from the Board. In their place, we have welcomed Mike Waites and Barrie Shineton to the Board.

[3] Adjusted EBITDA is a non-GAAP measure previously defined above and reconciled to Net Income in Appendix A.

Selected Annual Information [1]

(millions of dollars except per share amount)	Year ended December 31, 2014	2013	2012
Revenue	$ 1,036.9	$ 977.5	$ 925.4
Adjusted EBITDA	108.5	128.8	51.0
Adjusted EBITDA margin	10.5%	13.2%	5.5%
Operating income prior to restructuring items and other income	80.3	105.5	37.7
Net income from continuing operations	68.4	125.9	29.3
Net income for the period	68.4	125.4	28.2
Basic earnings per share (in dollars)	$ 0.17	$ 0.29	$ 0.06
Diluted earnings per share (in dollars)	$ 0.17	$ 0.28	$ 0.06
Total Assets	$ 694.2	$ 670.5	$ 606.3
Net Debt [2]	$ 77.9	$ 82.9	$ 15.0

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

Operating Results

(millions of dollars)	Year ended December 31, 2014	2013
Revenues		
Lumber	$ 729.0	$ 677.2
Logs	244.2	243.8
By-products	63.7	56.5
Total revenues	1,036.9	977.5
Adjusted EBITDA	108.5	128.8
Adjusted EBITDA margin	10.5%	13.2%

Adjusted EBITDA[3] for 2014 was $108.5 million on record annual revenue of $1,036.9 million, compared to $128.8 million adjusted EBITDA on revenue of $977.5 million in 2013. The decrease in adjusted EBITDA relates primarily to challenges faced in the second half of 2014, including weakening markets in China and Japan, reduced log availability, and increased log costs. Partially offsetting these factors and leading to record revenue in 2014, were the continued strong demand for our WRC products and our flexible manufacturing platform, which allowed us to shift production from Japan lumber programs to Niche programs. Additionally, revenue was positively impacted by a weaker CAD, which was, on average, 7% lower during 2014.

Lumber revenue in 2014 was $729.0 million, 8% higher than in 2013, primarily due to an improved mix of lumber products sold in 2014 and the impact of foreign exchange, as mentioned above. Our average realized price for lumber during 2014 increased by $46 per thousand board feet, or 6%, over 2013 prices. Increased pricing was driven by demand for WRC and Niche lumber, for which 2014 average realized prices increased 15% and 13% from 2013 prices, respectively.

Also contributing to an increase in lumber revenue in 2014 was a 2% increase in lumber sales volume, which rose to 909 million board feet. Our 2014 shipments rose 9% for WRC lumber, 7% for Niche, and 4% for commodity lumber, as compared to volumes sold in 2013. Increased WRC and Niche shipments were the result of continued growth in demand from a strong North American repair and renovation market. Increased commodity shipments in 2014 as compared to 2013 helped to offset a decrease in commodity pricing over that same period resulting from a slower than anticipated recovery of the U.S. new home construction market and a weak China lumber market in the second half of 2014.

[3] Adjusted EBITDA is a non-GAAP measure previously defined above and reconciled to Net Income in Appendix A.

Log revenue increased marginally from $243.8 million in 2013 to $244.2 million in 2014. As compared to 2013, average realized log prices increased in 2014 by 7% and peaked in the second quarter of 2014. Strong export log pricing in the first half of 2014 was offset by a decline in the log sales volume and pricing in the latter half of 2014 resulting from a weakening export log market.

Sales of by-products in 2014 were $63.7 million, or $7.2 million higher than in 2013, due to an increase in average chip prices and an increase in volume of chips sold in 2014. Realized average chip prices were 12% higher, compared to 2013, which reflected a weaker CAD and an increase of approximately 4% in 2014 for northern bleached softwood kraft prices, to which chip prices are tied. Our volume of chips sold increased by 3% in line with increased production of lumber of 3% in 2014.

Lumber production increased to 908 million board feet in 2014 from 884 million board feet in 2013. We grew our 2014 lumber production by running slightly more shifts as compared to 2013. Increased shipments were achieved despite downtime at our sawmills due to our decision to close all our mills for three business days following the tragic shooting at our Nanaimo sawmill in April 2014; capital installations at our Cowichan Bay and Saltair sawmills; the permanent closure of our Nanaimo sawmill; and the temporary curtailment of our Ladysmith sawmill due to weak China market conditions. We continued to run a broad species and quality mix in our mills in 2014 to reduce supply driven mill curtailments, while increasing primary mill productivity by 2% and maintaining recovery results achieved in 2013.

The total log harvest for 2014 was 5.1 million cubic metres, a decrease of 5% from our 2013 harvest level of 5.4 million cubic metres, but this was offset by increased sawlog purchase volume of 0.3 million cubic metres over the same period. The primary driver for our reduced harvest volume in 2014 was the impact of dry weather conditions on our third quarter log production that offset strong second quarter harvest volumes. We were not able to fully recapture the lost third quarter volume in the fourth quarter of 2014.

To offset lower internal log supply and to support higher production volumes at our mills, we successfully increased sawlog purchases by 27% in 2014, as compared to 2013. Log purchases are sourced through standing timber purchase agreements, open market boom purchases, and First Nations joint venture and limited partnership arrangements.

Our log costs increased from the prior year as a result of an 80,000 cubic metre increase in the use of heli-logging, and an increase in stumpage costs due in part to harvest profile. In addition, a new five year labour contract was ratified by the United Steel Workers in the year, and increased our labour costs for the second half of 2014.

Also contributing to higher log costs in 2014 were our fixed timberlands costs being realized over a lower harvest volume, which we began to address with the consolidation of our northern Vancouver Island timberlands divisions in late 2014. We continue to assess other opportunities for divisional consolidation as a means of improving productivity and optimizing equipment utilization in our timberlands.

Freight costs, which are predominantly denominated in USD, increased $4.8 million in 2014 to $86.8 million. The higher freight costs in 2014 were the result of a weakening CAD; a 2% increase in lumber sales volume; higher domestic rail shipments; and higher average fuel surcharges on export freight in 2014.

Selling and administration expenses in 2014 were $32.2 million, compared to $33.0 million in 2013. The decrease was attributable to a reduction in performance-related employee compensation recognized in the fourth quarter of 2014. As a percentage of revenues, our selling and administration costs were 3.1% for 2014, a decrease from the 3.4% reported in 2013.

Reversal of Impairments

During 2014, Western recorded a reversal of previously recognized impairments of $2.9 million on our Crown timber tenures (2013: $8.2 million). With this reversal, we have fully reversed all impairments previously recorded on our crown tenures. The impairment reversal was the result of increases to the net present values of projected cash flows generated from the Crown tenures, primarily due to the beneficial impact of improving markets for our products.

Operating Restructuring Items

In 2014, Western recorded restructuring expenses of $10.8 million, of which $8.1 million was recognized in severance and other costs associated with the consolidation of the Company's Nanaimo-area sawmill operations. A further $2.7 million in restructuring expense was incurred in 2014 as the result of the fourth quarter restructuring of the Company's Japan division, in which we closed our Osaka office; an arbitration settlement related to market-related mill curtailments; and other severance costs that arose in 2014. This compares to restructuring expenses of $0.7 million in 2013, all of which related to severance costs.

Finance Costs

Finance costs increased $0.3 million from the $5.4 million of finance costs incurred in 2013 to $5.7 million in 2014. Net debt was reduced in the 12-month period ended December 31, 2014 by $5.0 million; however, the average outstanding debt on the Company's credit facilities was higher than during the same period of 2013. This drove greater interest expense which was offset by lower interest rates realized in the year and a decrease in other finance costs in 2014.

Other Income

Other income of $1.4 million was reported in 2014 and was due to net gains on non-core property dispositions in the year. In 2013, other income of $0.3 million was reported and reflects net gains on non-core property dispositions largely offset by demolition costs.

Income Taxes

At December 31, 2014, the Company and its subsidiaries had non-capital tax losses carried forward totaling approximately $245.6 million, which expire between 2027 and 2034, and can be used to reduce taxable income. In addition, the Company has capital losses of approximately $121.3 million, which are available indefinitely, but can only be utilized to offset future tax based capital gains.

At December 31, 2014, the Company has recognized a deferred income tax asset of $29.9 million, with respect to part of its non-capital tax losses, as management has concluded that it is probable that future taxable profits will be available against which this tax asset can be utilized. This represents a slight increase in deferred income tax asset from the $26.5 million recognized at December 31, 2013.

While the Company anticipates realizing the additional benefit of its remaining unrecognized loss carry forwards and other deferred income tax assets, the timing of such recognition will depend on on-going assessments of economic conditions, and the likelihood of the Company's ability to utilize the losses is probable.

Net Income from Continuing Operations

Net income from continuing operations in 2014 was $68.4 million, a decrease from the prior year of $125.9 million. This decrease is due primarily to the $20.3 million decrease in adjusted EBITDA[3] in 2014, discussed above in *Operating Results*, and $10.1 million increase in severance and related expenses recognized in operating restructuring items in 2014.

Additionally, the prior year comparative net income includes an income tax recovery of $26.5 million on initial recognition of deferred tax assets, whereas a $3.4 million income tax recovery was recognized 2014 for the increase in deferred tax assets.

Discontinued Operations

Operations on 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 2014, the Company reported net nil expense as revenue from hydro-electric power generated by the operation offset its expenses.

[3] Adjusted EBITDA is a non-GAAP measure previously defined above and reconciled to Net Income in Appendix A.

In January 2013, Western announced that it had entered into a conditional agreement for the sale of its former Squamish Pulp Mill site for gross proceeds of $25.5 million. Closing was subject to certain conditions and Western was responsible for the satisfactory remediation of the property to applicable environmental standards prior to closing the sale. During 2013, gross proceeds were reduced to $21.8 million and both parties agreed to a specific remediation plan, which was completed in the fourth quarter of 2014.

On February 6, 2015, the Company announced the completion of the sale of its former pulp mill site and related assets. The Company intends to use the proceeds of sale to pay down outstanding debt and to further its strategic capital plans. As economic and other circumstances allow, Western will continue to pursue opportunities to sell non-core assets.

Financial Position and Liquidity

(millions of dollars except where noted)	Year ended December 31, 2014	Year ended December 31, 2013
Cash provided by operating activities	$ 87.4	$ 110.7
Cash used in investing activities	(49.5)	(55.7)
Cash used in financing activities	(41.4)	(65.0)
Cash used in logging roads	(13.5)	(15.4)
Cash used to acquire property, plant and equipment	(36.4)	(43.6)

	December 31, 2014	December 31, 2013
Total liquidity (1)	$ 134.4	$ 125.9
Net debt (2)	77.9	82.9
Financial ratios:		
Current assets to current liabilities	2.29	2.34
Net debt to capitalization (3)	0.16	0.18

(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 2014 amounted to $87.4 million compared to $110.7 million provided in 2013, with the decrease primarily attributable to lower income generated from operations.

Cash of $49.5 million was used in investing activities in 2014, compared to $55.7 million invested in 2013. The decrease was due to a $9.1 million reduction in our capital expenditures in 2014 compared to 2013, offset by increased maintenance capital spending in 2014. The strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

Financing activities in 2014 used cash of $41.4 million compared to $65.0 million in 2013. Cash used in financing activities decreased in 2014 as debt repayments were $35.9 million less than in 2013. This was offset by an increase in dividends paid, from $15.6 million in 2013 to $31.4 million in 2014, as we paid only two quarterly dividends in 2013, the first year of our dividend program.

At December 31, 2014, we had total liquidity of $134.4 million, compared to $125.9 million at the end of 2013. The increased liquidity was primarily due to surplus cash generated by operations in the first half of 2014. Liquidity is comprised of cash and cash equivalents of $1.8 million, unused availability under the secured revolving credit facility of $96.6 million, and $36.0 million available under the revolving term loan facility. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2015.

Fourth Quarter Results

(millions of dollars except per share amount)	Three months ended December 31, 2014		Three months ended December 31, 2013
Revenue	$ 232.6		$ 242.0
Adjusted EBITDA	14.8		24.4
Adjusted EBITDA margin	6.4%		10.1%
Operating income prior to restructuring items and other income	11.5		24.9
Net income from continuing operations	12.9		49.9
Net income for the period	12.9		49.9
Basic earnings per share (in dollars)	$ 0.03		$ 0.13
Diluted earnings per share (in dollars)	$ 0.03		$ 0.13

We reported adjusted EBITDA[3] of $14.8 million in the fourth quarter of 2014, a decrease from the $24.4 million earned in the same quarter last year, but an improvement over the $14.3 million recognized in the fourth quarter of 2012. The decrease in adjusted EBITDA was due to lower commodity lumber and export log pricing in China and reduced sales volumes to Japan. Our results benefitted from continued strength in the North American repair and renovation market which has increased the demand for our WRC and Niche products.

Fourth quarter revenue in 2014 was $232.6 million, a decrease of $9.4 million from the same quarter of 2013, due to lower log sales volumes and weaker log export pricing. Our revenue benefitted from a weaker CAD against USD, which had decreased 8% on average in the fourth quarter of 2014 as compared to the same period of 2013. Gradual improvement in U.S. new home construction starts and the continued strength of the U.S. repair and renovation markets contributed to strong demand for our WRC and Niche products, for which sales volumes increased by 14% and 19% respectively. These factors were more than offset by a weak market in China for logs and commodity lumber, and reduced lumber demand from Japan.

Fourth quarter lumber revenue in 2014 was $166.8 million, compared to $168.1 million in the fourth quarter of 2013. A weakening CAD and sales volumes growth in high value WRC and Niche lumber drove an $11 per thousand board feet increase in average realized lumber pricing in the fourth quarter of 2014 as compared to the same period of 2013. These positive factors were offset by a decrease in Japan lumber volumes and much lower pricing for commodity lumber sold in China.

Log revenue was $51.2 million, a decrease of $8.5 million from the same period in 2013, due to reduced log sales volumes in the fourth quarter of 2014. Dry-weather conditions curtailed harvest operations in the third quarter of 2014, and reduced the volume of logs available for sale in the fourth quarter of 2014. Additionally, export log pricing was 17% lower in the fourth quarter of 2014 as compared to the same quarter of 2013, due to lower demand from the China market.

Fourth quarter lumber production was 202 million board feet, a decrease of 5% from the same period of 2013. Lumber production was affected by a reduced opening log inventory; the permanent closure of our Nanaimo sawmill and continued ramp-up of operations at our Duke Point sawmill; and the temporary curtailment of our Ladysmith sawmill late in December 2014. Additionally, production at our Saltair sawmill was curtailed for the last two weeks of 2014 to allow us to complete our log in-feed capital project. Fourth quarter production results achieved in 2014 were supported by 30,000 cubic metres of incremental sawlog purchases, as compared to the fourth quarter of 2013, that partly offset log availability issues at our mills.

Our timberlands harvest volume for the fourth quarter of 2014 was 1.3 million cubic metres, a decrease of 3% from the same quarter of 2013, and was fully offset by our ability to purchase logs and standing timber in the open market. Primary drivers for increased fourth quarter 2014 log costs, in comparison to 2013 fourth quarter costs, were a 24,000 cubic metres increase in the use of heli-logging, an increase in stumpage costs due in part to harvest profile, and increased labour costs.

[3] Adjusted EBITDA is a non-GAAP measure previously defined above and reconciled to Net Income in Appendix A.

Fourth quarter freight costs were $19.4 million in 2014, a decrease of 5% compared to $20.4 million in the same period of 2013. This decrease was primarily the result of a 3% decrease in sales volume from the comparative period, and the impact of a greater percentage of lumber volume having been sold to North America at lower freight costs relative to export markets.

Selling and administration expenses in the fourth quarter of 2014 were $6.0 million, which was $2.8 million lower than the fourth quarter of 2013. This decrease is mostly attributable to a decline in performance-related employee compensation costs incurred in 2014.

Net income of $12.9 million reported in the fourth quarter of 2014 was a decrease of $37.0 million from net income of $49.9 million reported for the same quarter of 2013. This decrease is primarily due to lower adjusted EBITDA[3] earned in the fourth quarter of 2014 and the effect of a prior year deferred income tax recovery of $26.5 million on initial recognition of deferred tax assets in 2013.

Other income was $0.6 million in the fourth quarter of 2014 compared to other expense of $0.1 million in the same quarter of 2013. The 2014 fourth quarter other income is comprised of net gains on disposition of non-core assets and insurance proceeds.

Finance costs in the fourth quarter of 2014 were $1.2 million which was $0.5 million lower than the same quarter of 2013. The decrease in finance costs was primarily the result of lower interest on debt. The average outstanding debt balance in the fourth quarter decreased from $90.0 million in 2013 to $80.0 million in 2014.

Following impairment assessments made on our Crown tenures in the fourth quarters of both 2014 and 2013, we recognized impairment reversals of $2.9 million and $8.2 million respectively, as described earlier in this report in the “Operating Results” section.

Strategy and Outlook

Western’s strategy, which is designed to maximize product margins while increasing our sales volume, continued to progress through the fourth quarter of 2014.

Key operational priorities in support of the Company’s strategic plan include:

- Increasing log availability through improved utilization
- Accessing additional log volume on the open market to increase lumber production
- Improving productivity through increased equipment utilization
- Focusing our lumber marketing programs by mill to drive higher margins

Market Outlook

Continued strength in the U.S. repair and renovation market, gradual improvement in U.S. new home construction, and the benefit of a weaker CAD should contribute to marginally improved lumber pricing and volumes in North America. These positive market conditions, driven by an improving U.S. economy, are expected to complement normal seasonal increases in demand for lumber in North America in the first half of 2015.

The strong US repair and renovation sector in 2015 is expected to support improved demand and price for our Western Red Cedar and Niche products.

We anticipate wood product demand in China to remain steady at current levels and, as inventories decline, we expect to see increased wood product imports from Canada.

We anticipate limited growth in the Japanese lumber market through the first half of 2015 as housing starts stabilize. The lower CAD should lead to increased market share against competing U.S. lumber products. We will continue to direct production from Japan lumber programs to Niche lumber programs to offset relatively flat Japan market demand in early 2015.

[3] Adjusted EBITDA is a non-GAAP measure previously defined above and reconciled to Net Income in Appendix A.

Export log market prices decreased through the second half of 2014 due to an oversupply of logs and lower demand in China. Until inventories come into balance with current demand levels, volumes and prices are likely to remain under pressure, limiting the benefit of the lower CAD. We expect our export log sales volumes in early 2015 to be consistent with fourth quarter 2014 volumes.

Due to tight supply, we expect domestic log prices to remain strong.

Pulp log market pricing has been impacted by reduced demand as a result of a coastal pulp mill curtailment and we anticipate these conditions to continue through early 2015.

Strategic Capital Plan Update

Our goal for strategic capital is to position our manufacturing assets as top quartile performers. We will concentrate our future capital investments into optimizing our manufacturing platform, increasing sawmill productivity, and improving our market access through improvements such as additional kiln drying capacity and autograding systems.

The second phase of our $38.0 million Saltair sawmill capital project, involving the installation of a new log in-feed and log merchandiser, commenced in late 2014. Installation of the log in-feed was completed on budget and was achieving planned metrics shortly after start-up. The log merchandiser installation is scheduled for the third quarter of 2015, to avoid sawmill downtime in the first half of 2015 when the WRC market is traditionally strong. Once complete, this capital project is expected to increase the Saltair sawmill lumber production by approximately 15%, improve lumber recovery, and lower the unit cost of production while improving Western's ability to meet customer needs. On completion, Saltair will become the largest single line sawmill on the British Columbia ("B.C.") coast.

At our Alberni Pacific sawmill, the autograder installation project was completed and, in early 2014, we began to achieve our expected operating performance from the autograder. Based on the improved performance, the Company is considering autograders at its other facilities. In light of the improved productivity observed from the autograder installation, we continue to revisit the need for a new lumber trimmer installation at our Alberni Pacific sawmill.

We completed the log auto-rotation installation project at our Cowichan Bay sawmill in October 2014 on budget and were exceeding operational targets in late 2014.

During the second quarter of 2014, we began an investment of $10.0 million to modernize the Duke Point sawmill. The ongoing project involves the installation of a dip tank, used to apply anti-stain treatment to lumber; to allow for production of whitewoods; the expansion of a barge loading dock; and other improvements to the sawmill infrastructure to support a two-shift operation. With the initial phase of the modernization project nearing completion, the Nanaimo-area sawmill operations were consolidated; resulting in the closure of the Nanaimo sawmill in October 2014. The second phase of the modernization project at the Duke Point sawmill is scheduled to be substantially complete in the first half of 2015, and is expected to reduce costs, improve flexibility to produce various grades of lumber, and increase lumber recovery.

We are pleased to announce that our Board has approved a $5.1 million upgrade to the planer facility at our Duke Point sawmill. This upgrade is expected to be the first phase of a two phase project that will lead to top quartile processing performance for squares and appearance grade lumber.

Non-Core Assets Update

On February 6, 2015, Western announced the completion of the sale of its former pulp mill site and related assets in Squamish, B.C. at a purchase price of $21.8 million. The Company intends to use the proceeds to pay down outstanding debt and to further its strategic capital plans.

We will continue to pursue the sale of additional non-core assets as appropriate. Proceeds from such sales will first be directed to reduce long-term debt and to invest in our business.

Summary of Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2014 and our payments due for each of the next five years and thereafter:

(millions of Canadian dollars)	Total	2015	2016	2017	2018	2019	Thereafter
Accounts payable and accrued liabilities	$ 76.6	$ 76.6	$ -	$ -	$ -	$ -	$ -
Revolving credit facility	6.7	6.7	-	-	-	-	-
Long-term debt	86.6	-	-	-	-	86.6	-
Operating leases	13.0	2.8	2.2	1.6	1.2	1.2	4.0
Silviculture provision	30.9	10.7	5.4	3.4	2.2	1.7	7.5
Other long-term liabilities	0.2	0.2	-	-	-	-	-
Defined benefit pension plan funding obligation	26.0	3.7	2.2	2.2	2.2	1.9	13.8
	$ 240.0	$ 100.7	$ 9.8	$ 7.2	$ 5.6	$ 91.4	$ 25.3

Critical Accounting Estimates

Silviculture Provision

Under B.C. law, we are responsible for reforesting areas that we log. These obligations are referred to throughout this MD&A as silviculture liabilities. 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 product 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 collection of doubtful 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 North American lumber receivables for 90% of value with the Export Development Corporation or Coface Canada, while all export sales are sold on either a cash basis or with secured instruments, which reduces the Company's exposure to bad debts.

Pension and Other Post Retirement Benefits

Western has various defined benefit and defined contribution plans, and a group RRSP that provide 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. While our defined benefit plans were closed to new entrants effective June 30, 2006 and no further benefits accrue under the plans effective December 31, 2010, 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.

Environmental Provisions

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.

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 sales, 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.

Deferred Income Taxes

The recognition of deferred income tax assets requires an assessment of the availability of future taxable profit against which carry forward tax losses can be used. We estimate future income based on forecasts which include a number of variables that can be unpredictable and cyclical in nature. Changes in product prices, in particular, can change quite suddenly.

New Accounting Policies

Changes in accounting policies

The Company has voluntarily changed its accounting policy for the method of measurement of land assets, effective December 31, 2014, to more closely align with the policy applied by its peers and to present more reliable and relevant information to financial statement readers in comparing land assets amongst the Company's peers.

The Company previously presented land at its fair value at each reporting date, with changes in fair value being recorded in a revaluation reserve in shareholders' equity. Under the revised accounting policy, land is stated at cost less accumulated impairment losses. The revised accounting policy is consistent with the approach to land valuation applied by the Company prior to its application of the fair valuation approach on transition to IFRS on January 1, 2011.

This change in accounting policy was applied retrospectively. Balances as at January 1, 2013 and December 31, 2013 have been restated from amounts previously presented to reflect a $22.3 million reduction to the revaluation reserve and a corresponding decrease to deficit. The change in accounting policy had no impact on net income or earnings per share for the years ended December 31, 2013 and December 31, 2014.

Western has adopted the following new standards and amendments to standards, including any consequential amendments to other standards with a date of initial application of January 1, 2014:

- IAS 32, *Offsetting Financial Assets and Liabilities (Amendment)*

  The amendments to IAS 32 clarify the guidance as to when an entity has a legally enforceable right to set off financial assets and financial liabilities, and, clarify when a settlement mechanism provides for net settlement. The application of IAS 32 has not materially impacted the consolidated financial statements.

- IFRIC 21, *Levies*

  IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The application of IFRIC 21 has not materially impacted the consolidated financial statements.

New standards and interpretations not yet adopted

The following amended IFRS standards are not yet effective for the year ended December 31, 2014 and have not been applied in preparing these consolidated financial statements:

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

  IFRS 15 is effective for years commencing on or after January 1, 2017, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue related interpretations. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments, and lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

- IFRS 9, *Financial Instruments ("IFRS 9")*

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

Financial Instruments

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 U.S. 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 adjusted to fair value and marked to market each accounting period, with changes recorded in net income

During 2014, the Company entered into foreign exchange futures contracts to sell forward USD and Japanese Yen ("JPY") in order to partially mitigate its foreign currency risk. At December 31, 2014, the Company had forward contracts in place to sell US$32.0 million and JPY 950 million (2013: US$11.0 million; JPY 100 million). A net loss of $1.5 million was recognized on contracts which matured in the year (2013: $0.5 million), which is included in sales in the consolidated statement of comprehensive income.

Other financial instruments, which for Western consist primarily of debt instruments, are discussed elsewhere in this discussion and analysis.

Off-Balance Sheet Arrangements

Other than operating leases for vehicles, equipment and machinery, the Company does not have any off-balance sheet arrangements as at December 31, 2014.

Related Party Transactions

During 2014, the Company had certain arrangements with entities related to BAM to acquire and sell logs, lease certain facilities, provide access to roads and other areas, provide financing, and acquire services including insurance, all in the normal course and at market rates or at cost. The following table summarizes purchases made and revenues received relating to these transactions:

	Year ended December 31, 2014	2013
Costs incurred for:		
Log purchases	$ 9.6	$ 15.8
Other	9.2	8.8
	$ 18.8	$ 24.6
Income received for:		
Log sales	$ 12.4	$ 14.8
	$ 12.4	$ 14.8

Concurrent with the sale of all remaining Common Shares in the Company by BSSML through a secondary offering completed on September 10, 2014, BAM is no longer a related party to the Company.

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, 2014	2013
Salaries and directors' fees	$ 6.5	$ 3.4
Post-employment benefits	0.3	0.3
Share-based payments	2.2	2.3
	$ 9.0	$ 6.0

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 $9 million for each incremental price increase or decrease, respectively, of $10 per thousand board feet of lumber.

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, the strength of the housing markets in the US and Japan, the rate of development in China, 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 USD and between 5% and 15% in JPY, while most operating costs and expenses are incurred in CAD, with small portions in USD and JPY. The Company's functional currency is the CAD and financial results are reported in CAD. Significant variations in relative currency values, particularly significant changes in the value of the CAD relative to the USD, 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 CAD compared to the USD and JPY would decrease or increase annual operating earnings by approximately $4.0 million, and $0.8 million, respectively.

The Softwood Lumber Agreement ("SLA") with the U.S. 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 US government with not less than six months' notice. On January 23, 2012, Canada and the U.S. agreed on a two year extension of the SLA, which will now terminate in October, 2015. The SLA provides that no action may be taken with respect to the imposition of softwood lumber duties from Canada for the twelve-month period following its expiry. We are unable to predict whether the agreement will be renewed, 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 U.S.

Employees and Labour Relations

Hourly paid employees at our manufacturing facilities, timber harvesting operations and a small group of clerical employees are unionized. The majority of the unionized employees are represented by the United Steel Workers ("USW"), which holds three collective agreements with the Company. Approximately 1,500 Western employees represented by the USW are covered by a five-year collective agreement, expiring June 15, 2019, which was ratified by a majority of union members in July 2014. The agreement for South Island Remanufacturing (35 employees) expires on May 22, 2017. An agreement with the office clerical employees (5 employees) expires on December 31, 2016. The Pulp, Paper & Woodworkers of Canada ("PPWC") represents the remaining unionized employees. The PPWC collective agreement for the Ladysmith Sawmill expired December 31, 2014, and collective bargaining for its renewal is currently underway. The collective agreement for the Value-Added Remanufacturing Operations expires on October 14, 2016.

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 lockout could occur. A strike or lockout could involve significant disruption of operations and/or an adverse material impact on our financial condition. Furthermore, a negotiated settlement could result in unplanned increases in wages or benefits payable to unionized employees. In addition, the Company relies on certain third parties, such as logging contractors, stevedores or major railways, whose workforces are unionized, to provide the Company with services necessary to operate the business. If those workers/employers engage in a strike or lockout, 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, some of which have substantially greater financial resources than 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 CAD relative to the USD and/or the JPY, and by the export tax on softwood lumber shipments to the U.S.

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 try and 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.

Other than the sales office in Japan, all of our business operations are located on the B.C. 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 B.C. 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. 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 CAD of our residual wood chips is tied by formula to published indices that reflect the USD 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.

Dependency on Fibre Obtained from Government Timber Tenures

Currently, substantially all of the timberlands in which we operate are owned by the Province and are currently administered by the Ministry of Forests, Lands and Natural Resource Operations (the "MFLNRO"). The *Forest Act* (British Columbia) (the "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 B.C. 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 B.C. Forest Industry over the last 40 years. One of the more significant examples of this was seen in 2003 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 (the "Court") 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 permanently reduced the tenure's AAC by 95,200 cubic metres. A treaty measure which created a new Protected Area inside of TFL 44 permanently reduced the AAC by another 8,800 cubic metres. 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, Ditidaht, Snuneymuxw, Heltsiuk, Hupacasath, Tlowitsis, K'omox and Wuikinuxv First Nations are also well advanced and may lead to agreements impacting Western in 2015. 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.

In June 2014, the Supreme Court of Canada released its decision on the aboriginal title claim by the Tsilqot'in First Nation of British Columbia, regarding land outside their traditional reserve area. The Court recognized Tsilqot'in title to the area in dispute, including rights to decide how the land will be used, occupancy, and economic benefits. The court ruling held that while the provincial government had the constitutional authority to regulate forest activity on aboriginal title lands, it had not adequately consulted with the Tsilqot'in. While the decision does not directly impact Western's business as we do not have tenure in this dispute area, we do operate on Crown tenures elsewhere that are subject to claims of aboriginal title. The potential impact on Western's tenure holdings is not ascertainable at this time.

Current Provincial Government policy requires that forest management and operating plans take into account and not unreasonably infringe on aboriginal rights and title, proven or unproven, and provide for consultation with First Nations. This policy is reflected in the terms of our timber tenures, which provide that the 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. Approximately 95% of the timber we harvest is from Crown land. In response to U.S. Softwood Lumber dispute, the Provincial Government adopted a more open and competitive market pricing system for timber from the Coastal region. Since February 29, 2004, stumpage has been set using the Coast version of the Market Pricing System ("MPS"). MPS uses the winning bids and stand characteristics of timber sold through British Columbia Timber Sales ("BCTS") auctions to develop regression equations that predict the market (i.e. auction) value of Crown timber harvested under long-term tenures. The auction value is then adjusted to reflect costs that tenure holders incur that BCTS expends on behalf of bidders. These costs, like forest planning and administration and silviculture, are referred to as 'Tenure Obligation Adjustments'. Coastal MPS has been updated every two to three years to reflect recent sale data and costs. The most recent update occurred on January 1, 2014. Stumpage rates are also adjusted quarterly to reflect changes in log prices.

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, saw logs and pulp logs 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.

Western is one of five founding members of the Coast Forest Conservation Initiative (the "CFCI"). CFCI is a collaborative effort amongst forest companies working in BC's Central and North Coast. Its purpose is to define and support the development of an ecosystem-based management ("EBM") as part of 2003 Land and Resource Management Plan recommendations. In March 2006, interim legal objectives for EBM were enacted. These objectives were further amended in March 2009 with final implementation deferred for 5 years while the concept, intended to be unique to this region, was fully defined. The CFCI Companies, along with major environmental groups have delivered a suite of recommendations for consideration by the Province and the 27 First Nations who live in the region. How final resolution of EBM will impact Western's timber supply is not known at this time. Further amendment of legal objectives was ongoing in 2014 and expected to be completed in 2015.

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.

Log exports from our timber operations are subject to federal and provincial regulations. An export permit from the Canadian Federal government must be obtained to export any logs harvested in BC and generally the logs must be surplus to the supply required for domestic manufacturers. Logs from private timberlands which were granted by the Crown prior to March 12, 1906 are subject to the Federal surplus test and logs from private land granted after that date are subject to the Provincial surplus test. Logs harvested from Crown land in BC are subject to the Provincial surplus test. The regulations also restrict the species and grade permitted for export.

Under both the federal and provincial surplus tests, the logs must be advertised for local consumption. Logs are declared surplus and may be exported if there are no offers on the advertised logs by domestic manufacturers. In practice, domestic offers on export volume can satisfied with replacement volume to minimize operational impacts. However, a substantial increase in domestic demand may adversely impact timber operations as export pricing is generally at a premium to domestic pricing.

In July 2013, the Ehattesaht First Nation filed a petition with the BC Supreme Court against the Province of British Columbia regarding a decision of the Crown on the amount of un-harvested volume in TFL 19 from the 2007 to 2011 cut control period, which may subsequently be directly awarded to the Ehattesaht. The Ehattesaht claim the Crown did not adequately consult them about the decision and that additional volume must be made available to them based upon their asserted territory, rights, and economic interests. In 2014, the court ruled in favor of the Ehattesaht requiring further consultation on un-harvested volume but made no decision on the outcome of that consultation. It is too early to determine what the impacts of this decision may have on WFP tenures.

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 Western, 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. In March 2013, the Ditidaht and BC Government entered an Interim Treaty Agreement (the “ITA”) which included Ditidaht agreement not to initiate or proceed with litigation against the Crown for land dispositions and land use authorizations during the term of the ITA. Consequently, unless the ITA is terminated in accordance with the provisions for termination in the ITA, this litigation will not be pursued further by the Ditidaht.

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 (“FSP”) on the Crown lands within their area of interest, based on alleged infringements of their treaty rights and extinguished aboriginal title and rights. This case was decided in June 2013, with the court upholding the Private Land withdrawal from TFL 6 and also the decision to extend the term of our FSP. The Crown was found to have an ongoing duty to consult the Kwakiult in good faith and to seek accommodations regarding their claim of extinguished Aboriginal rights, titles and interests in respect of the Kwakiutl traditional territory. The Crown has subsequently filed an appeal of the decision pertaining to their ongoing duty to consult with the Kwakiutl.

In 2005, the Hupacasath First Nation obtained an order of the BC Supreme Court requiring the Province of BC 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. In July 2012, the Hupacasath and BC Government executed a mediated agreement which included the following accommodations within TFL 44 as a result of the 2004 decision to remove private land from TFL 44: a Government Action Regulation Order for protection of a spiritual area at Thunder Mountain, 400 hectares of new Old Growth Management Areas around Great Central Lake, a 20,000 cubic metre non replaceable forest licence in the vicinity of Great Central Lake and a First Nations Woodland Licence also at Great Central Lake as per the previous *Forestry Revitalization Act* timber volume allocation to the Hupacasath.

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 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.

Continuation of the Dividend Program

We declared and paid total quarterly cash dividends of $0.08 per outstanding common share during the four quarters ended December 31, 2014. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after taking into account our operating results, financial condition, cash requirements, financing agreement restrictions and other factors our Board may deem relevant. We may be unable or may elect not to continue to declare and pay dividends, even if necessary financial conditions are met and sufficient cash is available for distribution.

Evaluation of Disclosure Controls and Procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and the system of internal control over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2014. 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 2014.

Outstanding Share Data

As of February 17, 2015, there were 395,065,407 Common Shares issued and outstanding. There were no Non-Voting Shares issued and outstanding at February 17, 2015.

Western has reserved 20,000,000 Common Shares for issuance upon the exercise of options granted under the Company's incentive stock option plan. During 2014, 2,600,000 options were granted. As of February 17, 2015, 10,165,000 options were outstanding under the Company's incentive stock option plan.

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of dollars except per share amounts and where noted)	2014 Year	2014 4th	2014 3rd	2014 2nd	2014 1st	2013 Year	2013 4th	2013 3rd	2013 2nd	2013 1st
Average Exchange Rate – Cdn $ to purchase one US $	1.030	1.136	1.089	1.091	1.103	1.030	1.049	1.039	1.023	1.008
Revenue										
Lumber	729.0	166.8	180.4	207.9	173.9	677.2	168.1	171.7	180.4	157.0
Logs	244.2	51.2	66.0	71.8	55.2	243.8	59.7	53.9	67.0	63.2
By-products	63.7	14.6	15.7	16.5	16.9	56.5	14.2	13.8	14.9	13.6
Total revenue	1,036.9	232.6	262.1	296.2	246.0	977.5	242.0	239.4	262.3	233.8
Lumber										
Shipments – millions of board feet	909	216	220	255	218	895	222	228	231	214
Price – per thousand board feet	802	772	820	815	798	757	758	752	782	733
Logs										
Shipments – thousands of cubic metres	2,633	571	707	773	581	2,769	697	615	765	692
Price – per cubic metre (1)	90	90	86	90	95	85	84	83	84	89
Selling and administration	32.2	6.0	8.3	8.1	9.8	33.0	8.8	8.2	8.0	8.0
Adjusted EBITDA	108.5	14.8	20.0	40.9	32.8	128.8	24.4	27.6	44.9	31.9
Amortization	(29.6)	(6.7)	(7.0)	(8.2)	(7.7)	(29.2)	(7.0)	(7.5)	(7.9)	(6.8)
Changes in fair value of biological assets	(1.5)	0.5	(0.4)	(1.4)	(0.2)	(2.3)	(0.7)	(0.3)	(0.8)	(0.5)
Reversal of impairment	2.9	2.9	-	-	-	8.2	8.2	-	-	-
Operating restructuring items	(10.8)	(1.2)	(8.3)	(1.2)	(0.1)	(0.7)	(0.1)	(0.3)	(0.1)	(0.2)
Finance costs	(5.7)	(1.2)	(1.4)	(1.5)	(1.6)	(5.4)	(1.7)	(1.7)	(0.8)	(1.2)
Other income (expenses)	1.4	0.6	-	0.6	0.2	0.3	(0.1)	(0.4)	0.7	0.1
Deferred income tax recovery	3.4	3.2	-	-	0.2	26.5	26.5	-	-	-
Current income tax recovery (expense)	(0.2)	(0.0)	(0.2)	-	-	(0.3)	0.4	(0.2)	(0.3)	(0.2)
Net income from continuing operations	68.4	12.9	2.7	29.2	23.6	125.9	49.9	17.2	35.7	23.1
Net loss from discontinued operations	-	-	-	-	-	(0.5)	-	-	(0.2)	(0.3)
Net income	68.4	12.9	2.7	29.2	23.6	125.4	49.9	17.2	35.5	22.8
Adjusted EBITDA margin	10.5%	6.4%	7.6%	13.8%	13.3%	13.2%	10.1%	11.5%	17.1%	13.6%
Earnings per share:										
Net income, basic	0.17	0.03	0.01	0.07	0.06	0.29	0.13	0.04	0.08	0.05
Net income, diluted	0.17	0.03	0.01	0.07	0.06	0.28	0.13	0.04	0.07	0.05
Net income from continuing operations, basic	0.17	0.03	0.01	0.07	0.06	0.29	0.13	0.04	0.08	0.05
Net income from continuing operations, diluted	0.17	0.03	0.01	0.07	0.06	0.28	0.13	0.04	0.07	0.05

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

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

In the third quarter of 2014, the Company recognized an $8.1 million restructuring provision related to the consolidation of its Nanaimo sawmill operations. The fourth quarters of 2014 and 2013 include reversals of an impairment of $2.9 million and $8.2 million, respectively, which had been taken on the Company's timber licenses (intangible assets) which were unusual adjustments. In the fourth quarters of 2014 and 2013, the Company recognized deferred income tax asset of $3.4 million and $26.5 million with respect to unutilized operating tax losses.

Western Forest Products Inc.

Consolidated Financial Statements

Years ended December 31, 2014 and 2013

Western Forest Products Inc.

CONSOLIDATED FINANCIAL STATEMENTS

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 Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, reflect Management's best estimates and judgements at this time. The financial information presented throughout the Management's Discussion and Analysis dated February 17, 2015 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.

Don Demens
President and Chief Executive Officer

Stephen Williams
Chief Financial Officer

February 17, 2015

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, 2014, December 31, 2013 and January 1, 2013, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2014 and December 31, 2013, 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 as issued by the International Accounting Standards Board, 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, 2014, December 31, 2013 and January 1, 2013, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2014 and December 31, 2013, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

February 17, 2015
Vancouver, Canada

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

	December 31, 2014	December 31, 2013 [Restated - Note 3(b)]	January 1, 2013 [Restated - Note 3(b)]
Assets			
Current assets:			
Cash and cash equivalents	$ 1.8	$ 5.6	$ 18.8
Trade and other receivables	65.6	69.0	69.5
Inventory (Note 4)	139.4	132.5	116.6
Prepaid expenses and other assets	8.8	10.1	7.6
	215.6	217.2	212.5
Non-current assets:			
Property, plant and equipment (Note 5)	249.3	226.0	194.2
Intangible assets (Note 5)	129.3	130.5	126.1
Biological assets (Note 6)	56.9	58.4	60.8
Other assets (Note 7)	13.2	11.9	12.7
Deferred income tax assets (Note 10)	29.9	26.5	-
	$ 694.2	$ 670.5	$ 606.3
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 76.6	$ 79.8	$ 74.0
Revolving credit facility (Note 8)	6.7	-	-
Silviculture provision (Note 12)	10.7	12.3	13.4
Discontinued operations (Note 22)	0.3	0.6	5.1
	94.3	92.7	92.5
Non-current liabilities:			
Long-term debt (Note 9)	73.0	88.5	33.8
Silviculture provision (Note 12)	19.0	17.7	17.6
Other liabilities (Note 11)	32.9	20.3	35.6
Deferred revenue	62.4	64.4	66.4
Discontinued operations (Note 22)	4.5	4.5	2.7
	286.1	288.1	248.6
Shareholders' equity:			
Share capital - voting shares (Note 13)	504.4	486.6	479.7
Share capital - non-voting shares (Note 13)	-	13.1	120.3
Contributed surplus	7.0	6.5	4.2
Deficit	(103.3)	(123.8)	(246.5)
	408.1	382.4	357.7
	$ 694.2	$ 670.5	$ 606.3

Commitments and Contingencies (Note 15)
Subsequent Events (Note 25)

See accompanying notes to these consolidated financial statements

Approved on behalf of the Board:

Lee Doney, Chairman

James Arthurs, Director

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, 2014	Year ended December 31, 2013
Revenue	$ 1,036.9	$ 977.5
Cost and expenses:		
Cost of goods sold	840.5	764.3
Export tax	-	0.9
Freight	86.8	82.0
Selling and administration	32.2	33.0
Reversal of impairments (Note 5)	(2.9)	(8.2)
	956.6	872.0
Operating income prior to restructuring items and other income	80.3	105.5
Operating restructuring items (Note 19)	(10.8)	(0.7)
Other income (Note 21)	1.4	0.3
Operating income	70.9	105.1
Finance costs (Note 20)	(5.7)	(5.4)
Income before income taxes	65.2	99.7
Current income tax expense	(0.2)	(0.3)
Deferred income tax recovery	3.4	26.5
Net income from continuing operations	68.4	125.9
Net loss from discontinued operations (Note 22)	-	(0.5)
Net income	68.4	125.4
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Defined benefit plan actuarial gain (loss)	(16.5)	12.9
Total comprehensive income	$ 51.9	$ 138.3
Net income per share (in dollars):		
Basic earnings per share	$ 0.17	$ 0.29
Diluted earnings per share	$ 0.17	$ 0.28
Basic earnings per share - continuing operations	$ 0.17	$ 0.29
Diluted earnings per share - continuing operations	$ 0.17	$ 0.28
Weighted average number of common shares outstanding (thousands)		
Basic	392,267	438,547
Diluted	396,892	443,254

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 December 31, 2012, as previously reported	$ 600.0	$ 4.2	$ 22.3	$ (268.8)	$ 357.7
Change in accounting policy (Note 3(b))	-	-	(22.3)	22.3	-
Balance at January 1, 2013, as restated (Note 3(b))	600.0	4.2	-	(246.5)	357.7
Net income	-	-	-	125.4	125.4
Other comprehensive loss:					
Defined benefit plan actuarial gain recognized	-	-	-	12.9	12.9
Total comprehensive income	-	-	-	138.3	138.3
Share-based payment transactions recognized in equity	-	2.3	-	-	2.3
Exercise of stock options	-	-	-	-	-
Repurchase of shares (Note 13)	(100.3)	-	-	-	(100.3)
Dividends	-	-	-	(15.6)	(15.6)
Total transactions with owners, recorded directly in equity	(100.3)	2.3	-	(15.6)	(113.6)
Balance at December 31, 2013, as restated (Note 3(b))	$ 499.7	$ 6.5	$ -	$ (123.8)	$ 382.4

	Share Capital	Contributed Surplus	Revaluation Reserve	Deficit	**Total equity**
Balance at December 31, 2013, as previously reported	$ 499.7	$ 6.5	$ 22.3	$ (146.1)	$ 382.4
Change in accounting policy (Note 3(b))	-	-	(22.3)	22.3	-
Balance at December 31, 2013, as restated (Note 3(b))	499.7	6.5	-	(123.8)	382.4
Net income	-	-	-	68.4	68.4
Other comprehensive income:					
Defined benefit plan actuarial loss recognized	-	-	-	(16.5)	(16.5)
Total comprehensive income	-	-	-	51.9	51.9
Share-based payment transactions recognized in equity	-	2.2	-	-	2.2
Exercise of stock options	4.7	(1.7)	-	-	3.0
Dividends	-	-	-	(31.4)	(31.4)
Total transactions with owners, recorded directly in equity	4.7	0.5	-	(31.4)	(26.2)
Balance at December 31, 2014	$ 504.4	$ 7.0	$ -	$ (103.3)	$ 408.1

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, 2014	2013
Cash provided by (used in):		
Operating activities:		
Net income from continuing operations	$ 68.4	$ 125.9
Items not involving cash:		
Amortization of property, plant and equipment (Note 5)	25.7	25.5
Amortization of intangible assets (Note 5)	3.9	3.7
Gain on disposal of assets	(0.2)	(1.5)
Change in fair value of biological assets (Note 6)	1.5	2.3
Net finance costs (Note 20)	5.7	5.4
Reversal of impairments on intangible assets (Note 5)	(2.9)	(8.2)
Deferred income tax recovery	(3.4)	(26.5)
Other	(4.3)	(2.7)
	94.4	123.9
Changes in non-cash working capital items:		
Trade and other receivables	3.4	0.5
Inventory	(6.9)	(15.9)
Prepaid expenses and other assets	1.3	(2.5)
Silviculture provision	(1.6)	(1.1)
Accounts payable and accrued liabilities	(3.2)	5.8
	(7.0)	(13.2)
	87.4	110.7
Investing activities:		
Additions to property, plant and equipment (Note 5)	(49.9)	(59.0)
Proceeds on disposals of assets	0.4	3.3
	(49.5)	(55.7)
Financing activities:		
Drawings under revolving credit facility	6.7	-
Interest paid	(4.0)	(3.5)
Repayment of long-term debt	(15.8)	(45.0)
Draw down of long-term debt	-	100.0
Refinancing fees	-	(0.6)
Repurchase of shares (Note 13)	-	(100.3)
Dividends	(31.4)	(15.6)
Proceeds from exercise of stock options	3.1	-
	(41.4)	(65.0)
Cash used in continuing operations	(3.5)	(10.0)
Cash used in discontinued operations (Note 22)	(0.3)	(3.2)
Decrease in cash and cash equivalents	(3.8)	(13.2)
Cash and cash equivalents, beginning of year	5.6	18.8
Cash and cash equivalents, end of year	$ 1.8	$ 5.6

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 head office is Suite 510 – 700 West Georgia Street, Vancouver, British Columbia, Canada. The consolidated financial statements as at December 31, 2014, December 31, 2013 and January 1, 2013, and for the years ended December 31, 2014 and December 31, 2013, 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 25 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 have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board. Certain comparative figures have been reclassified to conform with the current year's presentation. The consolidated financial statements are available on www.sedar.com. The consolidated financial statements were authorized for issue by the Board of Directors on February 17, 2015.

(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;
- 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;
- Derivative financial instruments are measured at fair value at each reporting date;
- The defined benefit pension liability is recognized as the net total of the fair value of the plan assets, less the present value of the defined benefit obligation; and
- Reforestation obligations are measured at the discounted value of expected future cash flows.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of 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 estimates are recognized prospectively.

(i) Judgements

The determination of appropriate cash generating units in Note 5 is a judgement made in applying accounting policy that has a significant effect on the amounts recognized in the consolidated financial statements.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

2. Basis of preparation (continued)

Note 4 – measurement of net realizable value of inventories

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

Note 10 – recognition of deferred income tax assets: availability of future taxable profit against which carry forward tax losses can be used

Notes 12 and 15 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources

Note 13 – measurement of share-based payment transactions

Note 17 – measurement of defined benefit obligations, key actuarial assumptions

Measurement of fair values – a number of Western's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. An established framework is in place with respect to the measurement of fair values, including Level 3 fair values. Significant unobservable inputs and valuation adjustments are reviewed regularly. If third party information is used to measure fair values, Management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations would be classified. Refer to Note 18 for more details.

When measuring the fair value of an asset or liability, Western uses market observable data as far as is possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs to measure the fair value of the asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the period in which the change occurred.

3. Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Western. Western controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which it ceases.

The principal wholly-owned operating subsidiaries of the Company at December 31, 2014 are Western Lumber Sales Limited (which sells into the United States), Western Forest Products Japan Ltd. (which sells into Japan), and WFP Quatsino Navigation Limited (the beneficial owner of a number of the Company's non-core assets).

(ii) Interests in equity-accounted investees

Western's interests in equity-accounted investees comprise interests in joint ventures. A joint venture is an arrangement in which Western has joint control, whereby it has the rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

3. Significant accounting policies (continued)

Interests in the joint venture are accounted for using the equity method. They are recognized initially at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include Western's share of the profit and loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

(iii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent that Western's interest in the investee. Unrealized losses are eliminated in the same way, except to the extent that there is evidence of impairment.

(iv) Discontinued operations

A discontinued operation is a component of Western's business, the operations and cash flows of which can be clearly distinguished from the rest of Western and which:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

(b) Change in accounting policy

These consolidated financial statements have been prepared after giving effect to a retrospective application of a voluntary change in accounting policy relating to the measurement of land assets, effective December 31, 2014.

The Company previously carried land at its revalued amount, being its fair value at the date of revaluation, less impairment losses. Revaluations are recognized in OCI and accumulated in a revaluation reserve in shareholders' equity. Under the revised accounting policy, land is measured at cost, as determined on transition to IFRS, less accumulated impairment losses. Management views the revised accounting policy as providing more reliable and relevant information because it contributes to increased comparability in accounting for land assets with the Company's industry peers and presents more understandable information to financial statement readers in comparing land assets amongst its peers.

This change in accounting policy was applied retrospectively. Balances as at January 1, 2013 and December 31, 2013 have been adjusted to reflect a $22.3 million reduction to the revaluation reserve and a corresponding decrease to deficit. No adjustments resulted to the land assets as their carrying value did not fluctuate significantly from fair value as determined when the previous accounting policy was initially applied. The change in accounting policy also had no impact on net income or earnings per share for the years ended December 31, 2013 and December 31, 2014.

(c) New accounting policies

(i) Changes in accounting policies

Western has adopted the following new standards and amendments to standards, including any consequential amendments to other standards with a date of initial application of January 1, 2014:

IAS 32, Offsetting Financial Assets and Liabilities (Amendment)

The amendments to IAS 32 clarify the guidance as to when an entity has a legally enforceable right to set off financial assets and financial liabilities, and, clarify when a settlement mechanism provides for net settlement. The application of IAS 32 has not materially impacted the consolidated financial statements.

3. Significant accounting policies (continued)

IFRIC 21, Levies

IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The application of IFRIC 21 has not materially impacted the consolidated financial statements.

(ii) New standards and interpretations not yet adopted

The following amended IFRS standards are not yet effective for the year ended December 31, 2014 and have not been applied in preparing these consolidated financial statements:

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

IFRS 15 is effective for years commencing on or after January 1, 2017, and will replace IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and a number of revenue related interpretations. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments, and lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9, Financial Instruments ("IFRS 9")

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

(d) 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 25 countries worldwide, with sales to customers in Canada, the United States, Asia and Europe representing over 98% 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.

(e) 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 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.

3. Significant accounting policies (continued)

(f) Property, plant and equipment

All items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. 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. 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.

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 over the estimated useful life of each component of an item of property, plant and equipment. Land is measured at cost and 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 for the period in which the disposal occurs.

(g) 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 cost and included in property, plant and equipment.

(h) 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.

(i) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, inventories, and deferred income tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized in net income if the carrying amount of an asset or CGU exceeds its recoverable amount.

3. Significant accounting policies (continued)

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

(j) 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 yellow and western red cedar) and facility;

(*ii*) Logs by sort by end use (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 of logs produced carry an average cost of production based on the operation where the logs are produced, determined by actual log production costs divided by production volumes.

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.

(k) 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.

(l) 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 Shares, Non-Voting Shares 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.

(m) 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 for the period over the term of the long-term debt using the effective interest method.

(n) Employee benefits

(i) Employee post-employment 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-employment 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.

3. Significant accounting policies (continued)

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, and the fair value of the plan assets is deducted in arriving at the obligation. The calculation is performed annually by a qualified actuary using the actuarial cost projected unit credit method.

When the calculation results in a potential asset to the Company, the recognized asset is limited to 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.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in net income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in net income. The Company recognizes gains and losses on settlement of a defined benefit plan when the settlement occurs.

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 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 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 expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within twelve months of the reporting date, then they are discounted.

(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. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(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 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 since 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

3. Significant accounting policies (continued)

share price to exceed a minimum level before the options become exercisable, it is necessary to utilize the Hull-White model as this model takes into account the barrier price factor. 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 for the period.

(o) 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 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 for the period.

(p) 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 amount 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.

(q) 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 for the period on a straight-line basis over 40 years, being the term of the related fibre supply contract.

(r) 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 for the period on a straight line basis over the period of the lease.

3. Significant accounting policies (continued)

(s) Finance costs

Finance costs comprise interest expense on long-term debt and the revolving credit facility, amortization of deferred financing costs, unwinding of the discount on the silviculture provision, changes in the fair value of investments recognized immediately through net income and net interest on the net defined benefit plan obligation. All finance costs are recognized in net income during the period using the effective interest method with the exception of the net interest on the net defined benefit obligation which is recognized as described in Note 3(n)(i).

(t) Financial instruments

(i) Non-derivative financial *assets*

The Company classifies its non-derivative 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.

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. Upon initial recognition, directly attributable transaction costs are recognized in net income as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income. Financial assets at fair value through profit or loss are comprised of certain investments and forward exchange contracts.

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 cash and cash equivalents, trade and other receivables. Cash and cash equivalents comprises cash balances and short-term investments with original maturities of 90 days or less.

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. 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.

3. Significant accounting policies (continued)

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.

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. The cumulative loss that is removed from other comprehensive income and recognized in net income 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. 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 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 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 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.

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.

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

3. Significant accounting policies (continued)

(u) Income tax

Income tax expense comprises current and deferred income tax. It is recognized in net income 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.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of the previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current income tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred income tax

Deferred income tax recognized in respect of 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 recognized 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 assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred income tax 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; such reductions are reversed when the probability of future taxable profits improve.

Unrecognized deferred income tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred income tax is measured at the rates that are expected to be applied to temporary differences when they reverse, using rates enacted or substantively enacted at the reporting date.

Deferred income tax assets and liabilities are offset only if certain criteria are met.

(v) 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 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 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

	December 31, 2014	December 31, 2013	January 1, 2013
Logs	$ 101.3	$ 95.8	$ 78.9
Lumber	38.9	34.0	38.0
Supplies and other inventories	11.4	11.6	10.5
Provision for write downs	(12.2)	(8.9)	(10.8)
Total value of inventories	$ 139.4	$ 132.5	$ 116.6
Inventory carried at net realizable value	$ 39.8	$ 30.5	$ 34.6

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

During 2014, $840.5 million (2013: $764.3 million) of inventory was charged to cost of sales which includes a $3.3 million increase to the provision relating to inventory value write-downs.

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

5. Property, plant and equipment and intangible assets

Cost	Buildings & equipment	Logging roads	Land	Total property, plant & equipment	Intangible assets
Balance at January 1, 2013	$ 148.2	$ 122.4	$ 105.2	$ 375.8	$ 171.1
Additions	43.6	15.4	-	59.0	-
Disposals	(1.3)	-	(1.4)	(2.7)	(0.2)
Balance at December 31, 2013	$ 190.5	$ 137.8	$ 103.8	$ 432.1	$ 170.9
Additions	36.4	13.5	-	49.9	-
Disposals	(1.9)	-	(0.1)	(2.0)	(0.2)
Impairments	(10.6)	-	-	(10.6)	-
Balance at December 31, 2014	$ 214.4	$ 151.3	$ 103.7	$ 469.4	$ 170.7
Accumulated amortization and impairments					
Balance at January 1, 2013	$ 89.9	$ 91.7	$ -	$ 181.6	$ 45.0
Amortization	11.7	13.8	-	25.5	3.7
Disposals	(1.0)	-	-	(1.0)	(0.1)
Reversal of impairments	-	-	-	-	(8.2)
Balance at December 31, 2013	$ 100.6	$ 105.5	$ -	$ 206.1	$ 40.4
Amortization	12.4	13.3	-	25.7	3.9
Disposals	(1.6)	-	-	(1.6)	-
Impairments	(10.1)	-	-	(10.1)	-
Reversal of impairments	-	-	-	-	(2.9)
Balance at December 31, 2014	$ 101.3	$ 118.8	$ -	$ 220.1	$ 41.4
Carrying amounts					
At January 1, 2013	$ 58.3	$ 30.7	$ 105.2	$ 194.2	$ 126.1
At December 31, 2013	$ 89.9	$ 32.3	$ 103.8	$ 226.0	$ 130.5
At December 31, 2014	$ 113.1	$ 32.5	$ 103.7	$ 249.3	$ 129.3

(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.

As a result of continued losses by the Company prior to 2010, the Company recorded an impairment loss of $51.2 million as at January 1, 2010, in respect of its Crown timber tenures. In subsequent periods, as a result of improvements in log and lumber markets, the Company reassessed its previous estimates and has reversed a total of $42.5 million of the initially recognized impairment, of which $2.9 million was reversed during the year ended December 31, 2014 (2013: $8.2 million). The recoverable amount of the CGU is based on its value in use, and is determined by Management with the assistance of an independent valuator. The estimate of value in use was determined using a pre-tax discount rate of 8.5% (2013: 9.0%) and a terminal growth rate of 9.5% from 2040 (2013: 10.0%).

(b) Land

As described in Note 3(b) and 3(f), the Company changed its accounting policy in respect of land carrying values during the year ended December 31, 2014, and now measures land at cost less accumulated impairment losses. There was no impairment recorded during the year ended December 31, 2014 (2013: nil).

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

6. Biological assets

(a) Reconciliation of carrying amount

	December 31, 2014	December 31, 2013	January 1, 2013
Carrying value, beginning of year	$ 58.4	$ 60.8	$ 59.4
Acquisition of biological assets in the year	-	-	(2.6)
Disposition of biological assets in the year	-	(0.1)	5.6
Change in fair value less costs to sell	-	-	(1.2)
Change in fair value resulting from growth and pricing	3.2	2.7	1.6
Harvested timber transferred to inventory in the year	(4.7)	(5.0)	(2.0)
Carrying value, end of year	$ 56.9	$ 58.4	$ 60.8

At December 31, 2014, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2013: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to old-growth forests. During the year ended December 31, 2014, the Company harvested and scaled approximately 357,720 cubic metres ("m^3") of logs from its private timberlands, which had a fair value less costs to sell of $79 per m^3 at the date of harvest (2013: 265,500 m^3 and $89 per m^3, respectively).

(b) Measurement of fair values

The table above reconciles the opening balances to the closing balances for Level 3 fair values. The change in fair value resulting from price and growth is reflected in cost of goods sold. The fair value measurements for the Company's standing timber of $56.9 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used as discussed below.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the private timberlands. The cash flow projections include specific estimates for 25 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Estimated future log prices per m^3 ($95-$131, weighted average $127). • Estimated harvest costs per m^3 ($60-$76, weighted average $61). • Estimated harvest annual volume in m^3 (12,000-99,000, weighted average 85,000). • Risk-adjusted discount rate (2014: 7.5%; 2013: 8.0%).	The estimated fair value would increase (decrease) if: • The estimated log prices per m^3 were higher (lower); • The estimated harvest costs per m^3 were lower (higher); • The estimated harvest volumes were higher (lower); or • The risk-adjusted discount rates were lower (higher).

(c) Risk management strategies related to biological assets

Western is exposed to the following risks relating to its private timberlands:

- The Company is exposed to risks arising from fluctuations in log prices and sales volumes. When possible, Western aligns its harvest volumes to market supply and demand, and performs regular industry trend analyses for projected harvest volumes and pricing in order to manage this risk.
- The standing timber is exposed to risk of damage as a result of severe weather conditions, forest fires, insect infestation and disease. Western has processes and procedures in place to monitor and mitigate these risks, including fire management strategies and regular inspection for pest infestation.

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

7. Other assets

	December 31, 2014	December 31, 2013	January 1, 2013
Investments	$ 9.7	$ 8.2	$ 7.9
Discontinued operations (equipment) (Note 22)	2.8	2.8	2.2
Other	0.7	0.9	2.6
	$ 13.2	$ 11.9	$ 12.7

8. Revolving credit facility

The Company's revolving credit facility (the "Facility") provides for a maximum borrowing amount of $125.0 million, subject to a borrowing base, which is primarily based on eligible accounts receivable and inventory balances. The Facility bears interest at Canadian Prime plus 0.50% (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 interest rate for the Facility was 3.50% at December 31, 2014 (December 31, 2013: 3.50%).

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants (see Note 14). At December 31, 2014, $6.7 million of the Facility was used (December 31, 2013: nil) and $96.6 million of the facility was available to the Company. The Facility matures on December 14, 2015, subject to any future refinancing requirements of its revolving term loan.

9. Long-term debt

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of $110.0 million. The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate plus 0.15%, and (ii) the 30 day Banker's Acceptance rate plus 1.65%. The interest rate for the Term Loan was 2.92% at December 31, 2014 (December 31, 2013: 3.97%).

The Term Loan is secured by a first lien interest over all of the Company's properties and assets, excluding those of the Englewood Logging Division and all accounts receivable and inventory, over which it has second lien interests, and includes financial covenants (see Note 14).

On August 28, 2014, the Company extended the maturity date of the Term Loan from June 29, 2017 to June 29, 2019, and amended the financial covenants for removal of the clause stipulating that any undrawn portion of the Term Loan would cease to be available and the revolving loan would convert to a term loan amortized over a 10 year period repayable in equal quarterly instalments, if Brookfield Corporation or its affiliates ceased to own at least 30% of the issued shares. In addition, the effective interest rate was reduced and the interest rate calculation was simplified through removal of the applicable interest rate margin. The amendments did not result in any material changes to the carrying value of the Term Loan.

The Company was in compliance with its financial covenants at December 31, 2014.

	December 31, 2014	December 31, 2013	January 1, 2013
Long-term debt	$ 74.0	$ 89.8	$ 34.8
Less transaction costs	(1.0)	(1.3)	(1.0)
	$ 73.0	$ 88.5	$ 33.8

Transaction costs are deferred and being amortized to finance costs over the term of the Term Loan using the effective interest rate method.

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

10. Income taxes

	Year ended December 31, 2014	2013
Current tax expense		
Current period	$ 0.2	$ 0.3
	$ 0.2	$ 0.3
Deferred income tax recovery		
Origination and reversal of temporary differences	$ 13.3	$ 30.9
Difference in tax rates	0.5	(4.2)
Recognition of previously unrecognized tax losses	(3.4)	(26.5)
Change in unrecognized deductible temporary differences	(13.8)	(26.7)
	$ (3.4)	$ (26.5)
Total income tax (recovery) expense	$ (3.2)	$ (26.2)

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

	Year ended December 31, 2014		Year ended December 31, 2013	
Income before income taxes, continuing operations		$ 65.2		$ 99.7
Tax using the Company's domestic tax rate	26.00%	17.0	25.75%	25.7
Difference in tax rates	0.77%	0.5	(4.21%)	(4.2)
Over (under) provided for in prior periods	0.15%	0.1	(0.10%)	(0.1)
Other permanent differences	(5.67%)	(3.7)	5.62%	5.6
Recognition of previously unrecognized tax losses	(5.21%)	(3.4)	(26.58%)	(26.5)
Change in unrecognized deductible temporary differences	(21.01%)	(13.7)	(26.78%)	(26.7)
	(4.98%)	$ (3.2)	(26.31%)	$ (26.2)

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

10. Income taxes (continued)

The components of recognized deferred income tax assets and liabilities are as follows:

	Opening Balance	Recognized in profit or loss	Ending Balance
For the Year ended December 31, 2014			
Deferred income tax assets			
Tax loss carry-forwards	$ 49.8	$ 4.0	$ 53.8
Provisions	9.8	4.1	$ 13.9
Property, plant and equipment	6.5	(4.8)	$ 1.7
	66.1	3.3	69.4
Deferred income tax liabilities			
Intangible assets	(31.7)	-	(31.7)
Biological assets	(7.9)	0.1	(7.8)
	(39.6)	0.1	(39.5)
Total	$ 26.5	$ 3.4	$ 29.9
For the Year ended December 31, 2013			
Deferred income tax assets			
Tax loss carry-forwards	$ 18.1	$ 31.7	$ 49.8
Provisions	10.3	(0.5)	9.8
Property, plant and equipment	5.5	1.0	6.5
	33.9	32.2	66.1
Deferred income tax liabilities			
Intangible assets	(27.0)	(4.7)	(31.7)
Biological assets	(6.9)	(1.0)	(7.9)
	(33.9)	(5.7)	(39.6)
Total	$ -	$ 26.5	$ 26.5
January 1, 2013			
Deferred income tax assets			
Tax loss carry-forwards	$ 16.3	$ 1.8	$ 18.1
Provisions	9.8	0.5	10.3
Property, plant and equipment	7.2	(1.7)	5.5
	33.3	0.6	33.9
Deferred income tax liabilities			
Intangible assets	(25.9)	(1.1)	(27.0)
Biological assets	(7.4)	0.5	(6.9)
	(33.3)	(0.6)	(33.9)
Total	$ -	$ -	$ -

The Company has recognized and unrecognized deferred income tax assets in relation to unused tax losses that are available to carry forward against future taxable income. At December 31, 2014, the Company and its subsidiaries have unused non-capital tax losses carried forward of approximately $245.6 million (2013: $308.2 million), which expire between 2027 and 2034, available to reduce taxable income, and capital losses of approximately $121.3 million (2013: $121.7 million) available to be utilized against capital gains.

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

10. Income taxes (continued)

During 2014, the Company recognized a deferred income tax asset on non-capital losses that are probable to be utilized. Although the Company anticipates realizing the full benefit of the loss carry-forwards and other deferred income tax assets that remain unrecognized, the timing of recognition of these remaining deferred tax assets in excess of its deferred tax liabilities will depend on on-going assessments of economic conditions, and that the likelihood of utilizing the loss carry forwards is probable.

Deferred income tax assets have not been recognized in respect of the following loss carry-forwards and other deductible temporary differences:

	December 31, 2014	December 31, 2013
Non-capital loss carry forwards	$ 38.4	$ 116.6
Capital loss carry forwards	121.3	121.7
Employee post-retirement benefits obligation	31.0	18.3
	$ 190.7	$ 256.6

11. Other liabilities

	December 31, 2014	December 31, 2013	January 1, 2013
Employee future benefits obligation (Note 17)	$ 30.9	$ 18.3	$ 33.2
Environmental accruals, excluding non-continuing operations	1.5	1.5	1.5
Other	0.5	0.5	0.9
	$ 32.9	$ 20.3	$ 35.6

12. Silviculture provision

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

	December 31, 2014	December 31, 2013	January 1, 2013
Silviculture provision, beginning of year	$ 30.0	$ 31.0	$ 30.9
Silviculture provision charged	9.1	10.4	11.9
Silviculture work payments	(9.7)	(11.7)	(10.7)
Disposition of intangible assets	-	-	(1.4)
Unwind of discount	0.3	0.3	0.3
Silviculture provision, end of year	29.7	30.0	31.0
Less current portion	10.7	12.3	13.4
	$ 19.0	$ 17.7	$ 17.6

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.99% to 1.79% (2013: 1.00% to 2.76%). The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at December 31, 2014 is $30.9 million (December 31, 2013: $31.7 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the year.

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

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 Company has no outstanding Non-Voting and 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
Balance at January 1, 2013	251,218,424	$ 479.7	216,833,059	$ 120.3
Repurchase of shares	(27,060,434)	(35.3)	(49,862,642)	(65.0)
Conversion of non-voting shares to common shares	127,919,820	42.2	(127,919,820)	(42.2)
Balance at December 31, 2013	352,077,810	$ 486.6	39,050,597	$ 13.1
Exercise of stock options	3,671,000	4.7	-	-
Conversion of non-voting shares to common shares	39,050,597	13.1	(39,050,597)	(13.1)
Balance at December 31, 2014	394,799,407	$ 504.4	-	$ -

On January 31, 2014, on closing of a secondary offering of the Company's shares by Brookfield Special Situations Management Limited ("BSSML"), the remaining 39,050,597 Non-Voting Shares of the Company were converted, on a one-for-one basis, into Common Shares of the Company. On September 10, 2014, BSSML closed a secondary offering to sell its remaining 135,910,080 Common Shares of the Company and as of that date, BSSML no longer held Common Shares of the Company.

(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 20,000,000 Common Shares. During 2014, the Company recorded compensation expense of $2.2 million (2013: $2.3 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 grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant.

During the year, the Company granted 2,600,000 options with a fair value of $3.1 million. Assumptions applied in the option pricing model included a weighted average exercise price of $2.58, risk free interest rates of 1.71% to 3.4%, volatility rates of 36.0% to 60.0%, and an expected life of ten years. These options are only exercisable when the share price exceeds $0.70 for 60 consecutive days on a volume weighted average price basis. At December 31, 2014, 10,431,000 options were outstanding under the Company's Option Plan with a weighted average exercise price of $1.35 per Common Share.

The following table summarizes the change in the options outstanding during the years ending December 31, 2014 and 2013:

	Year ended December 31, 2014		Year ended December 31, 2013	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	13,016,795	$ 0.97	9,516,795	$ 0.86
Granted	2,600,000	$ 2.58	3,500,000	$ 1.27
Exercised	(3,671,000)	$ 0.35	-	$ -
Expired	(24,795)	$ 12.10	-	$ -
Forfeited	(1,490,000)	$ 1.25	-	$ -
Outstanding, end of year	10,431,000	$ 1.35	13,016,795	$ 0.97

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

13. Share capital (continued)

Details of options outstanding under the Option Plan at December 31, 2014 are as follows:

Exercise price	Number outstanding December 31, 2014	Weighted average remaining option life (years)	Weighted average exercise price	Number exercisable December 31, 2014	Weighted average exercise price
$ 0.22	1,000,000	5.2	$ 0.22	800,000	$ 0.22
$ 0.77	500,000	6.2	$ 0.77	300,000	$ 0.77
$ 0.95	1,150,000	7.2	$ 0.95	580,000	$ 0.95
$ 0.96	2,330,000	7.6	$ 0.96	980,000	$ 0.96
$ 1.20	44,000	3.4	$ 1.20	44,000	$ 1.20
$ 1.27	2,760,000	8.1	$ 1.27	600,000	$ 1.27
$ 1.75	191,000	1.5	$ 1.75	191,000	$ 1.75
$ 2.20	136,000	2.7	$ 2.20	136,000	$ 2.20
$ 2.61	2,020,000	9.1	$ 2.61	-	$ -
$ 2.34	300,000	9.8	$ 2.34	-	$ -
	10,431,000	7.6	$ 1.35	3,631,000	$ 0.92

(c) Deferred share unit plan

The Company has a Deferred Share Unit ("DSU") Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs and executive officers may elect to take a portion of their annual incentive bonus in the form of DSUs. All DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received if they held their DSUs as shares. For directors, the number of DSUs allotted is determined by dividing the dollar portion of the quarterly fees a director elects to take in DSUs by the share price value on the fifth day following each quarter end. For executive officers, the number of DSUs allotted is determined by dividing the dollar portion of the bonus that an executive elects 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. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the average share price for the five days leading up to the dividend date of record.

During 2014, designated executive officers were allotted 62,026 DSUs at a weighted average price of $2.55 per DSU. A further 29,579 DSUs were issued to a director at a weighted average price of $2.43 per DSU, and 116,155 DSUs were redeemed. The cumulative number of DSUs outstanding at December 31, 2014 was 926,740 (December 31, 2013: 951,290). In 2014, the Company recorded compensation expense for these DSUs of $1.0 million (2013: $0.6 million), with a corresponding increase to accounts payable and accrued liabilities.

(d) Warrants

On October 9, 2013, the Company issued 46,000,000 warrants in connection with the completion of the secondary offering of 46,000,000 of the Company's shares by BSSML on that date. Each warrant entitled the holder thereof to purchase one Common Share of the Company owned by BSSML at a price of $1.60 until July 31, 2014. Pursuant to an agreement between the Company, BSSML and Computershare Trust Company of Canada, BSSML was required to deliver from its holdings all of the Common Shares issuable upon exercise of the warrants. As a result, no Common Shares were issued by Western to satisfy the exercise of the warrants and Western did not receive any proceeds on exercise of the warrants. As at December 31, 2014, no warrants were outstanding as they had been exercised or expired on July 31, 2014.

(e) Earnings per share:

Basic earnings per share is calculated by dividing the net income by the weighted average number of Common Shares and Non-Voting Shares issued and outstanding over the period. Diluted net earnings per share is 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. Significant expenditures are also required to fund new capital roads allowing access to timber stands for harvesting purposes. During 2014, capital expenditures continued to be monitored closely because of the uncertain economic climate, but spending on certain strategic capital projects has continued because of Western's stronger financial position and growing confidence in the lumber markets.

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. Under the current market conditions the Company has decreased its debt position and has a net capitalization to debt ratio of 17% as at December 31, 2014 (December 31, 2013: 18%). 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 buy back shares, 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.

Beginning in 2013, the Company initiated a quarterly dividend program which is being paid from operating cash flows, and is at the discretion of the Company's Board of Directors.

Under the current financing agreements, the Company is subject to financial covenants. The Facility contains two financial covenants: (i) minimum consolidated adjusted shareholders' equity of $200.0 million: and (ii) 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 Loan contains two financial covenants: (i) 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 or disposition of assets, with certain exceptions) and (ii) maximum funded debt to capitalization of 0.45 to 1.0, measured on a quarterly basis. As at December 31, 2014, 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 became effective October 12, 2006 for a term of seven years with provision for an extension of two years. On January 23, 2012 the agreement was extended by two years and now terminates on October 12, 2015. The SLA provides that no action may be taken with respect to the imposition of softwood lumber duties from Canada for the twelve-month period following its expiry. 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 2014, the Company did not record export tax expense (2013: $0.9 million) as the price of lumber exceeded the Index price of US$355 per thousand board feet and a zero percent rate was applied.

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

15. Commitments and contingencies (continued)

(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(q)) 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.

The Company has satisfied its annual fibre commitments for 2014.

(d) Operating leases

Future minimum lease payments at December 31, 2014 under operating leases were as follows:

2015	$	2.8
2016		2.2
2017		1.6
2018		1.2
2019		1.2
	$	9.0

(e) Allowable annual cut (“AAC”) reductions

AAC is the amount of wood permitted to be harvested in a province within a one year period to ensure sustainability and productivity of forests. There were no changes to the Company’s AAC during 2013 and 2014.

(f) Pension funding commitments

The Company is committed to making estimated annual special payments in relation to its salaried pension plans of $3.7 million a year for 2014 to 2015 and approximately $2.0 million per year for 2016 to 2025, or until such time as a new funding valuation may lead to a change in the amount of payments required.

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

16. Segmented information

The Company manages its business as a single operating segment. 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 and property, plant and equipment are located in British Columbia, Canada.

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

	Year ended December 31, 2014	Year ended December 31, 2013
Canada	$ 441.8	$ 429.8
Japan	163.8	184.0
China	162.9	156.2
United States	189.3	122.0
Europe	36.2	38.7
Other	42.9	46.8
	$ 1,036.9	$ 977.5

17. Employee future benefits

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

	December 31, 2014		December 31, 2013	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Plan assets:				
Fair value, beginning of year	$ 105.9	$ -	$ 101.6	$ -
Company contributions	4.3	0.4	3.2	0.4
Benefits and administrative expenses paid	(8.7)	(0.4)	(7.8)	(0.4)
Actual return on assets	8.5	-	8.9	-
Fair value, end of year	$ 110.0	$ -	$ 105.9	$ -
Accrued benefit obligation:				
Balance, beginning of year	$ 118.7	$ 5.5	$ 126.7	$ 8.1
Current service costs and administrative expenses	0.2	-	0.2	-
Benefits and administrative expenses paid	(8.7)	(0.4)	(7.8)	(0.4)
Interest cost	5.2	0.3	5.1	0.3
Actuarial (gain) loss	19.4	0.7	(5.5)	(2.5)
Balance, end of year	$ 134.8	$ 6.1	$ 118.7	$ 5.5
Deficit recognized in Statement of Financial Position (Note 11)	$ (24.8)	$ (6.1)	$ (12.8)	$ (5.5)
Cumulative actuarial gains (losses), beginning of year	$ (14.7)	$ 1.1	$ (25.1)	$ (1.4)
Actuarial gains (losses) recognized directly in OCI	15.8	0.7	10.4	2.5
Cumulative actuarial gains (losses), end of year	$ 1.1	$ 1.8	$ (14.7)	$ 1.1
Experience gains (losses):				
Experience gains (losses) on plan assets:				
Amount	$ 3.7	n/a	$ 4.9	n/a
Percentage of plan assets	3.34%	n/a	4.58%	n/a
Experience gains (losses) on plan liabilities:				
Amount	$ (3.6)	$ 2.4	$ 0.2	$ 2.4
Percentage of plan assets	(2.68)%	43.18%	0.17%	43.18%

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

17. Employee future benefits (continued)

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 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 as 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, 2014 were $16.6 million (December 31, 2013: $14.0 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 performed at December 31, 2013. The next actuarial valuation for both the funded and unfunded defined benefit plans and other unfunded post-employment benefit plans will be prepared for December 31, 2016.

Included in the accrued benefit obligations and plan assets for salaried pension plans, presented above, are accrued benefit obligations of $128.0 million at December 31, 2014 (December 31, 2013: $111.7 million) in respect of plans that are wholly or partly funded.

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

	December 31, 2014	December 31, 2013
Equity securities	37%	32%
Debt securities	61%	67%
Other	2%	1%
	100%	100%

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations (expressed as weighted averages) are as follows:

	December 31, 2014	December 31, 2013	December 31, 2014 Increase (Decrease) of Accrued Benefit Obligation with Change in Assumption	
			1% Increase	1% Decrease
Discount rate, beginning of year for:				
Pension plans	4.56%	4.19%	n/a	n/a
Non-pension plans	4.30%	4.10%	n/a	n/a
Discount rate, end of year for:				
Pension plans	3.83%	4.56%	14,491,300	(17,684,200)
Non-pension plans	3.65%	4.30%	524,900	(609,300)
Rate of compensation increase for all plans	3.49%	3.38%	(2,127,100)	1,942,900
Health care cost trend rate	5.90% in 2015 grading to 4.35% in 2026	5.90% in 2014 grading to 4.35% in 2026	(413,900)	387,900

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

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

17. Employee future benefits (continued)

	December 31, 2014		December 31, 2013 [Restated]	
	Salaried Pension Plans	Non-pension Plans	Salaried Pension Plans	Non-pension Plans
Defined benefit plans:				
Current service costs and administrative expenses	$ 0.2	$ -	$ 0.2	$ -
Net interest costs	0.5	0.2	1.0	0.3
Cost of defined benefit plans	0.7	0.2	1.2	0.3
Cost of defined contribution plans	2.8	-	2.7	-
Total cost of employee post-retirement benefits	$ 3.5	$ 0.2	$ 3.9	$ 0.3

The Company expects to make funding contributions to its defined benefit plans of $3.7 million during 2015.

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. The Company's liability is limited to its contributions. The pension expense for these plans is equal to the Company's contributions and for 2014 amounted to $9.1 million (2013: $8.0 million).

18. Financial instruments – fair values and risk management

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying Amount					Fair Value			
December 31, 2014	Held to maturity	Designated at fair value	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Investments	$ 5.0	$ -	$ -	$ -	$ 5.0	-	5.0	-	$5.0
	$ 5.0	$ -	$ -	$ -	$ 5.0				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 1.8	$ -	$ 1.8				
Trade and other receivables	-	-	65.6	-	65.6				
	$ -	$ -	$ 67.4	$ -	$ 67.4				
Financial liabilities measured at fair value									
Foreign currency forward contracts	$ -	$ 0.3	$ -	$ -	$ 0.3	-	0.3	-	$0.3
	$ -	$ 0.3	$ -	$ -	$ 0.3				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 76.3	$ 76.3				
Long-term debt (Note 9)	-	-	-	73.0	73.0				
	$ -	$ -	$ -	$ 149.3	$ 149.3				
December 31, 2013									
Financial assets measured at fair value									
Investments	$ 5.0	$ -	$ -	$ -	$ 5.0	-	5.0	-	$5.0
	$ 5.0	$ -	$ -	$ -	$ 5.0				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 5.6	$ -	$ 5.6				
Trade and other receivables	-	-	69.0	-	69.0				
	$ -	$ -	$ 74.6	$ -	$ 74.6				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 79.8	$ 79.8				
Long-term debt (Note 9)	-	-	-	88.5	88.5				
	$ -	$ -	$ -	$ 168.3	$ 168.3				

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

18. Financial instruments – fair value and risks management (continued)

(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, and cash and cash equivalents. The carrying amount of the Company's financial assets 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. The Company's general practice is to insure substantially all North American lumber receivables for 90% of value with the Export Development Corporation or Coface Canada, while substantially all export sales are sold on either a cash basis or with secured instruments, which reduces the Company's exposure to bad debts.

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, 2014, the Company had an allowance for doubtful customer accounts of $0.1 million (December 31, 2013: nil).

The aging of trade and other receivables at the reporting date that were not impaired was as follows:

	December 31, 2014		December 31, 2013	
	Gross value	Impairment	Gross value	Impairment
Not past due	$ 55.8	$ -	$ 61.7	$ -
Past due, 0 - 30 days	9.8	-	7.2	-
Past due, 31 - 120 days	0.1	0.1	0.1	-
Past due, 120 - 365 days	-	-	-	-
More than 1 year	-	-	-	-
	$ 65.7	$ 0.1	$ 69.0	$ -

The Company held cash and cash equivalents of $1.8 million at December 31, 2014 (December 31, 2013: $5.6 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, 2014, a change of 1% in interest rates would have increased or decreased annual net income by approximately $0.9 million. The Company does not currently use derivative instruments to reduce its exposure to interest rate risk.

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

18. Financial instruments – fair values and risk management (continued)

(iii) Currency risk

Certain of the Company's sales transactions are denominated in foreign currencies, principally, the US dollar ("USD") and Japanese Yen ("JPY"), and accordingly the Company is exposed to currency risk associated with changes in foreign exchange rates. To assist in managing this exchange risk, the Company sells forward contracts with a maximum term for each transaction of up to one year. The Company does not consider the credit risk associated with the counterparty risk to be significant.

During 2014, the Company entered into forward contracts to sell USD and JPY in order to mitigate a portion of the foreign currency risk. At December 31, 2014, the Company had outstanding obligations to sell an aggregate US$32.0 million at an average exchange rate of CAD$1.1457 per US dollar with maturities through March 31, 2015, and to sell JPY 950 million at a rate of JPY 101.10 per CAD with maturities through March 3, 2015.

All foreign currency gains and losses to December 31, 2014 have been recognized in sales in the consolidated statement of comprehensive income and the fair value of these instruments at December 31, 2014 was a net liability of $0.3 million which is included in accounts payable and accrued liabilities on the consolidated statement of financial position (December 31, 2013: nil). A net loss of $0.3 million (2013: net gain of $0.1 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 CAD as compared to the JPY would result in a gain (loss) of approximately $0.1 million in relation to the JPY Yen/CAD foreign exchange contracts held at December 31, 2014. An increase (decrease) of 1% in the value of the CAD as compared to the US dollar would result in a gain (loss) of approximately $0.4 million in relation to the US dollar foreign exchange contracts held at December 31, 2014.

Certain receivable balances at December 31, 2014 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, 2014, the Company's accounts receivable denominated in US dollars totaled $20.3 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 $0.3 million. In addition, as at December 31, 2014, the Company had a total of $0.7 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, 2014, the Company had $132.6 million (December 31, 2013: $120.3 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	2 - 3 years	4 - 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 76.6	$ 76.6	$ 76.6	$ -	$ -	$ -	$ -
Revolving credit facility	6.7	7.9	0.6	7.3	-	-	-
Revolving term loan	73.0	86.6	1.2	1.2	5.4	78.7	-
	$ 156.3	$ 171.1	$ 78.5	$ 8.5	$ 5.4	$ 78.7	$ -

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

19. Operating restructuring items

Operating restructuring items for 2014 of $10.8 million related to severance and other costs associated with restructuring activities. $1.2 million resulted from the arbitrated settlement of a union grievance issue relating to the 2011 curtailment of the Duke Point and Nanaimo sawmills in the second quarter of 2014, $8.1 million resulted from the closure of the Nanaimo sawmill at the end of the third quarter of 2014, and $0.3 million resulted from the restructuring of the Company's Japan division during the fourth quarter of 2014. The Company recognized an additional $1.2 million in unrelated severance costs during the year. Operating restructuring items for 2013 of $0.7 million related to severance costs associated with restructuring activities.

20. Finance costs

	Year ended December 31, 2014	Year ended December 31, 2013
Long-term debt	$ 3.1	$ 2.5
Revolving credit facility	0.9	0.8
Amortization of deferred financing costs	0.5	0.5
Net interest - defined benefit plan obligation	0.8	1.3
Unwind of discount on provisions	0.3	0.3
Other	0.1	-
	$ 5.7	$ 5.4

21. Other income

Other income of $1.4 million earned in 2014 was mainly comprised of net gains on disposal of non-core assets of $0.9 million, and miscellaneous other income of $0.5 million.

Other income of $0.3 million earned in 2013 was comprised of net gains on disposal of non-core assets of $1.5 million, offset by demolition costs of $1.6 million incurred during the year, and miscellaneous other income of $0.4 million.

22. Discontinued operations

In March 2006, the Company closed its Squamish pulp mill located on 212 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 have been expensed as incurred.

In January 2013, Western announced that it had entered into a conditional agreement for the sale of its former Squamish Pulp Mill site. Closing was subject to certain conditions and Western was responsible for the satisfactory remediation of the property to applicable environmental standards prior to closing the sale. During 2013, both parties agreed to a specific remediation plan, and a deposit of $5.5 million was placed in trust by the purchaser. In 2014, the Company completed its remediation plan in accordance with the terms of the agreement.

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

	Year ended December 31, 2014	Year ended December 31, 2013
Net loss from discontinued operations	$ -	$ (0.5)
Cash used in discontinued operations	$ (0.3)	$ (3.2)

	December 31, 2014	December 31, 2013
Assets of discontinued operations, excluding land	$ 2.8	$ 2.8
Liabilities of discontinued operations	$ 4.8	$ 5.1

On February 6, 2015, the Company completed the sale of its Squamish Pulp Mill site. Refer to Note 25 for more details.

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

23. Related parties

(a) Related party transactions

In addition to the related party transactions identified elsewhere in these consolidated financial statements, the Company had certain arrangements with entities related to BSSML and Brookfield Asset Management Inc. ("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,			
	2014		2013	
Costs incurred for:				
Log purchases	$	9.6	$	15.8
Other		9.2		8.8
	$	18.8	$	24.6
Income received for:				
Log sales	$	12.4	$	14.8
	$	12.4	$	14.8

Concurrent with the sale of all remaining Common Shares in the Company by BSSML through a secondary offering completed on September 10, 2014, BSSML and BAM are no longer related parties to the Company.

(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,			
	2014		2013	
Salaries and directors' fees	$	6.5	$	2.9
Post-employment benefits		0.3		0.3
Share-based payments		2.2		2.3
	$	9.0	$	5.5

At December 31, 2014, $3.4 million of the key management compensation costs incurred for the year then ended were included in accounts payable and accrued liabilities (December 31, 2013: $1.2 million).

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

24. Expense categorization

Expenses by function:

	Year ended December 31, 2014	Year ended December 31, 2013
Administration	$ 23.8	$ 24.4
Distribution expenses	95.2	91.5
Cost of goods sold	840.5	764.3
	$ 959.5	$ 880.2

Costs by nature:

	Year ended December 31, 2014	Year ended December 31, 2013
Compensation costs	$ 214.4	$ 210.0
Amortization in cost of goods sold	29.4	28.3
Amortization in selling and administration	0.2	0.9
	$ 244.0	$ 239.2

25. Subsequent Events

On February 6, 2015, the Company completed the sale of its former Squamish pulp mill site for proceeds of $21.8 million, and anticipates recognizing a gain on disposition in the first quarter ending March 31, 2015.

Western Forest Products Inc.

Suite 510
700 West Georgia Street
T D Tower, PO Box 10032
Vancouver, British Columbia
Canada V7Y 1A1
Telephone: 604 648 4500

www.westernforest.com
info@westernforest.com

Trading on the TSX as “WEF”