



Western Forest Products Inc.
DEFINING A HIGHER STANDARD™

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2017 and 2016

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

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 65.2	\$ 19.0
Trade and other receivables	87.3	107.0
Inventory ^(Note 5)	136.3	149.8
Prepaid expenses and other assets	16.0	14.2
	<u>304.8</u>	<u>290.0</u>
Non-current assets:		
Property, plant and equipment ^(Note 6)	300.3	297.2
Intangible assets	118.2	121.2
Biological assets ^(Note 7)	57.5	57.6
Other assets	13.9	11.0
Deferred income tax assets ^(Note 10)	0.2	0.2
	<u>\$ 794.9</u>	<u>\$ 777.2</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 110.0	\$ 102.6
Silviculture provision ^(Note 11)	9.2	9.7
	<u>119.2</u>	<u>112.3</u>
Non-current liabilities:		
Long-term debt ^(Note 9)	-	34.4
Silviculture provision ^(Note 11)	15.6	19.2
Deferred income tax liabilities ^(Note 10)	20.7	2.0
Other liabilities ^(Note 12)	27.2	28.4
Deferred revenue	56.9	58.4
	<u>239.6</u>	<u>254.7</u>
Shareholders' equity:		
Share capital ^(Note 13)	506.8	506.0
Contributed surplus	8.5	8.6
Retained earnings	40.0	7.9
	<u>555.3</u>	<u>522.5</u>
	<u>\$ 794.9</u>	<u>\$ 777.2</u>

Commitments and Contingencies ^(Note 14)

Subsequent Events ^(Note 10, 19)

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

Approved on behalf of the Board:

"Lee Doney"
Chairman

"Don Demens"
President and CEO

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue	\$ 285.2	\$ 322.7	\$ 860.3	\$ 894.3
Costs and expenses:				
Cost of goods sold	218.3	264.5	652.3	716.2
Export tax ^(Note 14)	6.5	-	15.7	-
Freight	26.7	25.5	80.2	71.1
Selling and administration	8.6	6.5	25.4	20.8
	<u>260.1</u>	<u>296.5</u>	<u>773.6</u>	<u>808.1</u>
Operating income prior to restructuring items and other income	<u>25.1</u>	<u>26.2</u>	<u>86.7</u>	<u>86.2</u>
Operating restructuring items ^(Note 17)	(7.1)	(0.6)	(11.3)	(2.1)
Other income (expense) ^(Note 18)	0.4	(1.4)	0.7	(1.9)
Operating income	<u>18.4</u>	<u>24.2</u>	<u>76.1</u>	<u>82.2</u>
Finance costs	(0.6)	(1.2)	(2.0)	(3.4)
Income before income taxes	<u>17.8</u>	<u>23.0</u>	<u>74.1</u>	<u>78.8</u>
Current income tax expense ^(Note 10)	(0.1)	(0.1)	(0.2)	(0.2)
Deferred income tax expense ^(Note 10)	(4.1)	(6.1)	(18.5)	(20.7)
	<u>(4.2)</u>	<u>(6.2)</u>	<u>(18.7)</u>	<u>(20.9)</u>
Net income	<u>13.6</u>	<u>16.8</u>	<u>55.4</u>	<u>57.9</u>
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss) ^(Note 15)	2.6	(0.8)	0.6	(4.2)
Income tax on other comprehensive gain (loss) ^(Note 10)	(0.7)	0.2	(0.2)	1.0
Total items that will not be reclassified to profit or loss	<u>1.9</u>	<u>(0.6)</u>	<u>0.4</u>	<u>(3.2)</u>
Other comprehensive income (loss) for the period	<u>1.9</u>	<u>(0.6)</u>	<u>0.4</u>	<u>(3.2)</u>
Total comprehensive income	<u>\$ 15.5</u>	<u>\$ 16.2</u>	<u>\$ 55.8</u>	<u>\$ 54.7</u>
Net income per share (in dollars)				
Basic and diluted earnings per share	\$ 0.04	\$ 0.04	\$ 0.14	\$ 0.15
Weighted average number of common shares outstanding (thousands)				
Basic	395,721	395,448	395,550	395,378
Diluted	400,403	399,150	399,412	399,136

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

Western Forest Products Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Expressed in millions of Canadian dollars) (unaudited)

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
Balance at December 31, 2015	\$ 505.5	\$ 7.6	\$ (57.2)	\$ 455.9
Net income	-	-	57.9	57.9
Other comprehensive income:				
Defined benefit plan actuarial loss recognized	-	-	(4.2)	(4.2)
Income tax recovery on other comprehensive loss	-	-	1.0	1.0
Total comprehensive income	-	-	54.7	54.7
Share-based payment transactions recognized in equity	-	0.9	-	0.9
Exercise of stock options	0.5	(0.2)	-	0.3
Dividends	-	-	(23.7)	(23.7)
Total transactions with owners, recorded directly in equity	0.5	0.7	(23.7)	(22.5)
Balance at September 30, 2016	\$ 506.0	\$ 8.3	\$ (26.2)	\$ 488.1
Balance at December 31, 2016	\$ 506.0	\$ 8.6	\$ 7.9	\$ 522.5
Net income	-	-	55.4	55.4
Other comprehensive income:				
Defined benefit plan actuarial gain recognized	-	-	0.6	0.6
Income tax expense on other comprehensive income	-	-	(0.2)	(0.2)
Total comprehensive income	-	-	55.8	55.8
Share-based payment transactions recognized in equity	-	0.2	-	0.2
Exercise of stock options	0.8	(0.3)	-	0.5
Dividends	-	-	(23.7)	(23.7)
Total transactions with owners, recorded directly in equity	0.8	(0.1)	(23.7)	(23.0)
Balance at September 30, 2017	\$ 506.8	\$ 8.5	\$ 40.0	\$ 555.3

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

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities:				
Net income	\$ 13.6	\$ 16.8	\$ 55.4	\$ 57.9
Items not involving cash:				
Amortization of property, plant and equipment ^(Note 6)	8.0	7.8	23.9	22.1
Amortization of intangible assets	1.0	1.0	3.0	3.0
Gain on disposal of assets	(1.3)	(0.1)	(3.6)	-
Impairment of assets ^(Note 17)	0.5	-	3.2	-
Change in fair value of biological assets ^(Note 7)	(1.4)	0.7	0.1	3.0
Change in silviculture liability ^(Note 11)	(1.2)	(0.6)	(4.1)	(1.5)
Amortization of deferred revenue	(0.5)	(0.5)	(1.5)	(1.5)
Share-based compensation, including mark-to-market adjustment	1.2	0.8	4.1	2.0
Net finance costs	0.6	1.2	2.0	3.4
Deferred income tax expense ^(Note 10)	4.1	6.1	18.5	20.7
Other	(1.5)	1.4	(4.1)	(1.9)
	<u>23.1</u>	<u>34.6</u>	<u>96.9</u>	<u>107.2</u>
Changes in non-cash working capital items:				
Trade and other receivables	4.3	(5.0)	19.7	(21.1)
Inventory	(0.4)	18.7	13.0	(15.4)
Prepaid expenses and other assets	(2.6)	4.4	(2.3)	0.3
Accounts payable and accrued liabilities	9.0	(10.5)	3.6	9.0
	<u>10.3</u>	<u>7.6</u>	<u>34.0</u>	<u>(27.2)</u>
	<u>33.4</u>	<u>42.2</u>	<u>130.9</u>	<u>80.0</u>
Investing activities:				
Additions to property, plant and equipment ^(Note 6)	(15.1)	(9.4)	(32.7)	(40.8)
Proceeds on disposal of assets	3.5	0.2	7.0	0.3
	<u>(11.6)</u>	<u>(9.2)</u>	<u>(25.7)</u>	<u>(40.5)</u>
Financing activities:				
Interest paid	(0.2)	(0.7)	(0.9)	(1.9)
Repayments under revolving credit facility, net ^(Note 8)	-	(13.2)	-	-
Repayment of long-term debt ^(Note 9)	-	-	(35.0)	(5.0)
Dividends	(7.9)	(7.9)	(23.7)	(23.7)
Proceeds from exercise of stock options	0.4	-	0.6	0.3
	<u>(7.7)</u>	<u>(21.8)</u>	<u>(59.0)</u>	<u>(30.3)</u>
Increase in cash and cash equivalents	14.1	11.2	46.2	9.2
Cash and cash equivalents, beginning of period	51.1	7.4	19.0	9.4
Cash and cash equivalents, end of period	<u>\$ 65.2</u>	<u>\$ 18.6</u>	<u>\$ 65.2</u>	<u>\$ 18.6</u>

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

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2017 and 2016

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

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, British Columbia ("BC"), Canada. The unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2017 and 2016 comprise the financial results of 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. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year ended December 31, 2016. These interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

The interim financial statements were authorized for issue by the Board of Directors on November 2, 2017.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of interim consolidated financial statements in accordance with IAS 34 requires Management to make 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.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the interim financial statements, are disclosed in the Company's annual consolidated financial statements as at and for the year ended December 31, 2016.

The Company does not include WorkSafeBC Certificate of Recognition ("COR") rebates when estimating its WorkSafeBC insurance premium expense, as the collectability of COR rebates cannot be reasonably assured. During the nine months ended September 30, 2017, the Company recognized a reduction to cost of goods sold of \$3.1 million for the receipt of COR rebates arising from fiscal years 2014 and 2016.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2017 and 2016

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

3. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2016.

(a) Standards and interpretations not yet adopted

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 its consolidated financial statements for the year commencing January 1, 2018. The extent of the impact of adoption of the standard, based on the Company's preliminary evaluation, is not expected to be material to the financial statements.

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

IFRS 15 is effective for years commencing on or after January 1, 2018, 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, 2018. The extent of the impact of adoption of the standard, based on the Company's preliminary evaluation, is not expected to be material to the financial statements.

IFRS 16, Leases ("IFRS 16")

IFRS 16 is effective for years commencing on or after January 1, 2019, and will replace IAS 17, Leases ("IAS 17"). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value, while lessor accounting remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. The Company intends to adopt IFRS 16 in its consolidated financial statements for the year commencing January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. Seasonality of operations

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

5. Inventory

	September 30, 2017	December 31, 2016
Logs	\$ 90.0	\$ 93.0
Lumber	43.6	57.2
Supplies and other	13.9	13.6
Provision for write downs	(11.2)	(14.0)
Total value of inventory	<u>\$ 136.3</u>	<u>\$ 149.8</u>

The carrying amount of inventory recorded at net realizable value was \$46.7 million at September 30, 2017 (December 31, 2016: \$55.7 million), with the remaining inventory recorded at cost.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2017 and 2016

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

5. Inventory (continued)

During the three months ended September 30, 2017, \$218.3 million (2016: \$264.5 million) of inventory was charged to cost of goods sold, which includes an increase to the provision for write-down to net realizable value of \$0.8 million (2016: decrease of \$2.2 million). During the nine months ended September 30, 2017, \$652.3 million (2016: \$716.2 million) of inventory was charged to cost of goods sold, which includes a decrease to the provision for write-down to net realizable value of \$2.8 million (2016: \$2.8 million).

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

6. Property, plant and equipment

Cost	Buildings & equipment			Logging roads			Land			Total property, plant & equipment
Balance at January 1, 2016	\$	261.2	\$	165.3	\$	90.6	\$	517.1		
Additions		43.0		13.1		-		56.1		
Disposals		(1.4)		-		-		(1.4)		
Balance at December 31, 2016		302.8		178.4		90.6		571.8		
Additions		22.5		10.2		-		32.7		
Disposals		(2.3)		-		(2.4)		(4.7)		
Balance at September 30, 2017	\$	323.0	\$	188.6	\$	88.2	\$	599.8		
Accumulated amortization and impairments										
Balance at January 1, 2016	\$	114.0	\$	131.8	\$	-	\$	245.8		
Amortization		17.1		12.7		-		29.8		
Disposals		(1.0)		-		-		(1.0)		
Balance at December 31, 2016		130.1		144.5		-		274.6		
Amortization		14.8		9.1		-		23.9		
Disposals		(1.7)		-		-		(1.7)		
Impairments ^(Note 17)		2.6		-		0.1		2.7		
Balance at September 30, 2017	\$	145.8	\$	153.6	\$	0.1	\$	299.5		
Carrying amounts										
At December 31, 2016	\$	172.7	\$	33.9	\$	90.6	\$	297.2		
At September 30, 2017	\$	177.2	\$	35.0	\$	88.1	\$	300.3		

7. Biological assets

(a) Reconciliation of carrying amount

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Carrying value, beginning of period	\$ 56.1	\$ 51.4	\$ 57.6	\$ 53.7
Change in fair value due to growth and pricing	1.4	1.3	4.2	2.9
Harvested timber transferred to inventory	-	(2.0)	(4.3)	(5.9)
Carrying value, end of period	\$ 57.5	\$ 50.7	\$ 57.5	\$ 50.7

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

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

At September 30, 2017, private timberlands comprised an area of approximately 23,293 hectares (2016: 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 three and nine months ended September 30, 2017, the Company harvested and scaled approximately 1,107 cubic metres ("m³") and 111,571 m³, respectively (2016: 51,777 m³ and 226,113 m³, respectively), of logs from its private timberlands, which had a fair value less costs to sell of \$112 per m³ and \$113 per m³, respectively at the date of harvest (2016: \$111 per m³ and \$109 per m³, respectively).

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2017 and 2016

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

7. Biological assets (continued)

(a) Reconciliation of carrying amount (continued)

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

(b) Measurement of fair values

The fair value measurement for the Company's standing timber of \$57.5 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used (2016: Level 3 fair value). The valuation technique used is discounted cash flows combined with market comparison.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at September 30, 2017 and noted no indication that a full re-assessment of fair value less costs to sell, or of the previously applied significant unobservable inputs, was warranted at that date.

The change in fair value resulting from price and growth is reflected in cost of goods sold.

8. Revolving credit facility

	September 30, 2017	December 31, 2016
Available	\$ 125.0	\$ 125.0
Outstanding letters of credit	1.0	0.9
Unused portion of Facility	<u>\$ 124.0</u>	<u>\$ 124.1</u>

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, and has a maturity date of December 14, 2017. The Facility bears interest at the Canadian Prime rate (if availability exceeds 35% of the borrowing base) or at the Canadian Prime rate plus 0.25% (if availability is less than 35% of the borrowing base) or at the Company's option, at rates for Bankers' Acceptances ("BA") or London Interbank Offered Rate ("LIBOR") based loans plus 1.25% or 1.50%, dependent on the same availability criteria. The interest rate for the Facility was 3.20% at September 30, 2017 (December 31, 2016: 2.70%).

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants. The Company was in compliance with its financial covenants at September 30, 2017.

9. Long-term debt

	September 30, 2017	December 31, 2016
Long-term debt	\$ -	\$ 35.0
Less transaction costs	-	(0.6)
	<u>\$ -</u>	<u>\$ 34.4</u>
Available	\$ 110.0	\$ 110.0
Drawings	-	35.0
Unused portion of Term Loan	<u>\$ 110.0</u>	<u>\$ 75.0</u>

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of \$110.0 million and has a maturity date of June 29, 2019. The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate plus 0.15%, and (ii) the 30 day BA rate plus 1.65% or at the election of the Company, the applicable BA rate plus 1.65%. The interest rate for the Term Loan was 3.35% at September 30, 2017 (December 31, 2016: 2.60%).

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2017 and 2016

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

9. Long-term debt (continued)

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 accounts receivable and inventory, over which it has a second lien interest, and includes financial covenants. The Company was in compliance with its financial covenants at September 30, 2017. Transaction costs are deferred and amortized to finance costs over the term of the Term Loan using the effective interest rate method.

At September 30, 2017, there were no amounts outstanding under the Company's Term Loan and as a result, the associated deferred transaction costs of \$0.4 million are included in other assets on the statement of financial position.

10. Income taxes

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Current income tax expense	\$ (0.1)	\$ (0.1)	\$ (0.2)	\$ (0.2)
Deferred income tax expense	(4.1)	(6.1)	(18.5)	(20.7)
	<u>\$ (4.2)</u>	<u>\$ (6.2)</u>	<u>\$ (18.7)</u>	<u>\$ (20.9)</u>

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Income before income taxes	\$ 17.8	\$ 23.0	\$ 74.1	\$ 78.8
Income tax expense at statutory rate of 26%	(4.6)	(6.0)	(19.3)	(20.5)
Permanent differences	0.4	(0.2)	0.6	(0.4)
	<u>\$ (4.2)</u>	<u>\$ (6.2)</u>	<u>\$ (18.7)</u>	<u>\$ (20.9)</u>

In addition to the amounts recorded to net income, a deferred income tax expense of \$0.7 million and \$0.2 million was recorded to other comprehensive income for the three and nine month periods ended September 30, 2017, respectively (2016: deferred income tax recovery of \$0.2 million and \$1.0 million, respectively) in relation to current period actuarial gains on defined benefit employee future benefit obligations.

Subsequent to September 30, 2017, the statutory rate increased to 27%.

11. Silviculture provision

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Silviculture provision, beginning of period	\$ 25.9	\$ 29.9	\$ 28.9	\$ 30.8
Silviculture provision charged	1.6	2.5	3.4	7.3
Silviculture expenditures	(2.8)	(2.9)	(7.7)	(8.7)
Unwind of discount	0.1	-	0.2	0.1
Silviculture provision, end of period	<u>24.8</u>	<u>29.5</u>	<u>24.8</u>	<u>29.5</u>
Less current portion	9.2	11.3	9.2	11.3
	<u>\$ 15.6</u>	<u>\$ 18.2</u>	<u>\$ 15.6</u>	<u>\$ 18.2</u>

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 1.41% to 2.11%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at September 30, 2017 is \$25.7 million (December 31, 2016: \$29.6 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the period.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2017 and 2016

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

12. Other liabilities

	September 30, 2017	December 31, 2016
Employee future benefits obligation ^(Note 15)	\$ 20.6	\$ 23.1
Environmental accruals	2.9	2.5
Performance share unit plan liabilities, non-current ^(Note 13)	2.2	1.5
Other	1.5	1.3
	<u>\$ 27.2</u>	<u>\$ 28.4</u>

13. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares	Amount
Balance at December 31, 2016	395,447,663	\$ 506.0
Exercise of stock options	407,429	0.8
Balance at September 30, 2017	<u>395,855,092</u>	<u>\$ 506.8</u>

(b) Stock option plan

The Company has an incentive stock option plan (the "Option Plan"), which permits the granting of options to eligible participants to purchase up to an aggregate of 20,000,000 Common Shares.

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

During the first quarter of 2017, the Company granted 1,560,750 options with a fair value of \$0.8 million as determined by the Black-Scholes option pricing model, using the assumptions of an average exercise price of \$2.09 per share, risk free interest rate of 1.36%, a volatility rate of 35.15%, and an expected life of seven years. During the second quarter of 2017, the Company granted 97,127 options using the assumptions of an average exercise price of \$2.15 per share, risk free interest rate of 1.27%, a volatility rate of 34.56%, and an expected life of seven years. At September 30, 2017, 11,718,483 options (December 31, 2016: 11,235,585) were outstanding under the Company's Option Plan, with a weighted average exercise price of \$1.56 per share.

	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of period	11,235,585	\$ 1.50	10,158,667	\$ 1.44
Granted	1,657,877	\$ 2.09	1,330,918	\$ 1.97
Exercised	(426,226)	\$ 1.40	(215,000)	\$ 1.48
Forfeited	(748,753)	\$ 1.99	(39,000)	\$ 2.61
Outstanding, end of period	<u>11,718,483</u>	<u>\$ 1.56</u>	<u>11,235,585</u>	<u>\$ 1.50</u>

During the three and nine months ended September 30, 2017, the Company recorded a compensation recovery for these stock options of \$0.3 million and expense of \$0.2 million, respectively (2016: compensation expense of \$0.3 million and \$0.8 million, respectively).

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13. Share capital (continued)

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

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

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

	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
	Number of DSU	Weighted average unit value	Number of DSU	Weighted average unit value
Outstanding, beginning of period	1,100,073	\$ 0.98	981,495	\$ 0.86
Granted	138,410	\$ 2.34	119,621	\$ 2.14
Redeemed	-	\$ -	(49,455)	\$ 1.25
Outstanding, end of period	1,238,483	\$ 1.13	1,051,661	\$ 0.99

During the three and nine months ended September 30, 2017, the Company recorded compensation expense for these DSUs of \$0.5 million and \$1.2 million (2016: compensation expense of \$0.2 million and \$0.2 million, respectively), with a corresponding adjustment to accounts payable and accrued liabilities.

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

The Company has established a PSU Plan for designated officers and employees of the Company. Under the terms of the PSU Plan, participants are granted a number of PSUs based on a target award divided by the value of the Company's Common Shares at the effective date of grant. All PSU holders are entitled to PSU dividends, equivalent to the dividend they would have received if they held their PSUs as common shares.

Performance targets are set by the Management Resource & Compensation Committee of the Company's Board of Directors. The number of PSUs which will ultimately vest will be the original number of PSUs granted plus PSUs equal to the value of accrued notional dividends over the performance period. For dividends, the number of PSUs allotted is determined by dividing the total dollar value of the dividend each PSU holder would have received, by the closing share price on the trading day immediately after the dividend date of record. The redemption value of vested PSUs will be in a range from 0% to 200% based on return on capital employed over a three year performance period.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Outstanding, beginning of period	1,557,856	933,219	952,236	434,115
Granted	11,881	8,839	617,501	542,866
Forfeited	-	-	-	(34,923)
Outstanding, end of period	1,569,737	942,058	1,569,737	942,058

During the three months and nine months ended September 30, 2017, the Company recorded compensation expense for these PSUs of \$1.0 million and \$2.7 million, respectively (2016: compensation expense of \$0.3 million and \$1.0 million, respectively), with a corresponding adjustment to accounts payable and accrued liabilities and other liabilities.

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14. Commitments and contingencies

Long-term fibre supply agreements

Certain of the Company's long term fibre supply agreements with third parties have minimum volume requirements and may, in the case of a failure to produce the minimum annual volume, require the Company to conduct whole log chipping or sell saw logs, which could reduce log availability for our sawmills, source the deficiency from third parties at additional cost to the Company or pay the party to the fibre supply agreement a penalty calculated based on the provisions contained in the relevant agreement. Should Western take significant market related curtailments in its sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet its contractual obligations, if it is not possible to secure replacement chips on the open market during that period.

The Company had met all fibre commitments as at December 31, 2016 and, based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2017.

Softwood lumber trade - countervailing and anti-dumping duties

In November 2016, the US Lumber Coalition petitioned the US Department of Commerce ("DoC") and the US International Trade Commission ("ITC") to investigate alleged subsidies to Canadian lumber producers for the purpose of initiating countervailing ("CVD") and anti-dumping duties ("AD").

On April 24, 2017, the DoC announced a CVD rate of 19.88% for "all other" Canadian lumber producers including Western. The DoC also made a preliminary determination on critical circumstances that resulted in 90-day retroactive application of CVD.

On June 26, 2017, the DoC announced an AD rate of 6.87% for "all other" Canadian lumber producers including Western. The DoC also made a preliminary determination on critical circumstances that resulted in 90-day retroactive application of AD.

On November 2, 2017, the DoC announced final CVD and AD rates of 14.25% and 6.58%, respectively, for "all other" Canadian lumber producers including Western. In addition, the DoC concluded that critical circumstances did not exist for CVD but did exist for AD.

Cash deposits for CVD were required for lumber imports to the US effective April 28, 2017. Cash deposits for CVD have not been applicable since August 26, 2017, and are not applicable again until the ITC makes a final injury determination, which is expected to occur in December 2017.

Cash deposits for AD were required for lumber imports to the US effective June 30, 2017, and Western's estimate for 90-day retroactive duty arising from the DoC's November 2, 2017 final finding of critical circumstances is USD\$2.9 million.

The Company believes it is more likely than not that the retroactive duty application will be reversed, consistent with the results of past softwood lumber disputes, and as such will recognize the retroactive duties as deposits upon payment. Adjustments resulting from the final CVD and AD rates and critical circumstances determinations will be made prospectively.

15. Employee benefits

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Current service costs	\$ 0.1	\$ 0.1	\$ 0.3	\$ 0.3
Net interest	0.1	0.2	0.5	0.8
Cost of defined benefit plans	0.2	0.3	0.8	1.1
Cost of defined contribution plans	0.8	0.8	2.9	2.4
Total cost of employee post-retirement benefits	\$ 1.0	\$ 1.1	\$ 3.7	\$ 3.5

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15. Employee benefits (continued)

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

	September 30, 2017	December 31, 2016
Present value of obligations	\$ 129.3	\$ 132.3
Fair value of plan assets	(108.7)	(109.2)
Liability recognized in the statement of financial position ^(Note 12)	<u>\$ 20.6</u>	<u>\$ 23.1</u>

The change in the liability recognized in the statement of financial position at September 30, 2017 was due primarily to actuarial losses resulting from estimated quarterly changes in the discount rate used to value the defined benefit obligations, offset by higher than expected returns on plan assets. The discount rate used as at September 30, 2017 was 3.70% per annum (December 31, 2016 of 3.70% per annum).

The Company expects to make funding contributions to its defined benefit plans of \$3.1 million during 2017.

16. Financial instruments – fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2016.

	Carrying Amount					Fair Value			
	Held to maturity	Designated at fair value	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
September 30, 2017									
Financial assets measured at fair value									
Investments	\$ 4.9	\$ -	\$ -	\$ -	\$ 4.9	\$ -	\$ 4.9	\$ -	\$ 4.9
	<u>\$ 4.9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4.9</u>				
Financial assets not measured at fair value									
Cash and cash equivalents	\$ -	\$ -	\$ 65.2	\$ -	\$ 65.2				
Trade and other receivables	-	-	87.3	-	87.3				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152.5</u>	<u>\$ -</u>	<u>\$ 152.5</u>				
Financial liabilities measured at fair value									
Foreign currency forward contracts	\$ -	\$ 0.6	\$ -	\$ -	\$ 0.6	\$ -	\$ 0.6	\$ -	\$ 0.6
	<u>\$ -</u>	<u>\$ 0.6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.6</u>				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 109.4	\$ 109.4				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109.4</u>	<u>\$ 109.4</u>				
December 31, 2016									
Financial assets measured at fair value									
Investments	\$ 4.9	\$ -	\$ -	\$ -	\$ 4.9	\$ -	\$ 4.9	\$ -	\$ 4.9
	<u>\$ 4.9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4.9</u>				
Financial assets not measured at fair value									
Cash and cash equivalents	\$ -	\$ -	\$ 19.0	\$ -	\$ 19.0				
Trade and other receivables	-	-	107.0	-	107.0				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126.0</u>	<u>\$ -</u>	<u>\$ 126.0</u>				
Financial liabilities measured at fair value									
Foreign currency forward contracts	\$ -	\$ 0.3	\$ -	\$ -	\$ 0.3	\$ -	\$ 0.3	\$ -	\$ 0.3
	<u>\$ -</u>	<u>\$ 0.3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.3</u>				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 102.3	\$ 102.3				
Long-term debt ^(Note 9)	-	-	-	34.4	34.4				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136.7</u>	<u>\$ 136.7</u>				

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16. Financial instruments – fair values (continued)

As at September 30, 2017, the Company had outstanding obligations to sell an aggregate USD\$52.0 million at an average rate of CAD\$1.24 per USD with maturities through November 30, 2017.

All foreign currency gains or losses related to currency forward contracts to September 30, 2017 have been recognized in revenue for the period and the fair value of these instruments at September 30, 2017 was a net liability of \$0.6 million, which is included in accounts payable and accrued liabilities on the statement of financial position (December 31, 2016: net liability of \$0.3 million). A net gain of \$4.2 million was recognized on contracts which were settled in the nine months ended September 30, 2017 (2016: net loss of \$1.0 million), which was included in revenue for the period.

17. Operating restructuring items

On July 27, 2017, the Company announced the indefinite curtailment of its Somass sawmill, located in Port Alberni, BC. The Somass sawmill was temporarily curtailed in February 2017, prior to which it was operating on a single shift basis.

The Company offered voluntary severance to certain salaried and all hourly employees of the Somass sawmill. Included in operating restructuring items for the quarter ended September 30, 2017, are \$6.2 million of voluntary severance expense and \$0.5 million of non-operational costs incurred subsequent to the indefinite curtailment.

18. Other income

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Gain on disposal of assets	\$ 1.3	\$ -	\$ 3.6	\$ -
Non-operating costs relating to train derailment	(0.4)	-	(1.6)	-
Other expense	(0.5)	(1.4)	(1.3)	(1.9)
	<u>\$ 0.4</u>	<u>\$ (1.4)</u>	<u>\$ 0.7</u>	<u>\$ (1.9)</u>

19. Subsequent events

On November 2, 2017, the US Department of Commerce announced final determinations in its countervailing and anti-dumping investigations. As a result of its findings, the US Department of Commerce lowered the final countervailing and anti-dumping duty rates to 14.25% and 6.58%, respectively, for “all other” Canadian lumber producers including Western. The final countervailing duty rate is not applicable until final determination by the US International Trade Commission, which is expected to occur in December 2017. In addition the US Department of Commerce concluded that critical circumstances did not exist for countervailing duty, but did exist for anti-dumping duty.



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