INCENTIVE STOCK OPTION PLAN

OF

WESTERN FOREST PRODUCTS INC.

Effective as of July 22, 2004
(Amended as of May 10, 2007)

1. Purpose of the Plan

1.1 The purpose of the Plan is to attract and retain persons of ability to serve as directors, officers, advisors and employees of, and consultants to, the Corporation or any of its affiliated entities, to provide an incentive for such persons in their efforts on behalf of the Corporation or any of its affiliated entities, and in combination with these goals, to encourage the equity participation of such persons in the Corporation.

2. Definitions

2.1 For the purposes of the Plan, the following terms have the indicated meanings set forth below:

(a) "affiliated entity" has the same meaning ascribed to that term in MI 45-105;

(b) "associate" has the same meaning ascribed to that term in the OSA;

(c) "Board" means the board of directors of the Corporation;

(d) "Compensation Committee" means the Management Resources and Compensation Committee of the Board as the same may be constituted from time to time or such other committee constituted by the Board from time to time with a mandate that includes the administration of the Plan and, if none is so constituted, means the full Board;

(e) "Consultant" means a person, other than an employee, senior officer or director of the Corporation, that:

(i) is engaged to provide services to the Corporation or an affiliated entity of the Corporation, other than services provided in relation to a distribution as defined under applicable securities laws;

(ii) provides the services under a written contract with the Corporation or an affiliated entity of the Corporation; and

(iii) spends or will spend a significant amount of time and attention on the affairs and business of the Corporation or an affiliated entity of the Corporation, and includes, for an individual consultant, a company of which the individual consultant is an employee or shareholder, and a partnership of which the individual consultant is an employee or partner;

(f) "Corporation" means Western Forest Products Inc. and any successor;

(g) "Disability" means a physical or mental incapacity of a nature that the Board determines prevents or would prevent the Optionee from satisfactorily performing the material duties of his or her position with the Corporation or any of its affiliated entities, as applicable;

(h) "Eligible Person" means a director, senior officer or employee of the Corporation or of an affiliated entity of the Corporation or a Consultant;

(i) "Exchange" means any principal exchange (as determined by the Board in its sole discretion) upon which the Shares are listed;

(j) "Grant Date" has the meaning ascribed to that term in Subsection 5.1;

(k) "MI 45-105" means Multilateral Instrument 45-105 - Trades to Employees, Senior Officers, Directors and Consultants;

(l) "Market Value" of a Share means, on any given day:

(i) where the Share is not listed on an Exchange, the fair market value of a Share on that day determined by the Board in its sole discretion; and

(ii) where the Share is listed on an Exchange, the closing board lot sale price per share of Shares on the Exchange on the trading day immediately preceding the relevant date and if there was not a board lot sale on the Exchange on such date, then the last board lot sale prior thereto;

(m) "Option" means an option, granted pursuant to Section 5, to purchase a Share;

(n) "Option Period" in respect of an Option means the period commencing on the date of grant of such Option and ending on the date of expiry of such Option;

(o) "Option Price" means the price per Share at which Shares may be purchased under an Option, as determined pursuant to Paragraph 5.1(b) and as may be adjusted in accordance with Section 10;

(p) "Optionee" means an Eligible Person to whom an Option has been granted;

(q) "OSA" means the *Securities Act* (Ontario), as amended;

(r) "person" means an individual, corporation, partnership, party, trust, fund, association and any other organized group of persons and the personal or other legal representative of a person to whom the context can apply according to law;

(s) “Plan” means this Incentive Stock Option Plan as the same may be amended and/or restated from time to time;

(t) “Securities Regulators” has the meaning ascribed to that term in Section 11; and

(u) “Share” means, subject to Section 10, a common share, without nominal or par value, in the capital of the Corporation.

2.2 Unless otherwise indicated, all dollar amounts referred to in this Option Plan are stated in Canadian funds.

2.3 All section and paragraph references used in this Plan are references to sections and paragraphs in this Plan.

2.4 As used in this Plan, words importing the masculine gender shall include the feminine and neuter genders and words importing the singular shall include the plural and vice versa, unless the context otherwise requires.

3. Administration of the Plan

3.1 The Plan shall be administered by the Board with the assistance of the Compensation Committee.

3.2 The Compensation Committee shall, on at least an annual basis, make recommendations to the Board as to the grant of Options.

3.3 Subject to the limitations of the Plan, the Board shall have the authority:

(a) to grant Options to Eligible Persons;

(b) to determine the terms, limitations, restrictions and conditions applicable to any Option granted hereunder;

(c) to interpret the Plan and to adopt, amend and rescind such administrative guidelines and other rules and regulations relating to the Plan as it shall from time to time deem advisable; and

(d) to make all other determinations and to take all other actions in connection with the implementation and administration of the Plan as it may deem necessary or advisable.

The Board’s guidelines, rules, regulations, interpretations and determinations shall be conclusive and binding upon the Corporation and all other persons.

3.4 The Board may authorize one or more officers of the Corporation to execute and deliver and to receive documents on behalf of the Corporation.

4. Shares Subject to the Plan

4.1 The maximum aggregate number of Shares which may be issued pursuant to the exercise of Options granted under the Plan shall not exceed 10,000,000 Shares, subject to adjustment as provided in Section 10.

4.2 The total number of Shares that may be reserved for issuance to any one person pursuant to Options shall not exceed 5% of the Shares of the Corporation outstanding on a non-diluted basis on the Grant Date of the Options.

4.3 Anything in this Plan to the contrary notwithstanding:

(a) the maximum number of Shares that may reserved for issuance pursuant to Options granted under the Plan to insiders of the Corporation and their associates, together with the number of Shares reserved for issuance to such insiders and their associates under the Corporation's other previously established or proposed share compensation arrangements, shall not exceed 10% of the Shares of the Corporation outstanding on a non-diluted basis at the Grant Date of the Options; and

(b) the maximum number of Shares which may be issued to insiders of the Corporation and their associates under the Plan within any one-year period, when taken together with the number of Shares issued to such insiders and their associates under the Corporation's other previously established or proposed share compensation arrangements, shall not exceed 10% of the Shares of the Corporation outstanding on a non-diluted basis at the end of such period and, in the case of any one insider and his associates, shall not exceed 5% of such outstanding Shares.

For the purpose of this Subsection "insider" means an insider as defined in the OSA but excluding any person within that definition solely by virtue of being a director or officer of a subsidiary (as defined in the OSA) of the Corporation. Any entitlement to acquire Common Shares granted pursuant to the Plan or any other Options prior to the grantee becoming an insider shall be excluded for the purposes of the limits set out above.

4.4 Options may be granted in respect of authorized and unissued Shares. Shares in respect of which Options have expired, were cancelled or otherwise terminated for any reason without having been exercised shall be available for subsequent Options under the Plan. No fractional Shares may be purchased or issued under the Plan.

5. Grants of Options

5.1 Subject to the provisions of the Plan, the Board may, in its sole discretion and from time to time, determine those Eligible Persons to whom Options will be granted and the date on which such Options are to be granted (the "Grant Date"). The Board will also determine, in its sole discretion, in connection with each grant of Options:

(a) the number of Options to be granted;

(b) the Option Price applicable to each Option, but the Option Price shall not be less than the Market Value per Share on the Grant Date;

(c) subject to Subsection 6.3, the Option Period; and

(d) the other terms and conditions (which need not be identical and which, without limitation, may include non-competition provisions) applicable to such Options.

6. Eligibility, Vesting and Terms of Options

6.1 Options may be granted to Eligible Persons only.

6.2 Subject to the adjustments provided for in Section 10 hereof, each Option shall entitle the Optionee to purchase one Share.

6.3 In no event shall the Option Period expire later than 4:30 p.m. (Vancouver time) on the tenth anniversary of the Grant Date for the applicable Option.

6.4 Subject to Section 8, an Option that is subject to vesting, may, once vested, be exercised (in each case to the nearest full Share) at any time during the Option Period.

6.5 The Board may determine when any Option shall become vested and exercisable and may determine that the Option shall be vested and exercisable in installments.

6.6 An Option is personal to the Optionee and is non-assignable and non-transferrable otherwise than by will or by the laws governing the devolution of property in the event of death of the Optionee.

7. Option Agreement

7.1 As soon as practicable following the grant of an Option, the Corporation and the Optionee shall enter into an option agreement substantially in the form set out in Appendix A, which agreement shall set out the Optionee's agreement that the Options are subject to the terms and conditions set forth in the Plan as it may be amended or replaced from time to time, the Grant Date, the name of the Optionee, the number of Options, the Option Price, the expiry date of the Option Period, vesting terms and such other terms and conditions as the Board may deem appropriate.

8. Termination of Employment, Engagement or Directorship

8.1 Except as otherwise determined by the Board, in the event that an Optionee ceases to be an Eligible Person:

(a) for any reason other than death, retirement, early retirement, sickness or disability, each of the Options held by the Optionee shall cease to be exercisable after the date of termination of the Optionee's position as a director, officer, employee or consultant (as the case may be);

(b) as a result of retirement (other than early retirement), all of the Optionee's vested Options shall continue in force notwithstanding the termination of the Optionee's position as a director, officer, employee or consultant (as the case may be);

(c) by reason only of early retirement as permitted under the provisions of the Corporation's pension plan or, with the consent of the committee appointed under the said pension plan for the administration thereof, at any time for reasons of sickness or disability as determined by such committee, the Optionee's vested Options shall continue in force notwithstanding the termination of the Optionee's position as a director, officer, employee or consultant (as the case may be); and

(d) as a result of death, the legal representatives of an Optionee may exercise the Optionee's vested Options within six months after the date of the Optionee's death to the extent such Options were by their terms vested and exercisable as of the date of the Optionee's death or within the period of six months following the Optionee's death;

but for greater certainty no Option shall be exercisable after the expiry of the Option Period applicable thereto.

8.2 The Plan shall not confer upon any Optionee any right with respect to a continuation of employment or engagement by, or directorship of, the Corporation or its affiliated entity nor shall it interfere in any way with the right of the Corporation or its affiliated entity to terminate any Optionee's employment, engagement or directorship at any time.

8.3 For the purposes of section 8, termination in the case of an employee (including officers that are also employees) is determined to be the last day of active employment with the Corporation or its affiliated entity, as the case may be, regardless of any salary continuance or notice period provided from or to the Corporation or implied by or otherwise available at law.

8.4 For greater certainty, an Option that was not vested at the time that the relevant event referred to in this Section 8 occurred, shall not be or become exercisable and shall be forthwith cancelled.

9. <u>Exercise of Options</u>

9.1 Subject to the provisions of the Plan, Options may be exercised from time to time by delivery to the Corporation at its registered office of a written notice of exercise addressed to the Corporate Secretary of the Corporation specifying the number of Shares with respect to which the Options are being exercised, together with a certified cheque or bank draft for the aggregate of the Option Prices to be paid for the Shares to be acquired. Certificates for such Shares shall be issued and delivered to the Optionee within a reasonable time following the receipt of such notice and payment.

9.2 No less than 100 Options may be exercised at any one time, except where a smaller number of vested Options is held by the Optionee, in which case, such smaller number of Options must be exercised at one time.

10. Adjustment on Alteration of Share Capital

10.1 In the event of a subdivision, consolidation or reclassification of outstanding Shares or other capital adjustment, or the payment of a stock dividend thereon, the number of Shares reserved or authorized to be reserved under the Plan, the number of Shares receivable on the exercise of an Option and the Option Price therefor shall be increased or reduced proportionately and such other adjustments shall be made as may be deemed necessary or equitable by the Board in its sole discretion to prevent dilution or enlargement and such adjustment shall be binding for all purposes of the Plan.

10.2 If the Corporation amalgamates, consolidates with or merges with or into another body corporate, whether by way of amalgamation, statutory arrangement or otherwise (the right to do so being hereby expressly reserved), the holder of an Option will, upon exercise thereafter of such Option, be entitled to receive and compelled to accept, in lieu of Shares, such other securities, property or cash which the Optionee would have received upon such amalgamation, consolidation or merger if the Optionee had exercised his or her Option immediately prior to the effective date of such amalgamation, consolidation or merger.

10.3 In the event of a change in the Corporation's currently authorized Shares which is limited to a change in the designation thereof, the shares resulting from any such change shall be deemed to be Shares within the meaning of the Plan.

10.4 In the event of any other change affecting the Shares, such adjustment, if any, shall be made as may be deemed necessary or equitable by the Board to properly reflect such event and such adjustment shall be binding for all purposes of the Plan.

10.5 No adjustment provided in this Section 10 shall require the Corporation to issue a fractional Share and the total adjustment with respect to each Option shall be limited accordingly.

10.6 If, at any time when an Option granted under the Plan remains unexercised, an offer to purchase all of the Shares of the Corporation is made by a third party, the Corporation shall use reasonable efforts to bring such offer to the attention of the Optionee as soon as practicable and the Corporation may, at its option, require the acceleration of the time for the exercise of the Options granted under the Plan and of the time for the fulfillment of any conditions or restrictions on such exercise and such required acceleration of time shall be binding for all purposes of the Plan.

10.7 Notwithstanding any other provision herein, if because of a proposed merger, amalgamation or other corporate arrangement or reorganization, the exchange or replacement of Shares in the Corporation of those in another company is imminent, the Board may, as deemed necessary or equitable by the Board in its sole discretion, determine the manner in which all unexercised option rights granted under the Plan shall be treated including, for example, requiring the acceleration of the time for the exercise of such rights by the Optionee and of the time for the fulfillment of any conditions or restrictions on such exercise. All determinations of the Board under this paragraph 10.7 shall be final and binding for all purposes of the Plan.

11. Regulatory Approval

11.1 Notwithstanding any of the provisions contained in the Plan or any Option, the Corporation's obligation to grant Options and issue Shares and to issue and deliver certificates for such securities to an Optionee pursuant to the exercise of an Option shall be subject to:

(a) compliance with all applicable laws, regulations, rules, orders of governmental or regulatory authorities in Canada ("Securities Regulators")

(b) compliance with the requirements of the Exchange; and

(c) receipt from the Optionee of such covenants, agreements, representations and undertakings, including as to future dealings in such Shares, as the Corporation determines to be necessary or advisable in order to safeguard against the violation of the securities laws of any jurisdiction.

11.2 The Corporation shall in no event be obligated to take any action in order to cause the issuance and delivery of such certificates to comply with any laws, regulations, rules, orders or requirements.

11.3 If any amendment, modification or termination to the provisions hereof or any Option granted are required by any Securities Regulators, a stock exchange or a market as a condition of approval to a distribution to the public of any Shares or to obtain or maintain a listing or quotation of any Shares, the Board is authorized to make such amendments and thereupon the Plan and any outstanding Options (including any option agreement made pursuant hereto) shall be deemed to be amended accordingly without requiring the consent or agreement of any Optionee. The Corporation will give notice of any such amendment, modification or termination to each holder of Options as soon as reasonably practicable following the same, but failure to provide notice will not invalidate such amendment, modification or termination.

12. Miscellaneous

12.1 An Optionee entitled to Shares as a result of the exercise of an Option shall not be deemed for any purpose to be, or to have rights as, a shareholder of the Corporation by such exercise, except to the extent Shares are issued therefor and then only from the date such Shares are issued. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date such Shares are issued pursuant to the exercise of Options.

12.2 The Corporation may require an Optionee, as a condition of exercise of an Option, to pay or reimburse any taxes which are required to be withheld in connection with the exercise of such Option.

13. Effective Date, Amendment and Termination

13.1 The Plan is effective as of July 22, 2004.

13.2 The Board may, subject where required to Securities Regulators and/or Exchange approval, from time to time amend, suspend or terminate the Plan in whole or in part.

13.3 No action by the Board to terminate the Plan pursuant to this Section 13 shall affect any Options granted hereunder prior to such action.

13.4 The Board may amend, modify or terminate any outstanding Option, including, but not limited to, substituting another award of the same or of a different type or changing the date of exercise; provided, however that, the Optionee's consent to such action shall be required unless the Board determines that the action, when taken with any related action, would not materially and adversely affect the Optionee or is made pursuant to Sections 10 or 11 hereof. The Option Price of any outstanding Option granted to an insider may not be reduced unless disinterested shareholder approval is obtained in accordance with regulatory requirements.

APPENDIX A

INCENTIVE STOCK OPTION PLAN

OF

WESTERN FOREST PRODUCTS INC.

OPTION AGREEMENT

This Option Agreement is entered into between Western Forrest Products Inc. (the "Corporation") and the Optionee named below pursuant to the Corporation's Incentive Stock Option Plan (the "Plan") a copy of which are attached hereto, and confirms the following:

1. Grant Date: ______________________________

2. Optionee: ______________________________

3. Number of Options: ______________________________

4. Option Price ($ per Share): $ ______________________________

5. Expiry Date of Option Period: ______________________________

6. Each Option that has vested entitles the Optionee to purchase one Common Share of the Corporation

7. at any time up to 4:30 p.m. Vancouver time on the expiry date of the Option Period. The Options vest as follows:

   [Insert vesting arrangements]

8. This Option Agreement is subject to the following terms and conditions:

   [Insert terms and conditions set by the Board applicable to the particular Grant]

9. This Option Agreement is subject to the terms and conditions set out in the Plan, as amended or replaced from time to time. In the case of any inconsistency between this Option Agreement and the Plan, the Plan shall govern.

10. Unless otherwise indicated, all defined terms shall have the respective meanings attributed thereto in the Plan.

11. By signing this agreement, the Optionee acknowledges that he, she, or its authorized representative has read and understands the Plan.

IN WITNESS WHEREOF the parties hereto have executed this Option Agreement as of the _____ day of ____________, ______.

WESTERN FOREST PRODUCTS INC.

Per: ______________________________
Authorized Signatory

Per: ______________________________
Authorized Signatory

____
Signature of Optionee