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

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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	Year ended December 31, 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	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	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	Year ended December 31, 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	Year ended December 31, 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.