

**Western Forest Products Inc.**

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Management's Discussion and Analysis  
of Financial Condition and Results of Operations

For the period ended March 31, 2015

# Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three months ended March 31, 2015 to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements for the three months ended March 31, 2015 and the audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2014 (the "2014 Annual Report"), all of which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company has prepared the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2015 in accordance with IAS 34, *Interim Financial Reporting*, and these do not include all of the information required for full annual financial statements.

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

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

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

This MD&A contains statements which constitute forward-looking statements and forward-looking information within the meaning of applicable securities laws. Those statements and information appear in a number of places in this document and include statements and information regarding our current intent, belief or expectations primarily with respect to market and general economic conditions, future costs, expenditures, available harvest levels and our future operating performance, objectives and strategies. Such statements and information may be indicated by words such as "estimate", "expect", "anticipate", "plan", "intend", "believe", "should", "may" and similar words and phrases. Readers are cautioned that it would be unreasonable to rely on any such forward-looking statements and information as creating any legal rights, and that the statements and information are not guarantees and may involve known and unknown risks and uncertainties, and that actual results and objectives and strategies may differ or change from those expressed or implied in the forward-looking statements or information as a result of various factors. Such risks and uncertainties include, among others: general economic conditions, competition and selling prices, changes in foreign currency exchange rates, labour disruptions, natural disasters, relations with First Nations groups, changes in laws, regulations or public policy, misjudgments in the course of preparing forward-looking statements or information, changes in opportunities and other factors referenced under the "Risk Factors" section in our MD&A in the 2014 Annual Report. All written and oral forward-looking statements or information attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, Western does not expect to update forward-looking statements or information as conditions change.

Unless otherwise noted, the information in this discussion and analysis is updated to May 7, 2015. Certain prior period comparative figures have been reclassified to conform to the current period's presentation. All financial references are in millions of Canadian dollars unless otherwise noted.

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<sup>1</sup> Earnings Before Interest, Tax, Depreciation and Amortization

<sup>2</sup> Adjusted EBITDA as a proportion of Revenue

## Summary of Selected Quarterly Results<sup>(1)</sup>

(millions of dollars except per share amount)

|   | Three months ended<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2015                            | 2014     |
| Revenue   | \$ 248.6                        | \$ 246.0 |
| Adjusted EBITDA   | 29.6                            | 32.8     |
| Adjusted EBITDA margin  | 11.9%                           | 13.3%    |
| Operating income prior to restructuring items and other income              | 20.1                            | 24.9     |
| Net income from continuing operations                                       | 18.5                            | 23.6     |
| Net income for the period   | 27.6                            | 23.6     |
| Basic and diluted earnings per share (in dollars) - continuing operations   | \$ 0.05                         | \$ 0.06  |
| Basic and diluted earnings per share (in dollars) - discontinued operations | \$ 0.02                         | \$ -     |

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

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

## Overview

Western reported adjusted EBITDA of \$29.6 million in the first quarter of 2015 on the strength of increased log shipments, buoyed by growth in log production volumes, and the revenue impact of a strengthening U.S. dollar ("USD"). Adjusted EBITDA decreased \$3.2 million in comparison to the same period in 2014 due to challenging market conditions for lumber in Japan and logs and lumber in China, and slower than anticipated growth in the North American Commodity lumber market. These factors were partly offset by a reduction in selling and administration expense.

Revenue grew to \$248.6 million in the first quarter of 2015, an improvement of \$2.6 million over the same period last year. Increased log shipments, an improved lumber sales mix, and the benefit of a 12% weakening of the Canadian dollar ("CAD") relative to the USD contributed to these results.

First quarter lumber revenue remained flat despite lower lumber production and shipments compared to the same period in 2014. The benefit of a weaker Canadian dollar on lumber pricing was offset by market conditions in Japan and China that remain relatively unchanged from the second half of 2014. Continued strength from the North American repair and renovation sector led to increased demand for Western Red Cedar ("WRC") and Niche lumber products. We utilized our flexible operating platform and increased log production to direct greater volume to these high-value segments.

In the first quarter of 2015, log shipments increased 20%, yielding an 11% increase in log revenue compared to the same period in 2014. The benefit of a weaker CAD on export log revenue partially offset a significant decline in export prices and a lower quality domestic log sales mix as compared to the first quarter of 2014. Average export log realizations in the first quarter of 2015 were largely unchanged from the fourth quarter of 2014 primarily due to a weaker CAD relative to the USD.

Lumber production decreased 12% in the first quarter of 2015 compared to the same quarter of last year as we continued to implement changes in our operating platform to match production levels to market conditions, including reduced production from custom cut facilities. As compared to the fourth quarter of 2014, lumber production increased 3% which was achieved through our flexible production programs and through realizing the benefits of capital investments in our operations.

Exceptionally mild winter weather resulted in a 14% increase in first quarter log production volumes as compared to the same period in 2014. Log production costs remained flat period over period as increased road construction spending was offset by a reduction in fixed costs per cubic metre due to higher harvest volumes.

Net income for the first quarter of 2015 was \$27.6 million, or \$0.07 per common share, as compared to net income of \$23.6 million, or \$0.06 per common share, for the same period in 2014. Included in net income in the first quarter of 2015 is net income from discontinued operations of \$9.1 million, recognized in relation to completing the sale of the former Squamish pulp mill site.

Total liquidity at March 31, 2015, has improved to \$164.5 million, compared to \$134.4 million at the end of 2014. The increased liquidity in 2015 was the result of cash generated by operations and the sale of non-core assets, offset by continued capital investment and dividends distributed to shareholders. In the first quarter of 2015, we continued to provide returns to our shareholders through our dividend program that returned \$7.9 million, or \$0.02 per common share, to shareholders on March 20, 2015.

## Operating Results

(millions of dollars)

|                        | Three months ended<br>March 31, |          |
|------------------------|---------------------------------|----------|
|                        | 2015                            | 2014     |
| Revenue                |                                 |          |
| Lumber                 | \$ 171.8                        | \$ 173.9 |
| Logs                   | \$ 61.2                         | 55.2     |
| By-products            | \$ 15.6                         | 16.9     |
| Total revenue          | 248.6                           | 246.0    |
| Adjusted EBITDA        | 29.6                            | 32.8     |
| Adjusted EBITDA margin | 11.9%                           | 13.3%    |

In the first quarter of 2015, we generated \$248.6 million of revenue and \$29.6 million of adjusted EBITDA compared to \$246.0 million and \$32.8 million, respectively, in the same quarter last year. Revenue results benefited from an increase in average lumber price driven by adjusting our sales mix and a weaker CAD, and increased log shipments period over period. The decline in adjusted EBITDA was primarily due to a weak price environment in the Chinese log and lumber market and lower volumes and prices in the Japan market, partly offset by a reduction in selling and administration expense.

Lumber revenue in the first quarter of 2015 of \$171.8 million was flat relative to revenue in the same period of 2014. Average lumber prices increased \$51 per thousand board feet, offsetting a 7% reduction in lumber volumes shipped, in the first quarter of 2015 as compared to the same period of 2014. Higher average pricing was due to a combination of a 7% increase in WRC shipments and a 21% increase in Niche product shipments period over period, offset partly by a steep decline in Commodity product pricing. Foreign exchange movement also contributed to realized price improvements in WRC, Niche and Japan lumber sales period over period.

First quarter log revenue of \$61.2 million in 2015 was an increase of 11% over the same period in 2014. Increased log revenue was due to growth in export and domestic log sales volumes of 18% and 16% respectively, supported by our increased harvest volumes. Due to continued pricing pressures in Asian markets, export log prices were lower as compared to the first quarter of 2014, and that impact to revenue was partly offset by a weaker CAD. First quarter export log prices were stable in 2015 as compared to the fourth quarter of 2014 due to a weaker CAD, while average realized domestic log prices declined due to a lower quality sales mix in 2015. Pulp prices increased moderately over the first quarter of 2014 and held constant with pricing in the fourth quarter of 2014, while first quarter pulp shipment volumes increased from the same period of 2014 due to timing of sales.

By-products revenue was \$15.6 million in the first quarter of 2015, a decrease of \$1.3 million from the same period in 2014. This decrease in by-products revenue resulted from a 10% reduction in chip volumes sold due to decreased lumber production.

Lumber production in the first quarter of 2015 was 209 million board feet, a decrease of 12% as compared to the same quarter of 2014. This decrease resulted from the permanent closure of our Nanaimo sawmill in November 2014 and the internalization of some traditional custom cut production to match lumber production volumes to market conditions. Production from custom cut facilities is expected to gradually be reduced with the continued modernization and ramp-up of production at the Duke Point sawmill.

As compared to the fourth quarter 2014, lumber production in the first quarter of 2015 increased 3%, which was achieved through our flexible production programs and through realizing the benefits of capital investments in our operations.

Exceptionally mild winter weather in our timberlands operations allowed the Company to set a first quarter log production record in 2015 at approximately 1.5 million cubic metres. This log production volume represents a 14% increase from the first quarter of 2014, while our competitors' coastal harvest volumes declined by 15% according to the Province of British Columbia's Harvest Billing System. Our log production performance enabled increased log shipments while also building mill log inventory to support lumber production leading into the second quarter, a seasonally strong lumber sales period.

Our log production costs remained consistent with the first quarter of 2014 as the economies of scale realized through higher harvest volumes in 2015 were offset by increased road construction costs and the mix of harvest operations. These increased costs were the result of harvesting timber at higher elevations

not historically accessible in the first quarter. Harvesting costs and log values are generally higher in this terrain. The mild winter weather also allowed the advancement of our 2015 road building plan in the first quarter of 2015, resulting in \$2.9 million greater spur road construction expense as compared to the first quarter of 2014. By advancing our road building plan in the quarter we have increased our access to timber for future harvest and improved the flexibility of our harvest programs.

Freight costs were \$20.8 million in the first quarter of 2015, an increase of \$2.1 million compared to the same period of 2014. This increase was due to a 20% greater volume of log shipments and the weaker CAD relative to USD, the currency in which our freight costs are primarily denominated. Offsetting these factors were the favourable shift in geographic mix of lumber shipments and a reduction in fuel surcharges.

Selling and administration expense decreased by 34% from the first quarter of 2014 to \$6.5 million in the first quarter of 2015. These savings were achieved partly due to reduced selling expenses and through various optimization initiatives launched in the second half of 2014, including the consolidation of our northern Vancouver Island timberlands operations, our Nanaimo-area manufacturing operations and our Japan sales offices. Also contributing to lower administration expense were reduced compensation costs.

First quarter net income was \$27.6 million in 2015, as compared to \$23.6 million in the same period in 2014. Increased net income reflects those circumstance presented above and includes net income from discontinued operations of \$9.1 million arising from the completion of the sale of the Company's former Squamish pulp mill site in February 2015.

#### *Finance costs*

Finance costs in the first quarter of 2015 were \$1.3 million, a decrease of \$0.3 million compared to the same quarter of 2014. This decrease was commensurate with a reduction in interest rates and lower outstanding debt levels on our revolving term loan facility. The average debt balance outstanding in the first quarter of 2015 was \$74.0 million as compared to \$89.8 million in the same quarter of 2014.

#### *Discontinued Operations*

The sale of the Company's former Squamish pulp mill site was completed February 6, 2015 for cash proceeds of \$21.8 million.

Included in net income of \$9.1 million from discontinued operations for the first quarter of 2015 are a gain on disposal of property, plant and equipment; revenue from the sale of hydro-electric power generated at the site partly offset by site operating costs incurred up to the sale completion date; as well as a gain on reversal of a liability.

As economic and other circumstances allow, Western will continue to pursue opportunities to sell non-core assets.

## Financial Position and Liquidity

|   | Three months ended |              |
|---|--------------------|--------------|
|   | March 31,          |              |
|   | 2015               | 2014         |
| (millions of dollars except where noted)                                  |                    |              |
| Cash provided by operating activities, excluding non-cash working capital | \$ 28.8            | \$ 32.6      |
| Cash provided by operating activities                                     | 8.2                | 20.4         |
| Cash used in investing activities   | (10.1)             | (8.2)        |
| Cash used in financing activities   | (14.8)             | (8.1)        |
| Cash used in capital logging roads  | (2.5)              | (3.4)        |
| Cash used to acquire property, plant and equipment                        | (7.6)              | (4.8)        |
|   | March 31,          | December 31, |
|   | 2015               | 2014         |
| Total liquidity <sup>(1)</sup>  | \$ 164.5           | \$ 134.4     |
| Net debt <sup>(2)</sup>   | 67.1               | 77.9         |
| Financial ratios:   |                    |              |
| Current assets to current liabilities                                     | 2.40               | 2.29         |
| Net debt to capitalization <sup>(3)</sup>                                 | 0.14               | 0.16         |

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

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

<sup>(3)</sup> Capitalization comprises net debt and shareholders equity

First quarter cash provided by operating activities, excluding changes in non-cash working capital items, amounted to \$28.8 million in 2015 as compared to \$32.6 million in the same quarter of 2014.

Including the change in non-cash working capital items, cash provided by operating activities in the first quarter of 2015 was \$8.2 million as compared to \$20.4 million in the same quarter of 2014, primarily due to the build-up of inventory period over period and an increase in trade accounts receivable due to the timing of sales. Mild winter weather conditions enabled the Company to achieve a record first quarter log production. Increased log production allowed for a greater inventory build-up period over period to position Western for the seasonally strong second quarter. The increase in non-cash working capital requirements was partly offset by an increase in accounts payable and accrued liabilities due to the timing of payments.

Cash used in investing activities was \$10.1 million in the first quarter of 2015, compared to cash used in investing activities of \$8.2 million in the same quarter of 2014. The Company expended \$10.1 million in capital investments in the first quarter of 2015.

Capital investments in the first quarter of 2015 increased by 22% as compared to the first quarter of 2014, and were comprised of strategic capital investments of \$4.8 million, discretionary spending on capital roads of \$2.5 million, and other discretionary capital maintenance projects of \$2.8 million. The strategic capital invested in the first quarter of 2015 primarily related to preparation for the log merchandiser installation project at Saltair which is scheduled to occur in the third quarter of 2015, and progress made on the Duke Point modernization project. Our strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

In the first quarter of 2015, financing activities used cash of \$14.8 million compared to the \$8.1 million utilized in the same quarter of 2014. We returned \$7.9 million, or \$0.02 per common share, to shareholders on March 17, 2015, and repaid \$6.7 million against our revolving credit facility during the first quarter of 2015.

Total liquidity was \$164.5 million at March 31, 2015, an increase of \$30.1 million over the first three months of 2015. The increase in liquidity was due to cash generated by operations, proceeds from the sale of non-core assets, and increased borrowing base under the revolving credit facility. At March 31, 2015, liquidity was comprised of cash of \$6.0 million, unused availability under the secured revolving credit line of \$122.5 million, and \$36.0 million available under the revolving term loan facility.

## Strategy and Outlook

Western's strategy, which is designed to maximize product margins while increasing our sales volume, continued to progress in the first quarter of 2015.

Key operational priorities in support of our strategy include:

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

### *Market Outlook*

The second quarter has historically produced the highest quarterly lumber sales volume, and we expect the same for 2015. Led by seasonally improved growth in U.S. new home construction and the impact of a tight log supply in the domestic market, we expect Commodity lumber demand and pricing to improve late in the second quarter. Our lumber shipments to the U.S. began to incur an export tax of 5% in April. Export taxes will remain in place until the commodity price index recovers.

We capitalized on mild winter weather in our timberlands operations in the first quarter by increasing log production and log inventories, including a proportionate increase in WRC log inventory. This harvest strategy has positioned us to continue to grow WRC lumber production and shipment volumes in the second quarter. Similarly, demand for our Niche products is anticipated to continue its upward trend during the second quarter, a time of increased demand in the U.S. repair and renovation market. We expect prices for WRC and Niche lumber products to remain firm.

Price pressures remain in the Japanese and Chinese lumber markets. Our focus for these markets continues to be the refinement of sales channels and managing near-term market conditions through our flexible operating platform, by directing production to the highest margin markets and products.

Combining our robust first quarter harvest volumes with prime harvesting conditions in the second quarter, our log inventory will enable us to optimize log supply to our sawmills while supporting log sales programs.

Demand from the domestic log market is expected to remain stable due to a 15% reduction in first quarter coastal BC harvest volumes by our competitors, a period in which Western increased log production by 14%. In addition, seasonal lumber demand improvements and an increase in U.S. building activity in the second quarter may positively influence pricing and demand for our domestic logs.

Export log pricing is expected to remain under pressure until inventories in China are consumed. Increased consumption of our log inventory in the second quarter will moderately reduce our exposure to any further decline in export log prices.

Pulp log market pricing is expected to remain flat as current market challenges including a coastal pulp mill curtailment, are expected to remain through 2015.

### *Strategic Capital Plan Update*

Our strategic capital plan continues to make steady progress. During the first quarter of 2015, we advanced the Duke Point sawmill modernization project, including mill infrastructure improvements and made preparations for scheduled downtime in May 2015 for Phase II modernization upgrades.

To take advantage of the seasonally strong lumber market in the second quarter, other projects involving downtime at our operations including the log merchandiser installation at our Saltair sawmill have been deferred to the third quarter of 2015.

On May 7, 2015, we announced additional planned strategic capital investments of \$30.0 million. Despite current market pressures, we are well positioned to pursue these capital investments as a result of our strong balance sheet and cash generated from operations. The upcoming capital investments in our operations are expected to increase productivity, reduce production costs, and increase margins from Western's continued harvest of its complete forest profile. On completing the strategic capital program, we expect to have improved our competitiveness and gained access to new markets.

## New accounting policies

### *New standards and interpretations not yet adopted*

The following new and amended IFRS standards are not effective for the year ended December 31, 2015 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 its 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.

- *Annual improvements to IFRS*

The IASB issued narrow-scope amendments to various standards as part of its annual improvements process in December 2014. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments apply prospectively for annual periods beginning on or after January 1, 2016; earlier application is permitted, in which case, the related consequential amendments to other IFRSs would also apply. Amendments were made to clarify the following in their respective standards:

- Definition of “continuing involvement” in IFRS 7, Financial instruments: Disclosures;
- Discount rates for post-employment benefit obligations in IAS 19, Employee Benefits; and,
- Disclosure requirements in IAS 34, Interim financial reporting.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

The following revised IFRSs became effective on or after January 1, 2015. However, they do not have a material impact on the annual consolidated financial statements of the Company:

- IFRS 8, *Operating segments*
- IAS 24, *Related party transactions*

## **Risks and Uncertainties**

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2014 Annual Report which can be found on SEDAR, at [www.sedar.com](http://www.sedar.com). Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business.

## **Evaluation of Disclosure Controls and Procedures**

As required by National Instrument 52-109 issued by the Canadian Securities Administrators, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and internal controls over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2014. The evaluation was carried out under the supervision and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures were effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the interim filings are being prepared.

The CEO and CFO confirm that there were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the first quarter of 2015.

## **Outstanding Share Data**

As of May 7, 2015, there were 395,065,407 common shares issued and outstanding.

Western has reserved 20,000,000 common shares for issuance upon the exercise of options granted under the Company's incentive stock option plan. During the three months ended March 31, 2015, 266,000 previously granted options were exercised, and 1,491,667 options were granted. On May 7, 2015, 11,656,667 options were outstanding under the Company's incentive stock option plan.

## Management's Discussion and Analysis – Appendix A

### Summary of Selected Results for the Last Eight Quarters

|   | 2015            | 2014            |                 |                 | 2013            |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|   | 1 <sup>st</sup> | 4 <sup>th</sup> | 3 <sup>rd</sup> | 2 <sup>nd</sup> | 1 <sup>st</sup> | 4 <sup>th</sup> | 3 <sup>rd</sup> | 2 <sup>nd</sup> |
| <i>(millions of dollars except per share amounts and where noted)</i> |                 |                 |                 |                 |                 |                 |                 |                 |
| <b>Average Exchange Rate – Cdn \$ to purchase one US \$</b>           | 1.241           | 1.136           | 1.089           | 1.091           | 1.103           | 1.049           | 1.039           | 1.023           |
| <b>Revenue</b>  |                 |                 |                 |                 |                 |                 |                 |                 |
| Lumber  | 171.8           | 166.8           | 180.4           | 207.9           | 173.9           | 168.1           | 171.7           | 180.4           |
| Logs  | 61.2            | 51.2            | 66.0            | 71.8            | 55.2            | 59.7            | 53.9            | 67.0            |
| By-products   | 15.6            | 14.6            | 15.7            | 16.5            | 16.9            | 14.2            | 13.8            | 14.9            |
| <b>Total revenue</b>  | <b>248.6</b>    | <b>232.6</b>    | <b>262.1</b>    | <b>296.2</b>    | <b>246.0</b>    | <b>242.0</b>    | <b>239.4</b>    | <b>262.3</b>    |
| <b>Lumber</b>   |                 |                 |                 |                 |                 |                 |                 |                 |
| Production – millions of board feet                                   | 209             | 202             | 231             | 237             | 237             | 213             | 223             | 230             |
| Shipments – millions of board feet                                    | 202             | 215             | 220             | 255             | 218             | 222             | 228             | 231             |
| Price – per thousand board feet                                       | 849             | 775             | 820             | 815             | 798             | 758             | 752             | 782             |
| <b>Logs</b>   |                 |                 |                 |                 |                 |                 |                 |                 |
| Production – thousands of cubic metres                                | 1,472           | 1,281           | 1,009           | 1,544           | 1,293           | 1,314           | 1,233           | 1,495           |
| Shipments – thousands of cubic metres                                 | 700             | 571             | 707             | 773             | 581             | 697             | 615             | 765             |
| Price – per cubic metre <sup>(1)</sup>                                | 83              | 90              | 86              | 90              | 95              | 84              | 83              | 84              |
| <b>Selling and administration</b>                                     | 6.5             | 6.0             | 8.3             | 8.1             | 9.8             | 8.8             | 8.2             | 8.0             |
| <b>Adjusted EBITDA</b>  | 29.6            | 14.8            | 20.0            | 40.9            | 32.8            | 24.4            | 27.6            | 44.9            |
| Amortization  | (7.8)           | (6.7)           | (7.0)           | (8.2)           | (7.7)           | (7.0)           | (7.5)           | (7.9)           |
| Changes in fair value of biological assets                            | (1.7)           | 0.5             | (0.4)           | (1.4)           | (0.2)           | (0.7)           | (0.3)           | (0.8)           |
| Reversal of impairment  | -               | 2.9             | -               | -               | -               | 8.2             | -               | -               |
| Operating restructuring items   | (0.3)           | (1.2)           | (8.3)           | (1.2)           | (0.1)           | (0.1)           | (0.3)           | (0.1)           |
| Finance costs   | (1.3)           | (1.2)           | (1.4)           | (1.5)           | (1.6)           | (1.7)           | (1.7)           | (0.8)           |
| Other income (expenses)   | 0.1             | 0.6             | -               | 0.6             | 0.2             | (0.1)           | (0.4)           | 0.7             |
| Deferred income tax recovery  | 0.1             | 3.2             | -               | -               | 0.2             | 26.5            | -               | -               |
| Current income tax recovery (expense)                                 | (0.2)           | (0.0)           | (0.2)           | -               | -               | 0.4             | (0.2)           | (0.3)           |
| <b>Net income from continuing operations</b>                          | 18.5            | 12.9            | 2.7             | 29.2            | 23.6            | 49.9            | 17.2            | 35.7            |
| Net income (loss) from discontinued operations                        | 9.1             | -               | -               | -               | -               | -               | -               | (0.2)           |
| <b>Net income</b>   | 27.6            | 12.9            | 2.7             | 29.2            | 23.6            | 49.9            | 17.2            | 35.5            |
| Adjusted EBITDA margin  | 11.9%           | 6.4%            | 7.6%            | 13.8%           | 13.3%           | 10.1%           | 11.5%           | 17.1%           |
| Earnings per share:   |                 |                 |                 |                 |                 |                 |                 |                 |
| Net income, basic   | 0.07            | 0.03            | 0.01            | 0.07            | 0.06            | 0.13            | 0.04            | 0.08            |
| Net income, diluted   | 0.07            | 0.03            | 0.01            | 0.07            | 0.06            | 0.13            | 0.04            | 0.07            |

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

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

Certain categories of transactions are presented separately above due to their unpredictable timing and to allow for greater comparability of our operating results between periods. In the first quarter of 2015, the Company recognized \$9.1 million net income from discontinued operations relating to its former Squamish pulp mill site that was sold on February 6, 2015. The third quarter of 2014 included an \$8.1 million restructuring provision related to the consolidation of its Nanaimo sawmill operations. The fourth quarters of 2014 and 2013 include impairment reversals of \$2.9 million and \$8.2 million, respectively, that had been taken on the Company's timber licenses (intangible assets). In the fourth quarters of 2014 and 2013, the Company recognized deferred income tax assets of \$3.2 million and \$26.5 million, respectively, with respect to unutilized operating tax losses.