

Western Forest Products Inc.

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

For the period ended September 30, 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 and nine months ended September 30, 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 interim financial statements for the three and nine months ended September 30, 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.

The Company has prepared the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 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 EBITDA¹ and adjusted EBITDA margin². Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expenses), plus amortization of property, plant, and 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 International Financial Reporting Standards ("IFRS") 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 IFRS. 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 IFRS; 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 November 3, 2015. Certain prior period comparative figures have been reclassified to conform to the current period's presentation. All financial references are in millions of Canadian dollars unless otherwise noted.

¹ Earnings Before Interest, Tax, Depreciation and Amortization

² Adjusted EBITDA as a proportion of Revenue

Summary of Selected Quarterly Results⁽¹⁾

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
<i>(millions of dollars except per share amount)</i>				
Revenue	\$ 278.5	\$ 262.1	\$ 816.3	\$ 804.3
Adjusted EBITDA	28.7	20.0	87.5	93.7
Adjusted EBITDA margin	10.3%	7.6%	10.7%	11.6%
Operating income prior to restructuring items and other income	21.4	12.6	62.5	68.8
Net income from continuing operations	17.1	2.7	54.7	55.5
Net income for the period	17.1	2.7	63.8	55.5
Basic and diluted earnings per share (in dollars) - continuing operations	\$ 0.04	\$ 0.01	\$ 0.14	\$ 0.14
Basic and diluted earnings per share (in dollars) - discontinued operations	\$ -	\$ -	\$ 0.02	\$ -

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

Overview

Western reported record third quarter adjusted EBITDA of \$28.7 million, a 44% increase from the same quarter last year. Well-positioned log and lumber inventories allowed us to capitalize on improved specialty markets in the third quarter of 2015. We used our flexible operating platform to focus production and sales towards improved lumber demand in Japan and sustained demand from the Western Red Cedar (“WRC”) lumber market, while reducing our exposure to the continued downturn in the commodity lumber market. These achievements were partly offset by reduced export log sales volumes, due in part to internalizing log volumes, and the continued imposition of Softwood Lumber Agreement export duties.

Third quarter lumber revenue of \$203.8 million increased 13% from the same period last year as we improved our sales mix, delivering a 10% increase in average realized lumber prices, and benefitted from a weaker CAD. Lumber pricing improvements were driven by using our flexible operating platform to direct production towards high-value specialty products. Lumber shipment volumes grew 3% in the third quarter of 2015 as compared to the same period last year, on the strength of a 21% increase in volumes to Japan and stronger demand for our WRC lumber products.

Log revenue of \$57.3 million in the third quarter of 2015 was down 13% as compared to the same period last year due to a 14% decline in overall log shipment volumes period over period. Our strategy of redirecting a greater proportion of logs internally to our mills away from weak export markets, in part, led to a 35% reduction in export log sales volume. This more than offset an improved domestic sawlog sales mix and higher realized export log pricing in the quarter. Domestic log sales remained seasonally strong due to continued demand for our specialty log offerings.

We limited our exposure to the weak commodity lumber market by leveraging our log inventory and the flexibility of our operating platform to focus on Japan and WRC production in the third quarter of 2015. While specialty lumber production increased, third quarter lumber production was 8% lower in 2015 than in the same quarter last year. Lower production in the period was also partly due to three weeks of planned shutdown at the Saltair sawmill occurring in the third quarter.

Our Timberlands operations delivered a 17% harvest volume increase in the third quarter of 2015 as compared to the same quarter last year, primarily due to greater heli-logging activity and improved period-over-period harvesting conditions. Third quarter log production costs increased 5% over the same period last year due to the change in the mix of harvest locations and higher heli-logging volumes.

Net income for the third quarter of 2015 was \$17.1 million, or \$0.04 per common share. Net income included a \$2.9 million restructuring charge primarily due to the consolidation of our Central Island forest operations, which is expected to reduce harvest costs once fully implemented. This net income compares to \$2.7 million, or \$0.01 per common share, recognized in the third quarter of 2014, which was net of an \$8.3 million restructuring charge primarily as a result of the consolidation of our Nanaimo-area sawmill operations.

Total liquidity as of September 30, 2015 was \$173.4 million compared to \$134.4 million at the end of 2014. Our increased liquidity year-to-date was the result of cash generated by operations and the sale of non-core assets. In the third quarter of 2015, we continued to provide returns to our shareholders through our quarterly dividend program, returning \$7.9 million, or \$0.02 per common share, on September 18, 2015.

Operating Results

(millions of dollars)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue				
Lumber	\$ 203.8	\$ 180.4	\$ 575.6	\$ 562.2
Logs	57.3	66.0	189.5	193.0
By-products	17.4	15.7	51.2	49.1
Total revenue	278.5	262.1	816.3	804.3
Adjusted EBITDA	28.7	20.0	87.5	93.7
Adjusted EBITDA margin	10.3%	7.6%	10.7%	11.6%

Third quarter 2015

We generated \$278.5 million of revenue in the third quarter of 2015, a 6% increase over revenue of \$262.1 million in the same quarter last year and our highest third quarter revenues since 2006. Third quarter adjusted EBITDA was \$28.7 million in 2015, compared to \$20.0 million of adjusted EBITDA in the same quarter last year. We achieved these results by using our flexible operating platform to direct our well-positioned log inventories into the production of high-margin, high-value specialty products. This strategy limited the impact of the continued decline in commodity lumber market conditions and the impact of reduced demand for export logs from China and the United States ("U.S.").

Lumber revenue in the third quarter of 2015 was \$203.8 million, an increase of 13% from the same period in 2014 due to realized lumber pricing gains and a 3% improvement in lumber sales volume. Third quarter average realized lumber pricing of \$899 per thousand board feet ("mfbm") was a record for the Company, \$20 per mfbm better than the record set in the previous quarter, and an increase of \$79 per mfbm over the same period last year. Improved pricing was driven by a better sales mix and a weaker CAD as compared to the third quarter of 2014. Sales mix improved as a result of a 21% increase in sales volumes into Japan and a 7% increase in WRC sales volumes as compared to the same period in 2014.

Our third quarter 2015 log revenue of \$57.3 million was down 13% from the same period in 2014 as we redirected a greater proportion of logs internally to our mills away from weak export markets. This led to a 35% reduction in export log sales volume in the third quarter of 2015 as compared to the same quarter last year. Domestic saw log shipments remained stable year-over-year while domestic log pricing increased 8% due to a higher mix of specialty log sorts sold. Realized pulp log pricing and shipment volumes were both down marginally over the third quarter of 2014.

By-products revenue was \$17.4 million in the third quarter of 2015, as compared to the \$15.7 million in same period in 2014. The increase was largely due to a weaker CAD, as our realized chip prices are tied to the U.S. Dollar ("USD") denominated market price of pulp.

Improved production from the Duke Point sawmill, as a result of our ongoing modernization project, largely offset the impact of the November 2014 permanent closure of our Nanaimo sawmill on third quarter lumber production, which was 8% lower than in the same quarter of 2014. The lumber production decrease to 212 million board feet was partly due to three weeks of downtime at the Saltair sawmill in the third quarter of 2015. This planned downtime was taken to complete the \$40 million strategic capital investment in that mill. We also continue to internalize our custom cut production volumes to match production volumes to market demand.

Our focus on specialty lumber production resulted in our highest third quarter lumber revenue since 2006. By utilizing our flexible operating platform we replaced higher production commodity volumes with higher value Japan and WRC production in our mills. The additional Japan and WRC volumes led to an increase in production costs and a 2% decrease in lumber recovery as compared to the same period last year.

Log harvest volume was 1.2 million cubic metres in the third quarter of 2015, an increase of approximately 0.2 million cubic metres from the same quarter of 2014. The increase was primarily due to improved coastal harvesting conditions over the comparative period. Offsetting the increased harvest was equal reduction in log purchases due to a constrained coastal log supply and selective log purchasing that was focused on specialty lumber production. While we realized a 17% increase in harvest in the third quarter of 2015, as compared to the same quarter last year, while coastal British Columbia harvest volumes decreased 22%, according to the Province of B.C.'s Harvest Billing system.

In the third quarter of 2015, average value of logs harvested increased 11%, exceeding the log production cost increase of 5%, as compared to the same quarter last year. These increases were primarily due to a change in mix of harvest locations and an increase in helicopter logging.

In the third quarter of 2015 we incurred \$1.7 million in export tax expense. With the steep decline in the commodity benchmark lumber pricing index, export taxes under the Softwood Lumber Agreement became payable in the second quarter of 2015 and continued into the third quarter. Export tax rates applied to shipments of lumber to the U.S. were 15% for July and 5% for August and September.

Freight costs were \$22.9 million in the third quarter of 2015, a decrease of \$0.7 million compared to the same period of 2014. This decrease was due largely to the geographic mix of lumber shipments and a reduction in export log sales volumes partly offset by the impact of a weaker CAD on USD-denominated freight.

Selling and administration expense decreased 25% from the third quarter of 2014 to \$6.2 million in the third quarter of 2015. Contributing to lower administration expense were reduced performance-based compensation costs, option forfeitures, and lower share-based compensation expense.

Third quarter net income was \$17.1 million in 2015, as compared to \$2.7 million in the same period in 2014. Results from the third quarter of 2015 include \$2.9 million in restructuring charges as compared to \$8.3 million in restructuring charge in the same quarter of 2014. Restructuring charges in the third quarter of 2015 relate primarily to severance expenses resulting from the consolidation of our Central Island forest operations, while these expenses in the same quarter of 2014 resulted largely from the consolidation of our Nanaimo-area sawmill operations.

Year to date, September 30, 2015

Adjusted EBITDA for the first nine months of 2015 was \$87.5 million. Our flexible operating platform enabled us to meet increased demand for specialty lumber and reduce our exposure to a significant downturn in commodity markets and reduced export log demand. An improved Japan lumber market, resilient WRC market, the impact of a weaker CAD and stable year-to-date log shipments has partially offset the impact of poor commodity lumber markets in the first nine months of 2015. An increase in production costs and the imposition of export tax reduced adjusted EBITDA by \$6.2 million as compared to the first three quarters of 2014, and resulted in an adjusted EBITDA margin of 10.7% as compared to 11.6% over the same period last year.

Lumber revenue in the first three quarters of 2015 increased by 2% as compared to the first three quarters of 2014. While lumber shipments have decreased 5% from the first nine months of 2014, an improved lumber sales mix and a weaker CAD have led to a \$65 per mfbm increase in average realized lumber pricing in 2015. The primary driver for increased average realized lumber pricing was WRC lumber for which shipments and average realized pricing grew by 9% and 15%, respectively, as compared to the first nine months of last year. On the strength of log purchases year-to-date, WRC lumber sales volumes increased to 30% of total lumber sold in the first nine months of 2015 as compared to 26% in the same period last year.

Log revenue of \$189.5 million for the first nine months of 2015 has decreased 2% compared to the same period of 2014. An increase of 9% in domestic sales volume has largely offset the 10% decrease in export sales volumes and 5% decline in pulp log pricing period-over-period. Challenging log market conditions in China and weaker pulp log pricing due to the impact of pulp operation curtailments on the B.C. coast has offset the impact of rising domestic log pricing and the weaker CAD on average realized log pricing.

Improved production from our Duke Point sawmill partially offset the impact of the three weeks of downtime at our Saltair sawmill late in the third quarter for the installation of the new log merchandiser and debarker and the November 2014 closure of our Nanaimo sawmill. These factors contributed to 7% lower lumber production for the first three quarters of 2015 as compared to the same period of 2014.

Total log production increased to 4.1 million cubic metres in the first nine months of 2015 from 3.8 million cubic metres produced in the same period last year. As a result of year-to-date harvest production, we have been able to leverage our well-positioned log inventory to focus on the production of specialty lumber products and reduce our exposure to poor commodity market pricing.

Log production costs were higher in the first three quarters of 2015 primarily due to mix in harvest operations, increased helicopter logging volumes and increased labour costs. Labour costs have increased following the five-year labour agreement ratified by the United Steelworkers Union ("USW") in July 2014. Additionally, we expensed \$1.1 million more spur road construction in the first three quarters of 2015, as compared to the same period last year, as we increased our access to standing timber in preparation for future harvesting.

Selling and administration expense in the first three quarters of 2015 was \$20.3 million, a decrease of \$5.9 million from the same period last year. The reduction in selling and administration expense was due largely to a decrease in performance-based employee compensation costs, lower share-based compensation expense, and reduced payroll costs arising from the consolidation of certain operations and sales offices. As a percentage of revenue, selling and administration expense has decreased from 3.3% in the first nine months of last year to 2.5% in the same period of 2015.

Finance Costs

Finance costs in the third quarter of 2015 were \$1.3 million, a decrease of \$0.1 million compared to the same quarter of 2014. This decrease was commensurate with lower average outstanding debt on our revolving term loan facility and a reduction in interest rate from the comparative period. The average debt balance outstanding in the third quarter of 2015 was \$72.8 million as compared to \$83.9 million in the same quarter of 2014.

Discontinued Operations

The sale of Western's former Squamish pulp mill site was completed February 6, 2015 for cash proceeds of \$21.8 million. Consequently, the Company recognized \$9.1 million in net income from discontinued operations in the first quarter of 2015 resulting from gains 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; and a gain on reversal of an associated liability.

As part of our corporate strategy, we will continue to pursue opportunities to sell non-core assets in order to optimize our business.

Financial Position and Liquidity

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
<i>(millions of dollars except where noted)</i>				
Cash provided by operating activities, excluding non-cash working capital	\$ 25.0	\$ 10.0	\$ 79.9	\$ 83.4
Cash provided by operating activities	\$ 38.4	\$ 22.1	67.2	72.9
Cash used in investing activities	(17.2)	(10.5)	(42.9)	(26.6)
Cash used in financing activities	(11.2)	(13.4)	(32.1)	(36.2)
Cash used in capital logging roads	(4.1)	(2.6)	(10.3)	(9.3)
Cash used to acquire property, plant and equipment	(13.1)	(8.1)	(32.6)	(17.5)
			September 30, 2015	December 31, 2014
Total liquidity ⁽¹⁾			\$ 173.4	\$ 134.4
Net debt ⁽²⁾			58.3	77.9
Financial ratios:				
Current assets to current liabilities			2.34	2.29
Net debt to capitalization ⁽³⁾			0.12	0.16

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

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

⁽³⁾ Capitalization comprises net debt and shareholders equity.

Third quarter cash provided by operating activities in 2015 was \$38.4 million as compared to \$22.1 million in the same quarter of 2014, primarily due to increased revenue from operations. The Company took advantage of favourable year-over-year harvesting conditions to maintain healthy log inventories while sales accelerated through the third quarter of 2015, bringing lumber inventories into balance.

Cash used in investing activities was \$17.2 million in the third quarter of 2015, as compared to cash used in investing activities of \$10.5 million in the same quarter of 2014. These results are consistent with an increased focus on the implementation of previously announced strategic capital investments.

Capital investments in the third quarter of 2015 were comprised of strategic capital investments of \$9.1 million, discretionary spending on capital roads of \$4.0 million, and other discretionary maintenance capital projects of \$4.1 million. The strategic capital invested in the third quarter of 2015 primarily related to the completion of the log merchandiser and debarker installation projects at Saltair, and progress made on the Duke Point modernization project through upgrades to that facility's sawmill and planer facilities. Our strategic capital program is discussed in more detail in the "Strategy and Outlook" section.

In the third quarter of 2015, financing activities used cash of \$11.2 million compared to the \$13.4 million utilized in the same quarter of 2014. We returned \$7.9 million, or \$0.02 per common share, to shareholders on September 18, 2015 via a quarterly dividend payment, and made a repayment of \$2.5 million under our revolving credit facility during the third quarter of 2015.

Total liquidity was \$173.4 million at September 30, 2015, compared to \$134.4 million at the end of 2014. The increase in liquidity was due to cash generated by operations, proceeds from the sale of non-core assets, and an increased borrowing base under the revolving credit facility. At September 30, 2015, liquidity was comprised of cash of \$14.9 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

In the third quarter we continued to implement our strategy of maximizing product margins while increasing our sales volume.

Key operational priorities in support of our strategy include:

- 1) Increasing log availability through the accessing of additional log volume on the open market to increase lumber production;
- 2) Implementing strategic capital and utilizing our flexible operating platform to produce products that maximize margin; and,
- 3) Improving productivity through increased equipment utilization.

Market Outlook

We believe that in the mid to long-term, increased demand from a continued gradual recovery in the U.S. new home segment and continued demand from China, combined with a reduction in supply from traditional Canadian sources, will lead to a stronger pricing environment. Until U.S. new home construction returns to more normalized levels we expect commodity lumber pricing will continue to be volatile.

Demand and pricing for WRC normally declines in the fourth quarter as distributors reduce inventories ahead of the winter season. As with past fourth quarters, we expect a seasonal reduction in demand for WRC compared to the third quarter; but in contrast to past years, we anticipate WRC lumber pricing to remain firm, supported by continued strength in the repair and renovation segment. Demand for certain Niche lumber product lines was challenged in the third quarter due to higher inventory levels in the distribution channel. We are adjusting the mix of our Niche lumber production and expect that to increase sales volumes and maintain pricing.

As expected, demand for lumber in Japan improved in the third quarter. This was supported by increased Japan housing starts. We anticipate that demand will continue to improve over the next two quarters. Lumber pricing in Japan will remain competitive in the near term due to increased competition from other supply regions, however we expect to achieve marginal price improvements in selected product lines. Lumber pricing and demand for Canadian lumber in China in 2015 has been weak. We are somewhat optimistic that declining inventories will improve both demand and pricing in the fourth quarter.

Export log market fundamentals appear to be improving. Log inventories in China have declined and demand in Korea has improved. Our price realizations have benefited from a weaker CAD and lower freight rates due in part to reduced export volumes from North America. While the export log markets remain fragile, we anticipate the fourth quarter will be slightly better in both volume and price. The market for domestic logs is expected to remain strong through the fourth quarter due to limited supply, and pulp log prices appear to have stabilized at current low levels.

The Canada-U.S. Softwood Lumber Agreement expired on October 12, 2015, eliminating export tax measures applicable under this agreement, and limiting litigation in respect of the importation of softwood lumber from Canada to the U.S. for twelve months following its expiration.

Strategic Capital Plan Update

In the third quarter of 2015, we continued to make steady progress with our ongoing strategic capital projects.

In mid-September 2015, we completed the installation of the log merchandiser and debarker at our Saltair sawmill. The completion of these projects has allowed us to capitalize on the previous investments we made in the mill and initial results have been positive. The upgraded Saltair sawmill will operate at higher production levels, improved recovery, lower cost and with greater product flexibility.

Additionally, in the third quarter of 2015, we continued with the Duke Point sawmill and planer modernization projects. The sawmill upgrade has allowed us to increase our large log utilization which supports our strategy of harvesting the profile of the coastal forest. The planer upgrade will allow us to centralize our specialty planing at a new high speed facility which will process lumber at lower costs.

In the fourth quarter of 2015, we plan to continue the next phase of the modernization of the Duke Point operation by installing new headrig optimization equipment in the sawmill, and by installing new equipment to support the processing of kiln dried lumber. Also in the quarter we will upgrade the canter line at our Ladysmith sawmill and finalize the upgrade to the timber deck at our Chemainus sawmill. The benefits of these capital projects will be evident through their ramp-up in 2016.

The upcoming capital investments in our operations are expected to increase productivity, reduce production costs, increase margins, and support the continued sustainable harvesting of our complete forest profile. Upon 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, 2018, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue related interpretations. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments, and lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2018. The extent of the impact of adoption of the standard 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 standard 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. 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 third quarter of 2015.

Outstanding Share Data

As of November 3, 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 nine months ended September 30, 2015, 266,000 previously granted options were exercised, 1,491,667 options were granted, and 678,000 options were forfeited. On November 3, 2015, 10,978,667 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
	3 rd	2 nd	1 st	4 th	3 rd	2 nd	1 st	4 th
<i>(millions of dollars except per share amounts and where noted)</i>								
Average Exchange Rate – Cdn \$ to purchase one US \$	1.309	1.229	1.241	1.136	1.089	1.091	1.103	1.049
Revenue								
Lumber	203.8	200.0	171.8	166.8	180.4	207.9	173.9	168.1
Logs	57.3	71.0	61.2	51.2	66.0	71.8	55.2	59.7
By-products	17.4	18.2	15.6	14.6	15.7	16.5	16.9	14.2
Total revenue	278.5	289.2	248.6	232.6	262.1	296.2	246.0	242.0
Lumber								
Production – millions of board feet	212	236	209	202	231	237	237	213
Shipments – millions of board feet	227	228	202	215	220	255	218	222
Price – per thousand board feet	899	879	849	775	820	815	798	758
Logs								
Production – thousands of cubic metres	1,180	1,402	1,472	1,281	1,009	1,544	1,293	1,314
Shipments – thousands of cubic metres	610	749	700	571	707	773	581	697
Price – per cubic metre ⁽¹⁾	89	90	83	90	86	90	95	84
Selling and administration	6.2	7.6	6.5	6.0	8.3	8.1	9.8	8.8
Adjusted EBITDA	28.7	29.2	29.6	14.8	20.0	40.9	32.8	24.4
Amortization	(7.3)	(7.6)	(7.8)	(6.7)	(7.0)	(8.2)	(7.7)	(7.0)
Changes in fair value of biological assets	-	(0.6)	(1.7)	0.5	(0.4)	(1.4)	(0.2)	(0.7)
Reversal of impairment	-	-	-	2.9	-	-	-	8.2
Operating restructuring items	(2.9)	(0.4)	(0.3)	(1.2)	(8.3)	(1.2)	(0.1)	(0.1)
Finance costs	(1.3)	(1.3)	(1.3)	(1.2)	(1.4)	(1.5)	(1.6)	(1.7)
Other income (expenses)	(0.2)	(0.1)	0.1	0.6	-	0.6	0.2	(0.1)
Deferred income tax recovery (expense)	0.1	(0.1)	0.1	3.2	-	-	0.2	26.5
Current income tax recovery (expense)	-	-	(0.2)	-	(0.2)	-	-	0.4
Net income from continuing operations	17.1	19.1	18.5	12.9	2.7	29.2	23.6	49.9
Net income from discontinued operations	-	-	9.1	-	-	-	-	-
Net income	17.1	19.1	27.6	12.9	2.7	29.2	23.6	49.9
Adjusted EBITDA margin	10.3%	10.1%	11.9%	6.4%	7.6%	13.8%	13.3%	10.1%
Earnings per share:								
Net income, basic	0.04	0.05	0.07	0.03	0.01	0.07	0.06	0.13
Net income, diluted	0.04	0.05	0.07	0.03	0.01	0.07	0.06	0.13

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

In a normal operating year there is seasonality to the Company's operations with higher lumber sales in the first half through to early in the third quarter when construction activity, particularly in the U.S., 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. The third quarter of 2015 included a \$2.9 million restructuring charge primarily related to the consolidation of the Company's Central Island forest operations.