Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2016 and 2015

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

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 7.4	$ 9.4
Trade and other receivables	91.1	75.0
Inventory (Note 5)	182.6	148.5
Prepaid expenses and other assets	21.9	17.8
	303.0	250.7
Non-current assets:		
Property, plant and equipment (Note 6)	288.2	271.3
Intangible assets (Note 7)	123.2	125.2
Biological assets (Note 8)	51.4	53.7
Other assets	13.0	11.2
Deferred income tax assets (Note 11)	17.6	31.3
	$ 796.4	$ 743.4
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 118.2	$ 97.7
Revolving credit facility (Note 9)	13.2	-
Silviculture provision (Note 12)	10.2	11.2
	141.6	108.9
Non-current liabilities:		
Long-term debt (Note 10)	58.3	63.2
Silviculture provision (Note 12)	19.7	19.6
Other liabilities (Note 13)	37.9	35.4
Deferred revenue	59.4	60.4
	316.9	287.5
Shareholders' equity:		
Share capital (Note 14)	506.0	505.5
Contributed surplus	8.0	7.6
Deficit	(34.5)	(57.2)
	479.5	455.9
	$ 796.4	$ 743.4

Commitments and Contingencies (Note 15)

See accompanying notes to these unaudited condensed consolidated interim financial statements

Approved on behalf of the Board:

"Lee Doney"
Chairman

"Don Demens"
President and CEO

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

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue	$ 301.8	$ 289.2	$ 571.6	$ 537.8
Cost and expenses:				
Cost of goods sold	236.1	236.3	449.8	438.2
Export tax	-	1.8	-	1.8
Freight	23.6	23.1	45.6	43.9
Selling and administration	8.4	7.0	16.2	12.8
	268.1	268.2	511.6	496.7
Operating income prior to restructuring items and other income	33.7	21.0	60.0	41.1
Operating restructuring items	(0.8)	(0.4)	(1.5)	(0.7)
Other expense	(0.2)	(0.1)	(0.5)	-
Operating income	32.7	20.5	58.0	40.4
Finance costs	(1.1)	(1.3)	(2.2)	(2.6)
Income before income taxes (Note 11)	31.6	19.2	55.8	37.8
Current income tax expense	-	-	(0.1)	(0.2)
Deferred income tax expense	(7.8)	(0.1)	(14.6)	-
Net income from continuing operations	23.8	19.1	41.1	37.6
Net income from discontinued operations (Note 18)	-	-	-	9.1
Net income	23.8	19.1	41.1	46.7
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss) (Note 16)	(4.7)	1.4	(3.4)	(1.5)
Income tax on other comprehensive gain (loss) (Note 11)	1.2	-	0.8	-
Total items that will not be reclassified to profit or loss	(3.5)	1.4	(2.6)	(1.5)
Other comprehensive income (loss) for the period	(3.5)	1.4	(2.6)	(1.5)
Total comprehensive income	$ 20.3	$ 20.5	$ 38.5	$ 45.2
Net income per share (in dollars)				
Basic and diluted earnings per share	$ 0.06	$ 0.05	$ 0.10	$ 0.12
Basic and diluted earnings per share - continuing operations	$ 0.06	$ 0.05	$ 0.10	$ 0.10
Basic and diluted earnings per share - discontinued operations	$ -	$ -	$ -	$ 0.02
Weighted average number of common shares outstanding (thousands)				
Basic	395,428	395,065	395,342	395,016
Diluted	399,341	399,176	399,101	399,365

See accompanying notes to these unaudited condensed consolidated interim financial statements

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

	Share Capital	Contributed Surplus	Deficit	**Total Equity**
Balance at December 31, 2014	$ 504.4	$ 7.0	$ (103.3)	$ 408.1
Net income	-	-	46.7	46.7
Other comprehensive loss:				
Defined benefit plan actuarial loss recognized	-	-	(1.5)	(1.5)
Total comprehensive loss	-	-	45.2	45.2
Share-based payment transactions recognized in equity	-	0.9	-	0.9
Exercise of stock options	0.8	(0.2)	-	0.6
Dividends	-	-	(15.8)	(15.8)
Total transactions with owners, recorded directly in equity	0.8	0.7	(15.8)	(14.3)
Balance at June 30, 2015	$ 505.2	$ 7.7	$ (73.9)	$ 439.0

	Share Capital	Contributed Surplus	Deficit	**Total Equity**
Balance at December 31, 2015	$ 505.5	$ 7.6	$ (57.2)	$ 455.9
Net income	-	-	41.1	41.1
Other comprehensive income (loss):				
Defined benefit plan actuarial loss recognized	-	-	(3.4)	(3.4)
Income recovery tax on other comprehensive loss	-	-	0.8	0.8
Total comprehensive income	-	-	38.5	38.5
Share-based payment transactions recognized in equity	-	0.6	-	0.6
Exercise of stock options	0.5	(0.2)	-	0.3
Dividends	-	-	(15.8)	(15.8)
Total transactions with owners, recorded directly in equity	0.5	0.4	(15.8)	(14.9)
Balance at June 30, 2016	$ 506.0	$ 8.0	$ (34.5)	$ 479.5

See accompanying notes to these unaudited condensed consolidated interim financial statements

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

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Cash provided by (used in):				
Operating activities:				
Net income from continuing operations	$ 23.8	$ 19.1	$ 41.1	$ 37.6
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	7.8	6.6	14.3	13.4
Amortization of intangible assets (Note 7)	1.0	1.0	2.0	2.0
Loss on disposal of assets	0.1	-	0.1	-
Change in fair value of biological assets (Note 8)	0.4	0.6	2.3	2.3
Net finance costs	1.1	1.3	2.2	2.6
Deferred income tax expense (Note 11)	7.8	0.1	14.6	-
Other	(2.0)	(2.6)	(3.9)	(3.0)
	40.0	26.1	72.7	54.9
Changes in non-cash working capital items:				
Trade and other receivables	(13.4)	(6.4)	(16.1)	(23.9)
Inventory	(37.1)	(4.0)	(34.1)	(24.9)
Prepaid expenses and other assets	(0.9)	1.0	(4.1)	(2.2)
Silviculture provision	(1.1)	1.5	(0.9)	0.6
Accounts payable and accrued liabilities	22.2	2.4	20.3	24.3
	(30.3)	(5.5)	(34.9)	(26.1)
	9.7	20.6	37.8	28.8
Investing activities:				
Additions to property, plant and equipment (Note 6)	(17.6)	(15.6)	(31.4)	(25.7)
Proceeds on disposal of assets	0.1	-	0.1	-
	(17.5)	(15.6)	(31.3)	(25.7)
Financing activities:				
Interest paid	(0.6)	(0.7)	(1.2)	(1.5)
Drawings (repayments) under revolving credit facility, net	13.2	2.5	13.2	(4.2)
Repayment of long-term debt	-	-	(5.0)	-
Dividends	(7.9)	(7.9)	(15.8)	(15.8)
Proceeds from exercise of stock options	0.1	-	0.3	0.6
	4.8	(6.1)	(8.5)	(20.9)
Cash used in continuing operations	(3.0)	(1.1)	(2.0)	(17.8)
Proceeds on disposal of assets	-	-	-	21.8
Other	-	-	-	(0.9)
Cash provided by discontinued operations (Note 18)	-	-	-	20.9
Increase (decrease) in cash and cash equivalents	(3.0)	(1.1)	(2.0)	3.1
Cash and cash equivalents, beginning of period	10.4	6.0	9.4	1.8
Cash and cash equivalents, end of period	$ 7.4	$ 4.9	$ 7.4	$ 4.9

See accompanying notes to these unaudited condensed consolidated interim financial statements

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia. The address of the Company's registered office is Suite 800 – 1055 West Georgia Street, Vancouver, British Columbia, Canada. The unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2016 and 2015 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. The Company is listed on the Toronto Stock Exchange, under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year ended December 31, 2015. These interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial statements were authorized for issue by the Board of Directors on August 3, 2016.

(b) Basis of measurement

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

- Biological assets are measured at fair value less costs to sell;
- Liabilities for cash-settled share-based payment transactions are measured at fair value at each reporting 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 Canadian dollars which is the Company's functional currency. All amounts are presented in millions of Canadian dollars, unless otherwise indicated.

(d) Use of estimates and judgements

The preparation of interim consolidated financial statements in accordance with IAS 34 requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the interim financial statements, are disclosed in the Company's annual consolidated financial statements as at and for the year ended December 31, 2015.

3. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2015.

(a) Standards and interpretations not yet adopted

IFRS 2, Share-based Payment ("IFRS 2")

Amendments to IFRS 2 are effective for years commencing on or after January 1, 2018. IFRS 2 will be amended to clarify how to account for certain types of share-based payment transactions. The Company intends to adopt the amendments to IFRS 2 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.

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 16, Leases ("IFRS 16")

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

IAS 7, Statement of Cash Flows ("IAS 7")

Amendments to IAS 7 will be effective for years commencing on or after January 1, 2017. IAS 7 will be amended to require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company intends to adopt the amendments to IAS 7 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.

IAS 12, Income Taxes ("IAS 12")

Amendments to IAS 12 will be effective for years commencing on or after January 1, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The Company intends to adopt the amendments to IAS 12 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.

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

4. Seasonality of operations

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

5. Inventory

	June 30, 2016	December 31, 2015
Logs	$ 130.6	$ 102.0
Lumber	54.8	50.7
Supplies and other inventory	12.8	12.0
Provision for write downs	(15.6)	(16.2)
Total value of inventory	$ 182.6	$ 148.5

The carrying amount of inventory recorded at net realizable value was $53.0 million at June 30, 2016 (December 31, 2015: $49.2 million), with the remaining inventory recorded at cost.

During the three and six months ended June 30, 2016, $236.1 million and $449.8 million, respectively (2015: $236.3 million and $ 438.2 million, respectively) of inventory was charged to cost of goods sold. This includes an increase to the provision for write-down to net realizable value of $3.4 million and a decrease to the provision for write-down to net realizable value of $0.6 million for the three and six months ended June 30, 2016, respectively (2015: increase of $3.8 million and $5.1 million, respectively).

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

6. Property, plant and equipment

Cost	Buildings & equipment	Logging roads	Land	**Total property, plant & equipment**
Balance at January 1, 2015	$ 214.4	$ 151.3	$ 103.7	$ 469.4
Additions	48.5	13.6	-	62.1
Disposals	(1.3)	-	(13.1)	(14.4)
Balance at December 31, 2015	261.6	164.9	90.6	517.1
Additions	25.7	5.7	-	31.4
Disposals	(0.4)	-	-	(0.4)
Balance at June 30, 2016	$ 286.9	$ 170.6	$ 90.6	$ 548.1
Accumulated amortization and impairments				
Balance at January 1, 2015	$ 101.3	$ 118.8	$ -	$ 220.1
Amortization	13.9	12.9	-	26.8
Disposals	(1.1)	-	-	(1.1)
Balance at December 31, 2015	114.1	131.7	-	245.8
Amortization	8.0	6.3	-	14.3
Disposals	(0.2)	-	-	(0.2)
Balance at June 30, 2016	$ 121.9	$ 138.0	$ -	$ 259.9
Carrying amounts				
At December 31, 2015	$ 147.5	$ 33.2	$ 90.6	$ 271.3
At June 30, 2016	$ 165.0	$ 32.6	$ 90.6	$ 288.2

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

7. Intangible assets

Cost		
Balance at December 31, 2015	$	170.7
Balance at June 30, 2016	$	170.7
Accumulated amortization and impairments		
Balance at January 1, 2015	$	41.4
Amortization		4.1
Balance at December 31, 2015	$	45.5
Amortization		2.0
Balance at June 30, 2016	$	47.5
Carrying amounts		
At December 31, 2015	$	125.2
At June 30, 2016	$	123.2

8. Biological assets

(a) Reconciliation of carrying amount

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Carrying value, beginning of period	$ 51.8	$ 55.2	$ 53.7	$ 56.9
Change in fair value due to growth and pricing	0.8	0.8	1.6	1.6
Harvested timber transferred to inventory	(1.2)	(1.4)	(3.9)	(3.9)
Carrying value, end of period	$ 51.4	$ 54.6	$ 51.4	$ 54.6

At June 30, 2016, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2015: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to old-growth forests. During the three and six months ended June 30, 2016, the Company harvested and scaled approximately 54,098 cubic metres ("m^3") and 174,336 m^3, respectively (2015: 66,202 m^3 and 177,820 m^3, respectively), of logs from its private timberlands, which had a fair value less costs to sell of $102 per m^3 and $109 per m^3, respectively at the date of harvest (2015: $99 per m^3 and $99 per m^3, respectively).

(b) Measurement of fair values

The fair value measurements for the Company's standing timber of $51.4 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used (December 31, 2015: Level 3 fair value). The valuation technique used is discounted cash flows combined with market comparison.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at June 30, 2016 and noted no indication that a full re-assessment of fair value less costs to sell, or of the previously applied significant unobservable inputs, was warranted at that date.

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

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

9. Revolving credit facility

	June 30, 2016	December 31, 2015
Available	$ 125.0	$ 125.0
Drawings	13.2	-
Outstanding letters of credit	0.9	2.5
Unused portion of Facility	$ 110.9	$ 122.5

The Company's revolving credit facility (the "Facility") provides for a maximum borrowing amount of $125.0 million, subject to a borrowing base, which is primarily based on eligible accounts receivable and inventory balances, and has a maturity date of December 14, 2016. The Facility bears interest at the Canadian Prime rate (if availability exceeds 35% of the borrowing base) or at the Canadian Prime rate plus 0.25% (if availability is less than 35% of the borrowing base) or at the Company's option, at rates for Bankers' Acceptances ("BA") or London Interbank Offered Rate ("LIBOR") based loans plus 1.25% or 1.50%, dependent on the same availability criteria. The interest rate for the Facility was 2.70% at June 30, 2016 (December 31, 2015: 2.70%).

The Facility is secured by a first lien interest over accounts receivable and inventory and includes financial covenants. The Company was in compliance with its financial covenants at June 30, 2016.

10. Long-term debt

	June 30, 2016	December 31, 2015
Long-term debt	$ 59.0	$ 64.0
Less transaction costs	(0.7)	(0.8)
	$ 58.3	$ 63.2
Available	$ 110.0	$ 110.0
Drawings	59.0	64.0
Unused portion of Term Loan	$ 51.0	$ 46.0

The Company's revolving term loan facility (the "Term Loan") provides for a maximum borrowing amount of $110.0 million and has a maturity date of June 29, 2019. The Term Loan bears interest at an index rate, determined as the higher of (i) the Canadian Prime rate plus 0.15%, and (ii) the 30 day BA rate plus 1.65%. The interest rate for the Term Loan was 2.60% at June 30, 2016 (December 31, 2015: 2.57%).

The Term Loan is secured by a first lien interest over all of the Company's properties and assets, excluding those of the Englewood Logging Division and accounts receivable and inventory, over which it has a second lien interest, and includes financial covenants. The Company was in compliance with its financial covenants at June 30, 2016. Transaction costs are deferred and amortized to finance costs over the term of the Term Loan using the effective interest rate method.

11. Income taxes

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Current income tax expense	$ -	$ -	$ (0.1)	$ (0.2)
Deferred income tax expense	(7.8)	(0.1)	(14.6)	-
	$ (7.8)	$ (0.1)	$ (14.7)	$ (0.2)

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

11. Income taxes (continued)

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

	Three months ended June 30,				Six months ended June 30,			
	2016		2015		2016		2015	
Income before income taxes, continuing operations		$ 31.6		$ 19.2		$ 55.8		$ 37.8
Tax using the Company's domestic tax rate	26.00%	(8.2)	26.00%	(5.0)	26.00%	(14.5)	26.00%	(9.8)
Permanent differences	(1.27%)	0.4	(25.52%)	4.9	0.36%	(0.2)	(25.40%)	9.6
	24.73%	$ (7.8)	0.48%	$ (0.1)	26.36%	$ (14.7)	0.60%	$ (0.2)

In addition to the amounts recorded to net income, a deferred tax recovery of $1.2 million and $0.8 million was recorded to other comprehensive income for the three and six month period ended June 30, 2016 (2015: nil) in relation to current period actuarial losses on defined benefit employee future benefit obligations.

12. Silviculture provision

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Silviculture provision, beginning of period	$ 30.3	$ 29.8	$ 30.8	$ 29.7
Silviculture provision charged	2.6	3.2	4.8	6.3
Silviculture work payments	(3.1)	(3.0)	(5.8)	(6.0)
Unwind of discount	0.1	0.1	0.1	0.1
Silviculture provision, end of period	29.9	30.1	29.9	30.1
Less current portion	10.2	11.3	10.2	11.3
	$ 19.7	$ 18.8	$ 19.7	$ 18.8

The silviculture expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.52% to 1.06%. The total undiscounted amount of the estimated future expenditures required to settle the silviculture obligation at June 30, 2016 is $30.2 million (December 31, 2015: $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.

13. Other liabilities

	June 30, 2016	December 31, 2015
Employee future benefits obligation (Note 16)	$ 34.5	$ 32.7
Environmental accruals	2.3	2.0
Other	1.1	0.7
	$ 37.9	$ 35.4

14. Share capital

(a) Issued and outstanding share capital

	Number of Common Shares	Amount
Balance at December 31, 2015	395,245,407	$ 505.5
Exercise of stock options	202,256	0.5
Balance at June 30, 2016	395,447,663	$ 506.0

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

14. Share capital (continued)

(b) Share-based payment transactions

During the first quarter of 2016, the Company granted 1,330,918 options with a fair value of $0.7 million as determined by the Black-Scholes option pricing model, using the assumptions of an average exercise price of $1.97 per share, risk free interest rate of 0.75%, a volatility rate of 40.9%, and an expected life of seven years. These options are only exercisable when the share price has been equal to or exceeds $0.70 for the 60 consecutive days preceding the date of exercise on a volume weighted average price basis. In addition, 125,000 options were exercised with a weighted average exercise price of $1.29 per share, 5,000 of which were exercised for net cash proceeds where no Common Shares were issued, and 39,000 options were forfeited with a weighted average exercise price of $2.61. During the second quarter of 2016, 90,000 options were exercised with a weighted average exercise price of $1.75 per share, 10,000 of which were exercised on a cashless basis where 2,256 Common Shares were issued. There were no other stock option grants, expiration or forfeitures during the second quarter of 2016. At June 30, 2016, 11,235,585 options (December 31, 2015: 10,158,667) were outstanding under the Company's Option Plan, with a weighted average exercise price of $1.50 per share.

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

During the first quarter of 2016, 29,562 DSUs were issued at a price of $2.30 per DSU to certain directors who have elected to take a portion of their directors' fees in the form of DSUs. In addition, 2,541 DSUs and 5,707 DSUs were issued to designated executive officers and a director, respectively, at a price of $2.20 per DSU to reflect the cash dividend declared on Common Shares during the quarter. During the second quarter of 2016, 34,108 DSUs were issued at a price of $2.20 per DSU to certain directors who have elected to take a portion of their directors' fees in the form of DSUs. In addition, 2,255 DSUs and 7,394 DSUs were issued to designated executive officers and directors, respectively, at a price of $2.20 per DSU to reflect the cash dividend declared of Common Shares during the quarter and 49,455 DSUs were redeemed with a weighted average issue price of $1.25.

The cumulative number of DSUs outstanding at June 30, 2016 was 1,013,607 (December 31, 2015: 981,495). During the three and six months ended June 30, 2016, the Company recorded compensation recovery for these DSUs of $nil and $0.1 million (2015: compensation expense of $0.3 million and $0.9 million, respectively), with a corresponding adjustment to accounts payable and accrued liabilities.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Outstanding, beginning of period	925,214	422,647	434,115	-
Granted	8,005	3,557	534,027	426,204
Forfeited	-	-	(34,923)	-
Outstanding, end of period	933,219	426,204	933,219	426,204

15. Commitments and contingencies

Long-term fibre supply agreements

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

The Company had met all fibre commitments as at December 31, 2015 and based on chip and pulp log volumes supplied year-to-date, the Company anticipates satisfying annual fibre commitments for 2016.

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

16. Employee benefits

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Current service costs	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Net interest	0.3	0.2	0.6	0.4
Cost of defined benefit plans	0.4	0.3	0.8	0.6
Cost of defined contribution plans	0.7	0.9	1.6	1.4
Total cost of employee post-retirement benefits	$ 1.1	$ 1.2	$ 2.4	$ 2.0

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

	June 30, 2016	December 31, 2015
Present value of obligations	$ 145.6	$ 139.3
Fair value of plan assets	(111.1)	(106.6)
Liability recognized in the statement of financial position (Note 13)	$ 34.5	$ 32.7

The change in the liability recognized in the statement of financial position at June 30, 2016 was due primarily to the increased actuarial losses resulting from estimated changes in the discount rate used to value the defined benefit obligations, offset by higher than expected returns on plan assets. The discount rate used as at June 30, 2016 was 3.25% per annum, a decrease of 0.50% per annum from the rate used at December 31, 2015 of 3.75% per annum, and the return on assets over the six months ended June 30, 2016 was 6.3% per annum.

The Company expects to make funding contributions to its defined benefit plans of $2.9 million during 2016.

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

17. Financial instruments – fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2015.

	Carrying Amount					Fair Value			
June 30, 2016	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	$ 4.8	$ -	$ -	$ -	$ 4.8	-	4.8	-	$ 4.8
	$ 4.8	$ -	$ -	$ -	$ 4.8				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 7.4	$ -	$ 7.4				
Trade and other receivables	-	-	91.1	-	91.1				
	$ -	$ -	$ 98.5	$ -	$ 98.5				
Financial liabilities measured at fair value									
Foreign currency forward contracts	$ -	$ 0.7	$ -	$ -	$ 0.7	-	0.7	-	$ 0.7
Revolving credit facility	-	-	-	13.2	13.2				
	$ -	$ 0.7	$ -	$ 13.2	$ 13.9				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 117.5	$ 117.5				
Long-term debt (Note 10)	-	-	-	58.3	58.3				
	$ -	$ -	$ -	$ 175.8	$ 175.8				
December 31, 2015									
Financial assets measured at fair value									
Investments	$ 5.1	$ -	$ -	$ -	$ 5.1	-	5.1	-	$ 5.1
	$ 5.1	$ -	$ -	$ -	$ 5.1				
Financial assets not measured at fair value									
Cash and cash equivalents	$ -	$ -	$ 9.4	$ -	$ 9.4				
Trade and other receivables	-	-	75.0	-	75.0				
	$ -	$ -	$ 84.4	$ -	$ 84.4				
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	$ -	$ -	$ -	$ 97.4	$ 97.4				
Long-term debt (Note 10)	-	-	-	63.2	63.2				
	$ -	$ -	$ -	$ 160.6	$ 160.6				

As at June 30, 2016, the Company had outstanding obligations to sell an aggregate Japanese Yen (“JPY”) 1,390.0 million at an average rate of JPY 82.83 per CAD with maturities through October 19, 2016, and an aggregate USD$31.5 million at an average rate of CAD$1.29 per USD with maturities through July 29, 2016.

All foreign currency gains or losses related to currency forward contracts to June 30, 2016 have been recognized in revenue for the period and the fair value of these instruments at June 30, 2016 was a net liability of $0.7 million, which is included in accounts payable and accrued liabilities on the statement of financial position (December 31, 2015: net liability of $0.3 million). A net gain of $0.4 million was recognized on contracts which were settled in the six months ended June 30, 2016 (2015: net loss of $4.0 million), which was included in revenue for the period.

18. 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. In 2014, the Company completed its remediation plan in accordance with the terms of the agreement.

On February 6, 2015, the Company completed the sale of its former Squamish pulp mill site for proceeds of $21.8 million and recognized a gain on disposition of $5.4 million during the first quarter of 2015. In the first quarter of 2015, the Company recorded net income from discontinued operations of $9.1 and cash provided by discontinued operations of $20.9 million.

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