Western Forest Products Inc.

2008 Annual Report

Financial Highlights

(millions of dollars except where noted)	2008	2007	2006
Sales	$ 814.8	$ 890.5	$ 896.8
Net income (loss) and comprehensive income (loss)	$ (85.6)	$ (55.8)	$ 33.1
Cash flow from continuing operations	$ (53.2)	$ (52.0)	$ 69.6
Weighted average common and voting shares outstanding ('000)	204,414	204,414	145,637
Basic and diluted net income (loss) per share (dollars)	$ (0.42)	$ (0.27)	$ 0.23
EBITDA [(1)]	$ (42.4)	$ (13.8)	$ 138.2
Working capital	$ 44.6	$ 82.9	$ 263.2
Total assets	$ 726.0	$ 815.7	$ 898.4
Net debt [(2)]	$ 233.0	$ 214.5	$ 167.7
Net debt to capitalization [(3)]	0.43	0.35	0.27
Total liquidity [(4)]	$ 22.3	$ 67.4	$ 143.5

(1) Non-GAAP measure - see page 4 for discussion on EBITDA.

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

(3) Capitalization comprises net debt and shareholders' equity.

(4) Total liquidity comprises cash and cash equivalents and available credit under the Company's revolving credit line and revolving term facility.

(5) The results for the year ended December 31, 2006 include Englewood and Cascadia from acquisition on March 17, 2006 and May 1, 2006, respectively.

Letter to Shareholders

Dear Shareholders,

Two-thousand-and-eight was a tough year for the Canadian lumber industry, certainly as difficult as we have seen in the last 50 years. Several factors came together to inflict poor financial performance across the sector—a high Canadian dollar, high energy and transportation costs, high stumpage costs, and worst of all, plunging demand and prices for lumber caused by the collapse in the American housing market and the worldwide recession which soon followed.

Unfortunately, Western Forest Products was not immune to these external forces.

Western took steps to reduce costs and manage our way through this exceptionally difficult period, but the Company's financial performance still suffered.

Unfortunately 2009 would appear to be another difficult year for Western and the entire sector. However, we have prepared ourselves for the year with this outlook in mind and we believe that Western will be positioned to take advantage of the inevitable market recovery.

While we continue to face serious challenges in 2009, it is important to remind you of our confidence in the long-term future and business prospects of Western which are based upon an outstanding fibre asset, a focus on high margin products, further penetration into both long-standing markets like the United States and Japan but also new ones like China, and both highly skilled and experienced employees.

We must get through this recession first.

Key to this will be lowering operating costs and ongoing alignment of our production with market demand to preserve liquidity and manage inventories. As 2009 began our harvesting plan had been reduced by 40 percent from our total potential harvest and our plants are operating at about half of their production potential. This necessary downtime at our manufacturing plants and in our timberlands operations has been matched by reductions in salaried positions, all difficult decisions taken for the long-term interest of Western but which exact a toll on many hard-working and longtime employees.

We have also accelerated the creation of a portfolio of products which can, in normal markets, generate greater margins. For example, Western is the largest producer of Western red cedar, a premium and specialty wood keenly valued in North American and Asian markets. At the same time we have cut our production of hemlock, normally sold into the U.S. dimension lumber market, and other similar products which do not generate strong margins.

Looking ahead we can now see that some of the external factors which were so severely negative in 2008 are turning in a positive direction.

After remaining historically high for much of last year the Canadian dollar has recently returned to levels much closer to long-time averages. Like any other Canadian exporter who prices their products in U.S. dollars the high exchange rate hurt Western's returns. While we have established a policy to reduce our exposure to currency fluctuations there is no question that the recent downward move in the value of the Canadian dollar, if sustained will help.

We were pleased by B.C. Provincial Government announcements early in 2009 that will reduce our stumpage costs. We and other producers were penalized in 2008 through stumpage prices that increased while log prices declined, due to a five-month lag between stumpage rates and log market pricing. Our stumpage costs this year should be lower.

Another improvement this year will be the return of some bulk shipping capacity to Western via our agreement negotiated in early 2009 with a shipper able to serve Port Alberni. Such capacity at prudent rates was unavailable through much of 2008. We also expect a reduction in other transportation and energy costs due to lower worldwide oil prices.

Efforts will continue this year to sell non-core assets, such as Western's private lands on Vancouver Island which may find a higher value use than timber production and the site of the former Squamish pulp mill.

In the latter half of 2008 it became clear that Western's losses were drawing down cash to the point where our ability to operate effectively might have been impaired. A December, 2008 rights offering provided proceeds of $50 million which were available to us in January. The offering was backed by Tricap Management Limited which now owns 86 percent of Western's shares when considering both voting and non-voting shares outstanding.

These are difficult times for Western and many other lumber producers in Canada and the United States. We thank our shareholders for your continued support, and our employees, contractors, suppliers, and communities for their encouragement and confidence.

John MacIntyre
Chairman

Dominic Gammiero
President and Chief Executive Officer

Management's Discussion & Analysis

The following discussion and analysis reports and comments on the financial condition and results of operations of Western Forest Products Inc. ("Company", "Western", "us", "we", or "our"), on a consolidated basis, for the year ended December 31, 2008 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 audited annual consolidated financial statements and related notes thereto, for the years ended December 31, 2008 and 2007.

The Company has prepared the financial information contained in this discussion and analysis in accordance with Canadian generally accepted accounting principles ("GAAP"). Reference is also made to EBITDA[1]. EBITDA is defined as operating income (loss) plus amortization of property, plant and equipment and the write-down of property, plant and equipment and operating restructuring costs added back. Western uses EBITDA as a benchmark measurement of our own operating results and as a benchmark relative to our competitors. We consider EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense and property write-downs are not 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, operating restructuring costs are not expected to occur on a regular basis and may make comparisons of our operating results between periods more difficult. We also believe EBITDA is commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

EBITDA does not represent cash generated from operations as defined by Canadian GAAP and it is not necessarily indicative of cash available to fund cash needs. Furthermore, EBITDA does not reflect the impact of a number of items that affect our net income (loss). EBITDA is not a measure of financial performance under GAAP, and should not be considered as an alternative to measures of performance under GAAP. Moreover, because all companies do not calculate EBITDA in the same manner, EBITDA as calculated by Western may differ from EBITDA as calculated by other companies.

This management's discussion and analysis 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 Annual Information Form dated February 25, 2009, and under the "Risks and Uncertainties" section of our MD&A in this 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 February 25, 2009. Certain prior period comparative figures may 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

Overview

A combination of adverse economic circumstances detracted from Western's financial performance in 2008. The current downturn in the forest products industry is one of the worst experienced by industry participants. Following the credit crisis, housing starts in the United States were at the lowest level in many years. For most of the year, the Canadian dollar held at near record high levels which reduced Canadian dollar revenues from sales made in foreign currencies. Increasingly towards the latter part of the year, the downturn in the world economy further restrained customer demand. Oil prices accelerated to unusually high levels and in association with a shortage of break bulk shipping capacity, drove up freight costs. Finally, stumpage rates paid to the provincial government remained high for the majority of the year despite the decline in lumber and log prices.

As a result, the Company acted to mitigate the impact of these circumstances with curtailments of logging and sawmill operations to better match production with customer demand. The annual harvest in 2008 was about 34% less than Western's production potential. Furthermore, Western migrated the mix of products manufactured and sold towards higher margin lumber. Despite these actions, Western's financial performance in 2008 deteriorated when compared to the prior twelve month period, which was also a difficult year.

In 2007, the Company's financial results were also influenced by unusual and adverse circumstances. The three-month strike between July and October 2007 by members of the United Steelworkers of America union brought most of the Company's logging and sawmill activity to a standstill. Accordingly, while the first six months of 2007 year generated positive net income, the last six months generated net losses.

Western's sales in 2008 amounted to $814.8 million, representing a decline of $75.7 million, or 8.5%, from the prior year. Lower sales in 2008 were driven primarily by reduced quantities of lumber shipped to customers and lower average prices realized for logs sold.

The net loss of $85.6 million in 2008 was an increase of 53.4% from the loss of $55.8 million incurred in 2007. Higher net losses in 2008 were primarily attributable to increased freight costs and lower margins on log sales arising from the aforementioned pricing declines offset to some extent by lower export taxes and selling and administration expenses.

Due mainly to the losses incurred in 2008, the financial position of the Company had deteriorated by the end of 2008. Liquidity declined from $67.4 million at the close of 2007 to $22.3 million as at December 31, 2008. This decline is reflected in the increased draw on the revolving credit line. However, Western closed a Rights Offering in January 2009 which generated gross proceeds of $50 million. The proceeds reduced the amount drawn on the revolving credit line and at the same time increased liquidity by the same amount.

During 2008 the Company explored the potential sale of a number of non-core land assets as well as approximately 26,500 hectares of privately owned timberlands. Fewer land sales were closed than had been initially anticipated due at least partly to the deteriorating economy. Nonetheless, cash proceeds generated from disposition of certain non-core assets together with other receipts enabled the Company to retire $46.3 million in long term debt. Of the remaining long term debt, $53.5 million is due in September 2009. As economic and other circumstances allow, Western will continue to pursue opportunities to sell non-core land assets or the private timberlands at acceptable values and should a sale be completed, proceeds will first be directed towards retirement of this debt. Alternatively, should insufficient proceeds from asset sales be realized for that purpose, Western will explore opportunities to refinance remaining long term debt before its due date. However, there is no assurance this alternate plan could be successfully completed, if it becomes necessary.

Selected Annual Information [1]

(millions of dollars except where noted)	Year ended December 31, 2008	2007	2006
Sales	$ 814.8	$ 890.5	$ 896.8
EBITDA [2]	(42.4)	(13.8)	138.2
EBITDA as % of sales	(5.2)%	(1.5)%	15.4%
Operating income (loss)	(82.4)	(46.6)	93.5
Net income (loss) from continuing operations	(80.4)	(57.1)	43.9
Net income (loss) and comprehensive income (loss)	(85.6)	(55.8)	33.1
Basic and diluted net income (loss) per share *(dollars)*	$ (0.42)	$ (0.27)	$ 0.23
Total assets	$ 726.0	$ 815.7	$ 898.4
Net debt [3]	233.0	214.5	167.7

(1) Included in Appendix A is a table of selected results for the last eight quarters and a reconciliation of EBITDA to net income (loss).

(2) Non-GAAP measure - see page 4 for discussion on EBITDA.

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

(4) The results for the year ended December 31, 2006 include Englewood and Cascadia from acquisition on March 17, 2006 and May 1, 2006, respectively, and the softwood lumber duty refund.

Continuing Operations

Net Loss from Continuing Operations

Net loss from continuing operations in 2008 increased from the prior year by $23.3 million, or 40.8%. Sales totaled $814.8 million, which was a reduction of $75.7 million from 2007, or 8.5%. The increase in net loss from continuing operations of $23.3 million comprised an increase in operating loss of $35.8 million and a $12.1 million reduction in foreign exchange gains, partially offset by the benefits of a decline in net interest expense of $4.9 million, an improvement in other income amounting to $18.8 million and lower income tax expense of $0.9 million.

Operating Loss

The increase in operating loss in 2008 comprises mainly higher negative EBITDA of $28.6 million. In addition, in 2008 the Company recorded a restructuring expense of $6.3 million, compared to a gain in 2007 of $2.6 million, while amortization of capital assets reduced by $1.7 million.

In December 2008, pursuant to the ongoing process of balancing production output as related to sales projections, the Company recognized the necessity for further curtailments due to the continued depressed demand in virtually all major markets for forest products. Three logging operations, two sawmills and one remanufacturing facility were curtailed indefinitely, in addition to the sawmill already curtailed earlier in 2008. Consequent to the curtailments and the associated overall reduced level of production, Western also reduced its salaried workforce and thereby incurred a restructuring charge of $6.3 million. The liability for the restructuring is expected to be settled by the second quarter of 2010.

Reduced amortization of capital assets was consistent with lower production levels. When the Company operates at lower production levels including harvesting, less amortization is required, particularly of roads. In addition, amortization of the sawmill formerly situated at New Westminster ceased after May 2007 pending the sale of the property in March 2008.

EBITDA

The increased negative EBITDA of $28.6 million comprised a number of elements calculated on a volume adjusted basis where appropriate, and is discussed further below. Negative influences included higher freight costs of $20.7 million as well as decreased margin of $29.2 million from log sales and $5.1 million from by-product sales. Partially countering these were the positive influences of: lower selling and administration expenses amounting to $8.8 million, lower export taxes of $5.7 million, higher margin on lumber sales of $5.9 million and a $6.0 million reduction in costs of logging and sawmilling operations that were curtailed.

Sales

(millions of dollars)	Year ended December 2008	2007
Lumber	$ 623.9	$ 650.1
Logs	133.6	184.6
By-products	57.3	55.8
Total sales	$ 814.8	$ 890.5

Lumber sales in 2008 were $26.2 million or 4.0% lower than in the prior year. Western shipped 767 million board feet in 2008, which was down 7.5% from the 829 million board feet sold in 2007. However, average prices realized for lumber increased 3.8%, which partially compensated for the fall in volume. Most of the reduced volume was attributable to the US dimension lumber market, which continues to be depressed following the US credit crisis. While volumes sold in Japan increased slightly, shipments in Canada reduced by approximately the same amount. Higher average pricing, including the impact of foreign exchange rate fluctuations, was due to the change in mix of products sold in 2008. Western's sales of lower value products such as hemlock into the U.S. dimension lumber market were constrained. However, greater focus was given to sales of higher value products such as cedar and other markets such as Japan, where pricing and volume advantages more than offset price declines.

Log sales in 2008 decreased $51.0 million or 27.6% compared to the prior year. Quantities of logs shipped and the average pricing of logs sold both decreased, by 12.3% and 17.9%, respectively. Lower levels of log harvesting in 2008, decreased customer demand and shortages of supply early in 2008 following the strike in 2007 were the primary drivers of lower log quantities sold. Pricing fell for most log species, also reflecting reduced demand.

While the level of curtailments in 2008 reduced availability of by-products in 2008, the strike in 2007 reduced availability to a greater degree in that year. Consequently, sales of by products in 2007 were slightly lower than in 2008.

Total freight costs increased significantly in 2008. Shortages of traditional large-volume break-bulk vessel capacity drove pricing upwards as various exporters bid for available capacity. Some exporters such as Western switched to more expensive containerized vessels to ensure continued deliveries to customers. Finally, the exceptionally high cost of oil through most of 2008 caused further freight rate increases and surcharges.

Margins on log sales contracted in 2008. Despite falling selling prices, stumpage fees paid to the British Columbia Government increased. Stumpage rates are calculated from formulas that consider historic Vancouver log market prices, harvesting costs and log market bidding activity and lag upwards or downwards trends in any of the values. Vancouver log market prices do not always reflect prices realized for Western's own products. In January 2009, the provincial government announced changes to the stumpage formulas that reflect some of the costs and market activity, the effect of which is likely to lower stumpage to more accurately reflect log values in the current market.

By-product margin in 2008 reduced following curtailed supply of by-products from the Company's sawmills. In order to further address obligations under chip supply contracts, Western purchased quantities of chips on the open market and undertook whole log chipping programs at certain sawmills and third party chipping facilities. Pricing remained relatively stable during most of 2008, as indicated by NBSK pulp prices. Price reductions in the last quarter were partly offset by the fall in the value of the US dollar relative to the Canadian dollar.

Selling and administration expenses in 2008 were lower than in the prior year by $8.8 million. Major savings included lower legal, consulting and employee costs. The decrease was due largely to the reduced levels of corporate activities in 2008 consistent with synergies arising from the integration of acquisitions completed in 2006.

Margin from lumber sales increased due to higher average pricing realized largely attributable to product mix while costs associated with producing the higher priced lumber products were contained.

In 2008, the ongoing shutdown costs of curtailed logging and sawmilling operations was $6 million lower than in the prior year. In 2007, the Company expensed a greater total of costs incurred by the logging and sawmill operations that had been brought to a standstill during the three-month strike in the second half of that year.

Net interest expense

The reduction in net interest expense was driven by significantly lower interest costs incurred on long-term debt. Average interest rates on all debt incurred by Western reduced from 2007 by approximately 4.0% to approximately 6.5% in 2008. In March 2008, the Company refinanced long-term debt at interest rates that were lower on average by approximately 4.5% per annum. An additional factor contributing to reduced interest costs was the lower average level of long-term debt outstanding due to repayments during 2008 amounting to $46.3 million, mostly in March.

Partially offsetting these savings was the increased cost of interest paid on the revolving credit line and the higher amount of amortized financing costs. Borrowing against the revolving credit line increased, which was related to the losses incurred by the Company during 2008. At the time of the refinancing in March 2008, the Company expensed remaining unamortized costs of the prior facility in an amount that was greater than similar amortization in 2007.

Foreign exchange gains on debt

Until the refinancing of term debt in March 2008, the Company's debt structure in 2008 included approximately $73 million denominated in US funds. The majority of the foreign exchange gain on debt was generated from the decline in value of the US dollar against the Canadian dollar between December 31, 2007 and the date of repayment of this debt in March 2008.

The lower gain in 2008 compared to 2007 was due to US dollar denominated debt remaining outstanding during the entire year of 2007, when the US dollar depreciated against the Canadian dollar by more than 17%.

Other income

Other income of $21.3 million in 2008 mainly comprises gains on the disposal of non-core land and compensation payments received from the Province of British Columbia. The most significant disposal was the sale of the site of the Company's former New Westminster sawmill. Proceeds, less commission and other fees, totaled $39.8 million, generating a gain of $9.8 million. Three compensation payments from the Provincial Government were also received during the year. Two payments resolved outstanding issues between the Provincial Government and Western relating to remaining assets and liabilities on certain tenures affected by Forestry Revitalization Orders issued by the Minister of Forests between 2003 and 2005. A third payment was partial compensation for a permanent 84,000 m3 reduction made to the annual allowable cut ("AAC") of TFL 25 as well as for the expropriation of certain timber licences as a result of the creation of new Conservancies in the Central Coast. The AAC reduction and Timber Licence expropriations had been anticipated and were included in the Company's operating plans and have no further material impact on net income. Other income of $2.5 million in 2007 included gains on sale of forestry and engineering assets.

Income taxes

Income taxes are incurred primarily by the Company's Japanese subsidiary. The reduction in tax expense in 2008 was due to realization of exchange losses by the Japanese company on foreign currency debt repaid in 2008.

At December 31, 2008, the Company and its subsidiaries have unused tax losses carried forward totaling approximately $515 million, which expire between 2009 and 2028, and can be used to reduce taxable income. In addition, the Company has capital losses of approximately $796 million, which are available indefinitely, but can only be utilized against capital gains. The ability of the Company to utilize the losses carried forward and capital losses is not considered "more likely than not" and therefore, a valuation allowance has been provided against the tax assets.

Discontinued Operations

Operations of the site of the former Squamish pulp mill were discontinued in 2006. Since that date, the Company has expensed costs as incurred for supervision, security, property taxes and environmental remediation and will continue to do so until the site is sold. In 2008, the significant portion of costs incurred were for environmental remediation of soil and water at the site of the former pulp mill. In 2007, the net income from discontinued operations included the sale of the majority of the pulp mill equipment and spare parts for $5.5 million at a gain of $5.2 million. The Company has listed the property and will pursue opportunities for sale as economic and other circumstances allow.

Financial Position and Liquidity

	Year ended December 31,	
(millions of dollars except where noted)	2008	2007
Cash provided (used) by operations	$ (53.2)	$ (52.0)
Cash provided (used) by investing activities	41.4	0.4
Cash provided (used) by financing activities	14.7	17.1
Cash (used) to acquire property, plant, and equipment	(3.8)	(13.2)
Cash (used) to construct capital logging roads	(8.7)	(13.3)
Total liquidity[1]	22.3	67.4
Financial ratios:		
Current assets to current liabilities	1.18	1.35
Net debt to capitalization[2]	0.43	0.35

[1] Total liquidity comprises cash and cash equivalents and available credit under the Company's revolving credit line and revolving term facility.

[2] Net debt defined as the sum of long-term debt, current portion of long-term debt, revolving credit line, less cash and cash equivalents. Capitalization comprises net debt and shareholders' equity.

Cash used by continuing operations in 2008 amounted to $53.2 million, a slight increase from 2007. In both years, the use of cash was driven by the net loss from operating activities. However, the greater loss from operating activities in 2008 was largely offset by a cash inflow resulting from a reduction in working capital in 2008 of $14.0 million compared to the increase in working capital of $15.3 million incurred in 2007. Reductions in working capital in 2008 included lower accounts receivable due to increased collections, and lower inventories associated with the reduced level of logging and sawmilling towards the end of 2008 compared to the last quarter of 2007. Decreased payables to suppliers associated with lower production levels partly offset the working capital reductions.

Investing activities provided cash of $41.4 million. This amount includes $53.9 million generated from proceeds of sale of various surplus assets as well as other receipts from the provincial government for compensation for tenure take-backs and improvements. Additions to property, plant and equipment of $12.5 million in 2008 consumed part of these proceeds. Disbursements for capital additions have been minimized to include only road construction essential to the ongoing log harvesting program, as well as plant and equipment used mainly for harvesting and in sawmills. Funds received from investing activities in 2007 were minimal as proceeds from disposals of various assets and the receipt of a working capital adjustment relating to a prior acquisition offset amounts disbursed for capital additions.

Financing activities in 2008 provided cash of $14.7 million, compared to $17.1 million in 2007. Receipts in 2008 included $175.0 million received upon the refinancing of the Company's long term debt completed in March 2008. The proceeds were used immediately to repay a similar amount of long term debt then outstanding. During the remainder of 2008, the Company retired $46.3 million of long term debt using proceeds from dispositions of assets. A total of $60.3 million of additional funds was drawn from the revolving credit line, which was required mainly to fund cash used in operating activities. The slightly greater amount of cash provided in 2007 was due to the amount of the draw on the revolving credit line of $45.0 million exceeding repayments of term debt.

At December 31, 2008, as a result of the foregoing cash outflows and use of the revolving credit facility, Western's total liquidity had declined to $22.3 million from $67.4 million at the end of 2007. Liquidity comprised cash of $3.5 million and availability under the secured revolving credit line of $18.8 million. The availability under the credit line included a $15 million letter of credit established by Brookfield Asset Management in favour of the provider of the credit line.

On December 10, 2008 Western issued a Rights Offering backstopped by Tricap Management Limited, the Company's largest shareholder and an affiliate of Brookfield Asset Management, to reduce short-term debt and provide additional liquidity. On January 22, 2009, the Company received $50 million in gross proceeds from the Offering. These proceeds were applied to reduce the amount outstanding on the revolving credit line which immediately increased liquidity by the same amount. At the same time, the letter of credit for $15 million in favour of the lender was withdrawn.

Of total long-term debt totaling $127.6 million outstanding at December 31, 2008, $53.5 million is due to be repaid in September 2009, with the remaining $74.1 million falling due in March 2011. Regarding the amount falling due in September 2009, the Company will utilize any proceeds realized from the sale of non-core assets to retire this debt. Should sufficient asset sales not materialize, the Company will seek to refinance the term debt or any remaining amount outstanding. There can be no assurance that the Company will realize any or sufficient proceeds from land sales or be able to refinance the term debt by the due date should that become necessary.

The Company has forecast financial results and cash flows for 2009. These forecasts are based on management's best estimates of operating conditions in the context of the current economic climate, today's difficult capital market conditions and the depressed state of the forest products industry. Subsequent to year end, the Company raised $50 million pursuant to a Rights Offering. Based on its forecasts, and considering the proceeds of the Rights Offering, the Company currently expects sufficient liquidity is available to meet its obligations in 2009. Should the Company complete any sales of non-core assets, any proceeds that are in excess of remaining amounts of long-term debt falling due in September 2009 would supplement liquidity. However, terms of the refinancing completed in March 2008 provide for the debt to capitalization covenant to tighten in March 2009. The aforementioned forecast, which assumes no significant land asset sales, indicates the Company should be in compliance with this covenant in 2009. Any proceeds received from any sales of land assets would be used to repay amounts of outstanding long-term debt falling due in September 2009, which would increase the likelihood that the Company would remain in compliance with the covenant. However, any significant strengthening of the Canadian dollar, further decline in the U.S. housing or other key markets, timber tenure take backs or increase in costs including stumpage rates, could further adversely impact the Company's liquidity in the short to mid term, and may cause the Company to be non-compliant with the covenant. In the event the Company is in violation of certain of its loan covenants or is unable to repay remaining amounts of long-term on due date, its debt could become immediately due and payable or it might not be able to access funds under its revolving credit line.

Fourth Quarter Results

		Three months ended December 31,		
(millions of dollars except where noted)		2008		2007
Sales	$	175.3	$	136.6
EBITDA		(9.7)		(28.4)
EBITDA as % of sales		(5.5)%		(20.8)%
Net income (loss) from continuing operations		(23.5)		(41.9)
Net income (loss) and comprehensive income (loss)		(24.3)		(42.9)
Basic and diluted net income (loss) per share (dollars)	$	(0.12)	$	(0.21)

The net loss incurred in the fourth quarter of 2008 was significantly less than recorded in the equivalent quarter of the prior year. However, the fourth quarter of 2007 included approximately one month of the strike by the members of the United Steelworkers of America union. Furthermore, the remaining approximately two months were significantly influenced by the unusual start-up conditions prevailing following the conclusion of the strike.

Net loss reduced by $18.6 million, driven by an improvement in EBITDA of virtually the same amount. The greatest component of this improvement was the impact of foreign exchange after the Canadian dollar weakened considerably against the US dollar and Japanese Yen in the fourth quarter. Sales denominated in the foreign currencies translated into increased Canadian dollar revenues, which supplemented net income by approximately $24 million. In addition, in the fourth quarter of 2008 the Company incurred a lower level of costs associated with curtailed operations compared to the last quarter of 2007 during part of which the strike was in force. Finally, selling and administration expenses reduced in the fourth quarter of 2008 with lower levels of consulting and legal expenses. Offsetting part of the benefit of these improvements were higher freight costs in the last quarter of 2008, lower margins on log sales due primarily to lower average pricing and a $6.3 million restructuring charge described more fully under “Operating Loss”, earlier in the MD&A.

Asset Sales Initiative

In 2007 the Company commenced an initiative to market specific non-core land and other assets. These include the following non-core lands which remain unsold at this time: The higher and better use lands situated in the south of Vancouver Island, the gravel holdings in the Port McNeil area of Vancouver Island, the site of the former pulp mill at Squamish, and the higher and better use lands in the north of Vancouver Island. In addition, in 2008 the Company engaged professional advisors to assess the marketability of approximately 26,500 hectares of private forestry lands located in various regions throughout Vancouver Island.

Any proceeds provided from any sales of these assets, if and when closed, are expected to be applied firstly against the Company’s outstanding term debt and secondly, to the extent available, increase liquidity for general corporate purposes.

The Company’s intention to market certain non-core assets has led to some local controversy, including efforts by the Capital Regional District (“CRD”) to amend zoning bylaws concerning lands in the south of Vancouver Island. In September 2008, the British Columbia Supreme Court heard the challenge by the Company and the British Columbia Landowners Association of the CRD’s zoning bylaw amendments pertaining to the higher and better use lands in the South of Vancouver Island. In December 2008, the Court ruled in favour of the Company and the British Columbia Landowners Association. However, Western believes the CRD will appeal the decision, and consequently there remains some uncertainty regarding the value of these lands.

While the Company was successful in selling former sawmill site lands at New Westminster and a number of smaller parcels of lands on Vancouver Island in 2008, fewer land sales were completed than had been anticipated when the year commenced. In addition, the non-binding and conditional letter of intent for the sale of the higher and better use lands in the south of Vancouver Island was terminated in January 2009. Due to current capital market conditions, access to debt financing has been diminished and certain buyers have expressed interest at transaction values lower than we are prepared to accept. As a result, Western is restricting the marketing process until credit market or other conditions improve. Given the uncertainties mentioned above, we are not in a position to provide a revised estimate of the proceeds that might arise from the sale of any of the remaining non-core assets or the private forestry lands should they occur nor can we provide any assurance that any sales will be completed or when any sales may ultimately occur.

Outlook and Strategy

Western continues to face significant challenges arising from the world economic downturn and the severely depressed state of the forest products industry in particular. The Company does not foresee recovery in 2009 of key markets in which Western participates, such as U.S. structural dimension lumber. Nonetheless, the Company has and will continue to take measures necessary, as far as is prudent, to ensure production does not exceed current demand for Western's products but yet allow the Company to participate in any eventual market recovery.

Work continues on driving down operating costs and improving cash flow through restrained capital spending and closely monitoring working capital, particularly inventory. For 2009, Western foresees a number of potential benefits accruing from certain actions or events. Costs should reduce in association with the curtailment of the more expensive logging and sawmilling operations. Overheads should also reduce due to the restructuring program initiated in December 2008. With the recent provincial government announcements, stumpage payments are expected to reduce. In addition, should the Canadian dollar remain at significantly lower levels relative to the US dollar in 2009 compared to the average rate of 1.067 experienced in 2008, average lumber price realizations when expressed in Canadian dollars should increase. However, there can be no assurance that these cost reductions or average price increases will occur. Furthermore, market fluctuations for forest products could further reduce customer demand or pricing. Western will continue to monitor market conditions, particularly customer demand levels, and where appropriate logging and sawmill operations may take further market-related downtime.

The Company will continue to pursue opportunities that may arise to sell non-core or other land assets at reasonable values. Any proceeds will first be directed to reduce or eliminate long term debt with any surplus used to provide additional liquidity. In parallel, Western will monitor liquidity and financial covenants and where considered prudent enter into discussions with lenders and others with a view to provide covenant relief and/or additional liquidity. However, there can be no assurance that in 2009 Western will remain in compliance with lender covenants or have sufficient liquidity to meet obligations.

Summary of Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2008 and our payments due for each of the next five years and thereafter:

(millions of dollars)		Total	2009	2010	2011	2012	2013	Thereafter
Revolving credit facility	$	108.9	-	-	108.9	-	-	-
Long-term debt		127.6	53.5	-	74.1	-		-
Operating leases		13.2	5.5	2.9	1.7	1.2	0.8	1.1
Reforestation liability		26.8	10.6	5.1	3.0	1.9	1.4	4.8
Total	$	276.5	69.6	8.0	187.7	3.1	2.2	5.9

Critical Accounting Estimates

Reforestation Liabilities

We accrue our reforestation liabilities based on estimates of future costs at the time the timber is harvested. The estimate of future reforestation costs is based on a detailed analysis for all areas that have been logged and includes estimates for the extent of planting seedlings versus natural regeneration, the cost of planting including the cost of seedlings, the extent and cost of site preparation, brushing, weeding, thinning and replanting and the cost of conducting surveys. Our registered professional foresters conduct the analysis that is used to estimate these costs. However, these costs are difficult to estimate and can be affected by weather patterns, forest fires and wildlife issues that could impact the actual future costs incurred and result in material adjustments.

Valuation of Inventory

We value our log and lumber inventories at the lower of cost and net realizable value. We estimate net realizable value by reviewing current market prices for the specific inventory items based on recent sales prices and current sales orders. If the net realizable value is less than the cost amount, we will record a write-down. The determination of net realizable value at a point in time is generally both objective and verifiable. However, changes in commodity prices can occur suddenly, which could result in a material write-down in inventories in future periods.

Valuation of Accounts Receivable

We record an allowance for the doubtful collection of accounts receivable based on our best estimate of potentially uncollectible amounts. The best estimate considers past experience with our customer base and a review of current economic conditions and specific customer issues. The Company's general practice is to insure lumber receivables for 90% of value with the Export Development Corporation or sell on a cash basis, which significantly reduces the Company's exposure to bad debts.

Pension and Other Post Retirement Benefits

We have defined benefit and defined contribution pension plans and post-retirement medical and health benefit plans for our employees. With respect to the defined benefit plans, we retain independent actuarial consultants to perform actuarial valuations of plan obligations and asset values, and advise on the amounts to be recorded in the financial statements. Actuarial valuations include certain assumptions that directly affect the fair value of the assets and obligations and expenses recorded in the financial statements. These assumptions include the discount rate used to determine the net present value of obligations, the return on plan assets used to estimate the increase in the plan assets available to fund obligations and the increase in future compensation amounts and medical and health care costs used to estimate obligations. Actual experience can vary materially from the estimates and impact the cost of our pension and post retirement medical and health plans and future cash flow requirements.

Environment

We disclose environmental obligations when known and accrue costs associated with the obligations when they are known and can be reasonably estimated. The Company owns a number of manufacturing sites that have been in existence for significant periods of time and, as a result, we may have unknown environmental obligations. However, until the sites are decommissioned and the plant and equipment are removed, a complete environmental review cannot be undertaken.

Contingencies

Provisions for liabilities relating to legal actions and claims require judgments using management's best estimates regarding projected outcomes and the range of loss, based on such factors as historical experience and recommendations of legal counsel. Actual results may vary from estimates and the differences are recorded when known.

Changes in Accounting Policies

Inventories

Effective January 1, 2008, the Company adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031 - Inventories. Section 3031 requires that inventories be valued at lower of cost and net realizable value. Under the new standard, logs designated for lumber production are recorded at the lower of cost and net realizable value ("NRV") with NRV determined on the basis of the logs converted into lumber. Under the former policy, logs designated for lumber production were valued at the lower of cost and net realizable value with NRV determined from log market prices. This change recognizes any forecasted losses on future lumber sales upon the purchase or production of logs that remain in inventory, and accordingly future changes in NRV may produce fluctuations in cost of sales. Upon the adoption of these new recommendations inventory decreased by $8.0 million due to increased provisions required to value certain inventory products at NRV. Upon adoption of the new standard, the Company discontinued costing inventory based on a rolling six month average, and commenced costing using actual costs. This change had no material impact on the carrying value of total inventory as at January 1, 2008. Consequently inventory decreased by $8.0 million to $245.2 million and the deficit increased by the same amount to $163.9 million as at January 1, 2008.

Capital disclosures

Effective January 1, 2008, the Company adopted the new recommendations of the CICA Handbook Section 1535 - Capital Disclosures. The recommendations provide for additional disclosure with respect to the Company's capital structure. Other than increased disclosure the adoption of the recommendations had no impact on the Company's financial statements.

Financial instruments – disclosure and presentation

Effective January 1, 2008, the Company adopted the new recommendations of the CICA Handbook Sections 3862 and 3863, Financial Instruments – Disclosures and Presentation. Under the recommendations additional information is required pertaining to the use of financial instruments irrespective of whether or not those financial instruments are recognized in the financial statements. Other than increased disclosure the adoption of the recommendations had no impact on the Company's financial statements.

Going concern

In June 2007, Section 1400 of the CICA Handbook was amended to require management to assess and disclose an entity's ability to continue as a going concern. This section applies for interim and annual periods beginning on or after January 1, 2008.

The Company adopted this section as of January 1, 2008 and additional disclosures addressing going concern have been provided in the financial statements.

Future Changes in Accounting Policies

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board announced its decision requiring all publicly accountable entities to report under IFRS. These standards are effective for interim and annual financial statements beginning on or after January 1, 2011. The Company is currently evaluating the impact of these new standards and will be developing its changeover plan during the coming year for its adoption of IFRS on January 1, 2011. Western's largest shareholder, Tricap Management Limited, which is related to Brookfield Asset Management ("BAM"), will adopt IFRS effective January 1, 2010, with a transition date of January 1, 2009. Upon the request of BAM, Western has provided certain financial information in accordance with BAM's accounting policies and decisions to assist BAM with its adoption of IFRS. However, this information may not be consistent with the accounting policies and decisions that will be made by Western at the time of its own adoption of IFRS.

Financial Instruments, Off-Balance Sheet Arrangements, Foreign Exchange and Related Party Transactions

Consequent to the acquisition of Cascadia in May 2006, the Company indemnified an entity related to Brookfield Asset Management Inc. for a guarantee provided by the entity to a third party. As security for performance under this indemnity, the Company issued a debenture in favour of the related entity in the maximum amount of $100 million secured over all of the Company's real property and all of the Company's personal property as at May 2006 and such property acquired thereafter. In the absence of any claims, the guarantee terminates on May 30, 2011 and if there is no liability accruing to the guarantor thereunder at that time, the Company will request that the debenture be discharged.

Except for the debenture discussed above, the Company does not have any financial instruments not recognized in the financial statements. Recognized financial instruments, consisting primarily of debt instruments, are discussed elsewhere in this discussion and analysis.

While Western did not employ any derivative financial instruments during the year ended December 31, 2007, in the fourth quarter of 2008 the Company commenced a program to reduce the impact of volatile foreign exchange rates on Western's net income. The Company will utilize derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange risk. Therefore, Western may purchase foreign exchange forward contracts or similar instruments to hedge anticipated sales to customers in the United States or Japan. The Company will not utilize derivative financial instruments for trading or speculative purposes. In the fourth quarter of 2008, the Company purchased US$30 million of put options, all of which expired before December 31, 2008. None of these options were taken up as the exchange rate moved in Western's favour before their due date, and therefore the options had minimal impact on the Company's financial statements. Western will consider whether to apply hedge accounting on a case by case basis and if the instrument is not designated as a hedge, the instrument will be fair valued and marked to market each accounting period.

Other than the debenture discussed above and the operating leases for vehicles, equipment and machinery, the Company does not have any off-balance sheet financial arrangements as at December 31, 2008.

During 2008, in addition to the transactions disclosed elsewhere in this management's discussion and analysis, the Company undertook related party transactions with Brookfield Asset Management ("BAM") or entities related to BAM. BAM is related to the Company by virtue of its voting arrangements with Tricap Management Limited ("Tricap"). Tricap owns 49% of the Company's Common Shares and all of the Company's Non-Voting Shares.

In addition to the related party transactions identified elsewhere in these consolidated financial statements, the Company has or had certain arrangements with entities related to BAM to provide financing, acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire services including insurance, all in the normal course and at market rates or at cost. The following table summarizes these transactions during the year ended December 31, 2008:

	2008	2007
Costs incurred for:		
Log purchases	$ 18.5	$ 16.4
Interest on long-term debt	$ 3.2	$ 17.3
Other	7.1	9.1
	$ 28.8	$ 42.8
Income received for:		
Log sales	$ 0.6	$ 5.7
Other	0.2	1.1
	$ 0.8	$ 6.8

The Company also has a 50% interest, with an entity related to BAM owning the other 50%, in a company that, until May, 2008, provided helicopter services. The operations of the helicopter service company were funded based on usage. For the five months of operations in 2008 the Company paid $0.2 million (2007 – $0.8 million) on account thereof. Since ceasing operations in May 2008 the helicopter services company has sold the majority of its assets and remitted $0.5 million by way of a dividend to the Company. The helicopter service company will be wound up following the liquidation of its assets and liabilities.

Risks and Uncertainties

The following risks and uncertainties may have a material adverse effect on our operations:

Variable Operating Performance, Product Pricing and Demand Levels

A key factor affecting Western's operating and financial performance is the price received for lumber, logs and other products. Prices for these products are highly cyclical and have fluctuated significantly in the past and may fluctuate significantly in the future. The markets for our products are also highly cyclical and are characterized by periods of excess product supply due to many factors, including:

- additions to industry capacity and production;
- periods of insufficient demand due to weak general economic activity or other causes including weather factors;
- customers experiencing reduced access to credit; and
- inventory de-stocking by customers.

Product demand is influenced to a significant degree by economic activity at the global level. Additionally, although costs may increase, customers may not accept related price increases for those products. We are not able to predict with certainty market conditions and prices for these products. Western's results of operations depend upon the prices we receive for lumber, logs and chips, and a deterioration in prices of, or demand for, these products could have a material adverse effect on our financial condition or results of operations. We cannot provide any assurance or prediction as to the timing and extent of any price changes. On an annualized basis and based on current operating metrics, we estimate that operating earnings would increase or decrease by approximately $7 million for each incremental price increase or decrease, respectively, of $10 per thousand board feet of lumber. Each incremental price swing greater than $10 per thousand board feet of lumber is expected to have an impact on operating earnings of slightly less than $7 million per increment due to the likely related change in stumpage fees.

Western's financial performance is also dependent on the rate at which production capacity is utilized. In times of challenging conditions in any of our major markets the Company maintains inventory control by aligning log supply and lumber production with anticipated sales volumes. When capacity utilization is reduced in response to weak demand for products, the cost per unit of production may increase and profitability decrease.

From time to time and in accordance with market influences, the Company will reduce production with temporary logging and/or sawmilling curtailments. In extreme cases, such curtailments may become permanent closures. When Western undertakes significant market related curtailments of sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet minimum contractual obligations under chip supply agreements without incurring additional cost. The Company did not deliver the minimum volume of chips required under one of its chip supply agreements for the three year period ending December 31, 2008. The Company is in discussions with the customer on potential remedies or damages due, if any. The customer has ninety days from January 30, 2009 to accomplish one available remedy which is to act on its security over the Company's Englewood Logging Division, comprising a tree farm license with an allowable annual cut of 826,000 cubic metres, 6,800 hectares of private timberlands and other capital improvements and equipment. At this time the Company is unable to quantify the extent of additional cost, if any, or whether the customer will act on its security.

International Business and Risks of Exchange Rate Fluctuations

Western's products are sold in international markets. Economic conditions in those markets, especially the United States, Japan and China, the strength of the housing markets in the United States and Japan, fluctuations in foreign exchange rates and international sensitivity to interest rates, can all have a significant effect on our financial condition and results of operations. In general, our sales are subject to the risks of international business, including:

- fluctuations in foreign currencies;
- changes in the economic strength of the countries in which we conduct business;
- trade disputes;
- changes in regulatory requirements;
- tariffs and other barriers;
- quotas, duties, taxes and other charges or restrictions upon exportation;
- transportation costs and the availability of carriers of any kind including those by land or sea; and
- strikes or labour disputes in the transportation industry or related dock or container service industries.

Depending on product mix, destination and exchange rates, between 40% and 50% of our total product sales are denominated in US dollars and between 10% and 13% in Japanese Yen, while most operating costs and expenses are incurred in Canadian dollars, with small portions in US dollars and Japanese Yen. The Company's functional currency is the Canadian dollar and results of operations are reported in Canadian dollars. Significant variations in relative currency values, particularly significant changes in the value of the Canadian dollar relative to the US dollar, have had, and in the future could have, a material impact on our operating earnings and cash flows. We estimate that an increase or decrease of 1% in the value of the Canadian dollar compared to the US dollar and Japanese Yen would decrease or increase, respectively, operating earnings by approximately $4.0 million to $5.0 million dollars annually.

The Softwood Lumber Agreement with the United States was implemented on October 12, 2006. The agreement has a term of seven years, extendable for up to two years, and may be terminated after 18 months by either the Canadian or United States government with not less than six months' notice. We are unable to predict whether the agreement will be terminated prior to expiration or the consequences upon termination, should it occur. In addition, the agreement provides that if the monthly volume of exports from the British Columbia coastal region exceeds a certain "Trigger Volume" as defined in the agreement, a "surge" mechanism will apply to increase the rate of the export tax for that month by 50% (for example, a 15% export tax rate would become 22.5% for that month). The surge mechanism can be triggered by any or all companies in the region over-shipping, causing total exports to exceed the trigger volume. We are unable to predict if or when the surge mechanism will apply to any of our future lumber shipments into the United States.

Employees and Labour Relations

The majority of the hourly paid employees at our manufacturing facilities and timber harvesting operations are unionized. Our current collective agreements expire at various dates from June 2009 through to May 2012. The union contract representing the majority of our employees, the Coast Master Agreement with the United Steelworkers of America union, expires on June 14, 2010. Should the Company be unable to negotiate an acceptable contract at the time the existing collective agreements expire with any of the unions, a strike or work stoppage could occur. Furthermore, a negotiated settlement could result in unplanned increases in wages or benefits payable to union members. Therefore, a strike or other work stoppage could involve significant disruption of operations and/or a material adverse impact on our financial condition or results of operations.

In addition, the Company relies on certain third parties, such as logging contractors, stevedores or major railways, whose workforces are unionized, to provide us with services needed to operate our business. If those workers engage in strike or other work stoppages, our operations could be disrupted.

Long-Term Competition

The markets for our products are highly competitive on a domestic and international level, with a large number of major companies competing in each market. Many of our competitors have both substantially greater financial resources and less debt than Western. Some of these competitors are not subject to fluctuations in the relative value of the Canadian dollar to the same extent as Western. We also compete indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. While the principal basis for competition is price, we also compete to a lesser extent on the basis of quality and customer service. Changes in the level of competition, industry capacity and the global economy have had, and are expected to continue to have, a significant impact on the selling prices and overall profitability of the Company. Our competitive position will be influenced by factors including the availability, quality and cost of fibre, energy and labour, and plant efficiencies and productivity in relation to our competitors. Our competitive position could be affected by fluctuations in the value of the Canadian dollar relative to the US dollar and/or the Japanese Yen, and by the export tax on softwood lumber shipments to the United States.

Forest Resource Risk and Natural Catastrophes

Our timber tenures are subject to the risks associated with standing forests, in particular, forest fires, wind storms, insect infestations and disease. Procedures and controls are in place to manage such risk through prevention and early detection. Most of the timber that we harvest comes from Crown tenures and insurance coverage is maintained only for loss of logs due to fire and other occurrences following harvesting. However, this coverage does not extend to standing timber, and there is no assurance that this coverage would be adequate to provide protection against all eventualities, including natural catastrophes. Western has entered into a cost-sharing agreement with the Crown for our private timberlands to reduce individual incident costs of mobilizing helicopters and aerial water tankers in the event of a fire on those lands.

In addition, our operations may be adversely affected by severe weather including wind, snow and rain that may result in our operations being unable to harvest or transport logs to our manufacturing facilities for extended periods of time. Although we anticipate and factor in a certain period of down-time due to weather, extended periods of severe or unusual weather may adversely impact our financial results due to higher costs and missed sales opportunities arising from fibre shortages or the deterioration of logs remaining on the ground or in the water for extended periods of time.

The majority of our business operations are located on the British Columbia coast, which is geologically active and considered to be at risk from earthquakes.

Climate change over time is predicted to lead to changes in the frequency of storm events as well as their severity. We also expect to see changes in the occurrence of wildfires and forest pest outbreaks. Long-term climatic models are predicting that the optimum ranges of many species, including those of our major tree species, will shift over time. We are unable to predict the impact of all of these factors on our tenures or on forest practices.

While the Company maintains insurance coverage to the extent deemed prudent, we cannot predict that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks.

Impact of Mountain Pine Beetle Infestation

The west-central interior of British Columbia has been, and continues to be, seriously damaged by North America's largest recorded mountain pine beetle infestation. Western does not operate in the affected area and the lodgepole pine, the species most at risk from the infestation, is not a key source of timber in the coastal forests. This natural disaster is causing widespread mortality of lodgepole pine. Increases in harvest levels have resulted in higher lumber production volumes and therefore more supply in the marketplace, potentially decreasing prices, primarily in the structural dimension market in the United States. There is growing evidence that, as the dead trees decay, they become more difficult and costly to manufacture into lumber and that the quality of the residual wood chips may diminish. The mountain pine beetle has crossed into Alberta, and timber harvesting of lodgepole and jackpine in Alberta will likely see an increase in allowable annual cut ("AAC") to promote salvage before decay, potentially adding to downward price pressures as the supply may increase. The Company is unable to predict when and if the mountain pine beetle infestation will be halted or its impact on future lumber, chip and log prices.

Pulp and Paper Market Variability

The selling price in Canadian dollars of our residual wood chips is tied by formula to the net pulp realizations in US dollars obtained by our wood chip customers. Fluctuations in pulp prices and foreign currencies will accordingly impact the selling price of our residual wood chips. The price and demand for the pulp and other logs sold to pulp and paper companies is also dependent on the market conditions for pulp and paper. If contraction in the coastal pulp and paper industry were to occur, we may need to find alternative customers for our sawmill residual chips and pulp logs.

Liquidity and Capital Resources

Western has incurred net losses through the six quarters ended December 31, 2008, which has significantly impacted available liquidity. The business may continue to require substantial expenditures, and we cannot be certain that we will achieve or sustain profitability from operating activities in the future. The Rights Offering of $50 million that closed in January 2009 provides additional liquidity to fund operations in the near term, and the Company intends to sell non-core assets to reduce outstanding debt. However, if we continue to be impacted by adverse market conditions and incur losses and make no further significant asset sales, we may need additional financing to fund continued operations and service existing debt obligations, including $53.5 million of long term debt becoming due in September 2009. We have taken action, and are continuing to take action, to improve our cash flow, including rationalizing our operations to reduce costs, focusing sales and production efforts on margin-generating activities, identifying opportunities to increase productivity and reduce unit costs, and managing maintenance and corporate expenditures. Although we believe our actions should result in improved cash flow, there can be no assurance that we will be successful or that market forces or competition will not work to offset our actions. In the event we are not successful, the Company may consequently be in violation of certain of its loan covenants, which could result in its debt becoming immediately due and payable or in it not being able to access funds under its revolving credit facility.

Dependency on Fibre Obtained from Government Timber Tenures

Currently, substantially all of the timberlands in which we operate are owned by the Province and administered by the Ministry of Forests and Range. The *Forest Act* (British Columbia) ("Forest Act") empowers the Ministry of Forests and Range to grant timber tenures, including Tree Farm Licences ("TFL"), Forest Licences ("FL"), and Timber Licences ("TL"), to producers. The Provincial Chief Forester must conduct a review of AAC for each Timber Supply Area and each TFL in the Province on a periodic basis, which is usually once every five years. This review is then used to determine the AAC for licences issued by the Province under the Forest Act. Many factors affect the AAC such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes. Such assessments have in the past resulted and may in the future result in reductions or increases to the AAC attributable to licences held by British Columbia forest companies (without compensation), including the licences that we hold. In addition, our AAC can be temporarily reduced (without compensation for the first four years) in areas where logging has been suspended under Part 13 of the Forest Act pending further consideration in land use planning. Land use planning and new harvesting regulations can constrain access to timber and new parks can permanently remove land from the timber harvesting land base. There can be no assurance that the amounts of such future reductions on our licences, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Forest Policy Changes in British Columbia

In 2003 and 2004, the Province implemented the most significant legislative reforms in the British Columbia forest industry in over 40 years. The most controversial aspect of these legislative reforms involved the Province taking back approximately 20% of the AAC from major licence holders, including Western, and providing monetary compensation. There can be no assurance that the Province will not implement further policy changes, or that any such changes will not have a material adverse effect on our operations or our financial condition.

First Nations Land Claims

First Nations groups have made claims of rights and title to substantial portions of land in British Columbia, including areas where our timber tenures and operations are situated, creating uncertainty as to the status of competing property rights and of legislation and Crown decisions that adversely affect such asserted rights and title. The Supreme Court of Canada has held that aboriginal groups may have a spectrum of constitutionally recognized and affirmed aboriginal rights and title in lands that have been traditionally used or occupied by their ancestors; however, such rights or title are not absolute and may be infringed by government in furtherance of a valid legislative objective, including forestry, subject to meeting a justification test. The effect on any particular lands will not be determinable until the nature of historical use, occupancy and rights in any particular piece of property have been clarified. The Supreme Court of Canada has also held that even before claims of rights and title are proven, the Crown has a legal duty to consult with First Nations, which can become a duty to seek possible accommodations, when the Crown has knowledge, real or constructive, of the potential existence of an aboriginal right or title and contemplates conduct that might adversely impact it. During the period before asserted claims are proven, the Crown is required to consult in good faith with the intention of substantially addressing First Nation concerns, but First Nations agreement is not required in these consultations.

First Nations are seeking compensation from governments (and in some instances from forest tenure holders) with respect to these claims, and the effect of these claims on timber tenure rights, including our timber tenures, cannot be estimated at this time. The Federal and Provincial Governments have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve these claims. Any settlements that may result from these negotiations may involve a combination of cash, land, resources, grants of conditional rights of resource co-management or rights to gather food or resources on public lands, and some rights of self-government. The effect of such a settlement on our timber tenures or the amounts of compensation that we would receive for any taking from those tenures as a result of this process, if any, cannot be estimated at this time.

Current Provincial Government policy requires that forest management and operating plans take into account and not unreasonably infringe on aboriginal rights and title, proven or unproven, and provide for consultation with First Nations. This policy is reflected in the terms of our timber tenures, which provide that the Ministry of Forests may refuse to issue cutting permits in respect of a timber tenure if it is determined that the forestry operation would unreasonably interfere with aboriginal rights and title. First Nations have, at times, sought to restrict the Provincial Government from granting or replacing forest tenures and other operating authorizations or from approving forest management plans on Crown lands without full consultation and accommodation or their consent if these decisions could affect lands claimed by them. There can be no assurance that denial of required approvals for, or changes to the terms of our timber tenures, other operating authorizations or forest management plans as a consequence of such consultation or action will not have an adverse effect on our financial condition or results of operations.

The issues surrounding aboriginal title and rights are not likely to be resolved by the Federal Government or Provincial Government in the near future. In the interim period, the Ministry of Forests and Range initiated its Forest and Range Agreements program with a view to addressing an economic component of the Crown's legal obligations on an interim basis. This program provides revenue sharing and short-term forest tenure opportunities for First Nations who enter into agreements with the Provincial Government. The Ministry of Forests and Range has stated it intends to provide approximately 8% of the Province's total Crown AAC to First Nations under this program or otherwise, using the AAC taken from other licensees under the *Forestry Revitalization Act* (British Columbia). The re-allocation of tenure to First Nations is in progress and the continuity of the timber supply from these short-term tenures is uncertain.

In 2007 the British Columbia Supreme Court released a judgment in an aboriginal rights and title claim made by the Tsilhqot'in Nation and Chief Roger William regarding lands and forests in the Interior of British Columbia (the "William decision"). In the William decision, the court made a declaration of certain aboriginal rights in the claimed territory but declined, on procedural grounds, to make the declaration of aboriginal title that had been sought by the Tsilhqot'in Nation. The court offered the opinion that aboriginal title exists within and outside the claimed area and found that the present provisions of the Forest Act do not apply to areas that meet the test for aboriginal title and that the jurisdiction to legislate in respect of the granting of rights to harvest timber on such lands lies with the federal government. In the court's view, prior to a finding of aboriginal title there is a presumption that non-private forest lands are Crown lands for the purposes of the Forest Act and provincial legislative provisions apply, even where aboriginal title and other rights are alleged to exist, in which case the Crown's duty to consult First Nations is engaged. In the court's view, if that duty of consultation is properly discharged, it gives adequate protection to alleged aboriginal interests. If there is a later declaration of rights or title there is a serious risk that, without proper consultation and accommodation, such rights may be infringed. In the court's view, those persons whose aboriginal rights or title have been so compromised as a result of government action will have their remedy in damages. The legal principles enunciated in the William decision, if confirmed on an appeal or applied in subsequent decisions on aboriginal title, could ultimately have a negative impact on all of Western's Crown timber tenures or its financial condition, but the extent of any such impact is uncertain at present.

An unfavourable result in any of the First Nations litigation in which the Company is a party or which involves assets of the Company could have a material adverse effect on our financial condition or results of operations. See also "Legal proceedings".

Stumpage Fees

Stumpage is the fee that the Province charges forest companies to harvest timber from Crown land in British Columbia. In January 2004, the Provincial Government announced the move to a more open and competitive market pricing system for timber and logs for the coastal region. Previously, the amount of stumpage paid for each cubic metre of wood harvested from the coastal region was based on a target rate set by the Province. Since February 29, 2004, stumpage for the coastal region is being set using the Coast Market Pricing System, which uses the results from British Columbia Timber Sales auctions to predict the value of Crown timber harvested under long-term tenures. There can be no assurance that future changes to the stumpage system or the Province's administrative policy will not have a material impact on stumpage fees payable and consequently affect our financial condition and results of operations.

Safety

Western is subject to workplace safety laws and regulations. Failure to comply with these laws and regulations can result in monetary penalties and work stoppages. The laws and regulations change over time and may involve new methodologies and additional costs necessary to bring the Company into compliance.

Environmental Regulation

We are subject to extensive environmental laws and regulations. These laws and regulations impose stringent standards on our operations and impose liability to remedy problems for which we are legally responsible regarding, among other things:

- air emissions;
- land and water discharges;
- operations or activities affecting watercourses or the natural environment;
- operations or activities affecting species at risk;
- use and handling of hazardous materials;
- use, handling, and disposal of waste; and
- remediation of environmental contamination.

We may incur substantial costs to comply with current or future requirements, to respond to orders or directions made, to remedy or to compensate others for the cost to remedy problems for which we are legally responsible or to comply with new environmental laws that may be adopted from time to time. In addition, we may discover currently unknown environmental problems or conditions affecting our operations or activities or for which we are otherwise legally responsible. Western has closed certain operations and although we have engaged specialists to advise us of environmental problems and conditions, normal site clean-up may identify additional problems or conditions. Any such event could have a material adverse effect on our financial condition and results of operations.

Regulatory Risks

Our forestry and sawmill operations are subject to extensive federal, provincial, state, municipal and other local laws and regulations, including those governing forestry, exports, taxes, labour standards, occupational health, safety, waste disposal, building structures/systems, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. Under certain laws and regulations, we are also required to obtain permits, licences and other authorizations to conduct our operations, which permits, licences and authorizations may impose additional conditions that must be satisfied. Although we budget for expenditures to maintain compliance with such laws and permits, there can be no assurance that these laws and regulations or government policy will not change in the future in a manner that could have an adverse effect on our financial condition or results of operations or the manner in which we operate. Nor can there be any assurance that administrative interpretation of existing laws and regulation will not change or more stringent enforcement of existing laws will not occur, in response to changes in the political or social environment in which we operate or otherwise, in a manner that could have an adverse effect on our financial condition or results of operations or the manner in which we operate.

Legal Proceedings

In January 2008 the Ditidaht First Nation commenced litigation in the B.C. Supreme Court against the Province of British Columbia, Canada, certain other First Nations and two forestry companies, including the Company, seeking amongst other things declarations of aboriginal title and rights in areas of Vancouver Island that include areas covered by timber tenures held by the Company and declarations that provincial forestry legislation and the Company's timber tenures are of no force or effect on the claimed aboriginal title lands. This proceeding is in the early stages and no trial date has been set.

In April 2008 the Kwakiutl First Nation commenced litigation in the B.C. Supreme Court against the Province of British Columbia, Western and the Federal Government of Canada seeking, amongst other things, orders to set aside the Province’s decision to remove Western’s private lands from a TFL and the Province’s approval of the Company’s Forest Stewardship Plan on the Crown lands within their area of interest, based on alleged infringements of their treaty rights and unextinguished aboriginal title and rights. This proceeding is in the early stages and no trial date has been set.

In 2005 the Hupacasath First Nation obtained an order of the B.C. Supreme Court requiring the Province of British Columbia to consult with them regarding certain Crown decisions, including a 2004 decision of the Minister of Forests and Range to remove private lands from TFL 44, a TFL subsequently acquired by the Company. In the third quarter of 2008 the Court ordered that a mediator be appointed to address appropriate accommodation for the effects of the Minister’s 2004 private land decision upon the asserted aboriginal rights of the Hupacasath First Nation on their claimed territory, both with respect to the private lands that are now outside the TFL and the Crown lands that remain within the Company’s TFL. The scope of this mediation is to include, among other things, consideration of possible accommodation from resources on the Crown lands remaining in the TFL now held by the Company.

The Company is currently unable to predict the outcome of these First Nation legal proceedings on Western’s ongoing operations or on any sale of its non-core assets and private forestry lands.

In addition, Western is subject to routine litigation incidental to our business, the outcome of which we do not anticipate will have a material adverse affect on our financial condition and results of operations.

Reliance on Directors, Management and Other Key Personnel

Western relies upon the experience and expertise of our personnel. No assurance can be given that we will be able to retain our current personnel and attract additional personnel as necessary for the development and operation of our business. Loss of or failure to attract and retain key personnel could have a material adverse effect on Western's business.

Change of Control of Western

Tricap Management Limited, which is related to Brookfield Asset Management, currently holds 49% of the outstanding Common Shares of Western and its additional equity interest in Western through Non-Voting Shares. If a change of control of Western were to occur, there could be significant adverse consequences to Western. If it is determined that there has been an acquisition of control for Canadian tax purposes we may lose the benefit of historical tax losses of subsidiaries that were incurred by our predecessor in its operations, which may limit our ability to shelter future operating income from tax. In addition, if Tricap Management or any person were to acquire sufficient Common Shares to constitute a change or acquisition of control of Western, and the British Columbia Minister of Forests and Range (the "Minister of Forests") were to be satisfied the change or acquisition of control unduly restricted competition in standing timber, log or wood chip markets, the Minister of Forests and Range could make a determination to cancel all or a part of our Forest Act (British Columbia) tenures. If this were to occur, we may have to obtain the fibre to run the combined business facilities from external sources, perhaps at a higher cost. A significant increase in our costs could have a material adverse effect on the financial condition and results of operations of the combined business.

Certain Voting Rights of the Non-Voting Shares

The holders of Non-Voting Shares are generally not entitled to vote at meetings of our shareholders. They are, however, entitled to one vote per share on any vote relating to our liquidation, dissolution or winding-up, or the sale, lease or exchange of all or substantially all of our property and as otherwise provided by law or any amendment that would add, change or remove attributes of the Non-Voting Shares or any class of share adversely affecting the Non-Voting Shares either separately or in relation to the Common Shares. As such, holders of Non-Voting Shares will be able to vote on, and potentially affect the outcome of, certain transactions, such as our liquidation or winding-up or the sale of substantially all of our assets.

Evaluation of Disclosure Controls and Procedures

As required by Multilateral instrument 52-109 issued by the Canadian Securities Administrators, Western carried out an evaluation of the design and effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as of December 31, 2008. 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 are 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 annual filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are 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 annual 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 last quarter of 2008.

Outstanding Share Data

On January 22, 2009, the Company closed a Rights Offering of 8,783,241 Common Shares and 254,374,654 Non-Voting Shares that raised gross proceeds of $50.0 million. As a result, as of February 25, 2009 there were 128,625,600 Common Shares and 338,945,860 Non-Voting Shares issued and outstanding. Tricap Management Limited ("Tricap") controls and directs 49% of the Company's Common Shares and 100% of the Non-Voting Shares. The Company may convert the

Non-Voting Shares into Common Shares on a one-for-one basis, in whole or in part, at any time in its sole discretion, provided that the Board of Directors is at that time of the opinion that to do so would not have a material adverse effect on the Company's business, financial condition or business prospects.

In addition, the Company has 569,373 Tranche 1 Class C Warrants, 854,146 Tranche 2 Class C Warrants, and 1,423,743 Tranche 3 Class C Warrants (collectively, the "Class C Warrants") outstanding. The Company has reserved up to 2,847,262 Common Shares for issuance upon the exercise of the Class C Warrants. Western has also reserved 10,000,000 Common Shares for issuance upon the exercise of options granted under the Company's incentive stock option plan. During 2008, 2,710,000 options were granted, 2,655,000 options were cancelled and no options were exercised. In February 2009, 610,000 options were cancelled. As of February 25, 2009, 3,678,060 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

(millions of dollars except per share amounts and where noted)	2008 Year	2008 4th	2008 3rd	2008 2nd	2008 1st	2007 Year	2007 4th	2007 3rd	2007 2nd	2007 1st
Average Exchange Rate – Cdn $ to purchase one US $	1.067	1.211	1.041	1.010	1.005	1.074	0.981	1.045	1.098	1.173
Sales										
Lumber	623.9	136.6	153.3	181.5	152.5	650.1	93.3	141.6	210.0	205.2
Logs	133.6	26.6	29.1	43.4	34.5	184.6	29.6	26.5	72.9	55.6
By-products	57.3	12.1	14.6	14.3	16.3	55.8	13.7	8.4	18.2	15.5
Total sales	814.8	175.3	197.0	239.2	203.3	890.5	136.6	176.5	301.1	276.3
Lumber										
Shipments – millions of board feet	767	171	192	216	188	829	131	174	273	251
Price – per thousand board feet	814	799	798	840	811	784	712	814	769	818
Logs										
Shipments – thousands of cubic meters	2,077	483	517	622	455	2,369	412	364	943	650
Price – per cubic metre	64	55	56	70	76	78	72	73	77	86
Selling and administration	32.8	6.8	8.6	8.5	8.9	41.6	9.2	10.2	11.3	10.9
EBITDA	(42.4)	(9.7)	(10.0)	(12.4)	(10.3)	(13.8)	(28.4)	(29.8)	21.1	23.3
Amortization of capital assets	(33.7)	(8.2)	(8.8)	(8.9)	(7.8)	(35.4)	(7.9)	(6.8)	(10.8)	(9.9)
Operating restructuring income (loss)	(6.3)	(6.3)	-	-	-	2.6	-	-	2.6	-
Net interest expense	(19.7)	(4.0)	(3.7)	(3.6)	(8.4)	(24.6)	(5.9)	(6.0)	(5.9)	(6.8)
Foreign exchange gain on debt	0.6	-	-	-	0.6	12.7	0.1	5.6	6.3	0.7
Other income (expense)	21.3	4.7	(0.1)	6.9	9.8	2.5	0.9	(0.1)	0.5	1.2
Income taxes	(0.2)	-	(0.1)	-	(0.1)	(1.1)	(0.7)	(0.1)	-	(0.3)
Net income (loss) from continuing operations	(80.4)	(23.5)	(22.7)	(18.0)	(16.2)	(57.1)	(41.9)	(37.2)	13.8	8.2
Net income (loss) from discontinued operations	(5.2)	(0.8)	(2.3)	(1.3)	(0.8)	1.3	(1.0)	(0.5)	3.8	(1.0)
Net income (loss)	(85.6)	(24.3)	(25.0)	(19.3)	(17.0)	(55.8)	(42.9)	(37.7)	17.6	7.2
EBITDA as % of sales	(5.2)%	(5.5)%	(5.1)%	(5.2)%	(5.1)%	(1.5)%	(20.8)%	(16.9)%	7.0%	8.4%
Earnings per share:										
Net income (loss) basic and diluted	(0.42)	(0.12)	(0.12)	(0.10)	(0.08)	(0.27)	(0.21)	(0.18)	0.08	0.04
Net income (loss) from continuing operations basic and diluted	(0.39)	(0.11)	(0.11)	(0.09)	(0.08)	(0.28)	(0.21)	(0.18)	0.07	0.04

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, particularly in the United States, 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.

The following were unusual events that influenced results other than for seasonal reasons. In the third and fourth quarters of 2007, sales and net income were influenced by strike action by most of the Company's unionized employees. Net income in the second quarter of 2007 includes gains on sale of certain assets, which is included in discontinued operations. Other gains on sale of various assets and other receipts are included in other income in the second and fourth quarters of 2008. Throughout 2008, results suffered from the significant downturn in the forest products industry, bringing associated production curtailments. The fourth quarter of 2008 included a charge for restructuring.

Western Forest Products Inc.

Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended December 31, 2008 and 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Western Forest Products Inc. ("Western" or "Company") is responsible for the accompanying Consolidated Financial Statements and all other information in the Management's Discussion and Analysis. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and, where necessary, reflect Management's best estimates and judgments at this time. The financial information presented throughout the Management's Discussion and Analysis and the Company's press release dated February 25, 2009 is consistent with that contained in the Consolidated Financial Statements.

Western maintains systems of internal accounting controls, policies and procedures to provide reasonable assurances as to the reliability of the financial records and the safeguarding of its assets. Management meets the objectives of internal accounting control on a cost-effective basis through the prudent selection and training of personnel, adoption and communication of appropriate policies, and employment of an internal audit program.

The Board of Directors reviews through oversight Management's responsibilities with respect to the Consolidated Financial Statements primarily through the activities of its Audit Committee, which is composed solely of independent directors of the Company. This Committee meets with Management and the Company's independent auditors KPMG LLP to review the Consolidated Financial Statements and recommend approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment, remuneration and the terms of engagement of the Company's auditors. The Audit Committee also meets with the auditors, without the presence of Management, to discuss the results of the audit, related findings and their suggestions.

The Consolidated Financial Statements have been audited by KPMG LLP, who were appointed by the shareholders at the annual shareholders' meeting. The auditors' report follows.

Dominic Gammiero
President and
Chief Executive Officer

Murray Johnston
Vice President and
Chief Financial Officer

February 11, 2009

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Western Forest Products Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

February 11, 2009

Western Forest Products Inc.

Consolidated Balance Sheets

(Expressed in millions of Canadian dollars)

	As at December 31, 2008	2007
Assets		
Current assets:		
Cash and cash equivalents	$ 3.5	$ 4.9
Accounts receivable	45.6	55.9
Inventory *(Note 3)*	228.8	253.2
Prepaid expenses and other assets	8.2	8.4
	286.1	322.4
Property, plant and equipment *(Note 4)*	429.8	484.4
Other assets *(Note 5)*	10.1	8.9
	$ 726.0	$ 815.7
Liabilities and Shareholders' Equity		
Current liabilities:		
Revolving credit line *(Note 6)*	$ 108.9	$ 48.6
Accounts payable and accrued liabilities	72.7	85.7
Current portion of long-term debt *(Note 7)*	53.5	101.1
Discontinued operations *(Note 20)*	6.4	4.1
	241.5	239.5
Long-term debt *(Note 7)*	74.1	69.7
Other liabilities *(Note 9)*	33.1	34.1
Deferred revenue *(Notes 1(f) and 13(d))*	74.4	76.4
	423.1	419.7
Shareholders' equity:		
Common shares *(Note 11)*	410.6	410.6
Non-voting shares *(Note 11)*	139.6	139.6
Contributed surplus	2.2	1.7
Deficit	(249.5)	(155.9)
	302.9	396.0
Commitments and contingencies *(Note 13)*		
Subsequent event *(Notes 6 and 11(b))*		
	$ 726.0	$ 815.7

See accompanying notes to these consolidated financial statements

Approved on behalf of the Board:

Dominic Gammiero, *President and Chief Executive Officer*

John MacIntyre, *Chairman*

Western Forest Products Inc.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

(Expressed in millions of Canadian dollars except for share and per share amounts)

	Year ended December 31,	
	2008	2007
Sales	$ 814.8	$ 890.5
Cost and expenses:		
Cost of goods sold	774.9	824.4
Export tax	8.9	15.7
Freight	74.3	58.0
Selling and administration	32.8	41.6
	890.9	939.7
Operating loss before operating restructuring items	(76.1)	(49.2)
Operating restructuring items *(Note 17)*	(6.3)	2.6
Operating loss	(82.4)	(46.6)
Net interest expense *(Note 18)*	(19.7)	(24.6)
Foreign exchange gain on translation of debt	0.6	12.7
Other income *(Note19)*	21.3	2.5
Loss before income taxes	(80.2)	(56.0)
Income tax expense *(Note 8)*	(0.2)	(1.1)
Net loss from continuing operations	(80.4)	(57.1)
Net income (loss) from discontinued operations *(Note 20)*	(5.2)	1.3
Net loss and comprehensive loss	(85.6)	(55.8)
Deficit, beginning of year as previously reported	(155.9)	(100.1)
Adoption of new accounting policy *(Note 2(a))*	(8.0)	-
Deficit, beginning of year as adjusted	(163.9)	(100.1)
Deficit, end of year	$ (249.5)	$ (155.9)
Loss per share *(in dollars):* *(Note 11(e))*		
Basic and diluted loss per share	$ (0.42)	$ (0.27)
Basic and diluted loss per share from continuing operations	$ (0.39)	$ (0.28)
Weighted average number of shares outstanding (thousands of shares)	204,414	204,414

See accompanying notes to these consolidated financial statements

Western Forest Products Inc.

Consolidated Statements of Cash Flows
(Expressed in millions of Canadian dollars)

	Year ended December 31, 2008	2007
Cash provided by (used in):		
Operating activities:		
Net loss from continuing operations	$ (80.4)	$ (57.1)
Items not involving cash:		
Amortization of capital assets	33.7	35.4
Foreign exchange gain on translation of debt	(0.6)	(12.7)
Gain on disposal of property, plant and equipment	(16.3)	(4.0)
Other	(3.6)	1.7
	(67.2)	(36.7)
Changes in non-cash working capital items:		
Accounts receivable	10.3	35.9
Inventory	16.5	(26.7)
Prepaid expenses	0.2	0.7
Accounts payable and accrued liabilities	(13.0)	(25.2)
	(53.2)	(52.0)
Investing activities:		
Additions to property, plant and equipment	(12.5)	(26.5)
Proceeds from disposal of assets and other receipts	53.9	11.2
Acquisition working capital adjustment	-	12.5
Other	-	3.2
	41.4	0.4
Financing activities:		
Changes in revolving credit line	60.3	45.0
Proceeds from refinancing of debt	175.0	-
Repayment of term debt	(46.3)	(25.5)
Repayment of pre-existing debt	(174.3)	-
Other	-	(2.4)
	14.7	17.1
Cash provided (used) by continuing operations	2.9	(34.5)
Cash used by discontinued operations *(Note 20)*	(4.3)	(2.2)
Increase (decrease) in cash and cash equivalents	(1.4)	(36.7)
Cash and cash equivalents, beginning of year	4.9	41.6
Cash and cash equivalents, end of year	$ 3.5	$ 4.9
Supplementary information:		
Cash interest paid	$ 15.8	$ 22.3
Cash income taxes paid	$ 0.2	$ 0.3

See accompanying notes to these consolidated financial statements

The business of Western Forest Products Inc. (the "Company" or "Western") is timber harvesting and lumber manufacturing for worldwide markets. Western's operations are located in the Coastal region of British Columbia.

1. Significant accounting policies:

The significant accounting policies are summarized below:

(a) Basis of presentation and principles of consolidation:

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly owned subsidiaries since their respective acquisition dates. The principal wholly-owned operating subsidiaries of the Company at December 31, 2008 are Western Lumber Sales Limited (which sells into the United States) and MacMillan Bloedel KK (which sells into Japan). All intercompany balances and transactions have been eliminated on consolidation. In addition, certain comparative figures have been re-classified to reflect the current year's presentation.

(b) Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant areas requiring the use of management estimates include inventory valuations, amortization rates, outcome of arbitrations and legal proceedings, restructuring, reforestation liabilities, asset retirement obligations, employee future benefits, and asset impairment provisions. Actual results may differ materially from those estimates.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with maturities of 90 days or less from the date of acquisition, and are carried at fair value.

(d) Inventory:

Inventory, other than supplies which are valued at specific cost, are valued at the lower of allocated cost and net realizable value ("NRV") as described below.

(*i*) Lumber by species (hemlock and balsam, douglas fir and cedar);

(*ii*) Logs by gross sort (saw logs and pulp logs).

Costs of products produced jointly as a result of the same process are allocated according to the value of those products. Log production costs are allocated to logs based on their relative market values, except for pulp logs that are carried at market due to the significant difference between the market value of pulp logs compared to production costs. Similarly, lumber production costs are allocated to production units based on their relative market values. The NRV for logs designated for lumber production is determined on the basis of the logs being converted to lumber with the NRV for the remaining logs based on market log prices.

1. Significant accounting policies (Continued):

(e) Property, plant and equipment, logging roads, and timberlands:

Property, plant and equipment is initially recorded at cost and is subsequently amortized on a straight line basis over the expected useful life of the underlying asset (5 to 20 years). Logging roads are amortized over their expected useful life or over the volume anticipated to be accessed by the road.

The cost of major forest tenures is capitalized and subsequently amortized on a straight-line basis over 40 years. The cost of private timberlands is capitalized and is not amortized.

(f) Deferred revenue:

Deferred revenue is the result of the contractual obligations incurred upon the acquisition of the Englewood Logging Operation and calls for Western to deliver a specified volume of fibre (chips and pulp logs) over the term of the contract. Accordingly, the deferred revenue is amortized into income on a straight-line basis over 40 years, being the term of the related fibre supply contract.

(g) Impairment of property, plant and equipment, logging roads, and timberlands:

The Company conducts reviews for the impairment of property, plant and equipment, logging roads, and timberlands whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss would be recognized when estimates of future undiscounted cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount. An impairment loss would be measured based on the difference between the carrying amount and fair value of the impaired assets.

(h) Foreign currency translation:

Transactions denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities have been translated into Canadian dollars at the period-end exchange rates. Non-monetary assets and liabilities are translated at the exchange rates in effect when the assets were acquired or the liabilities incurred. All exchange gains and losses are included directly in income.

(i) Asset retirement obligation:

The Company recognizes asset retirement obligations at fair value in the period in which the legal obligation is incurred, with the fair value of the liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur.

The Company’s asset retirement obligations relate to the obligation for reforestation on Crown land and certain environmental remediation. Reforestation obligations arise as volume is harvested with the related expenses recognized in the statement of operations as they occur. Reforestation on private timberlands is expensed as incurred.

1. Significant accounting policies (Continued):

(j) Revenue recognition:

Sales are recognized when the significant risks and rewards of ownership are passed to the customer. Lumber and by-product sales are recorded at the time product is shipped and the collection of the amounts is reasonably assured. Consistent with industry practice, log sales are recorded when the customer's order is firm, the logs have been delivered to the transfer location and the collectability of the amount is reasonably assured.

Amounts charged to customers for shipping and handling are recognized as revenue and shipping and handling costs, lumber duties, and export taxes incurred by the Company are recorded in costs and expenses.

(k) Stock-based compensation:

The Company has established a stock-based compensation plan for eligible directors, officers and employees and accounts for it using the fair value method.

Under this method, the fair value of the options is determined using the Black-Scholes option pricing model which takes into account, as of the grant date, the exercise price, the expected life of the options, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option.

Inherent in all option pricing models is the use of highly subjective estimates, including expected volatility of the underlying stock. The Company bases its estimates of volatility on historical stock prices of the Company itself as well as those of comparable companies with longer trading histories.

Cash consideration received from employees when they exercise the options is credited to share capital.

(l) Income taxes:

The Company uses the asset and liability method of accounting for future income taxes. Under the asset and liability method, future income tax assets and liabilities are determined based on temporary differences (differences between the accounting bases and the tax bases of existing assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

(m) Employee future benefits:

The Company has various defined benefit and defined contribution plans that provide pension benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. The Company also provides other post retirement benefits and pension bridging benefits to eligible retired employees.

1. Significant accounting policies (Continued):

(m) Employee future benefits (continued):

The Company accrues the costs and related obligations of the defined benefit pension and other retirement benefit plans using the projected benefit actuarial method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and other relevant factors. For the purpose of calculating the expected return on plan assets, the fair value of plan assets is used. Actuarial gains (losses) arise from the difference between the actual and expected long-term rates of return on plan assets for a period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees, which ranges between 12 and 13 years for both pension and other benefit plans. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan.

For hourly employees covered by forest industry union defined benefit pension plans, income is charged with the Company's contribution as required under the collective agreements.

The Company accrues the costs and related obligations for defined contribution plans based on the required Company contributions in the period.

(n) Measurement uncertainty:

The Company reviews the carrying values of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through future operations. During the year, as a result of continued losses by the Company, and the potential impact of the global recession on lumber demand and prices in the market, the Company conducted an impairment review of its long-lived assets.

The impairment review was performed by determining whether projected undiscounted future cash flows from operations exceed the net carrying amount of the assets. Key assumptions in performing this review include lumber prices, log and chip prices and the U.S. dollar and Japanese Yen exchange rates. Other significant assumptions include the useful life of the assets, stumpage rates and the level of the Export Tax on lumber shipped to the U.S. In determining the appropriate assumptions the Company has analyzed external data and sought advice from external advisors. Based on the key assumptions used, the projected undiscounted cash flows from operations exceed the carrying value of the Company's long-lived assets.

On the basis of the findings of the impairment review, the Company does not consider that any write-down of its long-lived assets is required at December 31, 2008. Given the judgments and estimates required in carrying out the impairment testing and the sensitivity of results to the key assumptions used, it is possible that changes in future conditions may lead management to use different assumptions in the future, which could result in a material impairment in the carrying values of its long-lived assets.

2. Changes to accounting policies:

Adopted in 2008:

a) Inventories:

Effective January 1, 2008, the Company adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031 - Inventories. Section 3031 requires that inventories be valued at lower of cost and net realizable value. Under the new standard, logs designated for lumber production are recorded at the lower of cost and net realizable value ("NRV") with NRV determined on the basis of the logs converted into lumber. Under the former policy, logs designated for lumber production were valued at the lower of cost and net realizable value with NRV determined from log market prices. This change recognizes any forecasted losses on future lumber sales upon the purchase or production of logs that remain in inventory, and accordingly future changes in NRV may produce fluctuations in cost of sales. Upon the adoption of these new recommendations additional inventory provisions of $8.0 million were required to value certain inventory products at NRV. Consequently inventory decreased by $8.0 million to $245.2 million and the deficit increased by the same amount to $163.9 million as at January 1, 2008.

b) Capital disclosures:

Effective January 1, 2008, the Company adopted the new recommendations of the CICA Handbook Section 1535, Capital Disclosures. Under the recommendations additional disclosure is provided with respect to the Company's capital. Adoption of the recommendations had no impact on the Company's financial statements. The additional disclosures are included in Note 12.

c) Financial instruments – disclosure and presentation:

Effective January 1, 2008, the Company adopted the new recommendations of the CICA Handbook Sections 3862 and 3863, Financial Instruments – Disclosures and Presentation. Under the recommendations the Company is required to provide additional information pertaining to the use of financial instruments irrespective of whether or not those financial instruments are recognized in the financial statements. Adoption of the recommendations had no impact on the Company's financial statements. The additional disclosures are included in Note 16.

d) Going concern:

In June 2007, Section 1400 of the CICA Handbook was amended to require management to assess and disclose an entity's ability to continue as a going concern. This section applies for interim and annual periods beginning on or after January 1, 2008. The Company has adopted this section on January 1, 2008.

The Company has forecast financial results and cash flows for 2009. These forecasts are based on management's best estimates of operating conditions in the context of the current economic climate, today's difficult capital market conditions and the depressed state of the forest products industry. Subsequent to year end, the Company raised $50 million pursuant to a Rights Offering. Based on its forecasts, and considering the proceeds of the Rights Offering, the Company currently expects that sufficient liquidity is available to meet its obligations in 2009. Should the Company complete any sales

2. Changes to accounting policies (Continued):

Adopted in 2008 (Continued):

d) Going concern (continued):

of non-core assets, any proceeds that are in excess of remaining amounts of long-term debt falling due in September 2009 would supplement liquidity. However, terms of the refinancing completed in March 2008 provide for the debt to capitalization covenant to tighten in March 2009. The aforementioned forecast, which assumes no significant land asset sales, indicates the Company should be in compliance with this covenant in 2009. Any proceeds received from any sales of land assets would be used to repay amounts of outstanding long-term debt falling due in September 2009, which would increase the likelihood that the Company would remain in compliance with the covenant. However, any significant strengthening of the Canadian dollar, further decline in the U.S. housing or other key markets, timber tenure take backs or increase in costs including stumpage rates, could further adversely impact the Company's liquidity in the short to mid term, and may cause the Company to be non-compliant with the covenant. In the event the Company is in violation of certain of its loan covenants or is unable to repay remaining amounts of long-term debt on due date, its debt could become immediately due and payable or it might not be able to access funds under its revolving credit line.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts and the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Future changes:

a) Goodwill and intangible assets:

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaced existing Handbook Section 3062, Goodwill and Other Intangible Assets, and Handbook Section 3450, Research and Development. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company does not expect that the adoption of this new standard will have any impact on its financial statements.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

2. Changes to accounting policies (Continued):

Future Changes (Continued):

b) International Financial Reporting Standards ("IFRS"):

In January 2006, the Canadian Accounting Standards Board announced its decision requiring all publicly accountable entities to report under IFRS. These standards are effective for interim and annual financial statements beginning on or after January 1, 2011. The Company is currently evaluating the impact of these new standards and will be developing its changeover plan during the coming year for its adoption of IFRS on January 1, 2011. Western's largest shareholder, Tricap Management Limited, which is related to Brookfield Asset Management ("BAM"), will adopt IFRS effective January 1, 2010, with a transition date of January 1, 2009. Upon the request of BAM, Western has provided certain financial information in accordance with BAM's accounting policies and decisions to assist BAM with its adoption of IFRS. However, this information may not be consistent with the accounting policies and decisions that will be made by Western at the time of its own adoption of IFRS.

3. Inventory:

As described in Note 2, effective January 1, 2008, the Company adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031 - Inventories. The following table summarizes the value of inventory on hand:

	2008	2007
Log inventory	$ 138.0	$ 164.4
Lumber inventory	88.0	83.0
Supplies and other inventories	12.1	12.8
Provision for write downs	(9.3)	(7.0)
Total inventory	$ 228.8	$ 253.2

All of the Company's inventory is pledged as security against the revolving credit line and long-term debt. At December 31, 2008 $42.5 million (2007- $47.5 million) of the $228.8 million (2007 - $253.2 million) of total inventory was carried at net realizable value. During 2008, $774.9 million of inventory was charged to cost of sales which includes a change in the provision for write-down to net realizable value of $2.3 million.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

4. Property, plant and equipment:

2008	Cost	Accumulated Amortization	Net book value
Land	$ 31.6	$ -	$ 31.6
Timberlands	285.5	16.9	268.6
Logging Roads	104.1	57.3	46.8
Buildings and equipment	139.3	56.5	82.8
	$ 560.5	$ 130.7	$ 429.8

2007	Cost	Accumulated Amortization	Net book value
Land	$ 61.5	$ -	$ 61.5
Timberlands	287.3	12.3	275.0
Logging Roads	109.1	57.1	52.0
Buildings and equipment	139.2	43.3	95.9
	$ 597.1	$ 112.7	$ 484.4

Amortization of property, plant and equipment

	2008	2007
Amortization of buildings and equipment	$ 15.8	$ 15.4
Amortization of timberlands and logging roads	17.9	20.0
	$ 33.7	$ 35.4

5. Other assets:

	2008	2007
Investments	$ 7.0	$ 8.2
Discontinued operations	2.0	0.6
Other	1.1	0.1
	$ 10.1	$ 8.9

6. Revolving credit line:

The revolving credit line provides for a maximum borrowing amount of $150.0 million with provision for an extension up to $200.0 million, subject to lender approval. The interest rate is prime plus 0.50% and the term is until March 13, 2011. At December 31, 2008, $18.8 million of the $150.0 million facility was unused and available to the Company. The borrowing amount available is based on eligible accounts receivable and inventory balances and is secured by these balances. On December 15, 2008, additional security was provided to the lender by way of a letter of credit issued by Brookfield Asset Management Inc., a Company related to Tricap Management Limited ("Tricap"), the Company's largest shareholder, in the amount of $15.0 million. The letter of credit expired on January 22, 2009 following the repayment by the Company of $50.0 million of the revolving credit line balance outstanding at that time from the proceeds of the Rights Offering (Note 11(b)).

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

7. Long-term debt:

	2008	2007
US dollar debt	$ -	$ 72.9
Associated transaction costs	-	(3.2)
	$ -	$ 69.7
Canadian dollar debt	$ 128.7	$ 101.8
Associated transaction costs	(1.1)	(0.7)
	$ 127.6	$ 101.1
	$ 127.6	$ 170.8
Less current portion	53.5	101.1
	$ 74.1	$ 69.7

On March 14, 2008, the Company closed a new financing providing $175.0 million in term facilities. The proceeds retired the prior existing facilities which amounted to $72.5 (US$73.5 million) and $101.8 million, both provided by the Brookfield Bridge Lending Fund, a lender related to Tricap.

The new financing agreement provided for two secured term facilities: a $75.0 million revolving term facility and a $100.0 million non-revolving term facility subsequently paid down by $46.3 million during the remainder of 2008. The revolving term facility is due on or before March 13, 2011 and the non-revolving term debt is due on or before September 9, 2009. Accordingly, the balance of the non-revolving term debt and associated financing fees as at December 31, 2008 has been classified as a current liability.

At the discretion of the Company, interest on the facilities is based either on the Canadian prime or the bankers acceptance rate plus a margin of 1.75 percent or 2.75 percent, respectively. At the time of concluding the new financing agreement the Company paid $2.4 million in transaction costs, which have been deferred and will be amortized, into interest expense, over the term of the facilities using the effective interest rate method.

The obligations under the facilities are secured by liens against all of the Company’s properties and assets and include customary covenants including repayment of the facilities from the proceeds of asset sales and other non-operating cash inflows, with certain exceptions.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

8. Income taxes:

Income tax expense differs from the amount that would be computed by applying the Company's combined Federal and Provincial statutory rate as follows:

	2008	Tax rate	2007	Tax rate
Loss before taxes	$ (80.2)		$ (56.0)	
Expected income tax recovery	$ 24.8	31.0%	$ 19.1	34.1%
Tax effect of:				
Capital gains tax rate	2.0	2.5%	4.3	7.7%
Change in valuation allowance	(19.5)	(24.3)%	(193.9)	(346.2)%
Future tax rate changes	14.0	17.5%	(29.5)	(52.7)%
Change in prior year estimated values	(5.5)	(6.9)%	194.9	348.0%
Losses expiring in the year	(18.8)	(23.4)%	-	-
Other permanent differences	2.8	3.4%	4.0	7.1%
Income tax expense per financial statements	$ (0.2)	(0.2)%	$ (1.1)	(2.0)%

	2008	2007
Future tax assets:		
Losses carried forward	$ 237.6	$ 238.9
Property, plant and equipment due to differences in net book value and unamortized cost	14.9	14.2
Reforestation and other accruals not deductible for tax until paid	16.3	14.1
	268.8	267.2
Valuation allowance	(239.0)	(219.5)
	29.8	47.7
Future tax liabilities:		
Property, plant and equipment due to differences in net book value and unamortized capital cost	(29.8)	(47.7)
Net future tax liability	$ -	$ -

At December 31, 2008, the Company and its subsidiaries have unused tax losses carried forward estimated at $515 million, that expire between 2009 and 2028, available to reduce taxable income and capital losses of approximately $796 million available to be utilized against capital gains. The ability of the Company to utilize the losses carried forward and capital losses is not considered "more likely than not" and therefore, a valuation allowance has been provided against the tax assets.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

9. Other liabilities:

	2008	2007
Pension liability *(Note 15)*	$ 15.1	$ 17.4
Environmental accruals	1.5	1.9
Long-term portion of reforestation obligation *(Note 10)*	16.1	14.4
Other	0.4	0.4
	$ 33.1	$ 34.1

10. Reforestation liability:

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

	2008	2007
Reforestation liability, beginning of period	$ 28.6	$ 32.5
Reforestation liability extinguished upon withdrawal of private lands	-	(1.2)
Reforestation provision charged to operations	9.0	9.2
Reforestation work payments	(10.8)	(11.9)
	$ 26.8	$ 28.6
Consisting of:		
Long-term portion included in other liabilities	$ 16.1	$ 14.4
Current portion included in accounts payable and accrued liabilities	10.7	14.2
	$ 26.8	$ 28.6

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2008 is $31.4 million (2007 - $33.0 million). The reforestation expenditures are expected to occur over the next one to nine years and have been discounted at the Company's credit-adjusted risk-free rates of 6.75% to 8.50% depending on the timing of the cash flows. Reforestation expense incurred on current production and accretion expense are included in production costs for the year.

11. Share capital:

(a) Authorized and issued share capital:

The Company's authorized capital consists of an unlimited number of common shares (the Common Shares), an unlimited number of non-voting shares (the Non-Voting Shares) and an unlimited number of preferred shares. The Common Shares entitle the holders thereof to one vote per share. The Non-Voting Shares do not entitle the holders to any votes at meetings of our shareholders except that they will be entitled to one vote per share relating to certain matters including liquidation, dissolution and winding-up. The Common Shares and Non-Voting Shares rank equally as to participation in a distribution of the assets of the Company on a liquidation, dissolution or winding-up of the Company and as to the entitlement to dividends.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

11. Share capital (Continued):

(a) Authorized and issued share capital (continued):

The holders of the Non-Voting Shares have certain registration rights, exercisable after May 1, 2009, that enable them to require the Company to assist them with a public offering of the Non-Voting Shares or Common Shares for which the Non-Voting Shares may be exchanged, subject to certain limitations.

Issued and outstanding Common and Non-Voting Shares are as follows:

	Number of Common Shares	Amount	Number of Non-Voting Shares	Amount
December 31, 2008 and 2007	119,842,359	$ 410.6	84,571,206	$ 139.6

(b) Rights offering:

On January 22, 2009, the Company raised a total of $50.0 million before customary expenses through a rights offering to all shareholders pursuant to a final short-form prospectus dated December 10, 2008. Western used the net proceeds of the Rights Offering to reduce indebtedness under its revolving line of credit, thereby providing additional liquidity. The amounts repaid under this facility will be available to be redrawn for general corporate purposes. Under the terms of the rights offering, common and non-voting shareholders received one right for each Common Share or Non-Voting Share that enabled them to subscribe for 1.28737 Common Shares of the Company at a price of $0.19 per Common share. The rights were listed for trading on the Toronto Stock Exchange and were exercisable until January 20, 2009.

Tricap, the Company's largest shareholder, subscribed for Common Shares under both the basic subscription privilege and the additional subscription privilege. In accordance with the terms of a prior agreement, the Company only permitted the exercise of that portion of the rights owned by Tricap that resulted in Tricap beneficially owning, or exercising control or direction over, not more than 49% of the Common Shares outstanding. Accordingly, the Company only allowed the conversion of rights for the issuance of 4,303,788 Common Shares to Tricap with the remaining rights converted into 254,374,654 Non-Voting Shares. As a result, Tricap holds 63,026,544 Common Shares, or 49% of the Company's 128,625,600 Common Shares and 100% of the 338,945,860 Non-Voting Shares now issued and outstanding.

(c) Stock-based compensation plan:

The Company has an incentive stock option plan (the Option Plan), which permits the granting of options to eligible participants to purchase up to an aggregate of 10,000,000 Common Shares. During 2008 the Company recorded compensation expense of $0.5 million (2007 - $0.9 million) which has been credited to contributed surplus.

Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one Common Share, subject to adjustments, at a price of not less than the closing price of the Common Shares on the Toronto Stock Exchange ("TSX") on the day immediately preceding the grant date. Options granted under the Option Plan expire, generally, a maximum of ten years from the date of the grant.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

11. Share capital (Continued):

(c) Stock-based compensation plan (continued):

During the year, the Company granted 2,710,000 options (as summarized in the following table) with a fair value of $1.6 million as determined by the Black-Scholes option pricing model using the assumptions of a weighted average exercise price $1.20, risk free interest rate of 4.00%, volatility of 33% and an expected life of 10 years.

The following table summarizes the change in the options outstanding during the years ending December 31, 2008 and 2007:

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	4,233,060	$2.45	2,288,060	$2.79
Granted	2,710,000	1.20	1,945,000	2.06
Cancelled	(2,655,000)	1.75	-	-
Outstanding, end of year	4,288,060	$2.10	4,233,060	$2.45

Details of options outstanding under the share option plan at December 31, 2008 are as follows:

Range of exercise prices	Number outstanding December 31, 2008	Weighted average remaining option life (yrs)	Weighted average exercise price	Number exercisable December 31, 2008	Weighted average exercise price
$9.25-$12.10	233,060	0.9	$9.65	186,448	$9.65
$3.05-$3.50	55,000	3.1	$3.30	33,000	$3.30
$1.20-$2.18	4,000,000	7.9	$1.64	741,000	$1.85
	4,288,060	7.4	$2.10	960,448	$3.41

Subsequent to the year end, 610,000 options with a weighted average exercise price of $4.38 were cancelled.

(d) Class C Warrants:

The Company has 2,847,262 Class C Warrants outstanding as described in the following table. The Company does not have any other classes of warrants. The Class C Warrants are non-transferrable and will expire on June 28, 2009 subject to early termination provisions. Due to their contingent nature, the warrants do not have any value allocated to them for accounting purposes.

Tranche	Number Outstanding	Exercise Price
1	569,373	$14.11
2	854,146	$22.56
3	1,423,743	$29.32
	2,847,262	

11. Share capital (Continued):

(e) Earnings per share:

Basic loss per share was calculated by dividing the net loss by the weighted average number of shares issued and outstanding over the period. Diluted net loss per share was calculated by reference to the fully diluted weighted average number of shares outstanding as determined using the treasury stock method and considering the dilutive effect, if any, of employee stock options (Note 11(c)) and Class C Warrants (Note 11(d)). For the years ending December 31, 2008 and 2007, these options and warrants were anti-dilutive.

12. Capital requirements:

The Company's strategy for managing capital is to maintain a capital position that provides financial flexibility and achieves growth with the objective of maximizing long-term shareholder value. Western's capital requirements typically include major new investments designed to increase net income and disbursements for other new equipment and ongoing enhancements, efficiency improvements, safety, and protection or extension of the life of equipment. Finally, significant expenditures are also required to fund new capital roads allowing access to timber stands for harvesting purposes.

The Company seeks to achieve a balance between the higher returns that may arise with higher levels of borrowing and the advantages and security provided by a sound capital position. The Company monitors the ratio of net debt to capitalization, targeting a ratio in the range of 30% to 45%. Net debt is defined as long-term debt plus amounts drawn on revolving credit lines, less cash and cash equivalents. Capitalization comprises net debt and shareholders' equity.

Changes to the capital structure may be made as strategic opportunities arise. In order to maintain or adjust the capital structure, the Company may issue new shares, source new debt, or sell assets to reduce debt. The Company has internal controls to ensure changes to the capital structure are properly reviewed and approved.

On March 14, 2008, the Company refinanced its term debt facilities (Note 7). Since refinancing the debt, the Company has repaid a total of $46.3 million of the long-term portion of the debt facility substantially from the cash proceeds of disposition of assets (Note 19). Pursuant to the financing agreement, term debt repayments will continue as asset sales are realized.

Under the new financing agreement, the Company is subject to financial covenants including maintaining a certain ratio of debt to capitalization. As at December 31, 2008, this ratio was within the limit prescribed in the agreement.

The Company is not subject to any statutory capital requirements. Under the Company's stock-based compensation plan, commitments exist to issue common shares.

There were no changes to the Company's approach to managing capital during the year.

13. Commitment and contingencies:

(a) Lumber duties and export tax:

Under the softwood lumber agreement (“SLA”) between Canada and the United States, the Company’s exports to the United States are assessed an export tax by the Canadian Government. The SLA has a term of seven years with provision for an extension of two years and for early termination by either Government after two years. The export tax rate varies according to the price of lumber based on the “Random Lengths Framing Lumber Composite Index” (“Index”) and ranges from zero percent when the Index is above US$355 per thousand board feet to 15% when the Index is under US$315 per thousand board feet.

The export tax only applies to the first US$500 per thousand board feet for any product sales. In addition, if the monthly volume of exports from the British Columbia coastal region exceeds a certain “Trigger Volume” as defined in the SLA, a “surge” mechanism will apply to increase the rate of the export tax for that month by 50% (for example the 15% export tax rate would become 22.5% for that month). Throughout the year ended December 31, 2008 the export tax was 15% and the company recorded an expense of $8.9 million (2007 - $15.7 million).

(b) Litigation and claims:

In the normal course of its business activities, the Company may be subject to a number of claims and legal actions that may be made by customers, suppliers and others in respect of which either provision has been made or for which no material liability is expected. The Company has a number of claims filed against it from logging contractors with respect to various operating issues. Certain of the claims are pending arbitration, mediation or appeal, while others have not yet reached this formal stage. Where the Company is not able to determine the outcome of these disputes no amounts have been accrued in these financial statements.

(c) Indemnity agreement:

As a result of the amalgamation of the Company with Cascadia Forest Products Ltd. (“Cascadia”), the Company has assumed Cascadia's obligation to indemnify an entity related to Brookfield Asset Management Inc. (“BAM”) if that entity incurs liability under a guarantee (the “Guarantee”) provided by it to a third party relating to the obligations of Cascadia arising out of the purchase by Cascadia of certain of its assets from the third party prior to the acquisition of Cascadia by the Company. The Guarantee is limited to $100.0 million. As security for its performance under this indemnity and as a result of the amalgamation, the Company has issued a debenture in favour of the related entity in the amount of $100.0 million which results in a charge over all of the Company’s real property and all of the Company’s present and after-acquired personal property. In the absence of any claims, the Guarantee terminates on May 30, 2011 and if there is no liability accruing to the guarantor thereunder at that time, the Company may request that the debenture be discharged.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

13. Commitment and contingencies (Continued):

(d) Long-term fibre supply agreements:

The Company has a number of long-term commitments to supply fibre to third parties including a 40 year agreement, entered into on March 17, 2006 (“40 Year Agreement”). As consideration for entering into the latter agreement the Company received a price premium of $80.0 million that will be earned as wood chips are delivered under the agreement. Upon execution, a non-refundable prepayment of the price premium of $35.0 million was received with the balance of $45.0 million set-off against the consideration due by the Company on its acquisition of the Englewood Logging Division from the same party to the fibre supply agreement. The Company recorded the price premium as deferred revenue (Note 1(f)) and has granted a first charge over the acquired assets (including a tree farm license with an allowable annual cut of 826,000 cubic metres, 6800 hectares of private timberlands and other capital improvements and equipment) to secure certain of these obligations.

In addition, certain of the fibre supply agreements have minimum volume requirements and may, in the case of a failure to supply the minimum volume, require the Company to 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 agreements. As Western takes 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 contractual obligations without incurring additional cost. The Company has not delivered the minimum volume of chips required under the 40 Year Agreement for the first three year period ending December 31, 2008. The Company is in discussions with the party to the contract on potential remedies or damages due, if any. The party to the contract has ninety days from January 30, 2009 to act on the security disclosed above. At this time the Company is unable to quantify the extent of additional cost, if any, or whether the party to the contract will act on its security.

(e) Operating leases:

Future minimum lease payments at December 31, 2008 under operating leases were as follows:

2009	$ 5.5
2010	2.9
2011	1.7
2012	1.2
2013	0.8
Thereafter	1.1
	$ 13.2

(f) Allowable annual cut reductions:

During 2008 a number of the Company’s tenures continued to have their allowable annual cut (“AAC”) levels temporarily reduced under Part 13 of the Forest Act. The AAC reductions were made to ensure that harvest rates remain at a sustainable level until land use planning is completed in the areas affected by the Part 13 orders. In the Queen Charlotte Islands the Tree Farm Licence (“TFL”) 39 AAC remained reduced by 293,000 m3. In the Central Coast the combined AACs of Forest Licences (“FL”) A16845 and A16847 remained reduced by 74,546 m3. Similarly FLs A19231 and A19244, which are both inside and outside of the Central Coast, had their AAC reductions maintained at 3,228 m3. If the Part 13 orders extend for more than four years from the date of issue or the Province’s land use

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

13. Commitment and contingencies (Continued):

planning process results in these reductions becoming permanent, then the Company has the ability to seek compensation from the Province for the reduced cutting rights thereafter.

(g) The Forest Revitalization Plan:

In January 2005, pursuant to terms of a settlement framework agreement negotiated in late 2004, the Company received $16.5 million in compensation for the loss of 685,216 cubic meters of AAC and 827 hectares of timber licences. Under this agreement, the Company also received an advance payment of $5.0 million towards compensation for improvements the Company and its predecessor made to Crown land in the take-back areas ($4.0 million was recorded as a reduction in capitalized roads and $1.0 million was recorded in accounts payable for future site obligations). In June 2008, the Company received proceeds of final compensation from the Province of British Columbia associated with the timber tenure take-back (Note 19).

14. Segmented information:

The Company is an integrated Canadian forest products company operating in one industry segment comprising the Company's timber harvesting, and lumber manufacturing for world-wide markets.

The Company's sales, based on the known origin of the customer, were as follows:

	2008	2007
Canada	$ 322.8	$ 392.7
United States	178.3	219.2
Asia	220.2	199.5
Europe	65.8	56.7
Other	27.7	22.4
	$ 814.8	$ 890.5

Substantially all of the Company's property, plant and equipment is located in British Columbia, Canada.

15. Employee future benefits:

The Company has several funded and unfunded defined benefit plans, a defined contribution pension plan and a group RRSP that provide pension benefits to substantially all salaried employees and certain hourly employees. In addition, the Company provides other unfunded retirement and post employment benefits to certain former salaried and hourly employees. The funded and unfunded defined benefit pension plans were closed to new entrants effective June 30, 2006. All new salaried employees are now provided with pension benefits through a defined contribution plan. The defined benefit plans are based on years of service and final average earnings. The Company's other post-employment benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for the year ended December 31, 2008 were $14.2 million (2007 - $13.2 million), consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to the forest industry union defined benefit plans.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

15. Employee future benefits (Continued):

In relation to defined benefit plans, the Company measures the fair value of plan assets and the accrued benefit obligations for accounting purposes as at December 31 of each year. The most recent actuarial valuations of the funded defined benefit pension plans were at December 31, 2007. The next actuarial valuation for both funded defined benefit plans will be no later than December 31, 2010.

Information about the Company's defined benefit salaried pension plans and other non-pension benefits, in aggregate, is as follows:

	Year ended December 31, 2008		Year ended December 31, 2007	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Plan assets:				
Fair value, beginning of year	$ 106.4	$ -	$ 109.7	$ -
Company contributions	3.8	0.5	3.0	0.5
Benefits paid	(7.9)	(0.5)	(8.2)	(0.5)
Actual return on assets	(12.5)	-	2.1	-
Resumption of PASCI employees	-	-	12.0	-
Settlements	-	-	(12.2)	-
Fair value, end of year	$ 89.8	$ -	$ 106.4	$ -
Accrued benefit obligation:				
Balance, beginning of year	$ 117.5	$ 7.2	$ 120.9	$ 9.7
Current service cost	2.7	-	3.0	-
Benefits paid	(7.9)	(0.5)	(8.2)	(0.5)
Interest cost	6.3	0.4	6.3	0.5
Curtailment gain	(0.3)	-	-	-
Resumption of PASCI employees	-	-	11.9	-
Reduction due to settlement	-	-	(12.2)	-
Special termination benefits	-	-	0.1	-
Actuarial loss (gain)	(20.1)	(1.1)	(4.3)	(2.5)
Balance, end of year	$ 98.2	$ 6.0	$ 117.5	$ 7.2
Funded status (end of year):				
Funded status deficit	$ (8.4)	$ (6.0)	$ (11.2)	$ (7.2)
Unamortized past service costs	0.3	-	0.5	-
Unamortized net actuarial loss (gain)	2.2	(3.2)	2.7	(2.2)
Balance sheet liability	$ (5.9)	$ (9.2)	$ (8.0)	$ (9.4)

Included in the above accrued benefit obligations and plan assets for salaried pension plans are accrued benefit obligations of $98.2 million (2007 - $117.5 million) and plan assets of $89.8 million (2007 - $106.4 million) in respect of plans with accrued benefit obligations in excess of plan assets.

Salaried pension plan assets and accrued benefit obligations at December 31, 2006 both exclude $12.0 million with respect to the former employees of a pulp mill that was sold by our predecessor in May 2004. The sale agreement provided that the acquirer of the pulp mill (“PASCI”) would establish a pension plan for the transferred employees and assets, calculated in accordance with a prescribed formula, and the accrued benefit obligations would be transferred to the new pension plan. The acquirer became insolvent before the pension plan could be established. In February 2007, the Company reached an agreement with the pension

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

15. Employee future benefits (Continued):

regulation authorities in British Columbia whereby the obligations to the individuals have been discharged in 2007 through a combination of annuity purchases from a life insurance company and lump sum transfers to approved retirement savings vehicles. For the purposes of accounting for the plans under CICA 3461, the obligations and assets in respect of these former employees have been reassumed as at January 1, 2007 and settlement accounting under Section 3461 has been applied as at April 30, 2007.

The following is a breakdown of the pension plan assets into their major investment categories:

	2008	2007
Equity securities	59%	56%
Debt securities	40%	37%
Other	1%	7%
	100%	100%

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2008	2007
Discount rate at beginning of year for pension and non-pension plans	5.55%	5.15%
Discount rate at end of year for pension and non-pension plans	7.33%	5.55%
Expected long-term return on assets of pension plans	7.00%	6.75%
Rate of compensation increase for all plans	2.90%	3.00%
Health care cost trend rate	7.0% for 2009 reducing to 4.5% in 2016	7.2% for 2008 reducing to 4.5% in 2016

The following table illustrates the sensitivity of the results for the non-pension plan to a ± 1% change in the assumed health care cost trend rate assumption:

	1% decrease	base cost	1% increase
Company service cost for 2008	$0.0	$0.0	$0.0
Interest cost for 2008	$0.4	$0.4	$0.4
Accrued benefit obligation as at December 31, 2008	$5.5	$6.0	$6.7

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

15. Employee future benefits (Continued):

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

	Year ended December 31, 2008		Year ended December 31, 2007	
	Salaried pension plans	Non-pension plans	Salaried pension plans	Non-pension plans
Defined benefit plans:				
Current service cost	$ 2.7	$ -	$ 3.0	$ -
Interest cost	6.3	0.4	6.3	0.5
Actual return on assets	12.5	-	(2.1)	-
Actuarial gain	(20.1)	(1.1)	(4.3)	(2.5)
Special termination benefits	-	-	0.1	-
Curtailment gain	(0.3)	-	-	-
Settlement loss	-	-	0.8	-
Difference between actual and expected return on plan assets:				
Return on plan assets	(19.5)	-	(5.4)	
Actuarial loss (gain)	20.1	1.0	4.3	2.5
Plan amendments	0.2	-	-	
Total for defined benefit plans	1.9	0.3	2.7	0.5
Defined contribution plans	2.5	-	1.9	-
Net periodic pension expense	$ 4.4	$ 0.3	$ 4.6	$ 0.5

In addition, unionized employees are members of industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. The pension expense for these plans is equal to the Company's contributions and for 2008 amounted to $7.4 million (2007 - $7.8 million).

16. Financial instruments:

The Company's financial assets include its cash and cash equivalents and accounts receivable. Cash and cash equivalents are designated as held-for-trading and measured at fair value. Accounts receivable are designated as loans and receivables and are measured at amortized cost using the effective interest rate method. The Company's financial liabilities comprise accounts payable and accrued liabilities and long-term debt. All financial instrument liabilities are designated as other financial liabilities and are measured at amortized cost using the effective interest rate method. The Company does not have any financial instruments classified as held for sale or available-for-sale.

The Company utilizes financial instruments in the normal course of business and takes action to mitigate the associated risks. However, Western regularly considers the use of currency hedges and other similar instruments to mitigate foreign currency exposure risk, and should it do so, would consider hedge accounting. The use of financial instruments exposes the Company to credit risk, liquidity risk, and market risk. Other than as described below, management does not consider the risks to be significant to the Company.

The Board of Directors has oversight responsibility for the Company's risk management framework. The Company identifies, analyzes and actively manages the financial market risks associated with changes in foreign exchange rates, interest rates and commodity prices. Western has established risk management

16. Financial instruments (Continued):

policies and controls to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor risks and adherence to limits.

The Company is exposed to credit risk in connection with its receivables from customers. The carrying amount of the Company's accounts receivable represents the maximum credit exposure. The Company is also exposed to currency risk in connection with its foreign currency denominated receivables from customers, predominantly in US dollars and to a lesser extent in Japanese yen, Australian dollars, and the Euro.

Sales transactions are made through the extension of credit to customers and are recorded at the point in time the sale is recognized. Accordingly, fluctuations in collectability may affect the carrying value of the underlying accounts receivable. Management balances the credit risk through rigorously and continually reviewing customer credit profiles. The Company has established policies and controls to review the creditworthiness of new customers, including review of credit ratings. Most lumber sales are conducted under standard industry terms and conditions and are insured by the Export Development Corporation. The Company regularly reviews the collectability of accounts receivable and makes provisions where the collectability is uncertain. Historically the Company's bad debts have been minimal and as at December 31, 2008, the Company had an allowance for doubtful customer accounts of $0.1 million.

As previously disclosed, certain sales transactions are denominated in foreign currencies, principally, the US dollar. Accordingly, fluctuations in foreign exchange rates may affect the carrying value of the underlying accounts receivable. As of December 31, 2008, the Company's accounts receivable denominated in US dollars totaled US$13.3 million. The Company estimates that an increase or decrease of one cent in the value of the Canadian dollar per US$1.00 would decrease or increase, respectively, current operating earnings by approximately $3.0 million to $4.0 million annually, and that an increase or decrease of 1% in the value of the Japanese Yen relative to the Canadian dollar would increase or decrease, respectively, current operating earnings by approximately $0.8 to $1.0 million.

The Company is also exposed to market risk in connection with the pricing for its products. On an annualized basis and in current circumstances, the Company estimates that an increase or decrease of one per cent in selling prices for all its products would increase or decrease, respectively, operating earnings by approximately $8 million annually. At this time, the Company has elected not to actively manage its exposure to commodity price risk.

Long-term debt is recorded at the principal amount less the net value of the associated financing fees. Financing fees are deferred and amortized over the life of the debt using the effective interest rate method. Accordingly, fluctuations in market interest rates may affect the carrying value of the debt. Management mitigates the interest rate risk associated with the long term debt through the utilization of floating interest rates. Based on the Company's debt structure at December 31, 2008, a change of 1% in interest rates would have increased or decreased annual net income by approximately $2.4 million.

From time to time the Company may recognize liabilities for the settlement of certain obligations. The amount recognized in the financial statements is based on management's best estimate given the facts available at the time the obligation was incurred. Accordingly, fluctuations in pricing and interest rates will

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

16. Financial instruments (Continued):

affect the ultimate cost to settle a given obligation. Management mitigates the associated pricing risk through regularly reviewing the assumptions used in the generation of the estimate.

Liabilities for ongoing operations are recorded in the financial statements at cost accrued to that point in time. Management mitigates any liquidity risk associated with the subsequent payment of these liabilities through the continual monitoring of expenditures and forecasting of liquidity resources.

17. Operating restructuring items:

Operating restructuring items for 2008 primarily relate to severance costs associated with the reduction in the number of the Company's salaried employees following the indefinite suspension of operations at two of the Company's sawmills and certain logging operations. Operating restructuring items for the year ended December 31, 2007, comprises the gain on the sale of the Company's log merchandiser facility less costs of timberlands restructuring.

18. Net interest expense:

	2008	2007
Revolving credit line	$ 5.3	$ 1.2
Long-term debt	9.3	19.6
Amortization of deferred financing costs	5.1	3.8
	$ 19.7	$ 24.6

19. Other income:

Other income of $21.3 million in 2008 mainly comprises gains on the disposal of non-core land and compensation payments received from the Province of British Columbia. The most significant disposal was the sale of the site of the Company's former New Westminster sawmill. Proceeds, less commission and other fees, totaled $39.8 million, generating a gain of $9.8 million. Three compensation payments from the Provincial Government were also received during the year. Two payments resolved outstanding issues between the Provincial Government and Western relating to remaining assets and liabilities on certain tenures affected by Forestry Revitalization Orders issued by the Minister of Forests between 2003 and 2005. A third payment was partial compensation for a permanent 84,000 m3 reduction made to the annual allowable cut of TFL 25 as well as for the expropriation of certain timber licences as a result of the creation of new Conservancies in the Central Coast. Other income of $2.5 million in 2007 included gains on sale of forestry and engineering assets.

(Tabular amounts expressed in millions of Canadian dollars, except per share amounts)

20. Discontinued operations:

In March 2006, the Company closed its Squamish mill located on 213 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 continue to be expensed as incurred. The real property is one of our portfolio of non-core assets and while site remediation is ongoing, the Company has listed the property for sale.

The following table provides additional information with respect to the discontinued operations:

	2008	2007
Net income (loss) from discontinued operations	$ (5.2)	$ 1.3
Cash provided (used) by discontinued operations	$ (4.3)	$ (2.2)

21. Related party transactions:

In addition to the related party transactions identified elsewhere in these consolidated financial statements, the Company has certain arrangements with entities related to Brookfield Asset Management ("BAM") to provide financing, acquire and sell logs, lease certain facilities, provide access to roads and other areas, and acquire services including insurance, all in the normal course and at market rates or at cost. The following table summarizes these transactions during the year ended December 31, 2008:

	2008	2007
Costs incurred for:		
Log purchases	$ 18.5	$ 16.4
Interest on long-term debt	$ 3.2	$ 17.3
Other	7.1	9.1
	$ 28.8	$ 42.8
Income received for:		
Log sales	$ 0.6	$ 5.7
Other	0.2	1.1
	$ 0.8	$ 6.8

The Company also owns a 50% interest, with an entity related to BAM owning the other 50%, in a company that, until May, 2008, provided helicopter services. The operations of the helicopter service company were funded based on usage. For the five months of operations in 2008 the Company paid $0.2 million (2007 – $0.8 million) on account thereof. Since ceasing operations in May 2008 the helicopter services company has sold the majority of its assets and remitted $0.5 million by way of a dividend to the Company. The helicopter service company will be wound up following the liquidation of its remaining assets and liabilities.

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