



Western Forest Products Inc.
DEFINING A HIGHER STANDARD™

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

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

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 1.9	\$ 2.1
Trade and other receivables ^(Note 18)	89.6	23.4
Inventory ^(Notes 5 and 18)	190.8	132.0
Prepaid expenses and other assets	13.1	14.7
Income taxes receivable	-	16.7
	295.4	188.9
Non-current assets:		
Property, plant and equipment ^(Note 6)	397.1	414.9
Timber licenses	106.0	109.2
Biological assets ^(Note 7)	54.8	56.0
Other assets	13.7	13.4
Deferred income tax assets	0.7	0.1
	\$ 867.7	\$ 782.5
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 121.7	\$ 35.0
Long-term debt ^(Note 8)	0.3	-
Lease liabilities	6.1	4.9
Reforestation obligation ^(Note 10)	8.0	8.7
Deferred revenue ^(Note 17)	2.0	2.0
	138.1	50.6
Non-current liabilities:		
Long-term debt ^(Note 8)	121.0	113.4
Lease liabilities	15.5	15.0
Reforestation obligation ^(Note 10)	14.1	14.7
Deferred income tax liabilities	35.7	37.0
Other liabilities ^(Note 11)	22.3	18.8
Deferred revenue ^(Note 17)	48.9	50.4
	395.6	299.9
Equity:		
Share capital ^(Note 12)	479.9	479.9
Contributed surplus	10.2	9.6
Translation reserve	1.3	(0.9)
Deficit	(20.3)	(6.8)
Total equity attributable to equity shareholders of the Company	471.1	481.8
Non-controlling interest ^(Note 19)	1.0	0.8
	472.1	482.6
	\$ 867.7	\$ 782.5

Commitments and contingencies ^(Note 13)

See accompanying notes to these unaudited condensed consolidated interim financial statements.

Approved on behalf of the Board:

"Michael T. Waites"

Chair

"Don Demens"

President & Chief Executive Officer

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Revenue ^(Note 17)	\$ 290.6	\$ 141.6	\$ 646.0	\$ 727.6
Costs and expenses:				
Cost of goods sold ^(Note 18)	227.8	144.8	544.5	638.2
Freight	22.4	9.5	48.8	59.0
Export tax ^(Note 13)	11.0	5.5	22.6	24.4
Selling and administration ^(Note 18)	10.4	6.0	24.9	23.1
	<u>271.6</u>	<u>165.8</u>	<u>640.8</u>	<u>744.7</u>
Operating income (loss) prior to restructuring and other items	<u>19.0</u>	<u>(24.2)</u>	<u>5.2</u>	<u>(17.1)</u>
Operating restructuring items	(0.5)	(0.3)	(1.5)	(1.4)
Other income (expense)	(0.6)	0.7	1.2	(0.1)
Operating income (loss)	<u>17.9</u>	<u>(23.8)</u>	<u>4.9</u>	<u>(18.6)</u>
Finance costs	(2.0)	(1.9)	(6.4)	(5.6)
Income (loss) before income taxes	<u>15.9</u>	<u>(25.7)</u>	<u>(1.5)</u>	<u>(24.2)</u>
Current income tax recovery ^(Note 9)	-	9.6	0.1	9.6
Deferred income tax (expense) recovery ^(Note 9)	(4.4)	(2.6)	0.4	(2.9)
	<u>(4.4)</u>	<u>7.0</u>	<u>0.5</u>	<u>6.7</u>
Net income (loss)	<u>11.5</u>	<u>(18.7)</u>	<u>(1.0)</u>	<u>(17.5)</u>
Net income (loss) attributable to equity shareholders of the Company	11.3	(18.7)	(1.2)	(17.3)
Net income (loss) attributable to non-controlling interest ^(Note 19)	0.2	-	0.2	(0.2)
	<u>11.5</u>	<u>(18.7)</u>	<u>(1.0)</u>	<u>(17.5)</u>
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss) ^(Note 14)	(0.7)	0.4	(5.4)	(0.9)
Income tax recovery (expense) ^(Note 9)	0.3	(0.1)	1.5	0.3
Total items that will not be reclassified to profit or loss	<u>(0.4)</u>	<u>0.3</u>	<u>(3.9)</u>	<u>(0.6)</u>
Items that may be reclassified to profit or loss:				
Foreign currency translation differences for foreign operations	(1.4)	0.7	2.2	0.3
Total comprehensive income (loss)	<u>\$ 9.7</u>	<u>\$ (17.7)</u>	<u>\$ (2.7)</u>	<u>\$ (17.8)</u>
Earnings (loss) per share (in dollars)				
Basic and diluted ^(Note 15)	\$ 0.03	\$ (0.05)	\$ -	\$ (0.05)

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

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings (Deficit)	Non- controlling Interest	Total Equity
Balance at December 31, 2018	\$ 491.1	\$ 9.1	\$ -	\$ 72.7	\$ -	\$ 572.9
Net loss	-	-	-	(17.3)	(0.2)	(17.5)
Other comprehensive income (loss):						
Defined benefit plan actuarial loss recognized ^(Note 14)	-	-	-	(0.9)	-	(0.9)
Income tax recovery on other comprehensive loss ^(Note 9)	-	-	-	0.3	-	0.3
Foreign currency translation differences for foreign operations	-	-	0.3	-	-	0.3
Total comprehensive income (loss)	-	-	0.3	(17.9)	(0.2)	(17.8)
Share-based payment transactions recognized in equity	-	0.5	-	-	-	0.5
Non-controlling interest ^(Note 19)	-	-	-	5.0	1.2	6.2
Exercise of stock options ^(Note 12)	0.1	(0.1)	-	-	-	-
Repurchase of shares ^(Note 12)	(11.3)	-	-	(4.9)	-	(16.2)
Dividends	-	-	-	(25.5)	-	(25.5)
Total transactions with owners, recorded directly in equity	(11.2)	0.4	-	(25.4)	1.2	(35.0)
Balance at September 30, 2019	\$ 479.9	\$ 9.5	\$ 0.3	\$ 29.4	\$ 1.0	\$ 520.1
Balance at December 31, 2019	\$ 479.9	\$ 9.6	\$ (0.9)	\$ (6.8)	\$ 0.8	\$ 482.6
Net income (loss)	-	-	-	(1.2)	0.2	(1.0)
Other comprehensive income (loss):						
Defined benefit plan actuarial loss recognized ^(Note 14)	-	-	-	(5.4)	-	(5.4)
Income tax recovery on other comprehensive loss ^(Note 9)	-	-	-	1.5	-	1.5
Foreign currency translation differences for foreign operations	-	-	2.2	-	-	2.2
Total comprehensive income (loss)	-	-	2.2	(5.1)	0.2	(2.7)
Share-based payment transactions recognized in equity ^{(Note 12(b))}	-	0.6	-	-	-	0.6
Dividends	-	-	-	(8.4)	-	(8.4)
Total transactions with owners, recorded directly in equity	-	0.6	-	(8.4)	-	(7.8)
Balance at September 30, 2020	\$ 479.9	\$ 10.2	\$ 1.3	\$ (20.3)	\$ 1.0	\$ 472.1

See accompanying notes to these unaudited condensed consolidated interim financial statements.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ 11.5	\$ (18.7)	\$ (1.0)	\$ (17.5)
Items not involving cash:				
Amortization of property, plant and equipment ^(Note 6)	13.0	8.2	36.3	30.0
Amortization of timber licenses	1.0	1.0	2.9	3.0
Gain on disposal of assets	(0.3)	(0.4)	(1.9)	(0.5)
Change in fair value of biological assets ^(Note 7)	0.6	(1.4)	1.2	0.9
Change in reforestation obligation ^(Note 10)	(0.7)	(2.2)	(1.2)	(2.5)
Amortization of deferred revenue	(0.5)	(0.5)	(1.5)	(1.5)
Share-based compensation, including mark-to-market adjustment	0.6	(1.0)	0.5	(1.2)
Net finance costs	2.0	1.9	6.4	5.6
Income tax expense (recovery) ^(Note 9)	4.4	(7.0)	(0.5)	(6.7)
Change in pension liability ^(Note 14)	(0.4)	(0.4)	(1.7)	(2.2)
Export tax receivable	0.1	(0.2)	(0.1)	0.1
Other	(0.3)	(1.3)	-	(1.9)
Income taxes refunded (paid)	5.3	6.1	16.7	(17.0)
	<u>36.3</u>	<u>(15.9)</u>	<u>56.1</u>	<u>(11.4)</u>
Changes in non-cash working capital items:				
Trade and other receivables	5.6	68.1	(64.1)	60.5
Inventory	(25.4)	62.6	(58.8)	31.2
Prepaid expenses and other assets	5.0	(5.7)	1.6	4.4
Accounts payable and accrued liabilities	18.8	(86.8)	85.2	(81.0)
	<u>4.0</u>	<u>38.2</u>	<u>(36.1)</u>	<u>15.1</u>
	<u>40.3</u>	<u>22.3</u>	<u>20.0</u>	<u>3.7</u>
Investing activities:				
Additions to property, plant and equipment ^(Note 6)	(4.7)	(3.7)	(10.7)	(35.6)
Acquisition of assets from Columbia Vista Corporation	-	-	-	(37.7)
Proceeds from disposal of assets	0.1	1.5	1.7	2.3
Proceeds from disposition of minority interest in subsidiary, net ^(Note 19)	-	0.8	-	7.0
	<u>(4.6)</u>	<u>(1.4)</u>	<u>(9.0)</u>	<u>(64.0)</u>
Financing activities:				
Interest paid	(1.5)	(2.2)	(4.9)	(4.2)
Draw on (repayment of) credit facility ^(Note 8)	(32.8)	(7.5)	5.6	105.8
Repayment of long-term equipment loan ^(Note 8)	(0.1)	-	(0.1)	-
Payment of lease liabilities	(1.5)	(1.1)	(3.4)	(2.8)
Repurchase of shares	-	(1.9)	-	(15.9)
Dividends	-	(8.4)	(8.4)	(25.5)
Proceeds from exercise of stock options, net	-	-	-	(0.4)
	<u>(35.9)</u>	<u>(21.1)</u>	<u>(11.2)</u>	<u>57.0</u>
Decrease in cash and cash equivalents	(0.2)	(0.2)	(0.2)	(3.3)
Cash and cash equivalents, beginning of period	2.1	5.3	2.1	8.4
Cash and cash equivalents, end of period	<u>\$ 1.9</u>	<u>\$ 5.1</u>	<u>\$ 1.9</u>	<u>\$ 5.1</u>

See accompanying notes to these unaudited condensed consolidated interim financial statements.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia and Washington State. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, British Columbia, Canada. The unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2020 and 2019 comprise the financial results of the Company and its subsidiaries. The Company's primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber and value-added lumber remanufacturing. The Company is listed on the Toronto Stock Exchange ("TSX"), under the symbol WEF.

2. Basis of preparation

Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting* ("IAS 34"). Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as at and for the year ended December 31, 2019. These interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain prior period comparative figures have been reclassified to conform to the current period's presentation. References to the three month and nine months ended September 30 may be referred to as Q3 and YTD, respectively.

The interim financial statements were authorized for issue by the Board of Directors on November 5, 2020.

Basis of measurement

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

- Biological assets are measured at fair value less costs to sell;
- Liabilities for cash-settled share-based payment transactions are measured at reporting date fair value;
- Equity-settled share-based payments are measured at fair value at grant date;
- Derivative financial instruments are measured at fair value at each reporting date;
- The defined benefit pension liability is recognized as the net total of the fair value of the plan assets, less the present value of the defined benefit obligation; and,
- Reforestation obligations and lease liabilities are measured at the discounted value of expected future cash flows.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is the Company's functional currency. All amounts are presented in millions of Canadian dollars, unless otherwise indicated.

Use of estimates and judgements

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

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the interim financial statements, are disclosed in the Company's annual consolidated financial statements as at and for the year ended December 31, 2019.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

2. Basis of preparation (continued)

Risks and uncertainties

The Company is subject to risks and uncertainties as a result of the novel Coronavirus pandemic (“COVID-19”), an infectious disease outbreak that has had a significant impact on the global economy. The extent of the impact of the COVID-19 pandemic on the Company’s business is highly uncertain and difficult to predict, as conditions and responses continue to evolve and expose the Company to a number of risks and uncertainties.

State of Emergency declarations and other restrictions relating to travel, business operations and isolation have been made by governing bodies in the regions that Western operates. A contagious disease such as COVID-19 could adversely impact the Company by causing operating, supplier and service provider delays or disruption negatively affecting customer demand and pricing for our products, creating labour shortages, or causing shipping and product delivery interruptions and shutdowns. Furthermore, capital markets and the global economy have been negatively impacted by the pandemic, which could result in an economic recession and may further negatively impact supply chains and slow the demand for or affect the price of the Company’s products. Although there is significant government fiscal stimulus, the overall effectiveness of these policies and programs remains uncertain.

The future impact of the COVID-19 pandemic on the Company will depend on a number of factors that are uncertain and cannot be predicted including, but not limited to, the duration and severity of the pandemic, further actions taken to contain the pandemic or new information that may emerge concerning the spread and severity of COVID-19. No reliable estimate of the future impact on the Company’s operations and financial results can be made at this time and the Company’s future operating results, liquidity and valuation of long-lived assets could be adversely impacted.

3. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2019 except for adoption of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, as described in Note 18 Government grants.

4. Seasonality of operations

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

5. Inventory

	September 30, 2020	December 31, 2019
Gross carrying value of inventory		
Logs	\$ 122.7	\$ 97.5
Lumber	65.0	35.4
Supplies and other	16.4	15.6
	<u>\$ 204.1</u>	<u>\$ 148.5</u>
Provisions		
Logs	\$ (7.9)	\$ (11.0)
Lumber	(4.9)	(5.0)
Supplies and other	(0.5)	(0.5)
	<u>\$ (13.3)</u>	<u>\$ (16.5)</u>
Total carrying value of inventory	<u>\$ 190.8</u>	<u>\$ 132.0</u>

The carrying amount of inventory recorded at net realizable value was \$45.9 million at September 30, 2020 (December 31, 2019: \$47.5 million), with the remaining inventory recorded at cost.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

5. Inventory (continued)

For the three and nine months ended September 30, 2020, \$227.8 million and \$544.5 million (Q3 2019 and YTD 2019: \$144.8 million and \$638.2 million, respectively) of inventory was charged to cost of goods sold, respectively. This includes a decrease in the provision for write-down to net realizable value of \$4.3 million and \$3.2 million for the three and nine months ended September 30, 2020, respectively (Q3 2019 and YTD 2019: decrease of \$1.6 million and an increase of \$0.4 million, respectively).

6. Property, plant and equipment

Cost	Buildings & equipment	Logging roads	Land	Right of use assets	Total
Balance at January 1, 2019	\$ 413.7	\$ 204.8	\$ 89.2	\$ -	\$ 707.7
Adoption of IFRS 16, Leases	-	-	-	17.0	17.0
Additions	27.80	9.4	-	6.8	44.0
Assets acquired from Columbia Vista Corporation	21.0	-	10.6	0.8	32.4
Disposals	(1.1)	-	(5.2)	(0.6)	(6.9)
Effect of movements in exchange rates	(0.6)	-	(0.3)	-	(0.9)
Balance at December 31, 2019	460.8	214.2	94.3	24.0	793.3
Additions	6.9	5.9	0.1	6.7	19.7
Disposals	(1.1)	-	(2.0)	(0.3)	(3.4)
Transfers	(0.6)	0.6	-	-	-
Effect of movements in exchange rates	0.9	-	0.4	(0.3)	1.0
Balance at September 30, 2020	\$ 466.9	\$ 220.7	\$ 92.9	\$ 30.1	\$ 810.6
Accumulated amortization and impairments					
Balance at January 1, 2019	\$ 167.5	\$ 170.0	\$ 0.3	\$ -	\$ 337.8
Amortization	26.6	10.0	-	4.8	41.4
Disposals	(0.9)	-	-	(0.2)	(1.1)
Impairments	0.3	-	-	-	0.3
Balance at December 31, 2019	193.5	180.0	0.3	4.6	378.4
Amortization	22.9	8.9	-	4.5	36.3
Disposals	(1.1)	-	-	(0.1)	(1.2)
Effect of movements in exchange rates	0.1	-	-	(0.1)	-
Balance at September 30, 2020	\$ 215.4	\$ 188.9	\$ 0.3	\$ 8.9	\$ 413.5
Carrying amounts					
At December 31, 2019	\$ 267.3	\$ 34.2	\$ 94.0	\$ 19.4	\$ 414.9
At September 30, 2020	\$ 251.5	\$ 31.8	\$ 92.6	\$ 21.2	\$ 397.1

7. Biological assets

Reconciliation of carrying amount

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Carrying value, beginning of period	\$ 55.3	\$ 56.0	\$ 56.0	\$ 58.3
Change in fair value due to growth and pricing	0.6	1.4	1.0	4.2
Harvested timber transferred to inventory	(1.1)	-	(2.2)	(5.1)
Carrying value, end of period	\$ 54.8	\$ 57.4	\$ 54.8	\$ 57.4

Under IAS 41, *Agriculture*, the Company's private timberlands are classified as a growing forest, with the standing timber recorded as a biological asset at fair value less costs to sell at each reporting date.

The land underlying the standing timber is considered a component of property, plant and equipment, and is recorded at cost less accumulated impairment. Roads and bridges on the land underlying the standing timber are considered a component of property, plant and equipment and are recorded at cost less accumulated amortization.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

7. Biological assets (continued)

At September 30, 2020, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2019: 23,293 hectares) of land owned by the Company; standing timber on these timberlands ranged from newly planted cut-blocks to mature forest available for harvest.

During the three and nine months ended September 30, 2020, the Company harvested and scaled approximately 62,620 cubic metres ("m³") and 146,339 m³ of logs, respectively (Q3 2019 and YTD 2019: no harvest and 132,897 m³, respectively), from its private timberlands, which had a fair value less costs to sell of \$104 per m³ and \$120 per m³, respectively at the date of harvest (YTD 2019: \$115 per m³).

Measurement of fair values

The Company's standing timber of \$54.8 million is measured at fair value less costs to sell. Fair value is determined using a discounted cash flow valuation technique, which considers the present value of the net cash flows expected to be generated over the next 25 years by the individual private timberlands using a harvest optimization approach and discounted using a risk-adjusted discount rate.

At each interim reporting date, the Company examines market and asset conditions to determine if changing conditions would yield a change in fair value less costs to sell. The Company reviewed the underlying assumptions impacting its standing timber as at September 30, 2020 and noted no indication that a full re-assessment of fair value less costs to sell, or of the previously applied significant unobservable inputs, was warranted at that date.

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

8. Long-term debt

	September 30, 2020	December 31, 2019
Credit Facility drawings	\$ 119.6	\$ 114.1
Equipment term loan	2.2	-
Total debt	121.8	114.1
Less transaction costs	(0.5)	(0.7)
Less current portion, equipment term loan	(0.3)	-
Long-term debt	<u>\$ 121.0</u>	<u>\$ 113.4</u>
Available Credit Facility	\$ 250.0	\$ 250.0
Drawings on Credit Facility	(119.6)	(114.1)
Outstanding letters of credit	(4.4)	(1.1)
Unused portion of Credit Facility	<u>\$ 126.0</u>	<u>\$ 134.8</u>

The Company's syndicated Credit Facility (the "Credit Facility") provides for a maximum borrowing amount of \$250 million, has a maturity date of August 1, 2022, and includes an accordion feature which allows the Company to increase the aggregate amount available to \$350 million, subject to lender approval.

The Credit Facility is available in Canadian dollars by way of Prime Rate Advances, Bankers' Acceptances or Letters of Credit and in US dollars by way of US Base Rate Advances, US Prime Rate Advances, LIBOR Advances or Letters of Credit. Interest on the Credit Facility is indexed to benchmark rates and varies depending on the nature of each draw and certain financial benchmarks.

The Credit Facility is secured by a general security agreement, excluding specified properties and their related assets, and is subject to certain financial covenants, including maximum debt to total capitalization ratios.

The Company's Credit Facility was drawn by \$119.6 million bearing a variable interest rate of 4.45% (December 31, 2019: 5.45%) as at September 30, 2020. The Company was in compliance with its financial covenants as at September 30, 2020.

In the first quarter, 2020, Western entered a \$2.3 million term loan agreement to finance an equipment purchase. The loan bears interest at 4.5% and matures March 16, 2026.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019

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

9. Income taxes

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Current income tax recovery	\$ -	\$ 9.6	\$ 0.1	\$ 9.6
Deferred income tax recovery (expense)	(4.4)	(2.6)	0.4	(2.9)
	<u>\$ (4.4)</u>	<u>\$ 7.0</u>	<u>\$ 0.5</u>	<u>\$ 6.7</u>

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

	Three months ended September 30,		Nine months ended June 30,	
	2020	2019	2020	2019
Income (loss) before income taxes	<u>\$ 15.9</u>	<u>\$ (25.7)</u>	<u>\$ (1.5)</u>	<u>\$ (24.2)</u>
Income tax recovery (expense) at statutory rate of 27%	(4.3)	6.9	0.4	6.5
Permanent differences	(0.1)	0.1	0.1	0.2
	<u>\$ (4.4)</u>	<u>\$ 7.0</u>	<u>\$ 0.5</u>	<u>\$ 6.7</u>

In addition to the amounts recorded to net income, deferred tax recoveries of \$0.3 million and \$1.5 million were recorded in other comprehensive income (loss) for the three and nine months ended September 30, 2020, respectively, (Q3 2019 and YTD 2019: expense of \$0.1 million and recovery of \$0.4 million, respectively) in relation to actuarial gains (losses) on employee future benefit obligations.

10. Reforestation obligation

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Reforestation obligation, beginning of period	\$ 22.9	\$ 25.4	\$ 23.4	\$ 25.7
Reforestation provision charged	2.0	0.4	5.1	4.9
Reforestation expenditures	(2.9)	(2.7)	(6.5)	(7.6)
Unwind of discount	0.1	0.1	0.1	0.2
Reforestation obligation, end of period	<u>22.1</u>	<u>23.1</u>	<u>22.1</u>	<u>23.1</u>
Less current portion	8.0	8.8	8.0	8.8
	<u>\$ 14.1</u>	<u>\$ 14.3</u>	<u>\$ 14.1</u>	<u>\$ 14.3</u>

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.21% to 0.56%. The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at September 30, 2020 is \$22.4 million (December 31, 2019: \$24.3 million). Reforestation expense incurred on current production is included in cost of goods sold and the unwinding of discount, or accretion cost, is included in finance costs.

11. Other liabilities

	September 30, 2020	December 31, 2019
Employee future benefits obligation ^(Note 14)	\$ 19.0	\$ 15.3
Environmental accruals	1.6	1.9
Other	1.7	1.6
	<u>\$ 22.3</u>	<u>\$ 18.8</u>

Western Forest Products Inc.

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12. Share capital

(a) Issued and outstanding share capital

The transactions in share capital are described below:

	Number of Common Shares	Amount
Balance at December 31, 2018	383,740,519	\$ 491.1
Exercise of stock options	330,000	0.1
Repurchase of shares	(8,873,353)	(11.3)
Balance at December 31, 2019 and September 30, 2020	<u>375,197,166</u>	<u>\$ 479.9</u>

On August 7, 2020, Western renewed its Normal Course Issuer Bid ("NCIB") permitting the purchase and cancellation of up to 18,759,858 of the Company's common shares or approximately 5% of the common shares issued and outstanding as of August 6, 2020. No purchases have been made under the NCIB, with 18,759,858 common shares remaining available to be purchased as at September 30, 2020. The NCIB expires on August 10, 2021.

(b) Stock option 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 30,000,000 common shares, of which 5,183,975 remain available for future issuance.

Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one common share, subject to adjustments, at a price of not less than the closing price of the common shares on the TSX on the day immediately preceding the grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant. All outstanding options are only exercisable when the share price has been equal to or exceeds \$0.70 for the 60 consecutive days preceding the date of exercise on a volume weighted average price basis.

On March 6, 2020, the Company granted 5,260,670 options with a fair value of \$0.8 million as determined by a Black-Scholes option pricing model, using the assumptions of an average exercise price of \$1.05 per share, risk free interest rate of 1.08%, a volatility rate of 39.74%, and an expected life of seven years. At September 30, 2020, 18,317,799 options (December 31, 2019: 13,057,129) were outstanding under the Company's Option Plan, with a weighted average exercise price of \$1.58 per share.

	Nine months ended September 30, 2020		Nine months ended September 30, 2019	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of period	13,057,129	\$ 1.80	11,965,357	\$ 1.73
Granted	5,260,670	\$ 1.05	2,487,950	\$ 1.94
Exercised	-	\$ -	(600,000)	\$ 0.22
Forfeited	-	\$ -	(476,118)	\$ 2.33
Outstanding, end of period	<u>18,317,799</u>	<u>\$ 1.58</u>	<u>13,377,189</u>	<u>\$ 1.80</u>

For the three and nine months ended September 30, 2020, the Company recorded a compensation expense for stock options of \$0.2 million and \$0.6 million, respectively (Q3 2019 and YTD 2019: compensation expense of \$0.2 million and \$0.5 million, respectively).

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

The Company has a DSU Plan for directors and, until January 1, 2015, allowed grants to designated executive officers.

Directors may elect to take a portion of their fees in the form of DSUs, with the number of DSUs allotted determined by dividing the elected amount of quarterly fees by the closing share price on the fifth day following each quarter end. All DSU holders are entitled to DSU dividends equivalent to the dividend they would have received if they held their DSUs as common shares. The DSU allotment is determined by dividing the dollar value of the dividend each DSU holder would have received by the closing share price on the dividend payment date.

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12. Share capital (continued)

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

	Nine months ended September 30, 2020		Nine months ended September 30, 2019	
	Number of DSU	Weighted average unit value	Number of DSU	Weighted average unit value
Outstanding, beginning of period	1,739,691	\$ 1.33	1,468,754	\$ 1.32
Granted	611,209	\$ 0.80	221,279	\$ 1.54
Redeemed	-	\$ -	(29,183)	\$ 2.10
Outstanding, end of period	2,350,900	\$ 1.19	1,660,850	\$ 1.34

For the three and nine months ended September 30, 2020, the Company recorded a compensation expense for DSUs of \$0.2 million and compensation recovery of \$0.2 million, respectively (Q3 2019 and YTD 2019: compensation recovery of \$0.6 million and \$1.0 million, respectively), with corresponding adjustments to accounts payable and accrued liabilities.

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

The Company has established a PSU Plan for designated officers and employees of the Company. Under the terms of the PSU Plan, participants are granted a number of PSUs based on a target award divided by the closing value of the Company's common shares at the effective date of grant. All PSU holders are entitled to PSU dividends equivalent to the dividend they would have received if they held their PSUs as common shares.

Performance targets are set by the Management Resource and Compensation Committee of the Company's Board of Directors. The number of PSUs which will ultimately vest will be the original number of PSUs granted plus PSUs equal to the value of accrued notional dividends over the performance period. For dividends, the number of PSUs allotted is determined by dividing the total dollar value of the dividend each PSU holder would have received by the closing share price on the trading day immediately after the dividend date of record. The redemption value of vested PSUs will be in a range from 0% to 200% based on return on capital employed over a three year performance period.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Outstanding, beginning of period	2,838,304	1,899,697	1,852,815	1,715,332
Granted	-	36,213	1,646,730	797,708
Redeemed	-	-	(661,241)	(577,130)
Outstanding, end of period	2,838,304	1,935,910	2,838,304	1,935,910

For the three and nine months ended September 30, 2020, the Company recorded a compensation expense for PSUs of a \$0.2 amount and \$0.1 million, respectively (Q3 2019 and YTD 2019: compensation recovery of \$0.6 million and \$0.7 million, respectively), with corresponding adjustments to accounts payable and accrued liabilities and other liabilities.

(e) Restricted share unit ("RSU") plan

In 2020, the Company established an RSU Plan for designated officers and employees of the Company. Under the terms of the RSU Plan, participants are granted a number of RSUs based on a target award divided by the value of the Company's common shares at the effective date of grant. All RSU holders are entitled to RSU dividends equivalent to the dividend they would have received if they held their RSUs as common shares.

The number of RSUs which will ultimately vest will be the original number of RSUs granted plus RSUs equal to the value of accrued notional dividends over the three-year vesting period. For dividends, the number of RSUs allotted is determined by dividing the total dollar value of the dividend each RSU holder would have received, by the closing share price on the trading day immediately after the dividend date of record.

Western Forest Products Inc.

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12. Share capital (continued)

(e) Restricted share unit ("RSU") plan continued

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Outstanding, beginning of period	357,060	-	-	-
Granted	-	-	357,060	-
Outstanding, end of period	357,060	-	357,060	-

For the three and nine months ended September 30, 2020, the Company recorded expenses of a negligible amount and \$0.1 million, respectively (Q3 2019 and YTD 2019, \$nil) with corresponding adjustments to other liabilities.

13. Commitments and contingencies

Long-term fibre supply agreements

Certain of the Company's long-term fibre supply agreements with third parties have minimum volume requirements and may, in the case of a failure to produce the minimum annual volume, require the Company to conduct whole log chipping or sell saw logs, which could reduce log availability for our sawmills, source the deficiency from third parties at additional cost or pay a penalty calculated based on the provisions contained in the relevant agreement. Should Western take significant market related curtailments in its sawmills, its chip production would decline, increasing the risk that the Company may not meet its contractual obligations if it is not possible to secure replacement chips on the open market.

The Company had met all fibre commitments as at December 31, 2019 and, based on chip and pulp log volumes supplied year-to-date and the exercise of force majeure provisions in connection with strike action by the United Steelworkers Local 1-1937, the Company anticipates satisfying annual fibre commitments for the year ending December 31, 2020.

Litigations and claims

In the normal course of its business activities, the Company may be subject to a number of claims and legal actions that may be made by customers, unions, suppliers and others in respect of which either provision has been made or for which no material liability is expected. Where the Company is not able to determine the outcome of these disputes no amounts have been accrued in these interim financial statements.

Key dates in the softwood lumber duty dispute

On October 12, 2015, the softwood lumber agreement between Canada and the US, under which Canadian softwood lumber shipments to the US were assessed an export tax by the Canadian Government, expired.

From 2017 onward, as a result of petitions filed by the US Lumber Coalition and others and determinations made by the US International Trade Commission, the US Department of Commerce ("DoC") imposed Countervailing ("CV") and Anti-dumping duties ("AD") on Canadian softwood lumber shipments to the US.

On February 3, 2020, the DoC issued preliminary revised rates in the CV and AD first administrative review of shipments for the years ended December 31, 2017 and 2018. The DoC may revise these rates between preliminary and the final determination. On July 21, 2020, the DoC announced a second COVID-19 administrative review extension of the deadline for final rate determination to November 23, 2020. Cash deposits continue at the combined duty rate of 20.23% until the final determinations are published, after which the 2018 rate will apply.

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13. Commitments and contingencies (continued)

Key dates in the softwood lumber duty dispute (continued)

The following table summarizes the cash deposit rates in effect and the preliminary revised rates published on February 3, 2020.

	Nine months ended September 30 2020	Years ended December 31,		
		2019	2018	2017
Cash deposit rate, CVD	14.19%	14.19%	14.19%	14.19%
Cash deposit rate, AD	6.04%	6.04%	6.04%	6.04%
Cash deposit rate, combined	20.23%	20.23%	20.23%	20.23%
Preliminary revised rate, CVD			6.55%	6.71%
Preliminary revised rate, AD			1.66%	1.66%
Preliminary revised rate, combined			8.21%	8.37%

US lumber duties and export tax

Cash deposits for CV were required for lumber imports to the US effective April 28, 2017 through August 25, 2017, and from December 28, 2017 onwards.

Cash deposits for AD were required for lumber imports to the US effective June 30, 2017 until December 26, 2017, and from December 28, 2017 onwards.

In the fourth quarter, 2017, the Company recorded an export tax recovery of US\$2.8 million (CAD\$3.5 million) arising from the difference between export duties paid at preliminary determination rates and the latest final duty rates. A corresponding receivable was recognized in other assets in the Statement of Financial Position. This export tax receivable was revalued to \$3.7 million at September 30, 2020 as a result of foreign exchange (December 31, 2019: \$3.6 million).

As at September 30, 2020, the Company had paid \$113.9 million of duties, all of which remain held in trust by U.S. Department of Treasury. All duty deposits except \$3.7 million noted above have been expensed at the cash deposit rates currently in effect, with no adjustments recorded to reflect preliminary revised rates.

Manufactured Forest Products Regulation

On January 21, 2020, the British Columbia provincial government (the "Government") announced amendments to the Manufactured Forest Products Regulation (the "Regulation") to require lumber made from Western Red Cedar ("WRC") and Cypress ("CYP") be fully manufactured to be eligible for export. On September 16, 2020 the Government provided additional information with respect to implementation of amendments to the Regulation, including the application of a tax on WRC and CYP exported from the British Columbia Coast to any location within 3,000 miles. The amount of the tax varies depending upon the extent of processing applied to the lumber before it is exported. These changes were effective September 30, 2020.

14. Employee future benefits

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

	September 30, 2020	December 31, 2019
Present value of obligations	\$ 132.7	\$ 128.4
Fair value of plan assets	(113.7)	(113.1)
Liability recognized in the Statement of Financial Position ^(Note 11)	\$ 19.0	\$ 15.3

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14. Employee future benefits (continued)

The change in the liability recognized in the Statement of Financial Position at September 30, 2020 was due primarily to a decline in the discount rate used to value the defined benefit obligations, partially offset by higher returns on plan assets and cash contributions. The discount rate used as at September 30, 2020 was 2.45% per annum (December 31, 2019: 2.98% per annum).

The Company expects to make funding contributions to its defined benefit plans of \$1.4 million in 2020.

15. Earnings (loss) per share

Net earnings (loss) per share is calculated utilizing the treasury stock method for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	Three months ended September 30, 2020			Three months ended September 30, 2019		
	Net income attributable to equity shareholders	Weighted Average Number of Shares	Per share	Net loss attributable to equity shareholders	Weighted Average Number of Shares	Per share
Issued shares at June 30		375,197,166			376,427,766	
Effect of shares repurchased in quarter		-			(987,859)	
Basic earnings (loss) per share	\$ 11.5	375,197,166	\$ 0.03	\$ (18.7)	375,439,907	\$ (0.05)
Effect of dilutive securities:						
Stock options*		380,830			1,080,472	
Diluted earnings (loss) per share	\$ 11.5	375,577,996	\$ 0.03	\$ (18.7)	375,439,907	\$ (0.05)
	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	Net loss attributable to equity shareholders	Weighted Average Number of Shares	Per share	Net income attributable to equity shareholders	Weighted Average Number of Shares	Per share
Issued shares at December 31		375,197,166			380,183,327	
Effect of shares issued in first nine months		-			244,176	
Effect of shares repurchased in the first nine months		-			(5,531,167)	
Basic loss per share	\$ (1.0)	375,197,166	\$ (0.00)	\$ (17.5)	374,896,336	\$ (0.05)
Effect of dilutive securities:						
Stock options*		119,889			1,767,013	
Diluted loss per share	\$ (1.0)	375,197,166	\$ (0.00)	\$ (17.5)	374,896,336	\$ (0.05)

* Where the addition of stock options to the total shares outstanding has an anti-dilutive impact on the diluted earnings (loss) per share calculation, those stock options have not been included in the total shares outstanding for purposes of the calculation of diluted earnings (loss) per share.

16. Financial instruments – fair values

The Company classifies its financial assets in the following categories: amortized cost, fair value through other comprehensive income (“FVOCI”) – debt investment; FVOCI – equity investment; or fair value through profit and loss (“FVTPL”). The Company’s non-derivative financial liabilities are measured at amortized cost using the effective interest method.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2019.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices that are observable for the assets or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data.

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16. Financial instruments – fair values (continued)

	September 30, 2020			December 31, 2019		
	Mandatory at at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets						
Market-based investments	\$ 4.7	\$ -	\$ 4.7	\$ 4.9	\$ -	\$ 4.9
Foreign currency forward contracts	-	-	-	0.2	-	0.2
Cash and cash equivalents	-	1.9	1.9	-	2.1	2.1
Trade and other receivables	-	89.6	89.6	-	23.2	23.2
Total financial assets	\$ 4.7	\$ 91.5	\$ 96.2	\$ 5.1	\$ 25.3	\$ 30.4
	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities						
Foreign currency forward contracts	\$ 0.3	\$ -	\$ 0.3	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	-	121.4	121.4	-	35.0	35.0
Lease liabilities	-	21.6	21.6	-	19.9	19.9
Long term debt (Note 8)	-	121.8	121.8	-	114.1	114.1
Total financial liabilities	\$ 0.3	\$ 264.8	\$ 265.1	\$ -	\$ 169.0	\$ 169.0

As at September 30, 2020, the Company had outstanding obligations to sell an aggregate US\$55 million at an average rate of CAD\$1.3268 per USD with maturities through November 27, 2020.

All foreign currency gains or losses related to currency forward contracts to September 30, 2020 have been recognized in revenue for the period and the fair value of these instruments at September 30, 2020 was a net liability of \$0.3 million, which is included in accounts payable and accrued liabilities on the Statement of Financial Position (December 31, 2019: net asset of \$0.2 million was included in trade and other receivables). A gain of \$1.8 million was recognized on contracts which were settled in each of the three and nine months ended September 30, 2020, respectively (Q3 2019 and YTD 2019: \$0.7 million and \$0.5 million gain, respectively).

17. Revenue

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, based on the known origin of the customer, and by major products.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Primary geographical markets				
Canada	\$ 105.9	\$ 45.9	\$ 221.9	\$ 259.6
United States	92.7	47.4	196.5	186.7
China	51.2	15.4	110.3	125.6
Japan	26.3	25.8	79.7	102.2
Other	11.1	3.7	28.1	39.5
Europe	3.4	3.4	9.5	14.0
	\$ 290.6	\$ 141.6	\$ 646.0	\$ 727.6
Major Products				
Lumber	\$ 208.6	\$ 109.7	\$ 480.6	\$ 562.2
Logs	73.6	27.4	147.0	131.9
By-products	8.4	4.5	18.4	33.5
	\$ 290.6	\$ 141.6	\$ 646.0	\$ 727.6

Western Forest Products Inc.

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17. Revenue (continued)

Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

	September 30, 2020	December 31, 2019
Trade and other receivables	\$ 89.6	\$ 23.4
Contract liabilities	50.9	52.4

The contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract, for which revenue is recognized straight-line over the term of the contract. Contract liabilities declined by \$1.5 million which was recognized in revenue for the nine months ended September 30, 2020.

18. Government grants

On April 11, 2020, the Canadian Government enacted the Canada Emergency Wage Subsidy ("CEWS") program to help businesses retain employees during COVID-19. This grant program provides amounts to employers to support keeping employees on payroll with varying subsidies based on relative declines in revenue.

In the second quarter, 2020, having met the qualifying tests for decline in revenue, the Company recorded \$13.0 million in trade and other receivables, with offsets of \$2.3 million to Inventory, \$9.3 million to cost of goods sold, and \$1.4 million to selling and administration relating to remuneration paid from March 15, 2020 to June 6, 2020, and in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. All claims submitted under the CEWS program were approved and fully received as at September 30, 2020 and the \$2.3 million inventory offset was released to cost of goods sold in the third quarter, 2020.

The Company was ineligible for CEWS program grants for periods after June 6, 2020.

19. Non-controlling interest

On March 29, 2019, the Company completed the sale of a 7% equity interest in its TFL 44 Limited Partnership ("TFL 44 LP") to Huumiis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by the Huu-ay-aht First Nations. The Company received \$7.3 million in exchange for the 7% equity interest in TFL 44 LP.

On March 16, 2020, the Company announced an agreement whereby HVLP will acquire an incremental 44% equity interest in TFL 44 LP and a 7% equity interest in a newly formed limited partnership that will own the Alberni Pacific Division Sawmill for total consideration of \$36.2 million (the "Transaction"). The completion of the Transaction is subject to satisfaction of customary closing conditions, financing, and certain third party consents. COVID-19 restrictions and other impacts have delayed the administration of certain closing conditions.



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DEFINING A HIGHER STANDARD™

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