



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, 2021 and 2020

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

	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 143.1	\$ 2.9
Trade and other receivables	68.2	66.8
Inventory ^(Note 5)	188.6	177.9
Prepaid expenses and other assets	18.7	16.1
	<u>418.6</u>	<u>263.7</u>
Non-current assets:		
Property, plant and equipment ^(Note 6)	341.7	383.3
Timber licenses	102.0	105.0
Biological assets ^(Note 7)	49.3	53.6
Other assets ^(Note 8)	51.0	46.3
Deferred income tax assets	0.2	0.3
	<u>\$ 962.8</u>	<u>\$ 852.2</u>
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	\$ -	\$ 0.2
Accounts payable and accrued liabilities	115.8	108.7
Income taxes payable	53.5	-
Current portion of long-term debt ^(Note 9)	-	0.4
Current portion of lease liabilities	6.0	6.2
Current portion of reforestation obligation ^(Note 11)	10.7	8.1
Current portion of deferred revenue ^(Note 18)	2.0	2.0
	<u>188.0</u>	<u>125.6</u>
Non-current liabilities:		
Long-term debt ^(Note 9)	-	71.5
Lease liabilities	14.0	15.4
Reforestation obligation ^(Note 11)	12.0	14.3
Deferred income tax liabilities	53.6	51.2
Other liabilities ^(Note 12)	21.0	20.2
Deferred revenue ^(Note 18)	47.0	48.4
	<u>335.6</u>	<u>346.6</u>
Equity:		
Share capital ^{(Note 13(a))}	442.8	479.9
Contributed surplus	9.1	10.4
Translation reserve	(2.1)	(1.9)
Retained earnings	170.8	16.1
Total equity attributable to equity shareholders of the Company	<u>620.6</u>	<u>504.5</u>
Non-controlling interest ^(Note 19)	6.6	1.1
	<u>627.2</u>	<u>505.6</u>
	<u>\$ 962.8</u>	<u>\$ 852.2</u>

Commitments and contingencies ^(Notes 14, 15)

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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenue (Note 18)	\$ 352.9	\$ 290.6	\$ 1,089.8	\$ 646.0
Cost of expenses:				
Cost of goods sold	257.0	227.8	739.8	544.5
Freight	22.6	22.4	72.2	48.8
Export tax (Note 14)	6.2	11.0	25.2	22.6
Selling and administration	13.6	10.4	44.6	24.9
	<u>299.4</u>	<u>271.6</u>	<u>881.8</u>	<u>640.8</u>
Operating income prior to restructuring and other items	53.5	19.0	208.0	5.2
Operating restructuring items	(0.9)	(0.5)	(1.9)	(1.5)
Other income (expense) (Note 6)	4.0	(0.6)	22.1	1.2
Operating income	56.6	17.9	228.2	4.9
Finance costs	(0.4)	(2.0)	(1.7)	(6.4)
Income (loss) before income taxes	56.2	15.9	226.5	(1.5)
Income tax expense (recovery) (Note 10)				
Current	13.6	-	53.6	(0.1)
Deferred	0.4	4.4	(1.4)	(0.4)
	<u>14.0</u>	<u>4.4</u>	<u>52.2</u>	<u>(0.5)</u>
Net income (loss)	42.2	11.5	174.3	(1.0)
Net income (loss) attributable to equity shareholders of the Company	41.3	11.3	172.9	(1.2)
Net income attributable to non-controlling interest	0.9	0.2	1.4	0.2
	<u>42.2</u>	<u>11.5</u>	<u>174.3</u>	<u>(1.0)</u>
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Employee future benefits actuarial gain (loss)	0.9	(0.7)	3.8	(5.4)
Income tax (expense) recovery (Note 10)	(0.2)	0.3	(1.1)	1.5
Total items that will not be reclassified to profit or loss	0.7	(0.4)	2.7	(3.9)
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences for foreign operations	1.6	(1.4)	(0.2)	2.2
Total comprehensive income (loss)	\$ 44.5	\$ 9.7	\$ 176.8	\$ (2.7)
Earnings (loss) per share (in dollars) (Note 16)				
Basic and diluted	\$ 0.12	\$ 0.03	\$ 0.47	\$ -

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

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, 2019	\$ 479.9	\$ 9.6	\$ (0.9)	\$ (6.8)	\$ 0.8	\$ 482.6
Net loss	-	-	-	(1.2)	0.2	(1.0)
Other comprehensive income (loss):						
Employee future benefits actuarial loss	-	-	-	(5.4)	-	(5.4)
Income tax recovery on actuarial loss	-	-	-	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)
Stock options recognized in equity ^{(Note 13(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
Balance at December 31, 2020	\$ 479.9	\$ 10.4	\$ (1.9)	\$ 16.1	\$ 1.1	\$ 505.6
Net income	-	-	-	172.9	1.4	174.3
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	3.8	-	3.8
Income tax expense on actuarial gain	-	-	-	(1.1)	-	(1.1)
Foreign currency translation differences for foreign operations	-	-	(0.2)	-	-	(0.2)
Total comprehensive income (loss)	-	-	(0.2)	175.6	1.4	176.8
Stock options recognized in equity ^{(Note 13(b))}	-	0.3	-	-	-	0.3
Exercise of stock options ^{(Notes 13(a), (b))}	1.7	(1.6)	-	-	-	0.1
Repurchase of shares ^{(Note 13(a))}	(38.8)	-	-	(24.4)	-	(63.2)
Dividends	-	-	-	(11.0)	-	(11.0)
Non-controlling interest ^(Note 19)	-	-	-	14.5	5.2	19.7
Distributions to non-controlling interest ^(Note 19)	-	-	-	-	(1.1)	(1.1)
Total transactions with owners, recorded directly in equity	(37.1)	(1.3)	-	(20.9)	4.1	(55.2)
Balance at September 30, 2021	\$ 442.8	\$ 9.1	\$ (2.1)	\$ 170.8	\$ 6.6	\$ 627.2

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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ 42.2	\$ 11.5	\$ 174.3	\$ (1.0)
Items not involving cash:				
Amortization of property, plant and equipment ^(Note 6)	11.0	13.0	35.2	36.3
Amortization of timber licenses	1.0	1.0	3.0	2.9
Gain on disposal of property, equipment and biological assets ^(Notes 6, 7)	(3.3)	(0.3)	(22.6)	(1.9)
Change in fair value of biological assets ^(Note 7)	0.8	0.6	3.5	1.2
Change in reforestation obligation ^(Note 11)	(0.2)	(0.7)	0.2	(1.2)
Amortization of deferred revenue	(0.4)	(0.5)	(1.4)	(1.5)
Share-based compensation, including mark-to-market adjustment	2.2	0.6	10.8	0.5
Finance costs	0.4	2.0	1.7	6.4
Income tax expense (recovery) ^(Note 10)	14.0	4.4	52.2	(0.5)
Change in employee future benefits ^(Note 15)	(0.8)	(0.4)	(1.4)	(1.7)
Foreign exchange and other	(3.6)	(0.6)	1.5	(0.6)
Income taxes refunded (paid)	0.1	5.3	(0.1)	16.7
	<u>63.4</u>	<u>35.9</u>	<u>256.9</u>	<u>55.6</u>
Changes in non-cash working capital items:				
Trade and other receivables	13.1	6.0	(3.7)	(63.6)
Inventory	6.4	(25.4)	(10.5)	(58.8)
Prepaid expenses and other assets	(4.2)	5.0	(2.6)	1.6
Accounts payable and accrued liabilities	3.8	18.9	1.4	87.0
	<u>19.1</u>	<u>4.5</u>	<u>(15.4)</u>	<u>(33.8)</u>
	<u>82.5</u>	<u>40.4</u>	<u>241.5</u>	<u>21.8</u>
Investing activities:				
Additions to property, plant and equipment ^(Note 6)	(6.6)	(4.7)	(18.2)	(10.7)
Proceeds from disposal of assets	5.5	0.1	50.1	1.7
Proceeds on disposition of minority interest in subsidiary ^(Note 19)	-	-	19.8	-
	<u>(1.1)</u>	<u>(4.6)</u>	<u>51.7</u>	<u>(9.0)</u>
Financing activities:				
Interest paid	(0.1)	(1.5)	(0.7)	(4.9)
Draw on (repayment of) credit facility ^(Note 9)	-	(32.8)	(70.2)	5.6
Repayment of bank indebtedness	-	-	(0.2)	-
Repayment of long-term equipment loan ^(Note 9)	(1.9)	(0.1)	(2.2)	(0.1)
Payment of lease liabilities	(1.5)	(1.6)	(5.3)	(5.2)
Repurchase of shares ^{(Note 13(a))}	(30.2)	-	(62.4)	-
Proceeds from exercise of stock options ^(Note 13)	-	-	0.1	-
Dividends	(3.6)	-	(11.0)	(8.4)
Distributions on non-controlling interest ^(Note 19)	(0.6)	-	(1.1)	-
	<u>(37.9)</u>	<u>(36.0)</u>	<u>(153.0)</u>	<u>(13.0)</u>
Increase (decrease) in cash and cash equivalents	43.5	(0.2)	140.2	(0.2)
Cash and cash equivalents, beginning of period	99.6	2.1	2.9	2.1
Cash and cash equivalents, September 30	<u>\$ 143.1</u>	<u>\$ 1.9</u>	<u>\$ 143.1</u>	<u>\$ 1.9</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, 2021 and 2020

(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 (“BC”) and Washington State. The address of the Company’s head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2021 and 2020 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, value-added lumber remanufacturing and wholesaling purchased lumber. 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”) consistent with the International Financial Reporting Standards (“IFRS”). These financial statements do not include all of the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2020, available at www.westernforest.com or www.sedar.com. Certain comparative prior period figures have been reclassified to conform to the current year’s presentation.

The interim financial statements were authorized for issue by the Board of Directors on November 3, 2021.

Basis of measurement

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

- Biological assets are measured at fair value less costs to sell;
- Liabilities for cash-settled share-based payment transactions are measured at fair value at each reporting date;
- 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 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.

These interim financial statements are presented in Canadian dollars which is the parent company’s functional currency. Certain of the Company’s subsidiaries have a functional currency of the US dollar and are translated to Canadian dollars.

Critical accounting estimates

Potential impacts of the novel Coronavirus pandemic (“COVID-19”) on the Company’s critical accounting estimates are being monitored, with no significant changes for the three and nine months ended September 30, 2021. The Company’s critical accounting estimates are described in its annual consolidated financial statements for the year ended December 31, 2020.

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, 2020.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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

4. Seasonality of operations

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

5. Inventory

	Sept. 30, 2021			Dec. 31, 2020		
	Gross carrying value	Provisions	Lower of cost and market	Gross carrying value	Provisions	Lower of cost and market
Logs	\$ 102.4	\$ (4.4)	\$ 98.0	\$ 112.6	\$ (5.6)	\$ 107.0
Lumber	77.1	(4.0)	73.1	58.5	(3.4)	55.1
Supplies and other	17.9	(0.4)	17.5	16.3	(0.5)	15.8
Total	\$ 197.4	\$ (8.8)	\$ 188.6	\$ 187.4	\$ (9.5)	\$ 177.9

Inventory recorded at net realizable value was \$22.3 million at September 30, 2021 (December 31, 2020: \$32.9 million), with the remaining inventory recorded at cost.

For the three months and nine months ended September 30, 2021, \$257.0 million and \$739.8 million (Q3 2020 and YTD 2020: \$227.8 million and \$544.5 million, respectively) of inventory was charged to cost of goods sold. This includes an increase in the provision for write-down to net realizable value of \$3.7 million and a decrease of \$0.7 million for the three and nine months ended September 30, 2021, respectively (Q3 2020 and YTD 2020: decrease of \$4.3 million and \$3.2 million, respectively).

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2021 and 2020

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

6. Property, plant and equipment

	Buildings & equipment	Logging roads	Land	Right of use assets	Total
Cost					
Balance at December 31, 2019	\$ 460.8	\$ 214.2	\$ 94.0	\$ 24.0	\$ 793.0
Additions	11.9	8.6	0.3	8.1	28.9
Disposals	(5.7)	-	(5.4)	(0.3)	(11.4)
Transfers	(0.4)	-	-	0.4	-
Impairments	-	-	(3.6)	-	(3.6)
Effect of movements in exchange rates	(0.9)	-	(0.1)	(0.4)	(1.4)
Balance at December 31, 2020	465.7	222.8	85.2	31.8	805.5
Additions	12.1	6.1	-	3.2	21.4
Disposals	(19.4)	-	(26.3)	(0.6)	(46.3)
Transfers	(1.8)	1.8	-	-	-
Effect of movements in exchange rates	(0.3)	-	(0.1)	-	(0.4)
Balance at September 30, 2021	\$ 456.3	\$ 230.7	\$ 58.8	\$ 34.4	\$ 780.2
Accumulated amortization and impairments					
Balance at December 31, 2019	\$ 193.5	\$ 180.0		\$ 4.6	\$ 378.1
Amortization	31.5	12.0		5.8	49.3
Disposals	(4.8)	(0.3)		(0.1)	(5.2)
Transfers	0.7	(0.7)		-	-
Effect of movements in exchange rates	(0.2)	-		0.2	-
Balance at December 31, 2020	220.7	191.0		10.5	422.2
Amortization	21.9	8.3		5.0	35.2
Disposals	(18.4)	-		(0.5)	(18.9)
Effect of movements in exchange rates	-	-		-	-
Balance at September 30, 2021	\$ 224.2	\$ 199.3		\$ 15.0	\$ 438.5
Carrying amounts					
At December 31, 2020	\$ 245.0	\$ 31.8	\$ 85.2	\$ 21.3	\$ 383.3
At September 30, 2021	\$ 232.1	\$ 31.4	\$ 58.8	\$ 19.4	\$ 341.7

In the first nine months ended September 30, 2021, the Company completed the sale of certain non-core assets for cash proceeds of \$50.1 million (YTD 2020: \$1.7 million) on which the Company recognized gains of \$23.4 million in other income (YTD 2020: \$1.9 million). Significant sales during the year included certain properties and their underlying rights related to the Orca Quarry located near Port McNeil, BC which occurred during the first quarter of 2021 and certain Port Alberni properties, including the previously curtailed Somass sawmill which occurred during the third quarter of 2021.

7. Biological assets

Reconciliation of carrying amount

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2021	2020	2021	2020
Carrying value, beginning	\$ 50.1	\$ 55.3	\$ 53.6	\$ 56.0
Disposals	-	-	(0.8)	-
Change in fair value due to growth and pricing	0.3	0.6	0.9	1.0
Harvested timber transferred to inventory	(1.1)	(1.1)	(4.4)	(2.2)
Carrying value, September 30	\$ 49.3	\$ 54.8	\$ 49.3	\$ 54.8

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.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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

7. Biological assets (continued)

At September 30, 2021, private timberlands comprised an area of approximately 22,665 hectares (December 31, 2020: 23,293 hectares) of land owned by the Company, a reduction of 628 hectares due to the Q1 2021 sale of property related to the Orca Quarry site located near Port McNeil, BC; standing timber on these timberlands range from newly planted areas to mature forest available for harvest.

During the three and nine months ended September 30, 2021, the Company harvested and scaled approximately 88,098 cubic metres ("m³") and 332,515 m³ of logs, respectively (Q3 2020 and YTD 2020: 62,620 m³ and 146,339 m³, respectively), from its private timberlands, which had a fair value less costs to sell of \$120 per m³ and \$128 per m³ at the date of harvest for the three and nine months ended September 30, 2021 (2020: \$104 per m³ and \$120 per m³, respectively).

8. Other assets

	Sept. 30, 2021	Dec. 31, 2020
Duty receivable and related interest ^(Note 14)	\$ 36.9	\$ 36.7
Investments and long term advances	13.0	8.8
Other	1.1	0.8
	<u>\$ 51.0</u>	<u>\$ 46.3</u>

9. Long-term debt

	Sept. 30, 2021	Dec. 31, 2020
Credit Facility drawings	\$ -	\$ 70.2
Equipment term loan	-	2.1
Total debt	-	72.3
Less transaction costs	-	(0.4)
Less current portion of equipment term loan	-	(0.4)
Long-term debt	<u>\$ -</u>	<u>\$ 71.5</u>
Available Credit Facility	\$ 250.0	\$ 250.0
Drawings on Credit Facility	-	(70.2)
Outstanding letters of credit	(8.7)	(4.2)
Unused portion of Credit Facility	<u>\$ 241.3</u>	<u>\$ 175.6</u>
	Sept. 30, 2021	Dec. 31, 2020
Balance at December 31	\$ 72.3	\$ 114.1
Equipment loan addition	-	2.2
Interest on equipment loan	0.1	0.1
Equipment loan repayments	(2.2)	(0.2)
Net repayments on revolving term loan	(70.2)	(43.9)
	<u>\$ -</u>	<u>\$ 72.3</u>

The Company's syndicated Credit Facility (the "Credit Facility") provides for a maximum borrowing amount of \$250 million 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 CAD by way of Prime Rate Advances, Bankers' Acceptances or Letters of Credit and in USD 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.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2021 and 2020

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

9. Long-term debt (continued)

On July 21, 2021, the maturity date of the Credit Facility was extended to July 21, 2025 from August 1, 2022 and incorporated incentive pricing terms that can reduce or increase Western's borrowing costs by up to five basis points based on the achievement of various sustainability-linked goals.

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.

There were no drawings on the Company's Credit Facility as at September 30, 2021 (December 31, 2020 - drawings of \$70.2 million bearing interest at 4.45%). The Company was in compliance with its financial covenants as at September 30, 2021.

On March 16, 2020, Western entered into a \$2.2 million term loan agreement bearing interest at 4.5% to fund an equipment acquisition. The loan was fully repaid on August 17, 2021.

10. Income taxes

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

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2021	2020	2021	2020
Income (loss) before income taxes	\$ 56.2	\$ 15.9	\$ 226.5	\$ (1.5)
Income tax expense (recovery) at statutory rate of 27% (2020 – 27%)	\$ 15.2	\$ 4.3	\$ 61.2	\$ (0.4)
Differences in tax rates	-	-	(0.4)	-
Change in unrecognized deductible temporary differences	(0.3)	-	(4.8)	-
Permanent differences	(0.9)	0.1	(3.8)	(0.1)
	\$ 14.0	\$ 4.4	\$ 52.2	\$ (0.5)

In addition to the amounts recorded to net income, deferred tax expense of \$0.2 million and \$1.1 million was recorded in other comprehensive income (loss) for the three and nine months ended September 30, 2021 on actuarial gains on employee future benefit obligations (Q3 2020 and YTD 2020: recoveries of \$0.3 million and \$1.5 million, respectively, on actuarial losses on employee future benefit obligations).

11. 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 Sept. 30		Nine months ended Sept. 30	
	2021	2020	2021	2020
Reforestation obligation, beginning	\$ 22.8	\$ 22.9	\$ 22.4	\$ 23.4
Provision charged	2.2	2.0	5.0	5.1
Expenditures	(2.4)	(2.9)	(4.9)	(6.5)
Unwind of discount	0.1	0.1	0.2	0.1
	22.7	22.1	22.7	22.1
Less current portion	10.7	8.0	10.7	8.0
Long term reforestation obligation, September 30	\$ 12.0	\$ 14.1	\$ 12.0	\$ 14.1

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.25% to 1.40%. The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at September 30, 2021 is \$23.0 million (December 31, 2020: \$22.7 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.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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

12. Other liabilities

	Sept. 30, 2021	Dec. 31, 2020
Employee future benefits obligation ^(Note 15)	\$ 11.2	\$ 16.1
Environmental accruals	1.6	1.6
Performance share unit plan liabilities, non-current ^{(Note 13(d))}	5.5	1.1
Restricted share unit plan liabilities, non-current ^{(Note 13(e))}	1.2	0.2
Other	1.5	1.2
	<u>\$ 21.0</u>	<u>\$ 20.2</u>

13. 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, 2019	375,197,166	\$ 479.9
Exercise of stock options	35,000	-
Balance at December 31, 2020	375,232,166	479.9
Exercise of stock options	1,131,903	1.7
Repurchase of shares	(30,346,240)	(38.8)
Balance at September 30, 2021*	<u>346,017,829</u>	<u>\$ 442.8</u>

*Based on trade date

On August 5, 2021, Western renewed its Normal Course Issuer Bid ("NCIB") permitting the purchase and cancellation of up to 29,726,940 of the Company's common shares, representing 10% of the public float outstanding as of August 5, 2021. The renewed NCIB will begin August 11, 2021 and expire August 10, 2022.

For the nine months ended September 30, 2021, the Company repurchased and cancelled 30,346,240 common shares (YTD 2020: nil) for \$62.4 million at an average price of \$2.06 per common share, of which \$38.8 million was charged to share capital and \$23.6 million was charged to retained earnings.

In addition, 2,712,620 stock options were exercised in the first nine months ended September 30, 2021 (YTD 2020: nil) with 47,620 common shares issued for cash proceeds of \$0.1 million and 1,084,283 common shares issued on a cashless basis resulting in a \$0.8 million charge to retained earnings.

(b) Stock option plan

The Company has an incentive stock 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 5,206,850 remain available for future issuance.

	Nine months ended Sept. 30, 2021		Nine months ended Sept. 30, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at December 31	18,259,924	\$ 1.58	13,057,129	\$ 1.80
Granted	-	-	5,260,670	1.05
Exercised	(2,712,620)	0.93	-	-
Outstanding at September 30	<u>15,547,304</u>	<u>\$ 1.69</u>	<u>18,317,799</u>	<u>\$ 1.58</u>

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13. Share capital (continued)

(b) Stock option plan (continued)

For the three and nine months ended September 30, 2021, the Company recorded compensation expense for stock options of \$0.1 million and \$0.3 million, respectively (Q3 2020 and YTD 2020: \$0.2 million and \$0.6 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.

	Nine months ended Sept. 30, 2021		Nine months ended Sept. 30, 2020	
	Number of DSUs	Weighted average unit value ¹	Number of DSUs	Weighted average unit value ¹
Outstanding at December 31	2,471,200	\$ 1.19	1,739,691	\$ 1.33
Granted ¹	205,059	2.01	611,209	0.80
Redeemed	(450,000)	0.47	-	-
Outstanding at September 30	2,226,259	\$ 1.41	2,350,900	\$ 1.19

¹Fair value at the date of the grants. Grants included notional dividends.

For the three and nine months ended September 30, 2021, the Company recorded compensation expense for DSUs of \$0.3 million and \$2.4 million, respectively (Q3 2020 and YTD 2020: \$0.2 million expense and \$0.2 million recovery, respectively), with corresponding changes in accounts payable and accrued liabilities.

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

The Company has established a PSU Plan for designated officers and employees.

	Nine months ended Sept. 30, 2021		Nine months ended Sept. 30, 2020	
	Number of PSUs	Weighted average unit value ¹	Number of PSUs	Weighted average unit value ¹
Outstanding at December 31	2,838,304	\$ 1.54	1,852,815	\$ 2.16
Granted ¹	1,192,661	1.57	1,646,730	1.05
Redeemed	(512,649)	2.61	(661,241)	2.06
Outstanding at September 30	3,518,316	\$ 1.39	2,838,304	\$ 1.54

¹Fair value at the date of the grants. Grants include notional dividends.

For the three and nine months ended September 30, 2021, the Company recorded compensation expense for PSUs of \$1.5 million and \$7.0 million, respectively (Q3 2020 and YTD 2020: \$0.2 million and \$0.1 million, respectively), with corresponding changes in other liabilities.

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13. Share capital (continued)

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

In 2020, the Company established an RSU Plan for designated officers and employees.

	Nine months ended Sept. 30, 2021		Nine months ended Sept. 30, 2020	
	Number of RSUs	Weighted average unit value ¹	Number of RSUs	Weighted average unit value ¹
Outstanding at December 31	357,060	\$ 1.05	-	\$ -
Granted ¹	1,367,789	1.56	357,060	1.05
Redeemed	-	-	-	-
Outstanding at September 30	1,724,849	\$ 1.45	357,060	\$ 1.05

¹Fair value at the date of the grants. Grants include notional dividends.

For the three and nine months ended September 30, 2021, the Company recorded compensation expense for RSUs of \$0.4 million and \$1.1 million, respectively (Q3 2020 and YTD 2020: negligible and \$0.1 million, respectively) with corresponding changes in other liabilities.

14. 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 September 30, 2021. Based on chip and pulp log volumes supplied to date, the Company anticipates satisfying annual fibre commitments for the year ending December 31, 2021.

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.

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 ("AD") duties on Canadian softwood lumber shipments to the US.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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14. Commitments and contingencies (continued)

Softwood lumber duty dispute (continued)

On November 23, 2020 the DoC released its final determination for CV and AD rates and revised rates for CV and AD were published in the US Federal Register on November 30, 2020 and December 1, 2020 respectively. Cash deposits to the date of publication were 20.23%. The final determination reduced the assessment rates applied to exports during the period of review (April 28, 2017 through December 31, 2018) and established a new combined cash deposit rate of 8.99% that applies to Canadian lumber shipments made to the US after publication of rates in the US Federal Register.

On May 21, 2021, the DoC released preliminary revised rates in the CV and AD second administrative review of shipments for the year ended December 31, 2019. The DoC may revise these rates between the preliminary and the final determination, expected to be released November 24, 2021. Cash deposits continue at the combined duty rate of 8.99% until the final determinations are published, after which the 2019 rate will apply.

On September 2, 2021, the DoC extended the deadline for its preliminary results of the third administrative review of CV and AD rates for the year ended December 31, 2020 to January 28, 2022.

The following table summarizes the cash deposit rates in effect, the final 2017 and 2018 rates and the preliminary 2019 rates.

	9 months ended Sept. 30, 2021	1 month ended Dec. 31, 2020	11 months ended Nov. 30, 2020	Years ended		
				2019	2018	2017
Cash deposit rate, CV	7.42%	7.42%	14.19%	14.19%	14.19%	14.19%
Cash deposit rate, AD	1.57%	1.57%	6.04%	6.04%	6.04%	6.04%
Cash deposit rate, combined	8.99%	8.99%	20.23%	20.23%	20.23%	20.23%
Final rate, CV					7.42%	6.71%
Final rate, AD					1.57%	1.66%
Final rate, combined					8.99%	8.37%
Preliminary rate, CV				6.27%		
Preliminary rate, AD				12.05%		
Preliminary rate, combined				18.32%		

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 September 30, 2017 until December 26, 2017, and from December 28, 2017 onwards.

As a result of changes between final and cash deposit rates noted in the table above, the Company recognized a receivable of US\$29.1 million, including interest, in the statement of financial position and revalued at the quarter-end exchange rate to \$36.9 million. Related interest revenue of \$0.2 million and \$0.4 million for the three and nine months ended September 30, 2021, respectively were recorded in finance costs (Q3 2020 and YTD 2020: nil, respectively). Related foreign exchange gain of \$0.8 million and loss of \$0.2 million for the three and nine months ended September 30, 2021, respectively, (Q3 2020 and YTD 2020: \$0.1 million foreign exchange loss and \$0.1 million foreign exchange gain) were recorded in other income.

As at September 30, 2021, the Company had paid US\$116.1 million (\$147.3 million) of duties, all of which remain held in trust by U.S. Department of Treasury (December 31, 2020: US\$94.2 million, \$120.0 million). With the exception of US\$29.1 million (\$36.9 million) noted above, all duty deposits have been expensed at the cash deposit rates in effect at the date of payment.

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15. 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:

	Sept. 30, 2021	Dec. 31, 2020
Present value of obligations	\$ 119.5	\$ 132.2
Fair value of plan assets	(108.3)	(116.1)
Liability recognized in the statement of financial position ^(Note 12)	<u>\$ 11.2</u>	<u>\$ 16.1</u>

The change in the liability recognized in the statement of financial position at September 30, 2021 was due primarily to an increase in the discount rate used to value the defined benefit obligations, partially offset by lower returns on plan assets. The discount rate used as at September 30, 2021 was 3.00% per annum (December 31, 2020: 2.35% per annum).

The Company expects to make funding contributions to its defined benefit plans of \$1.4 million in 2021.

16. 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 Sept. 30, 2021			Three months ended Sept. 30, 2020		
	Net income 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, beginning of period		359,743,005			375,197,166	
Effect of shares:						
Issued in the quarter		226,499			-	
Repurchased in the quarter		(7,200,357)			-	
Basic earnings per share	\$ 41.3	352,769,147	\$ 0.12	\$ 11.3	375,197,166	\$ 0.03
Effect of dilutive securities:						
Stock options		3,554,840			380,830	
Diluted earnings per share	<u>\$ 41.3</u>	<u>356,323,987</u>	<u>\$ 0.12</u>	<u>\$ 11.3</u>	<u>375,577,996</u>	<u>\$ 0.03</u>

	Nine months ended Sept. 30, 2021			Nine months ended Sept. 30, 2020		
	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, beginning of period		375,232,166			375,197,166	
Effect of shares:						
Issued in the first nine months		245,154			-	
Repurchased in the first nine months		(9,981,725)			-	
Basic earnings (loss) per share	\$ 172.9	365,495,595	\$ 0.47	\$ (1.2)	375,197,166	\$ -
Effect of dilutive securities:						
Stock options		3,069,472			119,889*	
Diluted earnings (loss) per share	<u>\$ 172.9</u>	<u>368,565,067</u>	<u>\$ 0.47</u>	<u>\$ (1.2)</u>	<u>375,197,166</u>	<u>\$ -</u>

* 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.

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17. 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, 2020.

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.

	Sept. 30, 2021			Dec. 31, 2020			
	Level	Mandatory at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets							
Market-based investments	2	\$ 4.7	\$ -	\$ 4.7	\$ 4.8	\$ -	\$ 4.8
Foreign currency forward contracts	2	-	-	-	0.6	-	0.6
Cash and cash equivalents		-	143.1	143.1	-	2.9	2.9
Trade and other receivables		-	68.2	68.2	-	66.2	66.2
Other investments and advances		-	4.9	4.9	-	-	-
Export tax receivable	3	36.9	-	36.9	36.7	-	36.7
Total financial assets		\$ 41.6	\$ 216.2	\$ 257.8	\$ 42.1	\$ 69.1	\$ 111.2

	Level	Other		Total	Other		Total
		Mandatory at FVTPL	Financial Liabilities		Mandatory at FVTPL	Financial Liabilities	
Financial liabilities							
Accounts payable and accrued liabilities		\$ -	\$ 115.8	\$ 115.8	\$ -	\$ 108.7	\$ 108.7
Lease liabilities		-	20.0	20.0	-	21.6	21.6
Long term debt (Note 9)	2	-	-	-	-	72.3	72.3
Total financial liabilities		\$ -	\$ 135.8	\$ 135.8	\$ -	\$ 202.6	\$ 202.6

As at September 30, 2021, the Company had outstanding obligations to sell an aggregate US\$77.0 million at an average rate of CAD\$1.2684 per USD with maturities through November 16, 2021.

All foreign currency gains or losses related to currency forward contracts have been recognized in revenue for the period as described in the following table.

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2021	2020	2021	2020
Fair value of (asset) liability, beginning of period	\$ 3.2	\$ (0.3)	\$ (0.6)	\$ (0.2)
Fair value of asset (liability), at September 30	-	(0.3)	-	(0.3)
Change in unrealized foreign currency gains (losses)	3.2	(0.6)	(0.6)	(0.5)
Realized foreign currency gains (losses) on settled contracts	(5.9)	1.8	(0.8)	1.8
Foreign currency gains (losses) recognized in revenue	\$ (2.7)	\$ 1.2	\$ (1.4)	\$ 1.3

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17. Financial instruments – fair values (continued)

Forward contracts in a liability position are included in accounts payable and accrued liabilities on the statement of financial position and assets are included in trade and other receivables.

18. 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 Sept. 30		Nine months ended Sept. 30	
	2021	2020	2021	2020
Primary geographic markets				
Canada	\$ 106.2	\$ 105.9	\$ 350.1	\$ 221.9
United States	112.7	92.7	414.7	196.5
China	37.3	51.2	107.0	110.3
Japan	59.2	26.3	118.5	79.7
Other	31.1	11.1	77.7	28.1
Europe	6.4	3.4	21.8	9.5
	<u>\$ 352.9</u>	<u>\$ 290.6</u>	<u>\$ 1,089.8</u>	<u>\$ 646.0</u>
Major Products				
Lumber	\$ 299.8	\$ 208.6	\$ 929.5	\$ 480.6
Logs	41.0	73.6	120.4	147.0
By-products	12.1	8.4	39.9	18.4
	<u>\$ 352.9</u>	<u>\$ 290.6</u>	<u>\$ 1,089.8</u>	<u>\$ 646.0</u>

Contract balances

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

	Sept. 30, 2021	Dec. 31, 2020
Trade and other receivables	\$ 68.2	\$ 66.2
Other investments and advances	2.3	-
Contract liabilities	<u>49.0</u>	<u>50.4</u>

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. Related revenue of \$0.4 million and \$1.5 million was recognized for the three and nine months ended September 30, 2021, respectively (Q3 2020 and YTD 2020: \$0.5 million and \$1.5 million, respectively).

19. Non-controlling interest

On March 29, 2019, the Company completed the sale of a 7% ownership interest in TFL 44 LP to Huumiis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by the Huu-ay-aht First Nations.

On May 3, 2021, Western completed the sale of an incremental 28% equity in TFL 44 LP to HVLP ("TFL 44 Transaction") for total consideration of \$22.4 million paid by cash of \$19.8 million and a \$2.6 million interest bearing note receivable, resulting in HVLP holding a combined equity interest of 35% in TFL44 LP.

A second stage of the TFL 44 Transaction, for the acquisition by HVLP of a further 16% equity interest in TFL 44 LP for total consideration of \$12.8 million, is anticipated to close in the first quarter of 2023, and is subject to satisfaction of customary closing conditions, financing and certain third-party consents, including approval by the BC Provincial Government and the Huu-ay-aht First Nations People's Assembly.

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19. Non-controlling interest (continued)

Western may sell a further incremental ownership interest of up to 26% in TFL 44 LP to other area First Nations, including HVLP, under certain conditions. The Company and TFL 44 LP have entered into a long-term fibre agreement to continue to supply the Company's BC coastal manufacturing operations, which have undergone significant capital investment over the past several years.

The Board of TFL 44 LP declared distributions in the first nine months of 2021, resulting in a decrease of \$1.1 million in non-controlling interest.



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DEFINING A HIGHER STANDARD™

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