Western Forest Products Inc.

2019 Third Quarter Report

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three and nine months ended September 30, 2019, 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 our unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2019, and our audited annual consolidated financial statements and the notes thereto and Management's Discussion and Analysis for the year ended December 31, 2018 (the "2018 Annual Report"), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three and nine months ended September 30, 2019, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our unaudited condensed consolidated interim financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain prior period comparative figures have been reclassified to conform to the current period's presentation. The Company has adopted IFRS 16, *Leases*, with a date of initial application of January 1, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at January 1, 2019, and comparative information has not been restated and continues to be reported under IAS 17, *Leases*.

Reference is made in this MD&A to adjusted EBITDA[1]. Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expenses), plus amortization of property, plant, and equipment and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted EBITDA as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe adjusted EBITDA and adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

Adjusted EBITDA does not represent cash generated from operations as defined by IFRS and it is not necessarily indicative of cash available to fund cash needs. Furthermore, adjusted EBITDA does not reflect the impact of certain items that affect our net income. Adjusted EBITDA and adjusted EBITDA margin are not measures of financial performance under IFRS, and should not be considered as alternatives to measures of performance under IFRS. Moreover, because all companies do not calculate adjusted EBITDA in the same manner, adjusted EBITDA and adjusted EBITDA margin calculated by Western may differ from similar measures calculated by other companies. A reconciliation between the Company's net income as reported in accordance with IFRS and adjusted EBITDA is included under the "*Non-GAAP Measures*" section herein.

Also in this MD&A, management uses key performance indicators such as net debt, net debt to capitalization and current assets to current liabilities. Net debt is defined as long-term debt less cash and cash equivalents. Net debt to capitalization is a ratio defined as net debt divided by capitalization, with capitalization being the sum of net debt and equity. Current assets to current liabilities ratio is defined as total current assets divided by total current liabilities. These key performance indicators are non-GAAP financial measures that do not have a standardized meaning and may not be comparable to similar measures used by other issuers. They are not recognized by IFRS; however, they are meaningful in that they indicate the Company's ability to meet its obligations on an ongoing basis, and indicate whether the Company is more or less leveraged than in prior periods.

This MD&A contains statements that may constitute forward-looking statements under the applicable securities laws. Readers are cautioned against placing undue reliance on forward-looking statements. All statements herein, other than statements of historical fact, may be forward-looking statements and can be identified by the use of words such as "will", "estimate", "project", "expect", "anticipate", "plan", "intend", "believe", "seek", "should", "may", "likely", "pursue" and similar references to future periods. Forward-looking statements in this MD&A include, but are not limited to, statements relating to: our current intent, belief or expectations with respect to: market and general economic conditions, the United Steelworkers Local 1-1937 labour dispute and the impact of the dispute, accounting standards, the regulatory framework, future costs, available harvest levels and our future operating performance, objectives, capital expenditures and strategies. Although such statements reflect management's current reasonable beliefs, expectations and assumptions as to, amongst other things, the future supply and demand of forest products, global and regional economic activity and the consistency of the regulatory framework within which the Company currently operates, there can be no assurance that forward-looking statements are accurate, and actual results and performance may materially vary. Many factors could cause our actual results or performance to be materially different including: general economic conditions, international demand for lumber, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, relations with First Nations groups, changes in laws, the availability of allowable annual cut, changes in regulations or public policy affecting the forest industry, changes in opportunities and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements.

Unless otherwise noted, the information in this discussion and analysis is updated to November 6, 2019.

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[1] Earnings Before Interest, Tax, Depreciation and Amortization

Summary of Selected Quarterly Results [1]

(millions of Canadian dollars except per share amounts and where otherwise noted)		Q3 2019	Q3 2018	Q2 2019	YTD 2019	YTD 2018
Summary Information						
Revenue						
Lumber		$ 109.7	$ 238.2	$ 233.6	$ 562.2	$ 722.0
Logs		27.4	33.6	63.3	131.9	123.8
By-products		4.5	20.7	13.4	33.5	66.1
Total revenue		$ 141.6	$ 292.5	$ 310.3	$ 727.6	$ 911.9
Freight		$ 9.5	$ 21.8	$ 26.4	$ 59.0	$ 66.2
Export tax		5.5	11.5	9.7	24.4	32.9
Stumpage		-	10.9	14.2	26.4	38.9
Adjusted EBITDA		$ (16.6)	$ 32.3	$ 15.1	$ 16.6	$ 125.5
Adjusted EBITDA margin		-11.7%	11.0%	4.9%	2.3%	13.8%
Operating income (loss) prior to restructuring and other items		$ (24.2)	$ 23.4	$ 1.4	$ (17.1)	$ 95.7
Net income (loss)		(18.7)	15.1	(0.7)	(17.5)	63.9
Basic and diluted earnings per share (in dollars)		(0.05)	0.04	-	(0.05)	0.16
Operating Information						
Lumber[2]						
Lumber Shipments – millions of board feet						
Western Red Cedar		26	51	49	121	158
Japan Specialty		19	31	40	89	101
Niche		13	24	32	75	72
Commodity		32	106	90	219	331
Total		90	212	211	504	662
Lumber Production – millions of board feet		48	221	206	457	664
Lumber Price – per thousand board feet		$ 1,219	$ 1,124	$ 1,107	$ 1,115	$ 1,091
Wholesale Lumber Shipments - millions of board feet		11	4	8	25	14
Logs[3]						
Log Shipments – thousands of cubic metres						
Export		2	10	94	107	64
Domestic		193	189	315	772	814
Pulp		51	109	127	272	262
Total		246	308	536	1,151	1,140
Net production – thousands of cubic metres[4]		21	815	1,250	2,193	3,193
Saw log purchases – thousands of cubic metres		84	197	238	530	759
Log Price – per cubic metre[5]		$ 110	$ 109	$ 112	$ 111	$ 109
Illustrative Lumber Average Price Data[6]	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	c.i.f. dest. N Euro	$ 4,400	$ 5,150	$ 4,400	$ 4,496	$ 5,089
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	$ 1,340	$ 1,503	$ 1,340	$ 1,348	$ 1,517
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	$ 2,246	$ 2,215	$ 2,245	$ 2,245	$ 2,097
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E	Net f.o.b. Mill	$ 1,095	$ 1,180	$ 1,095	$ 1,097	$ 1,180
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	$ 855	$ 1,000	$ 884	$ 896	$ 932
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	$ 1,072	$ 1,235	$ 1,123	$ 1,116	$ 1,185
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	$ 1,080	$ 1,080	$ 1,080	$ 1,080	$ 1,073
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	$ 1,206	$ 1,398	$ 1,264	$ 1,264	$ 1,373
Hemlock Lumber 2x4 (40x90) Metric RG Utility	c.i.f. dest. Shanghai	$ 401	$ 527	$ 413	$ 413	$ 501
Average Exchange Rate – CAD to USD		0.757	0.765	0.748	0.752	0.777
Average Exchange Rate – CAD to JPY		81.27	85.32	82.17	82.11	85.14

(1) Included in Appendix A is a table of selected results from the last eight quarters.
(2) Includes Columbia Vista operations, acquired February 1, 2019, and wholesale lumber shipments.
(3) British Columbia business only.
(4) Net production is sorted log production, net of residuals and waste.
(5) The log revenue used to determine average price per cubic metre has been reduced by the associated shipping costs arranged in the respective periods to enable comparability of unit prices.
(6) Sourced from Random Lengths in USD/Mfbm, except Hemlock Lumber Metric RG Utility that is sourced from China Bulletin.

Summary of Third Quarter 2019 Results

Third quarter results were significantly impacted by ongoing strike action (the "Strike") by the United Steelworkers Local 1-1937 ("USW") and weak markets. All of our timberlands and most of our British Columbia ("BC") based manufacturing divisions did not operate in the third quarter of 2019 due to the Strike. We took steps to mitigate the Strike's impact on our customers, business and cash flows by actively selling unencumbered inventories, drawing down working capital, and deferring certain expenditures.

Adjusted EBITDA for the third quarter of 2019 was negative $16.6 million, as compared to positive EBITDA of $32.3 million from the same period last year. Operating loss prior to restructuring and other items was $24.2 million, as compared to operating income of $23.4 million in the same period last year.

Our near-term focus remains on managing our balance sheet, cash flow and working capital, and reaching a reasonable collective agreement that creates certainty for our employees while maintaining Western's globally competitive position. For more details on the current labour dispute, refer to the *"Labour Relations Update"* section.

Sales

Lumber revenue of $109.7 million was 53.9% lower than the same period last year. Lumber shipment volumes of 90 million board feet were 57.5% lower than the same period last year due to the Strike, as most of our manufacturing operations were shutdown in the third quarter of 2019. We sold the majority of our unencumbered inventory, processed certain unencumbered logs at custom cut facilities, and grew our wholesale lumber program to service our customers and help mitigate the impact of the Strike. Our US-based Columbia Vista division continues to perform in line with our expectations and has been a positive addition to our business and product mix.

Despite difficult market conditions, our average realized lumber pricing increased 8.5% due to an improved specialty product mix and a weaker Canadian dollar ("CAD") to United States dollar ("USD"). Specialty lumber represented 64.4% of third quarter shipments compared to 50.0% in the same period last year, as we increased wholesale lumber and custom cut volumes to meet customer needs.

Log revenue was $27.4 million in 2019, a decrease of 18.5% from the same period last year. To mitigate the impact of the Strike on our business, we accelerated unencumbered log inventory sales in the quarter to help manage cash flow and reduce working capital levels.

By-product revenue was $4.5 million, including $1.2 million from our Columbia Vista operation. By-product revenue decreased by 78.3% as compared to the same period last year as most of our BC coastal operations were shut down due to the Strike.

Operations

To support our selected customers during the Strike, we redirected available inventory to active divisions and operated on a sub-optimal basis resulting in higher transportation and operating costs.

Leading up to the Strike, we drew down inventory at USW-certified operations to avoid restricted access to inventory and to supply our remanufacturing and custom cut operations; however, as certain inventory was encumbered by the Strike and degraded over the third quarter of 2019, we expensed an additional $1.7 million provision against this restricted inventory.

We incurred $19.2 million of expenses arising from curtailed operations and related operating inefficiencies as a result the Strike, including $1.2 million of third quarter benefit costs paid on behalf of the USW for its striking members. After the USW's refusal to commit to reimbursing these expenses, we made the difficult decision to discontinue paying benefit premiums on the USW's behalf in the third month of the Strike. See *"Labour Relations Update"* for further information.

Lumber production of 48 million board feet was 78.3% lower than the same period last year. Incremental production from our US-based Columbia Vista division, which was acquired on February 1, 2019, was more than offset by the curtailment of our BC operations due to the Strike. We maintained production from third party custom cut facilities in the quarter to help mitigate the impact of the Strike.

Log production from our BC coastal operations was nominal at 21,000 cubic metres, compared to last year's third quarter production of 815,000 cubic metres. The limited log production volume in the quarter was from joint ventures and limited partnerships, as all our USW certified timberlands operations were shut down for the third quarter of 2019 due to the Strike.

BC coastal saw log purchases were 84,000 cubic metres, a 57.4% decrease from the same period last year. Saw log purchases resulted from pre-existing purchase commitments and volumes generated from our joint venture arrangements.

Freight expense decreased by $12.3 million from the same period last year due to lower shipment volumes.

Third quarter adjusted EBITDA and operating income included $5.5 million of countervailing duty ("CVD") and anti-dumping duty ("AD"), as compared to $11.5 million in the same period last year. Duty expense declined as a result of reduced US-destined lumber shipment volumes.

Selling and Administration Expense

Third quarter selling and administration expense was $6.0 million in 2019 as compared to $6.5 million in the same period last year. During the quarter we took steps to reduce and manage expenses in order to help mitigate the negative impact of the Strike.

Finance Costs

Finance costs were $1.9 million, compared to $0.9 million in the same period last year. This was primarily due to a higher average outstanding debt balance in 2019, compared to no outstanding debt in 2018. As at September 30, 2019, the Company had drawn $112.8 million on its credit facility. See *"Financial Position and Liquidity"* for further information.

As a result of adopting IFRS 16, *Leases* on January 1, 2019, we recognized $0.6 million of finance costs on lease payments. In comparative periods, leasing finance costs were recognized in operating income.

Net Income (Loss)

Net loss for the third quarter of 2019 was $18.7 million, as compared to net income of $15.1 million for the same period last year. Net income was lower due to the Strike and weaker markets.

Summary of Year to Date 2019 Results

Adjusted EBITDA for the first nine months of 2019 was $16.6 million, as compared to $125.5 million from the same period last year. Operating loss prior to restructuring and other items was $17.1 million, compared to operating income of $95.7 million during the same period last year.

Sales

Lumber revenue was $562.2 million, which was 22.1% lower than the same period last year, due to the Strike and more challenging market conditions compared to last year. Despite the decline in market pricing our average lumber price realizations increased, benefitting from a higher specialty product mix and a weaker CAD to USD. Specialty lumber represented 56.5% of year-to-date shipments, compared to 50.0% in the same period last year. Weak markets restricted the growth of our wholesale lumber program, as curtailed market production limited lumber volumes available for resale.

Log revenue was $131.9 million in the first nine months of 2019, an increase of 6.5% from the same period last year. Log revenue benefited from the resumption of our export log sales program in the second quarter of 2019, but was partially offset by the impact of the Strike in the third quarter of 2019.

By-products revenue decreased to $33.5 million in the first nine months of 2019, from $66.1 million in the same period last year due to lower production as a result of the Strike and sawmill curtailments, declining BC coastal chip prices and reduced chip purchase-and-resale volume.

Operations

Lumber production of 457 million board feet was 31.1% lower than the same period last year. Market-related sawmill curtailments and the Strike led to lower production, which more than offset the inclusion of results from our US-based Columbia Vista division.

Log production for the first nine months of 2019 was 2,193,000 cubic metres, 31.3% lower than the same period last year, primarily due to the Strike in the third quarter of 2019.

BC coastal saw log purchases were 530,000 cubic metres, a 30.1% decrease from the same period last year, as we managed log purchases to available capacity to support customer needs.

Freight expense decreased by $7.2 million as compared to same period last year, despite the resumption of our export log program in the second quarter of 2019, direct lumber shipments to China and the inclusion of Columbia Vista.

Adjusted EBITDA and operating income included $24.4 million of CVD and AD expense, as compared to $32.9 million in the same period of 2018. Duty expense declined as a result of reduced US-destined lumber shipment volumes due to the Strike.

Selling and Administration Expense

Selling and administration expense for the first nine months of 2019 was $23.1 million, as compared to $24.4 million in the same period last year. We took steps to reduce and manage expenses in order to help mitigate the negative impact of the Strike.

Finance Costs

Finance costs were $5.6 million, compared to $2.0 million in the first nine months of 2018, primarily due to comparatively higher average outstanding debt in 2019.

As a result of adopting IFRS 16, *Leases* on January 1, 2019, we recognized $2.3 million of finance costs on lease payments in the first nine months of 2019. In comparative periods, leasing finance costs were recognized in operating income.

Net Income (Loss)

Net loss for the first nine months of 2019 was $17.5 million, as compared to net income of $63.9 million for the same period last year. Net income for the period was lower due to the Strike which impacted the entire third quarter of 2019.

Columbia Vista Asset Acquisition

On February 1, 2019, we completed the asset acquisition of Vancouver, Washington based Columbia Vista Corporation and related entities. This acquisition is consistent with our strategy of pursuing margin-focused business opportunities that complement our position in selected markets. Bringing Western and Columbia Vista together provides us the opportunity to expand our Douglas fir specialty product offerings, particularly in Japan, which will support our BC-based Hemlock programs. The combination of Columbia Vista and Western makes us more meaningful to our selected customers and creates a stronger company for all our employees.

Sale of Ownership Interest in Port Alberni Forest Operations

On March 29, 2019, we completed the sale of a 7% interest in our newly formed TFL 44 Limited Partnership ("TFL 44 LP") to the Huumis Ventures Limited Partnership (a limited partnership beneficially owned by the Huu-ay-aht First Nations)("HVLP") for gross proceeds of $7.3 million. As part of the agreement, HVLP may acquire an additional interest in the TFL 44 LP, which may include a majority interest, subject to further negotiations. The parties have extended the deadline of the negotiations. TFL 44 LP's assets consist of TFL 44 and certain other associated assets and liabilities of our Port Alberni Forest Operation. We will continue to source fibre from TFL 44 LP to support our BC manufacturing facilities.

Income Taxes

Lower operating earnings led to an income tax recovery of $7.0 million being recognized in the third quarter of 2019, as compared to income tax expense of $5.7 million in the same quarter of last year, and an income tax recovery of $6.7 million for the nine months ended September 30, 2019, compared to an expense of $24.4 million in the same period of last year.

In May 2018, the Company received correspondence from the Canada Revenue Agency ("CRA") regarding certain restructuring transactions, occurring in 2004 and from 2007 to 2011, and the general anti-avoidance rule ("GAAR"). In May 2019, we received further correspondence from the CRA indicating the completion of their extensive audit. The CRA concluded that the matter would not be referred to their GAAR Committee and no further action was warranted, which is consistent with the Company's position that the CRA's earlier position was without merit.

Labour Relations Update

Western has been in negotiations with the USW since April 2019 for a new collective agreement to replace our prior agreement, which expired mid-June 2019. We applied to the BC Labour Relations Board ("Labour Relations Board") on June 25, 2019 for the appointment of a mediator to assist in negotiations, but to date the Labour Relations Board has not made an appointment. The USW served seventy-two hours' notice of strike action on the Company and some of its contractors on June 28, 2019.

On July 1, 2019, the USW, the union representing approximately 1,500 of our hourly employees and 1,500 employees working for our timberland contractors in BC, commenced a strike. The Strike is ongoing for all of our USW certified manufacturing and timberlands operations. The Strike is also indirectly impacting certain non-USW certified manufacturing operations, including our Ladysmith sawmill (due to insufficient log supply) and our Value-Added remanufacturing facility (due to a lack of lumber supply). Our US based Arlington and Columbia Vista divisions continue to operate, although our Arlington facility is operating on a reduced basis due to a lack of lumber supply caused by the Strike.

Upon receiving strike notice from the USW, we commenced our work stoppage contingency plan with a goal to protect our balance sheet while mitigating the impact of the Strike on our Company, customers and business partners.

On September 4, 2019, we announced the expectation to begin mediation between the Company and USW with an independent mediator on September 13, 2019. The independent mediator was agreed to by both the Company and the USW but was not appointed by the Labour Relations Board. On September 13, 2019, the USW withdrew from mediation with the Company and independent mediators after several hours of talks. The mediators informed the Company that the USW had left and would not be returning for talks scheduled for September 14, 2019. On October 17, 2019, we announced that the Company and USW were set to resume talks with the mediators. However, on October 31, 2019, we announced that no further mediation dates had been scheduled and we requested that the USW join us in binding arbitration in order to resolve the dispute.

We are committed to reaching a reasonable collective agreement that creates certainty for our employees, while maintaining our globally competitive position. We are seeking a collective agreement that is similar to those achieved in the northern and southern interior of BC, where the United Steelworkers and the Council on Northern Interior Forest Employment Relations and Interior Forest Labour Relations Association, respectively, have ratified new collective agreements. The actions taken by the USW come at a time when BC forestry companies are curtailing production and shutting down mills due to high log costs and poor market conditions.

The Strike is expected to have a negative impact on our fourth quarter results compared to the same period last year, but we are unable to determine the magnitude of that impact at this time.

Recent Developments - BC Government Forest Policies

In 2018, the BC Provincial Government (the “Province”) introduced a Coastal Revitalization Initiative and further policy initiatives that will affect the BC forest sector regulatory framework.

On April 1, 2019, the Province announced the creation of fibre recovery zones, which are intended to increase the supply of residual fibre from primary harvesting for secondary users.

Western estimates that approximately 70% of our timberland operations will be impacted with the creation of fibre recovery zones. The impacts to our business include the potential for higher costs and lower log harvest volumes. We expect the impacts will start to be realized in late 2019. The Province has been clear that they do not want to see unintended consequences from the policy implementation. We continue to collaboratively engage with the Province and other stakeholders to ensure that the desired outcome of the policy, less fibre waste and more fibre for domestic manufacturing and pulp production, is met without the unintended consequences of higher costs and less harvest volume for timberland operators.

On April 11, 2019, the Province announced Bill 22, *Forest Amendment Act, 2019*, which came into force on May 30, 2019. The amendments to the *Forest Act* will require tenure holders to receive approval from the Minister before disposing or transferring a tenure agreement to a third party. These amendments will enable the Minister to refuse to approve, or place conditions on the approval of, a disposition or transfer if it is deemed not to be in the public interest or detrimental to competition in the buying or selling of timber or residuals.

On May 16, 2019 Bill 21, *Forest and Range Practices Amendment Act, 2019*, designed to increase opportunities for public input, improve information sharing on forest planning, strengthen the Minister’s ability to manage forest activity, expand the definition of wildlife to help protect at-risk species and improve and streamline range-use planning was put into force.

On July 10, 2019, the Province announced the application of a targeted fee-in-lieu of manufacturing for exported logs harvested from BC Timber Sales, as a step towards ensuring that more logs are processed in BC.

The impact these policy initiatives may have on our operations cannot be determined at this time.

Sawmill and Remanufacturing Curtailments

The lumber industry in BC is facing the most challenging operating conditions in over a decade, including declining lumber and chip prices and high log costs which are negatively impacting the economics of our operations.

Due to market conditions, our Cowichan Bay sawmill was temporarily curtailed for a two-week period beginning March 25, 2019, and our Alberni Pacific sawmill was temporarily curtailed for a four-week period beginning March 18, 2019. Our Ladysmith sawmill was temporary curtailed for a two-week period beginning May 6, 2019, due to constrained log supply.

On June 6, 2019, we announced temporary production curtailments at three of our sawmills to align production volumes to customer demand. We curtailed our Duke Point sawmill for two weeks and our Saltair sawmill for one week in June. We reduced operating levels at our Chemainus sawmill from 120 hours per week to 80 hours per week.

On July 24, 2019, we announced an additional temporary curtailment at our Ladysmith sawmill due to illegal strike action taken by the USW, which impeded log supply to the mill. Subsequent to this announcement, the Labour Relations Board confirmed their earlier ruling that the USW tactics were illegal and ordered the USW to refrain from impeding log delivery to the mill. The Ladysmith sawmill continued to operate until it was curtailed on August 23, 2019, due to limited log supply.

On September 6, 2019, our BC Value-Added remanufacturing facility was curtailed in response to limited lumber supply as a result of the Strike.

Due to limited lumber volumes from our suppliers our Arlington remanufacturing facility in Washington State operated sporadically in the third quarter of 2019.

Financial Position and Liquidity

(millions of Canadian dollars except where otherwise noted)	Q3 2019	Q3 2018	Q2 2019	YTD 2019	YTD 2018
Selected Cash Flow Items					
Operating Activities					
Net income (loss)	$ (18.7)	$ 15.1	$ (0.7)	$ (17.5)	$ 63.9
Amortization	9.2	9.6	12.5	33.0	30.3
Income taxes paid	6.1	(2.2)	(8.0)	(17.0)	(2.2)
Other	(12.5)	3.4	0.7	(9.9)	22.9
Subtotal	(15.9)	25.9	4.5	(11.4)	114.9
Change in non-cash working capital	38.2	14.2	(13.9)	15.1	(2.3)
Cash provided by (used in) operating activities	$ 22.3	$ 40.1	$ (9.4)	$ 3.7	$ 112.6
Investing Activities					
Additions to property, plant and equipment	$ (2.4)	$ (17.7)	$ (8.5)	$ (25.4)	$ (43.2)
Additions to capital logging roads	(1.3)	$ (3.0)	(5.7)	(10.2)	(9.3)
Purchase of Arlington facility	-	-	-	-	(11.6)
Purchase of Columbia Vista	-	-	-	(37.7)	-
Proceeds from non-controlling interest	0.8	-	(0.8)	7.0	-
Other	1.5	0.8	0.1	2.3	1.1
Cash used in investing activities	$ (1.4)	$ (19.9)	$ (14.9)	$ (64.0)	$ (63.0)
Financing Activities					
Draw on (repayment of) long-term debt	$ (7.5)	$ -	$ 36.3	$ 105.8	$ -
Dividends	(8.4)	(8.8)	(8.5)	(25.5)	(25.6)
Share repurchases	(1.9)	(10.4)	(6.6)	(15.9)	(16.1)
Other	(3.3)	(0.3)	(2.3)	(7.4)	(0.4)
Cash provided by (used in) financing activities	$ (21.1)	$ (19.5)	$ 18.9	$ 57.0	$ (42.1)
Increase (decrease) in cash	$ (0.2)	$ 0.7	$ (5.4)	$ (3.3)	$ 7.5
Summary of Financial Position					
Cash and cash equivalents	$ 5.1	$ 42.8	$ 5.3		
Current assets	222.4	324.6	333.7		
Current liabilities	57.8	146.0	136.4		
Total debt, net of deferred financing costs	112.0	-	119.4		
Net debt (cash) (1)	106.9	(42.8)	114.1		
Equity	519.1	586.6	546.7		
Total liquidity (2)	141.3	291.8	133.9		
Financial ratios:					
Current assets to current liabilities	3.85	2.22	2.45		
Net debt to capitalization (3)	0.17	-	0.17		

(1) Net debt (cash) is defined as the sum of long-term debt, less cash and cash equivalents.
(2) Total liquidity comprises cash and cash equivalents, and available credit under the Company's credit facility.
(3) Capitalization comprises net debt and equity.

Cash provided by operating activities during the third quarter of 2019 was $22.3 million as compared to cash provided of $40.1 million in the same period last year. We reduced our non-cash working capital by $38.2 million in the quarter to partly offset significantly reduced cash from operations resulting from the Strike.

Cash used in investing activities was $1.4 million during the third quarter of 2019, as compared to $19.9 million invested during the same period last year. We reduced our capital spending in order to manage cash flow during the Strike, and incurred only safety, environmental and committed capital expenditures, which were partially offset by proceeds from sale of certain non-core land assets. Our strategic capital program is discussed in more detail under *"Strategy and Outlook"*.

Cash used in financing activities was $21.1 million in the third quarter of 2019, which included repayment of our credit facilities of $7.5 million. This compared to cash used for financing activities of $19.5 million in the same period last year. We returned $8.4 million to shareholders through quarterly dividends, and repurchased $1.9 million of our common shares for cancellation under our normal course issuer bid during the quarter.

Despite the majority of our operations having been inactive in the third quarter of 2019, our total liquidity increased to $141.3 million as at September 30, 2019, from $133.9 million at the end of the second quarter. Liquidity is comprised of cash and cash equivalents of $5.1 million and unused availability under the credit facility of $136.2 million. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2019. The Company was in compliance with all its financial covenants as at September 30, 2019.

Capital Allocation

Normal Course Issuer Bid

On August 2, 2019, the Company renewed its Normal Course Issuer Bid ("NCIB") permitting the purchase and cancellation of up to 18,763,888 of the Company's common shares or approximately 5% of the common shares issued and outstanding as of August 1, 2019. The Company also entered into an automatic share purchase plan with its designated broker to facilitate purchases of its common shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its common shares due to regulatory restrictions or self-imposed blackout periods.

The Company's previous NCIB to purchase for cancellation up to 19,662,439 common shares expired on August 7, 2019. Under the previous NCIB, the Company purchased 18,381,621 common shares for $35.4 million, at a volume weighted average price of $1.92 per common share, representing approximately 4.7% of the total shares outstanding at the commencement of our previous NCIB.

In the three months ended September 30, 2019, the Company repurchased 1,230,600 common shares under the NCIB for $1.8 million at an average price of $1.49 per common share.

Strategy and Outlook

Western's long-term business objective is to create superior value for shareholders by building a margin-focused log and lumber business of scale to compete successfully in global softwood markets. We believe this will be achieved by maximizing the sustainable utilization of our forest tenures, operating safe, efficient, low-cost manufacturing facilities and augmenting our sales of targeted high-value specialty products for selected global customers with a lumber wholesale program. We seek to manage our business with a focus on operating cash flow and maximizing value through the production and sales cycle. We routinely evaluate our performance using the measure of Return on Capital Employed.

For more detail on our strategic initiatives and actions, refer to "*Strategy and Outlook*" in our Management's Discussion and Analysis for the year ended December 31, 2018.

Sales & Marketing Strategy Update

We continue to progress with the execution of our sales and marketing strategy that focuses on the production and sale of targeted, high-margin products of scale to selected customers. We supplement our key product offerings with purchased lumber to deliver the suite of products our customers require. Our Columbia Vista division continues to perform in line with our expectations and has been a positive addition to our business and product mix. In the third quarter of 2019 we continued to develop and evaluate growth opportunities for our wholesale lumber business.

Market Outlook

Our long-term view of market fundamentals remains unchanged. In North America, rising lumber consumption will be driven by increased new home construction, a robust repair and renovation sector and growth of mass timber building technologies. In China, a government commitment to housing and economic stimulus should support demand for lumber. Growing demand and reduced supply due to North American sawmill curtailments is expected to benefit the industry long-term.

Despite positive long-term growth drivers, lumber markets have remained challenged in 2019 as North American weather events and skilled labour constraints have stalled US new home construction and muted growth in repair and renovation spending. In response to weak demand, temporary and permanent production curtailments have been announced. The supply impacts of these announcements have not been fully realized but are expected to improve lumber pricing in future quarters.

Recent BC Coastal cedar manufacturing closures should benefit our WRC product pricing going forward.

In Japan, we expect demand to remain flat for our Douglas fir products, however increased competition from European engineered wood products may pressure pricing. We expect market share erosion and weaker pricing for BC coastal Hemlock lumber in Japan, due to the supply shortages as a result of the Strike and increased competition from Japanese Government subsidized domestic species.

We anticipate demand for appearance Niche products to moderate due to the trade friction between the US and China. In contrast, we expect demand in North America to remain steady for timbers and industrial products.

Commodity lumber markets in North American are likely to remain volatile until supply and demand come into balance. As excess lumber inventory in China is reduced, we anticipate pricing will improve.

We expect domestic saw log prices to continue to weaken in response to lumber markets. Price declines may be somewhat mitigated by lower log supply, as recent government initiates that have increased harvest costs are expected to challenge harvest economics. Looking ahead, lower domestic and export log prices may lead to lower BC coastal log stumpage rates.

In the US Pacific Northwest, we expect our Columbia Vista division to continue to benefit from lower Douglas fir saw log prices which have responded to the weaker lumber markets.

Near-term BC coastal chip pricing has stabilized but remains depressed due to NBSK pulp pricing.

Strategic Capital Program Update

We continue to evaluate opportunities to invest strategic capital in our business that are designed to position Western as the only company capable of sustainably consuming the complete profile of the coastal forest and competitively manufacturing a diverse product mix for global markets.

Our strategic capital program is focused on the installation of technology that will deliver top quartile performance and improve our ability to manufacture targeted products that yield the best margin. In addition to investments in our manufacturing assets, we also allocate capital to strategic, high-return projects involving our information systems, timberlands assets, and forest inventories.

Secondary processing at our Arlington facility continued in the third quarter of 2019; however, the expected ramp up of production at the facility has been partially impacted by the Strike and a lack of wholesale lumber supply due to market conditions.

Given the current uncertainty created by the ongoing labour dispute, unfavourable investment conditions in BC and our near-term focus on managing cash flow, we have scaled back our strategic capital investment. Until there is greater visibility with respect to the current labour dispute, the Company has halted all material non-committed strategic capital investment in BC.

Softwood Lumber Dispute and US Market Update

Western's results for the third quarter of 2019 include $5.5 million of export duty expense, comprised of CVD and AD expense. At September 30, 2019, Western had $87.2 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties.

The US application of duties continues a long-standing pattern of US protectionist action against Canadian lumber producers. We disagree with the inclusion of specialty lumber products, particularly WRC and Yellow Cedar products in this commodity lumber focused dispute. As duties paid are determined on the value of lumber exported, and as our shipments to the US market are predominantly high-value, appearance grade lumber, we are disproportionately impacted by these duties. As a result, in May 2018, we filed a Chapter 19 North American Free Trade Agreement ("NAFTA") separate-like-product challenge, which was subsequently presented to a NAFTA hearing panel in May 2019. Unfortunately, in September 2019 the NAFTA panel chose not to remand our separate-like product challenge back to the US International Trade Commission ("USITC"). The lack of remand effectively ends our ability to challenge the USITC's finding that WRC and Yellow Cedar products are not a distinct product group, or interchangeable in their use, from commodity lumber.

On September 4, 2019, the NAFTA panel remanded the Canadian government's injury case back to the USITC. The USITC has 90 days to respond to the NAFTA panel's comments, however, we do not expect the USITC to back away from their finding of injury and therefore expect the remand process to be ongoing.

On April 9, 2019, a World Trade Organization ("WTO") panel ruled on certain matters relating to the application of softwood lumber AD, concluding that the US violated international trade rules in the way it calculated AD duties. Included in the ruling, the WTO panel allowed the US to use "zeroing" in its calculation of AD, which Canada appealed in June 2019. The practice of zeroing had previously been disallowed by the WTO with regard to softwood lumber. The final determination of AD is subject to additional appeals from both the US and Canada.

Including wholesale lumber shipments, our sales to the US market represents less than 25% of Western's total revenue in 2018. Our distribution and processing centre in Arlington, Washington and our Columbia Vista division in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market. We intend to leverage our flexible operating platform to continue to partially mitigate any challenges that arise from this trade dispute.

For a more detailed timeline of recent history of the softwood lumber dispute, refer to "*Risks and Uncertainties – Softwood Lumber Dispute*" in our Management's Discussion and Analysis for the year ended December 31, 2018.

Non-GAAP Measures

Reference is made in this MD&A to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, and Net debt to capitalization are used as benchmark measurements of our operating results and as benchmarks relative to our competitors. These non-GAAP measures are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. The following table provides a reconciliation of these non-GAAP measures to figures as reported in our audited annual consolidated financial statements:

(millions of Canadian dollars except where otherwise noted)	Q3 2019	Q3 2018	Q2 2019	YTD 2019	YTD 2018
Adjusted EBITDA					
Net income (loss)	$ (18.7)	$ 15.1	$ (0.7)	$ (17.5)	$ 63.9
Add:					
Amortization	9.2	9.6	12.5	33.0	30.3
Changes in fair value of biological assets, net	(1.4)	(0.8)	1.3	0.9	(0.5)
Operating restructuring items	0.3	1.7	0.5	1.4	5.2
Other (income) expense (1)	(0.7)	-	(0.1)	0.1	0.2
Finance costs	1.9	0.9	2.2	5.6	2.0
Current income tax expense (recovery)	(9.6)	6.2	(0.8)	(9.6)	14.3
Deferred income tax expense (recovery)	2.6	(0.5)	0.3	2.9	10.1
Adjusted EBITDA	$ (16.6)	$ 32.3	$ 15.1	$ 16.6	$ 125.5
Adjusted EBITDA margin					
Total revenue	$ 141.6	$ 292.5	$ 310.3	$ 727.6	$ 911.9
Adjusted EBITDA	(16.6)	32.3	15.1	16.6	125.5
Adjusted EBITDA margin	-11.7%	11.0%	4.9%	2.3%	13.8%
Net debt to capitalization					
Net debt					
Total debt, net of deferred financing costs	$ 112.0	$ -	$ 119.4		
Cash and cash equivalents	(5.1)	(42.8)	(5.3)		
Net debt (cash)	$ 106.9	$ (42.8)	$ 114.1		
Capitalization					
Net debt (cash)	$ 106.9	$ (42.8)	$ 114.1		
Add: Equity	519.1	586.6	546.7		
Capitalization	$ 626.0	$ 543.8	$ 660.8		
Net debt to capitalization	17.1%	-	17.3%		

Figures in the table above may not equal or sum to figures presented elsewhere due to rounding.

(1) Other (income) expense, net of changes in fair market value less cost to sell of biological assets.

Accounting Policies and Standards

Please refer to Note 3 of our unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 for further information on the new accounting standards referenced below.

New Accounting Standards

The Company has adopted IFRS 16, *Leases* (“IFRS 16”), with a date of initial application of January 1, 2019, using a modified retrospective approach. Under the modified retrospective approach, the cumulative effect of initial application has been recognized in retained earnings at January 1, 2019, and comparative information has not been restated and continues to be reported under IAS 17, *Leases*.

On transition to IFRS 16, the Company elected to apply a practical expedient to grandfather the assessment of which transactions are leases. IFRS 16 only applies to contracts that were previously recognized as leases. Contracts that were not recognized as leases under IAS 17 were not reassessed for whether there is a lease. As such, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after January 1, 2019.

As a result of the adoption of IFRS 16, the Company recorded right of use assets (“ROU assets”) and lease liabilities of $17.0 million as at January 1, 2019. During the nine months ended September 30, 2019, the Company recognized amortization of $3.3 million in operating income and finance costs of $2.3 million relating to these ROU assets and lease liabilities. The adoption of IFRS 16 had no impact on the overall cash flow of the Company.

Accounting Standards Not Yet Applied

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2019 and have not been applied in preparing these interim financial statements. None of the standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2018 Annual Report, which can be found on SEDAR at www.sedar.com. There were no changes to critical accounting estimates during the nine months ended September 30, 2019.

Financial Instruments and Other Instruments

We use various financial instruments to reduce the impact of movement in foreign exchange rates on our net income. Please see our Management Discussion and Analysis for the year ended December 31, 2018 for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the nine months ended September 30, 2019.

Off-Balance Sheet Arrangements

Other than short-term and low-value leases for which recognition exemptions are applied under IFRS 16, the Company does not have any off-balance sheet arrangements as at September 30, 2019.

Related Party Transactions

Other than transactions in the normal course of business with the Board of Directors and key management personnel, the Company had no transactions between related parties in the nine months ended September 30, 2019.

Risks and Uncertainties

The business of the Company is subject to a number of risks and uncertainties, including those described in the 2018 Annual Report which can be found on SEDAR at www.sedar.com. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business. Except as set forth in this MD&A, there were no additional risks and uncertainties identified during the nine months ended September 30, 2019.

Evaluation of Disclosure Controls and Procedures

There have been changes in the Company's internal controls over financial reporting ("ICFR") during the second quarter of 2019 resulting from the Company's implementation of a new enterprise resource planning system ("ERP"); however, there have been no changes in the Company's ICFR in the nine months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, its ICFR.

During the ERP implementation, the Company's internal controls were maintained or supplemented by controls added during the system implementation and related business process improvements. The Company performed fulsome system conversion testing to ensure that prior period balances were translated into the new system completely and accurately.

Outstanding Share Data

As of November 6, 2019, there were 375,197,166 common shares of the Company issued and outstanding.

We have reserved 30,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the nine months ended September 30, 2019, 2,487,950 options were granted, 600,000 previously granted options were exercised and 476,118 options were forfeited. As of November 6, 2019, 13,377,189 options were outstanding under our incentive stock option plan.

Additional Information

Additional information relating to the Company and its operations, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of Canadian dollars except per share amounts and where noted)		2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4
Average Exchange Rate – USD to CAD		1.321	1.337	1.329	1.322	1.307	1.291	1.265	1.271
Average Exchange Rate – CAD to USD		0.757	0.748	0.752	0.756	0.765	0.775	0.791	0.787
Financial Performance									
Revenue									
Lumber		$ 109.7	$ 233.6	$ 218.9	$ 230.9	$ 238.2	$ 255.6	$ 228.2	$ 207.3
Logs		27.4	63.3	41.2	36.2	33.6	49.0	41.2	56.6
By-products		4.5	13.4	15.6	17.7	20.7	23.2	22.2	19.2
Total revenue		$ 141.6	$ 310.3	$ 275.7	$ 284.8	$ 292.5	$ 327.8	$ 291.6	$ 283.1
Adjusted EBITDA		$ (16.6)	$ 15.1	$ 18.1	$ 18.0	$ 32.3	$ 50.2	$ 43.0	$ 38.9
Adjusted EBITDA margin		-11.7%	4.9%	6.6%	6.3%	11.0%	15.3%	14.7%	13.7%
Earnings per share:									
Net income, basic and diluted		$ (0.05)	$ -	$ -	$ 0.02	$ 0.04	$ 0.07	$ 0.05	$ 0.05
Operating Statistics									
Lumber(1),(2)									
Production	mmfbm	48	206	202	200	221	234	209	184
Shipments - Total	mmfbm	90	211	203	218	212	235	215	201
Price	$/mfbm	$ 1,219	$ 1,107	$ 1,078	$ 1,059	$ 1,124	$ 1,088	$ 1,061	$ 1,031
Logs(3)									
Net production	000 m^3	21	1,250	922	1,135	815	1,348	1,029	1,099
Saw log purchases	000 m^3	84	238	208	212	197	305	265	343
Log availability	000 m^3	105	1,488	1,130	1,347	1,012	1,653	1,294	1,442
Shipments	000 m^3	246	536	369	369	308	471	361	494
Price(4)	$/$m^3$	$ 110	$ 112	$ 112	$ 98	$ 109	$ 104	$ 114	$ 107
Share Repurchases and Dividends									
Shares repurchased (millions)		3.8	3.8	3.9	4.9	4.6	1.6	0.6	1.1
Shares repurchased		$ 1.9	$ 6.6	$ 7.4	$ 9.1	$ 10.4	$ 4.1	$ 1.6	$ 2.7
Dividends paid		$ 8.4	$ 8.5	$ 8.6	$ 8.7	$ 8.8	$ 8.9	$ 7.9	$ 7.9

Figures in the table above may not equal or sum to figures presented elsewhere due to rounding.

(1) Includes Columbia Vista acquired February 1, 2019.
(2) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
(3) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.
(4) The log revenue used to determine average price per cubic metre has been reduced by the associated shipping costs arranged in the respective periods to enable comparability of unit prices.
(5) Third quarter 2019 results reflect the curtailment of coastal BC operations due to the Strike.

In a normal operating year there is seasonality to the Company's operations with higher lumber sales in the second and third quarters when construction activity, particularly in the US, 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 fire in the summer.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 5.1	$ 8.4
Trade and other receivables (Note 16)	31.4	91.3
Inventory (Note 5)	150.4	174.9
Prepaid expenses and other assets	22.3	23.3
Income taxes receivable	13.2	-
	222.4	297.9
Non-current assets:		
Property, plant and equipment (Note 6)	431.6	369.9
Timber licenses	110.1	113.2
Biological assets (Note 7)	57.4	58.3
Other assets	17.0	15.8
Deferred income tax assets	0.9	0.7
	$ 839.4	$ 855.8
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 43.6	$ 119.2
Income taxes payable	-	13.5
Current portion of lease liability (Note 3)	5.4	-
Reforestation obligation (Note 10)	8.8	10.0
	57.8	142.7
Non-current liabilities:		
Long-term debt (Note 8)	112.0	6.0
Long-term lease liability (Note 3)	17.2	-
Reforestation obligation (Note 10)	14.3	15.7
Deferred income tax liabilities	43.8	40.3
Other liabilities (Note 11)	21.3	23.8
Deferred revenue	52.9	54.4
	319.3	282.9
Equity:		
Share capital (Note 12(a))	479.9	491.1
Contributed surplus	9.5	9.1
Translation reserve	0.3	-
Retained earnings	29.4	72.7
Total equity attributable to equity shareholders of the Company	519.1	572.9
Non-controlling interest (Note 17)	1.0	-
	520.1	572.9
	$ 839.4	$ 855.8

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 and CEO

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, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue (Note 16)	$ 141.6	$ 292.5	$ 727.6	$ 911.9
Costs and expenses:				
Cost of goods sold	144.8	229.3	638.2	692.7
Freight	9.5	21.8	59.0	66.2
Export tax (Note 13)	5.5	11.5	24.4	32.9
Selling and administration	6.0	6.5	23.1	24.4
	165.8	269.1	744.7	816.2
Operating income (loss) prior to restructuring and other items	(24.2)	23.4	(17.1)	95.7
Operating restructuring items	(0.3)	(1.7)	(1.4)	(5.2)
Other income (expense)	0.7	-	(0.1)	(0.2)
Operating income (loss)	(23.8)	21.7	(18.6)	90.3
Finance costs	(1.9)	(0.9)	(5.6)	(2.0)
Income (loss) before income taxes	(25.7)	20.8	(24.2)	88.3
Current income tax recovery (expense) (Note 9)	9.6	(6.2)	9.6	(14.3)
Deferred income tax recovery (expense) (Note 9)	(2.6)	0.5	(2.9)	(10.1)
	7.0	(5.7)	6.7	(24.4)
Net income (loss)	(18.7)	15.1	(17.5)	63.9
Net income (loss) attributable to equity shareholders of the Company	(18.7)	15.1	(17.3)	63.9
Net income (loss) attributable to non-controlling interest (Note 17)	-	-	(0.2)	-
	(18.7)	15.1	(17.5)	63.9
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Defined benefit plan actuarial gain (loss) (Note 14)	0.4	1.9	(0.9)	1.0
Income tax (expense) recovery on other comprehensive gain (loss) (Note 9)	(0.1)	(0.5)	0.3	(0.3)
Total items that will not be reclassified to profit or loss	0.3	1.4	(0.6)	0.7
Items that may be reclassified subsequently to profit or loss:				
Foreign exchange translation of foreign operations	0.7	-	0.3	-
Total comprehensive income (loss)	$ (17.7)	$ 16.5	$ (17.8)	$ 64.6
Net income per share (in dollars)				
Basic and diluted earnings per share	$ (0.05)	$ 0.04	$ (0.05)	$ 0.16
Weighted average number of common shares outstanding (thousands)				
Basic	375,428	392,194	378,450	393,945
Diluted	376,509	395,904	380,217	398,171

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	Non-controlling Interest	**Total Equity**
Balance at December 31, 2017	$ 505.5	$ 8.7	$ -	$ 48.5	$ -	$ 562.7
Net income	-	-	-	63.9	-	63.9
Other comprehensive income:						
Defined benefit plan actuarial gain recognized	-	-	-	1.0	-	1.0
Income tax expense on other comprehensive income	-	-	-	(0.3)	-	(0.3)
Total comprehensive income	-	-	-	64.6	-	64.6
Share-based payment transactions recognized in equity	-	0.6	-	-	-	0.6
Exercise of stock options	0.6	(0.2)	-	-	-	0.4
Repurchase of shares	(8.7)	-	-	(7.4)	-	(16.1)
Dividends	-	-	-	(25.6)	-	(25.6)
Total transactions with owners, recorded directly in equity	(8.1)	0.4	-	(33.0)	-	(40.7)
Balance at September 30, 2018	$ 497.4	$ 9.1	$ -	$ 80.1	$ -	$ 586.6

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	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 loss:						
Defined benefit plan actuarial loss recognized	-	-	-	(0.9)	-	(0.9)
Income tax recovery on other comprehensive loss	-	-	-	0.3	-	0.3
Foreign exchange translation of 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 (Note 12(b))	-	0.5	-	-	-	0.5
Non-controlling interest (Note 17)	-	-	-	5.0	1.2	6.2
Exercise of stock options (Note 12(a))	0.1	(0.1)	-	-	-	-
Repurchase of shares (Note 12(a))	(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

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, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cash provided by (used in):				
Operating activities:				
Net income (loss)	$ (18.7)	$ 15.1	$ (17.5)	$ 63.9
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	8.2	8.7	30.0	27.3
Amortization of timber licenses	1.0	0.9	3.0	3.0
Gain on disposal of assets	(0.4)	-	(0.5)	(0.3)
Change in fair value of biological assets (Note 7)	(1.4)	(0.8)	0.9	(0.5)
Change in reforestation obligation (Note 10)	(2.2)	(0.3)	(2.5)	(0.9)
Amortization of deferred revenue	(0.5)	(0.5)	(1.5)	(1.5)
Share-based compensation, including mark-to-market adjustment	(1.0)	(1.0)	(1.2)	1.7
Net finance costs	1.9	0.9	5.6	2.0
Income tax (recovery) expense (Note 9)	(7.0)	5.7	(6.7)	24.4
Change in pension liability (Note 14)	(0.4)	(0.7)	(2.2)	(2.3)
Export tax receivable	(0.2)	-	0.1	-
Other	(1.3)	0.1	(1.9)	0.3
Income taxes received (paid)	6.1	(2.2)	(17.0)	(2.2)
	(15.9)	25.9	(11.4)	114.9
Changes in non-cash working capital items:				
Trade and other receivables	68.1	5.5	60.5	(2.4)
Inventory	62.6	14.0	31.2	(26.2)
Prepaid expenses and other assets	(5.7)	2.1	4.4	4.0
Accounts payable and accrued liabilities	(86.8)	(7.4)	(81.0)	22.3
	38.2	14.2	15.1	(2.3)
	22.3	40.1	3.7	112.6
Investing activities:				
Additions to property, plant and equipment (Note 6)	(3.7)	(20.7)	(35.6)	(52.5)
Purchase of Arlington facility	-	-	-	(11.6)
Purchase of Columbia Vista (Note 18)	-	-	(37.7)	-
Proceeds on disposal of assets	1.5	0.8	2.3	1.1
Proceeds from disposition of minority interest in subsidiary, net (Note 17)	0.8	-	7.0	-
	(1.4)	(19.9)	(64.0)	(63.0)
Financing activities:				
Interest paid	(2.2)	(0.3)	(4.2)	(0.8)
Draw on (repayment of) long-term debt (Note 8)	(7.5)	-	105.8	-
Payment of lease liabilities	(1.1)	-	(2.8)	-
Repurchase of shares (Note 12(a))	(1.9)	(10.4)	(15.9)	(16.1)
Dividends	(8.4)	(8.8)	(25.5)	(25.6)
Proceeds from exercise of stock options, net (Note 12(b))	-	-	(0.4)	0.4
	(21.1)	(19.5)	57.0	(42.1)
Increase (decrease) in cash and cash equivalents	(0.2)	0.7	(3.3)	7.5
Cash and cash equivalents, beginning of period	5.3	42.1	8.4	35.3
Cash and cash equivalents, end of period	$ 5.1	$ 42.8	$ 5.1	$ 42.8

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

1. Reporting entity

Western Forest Products Inc. ("Western" or the "Company") is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia 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, 2019 and 2018 comprise 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

(a) 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, 2018. 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.

The interim financial statements were authorized for issue by the Board of Directors on November 6, 2019.

(b) Basis of measurement

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

- Biological assets are measured at fair value less costs to sell;
- Liabilities for cash-settled share-based payment transactions are measured at fair value at each reporting 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 total of the fair value of the plan assets, less the present value of the defined benefit obligation; and,
- Reforestation obligations are measured at the discounted value of expected future cash flows.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of interim consolidated financial statements in accordance with IAS 34 requires Management to make 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, 2018, except for new significant judgements related to the lessee accounting under IFRS 16, *Leases*, which are described in Note 3.

3. Significant accounting policies

Except as described below and in Note 18, 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, 2018.

Changes to significant accounting policies

IFRS 16, Leases ("IFRS 16")

The Company adopted IFRS 16*,* with a date of initial application of January 1, 2019, using a modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized with no adjustment to retained earnings at January 1, 2019. The comparative information presented for 2018 has not been restated and continues to be reported under IAS 17, *Leases,* ("IAS 17") and related interpretations.

Lease definition

When a contract is entered into, the Company will assess if a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A contract will convey the right to control the use of an identified asset for a period of time if the Company has the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

Measurement of right of use assets and lease liabilities

The Company recognizes a right of use asset and lease liability at the lease commencement date. At this date, the right of use asset is measured at cost. Cost includes the initial amount of the lease liability, adjusted for lease payments made before this date plus initial direct costs incurred, less any lease incentives received.

The right of use asset is depreciated using the straight-line method from the lease commencement date to the earlier of the end of the lease term or the end of the useful life of the right of use asset. The estimated useful lives of right of use assets are determined in the same manner as those of property plant and equipment. Right of use assets are adjusted for impairments and/or re-measurements of the lease liability.

At the lease commencement date, the lease liability is measured at the present value of the future lease payments. The lease payments are discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability consist of fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, the expected amounts payable under residual value guarantees, the exercise price of a purchase option that the Company is reasonably certain to exercise, and penalties for terminating the lease, if the lease term reflects the lessee exercising an early termination option.

Subsequent to initial measurement, the lease liability is measured at amortized cost using the effective interest method. The lease liability is re-measured when there is a change in future lease payments due to a change in an index or rate, a change in the Company's estimate of an amount payable under residual value guarantee, or if there is a change in the assessment of whether the Company will exercise a purchase, termination or extension option. When the lease liability is re-measured, a corresponding adjustment is made to the right of use asset.

The Company presents right of use assets in property, plant and equipment and lease liabilities separately on the statement of financial position.

The Company elected not to recognize right of use assets and corresponding lease liabilities for leases with a term of 12 months or less and low value leases, including office fixtures, information technology equipment and small manufacturing and storage equipment. The Company recognizes these lease payments as an expense on a straight-line basis over the term of the lease.

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

3. Significant accounting policies (continued)

Changes to significant accounting policies

IFRS 16, Leases ("IFRS 16") - At adoption

On adoption of IFRS 16, the Company recognized right of use assets (included in "Property, plant & equipment") with a corresponding increase to lease liabilities. To measure lease liabilities for leases that were classified as operating leases under IAS 17, the Company discounted the future lease payments using its incremental borrowing rate at adoption. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 4.5%.

	Buildings & Equipment	Land	Total
Balance as at January 1, 2019	$ 7.7	$ 9.3	$ 17.0
Balance as at September 30, 2019	$ 13.2	$ 8.8	$ 22.0

In its annual consolidated financial statements as at and for the year ended December 31, 2018, the Company disclosed $19.7 million of operating lease commitments. These, discounted at the incremental borrowing rate as at January 1, 2019, resulted in an opening lease liability of $17.0 million. In the three and nine months ended September 30, 2019, the Company recognized an expense of $0.3 million and $0.8 million, respectively, relating to short term and low value lease payments that were previously treated as rental agreements. In the three and nine months ended September 30, 2019, the Company recognized amortization of $1.5 million and $3.3 million, respectively, related to its right of use assets. Interest expense on lease liabilities for the three and nine months ended September 30, 2019 was $0.6 million and $2.3 million, respectively.

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, 2019	December 31, 2018
Gross value of inventory		
Logs	$ 113.0	$ 125.7
Lumber	37.9	51.7
Supplies and other	15.5	13.1
	$ 166.4	$ 190.5
Provisions		
Logs	$ (9.4)	$ (8.8)
Lumber	(6.2)	(6.3)
Supplies and other	(0.4)	(0.5)
	$ (16.0)	$ (15.6)
Total value of inventory	$ 150.4	$ 174.9

The carrying amount of inventory recorded at net realizable value was $59.8 million at September 30, 2019 (December 31, 2018: $79.4 million), with the remaining inventory recorded at cost.

During the three and nine months ended September 30, 2019, $144.8 million and $638.2 million, respectively (2018: $229.3 million and $692.7 million, respectively) of inventory was charged to cost of goods sold. This includes a decrease to the net realizable value provision of $1.6 million for the three months ended September 30, 2019, and an increase of $0.4 million for the nine months ended September 30, 2019 (2018: increase of $3.8 million and $5.4 million, respectively).

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

6. Property, plant and equipment

Cost	Buildings & equipment	Logging roads	Land	Right of use assets	Total
Balance at January 1, 2018	$ 341.9	$ 191.9	$ 87.8	$ -	$ 621.6
Additions	70.6	12.9	-	-	83.5
Arlington facility	7.9	-	3.7	-	11.6
Disposals	(6.7)	-	(2.3)	-	(9.0)
Balance at December 31, 2018	413.7	204.8	89.2	-	707.7
Adoption of IFRS 16	-	-	-	17.0	17.0
Additions	25.4	10.2	-	7.5	43.1
Columbia Vista assets (Note 18)	21.0	-	10.6	0.8	32.4
Disposals	(0.9)	-	(1.6)	-	(2.5)
Effect of movements in exchange rates	0.7	-	0.3	-	1.0
Balance at September 30, 2019	$ 459.9	$ 215.0	$ 98.5	$ 25.3	$ 798.7
Accumulated amortization and impairments					
Balance at January 1, 2018	$ 150.8	$ 156.8	$ 0.1	$ -	$ 307.7
Amortization	23.0	13.2	-	-	36.2
Disposals	(6.4)	-	-	-	(6.4)
Impairments	0.1	-	0.2	-	0.3
Balance at December 31, 2018	167.5	170.0	0.3	-	337.8
Amortization	18.9	7.8	-	3.3	30.0
Disposals	(0.7)	-	-	-	(0.7)
Balance at September 30, 2019	$ 185.7	$ 177.8	$ 0.3	$ 3.3	$ 367.1
Carrying amounts					
At December 31, 2018	$ 246.2	$ 34.8	$ 88.9	$ -	$ 369.9
At September 30, 2019	$ 274.2	$ 37.2	$ 98.2	$ 22.0	$ 431.6

7. Biological assets

(a) Reconciliation of carrying amount

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Carrying value, beginning of period	$ 56.0	$ 57.9	$ 58.3	$ 58.2
Change in fair value due to growth and pricing	1.4	1.4	4.2	4.2
Harvested timber transferred to inventory	-	(0.6)	(5.1)	(3.7)
Carrying value, end of period	$ 57.4	$ 58.7	$ 57.4	$ 58.7

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.

At September 30, 2019, private timberlands comprised an area of approximately 23,293 hectares (December 31, 2018: 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 months ended September 30, 2019, the Company had no harvesting activities, and for the nine months ended September 30, 2019, the Company harvested and scaled approximately 132,897 cubic metres ("m^3") of logs (2018: 13,525 m^3 and 95,399 m^3, respectively), which had a fair value less costs to sell of $115 per m^3 at the date of harvest (2018: $107 per m^3 and $102 per m^3, respectively).

The financial risks associated with standing timber are mitigated by the geographical diversification of the asset and management strategies including fire management strategies and regular inspection for pest infestation.

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

7. Biological assets (continued)

(b) Measurement of fair values

The Company's standing timber of $57.4 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, 2019 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

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.

At September 30, 2019, $112.8 million was outstanding under the Company's Credit Facility. The interest rate for the Credit Facility was 4.95% at September 30, 2019 (December 31, 2018: 4.65%). The Company was in compliance with its financial covenants as at September 30, 2019.

	September 30, 2019	December 31, 2018
Long-term debt	$ 112.8	$ 7.0
Less transaction costs	(0.8)	(1.0)
	$ 112.0	$ 6.0
Available	$ 250.0	$ 250.0
Drawings	(112.8)	(7.0)
Outstanding letters of credit	(1.0)	(1.0)
Unused portion of Credit Facility	$ 136.2	$ 242.0

(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,	
	2019	2018	2019	2018
Income (loss) before income taxes	$ (25.7)	$ 20.8	$ (24.2)	$ 88.3
Income tax recovery (expense) at statutory rate of 27% (2018 - 27%)	6.9	(5.6)	6.5	(23.8)
Permanent differences	0.1	(0.1)	0.2	(0.6)
	$ 7.0	$ (5.7)	$ 6.7	$ (24.4)

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Current income tax (expense) recovery	$ 9.6	$ (6.2)	$ 9.6	$ (14.3)
Deferred income tax (expense) recovery	(2.6)	0.5	(2.9)	(10.1)
	$ 7.0	$ (5.7)	$ 6.7	$ (24.4)

In addition to the amounts recorded to net income, a deferred tax expense of $0.1 million and a deferred tax recovery of $0.3 million were recorded in other comprehensive income for the three and nine months ended September 30, 2019, respectively (2018: deferred tax expense of $0.5 million and $0.3 million, respectively) in relation to current period 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,	
	2019	2018	2019	2018
Reforestation obligation, beginning of period	$ 25.4	$ 24.7	$ 25.7	$ 25.3
Reforestation provision charged	0.4	1.8	4.9	5.9
Reforestation expenditures	(2.7)	(2.1)	(7.6)	(7.0)
Unwind of discount	0.1	-	0.2	0.2
Reforestation obligation, end of period	23.1	24.4	23.1	24.4
Less current portion	8.8	9.9	8.8	9.9
	$ 14.3	$ 14.5	$ 14.3	$ 14.5

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 1.36% to 1.72%. The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at September 30, 2019 is $23.8 million (December 31, 2018: $26.7 million). Reforestation expense incurred on current production is included in production costs and the unwinding of discount, or accretion cost, is included in finance costs for the period.

11. Other liabilities

	September 30, 2019	December 31, 2018
Employee future benefits obligation (Note 14)	$ 17.7	$ 19.0
Environmental accruals	1.6	1.5
Performance share unit plan liabilities, non-current (Note 12(d))	0.8	1.8
Other	1.2	1.5
	$ 21.3	$ 23.8

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

12. Share capital

(a) Issued and outstanding share capital

	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 September 30, 2019	375,197,166	$	479.9

(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.

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.

During the first quarter of 2019, the Company granted 2,487,950 options with a fair value of $0.9 million as determined by the Black-Scholes option pricing model, using the assumptions of an average exercise price of $1.94 per share, risk free interest rate of 1.88%, a volatility rate of 31.86%, and an expected life of seven years. At September 30, 2019, 13,377,189 options (December 31, 2018: 11,965,357) were outstanding under the Company's Option Plan, with a weighted average exercise price of $1.80 per share.

	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Number of Options		Weighted average exercise price	Number of Options		Weighted average exercise price
Outstanding, beginning of period	11,965,357	$	1.73	11,718,483	$	1.56
Granted	2,487,950	$	1.94	1,235,788	$	2.74
Exercised	(600,000)	$	0.22	(660,000)	$	0.59
Forfeited	(476,118)	$	2.33	-	$	-
Outstanding, end of period	13,377,189	$	1.80	12,294,271	$	1.73

During the three months ended September 30, 2019, there were no options exercised, and during the nine months ended September 30, 2019, 330,000 options were exercised for the issuance of Common Shares, and 270,000 options were exercised on a cashless basis.

During the three and nine months ended September 30, 2019, the Company recorded a compensation expense for these stock options of $0.2 million and $0.4 million, respectively (2018: compensation expense of $0.2 million and $0.6 million, respectively).

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

The Company has a DSU Plan for directors and designated executive officers. Directors may elect to take a portion of their fees in the form of DSUs and prior to January 1, 2015 executive officers could elect to take a portion of their annual incentive bonus in the form of DSUs. For directors, the number of DSUs allotted is determined by dividing the dollar portion of the quarterly fees a director elects to take in DSUs 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. For dividends, the number of DSUs allotted is determined by dividing the total dollar value of the dividend each DSU holder would have received, by the closing share price on the dividend payment date.

Effective January 1, 2015, DSUs are only granted to non-executive directors per the amended DSU Plan.

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

12. Share capital (continued)

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

	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
	Number of DSU	Weighted average unit value	Number of DSU	Weighted average unit value
Outstanding, beginning of period	1,468,754	$ 1.32	1,282,219	$ 1.18
Granted	221,279	$ 1.54	130,534	$ 2.50
Redeemed	(29,183)	$ 2.10	-	$ -
Outstanding, end of period	1,660,850	$ 1.34	1,412,753	$ 1.30

During the three and nine months ended September 30, 2019, the Company recorded a compensation recovery for these DSUs of $0.6 million and $1.0 million, respectively (2018: compensation recovery of $0.7 million and $0.4 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 & 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,	
	2019	2018	2019	2018
Outstanding, beginning of period	1,899,697	1,678,522	1,715,332	1,582,285
Granted	36,213	16,850	797,708	542,089
Redeemed	-	-	(577,130)	(429,002)
Outstanding, end of period	1,935,910	1,695,372	1,935,910	1,695,372

During the three and nine months ended September 30, 2019, the Company recorded a compensation recovery for these PSUs of $0.6 million and $0.7 million, respectively (2018: compensation recovery of $0.5 million and expense of $1.2 million, respectively), with corresponding adjustments to accounts payable and accrued liabilities and 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 to the Company or pay the party to the fibre supply agreement a penalty calculated based on the provisions contained in the relevant agreement. Should Western take significant market related curtailments in its sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet its contractual obligations, if it is not possible to secure replacement chips on the open market during that period.

The Company had met all fibre commitments as at December 31, 2018 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, 2019.

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

Under the softwood lumber agreement ("SLA") between Canada and the United States ("US"), the Company's exports to the US were assessed an export tax by the Canadian Government. The SLA expired on October 12, 2015, eliminating export tax measures on Canadian softwood lumber shipments to the US.

Throughout 2016 and 2017 there were several announcements made by US Department of Commerce ("DoC") and the US International Trade Commission ("ITC") outlining rates on Countervailing ("CVD") and Anti-dumping duties ("AD") on Canadian softwood lumber shipments to the US. The Company disclosed these in its audited annual consolidated financial statements for the year ended December 31, 2017.

On January 3, 2018, the DoC published amended final determinations, resulting in reduced, final CVD and AD rates of 14.19% and 6.04% respectively for "all other" Canadian lumber producers including Western.

Lumber duties and export tax

Cash deposits for CVD were required for lumber imports to the US effective April 28, 2017 through August 25, 2017, after which they were not applicable pending the ITC's final CVD determination. Cash deposits for CVD resumed on publication of ITC final affirmative CVD determination in the US Federal Register on December 28, 2017.

Cash deposits for AD were required for lumber imports to the US effective June 30, 2017 until December 26, 2017, and resumed on publication of the ITC final affirmative injury determination on December 28, 2017. The Company recorded an export tax recovery of $3.6 million arising from the difference between export duties paid at preliminary determination rates and the latest final duty rates, in the fourth quarter of 2017.

A corresponding increase was recognized in other assets in the consolidated statement of financial position. Incremental export duty recoveries from any future change in CVD and AD rates will be netted against export tax expense and included in other assets.

As at September 30, 2019, the Company had $87.2 million of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties (December 31, 2018: $64.2 million).

Tax correspondence

In May 2018, the Company received correspondence from the Canada Revenue Agency ("CRA") regarding certain restructuring transactions, occurring in 2004 and 2007 to 2011, and the general anti-avoidance rule ("GAAR"). In May 2019, we received further correspondence from the CRA indicating the completion of their extensive audit. The CRA concluded that the matter would not be referred to their GAAR Committee and no further action was warranted, which is consistent with the Company's position that the CRA's earlier position was without merit.

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

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, 2019	September 30, 2018
Present value of obligations	$ 132.4	$ 127.4
Fair value of plan assets	(114.7)	(109.3)
Liability recognized in the statement of financial position (Note 11)	$ 17.7	$ 18.1

The change in the liability recognized in the statement of financial position at September 30, 2019 was due primarily to net actuarial losses, resulting from a decrease in the discount rate used to value the defined benefit obligations, partially offset by gains on plan assets and contributions made in the period. The discount rate used as at September 30, 2019 was 2.80% per annum (December 31, 2018: 3.60% per annum).

The Company expects to make funding contributions to its defined benefit plans of $2.6 million during 2019.

15. 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, 2018. 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.

	September 30, 2019			December 31, 2018		
	Mandatory at at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets						
Market-based investments	$ 4.9	$ -	$ 4.9	$ 4.9	$ -	$ 4.9
Cash and cash equivalents	-	5.1	5.1	-	8.4	8.4
Trade and other receivables	-	31.4	31.4	-	91.3	91.3
Total financial assets	$ 4.9	$ 36.5	$ 41.4	$ 4.9	$ 99.7	$ 104.6
	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities						
Foreign currency forward contracts	$ -	$ -	$ -	$ 2.2	$ -	$ 2.2
Accounts payable and accrued liabilities	-	43.6	43.6	-	119.2	119.2
Lease liabilities (Note 3)	-	22.6	22.6	-	-	-
Long term debt (Note 8)	-	112.8	112.8	-	7.0	7.0
Total financial liabilities	$ -	$ 179.0	$ 179.0	$ 2.2	$ 126.2	$ 128.4

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

15. Financial instruments – fair values (continued)

As at September 30, 2019, the Company had outstanding obligations to sell an aggregate Japanese Yen ("JPY") 0.9 million at an average rate of JPY 81.49 per Canadian Dollar ("CAD") with maturities through October 9, 2019, and an aggregate US Dollar ("USD") $10.0 million at an average rate of CAD$1.33 per USD with maturities through October 29, 2019.

All foreign currency gains or losses related to currency forward contracts to September 30, 2019 have been recognized in revenue for the period and the fair value of these instruments at September 30, 2019 was nominal (December 31, 2018: net liability of $2.2 million was included in accounts payable and accrued liabilities). A net gain of $0.5 million was recognized on contracts which were settled in the nine months ended September 30, 2019 (2018: net loss of $3.2 million), which was included in revenue for the period.

16. 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,	
	2019	2018	2019	2018
Primary geographical markets				
Canada	$ 45.9	$ 105.5	$ 259.6	$ 342.8
United States	47.4	74.6	186.7	224.2
China	15.4	48.1	125.6	141.8
Japan	25.8	33.5	102.2	115.5
Other	3.7	27.2	39.5	76.6
Europe	3.4	3.6	14.0	11.0
	$ 141.6	$ 292.5	$ 727.6	$ 911.9
Major Products				
Lumber	$ 109.7	$ 238.2	$ 562.2	$ 722.0
Logs	27.4	33.6	131.9	123.8
By-products	4.5	20.7	33.5	66.1
	$ 141.6	$ 292.5	$ 727.6	$ 911.9

Contract balances

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

	September 30, 2019	December 31, 2018
Trade and other receivables	$ 31.4	$ 91.3
Contract liabilities	52.9	54.4

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. The contract liabilities decreased $1.5 million during the period as the amount was recognized as revenue.

17. Non-controlling interest

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

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

18. Business combination

On February 1, 2019, the Company completed the acquisition of the assets of Columbia Vista Corporation and certain related entities ("Columbia Vista") located in Vancouver, Washington for consideration of USD$28.4 million (CAD$37.7 million). Included in total consideration was USD$23.8 million (CAD$31.6 million) for the fair value of property, plant & equipment. The acquisition was accounted for as a business combination, with Western deemed to be the acquirer.

Columbia Vista is a lumber manufacturer that focuses production on Douglas Fir specialty products for the Japan and US markets. This acquisition aligns with the Company's margin-focused business strategy, and the newly combined Company brings together a complementary mix of products, customer relationships, and employees.

The Company incurred total acquisition-related other expenses of $1.4 million, of which $0.7 million was recognized in the nine months ended September 30, 2019, and $0.7 million was recognized in the year-ended December 31, 2018. Since the acquisition date, Columbia Vista has contributed revenue of $51.8 million and net income of $3.4 million during the nine months ended September 30, 2019.

The following table presents the preliminary purchase price allocation to the identifiable assets and liabilities based on their estimated fair values on the acquisition date.

Consideration allocated to:		
Land	$	10.6
Buildings		5.3
Equipment		15.7
Inventory		6.6
Prepaid expenses & other		3.5
Right of use assets		0.8
Lease liabilities		(0.8)
Accounts payable		(4.0)
Total consideration	$	37.7

The fair value of property, plant & equipment was determined considering asset replacement value, net realizable value of the assets acquired and other factors.

The estimated fair values of the assets acquired and liabilities assumed above are based on preliminary information available at the date of preparation of these unaudited consolidated interim financial statements. The Company believes that the preliminary information available provides a reasonable basis for estimating the fair values of the assets acquired and liabilities assumed on the acquisition date. Should the Company obtain new information about facts and circumstances that existed at the acquisition date that would have a material effect on the measurement of the amounts recognized as of the acquisition, the Company will retrospectively adjust the provisional amounts recognized above. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable and cannot exceed one year from the acquisition date.

Western Forest Products Inc.
DEFINING A HIGHER STANDARD™

Suite 800
1055 West Georgia Street
Royal Centre, PO Box 11122
Vancouver, British Columbia
Canada V6E 3P3
Telephone: 604 648 4500

www.westernforest.com
info@westernforest.com

Trading on the TSX as “WEF”