Western Forest Products Inc.

2021 Annual 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 months and year ended December 31, 2021, 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 audited annual consolidated financial statements and the notes thereto for the years ended December 31, 2021 and 2020, which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the years ended December 31, 2021 and 2020 in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our audited annual consolidated 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.

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 (expense), 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 in the Non-GAAP Financial Measures section of this report.

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 and bank indebtedness 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 shareholders' 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, but 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 the past.

Return on capital employed ("ROCE") is also used in this MD&A as a key performance measure. ROCE is defined as adjusted EBITDA as a proportion of average capital employed. Average capital employed is defined as the average balance over a year of total assets less cash and cash equivalents, income tax receivable, duty receivable and related interest, deferred income tax assets, accounts payable and accrued liabilities and the current portions of lease liabilities, reforestation obligation and deferred revenue. ROCE is a non-GAAP financial measure that does not have a standardized meaning and may not be comparable to similar measures used by other issuers. ROCE is not recognized by IFRS, but is used to determine relative profitability after taking into account the amount of capital used.

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", "commit", "project", "estimate", "expect", "anticipate", "plan", "forecast", "intend", "believe", "seek", "could", "should", "may", "likely", "continue", "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: domestic and international market conditions, demands and growth; economic conditions; our growth, marketing, product, wholesale, operational and capital allocation plans and strategies, including but not limited to payment of a dividend; fibre availability and regulatory developments; the impact of COVID-19; and the selling of additional incremental ownership interests in Tsawak-qin Forestry Limited Partnership (formerly TFL 44 Limited Partnership) and in other potential business structures in the future. 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: economic and financial conditions, international demand for forest products, the Company's ability to export its products,cost and availability of shipping carrier capacity, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, the impact of climate change, relations with First Nations groups, First Nation's claims and settlements, the availability of fibre and allowable annual cut, the ability to obtain operational permits, development and changes in laws and regulations affecting the forest industry including as related to old growth timber management and the Manufactured Forest Products Regulation, changes in the price of key materials for our products, changes in opportunities, information systems security, future developments in COVID-19 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 February 16, 2022.

---

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

Summary of Selected Annual Information [1]

(millions of Canadian dollars except per share amounts and where otherwise noted)

	2021	2020	2019
Revenue			
Lumber	$ 1,197.5	$ 737.2	$ 628.3
Logs	169.3	200.5	144.0
By-products	50.9	27.2	35.4
Total revenue	1,417.7	964.9	807.7
Operating income prior to restructuring and other items	247.4	61.2	(46.7)
Net income (loss)	202.8	33.4	(46.7)
Adjusted EBITDA [3]	$ 302.1	$ 116.8	$ (1.5)
Adjusted EBITDA margin [3]	21%	12%	(0%)
Return on capital employed [3]	45%	17%	(0%)
Basic and diluted earnings (loss), dollars per share	$ 0.56	$ 0.09	$ (0.12)
Cash dividends declared, dollars per share	0.04	0.0225	0.0875
Total assets	$ 959.0	$ 852.2	$ 782.5
Net debt (cash) [4]	(130.0)	69.2	111.3

(1) Included in Appendix A is a table of selected results for the last eight quarters.

(2) Net debt is defined as the sum of long-term debt and bank indebtedness, less cash and cash equivalents.

(3) Adjusted EBITDA, Adjusted EBITDA margin, and ROCE are non-GAAP financial measures. Refer to the Non-GAAP Financial Measures section of this document for more information on each non-GAAP financial measure.

(4) Net debt (cash), a supplemental measure, is defined as long-term debt and bank indebtedness less cash and cash equivalents.

Overview

Western capitalized on strong lumber markets and delivered record results by using our flexible operating platform to redirect production to the highest margin product lines. In 2021, we delivered record adjusted EBITDA of $302.1 million and Return on Capital Employed ("ROCE") of 45%, net income of $202.8 million and $0.56 earnings per share. We achieved these results, despite the impacts from COVID-19, significant weather-related events and global logistics challenges.

We continue to strictly enforce enhanced health and safety protocols and follow public health guidance to protect our employees, contractors, and communities from COVID-19. Our operations have not been significantly impacted by COVID-19 to-date, but we continue to monitor its influence on market conditions. Our focus remains on ensuring the health and safety of our employees, maintaining financial flexibility, and servicing our customers.

We made significant progress implementing our strategic priorities in 2021, including:

- Advancing our strategic partnerships with First Nations and continuing to reposition our coastal tenure assets. We completed the sale of an incremental 28% ownership interest in our Tsawak-qin Forestry Limited Partnership ("TFLP"; formerly TFL 44 Limited Partnership) for $22.4 million, to the Huumiis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by the Huu-ay-aht First Nations ("HFN").

- Achieving a series of milestone agreements focused on joint and collaborative planning of forestry activities with First Nations in whose traditional territories we operate. These agreements build upon Western's well-established, sustainable forestry practices by incorporating Indigenous values within planning and forestry activities.

- Confirming our net positive climate impact with the release of our latest Sustainability Report. This included the completion of our first full lifecycle carbon accounting, reaffirming the positive role Western's sustainable forest management practices and wood products have in fighting against climate change.

- Extending the maturity of our $250 million credit facility to July 2025 and becoming the first North American forestry company to transition to a sustainability-linked credit facility. Our borrowing costs are now linked to achieving certain sustainability goals related to health and safety performance, increasing workforce diversity and advancing mutually beneficial Indigenous relationships.

- Completing the sale of significant non-core assets for net cash proceeds of $52.0 million in 2021, supporting the repositioning of our balance sheet. Proceeds were received from the sale of the Orca Quarry related assets, the Somass Division assets, and other non-core property and equipment.
- Continuing with our commitment to strong governance practices with the appointment of two new independent directors to the Board and reconstituting the membership of the Board sub-committees. Since 2019, we have appointed four new independent directors to our Board, with recent appointees representing 50% of the current Board directors, and implemented a diversity and inclusion policy that has guided 35% women representation on the Board.
- Growing our wholesale lumber shipments by 20% in 2021, as compared to 2020, despite challenging wholesale lumber market conditions. Our wholesale lumber business allows us to offer an expanded product line, making us more meaningful to our selected customers and further enhancing the viability and success of our coastal sawmills.
- Advancing $10 million in announced strategic capital projects to increase lumber remanufacturing capacity, which are expected to reduce costs and improve operating efficiency to ensure we remain globally competitive.
- Achieving long-term collective agreements with key labour unions. Members of the Public and Private Workers of Canada ("PPWC") representing unionized employees at our Ladysmith Sawmill and our Value-Added Division ratified new 8-year collective agreements that expire in December 2028 and October 2029, respectively.

Our robust operating results and strong balance sheet allowed us to return $111.2 million dollars to shareholders in 2021, through a combination of dividends and share repurchases. Going forward, we remain committed to a balanced approach to capital allocation, while also considering internal and external growth opportunities to grow long-term shareholder value

As part of our strong results, we recognized non-executive employees with COVID-related safety bonuses during the year to show our appreciation for their commitment and dedication during the pandemic. We also recognized our hourly employees with an additional discretionary year-end performance bonus. We also continued to support communities with increased community donations in conjunction with our strong results. In addition, we continued to leverage our prior investments in our information technology and systems, to facilitate secure remote work arrangements, while ensuring we remain connected internally and with our global customers.

We are excited about the potential growth opportunities for wood products in a low carbon future and in mass timber building technologies. In addition to increasing demand for wood products, we see mass timber as further helping solidify wood as one of the world's most sustainable building materials. We continue to evaluate how we may best participate in this potential growth opportunity.

We will continue to engage and work with our customers, employees, unions, communities, First Nations, shareholders, other stakeholders and all levels of government. We remain committed to working together to develop mutually beneficial relationships to support jobs and the communities in which we operate, while ensuring we are creating long-term value for our shareholders.

Our long-term focus remains the same; to successfully and sustainably implement our strategic initiatives to strengthen our foundation; grow our base; grow our business; and deliver long-term shareholder value.

Senior Leadership Retirement

On February 1, 2022, the Company's President and Chief Executive Officer ("CEO"), Don Demens, announced his intention to retire by March 31, 2023. The Board of Directors has commenced a search for a new President and CEO. Mr. Demens will continue in his role as President and CEO until his replacement has been found to ensure a smooth transition and minimal disruption to Western's business during this time. He will also remain a member of the Company's Board of Directors until such time as the transition to his successor occurs.

Summary of Selected Quarterly and Annual Results (1)

(millions of Canadian dollars except per share amounts and where otherwise noted)

Summary Information		Q4 2021	Q4 2020	Q3 2021	Annual 2021	Annual 2020
Revenue						
Lumber		$ 268.0	$ 256.6	$ 299.8	$1,197.5	$ 737.2
Logs		48.9	53.4	41.0	169.3	200.5
By-products		11.0	8.9	12.1	50.9	27.2
Total revenue		327.9	318.9	352.9	1,417.7	964.9
Freight		21.6	24.9	22.6	93.8	73.7
Export tax expense		4.6	12.1	6.2	29.8	34.6
Export tax recovery		(3.3)	(31.6)	-	(3.3)	(31.6)
Stumpage		25.8	8.1	13.9	63.9	30.5
Adjusted EBITDA		$ 52.5	$ 71.1	$ 66.3	$ 302.1	$ 116.8
Adjusted EBITDA margin		16%	22%	19%	21%	12%
Operating income prior to restructuring and other items		$ 39.4	$ 56.0	$ 53.5	$ 247.4	$ 61.2
Net income		28.5	34.4	42.2	202.8	33.4
Basic and diluted earnings per share	$ per share	0.08	0.09	0.12	0.56	0.09
Operating Information (2)						
Lumber shipments (3),(4)	mmfbm	164	204	194	782	585
Cedar (5)	mmfbm	41	54	46	190	180
Japan Specialty	mmfbm	33	18	28	103	80
Niche	mmfbm	17	24	21	84	78
Commodity	mmfbm	72	108	99	405	247
Lumber production	mmfbm	179	180	175	760	576
Lumber price, average	$/mfbm	$ 1,634	$ 1,258	$ 1,553	$ 1,531	$ 1,260
Wholesale lumber shipments	mmfbm	11	6	9	42	35
Log shipments	000 m^3	378	471	325	1,340	1,877
Export	000 m^3	6	73	-	82	280
Domestic	000 m^3	241	225	209	814	1029
Pulp	000 m^3	132	173	116	444	568
Net production (6)	000 m^3	700	901	690	3,090	3,430
Saw log purchases	000 m^3	211	222	227	861	835
Log price, average (7)	$/m^3$	$ 117	$ 109	$ 120	$ 119	$ 103
Illustrative Lumber Average Price Data (8)	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	cif dest N Euro	$ 7,671	$ 4,867	$ 6,863	$ 6,581	$ 4,585
Grn WRC Deck Knotty 2x6 RL S4S	Net fob Mill	$ 1,991	$ 1,757	$ 2,237	$ 2,261	$ 1,532
Grn WRC #2 & Btr AG 6x6 RL	Net fob Mill	$ 3,048	$ 2,540	$ 3,035	$ 2,901	$ 2,435
Coast Gm WRC Std&Btr NH 3/4x4 RL S1S2E	Net fob Mill	$ 2,300	$ 1,402	$ 2,263	$ 2,034	$ 1,193
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13’	c&f dest Japan	$ 1,883	$ 790	$ 1,900	$ 1,642	$ 784
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c&f dest Japan	$ 1,980	$ 952	$ 2,000	$ 1,776	$ 953
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net fob Mill	$ 1,760	$ 1,470	$ 1,778	$ 1,697	$ 1,343
Hemlock Lumber 2x4 (40x90) Metric RG Utility	cif dest Shanghai	$ 582	$ 476	$ 566	$ 618	$ 457
Coast KD Hem-Fir #2 & Btr 2x4	Net fob Mill	$ 747	$ 764	$ 500	$ 923	$ 599
Average exchange rate – CAD to USD		0.794	0.767	0.794	0.798	0.746
Average exchange rate – CAD to JPY		90.25	80.01	87.39	87.52	79.57

(1) Included in Appendix A is a table of selected results from the last eight quarters. Figures in the table may not equal or sum to figures presented in the table or elsewhere due to rounding.
(2) Log data reflects British Columbia business only.
(3) “mmfbm” = millions of board feet; “mfbm” = thousands of board feet.
(4) Includes wholesale lumber shipments.
(5) Comparative figures have been reclassified to conform to the current year presentation. Cedar includes Western Red Cedar, Yellow Cedar and Japanese Cedar.
(6) Net production is sorted log production, net of residuals and waste.
(7) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf of customers to facilitate sales to export markets.
(8) Sourced from Random Lengths in USD/Mfbm except Hemlock Metric RG Utility that is sourced from the Forest Economic Advisors LLC China Bulletin.

Summary of Fourth Quarter 2021 Results

We successfully leveraged our flexible operating platform, managing through the impacts of global logistics constraints compounded by weather challenges, to increase Japan lumber shipments and realize record fourth quarter revenue in 2021.

We reported adjusted EBITDA of $52.5 million in the fourth quarter of 2021 as compared to adjusted EBITDA of $71.1 million in the same period last year. Financial results for the fourth quarter of 2020 included $31.6 million in export tax recovery, as compared to $3.3 million in same quarter of 2021, resulting from the finalization of certain United States ("US") imposed export tax rates.

Fourth quarter operating income prior to restructuring and other items was $39.4 million in 2021, as compared to operating income prior to restructuring and other items of $56.0 million in the same period last year. Net income for the fourth quarter of 2021 was $28.5 million as compared to net income of $34.4 million in the comparative period of 2020.

Sales

Strong demand and logistics-related supply challenges continued to support robust lumber pricing in Japan, while price momentum was muted for North American commodity lumber until late in the fourth quarter of 2021. We took advantage of these market conditions by increasing shipments to Japan, despite logistics issues. As commodity lumber prices rallied in December 2021, and with continued export logistics challenges, we began to redirect production to the North American market late in the quarter.

Lumber revenue rose 4% compared to the fourth quarter of last year despite a 20% decline in lumber shipment volumes. Lumber prices across our specialty product categories rose by 30% on average. Japan lumber shipments increased by 83%, but logistics challenges drove a reduction in lumber shipments to other markets. In addition, limited cedar log availability constrained cedar lumber production and shipments as compared to the same period last year. Flooding and severe winter weather in British Columbia ("BC") in November and December 2021 temporarily closed rail and highway shipping channels resulting in logistics disruptions that impacted the Company's shipments.

Our average realized lumber price was $1,634 per thousand board feet, an increase of 30% from the fourth quarter of last year as we capitalized on strong pricing in Japan. We increased the percentage of specialty product shipments to 55% from 47% in the fourth quarter last year, partly as a result of logistics challenges that limited relatively lower-value commodity lumber shipments to China and the US. Fourth quarter lumber pricing was higher across all segments in 2021 except our commodity segment. Commodity lumber pricing began to rise late in fourth quarter, however logistics constraints largely delayed our realizing that improved pricing until the affected volumes shipped in 2022.

Log revenue was $48.9 million, a decline of 8% from the fourth quarter last year. Weather related operating curtailments limited the harvest of logs and inventory available for sale. We redirected export-grade log supply to our sawmills in support of lumber production, except 6,000 cubic metres of export log sales originating from a First Nations arrangement. Average realized BC log prices increased by 7% from the same period last year as improved pricing offset a weaker log sales mix.

By-product revenue was $11.0 million, an increase of $2.1 million as compared to the same period last year. Chip price realizations improved as a result of significantly higher Northern Bleached Softwood Kraft ("NBSK") China pulp price.

Operations

Lumber production of 179 million board feet in the fourth quarter of 2021 was flat as compared to the same period last year. Log supply related operating curtailments and severe winter weather in December impacted lumber production.

We harvested 700,000 cubic metres of logs from our coastal operations in BC in the fourth quarter of 2021, as compared to 901,000 cubic metres in the same period last year. Log production was significantly impacted by weather related curtailments caused by significant rainfall in November followed by heavy snowfall in December. Timberlands per unit operating costs increased over the comparative period on lower production volumes, higher helicopter logging harvest volume and higher stumpage expense. Improved pricing for logs and lumber drove a threefold increase in stumpage rates applied to our business as compared to the same period last year, with rising stumpage expense mitigated in part through reduced harvest volume.

BC coastal saw log purchases were 211,000 cubic metres, a decrease of 5% from the same period last year. Coastal saw log supply remains tight as weather negatively impacted harvest volumes on the BC coast as compared to the same period last year.

Fourth quarter freight expense decreased 13% compared to the same period last year as a result of reduced lumber shipments and an absence of log exports. Freight costs per transaction continued to increase due to higher freight rates and a fourth quarter increase in the use of breakbulk vessels.

Adjusted EBITDA and operating income included $4.6 million of countervailing duty ("CV") and anti-dumping duty ("AD") expense in the fourth quarter of 2021, as compared to $12.1 million in the same period of 2020. Reduced duty rates and a stronger Canadian to US Dollar exchange rate more than offset the impact of decreased US-destined lumber sales volumes and higher lumber pricing on which duty was applied. The cash deposit rate increased to 17.90% in December 2021 with the issuance of the final determination by the US Department of Commerce ("DoC") on assessed rates for 2019. For further information on CV and AD see *"Risks and Uncertainties"*.

Selling and Administration Expense

Fourth quarter selling and administration expense was $13.2 million in 2021 as compared to $11.8 million in the fourth quarter last year. Strong financial results contributed to $0.8 million in incremental compensation expense over the comparative quarter of 2020, comprised of $2.2 million incremental expense on performance-based compensation and the vesting of incentive plans, offset by a $1.4 million mark-to-market recovery on long-term incentive compensation liabilities.

Finance Costs

Finance costs were $0.2 million as compared to a recovery of $0.5 million in the fourth quarter last year. Prior period finance costs were more than offset by $2.2 million of interest income resulting from an export tax recovery. A significant reduction in average outstanding debt balance in 2021 drove reduced finance costs.

Other Income (Expense)

We recognized other income of $0.3 million in the fourth quarter of 2021 as compared to an expense of $6.4 million in the same period of 2020. Comparative results included impairments of $3.6 million on non-core lands, $2.0 million in losses on asset dispositions, and other expenses partially offset by other income.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which resulted in cash taxes payable for the tax year ending December 31, 2021. Accordingly, current income tax expense of $10.5 million and a deferred income tax recovery of $0.3 million were recognized in net income in the fourth quarter of 2021. Lower operating earnings in part due to a smaller export tax recovery result in an income tax expense decrease of $4.9 million from the fourth quarter of 2020.

Net Income

Net income for the fourth quarter was $28.5 million, as compared to $34.4 million for the same period of 2020. Strong product pricing was offset by lower shipments due to ongoing export logistics issues, a redirection of export-grade log supply to our mills as a result of low BC coastal harvest levels, and a lower export tax recovery.

Summary of 2021 Annual Results

We leveraged our flexible operating platform to pursue the highest margin opportunities and deliver record adjusted EBITDA of $302.1 million, as compared to $116.8 million for 2020. Financial results for 2020 included $31.6 million in export tax recovery, as compared to $3.3 million in 2021, resulting from the finalization of certain US imposed export tax rates.

Net income was $202.8 million and earnings per share was $0.56 per share for 2021 compared to net income of $33.4 million and earnings per share of $0.09 per share in 2020. Operating income prior to restructuring and other items was $247.4 million, as compared to $61.2 million in 2020, as a result of strong operating performance.

We began 2021 with lumber production and sales directed to North American commodity markets to take advantage of unprecedented pricing. This focus led to improved recovery while increasing secondary processing and related costs. As North American commodity pricing declined, we redirected production and grew export lumber shipments to Japan and China, taking advantage of robust Japan market pricing. Strong demand and supply constraints caused North American prices to rally late in the fourth quarter of 2021.

Comparative results were significantly impacted by the restart of operations after the lengthy United Steelworkers Local 1-1937 strike (the "Strike"), which had curtailed the majority of our BC-based operations through February 2020, and by the impacts of COVID-19.

Sales

Lumber revenue for 2021 was $1.2 billion, 62% higher than 2020, as a result of a 22% increase in realized pricing and a 34% increase in shipment volumes.

During the first half of 2021, we capitalized on record North American commodity pricing by increasing commodity shipments. As 2021 progressed, we leveraged our flexible operating platform to take advantage of changing market conditions, transitioning production and shipments from record North American markets in the first half of the year to relatively stronger Japan lumber and China commodity lumber markets in the second half. Late in the fourth quarter of 2021, we began to transition our production to meet rising demand and pricing in the North American market. This strategy delivered a 64% increase in commodity lumber shipments as compared to the same period last year, while ensuring we benefitted from record pricing in the Japan lumber market. Overall price realizations were negatively impacted by a 7% appreciation in the average Canadian to US dollar exchange rate year-over-year.

Log revenue was $169.3 million in 2021, a decrease of 16% from 2020 due to reduced sales volumes. We redirected export and certain domestic logs to our sawmills to support lumber production to capitalize on strong lumber markets. Despite these actions, we realized a 16% increase in average log price. Operating curtailments, permitting delays, adverse weather, including summer fire weather, heavy rainfall and early snowfall, reduced harvesting production in 2021. The comparative period was impacted by a weaker log sales mix caused by Strike-related log degradation.

By-product revenue grew to $50.9 million, as compared to $27.2 million in 2020, resulting from increased production and shipments, and a higher mix of whitewood chips as compared to 2020. Chip price realizations improved by 23% as a result of significantly higher NBSK pulp price and species mix.

Operations

Lumber production in 2021 was 760 million board feet, 32% higher than last year. We achieved higher lumber production in 2021 through increased operating hours and improved production efficiency, while production in the first quarter of 2020 was impacted by the Strike. The shift to increased North American commodity lumber production in the first half of 2021 contributed to higher production volumes and improved recovery. Production and recovery benefits associated with higher North American commodity production were partially offset by increased levels of processing required to manufacture North American commodity products. Lumber production in the second half of 2021 was impacted by lower recovery associated with export lumber production, and temporary operating curtailments due to constrained log supply. In late 2021, we began to redirect some production to North American commodity lumber as prices rallied and export logistics challenges continued.

Log production for 2021 was 3,090,000 cubic metres, a decrease of 10% over last year. Unfavourable weather conditions and permit delays impacted log production, and deferred a portion of road expense to future periods. Logging expenses have increased over 2020, primarily due to a 110% increase in stumpage expense. In 2020, logging operations were curtailed for most of the first quarter of 2020 due to the Strike and actions taken to mitigate COVID-19 health and safety risks.

Freight expense for 2021 was $93.8 million, an increase of 27% as compared to last year due primarily to a 34% increase in lumber shipments. Rising container freight rates and higher costs from the increased use of breakbulk vessels were largely offset by a significant reduction in export log shipments. We partly mitigated ongoing export logistics issues and limited container availability by converting a component of our lumber shipments to breakbulk. Flood related rail and highway closures in BC delayed North American shipments in the last two months of 2021.

Adjusted EBITDA and operating income in 2021 included $29.8 million of export tax expense, as compared to $34.6 million in 2020. In 2021, we significantly increased lumber revenue on which duties were applicable. Our financial results benefitted from a reduction in cash duty deposit rates in late 2020 from 20.23% to 8.99%, and a stronger Canadian to US Dollar exchange rate. The cash deposit rate increased to 17.90% in December 2021 with the issuance of the DoC's final determination on assessed rates for 2019.

We recognized a $3.3 million export duty tax recovery against export tax expense in 2021, as cash deposit rates exceeded assessed rates by 2.33%. In the comparative period we recognized a $31.6 million export duty tax recovery, as cash deposit rates exceeded assessed rates by 11.86% and 11.27% for fiscal years 2017 and 2018. For further information on CV and AD see *"Risks and Uncertainties"*.

Comparative results also included CEWS proceeds of $11.6 million as an offset to cost of goods sold. CEWS helped reduce the negative financial impact of COVID-19 on our business, prevented temporary operating curtailments and employee layoffs, and offset some costs associated with enhanced health and safety protocols.

Selling and Administration Expense

Selling and administration expense was $57.8 million in 2021 as compared to $36.7 million last year. Record financial results and a 63% share price appreciation in 2021 resulted in incremental incentive and other compensation related expense of $14.0 million. Other cost increases were realized in IT and Safety in respect of COVID protocols, and incremental legal fees in support of agreements detailed under *Indigenous relationships* below.

Comparatives include the recognition of $1.4 million of CEWS proceeds which somewhat offset additional costs related to COVID-19, including for the maintenance of pre-pandemic staff levels.

Finance Costs

Finance costs were $1.9 million in 2021 as compared to $5.9 million in 2020. Strong cash flows from operations and non-core asset sales were used to repay outstanding indebtedness, lowering the average outstanding debt balance as compared to the prior year.

Other Income (Expense)

We recognized other income of $22.4 million in 2021, including a gain from the sale of the Orca Quarry assets, the Somass Division assets and other non-core assets. Other expense of $5.2 million in 2020 included impairments of $3.6 million on non-core lands and a $0.2 million loss on asset dispositions partially offset by other income.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which resulted in taxes payable for the tax year ending December 31, 2021. In addition, capital loss carryforwards were applied against taxable capital gains arising from non-core asset dispositions. Accordingly, current income tax expense of $64.1 million and a deferred income tax recovery of $1.7 million were recognized in net income in 2021. Income tax expense increased by $47.8 million from 2020 as a result of record operating earnings.

Net Income

Record product pricing, strong operating performance and the successful leveraging of our flexible operating platform resulted in net income of $202.8 million in 2021, as compared to net income of $33.4 million in 2020. Net income in 2020 was impacted by COVID-19 market uncertainty, related incremental operating costs and the Strike.

COVID-19

Western is committed to the health and safety of our employees, contractors and the communities where we operate. To help mitigate the spread of COVID-19, we have implemented strict health and safety protocols across our business that are based on guidance from health officials and experts, and in compliance with regulatory orders and standards. We continue to monitor and review the latest guidance from health officials and experts to ensure our protocols meet the current required standards. We will continue to monitor and adjust our operations as required to ensure the health and safety of our employees, contractors and the communities where we operate and to address changes in customer demand.

Indigenous Relationships

We respect the treaty and Aboriginal rights of Indigenous groups, and we are committed to open dialogue and meaningful actions in support of reconciliation.

We are actively investing time and resources in capacity building and fostering positive working relationships with Indigenous groups, with traditional territories within which Western operates, through information sharing, joint sustainable forest management planning, timber harvesting, reforestation practices, restoration initiatives and other mutually beneficial interests. These arrangements may include business-to-business service and supply contracts, combining tenure for joint forest management, job creation and training, and limited partnerships with shared governance and financial interests.

In collaboration with Indigenous groups, and as presented below, we have achieved a series of milestone agreements in 2021 that advance our mutually beneficial relationships and exemplify Western's ongoing actions to support reconciliation. Further details on these relationships and other community initiatives are available on our website at www.westernforest.com/responsibility/community/.

Integrated Resource Management Plan with Nanwakolas Council

On October 20, 2021, together with the Nanwakolas Council, we announced the completion of a letter of understanding to develop a joint planning and reconciliation protocol agreement; that will guide the co-development of an Integrated Resource Management Plan for collaborative, sustainable forest management in the traditional territories of the Nanwakolas Council member First Nations on central Vancouver Island, BC.

Nanwakolas Council represents K'ómoks, Tlowitsis, Wei Wai Kum and We Wai Kai First Nations. Several Western forest tenures overlap with Nanwakolas Council member First Nations' traditional territories, and the focus of this agreement is TFL 39 (Block 2). In recent years, we have engaged in several innovative projects together, including joint development and the ongoing implementation of the Nanwakolas Large Cultural Cedar Declaration and the 2020 Information Sharing Protocol.

On January 19, 2022, Western and the four member Nations of the Nanwakolas Council announced an agreement to work on a joint approach to managing forests through development of an Integrated Resource Management Plan for TFL 39 (Block 2). The agreed collaborative planning efforts are expected to integrate the Nations' perspectives, values, and interests with the intent of enhancing forest stewardship, creating socio-economic opportunities, and providing greater operating certainty.

Sale of Forest and Timber Licence Interests to Lil'wat Nation and Tsleil-Waututh Nation

On October 7, 2021, we completed the sale of our interests in timber licences and jointly held forest licences to third parties, including the Lil'wat Nation and Inlailawatash Limited Partnership, a Tsleil-Waututh Nation business.

These licence interests had been held by Western, under the management of third parties, as the result of Western-predecessor company transactions to acquire and reassign operating rights.

Forest Landscape Plan Pilot with 'Namgis First Nation

On September 23, 2021, together with the 'Namgis First Nation, we announced the launch of the TFL 37 Forest Landscape Plan Pilot project to guide collaborative decision-making and for the joint development of an innovative and progressive plan to sustainably manage TFL 37.

The three forest areas covered by the plan include the area-based tenure managed by Western, a replaceable forest licence managed by a 'Namgis-owned corporation, and the operating area of the Danyas Limited Partnership, a successful forest partnership established by 'Namgis and Western in 2015.

This Landscape Level Plan is supported by the BC Government ("Province") as a formal pilot project to inform amendments to the Province's Forest and Range Practices Act as identified under the *Regulatory Environment* header below.

Integrated Resource Management Plan with Tla'amin Nation

On July 6, 2021, together with the Tla'amin Nation, we announced a Renewal Agreement and the planned development of a Tla'amin led, collaborative Integrated Resource Management Plan for Tla'amin treaty lands and Crown tenure areas, and the portion of Western's TFL 39 (Block 1) located in Tla'amin territory. Completion of this values and science-based plan is expected to take up to two years.

The Renewal Agreement advances joint efforts that have been underway since the signing of a 2019 Memorandum of Understanding, supports continued exploration of innovative ideas to advance common interests related our respective forestry assets and interests in Tla'amin territory.

Quatsino First Nation Land Agreement

On June 21, 2021, we announced an agreement to sell private land near Coal Harbour, on northern Vancouver Island, BC, to a wholly owned limited partnership of the Quatsino First Nation. The land will be used for community housing and a Big House.

The land purchase and sale transaction is another positive milestone in a long-standing relationship of joint efforts. Most recently, involving the Province, we co-developed the September 2020 Memorandum of Understanding to create a framework to collaboration on sustainable forest management on northern Vancouver Island, BC. We also co-partner in Quatern Limited Partnership, a joint logging operation created in 2010 to facilitate collaborative forest management and advance economic reconciliation.

Tsawak-qin Forestry LP and Integrated Resource Management Plan with Huu-ay-aht First Nations

On May 3, 2021, Western completed the sale of an incremental 28% equity interest in TFLP to HVLP, a limited partnership beneficially owned by the HFN, for $22.4 million. HVLP's current equity interest in TFLP is 35%. Also in the first half of 2021, we began the co-development and TFLP implementation of an HFN-led Integrated Resource Management Plan that is anticipated to be completed in 2023. We have previously agreed to an option to sell a further 16% equity interest in TFLP to HVLP with an anticipated close in the second quarter of 2023, subject to closing conditions. We also have an agreement to sell up to an incremental 26% in TFLP to area First Nations and, alongside the HFN, we are now engaging those Nations.

Our growing relationship with HFN has resulted in a suite of other mutually beneficial agreements since 2017, including the sale of our former Sarita Dryland Sort assets, employment and training agreements, and the 2018 Reconciliation Protocol Agreement. The Western-HFN Reconciliation Protocol Agreement set the framework for a shared path to reconciliation and a joint vision for a safe and competitive forest sector in the Alberni Valley, and formed the foundation for the creation of TFLP.

On November 15, 2021, the TFL 44 Limited Partnership formally changed its name to Tsawak-qin Forestry Limited Partnership. The name change is intended to better reflect the shared values of the partnership, with Tsawak-qin meaning 'we are one' in Nuu-chah-nulth language.

Regulatory Environment

During 2020 and 2021, the Province introduced various policy initiatives and regulatory changes that impact the BC forest sector regulatory framework as part of a Coastal Revitalization Initiative and Interior Renewal Process, including: fibre recovery, lumber remanufacturing, old growth forest management and the exportation of logs. For additional details on these policy initiatives and regulatory changes please see the *"BC Government Forest Policies Update"* heading and *"Regulatory Risks"* under the heading *"Risks and Uncertainties",* in our Management's Discussion and Analysis for the year ended December 31, 2021.

Current provincial policy requires that forest management and operating plans take into account and not unreasonably infringe on Aboriginal rights and title, proven or unproven, and provide for First Nations consultation. First Nation opposition to a forest tenure or other operating authorization may delay the Province from granting the permit necessary for road development and harvesting. For additional details on these policy requirements and regulatory aspects in relation to First Nations see *"First Nations Land Claims"* and *"Regulatory Risks"* under the heading *"Risks and Uncertainties",* in our Management's Discussion and Analysis for the year ended December 31, 2021. The Company may manage risks associated with delays in the Province granting operating authorizations by fostering positive working relationships with the First Nations, as discussed above. The Company may partly mitigate the operating impacts of permit delays by increasing permitted harvest in other areas; by purchasing more logs on the open market; and by increasing harvest production from private timberlands.

Old-Growth Logging Deferral

On November 2, 2021, the Province announced its intention to work in partnership with First Nations on the proposed, temporary deferral of harvesting in 2.6 million hectares of BC forests. The proposed, temporary deferrals, if implemented, are subject to First Nations engagement. The Province has stated that final decisions on proposed, temporary deferral areas will be based on discussions between the Province and First Nations governments.

Western requires more specific information on the Province's proposed measures to meaningfully assess any potential impacts on the Company's business. Determination of potential impacts will be subject to further dialogue with the First Nations on whose territories the Company operates and their government-to-government discussions. Should the proposed measures impact Western's business, the Company will seek support from the Province for its workers and full compensation for investments.

Western will work with First Nations and government as these decisions are made, respecting the rights and title of First Nations, including their right to economically benefit from the lands within their traditional territories.

On June 9, 2021, the Province temporarily deferred old-growth logging in 2,000 hectares of forest in southwestern Vancouver Island, BC for a period of two years. The temporary deferral was implemented at the request of local First Nations, with the deferral period aligned with timelines required to prepare resource-stewardship plans in collaboration with tenure rights holders.

TFLP, which is owned and managed by Western and the HFN, has no active or planned cutting permits in the portion of the 2,000-hectare old growth logging deferral area in TFL 44, and TFLP's forestry activity continues as planned.

On December 2, 2021, the HFN announced that they will be upholding their right to harvest in four percent of the proposed, temporary deferral area identified by the government's Technical Advisory Panel ("TAP") in their traditional territory and TFL 44. The remaining 96 percent of the TAP proposed, temporary deferral area is already protected under exiting conservation measures or not planned for harvesting in the next two years.

HFN's preliminary decision is supported by their assessment that 33 percent of the total productive forest area within their traditional territory and TFL 44 is old forest. HFN expects to make a final determination on proposed, temporary deferrals in early 2022 through further expert analysis. The preliminary decision is not expected to have significant short-term effects on planned operations within TFL 44.

On January 19, 2022, Western and four member Nations of the Na̱nwaḵolas Council announced an agreement to work on a joint approach to managing forests in TFL 39 (Block 2). This announcement followed an October 2021 Letter of Understanding between the parties, with an intent to complete a collaborative plan that addresses shared interests within the next two years. Among those agreed items was a temporary harvest deferral area of 1,068 hectares proposed by TAP, which is in addition to a pre-existing temporary harvest deferral of 1,506 hectares for previously agreed bi-lateral initiatives between the Na̱nwaḵolas Council and Western. These temporary deferral areas represent approximately 1% of the total area of TFL 39 (Block 2).

Forest and Range Practices Act Amendments

On October 20, 2021, the Province introduced *Bill 23, the Forests Statutes Amendment Act, 2021,* to improve the framework for stakeholder engagement in long-term forest planning. Amongst the amendments, that are expected to come into effect through future regulation, is the eventual replacement of forest stewardship plans with forest landscape plans. Landscape-level plans developed in collaboration with First Nations are intended to guide increased consideration of ecological and cultural values of the forests in BC. These proposed act amendments align with Western's increasing use of Integrated Resource Management Plans for the joint planning of long-term, sustainable forest management with First Nations.

Timber Tenure Reduction

Approximately 89% of Western's 5,914,000 cubic metre sustainable allowable annual cut ("AAC") is in the form of Tree Farm Licences ("TFL"). TFLs are granted for 25-year terms and are replaced by the Province every five to ten years with a new 25-year term.

In the first half of 2022, we anticipate the Province's Chief Forester to issue a final determination on the AAC in TFL 19, which is approximately 729,000 cubic metres. We expect that determination may reduce the AAC of TFL 19 by up to 18% or approximately 130,000 cubic metres.

Provincial legislation requires the Chief Forester to routinely review sustainable harvesting levels of individual tenures at least every 10 years and to issue a determination which may result in an increase or decrease to AAC. The AAC determination reflects tree growth, ecology, regional and local economic and social interests, water and other environmental considerations that define how forests can be managed.

More information on our tenure rights and sustainable harvest practices can be found in the Company's Annual Information Form, which is available on SEDAR at www.sedar.com, and Western's Sustainability Report, which is available at www.westernforest.com.

Financial Position and Liquidity (1)

(millions of Canadian dollars except where otherwise noted)

Selected Cash Flow Items	Q4 2021	Q4 2020	Q3 2021	YTD 2021	YTD 2020
Operating activities					
Net income	$ 28.5	$ 34.4	$ 42.2	$ 202.8	$ 33.4
Amortization	12.7	14.3	12.0	50.9	53.5
(Gain) loss on disposal of property, equipment and other assets	(0.7)	0.1	(2.5)	(23.3)	0.2
Income tax expense	10.2	15.1	14.0	62.4	14.6
Income taxes refunded	0.1	-	0.1	-	16.7
Export tax receivable	(3.3)	(33.1)	-	(3.3)	(33.1)
Other	0.3	7.1	(2.4)	15.2	9.1
	47.8	37.9	63.4	304.7	94.4
Change in non-cash working capital items	(7.7)	20.7	19.1	(23.1)	(14.0)
Cash provided by operating activities	40.1	58.6	82.5	281.6	80.4
Investing activities					
Additions to property, plant and equipment	(11.1)	(5.9)	(3.4)	(20.4)	(9.8)
Additions to capital logging roads	(2.6)	(2.1)	(3.2)	(11.5)	(8.9)
Proceeds on disposal of property, equipment and other	0.7	2.5	-	52.0	4.2
Proceeds from disposition of minority interest in subsidiary	-	-	5.5	19.8	-
Other	-	-	-	(1.2)	-
Cash provided by (used in) investing activities	(13.0)	(5.5)	(1.1)	38.7	(14.5)
Financing activities					
Repayment of credit facility	-	(49.5)	-	(70.2)	(43.9)
Dividends	(3.3)	-	(3.6)	(14.3)	(8.4)
Share repurchases	(34.5)	-	(30.2)	(96.9)	-
Lease payments	(1.9)	(1.6)	(1.5)	(7.2)	(6.8)
Other	(0.5)	(1.0)	(2.6)	(4.6)	(6.0)
Cash used in financing activities	(40.2)	(52.1)	(37.9)	(193.2)	(65.1)
Increase (decrease) in cash	$ (13.1)	$ 1.0	$ 43.5	$ 127.1	$ 0.8

Summary of Financial Position	Dec.31 2021	Dec.31 2020	Sept.30 2021
Cash and cash equivalents	$ 130.0	$ 2.9	$ 143.1
Current assets	411.0	263.7	418.6
Current liabilities	194.3	125.6	188.0
Bank indebtedness	-	0.2	-
Total debt	-	71.9	-
Net debt (cash)	(130.0)	69.2	(143.1)
Equity, excluding non-controlling interest	612.1	504.5	620.6
Total liquidity (2) (5)	371.4	178.3	384.4
Financial ratios			
Current assets to current liabilities (3)	2.12	2.10	2.23
Net debt to capitalization (4) (5)	-	12%	-

(1) Figures in the table above may not equal or sum to figures presented in the table and elsewhere due to rounding.
(2) Liquidity comprises cash and cash equivalents, and available credit under the Company's credit facility.
(3) Current assets to current liabilities is a supplementary measure and defined as current assets divided by current liabilities.
(4) Capitalization comprises net debt and shareholders' equity.
(5) Total liquidity and Net debt to capitalization are non-GAAP financial measures. Refer to the Non-GAAP Financial Measures section of this document for more information on each non-GAAP financial measure.

Cash provided by operating activities in 2021 was $281.6 million as compared to $80.4 million in 2020. Significantly improved cashflows from operations were the result of strong operating performance and improved lumber prices.

Cash provided by investing activities in 2021 was $38.7 million, as compared to cash used in investing activities of $14.5 million in 2020. Capital spending increased $13.2 million over last year, and was more than offset by $71.8 million in proceeds from disposal of non-core assets and the sale of an incremental 28% non-controlling interest in TFLP.

Cash used in financing activities in 2021 was $193.2 million, as compared to cash used by financing activities of $65.1 million in 2020. We returned $111.2 million to shareholders via dividends and share repurchases and repaid $70.2 million in drawings under our credit facility in 2021.

Liquidity and Capital Resources

Total liquidity was $371.4 million at December 2021, as compared to $178.3 million at the end of last year. Liquidity is comprised of cash and cash equivalents of $130.0 million and unused availability under the credit facility of $241.4 million. As a result of strong financial results, we had cash taxes payable of $64.1 million at December 2021.

Based on our current forecasts, we expect sufficient liquidity will be available to meet any commitments as well as our other obligations through 2022. The Company was in compliance with all its financial covenants as at December 31, 2021.

Summary of Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2021, and our payments due for each of the next five years and thereafter, including estimated interest payments:

(*millions of Canadian dollars*)	Total	2022	2023	2024	2025	2026	Thereafter
Accounts payable and accrued liabilities	$ 112.8	$ 112.8	$ -	$ -	$ -	$ -	$ -
Purchase commitments	13.1	13.1	-	-	-	-	-
Income taxes	64.1	64.1	-	-	-	-	-
Lease liabilities	20.7	6.4	3.8	3.3	2.5	1.3	3.4
Reforestation obligation	23.2	9.9	3.5	2.2	1.5	1.1	5.0
Defined benefit pension plan fund obligation	11.3	1.4	1.4	1.4	1.4	1.4	4.3
	$ 245.2	$ 207.7	$ 8.7	$ 6.9	$ 5.4	$ 3.8	$ 12.7

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. To return capital to shareholders, we reinstated a regular quarterly dividend in 2021 and continue to repurchase common shares under our NCIB.

We will continue to evaluate opportunities to invest strategic and discretionary capital in jurisdictions that create the opportunity to grow long-term shareholder value. We expect to focus near-term internal strategic capital investments on projects that reduce manufacturing costs or address kiln drying and planer capacity constraints on the BC Coast. These potential investments will help support growth of our specific product line initiatives, as well as add value to our products. We have approximately $10 million in strategic capital projects currently underway in BC, and we continue to evaluate opportunities to invest in the competitive positioning of our value-added operations. The Company will evaluate all capital allocation decisions after considering our operating results, financial condition, cash requirements, financing agreement restrictions and other factors or financial metrics that may be deemed relevant.

Quarterly Dividend

The quarterly dividend program is intended to return a portion of the Company’s cash to shareholders, after taking into consideration liquidity and ongoing capital needs.

In February 2021, the Company’s Board of Directors reinstated a quarterly dividend of $0.01 per common share, which had been suspended in response to the global economic uncertainty arising from COVID-19 and added financial requirements of resetting the business after the lengthy Strike. The Company’s Board of Directors will continue to review our dividend on a quarterly basis.

Dividends of $3.3 million and $14.3 million were paid in the three and twelve months ending December 31, 2021, respectively.

Normal Course Issuer Bid

On August 5, 2021, the Company renewed its NCIB permitting the purchase and cancellation of up to 29,726,940 common shares beginning August 11, 2021, representing 10% of the public float outstanding as of August 5, 2021. 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.

In 2021, we repurchased and cancelled 47,702,569 common shares for $96.9 million at an average price of $2.03 per common share. No common shares were repurchased in 2020.

As at January 24, 2022, the Company had repurchased and cancelled the maximum 29,726,940 Common Shares permitted for purchase and cancellation under the current NCIB for $60.7 million at an average price of $2.04 per common share.

Strategy and Outlook

Western's long-term business objective is to create superior value for shareholders by building a sustainable, 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 ROCE.

Continuing to guide our actions are the strategic initiatives below, with selected accomplishments in 2021:

Strengthen the Foundation

- Advancing our strategic partnerships with First Nations and continuing to reposition our coastal tenure assets. We completed the sale of an incremental 28% ownership interest in TFLP for $22.4 million, to the HVLP.
- Achieving a series of milestone agreements focused on joint and collaborative planning of forestry activities with First Nations in whose traditional territories we operate. These agreements build upon Western's well-established, sustainable forestry practices by incorporating Indigenous values within planning and forestry activities.
- Confirming our net positive climate impact with the release of our latest Sustainability Report. This included the completion of our first full lifecycle carbon accounting, reaffirming the positive role Western's sustainable forest management practices and wood products have in fighting against climate change.
- Completing the sale of significant non-core assets for net cash proceeds of $52.0 million in 2021, supporting the repositioning of our balance sheet. This includes the sale the Company's former Orca Quarry related assets and the Somass Division assets. Since 2014, the Company has realized net cash proceeds of $94.5 million from other non-core asset sales.

Grow the Base

- We optimized our operations and invested in our sawmills and timberlands to improve margins and position ourselves for growth. We continue to look for opportunities to further optimize our operations to enhance profit margins.
- We implemented multiple non-capital margin improvement programs to improve our cost structure and optimize our supply chain.
- The success of our business relationships with First Nations has and continues to drive incremental log volume and enabled Western to grow specialty lumber production in recent years.
- Extending the maturity of our $250 million credit facility to July 2025 to support our growth priorities. We also became the first North American publicly traded forestry company to transition to a sustainability-linked credit facility, linking our borrowing cost to the achievement of certain sustainability goals related to health and safety performance, increasing workforce diversity and advancing mutually beneficial Indigenous relationships.

- Growing our wholesale lumber shipments by 19% in 2021, as compared to 2020, despite challenging wholesale lumber market conditions. Our wholesale lumber business allows us to offer an expanded product line, making us more meaningful to our selected customers and further enhancing the viability and success of our coastal sawmills.

Explore Opportunities

- Advancing $10 million in announced strategic capital projects to increase lumber remanufacturing capacity, which are expected to reduce costs and improve efficiency to ensure we remain globally competitive.
- Returns from our Columbia Vista division in Vancouver, Washington remain ahead of expectations.
- We continue to evaluate other opportunities to grow our specialty products business, including how we may participate in the increased use of mass timber building technologies, as well as capitalize on two-way trade opportunities with our strong customer relationships in Japan.

Market Outlook

Volatile global lumber market conditions and global logistics challenges have required a dynamic sales and marketing strategy. In 2021, we successfully levered our flexible operating platform, directing production to the highest margin product and market alternatives. As we look to 2022, the same combination of strong demand across our core markets, and regional production and logistics challenges have created margin opportunities for Western.

In North America, we expect high levels of new home construction and sound repair and remodeling fundamentals to drive product demand. We expect pricing to remain above trend levels for the foreseeable future as supply is likely to remain constrained due to a combination of reduced log availability and logistics challenges.

In Japan, relatively strong demand from new home construction and logistics constrained imported lumber supply should support pricing through the first half of the year.

In the fourth quarter of 2021, the North American cedar market returned to a more seasonal pattern after the 2020 COVID-19 related demand surge. As we enter 2022, cedar lumber demand is returning and pricing is expected to improve. For our Niche products, we anticipate that demand from the North American industrial timber market will remain strong while improved demand and pricing is expected for appearance timbers as we head into the spring.

Severe weather events limited domestic log harvest in the last half of 2021 and have reduced inventories to low levels impacting sawmill production. We expect domestic saw log prices to increase in the near-term due to limited supply, rising stumpage costs and higher demand driven by strong lumber markets.

The price for NBSK pulp in China has improved due to logistics constrained supply. Higher pulp prices should benefit residual chip pricing in the coming quarters. Pulp log prices are likely to remain flat due to limited market options and a lack of whole log chipping capacity.

The ongoing challenges related to COVID-19 and global logistics issues continue to create uncertainty in our business and could lead to pricing volatility and ongoing vessel, rail and trucking challenges. We plan to utilize our flexible operating platform to adjust to market conditions and will continue to align our production volumes to match market demand.

Long-term, we believe that strong North American housing market fundamentals will support lumber demand and pricing, above trend levels. Low mortgage interest rates, an aging housing stock, a housing deficit stemming from years of underbuilding, and the influence of work-from-home arrangements on the repair and renovation segment are expected to continue to drive growing demand for lumber. At the same time supply has been reduced due to the impact of permanent production curtailments resulting from Mountain Pine Beetle in the BC Interior.

In addition, we expect growth in the use of mass timber building technologies, the need for carbon neutral products and improved recognition of lumber as the most sustainable building product on the planet will grow demand and benefit the forest sector long-term.

Softwood Lumber Dispute

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 consists of significant volumes of high-value, appearance grade lumber, we are disproportionately impacted by these duties. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement ("NAFTA") challenge proceedings, please see "*Risks and Uncertainties"*.

Western expensed $29.8 million of export duties on its lumber shipments into the US in 2021 and recognized an offsetting export tax recovery of $3.3 million arising from the DoC's final determination on assessed rates for 2019. Export duty tax was comprised of CV and AD at a combined rate of 8.99% on all lumber Western sold into the US until November 30, 2021 and a combined rate of 17.90% effective December 1, 2020. On January 10, 2022, as a result of a ministerial error in its second administrative review, the DoC revised the published CV rate to 6.32% increasing the combined cash deposit rate to 17.91%. On January 31, 2022, the DoC released its preliminary determination for CV and AD rates for 2020 shipments at 11.64% resulting from its third administrative review. The DoC may revise these rates between the preliminary and the final determination, expected to be released on August 3, 2022. Cash deposits continue at the combined duty rate of 17.91% until the final determinations are published, after which the 2020 rate will apply.

At December 31, 2021, Western had $151.8 million (USD $120.1 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which $40.4 million (USD $31.9 million) is recognized in the Company's balance sheet arising from rate determinations in 2017, 2018, and 2019.

Including wholesale lumber shipments, our sales to the US market represent approximately 41% of our total lumber revenue in 2021. 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 originating from Canada that are 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.

Non-GAAP Financial Measures

Reference is made in this MD&A to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, Net debt to capitalization, total Liquidity and ROCE which 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)

Adjusted EBITDA	**Q4 2021**	**Q4 2020**	**Q3 2021**	**Annual 2021**	**Annual 2020**	**Annual 2019**
Net income (loss)	$ 28.5	$ 34.4	$ 42.2	$ 202.8	$ 33.4	$ (46.7)
Add:						
Amortization	12.7	14.3	12.0	50.9	53.5	45.4
Changes in fair value of biological assets	0.2	1.2	0.8	3.7	2.4	2.3
Operating restructuring items	0.8	0.6	0.9	2.7	2.1	3.5
Other (income) expense (1)	(0.3)	6.2	(4.0)	(22.4)	5.0	2.9
Finance costs	0.2	(0.5)	0.4	1.9	5.9	7.8
Current income tax (recovery)	10.5	-	13.6	64.1	(0.1)	(13.0)
Deferred income tax (recovery)	(0.3)	15.1	0.4	(1.7)	14.7	(3.7)
Adjusted EBITDA	$ 52.5	$ 71.1	$ 66.3	$ 302.1	$ 116.8	$ (1.5)
Adjusted EBITDA margin						
Total revenue	$ 327.9	$ 318.9	$ 352.9	$1,417.7	$ 964.9	$ 807.7
Adjusted EBITDA	52.5	71.1	66.3	302.1	116.8	(1.5)
Adjusted EBITDA margin	16%	22%	19%	21%	12%	(0%)

Net debt to capitalization	**Dec. 31 2021**	**Dec. 31 2020**	**Sept. 30 2021**
Net debt			
Total debt	$ -	$ 71.9	$ -
Bank indebtedness	-	0.2	-
Cash and cash equivalents	(130.0)	(2.9)	(143.1)
Net debt (cash)	$ (130.0)	$ 69.2	$ (143.1)
Capitalization			
Net debt (cash)	$ (130.0)	$ 69.2	$ (143.1)
Add: Total equity attributable to equity shareholders of the Company	612.1	504.5	620.6
Capitalization	$ 482.1	$ 573.7	$ 477.5
Net debt to capitalization	-	12%	-

Total liquidity	**Dec. 31 2021**	**Dec. 31 2020**	**Sept. 30 2021**
Cash and cash equivalents	$ 130.0	$ 2.7	$ 143.1
Available credit facility	250.0	250.0	250.0
Less:			
Drawings under the credit facility	-	(70.2)	-
Outstanding letters of credit	(8.6)	(4.2)	(8.7)
Total liquidity	$ 371.4	$ 178.3	$ 384.4

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

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

(millions of Canadian dollars except where otherwise noted)

Return on Capital Employed [1]	**2021**	**2020**	**2019**
Trade and other receivables	$ 57.4	$ 66.8	$ 23.4
Inventory	207.2	177.9	132.0
Prepaid expenses and other assets	16.4	16.1	14.7
Property, plant and equipment	343.2	383.3	414.9
Timber licences	100.3	105.0	109.2
Biological assets	49.1	53.6	56.0
Other assets	55.2	46.3	13.4
	828.8	849.0	763.6
Less:			
Duty receivable and related interest	40.4	36.7	3.6
Accounts payable and accrued liabilities	112.8	108.7	35.0
Current portion of lease liabilities	5.5	6.2	4.9
Current portion of reforestation obligation	9.9	8.1	8.7
Current portion of deferred revenue	2.0	2.0	2.0
	170.6	161.7	54.2
Net capital employed at December 31	658.2	687.3	709.4
Net capital employed at January 1	687.3	709.4	711.7
Average capital employed	$ 672.8	$ 698.4	$ 710.6
Adjusted EBITDA divided by average capital employed	45%	17%	(0)%

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

Critical Accounting Estimates

Reforestation Obligation

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

Costing and Valuation of Inventory

We cost our inventory using complex models that are required due to our integrated supply chain and the variability in the species and grades of log and lumber inventory. We cost our inventory at the average cost of production by facility, species and product for lumber and by end sort for each operation for logs. We value our log and lumber inventories at the lower of cost and net realizable value. We estimate net realizable value by reviewing current market prices for the specific inventory items based on recent sales prices and current sales orders. If the net realizable value is less than the cost amount, we will record a write-down. The determination of net realizable value at a point in time is generally both objective and verifiable. However, changes in product prices can occur suddenly, which could result in a material write-down in inventories in future periods.

Valuation of Accounts Receivable

We record an allowance for the collection of doubtful accounts receivable based on our best estimate of potentially uncollectible amounts. The best estimate considers past experience with our customer base and a review of current economic conditions and specific customer issues. The Company’s general practice is to insure substantially all North American lumber receivables for 90% of value with the Export Development Corporation or Coface Canada, while log and lumber sales outside of North America are sold on either a cash basis or secured by irrevocable letters of credit, which limits the Company’s credit exposure.

Pension and Other Post Retirement Benefits

Western has various defined benefit and defined contribution plans, a group RRSP, and Supplemental Executive Retirement Plan that provide retirement benefits to its eligible salaried employees. A group RRSP is provided to certain hourly employees not covered by forest industry union plans. The Company also provides other post-retirement benefits and pension bridging benefits to eligible retired employees. Our defined benefit plans were closed to new entrants effective June 30, 2006. No further benefits accrue under these plans for years of service after December 31, 2010, and no further benefits accrue under these plans for compensation increases effective December 31, 2016.

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

Environmental Provisions

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

Contingencies

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

Valuation of Biological Assets

The Company values its biological assets at fair value less costs to sell. Valuation analysis includes recent comparatives of standing timber sales, direct and indirect costs of sustainable forest management, net present value of future cash flows for standing timber and log pricing assumptions. Significant assumptions are used in the preparation of the valuation and actual results may vary materially from estimates.

Impairments

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized in net income for the period for the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment analysis requires the use of significant assumptions, including management and independent third-party input.

Income Tax Assets and Liabilities

Estimations in the recognition of tax assets or liabilities require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities. Significant judgment is required as income tax laws and regulations can be complex and are potentially subject to different interpretation between the Company and the respective tax authority. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return.

Deferred Income Taxes

Deferred tax assets and liabilities comprise the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, as well as the tax effect of unused tax losses. Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws at the time of the expected reversal. The composition of deferred tax assets and liabilities is reasonably likely to change from period to period due to the number of variables associated with the differing tax laws and regulations across the jurisdictions in which the Company operates. As a result, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Uncertainties surrounding these assumptions and changes in tax rates or tax policy could have a material effect on expected results.

Accounting Policies and Standards

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2021 and have not been applied in preparing these 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.

Financial Instruments and Other Instruments

Western has a program in place to reduce the impact of volatile foreign exchange rates on its net income. The Company utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange risk. Therefore, Western may purchase foreign exchange forward contracts or similar instruments to hedge anticipated USD and Japanese Yen ("JPY") sales. The Company does not utilize derivative financial instruments for trading or speculative purposes. Western will consider whether to apply hedge accounting on a case by case basis and if the instrument is not designated as a hedge, the instrument is adjusted to fair value and marked to market each accounting period, with changes recorded in net income.

During 2021, the Company entered into foreign exchange forward contracts to sell USD and JPY in order to partially mitigate its foreign currency risk. At December 31, 2021, the Company had forward contracts in place to sell an aggregate USD $71.0 million (2020: USD $$59.5 million). An asset of $1.1 million (2020: 0.6 million) was recognized in relation to foreign exchange forward contracts outstanding as at December 31, 2021 which is included in trade and other receivables in the consolidated statement of financial position. A net loss of $1.4 million was recognized on contracts that matured during the year (2020: net gain of $4.1 million), which is included in sales in the consolidated statement of comprehensive income.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and CV and AD duty deposits. At December 31, 2021 such instruments aggregated $14.3 million (December 31, 2020 - $9.3 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Related Party Transactions

Key personnel of the Company include the executive management team and members of the Board of Directors. The compensation paid or payable to key personnel is shown below:

	Years ended December 31,	
	2021	2020
Salaries, directors' fees and short-term benefits	$ 9.7	$ 5.7
Post-employment benefits	1.6	0.5
Share-based compensation, including mark-to-market adjustment	10.7	2.4
	$ 22.0	$ 8.6

Record financial results, including a record ROCE of 45%, and a 63% share price appreciation in 2021 resulted in higher variable incentive for our salaried employees. Share price appreciation also resulted in greater mark-to-market adjustments on long-term incentive compensation obligations, in addition to retention awards for certain key personnel.

Risks and Uncertainties

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

Public Health Crisis

The existence of a wide-spread public health crisis could have a material impact on the Company. A global pandemic resulting from a contagious disease (such as COVID-19) could impact the Company by having an adverse effect on our business, financial conditions and results of operations, including as a result of the corresponding effects on global economic activity; the business, operations, financial conditions and solvency of our customers; demand and pricing for our products; labour shortages; shipping and product delivery interruptions and shutdowns; supplier and service provider delays or disruption; increased cyber-security risk; as well as material impacts on our revenues, costs, cash flow and liquidity. Government measures and restrictions relating to travel, business operations and isolation may directly affect our and our customers, suppliers and service providers' operations and employees, and the demand for and pricing of our products.

In 2021, the Company cooperated with public health orders by ensuring enhanced health and safety protocols are maintained. No COVID-19 related curtailments occurred during the year. The full extent of the impact of the COVID-19 pandemic on the Company will depend on many factors that, given the ongoing and dynamic nature of COVID-19, are highly uncertain and cannot be predicted. These factors include, without limitation, the duration and severity of the pandemic, further measures, restrictions and actions taken to contain the pandemic, availability, effectiveness and efficacy duration of vaccines, mutation of the virus or new information that may emerge concerning the spread and severity of COVID-19.

Regulatory Risks

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

Log exports from our timber operations are subject to federal and provincial regulations. An export permit must be obtained from the Canadian Federal Government to export any logs harvested in BC and generally the logs must be surplus to the supply required for domestic manufacturers. Logs from private timberlands that were granted by the Crown prior to March 12, 1906 are subject to the Federal surplus test and logs from private land granted after that date are subject to the Provincial surplus test. Logs harvested from Crown land in BC are subject to the Provincial surplus test. The regulations also restrict the species and grade permitted for export.

Under both the federal and provincial surplus tests, the logs must be advertised for local consumption. Logs are declared surplus and may be exported if there are no offers on the advertised logs by domestic manufacturers. In practice, domestic offers on export volume can be satisfied with replacement volume to minimize operational impacts.

There have been significant legislative reforms in the BC Forest Industry over the last 40 years. One of the more significant examples of this was seen in 2003 when the Province took back approximately 20% of the AAC from major license holders, including Western, and provided monetary compensation in return. There can be no assurance that the Province will not implement further policy changes, or that such changes will not have a material adverse effect on our operations or our financial position.

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

In 2019 the Province became the first province in Canada to adopt the principles of the United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP") through the bringing into force of Bill 41, *Declaration on the Rights of Indigenous Peoples Act*. The Act requires the Province to align all laws with UNDRIP, to develop an action plan to achieve this, and regularly report to the legislature to monitor progress. The Canadian federal government has also pledged to implement UNDRIP and the Calls to Action of the Truth and Reconciliation Commission. Significant expectation has been raised among Aboriginal groups in BC and across the country as to the impact that this Act and the federal government's commitments may have on efforts to achieve true reconciliation with Aboriginal groups. At this time, the Company is unable to predict the outcome of the Act and the implementation of these commitments on Western's ongoing operations or assets.

Notable legislative changes and policy initiatives undertaken since 2019 are as follows:

- On April 1, 2019, the Province announced the creation of fibre recovery zones. Western estimates that approximately 70% of our timberland operations are impacted with the creation of fibre recovery zones. 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. In December 2019, the BC Ministry of Forests, Lands, Natural Resource Operations and Rural Development ("MFLNRO") indicated its intention to reduce the penalties and delay implementation of fibre recovery zones.
- On May 16, 2019, the Province brought into force 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 of Forests' ability to manage forest activity, expand the definition of wildlife to help protect at-risk species and improve and streamline range-use planning.
- On May 30, 2019, the Province brought into force Bill 22, Forest Amendment Act, 2019, amending the *Forest Act* to require tenure holders to receive approval from the Minister of Forests before disposing or transferring a tenure agreement to a third party. These amendments enable the Minister of Forests 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 July 17, 2019, the Province announced the appointment of a two-person panel to lead an Old Growth Strategic Review. On April 30, 2020, the Province released publicly the report provided by the panel (the "Report"), including fourteen recommendations to inform old-growth management for BC.
- In January 2020, the Province announced changes to the Manufactured Forest Products Regulation ("MFPR"). The amendments to the MFPR require wood products made from WRC or cypress (yellow cedar) on the BC Coast and exported within 3,000 miles of BC to be fully manufactured to be eligible for export or be subject to export tax. Fully manufactured is defined as timber that will not be kiln-dried, planed or re-sawn at a facility outside of BC.
- On September 11, 2020, the Province announced an immediate deferral of harvest of old forests in 352,739 hectares of Crown land in BC, and a new Special Tree Regulation. Of Western's 1.7 million hectares of Crown tenured land base, an area of 3,300 hectares was included in the September 2020 proposed temporary deferrals. The new Special Tree Regulation had no impact to Western given our ongoing commitment to protecting big trees.
- In October 2020, the BC New Democratic Party were re-elected and made statements that they would implement all fourteen recommendations of the Report through a phased approach over a three year period.

- On December 15, 2020, the Province announced the application of a targeted variable fee-in-lieu of manufacturing for raw log exports harvested from cutting permits on the BC Coast.
- In March 2021, the Province announced the pending release of an Intentions Paper that included, amongst other things, the intent to diversify the BC forest sector, partially redistribute tenure and compensate existing tenure holders on a fair basis.
- In June 2021, the Intentions Paper was released. Titled "Modernizing BC's Forest Sector", it contained a vision and principles related to First Nations reconciliation, diversification, sustainability and stewardship amongst other things.
- On November 2, 2021, the Province announced proposed incremental, temporary harvest deferrals as recommended through its TAP, subject to engagement with and agreement from First Nations. Across BC, an incremental 2.6 million hectares classified as old growth forest were identified for deferrals. The thirty-day response period initially provided to First Nations has been extended.
- Western continues its joint work on Integrated Resource Management Plans with Indigenous partners including the HFN, the Nanwakolas Council and the Tla'amin Nation. As decisions by some First Nations remain outstanding, Western cannot determine the impact these deferrals will have on its business.
- On November 16, 2021, the Province introduced Bill 28, Forest Amendment Act, 2021, which is considered enabling legislation for the redistribution of harvest rights and, subject to further regulation, includes changes to how tenure holders may be compensated under the Forest Act for tenures. Included in the amendments arising from this Bill were requirements for area-based tenure holders to maintain and provide forest inventories, and certain log export administrative changes.
- On November 25, 2021, the Province's Bill 23, Forests Statutes Amendment Act, 2021, amendment to the Forest and Range Practices Act received Royal Assent bringing into legislation forest planning and related changes including the replacement of Forest Stewardship Plans approved by Forest Districts with Forest Landscape Plans which are to be established by the Provincial Chief Forester.
- The 'Namgis First Nation and Western continue their work on the TFL 37 Forest Landscape Plan Pilot, supported by the Province through the Office of the Chief Forester. The pilot and recommendations are anticipated to inform amendments to the Forest and Range Practices Act and associated Regulations and is targeted for completion late 2022 or early 2023. Western cannot determine the impact these recommendations will have on its business.
- On January 25, 2022, the Province announced that it is developing BC's first Watershed Security Strategy and Fund, with details outlined in its published Discussion Paper: Watershed Security Strategy and Fund, including a commitment to develop and implement it with Indigenous peoples and in collaboration with local and federal governments. This initiative has an estimated target of spring/summer 2023 for launch of the Watershed Security Strategy.

First Nations Land Claims

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

First Nations seek compensation from governments (and in some instances from forest tenure holders) with respect to their claims, and the effect of these claims on tenure rights, including our timber tenures, cannot be estimated at this time. The Federal and Provincial governments continue to negotiate treaty and/or other reconciliation agreements with Aboriginal groups in BC in order to resolve these claims. This section provides an overview of recent developments in First Nations land claims and settlements that have or may affect the Company.

In the June 2014 *Tsilhqot'in* decision, the Court recognized Tsilhqot'in title to a portion of the area in dispute, including rights to decide how the land will be used, occupancy and economic benefits of the land. The Court held that while the Province had the constitutional authority to regulate forest activity on Aboriginal title lands, it had not adequately consulted with the Tsilhqot'in. While the decision does not directly impact Western's business as we do not have tenure in this area, we do operate on Crown tenures elsewhere that are subject to claims of Aboriginal title. The potential impact on Western's tenure holdings is not ascertainable at this time.

On April 1, 2011, the first modern treaty affecting the Company's tenures was brought into force. The Maa-nulth First Nations Treaty extinguished the Company's tenure rights on Maa-nulth Treaty Settlement Lands and a new Protected Area within TFL 44 and permanently reduced the tenure's AAC by 104,000 cubic metres. Following discussions with the Province on the magnitude of the treaty impacts on AAC, soft cost investments and downstream business, on October 21, 2016, the Company announced that the Province had agreed to compensate Western in the amount of $14.0 million for the partial tenure extinguishment.

The following litigation is currently outstanding in relation to forest tenures held by the Company:

- In January 2017, the Nuchatlaht First Nation filed a Notice of Civil Claim against Canada, the Province and the Company, seeking a declaration of Aboriginal title to a claim area that encompasses the northern half of Nootka Island. The claim area encompasses the Company's Forest Licence A19231 and certain timber licences also held by the Company. The Nuchatlaht claim will go to trial in March 2022.
- In May 2018, the Dzawada'enuxw First Nation filed a Notice of Civil Claim against, among others, Canada, the Province, and the Company. The Dzawada'enuxw First Nation, located at Kingcome Inlet on the mainland coast, is seeking a declaration of Aboriginal title over an area that includes two Western timber licenses and TFL 39 block 3. Dzawada'enuxw's legal counsel is not requiring Western to file a Response to Civil Claim at this time.

Government-to-government negotiation processes involving several First Nations, with territories that Western's operating areas overlap, are well advanced and may lead to agreements impacting the Company in 2022. It is expected that through these processes, the Province may seek to remove areas from the Company's forest tenures or amend existing permitting processes to incorporate shared decision making contemplated by Bill 41, the *Declaration on the Rights of Indigenous Peoples Act* ("*DRIPA"*).

The Company is currently unable to predict the outcome of these legal proceedings and negotiations on Western's ongoing operations, including operational delays, access to harvesting rights or impact on the Company's assets. An unfavourable result in any of the First Nations consultation or litigation in which the Company is a party or which involves assets of the Company could have a material adverse effect on our financial condition or results of operations.

In addition to the implementation of *DRIPA* (see "*Risks and Uncertainties – Regulatory Risks*"), current provincial policy requires that forest management and operating plans take into account and not unreasonably infringe on Aboriginal rights and title, claimed or determined, and provides for consultation with First Nations. This policy is reflected in the terms of our timber tenures, which provide that the District Manager may vary or refuse to issue cutting permits in respect of a timber tenure if it is determined by a court that the forestry operation would unjustifiably infringe an Aboriginal right, including Aboriginal title. First Nations have, at times, sought to restrict the Province from granting or replacing forest tenures and other operating authorizations or from approving forest management plans on Crown lands without full consultation and accommodation or their consent if these decisions could affect lands claimed by them. There can be no assurance that denial of required approvals for, or changes to the terms of our timber tenures, other operating authorizations or forest management plans as a consequence of such consultation or action will not have an adverse effect on our financial condition or results of operations.

Softwood Lumber Dispute

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

The twelve-month standstill period of the SLA, which precluded the US from bringing trade action against Canadian softwood lumber producers, expired October 12, 2016. On November 25, 2016, the US Lumber Coalition petitioned the DoC and the US International Trade Commission ("ITC") seeking CV and AD on Canadian softwood lumber shipments to the US. On January 6, 2017, the ITC concluded that there was "reasonable indication" that softwood lumber products from Canada materially injured US producers; and, as a result, the DoC imposed duties on Canadian shipments of softwood lumber into the U.S.

From 2017 onward, as a result of petitions filed by the US Lumber Coalition and others and determinations made by the US International Trade Commission, the DoC imposed CV and AD on Canadian softwood lumber shipments to the US.

On November 23, 2020, the DoC released its final determination for CV and AD rates resulting from its first administrative review and revised rates for CV and AD were published in the US Federal Register on November 30, 2020 and December 1, 2020, respectively. The final determination reduced the assessment rates applied to exports from April 28, 2017 through December 31, 2018 and established a revised cash deposit rate of 8.99% applicable to Canadian lumber shipments made to the US in December 2020 until the publication of final rates under the second administrative review.

On November 24, 2021, the DoC released its final determination for CV and AD rates resulting from its second administrative review and revised rates for CV and AD were published on December 2, 2021. The final determination reduced the assessment rates applied to Canadian lumber shipments made to the US in 2019 and established a revised cash deposit rate of 17.90% from December 2021 until the publication of final rates under the third administrative review.

On January 3, 2022, the DoC announced the fourth administrative review of CV and AD rates for shipments for 2021.

On January 10, 2022, as a result of a ministerial error in its second administrative review, the DoC revised the published CV rate to 6.32% increasing the rate applicable to Canadian lumber shipments made to the US in 2019 and the cash deposit rate to 17.91%.

On January 31, 2022, the DoC released its preliminary determination for CV and AD rates resulting from its third administrative review of shipments for 2020. The DoC may revise these rates between the preliminary and the final determination, expected to be released on August 3, 2022. Cash deposits continue at the combined duty rate of 17.91% until the final determinations are published, after which the 2020 rate will apply.

The following table summarizes the cash deposit rates in effect, the final rates applicable to 2017, 2018 and 2019, and preliminary rates for 2020:

	1 month ended Dec. 31 2021	11 months ended Nov. 30 2021	1 month ended Dec. 31 2020	11 months ended Nov. 30 2020	Year 2019	Year 2018	Year 2017
Cash deposit rate, CV	6.31%	7.42%	7.42%	14.19%	14.19%	14.19%	14.19%
Cash deposit rate, AD	11.59%	1.57%	1.57%	6.04%	6.04%	6.04%	6.04%
Cash deposit rate, combined	17.90%	8.99%	8.99%	20.23%	20.23%	20.23%	20.23%
Final rate, CV					6.32%	7.42%	6.71%
Final rate, AD					11.59%	1.57%	1.66%
Final rate, combined					17.91%	8.99%	8.37%

	Year 2020
Preliminary rate, CV	6.88%
Preliminary rate, AD	4.76%
Preliminary rate, combined	11.64%

This dispute may have an adverse impact on our financial condition and could also result in increased costs resulting from the administrative burden of such proceedings. The Canadian Federal Government is appealing the U.S. findings and, as in previous trade cases, the softwood lumber dispute may take years to resolve through the legal process and remains open to a negotiated settlement at any time. Based on the foregoing, it is unclear at this time when any duty amounts paid will be recovered or if amounts paid in excess of the amended final rates will be refunded.

Availability of Fibre and Dependency on Fibre Obtained from Government Timber Tenures

Substantially all of the timberlands in BC in which we operate are owned by the Province and administered by the MFLNRO. The Forest Act (British Columbia) (the “Forest Act”) empowers the MFLNRO to grant timber tenures, including Tree Farm Licences (“TFLs”), Forest Licences (“FLs”) and Timber Licences (“TLs”), to producers, although no new TLs can be issued and the availability of extensions to expiring TLs is not assured. The Provincial Chief Forester must conduct a review of the AAC for each Timber Supply Area and each TFL in the Province on a periodic basis, at least once every ten years. This review is then used to determine the AAC for licences issued by the Province under the Forest Act. Many factors affect the AAC such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes. Such assessments have in the past resulted and may in the future result in reductions or increases to the AAC attributable to licences held by BC forest companies (without compensation), including the licences that we hold. In addition, our AAC can be temporarily reduced (without compensation for the first four years) in areas where logging has been suspended under Part 13 of the Forest Act pending government decisions regarding the public interest in designated areas. Land use planning, including critical habitat designations, stand age restrictions, as well as new harvesting regulations, can constrain access to timber and new parks can permanently remove land from the timber harvesting land base. There can be no assurance that the amounts of such future reductions on our licences, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

Our fibre supply requirements in the US are currently met from a broad range of sources, including Federal and State lands, from private landowners and open market purchases, which are subject to log availability and based on market prices.

Changes in the log markets in which we operate, including the price, quality or availability of log supply, may increase the costs of log purchases which could adversely affect our results. In addition, weather-related issues can restrict timely access to log supply.

Stumpage Fees

Stumpage is the fee that the Province charges forest companies for timber harvested from Crown land in BC. Approximately 95% of the timber we harvest is from Crown land. Stumpage is set using the Coast version of the Market Pricing System (“MPS”). MPS uses the winning bids and stand characteristics of timber sold through British Columbia Timber Sales (“BCTS”) auctions to develop regression equations that predict the market (i.e. auction) value of Crown timber harvested under long-term tenures. The auction value is then adjusted to reflect costs that tenure holders incur that auction bidders do not incur as BCTS covers these costs. These costs, referred to as ‘Tenure Obligation Adjustments’, typically include road development, road maintenance, forest planning and administration, and silviculture. There are also other harvesting costs, or ‘Specified Operations’, that are not represented in the auction dataset that are also deducted from the auction value. These ‘Specified Operations’ costs include Tree Crown Modification, Barging, Ecosystem-Based Management, and Inland Water Transportation. The Coastal MPS equations are updated yearly to reflect recent sale data and costs. The most recent update occurred on December 15, 2021. Stumpage rates are also adjusted quarterly to reflect changes in inflation and market variables including lumber prices, housing starts in Canada, the US, and Japan, and BC Coast harvest levels.

There can be no assurance that future changes to the stumpage system or the Province’s administrative policy will not have a material impact on the stumpage fees payable by us and consequently affect our financial condition and results of operations.

Pulp and Paper Market Variability

The selling price in CAD of our residual wood chips is tied by formula to published indices that reflect the USD selling price of NBSK pulp. Fluctuations in pulp prices and foreign currencies will accordingly impact the selling price of our residual wood chips. The price and demand for the pulp logs and other logs sold to pulp and paper companies is also dependent on the market conditions for pulp and paper. If there is a contraction in the coastal pulp and paper industry, we may need to find alternative customers for the pulp logs and residual chips and hog fuel from our sawmills.

Reliance on Directors, Management and Other Key Personnel

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

Information Technology Security

Western relies on information technology systems to facilitate harvesting, log purchasing and reforestation activities, operation of our manufacturing facilities, interactions with vendors, customers and employees and reporting on our business. Interruption or failure of these systems could be due to a variety of causes, such as cyber-based attacks, vandalism, power or service outages, corruption, fire or natural disaster, and could result in operational disruption or the misappropriation of sensitive or proprietary data. Such events could have a negative impact on Western's reputation or subject the Company to potential liability, proceedings by affected parties, civil or criminal penalties. Interruption or failure of these systems could result in material adverse effect on Western's business.

While the Company believes current security measures and disaster recovery plans to be adequate, we continue to develop and enhance our security measures, internal controls, policies, training and procedures designed to protect information technology systems from attack, damage or unauthorized access.

Variable Operating Performance, Product Pricing and Demand Levels

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

- Additions/curtailments to industry capacity and production;
- Periods of insufficient demand due to weak economic activity or other causes including weather;
- Customers experiencing reduced access to credit; and
- Inventory de-stocking by customers.

Product demand is influenced to a significant degree by economic activity at the global level. Additionally, although costs may increase, customers may not accept related price increases for those products. We are not able to predict with certainty market conditions and prices for our products. Western's results of operations depend upon the prices we receive for lumber, logs and chips, and deterioration in prices of, or demand for, these products could have a material adverse effect on our financial condition or results of operations. We cannot provide any assurance or prediction as to the timing and extent of any price changes. On an annualized basis, with active operations, and based on current operating metrics, we estimate that operating earnings would increase or decrease by approximately $8 million for each incremental price increase or decrease, respectively, of $10 per thousand board feet of lumber.

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

From time to time and in accordance with market influences, the Company will reduce production with temporary logging and/or sawmilling curtailments. In extreme cases, such curtailments may become permanent closures. When Western undertakes significant market-related curtailments of sawmills, the volume of chips produced is reduced and accordingly there is greater risk that the Company may not meet minimum contractual obligations under long-term chip supply agreements without incurring additional cost.

Employees and Labour Relations

Hourly paid employees at our Canadian manufacturing facilities and timber harvesting operations are unionized. The majority of the unionized employees are represented by the USW. Approximately 1,130 Western employees represented by the USW are covered by a five-year collective agreement that was renewed in February 2020 and expires in June 2024. The PPWC represents the remaining unionized employees. PPWC members of our Ladysmith Sawmill are covered by an eight-year collective agreement that was ratified in February 2021 and expires in December 2028. The PPWC also represents the unionized employees at our Value-Added Remanufacturing operation with whom we have a collective agreement that runs through October 2029.

Should the Company be unable to negotiate an acceptable contract after any of these collective agreements expire with any of the unions, a strike or lockout could occur. A strike or lockout could involve significant disruption of operations, may affect our ability to meet the immediate needs of our customers, or could have an adverse material impact on our financial condition. Furthermore, a negotiated settlement could result in unplanned increases in wages or benefits payable to unionized employees. In addition, the Company relies on certain third parties, such as logging contractors, stevedores, trucking companies and railways, whose workforces are unionized, to provide the Company with services necessary to operate the business. If those workers/employers engage in a strike or lockout, our operations could be disrupted.

Forest Resource Risk, Natural Catastrophes and Climate Change

Our timber tenures are subject to the risks associated with all standing forests, in particular, forest fires, windstorms, insect infestations and disease. Procedures and controls are in place to try and mitigate such risk through prevention and early detection. Most of the timber that we harvest comes from Crown tenures and insurance coverage is maintained only for loss of logs following harvesting due to fire and other occurrences. This coverage does not extend to standing timber, and there is no assurance that this coverage would be adequate to provide protection against all eventualities, including natural catastrophes. In 2016, Western entered into a cost-sharing agreement with the Crown for our private timberlands to share individual incident costs of mobilizing helicopters and aerial water tankers in the event of a fire on those lands.

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

Other than the sales offices in Japan and China, all of our business operations are located on the BC coast and the US Pacific Northwest, which are geologically active and considered to be at risk from earthquakes.

Climate change over time is predicted to lead to changes in the frequency of storm events as well as their severity. In the summer of 2021, BC and the US Pacific Northwest experienced extreme heat and an extended fire season, followed by flooding resulting from significant rainfall in November 2021. This weather caused significant operational and logistics disruptions impacting the ability to harvest timber and transport products.

We may also see changes in the occurrence of wildfires and forest pest outbreaks. This may impact our operations, our timber supply or the operations of our customers. Long-term climatic models are predicting that the optimum ranges of many species, including those of our major tree species, may shift over time. While we are unable to predict the impact of all of these potential factors on our tenures or on forest practices, we have incorporated considerations for climate change in our reforestation practices as facilitated through Provincial policy and legislation.

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

Environmental Regulation

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

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

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

Western is one of five founding members of the Coast Forest Conservation Initiative (the “CFCI”), a collaborative effort amongst forest companies working in BC's Central and North Coast. Its purpose is to define and support the development of an ecosystem-based management as part of 2003 Land and Resource Management Plan recommendations. The CFCI Companies, along with major environmental groups delivered a suite of recommendations for consideration by the Province and the First Nations who live in the region. On January 28, 2016 the Province enacted, by Order in Council, the GBR Order. On May 19, 2016, the Great Bear Rainforest (“GBR”) (Forest Management) Act received Royal Assent in the BC legislature and this Act was subsequently brought into force on December 20, 2016 with an Order in Council (number 974). As a result of the GBR related legislation the Company’s AAC in the GBR area was reduced from 522,774 m^3 per year to 427,005 m^3 per year, effective January 1, 2017. Further, Forest Licence A19244 was subdivided by the Province into two forest licences to ensure timber harvest attributed to the GBR area is wholly contained in licences that only include forest operations in the GBR area. The Company’s Tree Farm Licenses within the GBR were also partitioned. TFL 39 has a GBR specific AAC of 41,300 m^3 per year that can only be harvested from the TFL blocks within the GBR.

Long-Term Competition

The markets for our products are highly competitive on a domestic and international level, with a large number of major companies competing in each market, some of which have substantially greater financial resources than Western. We also compete indirectly with firms that manufacture substitutes for solid wood products, including non-wood and engineered wood products. While the principal basis for competition is price, we also compete to a lesser extent on the basis of quality and customer service. In addition, market acceptance of the environmental sustainability of our products as compared with substitutes could be a challenge in the future. Changes in the level of competition, industry capacity and the global economy have had, and are expected to continue to have, a significant impact on the selling prices of the Company’s products and the overall profitability of the Company. Our competitive position will be influenced by factors including the availability, quality and cost of fibre, energy and labour, and plant efficiencies and productivity in relation to our competitors. Our competitive position could be affected by fluctuations in the value of the CAD relative to the USD and/or the JPY, and by changes in the treatment of softwood lumber shipments to the US subsequent to the expiry of the SLA.

International Business and Risks of Exchange Rate Fluctuations

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

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

Depending on product mix, destination and exchange rates, generally between 45% and 55% of our total product sales are denominated in USD and between 2% and 7% in JPY, while most operating costs and expenses are incurred in CAD, with small portions in USD and JPY. The Company's functional currency is the CAD and financial results are reported in CAD. Significant variations in relative currency values, particularly significant changes in the value of the CAD relative to the USD, have had, and in the future could have, a material impact on our operating earnings and cash flows. We estimate that an increase or decrease of 1% in the value of the CAD compared to the USD and JPY would decrease or increase annual operating earnings, under normal operating conditions, by approximately $5.9 million, and $0.2 million, respectively.

Long-term Fibre Supply Agreements

The Company has a number of long-term commitments to supply chip fibre, saw logs and pulp logs to third parties. Certain of these fibre supply agreements have minimum volume requirements. A failure to supply the minimum volumes may result in additional costs or deferred obligations. If the Company is unable to produce the minimum volume, we may need to conduct whole log chipping, sell saw logs, purchase chips or pulp logs or incur a penalty under these fibre supply agreements. If the Company takes any significant 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 under these fibre supply agreements where it is not possible to secure replacement chips on the open market.

Safety

The Company's safety policy reflects its values and commitment to providing a healthy and safe workplace for its people, while at the same time ensuring compliance with our regulatory requirements under WorkSafeBC and other applicable regulations. Workplace safety laws and regulations change over time and may involve new methodologies and additional costs necessary to bring the Company into compliance. We are unable to assess the potential implication of such changes.

Impact of Mountain Pine Beetle and Spruce Beetle Infestation

The interior forests of BC and western parts of Alberta have been, and continue to be, seriously damaged by North America's largest recorded mountain pine beetle infestation. Over the past few years there has also been a growing concern with spruce beetle that is now killing live trees. Western does not operate in the affected areas and lodgepole pine, the species most at risk from the infestation, is not a key source of timber in the coastal forests. While coastal forests do contain Sitka spruce, large scale spruce beetle infestations killing live trees has only been recorded in Engelmann and white spruce tree species throughout North America. Those tree species are concentrated in the interior of BC and are not a source of timber for Western. The pine beetle infestation has caused widespread mortality of lodgepole pine and spruce beetle infestations are growing in scale in the interior. There is growing evidence that, as the dead trees decay, they become more difficult and costly to manufacture into lumber and that the quality of the residual wood chips may diminish. There may also be access issues over time as developing second growth forests grow to a size that precludes efficient entry into remote pine and spruce beetle damaged stands.

The mountain pine beetle has crossed into Alberta, and timber harvesting of lodgepole and jackpine in Alberta may see an increase in AAC to promote salvage before decay, potentially adding to downward price pressures as the lumber supply may increase. The Company is unable to predict when or if the mountain pine beetle infestation will be halted or its impact on future prices for its products.

Continuation of the Dividend Program

Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after taking into account our operating results, financial condition, cash requirements, financing agreement restrictions and other factors our Board may deem relevant. We may be unable or may elect not to continue to declare and pay dividends, even if necessary financial conditions are met and sufficient cash is available for distribution.

Evaluation of Disclosure Controls and Procedures

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, Western conducted an evaluation of the effectiveness of the disclosure controls and procedures and the system of internal control over financial reporting based on the "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's system of internal control over financial reporting was effective as at December 31, 2021. The evaluation was carried out under the supervision and with the participation of the CEO and the Chief Financial Officer ("CFO"). Based on the evaluation, Western's CEO and CFO concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that material information relating to Western and its consolidated subsidiaries is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared. In addition, Western's CEO and CFO concluded that the Company's internal controls over financial reporting are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for Western and its consolidated subsidiaries for the period in which the annual filings are being prepared.

In response to the COVID-19 pandemic, the Company implemented measures to enable physical distancing across its workforce and operations, including remote work. This change required certain processes and controls that were previously done or documented manually to be completed and retained in electronic form. The Company continues to monitor whether remote work arrangements have adversely affected the Company's ability to maintain internal controls over financial reporting and disclosure controls and procedures.

Despite the changes required by the current environment, the CEO and CFO confirm that there have been no changes or material weaknesses in the design or operating effectiveness of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting during the year ended December 31, 2021.

Outstanding Share Data

As of February 16, 2022, there were 325,401,543 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 year ended December 31, 2021, no options were granted and 3,012,620 options were exercised for a total of 1,250,973 shares issued. As of February 16, 2022, 15,247,304 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 otherwise noted)

		2021					2020				
		2021	**Q4**	**Q3**	**Q2**	**Q1**	**2020**	**Q4**	**Q3**	**Q2**	**Q1**
Avg. exchange rate – USD to CAD		**1.253**	1.260	1.260	1.228	1.265	**1.341**	1.303	1.332	1.386	1.344
Avg. exchange rate – CAD to USD		**0.798**	0.794	0.794	0.814	0.790	**0.746**	0.767	0.751	0.722	0.744
Financial performance											
Revenue											
Lumber		**$1,197.5**	$ 268.0	$ 299.8	$ 353.1	$ 276.6	**$ 737.2**	$ 256.6	$ 208.6	$ 188.8	$ 83.2
Logs		**169.3**	48.9	41.0	46.3	33.1	**200.5**	53.4	73.7	60.5	12.9
By-products		**50.9**	11.0	12.1	15.0	12.8	**27.2**	8.9	8.3	7.0	3.0
Total revenue		**$1,417.7**	$ 327.9	$ 352.9	$ 414.4	$ 322.5	**$ 964.9**	$ 318.9	$ 290.6	$ 256.3	$ 99.1
Adjusted EBITDA		**$ 302.1**	$ 52.5	$ 66.3	$ 120.4	$ 62.9	**$ 116.8**	$ 71.1	$ 33.7	$ 29.5	$ (17.4)
Adjusted EBITDA margin		**21%**	16%	19%	29%	20%	**12%**	22%	12%	12%	(18%)
Net income (loss)		**$ 202.8**	$ 28.5	$ 42.2	$ 78.3	$ 53.8	**$ 33.4**	$ 34.4	$ 11.5	$ 8.5	$ (21.0)
Basic and diluted earnings (loss) per share		**$ 0.56**	$ 0.08	$ 0.12	$ 0.21	$ 0.14	**$ 0.09**	$ 0.09	$ 0.03	$ 0.02	$ (0.06)
Operating Statistics											
Lumber (1)											
Production	mmfbm	**760**	179	175	207	199	**576**	180	192	143	61
Shipments	mmfbm	**782**	164	193	221	204	**585**	204	165	152	64
Price	$/mfbm	**$1,531**	$ 1,634	$ 1,553	$ 1,598	$ 1,356	**$ 1,260**	$ 1,258	$ 1,264	$ 1,242	$ 1,300
Logs (2)											
Net production	000 m^3	**3,090**	700	690	1,012	688	**3,430**	901	1,138	1,224	167
Saw log purchases	000 m^3	**861**	211	227	227	195	**835**	222	235	236	141
Log availability	000 m^3	**3,950**	911	917	1,239	883	**4,265**	1,123	1,373	1,460	308
Shipments	000 m^3	**1,340**	378	325	351	284	**1,877**	471	679	587	141
Price (3)	$/$m^3$	**$ 119**	$ 117	$ 120	$ 127	$ 110	**$ 103**	$ 109	$ 106	$ 98	$ 86
Share Repurchases and Dividends											
Shares repurchased	# millions	**47.7**	17.4	14.6	14.4	1.3	**-**	-	-	-	-
Shares repurchased	$ millions	**$ 96.9**	$ 34.5	$ 30.2	$ 29.9	$ 2.3	**$ -**	$ -	$ -	$ -	$ -
Dividends paid	$ millions	**$ 14.3**	$ 3.3	$ 3.6	$ 3.6	$ 3.8	**$ 8.4**	$ -	$ -	$ -	$ 8.4
Non-GAAP Measures											
Adjusted EBITDA											
Net income (loss)		**$ 202.8**	$ 28.5	$ 42.2	$ 78.3	$ 53.8	**$ 33.4**	$ 34.4	$ 11.5	$ 8.5	$ (21.0)
Add:											
Amortization		**50.9**	12.7	12.0	13.3	12.9	**53.5**	14.3	14.0	14.2	11.0
Changes in fair value of biological assets		**3.7**	0.2	0.8	1.5	1.2	**2.4**	1.2	0.6	0.6	-
Operating restructuring items		**2.7**	0.8	0.9	0.5	0.5	**2.1**	0.6	0.5	0.6	0.4
Other (income) expense (4)		**(22.4)**	(0.3)	(4.0)	(1.4)	(16.7)	**5.0**	6.2	0.6	(0.2)	(1.6)
Finance costs		**1.9**	0.2	0.4	0.4	0.9	**5.9**	(0.5)	2.0	2.2	2.2
Current income tax (recovery)		**64.1**	10.5	13.6	31.2	8.8	**(0.1)**	-	-	-	(0.1)
Deferred income tax (recovery)		**(1.7)**	(0.3)	0.4	(3.3)	1.5	**14.7**	15.1	4.4	3.5	(8.3)
Adjusted EBITDA		**$ 302.1**	$ 52.5	$ 66.3	$ 120.4	$ 62.9	**$ 116.8**	$ 71.1	$ 33.7	$ 29.5	$ (17.4)
Adjusted EBITDA margin											
Total revenue		**$1,417.7**	$ 327.9	$ 352.9	$ 414.4	$ 322.5	**$ 964.9**	$ 318.9	$ 290.6	$ 256.3	$ 99.1
Adjusted EBITDA		**302.1**	52.5	66.3	120.4	62.9	**116.8**	71.1	33.7	29.5	(17.4)
Adjusted EBITDA Margin		**21%**	16%	19%	29%	20%	**12%**	22%	12%	12%	(18%)

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

(1) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
(2) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.
(3) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf customers to facilitate sales to export markets.
(4) Other (income) expense, net of changes in fair market value less cost to sell of biological assets.

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 and renovation and repair activity, particularly in the US, has historically tended to be higher. Log production is greater in that same period as longer daylight permits more hours of operations. 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. This seasonality generally results in the Company increasing working capital utilization through its third quarter as it builds log inventory during optimal harvest conditions and builds lumber inventory in advance of seasonally high lumber demand.

The Company's quarterly financial trends are most impacted by typical industry-wide seasonality, levels of lumber production, log costs, market prices for lumber, labour disputes, the USD/CAD exchange rate, long term asset impairments and restructuring charges, and disposals of non-core properties.

The Strike, which started in the third quarter of 2019, reduced lumber and log production and shipments in Canadian operations until it was settled in February 2020 with some residual effect in the first and second quarters of 2020 as the Company restarted operations. The pandemic outbreak of COVID-19 in the first quarter of 2020 had its greatest impact on the Company in the first half of 2020, with limited impact to operating and financial performance of the Company thereafter. Log production in the second half of 2021 was affected by the prolonged weather-related curtailment of logging operations.

Western Forest Products Inc.
DEFINING A HIGHER STANDARD™

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Western Forest Products Inc. ("Western" or the "Company") is responsible for the accompanying Consolidated Financial Statements and all other information in the Management's Discussion and Analysis. The Consolidated Financial Statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where necessary, reflect Management's best estimates and judgements at this time. The financial information presented throughout the Management's Discussion and Analysis dated February 16, 2022 is consistent with that contained in the Consolidated Financial Statements.

Western maintains systems of internal accounting controls, policies and procedures which it believes provides reasonable assurance as to the reliability of the financial records and the safeguarding of its assets. The internal accounting control process includes the prudent hiring and training of personnel, adoption and communication of appropriate policies, procedures and controls, and employment of an internal audit program.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility primarily through its Audit Committee, which is composed solely of independent directors of the Company. The Audit Committee meets periodically with Management and the Company's independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report thereon. The Company's independent Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the independent Auditors.

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

"Don Demens"

Don Demens
President & Chief Executive Officer

"Stephen Williams"

Stephen Williams
Executive Vice President & Chief Financial Officer

February 16, 2022

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Western Forest Products Inc.

Opinion

We have audited the consolidated financial statements of Western Forest Products Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of log and lumber inventory net carrying value

Description of the matter

We draw attention to Note 4 to the consolidated financial statements. The inventory net carrying value is $207.2 million, of which $188.7 million relates to log and lumber inventory. The Entity records inventory at the lower of cost and net realizable value. The determination of cost involves the use of complex models. The Entity determines the cost of lumber inventory using the average cost of production based on the species and facility where they were produced and the cost of log inventory by end sort using the average cost of production by operation based on the operational area in which the logs were produced. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Why the matter is a key audit matter

We identified the assessment of the log and lumber inventory net carrying value as a key audit matter. This matter represented an area of significant risk given the magnitude of log and lumber inventory and the complexity of the models. In addition, significant auditor judgment was required to evaluate the Entity's selling prices used to estimate net realizable value.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We evaluated the design and tested the operating effectiveness of certain controls over the Entity's inventory models including controls over log and lumber production volumes which were an input into the models
- We assessed the logic used in the models in calculating the average cost of log and lumber inventory by testing the accuracy of calculations in the models for a selection of logging operations and lumber facilities
- For a selection of logging operations and lumber facilities, we compared the models' inputs for volumes and costs to production and cost reports. We assessed the models' outputs by comparing the average cost of lumber by species and facility and logs by operation to the prior year average cost
- We compared the Entity's estimated selling prices used in the determination of net realizable value to actual sales prices for sales made subsequent to year end and to market price publications by third party industry analysts.

Other Information

Management is responsible for the other information. Other information comprises:

– the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

– the information, other than the financial statements and the auditors' report thereon, included in the "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the information included in the "Annual Report," as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance for the financial statements with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Desjardins.

Vancouver, Canada
February 16, 2022

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

	December 31 2021	December 31 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 130.0	$ 2.9
Trade and other receivables	57.4	66.8
Inventory (Note 4)	207.2	177.9
Prepaid expenses and other assets	16.4	16.1
	411.0	263.7
Non-current assets:		
Property, plant and equipment (Note 5)	343.2	383.3
Timber licenses (Note 6)	100.3	105.0
Biological assets (Note 7)	49.1	53.6
Other assets (Note 8)	55.2	46.3
Deferred income tax assets (Note 11)	0.2	0.3
	$ 959.0	$ 852.2
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	$ -	$ 0.2
Accounts payable and accrued liabilities	112.8	108.7
Income taxes payable	64.1	-
Long-term debt (Note 9)	-	0.4
Lease liabilities (Note 10)	5.5	6.2
Reforestation obligation (Note 13)	9.9	8.1
Deferred revenue (Notes 18, 25)	2.0	2.0
	194.3	125.6
Non-current liabilities:		
Long-term debt (Note 9)	-	71.5
Lease liabilities (Note 10)	12.8	15.4
Reforestation obligation (Note 13)	12.5	14.3
Other liabilities (Note 12)	22.0	20.2
Deferred revenue (Notes 18, 25)	46.5	48.4
Deferred income tax liabilities (Note 11)	53.7	51.2
	341.8	346.6
Equity:		
Share capital (Note 14)	420.8	479.9
Contributed surplus	9.0	10.4
Translation reserve	(2.2)	(1.9)
Retained earnings	184.5	16.1
Total equity attributable to equity shareholders of the Company	612.1	504.5
Non-controlling interest (Note 28)	5.1	1.1
	617.2	505.6
	$ 959.0	$ 852.2

Commitments and contingencies (Notes 18, 19)
Subsequent event (Note 14)
See accompanying notes to these consolidated financial statements.

Approved on behalf of the Board:

"Michael T. Waites"
Chair

"Don Demens"
President & Chief Executive Officer

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

	Year ended December 31,	
	2021	2020
Revenue (Note 25)	$ 1,417.7	$ 964.9
Costs and expenses:		
Cost of goods sold	992.2	790.3
Freight	93.8	73.7
Export tax (Note 18)	26.5	3.0
Selling and administration	57.8	36.7
	1,170.3	903.7
Operating income prior to restructuring and other items	247.4	61.2
Operating restructuring items (Note 23)	(2.7)	(2.1)
Other income (expense) (Note 21)	22.4	(5.2)
Operating income	267.1	53.9
Finance costs (Note 22)	(1.9)	(5.9)
Income before income taxes	265.2	48.0
Income tax expense (recovery) (Note 11)		
Current	64.1	(0.1)
Deferred	(1.7)	14.7
	62.4	14.6
Net income	202.8	33.4
Net income attributable to equity shareholders of the Company	201.4	33.1
Net income attributable to non-controlling interest	1.4	0.3
	202.8	33.4
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Employee future benefits actuarial gain (loss) (Note 19)	4.0	(2.5)
Income tax (expense) recovery (Note 11)	(1.1)	0.7
Total items that will not be reclassified to profit or loss	2.9	(1.8)
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	(0.3)	(1.0)
Total comprehensive income	$ 205.4	$ 30.6
Earnings per share (in dollars) (Note 16)		
Basic and diluted	$ 0.56	$ 0.09

See accompanying notes to these consolidated financial statements.

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

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings (Deficit)	Non-controlling Interest	Total Equity
Balance at December 31, 2019	$ 479.9	$ 9.6	$ (0.9)	$ (6.8)	$ 0.8	$ 482.6
Net income	-	-	-	33.1	0.3	33.4
Other comprehensive income (loss):						
Employee future benefits actuarial loss	-	-	-	(2.5)	-	(2.5)
Income tax recovery on actuarial loss	-	-	-	0.7	-	0.7
Foreign currency translation differences for foreign operations	-	-	(1.0)	-	-	(1.0)
Total comprehensive income (loss)	-	-	(1.0)	31.3	0.3	30.6
Stock options recognized in equity (Note 15(a))	-	0.8	-	-	-	0.8
Dividends	-	-	-	(8.4)	-	(8.4)
Total transactions with owners, recorded directly in equity	-	0.8	-	(8.4)	-	(7.6)
Balance at December 31, 2020	479.9	10.4	(1.9)	16.1	1.1	505.6
Net income	-	-	-	201.4	1.4	202.8
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	4.0	-	4.0
Income tax expense on actuarial gain	-	-	-	(1.1)	-	(1.1)
Foreign currency translation differences for foreign operations	-	-	(0.3)	-	-	(0.3)
Total comprehensive income (loss)	-	-	(0.3)	204.3	1.4	205.4
Stock options recognized in equity (Note 15(a))	-	0.5	-	-	-	0.5
Exercise of stock options (Notes 15(a))	1.9	(1.9)	-	-	-	-
Repurchase of shares (Note 14)	(61.0)	-	-	(36.9)	-	(97.9)
Dividends	-	-	-	(14.3)	-	(14.3)
Non-controlling interest (Note 28)	-	-	-	15.3	4.0	19.3
Distributions to non-controlling interest (Note 28)	-	-	-	-	(1.4)	(1.4)
Total transactions with owners, recorded directly in equity	(59.1)	(1.4)	-	(35.9)	2.6	(93.8)
Balance at December 31, 2021	$ 420.8	$ 9.0	$ (2.2)	$ 184.5	$ 5.1	$ 617.2

See accompanying notes to these consolidated financial statements.

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

	Year ended December 31,	
	2021	2020
Cash provided by (used in):		
Operating activities		
Net income	$ 202.8	$ 33.4
Items not involving cash:		
Amortization of property, plant and equipment (Note 5)	46.9	49.3
Amortization of timber licenses (Note 6)	4.0	4.2
(Gain) loss on disposal of property, equipment and other assets (Notes 5, 6, 7)	(23.3)	0.2
Impairment of property	-	3.6
Amortization of deferred revenue	(1.9)	(2.0)
Finance costs (Note 22)	1.9	5.9
Income tax expense (Note 11)	62.4	14.6
Change in fair value of biological assets (Note 7)	3.7	2.4
Change in reforestation obligation (Note 13)	(0.2)	(1.0)
Share-based compensation, including mark-to-market adjustment (Note 15)	12.3	2.6
Change in employee future benefits obligation (Note 19)	(1.8)	(1.6)
Export tax receivable (Notes 8, 18)	(3.3)	(33.1)
Foreign exchange and other	1.2	(0.8)
Income taxes refunded	-	16.7
	304.7	94.4
Changes in non-cash working capital items:		
Trade and other receivables	8.3	(41.4)
Inventory	(28.8)	(45.9)
Prepaid expenses and other assets	(0.4)	(1.3)
Accounts payable and accrued liabilities	(2.2)	74.6
	(23.1)	(14.0)
	281.6	80.4
Investing activities:		
Additions to property, plant and equipment (Note 5)	(31.9)	(18.7)
Proceeds from disposal of property, equipment and other	52.0	4.2
Deposits on purchase of equipment	(1.2)	-
Proceeds on disposition of minority interest in subsidiary (Note 28)	19.8	-
	38.7	(14.5)
Financing activities:		
Interest paid	(0.9)	(6.0)
Repayment of credit facility (Note 9)	(70.2)	(43.9)
Repayment of bank indebtedness	(0.2)	-
Repayment of long-term equipment loan (Note 9)	(2.2)	(0.2)
Lease payments (Note 10)	(7.2)	(6.8)
Repurchase of shares (Note 14)	(96.9)	-
Proceeds from exercise of stock options (Note 15(a))	0.1	0.2
Dividends (Note 14)	(14.3)	(8.4)
Distributions to non-controlling interest (Note 28)	(1.4)	-
	(193.2)	(65.1)
Increase in cash and cash equivalents	127.1	0.8
Cash and cash equivalents, beginning of year	2.9	2.1
Cash and cash equivalents, December 31	$ 130.0	$ 2.9

See accompanying notes to these consolidated 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 primarily on the coast of British Columbia ("BC") and in Washington State, United States ("US"). The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The consolidated financial statements as at and for the years ended December 31, 2021 and 2020 comprise the financial results of the Company and its subsidiaries. The Company's primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber, value-added lumber remanufacturing and wholesaling purchased lumber. The Company is listed on the Toronto Stock Exchange ("TSX"), under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. Certain comparative prior year figures have been reclassified to conform to the current year's presentation.

The consolidated financial statements were authorized for issue by the Board of Directors on February 16, 2022.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements 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;
- Derivative financial instruments are measured at fair value at each reporting date;
- The defined benefit pension liability is recognized as the net of the fair value of the plan assets, less the present value of the defined benefit obligation; and
- Reforestation obligations and lease liabilities are measured at the discounted value of expected future cash flows.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars ("CAD") which is the Company's functional currency. Certain of the Company's subsidiaries have a functional currency of the US Dollar ("USD") and are translated to CAD. All amounts are presented in millions of CAD, unless otherwise indicated.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Western and to which it has rights to variable returns and the ability to affect those returns through its power over the entity. These consolidated financial statements include the accounts of the Company's subsidiaries from their respective dates of acquisition or incorporation.

The principal wholly-owned subsidiaries of the Company at December 31, 2021 are Western Lumber Sales Limited and Western Specialty Lumber Sales US LLC, which sell into the US, Western Forest Products Japan Ltd., which sells into Japan and WFP Partnerships Ltd., which holds assets of the US operation through indirect US subsidiaries, including the operating company, Western Forest Products US LLC.

2. Basis of preparation (continued)

(d) Basis of consolidation (continued)

(i) Subsidiaries (continued)

The Company sold a 28% interest in the TFL44 Limited Partnership ("TFL 44 LP") on May 3, 2021, decreasing its interest from 93% to 65% (2020: 93%). Effective November 15, 2021, TFL 44 LP changed its name to Tsawak-qin Forestry Limited Partnership.

(ii) Interests in equity-accounted investees

Western's interests in equity-accounted investees comprise interests in joint ventures. A joint venture is an arrangement in which Western has joint control and has rights to the net assets of the arrangement, rather than rights to all assets and obligations for all liabilities.

Interests in the joint venture are accounted for using the equity method and are recognized initially at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include Western's share of profit and loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

(iii) Transactions eliminated on consolidation

Inter-company balances and transactions including any unrealized income and expenses arising from inter-company transactions are eliminated upon consolidation. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of Western's interest in the investee. Unrealized losses are eliminated in the same way, except to the extent that there is evidence of impairment.

(e) Foreign currency transactions

Foreign currency transactions are translated into CAD at the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are revalued to CAD using the exchange rate at the reporting date. Foreign currency differences arising on revaluation are recognized in net income.

(f) Foreign operations

Certain of the Company's subsidiaries have a functional currency of the U.S. Dollar. On consolidation, revenues and expenses of such foreign operations are translated to CAD at the transaction date exchange rate, or at average rates for the period which approximate the transaction date, as appropriate. Assets and liabilities are translated into CAD at exchange rates in effect at the reporting date. Related foreign currency translation differences are recognized in other comprehensive income ("OCI") and recorded to the translation reserve in equity. On disposal of a foreign operation, the related cumulative foreign currency translation differences in the Translation reserve will be recognized in net income.

Monetary receivables from a foreign operation, the settlement of which are neither planned nor likely in the foreseeable future are considered to form part of the net investment in the foreign operation. Related foreign exchange translation differences are recognized in OCI and presented in the translation reserve in equity.

(g) Use of estimates and judgements

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

(i) Judgements

The determination of appropriate cash generating units as described in Note 3(b) is a judgement made in applying accounting policy that has a significant effect on the amounts recognized in the consolidated financial statements.

2. Basis of preparation (continued)

(g) Use of estimates and judgements (continued)

(ii) Assumptions and estimation uncertainties

Information about the use of management estimates and judgements and estimation uncertainties that have a significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 4	Measurement of net realizable value of inventories
Note 7	Measurement of fair value less costs to sell of standing timber
Note 10	Measurement of the present value of lease liabilities: key assumptions about the future lease payments and the discount rate used
Note 13	Measurement of the present value of reforestation obligations: key assumptions on the likelihood and quantum of outflow of resources
Note 15	Measurement of share-based payment transactions
Note 18	Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and quantum of outflow of resources
Note 19	Measurement of defined benefit obligations: key actuarial assumptions and recognition of termination benefits

Measurement of fair values – certain accounting policies and disclosures require financial and non-financial assets and liabilities to be measured at fair value. Fair value measurements, including Level 3 fair values, are defined in an established framework with regular review of significant unobservable inputs and valuation adjustments. Management obtains third party information to measure fair values and assesses the resulting valuations to ensure they meet IFRS requirements, including the level in the fair value hierarchy in which such valuations would be classified. To the extent possible, Western uses market observable data to establish the fair value of a financial instrument. Refer to Note 20 for more details.

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 included in Level 1 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*

If the inputs to measure the fair value of the asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the period in which the change occurred.

(h) Risks and uncertainties related to COVID-19

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

2. Basis of preparation (continued)

(h) Risks and uncertainties related to COVID-19 (continued)

To protect public health, State of Emergency declarations and other restrictions relating to travel, business operations and isolation have been made to varying degrees and at various times by governing bodies in the regions that Western operates. A disease such as COVID-19 could adversely impact the Company by causing operating, supplier and service provider delays or disruption negatively affecting customer demand and pricing for our products, creating labour shortages, or causing shipping and product delivery interruptions and shutdowns, and raising costs and accelerating inflation. Furthermore, the global economy has been impacted by the pandemic, which could result in an economic recession and may further disrupt supply chains increasing costs and product or service delivery delays or slow the demand for or affect the price of the Company's products. Although approved vaccines are available, their effectiveness is dependent upon mutation of the virus and frequency thereof, vaccine efficacy rates and duration thereof, manufacturer production capacity, logistical requirements and availability, participation rates and other factors.

The Company is committed to the health and safety of our employees, contractors and the communities where it operates. To help mitigate the spread of COVID-19, strict health and safety protocols were implemented across the business in compliance with regulatory orders and standards, resulting in a marginal increase in costs. Health and safety protocols currently enforced include travel restrictions; self-isolation instructions for those who have travelled, are ill, exhibiting symptoms of COVID-19 or have come in direct contact with someone with COVID-19; implementing physical distancing measures; requiring proof of vaccination for certain personnel and all site visitors; restricting site access to essential personnel and activities; increasing cleaning and sanitization in workplaces; and where possible, providing those who can work from home the ability to exercise that option. The Company had no workplace transmissions of COVID-19 and successfully managed the COVID-19 related labour absenteeism, resulting in no significant operating disruptions.

Although COVID-19 has had a far-reaching impact globally, it is not possible to isolate or accurately estimate its net impact on the Company's business or net income. The Company has had strong operating performance, increased liquidity and a strengthened balance sheet after initial challenges early in the pandemic.

The Company continues to monitor and review the latest guidance from health officials and experts to ensure its protocols and Communicable Disease Prevention Plans meet the current required standards. The Company will continue to monitor and adjust its operations as required to ensure the health and safety of its employees, contractors and the communities where it operates and to address changes in customer demand.

3. Significant accounting policies

Significant accounting policies not described elsewhere in these consolidated financial statements include:

(a) Cash and cash equivalents

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

(b) Impairment of non-financial assets

The Company reviews its non-financial assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

For impairment testing, assets are grouped together at the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (a cash generating unit "CGU"). The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the CGU.

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

3. Significant accounting policies (continued)

(b) Impairment of non-financial assets (continued)

Impairment losses are recognized in net income. They are allocated first to reduce the carrying amount of goodwill (if any) assigned to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis to the extent the carrying value of an asset exceeds the higher of its fair value and value in use.

Non-financial assets, other than goodwill, for which an impairment was previously recognized, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined, net of amortization, had the impairment never been recognized.

(c) New standards and interpretations not yet adopted

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2021, and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

4. Inventory

Accounting policy

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

(i) Lumber by species (hemlock and balsam, Douglas fir, and yellow and western red cedar) and facility; and

(ii) Logs by sort by end use (saw logs and pulp logs).

Inventory cost includes purchase, production or conversion costs and other costs incurred in bringing them to their existing location and condition on a product by product basis.

Lumber inventories produced are costed at an average cost of production based on the species and facility where they were produced. Lumber inventories purchased from external sources are costed at purchase cost. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Log inventories produced are costed at an average cost of production based on the operational area in which the logs were produced. Log inventories purchased from external sources are costed at purchase cost. NRV of logs designated for lumber processing is based on estimated market log prices less estimated costs of completion and selling expenses, and on market replacement cost for logs held for sale.

Logs transferred from biological assets (standing timber) are costed at fair value less costs to sell at the date of harvest.

Supporting information

	December 31, 2021			December 31, 2020		
	Gross carrying value	Provisions	Lower of cost and market	Gross carrying value	Provisions	Lower of cost and market
Logs	$ 90.0	$ (2.7)	$ 87.3	$ 112.6	$ (5.6)	$ 107.0
Lumber	108.2	(6.8)	101.4	58.5	(3.4)	55.1
Supplies and other	18.9	(0.4)	18.5	16.3	(0.5)	15.8
	$ 217.1	$ (9.9)	$ 207.2	$ 187.4	$ (9.5)	$ 177.9

The carrying amount of inventory recorded at net realizable value was $31.5 million at December 31, 2021 (2020: $32.9 million), with the remaining inventory recorded at cost.

4. Inventory (continued)

Supporting information (continued)

During 2021, $992.2 million (2020: $790.3 million) of inventory was charged to cost of sales which includes a $0.4 million increase (2020: $7.0 million decrease) to the provision relating to inventory value write-downs.

5. Property, plant and equipment

Accounting policy

Property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes all expenditures directly attributable to bringing the asset to the location and condition necessary for its intended use. When major individual components of an item of property, plant or equipment have different useful lives, they are accounted for as separate items. Subsequent expenditures on an item of property, plant and equipment are capitalized only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Maintenance costs are recorded as expenses as incurred, except for programs that extend the useful life of an asset or increase its value, for which costs are capitalized.

Depreciation is provided on a straight-line basis over the estimated useful lives of the related asset and after considering salvage values. Useful lives range from:

- Buildings and equipment 5 - 20 years
- Long-term logging roads and bridges 9 - 20 years

Certain roads are amortized on the basis of timber cut relative to available timber. Logging roads with an economic life of one year or less are expensed to cost of goods sold.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted, if appropriate.

For Right of use (“ROU”) assets, see Note 10.

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

5. Property, plant and equipment (continued)

Supporting information

	Buildings and equipment	Logging roads	Land	Right of use assets	Total
Cost					
Balance at December 31, 2019	$ 460.8	$ 214.2	$ 94.0	$ 24.0	$ 793.0
Additions	11.9	8.6	0.3	8.1	28.9
Disposals	(5.7)	-	(5.4)	(0.3)	(11.4)
Transfers	(0.4)	-	-	0.4	-
Impairments	-	-	(3.6)	-	(3.6)
Effect of movements in exchange rates	(0.9)	-	(0.1)	(0.4)	(1.4)
Balance at December 31, 2020	465.7	222.8	85.2	31.8	805.5
Additions	23.6	8.3	-	3.5	35.4
Disposals	(24.5)	-	(26.5)	(1.8)	(52.8)
Transfers	(3.2)	3.2	-	-	-
Effect of movements in exchange rates	(0.5)	-	(0.1)	-	(0.6)
Balance at December 31, 2021	$ 461.1	$ 234.3	$ 58.6	$ 33.5	$ 787.5
Accumulated amortization and impairments					
Balance at December 31, 2019	$ 193.5	$ 180.0		$ 4.6	$ 378.1
Amortization	31.5	12.0		5.8	49.3
Disposals	(4.8)	(0.3)		(0.1)	(5.2)
Transfers	0.7	(0.7)		-	-
Effect of movements in exchange rates	(0.2)	-		0.2	-
Balance at December 31, 2020	220.7	191.0		10.5	422.2
Amortization	29.3	11.1		6.5	46.9
Disposals	(23.4)	-		(1.4)	(24.8)
Effect of movements in exchange rates	-	-		-	-
Balance at December 31, 2021	$ 226.6	$ 202.1		$ 15.6	$ 444.3
Carrying amounts					
At December 31, 2020	$ 245.0	$ 31.8	$ 85.2	$ 21.3	$ 383.3
At December 31, 2021	$ 234.5	$ 32.2	$ 58.6	$ 17.9	$ 343.2

6. Timber licences

Accounting policy

Crown timber tenures are renewable contractual arrangements with the BC provincial government (“BC government”) whereby the Company gains the right to harvest timber. The Company’s timber licences are accounted for as acquired finite lived timber licences and accordingly are valued at acquisition cost less accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over 40 years. Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

Renewal costs associated with timber tenures are expensed as incurred.

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

6. Timber licences (continued)

Supporting information

	December 31, 2021	December 31, 2020
Cost		
Balance at beginning of year	$ 170.7	$ 170.7
Disposals	(1.3)	-
Balance at December 31	169.4	170.7
Accumulated amortization		
Balance at beginning of year	65.7	61.5
Amortization	4.0	4.2
Disposals	(0.6)	-
Balance at December 31	69.1	65.7
Carrying amount at December 31	$ 100.3	$ 105.0

7. Biological assets

Accounting policy

Standing timber on privately held forest land managed for timber production is characterized as a biological asset. Accordingly, at each reporting date, the biological asset is valued at its fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net income. Land underlying the standing timber is measured at cost and included in property, plant and equipment. Long-term roads and bridges on the land underlying the standing timber are recorded at cost less accumulated depreciation and included in property, plant and equipment.

Supporting information

(a) Reconciliation of carrying amount

	Years ended December 31	
	2021	2020
Carrying value at beginning of year	$ 53.6	$ 56.0
Disposals	(0.8)	-
Change in fair value due to growth and pricing	0.6	1.3
Harvested timber transferred to inventory	(4.3)	(3.7)
Carrying value at December 31	$ 49.1	$ 53.6

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

During the year ended December 31, 2021, the Company harvested and scaled approximately 384,249 cubic metres (“m^3”) of logs from its private timberlands, which had a fair value less costs to sell of $134 per m^3 at the date of harvest (2020: 252,883 m^3 and $118 per m^3, respectively).

(b) Measurement of fair values

The change in fair value resulting from price and growth is reflected in cost of goods sold. The fair value measurements for the Company’s standing timber of $49.1 million has been categorized as Level 3 fair value based on the inputs to the valuation technique used as discussed in the following table.

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

7. Biological assets (continued)

Supporting information (continued)

(b) Measurement of fair values (continued)

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows*:* The valuation model considers the present value of the net cash flows expected to be generated by the individual private timberlands utilizing a harvest optimization approach. The cash flow projections include specific estimates for 25 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Estimated future log prices per m^3 (\$79 - \$178, weighted average \$102). • Estimated harvest costs per m^3 (\$60 - \$86, weighted average \$67). • Estimated harvest annual volume (155,000 - 160,400 m^3, weighted average 155,200 m^3). • Risk-adjusted discount rate (weighted average 7.25%).	The estimated fair value would increase (decrease) if: • The estimated log prices per m^3 were higher (lower); • The estimated harvest costs per m^3 were lower (higher); • The estimated harvest volumes were higher (lower); or • The risk-adjusted discount rates were lower (higher).

(c) Risk management strategies related to biological assets

Western is exposed to the following risks relating to its private timberlands:

- The Company is exposed to risks arising from fluctuations in log prices and sales volumes. When possible, Western aligns its harvest volumes to market supply and demand, and performs regular industry trend analyses for projected harvest volumes and pricing in order to manage this risk.
- The standing timber is exposed to risk of damage as a result of severe weather conditions, forest fires, insect infestation and disease. Western has processes and procedures in place to monitor and mitigate these risks, including fire management strategies and regular inspection for pest infestation.

8. Other assets

	December 31, 2021	December 31, 2020
Export tax receivable and related interest (Note 18)	$ 40.4	$ 36.7
Investments and long term loans and advances	10.0	8.8
Note receivable (Note 28)	2.6	-
Cash deposits on equipment	1.2	-
Other	1.0	0.8
	$ 55.2	$ 46.3

9. Long-term debt

Accounting policy

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Long-term debt is subsequently carried at amortized cost; any difference between the proceeds and the redemption value is recognized in net income over the term of the long-term debt using the effective interest method.

Transaction costs are deferred and amortized to finance costs over the term of the long-term debt using the effective interest rate method.

Supporting information

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

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

9. Long-term debt (continued)

Supporting information (continued)

The Credit Facility is available in CAD by way of Prime Rate Advances, Bankers' Acceptances or Letters of Credit and in USD by way of US Base Rate Advances, US Prime Rate Advances 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.

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

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

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

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

	December 31, 2021	December 31, 2020
Credit Facility drawings	$ -	$ 70.2
Equipment term loan	-	2.1
Total debt	-	72.3
Less transaction costs	-	(0.4)
Less current portion of equipment term loan	-	(0.4)
Long-term debt	$ -	$ 71.5
Available Credit Facility	$ 250.0	$ 250.0
Drawings on Credit Facility	-	(70.2)
Outstanding letters of credit	(8.6)	(4.2)
Unused portion of Credit Facility	$ 241.4	$ 175.6

	Years ending December 31,	
	2021	2020
Balance, beginning of year	$ 72.3	$ 114.1
Equipment loan addition	-	2.2
Interest on equipment loan	0.1	0.1
Equipment loan repayments	(2.2)	(0.2)
Net repayments on revolving term loan	(70.2)	(43.9)
Balance, December 31	$ -	$ 72.3

10. Lease liabilities

Accounting policy

At inception of a contract, the Company assesses whether 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.

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

10. Lease liabilities (continued)

Accounting policy (continued)

As a lessee, the Company recognizes a ROU asset and lease liability at the lease commencement date. At this date, the ROU asset is measured at cost. Cost includes the initial amount of the lease liability, adjusted for lease payments made before this date as well as any initial direct costs incurred. Cost also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset and restoring the site on which it is located, less any lease incentives received. Any leasehold improvements are added to the related ROU asset.

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the earlier of the end of the lease term or the useful life of the underlying asset. The ROU asset is reduced by any impairment losses, if any, and adjusted for remeasurements of the lease liability. The Company presents ROU assets in property, plant and equipment in its consolidated statement of financial position (see Note 5).

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease if readily determinable, or the Company's incremental borrowing rate. The lease payments include fixed payments, variable payments that depend on an index or rate, residual value guarantees, and the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the expected future lease payments as in the case of a revision to the lease term. Remeasurements to the lease liability are reflected in the ROU asset to the extent that the carrying value of the ROU asset exceeds the adjustment, and to other income (expense) in net income otherwise.

The Company elected not to recognize ROU assets and corresponding lease liabilities for contracts with a term of one year or less and low value leases, including office fixtures and information technology equipment. The Company recognizes these payments as an expense on a straight-line basis over the term of the agreement.

Supporting information

Changes in the lease liabilities are as follows:

	December 31, 2021	December 31, 2020
Lease liabilities, beginning of year	$ 21.6	$ 19.9
New leases and modifications	3.5	7.8
Terminations	(0.5)	(0.2)
Finance costs (Note 22)	0.9	0.9
Lease payments	(7.2)	(6.8)
Lease liabilities, December 31	$ 18.3	$ 21.6
Current	$ 5.5	$ 6.2
Long term	12.8	15.4
	$ 18.3	$ 21.6

The weighted average incremental borrowing rate used to establish lease obligations in 2021 was approximately 4.45% (2020: 4.5%).

In addition to the above, the Company recognized an expense of $2.8 million during the year ended December 31, 2021 (2020: $3.4 million), relating to short term and low value lease payments.

11. Income taxes

Accounting policy

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in OCI.

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

11. Income taxes (continued)

Accounting policy (continued)

Current and deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities. The intention is to settle current tax liabilities and assets on a net basis or tax assets and liabilities will be realized simultaneously.

(a) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

(b) Deferred income tax

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized if it arises on initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting profit nor taxable profit.

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred income tax assets are reviewed at each reporting date and are recognized to the extent that it is probable that the related tax benefit will be realized. Unrecognized deferred income tax assets are reassessed at each reporting date and recognized to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred income tax is measured at the rates that are expected to be applied to temporary differences when they reverse, using rates enacted or substantively enacted at the reporting date.

Supporting information

	Years ended December 31,	
	2021	2020
Current tax expense (recovery)		
Current period	$ 64.1	$ (0.1)
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	(1.7)	14.7
Total Income tax expense	$ 62.4	$ 14.6

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

	Years ended December 31,	
	2021	2020
Income tax expense at the statutory rate of 27.00% (2020 – 27.00%)	$ 71.6	$ 13.0
Difference in tax rates	(2.6)	0.6
Over (under) provided for in prior years	(1.0)	0.2
Other permanent differences	(0.9)	0.1
Change in unrecognized deductible temporary differences	(4.7)	0.7
Total tax expense at effective rate of 23.5% (2020 – 30.5%)	$ 62.4	$ 14.6

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

11. Income taxes (continued)

Supporting information (continued)

The components of recognized deferred income tax assets and liabilities are as follows:

	Opening Balance	Recognized in Profit or Loss	Recognized in OCI and Equity	Ending Balance
For the year ended December 31, 2021				
Deferred income tax assets				
Tax loss carry-forwards	$ 6.2	$ (1.8)	$ (2.8)	$ 1.6
Employee future benefits obligation	4.6	(0.4)	(1.1)	3.1
Provisions and other	22.2	2.0	(0.4)	23.8
	33.0	(0.2)	(4.3)	28.5
Deferred income tax liabilities				
Intangible assets	(32.0)	1.9	-	(30.1)
Biological assets	(7.2)	0.6	-	(6.6)
Property, plant and equipment	(44.7)	(0.6)	-	(45.3)
	(83.9)	1.9	-	(82.0)
	$ (50.9)	$ 1.7	$ (4.3)	$ (53.5)
For the year ended December 31, 2020				
Deferred income tax assets				
Tax loss carry-forwards	$ 7.5	$ (1.3)	$ -	$ 6.2
Employee future benefits obligation	4.4	(0.5)	0.7	4.6
Provisions and other	20.3	1.9	-	22.2
	32.2	0.1	0.7	33.0
Deferred income tax liabilities				
Intangible assets	(32.3)	0.3	-	(32.0)
Biological assets	(7.6)	0.4	-	(7.2)
Property, plant and equipment	(29.2)	(15.5)	-	(44.7)
	(69.1)	(14.8)	-	(83.9)
	$ (36.9)	$ (14.7)	$ 0.7	$ (50.9)

As recorded in the statement of financial position as follows:

	December 31, 2021	December 31, 2020
Deferred income tax assets	$ 0.2	$ 0.3
Deferred income tax liabilities	(53.7)	(51.2)
	$ (53.5)	$ (50.9)

The Company has recognized deferred income tax assets in relation to unused tax losses that are available to carry forward against future taxable income. At December 31, 2021, the Company and its subsidiaries have unused non-capital tax losses carried forward totalling $1.8 million in the US (2020: $5.8 million) and $4.7 million in Canada (2020: $18.2 million), which can be used to reduce taxable income. The Company has unused capital losses carried forward of approximately $45.6 million (2020: $84.2 million) available to be utilized against future capital gains indefinitely.

Deferred income tax assets have not been recognized in respect of the following loss carry-forwards and other deductible temporary differences:

	December 31, 2021	December 31, 2020
Temporary deductible differences	$ 31.6	$ 27.1
Capital loss carry-forwards	45.6	84.2
	$ 77.2	$ 111.3

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

12. Other liabilities

	December 31, 2021	December 31, 2020
Employee future benefits obligation (Note 19)	$ 10.6	$ 16.1
Environmental accruals	1.6	1.6
Performance share unit plan liabilities, non-current (Note 15(c))	6.3	1.1
Restricted share unit plan liabilities, non-current (Note 15(d))	1.5	0.2
Other	2.0	1.2
	$ 22.0	$ 20.2

13. Reforestation obligation

Accounting policy

The Company's provision for reforestation results from a legal obligation to reforest timber harvested from Crown land and arises as timber is harvested. Accordingly, the Company records the fair value of the costs of reforestation in the period in which the associated timber is harvested. The provision is measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows. Cash flows reflect the risks specific to the provision. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates and reflects current market assessments of the time value of money. Adjustments are made to the provision each reporting period for changes in the estimated timing or amount of cash flows, changes in the discount rate and the unwinding of the discount.

In periods subsequent to the initial measurement, changes in the liability resulting from revisions to estimated future costs are recognized in cost of goods sold in net income as they occur and revisions resulting from the passage of time, or accretion cost, are included in finance costs.

Reforestation on private timberlands is expensed as incurred.

Supporting information

Changes in the reforestation obligation are as follows:

	Years ended December 31	
	2021	2020
Reforestation obligation, beginning	$ 22.4	$ 23.4
Provision charged	6.2	5.6
Expenditures	(6.4)	(6.7)
Unwind of discount (Note 22)	0.2	0.1
	22.4	22.4
Less current portion	9.9	8.1
Long term reforestation obligation, December 31	$ 12.5	$ 14.3

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.84% to 1.59% (2020: 0.17% to 0.68%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2021 is $23.2 million (2020: $22.7 million).

14. Share capital

Accounting policy

The Company's authorized capital consists of an unlimited number of common shares and preferred shares. Incremental costs directly attributable to the issuance of shares and share options are recognized as a deduction from equity, net of any tax effects.

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

14. Share capital (continued)

Supporting information

The Company has no outstanding preferred shares. The common shares entitle shareholders to one vote per share. Issued and outstanding common shares are as follows:

	Number of Common Shares	Amount
Balance at December 31, 2019	375,197,166	$ 479.9
Exercise of stock options	35,000	-
Balance at December 31, 2020	375,232,166	479.9
Exercise of stock options	1,250,973	1.9
Repurchase of shares	(47,702,569)	(61.0)
Balance at December 31, 2021	328,780,570	$ 420.8

During 2021, the Company paid cash dividends of $14.3 million (2020: $8.4 million).

On June 22, 2021, Western amended its Normal Course Issuer Bid ("NCIB") to increase the number of shares permitted to be purchased and cancelled to 23,112,988 of the Company's common shares, or approximately 7.5% of the public float as of August 6, 2020, with an expiry date of August 10, 2021. Under this NCIB, Western repurchased and cancelled 21,354,656 common shares.

On August 5, 2021, the NCIB was renewed effective August 11, 2021, permitting the purchase and cancellation of up to 29,726,940 of the Company's common shares, representing 10% of the public float outstanding as of August 5, 2021. The renewed NCIB expires August 10, 2022. Under this renewed NCIB, Western repurchased and cancelled 26,347,913 common shares.

In 2021, the Company repurchased and cancelled 47,702,569 common shares (2020: nil) for $96.9 million at an average price of $2.03 per common share, of which $61.0 million was charged to share capital and $35.9 million was charged to retained earnings.

As at January 24, 2022, the Company had repurchased and cancelled the maximum 29,726,940 Common Shares permitted for purchase and cancellation under the current NCIB for $60.7 million at an average price of $2.04 per common share.

In addition, 3,012,620 stock options were exercised in 2021 (2020: nil) with 47,620 common shares issued for cash proceeds of $0.1 million and 1,203,353 common shares issued on a cashless basis resulting in a $1.0 million charge to retained earnings.

15. Share-based compensation plans

Accounting policy

Stock options

The Company has established an incentive stock option plan (the "Option Plan") for eligible directors, officers and employees, accounting for these plans using the fair value method. The grant-date fair value of options is recognized as compensation expense, with a corresponding increase in contributed surplus, over the vesting period. Cash consideration received when an option is exercised is credited to Share capital, as is the related compensation expense previously recorded in contributed surplus.

Determining the fair value of share-based compensation awards at the grant date requires judgement. The fair value of the options is determined using either the Black-Scholes or the Hull-White option pricing models which take into account, as of the grant date, the exercise price, the expected life of the options, the current price of the underlying stock and its expected volatility, expected dividends on the shares, and the risk-free interest rate over the expected life of the option. The Company bases its estimates of volatility on historical share prices of the Company itself as well as those of comparable companies with longer trading histories.

The options are only exercisable when the share price exceeds a barrier price of $0.70 for 60 consecutive days on a volume weighted average price basis. With this additional requirement for the share price to exceed a minimum level before the options become exercisable, it is necessary to utilize the Hull-White model as this model takes into account the barrier price factor.

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

15. Share-based compensation plans (continued)

Accounting policy (continued)

Share units

The Company has a Deferred Share Unit ("DSU") Plan for non-executive directors, Performance Share Unit ("PSU") Plan for directors, officers and certain other eligible employees and Restricted share unit ("RSU") plan for officers and eligible employees. The Company uses the fair value method of accounting for obligations under these Plans, which are cash-settled.

Compensation expense is recorded for DSUs and RSUs over the vesting period based on the fair value at the date of the grant. Compensation expense is recorded for PSUs over a three-year performance period, based on the fair value of the PSUs at the date of the grant.

The liabilities under the Plans are re-measured at fair value at each reporting date and at settlement date. For the PSU Plan, this includes re-measurement as the Company's performance tracks against the performance vesting targets. Any changes in the fair value of the liabilities are recognized in cost of goods sold and selling and administration expense.

Supporting information

(a) Stock-option plan

The Option Plan permits the granting of options to eligible participants to purchase up to an aggregate of 30,000,000 common shares, of which 5,206,850 remain available for future issuance. 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.

No options were granted under the plan in 2021 (2020: 5,260,670 options granted with a fair value of $0.8 million).

The following table summarizes the change in options outstanding:

	Year ended December 31, 2021		Year ended December 31, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	18,259,924	$ 1.58	13,057,129	$ 1.80
Granted	-	-	5,260,670	1.05
Exercised	(3,012,620)	0.93	(35,000)	0.77
Forfeited	-	-	(22,875)	2.74
Outstanding at December 31	15,247,304	$ 1.71	18,259,924	$ 1.58

Details of options outstanding under the Option Plan as at December 31, 2021 are as follows:

Exercise Price	Number outstanding Dec. 31, 2021	Weighted average remaining option life (years)	Weighted average exercise price	Number exercisable Dec. 31, 2021	Weighted average exercise price
$0.22-$1.05	5,463,050	7.8	$ 1.05	1,292,610	$ 1.03
$1.27-$1.97	4,727,806	4.7	1.75	3,372,172	1.67
$2.09-$2.75	5,056,448	3.9	2.39	4,432,548	2.37
	15,247,304	5.6	$ 1.71	9,097,330	$ 1.92

In 2021, the Company recorded equity-based compensation expense for these options of $0.5 million (2020: expense of $0.8 million), with a corresponding increase to contributed surplus.

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

15. Share-based compensation plans (continued)

Supporting information (continued)

(b) Deferred share unit plan

The Company has a DSU Plan for non-executive directors who may elect to take a portion of their fees in the form of DSUs with the number of DSUs allotted determined by dividing the dollar portion of the quarterly fees a director elects to take in DSUs by the share price value on the fifth day following each quarter end. DSU holders are entitled to DSU dividends, equivalent to the dividend they would have received had 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.

Prior to January 1, 2015, DSUs were also granted to designated executive officers.

	Year ended December 31, 2021		Year ended December 31, 2020	
	Number of DSUs	Weighted average unit value[1]	Number of DSUs	Weighted average unit value[1]
Outstanding at beginning of year	2,471,200	$ 1.19	1,739,691	$ 1.33
Granted[1]	267,622	2.02	731,509	0.87
Redeemed	(450,000)	0.47	-	-
Outstanding at December 31	2,288,822	$ 1.43	2,471,200	$ 1.19

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

In 2021, the Company recorded compensation expense for these DSUs of $2.2 million (2020: expense of $0.4 million), with a corresponding increase to accounts payable and accrued liabilities.

(c) Performance share unit 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 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 had they held their PSUs as common shares.

Performance targets are set by 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 range from 0% to 200% based on return on capital employed over a three-year performance period.

	Year ended December 31, 2021		Year ended December 31, 2020	
	Number of PSUs	Weighted average unit value[1]	Number of PSUs	Weighted average unit value[1]
Outstanding at beginning of year	2,838,304	$ 1.54	1,852,815	$ 2.16
Granted[1]	1,212,752	1.57	1,646,730	1.05
Redeemed	(512,649)	2.61	(661,241)	2.06
Outstanding at December 31	3,538,407	$ 1.40	2,838,304	$ 1.54

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

In 2021, the Company recorded compensation expense for these PSUs of $8.2 million (2020: expense of $1.2 million), with a corresponding increase to accounts payable and accrued liabilities and other liabilities.

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

15. Share-based compensation plans (continued)

Supporting information (continued)

(d) Restricted share unit plan

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

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

	Year ended December 31, 2021		Year ended December 31, 2020	
	Number of RSUs	Weighted average unit value[1]	Number of RSUs	Weighted average unit value[1]
Outstanding at beginning of year	357,060	$ 1.05	-	$ -
Granted[1]	1,844,402	1.61	357,060	1.05
Outstanding at December 31	2,201,462	$ 1.52	357,060	$ 1.05

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

In 2021, the Company recorded compensation expense for these RSUs of $1.4 million (2020: $0.2 million) with a corresponding increase to other liabilities.

16. Earnings per share

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

	Year ended December 31, 2021			Year ended December 31, 2020		
	Net income attributable to equity shareholders	Weighted average number of shares	Per share	Net income attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares, beginning of year		375,232,166			375,197,166	
Effect of shares:						
Issued		485,627			4,303	
Repurchased		(17,215,540)			-	
Basic earnings per share	$ 201.4	358,502,253	$ 0.56	$ 33.1	375,201,469	$ 0.09
Effect of dilutive securities:						
Stock options		2,986,641			151,289	
Diluted earnings per share	$ 201.4	361,488,894	$ 0.56	$ 33.1	375,352,758	$ 0.09

17. Capital requirements

The Company's strategy for managing capital is to maintain a capital position that provides financial flexibility. The Company incurs annual expenditures for the maintenance of capital assets, as well as to fund roads and bridges to access timber stands for harvesting purposes. The Company also evaluates various strategic and discretionary capital expenditures against internal return hurdles, with the objective of maximizing long-term shareholder value.

As at December 31, 2021, the Company had no drawings on its credit facility and held cash and cash equivalents of $130.0 million (2020: net debt of $70.2 million and 12.1% net debt to capitalization ratio. Net debt is defined as long-term debt less cash and cash equivalents and capitalization comprised of net debt and shareholders' equity).

17. Capital requirements (continued)

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

In 2013, the Company initiated a quarterly dividend program which is at the discretion of the Company's Board of Directors. In May 2020, in response to the uncertainties arising from the global economic impacts of COVID-19 and as a result of the financial impact of the United Steelworkers Local 1-1937 strike, the Company suspended its quarterly dividend. The Company re-initiated a quarterly dividend of $0.01 per common share in the first quarter of 2021 and paid total cash dividends of $14.3 million in 2021.

In 2021, the Company renewed an NCIB permitting the purchase and cancellation up to 29,726,940 common shares prior to August 10, 2022, and at the discretion of the Company's Board of Directors. Including common shares repurchased and cancelled under the previous NCIB which expired on August 10, 2021, Western repurchased and cancelled 47,702,569 common shares in 2021 for $96.9 million at an average price of $2.03 per common share.

Under the Credit Facility agreement, the Company is subject to certain financial covenants. As at December 31, 2021, the Company is in compliance with all financial covenants.

Due to COVID-19 and its impact on global markets and operating conditions, the Company incurred only essential and committed safety, environmental, maintenance and strategic capital expenditures in 2020. Capital expenditures increased in 2021 but remained impacted by supply chain delays and labour shortages caused by COVID-19. The Company will continue to evaluate opportunities to invest strategic capital in jurisdictions that create the opportunity to grow long-term shareholder value.

In 2021, the Company sold non-core property and surplus equipment for cash proceeds of $52.0 million, including the sale of the Orca Quarry assets for $36.0 million. Western also completed the sale of an incremental 28% equity interest in its TFL 44 LP to HVLP for $22.4 million, paid by cash of $19.8 million and a $2.6 million interest bearing note receivable.

The Company is not subject to any statutory capital requirements. Under the Company's Option Plan, commitments exist to issue common shares.

18. Commitments and contingencies

(a) Softwood lumber duty dispute

Key dates

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

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

On February 3, 2020, the DoC issued preliminary revised rates in the CV and AD first administrative review of shipments for the years ended December 31, 2017 and 2018.

On March 10, 2020, the DoC initiated the second administrative review of CV and AD rates for shipments for 2019.

On November 23, 2020 the DoC released its final determination for CV and AD rates resulting from its first administrative review and revised rates for CV and AD were published in the US Federal Register on November 30, 2020 and December 1, 2020, respectively. The final determination reduced the assessment rates applied to exports from April 28, 2017 through December 31, 2018 and established a revised cash deposit rate of 8.99% applicable to Canadian lumber shipments made to the US in December 2020 until the publication of final rates under the second administrative review.

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

18. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

On November 24, 2021, the DoC released its final determination for CV and AD rates resulting from its second administrative review and revised rates for CV and AD were published on December 2, 2021. The final determination reduced the assessment rates applied to Canadian lumber shipments made to the US in 2019 and established a revised cash deposit rate of 17.90% applicable from December 2021 until the publication of final rates under the third administrative review.

On January 3, 2022, the DoC announced the fourth administrative review of CV and AD rates for shipments for 2021.

On January 10, 2022, as a result of a ministerial error in its second administrative review, the DoC revised the published CV rate to 6.32% increasing the rate applicable to Canadian lumber shipments made to the US in 2019 and the cash deposit rate to 17.91%.

On January 31, 2022, the DoC released its preliminary determination for CV and AD rates resulting from its third administrative review of CV and AD rates for shipments for 2020. The DoC may revise these rates between the preliminary and the final determination, expected to be released on August 3, 2022. Cash deposits continue at the combined duty rate of 17.91% until the final determinations are published, after which the 2020 rate will apply.

The following table summarizes the cash deposit rates in effect, the final rates applicable to 2017, 2018 and 2019 and preliminary rates for 2020:

	1 month ended Dec. 31 2021	11 months ended Nov. 30 2021	1 month ended Dec. 31 2020	11 months ended Nov. 30 2020	Year 2019	Year 2018	Year 2017
Cash deposit rate, CV	6.31%	7.42%	7.42%	14.19%	14.19%	14.19%	14.19%
Cash deposit rate, AD	11.59%	1.57%	1.57%	6.04%	6.04%	6.04%	6.04%
Cash deposit rate, combined	17.90%	8.99%	8.99%	20.23%	20.23%	20.23%	20.23%
Final rate, CV					6.32%	7.42%	6.71%
Final rate, AD					11.59%	1.57%	1.66%
Final rate, combined					17.91%	8.99%	8.37%

	Year 2020
Preliminary rate, CV	6.88%
Preliminary rate, AD	4.76%
Preliminary rate, combined	11.64%

US lumber duties and export tax

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

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

In 2017, the Company recorded an export tax recovery of USD$2.8 million (CAD$3.5 million) arising from the difference between export duties paid at preliminary determination rates and the latest final duty rates.

In 2020, the Company recorded an export tax recovery of USD$24.3 million (CAD$31.6 million) arising from the difference between export duties paid at preliminary determination rates and the final duty rates established after the first administrative review. This recovery was netted against export tax expense of CAD$34.6 million, resulting in a net export tax of CAD$3.0 million as recorded in the consolidated statement of comprehensive income.

18. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

In 2021, the Company recorded an export tax recovery of USD$2.5 million (CAD$3.3 million) arising from the difference between export duties paid at preliminary determination rates and the final duty rates established after the second administrative review. This recovery was netted against export tax expense of CAD$29.8 million, resulting in a net export tax of CAD$26.5 million as recorded in the consolidated statement of comprehensive income.

The Company also accrued USD$0.6 million (CAD$0.7 million) (2020: USD$1.7 million, CAD$2.2 million) in interest receivable on the export tax recovery for 2018 and 2019 shipments, utilizing interest rate methodology and rates published in the US Federal Register. This interest revenue was netted against interest expense in the consolidated statement of comprehensive income.

Total export tax receivable of USD$31.9 million, including interest is recorded in other assets in the consolidated statement of financial position and was revalued at the year-end exchange rate to CAD$40.4 million. Related foreign exchange losses of $0.4 million for 2021 (2020: $0.8 million) were recorded in other expense (see Note 21).

As at December 31, 2021, the Company had paid $151.8 million of duties, all of which remain held in trust by U.S. Department of Treasury (2020: $123.6 million). All duty deposits except $40.4 million noted above have been expensed at the cash deposit rates in effect at the date of payment.

(b) Manufactured Forest Products Regulation

On January 21, 2020, the BC government announced amendments to the Manufactured Forest Products Regulation (the “Regulation”) to require lumber made from Western Red Cedar (“WRC”) and Cypress (“CYP”) be fully manufactured to be eligible for export. On September 16, 2020 the BC government provided additional information with respect to implementation of amendments to the Regulation, including the application of a tax on WRC and CYP exported from the BC Coast to any location within 3,000 miles. Effective September 30, 2020, the amount of the tax varies depending upon the extent of processing applied to the lumber before it is exported. The tax rate is also based on the combined cash deposit rate (see “Softwood Lumber Trade”).

During 2021, the Company recorded export tax expense of $3.6 million (2020: $0.2 million) in cost of goods sold in respect of this Regulation.

(c) Litigation and claims

In the normal course of business, the Company may be subject to 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 unable to determine the outcome of these disputes no amounts have been accrued in these consolidated financial statements.

(d) Long-term fibre supply agreements

Accounting policy

Deferred revenue is the result of the contractual obligations incurred upon the acquisition of the Englewood Logging Operation in March 2006, and calls for Western to deliver a specified volume of fibre (chips and pulp logs) over the term of the contract. Accordingly, the deferred revenue is amortized into net income for the period on a straight-line basis over 40 years, being the term of the related fibre supply contract.

Supporting information

The Company has several long-term commitments to supply fibre to third parties including a 40-year agreement, entered into on March 17, 2006 in conjunction with its acquisition of the Englewood Logging Division (“Englewood”). As consideration for entering into this agreement, the Company received a price premium of $80.0 million earned as wood chips are delivered over the contract term, of which $45.0 million was set-off against the consideration due by the Company on its acquisition of the Englewood assets. The Company recorded the price premium as deferred revenue (Note 25(b)) and granted a first charge over the acquired assets to secure certain of these obligations.

18. Commitments and contingencies (continued)

(d) Long-term fibre supply agreements (continued)

Supporting information (continued)

In addition, certain of the Company's long-term fibre supply agreements with third parties have minimum volume requirements and, if unable to produce the minimum volume, may require the Company to conduct whole log chipping, sell saw logs, purchase chips or pulp logs or incur a penalty under the fibre supply agreements. If the Company takes any significant 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 where it is not possible to secure replacement chips on the open market. Based on the exercise of force majeure provisions in 2021 and 2020 the Company believes it has satisfied annual fibre commitments for those years.

(e) Bond obligations

As at December 31, 2021 the Company posted $9.9 million in bid bonds (2020: $6.1 million) for purchases under timber sales agreements, with expiry dates extending through October 2023 and $4.4 million in customs bonds (2020: $3.2 million) for softwood lumber duties, with an expiry of February 2022.

(f) Purchase commitments

As at December 31, 2021, the Company had contracts to acquire property, plant and equipment totalling $6.1 million (2020: $0.3 million) and contractual commitments of $7.0 million (2020: $10.3 million) for purchases of lumber for wholesale programs.

(g) Pension funding commitments

The Company has funding requirements under its defined benefit pension plan of $1.4 million for 2022 and an estimated $1.4 million per year on average for 2023 to 2029, or until such time as a new funding valuation may lead to a change in the amount of payments required.

19. Employee future benefits

Accounting policy

(a) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes a cost for restructuring that includes the payment of termination benefits.

(b) Short-term employee benefits

Short-term employee benefit obligations, including bonus plans, are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for expected payments if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(c) Employee future benefits

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

The defined benefit plan provides a specified pension benefit to be received by an employee after retirement, usually dependent on one or more factors such as age, years of service and compensation. The Company's net obligation in respect of its defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods discounted to present value, and offset by the fair value of the plan assets. The calculation is performed annually by a qualified actuary using the actuarial cost projected unit credit method.

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

19. Employee future benefits (continued)

Accounting policy (continued)

(c) *Employee future benefits (continued)*

When the calculation gives rise to a pension asset, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the defined benefit plan or reductions in future contributions to the defined benefit plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any defined benefit plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling test are recognized immediately in other comprehensive income. The Company calculates the net interest expense (income) on the liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the liability, considering any changes in the net defined benefit liability over the year as a result of contributions and benefit payments. Net interest and other expenses related to defined benefit plans are recognized in net income.

Where a defined benefit plan’s benefits are altered or curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in net income. The Company recognizes gains and losses on settlement of a defined benefit plan when the settlement occurs.

Western also makes fixed contributions to privately administered investment funds on behalf of defined contribution plan members. The Company has no further payment obligations once the contributions have been paid.

The contributions are recognized as employee benefit expense in net income as services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

For hourly employees covered by forest industry union defined benefit pension plans, the Company’s contributions as required under the collective agreements are charged to net income as services are rendered by employees. The Company has no further payment obligations once the contributions have been paid.

Supporting information

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

	December 31, 2021		December 31, 2020	
	Salaried pension Plans	Non-pension Plans	Salaried pension Plans	Non-pension Plans
Accrued benefit obligation:				
Balance, beginning of year	$ 129.2	$ 3.0	$ 125.5	$ 2.9
Current service costs and administrative expenses	0.3	-	0.3	-
Benefits and administrative expenses paid	(8.7)	(0.2)	(8.2)	(0.2)
Interest cost	2.9	0.1	3.7	0.1
Actuarial (gain) loss	(6.1)	(0.1)	7.9	0.2
Balance, end of year	$ 117.6	$ 2.8	$ 129.2	$ 3.0
Plan assets:				
Fair value, beginning of year	$ 116.1	$ -	$ 113.1	$ -
Company contributions	2.0	0.2	2.3	0.2
Benefits and administrative expenses paid	(8.7)	(0.2)	(8.2)	(0.2)
Interest on plan assets	2.6	-	3.3	-
Actuarial gain (loss)	(2.2)	-	5.6	-
Fair value, end of year	$ 109.8	$ -	$ 116.1	$ -
Net employee future benefits recognized in Statement of Financial Position (Note 12)	$ 7.8	$ 2.8	$ 13.1	$ 3.0

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

19. Employee future benefits (continued)

Supporting information (continued)

	December 31, 2021		December 31, 2020	
	Salaried pension Plans	Non-pension Plans	Salaried pension Plans	Non-pension Plans
Cumulative actuarial gains (losses), beginning of year	$ (38.3)	$ 2.7	$ (36.0)	$ 2.9
Actuarial gains (losses) recognized directly in OCI	3.9	0.1	(2.3)	(0.2)
Cumulative actuarial gains (losses), end of year	$ (34.4)	$ 2.8	$ (38.3)	$ 2.7
Experience gains (losses):				
Experience gains (losses) on plan assets:				
Amount	$ (2.2)	n/a	$ 5.6	n/a
Percentage of plan assets	(2.01%)	n/a	4.80%	n/a
Experience gains (losses) on plan liabilities:				
Amount	$ (0.2)	$ -	$ 0.7	$ -
Percentage of plan assets	(0.19%)	0.00%	0.54%	0.00%

The Company has several funded and unfunded defined benefit plans, a defined contribution pension plan and a group registered retirement savings plan which provide retirement benefits to substantially all salaried employees and certain hourly employees. In addition, the Company provides other unfunded post-employment benefits to certain former salaried and hourly employees.

The funded and unfunded defined benefit pension plans were closed to new entrants effective June 30, 2006. No further benefits accrue under these plans for years of service after December 31, 2010, and no further benefits accrue under these plans for compensation increases effective December 31, 2016. The Company's other post-employment benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for the year ended December 31, 2021 were $14.3 million (2020: $12.4 million), consisting of cash contributed by the Company to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to the forest industry union defined benefit plans.

The Company measures the fair value of plan assets and the accrued benefit obligations for its defined benefit plans for accounting purposes annually at December 31. The most recent actuarial valuations of the funded defined benefit pension plans were performed at December 31, 2019. The next actuarial valuation for both the funded and unfunded defined benefit plans and other unfunded post-employment benefit plans is scheduled for December 31, 2022. Included in the accrued benefit obligations and plan assets for salaried pension plans, are accrued benefit obligations of $113.0 million at December 31, 2021 (2020: $124.0 million) in respect of plans that are wholly or partially funded.

The following is a breakdown of the defined benefit pension plan assets by nature of investment categories:

	December 31, 2021	December 31, 2020
Equity securities	10%	26%
Debt securities	87%	71%
Other	3%	3%
	100%	100%

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

19. Employee future benefits (continued)

Supporting information (continued)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations (expressed as weighted averages) are as follows:

			December 31, 2021 Increase (Decrease) of Accrued Benefit Obligation with Change Assumption	
	December 31, 2021	December 31, 2020	1% Increase	1% Decrease
Discount rate, beginning of year for:				
Pension plans	2.33%	2.98%	n/a	n/a
Non-pension plans	2.10%	2.95%	n/a	n/a
Discount rate, end of year for:				
Pension plans	2.84%	2.33%	$ (11.5)	$ 13.9
Non-pension plans	2.75%	2.10%	(0.2)	0.3
Rate of compensation increase for all plans	0.01%	0.01%	-	-
Health care and medical cost trend rate	5.61% in 2019 grading to 3.86% in 2029	5.61% in 2019 grading to 3.86% in 2029	0.1	(0.1)
Future mortality	n/a	n/a	(0.3)	0.4

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

	December 31, 2021		December 31, 2020	
	Salaried Pension Plans	Non-Pension Plans	Salaried Pension Plans	Non-Pension Plans
Defined benefit plans:				
Current service costs and administrative expenses	$ 0.3	$ -	$ 0.3	$ -
Net interest cost (Note 22)	0.3	0.1	0.3	0.1
Total cost of employee post-retirement benefits	$ 0.6	$ 0.1	$ 0.6	$ 0.1

The Company is committed to make funding contributions to its defined benefit plans of $1.4 million during 2022.

The Company's unionized employees are members of industry-wide pension plans to which the Company contributes a predetermined amount per hour worked by an employee. The Company's liability is limited to its contributions. The pension expense for these plans is equal to the Company's contributions. For 2021, such contributions amounted to $8.0 million (2020: $6.7 million).

20. Financial instruments – fair values and risk management

Accounting policy

IFRS 9, *Financial Instruments* sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items, as described below.

(a) Financial assets

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"), depending upon the business model in which a financial asset is managed and its contractual cash flow characteristics.

20. Financial instruments – fair values and risk management (continued)

Accounting policy (continued)

(a) Financial assets (continued)

A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not measured at amortized cost or FVOCI are measured at FVTPL. This includes all derivative financial assets including foreign currency forward contracts and export tax receivable.

Cash and cash equivalents, short-term investments expected to be held to maturity, and trade and other receivables are categorized as amortized cost and are initially measured at fair value plus any direct transaction costs and thereafter at amortized cost using the effective interest rate method, less any impairment losses. The Company applies an “expected credit loss” (“ECL”) model to calculate the impairment of financial assets.

The Company does not currently have any debt or equity investments classified as measured at FVOCI.

(b) Financial liabilities

Financial liabilities are recognized for contractual obligations to deliver cash or other financial assets or exchange financial assets or financial liabilities under potentially unfavourable conditions.

Trade payables and provisions, lease liabilities, and loans and borrowings including long term debt are categorized as other financial liabilities and are initially measured at fair value on the transaction or origination date less any related transaction costs and thereafter at amortized cost using the effective interest rate method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

(c) Derivative financial instruments

The Company may enter into derivative financial instruments (foreign currency forward contracts) in order to mitigate its exposure to foreign exchange risk. The Company’s policy is not to use derivative financial instruments for trading or speculative purposes and has not designated these instruments as hedges for accounting purposes. Measured at FVTPL, the Company records these contracts at fair value on the consolidated statement of financial position with changes in value recognized as gains or losses within sales in net income.

Financial assets and liabilities are offset, and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(d) Accounting classifications and fair values

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

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

20. Financial instruments – fair values and risk management (continued)

(d) Accounting classifications and fair values (continued)

		December 31, 2021			December 31, 2020		
	Level	Mandatory at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets							
Market-based investments	2	$ 4.7	$ -	$ 4.7	$ 4.8	$ -	$ 4.8
Foreign currency forward contracts	2	1.1	-	1.1	0.6	-	0.6
Cash and cash equivalents		-	130.0	130.0	-	2.9	2.9
Trade and other receivables		-	56.3	56.3	-	66.2	66.2
Other investments and advances		-	4.8	4.8	-	-	-
Export tax receivable (Note 8)	3	40.4	-	40.4	36.7	-	36.7
Total financial assets		$ 46.2	$ 191.1	$ 237.3	$ 42.1	$ 69.1	$ 111.2

	Level	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities							
Accounts payable and accrued liabilities		$ -	$ 112.8	$ 112.8	$ -	$ 108.7	$ 108.7
Lease liabilities (Note 10)		-	18.3	18.3	-	21.6	21.6
Long term debt (Note 9)	2	-	-	-	-	72.3	72.3
Total financial liabilities		$ -	$ 131.1	$ 131.1	$ -	$ 202.6	$ 202.6

(e) Financial risk management

The use of financial instruments exposes the Company to credit risk, liquidity risk, and market risk. Other than as described below, Management does not consider the risks to be significant.

The Board of Directors has oversight responsibility for the Company's risk management framework. The Company identifies, analyzes and actively manages the financial market risks associated with changes in foreign exchange rates, interest rates and commodity prices. Western has established risk management policies and controls to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor risks and adherence to limits. Currently, the Company only engages in foreign exchange forward contract trading activities to mitigate exposure to foreign currency fluctuations.

(i) Credit risk

Credit risk is the risk of financial loss to the Company should a customer or counterparty to a financial instrument fail to meet its contractual obligations and arises primarily from the Company's receivables from customers. The carrying amount of the Company's financial assets represents its maximum credit exposure.

Cash and cash equivalents

The Company held cash and cash equivalents of $130.0 million at December 31, 2021 (2020: $2.9 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held at highly rated financial institutions and as such, the Company does not believe that these are exposed to significant credit risk.

Accounts receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company has established policies and controls to review the creditworthiness of new customers, including review of external credit ratings, and bank and other references. Purchase limits are established for each customer and are regularly reviewed. In some cases, where customers fail to meet the Company's benchmark creditworthiness, the Company may choose to transact with the customer based on terms which are secured by a guarantee or cash deposit or alternatively by insuring the accounts receivable.

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

20. Financial instruments – fair values and risk management (continued)

(e) Financial risk management (continued)

(i) Credit risk (continued)

Accounts receivable (continued)

The Company's general practice is to insure substantially all North American lumber receivables for 90% of value with the Export Development Corporation or Coface Canada, while log and lumber sales outside of North America are sold on either a cash basis or secured by irrevocable letters of credit, which limits the Company's credit exposure.

Management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may influence credit risk. The Company has determined that there is no concentration of credit risk either geographically or by counterparty.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. The allowance for doubtful accounts was negligible as at December 31, 2021 and 2020.

The aging of trade and other receivables as at December 31 was as follows:

	December 31	
	2021	2020
Not past due	$ 56.6	$ 63.1
Past due 0-30 days	0.7	2.1
Past due 31-120 days	0.1	1.0
	$ 57.4	$ 66.2

Other assets

The Company has recognized a long-term receivable from the DoC for recovery of export tax and accrued interest thereon totalling $40.4 million (see Note 18(a)).

Although the timing of receipt of the refund remains uncertain, the collectability has minimal risk as the amounts are supported by published rates and established calculation methodology published in the US Federal Register, and responsibility for payment lies with the US Department of Treasury, considered to be creditworthy.

Guarantees

The Company did not provide any guarantees in 2021 and 2020.

(ii) Interest rate risk

The Company is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. Based on the Company's debt structure at December 31, 2021, an increase of 1% in interest rates would result in a negligible amount to annual net income (2020: $0.7 million). The Company does not currently use derivative instruments to reduce its exposure to interest rate risk.

(iii) Currency risk

The Company is exposed to currency risk on cash and cash equivalents, accounts receivable, duty deposits and recoveries, accounts payable and provisions and intercompany loans that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations.

Most of the Company's sales transactions are denominated in foreign currencies, primarily, the USD and Japanese Yen ("JPY"), exposing the Company to currency risk associated with changes in foreign exchange rates. The Company routinely assesses its foreign exchange exposure and may use foreign currency exchange forward, collar and option contracts to manage its currency risk. The Company does not consider the credit risk associated with the counterparty risk to be significant.

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

20. Financial instruments – fair values and risk management (continued)

(e) Financial risk management (continued)

(iii) Currency risk (continued)

During 2021, the Company entered into forward contracts to sell USD and JPY in order to mitigate a portion of the foreign currency risk. At December 31, 2021, the Company had outstanding obligations to sell an aggregate US$71.0 million at an average exchange rate of CAD$1.2795 per USD with maturities through February 15, 2022 (2020: USD$59.5 million at an average exchange rate of CAD1.2832 per USD).

	Years ended December 31	
	2021	2020
Fair value of asset, beginning of year	$ 0.6	$ 0.2
Fair value of asset at December 31	1.1	0.6
Change in unrealized foreign currency gains	0.5	0.4
Realized foreign currency gains (losses) on settled contracts	(1.4)	4.1
Foreign currency gains (losses) recognized in revenue	$ (0.9)	$ 4.5

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

An increase of 1% in the value of the CAD relative to the USD would result in a loss of approximately $0.5 million in relation to the USD foreign exchange contracts held at December 31, 2021.

Certain receivable balances at December 31, 2021 are denominated in foreign currencies, principally, the USD. Accordingly, fluctuations in foreign exchange rates may affect the carrying value of the underlying accounts receivable. As of December 31, 2021, the Company's USD denominated accounts and other receivables totaled USD$21.3 million. An increase of 1% in the value of the Canadian dollar relative to the USD would result in a decrease of $0.3 million to accounts and other receivables.

At December 31, 2021, the Company held USD$5.7 million in cash and cash equivalents. An increase of 1% in the value of the Canadian dollar relative to the USD would result in a decrease of $0.1 million to cash and cash equivalents.

(iv) Commodity price risk

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements and such contracts are not settled net.

(v) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Management mitigates any liquidity risk associated with the subsequent payment of liabilities through the continual monitoring of expenditures and forecasting of liquidity resources. The Company maintains a revolving credit facility that can be drawn down to meet short-term financing and liquidity needs.

As at December 31, 2021, the Company had $241.4 million (2020: $175.6 million) available under its Credit Facility. The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months	2 – 3 years	4 – 5 Years	More than 5 years
Accounts payable and accrued liabilities	$ 112.8	$ 112.8	$ 112.8	$ -	$ -	$ -	$ -
Lease liabilities	18.3	20.7	4.2	2.2	7.1	3.8	3.4
	$ 131.1	$ 133.5	$ 117.0	$ 2.2	$ 7.1	$ 3.8	$ 3.4

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

21. Other income (expense)

	Years ended December 31	
	2021	2020
Gain (loss) on disposal of property, equipment and other assets (Notes 5, 6, 7)	$ 23.3	$ (0.2)
Impairment of property (Note 5)	-	(3.6)
Remediation provision	-	(0.7)
Foreign exchange on export tax receivable (Note 18(a))	(0.4)	(0.8)
Other	(0.5)	0.1
	$ 22.4	$ (5.2)

Western recognized a $23.3 million gain on disposal on property, equipment and other assets attributable primarily to gains from the sale of the Orca Quarry assets, the Somass Division assets and other non-core properties and surplus equipment in 2021.

22. Finance costs

Accounting policy

Finance costs comprise interest expense on long-term debt and lease liabilities, amortization of deferred financing costs, unwinding of the discount on the reforestation obligation, net interest on the defined benefit plan obligation and interest accrued on the export tax receivable. All finance costs are recognized in net income during the period using the effective interest method with the exception of the net interest on the net defined benefit obligation, which is recognized as described in Note 19.

Supporting information

	Years ended December 31	
	2021	2020
Long-term debt	$ 0.8	$ 6.5
Lease liabilities (Note 10)	0.9	0.9
Employee future benefits obligation (Note 19)	0.3	0.4
Unwind of discount on provisions (Note 13)	0.2	0.1
Interest revenue on export tax receivable	(0.7)	(2.2)
Amortization of deferred financing costs	0.4	0.3
Other	-	(0.1)
	$ 1.9	$ 5.9

23. Operating restructuring items

Restructuring costs of $2.7 million in 2021 (2020: $2.1 million) include $2.1 million (2020: $1.6 million) of non-operating costs incurred related to the shutdown and sale of the Company's Somass sawmill, and $0.6 million (2020: $0.5 million) in severance and related expenses attributable to ongoing business optimization initiatives.

24. Segmented information

Accounting policy

A business segment is a group of assets and operations engaged in providing products or services subject to risks and returns that are different from those of other business segments. The Company is an integrated forest products company operating in one business segment comprised of timber harvesting, lumber manufacturing and log and lumber sales in world-wide markets.

A geographical segment is engaged in providing products or services within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

The Company manages its business as a single operating segment, with the majority of Western's property, plant and equipment, biological assets and timber licences located in BC, Canada. The Company harvests and purchases logs which it manufactures into lumber at the Company's sawmills, and sells its logs and lumber in world-wide markets. Supporting information is included in Note 25.

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

25. Revenue

Accounting policy

Revenue from the sale of goods is measured based on the consideration specified in a customer contract, net of rebates and discounts. Revenue is recognized when control over a product transfers from the Company to the customer. The timing of transfer of control varies dependent upon the individual terms of the sales contract.

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

The following is a description of principal activities from which the Company generates its revenue.

Lumber

Revenue is recognized when control over lumber is transferred to the customer. The timing of transfer of control varies depending on the individual terms of the sales contract, but is typically when lumber is loaded onto the mode of transportation. The revenue recognized is adjusted for discounts related to early payment at the point in time control is transferred, based on historical experience.

Logs

Revenue is recognized when control over logs is transferred to the customer. The timing of transfer of control varies depending on the individual terms of the sales contract, but is typically at the time logs are loaded onto the vessel or delivered to the transfer point, and payment is secured. No early payment discounts are offered for log sales.

By-products

Revenue is recognized when control over by-products is transferred to the customer, the timing of this transfer of control varies depending on the individual terms of the sales contract, but is typically at the time by-products leave the Company's facilities or are scaled at the pick-up location. No early payment discounts are offered for by-product sales.

Supporting information

(a) 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 product.

	Years ended December 31	
	2021	2020
Primary geographic markets		
United States	$ 505.0	$ 311.2
Canada	449.8	328.7
Japan	195.3	104.4
China	138.0	158.2
Other	102.7	46.3
Europe	26.9	16.1
	$ 1,417.7	$ 946.9
Major Products		
Lumber	$ 1,197.5	$ 737.2
Logs	169.3	200.5
By-products	50.9	27.2
	$ 1,417.7	$ 964.9

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

25. Revenue (continued)

Supporting information (continued)

(b) Contract balances

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

	Years ended December 31	
	2021	2020
Trade and other receivables	$ 57.4	$ 66.2
Contract liabilities	48.5	50.4

The contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract and are recognized as deferred revenue, for which revenue is recognized straight-line over the term of the contract (see Note 18(d)). The Company recognized related revenue of $1.9 million in 2021 (2020: $2.0 million).

(c) Contract costs

The Company will capitalize costs to obtain contracts and amortize fees when related revenues are recognized, where the amortization period is greater than one year.

26. Related parties

Accounting policy

Key management personnel are the Company's directors and executive officers as disclosed in its 2021 and 2020 Annual Reports as applicable.

Supporting information

Compensation of key management personnel

The key management personnel of the Company include the executive management team and members of the Board of Directors. Key management personnel compensation comprised:

	Years ended December 31	
	2021	2020
Salaries, directors' fees and short-term benefits	$ 9.7	$ 5.7
Post-employment benefits	1.6	0.5
Share-based compensation, including mark-to-market adjustment	10.7	2.4
	$ 22.0	$ 8.6

At December 31, 2021, $20.5 million of key management compensation costs were included in accounts payable and accrued liabilities and other liabilities (2020: $6.7 million).

27. Expense categorization

Expenses by function:

	Years ended December 31	
	2021	2020
Administration	$ 42.3	$ 25.7
Distribution expenses	135.8	87.7
Cost of goods sold	992.2	790.3
	$ 1,170.3	$ 903.7

Distribution expenses include $26.5 million of export taxes net of recoveries (2020: $3.0 million). See Note 18(a).

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

27. Expense categorization (continued)

Selected costs by nature:

	Years ended December 31	
	2021	2020
Compensation costs	$ 235.9	$ 193.6
Amortization in costs of goods sold	48.3	50.9
Amortization in selling and administration	2.6	2.6

Compensation costs are included in cost of goods sold and selling and administration.

28. Non-controlling interest

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

On May 3, 2021, Western completed the sale of an incremental 28% equity in TFL 44 LP to HVLP (“TFL 44 Transaction”) for total consideration of $22.4 million paid by cash of $19.8 million and a $2.6 million interest bearing note receivable, resulting in HVLP holding a combined equity interest of 35% in TFL44 LP. The related gain on disposal was calculated as the difference between consideration of $22.4 million and the HVLP incremental 28% claim on TFL 44 LP’s net assets and was deferred with $15.3 million, net of income tax, recorded directly to retained earnings.

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

A third transaction whereby HVLP may acquire a 7% equity interest in a newly formed limited partnership that will own the Alberni Pacific Division Sawmill is also anticipated to close in the first quarter of 2023.

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

The Board of TFL 44 LP declared distributions in 2021, resulting in a decrease of $1.4 million in non-controlling interest.

Effective November 15, 2021, TFL 44 LP changed its name to Tsawak-qin Forestry Limited Partnership.

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"