Western Forest Products Inc.
DEFINING A HIGHER STANDARD™

Western Forest Products Inc.

2020 Third Quarter Report

Management’s Discussion & Analysis

The following MD&A reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the “Company”, “Western”, “us”, “we”, or “our”), on a consolidated basis, for the three and nine months ended September 30, 2020, to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine months ended September 30, 2020, and our audited annual consolidated financial statements and the notes thereto and Management’s Discussion and Analysis for the year ended December 31, 2019 (the “2019 Annual Report”), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three and nine months ended September 30, 2020, in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board. Amounts discussed herein are based on our unaudited condensed consolidated interim financial statements and are presented in millions of Canadian dollars unless otherwise noted. Certain prior period comparative figures have been reclassified to conform to the current period’s presentation.

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

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

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

This MD&A contains statements that may constitute forward-looking statements under the applicable securities laws. Readers are cautioned against placing undue reliance on forward-looking statements. All statements herein, other than statements of historical fact, may be forward-looking statements and can be identified by the use of words such as “will”, “estimate”, “expect”, “anticipate”, “plan”, “intend”, “believe”, “seek”, “should”, “may”, “likely”, “continue” 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; the timing or anticipated closing of the Transaction; and the selling of additional incremental ownership interest in TFL 44 LP and APD LP 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, competition and selling prices, international trade disputes, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, relations with First Nations groups, 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, future developments in the COVID-19 pandemic and other factors referenced under the “Risks and Uncertainties” section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements. Unless otherwise noted, the information in this discussion and analysis is updated to November 5, 2020.

---

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

Summary of Selected Quarterly Results (1)

(millions of Canadian dollars except per share amounts and where otherwise noted)	Price Basis	Q3 2020	Q3 2019	Q2 2020	YTD 2020	YTD 2019
Summary Information						
Revenue						
Lumber		$ 208.6	$ 109.7	$ 188.8	$ 480.6	$ 562.2
Logs		73.7	27.4	60.5	147.0	131.9
By-products		8.3	4.5	7.0	18.4	33.5
Total revenue		$ 290.6	$ 141.6	$ 256.3	$ 646.0	$ 727.6
Freight		$ 22.4	$ 9.5	$ 20.1	$ 48.8	$ 59.0
Export tax		11.0	5.5	7.6	22.6	24.4
Stumpage		11.4	-	10.0	22.4	26.4
Adjusted EBITDA		$ 33.7	$ (16.6)	$ 29.5	$ 45.7	$ 16.6
Adjusted EBITDA margin		12%	-12%	12%	7%	2%
Operating income (loss) prior to restructuring and other items		$ 19.0	$ (24.2)	$ 14.6	$ 5.2	$ (17.1)
Net income (loss)		11.5	(18.7)	8.5	(1.0)	(17.5)
Basic and diluted earnings (loss) per share (in dollars)		0.03	(0.05)	0.02	-	(0.05)
Operating Information						
Lumber(2)						
Lumber Shipments – millions of board feet						
Western Red Cedar		52	26	44	117	121
Japan Specialty		23	19	31	69	89
Niche		23	13	22	56	75
Commodity		67	32	55	139	219
Total		165	90	152	381	504
Lumber Production – millions of board feet		192	48	143	396	457
Lumber Price – per thousand board feet		$ 1,264	$ 1,219	$ 1,242	$ 1,261	$ 1,115
Wholesale Lumber Shipments - millions of board feet		8	11	11	29	25
Logs(3)						
Log Shipments – thousands of cubic metres						
Export		129	2	78	207	64
Domestic		346	193	358	804	814
Pulp		204	51	151	395	262
Total		679	246	587	1,406	1,140
Net production – thousands of cubic metres(4)		1,138	21	1,224	2,529	2,193
Saw log purchases – thousands of cubic metres		235	84	236	613	530
Log Price – per cubic metre(5)		$ 109	$ 110	$ 103	$ 100	$ 111
Illustrative Lumber Average Price Data(6)	**Price Basis**					
Grn WRC #2 Clear & Btr 4x6W RL ($C)	c.i.f. dest. N Euro	$ 4,575	$ 4,400	$ 4,400	$ 4,492	$ 4,496
Grn WRC Deck Knotty 2x6 RL S4S	Net f.o.b. Mill	$ 1,600	$ 1,340	$ 1,409	$ 1,457	$ 1,348
Grn WRC #2 & Btr AG 6x6 RL	Net f.o.b. Mill	$ 2,471	$ 2,246	$ 2,381	$ 2,400	$ 2,245
Coast Grn WRC Std&Btr NH 3/4x4 RL S1S2E H&M	Net f.o.b. Mill	$ 1,179	$ 1,095	$ 1,095	$ 1,123	$ 1,097
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13' S4S	c.&f. dest. Japan	$ 755	$ 855	$ 782	$ 782	$ 896
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c.&f. dest. Japan	$ 910	$ 1,072	$ 943	$ 953	$ 1,116
KD White Fir Shop Moulding&Btr C&Btr 5/4 S2S	Net f.o.b. Mill	$ 1,009	$ 1,080	$ 1,090	$ 1,063	$ 1,080
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net f.o.b. Mill	$ 1,361	$ 1,206	$ 1,274	$ 1,301	$ 1,264
Hemlock Lumber 2x4 (40x90) Metric RG Utility	c.i.f. dest. Shanghai	$ 468	$ 401	$ 460	$ 451	$ 413
Coast KD Hem-Fir #2 & Btr 2x4	Net f.o.b. Mill	$ 785	$ 370	$ 393	$ 545	$ 372
Average Exchange Rate – CAD to USD		0.751	0.757	0.722	0.739	0.752
Average Exchange Rate – CAD to JPY		79.68	81.27	77.58	79.43	82.11

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

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

Summary of Third Quarter 2020 Results

Adjusted EBITDA for the third quarter of 2020 was $33.7 million, as compared to negative adjusted EBITDA of $16.6 million in the same period last year. We capitalized on an improved market in North America by increasing our Western Red Cedar (“WRC”) shipments and by redirecting production from weaker export markets to North America. Increased log and lumber production drove cost efficiencies while higher prices reduced inventory provisions. Operating income prior to restructuring and other items was $19.0 million, as compared to an operating loss of $24.2 million in the same period last year. Prior year third quarter results include the impact of the United Steelworkers Local 1-1937 (“USW”) strike (the “Strike”) that ended in the first quarter of 2020.

We continue to strictly enforce enhanced health and safety protocols and regularly re-evaluate market conditions arising from the novel Coronavirus pandemic (“COVID-19”). Our near-term focus remains on ensuring the health and safety of our employees, managing our balance sheet, and servicing our customers.

Sales

Lumber and log sales benefitted from significantly improved North American lumber markets. Robust demand from the repair and renovation and new home building sectors combined with constrained supply to drive record pricing in North American commodity lumber markets in the quarter. Strong demand for our WRC products supported increased shipments and better pricing. As the quarter progressed, we levered our flexible operating platform by redirecting volumes from the relatively weak export markets to North America.

Lumber revenue in the third quarter was $208.6 million, an increase of 90% from the same period last year, and an increase of 10% from the second quarter of 2020. Lumber shipment volumes of 165 million board feet were 83% higher than the same period last year and increased 9% from the second quarter of 2020. In comparison to the second quarter of 2020, we grew WRC lumber shipments by 19% and our North American lumber diversion strategy led to a 21% increase in commodity lumber shipments.

Our average realized lumber price of $1,264 per thousand board feet increased 2% from the same period last year as price improvements were partly offset by a weaker sales mix. Despite increasing our WRC volumes, the percentage of specialty product shipments decreased to 59% from 64% in the third quarter last year as we grew our production of North American commodity lumber. Lower wholesale lumber shipments and a relatively weaker Canadian dollar partly offset improved third quarter lumber revenue in 2020.

Log revenue was $73.7 million in the third quarter of 2020, an increase of 169% from the same period last year and a 22% increase from the second quarter of 2020. Log revenue growth resulted from increased shipments and was achieved despite a weaker sales mix and lower export log market pricing. We recently redirected export log inventory to our sawmills as a result of the strong North American lumber market.

By-product revenue was $8.3 million, an increase of 84% as compared to the same period last year, and a 19% increase from the second quarter of 2020. Increased production led to higher by-product shipments, while pricing was negatively impacted by the weak NBSK pulp market.

Operations

Third quarter lumber production of 192 million board feet was 300% higher than the same period last year, and an increase of 34% from the second quarter of 2020. We achieved significantly higher production through increased operating hours and by an improved recovery that was influenced by higher domestic market production. We restarted production at our Cowichan Bay sawmill on May 4, 2020 and at our Ladysmith sawmill on August 4, 2020, with both operations having remained curtailed following the Strike. Our Columbia Vista sawmill was curtailed for 7 days due to power issues and poor air quality caused by forest fires.

Increased production of North American commodity lumber contributed to improved sawmill productivity but also increased our secondary processing requirements. We restarted planer operations at our Cowichan Bay and Alberni Pacific sawmills in the third quarter to supplement our processing capacity.

We produced 1,138,000 cubic meters of logs from our coastal operations in British Columbia (“BC”) in the third quarter of 2020, as compared to 21,000 cubic meters in the Strike-curtailed third quarter last year. We capitalized on favourable operating conditions to increase log harvest volumes, which drove lower production costs despite an increase in helicopter operations. We continue to maintain modified operating procedures in our timberlands to mitigate COVID-19 risks.

BC coastal saw log purchases were 235,000 cubic metres, a significant increase over the same period last year and consistent with the second quarter of 2020. Market log availability remains constrained due to reduced BC coastal harvest activity.

Freight expense increased by $12.9 million from the same period last year. Freight expense grew as the result of higher shipment volumes and the relative geographic mix of log and lumber sales, partly offset by lower fuel surcharges and ocean freight rates.

Third quarter adjusted EBITDA and operating income included $11.0 million of countervailing duty (“CVD”) and anti-dumping duty (“AD”), as compared to $5.5 million in the same period last year. Duty expense increased as a result of growth in US-destined lumber shipment volumes.

Selling and Administration Expense

Third quarter selling and administration expense was $10.4 million in 2020 as compared to $6.0 million in the Strike-curtailed third quarter last year. Improvements in financial results increased short-term performance-based compensation expense. Cost containment savings were offset by increased mark-to-market expense on long-term compensation liabilities.

Finance Costs

Finance costs were $2.0 million in the third quarter of 2020, consistent with the third quarter last year. The cost impact of a moderately higher outstanding debt balance was offset by a lower applicable interest rate.

Income Taxes

Improved operating earnings led to income tax expense of $4.4 million for the third quarter of 2020, as compared to a tax recovery of $7.0 million arising from an operating loss in the same period last year.

Net Income (Loss)

Net income for the third quarter of 2020 was $11.5 million, as compared to a net loss of $18.7 million for the same period last year. Strong North American lumber and log markets drove higher price realizations and reduced inventory write-downs. Results in the same period last year were negatively impacted by the Strike in the majority of our BC operations.

Summary of Year to Date 2020 Results

Financial and operating results were significantly impacted by COVID-19, the Strike, and the gradual restart of Strike-curtailed BC operations in the first half of 2020. Despite financial impacts and significant uncertainty arising from COVID-19, we maintained employment and operating levels with support from the Canadian Emergency Wage Subsidy (“CEWS”) program.

On February 15, 2020, USW members voted in support of a 5-year agreement to replace the collective agreement that expired on June 14, 2019, resulting in the end of the Strike. Following the Strike, we performed the necessary safety and maintenance procedures before commencing a gradual restart of certain Strike-curtailed BC operations. Upon restart, our manufacturing productivity was impacted by the consumption of lower quality log inventory that had degraded during the Strike.

In late March 2020, as a result of COVID-19, we curtailed certain operations for one week to implement enhanced health and safety protocols and to re-evaluate market conditions. We then resumed operations except at our Ladysmith and Cowichan Bay sawmills. Operations resumed at our Cowichan Bay sawmill on May 4, 2020 and at our Ladysmith sawmill on August 4, 2020. Our US-based Columbia Vista division operations were unaffected by the Strike and took no COVID-19 related downtime.

Adjusted EBITDA for the first nine months of 2020 was $45.7 million, as compared to $16.6 million from the same period last year. Operating income prior to restructuring items and other income was $5.2 million, as compared to an operating loss prior to restructuring items and other income of $17.1 million in the same period last year. We capitalized on improvements in lumber and log markets, beginning in June 2020, to overcome operating losses incurred earlier in the year. COVID-19 initially reduced demand for our products and caused some customers to defer order shipments. Demand for our products began to recover soon after governments began to lift their shutdowns and other restrictions. Demand slowly began to return in China early in the second quarter, followed by Europe and North America at the beginning of the third quarter. We levered our flexible operating platform to transition third quarter 2020 production and shipments to higher margin North American markets.

Sales

Lumber revenue was $480.6 million in the first nine months of 2020, 15% lower than the same period last year due to the Strike and COVID-19. The Strike impacted BC based sawmill production in the first quarter of 2020. Government emergency measures instituted to combat COVID-19 significantly impacted demand as many customers suspended order activity in late March 2020 through mid-May 2020. We took this time to rebuild inventory depleted by the Strike, which allowed us to increase shipments as lumber markets gradually recovered through the period. Despite challenging market conditions, average lumber price realizations increased as we improved our specialty product mix and benefitted from a weaker CAD to USD. Though we produced and shipped more North American commodity lumber in the third quarter of 2020, specialty lumber represented 64% of year-to-date shipments compared to 57% in the same period last year.

Log revenue was $147.0 million in the first nine months of 2020, an increase of 11% from the same period last year when log production was limited by the Strike. Average price realizations declined due to a weaker log sales mix caused by Strike-related log degradation and the impact of COVID-19 on global markets.

By-products revenue decreased to $18.4 million in the first nine months of 2020, from $33.5 million in the same period last year due to lower by-product production during the Strike, reduced chip purchase-and-resale volume, and temporary coastal pulp operating curtailments.

Operations

Despite significant uncertainty arising from COVID-19 through the majority of 2020, we have continued production. We maintained operating levels in order to support and maintain employment, rebuild inventories, and service our customers. By late May 2020, we had rebuilt log decks that were depleted from the Strike. Stable operating plans have driven improved productivity and operating cost metrics and enabled us to sustain shipments into strong lumber markets.

Lumber production in the first nine months of 2020 was 396 million board feet, 13% lower than the same period last year. Lumber production was negatively impacted in the first half of 2020 by the Strike and COVID-19. We partly mitigated the impact of the Strike on our customers by continuing to process logs at custom cut facilities and through our wholesale lumber activity. Upon returning from the Strike, production volume and grade recovery were impacted due to processing log inventory that had degraded during the Strike. By continuing to run our timberlands operations despite significant uncertainty arising from COVID-19, we rebuilt log inventories, which supported the resumption of operations at our Cowichan Bay sawmill on May 4, 2020. Log purchases and unprecedented North American commodity lumber pricing supported the resumption of our Ladysmith sawmill on August 4, 2020.

Log production for the first nine months of 2020 was 2,529,000 cubic metres, an increase of 15% from the same period last year. We capitalized on favourable operating conditions to deliver higher production. Lower production costs resulted from a favourable mix of operations and by aligning our road expenditures to harvest volumes. No significant fire-related downtime was taken in either period.

Logging operations were curtailed for most of the first quarter of 2020 due to the Strike, and subsequently impacted by actions taken to mitigate COVID-19 health and safety risks. Logging operations were also curtailed for the third quarter of 2019 as a result of the Strike.

BC coastal saw log purchases were 613,000 cubic metres, a 16% increase from the same period last year. Saw log purchases remain limited due to reduced BC coastal harvest activity.

Freight expense for the first nine months of 2020 was $48.8 million, a reduction of 17% as compared to same period last year as a result of lower shipments and reduced shipping rates.

Adjusted EBITDA and operating income included $22.6 million of CVD and AD expense, as compared to $24.4 million in the same period of 2019. Duty expense declined as a result of reduced US-destined lumber shipments in the first half of 2020.

Due to the negative financial impact COVID-19 had on our business we applied for CEWS. Western's eligibility for CEWS prevented temporary operating curtailments, employee layoffs and offset the costs of enhanced health and safety protocols. We continued to operate despite uncertainty arising from COVID-19 to maintain employment, support contractors and communities, rebuild inventory and continue to service our customers. In the first nine months of 2020, we recognized CEWS of $11.6 million as an offset to cost of goods sold, and $1.4 million as an offset to selling and administration expense.

Selling and Administration Expense

Selling and administration expense for the first nine months of 2020 was $24.9 million as compared to $23.1 million in the same period last year. Savings generated by cost containment measures were offset by expenses arising from COVID-19, including health and safety spending and incremental IT costs associated with remote work requirements. Improved financial performance and the appreciation of the Company's common share price increased short and long-term compensation liabilities.

Despite uncertainty arising from COVID-19, we have maintained staffing levels to support our business and communities, and to continue to service our customers.

Finance Costs

Finance costs were $6.4 million, compared to $5.6 million in the first nine months of 2019. Higher interest expense resulted from increased average debt balance offset by lower interest rates.

Income Taxes

Income tax recovery of $0.5 million was recognized as compared to $6.7 million in the same period last year. Despite COVID-19 market uncertainty and impacts of the Strike, greater losses and income tax recovery were offset in the first nine months of 2020 by CEWS and strong third quarter operating income.

Net Loss

Net loss for the first nine months of 2020 was $1.0 million, as compared to net loss of $17.5 million for the same period last year. COVID-19 market uncertainty, related incremental operating costs and impacts of the Strike created a challenging operating environment. We limited net loss by increasing third quarter production and shipments to capitalize on a surge in demand, and through the benefit of CEWS and reduced inventory write-downs.

Sale of Ownership Interests in Limited Partnerships

On March 16, 2020, Western announced it had reached an agreement whereby Huumiis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by the Huu-ay-aht First Nations, will acquire a majority ownership interest in TFL 44 Limited Partnership ("TFL 44 LP") and an ownership interest in a newly formed limited partnership that will own the Alberni Pacific Division Sawmill ("APD Sawmill") for total consideration of $36.2 million (the "Transaction").

TFL 44 LP holds certain assets in Port Alberni, British Columbia, including Tree Farm Licence 44 and other associated assets and liabilities. HVLP will acquire an incremental 44% ownership interest in TFL 44 LP from Western for $35.2 million. On completion of the Transaction, HVLP will own 51% of TFL 44 LP and Western will own 49% of TFL 44 LP. Western may sell other area First Nations, including HVLP, a further incremental ownership interest of up to 26% in TFL 44 LP, under certain conditions. Western and TFL 44 LP will enter into a long-term fibre agreement to continue to supply Western's British Columbia coastal manufacturing operations, which have undergone significant capital investment over the past several years.

Western will transfer its APD Sawmill into a limited partnership ("APD LP") along with certain other assets and liabilities. HVLP will acquire a 7% ownership interest in APD LP from Western for $1.0 million, and subject to further negotiations, HVLP will have an option to purchase an incremental ownership interest in APD LP, which may include a majority interest.

The completion of the Transaction is subject to satisfaction of customary closing conditions, financing, and certain third-party consents. COVID-19 restrictions and other impacts have delayed the administration of certain closing conditions.

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.

Health and safety protocols currently being 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; 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. We continue to monitor and review the latest guidance from health officials and experts to ensure our protocols meet the current required standards.

In response to the impacts of the COVID-19 pandemic, the Company also curtailed its BC manufacturing facilities for up to a one-week period effective March 23, 2020. After implementing enhanced health and safety protocols and re-evaluating operating conditions, we resumed all previously active operations, except at our Ladysmith and Cowichan Bay sawmills. By continuing to operate timberlands operations and increasing saw log purchases despite uncertainty arising from COVID-19, we rebuilt sufficient log inventory to resume manufacturing operations at our Cowichan Bay sawmill on May 4, 2020 and at our Ladysmith sawmill on August 4, 2020.

State of Emergency declarations and other restrictions relating to travel, business operations and isolation have been made by governing bodies in the regions that Western operates and sells its products. Western's business activities have been designated an essential service in Canada and the US, and 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. In addition, governments in Canada and the US have announced various financial relief programs for businesses. In the nine months ended September 30, 2020, we recognized $13.0 million in CEWS as a reduction to cost of goods sold and selling and administrative expense. Western's eligibility for CEWS concluded in early June 2020, but we continue to evaluate our eligibility for relief programs as they are announced to help mitigate the financial impacts of COVID-19.

With the potential negative impacts to the global economy from COVID-19 and with dynamic global economic conditions, in the near-term we remain focused on maintaining financial flexibility, protecting the health and safety of our employees and contractors, and servicing our customers. For more information on the risks relating to COVID-19, refer to "*Risks and Uncertainties*" in the notes to our condensed consolidated interim financial statements for the three and nine months ended September 30, 2020.

Operations Update

On August 4, 2020, we restarted production at our Ladysmith sawmill, which had remained curtailed after the end of the Strike due to limited log supply. We rebuilt log inventory to support this restart by continuing log harvest production through uncertainty arising from COVID-19 and by increasing saw log purchases. The ongoing operation of our Ladysmith sawmill is dependent on log supply and continued strong commodity market conditions.

Our Somass sawmill remains indefinitely curtailed as a result of a fibre supply deficit arising from years of tenure takebacks and government land use decisions, and rising costs associated with the US Softwood Lumber dispute. As of November 5, 2020, our other manufacturing and timberlands operations are actively operating.

BC Government Forest Policies Update

During 2019, the BC Provincial Government (the "Province") introduced various policy initiatives that will impact the BC forest sector regulatory framework as part of their Coastal Revitalization Initiative. For additional details on these policy initiatives please see *"Regulatory Risks"* in our MD&A for the year ended December 31, 2019 under the heading *"Risks and Uncertainties".*

On January 21, 2020, the Province announced changes to the Manufactured Forest Products Regulation ("Regulation"), which was intended to come into effect July 1, 2020. The amendments to the Regulation require lumber that is made from WRC or Cypress ("CYP") to be fully manufactured in BC to be eligible for export from Canada. Fully manufactured is defined as lumber that will not be kiln-dried, planed or re-sawn at a facility outside of BC.

On June 11, 2020, the Province announced the deferral of the implementation of the changes to the Regulation to September 30, 2020. The Province also updated the requirement to fully manufacture WRC and CYP to only apply to the BC coastal region.

On September 16, 2020, the Province provided additional information with respect to the implementation of amendments to the Regulation, including the application of a tax on WRC and CYP exported from BC to any location outside of Canada and within 3,000 miles. Requirements under the Regulation require provincial export permit applications and, where fully manufactured requirements are not met, payment of a tax in lieu of manufacture to be eligible for export. The amount of the tax factors in the extent of processing completed prior to export application, with the rate calculated as a proportion of the combined CVD and AD US export tax all others duty rate. For products shipped within the 3,000-mile export zone, the applicable BC export duty rate decreases by one third for each process performed prior to the export, with no fee applicable upon completing three processes. Certain other exemptions apply including rough appearance products ready for retail sale prior to export. These changes were effective September 30, 2020.

While the application of Provincial export tax was not effective until November 1, 2020, we were compliant with permitting requirements that became effective October 1, 2020 and continue to take steps to limit any potential financial impact and mitigate any potential unintended consequences of the amended Regulation. Our mitigating actions include the use of exemptions, maximizing our planer capacity utilization, pursuing additional market processing capacity, reducing mill operating hours and increasing our export log volumes where necessary to manage inventory risk.

Western will continue to sustainably harvest and manufacture lumber from the full BC coastal forest profile.

Timber Tenure Reduction

Approximately 89% of Western's 5,956,000 cubic metre sustainable allowable annual cut ("AAC") is in the form of Tree Farm Licenses ("TFL"). TFLs are granted for 25-year terms and are replaced by the Province every five to ten years with a new TFL with a 25-year term.

In the first half of 2021, we expect that 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 meters. 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 2019 Sustainability Report, which is available at www.westernforest.com.

Financial Position and Liquidity

(millions of Canadian dollars except where otherwise noted)	Q3 2020	Q3 2019	Q2 2020	YTD 2020	YTD 2019
Selected Cash Flow Items					
Operating Activities					
Net income (loss)	$ 11.5	$ (18.7)	$ 8.5	$ (1.0)	$ (17.5)
Amortization	14.0	9.2	14.2	39.2	33.0
Income taxes refunded (paid)	5.3	6.1	11.4	16.7	(17.0)
Other	5.5	(12.5)	4.4	1.2	(9.9)
Subtotal	36.3	(15.9)	38.5	56.1	(11.4)
Change in non-cash working capital	4.0	38.2	(46.3)	(36.1)	15.1
Cash provided by (used in) operating activities	$ 40.3	$ 22.3	$ (7.8)	$ 20.0	$ 3.7
Investing Activities					
Additions to property, plant and equipment	$ (1.5)	$ (2.4)	$ (1.6)	$ (3.9)	$ (26.7)
Additions to capital logging roads	(3.2)	(1.3)	(2.9)	(6.8)	(8.9)
Acquisition of assets from Columbia Vista Corporation	-	-	-	-	(37.7)
Proceeds from non-controlling interest	-	0.8	-	-	7.0
Other	0.1	1.5	0.6	1.7	2.3
Cash provided by (used in) investing activities	$ (4.6)	$ (1.4)	$ (3.9)	$ (9.0)	$ (64.0)
Financing Activities					
Draw on (repayment of) credit facility	$ (32.8)	$ (7.5)	$ 14.9	$ 5.6	$ 105.8
Dividends	-	(8.4)	-	(8.4)	(25.5)
Share repurchases	-	(1.9)	-	-	(15.9)
Other	(3.1)	(3.3)	(3.3)	(8.4)	(7.4)
Cash provided by (used in) financing activities	$ (35.9)	$ (21.1)	$ 11.6	$ (11.2)	$ 57.0
Increase (decrease) in cash	$ (0.2)	$ (0.2)	$ (0.1)	$ (0.2)	$ (3.3)
Summary of Financial Position					
Cash and cash equivalents	$ 1.9	$ 5.1	$ 2.1		
Current assets	295.4	222.4	286.2		
Current liabilities	138.1	57.8	116.8		
Total debt, net of deferred financing costs	121.3	112.0	154.2		
Net debt (1)	119.4	106.9	152.1		
Equity, excluding non-controlling interest	471.1	519.1	461.4		
Total liquidity (2)	127.9	141.3	95.1		
Financial ratios:					
Current assets to current liabilities	2.14	3.85	2.45		
Net debt to capitalization (3)	20%	17%	25%		

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

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

Cash provided by operating activities before changes in non-cash working capital during the third quarter of 2020 was $36.3 million as compared to cash used of $15.9 million in the same period last year. Unprecedented demand from the North American lumber market drove improved cashflows from operations in the third quarter of 2020. In the same period last year, operating cashflow was limited and working capital reduced as the Strike limited BC-based production and limited sales to unencumbered inventory.

Through the nine months ended September 30, 2020, non-cash working capital has increased by $36.1 million as compared to a reduction of $15.1 million in the same period last year. We increased non-cash working capital utilization in 2020, as we continued to operate despite significant uncertainty arising from COVID-19 to reset our business post-Strike; support our employees, contractors and communities; and to service our customers. We rebuilt log inventories as we resumed operations at our Strike-curtailed BC operations, capitalizing on favourable harvest conditions. We grew lumber inventory by 33 million board feet in the three months ended September 30, 2020, due in large part to secondary processing constraints and the related transition to North American markets.

Cash used in investing activities was $4.6 million during the third quarter of 2020, as compared to $1.4 million during the same period last year. We continue to manage capital spending in order to address uncertainty caused by COVID-19. Capital expenditures were partially offset by cash proceeds from the sale of certain non-core assets.

Cash used in financing activities was $35.9 million in the third quarter of 2020, as compared to $21.1 million in the same period last year. In the third quarter of 2020, we reduced net drawings on our credit facility by $32.8 million on the strength of operating cash flows. On May 6, 2020, we announced the suspension of our quarterly dividend to address uncertainty caused by COVID-19, and as a result we did not make a distribution in the third quarter of 2020. See “*Dividend & Capital Allocation Update*” for more information.

Total liquidity was $127.9 million as of September 30, 2020, as compared to $141.3 million at the end of 2019. Liquidity is comprised of cash and cash equivalents of $1.9 million and unused availability under the credit facility of $126.0 million. Based on our current forecasts, we expect sufficient liquidity will be available to meet our obligations in 2020. The Company was in compliance with all of its financial covenants as at September 30, 2020.

Dividend & Capital Allocation Update

Quarterly Dividend

In May 2020, in response to the global economic impacts of COVID-19 on our business and sector, and the financial impact of the Strike, Western suspended its quarterly dividend until further notice. We believe that this is a prudent decision in order to maintain financial flexibility and liquidity due to uncertainty resulting from COVID-19.

The Company’s Board of Directors will continue to review our dividend on a quarterly basis. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors, after considering our operating results, financial condition, cash requirements, financing agreement restrictions and other factors our Board may deem relevant.

Capital Expenditures

Due to COVID-19 and its impact on global markets and operating conditions, we plan to incur only safety, environmental, maintenance and committed capital expenditures in the near-term. Strategic and discretionary capital projects will remain on hold until there is greater operational certainty. We will continue to evaluate opportunities to invest strategic capital in jurisdictions that create the opportunity to grow long-term shareholder value, but in the near-term will be prioritizing liquidity and financial flexibility.

Normal Course Issuer Bid

On August 7, 2020, we renewed our Normal Course Issuer Bid (“NCIB”) permitting the purchase and cancellation of up to 18,759,858 of the Company’s common shares or approximately 5% of the common shares issued and outstanding as of August 6, 2020. 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 the three months ended September 30, 2020, the Company did not repurchase any common shares. As at November 5, 2020, 18,759,858 common shares remain available to be purchased under the NCIB. The NCIB expires on August 10, 2021.

Strategy and Outlook

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

For more detail on our strategic initiatives and actions, refer to "*Strategy and Outlook*" in our Management's Discussion and Analysis for the year ended December 31, 2019.

Sales & Marketing Strategy Update

We continue to make progress with the execution of our sales and marketing strategy that focuses on the production and sale of targeted, high-margin products of scale to selected customers. We supplement our key product offerings with purchased lumber to deliver the suite of products our customers require.

During the quarter we created a new product branding strategy that will differentiate our high-quality products in what is generally an unbranded sector. Our branding initiative is designed to drive increased demand for our products and increased sales for our customers, which we believe will bring more value to our products.

As the third quarter progressed, we redirected lumber production from relatively weak export markets to the improving North American market. We purposely targeted sales to selected customers in the treating sector where our product mix could provide the most value. In the near term we anticipate North American pricing to remain above trend levels and will look to grow our presence in the important treated lumber sector.

Market Outlook

Lumber pricing in North America reached all-time highs in the third quarter of 2020, driven by a combination of rising demand from new home construction and a very strong repair and renovation segment. Supply was constrained due to permanent mill closures in BC and temporary production disruptions resulting from COVID-19. Despite a recent correction we expect pricing to remain above trend levels in North America in the near term, as supply lags increased demand. We are anticipating lumber pricing to improve marginally in China as we enter the seasonally more active fall and early winter.

Demand and pricing for our WRC products in North America are expected to remain strong as buyers position their inventories for the first half of 2021. We are closely monitoring the resurgence of COIVD-19 in Europe, which could temporarily impact the demand for high priced appearance WRC products.

In Japan, declining housing starts reduced demand for our products. Despite weaker demand and increased competition from lower priced, subsidized Japanese domestic species, inventories of North American sourced lumber in Japan have normalized and we expect pricing to improve.

Demand for Niche lumber products targeted to the treating segment in North America has been strong, while demand for timbers consumed in the industrial segment has remained weak. We expect continued strength in the treated segment, stable demand for our Niche appearance products and continued weakness in the industrial sector.

The domestic log market remains undersupplied and pricing is expected to remain strong through the end of the year. In contrast we expect the export log market to remain competitive and pricing to remain relatively weak. Due to the weak export markets we have re-directed some log volume to the domestic market.

Coastal pulp and paper operations have been negatively impacted by reduced demand for their products due to COVID-19. In turn, pulp and paper mill operating curtailments have led to reduced demand and a weaker price environment for coastal pulp logs. We expect pricing for pulp logs to remain relatively weak until demand for pulp and paper improves and the mills return to full production.

As we look forward, the potential resurgence in COVID-19 cases around the globe may lead to the reintroduction of government actions that could impact lumber demand and pricing. 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.

Softwood Lumber Dispute and US Market Update

The US application of duties on Canadian lumber imports continues a long-standing pattern of US protectionist action against Canadian lumber producers. We disagree with the inclusion of specialty lumber products, particularly WRC and Yellow Cedar products, in this commodity lumber focused dispute. As duties paid are determined on the value of lumber exported, and as our shipments to the US market are predominantly high-value, appearance grade lumber, we are disproportionately impacted by these duties. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement challenge proceedings, please refer to "*Risks and Uncertainties – Softwood Lumber Dispute*" in our Management's Discussion and Analysis for the year ended December 31, 2019.

Western expensed $11.0 million of export duties in the third quarter of 2020, comprised of CVD and AD at a combined rate of 20.23% on all lumber it sold into the US. On February 3, 2020, the US Department of Commerce ("DoC") issued preliminary revised rates in the CVD and AD first administrative review of shipments for the years ended December 31, 2017 and 2018. The combined preliminary revised rates were 8.37% for 2017 and 8.21% for 2018. The DoC may revise these rates between preliminary and final determination. On July 22, 2020, the DoC again announced an administrative review extension that is expected to delay the final rate determination until late November 2020. Cash deposits continue at the current rate of 20.23% until the final determinations are published, at which time the 2018 rate will apply to US-destined lumber sales.

The tolling of all administrative reviews on July 22, 2020 also extended the DoC's second administrative review for fiscal year 2019. Western was not selected as a mandatory respondent in the second administrative review and will therefore be subject to the "all others" rate once preliminary review findings are finalized.

At September 30, 2020, Western had USD $85.5 million (CAD $113.9 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties.

Including wholesale lumber shipments, our sales to the US market represented approximately 29% of our total revenue in 2020. Our distribution and processing centre in Arlington, Washington and our Columbia Vista division in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market. We intend to leverage our flexible operating platform to continue to partially mitigate any challenges that arise from this trade dispute.

Non-GAAP Measures

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

(millions of Canadian dollars except where otherwise noted)	Q3 2020	Q3 2019	Q2 2020	YTD 2020	YTD 2019
Adjusted EBITDA					
Net income (loss)	$ 11.5	$ (18.7)	$ 8.5	$ (1.0)	$ (17.5)
Add:					
Amortization	14.0	9.2	14.2	39.2	33.0
Changes in fair value of biological assets, net	0.6	(1.4)	0.6	1.2	0.9
Operating restructuring items	0.5	0.3	0.6	1.5	1.4
Other (income) expense (1)	0.6	(0.7)	(0.2)	(1.2)	0.1
Finance costs	2.0	1.9	2.2	6.4	5.6
Current income tax expense (recovery)	-	(9.6)	-	(0.1)	(9.6)
Deferred income tax expense (recovery)	4.4	2.6	3.5	(0.4)	2.9
Adjusted EBITDA	$ 33.7	$ (16.6)	$ 29.5	$ 45.7	$ 16.6
Adjusted EBITDA margin					
Total revenue	$ 290.6	$ 141.6	$ 256.3	$ 646.0	$ 727.6
Adjusted EBITDA	33.7	(16.6)	29.5	45.7	16.6
Adjusted EBITDA margin	12%	-12%	12%	7%	2%
Net debt to capitalization					
Net debt					
Total debt, net of deferred financing costs	$ 121.3	$ 112.0	$ 154.2		
Cash and cash equivalents	(1.9)	(5.1)	(2.1)		
Net debt	$ 119.4	$ 106.9	$ 152.1		
Capitalization					
Net debt	$ 119.4	$ 106.9	$ 152.1		
Add: Equity	471.1	519.1	461.4		
Capitalization	$ 590.5	$ 626.0	$ 613.5		
Net debt to capitalization	20%	17%	25%		

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

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

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2019 Annual Report, which can be found on SEDAR at www.sedar.com. There were no changes to critical accounting estimates during the nine months ended September 30, 2020.

Financial Instruments and Other Instruments

We use various financial instruments to reduce the impact of movement in foreign exchange rates on our net income. Please see our Management Discussion and Analysis for the year ended December 31, 2019 for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the nine months ended September 30, 2020.

Off-Balance Sheet Arrangements

Other than short-term and low-value leases for which recognition exemptions are applied under IFRS 16, the Company does not have any off-balance sheet arrangements as at September 30, 2020.

Related Party Transactions

Other than transactions in the normal course of business with the Board of Directors and key management personnel, the Company had no transactions between related parties in the nine months ended September 30, 2020.

Risks and Uncertainties

The business of the Company is subject to several risks and uncertainties, including those described in the 2019 Annual Report which can be found on SEDAR at www.sedar.com. Any of the risks and uncertainties described in the above-noted document could have a material adverse effect on our operations and financial condition and cash flows and, accordingly, should be carefully considered in evaluating Western's business. Except as set forth in this MD&A, in the COVID-19 disclosure in our MD&A for the three months ended March 31, 2020, and the notes to our condensed consolidated interim financial statements, there were no additional risks and uncertainties identified during the nine months ended September 30, 2020.

Evaluation of Disclosure Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of November 5, 2020, there were 375,197,166 common shares of the Company issued and outstanding.

We have reserved 30,000,000 of our Shares for issuance upon the exercise of options granted under our incentive stock option plan. During the nine months ended September 30, 2020, 5,260,670 options were granted, no previously granted options were exercised and no options were forfeited. As of November 5, 2020, 18,317,799 options were outstanding under our incentive stock option plan.

Additional Information

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

Management's Discussion and Analysis – Appendix A

Summary of Selected Results for the Last Eight Quarters

(millions of Canadian dollars except per share amounts and where noted)		2020			2019				2018
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Average Exchange Rate – USD to CAD		1.332	1.386	1.344	1.320	1.321	1.337	1.329	1.322
Average Exchange Rate – CAD to USD		0.751	0.722	0.744	0.758	0.757	0.748	0.752	0.756
Financial Performance(5)									
Revenue									
Lumber		$ 208.6	$ 188.8	83.2	66.1	109.7	233.6	218.9	$ 230.9
Logs		73.7	60.5	12.9	12.1	27.4	63.3	41.2	36.2
By-products		8.3	7.0	3.0	1.9	4.5	13.4	15.6	17.7
Total revenue		$ 290.6	$ 256.3	$ 99.1	80.1	141.6	310.3	275.7	$ 284.8
Adjusted EBITDA		$ 33.7	$ 29.5	$ (17.4)	$ (18.1)	$ (16.6)	$ 15.1	$ 18.1	$ 18.0
Adjusted EBITDA margin		12%	12%	-18%	-23%	-12%	5%	7%	6%
Earnings (loss) per share:									
Net income (loss), basic and diluted		$ 0.03	$ 0.02	$ (0.06)	$ (0.09)	$ (0.05)	$ -	$ -	$ 0.02
Operating Statistics									
Lumber(1),(2)									
Production	mmfbm	192	143	61	34	48	206	202	200
Shipments - Total	mmfbm	165	152	64	44	90	211	203	218
Price	$/mfbm	$ 1,264	$ 1,242	$ 1,300	$ 1,502	$ 1,219	$ 1,107	$ 1,078	$ 1,059
Logs(3)									
Net production	000 m^3	1,138	1,224	167	21	21	1,250	922	1,135
Saw log purchases	000 m^3	235	236	141	34	84	238	208	212
Log availability	000 m^3	1,373	1,460	308	55	105	1,488	1,130	1,347
Shipments	000 m^3	679	587	141	135	246	536	369	369
Price(4)	$/$m^3$	$ 109	$ 103	$ 91	$ 87	$ 110	$ 112	$ 112	$ 98
Share Repurchases and Dividends									
Shares repurchased (millions)		-	-	-	-	1.2	3.8	3.9	4.9
Shares repurchased		$ -	$ -	$ -	$ -	$ 1.9	$ 6.6	$ 7.4	$ 9.1
Dividends paid		$ -	$ -	$ 8.4	$ 8.5	$ 8.4	$ 8.5	$ 8.6	$ 8.7

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

(1) Includes Columbia Vista acquired February 1, 2019.
(2) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
(3) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.
(4) The log revenue used to determine average price per cubic metre has been reduced by the associated shipping costs arranged in the respective periods to enable comparability of unit prices.
(5) Results for the periods Q3 2019, Q4 2019 and Q1 2020 reflect the curtailment of coastal BC operations due to the Strike.

In a normal operating year there is seasonality to the Company's operations with higher lumber sales in the second and third quarters when construction activity, particularly in the US, has historically tended to be higher. Logging activity may also vary depending on weather conditions such as rain, snow and ice in the winter and the threat of forest fire in the summer. This seasonality generally results in the Company increasing working capital utilization through its second quarter as it builds log inventory during optimal harvest conditions and builds lumber inventory in advance of seasonally high lumber demand.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

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

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

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

Commitments and contingencies (Note 13)

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

Approved on behalf of the Board:

"Michael T. Waites"
Chair

"Don Demens"
President & Chief Executive Officer

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

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

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

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

Balance at December 31, 2019	$ 479.9	$ 9.6	$ (0.9)	$ (6.8)	$ 0.8	$ 482.6
Net income (loss)	-	-	-	(1.2)	0.2	(1.0)
Other comprehensive income (loss):						
Defined benefit plan actuarial loss recognized (Note 14)	-	-	-	(5.4)	-	(5.4)
Income tax recovery on other comprehensive loss (Note 9)	-	-	-	1.5	-	1.5
Foreign currency translation differences for foreign operations	-	-	2.2	-	-	2.2
Total comprehensive income (loss)	-	-	2.2	(5.1)	0.2	(2.7)
Share-based payment transactions recognized in equity (Note 12(b))	-	0.6	-	-	-	0.6
Dividends	-	-	-	(8.4)	-	(8.4)
Total transactions with owners, recorded directly in equity	-	0.6	-	(8.4)	-	(7.8)
Balance at September 30, 2020	$ 479.9	$ 10.2	$ 1.3	$ (20.3)	$ 1.0	$ 472.1

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

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

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

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

1. Reporting entity

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

2. Basis of preparation

Statement of compliance

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

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

Basis of measurement

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

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

Functional and presentation currency

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

Use of estimates and judgements

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

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

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

2. Basis of preparation (continued)

Risks and uncertainties

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

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

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

3. Significant accounting policies

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

4. Seasonality of operations

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

5. Inventory

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

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

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

5. Inventory (continued)

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

6. Property, plant and equipment

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

7. Biological assets

Reconciliation of carrying amount

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

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

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

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

7. Biological assets (continued)

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

During the three and nine months ended September 30, 2020, the Company harvested and scaled approximately 62,620 cubic metres ("m^3") and 146,339 m^3 of logs, respectively (Q3 2019 and YTD 2019: no harvest and 132,897 m^3, respectively), from its private timberlands, which had a fair value less costs to sell of \$104 per m^3 and \$120 per m^3, respectively at the date of harvest (YTD 2019: \$115 per m^3).

Measurement of fair values

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

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

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

8. Long-term debt

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

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

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

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

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

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

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

9. Income taxes

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

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

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

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

10. Reforestation obligation

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Reforestation obligation, beginning of period	$ 22.9	$ 25.4	$ 23.4	$ 25.7
Reforestation provision charged	2.0	0.4	5.1	4.9
Reforestation expenditures	(2.9)	(2.7)	(6.5)	(7.6)
Unwind of discount	0.1	0.1	0.1	0.2
Reforestation obligation, end of period	22.1	23.1	22.1	23.1
Less current portion	8.0	8.8	8.0	8.8
	$ 14.1	$ 14.3	$ 14.1	$ 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 0.21% to 0.56%. The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at September 30, 2020 is $22.4 million (December 31, 2019: $24.3 million). Reforestation expense incurred on current production is included in cost of goods sold and the unwinding of discount, or accretion cost, is included in finance costs.

11. Other liabilities

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

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

12. Share capital

(a) *Issued and outstanding share capital*

The transactions in share capital are described below:

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

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

(b) *Stock option plan*

The Company has an incentive stock option plan (the "Option Plan"), which permits the granting of options to eligible participants to purchase up to an aggregate of 30,000,000 common shares, of which 5,183,975 remain available for future issuance.

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

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

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

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

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

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

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

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

12. Share capital (continued)

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

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

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

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

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

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

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

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

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

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

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

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

12. Share capital (continued)

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

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

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

13. Commitments and contingencies

Long-term fibre supply agreements

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

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

Litigations and claims

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

Key dates in the softwood lumber duty dispute

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

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

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

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

13. Commitments and contingencies (continued)

Key dates in the softwood lumber duty dispute (continued)

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

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

US lumber duties and export tax

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

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

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

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

Manufactured Forest Products Regulation

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

14. Employee future benefits

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

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

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

14. Employee future benefits (continued)

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

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

15. Earnings (loss) per share

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

	Three months ended September 30, 2020			Three months ended September 30, 2019		
	Net income attributable to equity shareholders	Weighted Average Number of Shares	Per share	Net loss attributable to equity shareholders	Weighted Average Number of Shares	Per share
Issued shares at June 30		375,197,166			376,427,766	
Effect of shares repurchased in quarter		-			(987,859)	
Basic earnings (loss) per share	$ 11.5	375,197,166	$ 0.03	$ (18.7)	375,439,907	$ (0.05)
Effect of dilutive securities:						
Stock options*		380,830			1,080,472	
Diluted earnings (loss) per share	$ 11.5	375,577,996	$ 0.03	$ (18.7)	375,439,907	$ (0.05)

	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	Net loss attributable to equity shareholders	Weighted Average Number of Shares	Per share	Net income attributable to equity shareholders	Weighted Average Number of Shares	Per share
Issued shares at December 31		375,197,166			380,183,327	
Effect of shares issued in first nine months		-			244,176	
Effect of shares repurchased in the first nine months		-			(5,531,167)	
Basic loss per share	$ (1.0)	375,197,166	$ (0.00)	$ (17.5)	374,896,336	$ (0.05)
Effect of dilutive securities:						
Stock options*		119,889			1,767,013	
Diluted loss per share	$ (1.0)	375,197,166	$ (0.00)	$ (17.5)	374,896,336	$ (0.05)

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

16. Financial instruments – fair values

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

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

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

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

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

16. Financial instruments – fair values (continued)

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

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

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

17. Revenue

Disaggregation of revenue

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

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

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

17. Revenue (continued)

Contract balances

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

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

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

18. Government grants

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

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

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

19. Non-controlling interest

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

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

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”