Western Forest Products Inc.

2021 Second 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 six months ended June 30, 2021, to help security holders and other readers understand our Company and the key factors underlying our financial results. This discussion and analysis should be read in conjunction with our unaudited condensed consolidated interim financial statements and the notes thereto for the three and six months ended June 30, 2021, and our audited annual consolidated financial statements and the notes thereto and Management's Discussion and Analysis for the year ended December 31, 2020 (the "2020 Annual Report"), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three and six months ended June 30, 2021, 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 items, 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.

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", "forecast", "intend", "believe", "seek", "could", "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; and the selling of additional incremental ownership interest in TFL 44 LP and in other potential limited partnership structures in the future. Although such statements reflect management's current reasonable beliefs, expectations and assumptions as to, amongst other things, the future supply and demand of forest products, global and regional economic activity and the consistency of the regulatory framework within which the Company currently operates, there can be no assurance that forward-looking statements are accurate, and actual results and performance may materially vary. Many factors could cause our actual results or performance to be materially different, including: economic and financial conditions, international demand for forest products, 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 COVID-19 and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements. Unless otherwise noted, the information in this discussion and analysis is updated to August 5, 2021.

---

[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)

Summary Information		Q2 2021	Q2 2020	Q1 2021	YTD 2021	YTD 2020
Revenue						
Lumber		$ 353.1	$ 188.8	$ 276.6	$ 629.7	$ 272.0
Logs		46.3	60.5	33.1	79.4	73.4
By-products		15.0	7.0	12.8	27.8	10.0
Total revenue		414.4	256.3	322.5	736.9	355.4
Freight		26.8	20.1	22.8	49.6	26.4
Export tax expense		10.8	7.6	8.2	19.0	11.6
Stumpage		15.0	10.0	9.2	24.2	11.0
Adjusted EBITDA		$ 120.4	$ 29.5	$ 62.9	$ 183.4	$ 12.0
Adjusted EBITDA margin		29%	12%	20%	25%	3%
Operating income (loss) prior to restructuring and other items		$ 105.7	$ 14.6	$ 48.8	$ 154.5	$ (13.8)
Net income (loss)		78.3	8.5	53.8	132.1	(12.5)
Basic and diluted earnings (loss) per share	$ per share	0.21	0.02	0.14	0.35	(0.03)
Operating information(2)						
Lumber shipments (3),(4)	mmfbm	221	152	204	425	216
Cedar (5)	mmfbm	49	46	54	103	69
Japan Specialty	mmfbm	24	29	17	41	43
Niche	mmfbm	24	21	22	46	32
Commodity	mmfbm	124	55	111	235	72
Lumber production	mmfbm	207	143	199	406	204
Lumber price, average	$/mfbm	$ 1,598	$ 1,242	$ 1,356	$ 1,482	$ 1,259
Wholesale lumber shipments	mmfbm	12	11	10	22	21
Log shipments	000 m^3	351	587	284	636	727
Export	000 m^3	41	78	35	76	78
Domestic	000 m^3	205	358	159	364	458
Pulp	000 m^3	106	151	90	196	191
Net production (6)	000 m^3	1,012	1,224	688	1,700	1,391
Saw log purchases	000 m^3	227	236	195	422	377
Log price, average (7)	$/$m^3$	$ 132	$ 103	$ 117	$ 125	$ 97
Illustrative Lumber Average Price Data (8)	**Price Basis**					
Gm WRC #2 Clear & Btr 4x6W RL ($C)	cif dest N Euro	$ 6,208	$ 4,400	$ 5,583	$ 5,896	$ 4,450
Gm WRC Deck Knotty 2x6 RL S4S	Net fob Mill	$ 2,775	$ 1,409	$ 2,042	$ 2,409	$ 1,386
Gm WRC #2 & Btr AG 6x6 RL	Net fob Mill	$ 2,953	$ 2,381	$ 2,566	$ 2,760	$ 2,364
Coast Gm WRC Std&Btr NH 3/4x4 RL S1S2E	Net fob Mill	$ 1,970	$ 1,095	$ 1,602	$ 1,786	$ 1,095
Gm Hem Baby Squares Merch 4-1/8x4-1/8 13'	c&f dest Japan	$ 1,685	$ 782	$ 1,098	$ 1,391	$ 795
Gm Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c&f dest Japan	$ 1,906	$ 943	$ 1,216	$ 1,561	$ 974
Gm Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net fob Mill	$ 1,706	$ 1,274	$ 1,543	$ 1,624	$ 1,271
Hemlock Lumber 2x4 (40x90) Metric RG Utility	cif dest Shanghai	$ 719	$ 460	$ 605	$ 662	$ 442
Coast KD Hem-Fir #2 & Btr 2x4	Net fob Mill	$ 1,412	$ 393	$ 1,031	$ 1,222	$ 424
Average exchange rate – CAD to USD		0.814	0.722	0.790	0.802	0.733
Average exchange rate – CAD to JPY		89.10	77.58	83.62	86.27	79.30

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) Log data reflects British Columbia business only.
(3) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.
(4) Includes wholesale lumber shipments.
(5) Comparative figures have been reclassified to conform to the current year presentation. Cedar includes Western Red Cedar, Yellow Cedar and Japanese Cedar.
(6) Net production is sorted log production, net of residuals and waste.
(7) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf of customers to facilitate sales to export markets.
(8) Sourced from Random Lengths in USD/mfbm, except Hemlock Lumber Metric RG Utility that is sourced from the Forest Economic Advisors LLC China Bulletin.

Summary of Second Quarter 2021 Results

Adjusted EBITDA for the second quarter of 2021 was $120.4 million, as compared to adjusted EBITDA of $29.5 million in the same period last year. We successfully leveraged our flexible operating platform, directing increased shipments to strong North American lumber markets to deliver record quarterly adjusted EBITDA.

Operating income prior to restructuring and other items was $105.7 million, as compared to operating income prior to restructuring and other items of $14.6 million in the same period last year. Comparative results were significantly impacted by the restart of operations after the lengthy United Steelworkers Local 1-1937 (“USW”) strike (the “Strike”), which had curtailed the majority of our British Columbia (“BC”) based operations through February 2020, and by the impacts of the novel Coronavirus pandemic (“COVID-19”). Operating income prior to restructuring and other items in the second quarter of 2020 also included $10.7 million in COVID-19 support program (“CEWS”) proceeds which allowed the Company to offset costs and maintain employment and operating levels during early COVID-19 lockdowns.

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

Sales

The North American lumber market was exceptionally strong in the second quarter as demand from the new home construction and the repair and renovation segments outpaced supply, driving pricing to record levels. We took advantage of these market conditions by increasing our shipments into North America.

Lumber revenue rose 87% compared to the second quarter of last year, on increased North American shipments and higher prices for our products. Sales volumes increased by 45% driven by a 125% increase in commodity lumber shipments as compared to the second quarter last year, while shipments of Cedar, Japan specialty and Niche lumber products were relatively flat. North American commodity shipment volumes represented 72% of total commodity shipment volumes during the second quarter of 2021, up from 16% in same period last year, and well above our historical average.

Our average realized lumber price was $1,598 per thousand board feet, an increase of 29% from the second quarter of 2020 despite a relatively weaker sales mix. We capitalized on record pricing across all lumber markets, more than offsetting the impact of 13% appreciation of the Canadian to US dollar exchange rate quarter-over-quarter. Wholesale shipments grew by 9% in the second quarter of 2021 as compared to the same period last year, with limited wholesale supply and import container availability having constrained further growth.

Log revenue was $46.3 million in the second quarter of 2021, a decline of 23% from the same period last year due primarily to reduced sales volumes. We directed export-grade log inventory to our sawmills in support of lumber production to capitalize on the strong North American lumber market. We achieved a 28% higher average realized log price as compared to the second quarter last year despite a lower value sales mix, by capitalizing on limited market supply. Log revenue in the second quarter of 2020 was impacted by log inventory degradation that occurred during the Strike in certain BC operations.

By-product revenue was $15.0 million, an increase of $8.0 million as compared to the same period last year with increased production leading to higher by-product shipments. Chip price realizations improved by 59% from the second quarter last year, benefitting from a significantly higher NBSK pulp price.

Operations

We continued to leverage our flexible operating platform by redirecting production from export markets into the North American market in the second quarter of 2021.

Lumber production of 207 million board feet was 45% higher than the second quarter last year and was 4% higher than the first quarter of 2021. Lumber production in the second quarter of 2020 was impacted by the re-start of our BC operations following the end of the Strike and the initial slowdowns caused by COVID-19.

We achieved higher lumber production through increased operating hours, improved production efficiency, and improved sawmill recovery. The shift to increased North American commodity lumber production contributed to improved recovery, while increasing secondary processing requirements and related costs. As a safety precaution, we temporarily curtailed certain operations by up to eight shifts in late June 2021 due to an extreme heat wave.

We harvested 1,012,000 cubic metres of logs from our coastal operations in BC in the second quarter of 2021, as compared to 1,224,000 cubic metres in the second quarter last year and 688,000 cubic metres in the first quarter of 2021. Harvest was impacted by a heavy snowpack early in the second quarter of 2021, followed by extreme heat curtailments at the end of the quarter, as well as harvest permit delays. Harvest production costs increased as a result of a doubling of stumpage rates as compared to the second quarter of last year.

BC coastal saw log purchases were 227,000 cubic metres, a decrease of 4% from the same period last year. Log markets remain competitive with demand outpacing current supply.

Second quarter freight expense increased by $6.7 million from the same period last year. Freight expense grew primarily as a result of higher lumber shipment volumes and increased container costs, partly offset by the impact of significantly reduced export log shipments. We partly mitigated the impact of limited container availability and rising container costs by converting a component of our container freight volume to breakbulk shipments.

Adjusted EBITDA and operating income included $10.8 million of countervailing duty ("CV") and anti-dumping duty ("AD") expense in the second quarter of 2021, as compared to $7.6 million in the same period of 2020. A more than doubling of the volume of US-destined lumber shipments from Canadian operations offset the reduction in the cash deposit rates from 20.23% to 8.99%.

Comparative results for the second quarter of 2020 included CEWS proceeds of $9.3 million as an offset to cost of goods sold. CEWS helped reduce the negative financial impact of COVID-19 on our business, and prevented temporary operating curtailments, employee layoffs and offset some costs of enhanced health and safety protocols.

Selling and Administration Expense

Second quarter selling and administration expense was $16.7 million in 2021 as compared to $8.1 million in the second quarter last year.

Record financial results and a 17% share price appreciation in the second quarter of 2021 had a net incremental expense impact of $6.8 million. Performance-based incentive compensation drove $3.7 million of this incremental expense in the second quarter with negligible expense recognized in the same period last year. In addition, vesting of incentive plans and mark-to-market expense on long-term compensation liabilities contributed $3.1 million more expense than in the second quarter last year.

Comparatives were affected by the recognition of $1.4 million of CEWS proceeds which somewhat offset additional costs related to COVID-19, including maintaining pre-pandemic staff levels.

Other Income

We recognized other income of $1.9 million attributable primarily to gains from the sale of non-core properties, somewhat offset by $0.5 million in foreign exchange losses on the remeasurement of USD duty receivables and related interest. In the same period last year, we realized $0.2 million of other income largely resulting from gains on the sale of obsolete operating equipment.

Finance Costs

Finance costs were $0.4 million as compared to $2.2 million in the second quarter last year, due to a significant decline in the average outstanding debt balance. The Company maintained a net cash position throughout the second quarter of 2021.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which will result in cash taxes payable for the tax year ending December 31, 2021. Accordingly, current income tax expense of $31.2 million and a deferred income tax recovery of $3.3 million, respectively, were recognized in net income in the second quarter of 2021. Income tax expense increased by $24.4 million from the second quarter of 2020 as a result of record operating earnings.

Net Income

Net income for the second quarter of 2021 was $78.3 million, as compared to net income of $8.5 million for the same period last year. Significantly improved net income resulted from strong operating performance, record pricing in North American log and lumber markets, and continued strength in specialty lumber markets. Comparative results were impacted by the business restart after the end of the Strike, and the negative financial impacts arising from the uncertainty of COVID-19.

Summary of Year to Date 2021 Results

Adjusted EBITDA for the first six months of 2021 was $183.4 million, as compared to $12.0 million for the same period last year as the Company reported record results by leveraging our flexible operating platform to redirect production and capitalize on record North American lumber pricing.

Operating income prior to restructuring and other items was $154.5 million, as compared to an operating loss prior to restructuring and other items of $13.8 million in the same period last year.

Sales

Lumber revenue for the first half of 2021 was $629.7 million,132% higher than the same period last year. We increased total shipments by 97% over the same period last year, and more than tripled commodity shipments to capitalize on record pricing. Comparative period revenue and shipments were negatively impacted by the Strike, which ended in February 2020, and by reduced demand resulting from the onset of COVID-19.

Improved lumber pricing led to an 18% increase in average lumber price realization as compared to the first half of last year, despite a lower specialty product mix. Significantly improved pricing, resulting from the North American finished lumber focus, was offset by the 9% appreciation in average Canadian to US dollar exchange rate period-over-period.

Log revenue was $79.4 million in the first half of 2021, an increase of 8% from the same period last year, despite reducing log sales volumes. We continue to direct more log volume to our manufacturing operations. We directed export logs to our sawmills to support increased commodity lumber production, to capitalize on the strong North American lumber market. The comparative period was impacted by a weaker log sales mix caused by Strike-related log degradation, and the impact of COVID-19 on global markets.

A return to normal operating rates led to higher by-product shipments from the same period last year, while average chip pricing improved 55% period-over-period. These factors grew revenue to $27.8 million in the first half of 2021, from $10.0 million in the same period last year. The first half of 2020 was also impacted by lower by-product production during the Strike, reduced chip purchase-and-resale volume, and reduced shipments as a result of temporary coastal pulp operating curtailments.

Operations

Lumber production in the first half of 2021 was 406 million board feet, 99% higher than the same period last year. Comparative period lumber production was negatively impacted by curtailed BC operations during the Strike, processing log inventory that had degraded during the Strike, and by the initial impacts of COVID-19.

We achieved higher lumber production through increased operating hours, improved production efficiency, and improved sawmill recovery. The shift to increased North American commodity lumber production contributed to improved recovery, while increasing secondary processing requirements and related costs. As a safety precaution, we temporarily curtailed certain operations by up to eight shifts in late June 2021 due to extreme heat.

Log production for the first half of 2021 was 1,700,000 cubic metres, an increase of 22% over the same period last year. Logging operations were curtailed for most of the first quarter of 2020 due to the Strike and actions taken to mitigate COVID-19 health and safety risks. In 2021, we increased private timber production which reduced requirements for higher cost purchased logs. We increased BC coastal saw log purchases by 12% from the same period last year to support sawmill production.

Harvesting in the first half of 2021 was impacted by a heavy snowpack early in the season, followed by extreme heat curtailments at the end of the period. Higher harvest production costs in the first half of 2021 resulted from an almost doubling of stumpage rates as compared to the same period in 2020.

Freight expense for the first half of 2021 was $49.6 million, an increase of 88% as compared to same period last year as a result of significantly higher lumber shipments and increased container costs. We partly mitigated the impact of limited container availability and rising container costs by converting a component of our container freight volume to breakbulk shipments.

Adjusted EBITDA and operating income in the first six months of 2021 included $19.0 million of CV and AD expense, as compared to $11.6 million in the same period of 2020. A more than threefold increase in the volume of US-destined lumber shipments from Canadian operations was somewhat offset by a reduction in the cash deposit rates from 20.23% to 8.99% and a stronger Canadian Dollar by 9%, on average in the first half of 2021.

Comparative results also included CEWS proceeds of $9.3 million as an offset to cost of goods sold. CEWS helped reduce the negative financial impact COVID-19 on our business, prevented temporary operating curtailments and employee layoffs and offset some costs of enhanced health and safety protocols.

Selling and Administration Expense

Selling and administration expense for the first half of 2021 was $31.0 million as compared to $14.5 million in the same period last year. Record financial results and a 65% share price appreciation in the first half of 2021 had a net incremental expense impact of $14.0 million.

Year-to-date mark-to-market expense on long-term compensation liabilities was $3.3 million in 2021, as compared to a recovery of $0.5 million in the comparative period of 2020, with the vesting of incentive plans contributing an additional $4.4 million expense year over year. Performance-based incentive compensation drove an incremental $5.8 million expense in the first half of 2021.

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

Finance Costs

Finance costs were $1.3 million, compared to $4.4 million in the first half of 2020. Strong cash flows generated from operations were used to repay drawings under the credit facility, resulting in a significant decline in the average outstanding debt balance.

Income Taxes

We used our remaining non-capital Canadian tax loss carryforwards during the first quarter of 2021, which will result in cash taxes payable for the tax year ending December 31, 2021. Accordingly, current income tax expense of $40.0 million and a deferred income tax recovery of $1.8 million, respectively, were recognized in net income in the first half of 2021. Income tax expense increased by $43.1 million from the first half of 2020 as a result of record operating earnings. Capital loss carryforwards were applied against taxable capital gains arising from non-core asset dispositions.

Net Income

Strong operating performance and record prices resulted in a net income for the first half of 2021 of $132.1 million, as compared to a net loss of $12.5 million for the same period last year, which was impacted by COVID-19 and the Strike.

COVID-19

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

Sustainability and Environmental, Social and Governance Advancements

Net Positive Climate Impact

Our 2020 Sustainability Report was released in the second quarter of 2021, detailing our progress and commitment to key sustainability initiatives. This report includes the results our first full lifecycle carbon accounting, which confirmed the positive role Western's sustainable forest management practices and wood products have in fighting against climate change.

During 2018 and 2019, Western's activities, including the sustainable management of forests in our care, resulted in 14.2 million tonnes of CO_2 equivalent being removed from the atmosphere.

Our latest Sustainability Report is available on our website at www.westernforest.com/responsibility/.

Sustainability-Linked Credit Facility

On July 21, 2021, Western completed the transition of our current syndicated credit facility into a $250 million sustainability-linked credit facility ("Amended Credit Facility"). The Amended Credit Facility incorporates incentive pricing terms that can reduce or increase Western's borrowing costs by up to five basis points based on the outcome of various sustainability-linked goals. Western has selected borrowing cost sustainability goals that are linked to improving health and safety performance, increasing workforce diversity and advancing mutually beneficial First Nations relationships. These goals are consistent with Western's core values and strategic priorities.

The Amended Credit Facility maturity date was extended to July 21, 2025, and it retains an accordion feature that allows Western to increase aggregate borrowing up to $350 million, subject to lender approval.

First Nations, Employees and Community

As part of further developing First Nations relationships, Western completed the next phase of the TFL44 Limited Partnership ("TFL 44 LP") transaction with the Huu-ay-aht First Nations. See *"Sale of Ownership Interests in TFL 44 Limited Partnership"* for further information.

In addition, in July 2021, Western and Quatsino First Nation finalized a land transaction to support the establishment of the Quatsino First Nation waterfront community. We also announced a renewal agreement and joint planning project with the Tla'amin Nation in July 2021, building on our recent Memorandum of Understanding. These formal agreements are major milestones in advancing mutually beneficial relationships with the Quatsino and Tla'amin Nations, and exemplify Western's ongoing actions to support reconciliation and seek ways to partner with First Nations in sustainable forest management. Other recent initiatives pursued by Western in partnership with First Nations include a range of information sharing agreements and operating protocols, including the Large Cultural Cedar Protocol developed in collaboration with the Nanwakolas Council and its member Nations.

During 2021, Western has also continued to demonstrate our commitment to our employees and communities in which we operate. This has included providing non-executive employees a second COVID-19 related safety performance bonus, to show appreciation for their safety commitment and dedication during the pandemic. We have also committed or spent $500,000 in community donations year-to-date, including $50,000 to the Canadian Red Cross BC Fire Appeal Campaign to support communities impacted by recent forest fires in the BC Interior.

Further details of these community and First Nations initiatives are available on our website at www.westernforest.com/responsibility/community/.

Sale of Ownership Interests in TFL 44 Limited Partnership

On March 16, 2020, Western announced it had reached an agreement whereby HVLP will acquire an incremental 44% equity interest in TFL 44 LP (the "TFL 44 Transaction") and a 7% equity interest in a newly formed limited partnership that will own the Alberni Pacific Division Sawmill (the "APD Transaction") for total consideration of $36.2 million. COVID-19 restrictions and other impacts affected the ability for the parties to satisfy all closing conditions, necessitating the closing of the TFL 44 Transaction in two stages and delaying the closing of the APD Transaction.

On May 3, 2021, Western completed the sale of an incremental 28% equity interest in its TFL 44 LP to Huumiis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by the Huu-ay-aht First Nations, for $22.4 million. With the completion of this stage of the TFL 44 Transaction, HVLP's current equity interest in TFL 44 LP is 35%.

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

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

The APD Transaction is anticipated to close in the second quarter of 2023.

Sale of Other Non-Core Assets

Through the first six months of 2021, Western has completed $44.4 million in non-core asset sales, including the sale of Orca Quarry assets and other non-core property and surplus equipment.

Pending Sale of Somass Division Assets

On June 18, 2021, the City of Port Alberni ("COPA") issued an Expropriation Notice for the lands upon which the Company's Somass Division is situated in Port Alberni, BC. The Expropriation Act limits Western's rights to verifying justification for the expropriation and a right to fair market value compensation.

On July 21, 2021, Western issued a Notice of Request for Inquiry to initiate a non-determinative review of the City's justification for expropriation, which should conclude by the fourth quarter of 2021. The Company and COPA are pursuing a negotiated agreement to resolve this matter.

The Somass sawmill was indefinitely curtailed in February 2017 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.

Timber Tenure Reduction

Approximately 89% of Western's 5,946,000 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 BC Provincial Government (the "Province") every five to ten years with a new 25-year term.

In the latter half of 2021, we anticipate the Province's Chief Forester to issue a final determination on the AAC in TFL 19, which is approximately 729,000 cubic metres. We expect that determination may reduce the AAC of TFL 19 by up to 18% or approximately 130,000 cubic metres.

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

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

Regulatory Environment

During 2019 and 2020, the Province introduced various policy initiatives and regulatory changes that impact the BC forest sector regulatory framework as part of a Coastal Revitalization Initiative, including fibre recovery, lumber remanufacturing, old growth forest management and the exportation of logs. For additional details on these policy initiatives and regulatory changes please see the *"BC Government Forest Policies Update"* heading and *"Regulatory Risks"* under the heading *"Risks and Uncertainties",* in our Management's Discussion and Analysis for the year ended December 31, 2020.

Current provincial policy requires that forest management and operating plans take into account and not unreasonably infringe on Aboriginal rights and title, proven or unproven, and provide for First Nations consultation. First Nation opposition to a forest tenure or other operating authorization may delay the Province from granting the permit application. For additional details on these policy requirements and regulatory aspects in relation to First Nations see *"First Nations Land Claims"* and *"Regulatory Risks"* under the heading *"Risks and Uncertainties",* in our Management's Discussion and Analysis for the year ended December 31, 2020. The Company may manage risks associated with delays in the Province granting operating authorizations through fostering positive working relationships with the First Nations, with asserted traditional territories within which Western operates, through information sharing, timber harvesting, silviculture, planning and other mutually beneficial arrangements. The Company may partly mitigate the operating impacts of permit delays by increasing permitted harvest in other areas; by purchasing more logs on the open market or through BC Timber Sales; and by increasing harvest production from private timberlands.

Old-Growth Logging Deferral

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

TFL 44 LP, which is owned and managed by Western and the Huu-ay-aht First Nations, has no active or planned cutting permits in the 2,000-hectare old growth logging deferral area and TFL 44 LP's forestry activity continues as planned.

The Province has indicated that additional deferrals may be forthcoming and Western will work with First Nations and government as these decisions are made, respecting the rights and title of First Nations, including their right to economically benefit from the lands within their traditional territories.

Financial Position and Liquidity

(millions of Canadian dollars except where otherwise noted)

Selected Cash Flow Items	Q2 2021	Q2 2020	Q1 2021	YTD 2021	YTD 2020
Operating activities					
Net income (loss)	$ 78.3	$ 8.5	$ 53.8	$ 132.1	$ (12.5)
Amortization	13.3	14.2	12.9	26.2	25.2
Income tax expense (recovery)	27.9	3.5	10.3	38.2	(4.9)
Income taxes (paid) refunded	(0.2)	11.4	-	(0.2)	11.4
Other	7.1	(0.2)	(9.9)	(2.8)	0.5
	126.4	37.4	67.1	193.5	19.7
Change in non-cash working capital	(13.1)	(44.2)	(21.4)	(34.5)	(38.3)
Cash provided by (used in) operating activities	113.3	(6.8)	45.7	159.0	(18.6)
Investing activities					
Additions to property, plant and equipment	(4.1)	(1.6)	(2.6)	(5.9)	(2.4)
Additions to capital logging roads	(3.2)	(2.9)	(1.7)	(5.7)	(3.6)
Proceeds on disposal of property, plant and equipment	6.9	0.6	37.7	44.6	1.6
Proceeds from non-controlling interest	19.8	-	-	19.8	-
Cash provided by (used in) investing activities	19.4	(3.9)	33.4	52.8	(4.4)
Financing activities					
(Repayment of) draw on credit facility	(0.5)	14.9	(69.7)	(70.2)	38.4
Dividends	(3.6)	-	(3.8)	(7.4)	(8.4)
Share repurchases	(29.9)	-	(2.3)	(32.2)	-
Lease payments	(1.9)	(1.9)	(1.9)	(3.8)	(3.6)
Other	(0.3)	(2.4)	(1.2)	(1.5)	(3.4)
Cash provided by (used in) financing activities	(36.2)	10.6	(78.9)	(115.1)	23.0
Increase in cash	$ 96.5	$ (0.1)	$ 0.2	$ 96.7	$ -
Summary of Financial Position					
Cash and cash equivalents	$ 99.6	$ 2.1	$ 3.1		
Current assets	390.0	286.2	265.6		
Current liabilities	172.7	116.8	119.6		
Total debt	1.9	154.2	2.5		
Net debt (cash) [(1)]	(97.7)	152.1	(0.6)		
Equity, excluding non-controlling interest	611.5	461.4	552.6		
Total liquidity [(2)]	341.1	95.1	244.0		
Financial ratios					
Current assets to current liabilities	2.26	2.45	2.22		
Net debt to capitalization [(3)]	-	25%	-		

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

(1) Net debt (cash) is defined as the sum of long-term debt and bank indebtedness, 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 shareholders' equity.

Cash provided by operating activities before changes in non-cash working capital was $126.4 million in the second quarter of 2021, as compared to cash generated of $37.4 million in the same period last year. Strong operating performance and improved product pricing drove improved cashflows from operations. In the second quarter of last year, the re-start of operations after the Strike and the effects of COVID-19 limited operating cashflow.

Cash provided by investing activities was $19.4 million during the second quarter of 2021, as compared to cash investments of $3.9 million during the same period last year. The sale of an incremental 28% interest in its TFL 44 LP to HVLP provided $19.8 million in cash proceeds. In addition, the disposition of certain non-core assets provided an additional $6.9 million in cash proceeds, that was used to fund $7.3 million of capital expenditures during the second quarter of 2021.

Cash used in financing activities was $36.2 million in the second quarter of 2021, as compared to cash provided by financing activities of $10.6 million in the same period of 2020. Strong operating cashflows enabled the Company to maintain a net cash position throughout the second quarter of 2021. We returned $33.5 million to shareholders via dividends and common shares repurchased for cancellation under our renewed Normal Course Issuer Bid ("NCIB").

Liquidity and Capital Resources

Total liquidity was $341.1 million at June 30, 2021, compared to $244.0 million at March 31, 2021 and $178.3 million at the end of 2020. Liquidity is comprised of cash and cash equivalents of $99.6 million and unused availability under the credit facility of $241.5 million.

Based on our current forecasts, we expect sufficient liquidity will be available to meet any commitments as well as our other obligations in 2021. The Company was in compliance with all its financial covenants as at June 30, 2021.

Sustainability-Linked Credit Facility

On July 21, 2021, Western completed the transition of our current $250 million syndicated credit facility into a $250 million sustainability-linked credit facility. As part of the transition the maturity date was extended to July 21, 2025, from August 1, 2022. Sustainability-linked incentive pricing terms were incorporated that can reduce or increase the Company's borrowing rate by up to five basis points based on performance on certain sustainability metrics. See *"Sustainability and Environmental, Social and Governance Advancements"* for further information.

Dividend and Capital Allocation

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

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

Quarterly Dividend

The quarterly dividend program is intended to return a portion of the Company's cash to shareholders, after taking into consideration liquidity and ongoing capital needs. In the first quarter of 2021, the Company's Board of Directors reinstated a quarterly dividend of $0.01 per common share, which had been suspended in the second quarter of 2020 in response to the global economic uncertainty arising from COVID-19 and added financial requirements of resetting the business post-Strike.

The Company's Board of Directors will continue to review our dividend on a quarterly basis. Dividends of $3.6 million and $7.4 million were paid in the three and six months ending June 30, 2021, respectively.

Normal Course Issuer Bid

On June 22, 2021, the Company amended its NCIB to increase the number of shares permitted to be purchased and cancelled to 23,112,988, representing 7.5% of the public float 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.

During the first half of 2021, we repurchased 15,723,116 common shares for $32.2 million at an average price of $2.05 per common share. No common shares were repurchased in the same period of last year.

As at August 5, 2021, we have purchased 21,354,656 common shares for $43.6 million at an average price of $2.04 per common share under the current NCIB. We are permitted to purchase up to an additional 1,758,332 common shares under the amended NCIB, which expires on August 10, 2021.

On August 5, 2021, we renewed our NCIB permitting the purchase and cancellation of up to 29,726,940 of the Company's common shares, representing 10% of the public float outstanding as of August 5, 2021. The renewed NCIB will begin on August 11, 2021 and end no later than August 10, 2022. The Company also entered into an automatic share purchase plan with its designated broker to facilitate purchases of its common shares under the renewed 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.

Strategy and Outlook

Western's long-term business objective is to create superior value for shareholders by building a sustainable, margin-focused log and lumber business of scale to compete successfully in global softwood markets. We believe this will be achieved by maximizing the sustainable utilization of our forest tenures; partnering with First Nations in sustainable forest management; 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, 2020.

Sales & Marketing Strategy Update

To capitalize on a strong North American market in the first half of 2021, we redirected lumber production from relatively weak export markets. We targeted sales to selected customers in the North American treating sector where our product mix could provide the most value. With the recent return to more normalized North American lumber pricing, and relative strength in export markets, we anticipate redirecting some of our production back into export markets in the second half of 2021.

We continue to progress with the execution of our sales and marketing strategy, which 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.

We continue to develop and evaluate growth opportunities for our wholesale lumber business, including the Japanese Cedar products program and ongoing Yellow Cedar product development. In our US operations, our Columbia Vista division has been a positive addition to our business and product mix.

Market Outlook

After reaching a record high in May, North American commodity lumber markets have returned to more normalized pricing. An easing of COVID-19 related restrictions reintroduced alternatives to time at home, ultimately slowing repair and renovation activity. The resulting reduction in demand, and seasonally higher production, has led to a market rebalancing. We expect near-term commodity lumber market volatility to continue as North American demand and supply find equilibrium.

Demand and pricing for our Cedar and Niche products has improved across all product categories over the last few quarters on the strength of a robust residential repair and renovation market. Continued strength in this market and constrained supply should continue to support pricing through the remainder of the year.

In Japan, reduced lumber import volumes and limited domestic lumber production have failed to meet market demand. These factors reduced inventories and led to price improvements. In response to a rising price environment, we increased shipments to Japan late in the second quarter of 2021 and we expect to continue that momentum through the remainder of the year.

Domestic saw log prices increased in the first half of the year in response to improved lumber markets. We expect pricing to remain higher in the near-term due to limited supply. The price for Northern Bleached Softwood Kraft pulp has stabilized after retreating from a recent high, and that should support current pricing for our pulp logs and sawmill residual chips.

Western North America is currently facing extreme heat and dry forest conditions resulting in wildfires. There have been no significant fire events in our timberlands, however we have recently reduced harvesting activities to adhere to safety and fire-risk guidelines. If sustained, these operating conditions combined with the potential for harvest permit delays may impact near-term log availability and our future operating levels.

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

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

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

Softwood Lumber Dispute

The US application of duties on shipments of Canadian lumber continues a long-standing pattern of US protectionist action. We disagree with the inclusion of specialty lumber products, particularly Cedar products in this commodity lumber focused dispute. As duties paid are determined on the value of lumber exported, and as our shipments to the US market consists of significant volumes of high-value, appearance grade lumber, we are disproportionately impacted by these duties. For a comprehensive history of the softwood lumber trade dispute and related North American Free Trade Agreement ("NAFTA") challenge proceedings, please see "*Risks and Uncertainties"* in our Management's Discussion and Analysis for the year ended December 31, 2020.

Western expensed $10.8 million of export duties on its lumber shipments into the US in the second quarter of 2021, as compared to $7.6 million in the same period last year. Our export duty expense increased despite lower duty rates and a stronger Canadian dollar as we increased shipments to the US during the period.

In the fourth quarter of 2020, Western recognized an export tax recovery of $31.6 million arising from the Department of Commerce's ("DoC") final determination on assessed rates for 2017 and 2018. Export duty tax was comprised of CV and AD at a combined rate of 20.23% on all lumber Western sold into the US until November 30, 2020 and a combined rate of 8.99% effective December 1, 2020.

On May 21, 2021, the DoC released preliminary revised rates in the CV and AD second administrative review of shipments for the year ended December 1, 2019 for a combined rate of 18.32%. The DoC may revise these rates between the preliminary and the final determination, expected to be released November 24, 2021. Cash deposits continue at the combined duty rate of 8.99% until the final determinations are published, after which the 2019 rate will apply.

At June 30, 2021, Western had $134.8 million (US$108.8 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which $36.0 million (US$29.0 million) is recognized in the Company's balance sheet arising from rate determinations in 2017 and 2020.

Including wholesale lumber shipments, our sales to the US market represent approximately 41% of our total revenue in the first half of 2021, as compared to 29% in the same period last year and 32% in fiscal 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 unaudited condensed consolidated financial statements:

(millions of Canadian dollars except where otherwise noted)

Adjusted EBITDA	**Q2 2021**	**Q2 2020**	**Q1 2021**	**YTD 2021**	**YTD 2020**
Net income (loss)	$ 78.3	$ 8.5	$ 53.8	$ 132.1	$ (12.5)
Add:					
Amortization	13.3	14.2	12.9	26.2	25.2
Changes in fair value of biological assets	1.5	0.6	1.2	2.7	0.6
Operating restructuring items	0.5	0.6	0.5	1.0	1.0
Other income (1)	(1.4)	(0.2)	(16.7)	(18.1)	(1.8)
Finance costs	0.4	2.2	0.9	1.3	4.4
Current income tax (recovery)	31.2	-	8.8	40.0	(0.1)
Deferred income tax (recovery)	(3.3)	3.5	1.5	(1.8)	(4.8)
Adjusted EBITDA	$ 120.4	$ 29.5	$ 62.9	$ 183.4	$ 12.0
Adjusted EBITDA margin					
Total revenue	$ 414.4	$ 256.3	$ 322.5	$ 736.9	$ 355.4
Adjusted EBITDA	120.4	29.5	62.9	183.4	12.0
Adjusted EBITDA margin	29%	12%	20%	25%	3%
Net debt to capitalization					
Net debt					
Total debt	$ 1.9	$ 154.2	$ 2.5		
Cash and cash equivalents	(99.6)	(2.1)	(3.1)		
Net debt (cash)	$ (97.7)	$ 152.1	$ (0.6)		
Capitalization					
Net debt (cash)	$ (97.7)	$ 152.1	$ (0.6)		
Add: equity	611.5	461.4	552.6		
Capitalization	$ 513.8	$ 613.5	$ 552.0		
Net debt to capitalization	-	25%	-		

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

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

Accounting Policies and Standards

Several new standards, and amendments to existing standards and interpretations, were not yet effective as at June 30, 2021, and have not been applied in preparing the Company's unaudited condensed consolidated interim financial statements. None of the standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

Critical Accounting Estimates

For a review of significant management judgements affecting financial results and critical accounting estimates, please see our 2020 Annual Report, which can be found on SEDAR at www.sedar.com. There were no changes to critical accounting estimates during the three and six months ended June 30, 2021.

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, 2020 for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the three months and six months ended June 30, 2021.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At June 30, 2021, such instruments aggregated $12.8 million (December 31, 2020 - $9.3 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Related Party Transactions

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 three and six months ended June 30, 2021.

Risks and Uncertainties

The business of the Company is subject to several risks and uncertainties, including those described in the 2020 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 and the notes to our condensed consolidated interim financial statements, there were no additional risks and uncertainties identified during the three and six months ended June 30, 2021. The Company continues to monitor potential impacts of the COVID-19 outbreak on the Company's critical accounting estimates on a regular basis.

Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three and six months ended June 30, 2021, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of August 5, 2021, there were 354,648,129 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 six months ended June 30, 2021, no options were granted, 512,620 previously granted options were exercised and no options were forfeited. As of August 5, 2021, 17,747,304 stock 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)

		2021		2020				2019	
		Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Average exchange rate – USD to CAD		1.228	1.265	1.303	1.332	1.386	1.344	1.320	1.321
Average exchange rate – CAD to USD		0.814	0.790	0.767	0.751	0.722	0.744	0.758	0.757
Financial performance									
Revenue									
Lumber		$ 353.1	$ 276.6	$ 256.6	$ 208.6	$ 188.8	$ 83.2	$ 66.1	$ 109.7
Logs		46.3	33.1	53.4	73.7	60.5	12.9	12.1	27.4
By-products		15.0	12.8	8.9	8.3	7.0	3.0	1.9	4.5
Total revenue		$ 414.4	$ 322.5	$ 318.9	$ 290.6	$ 256.3	$ 99.1	$ 80.1	$ 141.6
Adjusted EBITDA		$ 120.4	$ 62.9	$ 71.1	$ 33.7	$ 29.5	$ (17.4)	$ (18.1)	$ (16.6)
Adjusted EBITDA margin		29%	20%	22%	12%	12%	(18%)	(23%)	(12%)
Earnings (loss) per share		$ 0.21	$ 0.14	$ 0.09	$ 0.03	$ 0.02	$ (0.06)	$ (0.09)	$ (0.05)
Operating Statistics									
Lumber (1)									
Production	mmfbm	207	199	180	192	143	61	34	48
Shipments	mmfbm	221	204	204	165	152	64	44	90
Price	$/mfbm	$ 1,598	$ 1,356	$ 1,258	$ 1,264	$ 1,242	$ 1,300	$ 1,502	$ 1,219
Logs (2)									
Net production	000 m^3	1,012	688	901	1,138	1,224	167	21	21
Saw log purchases	000 m^3	227	195	222	235	236	141	34	84
Log availability	000 m^3	1,239	883	1,123	1,373	1,460	308	55	105
Shipments	000 m^3	351	284	471	679	587	141	135	246
Price (3)	$/$m^3$	$ 132	$ 117	$ 113	$ 109	$ 103	$ 91	$ 90	$ 111
Share Repurchases and Dividends									
Shares repurchased	# millions	14.4	1.3	-	-	-	-	-	1.2
Shares repurchased	$ millions	$ 29.9	$ 2.3	$ -	$ -	$ -	$ -	$ -	$ 1.9
Dividends paid		$ 3.6	$ 3.8	$ -	$ -	$ -	$ 8.4	$ 8.5	$ 8.4

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

(1) "mmfbm" = millions of board feet; "mfbm" = thousands of board feet.

(2) Coastal BC business only. Net production is sorted log production, net of residuals and waste. Log availability is net production plus saw log purchases.

(3) The average realized log price per cubic metre has been presented on a gross basis, which may include fee-in-lieu and shipping charges incurred on behalf of customers to facilitate sales to export markets.

In a normal operating year there is seasonality to the Company's operations with higher lumber sales in the second and third quarters when construction and renovation and repair activity, particularly in the US, has historically tended to be higher. 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.

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

The Strike reduced lumber and log production and shipments in Canadian operations in the third and four quarters of 2020 and the first quarter of 2021, and the Strike was settled in February 2020. The pandemic outbreak of COVID-19 in the first quarter of 2020 had its greatest impact on the Company in the first half of 2020, with limited impact to operating and financial performance of the Company thereafter.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2021 and 2020

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

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 99.6	$ 2.9
Trade and other receivables	81.3	66.8
Inventory (Note 5)	194.8	177.9
Prepaid expenses and other assets	14.3	16.1
	390.0	263.7
Non-current assets:		
Property, plant and equipment (Note 6)	345.2	383.3
Timber licenses	103.0	105.0
Biological assets (Note 7)	50.1	53.6
Other assets (Note 8)	50.6	46.3
Deferred income tax assets	0.2	0.3
	$ 939.1	$ 852.2
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	$ -	$ 0.2
Accounts payable and accrued liabilities	114.2	108.7
Income taxes payable	39.8	-
Current portion of long-term debt (Note 9)	0.4	0.4
Current portion of lease liabilities	6.1	6.2
Current portion of reforestation obligation (Note 11)	10.2	8.1
Current portion of deferred revenue (Note 18)	2.0	2.0
	172.7	125.6
Non-current liabilities:		
Long-term debt (Note 9)	1.5	71.5
Lease liabilities	13.5	15.4
Reforestation obligation (Note 11)	12.6	14.3
Deferred income tax liabilities	52.9	51.2
Other liabilities (Note 12)	20.7	20.2
Deferred revenue (Note 18)	47.4	48.4
	321.3	346.6
Equity:		
Share capital (Note 13)	460.1	479.9
Contributed surplus	10.4	10.4
Translation reserve	(3.7)	(1.9)
Retained earnings	144.7	16.1
Total equity attributable to equity shareholders of the Company	611.5	504.5
Non-controlling interest (Note 19)	6.3	1.1
	617.8	505.6
	$ 939.1	$ 852.2

Commitments and contingencies (Notes 14, 15)
Subsequent events (Notes 9, 13(a))

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 June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Revenue (Note 18)	$ 414.4	$ 256.3	$ 736.9	$ 355.4
Cost of expenses:				
Cost of goods sold	254.4	205.9	482.8	316.7
Freight	26.8	20.1	49.6	26.4
Export tax (Note 14)	10.8	7.6	19.0	11.6
Selling and administration	16.7	8.1	31.0	14.5
	308.7	241.7	582.4	369.2
Operating income (loss) prior to restructuring and other items	105.7	14.6	154.5	(13.8)
Operating restructuring items	(0.5)	(0.6)	(1.0)	(1.0)
Other income	1.4	0.2	18.1	1.8
Operating income (loss)	106.6	14.2	171.6	(13.0)
Finance costs	0.4	2.2	1.3	4.4
Income (loss) before income taxes	106.2	12.0	170.3	(17.4)
Income tax expense (recovery) (Note 10)				
Current	31.2	-	40.0	(0.1)
Deferred	(3.3)	3.5	(1.8)	(4.8)
	27.9	3.5	38.2	(4.9)
Net income (loss)	78.3	8.5	132.1	(12.5)
Net income (loss) attributable to equity shareholders of the Company	78.0	8.5	131.6	(12.5)
Net income attributable to non-controlling interest	0.3	-	0.5	-
	78.3	8.5	132.1	(12.5)
Other comprehensive income (loss)				
Items that will not be reclassified to profit or loss:				
Employee future benefits actuarial gain (loss)	0.9	(6.9)	2.9	(4.7)
Income tax (expense) recovery (Note 10)	(0.3)	1.8	(0.9)	1.2
Total items that will not be reclassified to profit or loss	0.6	(5.1)	2.0	(3.5)
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences for foreign operations	(0.8)	(1.8)	(1.8)	3.6
Total comprehensive income (loss)	$ 78.1	$ 1.6	$ 132.3	$ (12.4)
Earnings (loss) per share (in dollars) (Note 16)				
Basic and diluted	$ 0.21	$ 0.02	$ 0.35	$ (0.03)

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

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

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings (Deficit)	Non-controlling Interest	Total Equity
Balance at December 31, 2019	$ 479.9	$ 9.6	$ (0.9)	$ (6.8)	$ 0.8	$ 482.6
Net loss	-	-	-	(12.5)	-	(12.5)
Other comprehensive income (loss):						
Employee future benefits actuarial loss	-	-	-	(4.7)	-	(4.7)
Income tax recovery on actuarial loss	-	-	-	1.2	-	1.2
Foreign currency translation differences for foreign operations	-	-	3.6	-	-	3.6
Total comprehensive income (loss)	-	-	3.6	(16.0)	-	(12.4)
Stock options recognized in equity (Note 13(b))	-	0.4	-	-	-	0.4
Dividends	-	-	-	(8.4)	-	(8.4)
Total transactions with owners, recorded directly in equity	-	0.4	-	(8.4)	-	(8.0)
Balance at June 30, 2020	$ 479.9	$ 10.0	$ 2.7	$ (31.2)	$ 0.8	$ 462.2
Balance at December 31, 2020	$ 479.9	$ 10.4	$ (1.9)	$ 16.1	$ 1.1	$ 505.6
Net income	-	-	-	131.6	0.5	132.1
Other comprehensive income:						
Employee future benefits actuarial gain	-	-	-	2.9	-	2.9
Income tax expense on actuarial gain	-	-	-	(0.9)	-	(0.9)
Foreign currency translation differences for foreign operations	-	-	(1.8)	-	-	(1.8)
Total comprehensive income (loss)	-	-	(1.8)	133.6	0.5	132.3
Stock options recognized in equity (Note 13(b))	-	0.2	-	-	-	0.2
Exercise of stock options (Notes 13(a), (b))	0.3	(0.2)	-	-	-	0.1
Repurchase of shares (Note 13(a))	(20.1)	-	-	(12.2)	-	(32.3)
Dividends	-	-	-	(7.4)	-	(7.4)
Non-controlling interest (Note 19)	-	-	-	14.6	5.2	19.8
Distributions to non-controlling interest (Note 19)	-	-	-	-	(0.5)	(0.5)
Total transactions with owners, recorded directly in equity	(19.8)	-	-	(5.0)	4.7	(20.1)
Balance at June 30, 2021	$ 460.1	$ 10.4	$ (3.7)	$ 144.7	$ 6.3	$ 617.8

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 June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash provided by (used in):				
Operating activities:				
Net income (loss)	$ 78.3	$ 8.5	$ 132.1	$ (12.5)
Items not involving cash:				
Amortization of property, plant and equipment (Note 6)	12.3	13.3	24.2	23.3
Amortization of timber licenses	1.0	0.9	2.0	1.9
Loss (gain) on disposal of property, equipment and biological assets (Notes 6, 7)	(1.9)	0.2	(19.3)	(1.6)
Change in fair value of biological assets (Note 7)	1.5	0.6	2.7	0.6
Change in reforestation obligation (Note 11)	0.5	(1.0)	0.4	(0.5)
Amortization of deferred revenue	(0.5)	(0.5)	(1.0)	(1.0)
Share-based compensation, including mark-to-market adjustment	4.1	0.8	8.6	(0.1)
Finance costs	0.4	2.2	1.3	4.4
Income tax expense (recovery) (Note 10)	27.9	3.5	38.2	(4.9)
Change in employee future benefits (Note 15)	(0.3)	(0.7)	(0.6)	(1.3)
Foreign exchange and other	3.3	(1.8)	5.1	-
Income taxes refunded (paid)	(0.2)	11.4	(0.2)	11.4
	126.4	37.4	193.5	19.7
Changes in non-cash working capital items:				
Trade and other receivables	(7.8)	(54.4)	(16.8)	(69.6)
Inventory	(25.6)	(21.8)	(16.9)	(33.4)
Prepaid expenses and other assets	5.1	(4.5)	1.6	(3.4)
Accounts payable and accrued liabilities	15.2	36.5	(2.4)	68.1
	(13.1)	(44.2)	(34.5)	(38.3)
	113.3	(6.8)	159.0	(18.6)
Investing activities:				
Additions to property, plant and equipment (Note 6)	(7.3)	(4.5)	(11.6)	(6.0)
Proceeds from disposal of assets	6.9	0.6	44.6	1.6
Proceeds on disposition of minority interest in subsidiary (Note 19)	19.8	-	19.8	-
	19.4	(3.9)	52.8	(4.4)
Financing activities:				
Interest received (paid)	0.1	(2.4)	(0.6)	(3.4)
Draw on (repayment of) credit facility (Note 9)	(0.5)	14.9	(70.2)	38.4
Repayment of long-term equipment loan (Note 9)	(0.2)	-	(0.3)	-
Payment of lease liabilities	(1.9)	(1.9)	(3.8)	(3.6)
Repurchase of shares (Note 13(a))	(29.9)	-	(32.2)	-
Dividends	(3.6)	-	(7.4)	(8.4)
Distributions on non-controlling interest (Note 19)	(0.2)	-	(0.5)	-
Repayment of bank indebtedness	-	-	(0.2)	-
Proceeds from exercise of stock options (Note 13)	-	-	0.1	-
	(36.2)	10.6	(115.1)	23.0
Increase (decrease) in cash and cash equivalents	96.5	(0.1)	96.7	-
Cash and cash equivalents, beginning of period	3.1	2.2	2.9	2.1
Cash and cash equivalents, June 30	$ 99.6	$ 2.1	$ 99.6	$ 2.1

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 ("BC") and Washington State. The address of the Company's head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2021 and 2020 comprise the financial results of the Company and its subsidiaries. The Company's primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber, value-added lumber remanufacturing and wholesaling purchased lumber. The Company is listed on the Toronto Stock Exchange ("TSX"), under the symbol WEF.

2. Basis of preparation

Statement of compliance

These unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting* ("IAS 34") consistent with the International Financial Reporting Standards ("IFRS"). These financial statements do not include all of the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2020, available at www.westernforest.com or www.sedar.com. Certain comparative prior period figures have been reclassified to conform to the current year's presentation.

The interim financial statements were authorized for issue by the Board of Directors on August 5, 2021.

Basis of measurement

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

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

These interim financial statements are presented in Canadian dollars which is the Company's functional currency.

Critical accounting estimates

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

3. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual consolidated financial statements as at and for the year ended December 31, 2020.

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

4. Seasonality of operations

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

5. Inventory

	Jun. 30, 2021			Dec. 31, 2020		
	Gross carrying value	Provisions	Lower of cost and market	Gross carrying value	Provisions	Lower of cost and market
Gross carrying value of inventory						
Logs	$ 111.7	$ (3.5)	$ 108.2	$ 112.6	$ (5.6)	$ 107.0
Lumber	70.5	(1.1)	69.4	58.5	(3.4)	55.1
Supplies and other	17.7	(0.5)	17.2	16.3	(0.5)	15.8
Total	$ 199.9	$ (5.1)	$ 194.8	$ 187.4	$ (9.5)	$ 177.9

Inventory recorded at net realizable value was $19.0 million at June 30, 2021 (December 31, 2020: $32.9 million), with the remaining inventory recorded at cost.

For the three months and six months ended June 30, 2021, $254.4 million and $482.8 million (Q2 2020 and YTD 2020: $205.9 million and $316.7 million, respectively) of inventory was charged to cost of goods sold. This includes an increase in the provision for write-down to net realizable value of $1.0 million and a decrease of $4.4 million for the three and six months ended June 30, 2021, respectively (Q2 2020 and YTD 2020: increase of $4.2 million and $1.1 million, respectively).

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

6. Property, plant and equipment

	Buildings & equipment	Logging roads	Land	Right of use assets	**Total**
Cost					
Balance at December 31, 2019	$ 460.8	$ 214.2	$ 94.0	$ 24.0	$ 793.0
Additions	11.9	8.6	0.3	8.1	28.9
Disposals	(5.7)	-	(5.4)	(0.3)	(11.4)
Transfers	(0.4)	-	-	0.4	-
Impairments	-	-	(3.6)	-	(3.6)
Effect of movements in exchange rates	(0.9)	-	(0.1)	(0.4)	(1.4)
Balance at December 31, 2020	465.7	222.8	85.2	31.8	805.5
Additions	7.4	4.2	-	1.7	13.3
Disposals	(16.9)	-	(24.3)	(0.3)	(41.5)
Transfers	(0.9)	0.9	-	-	-
Effect of movements in exchange rates	(1.3)	(0.1)	(0.4)	-	(1.8)
Balance at June 30, 2021	$ 454.0	$ 227.8	$ 60.5	$ 33.2	$ 775.5
Accumulated amortization and impairments					
Balance at December 31, 2019	$ 193.5	$ 180.0		$ 4.6	$ 378.1
Amortization	31.5	12.0		5.8	49.3
Disposals	(4.8)	(0.3)		(0.1)	(5.2)
Transfers	0.7	(0.7)		-	-
Effect of movements in exchange rates	(0.2)	-		0.2	-
Balance at December 31, 2020	220.7	191.0		10.5	422.2
Amortization	14.8	6.1		3.3	24.2
Disposals	(15.9)	-		(0.1)	(16.0)
Effect of movements in exchange rates	(0.1)	-		-	(0.1)
Balance at June 30, 2021	$ 219.5	$ 197.1		$ 13.7	$ 430.3
Carrying amounts					
At December 31, 2020	$ 245.0	$ 31.8	$ 85.2	$ 21.3	$ 383.3
At June 30, 2021	$ 234.5	$ 30.7	$ 60.5	$ 19.5	$ 345.2

In the first six months ended June 30, 2021, the Company completed the sale of certain non-core assets for cash proceeds of $44.6 million. The most significant sale occurred in Q1 2021 and included certain properties and their underlying rights related to the Orca Quarry located near Port McNeil, BC.

7. Biological assets

Reconciliation of carrying amount

	Three months ended Jun. 30,		Six months ended Jun. 30,	
	2021	2020	2021	2020
Carrying value, beginning	$ 51.6	$ 56.0	$ 53.6	$ 56.0
Disposals	-	-	(0.8)	-
Change in fair value due to growth and pricing	0.3	0.1	0.6	0.4
Harvested timber transferred to inventory	(1.8)	(0.8)	(3.3)	(1.1)
Carrying value, June 30	$ 50.1	$ 55.3	$ 50.1	$ 55.3

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.

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

7. Biological assets (continued)

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

During the three and six months ended June 30, 2021, the Company harvested and scaled approximately 129,120 cubic metres ("m^3") and 244,417 m^3 of logs, respectively (Q2 2020 and YTD 2020: 67,519 m^3 and 84,079 m^3, respectively), from its private timberlands, which had a fair value less costs to sell of $132 per m^3 at the date of harvest (2020: $132 per m^3).

8. Other assets

	Jun. 30, 2021	Dec. 31, 2020
Duty receivable and related interest (Note 14)	$ 36.0	$ 36.7
Investments and long term advances	13.9	8.8
Other	0.7	0.8
	$ 50.6	$ 46.3

9. Long-term debt

	Jun. 30, 2021	Dec. 31, 2020
Credit Facility drawings	$ -	$ 70.2
Equipment term loan	1.9	2.1
Total debt	1.9	72.3
Less transaction costs	-	(0.4)
Less current portion of equipment term loan	(0.4)	(0.4)
Long-term debt	$ 1.5	$ 71.5
Available Credit Facility	$ 250.0	$ 250.0
Drawings on Credit Facility	-	(70.2)
Outstanding letters of credit	(8.5)	(4.2)
Unused portion of Credit Facility	$ 241.5	$ 175.6

	Jun. 30, 2021	Dec. 31, 2020
Balance at December 31	$ 72.3	$ 114.1
Equipment loan addition	-	2.2
Interest on equipment loan	-	0.1
Equipment loan repayments	(0.2)	(0.2)
Net repayments on revolving term loan	(70.2)	(43.9)
	1.9	72.3

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

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

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

9. Long-term debt (continued)

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

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

There were no drawings on the Company's Credit Facility as at June 30, 2021. As at December 31, 2020, the Company's Credit facility bore an interest rate of 4.45%. The Company was in compliance with its financial covenants as at June 30, 2021.

On March 16, 2020, Western entered into a $2.2 million term loan agreement to finance an equipment purchase. The loan bears interest at 4.5% and matures March 16, 2026. As at June 30, 2021, the outstanding balance was $1.9 million, of which $0.4 million was current.

10. Income taxes

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

	Three months ended Jun. 30		Six months ended Jun. 30,	
	2021	2020	2021	2020
Income (loss) before income taxes	$ 106.2	$ 12.0	$ 170.3	$ (17.4)
Income tax expense (recovery) at statutory rate of 27% (2020 – 27%)	$ 28.7	$ 3.2	$ 46.0	$ (4.7)
Differences in tax rates	(0.3)	-	(0.4)	-
Change in unrecognized deductible temporary	0.4	-	(4.5)	-
Permanent differences	(0.9)	0.3	(2.9)	(0.2)
	$ 27.9	$ 3.5	$ 38.2	$ (4.9)

In addition to the amounts recorded to net income, deferred tax expense of $0.3 million and $0.9 million was recorded in other comprehensive income (loss) for the three and six months ended June 30, 2021 in relation to actuarial gains on employee future benefit obligations (Q2 2020 and YTD 2020: recoveries of $1.8 million and $1.2 million, respectively, in relation to actuarial losses on employee future benefit obligations).

11. Reforestation obligation

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

	Three months ended Jun. 30,		Six months ended Jun. 30,	
	2021	2020	2021	2020
Reforestation obligation, beginning	$ 22.4	$ 23.9	$ 22.4	$ 23.4
Provision charged	1.9	1.4	2.8	3.1
Expenditures	(1.5)	(2.4)	(2.5)	(3.6)
Unwind of discount	-	-	0.1	-
	22.8	22.9	22.8	22.9
Less current portion	10.2	7.7	10.2	7.7
Long term reforestation obligation, June 30	$ 12.6	$ 15.2	$ 12.6	$ 15.2

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 0.25% to 1.40%. The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at June 30, 2021 is $23.1 million (December 31, 2020: $22.7 million). Reforestation expense incurred on current production is included in cost of goods sold and the unwinding of discount, or accretion cost, is included in finance costs.

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

12. Other liabilities

	Jun. 30, 2021	Dec. 31, 2020
Employee future benefits obligation (Note 15)	$ 12.5	$ 16.1
Environmental accruals	1.6	1.6
Performance share unit plan liabilities, non-current (Note 13(d))	4.3	1.1
Other	2.3	1.4
	$ 20.7	$ 20.2

13. Share capital

(a) *Issued and outstanding share capital*

The transactions in share capital are described below:

	Number of Common Shares	Amount
Balance at December 31, 2019	375,197,166	$ 479.9
Exercise of stock options	35,000	-
Balance at December 31, 2020	375,232,166	479.9
Exercise of stock options	233,955	0.3
Repurchase of shares	(15,723,116)	(20.1)
Balance at June 30, 2021	359,743,005	$ 460.1

On June 22, 2021, Western amended its Normal Course Issuer Bid (“NCIB”) to increase the number of shares permitted to be purchased and cancelled to approximately 7.5% of the public float as of August 6, 2020, with an expiry date of August 10, 2021.

On August 5, 2021, the NCIB was renewed effective August 11, 2021, permitting the purchase and cancellation of up to 29,726,940 of the Company’s common shares, representing 10% of the public float outstanding as of August 5, 2021. The renewed NCIB expires August 10, 2022.

For the six months ended June 30, 2021, the Company repurchased and cancelled 15,723,116 common shares under the NCIB (YTD 2020: nil) for $32.2 million at an average price of $2.05 per common share, of which $20.1 million was charged to share capital and $12.1 million was charged to retained earnings.

In addition to the common shares repurchased under the NCIB, 512,620 stock options were exercised resulting in 186,335 common shares issued on a cashless basis and 47,620 common shares issued for cash proceeds of $0.1 million (YTD 2020: nil) for the six months ended June 30, 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 5,206,850 remain available for future issuance.

	Six months ended Jun. 30, 2021		Six months ended Jun. 30, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at December 31	18,259,924	$ 1.58	13,057,129	$ 1.80
Granted	-	-	5,260,670	1.05
Exercised	(512,620)	0.80	-	-
Outstanding at June 30	17,747,304	$ 1.60	18,317,799	$ 1.58

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

13. Share capital (continued)

(b) Stock option plan (continued)

For the three and six months ended June 30, 2021, the Company recorded compensation expense for stock options of $0.1 million and $0.3 million, respectively (Q2 2020 and YTD 2020: $0.2 million and $0.4 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.

	Six months ended Jun. 30, 2021		Six months ended Jun. 30, 2020	
	Number of DSUs	Weighted average unit value[1]	Number of DSUs	Weighted average unit value[1]
Outstanding at December 31	2,471,200	$ 1.19	1,739,691	$ 1.33
Granted[1]	141,897	1.96	463,783	0.74
Redeemed	(25,000)	1.53	-	-
Outstanding at June 30	2,588,097	$ 1.23	2,203,474	$ 1.20

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

For the three and six months ended June 30, 2021, the Company recorded compensation expense for DSUs of $0.8 million and $2.1 million, respectively (Q2 2020 and YTD 2020: $0.6 million expense and $0.4 million recovery, respectively), with corresponding changes in accounts payable and accrued liabilities.

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

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

	Six months ended Jun. 30, 2021		Six months ended Jun. 30, 2020	
	Number of PSUs	Weighted average unit value[1]	Number of PSUs	Weighted average unit value[1]
Outstanding at December 31	2,838,304	$ 1.54	1,852,815	$ 2.16
Granted[1]	1,176,317	1.56	1,646,730	1.05
Redeemed	(512,649)	2.61	(661,241)	2.06
Outstanding at June 30	3,501,972	$ 1.39	2,838,304	$ 1.54

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

For the three and six months ended June 30, 2021, the Company recorded compensation expense for PSUs of $2.8 million and $5.5 million, respectively (Q2 2020 and YTD 2020: negligible and $0.1 million compensation recovery, respectively), with corresponding changes in other liabilities.

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

13. Share capital (continued)

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

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

	Six months ended Jun. 30, 2021		Six months ended Jun. 30, 2020	
	Number of RSUs	Weighted average unit value[1]	Number of RSUs	Weighted average unit value[1]
Outstanding at December 31	357,060	$ 1.05	-	$ -
Granted[1]	1,359,390	1.55	357,060	1.05
Redeemed	-	-	-	-
Outstanding at June 30	1,716,450	$ 1.45	357,060	$ 1.05

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

For the three and six months ended June 30, 2021, the Company recorded compensation expense for RSUs of $0.4 million and $0.7 million, respectively (Q2 2020 and YTD 2020: negligible and $0.1 million, respectively) with corresponding changes in other liabilities.

14. Commitments and contingencies

Long-term fibre supply agreements

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

The Company had met all fibre commitments as at June 30, 2021. Based on chip and pulp log volumes supplied to date, the Company anticipates satisfying annual fibre commitments for the year ending December 31, 2021.

Litigations and claims

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

Softwood lumber duty dispute

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

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

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

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

14. Commitments and contingencies (continued)

Softwood lumber duty dispute (continued)

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

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

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

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

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

As a result of changes between final and cash deposit rates noted in the table above, the Company recognized a receivable of US$29.0 million, including interest, in the statement of financial position and revalued at the quarter-end exchange rate to $36.0 million. Related interest revenue of $0.1 million and $0.2 million for the three and six months ended June 30, 2021, respectively were recorded in finance costs (Q2 2020 and YTD 2020: nil, respectively). Related foreign exchange losses of $0.5 million and $1.0 million for the three and six months ended June 30, 2021, respectively (Q2 2020 and YTD 2020: $0.1 million foreign exchange loss and $0.2 million foreign exchange gain) were recorded in other income.

As at June 30, 2021, the Company had paid US$108.8 million ($134.8 million) of duties, all of which remain held in trust by U.S. Department of Treasury (December 31, 2020: US$94.2 million $120.0 million). With the exception of US$29.0 ($36.0 million) noted above, all duty deposits have been expensed at the cash deposit rates in effect at the date of payment.

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

15. Employee future benefits

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

	Jun. 30, 2021	Dec. 31, 2020
Present value of obligations	$ 123.4	$ 132.2
Fair value of plan assets	(110.9)	(116.1)
Liability recognized in the statement of financial position (Note 12)	$ 12.5	$ 16.1

The change in the liability recognized in the statement of financial position at June 30, 2021 was due primarily to an increase in the discount rate used to value the defined benefit obligations, partially offset by lower returns on plan assets. The discount rate used as at June 30, 2021 was 2.80% per annum (December 31, 2020: 2.35% per annum).

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

16. Earnings (loss) per share

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

	Three months ended Jun. 30, 2021			Three months ended Jun. 30, 2020		
	Net income attributable to equity shareholders	Weighted average number of shares	Per share	Net income attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares, beginning of period		374,171,121			375,197,166	
Effect of shares:						
Issued in the quarter		-			-	
Repurchased in the quarter		(5,355,236)			-	
Basic earnings per share	$ 78.0	368,815,885	$ 0.21	$ 8.5	375,197,166	$ 0.02
Effective of dilutive securities:						
Stock options *		4,960,952			5,908	
Diluted earnings per share	$ 78.0	373,776,837	$ 0.21	$ 8.5	375,203,074	$ 0.02

	Six months ended Jun. 30, 2021			Six months ended Jun. 30, 2020		
	Net income attributable to equity shareholders	Weighted average number of shares	Per share	Net loss attributable to equity shareholders	Weighted average number of shares	Per share
Issued shares, beginning of period		375,232,166			375,197,166	
Effect of shares:						
Issued in the first six months		135,720			-	
Repurchased in the first six months		(3,403,599)			-	
Basic earnings (loss) per share	$ 131.6	371,964,287	$ 0.35	$ (12.5)	375,197,166	$ (0.03)
Effective of dilutive securities:						
Stock options *		3,938,442			81,666	
Diluted earnings (loss) per share	$ 131.6	375,902,729	$ 0.35	$ (12.5)	375,197,166	$ (0.03)

* 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.

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

17. Financial instruments – fair values

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

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. There has been no movement between fair value levels since December 31, 2020.

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

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

		Jun. 30, 2021			Dec. 31, 2020		
	Level	Mandatory at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets							
Market-based investments	2	$ 4.8	$ -	$ 4.8	$ 4.8	$ -	$ 4.8
Foreign currency forward contracts	2	-	-	-	0.6	-	0.6
Cash and cash equivalents	2	-	99.6	99.6	-	2.9	2.9
Trade and other receivables	3	-	81.3	81.3	-	66.2	66.2
Other investments and advances	3	-	5.2	5.2	-	-	-
Export tax receivable	3	36.0	-	36.0	36.7	-	36.7
Total financial assets		$ 40.8	$ 186.1	$ 226.9	$ 42.1	$ 69.1	$ 111.2

	Level	Mandatory at FVTPL	Other Financial Liabilities	Total	Mandatory at FVTPL	Other Financial Liabilities	Total
Financial liabilities							
Foreign currency forward contracts	2	$ 3.2	$ -	$ 3.2	$ -	$ -	$ -
Accounts payable and accrued liabilities	2	-	111.0	111.0	-	108.7	108.7
Lease liabilities	2	-	19.6	19.6	-	21.6	21.6
Long term debt (Note 9)	2	-	1.9	1.9	-	72.3	72.3
Total financial liabilities		$ 3.2	$ 132.5	$ 135.7	$ -	$ 202.6	$ 202.6

As at June 30, 2021, the Company had outstanding obligations to sell an aggregate US$126.5 million at an average rate of CAD$1.2145 per USD with maturities through August 20, 2021.

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

	Three months ended Jun. 30,		Six months ended Jun. 30,	
	2021	2020	2021	2020
Fair value of (asset) liability, beginning of period	$ 0.2	$ 0.8	$ (0.6)	$ (0.2)
Fair value of asset (liability), at June 30	(3.2)	0.3	(3.2)	0.3
Change in unrealized foreign currency gains (losses)	(3.0)	1.1	(3.8)	0.1
Realized foreign currency gains (losses) on settled contracts	3.2	0.9	5.0	(0.1)
Foreign currency gains (losses) recognized in revenue	$ 0.2	$ 2.0	$ 1.2	$ -

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

17. Financial instruments – fair values (continued)

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

18. Revenue

Disaggregation of revenue

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

	Three months ended Jun. 30,		Six months ended Jun. 30,	
	2021	2020	2021	2020
Primary geographic markets				
Canada	$ 140.4	$ 87.1	$ 243.9	$ 116.0
United States	168.1	68.5	302.0	103.8
China	33.6	49.2	69.7	59.1
Japan	36.5	34.8	59.3	53.4
Other	28.1	12.6	46.6	17.0
Europe	7.7	4.1	15.4	6.1
	$ 414.4	$ 256.3	$ 736.9	$ 355.4
Major Products				
Lumber	$ 353.1	$ 188.8	$ 629.7	$ 272.0
Logs	46.3	60.5	79.4	73.4
By-products	15.0	7.0	27.8	10.0
	$ 414.4	$ 256.3	$ 736.9	$ 355.4

Contract balances

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

	Jun. 30, 2021	Dec. 31, 2020
Trade and other receivables	$ 81.3	$ 66.2
Other investments and advances	2.6	-
Contract liabilities	49.4	50.4

Contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract, for which revenue is recognized straight-line over the term of the contract. Related revenue of $0.5 million and $1.0 million was recognized for the three and six months ended June 30, 2021, respectively (Q2 2020 and YTD 2020: $0.5 million and $1.0 million, respectively).

19. Non-controlling interest

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

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

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

19. Non-controlling interest (continued)

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

The Board of TFL 44 LP declared distributions in the first six months of 2021, resulting in a decrease of $0.5 million in non-controlling interest.

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”