



Western Forest Products Inc.
DEFINING A HIGHER STANDARD™

Western Forest Products Inc.
2022 First Quarter Report

Management's Discussion & Analysis

The following Management's Discussion and Analysis ("MD&A") reports and comments on the financial condition and results of operations of Western Forest Products Inc. (the "Company", "Western", "us", "we", or "our"), on a consolidated basis, for the three months ended March 31, 2022, 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 months ended March 31, 2022, and our audited annual consolidated financial statements and the notes thereto and Management's Discussion and Analysis for the year ended December 31, 2021 (the "2021 Annual Report"), which can be found on SEDAR at www.sedar.com.

The Company has prepared the consolidated financial statements for the three months ended March 31, 2022, 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 EBITDA¹. Adjusted EBITDA is defined as operating income prior to operating restructuring items and other income (expense), plus amortization of plant, equipment and intangible assets, impairment adjustments, and changes in fair value of biological assets. Adjusted EBITDA margin is adjusted EBITDA as a proportion of revenue. Western uses adjusted EBITDA and adjusted EBITDA margin as benchmark measurements of our own operating results and as benchmarks relative to our competitors. We consider adjusted EBITDA to be a meaningful supplement to operating income as a performance measure primarily because amortization expense, impairment adjustments and changes in the fair value of biological assets are non-cash costs, and vary widely from company to company in a manner that we consider largely independent of the underlying cost efficiency of their operating facilities. Further, the inclusion of operating restructuring items which are unpredictable in nature and timing may make comparisons of our operating results between periods more difficult. We also believe adjusted EBITDA and adjusted EBITDA margin are commonly used by securities analysts, investors and other interested parties to evaluate our financial performance.

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

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

This MD&A contains statements that may constitute forward-looking statements under the applicable securities laws. Readers are cautioned against placing undue reliance on forward-looking statements. All statements herein, other than statements of historical fact, may be forward-looking statements and can be identified by the use of words such as "will", "commit", "project", "estimate", "expect", "anticipate", "plan", "forecast", "intend", "believe", "seek", "could", "should", "may", "likely", "continue", "pursue" and similar references to future periods. Forward-looking statements in this MD&A include, but are not limited to, statements relating to our current intent, belief or expectations with respect to: domestic and international market conditions, demands and growth; economic conditions; our growth, marketing, product, wholesale, operational and capital allocation plans and strategies, including but not limited to payment of a dividend; fibre availability and regulatory developments; the impact of COVID-19; and the selling of additional incremental ownership interests in Tsawak-qin Forestry Limited Partnership and in other potential business structures in the future. Although such statements reflect management's current reasonable beliefs, expectations and assumptions as to, amongst other things, the future supply and demand of forest products, global and regional economic activity and the consistency of the regulatory framework within which the Company currently operates, there can be no assurance that forward-looking statements are accurate, and actual results and performance may materially vary. Many factors could cause our actual results or performance to be materially different, including: economic and financial conditions including inflation, international demand for forest products, the Company's ability to export its products, cost and availability of shipping carrier capacity, competition and selling prices, international trade disputes and sanctions, changes in foreign currency exchange rates, labour disputes and disruptions, natural disasters, the impact of climate change, relations with First Nations groups, First Nations' claims and settlements, the availability of fibre and allowable annual cut, the ability to obtain operational permits, development and changes in laws and regulations affecting the forest industry including as related to old growth timber management and the Manufactured Forest Products Regulation, changes in the price of key materials for our products, changes in opportunities, information systems security, future developments in COVID-19 and other factors referenced under the "Risks and Uncertainties" section herein. The foregoing list is not exhaustive, as other factors could adversely affect our actual results and performance. Forward-looking statements are based only on information currently available to us and refer only as of the date hereof. Except as required by law, we undertake no obligation to update forward-looking statements. Unless otherwise noted, the information in this discussion and analysis is updated to May 4, 2022.

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		Q1 2022	Q4 2021	Q1 2021
Revenue				
Lumber		\$ 313.9	\$ 268.0	\$ 276.6
Logs		32.7	48.9	33.1
By-products		13.0	11.0	12.8
Total revenue		\$ 359.6	\$ 327.9	\$ 322.5
Freight		\$ 26.0	\$ 21.6	\$ 22.8
Export tax expense		11.5	4.6	8.2
Export tax recovery		-	(3.3)	-
Stumpage		18.8	25.8	9.2
Adjusted EBITDA		\$ 65.4	\$ 52.5	\$ 62.9
Adjusted EBITDA margin		18%	16%	20%
Operating income prior to restructuring and other items		\$ 52.2	\$ 39.4	\$ 48.8
Net income		38.0	28.5	53.8
Earnings per share				
Basic	\$ per share	0.12	0.08	0.14
Diluted	\$ per share	0.11	0.08	0.14
Operating Information⁽²⁾				
Lumber shipments ^{(3),(4)}	mmfbm	186	164	204
Cedar ⁽⁵⁾	mmfbm	46	41	54
Japan Specialty	mmfbm	32	33	17
Niche	mmfbm	17	17	22
Commodity	mmfbm	91	72	111
Lumber production	mmfbm	175	179	199
Lumber price, average	\$/mfbm	\$ 1,688	\$ 1,634	\$ 1,356
Wholesale lumber shipments	mmfbm	15	11	10
Log shipments	000 m ³	167	378	284
Export	000 m ³	-	6	35
Domestic	000 m ³	132	241	159
Pulp	000 m ³	35	132	90
Log price, average ⁽⁶⁾	\$/m ³	\$ 163	\$ 117	\$ 110
Net production ⁽⁷⁾	000 m ³	748	700	688
Saw log purchases	000 m ³	290	211	195
Illustrative Lumber Average Price Data ⁽⁸⁾				
	Price Basis			
Grn WRC #2 Clear & Btr 4x6W RL (\$C)	cif dest N Euro	\$ 9,150	\$ 7,671	\$ 5,583
Grn WRC Deck Knotty 2x6 RL S4S	Net fob Mill	\$ 2,210	\$ 1,991	\$ 2,042
Grn WRC #2 & Btr AG 6x6 RL	Net fob Mill	\$ 3,210	\$ 3,048	\$ 2,566
Coast Gm WRC Std&Btr NH 3/4x4 RL S1S2E	Net fob Mill	\$ 2,381	\$ 2,300	\$ 1,602
Grn Hem Baby Squares Merch 4-1/8x4-1/8 13'	c&f dest Japan	\$ 1,860	\$ 1,883	\$ 1,098
Grn Dfir Baby Squares Merch 4-1/8x4-1/8 RL S4S	c&f dest Japan	\$ 1,940	\$ 1,980	\$ 1,216
Grn Dfir (Portland) #1&Btr 100% FOHC 6x6 Rough	Net fob Mill	\$ 1,859	\$ 1,760	\$ 1,543
Hemlock Lumber 2x4 (40x90) Metric RG Utility	cif dest Shanghai	\$ 554	\$ 582	\$ 605
Coast KD Hem-Fir #2 & Btr 2x4	Net fob Mill	\$ 1,311	\$ 747	\$ 1,031
Average exchange rate – CAD to USD		0.789	0.794	0.790
Average exchange rate – CAD to JPY		91.73	90.25	83.62

(1) Included in Appendix A is a table of selected results from the last eight quarters. Figures in the table may not equal or sum to figures presented in the table or elsewhere due to rounding.

(2) Log data reflects British Columbia business only.

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

(4) Includes wholesale lumber shipments.

(5) Cedar includes Western Red Cedar, Yellow Cedar and Japanese Cedar.

(6) 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.

(7) Net production is sorted log production, net of residuals and waste.

(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 First Quarter 2022 Results

Adjusted EBITDA for the first quarter of 2022 was \$65.4 million, as compared to adjusted EBITDA of \$62.9 million in the same period last year as we capitalized on strong specialty product markets which helped to mitigate shipment volume impacts from ongoing logistics constraints. Net income in the first quarter of 2022 was \$38.0 million as compared to net income of \$53.8 million in the same quarter of 2021, which included \$16.7 million in other income related to non-core asset sales and the application of significant tax loss carry forwards.

First quarter operating income prior to restructuring and other items was \$52.2 million in 2022, as compared to \$48.8 million in the same period last year. Included in the first quarter of 2022 was an incremental export tax expense of \$3.3 million due to higher duty rates. Improved pricing in specialty lumber segments more than offset the impact of lower sales volumes and higher export tax expense as compared to the first quarter of 2021. Constrained vessel, rail and trucking capacity limited lumber shipments.

Sales

Lumber revenue rose 13% as compared to the first quarter of last year, as a stronger lumber sales mix and higher price realizations more than offset logistics-constrained sales volumes.

Lumber pricing improved across all our specialty lumber segments as compared to the first quarter of last year, while realized commodity pricing was relatively flat due to the geographic mix of sales. We increased our specialty product lumber shipments to 51% from 46% in the first quarter of 2021. Improved pricing and mix delivered a record quarterly average realized lumber price of \$1,688 per thousand board feet, an increase of 24% from the first quarter of 2021.

We grew lumber revenue despite a 9% reduction in shipment volumes from the same quarter of 2021. Ongoing logistics constraints affected lumber shipments. Limited cedar log availability constrained cedar lumber production, as compared to the same period last year. In contrast to these challenges, shipment volumes to Japan increased by 88% as compared to the same period last year.

Log revenue was \$32.7 million in the first quarter of 2022, a slight decrease from the same period in the prior year. A 48% increase in average realized British Columbia ("BC") log price was offset by a 41% reduction in log shipments. Strong lumber markets and limited BC log production have driven coastal log prices higher.

Permitting delays and weather-related curtailments in the latter half of 2021 limited log harvest and sales volumes and reduced our log inventory going into 2022. As a result, all export-grade logs were redirected to our sawmills to provide fibre in support of lumber production.

By-product revenue was \$13.0 million, comparable to the same period last year. Increased chip price realizations, from a higher Northern Bleached Softwood Kraft ("NBSK") pulp price to China, were offset by reduced shipments due to lower lumber production compared to the same period last year.

Operations

Lumber production of 175 million board feet was 12% lower than the first quarter last year, due to log supply related, temporary operating curtailments at certain sawmills and the relative increase of net count export lumber production.

We harvested 748,000 cubic metres of logs from our coastal operations in BC, as compared to 688,000 cubic metres in the first quarter last year. Timberlands operations benefitted from improved harvesting conditions to partly rebuild a depleted log inventory.

Excluding stumpage, timberlands per unit operating costs increased over the comparative period with accelerated road building and higher helicopter logging harvest volume. Record pricing for logs and lumber drove a 75% increase in stumpage rates as compared to the same period last year. Increased harvest production and higher coastal stumpage rates resulted in the increase in stumpage expense compared to the same period last year.

We increased our BC Coastal saw log purchases by almost 50% to 290,000 cubic metres, as compared to the same period last year, to support sawmill operations and the rebuilding of a depleted sawlog inventory. The mix of purchases and rising log prices resulted in a 25% increase in purchase log price as compared to the same period last year.

First quarter freight expense increased by \$3.2 million over the same period last year, despite a 9% decline in lumber shipments and the absence of log exports. Freight expense increased due to a 44% increase in container freight rates, the increased use of breakbulk vessel shipments, and higher fuel costs. We continue to partly mitigate ongoing export logistics issues and limited container availability by converting a component of our lumber shipments to breakbulk. Vessel, rail and trucking capacity remains constrained.

Adjusted EBITDA and operating income included \$11.5 million of countervailing duty (“CV”) and anti-dumping duty (“AD”) expense in the first quarter of 2022, as compared to \$8.2 million in the same period of 2021. Export tax expense increased due to higher duty rates and lumber pricing, offset by lower US-destined lumber shipment volumes.

Selling and Administration Expense

First quarter selling and administration expense was \$13.2 million in 2022 as compared to \$14.3 million in the first quarter last year.

Mark-to-market recovery of \$2.5 million on long-term compensation liabilities, quarter-over-quarter, was partly offset by increased information technology, legal, insurance and other administrative costs. A portion of the incremental legal fees and other costs incurred were in support of agreements detailed in “*Indigenous Relationships*” below.

Other Income (Expense)

We recognized other expense of \$0.1 million in the first quarter of 2022, as compared to income of \$16.7 million in the same period of 2021. The first quarter of 2021 included income from the sale of assets related to Orca Quarry located near Port McNeill, British Columbia.

Finance Costs

Finance costs were \$0.4 million as compared to \$0.9 million in the first quarter last year due to a reduction in our average outstanding debt balance.

Income Taxes

Western recognized current income tax expense of \$15.4 million partially offset by a deferred income tax recovery of \$2.3 million in net income in the first quarter of 2022, an increase of \$2.8 million over the first quarter of 2021. Comparative period income tax was reduced through the utilization of remaining non-capital Canadian tax loss carryforwards and the application of capital loss carryforwards against taxable capital gains arising from non-core asset dispositions.

Net Income

Net income for the first quarter of 2022 was \$38.0 million, as compared to net income of \$53.8 million for the same period last year. Comparative results included incremental \$16.8 million in other income related to the sale of the Orca Quarry assets and the application of significant tax loss carry forwards.

Indigenous Relationships

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

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

In collaboration with Indigenous groups, we have achieved a series of milestone agreements that advance our mutually beneficial relationships and exemplify Western's ongoing actions to support reconciliation. A summary of those agreements and related announcements occurring in 2022 is presented below. For an extensive summary of agreements and initiatives that occurred in 2021, refer to our Annual Report, which can be found on SEDAR at www.sedar.com.

Integrated Resource Management Plan with Nanwakolas Council in Tree Farm Licence 39 Block 2

On January 19, 2022, Western and the Nanwakolas Council, representing Tlowitsis, K'ómoks, Wei Wai Kum and We Wai Kai First Nations, announced an agreement to develop an Indigenous-led Integrated Resource Management Plan ("IRMP") for managing forests in Tree Farm Licence (" 39 Block 2 ("TFL 39 Block 2") over the next two years.

In recent years, we have engaged in several innovative projects together with the Nanwakolas Council, including joint development and the ongoing implementation of the Nanwakolas Large Cultural Cedar Declaration and the 2020 Information Sharing Protocol.

Service Contract Agreement with Tla'amin Nation in Tree Farm Licence 39 Block 1

On February 15, 2022, Western and Tla'amin Nation ("Tla'amin") announced a timber harvesting services contract to provide incremental harvest capacity in Tree Farm Licence 39 Block 1 ("TFL 39 Block 1"), through Thichum Forest Products LP, a company beneficially owned by Tla'amin.

The contract supports the ongoing relationship between Western and Tla'amin and builds on the Renewal Agreement signed in July 2021 by demonstrating progress in advancing innovative and mutually beneficial activities in the Tla'amin Territory. This initiative is in addition to the planned development of a two-year, values and science-based, Tla'amin led, collaborative IRMP for Tla'amin treaty lands and Crown tenure areas, and the portion of Western's TFL 39 Block 1 located in Tla'amin territory.

Integrated Resource Management Plans in Tree Farm Licence 44

On February 24, 2022, Tsawak-qin Forestry Limited Partnership ("TFLP"; formerly TFL 44 Limited Partnership) announced an Indigenous-led IRMP process, working with First Nations on whose traditional territories Tree Farm Licence 44 ("TFL 44") is located. The TFL 44 IRMP is expected to use the latest data, science and technology to create a common vision and direction for government-to-government land and resource management decisions. This initiative is in addition to the ongoing development of an Huu-ay-aht First Nations ("HFN")-led IRMP that was announced in the first half of 2021 and is anticipated to be completed in 2023.

On April 14, 2022, TFLP confirmed its commitment to Indigenous stewardship and ongoing IRMP efforts, by expanding its industry-leading protection of tall trees, and forests around them, by lowering the height of trees to which retention standards apply.

Huumis Ventures Limited Partnership ("HVLP"), a limited partnership beneficially owned by HFN, holds a 35% equity interest in TFLP and have agreed to acquire a further 16% equity interest with an anticipated closing in the second quarter of 2023, subject to certain closing conditions including approval by the BC Provincial Government and a further vote by the HFN People's Assembly. We also have an agreement to sell up to an incremental 26% in TFLP to area First Nations and, alongside the HFN, we are now engaging those Nations.

Regulatory Environment

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

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

Old-Growth Logging Deferral

On June 9, 2021, the Province temporarily deferred old-growth logging in 2,000 hectares of forest in southwestern Vancouver Island, BC for a period of two years. The temporary deferral was implemented at the request of local First Nations, with the deferral period aligned with timelines required to prepare resource-stewardship plans in collaboration with tenure rights holders. TFLP has no active or planned cutting permits in the portion of the 2,000-hectare deferral area in TFL 44, and TFLP’s forestry activity continues as planned.

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

On November 3, 2021, Tla’amin announced that the proposed, temporary deferral area identified by the Province’s Technical Advisory Panel (“TAP”) in Tla’amin territory would be addressed through the ongoing Tla’amin-led IRMP process. Western and Tla’amin initiated the development of a collaborative IRMP in July 2021 for Tla’amin territory, including a portion of TFL 39 Block 1, expected to take up to two years to complete.

On December 2, 2021, the HFN announced that they will be upholding their right to harvest in four percent of the TAP proposed, temporary deferral area identified in their territory and TFL 44. The remaining 96% of the TAP proposed, temporary deferral area is already protected under existing conservation measures or not planned for harvesting in the next two years. HFN’s preliminary decision is supported by their assessment that 32% of the total productive forest area within their traditional territory and TFL 44 is old forest. The preliminary decision is not expected to have significant short-term effects on planned operations within TFL 44.

On January 19, 2022, Western and four member Nations of the N̄nwaḱolas Council announced an agreement to work on a joint approach to managing forests in TFL 39 Block 2. Among those agreed items was a temporary harvest deferral area of 1,068 hectares proposed by TAP, which is in addition to a pre-existing temporary harvest deferral of 1,506 hectares for previously agreed bi-lateral initiatives between the N̄nwaḱolas Council and Western. These temporary deferral areas represent approximately 1% of the total area of TFL 39 Block 2.

On February 23, 2022, ‘N̄mḱis announced its decision to waive the TAP proposed, temporary deferral area in ‘N̄mḱis Territory, and continue work with Western on the development of a draft forest landscape plan. While that planning process continues, and in combination with collaborative re-design and expansion of existing forestry reserves, ‘N̄mḱis and Western have deferred harvest activity in approximately 30,700 hectares of Tree Farm Licence 37. The draft forest landscape plan is anticipated to be completed by the end of 2022.

Western continues to work collaboratively with First Nations, on whose territories the Company operates, through information sharing and capacity funding to assess any potential impacts on the Company’s business.

Determination of potential impacts is subject to further dialogue with the First Nations and the outcomes of their government-to-government discussions. Should the proposed measures impact Western's business, the Company will seek support from the Province for its workers and full compensation for investments.

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

Forest and Range Practices Act Amendments

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

Timber Tenure Reduction

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

In the second half of 2022, we anticipate the Province's Chief Forester to issue a final determination on the AAC in TFL 19, which is approximately 729,000 cubic metres. We expect that determination may reduce the AAC of TFL 19 by up to 17% or approximately 125,400 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.

COVID-19

Western is committed to the health and safety of our employees, contractors and the communities where we operate. From the onset of the pandemic, Western has been committed to following the public health guidance in shaping our response to help mitigate the risk of COVID-19 transmission. To help mitigate the spread of COVID-19, strict health and safety protocols were implemented across our business based on guidance from health officials and experts, and in compliance with regulatory orders and standards.

Public health guidance evolved in all of our operating environments in 2022. Effective March 12, 2022, Washington State fully reopened, thereby eliminating regulatory requirements for COVID specific health and safety rules. Effective April 9, 2022, BC's Public Health Officer lifted all COVID-19 restrictions. In keeping with the updated public health guidance, and our ongoing commitment to health and safety, Western has transitioned from its Exposure Control Plan and COVID safety plans to a permanent Communicable Disease Prevention Plan. This transition included rescinding the Company's travel restrictions, capacity limits and proof of vaccination requirements, but kept in place elements such as handwashing and other practical ways to mitigate the risk of the spread of any communicable disease in our operations.

We continue to monitor and review the latest guidance from health officials and experts to ensure our protocols meet the current required standards should circumstances change.

Financial Position and Liquidity⁽¹⁾

(millions of Canadian dollars except where otherwise noted)

Selected Cash Flow Items	Q1 2022	Q4 2021	Q1 2021
Operating activities			
Net income	\$ 38.0	\$ 28.5	\$ 53.8
Amortization	12.7	12.7	12.9
Gain on disposal of property, equipment and other assets	(1.4)	(0.7)	(17.4)
Income tax expense	13.1	10.2	10.3
Income taxes (paid) refunded	(58.4)	0.1	-
Share-based compensation	1.0	1.5	4.5
Export tax receivable	-	(3.3)	-
Other	3.1	(1.2)	2.2
	8.1	47.8	66.3
Change in non-cash working capital	(43.9)	(7.7)	(20.6)
Cash provided by (used in) operating activities	(35.8)	40.1	45.7
Investing activities			
Additions to property, plant and equipment	(4.8)	(9.9)	(2.6)
Additions to capital logging roads	(1.2)	(2.6)	(1.7)
Proceeds on disposal of property, equipment and other	1.7	0.7	37.7
Deposits	(2.0)	(1.2)	-
Cash provided by (used in) investing activities	(6.3)	(13.0)	33.4
Financing activities			
Repayment of credit facility	-	-	(69.7)
Dividends	(3.3)	(3.3)	(3.8)
Share repurchases	(7.3)	(34.5)	(2.3)
Lease payments	(1.8)	(1.9)	(1.9)
Other	(0.6)	(0.5)	(1.2)
Cash used in financing activities	(13.0)	(40.2)	(78.9)
Increase (decrease) in cash	\$ (55.1)	\$ (13.1)	\$ 0.2
Summary of Financial Position			
Cash and cash equivalents	\$ 74.9	\$ 130.0	\$ 3.1
Current assets	408.0	411.0	265.6
Current liabilities	162.9	194.3	119.6
Total debt	-	-	2.5
Net debt (cash) ⁽²⁾	(74.9)	(130.0)	(0.6)
Equity, excluding non-controlling interest	640.9	612.1	552.6
Total liquidity ⁽³⁾⁽⁶⁾	310.1	371.4	244.0
Financial ratios			
Current assets to current liabilities ⁽⁴⁾	2.50	2.12	2.22
Net debt to capitalization ⁽⁵⁾⁽⁶⁾	0%	0%	0%

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

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

Cash provided by operating activities before changes in non-cash working capital was \$8.1 million in the first quarter of 2022, as compared to \$66.3 million in the same period last year. The first quarter of 2022 included income tax payments of \$58.4 million in respect of 2021 income taxes, and a 2022 income tax instalment. Change in non-cash working capital was primarily due to rebuilding a depleted log inventory entering the first quarter of 2022.

Cash used in investing activities was \$6.3 million during the first quarter of 2022, as compared to cash generated of \$33.4 million during the same period last year. The first quarter of 2021 included proceeds of \$37.7 million on asset dispositions.

Cash used in financing activities was \$13.0 million in the first quarter of 2022, as compared to \$78.9 million in the same period of 2021. We returned \$10.6 million to shareholders via dividends and common shares repurchased for cancellation under our Normal Course Issuer Bid (“NCIB”), as compared to \$6.1 million in the first quarter of last year.

Liquidity and Capital Resources

Total liquidity was \$310.1 million at March 31, 2022, as compared to \$371.4 million at December 31, 2021 and \$244.0 at March 31, 2021. Liquidity is comprised of cash and cash equivalents of \$74.9 million and unused availability under the credit facility of \$235.2 million.

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

Dividend and Capital Allocation

We remain committed to a balanced approach to capital allocation. To return capital to shareholders, we pay a regular quarterly dividend and complement our dividend program with opportunistic repurchases of common shares.

We will continue to evaluate opportunities to invest strategic and discretionary capital in jurisdictions and product lines 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 product line initiatives, as well as add value to our products. We currently have approximately \$16 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 we may deem relevant.

Dividend Increase

On May 4, 2022, we announced a 25% increase in our quarterly dividend from \$0.01 per common share to \$0.0125 per common share. The quarterly dividend increase is effective immediately and is payable June 17, 2022 to shareholders of record on May 27, 2022.

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. The Company’s Board of Directors will continue to review our dividend on a quarterly basis.

Normal Course Issuer Bid

During the first three months ended March 31, 2022, we repurchased and cancelled 3,379,027 common shares for \$7.3 million at an average price of \$2.17 per common share.

As at May 4, 2022, the Company had repurchased and cancelled the maximum 29,726,940 common shares permitted for purchase and cancellation under the current NCIB for \$60.7 million at an average price of \$2.04 per common share. The Company has fully completed its current NCIB resulting in a 10% reduction to the public float of common shares outstanding at the August 5, 2021 NCIB renewal date.

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, 2021.

Market Outlook

As we look ahead, we expect the strong North American lumber market fundamentals, which have driven lumber pricing over the last few years, to continue. The combination of low existing home for sale inventories, improved housing starts, and historically attractive mortgage rates should support higher lumber consumption. We believe the strong demand fundamentals combined with lower lumber supply from British Columbia and the potential for global lumber supply disruptions will create a supportive pricing environment for lumber over the near term.

Pricing for our Cedar and Niche specialty product segments improved from the fourth quarter, while Japan specialty product pricing remained firm. As we look forward, we expect pricing to remain strong in specialty lumber markets.

Logistics remain a considerable challenge for our business as we pivot production from relatively weaker export markets in China back to North America. Constrained rail capacity in western North America has limited market access and has resulted in some mill curtailments. On the export side we have experienced a slight improvement in container availability, and we will look to expand the use of lower cost container shipping in the months ahead.

We expect sawlog markets to remain strong due to a combination of reduced supply and strong demand while we expect pulp log pricing to trade in a narrow band due to limited market competition. Sawmill residual chip pricing is expected to remain strong supported by higher Northern Softwood Bleach Kraft pulp pricing in China.

Long-term, we believe that strong North American housing market fundamentals will support lumber demand and pricing, above trend levels. An aging housing stock, a housing deficit stemming from years of underbuilding, the influence of work-from-home arrangements on the repair and renovation segment, and the growth of mass timber construction 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.

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, 2021.

Western expensed \$11.5 million of export duties at a combined duty rate of 17.91% on its lumber shipments into the US in the first quarter of 2022, as compared to \$8.2 million at a duty rate of 8.99% in the same period last year. The effect of higher duty rates and significantly improved lumber pricing more than offset a 40% decline in the Company's shipments of lumber from Canada into the US over those periods.

In 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 December 1, 2021, the DoC published its final CV and AD rates resulting from its second administrative review in the federal register. The final determination reduced the assessment rates applied to shipments in 2019 and established a revised cash deposit rate of 17.90% applicable from December 2021 until the publication of final rates under the third administrative review. As a result, the Company recorded a related export tax recovery of \$3.3 million in the fourth quarter, 2021. On January 10, 2022, as a result of a ministerial error in its second administrative review, the DoC revised the published CV rate to 6.32%, increasing the combined rate to 17.91%.

On January 31, 2022, the DoC released its preliminary determination for CV and AD rates resulting from its third administrative review of CV and AD rates for shipments in 2020, indicating a combined rate to 11.64%. The DoC may revise these rates between the preliminary and the final determination, expected to be released on August 3, 2022. Cash deposits continue at the combined duty rate of 17.91% until the final determinations are published, after which the 2020 rate will apply.

On March 9, 2022, the DoC initiated its fourth administrative review of CV and AD rates for shipments for 2021.

At March 31, 2022, Western had \$159.8 million (US\$127.7 million) of cash on deposit with the US Department of Treasury in respect of these softwood lumber duties, of which \$40.1 million (US\$32.0 million) including interest is recognized in the Company's balance sheet arising from final rate determinations for shipments in 2017 through 2019.

Including wholesale lumber shipments, our lumber shipments from Canada to the US market represent approximately 36% of our total lumber revenue in the first quarter of 2022, as compared to 46% in the same period last year and 39% in fiscal 2021. Our distribution and processing centre in Arlington, Washington and our Columbia Vista division in Vancouver, Washington are expected to partially mitigate the damaging effects of duties on our products destined for the US market. We intend to leverage our flexible operating platform to continue to partially mitigate any challenges that arise from this trade dispute.

Non-GAAP Financial Measures

Reference is made in this MD&A to the following non-GAAP measures: Adjusted EBITDA, Adjusted EBITDA margin, Net debt to capitalization and total Liquidity 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	Q1 2022	Q4 2021	Q1 2021
Net income	\$ 38.0	\$ 28.5	\$ 53.8
Add:			
Amortization	12.7	12.7	12.9
Changes in fair value of biological assets	0.5	0.2	1.2
Operating restructuring items	0.6	0.8	0.5
Other expense (income) ⁽¹⁾	0.1	(0.3)	(16.7)
Finance costs	0.4	0.2	0.9
Current income tax	15.4	10.5	8.8
Deferred income tax (recovery)	(2.3)	(0.3)	1.5
Adjusted EBITDA	\$ 65.4	\$ 52.5	\$ 62.9
Adjusted EBITDA margin			
Total revenue	\$ 359.6	\$ 327.9	\$ 322.5
Adjusted EBITDA	65.4	52.5	62.9
Adjusted EBITDA margin	18%	16%	20%
Net debt to capitalization	Mar. 31 2022	Dec. 31 2021	Mar. 31 2021
Net debt			
Total debt	\$ -	\$ -	\$ 2.5
Cash and cash equivalents	(74.9)	(130.0)	(3.1)
Net debt (cash)	\$ (74.9)	\$ (130.0)	\$ (0.6)
Capitalization			
Net debt (cash)	\$ (74.9)	\$ (130.0)	\$ (0.6)
Add: equity attributable to equity shareholders of the Company	640.9	612.1	552.6
Capitalization	\$ 566.0	\$ 482.1	\$ 552.0
Net debt to capitalization	-	-	-
Total liquidity	Mar. 31 2022	Dec. 31 2021	Mar. 31 2021
Cash and cash equivalents	\$ 74.9	\$ 130.0	\$ 3.1
Available credit facility	250.0	250.0	250.0
Less outstanding letters of credit	(14.8)	(8.6)	(9.1)
Total liquidity	\$ 310.1	\$ 371.4	\$ 244.0

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

(1) Other income (expense), net of changes in fair market value less cost to sell of biological assets 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 March 31, 2022, 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 2021 Annual Report, which can be found on SEDAR at www.sedar.com. There were no changes to critical accounting estimates during the three months ended March 31, 2022.

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, 2021 for a further discussion on our use of financial instruments. There were no changes to our use of financial instruments during the three months ended March 31, 2022.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and CV and AD duty deposits. At March 31, 2022, such instruments aggregated \$18.7 million (December 31, 2021 - \$14.5 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 months ended March 31, 2022.

Risks and Uncertainties

The business of the Company is subject to several risks and uncertainties, including those described in the 2021 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 months ended March 31, 2022. 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 months ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Outstanding Share Data

As of May 4, 2022, there were 325,510,128 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 three months ended March 31, 2022, no options were granted, 250,000 previously granted options were exercised and no options were forfeited. As of May 4, 2022, 14,997,304 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)

	2022		2021				2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Average exchange rate – USD to CAD	1.267	1.260	1.260	1.228	1.265	1.303	1.332	1.386	
Average exchange rate – CAD to USD	0.789	0.793	0.794	0.814	0.790	0.767	0.751	0.722	
Financial performance									
Revenue									
Lumber	\$ 313.9	\$ 268.0	\$ 299.8	\$ 353.1	\$ 276.6	\$ 256.6	\$ 208.6	\$ 188.8	
Logs	32.7	48.9	41.0	46.3	33.1	53.4	73.7	60.5	
By-products	13.0	11.0	12.1	15.0	12.8	8.9	8.3	7.0	
Total revenue	\$ 359.6	\$ 327.9	\$ 352.9	\$ 414.4	\$ 322.5	\$ 318.9	\$ 290.6	\$ 256.3	
Adjusted EBITDA	\$ 65.4	\$ 52.5	\$ 66.3	\$ 120.4	\$ 62.9	\$ 71.1	\$ 33.7	\$ 29.5	
Adjusted EBITDA margin	18%	16%	19%	29%	20%	22%	12%	12%	
Net income	\$ 38.0	\$ 28.5	\$ 42.2	\$ 78.3	\$ 53.8	\$ 34.4	\$ 11.5	\$ 8.5	
Earnings per share									
Basic	\$ 0.12	\$ 0.08	\$ 0.12	\$ 0.21	\$ 0.14	\$ 0.09	\$ 0.03	\$ 0.02	
Diluted	\$ 0.11	\$ 0.08	\$ 0.12	\$ 0.21	\$ 0.14	\$ 0.09	\$ 0.03	\$ 0.02	
Operating statistics									
Lumber ⁽¹⁾									
Production	Mmfbm	175	179	175	207	199	180	192	143
Shipments	Mmfbm	186	164	193	221	204	204	165	152
Price	\$/mfbm	\$1,688	\$1,634	\$1,553	\$1,598	\$1,356	\$1,258	\$1,264	\$1,242
Logs ⁽²⁾									
Net production	000 m ³	748	700	690	1,012	688	901	1,138	1,224
Saw log purchases	000 m ³	290	211	227	227	195	222	235	236
Log availability	000 m ³	1,038	911	917	1,239	883	1,123	1,373	1,460
Shipments	000 m ³	167	378	325	351	284	471	679	587
Price ⁽³⁾	\$/m ³	\$ 163	\$ 117	\$ 120	\$ 127	\$ 110	\$ 109	\$ 106	\$ 98
Share Repurchases and Dividends									
Shares repurchased	# millions	3.4	17.4	14.6	14.4	1.3	-	-	-
Shares repurchased	\$ millions	\$ 7.3	\$ 34.5	\$ 30.2	\$ 29.9	\$ 2.3	\$ -	\$ -	\$ -
Dividends paid	\$ millions	\$ 3.3	\$ 3.3	\$ 3.6	\$ 3.6	\$ 3.8	\$ -	\$ -	\$ -
Non-GAAP Financial Measures									
Net income	\$ 38.0	\$ 28.5	\$ 42.2	\$ 78.3	\$ 53.8	\$ 34.4	\$ 11.5	\$ 8.5	
Add:									
Amortization	12.7	12.7	12.0	13.3	12.9	14.3	14.0	14.2	
Changes in fair value of biological assets	0.5	0.2	0.8	1.5	1.2	1.2	0.6	0.6	
Operating restructuring items	0.6	0.8	0.9	0.5	0.5	0.6	0.5	0.6	
Other (income) expense ⁽⁴⁾	0.1	(0.3)	(4.0)	(1.4)	(16.7)	6.2	0.6	(0.2)	
Finance costs (income)	0.4	0.2	0.4	0.4	0.9	(0.5)	2.0	2.2	
Current income tax	15.4	10.5	13.6	31.2	8.8	-	-	-	
Deferred income tax (recovery)	(2.3)	(0.3)	0.4	(3.3)	1.5	15.1	4.4	3.5	
Adjusted EBITDA	\$ 65.4	\$ 52.5	\$ 66.3	\$ 120.4	\$ 62.9	\$ 71.1	\$ 33.7	\$ 29.5	
Divided by total revenue	359.6	327.9	352.9	414.4	322.5	318.9	290.6	256.3	
Adjusted EBITDA margin	18%	16%	19%	29%	20%	22%	12%	12%	

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

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

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

The second quarter of 2020 was impacted by the ramp-up of operations following the February 2020 settlement of a prolonged United Steelworkers Local 1-1937 strike that commenced in mid-2019. The pandemic outbreak of COVID-19 in the first quarter of 2020 had its greatest impact on the Company in the first half of 2020, with limited impact to operating and financial performance of the Company thereafter. Log production in the second half of 2021 was affected by the prolonged weather-related curtailment of logging operations. Lumber shipments in late 2021 and the first quarter of 2022 were constrained by vessel, rail and trucking capacity. Log supply shortages limited the Company's lumber production in the first quarter of 2022.

Western Forest Products Inc.

Unaudited Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2022 and 2021

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

	March 31 2022	December 31 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 74.9	\$ 130.0
Trade and other receivables	74.3	57.4
Inventory ^(Note 5)	234.4	207.2
Prepaid expenses and other assets	24.4	16.4
	<u>408.0</u>	<u>411.0</u>
Non-current assets:		
Property, plant and equipment ^(Note 6)	342.8	343.2
Timber licenses	99.3	100.3
Biological assets ^(Note 7)	48.6	49.1
Other assets ^(Note 8)	50.5	55.2
Deferred income tax assets	0.2	0.2
	<u>\$ 949.4</u>	<u>\$ 959.0</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 125.4	\$ 112.8
Income taxes payable	21.1	64.1
Lease liabilities	5.2	5.5
Reforestation obligation ^(Note 10)	9.2	9.9
Deferred revenue ^{(Notes 15, 19(c))}	2.0	2.0
	<u>162.9</u>	<u>194.3</u>
Non-current liabilities:		
Lease liabilities	14.3	12.8
Reforestation obligation ^(Note 10)	13.1	12.5
Other liabilities ^(Note 12)	15.4	22.0
Deferred revenue ^{(Notes 15, 19(c))}	46.0	46.5
Deferred income tax liabilities	52.2	53.7
	<u>303.9</u>	<u>341.8</u>
Equity:		
Share capital ^(Note 13)	416.6	420.8
Contributed surplus	9.0	9.0
Translation reserve	(3.0)	(2.2)
Retained earnings	218.3	184.5
Total equity attributable to equity shareholders of the Company	<u>640.9</u>	<u>612.1</u>
Non-controlling interest	4.6	5.1
	<u>645.5</u>	<u>617.2</u>
	<u>\$ 949.4</u>	<u>\$ 959.0</u>

Commitments and contingencies ^(Note 19)

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
(Expressed in millions of Canadian dollars except for share and per share amounts) (unaudited)

	Three months ended March 31	
	2022	2021
Revenue ^(Note 15)	\$ 359.6	\$ 322.5
Costs and expenses:		
Cost of goods sold	256.7	228.4
Freight	26.0	22.8
Export tax ^{(Note 19(a))}	11.5	8.2
Selling and administration	13.2	14.3
	<u>307.4</u>	<u>273.7</u>
Operating income prior to restructuring and other items	52.2	48.8
Operating restructuring items	(0.6)	(0.5)
Other income (expense) ^(Note 16)	(0.1)	16.7
	<u>51.5</u>	<u>65.0</u>
Operating income	51.5	65.0
Finance costs	0.4	0.9
	<u>51.1</u>	<u>64.1</u>
Income before income taxes	51.1	64.1
Income tax expense (recovery) ^(Note 17)		
Current	15.4	8.8
Deferred	(2.3)	1.5
	<u>13.1</u>	<u>10.3</u>
Net income	38.0	53.8
Net income attributable to equity shareholders of the Company	37.8	53.6
Net income attributable to non-controlling interest	0.2	0.2
	<u>38.0</u>	<u>53.8</u>
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss:		
Employee future benefits actuarial gain	3.2	2.0
Income tax expense ^(Note 17)	(0.9)	(0.6)
Total items that will not be reclassified to profit or loss	<u>2.3</u>	<u>1.4</u>
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	(0.8)	(1.0)
Total comprehensive income	<u>\$ 39.5</u>	<u>\$ 54.2</u>
Earnings per share (in dollars) ^(Note 18)		
Basic	\$ 0.12	\$ 0.14
Diluted	0.11	0.14

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

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

	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Non- controlling Interest	Total Equity
Balance at December 31, 2020	\$ 479.9	\$ 10.4	\$ (1.9)	\$ 16.1	\$ 1.1	\$ 505.6
Net income	-	-	-	53.6	0.2	53.8
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	2.0	-	2.0
Income tax expense on actuarial gain ^(Note 17)	-	-	-	(0.6)	-	(0.6)
Foreign currency translation differences for foreign operations	-	-	(1.0)	-	-	(1.0)
Total comprehensive income (loss)	-	-	(1.0)	55.0	0.2	54.2
Stock options recognized in equity ^{(Note 14(a))}	-	0.1	-	-	-	0.1
Exercise of stock options ^{(Notes 13, 14(a))}	0.3	(0.2)	-	-	-	0.1
Repurchase of shares ^(Note 13)	(1.6)	-	-	(0.7)	-	(2.3)
Dividends	-	-	-	(3.8)	-	(3.8)
Distributions to non-controlling interest	-	-	-	-	(0.3)	(0.3)
Total transactions with owners, recorded directly in equity	(1.3)	(0.1)	-	(4.5)	(0.3)	(6.2)
Balance at March 31, 2021	\$ 478.6	\$ 10.3	\$ (2.9)	\$ 66.6	\$ 1.0	\$ 553.6
Balance at December 31, 2021	\$ 420.8	\$ 9.0	\$ (2.2)	\$ 184.5	\$ 5.1	\$ 617.2
Net income	-	-	-	37.8	0.2	38.0
Other comprehensive income (loss):						
Employee future benefits actuarial gain	-	-	-	3.2	-	3.2
Income tax expense on actuarial gain ^(Note 17)	-	-	-	(0.9)	-	(0.9)
Foreign currency translation differences for foreign operations	-	-	(0.8)	-	-	(0.8)
Total comprehensive income (loss)	-	-	(0.8)	40.1	0.2	39.5
Stock options recognized in equity ^{(Note 14(a))}	-	0.1	-	-	-	0.1
Exercise of stock options ^{(Notes 13, 14(a))}	0.1	(0.1)	-	-	-	-
Repurchase of shares ^(Note 13)	(4.3)	-	-	(3.0)	-	(7.3)
Dividends	-	-	-	(3.3)	-	(3.3)
Distributions to a non-controlling interest	-	-	-	-	(0.7)	(0.7)
Total transactions with owners, recorded directly in equity	(4.2)	-	-	(6.3)	(0.7)	(11.2)
Balance at March 31, 2022	\$ 416.6	\$ 9.0	\$ (3.0)	\$ 218.3	\$ 4.6	\$ 645.5

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	
	March 31,	
	2022	2021
Cash provided by (used in):		
Operating activities		
Net income	\$ 38.0	\$ 53.8
Items not involving cash:		
Amortization of property, plant and equipment (Note 6)	11.7	11.9
Amortization of timber licenses	1.0	1.0
Gain on disposal of property, plant, equipment and other assets (Notes 6, 7)	(1.4)	(17.4)
Amortization of deferred revenue (Note 15)	(0.5)	(0.5)
Finance costs	0.4	0.9
Income tax expense (Note 17)	13.1	10.3
Change in fair value of biological assets (Note 7)	0.5	1.2
Change in reforestation obligation (Note 10)	(0.2)	(0.1)
Share-based compensation, including mark-to-market adjustment (Note 14)	1.0	4.5
Change in employee future benefits obligation (Note 11)	(0.5)	(0.3)
Foreign exchange and other	3.4	1.0
Income taxes paid	(58.4)	-
	<u>8.1</u>	<u>66.3</u>
Changes in non-cash working capital items:		
Trade and other receivables	(14.7)	(8.4)
Inventory	(27.3)	8.7
Prepaid expenses and other assets	(8.0)	(3.5)
Accounts payable and accrued liabilities	6.1	(17.4)
	<u>(43.9)</u>	<u>(20.6)</u>
	(35.8)	45.7
Investing activities:		
Additions to property, plant and equipment (Note 6)	(6.0)	(4.3)
Proceeds from disposal of property, equipment and other	1.7	37.7
Deposits on purchase of equipment	(2.0)	-
	<u>(6.3)</u>	<u>33.4</u>
Financing activities:		
Interest paid	(0.2)	(0.7)
Repayment of credit facility (Note 9)	-	(69.7)
Repayment of bank indebtedness	-	(0.2)
Repayment of long-term equipment loan (Note 9)	-	(0.1)
Lease payments	(1.8)	(1.9)
Repurchase of shares (Note 13)	(7.3)	(2.3)
Proceeds from exercise of stock options (Notes 13, 14(a))	-	0.1
Dividends	(3.3)	(3.8)
Distributions to a non-controlling interest	(0.4)	(0.3)
	<u>(13.0)</u>	<u>(78.9)</u>
Increase (decrease) in cash and cash equivalents	(55.1)	0.2
Cash and cash equivalents, December 31	130.0	2.9
Cash and cash equivalents, March 31	<u>\$ 74.9</u>	<u>\$ 3.1</u>

Supplementary information on non-cash transactions:

In addition to cash distributions paid to a non-controlling interest, \$0.3 million of distributions were declared and settled by way of an offset to a receivable.

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

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

1. Reporting entity

Western Forest Products Inc. (“Western” or the “Company”) is an integrated softwood forest products company, incorporated and domiciled in Canada, operating in the coastal region of British Columbia (“BC”) and Washington State. The address of the Company’s head office is Suite 800 – 1055 West Georgia Street, Vancouver, BC, Canada. The unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2022 and 2021 comprise the financial results of the Company and its subsidiaries. The Company’s primary business is the sale of lumber and logs, which includes timber harvesting, sawmilling logs into specialty lumber, value-added lumber remanufacturing and wholesaling purchased lumber. The Company is listed on the Toronto Stock Exchange (“TSX”), under the symbol WEF.

2. Basis of preparation

(a) Statement of compliance

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 interim 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, 2021, 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. References to the three months ended March 31 may be referred to as Q1.

The interim financial statements were authorized for issue by the Board of Directors on May 4, 2022.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Critical accounting estimates

Potential impacts of the novel Coronavirus pandemic on the Company’s critical accounting estimates are being monitored, with no significant changes for the three months ended March 31, 2022. The Company’s critical accounting estimates are described in its annual consolidated financial statements for the year ended December 31, 2021.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

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, 2021.

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

	March 31, 2022			December 31, 2021		
	Gross carrying value	Provisions	Lower of cost and market	Gross carrying value	Provisions	Lower of cost and market
Logs	\$ 115.6	\$ (3.1)	\$ 112.5	\$ 90.0	\$ (2.7)	\$ 87.3
Lumber	105.8	(3.6)	102.2	108.2	(6.8)	101.4
Supplies and other	19.7	-	19.7	18.9	(0.4)	18.5
	<u>\$ 241.1</u>	<u>\$ (6.7)</u>	<u>\$ 234.4</u>	<u>\$ 217.1</u>	<u>\$ (9.9)</u>	<u>\$ 207.2</u>

The carrying amount of inventory recorded at net realizable value was \$21.4 million at March 31, 2022 (December 31, 2021: \$31.5 million), with the remaining inventory recorded at cost.

For the three months ended March 31, 2022, \$256.7 million (Q1 2021: \$228.4 million) of inventory was charged to cost of sales which includes a \$3.2 million decrease (Q1 2021: \$5.4 million) to the provision relating to inventory value write-downs.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

6. Property, plant and equipment

	Land	Buildings and equipment	Projects	Logging roads	Total, excluding right of use assets	Right of use assets	Total
Cost							
Balance at December 31, 2020	\$ 85.2	\$ 459.8	\$ 5.9	\$ 222.8	\$ 773.7	\$ 31.8	\$ 805.5
Additions	-	-	23.6	8.3	31.9	3.5	35.4
Disposals	(26.5)	(24.5)	-	-	(51.0)	(1.8)	(52.8)
Transfers	-	10.7	(13.9)	3.2	-	-	-
Effect of movements in exchange rates	(0.1)	(0.4)	(0.1)	-	(0.6)	-	(0.6)
Balance at December 31, 2021	58.6	445.6	15.5	234.3	754.0	33.5	787.5
Additions	-	-	8.1	1.0	9.1	3.1	12.2
Disposals	(0.1)	(0.5)	-	-	(0.6)	(0.4)	(1.0)
Transfers	-	11.0	(11.2)	0.2	-	-	-
Effect of movements in exchange rates	(0.2)	(0.4)	-	-	(0.6)	(0.1)	(0.7)
Balance at March 31, 2022	\$ 58.3	\$ 455.7	\$ 12.4	\$ 235.5	\$ 761.9	\$ 36.1	\$ 798.0
Accumulated amortization							
Balance at December 31, 2020		\$ 220.7		\$ 191.0	\$ 411.7	\$ 10.5	\$ 422.2
Amortization		29.3		11.1	40.4	6.5	46.9
Disposals		(23.4)		-	(23.4)	(1.4)	(24.8)
Effect of movements in exchange rates		-		-	-	-	-
Balance at December 31, 2021		226.6		202.1	428.7	15.6	444.3
Amortization		7.3		2.7	10.0	1.7	11.7
Disposals		(0.4)		-	(0.4)	(0.3)	(0.7)
Effect of movements in exchange rates		(0.1)		-	(0.1)	-	(0.1)
Balance at March 31, 2022		\$ 233.4		\$ 204.8	\$ 438.2	\$ 17.0	\$ 455.2
Carrying amounts							
At December 31, 2021	\$ 58.6	\$ 219.0	\$ 15.5	\$ 32.2	\$ 325.3	\$ 17.9	\$ 343.2
At March 31, 2022	\$ 58.3	\$ 222.3	\$ 12.4	\$ 30.7	\$ 323.7	\$ 19.1	\$ 342.8

The Company utilized \$3.1 million of cash deposits in the first three months ended March 31, 2022 (Q1 2021: \$nil) as equipment was delivered.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

7. Biological assets

	Three months ended March 31,	
	2022	2021
Carrying value at beginning of year	\$ 49.1	\$ 53.6
Disposals	-	(0.8)
Change in fair value due to growth and pricing	0.5	0.5
Harvested timber transferred to inventory	(1.0)	(1.7)
Carrying value at March 31	<u>\$ 48.6</u>	<u>\$ 51.6</u>

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.

At March 31, 2022, private timberlands comprised an area of approximately 22,665 hectares (December 31, 2021: 22,665 hectares) of land owned by the Company. Standing timber on private timberlands range from newly planted areas to mature forest available for harvest.

During the three months ended March 31, 2022, the Company harvested and scaled approximately 57,345 cubic metres ("m³") of logs (Q1 2021: 115,297 m³, including volumes harvested in advance of the March 2021 disposal of property related to the Orca Quarry site), from its private timberlands, which had a fair value less costs to sell of \$173 per m³ at the date of harvest (Q1 2021: \$107 per m³).

8. Other assets

	March 31, 2022	December 31, 2021
Export tax receivable and related interest ^{(Note 19(a))}	\$ 40.1	\$ 40.4
Investments and long-term loans and advances	9.4	10.0
Note receivable	2.6	2.6
Cash deposits on equipment	0.1	1.2
Other	0.9	1.0
	<u>53.1</u>	<u>55.2</u>
Current portion of note receivable	2.6	-
	<u>\$ 50.5</u>	<u>\$ 55.2</u>

9. Long-term debt

	March 31, 2022	December 31, 2021
Balance, beginning of year	\$ -	\$ 72.3
Interest on equipment loan	-	0.1
Equipment loan repayments	-	(2.2)
Net repayments on revolving term loan	-	(70.2)
Balance at end of period	<u>\$ -</u>	<u>\$ -</u>

The Company's syndicated Credit Facility (the "Credit Facility") provides for a maximum borrowing amount of \$250 million and includes an accordion feature which allows the Company to increase the aggregate amount available to \$350 million, subject to lender approval. The maturity date of the Credit Facility is July 21, 2025.

The Credit Facility is available in CAD by way of Prime Rate Advances, Bankers' Acceptances or Letters of Credit and in USD by way of US Base Rate Advances, US Prime Rate Advances or Letters of Credit. Interest on the Credit Facility is indexed to benchmark rates and varies depending on the nature of each draw and certain financial benchmarks. The Credit Facility includes incentive pricing terms that can reduce or increase Western's borrowing costs by up to five basis points based on the achievement of sustainability-linked goals.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

9. Long-term debt (continued)

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

There were no drawings on the Company's Credit Facility as at March 31, 2022 (December 31, 2021: \$nil) and the Company was in compliance with its financial covenants.

10. Reforestation obligation

The Company's provision for reforestation results from a legal obligation to reforest timber harvested from Crown land and arises as timber is harvested. Changes in the reforestation obligation are as follows:

	Three months ended March 31,	
	2022	2021
Reforestation obligation, beginning of year	\$ 22.4	\$ 22.4
Provision charged	1.8	0.9
Expenditures	(2.0)	(1.0)
Unwind of discount	0.1	0.1
	<u>22.3</u>	<u>22.4</u>
Less current portion	9.2	9.3
Long term reforestation obligation, March 31	<u>\$ 13.1</u>	<u>\$ 13.1</u>

The reforestation expenditures are expected to occur over the next one to ten years and have been discounted at risk-free rates of 2.01% to 2.54% (2021: 0.17% to 1.56%). The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at March 31, 2022 is \$23.9 million (December 31, 2021: \$23.2 million). Reforestation expense incurred on current production is included in cost of goods sold and the unwinding of discount, or accretion cost, is included in finance costs.

11. Employee future benefits

The Company has defined benefit plans that provide pension or other retirement benefits to certain of its salaried employees. The Company also provides other post-employment benefits and pension bridging benefits to eligible retired employees. The defined benefit pension plans were closed to new participants effective June 30, 2006. No further benefits accrue under these plans for years of service after December 31, 2010, and no further benefits accrue under these plans for compensation increases effective December 31, 2016.

The 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:

	March 31, 2022	December 31, 2021
Present value of obligations	\$ 106.7	\$ 120.4
Fair value of plan assets	(99.7)	(109.8)
Liability recognized in the statement of financial position ^(Note 12)	<u>\$ 7.0</u>	<u>\$ 10.6</u>

The change in the liability recognized in the statement of financial position at March 31, 2022 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 March 31, 2022 was 3.98% per annum (December 31, 2021: 2.83% per annum).

The Company expects to make funding contributions to its defined benefit plans of \$1.4 million in 2022.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

12. Other liabilities

	March 31, 2022	December 31, 2021
Defined benefit employee future benefits obligation ^(Note 11)	\$ 7.0	\$ 10.6
Defined contribution employee future benefits obligation	2.4	1.0
Environmental accruals	1.7	1.6
Performance share unit plan liabilities, non-current ^{(Note 14(c))}	2.0	6.3
Restricted share unit plan liabilities, non-current ^{(Note 14(d))}	1.3	1.5
Other	1.0	1.0
	<u>\$ 15.4</u>	<u>\$ 22.0</u>

13. Share capital

	Number of Common Shares	Amount
Balance at December 31, 2020	375,232,166	\$ 479.9
Exercise of stock options	1,250,973	1.9
Repurchase of shares	(47,702,569)	(61.0)
Balance at December 31, 2021	328,780,570	420.8
Exercise of stock options	108,585	0.1
Repurchase of shares	(3,379,027)	(4.3)
Balance at March 31, 2022	<u>325,510,128</u>	<u>\$ 416.6</u>

On August 11, 2021, Western renewed its Normal Course Issuer Bid (“NCIB”) whereby it can purchase for cancellation up to 29,726,940 of the Company’s common shares, representing 10% of the public float outstanding as of August 5, 2021 with expiry no later than August 10, 2022.

In the first three months ended March 31, 2022, the Company reached the maximum shares permitted under the NCIB as it purchased and cancelled 3,379,027 shares for \$7.3 million at an average price of \$2.17 per share, with charges of \$4.3 million and \$3.0 million to share capital and retained earnings, respectively (Q1 2021: 1,295,000 shares purchased for \$2.3 million at an average price of \$1.79 per share, with charges of \$1.6 million and \$0.7 million to share capital and retained earnings, respectively).

In addition, 250,000 stock options were exercised in the first three months ended March 31, 2022 with 108,585 common shares issued on a cashless basis (Q1 2021: 512,620 stock options exercised with 47,620 common shares issued for proceeds of \$0.1 million and 186,335 common shares issued on a cashless basis).

14. Share-based compensation plans

(a) Stock-option plan

The Company has an incentive stock option plan which permits the granting of options to eligible participants to purchase up to an aggregate of 30,000,000 common shares, of which 5,206,850 remain available for future issuance. Each option is exercisable, subject to vesting terms of 20% per year and immediately upon a change in control of the Company, into one common share, subject to adjustments, at a price of not less than the closing price of the common shares on the TSX on the day immediately preceding the grant date. Options granted under the Option Plan expire a maximum of ten years from the date of the grant.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

14. Share-based compensation plans (continued)

(a) Stock-option plan (continued)

The following table summarizes the change in options outstanding:

	Three months ended March 31, 2022		Three months ended March 31, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	15,247,304	\$ 1.71	18,259,924	\$ 1.58
Exercised	(250,000)	0.96	(512,620)	0.80
Outstanding at March 31	<u>14,997,304</u>	<u>\$ 1.72</u>	<u>17,747,304</u>	<u>\$ 1.60</u>

For the three months ended March 31, 2022, the Company recorded equity-based compensation expense in respect of options of \$0.1 million (Q1 2021: \$0.1 million), with a corresponding increase to contributed surplus.

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

The Company has a DSU Plan for non-executive directors who may elect to take a portion of their fees in the form of DSUs. Prior to January 1, 2015, DSUs were also granted to designated executive officers.

	Three months ended March 31, 2022		Three months ended March 31, 2021	
	Number of DSUs	Weighted average unit value ¹	Number of DSUs	Weighted average unit value ¹
Outstanding at beginning of year	2,288,822	\$ 1.43	2,471,200	\$ 1.19
Granted ¹	103,723	1.95	75,374	1.88
Redeemed	(67,500)	1.15	-	-
Outstanding at March 31	<u>2,325,045</u>	<u>\$ 1.46</u>	<u>2,546,574</u>	<u>\$ 1.21</u>

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

For the three months ended March 31, 2022, the Company recorded a compensation recovery in respect of DSUs of \$0.2 million (Q1 2021: \$1.3 million expense), with a corresponding decrease to accounts payable and accrued liabilities.

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

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

	Three months ended March 31, 2022		Three months ended March 31, 2021	
	Number of PSUs	Weighted average unit value ¹	Number of PSUs	Weighted average unit value ¹
Outstanding at beginning of year	3,538,407	\$ 1.40	2,838,304	\$ 1.54
Granted ¹	917,557	2.07	1,160,486	1.55
Redeemed	(718,165)	1.89	(512,649)	2.61
Outstanding at March 31	<u>3,737,799</u>	<u>\$ 1.47</u>	<u>3,486,141</u>	<u>\$ 1.39</u>

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

For the three months ended March 31, 2022, the Company recorded compensation expense in respect of PSUs of \$0.8 million (Q1 2021: \$2.7 million), with a corresponding increase to accounts payable and accrued liabilities and other liabilities.

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

14. Share-based compensation plans (continued)

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

The Company has established an RSU Plan for designated officers and employees.

	Three months ended March 31, 2022		Three months ended March 31, 2021	
	Number of RSUs	Weighted average unit value ¹	Number of RSUs	Weighted average unit value ¹
Outstanding at beginning of year	2,201,462	\$ 1.52	357,060	\$ 1.05
Granted ¹	732,465	2.07	1,350,649	1.74
Outstanding at March 31	<u>2,933,927</u>	<u>\$ 1.65</u>	<u>1,707,709</u>	<u>\$ 1.45</u>

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

For the three months ended March 31, 2022, the Company recorded compensation expense in respect of RSUs of \$0.3 million (Q1 2021: \$0.3 million) with a corresponding increase to accounts payable and accrued liabilities and other liabilities.

15. 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 product.

	Three months ended March 31,	
	2022	2021
Primary geographic markets		
Canada	\$ 104.1	\$ 103.5
United States	128.5	133.9
Japan	61.6	22.8
China	29.7	36.1
Other	35.7	26.2
	<u>\$ 359.6</u>	<u>\$ 322.5</u>
Major Products		
Lumber	\$ 313.9	\$ 276.6
Logs	32.7	33.1
By-products	13.0	12.8
	<u>\$ 359.6</u>	<u>\$ 322.5</u>

Contract balances

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

	March 31, 2022	December 31 2021
Trade and other receivables	\$ 71.7	\$ 57.4
Other investments and advances	2.0	2.2
Contract liabilities	<u>48.0</u>	<u>48.5</u>

The contract liabilities relate to the consideration received from a customer for a long-term fibre supply contract and are recognized as deferred revenue, for which revenue is recognized straight-line over the term of the contract (see Note 19(c)). The Company recognized related revenue of \$0.5 million in the first three months ended March 31, 2022 (Q1 2021: \$0.5 million).

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

16. Other income (expense)

	Three months ended March 31,	
	2022	2021
Gain on disposal of property, plant, equipment and other assets ^(Notes 6, 7)	\$ 1.4	\$ 17.4
Foreign exchange losses	(0.8)	(0.5)
Other	(0.7)	(0.2)
	<u>\$ (0.1)</u>	<u>\$ 16.7</u>

Western recognized a gain of \$1.4 million on disposal of property, plant, equipment and other assets in the first three months ended March 31, 2022 attributable primarily to the sale of remaining non-core assets of its Somass operation (Q1 2021: \$17.4 million gain attributable primarily to gains from the sale of the Orca Quarry assets).

17. Income taxes

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

	Three months ended March 31,	
	2022	2021
Income before income taxes	<u>\$ 51.1</u>	<u>\$ 64.1</u>
Income tax expense at the statutory rate of 27% (2021 – 27%)	\$ 13.8	\$ 17.3
Difference in tax rates	(0.4)	(0.1)
Other permanent differences	0.2	(2.0)
Change in unrecognized deductible temporary differences	0.1	(4.9)
Other	(0.6)	-
	<u>\$ 13.1</u>	<u>\$ 10.3</u>

In addition to the amounts recorded to net income, deferred tax expense of \$0.9 million was recorded in other comprehensive income for the three months ended March 31, 2022 on actuarial gains on employee future benefit obligations (Q1 2021: \$0.6 million).

18. Earnings per share

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

	Three months ended March 31, 2022			Three months ended March 31, 2021		
	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 at December 31		328,780,570			375,232,166	
Effect of shares:						
Issued		44,641			36,393	
Repurchased		(2,837,137)			(120,889)	
Basic earnings per share	\$ 37.8	325,988,074	\$ 0.12	\$ 53.6	375,147,670	\$ 0.14
Effect of dilutive securities:						
Stock options		3,397,355			2,862,345	
Diluted earnings per share	<u>\$ 37.8</u>	<u>329,385,429</u>	<u>\$ 0.11</u>	<u>\$ 53.6</u>	<u>378,010,015</u>	<u>\$ 0.14</u>

Western Forest Products Inc.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2022 and 2021

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

19. Commitments and contingencies

(a) 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 ("shipments") were assessed an export tax by the Canadian government, expired.

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

On December 1, 2020, the DoC published its final CV and AD rates resulting from its first administrative review in the federal register. The final determination reduced the assessment rates applied to shipments from April 28, 2017 through December 31, 2018 and established a revised cash deposit rate of 8.99% applicable from December 2020 until the publication of final rates under the second administrative review. The Company recorded a related export tax recovery of USD\$27.1 million in 2020.

On December 1, 2021, the DoC published its final CV and AD rates resulting from its second administrative review in the federal register. The final determination reduced the assessment rates applied to shipments in 2019 and established a revised cash deposit rate of 17.90% applicable from December 2021 until the publication of final rates under the third administrative review. On January 10, 2022, as a result of a ministerial error in its second administrative review, the DoC revised the published CV rate to 6.32%. The Company recorded a related export tax recovery of USD\$2.5 million in 2021.

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

On March 9, 2022, the DoC initiated its fourth administrative review of CV and AD rates for shipments for 2021.

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

	Jan. 10, 2022 through Mar. 31 2022	Dec. 1, 2021 Jan. 9, 2022	Dec. 1, 2020 Nov. 30, 2021	Jan. 1 2020 Nov. 30 2020	Year		
					2019	2018	2017
Cash deposit rate, CV	6.32%	6.31%	7.42%	14.19%	14.19%	14.19%	14.19%
Cash deposit rate, AD	11.59%	11.59%	1.57%	6.04%	6.04%	6.04%	6.04%
Cash deposit rate, combined	17.91%	17.90%	8.99%	20.23%	20.23%	20.23%	20.23%
Final rate, CV					6.32%	7.42%	6.71%
Final rate, AD					11.59%	1.57%	1.66%
Final rate, combined					17.91%	8.99%	8.37%
				Year 2020			
Preliminary rate, CV				6.88%			
Preliminary rate, AD				4.76%			
Preliminary rate, combined				11.64%			

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.

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19. Commitments and contingencies (continued)

(a) Softwood lumber duty dispute (continued)

As a result of changes between final and cash deposit rates noted in the table above, the Company recognized a receivable of USD\$32.0 million (December 31, 2021: USD\$31.9 million), including interest, in the statement of financial position and revalued at the quarter-end exchange rate to CAD\$40.1 million (December 31, 2021: CAD\$40.4 million). For the three months ended March 31, 2022, the Company recognized related interest revenue of \$0.1 million (Q1 2021: \$0.1 million) in finance costs and a foreign exchange loss of \$0.5 million (Q1 2021: \$0.5 million) in other income (expense) in the statement of comprehensive income.

As at March 31, 2022, the Company had paid \$159.8 million of duties, all of which remain held in trust by U.S. Department of Treasury (December 31, 2021: \$151.8 million). All duty deposits except \$40.1 million noted above have been expensed at the cash deposit rates in effect at the date of payment.

(b) Litigation 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 unable to determine the outcome of these disputes no amounts have been accrued in these interim financial statements.

(c) 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 incur a penalty under the fibre supply agreements. If the Company takes any significant curtailments in its sawmills its chip production would decline, increasing the risk that they Company would not meet its contractual obligations where it is not possible to secure replacement chips on the open market. Based on chip and pulp log volumes supplied to date and the exercise of force majeure provisions in 2021, the Company believes it has satisfied fibre commitments as at March 31, 2022. The Company anticipates satisfying annual fibre commitments for the year ending December 31, 2022.

20. Financial instruments – fair values and risk management

The Company classifies its financial assets in the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit and loss ("FVTPL"), depending upon the business model in which a financial asset is managed and its contractual cash flow characteristics. 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 valuation hierarchy. It does not include fair value information for financial assets or liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

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; or
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

	March 31, 2022			December 31, 2021			
	Level	Mandatory at FVTPL	Amortized Cost	Total	Mandatory at FVTPL	Amortized Cost	Total
Financial assets							
Market-based investments	2	\$ 4.6	\$ -	\$ 4.6	\$ 4.7	\$ -	\$ 4.7
Foreign currency forward contracts	2	1.6	-	1.6	1.1	-	1.1
Cash and cash equivalents		-	74.9	74.9	-	130.0	130.0
Trade and other receivables		-	72.7	72.7	-	56.3	56.3
Other investments and advances		-	2.0	2.0	-	4.8	4.8
Export tax receivable ^(Note B)	3	40.1	-	40.1	40.4	-	40.4
Total financial assets		\$ 46.3	\$ 149.6	\$ 195.9	\$ 46.2	\$ 191.1	\$ 237.3
Financial liabilities							
Accounts payable and accrued liabilities		\$ -	\$ 125.4	\$ 125.4	\$ -	\$ 112.8	\$ 112.8
Lease liabilities		-	19.5	19.5	-	18.3	18.3
Total financial liabilities		\$ -	\$ 144.9	\$ 144.9	\$ -	\$ 131.1	\$ 131.1

The Company enters into forward contracts to sell USD and JPY in order to mitigate a portion of the foreign currency risk. At March 31, 2022, the Company had outstanding obligations to sell an aggregate US\$70.0 million at an average exchange rate of CAD\$1.2737 per USD with maturities through May 10, 2022.

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 March 31,	
	2022	2021
Fair value of (asset), beginning of year	\$ (1.1)	\$ (0.6)
Fair value of asset (liability) at March 31	1.6	(0.2)
Change in unrealized foreign currency gains (losses)	0.5	(0.8)
Realized foreign currency gains on settled contracts	0.7	1.8
Foreign currency gains recognized in revenue	\$ 1.2	\$ 1.0



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